European Commission

Feasibility Study on an EU Strategy on Export Credits

Final Report

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Table of Acronyms and Abbreviations

ADB	Asian Development Bank
AFD	Agence Française de Développement, French Development Bank
AfDB	African Development Bank
ATI	African Trade Insurance Agency
Atradius DSB	Atradius Dutch State Business, the Dutch Export Credit Agency
BDBs	Bilateral Development Banks
BIS	Bank for International Settlements
BRICS	Group of five leading economies: Brazil, Russia, India, China, and South Africa.
BU	The Berne Union, global association of public and private credit and political risk insurers
CEF	Credit Enhancement Function
CEO - CEOs	Chief Executive Officer/s
CESCE	Compañía Española de Seguro de Crédito y Caución (Spanish Export Credit Agency)
cf.	abbreviation for the Latin word confer, meaning "compare" or "consult"
CFF	Concessional Finance Function
CIRR	Commercial Interest Rate of Reference (minimum interest rate for fixed loans under the Arrangement)
COVID	coronavirus disease 2019
CSF	CIRR support Function
CRM Act	The Critical Raw Materials Act
CRR	Capital Requirements Regulation (transposition of the Basel III international regulatory framework for banks into EU law)
CSO	Civil Society Organisation
DAC	OECD Development Assistance Committee
DFC	US International Development Finance Corporation (also known as US-DFC)
DFI	Development Finance Institution, which can be a Multilateral or Bilateral Development Bank or a bilateral ODA Aid agency
DG CLIMA	The Directorate-General for Climate Action (European Commission)
DG COMP	The Directorate-General (DG) for Competition (European Commission)
DG ECFIN	The Directorate-General for Economic and Financial Affairs (European Commission)
DG FISMA	The Directorate-General for Financial Stability, Financial Services and Capital Markets Union (European Commission)
DG GROW	The Directorate General for Internal Market, Industry, Entrepreneurship and SMEs (European Commission)
DG INTPA	The Directorate-General for International Partnerships (European Commission)
DG NEAR	The Directorate-General for Neighbourhood and Enlargement Negotiations (European Commission)
DG Trade	The Directorate-General for Trade (European Commission)
E&S	Environmental and Social (risk)
EBRD	European Bank for Reconstruction and Development
EC	The European Commission
ECA	Export Credit Agency
ECG	Policy Coordination Group for Credit Insurance, Credit Guarantees and Financial Credits, aka Council Working Group on Export Credits

ECOFIN	The Economic and Financial Affairs Council of EU Ministers
EDFI	The Association of bilateral European Development Finance Institutions
EEAS	The European External Action Service (The Diplomatic Service of the European Union)
EFSD	The European Fund for Sustainable Development
EIB	The European Investment Bank
EIC	European International Contractors
EIF	Equity Investment Function
EKF	Denmark's Export Credit Agency
EKN	The Swedish Export Credit Agency
ENR	Engineering News Report
ESG	Environmental, Social and Governance
EU	The European Union
EUR	Euro
ExFi-Lab	Informal Think Tank on Export Finance of various representatives of MS ECAs, Member States, the European Commission and the European Council
Exim Bank	An Export-Import Bank
FF	Finance Function
FSR	Foreign Subsidies Regulation
GA	Guardian authority supervising ECAs (setting policy and monitoring impact)
GBP	Great Britain Pound (currency)
HIC	High Income Country (a country whose gross national income per capital is above the threshold determined by the World Bank – in 2021, above USD 13,205)
IaDB	The Inter-American Development Bank
IBRD	The International Bank for Reconstruction and Development, also known as World Bank
ICC	International Chamber of Commerce
ICIEC	The Islamic Corporation for the Insurance of Investment and Export Credit (Member of The Islamic Development Bank (IsDB) Group
ICISA	The International Credit Insurance & Surety Association,
IDA	The International Development Association (World Bank Group)
IFC	The International Finance Corporation (World Bank Group)
IMF	The International Monetary Fund
IMU	Interest Make Up Scheme, a scheme used to offer CIRR interest rates
IPI	International Procurement Instrument
JBIC	Japan Bank for International Cooperation
JOIN	Japan Overseas Infrastructure Investment Corporation for Transport & Urban Development
K-Exim	The Export-Import Bank of Korea
KfW	Kreditanstalt für Wiederaufbau (German Investment and Development Bank)
LDCs	Least Developed Countries as defined by the United Nations
LIC	Low-Income Country (a country whose gross national income per capita is below the threshold determined by the World Bank – in 2021 USD 1,085)
LMIC	Lower Middle-Income Country (a country whose gross national income per capital is between the thresholds determined by the World Bank – in 2021, between USD 1,086 and USD 4,025)
LNG	Liquefied Natural Gas
M&E	Monitoring and evaluation

MCC	The Millennium Challenge Corporation, a Development Finance Institution of the USA
MDB	Multilateral Development Bank
MEDEF	Mouvement des Entreprises de France
MIGA	The Multilateral Investment Guarantee Agency (World Bank Group)
MLT	Medium- and Long-Term (two years or more)
MS (EU MS)	Member State (Member State/s of the European Union)
MS ECA /ECAs	Member State ECA (Export Credit Agency/ies in EU Member State/s)
NDB	New Development Bank, also commonly known as the BRICS bank
NDICI	Neighbourhood, Development, and International Cooperation Instrument – Global Europe (the EU's main financing instrument for external cooperation)
NEXI	Nippon Export and Investment Insurance (Japan)
NGO	Non-Government Organisation
NPCF	Normal Pure Cover Function
NPLs	Non-Performing Loans
ODA	Official Development Assistance
OECD	The Organisation for Economic Co-operation and Development
OeKB	Austria's Export Credit Agency
OPIC	Overseas Private Investment Corporation (nowadays US-DFC, the US International Development Finance Corporation)
PCF	Pure Cover Function
PCS	Preferred Creditor Status
PPP	Public-Private Partnership
RF	Refinancing Function
S&P	Standard and Poor's, a credit rating agency
SACE	The Italian Export Credit Agency
SCM Agreement	Agreement on Subsidies and Countervailing Measures (WTO)
SDG	Sustainable Development Goal (as defined by the United Nations)
SEK	Swedish Export Credit Corporation
SFIL	French public development bank specializing in the financing of local governments and export contracts.
SGF	State Guarantee Fund
SME	Small and Medium-sized Enterprise
SOE	State-Owned Enterprise
SPCF	Strategic Pure Cover Function
ST	Short-term (less than two years)
STEC	The EU's Short-Term Export Credit Insurance Communication
SWIFT	The Society for Worldwide Interbank Financial Telecommunication
TA	Technical assistance
TFUE	The Treaty on the Functioning of the European Union
TOSSD	Total Official Support for Sustainable Development
UFK	Ungebundene FinanzKredite (untied finance), which can be insured by untied guarantees of the Federal Republic of Germany
UK	United Kingdom
UKEF	UK Export Finance is the operating name of the Export Credits Guarantee Department (ECGD), which is the British ECA

UMIC	Upper Middle-Income Country (a country whose gross national income by capita is between the thresholds determined by the World Bank – in 2021, between USD 4,026 and USD 13,205)
UN	The United Nations
US / USA	The United States of America
USAID	The United States International Development Agency
USD	United States Dollar (Currency)
US Exim Bank	The Export–Import Bank of the United States
WB	The World Bank Group
WoG	Whole-of-Government
WTO	The World Trade Organisation

EXECUTIVE SUMMARY

1. Why an EU Export Credit Strategy?

Exports are essential to wealth and employment in the EU. In 2020, exports to third-country markets (extra-EU exports) accounted for 16 percent of the EU's combined value added and 14 percent of employment – over 38 million jobs in 2020. On average, EUR 1 million in extra-EU goods exports supports 12 jobs (up to 50 in some Member States)[1]. EU exports from a Member State country create jobs not only in that country but also in other Member States – 6 million out of 38 million EU jobs supported by exports to third-country markets through outsourcing and multiplier effects. However, EU exports have faced adverse winds in recent years. For capital goods in particular, the share of the EU-27 exports in third-country markets fell 3 percentage points in the last decade to less than 19 percent in 2020. The decline is especially steep for exports to riskier destinations (which the OECD classifies under Categories 4 to 7 in its country risk classification). During the last decade (2010-2020), the share of EU exports in these markets declined 5 percentage points to 22 percent for overall merchandise goods, and by 9 percentage points to 25 percent for capital goods[2]. Likewise, the share of EU international contractors[3] has declined from 32 to 25 percent in the Middle East, from 38 to 24 percent in Asia, and from 37 to 18 percent in Africa.

To win contracts in these markets, EU businesses need access to export and investment finance. As noted in the Communication "Trade Policy Review - An Open, Sustainable and Assertive Trade Policy"[4], published by the European Commission on 18 February 2021, EU exporters face increasing competition in third-country markets from firms benefiting from official financial support granted by their governments. The Trade Policy Review calls for "a better level playing field for EU businesses on third-country markets, in which they increasingly have to compete with the financial support foreign competitors receive from their governments".

The European Commission (The Commission) is now exploring options for an EU Export Credit Strategy, aiming to better support EU exporters and foster a more level playing field for EU businesses in third-country markets while contributing the EU's broader policy agenda (e.g., Green Deal, Digital Agenda, Global Gateway, NDICI Global Europe, Africa or Indo-Pacific Strategy). This feasibility study has been contracted as part of that exploratory process.

The Council of Ministers of the EU, in its Ecofin conclusions of 15 March 2022, has welcomed this course of action. In particular, the Council supports the design of a comprehensive strategy for exports, trade and investments, as envisaged in the ExFi Lab White Paper of July 2020[5] and the Commission's Communication of 18 February 2021. It welcomes the feasibility study as an opportunity to conduct a comprehensive diagnosis of the needs of exporters and assess the potential for enhanced coordination and other interventions at EU level, including a possible EU Export Credit Facility, to complement to national export credit facilities.

2. What is export finance? Rationale for official support

To finance their international operations, firms use three main types of export finance:

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[1] EU exports to the world: Effects on employment, 2021 Edition. European Union, DG Trade. https://trade.ec.europa.eu/doclib/docs/2018/november/tradoc_157516.pdf

[2] Source: UN Comtrade data

[3] ENR - Engineering News Report league tables for the top 250 international contractors. ENR league tables track European rather than EU firms. The top 250 international contractors include 44 European firms, of which 42 EU firm with cross-border sales exceeding USD 200 billion, and 2 British firms with a combined cross-border sales volume of USD 7 billion.

[4] Trade Policy Review, An Open, Sustainable and Assertive Trade Policy, European Commission, 2021 https://trade.ec.europa.eu/doclib/docs/2021/april/tradoc_159541.0270_EN_05.pdf

[5] White Paper on Public Export Finance in the EU, ExFi Lab, July 2020, reissued in April 2021 https://ekf.dk/media/marbx1f3/re-issue_white_paper_on_public_export_finance_in_the_eu_april-2021.pdf

- **Supplier credits**, referring to deferred payment facilities, including short-term ones (ST, less than two years) that exporters provide to their buyers overseas. In turn, supplier credits can be refinanced by banks or other financial institutions and secured by covers (credit insurance or guarantees against the credit risk on buyers) provided by Export Credit Agencies (ECAs) or the private insurance market.
- **Buyer credits**, that export finance banks extend to buyers overseas. These products, usually Medium or Long-Term (MLT, two or more years), support export contracts tied to the national origin of the goods or services, or at least to a national interest.
- **Related products**, such investment loans, import loans, pre-shipment working capital finance, or bonding lines.

Besides typical export finance products, cross-border transactions may also be financed by international development finance institutions (DFIs), often backed by multilateral or bilateral aid funds. The loans or grants that these institutions extend to borrowers may finance the procurement of goods or services from exporters. Bilateral development finance (including aid) may or may not be tied to exports or an investment interest of the donor country.

Strictly speaking, export credits refer to a sub-type of export finance - usually MLT buyer credits that are officially supported by governments that are tied to the national origin of the goods. In this report, the term *export credit* is understood in a broad sense and includes official support for other types of export or investment finance.

In theory, export finance (whether in the form of loans or covers) may be sought from private-sector institutions on purely commercial terms. Nonetheless, the field of export finance is fraught with market failures, especially for large transactions, long credit maturities, riskier destinations, or serving SME exporters. For this reason, most leading exporting nations have established ECAs, supplementing commercial sources. Globally, the total amount of official support that states extend to export finance exceeds USD 1 trillion – comparable to the combined magnitude of international development finance and Official Development Assistance (ODA).

To avoid a subsidies race between governments, leading OECD countries, including the EU, have set up the Arrangement on Officially Supported Export Credits (the Arrangement), a gentlemen's agreement that lays out the terms applicable to official support for MLT export credits. The Arrangement and its on-going modernisation are not part of the scope of study, but the implications are of critical importance for European export finance and the EU Export Credit Strategy.

3. Official export finance systems in the EU

Like other OECD and non-OECD countries, EU Member States support the financing of their exports through ECAs backed by the respective national budgets. Export finance systems in the EU are very diverse in terms institutional set-ups, types of business supported, export destinations, whether they provide insurance only or also extend financing, etc. Out of the 27 Member States, 24 have an ECA serving exporters. Most of these ECAs are insurers, although some are established as Exim banks. Among these 24 Member States, 20 have multiple other financial entities working with ECAs – in total 31 entities offering 55 different financial functions linked to export finance.

On average over the period 2019-2021, Member States ECAs (MS ECAs) had an annual MLT cross-border production volume of approximately EUR 53 billion, equivalent to approximately 3 percent of the total capital goods exports of EU Member States or 8 percent of their capital goods exports to third-country markets. The corresponding MLT exposure was EUR 340 billion. Although estimations are challenging, the order of magnitude is comparable to the combined volume of ECAs in the USA (US Exim Bank), Japan (Nexi and JBIC), Korea (K-Sure and K-Exim), the UK (UK Export Finance) and Australia (Export Finance Australia) (referred below as the OECD-5) or China (Sinosure and China Exim). According to estimates, the combined MLT cross-border volume of Sinosure and China Exim is in the order of 1.5 times the total business of MS ECAs[6]. (Annex XIII).

Compared with MLT business, the ST volume officially supported by MS ECAs is much smaller – less than EUR 22 billion on average over the period 2019-2021, while the OECD-5 had a combined ST production of EUR 157 billion, and Sinosure had an annual business volume of EUR 486 billion. The modest role played by MS ECAs in the ST segment reflects in part the depth of the European ST private credit insurance market and the dominant position (historically a legal monopoly) enjoyed by leading Asian ECAs for export credit insurance in their respective export markets, including for OECD risks.

Many Member States have experienced and effective export finance systems. Nonetheless, these systems experience a variety of challenges.

Some of these challenges are country specific. In some Member States, ECAs have a narrow product range or lack technical capability to underwrite complex project finance transactions or assess their ESG implications. Some states have a relatively low credit rating (BBB+ or below), which limits the appetite of banks for export finance transactions covered by these ECAs. Other countries have well-established export finance systems with strong technical and institutional capability but face high risk concentrations, which restricts their ability to support exports in key sectors or for certain destinations, etc. Yet other countries lack effective refinancing or CIRR schemes (fixed interest rate mechanisms).

Also, the export finance systems of Member States are naturally mandated to support national exports or business interest. Member States and ECAs have entered into ad hoc bilateral co-insurance or reinsurance agreements to finance contracts sourced from several Member States. However overall, due to their national mandate and fragmentation, notwithstanding the Council Decision 82/854 on EU subcontracts (which provides that they are automatically covered up to 30 percent of the value of a contract), existing export finance systems are not designed to support the combined EU sourcing content or business interest.

Besides country-specific factors, EU export finance systems also face systemic challenges. The global playing field in export finance is unlevel in several major respects.

The Arrangement - a useful tool aiming to bring about a more level global playing field in export finance - faces limitations. Leading global competitors outside the OECD (such as China, India) do not participate in the Arrangement. Some OECD participants (mostly outside the EU) extensively support their exports and project overseas through instruments that are not covered by the Arrangement, such as untied investment loans. About 87 percent of EU MLT business falls under the Arrangement. The modernisation of Arrangement which is under finalisation will improve the terms and conditions of export credits but will not address other types of financing than export credits. Related challenges arise the context of other forms of official support. Some trade and investment flows produce positive externalities, referring to the social, economic or environmental benefits going beyond the financial returns received by businesses. This includes transactions that contribute to a) international development in the countries receiving these exports or investments, b) global welfare and public goods, such as climate adaptation or mitigation, and c) security and stability in the EU, for example by securing the sourcing of critical minerals. According to OECD estimates, the climate and infrastructure agenda alone would require investments of at least USD 6.9 trillion annually through 2030.

[6] Team estimates based on the annual reports of the respective ECAs. MLT volumes include both Arrangement and non-Arrangement business including overseas investment insurance. The US Exim Bank Competitiveness Report provides different estimates for Sinosure. The figures used for Sinosure in this report are based on their annual reports until 2021. Figures for Sinosure are given in terms of production, while those for China Exim are in terms of exposure. The ratio of exposure to production across ECAs is on average 5 to 6 times, reflecting an average life of 5 to 6 years. Although JBIC and K-Exim are official ECAs, their activity includes other forms of official finance. Data for leading Asian ECAs often do not clearly distinguish between business conducted on a commercial basis versus business on public account.

Transactions supporting these agendas warrant special attention and support from governments. Accordingly, the EU has put forth ambitious initiatives to achieve these goals, backed by substantial public budgets with the aim to mobilise private investments (Global Gateway, etc.). In the EU, most aid (over 93 percent) is in the form of untied aid. The proportion of tied aid provided by other countries is much higher in countries ranging from the United States (41 percent) to China (nearly 100 percent). Key competitors (such as China, Japan, Korea, and more recently the USA and the UK) apply a Whole-of-Government approach to coordinate state agencies, bilateral aid, and the private sector to support the origination of projects and transactions and to create bridges between export finance and other forms of official finance. By contrast, policy and institutional silos still prevail in the EU and Member States. Efforts to address these issues are already ongoing. The Joint Communication on the Global Gateway published in December 2021 mentioned a potential European Export Credit Facility complementing the existing export credit arrangements at Member State level as a tool to increase the EU's overall firepower in this area[7]. The Ecofin Conclusions of March 2022 drew attention to the experience and key role of national ECAs in mobilizing private capital and stakeholders required for the successful implementation of the EU Global Gateway strategy[8]. The Council also expressed support for analysing the opportunity of enhanced coordination of EU external financial tools, and of an EU export credits facility as a complement to national export credit facilities, to development aid, and to investment support, both at national and EU levels, and notably to the EU instrument to support Neighbourhood, Development and International Cooperation[9]. The Council noted that the Commission's work on enhanced coordination of EU financial tools is advancing and urges rapid progress towards this objective. In April 2023, the Commission published a Joint Staff Working document on the mapping of external financial tools of the EU that support implementation of external EU policies including the Global Gateway and have the potential to strengthen the global competitiveness of EU companies[10]. This staff working document covers Member States' export credit support, development support provided at EU level, own-risk financing of the EIB and other relevant financial tools.

4. Gaps faced by EU exporters

In seeking finance for their operations in third-country markets, EU firms experience a wide range of market gaps, referring to situations where they do not have access to export finance instruments comparable to those supported by the governments of other global competitors, or these instruments are not delivered effectively or in sufficient volumes, or that their terms are not competitive (notably with respect to pricing and maturity) even though the underlying transaction is robust enough to merit finance. The consequences for EU businesses range from losing business or having to carry high-risk receivables due to lack of covers for exports to certain overseas markets, to not being able to refinance those receivables (or refinancing at an excessive cost or having to providing onerous security to their financiers), to being unable to find competitive financing for multi-sourced contracts, to not being able to bid for certain projects overseas because they cannot put in place a bid or performance bond, to losing contracts because competitors outside the EU can offer more attractive financing terms to

[7] Joint Communication by the Commission and the High Representative of the Union for foreign affairs and security policy to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank, "The Global Gateway", JOIN(2021) 30 final of 1.12.2021.

[8] Council Conclusions on export credits of 15 March 2022, Ref. 7101/22.

[9] Regulation (EU) 2021/947 of the European Parliament and of the Council of 9 June 2021 establishing the Neighbourhood, Development and International Cooperation Instrument – Global Europe, amending and repealing Decision No 466/2014/EU and repealing Regulation (EU) 2017/1601 and Council Regulation (EC, Euratom) No 480/2009, Official Journal l 209/1 of 14.6.2021.

[10] Joint Staff Working Document by the Commission and the High Representative of the Union for foreign affairs and security policy, on the main outcomes of the mapping of external financial tools of the EU of 11.4. 2023, SWD(2023) 96 final.

buyers overseas thanks to more extensive or more competitive official support provided by their government.

The precise nature, extent and source of the gaps faced by EU exporters vary depending on the size, industrial structure, markets conditions, and institutional set-up of each Member State. Some European countries are well served by public and private insurers. At the other end of the spectrum, some Member States (especially those with smaller economies) are underserved by both public and private insurers. Yet in other Member States, the binding constraint faced by exporters is not so much the lack of covers, but the lack of appetite of local commercial banks for export finance, especially for smaller transactions.

Feedback received from exporters and banks indicate that the most severe gaps faced by EU businesses include: a) lack of cover for certain sectors or destinations, especially for large MLT transactions, b) difficulties or uncompetitive terms faced by banks in refinancing their export finance loans, and c) competitors outside the EU having broader access to concessional finance, at times mixed with export finance.

Additional gaps include poor access to finance for SMEs (including lack of access to covers and funding even for ST business), lack of a proper interest-rate fixing mechanism (CIRR), lack of access to domestic finance instruments necessary for export transactions, and lack of co-investment sources to support investment overseas. The main gaps experienced by EU exporters in third-country markets, and the factors causing these gaps, are summarised in Table 2 below.

Beyond export finance, exporters and investors from other leading countries, especially international contractors, are often better placed than EU businesses to take advantage of the opportunities afforded by other forms of official finance. The much higher proportion of tied aid provided by other donor countries places EU exporters at a disadvantage. On the one hand, EU exporters may be formally or practically excluded from bidding for projects supported by tied aid, unless the EU or Member States offer matching tied aid. On the other hand, EU businesses may qualify for these projects and may submit good technical offers. However, their financial offers (if purely based on export credit products regulated by the Arrangement) will not be attractive to the buyers compared with offers from competitors supported by governments fostering exports through tied aid, including tied aid mixed with export finance, or untied aid which is de facto tied.

5. Principles of an EU Export Credit Strategy

To address the gaps faced by EU businesses, Member States and EU policymakers could consider a strategy to restore export competitiveness while advancing the EU's external agenda. In the area of export finance, the strategy would pursue two goals:

- To help improve the overall efficiency and impact of Member States' export finance systems by strengthening policymaking, institutional capacity, and operating procedures if required, encouraging ECAs to share best practices and work even better together, leaving them in a stronger position to face challenges (*upstream* improvements).
- To help Member States address the concrete gaps faced by EU businesses (downstream improvements) to support exports, including exports of European content, that may fall outside the mandate of MS ECAs.

In parallel, the strategy would aim to level the playing field for EU businesses by broadening their access to opportunities afforded by other forms of official finance supporting the EU's external agenda. Access to these opportunities is currently much broader for business from donor countries outside the EU.

Importantly, the strategy should embody EU principles. These include:

- Subsidiarity: any facility created as part of the strategy must complement, rather than replace, interventions at Member State level. Many Member States have highly effective ECAs and export finance systems. These systems are a strength to the EU. They must be leveraged and, in some cases strengthened, if necessary, not replaced.
- Additionality: the EU has a deep private export finance market. The top three global leaders in private credit insurance (especially for short-term) are all European, and so are 8 of the world's 15 most active export finance banks. The measures taken by EU and Member State authorities should catalyse and supplement, not crowd out, commercial insurance or financing available from the private sector, on terms that do not distort the operation of commercial markets.

The strategy and actions should also fully comply with the international regulatory frameworks, including the Arrangement, OECD and other environmental, social and governance guidelines, WTO agreements as well as EU rules (including state-aid rules).

Member States and EU institutions would both have key roles to play in the formulation and implementation of the strategy. Member States (ECAs and their guardian authorities, usually ministries in charge of finance, economy or external trade) are closest to their respective export finance markets and are well placed to design and implement interventions tailored to the needs of their exporters. These measures could be supported by actions taken at the EU level. Actions at EU level could include *software* interventions described below (advocacy, technical assistance, coordination. and some regulatory adjustments). These could be complemented by financial interventions designed to address the steepest gaps experienced by exporters, in tandem with national export finance systems. These *hardware* measures, examined in Section 7, would entail a more substantial financial commitment from the EU.

A. Actions at Member States level

Member States already have channels to improve to coordinate and collaborate across ECAs of different countries, including co-insurance and reinsurance agreements. Additional actions could be taken to improve the collective efficiency and impact of their export finance systems through further harmonisation of practices and procedures. This could involve for example the adoption of a standard reinsurance agreement, a common definition of European content, or the promotion of credit insurance market solutions for SMEs in collaboration with private market insurers.

To support these initiatives and facilitate the exchange of information on best operational practices or new products or services, Member States and ECAs might establish a European association of ECAs. The association could provide a forum for the discussion of EU legislative and non-legislative acts relevant to ECAs, involving topics such as EU state-aid rules including the Short-Term Export Credit Insurance Communication (STEC), specific export credit rules (such as the 30 percent allowance for non-national EU content), or the Capital Requirement's Regulations (CRR), which transpose the Basel III international regulatory framework into EU law.

This association could perhaps include the establishment of a cooperative company to provide shared services and technical assistance, which could be particularly useful to Member States ECAs that lack scale or technical capacity to conduct activities such as ESG assessments. Inspiration could perhaps be drawn from the model of the management company established by EDFI, the association of European Development Finance Institutions. Technical assistance to less well-established ECAs might include advice on risk-management, underwriting, or the management of claims and recoveries. Among other tasks, the association could explore ways for ECAs to communicate about their contribution to the EU at large and to the UN SDGs. This could help improve their visibility in the development finance world and eventually build closer bridges that could accelerate the emergence of Whole-of Government approaches in the EU.

B. Actions at EU level

Measures implemented by Member States could be supported and complemented by concerted actions at EU level. These could include *upstream* measures aiming to improving coordination at policy and agency levels enhance the overall impact of existing export finance systems as well as *downstream* measures addressing specific gaps. These would include for example, harmonising systems to foster a more efficient allocation of risk capacity across Member States, thus reducing the *pure cover* (insurance) gap faced by EU exporters.

Upstream EU support could include cost-sharing for actions of collective interest such as a secretariat for an association of EU public credit insurers or delivering technical assistance to Member States with less-well established export finance systems, or facilitating exchanges on best practices for the formulation, implementation, monitoring and evaluation of public policies.

As part of this action package, the EU could also strengthen its own policy making capability in export finance. This could include a monitoring and evaluation system to track the most severe export finance gaps as they evolve. Communication channels could be established, perhaps through European and national business associations, to allow exporters and export financiers to have key messages heard at EU level as well. The Commission could consider publishing annual Competitiveness Reports comparable to the those prepared by the Export-Import Bank of the United States (US Exim Bank)[11]. These would increase awareness and foster discussion on international developments, the global level playing field, the competitiveness of European export finance systems and the impact of export finance policies. Importantly, the EU could consider ways to mainstream a Whole-of-Government approach ensuring that the export finance aspects are tackled in a coordinated way across key EU institutions and rules, including mechanisms ensuring that the perspective of MS ECAs are brought into the EU's external strategic agenda (Global Gateway, etc.) to better leverage the impact of these financing streams.

6. EU Export Credit Facility

The package of *software* actions outlined above could contribute to improve the overall efficiency and impact of EU export finance systems and alleviating some of the constraints experienced by EU exporters. In addition, EU authorities could consider establishing an “EU Export Credit Facility” to help EU export systems address in a more concrete manner the key gaps faced by EU exporters and facilitate the financing of EU content or business interest.

Feedback received from stakeholders (ECAs and their Guardian Authorities, private market insurers, commercial banks and exporters) point to three priority areas or functions that the Facility could initially focus on: the provision of *complementary pure cover (insurance)*, refinancing the export credits provided by commercial banks, and a *concessional programme* tied to EU exports.

Eventually, the Facility could support a broader range of export finance instruments depending on market circumstances, the evolving needs of exporters, and the types of support extended by non-EU governments to competitors in third-country markets. Additional functions that could be considered at a later stage include other types of financing support (such as interest rate fixing or direct lending), credit enhancement of covers from certain Member States with low credit ratings, equity investment, or domestic products necessary for exports (such as performance bonds or pre-shipment finance).

The design and activities of the Facility would be in line with EU budgetary principles. In particular, the official support provided through the Facility should address market failures, be provided to projects that are economically viable and meet international ESG standards, achieve additionality to other public and private sources, and serve the common interest.

[11] https://www.exim.gov/news/reports/competitiveness-reports

A. Complementary Pure Cover Function

Through this function, the Facility could reinsure MS ECA-insurers (or insure Member States Exim Banks), allowing them to expand their risk capacity and address the gaps that exporters and their financiers face in accessing the insurance they require to undertake exports or arrange financing for buyers overseas. Consistent with the principle of subsidiarity, the operations of this function would be primarily *wholesale*, meaning that the direct beneficiaries of its services would be ECAs and other Member State agencies.

Constraints faced by national ECAs in covering these transactions relate to credit limits for exposure on certain country destinations, sectors, public or private obligors. These constraints notably arise for large projects and transactions with long maturities, and for countries with relatively higher risks, although these constraints may also affect transactions that are short-term or do not involve high levels of risk. For example, mid-size Member States that are global leaders in certain export sectors face risk capacity constraints, at times even for low-risk transactions, due to their risk concentrations in these sectors. In addition, the function could support (through a *Strategic Pure Cover* window) transactions that serve the EU's external strategic agenda such as Ukraine or the Global Gateway, but in higher level of risks.

As per with market practice, the reinsurance provided by the Facility should cover both commercial risk (the credit risk of specific obligors) as well as political risk (risks arising from the action or inaction of a government) and force majeure. If required by the beneficiary ECAs, this additional capacity could also reinsure them for the portion of the risk they assume that relates to non-national EU content. To the extent possible, the Facility could leverage its capacity and catalyse private sector participation through reinsurance treaties or other arrangements with private sector underwriters.

As of end 2022, the combined MLT risk exposure of Member States' export finance systems amounts to approximately EUR 300 billion. Assuming the Facility absorbs 10 percent of the combined MS ECA portfolio, its gross risk exposure under this function could be in the order of EUR 30 billion. Assuming a ratio of 5x between exposure and annual production (average observed for MS ECAs), this could indicatively sustain an annual production in the order of EUR 6 billion. The volume of incremental exports made possible by the pure cover function would depend on the trade multiplier assumption[12].

At a later stage, an additional function could be envisaged to enhance the credit rating of some of the lower-rated ECAs, if needed by the commercial banks providing export credits covered by these ECAs

B. Refinancing Function

The Refinancing Function under an EU Export Credit Facility would provide refinancing to commercial banks or Exim banks in Member States that lack an effective export finance refinancing scheme, as well as banks in Member States (if they agree) for which the cost of funds is higher than for an equivalent EU facility. The cost of funds is a major element of the price competitiveness of export credits provided by commercial banks. The cost of risk carried by commercial banks is generally low for export credits since 95 percent of the loan amount is usually covered by the respective Member States through their ECAs. By lowering the cost of funds for export credits, an EU Refinancing Function would allow banks to provide cheaper financing to EU exporters and their clients overseas. A similar reasoning would apply to export credits funded by public lenders. Consistent with the principle of additionality, the Facility could prioritize export credits aligned with EU Strategic Agendas as well as multi-sourced operations.

[12] For example, in its annual reports, US Exim Bank assumes a trade multiplier of 2x – meaning that one dollar of cover or direct loans sustains two dollars of exports. In this case, EUR 1 billion of exposure might support in the order of EUR 200 million of annual production, EUR 400 million of incremental exports, and 4,800 jobs assuming 12 jobs per EUR million of extra-EU exports).

In the case of a Refinancing Function, it could be more practical to support commercial financial institutions directly. Channelling the support indirectly through intermediaries (which don't exist in all Member States) would add cost and complexity but little identifiable benefit.

As of end 2022, the share of export credit refinancings in the national export credit portfolios varies between 0 and 80 percent, depending on the policies, institutional mechanisms and the cost of funds of the respective Member State. Assuming the Facility refinances on average 30 percent of the Member States' export credit portfolio, its export credit refinancing book could potentially reach an amount of EUR 100 billion.

The option of direct lending by the Facility could be considered at a later stage, for example to serve exporters in Member States where commercial or public banks are unwilling to provide export credits or are unable to do so on competitive terms. However, direct lending would not be part of the initial set up.

Complementing the Refinancing Function, an interest rate fixing function could allow commercial banks to offer CIRR fixed rates to exporters in Member States that lack an effective mechanism for its delivery. CIRR fixed rates, as defined in the Arrangement, are considered desirable by buyers and enhance the competitiveness of the EU exporters bidding for contracts overseas. The impact on the competitiveness of EU exporters would be significant, especially for engineering and construction firms, although probably less than for the Refinancing Function. A CIRR Function could be considered once the Refinancing Function has been implemented.

C. Concessional Finance Function

A Concessional Finance Function would expand the pool of EU development aid financing contracts and procurement for which EU exporter can bid competitively, notably in developing countries. Allowing EU exporters to bid for a wider range of international development projects would contribute to fair competition and fair prices. Aid can be extended as such (whether in the form of grants, or in the form of (partially un)tied concessional development finance) or mixed with export credit. This would require EU budgetary appropriations to cover the grant element and possibly the credit risk associated with the loan element.

This function could be considered within the framework of the Global Gateway Initiative. An option might be for part of existing EU concessional funds to be channelled through the function in the form of tied aid. Other OECD countries have split their aid financing into tied and untied programmes, while aid provided by non-OECD countries is usually fully tied. The modalities for the implementation and funding of a concessional finance function linked to EU exports would require a discussion within the EU.

7. Key questions for the institutional set-up of an EU Export Credit Facility

Key questions for the institutional set-up of an EU Export Credit Facility include the magnitude of the capital commitments required from the EU, whether its functions could be delivered through existing channels or would require the creation of new institutions, and the mechanism or principles to allocate scarce resources fairly and efficiently among competing exporters, financial institutions and ECAs in different Member States.

A. How much capital?

The combined capital commitment required from the EU could be in the order of EUR 8 billion in paid-up and callable capital for the Complementary Pure Cover and the Refinancing Function. The capital commitments could be lower initially and could be ramped up over time as the Facility grows its operations.

Reinsuring MS ECAs through a Complementary Pure Cover Function would create a risk exposure for the EU. Export finance systems (except for concessional facilities, to the extent allowed by OECD and WTO regulations) are expected to cover their cost - in the long run the insurance premium must cover the cost of risk. However, even with world-class underwriting expertise, the volume of claims and recoveries varies from year to year. Good practice is for the risk exposure to be backed by a capital commitment and risk provisions consistent with sound accounting and risk management rules applying to insurers and banks rather than pushed to public budgets when losses arise, or claims are paid.

Assuming a 10 percent cushion for general and specific risk provisions, a gross exposure of EUR 30 billion (10 percent of the EUR 300 billion combined gross exposure carried by MS ECAs) could be supported by EUR 3 billion in paid-up and callable capital or EU budgetary guarantees. Ideally, private sector underwriters could be brought in to share a portion of the risks. If possible, this could reduce the capital commitment required from the EU or allow the Facility to reinsure a higher share of the MS ECAs risk portfolios.

Similarly, the Facility would be exposed to market and operational risks on the export credits it would refinance through a Refinancing Function. The Facility would also carry a contingent risk exposure to the Member States on the export credits underwritten by the respective ECAs. Assuming a 5 percent cushion, a gross exposure of EUR 100 billion (30 percent of the combined export credit portfolio of MS ECAs) could be supported by EUR 5 billion in paid-up or callable capital or EU budgetary guarantees.

The size of the gross portfolio and capital commitments required for a Concessional Finance Function would depend in part of the resources available and the implementation mechanisms for existing financing streams such as the EFSD+. These need to be further assessed.

B. Which institutions?

To the extent possible, the Facility should avoid the creation of new institutions and instead rely on institutions that already exist. However, it is challenging to identify a single existing institution that would meet all the requirements to efficiently deliver all the contemplated functions. In practice, different functions may require different institutional arrangements.

B.i Options to implement a Pure Cover Function

Different set ups could be used to channel EU risk-sharing support to the beneficiary Member States and their ECAs. One key decision to be made is whether the Pure Cover Function should be handled by a *transparent entity* distinct from the entity carrying the risks, or by a self-standing capitalised entity.

Examples of transparent set-ups include France's Bpifrance Assurance Export, German's Euler Hermes, the Netherland's Atradius Dutch State Business (DSB), and Spain's CESCE. Some countries such as Belgium (Credendo) and Italy (SACE) feature a capitalised entity that books the risks it underwrites in a so-called *commercial account*, and separately administrating the state scheme with risks booked in a *national interest account*). Examples of export finance systems managed by *capitalised* entities include Denmark's EKF, Finland's Finnvera and Sweden’s EKN.

The *transparent* option would not require the creation of a new EU entity. Instead, the administration of the Pure Cover Function could be outsourced to a service company under a multi-year management contract. The transparent entity managing the scheme would not book transactions in its balance-sheet, but in a designated account of the Commission. Under the management contract, the entity would collect revenues (premium, fees, interest) and pays outflows (claims, fees, interests) on behalf of the owner. It would receive a cash allocation to cover agreed costs and investments.

In the *capitalised* option, the Pure Cover Function would be autonomously managed by a bespoke entity booking transactions and risks in its balance-sheet. Its operations would be supported by equity funding, complemented by callable capital. Its owner - the EU and/or Member States - would lay out its objectives, approve its policies, supervise its performance, and assess its management, but would normally not be involved in day-to-day operations. Ideally, the capitalised entity should be an insurance or reinsurance company, consistent with the practice usually followed by MS ECAs. Multilaterals such as MIGA (of the World Bank

Group) have followed this approach. This option would serve the purpose well but would entail the creation of a new insurance/reinsurance entity owned by the EU.

The advantages of implementing the Pure Cover Function through a transparent entity include (a) no need to create a new EU entity, (b) some flexibility to reallocate the management contract to another entity, should the need arise in the future (c) possibility to materialise at least part of the official support through EU budgetary guarantees, without any EU equity allocation. However, in that scenario, the Commission would need to allocate staff to decide on transactions exceeding the level of delegation granted to the service company and would be involved in arbitrating between Member States competing for an allocation of scarce capacity. In either option (*capitalised* or *transparent*), the risk management policies and underwriting decisions for large transactions would require professional oversight by a supervisory body with strong capacity and expertise.

The management of the transparent entity could be awarded, by competitive tender, to different types of providers, such as a) a MS ECA willing to perform this role on behalf of the EU, b) a service company owned by the beneficiary ECAs or Member States c) a private insurance or reinsurance company, or d) a private service company. Options a) and c) would allow the Facility to tap directly into valuable credit insurance expertise but could create some level (actual or at least perceived) of conflict between the management company (owned by one insurer) and other users between the management company and the owner of the risk capacity (the EU). Accordingly, options b) or d) could be preferred. Using a banking entity (such as the EIB) to manage an insurance/reinsurance scheme without prior experience in this area would introduce complexity and unpredictability. The experience of multilateral development banks also illustrates the challenges of rolling-out risk mitigation instruments in public institutions, operating in a banking environment and mostly driven by lending. This approach is not recommended, nor is it favoured by Member States or their ECAs.

B.ii Options to implement Refinancing or Concessional Finance Functions

To implement the Refinancing and the Concessional Finance Functions, the EU could consider existing entities, such as the EIB. Among other advantages it could bring to the table, the EIB enjoys an excellent (AAA) rating and a low cost of funds. Another alternative could be for the Facility to outsource the administration of these functions under a multi-year contract to a national entity that might be willing to play this role for other Member States on behalf of the EU. Sweden's SEK or France's SFIL come to mind for the Refinancing Function. These entities have the advantage of being already familiar with the export finance refinancing business. Their downside includes a slightly higher cost of fund (relative to the EIB) and the perceived conflict of interest of serving both national exporters and their competitors from other Member States.

C. Principles for sound risk management and fair allocation of scarce resources

The operational, market and contingent sovereign risks to which the Facility would be exposed under the Refinancing Function are well-known and could be handled through existing risk management frameworks applicable to financial institutions (Basel III) and EU budgetary procedures. One aspect to be examined is the extent to which the pricing may differ for transactions underwritten by different ECAs in Member States with different credit ratings.

The Pure Cover Function warrants closer attention. The Facility's allocation of scarce risk capacity should be guided by a system designed to meet the parallel objectives of (a) being sound from a risk management perspective, (b) being perceived to be fair by the beneficiaries (Member States and their ECAs), which in turn would minimise the scope for political interference. The two objectives are partly contradictory: the demand from Member States and their ECAs will likely over-represent the riskiest destinations and types of transactions for which they are short of capacity and under-represent low-risk destinations and types of transactions for which they have sufficient capacity. This may lead to an adverse selection of risks and undesirable risk concentrations for the Facility.

To minimise the moral hazard, the Facility can assess the underwriting and risk management track record of the beneficiary ECAs and require them to take care by retaining a suitable share of the risks they reinsure. The simplest way to reinsure the originating ECAs is on a pro-rata (quota-share) basis. This can be done in several ways, for example: risks can be shared for individual transactions, across several transactions in a given country (stipulating that the originating ECAs must retain a suitable percentage of risks in the countries for which they seek reinsurance), across several countries in a given OECD Country Risk Category, or across several Country Risk Categories. The latter approaches would allow the Facility to diversify its risks across a larger number of destinations and transactions.

To ensure that the capacity benefits several Member States, the Facility may cap the maximum allocation per Member State. Besides allocation ceilings, a transparent allocation mechanism would help ensure that scarce capacity is apportioned in a manner that is seen as fair by exporters, financial institutions and ECAs in different Member States and minimises the scope for political interference.

8. Conclusion

EU businesses face adverse winds and have been losing market share in third-country markets, where they face competitors that enjoy excellent access to very competitive finance supported by their respective governments. As noted by the ExFi Lab (an informal think-tank of Member State, Export Credit Agencies (ECAs) and Commission export finance professionals) "*to remain competitive and achieve its ambitious international goals, the EU must recalibrate, adapt and rethink how to use the capacity of the public export systems to best support its exporters and businesses abroad*". In simple terms: "*take action or fall behind!*"[13]. The Arrangement, whose modernisation was announced on 31 March 2023, is a very useful tool to level the global playing field in export finance. However, the financing gaps faced by European businesses are pervasive and well beyond the realm of the Arrangement. The steepest gaps faced by EU exporters relate to lack of cover for certain sectors and destinations (including for some low-risk markets and transactions), access to funding on competitive terms, and access to concessional finance comparable to their competitors from other countries mixing export finance with other forms of official support.

These challenges could be addressed by an EU Export Credit Strategy that would on the one hand alleviate the export finance bottlenecks experienced in the EU, and on the other hand level the playing field for EU businesses by broadening their access to opportunities afforded by other forms of official finance supporting the EU's external agenda. The differences of views between the users on some challenges and possible solutions corporates and banks on one side, providers being public or private on the other side) raises the attention. Key actions that the EU and Member States could consider as part of the strategy are summarized in the table below.

[13] White Paper on Public Export Finance in the EU, ExFi Lab, July 2020, reissued in April 2021 https://ekf.dk/media/marbx1f3/re-issue_white_paper_on_public_export_finance_in_the_eu_april-2021.pdf

Table 1: Summary of recommended actions for an EU Export Credit Strategy

Voluntary actions at MS level *(Software)*	Actions at EU level *(Software)*	EU Export Credit Facility *(Hardware)*
Exchange on best practices and shared experience (e.g., through an Association of MS ECAs?) Harmonisation (e.g., reinsurance. definition of European content) Whole-of-Government approach at MS level Input/contribution to EU Export Credit Strategy Advocacy and communication Shared services and technical assistance to certain ECAs (e.g., via a cooperative company)	Formulation, monitoring & evaluation of EU Export Credit Strategy aiming to enhance EU export competitiveness and advance EU Strategic Agenda Enhanced cooperation between Export Finance and other forms of official finance (as suggested with the Global Gateway Initiative) Whole-of-Government approach at EU level across policies (EU Agendas), institutions and rules affecting export finance (e.g., EU state-aid) Support (through cost-sharing) for actions at MS level: harmonisation, communication, shared services and technical assistance.	Priority financial functions 1. Normal and Strategic Pure Cover Function delivered through MS ECAs (*wholesale*) 2. Refinancing Function (*retail*) 3. Concessional Finance Function

Source: Consultancy team assessment

At a later stage, several additional functions could be considered such as credit enhancement, CIRR support, public direct lending, equity co-investment and funding of E&S studies and feasibility studies.

Several significant developments have occurred since 2022 and will likely continue to affect export finance markets in short to medium-term. These include the agreement on the modernisation of the Arrangement; the war in Ukraine, rising interest rates, and new agendas adopted by the EU, including the Green Deal Industrial Plan for the net-Zero Age, and the draft Critical Raw Material Act. These developments would probably strengthen the demand for more export credits and will further increase the relevance of the actions proposed as part of an EU Export Credit Strategy.

Table 2: Key gaps faced by European exporters and overseas investors, main sources and severity

Gaps experienced by exporters	Sources of the gaps	Impact
a. MLT export credit and investment insurance		
1°) EU exporters of heavy equipment and engineering services lack access to cover in riskier destinations, especially for large projects.	Insufficient capacity (no capacity, or capacity fully used) from private and public insurers, especially for large transactions or long maturities in riskier destinations. The insurers' lack of capacity may be due to lack of scale, or the industrial structure of Member States (global champions in small or medium economies) leading to risk concentrations in certain sectors and geographies.	High
2°) EU exporters face difficulty organising EU-wide multi-sourcing.	Non-national EU content and value chains seldom recognized by MS. Definition and calculation of national content differ across different MS. Challenging for exporters to organise multi-sourced transactions that require co- or reinsurance across different MS.	High
3°) EU heavy equipment and engineering exporters face competition from firms supported by products that are not bound by the Arrangement (untied export/investment/import loans).	Unlevel playing field: Most MS MLT business consists of tied export finance as defined by the Arrangement. Few MS ECAs cover untied loans, in small volumes. New MS schemes (such as untied investment loans) may have a cover capped at 80% if MS plan to comply with general guidance how to exclude state-aid. Unlike other OECD participants, the EU transposes the Arrangement into law (with delay).	Medium
b. MLT export credit and investment financing		
4°) The financing terms available from commercial banks in the EU are less attractive than direct lending available elsewhere (US Exim, EDC, UKEF, JBIC).	Unlevel playing field: Export finance in the EU is provided by commercial banks rather than direct public lending. To offer competitive pricing, EU banks need to refinance the loans on attractive (near-sovereign) terms. Many MS lack an effective refinancing system.	High
5°) In several MS (including some with well-established export finance systems), commercial banks have limited interest in financing export credits, (even though they are covered by credit insurance)	In some MS, local banks lack export finance capability, while international banks have limited interest in providing MLT export finance to local firms. In MS with low credit ratings, banks cannot finance export credits on acceptable terms.	Medium to High
6°) Lack of financing for small MLT transactions	Export finance is labour-intensive. Small transactions are unprofitable for banks.	Low to Medium
7°) Exporters in many MS cannot offer their overseas clients fixed interest rates on attractive terms (CIRR).	Most MS lack an effective interest rate fixing system able to provide CIRR.	Medium
8°) In multi-sourced exports, tranches from MS lacking refinancing or CIRR schemes are saddled with more expensive, less competitive financing.	Absent/ineffective refinancing or CIRR scheme in many MS. Limited recognition of non-national EU content by MS ECAs.	Medium to High
c. ST export credit insurance		
9°) ST covers (whether private or public) are scarce for exporters in certain MS, notably in Central Europe and the Baltic region.	Market structure, no private offer and weak ECAs, economy and institutions lack scale, Small transactions, especially on a single-risk basis, are unprofitable for insurers.	High

Gaps experienced by exporters	Sources of the gaps	Impact
10°) EU exporters report difficulties in accessing cover for maturities of 180-720 days and ST single-risk transactions.	Limited appetite of private market for transactions exceeding 180 days or single risk. Unlevel playing field: Exporters in other countries can be covered by their ECA. Consistent with STEC rules, EU exporters mostly rely on private market insurance. STEC waivers can be sought, but the tedious process and restrictive conditions (e.g., high pricing) are considered as dissuasive by some MS and exporters.	Medium
11°) Covers for exports to non-OECD countries (notably Cat. 4 to 7 countries, and sometimes others) are scarce.	Lack of private and public risk capacity for certain markets, especially riskier destinations.	Medium
12°) Access to ST covers is challenging for SMEs	Supply-side: serving SMEs can be challenging for insurers (in terms of cost and risk) Demand-side: SMEs lack awareness and capacity managing financial risks in foreign trade.	High
d. ST export financing		
13°) In several MS (including some with well-established export finance systems), exporters cannot finance their ST export receivables, even if covered by credit insurance.	In some MS, local banks lack trade finance capability, while international banks serving the local market have limited interest in providing ST trade finance to local firms, especially SMEs.	High
e. Domestic support		
14°) Exporters executing export projects that are large relative to their size have difficulty obtaining sufficient credit facilities including funded (pre-shipment working capital) and unfunded (bonds). By contrast, heavy equipment manufacturers outside the EU (e.g. Korea) receive substantial state supported to finance pre-shipment operations or issue performance bonds.	Commercial banks unable to extend bonding or working capital facilities that are large relative to size of exporters (due to perceived credit risk and the unfavourable Basel III treatment). Few MS have agencies or state schemes that are able to support export bonding or pre-shipment working capital.	Medium to High
f. Financing of equity investments		
15°) Some investors (PPP project developers) report difficulty in accessing equity co-investment to complement their own equity investment.	*Patient capital* with appetite with PPP-style return and risk exposure is scarce, especially in riskier geographies. Unlike some global competitors, most MS lack a dedicated equity investment programme to co-invest with their national investors.	Low to High
g. Financing of strategic imports		
16°) MS provide little official support to secure and finance the import of strategic commodities, unlike East Asia economies.	Few MS provide support for strategic imports, and these systems are seldom used. Level of cover for new schemes is capped at 80% (in relation with EU state-aid rules – cf. a).	Medium to High
h. Coordination with concessional finance		
17°) EU exporters face competition from exporters of other countries that make use of tied aid or untied aid that is de facto tied and are able to mix export finance on market terms with aid or development finance from	Unlevel playing field: export finance in the EU must be offered on market terms, except for a few narrowly defined exceptions. The volume of EU or MS tied aid supporting EU exports is minimal. Untied aid is often de facto tied to procurement from the donor country.	High

Gaps experienced by exporters	Sources of the gaps	Impact
dual-mandate agencies (combining development objectives with national business interest).	EU companies face unfair competition from distortive non-OECD State Owned Enterprises.	
18°) EU exporters face competition from exporters of other countries in which ECAs, DFIs and other government agencies cooperate closely between themselves and with exporters to originate and finance key transactions.	Whole-of-Government approach is largely inexistent or nominal in the EU.	High

Table 3: Recommendations for action at MS and EU levels

Recommendations for action	Entities
A. Upstream software actions: strengthen policy and institutional capability	
A1. Strengthen EU and MS policy making capability for export finance *Impact on gaps: indirect (but substantial) through improved MS and EU policy making*	
L1. MS GAs and ECAs coordinate approaches, exchange information (on insured flows, EU global market share, practices of global competitors), disseminate best operating, policy-setting and monitoring practices. Continue informal working groups such as the ExFi Lab and the ECA CEO gatherings. MS ECAs may consider creating an association (and a shared service company).	MS GA/ ECAs
L2. EC advocates and supports MS coordination, (including through the ECG), cost-shares TA to MS with less-well established export finance systems.	EC
L2. EC strengthens its export finance advocacy and policy capability (benchmarking EU performance in export and export finance markets, monitoring & evaluation of gaps and actions take to address them, publishes an annual flagship report on the competitiveness of EU export/ investment finance systems). This includes the definition of an EU content.	EC
L2. EC implements WoG approach across related EU rules (State-aid, CRR, IPI, FSR, Arrangement) and the external strategic agenda (Global Gateway, etc.) so that they incorporate the perspective of export competitiveness and financing.	EC
A2. Institutional strengthening and efficiency of MS ECAs *Impact on gaps: indirect (but substantial) through more efficient ECA underwriting and support*	
L1. MS ECAs that lack scale or technical capacity may seek assistance from other MS ECAs for specialised tasks such as ESG assessments.	MS ECAs
L2. EU incentivises cross-support among MS ECAs for specialized tasks such as ESG assessments. Shared services may be provided by MS ECAs directly, or through an association of MS ECAs or a service company (similar to EDFI).	EC
L2. Arrangement updates and Common Lines could be more flexibly requested by the EU and implemented by MS ECAs. The transposition of the Arrangement into EU hard law prevents it. Coming back to soft law, like other Participants, would help.	EC
B. Downstream (software and hardware) actions addressing specific gaps	
B1. Expand access of European exporters to covers by increasing the risk capacity available to MS ECAs *Impact on gaps: high through increased underwriting capacity*	
L1. MS guardian authorities and ECA explore strategic alliances with the private sector (through co-insurance or other means) to improve the provision by private insurers in underserved segments of the market (e.g., SME exporters, smaller MS), at least for ST covers to developed markets (marketable risks).	MS

Recommendations for action	Entities
L1. MS ECAs expand their use of reinsurance among themselves (with standardized agreements) from the private sector to reduce their risk concentrations and supplement their underwriting capacity in countries and sectors with large exposures	MS ECAs
L2. EU supports the development of a harmonised framework for reciprocal co-insurance / reinsurance among MS ECAs and promotes better recognition of non-national *EU content*.	EC
L3. EU establishes Pure Cover Function reinsuring MS ECAs, either across their whole portfolio, or for certain types of transactions, or in certain sectors or categories of country risk, including for *EU content* not supported by MS systems.	EU Facility
B2. Increase exporter access to competitive funding of export credits by facilitating the refinancing of transactions booked by banks *Impact on gaps: high through refinancing especially for MLT business*	
L1/L2. Well-established refinancing agencies in certain MS could offer to refinance the export credits underwritten by eligible ECAs in other MS, with TA support from the EU if required.	MS agency / EC
L3. EU Facility refinances banks for transactions covered by MS ECA, including for EU content not financed by the originating MS.	EU Facility
B3. Broaden the opportunities for EU exporters to <u>access other forms of official finance and contribute to the EU's external strategic agenda</u> *Impact on gaps: high for exports of heavy equipment and engineering services to developing countries*	
L1. MS encourage dialogue between export and development finance at GA and ECA/DFI levels and monitor progress.	MS GA, ECA, DFI
L2. Advocacy, internal dialogue, and if required limited cost-sharing, so that export finance is reflected in operation of the Global Gateway and other relevant EU initiatives as part of a WoG approach.	EC
L3 EU establishes a tied aid function that can be used under the Global Gateway or other relevant EU initiatives for certain sectors or types of transactions, matching the practices of other leading exporting nations. The Concessional Finance Function allows EU exporters to competitively tender for a broader range of projects.	EC
C. Additional actions that could be considered to address other gaps faced by EU businesses	
L4. EU Facility credit-enhances the covers provided by eligible ECAs in MS with lower credit ratings to make these covers bankable, allowing banks to support export transactions that otherwise could not be financed. This credit enhancement may be subject to quality-assessment of the originating MS ECA. Alternatively, EU Facility could directly finance export credits covered by MS ECAs for which commercial banks have no appetite.	EU Facility
L4. EU Facility refinances banks and/or provides fixed rates (CIRR) for eligible export credit transactions underwritten by ECAs backed by the respective MS. The refinancing may be subject to the assessment of the originating ECA.	EU Facility
L4. EU Facility to co-invest alongside EU business investors in PPP or extractive projects overseas.	EU Facility
L4. EU Facility to fund E&S Feasibility studies.	EU Facility

<u>Notes:</u>

GA: Member State guardian authorities supervising the respective ECAs.
L1: Level 1 = *software* action undertaken by MS and ECAs with no EU-level institutional involvement or financial support.
L2: Level 2 = *software* action led or supported by the EU, with limited institutional and no risk commitment. The EU support may mix awareness-building, advocacy, convening power, cost-sharing incentives and regulatory rules.
L3: Level 3 = priority *hardware* action undertaken by an EU Facility, complementary to MS agencies. These interventions entail substantial EU financial commitment or risk exposure.
L4: Level 4 = additional *hardware* action that could be undertaken by an EU Facility to address other gaps faced by EU businesses.

Source: Consultancy team assessment

1. INTRODUCTION

The purpose of this Final Report is to provide a logical framework, make recommendations and identify suitable delivery mechanisms for an EU Export Credit Strategy. This introductory chapter reviews the background and rationale for this report and the methodology followed by the consulting team.

In the report, *Export Credit* refers to financial instruments benefiting from official finance support (loans, guarantees, insurance, grants) aiming to facilitate cross-border trade and outbound investments. Official support can be for short-term transactions (ST, meaning less than two years) or medium-and long-term (MLT, meaning two years or more). The support may include domestic instruments required for cross-border business such as working capital or bonding lines.

1.1. Background and rationale for an EU Export Credit Strategy

To win contracts overseas, EU businesses need better access to export and investment finance. This is especially the case for exports of heavy equipment, the construction of large projects overseas, and cross-border investment in infrastructure, all of which require large financing volumes over long maturities. The EU has deep financial markets with considerable experience in financing cross-border business. Nonetheless, many of these transactions cannot be completed without official support from governments. To provide this support and remain competitive on global markets, most OECD countries, and many non-OECD countries, have established Export Credit Agencies (ECAs) backed by their respective states.

To avoid a subsidy race between governments providing export credits, some high-income OECD countries, including the EU, have established a multilateral framework - the so-called Arrangement for Officially Supported Export Credits or the Arrangement - that harmonises the terms under which states can support medium-to-long term (MLT) financing tied to exports of heavy equipment. The Arrangement is regularly updated to incorporate developments that have taken place in global markets. On 31 March 2023, the Participants reached an in-principle agreement on its modernisation, expected to be finalised in the coming months. The modernisation of the Arrangement as such is not part of the scope of work for this study, but the implications are of central importance for an EU Export Credit Strategy.

This system has been effective in supporting global exports, but it now faces major limitations.

In seeking finance for their operations in third-country markets, EU businesses experience a wide range of market gaps, referring to situations when EU exporters do not have access to export finance instruments comparable to those supported by the governments of other global competitors, or these products are not delivered in sufficient volumes or effectively, or on sufficiently competitive terms (notably with respect to pricing and maturity).

The consequences of market gaps for EU businesses range from losing business or having to carry high-risk receivables due to lack of covers for exports to certain overseas markets, to not being able to refinance those receivables (or refinancing at an excessive cost or having to providing onerous security to their financiers), to being unable to find financing for multi-sourced contracts, to not being able to bid for certain projects overseas because they cannot put in place a bid bond or a performance bond, to losing contracts because competitors outside the EU can offer more attractive financing terms to buyers overseas thanks to more extensive or more competitive official support provided by their government.

The gaps span all key segments of export finance, including lack of access to covers and financing solutions for ST, MLT and other export finance instruments. The precise nature, extent and source of the gaps faced by exporters vary depending on the size, industrial structure, markets conditions, and institutional set-up of each Member State.

Naturally, the export finance systems of Member States focus on national content or business interest and often do not support the combined EU sourcing content or business interest.

Besides country-specific factors, EU export finance systems also face more systemic challenges. The global playing field in export finance is unlevel in several major respects.

- The Arrangement, although useful as a tool to bring about a more level global playing field in export finance, faces limitations. Some OECD participants (mostly outside the EU) extensively support their exports and projects overseas through instruments that are not covered by the Arrangement, such as untied investment loans. More fundamentally, leading global competitors outside the OECD (such as China, India) do not participate in the Arrangement.

- Key competitors (such as China, Japan, Korea, and more recently the USA and the UK) have adopted a Whole-of-Government approach to coordinate state agencies, bilateral aid, and the private sector to support the origination[14], implementation and financing of key exports and cross-border investments. By contrast, policy and institutional silos in the EU pre-empt coordination across agencies and programmes.

These adverse developments need to be addressed by suitable EU policies and instruments. As noted in the Communication “Trade Policy Review - An Open, Sustainable and Assertive Trade Policy” of 18 February 2021, EU exporters face increasing competition in third-country markets from firms benefiting from official (i.e., government-provided) financial support granted by their governments. The Trade Policy Review calls for “*a better level playing field for EU businesses on third country markets, in which they increasingly have to compete with the financial support foreign competitors receive from their governments*”. It calls for the EU to “*develop its tools to confront new challenges and protect European companies and citizens from unfair trading practices, both internally and externally*”.

According to the ExFi Lab (an informal network of experts from MS ECAs, their guardian authorities, the Commission and the European Council Secretariat), “*to remain competitive and achieve its ambitious international goals, the EU must recalibrate, adapt and rethink how to use the capacity of the public export systems to best support its exporters and businesses abroad*". In simple terms: “*take action or fall behind!*”[15].

The Commission is now exploring options for an EU export finance aiming to better support EU exporters and foster a more level playing field for EU businesses in third-country markets, while supporting the EU’s broader internal and external policy and strategic agendas (e.g.., the Green Deal, Digital Agenda, Global Gateway, NDICI Global Europe, Africa or Indo-Pacific Strategy). This feasibility study has been contracted as part of that exploratory process.

The Council of Ministers of the EU, in its Ecofin conclusions of 15 March 2022, has welcomed this course of action. In particular, the Council supports the design of a comprehensive strategy for exports, trade and investments, as envisaged in the ExFi Lab White Paper of July 2020 and the Trade Policy Review of 18 February 2021. It welcomes the feasibility study as an opportunity to conduct a comprehensive diagnosis of the needs of exporters and assess the potential for enhanced coordination and other interventions at EU level, including a possible EU export credits facility, to complement national export credit facilities.

[14] Origination refers to the process through which businesses, financiers and public administrations identify, screen, develop and conduct a preliminary structuring of transaction and project opportunities. In the case of project or export finance transactions, origination leads to the appraisal and negotiation stages, itself followed by financial close (meaning the signing of financing agreements) and eventually disbursement, once the conditions precedent to signing, effectiveness and drawdown are met.

[15] White Paper of Public Export Finance in the EU, ExFi Lab, July 2020, reissued in April 2021 https://ekf.dk/media/marbx1f3/re-issue_white_paper_on_public_export_finance_in_the_eu_april-2021.pdf

1.2. Principles of an Export Credit Strategy

To address these country-specific and systemic challenges, policymakers in the EU and Member States could formulate a strategy aiming to restore export competitiveness while advancing the EU's external agenda.

In the area of export finance, the strategy would a) generally aim to improve the overall efficiency and impact of EU export finance systems by strengthening policy making, institutional capacity, and operating procedures if required, encouraging ECAs to share best practices and work even better together, leaving them in a stronger position to face challenges (*upstream* improvements), and b) specifically help Member States address the concrete gaps faced by EU businesses (*downstream* improvements) to support exports, including exports of *European content*, that may fall outside the mandate of MS ECAs.

The challenges experienced by European exporters are pervasive, not limited to business regulated by the Arrangement. Accordingly, the strategy also encompasses other key forms of ST and MLT official finance supporting cross-border trade and investments.

In parallel, the strategy would aim to level the playing field for EU businesses by broadening their access to opportunities afforded by other forms of official finance supporting the EU's external agenda. Access to these opportunities is currently much broader for business from donor countries outside the EU.

Based on the terms of reference of the study, the strategy and actions should embody EU aims, values and principles. These include:

- Subsidiarity: any facility created as part of the strategy must complement, rather than replace, interventions at Member State level.
- Additionality: the measures should catalyse and supplement, not crowd out, commercial insurance or financing available from the private sector, on terms that do not distort the operation of commercial markets.

The strategy and actions should also fully comply with the international regulatory frameworks. These include the OECD framework (notably its environmental, social and governance guidelines), WTO agreements as well as EU rules (including state-aid rules) and the Arrangement, which the EU transposes into law.

1.3. Methodology

To conduct this study, the Commission’s Directorate General for Trade (DG Trade) appointed a consulting consortium led by AETS and managed by Equinoccio as lead implementing partner. The contract was implemented in close cooperation with DG Trade by a group of experts consisting of Paul Mudde (team leader), Henri d’Ambrières, Arnaud Dornel and Federico Bilder (the Study Team). The methodology for this study involved the following steps.

The study team first compiled information available from public sources through desk research and conducted numerous interviews with Members States, ECAs and related entities, several exporters, banks, insurers and brokers and their business associations to gather additional information and seek the views of key stakeholders. These included:

- Several corporates and related business associations such as Business Europe, European International Contractors (EIC) and the European Rail Supply Industry Association (UNIFE).
- Most leading EU banks active in export finance as well as the European Banking Federation (EBF).
- Several private-sector credit insurers and brokers as well as the International Credit Insurance and Surety Association (ICISA).

- all MS ECAs and some related public agencies involved in the management of export credits.
- international DFIs including the EIB and several bilateral development agencies.
- all Member State authorities (except Malta).
- various Directorates of the Commission including the Directorates responsible for trade (DG Trade), climate action (DG CLIMA), competition, (DG Comp), the internal market, industry, entrepreneurship & SMEs (DG GROW), economic and financial affairs (ECFIN), financial stability, financial markets and capital markets (DG FISMA), international partnerships (DG INTPA), neighbourhood and enlargement negotiations (DG NEAR). The European External Action Service (EEAS) was also interviewed.

This information was reflected in an Interim Report (see summary in Annex I), which describes the challenges experienced by EU exporters and investors and the complex environment in which MS ECAs operate. This interim report was validated by DG Trade in August 2022.

Following the desk research and interviews phases, the team launched an online survey to seek more detailed feedback from a broader universe of stakeholders. The survey was answered by 240 different stakeholders. These include representatives from 22 Member State authorities, 57 ECAs and related entities, 11 DFIs, 78 corporates, 54 commercial financial institutions, 16 private insurers and brokers from the 27 EU countries. Through a series of tailored questionnaires, the survey sought the respondent's views prevailing situation regarding public instruments offered to exporters, overseas investors and banks, perceived gaps faced by EU exporters when facing other global competitors and possible solutions to bridge these gaps. The main conclusions of the survey are attached in Annex III.

To conclude this consultation exercise, three workshops were conducted in November and December 2022, allowing the team to receive more detailed feedback and disseminate some initial findings.

- A private workshop with the users (corporates and banks) of the products offered by the MS ECAs, as well as with private insurers and insurance brokers, was held in Brussels on 22 November 2022. The workshop was attended by 103 private sector representatives from 17 EU countries.
- A public workshop with representatives from various DGs of the Commission (and the EEAS), Member States authorities, ECAs and related public entities as well DFIs including the EIB. The workshop was held in Brussels on 24 November 2022. It was attended by 85 public sector representatives from 23 EU countries.
- A civil society organisation (CSO) workshop with non-government organisations (NGOs), think tanks and academia was held on-line on 15 December 2022 and was attended by 13 civil society representatives.

The participants in the workshops were invited to express their own professional views (not necessarily reflecting the official views of their organisations) under the Chatham House rules, which stipulate that the identity and affiliation of participants should not be disclosed. Key findings of the stakeholder workshops are attached in Annex II.

The report is organised as follows.

Chapter 1 (this introduction) briefly summarises the background and purpose of this report.

Chapter 2 examines trends in European exports and their job impact, the role of ECAs in facilitating cross-border trade and investment, their additionality versus private market providers, and how the official support extended by EU countries and their ECAs compares with other leading exporting nations.

Chapter 3 identifies the gaps experienced by EU businesses in financing their international operations, and challenges faced by ECAs, Member States, and the EU as a whole in addressing these gaps.

Chapter 4 presents a framework for an EU export credits strategy, focusing on *software* measures that do not entail risk exposure or capital commitment.

Chapter 5 examines the contents of the EU Export Credit Facility which would deal with the *hardware* aspects of an EU Export Credit Strategy and would entail an EU budgetary commitment,

Chapter 6 sets out the main conclusions and recommendations.

2. ROLE AND CHALLENGES OF EUROPEAN EXPORT FINANCE SYSTEMS

2.1. EU export trends and market share

Intra-EU exports account for approximately 60 percent of the total exports of Member States. EU firms naturally have a dominant position in this segment. In the last decade, their share in intra-EU exports has remained stable – or in fact increased slightly, to about 62 percent in 2020.

However, for sales to destinations outside the EU (extra-EU exports), EU firms have lost their leadership: in the decade 2010-2020, their market share for exports of merchandise goods fell by one percentage point to less than 19 percent. Meanwhile, the share of Chinese exporters in these markets rose by 6 percentage points and now surpasses 23 percent. This is especially the case for capital goods exports, for which EU-27 exports lost 3 percentage points to less than 19 percent, while Chinese exports gained 8 percentage points to over 31 percent. US and Japanese export market shares followed a trend similar to EU exports.

Table 4: Market share of EU-27 exports versus competitors for third-country markets in 2010-2020

	Total merchandise goods exports (%)		Of which capital goods exports (%)	
	2010	**2020**	**2010**	**2020**
China	17.2	23.3	23.6	31.5
EU-27	19.2	18.2	21.5	18.6
USA	11.2	10.2	12.3	10.0
Japan	7.2	5.0	11.2	7.2
Other OECD	14.8	13.7	12.6	11.0
Rest of the world	30.5	29.6	18.8	21.7
World	100.0	100.0	100.0	100.0

Source: UN Comtrade data

Most of the EU's decline in export market share arose in riskier markets, which the OECD classifies the OECD Country Categories 4 to 7. In these markets, the EU lost on average 5 percentage points during the last decade - from 27 percent to 22 percent.

Table 5: Market share of EU-27 merchandise goods exports to OECD Country Risk Categories 4-7 (2010-2020)

	Total merchandise goods exports (%)		Of which capital goods exports (%)	
	2010	**2020**	**2010**	**2020**
All countries	19	18	22	19
Category 4	31	22	36	22
Category 5	31	27	39	34
Category 6	28	23	35	28
Category 7	19	14	23	16

Source: UN Comtrade data, OECD Country Risk Category classification prevailing as of January 2022

During the decade 2010-2020, Chinese exports increased their share in the same markets by 10 percentage points on average, from 14 to 24 percent. Similar trends can be observed at the regional level. This trend is particularly striking for exports of capital goods. For example, in Africa (where most countries are classified under OECD risk categories 4 to 7), China's market share of capital goods exports increased from 16 to 29 percent during the same period.

Similar trends can be identified for international contracting, an industry of strategic importance to the EU given its job impact and role in the construction of infrastructure and manufacturing plants. The league tables compiled by the Engineering News Report indicate EU firms remain global leaders, accounting for 40 percent of extra-EU exports of engineering services, but their market share has fallen sharply in riskier regional markets, such as the Middle East, Asia and Africa. In Africa in particular, Chinese international contractors achieved a commanding market share in Africa estimated at 61 percent in 2020, versus 39 percent in 2010. Meanwhile, the market share of European (mostly EU-27) international contractors in Africa fell from 37 to 20 percent[16]. Likewise, the share of EU international contractors declined from 32 to 25 percent in the Middle East, and from 38 to 24 percent in Asia.

These trends can be explained in part by the export and development finance approaches pursued by the Chinese government through policy institutions such as China Development Bank, China Exim Bank, and the national ECA-insurer Sinosure, as part of the Going Global Strategy of 1999 and the Belt and Road Initiative of 2013. In developing country markets, Chinese contractors and equipment suppliers win contracts through two main channels. On the one hand, contracts financed by multilateral agencies are procured through international competitive bidding. Chinese enterprises mostly win based on cost. On the other hand, developing countries pursue negotiated contracts. For these contracts Chinese firms can arrange financing in tandem with equipment suppliers, official development and export finance institutions and bilateral ODA, as part of a *Team China approach*. Chinese official finance is tied to procurement of goods and services from China. Its official finance practices are not governed by the OECD Arrangement or OECD Development Assistance Committee (DAC).

Export finance is a major factor explaining the rise in Chinese equipment and engineering exports and the decline of EU exports in riskier markets. Beyond export finance, Chinese firms also enjoy various other sources of competitive advantage such as a different product orientation serving less affluent customers, lower cost arising from looser ESG and anti-corruption standards, economies of scale in its domestic market, and the subsidies received by SOE exporters. These aspects have been explained in the Interim Report (see in Annex I the executive summary of Interim report)

2.2. Employment impact of EU exports

Exports are essential to the EU's economy and prosperity: they create jobs, hard currency income and tax revenues for the exporting countries. According to a study commissioned by DG Trade[17], EU sales of goods and services to third-country markets account for 16 percent of the EU's combined value added and 14 percent of total employment in the EU – over 38 million jobs in 2019, of which approximately 2/3 for goods exports and 1/3 for services exports. Besides employment in the EU, extra-EU exports also support another 24 million jobs in other parts of the world, through their participation in global supply chains.

As estimated by the study, each million Euro of extra-EU sales supports on average 12 jobs – 10 jobs in the exporting country plus 2 jobs in other Member States. However, the job impact varies considerably from country to country. Although the causality and transmission mechanisms may warrant more detailed analysis, employment statistics indicate that impact of extra-EU exports is high for Member-States with less well-established export finance systems: over 50 jobs in Bulgaria and Romania; 44 jobs in Croatia; over 25 jobs in Poland, Latvia and Slovakia; and over 20 jobs in Estonia, Portugal, Lithuania, Hungary or the Czech Republic. In Member States with well-established export finance systems, such as Italy, France or Germany, EUR 1 million in extra-EU exports supports about 10-13 jobs.

[16] Study team's calculation based on the league table data for the world's top 250 international contractors published by Engineering News Report (ENR Report). ENR league tables track European rather than EU firms. The top 250 international contractors include 44 European firms, of which 42 EU firm with cross-border sales exceeding USD 200 billion, and 2 British firms with a combined cross-border sales volume of USD 7 billion.

[17] Kutlina-Dimitrova, Zornitsa & Rueda-Cantuche, José Manuel, 2021. "More important than ever: Employment content of extra-EU exports," DG TRADE Chief Economist Notes 2021-2, Directorate General for Trade, European Commission.

From this perspective, an EU Export Credit Strategy should focus on the overall employment benefit for the EU, in contrast with zero-sum approaches that may be pursued by Member-States that support the creation of jobs in the home country only, possibly at the expense of jobs in other Member States.

2.3. Global landscape for official support and role of ECAs

Export finance is a central part of the competitive offering of exporters. Export finance has three main components:

- **Supplier credits**, referring to the deferred payment facilities (also known as inter-firm trade credit, or commercial credit) that exporters grant to their buyers overseas; supplier credits are mostly short-term although can also be medium- or long-term. Supplier credits can be covered by trade credit insurance. They can be refinanced by specialized facilities such as factoring or other receivable discounting facilities, or by general banking facilities raised by the seller.
- **Buyer credits**, meaning the credit facilities that exporters help arrange, usually with export finance banks, allowing their buyers overseas to pay overtime for the goods or services delivered under the export contract. These facilities tend to be medium or long-term. Buyer credits support export contracts tied to the national origin of the goods or services, or at least to a national interest.
- For the OECD countries that are Participants in the Arrangement, the financial terms of MLT export credits (supplier credit or buyer credit) are specified in the Arrangement, which applies to all export contracts other than military equipment or agricultural commodities.
- **Other products** that exporters require to finance their cross-border operations, such as investment loans, import loans, pre-shipment working capital finance, packing credits, or bonding lines.

Strictly speaking, export credits refer to a sub-type of export finance - usually buyer credits officially supported by governments that have a maturity of at least two years and are tied to the national origin of the goods. In this report, the term *export credit* is understood in a broad sense and includes official support extended to other types of export or investment finance.

In theory, export finance may be sought from private-sector institutions on purely commercial terms, especially in developed markets endowed with a strong financial infrastructure featuring experienced commercial banks and underwriters. Overall, the market is large. In the area of insurance, international political risk and credit insurers have formed the Berne Union (BU) – the global association of leading credit and political risk underwriters. BU members together provide annually in the order of USD 2.5 trillion of payment risk protection to banks, exporters and investors, equivalent to 13 percent of global trade in goods and services.

In practice, however, export finance is fraught with market gaps. Many types of transactions cannot be completed unless their financing is facilitated by official support. Most of the capacity available from private underwriters or funding from banks is for short-term transactions in low-risk destinations. The private insurance market has limited capacity and is highly selective in underwriting transactions with riskier markets or obligors or involving medium- to long-term maturities. In some countries, the private insurance market is not well developed even for short-term risks. Likewise, export finance banks may not have appetite to finance smaller transactions or serve exporting SMEs. To address these and other market gaps hindering international trade and investments, most successful exporting nations within and outside the OECD have established ECAs to manage and channel the official support they extend to the financing of exports (in short, official export finance).

ECAs are a major tool of export promotion, industrial policy and green transition. However, their public policy impact has been quantified through ad hoc estimates rather than comprehensive studies. For example, from US Exim Bank reports, one can infer that one dollar of US Exim Bank cover and direct loans supports on average about two dollars of exports (in other words, a trade multiplier of 2x).

Beside their impact on incremental exports and global market share, the rationale for an export credit strategy can also be assessed against their employment impact. As an illustration of this approach, US Exim Bank's official mandate is to "*support American jobs by facilitating the export of US goods and services*". According to US Exim Bank estimates, its annual production of USD 5.4 billion in covers and direct loans supported exports of USD 10.8 million and 37,000 US jobs in 2020. Likewise, in its annual report for 2019-2020, UK Export Finance estimated that its annual production of GBP 4.4 billion in guarantees and direct loans supported 47,000 jobs. In 2019, EDC reportedly facilitated CAD 104 billion in export sales and investments and supported around 450,000 Canadian jobs.

States provide official export finance in three main forms: insurance (through ECA insurers), guarantees, and financing (through an Exim bank or some other public support to commercial banks). Whichever the form of its provision, official support to export finance must comply with WTO rules, especially the Agreement on Subsidies and Countervailing Measures (SCM Agreement). This agreement requires that the guarantee premium charged by ECAs should be high enough to cover the long-term operating cost and losses of the programmes they run. Likewise, export finance loans cannot be subsidised. The interest rates charged for loans should not be below the funding cost of the entity that provides them (or below the CIRR fixed rates published by the OECD in the case of loans with fixed rates within the scope of the Arrangement).

MS ECAs must comply with the Arrangement when they extend medium-and-long term export credits, as well as EU rules such as those on state-aid including the Short-Term Export Credit Insurance Communication (STEC), which aims to regulate competition between private and public insurers in ST export credit insurance and the Commission's Notice on official guarantees which sets the maximum percentage of cover at 80%. This 80% cap does not apply to officially supported export credits but does apply to other new ECA insurance operations. The activities of EU banks using the covers extended by ECAs or private insurers are impacted by the Basel III framework and the CRR which transposes it into EU law.

Among BU members, official ECAs account for approximately 30 percent of BU short-term covers and 90 percent of the medium- and long-term flow. In China, Sinosure, the world's largest ECA, covers approximately 22 percent of the nation's exports. The combined exposure of the world's ECAs on cross-border risks is estimated at about USD 1.5 trillion as of end 2020, of which nearly USD 1 trillion on developing countries - this includes about USD 270 billion in ST exports, USD 540 billion in MLT exports and investments and USD 150 billion in Paris Club claims.

Official export finance is a key component of the global official finance architecture. Besides export finance, global official finance also includes international development, reconstruction, and stabilization finance (in short, international development finance), spearheaded by the World Bank and the IMF and other multilateral and bilateral agencies. The loans or grants that multilateral or bilateral development banks extend to borrowers may finance the procurement of goods or services from exporters. Bilateral aid may or may not be tied to exports or the business interest of the donor country.

Official export finance and international development finance have comparable magnitudes – probably in the order of USD 1 trillion – and share common features, such as the emphasis on ESG considerations. However, they differ in their primary purpose: official export finance (often loosely defined to include investment finance) advances the business interests of the states extending it, whereas international development finance is meant to be driven by the development impact on the receiving countries.

The global architecture for official export finance established by OECD countries (including the EU) now faces two simultaneous challenges:

- On the one hand, a growing part of the export finance business supported by some OECD governments are untied financings outside the scope of the Arrangement (on average 75 percent of their MLT business, and for some leading competitors up to 90 percent). In this area not only ECAs are active but also DFIs. Meanwhile, 86 percent of the MLT activities of MS ECAs fall under the scope of the Arrangement. Moreover, the EU and its Member States transpose the Arrangement into *hard law*, while other OECD countries follow it more flexibly as a gentlemen's agreement, with no regulatory enforcement or constraints.
- On the other hand, several leading competitors of the EU, both non-OECD countries and some OECD countries, have found ways to combine export finance and development finance support – among others in the form of aid that may formally untied, but in practice tied to exports or investments of the country providing international aid.

These global challenges faced by the export finance systems of Member States could be addressed by the EU in coordination with other OECD partner countries. Besides these global challenges, EU export finance also faces internal challenges, explained below.

2.4. European export finance systems and ECAs

Like other OECD and non-OECD countries, Member States provide official support to their respective exports through export credit agencies backed by the respective national budgets.

Member States (especially those in Western Europe and Scandinavia) operate some of the world's oldest and most experienced export finance systems.

On average over the period 2019-2021, MS ECAs had an annual MLT cross-border production volume of approximately EUR 53 billion, equivalent to approximately 3 percent of the total capital goods exports of Member States or 8 percent of their capital goods exports to third-country markets. The corresponding MLT exposure was EUR 340 billion.

Although estimations are challenging, the order of magnitude seems comparable to the combined volume of ECAs in the USA (US Exim Bank), Japan (Nexi and JBIC), Korea (K-Sure and K-Exim), the UK (UK Export Finance) and Export Finance Australia (referred below as the OECD-5) or China (Sinosure and China Exim). According to estimates, the combined MLT cross-border volume of Sinosure and China Exim is in the order of 1.5 times the combined business of MS ECAs[18].

Compared with MLT business, the ST volume officially supported by EU ECAs is much smaller – less than EUR 22 billion on average over the period 2019-2021. By comparison, the OECD-5 had a combined ST production of EUR 157 billion, and Sinosure had an annual ST business volume of EUR 486 billion. The modest role played by MS ECAs in the ST segment reflects in part the depth of the European ST private credit insurance market and the dominant position (historically a legal monopoly) enjoyed by leading Asian ECAs for export credit insurance in their respective export markets, including for marketable risks.

Besides just transaction volumes, it would also seem useful to assess the public policy and business impact of Member State systems and how they fare in comparison with key competitors.

[18] Team estimates based on the annual reports of the respective ECAs. MLT volumes include both Arrangement and non-Arrangement business including overseas investment insurance. Total EU exports (including intra-EU exports) are larger than the OECD-5 or Sinosure's exports, however EU exports to third-country markets are smaller than OECD-5 or Sinosure exports to these markets. The US Exim Bank Competitiveness Report provides different estimates for Sinosure The figures used for Sinosure in this report are based on their annual reports until 2020. Figures for Sinosure are given in terms of production, while those for China Exim are in terms of exposure. The ratio of exposure to production across ECAs is on average 5 to 6 times, reflecting an average life of 5 to 6 years. Although JBIC and K-Exim are official ECAs, their activity includes other forms of official finance. Data for leading Asian ECAs often do not clearly distinguish between business conducted on a commercial basis versus business on public account.

In pursuing their mandate of supporting exports and internationalisation of their respective economies, the export finance systems of Member States face various challenges.

Export finance systems in the EU are very diverse in terms institutional set-ups (independent agency with a self-standing balance-sheet, or public or private agent managing transactions backed by the state budget, etc.), and types of business supported (e.g., medium- or long-term capital goods versus short-term consumer goods), export destinations, whether they provide insurance only or also extend financing, etc. Out of the 27 Member States, 24 have an ECA serving exporters. Among these 24 Member States, 20 have entities associated to ECAs – in total 31 entities offering 55 financial functions linked to export finance.

Accordingly, the nature and extent of the challenges faced by MS ECAs varies from country to country. In some Member States, ECAs have a narrow product range or lack technical capability to underwrite transactions or assess their ESG implications. Some states have a relatively low credit rating (BBB+ or below), which limits the appetite of banks for export finance transactions. Other countries have well-established export finance systems with strong technical and institutional capability but face high risk concentrations, which restricts their ability to support exports in key sector or for certain destinations, etc. Some countries lack effective refinancing or fixed interest rate mechanisms. These are examined in Chapter 3 of this report.

Besides the global and various country-specific factors mentioned above, Member State export finance systems also suffer from other major structural limitations.

First, Member State export finance systems are designed to support national exports or business interest. The specific national content requirements and the definition of national business interest varies from country to country. Member States and ECAs have entered into ad hoc co-insurance or reinsurance arrangements to support contracts involving several Member States. However overall, due to their national mandate and fragmentation, notwithstanding the Council Decision 82/854 on EU subcontracts[19] (which provides that they are in principle automatically covered up to 30 percent of the value of a contract), existing export finance systems are not designed to support the combined EU sourcing content or business interest.

Second, whereas key competitors (such as China, Japan, Korea, and now OECD countries such as the USA and the UK) have adopted a Whole-of-Government approach to coordinate state agencies and the private sector to support the origination, implementation and financing of key exports and cross-border investments, this is seldom the case for individual Member States, and even less so for multi-sourcing contracts involving supplies of goods and services from Several Member States. Policy and institutional silos are prevalent between EU and MS DFIs and ECAs.

[19] SECTION II - 1. Automatic inclusion of subcontracts in the cover. Subcontracts exclusively with parties in one or more Member States shall be automatically included in the cover which may be granted to the principal contractor where the amount of such subcontracts is equal to or less than: 40% for contracts of a value less than EUR 7.500.000 … and 30% for contracts of a value over EUR 10 000 000.
https://eur-lex.europa.eu/legal-content/en/ALL/?uri=CELEX:31982D0854

3. KEY MARKET GAPS AND OTHER IMPORTANT CHALLENGES

3.1. Introduction

This chapter examines the type, extent and source of gaps experienced by European enterprises in financing their trade and investment operations overseas.

The EU arguably has the world's deepest, best-established private sector market for export credit and investment insurance. The EU is also well served by its financial system. The three global leaders in credit-insurance are EU companies. Many EU banks have extensive experience and expertise in export finance, and 8 of the global 15 leaders in Export Finance are EU banks.

However, export finance is fraught with market failures. Private sector insurers and financiers alone cannot meet all the needs of exporters and overseas investors. For this reason, Member States have established export finance schemes to supplement the export finance offering available from the private sector. The official support extended by the Member States is channelled through their respective ECAs.

The export finance systems and ECAs established by Member States have amply served their purpose of supporting exporters, investors and their financiers. Nonetheless, in several key areas, the offering of Member State systems to their exporters and banks falls short compared with the support extended by other major OECD and non-OECD exporting nations.

The nature and extent of the gaps varies considerably depending on the size, market conditions and institutional set-up of the respective Member States. To begin with, 3 Member States have no ECA (Cyprus, Ireland and Malta). Some Member States have large, effective export finance systems and seem less affected by these gaps (although the range of opinions as to the prevalence of market gaps and the need for policy interventions varies across guardian authorities, ECAs, banks, exporters and other stakeholders). In other Member States, ECAs have a narrow product range (only short-term or only MLT export credits in conformity with the Arrangement) or lack technical capability to underwrite transactions or assess their ESG implications. Other states suffer from a credit rating (BBB+ or below) that does not meet the usual requirements of export finance banks. Some countries have well-established export finance systems with strong technical and institutional capability but face high risk concentrations, which restricts their ability to support exports in key sectors or for certain destinations, etc. Other countries lack effective refinancing or interest rate fixing mechanisms. Finally, EU exporters can be affected by tied and untied development aid systems granted to their competitors, which can impact their competitiveness.

3.2. MLT Insurance for Exports and Investments

The starting point of this study is the unlevel playing field commented by EU corporates using MLT support from their ECAs in the global competition.

This perception is supported by the loss of market share of the EU industry, especially for capital goods and construction services, in the developing countries.

While the supply of a financing can be a critical element to win a contract, the lack of credit-insurance can hinder banks to offer a financing. While private insurance can be very efficient for relatively solid projects, the presence of ECAs is critical for the more complicated ones, which include credits with long tenors (e.g., beyond 10 to 15 years of repayment period), very large multisource transactions and project finance loans, projects in difficult countries (e.g., OECD Categories 5 to 7) or projects which rely on new, not fully proven technologies.

The need for improved covers was commented in the workshops and different interviews. The Survey was the opportunity to ask which were the most impacting gaps for MLT Insurance provided by MS ECAs.

Table 6: Most impacting gaps in MLT Credit-Insurance

	No Impact	Sometimes an impact	Often an impact	Don't know
OECD Arrangement	6%	49%	33%	12%
New guarantees cap at 80%	13%	44%	24%	18%
Lack of capacity	25%	55%	12%	8%
Weak support for small MLT export credits	28%	37%	21%	14%
No untied loans	21%	32%	20%	28%
No preferential treatment for EU subcontract	21%	35%	17%	28%
Low rating of my ECA	67%	12%	6%	15%

Source: Survey feedback from stakeholders

The first gap will be addressed by the modernisation of the Arrangement agreed on 31 March 2023, while the Survey was conducted in 2022. This modernisation will allow longer durations and more flexible terms of repayment and will also offer more favourable conditions for climate-friendly and green projects. Then exports credits would be more flexible and closer to other types of financing supported by ECAs.

MS ECAs very often offer Export Credits in compliance with the Arrangement guidelines (87% of their MLT activities), while other competing ECAs make use of untied supports (75% of the MLT activity of the 5 non-EU ECAs is not governed by the Arrangement) which are less constraining and can cover up to 95% or 100% of a risk. MS ECAs could offer new untied covers to match this competition, but it would be affected by a cap which normally limit at 80% the rate of cover if Member States plan to comply with general guidance how to exclude state-aid. This guidance would not apply directly to a cover provided by an EU institution, while EU funds have to be consistent with state-aid rules. Opinions among stakeholders on the issue created by a 80% cap diverge: it has no impact for 44% of the private insurers and 27% of governments while only 4% of the ECAs, 11% of the banks and brokers and 14% of exporters share this opinion.

This cap could also lead to an unintended discrimination of guarantee and insurance products against untied investment and import loans. An MS Exim bank could provide a 100% loan, whereas an MS-insurer could only cover 80% of such a loan. In practice, this limits the appetite of banks for such new covers and consequently the ability of EU businesses to raise finance for some of their investment projects. However, even if it is seldom used, Member State may provide covers beyond 80% if they can justify it to DG Competition, especially for activities managed outside of the EU.

During the interviews and the workshops, stakeholders referred to several gaps related to the lack of capacity to manage some risks:

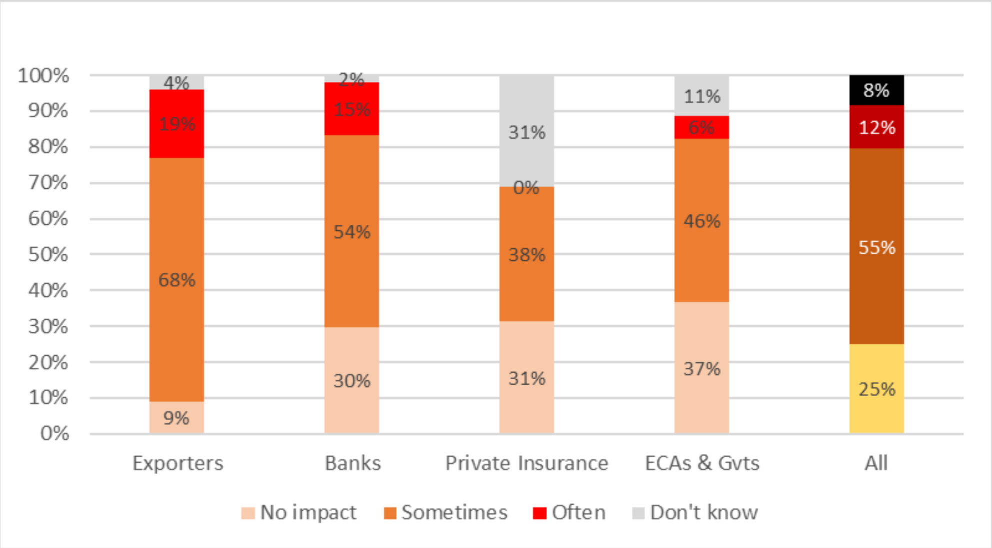
- Lack of MLT solution in Member States that have no ECA or whose ECAs are focused on short-term business.
- The difficulties to find covers for some countries, especially in OECD categories 5 to 7, to manage country exposures. For example, in 2023, France decided to limit the maximum cover for some transactions with a few countries at 150% of the French content in order to manage exposure limits.
- The risk concentration issued faced by some MS ECAs limits their risk capacity in certain sectors. This was also mentioned by some ECAs themselves.

Like all credit insurers, ECAs covering MLT risks must manage risk limits on countries, some private borrowers or some economic sectors. A very large contract may create imbalances in the portfolio of an ECA.

In addition, as they respond to demands presented by their exporters, ECAs can be over-exposed on some countries or activities in absolute terms or relative terms. As an example, the 4 EU largest dredging companies are based in 2 EU countries: while dredging would be a small activity at the EU level for all ECAs, it is important for the ECAs of these 2 countries and invisible for the others.

This lack of capacity was mentioned frequently during interviews with some ECAs, exporters and banks. It was also commented at length during the private and the public workshops. Exporters and banks expressed greater concerns than private insurers and the public sector on its impact (*Q40B)*.

Figure 1: Impact of constrained risk capacities



Source: Survey feedback from stakeholders

The lack of capacity is more stringent for operations with countries rated 6 or 7 by the OECD. Regarding Category 7, some ECAs do not cover any country and for others most countries are off cover. Only a slight majority (58%) of stakeholders consider that offers can be made for most or all countries in Category 6. For example, Credendo classifies as high-risk countries (which means off cover) 51 countries (which are mostly classified as 7 by the OECD). For OEKB, most countries which are open in categories 6 or 7 are open with restrictions such as shorter durations or maximum transaction limits. At the same time, these countries really need for publicly supported financing to invest in public infrastructures and other equipment to sustain their development.

Private insurance is not a solution for these relatively high-risk countries: there is a consensus (84% of respondents, but only 25% of the private insurance sector) on the capacity of ECAs to accommodate more easily than private insurers these difficult risks (*Q18).* Businesses reported that the usual response of an ECA when risk capacities are reached (because of the relative size of a new project or former commitments made) is a denial of cover, even if the project makes sense.

Then, alternatives solutions encompass:

- the search for re-insurances with other ECAs, which would allow the exporter to get a cover and then to sign its contract.
- an offer with certain specific restrictions such as a request for more national content, even if the cost of more national content will make the export contract more expensive, or a reduced percentage of cover which could not be acceptable for export financing banks, or a maximum transaction limit. These cover policy measures have a negative impact on the competitiveness of the EU exporter.

- Reinsurance with private insurers or recourse to a special State cover (e.g., National Interest Account, if it exists) are last resort solutions, which can be considered by an ECA

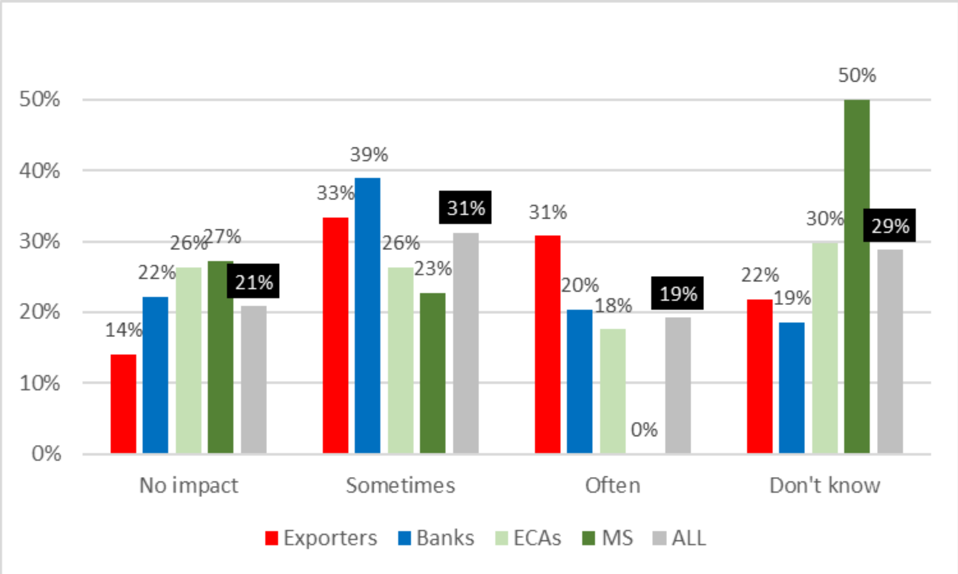
Table 7: Options considered to manage risk limits (Q.19)

	Normally	Sometimes	Never	No answer
No Cover	24%	56%	2%	18%
Reduced cover	16%	54%	9%	21%
ECA Reinsurance	20%	49%	5%	26%
PRI Reinsurance	3%	34%	26%	37%
National Interest Account	2%	19%	48%	32%

Source: Survey feedback from stakeholders

The limited offer in untied loans by MS ECAs was also highlighted. Although improved terms and conditions in Export Credits linked to a modernised Arrangement could reduce the need for these loans, they will still be useful to secure the financing of large investments.

Figure 2: Perceptions on the lack of untied Loans covered by MS ECAs



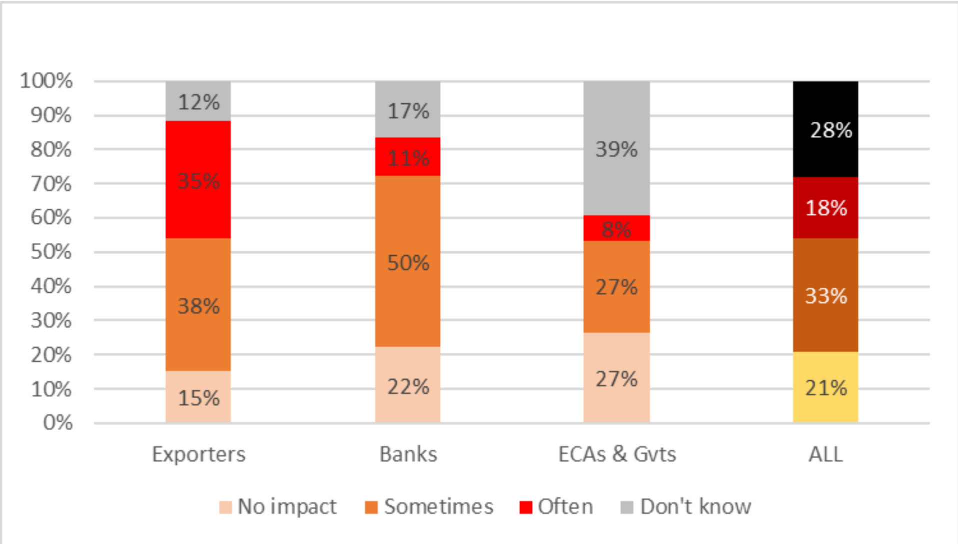
Source: Survey feedback from stakeholders

During the workshops and interviews, several large groups referred to the difficulties they face in the management of projects covered by several ECAs. They include different rules on national and foreign contents, ESG procedures, implementation of reinsurance or co-insurance agreements, etc. The diverse expectations of the MS ECAs are difficult to manage a consistent way and require large resources.

The lack of preferential treatment for EU sub-contracts shows different visions among stakeholders. Exporters consider that more flexibility regarding the involvement of European sub-contractors could help them in the preparation of the best offer. Currently, MS ECAs have different views on the national interest or the national content to justify their support. Some MS ECAs cover transactions based on a national interest with a limited national content (or even no national content in some cases) in the financed contract, while other countries require a minimum national content of 50% in the financed contract. In addition, the criteria to define national content vary from country to country (some use Certificates of Origin while other conduct in-depth analysis of the whole supply chain sub-contract by sub-contract). As a consequence, a bus will be 100% national in country A where it is assembled thanks to a Certificate of Origin while it will be partially national in country B which does not use Certificates of Origin if the engine is imported. In general, smaller Member States are more flexible than larger Member States. Frequently, the EU sub-contracts are not identified and do not enjoy a preferred status versus non-EU sub-contracts, which could be inconsistent with the Green Deal Industrial Plan for the Net-Zero Age *(Q40 B3).*

If European sub-contracts are not fully covered by the main ECA, then banks can only offer an export credit for a reduced amount which reduces the competitiveness of the EU offer.

Figure 3: Perceptions on the impact of no preferred treatment for EU sub-contracts



Source: Survey feedback from stakeholders

This might complicate the definition a European content if it would be needed.

3.3. MLT Financing for Exports and Investments

The most commented financial gaps were:

- Poor conditions offered by commercial banks.
- Inadequate conditions under which a CIRR rate can be offered, if it is offered. The Arrangement stipulates that the Participants shall apply minimum interest rates when providing official financing support for fixed-rate loans: these rates are known as Commercial Interest Reference Rates (CIRRs).

The Arrangement considers two types of official support for export of goods and/or services.

- Pure cover, in the form of export credit insurance or guarantees issued in favour of the policyholder, which can be a bank for buyer credits or an exporter for supplier credits.
- Official financing support which can be in the form of direct lending/financing (e.g., Exim banks) and refinancing or interest rate support (e.g., refinancing agencies or CIRR providers).

Most non-EU countries can support export projects through both a *direct lending* scheme with the involvement of an Exim bank acting as a direct lender and through a *pure cover* scheme with the involvement of an ECA-insurer that provides credit-insurance or guarantees. Exim banks, which are backed by their states, can often offer very competitive financings, including fixed rates at CIRR level as determined by the Arrangement.

EU ECAs normally provide insurance and rely on commercial banks to finance the export credits. In addition to single export credits, banks can offer other financial products which include the extension of commercial loans to finance the down payments, the organisation of multi-sourced deals or the management of the day-to-day operations of export credits. This creates the needs for some financial support to refinance export credits or to offer CIRR rates which would ensure competitive terms of financing for the buyers/borrowers.

Even if the impact of these financial gaps appears less compelling than those linked to lack of insurance, contracts can be lost for these reasons (*Q40 B).*

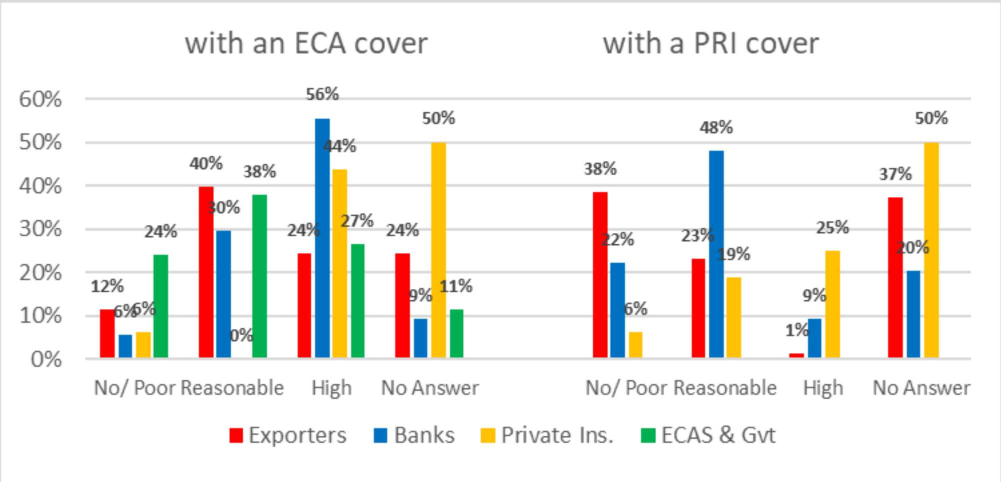
Table 8: Most impacting gaps in MLT Financings

	No Impact	Sometimes an impact	Often an impact	Don't know
Poor conditions of banks	37%	39%	7%	20%
Poor public refinancing	34%	24%	12%	30%
No CIRR available	47%	20%	9%	25%
Poor conditions of CIRR	31%	27%	17%	25%

Source: Survey feedback from stakeholders

The availability of banks is usually not questioned for risks on OECD borrowers as banks use indifferently covers of ECAs or private insurers. Bank financing for buyers in non-OECD countries is in general more available with an ECA cover (73%) than with private insurance (38%) (*Q20).* When such ECA cover is not, or not sufficiently, available, banks and their exporters face problems and the exporters may ultimately decide to no longer pursue the export business opportunity.

Figure 4: Availability of banks for non-OECD Borrowers



Source: Survey feedback from stakeholders

Seven EU countries (Croatia, Czech Republic, Hungary, Portugal, Romania, Slovakia and Slovenia) have an Exim bank which can extend Export Credits, but their MLT activity is rather limited. Most of their activities concern pre-export finance support and working capital to domestic exporters as well as ST export credits. Some countries (Belgium, Finland, France, Netherlands, Spain, Sweden) can in some cases use public entities to extend small credits.

During the private workshop and other exchanges, such as the Excred conference held in London in March 2023, banks and private insurers often mentioned a market practice which makes it difficult, or even impossible, to deal with a credit insurer which does not have at least an A- rating.

This affects first private insurers as only 13% of the banks (according to the survey could support a minimum rating ranging between BBB+ and BBB-). And none would normally deal with a private insurer with a lower rating. For ECAs, banks are more flexible as 35% of them could accept a minimum rating ranging between BBB+ and BBB-.

Exceptions are sometimes considered based on the track-record with an individual insurer. Today, among all MS ECAs, 1 has a rating at BB- (Greece), and 6 (Bulgaria, Cyprus, Hungary, Italy, Portugal and Romania) have a rating between BBB- and BBB+. This can penalize some Pure Cover ECAs in their search for banks to fund projects they are ready to insure (*Q17*).

While most banks use both ECAs and private insurers, they in general prefer ECA covers for different reasons: in addition to a preferred treatment in Basel III, which has an impact on the pricing of their loans, banks and exporters also mention the capacity of the ECAs to accept larger amounts of risks, larger durations and more difficult countries.

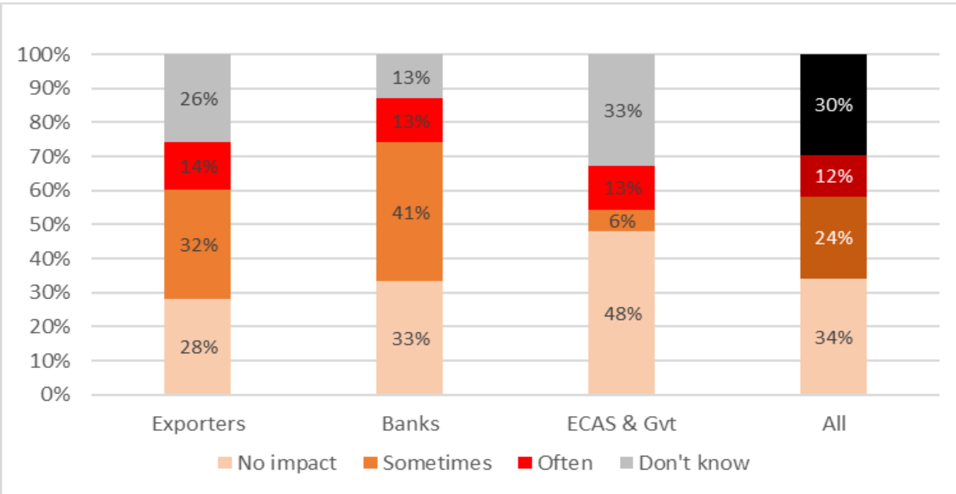
This can be easily checked comparing the terms and conditions of a cover attached respectively by an ECA for a buyer credit and a private insurer for a tied commercial loan to pay the down-payment. On the opposite, banks recognize the capacities of private insurers on better risks (with lower pricings) as well as smoother procedures (*Q16).*

Box 1: Case Study

Case Study: An African Infrastructure Project
For an EUR 100 million project in a country classified in Category 6 by the OECD, an exporter was invited in 2021 to submit a financial proposal for a loan extended to the Ministry of Finance. *The project could be financed up to EUR 65 million by a Buyer Credit covered by an MS ECA and by a tied commercial loan covered by a private insurer for EUR 35 million.* *According to proposals made by banks, the Buyer Credit with a 4-year construction period followed by a 10-year repayment had a margin ranging between 0.95% and 1.35% and its all in-cost including ECA premium ranged between 3.1% and 3.5%.* *For the commercial loan, durations were much shorter, ranging between 5 and 7 years in total, as a consequence of the offers of the private insurers. The margin of the banks varied between 1.5% and 2.00%, while the all-in costs, including risk premium of the insurers, varied between 4.8% and 5.5%.* *While private insurance made it possible to submit a complete financial offer, the clear interest of the exporter and its customer was to maximize the buyer's credit.*

In most cases, MS ECAs will rely on commercial banks to extend export credits and these banks are often interested in a public refinancing scheme. A weak public refinancing scheme would not be an issue for most (48%) stakeholders who have an opinion on this question. However, banks and exporters on the one hand and the public sector on the other hand have different views on this. As most of the advantages of a cheap refinancing are transferred by competing banks to the borrowers, this difference in views is noteworthy (*Q40 B9).*

Figure 5: Perceptions on impact of a weak public refinancing scheme



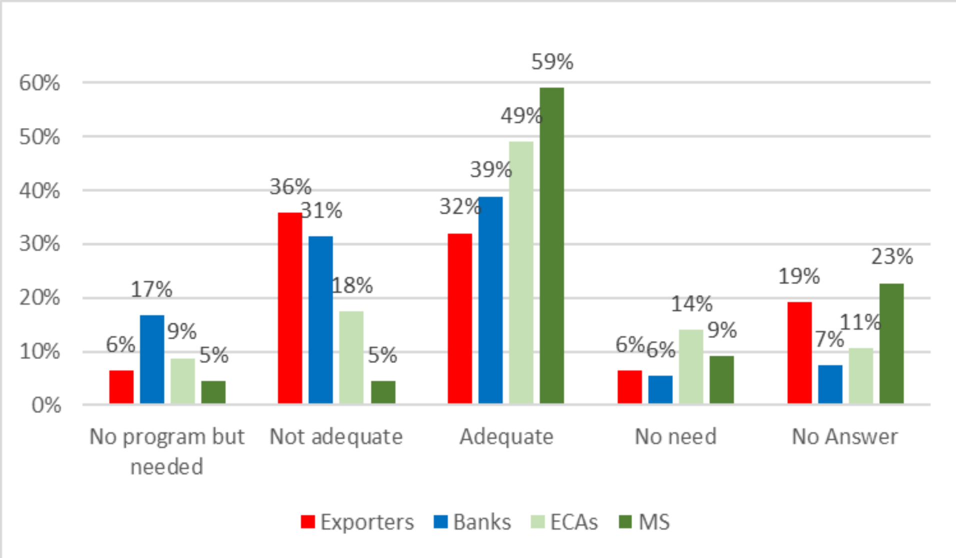
Source: Survey feedback from stakeholders

For banks, the main reasons to use refinancing are cheaper funding costs (67%), a reduction of the size of their balance-sheet (22%), a funding for large durations (20%) or an access to some foreign currencies (17%). On the opposite, banks will be reluctant to use them when there is no clear pricing advantage (54%), processes are cumbersome (31%) or the size of their balance-sheet is not reduced (13%).

In some cases, the national refinancing cannot be used for the portion of the loan which is co-insured or re-insured by another MS ECA. Hence, the advantage of the refinancing will only apply to the amount net of reinsurance or co-insurance and different interest rates can apply according to the country of origin of the goods or services for the same project.

A CIRR system exists in 13 EU countries. Stakeholders were asked on the adequacy of their CIRR system if it existed in their country *(Q27).*

Figure 6: Views on CIRR systems



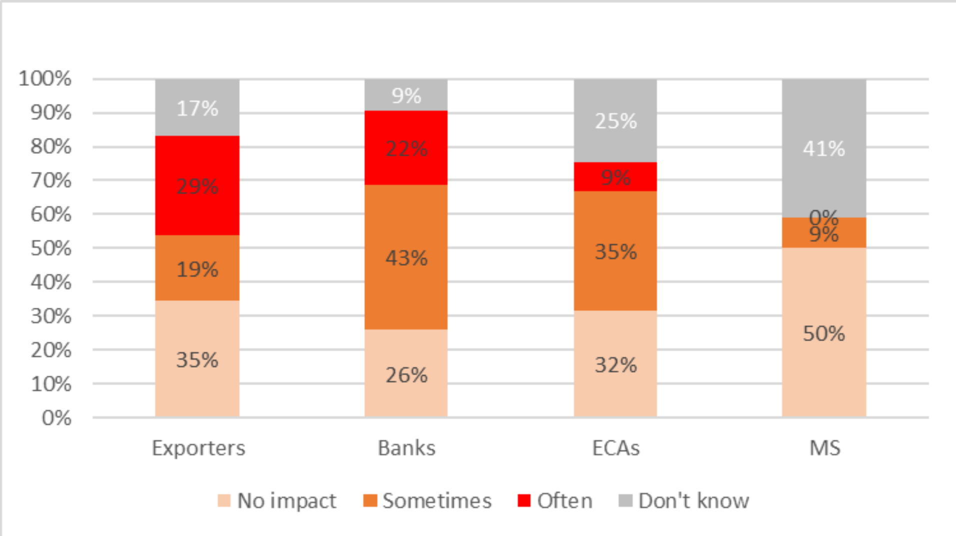
Source: Survey feedback from stakeholders

The adequacy of existing CIRR systems is questioned by users for different reasons such as the limited volumes made available, pricings well above the official OECD CIRR or cumbersome procedures. Only a minority of stakeholders consider that there is no need for a CIRR system.

An inadequate CIRR system has *sometimes* or *often* an impact for 48% of the exporters, 55% of the banks, which is close to the percentage of ECAs (44%). For Governments, this percentage is much lower (9%).

In addition, CIRR systems vary in the different EU countries. Sometimes the CIRR is not offered for the portion of the loan which is co-insured or re-insured by an ECA of another country. Hence an exporter or its bank can offer different CIRR based rates, if any, for one project covered by several MS ECAs (cf. table 17 in 5.4.2) *(Q40 B 11).*

Figure 7: Perceptions on Impact of a non-satisfactory CIRR



Source: Survey feedback from stakeholders

Some countries are reluctant to offer a CIRR system for different reasons such as possible high financial costs if the system is not well managed or funding costs of the Member State are well above the funding costs of the entity of reference for the establishment of the OECD CIRR (US Treasury for USD, AAA-rated Euro countries for the Euro).

As regards small export credits~~,~~ which are difficult for banks to support given their important flat implementation costs (including compliance and documentation ones) and operation costs, irrespective of the size of a loan, a public ECA financing offer can fill market gaps either with small buyer's credit or through discounting of bills of exchange under a supplier's credit. For the latter form, it might be important to have an ECA covering performance risk of the exporter.

While banks have a minimum amount for supplier's credit (EUR 1 million for 26% / EUR 5 million for 22%), public banks can even consider amounts below EUR 1 million.

For buyer's credit, 35% of the banks will not consider anything below EUR 25 million and another 22% will not consider anything below EUR 10 million. Most public banks can consider deals above EUR 5 million and even above EUR 1 million in some cases. However, a public offer for small export credits does not exist in all EU countries.

3.4. ECA and Strategic Imports

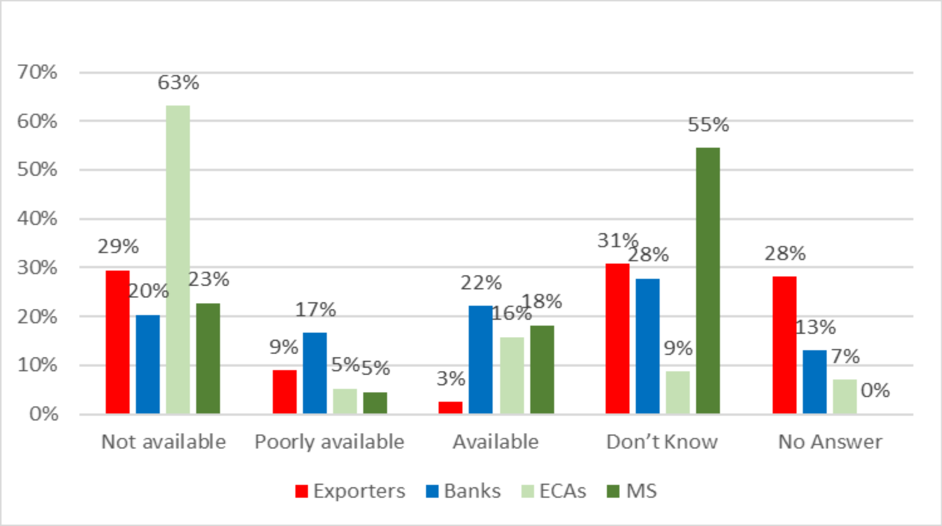
Several stakeholders regret the limited availability , if any, of official support for import loans.

Import loans have been used for decades by countries lacking extractive resources (Japan and Korea, more recently China), to secure the sourcing of critical commodities such as LNG or copper, for key off-takers and user industries. These overseas projects often use equipment sourced from the country importing the commodity and arranging its financing. They represent one fourth of the activity of JBIC (Annual Report 2021).

Similar programmes existed in a few EU countries (Finland, Germany). They were not really used until recently apart from the German UFK which reached an exposure of EUR 4.7 billion at the end of 2021 (with one loan signed in 2020 and none in 2021).

The invasion of Ukraine and the need to secure the supply of non-ferrous metals to manage the energy transition with an increasing electrification of the EU are causing a revival of these products. For example, several loans were signed in Germany or Italy over the last months and EKN announced in 2022 the launch of such a programme (*Q15 B).*

Figure 8: Perceptions on the availability of import loans with MS ECAs



Source: Survey feedback from stakeholders

Import Loans linked to the delivery of critical raw minerals are mentioned in the draft of CRM Act published on 16 March 2023.

The question of the maximum percentage of cover (80% or more, in relation with EU state-aid rules) applying to such covers will probably appear again.

In any case, there is a limited awareness about this product with 44% of respondents who do not know if the product exists or do not answer.

3.5. ST Export Credit Insurance

The lack of short-term covers, especially for small exporters and for Central European exporters, was frequently mentioned during interviews and the workshops.

The need for public covers for some buyers established. in low-and-middle income countries was also reported by large and small exporters.

For the WTO, merchandise exports reached USD 21.7 billion in 2021[20]. Studies published by the Bank of International Settlements (BIS)[21] or the WTO[22] consider that trade finance instruments would cover 40% to 50% of international trade flows. The most commonly used risk mitigation tools, which secure payments for exporters, are:

- Letters of Credits. According to the ICC Trade Survey published in 2018, which refers to data of SWIFT, their volume was in the range of USD 2.0 trillion in 2018. This amount is probably stable, if not declining.
- Short-Term Credit insurances. The Berne Union groups ECAs and some private insurers while ICISA groups many private insurers. Combining the data of the Berne Union for ECAs (USD 1.2 trillion) and ICISA for private insurance (USD 3.2 trillion), covered volumes would be close to USD 4.5 trillion each year. They increased by 4% to 5% on a yearly basis over the last 10 years and the Berne Union reports a 10% to 16% increase in 2022. Also, 90% of these covers refer to short-term operations (less than 1 year). Most of the ST insurance provided by private insurers concerns trade among OECD countries, but the private market is also quite active in supporting trade with non-OECD markets.

[20] https://www.wto.org/english/res_e/booksp_e/wtsr_2022_e.pdf

[21] https://www.bis.org/publ/cgfs50.htm

[22] https://www.wto.org/english/res_e/reser_e/ersd202105_e.pdf

This confirms the growing importance of ST Credit Insurances for exporters.

Asian ECAs are very active in ST insurance (EUR 600 billion for the Chinese Sinosure in 2021, EUR 124 billion for the Korean K-Sure in 2021 and EUR 32 billion for the Japanese Nexi in 2020).

In the EU, the ST credit insurance market is led by three global private insurance companies, which are Allianz Trade, Atradius and Coface. Their total exposure in credit insurance, mainly based on whole turnover policies, reached an amount of EUR 2,500 billion at the end of 2022. The ST exposure of MS ECAs was approximately EUR 26 billion at the end of 2021.

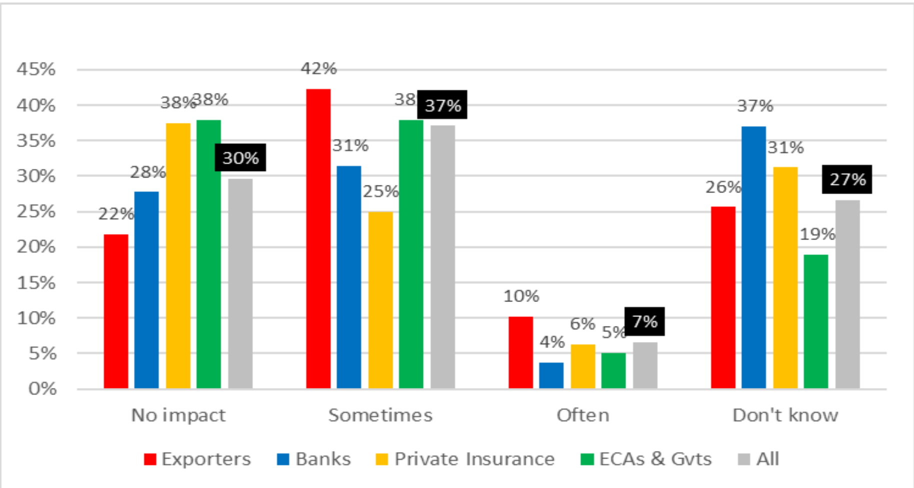
Many Member States and their ECAs have played important complementary roles in times of crisis, such as the 2008 financial crisis and in particular during the COVID crisis. Due to the COVID pandemic many private insurers were unable to provide ST cover, which in many EU countries led to specific arrangements between private insurers and MS ECAs whereby MS ECAs were providing reinsurance to private insurers to allow them to continue with their ST insurance support for EU exporters. This additional official support for ST credit insurance combined with other measures undertaken by EU governments have mitigated the impact of the crisis.

The availability of adequate ST credit-insurance is critical for most exporters. Most trade flows generate short-term delays of payment granted to buyers (i.e. supplier credits) and sellers need to secure these future payments. EU exporters face two different issues:

- Some SMEs do not receive any ST credit-insurance for their EU sales in the absence of adequate private insurance solutions while their ECAs are unable to offer alternative public insurance solutions as a consequence of STEC rules.
- Some projects in non-OECD countries are not covered by private insurers and some MS ECAs that are not active at all in ST business do not offer an alternative public insurance solution to their exporters.

While reading the results of the Survey on Short Term Credit Insurance, it should be mentioned that most surveyed exporters (88%) and banks (94%) which answered are mainly making use of MLT ECA products, which does not reflect the normal European market, but reflects the activities of the main customers of European ECAs. Large companies, which have an easier access to private insurance, are over-represented (33% with a turn-over above EUR 5 billion) while SMEs, which mostly use ST products are under-represented (9 % of respondents with a turnover below EUR 50 million). Among the surveyed exporters 69% make use of ST credit insurance. Among the surveyed banks this concerns 39%. The lack of public ST cover has *sometimes* an impact for 42% of the exporters and *often* for another 10%. Other stakeholders have similar views (*Q40.A.1).*

Figure 9: Perceptions on the impact of a lack of ST insurance



Source: Survey feedback from stakeholders

Two other comments made during interviews or workshops are supported by the Survey.

- Exporters need more credit insurances when they deal with non-OECD countries than with OECD countries. 60% of the surveyed exporters consider that they have no need for credit-insurances or are well served by the private market to cover risks on OECD buyers. This percentage reduces to 55% for trade transactions with non-OECD buyers.
- Banks are important indirect beneficiaries of credit insurance. They use credit insurance provided to exporters to secure their commercial bank financing of export receivables *(Q6).* It is quite common for banks to provide working capital to exporters which are secured by an assignment of (1) sale receivables of the exporter and (2) the right to claim payment under the exporters' credit insurance policy. Usually, the bank then becomes the so-called *loss payee* under the insurance policy of the exporter, which implies that any claims payment under the policy because of non-payments of buyers to the exporter are paid directly to the bank.

While exporters recognize the efficiency of the private insurers in terms of processes or pricing, especially for their OECD buyers, the two main reasons for them to use ECAs instead of private insurers for risks on buyers in OECD markets are the absence of sufficient capacity (22%) on the private market or its limited capacities (17%). These percentages increase respectively to 31% and 33% for export transactions with non-OECD buyers, which indicates that cover for ST non-marketable risks is more difficult to obtain. Some gaps in the private insurance market, especially for risks on non-OECD buyers, are also recognized by the private insurers themselves and ECAs *(Q8 & Q9)*.

EKN, the Swedish ECA, provides an interesting example. According to its Annual Report 2021, it covered on average 4% of the total of Swedish exports, but its covers for countries rated in OECD country risk categories 5, 6 and 7 corresponded to 36% of the Swedish exports to these countries. The total amount for new business for risk categories 5, 6 and 7 countries was SEK 22 billion, which represented 28% of all its new covers. This confirms the relevance of public cover for exports towards low-rated countries.

Private insurers, and to a lesser extent brokers, consider that SMEs are well served by the private market both for exports to OECD markets (76%) and non-OECD markets (64%). Governments also mention a fair service (55% for buyers in OECD markets and 48% for buyers in non-OECD markets). These percentages are substantially lower for Member States ECAs, respectively 29% and 6%. Larger corporates are in general better served by the private ST insurance market.

Governments recognise that there is a need for some ECA ST insurance for exporting SMEs for OECD buyers (27%) and for non-OECD buyers (56%). These percentages are substantially higher in the responses from ECAs, respectively 62% for risks on OECD buyers and 89% for risks on non-OECD buyers. The differences can maybe be explained by the fact that ECAs are closer to the day-to-day operations of exporters and have more experience with their challenges *(Q6 A B C)*.

The provision of ST export credit insurance in the EU is regulated by state-aid rules with the STEC Communication adopted on 6 December 2021, which in principle prevents public entities to provide State support for marketable risks (on buyers from the EU and 9 other high-income OECD countries). Member States can request for waivers in case of market failures. Thus far, waivers have been granted for several cases (small exporters with an export turnover below EUR 2.5 million, risk periods between 180 and 720 days, single-risk transactions, country not anymore marketable). STEC rules were seen as sub-optimal by many stakeholders, but for different reasons:

- For most private insurers and insurance brokers, as the market can provide credit insurance in most countries, being members of the OECD or not, all countries are marketable. Hence, for some of them, ECAs should not play any role in ST insurance and a few even question ECA involvement in MLT business.

- For most exporters, some risks cannot be covered even in some OECD countries, especially for small export transactions or SMEs, in two key circumstances, namely when they seek ST cover for supplier credits beyond 180 days up to 2 years and for a single export transaction. In these two areas waivers to the STEC have been granted because the ST private insurance market mainly provides cover up to 180 days and on a whole turnover (or portfolio) basis.

If countries with well-developed financial services such as Denmark and Finland obtained waivers according to STEC rules, to deal with market gaps for single risk transactions of small exporting SMEs or export transactions with credit periods between 180 and 720 days, it is very likely that similar problems exist in many other EU countries. In addition, in some relatively small EU economies with a modestly developed export finance infrastructure, insurers and specialized brokers have a limited presence, if any, which complicates the access of exporters to the private insurance market. This problem can be addressed through a waiver as well.

From a macro-economic point of view the market gaps can be quite substantial in some EU countries. For example, in the waiver that the Latvian government obtained in 2017 under the STEC rules, the following gaps are mentioned:

- For small exporters with an insurable market of EUR 110 million and uninsured deals between EUR 28 million and EUR 42 million.
- For medium-term deals with an insurable market of EUR 284 million and uninsured deals between EUR 15 million and EUR 27 million.

It also mentions a gap for the cover of non-marketable risk countries with an insurable market of EUR 1.76 billion and uninsured deals between EUR 209 million and EUR 257 million. The total value of Latvian exports in 2017 was EUR 4.5 billion.

The 6 waivers, which are currently in force for Croatia, Denmark, Estonia, Finland, Latvia and Romania refer to several gaps:

- The lack of ST insurance for some single risk transactions (6 waivers).
- The lack of ST insurance for deals with a risk-credit period between 181 days and 720 days (6 waivers).
- The lack of ST insurance for small exporters (export turnover below EUR 2.5 million) in 4 cases.

The STEC mentions a range of minimum premium to be applied for 4 categories of buyers risks with a minimum equivalent rating of B-. There is no clarity for the cover of buyers with a lower rating, which are probably not covered by the private market.

It is noteworthy that in one waiver, covers are not considered for the lowest risk category (B+ to B-) whereas the private market is less active in this risk category, which could leave exporters without any cover.

All the marketable risk countries are countries rated 3 or better in the OECD risk classification (Annex IV). In line with the general guidelines of state-aid which are meant for financial guarantees and not for credit-insurance of commercial receivables, which are less risky, the minimum premium charged for a weak risk (B+ to B-) for a 12-month period under the STEC rules ranges between 2.31% to 4.50%. The OECD minimum premium in the Arrangement for a 12-month cover on a buyer rated between B+ and B- and established in a category 7 country lies between 2.84% to 3.11%. It would range between 1.18% and 1.40% for a buyer established in Morocco (OECD Category 3). The STEC minimum premium are then perceived as prohibitive by some exporters. One Member State qualified them as *dissuasive,* but they are acceptable for others. From one waiver to the other, the approved minimum premium ranges between 2.31% and 3.68% for a weak risk. This means that exporters of the different EU countries, which face a private market gap, will not pay the same price for similar covers on the same EU buyers. In any case, their covers for marketable risks would be more expensive than covers from their ECAs for non-OECD buyers.

Several ECAs complained about the difficulty to prepare waivers. As commented during the public workshop, one ECA which had informally identified ST gaps with exporters and insurers in its country, never issued its request for a waiver as the private insurers that were locally consulted never confirmed in writing their observations.

The lack of consistency in waivers granted was also commented; it is probably a consequence of differences in the requests for STEC waivers submitted by individual Member States. It is on that basis that decisions on waiver requests are made. For Member States that consider a request for a STEC waiver, it is quite complex to foresee what is needed to submit such a waiver request and its potential outcome.

There is also a problem of awareness about short-term export credit insurance: some private insurers rightly pointed out that many exporters, in particular SMEs, probably have limited knowledge about export finance risks and how credit-insurance can be used to mitigate these risks and assist them in the origination of new exports business. During the 2023 Excred Conference, among four reasons which could explain the low penetration of ST whole turnover trade-credit insurance among SMEs the most voted one (with 52%) was the lack of knowledge of trade credit insurance among SMEs.

3.6. ST Export Financing

The lack of financing made available to exporters in relation to short-term receivables was often commented. Shortage of cash is a real constraint for many firms, especially SMEs.

A credit-insurance can perform two functions for an exporter:

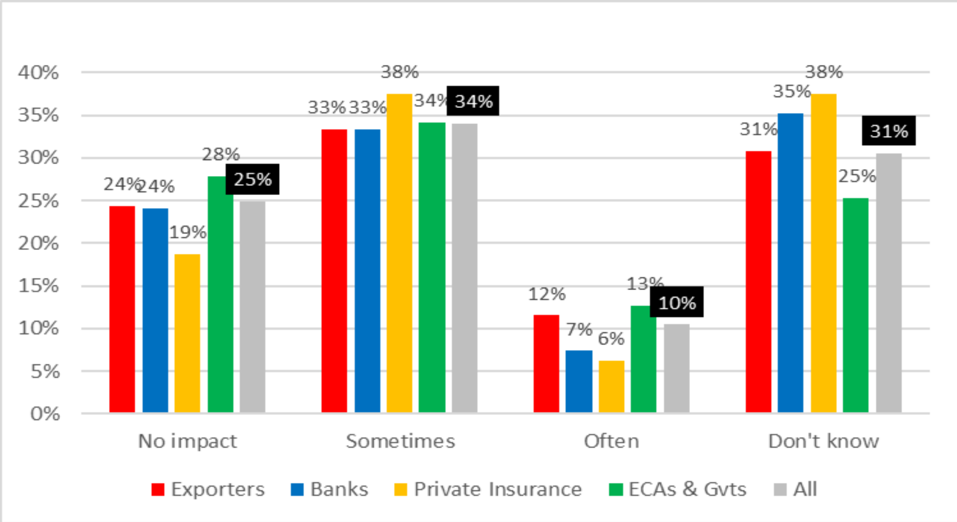
- Secure the payment it expects from its buyer as the credit-insurer will finally pay an insurance claim if the buyer does not respect its payment obligations. The credit-insurance protects the exporter against possible losses.
- Enhance its cash-position as it is easier to make cash out of a receivable from a bank if the exporter has secured the payment of the receivable by means of credit insurance, being private or public. This concerns the case whereby a bank can become the loss payee under an insurance policy of the exporter.

In some EU countries, most (local) commercial banks focus on domestic businesses and have no or limited capacities in cross-border trade finance. Several large international banks, which have teams active in cross-border trade finance, reduced the size of their international networks. When they remain in a country, they mainly provide trade finance services to large corporates. These developments explain ST (and MLT) trade finance gaps in various EU countries.

Some SMEs are less well served and face difficulties to finance their export receivables by their local banks, even if these receivables are insured by a private insurer or an ECA. This was mentioned in the preliminary interviews and during the private workshop, especially by banks and corporates established in countries, which joined the EU in or after 2004.

The Survey indicates that some exporters could be even more often affected by the lack of financing linked to export receivables than the lack of insurance itself (*Q40 A 2)*.

Figure 10: Perceptions on the Impact of a lack of ST Financing



Source: Survey feedback from stakeholders

Almost one exporter out of 5 mentioned a low availability (or no availability at all) of receivable financing from commercial banks in its country. One exporter out of three consider that there is no satisfactory solution stemming from the public sector to replace lack of trade finance services from commercial banks. And many did not answer these questions (*Q11 & 12).*

Table 9: Availability of commercial and public ST financing

Commercial offer		Public Offer	
No Availability	3%	No public offer	15%
Low Availability	15%	Unsatisfactory offer	18%
Medium Availability	18%	Satisfactory offer	21%
High Availability	14%		
Don't know	17%	Don't know	10%
No Answer	33%	No Answer	36%

Source: Survey feedback from stakeholders

Some EU countries have a public bank, among which Exim banks and other policy banks, that can provide ST finance support to their exporters. Different business practices may exist among public banks that are involved in trade finance, which may also have implications for the level playing field of exporters from different EU countries.

Several ECAs wonder whether the STEC rules apply not only to ST export credit insurance, but also to ST export finance operations. One Exim bank which raised this question among others was allowed to extend these financings. And one exporter mentioned that his government renounced to submit a request to finance short-term receivables, for concerns of not being able to manage properly the application. This partially explains that some of these ECA do not dare to provide such credit facilities. It should be made explicit that the STEC rules do not apply to ST financing of receivables.

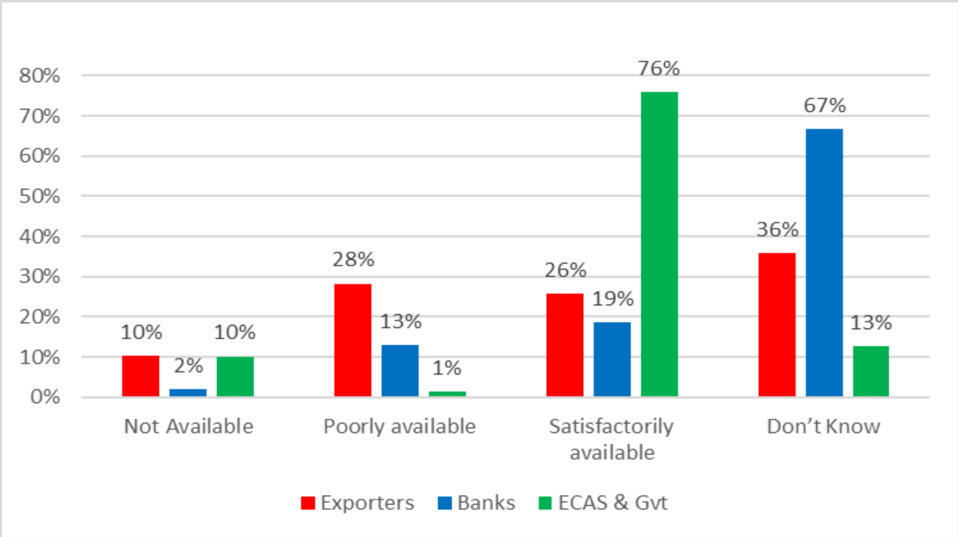
3.7. ECA Domestic Business

During the Global Financial Crisis in 2008, several MS ECAs had to promote domestic products carrying a risk on exporters to make them able to manage their export projects. For this purpose, ECAs deliver guarantees to commercial banks (or private insurers) which support exporters with

- bonding lines (or sureties) to issue performance bonds, advance repayment bonds.
- working capital facilities or pre-export finance to fund pre-delivery cash mismatches.

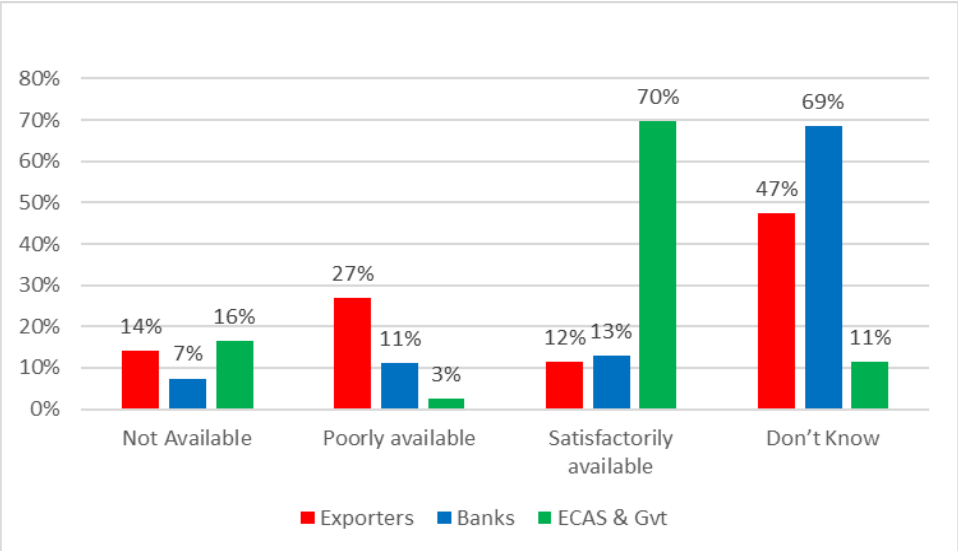
These products exist outside of the EU and are often provided by Exim banks. As these products cover risks on national exporters, they are usually referred to as domestic business *(Q29).*

Figure 11: Perceptions on Domestic Support - Bonds



Source: Survey feedback from stakeholders

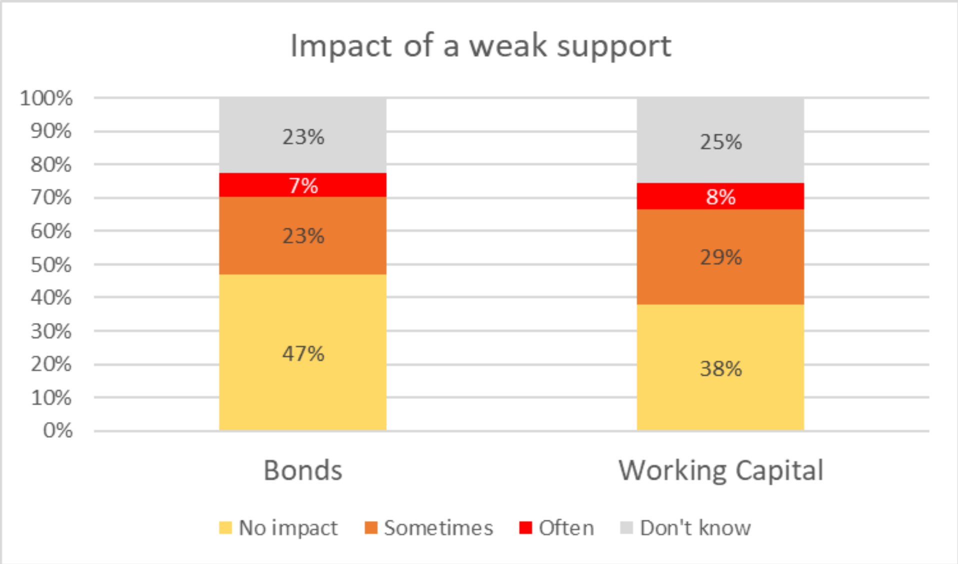
Figure 12: Perceptions on Domestic Support – Working Capital



Source: Survey feedback from stakeholders

The weakness of the support is more harmful for working capital than for bonds, which is a reminder of the importance of the cash needs of exporters. 31% of banks and exporters consider that a weak programme has no impact while 54% of the public sector expresses this opinion (Q40 C 1 &2).

Figure 13: Perceptions on the impact of a weak support in bonding lines and working capital



Source: Survey feedback from stakeholders

The short-term programmes are not well known by respondents of the banking sector; the explanation probably lies in the definition of their tasks as export finance teams are usually not involved in the issuance of bonds or working capital facilities. While the public sector often consider that their products fit their purpose, exporters are not fully convinced *(Q29 A).*

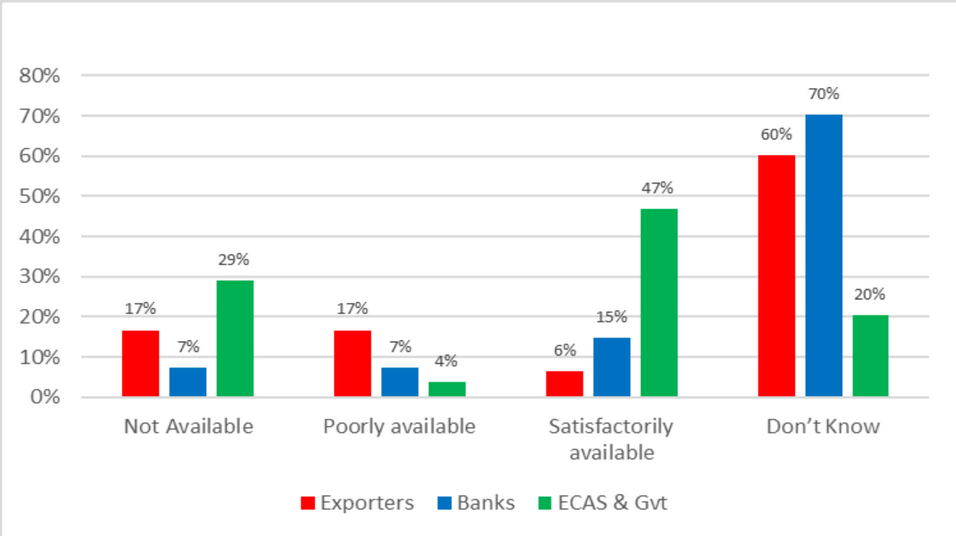
In addition, some MS ECAs also offer support for domestic investments which are requested for the execution of an awarded export contract, or which could help to win export contracts in the future. In other countries, this support can also be provided by a National Promotional Bank. In providing domestic support for exporters some overlap in operations between on the one hand ECAs/ Exim banks and on the other hand National Promotional Banks may therefore exist.

The need to manage a successful transition towards a greener economy can also explain the increased demand for domestic support. Investments in the energy sector will have to increase with 300% over the next 10 to 20 years and as explained in the “Net Zero by 2050” Report of the IEA (International Energy Agency) “*many new technologies must be developed*”[23].

Some public schemes will be needed to support pilot plants in the EU and associated technological risks. With the perspective of future export contracts related to the successful implementation of a pilot plant, some ECAs could be requested to support (domestic) investments. Several respondents of the public sector consider that the products already exist while most users doubt about their existence *(Q29 B).*

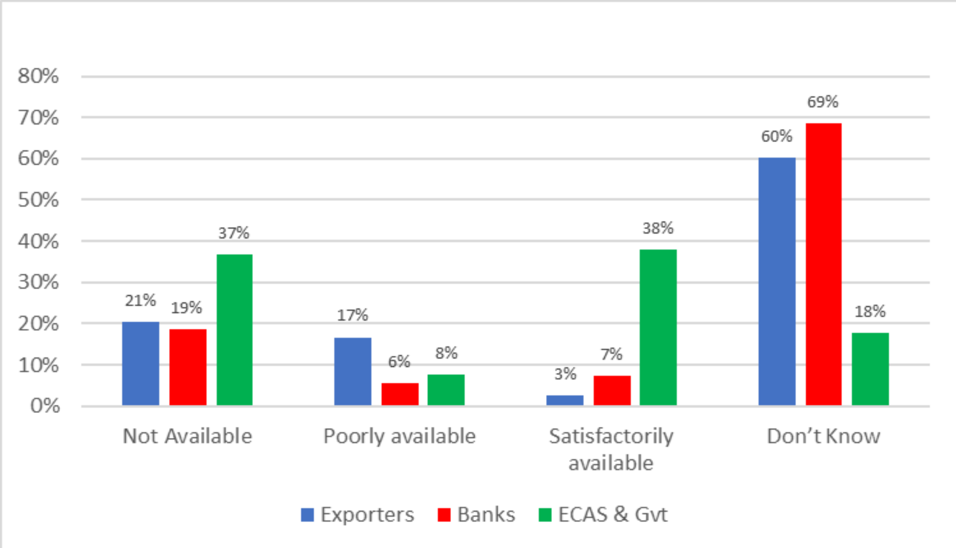
[23] https://www.iea.org/reports/net-zero-by-2050

Figure 14: Perceptions on support for domestic investments - pre-identified contracts



Source: Survey feedback from stakeholders

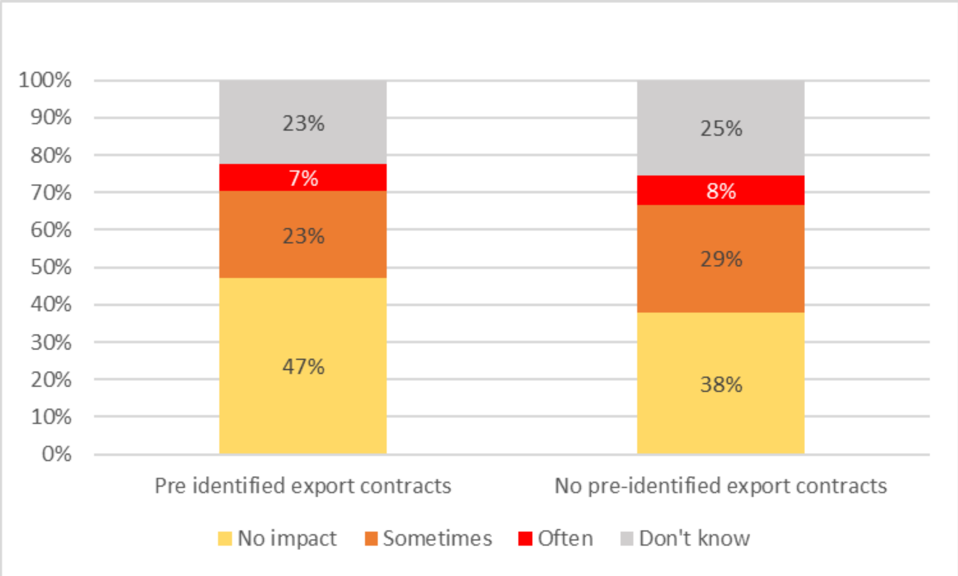
Figure 15: Perceptions on support for domestic investments - no pre-identified contracts



Source: Survey feedback from stakeholders

As regards the absence of such programmes, governments do not foresee an impact (at 55%) while the ECAs worry in the same proportion as exporters (in the range of 30%). For banks, the need for domestic support would be more accurate for investments without any pre-identified export contracts (*Q40 C 3 &4).*

Figure 16: Perceptions on Impact of no support to domestic investments



Source: Survey feedback from stakeholders

3.8. Equity Investment

Some EU corporates are sometimes missing public support to invest abroad especially in PPP projects, while some non-EU corporates do have access to such support from their governments.

Foreign investments of EU Corporates can be financed by

- Equity (or quasi-equity) brought by the corporates themselves or financial investors.
- Loans.

EU corporates didn't express great concerns on the lack of insurance to cover the political risk associated to their foreign equity investments, as they probably find solutions on the private market or with their ECA. However, they are affected by limited capacities of the public sector to co-invest in equity in some projects.

Some OECD countries like Japan, Korea and the USA can support with public equity investment tools the foreign investments of their corporates:

- JOIN (Japan Overseas Infrastructure Investment Corporation for Transport & Urban Development) which is owned at 96 % by the Japanese Government provide equity support to infrastructure project. Its largest investment (JPY 25.3 billion or EUR 178 million) refers to a high-speed railway project in Texas.

  JBIC can also provide equity support. JOIN is able to combine its equity investments with loans supported by JBIC or Nexi.

- K-Exim has a dedicated equity investment support facility.
- The US-DFC took over the activities of OPIC which was guaranteeing loans supporting American investments abroad, like an ECA could do under an untied scheme. Since 2020, DFC can also "*provide direct equity investments into companies or projects in the developing world which will have developmental impact or advance U.S. foreign policy*".

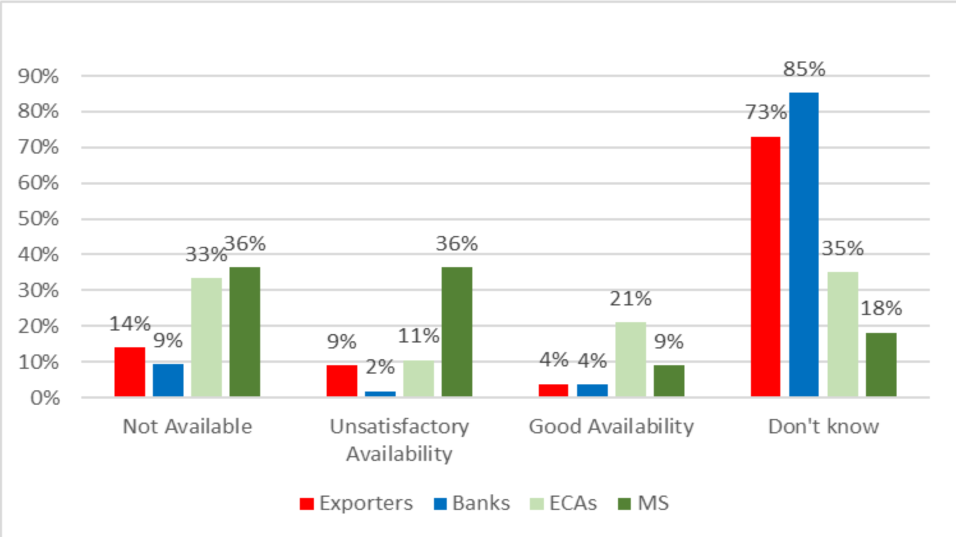
Some EU countries control vehicles which provide direct equity investments, like DFIs, but their investment capacities are not well known and usually their resources are limited. Some dual mandate DFIs may use their equity investment facility to support equity investments of their national corporates, but it is unknown how often this happens. There is within the EU a lack of data regarding the volumes of officially supported equity investments and whether they are linked to national investors.

In most cases EU DFIs (like Bio, Cofides, Finnfund, Proparco, Simest, Swedfund) can invest up to EUR 10 – 15 million in a project.

The public French company STOA Infra & Energy was created in 2017 for co-investments in equity in developing countries. It can consider larger tickets, between EUR 15 and 50 million.

Most EU businesses consider that they have no access to an adequate equity co-investment tool.

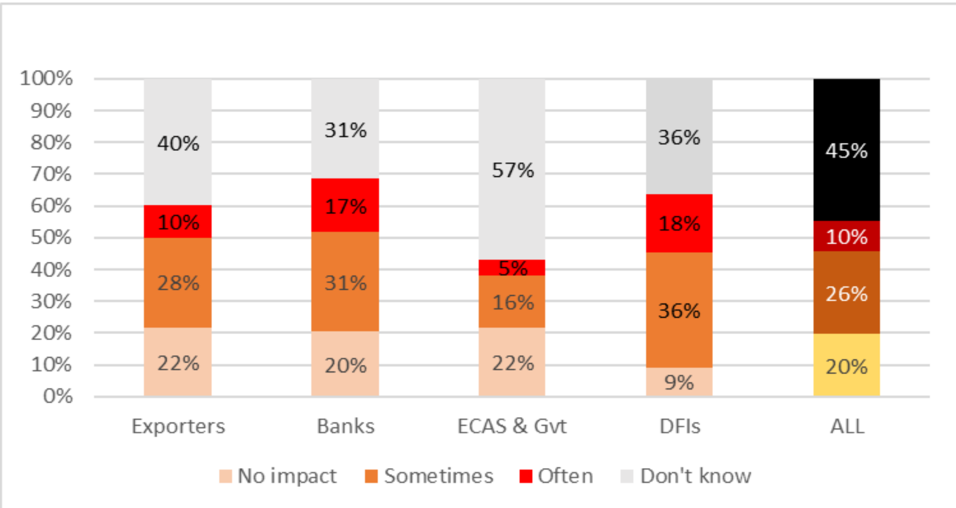
Figure 17: Perceptions on the availability of public co-investment tools



Source: Survey feedback from stakeholders

The limited availability of such public vehicles has a clear impact for the few corporates which are requested to invest with equity in projects they develop abroad under PPP schemes. And this is clearly recognized by DFIs (*Q40 D 2).*

Figure 18: Perception on the impact of limited support in equity



Source: Survey feedback from stakeholders

Regarding debt associated to these investments, the gaps, if they exist, could be covered by untied loans.

However, a coordinated approach for the financing of large infrastructures in developing countries, like JOIN does in Japan, is probably missing today in the EU, even if the Global Gateway aims at it. (*Q40 E 2).*

3.9. Export Finance & Development Finance

As mentioned, not only ECAs are active in supporting cross-border trade and investments, but also Multilateral and Bilateral Development Banks and ODA Aid Agencies (hereafter jointly referred to as DFIs). DFIs and ECAs sometimes cooperate and sometimes compete with one another, for example in large private sector PPP projects that require substantial capital investments. Cooperation in public sector projects in which the sovereign of a country acts as borrower or guarantor, is in general less common, which is a consequence of different business practices. DFIs often provide concessional or semi-concessional loans for these projects whereas OECD ECAs for their officially supported export credits, in compliance with WTO and OECD rules, have to charge risk-based premiums. Commercial bank loans with OECD ECA cover are therefore usually more expensive than DFI (semi-) concessional loans.

During the interviews and workshops exporters, banks and public sector stakeholders mentioned various gaps and competition issues related to development finance, which include:

- The global growth of tied aid while the EU seems to further untie its aid,
- The structural concerns that de jure untied aid is often de facto tied aid,
- The lack of adequate protection against unfair competition that EU companies face from distortive non-OECD State Owned Enterprises in tender procedures for projects that are directly or indirectly financed by multilateral and bilateral development finance.
- The fact that various dual mandate DFIs provide development finance for cross-border investments, which is linked to national business interest.
- The absence of reciprocity for untied development finance
- The absence of additionality guidelines for various forms of official finance.

1. Tied Aid.

Tied aid concerns aid whereby the aid recipient country is obliged to procure goods and services from the donor country. It is basically a hybrid of development finance with export credits. During the period 2010-2019, tied aid has increased substantially due to tied aid activities of non-OECD countries like China[24] and India[25] and major OECD countries like the USA, Japan and Korea. In China a clear distinction between aid and export credits does not exist, but all forms of Chinese official finance are tied to procurement of goods and services from China. The Indian tied aid budget for the fiscal year 2021 – 2022 was approximately USD 985 million[26].

According to OECD DAC statistics, tied aid of all OECD DAC countries increased from USD 13.5 billion in 2011 to USD 16.1 billion in 2019, which is mainly attributable to Japan, Korea and the USA. While these three countries increased their tied aid, most of the Members States and EU institutions continued with a further (de jure) untying of their aid. Of the combined bilateral ODA of the EU in 2019 only 3.2% was tied, whereas the tied aid shares of Japan (25.7%), Korea (40.6%) and the USA (41.5%) were much higher.

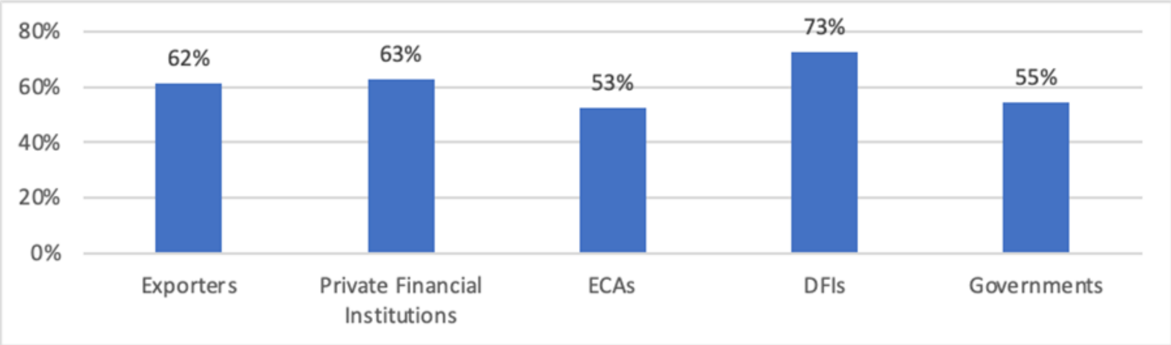
[24] Source : AiData.org: https://www.aiddata.org/

[25] Tied aid provided by China and India is not reported to the OECD DAC, because both countries are not a member of the OECD DAC.

[26] Source : https://www.ndtv.com/india-news/budget-2021-over-rs-18-000-crore-allocated-for-external-affairs-ministry-rs-7-149-crore-for-foreign-aid-2361507

Tied aid obviously has serious implications for EU exporters and investors, which is confirmed through the survey among stakeholders. It affects in particular the EU construction sector, because most tied aid is used for infrastructure projects.

Figure 19: Perception - Easier access to national tied aid programmes for competitors



Source: Survey feedback from stakeholders

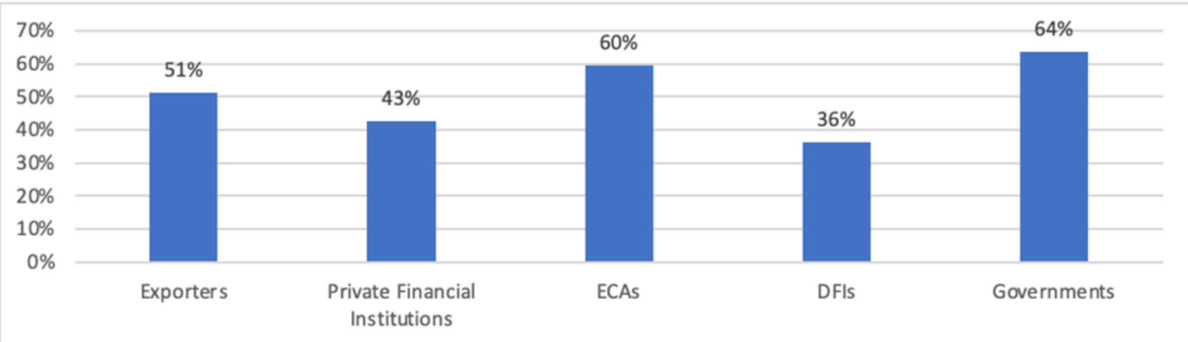
2. De jure untied aid is often de facto tied aid.

The underlying assumption for the untying of aid is the existence of a fair, open and transparent international competitive market whereby companies from different countries compete only based the quality and price of their goods and services. Various OECD reports on untied aid show there is a gap between the theory and practice of untied aid. Many OECD DAC countries report a substantial share of their aid as formally untied, but in practice it is often de facto tied. This is a structural concern to EU exporters and investors and the OECD DAC, because they exist already for many years.

In an independent evaluation report of 2009 for the OECD DAC it is observed that "*Many formally untied projects were found to be de facto tied*"[27] Also, more recent OECD DAC reports mention that on average 61% of untied aid was procured from suppliers in the donor country, but many donors had much higher shares than this DAC-average (see Annex V- Overview of aid regulations and practices).

The de facto tied aid practices obviously have serious implications for EU exporters and investors, which is confirmed through the survey among stakeholders. It affects construction companies in particular, because a substantial part of untied aid is allocated to infrastructure projects.

Figure 20: Perceptions - Easier access to national untied aid programmes for competitors



Source: Survey feedback from stakeholders

[27] Clay, Edward J., Matthew Geddes and Luisa Natali:

Untying Aid: Is it working? An Evaluation of the Implementation of the Paris Declaration and of the 2001 DAC Recommendation of Untying ODA to the LDCs, Copenhagen, December 2009. This report can be found via the following link : https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/untyingaidisitworking.htm ,

3. EU companies face unfair competition from foreign State-Owned Enterprises.

The fact that foreign state subsidies can have an important distortive impact is recognised by the EU for among others public procurement within the EU, which led to the preparation of the Foreign Subsidies Regulation (FSR)[28]. It came into force in January 2023, but does not apply to procurement of goods and services for projects in 3rd markets that are directly or indirectly (e.g., through multilateral development banks or aid recipient countries) financed by the EU or Member States.

This regulatory gap is unfortunate, because EU companies often face unfair competition from non-OECD State Owned Enterprises (SOEs) in tender procedures for projects that are financed by EU DFIs and other Multilateral Development Banks (MDBs) in which Member States jointly have a strong shareholder position. For some EU companies it is even a reason to no longer tender for projects that are financed by MDBs.

This gap of inadequate protection against unfair bidding practices of foreign SOEs is for example visible in the procurement rules of the ADB. It has some rules to avoid unfair competition from SOEs, but these rules apply only to local SOEs that are based in the country of the project that is financed by ADB. The rules do not apply to distortive bidding practices of foreign SOEs.

An indication that foreign SOEs play an important role in tender procedures are the contract awards under projects financed by MDBs. China is today the biggest supplier of goods and services for projects financed by the IBRD and ADB, which concern projects both in- and outside China. For projects financed by the AfDB in Africa, China is today more than 2 times more successful than all 27 EU countries together. More detailed information about procurement practices of and contract awards by MDBs can be found in Annex VI - MDBs and procurement practices). Details about contract awards under untied bilateral ODA, which also show an increasing role of China, are described in Annex V.

Table 10: Contract awards of selected MDBs by country (in million USD)

Country	IBRD 2010 - 2019	AfDB Cumulative till Dec 2020	ADB 2016 – 2020	Total 3 MDBs
EU 27	23,613	2,009	10,215	35,837
USA	1,037	42	3,639	4,718
Japan	456	0.6	4,154	4,611
Korea	1,986	108	13,150	15,244
China	25,467	5.634	37,590	63,063
India	16,073	832	33,590	50,495

Source: IBRD, AfDB and ADB

The USA forbids in general any procurement of goods and services from distortive SOEs for projects that are financed by US development finance agencies. These rules apply to the development finance operations of USAID[29] and the Millennium Challenge Corporation (MCC)[30]. For USAID, in principle, all Chinese companies are excluded from procurement.

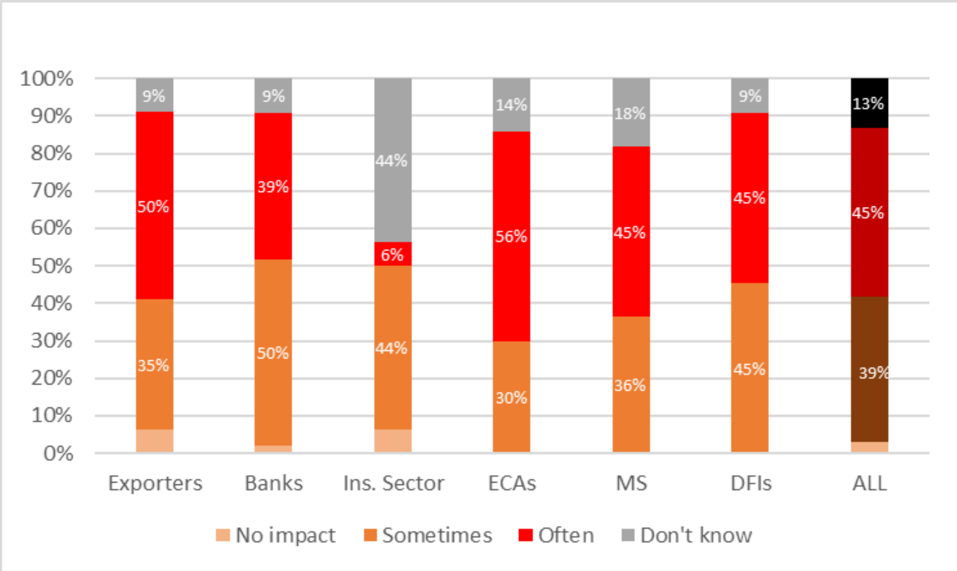
The survey feedback basically confirms that EU exporters and investors *often* or *sometimes* face unfair competition in third markets due to foreign state subsidies, loans that are not governed by the OECD Arrangement and State-Owned Enterprises.

[28] The FSR can be found via the following link : https://ec.europa.eu/commission/presscorner/detail/en/ip_23_129

[29] See among others a study from the European International Contractors: "**The Case for an EU-Africa Partnership for Sustainable Infrastructure.** Lessons learned from China's infrastructure delivery model in Africa. https://www.eic-federation.eu/sites/default/files/fields/files/eic_africa_final_einzelseiten.pdf

[30] The MCC procurement guidelines can be found via the following link: https://assets.mcc.gov/content/uploads/guidance-2020001236804-procurement-program.pdf

Figure 21: Perceptions on unfair competition relevance in 3rd markets



Source: Survey feedback from stakeholders

The lack of adequate tools to protect EU exporters / investors against distortive SOEs or other foreign subsidies can be addressed within the EU by new rules and likely needs concerted action of Member States in MDBs in which they jointly have a strong shareholder position.

iv. Bilateral DFIs often serve national business interests.

In- and outside the EU, there are many bilateral DFIs with a dual mandate or dual mandate programmes. Dual mandate DFIs support developing countries and at the same time usually serve a national business interest, which can be trade- or investment- related.

Both DFI and ECA untied investment loans, which are not regulated by the OECD Arrangement, can support internationalization of national companies or finance large private sector infrastructure projects in which national equity investors are involved. There is a complete lack of transparency concerning the terms and conditions of untied investment loans and the procurement of goods and services under these loans. It is, however, likely that untied investment support leads to more intercompany trade – foreign daughter buys equipment and services from its mother in the ECA/ DFI country – but this is not monitored and therefore unknown.

The concerns about the competition caused by the blurring of the worlds of development finance and export finance are also mentioned in the ExFi Lab White Paper . It is one of the reasons why the ExFi Lab sees a need for a new multilateral framework for export finance, which should reflect global developments among which *"the increasing use of other official financial instruments such as development finance and financing of international investments with national interests".*

Similar observations are made in the USA in a report of the Congressional Research Service of the US Congress of 22 January 2022[31], which mentions that new global rules on investment and development finance maybe needed to address international development finance competition issues. It states that *"No comprehensive 'rules for the road' exist on development finance comparable to those for government-backed export credit financing under the OECD".*

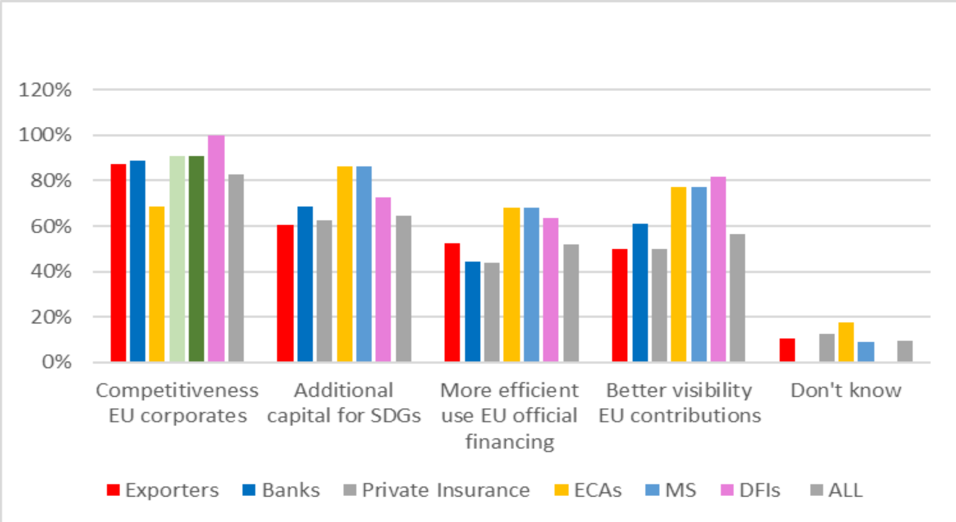
The interests of the EU and the USA in finding solutions for the competition among various official finance providers may be aligned. It requires, however, a Whole-of-Government approach to discuss how various official finance agencies can better cooperate with one

[31] Report of Congressional Research Service on "U.S. International Development Finance Corporation: Overview and Issues" dated 10 January 2022. The report can be found via the following link: https://sgp.fas.org/crs/row/R47006.pdf

another and competition between these agencies can be managed. All official finance agencies are in the end directly or indirectly funded by one or multiple governments (taxpayer's money).

Almost all stakeholders that participated in the survey consider that the development of a Whole-of-Government approach and enhanced cooperation between various EU Official Finance Agencies (EU ECAs, EU Multilateral / Bilateral Development Banks, EU ODA Aid Agencies) can contribute to (1) an improvement of EU competitiveness, (2) the mobilization of additional capital for the UN SDGs, (3) a more effective and efficient use of EU official finance and (4) an increased visibility of EU support for cross-border trade and investments and the UN SDGs (Q47).

Figure 22: Perception on the objectives of enhanced cooperation between DFIs and ECAs



Source: Survey feedback from stakeholders

v. Absence of reciprocity for untied development finance.

The procurement practices of bilateral and multilateral DFIs differ substantially from one another. Whereas the EU has substantially untied its ODA and other forms of development finance (e.g., EIB loans), this is not the case for non-OECD countries like China and India and some leading OECD countries.

Projects financed by the EIB fall under EU procurement rules, which implies open and competitive bidding. At the same time for the New Development Bank (NDB, also known as the BRICS bank) procurement is only possible from countries that are member/ shareholder of the NDB[32].

Whereas BRICS companies can benefit from EIB funds, EU companies cannot benefit from NDB funds, which has a negative impact for EU exporters and investors. In fact, NDB support could be perceived as a form of tied aid. It shows that official finance competition to support national exporters or investors is happening not only through bilateral (ECA or DFI) channels, but also through some multilateral channels. Fact is that OECD Arrangement rules on tied aid do formally not apply to development finance provided by Multilateral Development Banks[33].

[32] Article 21 of the statutes of the NDB states that "*the proceeds of any loan, investment or other financing undertaken in the ordinary operations of the Bank or with Special Funds established by the Bank shall be used only for procurement in member countries of goods and services produced in member countries, except in any case in which the Board of Directors determines to permit procurement in a non-member country of goods and services produced in a non-member country in special circumstances making such procurement appropriate*".

[33] Article 31 of the OECD Arrangement explicitly states that "*The tied aid provisions of the Arrangement do not apply to the aid programmes of multilateral or regional institutions*."

Given this situation the Commission and Member States may consider introducing the concept of reciprocity for the untying of their aid activities. Such a reciprocity principle was recently introduced in the EU in the new International Procurement Instrument (IPI)[34], which applies to public procurement within the EU, but not to procurement of projects in third markets that are directly or indirectly (via multilateral development banks or recipient governments of EU development finance) financed by the EU or Member States.

vi. Absence of additionality guidelines for various forms of official finance.

All official finance agencies operate *additional* to the private market, and this is often regulated in the mandates of the agencies and sometimes in specific additionality guidelines or principles. Complementarity rules or principles among the various categories of official finance agencies (e.g., Multilateral Development Banks, Bilateral Development Banks (BDBs), ODA Aid Agencies and ECAs/ Exim banks) are, however, absent. This may be a consequence of the silos in which the various categories of official finance agencies, their guardian authorities and international regulators operate.

In three main subgroups of development finance (i.e., MDBs, BDBs and ODA aid agencies) certain specific additionality rules exist to prevent that their operations crowd out private finance. These guidelines apply only to DFI private sector operations and not to public sector operations (e.g., sovereign lending of multilateral and bilateral DFIs).

The Arrangement includes specific rules for tied aid credits that apply to both private and public sector operations extended by the Participants. Tied aid is for example not allowed for projects in Upper Middle-Income Countries (UMICS). It is assumed that these UMICS can usually finance their investment needs on market-based terms and conditions. Similar restrictions do not apply to untied aid, which is still being provided to some UMICS.

In the Arrangement, the tied aid rules include also a so-called commercial viability test to avoid that tied aid crowds out other forms of finance that require no official support (e.g., commercial bank loans) or substantially less official support (e.g., regular officially supported export credits with minimum OECD premiums).

These more detailed rules on additionality for tied aid may also be of interest for (untied) development finance. This can for example help to avoid that unintentionally the EFSD+ guarantee is used for projects that can be financed with ECA export credit insurance. It could potentially also assist in finding a practical solution for the discussions at the OECD about how it can be avoided that new ODA guarantees, governed by the OECD DAC, crowd out ECA insurance, governed by OECD ECG[35].

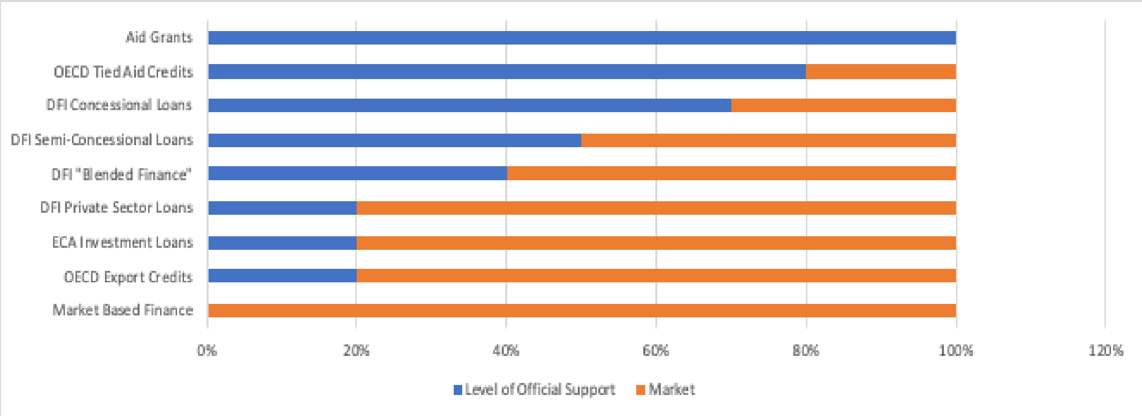
The EU could consider developing a practical tool for an additionality ranking of various forms of official finance to ensure a more effective and efficient use of scarce public funds and reduce competition between various official finance providers. This is also in the interest of EU exporters and investors, because a better alignment of official finance operations will lead to more business opportunities.

The graph below illustrates an indicative additionality ranking for different forms of official finance. The higher the level of official support of the finance (through implicit or explicit subsidies), the more prudency is needed to avoid that unintentionally other forms of official finance that require no or less official support are crowded out.

[34] See press release of the EU Council of 22 June 2022, which can be found via the following link: https://www.consilium.europa.eu/en/press/press-releases/2022/06/17/international-procurement-instrument-council-gives-final-go-ahead-to-new-rules-boosting-reciprocity/

[35] The OECD DAC has worked since 2016 on a method to calculate the grant equivalent for ODA guarantees and other Private Sector Instruments so that they can be included in measuring the ODA performance of OECD DAC members. Many OECD ECG members have expressed their concerns that potential new ODA guarantees with a certain grant equivalent would not mobilise additional capital but crowd out their ECA export credit guarantees. The issue has not yet been resolved.

Figure 23: Indicative *additionality ranking* of Official Finance for trade and investments.



Source: Sustainable Finance & Insurance [36]

3.10. Other challenges

The lack of awareness about export finance outside of the ECA world, as well as a few other gaps, were mentioned during preliminary exchanges with different public and private stakeholders. The most important ones were also covered in the Survey.

Table 11: Other issues impacting EU competitiveness.

	No Impact	Sometimes an impact	Often an impact	Don't know
Unfair competition from third countries	3%	49%	35%	13%
Lack of EU political support in third countries	13%	35%	15%	37%
Tools to answer coercion measures	6%	31%	13%	50%
Financing of feasibility studies	22%	35%	17%	26%
Financing of impact studies	15%	41%	17%	23%

Source: Survey feedback from stakeholders.

The most impactful gap refers to the difficulty to fight against the unfair competition as detailed in the previous section.

The lack of EU political support was also mentioned especially by stakeholders which are established in countries with a limited network of national (Member States) embassies. They sometimes do not know whether and how EU embassies can be approached.

A buyer can be on a sanction list of a third country and although it is not under such a sanction list in the EU, there may be no commercial bank, or even no ECA, willing to support the exporters transaction with such a foreign buyer, because of concerns of secondary sanctions. This occurred a few years ago with Iran when some exporters were ready to perform projects with the support of their ECA, but no bank (commercial or public) was willing to finance them. Given the many uncertainties of today this situation could happen again for other countries in the future.

[36] Please note: In the table it is assumed that DFI private sector loans, ECA investment loans and ECA Arrangement export credits are all more or less market based, but this has not been investigated, because pricing practices under ECA untied investment loans or DFI private sector loans are unknown due to the lack of transparency. Blended finance concerns a financing which includes some kind of subsidy, which explains a higher level of official support than in regular DFI private sector loans.

As some other countries (Korea[37], USA[38], etc.) offer it to their exporters, most stakeholders would welcome solutions to finance (or at least pre-finance) environmental and social impact studies, and to a lesser extent feasibility studies. These impacts studies are requested both by ECAs in accordance with the OECD Common Approaches and by commercial banks, which refer to the Equator Principles. The French Banking Federation mentioned a need for such studies in May 2022. As they have to be conducted by independent consultants before the coming into force of a commercial contract (and the payment of a first down-payment by the buyer), exporters may need some financial support to pay the consultants before the signing of their commercial contract.

Finally, some challenges which were not discussed at length with private stakeholders relate to the lack of awareness about export finance outside the ECA world, the image of export finance and the constraints created by the unique status of the Arrangement in the EU.

During different interviews conducted with persons not regularly dealing with Export Credits, within the Commission, DFIs or some business organisations, a clear lack of awareness about the activities of ECAs and their developmental relevance for the EU and developing countries appeared, which does not help to promote a coordinated approach of the public instruments made available to support EU corporates. As an example, the fact that outstanding exposure of official ECAs is more or less equal to credits outstanding of the IMF, eight leading Multilateral Development Banks and EDFI members combined is not known (see Annex I).

The ECAs sometimes have a poor image as regards the management of the environmental and social issues of the projects they cover, although they have promoted the use of standards based on World Bank guidelines (the Common Approaches) since the mid-1990's. This poor image may partially be caused by the limited information made available by MS ECAs on their activities. The EU Ombudsman expressed her concerns on this limited information (Case 212/2016/JN).

Another concern relates to the fact that the EU is the only OECD Participant which transposes the Arrangement, which is a gentlemen's agreement, into hard law with the Regulation 1233/2011 while for other OECD Participants it remains a soft law. This can have several consequences:

- In line with the article 218-9 of the TFUE, the Commission has to consult the Council for any modification or waiver (the so-called Common Lines) which makes the EU less agile than other Participants to manage them.
- There might be some formal unclarity as regards the validity of a new version of the Arrangement before its validation by a Delegated Act. Usually, a revised text of the Arrangement is published every year. The penultimate Delegated Act was published in 2017. The last Delegated Act, published in the Official Journal on 8 February 2023 mentions that "*The main changes adopted by the Participants to the Arrangement and its various Sectors Understanding from February 2017, the date of the currently applicable version, to January 2022 are.....".* This could give the impression that changes published by the OECD between 2017 and 2021 were formally not applicable before 8 February 2023. As the time between the preparation of a delegated act and its publication can reach 12 months, uncertainties may arise again with the expected modernisation of the Arrangement agreed in principle on 31 March 2023. The possibility of considering again the Arrangement as soft law in the EU as it is the case in other OECD countries is questionable although it could be very helpful for ECAs and their customers. It will probably be out of reach without an improved information on their activities.

Another example could be the CRR which imposed in 2019 to raise regulatory provisions on non-performing loans covered by ECAs. This measure had been adopted to sanction inefficient

[37] https://www.koreaexim.go.kr/he/HPHEIR024M01

[38] https://www.dfc.gov/what-we-offer-our-products/technical-assistance-feasibility-studies

guarantees but the capacity of ECAs to indemnify as scheduled the lending banks was never questioned and their case could not be dealt in a general framework. For years, ECAs and EU banks have asked for a removal of this obligation which could be adopted 5 years later in the next CRR to come.

A Whole-of-Government approach could be useful for the coordination of EU public financial tools but also in the preparation of EU rules which can have unintended consequences on the support to exporters such as the STEC, the CRR or the transposition of the Arrangement in *hard law* in the EU.

3.11. Recent events

A few significative events which occurred since early 2022 or could occur in the coming months might have an impact on gaps identified in this report and the accurateness of some proposals.

A. Modernisation of the OECD Arrangement

The modernisation of the Arrangement is an important milestone. The main announced changes relate to an enlarged scope of the Annex IV which deals with sustainable projects and renewable energies, larger durations, more flexible repayment schedules and the flattening of premium charged for very long-term loans. This should contribute to better terms and conditions for officially supported export credits. More flexibility and longer tenors could generate an increased demand for regulated export credits. The envisaged longer maximum credit periods will likely reinforce the need for adequate refinancing tools for very long-term loans. Furthermore, the modernisation of the Arrangement will not alleviate the pressure on risk capacities of individual Member States ECAs, especially when demand for official support for various important international policy objectives is expected to increase.

It could also potentially reduce the need for unregulated untied investment loans, but this is uncertain. Many regulatory differences remain existent. (e.g., minimum premiums for export credits, but no minimum premiums for untied investment loans). In addition, various other competitiveness issues relevant for EU exporters and investors, which are governed in other international fora, such as untied aid that is de facto tied, the operations of dual mandate DFIs and unfair competition caused by distortive bidding practices of non-OECD State Owned Enterprises require further attention of the EU.

B. War in Ukraine

While most private insurers and many MS ECAs are reluctant to support new operations in Ukraine, which was downgraded in category 7 by the OCED early 2023, an EU support with a special pure cover scheme using an EU guarantee benefiting to MS ECAs will be critical to open the door to new covers which will be required to support imports into and the reconstruction of Ukraine.

Outside of Ukraine, this war is creating more uncertainties, which will likely generate additional demand for credit-insurance.

C. Rising interest rates

During the year 2022, the 10-year CIRR rates, following market developments, increased from 0.57 % to 3.19 % in Euro and from 2.23 % to 4.72% in US Dollar. In parallel, Euribor 6-month rate for Euro, which had remained in negative areas between 2016 and early 2022 reached 3.3% early March 2023.

Rising interest rates will likely lead to an increase of debt sustainability challenges for many developing countries and increased financial issues for corporate borrowers both in developing and developed countries. They will likely also affect the capacity of private financial markets to accommodate financing for new investments and generate a greater need for public support, in export financing and development financing.

D. New EU Agendas

Early 2023, the Commission released two Communications related to “A Green Deal Industrial Plan for the Net-Zero Age” on 1/2/2023 and “A secure and sustainable supply of critical raw materials in support of the twin transition” or CRM Act on 16/3/2023.

The CRM Act mentions the need for financing supporting investments in mining and import contracts.

They both refer to export finance as a tool to support these policies. They also mention the EU Export Credit Strategy and a possible EU Export Credit Facility. The CRM Act furthermore calls for an enhanced cooperation between DFIs and ECAs.

All-in-all, these developments are not likely going to take away the market gaps for EU exporters and investors as identified in this study. It is likely that some gaps will be widened due to increased uncertainties in global trade and investments.

3.12. Concluding observations on main market gaps.

The interviews as well the workshops were the opportunity to identify several gaps which were somehow rated in parallel by the survey. They are ranked in three categories: high, medium and low according to their level of importance for corporates and banks. The impact scorings of other stakeholders such as private insurers and brokers, ECAs and Member States could obviously be different. Some gaps can be considered as having a *high* impact for some stakeholders while for other stakeholders this has a *low* impact. For example, exporters from countries with a less favourable credit rating face difficulties to obtain MLT export finance from commercial banks, which is not the case for exporters from well rated countries.

Market gaps identified can be classified in terms of the degree of impact for exporters and banks in all EU countries:

Table 12: Market gaps identified.

Level of impact	Market Gaps for corporates and banks
High impact	▪ need for a modernisation of the Arrangement (recently announced). ▪ limited risk capacities to cover some countries, sectors or large projects. ▪ difficulty of managing large projects (multi-sourced; project finance). ▪ lack of ST covers for SMEs exports, even to marketable risk countries. ▪ lack of ST export financing in some EU countries. ▪ lack of consistent criteria on national content which could affect the definition of an EU content. ▪ financial terms offered by commercial banks less attractive than the ones offered by direct lenders. ▪ absence of a Whole-of-Government approach for Export Finance in the EU. ▪ limited capacity to support EU exporters with a tied-aid scheme. ▪ lack of adequate protection against distortive bidding practices of competitors.
Medium impact	▪ lack of MLT untied investment loans or guarantees. ▪ lack of covers for single risk transactions with a repayment period between 180 – 720 days. ▪ lack of ST and MLT covers for many EU corporates for exports to relatively high -risk markets (OECD categories 4 to 7). ▪ financing of studies (E&S, feasibility). ▪ difficulties to have access to adequate CIRR. ▪ absence of schemes to support strategic imports.
Lower importance	▪ a vehicle to support co-investment in equity. ▪ capacity to enhance the rating of some ECAs. ▪ vehicle to manage coercion measures of third countries. ▪ limited political support of EU delegations in third countries.

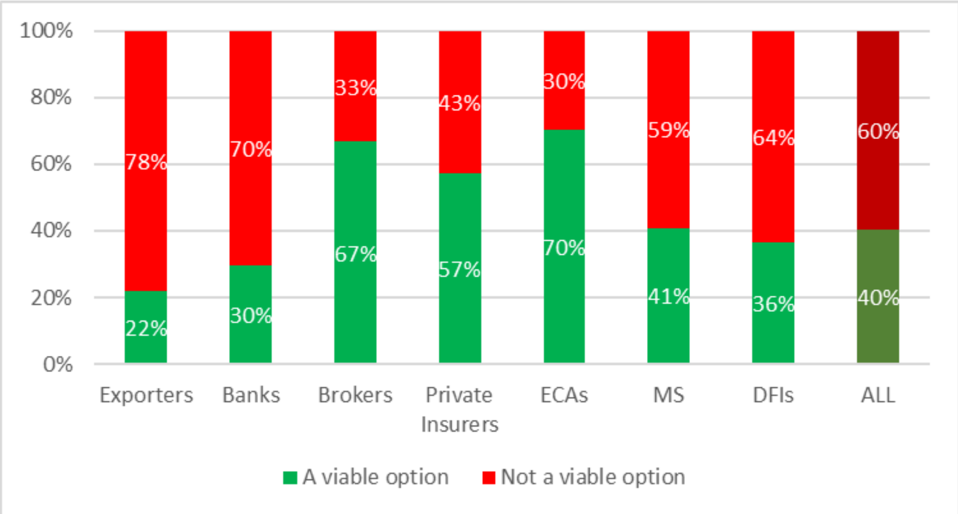
Source: Consultancy team assessment

4. TOWARDS AN EU EXPORT CREDIT STRATEGY

4.1. Is the Status Quo a viable option?

The status-quo in officially supported export credits in the EU makes it difficult to bridge the gaps identified previously by many stakeholders. This is confirmed in the feedback to the survey question "*whether there is a need for an EU Export Credit Facility to support or complement the services or instruments provided by MS ECAs at the national level or whether the current status quo is a viable option*"?

Figure 24: Perceptions on the viability of the current status quo



Source: Survey feedback from stakeholders.

Most exporters (78%), commercial banks (70%), Member States (59%) and DFIs (60%) consider that the status quo is not a viable option.

On the contrary, the majority of insurance brokers (67%), private insurers (57%) and MS ECAs (70%) consider that the status quo is a viable option. This doesn't mean that insurers consider that no changes should occur. Their responses may have been driven by concerns that potential new EU initiatives may affect their insurance operations or by views that potential competition issues faced by their exporters and investors can be better addressed at the national level by either the private market or Member States and MS ECAs themselves.

4.2. Formulation of an EU Export Credit Strategy

The key objective of an EU Export Credit Strategy would be to enhance the competitiveness of EU exporters and investors in global markets by improving the availability, efficiency and impact of EU official support for the financing of cross-border trade and investments. The strategy would span two key areas.

In the area of export finance per se, the strategy would support MS ECAs and related systems and alleviate the bottlenecks they may face so that they are better placed to support EU exporters and investors and address the export finance gaps they experience in global markets. This includes facilitating the financing of EU exports or investments with EU content or business interest that may be currently supported by Member State systems. This could also help level the playing field for EU exporters and investors by giving them access to export finance products that match those available to their global competitors.

The strategy would cover areas regulated by the Arrangement (officially supported export credits with a tenor of 2 years or more, including tied and partially untied aid credits) as well as officially supported finance that is not regulated by the OECD Arrangement (e.g., ST export credits, investment loans, development finance used for cross-border trade and investments, domestic business and imports), in which competing non-OECD and OECD countries are very active and provide extensive support to their exporters and investors.

As noted in the previous chapters, the nature and extent of the gaps faced by exporters, overseas investors and their financiers vary enormously from country to country, depending on the size of its economy, its industrial structure, markets conditions, as well as institutional and technical capability. Any EU-level intervention needs to be flexible and well-targeted to be able to accommodate the diversity of market gaps and institutional set-ups across Member States. Besides country-specific issues, the strategy would also help EU export finance systems address the systemic challenges mentioned in earlier chapters and as described in more detail in the Interim Report (see Annex I).

Beyond export finance, more broadly, the strategy would also aim to level the playing field for EU businesses by improving their access to opportunities afforded by other forms of official finance, including development finance and official aid. Access to these opportunities is currently much broader for business from donor countries outside the EU.

Improving the export- and investment competitiveness of EU business would serve internal EU policy objectives, such as employment, value added, economic growth and the generation of inflows in the balance of payments. As envisaged by the Trade Policy Review, the strategy would also aim to serve broader EU external policy objectives, notably with respect to the Global Gateway, the Green Deal, the Africa Strategy or the proposed Critical Raw Materials Act. The strategy aims to achieve synergies between internal and external EU objectives and leverage the use of related EU financing streams.

Importantly, the proposed strategy would embody EU principles (detailed in Annex XII). These include:

- Subsidiarity: any facility created as part of the strategy must complement, rather than replace, interventions at Member State level. Many Member States have highly effective ECAs and export finance systems. These systems are a strength to the EU. They must be leveraged and, in some cases, strengthened, if necessary, not replaced.
- Additionality: the EU has a deep private export finance market. The top three global leaders in private credit insurance (especially for short-term) are all European, and so are 8 of the world's 15 most active export finance banks. The measures taken by EU and Member State authorities should catalyse and supplement, not crowd out, commercial insurance or financing available from the private sector, on terms that do not distort the operation of commercial markets.

The strategy and related actions would also fully comply with the international regulatory frameworks, including the Arrangement, OECD and other environmental, social and governance guidelines, WTO agreements as well as with EU rules (including state-aid rules). Member States and EU institutions would both have key roles to play in the formulation and implementation of the strategy. Member States (ECAs and their guardian authorities, usually ministries in charge of finance, economy or external trade) are closest to their respective export finance markets and are well placed to design and implement interventions tailored to the needs of their exporters.

These measures could be supported by actions taken at the EU level.

Actions at Member States and EU levels could include both *software* and *hardware* interventions. *Software* interventions, described in the rest of this chapter, include advocacy, technical assistance, coordination, and some regulatory adjustments that do not entail a substantial institutional or financial commitment, or additional risk exposure for the EU or EU institutions.

Software interventions could be classified into two categories:

- Upstream measures which aim to improve the overall efficiency and impact of Member State export finance systems by strengthening policymaking, institutional capacity, and operating procedures if required, encouraging ECAs to share best practices and work even better together, leaving them in a stronger position to face challenges (*upstream* improvements), and

- Downstream measures which aim to address some concrete gaps faced by EU businesses. (e.g., EU competitiveness issues due to different practices in official support for ST export credit insurance and finance and unclarity for various Member States on the application of EU state-aid rules to these forms of official support).

These software measures could be complemented by financial instruments designed to address steep gaps experienced by exporters, in tandem with national export finance systems. These *hardware* measures, further examined in Chapter 5, would entail a more substantial financial commitment or risk exposure from the EU.

4.3. Key *software* measures pursued by the MS ECAs

As a first step, MS ECAs and Member States can share information with one another on best operating practices and how to manage gaps experienced by exporters.

Various measures would alleviate constraints affecting MS ECAs. They could be undertaken at Member States level and could directly or indirectly contribute to an improvement of the competitiveness of EU exporters and investors. They may include:

A. Increased risk-sharing among MS ECAs

If all MS ECAs had reinsurance agreements with all the others MS ECAs, 276 agreements would exist. At the end of 2022, around 95 agreements were signed and less than half of them were actually used. This can be explained by the fact that some ECAs do not need such arrangements, but also by the lack of standardized documents and procedures.

The signing and utilization of more standardized reinsurance agreements could help MS ECAs to share more easily risks and manage exposure constraints. Such an initiative has been processed by some ECAs since the end of 2022.

MS ECAs could also explore more actively the potential use of private reinsurance to address their risk constraints.

Standardised co-and re-insurance agreements for multi-sourced transactions could facilitate the implementation of multi-sourced financing by commercial banks, which in turn would improve the competitiveness of EU exporters. Many exporters as well business organisations such as the French MEDEF are therefore in favour of more standardised cooperation between MS ECAs.

B. An improved harmonisation on their procedures

This would be in line with the Council Directive 98/29/EC of 7 May 1998 on harmonisation of the main provisions concerning export credit insurance for transactions with medium and long-term cover.

A further harmonisation could be managed by the ECAs themselves as they do it now for reinsurance agreements.

MS ECAs could consider a possible common definition/insurance approach for the cover of EU content. This also in light of the EU Council Decision to cover 30% EU content. Today different approaches on national cover exist. Some MS ECAs broadly refer to *national interest*, while others more narrowly focus on *national content*: i.e., goods and services sourced from their country. It is noteworthy that smaller MS ECAs are in general, likely because of the size of their economies, more flexible in covering foreign content than larger MS ECAs.

Enhanced cooperation regarding for example Environmental, Social and Governance (ESG) topics in multi-sourced transactions, would also be appreciated by EU exporters (e.g., joint ESG studies, procedures and assessments).

C. A platform to share experiences

Exchanges among public and private insurers already take place within the Berne Union but they are not designed to specifically deal with the promotion of EU interests or the management of EU rules. These can be quite different from the interests or values of other members of the Berne Union. Hence there is a need for a European platform for exchanges. This could be useful for the management of EU rules such as EU sanctions or waivers regarding the STEC or the 80% cap on new covers. It could also apply to the development of new products to better serve national exporters /investors.

Furthermore, a Whole-of-Government approach at Member States level could be developed, aiming at improved cooperation between national official agencies involved in export credits and development finance at a national level.

D. The promotion of credit-insurance towards corporates, especially SMEs

MS ECAs could consider an improved communication on the benefits of credit insurance to their national business community, in particular to the SME sector. This could be done in cooperation with private insurers and brokers. The involvement of brokers may be useful to make ST and MLT ECA insurance products better available for SMEs.

E. An advocacy activity

This study made clear the very limited awareness on the activities of the ECAs outside the silo of Export Finance. An improved communication within the EU about the importance of their official support for cross-border trade and investments is necessary. It could contribute to pave the way towards an improved image to feed and update a comprehensive EU Export Credit Strategy.

In a more and more transparent world, the lack of data on the activities of the MS ECAs impedes a clear communication on the contribution of the MS ECAs to EU agendas or the UN SDGs. Ignorance may even create suspicion and might impede the improvement of the image of the ECAs. It could also be useful to support the preparation of reports on the competitiveness of EU ECAs and to update a comprehensive EU export finance strategy.

This advocacy could include the preparation of joined position papers such as the memo on Provisions for Non-Performing Loans signed by several MS ECAs in September 2021.

This could help to highlight how MS ECAs through their operations can contribute to EU Strategic Agendas (e.g., EU Green Agenda, CRM Act, EU Africa Strategy) and the UN SDGs at large.

MS ECAs could, like EU DFIs, also report their own contribution to the UN SDGs and the amounts of capital that are mobilized through their operations in a more systemic manner. The reporting framework for Total Official Support for Sustainable Development (TOSSD)[39] could potentially be used as a basis. It could also assist in building bridges with the EU DFI community and improving the image of MS ECAs.

F. A review of the impact of unintended consequences of specific EU rules

EU rules can impact the competitiveness of EU exporters and investors as well as of MS ECA-insurers and Exim banks. This could include the review of the legal status of the Arrangement in the EU, a review of the application of the STEC for ST export credit insurance, the consequences of the 80% cap for guarantees for non-Arrangement business or financial rules such as the CRR.

[39] For further information on TOSSD reporting it is referred to the TOSSD website, which can be found via the following link: https://www.tossd.org/what-is-tossd/

G. Shared services

As a consequence of their limited size, some MS ECAs face difficulties to manage their projects during the inception phase (risk assessment, management of E&S studies, etc.), the normal life of a project (IT systems, etc…) or in their final phase (payment of claims, management of recoveries, etc.). These processes can also be too costly for a single ECA and cost-sharing could improve their efficiency.

An EU ECA Service company could help MS ECAs in their capacity building.

It could also provide support for the preparation of reports on the activities of MS ECAs, such as those mentioned in Regulation 1233/2011.

It could also assist MS ECAs in offering reinsurance / finance solutions for EU exports and investments beyond what individual MS ECAs are able to offer themselves. This could include:

- Private (re-)insurance solutions
- Insurance solutions from specialized multilateral insurers such as MIGA, ATI and ICIEC
- Insurance / guarantee solutions from Multilateral Development Banks, (e.g., trade finance Programmes of IFC, EBRD, ADB, IaDB, AfDB).

These initiatives could be taken by some MS ECAs on an individual and voluntary basis, by several MS ECAs in a coordinated manner or by all of them. In some cases, they could be coordinated within the Council Working Group on Export Credits or via proposals from the Commission to the Council,

Existing informal forms of cooperation at the MS ECA-level on specific EU topics could be improved. They already include, among others, the exchanges within the ExFi Lab with voluntary participation of representatives of the Commission, Member States and MS ECAs, the informal meetings of the CEOs of certain MS ECAs, which met thus far 3 times since February 2021 and discussed among others potential improvements of reinsurance among MS ECAs.

Interesting lessons could be learned from the experience of EDFI (the association of European Development Finance Institutions). EDFI was created in 1992 to strengthen mutual cooperation and to facilitate knowledge-sharing and learning. EDFI has currently 15 members, consisting of European private sector oriented DFIs. It serves as an important joint liaison office for the Commission. The EDFI members established later (in 2016) a joint service company (EDFI Management Company or EDFI-MC). It delivers services of common interest to EU DFIs, which relate among others to risk-sharing and co-financing.

Box 2: Job Description of the General Manager of EDFI (March 2023)

> *The General Manager will promote to the joint interests of EDFI's member Development Finance Institutions (DFIs), inform policy and drive innovation in industry standards. Current key strategic objectives of EDFI include partnership with EU institutions, DFI collaboration and crisis response, impact harmonisation, mobilisation of private investment, and network coordination.*

Source: EDFI website

Another interesting association is the European Association of Public Banks (EAPB), which mandate is to be "*the voice of the European public banking sector*". Its 90 members are national and regional promotional banks, municipality funding agencies and public commercial banks across Europe (including some Exim banks).

Given international and specific EU challenges experienced by EU exporters, banks and MS ECAs the establishment of a similar EU association for MS ECAs to further enhance the exchange of information and better liaise with developments in the EU could be very useful. The EU association could also liaise with MS official finance entities that provide finance support for exports (e.g., MS refinancing agencies and MS CIRR providers).

While the creation of an Association could likely be managed in a few months, the establishment of a shared service company will likely require more time. A common view has to be developed on potential areas for shared services and more clarity has to be obtained about particular needs of MS ECAs for technical assistance.

On certain specific EU topics, the potential EU ECA association could invite the Commission in various meetings as an observer/ participant or to fund some initiatives.

Interventions at the level of MS ECAs have various pros and cons. The most important ones are here summarised:

Table 13: Key considerations – Member States only software measures

Stakeholders	Main Advantages	Main Limitations
Exporters/ investors and banks	▪ Potential enhanced cooperation between MS ECAs with indirect benefits for EU exporters and investors	▪ No financial solution to manage constraints on risk capacities and other financial gaps
ECA World and MS	▪ Improved visibility of role of MS ECAs and enhanced advocacy, potentially via EU association for MS ECAs. ▪ Potential shared services among MS ECAs themselves. ▪ Potential technical assistance for MS ECAs that need capacity building.	▪ Market gaps remain to be addressed at MS level, whereas some MS ECAs don't have the resources to address them adequately. ▪ Coordination limited to some voluntary MS ECAs
EU	▪ Maybe a modest financial contribution to shared service company of the EU ECA association. ▪ No capital investment in EU Export Credit Facility	▪ Limited improvement of a European Whole-of-Government Approach. ▪ No EU facility to address financial gaps identified by EU businesses

Source: Consultancy team assessment

4.4. Key *software* measures at an EU level

Complementing the initiatives taken by Member States and their ECAs, the EU could undertake additional measures to reinforce the institutional framework in which MS ECAs are operating (upstream level). This level has two components, namely:

- EU facilitates coordination and improved cooperation among MS ECAs
- EU facilitates coordination for the development of a Whole-of-Government approach at an EU level to among others improve cooperation and alignment of the operations of MS ECAs and EU DFIs (e.g., EIB, MS DFIs and ODA agencies).

This level does include *software* measures but does not include an EU Export Credit Facility and its financial functions.

4.4.1. Improved cooperation and policy coordination for MS ECAs operations.

On some key EU policy topics that cannot be adequately tackled by Member States and their ECAs alone as considered in the Section 4.3, the improved cooperation could be stimulated, coordinated and maybe even regulated at the EU level (Commission, Member States and MS ECAs through the Export Credit Group Council).

In this context, the Council may want to review the current mandate of the Policy Coordination Group for Credit Insurance, Credit Guarantees and Financial Credits, which was set up in 1960 and is more commonly known as the Council Working Group on Export Credits (ECG).

In practice, the ECG currently mainly discusses various export credit topics and is specifically tasked to prepare a common EU position for negotiations in the OECD on officially supported export credits, but its mandate is broader than officially supported export credits. Interesting is also that the EIB can be involved in ECG meetings. A Council decision of 1960[40] states explicitly that the ECG *"shall invite representatives of the European Investment Bank to take part in its work".* Such presence could assist in improved cooperation between the EIB and MS ECAs and the development of a Whole-of-Government approach at an EU level.

Box 3: Mandate of the Policy Coordination Group for Credit Insurance, Credit Guarantees and Financial Credits

	It shall be the task of the Group:
A.	*to put forward suggestions for the harmonisation between Member States, where this is within their competence, of terms and conditions for export-credit insurance, financial credits and investment guarantees, having due regard in the case of export credit insurance to the rules of the Berne Union and to the work carried out by bodies set up by Member States in this field.*
B.	*to seek appropriate means to further multilateral use of the financial resources made available to developing countries.*
C.	*to promote exchange of information and to encourage consultation on all concrete problems coming within its competence.*
D.	*to put forward suggestions within its competence with a view to coordinating the positions of the Member States or their specialised bodies within international organisations.*

Source: Official Journal of the European Communities 1339/60 of 27 October 1960

In accordance with its mandate, the Commission and Member States could set up experts' groups to provide concrete harmonisation suggestions, which could include terms and conditions of Member States non-Arrangement operations (e.g., harmonised pricing), refinancing support, CIRR support, increased cover for EU content and standardising of co- and re-insurance within the EU. It could potentially also play a role in exchanging views among Member States for a possible formulation of a common EU position regarding strategic issues for the operations of Multilateral Development Banks in which Member States hold equity. (e.g., re distortive bidding practices of non-OECD SOEs in projects that are directly or indirectly financed by Multilateral Development Banks).

The Commission and ECG could catalyse improved coordination and cooperation in the EU among Member States ECAs further through a strategic policy dialogue within the ECG.

For the desk research required for this Study, the Commission had no clear data about the activities of the MS ECAs while all MS ECAs share data with the Berne Union. The Berne Union is unable to share their data with third parties. This required a heavy process of data collection and duplication of work for MS ECAs to have a view on all their activities.

In a similar way, data on tied aid, as reported under the Arrangement, are shared with the OECD Participants (including the Commission and Member States) but since the data is not made public it could not be shared for this study.

Comprehensive data about the export finance activities of Member States refinancing agencies or CIRR providers are today not available.

Data about the cross-border trade and investment activities of EU DFIs and the extent to which they are linked to national business interests are not available. The procurement of goods and

[40] Source: COUNCIL DECISION setting up a Policy Co-ordination Group for Credit Insurance, Credit Guarantees and Financial Credits of 27/09/1960 (1339/60), which can be found via the following link: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:31960D1027(01)&from=en

services under EU DFI development finance is also unknown. Data on the ODA activities of Member States and other OECD Members of the Development Assistance Committee (DAC) are published by the OECD DAC, but not adequately considered in the context of global competition challenges.

This lack of knowledge complicates the development of an EU Export Credit Strategy.

A lean process of collection of data could contribute to

- The advocacy of Member States ECAs at the EU level
- The preparation of improved annual Activity Reports required by the Regulation 233/2011
- The preparation of a Competitiveness Report for EU ECAs to review on a regular basis the EU Export Credit Strategy (as US Exim Bank does). Such a report could feed the internal dialogue and increase awareness among stakeholders about the operations of MS ECAs and their key challenges and their relevance to the EU and the global economy.

Current MS ECAs are quite diverse, in their size and activity range. It would be important to ensure that all MS ECAs are equally informed about the measures some of them take. This could be accommodated at the EU level through the Association and the Council Working Group on Export Credits. For countries that currently do not have a dedicated ECA, it could be considered to involve their National Development / Promotional Banks in this process.

4.4.2. Development of an EU Whole-of-Government approach for Export Finance

This could encompass several areas:

A. Improved cooperation and coordination between MS ECAs and EU DFIs (e.g., EIB, MS DFIs and ODA Agencies)

For the development of a Whole-of-Government approach and enhanced cooperation between EU DFIs and MS ECAs, a good mutual understanding of the business operations and practices of ECAs and DFIs – both at the agency level and the policy level (ministries in Member States and different DGs at the Commission) – is very important. DFIs and ECAs have many common features and shared interests (see Annex I: Executive Summary of the Interim Report), but this is today not sufficiently recognised due to knowledge gaps at both levels.

Today, there are not yet any structures within the EU for a structural dialogue at (1) agency level (between MS ECAs and EU DFIs) or (2) the policy level whereby relevant parts of the Commission (DG Trade and DG INTPA, DG NEAR, other DGs?) and Member States (ministries involved with ECAs, ODA and multilateral and bilateral DFIs) to discuss Whole-of-Government topics of common interest.

The Global Gateway has thus far mainly been discussed with EU DFIs (including the DFI guardian authorities). First steps have been made to also involve MS ECAs in line with its presentation of 2021 which refers to the establishment of a European Export Credit Facility. Furthermore, a Business Advisory Group will be established to ensure that the inputs from the private sector are fully factored in the implementation of the Global Gateway[41]. It is at this stage not yet fully clear how MS ECAs can cooperate with EU DFIs in the Global Gateway and whether they – like EU DFIs – can get access to the financial resources of the initiative. The Commission's joint staff working document "Main Outcomes of the Mapping of External

[41] See press release of the European Commission of 8 March 2023: Global Gateway: Call for applications for the Business Advisory Group, which can be found via the following link: https://ec.europa.eu/commission/presscorner/detail/en/ip_23_1481

Financial Tools of the EU" of 11 April 2023 suggests that the EFSD+ blending instruments could potentially be used for projects in which MS ECAs are involved[42].

The involvement of the EU business community, including exporters, investors and banks with the Business Advisory Group under creation as well as the enhanced cooperation between DG INTPA and DG Trade could be very useful to establish cooperation between MS ECAs and EU DFIs in the Global Gateway. Interesting lessons could be learned from Whole-of-Government approaches in competing countries.

Close cooperation between various government agencies among which ECAs, ODA Aid Agencies and DFIs (and their guardian authorities) is a common practice in China, Japan and Korea. The USA has launched in June 2019 its "Prosper Africa Program" which aims to increase trade and investment between African nations and the United States and involves 17 government ministries and agencies, including US Exim Bank, US-DFC, USAID and MCC[43].

In May 2022 the UK announced its new development strategy. It is going to substantially reduce its multilateral ODA so that more funds can become available for bilateral purposes and British development support – through ODA and its DFI British International Investment or BII, – will be explicitly linked to British expertise and other British interest such as strengthening the London City as a global financial centre[44].

An interesting area for cooperation between EU DFIs and MS ECAs is the insurance by MS ECAs of investment loans or development loans provided by EU DFIs that are wholly or partially used to finance imports of goods and services into developing countries or inward foreign investments into these countries. By using ECA insurance EU DFIs could optimise their balance sheet utilisation, free up economic capital, which can be used to increase their financing for the UN SDGs. Using insurance is also an effective tool to mobilise more capital for development. To encourage this type of successful cooperation it is likely necessary to harmonise and improve the existing mobilization measurement systems in the development finance community and to include ECAs in the reporting[45].

The examples in Box 2 below show that ECA insurance can be very useful for EU DFIs and can contribute to the UN SDGs and the EU Green Deal.

[42] The Commission's joint staff working document can be found via the following link: https://data.consilium.europa.eu/doc/document/ST-8157-2023-INIT/en/pdf

[43] For more information it is referred to the website of Prosper Africa: https://www.prosperafrica.gov/about/

[44] More information about the UK government's strategy for international development can be found via the following link: https://www.gov.uk/government/publications/uk-governments-strategy-for-international-development/the-uk-governments-strategy-for-international-development

[45] There are currently two separate mobilization measurements systems, one developed and used by the OECD DAC, which concerns the reporting of Total Official Support for Sustainable Development (TOSSD) and one developed and used by Multilateral Development banks and EDFI members. See for MDB mobilization system: https://www.adb.org/sites/default/files/page/672516/mdbs-private-investment-mobilization-guide.pdf and for OECD DAC: https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/mobilisation.htm

Box 4: Examples of EU, DFI and ECA cooperation

Renewable Energy in Kenya and support for Danish exports.
Lake Turkana Wind Power (LTWP) project in Kenya in which the Danish ECA EKF provided cover to the EIB and AfDB. Total project cost was around EUR 625 million. LTWP is Kenya's largest single private investment in its history. The windfarm adds renewable energy equivalent to 17% of Kenya's installed electricity generating capacity. The reason for EKF's involvement is that the project included substantial imports of goods and services from the Danish windmill manufacturer Vestas. The project was mainly financed by multilateral and bilateral DFIs and benefitted also from equity investments of two Scandinavia DFIs, namely FinnFund from Finland and IFU from Denmark. a. See EIB overview of financed projects of 4 February 2013: https://www.eib.org/en/projects/pipelines/all/20090484
Renewable energy in Latin America and support for an Italian investor.
Enel, EIB Global, and SACE joined forces to support the development of renewable energy and energy efficiency programmes in Brazil, Colombia, and Peru through sustainability-linked financing instruments to mitigate the effects caused by climate change. To this end, the EIB has provided Enel with a sustainability-linked financing framework which foresees a multi-country, multi-business and multi-currency facility of up to EUR 600 million, backed by a guarantee from SACE. This agreement represents EIB-SACE's first sustainability-linked operation and the bank's largest financing to a private sector entity outside Europe. Projects financed with this facility are expected to generate around 2,307 GWh of clean energy each year, equivalent to the annual consumption of 1.32 million households. The important reason for SACE's involvement is to support the international expansion of Enel in Latin America. Enel is an Italian multinational company in the energy sector and a leading integrated operator in the global electricity and gas markets, with a particular focus on the European and Latin American markets. The Italian government is with 23.7% the largest shareholder of Enel. See press releases of EIB and SACE of 11 April 2022: b. EIB: https://www.eib.org/en/press/all/2022-195-enel-agrees-on-eur600-million-facility-with-the-eib-and-sace-for-sustainability-linked-financing-in-latin-america c. SACE: https://www.sace.it/en/media/enel-agrees-on-600-million-euro-facility-with-the-european-investment-bank-and-sace-for-sustainability-linked-financing-in-latin-america

B. Contributions of EU ECAs to the EU agendas

In addition to the Global Gateway, EU ECAs could contribute to other EU Agendas which were mentioned at the inception of this report such as the Green Deal, the Africa Partnership.

Interestingly, two recent EU initiatives (the Green Deal Industrial Plan for the Net-Zero Age and the Critical Raw Material Act) refer to a European Export Credit Facility.

The business model of Export Finance in the EU, which combines loans provided by commercial banks and covers extended by ECAs, is also a way to mobilise commercial bank financing towards these Agendas. As reflected in various studies insurance and guarantee products are the most effective in mobilising private capital[46].

C. Management of other EU rules

EU rules which are usually meant to secure an open internal market can have unintended consequences for exporters and export finance. The CRR rules on provisions is a good example of a need for some coordination at the EU level before the publication of new rules.

Private insurers expressed their concerns about the treatment of their comprehensive covers under the current CRR. To convince regulators on the need to adjust CRR rules private insurers should consider providing in close cooperation with their customers, the banks, aggregate data that proofs their case.

[46] See among others various OECD Studies https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/mobilisation.htm. and the G20 report of the so-called Eminent Persons Group "Making the Global Financial System Work for All" which can be found via the following link: https://www.globalfinancialgovernance.org/

Once rules are adopted, there is a need to explain how waivers could be presented and obtained in a smooth and consistent way. The STEC rules, which are intended to protect private insurers against unfair competition from public insurers caused by state-aid can negatively impact the competitiveness of EU exporters, in particular SMEs. Also, clarity on the 80% guarantee cap and how Member States can deviate from this principle for new covers would be very helpful.

D. Additionality ranking for different forms of official finance for cross border trade and investments.

A practical tool for an additionality ranking of different forms of official finance for cross-border trade and investments can assist in an alignment of operations between various providers of official finance. This could be an interesting tool to explore cooperation and alignment of operations for projects under the EU Global Gateway[47] and other EU Strategic Agendas.

Table 14: Key considerations - software measures at MS & Commission levels

Stakeholders	Main Advantages	Main Limitations
Exporters/ investors and banks	• Potential indirect benefits of improved cooperation between MS ECAs	• No financial solution to manage constraints on risk capacities and other financial gaps
ECA World and MS	• Improved visibility of role of MS ECAs. • Development of a WoG approach within the EU	• Market gaps remain addressed at MS level, whereas some MS ECAs don't have the resources to address them adequately.
EU	• Development of a WoG approach within the EU regarding Enhanced EU coordination with Development Finance • Better support to EU Agendas • Better consideration of Export Finance issues in EU rules	• No EU facility to address financial gaps identified by Eu businesses

Source: Consultancy team assessment

[47] See press release of the 1st Global Gateway Board meeting of 11 December 2022: https://ec.europa.eu/commission/presscorner/detail/en/ip_22_7656

5. AN EU EXPORT CREDIT FACILITY

The various *software* actions outlined in Chapter 4 could improve the overall efficiency and impact of EU export finance systems and help alleviate some of the constraints experienced by EU exporters and investors. In addition, EU authorities could consider establishing an EU Export Credit Facility to help EU export systems address in a more concrete manner the key market gaps faced by EU exporters and facilitate the financing of EU content or business interest.

5.1. Potential financial functions / Hardware interventions

Feedback received from stakeholders (ECAs and their Guardian Authorities, private market insurers, commercial banks and exporters) point to three priority areas or functions that the Facility could initially focus on: the provision of complementary pure cover, refinancing the export credits provided by commercial banks and Exim banks, and a concessional programme tied to EU exports.

The importance of these functions emerged during fact-finding interviews and workshops. It was later supported by answers in the survey on the importance of the products which should be offered by an EU facility.

Table 15: Importance of the products which should be offered by an EU facility.

Importance of a function related to	No	Low	Medium	High	No answer
Risk Capacity	10%	10%	28%	48%	5%
Tied Aid	9%	11%	37%	30%	13%
ESG Studies	10%	16%	34%	31%	9%
Feasibility Studies	13%	15%	32%	29%	11%
Refinancing	13%	19%	28%	29%	10%
MLT Direct Loans	18%	18%	26%	30%	8%
CIRR	18%	10%	32%	24%	16%
Equity	13%	21%	35%	15%	16%
Credit Enhancement	26%	18%	21%	25%	10%
ST Direct Loans	22%	20%	23%	16%	18%

Source: Survey feedback from stakeholders

Eventually, the Facility could support a broader range of export finance instruments depending on market circumstances, the evolving needs of exporters, and the types of support extended by non-EU governments to competitors in third-country markets. Additional functions that could be considered at a later stage include other types of financing support (such as interest rate fixing or direct lending), credit enhancement of covers from certain MS ECAs with low credit ratings, equity investment, or domestic products necessary for exports (such as performance bonds or pre-shipment finance).

The range of various possible functions, impact on gaps and key considerations for implementation are examined below. These include:

- A Pure Cover Function (PCF) which can provide:
  - A Normal Pure Cover Function (NPCF) which could offer, through risk-sharing, additional risk capacity to MS ECAs, so that potential limit constraints can be addressed, and more EU business can be supported.
  - A Strategic Pure Cover Function (SPCF) which could support some strategic EU agendas involving high risks.

- A Credit Enhancement Function (CEF), to address the credit rating constraints of some MS ECAs, which negatively affects the ability of exporters of these countries to get MLT financial offers of commercial banks.
- A Finance Function (FF), which can provide:
  - refinancing (RF) for commercial banks and Exim banks to improve the financial terms of their export credits.
  - CIRR support (CSF) to offer adequate fixed rates attached to export credits.
  - direct lending (DLF) to improve further the financial terms of export credits.
- A Concessional Finance Function (CFF) that is linked to EU exports (i.e., tied aid) to offer concessional financing for projects in developing countries, likely mainly public sector projects. It will likely be in particular of interest for sovereign borrowers that face restrictions to borrow on commercial terms (e.g., Low Income Countries that fall under the IMF/WB Debt Sustainability Framework.
- A EU Equity Investment Function (EIF) to support with co-investments in equity the projects sponsored by EU businesses in PPP projects.

These financial functions entail some financial commitments and risks. They require important financial resources and the identification of one or several entities able to assume these functions. In addition, the functions should be provided in line with EU values, principles, objectives and budgetary principles and conditions. Furthermore, they should be provided for projects that are economically sustainable, be additional to other public and private sources of capital and be implemented in line with European ESG standards.

5.2. Role of an EU Pure Cover Function (PCF)

The main purpose of an EU Pure Cover Function (PCF) is to fill markets gaps that exporters, investors and banks face in finding adequate credit insurance capacities from MS ECAs to cover the financial risks they have to manage with buyers and borrowers.

The key market gaps that can be addressed by the PCF are somehow usual country-, sector-, borrower - or project limit constraints of MS ECAs to support exports or investments. The Normal Pure Cover Function (NPCF) would deal with risks which can be covered by credit-insurers on a self-sustainable basis (premiums and recoveries covering claims and operational costs over a long-term cycle).

Specific covers could be required for projects involving relatively high-risks and linked to EU Strategic Agendas. These projects could not be financially self-sustainable (e.g., the reconstruction of Ukraine) and would deserve a specific EU budgetary guarantee via a Strategic Pure Cover Function (SPCF).

This section refers to a situation where insured parties only deal with their MS ECA and the EU function only deals with MS ECAs, without any visibility for the ultimate beneficiary of the cover.

5.2.1. EU Normal Pure Cover Function for MS ECAs (NPCF)

A. Key lines of business of the EU Normal Pure Cover Function (NPCF)

Given the different ST and MLT export finance challenges and needs in different Member States, the NPCF should in principle be able to provide all key (re-)insurance products and services that are currently available within MS ECAs. In this way it can support exports and investments from all Member States.

All these covers should be comprehensive covers, for both political and commercial risks, but for investment covers which only refer to political risks.

As most gaps mentioned over the last months related to MLT loans, governed or not by the Arrangement, they should be considered first. At a later stage the NPCF could also support ST business, domestic operations and strategic import transactions, if some MS ECAs were to express needs for some large projects.

Table 16: Potential key lines of business for the NPCF

MLT Export Credit Insurance (OECD Arrangement)	Refers to MLT credit insurance governed by the Arrangement. Likely through facultative / single risk reinsurance for MS ECA-insurers and single risk insurance for MS Exim banks (single transaction approach)
MLT Foreign Investments Insurance (Not OECD Arrangement)	Refers to insurance of political risks linked to foreign investments. Likely through facultative / single risk reinsurance for MS ECA-insurers and single risk insurance for MS Exim banks (single transaction approach)
MLT Import Loans MLT Untied Loans MLT Domestic Investments (Not OECD Arrangement)	Refers to MLT credit insurance not governed by the Arrangement. Refer to MLT domestic investments, untied loans and import loans. Likely through facultative / single risk reinsurance for MS ECA-insurers and single risk insurance for MS Exim banks (single transaction approach)
ST Export Credit-Insurance (Not -OECD Arrangement)	Likely through treaty reinsurance for e MS ECA-insurers or treaty insurance for MS Exim banks (portfolio approach) Particularly focused on cover for non-marketable countries
ST Domestic Business (Not OECD Arrangement)	Refers to ST pre-export finance loans and ST working capital loans as well as Bonding lines. Very likely mainly through treaty reinsurance for some MS ECA-insurers or treaty insurance for MS Exim banks (portfolio approach).

Source: Consultancy team assessment.

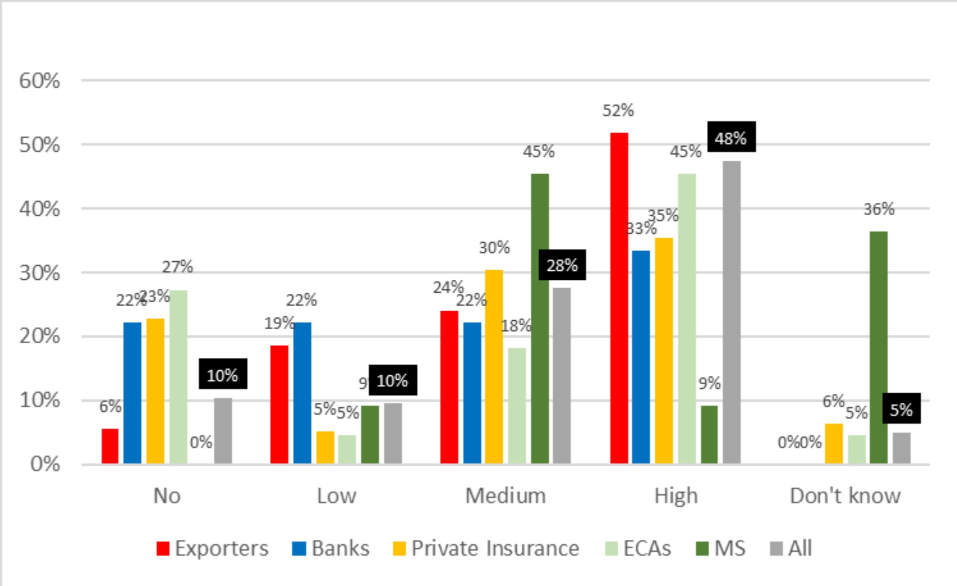
The lack of capacity of MS ECAs to consider some risks is the most important gap, identified as such by exporters, banks, most ECAs and several MS during interviews and workshops.

Around 95 reinsurance agreements would exist among MS ECAs and only 42 agreements would be used. A standard reinsurance agreement between MS ECAs, which does not exist as of today, could ease reinsurance processes. For a similar purpose, commercial banks were able to agree in 2018 on a Loan Market Association (LMA) template for buyer credits. However, other MS ECAs will only offer reinsurances if they have a national interest to support and have sufficient capacity available, which may not always be the case.

A few MS ECAs use private reinsurance but none does it in the proportion of MIGA which currently reinsures more than half of its portfolio (62% in 2022). Several specific factors can explain this high percentage: MIGA enjoys a de facto Preferred Creditor Status (PCS), is only involved in underwriting political risks in investment projects, has a prudent underwriting policy, dedicated political risk insurance staff, experienced since its inception in 1988 hardly any claims and has therefore a strong track record of more than 30 years. The capital constraints experienced by MIGA (it has much less capital than most multilateral development banks) partially also explains the need of MIGA to find reinsurance partners. In 2009 MIGA started with providing comprehensive cover for transactions with certain public sector borrowers (including some State-Owned Enterprises), but such borrowers are only eligible for comprehensive cover if they have a minimum credit rating of S&P BB-. Private reinsurance used by MIGA concentrates on HMICs and LMICs (2/3 of its portfolio), while its exposure on LICs is often covered by IDA (World Bank Group). All these factors combined are of high interest to private insurers. However, MS ECAs do not have a PCS and cannot rely on an EU tool similar to the one provided by IDA to cover risks in LICs. This partially explains why MS ECAs are not in position to reach private reinsurance levels as high as MIGA. It should be noted that the level of experience of MS ECAs with private reinsurance differs today quite substantially. Some MS ECAs prefer to cover risks on the account of their government and make use of co-or reinsurance with other ECAs to cover foreign content, whereas others make some use of private reinsurance to balance their risk portfolios.

Although risk-sharing capacities by other MS ECAs as well as by private insurers should still be considered as much as possible in the future, they will probably not cover all the unsatisfied needs of MS ECAs. By providing additional cover, an EU PCF would increase the overall risk capacity of MS ECAs to support EU export/ investment transactions.

Figure 25: Perceptions on the need for an additional EU risk capacity



Source: Survey feedback from stakeholders

The NPCF is the most-demanded financial function, showing a consensus among all stakeholders (a high or medium need for it ranging from 54% to 76% in the Survey) *(Q42.1).* Some States mentioned at the TXF 2022 Global Conference on Export Finance[48] that there might be a room for reinsurance, alongside with EIB funding, in an EU Export Credit facility. And the French Business Organisation MEDEF mentioned in November 2022 a need for an EU central instrument accessible to national ECAs to enable them to exceed their commitment limits for a geography, a sector or a project to address shortfalls. The European Banking Federation expressed similar views in May 2022.

When dealing with risk-sharing, the NPCF would operate within international official rules that apply to MS ECA-insurers.

- It should therefore comply with WTO rules for export credit insurance, being a self-supported activity from a financial point of view.
- It should also comply with the OECD Arrangement when Export Credits will be covered, but this should normally be managed by the fronting MS ECA.

B. Common features of the Normal Pure Cover Function

Some key common features of the operations of the NPCF include:

- The NPCF would, like the EIB, be generally exempted from EU state-aid rules as its products and services would be available to support cross-border trade (exports and imports) and investments from all MS, it would not involve Member State funding and national authorities would not have discretion as to the use of these resources.
- For covers related to MLT export credits, the NPCF could be linked with an EU content, like most MS ECAs currently consider minimum national content. The NPCF could be

[48] https://globalexport2022.txfmedia.com/session/Play/3932

a tool to promote an EU content which remains to be defined. Such EU content requirements should not apply to insurance support for untied investment loans or import loans.

- All geographies accepted by MS ECAs could be considered for all MLT activities. For ST activities, all non-marketable risks could be considered.
- For ST risks on marketable countries, intervention should be aligned with STEC waivers which normally refer to small operations; as a consequence, the need for reinsurance should be limited. However, the possibility to have to deal with a general waiver linked to a crisis like COVID 19 should be kept in mind.
- All industrial sectors accepted by MS ECAs should in principle be eligible. A preferred treatment for projects in line with EU Strategic Agendas (e.g., Global Gateway, Green Deal, etc..) and the UN SDGs could be considered through higher rates of reinsurance or other means.
- All MS ECAs will likely be able to get access to the NPCF for the lines of business in which they are already active. Technical assistance may be needed for ECAs with limited activities in some lines of business.
- The NPCF will only respond reactively to potential limit challenges presented by MS ECAs. Demand for NPCF support may vary substantially among MS ECAs because each MS ECA has its own risk management system, may have different types of limits and sets its own limits. MS ECAs could be, for competition or confidentiality reasons, reluctant to share detailed information about their risk management systems, the types of limits that are used, how these limits are determined and the actual use under existing limits. Hence, the NPCF should operate on the basis of confidentiality and mutual trust, like an ECA does when several national providers compete with one another for the same project, or a private re-insurer does when it offers covers to two or more competing insurers.

  If the support of the NPCF is only requested to provide assistance in case of potential limit constraints, it will likely face some concentration challenges, because various MS ECAs may face similar country limit constraints on certain countries that make extensively use of ECA backed export / investment loans. This may complicate the financial sustainability of the NPCF.
- Obviously, for this risk-sharing function clear guidelines will have to be set. They very likely will differ for various lines of business (e.g., ST and MLT exports, MLT investment, domestic MLT imports) and may include maximum amounts per transaction and/or maximum percentages for risk-sharing. Maximum limits could also be linked to certain country- or borrower-risk categories. It could also be determined that the NPCF will provide more favourable risk-sharing support for projects that clearly fit in EU Strategic Agendas, such as the Global Gateway, the Green Deal or the Africa strategy.
- Various MS ECAs could face at the same time similar constraints on the same risk, which might induce issues on concentration of risks for the NPCF. In order to manage simultaneously the requests of the MS ECAs for covers of these complicated risks and its need to preserve its long-term financial sustainability, the NPCF could request a combination of a portfolio approach (whereby the SPCF would cover participate in a limited proportion in a portfolio of risks of MS ECAs) and an ad-hoc approach for individual transactions.
- Certain ceilings for NPCF support for individual MS ECAs might be necessary.
- The NPCF could offer insurances or guarantees.

  As most ECAs offers are insurances, they could easily work with a NPCF which would also offer insurance products, being re-insurances or co-insurances.

MS ECAs which are acting as lenders (e.g., Exim banks) could be supported by the NPCF in the form of insurance.

As an exception, contracts which are covered by guarantees of MS ECAs (such as civil aircrafts) will have to be considered separately, as issuing ECAs could need for counter-guarantees.

The business model of EU export finance is in almost all Member States based on a cooperation between MS ECAs offering pure cover instruments and commercial banks providing the required funds. The utilization of (re-)insurances by the NPCF would better fit with this model whose relevance was not questioned during the study.

- The NPCF would act additionally and complementary to the private insurance market. It could seek strategic cooperation with private re-insurers to increase its capacity.
- Additional EU pure cover support for MS ECAs will likely have a high impact on EU competitiveness.
- The NPCF should act as a self-sustainable entity, with revenues (premium and recoveries) covering its costs (operating costs and claims) as for any MS ECA operating under the Arrangement. Based on the positive financial performance of MS ECAs during the past 20 years, it is reasonable to assume that EU complementary pure cover operations can be conducted on a financially self-sustainable basis.
- In order to preserve the relations between ECAs and their insured parties, the beneficiaries of the NPCF would be MS ECAs. For countries with no ECAs, the possibility to cover a National Development / Promotional Bank (as they exist in Ireland and Malta and such an entity is being considered in Cyprus) could be possible.

C. Key success factors for an EU Normal Pure Cover Function

The key success factors to secure the long-term performance of this Pure Cover Function, are the following:

- a strong expertise in MLT and ST credit insurance.
- adequate financial resources (equity, guarantee support, etc.).
- a clear European political support.
- a close cooperation with MS ECAs and an adequate risk-sharing to ensure alignment of interests.
- a close cooperation with private insurers and brokers.
- The building of sound risk portfolios (in terms of countries, sectors and borrowers).
- a strong credit rating (based on EU financial rating).

5.2.2. EU Strategic Pure Cover Function aligned on EU agendas (SPCF)

Several EU Agendas could require the issuance of specific EU budgetary guarantees in order to allow MS ECAs to accommodate some projects with high levels of risks which are not covered by the market. These agendas may include support for African projects in risky countries, the Green Deal or the Critical Raw Materials Act which could involve technological risks.

As an example, many MS ECAs face risk-limit constraints on relatively high-risk markets. Several countries, which are classified in categories 6 or 7 by the OECD (many of them are at the same time IDA countries), are off cover for many MS ECAs, which means that exports to these countries can usually not be covered. Potential buyers have then no access to external financing to support imports into their country. Supported by a specific EU budgetary guarantee, the SPCF could provide complementary cover more or less similar to the IDA Private Sector Window PSW) and the IDA MIGA Guarantee Facility (MGF) to help MS ECAs to underwrite certain risks on these countries. Such an approach was also strongly recommended for multilateral development banks in a G20 report "Making the Global Financial System Work for All" prepared by the so-called Eminent Persons Group (EPG)[49].

Such a scheme would have to be explored further. It would require a coordination with the providers of concessional finance within the EU (beginning with EFSD+). Some stakeholders and CSOs could be reluctant as some financial resources, which are today only or mainly made available to EU DFIs, would potentially have to be shared with a new distributor.

Another area of application could be the support for trade with and the reconstruction of Ukraine using MS ECAs as distribution channels to facilitate critical imports and investments into Ukraine.

The operation of the SPCF would require strong underwriting skills and could potentially not be financially self-supportive as a consequence of the risky nature of covered operations. For this reason, it is suggested to make use of a specific EU budgetary guarantee.

These guarantees could support among others fragile countries or fragile projects aligned on EU Strategic Agendas and could not be potentially self-supportive, which would imply to make use of specific EU budgetary resources. They could be related to all cross-border products distributed by MS ECAs, including ST and MLT export credit covers, untied loans or import facilities. They would include a possible subsidy element (representing the expected loss) to be considered in advance by the European Union, but this subsidy element would not be made visible to the borrower which would receive a loan on a commercial basis. Further research is required to determine how this SPCF could work and comply with international rules.

Otherwise, the main features of the SPCF would be similar to those of the NPCF.

5.3. Role of an EU Credit Enhancement Function (CEF)

Among the 27 Member States, there are eight Member States (and ECAs) that have a credit rating below A- for S&P. Normally an ECA which is backed by its state enjoys the same rating as its government (see Annex VII – Rating of Member States). As banks usually prefer to deal with ECAs rated at least A-, the exporters of the countries with a rating below A- can face difficulties to get competitive export financing from their banks. In some instances, MLT bank financing is simply not available.

This market gap could be solved with a EU Credit Enhancement Function (CEF), which would provide to banks a cover granted by a better rated entity if the provider would be the EU itself. It can technically be provided to the insured party, in three ways:

- A counter-guarantee granted by the EU for the MS ECA insurance policy,
- A reinsurance to the MS ECA whereby the insurance policy of the MS ECA would have a *cut-through clause* that allows the insured policy holder to demand direct claims payment from the CEF when the MS ECA is unable to pay the claim and
- The CEF would front the MS ECA provided that the MS ECA provides reinsurance to the CEF, assuming it is acceptable to the CEF.

The credit enhancement assumes that cover of the MS ECA is available and that the signature of the MS ECA , although it does not have the most optimal credit rating, is acceptable to the provider of the function. However, credit enhancement will not create any benefits for Member States (and their national exporters) that have a favourable credit rating by themselves.

Credit Enhancement should be demand driven, as the function of the European Union should only intervene at the request of the MS ECA-insurer. Clear guidelines on the circumstances and conditions that can lead to credit enhancement will have to be established. This will likely include certain ceilings for credit enhancement for individual MS ECAs. Furthermore, a solid

[49] This G20 EPG report can be found via the following link: https://www.globalfinancialgovernance.org

method must be developed to determine the costs of the credit enhancement. The CEF could cooperate closely with private insurers to increase capacity for credit enhancement.

This all requires further research. For these reasons, it is suggested to consider this credit enhancement function at a second stage.

5.4. Role of an EU Financing Function

Three possible financing functions were commented during interviews and the workshops:

- the refinancing of loans extended by commercial or public banks,
- the provision of a CIRR support and
- a direct lending provided by an ECA itself or another public entity, without any recourse to the funds of any commercial banks.

These functions which are different but can complement each other could help to reduce the costs of export credits and secure more adequate fixed rates (based on CIRR).

5.4.1. EU Refinancing Function (RF)

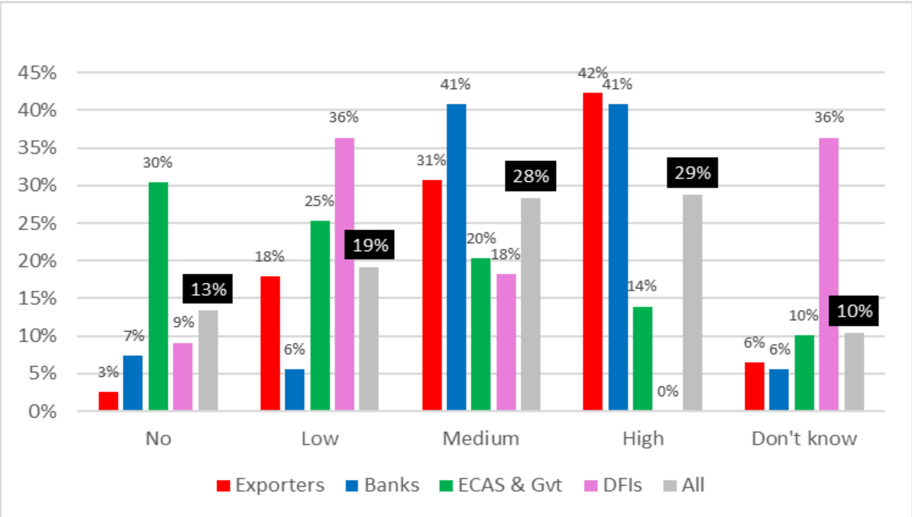
A. Purpose and Key Features of the EU Refinancing Function

When a bank extends a loan, such as an export credit, it adds to its internal cost of funding a commercial margin which is supposed to cover operational costs (including compliance), risks attached to the operation and a return on equity. To propose a competitive pricing, a bank can either reduce its commercial margin or find a funding source cheaper than its own internal cost of funding.

With a public refinancing entity, which normally has a better rating than most commercial banks, a commercial bank can take advantage of lower costs of funding of this public entity and improve its pricing offer for the benefits of the exporter and the buyer.

This function was highly supported in interviews and workshops.

Figure 26: Perceptions on the need for an EU Refinancing Function



Source: Survey feedback from stakeholders.

Banks (at 82%) and exporters (at 73%) confirmed it in the Survey. On the opposite, for 55% Member States and ECAs this function is perceived as useless or of limited value.

Different schemes can be used to offer a refinancing to banks, public or private, which extend export credits:

- A true sale of the loan by the original bank to the public refinancing entity.

- An ad-hoc refinancing extended by the refinancing entity to the original bank.
- A corporate refinancing extended by the refinancing entity to the original bank.

These refinancing schemes could also benefit Exim banks acting as ECAs.

With a true sale scheme, the bank is selling the loan or most of it to the refinancing entity, which means that the balance sheet of the bank will no longer support the sold loan. As the sale was pre-agreed ahead of the signing of the loan, the price of the loan is based on the cost of funds of the (public) refinancing entity and not on those of the commercial bank.

Usually, the refinancing entity doesn't want to be at risk on the borrower, for the portion of the loan which is not covered by the ECA. This can be achieved through different scenarios.

- In a **first scenario**, the refinancing entity will buy the whole loan (covered for example at 95% by an ECA) and request the financing bank to provide a guarantee for the uncovered portion (5% in this case). EKN in Sweden proceeds like this.

  The refinancing entity can also buy part of the loan, sharing all instalments on a pari-passu basis like commercial banks do in a pool or buying the last instalments for which commercial banks have higher cost of funds. Such a scheme could be of interest if the repayment period of some export credits will reach 22 years as recently agreed in the context of the modernisation of the Arrangement.

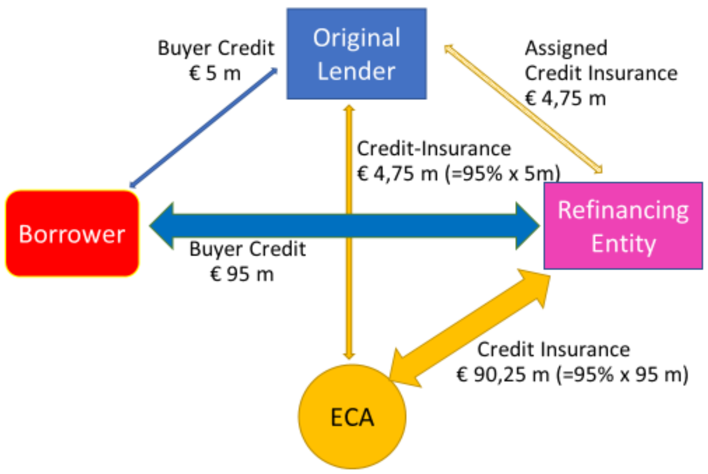
- In a **second scenario**, the refinancing entity will buy the whole loan with its 95% insurance and will request in addition a 100% refinancing guarantee from the ECA, which will then take a 5% risk on the bank in addition to the 95% risk on the borrower linked to the insurance.
- In a **third scenario**, the refinancing entity buys 95% of the loan (with a 95% insurance) and asks for a transfer of the right to indemnity of the bank for the 5% unsold portion of the loan. At the end, the bank holds 5% of the loan without any right to any indemnity and the refinancing entity holds 95% of the loan, fully covered, directly at 95% and indirectly at 5%, by the ECA. SFIL in France proceeds like this.

In all these cases, the commercial bank reduces the size of its balance sheet, usually keeps the residual risk on the borrower and can offer a cheaper loan taking advantage of the lower costs of the refinancing entity.

Normally, the refinancing entity still uses the services of the export financing bank to act as an agent and manage the daily relations (disbursements, repayments, etc.) with the borrower and the ECA.

This scheme is probably the best one to accommodate the refinancing of large buyer's credits (at least EUR 20 million).

Figure 27: Refinancing with a sale Agreement of a loan signed for EUR 100 million



Source: Consultancy team

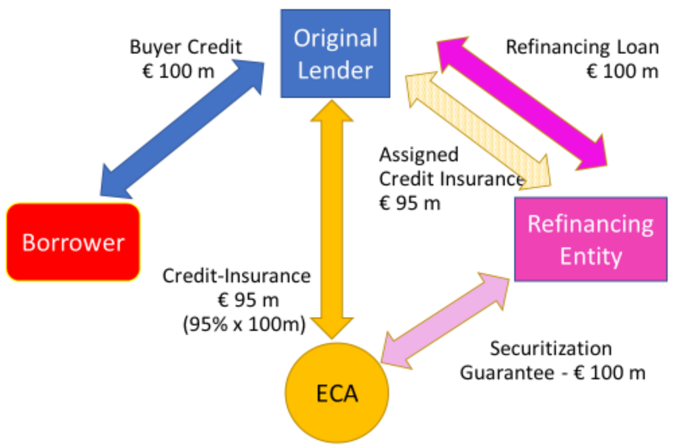
With an ad-hoc refinancing, the bank is keeping the loan to the borrower on its balance-sheet but signs a second funding loan with the public refinancing entity to get a back-to-back funding. This allows the bank to use as cost of funds the costs offered by the refinancing entity and not its standard internal funding costs.

In most cases, the refinancing entity will ask for an assignment of the original loan with a transfer of the rights to indemnity of the ECA or a refinancing guarantee of the ECA, in order to get it secured at 95% or 100% by the ECA.

This scheme can accommodate the refinancing of large buyer's credit (at least EUR 20 million).

Its main disadvantage versus the previous one is that there are two similar loans in two different balance sheets, which is more costly than maintaining only one loan in one balance sheet.

Figure 28: Refinancing with no sale of a loan signed for EUR 100 million



Source: Consultancy team.

With a portfolio approach, the commercial bank is keeping several loans on its balance-sheet and obtains funding from the refinancing entity based on the estimated volume of commercial loans to be signed. This allows the commercial bank to refer to cost of funds close to those offered by the refinancing entity, increased by a security margin to manage mismatches between the loans granted to the borrowers and the funding loan granted by the refinancing entity.

The refinancing entity can ask for a transfer of the rights to indemnity of the ECA if the loan is covered by an ECA or for refinancing guarantees of the ECA. Hence for the refinancing entity, a large part of its the loan can be secured up to 100% by the ECA.

Such a scheme will fit with portfolios made by small loans and/or short-term loans.

Box 5: Refinancing of NorthStar Europe by the EIB

In 2015, the EIB extended a € 50 m refinancing facility to Northstar Europe with a refinancing guarantee of ODL, the ECA of Luxembourg.
https://www.eib.org/en/press/all/2015-239-first-ever-eib-facility-for-buyer-credit-financing-for-european-sme-and-midcap-exporters

The purpose of this facility was the refinancing of small export credits (a few million Euros each) covered by several EU ECAs and secured by an additional refinancing guarantee of ODL. Unfortunately, the facility was never used as it was finally complicated to adjust the respective final requests of the EIB, ODL and Northstar Europe, which in addition entered in financial difficulties.

Source: EIB website

Different schemes would apply to the refinancing of an Exim bank, acting as an ECA (or an ECA acting as direct lender and a financing entity within an ECA).

In the case of a sale, the refinancing entity will probably ask for a full guarantee from the ECA. For an ad-hoc refinancing, the refinancing entity will probably ask for an assignment of the original loan but cannot ask a guarantee from the ECA as it is the borrower, unless it asks for a guarantee of the State of the ECA.

For a portfolio approach, as the EIB did with the Exim banks of Hungary and Romania, an assignment of the original loans extended by the Exim banks is only possible for large loans. It can be too cumbersome to implement if these loans are short-term ones. The only security the EIB may then potentially ask is a guarantee of the State of the ECA.

To perform a refinancing function, the financing entity need for a balance sheet to manage the loan. It can sub-contract some operations to a commercial bank which will act as an Agent to manage the day-to-day relations with the buyer (disbursements, repayments).

B. Additional considerations for the Refinancing Function

All type loans covered or extended by a MS ECA should be eligible to a refinancing, being MLT cross-border loans in line or not with the Arrangement, large ST cross-border loans and domestic loans (e.g., pre-export finance loans).

Individual loans which could be refinanced under an ad-hoc scheme should have a minimum amount, in the range of EUR 20 million to 50 million. A portfolio approach would allow to refinance individual loans with smaller amounts.

The function would be additional as a bank will have to request for a refinancing. Its clients will be commercial banks or Exim banks, but the ultimate beneficiaries will be the exporters and their customers, which would benefit from the improved financial terms. Banks of Member States that do not have a national refinancing programme could approach the EU refinancing entity directly. Banks of countries that do have an adequate refinancing programme can make use of their national programme. If the national agency is, however, unable or unwilling to assist, the bank can approach the EU refinancing entity directly. There may also be opportunities for cooperation between the EU refinancing entity and existing refinancing agencies in Member States. However, if the EU function benefits of a better rating than national functions, this might create a pressure from banks and exporters to align the conditions offered by a national function on those provided by the EU one, especially in large projects covered by several ECAs.

The refinancing function could also contribute to some EU Strategic Agendas by accepting extended refinancing for some projects or by offering improved financial terms.

The main risks incurred by such a function are pure financial risks to match the exposures under the refinancing with its funding, considering the peculiarities of export credits. Credit risks are limited as they are mostly or totally covered by an MS ECA with, in some cases, for the portion not covered by an MS ECA a limited exposure on a commercial bank. Operational risks can be limited if a commercial bank remains in charge of managing the relationships with the exporter and the borrower (role of financing agent).

It is expected that the EU Refinancing Function will have a high impact on the competitiveness of EU exporters, in particular for those exporters that currently do not have access to such a facility at national level. It is also expected that it can, as MS refinancing agencies, operate on a financially self-sustainable basis.

There will be a need to address the terms and conditions of its refinancing in relation to the ratings of the different MS ECAs.

5.4.2. EU CIRR Function (for fixed rates) (CSF)

A. Purpose and key features of the EU CIRR Function

When the first Arrangement was agreed in 1978, all medium-and-long term loans were provided with fixed rates, for which reason Participants agreed on minimum fixed interest rates in the Arrangement. In 1983, Participants agreed on a grid to revise these fixed rates, based on the evolution of the prices of Treasury Bonds. This grid determines Commercial Interest Rates of Reference (CIRR) which are published on a monthly basis by the OECD.

Importantly, the CIRR rates are based on the prices of Treasury Bonds of the country which manages the currency at stake, such as US Treasury Bonds for the USD. This means that countries with a lower rating than the USA have a higher cost of funds in USD and they could be forced to lend at CIRR plus a margin to match their funding costs.

As regards CIRR in Euro, the reference rate is the rate paid by Euro-countries with a AAA rating (Germany, Luxembourg and the Netherlands in March 2023), which means that countries with a lower rating can face difficulties to extend fixed rates at CIRR without any additional margin.

The main advantage of CIRR rates is that they can be valid for the whole duration of the loans, during the drawing period and the repayment period, without any committed dates of drawings which allow drawings to be aligned on the progress of the commercial contract.

For loans with fixed interest rates on market conditions:

- Either rate is fixed at the beginning of the repayment period as repayment dates are known and then floating rates apply during the drawing period. This creates an uncertainty on the rate which will apply a few years after the signature of the loan.
- Or rate is fixed at the signature date of the loan, but the signed drawing calendar has to respected. This can create mismatches with the payments to be made under the underlying commercial contract.

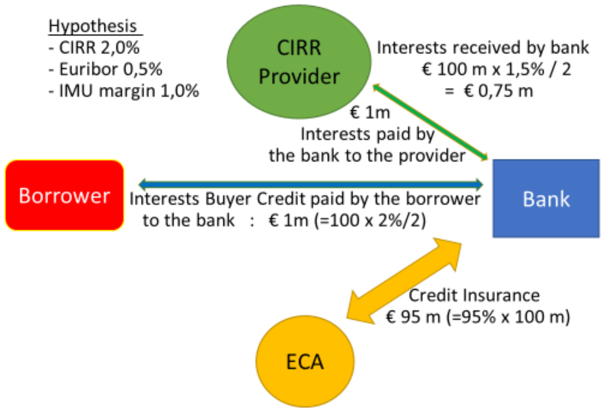
The need for a CIRR Function is largely supported (at 55% on average). Exporters (at 66%) and banks (at 76%) clearly support it, but its level of priority is slightly lower than for the Refinancing Function. The public sector, especially governments, is less supportive *(Q42 6).*

CIRR rates can be supported by public entities through different schemes:

- An Interest Make-Up agreement signed with commercial banks acting as lenders.
- A refinancing agreement signed with commercial banks acting as lenders.
- A loan extended by a public entity (e.g., an Exim bank) with a CIRR rate.

With an Interest Make-Up (IMU) scheme, a commercial bank will exchange with the public entity interests calculated on the basis of CIRR rates against interests calculated with a floating-rate index (such as the Euribor) increased by an IMU margin, like it would occur under an interest-rate swap agreement.

Figure 29: CIRR with an Interest Make-Up (IMU) scheme for a loan signed for EUR 100 million



Source: Consultancy team

These agreements are uneven within the EU as:

- The fixed rate agreed by the public entity can vary between the CIRR published by the OECD and a higher fixed rate which can be established up to 50 bps above this CIRR.
- The IMU margin can vary from one country to the other (between 55 bps and 120 bps). Then banks often add a premium above the IMU margin to compensate the difference between the IMU margin and a normal margin for a floating rate loan.

As a consequence, the rate paid by the borrower differs according to the country of the exporter. This scheme applies in France, Italy and Spain.

With a CIRR refinancing scheme, the bank lends to the buyer with a fixed rate at or above CIRR and raises funds with a fixed rate, which can be lower than the prevailing CIRR, as the CIRR is the minimum rate which applies to the borrower. Today in Germany, the CIRR entity offers a refinancing at CIRR – 35 bps and banks had a premium to CIRR to get the commercial margin they expect.

The last solution to offer CIRR concerns direct loans offered by a public direct lender. Commercial banks are then not involved in the export credit. In such a case, borrowers can often get funds with fixed interest rates at the OECD CIRR rate. The UK and the USA offer this solution.

Table 17: Different Fixed Rates based on the same OECD CIRR

	Direct Lender	IMU 1	IMU 2	Refinancing
CIRR published by OECD	3.25%			
Margin Bank for Floating Rate Loan		1.00%		
Offered CIRR (by MS)		3.25%	3;75%	
Margin IMU (paid by MS)		0.80%	0;55%	
Margin Refinancing (paid by MS)				0.35%
Premium added by bank		0.20%	0.45%	0.65%
Interest rate for the borrower	3.25%	3.45%	4.20%	3,.90%

Source: Consultancy team

While there is for each currency a unique OECD CIRR rate, a borrower can be offered different fixed rates for the same project if different tranches are covered by different MS ECAs!

In order to perform a CIRR Function, the financing entity must operate under a balance sheet:

- to manage the exchange of interest rates if the IMU scheme applies.

  Such schemes require for sophisticated financial skills. Severe losses can appear with a poor management while other systems have been operating above break-even for decades. These financial risks are the main risks incurred by the function as the dates of drawdown are unknown on the signing of the loan and will depend upon the execution of the underlying commercial contract.

- to manage loans if a refinancing or a direct lending applies.

  The potential establishment of an EU Refinancing Function and the way how such a function would be designed, would have implications for a potential CIRR Function. Therefore, it is suggested to consider first the development of a potential Refinancing Function and at a later stage a potential CIRR Function.

B. Additional Considerations for the CIRR Support Function

Most sovereign borrowers favour loans with fixed CIRR interest rates. For this reason, UKEF uses its Direct Lending Facility as a marketing tool.

Loans targeted by an EU CIRR function are MLT loans governed by the Arrangement.

All loans covered by a MS ECA could benefit from this function, keeping in mind that only 13 EU countries offer this possibility today and that it might be difficult to combine a national function and a European function for the same loan. This might imply that at some stage, the EU function could prevail..

If for any reason, the fixed rate offered by the provider of the EU refinancing function would be above the CIRR, this rate could potentially be lowered for loans related to EU Strategic Agendas.

This function is purely additional as the mechanism is not offered by the financial markets. The customers would be banks, but the ultimate beneficiaries would be the borrowers. It is a very strong commercial benefit for exporters, especially when interest rates are increasing.

Similar conditions could be offered to all export credits provided by commercial banks as they would depend upon the rating of the entity which manages the risks of the function independently of the rating of the MS ECA which is covering the export credit.

EU CIRR support can have a high impact on EU competitiveness but the management of its financial risks and the interface with a possible EU Refinancing function suggest considering this function at a second stage.

5.4.3. EU Direct Lending Function (DLF)

A. Purpose and key features of the EU Direct Lending Function

In a direct lending scheme, the loan is signed between the buyer and a public entity (e.g., an EXIM bank) without the involvement of any balance sheet of any commercial bank. If the export finance loan is extended with a fixed rate, this rate may not be lower than the applicable CIRR. The OECD Arrangement does not include rules regarding minimum floating interest rates, but relevant WTO regulations imply that floating interest rates may not be lower than the funding costs of the public entity (or its state).

While appropriate refinancing schemes can be sufficient to deal with most funding issues faced by commercial banks, the reasons to use a public direct lender are several:

- Commercial banks do not offer export credits backed by MS ECA cover, because of the credit rating of the insuring ECA does not meet the bank's minimum rating requirement, which is for most commercial banks usually S&P A-
- Commercial banks do not offer export credits for small amounts.
- Public entities have lower expectations on rates of return and lower costs of funds than private banks. Therefore, they can offer better pricings to the buyer and better support their national exporting champions.
- Refinancing schemes cannot be appropriate for some loans with very large durations (in the range of 20 years) or with very large amounts. A direct public funding can be more efficient to raise the funds required by the project.

  In the 90's, a French public bank (BFCE, Banque Française du Commerce Exterieur) did this, buying the portion of the loan with its last instalments (between 8 and 10 years) while the commercial bank was keeping in its balance-sheet a 7-year loan, whose funding costs are cheaper than a 10-year one. Such a scheme could be again of interest once the repayment period of some export credits will reach 22 years as contemplated in the modernisation of the Arrangement.
- Commercial banks cannot be in a position to lend to an entity, validated by an ECA, as a consequence of secondary sanctions.

The need for a Direct Lending Function was confirmed in the feedback to the survey both for MLT loans and ST loans (Q42 4).

The support for a MLT Direct Lending Function is similar to the one for a Refinancing Function but with one big difference: exporters prefer direct lending as they expect lower interest rates and banks prefer Refinancing, as extending export credits which can be later refinanced is a business for them. These different views are not surprising.

Without any official framework, the EIB has been involved in some ECA deals with such a role (cf. Lake Turkana in Kenya, where EIB used an EKF cover) *(Q42 3).*

For respondents, the need for a ST Direct Lending Function (medium or high priority for 40%) is less stringent than for MLT (medium or high priority for 57%) but still important.

To perform a Direct Lending Function and extend loans, the financing entity needs for a balance sheet. It can sub-contract the daily operations of the loan to a commercial bank, which then acts as an Agent to manage the day-to-day finance issues and relationships with the borrower and the exporter (drawings, repayment).

B. Additional considerations for the Direct Lending Function

EU direct lending support is in principle not needed in Member States where exporters and investors have adequate access to commercial banks for their export credits, although a Direct Lender should be cheaper than a commercial bank combined with an EU Refinancing

Function. It would lead to unnecessary competition with EU export financing banks and then negatively impact the current export finance infrastructure in most EU countries, which is based on close cooperation between Member States ECA-insurers and commercial banks.

When the credit rating of a MS ECA-insurer is limiting the availability of commercial banks to lend with its cover, an EU public Direct Lending Function could be an alternative to the previously discussed Credit Enhancement Function.

A Direct Lending Function could consider all loans covered by an ECA, being MLT cross-border loans covered or not by the Arrangement, large ST cross-border loans or domestic loans. A specific effort could be considered by the provider of the function for projects aligned with EU Strategic Agendas.

Its additionality could be challenged by some commercial banks which could consider that they would have the capacity to extend such loans while exporters and borrowers could consider that banks are not competitive enough.

The ultimate beneficiaries would be the borrowers which would receive a loan extended by the direct lender (and indirectly the exporters able to bring such a solution).

As for the Refinancing Function, the main risks are financial risks and eventually credit risks on the borrower if it is not covered at 100% by a MS ECA. The main credit risk will remain a risk on a MS ECA and the agency role can be sub-contracted to a commercial bank. Its pricing should then normally be linked to the rating of the MS ECA providing its cover and should not be uniform for all MS ECAs. It is assumed that the EU public direct lender would be able to provide its support on the basis of an insurance cover extended by MS ECAs.

It should be kept in mind that a Direct Lending scheme with specific features could also be a potential instrument to manage coercion measures, which was identified as a challenge in some conversations. The gap mostly refers to the impossibility of financial institutions, being private or public, to extend loans to an entity which is under sanctions of a third country although an ECA is ready to cover the deal. Sometimes, banks raising funds on capital markets, even in Euro, are requested to affirm that they will not finance any project of a sanctioned entity, even if there is an ECA cover. The only solution would be the utilisation of a ring-fenced EU public financial entity which would not raise any funds on capital markets and would only get its funding from the EU budget. This entity could potentially provide the financing with or without ECA cover.

Key success factors for an EU Financing Function include:

- Strong expertise in the management of financial deals (loans, interest, cover)
- Adequate financial resources (equity, guarantee support, etc.)
- Clear European political support
- Good understanding of Export Finance peculiarities
- Close cooperation with MS ECAs

A general EU Direct Lending Function contradicts the existing EU export finance infrastructure, which is based on a close cooperation between MS ECA-insurers and commercial banks. Such a function could, however, be of assistance in times of a financial crisis. It is therefore useful to consider the development of a general direct lending function, and to keep it *on the shelf*, to adequately respond to a potential new crisis.

A specific Direct Lending Function could also be an alternative to credit enhancement. Like the Credit Enhancement Function, it would likely only benefit exporters from certain countries that face rating constraints. It would not create any benefits for exporters from countries that are well rated.

It is therefore suggested to investigate the need for a specific Direct Lending Function at a second stage.

5.5. Role of an EU Concessional Finance Function (CFF)

A. Purpose and key features of the Concessional Finance Function

As explained in the previous chapter, there are currently various challenges regarding concessional finance, which are among others the limited volumes of tied aid in the EU, the substantial use of tied aid in competing countries, the structural concerns that untied aid is de facto tied, the role of dual mandate DFIs, no adequate protection against distortive SOEs and the absence of reciprocity in the untying of aid.

Given this complex environment for EU exporters, it makes sense to explore a tied Concessional Finance Function, which would be tied to exports from all 27 Member States and thus not tied to one Member State. It can counterbalance the increased tied aid volumes (de jure or de facto) from competing non-OECD and OECD countries and help EU exporters to win business for projects in countries that need concessional finance to finance their investments.

Tying aid to the 27 EU countries ensures that on the basis of a fair EU level playing field, EU exporters can tender for the projects that are financed by the EU Concessional Finance Function (CFF). The competition in procurement ensures also that the borrower of the concessional finance will get a fair and reasonable price for the goods and services that are procured. Because procurement will be restricted to EU companies, EU exporters will (indirectly) also be protected against distortive bidding practices from non-OECD State Owned Enterprises or other competitors. The utilisation of rated criteria by EU DFIs as suggested by the World Bank would also make sense. The World Bank recently announced rated criteria in procurement for projects financed by the World Bank to "*promote the inclusion of key quality and sustainability criteria rather than using just the lowest evaluated price for award decisions*"[50].

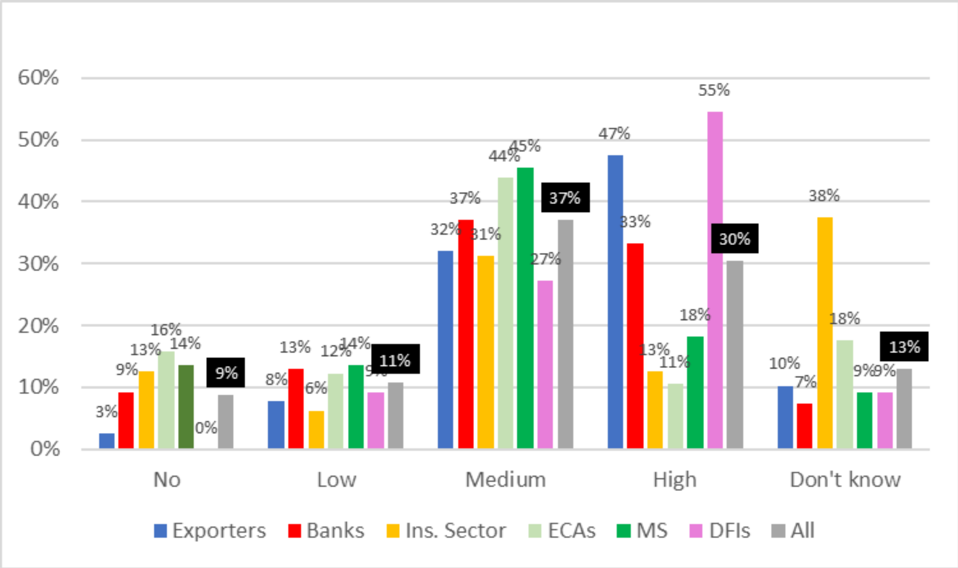
Untying of aid by the EU is not linked to reciprocity. Today, EU aid and Member States aid is accessible to companies from non-EU countries, but EU companies have no equal access to aid from other OECD or non-OECD countries.

Because the CFF is a hybrid between export finance and development finance, it needs to create also an important developmental impact for developing countries:

- Given the serious and increasing debt sustainability issues of many developing countries (not only LICs, but also some LMICs) there will be a greater need for adequate concessional finance to assist developing countries in financing their SDGs. The CFF could support this increased need for concessional finance.
- Many infrastructure projects and other SDG projects in developing countries are and will remain public sector projects whereby a government will act as borrower or guarantor of the financing. PPPs and project finance are not the panacea to overcome the SDG financing gap. Many SDG projects do not generate sufficient cash flow to repay commercial lenders and/ or pay dividends to equity investors. The CFF will help governments, in particular those that in the context of the IMF World Bank Debt Sustainability Framework face restrictions to borrow on commercial terms, to make the necessary public investments in their countries *(Q42.7).*

[50] For more information on the rated criteria of the World Bank it is referred to its website: https://www.worldbank.org/en/news/feature/2023/03/08/rated-criteria-a-game-changer-for-promoting-value-in-world-bank-procurement

Figure 30: Perceptions on the need for a tied EU Concessional Finance Function



Source: Survey feedback from stakeholders

The need for a tied CFF was confirmed in the survey. 67% of the respondents consider it of medium and high importance. All stakeholders more or less agree on this need.

C. Additional considerations for the EU Concessional Finance Function

A Concessional Finance Function can be provided through 4 different modalities, which are further explained in Annex VIII (Concessional Finance Function).

- It may include cooperation between MS ECAs and the concessional loan provider e.g., through (partial) insurance of the concessional loan or mixed credits which are. a combination of a grant with a commercial loan backed by an ECA. MS ECAs cover could where needed be supported by the EU Pure Cover Function to provide additional insurance capacity. The cover should be comprehensive, covering all payment risks of the borrower. 100% concessional loans are likely needed for countries where MS ECAs are *off cover*, but for countries where they are *on cover* MS ECAs could support the concessional loan, which could help to allocate the EFSD+ guarantee to those projects where MS ECAs cover is not available.
- A cooperation between an EU concessional loan provider and MS ECAs could therefore lead to an overall increase of concessional finance support for developing countries and thus more business opportunities for EU exporters / investors.
- The maximum credit periods and other conditions of the OECD Arrangement (e.g., grace periods, minimum premiums) do not apply to tied aid. The only condition is that the overall financing package meets the minimum concessionality level (50% for LDCs and 35% for other developing countries eligible for tied aid). This is important for potential support from MS ECAs for concessional finance (e.g., mixed credits, or ECA insurance for concessional loans). By supporting for example long credit periods or grace periods beyond regular Arrangement terms, MS ECAs can contribute to achieve the minimum concessionality level, which could reduce the need for aid subsidies.
- The Arrangement explicitly states in article 31B that "*the tied aid provisions of the Arrangement do* not *apply to the aid programmes of multilateral or regional institutions" such as the EIB.* This approach, however, would likely not be appreciated by other OECD countries, keeping in mind that the EU is the European Participant to the Arrangement and that there are close links between the EU and the EIB.

- Eligible projects are projects which are financially non-viable according to the Arrangement tests on commercial viability:
  - 1st test: Is the project financially non-viable, i.e., does the project lack capacity to generate cash flow sufficient to cover the project's operating costs and to service the capital employed; or
  - 2nd test: whether it is reasonable to conclude that it is unlikely that the project can be financed on market or Arrangement terms.
- Eligible borrowers will usually be sovereign borrowers, even if nothing prevents to consider other borrowers as long as the project is not viable on a stand-alone basis.
- This function could have a high impact on the improvement of EU competitiveness. Once a project has been identified and approved for concessional support, the project could be tendered among EU companies only.
- It should be linked to an EU Strategic Agenda. It could be used for infrastructure projects related to the EU Global Gateway, the EU Green Deal or the UN SDGs.

The EIB has currently a concessional loan programme. It could potentially be split into a tied programme and an untied programme, similar to the United States and Japan do. In the USA 41.5% of its bilateral aid is tied aid and for Japan this is 25.7%. The aid programmes of China and India are basically 100% tied. If the current EIB concessional finance programme cannot be partially used for the CFF, additional funds will have to be found. The CFF imply a need for certain subsidies on the loans to meet the minimum concessionality level. (e.g., reduced interest rates, longer grace periods, long tenors, reduction in ECA insurance premium).

Key success factors for an EU Concessional Finance Function would include in addition to those of a financial function a close cooperation with MS DFIs that provide concessional finance. Through co-financing with MS DFIs, the Concessional Loan Function of the EU Export Credit Facility could even be strengthened.

5.6. Role of an EU Equity Investment Function (EIF)

Some ECAs/DFIs in non-EU countries like Japan (JBIC), Korea (Korea EXIM) and the USA (US-DFC) can provide equity investments to support projects in which national investors (and exporters) are involved for amounts which can go beyond EUR 100 million. Within the EU, only a few countries can provide equity investment support, but in most cases for limited amounts (usually between EUR 15 million and 30 million). Key EU equity investment providers are not the ECAs, but the EU DFIs, which include the EIB (which operates mainly through private equity investment funds) and the private sector oriented bilateral DFIs (EDFI members).

A European Union EIF could co-invest in equity as a minority shareholder together with an EU equity investor/ project sponsor. In this way, an EU investor will have a greater chance to successfully bid for a PPP project. The EIF could support private sector projects considered by the EU Global Gateway, the EU Green Deal, or related to other SDGs. Mining projects, which are critical to secure imports of strategic raw materials and the energy transition could be considered too.

In making co-equity investments, the EIF can cooperate closely with existing MS official equity investment providers.

Some additional considerations for the Equity Investment Function are listed below.

- Its key objectives would be to offer a level playing field for EU investors to better compete against investors from non-OECD and OECD countries, in particular in private sector PPP projects.
- Eligible countries would be all developing countries across the globe.
- In a first instance, eligible projects would be projects in line with EU agendas or the SDGs.

- An EU project sponsor could import some goods and services for his foreign project from the EU. So, the EIF could likely indirectly also support EU exports.
- The EIF would operate on a self-sustainable basis, as the other investors would expect a return on their equity, even if some could have lower expectations than pure financial investors. As it is difficult to predict flows of dividends which compensate for equity contributions, an EU Financial Instrument could be required instead of an EU budgetary guarantee. This requires further research.
- The EIF can likely be operated in a financially self-sustainable manner.
- A close cooperation with other parties involved in the financing of these projects through investment loans will also be important.

As the EU Equity Investment Function is expected to have a low impact for the competitiveness of EU exports and investments. it is suggested to consider it in a second phase.

5.7. Role of a function for technical studies

Several exporters mentioned a lack of support to prefinance feasibility studies and more importantly impact studies which are required for the execution of a project. A similar function exists in some countries, in the EU or elsewhere in the OECD, and is sometimes considered as development aid, if it is extended in the form of grants. It is then highly demanded by all stakeholders (65% for E&S studies and 62% for feasibility studies).

The solution could be a fund which could accept to prefinance such studies assuming that they will be reimbursed by the buyer once the underlying construction contract will come into force. As the conclusion of the studies could be that the project can't proceed or will require higher investment costs to accommodate its impacts, the project may in some cases never materialize and the buyer will then not be obliged to pay for the costs of the studies. As a consequence, the fund could incur losses, which it should be able to absorb by making use of grant funds.

5.8. An EU Finance Entity and an EU Insurance Entity

The financial functions (refinancing, CIRR, direct lending, concessional lending and equity support), which are basically different forms of finance support require banking expertise and know-how. and can potentially be performed by an existing EU bank.

The Pure Cover Function, however, requires preferably a new capitalised EU insurance entity with dedicated insurance and reinsurance capabilities. It should operate within an accounting and risk management framework that is common for the insurance market. The past 20 years of operations in multilateral and bilateral development banks have shown that is very difficult to successfully develop risk mitigation business (through guarantees or insurance) in a banking environment. This explains why, in several OECD countries, there are two separate independent agencies for finance support (Exim bank) and insurance support (ECA-insurer). Also, in the world of multilateral development finance, two separate agencies, one for insurance and one for loans, are very common. MIGA is for example a separate specialized political risk insurer within the WB group, but it is less well known than other members within the WB group (e.g., IBRD, IDA and IFC), which are all primarily development lenders. Thus far, development banks were not very successful in the development of their insurance/guarantee activities, although many experts broadly recognised that these instruments are the most effective to mobilise capital for development.

An independent EU insurance entity will be key to ensure its effective development and an efficient cooperation with existing MS ECAs, which are mostly ECA-insurers.

The two EU entities would operate under their own budgets and within one common EU Export Credit Strategy.

5.9. Possible providers of the financial functions

Possible entities which could manage one or several financial functions range from existing provider at the EU level, such as the EIB, to other existing providers of similar functions in Member States either in the public or the private sector or the creation of a new entity.

A. An existing entity, the EIB group

The EIB group is probably the only existing EU financial entity which could perform some finance functions. It already performs a similar function for concessional finance in the form of untied development finance. An EIB role in the suggested EU Concessional loan function is supported by most stakeholders. The EIB can operate next to the existing (tied or untied) concessional finance activities of individual Member State, similar to the way it currently operates complementary to MS concessional finance providers (e.g., AFD in France, KfW in Germany). An interesting advantage of a role of EIB is that it has a preferred creditor status, which mitigates the risks of payment defaults. Interesting is also that EIB has some experience with ECA cover for its development loans, although this concerns thus far ECA cover for private sector projects.

The most supported financial function for the EIB (60% see a role for the EIB group) would be the refinancing of loans extended by commercial banks. An EIB refinancing role is mostly supported by exporters, banks and DFIs. The response option *no refinancing role for the EIB* was supported by 22% of the respondents: ECAs are doubtful and governments reluctant.

The delivery of CIRR could be another finance function for the EIB, with a weaker support (43%) and a greater opposition (26%). Banks are the most active supporters, while ECAs, DFIs and governments do not see a role for the EIB in this area. The position of the public sector may reflect the view of most public sector respondents that adequate CIRR support can be provided by Member States (cf. 3.3).

The involvement of the EIB in a Direct Lending Function has a similar support (43%) but a stronger opposition (38%). Exporters have a very positive opinion, but banks likely fear competition with the EIB.

The EIB is today quite active in providing equity investment support, but this is currently mainly done indirectly through equity investment funds. Such an approach could, instead of direct equity investments by EIB, also be considered for the EU Equity Investment Function.

An EIB Pure Cover role would be welcome by banks, as they would be covered by an AAA-rated entity, and exporters. The other stakeholders, especially public and private insurers, do not support a pure cover role of EIB likely for different reasons:

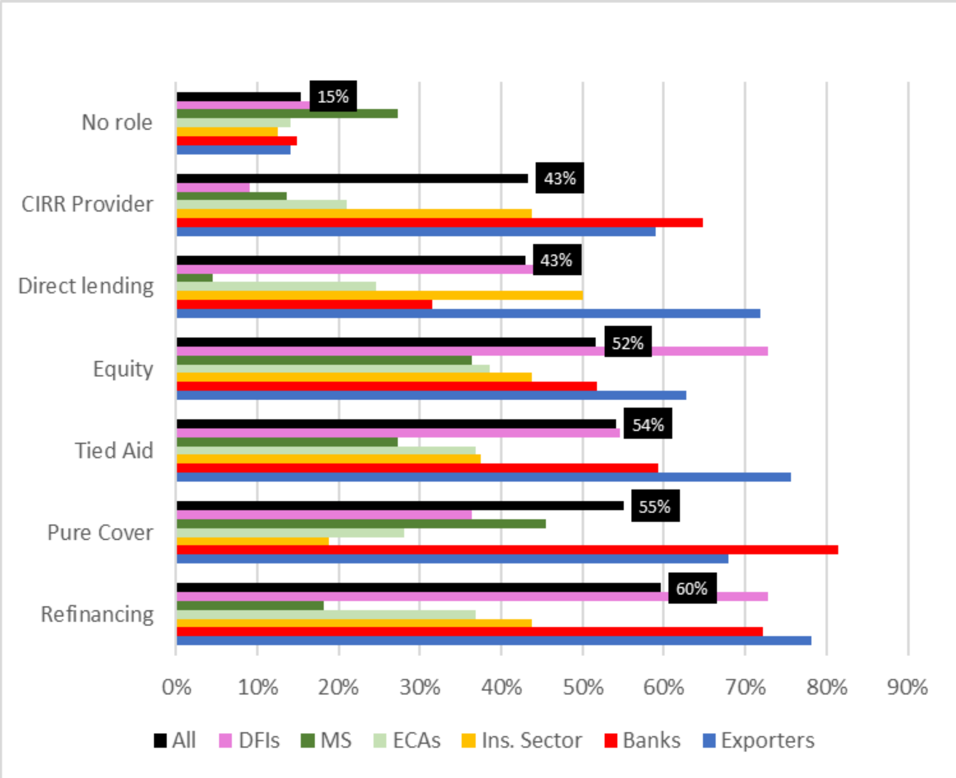
- The fear for a new competitor for some insurers.
- The absence of any team able to deal with the issuance of credit insurances within the EIB group.

MS ECA could prefer an alternative solution because insurance and reinsurance operations differ quite substantially from guarantee operations (see Annex IX – Guarantees and Credit Insurance).

Using a banking entity, such as the EIB, to manage an insurance/reinsurance scheme without prior experience in this area would introduce complexity and unpredictability. The experience of multilateral development banks in general also illustrates the challenges of rolling-out risk mitigation instruments in public institutions, operating in a banking environment and mostly driven by lending. This approach is therefore not recommended, nor is it favoured by Member States or their ECAs.

The graph below shows the feedback obtained from survey participants to the question on potential roles of the EIB in various functions of an EU Export Credit facility (Q43).

Figure 31: Perceptions on potential roles for the EIB



Source: Survey feedback from stakeholders

B. Other existing public providers in the Member States

Several Member States have agencies which provide similar functions, as banks or credit-insurers. Their technical capacities could potentially be used for the EU support functions next to their activities for their national exporters and investors. However, it will raise two issues:

- a possible or perceived conflict of interest within the organisation that fulfils two functions, a national function and an EU function.
- the reluctance some MS entities may have to share data on a project with a competitor, especially in a bidding phase.

While the finance functions could be covered by the EIB or existing MS agencies, other solutions might have to be considered for the insurance functions.

C. A new EU entity (for insurance functions)

The establishment of a new EU insurance entity will require an approval from all relevant EU Member States and the Commission. Furthermore, a new team should be formed, and products and policies have to be developed, all of which will likely require quite some time. For this reason, two alternatives may be worthwhile to be considered, namely:

- **A mutual insurance entity, established by MS ECAs**

  The establishment of a mutual insurance company owned by all or several MS ECAs could potentially be implemented much faster than a completely new EU insurance entity. Obviously, the mutual insurance entity should be able to operate independently from MS ECAs.

- **Private providers (for insurance functions)**

  Other providers for the Pure Cover Function could be private entities., It might be an entity which already provides similar pure cover services, as a private (re)insurer. An example of this concerns the cooperation between the Commission, EIB and the private reinsurer Munich Re and the multilateral insurer African Trade Insurance Agency (ATI) in the so-called Africa Energy Guarantee Facility (AEGF). In this facility EIB provides a guarantee to Munich Re, which subsequently allows Munich Re to provide additional reinsurance capacity to ATI for certain sustainable energy projects in ATI member countries. The structure to cooperate with an existing private (re-)insurer has the benefit that existing expertise and know-how can be utilised, but it could create some possible or perceived conflicts of interest or a reluctance of MS ECAs to cooperate with a private (re-)insurer.

It might also be an entity which could offer this service without being a bank or an insurer as PWC does in Germany for the investment insurance programme of the German Government. Obviously, it needs to be checked whether the service provider has adequate know-how and experience with (re-)insurance operations.

5.10. Cost & Budget: Transparent entity or capitalized entity

ECAs (and other public entities related to export credits) can operate in different ways, either as a transparent entity (without any dedicated balance-sheet to manage risks) or as a capitalized entity (with a balance-sheet to manage risks).

5.10.1. Transparent entity

Under a transparent scheme, the entity is managing the assigned export functions on behalf of its State, for the account of the State and under its control. All the commitments made by the entity are commitments made by the State directly or indirectly.

- **Directly**: the entity is usually a company acting as an Agent in the name of the State (like Euler Hermes in Germany for credit-insurances or Natixis in France for the Interest Make Up agreement linked to CIRR). It could be a department of the State, but such a case does not exist today in the EU. With this scheme, exporters, banks and capital markets receive a State's commitment which is dealt as such.

- **Indirectly**: the commitments made by the entity are individually supported by a State with a counter-guarantee like Coface Direction des Garanties Publiques, the former French ECA, did before 2016 in France.

  In such a case, banks and capital markets do not necessarily consider the commitments of the entity as a commitment of the State as there might be some unclarity on the conditions under which the entity or the beneficiary of the primary commitment can call the counter-guarantee of its State. This was one reason for which the French scheme was changed when the ECA was transferred from Coface to Bpifrance.

In a transparent scheme, the entity is acting as a service provider with resources allocated by the State to cover its operating costs and some investments under a specific contract. All the premium, fees and/or interests invoiced by the entity as well as the recoveries are collected by the entity on behalf of the State while all claims, payable fees and interests are paid by the entity on behalf of the State. For this reason, the entity doesn't manage any commitments and or a balance-sheet for the performed function. It usually relies on a cash buffer provided by the State to manage cash mismatches.

In most cases, the entity received limited delegations to make autonomous decisions on new commitments and the State is the decision-maker for most files, especially large and/or complicated ones. Criteria for decision-making are not always explicit (or in the public domain). There is no need for provisions as the risks are managed like other budgetary risks on a cash basis.

In most cases, but not all, there is a budgetary ceiling on the commitments which can be made either for new covers year by year or for the whole portfolio.

The transparent entity or operating agent can be a public entity (Bpifrance AE in France), a private one (Atradius DSB in the Netherland) or a private-public partnership (CESCE in Spain).

5.10.2. Capitalised entity

Under a capitalised scheme, the entity is managing alone, as a corporate would do, the assigned export functions for the account of the State. All the commitments made by the entity are commitments made by the entity, with the support of the State.

The support of the State can be explicit or implicit. It is explicit if the entity is part of the State like EKN in Sweden or UKEF in the UK.

It is implicit when the entity receives clear support made by equity, financial guarantees offered to lenders, assigned escrow-accounts and/or access to the State budget. Banks, which benefit indirectly of a commitment of the State, sometimes consider that they could not benefit of the State support if the entity is in a financially complicated situation.

For this reason, the support can be made very clear through different instruments.

- Borrowings raised by the entity can be secured by a direct financial guarantee of the State (cf. OeKB in Austria) or indirectly (cf. SEK in Sweden via EKN)
- Commitments made by the entity are secured by an escrow account which is replenished by the State if the need arises (cf. Finnvera in Finland)
- The state guarantees all payment obligations of the capitalised ECAs (USEXIM in USA)

The State provides the entity with some guidance on volume of commitments, risk profiles. The guidance is often provided by a law, complemented by a yearly letter of recommendations. The entity usually has large, delegated responsibilities to make decisions. The capitalised insurance entity can also be the only decision-maker as long as the guidelines apply. The State can be the decision-maker in some complex cases or can directly make a commitment through a special State Account if some projects are too important or infringe the guidance given to the entity. There is always a reporting obligation.

In such a scheme, the entity manages autonomously all the revenues (premiums, fees, interests, recoveries) and associated costs (operating costs, claims, interests, investments) as a corporate would do with Profit & Loss Accounts and a Balance-Sheet. A capitalized entity will refer to normal accounting rules (for banks or insurers as the case may be) and can need to raise provisions on future risks to off-set expected losses and secure its creditworthiness. However, rules which applies to banks (CRR) or insurers (Solvency) do not apply to these public entities which do not act on a commercial basis.

Therefore, with similar risk profiles, a transparent entity could be profitable on a cash basis while a capitalized entity could show losses as a consequence of cautious accounting rules to anticipate expected losses. Capitalised entities will have to make provisions for potential losses, whereas this is not the case for a transparent entity.

5.10.3. Financial needs of the different functions

Capitalized entities offering reinsurance schemes

In the UK, the Export and Investment Guarantees Act (EIGA) lays out several financial objectives for UKEF, including:

- A capped amount for total commitments.
- A risk appetite limit (related to a portfolio loss distribution).
- A Reserve Index ensuring sufficient resources to cover possible losses.

- A pricing adequacy index to check that premium income covers operating costs and cost of risks.

In addition, the relevant Ministry issues a letter with its strategic priorities and recommendations for the year to come.

Similar guidelines are given in Sweden to EKN with the Ordinance 2007/1217 which assigns 4 primary tasks and a yearly letter of appropriation, which describes several objectives.

Referring to the accounts of EKF, EKN and Finnvera, their financial resources to manage claims and expected losses are made of equity and provisions. At the end of 2021 they represented more than 10% of their exposures.

In addition, if these resources would not be sufficient, creditors of these ECAs are secured, as regards the possible support of their State through different schemes.

- The Act which created EKF in 2016 reiterates that the Danish State has agreed to indemnify all creditors if EKF resources would not be sufficient.
- EKN as a State authority represents the State itself and a guarantee from EKN is a guarantee from the Swedish State.
- Finnvera is benefiting by law from an escrow account (the State Guarantee Fund - SGF) which will extend a junior loan to Finnvera if the need arises. If the resources of this Fund are exhausted, the State is committed to replenish it by law.

  In 2020, Finnvera had to pass provisions for EUR 1.2 billion related to some export credits (mainly shipping deals). In a first instance the reserves made by Finnvera for EUR 829 million were used and the difference was covered by a loan made by the SGF. In a second instance, the SGF was recapitalized by EUR 400 million by the Finnish Government early 2022. The loan made available by SGF to Finnvera will only be repaid if the reserves of Finnvera reach again EUR 829 million.

Ultimately, the financial obligations of all three Scandinavian ECAs are de facto guaranteed by their national governments,

As mentioned, EU ECAs report to the OECD positive cash-flow results for all their ST and MLT activities since 1999, This confirms that providing pure cover support a self-supporting activity over a long period. (cf. Annex X - Cash Flows of OECD ECAs)

A. Refinancing schemes

Financial resources assigned to financial entities such as EKN in Sweden or SFIL in France are much less important (2.5% to 7% of their risks) as the risks they incur are much more limited: they are usually secured by an ECA or another public entity and the risks which are not covered by an ECA (or a similar state entity) are risks on large, regulated banks. With a proper management to deal with financial hedges, these entities are and should remain profitable.

Most Swedish export credits are refinanced by EKN while SFIL (in France) and FEC (in Finland) refinance roughly 1/3 of the export credits respectively covered by Bpifrance AE and Finnvera.

Direct lenders, acting with an ECA cover, should have similar requirements in equity.

B. CIRR schemes

A CIRR Function can be very costly if it is not well managed.

The UK closed its CIRR system (FREF or Fixed Rate Export Finance, based on a IMU scheme) managed by ECGD (the former brand name of UKEF) in 2010 following heavy losses. UKEF relaunched a new CIRR system in 2014, based on a direct lending financing scheme (DLF).

On the opposite, Natixis which managed the IMU French CIRR between 1995 and 2022 generated surpluses on yearly basis. According to the French Cour des Comptes (state audit court), with an average exposure of EUR 9.5 billion between 2008 and 2020, the French CIRR Function generated an average surplus of EUR 98 million per year.

C. Concessional Finance

As a provider of Aid to Developing Countries, its interventions will request at least subsidies to pay for the grant element of concessional loans which will never be recovered.

D. Equity Provider

It is very difficult to predict the real return on an equity investment (via future dividends or sales of shares).

E. Compliance with EU budgetary rules (EU Financial Regulations – Article 209.2)

Considering that the total exposure of MS ECAs in MLT products is close to EUR 300 billion, if 10% of this amount would be reinsured, for roughly EUR 30 billion, the need for EU financial support in equity and/or guarantees could be in the range of EUR 3 billion.

The Implementing Partner of an EU function could be financially supported through two different instruments.

F. Budgetary appropriations.

Budgetary appropriations in the form of grants are required when there is a high level of uncertainty on the capacity to recover these funds. This applies to:

- Equity contributions to a capitalized entity.
- Other contributions to an Equity Investment Function.
- Grants required by a Concessional Finance Function or a function supporting specific EU Agendas.

Budgetary appropriations in the form of guarantees would apply to the commercial functions (pure cover for risk capacity or credit enhancement, refinancing, CIRR, direct lending) as they should generate regular revenues, which will cover their costs, even if some temporary mismatches can appear. Over a long economic cycle, there should be no associated expected losses.

Hence, excluding the equity contribution which could be required by a capitalized entity, the EU financial support could be managed with budgetary guarantees to cover claims to be paid during the building period of the portfolio or to match expected losses via an escrow account.

Using as a reference a portfolio of MLT loans for MS ECAs in the range of EUR 300 billion,

- A capitalized Pure Cover Function could require capital contributions and/ or guarantees in the range of EUR 3 billion with the assumptions of a reinsurance of 10% of the portfolio and financial resources in the range of 10% of the reinsured portfolio.
- A capitalized pure Refinancing Function could request capital contributions and/ or guarantees in the range of EUR 5 billion with the assumptions of a refinancing for 1/3 of the portfolio and financial resources in the range of 5% of the refinanced portfolio.

A transparent entity would only request budgetary guarantees for more limited amounts to pay for claims when the insured request them, as there is no obligation to build reserves to provision expected losses (cf. Annex XI – Implementing Partner).

5.11. A Common ECA for Cross-border Trade and Investments

During interviews and the workshops, several stakeholders mentioned that the EU should consider one common ECA to improve the competitiveness of the EU. For this reason, this section explores such an idea, considering the important role that MS ECAs play today in their markets.

A common EU ECA, if implemented, could have 5 key functions similar to those described before. It also assumes the involvement of two separate EU entities, namely an insurance entity and a bank.

Most probably, no substantial change will appear as regards the financial functions as the banks were already and will remain in touch with the EU functions. The main impact might be for entities offering similar services in the Member States for their domestic banks.

The key difference would be how the EU insurance entity could work and how it cooperates with MS ECAs, as the insured would be covered by the EU ECA and not anymore by their MS ECA.

Existing ECA-insurers could jointly form the common EU ECA and become agents and distribution channels for the insurance products and services of the EU insurance entity. Existing MS ECAs would therefore remain responsible for client relationship management, communication and marketing to their potential clients, underwriting, claims handling, debt recovery and management of outstanding insurance policies.

The EU insurance entity and MS ECAs acting as its agents would operate under one common policy framework to ensure consistency in operations, smooth cooperation among MS ECA agents and a level playing field for EU exporters. (e.g., similar underwriting criteria, common risk management framework, common premiums, claims and recovery management, etc.). The development of a common EU policy framework would be a joint responsibility of the Commission, the Member States and MS ECAs.

It is important that the EU policy framework for the common EU insurance entity does not imply any restrictions for Member States to support their exporters and investors. So, Member States should – at their sole discretion - be allowed to conduct business outside the common EU policy framework and thus without involvement of the EU insurance entity. This can be done by conducting business on its own national account via the national MS ECA. Working through two separate accounts is a commonly used technique for capitalised ECAs (with their own balance sheet and profit & loss account) that due to risk constraints may be unable to cover certain transactions for which purpose governments can allow these capitalised ECAs to cover certain transactions directly for the account of the government (National Interest Accounts).

The Commission and Member States may also decide that participation in this level is voluntary for all Member States. In other words: Member States and MS ECAs that don't have an interest can opt out, similar to the arrangements made within the EU for the Euro and the Schengen treaty. It may be an alternative if not all Member States are in favour of a common EU ECA.

However, this common ECA could be perceived as the first step towards a unique EU ECA which is not considered as desirable at this stage by

- Member States, which consider Export Finance as a national competence.
- ECAs, which see this a threat to their activities.
- Corporates which prefer to deal on national basis with their national ECA, although they expect a better coordination and an improved financial support.

Table 18: Advantages and limitations of a common EU ECA

Stakeholders	Main Advantages	Main Limitations
Exporters/ investors and banks	• Financial tools of the Export Credit Facility to bridge some gaps. • High impact on the improvement EU competitiveness.	• Joint responsibility for complementary EU Export Credit Facility among EC, MS and MS ECAs may lead to more bureaucracy, unless clear rules are

Stakeholders	Main Advantages	Main Limitations
	• Would complement software measures.	defined Could benefit more to MS with weak EF systems.
ECA World and MS	• Improved visibility of role of MS ECAs • Better service to insured. • MS ECAs and MS are jointly leading in regard to export credit operations.	• High capital investment in EU Export Credit Facility if capitalized entity • Development of EU Export Credit Facility will require quite some time and substantial financial, technical and human resources.
EU	• Efficient support to an EU Export credits strategy with a Facility will make the EU businesses stronger vis a vis their competitors. • Stronger WoG approach.	• Involves some financial risks and at least the need for EU budgetary guarantees. • Risk of moral hazard for the EU facility.

Source: Consultancy team assessment

5.12. Final considerations

The different measures described in Chapters 4 and 5, being software or hardware, would provide solutions to manage the most significative gaps and challenges identified in Chapter 3.

It should be kept in mind that these measures would not exonerate the Member States to consider what could be done at their levels with existing functions or new functions to be created, as preliminary tools to give access to their exporters and banks to EU tools. One example of this could be the need to address at a national level the provision of small export credits for SMEs, which requires that the service provider is close to its customers. Supporting individual SMEs or small transactions cannot be efficiently managed by a large EU entity.

Table 18 provides in broad terms how certain gaps could be managed by several software and hardware measures. It should be noted that more details on gaps can be found in Table 2 and more details on the measures can be found in Table 3. Some measures can address the same market gaps in different ways.

Table 19: Gaps and challenges managed by software and hardware measures.

Gaps & Challenges identified by EU businesses			Proposed tools & measures		
a) MLT Insurance		Possible Tools	**MS Financial Functions**		Addressed Gaps
1	Constraint limits on some countries, sectors or projects	G K N O	A	Offer ST public covers	9 10 11 12
2	Difficult to arrange multi-sourced projects	F G N O P R	B	Offer ST financings	13
3	Unfair competition (covers outside of Arrangement)	E H J L M Q V	C	Offer small export credits	6
b) MLT Financing			D	Offer domestic products	14
4	Less attractive financial terms of commercial banks	P S T	E	Offer other MLT covers than Export Credits	3 16
5	Limited interest of banks for Export Finance in some MS	P S T	**Software measures MS ECAs**		
6	Limited offer small export credits	C I P	**F**	Harmonisation measures	2
7	No or inadequate CIRR offers	P R	**G**	Better consideration for EU content	1 2
8	No appropriate financing for multi-sourced deals	N O P R	**H**	ECAs Association (shared experiences)	3 9 10 12 16
c) ST Insurance			**I**	Service Company (shared services)	6 9
9	Limited offers ST covers (small tickets, SMEs)	A H I M	**Software measures MS ECAs & EC**		
10	Limited covers within EU (Single risk, 180 to 720 days)	A H M N	J	OECD Arrangement up-dated	3
11	Limited covers (difficult countries, EU Agendas)	A O	K	WoG - Consideration EU Agendas	1 16
12	Difficult access for SMEs to ST covers	A H	L	WoG - Enhanced coordination MS ECAs & DFIs	3 18
d) ST Finance			M	WoG - Alignement EU rules & Export Finance	3 9 10 16
13	No ST financial offers from banks	B P	**EU Financial Functions**		
e) Domestic support			N	EU Normal Pure Cover	1 2 8 10 14 16
14	Lack of bonding lines, pre-export financing	D N P	O	EU Strategic Pure Cover	1 2 8 11 16
f) Equity			P	EU Refinancing	2 4 5 6 7 8 13 14 16
15	No vehicle for co-investment in equity	U	Q	EU Concessional Finance	3 17
g) Strategic imports			R	EU CIRR	2 7 8
16	Limited support to import strategic commodities	E H K M N O P	S	EU Direct Lending	4 5
h) Coordination Concessional Finance			T	EU Credit Enhancement	4 5
17	Unfair competition (tied & untied aid support)	Q	U	EU Equity	15
18	ECAs & DFIs working in silos	L	V	EU Fund for Studies	3

Legend

High-impact gap	Tool with high impact
Medium-impact gap	Tool with medium impact
Low-impact gap	Tool with low impact

Source: Consultancy team assessment

The adoption of software measures among MS ECAs on a voluntary basis is a necessary but limited first step:

- As the MS ECAs remain in charge of the relations with their insured and manage their products, an improved coordination among these ECAs will be critical to answer some gaps identified by EU businesses regarding better covers. These measures include harmonisation of procedures for reinsurances, exchanges on shared experiences, answers to questions raised by EU rules,

- However, if the changes remain limited to such a better coordination, it means probably that no significant progress will be made as regards an improved EU Whole-of-Government approach and no EU financial tools would be offered to EU businesses.

Beyond the existing CEO meetings, the creation of an EU Association and at a further stage of an EU Service company could be very useful to promote these measures. This could be made in one year.

The adoption of software measures with the MS ECAs and the Commission, which would come in addition to those adopted on a voluntary basis among some or all MS ECAs would reinforce the European Whole-of-Government approach and support the EU Export Credit Strategy, regarding:

- An improved communication supported by a reliable collection of data.
- An enhanced EU coordination between Export Finance and Development Finance while the Global Gateway Initiative is becoming more concrete for EU businesses.
- The management of some unintended consequences of some EU rules on the EU Export Credit Strategy and the level-playing field for EU businesses.
- The inclusion of the EU Export Credit Facility, if any, in the EU Agendas and the consideration given to the EU Export Credit Strategy by EU Agendas.

This could be implemented in 1 or 2 years.

However, most gaps will remain unaddressed without an EU Export Credit Facility. The creation of an EU facility offering financial instruments would then be critical to address the most severe gaps highlighted by EU businesses and sometimes by public stakeholders. The first instruments to be considered should be:

- The Normal Pure Cover Function. It is the most demanded financial function (Table 14 / Figure 25) which would address the most stringent financial gap (Table 6).
- The Strategic Pure Cover Function
- The Refinancing Function
- The Concessional Facility Function

The possible provider of the Pure Cover Functions which are insurance products could be a cooperative of MS ECAs or a private service company.

The choice of a transparent company, acting on behalf and for the account of the EU, could ease its implementation process, which would probably require 2 years.

The provider of the Refinancing Function and the Concessional Finance Function, which are financial products, could be the EIB (or an entity within the EIB group) if this in line with its mandate. Their implementation could also require 2 years.

Lead times for the Strategic Pure Cover and the Concessional Finance could be larger as there will be a need to check their conformity with international rules (WTO, OECD).

The other Financial Functions would be considered in a second stage as the needs are less stringent (Fund for Technical Studies, Equity Co-Investment Funds), their implementation could depend upon other tools (CIRR) or the political willingness will have to emerge (Credit Enhancement, Direct Lending).

6. CONCLUSIONS AND RECOMMENDATIONS

6.1. Conclusions

6.1.1. Loss of EU market share in global exports

During the period 2010-2020, the EU 27 lost substantial market share in exports of merchandise goods, in particular capital goods and construction services to developing countries. Most of the business was lost to China. In Africa the EU-27's export market share decreased by 3.8% for merchandise goods, 5.1% for capital goods and 17.6 % for contracting services. Meanwhile, China increased its share in the African market by 10.6% for merchandise goods, 12.9% for capital goods and 22.3% for contracting services.

China’s expansion in global export markets, particularly in developing countries was underpinned by Chinese government strategies such as the Going Global Strategy of 1999 and the Belt and Road Initiative of 2013. The implementation of these strategies, especially for infrastructure projects, is spearheaded by Chinese State-Owned Enterprises, and benefits from abundant official finance support provided by Chinese policy institutions, notably China Exim, China Development Bank (CDB) and the official ECA-insurer Sinosure.

6.1.2. Key role of the EU private financial sector in cross-border trade and investments

Commercial banks and private credit and political insurers are a core strength of the EU and facilitate large volumes of EU exports and investments. The three global leaders in private credit-insurance are European (Allianz Trade, Atradius and Coface, all of which mainly offer ST whole-turnover credit insurance). Similarly, 8 out of the 15 global leading banks in MLT export finance are EU banks. Nonetheless, the market is neither perfect nor standardised. Its depth, features, availability and quality in terms of financing offered to EU exporters and investors varies substantially among individual Member States.

6.1.3. The Arrangement: important for a level playing field in MLT export credits, but with limitations

The Arrangement plays a critical role in ensuring a level playing field for officially supported MLT export credits and tied (or partially untied) aid from OECD countries. The agreement reached on its modernisation on 31 March 2023, with an enlarged scope of sustainable and climate-friendly projects, longer repayment periods and reduced premium for very long-term loans, is an important and positive milestone. One of the objectives of the Arrangement's modernization is to reduce the competition between unregulated untied investment loans and regulated export credits.

Although a very valuable tool, the Arrangement cannot be expected to address all the gaps or challenges faced by exporters, banks or MS ECAs.

Among other limitations, the Arrangement, does not apply to official support for ST export credit insurance and finance (up to 2 years), untied investment loans, import loans, equity investments and ECA domestic operations (e.g., pre-export finance, working capital, bonding and domestic investments). There are currently no global or OECD rules to secure a level playing field in these areas. Officially supported export credits from OECD countries will remain governed by detailed rules (e.g., minimum premium), which is not the case for other forms of official support such as untied investment loans.

The modernisation doesn’t address challenges concerning untied aid that is de facto tied, the activities of dual mandate DFIs and unfair competition experienced by EU exporters from non-OECD State Owned Enterprises.

The most challenging, however, remains the fact that the Arrangement (including its high ESG- anti-corruption-, and debt sustainability standards) and OECD DAC rules on ODA do not apply to non-OECD countries such as China and India. Furthermore, multilateral debt rescheduling in the Paris Club, which is based on close cooperation between Paris Club members (mainly OECD countries), the IMF and debtor countries, is complicated by the fact that China does not participate in the Paris Club.

An EU Export Credit Strategy should therefore not only cover MLT export credits as regulated by the Arrangement, but also other forms of ST and MLT official finance, which are used to support cross-border trade and investments and fall outside the scope of the Arrangement.

6.1.4. Complementary role of Official Finance Agencies, in cross-border trade and investments

Globally, including in the EU, various official finance agencies complement the private market in supporting cross-border trade and investment. These include:

- Agencies from the official export finance community, mandated to support their national exporters and investors. These consist of Member States ECAs – ECA-insurers and Exim banks – and other export finance agencies (such as agencies providing refinancing support or CIRR rate fixing).
- Agencies from the official development finance community, mandated to support development in developing countries. These consist of multilateral and bilateral DFIs (e.g. EIB group, MS BDBs s and ODA aid agencies). Some bilateral DFIs have a dual mandate and aim to serve both developmental objectives in developing countries and national business interests, which can be trade- or investment related.

These two official finance communities have different mandates but share some common features and interests. Both MS ECAs and EU DFIs (EIB, MS BDBs and ODA aid agencies) are to varying degrees active in cross-border trade and investments. They can have an important developmental impact in importing and exporting countries and their operations can have an impact on the competitiveness of EU exporters and investors.

6.1.5. Gaps and challenges faced by EU exporters and investors

EU exporters and investors experience wide and diverse range of market gaps, partly addressed by officially supported export credits. These gaps refer to situations where they do not have access to export finance instruments comparable to those supported by the governments of other global competitors, or where these instruments are not delivered effectively or in sufficient volumes, or that their terms are not competitive (notably with respect to pricing and maturity) even though the underlying transaction is robust enough to merit finance.

Some of the market gaps identified are common to most Member States (such as limited SME access to ST insurance or trade finance, capacity constraints to cover new deals on a MLT basis). Others are more specific to certain Member States (lack of adequate cover for ST marketable risks, of refinancing or CIRR support for MLT exports, of MLT commercial bank financing due to the credit rating of the MS ECA-insurer or limited appetite of local banks to provide export finance support).

In some areas, different views arise between the users of ECA support (exporters and banks) and the providers of such support (Member States and their ECAs). Due to the diversity of market gaps and market gap perceptions, improvement of EU competitiveness cannot be achieved by a *one solution fits all* approach. Different measures at different levels within the EU community have to be undertaken, preferably in a coordinated way, in order to improve the EU's overall export competitiveness, not just the competitiveness of a limited number of Member States.

6.1.6. Policy challenges faced by EU and MS and their ECAs

Beyond the specific market gaps experienced by EU exporters and investors, the Commission, Member States and their official finance agencies (ECAs and DFIs) also face challenges that indirectly impact the EU's competitiveness. These challenges include among others:

- The need for data to formulate, update and monitor the impact of an EU Export Credit Strategy. Member States and their official finance agencies compile data and report them to different international fora, like the OECD Export Credit Group, the OECD Development Assistance Committee, the Berne Union and the Commission. However, a lot of data that would be required to provide a comprehensive picture of official support for cross-border trade and investments is currently not available at the EU level. This complicates the formulation, implementation, monitoring and evaluation of a comprehensive EU Export Credit Strategy. This lack of data also hinders the Whole-of-Government approach to improve EU competitiveness, discussed below.

- The need for a comprehensive Whole-of-Government approach on EU competitiveness across the various EU Strategic Agendas, institutions and regulations. Aspects to be addressed include:

  - Limited consistency checks of the application of EU rules which can have unintended consequences on official support for export finance and insurance, being ST or MLT. One example could be EU state-aid rules. This issue arises because requests for waivers are based on concrete detailed proposals of individual Member States, which in content may differ from one another and subsequently lead to different decisions and conditions attached to state-aid waivers.

  - A weak coordination and cooperation between the various EU official finance agencies involved in cross-border trade and investments.

  - A poor communication on the contribution of MS ECAs to EU exports, employment and overall economy, the UN SDGs and EU Strategic Agendas. Many stakeholders outside the regular ECA community are not fully aware of the important role that Member States ECAs play globally (including within the EU) and in developing countries.

6.2. Recommendations

6.2.1. A two-track approach for an EU Export Credit Strategy

Member States are responsible for developing measures at national level to better support their exporters, including SMEs. However, the national measures have limitations. Further interventions at the EU level could help MS ECAs better serve their exporters and investors. These interventions could be undertaken as part of an EU Export Credit Strategy developed in a concerted manner between Member States (and their ECAs) and the Commission. These could include a range of *software* and *hardware* measures as part of a two-track approach described below.

6.2.2. Recommendations for *software* measures

A **first set of software measure**s could be dealt with at MS ECA level. These would include:

- **Exchanges of best practices** and shared experience among MS ECAs, notably regarding the development of new products and services, cooperation with private reinsurance and the application of EU state-aid rules to the operations of ECAs.

- **Harmonisation** of certain policies and procedures (e.g., standardised reinsurance polices, combined with a common understanding on the cover for EU content and the practical application of the Council Decision 82/854 on 30% cover for other EU content). This could make the structuring of multi-sourced transactions easier and less costly.

- **Improved Advocacy and Communication** about the operations of Member States ECAs.
- **Development of a Whole-of-Governmen**t approach at Member State level.
- **Input fo**r the formulation, implementation, monitoring and evaluation of **an EU Export Credit Strategy.**
- **Shared Services** and technical assistance for MS ECAs.

An Association for MS ECAs could be established and help liaise with different parts of the Commission regarding EU Strategic Agendas and the application of EU state-aid rules to their operations.

These measures may work well and reduce some of the gaps faced by exporters and investors in EU countries that have a sophisticated ECA infrastructure with adequate technical and financial resources, less so for Member States that lack such a system or face technical or financial constraints (e.g., their credit rating or lack of risk capital). An EU ECA Association, potentially complemented by a dedicated shared-services company, could provide shared services and technical assistance to MS ECAs (e.g., underwriting complex projects, ESG studies, private reinsurance, risk mitigation solutions for EU exporters beyond what MS ECAs can offer themselves, claims and recoveries). These technical assistance activities could be financially supported by the EU.

A **second set of measures** could be handled at the EU level, focusing on the following aspects:

A. EU Export Credit Strategy

In order to formulate and implement an EU Export Credit Strategy, comprehensive data will have to be collected on official support for cross-border trade and investments provided by Member States through their various official finance agencies (i.e., ECAs, DFIs and ODA aid agencies) to feed and continuously update the EU Export Credit Strategy. This could be further complemented with data of official support provided by main competing countries, leading to the preparation of EU competitiveness reports that can be discussed within the EU.

B. Development of a Whole-of-Government approach at an EU level

As part of a Whole-of-Government approach it is important to explore areas for cooperation between MS ECAs and EU DFIs (e.g., EIB group, Member States development banks and ODA aid agencies) that improves EU competitiveness and at the same time contributes to the objectives of the EU development finance community. This could be based on a shared agenda, e.g., the EU contribution to the UN SDGs. Such an approach could be first explored in relation with the EU Global Gateway.

Enhanced cooperation between EU DFIs and MS ECAs is not only important for the improvement of EU competitiveness but could also help mobilise valuable additional sources of capital to bridge the SDG financing gap alongside development finance. Obviously, the diversity of different official finance agencies involved in cross-border trade and investments with different mandates, different guardian authorities and regulators is a challenge for the development of a Whole-of-Government approach at the policy levels of both Member States and the EU and at the agency level of EU DFIs and Member States ECAs.

Efforts to address policy and institutional silos between EU export and development finance are ongoing. The Joint Communication on Global Gateway published in December 2021 mentioned a potential European Export Credit Facility complementing the existing export credit arrangements at Member States level as a tool to increase the EU's overall firepower in this area[51]. The Ecofin conclusions on export credits of March 2022, amongst other things:

- Expressed support for analysing the opportunity of enhanced coordination of EU external financial tools and of an EU export credits facility as a complement to national export credit facilities, to development aid, and to investment support, both at national and EU levels. The Council noted that the Commission's work on enhanced coordination of EU financial tools is advancing and urges rapid progress towards this objective.
- Drew attention to the experience and key role of national ECAs in mobilising additional capital contributing to the successful implementation of the EU Global Gateway strategy[52].

In April 2023, the Commission published a Joint Staff Working document on the mapping of external financial tools of the EU, that support implementation of external EU policies including the Global Gateway and have the potential to strengthen the global competitiveness of EU companies[53]. It is a valuable document that can assist in developing a Whole-of-Government approach at the EU level.

Key strategic areas for enhanced cooperation between ECAs and DFIs could be (a) the potential of ECA insurance for EU DFI (investment) loans that are (partially) used to import goods or services into developing countries, (b) MS ECAs reporting their own contribution to the UN SDGs (including the mobilization of capital through their operations) and (c) an alignment of official finance operations of MS ECAs and EU DFIs based on a practical additionality ranking tool.

Other Whole-of-Government topics include an integration of EU competitiveness considerations in EU Strategic Agendas and an assessment of the impact and potential unintended consequences of the application of EU rules or policies on EU competitiveness, which could cover:

- Some key EU competitiveness issues linked to the application of EU state-aid rules. A further clarification on the application of EU state-aid rules can address market gaps that exist in areas like ST and MLT export finance and insurance for SMEs, ST insurance for single risks and risks with a tenor between 180 – 720 days, the conditions for official ECA cover of marketable risks and the 80% maximum percentage of cover for guarantees for ECA business outside the scope of the Arrangement (e.g., guarantees for untied investment loans, domestic support, import support).
- The CRR and other rules applying to export credit provided by commercial banks and often used as a benchmark by public banks.
- A review of conditions for export finance support provided by EU public banks to support national exporters and investors.
- Introduction of the concept of reciprocity for the untying of aid for projects financed by EU development finance and measures to adequately address unfair competition from distortive non-OECD State-Owned Enterprises in public tenders for projects directly or indirectly (through multilateral development banks or aid recipient governments) financed by the EU and/or Member States.

[51] Joint Communication by the Commission and the High Representative of the Union for foreign affairs and security policy to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank "The Global Gateway", JOIN(2021) 30 final of 1.12.2021.

[52] Council Conclusions on export credits of 15 March 2022, Ref. 7101/22.

[53] Joint Staff Working Document by the Commission and the High Representative of the Union for foreign affairs and security policy, on the main outcomes of the mapping of external financial tools of the EU of 11.4. 2023, SWD(2023) 96 final.

C. Other EU measures complementing actions at MS level

Measures at EU level could complement actions at MS level in terms of both institutional and operational support.

Institutional support at EU level could aim to improve communication and advocacy regarding the economic contribution (notably in terms of export promotion and employment). This would also include communication on the contribution of MS ECAs to the EU Strategic Agendas and UN SDGs. Clarity about practices of MS ECAs regarding the cover of EU content and harmonisation for improved cooperation through among others through standardised co-and reinsurance arrangements.

Institutional support could also aim to strengthen the policy-making capabilities of the EU and Member States.

EU support could also relate to operational aspects, including the harmonisation of business practices, an approach to define EU content, the facilitation of multi-sourced transactions, more clarity on the application of EU state-aid rules to officially supported export finance and insurance. This could also include technical assistance and shared services to strengthen the efficiency of MS ECAs that require technical support or institutional strengthening.

Institutional and operational support from the EU can help MS ECA better address certain gaps and challenges experienced by EU exporters and investors. This would also indirectly contribute to an improvement of EU competitiveness.

The *software* measures at both Member States and EU level are interlinked and need to be undertaken in a concerted manner.

6.2.3. Recommendations for *hardware* measures (EU Export Credit Facility)

Feedback received from the workshops and interviews with stakeholders emphasise the need for financial instruments to help exporters, banks and ECAs address the gaps they face in third-country markets. Three functions are identified as priorities for an EU Export Credit Facility, with strong positive impact, which are:

A. A **Pure Cover Function** to reinsure MS ECA-insurers and insure MS Exim banks faced with risk capacity constraints in terms of country-, borrower-, sector- or transaction limits. This function would only be accessible to MS ECAs (wholesale approach). In addition, a **Strategic Pure Cover Function** could be set up to support trade and investments, in particular projects in line with EU Strategic Agendas in relatively high-risk markets.

B. A **Refinancing Function** to refinance export credits extended by commercial banks in order to make the EU export finance offering more competitive, notably in Member States that currently do not offer such a scheme. The EU Refinancing Function could be approached directly by commercial banks (retail approach). Access could also be open to MS Exim banks.

C. A **Concessional Finance Function**. This function would be an EU tied aid programme under which certain projects in developing countries would be tendered among EU companies. Its purpose would be to address gaps caused by (de jure or de facto) tied aid practices of competing countries and it would shield EU exporters from distortive and/or subsidized offers of non-EU enterprises on transactions funded by this function. This function could be supported by existing EU external aid programmes (if they can include a tied aid window) or new programmes to be established. The topic would likely require further debate.

All three functions can also contribute to EU Strategic Agendas, such as the EU Global Gateway and the EU Green Deal. The Normal Pure Cover and Refinancing Functions can operate financially in a self-sustainable manner. The Strategic Pure Cover Function implies higher risks and would need to be backed by a specific EU budgetary guarantee. The Concessional Finance Function requires grant money to make concessional finance possible.

Additional instruments could be established at a second stage to address other market gaps. This could include credit enhancement, CIRR (or fixed interest rates), public direct lending and a vehicle for equity co-investment. A fund for the (pre)-financing of E&S studies and feasibility studies which would rely on grants could be considered as well.

Table 20 lists possible software and hardware actions under an EU Export Credit Strategy, their potential impact on EU competitiveness and the expected implementation time. The impact of these measures can vary among stakeholders from different Member States.

Table 20: Possible software and hardware actions of an EU Export Credit Strategy

Type of Measures	Impact	Timing
MS ECAs Software	Medium	Less than 1 year
MS & EU Software	Medium to High	Between 1 year to 2 years
EU Normal Pure Cover Function	High	2 years
EU Strategic Pure Cover Function	High	2 to 3 years
EU Refinancing Function	High	2 years
EU Concessional Finance Function	High	2 to 3 years
EU CIRR Function	Medium	3 years
EU Direct Lending Function	Low to High	3 years
EU Credit Enhancement	Low to High	3 years
EU Equity Co-Investment Fund	Low	2 to 3 years
EU Fund for Technical Studies	Medium	2 years

Source: Consultancy team assessment

Table 21 below provides a summary of recommended software- and hardware actions both at Member States level and EU level.

Table 21: Summary of recommended actions for an EU Export Credit Strategy

Voluntary actions at MS level *(Software)*	Actions at EU level *(Software)*	EU Export Credit Facility *(Hardware)*
Exchange on best practices and shared experience (with an Association of MS ECAs?) Harmonisation (e.g., reinsurance, definition of European content) Whole-of-Government approach at MS level Input/contribution to EU Export Credit Strategy Advocacy and communication Shared services and technical assistance to certain ECAs (e.g., via a cooperative company)	Formulation, monitoring & evaluation of EU Export Credit Strategy aiming to enhance EU export competitiveness and advance EU Strategic Agenda Enhanced cooperation between Export Finance and Development Finance (as suggested in the Global Gateway Initiative) Whole-of-Government approach at EU level across policies (EU Agendas), institutions and rules affecting export finance. (e.g.EU state-aid) Support (through cost-sharing) for actions at MS level: harmonisation, communication, shared services and technical assistance.	**Priority financial functions** 1. Normal and Strategic Pure Cover Function delivered through MS ECAs (wholesale) 2. Refinancing Function (retail) 3. Concessional Finance Function

Source: Consultancy team assessment

6.2.4. Implementing agencies for an EU Export Credit Facility

The proposed EU Export Credit Facility would entail two types of functions: on the one hand financing functions (including refinancing and concessional) requiring banking expertise, and on the other hand insurance functions requiring (re)insurance expertise.

A. A banking entity to implement banking functions

The financing functions would be best implemented by an EU banking institution.

This institution could be the EIB, assuming that it can fit within its mandate and all parties, including the EIB, can reach an understanding on this. The EIB has an excellent credit rating and substantial experience in funding EU commercial banks, EU National Promotional Banks and Exim banks to support internal EU agendas. It has also substantial experience in providing untied concessional finance to multiple governments in developing countries. Furthermore, the EIB is today also active in providing equity investment support, but this is currently mainly done indirectly through investments in independent dedicated equity investment funds. Such an approach could, instead of direct equity investments by EIB, also be considered for the EU Equity Investment Function.

B. An insurance entity to implement (re)insurance functions

The insurance functions should be implemented by an insurance entity.

Using a banking entity (such as the EIB) to manage an insurance/reinsurance scheme without substantial experience in this area would introduce complexity and unpredictability. The experience of multilateral development banks in general also illustrates the challenges of rolling-out risk mitigation instruments in public institutions, operating in a banking environment and dominated by lending operations. This approach is not recommended nor is it favoured by Member States or their ECAs. Note that in many countries across the globe two separate ECAs exists: one responsible for financing support (e.g., Exim bank) and one for pure cover support (an ECA-insurer).

The EU insurance entity could be a capitalised EU institution or a transparent EU entity that acts as an agent under an EU budgetary guarantee. It will require a clear policy framework to provide additional risk covers to MS ECAs. This additional capacity can address capacity constraints of MS ECAs (for some countries, borrowers, sectors or projects) and enhance their support to EU exporters and investors.

A transparent insurance entity operating under an EU budgetary guarantee is technically possible and has the advantage that it can likely become operational faster than a new capitalised insurance entity. It requires less equity investment of the EU and Member States.

Different alternatives could be considered for the management of this new transparent EU insurance entity. A service company jointly owned by MS ECAs or Member States could be the best alternative. The shared-services company, mentioned in the context of the EU association of Member States ECAs could potentially be integrated into the envisaged EU insurance entity.

6.2.5. Potential business volume and budgets

At this preliminary stage, it is not possible to precisely assess the expected business volume and potential costs and income of the suggested functions of the EU Export Credit Facility. Each function has different characteristics and implications that need to be further quantified with MS ECAs. Nonetheless, one can estimate an indicative order of magnitude based on the current MLT portfolio of MS ECAs.

For the Normal Pure Cover Function, if one assumes that it covers 10% of the combined MLT portfolio of MS ECAs, which amounts to approximately EUR 300 billion, the associated risk exposure could be in the order of EUR 30 billion.

The insurance function could be implemented either by a capitalised entity or by a transparent entity.

If the function is performed by a capitalised entity, based on the experience of existing ECAs the financial resources (in the form of equity, provisions and/or guarantees) required to cover expected losses on individual transactions and unexpected losses on its portfolio could be estimated at EUR 3 billion (10% of its portfolio).

In the case of a transparent insurance entity the risk exposure is directly born by an EU budget. The transparent entity does not have independent balance-sheet and will call on an EU budgetary guarantee when claims arise. In the long run, the scheme is expected to be self-supporting (premium income is expected to cover net losses and operating cost) although cash mismatches may arise in the short to medium term. This approach could require a more limited direct financial support if financial needs are only determined by claims.

The refinancing function would be implemented by a capitalised entity. The capital contribution and / or guarantees required by a new entity could be in the order of EUR 5 billion assuming an EU refinancing volume equivalent to 1/3 of the total MLT portfolio of MS ECAs (i.e., EUR 100 billion) and financial resources in the range of 5% of the refinanced portfolio. If the EIB would become the refinancing agent, the financial implications for EIB would need to be more specifically assessed.

The suggested concessional finance function could potentially be financed from existing concessional funds available in the EU provided the procurement rules associated with these funds can be amended. If that is not possible, other sources of concessional funds would have to be found.

Considering the shares of tied aid (ODA) in total bilateral aid of China and India (both almost 100%), Japan (25.7%) Korea (40.6%) and the USA (41.5%), as an order of magnitude, it would not be unreasonable to consider a budget for EU tied aid equal to 30% of the bilateral aid provided by the EU. This requires further research.

ANNEXES: