

EXPORT FINANCING AND GUARANTEES: SUPPORTING EXPORTERS MORE EFFECTIVELY

- *The availability of export financing and guarantees is a fundamental condition to ensure the competitiveness of any company in the international market.*
- *The Brazilian system for export financing and guarantees plays a key role in leveraging high value-added exports from Brazil.*
- *However, there are major gaps to be addressed, such as the budget unpredictability of the Export Financing Program (Proex) and difficulties faced by small and medium-sized enterprises to access official credit lines.*

There are major gaps in the public financing system that need to be addressed, such as the budget unpredictability of the Export Financing Program (Proex) and difficulties faced by small and medium-sized enterprises to access official credit lines. The survey *Desafios à Competitividade das Exportações Brasileiras* (Challenges to the Competitiveness of Brazilian Exports), which was published by CNI and the Getúlio Vargas Foundation (FGV) in 2016, pointed out that almost 67% of Brazilian exporting companies do not use the available export financing instruments - or make very little use of them.

In terms of guarantees, the current system is even more restricted and its main obstacles are its limited mechanisms and complex governance. The above-mentioned survey also showed that 88% of all companies do not make use of these instruments.

The export guarantee system is fragmented in its operational flow and decision-making and, as a result, the process becomes even more bureaucratic for companies. Moreover, exports that depend on post-shipment financing - with longer maturities - as is the case of exports of capital goods and aircraft - cannot rely on the mechanisms used by major competitors, such as unconditional guarantees for exports financed by commercial banks, funds raised in the capital market, and financing and guarantees for local expenses.

The government policy for financing and granting guarantees for exports needs to be reformed in three structuring axes: (a) in the funding of government participation in export financing; (b) in the institutional framework and governance of government agencies; and (c) in the design of the instruments used and in the operational management of the institutions involved.

Main recommendations

1 The funding of government participation in export financing should be reformed.

The Industry sector believes that ensuring predictability to and earmarking budget resources for the public export financing system are key measures. To enable this, it is necessary to:

- ensure government commitment to Proex funds and make the allocation of budget resources within the program more flexible; and
- resume the practice of raising funds abroad through the National Bank for Economic and Social Development (BNDES).

2 The institutional framework and governance of government agencies should be restructured.

For the public export financing and guarantee system to become more agile and efficient, reforms are required in the institutional framework and governance of the agencies in charge of managing the export financing and credit insurance system, including:

- creating a BNDES subsidiary to concentrate all export financing activities;
- reformulating Proex's governance ; and
- concentrating all credit insurance activities at the Brazilian Agency for the Management of Guarantor Funds and Guarantees (ABGF).

3 The design of the instruments used and the operational management of the institutions concerned should be reviewed.

The public export financing system, especially the one available through BNDES, is slow and marked by red tape and it uses some instruments (BNDES' Exim Post-Shipment credit line, for example) whose operations are concentrated in a few companies, which end up absorbing almost all the available funds. As regards guarantees, the operations of the Brazilian Agency for the Management of Guarantor Funds and Guarantees (ABGF) are also limited and concentrated in a few insured companies, and they are not in line with some private practices adopted by the insurance market and by the world's main export credit agencies (ECAs). To reverse this scenario, the industry sector believes that the following measures should be taken on a priority basis:

- BNDES' product portfolio should be reviewed to attract new commercial clients and agents;
- the process of requesting financing from BNDES should be reviewed;
- the nationalization index of BNDES' Exim credit line should be reviewed;
- the interest equalization percentages of the Proex Equalization Program should be kept at competitive levels;
- the product portfolio of ABGF should be expanded;
- partnerships between ABGF and ECAs of other countries should be promoted;
- an instrument for granting guarantees for foreign direct investment should be created;
- the operations of ABGF with commercial banks should be expanded; and
- the unconditional guarantee policy should be implemented at ABGF.

The full version of the document can be accessed through the QR code on the side or at: <http://www.cni.com.br/eleicoes2018/downloads/> This summary is part of the series Proposals of Industry for the 2018 Elections comprising 43 documents. The series, which is based on the *2018-2022 Strategy Map for Industry* is a CNI contribution to the new federal administration and presents analyses and proposals of priorities to increase Brazil's competitiveness. Any part of this publication may be copied, provided that the source is acknowledged. Brasilia-DF, July 2018.

