

FACT SHEET

TIED AID CAPITAL PROJECTS FUND

TIED AID DEFINED

Tied aid is government-to-government concessional financing of public sector capital projects in developing countries. Tied aid is provided by the aid agencies of rich-country governments, sometimes in joint financing packages with their national export credit agencies (their ex-im banks). Tied aid terms are much more concessional than the typical export credit terms offered by Ex-Im Bank and its counterparts. Tied aid usually involves total maturities longer than 20 years; interest rates equal to one-half to two-thirds of market rates in the currency of denomination; or large grants (equal to more than 35 percent of contract value) offered in conjunction with regular export credits. Regular export credits--involving terms up to and including 10-12 years--are not tied aid, and are not the subject of this Fact Sheet.

Ex-Im Bank aims to counter foreign tied aid offers. The Tied Aid Capital Projects Fund is a U.S. trade policy tool aimed at countering trade-distorting foreign tied aid offers in select circumstances. The Fund is not an instrument for the routine support of U.S. exports and jobs. Ex-Im Bank is successful when bid opportunities--threatened with closure by foreign tied aid offers--are reopened to U.S. exporters.

Ex-Im Bank is never the first to introduce a tied aid offer. Ex-Im Bank prefers to use standard export credits and does not seek competitive advantage in approving tied aid. Ex-Im Bank only matches foreign tied aid offers, and never initiates them. We do not offer tied aid in order to reserve otherwise competitive contracts solely for U.S. exporters; nor to induce approval of contracts that would not otherwise be approved; nor to respond to solicitations for tied aid; nor to be the first donor government chronologically to offer tied aid for a project; nor because foreign donor governments have previously offered tied aid for prior similar projects.

Ex-Im Bank requires credible information about foreign tied aid offers before offering specific matching terms. Ex-Im Bank has access to formal prior notifications of foreign tied aid offers required under OECD tied aid rules. Ex-Im Bank will also review recipient governments' written or oral (to Ex-Im Bank or U.S. Embassy) confirmations; press reports; and/or copies of correspondence or bilateral aid protocol agreements among foreign exporters, donor, and recipient governments. Ex-Im Bank seeks the following information regarding each foreign tied aid credit for which matching is requested: specific financing terms (including currencies of denomination, grace periods, repayment terms, interest rates, grant amounts); amounts of tied aid financing; dates of foreign tied aid offers; descriptions of projects; names of donor agencies; names of recipient government agencies; names of foreign exporters.

Ex-Im Bank carefully screens tied aid matching requests. Tied aid matching cases are reviewed by Ex-Im Bank's Board of Directors, with input from other agencies, especially from the Treasury Department, which has policy oversight responsibility. Congress requires that Ex-Im Bank's Board of Directors find a national trade and economic interest each time we match a foreign tied aid credit.

Ex-Im Bank will usually not incur a budget cost exceeding 50 percent. Ex-Im Bank will generally not match foreign tied aid credits with average terms exceeding 30 years, or average rates below one-half market rates in U.S. dollars, or involving grants exceeding 40 percent of export value.

Ex-Im Bank will match only when broader market opportunities are at stake. The foreign tied aid offer must threaten not only the immediate contract, but the U.S. exporter's established presence or follow-on opportunities with respect to the specific recipient government. Ex-Im Bank will not approve matches for contracts which are not likely to be repeated or which, if repeated, have traditionally required tied aid. A pattern of previous similar purchases, made without aid support, demonstrates the feasibility of commercial-term sales. In assessing such projects, Ex-Im Bank may also consider such factors as plans of international financial institutions to finance the technology, a credible privatization process in the sector, or substantial follow-on sales of spare parts to the original project. Moreover, U.S. exporter's willingness to finance or absorb Ex-Im Bank's exposure fees represents a demonstration of U.S. exporter willingness to invest today in broader market opportunities.

Ideally, Ex-Im Bank seeks to deter foreign tied aid offers at an early stage:

- P If there is not yet any documentary evidence that a foreign government has made even a conditional or preliminary tied aid offer, Ex-Im Bank will offer to seek an intergovernmental agreement to withhold tied aid from the project. If this "common line" is accepted by all OECD governments, the project will be "tied aid free." If this agreement is rejected by the alleged foreign donor government, Ex-Im Bank will offer an indication of its willingness to match foreign tied aid. This indication will not contain any specific tied aid matching terms, as the foreign terms are not yet known. This indication converts to a Tied Aid Preliminary Commitment if a foreign tied aid offer is notified to the OECD.

- P If the foreign donor government has not yet finally approved a tied aid offer, but there is evidence that specific tied aid financing terms are already available to the recipient government, Ex-Im Bank will consider issuing a Tied Aid Letter of Interest matching those specific tied aid financing terms. This letter converts to a Tied Aid Preliminary Commitment upon the foreign government's notification of its tied aid offer to the OECD. In the meantime, the existence of a matching Tied Aid Letter of Interest may convince the foreign donor government to suspend consideration of its tied aid offer, in which case the project can go forward on standard export credit terms.

Which foreign tied aid offers will Ex-Im Bank consider matching?

In general, Ex-Im Bank has been willing to consider matching foreign aid credit offers:

- By:** the donor governments of Australia, Austria, Belgium, Canada, Denmark, France, Finland, Germany, Japan, Netherlands, Norway, Spain, Sweden, Switzerland, and the United Kingdom. These countries have significant trade-related aid programs, and are party to OECD tied aid rules, which permit matching.
- To:** the recipient governments of Chile, China, Indonesia, India, Malaysia, Morocco, Pakistan, Philippines, Thailand, Tunisia, and Turkey. Countries not on this shortlist fall into several categories: those ineligible for tied aid under OECD tied aid rules; those which do not receive large amounts of tied aid; and those where foreign tied aid offers would be too expensive for Ex-Im Bank to match, as they would involve exceptionally heavy budget charges. Requests for matching in other countries may be brought to Ex-Im Bank for consideration.
- For:** moderately concessional aid financing terms: credits or financing packages with an average total term of 16-30 years and an average interest rate equating to one-half to two-thirds of market rates in U.S. dollars, or combinations of standard export credits and grants, if the grants represent 40 percent or less of total packages. "Harder" terms are usually standard export credits, rather than tied aid. "Softer" terms, including grants or credits with terms exceeding 30 years and interest rates below one-half market rates are generally too expensive for Ex-Im Bank to match, as they would involve exceptionally heavy budget charges.
- For:** public sector energy, telecommunications, transportation, manufacturing, environmental, or basic infrastructure projects, which would normally otherwise be financed on standard export credit terms of 5-12 years. Ex-Im Bank will not normally match foreign tied aid offers for bulk commodity or product sales, since the prospects for displacement of foreign tied aid in such cases are limited.
- If:** recipient governments are obligated or permitted by the foreign aid credit offer to award contracts to donor country exporters without international competitive bidding (ICB) open to U.S. exporters.
- If:** U.S. exporters have made previous similar sales to the same recipient government on commercial non-aid terms, or where significant, credible, follow-on sales opportunities, financed without tied aid, are expected.
- If:** the projects are environmentally and developmentally sound.

In order for Ex-Im Bank to match, all of the above criteria should be satisfied.

What additional factors will Ex-Im Bank consider?

Ex-Im Bank will take additional factors into account in the overall decision to approve or reject the match of a particular foreign tied aid offer.

Additional ***favorable*** factors include:

- P The project is found to be ineligible for tied aid under the OECD tied aid rules, but the foreign donor government proceeds to offer tied aid anyway.
- P The project or country is subject to an agreement not to offer tied aid, but a foreign government is offering tied aid in violation of that agreement.
- P The principal U.S. suppliers are SBA-defined small businesses.
- P The principal U.S. suppliers are considerably smaller, with less market power, than the foreign suppliers receiving foreign tied aid support.
- P The project is an environmental or renewable energy project.

Additional ***unfavorable*** factors include:

- P The principal U.S. suppliers are repeat customers for Ex-Im Bank tied aid for similar project and country circumstances, suggesting that commercial-term follow-on sales are less likely for such projects and countries.
- P The foreign tied aid offer to be matched is one of a series of such offers by the same foreign government for similar contracts in the same country, suggesting that Ex-Im Bank's tied aid offer would be less likely to deter that government from making similar tied aid offers.
- P The recipient government is requesting tied aid financing of significant local procurement, so that a portion of Ex-Im Bank's heavy budget charge would be used for foreign jobs.
- P The specific project or procurement program is sufficiently large and flexible to accommodate both U.S. and foreign tied aid offers, so that Ex-Im Bank tied aid would not displace foreign tied aid.
- P The foreign tied aid credit is very large, suggesting a very large potential Ex-Im Bank budget charge. (The typical tied aid credit is under \$30 million.)

MORE INFORMATION

Headquarters

U.S. Toll Free Number	(800) 565-EXIM
Worldwide Number	(202) 565-3946
Business Development	(202) 565-3946 Fax (202) 565-3931
TDD	(202) 565-3377
Fax Retrieval	(800) 565-EXIM, press 1, press 2
E-Mail	bdd@exim.gov
Order User's Guide	(800) 565-EXIM, ext. 3912
Seminars	(800) 565-EXIM, ext. 3912
Internet	http://www.exim.gov

Regional Offices

Northeast - New York	(212) 466-2950 Fax (212) 466-2959
Mid-Atlantic - Washington, DC	(202) 565-3940 Fax (202) 565-3932
Southeast - Miami	(305) 526-7425 Fax (305) 526-7435
Midwest - Chicago	(312) 353-8081 Fax (312) 353-8098
Southwest - Houston	(281) 721-0465 Fax (281) 679-0156
West - Long Beach	(562) 980-4580 Fax (562) 980-4590
<i>Satellite</i> - San Jose, CA	(408) 271-7300 ext. 104 Fax (408) 271-7307
<i>Satellite</i> - Orange County, CA	(949) 660-1688 ext. 150 Fax (949) 660-8039