The Belgian System of Export Credit for Medium- and Long-Term Financing

The Belgian system of state supported medium- and long-term financing of exports is conducted through three major bodies: Office National du Ducroire (The National Delcredere Office or O.N.D.) CREDITEXPORT and COMPROMEX. In many cases these three institutions work together and the project or product to be exported will benefit from facilities provided by more than one of these institutions.

I. Export Credit Insurance and Bank Guarantees

The O.N.D. is the public institution which provides export credit insurance. Its obligations are guaranteed by the Belgian state.

A. *Coverage*

The insurance and guarantees given by the O.N.D. normally cover risks which arise after the date of delivery or commissioning, but in some cases cover risks incurred during manufacture.

In principle, any insured transaction must involve goods or services of Belgian origin.

The description of the risks covered varies according to whether the foreign debtor is a public body or a private person. Where the debtor is a public body, the O.N.D. always covers default by the debtor and political risks under the description "public debtor risks." Where the debtor is a private person, the risk of default is called a "commercial risk." Contracts with private debtors must be insured against political and commercial risks. Insurance against political risks alone is possible, however, (i) when the O.N.D. refuses to cover commercial risks, for example, if the debtor is a subsidiary of the insured; (ii) or when the O.N.D. is not competent to insure the commercial risk. For example, risks against commercial loss are insured by the O.N.D. only in the case of contracts concluded with private debtors outside Western Europe. Commercial risks for Western European countries must be covered by private credit insurance companies.

B. *Risks Excluded*

— Actions by the Belgian government;
— Risks of loss resulting from an increase in the costs of materials and wages where the contract provides for a firm price. The O.N.D. may extend insurance coverage to increases in the contract amount where the contract includes a "cost escalation" clause;
— Any consequence of a fault of the insured or any person for whom he is responsible;

C. *Type of Financing*

According to the type of financing, the guarantee is issued either to the exporter or to the bank.

(i) *Supplier credit:* credit granted by the exporter to a buyer and financed by a Belgian bank. The O.N.D. insures the exporter.

(ii) *Financial credit:* credit granted by a Belgian bank to a foreign financial institution or to the buyer and under which the Belgian exporter is paid in cash. The O.N.D. insures the Belgian bank. The exporter may obtain cover from the O.N.D. of the risks relating to the supply contract.

Under financial credits the O.N.D. distinguishes between:

(i) specific financial credit (so-called "buyer-credit") where the recipient of the credit is the buyer himself. The aim of this credit is to finance a specific contract;

(ii) a line of credit, the purpose of which is the financing of several contracts forming part of a specific project;

(iii) general purpose line of credit, which is an agreement signed by one or more Belgian banks on the one hand and a foreign financial institution on the other the purpose of which is the financing of a series of contracts for capital goods without reference to the execution of a given product. This framework comprises a "credit grid," i.e., periods for repayment of the credit which vary according to a scale of amounts.

(iv) There are also other types of financing proposed by banks or other financial institutions, discounting without recourse of bills of exchange relating to exports of capital goods, and leasing transactions (see below, page 394.

D. *Percentage of Cover*

The O.N.D. never provides 100 percent cover for a risk. The percentage of the loss covered is normally established at:

- 95 percent for the insurance of risks concluded with public debtors and for the insurance of political risks relating to transactions concluded with private debtors;
- 90 percent for the insurance of commercial risks relating to transactions concluded with private debtors (which may be increased to 95 percent where the debtor or guarantor is a bank).

These percentages may be reduced according to the risk.

E. *Premiums*

The rate of the premium varies according to the country of the debtor, the nature of the risks covered and the risk period. It ranges from a few thousandths to approximately 1 percent for short-term transactions (credit for up to one year). For medium- and long-term transactions it amounts to several percentage points, but rarely exceeds 5 percent.

F. *Forms of and Arrangements for Insurance*

The exporter cannot obtain insurance for a contract if he has not previously subscribed to one of the three available types of whole turnover insurance:

— *whole turnover policy* for supplies of consumer goods, raw materials and production goods for which the credit period does not exceed one year;
— *extended-term whole turnover policy* for supplies of capital goods and services for which the credit period does not exceed five years;
— *whole turnover agreement* for supplies of capital goods and services for which the credit period exceeds five years, and special transactions (construction projects, supply of turn-key plant and engineering services for a large amount) whatever the credit period.

Each of these types of whole turnover insurance requires the exporter to arrange insurance coverage on all of its business with a mutually agreed upon list of countries.

G. *Usual Conditions*

The repayment schedule by the borrower must be as follows:

— a minimum down payment of 15 percent (of which 5 percent from the entry into force of the contract if contract termination risks are covered);
— credit terms of up to five years (maximum limit varies according to the amount involved in the insured transaction):

BF	2 million	3 years
	5 million	4 years
	10 million	5 years

— longer periods (up to ten years) are available for major sales or investments in developing countries.

H. *Insurance of Exchange Risks*

Exchange loss risk may be covered where the contract currency is not the Belgian franc. Devaluation of the foreign currency is insured; the insured must pay exchange profits to the O.N.D. Only that portion of the loss or profit which is in excess of the margin of 3 percent of the guaranteed exchange rate is met by or received by the O.N.D. The percentage of cover for the remainder of the loss is 100 percent. Cover is provided only on contracts for which the risk period is longer than two years.

In principle, only strong currencies are covered, but weak currencies are exceptionally covered. The premium for the insurance is a percentage per annum applied to the amount still owed which is converted into a single premium payable when the policy is issued. It is 0.7 percent per annum for cover against exchange risks with strong currencies. For weak currencies the premium is determined on the basis of the price which O.N.D. has to pay to cover itself against the exchange risks.

Coverage against inverse exchange risks is also available where the exporter obtains financing in foreign currencies. This coverage is generally only for weak or middle currencies. The annual premium is between 0.1 percent and 1.2 percent.

I. *Insurance of Leasing Transactions*

Up until the present, the O.N.D. has had few occasions to insure leasing transactions. Although no practice has yet developed, there are certain guidelines published by the O.N.D. as to the type of transaction it would consider insuring. These guidelines deal only with movable equipment leasing and not with the leasing of heavy equipment which could be considered to be fixed plant or turn-key plant projects. Their leasing raises specific problems which would be treated on a case-by-case basis. The guidelines adopted thus far for equipment leasing are:

i) The insured must be a company approved (agrée) by the Ministry of Economic Affairs for leasing transactions. (There have been occasions, however, when companies involved in only occasional leasing and not "agrée" have been insured. On the other hand, in such cases the conditions will be determined on a case-by-case basis). The insurance coverage would be available only in the framework of a global undertaking similar to the whole turnover policies for exporters.

ii) The lease agreement must meet the following criteria:

- the aggregate rentals must be fixed so that the value of the leased object as well as the interest and charges to the lessor are amortized over the term of the lease;
- the contract must provide the right for the lessee, at the termination of the lease, either to return the goods to the lessor or to lease the goods again at a preestablished rental, or to buy the goods at a preestablished price. The price of re-leasing or purchase can be only nominal, the total cost having been amortized during the period of the initial lease. The purchase value should not exceed the amount of a half-yearly rental or 5 percent of the initial value of the goods;
- the contract must specify that it cannot be unilaterally terminated by the lessee;
- the lessor must remain owner of the goods during the whole term of the contract;
- the contract must permit the lessor to repossess the goods in the event that the lessee fails to meet its obligations in the time period provided;
- a special clause must establish the right to the payment of the rentals remaining to fall due after termination of the lease.

iii) The goods leased must be equipment and not consumer goods or goods of production. Accessory costs and expenses such as installation charges, accessories and spare parts, which would have to be paid in cash by the lessee, may be included.

iv) The same criteria as for sales applies to the foreign/Belgian composition of the goods.

v) The price must recover the total cost (value of the good, interest and charges, profit to the lessor).

vi) The modalities of financing by the lessor, e.g., down payment and the term of the credit, must follow the same conditions as provided for sales contracts.

vii) The O.N.D. requires a clause calling for international arbitration and for application of Belgian law.

viii) Extent of the coverage

- The guarantee covers the debts arising from the lease contract, i.e., the total amount of the rentals, and not the good itself nor its repurchase at the end of the contract (the cost having been amortized) nor the later renewal of the lease.
- The guarantee of the debts takes effect at the moment when the debts arise, that is when the lessee takes possession and the lease takes effect.
- The guidelines state that it is due to a lack of experience on the part of the O.N.D. that it will be unable to grant its most favorable coverage and the most that would be covered in a leasing transaction would be 90 percent for political risks on private lessees and for governmental lessees and 85 percent for commercial risks of private lessees. The insurance of the uninsured portions with a third party is forbidden. Only the insolvency of the private lessee is insured and there is no insurance cover for mere late payments.
- For the determination of loss, the O.N.D. applies a formula similar to that for sales and takes into consideration the total amount of unpaid rentals and deducts from it any salvage value from the resale or re-leasing of the repossessed goods, as well as any guarantee.

II. Means of Export Credit Financing and Refinancing

The "Association pour la Coordination du Financement à Moyen Terme des Exportations belges" known as Creditexport provides refinancing of commercial export credits payable on a medium- and long-term basis (two to twelve years).

Creditexport is comprised of fourteen commercials banks, eight savings banks and six public credit institutions. Creditexport's activities are linked to the operation of a pool of medium-term export financing. Each of the members of the Pool has subscribed a revolving credit line by which it has undertaken to put (to the extent of its credit line and according to requirements) the necessary funds at the disposal of the Pool in order to refinance the credit operations which receive the final approval of Creditexport. The Pool has some BF100 billion at its disposal. About 45 percent of this lending capacity is provided by the public sector and the other 55 percent by the private sector.

The resources of the Pool are available to all trading banks or financial institutions in Belgium including branch offices of foreign banks in Belgium. Banks and institutions not members of the Pool are eligible for credits on the condition that they are willing to submit to Creditexport all of their export credits of more than BF25 million for goods sold on terms of more than two years.

An exporter seeking an export credit will generally contact a banking or financial institution of his own choice as soon as negotiations reach a decisive stage. Whether the banker or financial institution is a member of the Pool is of no practical consequence, as outside institutions can affiliate and benefit from the advantages of the system. The financial institution contacted by the Belgian exporter will thoroughly examine the credit application of its customer. When necessary it will ensure that sufficient guarantees can be procured apart from export credit insurance (guarantees such as acceptances by foreign buyers, guarantee of the buyer's bank, straight government guarantees, etc.). If appropriate the credit will be limited to the portion covered by the credit insurance company. It should be emphasized that the initiating bank, bringing an export transaction to the Pool for refinancing, remains 100 percent responsible vis-à-vis the other Pool funding members, for the favorable termination of the transaction. In case of default the initiating bank must immediately repay the other Pool members, irrespective of any claim against the O.N.D.

The banker will contact Creditexport either to invite it to express an opinion in principle, which is given without any commitment on the part of Creditexport, or to request a promise to grant the credit (with or without fixing a rate), or, finally, when the contract is completed, with a view to obtaining a credit.

Financing Procedures and Conditions

The following conditions are required to be met:

— down-payment by buyer of at least 20 percent paid before goods are shipped;
— debt settled in equal installments at, at most, six-month intervals;
— negotiable paper certified by Belgian National Bank;
— operation insured by credit insurance against political and/or commercial risks (done primarily through the O.N.D.);
— repayment period limited to five years (unless competition with foreign suppliers requires longer credits);
— the exporting firm must be established in Belgium or Luxembourg and the exported goods must be of Belgian or Luxembourg origin (incorporation of up to 40 percent of foreign goods originating from E.E.C. countries or up to 28 percent from other countries is allowed);

— the export bills must be drawn on and accepted by the buyer or his banker, expressed in Belgian francs and preferably payable in Belgium. The endorsement of the introducing bank is required in the bills remitted to the Pool for discounting.

The Pool offers financing facilities from two to twelve years for capital goods, durable goods and turn-key projects. Financing can be obtained for the period after reception of the goods, for the period between delivery of the goods and the final commissioning and even during the fabrication period. The amount to be financed must be at least BF25 million (if lower, the IRG, Institut de Réescompte et de Garantie, will refinance the exporter's bank on the same terms as Creditexport). A large range of credits are available: supplier's credits, buyer's credits, financial credits (bank to bank), accessory financial credits (even credits in conjunction with the World Bank). IRG also provides short-term financing.

Cost of Credit

At the end of 1981 the interest rate charged by Creditexport was 14.35 percent. Since the Pool obtains its funds on the capital market, Creditexport's discount rate reflects changes on that market. To the interest rate are added certain other charges:

— the commission of the initiating bank, taking the form of an endorsement fee, set at 0.45 percent;

— commitment fee pro-rated on the amount not yet taken from the credit granted by the Pool, set at 0.20 percent;

— charges for certification and fiscal stamps (respectively 0.01 percent and 0.05 percent of the amount borrowed).

One can subtract any interest subsidy granted by COMPROMEX (discussed below).

III. Export Credit Subsidies

COMPROMEX is a government body, within the Ministry of Foreign Affairs and Foreign Trade, which provides interest rate subsidies:

i) Subsidies are available for projects in developing countries and for exports of Belgian goods and services to all countries other than those in the E.E.C.

ii) COMPROMEX will subsidize that portion of the interest charges for *medium*-term credits which is more than the minimum interest rate provided for in the OECD agreement as described below.

iii) The interest charges on the financing are determined by taking into consideration the rate applied by Creditexport on the day that Compromex commits itself to the transaction. The payment instruments of the transaction must provide for a special transfer of the guarantee of the O.N.D. in favor of the intervening bank and they must have the certification (visa) of the National Bank of Belgium.

According to an agreement among the members of the OECD, the subsidy granted cannot bring the interest rate below certain minimums, which are currently (July 1982) as follows:

Classification of Country	Maximum Period of Repayment in No. of Years		
	2 to 5	more than 5 to 8.5	more than 8.5
Relatively Rich	11%	11.25%	not applicable
Medium	10.5%	11%	not applicable
Relatively Poor	10%	10%	10%

These minimums are reviewed by the OECD from time to time and are currently undergoing revision. The above minimums for relatively rich and medium countries may rise by as much as 1 percent.

iv) The request for an interest subsidy must be submitted to Compromex by sending in a completed application. The applicant should submit its application as soon as it requests insurance from the O.N.D. for the operation envisaged and at the latest before the sending of a firm offer or the conclusion of a contract. Creditexport requires that it be approached at the same time. Compromex will issue an opinion on the application when it considers that the negotiations relative to the operation are sufficiently advanced.

v) The interest rate subsidy is given to any credit institution approved by the Institut Belgo-Luxembourgeois du Change (I.B.L.C.) (Ministerial Decree 8 Jan. 1970). This would include Belgian banks and Belgian branches of foreign banks.

IV. Conclusion

As stated at the outset, many projects or exports involve benefits provided by all three of the institutions discussed. Joint forms have been devised for applying to all of the institutions.

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