(Draft)

STUDY OF
THE EXPORT CREDIT INSURANCE SYSTEM OF BRAZIL
VOLUME ONE

Prepared for

THE INSTITUTO DE PLANEJAMENTO ECONOMICO E SOCIAL (IPES)

and

UNITED NATIONS DEVELOPMENT PROGRAMME
BRAZIL (UNDP/BRAZIL) and NEW YORK (UNDP/NEW YORK)

Prepared by

FIRST WASHINGTON ASSOCIATES, LTD.
1501 Lee Highway, Suite 302
Arlington, Virginia 22209
U.S.A.

JUNE 1990

TABLE OF CONTENTS

ATTACHMENTS TO VOLUME ONE

I. INTRODUCTION

In April of 1990, the United Nations Development Programme (UNDP) contracted with First Washington Associates (FWA) to conduct a study about export credit insurance in Brazil, focusing on the export credit insurance offered through a consortium of private insurance companies and the "Instituto de Resseguros do Brasil" (IRB). This study is intended to increase knowledge about the practices of the IRB program, evaluate the experience, and discuss possible changes in the institutional structure and the form of management.

A. Terms of Reference

Specifically, FWA proposed in its work plan, which was made part of the contract and responds to the tasks outlined in the terms of reference, to do the following:

"1. Collect and analyze all information that is readily available on the current trade and export credit insurance system.

2. Analyze Brazil's experience with export credit insurance, particularly the problems which have occurred with claims payments.

3. Evaluate the adequacy of the existing institutional structure for offering export credit insurance, comparing it with the experience of other countries, and examining the problems existing between the institutions which are involved.

4. Analyze the types of insurance that are offered, the terms and conditions of coverage and the possibilities for adopting new types of insurance, particularly covering pre-shipment risk.

5. Analyze the mechanics of the present reinsurance system and evaluate the gains to be made by adopting alternative formulas.

6. Evaluate the possible effects of the export credit insurance policy on performance of selected export sectors and explore particularly the hypothesis that the inadequacy of current policies may prejudice exporters' ability to arrange satisfactory financing, particularly for pre-shipment purposes."

B. Organization of the Report

The report is being submitted by FWA in three volumes. A draft of the full three volume report will be reviewed during a seminar, and a final report will be prepared taking into account the comments and suggestions which result from the seminar.

Volume One addresses the current situation with respect to Brazilian exports and the export credit system, focusing particularly on the IRB export credit insurance program. Volume Two evaluates the Brazilian export credit insurance program focusing on comparison with programs in other countries and evaluation of IRB programs with respect to effectiveness, competitiveness and financial performance. The third volume presents recommendations with respect to programs, institutional structure and reinsurance.

In Volume One, the Introduction (Chapter I) describes the task, outlines the report, provides a brief description of the role of export credit insurance and discusses the methodology utilized in the study. Chapter II provides a context for the study through a description of Brazilian export trade. The roles of institutions involved in the Brazilian export credit system are discussed in Chapter II, while the specific export financing activities of commercial banks and government export finance programs are described in Chapters III and IV, respectively. Chapters V through X focus on details regarding export credit insurance. Chapter V addresses the history and structure of the IRB program; Chapter VI details the IRB insurance policies; Chapter VII discusses program activity; Chapter VIII concerns claims policies and procedures as well as claims history; Chapter IX describes the organizational structure for administering IRB export credit insurance programs; and the last chapter, X, deals with the financial aspects of export credit insurance operations.

C. Role of Export Credit Insurance

Export credit insurance, mainly used in the post-shipment period, plays a vital role in facilitating the exports of all industrialized countries, and increasingly, of developing nations. The first export credit insurance schemes were initiated in European countries in the 1920s, and by the early 1960s every industrial country had an officially supported program. In the 1970s, a number of developing nations introduced export credit insurance programs, and by 1990 more than three dozen were operating such schemes. The rationale behind all such programs is mitigating the risks of selling abroad on credit terms, and thereby encouraging companies to expand their export financing for such sales from commercial banks.

As competition in world markets has become more severe, buyers have been able to demand and obtain more favorable export credit terms. Exporters assist their foreign buyers by financing their sales abroad. Exporters, therefore, are exposed to the risk that the foreign buyer will not pay as agreed for goods that have already been received.

A number of factors make selling abroad on credit terms riskier than selling domestically. Reliable information on foreign buyers is usually harder to obtain, and therefore, it is more difficult to assess creditworthiness. General industry or sector trends may also be less well known, and an exporter does not benefit from the inside knowledge about buyers which comes from the close daily contact on an informal basis which is available between domestic firms. In the event of default on credit, exporters are further disadvantaged by their distance from the buyer and the lack of a local presence. Enforcing payment or undertaking legal action to collect is usually more complicated and costly in the foreign country than it is domestically. Also, foreign sellers may not be equitably treated with domestic firms in the courts of the buyer's country.

In addition to commercial risks like delayed payment, default, insolvency and bankruptcy, export credit sales involve significant risks which are beyond the control of both buyers and sellers. These are usually referred to as "political risks." Such political risks involve war, riot, revolution, expropriation, shortage of foreign exchange and other transfer problems which may impede payment after shipment of the goods to the buyer's country. Another category of political risk is the failure of a public buyer to repay its foreign debt for imports, for whatever reason. All such buyers are owned by governments, and thus, all risks of non-payment are classified as political. The commercial and political risks described above are typically covered by export credit insurance. The cancellation of export or import licenses is often part of standard political risk coverage although it occurs in the pre-shipment period.

Post-shipment export credit insurance is most often issued to the exporter to cover repayment risks on deferred payment sales to specific foreign buyers. The proceeds of the insurance policy can be assigned to a financing institution as security for a credit that it extends to the exporter. This allows the exporter to receive funds for sales made on deferred credit terms prior to the due date for payment by the foreign buyer. Facilitating access to post-shipment export financing can be a major benefit of export credit insurance to the exporter. Alternatively, many export credit insurance schemes issue policies to banks directly, typically where the bank is providing credit to the foreign buyer or the buyer's bank directly. Export credit insurance policies in some countries have been specifically designed to cover risks associated with different types of export transactions, such as exports of services, leases, insurance of lines of credit extended to foreign banks, and bond indemnity coverage (bid, advance payment and performance bonds). The latter, in effect, covers the risks associated with the exporter's performance rather than that of the foreign buyer.

In addition to the risks described above which are usually part of a post-shipment export credit insurance policy, many schemes also offer policies designed to cover pre-shipment risks. Such policies can cover the risk of cancellation of the purchase contract by the foreign buyer. This insurance is usually issued where the exporter must make goods to the specifications of the buyer and the products would not be readily saleable to another buyer, such as custom-made garments or high unit cost capital goods.

The need for export credit insurance and guarantee facilities is closely related to the type of products a country exports, the current and potential export markets, and the number and size of firms which export or potentially could export. The availability of needed financing and the capacity of the financial sector to provide both adequate and appropriate financing also affect the need and demand for export credit and insurance and guarantee facilities. Additionally, government programs and regulations can either facilitate or hinder export development and influence how both exporters and banks react to the use of export credit insurance and guarantee programs to expand their export related activities.

Commodity exports, primarily agricultural and mineral products, are often sold on a cash or near cash basis in international markets, using large firms or government entities through long-established channels. In Brazil, coffee, soybeans, and orange juice are products which could be considered commodities that probably do not require insurance or guarantee support. An exception might be sales to some developing country markets where foreign exchange problems exist and buyers request extended credit terms which exceed traditional norms. Sales made on terms of cash in advance or irrevocable LCs in many markets will not necessarily require this assistance, as the political and commercial risks are minimal.

Brazilian agricultural products may need export credit guarantee support because new markets and new buyers are not well known, and some producers may be relatively small and new to exporting. Manufactured exports, including both industrial and agro-industrial products, often can benefit from export credit insurance and guarantees. Exporters of these goods may not be familiar with markets outside the region, or may be trying to penetrate new markets in the region, where they are unfamiliar with the foreign buyers, but must extend credit terms to meet foreign competition. Likewise, many exporters of manufactured products may be small/medium-sized firms which have limited access to bank financing for their exports because the companies are not well known to banks and/or lack sufficient collateral to obtain needed financing.

Developing countries which have successfully introduced such schemes have generally had at least U.S.$300 million or more in exports and over U.S.$100 million in sales of non-traditional products. Clearly, Brazil exports substantially more than these minimums.

A number of countries, including Brazil, have implemented government sponsored schemes to facilitate the provision of export finance at reasonable cost, for both pre-shipment and post-shipment periods. These schemes normally work closely with official credit insurance programs, which offer risk coverage for loans made with the assistance of government funding programs. In many cases, export credit insurance is mandatory if an exporter is benefiting from official export funding support.

The main method adopted by developing countries to increase the availability and reduce the cost of export finance is the provision of refinancing facilities for commercial banks under which the commercial banks are offered refinancing at fixed rates of interest, provided they do not charge the exporter more than a certain maximum interest rate, at a given spread above the official discount rate. In this way, the commercial bank is encouraged to fund export transactions at a reasonable, sometimes even concessional rate, without having to be concerned with the risk that its cost of funding will exceed its financing charge, or even that its lending margin will be diminished by changes in funding cost during the term of the export credit.

To facilitate access to such financing, many programs have been developed which offer comprehensive guarantee coverage of virtually any risk which may prevent repayment of financing extended to the exporter to cover pre-shipment working capital needs. This is commonly known as a working capital guarantee, i.e., a guarantee to a financing institution that a loan made to an exporter for working capital will be repaid. The recipient of this guarantee coverage is the commercial bank financing the transaction rather than the exporter. These guarantee schemes are most prevalent in developing countries where export pre-shipment working capital financing is usually less available than in the industrialized countries. They are typically targeted to small and new-to-export firms, since larger and more established exporting companies are assumed to have access to well-developed commercial bank financing without such guarantee support.

D. Study Methodology

In order to determine the characteristics of the export credit system, and the IRB export credit insurance program in particular, an FWA team of three export credit insurance and banking experts undertook a field visit to Brazil in April 1990.

At that time extensive discussions were held with the IRB export credit insurance staff to obtain detailed information on the IRB programs and performance. In addition to collecting statistics on the program's results, a series of questions were asked that form the basis for comparison of the Brazilian export credit insurance program with the programs of other countries (Volume II).

As noted above, export credit insurance is only a part of the entire export credit system operating in a country. In order to obtain a general picture of the effectiveness of export credit insurance programs in assisting Brazilian exporters, discussions were held with a number of banks, insurance companies, exporters and industry trade associations, using a structured interview format. The persons contacted are listed as Attachment A to Volume One of the report.

Questions asked to the 16 banks interviewed focused on acquiring information about the volume of exports financed, the techniques used to finance exports in Brazil, the problems exporters and banks encounter in financing exports, banks' views on the existing export credit insurance program and opinions as to how the program could be changed to be more effective. Interviews with exporters and trade associations which have exporter members concentrated on determining the characteristics of their export activity, the methods used to finance exports and their views on the IRB program. Meetings were held with current policyholders of IRB insurance, former users, and companies that had no experience with the IRB program, including a number of small/medium-sized companies.

In addition, visits were made to Carteira de Comercio Exterior (CACEX) in Banco do Brasil, the Banco Central do Brasil and IPEA to collect statistical information on Brazilian exports and government export finance programs. IPEA provided additional information from its resources and assisted with the collection and compilation of statistics from CACEX. Other statistical information was obtained from international sources including the IMF, World Bank and the United Nations.

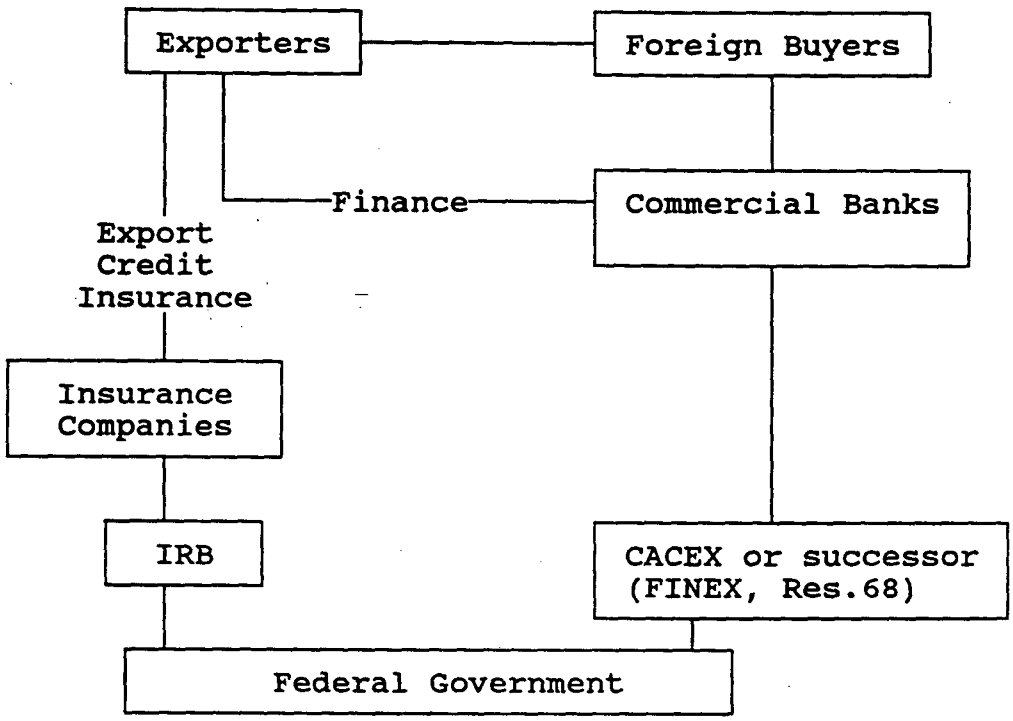
The information gathered on the field trip, supplemented by FWA's extensive files on export credit insurance agencies around the world, was compiled and analyzed by FWA experts in the United States. Volume One was reviewed by IRB and IPEA. Changes in program description were incorporated where appropriate to ensure that the facts, in particular with regard to the IRB programs, were accurate.

E. Institutional Structure of the Export Credit System

The key roles in the Brazilian export credit system, like that of most countries, are held by banks, exporters and government organizations, including CACEX and IRB, as shown in the next diagram. Commercial banks provide financing to exporters to fund both pre- and post-shipment credit needs. Foreign and Brazilian commercial banks operating outside Brazil, as well as foreign commercial banks in Brazil, play a large role by providing foreign currency lines of credit that are used to finance exports.

TABLE 1

EXPORT CREDIT SYSTEM IN BRAZIL



Government organizations involved in export finance include CACEX in Banco do Brasil, the main public sector bank. CACEX until recently was in charge of a broad range of assistance programs for exporters including implementing the interest equalization programs known as FINEX and Resolution 68, which lower interest costs to exporters.

Export credit insurance, the main subject of this study, is implemented by insurance companies and IRB. Insurance companies market the Brazilian export credit insurance, assume a small portion of commercial risk for their own account, participate in an insurance consortium (pool) with IRB and the Federal

Government, and deal directly with the exporters on the administration of policies. IRB, the jointly-owned public/private sector reinsurance company in Brazil, manages the insurance consortium, takes a portion of the risk in the consortium, and administers the political and extraordinary risk export credit insurance on behalf of the Federal Government.

II. CHARACTERISTICS OF BRAZILIAN EXPORTS

Brazil has registered impressive gains in exports over the past thirty years, and the composition of exports has changed so that over 65% of exports were manufactured (55%) and semi-manufactured goods (11%) in the late 1980s, compared to less than 20% in the mid-1960s. This chapter characterizes Brazilian exports to provide a context for discussion of the past performance and potential need for export credit insurance in Brazil. Export destinations, products, terms of sales are important indicators for determining to what extent the IRB programs are supporting and can support exporters in the future. Export trends are described in more detail below. Statistics used in this Chapter are based on information from Banco Central do Brasil and Banco do Brasil - CACEX.

As can be seen in Table 2, the US dollar value of exports from Brazil has been increasing steadily since 1986, yet the rate of growth has fluctuated significantly. An explosive period of growth was followed by a marked slowdown in 1989 over the previous years' growth rates. In 1988 for example, exports had increased by 28.85% over the previous year, and then declined to only a 1.78% increase in growth in 1989.

TABLE 2 BRAZILIAN EXPORTS, 1985 - 1989 (In US$ 000s)		
Year	Total Exports	Annual % Growth Rate
1985	$27,005,000	-5.00%
1986	$22,348,603	-13.00%
1987	$26,223,925	17.34%
1988	$33,789,365	28.85%
1989	$34,391,758	1.78%
% CHANGE 85 - 88		32.00%

These fluctuations can be traced in part to the varying policies regarding indexation of the Brazilian currency to the Consumer Price Index (CPI). Indexing the nominal rate to inflation implies that even though the nominal rate of exchange may depreciate, if inflation is present as measured through the CPI, the real rate of exchange may appreciate. (Table 3 lists the nominal exchange rates and CPI rates for 1986-1989.)

TABLE 3 FOREIGN EXCHANGE RATE 1986 - 1989		
YEAR-END	NOMINAL CR/$	CPI (1980=100)
1986	13.66	23,435
1987	39.23	77,258
1988	262.38	604,391
1989	2837.00	8,149,64

At various times during the 1980s, the nominal rate of exchange was not pegged to inflation. Generally this led to depreciation in the exchange rate and a subsequent increase in exports reflecting the relatively advantageous prices for Brazilian goods. Between 1983-87, the currency depreciated considerably and a dramatic increase in exports was recorded.

These policy changes also led to great variability and unpredictability. For example in the summer of 1989, the cruzado was once again pegged to the CPI index, and the significant depreciation of the nominal rate in 1989 (2837 cruzados/$ over the 1988 level of 262.38 cruzados/$) was offset by the increase in the CPI reflecting the high level of inflation. This contributed to an appreciation of the cruzado and to the decline in the rate of growth of exports to only 1.78%.

Table 4 lists Brazilian exports to various economic blocs and their importance to Brazil as measured by the value of Brazil's exports and by their relative share of those exports.

TABLE 4

EXPORT SALES TO ECONOMIC BLOCS, 1986 - 1989
(In US$ 000s)

EXPORTS ECONOMIC BLOCS	1989	% CHANGE 88-89	1988	% CHANGE 87-88	1987	% CHANGE 86-87	1986
ALADI	$3,476,134	-6.39%	$3,713,506	24.85%	$2,974,363	17.96%	$2,521,602
MCCA	$136,922	4.01%	$131,648	32.69%	$99,213	24.32%	$79,802
OTHER LATIN AMERICAN COUNTRIES	$191,743	63.01%	$117,629	40.80%	$83,541	10.36%	$75,696
CARICOM	$105,356	34.60%	$78,275	36.26%	$57,446	15.70%	$49,651
CANADA	$886,457	-1.09%	$896,215	59.60%	$561,551	28.78%	$436,057
UNITED STATES & PUERTO RICO	$8,014,497	-11.01%	$9,005,866	22.94%	$7,325,131	16.16%	$6,306,053
CARIBBEAN	$102,196	38.50%	$73,788	38.08%	$53,439	53.26%	$34,869
ORIENTAL EUROPE	$991,785	-9.31%	$1,093,561	-18.63%	$1,343,979	55.73%	$863,011
EC	$9,936,649	2.33%	$9,710,746	39.91%	$6,940,931	18.26%	$5,869,130
EFTA	$558,759	-13.82%	$648,398	9.32%	$593,097	-8.20%	$646,062
OTHER WEST EUROPEAN COUNTRIES	$246,234	12.61%	$218,658	10.55%	$197,799	2.68%	$192,627
ASIA WITHOUT MIDDLE EAST	$5,505,965	7.65%	$5,114,708	53.80%	$3,325,623	11.86%	$2,972,952
MIDDLE EAST	$1,165,374	-11.44%	$1,315,963	-2.61%	$1,351,219	20.12%	$1,124,919
AFRICA WITHOUT MIDDLE EAST	$965,645	-13.99%	$1,122,665	17.53%	$955,221	21.21%	$788,098
OCEANIA	$331,603	18.24%	$280,445	61.42%	$173,733	7.79%	$161,174
PROVISION FOR SHIPS & AIRPLANES	$293,138	10.03%	$226,407	53.74%	$173,286	11.06%	$156,031
COFFEE - IBC	$1,440,000		$0		$0		$0
UNDECLARED	$43,301	4781.74%	$887	-94.29%	$15,543	-78.07%	$70,869
TOTAL	$34,391,758		$33,789,365		$26,223,925		$22,348,603

Since 1986, there has been a decreasing trend in exporting to the United States (including Puerto Rico), the countries belonging to ALADI, EFTA, the Middle East and Africa. The United States' and Puerto Rico's share of total Brazilian exports, for example, has decreased by 5% since 1986. As there were no significant changes in exports to Puerto Rico, this decline can be attributed to the lower sales to the United States. In Table 5, the four most important economic blocs are shown. These are the European Community (EC), the United States together with Puerto Rico, Asia and ALADI. Together, these four areas receive 70% of total Brazilian exports.

TABLE 5

EXPORTS TO TOP 4 ECONOMIC BLOCS, % SHARE, 1986-1989

ECONOMIC BLOCKS	% OF EXPORTS			
	1989	1988	1987	1986
EC	28.89%	28.74%	26.47%	26.26%
UNITED STATES & PUERTO RICO	23.30%	26.65%	27.93%	28.22%
ASIA WITHOUT MIDDLE EAST	16.01%	15.14%	12.68%	13.30%
ALADI	10.11%	10.99%	11.34%	11.28%
TOTAL OF THE 4 ECONOMIC BLOCKS	78.31%	81.52%	78.42%	79.06%
COFFEE, IBC	4.19%	0.00%	0.00%	0.00%

It is noted that in 1989 a category for coffee is reported separately rather than included in country by country totals. In 1989, over 4% of total exports were attributed to coffee as reported by the Brazilian Institute of Coffee, making it the fifth most important category. This separate category may explain some of the variation in exports to the United States, for example, as the US is Brazil's largest coffee buyer.

Table 6 lists the countries with the largest share of Brazilian exports within the economic blocs previously listed. Overall, these seven countries (Argentina, Chile, the United States, Germany, Italy, the Netherlands, and Japan) received over half of Brazil's exports in 1989. This share, while significant in terms of overall importance, represents a decline from 53.34% in 1986.

The United States is Brazil's most important export destination. In 1989, over one fifth of Brazil's exports went to the United States. This represented almost a 5% decrease since 1986. As noted, the separation of coffee from the country totals in 1989 may be the primary cause of this decline. However, it should be noted that none of the other countries show such a significant change between 1986 and 1989.

TABLE 6

EXPORTS BY MAJOR COUNTRIES, 1986 - 1989
(In US$ 000s)

COUNTRIES	1989	% OF TOTAL	1988	% OF TOTAL	1987	% OF TOTAL	1986	% OF TOTAL
ALADI:								
ARGENTINA	$710,377	2.07%	$979,385	2.90%	$831,782	3.17%	$678,336	3.04%
CHILE	$693,252	2.02%	$542,257	1.60%	$354,824	1.35%	$246,074	1.10%
UNITED STATES & PUERTO RICO								
UNITED STATES	$7,876,107	22.90%	$8,835,721	26.15%	$7,191,844	27.42%	$6,174,415	27.63%
EC:								
WEST GERMANY	$1,583,199	4.60%	$1,534,996	4.54%	$1,228,522	4.68%	$1,099,200	4.92%
ITALY	$1,655,251	4.81%	$1,442,093	4.27%	$1,269,506	4.84%	$910,439	4.07%
THE NETHERLANDS	$2,670,727	7.77%	$2,615,540	7.74%	$1,607,786	6.13%	$1,298,558	5.81%
ASIA:								
JAPAN	$2,312,161	6.72%	$2,336,427	6.91%	$1,676,476	6.39%	$1,513,585	6.77%
TOTAL OF 7 COUNTRIES	$17,501,074	50.89%	$18,286,419	54.12%	$14,160,740	54.00%	$11,920,607	53.34%
TOTAL EXPORTS	$34,391,758	100.00%	$33,789,365	100.00%	$26,225,115	100.00%	$22,348,603	100.00%

The Netherlands and Japan, with 7.77% and 6.72% share of goods exported respectively, are the second and third-largest customers for Brazilian exports. Since 1986, the Netherlands has slightly increased trade with Brazil, while Japan registers practically no change. Germany and Italy are the other European countries whose trade is significant for Brazil, each country receiving over 4% of exports.

Even though the ALADI group is one of the four major economic blocks, the individual member countries buy a relatively small percentage of Brazil's total exports. In terms of trade with Brazil, Argentina and Chile are the largest within ALADI, yet both countries each only received little over 2% of exports. Since 1986, a decrease in exports to Argentina was offset by an increase in exports to Chile by almost the same amount, but trade with the remaining ALADI member countries declined, resulting in an overall decrease.

As previously stated, Brazilian exports grew by less than 2% between 1988 and 1989. It is noted, however, that the exports to the seven most important countries declined from 54% of exports in 1988 to 50.89% in 1989. This decline in trade with the largest trading partners was only partially offset by increases in exports to many of the less important trading partners.

The export volume of basic, semi-manufactured and manufactured products for 1985-1988 are listed in Table 7.

TABLE 7

VOLUME OF EXPORTS BY PRODUCT CATEGORY, 1987-1988

PRODUCT	TONS IN 000s				% CHANGE 1985-1988	% BREAKDOWN	
	1988	1987	1986	1985		1985	1988
BASIC GOODS	135,444	115,401	107,972	116,689	16.1%	79.7%	80.0%
SEMI-MANU. GOODS	10,406	8,462	7,476	7,825	33.0%	5.3%	6.1%
MANU.GOODS	21,869	17,429	17,211	20,467	6.9%	14.0%	12.9%
SPECIAL TRANS.	1,677	1,087	1,174	1,380	21.5%	1.0%	1.0%
TOTAL	169,396	142,379	133,833	146,361	15.7%	100.0%	100.0%

In Table 8, exports by the same categories in millions of U.S. dollars are listed for the same time period. The composition of exports has not changed significantly since 1985 with respect to export volume, yet the breakdown according to product category for export revenues shows that since 1985, basic products have been contributing 5% less to Brazil's revenues overall.

TABLE 8

VALUE OF EXPORTS BY PRODUCT CATEGORY, 1987-1988

PRODUCT	US$ IN 000s				% CHANGE 1985-1988	% BREAKDOWN	
	1988	1987	1986	1985		1985	1988
BASIC GOODS	9,402,991	8,021,528	7,280,231	8,537,929	10%	33%	28%
SEMI-MANU. GOODS	4,891,669	3,175,011	2,491,508	2,758,487	77%	11%	14%
MANU.GOODS	19,191,253	14,839,337	12,403,655	14,062,781	36%	55%	57%
SPECIAL TRANS.	302,619	188,049	173,209	279,814	8%	1%	1%
TOTAL	33,788,532	26,223,925	22,348,603	25,639,011	32%	100.0%	100.0%

In general, exports as measured in volume increased by 15.74% during 1985-88, with growth rates ranging from 6.85% for manufactured goods to 32.98% for semi-manufactured goods. During the same time period, dollar revenues from exports increased by 32%, with increases ranging from 8% for special transactions to 77% for semi-manufactured goods.

Export revenues show a growth rate which is twice as large as the growth rate in terms of export volume. The major explanation for this difference is that Brazil's emphasis on exporting semi-manufactured and manufactured goods implies reliance on exports of more value added goods, less subject to changes in world prices than commodities, and therefore resulting in more stable and higher revenues.

Between 1985 and 1988, the number of tons of semi-manufactured goods exported increased by almost 33%, but in terms of dollar revenues, semi-manufactured goods showed a 77% increase. Similarly, while manufactured goods only showed a growth rate in volume of less than 7%, exports of those goods measured in dollars show a 36% increase between 1985 and 1988. In contrast however, a 16% increase in volume exported of less expensive basic products brought only a 10% growth in dollar revenues from basic goods. This trend can be illustrated by looking at Table 9, which lists the top seven countries previously analyzed and breaks up the exports by product category.

TABLE 9

MAJOR COUNTRIES AND PRODUCT CATEGORY, 1985-1987

	1987 (US$ 000s)	% 1987	1986(US$000s)	1985(US$000s)	% 1985
ARGENTINA					
BASIC GOODS	$149,760	18%	$170,166	$123,864	23%
SEMI-MANUF. GOODS	$54,760	7%	$44,792	$37,722	7%
MANUFACTURED GOODS	$626,617	75%	$463,044	$386,054	70%
TOTAL	$831,137	100%	$678,002	$547,640	100%
UNITED STATES & P.R.					
BASIC GOODS	$1,019,500	14%	$978,537	$1,244,271	18%
SEMI-MANUF. GOODS	$829,507	11%	$727,633	$701,443	10%
MANUFACTURED GOODS	$5,466,960	75%	$4,591,322	$5,004,834	72%
TOTAL	$7,315,967	100%	$6,297,492	6,950,548	100%
CHILE					
BASIC GOODS	$12,967	4%	$4,519	$10,184	4%
SEMI-MANUF. GOODS	$5,408	2%	$6,261	$31,170	13%
MANUFACTURED GOODS	$336,051	95%	$95,508	$195,323	83%
TOTAL	$354,426	100%	$106,288	$236,677	100%
WEST GERMANY					
BASIC GOODS	$662,234	54%	$624,269	$832,931	64%
SEMI-MANUF. GOODS	$70,551	6%	$74,603	$74,214	6%
MANUFACTURED GOODS	$495,708	40%	$400,189	$401,896	31%
TOTAL	$1,228,493	100%	$1,099,061	$1,309,041	100%
ITALY					
BASIC GOODS	$503,176	40%	$462,074	$539,892	47%
SEMI-MANUF. GOODS	$109,775	9%	$83,305	$120,347	10%
MANUFACTURED GOODS	$656,188	52%	$365,051	$489,595	43%
TOTAL	$1,269,139	100%	$910,430	$1,149,834	100%
THE NETHERLANDS					
BASIC GOODS	$734,777	46%	$675,280	$888,474	57%
SEMI-MANUF. GOODS	$282,276	18%	$211,180	$244,147	16%
MANUFACTURED GOODS	$590,717	37%	$411,023	$425,666	27%
TOTAL	$1,607,770	100%	$1,297,483	$1,558,287	100%
JAPAN					
BASIC GOODS	$727,490	43%	$751,053	$805,353	58%
SEMI-MANUF. GOODS	$507,769	30%	$273,744	$220,625	16%
MANUFACTURED GOODS	$441,160	26%	$488,678	371,677	27%
TOTAL	$1,676,419	100%	$1,513,475	$1,397,655	100%

Three countries are identified as major purchasers of manufactured goods from Brazil: Argentina, the United States and Puerto Rico, and Chile. In 1987, 75% of exports to Argentina and the United States, and 95% of exports to Chile consisted of manufactured goods. For the remaining European countries and Japan, basic goods accounted for, on the average, half of all 1987 exports, with a range of 40% for Italy to 54% for Germany. However, since 1985, these countries have also shown an increasing trend to purchase manufactured goods and the importance of basic products has decreased. In 1987, 54% of exports to Germany, for example, consisted of basic goods. This represents a 10% decrease in importance of basic goods since 1985, when 64% of exports to Germany were basic products. Chile is the only country of the seven whose breakdown for basic products has not changed between 1985-87, but it has consistently purchased relatively little basic products, or only 4% of its imports from Brazil.

Table 10 lists the top 25 products which Brazil exported in 1989. Out of those 25, five are basic goods, six are semi-manufactured, and fourteen are manufactured goods. Together, these products make up 54.09% of all exports.

TABLE 10

25 TOP BRAZILIAN EXPORT PRODUCTS, 1989

	PRODUCT CAT.	EXPORTS (US$MN's)	% BREAKDOWN
ALL EXPORTS		$34,391.8	100.00%
SOY BEANS	B	$2,136.4	6.21%
COFFEE, GRAINS	B	$1,610.3	4.68%
IRON ORE, IRON OXIDE	B	$1,400.6	4.07%
STEEL/IRON, SEMIMANUFACTURED	S	$1,357.7	3.95%
ORANGE JUICE, CONCENTRATE	M	$1,019.0	2.96%
FOOTWEAR, LEATHER	M	$949.3	2.76%
INTERNAL COMBUSTION ENGINES, PARTS & PIECES	M	$891.0	2.59%
BOILERS, MACHINES AND MECHANICAL APPLIANCES	M	$842.6	2.45%
ALUMINUM, UNFINISHED	S	$841.2	2.45%
IRON/STEEL PLATES, ROLLED	S	$842.8	2.45%
IRON ORE, AGGLOMERATES	B	$761.9	2.22%
TRUCKS	M	$695.3	2.02%
PULP FOR PAPER-MAKING USING SODA ASH, SULPHATE	S	$674.1	1.96%
PASSENGER AUTOMOBILES	M	$610.1	1.77%
PARTS AND ACCESSORIES FOR AUTOMOTIVE VEHICLES & TRACTORS	M	$517.9	1.51%
TOBACCO, LEAVES	B	$512.5	1.49%
PLANES, PROPELLER, TURBO PROP & TURBOJET	M	$487.1	1.42%
IRON/STEEL BARS	M	$431.0	1.25%
ELECTRICAL MACHINERY & APPLIANCES FOR ELECTROTECHNICAL USE, OTHERS	M	$338.0	1.13%
TRANSPORTATION MATERIALS, OTHERS	M	$371.6	1.08%
SOYBEAN OIL, RAW	S	$302.2	0.88%
TIN, UNFINISHED	S	$283.1	0.82%
MACHINERY AND APPLIANCES FOR EXTRACTION AND EXCAVATION	M	$258.3	0.75%
ORGANIC CHEMICAL PRODUCTS, OTHERS	M	$251.4	0.73%
MACHINERY AND APPLIANCES TO MAKE CELLULOSE PULP, PARTS AND PIECES	M	$168.9	0.49%

The contribution of the top products within each product category to total exports of US$34,391.8 million is as follows:

- Almost 19% or US $6,421.7 million is due to the export of five basic products, three of which rank as the top three of all products exported. Soybeans are Brazil's top export, with 6.21% of all exports attributed to it. The next two are also basic goods, i.e. coffee and iron ore, with 4.68% and 4.07% of exports respectively. Together, they account for 15% of all exports. The remaining two basic goods are iron ore agglomerates and tobacco, which make up 2.22% and 1.49% of all exports respectively.

- 12.51% or US$4,301.1 million come from 6 semi-manufactured goods. These are steel and iron (overall, 6.4% of exports), aluminum (2.45%) and tin (0.82%), chemical-process pulp for paper-making (1.96%), and soybean oil (0.88%).

- Almost 23% or US$7,881.5 million of total exports are attributed to manufactured goods. In this category, the most important is orange juice concentrate, which is the fifth largest export product, contributing 3% to total exports. It is closely followed by leather footwear (2.76% of exports). Six of the main export products are transportation related, i.e. vehicles (passenger cars, 1.77%; trucks, 2.02%), planes (1.42%), and parts and accessories for such (1.51%). These transportation exports together account for over 10% of exports.

Table 11 compares the relative share of total exports of all products to that of the top 25 products within their respective product categories. For example, all products in the product category "basic goods" make up 27.91% of all exports; of those products, five contribute almost 19% to total exports. In contrast, the products in the category "manufactured goods" account for 54% of exports; the top 14 products however, account for 23% of total exports, which is less than half of the total product category. This indicates a diversity in export products and export potential that can make Brazil less vulnerable to changes in world demand and prices than if there were more concentration and dependence on basic goods.

TABLE 11

BREAKDOWN OF TOP 25 PRODUCTS BY PRODUCT CATEGORY, 1989

	IN US$ MILLIONS	% OF ALL EXPORTS
BASIC GOODS	$6,421.7	18.67%
SEMI-MANUFACTURED GOODS	$4,301.1	12.51%
MANUFACTURED GOODS	$7,881.5	22.92%
TOTAL	$18,604.3	54.09%

Only five products constitute the bulk of basic goods exports. Similarly, semi-manufactured products are concentrated in a few high volume export products. However, fourteen products of the top 25 are manufactured goods. An increasing share of manufactured products can be expected to continue. It is the area of manufactured goods where the need for export credit insurance is typically greatest. Basic goods tend to be traded on world markets where the suppliers and buyers are well-known and long established trade relationships exist with well-defined payment and financing mechanisms. In contrast, manufactured goods are often highly competitive between countries with respect to offering credit terms, and frequently both exporters and importers are not well known to each other. In these circumstances, well-functioning export credit insurance facilities can assist exporters to be competitive in extending credit terms and encourage sales to buyers and markets which might otherwise seem to be too risky. As has been IRB's experience to date, the manufactured goods sector has been the primary market for IRB export credit insurance. (See Chapter VII for usage of the IRB programs.)

III. EXPORT FINANCING BY COMMERCIAL BANKS

In order to understand how exports are currently financed in Brazil, to identify financing problems encountered by exporters, and to obtain the views and suggestions of bankers about IRB export credit insurance, a number of banks were surveyed. Senior officers of sixteen banks, including five foreign-owned banking operations, were interviewed. The banks represented a cross-section of the Brazilian banking industry, including both private and public sector banks, and both national and regional banks. The bank survey was conducted by means of structured interviews with bank officers responsible for the international business of the respective banks. A list of the banks contacted is shown as Attachment A.

In addition to bankers, a number of trade associations and exporters, including several of the largest users of IRB insurance, were interviewed to gain their perspective on export financing problems and the IRB programs. In each association or firm, a senior executive was interviewed, generally the person responsible for international business or the export manager. As with the bankers, a structured interview technique was used. The bankers' and exporters' comments are included in the chapters dealing with export financing programs (IV), IRB programs (VII) and claims (IX), as appropriate. A list of the associations and exporters surveyed is included in Attachment A.

A. Characteristics of Export Financing by Banks

As is the case in most countries, the bankers were unable to provide precise statistical information on their export financing activities in a form that would be comparable between banks or that could be aggregated. Much of what was learned in the interviews constitutes informed opinion and experience, rather than precise statistical information. The general consistency of views expressed suggests that the information obtained is representative of export financing practice in Brazil.

According to the information supplied by the bankers, the sixteen banks in the survey financed approximately $20 billion of exports in 1989. Given that Brazil's exports totaled $34.4 billion in 1989, and assuming that the export financing figures supplied by the banks surveyed are fairly accurate, these banks financed approximately 58% of Brazil's exports. Of this amount, the Brazilian-owned banks in the survey reportedly financed $17 billion or 50% of exports in 1989.

The bankers interviewed indicated that approximately 90% of Brazil's export financing occurs for terms of one year or less, conforming with Central Bank of Brazil regulations which require that both pre- and post-export finance terms not exceed a combined tenor of 360 days (180 days each for both pre- and post-export finance), and that all foreign exchange for exports must be settled within 20 days of the date of export shipment regardless of the actual payment due date required from the overseas importer, except in the case of countries where there are Convenios for periodic settlement of foreign exchange obligations. Most export sales are reported to be denominated in U.S. dollars and provide a primary source of foreign exchange to the country. The effect of these regulations is to promote short-term export financing of less than 180 days, and to force the use of foreign bank trade finance lines of credit to fund the immediate settlement of overseas importer-buyer payment obligations. Foreign exchange for FINEX and Resolution 68 supported export financings on medium and long terms are also settled immediately upon export shipment.

The bankers stated that since export financing is generally funded by means of drawings under foreign bank trade finance lines of credit, the amount of financing that can be done is dependent upon the adequacy and availability of such lines of credit. It was noted by the banks that these trade related lines of credit have not been increased in recent years, even though Brazilian exports have grown substantially. This is apparently a consequence of Brazilian foreign debt repayment difficulties.

Most bankers indicated that the available lines of credit are adequate to meet needs, but could be too limited if Brazilian exports expand more rapidly. Some bankers stated that vastly more business could be financed if their foreign credit lines were increased. Several noted that the lack of medium term funding inhibited export of capital goods to some markets.

The bankers report that currently most export finance is done on 45 to 90 day repayment terms. The reasons for such short terms is not altogether clear, but some of the banks felt that this shortening of export credit tenor was due to the desire of foreign banks providing trade lines of credit to keep their Brazilian exposure as short-term as possible. The opinion was also expressed that the need to stretch available foreign bank trade lines of credit over an increased base of Brazilian exports may also contribute to the very short-term nature of Brazil's export financing today.

Besides regulations on the allowable tenor of export financings, it appears that the current Central Bank of Brazil regulations also prohibit Brazilian banks from holding foreign repayment risk obligations in their loan portfolios, unless they are guaranteed as to payment by prime foreign banks. The banks indicate that this forces them to insist on either foreign bank payment guarantees or on full recourse to the Brazilian exporter for every export financing, which in effect relieves the bank of foreign repayment risk. Alternatively, the Brazilian banks may sell or discount Brazilian export obligations to foreign banks offshore which may be willing to purchase such obligations outside their trade finance lines of credit to Brazil on a without recourse basis provided they are satisfied with assuming the specific trade transaction risk involved. It was pointed out by the banks, however, that the appetite of foreign banks to purchase Brazilian export obligations without-recourse tends to be limited to the better buyer risks in good country markets. Banks actively seek to arrange buyer credit financing for well-known, prime foreign buyers. These obligations can be sold or discounted to foreign banks, and thus the Brazilian bank's U.S. dollar lines of credit are not needed. Higher risk credits for exports to other Latin American countries are reported to be primarily financed under the Convenio agreements which effectively constitute Central Bank of Brazil risk. This Brazilian export finance structure at present tends to be risk-averse and reinforces export trade patterns to the strongest buyers in the better country markets.

From the interviews, the banks indicate they base their export financing decisions primarily upon the underlying transaction, assuming they are satisfied with the credit strength of the exporter based on the existing banking relationship. Few export transactions require collateral from the exporter outside of the transaction itself and whatever collateral that may have been provided under normal lines of credit. Such transaction-based financing is typical of countries with well developed financial systems, but is uncommon in most developing countries where collateralization with cash or other assets equal to 100-200% of the credit extended is often the norm.

Banks surveyed indicate that pre-export finance is usually provided within existing lines of credit in accordance with their terms which may include personal guarantees or other collateral, depending upon the perceived credit strength of the exporter involved. On occasion it appears that banks may further collateralize pre-export credit with a specific assignment of the export contract or other associated transaction documents, e.g. an L/C.

As to post-export finance, the bankers informed that it was common practice to do so on a with-recourse basis under the standard and formal Contracto de Cambio (foreign exchange contract) procedures which give the financing banks the right: a) to receive the foreign exchange payment from the overseas importer at the payment due date, or b) to recover the advanced funds from the exporter in the event the overseas buyer fails to pay at the due date.

The bankers indicated that the nominal cost of export credit in Brazil ranges from the 6 month London Interbank Offered Rate

(LIBOR) for Eurodollars plus 1/2 of 1% to LIBOR plus 3%. At this time that equates to export credit financing of approximately 9% to 12%. As long as the financing of Brazilian exports is done in dollars, the cost of that financing will be tied to short-term dollar financing rates.

The cost of export credit appears to be primarily a function of the bank's cost of funding the transaction (i.e buyer and country risk), and the bank's view of the desirability of doing the export finance business with the exporter in question. The bank looks at the overall relationship with the exporter and the return on all the international financing services provided. In negotiating export credit facilities the commercial bank quotes on three elements:

- o interest rate for financing
- o rate for foreign exchange to settle contract
- o percentage of transaction that is financed

In addition, if FINEX interest equalization financing is used, the commission to the bank is often shared between the bank, buyer and exporter, subject to negotiation between the parties.

Major exporters will solicit competitive export financing quotations from several banks and select the one that provides, on balance, the best export financing offer. However, they often settle the critical foreign exchange contract before soliciting quotes for financing.

The true, full cost of export credit, however, may be actually higher or lower than the rates mentioned above after taking into consideration the package of financial services provided. The cost effect of this formula approach to the pricing of export credit financing is difficult to measure, but it appears that the real cost of export credit is probably somewhere in the range of LIBOR plus 2% to LIBOR plus 5% (i.e. between approximately 11% and 14%). Nevertheless, these rates remain significantly below domestic interest rates. The recent freeing of exchange rates should eventually lead to more consistency between domestic and foreign financing rates. The exporters contacted viewed the cost of U.S. dollar financing as acceptable and preferable to domestic rate financing.

Almost all the banks report that the average transaction size is from US$300,000 to US$500,000. Only a few Brazilian banks that concentrate on medium sized companies noted an average size of US$100,000, while the foreign banks tended to mention transactions of over US$500,000. Smaller transactions that would be typical of smaller exporters were not reported as common, suggesting lack of access by such companies.

B. Export Financing Problems

Bankers and exporters cited several problems in financing Brazilian exports, as described below:

1. Potential inadequacy in the future of trade finance lines of credit from the foreign banks to provide needed dollar financing for exports. As long as the Central Bank of Brazil requires exporter settlement of foreign exchange obligations within 20 days of export shipment, the availability of foreign bank trade finance lines of credit will remain crucial to fund Brazilian financing of Brazilian exports. Several bankers and the large capital goods exporting companies noted the lack of medium and long term finance that in many cases was required to be competitive internationally.

2. The export credit risks that banks can assume are limited. Because of existing regulations, Brazilian banks are effectively only able to finance and carry in portfolio prime foreign bank risk, which in effect means exports to good country markets. It is difficult for banks to offer export financing for higher risk, non-conventional export transactions in many developing country overseas markets in, for example, Southeast Asia, the Middle East, and Africa.

3. Export finance is viewed as very competitive business and may not be especially profitable on a per-transaction basis. Nevertheless, export finance consistently contributes a sizeable percentage of the banks' income because of other earnings achieved in the process through related deposit float and foreign exchange earnings associated with the export transactions.

The banks state that while there are between 5,000 and 8,000 exporters in Brazil, the top 100 exporters account for approximately 90-95% of the country's exports. Assuming this statement accurately portrays the situation, exports in Brazil are highly concentrated with a few companies. This helps to explain bankers' statements that export finance is a highly competitive area of business. In this connection, it appears that the foreign-owned banks tend to focus their export finance services on the larger companies, leaving the medium-sized exporters to be served by the local Brazilian banks having an extensive branch network.

4. Brazilian banks do not have much flexibility in the terms or the type of export financing support they can provide Brazilian exporters, due in large measure to a lack of medium and long term export finance. According to the bankers interviewed, most of Brazil's exports are either financed under short-term documentary collections or Letters of Credit. This is consistent with common practice world-wide for short-term export finance.

Many banks indicated that more than 50% of transactions are done on a collection basis, with 70% of these paid at sight and 30% on terms of up to 60 days. Documentary credits other than Letters of Credit are primarily used for inter-company transactions and sales to prime buyers in industrialized country markets.

In many cases, having some document (draft or letter of credit) clearly establishing a payment obligation is necessary so that banks are able to discount the export paper, or in order to obtain a foreign bank guarantee. Few transactions are effected on open account due to the need to settle foreign exchange and to sell foreign obligations or to have only prime bank-guaranteed foreign obligations in portfolio. Almost all transactions in developing countries, including the ALADI member countries in Latin America, are done by letter of credit. For the ALADI and other Latin American countries in the Convenio, an instrument evidencing debt is required to facilitate payment clearance under the Convenio. Having a letter of credit requires a debt instrument and transfers the commercial risk of the transaction from the foreign buyer to the foreign bank which is usually considered less risky. It appears that very few exports are effected on deferred payment terms of over 180 days for the reasons listed above (except for FINEX or Resolution 68 credits). Some exports on very short terms to countries where the Convenio exists may clear outside the Convenio.

5. Banks surveyed indicated that inadequate credit strength and the lack of exporting experience by smaller companies was a significant export financing problem that inhibited their ability to provide needed export financing assistance to these firms. In the case of small firms, the underlying export transaction might be insufficient support for financing due to concerns about the exporter's ability to perform on the export contract and/or provide adequate additional collateral. Also, smaller exporters do not appear to have the same opportunity as major exporters for receiving competitive export financing quotations from several banks.

Some exporters noted that access to export financing and/or FINEX funding was not the problem, rather the problem was lack of local working capital at reasonable rates so as to find it attractive to increase production for export.

6. The banks report that they are not able to provide meaningful foreign exchange futures contracts to cover cross-currency settlement risks. The banks state that the foreign exchange futures market is very thin and can only accommodate hedges in relatively small amounts out to a maximum of 30 days. This has not been a particular problem because export trade is financed in US dollars, not in Brazilian Cruzeiros. However, with recent changes to allow market-determined foreign exchange rates and lower rates of inflation, financing in Cruzeiros may become

more attractive, in which case a futures market will be essential to support exporters.

7. The Brazilian banks surveyed, as a whole, seem to confine their export financing services to traditional banking activities, and do not offer additional services targeted to exporters, and particularly to companies that are smaller or new to exporting.

Credit checking on overseas importers is done at the request of exporters through correspondent banks, but the banks indicate that this service is not often required. Reportedly, most of the major Brazilian exporters have long-standing customers with whom they are familiar, or else sell mainly to affiliate companies so that credit checkings on overseas importer-buyers are generally unnecessary.

None of the banks interviewed appear to provide any comprehensive marketing assistance to Brazilian exporters. Some linking of buyers and sellers is done occasionally by the banks on an ad hoc basis as the opportunity presents itself, but not as an on-going, regular service.

Several of the banks reported that they do provide training on export documentation to select exporter customers from time to time, but none of the banks appear to offer any regular training for exporters on either locating overseas markets or in financial structuring alternatives for export sales.

IV. EXPORT FINANCE PROGRAMS - CACEX AND FINEX

Export finance programs in Brazil have paralleled those of many other countries, providing lower than market rate financing competitive with that offered in international markets to encourage firms to export and banks to finance exports. In the case of Brazil, this is an interest equalization payment to banks, which allows banks to offer lower cost financing to exporters. In recent years, up to 1990, two programs were offered: Fundo de Financiamento a Exportacao (FINEX) under Resolution 509, and the Conselho Nacional do Comercio Exterior (Concex) program, known as Resolution 68, established in 1971. Both programs are administered by the Carteira de Comercio Exterior (CACEX) in Banco do Brasil. FINEX is a program for private commercial banks, and Resolution 68 is available only through Banco do Brasil.

When initially established, FINEX was meant to support exports of capital goods and non-traditional manufacturing industries. Over time, however, FINEX financing was opened to many more products. In 1989, eligible products were restricted to capital goods and priority sectors such as aircraft and shipbuilding. FINEX financing was also made available to industrial sectors and companies facing economic difficulties, such as domestic market weakness. The FINEX program in effect has been returned to its original purpose. The 1989 revisions included a specific list of eligible products and the applicable credit term. Eligible products must have 80% Brazilian content. Over 180 day transactions require a 15% downpayment.

The FINEX interest equalization rates which are paid to the banks are tied to LIBOR. In December 1989, the following rates were fixed:

180 days	105% of LIBOR
181-360 days	110% of LIBOR
Medium Term	6 months LIBOR less 2%
Long Term	6 months LIBOR less 2 1/2%

Banks fund the loans made to the exporters at floating rates and the difference between their interest cost and the FINEX rate is paid to the bank under the FINEX program. The spread allowed to be charged by the banks for both buyer and supplier credits is 2%, in addition to the commission. All banks are now allowed a 1% commission when using the FINEX program, while in the past foreign banks could receive 1/2% and Brazilian banks 2%. For prime export transactions with major exporters, the commission is often negotiated downward.

IRB export credit insurance is not required to gain access to FINEX financing. In many countries, export credit insurance must be obtained in order to utilize special export finance programs.

The Resolution 68 export credit program is only available through Banco do Brasil, and is limited to term financing. Banco do Brasil discounts the export paper. Resolution 68 rates and other terms are the same as those for the FINEX program. However, if any portion of the financing is done without recourse to the exporter, IRB insurance is required. Without recourse financing is typically only done with a foreign prime bank guarantee. Since most transactions are done with recourse, few transactions carry IRB insurance. Furthermore, banks generally do not take assignment of IRB policies, and all claims are handled by the exporter and IRB directly. Also, exporters are often reluctant to agree to the whole turnover requirements of IRB. They are concerned with difficulty in getting claims paid by IRB for commercial risks, and usually prefer to accept recourse financing.

The Resolution 68 program is viewed as a "lender of last resort," used only when it is perceived that private banks and the FINEX program financing are not available due to the bank's perception of risk and funding capacity.

Each year the Federal Government provides a fixed amount of funding for the FINEX program. US$230 million was budgeted for

1990 to cover continuing program costs of outstanding and anticipated new interest equalization costs. This funding level is expected to support US$2.5 billion in exports. This level is consistent with FINEX usage over the past 4-5 years. This amount is not viewed as sufficient to cover present FINEX obligations. Banks and CACEX itself both indicated that additional funding could be used, perhaps up to the level which would support US$4 billion in exports. Supplemental increases that were relatively easy to obtain previously are no longer feasible under the new government's economic policies. The whole program is not sufficient to meet the needs of capital goods and consumer durables exports.

From 1979 through November of 1989, banks financed US$19,145.4 million under the FINEX program. In 1988, US$2,450 million in exports were financed and in the first eleven months of 1989 a total of US$2,509 million. Sixty banks participated since 1979, with 46 active in 1988-89. The top three bank users of the program accounted for over 35% of usage in 1989 and during the last 10 year period, and the top seven for about 60% in the same periods, indicating a concentration among the largest banks. Two foreign-owned banks are among the top seven users of FINEX.

Of the companies interviewed, the larger companies which exported substantial amounts all had utilized FINEX financing. In some cases it was considered vital to winning bids against foreign competition. All were generally satisfied, but expressed concern that the program might be terminated, with no substitute made available.

The future of the FINEX program is uncertain with the proposed reorganization of Brazil's export support programs. As a result, bankers report the volume of transactions financed under FINEX and the payment of the interest equalization have slowed. CACEX responsibilities apparently are being transferred to the Departmento Nacional de Comercio Exterior (DENCEX) in the Ministry of Economy. It appears that FINEX or any successor program will definitely not be administered by Banco do Brasil (through CACEX). Proposals include placing a new program in a yet to be established Brazilian Export-Import Bank.

While some small firms are able to obtain financing using the FINEX and Resolution 68 programs, currently no special programs or targets are set to facilitate access by smaller firms. Most smaller firms have little access to export finance and consequently use trading companies for exporting.

All of the banks and most of the exporters interviewed were aware of, and almost all had used, the FINEX export financing program. The banks state that they find the FINEX program less attractive since its regulations were changed in December, 1989, reducing allowable interest rate spreads and bank commissions.

Two banks indicated they had withdrawn entirely from FINEX related export financings as they no longer considered it to be attractive business.

The banks expressed concern over the future survival of FINEX but most seemed to believe (with one exception) that the program was needed and would continue on a limited basis. The banks reported delays of 3 to 5 months in interest rate equalization reimbursements from FINEX. This delay increases the interest rate risk exposure of the financing bank and severely reduces the attractiveness of the FINEX program.

The desired changes in the FINEX program expressed by the banks in the survey were to restore interest rate spreads and bank commissions allowed before December, 1989 and for CACEX to pay FINEX interest equalization funds immediately at all interest rollover dates.

Despite this, the banks and exporters generally viewed the FINEX program favorably. However, those familiar with the IRB export credit insurance program, including policyholders, were nearly unanimous in finding it inadequate and unsatisfactory. Their comments are summarized in Chapter VII on program activity and in Chapter VIII on claims.

V. EXPORT CREDIT INSURANCE - HISTORY AND LEGAL STRUCTURE

A. Legislation and Regulatory Framework

Law No. 4.678 of 16 June 1965 established the export credit insurance facility in Brazil. Implementing regulations were issued on 18 November 1965 as Decree No. 57.286. The law and regulations were apparently modeled on the Portuguese and the Argentinean schemes. The facility became operational in 1968.

The purpose is defined as guaranteeing risks which Brazilian exporters and those who finance exports undertake as a result of exporting goods and/or services on credit. The definitions of political and extraordinary and commercial covered risks, are included in the export credit insurance policies (described in detail in Chapter VI - Programs). Commercial risk is specifically defined as dealing with the insolvency of the importer. The Decree also defines what constitutes insolvency for purposes of commercial risk coverage. Political risks can result from actions of foreign governments, events in the buyer's country (e.g. war, revolution), catastrophic causes (e.g. floods, hurricanes), political factors (e.g. expropriation, destruction, cancellation of licenses) or from non-payment by public buyers. Contract cancellation coverage is also available.

The law also contains the provision that exporters must retain a portion of the risk, but the percentage is not specified.

Private insurance companies, which are authorized to offer basic insurance lines and are approved by the National Insurance Department to issue export credit insurance policies, have the right to be reinsured by IRB according to the rules and regulations established by IRB. Private companies may not issue policies until IRB has accepted responsibility for reinsurance.

The Federal Government, as represented by IRB through certificates of coverage, undertakes to assume commercial risks not taken by private insurance companies and all political and extraordinary risks.

Insurance policies and the certificates of coverage are required to include all export credit transactions (whole turnover). At its sole discretion, however, IRB may exclude transactions from coverage.

The law provides for initial funding of reserves for export credit insurance. The Federal Government was committed, through the Federal Budget, to assign an endowment of CZ 1.5 billion annually to IRB starting in 1966 and continuing for ten consecutive fiscal budget periods. IRB was to invest these funds in Federal Government securities sold on the stock exchange. Shortfalls in premiums earned over loss payments should be reported annually to the government. The Federal Government will decide whether to liquidate securities to meet claims payment needs or whether to request special credit facilities to meet funding needs.

IRB was required to establish and exchange information as well as to maintain relationships with international credit insurance organizations, to organize credit files on foreign buyers, and to obtain economic and political information on countries where Brazil exports. All Federal, state and municipal governments and agencies, as well as the private sector, are urged to assist IRB. Export credit insurance operations are exempt from all taxes except income tax.

Implementing regulations were issued as Decree No. 57, 286 of 18 November, 1965, and to a large extent restate the Law. The regulations refer to a Technical Committee of IRB which establishes policies for export credit insurance and sets the general conditions on insurance policies and premium rates. The approval of the Ministry of Commerce and Industry must be sought for IRB to associate itself with international organizations connected with export credit insurance. IRB is charged with promoting creation of the Export Credit Insurance Commission (CSCE), a permanent organization with responsibility for commenting on development, operating results, and policies of the export credit insurance programs, with support from appropriate agencies and departments. Representatives from the Ministry of Finance, Central Bank, Ministry of Commerce and Industry, the Ministry of Foreign Relations, the Foreign Trade Department of the Banco do Brasil and IRB must be included in the CSCE, along with others selected by IRB who have an interest in export credit insurance. Membership is restricted to ten, and the regulations applying to CSCE must by approved by the Technical Committee of IRB.

The implementing regulations have been revised a number of times, but the changes generally have been modest on each revision. In the latest revision, at 13 April 1989, the share of the risk of the consortium was set at US$4 million per buyer and the proportion of risk assumed by the parties to the consortium was specified as 87.50% for the Federal Government, 6.25% for the insurance companies and 6.25% for IRB.

In 1979, a new law restructuring the export credit insurance system in Brazil was passed. Only one company offering export credit insurance, and no other types of insurance, was permitted to operate. Commercial risk coverage could be provided by IRB, however, and the National Treasury operating through IRB could offer political and extraordinary risk coverage as well as commercial risk policies. The Finance Minister was authorized to administer this coverage for the Government, but could delegate authority to the head of IRB. No commissions were allowed to be paid. This legislation changed the ownership structure to an independent agency which could be owned 51% by non-government companies and 49% by the Federal Government, through autonomous government controlled entities.

Regulations implementing the 1979 legislation were never issued, so the 1965 law remains in effect. Apparently, the implementation regulations were not issued because of disagreements as to how the new system would work and the exact role of the private sector.

B. Risk-Sharing Structure

As noted above, the Federal Government assumes all political and extraordinary risks, as well as all risks not assumed by private insurance companies. Government also assumes commercial credit risks for the bond insurance, working capital guarantee, and the global insurance coverages, none of which is currently being actively underwritten.

As currently structured, IRB administers the political and extraordinary policies on behalf of the Federal Government. Also administered by IRB are commercial risk policies involving risk-sharing between the Federal Government, IRB and private insurance companies.

Private insurance companies issue commercial risk policies. These insurance companies can retain the commercial risks for their own account based on the amount of their capital and their own in-house limits of individual transactions, including other insurance coverage which may apply to the exporter. In addition, each company has operating limits which are set by the Superintendent of Insurance according to Law and reviewed each six months. Basically, each insurance company decides how much of each type of insurance, including export credit insurance, it will retain. If the maximum credit limit for a single buyer exceeds 35 times the total amount retained by the insurance company "retention", co-insurance with other companies is required so that the 35 times limit is not exceeded for any one company. The lottery mechanism is used until the total amount of insurance has been proportionately distributed. The co-insurance lead will be the company with the largest participation. When the insured is a Brazilian public company, a lottery is used to choose the insurance company(ies) to handle the commercial risk coverage.

The amounts of commercial risk export credit insurance not retained are reinsured up to $4 million per foreign buyer through a consortium or pool, which is constituted annually. This

"Consorcio" is made up of all private insurance companies selling basic lines of insurance. The insurance companies together assume 6.25% of the pool risk, IRB also takes 6.25%, and the Federal Government is responsible for the remaining 87.5%. IRB itself is a mixed company which is 50% owned by private insurance companies and 50% by the Federal Government.

The Federal Government insures for commercial risk all amounts above the $4 million limit per buyer and risks which the insurance companies refuse. This excess is referred to as complementary insurance for which "complementary coverage certificates" are issued. IRB also issues "Coverage certificates" for political and extraordinary insurance coverage on behalf of the Federal Government.

Each year a new "Consorcio" insurance pool is established to which the foreign currency liabilities for the previous fiscal year period are transferred using the exchange rate at Banco do Brasil at that date. Likewise, estimated pending losses in foreign currency are also transferred to the new consortium.

No reserves, except an amount equal to 40% of premiums for a year that is set aside as a technical reserve for claims not yet known, are established or transferred. Provisions are made for specific claims when identified. When pending liabilities substantially exceed foreign currency deposits, the consortium debits the participating insurance companies and purchases the required foreign currency. Interest earned on investments at the Banco do Brasil is transferred to the consortium.

According to IRB, private companies reinsure on average 80% of all export transactions with IRB. The primary private insurance companies usually take for their own accounts less than 10% of the commercial risk per transaction. This, combined with the fact that almost 90% of the Consorcio commercial risk is for the account of the Federal Government, illustrates that the Brazilian export credit insurance program can be considered essentially as a public sector, government program. IRB itself views export credit insurance as a government facility, and not as a profit-making program.

Premiums and losses for export credit insurance are shared between the insurance companies, IRB and the Government. Of the total premium, IRB receives an administrative fee for managing commercial risk on behalf of the consortium which is equal to 6.25% of total premiums received. Insurance companies receive the portion of premiums equivalent to their participation in the risk with the remainder being consortium premium. Of the consortium premium, a commission of 6.25% of the premium is paid to the insurance companies. The insurance companies share 6.25% of the claims paid, loss expenses and recoveries, according to the share of each company in the Consorcio. Sharing in losses is unrelated to the initial amount that the company may retain in a transaction.

IRB has also received varying percentages of premiums on the bond insurance, global insurance and working capital guarantee policies when these were actively being underwritten.

C. Banks' and Exporters' Comments on Ownership Structure

Bankers and exporters repeatedly suggested that the private sector should be more actively involved in operating the export credit insurance program in Brazil. Persons interviewed continually referred to the 1979 law that was never implemented that proposed majority private sector ownership. The establishment of a separate organization owned by the private sector to offer and/or administer the export credit insurance programs was mentioned. Generally, it was thought that private sector management would be more knowledgeable about and responsive to the needs of exporters. Less bureaucratic procedures would be expected from private sector management. Therefore, these bankers and exporters believed that the export credit insurance function should be 64
removed from IRB and placed in a new, properly capitalized institution dedicated solely to export credit support. Proper capitalization was also repeatedly mentioned as necessary for assuring credibility in the new organization's ability to pay claims.

VI. EXPORT CREDIT INSURANCE - IRB PROGRAMS

A. Basic Export Credit Insurance Policy Features

Since inception, IRB has offered two basic export credit insurance policies, one covering commercial risks and the other political risks. Exports of services, as well as of goods, can be covered. Special coverage can be obtained for contract cancellation, consignment risk and for public buyers. Copies of the commercial, political and special coverage policies are shown as Attachment B. In the past, bond insurance which could cover bids, advances and performance was also offered. A policy covering both commercial and political risks (Global policy) and a working capital guarantee to banks (Production Finance policy) have been offered and some coverage is in effect, but for the past few years new policies have not been actively written.

To a large extent, the commercial risk policy and the political risk policy (known as political and extraordinary risks) are identical. Major differences relate to the risks covered, the percentage of the transaction covered, the need for specific limits to be established for individual buyers, and the waiting periods for claims payment.

All exporting companies resident in Brazil are eligible for export credit insurance. The amount of foreign content (i.e. not produced in Brazil) in the exported product is not stipulated. Whatever was allowed by CACEX for export finance programs is generally allowed for export credit insurance. Export sales insured almost always represent supplier credits, rather than buyer credits.

1. Coverage

Both policies require that the exporter (the insured) insure all export sales to countries that are specified in the policy, and to notify IRB (the insurer) concerning credit sales to countries not on the list. If IRB agrees, the new countries can be added. In effect, this is a whole turnover policy, but sales to specific countries may not be included. Whole turnover has been interpreted differently for different exporters. No uniform standard is applied. The extent to which compliance with the whole turnover requirements that are specified in the policy is followed up on by IRB is unclear, with some exporters and insurance companies noting that IRB does check and others that little follow up occurs. Whole turnover requirements have been a major reason why banks have not shown interest in being insureds under IRB policies. While virtually all the exporters consulted said that they would prefer to be able to exclude more buyers, they could understand the rationale for whole turnover and would find it acceptable if IRB actually agreed to extend needed coverage in some of the higher risk markets.

The policy may specify the tenor of sales which will be covered under the policy. Virtually all policies cover sales on terms of 180 days or less. However, medium term sales (up to five years) can also be covered, again on a whole turnover basis. Policies may just refer to covering all the exporter's foreign sales and the premium rate for all tenors to 60 months is included in the particular conditions in the policy. The tenor of sales covered does not seem to be a major consideration in policy issuance, but the actual tenor of sales is influenced more by the availability of term financing, government regulations, and the need to meet credit terms in order to be competitive internationally.

Coverage only applies to the original amounts of each transaction which can include transportation, packing, insurance, interest, taxes and accessories. Coverage does not include exporter losses resulting from delays, contractual fines, exchange risks, or commissions.

2. Premiums

A minimum premium is imposed when the policy is issued, against which premiums for shipments made are credited until the minimum premium is fully utilized. If an exporter's policy is canceled by IRB, IRB retains all pre-paid premiums.

Premiums are based on the total amount of the credit extended to the foreign buyer by the exporter.

Policyholders must declare shipments monthly, during the first ten days of the month following shipment. IRB bills the exporter for the premiums due. Premiums must be paid within 30 days of invoice, or within 45 days where the collecting bank is not in the same area as the exporter.

According to the regulations, coverage can be extended in either local or foreign currency. For local currency coverage, the premium can be paid in Cruzeiros within thirty days from the date set in the policy. Losses under foreign currency coverage will be paid in the currency of the policy (in accordance with FICAM 55). However, for the foreign currency coverage, the insured must also pay premiums in U.S. dollars by check in accordance with GECAM 221.

According to the regulations, the insured amount, premiums and loss payable amounts for local currency coverage can be made using the exchange rate prevailing at the time coverage begins, but the total loss payment can not exceed the total amount of the insured credit at the exchange rate on the date of payment.

Claims for losses related to expenses incurred in local currency are to be paid in local currency.

In actual fact, IRB policies are written in US dollars, premiums paid in US dollars and payments are made according to the US dollar value of the loss covered.

3. Duration

Policies are usually written for one year, and coverage remains in effect for all sales which take place during the year, for amounts outstanding up to the credit limit imposed under commercial risk policies.

4. Assignment

The policy may be assigned to third parties that finance insured transactions, with previous notification to the insurer. As noted, banks do not take assignments due to lack of confidence in the value of the insurance.

5. Advances on Claims Payments

Partial payment for losses can be made as an advance against eventual full payment of the claim. The policy explicitly states that IRB must pay an advance on loss payments even though the definitive net loss has not yet been calculated. IRB must pay 90% of the covered amount including legal expenses within 30 days of receipt of the documentation relating to the losses. Advances totaling only 70% of the covered amount may also be given when it is demonstrated that the unpaid bill has been protested and the correct collection procedure initiated. The latter 70% amount is more common, in that many months or years may pass before documentation sufficient to prove insolvency may be available.

6. Recoveries

Recoveries are shared pro rata between the insured and the insurer in accordance with the insured and uninsured portions of the debt.

B. Commercial Risk Insurance

1. Percentage Cover

For commercial risk, IRB insures 85% of each export sale to the foreign buyer with the remaining 15% of risk retained by exporters for their own account. IRB will only cover an exporter's sales outstanding to any one buyer at one time up to a maximum of the discretionary credit limit or the credit limit established by IRB for the buyer. Sales exceeding these amounts will not be covered.

A discretionary credit limit is set for each exporter. Each exporter typically has a US$25,000 discretionary limit, but it ranges from $15,000 to as high as US$100,000 depending on the product. Shipments under the discretionary limit are insured for only 70% rather than 85%. For each importer where this automatic limit is exceeded, the exporter must apply to IRB for a special credit limit on the importer which is included in the export credit insurance policy. The exporter is required to provide a current credit report on the foreign buyer. If IRB needs additional information, IRB can recoup from the exporter the cost of obtaining the report. If an exporter wants coverage for a particular buyer which exceeds what IRB is willing to cover, application can be made to IRB as representative of the Federal Government. Additional amounts may be approved on the same terms and conditions as the basic IRB policy, but the IRB share of the risk will be assumed by the Federal Government.

The particular conditions of the commercial risk policy also specify the countries where all sales be presented for insurance coverage by the exporter according to the definition of whole turnover applied to that exporter.

2. Risks Covered

The commercial risk policy only covers insolvency of the importer defined as the "definite incapacity, normally verified" to pay the debt. Commercial risk insurance does not cover protracted default in payment, except when the exporter has taken specific defined actions, as noted below.

An importer is considered insolvent under several circumstances: (1) the importer is legally declared bankrupt or enters Chapter 11 or the equivalent; (2) an agreement is reached between the debtor and the creditors for payment of a reduced principal amount, with the agreement of IRB; (3) the assets related to the debt do not cover the debt or the assets cannot be taken over or encumbered. In addition, if the debtor has not paid the debt within 12 months of the original or an extended maturity, or has not responded, the buyer is considered insolvent if the insured has taken the necessary steps to protect legal rights as a creditor. These steps are also defined in the policy. (See claims requirements below.)

The commercial risk policy does not cover transactions with foreign governments, government-related entities, or transactions guaranteed by foreign governments. Likewise, sales to companies affiliated with the exporter are not insured. Transactions paid for in Brazil prior to shipment and Letter of Credit transactions confirmed by a Brazilian bank are not covered. Coverage also is not available for transactions which have been expressly denied for coverage by IRB, for transactions where the importer alleges exporter non-compliance with the contract terms and conditions, or if it is illegal for the merchandise to be shipped from Brazil or imported into the country of destination. The exporter and importer must comply with all customs, foreign exchange, and import/export regulations in Brazil and the importing country. If a covered risk occurs before delivery of the goods which prevents consummation of the transaction, the policy covers the cost of returning the goods to Brazil and any losses sustained in subsequent resale, subject to agreement of IRB with the exporter.

3. Premiums

Premiums are based on the total amount of credit extended to the importer by the exporter. This amount might exceed the discretionary credit limit or the special limit established by IRB for a particular foreign importer. While some exporters and bankers commented that premium rates were too high for the value of the coverage received, almost all agreed that the rates would be acceptable if good coverage was available.

4. Policy Conditions Regarding Claims

Under the policy, the exporter is required to notify IRB within 15 days of learning of the occurrence of a covered risk (insolvency of the debtor). The exporter must then provide all the documentation to justify the claim. If IRB has not been notified of the non-payment 180 days after maturity of the debt, the insured has no responsibility for paying a claim.

The exporter is then required to take significant actions with respect to collection of the debt. These actions and the concurrences by IRB are spelled out in the policy. The requirements for action by the insured exporter to act on behalf of the insurer have been a source of complaint from the exporters. Because of this concern, the relevant clauses are quoted below.

General Conditions, Commercial Risks, Clause 16 Losses:

"16.4 The insured must take all steps necessary to protect his credits and initiate all actions against the debtor and co-obligors to demand payment of the credits. He must keep the insurer advised of the progress of his collection efforts and follow any instructions and terms established by the insurer. Failure to do this can result in the loss of his rights to indemnification for his credit losses.

"16.5 The negotiations and other actions related to the judicial or extra-judicial collection of the debt will be done by the insured; however, the insurer reserves the right to intervene in or manage the negotiations at his convenience. The insured must assist the insurer and agree to do or permit to be done everything that is necessary or which is requested by the insurer to collect the credit, cooperating in a spontaneous and helpful manner to find a favorable solution to the litigation.

"16.6 The intervention of the insurer and any subsequent acts by the company concerning negotiations or litigation in no case can be used to increase the insurer's responsibilities above those which are stated in the conditions of the policy. Any intervention or other acts do not constitute, on the part of the insured, any presumption or recognition of any obligation to make a loss payment.

"16.7 The judicial and extra-judicial expenses related to the payment of losses and collections are for the account of the insured; however, in the case of a loss which is paid, such expenses will be added to the amount of the credit loss.

"16.8 In the case of a loss situation, any decision which implies an undertaking on the part of the insurer may only be made by the insured with the express and unequivocal agreement of the insurer."

Claims processing is discussed in more detail in Chapter VIII.

C. Political Risk Insurance

1. Percentage Cover

The political risk policy covers 90% of the loss, with 10% retention for the account of the exporter.

2. Risks Covered

The political risk policy is termed the "political and extraordinary risks" policy. The specific risks covered and the dates on which claims become payable are the following:

a. As a result of measures taken by a foreign government

(1) funds are not received in the agreed currency (payment immediate upon proof that loss occurred);

(2) funds owed are not transferred even though the funds were deposited in a bank or other official institution in the buyer's country (payment immediate upon proof that loss occurred);

(3) payment is not received within four months of the maturity of the debt obligation due to a general payment moratorium established by the buyer's country (claim payment four months after maturity);

(4) no payment is received within six months (claim payment after six months).

b. Funds are not received due to civil or foreign war, revolution or similar occurrences in the debtor's country (claim payment after six months).

c. Funds are not received because of natural or other catastrophes such as tidal waves, hurricanes, floods, earthquakes or volcanic eruptions (claim payment after six months).

d. Goods are expropriated, destroyed or damaged between shipment and delivery due to political events, and restitution and/or repairs have not been made within six months of maturity of the debt (claim payment after six months).

e. Losses are sustained as a result of interrupting work or recovering goods by the exporter in order to avoid a latent political risk (claim payment after six months).

D. Special Policy Endorsements

Additional risks can be covered by special policy conditions, with the waiting period set on a case by case basis. These additional risks include coverage for loss incurred because of a decision by the Brazilian or foreign government which prevents export of products or services for which contracts have been executed.

Also, coverage can be granted for public buyers or for transactions guaranteed by public buyers.

Consignment coverage for the risk that merchandise used at trade fairs, exhibitions or similar events can not be reexported is also available by addition of a special condition.

As is the case with the short term commercial risk policy, payment by cash in advance, transactions under confirmed irrevocable letters of credit, contract disputes and illegal exports are excluded from coverage.

The insurer reserves the right to suspend coverage in any country on future transactions or to increase the premium rate. If the increased premium rate is unacceptable to the exporter, the exporter can decline coverage in that country.

E. Premiums

Premiums for political risk cover are based on a country limitation schedule, which is included in the Particular Conditions to each policy. Countries are classified A, B, C or D risk categories, with A referring to good risks, B to average risks and C to fair risks. The regulations do not specifically refer to the D category. The D classification refers to poor risks and the premium rate is a 50% increase over the C country rates. The criteria for determining rates for different country risk classifications for political risk purposes, according to the implementing regulations, is the economic-financial situation, the social-political situation and the probability for catastrophe to occur. The classifications are primarily determined by input from CACEX. The current country limitation schedule has been in effect for about two years. No specific policy is in place for reviewing it on a regular basis. Changes are made case by case on request of management or in response to specific events. The current country limitation schedule is shown as Attachment C.

For commercial risk, three categories of basic rates also exist which refer to good, average and fair risks. Commercial risk premium rates are based on the nature of the goods, the nature of the activities of the buyer, the guarantees offered by the importer and the volume of the exporter's credit sales. Most exporters initially are charged the B rate. If experience is good, the exporter is upgraded to the A rate, and if there are problems including multiple claims, the premium scale can be down-graded to C which is the highest rate.

If both political risk and commercial risk coverage are provided, the applicable political risk and commercial risk premiums are added together.

Premium rates have never been changed since inception. However, actual application of the premium rates has been flexible, with rates being negotiated to meet Government objectives of assisting certain export industries or to penetrate certain markets. Apparently, insurance has even been provided at no cost.

A specific short term premium rate is set for each risk category and by tenor of payment obligation, as shown in the matrix, Table 12. Different rates apply for transactions up to 90 days, from 90 up to 120 days, from 120 days to 150 days and from 150 days to 180 days.

TABLE 12 POLITICAL AND COMMERCIAL RISK SHORT TERM PREMIUM RATES						
DAYS	POLITICAL RISK			COMMERCIAL RISK		
	A	B	B	A	B	C
To 90	0.09	0.18	0.27	0.24	0.30	0.36
90 to 120	0.12	0.24	0.36	0.32	0.40	0.48
120 to 150	0.15	0.30	0.45	0.40	0.50	0.60
150 to 180	0.18	0.36	0.54	0.48	0.60	0.72

The premium rates for terms over 180 days are calculated by formula which takes into account the duration of the credit and the frequency of payment, as well as the risk classification.

The formula is the following:

$$T=t_b\cdot\frac{(n_p+n_v)}{2}$$

Where:

T = premium rate
t_b = basic monthly premium rate
n_p = number of months of the credit
n_v = number of months between payments

The coefficient related to the tenor of payment has been calculated for the more common tenors of payments. This is then multiplied by the basic monthly premium rate for each of the three country classifications. The basic monthly rates for commercial risk are 0.08 in the A classification, 0.10 in B and 0.12 in C. The political risk rates applied are somewhat lower at 0.03 in A markets, 0.06 in B markets and 0.09 in C markets.

Table 13 shows the range of premiums for semi-annual payments for periods ranging from one to five years.

TABLE 13

POLITICAL AND COMMERCIAL RISK MEDIUM TERM PREMIUM RATES

MONTHS	POLITICAL RISK			COMMERCIAL RISK		
	A	B	B	A	B	C
6	0.18	0.36	0.54	0.48	0.60	0.72
12	0.27	0.54	0.81	0.72	0.90	1.08
18	0.36	0.72	1.08	0.96	1.20	1.44
24	0.45	0.90	1.35	1.20	1.50	1.80
30	0.54	1.08	1.62	1.44	1.80	2.16
36	0.63	1.26	1.89	1.68	2.10	2.52
48	0.81	1.62	2.43	2.16	2.70	3.24
60	0.99	1.98	2.97	2.64	3.30	3.96

Premiums for coverage of contract cancellation during the manufacturing period are 50% of the normal premium. In addition, discounts on premiums are given for more secure payment terms of cash against documents and for confirmed irrevocable letters of credit, or credits guaranteed by major foreign banks or major foreign firms. The discounts for medium term transactions reach a maximum of 16% of the normal premium for five year terms. The discounts are shown in Table 14.

TABLE 14 PREMIUM DISCOUNTS	
COVERAGE	DISCOUNT
SHORT TERM	
CONTRACT COVER	50%
CASH AGAINST DOCUMENTS	50%
CONFIRMED IRREVOCABLE L/CS	80%
MAJOR FOREIGN BANK GUARANTEE	70%
MAJOR FOREIGN COMPANY GUARANTEE	40%
MEDIUM TERM - IL/C, GUARANTEES	
18 MONTHS	2%
24 MONTHS	4%
30 MONTHS	6%
36 MONTHS	8%
42 MONTHS	10%
48 MONTHS	12%
54 MONTHS	14%
60 MONTHS	16%

For additional coverage on public buyers on a political risk policy, a maximum of 50% is added to the basic rate. The normal discount percentages for more secure terms, as shown in Table 14, apply also to this additional premium.

Discounts have also been negotiated for particular products, e.g. ships. For Commercial Risk Insurance, up to 10% of the premium may be paid as commissions to duly registered brokers.

As noted previously, premium rates are generally not considered too high by exporters. However, they are too high in their opinion relative to the current value of the policies, i.e confidence that claims could and would be paid quickly.

F. Bond Insurance

Until 1987, IRB offered bond insurance covering bids, advances and performance. Following losses experienced (particularly in the Middle East) and other problems of IRB on the international insurance market (unrelated to export credit insurance), IRB stopped actively offering bond insurance. Banco do Brasil, through CACEX, took over the role of offering bond insurance. Some bond insurance policies still remain in force.

G. Global Insurance

Apparently this whole turnover risk policy was offered until a couple of years ago. This is no longer an active product, but losses continue to be registered from prior insurance commitments.

H. Working Capital Guarantee

This policy designed to protect commercial banks against pre-shipment financing risk is not currently active, apparently due to the lack of interest by the commercial banks.

I. Export Credit Insurance Procedures

1. Role of Insurance Companies and Marketing

Brazilian export credit insurance policies are issued by individual insurance companies, after IRB has agreed to political risk or commercial risk reinsurance coverage. Virtually all communication about export credit insurance occurs between the exporter and the insurance company. IRB does no marketing, although in the past some informational booklets were produced and some seminars held for exporters and banks. The programs now are totally dependent on the insurance companies for soliciting new business from exporters. Insurance companies state, and IRB confirms, that the export credit insurance business is not considered particularly profitable. It is offered only to complement the other insurance business made available to the insurance company's clients.

The insurance companies generally market export credit insurance through their field offices and branches, along with domestic credit and transport insurance. Much of the export credit insurance business results from referrals from the affiliated banks, rather than as an adjunct to other insurance offered. Because export credit insurance is a specialized product that is not well understood, field/branch offices really do not have the expertise to sell and service this insurance. As a result, the head office must provide substantial support, and marketing is concentrated on the insurance company's most important, and usually the largest, clients. No comprehensive marketing of export credit insurance to a wide range of exporters occurs in Brazil at this time. Bankers, exporters and trade association representatives repeatedly stated that Brazilian exporters generally did not know about export credit insurance and the IRB programs. Small and medium-sized exporters, in particular, were thought to have little knowledge of the programs.

Insurance companies note that premium income from export credit insurance has been modest and losses significant, particularly in Latin America (e.g. Venezuela and Peru) and Africa (Nigeria). While the insurance companies were not participating in covering political risk which resulted from these countries' debt payment problems, they observed that commercial risk losses seemed to occur together with political losses.

2. Issuing Exporter Policies

Exporters make written application for export credit insurance to their insurance companies. The insurance companies then file the application with IRB. The basic application forms are found in Attachment D.

The political and extraordinary risks application requests general information on the company and requires that exporters submit information of foreign credit sales including types of products, type and numbers of clients, countries and sales terms for the last year. Details are requested on uncollected foreign receivables. The exporters are asked to estimate sales for the next year, indicating the type of sale, countries, the maximum credit to any one foreign buyer, the number of transactions expected above US$1,000,000 and when the first insured shipment is expected. The exporter also supplies information on the types of credit information collected and guarantees obtained from foreign buyers.

For commercial risk, exporters also make request for credit limits on specific foreign buyers. Credit limits for foreign buyers are set when the exporter's initial application is underwritten. Application is made subsequently for adding other credit limits.

Generally, a summary analysis is made of the exporter concentrating on a brief credit profile (amount of assets, liabilities and net worth) and IRB loss experience. For commercial risk, one of three premium schedules, covering various credit terms, is applied. (See section on premiums in Chapter VI.) An exporter policy normally is written for one year. When considering renewal and what premium schedule to apply, IRB considers its loss experience and may check whether or not the exporter has declared all shipments under the whole turnover requirements of the policy. Declared shipments are checked by asking the exporter to supply information on all export sales against which the declared shipments and premium paid are matched.

3. Underwriting Country Risk

IRB technically sets its own country limitation schedule. In the past it has relied almost exclusively on the country risk group in CACEX, but IRB is now doing its own analysis based not only on CACEX information, but also on information collected from various publications, embassies, studies, etc.

IRB political and extraordinary risk policyholders can ship to A and B rated countries and have coverage without informing IRB, as long as premium is paid. There are no country limits imposed in any markets, but IRB's approval must be obtained for all C and D rated countries prior to shipment in order to have coverage. Exporters indicate that requests are often denied, only small amounts are authorized, or letters of credit are required for sales to C and D rated countries (mainly Africa and parts of Latin America). If a C or D market transaction takes place in the context of the Convenio or under a prime bank letter of credit or guarantee, no prior consultation with IRB is required.

IRB approvals are done under a system of delegated authority where the head of the Export Credit Insurance Division can approve up to US$500,000 and the head of the IRB Guarantee and Insurance Division can approve up to $1,000,000. For amounts over US$1,000,000 decisions are made by a committee made up of the president of IRB and two division heads.

3. Underwriting Foreign Buyer Credit Limits

When applying for a credit limit, exporters provide credit information on their foreign buyers. If IRB requires additional information on a buyer, the exporter is requested to obtain it or is charged by IRB for the cost of obtaining the information.

At IRB, the Export Credit Insurance Division (DICRE) which is responsible for the export credit insurance programs does not do its own analysis of foreign buyers, but must rely on IRB's Credit Department to analyze the credit and make recommendations. The analysis is typically very brief and depends primarily on information supplied by the exporters. Several bankers and exporters noted a lack of credit analysis skills at the IRB Credit Department. Apparently the Credit Department has had no training specifically for analyzing foreign credit risks. DICRE also does not have staff experienced in export credit analysis.

DICRE adds its approval to the recommendation and issues the credit limit. Credit limits are normally issued for one year and renewed when the exporter's policy is renewed.

4. Record-keeping

Policies and endorsements to policies are generated by the computer, as are premium calculations based on shipments declared by exporters.

IRB maintains a file for each exporter that has an export credit insurance policy. No separate files are maintained on foreign buyers. As a result, IRB has information to determine how much insurance has been granted to any one exporter and to each of that exporter's clients. However, potential exposure when two or more insureds export to the same buyer is not available using the current record-keeping system.

The IRB accounting system is used to account for premium income and claims payments. DICRE itself is developing computer-based systems to provide information on country exposure, experience with individual exporters, etc. However, the lack of comprehensive management information systems which provide information on credit limits and insured transactions means that currently IRB cannot determine the risk exposure on its insurance portfolio with respect to individual foreign buyers, countries, sectors or terms.

A basic statement summarizing premium income and claims payments is prepared annually. This statement also shows results for Consorcio and Federal Government risk separately, as well as tabulating results for each of the programs. No other reports are prepared regularly.

5. Administration

As indicated in Chapter VI in the section on premiums, IRB receives a portion of premiums from each of the different insurance policies as compensation for administering those policies. Apparently IRB does not account for the costs of administering the export credit insurance program, such as salaries, employee benefits, office rent, equipment and supplies, credit reports, communications, accounting, etc. separately from its overall activities. Therefore, no information is available on the cost of operating the programs with which to determine whether the administrative fees received are adequate to cover the costs of operation.

VII. EXPORT CREDIT INSURANCE - IRB PROGRAM ACTIVITY

A. Value of Exports Insured

Table 15 shows the value of exports insured under the IRB political and commercial risk policies for the last three years, the only years for which figures are readily available. The actual amount of exports supported cannot be ascertained because many of the exporters insure the same sales under two policies for both political and commercial risks. Sales to affiliated companies are also often covered for political risk depending on the countries involved. All statistics regarding export credit insurance activity are based on information supplied by IRB.

As the table shows, however, the largest percent of exports covered during the past three years was six percent for political risk in 1987. Both in value and in percentage terms, export credit insurance activity is declining, while Brazilian exports continue to increase. IRB staff noted that in earlier years more than 10% of exports were insured.

Statistics on the actual amount of risk exposure, i.e. outstanding insured transactions, also are not calculated regularly. Records appear to be kept as to shipments declared and premiums paid, but breakdowns of outstanding insurance by term of the credit, country of the foreign buyer and product are not routinely available. There are no limits set on exposure to each country.

As can be seen in Table 15, political risk coverage has totaled three to six times the amount of commercial risk insurance underwritten. This indicates clearly that political risk insurance is the primary export credit insurance program.

TABLE 15

VALUE OF EXPORTS INSURED
(US$ millions)

YEAR	POLITICAL RISK	COMMERCIAL RISK	TOTAL EXPORTS	% OF EXPORTS INSURED	
				POLITICAL	COMMERCIAL
1987	1,559.5	269.7	26,223.9	6.0%	1.0%
1988	1,301.5	350.2	33,789.4	3.9%	1.0%
1989	647.9	198.0	34,391.8	1.9%	0.6%

From the comments of exporters, political risk insurance coverage is used often to lessen risk associated with countries taking actions restricting payments in hard currency while goods are being shipped, but prior to payment under a sight letter of credit. In order to obtain coverage for countries with perceived potential payment difficulties, some exporters have been willing to cover all export sales, including large portions of their total sales volume that is shipped to the United States and other industrialized countries where little political risk exists.

The volume of political risk insurance declined precipitously by about 50% in 1989 and more modestly in the previous year. Commercial risk insurance also decreased sharply in 1989, but increased in 1988. During the same time, Brazilian exports continued to grow each year. The decline in business underwritten would appear to be a function of fewer exporters presenting business for coverage. Several exporters with whom discussions were held indicated that they had terminated insurance or were considering doing so because the perceived benefits of the IRB program were not sufficient to compensate for the premium costs. The expense to exporters of pursuing claims and the long delays in receiving compensation were repeatedly cited as the main reasons for dissatisfaction with the IRB programs.

B. Destination of Insured Exports

Table 16 shows the main destinations of exports insured for political and commercial risk in each of the last three years, and Table 17 shows the concentrations in percentage terms for 1989 relative to total Brazilian exports. Exports insured in 1989 by country is detailed in Attachment E. Exports to the United States represent the highest concentration of insured sales to an industrialized market. About 22-23% of political and commercial risk insurance covers sales to the United States. This is almost the same percentage as exports to the United States are to total Brazilian exports.

TABLE 16

VALUE OF EXPORTS INSURED BY COUNTRY, 1987-89
(US$ millions)

COUNTRY	POLITICAL RISK			COMMERCIAL RISK		
	1987	1988	1989	1987	1988	1989
E.U. (USA)	331.6	181.1	152.8	46.3	56.6	40.4
Angola	3.9	0.1	78.4	0.0	0.2	0.1
Chile	68.0	69.7	50.5	49.0	64.5	38.7
Suecia (Sweden)	27.6	20.0	44.3	2.3	0.4	0.1
Alemanha Ocid.(FRG)	25.8	39.0	43.6	7.8	12.4	8.0
Argentina	140.2	63.1	43.0	33.3	35.8	27.2
Suica (Switz.)	423.5	313.2	32.2	12.2	38.2	7.4
Uruquai	46.5	36.2	24.7	17.5	18.8	12.1
Reino Unido (UK)	12.2	21.5	18.7	8.8	15.1	8.3
Colombia	9.5	11.0	17.5	3.9	8.5	3.2
Franca	5.1	20.8	13.8	1.9	2.3	0.9
Japao	11.5	25.1	12.8	4.1	14.7	3.6
Australia	10.5	10.5	9.5	6.8	5.4	2.1
Peru	41.0	48.6	8.0	20.5	5.7	1.2
Canada	54.1	30.7	7.1	5.2	4.9	3.0
All Others	348.5	410.9	91.0	50.1	66.7	41.7
TOTAL	1,559.5	1,301.5	647.9	269.7	350.2	198.0

TABLE 17 BRAZILIAN EXPORTS AND INSURED EXPORTS BY COUNTRY RATING AND TEN LARGEST INSURANCE MARKETS, 1989, IN PERCENT				
COUNTRY	RATING	POLITICAL	COMMERCIAL	TOT.EXPORTS
Estados Unidos	A	23.6%	20.4%	22.9%
Angola	D	12.1%		0.3%
Chile	D	7.8%	19.6%	2.0%
Suecia	A	6.8%		0.5%
Alemanha Ociden.	A	6.7%	4.0%	4.6%
Argentina	D	6.6%	13.7%	2.0%
Suica	A	5.0%	3.7%	0.6%
Uruquai	D	3.8%	6.1%	1.0%
Reino Unido	A	2.9%	4.2%	3.0%
Colombia	C	2.7%		0.6%
Bolivia	D		2.1%	0.7%
Guatemala	D		2.0%	0.1%
Japao	A		1.8%	6.7%
All Others		22.0%	22.4%	55%
TOTAL		100.0%	100.0%	100%

Insurance coverage is concentrated in country markets rated A and D, with the A markets in North America, Europe and Japan, and the D markets primarily in Latin America and Africa (Angola 1989 only). In 1989, 45% of political risk coverage and 34% of commercial risk coverage was concentrated in five A markets. In the same year, four countries in D markets accounted for 30% of political risk covered and five countries accounted for about 44% of commercial risk underwritten in D markets. Exports to ALADI countries totaled over US$3.5 billion in 1989 or about 10% of all Brazilian exports. Insurance coverage was somewhat more concentrated in these countries with about 25% of political risk coverage and 48% of commercial risk coverage being written for the ALADI countries. This would seem logical in that under the Convenios credit sales are Brazilian risk rather than foreign risk which would necessitate political risk cover. However, for export sales without a Letter of Credit there is a commercial risk that the exporter will not make local currency payment so that clearance can occur under the Convenio.

The amounts and percentages of business insured for a number of the other major markets have varied from year to year. With few exceptions (Angola, Sweden, West Germany, Colombia), political risk insurance coverage declined in the largest 15 markets, and commercial risk business written declined in all major markets in 1989. Other than the United States, no concentrations have consistently been registered over the past three years. For example, in 1987 and 1988, exports to Switzerland accounted for over 20% of transactions covered under political risk insurance versus about 5% in 1989, and Angola represented over 12% in 1989 compared to less than one percent in each of the prior two years. This variation suggests that the risk exposure in the portfolio is a function of the exporters that have policies in any one year and of large transactions are covered which occur from time to time rather than on a regular basis from year to year. The Angola transactions in 1989 were special situations where coverage was extended from time of shipment to acceptance of the drafts, at which time the drafts were sold.

The exact number of foreign buyers that are being actively insured is not available, but it is estimated that approximately 870 have been covered between 1987 and mid-1990. However; based on the number of credit limits approved and renewed in 1989 for commercial risk insurance, it would appear that exporters present very few buyers for commercial coverage. Only 78 credit limits were underwritten in 1989, 25 of which were new limits, 36 were renewals of existing limits, eight were increases, five were denials and four were reductions in coverage. Considering that 86 exporters declared shipments and paid premium in 1989 on commercial risk policies, this would suggest that exporters not only submit few foreign buyers for coverage, but that risk is also concentrated in a small number of foreign buyers to whom repetitive sales are made.

C. Tenor of Insured Export Transactions

By far the largest number of insured transactions occurs on terms of under one year, as shown in Table 18. Based on comments by banks, exporters, and current government regulations, a very high percentage of all transactions occur on very short terms.

TABLE 18

TENOR OF EXPORT TRANSACTIONS INSURED, NUMBER AND VALUE, 1 January 1987 - 5 July 1988 (US$ millions)

TENOR OF TRANS-ACTION	POLITICAL RISK		COMMERCIAL RISK	
	NO. OF TRANS.	VALUE OF TRANS.	NO. OF TRANS.	VALUE OF TRANS.
to 1 year	16,582	850.1	8,261	199.2
to 2 years	426	156.6	178	19.5
to 3 years	134	28.1	46	4.9
to 4 years	193	431.9	57	8.5
to 5 years	226	113.8	12	3.6
to 6 years	26	12.9	3	2.6
to 7 years	6	2.0		
to 8 years	38	77.0		
Total	17,631	1,672.3	8,557	238.3

In terms of value of transactions insured, medium and long term political risk coverage almost equaled short term coverage in the period. The number of medium and long term transactions is significantly smaller, however, suggesting that these transactions are larger than the short term ones. To be able to evaluate the impact on IRB risk exposure of this apparent variance in size and term, statistics for a longer period and by country would need to be analyzed. These statistics are not currently available.

D. Export Products Insured

IRB does not maintain statistics on the products which are covered under export credit insurance. However, by looking at the major products of the companies which insure the most under the programs, a general idea of the products can be obtained, as shown in Table 19.

TABLE 19

MAJOR PRODUCTS EXPORTED BY LARGEST USERS OF IRB INSURANCE, 1989

PRODUCTS	NO. OF EXPORTERS	
	POLITICAL RISK	COMMERCIAL RISK
Machine Tools		1
Heavy Machinery		1
Trucks	2	2
Agricultural Equipment	1	1
Buses, Engines	1	1
Synthetic Fibers		1
Chemicals		3
Appliances		1
Construction Equipment	2	
Automotive Parts	3	
Electrical Equipment	1	
Public Sector	1	

Almost all of IRB's main policyholders are manufacturers, with concentrations in capital equipment, machinery, automotive and chemical products. None of the major policyholders is an exporter of basic goods.

Many of the users of IRB insurance, including over half of the largest policyholders, are the Brazilian affiliates of non-Brazilian firms (primarily from Europe and the United States).

E. Exporter Policies

The number of policies issued to exporters has varied from year to year. A total of 150 companies have had commercial risk policies in the period 1986-1989. However, only eighty-six companies declared shipments and paid premium under commercial risk policies in 1989. During the January 1897-April 1990 period a total of 184 companies had political and extraordinary policies, while only one hundred and six companies insured their exports for these risks in 1989.

A small number of companies represent a large proportion of IRB's business. IRB's ten largest clients reported export shipments totaling 73% of the US$198 million in shipments insured by IRB under commercial risk policies in 1989. Forty firms insured exports of less than US$500,000, and 57 companies (66%) insured less than US$1 million each. Most insureds are multinational companies, and only a few are Brazilian public companies.

The ten companies which insured the largest amounts of exports in 1989 declared shipments of US$470.2 million or 73% of the total $647.5 million in exports insured by IRB under political risk policies. Fifty-six of the policy holders, or 53%, insured less than US$1 million for political risk.

Eighty companies insured exports for both political and commercial risks. No statistics are available as to the value of shipments which were covered by both political and commercial risk insurance. Only four companies are among the top ten users of both political and commercial risk insurance, and three of the four insured more exports for political risk than commercial risk.

Exporters report that whole turnover would be acceptable for good insurance coverage, but they believed it should be enforced for all policyholders so as to strengthen the IRB portfolio of risks. By increasing the volume of premiums by having whole turnover from more exporters, the export credit insurance program would be more solvent and credible. Some exporters also suggested that they would be willing to accept a lower percentage of cover in high risk markets (e.g. 60%) and maintain 90% in low risk markets, in order to have some political risk insurance for C and D markets.

VIII. EXPORT CREDIT INSURANCE - CLAIMS

A. Claims Operating Results

As can be seen in Table 20, export credit insurance claims have totaled almost US$250 million since inception of the program. Claims paid have been decreasing by over 50% in each of the past three years. However, it should be noted that for the Consorcio alone large amounts of claims have been filed which are still pending and for which specific reserves have not yet been made. These "sinistros a liquidar" totaled US$59.1 million at year-end 1987, US$80 million in 1988 and US$57.7 million at December 1989.

TABLE 20

TOTAL CLAIMS, 1968-1989
(US$ 000s)

	1968-86	1987	1988	1989	Total
Political Risk	67,032	(1,638)	2,112	417	67,923
Comm'l Risk					
Consortium	72,723	24,962	6,913	5,050	109,648
(Govt.Cons.)	(33,459)*	(21,842)	(6,049)	(4,419)	(65,769)
Govt.Compl.	27,104	8,371	487	54	36,016
Govt.Global	12,556	325	160	476	13,517
Govt.Bond	2,419	0	0	0	2,419
Govt.Fin/Pro	15,045	0	4,762	0	19,807
Total Comm'l	114,802	33,658	12,322	558	181,407
Total	181,834	32,020	14,434	6,025	249,330

* Government portion of consortium claims is only available for 7/84-12/89. Actual Government share of consortium losses could total as much as US$95.9 million or 87.5% of total consortium losses for the 1968-89 period.

Over 70% of payments related to claims under commercial risk policies. However, 40% of those commercial claims were for Federal Government risk, as the Federal Government complementary coverage to the consortium commercial risk coverage or related to the Bond, Global and Working Capital policies.

Most of the political risk claims occurred from 1979 through 1983 reflecting the problems associated with the debt payment problems in developing countries. About 60% of the political risk claims occurred in 1979 and 1983, with about US$ 20 million paid in each year. Most of the Consorcio commercial risk claims were paid in the 1982-87 period, with about US$26 million paid each year in 1986 and in 1987. Over 80% of Global Policy claims occurred in a single year (US$11.2 million in 1980), and the bond insurance only shows an unrecovered loss in 1984. Apparently some substantial bond insurance losses related to the Middle East and shipbuilding were subsequently assumed by the Federal Government directly and not shown on the export credit insurance accounting as Federal Government risk.

Most of the claims in the past were due to losses associated with IRB insuring buyers under Resolution 68 financing where there is no recourse on the exporter. Because of the willingness of CACEX to finance medium term transactions where insurance was required, IRB was in effect obliged to accept this risk. The best transactions tend to be financed overseas or with recourse to the exporter, leaving IRB with the less strong credits to insure.

In 1988, a total of 133 claims were paid, compared to 89 in 1989. With almost all being paid for Consorcio commercial risk and for political risk, as noted in Table 21.

TABLE 21

NUMBER OF CLAIMS PAID, 1988-1989

POLICY	1988	1989	TOTAL
POLITICAL RISK	40	35	75
CONSORCIO	74	40	114
COMPLEMENTARY	10	3	13
CONTRACT	0	0	0
FIN/PROD	4	4	8
GLOBAL	5	7	12
TOTAL	133	89	222

Net claims which take into account claims expenses and recoveries are presented in Table 22 for Consorcio commercial risk. Recoveries have been insignificant relative to claims paid. This is common for commercial risk insurance generally and would be expected under the Brazilian export credit insurance scheme where claims are paid when the foreign buyer is determined to be insolvent, at which time little opportunity for recovery typically exists.

TABLE 22 NET CONSORTIUM COMMERCIAL RISK CLAIMS, 1985-89 (US $ MILLIONS)				
YEAR	CLAIMS PAID	CLAIM EXPENSES	RECOVERIES	NET CLAIMS
1985	(11.6)	0	0	(1.6)
1986	(26.3)	0	0	(26.3)
1987	(26.0)	0	.3	(25.7)
1988	(7.3)	(0.1)	.3	(7.1)
1989	(5.7)	(0.1)	.7	(5.1)
Total 85-89	(76.9)	(0.2)	1.3	(75.8)

Larger recoveries have been achieved under political risk, as shown in Table 23, with about 30% of claims paid being recovered in the 1985-1989 period. As with the Consorcio commercial risk claims, only very modest recoveries have occurred with respect to the commercial risk claims from the bond, working capital and global policies.

TABLE 23 NET POLITICAL RISK AND OTHER GOVERNMENT CLAIMS, 1985-89 (US $ MILLIONS)							
YEAR	POLITICAL RISK			OTHER GOVERNMENT RISK			TOTAL CLAIMS
	CLAIMS PAID	RECOV-ERIES	NET CLAIMS	CLAIMS PAID	RECOV-ERIES	NET CLAIMS	
1985	(2.1)	0	(2.1)	(7.4)		(7.4)	(9.5)
1986	(9.1)	0	(9.1)	(8.3)		(8.3)	(17.4)
1987	(3.9)	5.6	1.7	(8.7)		(8.7)	(7.0)
1988	(7.8)	.9	(6.9)	(0.7)	0.1	(0.6)	(7.5)
1989	(1.5)	1.1	(0.4)	(0.5)		(0.5)	(0.9)
Total	(24.4)	7.6	(16.8)	(25.6)	0.1	(25.5)	(42.3)

The number of claims on which recoveries are realized in modest as shown in Table 24. Political Risk and Consorcio policies again represent the areas with the largest number of recoveries.

TABLE 24

NUMBER OF RECOVERIES, 1988-1989

POLICY	1988	1989	TOTAL
POLITICAL RISK	25	20	45
CONSORCIO	12	14	26
COMPLEMENTARY	1	0	1
CONTRACT	0	0	0
FIN/PROD	0	0	0
GLOBAL	2	1	3
TOTAL	40	35	75

B. Claims Procedures

To submit a claim, an exporter must have reported the payment overdue and filed a claim within 180 days from the due date. The exporter submits information to complete a form which forms the basis for subsequent disposition of the claim. The four page form has thirteen pages of instructions as to how it is to be completed. Exporters repeatedly referred to the amount of information that IRB required in order to process a claim. Additional, more detailed information was routinely requested. Exporters characterized the information requests as excessive and in many instances irrelevant to the situation and often impossible to obtain under the legal system in the defaulting buyer's country. The claim statement form and instructions are shown as Attachment F.

As noted in Chapter VI on Programs, the insurance policies require that the exporter undertake certain collection efforts in order for a claim to be considered for payment. At a minimum, this means that the exporter must protest the unpaid obligations. While in most countries this legally establishes the exporter's right to payment, it may also exacerbate the buyer's financial difficulties, causing a bankruptcy filing. Most international credit insurers and company export credit managers would agree that circumstances exist where attempts to work with the buyer to obtain payment may yield better results than legal action that precipitates an insolvency. The IRB commercial risk insurance policy makes it difficult for an exporter to try any other solution than legal, court action without jeopardizing the right to claim under IRB insurance. Exporters report also that IRB insists on legal measures being taken.

To establish the right to indemnification for a loss the exporter must take certain legal actions. This is often a very lengthy process, and very costly. All the expenses of pursuing collection and establishing the exporter's legal right to payment from an insolvent buyer must be paid by the exporter. Only when the claim is paid by IRB is the exporter entitled to payment of a portion of the legal expenses by IRB.

The policy also requires that exporters obtain IRB's concurrence before taking specific legal actions or making any agreements with the defaulting buyer or other creditors. Exporters report that this requirement causes delays and that IRB can be slow to respond or is uninformed about business practices and legal systems in different countries. Some exporters and bankers stated that the cost of pursuing full payment of a claim under an IRB policy was not cost effective. As a result, some exporters choose not to try to collect the full value of the claim to which they are entitled, and only receive the 70% advance on the claim preferring to absorb the 30% loss in addition to their initial loss retention.

C. Claims Experience of Exporters and Banks

None of the banks interviewed had ever had an IRB export credit insurance policy. Several banks had clients who have IRB policies. The IRB insurance, however, did not affect the banks' decisions on financing. The banks surveyed stated that, in their view, IRB export credit insurance did not constitute acceptable collateral security and that, therefore, export transactions bearing IRB export credit insurance were financed with recourse to the exporter. In general, the banks felt that IRB has unclear decision guidelines, overly bureaucratic procedures and excessive documentation requirements. The major reason the IRB export credit insurance lacks credibility with the banks appears to derive primarily from the experience of the banks' clients, which have had long delays in obtaining claim settlements from IRB, particularly for commercial risks. The banks also stated that IRB's whole turnover policy and high cost of export credit insurance are further barriers to any bank and many exporters using the programs.

Several exporters noted that it was their understanding that one reason for the delay in claims payments had been lack of resources for payment. This apparently occurred several years ago with respect to large Mexican claims. Exporters' perceptions that IRB does not have resources result in lack of confidence in the export credit insurance policies. Among policyholders, delays in payment of claims, high cost of pursuing legal action in foreign countries to satisfy IRB, and inadequate knowledge and understanding of international credit and legal systems are problems that make export credit insurance unattractive.

Exporters and trade association representatives repeatedly expressed the opinion that payment should be made for protracted default on a similar basis to other countries' export credit insurance programs. The German (Hermes), French (COFACE) and

British (ECGD) programs were mentioned in this regard. Also, the persons interviewed advocated IRB taking over the collection actions from exporters once a claim's payment was made under protracted default coverage. Also suggested were funding to ensure that IRB has sufficient resources in order to pay claims expeditiously.

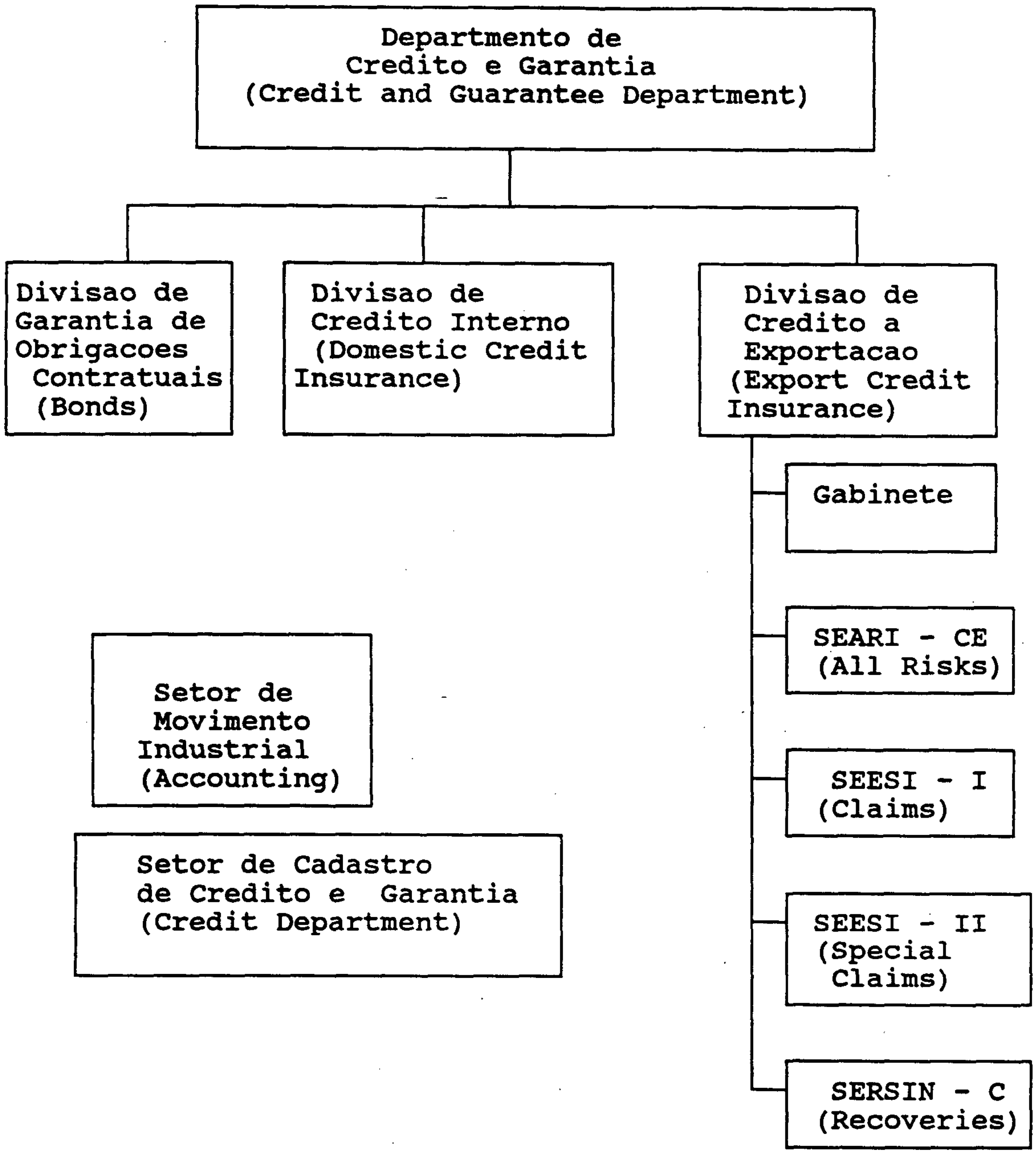
IX. EXPORT CREDIT INSURANCE - ORGANIZATIONAL STRUCTURE

The Brazilian export credit insurance program is operated as a division of the Credit and Guarantee Department of IRB. Also within the Credit and Guarantee Department is the Contract Guarantee Division which provides various types of bonding insurance including bid, performance, advance and retention bonds. A third division, the Internal Credit Division, handles domestic credit insurance.

The Export Credit Division (DICRE) reports to the Head of the Credit and Guarantee Department. The staff of the Export Credit Division is small, with a total of 24 persons. The organizational structure is shown in Table 21 below. The DICRE is led by the Division chief who has a seven person support staff (Gabinete), composed of four technicians, two management information systems (MIS) persons and a secretary. A four person section (SEARI-CE) handles all export credit insurance policies, for both commercial and political risk. Two sections handle claims. One five person section (SEESI -I) is in charge of routine claims, while a second section (SEESI - II) deals with several large special cases (currently Saab Scania, ships, and Banco do Brasil claims). Three people deal with recoveries (SERSIN-CE).

TABLE 25

DICRE ORGANIZATION CHART



Other Departments provide accounting and underwriting and file maintenance services for each of the three Divisions in the Export Credit and Guarantee Department, including DICRE. This means that the accounting systems established for IRB's general operations are also used for export credit insurance. As a result, the system does not meet the particular information needs for export credit insurance. DICRE has in the past two years been developing its own computerized tracking system, using PCs, to attempt to deal with this problem.

The underwriting of credit limits for foreign buyers takes place in the Credit Section (Setor de Cadastro de Credito e Garantia), and is not a direct responsibility of DICRE. DICRE staff are not skilled and have not been trained in export credit insurance underwriting.

In addition to the staff in Rio, six people operate from IRB's offices in Sao Paulo. This office deals with all functions except underwriting buyer credit limits and handling claims. There are no other branch offices. The insurance companies which are members of the Consortium serve as the marketing arm for the IRB export credit insurance program throughout Brazil.

The staff of DICRE have typically been working with IRB for 10 or more years.

In terms of equipment, IRB provides overall accounting and record-keeping services for DICRE, using its IBM 3090/15J mainframe. In DICRE itself, there are four IBM compatible XT PCs, using Lotus, DBase III and a word processing program. Apparently, DICRE is able to input information to the mainframe computer, but is unable to access the mainframe information directly. One person in DICRE who is skilled in computer systems has been developing a data base over the past two years that enables DICRE to track the volume of business insured by exporter and country, and the premiums paid by exporter and country. At the present time, the system does not identify products insured, nor does it calculate outstanding exposure by buyer, country or exporter.

X. EXPORT CREDIT INSURANCE - FINANCIAL RESULTS

A. Premium Income

Table 26 summarizes the premium income for the past three years and cumulative totals for the 1968 to 1989 period. Political risk premiums greatly exceeded commercial risk premiums, on both an annual and cumulative basis.

TABLE 26

TOTAL PREMIUMS, 1968-1989
(US$ 000s)

	1968-86	**1987**	**1988**	**1989**	Total
Political Risk	100,287	6,843	2,603	4,794	114,527
Commercial Risk					
Consortium	32,334	734	998	787	34,853
(Govt.Consor)	(2,387)*	(642)	(873)	(689)	(4,591)
Govt.Complem.	23,323	42	(209)	19	23,175
Govt.Global	8,431	201	0	0	8,632
Govt.Bond	26,370	894	1,525	2,299	31,088
Govt.Fin/Prod	10,254	652	0	48	10,954
Total Comm'l	**100,712**	**2,523**	**2,314**	**3,153**	**108,702**
Total	200,999	9,366	6,204	7,947	23,229

* Government portion of consortium premium is only available for 7/84-12/89. Actual Government share of consortium premium could total as much as US$30.5 million or 87.5% of total consortium premium for the 1968-89 period.

Premium income in 1988 declined sharply, in particular political risk premiums. In the 22 year period, premiums totaled over US$220 million, or an average of over US$10 million per year. Total premium in each of the past three years was less than the average indicating a declining trend. This reduction in volume is attributed to modest growth in exports plus the smaller number of exporters choosing to actively use export credit insurance.

By far the largest share of premiums represents Government risk as is shown in Table 27. This table does not include the Government share of the Consorcio premium income, which totaled US$4.6 million in the 7/84-12/89 period.

TABLE 27

PREMIUMS, GOVERNMENT RISK, 1968-1989
(US $ 000s)

PERIOD	POL. RISK	COM. RISK COMPL.	COM. RISK GLOBAL	BONDS	COM.FIN & PROD.	TOTAL
1968-1979	13,964	4,568	884	0	1,483	21,001
1979	8,648	710	0	2,084	1,255	12,697
1980	10,364	1,831	1,693	3,291	2,685	19,863
1981	12,341	2,433	1,213	3,745	1,013	20,746
1982	16,186	7,245	828	6,363	118	30,740
1983	9,683	3,089	921	2,828	596	17,118
1984	12,289	2,748	244	2,765	613	18,558
1985	10,193	514	0	3,480	1,056	15,242
1986	6,619	185	268	1,814	1,435	10,321
1987	6,843	42	201	894	652	8,632
1988	2,603	(209)	0	1,525	0	3,919
1989	4,794	19	0	2,299	48	7,159
Total	114,527	23,175	6,252	31,088	10,954	185,996

B. Net Claims

Net claim payments have exceeded premium income in most years, but on a cumulative basis, the Government share of premiums has exceeded the total Government share of claims paid by US$46.3 million, not considering the Government share of the consortium risk. Based on the known Government share of premiums and losses in the Consortium from 7/84 to 12/89 and the net results on Government only risks, the Government would have registered a net loss of US$15.9 million for the 1968-1989 period. If the full amount of 87.5% of the Consortium premiums and loss payments is assumed to be the Government share, the Federal Government would have a net loss for the entire period of US$19.1 million.

These figures do not take into account the "sinistros a liquidar" or pending commercial risk claims for Consorcio risk which totaled US$59.1 million at year-end 1987, US$80 million in 1988 and US$57.7 million at December 1989. These claims which potentially are payable vastly exceed annual premium income, and in fact, exceed all premiums earned by the Consorcio since inception.

These figures also do not take into account income earned on the Federal Government's contributions in the initial years of operations or income earned on net positive balances. It is not clear if these balances are sufficient to deal with pending loss payments. Recourse to requests for Federal Government funding appear possible.

C. Finances

Two accounts are maintained, one as a reserve for political risk which is the Federal Government account, and one as a reserve for the consortium which is the commercial export credit insurance account. IRB tracks premium income, claims, claims expenses and recoveries for both political and commercial policies and for both the consortium and the Government. No complete financial statements are prepared for the export credit insurance facility at IRB. Administrative costs for the program are not broken out from IRB's other administrative expenses. The amount of reserves and investment income from reserves is not clearly taken into account in determining the financial results. No specific calculations are made as to the amount of resources required based on actual risk exposure. The setting aside of amounts for specific claims and the 40% of premiums reserve are considered sufficient given the ability to approach the Federal Government in the event of shortfalls in resources to pay claims.

At start-up, the Federal Government was to give IRB funding for ten years, contributions for at least five of which were received.

Premiums have not been sufficient as reserves to cover claims, specifically when Mexican political risk claims arose. Several exporters reported being informed that sufficient funds were not immediately available to pay claims.

Annually IRB accounts to the Ministry of Finance on the results for the year and makes a formal request for funds if necessary. Under exceptional circumstances, IRB can make a special appeal to the Ministry of Finance for additional funds to pay claims. Such a request has been made at least once, and resources were made available.

IRB accounts for all premiums received on behalf of the government for political risk insurance, as well as claims paid. IRB retains 7 1/2% of the political risk premiums as a management fee for administering the political risk insurance facility.