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Export Credit Agencies and Sustainable Development

Export Credit and Investment Insurance Agencies play a critical role in international trade and finance in developing countries, and thus have great impact on sustainable development. They hold the largest fraction of developing country debt, yet they are largely managed behind closed doors and most documents and data regarding ECA-supported projects are not publicly available. Generally, ECAs do not abide by environmental and social standards even remotely close to internationally accepted minimal standards. Involved in the financing of a host of environmentally and socially harmful projects in the past, they will continue to pose a threat to sustainable development unless such minimal common binding environmental and social standards are adopted.

What are ECAs?

Export credit and investment insurance agencies, commonly known as ECAs, provide government-backed loans, guarantees and insurance to corporations seeking business opportunities in developing countries and emerging markets that are often considered too risky for conventional corporate financing. They are primarily public or publicly-mandated institutions that support and subsidize exports and investment from the countries in which they are located into host countries. Their most common activity, export credits, arises whenever a foreign buyer of exported goods or services is allowed to defer payment. Export credits are generally classified as short-term (repayment terms of usually under two years), medium-term (usually two to five years) and long-term (over five years). Large industry and infrastructure projects, which have some of the most harmful impacts on the environment and society, usually fall in the latter two categories. Export credits may take the form of "supplier credits" or "buyer credits." "Supplier credits" are extended by an exporter directly to an overseas buyer. "Buyer credits" are extended by an exporter's bank or other financial institution as loans to the buyer (or its bank). Official support may also include "pure cover" in the form of insurance or guarantees given to exporters or lending institutions without financing support. Other official support includes "financing support" which is defined as including direct credits to the overseas buyer, loans, refinancing, and all forms of interest rate support.

The Numbers[1]

ECAs have collectively grown to become the world's largest source of public international finance. In the year 2000, the total of business covered by Export Credit Insurance and Investment Insurance was US$504 billion. Of that, US$71 billion was for medium/long-term export credit insurance business. By comparison, official flows from sources such as the World Bank, regional development banks, and other bilateral and multilateral aid agencies to developing countries in the same year amounted to only US$50 billion. Moreover, while lending from international financial institutions has remained relatively stable in recent years, export credit lending has increased significantly and rapidly. Accounting for the largest fraction of developing country debt in 1999, officially supported export credits represented 19% of the total indebtedness of developing countries and economies in transition and almost half of indebtedness of these countries to official creditors. By the end of 1999, export credits accounted on average for about 27% of the total external debt of the largest recipients of export credits. For several oil producing countries (Nigeria, Iran, Algeria, Oman) and countries in transition (Uzbekistan, Turkmenistan, Azerbaijan), export credits represented 50 percent or more of their external debt.

Jeopardizing Sustainable Development Goals

Export Credit Agencies constitute an increasingly crucial tool for large infrastructure and resource extraction projects such as dams and power plants, oil, gas and mines. Some ECAs also finance obsolete nuclear power plants such as Angra III in Brazil or arms purchases by countries like South Africa or Indonesia. These types of projects often have harmful environmental and social impacts, thus jeopardizing many sustainable development goals, often in direct contradiction with their governments' commitments to sustainable development. Because ECAs are very competitive, they frequently support projects that multilateral development banks and even other ECAs have refused to support for social, environmental or economic reasons. One of the most famous examples is the China Three Gorges Dam. In that case, the German, Swiss, Swedish, French and Canadian ECAs were competing to finance a project that the World Bank and the US ECA had refused to finance on environmental grounds. This project will displace 1.8 million people and flood millions of hectares of prime farmland; it has also been plagued with corruption and mass cost overruns.[2]

Climate Change

The role of ECAs in the context of climate change is also particularly worrisome as they continue to finance new projects that increase greenhouse gas emissions in developing countries, undermining their home states' commitments to reduce the threat of global climate change. During the mid- to late-1990s G7 governments through their ECAs co-financed energy-intensive projects and exports valued at over US$103 billion. These projects and exports included oil and gas development, fossil-fueled power generation, energy-

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intensive manufacturing, transportation infrastructure, and civilian aircraft sales. The G7 countries accounted for the overwhelming share, that is 90 percent, of the co-financing provided by ECAs to these energy-intensive exports and projects. By comparison, industrialized countries have directed just a fraction of their ECA financing to renewable energy projects.[3] Between 1994 and 1999 ECAs supported a total of US$2 billion in renewable energy projects.[4]

CORRUPTION

Corruption entails severe economic, social and political damage, both in the countries that receive corruption-tainted exports and in the exporting countries themselves. Many export sales or service contracts or licenses have been subject to bribery, including contracts financed, insured or guaranteed by ECAs. Such contracts should under no circumstances receive cover through ECA support. If the bribery only comes to light at a later stage, ECAs should exclude the receiver from entitlement to public benefits.[5] In December 2000, the OECD Working Party on Export Credits and Credit Guarantees (ECG) agreed on an Action Statement on Bribery and Officially Supported Export Credits, which represents an important step in the fight against corruption. The ongoing process within the OECD and ECAs still falls short of what is needed to address the corruption problem and should be carefully monitored by all actors.

GENERAL LACK OF ENVIRONMENTAL AND SOCIAL STANDARDS

Most development banks and bilateral aid agencies have minimum environmental, social and labor standards and requirements; however, these do not apply to the commercial bilateral financing in the same countries. Thus, ECAs--which are almost exclusively export promotion oriented--are generally free to support any project they please, undercutting and circumventing sustainable development goals of the countries that aim at promoting sustainable development via their aid agencies. As a result, the export promotion oriented policies of ECAs subvert the policies of the World Bank and other multilateral development banks as well as bilateral aid agencies that have adopted social and environmental safeguards. The lack of developmental mandates or requirements, including explicit human rights criteria, are particularly worrisome given the fact that huge amounts of support go to large infrastructure projects in developing countries. In the past years, ECA support for such projects has outgrown the amount of support through all multilateral and bilateral agencies combined.

LACKING REFORM

A growing number of civil society groups are calling for binding environmental and social reforms in order to stop ECAs from sponsoring harmful and unsustainable projects. ECA projects should be consistent with other international efforts for sustainable development, including multilateral environmental treaties, human rights agreements and resolutions of the International Labour Organization. Civil society and some governments have recently starting calling on ECAs to adopt common environmental and social standards and policies. In 1999, OECD ministers urged ECAs to strengthen common environmental approaches. The 1999 G8 Communiqué stated that G8 governments would "work within the OECD towards environmental guidelines for export credit agencies" and that work should be completed by the 2001 G8 Summit. However, the OECD Export Credit Group failed to meet these mandates.

The WSSD provides an important forum to stimulate discussion about such concerns as well as to demand specific reforms for ECAs to adopt responsible social, environmental and sustainability policies.

RECOMMENDATIONS

Countries participating in the WSSD should ensure that their ECAs undertake the following actions:[6]

- Adopt and implement common binding environmental and social guidelines and standards, that are neither lower nor less rigorous than existing international procedures and standards for public international finance such as those of the World Bank Group. These norms should seek to eliminate all harmful environmental and social impacts caused directly or indirectly by ECA support, including human rights and economic impacts.
- Extend loans and guarantees only after thorough transparent and participatory environmental, social and human rights assessments and only after adequate safeguards are employed.
- Adopt and implement disclosure policies, which set out a presumption in favor of disclosure of information. In particular, information on loans and guarantees should be disclosed before approval and should include, at a minimum, the type of project, the amount and nature of the support requested, the companies involved, the country involved and likely human rights, environmental and development impacts of the project.
- Adopt and implement consultation procedures pursuant to which affected communities and stakeholders are consulted in advance. Consultations should be held both in ECA home and recipient countries at three levels: in the assessment of ongoing and future investments and projects supported by individual ECAs; in the preparation within national ECAs of new procedures and standards; and in the negotiation within the OECD and other fora of common approaches and guidelines.
- Establish independent investigation and accountability mechanisms as independent fact-finding organs and means of redress to which local communities and other stakeholders can appeal in case of problems with an ECA-supported project. The objectives of such mechanisms should be to ensure that the activities supported by an ECA abide by all social and environmental policies and more generally respect the rights and environment of the affected peoples.
- Reduce the greenhouse-gas emissions of ECA projects and shift towards the financing of sustainable, clean, renewable energy by introducing portfolio targets for renewable energy and energy efficiency of at least 20% by 2006.
- Cancel all ECA debt for the poorest countries.

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1. The numbers in this brief are based on the Berne Union 2002 Yearbook, published by the International Union of Credit and Investment Insurers and "Official Financing for Developing Countries" by Staff Team led by Doris C. Ross and Richard T. Harmsen, International Monetary Fund, 2001.
2. For more information about the Three Gorges Dam, see http://www.probeinternational org/pi/3g/index cfm
3. For a series of case studies, see Doug Norlen et al., Unusual Suspects, Unearthing the Shadowy World of Export Credit Agencies (Pacific Environment and ECA Watch, 2002).
4. See The Climate of Export Credit Agencies (World Resources Institute, 2000).
5. Transparency International, Submission to OECD ECG working Party (February 2001).
6. Many of these recommendations are based on the Jakarta Declaration For Reform of Official Export Credit and Investment Insurance Agencies, adopted in May 2000 and endorsed by 347 NGOs from 45 countries. Available at www eca-watch org.