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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

ASSISTANT
ADMINISTRATOR

DEC 20 11 52 AM '84

18 DEC 1984

EXECUTIVE SECRETARIAT

ACTION MEMORANDUM FOR THE ADMINISTRATOR

THRU: AA/PPC, Richard Derham *R. Derham*
FROM: AA/LAC, Victor M. Rivera *V. Rivera*
SUBJECT: Authorization of the Trade Credit Insurance
Program for Central America

Problem: To authorize: (i) the issuance of guarantees in an amount not to exceed \$300 million of contingent liability under the Trade Credit Insurance Program and (ii) the establishment of a \$60 million Reserve Fund.

Background: As a result of regional political instability and the international financial crisis in 1982, the Central American countries have lost their limited access to the international commercial banking market. Trade finance lines have been cut and public and private sector borrowers have been unable to raise new funds. This contributed to a decline in imports and to economic activity more generally. Trade credits declined from a level of \$500 million in 1979 to less than \$100 million in 1983. Similar short-term Export-Import Bank credits also declined from near \$500 million to less than \$150 million.

U.S. bankers are still very reluctant to increase their exposure in Central America. Even when an IMF agreement is in place, the U.S. banks have tended to "wait and see." Trade credit is still relatively unavailable, thereby negatively affecting economic growth and the balance of payments situation in the Central American region. Recognizing the importance of increased trade credit to achieving economic stabilization in the region, the National Bipartisan Commission on Central America recommended that the United States Government provide increased trade credit guarantees. The Administration proposed creation of the Trade Credit Insurance Program, and the FY 1985 Continuing Resolution authorizes A.I.D. during FY 1985 to enter into commitments to guarantee or insure loans for the Trade Credit Insurance Program (TCIP) not to exceed \$300 million of contingent liability for loan principal.

Discussion: The TCIP is to be implemented by AID and the Export-Import Bank of the United States (Eximbank). Pursuant to an agreement with Eximbank, A.I.D. will provide guarantees

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to Eximbank for guarantees or insurance issued by Eximbank to U.S. financial institutions or U.S. exporters for letters of credit, loan agreements, or other financial arrangements entered into with commercial banks or Central Banks in Central America for the export of U.S. goods and services to Central America.

Eximbank will operate the TCIP according to the practices, terms and conditions of its existing bank-to-bank program, subject to the following special criteria:

1. All guarantees/insurance will be used in support of U.S. exports for the use of the private sector in Belize, Costa Rica, El Salvador, Guatemala, Honduras, and Panama.
2. All guarantees/insurance, except as A.I.D. may otherwise agree in writing, will be issued to or guaranteed by the appropriate governmental authorities for which the full faith and credit of the central government of the country will be pledged.
3. The financing for every guarantee/insurance will be repayable within one year after the goods or services imported arrive in country.
4. No guarantee/insurance will be issued in support of any defense goods or services.

Specific applications for guarantees/insurance will be submitted to Eximbank by the central bank of each eligible Central American country. Eximbank will use its current application forms to receive and process applications and will follow its standard guidelines and procedures in evaluating them. Eximbank will undertake the servicing of all guarantees and insurance. If any claims are made by a U.S. financial institution or exporter under the TCIP, A.I.D. and Eximbank will enter into an agreement transferring funds to Eximbank for payment. Following payment of a claim, Eximbank would continue its efforts to secure collection. All amounts recovered would be transferred by Eximbank to A.I.D. In addition, as described more fully below, A.I.D. and Eximbank may enter into a transfer agreement prior to the end of each fiscal year in order to ensure that funds will be available to Eximbank for payment of claims at the beginning of the subsequent fiscal year.

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There will not be pre-determined quotas or assured TCIP levels for the individual countries in Central America. Our hope is to structure the program to be as "demand-driven" as possible. Nonetheless, in order to avoid a highly skewed distribution of guarantee authority, we will establish a modest initial allocation for each country. This ceiling will be communicated to Eximbank (and to the country), and it will agree not to approve any applications which would cause the country to exceed its allocation. Those countries which utilize the program to the fullest will have their allocation increased periodically. In establishing TCIP ceilings, we will keep in mind Eximbank's current bank-to-bank program levels (Guatemala - \$25 million; El Salvador - \$20 million; and Honduras - \$10 million). We want to ensure that there will be an increase in total trade credit to the Central American countries, i.e., that there is not merely a substitution between separate U.S. Government-funded programs.

The FY 1985 Continuing Resolution stipulates that not more than \$300 million of guarantees/insurance be issued during FY 1985. The amount to be issued in any succeeding fiscal year will be established in Appropriations Acts or other Acts of Congress for that year. In order to discharge liabilities which could arise under the TCIP, A.I.D. must establish a Reserve Fund. We have determined after consultation with Eximbank and others that a 5:1 ratio would be appropriate. Therefore, we propose authorization now of \$60 million of Economic Support Funds (the Continuing Resolution authorizes the use of ESF for liabilities to be discharged under the TCIP) for the TCIP Reserve Fund. These funds will be obligated and drawn down on an as needed basis. In late August 1985, we will calculate, with Eximbank's assistance, the potential need for funds from the Reserve during the first quarter of FY 1986. Funds in the Reserve above the amount already drawn down or likely to be drawn down during first quarter FY 1986 would then be available for other uses in Latin America. Such actions would be taken in September 1985 to meet the most urgent requirements at that time, and would take into account our assessment of the likelihood of FY 1986 funds being made available by the Congress for the TCIP.

Dr. Rita Rodriguez, Vice President and Director of Eximbank, in November 1984, met with most of the A.I.D. Mission Directors in Central America to discuss how the TCIP might work. In

addition, the TCIP was discussed in some detail at the recent LAC Bureau Mission Directors' Conference. There is considerable interest in the TCIP, and we are eager to move as quickly as possible in starting the program. The first step would be a signing ceremony in Washington between A.I.D. and Eximbank. This would be followed quickly by agreements between A.I.D. and the Central Bank in each of the eligible countries. These latter agreements would be signed by the A.I.D. Mission Director and head of the Central Bank. We would expect them to be accompanied by substantial publicity in order to ensure active private sector participation.

Recommendation:

That you sign the attached authorization for the \$300 million Trade Credit Insurance Program, which includes the establishment of a \$60 million Reserve Fund for the Trade Credit Insurance Program.

Clearance: *signed original*
GC/HMFry: _____

JJR

PPC/PDPR: EHullander *BT/A*

L. Rogers/McLPS (cleared on backslips)

Drafted: LAC/DR: CPeasley: 11/29/84: mg: 3074B

Clearance:

LAC/DR: ILevy _____

LAC/DR: DBJohnson _____

LAC/CEN: PAskin _____

DAA/LAC: MDBrown _____

GC/LP: GWinter _____

GC/LAC: RMeighan _____

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LAC/DR:ILevy IL
LAC/DR:DBJohnson DB
LAC/CEN:PAskin PA
DAA/LAC:MDBrown MB
GC/LP:GWinter GW
GC/LAC:RMeighan RM/GW
GC/HMFry: GF
M/FM:WMcKeel (phone) GF (12/18)
ARA/ECP:JCOrry JCO

LAC/DR:CAPEasley:vc:11/27/84 X23620 (3074B)
Redrafted:CAPEasley:mg:11/29/84

GUARANTY AUTHORIZATION

Name of Country: Central American Regional
Name of Project: Trade Credit Insurance Program
Number of Project: 596-0135

1. Pursuant to Section 224 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Trade Credit Insurance Program for the Central American Region, and authorize the issuance of guarantees not to exceed in the aggregate Three Hundred Million United States Dollars (\$300,000,000) of contingent liability for loan principal in fiscal year 1985. I also hereby authorize the establishment of a reserve fund, and approve the allocation of Sixty Million United States Dollars (\$60,000,000) from the Economic Support Fund account to such reserve fund.

2. The Trade Credit Insurance Program consists of a joint effort between AID and the Export-Import Bank of the United States (Eximbank) to increase the availability of credit to Central American countries for the importation of goods and services from the United States.

3. The agreement between AID and Eximbank, which may be negotiated and executed by the Assistant Administrator, Bureau for Latin America and the Caribbean, shall be subject to the following terms, together with such other terms and conditions as AID may deem appropriate:

A. General Terms.

- (i) guarantees issued by AID shall be for guarantees/insurance issued by Eximbank in support of U.S. exports for the use of the private sector in Central America;
- (ii) except as AID may otherwise agree in writing, guarantees/insurance issued by Eximbank shall be issued to or guaranteed by the appropriate governmental authorities of the importing country;

