EXPORT CREDIT FINANCING SYSTEMS IN OECD MEMBER COUNTRIES AND NON-MEMBER ECONOMIES

Spain

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SPAIN

1. ORGANISATION AND STRUCTURE

1.1 Insurance and guarantees

1.1.1 Representative organisation

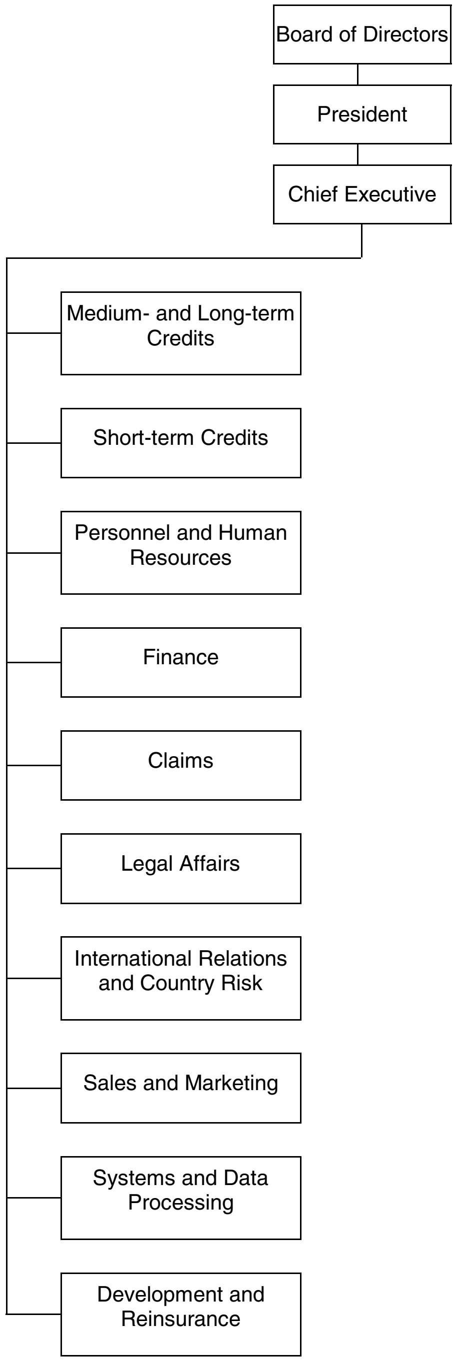
Compañia Española de Seguros de Crédito a la Exportación, S.A.
(CESCE)
c/Velazquez, 74
28001 Madrid
Telephone: (34 1) 423 48 00
Telex: CESCE E 23577
Telefax: (34 1) 576 51 40

1.1.1.1 Function

The Spanish Export Credit Insurance Company (CESCE) was incorporated as a joint stock company in 1970. It supports Spanish exporters by means of a system of insurance policies designed to cover both commercial risks and political and extraordinary risks, as well as what are known as special risks. CESCE covers commercial risks OF beyond two years' credit for its own account and political and extraordinary risks on behalf of the state. CESCE also arranges joint insurance and co-insurance. It has concluded bilateral agreements with other export credit agencies on joint insurance.

1.1.1.2 Summary of organisation

Insurance and management of policies are the responsibility of the relevant department (Short-term or Medium- and Long-term). Other functions are under the responsibility of the Personnel, Finance, Claims and Legal Departments.


Board of Directors
President
Chief Executive
Medium- and Long-term Credits
Short-term Credits
Personnel and Human Resources
Finance
Claims
Legal Affairs
International Relations and Country Risk
Sales and Marketing
Systems and Data Processing
Development and Reinsurance

1.1.1.3 Resources

CESCE's share capital totals EUR 9.2 million, including a state share of 50.25%. The remaining 49.75% are owned by the private sector. Accumulated reserves total EUR 139.5 million. Capital funds therefore total EUR 148.7 million. For commercial risks, resources are provided by premiums paid, recoveries, fees and investment income.

For political and extraordinary risks, which are managed on behalf of the state, the company relies on reserves constituted by premiums paid, claims recovered, and contributions by the state to cover these specific risks.

1.1.1.4 Other organisations involved

CESCE provides insurance for short-, medium- and long-term transactions. Decisions concerning cover are taken by a committee within the company. Over a specified amount, decisions are taken by the executive committees of the Board of Directors (Committee for Political Risks and Committee for Commercial Risks), which meet every week and take decisions on the basis of proposals put forward by the company's different services.

The payment of claims up to a pre-established amount must be approved by a CESCE committee that meets every week. Claims exceeding this amount are submitted to the Board of Directors, which meets once a month.

1.1.1.5 Relations with the state

CESCE relies on the reserves described in 1.1.1.3. Its relationship with the state is governed by Law 10/1970 of 4 July 1970, which set the legal grounds for its incorporation. The Ministry of Industry, Tourism and Trade acts as CESCE's guardian authority for officially supported credits.

1.1.1.6 Relations with the private sector

Until 1984, CESCE had exclusive responsibility for commercial risk insurance. Since then, private companies authorised by the government have been able to operate in this area. Under the Private Insurance Act of 2 August 1984, CESCE may reinsure its risks with Spanish or foreign reinsurers.

1.2 Export finance

1.2.1 Representative organisation

Instituto de Crédito Oficiál (ICO)
Paseo del Prado 4
28014 Madrid
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1.2.1.1 Function

The Spanish export financing system is exclusively based on private funding of transactions. No official Spanish institution finances export transactions. However, in order to ensure that a sufficient volume of private resources is available for export financing, the Spanish government provides a type of insurance of interest rates under the Agreement for Reciprocal Adjustment of Interest Rates (CARI). Decisions to extend this interest rate insurance to specific transactions are the responsibility of the Ministry of Commerce. Management of this facility is entrusted to the Institute of Official Credit (ICO). As from 31 December 1992, neither the state nor any state agency has recourse to the market in order to obtain resources for export financing.

The CARI system is, by nature, exposed to changing outcomes, depending on the currency in which a credit is expressed and on the general situation of financial markets. There are thus likely to be positive or negative results; therefore, the state budget includes a budgetary credit intended to cover the cost of the system.

2. INSURANCE AND GUARANTEE PROGRAMMES

2.1 Cover for exporters

2.1.1 Policies available

CESCE covers both political risks (on behalf of the state) and commercial risks (on its own account) (see 1.1.1.1). In both cases, pre-shipment and post-shipment risks are covered. Commercial risks are covered up to a maximum of 94% of the loss. For political risks, the limit is 99%.

Insurance may be in the form of comprehensive policies (short-term, bond insurance, and confirmation of letters of credit) or of specific policies, depending on the nature of the transaction. Whole turnover policies allow an exporter to cover the risk of non-payment of credits for all his export transactions with repayment periods not exceeding three years. Pre-shipment risk is not covered under the whole turnover policy.

Payment of claims takes place within ten days following the determination of final net loss. Compensation for protracted default generally takes place six months after the notification of failure to pay. This period can, however, be extended to eight months or reduced to three.

2.1.2 Eligibility

Agreement or refusal to provide insurance cover depends on different criteria, mainly the creditworthiness of the importing country (political risks) or that of the private importer (commercial risks). Account is also taken of terms of payment, collateral offered as security, etc.

Foreign goods may be insured to a maximum of 15% when they come from a non-EC country, except under special circumstances. If the foreign goods originate in an EC country, EC provisions are complied with.

2.1.3 Cost of cover

Premiums are calculated on the basis of the repayment period, the situation of the buyer's country and the buyer's creditworthiness.

2.2 Guarantees for banks

2.2.1 Policies available

The following policies are available from CESCE:

- *Bank guarantee policies* cover a bank's losses from the non-repayment of credits granted for pre-financing firm orders or defaults on credits for export transactions.
- *Buyer credit policies* cover non-payment of credits granted by a bank to a buyer.
- Confirmed *letters of credit policies* cover a bank's risk on letters of credit opened by foreign banks and confirmed by Spanish banks.

- *Bond insurance policy for guarantors* covers the guarantor bank (issuer of the bond) against the risk of non-payment by the Spanish exporter if the bond is called by the foreign buyer, irrespective of whether the call is unfair or due to the exporter's failure to fulfil its obligations under the export contract.

2.2.2 Eligibility

See 2.1.2.

2.2.3 Cost of cover

See 2.1.3.

2.3 Other insurance programmes

2.3.1 Policies available

Policies for *unfair calling of bonds* cover exporters and guarantors (banks) against the unfair calling of bonds.

Supplier's credit policy covers exporters against credit and manufacturing risks.

Civil works insurance combines pre-shipment and post-shipment risks. It insures against the impossibility of carrying out the project, stoppage of work and non-payment against work certifications. It also covers confiscation of machinery and installations and the impossibility of transferring working capital, provided that the insured has fulfilled his contractual obligations.

Foreign investment policies cover the risks of expropriation or the impossibility of transferring profits of Spanish investors in foreign countries.

Barter insurance covers the losses likely to be suffered by the insured due to the non-delivery of the goods mentioned in the barter contract.

3. EXPORT FINANCE PROGRAMMES

3.1 Direct credits

Not available.

3.2 Refinancing

Not available

3.3 Interest subsidies

The CARI system is mainly intended to encourage banks to finance export transactions, especially long-term credits with a fixed interest rate, and covers the financing bank against the risk arising from the granting of fixed interest rates according to the terms of the Arrangement.

This type of transaction involves a double interest rate. On the one hand, an active interest rate is collected by the financing bank from the borrower. This rate is fixed for the full length of the credit and is determined on the basis of the Arrangement, which defines the minimum applicable rate of interest, thus regulating international financial competition. On the other hand, the basic interest rate represents the cost to the financing institution of the funds allocated for financing export transactions, *i.e.* the interbank interest rate for the currency in which the credit is denominated.

The CARI system is intended to cover the payment of the difference between the actual market cost of the funding obtained by a bank for a specific transaction and the interest paid by the borrower, plus a margin.

The system results in a reciprocal adjustment of interest rates. If the Arrangement rate is higher than the market rate and is therefore in excess of the difference guaranteed by ICO, the interest rates are readjusted by the financing bank in favour of ICO.

The required resources are provided to ICO through the state budget (see 1.2.1).

4. AID FINANCE PROGRAMMES

4.1 Development aid credits

Soft development and credits with these characteristics were first granted in Spain in 1977 as a consequence of the creation of the Development Aid Fund (FAD). This was one of a number of measures intended to encourage export transactions by including Spain in the group of countries providing aid to less developed countries. The granting of FAD credits to a specific country must be made in conformity with the Arrangement. Any Spanish exporter of capital goods can apply for this kind of government credit to support an export programme to a developing country.

The system works with two types of credit: specific credit, which finances an already defined project, and open credit (line of credit), which is available to finance projects that are assigned after the credit agreement has been signed. For specific credits, an exporter participates from the beginning by applying for a FAD credit for an export project. For a line of credit, an exporter must wait until the line of credit has been established and then determine whether the particular project in which he is interested is covered by the definitions set at government level.

The eligibility of a project is assessed by the Spanish authorities according to its feasibility, technological quality, commercial interest and the development priorities of the beneficiary country. On the basis of these criteria, the General Directorate of Commercial Policy and Foreign Investments refuses or accepts the transaction in question.

If the transaction is accepted, the file is submitted to the FAD Interministerial Committee which acts as managing body. The Committee confirms acceptance of the project, subject to the approval of the Cabinet, specifying the nature of the Spanish goods and services, the recipient country and buyer, the value of the commercial contract, and the value and financing terms charged to the FAD. The cabinet then assesses the different transactions, and if it agrees with the Committee's recommendations, it instructs ICO, as a financial agent of the Spanish government, to negotiate the related financing agreement with the government of the recipient country.

ABBREVIATIONS

Arrangement	Arrangement on Officially Supported Export Credits
CIRR	Commercial Interest Reference Rate
DAC	Development Assistance Committee
EC	European Communities
ECA	Export Credit Agency
HIPC	Highly indebted poor country
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
L/C	Letter of Credit
LDC	Less Developed Countries
LIBOR	London Interbank Offered Rate
LLDC	Least Less Developed Countries
ODA	Official Development Aid
SDR	Special Drawing Rights

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III. Export Credits and the Environment: Work Plan (formerly Annex IV)

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V. OECD Recommendation on Common Approaches on Environment and Officially Supported Export Credits (formerly Annex VI)

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* Annex II in earlier publications, *i.e.* Terms and Conditions Applicable to Project Finance Transactions, is now incorporated in Annex I; accordingly all annexes herein have been renumbered.