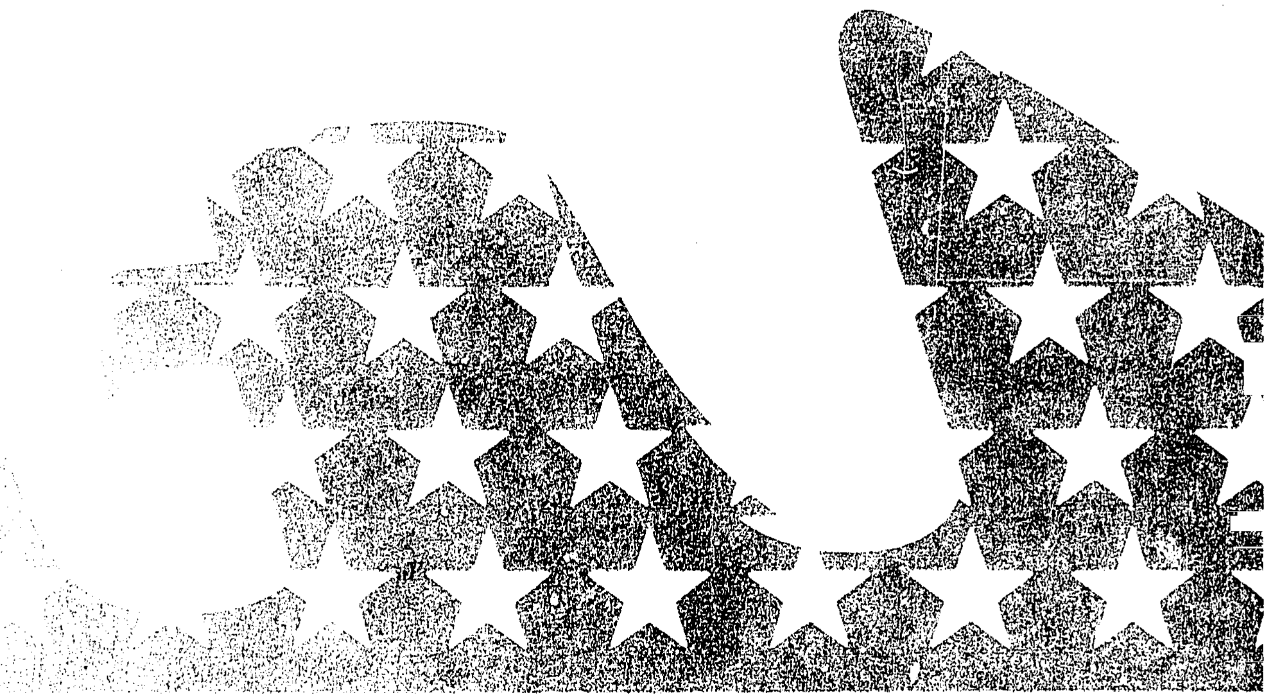
POLICY DETERMINATION
Agency for International Development

PD-2

September 29, 1982

Mixed Credits



PD-2
September 29, 1982

THE USE OF FOREIGN ECONOMIC ASSISTANCE RESOURCES FOR MIXED CREDIT FINANCING

Introduction

The use of mixed credits by foreign governments in support of their exports has become an important domestic and international policy issue. Such financing arrangements can distort international trade and has frequently placed U. S. exporters at a competitive disadvantage. As a result, U. S. government Agencies/Departments, including AID and the State Department, are faced with requests to undertake mixed credits in support of U. S. exporters. To assist Bureaus and country missions to respond to such requests, as well as to plan their programs, AID and the State Department have agreed on a policy that will govern the use of Economic Support Fund (ESF) resources for mixed credit purposes.

This policy determination sets forth this joint AID/State policy on mixed credit financing (i.e., the combining of AID concessional assistance resources with Export Import Bank (Eximbank) or Eximbank guaranteed credits for a single export transaction). Under this joint policy the use of AID Development Assistance (DA) resources for mixed credit financing is specifically precluded.

Policy on Mixed Credits

We are opposed in principle to the use of mixed credits for export financing. We recognize, however, that other donors are actively using mixed credits to promote their own exports and that this can put U. S. exporters at a serious competitive disadvantage. Therefore, until such time as an effective agreement is reached with other bilateral donors on restrictions in the use of mixed credits for export financing, consideration may be given to the use of such mixed credits using existing Economic Support Fund (ESF) resources for defensive purposes in individual selective cases, where the project in our view is of high importance to the LDC's development. In this context we

(a) will continue to support the Trade Financing Facility (TFF) in Egypt as an appropriate defensive response to mixed credit competition by other donors in Egypt;

(b) have adopted specific guidelines that set forth the circumstances in which we will participate in mixed credit export financing for defensive purposes and that are consistent with international economic objectives. They provide for the use of only ESF funding, in mixed credit arrangements that we decide to undertake.

Guidelines for the Use of ESF to Finance Mixed Credits

1. Mixed credits for export financing should only be considered in special circumstances on a case-by-case basis as a defensive response, where the project in our view is of high importance to the LDC's development.

2. Mixed credits for export financing will be made available only when a U. S. firm stands to lose a contract because of better financing terms offered by a competitor using mixed credits.

3. Mixed credit activities must be economically sound and important to the development process in the recipient country.

4. There will be no use of mixed credits, combining bilateral assistance and Eximbank funds in a single transaction, solely for export promotion.

5. The financing should not distort assistance programs within countries or allocation among countries.

6. The use of mixed credits for export financing should not cause a substantial drain on development resources; for the present, only ESF funds can be used in mixed credit activities.

7. Non-project assistance in the form of cash loans or grants or CIP funding should be the normal method of financing the concessional part of such mixed credits. The CIP program is already geared toward financing commodity imports.

8. If a mixed credit program or facility for export financing, such as the TFF in Egypt, is to be established in a country, it should only be established on a temporary, time-limited basis. Individual transactions from such a facility must meet the guidelines set forth here for such

mixed credits. This is important to ensure that the existence of such facilities do not undercut any future agreement on mixed credits that the U. S. is able to achieve with other OECD countries and to maintain the extraordinary, case-by-case nature of the U. S. policy on mixed credits.

9. Any request for a mixed credit for export financing will be subject to close and expeditious scrutiny by the appropriate State and AID bureaus, and should include in its justification for the use of this instrument, not only information regarding the nature of the transaction proposed but also a discussion of the relevance of this activity to the U. S. assistance program and strategy in that country.

Policy Review and Evaluation

We will review the status of international efforts to increase the transparency and reduce the use of mixed credits one year from now. In light of the results of that review, the issue of whether our policy should permit the use of Development Assistance (DA) funds, in addition to ESF or other measures, to support mixed credits will be reevaluated. At that time, many factors will need to be considered before the use of DA is permitted, including whether the use of DA is consistent with the requirements of current foreign assistance legislation (FAA) Such a step will be taken only after the most serious consideration of all factors.

M. Peter McPherson

September 29, 1982
Date

3