External Affairs and
International Trade Canada

Affaires extérieures et
Commerce extérieur Canada

Canada

Prepared by the International Trade Development Branch

Publication préparée par le Secteur de l'expansion du commerce extérieur

External Affairs and International Trade Canada

Affaires extérieures et Commerce extérieur Canada

REPORT ON

THE CANADA ACCOUNT STUDY

OCTOBER 1991

EXTERNAL AFFAIRS AND
INTERNATIONAL TRADE CANADA

INDEX

CANADA ACCOUNT STUDY

SUMMARY

Canada's concessional financing activities have been the subject of considerable debate, both within the Canadian export community and on the part of those responsible for the formulation and implementation of the concessional financing program. **What is clear from the study is that while Canada often is not perceived as a major player in terms of concessional financing activity, in reality concessional support to Canadian exporters has been substantial.**

Between 1980 and 1990, concessional financing can be credited with generating some $1.3 billion in Canadian export sales. Moreover, concessionally financed sales resulted in some $380 million in follow-on sales. With regard to the latter it is important to note that almost all of these sales are associated with concessionally financed transactions which occurred before 1989. This suggests that the transactions signed in 1988 and after may yet generate attributable follow-on sales.

The qualitative benefits derived from concessional financing over the period 1980 to 1990 also are noteworthy. Four significant benefits were identified by the consultant portion of the Study: the maintenance of a critical mass of key individuals in the exporting companies and the enhancement of technological capabilities; the improvement of the international reputation of the exporters; the maintenance of the exporters' presence in traditional markets; and the enhancement of the prospects for additional sales of Canadian products.

The comparative analysis showed that exporters in the countries reviewed have access to larger pools of concessional funding. Most of these countries have a project orientation in their bilateral development programs and are tying a substantial amount of such aid to the procurement of goods and services from the lender. It is noteworthy that while the Japanese claim that they are progressively untying their aid, they nevertheless supported their exporters with some U.S. $1 billion in tied-aid loans in 1989-90.

Conversely, Canadian exporters identified some $1.3 billion in sales opportunities which were lost between 1980 and 1990 due to limitations on the availability of concessional funds. Moreover, they identified some $8.9 billion in sales which could be pursued were concessional financing available.

The national interest considerations of our key competitors focus primarily on the enhancement of the political and commercial bilateral relationship rather than on the risk/credit assessment or cost/benefit analysis of the transaction. Canada is the only country to apply a formal cost/benefit analysis of transactions. In addition, the concessional programs of the selected countries are predominantly market oriented, with an emphasis on infrastructure projects - Belgium is the exception with a sector orientation.

Canada has set transparent and comprehensive standards with its four year cash flow management, its selection process and its accountability requirements. However, the majority of our competitors' concessional financing is incorporated in varied funding envelopes, and it is not subject to separate scrutiny or to yearly report to parliament, other than through ODA reports. In addition, transparent and comprehensive as the standards may be, Canadian exporters do not understand the decision-making process with respect to concessional financing, and there is a need to clarify this process.

With the exception of Canada, all of the other countries, including the U.S.A., have concessional financing programs which directly tap ODA funds. Moreover, as noted earlier, all of these programs involve a tied-aid component, while Canada only ties Section 31 concessional funds to the provision of Canadian goods and services with a minimum 60% Canadian content.

It may be that the time has come to re-examine the Canada Account concessional program in terms of source of financing. If we are to continue to enable Canadian exporters to compete with the countries which this study has considered, it is clear that additional or alternative sources of funding will have to be examined. Indeed, the exporters themselves have suggested such alternatives as redirecting exporters away from spoiled markets to those where non-concessional financing could be applied, increasing the repayment terms on loans beyond those normally associated with the goods and services sold, and applying a greater degree of credit-mixte or tied-aid funding.

It also may be appropriate to consider whether or not financing support should be priorized by both market and sector. As noted earlier, this would really be no more than an admission of what has taken place in any event.

Finally, it may be time to review selection criteria, possibly to allow for such considerations as exclusion on the basis of project size, the fact that a project is unlikely to lead to follow-on commercial sales, or the fact that an exporter already has received a certain measure of concessional financing support in a given period.

INTRODUCTION

Export financing plays a major role in maintaining and enhancing the competitiveness of Canadian exporters in the global marketplace. Indeed, such support is essential to counter the effect of similar activity on the part of Canada's main competitors. One aspect of export financing which has attracted the interest of the public in general and exporters in particular, is concessional financing. It is an aspect which is not clearly understood; nor are the activities of Canada's competitors in this regard well known.

The objective of the Canada Account Study was twofold: first, to examine and assess the importance of concessional financing to Canadian exporters during the decade 1985 to 1995, and second, to examine and compare the concessional financing activities of a select group of countries which often compete with Canada in exporting to developing countries. An independent consultant undertook the first objective of the Study, while the second objective was dealt with in-house by EAITC/TPF.

BACKGROUND

Concessional financing is intended to provide an incentive to buyer countries to purchase exports from the offering country. In practice, concessional financing is applied in two types of situations. The first application involves providing support to export transactions that were being negotiated originally at commercial or "consensus" credit terms, but where one or more bidders offered the buyer concessional terms as an incentive. In this situation, the Canada Account is used to "match" the foreign credit competition with concessional financing. This first application is used to neutralize export credit competition in a market where concessional financing is not a pre-requisite to a sale. The second application, to which the first application often contributes, involves providing concessional financing support for sales to a market where it is known ahead of time that the borrower will demand such financing. These markets are termed "spoiled" markets.

Concessional financing, which by OECD Consensus agreement includes a minimum 35% grant element, is extremely costly to maintain over time. Canada's program has endeavoured through the application of significant resources, to keep pace with competitors's efforts. Indeed, some Cdn. $588.7 million in concessional funds had been committed as at March 31, 1990. (Source: "Report On the Accounts Administered For the Government of Canada By the Export Development Corporation Covering Fiscal Years 1988-89 and 1989-90" - Report attached at Annex A) and funding remains in place over the next five year period to 1996 and beyond.

However, in the current climate of economic constraint it has been decided to freeze concessional funding levels for the next five years. As available funds are for all intents and purposes fully committed, the effect of the full utilization and the freeze has been to curtail the ability of Canadian exporters to compete in the market situation described above. Moreover, Consensus discussions on achieving a greater degree of discipline in the application of concessional financing have met with little success; indeed, spoiling has increased, thereby compounding the difficulties faced by Canadian exporters in many developing country markets.

THE STUDY

The consultant portion of the study comprised two elements. The first element involved an analysis of the quantitative impacts of concessional financing transactions concluded since 1980 on exporters and their suppliers, and an analysis of the incrementality of the program. This component also included a brief history of concessional financing by Canada and an analysis of the cost of increasing since 1987 the concessional component of transactions from 25% of the transaction value to 35%. The second element involved compiling findings to be used in developing a strategy for the application of concessional financing in the future, should funds become available for that purpose.

The in-house portion of the study examined the concessional financing activities of the U.S.A., Japan, U.K., France, Germany, Italy, Belgium, Republic of Korea, and Australia. These activities were examined and compared in the context of the trade objectives, concessional financing instruments, evaluation procedures, and future intentions of the selected countries. To ensure uniformity a standardized questionnaire was prepared, and a copy of that questionnaire is attached at Annex B.

FINDINGS

CONSULTANT STUDY - IMPORTANCE OF CONCESSIONAL FINANCING TO CANADIAN EXPORTERS

The terms of reference for the consultant study were developed in consultation with the Department of Finance, CIDA, EDC, as well as with the export community in form of the Canadian Exporters' Association (CEA) and the Association of Consulting Engineers of Canada (ACEC). CEA and ACEC formed special committees to assist in development of the terms of reference. In addition, these associations informed their membership of the Study and urged them to cooperate to the fullest extent possible.

The consultant interviewed 52 exporters as well as government and association representatives, on the basis of structured interview guidelines. Some 43 transactions were examined with exporters. The consultant summarized his findings under four headings: quantitative benefits derived, the need for concessional financing, and findings related to future application of concessional financing.

QUANTITATIVE BENEFITS

The total value of the 43 export transactions included in the study, in unadjusted dollars, was approximately $1.3 billion.

The concessionally financed tranches of these transactions were valued at approximately $440 million. The largest transaction involved a sale valued at approximately $210 million, the second largest some $170 million, and the third largest some $110 million. The remaining transactions can be summarized as follows:

- $50 million to $100 million - four transactions;
- $25 million to $50 million - seven transactions;
- $10 million to $25 million - nine transactions; and
- Less than $10 million - 20 transactions.

The study determined that none of these sales would have occurred without Canadian concessional financing support, which was for the purpose of matching concessional offers from competitors. Concessional financing thus can be credited with generating some $1.3 billion in Canadian export sales between 1980 and 1990.

The 43 transactions included in the study supported approximately 38,400 person-years of employment ($11,458 per job) during the 1980 to 1990 period. However, it was not possible to determine detailed characteristics of the employment supported as most exports of capital goods involve sub-suppliers from a wide variety of industries and geographic areas. Moreover, much of the data required for such an analysis would be either commercially confidential or difficult to substantiate objectively.

An important quantitative benefit expected from concessionally financed transactions was exporters' success in obtaining follow-on sales on non-concessional terms.

- The study revealed that the $1.3 billion in concessionally financed sales contributed to $380 million in follow-on sales (11,224 jobs). However, only about 45% or $170 million of this follow-on work (5,021 jobs or $10,133 per job) was highly attributable to the concessionally supported transactions. A subsequent sale was considered to be highly attributable if it involved a subsequent phase to a project, a follow-on sale of parts for the concessionally financed equipment, or a sale to the same buyer or in the same market which otherwise was unlikely to have occurred.

- It is noteworthy that almost all of the follow-on sales, some $368 million of the $380 million, were associated with concessionally financed transactions that occurred before 1989. Thus, the follow-on sales are associated with only 19 of the 43 studied sales, and transactions signed in and after 1988 may yet generate attributable follow-on sales in the original market or the region.

What may limit these prospects is that market conditions have changed in most if not all of the countries involved in the later transactions, and sales to these markets may be limited until these conditions improve.

Exporters also were asked whether additional opportunities for commercial transactions had been identified as a result of the concessionally financed transactions. These opportunities were those not associated with a completed follow-on sale as previously described, not requiring additional concessional financing, and not involving aid funding from Canada.

Only three exporters identified new commercial sales opportunities that could be attributed to concessionally financed transactions. The sales involved five potential transactions with a total estimated value of $170 million. The majority of this amount was associated with one sale valued at $100 million. Although other opportunities were identified, these were not necessarily linked to the receipt of prior concessional financing support.

The unavailability of concessional financing after 1990 may account for the few attributable commercial opportunities which were identified. It is likely that exporters' inability to source concessional financing limited their commercial sales prospects in certain markets, and may limit their prospects in future years.

It is important to note that of the 43 concessionally financed transactions included in the study, 13 involved first-time sales by exporters in the subject market. The benefits were both quantitative and qualitative, and four significant qualitative benefits were identified:

- Exporters indicated that the transactions enabled them to enhance their technological capabilities and to maintain a critical mass of key individuals within the firms;

- Export sales enhanced the international reputation of the companies, as well as providing opportunities for new domestic and international partnerships;

- Concessionally financed sales allowed exporters to maintain a presence in traditional markets and to continue contacts with existing and potential clients; and

- Exporters indicated that a greater and sustained Canadian presence in foreign markets generally enhanced the prospects for additional sales of Canadian products.

THE NEED FOR CONCESSIONAL FINANCING

Following the apparent low level of utilization of concessional financing prior to 1988, exports covered by the study in recent years have relied more frequently on concessional financing. Whereas only 10 transactions were signed in the years 1980 to 1987, in the subsequent three years, 40 transactions required support. Even excluding the 30 sales to China during the 1988 to 1990 period, 10 sales required support during that three year period - as many as in the previous eight years.

Exporters identified approximately $9 - 10.5 billion in potential sales over the next five years that would require concessional financing. This would mean (at 35%) some $700 per year in concessional financing. These potential sales can be categorized as follows:

- Over $100 million (mega-projects): 27;
- $50 to $100 million: eight; and
- Less than $50 million: 32.

Moreover, three large exporters have identified additional projects valued at almost $1.5 billion over the next five years in a selection of countries.

Study findings strongly suggest that the need for concessional financing is primarily a function of the markets being pursued. Even for mega-projects the buyer market will determine, by and large, whether such financing will be required. This observation is supported by the fact that virtually all long-standing exporters interviewed have in the past concluded a large volume of export sales, including mega-projects, to unspoiled markets without concessional financing support.

Study findings also show that certain industries rely heavily on exports to developing country markets which demand or attract concessional financing; industries involved in the power and energy sectors are a case in point. While these industries also have had a significant volume of exports which have not required concessional support and, indeed, relied upon such support for only four transactions between 1980 and 1990, new installations in developing country markets are likely to require concessional financing.

Many exporters indicated that a significant volume of potential transactions had not been pursued in recent years because concessional financing was no longer available from Canada. Efforts in pursuing markets requiring such financing would have been wasted. Exporters identified some $1.3 billion in lost sales opportunities during the 1980 to 1990 period due to the unavailability of concessional financing from Canada. It is important to recognize that this figure does not represent the complete volume of lost opportunities, because many exporters withdrew their marketing efforts in certain markets when concessional support declined.

In summation, reliance on concessional financing appears to be growing. Some $9 billion worth of exports over five years have been identified which would require such support.

FUTURE APPLICATION OF CONCESSIONAL FINANCING

In the course of interviews, exporters expressed a number of views on the application of concessional financing in the future. Four issues were identified: alternatives to concessional financing, a need to rationalize the processes, impacts of concessional lines of credit, and selection of markets.

> Alternatives to concessional financing could involve:
>
> - redirecting exporters away from spoiled markets;
> - increasing the repayment terms on loans beyond those normally associated with the goods and services sold; and
> - applying aid funds to support exports of goods and services (credit-mixte).

As there are few credit-worthy markets outside the OECD countries which are unspoiled, the first alternative likely would involve increasing EDC's lending ceilings for markets that have limited credit-worthiness. Many exporters felt that the administrative inconvenience of rescheduling, which would probably follow from increased lending ceilings in these markets, would be small compared to the potential benefit to Canadian trade.

The second alternative would involve derogation from OECD Consensus guidelines. While this might be morally defensible, as it is other OECD members who are spoiling the markets, it is still technically a derogation and could affect our relationship with OECD member states.

The third alternative, "credit-mixte" or tied aid, has been debated extensively for many years in Canada. The countries with which we compete in spoiled markets generally apply a much broader interpretation of what constitutes development assistance. As a result they regularly apply aid-sourced funding to support the efforts of their exporters.

Most small exporters and those located far from Central Canada indicated that concessional financing and, to some extent, all official export financing support was overly complex and cumbersome. They also feel that the decisions to support transactions are political, and that too many agencies are involved. Unpredictability of whether or not funds were available added to their view that the decisions are political. These exporters desire a program and a process that is well-defined and straight-forward. This said, it must be noted that few exporters understand the review and approval process for concessional financing, particularly the role of EAITC.

Study findings strongly suggest that concessional lines of credit successfully increase trade to the selected countries. However, these mechanisms also affect the marketing activities of exporters by creating a tendency to market on a one-off basis, and by potentially displacing the activities of Canadian exporters already active in a particular market.

Many of the exporters interviewed indicated that the approach of targeting a small number of markets for concessional support is the most efficient and effective. Specifically, the approach used to encourage exporters toward the China market was cited as a success, but exporters also were quick to point out that Canadian exporters were the victims of too much success in China because the available concessional funds were quickly utilized.

COUNTRY COMPARISONS

To complement the study by Bernier Management Consultants, a comparative analysis of selected competitor countries was conducted by EAITC. The general findings are summarized below.

Of all the countries reviewed, only Canada and the U.K. have a separate concessional financing program, and the U.K.'s is part of the Overseas Development Aid (ODA) budget. Hence, of all OECD major credit suppliers, only Canada has a budget for concessional financing that is entirely separate from ODA funding.

The comparative analysis showed that exporters of the countries under review have access to larger pools of funding, as most of these countries have a project orientation in their bilateral development programs and are tying a substantial amount of such aid to the procurement of services and goods from the lender. While the Japanese claim that they are attempting to untie their aid, they supported their exporters through some U.S. $1 billion in tied-aid loans in 1989-90.

With regard to exporters eligibility for concessional financing or tied-aid support, the countries considered do not have a ready made list of criteria for the selection of transactions. Because the funds are drawn from ODA budgets, the needs of the recipient country are taken into account as well as various elements of national interest criteria which vary from case to case.

Generally speaking, the national interest considerations of Canada's key competitors focus primarily on the enhancement of the political and commercial bilateral relationship rather than on the risk/credit assessment or cost/benefit analysis of the transaction. Indeed, of the countries surveyed, Canada is the only one to apply a formal cost/benefit analysis of transactions. The attitude of the countries to cost/benefit analysis varies from a recognition of the potential need for such an analysis (Australia and Korea) to total indifference (Japan).

The concessional programs of the selected countries are by and large market oriented with an emphasis on infrastructure projects. Only Belgium indicated a sector orientation in the selection of credit-mixte transactions.

Canada has set transparent and comprehensive standards with its four year cash flow management, its selection process and its accountability requirements. The majority of our competitors' concessional financing is incorporated in varied funding envelopes, not subject to scrutiny or to yearly report to parliament, other than through ODA reports.

The economies of all selected countries have been affected, albeit to varying degree by the weakness of the global economy. In spite of this, there has been no inclination on their part to curtail the use of concessional financing. Indeed, these activities are continuing to expand in markets where commercial financing was previously the norm; for example, Mexico.

COUNTRY SYNOPSIS

U.S.A.

In the past, U.S. involvement in concessional financing has been relatively limited. However, perceptions of a changed global economic environment and, not least, frustration with a lack of progress amongst OECD Consensus members towards reduction if not elimination of concessional financing to developing country markets, have resulted in new U.S. concessional financing initiatives and increased legislative activity over the past year.

A joint Exim Bank/USAID $500 million mixed-credit package was established to be split evenly among four countries in Asia (Indonesia, Philippines, Thailand and Pakistan), spoiled markets which the U.S. views as representative of the endemic concessional financing problem. Sectoral focuses are energy, telecoms, transport, and construction, chosen because of the high level of concessional activity in these sectors, their importance to the development process, and perceived U.S. expertise.

Exim Bank serves as the single disbursing agency, with mixed credits coming from a combination of grant funds from either USAID or Exim Bank and Exim Bank loan guarantees. Funds already have been allocated for a major telecoms project in Indonesia, and transactions are in the pipeline for the other targeted countries.

There also is a greater inclination on the part of the U.S. to allocate funds from the "War Chest," the U.S. $300 million tied aid credit fund which was authorized by Congress in December 1987, and which has been relatively untapped to date. Submissions to access these funds go through Treasury by way of the National Advisory Council On International Monetary and Financial Policies (NAC). Use of the War Chest is intended to focus on sectors for which the U.S. seeks to untie aid, in markets where tied aid is used extensively by Japanese and European competitors - notably certain Asian and North African markets. The sectors concerned are those selected for targeting in the present Exim/USAID facility, as noted above. The country focuses are Algeria, Tunisia, Morocco, and the four countries referred to in the credit-mixte package, plus China and India. The use of the War Chest in other sectors and markets cannot be ruled out, particularly in the context of matching or overmatching to counter violations of the March 1987 OECD Tied Aid Credit Agreement.

In addition to the Exim Bank/USAID package and War Chest, certain Senators have promoted an "aid for trade" bill which would allocate significant aid funds to projects with a more commercial component. The Bill was defeated when it was first proposed in January 1991, but a modified version, as an amendment to the foreign aid vote, recently was passed by both Houses. Our U.S. contacts have indicated that the Bill likely will be vetoed by the President, but the effect of the aid for trade proposals already is having an impact on the philosophy of USAID, who may gradually return to more project-oriented support in their bilateral aid.

If a consensus regarding elimination or at least meaningful reduction of concessional financing cannot be reached and if, in a broader sense, GATT negotiations stall and lead to an increase in concessional financing activity, it is likely that the U.S. will apply vigorously and perhaps even expand the concessional financing initiatives outlined above. Failure to reach a consensus also would reinforce the aid-trade initiative referred to above.

JAPAN

In recent years, Japan's ODA has been increasing remarkably. In 1989 it ranked first in world ODA contributions for the first time, surpassing even the U.S.A.

Japanese concessional financing activity is carried out through the Overseas Economic Cooperation Fund (OECF). From a Japanese perspective, development assistance not only includes the more traditional sectors of aid such as agriculture, education and medicine, but also extends to sectors such as transportation, power, and telecommunications. All of OECF's funding is categorized as ODA, and in 1989 OECF loans amounted to U.S. $3.9 billion, or 44% of Japan's total ODA of U.S. $8.96 billion.

In 1989, OECF loan commitments to countries in the Asian region, declined to less than 80% of total commitments. Conversely, loans to African, Central and South American, Middle Eastern and East European countries have been increasing their percentage.

Policy formulation relating to concessional financing is based upon inter-ministry consultation, with the Ministry of Foreign Affairs (MOFA) playing the leading role in project approval. In the opinion of MOFA officials, concessional loans are more effective than grants in encouraging progress in less developed countries, and political bilateral considerations prevail over trade issues in assessing a project. Project loans, which to date have been the principal type of assistance, are focused on the economic infrastructure such as transportation, electric power and gas, and telecommunications.

The progressive untying of ODA loans has become fundamental to official Japanese policy in relation to concessional financing, and the Japanese Government and officials are very sensitive about the lingering perception that Japanese aid is largely tied. Statistically, in 1989, some 70% of Japanese ODA loan-related contracts went to non-Japanese firms, and 40%

of these firms were in less developed countries. What is not clear is how many of the latter firms had a Japanese connection (perhaps a partnership with a well-established Japanese trading house). Moreover, even if the 70% figure truly is an indicator of untied aid, remaining 30% of tied aid means that Japanese firms still had access in 1989 to contracts involving some U.S. $1 billion.

In the context of future intentions, Japan will continue to provide ODA-based concessional financing to less developed countries, and will continue to espouse an official policy of progressively untying aid. It is interesting to note however, that OECF officials are of the opinion that the limit to which aid can be untied has almost been reached. If this is so, and given that Japanese companies do not appear to have been unduly disadvantaged by the official policy of untying aid to the extent that it has been applied so far, certain benefits should continue to accrue. The Japanese Government officially will be able to maintain untying at the current, statistically high percentage, while Japanese companies will continue, more or less, to derive the benefits which OECF's ODA-based concessional financing program has always conveyed.

U.K.

Exporters in the U.K. are able to source credit-mixte financing through the Aid Trade Provision (ATP), a facility created in 1986 to make soft loans available to exporters. The ATP initially was set to run for five years, however it was reviewed in 1989 and the U.K. Government has decided to extend it beyond 1991. In addition to the ATP, the U.K. bilateral cooperation program, which is tied, offers a major source of support for capital and infrastructure projects.

Bilateral aid and the ATP are part of the Overseas Development Administration budget of £1.5 billion (1991) (U.S. $2.79 billion). In 1991, £900 million (U.S. $1.67 billion) were allocated for the bilateral aid program and £97 million (U.S. $180.4 million) for the ATP, or some five percent of the ODA budget. Some £450 million to £500 million (U.S. $837 million to U.S. $930 million) of the bilateral program is essentially tied to British supply.

The main recipients of ATP support have been the Philippines, China, Kenya, Malaysia, Sri Lanka, Egypt, Thailand, Turkey, and Indonesia. The bulk of capital assistance has been focused in the energy sectors in power generation and supply.

The ATP budget is set for three years and reviewed annually. In the past the ATP was under-spent by 1/3 and lapsing funds were returned to the ODA budget (which is allowed to roll over £15 million or U.S. $27.9 million per year). However, the current ATP allocation is now all committed, and the facility is frozen.

British exporters contend that the current freeze on ATP funds amounts to a unilateral withdrawal from the market place at a time when the use of concessional financing goes on unabated. In spite of this it appears that the British Government will not replenish the ATP, and will wait for funds to become available before mixed credit support is reinstated.

FRANCE

It is noteworthy that the bulk of French aid is delivered not by the Ministry of Cooperation and Development, but by the Ministry of Trade under the super Ministry composed of Industry, Trade, Treasury, and Budget. The Ministry of Cooperation's role, while not unimportant, is limited to programs for France's former colonies and is essentially concentrated on development grants.

Foreign trade is handled by the Direction des Relations Economiques Exterieurs (DREE), the ministry responsible for trade policy and trade development, export financing and guarantee policy, and investment overseas. DREE administers a budget which includes grants and so-called treasury loans (or loans including credit-mixte).

In 1991, budgetary allocations for grants were set at FF 6 billion (U.S. $1 billion) and treasury loans at FF 8 billion (U.S. $150 million). The grant and loan envelopes are managed by Treasury, and budget allocations are set annually. Loan reimbursements are returned to the envelopes, and up to 10% of the unused funds can be rolled over at the end of a current fiscal year. As for tied aid and loans, 80% are devoted to projects as these, in the view of French officials, provide a tangible and visible asset as a foundation for such support.

While there is no sector priorization for funding allocation, the distribution of the budget reflects a distinct priorization by geographic region. Asia is the largest single regional recipient with an allocation of some 40%, followed by the Middle East (20%), Latin America (15%) and various other regions with a cumulative total of 25%. The only clear, if not absolute criteria is that mixed credit should not go to countries which do not need it, for example Venezuela and Gabon. The French credit-mixte blend averages 50%, and while France is in a position to approve projects on the basis of matching, this is a relatively infrequent occurrence.

The French Government also supports tied aid as a legitimate way to achieve development. That view is expressed openly in OECD discussions and reflects a visceral French view that development is advanced whether project funding is tied or not. The view also reflects a disbelief in the untying of aid as, for example, the French observe that the majority of contracts funded by Japanese aid funds are still going to Japanese firms.

There was no clear indication as to the direction of the French concessional financing program. However, it would seem that France will continue to follow a very commercially pragmatic course in the delivery of their aid program.

GERMANY

The German mixed credit or concessional program is an integral part of Germany's development assistance. The bulk of this assistance takes the form of financial and technical cooperation, and project financing accounts for the greater proportion of ODA, under the bilateral program. Proposed projects take into account the needs and plans of the recipient country, but also the impact upon Germany's employment situation, which means that project aid is tied. It also should be noted that German industry is notified of opportunities to supply goods and services for projects by a trade information agency.

The overall 1990 ODA budget was set at DM 9 billion (U.S. $5.35 billion), of which DM 3.2 billion (U.S. $1.9 billion) was for bilateral cooperation. One third of the latter took the form of tied aid. The credit-mixte portion of the bilateral financial cooperation budget amounted to DM 1.4 billion (U.S. $832 million) while the remainder was for soft loans. Project aid and credit-mixte funds come from the financial cooperation envelope which is managed by the German development agency (BMZ) and the German executing agency for financial cooperation schemes (KfW). Loans which cannot be guaranteed by Hermes, the German guarantee and insurance agency, will not be approved.

The main recipients of bilateral aid are in order of priority: India, Turkey, Egypt, Israel, Pakistan, Indonesia, Bangladesh, Morocco, Tunisia and Sudan. Credit-mixte funds have been concentrated on projects in India, Indonesia, China, Pakistan and Tunisia, based upon a combination of bilateral commercial considerations. There are no sector priorities other than those stemming from cooperation objectives, although some of the German sector targets lead more to project support than others, for example energy and transportation.

While there would seem to be no budgetary constraints on the German concessional financing program, the economic demands of reunification must be an inhibiting factor. Moreover, a desire to become more involved in economic initiatives to support the U.S.S.R. and Eastern Europe could lead to a shift in market focus.

ITALY

Italian credit-mixte financing, like that of Germany, is part of Italy's cooperation program. ODA bilateral funding is composed of grants and soft loans, the latter being the source of funding for the soft loan portion of mixed credit. Funding earmarked for soft loans totalled 1,156.0 billion lira (U.S. $919 million) in 1989, and 2,000.0 billion lira (U.S. $1.59 billion) in 1990.

A three year revolving fund, reassessed annually, is established for soft loan allocations. The fund is financed by Treasury and managed by Mediocredito Centrale (MC), the Italian export credit agency.

The Italian soft loan program is a specialized cooperation tool for projects or programs which can be income generating. It is directed at recipient countries whose balance of payments can bear reimbursement, and it is a tied aid and project oriented program. Projects which can be financed with mixed credits are selected and assessed following the same procedures, mechanism and criteria applied for all cooperation projects. Soft loan (which includes mixed credit) sectoral distribution is concentrated in energy, industry, and infrastructure, and soft loans for mixed credits are in the order of U.S. $170 million annually.

An interdepartmental committee for development and cooperation (CICS) approves yearly development credits and the proportion which can go to concessional funding. The CICS sets cooperation priorities and budgetary priorities. While MC is the executing agency for soft loans and mixed credit, country assessment is done by SACE, the Italian guarantee and insurance agency involved in mixed credits. Loans that cannot be guaranteed by SACE will not be approved.

The Italian cooperation program has selected priority countries and has clearly supported the energy industry sectors and infrastructure projects. Mixed credits have been regularly utilized in China, India, Indonesia, Pakistan and the Philippines. In principle, Italy will not approve funding of a project on the basis of matching.

In terms of bilateral aid, the Italians publish a list of top priority countries and second priority countries on a yearly basis. This list provides Italian exporters with a clear indication of where bilateral support will be allocated. Indeed, 43.8% of all grants and loans have gone to the eighteen countries in the top priority list in 1988.

While there are budgetary concerns, the Italian soft loan program is likely to continue at its current level. It appears that only a change of rules within the Consensus could alter that direction.

BELGIUM

Belgium's tied aid and partially tied aid loans are extended from Treasury and ODA funds. The Belgian cooperation generally has been based on foreign policy (country) strategy, but tied aid and mixed credits are increasingly used for the purpose of matching competing concessional offers and maintaining market share in selected countries (e.g. Algeria and Indonesia).

Belgium has always depended upon foreign markets and its export support programs and ODA have reflected this traditional export vocation. Export support and development programs have generally been directed at developing countries, but recent budgetary constraints have forced the government to re-examine these programs. This review has confirmed a market approach in the use of mixed credits.

The Belgian development and cooperation budget of BF 25 billion (U.S. $720 million) for 1990 is a source of tied aid funding. In addition, a BF 3 billion (U.S. $86 million) envelope funded mostly by the Finance Ministry and the Belgian insurance and guarantee agency (OND) is set aside for tied aid and credit-mixte purposes. Credit-mixte also is used to assist domestically in the development of technologies (nuclear industries, transportation, telecommunications and textiles).

The following countries have been targeted as beneficiaries of so called Treasury loan envelopes, the equivalent of unconfirmed lines of credit: China, Egypt, Indonesia, Jordan, Turkey, and Tunisia. Belgium exporters know this and thus are able to target these markets with the assurance that support will be available in due course. In addition, case by case requests also will be considered in markets where Belgium wants to maintain a strong presence (for example, Algeria), where projects make eminent sense (commercial orientation, technology development, etc.), or where matching is desirable. Development funds (BF 200 million or U.S. $5.74 per year set aside for tied aid) will sometimes be used to supplement funding to meet specific bilateral objectives (Indonesia and Algeria).

Budgets are allocated annually and commitments are made within the allocations, although country envelopes may be reduced if not fully utilized. Funds are no longer revolving and Foreign Trade is examining ways to remove funds from the normal budgetary process and to ensure lapses are reusable. This has put pressure on ODA for more assistance on projects, and there also are more requests from exporters for specific assistance.

In terms of future intentions, it can be expected that Belgium exporters will continue to receive concessional financing support. However, Belgium's poor fiscal situation will not allow for an increase in such support.

REPUBLIC OF KOREA

Korea's involvement in concessional financing is very recent, and is encompassed in the Economic Development Cooperation Fund (EDCF). The EDCF is utilized primarily in the form of bilateral ODA, for projects which have been assessed as technically, economically and managerially feasible. The EDCF also is utilized, either in the form of a loan or equity investment, to assist Korean firms in carrying out industrial development projects in developing countries.

The EDCF program is deemed to be a contribution to development assistance, and thereby good for bilateral relations. There is a focus on infrastructure projects: road construction, communications, railways, and any other area where Korea has a particular expertise. Funding is approved on a yearly basis and is cumulative, with automatic roll-over of unexpended funds. The EDCF budget ceiling normally is 120% of accumulated EDCF budget, and the current ceiling is U.S. $300 million. EDCF could ask for a percentage increase, but this has proved unnecessary so far.

In terms of recent successes, it is interesting to note that Korean companies recently were awarded substantial telecommunications projects in the Philippines and Vietnam, supported by EDCF funding. This marks a significant departure from earlier Korean successes, which have tended to be "works" rather than high technology focused.

The Korean Government anticipates having to increase EDCF concessional loan activity. The rationale for this would seem to be based in part upon a perceived need to increase ODA in general. It also stems from a realization that to remain competitive in certain markets in their own region, Korean companies will need to be able to access over time a larger amount of concessional financing.

AUSTRALIA

The Australian Government provides concessional financing through a combination of export credits and a grant element from the Development Import Finance Facility (DIFF). The DIFF has risen from one percent of the aid budget in 1983, to a current level of seven percent.

DIFF financing is limited to the provision of machinery, capital equipment, or services which are wholly or primarily Australian. Although the DIFF program is available to most developing countries, in keeping with Australia's regional priorities no more than 10% of funds are available to countries outside South Asia, South East Asia, China, Papua New Guinea and the South Pacific. In addition, no single country can receive more than 40% of total DIFF funds in each year.

The availability of funds in any given year is related to the annual appropriation for DIFF within the Australian aid program. In 1990-91 this funding amounted to A$83.3 million (U.S. $66.12 million), and there is, moreover, a cap on DIFF of A$100 million (U.S. $79.38 million) per year. Any unutilized funds are not re-profiled, but can be applied to other portions of the ODA budget. This is somewhat of a moot point as applications in a given year always have exceeded availability; indeed, the situation was such that no new applications could be accepted until delivery of the 1991-92 Budget in August.

In terms of future activity, there is a proposal before the Australian Cabinet to expand the DIFF over the next three years. However, it is anticipated that the proposal is unlikely to succeed as both Treasury and the Department of Finance do not support it. A more likely scenario is the continuation of the DIFF with the present cap of A$100 million (U.S. $79.38 million), but with the proviso that the cap may actually be reached in a given year - as opposed to the current situation where disbursements have never exceeded A$84 million (U.S. $66.67 million).

A N N E X   A

REPORT ON

THE ACCOUNTS ADMINISTERED FOR THE GOVERNMENT OF CANADA BY THE EXPORT DEVELOPMENT CORPORATION

COVERING FISCAL YEARS 1988-89 AND 1989-90

TABLE OF CONTENTS

APPENDICES

1.0 INTRODUCTION

Under the Export Development Act (R.S., c. E-20), the Government of Canada is authorized in prescribed circumstances to undertake directly certain activities of a financial nature (loans, guarantees and insurance) to facilitate and develop export trade. In these circumstances, the Export Development Corporation (EDC) acts as the agent for the Government of Canada in executing the financial transaction. However, the EDC maintains separate accounts of all moneys expended and received under these authorities, and the expenditures (and receipts) are charged (and credited) to the Consolidated Revenue Fund.

These activities of the Government of Canada, and the legislative authorities which underlie them, have come to be known collectively as the "Canada Account".

The purpose of this report is to describe the Canada Account, its objectives, the types of assistance provided and the eligibility criteria, its legislative basis and its management structure. Information is also provided on certain financial considerations — the budget process, the limits established by Parliament on liabilities (direct and contingent) and the past record of the program in terms of resources utilized. Finally, the Report provides a current picture of export financing and insurance activities and exposures, and a Canada Account expenditure plan for 1990 - 1991.

2.0 PROGRAM DESCRIPTION

2.1 Objectives and Purpose

The Canada Account provides the Government of Canada with the authority and means to support Canadian export transactions which, on the basis of prudent risk management as defined by the Board of Directors of EDC, cannot be supported by the Corporation.

However, the basic objectives of the Canada Account program are identical to those of the Export Development Corporation. The EDC was established in 1969 by the Export Development Act (ED Act) "for the purpose of facilitating and developing trade between Canada and other countries by means of the financial and other powers provided in the Act" (subsection 10(1)). There is no distinction either in law or in practice between the broad objectives of the EDC, for activities on its own account, and the objectives of the Government for activities under the Canada Account.

2.2 Types of Assistance Provided

Under the legislation, the Government is able to provide a reasonably broad range of financial services to Canadian exporters. The types of services fall into three general categories -- direct export financing and financing guarantees, short and medium term insurance, and foreign investment insurance.

More specifically, the Government is authorized under the Act to:

insure Canadian firms against commercial and political risks of non-payment when Canadian goods and services are sold abroad;

make medium- and long-term loans to foreign buyers of Canadian capital equipment and technical services;

guarantee financial institutions against losses incurred in financing either the Canadian supplier or the foreign buyer in an export transaction;

issue surety cover protecting against calls on bid, downpayment and performance bonds; and

insure Canadian investments abroad against loss of investment by reason of political actions such as nationalization, war or inconvertibility.

Canada Account services are provided on a user-pay basis. Exporters pay premiums for insurance coverage, and there are fees associated with Canada Account financing and guarantee services. In addition, loans which are extended are fully repayable with interest (except for loans extended on concessional terms -- see Section 4).

3.0 LEGISLATIVE BASIS

The legislative basis for the Government's activities under the Canada Account resides in the Export Development Act (R.S., c. E-20) last amended by Parliament in 1983. Section 27 of the Act authorizes the Government to enter into contracts of insurance or other agreements or guarantees. Section 31 authorizes the Government to enter into direct loans or loan guarantee arrangements. Section 35 provides similar authorities for foreign investment insurance contracts.

In all cases (insurance, loans or loan guarantees and foreign investment insurance), there are three essential minimum requirements which must be met before the transaction can be executed under the Canada Account program:

the Board of Directors of the EDC must review the proposed transaction and determine that it would constitute an obligation "for a term or in an amount in excess of that which the Corporation would normally undertake" on the EDC's own (Corporate) Account;

the Minister for International Trade must advise the Governor-in-Council that, in his/her opinion, "it is in the national interest" that the proposed transaction be executed; and

the transaction must be authorized by the Governor-in-Council.

For each general category (loans, insurance, and foreign investment insurance), the Act also stipulates that separate accounts be maintained by the EDC and that all moneys required to discharge liabilities be paid from the Consolidated Revenue Fund.

Finally, Sections 28 and 32 impose limits on the liabilities and commitments which can be incurred by the Government under the Canada Account. Section 28 establishes the maximum contingent liability under contracts of insurance and foreign investment insurance outstanding at any time at $7.0 billion dollars. Section 32 establishes the ceiling on direct loans and guarantees which can be outstanding and committed at any time at $6.0 billion dollars.

4.0 ELIGIBILITY CONSIDERATIONS

As noted in the preceding section, a transaction must first be considered by the Board of Directors of the EDC for its own account, and rejected, before it can be referred to the Minister for consideration under the Canada Account. In general there can be a number of factors which might lead the Board of Directors of EDC to reject the transaction: it could exceed EDC's exposure guidelines for a particular country (that is, the maximum amount of business the Corporation has decided it can prudently undertake in a specific market); involve countries where EDC is off-cover (markets where, for reasons of risk, EDC cannot support Canadian export business); or involve an amount or a term in excess of that which the EDC Board would normally undertake for a single borrower. In addition, since the early 1980's the terms of many Canada Account transactions have required concessional financing (i.e., financing for terms and at interest rates normally associated with official development assistance) to match those being offered by Canada's competitors.

The eligibility considerations applied to transactions considered for Canada Account support are:

EDC's usual lending or insurance criteria (Canadian content, financial and technical capability of the exporter, technical and commercial viability of the project, etc);

The Government's general willingness to consider the country risk in question and the creditworthiness of non-sovereign borrowers; and

National interest consideration such as:

- Economic benefits and costs to Canada of the transaction;

- Importance of the transaction to the exporter;

- Foreign policy implications, including Canada's bilateral relationship with the country in question; and

- Importance of the market to Canada.

5.0 RESPONSIBILITY AND ACCOUNTABILITY

The determination of responsibility and accountability for the Canada Account derives from the Export Development Act. The legislation results in shared authorities, responsibilities and thus accountability.

The responsibility for all decisions to extend support under the Canada Account rests with Cabinet (i.e., the Governor-in-Council), based on a recommendation from the Minister for International Trade that the transaction is in the national interest.

The Department of External Affairs and International Trade Canada (EAITC) provides a supporting role to their Minister who is also responsible to Parliament for the EDC, and in so doing provides information and advice on specific transactions as well as on the overall policy of the Government with respect to the Canada Account.

EDC has the primary responsibility for the provision of information and advice on all Canada Account proposals, and has by law sole responsibility for the administration of all transactions once approved by Cabinet. The EDC executes the legal documents, disburses funds, manages the repayment flows, keeps the accounting records, etc. The costs to the EDC of administering these projects on behalf of the Government are recovered from the Canada Account receipts and recoveries through an arrangement authorized by the Minister of Finance, in accordance with the Act.

The accounts administered for Canada by EDC are shown in comparative form in Appendix I.

6.0 FINANCIAL CONSIDERATIONS

6.1 Budget Process

As noted in Section 3.0 above, the authority to expend funds under the Canada Account is provided through Sections 27, 31 and 35 of the Act. In all cases, the authorities are statutory in nature — that is, there is no requirement for annual appropriations from Parliament provided the overall levels of outstanding expenditures and other liabilities and commitments are within the ceilings established in Sections 28 and 32 of the Act.

While new spending authorities are not required from Parliament on a regular annual basis, Parliament is nevertheless kept fully apprised of estimated Canada Account expenditures. Specifically, estimated expenditures are reported through an information item (referred to as a "statutory item") in the Government's annual Main Estimates, and any major and unexpected changes in the use of the Account, when they can be anticipated in time, are communicated to Parliament through Supplementary Estimates during the fiscal year. Information on the actual level of expenditures is communicated annually to Parliament through the Public Accounts of Canada.

The types of transactions supported by the Canada Account are generally characterized by long lead times and a high degree of uncertainty. Particularly in relation to long-term credit, the Government is formally required to signal its agreement in principle to support a transaction as a prerequisite to the pursuit of the project by the exporter. This assurance is required by the exporter before he begins to incur significant expenditures to win the export contract, as well as by the borrower, who generally requires an assurance of available financing as a bid requirement. The likelihood of ultimate success of any particular exporter on any given transaction is impossible to predict accurately in the competitive international trade environment. Consequently, the Government must provide commitments against a probability of success on the part of the exporter and recognize that, while many such commitments may never result in actual loans or insurance contracts, it is nevertheless prepared to extend the necessary financial support arising from these commitments when and as contracts are won. The non-lapsing multi-year commitment and expenditure authorities approved by Parliament afford the Government the necessary flexibility to manage this process.

6.2 Budgetary and Non-Budgetary Expenditures

When a loan is extended by the Government under the Canada Account, it may be accounted for by the Government either as a budgetary or non-budgetary expenditure.

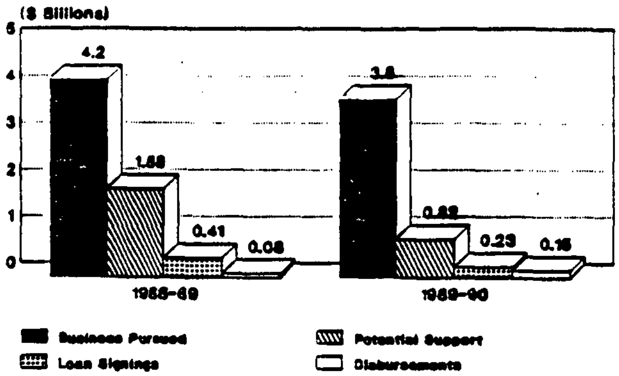
Prior to 1987, virtually all such disbursements were treated by the Government as non-budgetary expenditures. However, since 1987, the two classifications of expenditures have been utilized. Loans which involve concessional terms (i.e., interest-free or low-interest loans repayable over extended periods) are now accounted for by the Government as budgetary expenditures. Loans which are extended at or near commercial rates generally continue to be accounted for as non-budgetary expenditures. Specially-tailored loans which involve a blend of concessional and non-concessional financing are accounted for accordingly.

Insurance claim payments are generally accounted for as non-budgetary expenditures pending recovery by the EDC. Historically, the Government's record of recoveries on insurance claims paid under the Canada Account has been extremely good.

6.3 Canada Account Financial Flows

The chart on Page 7 shows the amount of export financing business supported in fiscal years 1988-89 and 1989-90, and the actual level of loans disbursements under the Canada Account. The chart demonstrates clearly the degree of volatility and uncertainty inherent in those activities and described earlier in sub-section 6.1. The "Business Pursued" column shows the value of transactions advised by Canadian exporters to EDC which would, if ultimately successful, probably have required Canada Account financing. The second bar, "Potential Support", shows the estimated cost of Canada Account financing on all transactions where the exporter has been formally advised by EDC of the Government's willingness, at least in principle, to consider the proposal for support under the Canada Account. The third column, "Loan Signings" shows the maximum cost to the Canada Account of transactions actually won and signed by exporters in the year in question. Finally, the last column shows actual disbursements made by the government in relation to signed loans. Only when disbursements are made is there a draw on the Consolidated Revenue Fund.

Canada Account Summary
1988-89 and 1989-90



6.4 Export Financing Activity

As at March 31, 1990, loans and loan guarantees outstanding and committed stood at $1,498 million compared to the statutory ceiling (Section 32 of the Act) of $6.0 billion. Included in this figure are amounts formally committed but as yet undisbursed, under signed contracts, of $533 million. Over the life of the Canada Account program, a total of more than $2.0 billion in exports has been supported through direct loans.

While concessional Canada Account financing only became prevalent during the latter part of the decade, that portion of the portfolio has grown rapidly, with commitments (before disbursements) of $588.7 million by the end of the 1989-90 fiscal year. The two tables in Appendix II show the value of loans signed on a transaction as well as a country-by-country basis over the review period. Below is a historical program summary.

TABLE 6.4.1
HISTORICAL SUMMARY OF
CANADA ACCOUNT LENDING ACTIVITY
AS AT MARCH 31, 1990
($ MILLIONS)

		Existing Commitments			
	Total Committed*	Total Disbursed	Total Repaid	Balance Outstanding	Undisbursed Commitments
Concessional	$588.7	$233.8	$2.1	$231.7	$354.9
Non-Concessional	$1,546.3	$1,368.0	$634.7	$733.4	$178.2
Total	$2,135.0	$1,601.8	$636.8	$965.1	$533.1

* Commitments net of cancellations (e.g., financing requirements scaled-down by buyer/borrower) over the life of the program.

6.5 Canada Account Insurance Activity

Canada Account insurance is generally required in support of Canadian export contracts when EDC is off-cover in an export market, but the transaction is thought to be in the national interest and when insurance coverage or a security agreement is required in connection with a Canada Account-financed loan. Formerly, all Foreign Investment Insurance (FII) liabilities were covered exclusively under the Canada Account, and although several such policies remain on the Canada Account books, FII coverage is now also available under EDC's Corporate Account.

As at March 31, 1990, the value of outstanding contingent liabilities under insurance contracts and other agreements stood at $58 million, against the statutory ceiling (Section 28 of the Act) of $7.0 billion.

TABLE 6.5.1
CURRENT MAXIMUM CANADA ACCOUNT LIABILITY
AS AT MARCH 31 YEAR END
($ MILLIONS)

Type of Policy	1988-89		1989-90	
	No.	Amount	No.	Amount
Bulk Agriculture	(7).	$21.2	(3)	$21.999
Medium-Term	(3)	$.328	-	-
Loan-Related Specific Insurance	(7)	$17.123	(2)	$14.826
Loan-Related Security Insurance	(2)	$240.275	-	-
Foreign Investment	(13)	$43.125	(9)	$21.536
Total Maximum Liability	(32)	$322.105	(14)	$58.361

The significant drop in maximum liability from 1988 to 1989 is accounted for by the expiry of a $235.5 million security agreement relating to Canada Account-backed 1982 sale of subway cars to the United States.

For a detailed Maximum Liability report, complete with exposure by country, please refer to Appendix III.

7.0 SUMMARY OF CANADA ACCOUNT 1988-89 and 1989-90 BUSINESS RESULTS

In 1988-89, $411 million in Canada Account financing enabled Canadian exporters to conclude $708 million in export contracts in 7 countries. During 1989-90, 23 transactions in 8 countries, and with a total contract value of $530 million were concluded on the basis of $232 million in Canada Account financing. (The discrepancy between financed amounts and contract amounts is due to the fact that Canada Account financing does not apply to 100 percent of the contract amount.)

EDC estimates that a total of 27,700 person-years of employment were created or maintained in Canada as a result of Canada Account-financed transactions in 1988-89, while the figure for 1989-90 was 16,700.

EDC also regularly conducts cost/benefit analysis of the transactions supported under the Canada Account. This analysis is very narrowly-based and encompasses only the costs and benefits associated with the specific export transaction in question. EDC does not attempt to measure other, broader economic benefits such as those deriving from follow-on sales in the same market; those which may accrue to other Canadian exporters as a result of the Canadian presence being maintained in the market in question; benefits associated with the application in Canada of technology developed in export transactions supported under the Canada Account, etc. These latter economic benefits to Canada may be significant, but they also tend to be much more difficult to identify and to quantify precisely. Nevertheless, as noted in Section 4, these broader issues are explored and considered by the Government when assessing whether a transaction is in the "national interest".

Overall, EDC's narrowly-based analysis indicates that transactions supported with Canada Account loans had a net cost of $66 million in 1988-89 and $60 million in 1989-90, due mainly to the requirement to provide concessional financing to match the concessional financing offered by Canada's trade competitors.

On the insurance front, $81 million in export volume was declared under 18 insurance policies in 1988-89, while $89 million was declared under 11 policies in 1989-90. (Please note that Business Volume results differ from maximum liability data for two reasons: first, the maximum liability report is as at a specific date; and second, liabilities which extend for more than one year are recorded as having volume only in the year in which they are signed, whereas the liability is recorded until the policy expires.)

8.0 CANADA ACCOUNT 1990 - 1991 EXPENDITURE PLAN

8.1 Strategic Overview

Consistent with both past practice and the legal framework establishing the Canada Account facility, the Account will continue to be used over the 1990 - 1991 planning period on a selective, as-required basis to support transactions which EDC is unable to undertake in its own Corporate Account and which are judged to be in the national interest. This facility will continue to be utilized on an exceptional basis to respond to special situations.

On the international front, the continuing aggressive use of credit mixte by certain developed countries coupled with anticipated strong demand for trade credits will result in continuing pressure for concessional funding.

In terms of the overall management of the resources earmarked for the Canada Account program, the current imbalance between the demand for funds and the limited supply is expected to continue. This imbalance results in part from a convergence between Canadian exporters' marketing efforts and those of the Government, which intensified in the mid-eighties and which are now producing results, and the continuing requirement for the Government to manage its financial resources (particularly budgetary resources) in a conservative manner during a period of fiscal restraint. In the current circumstances, it is not possible with the limited funding available to satisfy all demands for Canada Account support. Consequently, EDC will continue to keep exporters and exporter associations appraised of the difficult budget situation with a view to bringing exporters' demands for funding, particularly concessional financing, more in line with estimated availability.

The basic eligibility criteria which govern the actual approval of specific transactions for support under Canada Account will remain unchanged. That is:

only transactions which the EDC Board is unprepared to accept for its own Corporate Account will be considered;

every transaction supported will be reviewed in accordance with certain stipulated national interest criteria and only those which are judged by the Minister for International Trade to be in the national interest will be supported; and

every transaction supported will require the approval of Cabinet.

8.2 Expenditure Plan

An outline of the Expenditure Plan is provided in Table 8.2.1. Based on the EDC's best current forecasts, the reference levels for 1990 - 1991 are very heavily committed. These forecasts are based on the EDC's most recent projections for requirements under signed transactions and Approvals-in-Principle outstanding.

8.2.1
CANADA ACCOUNT
EXPENDITURE REVIEW
($ MILLIONS)

	88/89 Main Estimates	88/89 Actual	89/90 Main Estimates	* 89/90 Actual	90/91 Main Estimates
- Budgetary (Concessional)	75	52	125	104	185
- Non-Budgetary (Non-Concessional)					
. Disbursements	101	34	100	45	250
. Repayments	(34)	(40)	(36)	(36)	(36)
. Net Requirement	67	(6)	64	9	214
Total Expenditures	142	46	189	113	399

* 89/90 Actuals are supplied by EDC, and not the Public Accounts of Canada.

8.3 Expenditure Priorities

For potential export transactions requiring non-budgetary resources, consideration will be given to any project which can be funded from within existing reference levels.

On the budgetary side, consideration will again be given to any project which is judged to be in the national interest and which can be accommodated within reference levels. In addition, however,

priority will continue to be given to export transactions in "spoiled" markets or in response to the provision of concessional trade credits by other countries;

priority will be given to export transactions requiring relatively small amounts of concessional funding in order to ration the limited resources remaining; and

transactions requiring relatively large levels of concessional funding and transactions in non-priority markets will be discouraged.

APPENDIX I
CANADA ACCOUNT ASSET REPORT
AS AT MARCH 31
($ THOUSANDS)

	1989-90	1988-89
ASSETS		
- Loans receivable:	$965,105	$833,292
- Accrued interest and fees:	$112,941	$91,905
- Due from EDC:	$5,667	$7,264
- Net assets:	$1,083,713	$932,461
NET ASSETS WERE FUNDED AS FOLLOWS		
- Funds disbursed by Canada less repayments of principal and interest: (i.e. Fiscal Year)	$46,153	$16,329
- Loan interest, fees, insurance and guarantee premiums: (i.e. Fiscal Year)	$86,282	$64,035
- Claims paid net of recoveries:	($132)	($18,734)
- Administrative expenses:	($7,055)	($7,183)
- Increase in payables to Canada:	$26,004	$13,518
	$151,252	$67,965
NET ASSETS FUNDED BY CANADA		
- Beginning of the period:	$932,461	$864,496
- End of the period:	$1,083,713	$932,461

APPENDIX II
FINANCING AGREEMENTS SIGNED BY COUNTRY
FROM: APRIL 1, 1989 TO MARCH 31, 1990
CANADA ACCOUNT

Country	Borrower Principal Exporter	Products Financed	Amount ($Thousands)
Egypt	Egypt Canada Wire and Cable Ltd	Metro Extension Metro SapTia/Shoubrah El-Kheima Project	22,446
		Total Country:	22,446
Algeria	BAD SNC/Met-Chem/Lavalin	Phase One Of Engineering Services Of Coordination For Jijel Complex	819
		Total Country:	819
Morocco	Compagnie Nationale Royal Air Maroc CCC	Design And Construct Engine Test Facility	15,211
		Total Country:	15,211
Rwanda	Rwanda Almax International Inc	Vente Et Installation de Lignes Moyenne Tension 15/30 KV	7,400
		Total Country:	7,400
China	Bank Of China Northern Telecom Canada Ltd	Sales Of SPC Switching Systems, Hebei Province	8,569
	Bank Of China 347060 British Columbia Ltd.	Equipment And Related Services For The Fanyu Sawmill Project	1,440
	Bank Of China Northern Telecom Canada Ltd.	Sale Of SPC Switching Systems, Jiangxi Province	3,435
	Bank Of China Northern Telecom Canada Ltd	Sale Of SPC Switching Systems, Shaanxi Province	4,849
	Bank Of China Northern Telecom Canada Ltd	Sale Of SPC Switching Systems, Henan Province	9,192

Country	Borrower Principal Exporter	Products Financed	Amount ($Thousands)
China	Bank Of China Klockner Stadler Hurter Limited	Sale Of Equipment and Services for the Construction Of a Caprolactam Plant	18,778
	Bank Of China Northern Telecom Canada Ltd	Sale of SPC Switching Systems, Yunna Province	4,651
	Bank Of China Phillips Cables	Sale Of Telephone Cable	1,443
	Bank Of China Cambrian Eng Group	Sale Of Process Equipment and Related Services To Assist with Modernization of an Edible Oil Refinery	664
	Bank Of China PHB Weserhutte Inc	Supply Of Two Cable Cranes for the Gehe Yan Hydroelectric Project	1,512
	Bank Of China Various	Supply Of Substation Equipment for the Gehe Yan Hydroelectric Project	11,878
	Bank Of China Fountainhead Enterprises Corp	Supply Of Lumber for the Gehe Yan Hydroelectric Project	2,325
	Bank Of China Canada Wire and Cable Ltd	Sale Of Telephone Cable Associated With NTCL Transaction In Shaanxi Province	681
	Bank Of China Various	Hydroelectric Turbines/ Generators And Related Services	23,532
	Bank Of China SNC Services Ltd	Sale Of Goods And Services for the Construction of the Jiujiang Chemical Plant	4,912
	Bank Of China Fluor Daniel Canada Inc	Ethylene Oxide Project/Jilin Province	11,171
		Total Country	109,031

Country	Borrower Principal Exporter	Products Financed	Amount ($Thousands)
Indonesia	Indonesia Canadian Astronautics Limited	Sale Of A Sarsat Lut and Beacon Satellite System	6,729
		Total Country	6,729
Thailand	Panjapol Pulp Industry Co Ltd Klockner Stadler Hurter Limited	Sale Of Equipment and Related Services for Construction Of A 250 Bone Dry Metric T/D Kraft Pulp Mill	24,800
		Total Country	24,800
Jamaica	Jamaica Telephone Co Ltd Northern Telecom Canada Ltd	Telecommunications Equipment And Services To Help Upgrade And Develop Jamaica Telephone System	45,6000
		Total Country	45,600
		Grand Total	232,036

Report By Plan Rates:

Plan Rates Used:

U.S. $1.00 = Cdn.$1.200000

Differences Due To Rounding

FINANCING AGREEMENTS SIGNED BY COUNTRY
FROM: APRIL 1, 1988 TO MARCH 31, 1989
CANADA ACCOUNT

Country	Borrower Principal Exporter	Products Financed	Amount ($Thousands)
Egypt	Nat'l Org For Egyptian Railways Sydney Steel Corp	75,000 M.T. Steel Rails	46,590
		Total Country:	46,590
Algeria	BAD General Motors of Canada Limited	Sale Of 10 Mainline Locomotives	10,040
		Total Country:	10,040
Morocco	ONPT Bell Canada Int'l Inc	Supply Of Goods And Services For A Telecommication Project	212,300
		Total Country:	212,300
China	Bank Of China Canada Wire and Cable Ltd	Supply Of Telephone Cable And Accessories Associated With Digital Telecommications Equipment	422
	Bank Of China Northern Telecom Canada Ltd	Sale Of Digital Microwave Telecommunications Systems For Use In Hebei Province	1,040
	Bank Of China Dow Chemical Canada Inc	Supply Of Goods And Services For The Construction Of a Chemical Plant In Jhejiang Province	5,278
	Bank Of China Whiting Equipment Canada Inc	Sale Of Aluminum Oxide Furnace System	1,005
	Bank Of China G And B Automated Equipment Ltd	Grinding Wheel Equipment	960
	Bank Of China The Lummus Co. of Canada Limited	One Linear Low Density Polyethylene Plant	17,288

Country	Borrower Principal Exporter	Products Financed	Amount ($Thousands)
China	Bank Of China Whiting Equipment Canada Inc	Sale Of An Aluminum Oxide Furnace To The Second Grinding Wheel Factory Of China	993
	Bank Of China The Lummus Co. of Canada Limited	Fushun Ethylene Plant Project	32,100
	Bank Of China Canadian Communications Int'l	Supply Of A Digital Microwave And Fiber Optic Communication System	600
		Total Country	59,686
India	Coal India CCC	Supply Of Goods And Services re. the Expansion Of The Rajmahal Open Cast Coal Mine	46,480
	Indian Airlines CAE Electronics Ltd	Supply Of 1 A-320 Full Flight Simulator And 1 A-320 Fixed Flight Simulator	5,292
		Total Country:	51,772
Jamaica	Jamaica Telephone Co Ltd Northern Telecom Canada Ltd	Multiplex Digital Switching And Optical Transmission Equipment And DMS-250/EOPS Extension	3,906

Country	Borrower Principal Exporter	Products Financed	Amount ($Thousands)
Jamaica	Jamaica Telephone Co Ltd Northern Telecom Canada Ltd	Digital Multiplex Switching and Fiber Optical Transmission Equipment and Related Engineering and Installation Service	26,875
		Total Country	30,781
		Grand Total	411,169

Report By Plan Rates:

Plan Rates Used:

U.S. $1.00 = Cdn.$1.250000

Differences Due To Rounding

APPENDIX III
CANADA ACCOUNT CURRENT MAXIMUM INSURANCE LIABILITY
AS AT MARCH 31, 1990
($ THOUSANDS)

	Short Term		Bulk Agriculture		Medium Term		Loan Related Specific		Loan Related Security		Foreign Investment		Max. Can. Liability	
Country	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Barbados											1	$1,530	1	$1,530
Cuba			3	$21,999									3	$21,999
Ecuador							1	$4,300					1	$4,300
Egypt							1	$10,526					1	$10,526
Guinea											2	$8,238	2	$8,238
Haiti											1	$945	1	$945
St. Vincent											3	$1,175	3	$1,175
U.A.E.											2	$9,648	2	$9,648
Totals	0	$0	3	$21,999	0	$0	2	$14,826	0	$0	9	$21,536	14	$58,361

CANADA ACCOUNT CURRENT MAXIMUM INSURANCE LIABILITY
AS AT MARCH 31, 1989
($ THOUSANDS)

Country	Short Term No.	Short Term Amount	Bulk Agriculture No.	Bulk Agriculture Amount	Medium Term No.	Medium Term Amount	Loan Related Specific No.	Loan Related Specific Amount	Loan Related Security No.	Loan Related Security Amount	Foreign Investment No.	Foreign Investment Amount	Max. Can. Liability No.	Max. Can. Liability Amount
Barbados											1	$1,530	1	$1,530
Cuba			7	$21,200									7	$21,200
Ecuador							1	$4,300					1	$4,300
Guinea											2	$8,238	2	$8,238
Haiti											1	$945	1	$945
Jamaica							1	$6,300					1	$6,300
Romania					3	$382	5	$6,523	1	$1,775			9	$8,680
St. Vincent											3	$1,269	3	$1,269
U.A.E.											4	$28,989	4	$28,989
U.S.A.									1	$238,500			1	$238,500
United Kingdom											1	$1,729	1	$1,729
Uruguay											1	$425	1	$425
Totals	0	$0	7	$21,200	3	$382	7	$17,123	2	$240,275	13	$43,125	32	$322,105

A N N E X   B

STRATEGIC STUDY ON CANADA ACCOUNT

INTERVIEW QUESTIONNAIRE -

1. What is the Legislative Basis for Concessional Financing/Credit Mixte?

    a. How long has it been in place?

    b. Have there been legislative changes along the way?

    c. Is there ministerial/presidential discretion provided by the legislation?

2. Source of Funding:

    a. Where does the funding come from (ODA, ECA, ECON MINISTRY)?

    b. Who is responsible for the budgeting?

    c. Who is responsible for the accounting?

    d. Is the funding impact budgetary or non-budgetary?

    e. Is the funding provided for on a yearly basis, on a longer term, or on a case by case basis?

3. What is the Relationship between the ECA and Concessional Financing?

    Do they exercise control, do they have a predominant role, etc?

4. Policy Formulation:

    a. Who is responsible for the formulation of the policy relating to credit mixte/concessional financing?

    b. What is the overall rationale underlying the policy/ objectives?

    c. What are the political, economic and trade considerations at the domestic, bilateral and multilateral levels?

    d. Is there specific targeting in terms of sectors or markets?

    e. What is the consultative process with the private sector?

5. Management Issues:

   a. Who administers the programme?

   b. Process/ If there is a budget ceiling, can it be exceeded?

   c. Who does the risk assessment, and on what basis?

   d. How is the cash flow management dealt with?

   e. Who is responsible for the assessment of the programme in terms of political, economic, industrial and trade impact?

   f. Is there a report to the legislature on concessional financing activities?

6. Transaction Assessment:

   a. Who is responsible for the examination/assessment of the transactions?

   b. What criteria are used; i.e., banking viz national interest?

   c. Is there a cost/benefit analysis and, if so, what weight is it given?

   d. How responsive is the process, and what is the time frame from the time of the exporter request to the allocation of funding/commitment to giving funding?

7. Exporters Interest:

   a. Is there a strong business lobby; on the part of big business only?

   b. Is there a broad knowledge of this issue?

   c. Is there a considerable contribution to policy formulation?

   d. What would be the reaction if concessional financing was to be done away with?

8. Public Interest:

   a. Is there an awareness of the concessional financing issue?

   b. If so, is there support/ concern/ indifference?

   c. What is the standard response to the public?

9. Future Intentions:

   a. How do you see your policy evolving in years to come?

   b. How do you see the whole matter of concessional policy evolving?

   c. How will strategic objectives and priorities evolve?