



# **VADMECUM**

**FEDERAL PUBLIC SERVICE FOREIGN AFFAIRS, FOREIGN  
TRADE AND DEVELOPMENT COOPERATION  
FEDERAL PUBLIC SERVICE FINANCE**

## ***Foreword***

This vademecum presents the rules and criteria for the day-to-day operation of Finexpo. The aim of this document is to create the necessary transparency to give all exporters an equal chance in obtaining Finexpo support. This Finexpo vademecum is also intended as a tool for policy makers, and for exporters with experience in the field of (un)tiered aid and interest rate stabilisation. This vademecum will be modified on a regular basis, taking into account the evolution of international regulations and the Belgian and international economic and financial contexts.

Visit the following website to learn more about Finexpo's activities and instruments:

[http://diplomatie.belgium.be/en/policy/economic\\_diplomacy/finexpo](http://diplomatie.belgium.be/en/policy/economic_diplomacy/finexpo)

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The Finexpo Secretariat  
(Contact information: page 6)

## ***List of Acronyms***

Awex .....	The Wallonia Export & Investment Agency
BTC.....	Belgian Technical Cooperation
CIRR.....	Commercial Interest Reference Rate
DAC.....	Development Assistance Committee (at the OECD)
DDR .....	Differentiated Discount Rate
DGD.....	Directorate General for Development Cooperation (a Belgian Federal Institution)
FIT .....	Flanders Investment and Trade
FPS .....	Federal Public Service
GDP.....	Gross Domestic Product
HIPC.....	Heavily Indebted Poor Country
IMF .....	International Monetary Fund
LDC .....	Least Developed Country
OECD.....	Organisation for Economic Cooperation and Development
SME .....	Small and Medium-sized Enterprise
SSL.....	State-to-State Loan
UN.....	United Nations
FTE .....	Full-time Equivalent
WTO.....	World Trade Organisation

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## **FINEXPO GENERAL FRAMEWORK**

### **1. Finexpo Mission Statement**

The missions of Finexpo include:

- Supporting exports of Belgian capital goods and related services to developing countries, taking into account the development needs of these countries and the need for economic, environmental and social sustainability within the international regulatory framework;
- Contributing to the development of an international regulatory framework for export support.

### **2. General presentation**

Finexpo is an inter-ministerial advisory committee managed by the Directorate Financial Support for Exports (B2) within the Federal Public Service Foreign Affairs, Foreign Trade and Development Cooperation, and by the Administration for International and European Financial Affairs of the Federal Public Service Finance. The name Finexpo combines two key words: financing and export. Finexpo's aim is to support the export of Belgian capital goods and related services.

Belgian exports account for more than 3/4 of GDP, and represent half of the country's economic growth. This economic openness has made Belgium a strong proponent of free trade, and of the creation of a level playing field for exporters. The WTO, the World Bank and the OECD all contribute to these policy objectives and only authorise export support under the form of tied or untied aid to developing countries. Finexpo operates within this framework, which was set up by the above-mentioned international organisations. It is crucial that Finexpo takes full advantage of the limited opportunities offered, bearing in mind that capital goods only represent a small proportion of Belgian exports, and that the Belgian economy is essentially structured around SMEs and subcontractors.

Export is essential for the Belgian economy, especially the industrial sector, which is under pressure due to ever-increasing competition in international markets. It is Finexpo's task to provide Belgian exporters with relevant financial instruments.

Exporters may apply for tied aid in the form of a mixed credit (a combination of a tied State-to-State loan with a commercial loan), a grant, an interest subsidy with or without additional grant or a grant for technical assistance. These aid instruments contribute to concessional financing of the targeted export operations.

Exporters may also apply for interest stabilisation on a commercial loan. The interest stabilisation guarantees a fixed interest rate for the entire period of project financing (draw-down period + repayment period).

These financing instruments are discussed in more detail below.

In addition, Finexpo supports the Least Developed Countries (LDCs) and Heavily Indebted Poor Countries (HIPCs) in the form of untied aid. Only untied State-to-State loans are eligible in this respect.

Regardless of whether the project falls under the tied or untied aid programme, Finexpo support is adapted to the needs and interests of the beneficiary country. The project should fulfil rational economic, social and environmental needs of the host country and should significantly contribute to its economic and social development. The financial conditions of the Finexpo instruments ensure that the aid includes a grant element representing at least 35% of the total cost of the contract.

This type of export support is supplemented with the export policy of the regional export agencies, which mainly focus on supporting smaller preparatory actions or studies which take place prior to the actual project. The regional export agencies are also members of the Finexpo Committee. This ensures close cooperation, as well as the sharing of expertise and experience. Credendo, which is also a member of the Finexpo Committee, is the Belgian export credit agency and acts as a public insurer.

### 3. *Stakeholders*

Three groups of stakeholders can be identified.

**The first group of stakeholders are exporters of capital goods and related services** established in Belgium (tied aid programme) and abroad (untied aid programme) and their respective banks. Finexpo works towards ensuring the high quality of projects, and consequently requires annual monitoring reports to be drawn up, and that the reporting obligations are adhered to after the implementation of the project (see page 20). Finexpo undertakes to advise and support applicants during the application process, and to complete the approval procedures within the shortest timescales.

**Developing countries**, for whom the projects are intended, represent the second group of stakeholders. Finexpo intends to help foster sustainable and inclusive economic growth in developing countries, inter alia by stimulating entrepreneurship, e.g. through technical assistance whereby knowledge and skills are transferred to companies in these countries. However, the World Bank's annual *Ease of Doing Business Index* shows that there are still many obstacles to doing business in low and middle-income countries. This increases costs for entrepreneurs and hinders trade and investment. Nevertheless, the development climate is gradually improving in these countries. This is an incentive for Finexpo to develop activities in a wider range of countries which are eligible for both tied and untied aid. Finexpo is currently primarily active in Vietnam, Kenya and Sri Lanka, where tied aid is provided, but via untied State-to-State loans, various LDCs and HIPCs including Niger, Burkina Faso, Sudan, Ghana and Senegal are now also part of the Finexpo portfolio.

**The third group of stakeholders are the regional export agencies and the industry federations** who can rely on Finexpo for information about international regulations in the areas of export credits and development cooperation. Various members of Finexpo Committee participate in OECD meetings concerning international regulations in the areas of export credits and development cooperation. Through the OECD *notification and reporting system*, Finexpo can access information about the individual export transactions of other member states. This information can be useful for the regions, industry federations and exporters. Finexpo also informs them about new guidelines or agreements adopted by the OECD. Finexpo is fully compliant with OECD and WTO policies, and also coordinates its policy with the IMF and the World Bank's *sustainable lending* agreements.

#### **4. Ambitions**

Finexpo aims to open international markets to Belgian producers and give them the opportunity to build international references, and continue from there under their own steam, without the intervention of Finexpo.

Finexpo aims to promote the image and reputation of Belgian companies abroad, and safeguard the competitiveness of exporters while respecting the principles of free trade. As such, contributions also need to be made to the economic and social development of the beneficiary country.

#### **5. Finexpo's Budget**

Finexpo's total budget in 2017 is EUR 50 million for the State loans, and EUR 27 million for the stabilisations, interest rate subsidies with or without additional grant, and the grants, including grants for technical assistance. The total budgets for State-to-State loans, stabilisations and interest rate subsidies must strictly adhere to the annuality principle of the federal budget. This means that the budgetary impact of a project must be recorded in a given financial year, and not spread over 2 or more financial years. Moreover, other budget rules on financial commitments, their implementation, and approval by the Ministerial Council, need to be strictly observed;

#### **6. Composition of Finexpo and role of its members**

##### The Finexpo Secretariat

The Finexpo Secretariat is made up of representatives from FPS Finance and FPS Foreign Affairs. It coordinates the day-to-day activities of Finexpo. The Secretariat handles applications for interest rate subsidies, grants, technical assistance, stabilisations (FPS Foreign Affairs), and State-to-State loans (FPS Finance). Moreover, the Secretariat is the point of contact for exporters.

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##### The Finexpo Committee

The Finexpo Committee provides advice on the projects for which a valid application has been submitted to the Ministerial Council for approval. The Committee is chaired by the Director-General of Bilateral Affairs (FPS Foreign Affairs). The Committee is composed of representatives from federal administrations, Credendo and regional agencies. Members of the Finexpo

Committee take part in the evaluation of the submitted projects. The Committee gives a favourable opinion if a majority of members supports the project. The specific responsibilities of each member are listed below.

**FPS Foreign Affairs:**

- contact point for grants, interest rate subsidies with or without grant, technical assistance and the stabilisations;
- analysis of the quality of the project to be financed with grants, grants for technical assistance, interest rate subsidies with or without grant, and stabilisations;
- contact with the Belgian Embassies and/or the local representation of DGD to obtain advice on the feasibility and relevance of projects financed with Finexpo instruments;
- examination of the political situation of the countries in question.

**FPS Finance:**

- contact point for State-to-State loans (SSL), as well as for technical assistance;
- analysis of the quality of the project to be financed with an SSL;
- contact with the World Bank, possibly the regional development banks and the IMF to obtain advice regarding the feasibility and relevance of the project;
- examination of the financial obligations and repayment capabilities of the countries in question.

**FPS Economy:**

- examination of the Belgian interest in the projects (see page 24 for the methodology).

**FPS Budget:**

- examination and check on the budgetary impact of the opinions.

**Directorate General for Development Cooperation:**

- examination of the development relevance of the projects.

**The Belgian Export Credit Agency (Credendo)**

- advice on the commercial, economic and political risks of the beneficiary country in question;
- environmental study;
- notification of the projects to the OECD following advice from Finexpo.

**Regional Export Agencies (Awex - FIT- Brussels Export):**

- analysis of the complementarity of Finexpo's projects and instruments with the regional export instruments,
- interaction between the regional and federal support given to projects (sharing of information and expertise, etc.).

## **7. *Finexpo's instruments***

**Finexpo has the following financing instruments at its disposal:**

**Concessional programme:**

- **Tied aid programme:**
  - **the grant**
  - **interest rate subsidies with or without additional grant**
  - **the mixed credit: a combination of a State-to-State loan with a commercial loan**
  - **the grant for technical assistance**
  - Financing instrument for innovative products (SME)
- **Untied aid programme**
  - **untied state loans**

### Commercial programme: interest stabilisations

The table below provides a brief overview of the main financial features of the various instruments. These instruments are discussed in detail in the following chapters.

Instrument	Maximum contract amount	Concessional-ity	Maximum amount grant or SSL	Currency Unit	Repayment period
Grant	6.6 M	35% of the contract amount	2.31 M	EUR	not applicable
Interest rate subsidy + additional grant	10.0 M	38% of the contract amount	3.0 M	EUR	determined on the basis of the size of the grant, the DDR and the draw-down period
Mixed credit	17.2 M	35%	12 M	EUR	20 years and 25 year grace period
Grant for technical assistance	Not applicable	100%	1 M STR or 3% of the contract amount (the lowest of the two)	EUR	Not applicable
Financing instrument for innovative products (SME)	874.0 K	100%	700.0 K	EUR	Not applicable
Untied State-to-State loan	8 M (100% SSL)	35% or 50%	8 M	EUR	20 years and 10 year grace period (based on DDR 2016)
	11.47 M (untied and mixed credit)	35%	8 M	EUR	20 years and 25 year grace period
Stabilisations	100 M			EUR, USD, JPY, CHF, and other stable OECD currencies with CIRR	Between 5 and 10 years depending on the type of project



## 1. Tied aid programme

### 1.1 Introduction

Finexpo is primarily active in the area of untied aid. In order to be eligible, projects must be (1) of high quality; (2) contain significant Belgian economic interest, (3) have clear socio-economic and development relevance for the beneficiary country, and (4), the client must be a government institution.

Finexpo complies with the OECD Arrangement on Officially Supported Export Credits, and respects the minimum concessionality levels and the list of beneficiary countries which are eligible for tied aid. Finexpo only supports projects which are not commercially<sup>1</sup> viable, and which concern exports of capital goods and related services.

In addition, the OECD recommendations in the area of the environment, sustainable lending, bribery and corruption, and human rights, are closely monitored.

### 1.2 General Framework

The Finexpo tied aid programme is organised within a strict national and international legal framework:

- the annual budgetary constraints laid down in the Royal Decree of 30 May 1997;
- the OECD Arrangement on Officially Supported Export Credits;
- the WTO Agreement on Subsidies and Countervailing Measures;
- the OECD measures against bribery and corruption;
- the international agreements as regards "sustainable lending";
- the international agreements as regards sustainable environmental policy;
- the international agreements as regards human rights.

### 1.3 Description

Finexpo's tied aid programme involves providing export credits with concessional conditions, as long as they are issued to Belgian exporters. The main instruments for providing tied aid have a grant element or concessionality level of at least 35%. However, the grant for technical assistance has a concessionality level of 100%.

'Concessionality level' refers to the fact that public buyers in developing countries do not have to repay the entire loan amount at market conditions. Finexpo grants longer repayment terms to the buyer, or reduced interest rates and/or a grant. These concessional, or soft, conditions change every year since Finexpo has to calculate the concessionality level of its financing instruments according to a reference rate determined by the OECD, the so-called Differentiated Discount Rate (DDR).

Finexpo has 3 financial instruments with a concessionality of at least 35%, namely the grant, the interest rate subsidy with or without an additional grant, and the mixed credit, which is a State-to-State loan combined with a commercial loan. In addition, Finexpo has a financial instrument with a concessionality of at least 80%, namely the grant for technical assistance.

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<sup>1</sup> in accordance with the Ex Ante Guidance for tied aid:

[http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?doclanguage=en&cote=td/pg\(2005\)20](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?doclanguage=en&cote=td/pg(2005)20)

## **1.4 Financing instruments with a concessionality of at least 35%**

### **1.4.1 The three financing instruments**

#### **A. GRANT**

The grant is an aid instrument for which Finexpo must meet the 35% minimum grant component requirement, in accordance with OECD rules, and which is the case for the other aid instruments. The 35% grant component of the contract amount is paid during the implementation period of the project, in the form of a grant. The balance of 65% must be provided via other commercial financing, or paid in cash.

One of Finexpo's objectives is to support SMEs who are planning to export. For these companies, the grant is a simple aid instrument.

While for the other aid instruments, Finexpo's contribution is spread over a large number of budget years, the grant is paid in the very short term, and this immediately affects the budget of the year in which the grant is paid. This is why the use of grants is limited to small projects for which long repayment periods are not justified. The grant is not exclusive to SMEs, but is intended for small contracts up to EUR 6.6 million, meaning that a grant can amount to maximum EUR 6.6 million x 0.35% = EUR 2.31 million. The grant simplifies the procedures and avoids long repayment periods, which then also reduces the amount of the Credendo premium.

#### **B. INTEREST RATE SUBSIDIES WITH OR WITHOUT ADDITIONAL GRANT**

The interest rate subsidy concerns loans issued by a private bank and for which the FPS Foreign Affairs (i) reduces the interest rate to 0%, and (ii) extends the repayment period (repayment terms of 10 to 15 years). The repayment period of the loan depends, among other things, on the differentiated discount rate (DDR) set by the OECD, which is adjusted every year.

If necessary, an additional grant may be added to modulate the repayment period and, if desired, to shorten it. As a consequence, the Credendo premium will also be lower.

It was recently decided to increase the grant component from 35% to 38% for this instrument. This overall concessionality element is obtained by combining the grant component of the interest rate subsidy and the additional grant. If, for example, the grant component of the conventional interest rate subsidy is reduced from 38% to 20% and the difference of 18% is paid in the form of a grant, this significantly reduces the repayment period. Given the current low DDR, the interest rate subsidies are currently being combined with an additional grant in order to ensure reasonable repayment terms. The length of the repayment period is calculated separately for each application by Credendo, in cooperation with the Finexpo secretariat.

For the interest rate subsidy, Finexpo bears the full interest costs linked to the loan (contract amount plus Credendo premium) issued to the client, and the latter will only repay the capital. Specifically, this means that Finexpo pays the difference between the reference rate used by the bank in question (increased by a bank margin which is currently 0.75%) and the 0% rate granted to the client on the loan. Finexpo pays these interest costs during the implementation and repayment period, based on the documents provided to it by the bank every six months.

For interest rate subsidies, the contract amount is limited to EUR 10 million. In the case of an interest rate subsidy with additional grant, the contract amount is also limited to EUR 10 million, and the additional grant to EUR 3 million. Depending on the size of the grant, payment can be spread over several budgetary years without exceeding the draw-down period.

Finexpo's support can only be given for projects with a loan expressed in EUR.

**C. MIXED CREDIT: STATE-TO-STATE LOAN COMBINED WITH A COMMERCIAL LOAN**

State-to-State Loans (SSL) are loans issued by the Belgian FPS Finance to the Ministry of Finance in the beneficiary country.

In order to offer as many companies as possible the opportunity to submit an application, the amounts for State-to-State loans cannot exceed 12 million EUR per project.

The SSLs are linked to a commercial loan issued by a commercial bank, in order to increase the multiplier effect of Finexpo's support. The SSL and the commercial loan together form a mixed credit. In order to keep this financing instrument attractive for banks, efforts are made to set the minimum proportion of the commercial loan at about 1/3 of the mixed credit. Given that a mixed credit, like the other concessional Finexpo instruments, must have a minimum concessionality level of 35%, the current low DDR means that state loans are granted at a 0% interest rate and a repayment period of 20 years, preceded by a grace period of 25 years during which the beneficiary country is not required to make any repayments. At these repayment terms and conditions, the proportion of a commercial loan and the SSL amounts to 30.23% and 69.77% respectively of the mixed credit, allowing for a contract amount of EUR 17.2 million. These amounts are valid for 2017 and can vary from year to year depending on the current DDR.

Combinations of SSL and interest rate subsidies, or exceptions to the maximum contract amount, may be considered for projects with an exceptional strategic Belgian interest, or involving specific Belgian research and development. As such, Finexpo has a certain flexibility, but must ensure that the limited budget is used as optimally and fully as possible.

**1.4.2 Criteria and procedures for assessing applications for mixed credit, interest rate subsidies and grants**

**CRITERIA:**

In order to submit an application for mixed credit, interest rate subsidies and grants (tied aid), Belgian exporters and/or their banks complete a Finexpo questionnaire (available on the Finexpo website). The applications for these instruments are evaluated based on the criteria below.

<b>Criterion</b>	<b>Sub-criterion</b>	<b>Authorised party</b>
Eligible countries	Verification of whether the application corresponds with the list of countries eligible for tied aid, as established by the OECD Secretariat in their Rules on Officially Supported Export Credits.	Finexpo Secretariat
Quality and development relevance of the project	<ol style="list-style-type: none"> <li>1. The required information is completed in the Finexpo questionnaire.</li> <li>2. Undeniable positive impact on economic and social development of the country, and its environment.</li> <li>3. Advice from the World bank and/or the Regional Development Bank, and advice from the Embassy and/or local representative of the</li> </ol>	<p>Exporter</p> <p>Verification by the Finexpo Secretariat</p> <p>Finexpo Secretariat</p>

	<p>Directorate General Development Cooperation.</p> <p>4. If necessary, additional feasibility study carried out by BTC or another consultant with the necessary expertise.</p> <p>5. Environmental study in accordance with the OECD Recommendations on Common Approaches on Environment and Officially Supported Export Credits.</p>	<p>Finexpo Secretariat</p> <p>Credendo &amp; Exporter</p>
Commercial non-viability	<p>1. Verification if the project relates to one or more sectors approved by the OECD (rural electrification, water provision, health, public transport, education, public administration and core tasks of central or local governments).</p> <p>2. If the project does not fall within one of the sectors approved by the OECD, and if the commercial non-viability is not clearly established, a cash flow study must be carried out in accordance with the OECD ex-ante guidance on tied aid (i.e. a negative cash flow is required during the first 10 years of the project's implementation).</p>	<p>Finexpo Secretariat</p> <p>Exporter</p>
Belgian Interest	<p>1. Calculation of whether the total Belgian interest in the project is at least 50%. However, other aspects are also taken into account in assessing the Belgian share, see page 24 for the full methodology.</p> <p>2. Verification of the calculation of the Belgian interest and verification that the company submitting the application, or the body through which they are submitting the application, are established in Belgium.</p>	<p>Exporter</p> <p>FPS Economy</p>

#### PROCEDURES:

1. Prior maintenance between the Finexpo secretariat and the Belgian exporter to check that the project is eligible for one of the Finexpo instruments. During this maintenance, the Finexpo procedures will be explained to the extent necessary. For mixed credits, a priority letter is required, which must be drawn up by the Minister of Finance or the Prime Minister of the beneficiary country. This priority letter must be available before the project can be submitted to the Ministerial Council for approval.

2. The exporter fills in the application form which can be downloaded from the Finexpo website. The Finexpo secretariat and/or the exporter's bank are available to the exporter to assist him in completing the form. The completed form can be submitted electronically. Upon receipt of the completed form, Finexpo sends an e-mail to the exporter to confirm receipt.

3. The Finexpo secretariat subjects the application to a brief feasibility study. Among other things, advice is obtained from the World bank and/or the Regional Development Bank, and from the Embassy and/or local representative of the Directorate General Development Cooperation (DGD). The Belgian interest is also examined.

4. If necessary, additional questions are put to the exporter.
5. If the application is approved, it will be presented to the Finexpo Committee, which:
  - may provide an unconditional definitive favourable opinion,
  - may provide a conditional favourable opinion provided that it supplies additional information or makes some minor changes to the project,
  - postpone its opinion if, for example, it considers that the project may be eligible for a Finexpo instrument but that several important elements still need to be clarified, or that an additional feasibility study needs to be carried out,
  - may provide an unfavourable opinion.
6. The applicant company will be informed of the opinion.
7. If the Committee issues a favourable opinion, the following administrative steps will be taken to finalise the procedure:
  - Credendo notifies the project to the OECD (this can also be done sooner if the exporter and/or the Finexpo secretariat consider it necessary).
  - For mixed credit, the Prime Minister or the Minister of Finance of the beneficiary country need to provide a priority letter to Finexpo showing that the proposed project is a priority for the country, and that it undertakes to ensure the repayment of the requested loan.
  - The Finexpo secretariat draws up a memorandum for the Ministerial Council regarding the project. The opinion of the Inspectorate of Finance (IF) is sought before this memorandum is submitted to the Ministerial Council for approval.
  - Once the Ministerial Council has taken its decision, the exporter and the Belgian Embassy are officially informed about this decision.
  - This is followed by the signing of the following required documents:
    - signing of the commercial contract between the contracting parties;
    - signing of the financial contract relating to the interest rate subsidies and/or grants, or the commercial component of the mixed credit between the contracting parties,
    - signing of a loan agreement between the Belgian State and the relevant counterparty in the recipient country, generally the Ministry of Finance.
  - The exporter needs to provide the Finexpo Secretariat with a copy of the commercial contract immediately after it is signed by the parties. The commercial contract cannot be signed before the Ministerial Council has examined the application. The exporter must immediately inform the Secretariat if the activities or supplies as defined in the commercial contract differ significantly from the information provided in the Finexpo application form. The exporter must also explain the reasons behind the changes made. The exporter must also demonstrate that the Belgian interest remains sufficient to justify Finexpo's support.

## **1.5 *Financing instrument: the grant for technical assistance***

### **1.5.1 The grant for technical assistance: definition**

Technical assistance is an instrument whereby tied aid is authorised, even in countries where aid is generally untied.

Technical assistance in the context of investment projects should be made up of services which:

- contribute to the development and implementation of investment projects that increase the physical capital stock in a developing country,
- ensure that human capital grows through knowledge and technology transfer.

These services need to:

- build up expertise among civil servants, labourers and employees in the beneficiary country in the context of the implementation of the investment project,
- take the form of technical training, advice and support by staff from the donor country.

### **1.5.2 Criteria for assessing applications for a grant for technical assistance**

The reasoned and well-documented application for a grant for technical assistance must be made on a specific application form.

#### **CRITERIA:**

- Only Belgian companies are eligible for a grant for technical assistance:
  - o in the context of investment projects in developing countries that benefit from financing on a commercial basis, for which the Belgian company (or another Belgian company) wishes to submit a tender.
  - o in the context of investment projects in developing countries which are financed by untied aid and for which the Belgian company (or another Belgian company) wishes to submit a tender.
- For both investment projects that benefit from commercial financing and projects financed through untied aid, the project for which technical assistance is envisaged must have a minimum Belgian interest of 30%.
- The client must be a public or para-public institution.
- The commercial contract cannot be signed before the request for technical assistance has been processed by the Ministerial Council.
- Technical assistance may not be requested for successive phases of the same project.
- If the Belgian investment project is part of a larger project, the grant for technical assistance can only be awarded for the Belgian component.

The grant for technical assistance can therefore only be combined with an untied State-to-State loan or interest stabilisation.

### **1.5.3 Amount of the grant for technical assistance:**

The maximum amount of funding is 1 million Special Drawing Rights (SDR) or 3% of the contract amount of the investment project. The lower of these amounts is used as the maximum threshold.

If the grant for technical assistance is combined with an untied loan, the amount of the grant must be included in the original amount of the loan applied for.

All countries on the DAC list of ODA recipient countries are eligible for the financing of grants for technical assistance.

<http://www.oecd.org/dac/stats/documentupload/DAC%20List%20of%20ODA%20Recipients%202014%20final.pdf>

*For instance, a Belgian company that wishes to export buses on a commercial basis to a developing country can apply for a grant for technical assistance. With this grant, the Belgian company can train local bus drivers, without having to put the cost of training in the commercial contract. The company can therefore lower its prices which gives a competitive advantage compared to other foreign competitors. The same applies if the company participates in an international tender in the*

*context of untied aid. The company can take the training out of their tender, reduce their prices, thereby achieving a competitive advantage.*

## **1.6 Financing instrument for innovative products (SME)**

### **1.6.1. Definition and criteria**

#### **Export:**

- The product must be exported to developing countries with low and middle incomes, which can be found on the DAC list. It should also be the first export of the product.

#### **Innovative products:**

- The products and related services, which are developed, must be fully functional. These therefore need to be first versions of finished products or services and not products that are in a testing phase.
- These products also need to be innovative. In order to determine whether or not a product is innovative, the definitions used by regions, federal and European institutions/agencies working in the area of innovation will be used. Products developed with public support for innovation are recognised as such. This support may have been provided during the R&D process and/or product or process development. If a product has not been developed with public support, it may still be eligible, but this must be duly justified in the application form.
- The products and related services can be commercially viable.
- The products must be part of an investment project. Under investment projects, the OECD Development Assistance Committee refers to programmes which (a) increase or improve the physical capital stock of developing countries and (b) finance the supply of goods and services in favour of such programmes.

#### **Belgian SMEs**

- Only projects by Belgian SMEs with a sufficient Belgian stake (30% or 50%) can benefit from this instrument. The percentage of the Belgian stake determines the amount of support.
- In order to determine whether or not a company is a small or medium-sized enterprise, the European definition is used.

#### **Additional conditions**

As regards the application, the Belgian company must complete an application form drawn up by Finexpo.

- The commercial contract cannot be signed before the application for support has been examined.
- The project must contribute to the development of the country.
- The support can only be applied for once for a given product.
- The client must be a public entity.
- The support will only be granted after a favourable opinion has been given by the Belgian Embassy of the country in which the project will take place.

### **1.6.2 Amount for supporting innovative products developed by SMEs**

A grant of between 80.01% and 100% of the contract value will be awarded, with a maximum of EUR 700,000 for projects where the Belgian interest is 50% (maximum contract amount of EUR 874,000) and EUR 500,000 for projects with a Belgian interest of 30% (maximum contract amount of EUR 624,000).

<b>Minimum Belgian interest</b>	<b>Maximum contract amount</b>	<b>Maximum grant amount</b>
50%	EUR 874,000	EUR 700,000
30%	EUR 624,000	EUR 500,000

*E.g.: a project in which the Belgian interest is 50% and has a contract value of EUR 1,000,000 cannot receive support under this instrument, as the maximum permissible aid of EUR 700,000 remains below the grant threshold of 80.01%.*

*A project in which the Belgian interest is 50% and has a contract value of EUR 800,000 can receive support, as the maximum permissible support of EUR 700,000 exceeds the grant-threshold of 80.01% (87.5%).*



## ***Untied aid programme***

### **2.1 Introduction**

In order to be eligible for untied aid, projects must be (1) of high quality; (2) have significant Belgian economic interest, (3) have clear socio-economic and development relevance for the beneficiary country, and (4), the client must be a government institution.

### **2.2 General Framework**

The untied aid programme of Finexpo functions within a strict national and international legal framework:

- the annual budgetary constraints as laid down in the Royal Decree of 30 May 1997;
- the OECD Arrangement and the Guidelines of the Development Assistance Committee (DAC)
- sustainable lending rules of the World Bank and IMF, also applied by the OECD;
- the OECD measures against bribery and corruption;
- DAC recommendation on the winding down of aid.

### **2.3 Description**

The untied aid programme makes it possible to provide aid to a developing country without the obligation of purchasing capital equipment and services from companies from the country granting the aid. In the case of untied aid, an international tender is issued. Any company from any country may implement the project in this case. Contrary to the tied aid programme, Finexpo's untied aid programme does not require that Belgian exporters are involved in the project.

Eligible countries are the Least Developed Countries (LDCs) for which the list is drawn up by the United Nations (UN) or Highly Indebted Poor Countries (HIPC)s for which the list is drawn up by the IMF and the World Bank. Belgium also needs to have the necessary experience and capacity in these countries to ensure project control and monitoring.

### **2.4 Untied State-to-State loan**

Untied aid is exclusively awarded through State-to-State Loans (SSL). These loans are issued by the Belgian FPS Finance to the Ministry of Finance in the country of the buyer, under the following conditions:

- a 0% interest rate;
- a repayment term of 20 years, preceded by a 10 year grace period (based on DDR 2016) during which the beneficiary country does not have to make any repayments.

According to the OECD rules, in cases of untied aid, there must be a grant element of at least 35%. However, for certain countries eligible for untied aid, a grant element of at least 50% must be respected under the World Bank and IMF sustainable lending rules. To calculate the exact grant component for a given country, it is advisable to contact the Finexpo Secretariat.

In order to give a sufficient amount of developing countries, LDCs and HIPC)s the opportunity to submit an application, the amounts of the SSL are limited to EUR 8 million. However, if a country wishes to finance a project of more than 8 million, it is possible to combine the untied loan with a commercial loan. Such "untied" mixed credit is handled in the same way as a tied mixed credit,

and the SSL has the same characteristics as the tied SSL (repayment term of 45 years, including a 25 year grace period). Given that a 35% grant element must be adhered to for most countries, the share of the state loan and the commercial loans amounts to 69.77% and 30.23% of the mixed credit, the same proportion as for tied mixed credits (based on the DDR 2016).

The untied aid programme generally applies to projects in one of the following sectors: rural electrification, public transport, water provision and waste water treatment, health, education and governance, and research & development. However, small-scale development-relevant projects of up to EUR 5 million in other sectors for which the know-how of Belgian companies can be very useful may also be eligible.

The programme does have the disadvantage of not being linked to a specific exporter, meaning that Belgian companies participating in the international public tender have no certainty that the contract will be awarded.

## ***2.5 Criteria and procedures for assessing applications for the untied aid programme***

### **CRITERIA:**

In order to submit an application for **untied aid**, government administrations and/or agencies of developing countries complete a questionnaire which is available on Finexpo's website. Applications are assessed based on the following criteria.

<b>Criterion</b>	<b>Sub-criterion</b>	<b>Authorised party</b>
Eligible countries	Least Developed Countries (UN) or Highly Indebted Poor Countries (IMF/World Bank) for which Belgium has the necessary experience and capacity to ensure monitoring and control. Country selection on the website of the FPS Foreign Affairs <sup>2</sup> .	Finexpo Secretariat
Quality and development relevance of the project	<ol style="list-style-type: none"> <li>1. The necessary information is completed in the Finexpo questionnaire for untied aid.</li> <li>2. Undeniable impact on economic and social development of the country, and its environment.</li> <li>3. Advice from the World bank and/or the Regional Development Bank, and advice from the Embassy and/or local representative of the Directorate General Development Cooperation (DGD).</li> <li>4. If necessary, additional feasibility study carried out by BTC or another consultant with the necessary expertise.</li> <li>5. Environmental study in accordance with the OECD recommendations on Common Approaches on Environment and Officially Supported Export Credits.</li> </ol>	<p>Beneficiary country</p> <p>Verification by the Finexpo Secretariat</p> <p>Finexpo Secretariat</p> <p>Finexpo Secretariat</p> <p>Credendo and Finexpo Secretariat</p>
Eligible sectors	The aid generally applies to the following sectors: rural electrification, public transport, water provision and waste water treatment, health, education and governance, and research & development. However, small-scale development-relevant projects of up to EUR 5 million in other sectors for which the know-how of Belgian companies can be very useful may also be eligible.	Finexpo Secretariat

<sup>2</sup> [http://diplomatie.belgium.be/nl/Beleid/economische\\_diplomatie/finexpo/keuze\\_land/](http://diplomatie.belgium.be/nl/Beleid/economische_diplomatie/finexpo/keuze_land/)

## **PROCEDURES:**

1. The applicant country fills in the application form which can be downloaded from the Finexpo website:

[http://diplomatie.belgium.be/nl/Beleid/economische\\_diplomatie/finexpo/info/instrumenten/beschrijving/ongebonden\\_lening\\_van\\_staat\\_tot](http://diplomatie.belgium.be/nl/Beleid/economische_diplomatie/finexpo/info/instrumenten/beschrijving/ongebonden_lening_van_staat_tot)).

The completed form is submitted to Finexpo via the Belgian diplomatic post of the applicant country in its jurisdiction.

2. The Finexpo secretariat subjects the application to a brief feasibility study. Among other things, advice on the application is obtained from the World bank and/or the Regional Development Bank, and from the Embassy and/or local representative of the Directorate General Development Cooperation (DGD).

3. If necessary, additional questions are put to the applicant country.

4. Once the application is approved, it is presented to the Finexpo Committee, which:

- may provide an unconditional definitive favourable opinion,
- postpone its opinion if, for example, it considers that there are several important elements that still need to be clarified, or that an additional feasibility study needs to be carried out,
- may provide an unfavourable opinion.

5. The applicant country will be informed of the opinion via the diplomatic post.

6. If the Committee issues a favourable opinion, the following administrative steps will be taken to finalise the procedure:

- The Finexpo secretariat draws up a memorandum for the Ministerial Council regarding the project. The opinion of the Inspectorate of Finance (IF) is sought before this memorandum is submitted to the Ministerial Council for approval.
- Once the Ministerial Council has taken its decision, the country in question is officially informed by the Belgian Embassy.
- As soon as the State Loan Agreement is signed, a public tender procedure must be organised. The tender is prepared by the beneficiary country, which works in close cooperation with BTC or another expert consultant with the necessary expertise.
- As soon as the date of the public tender is known, the project is notified to the OECD by Credendo and the representative from the FPS Finance from the Finexpo secretariat will make an ex ante notification on the DAC website for untied aid. This takes into account the required minimum time for publishing the tenders.
- On behalf of the Finexpo Secretariat, the BTC or another consultant with appropriate expertise observes and monitors the tender procedure and verifies the conformity of the proceedings with the tender rules. The BTC or the consultant (i) analyses the technical requirements of the specifications, (ii) is present at the opening of the tenders, (iii) analyses the tenders, and (iv) verifies the award of the contract.
- The BTC or another consultant with appropriate expertise is not actively involved in the decision-making process of the tender, but supervises it and frequently reports to the FPS Finance.
- After the project has been awarded, the representative of the FPS Finance from the Finexpo secretariat will make an ex-post notification with information about this award on the DAC website for untied aid.

<p><b>3. Additional studies to complete the brief preliminary feasibility study</b></p>
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In the above-mentioned procedures for tied and untied aid, a brief feasibility study is a prerequisite. However, this study is not always sufficient to correctly assess an application.

For concessional aid, the Finexpo secretariat can therefore decide at any time to have an additional price and relevance study carried out by the BTC, or another consultant with the necessary expertise, before submitting the project to the Finexpo Committee or the Ministerial Council.

A more detailed feasibility study may be requested for untied state loans. These additional studies can be carried out on the basis of desk research or an on-site study in the country in question. The project may be adapted on the basis of these additional studies before the Finexpo Committee gives its final opinion on the project.

## ***4. Monitoring and reporting***

### ***4.1 Monitoring and reporting for tied aid***

#### ***Interim reporting***

During the implementation of the project, the exporter submits an annual interim report to the Finexpo secretariat. This annual report can be brief, but must contain at least:

- a clear description of the activities carried out: the various activities and sub-activities and the risks faced and difficulties encountered;
- a clear timing for the various activities and sub-activities that still need to be carried out.

#### ***Final report***

In addition to the elements covered in the interim report, the final report to be drawn up after the implementation of the project must also mention the lessons learned and recommendations for the future.

#### ***Follow-up reports***

The Finexpo Secretariat can ask the BTC or another consultant and/or the embassy to check on the project at any time.

The Finexpo Secretariat will systematically request a follow-up report from the exporter, 3 to 5 years after the completion of the project.

The Finexpo Secretariat also retains the possibility to have an assessment carried out by the BTC on an ad-hoc basis.

The follow-up and evaluation reports are also submitted to the Finexpo Committee.

The Finexpo secretariat also carries out an annual mission in a given country, or group of countries, to assess both the projects in progress and the projects which have already been implemented. As such, Ghana was visited in 2014, Kenya in 2015, and Sri Lanka in 2016.

### ***4.2 Monitoring and reporting for untied aid***

For projects financed with untied state loans, the relevant monitoring and reporting is entrusted to the BTC or another consultant with the necessary experience.

## **FINEXPO COMMERCIAL PROGRAMME INTEREST RATE STABILISATION**

### **1. Description**

The Finexpo Stabilisation programme offers the possibility to clients of Belgian exporters to repay at a fixed interest rate (CIRR).

Finexpo compensates the exporter's bank if  $CIRR < \text{euribor} + \text{fixed margin}$  (currently 0.75%).  
The exporter's bank has to compensate Finexpo if  $CIRR > \text{euribor} + \text{fixed margin}$  (currently 0.75%).

The fixed margin is regularly evaluated by the Finexpo secretariat.

The commercial contract cannot be signed before the approval of the Ministerial Council. There are no exceptions in this respect.

### **2. General Framework**

All Finexpo opinions and decisions respect the OECD Arrangement on Officially Supported Export Credits.

### **3. Assessment criteria of the interest rate stabilisation programme**

In order to apply for interest rate stabilisation, exporters must complete the application form available on the Finexpo website. Applications are assessed according to the following criteria.

The following criteria must be respected:

- **Maximum contract amount:** EUR 100 million
- **Content which clearly concerns Belgium, or is a clear Belgian interest:**
  - The calculation is made and submitted by the FPS Economy: the content concerning Belgium must be at least 30%. Other elements can also play a part in the assessment of this content: see page 24 for the full methodology;
  - The Belgian bank or the subsidiary of the foreign bank issuing the loan to the Belgian exporter must be accepted by Credendo. In addition, the project must have obtained the backing of Credendo.
- **Currencies:** priority is given to the Euro. The following are also possible: USD, JPY, CHF and other stable OECD currencies for which a CIRR is available.
- **Eligible countries:** all

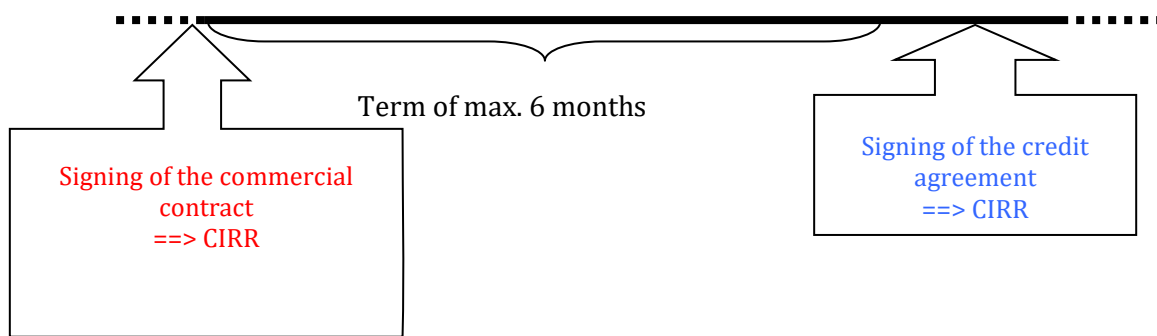
- **Determination of the CIRR:**

A CIRR can be determined using one of the following two methods:

First method:

This method can always be used: the CIRR is determined at the signing of the commercial contract, unless the credit agreement is signed more than 6 months after the signing of the commercial contract. In this case, the CIRR used is that applicable at the signing of the credit agreement, unless it is lower than the CIRR on the date of the signing of the commercial contract. In that case, the CIRR is taken from the date of signing of the commercial contract. The date on which the exporter submits his application to Finexpo or on which Finexpo issues its favourable opinion is not relevant for determining the CIRR.

**Timeline**



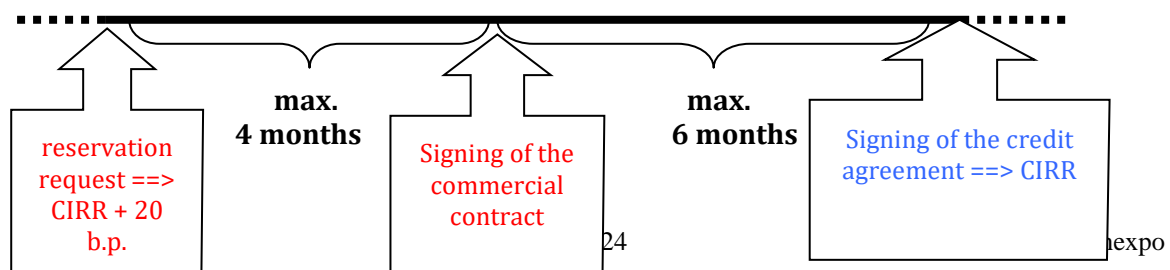
Second method:

This method can be used by exporters wishing to retain a CIRR which was applicable before the signing of the commercial contract and the credit agreement. In this case, the exporter asks to retain the CIRR applicable at the time of his application, increased by 20 basis points. The period in which the same CIRR is valid is 4 months, during which time the commercial contract must be signed. If this is not the case, the exporter can submit a new reservation request to stabilise the interest rate at the new CIRR + 20 basis points.

Once the commercial contract has been signed within 4 months of the reservation, the credit agreement must be signed no later than 6 months after the signing of the commercial contract. If more than six months have elapsed between the date of signing of the commercial contract and that of the credit agreement, the CIRR (not increased by 20 basis points) is used, which is applicable at the time of signing of the credit agreement (same as method 1) unless it is lower than the CIRR on the date of signing of the commercial contract. In that case, the CIRR is taken from the date of signing of the commercial contract.

Contrary to method 1, the date on which the reservation request is submitted is decisive for the level of the CIRR used. Full responsibility for correctly managing this timeframe lies with the exporter and/or the bank.

**Timeline**





## **CALCULATION OF THE BELGIAN INTEREST**

The FPS Economy analyses the Belgian interest for every project for which an application for tied concessional or commercial credit is submitted, and presents its conclusions to the Finexpo Committee.

### **1. Explanation of the thresholds**

Given that Finexpo's tied concessional programme has a significant budgetary impact and poses a high risk to the image of the Belgian State, a threshold of 50% for the Belgian interest is required.

A threshold of 30% applies for the commercial programme. Compared with the concessional programme, the commercial programme of Finexpo has a limited budgetary impact. However, a situation where the Belgian interest is artificially overestimated by relevant but relatively insignificant factors, such as profit margin and transport costs, should be avoided. As such, a minimum threshold of 30% is applied.

### **2. Methodology**

The analysis of the Belgian interest has a quantitative and a qualitative component.

**The quantitative component** consists of an analysis of the gross value added of the project, and has to be at least 30 or 50%. The project is analysed down to its smallest elements, for which the country of origin is determined: used (raw) materials, labour costs, profit margins, transport costs, design, etc. As regards the (raw) materials, this should be understood in the sense of the place of origin and the level of processing in Belgium. In accordance with Finexpo's rules, it is not sufficient to produce a certificate of origin. Royalties that the applicant company might have to pay cannot be considered as 'Belgian interest'.

For the **qualitative analysis**, the following points have already been checked in the past:

- Does the applicant company actually have production activity within Belgian territory?
- Are there other relevant elements that could place the findings of the quantitative analysis in a given context: the quality of the technologies used, the level of R&D deployed, etc.?
- Is the export strategy of the applicant company sustainable and does it fit the broader long-term perspective of the company?
- Does the company have the resources and skills (technical, financial and human) to correctly implement the project?
- Does the project fit within the export strategy of the company?

In addition to the qualitative criteria mentioned above, the following criteria will be requested going forward. These additional criteria can be divided into three main groups, namely:

- Internationalisation,
- Employment,
- Strategic importance for the company.

#### Criteria related to the internationalisation of the company

Globalisation, in particular the process of economic integration between countries through an increasing flow of services, products, capital and labour, due to improved transport and

communication resources, ensure that companies are internationalising and are consequently becoming more active in various (foreign) markets, acquiring local companies in these markets and establishing parts of their own production processes there, for efficiency reasons. The following criteria make it possible to assess these aspects:

- Is the company already delocalised? Has it already acquired foreign firms?
- Is the (original) Belgian company part of an international group, through acquisitions?
- Is the decision-making centre in Belgium?
- Is the study and/or concept made in Belgium?
- What is the turnover in Belgium compared to worldwide turnovers?

#### Criteria related to employment

As already mentioned in the previous criteria, some companies will outsource certain activities to foreign companies, take over foreign companies or set up branches abroad for certain activities, for efficiency reasons (wage costs, productivity, working conditions, etc.). As such, it is important to have a broad picture of employment. The following criteria are used in this respect:

- Evolution of employment at the company in Belgium in the last 10 years (expressed in FTEs)?
- Who are the subcontractors /suppliers (from which country)?
- Employment of Belgian subcontractors (expressed in FTEs)?
- Number of employees on the project in question (expressed in FTEs)?

#### Strategic importance for the company

As previously stated, it is important for the organisation to have a long-term export strategy and that the project falls within this. In addition, it is also useful to clarify the following aspects within this framework:

- What is the size of the project in relation to the total turnover in Belgium?
- Is it the first project in the country in question?

In order to make a **definitive** assessment, the findings of this analysis are presented to the applicant company. This company has the possibility to react, provide new information or propose changes to the project, in order to meet the minimum requirements. The results of the analysis and consultation with the applicant company will then be submitted to the Finexpo Committee. The committee can then express its opinion on the Belgian interest, which is an important part of the Committee's final opinion. For the commercial programme, it may then decide that a percentage which is lower than the required minimum of 30%, but at least 20%, can be offset by a favourable assessment of the qualitative analysis. For the tied concessional programme, the Belgian interest must always be at least 50%.