

ALASKA LEGISLATURE COMMITTEE BILL FILES - 1987 - 1988 8879

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1 for inheritance and estate taxes and taxes on transfers by or in
2 contemplation of death. Nothing in this section affects or limits an
3 exemption from license fees, property taxes, or excise, income or any
4 other taxes, provided under any other law, nor does it create a tax
5 exemption with respect to the interest of any business enterprise or
6 other person, other than the authority, in any property, assets,
7 income, receipts, project, development project, or lease whether or
8 not financed under this chapter.

9 (b) The authority may enter into agreements with an applicant or
10 [A] proposed [PROJECT] applicant under this chapter [OR PROJECT APPLI-
11 CANT] providing for payments, computed on a formula basis or otherwise
12 [,] in lieu of taxes, which the authority may consider appropriate.
13 The agreement may provide that the payments be made to the political
14 subdivision of the state in which a project or development project is
15 or is to be located or to any other taxing unit of the state includ-
16 ing, without limitation, a borough, city, municipality, school dis-
17 trict or public utility district, the area of which is coterminous in
18 whole or in part with that of the political subdivision.

19 * Sec. 21. AS 44.88.155(a) is amended to read:

20 Sec. 44.88.155. ENTERPRISE DEVELOPMENT ACCOUNT [FUND]. (a) The
21 enterprise development account [FUND] is established in the revolving
22 fund [AUTHORITY]. The enterprise development account [FUND] is a
23 trust fund for the uses and purposes of this chapter [AS 44.88.010 -
24 44.88.220]. The enterprise development account [FUND] consists of
25 money or assets appropriated or transferred to the authority and other
26 money or assets deposited in it by the authority.

27 * Sec. 22. AS 44.88.155(b) is amended to read:

28 (b) The authority may establish in the enterprise development
29 account [FUND] a small enterprise loan account, a loan insurance

1 account, and other accounts it considers appropriate.

2 * Sec. 23. AS 44.88.155(c) is amended to read:

3 (c) Money and other assets of the enterprise development account
4 [FUND] may be used to secure bonds of the authority issued to finance
5 the purchase of loans for projects [.] and shall be held and invested
6 by the authority in the types of investments described in AS 37.10.-
7 070(a) and AS 39.35.110(a)(9) and (14) or shall be used to purchase
8 loans for projects [AS DEFINED IN AS 44.88.220].

9 * Sec. 24. AS 44.88.155(d) is amended to read:

10 (d) A loan purchased in whole or in part by the authority with
11 assets of the enterprise development account or with proceeds of bonds
12 secured by assets of the enterprise development account, other than a
13 loan which is financed with the proceeds of bonds of the authority and
14 secured only by a project applicant or a project,

15 (1) may not exceed

16 (A) \$10,000,000; or

17 (B) \$500,000 if the loan is purchased under AS 44.88.-

18 158;

19 (2) may not exceed the cost of the project or 75 percent of
20 the appraised value of the project, whichever is less, unless the
21 amount of the loan in excess of this limit is federally insured or
22 guaranteed or is insured by a qualified mortgage insurance company;

23 (3) may not be for a term longer than three-quarters of the
24 authority's estimate of the life of the project or 25 years from the
25 date the loan is made, whichever is earlier;

26 (4) shall contain complete amortization provisions satis-
27 factory to the authority requiring periodic payments by the borrower;

28 (5) shall be in the form and contain the terms and pro-
29 visions with respect to insurance, repairs, alterations, payment of

1 taxes and assessments, default reserves, delinquency charges, default
2 remedies, acceleration of maturity, secondary liens, and other matters
3 the authority prescribes;

4 (6) shall be secured as to repayment by a mortgage or other
5 security instrument in the manner the authority determines is feasible
6 to assure timely repayment under a loan agreement entered into with
7 the borrower;

8 (7) may not be made unless

9 (A) at least 10 percent of the principal amount of the
10 loan is retained by the originator of the loan; or

11 (B) 100 percent of the principal amount of the loan is
12 guaranteed by the United States or an agency or instrumentality
13 of the United States;

14 (8) must be

15 (A) at least partially guaranteed by the United States
16 or an agency or instrumentality of the United States, subject to
17 the provisions of AS 44.88.158; [OR]

18 (B) financed from the proceeds of bonds; or

19 (C) expected by the authority to be financed from the
20 proceeds of bonds.

21 * Sec. 25. AS 44.88.155(e) is amended to read:

22 (e) The authority may adopt regulations for the administration
23 of the enterprise development account including [FUND WHICH MAY IN-
24 CLUDE], without limitation, provisions for fees and agreements re-
25 lating to application, loan commitment, servicing, and origination of
26 loans by other lenders.

27 * Sec. 26. AS 44.88.155(f) is amended to read:

28 (f) The authority may enter into agreements as to the use of the
29 money in the enterprise development account [FUND], including without

1 limitation, trust or custody arrangements with banks or trust com-
2 panies. It may also pledge, assign, or grant the agreement, interests
3 under an agreement, or interests in the enterprise development account
4 [FUND] as may be necessary or appropriate to provide for payment and
5 security for bonds of the authority issued to finance the purchase by
6 the authority of loans for projects.

7 * Sec. 27. AS 44.88.155 is amended by adding a new subsection to read:

8 (h) The provisions of this section apply only with respect to
9 loans purchased or made by the authority for projects under AS 44.88.-
10 155 - 44.88.159.

11 * Sec. 28. AS 44.88.157(a) is amended to read:

12 (a) The loan insurance account is established in the revolving
13 fund. The purpose of the loan insurance account is to provide insur-
14 ance of mortgage loans and other loans made or purchased by the au-
15 thority under AS 44.88.155, or made by others and approved for insur-
16 ance by the authority, for a project. The authority may enter into
17 agreements as to the use of money in the loan insurance account and
18 may pledge, assign, or grant interests in the loan insurance account
19 as provided in this section. The authority may adopt regulations and
20 enter into agreements with respect to the exercise of any power or
21 approval relating to the loan insurance account under this section,
22 including, without limitation, agreements as to the use of money in
23 the loan insurance account, agreements with respect to the terms and
24 conditions upon which payments from the loan insurance account will be
25 made with respect to a loan insured under this section, agreements as
26 to separate subaccounts in the loan insurance account for different
27 categories of loans or as to loans made by the authority or any other
28 person, and agreements regarding the payment of and security for bonds
29 issued by the authority. An agreement, the rights of the authority

1 under an agreement, or payments received or to be received under an
2 agreement may be pledged or assigned by the authority for the benefit
3 of the holders of bonds issued by the authority.

4 * Sec. 29. AS 44.88.157(b) is amended to read:

5 (b) The authority may, upon application of a borrower or pro-
6 posed borrower, insure and make advance commitments to insure loan
7 repayments required under the terms of a loan made by it or by another
8 lender with respect to a project, upon the terms and conditions the
9 authority prescribes. To be eligible for insurance under this section
10 [AS 44.88.010 - 44.88.220], a loan for a project

11 (1) shall be held by the authority or by a lender approved
12 by the authority as responsible and able to service the loan;

13 (2) may not exceed \$10,000,000 for a project, or 90 percent
14 of the cost of the project or 90 percent of the appraised value of the
15 project, whichever is less;

16 (3) may not be made for a term longer than three-quarters
17 of the authority's estimate of the life of the project or 25 years
18 from the date of issuance of the insurance, whichever is earlier;

19 (4) shall contain complete amortization provisions satis-
20 factory to the authority requiring periodic payments by the borrower;
21 and

22 (5) shall be in the form and contain the terms with respect
23 to insurance, repairs, alterations, payment of taxes and assessments,
24 default reserves, delinquency charges, default remedies, acceleration
25 of maturity, additional and secondary liens, and other matters that
26 the authority prescribes.

27 * Sec. 30. AS 44.88.157(k) is amended to read:

28 (k) A loan may not be insured under this section [FROM A LOAN
29 INSURANCE ACCOUNT WITHIN THE ENTERPRISE DEVELOPMENT FUND] if the loan

1 is for a project the cost of which exceeds \$10,000,000.

2 * Sec. 31. AS 44.88.157(1) is amended to read:

3 (1) A loan in excess of \$1,000,000 may not be insured under this
4 section [FROM A LOAN INSURANCE ACCOUNT WITHIN THE ENTERPRISE DEVELOP-
5 MENT FUND] unless at least 20 percent of the principal amount of the
6 loan is retained by a federal or state chartered financial institution
7 or the Alaska Commercial Fishing and Agriculture Bank.

8 * Sec. 32. AS 44.88.158(a) is amended to read:

9 Sec. 44.88.158. SMALL BUSINESS ENTERPRISE LOAN ACCOUNT. (a) A
10 small business enterprise loan account is established in the revolving
11 [ENTERPRISE DEVELOPMENT] fund. The account may be composed of money
12 or assets appropriated or transferred to the authority, interest on
13 investments and loans of the small business enterprise loan account,
14 the unpledged income of the revolving [ENTERPRISE DEVELOPMENT] fund,
15 and other money or assets deposited in it by the authority.

16 * Sec. 33. AS 44.88.158(b) is amended to read:

17 (b) The authority may use money in the small business enterprise
18 loan account to purchase or participate in the purchase of loans to
19 small business enterprises and to purchase the guaranteed portion of a
20 loan made by a private financial institution after June 30, 1981, to a
21 small business enterprise to pay the cost of a project or exporting
22 transaction [. AS DEFINED IN AS 44.88.220], if the loan is guaranteed
23 by the United States or an agency or instrumentality of the United
24 States, including, but not limited to, the Small Business Adminis-
25 tration, the National Marine Fisheries Service, and the Farmers Home
26 Administration.

27 * Sec. 34. AS 44.88.159 is amended by adding a new subsection to read:

28 (d) The provisions of this section apply only to loans financed
29 under AS 44.88.155 - 44.88.159.

1 * Sec. 35. AS 44.88.172 is amended to read:

2 Sec. 44.88.172. ECONOMIC DEVELOPMENT ACCOUNT [FUND]. (a) The
3 economic development account [FUND] is established in the revolving
4 fund [AUTHORITY]. The account [FUND] consists of money or assets
5 appropriated, loaned, or transferred to the authority, and other money
6 or assets deposited in the account [FUND] by the authority. The
7 account [FUND] may [ONLY] be used only to finance, acquire, manage,
8 and operate development projects that the authority intends to own and
9 operate. The term "operate" includes operation directly by the au-
10 thority, or by an agent of the authority.

11 (b) If a development project is financed or developed through
12 use of the assets of the economic development account [FUND], the
13 authority may not pledge or use [OTHER] assets of the enterprise de-
14 velopment account established in AS 44.88.155 [AUTHORITY] to assist in
15 the financing, development, or operation of the development project.
16 However, whether or not the authority uses the economic development
17 account [FUND], it may issue bonds to finance a development project
18 and may secure the bonds with a mortgage, pledge, or assignment of the
19 development project or of revenues, money, or agreements attributable
20 to the development project or the bonds. Financing assistance pro-
21 vided with respect to a development project under this section shall,
22 to the maximum extent reasonable under the circumstances, be made in
23 the form of a loan to the project [AS PROVIDED IN SEC. 10 OF THIS
24 ACT].

25 * Sec. 36. AS 44.88.190 is amended by adding a new subsection to read:

26 (c) A loan purchased or financed by the authority in whole or in
27 part is exempt from the provisions of AS 45.45.010. A guarantee
28 extended under AS 44.88.300 or insurance provided under AS 44.88.390
29 does not constitute insurance for the purposes of AS 21.03.010.

1 * Sec. 37. AS 44.88.220(1) is amended to read:

2 (1) "authority" means the Alaska Industrial Development and
3 Export Authority created by AS 44.88.010 - 44.88.220;

4 * Sec. 38. AS 44.88.220 is amended by adding new paragraphs to read:

5 (13) "development project" means a plant or facility used or
6 intended for use in connection with making, processing, preparing, or
7 producing goods, products, or substances, or in connection with de-
8 veloping or utilizing a natural resource, or extracting, smelting,
9 transporting, converting, assembling, or producing minerals, raw
10 materials, chemicals, compounds, alloys, fibers, commodities and
11 materials, products, or substances;

12 (14) "revolving fund" means the Alaska Industrial Develop-
13 ment and Export Authority revolving fund created in AS 44.88.060.

14 * Sec. 39. AS 44.88 is amended by adding new sections to read:

15 ARTICLE 5. EXPORT ASSISTANCE.

16 Sec. 44.88.300. GUARANTEED FUNDING FOR EXPORT TRANSACTIONS. The
17 authority may provide guaranteed funding, through a participating
18 banking organization, for an export transaction that the authority
19 determines is eligible under AS 44.88.310.

20 Sec. 44.88.310. ELIGIBILITY OF EXPORT TRANSACTIONS. An export-
21 ing contract is a transaction eligible for guaranteed funding under
22 AS 44.88.300 - 44.88.390 if, in the judgment of the authority, it will
23 create or maintain employment in the state and it

24 (1) promotes the sale abroad of raw materials extracted in
25 the state, or goods whose final stage of production occurs in the
26 state, that constitutes 25 percent or more of the contract price;

27 (2) provides for the rendering of services abroad by a
28 business located in the state if 25 percent or more of the contract
29 price consists of wages or other payments made to persons normally

1 residing in the state;

2 (3) promotes the sale abroad of raw materials or goods
3 distributed by a business located in the state if

4 (A) 25 percent or more of the contract price consists
5 of wages or other payments made to persons or businesses normally
6 residing or located in the state; or

7 (B) the business has a significant relationship with
8 the state based upon

9 (i) the amount of capital investments it has that
10 are located in the state;

11 (ii) the number of state residents employed by the
12 business;

13 (iii) the amount of business transacted in the
14 state; or

15 (iv) a combination of (i) - (iii); or

16 (4) provides both for the sale abroad of raw materials
17 extracted in the state or goods whose final stage of production occurs
18 in the state, and for the rendering of services abroad by state resi-
19 dents, the aggregate value of which is 25 percent or more of the
20 contract price.

21 Sec. 44.88.320. LIMITATIONS ON GUARANTEES. (a) The authority
22 may not guarantee more than 90 percent of a loan under AS 44.88.300.

23 (b) The authority may not guarantee a loan under AS 44.88.300
24 unless the authority finds that the guarantee is reasonably necessary
25 to stimulate or facilitate the making of a loan for an eligible ex-
26 porting transaction.

27 Sec. 44.88.330. CREDIT OF EXPORTER. Before the authority may
28 guarantee a loan under AS 44.88.300, the participating financial
29 institution shall investigate the credit or sources of credit

1 available to the exporter to determine the economic benefits to be
2 derived from the guarantee, the prospects of repayment, and other
3 factors necessary to determine that the guaranteed funding is consis-
4 tent with the purposes of AS 44.88.300 - 44.88.390.

5 Sec. 44.88.340. CONFIDENTIALITY OF INFORMATION. Information
6 submitted to or compiled by the authority regarding the identity,
7 background, finances, marketing plans, trade secrets, or other commer-
8 cially sensitive affairs of the exporter is confidential, unless the
9 exporter consents to its disclosure.

10 Sec. 44.88.350. FEES CHARGED. The authority shall, by regula-
11 tion, establish fees to be charged to a participating financial insti-
12 tution for providing a guarantee under AS 44.88.300. The fees must be
13 sufficient to cover the costs of administering the guarantee program
14 under AS 44.88.300 - 44.88.390 and any premium the authority pays for
15 insuring its risks.

16 Sec. 44.88.360. EFFECT OF GUARANTEE. (a) A guarantee under
17 AS 44.88.300 shall guarantee against political or commercial loss, in
18 whole or in part, of principal and interest on an eligible export
19 transaction. The guarantee may include, without limitation, insurance
20 against loss up to a stated amount. A guarantee under AS 44.88.300
21 may not be terminated, canceled, or revoked, except under its terms.
22 A guarantee held by a participating financial institution is presumed
23 to be valid.

24 (b) In this section, "political loss" means a loss incurred as a
25 result of a political risk insured under an export credit insurance
26 umbrella policy, or a comparable policy or agreement, issued by the
27 Export-Import Bank of the United States.

28 Sec. 44.88.370. GUARANTEE NOT A GENERAL OBLIGATION OF THE STATE.
29 A guarantee under AS 44.88.300 is not a general obligation of the

1 state.

2 Sec. 44.88.380. PERSONAL LIABILITY. An officer, employee, or
3 agent of the authority may not be held personally liable in a civil
4 action for damages for an act done or omitted in good faith while
5 performing the functions of office, employment, or agency under this
6 chapter.

7 Sec. 44.88.390. EXPORT INSURANCE ACCOUNT. (a) The export
8 insurance account is established in the revolving fund. The account
9 consists of money appropriated to it by the legislature and other
10 money and assets, including bond proceeds, deposited in it by the
11 authority. The account shall be held as security for the holders of
12 bonds issued by the authority for the purposes of AS 44.88.300 -
13 44.88.390. The authority may enter into trust agreements with respect
14 to the use of money in the account, including the use of that money to
15 discharge a guarantee obligation of the authority. The trust agree-
16 ments may contain provisions and limitations concerning the investment
17 and disbursement of money in the account, the payment of expenses of
18 the account, the appointment, resignation and discharge of trustees,
19 the delegation of enforcement and collection powers under the insur-
20 ance agreements to the trustee, the duties of the trustees, amendments
21 of the trust agreements, and other lawful provisions and limitations
22 the authority considers appropriate. The trust agreements may pledge
23 premiums and other money that may be deposited in the account. The
24 pledge shall be valid and binding from the time the pledge is made.
25 The premiums and other money pledged and thereafter received by the
26 account, or by the trustees in its behalf, shall immediately be sub-
27 ject to the lien of the pledge. The pledge shall be valid and binding
28 against parties having claims against the account, irrespective of
29 whether the parties have notice of the pledge.

1 (b) The authority may use proceeds of bonds issued for the
2 purposes of AS 44.88.300 - 44.88.390 to purchase insurance, which may
3 be pledged for the security of the holders of the bonds. If insurance
4 is pledged as security, whether obtained through the export insurance
5 account or purchased with bond proceeds, a description of the insur-
6 ance shall expressly indicate the limitation of the liability of the
7 authority and that neither the credit nor the taxing power of the
8 state or a political subdivision of the state is available to satisfy
9 obligations with respect to the insurance.

10 * Sec. 40. To be consistent with the change made by this Act, wherever
11 in the Alaska Statutes and in regulations adopted under those statutes
12 "Alaska Industrial Development Authority" is used, it shall be read as
13 referring to the Alaska Industrial Development and Export Authority. Under
14 AS 01.05.031 the revisor of statutes shall implement this section in the
15 statutes, and, under AS 44.62.125(b)(6), the regulations attorney shall
16 implement this section in the administrative regulations.

17 * Sec. 41. AS 44.88.156, 44.88.158(c), and sec. 11, ch. 162, SLA 1984,
18 are repealed.

19 * Sec. 42. This Act takes effect immediately under AS 01.10.070(c).



Alaska State Legislature

SENATE

Special Committee on International Trade

P.O. Box V
State Capitol
Juneau, Alaska 99811

Brief Summary of Changes Made to CSSB64(L&C)

1. The name of the Alaska Industrial Development Authority has been changed to the Alaska Industrial Development and Export Authority.

Done where appropriate in the bill. A new section # 40 (p.27, lines 10-16) directs the revisor of statutes to make the appropriate changes elsewhere in the statutes.

2. Entrepreneurial and its definition has been eliminated from the bill.
3. Legislative approval is still required for projects in which the Authority takes any ownership interest. This was done by removing section 10 from the repealer section of the bill on page 27 in bill section 41.
4. The personal liability section (p. 26, lines 2-6) was reworded to closely mirror the liability section currently in the Alaska Banking Code (AS 06.05.085).

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SECTIONAL ANALYSIS
for
CS FOR SENATE BILL NO. 64 (L&C)
(Work Draft dated 2/6/87)

This memorandum analyzes on a section-by-section basis the proposed Senate Labor & Commerce Committee Substitute for Senate Bill No. 64, entitled "An Act relating to the Alaska Industrial Development Authority; and providing for an effective date." As a general overview, the legislation would accomplish three objectives: (1) creating an export financing program in the Alaska Industrial Development Authority (hereafter "AIDA"); (2) emphasizing entrepreneurial and small business enterprises in the AIDA statutes; and (3) modifying AIDA's ability to participate in certain types of projects on an equity basis.

SECTION 1 amends the statutory section (AS 44.88.010) setting forth legislative findings and policy with respect to AIDA. It inserts references to "export, entrepreneurial, small business" enterprises throughout the section to give emphasis to these types of enterprises as the target of AIDA's financing assistance. It also inserts four new paragraphs of findings (on pages 1 and 2 of the bill) relating to the importance to the State's economy of expanding and facilitating financing for export businesses in Alaska.

On page 3 of the legislation (still a part of Section 1), new language provides a finding that it is in the public interest to encourage export activities by providing financial assistance for such activities in cooperation with federal, state and private institutions. This new language also provides a finding that it is in the public interest to give AIDA the power to acquire ownership interests in certain types of projects and to issue taxable, as well as tax-exempt, bonds to accomplish its statutory purposes.

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SECTION 2 adds a new subsection to the findings and policies section (AS 44.88.010). The new subsection finds it to be a policy of the state and a public purpose to provide financial support, in cooperation with federal, state and private institutions, to increase the export of Alaska goods, entrepreneurial talent, raw materials, and services.

SECTION 3 creates a new statutory section (AS 44.88.060). This new statutory section creates the AIDA revolving fund. The intent is to create a single fund into which all of AIDA's assets will be deposited. Within the revolving fund, there will be the economic development account, the enterprise development account, and a number of other accounts. There are provisions later in the legislation defining AIDA's ability to use assets of these various accounts. The revolving fund is created as a revolving fund so that payments on loans purchased or held by AIDA in the fund can remain there and be used for AIDA's purposes without necessitating an annual legislative appropriation.

SECTION 4 relates to the statement of AIDA's purposes and contains provisions substantially similar to those described with respect to SECTION 1; that is, it adds references to export, entrepreneurial, and small business enterprises in connection with AIDA's purposes, and it adds new paragraphs which contain statements of AIDA's purposes with respect to exporting transactions (such as to foster the expansion of Alaskan exports, to cooperate with other organizations for that purpose, to provide a source of guarantees, and so on). This amendment also (in paragraph (2) on page 5 of the legislation) provides a reference to the statute which specifies the types of projects in which AIDA may take an ownership interest.

SECTION 5 amends AIDA's general powers (AS 44.88.080) by inserting language to clarify that AIDA's power to issue bonds includes the power to incur debt generally.

SECTION 6 also amends the general powers section; it adds new powers relating to financing and assisting export transactions, including the power to participate with other programs pertaining to the exportation of Alaskan goods, services or raw materials, the power to provide export finance training to its staff, the power to coordinate with various

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federal programs, and the power to guarantee loans to qualified exporters. This section also adds, as a general statement of AIDA's powers, the power to provide financing assistance for entrepreneurial and small business enterprises.

SECTION 7 amends AIDA's administrative procedure statutory section (AS 44.88.085). This amendment is a technical, clean-up matter reflecting the addition of new powers and purposes for AIDA and, therefore, the need to adopt regulations in addition to those currently referenced in (b) - (e) of AS 44.88.085.

SECTION 8 repeals and reenacts AS 44.88.085(c). Generally speaking, this part of AIDA's statutes is intended simply to establish a procedure for the adoption by AIDA of its regulations. The current provisions of AS 44.88.085(c) include both a general power to adopt regulations and an express duty to adopt regulations with respect to certain matters. In SECTION 12 of the legislation (to be discussed below), additional matters are set forth with respect to which AIDA will have an express duty to adopt regulations. The repeal and reenactment of AS 44.88.085(c) in this section of the legislation is necessary to preserve the general power to adopt regulations while also moving the statement of matters as to which AIDA must adopt regulations to the same part of the statute as those matters described in SECTION 12.

SECTION 9 makes the same changes to AS 44.88.085(d) as those made to AS 44.88.085(a) under SECTION 7 (described above).

SECTION 10 makes the same changes to AS 44.88.085(e) as described in SECTION 9.

SECTION 11 makes the same changes to AS 44.88.085(f) as described in SECTION 9 and also makes a minor drafting style correction.

SECTION 12 (beginning on page 9 of the legislation) creates a new subsection (g) to AS 44.88.085. This new subsection contains those matters (referred to in connection with SECTION 8 above) as to which AIDA must adopt regulations under the current provisions of AS 44.88.085(c). SECTION 12 also creates a new subsection (h). Subsection (h) directs

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AIDA to adopt certain regulations in connection with its program for encouraging the export of Alaska goods, services, and raw materials. These regulations must establish criteria for eligibility of exporters under the program, set forth equity and collateral requirements, and include other similar matters.

SECTION 13 amends AIDA's statutory section pertaining to the issuance of bonds (AS 44.88.090). The changes made to AS 44.88.090(a) by this section are intended to set forth clearly that AIDA's bond issuance powers also extend to the issuance of bonds for AIDA's export financing program and to the issuance of bonds for AIDA's development project financing. The term "development project" is defined later in the legislation and contemplates those projects as to which AIDA may take an ownership interest.

SECTION 14 repeals and reenacts AS 44.88.090(e). The reason for the repeal and reenactment is to reorganize the subsection into a clearer form. Otherwise, the changes made in that subsection are only for the purpose of making it clear that AIDA's bond issuing powers extend to its export financing program and development project program, as stated above with respect to SECTION 13.

SECTION 15 makes the same amendment to AS 44.88.090(g) as described with respect to SECTION 14.

SECTION 16 makes the same amendment to AS 44.88.090(h) as described with respect to SECTION 14.

SECTION 17 amends the statutory section authorizing AIDA to enter into agreements with trustees (AS 44.88.100). Again, the changes are intended to make it clear that AIDA's power to enter into agreements with trustees applies to its programs for export and development project financings.

SECTION 18 amends AIDA's capital reserve fund statute (AS 44.88.105). The capital reserve fund created in AS 44.88.105 can be used by AIDA to secure its bonds, but there are some limitations on that use. One of the limitations is the requirement in AS 44.88.105(f) that at least 20 percent of the principal amount of a loan be retained by the originating institution. The amendment makes it clear that this

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limitation applies to bonds issued under the export program or under the development project program.

SECTION 19 amends the statute that contains the State's pledge not to limit or alter AIDA's power to fulfill contracts it enters into with bondholders and federal agencies. The amendment makes it clear that this pledge applies also with respect to export and development project financings. The amendment also contains some minor drafting style corrections.

SECTION 20 amends the statute that exempts AIDA's property from local taxation (AS 44.88.140). The amendment again is for clarification purposes only, the intent being to make it clear that the provisions of this statute apply also to development projects financed by AIDA. The amendment contains a few minor drafting style corrections.

SECTION 21 amends the statutory section which created the enterprise development fund (AS 44.88.155). The amendment turns the "fund" into an "account" within the revolving fund created in SECTION 3 (as discussed earlier in this memorandum).

SECTION 22 amends AS 44.88.155(b) to reflect the change described in SECTION 21.

SECTION 23 amends AS 44.88.155(c) to reflect the change described in SECTION 21. In addition, the amendment made in this section contains a minor drafting style correction.

SECTION 24 amends AS 44.88.155(d) to provide that the various loan limitations set forth in this subsection apply only to loans financed with assets of the enterprise development account.

SECTION 25 amends AS 44.88.155(e) to reflect the change described in SECTION 21 and to make a minor drafting style correction.

SECTION 26 amends AS 44.88.155(f) to reflect the change described in SECTION 21. This amendment also adds language at the end of that subsection to make it clear that AIDA may pledge assets of the enterprise development account

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only to secure bonds issued for the financing of "projects", a term which is defined in AS 44.88.220. Accordingly, bonds issued for the financing of development projects and exporting transactions cannot be secured by pledges of the assets of the enterprise development account.

SECTION 27 amends AS 44.88.155 by adding a new subsection (h) to make it clear that the provisions of that section (and, thus, the provisions relating to the enterprise development account) apply only with respect to loans purchased for "projects" under AS 44.88.155 - 44.88.159.

SECTION 28 amends the statute that creates AIDA's loan insurance account (AS 44.88.157). The amendment takes the loan insurance account out of the enterprise development fund and puts it in the revolving fund. The amendment also limits the application of the loan insurance account to the financing of projects under AS 44.88.155.

SECTION 29 amends AS 44.88.157(b) to conform to the amendment described in SECTION 28 which limits the application of the loan insurance account to the financing of projects under AS 44.88.155.

SECTION 30 amends AS 44.88.157(k) to reflect the changes described in SECTION 29.

SECTION 31 amends AS 44.88.157(l) to reflect the changes described in SECTION 29.

SECTION 32 amends the small enterprise loan account statute (AS 44.88.158). The amendment inserts the phrase "entrepreneurial and small business enterprise" in place of small enterprise, and it takes the account out of the enterprise development fund and puts it into the revolving fund.

SECTION 33 amends AS 44.88.158(b) to reflect the changes made in SECTION 32. The amendment in this section also expands AIDA's powers under this statutory section to permit AIDA to purchase or participate in the purchase of loans to entrepreneurial and small business enterprises without being limited to purchasing only the portion guaranteed by the federal government. However, with respect

February 18, 1987

SECTION 37 amends the definition section of the AIDA statutes (AS 44.88.220). It adds new definitions for "development project" and "revolving fund". The development project definition includes those facilities described in paragraph (A)(i) of the definition of "project" under AIDA's current statutes. The intent is to define development projects (that is, those projects with respect to which AIDA may acquire an ownership interest) to include the basic resource development and infrastructure types of projects. The definition of revolving fund refers to the revolving fund created under SECTION 3.

SECTION 38 adds new provisions to AIDA's statutes. The new provisions will become AS 44.88.300 - 44.88.390 and will relate to export assistance.

Under AS 44.88.300, AIDA would work with financial institutions to determine which exporting transactions qualify for AIDA assistance. The AIDA assistance would be provided in the form of a guaranty of a loan for the exporting transactions.

Under AS 44.88.310, the transaction would qualify only if it has some significant contact with or benefit to the State of Alaska. That contact or benefit, generally speaking, would have to be in the form of a minimum percentage (25%) of the transaction resulting in the sale of Alaska materials abroad, the rendering of services abroad by an Alaska business, or providing similar benefits.

Under AS 44.88.320, AIDA could guarantee up to 90 percent of a loan made to finance a transaction that qualifies under AS 44.88.310, but AIDA would first have to find that the guaranty is reasonably necessary to stimulate or facilitate the making of the loan.

Under AS 44.88.330, the financing institution involved in the transaction would be required to make the first credit investigation with respect to the transaction.

Under AS 44.88.340, AIDA would be required to keep sensitive information about the transaction or the exporter involved in the transaction confidential.

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to language in AS 44.88.158(b) relating to the purchase of those guaranteed portions, the amendment in this section adds a permission for AIDA to purchase the guaranteed portion of a loan made to pay the cost of an exporting transaction for an entrepreneurial or small business enterprise. The amendment in this section also contains a minor drafting style correction.

SECTION 34 amends the statutory section which sets a formula for how AIDA must determine interest rates on loans it purchases (AS 44.88.159). The amendment makes it clear that this applies only to projects purchased under AS 44.88.155 - 44.88.159 (that is, projects purchased with assets of the enterprise development account).

SECTION 35 makes the same change with respect to the economic development fund (AS 44.88.172) as SECTION 32 makes with respect to the enterprise development fund; that is, it turns it into an account of the revolving fund. The amendment made in this section also makes it clear that the economic development account may be used only for the financing of "development projects", a term which is defined in SECTION 37 (discussed below). The economic development account is the source of financing for the projects that AIDA expects to own or operate. The amendment includes language which (1) prohibits the pledge of assets in the enterprise development account (AS 44.88.155 - SECTIONS 21 through 27) in connection with the financing of a development project, and (2) directs AIDA to make the financing assistance offered under the economic development account in the form of a loan to the maximum extent possible. The latter provision is in AIDA's current law, but it is codified with the temporary and special acts. This amendment places it in the permanent statutes. Finally, the amendment in this section also includes a minor drafting style correction.

SECTION 36 amends the statute which provides certain exemptions for AIDA from the operation of other statutes (AS 44.88.159). The amendment in this section would exempt loans purchased or financed in whole or in part by AIDA from the operation of the State's usury law. It would also make it clear that a guaranty issued by AIDA in connection with its export financing program is not insurance for purposes of the State's insurance code.

CHAMBER = S
DATE = 870119
SOURCE = SJRNL
YEAR = 87
DOC ID SJRNL870119SB0064
SB 64

SENATE BILL NO. 64 by Senators Kelly, Kerttula, Faiks and Sturgulewski, entitled:

"An Act relating to export enterprises under the Alaska Industrial Development Authority."

was read the first time and referred to the Labor and Commerce Committee and the Finance Committee.

END OF DOCUMENT

BILL = SB0064
CHAMBER = S
DATE = 870121
SOURCE = SJRNL
YEAR = 87
DOC ID SJRNL870121SB0064
SB 64

Senator Uehling moved and asked unanimous consent that he be added as a co-sponsor on SENATE BILL NO. 64 (An Act relating to export enterprises under the Alaska Industrial Development Authority). Without objection, it was so ordered.

END OF DOCUMENT

BILL = SB0064
CHAMBER = S
DATE = 870121
SOURCE = SJRNL
YEAR = 87
DOC ID SJRNL870121SB0064
SB 64

Senator Kelly, Chairman, moved and asked unanimous consent that the five-day notice and publication requirements be waived for the Labor and Commerce Committee meeting on January 26 to consider SENATE BILL NO. 64 (An Act relating to export enterprises under the Alaska Industrial Development Authority). Without objection, it was so ordered.

BILL = SB0064
CHAMBER = S
DATE = 870127
SOURCE = SJRNL
YEAR = 87
DOC ID SJRNL870127SB0064
SB 64

Senator Szymanski moved and asked unanimous consent that he be shown as a co-sponsor on:

SENATE BILL NO. 64
"An Act relating to export enterprises under the Alaska Industrial Development Authority."

Without objection, it was so ordered.

END OF DOCUMENT

BILL = SB0064
CHAMBER = S
DATE = 870205
SOURCE = SJRNL
YEAR = 87
DOC ID SJRNL870205SB0064
SB 64

Senator Uehling, Chairman, moved and asked unanimous consent that SENATE BILL NO. 64 (An Act relating to export enterprises under the Alaska Industrial Development Authority) have an added referral to the Senate Special Committee on International Trade. Without objection, it was so ordered.

SENATE BILL NO. 64 was referred to the Labor and Commerce Committee, the Senate Special Committee on International Trade and the Finance Committee.

END OF DOCUMENT

BILL = SB0064
CHAMBER = S
DATE = 870212
SOURCE = SJRNL
YEAR = 87
DOC ID SJRNL870212SB0064
SB 64

The Labor and Commerce Committee considered SENATE BILL NO. 64 (export enterprises under the Alaska Industrial Development Authority) and a majority of the committee recommended it be replaced with

CS FOR SENATE BILL NO. 64 (L&C), entitled:

"An Act relating to the Alaska Industrial Development Authority; and providing for an effective date."

and do pass. The report was signed by Senator Kelly, Chairman, and concurred in by Senators Fahrenkamp and Szymanski. Senator Eliason signed "no recommendation".

SENATE BILL NO. 64 was referred to the Senate Special Committee on International Trade.

END OF DOCUMENT

SB0064 DOCUMENT= 7 OF 8 PAGE = 1 OF 2
BILL = SB0064
CHAMBER = S
DATE = 870306
SOURCE = SJRNL
YEAR = 87
DOC ID SJRNL870306SB0064
SB 64

The Senate Special Committee on International Trade considered SENATE BILL NO. 64 (An Act relating to export enterprises under the Alaska Industrial Development Authority) and recommended it be replaced with

CS FOR SENATE BILL NO. 64 (I.T.), entitled:
"An Act relating to the Alaska Industrial Development and Export Authority; and providing for an effective date."

and do pass. The report was signed by Senator Uehling, Chairman and concurred in by Senators Zharoff, Abood and Hensley.

Fiscal note received and published today from Department of Commerce and Economic Development for the Labor and Commerce Committee Substitute offered on page 277.

SENATE BILL NO. 64 was referred to the Finance Committee.

END OF DOCUMENT

**STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE**

REQUEST: _____

Bill Version: CSSB 64 (L&C)
Publish Date: _____

Revision Date: February 11, 1987
Title: An Act relating to the Alaska
Industrial Development Authority
Sponsor: Kelly, Kerttula, Faiks, et al.
Requestor: _____

Agency Affected: Commerce & Econ. Dev.
BRU: Alaska Industrial Dev. Auth.

Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

| OPERATING | FY 87 | FY 88 | FY 89 | FY 90 | FY 91 | FY 92 |
|------------------------|-------|--------------|--------------|--------------|--------------|--------------|
| PERSONAL SERVICES | | 65.0 | 65.0 | 65.0 | 65.0 | 65.0 |
| TRAVEL | | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 |
| CONTRACTUAL | | 25.0 | 15.0 | 15.0 | 15.0 | 15.0 |
| SUPPLIES | | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| EQUIPMENT | | 5.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| LAND & STRUCTURES | | | | | | |
| GRANTS, CLAIMS | | | | | | |
| MISCELLANEOUS | | | | | | |
| TOTAL OPERATING | | 110.0 | 95.0 | 95.0 | 95.0 | 95.0 |
| CAPITAL | | 15.0 | 30.0 | 35.0 | 35.0 | 35.0 |
| REVENUE | | 125.0 | 125.0 | 130.0 | 130.0 | 130.0 |

FUNDING: (Thousands of Dollars)

| | | | | | | |
|---------------|--|-------|-------|-------|-------|-------|
| GENERAL FUND | | | | | | |
| FEDERAL FUNDS | | | | | | |
| OTHER | | 125.0 | 125.0 | 130.0 | 130.0 | 130.0 |
| TOTAL | | | | | | |

POSITIONS:

| | | | | | | |
|-----------|--|---|---|---|---|---|
| FULL-TIME | | 1 | 1 | 1 | 1 | 1 |
| PART-TIME | | | | | | |
| TEMPORARY | | | | | | |

ANALYSIS : (Attach a separate page if necessary)

See Attached.

Prepared by: Bert Wagon, Executive Director
Division: Alaska Industrial Development Authority

Phone: 274-1651
Date: 2/13/87

Approved by Commissioner: Anthony Smith
Agency: Commerce and Economic Development

Date: 2/13/87

Distribution (by preparer):

Legislative Finance
Legislative Sponsor
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Office of Management and Budget
Impacted Agency(ies)
Senate Secretary
5381W21387a

FISCAL NOTE CSSB 64 (L&C)

ANALYSIS

Should this bill become law, the costs to be incurred in operating the expended program are subject to the demand. The figures in the note are estimates of what may occur under this legislation. It is intended that the operating costs would be absorbed into the existing budget of the Authority so that no increase above the current requested budget would be required. This is possible due to the fact that the Authority currently holds a position vacant that could be utilized to handle many of the functions required by this bill.

All funds, both operating and capital, would be Authority program receipts with no general fund appropriation required.

E X P O R T F I N A N C I N G S T U D Y

OFFICE OF INTERNATIONAL TRADE

Dan Dixon, Director

State of Alaska
Department of Commerce
and Economic Development

3601 C Street, Suite 722
Anchorage, Alaska 99503
562-2728

Winter 1986

EXPORT FINANCING MATRIX: STATE OF ALASKA

The goals and objectives of an export financing plan for our state should include attracting investment in our economy, increasing labor participation in our industries, creating new industries by stimulating our natural entrepreneurial climate, and improving access to international markets. The fundamental goal of the State of Alaska, and the Office of International Trade in particular, is to devise an export financing program that meets the greatest number of needs of potential exporters in the most cost effective manner possible. After researching model export financing programs around the United States, including a detailed analysis of the Illinois model (see above discussion), we have determined that the state's best interests are served by creatively utilizing existing agencies and personnel to accomplish our goals.

It is our position that the State of Alaska should utilize existing agencies and personnel for an export financing program through the development of a matrix of services which address the unique problems of Alaskan firms wishing to enter into international trade. This matrix of services should include general financing for export development including preshipment and postshipment funding and working capital. Additionally, the State should develop a relationship with a private firm such as the Federal Credit Insurance Company (FCIA) based in New York to provide umbrella insurance coverage for transactions. The State should also work to secure an Export Financing Delivery System of the Federal Exim Bank program as a component of the matrix. Finally, the State should develop export financing expertise and counseling services which would provide assistance to the public in the areas of existing state agency financing programs, federal export financing programs, and the general nature and mechanics of export financing.

GENERAL FINANCING FOR EXPORT FINANCING:

In order to accomplish our goal of meeting the greatest number of needs of Alaskan businesses in the most cost effective manner we have focused our attention on developing the structure for export financing within the existing financing framework of the Alaska Industrial Development Authority (AIDA). AIDA is a public corporation of the State of Alaska within the Department of Commerce and Economic Development, but with separate and independent legal existence. The basic premise for the formation and operation of AIDA encompasses the rationale behind our efforts to form export financing services. AIDA was established to promote, develop and advance the general prosperity and economic welfare of the people of the state of Alaska. Given the present importance of international trade to Alaska's economy and the integral role it will play in the expansion of our economy, export financing fits neatly within AIDA's goal.

AIDA has three principal methods to provide financing for businesses. The first two financing methods involve the use of tax exempt bonds. The third method involves purchase by AIDA of federally guaranteed loans. The authority is authorized to issue tax exempt bonds for eligible projects in accordance with section 103 of the Internal Revenue Code. Since these bonds are not subject to federal or state income taxes, both the bonds and the loans financed by the bonds will carry lower interest rates than their taxable counterparts. It is our understanding that this tax exempt status is of a finite nature and that AIDA is developing a transitional plan to carry on its bonding activities. Therefore, a future export financing component of AIDA should be reflected in this plan.

By centralizing international business financing in AIDA the state will have achieved a ready source of financing from an organization that has an outstanding success rate in its operations. Its staff is respected nationwide for its initiative and ingenuity and the expertise it brings to financing proposals. Moreover, the State will incur modest costs in aligning its export financing with AIDA. The organization is up and running in excellent condition. The expertise is largely in place. It has bonding authority with an excellent governing Board of Directors. The staff of AIDA may have to be increased by a few individuals, including one individual who has significant expertise in international finance and international markets. However, these costs would be minuscule compared with starting a new and distinct export development authority. Estimates for the start up of such an authority range from \$600,000 to \$1,000,000.

Three steps can be taken to assure that AIDA is both recognized and utilized as an international business financing organization for Alaska's businesses. First, the State of Alaska through the Governor and the legislature should expand the mandate of AIDA to specifically include language regarding the expansion of international trade and development as part of the organization's efforts to promote and advance the economic well-being of the state. Secondly, consideration should be given to expanding AIDA's Board of Directors to include one individual from the private sector who has business experience in international trade, international financing and international markets. Finally, a carefully structured marketing plan should be implemented to educate the public about the various programs of AIDA, including its newest component of international business financing.

THE FOREIGN CREDIT INSURANCE ASSOCIATION AND ALASKA'S EXPORT FINANCING PROGRAM

In order to provide the security necessary for the development of international transactions in Alaska, the State should consider a relationship with the Foreign Credit Insurance

Association (FCIA). Established in 1961, this organization consists of many of the United State's top insurance companies. FCIA insures repayment of export credit against nonpayment due to political or commercial causes such as deteriorating economic conditions, bad management, devaluations, fires, floods, or confiscation of assets. In FY '83, FCIA supported procurement of \$7.5 billion of U.S. goods.

FCIA Umbrella Insurance Policy

Purpose: This policy protects exporters that had an average annual export credit sales of less than \$2 million in the past two years against a foreign buyer's failure to pay for goods or services for political or commercial reasons.

Eligibility: Any entity capable of administering a policy (for example: banks, export companies, insurance brokers, and trade organizations) on behalf of multiple exporters is eligible. Only exports of consumables, raw materials, spare parts, agricultural commodities, and consumer durables are eligible.

Amount: 100% of political risk; 90% of commercial risk; interest up to U.S. Treasury rate plus 1%.

Cash Payment: none

Premium: From .25% to 1.00% of the sales value or a minimum of \$500.

To obtain uniformity in the insurance transactions and to lighten the administrative burden, the State of Illinois has negotiated an agreement with the FCIA which insures all of the Illinois Authority's transactions through FCIA. Under this agreement, FCIA insures the Illinois exporter, not the Authority, and it is the FCIA which establishes the credit worthiness of the foreign buyer. This usually only takes five days. With State government support, AIDA could also negotiate an insurance agreement with FCIA on behalf of Alaskan companies. This approach is highly recommended for Alaska's financing system.

EXIMBANK DELIVERY SYSTEM

The Eximbank has entered into master loan guarantee agreements with hundreds of U.S. banks. When a bank has completed a number of satisfactory export transactions, Eximbank will consider extending delegated authority, subject to prescribed conditions, enabling the bank to commit Eximbank to guarantee specific transactions without prior Eximbank approval. This avenue would speed up the processing time of the Eximbank system. A consistent criticism of the Eximbank system is the extremely long processing time involved in securing that type of financing. This so-called delivery system would also have banks providing other types of assistance to potential exporters in the area of fulfilling the requirements to obtain

Eximbank's financial services.

EXPORT FINANCE COUNSELING SERVICES

One of the most critical components of this matrix is the education component. The public needs to be informed about the potential for international business development and the programs, financial and otherwise, which are available to assist the furthering of this important section of our economy. Most specifically to our efforts to expand export financing services, we need to establish a system for export finance counseling services to raise awareness of the importance of proper financing to export success, to explain the mechanics of export credit, and to provide information which will help exporters arrange satisfactory credit with their banks and other financial institutions.

The State could accomplish this goal by providing such services through AIDA as part of its funding operations, or through the Office of International Trade. The drawback to utilizing AIDA in this fashion is that the organization could spend more time advising potential clients than putting together business transactions. The drawback to putting these services under the auspices of the Office of International Trade is that there is insufficient staffing to adequately supply such on-going expertise. This circumstance could of course change if funding permitted the addition of a staff person to run the program. A more viable option may be the utilization of the University of Alaska as the counseling center. In particular, the School of International Business at the University of Alaska Anchorage has sufficient expertise to launch this program. Moreover, throughout the university system there is expertise that may allow for regional counseling centers in addition to a main center at the University of Alaska Anchorage.

It is our understanding that Title 6 of the United States Code provides federal monies to universities to carry out public training in economic development sectors, including international trade. This program should be investigated and scrutinized closely to see if its provisions are applicable to our efforts in expanding export finance services.

CONCLUSION

The key to providing a successful matrix system is the amount of consistent coordination that we can bring to the finance program. The role of AIDA, the Office of International Trade and the university system, if utilized, will have to be set out very specifically. Moreover, one entity should be charged with the general oversight of the system to ensure coordination and

execution of the State's goals.

If this coordination is established, AIDA is given a clear mandate to develop international business in Alaska and if the other above described programs are implemented, we believe that we will have met the State's goals of providing the most services to Alaskan businesses in the most cost effective manner.

0101e

Pat Le Donne Report on Export Financing

Compiled for:

State of Alaska
Office of International Trade

Winter 1986

According to the discussion paper, "State Involvement in Export Financing" (prepared by Robert Schiller of the Alaska Department of Commerce and Economic Development):

- Exports constitute roughly 1/3 of the employment in Alaska's manufacturing sector.
- Fishing, timber and mining are heavily dependent on exports to provide employment.
- Export activity is important to Alaska's economy because of its own limited internal market and its distance from major domestic U.S. markets.
- 50% of the value of Alaskan exports can be attributed to five major companies with another 25% attributed to numerous sea-food processors.

These facts emphasize the importance of international trade to the growth of Alaska's economy, as well as point out the desirability of encouraging more firms to enter the world market.

There is general agreement that, with the declining oil revenues, it is imperative that the State of Alaska begin laying a solid foundation in order to expand its commercial and cultural ties with other nations and to assist Alaska businesses in the complexities of doing business in a multicultural environment. Alaska is currently in a position where it must significantly upgrade its international trade development efforts or risk losing business to better organized states. In order for Alaska to expand internationally and effectively seek foreign investments, efforts must be carefully coordinated.

The following report is the result of a series of interviews conducted with individuals in both the public and private sectors regarding the role of the Alaska Office of International Trade in fostering a more active trade mentality in the State of Alaska.

The consensus of the interviewees was that there are four major focuses that need to be undertaken by the Office of International Trade during the current year to effectively implement an international trade development effort. These are:

1. Develop an international trade base.
2. Establish a state export financing program.
3. Identify foreign markets for Alaskan goods and services.
4. Promote, through education, an export mentality.

I. DEVELOPMENT OF AN INTERNATIONAL TRADE DATABASE.

To aggressively respond to trade possibilities, all participants in Alaskan international trade need to have access to accurate, timely information. The development of a computerized international trade database is crucial. A single entity should be designated which would be responsible for providing information directly and/or acting as a clearinghouse for other agencies and organizations.

At present, there are perceived deficiencies in the way international trade information is handled. Problems exist because there is a lack of understanding of available resources, a lack of knowledge about current and/or future markets for resources and a lack of coordination among the various state, federal, and private agencies involved in development of those resources. A computerized database would serve as a highly visible one-stop source for a variety of trade and investment related information, and provide convenient, accurate access to necessary information.

The Office of International Trade maintains contacts with businesses, organizations and agencies throughout Alaska, including numerous agencies within state government as part of its role as facilitator of Alaskan involvement in international trade. Among those valuable contacts are ports, distributors, shippers, custom houses, foreign consulates, trade associations, chambers of commerce, universities, and federal and state agencies. However, there is no systematic correlation of this information in a manner that provides thorough and timely access to the private sector.

The creation of computer database for this purpose would dramatically increase access to trade prospects for Alaska firms. The private sector would be able to respond in a more timely manner to trade leads and increased information would allow Alaskan firms to more accurately determine those seminars planning sessions and trade shows that are relevant to their needs. It is expected that better access to information would stimulate greater participation by the private sector in those activities which would increase their exposure to trade opportunities.

The Alaska Department of Commerce and Economic Development, the University of Alaska, and the United States Department of Commerce have already instituted the initial steps in the establishment of this database by agreeing to form a partnership. In order to develop and implement the international trade database so that it is of use to a private sector, the database partners need to implement the following steps:

1. Collect input from the private sector (consumers).
 - A. Determine information the private sector needs.
 - B. Based on those express needs, determine source of information.

- C. Analyze the quality of information available from the various available sources.
 - D. Design a paradigm for an operational system.
 - E. Solicit technical expertise.
2. Design an "in-house partnership" approach which creates a database that includes and is not limited to the following parameters.
- A. Determine information sources.
 - B. Determine frequency and responsibility for information update.
 - C. Develop stipulations regarding specificity of information.
 - D. Validate the timeliness of trade opportunities.
 - E. Determine that the data included in the base is what the state or consumers really need, rather than just data that is easy to access.
 - F. Prepare a directory of Alaskan firms.
 - G. Prepare a catalog of Alaskan resources.
 - H. Compile information about federal and state regulations controlling the development of those resources.
 - I. Develop a state "fact file" containing specific information for foreign investors.
 - J. Develop a ten-year profile of markets for import/export activity.
 - K. Compile a list of current markets for Alaskan products/resources, their current growth or decline, companies which are major buyers for those resources/products, and the contacts within those companies.
 - L. Identify other private/public sector organizations that collect information, such as ports, banks, etc.
 - M. Determine the cost of set and a source of financing for database.
 - N. Arrange buy-ins from other database sources, such as PIERS, port import/export reporting services, or LOCKHEEDS DIALOG system.
 - O. Arrange tie-ins with other state agencies, i.e., the Department of Natural Resources.
 - P. Create a user manual.

- Q. Provide training sessions in various locations.
- R. Establish an electronic computer-to-computer hook-up with overseas offices to provide a faster and more secure way of transmitting information.

Chart 1 shows a proposed model for Alaska international trade database, based on discussions with Mr. Larry Gagnon, Information Services Manager, Department of Trade and Economic Development, State of Washington. Mr. Gagnon developed the State of Washington's database for Department of Trade and Economic Development.

AN ALASKAN INTERNATIONAL TRADE DATABASE

| <u>Description</u> | <u>File Name</u> | <u>Explanation</u> |
|---|----------------------|--|
| <u>Confidential Overseas Telex File</u> | TOKYO, SEOUL, TAIPEI | Initial contact reports and case histories of firms pursuing trade/investment leads, re: Alaska through the agency's overseas offices. |
| <u>State Trade Directory</u> | TRADIR | Directory of Alaska firms/organizations involved in international trade (for trade development contacts) |
| <u>Alaska Resource</u> | TOP TEN PROFILE | Statistics on Alaska's top 10 trading partners by commodity and value of shipments |
| <u>State Resource</u> | RES DIRECTORY | Directory of State's Energy, Mineral Resource base by quantity, location, including marketing and transportation costs |

RECOMMENDATIONS:

In order to effectively implement an international database, the following recommendations need to be implemented.

- a. Each database partner should determine what information it would like to have contained within the database.
- b. Partners should convene a series of ongoing meetings in Anchorage with representatives of the Department of Natural Resources and other agencies, when appropriate, to discuss main menu content and database implementation.
- c. Partners should work with a computer specialist from the University of Alaska to develop a final model utilizing examples of existing systems, such as the International Trade Administration System and the Washington State Trade Development Network Data Entry Summary.

II. ESTABLISHMENT OF A STATE EXPORT FINANCING PROGRAM

Given Alaska's unique situation as a resource-based economy, any discussion of export financing must include not only financing for small to medium size businesses, but also providing money for infrastructure development, especially in the areas of transportation, fisheries, timber and mineral development.

What role, if any, the State of Alaska should play in financing exports is a controversial topic among interviewees. There was a persistent concern that a replication of historically, unsuccessful subsidy programs, such as the Alaska Renewable Resources Corporation may occur. Comments ranged from the state should supplement short-term interim financing because the risk of resource development is so much higher in Alaska to the state should not get into the loan business because it would "politicize" the trade process and compete with the banks.

However, in Alaska, as throughout the U.S., small to medium size, new to export businesses are having difficulty securing financing or insurance for exporting. They are traditionally considered poor risks by regional and local banks. Because there are delays in receiving payment from abroad for exported products, businesses often require working capital loans to overcome their cash-flow shortage.

Currently, about half of the 50 states are considering export financing program initiatives - six have already passed legislation authorizing export finance program, ten are currently pursuing various legislative initiatives. These include Ohio's Export Bank, Louisiana's State Trust for direct export finance, Minnesota's State Foreign Trade Association, Illinois State Export Development Authority, Iowa's Export Development Corporation, Tennessee's Competitive Report Corporation and California's Export Finance Board.

A 1983 study prepared by First Washington Associates for the International Trade Administration, U. S. Department of Commerce, cited five national models which could assist states in increasing their export activities.

1. Export finance counseling services to raise awareness of the importance of proper financing to export success, explain the mechanics of export credit; and provide information which will help exporters arrange satisfactory credit with their banks and other financial institutions.
2. Preshipment and postshipment guarantee programs to bolster the credit worthiness of small to medium firms which are unable to arrange satisfactory loans with the commercial banks in the absence of such support.

3. Medium-term fixed rate funding programs for postshipment finance, provided by the state to help capital goods exporters which need such funding and cannot arrange it on competitive terms without such support.
4. Postshipment export credit insurance programs, in which the state would take out a policy with FCIA or other private insurers and offer coverage to small exporters, helping them to fulfill policy requirements.
5. An Eximbank delivery system program, under which the state would issue and help service modest-sized Eximbank loans and guarantees under discretionary authority granted by Eximbank, or would otherwise help exporters fulfill Eximbank's requirements to obtain its financial services.

RECOMMENDATIONS:

- a. Given the higher "risk" factor of doing business in Alaska, the State Office of International Trade should fashion its export financing program on a model which provides not only pre and post shipment financing but also political and commercial risk insurance.
- b. Legislation needs to be prepared based on this model. Included in this section is Alaska model legislation based on the Illinois Export Development Authority.
- c. A meeting needs to be convened the original participants in the Export Financing Panel, which was originally scheduled for September, to discuss the model legislation.
- d. If the model is selected, prepare final legislative package.

III. IDENTIFY FOREIGN MARKETS FOR ALASKAN GOODS AND SERVICES

According to a study prepared by Yankelovich, Skelly and White for the Missouri Department of Commerce, the majority of small to medium size exporters and 90% of nonexporters need assistance in market research and overseas promotion of their products. This, coupled with the strength of the U.S. dollar and the excessive amount of foreign and U.S. government regulations, presents a rather formidable obstacle to any small to medium size business which is interested in exporting.

Despite a rather limited staff and budget, there are a number of services the Office of International Trade can provide in order to assist Alaska businesses in the international marketplace.

RECOMMENDATIONS:

- a. Survey existing manufacturing and service-based industries in Alaska.
- b. Develop a direct mail brochure which details the international trade programs the Office of International Trade provides.
- c. Maintain formal contact with the participants in the current series of programs being developed through the Office of Pacific Rim Relations to promote trade between Asia and Alaska.
- d. Work with the Governor's office to establish a Governor's Council on International Business consisting of members from the business, labor and academic communities.
- e. Work in conjunction with the Cook Inlet Region Market Study to identify state resources for the international trade database.
- f. Use as a model for developing overseas market analysis the Pacific Economic Cooperation Conference which represents tri-participation between government, business and universities (or research institutions).
- g. Create an Alaskan Roundtable to provide an information method of visiting specialists could discuss international topics, such as foreign policy, trade, tourism, and politics.
- h. Assist Alaska business in participating in overseas trade fairs which provide a direct link between buyer and seller.
- i. Develop a catalogue of Alaskan products which can be displayed at trade fairs. Special emphasis should be placed on presenting products of smaller companies with limited travel budgets.

- j. Undertake reverse trade missions and identify potential two and three-way joint venture opportunities in Alaska. Western Europe contacts need to be strengthened.
- k. Identify trade leads through foreign business leaders visiting the state rather than depending on traditional, less timely leads such as those provided by the U. S. Department of Commerce's Trade Opportunities Program.
- l. Provide business people with letters of introduction when they are transacting business overseas.
- m. Initiate an "Honorary Attache" program which utilizes prominent business people who are currently involved in doing business overseas to help promote Alaska.

IV. DEVELOPMENT OF AN EXPORT MENTALITY THROUGH EDUCATION

The Office of International Trade needs to undertake promotion of an export mentality and advocacy within Alaska. The office should identify and work with public officials, business leaders, organized labor leaders, educators and students, community organizations and the media, in order to promote the importance of international trade.

RECOMMENDATIONS:

- a. Use students from the International School of Business, UAA, as interns to provide technical expertise, conduct marketing research, etc., for small businesses who are interested in exporting. Students could receive college credits for their internship.
- b. Conduct a series of seminars for the public and private sector on world economic trends, marketing techniques, export controls, documentation, transportation and export financing.
- c. Develop selected country, product and issue specific seminars conducted by people who are currently engaged in export. Seminars should also include: tax and financial considerations, cultural, political, legal and economic factors.
- d. Embark on a program to educate the private sector in the development of a marketable product, especially in the fishing and timber industry, on the importance of quality control.
- e. Promote publication of articles on international trade in Alaska.
- f. Work with educators to foster international awareness among students in both the primary and secondary level.
- g. Publish a monthly newsletter containing information on upcoming seminars, trade missions, visiting foreign business persons and general information on existing export programs.
- h. Work with the Governor's office to have one week designated as World Trade Week during which a number of activities could be held focusing on export activities in the state.

INTERVIEWEES

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INTERVIEWEES (cont.)

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Loren H. Lounsbury, Commissioner
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EXPORT DEVELOPMENT AUTHORITY: AN ASSESSMENT FOR ALASKA

Based on the research conducted by the Office of International Trade, the Office of Enterprise and the U. S. Department of Commerce, model legislation for an export financing authority was developed, based on the Illinois Export Development Authority. This model was presented to financial and economic development experts in Alaska for analysis (the previous section contains a synopsis of the meeting). From all the data collected and the experts' analyses, the export financing authority legislation was found to be inappropriate for Alaska for the following three reasons:

1. Cost: The cost of implementing the model legislation is very high - \$650,000 for establishing the program and marketing the first series of obligations (Illinois estimates), in addition to \$1.4 million needed for reserves.
2. Constituency: The post export financing proposed in the model legislation is ideal for a manufacturing company with payback periods of three years or longer. Alaska has very few, if any, companies involved in these types of transactions.

In addition, in order to obtain pre or postexport financing from the proposed authority, the Alaskan company must have a direct contract with a foreign buyer. Most Alaskan producers do not sell directly to a foreign buyer - instead, there are two or more transactions between the producer and the foreign end user. This requirement, therefore, will reduce the number of Alaskan companies benefiting from the authority.

3. Established Institutions: Alaska already has an established bonding institution, AIDA, which could be modified to satisfy the working capital/infrastructure financing needs of the exporting community in Alaska. The Alaskan banks are already geared to provide letters of credit to exporters. By utilizing these established institutions instead of duplicating them with the Export Development Authority, the State of Alaska could focus its resources on services that are not as easily available such as attracting venture capital to the state.

APPLICABILITY OF ILLINOIS MODEL TO ALASKA*

Dan Dixon, Director, Office of International Trade, convened a meeting in Anchorage to discuss the Illinois model and its applicability to Alaska. The attendees were:

Greg Baker, Deputy Commissioner, Department of Commerce and Economic Development

Terry Elder, Deputy Commissioner, Department of Commerce and Economic Development

Pat LeDonne, Consultant

Steve Hasagawa, National Bank of Alaska

Dave Rose, Executive Director of the Alaska Permanent Fund

John Ringstad, Legislator

Dan Dixon, Director, Office of International Trade

Mary Fleming, Assistant to Director, Office of International Trade

The meeting's agenda focused on these issues:

1. Is there currently a market demand or constituency in Alaska for establishing an export financing authority?

The consensus was:

Alaskan interest in international trade is evident through extensive media coverage, an increasing number of business inquiries to the Department of Commerce and Economic Development's advocacy offices, and a 20% increase in exports over last year.

Since statistics on the number and size of exporters in Alaska have not yet been compiled (to be completed in June 1986), a nonnumerical approach to estimating the Alaskan demand for an Export Development Authority would have to be taken.

A determination needs to be made as to what type of financing Alaskan firms need and the best financial tools to satisfy these needs.

All present agreed that Alaskan firms need three types of financing -- postexport, working capital (preexport financing) and venture capital. These three options were detailed as follows:

Postexport financing - Since most Alaskan exports are non-durable goods, letters of credit with on-site terms are the most common form of export payment. Since the foreign bank guarantees payment, the risk of the foreign company defaulting (commercial risk) is minimal, making a letter of credit an efficient financing form. At least two Alaskan banks, maybe three, are issuing and accepting letters of credit.

Working capital - If the borrower has sufficient collateral, working capital is available through the banking system. The financial experts on the panel believe that many Alaskan firms do not have enough collateral to offset their financial needs. (Debt-to-equity ratios in Alaska are normally much higher than in the Lower '48.)

Venture capital - Often an Alaskan business needs not only preshipment financing, but preproduction financing as well. Before the firm receives even the first sale, it needs to obtain financing to lease equipment, pay salaries, fund marketing efforts, or build roads. In other words, Alaska needs venture capital - which is not easy to obtain since Alaskan banks do not normally perform this very risky function.

2. If Alaska established an export financing authority modeled after the Illinois Export Development Authority would it address the financial needs of its business community?

The consensus was:

The applicability of the Illinois export development authority to Alaska is influenced by the multiparty transactions often involved in Alaskan exports and the longer payback period involved in manufactured products as opposed to resources.

Many Alaskan producers do not sell directly to a foreign buyer, instead there are two or more transactions between the producer and the foreign-end user. In order to obtain financing from an export development authority, the Alaskan producer must have a direct contract with the foreign buyer. Due to this restriction, the Illinois Development Authority model would not be able to assist Alaskan companies whose international sales are by multiparty transactions.

As a manufacturing state, products from Illinois often have a very long payback period, three years or more, and a higher chance of default by the buyer. Export financing authorities are appropriate for these transactions because of the long payback period needed for postexport financing. The majority of Alaska's exports, however, are nondurable goods and are paid for upon receipt by letter of credit. As such, an export financing authority in Alaska would not have the volume of business for postexport financing that will characterize the Illinois authority.

3. What type of financing aid (direct loans, guarantees, subsidies, insurance, counseling services), if any, should be provided to stimulate international trade in Alaska?

The consensus was:

The state should develop a matrix of services which will address the unique problems Alaskan businesses face. This matrix should include working capital funding, administration of FDIC's Umbrella Country Risk policy, promoting venture capital opportunities, and counseling services.

In order to address the multiparty transaction and the high risk problems associated with inexperienced Alaskan businesses entering the international market, the Alaska Industrial Development Authority (AIDA) should be augmented to include a financing mechanism to provide guaranteed funding for working capital. AIDA is especially suited for this role since it already has bond ratings, performs this function domestically, and has the administrative mechanisms for this activity in place. Legislative direction is needed to focus the agency on export activity and to appoint new board members with international expertise.

Political default insurance is difficult to obtain for a small export order. The small to medium size exporters do not turn over enough volume individually to tap into the Foreign Credit Insurance Association's (FCIA) country risk insurance. The state can assist these small exporters by acting as an administrator for FCIA.

Alaskan industries need venture capital/equity funds. Two sources of funding could be foreign joint ventures and state/national pension funds. The state needs to tap Europe, as well as the Orient, for investment capital. The State should research these markets and provide contacts for Alaskan companies. Another innovative idea is to tap the state/national pension funds as sources of venture capital. A consultant with expertise in this area should be hired to analyze this possibility.

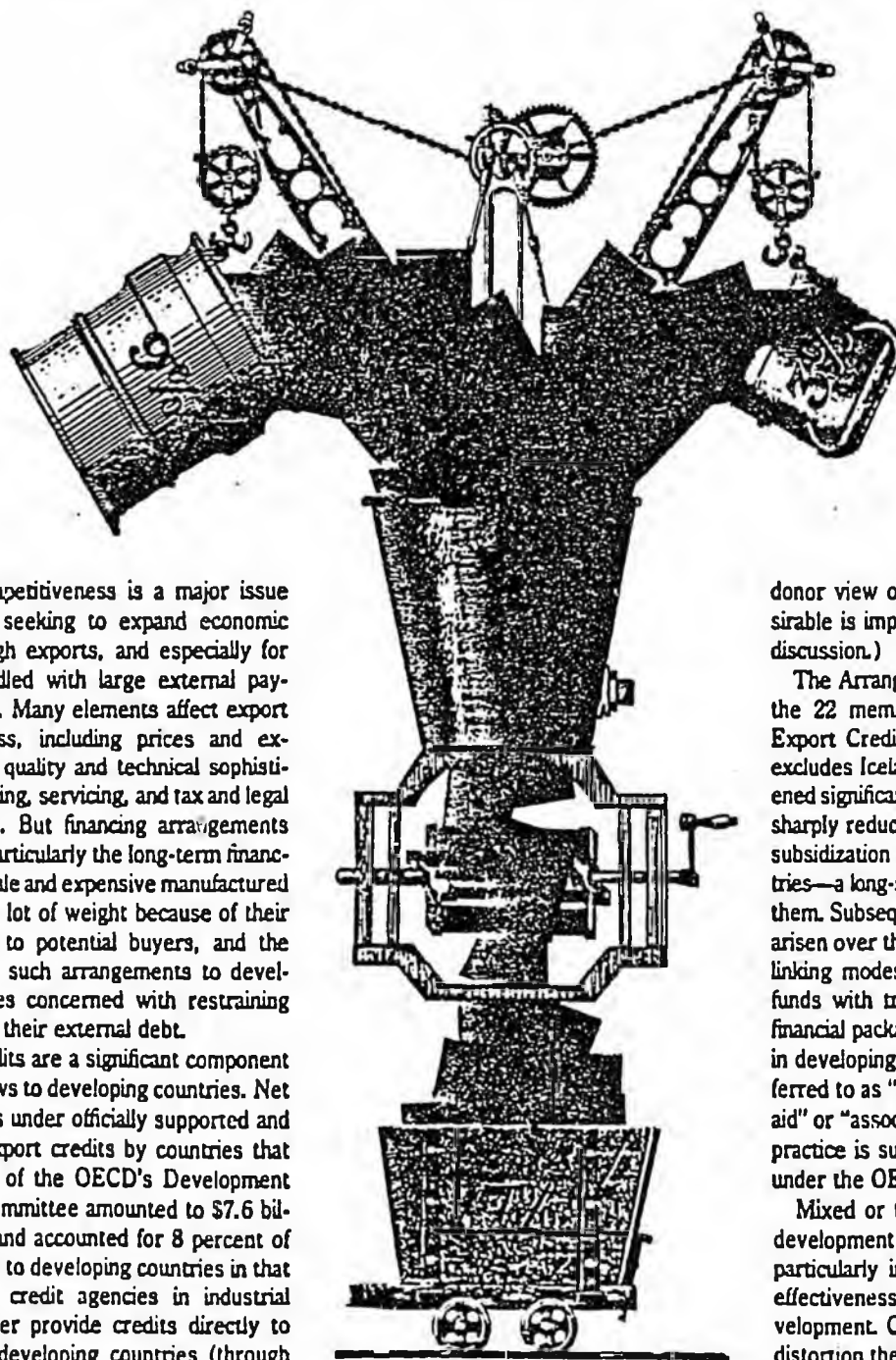
Financial counseling services are a necessity to stimulate international trade. The state could assist companies in preparing loan packages for banks, SBA's revolving line of credit (up to \$1 million) or Ex-Im Bank's working capital guarantee program (between \$1 million and \$5 million).

In conclusion, the panel found that stimulating international trade development of small to medium size firms in Alaska is a multifaceted task. Alaskan companies need assistance in obtaining working capital, venture capital, political risk insurance, and counseling services. A matrix system utilizing the Alaska Industrial Development Authority, the Department of Commerce and Economic Development, and various other federal programs was found to be more appropriate for Alaska than an Export Development Authority modeled after the Illinois program.

The OECD export credits agreement

Recent developments, and a review of efforts to curb mixed credits

David M. Cheney



Export competitiveness is a major issue for countries seeking to expand economic activity through exports, and especially for countries saddled with large external payments deficits. Many elements affect export competitiveness, including prices and exchange rates, quality and technical sophistication, marketing, servicing, and tax and legal considerations. But financing arrangements for exports, particularly the long-term financing of large-scale and expensive manufactured items, carry a lot of weight because of their high visibility to potential buyers, and the importance of such arrangements to developing countries concerned with restraining the growth of their external debt.

Export credits are a significant component of financial flows to developing countries. Net disbursements under officially supported and guaranteed export credits by countries that are members of the OECD's Development Assistance Committee amounted to \$7.6 billion in 1983, and accounted for 8 percent of the total flows to developing countries in that year. Export credit agencies in industrial countries either provide credits directly to importers in developing countries (through such mechanisms as direct credits, refinancings of commercial credits, and interest rate subsidies) or guarantee commercial bank or supplier credits. Agencies that provide direct financial support try to maximize the competitiveness of their longer-term export financing within the limits prescribed by prudent risk analysis and by several international accords. Foremost among these accords is the Arrangement on Guidelines for Officially Supported Export Credits, established in 1978

under the auspices of the Organization for Economic Cooperation and Development. The Arrangement sets minimum allowable interest rates, minimum required cash downpayments, and maximum repayment terms on officially supported credits of two years and over; these are designed to limit competitive subsidization of export financing by OECD governments, so that exports compete on the basis of nonfinancing elements. (The

donor view of subsidized financing as undesirable is implicitly accepted in the following discussion.)

The Arrangement, which is adhered to by the 22 members of the OECD Group on Export Credits and Credit Guarantees (and excludes Iceland and Turkey), was strengthened significantly in 1983. The new provisions sharply reduced the scope for export finance subsidization by the major industrial countries—a long-standing source of friction among them. Subsequently, however, contention has arisen over the growing practice of mixing or linking modest amounts of concessional aid funds with traditional export finance in the financial packages offered to potential buyers in developing countries—these packages referred to as "mixed" credits, a form of "tied-aid" or "associated financing" (see box). This practice is subject to only limited regulation under the OECD Arrangement.

Mixed or tied-aid credits have an explicit development aid component, and provoke particularly important questions about their effectiveness and efficiency in financing development. Critics of tied-aid credits cite the distortion they create in both trade flows and development assistance by diverting scarce foreign aid funds meant for poorer countries to support commercial export sales, typically in the more advanced developing countries. Advocates, however, contend that tied-aid credits reduce the cost to developing countries of projects with a high developmental content, and stretch the development impact of scarce foreign aid funds. Proponents also argue that such credits enable poor countries to attain access to needed imports, particu-

larly when commercial flows to them have been reduced.

The Arrangement circumscribes the level of export credit subsidy by limiting repayment terms and setting a floor for fixed interest rates on medium- and long-term government-supported export credits with a maturity of two years or longer. Its adherents have also been concerned with improving "transparency and discipline" in the extension of tied-aid credits. Proposals have been put forward for stricter notification procedures—whereby an OECD member offering a tied-aid credit must notify others in advance, to afford them a better chance to respond in kind, and—more generally—to discourage this practice. Other proposals have aimed to tighten discipline by raising the minimum permissible "grant element" of tied-aid credits so as to restrict their use in financing commercial export sales.

The April 1985 meeting of the OECD Ministerial Council achieved progress on both transparency and discipline. The session concluded with an agreement to reinforce advance notification and consultation procedures for countries offering tied-aid credits, and to increase to 25 percent (from 20 percent) the minimum allowable grant element for such transactions.

The Arrangement

The OECD Arrangement of 1978 succeeded a looser 1976 "consensus" that sought to harmonize official export credit practices and reduce the level of subsidy so that trade decisions would be based mainly on non-financing considerations.

As well as setting floors on interest rates and ceilings on the repayment terms of traditional export credits, the Arrangement stipulates the minimum cash downpayment required, and the allowable government support for local costs (costs incurred in the importer's

country that are associated with the export transaction), as provided for in the original consensus. Cash downpayments must be at least 15 percent of export contract values, with official support limited to insurance and guarantees against the usual pre-credit risks. Official support for local costs—direct financing or insurance—must not exceed the downpayment and may not carry terms more favorable than the export credit to which it is related; local-cost support for buyers in high-income countries is limited to insurance or guarantees.

Modifications, 1983

The Arrangement is not legally binding in the sense of an international treaty and has had a history of rather uneven cooperation. In its original form it had a number of weaknesses. The most important of these was the difficulty of adjusting the minimum allowable interest rates. The latter varied, together with the maximum repayment period, according to the income level of the importer's country, with the most concessional terms reserved for the poorest borrowers. The minimum allowable fixed rates could be increased only by unanimous agreement on a new set of rates—usually after difficult and protracted negotiations. The result was that in the late 1970s and early 1980s, the budgetary burden of subsidies for export credit swelled to enormous levels in several industrial countries, which had promoted exports by offering export credit rates at the Arrangement minimums, but needed to pay higher interest costs to obtain funds in the market to sustain these credits. For example, in 1982 government bond rates averaged 15.6 percent in France and 12.9 percent in the United Kingdom, while the minimum allowable rate specified in the Arrangement was at 10 percent for credits to most developing nations.

One estimate suggests that in the early 1980s export credit subsidies were costing taxpayers in industrial countries about \$5 billion a year, because of the large spread between the rates at which export credit agencies borrowed and relent funds. Beneficiaries were buyers in developing countries who were able to finance imports at much lower than commercial interest rates, and exporting firms, which enjoyed increased sales and profits.

A second weakness of the Arrangement was that its minimum allowable lending rates for government-backed credits (which entailed direct government financing rather than insurance) applied to lending in all currencies, even those of countries whose market interest rates were below the minimum Arrangement rates. This had the effect of penalizing lending countries whose policies resulted in lower market interest rates.

Largely because of the fiscal pressures exerted by the high budgetary cost of export finance subsidies, participants modified the Arrangement in 1983 to address both of these problems. A formula was adopted whereby minimum interest rates would be adjusted regularly and automatically in line with movements in market rates. The formula provides for the adjustment of minimum rates on January 15 and July 15 each year, if the weighted average of the long-term government bond yields for the five currencies constituting the SDR valuation basket has moved by at least 50 basis points (i.e., ½ of 1 percent) in either direction from the level of the previous adjustment. The latest adjustment, effective July 15, 1985, maintained the interest rate minimums set on January 15, 1985 (see table) as the decline in the weighted average SDR interest rate did not change by at least 50 basis points.

In addition, the participants in the Arrangement adopted individual formulas—subject to periodic review—for currencies where market interest rates were below the Arrangement minimums. In these instances, market-related "commercial interest reference rates" serve as the minimum allowable official lending rates. In most cases, the reference rates are calculated by adding a margin above the monthly average government borrowing costs of five-year, fixed-rate funds, plus a 0.2 percent mark-up, and are adjusted monthly. Reference rates are in effect for a number of currencies, including the Japanese yen, the deutsche mark, and the Swiss franc, which are heavily used for export finance.

Linking the Arrangement minimums to market rates has, in principle, served to eliminate direct subsidies on interest rates for official credits to industrial countries—whose minimum allowable rates more closely approximate market rates—and to reduce significantly the subsidies to developing coun-

Financing for export promotion

There are a number of ways in which financing can be provided—for the purpose of export promotion—on terms that are softer than for traditional export credits. These include:

Tied-aid credits are broadly defined as aid credits provided for development purposes with procurement limited to the donor country; aid is "untied" when procurement may be undertaken at least in all OECD countries and developing countries.

Associated financing transactions, a more narrowly defined concept, combine two or more of the following: 1) ODA with a grant element of at least 25 percent; 2) other official flows—except as in item 3—with a grant element of at least 20 percent; and 3) officially supported export credits, or other funds at or near market terms.

Mixed credits are a kind of tied-aid credit or associated financing that combine funds partly from public sources and partly from private sources.

The grant element of a credit is the measure of concessionality of an officially supported credit, expressed as a percentage, as defined by the OECD Development Assistance Committee. In essence, it is the difference between the interest rate of the credit and the market rate and the length of time the funds are available to the borrower.

tries. The minimum rates are not always observed, however, and the level of subsidization still grows when market rates rise between the semiannual adjustments of the minimum allowable interest rates. Moreover, the minimum rates may still be highly concessional when credits are extended in weaker currencies or where domestic market rates are well above Arrangement minimums.

The Arrangement continues to be limited in several other ways. It does not, for example, cover several important economic sectors—notably agriculture, civilian aircraft, and military hardware—although separate ne-

world trade and aid remains quite limited, and indeed the volume of actual tied-aid credit commitments has reportedly declined in recent years. The OECD puts the volume of associated financing commitments at \$2.0 billion in 1983 and in 1984—compared with \$4.6 billion in 1982. (The significance of these figures, however, may be understated owing to the large dollar appreciation in 1983–84 that reduces the dollar equivalent of these flows.) Associated financings are estimated to account for only about 6 percent of officially supported export credits to developing countries.

recourse to tied-aid credits as a competitive tool in extending official support to exports, especially for products facing weak demand.

France has long been the major user of tied-aid credits, although Italy, Germany, and some smaller European countries have occasionally extended them for special programs generally restricted to poorer developing countries. The United States, the most vocal opponent of tied-aid credits, has made several mixed credit offers to date—only one of which has been accepted. The outlook for additional US offers is not bright—notwithstanding a tied-aid credit program authorized in November 1983 to counter foreign offers and rising domestic pressures in favor of them—as it depends mainly on the lending authority granted by the US Congress for the Export-Import Bank (more immediately, for fiscal 1986), and also on the availability of limited aid funds that can be used for this purpose.

OECD member countries remain divided over the desirability of tied-aid or associated finance credits. At a December 1984 meeting of the OECD Export Credits Group, the United States proposed that tied-aid credits containing a grant element of less than 50 percent be considered purely commercial and thus be subject to the Arrangement minimums. The member countries of the European Community offered a counterproposal to improve transparency further by broadening the definition of tied-aid credits and strengthening the notification rules. The European Community subsequently indicated a readiness to raise the minimum grant element for tied-aid credits from 20 to 25 percent. This compromise was accepted at the April 1985 Ministerial session, at which participants also agreed to tighten notification and consultation procedures along the lines proposed by the EC. The tightening was achieved by requiring that offers of tied-aid credits with grant elements of between 25–50 percent be subject to 20-day prior notification, and by instituting a procedure of face-to-face consultations where there is heavy competition in tied-aid credit offers. A study by the OECD

| OECD arrangement on officially supported export credits | | | |
|---|------------------------------------|------------|-------------|
| Importing country ¹ | Maximum period for repayment | | |
| | 2-5 years | 5-8½ years | 8½-10 years |
| | (Annual interest rate, in percent) | | |
| Relatively rich (GNP per capita of \$4,000 or more) ² | 12.00 | 12.25 | — |
| Intermediate (GNP per capita \$681-\$4,000) ² | 10.70 | 11.20 | — |
| Relatively poor (GNP per capita less than \$681) ^{2,3} | 9.85 | 9.85 | 9.85 |

Source: Organization for Economic Cooperation and Development.
 — Not applicable for these countries.
¹ As defined in the text of the OECD Arrangement.
² Based on data in the World Bank Atlas, 1981.
³ Countries eligible for credits from the International Development Association and other low-income countries.

gotiations on these are under way. (Sectoral agreements on ships, nuclear power plants, and aircraft are in effect.) Nor does the Arrangement cover certain auxiliary forms of protection for exporters, including insurance against inflation (or "cost escalation") and fluctuations in exchange rates—forms of protection that tend to blur the distinction between insurance and direct financial assistance.

Tied-aid credits

Once the automatic adjustment of Arrangement rates was agreed upon in 1983, the focus of negotiations shifted to tied-aid credits. Under the recently amended Arrangement, aid funds may be mixed with export credit only when the overall grant element of such mixed financing packages is at least 25 percent (forcing a minimum aid component). The use of more concessional (e.g., with grant elements exceeding 25 percent) tied-aid credits has, however, become widespread. Particularly controversial is the use of tied-aid credits for major export contracts to the financially stronger developing countries (which require less concessional funds), where the concessional element enables the exporter to gain commercial advantage over competitors from other countries.

The proportion of tied-aid credits in total

Nonetheless, pressure for increased associated financing seems generally to be mounting, and there was a sharp rise in 1984 in the volume of tied-aid credit offers. Tied-aid credits are highly attractive as an export marketing device since the terms on the concessional part can be very generous—with grace periods that can reach 15 years, maturities as long as 30 years, and nominal interest rates as low as zero percent. Consequently, new associated finance credit schemes have been adopted—or budgetary allocations for their extension increased—in nearly all OECD countries and the number of offers has risen considerably. Furthermore, there is some concern that the incidence of the practice is understated, since many similar types of financial offers are not technically considered tied-aid credits.

Another reason behind the increase in tied-aid credit offers is that in recent years many developing countries have been unable to accept financing on purely commercial terms. The sharp cutback of new investment projects in many heavily indebted countries has intensified competition in financing offers for export contracts to developing countries in financially sound condition. Moreover, the tightened Arrangement rules on minimum allowable lending rates may have encouraged greater



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Secretariat, to be completed by September 30, 1985, will, according to a communiqué issued at the conclusion of the OECD Ministerial Council, permit prompt implementation of measures to enhance transparency and discipline.

The OECD Development Assistance Committee has also long been concerned with this issue. It adopted in June 1983 "Guideline Principles for the Use of Aid in Association with Export Credits and Other Market Funds." The aim of these guidelines, which are not legally binding, is to limit the risk of distorting trade and aid flows, by limiting the use of associated financings to transactions that promote priority development objectives in recipient countries. In addition, credit terms are to be tailored to the economic situation and developmental stage of the recipients, with strict restraint on the use of concessional aid funds for the financially stronger countries. Experience suggests that the guidelines may be too general to have major impact on associated finance practices. Nevertheless, a recent assessment by the DAC indicates that some members have stepped up efforts to ensure that associated financings are used more for projects having developmental priority; the review also reveals that the share of bilateral ODA used for associated financings in stronger developing countries has declined to less than 1 percent. Considerable progress has been achieved in improving the transparency of associated financings according to the DAC, with new reporting routines established, more clearly understood definitions, and more prompt and complete reporting of data.

Conclusion

It can be argued that any increased use of tied-aid credits diverts scarce, highly concessional foreign aid funds from the poorest developing countries to higher-income developing nations, and from projects to meet basic human needs toward more capital-intensive sectors, which account for a large part of tied-aid credits. For donors, tied-aid credits represent a very costly means of export promotion.

Whether the recent modifications will satisfy the United States' and several other industrial countries' desire for more significant curbs on tied-aid credits remains to be seen, and it is certain that negotiations will continue at their usual slow pace. The achievement of automatic adjustment of OECD Arrangement rates to market levels, however, certainly demonstrates that breakthroughs in OECD export credit negotiations are possible—especially when a particular practice has spread to the point where it is extremely costly and offers no single donor country a clear competitive edge. ED

Nongovernmental

A review of the role of private agencies and voluntary organizations in the development process and the Bank's cooperation with NGOs

Vittorio Masoni

Nongovernmental organizations operate under different names and different guises in both developed and developing countries (see box on their nomenclature.) Their work is parallel and often quite complementary to that of official development agencies. They are traditionally known for their humanitarian, relief activities: they move quickly to the front lines when an emergency arises, be it famine, forced migration, or a natural or man-made disaster. Less appreciated, but no less important, is NGO work in socioeconomic development, from village-level production projects to involvement in country development policies as the "voice of the poor and of the under-represented." In addition, as a "coalition of consciences," "global think tanks," "do-gooders" or the "independent sector," as they are referred to in a variety of contexts, NGOs seek to mobilize the public in industrial countries to North-South interdependence, and urge more generous development assistance.

In spite of the heterogeneity of NGOs, two themes run throughout their development work: (1) *self-reliance*: people can do much to help themselves (or help others) without government intervention or support from aid agencies; (2) *people's participation*: people are the protagonists of development. People have to be associated with development planning and implementation, and must be given freedom to operate in areas that the government cannot effectively reach. Even the best development blueprint will not improve the lot of the poor, unless the intended beneficiaries understand it and support it.

The current worldwide search for ways to make optimal use of very scarce resources and stimulate broad-based development makes it very timely for economic development agencies to take stock of NGO development activities and thinking, and strengthen collaboration among public and private institutions engaged in promoting growth with social equity. Private philanthropy and self-help associations have a long history and, in fact, predate development agencies. The latter have long endeavored to set up collaborative relations with NGOs, particularly since the 1960s. These relations have been inspired by an ideological blueprint, such as helping a newly independent country to develop a pluralistic society (a view widespread in the United States) or advance social democracy (a motivation common in Europe, particularly among Scandinavian countries). Pragmatic considerations have prevailed with aid agencies that look at NGOs in a functional way, that is, as more efficient conduits for development inputs. Some relationships have been structured through specialized institutions and procedures; for instance, the European Community and most bilateral aid agencies have substantial programs for NGO projects. The World Bank carries out a policy dialogue and operational cooperation with NGOs (see discussion below.)

The wide variety of NGOs and of country situations has so far discouraged comprehensive research on NGOs. A small body of analytical material is becoming available from the OECD Development Assistance Committee, development agencies, and academia

A case for export credit subsidies

Kenneth Taylor
London

The recent reconstruction of the export credit Consensus offers the hope of avoiding repeated conflicts between participants; but objective analysis of the case for some limited subsidy element would also be helpful

International agreement on official export credit practices that are fair and prudent can be important both in supporting free trade policies and in averting over-indebtedness. The recent rescue from the brink of collapse of the OECD Consensus on export credits in its new and improved form inspires hope of an end to the ideological confrontations on this front that had introduced damaging uncertainties into the conduct of international trade. But the two main improvements — aligning the interest rate matrix with movements in the special drawing right (SDR) borrowing rate and the identification of appropriate levels for official support in low interest rate currencies (LIRCs, those whose domestic commercial rates are at any time below the matrix level) — are largely untested in practice and will not be free from technical disputations in future. And there are still some who see these changes as but another step towards a total ban on official export credit subsidies, and others who either reject or hesitate about such a view.

The general arguments against such subsidies can be made as persuasively as against subsidising anything, and need no rehearsing. However, the risk of further confrontations between Consensus participants might be reduced if, in the lull after the recent storm, the case for some particular and limited measures of export credit interest rate subsidy were objectively analysed. The widely differing structures and practices amongst the participating official agencies — reflecting national diversities of industrial, financial, governmental and historical factors — have tended to cloud analysis in the past; and this article attempts to explore this case, with some related suggestions for further improvement in the Consen-

sus. If there can be firm and general acceptance of certain grounds for subsidising export credits, each government should be able more easily to identify whether it is in its own interests at any one time to avail itself of them, and to adopt a consistent attitude towards the practical effects when others do so.

Positive help

International trade is generally accepted as beneficial — division of labour, spur to efficiency, brotherhood of man, and so on. Recognising that it nevertheless faces many impediments not encountered in domestic business, most major trading countries have set up export credit agencies to help, in a positive rather than a simply neutral manner: in the case of the UK Export Credits Guarantee Department (ECGD) there is a clear statutory remit to 'encourage' exports. Such help traditionally consists of insuring exporters against risks of non-payment and of filling gaps in national financial systems with resources adequate to sustain export credit terms meeting the accepted customs of trade in particular classes of business and markets. Further, where the interest cost of financing credit terms becomes a significant factor in total contract prices, that is where medium or long-term credits are involved, the benefits to the smooth flow of international trade of having a fixed rate of interest throughout the life of the individual contract have become discernible, in that all parties can thereby feel more secure against developments outside the control of any of them.

For example, if the interest rate of the credit (which may not necessarily be in the national currency of the exporter or the importer) is left to float commercially, a substantial unforeseen rise during the life of a contract could cause crippling loss to, or curtailment of deliveries by, an exporter who has quoted a fixed price: or, if he has negotiated an escalation clause covering the eventuality, he might nonetheless have to agree to his hard-hit buyer reducing the scale of his

Kenneth Taylor retired last October as head of the UK Export Credits Guarantee Department. This article is drawn from personal experience in dealing with the Consensus in recent years but does not purport to represent the policy of the British government.

order or prolonging the repayment period if default is to be avoided. The official credit agency would be in no happier state. It would have difficulty in reconciling its prudential preference for delimiting its maximum liability at the outset of the contract with its normal aim of maintaining an assured percentage of cover; and its system for assessing limits to the creditworthiness of the buyer and the market in which he resides and to the worthiness of the exporter for recourse in the case of non-payment — the agency's two basic functions — could be undermined if rising interest rates impinge on any large proportion of its current business. It might then face rising claims payments or at least a need to cut back its facilities for further contracts with the affected traders more sharply than was consistent with the orderly conduct of business.

Official agencies

It would be ideal if private banking systems were able to meet all their exporters' needs by offering fixed rates of interest upon a sufficient volume of credit financing and, perhaps assisted by developments in the financial futures markets, upon terms not bearing too heavily against foreign trade and currencies compared with domestic business. The question of subsidies would not then arise. But this is not even partly the case in every main industrial country nor, on present evidence, in any one of them as regards the volume of finance and lengths of credit required for the general range of capital goods exports. Official agencies have perforce entered the field, in ways determined primarily by their diverse national systems for funding medium and long-term export credit financing. There are however two basic modes, though an individual system may contain elements of both — first, where an official agency funds all such financing, or a major part of it with the remainder being funded by banks on commercial terms; secondly, where the banks fund all such financing, with an official agency intermediating between their commercial terms and the terms applicable to export contracts.

In the first mode, it is theoretically possible for the funding agency (an export bank, say) to ensure fixed-rate financing without resort to subsidisation. Through time, it can guarantee rates for individual contracts at levels reflecting its best judgment of trends: if the banks are doing part of the funding on commercial terms, it can vary its own terms so as to offset movements in theirs: and, on any law of averages and with the full resources of officialdom behind it, it may succeed for a period in avoiding loss by skilfully timed fund-raising operations from within government or the market at finest rates. Nevertheless, under this mode, a contingent risk of loss and therefore of subsidisation has in effect been accepted on individual runs of business at the time they were underwritten, however strong the resolve might be to recoup any such losses by corrective

action on future runs of business.

Under the second mode, with an official agency guaranteeing fixed interest rates for individual contracts and paying to, or receiving from, the funding banks the difference from time to time between that rate and the commercial rate required by the banks, the theoretical possibility of avoiding subsidisation similarly obtains. This was the basis on which in 1972 ECGD introduced interest rate support into its arrangements with the banks for funding sterling export credits, and which broadly it has since applied to foreign currency funding also. It is other factors that in recent years have led the ECGD and many other agencies into heavy adverse out turns in their systems. Yet this mode seems to have been more liable than the first to accusations of massive subsidisation: perhaps because, without the cushion of any funding on carefully chosen sovereign terms, the interest support payments to banks when commercial rates are rising loom larger and more visibly, and the contingent risk of subsidisation is overt rather than covert. But such differences in national methodologies should not be permitted to cloud responsible international judgment.

The Consensus in its present form has fortunately moved, albeit haltingly, to a point at which all modes of official support for fixed interest rates on individual medium and long-term export credits should be capable of general acceptance instead of partial suspicion. Setting the interest rate matrix on an SDR-linked basis and similarly requiring interest support on LIRCs to be linked to appropriate commercial rates should mean far less actual subsidisation of new contracts than in recent years, so dispersing massive clouds of resentment.

Contingent risks

Even so, with credits extending up to ten years or more, there still remain the contingent risks of loss under most national support systems: and the difficulties of proving, from a snapshot at any one point in time of all their current contracts at their various stages of life, that individual systems are or are not running as a partial subsidy. Comprehension of and tolerance towards different national systems, and a greater readiness to aid that comprehension by fuller disclosure than has always obtained in the past, will therefore be needed if this particular aspect of the 'subsidy' confrontations is to be finally defused.

Not only in the contingent sense affecting fixed-rate export financing, but by clear prescription, the matrix of minimum permissible interest rates for which official support may be given in any currency under the Consensus embodies an element of subsidisation. With the matrix now moving towards a level based on the medium-term commercial equivalent of the SDR government borrowing rate, itself a trade-weighted average of the five main international currencies, this element should as noted be much smaller than when the matrix was held well below commercial rates; but

CONSENSUS INTEREST RATES

| Borrowing categories | Relatively rich | Intermediate | Relatively poor |
|-----------------------------|----------------------|--------------|-----------------|
| Criterion (GNP a head) | \$4,000+ (1979) | In between | \$625- (1979) |
| 2.5 year (%) | 12.15 | 10.35 | 9.50 |
| Over 5 years (%) | 12.40 | 10.70 | 9.50 |
| Maximum credit term (years) | 5 (exceptionally 8½) | 8½* | 10 |

*10 years for those classified as 'relatively poor' before the July 1982 reclassifications

subsidisation is still permitted, down to the matrix level, of the medium and long-term export credit interest rate of any currency for which domestic commercial rates are at any time higher than that level. By definition, this applies at any one time to one or more of those five main currencies, amongst others.

The case has been urged that in the interests of fair competition this system should be succeeded by one in which official support for each currency is, at most, confined to fixed-rate financing for individual contracts at an interest level reflecting the commercial rate for that currency at the time of contract, however high that rate may be in comparison with other currencies; in other words, applying the LIRC system right across the board.

This case argues that, if the commercial rate for currency A is higher than that for currency B, this portends that the former currency will so depreciate and/or the latter will so appreciate that a buyer will readily divine that, in terms of his own currency, his repayment of capital and interest for a credit in currency A will cost him no more than the same sized credit in currency B. Therefore any subsidy for A's interest rate gives its exporters an unfair advantage over B's. The point is reinforced, it is contended, by the fact that the buyer desiring to cover his repayment obligations by buying forward on the foreign currency market can buy currency A on correspondingly more favourable terms than currency B.

Laboratory conditions

Under laboratory conditions, there is force in these arguments. In the real world, however, the parities between currencies during the pre-set phasings of the credit repayment can be affected by many factors other than differences in their commercial interest rates at the date of contract; and the world does not lack examples of a high interest rate currency being regarded as 'strong' internationally, or of a low interest rate currency remaining comparatively 'weak'. Also, the forward exchange market reflects more the differentials in current interest levels than the expected future movements in currency spot rates; and its ability to cater for the size or length of cover required for much medium and long-term

business is limited. Consequently, buyers are likely to see currency B's lower rate of contract interest as a bird in the hand worth more than all the uncertainties in the bush of currency A proving in the end to have offered as good a deal.

Another argument against matrix-linked subsidisation could be made now from the development of the LIRC arrangements, whereby the authorities in low interest rate countries should permit access to their currencies to exporters in other countries. Thus, an exporter in a high interest rate country theoretically enjoys the option of switching the financing of credits from his domestic currency to an LIRC which can be supported by his official agency at an even lower interest rate than the matrix.

Untested limits

Inescapably, however, there are untested limits to the extent to which the LIRC authorities are prepared to see their currency drawn on for the financing of others' credits, to which the banks there will offer to foreign borrowers terms that are quite as fine as those offered to their own industrial customers, and to which importers in third markets (and possibly their authorities) will accept a sudden switch in currency invoicing without some disturbance to traditional trading links. Also, any substantial switch requires a degree of sophistication on the part of exporters, their banks and their official agencies that may not widely exist; and, as noted, the likely absence of fully adequate cover for exporters in forward exchange markets may introduce elements of currency speculation into areas of business where it is inappropriate and unwelcome.

The UK's compulsory switch from sterling to US dollar and DM financing between 1977 and 1980 is a case in point, even though it was done not so much to take advantage of the lower interest rates for those currencies as to ease the balance of payments burden of sterling lending and the public sector borrowing burden of ECGD's sterling refinancing system at that time. Despite the acute economic crisis, it was judged that the switch could sensibly be applied only to credit contracts of over £5 million, in effect to no more than about 50 large exporting firms: whilst some 90% of such business was switched fairly quickly, exemptions had to be given where buyers would only consider bids in sterling: ECGD had to introduce cover against parity changes between tender and date of contract, a facility inherently difficult to run without loss: and, whilst US dollars and DMs were chosen because the forward market in them could cater for exporters' receivables fairly adequately, ECGD has had to introduce supplementary forward cover — again, difficult to run without loss — for other currencies subsequently qualifying as LIRCs. Thus, the LIRC option for a high interest rate country is by no means an easy or widely applicable one.

The question therefore needs to be faced whether

EXPORT CREDIT

the broader interests of international trade would be well served by totally banning all subsidy where a domestic commercial interest rate rises well above the international average. The latter will often derive from a serious deterioration in a country's balance of payments, or surging inflation, or very likely a combination of both. To moderate the tendency of exchange markets to overshoot its currency's depreciation, or to allow for the lag before budgetary measures can bite on internal money supply, the domestic interest rate may have to be pushed up very sharply for a considerable period; and past studies on sterling have shown that, for a convertible currency, it is not possible to sustain on any commercial basis a double interest structure differentiating between external and internal transactions.

Common weal

From such a rise in the domestic rate, industry will face increased production costs; and its ability to maintain exports will suffer further if it can, in the main, offer credit only at that high rate. This in turn can aggravate problems of improving the balance of payments and of restoring budgetary management; and such a country would give its trading partners scant satisfaction if it had to fall back on such correctives as import controls, excessive devaluation or debt rescheduling. There is growing acceptance that steady growth for all major industrial nations benefits from helping members who are passing through a difficult economic phase; and none of them knows when it may be his turn next. In the absence yet of purely inter-governmental financial mechanisms adequate for this purpose, the formula towards which the Consensus has groped its way whereby a high interest rate country can subsidise its export credit down to, but no further than, an average international level could be regarded for the time being more as a rough and ready contribution to the common weal than as an unacceptably unfair commercial device.

Since its inception in 1976, the Consensus matrix has set different minimum interest rates for exports to 'relatively rich', 'intermediate' and 'relatively poor' countries. Country categorisation has been based on *per capita* national income: for each category, the rate for over 5-year credits has usually been higher than for 2 to 5-year credits; and the rates for poorer markets have been lower than for the rich. On the 1976 over 5-year rate for rich markets of 8% per annum, there was a half percentage point discount in favour of the poorest markets (a 6¼% differential). When the rich country rate was raised in 1980 to 8¼%, the poorest markets discount was widened to one percentage point (nearly an 11½% differential); when it was further raised in 1982 to 12.4%, the discount was widened to 2.4 percentage points (nearly a 19½% differential); and most recently, with the rich market rate being unchanged but other rates lowered, the poorest markets discount increased to

2.9 percentage points (nearly a 23½% differential).

Though even the rich market rates were below commercial rates for many trading currencies for much of this period, the bulk of the subsidisation that occurred and was such a source of dissension was due to these matrix discounts for the intermediate and poorest markets, which are the main seekers of long credit terms for their imports of capital goods and related services. The Consensus participants' agreement to them, though never rationalised in any detail, has been predominantly motivated by financial 'aid' considerations: tinged perhaps with the aim of facilitating a greater volume of exports than many markets could otherwise have afforded.

But this has nothing to do with the proper conduct of official export credit operations as such. If anything, there is a case for higher, not lower, interest charges for exports to markets where there may be a greater risk of failure to pay at due date: the gain of a higher volume of exports to them is pyrrhic if it leads to their overspending and then having to cut purchases savagely because of debt problems; and an official insurer might have concern for the well-being of some classes of his policy-holders if foreign competition is stimulated against them by supplying industrial equipment on easier terms than they themselves can obtain, especially to countries where other costs of production are lower than theirs.

This form of Consensus-permitted subsidisation is now being tempered by the commercial equivalent of the SDR rate becoming the determining rate for the intermediate category of markets. This raises some questions about the other categories (see below), but clearly means less aid-motivated subsidisation than hitherto. Even so, the current surviving differential between the intermediate and poorest categories may not go unheeded by anti-subsidy campaigners; and it is important that this should be recognised as flowing from collective governmental decisions going wider than export credit operations alone and should not be allowed to create undue dissension in negotiations about those operations.

Scope for improvement

Covering so many facets of international trade and national currencies, the Consensus does not lack scope for improvement both in the light of practical experience and by further resolution of related policy issues. The following comments are however confined — in no particular order of importance — to those which may most directly bear on defusing residual subsidisation controversy or, more generally, on fortifying the belief of all participants in the fairness and prudence of its basic rules about interest rates and lengths of credit.

Intra-EEC trade. If the above arguments about contingent subsidisation in fixed-rate financing and enlightened self-interest in the permissible matrix are acceptable internationally, the European Commission might re-examine its ban, made earlier on grounds of

unfairly subsidised competition between one member state and another, on official interest rate support for intra-EEC sales in any currency. Such support might certainly have no place in a Community enjoying totally unimpeded internal trade in goods and services, a common currency and a financial infrastructure available uniformly to all traders. Until such time, the ban can only continue to give external competitors a distinct advantage over some, possibly all, Community producers in winning particular internal orders and to cast doubt upon the Community's advocacy in the Consensus, which it has so far judged beneficial to uphold against some contrary pressures, of official financing support for exports between rich markets generally. A re-examination of this ban could help to reconcile some member states and their exporters to the tighter disciplines of the Consensus in its new form.

The matrix: rich markets. With the matrix rate for the intermediate category of markets becoming the alignment point with the SDR rate, retention of its traditionally higher rate for rich markets merits re-examination also. At present, the 'mark-up' between the two is 1.8 percentage points for 2 to 5-year credits (a 17% differential) and 1.7 percentage points for longer credits (a 16% differential). This is, in effect, standing the earlier aid-motivated discount for intermediate markets on its head. If the new method for determining the intermediate rate results in a competitively-acceptable commercial average, these differentials serve to deter rather than encourage trade between rich markets by exporters supported on matrix terms, the more so since competitors supported on LIRC terms face no such deterrent. One may foresee the disadvantaged exporters, in the belief that most rich markets will not be subject to the political risks of default, reacting by avoiding the premium costs of official insurance and perhaps pushing out lengths of credit beyond customary and Consensus limits — to their heavy cost, if private buyer default occurs; and their official insurers, thereby losing some of their own desired spread of risk, may have to create further disadvantage by raising premiums on sales to other markets.

Imprecise art

Having swallowed the matrix and LIRC camels, rich Consensus participants should perhaps not strain too much to preserve this deterrent upon some imports into their own countries from other participants: agreement that the SDR-linked rate should apply to the rich as well as the intermediate market category would avoid a trading distortion owing more to historical accident than rational design. Further, the statistical basis for categorising countries, and periodically reviewing their categorisation, is an imprecise art; and in the past the process has not been wholly free from politically motivated manoeuvring. Elimination of the interest rate distinction between intermediate and rich

markets for matrix purposes would remove one potential source of future dissension amongst Consensus participants.

The matrix: poor markets. The matrix also preserves an interest rate differential between the intermediate and poorest market categories: at present, a discount of 0.85 percentage point for 2 to 5 year credits (an 8% differential) and of 1.2 percentage point for longer credits (an 11% differential). I have already advanced some general reservations about linking aid with trade in this particular manner: to these might be added other considerations. These discounts are, as noted, sufficient to perpetuate substantial subsidies at any one time by a number of participants; an irritant in itself to some, and also a potential cause of wider argument whenever the SDR rate changes significantly — should the discounts then be the same percentage points, or the same percentage differentials, or what? Also, the LIRC rules make no interest rate distinction between market categories, and none has yet been actively sought; but, if LIRC countries should come to view the matrix discounts as commercially unfair in any way or as putting themselves in an invidious position in the international aid context, and should then press for something similar for their own currencies, this could open up new differences between participants.

Financial aid

Yet indeed, if one accepts that a high interest rate currency in matrix terms tends to indicate a weaker rather than a stronger domestic economy whilst the reverse tends to be true of an LIRC country, there is an illogicality in the Consensus embodying an aid-giving provision for the former class of participant but not for the latter. As there are many ways of giving financial aid to poorer countries without interweaving it so closely with total exports of capital goods and related services to their public and private buyers alike (the latter group often containing associate companies of the exporters themselves), and as the Consensus already allows longer credit terms for these countries than for most others, the general case for keeping trade distinct from aid (including the avoidance of disruptive *credit-mixte* practices) would be served by phasing out these discounts.

A simpler matrix. Until recently the matrix, with three market categories each split between 2.5 and over 5-year credit bands, has provided for up to six different rates of interest. Latterly, for no deep reason, this was reduced to five by adopting the same rate in the two poorest market bands; but numerical complexity has grown as negotiated compromises have resulted in rates going to odd decimal places — an outcome likely to be perpetuated every six months or so by re-alignments with SDR changes, in the absence so far of willingness to round to simpler figures. Added to this will now be a variety of LIRC rates, each liable to change periodically. Risk of confusion to exporters and their bankers cannot be

lightly dismissed: nor of mistaken commitments being entered into by officials in the 22 participating agencies, who have long had difficulty enough in checking the facts among themselves if some credit offer is suspected of breaking the rules. To eliminate the different market categories as suggested above could have the additional benefit of a welcome simplification for all, and by aiding the desired 'transparency' of Consensus operations could strengthen participants' confidence in the system's fairness.

The process could be carried further, resulting in only one matrix interest rate at any one time, if the difference in rates between the two credit bands were also eliminated. This is at present the case, as noted, for the poorest market category and is likely to be so for most LIRCs, though some may appropriately entail a higher rate for longer credits than for shorter. Also, looking conjecturally ahead, this could help towards a version of the SDR itself becoming another and useful currency option for some sectors of international trade. On the other hand, this would remove a modest but long-standing Consensus deterrent against buyers trying to draw out credit lengths from the 2-5-year band into the higher-rated over 5-year band. Introduction of a single matrix rate, therefore, coupled with the growing presence of single-rated LIRCs should preferably be accompanied by wider areas of agreement amongst credit insurers, presumably in the Berne Union but with stronger commitment from their 'guardian authorities' than has sometimes been forthcoming, to keep credit lengths for various classes of goods and services within the bounds of commercial practice.

Lengths of credit. This last process is unlikely to be sufficiently comprehensive, however, to justify simplifying the Consensus even further by dropping all its credit band features, which have for some while set maximum credit lengths of 5 years, or exceptionally 8½ years, for sales to rich markets and of either 8½ or 10 years for other markets. Also, though the Consensus originated as a compromise between those countries favouring subsidised interest rates within shorter credit lengths and those favouring longer credit lengths at commercial interest rates, the prospective reduction now in the amount of permitted subsidisation will not necessarily be generally accepted as grounds for pushing out the permitted credit lengths.

Credit war

The financial systems of some participants cannot readily sustain credits much in excess of 10 years: exporters on the whole prefer to receive full payment sooner than later; official agencies similarly like to keep their horizons of risk as short as is consistent with traditional commercial practices; and any competitive pushing out of credit lengths could become a form of international credit war as disruptive and self-defeating as unrestricted interest rate subsidisation. Indeed, even if the matrix interest rate

should become the same for 2 to 5 and over 5-year credits as canvassed above, there is virtue in retaining some 5-year benchmark within the system as a reminder that this is an appropriate maximum credit both for sales to poorer markets of standard lines of capital goods, as distinct from more complex project business, and for the more general run of sales to rich markets; and the Consensus itself has a 'best endeavours' clause to avoid its maximum credit lengths becoming the norm for transactions which should be conducted on shorter terms.

However, it must be admitted that there is a mismatch between these rules and the various concepts of longer-term 'project financing' which are propounded as highly entrepreneurial ways of furthering major developments in, for example, the energy and other mineral fields and in land and air transport, mainly but not exclusively in non-rich markets. Suggestions have been made that, at least where it is not directly supporting the financing or the interest rate of credit sales forming part of such projects, an official agency should be permitted to insure repayment (in the jargon, to provide 'pure cover') over much longer credit periods than the Consensus at present allows.

Competitive financing

This would probably, however, still be opposed by participants whose institutions lack the means, such as a long-term bond market, of providing competitive financing on such terms: the official agencies of others might not always be comfortable with such longer risk horizons or with security based to any degree on the commercial success of the project, or alternatively might be impelled to consider whether in fairness to their policyholders generally or their taxpayers they should transform themselves to some extent into one of the equity beneficiaries in the venture: and controversy about unfairness could develop between agencies offering 100% insurance of credit financing and others operating on the principle that 'pure' insurance of such financing, like that of the receivables of exporters themselves, requires some proportion of risk to be borne by private parties.

Nevertheless, there could be scope here for constructive debate between participants. Some of them involved in certain sectors not directly covered by the Consensus as yet, such as nuclear power stations and widebodied aircraft, have been discussing credit lengths in excess of 10 years. If a single matrix interest rate evolves, it could be easier to construct a competitively equitable formula for allowing official financing support with the option of X years' credit at the matrix rate or X + Y years' credit at the matrix + Z rate of interest. And it is by no means clear that project managers, investors and equipment suppliers have collectively explored all possibly useful permutations of existing official facilities under the Consensus export rules and the longer cover against political risks for overseas investment. But this goes beyond the scope of the present article.



ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY

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December 1, 1986

Office of International Trade
Dan Dixon, Director
3601 "C" Street, Suite 722
Anchorage Alaska 99503

Dear Dan:

Thank you for providing me a copy of the draft legislation dealing with export financing. A few general comments, then some detail on particular provisions.

The addition of the word "export" added throughout the statute while perhaps being useful from a public perception and political stand point, in reality is rather meaningless. The Authority currently finances all projects now regardless if consumption is to be in-state or shipped out. It is not necessary to prioritize what the Authority will finance from an availability of funds basis due to our ability to access external capital markets. The Authority's goal has been to provide long term, reasonable rate financing to all credit worthy projects located within Alaska. As stated, should the addition of the term "export" provide the appropriate people the perception that the Authority is now involved in export financing, fine but the factual matter is, we already are doing it.

Beginning with Section 2, the bill restructures the Board of the Authority by adding an additional public member who must be "the Director of the Alaska Center for International Business at the University of Alaska-Anchorage". While my Board has not addressed this, staff feels this change is inappropriate. Section 6 puts the Authority in the international export finance business. Previous discussions illustrated that the local banking industry had sufficient expertise and financial capacity to handle export financing and the Authority would concentrate on pre-shipment finance. Section 8 contains the same problems as previously mentioned.

DRAFT
DISCUSSION PAPER:

STATE INVOLVEMENT IN EXPORT FINANCING

(This review and policy analysis represents the views of the author which are neither endorsed nor rejected by the State of Alaska. They are presented as a discussion paper for the Timber Task Force.)

Prepared for: Alaska Department of Commerce and
Economic Development
Office of International Trade
Dan Dixon, Director
Office of Forest Products
Bill Beardsley, Director

Prepared by: Robert Schiller, Economic Analysis Section
Alaska Department of Commerce and
Economic Development

June 1985

I. INTRODUCTION

A. Problem Identification

Exports are an important component of Alaska's economy, accounting for about one-third of the employment in Alaska's manufacturing industries. Many fishermen, loggers, and miners are dependent on exports for employment. In 1984, Alaska exported products valued at over \$1 billion. This consisted of seafood products (\$283 million), natural gas (\$262 million), forest products (\$219 million), urea (\$100 million), ammonia (\$30 million), and other products (\$153 million). Because of Alaska's small internal market and difficulty in the continental U.S., the foreign market often represents the dominant point of sale for Alaskan goods.

Yet, only a small percentage of Alaskan firms export. Although no thorough study has been done, the evidence appears that five companies account for over 50% of the value of Alaskan exports: Phillips Petroleum (LNG); Union Oil (ammonia and natural gas); Alaska Pulp Corp. (forest products); Louisiana Pacific (forest products); and Sealaska (forest products). In addition to these five companies, there are numerous seafood processors that account for an additional 25% of Alaska's exports. Thus, only a handful of Alaskan firms account for the large majority of exports.

The benefits to Alaskans of increased exports would be many: increased employment, additional customers, greater annual sales, new market opportunities, extension of a product's market life, countercyclical markets, greater personal income, economic diversification, and higher tax revenue, to name a few. Nationwide, a job is created for every \$40,000 of exports. For these reasons, interest in ways to increase exports is high. This is evidenced not only by the increased political attention given to trade, but also by a 1983 survey by the International Trade Administration which uncovered the names of over 500 Alaskan companies that either export or that have an interest in exporting.

Interest, however, often does not translate into trade. Although the benefits of increased exports are many, so are the obstacles. The truth of this statement is demonstrated by Alaska's inability to show a steady increase in the value of its exports over the past few years. The value of Alaskan exports in 1981, 1982, and 1983 was greater than in 1984.

Lack of competitive products, lack of commitment to exports, insufficient knowledge on how to export, lack of information of export opportunities, insufficient marketing skills, complex regulations, different product standards, unwillingness to assume the extra risk, the strong dollar, lack of insurance, LDC debt problems, slower economic growth in countries to which Alaska exports, and inadequate financial resources are some of the factors that inhibit increased exports of Alaska products. Incentives, expertise, and competitive products are required to be successful in the foreign marketplace.

CORRECTION

**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**



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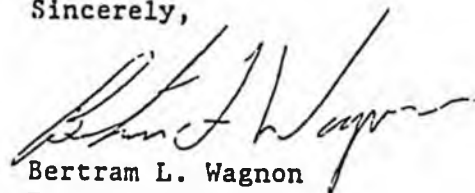
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Dan Dixon, Director
November 28, 1986
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I'll continue to go through the bill in detail, however my indication at this time is that no capital shortage exists for post export shipment and that function would remain the domain of the private banking sector due to their more than adequate ability to meet that need. My understanding was that we would attempt to position AIDA to provide pre-shipment or in other words long term lending within Alaska to encourage the development of facilities to produce the export commodities.

Let me know your thoughts.

Sincerely,



Bertram L. Wagon
Executive Director

BLW/ss

DRAFT
DISCUSSION PAPER:

STATE INVOLVEMENT IN EXPORT FINANCING

(This review and policy analysis represents the views of the author which are neither endorsed nor rejected by the State of Alaska. They are presented as a discussion paper for the Timber Task Force.)

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I. INTRODUCTION

A. Problem Identification

Exports are an important component of Alaska's economy, accounting for about one-third of the employment in Alaska's manufacturing industries. Many fishermen, loggers, and miners are dependent on exports for employment. In 1984, Alaska exported products valued at over \$1 billion. This consisted of seafood products (\$283 million), natural gas (\$262 million), forest products (\$219 million), urea (\$100 million), ammonia (\$30 million), and other products (\$153 million). Because of Alaska's small internal market and difficulty in the continental U.S., the foreign market often represents the dominant point of sale for Alaskan goods.

Yet, only a small percentage of Alaskan firms export. Although no thorough study has been done, the evidence appears that five companies account for over 50% of the value of Alaskan exports: Phillips Petroleum (LNG); Union Oil (ammonia and natural gas); Alaska Pulp Corp. (forest products); Louisiana Pacific (forest products); and Sealaska (forest products). In addition to these five companies, there are numerous seafood processors that account for an additional 25% of Alaska's exports. Thus, only a handful of Alaskan firms account for the large majority of exports.

The benefits to Alaskans of increased exports would be many: increased employment, additional customers, greater annual sales, new market opportunities, extension of a product's market life, countercyclical markets, greater personal income, economic diversification, and higher tax revenue, to name a few. Nationwide, a job is created for every \$40,000 of exports. For these reasons, interest in ways to increase exports is high. This is evidenced not only by the increased political attention given to trade, but also by a 1983 survey by the International Trade Administration which uncovered the names of over 500 Alaskan companies that either export or that have an interest in exporting.

Interest, however, often does not translate into trade. Although the benefits of increased exports are many, so are the obstacles. The truth of this statement is demonstrated by Alaska's inability to show a steady increase in the value of its exports over the past few years. The value of Alaskan exports in 1981, 1982, and 1983 was greater than in 1984.

Lack of competitive products, lack of commitment to exports, insufficient knowledge on how to export, lack of information of export opportunities, insufficient marketing skills, complex regulations, different product standards, unwillingness to assume the extra risk, the strong dollar, lack of insurance, LDC debt problems, slower economic growth in countries to which Alaska exports, and inadequate financial resources are some of the factors that inhibit increased exports of Alaska products. Incentives, expertise, and competitive products are required to be successful in the foreign marketplace.

This study focuses on only one of the above-mentioned obstacles: export financing. Export financing is needed not only to produce the product, but also to sell it. For example, financing in the timber industry is needed to construct a mill, purchase logging equipment, build roads, finance insurance and bonds, pay personnel, carry inventory, and to find markets. It may also be necessary, following shipment, to finance an importer's purchase.

In 1982, it was estimated that 40% of U.S. export shipments were financed (i.e., 60% were paid for in cash or letter of credit by a foreign buyer within 30 days of the shipment). Ninety-three percent of the financing was from private sources and 7% from public money. Alaskan firms appear to obtain almost all of their financing from private sources. In contrast, firms in the State of Washington, receive approximately 67% of their financing from public sources. Despite the numerous existing financing mechanisms, recent studies have shown that some U.S. businesses are often unable to obtain competitive export financing or are unaware of its importance in finding markets.

Export financing is not that much different from any other kind of financing. Regardless of the destination, banks still need to determine whether the borrower is credit worthy, whether collateral is sufficient, or whether the borrower can make sufficient profit from the transaction to repay his commitments. There are, however, several major ways in which export financing might differ from domestic financing: first, there is an additional element of risk. If a foreign bank or company defaults, it may be more difficult to collect than from a domestic company; second, U.S. firms may be competing with foreign companies that are offering very attractive government backed credit terms; and third, some banks may not want to get involved with export related financing.

B. Purpose of This Study

This report concentrates on export financing policy considerations, options, and recommendations. Because of the length, much of the background material and more detailed discussion is put in an Appendix. The objectives of this report are to:

1. Provide a general policy assessment of the issue of State involvement in export financing;
2. Provide an assessment of viable export options for Alaska;
3. Recommend a course of action;
4. Provide a list of: existing financing mechanisms; programs used in other states; and criteria by which to compare programs.

II. MAJOR FINDINGS

- o Financing needs can be divided into two categories: pre-shipment and post-shipment. Pre-shipment refers to expenditures needed to produce a product: roads, equipment, capital investments, and payroll for example. Post-shipment refers primarily to credit terms offered to the importer. Alaska's pre-shipment financing needs are much greater than its post-shipment needs. Most of Alaska's goods are sold for cash or payment within 30 days.
- o The availability of pre-shipment financing is not greatly influenced by whether the final goods are exported. While foreign exchange fluctuations and economic stability of the importer play a role, the financial condition of the firm, the economic situation of the industry, the profit potential of the venture, risk of default, and the quality of the collateral are more important than the destination.
- o The private sector is meeting most of the export finance needs of Alaskan companies. Many companies, due to having headquarters outside the State or the relatively small size of banking establishment in Alaska, use out of State banks.
- o There are numerous State, federal, and international programs available to finance exports (see Appendix B), although Alaskan firms have minimal involvement. For example, only three Alaskan firms are currently using Eximbank financing programs.
- o Designing an export financing program is complex. Policy considerations include cost, benefits, source of funds, efficiency, terms, administrative complexity, selecting an administrator, constituency, and risk (see Appendix A):
- o Other states and studies (see Appendix D) have concluded that the following gaps are present in existing funding mechanisms:

Many smaller firms, due to inexperience or low credit-worthiness, appear to have difficulty arranging both pre-shipment and post-shipment financing.

Many firms that are small or new to exports are discouraged from exporting because of the complexity.

Due to depressed market conditions, nonstandard collateral and high risk, the timber industry currently finds it especially difficult to obtain financing.

There is a limited amount of fixed rate medium-term financing available at competitive interest rates.

Several possible shortcomings of the Eximbank (the dominant federal vehicle) were identified: lack of an efficient delivery system, excessive paper work, long turn around, high cost, restrictive eligibility requirements, low profits for banks for small transactions, and emphasis on large firms.

- o At least 19 states have passed legislation creating export finance assistance (see Appendix D). Programs range from direct loans, guarantees, insurance, counseling, to interest rate subsidization.
- o The State is not yet prepared to initiate an export financing program. It has yet to determined the demand, the constituency, the purpose, or the amount its willing to spend. A high level task force should be formed to propose (or not propose) a program.

III. OPTIONS

Based on an examination of programs and proposals of other states, Alaska has many program options to choose from. There is a matrix of financing arrangements that can be created from the following:

- o type of aid: direct loans, guarantees, subsidy, insurance or counseling.
- o whether the aid is pre- or post-shipment
- o length of aid: short, mid, or long-term
- o terms of the arrangement: interest rate, eligibility, amount, ease of use, degree of coverage, collateral required, etc.

The advantages and disadvantages of some of the major options are discussed below. Many of the details of these programs have been proposed by other states and legislation drafted. If applicable, Alaska could benefit from their efforts.

- o No state financing: It is a viable alternative for the State to do nothing.
Advantages: This alternative carries no risk, no out of pocket costs, and continues current policy.
Disadvantages: Some export opportunities may be foregone due to a lack of financing and/or counseling.
- o Export finance counseling services: Export counselors explain the mechanics of export credit to inexperienced firms, hold export finance seminars, provide an assessment of a firm's export potential, identify distribution channels, have intimate knowledge of finance programs offered by banks and State and federal agencies, perform market research; stimulate interest in exports, and help prepare business plans and loan applications.
Advantage: This program is both low risk and low cost. It might not require legislation, only additional personnel funding. Might be helpful to small firms or firms with little export experience. The counselors can be leveraged through participating organizations.
Disadvantage: The program will not be self-sustaining and funds will have to be appropriated each year. The extent to which such a program would be utilized in Alaska is unknown.
- o Guarantee programs: The State can offer guarantees to commercial banks for firms which are unable to arrange satisfactory loans due to their size or financial condition.
Advantages: The bank, since it would hold part of the credit risk, would screen out totally unworthy borrowers. Would be especially helpful to the timber industry. This would support not replace private financing.
Disadvantages: The State can be left holding the bag. The program requires a high level of support personnel and risk.

- o Direct Loans: The State can offer direct loans to Alaskan exporters. As a variation, the State could purchase loans made by commercial banks that are backed by letters of credit.
 - Advantage: Borrowers would be able to obtain financing not available elsewhere. It might be possible to share the risk with participating commercial banks and to insure against political and commercial risks.
 - Disadvantages: The State must become a banker. It must determine creditworthiness and assume credit risk. This is complex and costly. There is a high risk of default and political pressure. Legislation may be required.

- o Subsidy: The State can offer interest rate subsidies. For example, in a linked deposit program, Alaska would purchase a CD in a bank making an export loan. The bank would pay the State below market rates of interest. In return, the bank would charge the exporter a lower interest rate. Or, the State could simply lower the effective rate of interest as it does with housing loans.
 - Advantages: The program can be designed so the bank assumes all the credit risk. Administratively simple.
 - Disadvantages: There is an opportunity cost to the State in lost interest revenue. May be legal problems in providing a subsidy. Legislation might be required.

- o Insurance programs: The State can offer, through FCIA or private insurers, credit risk insurance. The extra assurance of repayment makes exporters more willing to extend credit and might make their goods more attractive to overseas buyers.
 - Advantages: The program is moderate risk and low cost.
 - Disadvantages: For most of the countries and transactions Alaska deals with, insurance may be unnecessary.

- o An Eximbank delivery system program: The State might be able to issue modest sized loans and guarantees under authority granted by Eximbank. In addition, the State can join forces with the the Eximbank to provide training, technical assistance, promotional efforts, joint delivery systems, and information sharing.
 - Advantages: This program is low cost and low risk.
 - Disadvantages: The Eximbank is very restrictive in terms of delegating its money and authority. Many Eximbank programs may have no applicability to Alaskan exports.

- o State infrastructure development: The State can strategically invest in infrastructure that will support export development. This is an indirect way of State export financing. The State has taken this route several times: port facilities to support coal export or development money to support the Red Dog mine.

Advantages: The State gets something for its money, i.e., a road, a port, an airport, etc. The infrastructure development can serve as a stimulus to multiple investments.

Disadvantages: This route can be costly, running into the tens of millions. Industry can become dependent and come to expect State handout before proceeding with any large investment.

In addition to these options, there are numerous proposals and ideas floating around. An abbreviated list (in no particular order) of other actions the State can take follows:

- o Encourage foreign investment in Alaska (according to the U.S. Department of Commerce, in 1981 Alaska ranked third in the nation in the value of foreign owned property. This investment resulted in 8,578 jobs);
- o Use port authorities to issue bonds, promote market research, advertise, provide legal assistance, transportation, trade documentation, freight forwarding, communication services, and to operate as an export trading company;
- o Match student interns who have marketing expertise to firms wanting cheap market research;
- o Initiate seminars on world economic trends, marketing techniques, export controls, documentation, transportation, specific countries, potentials of specific products, export financing;
- o Set up a State export trading company;
- o Create a State agency to guarantee performance and payment bonds for more than one year and more than \$1 million;
- o Organize cooperatives for the purpose of financing and guaranteeing the exports of members;
- o Participate as equity partner in new export ventures;
- o Issue international trade bonds;
- o Issue monthly publications. These can contain updates on conferences, planned trade missions, visiting foreign business persons, trade opportunities;
- o Compile a list of prospective Alaskan exporters and best prospects for their products;

- o Have catalogue shows and trade fairs to get face to face meetings between buyers and exporters. These provide a forum for discussion of pricing, quality, performance, and competitiveness;
- o Get experienced exporters to meet with those new to exporting as a type of mentor program.

IV. POLICY CONSIDERATIONS

A. General Discussion

The first consideration facing Alaska decision makers interested in expanding exports through export financing is that the lack of financing is only one of a host of variables that may inhibit increased exports from Alaska. It may, in fact, not be the key problem. Lack of competitively priced products, inadequate management skill, an economic downturn, lack of additional products to sell, insufficient marketing effort, lack of supporting infrastructure, and the strong dollar may be more important. Financing will do little to overcome these problems.

The second consideration is that if the State initiated a financing program, it would, in all likelihood, end up assisting companies that no one else was interested in helping in ways that no one else wanted to get involved with. The unwillingness of the private sector to finance a business venture or transaction does not, in itself, justify government intervention.

There are several justifiable reasons that private institutions may not meet the needs of some exporters: the risk is too great, fluctuating interest rates, funding limitations, the profit potential is too small, competitor nations subsidize their exports, regional banks don't have the experience or interest in export financing, and a temporary downturn in a sector of the economy. Federal programs have attempted to fill many of the gaps left by private institutions.

The principal policy issue for Alaska, therefore, is whether the benefits resulting from any increased exports due to its financing programs would be worth the risk, cost, administrative burden, and responsibility. To answer this issue, further study and policy decisions are required. Such public programs often cater to small, financially weak, risky and even poorly managed entities. Any State effort should be designed very carefully to assure that its activities strengthen industry rather than underwrite nonviable activities.

There are three reasons the State might be warranted to intervene to strengthen the private market:

- o the Alaska financial system is limited in size and scope;
- o sufficient capital may not be obtainable for profitable projects;
- o political or social reasons.

B. Program Design Considerations

In selecting an option or in designing a specific program it will be necessary to consider the following:

Why: Why does the State really want to get involved? Is it to support an economically depressed industry? to encourage exports from small firms? to provide Alaskan goods with a little extra boost?

Cost: How much will the start-up costs be? What will be the administrative costs? Will the program bring in enough revenue to be self-sustaining or will the program be a subsidy and a drain on State resources?

Source of Funds: Where will the program get its start-up and operating funds? Options include selling of bonds, charging fees, general State appropriations, charging a royalty on sales, federal grants, and so forth.

Efficiency: For each dollar spent, how many new exports and jobs will result? If the State has a financing program, somebody will always be there with his hand out. The State must set up a mechanism to ensure that the State gets the most bang for its buck.

Terms and conditions: What will be the eligibility requirements, interest rates, type of financing, maturity, amount, collateral required, and so forth?

Impact on private financing mechanisms: Several State loan programs, due to the low rates of interest, have essentially removed the private sector from the market. Does the State program make the maximum use of private institutions?

Benefits: What will be the impact on employment, tax revenue, economic diversification, and personal income? Where will these benefits occur and who will receive them?

Effectiveness: Will the program reach the groups for which the program is intended? The State may finance exports, but would these exports have taken place without State assistance? Will the program improve the competitiveness of in-State exporters?

Who will administer the program: Will a new organization be created to run the program or will an existing entity, such as the Alaska Department of Commerce and Economic Development or AIDA, be charged with the responsibility? This will depend on the capability of the organizations, its relationship to other State programs, acceptability to other State agencies.

Administrative complexity: Will the program require few or many people to run? What level of skill will be required? Are there legal complications? Will the program require several locations throughout the State?

Opportunity cost of money: What else could be done with the money used for financing exports?

Type of company aided (size, product, etc.): Will the program be aimed at a specific interest group (i.e., the timber industry or seafood industry)? Will the program be for small firms only? Will firms in any region in Alaska be eligible or only rural firms?

Potential conflict with U.S. regulations or international agreements: If interest rates are subsidized, international agreements may be violated.

Overlap with federal programs: Many federal programs exist that may perform a similar function. Is the program designed to complement or replace federal programs?

Maximum use of federal expertise: The Federal Government has experienced people located throughout the world. Does the State program make the maximum use of this?

Risk: What level of risk will the State be willing to accept? Will the financing have a reasonable assurance of repayment? What level of defaults will be acceptable? Will the program be geared to simple, low risk, short term financing or complex, risky, long-term financing?

State policy: How does the export financing program relate to other State economic development programs and policies?

Adaptability to changes: Economic environments are constantly changing. For example, interest rates, economic growth, and the strength of the dollar are constantly in a state of flux. Will the program be able to adapt itself to these changes?

Constituency: Who is going to support the program? How does the business community react to the program? Will the program maintain legislative support over a number of years? Will there be any major opposition to the program? Only the timber industry has voiced a need for export financing and much of what they requested really wasn't export financing. For example, a logger that needs financing to harvest timber that he sells to a domestic mill is not strictly export financing.

Last resort: Will exporters have to prove that all other avenues of financing have been attempted?

Legislative requirements: Will the program need legislation in order to be implemented or will additional staff be sufficient?

V. CONCLUSIONS AND RECOMMENDATIONS

A. General

No matter what program the State selects, it should have the following characteristics:

1. It should not be in conflict with federal legislation or international agreements.
2. It should complement rather than compete with existing finance programs.
3. It should use federal expertise and support.
4. The program should make maximum use of private financial institutions. Banks should support State involvement.
5. The program should be financially sound and self sustaining.
6. The program should help make Alaskan goods more competitive in foreign markets.
7. The program should benefit in-State exporters and residents.
8. The program should support primarily small and medium sized firms, without precluding larger firms.
9. Initially, the program should not require high expertise, large staffs, large amounts, long terms, or risky investments.
10. The program should be closely related to State development policies.
11. The program should be flexible and adaptable to changing environments.

B. What to do next

The State of Alaska is not yet prepared to initiate an export financing program. It has not considered in any depth why it needs a program; who it might benefit; how much it might help; how much it is willing to spend or risk; who would administer it, etc.

Only one thing appears clear at this point. The State should not consider getting involved in making direct loans unless it is willing to lose money, own sawmills, be in competition with banks, assume high risks, and be susceptible to political pressures. Export financing is risky, requires a lot of up-front money, does not have widespread support, and requires a large staff with a high level of expertise. Loans are even more risky when Alaska is a lender of last resort. Several loan programs the State now offers have a high delinquency or default rate. ARC did not have a successful life.

Loan guarantees have substantial merit but are also risky. This is especially true in the timber industry where short-term working capital can easily run into the millions. Counseling services have been used successfully in other states. The cost and risk is low but the demand for such services unknown. The linked-deposit program, despite its subsidy aspect, is interesting because of its simplicity and low risk.

Given this discussion, a reasonable course the State can take now is to appoint a high-level task force composed of bankers, exporters, politicians, State representatives, ITA officials, resource specialists, and business leaders. The task force would be assigned the task of holding hearings to get widespread opinions, determining costs and benefits, estimating demand, recommending a specific export financing program, and proposing legislation if necessary. The panel should be able to complete its final report within six months. It might be useful to have a modest amount of contractual money for the panel to commission short-term, specific research.

While the panel is performing its duties, it would be wise for the State to :

- a) attend training seminars and conferences on export financing. The Eximbank, for example, offers a 4-day training seminar that appears excellent.
- b) invite an ITA representative to Alaska. The ITA will send a specialist up to Alaska, at no cost, who will work with Alaska in developing an export finance program. This should be taken advantage of.
- c) visit other states that have successful programs.
- d) explore whether any monies are available from the federal government to research export financing needs and programs. The EDA, for example, funded an export development study for Washington in 1981.

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APPENDIX

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APPENDIX A

A. OVERVIEW OF EXPORT FINANCING

1. Financing needs

There are basically two kinds of export financing: pre-shipment and post-shipment. Pre-shipment involves financing of capital investments, inventories, searching for markets, work in progress or anything else necessary to produce the product. For example, in the timber industry it is necessary to finance the mill, harvesting operations, logging equipment, roads, personnel, raw material, and so forth. This type of financing often requires real property as collateral. The fact that the goods will eventually be exported has little impact on the the ability to obtain financing.

Post-shipment financing deals with how the importer pays the exporter for the product. For example, the importer can agree to pay the exporter in 30 days or 180 days. The credit arrangements will specify the interest rate, maturity, grace period, and so forth. Post-shipment financing has become increasingly important in being competitive in international markets. The exporter is often able to obtain this type of financing by using his inventory or a letter of credit as collateral.

As a starting point for discussing financing mechanisms, it is useful to begin with an overview of the typical ways an exporter receives payment for goods shipped. In order of increasing risk, the following methods of payment are used:

2. Basic Methods of Payment

a. cash in advance: Although risk free and ideal for the exporter, an importer will seldom agree to pay cash in advance. This can only be justified when a product is in high demand or the product has special specifications. In the past, this payment method has been surprisingly popular in the seafood and timber industries when a seller's market existed. In today's buyer's market, it is used less and less.

b. Letter of Credit (LC): This is the most widely used form of payment. This is a document, issued by the foreign bank at the importer's request, promising to pay the exporter a specific amount of money for a specific quantity of goods when the conditions set forth in the LC are fulfilled completely.

When an LC is issued, the importer's bank assumes responsibility for the importer. With an LC, the importer and exporter do not communicate directly; the banks are positioned as intermediaries. The process of mailing documents back and forth between banks can take several weeks, with the exporter financing the product between shipment and payment. LC's can be for payment on sight or at some future date.

Letters of credit may be revocable, irrevocable, unconfirmed, or confirmed. The most desirable is the confirmed irrevocable LC. Irrevocable means that the LC cannot be cancelled or changed without the exporter's consent. Confirmed means that the exporter's bank guarantees that it will make payment irrespective of whether the importer or issuing bank defaults. If the LC is unconfirmed, the exporter is relying on the foreign bank to make payment.

c. Documentary Draft for Collection: With this method, the exporter, after shipment of his goods, presents a draft and shipping documents to his bank which forwards them to the importer's bank for collection. The exporter is guaranteed that the goods will be paid for before the documents are handed over to the importer while the importer is guaranteed that the goods have been shipped before he pays for them. Drafts can be sight, time, or date:

A sight draft (request for payment) is sent by the exporter's bank to the foreign bank for presentation to the buyer. Attached to the sight draft are shipping documents (bill of lading, invoices, packing list, insurance certificates, etc.). The buyer usually pays the draft when the vessel carrying the shipment arrives. Without payment, the buyer cannot obtain the documents or possession of the goods. Sight drafts are typically used when the U.S. firm wishes to retain title until payment. It also meets the buyer halfway by not tying up his funds for an excessive time.

A time draft is similar to a sight draft except that the buyer signs rather than pays the draft in order to obtain the documents necessary to receive the goods. By accepting, the buyer agrees to make payment within a specified time. If the exporter needs the money right away, he can ask the bank to discount the draft. This type of payment system is usually used only with long-time accounts since there is a risk to the exporter of non-payment.

A date draft requires payment by a specified date regardless of the date on which the products and the draft are accepted by the foreign buyer. With sight and time drafts, the buyer can effectively extend the period of credit by simply avoiding receipt of the products. Date drafts make this impossible.

In the case of drafts, banks are not financing credit, but earn commissions for handling of paperwork.

d. Open account: In this method, payment arrangements are between the exporter and importer. If the importer defaults, it can be very difficult for the exporter to collect. Even when payment is certain, the exporter's capital is tied up until payment is received. This method is practiced only with the best customers in the most competitive markets and is advisable only for firms making sales to subsidiaries or to trusted buyers.

e. Consignment: Under this arrangement, the exporter ships the goods to the importer, but the exporter retains title to the goods until the importer has sold the goods to a third party. Under this arrangement, the exporter runs considerable risk since he cannot get paid until the merchandise is sold. Payment is deferred until the agent has sold the product and reimburses the exporters. This method is generally used only in countries having economic and political stability. This system is most common for inter-company transactions or contractual agents. If the agent defaults, there may be little the exporter can do. The laws of many countries protect innocent third party buyers.

3. Criteria by Which to Compare Financing

There are many ways in which financing programs can differ: eligibility, interest rates, maturity, collateral required, amount available, etc. The actual financing agreement will depend on a host of factors: the credit rating of the participants; terms offered by the competition; foreign exchange availability; customary trade practices; stability of the importing country; whether the financing is pre or post shipment; complexity of the deal; size of the exporting firm; type of product; type of financial institution being used; and so on. The discussion below concentrates on the principal terms and conditions of a financing program: why they may differ, how they differ, and how this relates to Alaska.

Eligibility: Both banks and public agencies set standards by which they determine to whom they will lend or not lend. Eligibility for a program may depend on company size, legislative intent, years of export experience, product exported, country of destination, creditworthiness of the borrower, and so on. Some programs are designed for exporters and others for the importers. Some deal with companies while others deal with banking institutions.