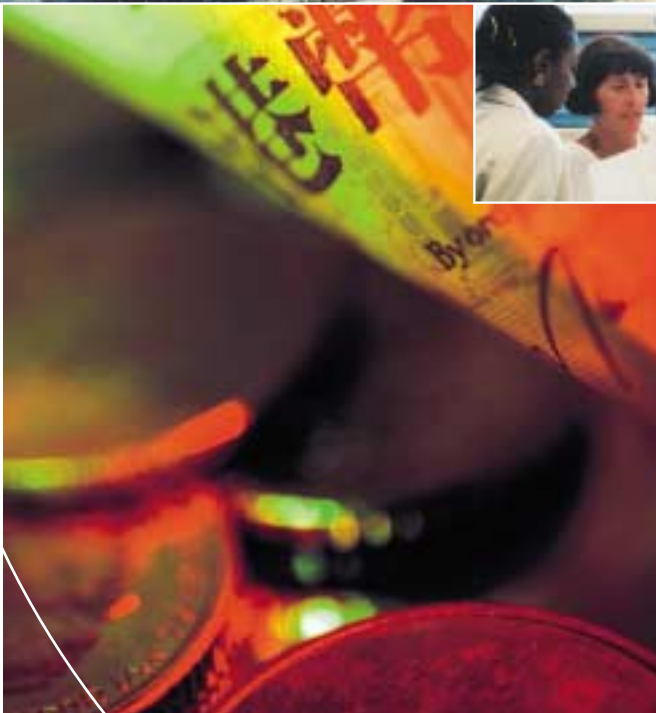




Export Credits Guarantee Department

Mission and Status Review

1999-2000



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Review of ECGD's Mission and Status

July 2000
London

Presented to Parliament by the Secretary of State for Trade and Industry
by Command of Her Majesty, July 2000

Secretary of State's Foreword

This Report sets out important changes to ECGD's Mission and Status so that it can continue to effectively support UK firms and the jobs they create, but at the same time become more consistent with the Government's wider objectives. These changes represent the conclusions of the Review which I announced to Parliament last July. The Review was to take a fundamental look at ECGD and decide what role it should pursue over the coming years.

The Government accepts the conclusions of this Report, which strongly reaffirms ECGD's role in bringing economic benefit to the UK through its support of UK exporters and investors in overseas markets. It also sets out an important agenda for change. In addition to its trade facilitation role, ECGD should take account of the Government's wider international policies to promote sustainable development, human rights and good governance throughout the world, while still helping UK firms effectively compete for business internationally.

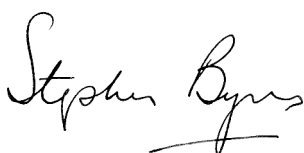
Poorly executed projects can have negative impacts on the environment and local people and generally represent poorer quality risk: it is in ECGD's self-interest to promote good projects which offer long-term benefit to the country concerned. ECGD can assist the Government's multilateral initiative to help the poorest countries emerge from debt and poverty burdens, and developing countries achieve sustainable development, by supporting productive projects. The Business Principles ECGD is to develop (which will be underpinned by ECGD's new corporate governance arrangements) will provide a more detailed statement of the policies that will bolster the new Mission. The UK will take the lead multilaterally in promoting a similar approach by other Export Credit Agencies.

ECGD's traditional customers have rightly commented on the quality of service they have received in recent years. This has helped them compete with confidence. ECGD will extend its services to ensure that they are more accessible to the many smaller capital goods manufacturers around the country who may be looking to export to unfamiliar areas of the world, and also to manufacturers from a wider range of industrial sectors.

I am also keen that ECGD's operations should be viewed with greater confidence. The ability to win valuable business for the UK is extremely important, but this is not the whole story. ECGD is not, and should not become, a drain on the taxpayer.

With the introduction of modern risk management systems, ECGD will have greater autonomy for decisions on projects it can support and should be left to get on with the job.

The Review involved a wide-ranging consultation with the exporting community, relevant NGOs and members of the public with an interest in the future of ECGD. The conclusions reflect the views from the consultation process as well as discussion across Government and with the Trade and Industry and International Development Select Committees. They also take into account the independent studies into aspects of ECGD's work commissioned from KPMG and National Economic Research Associates, and the Reviews ECGD conducted on its Reinsurance and Export Finance schemes. I am extremely grateful for the input of all concerned and, in particular, all those organisations and individuals who took the time and trouble to make their views known at the public consultation stage. A thorough Review could not have been conducted without these valuable contributions.



Rt Hon Stephen Byers MP
Secretary of State for Trade and Industry

Glossary

CBI	Confederation of British Industry
CDC	Commonwealth Development Corporation
DFID	Department for International Development
DTI	Department of Trade and Industry
ECA	Export Credit Agency
ECGD	Export Credits Guarantee Department
EGAC	Export Guarantees Advisory Council
EU	European Union
EXIG	Export credit insurance and guarantees
FCO	Foreign and Commonwealth Office
FDI	Foreign Direct Investment
FREF	Fixed Rate Export Finance
GPDM	Good Projects (in Difficult Markets)
HIPCs	Heavily Indebted Poor Countries
HMG	Her Majesty's Government
IDA	International Development Association (a member of the World Bank Group)
IFC	International Finance Corporation (a member of the World Bank Group)
IFIs	International financial institutions
IMF	International Monetary Fund
IWG	Inter-departmental Working Group
LI	Low Income
LMI	Lower Middle Income
MECs	Market Exposure Controls
MGCSR	Modernising Government and Civil Service Reform
NDPB	Non-Departmental Public Body
NERA	National Economic Research Associates
NGO	Non-governmental organisation
OECD	Organisation for Economic Co-operation and Development
OII	Overseas Investment Insurance
OPF	Overseas Projects Fund
PMS	Portfolio Management System
RCR	Reserve Coverage Ratio
SMEs	Small and Medium-sized Enterprises (defined by the DTI as a company with fewer than 250 employees)
UMI	Upper Middle Income
WTO	World Trade Organisation

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1. Executive summary and conclusions

This chapter sets out the main conclusions of the Review and summarises the supporting arguments which are described in detail in the following chapters.

Introduction

- 1.1 The Secretary of State for Trade and Industry, the Right Honourable Stephen Byers MP, announced the Review of the Export Credits Guarantee Department's Mission and Status on 27 July 1999. He said he saw the Review as an opportunity to take a fundamental look at ECGD in order to establish a clear Mission Statement to define its future role and prepare for the challenge of the 21st century.
- 1.2 The Terms of Reference required the Review to examine ECGD's aim, objectives, role and status; taking into account the relationship of ECGD's activities to Her Majesty's Government's (HMG's) wider objectives.
- 1.3 ECGD is important because of its role in facilitating trade. It helps UK firms by insuring about £3–4 billion a year of capital goods and services and exports and investments overseas. Like any insurer, it charges premium for cover, pays claims, and recovers amounts paid out in claims, where it can. It runs its business cost-effectively, against a robust breakeven objective which was set nearly ten years ago, and which it has met since then.
- 1.4 ECGD does not compete with the private market. Its cover is generally needed for projects in non-OECD markets. It supports just under 20 per cent of UK capital goods exports to such countries. These projects are often

high value, take a long time to complete and are paid for over a number of years. There is only limited private sector appetite for this kind of risk and all OECD countries have state-backed Export Credit Agencies (ECAs) to underwrite this type of business. ECGD does not cover exports of consumer goods sold (usually) on six months' credit: this is catered for by the private export credit insurance and reinsurance market.¹

- 1.5 Although ECGD was the world's first export credit insurer, established in 1919, it has changed its functions many times over the years in response to changing world trade conditions. The remit set by Ministers was that this Review should be wide-ranging and fundamental. The Review looked first at the underlying rationale for what ECGD does in today's conditions. Was there still a need for the Government to continue to provide export credit and overseas investment insurance? If so, should any change be made to ECGD's Mission? How should ECGD respond to changing needs? Would any change to its Mission impact on the kind of organisation ECGD needs to be – its Status – to deliver its service most efficiently?
- 1.6 Summary findings and conclusions are set out below.

The case for ECGD and its core purpose

- 1.7 The Review strongly reaffirms ECGD's role and its importance for business, whilst concluding that it needs to change to increase

¹ ECGD privatised its short-term business in 1991, but has continued to provide a very limited amount of reinsurance to the short-term market.

its overall effectiveness. Its core purpose should be to benefit the UK economy by facilitating trade through its insurance activities.

- 1.8 It is important that UK firms and investors should have this support since the private sector is not able to offer the insurance they require on the consistent basis provided by ECGD. Also, UK firms need to be able to compete effectively against exporters and investors supported by government-backed ECAs in other countries. This conclusion is supported by the findings of an independent report commissioned by ECGD from National Economic Research Associates (NERA); *The Economic Rationale for the Public Provision of Export Credit Insurance by ECGD*.² NERA said:

*“We consider that ECGD should continue to provide cover for medium- to long-term capital goods exports. We do not consider there to be a strong case for privatising ECGD’s current portfolio of medium- to long-term export credit guarantees, or for ceasing to underwrite new business”.*³

- 1.9 The conclusion, therefore, is that there is a strong business case for retaining ECGD. Abolition and privatisation should not be pursued (though they should be reviewed from time to time). ECGD’s core aim should continue to be to benefit the UK economy by fulfilling its statutory purpose of facilitating trade. UK exporters would be adversely affected if ECGD did not provide appropriate support. But ECGD is not and should not become a drain on the taxpayer. It is important that ECGD should continue to operate within a robust breakeven financial framework and a strengthened risk management system. It should also continue to work with the private sector to encourage the market to develop further.
- 1.10 While trade facilitation – for the benefit of the UK economy – should remain ECGD’s core purpose, it should promote the Government’s other international policies more actively in ways that are consistent with this aim.

2 The NERA Report is published in full alongside this report.

3 Section 9.1 of the executive summary of the NERA Report.

- 1.11 In particular, ECGD should use its leverage to support projects which are economically sound, representing an acceptable risk, and to underpin the Government’s international policies to promote sustainable development, human rights and good governance throughout the world. This wider remit should be reflected explicitly in ECGD’s new Mission and ECGD will need to ensure it has the relevant expertise, policies and processes to achieve these new objectives. **A revised Mission Statement is set out on page 11.**

- 1.12 In order to set out clearly and publicly its approach to this new Mission, ECGD should develop and publish, before the end of 2000, a statement of Business Principles that will guide its practice and business policies and plans for achieving them. **An outline of the key elements that a statement of Business Principles should include is also to be found at the end of this chapter.** ECGD should also produce information for customers and other interested parties on how it will handle sensitive cases caught in its initial screening process. The Business Principles and related procedures should be developed in consultation with the Export Guarantees Advisory Council – operating to a reformed remit – other departments and ECGD’s stakeholders. ECGD’s customers, in particular, will need to know clearly where they stand and be assured that any additional processes are efficient and do not put them at a competitive disadvantage. Its policies and information should be continuously reviewed and updated.

Conclusions:

- **The Government should continue to provide export credit and overseas investment insurance and reinsurance through ECGD within a robust breakeven financial framework.**
- **ECGD should promote the development of the private export credit and insurance market, and work in close partnership for this purpose with the private sector.**

- ECGD should continue to negotiate internationally to eliminate any subsidies from government-supported export credits.
- ECGD's Mission should explicitly reflect the requirement to provide its support in a way that is consistent with wider Government objectives.
- ECGD should develop a statement of Business Principles to govern its business practice in relation to matters such as openness, debt sustainability, human rights, sustainable development, corporate governance and business integrity. ECGD's performance will be reported against the Business Principles.

The following paragraphs set out the main areas of change that ECGD's new Mission will embrace.

ECGD and its customers: widening the customer base

- 1.13 Most of ECGD's directly insured customers tend to be large companies with the balance sheets and experience to carry out large-scale capital projects in emerging markets. The make-up of ECGD's portfolio by sector – about 58 per cent is civil business and 21 per cent each for defence and aerospace – reflects the UK's relative industrial strengths.
- 1.14 Many thousands of sub-contractors in the UK supply chain benefit from ECGD cover, as their work is funded from ECGD-backed loans for particular projects or for procurement programmes undertaken by multinational prime contractors or overseas buyers. Large contracts will continue to be fronted by major companies. These firms are competing with companies supported by government-backed ECAs in other countries and it is important for UK exporters that ECGD should continue to provide them with high quality support which is competitive with that provided by other ECAs, to encourage orders to be placed in the UK.

1.15 ECGD does insure small firms and small value contracts. Most small and medium-sized enterprises (SMEs), however, tend to export consumer goods on cash terms or up to six months' credit to developed markets and do not need ECGD cover. Their needs are met by the private insurance market. But increasing numbers of medium-sized firms are exporting capital goods on their own account to the markets ECGD covers. ECGD should do more to seek these firms out and actively look for exporters and investors in other sectors and new technologies. The key issue for SMEs is an information gap. Exporters generally need to know more about export insurance and export finance, whether available from ECGD or the private sector. In short, they need to know how to be sure of getting paid. ECGD can help British Trade International, the DTI's new Small Business Service and the Regional Development Agencies to spread such information to companies, especially through electronic means.

1.16 ECGD's narrow base of direct customers – and the difficulties in delivering its service to and communicating with SMEs – are a cause for concern. The benefits of ECGD's services should go to the widest possible range of UK firms and industrial sectors engaged in capital goods and services exports and overseas investments. ECGD will pursue a number of policies to widen this base and ensure its policies are accessible.

Conclusions:

- ECGD should seek to attract more medium-sized exporters and investors as direct customers; in addition to its existing product range, it should offer a package of products geared to light capital goods and services and the smaller exporter/investor.
- ECGD should work more closely with British Trade International, the DTI's new Small Business Service and the Regional Development Agencies (and the regional trade organisations of Northern Ireland, Scotland and Wales) both on the selection of target export promotion markets, and how to fill the information gap and increase understanding of export insurance

and finance amongst smaller exporters and investors at a local level throughout the UK.

- ECGD's marketing strategy should target multinational companies to encourage sourcing from the UK.
- ECGD should develop its e-business capability at least to match that of other ECAs, and so improve the quality of services offered.

ECGD: doing more for development

- 1.17 Many developing countries are relatively wealthy, do not carry undue debt burdens and are creditworthy. ECGD already supports substantial business in 'Upper Middle Income' countries.
- 1.18 However, ECGD is owed a large amount of debt from business underwritten in the 1970s and 1980s. Much of this is being successfully recovered from those who can pay. But around £1.6 billion is owed to ECGD by Heavily Indebted Poor Countries (HIPCs). HMG's debt forgiveness policy, coupled with appropriate social and economic reform measures on their part, is intended to assist their recovery through sustainable economic development. This needs to be bolstered by equivalent multilateral action.
- 1.19 ECGD plays a key part in HMG's efforts to achieve a definitive debt solution for these countries. On 21 December 1999, the Chancellor of the Exchequer announced the UK's readiness to relieve HIPC debtors of approximately £1.9 billion of payments (including the £1.6 billion owed to ECGD and covered by Paris Club rescheduling agreements).
- 1.20 There are some developing countries which cannot afford to borrow and which remain largely dependent on overseas development assistance (aid). For others, however, there is a limited place for export credits for trade and investment, including for some of those recovering from debt problems, to support their social and economic development. In these circumstances, debt is not undesirable, provided it is used to finance projects which contribute to development, and does not create new unsustainable debt burdens.
- 1.21 The UK has led the way in introducing 'productive expenditure' criteria which apply to UK export credits and overseas investment insurance for 63 IDA-only⁴ countries, including the HIPCs. ECGD will cover business in any of these countries which become eligible for credit provided the new expenditure will benefit the country's social and economic development. ECGD is seeking to get this policy applied throughout the OECD. In addition, the UK will keep open the option of applying this policy to other countries, where this would be consistent with ECGD's risk assessment.
- 1.22 It is not ECGD's function to support business that would prejudice its chances of breaking even, but ECGD's 'Good Projects' scheme⁵ can potentially play an important role in contributing to sustainable development in poorer countries as can its Overseas Investment Insurance⁶ scheme. ECGD could also be more flexible on cover – for example, by offering small amounts of cover for businesses in developing countries, provided there are sensible controls on the type of risk taken on.
- 1.23 ECGD should work with organisations such as the World Bank, the Regional Development Banks, the Commonwealth Development

4 International Development Association – see footnote to paragraph 5.2.

5 The 'Good Projects in Difficult Markets' (GPDM) scheme is designed to cover selectively for viable, well-structured projects in markets where ECGD cover would not generally be available for business with those countries.

6 ECGD's Overseas Investment Insurance (OII) scheme provides insurance for UK investors against the main *political* events of war, expropriation and restrictions on remittances. The aim of the scheme is to contribute towards the growth of the economies of primarily the less developed countries, by encouraging UK investment overseas.

Corporation (CDC) and other ECAs to help make sustainable projects happen, sharing the risk burden through co-financing and co-insuring. It should also work with DFID, the FCO, British Trade International and private sector lenders and investors to identify case-by-case opportunities for making full use of ECGD's facilities – including structured financing solutions and the use of mixed credits⁷ – where such financing would be consistent with a country's poverty reduction strategy, DFID's Country Assistance Strategy and the importing government's medium-term expenditure framework.

Conclusions:

- **ECGD should continue to work with HM Treasury and DFID to implement the Government's policy for 100 per cent debt write-off for countries which qualify for this level of relief and to press other creditor countries to follow suit.**
- **ECGD should continue to press for international acceptance of its productive expenditure policy and should keep open the option of applying this policy to other countries.**
- **ECGD should use its 'Good Projects' and Overseas Investment Insurance schemes more proactively and seek to be more flexible on cover for developing countries within sensible controls on exposure.**
- **ECGD should work together with other Government departments, the private sector and the International Financial Institutions to identify better ways in which ECGD support might contribute towards developing countries' sustainable development.**

ECGD and project impacts: taking greater account of sustainable development and human rights

- 1.24 The UK has important international policies to promote sustainable development,⁸ human rights and good governance throughout the world and to secure improvements in global security and economic prospects. ECGD can support these objectives in ways that are consistent with its statutory purpose and it is appropriate that it should do so, given that it relies on the UK taxpayer to stand behind the guarantees and insurance cover it issues. This responsibility should be explicitly recognised in its new Mission.
- 1.25 Ill-conceived and poorly executed projects can have negative impacts on the environment and local people and make for poorer quality risk. Bribery and corruption can also undermine the economic benefits of a project and even the economy of the buying country. It is in ECGD's self-interest to take full account of these factors in its assessments and to promote good projects. ECAs have an important role to play in improving project impacts, by working in partnership with stakeholders to influence negotiations to achieve an acceptable outcome.
- 1.26 ECGD's initial environmental screening process helps identify whether a particular project on which cover is sought may raise sensitive issues. When such projects are identified, they go through a second stage process of 'due diligence' – in which ECGD and the project lenders find out more, taking independent advice as necessary – to help assess project risks and related issues and determine how to take matters forward.

7 This is consistent with the arrangements introduced when the previous Aid and Trade Provision (ATP) scheme was terminated – set out in the White Paper *Eliminating World Poverty: a Challenge for the 21st Century*, paragraph 2.35 (website: www.dfid.gov.uk).

8 See paragraph 6.1.

However, ECGD's assessment processes should be further developed, to include screening for human rights, and ECGD should ensure it has the necessary skills and capacity in-house to handle sensitive cases, as well as access to independent external expertise. So that exporters and others are clear about how ECGD will handle these issues in the future, ECGD will – in consultation with them – further develop its policy on how sensitive cases will be handled and reflect this in the proposed statement of Business Principles. The policy should be kept under review and subject to continuous improvement.

1.27 ECGD should aim to publish, by the end of 2000, alongside the proposed statement of Business Principles, information to guide customers and others on its screening and assessment procedures, building on best practice followed by other ECAs, commercial lenders and relevant IFIs – but it should adapt its assessment systems in a way which safeguards the competitiveness of UK exporters and investors and the quality of ECGD's service to them.

1.28 ECGD should use relevant internationally recognised standards as benchmarks for assessing such projects. These standards should be used as a basis for negotiating an acceptable outcome. It should work with other ECAs and press strongly for standards of assessment to be raised multilaterally and for coherence in the inclusion of sustainable development principles and policies in the work of ECAs and IFIs.

Conclusions:

- ECGD should further develop its systems for assessing project impacts and should aim, by the end of 2000, to produce, alongside the proposed Business Principles, information for customers and other interested parties on how sensitive cases will be handled.

- ECGD should ensure it has relevant expertise and capacity in-house and access to appropriate external expertise and independent advice.
- ECGD should align itself with the best of other ECAs and should press strongly for multilateral reform.
- ECGD should focus in the short term on achieving a satisfactory outcome for the 2001 OECD Ministerial meeting on common OECD environmental guidelines for ECAs.

ECGD and defence exports

1.29 Whilst the UK Government supports the right of all countries to provide for their legitimate defence, it operates a strict control regime to ensure compliance with international obligations and the proper use of equipment supplied. Since coming to office, the Government has significantly tightened up the export licensing system to ensure that defence sales to all countries are scrutinised rigorously, including for human rights concerns. The Government has also published proposals for new export control legislation in its July 1998 White Paper on Strategic Export Controls. While ECGD does not discriminate between industrial sectors when underwriting cover, it undertakes rigorous checks to ensure it provides cover for defence sales only where a valid licence (if required) has been issued.

1.30 In the case of poorer developing countries, the sale of defence equipment needs to be handled carefully and responsibly. Such sales may be made only where a responsible security policy is in place in the recipient country, which will be considered in the context of any export licensing application, and where ECGD cover is targeted on expenditure that would be economically productive, thus meeting the 'productive expenditure' criteria.

Conclusions:

- For exports of defence equipment to any country, ECGD will continue to give cover only where the requirement of export licensing has been fulfilled.
- For defence sales to IDA-only countries, ECGD should apply the productive expenditure test to any application for cover.

ECGD and the financial services industry: developing the private market

1.31 It is not appropriate for ECGD, as a Government department, to compete with the private market. ECGD can, however, help develop the market by complementing it and encouraging the private sector to take on more risk, in the meantime providing consistent support and stability to UK exporters. ECGD should continue to develop innovative solutions with the private market, and correct market failures only where it makes economic sense to intervene. As before, ECGD should rigorously scrutinise any opportunities for contracting out functions, particularly any new functions, to assess whether this would represent value for money and bring an improvement in service delivery.

1.32 The UK led the way in privatising ECGD's short-term credit insurance business. *The Reinsurance Review*, the conclusions of which are set out in a report published alongside this one, puts forward a strategy for the eventual transfer of residual reinsurance to the private sector.

1.33 ECGD has substantially reduced the costs and risk to taxpayers on its Fixed Rate Export Finance (FREF) portfolio by a programme of hedging and refinancing, and is actively pursuing multilateral negotiations to reform the OECD Consensus to reduce subsidy elements further. The recent Export Finance Review concluded that ECGD should reinforce

these efforts and aim, ultimately, to abolish FREF. Meanwhile, the feasibility of operating the scheme to a breakeven financial objective should be explored, as should the case for alternative funding mechanisms.

Conclusions:

- ECGD should build on its success of working with and complementing the commercial banking and insurance sector, and should not compete with them as some other ECAs do.
- ECGD should build on the success of the privatisation of its short-term business. Without withdrawing the present reinsurance arrangements it should work for a 100 per cent transfer of short-term credit insurance risk to the private sector.
- ECGD should use the private market to manage risks through active treasury management using hedging, capital markets and reinsurance instruments where this is cost-effective.
- ECGD should aim to ensure that UK exporters have access to competitive finance whilst progressively eliminating FREF subsidies. The feasibility of a breakeven objective should be explored, as should options for alternative funding mechanisms.

ECGD and the taxpayer: strengthening risk management

1.34 The economic rationale for the Government continuing to back ECGD's insurance services rests primarily on ECGD continuing to meet any Financial Objective. It is therefore of vital importance that its risk management systems should be robust and draw upon best commercial practice where that is relevant.

1.35 KPMG concluded in its *ECGD Risk Management Review Recommendations Report* (which is published alongside this Report) that ECGD's approach to risk management is based on

sound principles. However, ECGD needs to make the transition from a transaction to a portfolio approach to reflect aggregate risk levels more appropriately. KPMG identified areas where improvements could be made – in ECGD's reporting arrangements and its operations and systems management. ECGD is now addressing these recommendations in an action plan agreed by Ministers.

1.36 KPMG's key recommendation was that ECGD should press ahead with its plans to develop a capitalisation framework, the aim of which would be to manage portfolio risk more effectively. ECGD has set in hand a radical and ambitious development programme to take this work forward, and its aim is to have many of the key elements of the capitalisation framework in place by April 2001. ECGD is also aiming to have formulated by April 2001 the policy framework for a full capitalisation system, to be introduced by April 2002, including the establishment of a Trading Fund.⁹

1.37 The introduction of a robust and properly capitalised risk management framework should enable ECGD to be given clearer autonomy and accountability for decisions on pricing and the allocation of its capital to particular transactions and markets. In turn, this should enable it to provide greater stability and continuity of support across a wider range of markets. Maintaining stability and continuity of support should be a key business goal.

1.38 These improvements should allow HM Treasury to adopt a strategic role in its oversight of ECGD, which would have operational autonomy within the capitalised framework. Although it is important that ECGD should have robust risk management systems and clear objectives which minimise the risk of loss to the taxpayer, it is also important that the 'risk-reward balance' that ECGD is asked to strike allows it to offer competitive support to

UK exporters. The remaining Status option¹⁰ – whether, in addition to being an independent Department, ECGD should also be an Agency – will be considered in the context of the work to establish a Trading Fund, once the policy framework for a full capitalisation system has been established.

1.39 However, there will be occasions when it is in the UK's national interest to give support to business that cannot be accommodated within ECGD's financial framework. Such business is presently assigned to ECGD's Account 3.¹¹ This should continue, but the use of Account 3 should be restricted. It should not be seen as a means for risky business to escape financial discipline. ECGD's new financial framework would mean that there should be less requirement for business at the riskier end of the spectrum to be rejected, provided there was capital to support it and the premium was matched to the risk. But if ECGD declines to underwrite business on risk grounds under the new framework, Government support should be available only where there are truly exceptional circumstances.

Conclusions:

- **There should be no change in ECGD's risk-reward balance nor to the broad volume of its business over time. That is, ECGD's Financial Objective and its overall risk appetite should remain broadly the same.**
- **ECGD should continue to press multilaterally for ECAs to adopt risk management systems and policies based upon best commercial practice.**
- **ECGD should strengthen its risk management systems along the lines recommended by KPMG; in particular by introducing a capitalised framework informed by best commercial practice – this will entail establishing a Trading Fund.**

9 The key characteristic of a Trading Fund is that it operates outside the Vote system. Receipts can be used to meet expenditure without advance approval from Parliament. The greater flexibility and freedom this allows is intended to improve financial management. Trading Funds are required to break even and to meet financial targets specified by Ministers.

10 Other Status options have been addressed as follows: Chapter 3 concludes that abolition and privatisation are not appropriate; ECGD should continue to promote the development of the private market and work in partnership with the private sector for this purpose. Chapter 8 concludes ECGD should continue to develop innovative solutions with the private market and look at options for contracting out functions where this would represent value for money and would bring about an improvement in service delivery. ECGD should use the private market to manage risks where this is cost-effective. Chapter 9 concludes that the question of Agency status should be further examined in the context of the establishment of a Trading Fund.

11 Accounts 1, 2 and 3 are defined at paragraph 9.1.

- ECGD should have operational autonomy within this framework with HM Treasury's role being one of strategic oversight.
- Once the policy framework for the Trading Fund has been agreed, ECGD should examine, with the Cabinet Office and HM Treasury, whether, in addition to remaining an independent Department, it should also be an Agency.
- Account 3 should continue but its use in future should be *exceptional* and confined to supporting business that cannot be accommodated within normal Account 2 cover arrangements and where there are significant wider Government policy interests at stake. Account 3 should not represent an 'escape route' for risky business that ECGD cannot accept under its Financial Objective. HM Treasury approval will be required for each transaction.

ECGD's corporate governance: a better system of control

- 1.40 ECGD will need to strengthen its management and corporate governance to deliver its new Mission and put in place the new risk management systems. It is important that ECGD should have access to outside sources of expertise and advice so that Ministers and Parliament can be assured that ECGD is keeping abreast of best commercial practice. ECGD will appoint outside Directors to play a key role in overseeing its risk management systems through membership of the Audit and operational Committees. Outside Directors might also have a role to play in ECGD's complaints procedures.
- 1.41 At present, the Export Guarantees Advisory Council focuses upon ECGD's country risk assessment activities. Its remit needs to be broadened in line with ECGD's new Mission. Accordingly, its new remit should be to provide advice on the development of the new policies and principles needed for ECGD to

implement its revised Mission. The Council should also advise on the drafting of the statement of Business Principles. To reflect this broadened remit, its membership will be revised to bring in outside expertise on the new areas in ECGD's Mission (to focus on SME interest, developmental, environmental and other project impacts). New appointments will follow established public appointment procedures. ECGD already consults other departments on a range of issues and cases, but should establish a formal mechanism for consulting other departments on sensitive cases and related process issues. Revised Terms of Reference for the Council should be published.

- 1.42 Council members will continue to be subject to rules designed to avoid conflict of interest between their role as members and their other interests; the same will apply to the appointment of outside Directors.

Conclusions:

- ECGD should strengthen its corporate governance systems, including the appointment of outside Directors to ECGD's Management Board. They would have a key role in overseeing ECGD's risk management systems through membership of the Audit and relevant operational Committees.
- The Terms of Reference of the Export Guarantees Advisory Council should be widened in line with the change of Mission; its remit should be radically reformed so that it advises ECGD on policies and principles needed to fulfil the new Mission and not on individual risk decisions. The revised Terms of Reference should be published.
- There should continue to be procedures for outside Directors and Council members to avoid conflicts of interest.
- ECGD should review its complaints procedures.
- ECGD should establish a formal mechanism for consulting other departments on sensitive cases and related process issues.

ECGD: more open and transparent

- 1.43 ECGD should have an open dialogue with its stakeholders – customers, the press, the public, Ministers and Parliament – on its activities and its business policies and performance. This is important for maintaining public confidence.
- 1.44 The publication of Business Principles and reporting performance against these other strategic goals should go a long way to providing more information on ECGD's approach to business. Confidence will be enhanced by these Business Principles being prepared through a process of consultation with customers and other organisations with an interest in ECGD's work.
- 1.45 There should be a presumption that ECGD will conduct its business in a transparent and open way. At the same time it has to respect the expectations of its customers that legitimate commercial confidentiality will be safeguarded. This is particularly important where UK exporters are competing for business with overseas companies. Likewise, to disclose ECGD's assessments of the creditworthiness of individual countries could harm the UK's bilateral relations with them.
- 1.46 However, much of the information ECGD holds is not confidential. Equally, it could do more to collect and publish information on projects it has supported after the competitive procurement process is complete. It would also increase confidence in and understanding of ECGD to make more information available on its policies and how it assesses projects.
- 1.47 ECGD should redesign and expand its Annual Report, which currently focuses on financial outturn, and provide much more information on the business it has supported and its performance against its strategic objectives and the proposed Business Principles.

Conclusions:

- ECGD should undertake more consultation with customers and other interested parties who have an interest in what ECGD does.
- ECGD should provide more information on the benefits of its business to UK exporters and investors, support for SMEs and the impact on buying countries of projects which it has supported. It should report on its performance against the proposed Business Principles and its other strategic goals, in a fuller Annual Report which should be laid before Parliament. (The first expanded Report should be in respect of the 2000/01 financial year.)

ECGD and its people: better skills and service

- 1.48 This is a radical and fundamental programme of change. The new Mission and the proposed Business Principles will lead to significant changes in ECGD's operations and its culture. They will fundamentally transform the way ECGD does business, and how it deals with its customers, Parliament and the public. ECGD will need to develop the skills of its people and where necessary import skills to tackle the revised Mission. Implementing these reforms will call for leadership, dedication, good management and consultation with stakeholders.
- 1.49 ECGD already has a skilled workforce admired for its professionalism. The revised Mission and agenda for change will need to be reflected in the aims and objectives of its Personnel Strategy which will set out the culture, values and behaviours that underpin the new Mission.

Conclusions:

- ECGD's Mission should explicitly reflect the need to recruit, develop and retain the people with the skills needed to achieve its business goals and objectives.
- ECGD should amend the aims and objectives of its Personnel Strategy to reflect its new Mission.

New Mission Statement

Aim

To benefit the UK economy by helping exporters of UK goods and services win business and UK firms to invest overseas, by providing guarantees, insurance and reinsurance against loss, taking into account the Government's international policies.

Objectives

Consistent with the above Aim:

- To achieve Financial Objectives set by Ministers.
- To operate in accordance with its Business Principles.
- To ensure its activities accord with other Government objectives, including those on sustainable development, human rights, good governance and trade.
- To promote an international framework that allows UK exporters to compete fairly by limiting or eliminating all subsidies and the adoption of consistent practices for assessing projects and countries on a multilateral basis.
- To recover the maximum amount of debt in respect of claims paid by ECGD in a manner consistent with the Government's policy on debt forgiveness.
- To ensure ECGD's facilities are, in broad terms, complementary to those in the private sector.
- To provide an efficient, professional and proactive service for customers which focuses on solutions and innovation.
- To employ good management practice to recruit, develop and retain the people needed to achieve the Department's business goals and objectives.

ECGD Business Principles

This is a draft of the objectives which are likely to be included in a statement of ECGD's Business Principles. ECGD will consult its customers and other organisations with an interest in ECGD's work about the final form of these objectives and the policies which will underpin them. The agreed statement will be kept under regular review by ECGD and will be amended, as appropriate, following further consultations with interested parties.

Transparency

Objectives

- 1 To be as open as possible, while respecting legitimate confidentiality, about what we do.
- 2 To consult, listen to and respond openly to all our stakeholders.

ECGD in Government

Objectives

- 1 To ensure that in its operations ECGD takes full account of existing and developing Government policy in the economic, trade, foreign policy, developmental and environmental spheres.
- 2 To ensure that ECGD fully adopts the Modernising Government and Civil Service Reform agendas.
- 3 To ensure that interested Government departments are able to contribute to the consideration of ECGD support for projects which raise major policy issues.

Business integrity and good governance

Objectives

- 1 To be objective, consistent, fair and honest in all dealings with stakeholders.
- 2 To manage its affairs prudently with due skill, care and diligence.

Human rights

Objectives

- 1 To ensure that ECGD does not contribute to human rights abuses or violations in providing cover for any project or investment.
- 2 To ensure that ECGD does not encourage or rely on practices which cause or contribute to human rights violations or abuses in providing cover for any project or investment.

Sustainable development

Objectives

- 1 To take account of the environmental and social impact of projects for which ECGD support has been requested.
- 2 To recognise the benefits of working in partnership with exporters, investors, financial institutions and buyers' countries to raise their awareness of environmental and social issues.
- 3 To support discussions internationally to establish a multilateral environmental and social framework for ECAs.

Debt sustainability and developing countries

Objectives

- 1 To support developing countries in their efforts to achieve and maintain sustainable levels of debt.
- 2 To contribute to the sustainable development of the poorest developing countries by ensuring that new borrowing and investment is used only for productive expenditure.
- 3 To remove, where it is in the interests of the proper financial management of the ECGD portfolio, the burden of unsustainable debt from Heavily Indebted Poor Countries as part of a wider strategy to reduce poverty and facilitate growth to assist developing countries to return to the international trading community.

2. The Review process

This chapter describes the background to the Review, how it was conducted and the various inputs to the Review process.

Background to the 1999/2000 Review of ECGD's Mission and Status

2.1 The Review of ECGD's Mission and Status was announced by the Secretary of State for Trade and Industry, the Right Honourable Stephen Byers, on 27 July 1999, with the following Terms of Reference:

"To review the aims and objectives, role and status of ECGD and to make recommendations to the Secretary of State for Trade and Industry.

"The Review should take account of the relationship of ECGD's activities to HMG's wider objectives and of the need to balance the benefits of ECGD's support for UK exporters and investors against the risks to the taxpayer. The Review should consider international practice in the provision of export credits and investment insurance both in the public and private sectors.

"It should also take into account the results of concurrent reviews which may have a bearing on ECGD's future activities, namely the Export Finance Review (announced 11 February 1998), the Reinsurance Scheme Review (announced 27 April 1999) and the Risk Management Review (announced 26 May 1999).

"The Review should include a period of public consultation to seek the views of exporters, investors, lenders, private sector credit insurers and their representative bodies and other interested parties.

"The Status element of the Review should be conducted in accordance with the established principles for 'Next Steps' reviews, taking account of any proposed change to ECGD's Mission Statement, to consider how its services can best be delivered and whether any change in the Status of ECGD would be required."

Areas for particular focus – sustainable development and SMEs

2.2 When announcing the Review, Mr Byers said that he saw it as an opportunity to take a fundamental look at what ECGD does in order to establish a clear Mission Statement to define ECGD's future role and prepare for the challenge of the 21st century.

2.3 Mr Byers commented that the Review should particularly look at:

- what else ECGD could do to help the Government achieve its wider sustainable development objectives, as the UK continues to play a leading role in assisting the poorest developing countries to emerge from debt and poverty burdens and return to the international trading community (the UK Government has already forgiven US\$500 million of ECGD debt for the poorest countries¹²); and
- the support ECGD gives SMEs.¹³ A substantial number already benefit from the £3 billion of cover ECGD provides on

12 On 21 December 1999, the Chancellor of the Exchequer announced the UK's readiness to relieve HIPC debtors of approximately £1.9 billion of payments. £1.6 billion of this is in respect of debt owed to ECGD, covered by Paris Club rescheduling agreements; the remainder is in respect of more recent loans, backed by ECGD guarantees, which are being properly serviced. See paragraph 5.3.

13 The DTI definition of a Small- or Medium-sized Enterprise is a company with fewer than 250 employees.

average each year: often SMEs are sub-contractors to major exporters who obtain ECGD cover. But there may be more that ECGD could and should be doing to help SMEs directly – especially those starting to export to non-OECD markets where private sector backing may not be available.

Conduct of Status/'Next Steps' Reviews

2.4 'Next Steps' Reviews stem from the February 1988 Report *Improving the Management of Government: The Next Steps*. This requires Government departments like ECGD to conduct a Status Review at least once every five years to determine whether the activity performed by ECGD is still necessary or could be abolished. If abolition is ruled out, it is necessary to consider whether the activity could be delivered in a more efficient way, looking at the options of:

- remaining a Government department;
- becoming a Government Agency; and
- functions being wholly or partly privatised or contracted out.

Outcome of previous Reviews of ECGD's Status

2.5 Three previous Reviews of options for ECGD's Status have taken place – in 1988, 1990 and 1994. The results are summarised at **Annex A** to this Report. In each case the conclusion was that a change of Status was not appropriate.

The 1999/2000 Review process

2.6 The Review looked first at the underlying rationale for what ECGD does, and the relationship of its activities to HMG's wider objectives, to determine whether any change should be made to its Mission, then at how this would impact on the kind of organisation it needs to be – its Status – in order to deliver

its service most efficiently. ECGD's Status is currently that of an independent department, separate from the DTI, but also reporting to the Secretary of State for Trade and Industry, and the Minister for Trade. A copy of ECGD's statute is at **Annex B** to this Report.

2.7 A team of three ECGD officials was responsible for carrying out detailed work on the Review in accordance with Cabinet Office guidance. The Review Team worked in close consultation with officials from other departments¹⁴ who were members of an Inter-departmental Working Group (IWG) for the Review. The IWG analysed various inputs to the Review process and examined the relationship of ECGD's activities with the Government's wider objectives.

Review issues

2.8 There were four main inputs to the Review process: a public consultation exercise; independent studies commissioned by ECGD; papers prepared and discussed by the IWG and reports by two House of Commons Select Committees.

Public consultation process

2.9 Four thousand copies of the *Public Consultation Document* on the Review of ECGD were sent out in August 1999 and the document was made available on ECGD's website. A copy is at **Annex C** to this Report. Key questions were posed in relation to:

- ECGD's role in the market place;
- how it should develop its products and services to meet the needs of exporters and investors (especially SMEs) in the future;
- how its activities fit into wider Government objectives – and how to strike the right balance;
- what changes should be made to ECGD's Mission; and

14 Departments represented were: British Trade International; Cabinet Office (Effective Performance Division); Department of the Environment, Transport and the Regions; Department for International Development; Department of Trade and Industry; Foreign and Commonwealth Office; HM Treasury; Ministry of Agriculture, Fisheries and Food and Ministry of Defence. Other departments which contributed views were Department for Culture, Media and Sport; Department for Education and Employment; Northern Ireland Office; Scottish Office; and Welsh Office.

- whether ECGD's Status as a Government department is the most efficient way of delivering the services involved.

Independent reports

2.10 Two independent studies, which are published alongside this Report, have been drawn on in the Review and are referred to in relevant chapters of this Report:

- KPMG conducted its *Risk Management Review* on behalf of ECGD and HM Treasury. This looked at the adequacy of ECGD's country risk assessment, monitoring, management systems, processes and operational controls, having regard to best commercial practice; and
- NERA conducted an independent study for ECGD: *The Economic Rationale for the Public Provision of Export Credit Insurance by ECGD*.

Select Committees

2.11 The Trade and Industry Committee undertook a study of ECGD and published its Third Report on ECGD, *The Future of the Export Credits Guarantee Department*, on 20 January 2000.¹⁵ The International Development Committee has also been studying ECGD. It published its First Report *Export Credits Guarantee Department – Developmental Issues* on 30 November 1999¹⁶ and subsequently published a Second Report containing the minutes of the Committee's public hearing on 1 February 2000. The conclusions and recommendations of these Committees are referred to in relevant chapters of this Report.

Key themes for the Review

2.12 The Terms of Reference, together with the results of the inputs described above, indicated that subjects should be grouped into the following themes, which are analysed in subsequent chapters:

- The case for ECGD and its core purpose.
- ECGD and its customers: widening the customer base.
- ECGD: doing more for development.
- ECGD and project impacts: taking greater account of sustainable development and human rights.
- ECGD and defence exports.
- ECGD and the financial services industry: developing the private market.
- ECGD and the taxpayer: strengthening risk management.
- ECGD's corporate governance: a better system of control.
- ECGD: more open and transparent.
- ECGD and its people: better skills and a better service.

¹⁵ <http://www.parliament.the-stationery-office.co.uk/pa/cm199900/cmselect/cmtrdind/52/5202.htm>

¹⁶ <http://www.publications.parliament.uk/pa/cm199900/cmselect/cmintdev/73/7302.htm>

3. The case for ECGD and its core purpose

This chapter examines the business case for ECGD; its position in the risk market place; the economic rationale for the public provision of medium- and long-term export credit cover; efficiency arguments; what ECGD's core purpose should be; and how to reflect wider Government objectives in ECGD's Mission.

The current position

3.1 ECGD's core purpose, as defined by statute, is to facilitate, directly or indirectly, exports of goods and services and overseas investments. It does this by giving guarantees, insurance and reinsurance against loss.

3.2 Since privatising its 'short-term'¹⁷ business in 1991, ECGD has primarily focused on underwriting overseas investments and capital goods and project exports to non-OECD markets. In most cases, the export contracts involved require medium- and long-term finance. ECGD support is not required for the bulk of UK exports, such as consumer items and other goods sold on short terms of credit; nor is it generally required for sales to rich markets, where competitive insurance and finance services are readily available in the private market. Some reinsurance is provided to private sector insurers for certain countries. A summary of the full range of ECGD's current functions is at **Annex D** to this Report.

3.3 ECGD supports £3–4 billion of capital goods exports a year. This represents around 2–3 per cent of UK exports in total, but support is concentrated by both industrial sector and overseas countries. ECGD supports just under 20 per cent of capital goods and project exports to non-OECD markets; these countries are the

main export markets for industrial sectors such as power generation, which are also very dependent on their export turnover. Many of the companies concerned are multinationals, or collaborative ventures, with the option to invest in – and source their exports from – a number of countries. Their decisions can therefore be influenced by the availability of competitive export credit support. ECGD also has an £800 million portfolio of Overseas Investment Insurance exposure in developing countries; in recent years this has been the fastest growing part of ECGD's business.

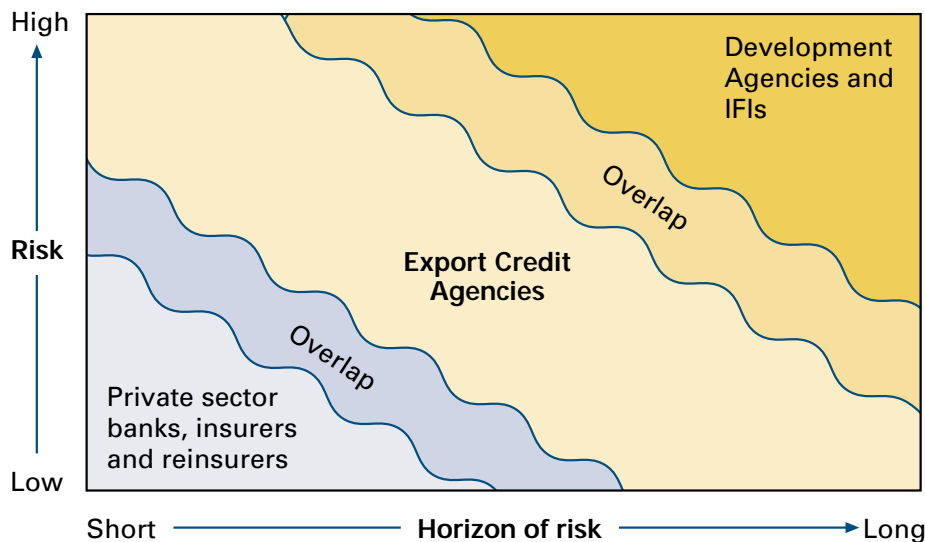
3.4 There is a degree of overlap between ECGD's business and the private market, at the better quality end of the risk spectrum; there is also some overlap at the other end with the agencies providing overseas development assistance (aid) and the private sector arms of the Regional Development Banks, as both focus on longer horizon, less commercially attractive risks. Indeed, some ECAs administer overseas development assistance programmes for their governments. The position is summarised in the diagram opposite.

3.5 ECGD support tends to be sought for a variety of reasons:

- Private sector finance and insurance providers may not be willing to take the risk for reasons of its quality, or limits on their own risk capacity. In these instances the risk is often shared between ECGD and private sector providers. ECAs generally provide cover for commercially sponsored projects where exporters, commercial lenders or investors are willing to take a proportion of risk, but want ECA insurance to cover either the majority of the risk or specific political risks.

¹⁷ Short-term export credit insurance is given primarily for consumer goods exports sold on up to six months' credit.

Export Credit Agencies – position in the market



- Exporters seek continuity of support over the lengthy negotiation periods for large contracts. Although the private sector may be able to provide support, its risk appetite can vary quite sharply with changing perceptions of global risk.
- Exporters from other countries receive support from their own government-backed ECAs. ECGD is effectively in a competitive market place with other ECAs. ECA activity is regulated by the World Trade Organisation (WTO), the OECD and, in Europe, by an EU Directive and other provisions designed to 'level the playing field', so that exporters compete on price, quality and service and not on the basis of any concessionality within ECA-backed credit packages.
- Overseas project sponsors take a degree of comfort in the involvement of government-backed ECAs in the financing arrangements, even though a substantial share of the finance may be provided by the private sector without ECA support.

Evidence from the Review

The Economic Rationale for the Public Provision of Export Credit Insurance by ECGD

- 3.6 The independent study commissioned by ECGD from National Economic Research Associates (NERA) – and evidence submitted by exporters, lenders and insurers – confirmed that there are currently no reliable private sector substitutes for the markets, tenor or size of risk currently covered by ECGD. NERA – whose report is published alongside this one – concluded that there was a market failure, and thus an economic rationale for the public provision of (medium- and long-term) export credit insurance and guarantees. NERA said:

*“We consider that ECGD should continue to provide cover for medium- to long-term capital goods exports. We do not consider there to be a strong case for privatising ECGD’s current portfolio of medium- to long-term export credit guarantees, or for ceasing to underwrite new business”.*¹⁸

- 3.7 NERA were not, however, able to determine definitively whether ECGD would be the most efficient provider of export credit support, as it did not compete on equal terms with the private sector. NERA emphasised that the case for Government intervention rested

heavily on ECGD operating without subsidy. NERA acknowledged that ECGD has achieved its breakeven objective¹⁹ that premium and reserves should cover running costs and expected losses on the £30 billion of business underwritten since the reconstruction of its financial accounting systems, and the introduction of new risk assessment and management techniques in 1991, following the privatisation of its short-term operation. In fact, although ECGD still carries a substantial amount of unrecovered claims on pre-1991 business, it should be noted that it has achieved breakeven for over 70 of the 80 years it has been in existence, much of it through difficult economic and trading circumstances. It operates to a tighter financial breakeven regime than is required by the WTO (and observed by most other ECAs). The graphs at **Annex E** to this Report show ECGD's financial performance on its pre- and post-1991 business.

- 3.8 However, NERA argued that there should be a charge on capital, i.e. there could be a potential resource cost to the Government for use of its balance sheet. NERA recommended that HM Treasury should commission a study to investigate the issues and develop policy options.

Trade and Industry Committee

- 3.9 The Trade and Industry Committee commented:

“Far-reaching and fundamental changes to the Mission, Status or role of ECGD are inconceivable without reference to the international framework: any decisions taken on the future of ECGD must be, and be seen to be, appropriate to the multilateral context under which it operates. Any changes to the conditions under which ECGD is to operate must also be measured against their consequences for the international competitive position of British exporters.”

“We have been given, in confidence, the preliminary findings of the NERA Report [on whether there is an economic rationale for public sector provision of export credit insurance and guarantees in the UK]. We recommend that the full report is made public as soon as possible.

“Private sector operators may well wish to take on some of the less risky and potentially more profitable areas of ECGD's portfolio. There is also merit in ECGD exploring further options to reinsure parts of its business with the private sector and other ways of using and developing commercial capacity and expertise in medium-term insurance. We detected no serious suggestion that the core business of ECGD could simply be abandoned by the State and the gap filled by the private sector.

“Any changes to ECGD's Mission and Status must build on ECGD's deserved reputation for innovation and flexibility.

“The overriding view expressed to the Committee was that the continued support of the UK Government and the advantages conferred by the sovereign guarantee were more important than the exact status of ECGD. We concur with the overwhelming view expressed that any unilateral action to remove the State guarantee for export insurance would put UK exporters at a considerable disadvantage.”

Private sector views

- 3.10 Many of ECGD's customers considered the availability of ECGD cover to be a critical element in securing orders and employment opportunities.
- 3.11 Responses to ECGD's *Public Consultation Document* confirmed the points NERA reported from its field research;²⁰ which are outlined opposite.

19 ECGD is charged to maintain the ratio of its reserves to its estimates of 'expected loss' on amounts at risk under its guarantees at a value of at least 1.5. ECGD operates a more financially prudent regime than many other Export Credit Agencies and a tighter breakeven objective than stipulated by the WTO which requires ECAs to ensure that their premium rates are adequate to cover the long-term operating costs and losses of their programmes.

20 Sections 6.2.1.1 and 6.3 of the NERA Report.

Views of the exporters (all prime contractors):

- Lead contractors thought there were likely to be follow-on benefits for their equipment suppliers, especially with a large successful project acting as a showcase. This is borne out by views expressed in surveys conducted in connection with an evaluation of the Overseas Projects Fund (OPF).²¹ Access to new markets was also thought in these surveys of OPF users to be a likely benefit to suppliers.
- One firm noted that some SMEs can get into more difficult markets only through initial participation in project business. Having got known, they can appoint distributors. Another mentioned that association with a prestigious project should be helpful in marketing.
- Major construction work may go to UK firms in association with a successful major defence project. One local company is assisting UK firms to form joint ventures in the country as a result of its successful project bid.
- First installations of major systems can become the standard in a country.
- Partners are likely to have a say in the bidding terms but suppliers do not. Apart from sole suppliers, these have to compete for work.
- While suppliers of discrete pieces of important equipment will be aware of follow-on opportunities, including profitable orders for spares (especially if nominated by the client), lower tier suppliers are unlikely to know the final destination of the goods they supply.
- In general, the price of single-sourced items will be settled early on. For competitively-sourced items, the supplier is often chosen late in the process. After supplier choices are made, however, all prices may have to be lowered if client demands are to be met.

Views of exporters (general):

- In the absence of the export credit guarantees and insurance provided by ECGD, exporters indicated that they would source outside the UK in respect of medium- to long-term exports to developing countries and use other ECAs. There would be a serious problem for continued UK participation in Airbus Industries.
- One firm, a manufacturer as well as a prime contractor and heavily dependent on exports, stated that ECGD is fundamental to its global competitiveness, i.e. ECGD's involvement is a precondition for many bids. Others echoed this – they saw support from ECAs as a necessary condition for bidding.
- Adverse effects would cascade down to large numbers of suppliers including many SMEs. Many smaller suppliers would struggle to find export business independently.

21 *Evaluation of the Overseas Projects Fund*, NERA, 1995.

3.12 Other private sector respondents to the *Public Consultation Document* made the following points:

Views of banks/insurers/reinsurers/others

- The banks believed that nothing should be done that puts UK exporters at a disadvantage to their competitors – HSBC commented in its submission to ECGD: *“It is vitally important therefore, when considering ECGD’s future, that no unilateral decisions are taken which undermine the UK’s competitive position.”*
- They felt, however, that the ‘evident’ need for public export credit provision is not as clear as it has been in the past.
- They said that private sector alternatives are increasingly becoming available, but not at the longer timescales for which ECGD offers cover (ten years plus). The private sector cannot, at this time, look to take this business over.
- However, the banks pointed out that there has been considerable development, with cover of up to five years consistently available, and longer credit periods becoming more frequent.
- Credit insurers would not like to see ECGD re-enter the short-term market – the private sector has taken over this role, and ECGD would not have either the expertise or the resources to do so.
- NCM, in their paper to the Trade and Industry Committee, thought that the Government *“should consider making ECGD’s guarantee available to support project exports through a wider variety of financial structures including the capital markets.”* This would allow private insurers to *“package a programme where the ECGD capacity was combined with private reinsurance and capital markets capacity to develop innovative and flexible package(s) that would support truly global players.”*
- One credit insurer believed that ECGD’s functions could be undertaken if it was privatised, and the sovereign guarantee was used (in a similar way to the above) but operated by a private company.
- Some credit insurers support ECGD’s role as a ‘safety net’ reinsurer, as well as a provider of additional reinsurance capacity. This should exist until the private market develops resilience to poor results, or as long as differences exist within other EU members so that UK exporters are not disadvantaged.

Analysis and conclusions

The business case for ECGD

3.13 There is a strong business case for retaining ECGD. Abolition and privatisation should not be pursued (though they should, as required, be reviewed from time to time). ECGD’s core aim should continue to be to support the UK economy by fulfilling its statutory purpose of facilitating trade by insuring UK exporters and overseas investors against medium- and long-

term payment and political risks, bringing benefit to UK firms – and supporting employment in those firms. UK exporters, primarily manufacturers or main contractors who win the larger contracts ECGD covers, pass on the benefit of ECGD cover to thousands of sub-contractors in the UK supply chain. UK exporters would be adversely affected if ECGD did not provide appropriate support. The evidence submitted by exporters underlines the vital importance of continued ECGD support. However, it is important that ECGD should continue to operate within a

robust breakeven financial framework so that it is not a drain on the taxpayer.

Conclusion

The Government should continue to provide export credit and overseas investment insurance, and reinsurance, through ECGD, within a robust breakeven financial framework.

- 3.14 Private sector insurance and financial markets have not been able consistently to offer the type of insurance provided by ECGD, which, since the privatisation of ECGD's short-term insurance operation in 1991, is primarily in respect of large value capital projects with long risk horizons in emerging markets. But there should be continued close co-operation between ECGD and private sector players to develop these markets.

Conclusion

ECGD should promote the development of the private export credit and insurance market, and work in close partnership for this purpose with the private sector.

- 3.15 NERA also considered that there were good grounds for concluding that the public sector would be a more efficient provider of export credit insurance. The Government's greater risk-bearing ability coupled with its access to wider sources of information on country risks, and co-operative networks with the IFIs and other ECAs give it advantages that are unlikely to be matched in the private sector. In addition, it is better able to mitigate risk and, through its membership of the Paris Club of official creditors, to negotiate the recovery of outstanding debts.
- 3.16 However, this conclusion would hold only if Government support was provided without subsidy. NERA felt that although ECGD had achieved its breakeven objective on new insurance guarantees over the last ten years, a further study should be carried out to assess the potential cost to Government of using its

balance sheet to support ECGD's contingent liabilities. But NERA recognised ECGD's inability to change prices significantly without damaging its competitiveness vis-à-vis other government-backed ECAs. This underlines the importance of continuing to press in international fora for the elimination of any subsidies which may remain.

Conclusion

ECGD should continue to negotiate internationally to eliminate any subsidies from government-supported export credits.

- 3.17 ECGD's strategy of seeking to eliminate subsidies from export credit internationally has been very successful, and it is vital that this continues to be pressed vigorously. HM Treasury should pursue NERA's recommendation for a study into the potential 'balance sheet' costs to the Government of supporting contingent liabilities. This should help to inform international strategy, but it is vital that a 'level playing field' be maintained in the meantime.
- 3.18 Measured against total UK exports, the role played by ECGD is relatively small. But, increasingly, international projects are collaborative ventures, sourced from a number of countries, with the ability to source sub-contracts from countries with the most competitive export credit support. ECGD cover is directly linked to the provision of UK goods and services and evidence from exporters suggested that continued ECGD support is vital to encourage sourcing from the UK.
- 3.19 There is also good anecdotal evidence that ECGD-supported projects can act as a showcase for British goods and services more widely and thus help to generate follow-on orders directly or indirectly. The demand for ECGD cover is often particularly strong in countries where the market is beginning to expand. This includes many of the target markets of British Trade International. Export credits can also play a useful if limited role in promoting UK interests abroad.

3.20 While ECGD's core trade facilitation purpose and functions should not be changed, it can and should support the UK Government's other international policies more actively in ways that are consistent with this aim. Legislation generally provides for one primary statutory purpose, but it is often the case that departments have multiple objectives. Indeed, it would be odd if ECGD facilitated trade in a way that was *inconsistent* with other Government objectives.

3.21 Given that ECGD's support relies on the use of the Government's balance sheet (i.e. UK taxpayer resources), ECGD should use its leverage to support projects that are economically sound and represent an acceptable risk. Prudent financial discipline is consistent with, and should help to underpin, the Government's international policies to promote sustainable development, human rights and good governance throughout the world. This wider remit should be reflected explicitly in ECGD's new Mission.

Conclusion

ECGD's Mission should explicitly reflect the requirement to provide its support in a way that is consistent with wider Government objectives.

3.22 In order to set out clearly and publicly its approach to this new Mission, ECGD should develop and publish, before the end of 2000, a statement of Business Principles²² that will guide its business practice and policies. ECGD should also produce information for customers and other interested parties on how it will handle sensitive cases caught in its initial screening process. This should be developed in consultation with the Export Guarantees Advisory Council (EGAC), operating to a reformed remit, other departments and ECGD's stakeholders. ECGD's customers, in particular, will need to know clearly where they stand and be assured that any additional processes are efficient and do not put them at a competitive disadvantage. Its policies and information should be continuously updated.

Conclusion

ECGD should develop a statement of Business Principles to govern its business practice in relation to matters such as openness, debt sustainability, human rights, sustainable development, corporate governance and business integrity. ECGD's performance should be reported against the Business Principles.

3.23 While its primary role should remain that of facilitating UK exports and investments, the following chapters set out ways in which the business case for retaining ECGD can be strengthened and ways in which ECGD should be reformed more generally.

²² An outline of Business Principles (on which customers and other interested parties will be consulted) is to be found at the end of Chapter 1.

4. ECGD and its customers: widening the customer base

This chapter looks at the composition of ECGD's current customer base, considers whether changes to this are required and identifies ways in which the delivery of ECGD's services can be improved.

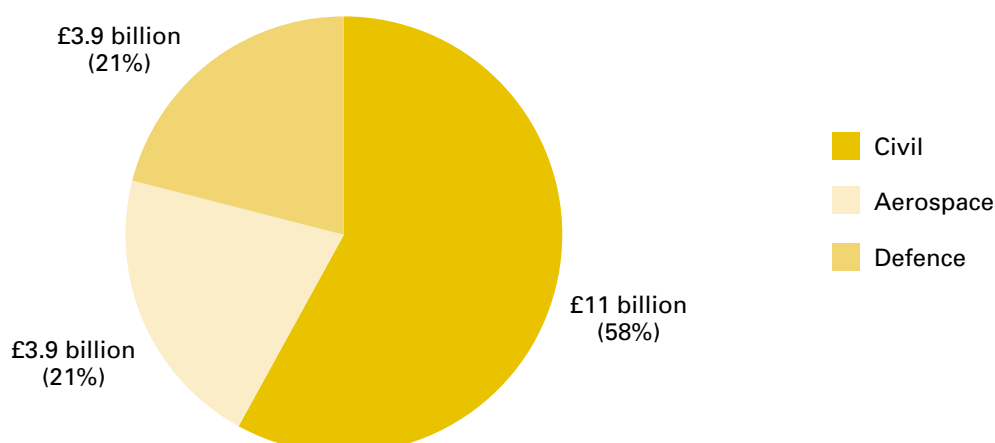
The current position

- 4.1 ECGD's customer base is closely linked to the type of business which it supports. For its export credit guarantees, it is generally covering the export of goods and services for which overseas buyers are looking for credit, with repayment periods of two years or longer. There may often be a substantial construction period, either in the UK or in the buyer's country, which also needs financing. These are essentially exports of capital goods and associated services – sometimes as part of a larger construction or infrastructure project.
- 4.2 ECGD's customer base also follows the way in which buyers in overseas – typically non-OECD – countries place business and the procurement process which follows from that. The contracts are often large, placed with a single prime contractor, or a joint venture, which provides a turn-key service, undertaking

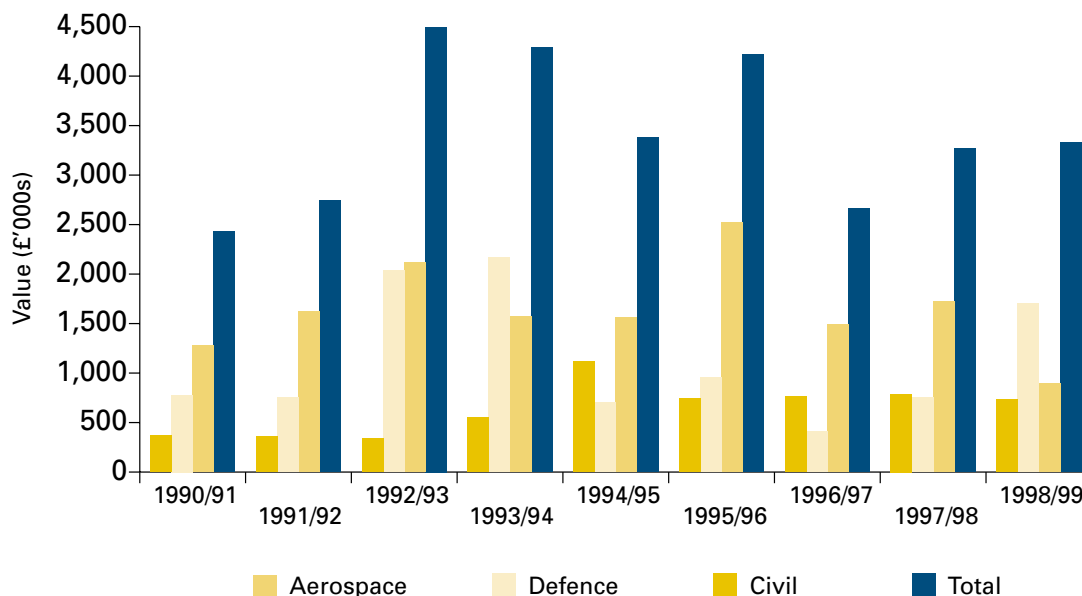
its own procurement. Much of the UK-manufactured capital goods and services which ECGD is supporting are under sub-contract to these major contractors. For these major projects ECGD support is provided by means of individual loan guarantee or credit insurance facilities.

- 4.3 ECGD also supports lines of credit (loan facilities) funded by UK commercial banks to a number of major overseas buyers or banks from which UK exporters winning business can draw payment for business won, often for relatively small value contracts.
- 4.4 ECGD breaks down its guarantee business – and hence its customer base – into three broad areas: the supply of goods and services for a variety of general *civil* and infrastructure purposes (around 58 per cent of ECGD's total stock of export credit business); *civil aerospace*, including support for the UK component of Airbus sales and for the supply of aeroengines for Airbus and other airframes (about 21 per cent of ECGD's total business); and *defence* business (again, around 21 per cent of the total business) – although, in any one year, one or two major contracts insured in one particular sector can dominate the figures for new cover issued.

Total amount at risk by sector (as at 31/8/99) – All markets



Business underwritten by year/by main sector (FY 1990–1999)



4.5 Across these three areas of business, ECGD has around 300 customers who directly take cover or draw down guaranteed finance from loan facilities. Of these, around 115 exporters use ECGD cover regularly. There are some major users who, because of the size of their transactions, account for a major part of ECGD’s insured exposure.

4.6 However, procurement and supply patterns are changing and new customers are emerging for ECGD’s services.

4.7 ECGD operates a number of performance checks to ensure customers are satisfied with the quality of service. These include published Customer Charter targets, as well as regular seminars and workshops with customers, questionnaires and surveys, to identify ways of improving performance – for instance, developing the use of e-commerce and the Internet.

4.8 ECGD also undertakes substantial marketing activity. This has been particularly successful in identifying foreign or multinational prime contractors who are interested in using ECGD’s guaranteed finance to source from UK, rather than foreign, sub-contractors. ECGD also works with British Trade International (and other departments involved with trade promotion) to support promotion campaigns targeting particular sectors or markets.

4.9 The picture is broadly similar for ECGD’s customer base of UK firms which invest overseas. There are altogether 98 customers (as at April 2000); but 54 per cent of the Overseas Investment Insurance portfolio is represented by four major customers, who take out cover against the political risks that may affect their investments in developing countries.

Evidence from the Review

The Economic Rationale for the Public Provision of Export Credit Insurance by ECGD

4.10 The NERA Report established from its survey of exporters that much of the benefit of ECGD cover to exporters is passed to sub-contractors via prime contractors.

Trade and Industry Committee

4.11 The Trade and Industry Committee said, on SMEs:

“The Terms of Reference of the Review included ECGD looking at the support given to SMEs. Whilst we agree that this is an important issue, we are not convinced that the majority of export opportunities pursued by SMEs would fall to ECGD since

the privatisation of its short-term insurance arm. Any focus on SMEs should be co-ordinated with British Trade International and be aimed at information provision rather than encouraging SMEs to venture into long-term contracts in developing countries."

and on the Department of Trade and Industry:

"We are disappointed to discover some lack of coherence between ECGD and DTI on support for British exporters. We look forward to evidence that the management arrangements now in place at the highest levels have filtered down through the departments and that the efforts made by British Trade International to promote British exports in particular markets are not hindered by apparently contradictory policies on the provision of export credit guarantees for those markets."

Private sector views

4.12 The responses from the public consultation exercise, including from SMEs, showed that while relatively few UK exporters take out ECGD insurance cover, thousands of SME sub-contractors rely on the benefits of cover being 'trickled down'. Rolls-Royce plc illustrated the scale of sub-contractors in their submission to the Review:

"On the Aerospace side:

- *Rolls-Royce buys in approximately 70 per cent (by value) of its engine components;*
- *a recent survey has shown that over 70 per cent of companies that make up the Rolls-Royce supply chain employ between ten and 250 people;*
- *on average Rolls-Royce has a direct spend of approximately £1 million with each SME per annum and this accounts for 35 per cent of each SME's business;*

- *the average number of employees at Rolls-Royce suppliers is 92 and they have an average turnover of around £3 million.*

As Rolls-Royce becomes more successful in the market place and therefore produces more engines, it provides more work for its supply chain and SMEs."

4.13 A SME said in its submission to the public consultation exercise:

"It should be appreciated just how many jobs down the line are supported by the major projects which have qualified for ECGD cover in the past. If firms like ours are to survive, it is necessary for Government support to be given to maintaining a major engineering sector in the UK. This must be export led. This demands the sort of underpinning which the ECGD system provides."

4.14 The public consultation exercise also revealed SMEs' concern that if ECGD support was not competitive, they would suffer most, with global prime contractors simply moving their operations or procurement abroad. The Federation of British Electrotechnical and Allied Manufacturers' Association (BEAMA)/ Mechanical and Metal Trades Confederation (METCOM) commented:

"... [we] regard the current review as of the greatest importance to the overwhelming majority of [our] members, some of whom export direct but a large number of whom (mainly SMEs) depend upon major overseas contracts won typically by a large British or British-based international contractor to which they then supply goods and services. SMEs do not generally have the staff, resources and asset base themselves to undertake projects of the type which are normally underwritten by ECGD. It is these main contracts in non-OECD countries which normally require the support of ECGD."

4.15 While some respondents suggested SMEs' needs as direct exporters (primarily of consumer goods) were largely met by the private sector and questioned the logic of encouraging inexperienced SMEs to export to non-OECD markets, others also referred to the wider role ECGD could play in working with British Trade International to raise awareness amongst SMEs of export finance and insurance issues. A similar point was made in a recent Bank of England study on SME exporters.²³ The Confederation of British Industry (CBI), in their response to the *Public Consultation Document*, put the case that ECGD could help SMEs export to OECD markets as well:

"The ECGD could, however, have an important educational role in advising SMEs about risk on overseas business. Encouraging SMEs to export into OECD markets could also be a role for the ECGD in parallel with the private sector in providing some form of support into the safer markets of the world. In this it would need to continue to work closely with British Trade International."

Analysis and conclusions

4.16 As Chapter 3 has demonstrated, there is a strong business case for ECGD. It delivers benefits to exporters at no direct cost to the Exchequer. But while many thousands of sub-contractors in the UK supply chain benefit from ECGD cover, its direct customer base is narrow.

4.17 ECGD should, therefore, seek to widen its direct customer base. Procurement practices are changing as overseas buyers, particularly major public sector corporations facing privatisation in the oil, gas and utilities sectors, manage their own projects and the associated procurement process for supply. ECGD should respond to these developments in the supply and procurement chain. It has been developing a range of new products recently to meet these needs. It must also ensure a swift and efficient level of service and market its products and services more

actively in the regions. There are an increasing number of medium-sized companies whose products, services and financial strength would suggest that their capital goods exports could benefit from ECGD support as overseas procurement practices change. ECGD needs to develop this market.

Conclusion

ECGD should seek to attract more medium-sized exporters and investors as direct customers; in addition to its existing product range, it should offer a package of products geared to light capital goods and services and the smaller exporter/investor.

4.18 ECGD should ensure its work of attracting a wider customer base is co-ordinated with other recent developments in British Trade International and other departments to improve export promotion services and the provision of advice and help to SMEs. As with the creation of new jobs, it is SMEs in particular who hold the key to increasing the volume and value of UK exports. Likewise, links with the private sector suppliers of advice and services to SMEs will strengthen ECGD's role.

4.19 British Trade International already works closely with ECGD, taking ECGD's market assessments into account, when making judgements about target markets and sectors. The Chief Executive of British Trade International sits on the Export Guarantees Advisory Council (EGAC) and ECGD's Chief Executive sits on the British Trade International Board.

4.20 While ECGD cover is not an absolute condition for the selection of campaign or target markets (since some do not require it and a substantial volume of business needs only private sector short-term cover), it is important that there is coherence between departments' export promotion efforts and the message the Government, through ECGD, may be communicating about risk

23 *Smaller Exporters: A Special Report*, January 1998 (ISBN 1-85730-1161).

perceptions. ECGD should do more to fill the information gap which exists amongst smaller exporters about export insurance and export finance. This should cover facilities available either from ECGD or the private sector, which now meets the needs of the vast majority of small firms which tend to export consumer goods on cash or up to six months' credit to developed markets and do not need ECGD cover.

Conclusion

ECGD should work more closely with British Trade International, the DTI's new Small Business Service and the Regional Development Agencies (and the regional trade organisations of Northern Ireland, Scotland and Wales) both on the selection of export promotion target markets, and how to fill the information gap and increase understanding of export insurance and finance amongst smaller exporters and investors at a local level throughout the UK.

4.22 Increasingly, business is using information and communications technology in many areas, both to improve the efficiency and effectiveness of the delivery of services and to obtain and use information effectively. Significant areas of day-to-day work are now transacted electronically and this trend will continue. The Modernising Government²⁴ agenda, and the associated Information Age Government²⁵ work, have indicated the future direction for the public sector and ECGD should continue to develop its strategies for doing more business electronically wherever this will offer real benefits.

Conclusion

ECGD should develop its e-business capability at least to match that of other ECAs and so improve the quality of services offered.

4.21 Increasingly, projects are collaborative multinational ventures. This has led to the internationalisation of procurement practices. The availability of high quality export credit products and services can influence multinationals' decisions about whether to source a project from the UK, and in some cases may be influential in decisions about whether to invest in the UK. ECGD should target multinational companies to seek to influence their procurement and investment strategies, particularly to the benefit of potential UK sub-contractors.

Conclusion

ECGD's marketing strategy should target multinational companies to encourage sourcing from the UK.

24 The *Modernising Government* White Paper (Cm 4310), March 1999, sets out a long-term programme of reform for the public sector. It puts in place a number of important initiatives and sets out an agenda for the future.

25 A definition of 'Information Age Government' is set out in the *Modernising Government* White Paper. A corporate IT strategy for the Government is being developed; this aims to improve e-access to Government services and information.

5. ECGD: doing more for development

This chapter looks at how ECGD can contribute to HMG's policy on international development by helping the poorest developing countries to emerge from debt and poverty burdens and by providing cover to help the poorer countries achieve social and economic development.

The current position

- 5.1** ECGD already facilitates trade with and investment in a number of developing countries for which private sector appetite is limited. But for the poorer developing countries the private market failure is even greater, particularly where there are barriers to commercial lending and Foreign Direct Investment (FDI).
- 5.2** While all developing countries have very different characteristics and needs, it is worth looking at different categories of developing country by reference to World Bank classifications of countries by income and degree of indebtedness – and setting this against commercial perceptions of creditworthiness and ECGD's current cover availability position. **Annex F** to this Report contains a list of developing countries categorised by income (Low, Lower Middle and Upper Middle);²⁶ indebtedness (Severely, Moderately and Less Indebted); HIPC or IDA-only status;²⁷ risk rating; the type of ECGD cover available; and how much ECGD debt has been written off.
- 5.3** ECGD carries a substantial amount of unrecovered debt (approximately £8.5 billion) from business underwritten before 1991. Some of it is being recovered successfully through 'Paris Club'²⁸ rescheduling agreements. As a part of the Treasury-led team that negotiates on behalf of the UK, ECGD plays a key role in HMG's efforts to achieve definitive and sustainable solutions for debtor countries. On 21 December 1999, the Chancellor of the Exchequer announced the UK's readiness to relieve HIPC debtors of approximately £1.9 billion of payments due to or guaranteed by ECGD (of which £1.6 billion is covered by Paris Club agreements) conditional upon their receiving assistance under the multilateral HIPC debt relief initiative. The UK undertaking will, therefore, have the same conditions as that initiative. These include an established track record of reform under International Monetary Fund (IMF) and World Bank-supported programmes and the implementation of poverty reduction strategies.
- 5.4** Much of ECGD's medium- and long-term export credit exposure is for exports to Upper Middle Income countries, which tend to be reasonably creditworthy – although it should be noted that some Low Income countries with large economies and relatively low debt levels also meet ECGD's normal underwriting criteria and are therefore considered 'acceptable risks'.

26 Low Income (LI) means a country with a GNP per capita of less than \$785. Lower Middle Income (LMI): GNP per capita of between \$786 and \$3,125. Upper Middle Income (UMI): GNP per capita of between \$3,126 and \$9,655.

27 The IDA was established to provide assistance to the poorer developing countries – for more information see www.worldbank.org/ida/ida_act/default.htm. IDA-only is a World Bank classification of countries eligible to borrow from the World Bank only on highly concessional terms.

28 The Paris Club is the primary mechanism through which ECGD – alongside other official creditors – exercises its statutory duty to recover debt in a manner consistent with proper financial management. Official creditors are governments which have given loans or guarantees to back lending, on commercial and concessional terms.

- 5.5 ECGD's Overseas Investment Insurance scheme is intended to benefit the poorer countries but is still not used greatly: for example, the £100 million of cover ECGD made available for investments in HIPCs in 1997 has not been used.
- 5.6 ECGD will cover business in any of the 63 IDA-only countries (for which it is prepared to offer medium- or long-term credit), only if the new expenditure will benefit the country's economic and social development – and thus meets the test first announced by the Chancellor of the Exchequer in 1997 that new credits should be for 'productive expenditure' only.²⁹
- 5.7 ECAs can be used as a mechanism for delivering overseas development assistance programmes via concessional loans or mixed credits, where export credits are mixed with aid loans or grants. The OECD Consensus Arrangements regulate the provision of export credit support on commercial terms as well as tied aid on concessional terms. These arrangements draw the line between export credits on 'commercial' terms and development assistance, which even if it is tied to a donor country must be on soft terms and not support commercially viable projects.
- 5.8 ECAs supporting commercially motivated transactions are increasingly approached by development organisations such as the CDC and the International Finance Corporation (IFC), along with private sector lenders and investors to co-finance or co-insure viable projects which will also enhance economic development.

29 Applications for ECGD cover for projects in IDA-only countries (including HIPCs) will be measured against whether the projects will meet the following indicative conditions:

- assist social and economic development; or
- be of maximum benefit to areas most affected by poverty; or
- tackle problem areas where private investment is not available; or
- wherever possible, earn foreign exchange; or
- encourage viable self-financing projects.

These principles need not necessarily preclude ECGD support for the sale of defence or dual-use equipment, provided that such equipment is, for example, deemed essential for national security, or required to combat the drugs trade, piracy, smuggling, etc. Support for projects must be considered in close consultation with other departments (including the FCO, DFID and HM Treasury) to ensure that expenditure is consistent with the above.

Evidence from the Review

- 5.9 In announcing the Review, the Secretary of State for Trade and Industry said he wanted it to look specifically at what more ECGD could do to help the poorest countries. ECGD's *Consultation Document* referred to the Government's policy on international development as set out in the White Paper *Eliminating World Poverty: A Challenge for the 21st Century*, November 1997 (see footnote to paragraph 1.23).

International Development Committee

- 5.10 The Committee said:

- *"We recommend that the Review propose an inclusion of the Government's developmental objectives in ECGD's revised Mission Statement. We will examine with interest the specific wording proposed by the Review.*
- *"We consider the protection of DFID's budget, mentioned in the Oxfam recommendation, to be an important principle in this debate on the forgiveness of ECGD debt. Any write-off should be borne by the Treasury and should have no implications for the future funding of DFID. We also believe that it is important to link debt forgiveness to poverty reduction strategies.*
- *"We expect ECGD to review current research and if necessary commission new research into the impact of ECGD, and of export credit agencies more generally, on developing economies.*

- *"We recommend that the Review place its policy proposals within a strategy for the internationally agreed reform of export credit agencies, and that this strategy have as a priority the elimination of poverty in developing countries."*

to the next ECGD Annual Report being able to give details of projects concluded under the scheme."

Trade and Industry Committee

5.11 The Committee commented:

- *"We support the International Development Committee's recommendation that the current review and any proposals for change must be placed within a strategy for internationally agreed reform of ECAs. Should ECGD's Mission be expanded to include explicit developmental objectives there must be no further delay imported into the decision-making process, and should applications be circulated more widely within Government, there should be no administrative burden on those applying for ECGD's services and no powers of decision removed from ECGD itself."*
- *"Whilst we welcome the prospect of debt relief for the poorest countries, it is important that the accounting mechanism used does not undermine the ability of British exporters to gain export credit insurance and guarantees from ECGD."*
- *"We were dismayed to learn that, to date, it has proved impossible for ECGD to gain support throughout Whitehall for any project under the Good Projects in Difficult Markets (GPDM) scheme. We understand that ECGD have put forward some proposals which they were willing to support but were unable to obtain the necessary agreement to proceed. We trust that the problems we perceive of an inability to reach a consensus between Government departments and ECGD on proposals for support for 'Good Projects in Difficult Markets' are resolved. We look forward*

NGO views

5.12 Some non-governmental organisations (NGOs) pressed for 100 per cent debt forgiveness for HIPC. Jubilee 2000 commented in their submission:

"The ECGD must have the power to cancel debt on the basis of human needs in the debtor country, and it must have the power to act independently or unilaterally from the other creditor government ECAs..."

Private sector views

5.13 Exporters said ECGD cover was vital for credits for developing countries as the private market had little or no risk appetite for these markets – but lending should be on a prudent basis to avoid recreating debt problems. Some exporters suggested ECGD could support more projects in conjunction with DFID if mixed or concessional credits were allowed in appropriate circumstances.

Analysis and conclusions

- 5.14 It is in the nature of ECGD's business that it will be asked to cover exports to, and investments in, developing countries. Poorer countries need access to capital and ECGD is part of the delivery mechanism.
- 5.15 ECAs generally have an important role in bridging the gap between concessional lending and private sector commercial funding. In some senses ECAs and the private financing arms of the World Bank and specialist organisations such as the CDC occupy similar territory.
- 5.16 Some developing countries have borrowed from the IFIs and commercial lenders with or without official ECA backing, and have run into financial difficulties, resulting in unpaid debts. This raises issues for the IFIs and ECAs about the way forward, to ensure past

mistakes are not repeated and unsustainable development is avoided.

- 5.17 In the late 1970s and early 1980s ECGD supported substantial project exports to many emerging markets. Over 50 countries defaulted and rescheduled their official debts through the Paris Club. ECGD is at present owed substantial amounts under these agreements. While much of it is being successfully recovered from those who can pay, around £1.6 billion is owed by HIPCs. The recovery and sustainable development of these countries require appropriate social and economic reforms on their part, bolstered by multilateral action by their creditors to relieve their debt burdens. HMG's 100 per cent debt forgiveness initiative was introduced with this aim in mind.

Conclusion

ECGD should continue to work with HM Treasury and DFID to implement the Government's policy for 100 per cent write-off for countries who qualify for this level of relief and to press other creditor countries to follow suit.

- 5.18 Although aid is clearly more appropriate for some countries which cannot afford to borrow, there is nevertheless a useful role for export credits as countries work out of their debt problems and re-enter the international trading community. But creditors should avoid saddling countries with new unsustainable debt burdens. Debt is not necessarily undesirable if it is used to finance projects which help development. The UK has led the way in introducing its productive expenditure policy for the 63 IDA-only countries, which are some of the poorest and most indebted – see paragraph 5.6 above. ECGD has been in the lead internationally in seeking to secure multilateral acceptance of this policy and, in consultation with other Government departments, is keeping open the option of applying it to other countries where appropriate and where this is consistent with ECGD's risk assessment, but any extension of the policy to other countries

should, of course, involve full consultation with all interested departments.

Conclusion

ECGD should continue to press for international acceptance of its productive expenditure policy and should keep open the option of applying this policy to other countries.

- 5.19 ECGD's 'Good Projects' scheme can potentially play an important role in contributing to sustainable development as can its Overseas Investment Insurance scheme by encouraging Foreign Direct Investment. Whilst ECGD support is dependent on there being viable projects that private investors want to pursue, there is scope for these schemes to be used more proactively. Identifying projects which will benefit the country is obviously the crucial goal. ECGD should work with project sponsors and investors in the private sector and others as appropriate to develop these interests.

Conclusion

ECGD should use its 'Good Projects' and Overseas Investment Insurance schemes more proactively and seek to be more flexible on cover for developing countries within sensible controls on exposure.

- 5.20 International co-operation is also going to be vital. ECGD therefore needs to maintain its contacts and links with the International Financial Institutions (IFIs). It should work with other organisations such as the World Bank, the Regional Development Banks, CDC and other ECAs to help make sustainable projects happen, sharing the risk burden through co-financing and co-insuring. It should also work with DFID, FCO, British Trade International and private sector lenders and investors to identify case-by-case opportunities for making full use of ECGD's facilities – including structured financing solutions and the use of mixed credits – where such financing would be consistent with a country's poverty reduction

strategy, DFID's Country Assistance Strategy and the importing government's medium-term expenditure framework.

Conclusion

ECGD should work together with other Government departments, the private sector and the IFIs to identify better ways in which ECGD support might contribute towards developing countries' sustainable development.

6. ECGD and project impacts: taking greater account of sustainable development and human rights

This chapter looks at what else ECGD will do to ensure its support for projects is consistent with the Government's sustainable development and foreign policy objectives.

The current position

6.1 Other UK policy objectives specifically highlighted in the course of the Review were the protection of the environment, the promotion of good governance and respect for human rights. These are set out in a number of documents:

- The Government's White Paper *A Better Quality of Life: A Strategy for Sustainable Development for the United Kingdom*³⁰ sets out a definition of sustainable development:

"What is sustainable development? At its heart is the simple idea of ensuring a better quality of life for everyone, now and for generations to come. Although the idea is simple, the task is substantial. It means meeting the following four objectives at the same time in the UK and the world as a whole:

- *social progress which recognises the needs of everyone;*
- *effective protection of the environment;*
- *prudent use of natural resources; and*
- *maintenance of high and stable levels of growth and employment."*³¹

- The White Paper goes on to explain, in the section on Trade and Environment Principles, that:

"Environmental and Trade policies should be developed in a framework of good governance and in an open and transparent way, without breach of international obligations and without adverse impact on the environment of others. Within that framework the Government recognises the rights of other governments to set different priorities according to their circumstances."

- The Foreign and Commonwealth Office's (FCO's) *Annual Report on Human Rights* defines human rights as:

"... the rights that all individuals are entitled to by virtue of their humanity, regardless of their gender, race, colour, religion, political or other opinion or social status. The rights we strive for are enshrined in the Universal Declaration of Human Rights. Those rights are embedded in International Law through the UN human rights treaties. They consist of civil and political rights – such as equality before the law, freedom from torture, freedom of thought, conscience and religion, the right to take part in the government of one's own country – and economic, social and cultural rights – including the right to employment, a decent standard of living, health and education. Human rights include the most fundamental right of all – the right to life."

30 For more information visit the DETR website – www.detr.gov.uk

31 See paragraph 1.2 of *A Better Quality of Life*.

6.2 The risk assessment regime ECGD has applied since 1991 focuses both on whether a country represents an acceptable risk and on individual project impacts. Even where a creditworthy buyer agrees unconditionally to pay for a project, ill-conceived and poorly executed projects make for poorer quality risk and may lead to disputes and payment difficulties. Thus, ECGD's current risk assessment processes are designed to address factors which could impact on the construction, operation and economic viability of a project.

6.3 Although there is no explicit statement about wider objectives in ECGD's current Mission, there are a number of policies already in place which are relevant to the objectives described in paragraph 6.1. In addition to the 'productive expenditure' scheme for developing countries described in Chapter 5, there are the following provisions:

- Transactions must comply with UK international and local laws; ECGD cover will not be available if there are internationally agreed trade and economic sanctions in place.
- If an export licence is required for defence equipment, ECGD cover is conditional on the licence being issued (and the licensing process addresses human rights issues – see Chapter 7).
- ECGD consults other Government departments at both a country and a case level when wider concerns arise and takes their advice into account in making decisions and in making recommendations to Ministers.
- ECGD introduced an *Environmental Screening Questionnaire* on 4 January 2000 to ensure that it identifies at an early stage projects (including defence infrastructure projects) that are sensitive in order to analyse impacts and determine appropriate mitigants.
- ECGD is playing a leading role in OECD negotiations to converge ECAs' practices by establishing common guidelines in relation to the assessment of environmentally sensitive cases.

- ECGD seeks to deter bribery and corruption by ensuring as far as is practicable that projects comply with applicable law. Following consultation with its customers, it is also shortly to introduce a new system of exporters and banks giving warranties in relation to their activities. ECGD is promoting full implementation of the 1999 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

Evidence from the Review

Trade and Industry Committee

6.4 The Trade and Industry Committee said, on the Mission and Status Review:

“Far-reaching and fundamental changes to the Mission, Status or role of ECGD are inconceivable without reference to the international framework: any decisions taken on the future of ECGD must be, and be seen to be, appropriate to the multilateral context under which it operates. Any changes to the conditions under which ECGD is to operate must also be measured against their consequences for the international competitive position of British exporters.”

and on environmental guidelines:

“We can see no reason for defence equipment and aerospace sectors to be exempted from the [environmental] screening process and request an explanation for the exemption. We recommend that an analysis of the costs and benefits of the screening process is published and that there be clear, and published, criteria on which decisions will be based. The questionnaire is possibly the weakest form of environmental assessment that could have been chosen. We also recommend that the opportunity is taken to examine other options and we urge the publication of an analysis of all other possible tools of environmental assessment that are available to ECGD

and the reasons for having rejected them in favour of a questionnaire.

We urge ECGD to participate fully in international negotiations on environmental standards for ECAs and would welcome ECGD taking a proactive stance."

International Development Committee

6.5 The International Development Committee said:

"We intend to return to these issues in the new year and hope that further consultation will take place before the finalisation of the Review. We do, of course, expect developmental concerns to be seriously addressed during the course of the Review and discussed fully in the report of the Review's findings."

The Economic Rationale for the Public Provision of Export Credit Insurance by ECGD

6.6 NERA said:

"We do not consider it appropriate to broaden ECGD's remit to include aid-related, environmental or other objectives not strictly related to its core functions as an insurer of medium- to long-term exports. Indeed, we would recommend that consideration be given to means of underpinning this exclusive focus through increased institutional autonomy and clearer indicators by which to evaluate performance."

NGO views

6.7 NGOs suggested that ECGD should:

- take greater account of, and introduce objective standards on, the environmental and social impacts of projects and of good governance, including the prevention of corruption;

- allow a public debate on individual cases it supports and introduce greater transparency;
- ensure projects it supports do not contribute to violations of international human rights law and encourage exporters to be aware of the human rights context of their operations; and
- play a leading role among ECAs in ensuring, through multilateral negotiations, that they adopt common environmental and social impact assessment policies, procedures and standards.

6.8 The Corner House summed up the views of many NGOs:

"When striking a balance between competing priorities, the ECGD should give priority to meeting the needs of equitable and sustainable development, in addition to encouraging good corporate governance. To do otherwise would mean:

- *support being given for unsustainable projects, with profound implications for the global environment, for project risk and for human rights;*
- *less money being available to support the new growth industries of the 21st century, principally those manufacturing environmentally sustainable technologies, with profound implications for future UK competitiveness;*
- *continued policy incoherence, with possible legal implications for the UK Government;*
- *encouraging companies with poor environmental and human rights records, to the detriment of the UK's reputation abroad."*

Private sector views

6.9 Private sector respondents were not against these ideas provided ECAs adopted a multilateral approach and commercially

sensitive information was respected, if information about projects was disclosed. Unilateral changes could make multinationals and overseas buyers avoid UK supply. ANZ Investment Bank, in their response to the public consultation questionnaire, commented as follows:

“Environmental and ethical foreign policies, sustainable development and poverty alleviation are clearly important Government policies. But existing procedures, for example in the form of export licences and environmental impact assessments wherever appropriate, adequately control the application of these policies to business supported by ECGD. Requiring ECGD's future business to meet sustainable development and poverty alleviation criteria as well would introduce additional hurdles unique to UK exporters. Unless such policies were to be introduced on a multilateral basis they would only serve to undermine the UK's position and hand business to competitors abroad.”

- 6.10 Many saw the key benefits that sustainable development projects had on developing economies, and acknowledged the scope they provided for follow-up business, the foundation of good business relationships and improved co-operation with host governments. Some believed that if ECGD cover limits were tight for a market, preference should be given to projects that aided development.
- 6.11 The reservations expressed centred around ECGD's role. A number of companies felt that the pursuit of HMG's sustainable development objectives should be for DFID to undertake, perhaps by using the aid budget with ECGD's underwriting criteria being based on long-term political and commercial risk, and not clouded by wider objectives.

Analysis and conclusions

- 6.12 There is a strong business case for ECGD to continue to fulfil its core mission of supporting UK exporters and investors, and

operate its insurance functions as efficiently as possible, as NERA suggests and as explained in paragraphs 3.14 and 3.15 of this Report. ECGD can already support Government objectives in ways that are consistent with its existing statutory purpose and the aim in its current Mission. But the UK has important international policies to promote sustainable development, human rights and good governance throughout the world and to secure improvements in global security and economic prospects. It is appropriate for ECGD to promote these objectives given that it is relying on the taxpayer to stand behind the guarantees it issues.

- 6.13 ECGD, in providing support for projects, can underpin these policy objectives by using its leverage to promote good projects and produce positive impacts. There is an obvious overlap with ECGD's primary interest in the financial viability of projects. Ill-conceived and poorly executed projects can have negative impacts on the environment and local people and make for poorer quality risk. Bribery and corruption can also undermine the economic benefits of a project and even the economy of the buying country. It is clearly in ECGD's self-interest either to avoid such projects or to use its influence to mitigate their negative effects. This responsibility should be explicitly recognised in ECGD's new Mission, to demonstrate that it is taking account of HMG's policies in these and other areas.
- 6.14 ECAs have an important role to play in improving project impacts, by working in partnership with stakeholders to influence negotiations to achieve an acceptable outcome.
- 6.15 ECGD's initial environmental screening process helps identify whether a particular project on which cover is sought may raise sensitive issues. When such projects are identified, they go through a second stage process of 'due diligence', in which ECGD and the project lenders find out more, taking independent advice as necessary, to help assess project risks and related issues and determine how to take matters forward.

However, ECGD's assessment processes should be further developed, to include screening for human rights, and ECGD should ensure it has the necessary skills and capacity in-house to handle sensitive cases, as well as access to independent external expertise. So that exporters and others are clear about how ECGD will handle these issues in the future, ECGD will – in consultation with them – further develop its policy on how sensitive cases will be handled and reflect this in the proposed statement of Business Principles. The policy should be kept under review and be subject to continuous improvement.

- 6.16** ECGD should aim to publish, by the end of 2000, alongside the proposed statement of Business Principles, information to guide customers and others on its screening and assessment procedures, building on best practice followed by other ECAs, commercial lenders and relevant IFIs.
- 6.17** Where projects involve tensions between commercial and UK economic interests and wider objectives, ECGD's assessment process should ensure all relevant factors are taken into account. There should be early consultation with other departments on sensitive cases.

- 6.18** ECGD should use relevant internationally recognised standards as benchmarks for assessing such projects. These standards should be used as a basis for negotiating an acceptable outcome by securing, where necessary, measurable improvements to the projects concerned. ECGD should ensure that all processes are followed expeditiously so that UK firms are not subject to delay and uncertainty. To this end, ECGD should vigorously pursue these discussions in the OECD Export Credit Working Party to fulfil OECD Ministerial and G8 Summit mandates to establish common environmental approaches/guidelines for ECAs by the end of 2001. OECD Ministers have requested a report on progress made at their next meeting in 2001.
- 6.19** As the policy perspective and processes for dealing with project impacts develop, ECGD should adapt its systems in a way which safeguards the competitiveness of UK exporters and the quality of ECGD's service to them. ECGD should work with other ECAs and press strongly for standards of assessment to be raised multilaterally, with ECGD being up at the level of the best ECAs. ECGD should also support efforts to bring more coherence between the work of the ECAs and IFIs who are developing sustainable development principles.

Conclusions

ECGD should:

- further develop its systems for assessing project impacts and should aim, by the end of 2000, to produce, alongside the proposed Business Principles, other information for customers and interested parties on how sensitive cases will be handled; and
- ensure it has relevant expertise and capacity in-house and access to appropriate external expertise and independent advice.

Conclusions

ECGD should:

- align itself with the best of other ECAs and should press strongly for multilateral reform; and
- focus in the short term on achieving a satisfactory outcome for the 2001 OECD Ministerial meeting on common OECD environmental guidelines for ECAs.

7. ECGD and defence exports

This chapter examines the support ECGD provides for defence exports.

The current position

- 7.1** Large defence projects typically involve goods with long periods of manufacture or assembly. Overseas governments are also generally looking for extended periods of credit over which to phase the payment for these goods. Such equipment therefore has the particular characteristics of business demanding ECGD cover.
- 7.2** The UK is the second largest exporter of defence equipment after the US. It is an area of relative competitive strength for the UK. This is reflected in the proportion of ECGD's business which it represents.
- 7.3** The figures showing the share of ECGD's overall stock of business accounted for by defence and defence-related sales are shown in Chapter 4. They represent around 21 per cent of ECGD's total exposure and 25 per cent of ECGD's new business since 1991.
- 7.4** Very little ECGD-supported defence business goes to the poorer countries. For Low Income countries, the split is 1 per cent defence, 13 per cent aerospace and 86 per cent civil business; for Lower Middle Income countries (see note to paragraph 5.2), the split is 10 per cent defence, 21 per cent aerospace and 69 per cent civil business.
- 7.5** For all countries, ECGD's policy is to make any provision of insurance cover dependent on any necessary export licences being in place. The provision of export licences for defence-related equipment is subject to the criteria announced by the Foreign Secretary in July 1997. Through export licensing control the Government is committed to denying the sale of defence equipment to regimes that might

use them for internal repression or international aggression.

- 7.6** In October 1997, the Government announced that for the very poorest countries, the 41 HIPCs, new export credits extended by ECGD would be restricted to productive expenditure. This policy has been broadly endorsed by other OECD ECAs. In January 2000, the UK Government extended this policy to a further 22 IDA-only countries.
- 7.7** This means that for the 63 IDA-only countries, ECGD will provide cover for defence equipment only if any necessary export licences are in place and the equipment passes the productive expenditure test. For exports of defence equipment to other countries, ECGD does not discriminate between defence and other types of equipment, but still demands that the export licensing requirements have been fulfilled.

Evidence from the Review

NGO views

- 7.8** Some NGOs said that there should be no ECGD cover for military equipment including military bases. Others argued that ECGD should withdraw its support for non-productive defence projects. Campaign Against Arms Trade commented in their submission to the Review:

“There should be no ECGD cover for military equipment or goods. No ECGD cover should be made available for goods being purchased by overseas military or security forces, or armaments-manufacturing bodies. This would include cover for the construction of military bases.”

Amnesty International UK indicated that:

“Amnesty International takes no position on the use or otherwise of arms embargoes, boycotts and other sanctions, or the arms trade per se. Amnesty International is, however, opposed to military, security and police [MSP] transfers that contribute to human rights violations. In our opinion, governments have a responsibility to ensure that such MSP transfers do not contribute to grave and serious human rights violations either by governments or by armed opposition groups.”

Private sector views

7.9 Exporters drew attention to the critical importance of export credit cover and financing conditions in the competitive procurement decisions for defence equipment. SMEs benefit considerably from export credit cover for major defence projects as sub-contractors to prime defence contractors. Rolls-Royce plc illustrated the interdependence between defence and civil business:

“... A related point derives from the increasing interdependence of defence and civil products both in terms of their underlying technology and the manufacturing process. This results in any decline in civil business, caused by inadequate ECGD services, immediately exercising an adverse impact on the defence side of the business and therefore on the interests of the Ministry of Defence as customer.”

7.10 Defence exporters require ECGD cover because of the nature of defence contracts, which tend to be of high cost and long term in nature, with delivery spread over a number of years. Also, defence sales are often supported by government-to-government agreements with export credits as part of the ‘package’. A defence manufacturer, BAE Systems, put this very clearly:

“Many contracts are on a government-to-government basis or result from government-to-government undertakings. It therefore does not seem unreasonable that any associated credit facilities are underwritten by the Government. Unlike contracts for civil goods a charge cannot be taken over defence equipment and the goods cannot be repossessed in the event of default. Every contract is with the State, and the credit risk is always sovereign in nature. Companies, and commercial insurers, cannot be expected to take such risks without significant price increases to reflect the resulting exposure. Such price increases would place British exporters at a competitive disadvantage compared to other EU and US manufacturers with a resulting loss of business for the UK economy.”

Trade and Industry Committee

7.11 The Trade and Industry Committee commented, on defence:

“Some suggest that defence exports close out other exports; we have received no evidence to indicate that ECGD is biased towards defence-related exports, nor that there is a substantial default rate.”

International Development Committee

7.12 The International Development Committee said:

“We recommend that the Review investigate the claim that the high proportion of cover provided by ECGD for defence equipment is at the expense of non-defence related exports.”

Analysis and conclusions

7.13 The demand for ECGD cover will always reflect the relative success of different sectors of British industry in securing export orders. The manufacture of defence equipment is an area of comparative competitive advantage

for the UK. Exports of such equipment enable manufacturers to spread their fixed overhead costs over a wider production run. This yields savings in equipping the UK's armed forces of between £300 million and £400 million a year.

7.14 For all markets, other than the IDA-only countries, ECGD does not discriminate between individual sectors in offering cover to UK exporters, i.e. cover is given to exporters on a first come, first served basis.

7.15 While the UK Government supports the right of all countries to provide for their legitimate defence, it operates a strict export control regime to ensure compliance with international obligations and the proper use of equipment supplied. Since coming to office, the Government has significantly tightened up the export licensing system to ensure that defence sales to all countries are scrutinised rigorously for human rights and other concerns. The Government has also published proposals for new export control legislation in its July 1998 White Paper on Strategic Export Controls. While ECGD does not discriminate between industrial sectors when underwriting cover, it undertakes rigorous checks to ensure it provides cover for defence sales only where a valid licence (if required) has been issued.

7.16 Thus, for all countries, ECGD should continue to take special care to ensure that export licence requirements have been met in full and are in force before committing cover to defence equipment.

Conclusion

For exports of defence equipment to any country, ECGD will continue to give cover only where the requirement of export licensing has been fulfilled.

7.17 In the case of poorer developing countries, the sale of defence equipment needs to be handled carefully and responsibly. Such sales may be made only where a responsible security policy is in place in the recipient country, which will be considered in the context of any export licensing application

and where ECGD cover is targeted on expenditure that would be economically productive, thus meeting the productive expenditure criterion. As concluded in Chapter 5, the Government should keep under review the countries to which its productive expenditure policy applies. It should also seek to widen international acceptance of this approach.

Conclusion

For defence sales to IDA-only countries, ECGD will apply the productive expenditure test to any application for cover.

8. ECGD and the financial services industry: developing the private market

This chapter is about ECGD's role in the financial risk market place, its product development strategy and relationship with the private sector financial services industry.

– as well as commissioning independent consultancy advice on individual projects.

The current position

- 8.1 As explained in Chapters 3 and 5, ECAs' activity is adjacent to, and in some areas overlaps with, that of private sector commercial lenders, insurers and investors, and at the other end of the spectrum, the lending activities of the development assistance agencies and the IFIs.
- 8.2 ECGD invariably shares risk with the private sector on the transactions it covers. Even where it provides a 100 per cent guarantee, the relevant loan will finance no more than 85 per cent of eligible goods and services supplied under an export contract and the private sector will take the balance of the risk.
- 8.3 Medium- and long-term export credit finance is generally provided through syndicated loans by UK commercial banks, who may apply for ECGD cover where they are unwilling to absorb all of the risks themselves. Approved banks also have access to interest support under ECGD's Fixed Rate Export Finance (FREF) scheme to enable them to lend at competitive fixed rates of interest determined by the OECD.
- 8.4 ECGD works closely with private sector financial services providers, to complement what the private market can do. It also contracts out certain tasks, e.g. in relation to the hedging of interest rate and other currency risks. ECGD works with financial services specialists on risk assessment methodology and training packages

Evidence from the Review

Private sector views

- 8.5 Evidence submitted by exporters, investors, insurers and reinsurers indicated strongly that ECGD's market role should continue to be that of main risk-bearer, although some noted that increasingly the private market is able to share risks with the ECAs and others, and its appetite may increase over time. The Royal Bank of Scotland said in their response to the Public Consultation exercise:

"We believe, however, that it is extremely difficult for the private insurance market to provide satisfactory insurance cover for most medium- and long-term business carried out by British companies in developing markets. I would not anticipate that the private insurance market would regard itself as a ready substitute for ECGD, were it to come to that."

- 8.6 Rolls-Royce plc, in their response to the Public Consultation exercise, commented:

"With regard to Project Finance transactions in particular, there has been a move toward 'risk sharing' between ECGD and the banks with each party taking the risk it feels more comfortable with. The trade-off for ECGD is that the bank plays a big part in credit risk assessment but finishes up assuming some of the risk. ECGD invariably assume the political risks. There is undoubtedly scope for ECGD and the banks to work even closer in this regard."

The Economic Rationale for the Public Provision of Export Credit Insurance by ECGD

8.7 NERA, in their study, concluded that there are currently limited private sector substitutes (in terms of risk horizon, risk exposure and stability of provision) for ECGD credit guarantees.

Trade and Industry Committee

8.8 In evidence to the Trade and Industry Committee about private sector risk capacity, a credit insurance broker, Berry, Palmer & Lyle, commented that:

"... the private market is not a developed market for medium-term business... there are interesting shoots of interest in medium-term business but the vast majority of the \$5 billion private sector insurance industry dedicated to trade credit is dedicated to the short-term business."

The Committee recommended that ECGD should therefore take up all opportunities which arise to risk share with the private market, e.g. by reinsuring parts of its current portfolio in order to release new capacity. ECGD should adopt a 'first mover' role in certain circumstances, e.g. to establish UK exporters in emerging markets, where the private sector was not prepared to go.

8.9 The Committee commented:

"Private sector operators may well wish to take on some of the less risky and potentially more profitable areas of ECGD's portfolio. There is also merit in ECGD exploring further options to reinsure parts of its business with the private sector and other ways of using and developing commercial capacity and expertise in medium-term insurance. We detected no serious suggestion that the core business of ECGD could simply be abandoned by the State and the gap filled by the private sector."

32 Hansard, 1 December 1999, Col 217W, Secretary of State for Trade and Industry's answer to a Parliamentary Question from David Crausby, MP.

8.10 The Committee commented on FREF and Reinsurance as follows:

"We see no case for ending either the reinsurance facility or FREF."

Export Finance Review

8.11 The recent *Export Finance Review* concluded that whilst the ultimate aim should be to abolish FREF, a unilateral withdrawal would have serious competitive consequences for UK exporters. It was agreed, therefore, to introduce a new FREF scheme. This was announced on 1 December 1999,³² and incorporated a new structure of remuneration for the banks. Meanwhile, subsidy costs and risks should continue to be minimised and the feasibility of a financial breakeven objective explored.

Analysis and conclusions

8.12 It is not in the UK's economic interest for ECGD to compete with the private market but, in order to maximise private sector capacity to take on risk, it should be in its interest to get the market to take on more of what ECGD does. Nor is it in exporters' interest for ECGD to apply an additionality test for each transaction. A narrowing of ECGD's activities would also make it more difficult to sustain the expertise needed to run an effective export credit insurance operation. ECGD should continue to work in partnership with private sector providers and fill market gaps only where there is a genuine market failure and where it makes economic sense to intervene. As before, ECGD should look rigorously at opportunities to contract out functions, particularly new functions, to establish whether this represents value for money and would bring about an improvement in delivery.

8.13 For its medium- and long-term business, ECGD should, therefore, adopt an approach of actively complementing the private market, continuing to offer innovative and flexible

products. Private insurance and capital markets may at times be ready to support long-term projects in emerging markets. Given the volatility of these private flows, however, ECGD needs to take a longer-term view than the market is currently willing to do and provide consistent support and stability to UK exporters.

Conclusion

ECGD should build on its success of working with and complementing the commercial banking and insurance sector, and should not compete with them as some other ECAs do.

- 8.14 The UK led the way in privatising ECGD's short-term credit business, subject to retaining a reinsurance role in a handful of markets. This success helped develop the private credit insurance market, reducing contingent risks to the taxpayer without jeopardising UK export performance.
- 8.15 ECGD should continue to provide short-term reinsurance with the ultimate aim of helping the short-term export credit insurance market in the UK to be both competitive and free-standing – without Government reinsurance. ECGD's *Report on the Provision of ECGD Reinsurance for Exports sold on Short Terms of Payment* is published alongside this Report.

Conclusion

ECGD should build on the success of the privatisation of its short-term business. Without withdrawing the present reinsurance arrangements it should work for a 100 per cent transfer of short-term credit insurance risk to the private sector.

- 8.16 To help develop the medium- and long-term private market, and manage its own exposure more proactively, ECGD should explore the scope for greater risk-sharing and partnership with the private sector. This may mean sharing exposure at the outset of a project or mid-way through, with the aim of better

servicing UK exporters and investors and managing the contingent risk to the taxpayer.

Conclusion

ECGD should use the private market to manage risks and cut costs through active treasury management using hedging, capital markets and reinsurance instruments where this is cost-effective.

- 8.17 The recent *Export Finance Review* established ECGD's strategy for the elimination of any remaining subsidy whilst maintaining UK exporters' competitiveness. The Review endorsed ECGD's programme for reducing the costs and risks by enhanced hedging activity and refinancing of FREF loans using direct Government funds. ECGD has started further detailed analysis of its FREF operation to clarify the long-term costs and risks with a view to setting a financial objective for the scheme. ECGD's strategy is to reduce the subsidy elements by seeking multilateral agreement to the reform of the OECD Consensus regime for fixed interest rates whilst promoting the development of alternative market rate finance solutions. It should also explore options for alternative funding mechanisms.

Conclusion

ECGD should aim to ensure that UK exporters have access to competitive finance whilst progressively eliminating FREF subsidies. The feasibility of a breakeven objective should be explored, as should options for alternative funding mechanisms.

9. ECGD and the taxpayer: strengthening risk management

This chapter examines the systems underlying ECGD's risk-reward balance and ways of strengthening these for the future to improve confidence that ECGD will operate at no net direct cost to the Exchequer, allow ECGD operational autonomy and present the opportunity to look at ECGD's Status in the context of plans to introduce a more effective exposure management system.

The current position

9.1 ECGD operates three Accounts:

- **Account 1** is effectively a 'receivership operation' for loss-making business underwritten before April 1991. The Account is closed to new business. ECGD's objective is to maximise recoveries and manage assets and liabilities in a way that minimises the net loss to the Exchequer.
- **Account 2** comprises all (other than Account 3) business underwritten since April 1991. Account 2 operates to a Financial Objective expressed in terms of the confidence of breaking even over ten years – the 'confidence factor'. Currently, the target confidence factor is 65–70 per cent. For practical management, the breakeven confidence factor is translated into a target Reserve Coverage Ratio (RCR) – the ratio of ECGD's reserves to its estimate of ultimate loss. The target is currently 1.5; at the end of 1999/2000, the (as yet unaudited) value of the RCR was 1.71. ECGD's premium policy for Account 2 is to match premium to risk so that it can generate the reserves necessary to achieve the target RCR.
- **Account 3** comprises business that ECGD judges cannot be underwritten within its existing underwriting criteria, for which Ministers have instructed it to issue a guarantee on grounds of national interest. Account 3 does not have an explicit breakeven objective, but ECGD is required to apply its normal underwriting controls on documentation, etc. The premium rates charged for Account 3 business are consistent with OECD, WTO and EU requirements.

9.2 ECGD seeks to control its exposure to risk in three ways:

- **Transaction** – ECGD bases its underwriting and management of individual project risks on commercial best practice. It maintains links with the private sector to ensure it keeps up with developments in private market practice.
- **Market** – ECGD assesses risk and sets Market Exposure Controls (MECs) on individual countries. This assessment determines whether ECGD is generally 'open' for medium- and long-term cover for a country, its risk appetite for that market and any conditions.
- **Portfolio** – At present, this is controlled by the so-called Amber Zone Budget, which sets an annual ceiling on the amount of gross new commitments that can be taken on in a number of countries where ECGD already has high exposure or the repayment risk is significant. There is also an overall statutory limit to the total amounts of exposure (in sterling and foreign currency) ECGD can take on.

9.3 These risk management and pricing mechanisms together constitute the Portfolio

Management System (PMS) which was introduced in 1991 for Account 2; the intention was to apply more disciplined risk management in the wake of the 1980s debt crisis. PMS has been improved and refined over time and, overall, ECGD has been achieving the desired level of confidence on long-term breakeven. These policy levers provide a means for striking a balance between the quality of risk ECGD takes on – which will bring benefit to the UK economy – and the risk of losses to the taxpayer; the so-called ‘risk-reward balance’.

- 9.4 ECGD’s enabling statute, the *1991 Export and Investment Guarantees Act* (see **Annex B** to this Report), stipulates that ECGD may exercise its powers “only with the consent of the Treasury”. Detailed operational and control arrangements are agreed with HM Treasury under a system of delegated consents and authorities.
- 9.5 In April 1999, OECD ECAs adopted a common system (similar to ECGD’s own) for assessing and categorising country risks and establishing minimum premium rates. Although this substantially reduced the risks of ECAs competing on country risk pricing, they can still compete in terms of risk *appetite* either for particular markets or overall, and of course on the quality of service and products. That affects the amount of cover they are prepared to offer or judgements on whether individual transactions can be underwritten.
- 9.6 Other governments may set the risk-reward balance according to their view of the use export credits have as an instrument of industrial support and foreign policy. Whilst it can be assumed that all governments accept that ECAs fill a gap in the insurance and finance market place and generate benefit for their exporting industries, some may place more emphasis on export credits as a tool to support industrial or foreign policy or developmental objectives.³³
- 9.7 The WTO breakeven objective sets the floor below which ECAs cannot go, to ensure they are not subsidising business. This requires ECAs to charge sufficient premium to cover long-term operating costs and losses. However, ECGD’s Account 2 Financial Objective for post-1991 business ensures a *higher* level of confidence of breakeven than the risk–reward balance implied by the WTO objective.
- 9.8 In May 1999, ECGD and HM Treasury jointly agreed that an independent assessment be made of the adequacy of ECGD’s political and country risk management systems and ethos, including Treasury’s role in the process. ECGD’s financial position had been adversely affected by turbulence in the world economy and global financial markets. It had reported an overall trading loss of £0.5 billion in 1997/98 and its performance against its Financial Objective had deteriorated. (This proved to be a short-term deterioration in ECGD’s target RCR; since then its trading performance has improved.) Following a competition between firms who tendered, KPMG was appointed in August 1999 to conduct the Review. The KPMG Review, which is published alongside this Report together with an Action Plan for taking work forward, found that:

“The approach to risk management is based on sound principles. However, ECGD needs to make the transition from a transaction to a portfolio approach to reflect aggregate risk levels more appropriately.

“The processes for making risk decisions should be streamlined and re-aligned to allow risk management resources to be focused more effectively and to accommodate greater emphasis on a portfolio approach and proactive risk appetite setting.”³⁴

33 However, in their study, NERA said: “Our general conclusion was that we do not consider EXIG to be an effective instrument with which to meet industrial policy, employment policy or aid objectives. This is because it is not targeted specifically on the possible sources of market failure or on the objective of redistribution. The Government already employs other policy instruments that are specifically targeted in this way.” – Paragraph 8.1.2.

34 Paragraphs 3.1.21 and 3.1.23.

Evidence from the Review

KPMG Report

9.9 KPMG particularly recommended that ECGD should do more to pursue a proactive risk management strategy. Whilst this would be private market best practice, KPMG acknowledged the constraints of ECGD's role and the competitive pressures it faced from other ECAs.

9.10 For this proactive risk management strategy, KPMG strongly commended the work already done to develop ideas for the capitalisation of ECGD. A capitalised exposure management framework would replace the Amber Zone Budget system (see paragraph 9.2 above) and introduce much clearer targets and objectives, based on capital adequacy and solvency principles applicable to banks and insurance companies; these objectives could then be used directly to inform decisions about cover for individual markets, and exposure management. The aim would be to have a more integrated, robust and transparent system to deal with risk appetite, concentration, premium and cover policies. KPMG commented that this would, however, require a fundamental change to ECGD's business strategy and operating framework.

9.11 KPMG recommended that with the introduction of these further risk management enhancements, Treasury should be able to withdraw from day-to-day control, restore the delegated authorities that were withdrawn from ECGD in 1998 in the wake of the Asian financial crisis, return to a more strategic role, and provide value-added oversight of ECGD operations.

Private sector views

9.12 The key points made by customers and others on risk management were that:

- reducing the level of UK ECA support would affect global competitiveness – a level playing field with other ECAs was needed; this had a significant impact on UK economy/jobs;

- other governments support exports aggressively through their ECAs and are prepared to look at the political, as well as the commercial, reasons for supporting a transaction. Other ECAs have been more supportive than ECGD recently;
- orders will be placed in different countries according to whether export finance is available;
- ECGD should take more risk to support worthwhile projects in developing countries – a separate account for this may need to be established;
- ECGD should support only productive investments for development purposes leaving commercially motivated projects to the private sector; and
- a long-term view should be taken on ECGD's achievement of financial breakeven, in line with the long-term nature of ECGD support.

Trade and Industry Committee

9.13 The Trade and Industry Committee said:

“It appears to us that the necessity for ECGD to ‘break even’ according to a set ratio each year is potentially in conflict with ECGD's task of supporting business that the private market is unwilling to take. We understand that the annual break even obligation is not the norm among ECAs in the OECD Consensus. We recommend that consideration is given to extending the timescale for the breakeven objective to provide for averaging out over a longer time period.”

“We were dismayed to discover that many respondents to the consultation paper felt that the ‘interference’ of the Treasury in the day-to-day work of ECGD had led to unacceptable delays in responses to requests for cover and, in some cases, the loss of contracts to overseas competitors.”

“Whilst we recognise that the Treasury has a role to play in supervision of export credits relying ultimately on Government funds as a guarantor, we have the impression that the Treasury may not be taking a long-term view of what is unquestionably a long-term market.

“We are concerned that British exporters are currently suffering from delays in decisions on export guarantees or insurance cover and are losing business as a result. Whilst we appreciate that these problems are not solely attributable to the Treasury’s withdrawal of delegated authority from ECGD, we have gained the impression that the Treasury is far more cautious than ECGD would be if left to its own devices and that this has caused severe problems for some British exporters. For example, we find it unacceptable that a review on cover for Brazil that was started by ECGD at the beginning of the year has not yet come to a final conclusion and we fear that these delays can only harm the interests of British exporters.

“A mechanism must be put in place to ensure that such delays are eliminated. This should include indicative targets for the reaching of decisions, hopefully of a more robust character than those that currently apply in the export licensing regime. We are not convinced that there is a sufficient sense of urgency in the Treasury’s consideration of applications which require swift decisions.

“The practicalities of ECGD’s relationship with the Treasury must be at the heart of any decisions taken over the future status of ECGD. We recommend that it be given the freedom to operate its day-to-day business without constant referral to the Treasury.

“ECGD cannot both be directed towards risky markets and to break even without some effect on premiums. We recommend an independent examination of ECGD’s system of setting rates and the extent to which these rates actively discourage

business or send it elsewhere; and that ECGD be required to demonstrate that there is a real justification for setting rates above the OECD minimum.

“We are not convinced that ECGD’s Mission should be amended to reflect a need to remain competitive. However, there may be a case for ECGD to have a general duty to consider the competitiveness of the services it offers as against those offered by other ECAs.

“We recommend that before any decision on ECGD’s Status is made, the Government publish the criteria by which they wish their proposals to be assessed in terms of the effect on ECGD’s operations. In our view the criteria should include: autonomy; accountability; commercial freedom; transparency and competitiveness.”

Analysis and conclusions

Risk management

9.14 The economic rationale for the Government continuing to back ECGD’s insurance services rests primarily on ECGD continuing to meet its Financial Objective. Thus it is of paramount importance that ECGD should have robust risk management systems based on best and up-to-date commercial practice. ECGD’s financial track record since the introduction of PMS is a good one (see **Annex E** to this Report) and does not point to the need to alter the risk-reward balance or ECGD’s risk appetite from the viewpoint of containing the risk of loss to the taxpayer; and there are also compelling ‘level playing field’ reasons for maintaining the balance.

Conclusion

There should be no change in ECGD’s risk-reward balance nor to the broad volume of its business over time. That is, ECGD’s Financial Objective and its overall risk appetite should remain broadly the same.

9.15 In the meantime, ECGD should press ahead with improvements in its risk management systems; this is not inconsistent with maintaining the overall risk-reward balance, though ECGD should maintain pressure in international fora to ensure ECAs adopt the same robust standards.

- the risk management framework should give ECGD operational autonomy and Treasury assurance about the robustness of risk management so that it will adopt a strategic oversight role. This is important for clear accountability for financial performance.

Conclusion

ECGD should continue to press multilaterally for ECAs to adopt risk management systems and policies based upon best commercial practice.

9.16 In particular, ECGD should focus upon the areas identified by KPMG as requiring improvement:

- clarifying roles and codifying procedures to ensure clear separation of the underwriting and risk management functions;
- regular and comprehensive reporting of performance;
- more effective exposure management through the introduction of a capitalised regime. ECGD has set in hand a radical and ambitious development programme to take this work forward, and its aim is to have many of the key elements of the capitalisation framework in place by April 2001. ECGD is also aiming to have formulated by April 2001 the policy framework for a full capitalisation system, to be introduced by April 2002. This would include establishing a Trading Fund;³⁵
- greater clarity about the Financial Objective, and as recommended by the Trade and Industry Committee, the period over which it is intended to apply, so that ECGD is able to react and respond to changes in the risk environment in a measured and orderly way;

Conclusions

ECGD should strengthen its risk management systems, along the lines recommended by KPMG; in particular by introducing a capitalised framework informed by best commercial practice – this will entail establishing a Trading Fund.

ECGD should have operational autonomy within this framework with HM Treasury's role being one of strategic oversight.

9.17 The remaining Status option³⁶ – whether, in addition to being an independent Department ECGD should also be an Agency – will be considered in the context of the work to establish a Trading Fund, once the policy framework for a full capitalisation system has been established.

Conclusion

Once the policy framework for the Trading Fund has been agreed, ECGD should examine, with the Cabinet Office and HM Treasury whether, in addition to remaining an independent Department, it should also be an Agency.

Perspective on risk and Account 3

9.18 The introduction of a robust and properly capitalised risk management framework should enable ECGD to be given clearer autonomy and accountability for decisions

35 See note to paragraph 1.36.

36 Chapter 3 concludes abolition and privatisation are not appropriate although they should be reviewed from time to time. ECGD should continue to promote the development of the private sector and work with it in close partnership. Chapter 8 emphasises that ECGD should continue to look for opportunities to contract out functions where this would represent value for money and improve service delivery, and that it should continue to work with the private market to develop innovative solutions; it should continue to use the private market to manage risks, where this is cost-effective.

on pricing and the allocation of its capital to particular transactions and markets. In turn this should enable it to provide greater stability and continuity of support across a wider range of markets. Maintaining stability and continuity of support should be a key business goal.

- 9.19 ECGD would also be able to take a wider perspective on risk in relation to the contracts and investments it supports, giving due weight to both transaction and portfolio considerations. This would mean that there should be less requirement for business at the riskier end of the spectrum to be rejected, provided there was capital to support it and the premium was matched to the risk. Account 3 would need to be retained, but the occasions for its use should be far less than presently is the case, provided ECGD is adequately capitalised, i.e. in line with the current risk-reward balance and broad volume of business.
- 9.20 Ministers could still instruct ECGD to take on business under its Account 3 mechanism but it is important for financial discipline that Account 3 should not be seen as an easy 'escape route' for risky business, which may otherwise be considered desirable for a mixture of trade promotion, industrial policy and other reasons. Use of Account 3 should be truly *exceptional*, i.e. to provide support for exports and overseas investments where there are significant wider Government policy grounds for doing so. Proposals should be considered on a case-by-case basis and HM Treasury approval would be required for each transaction.

Conclusion

Account 3 should continue but its use in future should be *exceptional* and confined to supporting business that cannot be accommodated within normal Account 2 cover arrangements, and where there are significant wider Government policy interests at stake. Account 3 should not represent an 'escape route' for risky business that ECGD cannot accept under its Financial Objective. HM Treasury approval will be required for each transaction.

10. ECGD's corporate governance: a better system of control

This chapter is about ECGD's governance and accountability, and how these will be strengthened.

The current position

10.1 ECGD, as a Government department, reports to the Secretary of State for Trade and Industry. It derives its power from the *1991 Export and Investment Guarantees Act* (copy at **Annex B** to this Report).

10.2 ECGD may exercise its statutory powers only with the consent of HM Treasury. A range of delegated authorities and consents establishes what ECGD can do without specific reference to HM Treasury. Like other departments, ECGD has key performance targets set out in its Service Delivery Agreement on which it reports progress regularly to HM Treasury. The Treasury also chairs the Export Guarantees Committee of departments comprised of the FCO, British Trade International, DTI, DFID, the Ministry of Defence (MoD), Bank of England and the Financial Services Authority as well as ECGD itself.

10.3 ECGD operates in accordance with *Government Accounting* which sets out the responsibilities of the Accounting Officer for the propriety and regularity of expenditure and for the financial controls and management framework. ECGD's annual Trading and Appropriation Accounts are audited by the National Audit Office (NAO) and laid before Parliament each year.

10.4 Responsibility for the strategy for delivering ECGD's business and financial performance targets rests with the Management Board, which is chaired by ECGD's Chief Executive

(also its Accounting Officer) and comprises the four most senior executives in the Department – the Group Directors of Underwriting, Asset Management and Resource Management plus ECGD's General Counsel.

10.5 There are a number of operational committees responsible to the Management Board for overseeing the business functions and operations of the Department. These cover country risk assessment, corporate and project risk and underwriting policies, treasury management, claims and recoveries management and debt sales. In addition, there is an Audit Committee responsible for monitoring the adequacy of the underlying risk management framework and corporate governance of the Department.

10.6 Other departments are consulted on or advise on ECGD's business through the Whitehall Economists Sub-Group, which helps ECGD assess country risk, and the Export Guarantees Committee (see paragraph 10.2 above) as well as *ad hoc* on specific cases or issues.

10.7 Like all other Government departments, ECGD's framework of control is currently under review in the light of the Government's policy to apply the principles of the Turnbull Committee on Corporate Governance³⁷ to central Government departments.

10.8 The Export and Investment Guarantees Act also requires the establishment of the Export Guarantees Advisory Council (EGAC) whose purpose is to give advice to the Secretary of State, at his request, in respect of any matter relating to the exercise of his functions under the Act. There is a specific obligation on the Secretary of State to consult the Council in

³⁷ *Internal Control: Guidance for Directors on the Combined Code*, see also www.icaew.co.uk/internalcontrol/turnbul.pdf

relation to reinsurance. Council Members are appointed by the Secretary of State.

- 10.9 The Council has formal terms of reference which set out the issues on which the Secretary of State currently seeks their advice. This also lays down the procedures for appointments and a code of conduct with prescribed arrangements for handling any potential conflicts of interest and other relevant issues.

appointed by the Secretary of State and 'generally drawn from senior levels of the banking, commercial and industrial sectors.'

"We recommend that, in future, membership of ECGD's Advisory Council should include independent experts who can advise on development, human rights and environmental issues."

Evidence from the Review

- 10.10 There were a number of comments about ECGD's accountability in the Public Consultation responses:
- Independent experts, in relation to development, the environment, human rights and other relevant issues, should be appointed to the EGAC.
 - There should be greater interdepartmental consultation on controversial issues.
 - An independent complaints procedure should be introduced to adjudicate any complaints by the public in relation to projects supported by ECGD.
 - Oxfam GB, in their submission to the Review, commented:

"We understand that the primary role of the Advisory Council is to advise on levels of risk and on which countries should be on or off cover, rather than to become involved in individual underwriting decisions. Nevertheless, if the Advisory Council is to fulfil this role in a way which is consistent with the delivery of wider government objectives such as those on sustainable development, it is not unreasonable to expect that at least some members of the Advisory Council should offer expertise in these areas. We are therefore concerned that at present, all members of the Advisory Council are

Analysis and conclusions

- 10.11 The new Mission outlined in this Report will represent a significant challenge for the management of ECGD and its people. There are major changes to implement arising from the conclusions of this Report and also from the KPMG Report as described in the previous chapter. It is an important aspect of this Review to ensure that sufficiently robust management and corporate governance arrangements are in place to deliver these changes, which will also affect the culture of the Department.
- 10.12 There are two other factors arguing for change in this area of governance and accountability. First, the EGAC's key function at present is to offer advice on risk assessments collectively in relation to the assessment of country risks and individually through the banking members of the Council, who have expertise in the assessment of large corporate risks. It is understandable that ECGD should have looked to the financial services industry as a source of up-to-date expertise and advice in these areas. There have, however, undoubtedly been public concerns about the potential for conflicts of interest, notwithstanding that there are procedures to address this. (These are based on the 1998 Cabinet Office model *Code of Practice for Members of NDPBs.*)
- 10.13 Second, all Government departments are currently considering how to implement

the principles of the Turnbull Committee in order to strengthen their corporate governance and provide an assurance on their internal control and risk management systems.

10.14 As a consequence of this Review, ECGD's corporate governance will need to be strengthened. ECGD will continue to report to the Secretary of State for Trade and Industry under the powers of the 1991 Export and Investment Guarantees Act. But there will be changes to the current framework within which it operates through the establishment of Trading Fund Status by April 2002, as indicated in Chapter 9.

10.15 In order to provide assurance of its revised systems and the wider policies and principles which it will adopt in future, ECGD needs to draw upon a wider range of external advice and expertise. This approach is wholly consistent with the principles of the Modernising Government agenda, and the requirements for Government departments to implement the principles of the Turnbull Committee. This will be achieved by the appointment of outside Directors to ECGD's Management Board; outside Directors will also participate in key operational committees, and will provide the chair and main membership of the Audit Committee.

Conclusion

ECGD should strengthen its corporate governance systems, including the appointment of outside Directors to ECGD's Management Board. They would have a key role in overseeing ECGD's risk management systems through membership of the Audit and relevant operational Committees.

10.16 At the same time the role of the statutory Advisory Council will be radically changed. Its role will dovetail with that being adopted by new outside Directors. Its new role will be to advise on the underlying policies and principles which ECGD needs to follow in order to achieve its new Mission, particularly how it takes account of the wider impact of projects on overseas countries. With the

appointment of outside Directors to advise on risk and control, the Council will not be asked to give advice on individual cases or markets. Its membership will be revised to bring in outside expertise on the new areas in ECGD's Mission – taking greater account of the needs of smaller exporters, the developmental benefits of projects it supports and their environmental and other impacts. New appointments will be made in accordance with the established procedures for public appointments.

Conclusions

The Terms of Reference and membership of the Export Guarantees Advisory Council should be widened in line with the change of Mission; its remit should be radically reformed so that it advises ECGD on the policies and principles needed to fulfil the new Mission and not on individual risk decisions. The revised Terms of Reference should be published.

There will continue to be procedures for outside Directors and Council members to avoid conflicts of interest.

10.17 As Chapters 5 and 6 indicate, ECGD will work closely with other Government departments on potentially controversial issues and projects as well as in drawing up its new Business Principles, but this should be underpinned by a formal mechanism for consultation. Other Government departments will continue to sit on the Economists Sub-Group to provide ECGD with economic analysis and advice on country risk assessment.

Conclusion

ECGD should establish a formal mechanism for consulting other departments on sensitive cases and related process issues.

10.18 It is important that all Government departments and public sector organisations providing a service to customers should

have effective complaints procedures. ECGD's current arrangements are described in its *Charter for Customers*. ECGD will review its complaints procedures and consider whether one of the new outside Directors might be nominated to provide an independent review of complaints.

Conclusion

ECGD should review its complaints procedures.

11. ECGD: more open and transparent

This chapter is about ECGD's approach to transparency and the benefits of greater openness.

The current position

11.1 ECGD publishes a range of material describing its services and a detailed Annual Report containing audited financial statements and a description of its activities during the previous financial year. ECGD also has its own website and regularly issues press releases and newsletters describing its activities.

11.2 In many cases ECGD is subject to a duty of commercial confidence in relation to the information it receives. In some cases information will be market-sensitive and exporters and investors are generally cautious about the disclosure of information about requests for cover at an early stage when disclosure may prejudice their bidding or negotiating position.

11.3 Like all Government departments, ECGD is subject to the Code of Practice on Access to Government Information and the Environmental Information Regulations, 1997. When enacted, the Freedom of Information Bill will oblige ECGD to make available certain information, if requested, and to establish a publication scheme setting out its disclosure policy.

- disclosure of country cover criteria, risk assessment processes, environmental assessment criteria and social development assessment criteria;
- disclosure in advance of all pending applications including, *inter alia*, the identities of the project country and participants and likely developmental, environmental, human rights and security aspects;
- release of all documents relating to the environmental, social and human rights aspects of proposed projects (with a presumption in favour of disclosure);
- greater detail – particularly in respect of the defence sector – in ECGD's *Annual Report* of projects supported, together with an explanation of the application of human rights criteria to particular cases;
- publication of minutes of meetings of the EGAC; and
- greater Parliamentary scrutiny of ECGD's *Annual Report* and activities.

11.5 Amnesty International UK commented that:

"The use of taxpayers' money by the ECGD to underwrite transactions places a great onus on the Department to report its operations to the public. Accordingly, Amnesty International recommends that the ECGD should be obliged to provide much more detailed Annual Reports than is currently the case and that future Annual Reports should be subject to a Parliamentary debate. The Annual Report should list all projects currently being underwritten, giving details of the value and type of exports, as well as their final

Evidence from the Review

NGO views

11.4 Most responses on this topic stemming from the Public Consultation exercise have come from NGOs. They called for:

destination and end-user. The Annual Report should also seek to explain how the human rights criteria in the Mission Statement have informed decisions made by the ECGD on whether to underwrite particular projects."

Private sector views

11.6 Exporters and other users of ECGD's services indicated that they were generally content to be as open and transparent as possible within the confines of commercial confidentiality. They would be concerned if ECGD released information, particularly before contracts had been awarded, which would benefit their foreign competitors.

11.7 The Defence Manufacturers Association, in evidence to the Trade and Industry Committee, commented that:

"... we have no difficulty with that principle [more information being put in the public domain about what ECGD does] at all, as long as, and in line with our input to the strategic export control debate, concerns about exposing commercially confidential information to our competitors were not breached. That is an issue to be debated, but certainly the more information made available the better."

Analysis and conclusions

- 11.8 ECGD should have an open dialogue with its stakeholders – customers, the press, the public, Ministers and Parliament – on its activities and its business policies and performance. This is important for maintaining public confidence.
- 11.9 The Business Principles to be prepared as a result of the conclusions of Chapters 3 and 6 should go a long way to providing more information on ECGD's approach to business. The Business Principles will be prepared through a process of consultation with customers and other organisations with an interest in ECGD's work.

11.10 It is reasonable for there to be a presumption of transparency and openness subject to ECGD respecting the legitimate confidence of its customers and overseas buyers or borrowers. Where UK exporters are in a competitive procurement situation, it might damage UK interests to reveal information to competitors. Likewise, release of information on assessments of individual countries' creditworthiness could harm the UK's bilateral relations.

11.11 However, much of the information ECGD holds is not confidential. Equally, it could do more to collect and publish information on projects it has supported after the competitive procurement process is complete. It would also increase confidence in and understanding of ECGD to make more information available on its processes and systems for assessing projects.

Conclusion

ECGD should undertake more consultation with customers and other parties who have an interest in what ECGD does.

11.12 ECGD's *Annual Report* also provides a regular opportunity to provide more information on its business. It could be expanded by making public more information on ECGD's customer base, the projects it supports each year and the benefits of these projects both to the UK economy and the overseas countries concerned.

Conclusion

ECGD should provide more information on the benefits of its business to UK exporters, support for SMEs, and the impact on buying countries of projects which it has supported. It should report on its performance against the proposed Business Principles and its other strategic goals, in a fuller *Annual Report* which should be laid before Parliament. (The first expanded Report should be in respect of the 2000/01 financial year.)

12. ECGD and its people: better skills and a better service

This chapter is about ECGD's people, the skills and qualities required to carry out its business, and the mechanisms for ensuring that its Mission is delivered. It also looks at how ECGD's staff will be responsive to the needs of its stakeholders, and motivated to serve customers and to implement the changes reflected in this Report.

The current position

- 12.1** The quality of ECGD service depends critically upon the commitment, dedication and professionalism of its staff. ECGD currently has a staff of 410. Around 85 per cent of the staff are located in London Docklands with the remainder in Cardiff.
- 12.2** Many of ECGD's personnel policies and plans already fit in well with the Modernising Government and Civil Service Reform (MGCSR) agendas. There is also a clear strategy and action plan for taking forward the changes necessary to ensure that these agendas are seen as an integral part of the Department's change programme.
- 12.3** ECGD is firmly committed to developing its internal talent and recruiting more externally. The Department achieved Investors in People (IIP) accreditation in January 1999 and has recently passed its first post-recognition review, being regarded by the assessors as an exemplar organisation. Current training spend of around 5 per cent of the salary budget is well above the average spend in the financial services sector of around 3.8 per cent. Around 11 per cent of the target workforce has been recruited in the last year. At the heart of ECGD's recruitment strategy is its Executive Development Programme but ECGD has also recruited

externally a number of professionally qualified staff. ECGD also uses flexible and effective reward systems to recruit, motivate and retain good quality staff and is committed to the principle that pay should reflect performance and results rather than time served.

- 12.4** A key aspect of ECGD's Personnel Strategy is a firm commitment to equality of opportunities for all of its staff. ECGD strives to ensure that equal opportunities best practice is reflected in its personnel policy initiatives. At present, 63 per cent of ECGD staff are male and 37 per cent female. Twenty-one per cent of ECGD staff classify themselves as members of an ethnic minority group and this is in line with the wider Civil Service in London.
- 12.5** ECGD holds the 'Double Tick' symbol in recognition of the fact that it is an organisation which is committed to employing people with disabilities. At present, 12 per cent of staff have registered a disability or long-term health condition.
- 12.6** ECGD's business objectives are cascaded via its performance management systems into individual Performance and Responsibility Plans to ensure that all its activities support the achievement of those objectives and its Personnel Strategy sets out what kind of organisation ECGD aims to be – its culture, values and behaviours.

Analysis and conclusions

- 12.7** Implicit in the new Mission Statement is the need for ECGD to be a customer-focused and outward-facing organisation. If it is to achieve its Mission and meet the challenges of the MGCSR agendas, ECGD has to maintain and further develop a number of capabilities. In particular, it:

- should be able to respond readily, effectively and openly to retain the confidence of those whose needs it has to meet – Ministers, customers, the taxpayer, other interested parties and its employees;
- should maintain and develop the necessary technical skills which are required to meet these needs;
- should have an adaptive and innovative culture which responds readily and effectively to the need for change with a strong emphasis on developing and maintaining skills and sharing experience to allow others also to develop their skills;
- should have a high level of political sensitivity so that it can play its full part in developing and promoting the Government's policies on trade facilitation and wider objectives outlined in this Report; and
- should foster a working environment in which its employees are, and are perceived to be, rewarded for their contribution and performance, and where promotion is based on merit.

12.8 This is a radical and fundamental programme of change. The new Mission and the proposed Business Principles will lead to significant changes in ECGD's operations and its culture. They will fundamentally transform the way ECGD does business, and how it deals with its customers, Parliament and the public. ECGD will need to develop the skills of its people, and where necessary import skills, to tackle the revised Mission. Implementing these reforms will call for leadership, dedication, good management and consultation with stakeholders.

12.9 ECGD already has a skilled workforce admired for its professionalism but ECGD will need to ensure it further develops the skills of its people and, where appropriate, import the required skills to tackle its revised Mission. The revised Mission and change agenda will need to be reflected in the aims and objectives of its Personnel Strategy which will set out the

culture, values and behaviours that underpin the new Mission.

Conclusions

ECGD's Mission should explicitly reflect the need to recruit, develop and retain the people with the skills needed to achieve its business goals and objectives.

ECGD should amend the aims and objectives of its Personnel Strategy to reflect its new Mission.

Annex A:

Previous Reviews of ECGD

- 1 In 1988 a review of status options was undertaken by Mr R T Kemp, a retired senior ECGD official. This paved the way for a Government decision in 1989 to:
 - Privatised ECGD's short-term export credit insurance business, which was accomplished in 1991 – although the Government continued to provide indirect support via a limited form of reinsurance to the private sector.
 - Retain the public sector support for the provision of medium- and long-term cover for capital goods exports and overseas investment insurance, as this could not be run on a commercially viable basis.
- 2 In 1990, a *Machinery of Government Review* – the first review of ECGD's Status to take account of 'Next Steps' principles – concluded that ECGD should remain a free-standing Department, with the Chief Executive reporting directly to the Secretary of State for Trade and Industry. While ECGD had some attributes which made it a potential candidate for Agency status, the privatisation needed to be completed and a new Portfolio Management System (PMS 1) was being introduced which established a new way of assessing, underwriting, pricing and managing country risk, and a new (more stringent) financial objective to apply to the business that was not privatised. It was not thought practicable to pursue the question of Agency status further until the privatisation had been accomplished and the PMS 1 system had bedded down, and results showed through on the portfolio of new business that ECGD would be left to underwrite.
- 3 In 1994, the (then) Government again accepted that, for the time being, ECGD should remain a free-standing Department and not become a 'Next Steps Agency' candidate, given the detailed Ministerial involvement in major decisions, and the need to balance national interest considerations for support against risks to the Exchequer and the taxpayer, which had a direct bearing on ECGD's business results.

Annex B:

Export and Investment Guarantees Act 1991

Export and Investment Guarantees Act 1991³⁸

CHAPTER 67

ARRANGEMENT OF SECTIONS

PART I

POWERS OF ECGD

Section

1. Assistance in connection with exports of goods and services.
2. Insurance in connection with overseas investment.
3. Financial management.
4. Provisions supplementary to sections 1 to 3.
5. Provision of services and information.
6. Commitment limits.
7. Reports and returns.

PART II

TRANSFER OR DELEGATION OF ECGD FUNCTIONS

8. Scheme of transfer.
9. Transferred staff.
10. Vehicle companies.
11. Reinsurance.
12. Delegation of assistance function.

PART III

GENERAL

13. The Export Credits Guarantee Department and the Export Guarantees Advisory Council.
14. Expenses.
15. Short title, interpretation, commencement, etc.

SCHEDULE:

—Scheme of transfer: Supplementary provisions.

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ELIZABETH II

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Export and Investment Guarantees Act 1991

1991 CHAPTER 67

An Act to make new provision as to the functions exercisable by the Secretary of State through the Export Credits Guarantee Department; and make provision as to the delegation of any such functions and the transfer of property, rights and liabilities attributable to the exercise of any such functions.

[22nd October 1991]

BE IT ENACTED by the Queen's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:—

PART I

POWERS OF ECGD

1.—(1) The Secretary of State may make arrangements under this section with a view to facilitating, directly or indirectly, supplies by persons carrying on business in the United Kingdom of goods or services to persons carrying on business outside the United Kingdom.

Assistance in connection with exports of goods and services.

(2) The Secretary of State may make arrangements under this section for the purpose of rendering economic assistance to countries outside the United Kingdom.

(3) The Secretary of State may make arrangements under this section with a view to facilitating—

- (a) the performance of obligations created or arising, directly or indirectly, in connection with matters as to which he has exercised his powers under this section or section 2 of this Act, or
- (b) the reduction or avoidance of losses arising in connection with any failure to perform such obligations.

(4) The arrangements that may be made under this section are arrangements for providing financial facilities or assistance for, or for the benefit of, persons carrying on business; and the facilities or assistance may be provided in any form, including guarantees, insurance, grants or loans.

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Insurance in
connection with
overseas investment.

2.—(1) The Secretary of State may make arrangements for insuring any person carrying on business in the United Kingdom against risks of losses arising—

- (a) in connection with any investment of resources by the insured in enterprises carried on outside the United Kingdom, or
- (b) in connection with guarantees given by the insured in respect of any investment of resources by others in such enterprises, being enterprises in which the insured has any interest,

being losses resulting directly or indirectly from war, expropriation, restrictions on remittances and other similar events.

(2) The Secretary of State may make arrangements for insuring persons providing such insurance.

(3) References in subsection (1) above to a person carrying on business in the United Kingdom and to the insured include any company controlled directly or indirectly by him.

Financial
management.

3.—(1) The Secretary of State may make any arrangements which, in his opinion, are in the interests of the proper financial management of the ECGD portfolio, or any part of it.

(2) In pursuance of arrangements under this section the Secretary of State may enter into any form of transaction, including—

- (a) lending, and
- (b) providing and taking out insurance and guarantees.

(3) The Secretary of State may not, in pursuance of such arrangements, enter into any transaction for the purposes of borrowing money but, subject to that, he is not precluded from entering into any transaction by reason of its involving borrowing.

(4) In pursuance of such arrangements the Secretary of State may—

- (a) alter any arrangement made under section 1 or 2 of this Act or the old law or make new arrangements in place of arrangements so made, or
- (b) make further arrangements in connection with arrangements so made.

(5) Arrangements under this section may be made in anticipation of further rights being acquired or liabilities being incurred by the Secretary of State.

(6) In this section the “ECGD portfolio” means the rights and liabilities to which the Secretary of State is entitled or subject by virtue of the exercise of his powers under this Act or the old law or in consequence of arrangements made in the exercise of those powers.

(7) The Secretary of State may certify that any transaction he has entered into or is entering into has been or, as the case may be, is entered into in the exercise of the powers conferred by this section and such a certificate shall be conclusive evidence of the matters stated in it.

Provisions
supplementary to
sections 1 to 3.

4.—(1) Transactions entered into in pursuance of arrangements made under sections 1 to 3 of this Act may be on such terms and conditions as the Secretary of State considers appropriate.

(2) The powers of the Secretary of State under those sections are exercisable only with the consent of the Treasury and such consent may be given in relation to particular cases or in relation to such descriptions of cases as may be specified in the consent.

(3) In those sections—

- (a) “business” includes a profession,

- (b) “guarantee” includes indemnity,
- (c) references to persons carrying on business, in relation to things done outside the United Kingdom, include persons carrying on any other activities, and
- (d) references to things done in or outside the United Kingdom are to things done wholly or partly in or, as the case may be, outside the United Kingdom.

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(4) References in this and those sections to the United Kingdom include the Isle of Man and the Channel Islands.

5.—(1) The Secretary of State may provide to any person—

Provision of services and information.

- (a) information relating to credit or investment insurance,
- (b) services ancillary to the provision by that person of credit or investment insurance, and
- (c) such other goods or services as may be specified in an order under this section,

and may make such charges for doing so as he may determine.

(2) The power to make an order under this section is exercisable only with the consent of the Treasury.

6.—(1) The aggregate amount of the Secretary of State’s commitments at any time under arrangements relating to exports and insurance shall not exceed—

Commitment limits.

- (a) in the case of commitments in sterling, £35,000 million, and
- (b) in the case of commitments in foreign currency, 15,000 million special drawing rights.

(2) In subsection (1) above, “arrangements relating to exports and insurance” means—

- (a) arrangements under section 1 or 2 of this Act, other than arrangements for giving grants or arrangements under section 1(3), and
- (b) arrangements under the old law, other than arrangements for giving grants.

(3) The aggregate amount of the Secretary of State’s commitments at any time under section 3 of this Act shall not exceed—

- (a) in the case of commitments in sterling, £15,000 million, and
- (b) in the case of commitments in foreign currency, 10,000 million special drawing rights.

(4) The Secretary of State may by order increase or further increase—

- (a) either of the limits in subsection (1) above by a sum specified in the order not exceeding £5,000 million or, as the case may be, 5,000 million special drawing rights,
- (b) either of the limits in subsection (3) above by a sum specified in the order not exceeding £3,000 million or, as the case may be, 2,000 million special drawing rights,

but the Secretary of State shall not in respect of any limit exercise the power on more than three occasions.

(5) For the purposes of this section and section 7 of this Act—

- (a) the commitments of the Secretary of State under any arrangements are his rights and liabilities relating to the arrangements,

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- (b) the amount of any commitments shall be ascertained in accordance with principles determined from time to time by the Secretary of State with the consent of the Treasury,
- (c) “foreign currency” means any currency other than sterling, including special drawing rights and any other units of account defined by reference to more than one currency,
- (d) whether any commitments are in sterling or foreign currency is to be determined by reference to the currency in which the amount of the commitments is measured (rather than the currency of payment) but, if the commitments are expressed to be subject to a sterling or foreign currency limit, the commitments are to be taken to be in sterling or, as the case may be, foreign currency, and
- (e) the equivalent in special drawing rights of the amount of any commitments in foreign currency shall be ascertained at intervals determined from time to time by the Secretary of State with the consent of the Treasury and in accordance with principles so determined.

(6) A determination under subsection (5)(e) above may provide for leaving out of account for the purposes of the limit in subsection (1)(b) or (3)(b) above any amount by which the limit would otherwise be exceeded to the extent that the amount is attributable to—

- (a) a revaluation of commitments under subsection (5)(e) above, or
- (b) the fulfillment of an undertaking which, had it been fulfilled when given, would not have caused the limit to be exceeded.

(7) Any power to make an order under this section is exercisable only with the consent of the Treasury.

Reports and returns.

7.—(1) The Secretary of State shall prepare an annual report on the discharge of his functions under sections 1 to 5 of this Act.

(2) The Secretary of State shall prepare, as soon as practicable after 31st March in each year, a return showing separately the aggregate amounts of the commitments in sterling and in foreign currency on that date for the purposes of the limits in section 6(1) and (3) of this Act.

(3) Any return under this section may also give such further information as to the amounts of his commitments for the purposes of those limits as the Secretary of State may determine for that return.

(4) The first return under this section shall be prepared as soon as practicable after 31st March 1991.

(5) Reports and returns prepared under this section shall be laid before Parliament.

PART II

TRANSFER OR DELEGATION OF ECGD FUNCTIONS

Scheme of transfer.

8.—(1) The Secretary of State may make a scheme or schemes for the transfer to any person or persons of such property, rights and liabilities as are specified in or determined in accordance with the scheme, being property, rights or liabilities—

- (a) to which the Secretary of State (or, in the case of copyright, Her Majesty) is entitled or subject immediately before the day on which the scheme providing for the transfer comes into force, and

(b) which then subsisted for the purposes of or in connection with or are otherwise attributable (wholly or partly) to the exercise of functions under Part I of this Act or the old law. PART II

(2) Without prejudice to the generality of subsection (1)(b) above, any property, rights or liabilities shall be taken to fall within that subsection if the Secretary of State issues a certificate to that effect.

(3) A scheme under this section may apply—

- (a) to property wherever situated, and
- (b) to property, rights and liabilities whether or not otherwise capable of being transferred or assigned by the Secretary of State or, as the case may be, Her Majesty.

(4) A scheme under this section shall come into force on such day as may be specified in, or determined in accordance with, the scheme; and on that day the property, rights and liabilities to which the scheme applies shall be transferred and vest in accordance with the scheme.

(5) A scheme under this section may contain such supplementary, incidental, consequential or transitional provisions as appear to the Secretary of State to be necessary or expedient.

(6) the Schedule of this Act (scheme of transfer: supplementary provisions) shall have effect.

(7) References below in this Act to a transferee are to any person to whom anything is transferred by virtue of a scheme under this section.

9.—(1) No scheme under section 8 of this Act shall provide for the transfer of any rights or liabilities relating to a person's employment, but the Transfer of Undertakings (Protection of Employment) Regulations 1981 shall apply to the transfer of property, rights or liabilities by virtue of such a scheme whether or not the transfer would, apart from this subsection, be a relevant transfer for the purposes of those regulations. Transferred staff.
S.I. 1981/1794.

(2) Where, by reason of the operation of those regulations in relation to a transfer of property, rights or liabilities by virtue of such a scheme, a person ceases to be employed in the civil service of the State and becomes employed by a transferee—

- (a) he shall not, on so ceasing, be treated for the purposes of any scheme under section 1 of the Superannuation Act 1972 as having retired on redundancy, and 1972 c. 11.
- (b) his ceasing to be employed in that service shall not be regarded as an occasion of redundancy for the purposes of the agreed redundancy procedures applicable to persons employed in that service.

10.—(1) In this section “vehicle company” means a company formed or acquired for the purpose of — Vehicle companies.

- (a) becoming a transferee, or
- (b) holding shares in a company formed or acquired for that purpose.

(2) Subject to subsections (3) and (4) below, the Secretary of State may—

- (a) subscribe for or otherwise acquire shares in or securities of a vehicle company, or acquire rights to subscribe for such shares or securities,
- (b) by a direction given to a company formed or acquired for the purpose of becoming a transferee require it, in consequence of the transfer by virtue of a scheme under section 8 of this Act of property, rights or liabilities, to issue to him, or to such other person as may be specified in the direction, such shares or securities as may be so specified,

c.67 PART II

(c) from time to time by a direction given to a vehicle company require it to issue to him, or to such other person as may be specified in the direction, such shares or securities as may be so specified, or

(d) make loans to a vehicle company on such terms and conditions as he may determine.

(3) A direction under subsection (2)(b) or (c) above may require any shares to which it relates to be issued as fully or partly paid up.

(4) The Secretary of State shall not—

(a) subscribe for or otherwise acquire shares in or securities of a vehicle company, or acquire rights to subscribe for such shares or securities, unless all the relevant shares are to be held by or on behalf of the Crown, or

(b) at any time give a direction or make a loan to a vehicle company unless all the relevant shares are then held by or on behalf of the Crown.

(5) For the purposes of subsection (4) above—

(a) shares are held by or on behalf of the Crown where the Crown or any person acting on behalf of the Crown has a legal interest in them; and

(b) “relevant shares”, in relation to a vehicle company, means the issued shares of that company or, if it is a subsidiary of another vehicle company, the issued shares of that other company.

(6) A scheme under section 8 of this Act may, as between any vehicle companies or as between a vehicle company and the Secretary of State, confer or impose rights and liabilities in connection with any of the matters as to which the Secretary of State may exercise his powers under this Act.

(7) The Secretary of State shall not exercise any of the powers conferred by the preceding provisions of this section or dispose of any shares in or securities of a vehicle company without the consent of the Treasury.

Reinsurance.

11.—(1) The Secretary of State may make arrangements with any transferee under which the transferee insures the Secretary of State against risks of losses arising in consequence of arrangements made, before the day on which any scheme under section 8 of this Act comes into force, under Part I of this Act or the old law.

(2) The Secretary of State shall from time to time determine, in relation to such classes of risk determined by him as might be insured by him under section 1 of this Act, whether it is expedient in the national interest for him to exercise his powers under that section to make arrangements for reinsuring persons providing insurance for risks of that class.

(3) This section is without prejudice to any power of the Secretary of State under Part I of this Act.

Delegation of assistance function.

12.—(1) The Secretary of State may make arrangements for any of the functions to which this section applies to be exercised on his behalf by any transferee or any other person, instead of through the Export Credits Guarantee Department, on such terms and conditions as he may determine.

(2) This section applies to the power of the Secretary of State to make arrangements under section 1 of this Act and to any functions of his under arrangements so made, or arrangements under the old law, including, so far as relating to any such arrangements, arrangements made by virtue of section 3(4) of this Act.

(3) This section does not affect any requirement for the consent of the Treasury.

PART III

GENERAL

13.—(1) All the functions of the Secretary of State under Part I of this Act, except the power to make orders under section 5 or 6 of this Act, shall be exercised and performed through the Export Credits Guarantee Department and the Export Guarantees Advisory Council.

(2) There shall continue to be an Export Guarantees Advisory Council.

(3) The function of the Council shall be to give advice to the Secretary of State, at his request, in respect of any matter relating to the exercise of his functions under this Act.

(4) In exercising his duty under section 11(2) of this Act, the Secretary of State shall consult the Export Guarantees Advisory Council.

14.—(1) Any sums required by the Secretary of State for making payments or for defraying his administrative expenses under this Act shall be paid out of money provided by Parliament and any sums received by the Secretary of State by virtue of this Act shall be paid into the Consolidated Fund.

(2) If any sum required by the Secretary of State for fulfilling his liabilities under this Act is not paid out of money provided by Parliament, it shall be charged on and paid out of the Consolidated Fund.

15.—(1) This Act may be cited as the Export and Investment Guarantees Act 1991.

(2) In this Act “the old law” means the Export Guarantees and Overseas Investment Act 1978 and any earlier enactment from which any provision of that Act was derived.

(3) Any power to make an order under section 5 or 6 of this Act shall be exercisable by statutory instrument and no such order shall be made unless a draft of it has been laid before and approved by resolution of the House of Commons.

(4) The Export Guarantees and Overseas Investment Act 1978 is repealed.

(5) Subsection (4) above does not affect any power exercisable by the Secretary of State in respect of arrangements made under the old law.

(6) This Act shall come into force on such day as the Secretary of State may by order made by statutory instrument appoint and different days may be appointed for different provisions and for different purposes.

The Export Credits
Guarantee
Department and the
Export Guarantees
Advisory Council.

Expenses.

Short title,
interpretation,
commencement, etc.
1978 c. 18.

SCHEDULE

SCHEME OF TRANSFER: SUPPLEMENTARY PROVISIONS

Certificate of vesting

1. A certificate by the Secretary of State that anything specified in the certificate has vested on any day in any person by virtue of a scheme under section 8 of this Act shall be conclusive evidence for all purposes of that fact.

Construction of agreements etc.

2.—(1) This paragraph applies to any agreement made, transaction effected or other thing (not contained in an enactment) which—

- (a) has been made, effected or done by, to or in relation to the Secretary of State,
- (b) relates to any property, right or liability transferred from the Secretary of State in accordance with the scheme, and
- (c) is in force or effective immediately before the day on which the scheme comes into force.

(2) The agreement, transaction or other thing shall have effect on and after that day as if made, effected or done by, to or in relation to the transferee.

(3) Accordingly, references to the Secretary of State which relate to or affect any property, right or liability of the Secretary of State vesting by virtue of the scheme in the transferee and which are contained—

- (a) in any agreement (whether or not in writing), deed, bond or instrument,
- (b) in any process or other document issued, prepared or employed for the purpose of any proceeding before a court or other tribunal or authority, or
- (c) in any other document whatever (other than an enactment) relating to or affecting any property, right or liability of the Secretary of State which vests by virtue of the scheme in the transferee,

shall be taken on and after that day to refer to the transferee.

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Annex C:

Public Consultation Document

Terms of Reference for the Mission and Status Review

The Terms of Reference for the Mission and Status Review were announced on 27 July 1999 by the Secretary of State for Trade and Industry. They are set out below:

“To review the aims and objectives, role and status of ECGD and to make recommendations to the Secretary of State for Trade and Industry.

“The Review should take account of the relationship of ECGD’s activities to HMG’s wider objectives and of the need to balance the benefits of ECGD’s support for UK exporters and investors against the risks to the taxpayer. The Review should consider international practice in the provision of export credits and investment insurance both in the public and private sectors.

“It should also take into account the results of concurrent reviews which may have a bearing on ECGD’s future activities, namely the Export Finance Review (announced 11 February 1998), the Reinsurance Scheme Review (announced 27 April 1999) and the Risk Management Review (announced 26 May 1999).

“The Review should include a period of public consultation to seek the views of exporters, investors, lenders, private sector credit insurers and their representative bodies and other interested parties.

“The Status element of the Review should be conducted in accordance with the established principles for Next Steps reviews, taking account of any proposed

change to ECGD’s Mission Statement, to consider how its services can best be delivered and whether any change in the Status of ECGD would be required.”

Introduction

- 1 The Secretary of State for Trade and Industry, Stephen Byers, announced in the House of Commons on 27 July 1999 a fundamental Review of ECGD’s Mission and Status. Any significant change to what ECGD does (its Mission) may impact on what kind of organisation it needs to be (its Status).
- 2 We want to know what **you** think of ECGD and the direction it should take in the future. We should be grateful if you would respond to this consultation document as fully as you can. This will help us formulate recommendations to put to Ministers and will help Ministers take the final decisions.

Background to the Mission and Status Review

- 3 The Terms of Reference for the Review are printed inside the front cover of this [Consultation] document. A copy of ECGD’s current Mission Statement is printed inside the back cover, together with a description of ECGD’s current operations.
- 4 In launching the Review, Mr Byers said that he saw it as an opportunity to take a fundamental look at what ECGD does in order to establish a clear Mission Statement to define ECGD’s future role and prepare for the challenge of the 21st century.
- 5 He commented that the Review should particularly look at:

- what else ECGD could do to help the Government achieve its wider sustainable development objectives, as the UK continues to play a leading role in assisting the poorest developing countries to emerge from debt and poverty burdens and return to the international trading community (the UK Government has already forgiven US\$500 million of ECGD debt for the poorest countries); and
- the support ECGD gives SMEs.³⁹ A substantial number already benefit from the £3 billion of cover ECGD provides on average each year: often SMEs are sub-contractors to major exporters who obtain ECGD cover. But there may be more that ECGD could and should be doing to help SMEs directly – especially those starting to export to non-OECD markets where private sector backing may not be available.

6 The Terms of Reference require us to examine the relationship of ECGD's activities to the Government's wider objectives and the balance between supporting UK exporters and investors and the risks to the taxpayer which that support entails. We would welcome your views on these issues. The Questionnaire below has some specific questions on how ECGD should strike the right balance in particular areas.

7 The "Status" element of the Review will be carried out in accordance with Next Steps principles.⁴⁰ Once the "Mission" part of the Review has established whether there needs to be any change to what ECGD does, we will then examine whether ECGD's services (as modified by any change to its Mission) could be delivered in a more efficient way. This will include looking at the options, prescribed under the Next Steps principles, of ECGD: remaining a Government Department, becoming a Government Agency, or having its functions partially or wholly privatised or contracted out.

What ECGD needs from you: your views on our Mission and Status

- 8 We invite you to respond to this consultation document by letting us have your answers to key questions about:
- ECGD's role in the market place;
 - how it should develop its products and services to meet the needs of exporters and investors (especially SMEs) in the future;
 - how its activities fit into wider Government objectives – and how to strike the right balance;
 - what changes should be made to ECGD's Mission; and
 - whether ECGD's Status as a Government Department is the most efficient way of delivering the services involved.
- 9 The questions we would like answered are set out in the Questionnaire below. However, they are by no means exhaustive. Nor do you have to follow the Questionnaire format. So, please feel free to comment on **any** aspect of ECGD's Mission and Status and let us have your ideas in whatever way you find most convenient. But we would like **all respondents to complete the "Your Details and Confidentiality Requirements" part of Section A and the "Understanding Who You Are" profile at Section B.**

Follow-up enquiries

- 10 We may want to hold discussions with some respondents. We, or consultants carrying out survey work for us, may also approach some of you for more detailed evidence during, or after, the consultation period. We have also appointed independent consultants to carry out a study of the economic rationale for ECGD's activities. They may contact some insurers, exporters and lenders, both those who use ECGD's services and those who do

39 DTI definition of a Small or Medium-sized Enterprise is a company with fewer than 250 employees.

40 This will be the third Status Review of ECGD since the Efficiency Unit of the Cabinet Office produced its Report *Improving Management of Government: The Next Steps* in February 1988. As part of the Next Steps initiative Government Departments like ECGD are required to conduct a review of their status at least once every five years. Previous Reviews concluded that ECGD should remain a Government Department.

not. If you are contacted, please help by agreeing to provide detailed information and being available for interview.

Confidentiality

- 11 Please indicate clearly in your response if you are unwilling for it to be made public, in which case your reply will be treated in confidence. Otherwise, we will consider ourselves free to quote it; we also intend to publish a summary of the responses to the consultation exercise.

Closing date for responses

- 12 The closing date for responses is 15 October 1999.

When will the results be known?

- 13 The timing for completion of the Review is not certain. Our current expectation is that recommendations to Ministers will be made at the turn of the year, and that decisions on the Review together with a new Mission Statement will be published by 31 March 2000.
- 14 If you have any queries or any problems in completing the Questionnaire, please contact Peter Lynch – telephone: 020 7512 7215.

WE VALUE YOUR VIEWS: MANY
THANKS FOR YOUR HELP

ECGD
August 1999

ECGD Mission and Status Review: Public Consultation

Questionnaire

The Questionnaire is in three sections: **Section A** contains questions relating to ECGD's Mission and Status; **Section B**, which is for **all** respondents to complete, seeks information on who you are, to help us analyse the responses; and **Section C** is aimed mainly at existing or potential users of ECGD's services, with questions about ECGD's role in the market place, its performance and ways in which this could be improved.

Information about ECGD's activities is available on our website (www.ecgd.gov.uk) and from our Marketing Branch (telephone: 020 7512 7887; fax 020 7512 7268).

Section A – For all respondents

Where to send your reply

You can send your contribution by letter to Peter Lynch, c/o The Review Team, External Relations Division, ECGD, PO Box 2200, 2 Exchange Tower, Harbour Exchange Square, London E14 9GS. Alternatively, you can fax your replies (020 7512 7021) or reply by e-mail to: mission@ecgd.gov.uk. The Questionnaire can also be found on our website (www.ecgd.gov.uk). The facility will be available for you to complete the Questionnaire online and return it to ECGD electronically by following the instructions on-screen. We can also provide copies of the Questionnaire on a computer disc – please telephone Peter Lynch (020 7512 7215) if you would like one.

Your details and confidentiality requirements

Name:

Position in Company/Organisation:

Company/Organisation:

Telephone:

Fax: E-Mail:

Website Address:

Address:

.....

* I am content for my response to be made public (at ECGD's discretion);

* I want my response to be kept confidential, but understand that ECGD may use the essence of my reply, without referring to me/my organisation, when compiling its Review findings – also that Ministers (and other Government officials) may be shown my reply.

(* delete as appropriate)

Signed..... Date

Questions on what we do and how we deliver our services: our Mission and Status

Please attach a separate sheet with your response. You do not have to provide an answer to all these questions – they are simply to give you some ideas.

1 ECGD's Mission

Your comments are invited on any aspect of ECGD's Mission (see copy of our current Mission Statement inside the [Consultation Document's] back cover) and its relationship to Her Majesty's Government's wider objectives, e.g.:

- What specific changes do you think should be made to ECGD's Mission Statement?
- Would you be prepared to see a tax increase to extend the range and volume of ECGD's activities or support?
- What role should ECGD play in the credit insurance and export finance markets in relation to the private sector?
- What can ECGD do to encourage private sector insurance and other support?
- How can ECGD help exporters compete to win as much worthwhile business as possible?
- How could ECGD help to increase the capacity of SMEs to exploit opportunities abroad?
- How should ECGD play a role in helping promote the Government's sustainable development policy⁴¹ and take forward its trade and environment principles which include:
 - using the international framework to resolve global environmental problems;
 - the development of environmental and trade policies in a framework of good governance;
 - trade arrangements with developing countries being used to promote sustainable development;
 - helping to ensure that developing countries do not reacquire a burden of unsustainable debt?⁴²
- How should ECGD manage its debt? At present, ECGD manages a substantial portfolio of debt, but is obliged, under existing legislation, to do so in a manner which represents proper financial management to maximise recoveries of claims paid. ECGD will write off debt only in conformity with this obligation and Government policy on debt forgiveness.
- What factors should ECGD consider when determining the availability of cover for a country?
- Should ECGD distinguish between different types of business when allocating cover for some or all countries according to their economic circumstances?

41 See *A Better Quality of Life: A Strategy for Sustainable Development for the United Kingdom*, Cm4345, May 1999, p. 92

42 See DFID White Paper *Eliminating World Poverty: A Challenge for the 21st Century*, p. 74, paragraph 3.62 (website: www.dfid.gov.uk).

2 Striking the balance – What are your views?

How can the right balance be struck between competing priorities? For instance:

- any substantial increase in ECGD's **appetite for risk** would facilitate greater amounts of trade but would also create added potential **risk for the taxpayer** and may prejudice achievement of ECGD's current breakeven Financial Objective;⁴³
- promoting only those projects which will help achieve **sustainable development** would benefit developing countries but may limit ECGD's ability to **help all classes of UK exporters and investors**;
- a change in our approach to **debt forgiveness** (i.e. a greater preparedness to cancel monies which the poorer countries owe to ECGD) might help developing countries to achieve economic stability, but will have negative implications for the UK **taxpayer**;
- the pursuit of an **ethical foreign policy** in determining the availability of cover for countries (e.g. strict observance of human rights or environmental issues) may **impact on the support** which could be provided;
- if ECGD were to make **unilateral** changes in the conditions of its support this may adversely affect UK exporters' and investors' **ability to compete to win business** if Export Credit Agencies supporting their competitors offer cover on more generous or less conditional terms;
- adopting an **insurer of last resort** stance (i.e. insuring only such business as the private market is not prepared to support) may mean ECGD's risk portfolio would narrow to such an extent it would prejudice the current **breakeven Financial Objective**.

3 ECGD's status and structure: What we are

Have you any views on the most appropriate status or structure for ECGD? (Please see paragraph 7 in the introductory background text to Annex C.)

THANK YOU FOR TAKING THE TIME TO ANSWER THESE QUESTIONS AND
FOR YOUR CONTRIBUTION TO THE REVIEW

43 The Financial Objective agreed by Ministers for ECGD's medium- and long-term business (assumed after 1 April 1991 under Sections 1 or 2 of the Export and Investment Guarantees Act 1991) is to build up and maintain the ratio of its reserves to its estimate of expected loss on amounts at risk under its guarantees (defined as the Reserve Coverage Ratio) at a value of at least 1.5. This ratio is used to determine the balance Ministers require ECGD to strike between providing competitive support to exporters and the risk to the taxpayer that ECGD will not break even.

The WTO also requires ECAs to ensure that premium rates are adequate to cover the long-term operating costs and losses of their programmes (*WTO Agreement on Subsidies and Countervailing Measures, Illustrative List of Export Subsidies*, Annex 1, paragraph j).

Section B – For all respondents

Understanding who you are

- 4 Please indicate whether you are responding on behalf of your Group, Company, or an operating subsidiary or unit, an Association or as an Individual

.....

NOTE: PLEASE MAKE SURE YOU HAVE COMPLETED THE STATEMENT AT THE START OF SECTION A

- 5 If you are answering as:

- (a) An Exporter – please complete question 6
- (b) An Investor – please complete question 7
- (c) A Bank/Lender – please complete question 8
- (d) A Project Developer or Sponsor – please complete question 9
- (e) A Trade Association or other Organisation – please complete question 10
- (f) An Advisor/Consultant/Broker – please complete question 11
- (g) An Individual/Other – please complete question 12

Exporters

- 6 Please give brief details of your company:

- (a) Nature of company:

multi-national	<input type="checkbox"/>	UK plc/private limited company	<input type="checkbox"/>
subsidiary of a UK company	<input type="checkbox"/>	subsidiary of a non-UK company	<input type="checkbox"/>
joint venture	<input type="checkbox"/>	other (please describe)	

.....

- (b) How many staff do you employ in the UK?

1-10 11-50 51-250
 over 250 (please specify)

- (c) What proportion of your UK staff are employed on export business?

5-10% 10-25% 25-50%
 over 50% (please specify)

(d) In which region(s) is your primary export production/activity based?

- | | | | | | |
|---------------|--------------------------|-----------------------------------|--------------------------|------------------|--------------------------|
| Scotland | <input type="checkbox"/> | Northern Ireland | <input type="checkbox"/> | North West | <input type="checkbox"/> |
| North East | <input type="checkbox"/> | Yorkshire and the Humber | <input type="checkbox"/> | East Midlands | <input type="checkbox"/> |
| West Midlands | <input type="checkbox"/> | Wales | <input type="checkbox"/> | Eastern Counties | <input type="checkbox"/> |
| East Anglia | <input type="checkbox"/> | South East | <input type="checkbox"/> | South West | <input type="checkbox"/> |
| | | London (including Greater London) | <input type="checkbox"/> | Channel Islands | <input type="checkbox"/> |

(e) What was the **total** sales turnover of the UK Group in the last three financial years?

(show as Up to £5m, £5–10m, £10–50m, or if over £50m, please specify)

1996/97	1997/98	1998/99

(f) What was the level of UK **export** sales turnover in the same period?

(show as Up to £5m, £5–10m, £10–50m, or if over £50m, please specify)

1996/97	1997/98	1998/99

(g) What is your main UK export?

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.....

(h) What proportion of your UK export sales turnover is covered by:

(i) ECGD%

(ii) other ECAs%

(i) What contractual role(s) do you perform when exporting? – indicate which role you most often perform:

- | | | | |
|--|--------------------------|---|--------------------------|
| Manufacturer | <input type="checkbox"/> | Sub-Contractor to a foreign Main Contractor | <input type="checkbox"/> |
| Joint Venture/Vehicle Company | <input type="checkbox"/> | Main Contractor | <input type="checkbox"/> |
| Engineering Procurement Contractor | <input type="checkbox"/> | Procurement Agent/Contractor | <input type="checkbox"/> |
| Sub-Contractor to a UK Main Contractor | <input type="checkbox"/> | Engineering or other Services Contractor | <input type="checkbox"/> |

Other (please specify)

.....

- (j) Have you used ECGD support or benefited from someone else's use of such support in the past? If so, tick which types of cover was/were involved?

Type of Support	Tick
Supplier Credit Insurance cover for two years plus credit for capital goods/related services	
Supplier Credit Insurance cover for contract frustration risks	
Supplier Credit Insurance cover for a services/engineering/construction contract on 'cash' or near cash payment terms	
Supplier Credit Finance facility (given to a bank) – cash payments made to exporter(s)	
Buyer Credit or Line of Credit with fixed interest rate (given to a bank) – cash payments made to exporter(s)	
Buyer Credit or Line of Credit with floating interest rate (given to a bank) – cash payments made to exporter(s)	

- (k) Have you benefited from the availability of ECGD support for a transaction even though such support was not ultimately used? If so, please explain how.

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UK investors in overseas ventures

7 Please give brief details of your company:

- (a) Nature of company:

multi-national UK plc/private limited company

subsidiary of a UK company subsidiary of a non-UK company

joint venture other (please describe)

.....

- (b) How many staff do you employ in the UK?

1-10 11-50 51-250

over 250 (please specify)

(c) What was the **total** value of new investments made by your UK company(ies) in the last three years?
 (show as Up to £5m, £5–10m, £10–50m, or if over £50m, please specify)

1996/97	1997/98	1998/99

(d) What was the value of new **overseas** investments in the same period?
 (show as Up to £5m, £5–10m, £10–50m, or if over £50m, please specify)

1996/97	1997/98	1998/99

Banks/Lenders

8 Please give brief details of the lender/financial institution you represent:

(a) What is the nature of your UK and international export/project/trade finance activity?

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.....

(b) Are you (tick more than one box, if appropriate):

- a syndicate leader syndicate participant advisor to lenders
 capital market specialist structured financier

other? (explain)

.....

.....

(c) How often have you used ECGD support for loans that reached financial close in the last three years?

.....

.....

- (d) What is the aggregate value of loans/issues to overseas entities arranged by your UK organisation in the last three years? £.....
- (e) What is the total value of your outstanding loans/issues from the UK to overseas entities? £.....
- (f) What proportion of your current UK loans/issues to overseas entities is covered by ECGD?%
- (g) What proportion of your world-wide portfolio is covered by ECAs?%

Project Developer or Sponsor

9 Please give brief details as follows:

- (a) In which country(ies) are you based?.....
.....
.....
.....
- (b) What types of projects do you develop in which countries?
.....
.....
.....
- (c) What is your previous experience, if any, of ECGD?.....
.....
.....
.....
- (d) How does ECGD compare with other ECAs with which you have been involved?.....
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.....

Trade associations or other organisations

10 Please give brief details of the trade association or organisation you represent:

(a) What are the aims of the organisation?

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(b) Who do you represent and how many members does your organisation have?

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Advisor/Consultant/Broker

11 Please give brief details of:

(a) your role/specialism:

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(b) the type of clients you represent:

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(c) your experience of working with ECGD and other ECAs:

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Individuals/Others

12 If you are answering as an individual or other entity, please let us know of any previous experience you have had of ECGD.

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THANK YOU FOR YOUR CONTRIBUTION

Section C

Why use ECGD? How could we do better?

The following questions will probably be of most interest to current or potential users of ECGD's services or their representative organisations, and we would be grateful if they would take the time to tell us why they use ECGD and how they think ECGD could improve its performance. However, comments from anyone would be welcome. You do not have to follow the Questionnaire format, but it would help us if you would try and answer as many of the questions below as you can on separate sheets.

13 How do you see ECGD's role in the export credit and investment insurance market place?

- (a) What are the key markets you are focusing on for capital goods/services exports and investments over the next few years? How do you see the credit risk in these countries?
- (b) For which markets/countries would you see a particular need for ECGD cover over the next few years?
- (c) What role should ECGD play in supporting UK exports and investments, given the availability of private sector export credit insurance and financing products?
- (d) What impact has the availability (or non-availability) of ECGD cover had on your ability to win exports or successfully invest overseas over the last five years?

14 How do your Company/Bank and other firms in the UK benefit from ECGD support?

- (a) Approximately what proportion (by value) of your capital goods export turnover/export credit loans/overseas investments have been covered or supported by ECGD over the last three years?
- (b) Can you give specific examples of how other companies – suppliers and sub-contractors in the UK supply chain – benefit from cover or guarantees issued by ECGD to main contractors or banks (e.g. value of sub-contracts placed; orders paid for from ECGD-backed financing facilities drawn on by main supplier to pay sub-contractor; sub-contractor paid by UK main contractor from proceeds of insurance claims paid out by ECGD)?
- (c) What is the significance of ECGD support to your company in terms of:
 - (i) retaining or creating new jobs and skills in the UK;
 - (ii) research and development;
 - (iii) creation of additional risk capacity on your balance sheet or avoiding utilisation of existing risk capacity;
 - (iv) further business obtained or in prospect (including business which proceeds as the result of the availability of ECGD support for previous business)?

15 Why use ECGD cover?

- (a) Will ECGD support be necessary for your company in the future? If so, why?
- (b) What would be the impact on your company/organisation if the UK Government did not provide export credit services?

(c) For contracts where you use ECGD, why do you use ECGD cover instead of other forms of insurance or financial support?

(d) Please score the following factors in terms of their importance to your decision-making:

(① = Not Important; ② = Occasionally Important; ③ = Important; ④ = Crucial)

(i) cover capacity (including availability)	①	②	③	④
(ii) costs (including ECGD premium rates)	①	②	③	④
(iii) credit terms	①	②	③	④
(iv) fixed interest rate support	①	②	③	④
(v) relieving impact on your balance sheet	①	②	③	④
(vi) other(s) – please specify	①	②	③	④

(e) Have there been any occasions in the last five years when ECGD support was your preferred option, but was not available to support your capital goods exports/overseas investment business?

Yes/No

If yes, which of the following happened?

	Exports	Investments
(i) insured with the private market	<input type="checkbox"/>	<input type="checkbox"/>
(ii) used the capital markets	<input type="checkbox"/>	<input type="checkbox"/>
(iii) used the commercial syndicated loan market	<input type="checkbox"/>	<input type="checkbox"/>
(iv) self-insured	<input type="checkbox"/>	<input type="checkbox"/>
(v) did not pursue the business	<input type="checkbox"/>	<input type="checkbox"/>
(vi) lost the business	<input type="checkbox"/>	<input type="checkbox"/>
(vii) placed business abroad/used other ECAs	<input type="checkbox"/>	<input type="checkbox"/>
(viii) other – please specify	<input type="checkbox"/>	<input type="checkbox"/>

(f) What is the impact on your company's risk capacity when you pursue 15(e)(i)–15(e)(iv) above? Can you give a specific example?

(g) Can you give a specific illustration of what happened when you did not pursue business or placed it abroad, in terms of impact on jobs/investment and sub-contracts placed abroad (please indicate the value of the contract and number of jobs)?

16 *What changes would you like ECGD to make to its products and services?*

For example:

- (a) insurance/guarantee products;
- (b) financing products;
- (c) increased allowance for non-UK exports;
- (d) service delivery/direct contact with ECGD staff;
- (e) provision of information;
- (f) willingness to collaborate with other insurers/lenders;
- (g) other ideas (please specify).

17 *International practice in the provision of export credits and investment insurance*

For example:

- (a) How do you see the competitive environment, i.e. the role of other public and private sector Export Credit Agencies and equivalent organisations at home and abroad supporting your competitors' bids?
- (b) How does ECGD support compare with that available to foreign competitors? In which areas does ECGD do better? In which areas would you like us to do what other ECAs do? (Please give specific examples of a particular ECA's approach.)
- (c) To what extent are your global exports and investments dependent on cover from other ECAs?

THANK YOU FOR TAKING THE TIME TO ANSWER THESE QUESTIONS AND
FOR YOUR CONTRIBUTION TO THE REVIEW

ECGD
August 1999

ECGD's Operations

- 1 The Export Credits Guarantee Department (ECGD) has been serving UK exporters since 1919 and UK investors overseas since 1972. Over the years, it has developed many forms of credit insurance and export finance products to provide UK exporters and investors with the support they need to compete successfully in world markets. Overall, ECGD issues guarantees and policies worth around £3 billion a year and over the last five years has underwritten £17 billion of guarantees which have supported export contracts and overseas investments worth considerably more.
- 2 ECGD's main function is to insure UK exporters and guarantee banks against non-payment and contract frustration risks on capital goods and services export contracts and related loan arrangements. These capital goods projects normally take several years to complete and the buyer may either pay on near cash terms – as work progresses – or be offered medium- or long-term credit. When credit is agreed, repayment terms normally range from two years for relatively straightforward goods, up to ten years (and sometimes longer) for major projects in certain markets. In conjunction with underwriting cover for such credit terms, ECGD also operates a scheme – the Fixed Rate Export Finance (FREF) scheme – which enables borrowers to repay loans at a fixed rate of interest.
- 3 In addition, ECGD offers UK investors political risk insurance for their overseas investment activities.
- 4 Following the privatisation of its Insurance Services Group in December 1991, ECGD no longer insures risks on contracts for the export of consumer goods, sold on short credit terms, although residual reinsurance cover is provided for some types of short-term risk.⁴⁴
- 5 ECGD is required to operate with a reasonable confidence of breaking even, charging customers premium at levels which are sufficient to cover our perception of market and buyer risk and cover administration costs. In addition to the elements to cover the expected loss and costs, a 'reserve margin' is added to the premium rate to deliver the confidence of breakeven required by Ministers.
- 6 ECGD makes every effort to recover amounts paid in claims – either through the Paris Club of official creditors or directly from individual buyers/borrowers. Although ECGD had to borrow from the Consolidated Fund because of significant claims arising from the late 1980s debt crisis, cashflow has been positive for some years as recoveries and premium income have exceeded claims paid and ECGD is currently a net cash contributor to the Exchequer (£368 million in 1998/99).
- 7 Despite the downturn in the world economy last year, the downward trend of claims paid annually has continued, from a peak of £750 million in 1990/91, to £148 million in 1998/99. Nevertheless, ECGD's 1997/98 Annual Report and Trading Accounts showed an overall trading loss of £0.5 billion and a decrease in the key Reserve Coverage Ratio from 2.4 to 1.0, mainly because ECGD increased **provisions** against recoverable claims and expected losses, in response to the deteriorating world economic climate – particularly in South East Asia and Russia. However, current forecasts show an improving picture; although there is still currently an overall deficit with the Consolidated Fund, the New Business Account is in substantial cash surplus.

⁴⁴ Our reinsurance backing is currently being reviewed and full details can be found in the document *ECGD Reinsurance for Exports Sold on Short Terms of Credit*. For further information, please see our website (www.ecgd.gov.uk) or contact Steve Dodgson (tel. 020 7512 7755; fax 020 7512 7283).

ECGD'S current Mission Statement

To help exporters of UK goods and services to win business, and UK firms to invest overseas, by providing guarantees, insurance and reinsurance against loss.

High-level objectives

New Business

To support as much export business as possible, while limiting the risks to the taxpayer:

- with our facilities, in broad terms, being complementary to those in the private sector; and
- subject to a financial objective of building up and maintaining sufficient reserves to give the level of assurance of breakeven required by Ministers; and
- within statutory and delegated authorities and budgetary constraints approved by Ministers.

Service

To provide the best service at the lowest cost, consistent with our accountability to the taxpayer for prudent and cost-effective management.

Existing Portfolio

To maximise recoveries and manage assets and liabilities in a way that minimises the net cost to the Exchequer.

Public Expenditure Programmes

To manage the programmes effectively and to minimise cost and limit exposure.

International Activity

To pursue international agreements that provide for fair competition by limiting or eliminating all subsidies.

Annex D:

Summary of ECGD's current functions

- ECGD, the Export Credits Guarantee Department, is a separate Department, which reports to the Secretary of State for Trade and Industry and the Minister for Trade. It has its own Parliamentary Votes, running costs budgets and Public Expenditure programmes, for which ECGD's Chief Executive is the Accounting Officer.
- ECGD was established in 1919 to help UK exporters win business by insuring them against the risks of non-payment. It now provides support for about £3–4 billion of UK exports a year and has a portfolio of about £20 billion exposure. ECGD has a staff of 410 people.
- ECGD's main activities are:
 - i) provision of guarantees to UK-based banks to encourage them to make loans available to overseas buyers/borrowers to finance the purchase of UK capital/project goods and services;
 - ii) insurance for UK exporters against risks of not getting paid for goods exported;
 - iii) insurance for UK companies investing overseas to protect against risks of not being able to repatriate earnings; and
 - iv) reinsurance to supplement the private market capacity to meet the needs of UK companies exporting on short terms of payment.
- ECGD's underwriting functions are divided up on a geographical basis for all projects except Airbus, aerospace, sharp arms⁴⁵ and Overseas Investment Insurance – these functions are carried out by a separate Underwriting Division.
- In addition, one of the Underwriting Divisions is responsible for all aspects of ECGD's reinsurance function.
- Although ECGD does not lend money itself, it provides an 'interest equalisation'⁴⁶ facility to UK export credit lenders – under its Fixed Rate Export Finance (FREF) scheme – to enable them to offer long-term fixed interest loans to support UK exports. These functions are carried out by ECGD's Treasury and Export Finance Division.
- ECGD's other functions are carried out by the following Divisions:
 - Claims Division, responsible for examination, payment and recovery of claims;
 - International Debt Division, responsible for policy on, and management of, sovereign debt;
 - External Relations Division, which deals with international Export Credit Agency policy, as well as press, publicity and parliamentary work;
 - Risk Management Division, which contains ECGD's team of economists, who are responsible for providing advice on individual market risks and monitoring country exposure;

45 Includes munitions of war, armaments, goods, vessels, equipment, materials or services which are specifically designed or constructed for the support or the use of weapons of war in combat.

46 The FREF scheme provides an interest equalisation mechanism known as Interest Make Up under which ECGD makes up any shortfall between the bank's cost of funds, plus a margin, and the fixed rate paid by the borrower.

- Finance Division, responsible for financial control and Government Accounting procedures;
 - Corporate Risk, Information Services and Premium Policy Division, responsible for application of international premium rate rules, corporate risk assessment and maintenance of the internal underwriting control (MAGNUS) mechanism.
 - Information Services Division, responsible for establishing and managing the Information Systems Strategy, managing the delivery of Information Technology services, Programme Management and Information Management;
 - Operational Research Division, providing advice on business problems using modelling and analytical techniques;
 - Internal Audit Division, providing independent assurance to the Accounting Officer on the adequacy, reliability and effectiveness of ECGD's internal control systems;
 - General Counsel's Office, providing legal advice on all aspects of ECGD's operations; and
 - Central Services Division, responsible for Personnel and Facilities Management services.
- In 1991 ECGD's operations dealing with the insurance of UK consumer goods exports (goods sold on short credit terms – generally up to six months' credit) were sold to NCM Credit Insurance, a private sector company. There are now at least three private sector short-term export credit insurers in the UK. ECGD covers UK capital goods and project exports and investments involving longer risk periods (often up to ten years or more).
 - Since 1991, ECGD has adopted tighter risk assessment procedures. HM Treasury sets a target for ECGD to build up reserves which more than cover expected losses.
 - ECGD is also focusing on settling debts incurred in the 1980s (and in some cases earlier). ECGD plays a key role in implementing the Chancellor of the Exchequer's announcement of 21 December 1999 on 100 per cent debt relief for the Heavily Indebted Poor Countries (HIPC).
- ECGD's guarantees help UK exporters to trade primarily with non-OECD areas of the world with confidence. They can offer credit to their overseas customers but get cash to cover work in progress. Like other insurance companies, ECGD charges its customers a premium and pays claims when the buyer – whether a Government or private company – defaults. It also has a duty to try to get money back when claims are paid – like any other insurer.

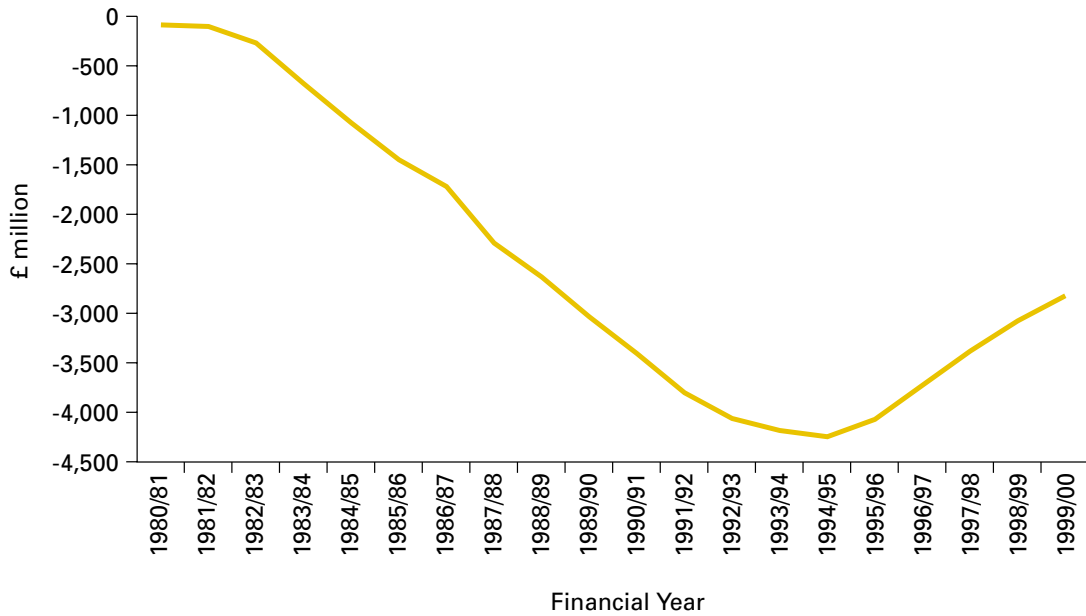
Annex E:

ECGD's financial outturn

Introduction

- 1 ECGD's financial position is very different for business underwritten before and since 1991. ECGD privatised its short-term business in December 1991 and its financial position was restructured to distinguish between business underwritten up to April 1991 and new cover for capital goods and services projects underwritten from that point under tighter financial and risk management disciplines.
 - 2 ECGD's financial performance for the insurance and guarantees it has issued is reported under three Accounts:
 - Account 1 comprises business underwritten before Financial Year 1991/92. ECGD's objective for Account 1 is to maximise recovery of debt represented by unrecovered claims and to manage assets and liabilities in a way that minimises net loss to the Exchequer. The account is closed to new business.
 - Account 2 comprises all business (except for a small amount of Account 3 business – see below) underwritten since April 1991. Account 2 operates to a Financial Objective Ministers have set ECGD, expressed in terms of the confidence of breaking even over ten years – the 'confidence factor'. Currently the target confidence factor is 65–70 per cent.
 - Account 3 comprises business which ECGD has underwritten since 1991 that it judges cannot be underwritten within its existing criteria, for which Ministers have instructed ECGD to issue a guarantee on the grounds of national interest. Account 3 does not have an explicit breakeven objective, but is subject to ECGD normal underwriting controls.
 - 3 It is important to realise that the timescale for determining the ultimate outturn on much of the business ECGD underwrites (especially if claims have been paid) can be *decades*. ECGD is still recovering debts arising from business originally underwritten in the 1960s. But some debts owed by heavily indebted countries have been written off.
 - 4 The following graphs show the cash outturn on Accounts 1, 2 and 3 business and the Fixed Rate Export Finance scheme. All figures for 1999/2000 are as yet provisional and unaudited.
- Account 1 – Cumulative cashflow (fig. a)**
- 5 The graph for Account 1 (*fig. a*) shows cashflow over a 20-year period, 1980/81 to 1999/2000. Heavy claims were paid during the 1980s and 1990s for business mainly underwritten in the 1970s and 1980s. This led to a very large negative cashflow on Account 1. ECGD borrows from the Consolidated Fund (paying interest) to finance claims that it cannot cover from its own reserves, but this is not a direct cost to the taxpayer.
 - 6 The ultimate outturn of business under Account 1 will be determined by three factors:
 - how much money is recovered from debtor countries who can pay through Paris Club rescheduling agreements;
 - how much debt is written off as part of the UK's multilateral debt relief initiative for HIPCs; and
 - whether debt will ultimately be recovered from a number of countries where Paris Club agreements are not yet in effect.

Account 1 – Cumulative cashflow (fig. a)



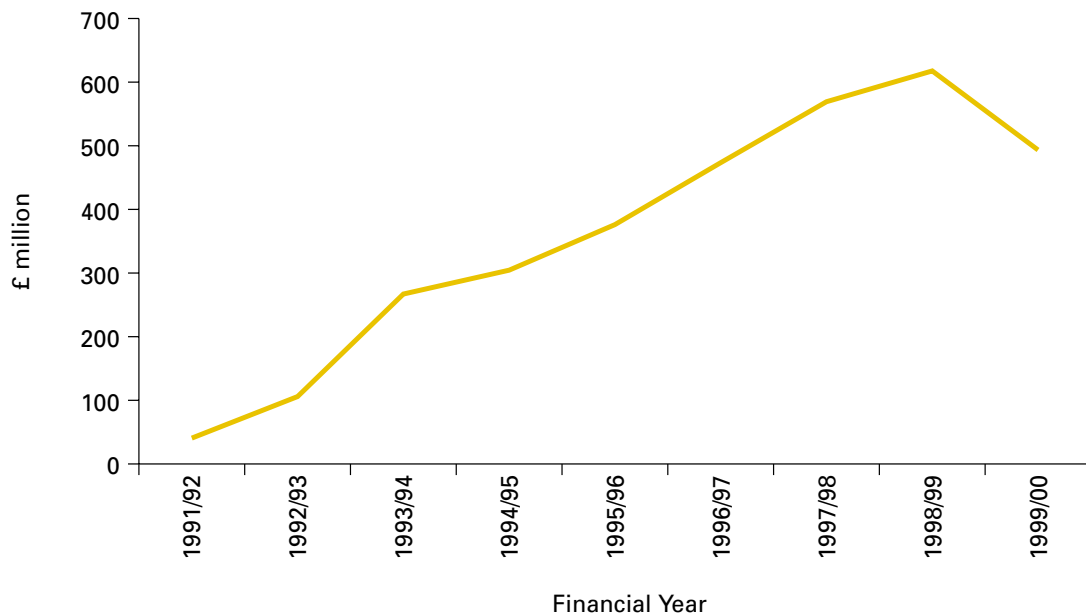
Accounts 2 and 3 – Cumulative cashflow (fig. b)

7 Around £30 billion of new exports covered since 1991 under Accounts 2 and 3 have resulted in a strongly positive cashflow, although the impact of claims paid on Indonesia is reflected in the figures for 1998/99 and 1999/2000. However, ECGD expects to recover amounts paid in claims for business with Indonesia.

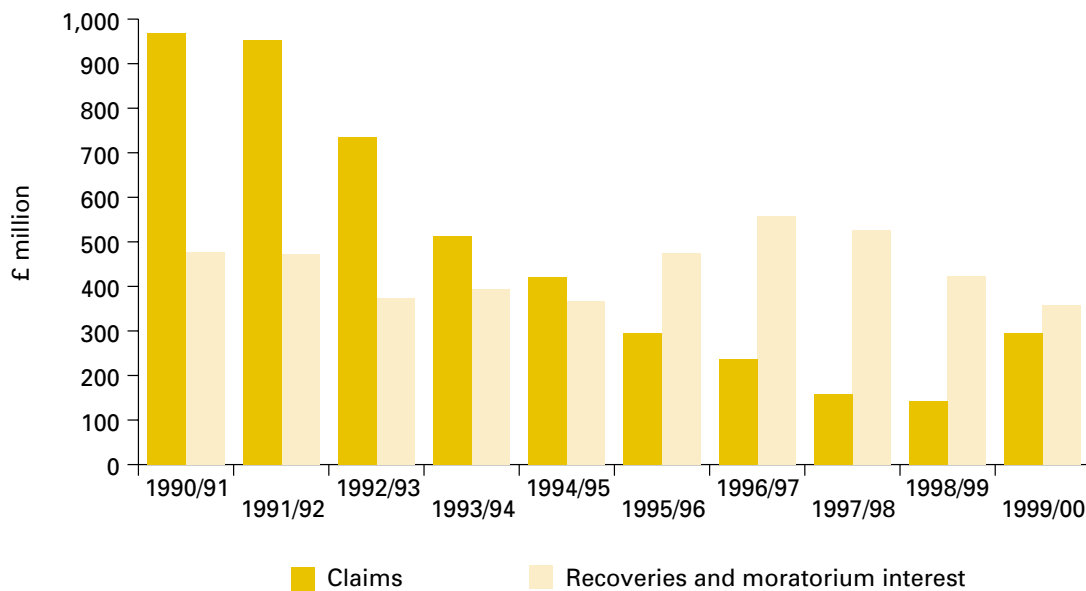
Accounts 1, 2 and 3 – Claims, recoveries and moratorium interest (fig. c)

8 The graph at fig. b shows the position over the last decade on all business, both that underwritten before April 1991 and afterwards. It shows that throughout the 1990s ECGD was paying claims mainly on business underwritten before 1990, but this fell gradually from a peak of £968 million in 1990/91 to £143 million in 1998/99 before rising again to £297 million in 1999/2000 for claims paid as a result of the Indonesian crisis.

Accounts 2 and 3 – Cumulative cashflow (fig. b)



Accounts 1, 2 and 3 – Claims, recoveries and moratorium interest⁴⁷ (fig. c)

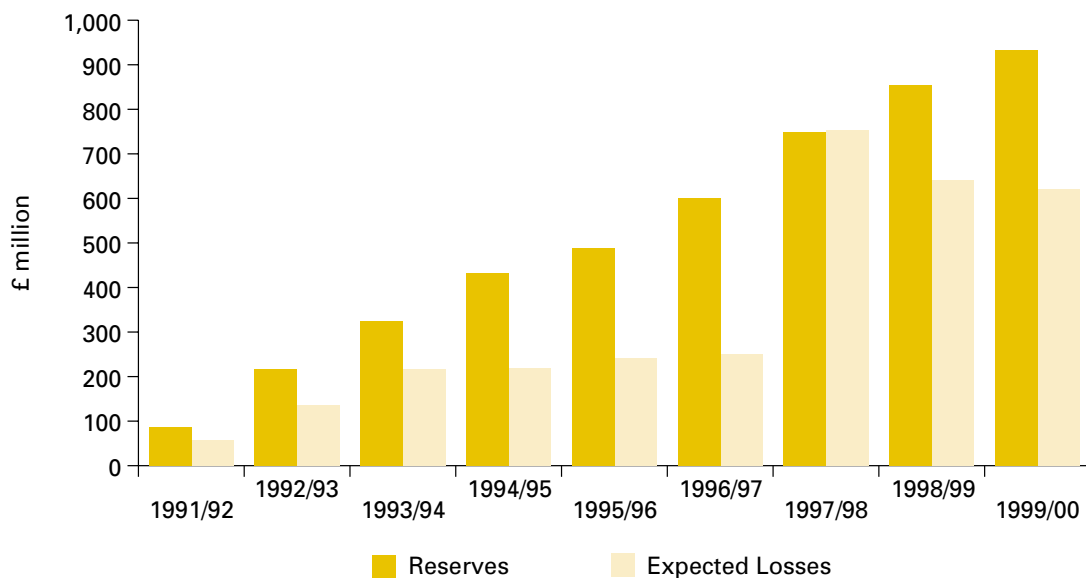


9 But *fig. c* also shows that the level of recoveries on amounts paid out in claims (including interest on debts which have been rescheduled) has remained buoyant, as several of the markets which defaulted in the 1980s have recovered and are repaying their debts. Recoveries have averaged over £400 million a year.

Account 2 – Reserves and expected losses (fig. d)

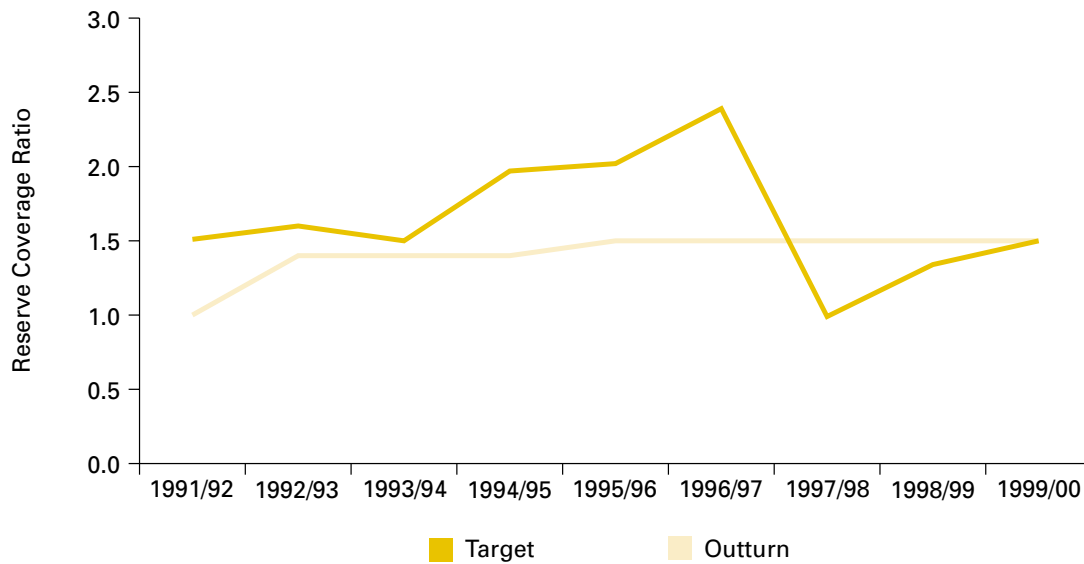
10 As ECGD has underwritten new business under Account 2, it has calculated each year 'expected losses' on amounts at risk: this is a statistical estimate of the ultimate amount that ECGD might expect to lose if recoveries cannot be made. *Fig. d* shows a steady build-up of reserves, but the movements in estimates of expected loss show the volatility of market conditions. While reserves remain

Account 2 Reserves and expected losses (fig. d)



47 The interest accruing on the balance of any debt owing to ECGD under bilateral debt agreements signed under Paris Club debt rescheduling arrangements.

ECGD's Financial Objective – for Account 2 business (fig. e)

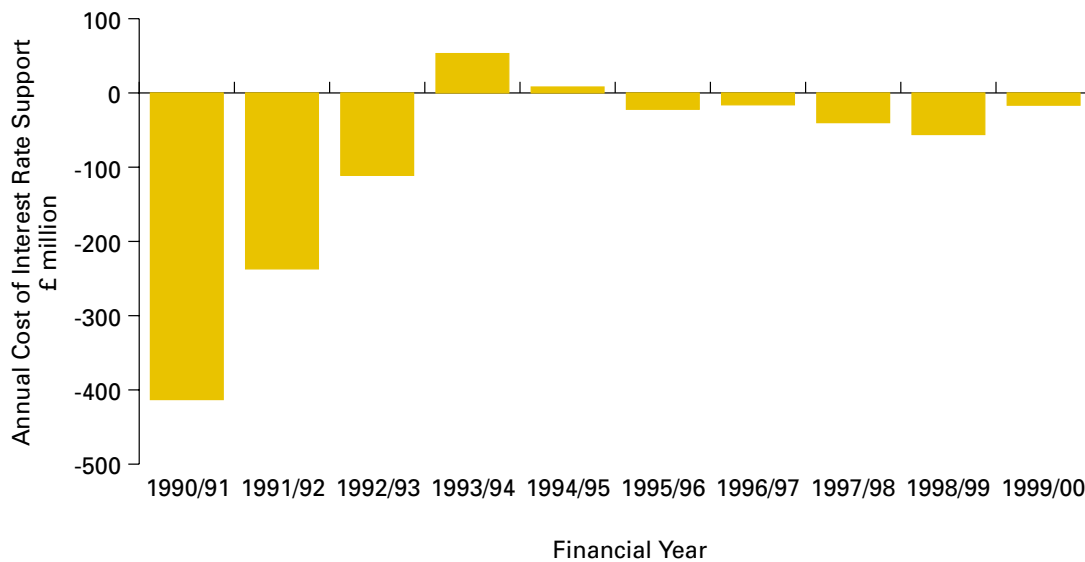


in place, provisions are reassessed every year and perceptions of risk re-evaluated in response to changing market conditions. Reserves generally have exceeded the expected loss on future amounts at risk in each year, except for 1997/98, when in the face of an increase in expected loss as a result of debt problems in South East Asia, ECGD calculated that expected losses may exceed reserves. Since then, however, there has been a strong recovery: the reserves position again exceeds expected losses. ECGD now has over £900 million of reserves to set against losses under its new business account.

ECGD's Financial Objective – Account 2 business (fig. e)

11 As indicated earlier, for Account 2 business, Ministers have set ECGD a Financial Objective expressed in terms of the confidence of breaking even over ten years – the 'confidence factor'. Currently, the target confidence factor is 65–70 per cent. For practical management, the breakeven confidence factor is translated into a target Reserve Coverage Ratio (RCR) – the ratio of ECGD's reserves to its estimate of ultimate loss. The target is currently 1.5. ECGD has achieved the RCR target in all years except at the close of 1997/98, when the South East Asia debt problems resulted in a sharp increase in the expected loss, although since then the ratio has recovered.

Fixed Rate Export Finance (*fig. f*)



Fixed Rate Export Finance (*fig. f*)

12 ECGD and other OECD ECAs operate a system which allows banks to lend to overseas borrowers at competitive fixed rates of interest, which are determined by the OECD. ECGD's scheme is called the Fixed Rate Export Finance scheme (FREF) and provides that banks have access to interest support. Under this arrangement, either ECGD pays lenders for the mismatch between fixed rate long-term loans and short-term floating rate funding or, if interest rates move the other way, lenders pay ECGD.

13 *Fig. f* shows that the level of interest subsidy paid by ECGD has reduced substantially in the 1990s. A major influence has been the success of international negotiations to reform the Commercial Interest Reference Rate regime of the OECD Consensus. These negotiations, in which ECGD played a leading part, led to an overall reduction in the costs of interest rate support from ECAs. ECGD has also undertaken a substantial programme of hedging and refinancing to reduce costs, remove risks and lock into certainty.

Annex F:

Developing countries: cover and indebtedness position⁴⁸

Country	HIPC/ IDA-only	Income Category	Indebtedness Category	Debt Write-off £m	Euromoney Risk Ratings (100 = best risk)	Medium/ Long-term Cover Available £m
Afghanistan	IDA	LI	SI	–	5.06	–
Albania	IDA	LI	LI	–	18.60	–
Algeria	–	LMI	MI	–	32.32	–
Angola	HIPC	LI	SI	–	24.44	–
Anguilla	–	–	–	–	–	< 50
Antigua & Barbuda	–	UMI	LI	–	16.63	< 50
Argentina	–	UMI	SI	–	53.77	–
Armenia	–	LI	LI	–	29.63	–
Aruba	–	–	–	–	–	< 50
Azerbaijan	–	LI	LI	–	33.36	–
Bahrain	–	UMI	LI	–	65.12	200+
Bangladesh	IDA	LI	MI	–	34.93	–
Barbados	–	UMI	LI	–	42.78	< 50
Belize	–	LMI	MI	–	43.21	< 50
Benin	HIPC	LI	MI	5.22	29.72	–
Bhutan	IDA	LI	LI	–	32.23	–
Bolivia	HIPC	LMI	SI	38.9	39.84	–
Bosnia & Herzegovina	–	LMI	SI	–	–	–
Botswana	–	UMI	LI	–	51.10	50–200
Brazil	–	UMI	SI	–	46.77	–
Burkina Faso	HIPC	LI	SI	1.94	31.44	–
Burundi	HIPC	LI	SI	–	–	–
Cambodia	IDA	LI	MI	–	27.20	–
Cameroon	HIPC	LI	SI	9.46	28.13	GPDM
Cape Verde	IDA	LMI	LI	–	31.09	–
Central African Rep	HIPC	LI	SI	0.24	25.57	–
Chad	HIPC	LI	MI	–	27.17	–
Chile	–	UMI	MI	–	65.01	200+
China	–	LMI	LI	–	55.09	200+
Colombia	–	LMI	MI	–	50.79	–
Comoros	IDA	LI	MI	–	–	–
Congo DR						
(formerly Zaire)	HIPC	LI	SI	–	19.95	–
Congo Rep						
(Brazzaville)	HIPC	LI	SI	–	24.97	–
Cook Islands	–	–	–	–	–	–
Costa Rica	–	LMI	LI	–	45.57	< 50
Cote d'Ivoire	HIPC	LI	SI	6.57	31.23	GPDM

48 It should be noted that the income and indebtedness classifications and the ratings for individual countries will change from time to time. Similarly, the positions in relation to ECGD cover availability and the extent of debt write-off will change. Therefore, although ECGD has made every effort to ensure that the details shown in this table are accurate (at the time of publication of this Report) it is possible that inconsistencies exist.

Country	HIPC/ IDA-only	Income Category	Indebtedness Category	Debt Write-off £m	Euromoney Risk Ratings (100 = best risk)	Medium/ Long-term Cover Available £m
Croatia	–	UMI	LI	–	52.60	50–200
Cuba	–	LMI	SI	–	7.39	–
Czech Republic	–	UMI	LI	–	60.85	200+
Djibouti	IDA	LMI	LI	–	26.50	–
Dominica	–	LMI	MI	–	34.86	< 50
Dominican Republic	–	LMI	LI	–	40.30	< 50
Ecuador	–	LMI	SI	–	32.90	–
Egypt	–	LMI	LI	–	52.28	200+
El Salvador	–	LMI	LI	–	47.19	50
Equatorial Guinea	HIPC	LMI	MI	–	27.99	–
Eritrea	IDA	LI	LI	–	–	–
Ethiopia	HIPC	LI	SI	3.54	24.52	–
Fiji	–	LMI	LI	–	47.77	< 50
French Polynesia	–	–	–	–	–	–
Gabon	–	UMI	SI	–	33.36	–
Gambia	IDA	LI	MI	–	31.18	–
Georgia	–	LMI	MI	–	25.69	GPDM
Ghana	HIPC	LI	SI	–	38.77	GPDM
Gibraltar	–	–	–	–	–	< 50
Grenada	–	UMI	LI	–	35.04	< 50
Guatemala	–	LMI	LI	–	38.97	–
Guinea	HIPC	LI	SI	–	25.68	–
Guinea-Bissau	HIPC	LI	SI	–	17.43	–
Guyana	HIPC	LMI	SI	78.97 ⁴⁹	32.50	–
Haiti	IDA	LI	SI	–	26.57	–
Honduras	HIPC	LI	SI	–	33.46	–
India	–	LI	MI	–	51.80	200+
Indonesia	–	LMI	SI	–	36.43	–
Iran	–	LMI	LI	–	35.68	GPDM
Iraq	–	LMI	SI	–	4.00	–
Jamaica	–	LMI	SI	–	41.02	< 50
Jordan	–	LMI	SI	–	46.21	–
Kazakhstan	–	LMI	LI	–	40.30	–
Kenya	HIPC	LI	MI	–	35.39	–
Kiribati	IDA	LMI	LI	–	–	–
Korea, Dem Republic of (North)	–	LMI	–	–	1.02	–
Korea, Republic of (South)	–	–	–	–	64.13	200+
Kyrgyz Rep	–	LI	LI	–	32.79	–
Lao PDR	HIPC	LI	MI	–	27.36	–
Lebanon	–	UMI	LI	–	47.30	< 50
Lesotho	IDA	LI	LI	–	32.21	–
Liberia	HIPC	LI	–	–	14.37	–
Libya	–	UMI	LI	–	16.06	–
Lithuania	–	LMI	LI	–	48.74	< 50
Macao	–	–	–	–	33.71	< 50
Macedonia	–	LMI	MI	–	22.99	–

49 Figure does not take into account write-off agreed in June and July 1999.

Country	HIPC/ IDA-only	Income Category	Indebtedness Category	Debt Write-off £m	Euromoney Risk Ratings (100 = best risk)	Medium/ Long-term Cover Available £m
Madagascar	HIPC	LI	SI	–	22.27	–
Malawi	HIPC	LI	SI	–	30.27	–
Malaysia	–	UMI	MI	–	57.05	50–200
Maldives	IDA	LMI	LI	–	36.76	< 50
Mali	HIPC	LI	SI	7.47	31.87	–
Malta	–	UMI	LI	–	71.10	< 50
Marshall Islands	–	LMI	–	–	–	–
Mauritania	HIPC	LI	SI	0.56	27.73	–
Mauritius	–	UMI	MI	–	61.99	50–200
Mayotte	–	UMI	–	–	–	–
Mexico	–	UMI	LI	–	55.73	200
Micronesia, Federal States of	–	LMI	–	–	–	–
Moldova	–	LMI	LI	–	31.02	–
Mongolia	IDA	LI	LI	–	30.83	–
Montserrat	–	–	–	–	–	–
Morocco	–	LMI	MI	–	52.96	–
Mozambique	HIPC	LI	SI	17.6 ⁵⁰	24.53	–
Myanmar	HIPC	LI	SI	–	18.70	–
Namibia	–	LMI	LI	–	23.33	50–200
Nauru	–	–	–	–	–	< 50
Nepal	IDA	LI	LI	–	34.33	< 50
Netherlands Antilles	–	–	–	–	–	50–200
New Caledonia	–	–	–	–	20.24	–
Nicaragua	–	LI	SI	0.96	25.43	–
Niger	HIPC	LI	SI	1.73	27.99	–
Nigeria	–	LI	SI	7	31.17	–
Niue	–	–	–	–	–	–
Northern Marianas	–	–	–	–	–	–
Oman	–	UMI	LI	–	63.28	50–200
Pakistan	–	LI	MI	–	30.18	–
Palau Islands	–	UMI	–	–	–	–
Palestinian Admin Areas (previously known as West Bank & Gaza)	–	LMI	–	–	–	–
Panama	–	LMI	MI	–	47.88	50–200
Papua New Guinea	–	LMI	LI	–	39.74	< 50
Paraguay	–	LMI	LI	–	37.80	50
Peru	–	LMI	SI	–	44.63	–
Philippines	–	LMI	MI	–	54.38	50–200
Romania	–	LMI	LI	–	36.85	–
Russian Federation	–	LMI	LI	–	23.02	–
Rwanda	HIPC	LI	SI	–	20.88	–
Saint Helena	–	–	–	–	–	< 50
Saint Kitts-Nevis	–	UMI	LI	–	–	< 50
Saint Lucia	–	UMI	LI	–	40.57	< 50
Saint Vincent and Grenadines	–	LMI	MI	–	38.86	< 50
Sao Tome and Principe	HIPC	LI	SI	–	17.80	–

50 Figure does not take into account write-off agreed in June and July 1999.

Country	HIPC/ IDA-only	Income Category	Indebtedness Category	Debt Write-off £m	Euromoney Risk Ratings (100 = best risk)	Medium/ Long-term Cover Available £m
Saudi Arabia	–	UMI	LI	–	66.56	200+
Senegal	HIPC	LI	MI	1.94	34.47	GPDM
Seychelles	–	UMI	LI	–	40.08	–
Sierra Leone	HIPC	LI	SI	0.13	17.64	–
Slovakia	–	UMI	MI	–	49.04	50–200
Slovenia	–	–	–	–	68.99	50–200
Solomon Islands	IDA	LMI	LI	–	38.34	–
Somalia	HIPC	LI	SI	–	16.00	–
South Africa	–	UMI	LI	–	53.67	200+
Sri Lanka	IDA	LMI	LI	–	42.74	200+
Sudan	HIPC	LI	SI	–	19.03	–
Suriname	–	LMI	LI	–	12.20	–
Swaziland	–	LMI	LI	–	34.41	< 50
Syria	–	LMI	SI	–	34.98	GPDM
Tajikistan	IDA	LI	LI	–	27.23	GPDM
Tanzania	HIPC	LI	SI	90.4	26.47	–
Thailand	–	LMI	MI	–	56.03	50–200
Timor (East)	–	–	–	–	–	–
Togo	HIPC	LI	MI	3.37	29.71	–
Tokelau	–	–	–	–	–	–
Tonga	IDA	LMI	LI	–	40.62	50
Trinidad & Tobago	–	UMI	LI	–	49.37	50
Tunisia	–	LMI	MI	–	55.30	50–200
Turkey	–	UMI	MI	–	48.54	200
Turkmenistan	–	LI	LI	–	31.81	GPDM
Turks & Caicos Islands	–	–	–	–	–	< 50
Tuvalu	–	–	–	–	–	–
Uganda	HIPC	LI	SI	18.01	34.46	–
Uruguay	–	UMI	MI	–	54.20	< 50
Uzbekistan	–	LMI	LI	–	28.79	–
Vanuatu	IDA	LMI	LI	–	39.59	< 50
Venezuela	–	UMI	MI	–	41.33	–
Vietnam	HIPC	LI	SI	10.39	36.49	50–200
Virgin Islands (UK)	–	–	–	–	–	–
Wallis & Futuna	–	–	–	–	–	–
Western Samoa	IDA	LMI	LI	–	39.86	–
Yemen	HIPC	LI	MI	6.25	26.18	–
Yugoslavia, Federal Republic of (Serbia/ Montenegro)	–	LMI	LI	–	14.83	–
Zambia	HIPC	LI	SI	68.8	26.39	–
Zimbabwe	–	LI	MI	–	33.93	–

INCOME CATEGORIES

LI = Low Income
LMI = Lower Middle Income
UMI = Upper Middle Income

DEBT CATEGORIES

SI = Severely Indebted
MI = Moderately Indebted
LI = Less Indebted
HIPC = Heavily Indebted Poor Country

OTHER TERMS

IDA = International Development Association
GPDM = Good Projects in Difficult Markets

Standard World Bank definitions of indebtedness:

Severely indebted means either that the present value of debt service to GNP exceeds 80% or that the present value of debt service to exporters exceeds 220%.

Moderately indebted means either of the two key ratios exceeds 60% of, but does not reach, the critical levels.

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