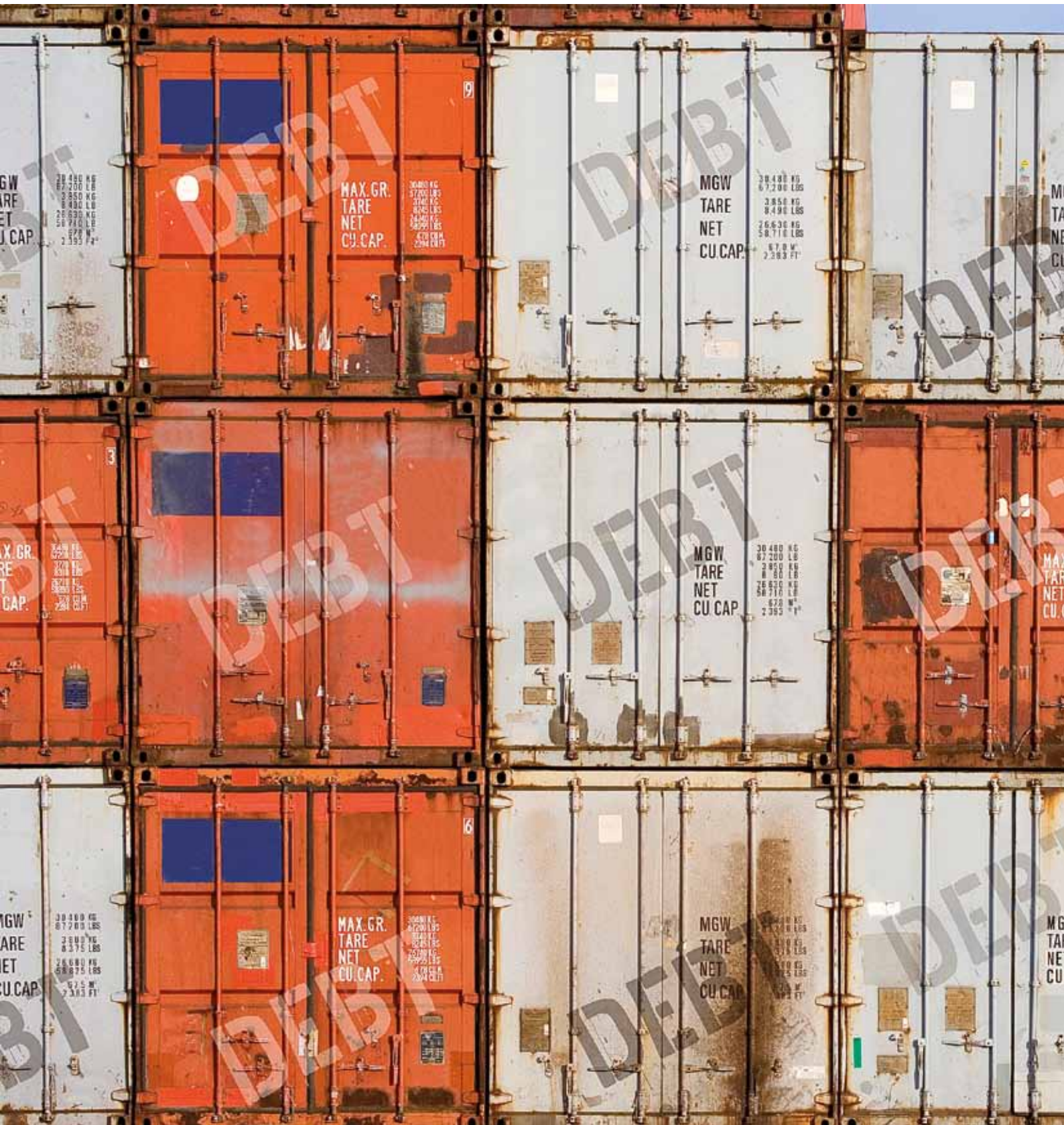


Exporting goods or exporting debts?

Export Credit Agencies and the roots of developing country debt



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Acronyms

Atradius	Atradius Dutch State Business (Dutch publicly supported ECA)
DSB	
CA	Common Approaches
CHF	Swiss Franc
CSR	Corporate Social Responsibility
DAC	Development Assistance Committee
DKK	Danish Krone
ECA	Export Credit Agency
ECG	Working Party on Export Credits and Credit Guarantees (Export Credit Group) at the OECD
ECGD	Export Credits Guarantee Department (United Kingdom publicly supported ECA)
EIA	Environmental Impact Assessment
EKN	Swedish acronym for The Swedish Export Credits Guarantee Board (Swedish publicly supported ECA)
GDP	Gross Domestic Product
GIEK	Norwegian acronym for the Guarantee Institute for Export Credits (Norwegian publicly supported ECA)
HIPC	Heavily Indebted Poor Country
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IMF	International Monetary Fund
LIC	Low-Income Countries
MDRI	Multilateral Debt Relief Initiative
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
ONDD	The Office national du ducroire / Nationale DelcredereDienst (Belgian publicly supported ECA)
PPA	Power Purchase Agreement
QWIDS	The Query Wizard for International Development Statistics
SDR	Special Drawing Rights (of the IMF)
SERV	German acronym for Swiss Export Risk Insurance (Swiss publicly supported ECA)
SIDS	Small Island Developing States
SOE	State Owned Enterprise
UNCTAD	United Nations Conference on Trade And Development

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Executive summary

Export credit guarantees: The real cause of developing country debt

Export Credit Agencies (ECAs) are institutions that aim to support export industry in their home countries. They provide official credit or credit guarantees to public or private buyers, often in developing countries. Export Credit Agencies are therefore debt-creating agencies, yet the loans they create are driven by the interests of the exporters and their home countries, rather than concern for whether the loans are useful to the host country.

This report shows that export credit guarantees are at the root of most developing country debt owed to European governments¹. Eurodad assessed the debts owed by developing countries to four European countries and found that **almost 80 percent of poor countries' debts to other governments came from export credits, not development loans.**

While export credit guarantees boost the coffers of richer countries' Export Credit Agencies, they often weigh on developing country treasuries who must repay the debts. Borrowing for productive investments that promote sustainable and equitable development can be an important strategy for developing countries; however, copious anecdotal evidence provided by case studies reveals that all too often financial transactions guaranteed by ECAs have had damaging impacts on development, the environment and/or contributed to severe human rights violations. Requiring that taxpayers in poor countries repay loans with seriously contested legitimacy not only diverts much needed resources away from investing in social services and productive development projects, but it also places these debt repayments in a legally and morally grey zone.

Creative accounting: How donors divert development aid to boost their exports to poor countries

ECAs also use up precious aid, as the latter is used to subsidise exports of rich country companies. When creditor governments decide to cancel developing country debts, they use aid budgets to cover any losses for their national ECA. In practice, this means that aid money from development ministries is transferred to trade and finance ministries and agencies of the creditor country instead of being channelled as new and fresh resources for poverty eradication in developing countries.

Eurodad research shows that 85 percent of the bilateral debts cancelled from 2005 to 2009 were debts resulting from export credit guarantees.² As a result, massive amounts of aid resources were transferred from aid budgets to the coffers of Export Credit Agencies, draining much-needed resources for poverty eradication.

As export credit guarantees increase after the crisis, so does developing country debt

Over the last decade, export credit guarantees for buyers in developing countries were relatively stable. However, **in 2008 guarantees for exports to these countries almost tripled compared to pre-crisis levels.**³

It is too early to know how the sudden jump in export credit guarantees for exports to developing countries will impact on sovereign debt levels. Nevertheless, the global crisis has taught us that it is never too early for crisis prevention; mitigation is less harmful and more efficient than crisis adaption and reparation. An overly cautious approach to export credit guarantees now could probably save problems in the future.

How private buyers' debts hit the public coffers

Even in cases where the developing country buyer of goods imported with an export credit guarantee has been a private entity, private debt has often resulted in public debt.

This has occurred when the host government has had to issue a guarantee to cover the loss of the exporting company where a private buyer has defaulted on its debts. While such government counter guarantees are barely used to cover private buyers' defaults, debt that is not explicitly guaranteed may also constitute a significant risk to the sustainability of government debt.

Indeed we have seen time and time again how non-guaranteed private debts turn public as the result of financial crises, and official institutions have publicly stated similar concerns. Nevertheless, the very same institutions remain reluctant to discuss the risks that private sector debts pose to sovereign debt sustainability. This is even more worrying in the case of ECA debts that are not transparent, and leave the amount of private debt to ECAs an unknown variable in the equation of potential future sovereign debt crises.

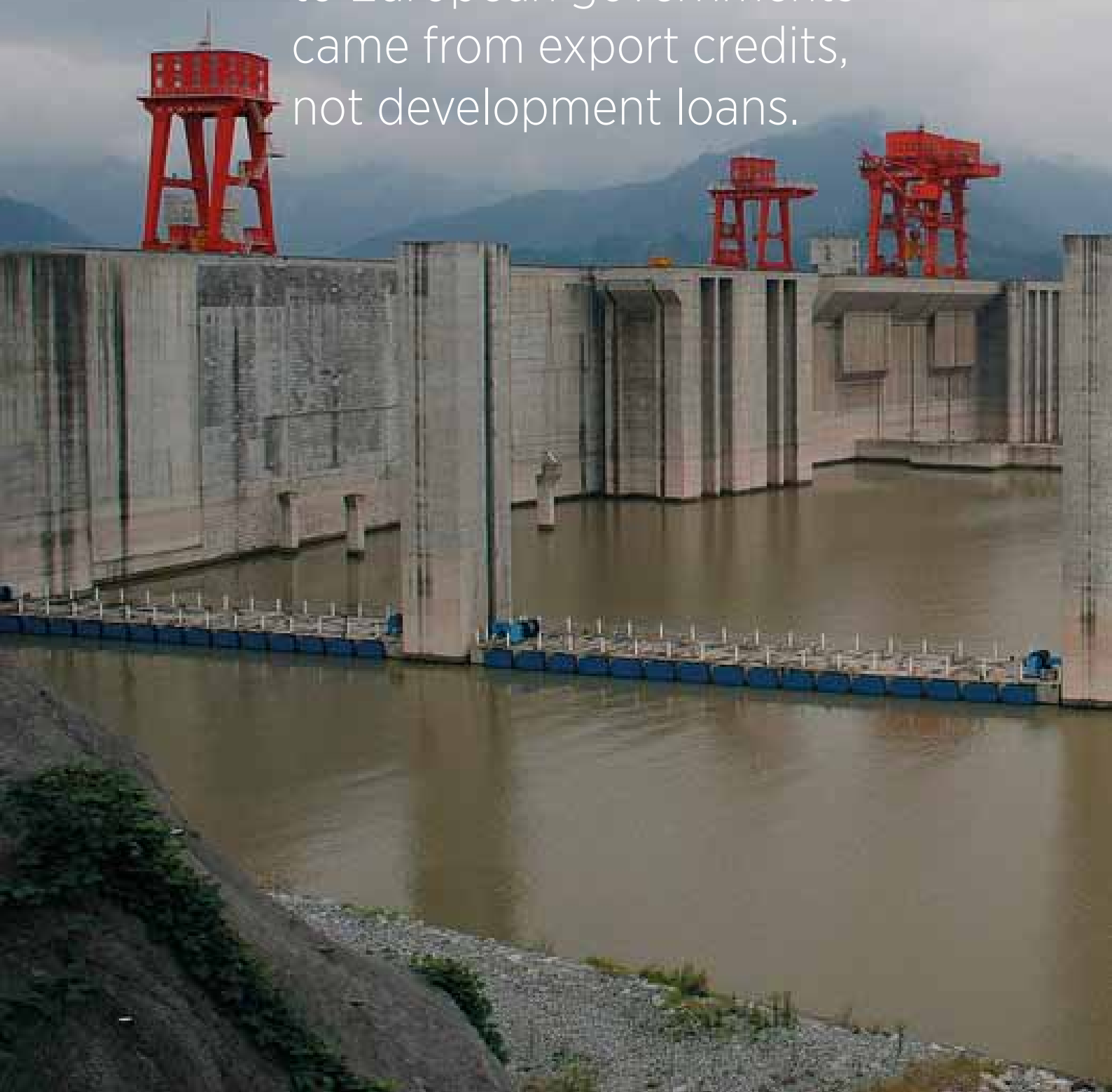
Export Credit Agencies: Jeopardising development?

ECAs are included in governments' obligations to comply with international treaties as well as their commitments towards policy coherence for development. However, policy makers have so far been reluctant to flesh out the practical implications of their commitments to policy coherence on their ECAs.

Following civil society scrutiny that sheds light on the harmful development impacts of ECAs, international guidelines have been put in place over the last decade to ensure that ECA supported projects at least do no harm to poor people in poor countries. Unfortunately, these standards are weak and lack key measures that are crucial to avoid harmful development and environment impacts. Not least monitoring and reporting mechanisms are insufficient to ensure duly implementation of the numerous guidelines. Concerns about non-compliance have also been echoed by sources within ECAs who fear that weak reporting requirements are hindering the actual implementation of the guidelines.

Governments and private actors fear that strong guidelines protecting the environment, human rights and equitable development may harm business by creating a comparative advantage for those ECAs from countries that do not adhere to such guidelines. The approach

Almost
80%
of poor countries' debts
to European governments
came from export credits,
not development loans.



of creating a “level playing field” is used to justify a race to the bottom with regards to responsible finance standards. Instead, what policy makers need to do is to turn this trend on its head by creating a race to the top on responsible financing requirements for their ECAs. Proposals for drastically strengthening guidelines for responsible finance have been put forward by civil society including in the Eurodad Responsible Finance Charter. This report shows that there is a significant gap between recommended standards and actual guidelines covering ECAs.

Transparency in ECAs’ operations and financial accounting is also a serious concern. Accessing data on ECA supported projects is extremely challenging and in many cases is an impossible mission. To make things worse, lack of transparency is not only a problem concerning individual ECAs; international organisations with competency on the issue have not particularly welcomed civil society requests for information regarding ECAs and resulting developing country debt.

There is however a notable exception to the rule of no willingness to oblige ECAs to comply with development policy commitments. In September 2011, after a strong push from civil society organisations and the European Parliament, the EU agreed on a regulation that obliges the ECAs of EU Member States to comply with EU development policies. The new regulation will require Member States to report annually on their ECAs’ activities. However, regulations on key aspects such as tax matters are still lacking, and the level of compliance remains to be seen, as the first report after the new regulation was introduced is expected to be released during the second half of 2012.

This report will explain why these token measures are not enough. At a time of scarce aid resources and of fragile public budgets around the world, it is more important than ever to ensure that developing countries are not pushed to the brink of a new debt crisis as a result of an aggressive commercial strategy from European countries, and that aid resources are preserved for the purposes that they are intended for: eradicating poverty and giving world poor citizens a chance to a decent life.

Introduction

Export Credit Agencies: How the giants of the exports world hamper development

Export Credit Agencies (ECAs) are institutions with the purpose of supporting export industry in their home countries. Almost all Northern and several Southern countries have an officially supported ECA that issues guarantees to home based export industry and financial institutions, allowing companies to take part in projects that would normally carry too high a risk to be considered viable. Some ECAs do also back loans from banks to foreign companies or governments to buy exports from the ECA's home country.

ECAs are therefore debt creating agencies. Yet the loans they create are driven by the interests of their exporters, rather than concern for whether the loans are useful to the host country; for instance, whether the project will create the revenues with which to repay the loan.

ECAs are important tools in government trade policies. In 2007, ECAs collectively supported US\$1.4 trillion in trade and investment, equivalent to around 10 per cent of the world's total export trade.⁴ In 2009, when the global economic and financial crisis and dwindling markets were threatening export industries across the world, EU Member States dramatically increased their support for national ECAs by an average of 35 percent.⁵

In the wake of the global crisis, countries across the world are

experiencing worryingly high levels of sovereign debt. Despite widespread perceptions that this is predominantly a problem of advanced economies, **developing countries are also facing increased levels of debt distress.**

Throughout history, sovereign debt has proved to be a serious liability for governments and citizens; governments are faced with the difficult choice of servicing their debts or servicing their obligations to protect vulnerable citizens from poverty and death, a trade-off that more often than not results in harsh austerity policies and trade-offs in government spending. The sharp increase of ECA guarantees to developing countries in the wake of the global crisis should therefore ring loud alarm bells, as it could add to the already worrying levels of debt vulnerabilities that several poor countries are facing.

Debt sustainability in developing countries:

In 2010, the IMF stated that the global crisis has increased the debt vulnerabilities of Low-Income Countries (LICs).⁶ The 2011 IMF World Economic Outlook indicates some improvements in debt indicators, however, with major variations between regions and particularly high public debt levels in Caribbean countries.⁷

- 21 LICs across regions are identified as being at high risk, or as being in serious debt distress;⁸
- Out of the 32 countries that have so far completed the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI), eight⁹ are defined as being at high risk of debt distress¹⁰
- Small Island Development States (SIDS) are particularly vulnerable. In 2009, 14 SIDS registered public debt to GDP ratios in excess of 60 percent, which is the broadly accepted threshold for sustainable levels of public debt, whereas eight SIDS¹¹, mostly in the Caribbean, registered debt to GDP levels of more than 100 percent.¹²

Hushed up: How Export Credit Agencies create debt for developing countries

Export Credit Agencies (ECAs) are public or private institutions that provide credit and/or guarantees to export companies and financial institutions with the aim of supporting the home country's export industries. Almost all industrial countries have a public ECA, often under the auspices of the Trade or Finance Ministry.

These agencies have no development mandate. Nevertheless, they have a massive development impact; as this report shows, **the main bulk of developing country debt to other governments is created by export credit guarantees, and ECAs receive significant transfers from aid budgets every year as a result of export credit debts cancelled by donor countries and paid with Official Development Aid (ODA).**

Most ECAs cover both political risk and credit risk. The former means that the exporter holding political risk guarantee is refunded in the case of default or breach of contract triggered by political instability in the host country (the country of the importing

entity). The latter implies that the exporter holding credit risk insurance is repaid in case of default triggered by economic difficulties or bankruptcy of the buyer. With these types of guarantees, **export projects that would normally be too risky for OECD country companies to invest in become good business.** Hence companies and financial institutions are enabled to carry out projects they would otherwise not engage in due to the economic or political risks involved. However, these projects supported by home country governments (the country of the exporting company or financial institution where the ECA is based), often become public liabilities for developing country governments and citizens when they have negative development and environmental impacts or when the developing country buyer defaults and their debts are in one way or another covered by governments.

The buyer of the exported goods or services can be a private company, a state owned enterprise (SOE) or a public entity such as local authorities, government departments or ministries. If the buyer defaults on repayments of the commercial loan used to fund the original purchase, the ECA guarantee is triggered,

which means that the ECA from the country where the seller or financial institution is registered pays back the money owed to the company or financial institution that contracted insurance with the ECA. Then, the ECA takes over the role as creditor and tries to recover the money from the defaulted buyer, for instance by engaging in litigations.

How ECAs actually recover money from the defaulting buyers is shrouded in secrecy. The debt collection capacity of an ECA is an essential part of their business model, normally placed in a separate debt collection department. With the backing of the state, ECAs have more power to recover debt than private export credit insurance agencies would have. However, the amount recovered from buyers in different countries and whether these buyers are public or private is not known. This is because ECAs normally report on a highly aggregate level and no detailed information is provided on each and every project in which they engage, nor on the individual countries they are engaged in.

In some cases the buyer is required to provide a counter guarantee, which means that a guarantor agrees to repay the buyer's debt

in the case the buyer itself cannot pay. This is one of the most usual mechanisms whereby, in the past, export credit guarantees issued by OECD country ECAs ended up in the books of developing country governments. Today, according to information made available to Eurodad, private buyers in most cases have private guarantors such as national or international banks, and public buyers have public guarantors such as the Ministry of Finance. However, as a result of past counter guarantees issued by developing country governments for private purchases from failed private commercial deals, often with no development objectives, developing countries today owe massive amounts.

When developing country debts, including those resulting from export credit guarantees, are cancelled through international debt relief agreements, ECAs are compensated for any losses. The resources to do this normally come from aid budgets. As a result, credits and guarantees issued – and sometimes aggressively peddled – with a commercial purpose, are repaid with monies which in principle should be used for poverty eradication.

ECAs also contribute to increasing private sector debt, as often the developing-country buyer of goods that have been imported with an export credit guarantee is a private entity. Defaults on such transactions have also resulted in *public* debt, in cases where the host government issued a guarantee to cover the loss incurred by the exporting company when the private buyer defaults on its debt. The global crises which started as a financial sector crisis and mutated to a sovereign debt crisis in Europe and elsewhere, has shown that **debt by private companies and financial institutions, such as banks, can easily become a public liability** even in cases where there is no explicit guarantee from the government that it will assume the debt in case of bankruptcy of private entity.

Beyond their potential effects on debt distress, **ECA debt can also have a harsh impact on aid budgets.** When developing country debts are cancelled, the amount of debt relieved is systematically detracted from aid budgets, which end up being used to pay for projects that never had the aim of supporting equitable and sustainable development.

Moreover, **projects backed by ECA guarantees have often resulted in negative effects on the environment and local communities as well as violations of human rights.**¹³ Export credit guarantees have also been given for the export of arms and military equipment to dictatorial regimes¹⁴, to non-viable projects and to projects that were not completed.¹⁵ Yet often, debts owed to creditors for failed projects that never benefitted the country's citizens have had to

be repaid, diverting resources from much-needed pro-poor spending.

Over the last decade, ECAs have been subject to national and international guidelines aiming to mitigate negative social and environmental impacts of ECA supported projects. Nevertheless, guidelines are weak; this is confirmed by sources within ECAs who express concerns about weak reporting mechanisms and lack of implementation of the guidelines. Case studies by civil society show that ECA backed projects in developing countries can have severe, negative impacts on development and the environment, and highlight the urgent need for stronger standards for responsible ECA financing. Some of these standards are addressed in the Eurodad Responsible Finance Charter, which outlines key elements for responsible loan and investment contracts

which contribute to sustainable development.¹⁶

This report assesses the overall trends in the total volumes of export credit guarantees issued to developing countries over the last decade, and the effect of the global crisis on these trends. Eurodad also assessed how much of the developing country debt cancelled by Northern governments is actually debts resulting from export credit guarantees. Although civil society long suspected that a large amount of cancellations of debt, financed with aid monies, was commercially motivated and not development motivated, the lack of transparency of ECAs and the difficulty in accessing disaggregated project-by-project data and even the year of origin for bilateral debt cancellation dealt with at the Paris Club, had hampered the civil society attempts to **put a figure to the**



share of debt cancellation which is indeed cancellation of debts mostly resulting from commercial interests, yet reported as development aid. This is one of the core problems of development finance and with this report, Eurodad fills in this long-standing gap in NGO and official research.

Eurodad worked under heavy constraints in terms of access to data and, more specifically, to comparable data from different European countries. The ECAs assessed in this report include Atradius DSB in the Netherlands, ECGD in the United Kingdom, EKN in Sweden, GIEK in Norway, ONDD in Belgium and SERV in Switzerland. These ECAs were chosen according to access to information criteria: They had either been subject to civil society monitoring and hence a minimum of information was already available to

Eurodad members, or they agreed to disclose some of their figures to Eurodad researchers. Hence, the results of the research may be biased as often institutions with higher transparency – such as some of the ECAs assessed in this report, which were willing to share information with Eurodad – are also those with higher levels of compliance with international standards of good practice.

This report shines a light on how export credits and OECD country commercial interests impact on developing country debt. It also assesses the linkages between export credit debts, debt cancellation and aid budgets, and looks into the international guidelines for responsible ECA finance, arguing that these must be dramatically improved in substance and not least, measures are needed to improve

transparency and accountability to the people affected by ECA backed projects. Proposals for how to ensure responsible ECA financing are already on the table. What is missing is political will to establish binding rules followed by transparency and accountability mechanisms that enforce implementation of responsible finance standards.

At time of scarce aid resources and of fragile public budgets around the world, it is more important than ever to ensure that developing countries are not pushed to the brink of a new debt crisis as a result of an aggressive commercial strategy from European countries, and that aid resources are preserved for the purposes that they are intended for: eradicating poverty and giving the world's poorest citizens a chance to a decent life. This report intends to be a contribution to these important debates.

Jubilee Debt Campaign celebrating Halloween, 2011
Photo: Jubilee Debt Campaign

Export credits: The real cause of developing country debt

Export Credit Agencies do not have a development mandate. On the contrary, they are often driven by purely commercial interests on the part of Northern governments. However, they have a dramatic impact on the finances of poor countries. Guarantees provided by ECAs often turn into a huge financial liability for developing countries with little or no evidence that they contribute to equitable and sustainable development.

Information regarding the origins of developing country debt is kept in the shadow. Defenders of this lack of transparency argue that commercial interests involved are too sensitive for information to be disclosed publicly. However, a few ECAs have recently shown greater openness to respond to requests by civil society organisations to access some information in their books.

Eurodad research shows that, on average, 80 percent of the debt that developing countries owe to Northern governments is a result of export credits. In the UK, export

credit debt owed by developing countries is thirty times bigger than other debts owed to the UK government, such as development loans.¹⁷ In the case of Norway, 82 percent of the debt owed to the country by developing countries has its origin in former export credits.

Debt service is a huge drain for developing country finances and compromises efforts to eradicate poverty and boost social welfare. While impacting on developing country treasuries, loan repayments boost the coffers of richer countries Export Credit Agencies. Anecdotal



Haloween at Jubilee Debt Campaign, 2011
Photo: Jubilee Debt Campaign

evidence from the UK ECA shows that, since the year 2000, public and private clients have repaid a total of about US\$ 6 billion (£ 3.4 billion) to the ECA, of which more than US\$4 billion (£2.3 billion) was repaid by developing countries.¹⁹ This figure gives a sense of the magnitude of developing country financial transfer to ECAs which support Northern export industries.

Some of the debts repaid correspond to purchases that were not delivered, did not work properly, or to projects with negative impacts on the environment or the society.

While private consumer laws in most Northern countries protect consumers against being charged for damaged or non-delivered purchases, no such law exists for buyers of goods and services in developing countries whose purchases have been guaranteed by ECAs. Significant anecdotal evidence is provided by case studies that reveal how all too often some of the financial transactions guaranteed by ECAs have had damaging impacts on development, the environment, or contributed to severe human rights violations. Examples include sales of arms to dictators and military

The artificial basin a few kilometers away from the Daule Peripa dam
Photo: Elena Gerebizza / CRBM





Norway is the only country that has admitted creditor co-responsibility for some of the dirty debt originated by export credits.



No wave power plant to be seen, despite having been paid for.
Photo: Magnus Flacké / SLUG

regimes, such as German warships sold to Indonesia at the time of the Suharto dictator regime,²⁰ and Spanish military vehicles sold to Zimbabwe.²¹ Studies also reveal projects that were never delivered, but yet had to be paid for, such as a Norwegian wave power plant in Indonesia that was never built,²² and a Canadian supported dam on the Parana River between Argentina and Paraguay that was not finalised. Other ECA-backed projects have had severe negative development impacts on the society, such as the Daule Peripa dam in Ecuador, built with support from the Italian ECA.²³

Requiring that taxpayers in poor countries repay loans whose legitimacy is seriously contested not only diverts much needed resources away from investing in social services and productive development projects, but it also places these debt repayments in a legally and morally grey zone. As mentioned above, most European countries' consumer laws would protect buyers from corporate abuse in such failed commercial transactions.

Table 1. Share of developing country debt coming from export credits

	Debts owed by developing countries, coming from export credits (in US\$ million)	Total debts owed by developing countries (in US\$ million)	% ECA debt
Netherlands	343	564	61%
UK	3,196	3,314	96%
Norway	85	104	82%
Belgium	1,479	1,954	76%

Sources: Data received from ECAs and governments. Please see Annex 1 on methodology for a detailed break-down of the sources¹⁸

Why is it so hard to say “I’m sorry”: Norway admits failed policies and promises to clean-up dirty debts

In 2006, the Norwegian government admitted co-responsibility for failed export credits and the following public debt and decided to unilaterally cancel debts owed by five developing countries.

These debts were the result of an official campaign to boost the Norwegian shipping industry in the late 1970s, which was part of Norway’s industrial policies launched to mitigate raising unemployment. In 1976 the Trade Ministry instructed the ECA to issue guarantees for the sale of ships to 23 developing countries. The operation, which mixed export credit and development aid, was the result of strong political pressure that even circumvented internal ECA procedures. Neither was there approval or consent for this operation from the development agency. The operation also required that the host government in the developing country that purchased a Norwegian ship, guaranteed that they would fully service the debt in the case of default by the private buyers.

Some projects failed. For instance, ships intended for sea traffic were sold to be used on the river Nile – and some buyers defaulted on their debts. Fifteen out of the twenty-three projects became central government debt in the purchasing countries, triggered by the sovereign counter guarantees activated when the private buyer defaulted.²⁴ “It is now generally agreed that the Ship Export Campaign was a development policy failure. As a creditor, Norway shares part of the responsibility for the resulting debts,” the Norwegian development minister Erik Solheim said when announcing the decision to cancel the debt.²⁵

Following the cancellation of these debts on the grounds of creditor co-responsibility, the Norwegian government committed to carry out an audit of debt owed to Norway by developing countries. When implemented, this will include an assessment of the origin of developing country debts, including analysing the legitimacy of the debt claims. The audit could set a new precedence in the area of illegitimate debt and creditor responsibility.²⁶

So far, Norway is the only country that has admitted creditor co-responsibility for some of the dirty debt originated by export credits. However, debt campaigners have consistently called on other governments to follow suit. Revealing a long list of dodgy debt deals caused by export guarantees by the UK ECA, ECGD, Eurodad member Jubilee Debt Campaign is calling on the UK government to clean its house of old ECA skeletons.²⁷ In Brazil, the Philippines, Zimbabwe and several other debtor countries, civil society organisations are initiating peoples’ debt audits to defend the people’s right to know what they are paying for, and to enable them to call upon their governments to stop servicing debts which are considered to be illegitimate.



The Norwegian development ministers says “It is important to say sorry”.
Photo: Changemaker

Creative accounting: How donors divert development aid to boost their own exports

Time and time again creditor governments transfer their aid money, which should pay for poverty eradication in partner countries, to their own export industries and finance ministries, to offset debt relief resulting from ECA guaranteed projects. This offset covers any losses to the ECA involved and in some cases, aided by creative accounting, transfers monies back to the general budget of the creditor government.

In the beginning of the last decade, donor countries committed to cancelling the debt of the poorest countries, including debt that has resulted from ECA backed projects. Cancelling unsustainable debt is much needed to free-up resources in developing countries so they can pay for public investment in essential services and long-term development that can eradicate poverty and contribute to sustainable growth.

Yet, civil society has been extremely critical of the fact that donor governments have included the amounts of debt cancelled as part of their aid budgets. Counting debt cancellation as ODA is comparable to creative accounting: debts owed by developing countries which were often only on the books and that creditors were not even hoping to recover are suddenly counted as part of the donors' commitments to

scale up aid to the committed 0.7% of GDP. With the exception of Norway, all OECD countries report debt relief to developing countries as part of governments' development aid.

Besides accounting tricks, cancelling export credit debts also involves real financial transfers from aid budgets to the ECAs or even to the Finance Ministry of the donor country. Although creditor institutions including ECAs discount the value of the so-called non-performing loans from their portfolio, when the government agrees to cancel developing country debt, it uses aid resources to cover any losses for the ECA. In this operation, ECAs can clean up their books and poor people in poor countries pay the price of decreased real financial transactions to cover essential needs that can make a difference between life and death.

The majority of government-to-government debts cancelled are debts resulting from export credit guarantees, not debts originating from development loans. **Eurodad**

research shows that 85 percent of bilateral debts cancelled from 2005 to 2009 were debts that originated from export credit guarantees.²⁸ In the case of Switzerland, almost all debt relief between 2007 and 2009 corresponded to export credit debt.

Using aid money to cancel debt originating from export credits is not acceptable as most of these loans were never intended for development purposes. On the contrary, several of the credit guarantees given, supported projects that resulted in negative impacts on the environment or the society in the host country. Unfortunately, despite civil society campaigns to stop this bad practice, common practice is still to draw on aid budgets when cancelling developing country debt.

In some cases, the ECA makes a significant profit on this practice because the amount of debt relief is often significantly higher than the losses accounted at the ECA. This can be because the ECA has already discounted the value of non-performing debt, hence counting



Eurodad research shows that 85 percent of bilateral debt cancelled from 2005 to 2009 were debts that originated from export credit guarantees.²⁷

ECAs- the three headed monsters- debt generator, collector and negotiator;

As debt creating agencies, ECAs play a key role in government-to-government negotiations on debt rescheduling. Bilateral debt rescheduling is normally negotiated at the Paris Club, a 60 years old ad hoc creditor club with a secretariat at the French Treasury.

The current system of government-to-government debt negotiations at the Paris Club allows the creditors to set the rules of the game, including assessing what are sustainable levels of debt, and deciding the amounts, terms and conditions of debt relief or restructuring. In practice, this has resulted in poor judgement of developing countries' debt sustainability and

the remedies needed to solve the problems, which has forced debtor countries to return to the creditor's club due to protracted debt repayment problems. For instance, Senegal has appealed to the Paris Club fourteen times for assistance with its bilateral sovereign debt.

It is highly questionable whether negotiations between several creditors with strong vested interests and one debtor country with weak bargaining power can ever reach a fair and efficient settlement. When ECAs from creditor countries are included in negotiations, the situation becomes even more complicated. As the negotiations are non-transparent and only

the final agreement is posted online, the actual role of ECAs in negotiations is unknown. However, the ECAs' role as promoters of creditor country exports, and not least their role as debt collecting bodies, questions the legitimacy of ECA participation in government-to-government debt negotiations.

A fair and efficient solution to debt difficulties would require a decision making process and rules that are independent of the parties involved- such as any other dispute settlement mechanism. Eurodad has developed 10 principles that should guide the establishment of a fair and transparent debt work-out procedure.³⁵

Table 2.
ECA debt as part of total bilateral debt relief, 2005-2009

	Total bilateral debt relief (in US\$ million)	Relief of debt originating from export credits (in US\$ million)	ECA debt as part of total bilateral debt relief
Belgium	597	434	73%
The Netherlands	985	644	65%
Sweden	128	125	97%
Switzerland	288	272	94%
United Kingdom	5691	5352	94%

Sources: Data received from ECAs and OECD QWIDS database. Please see Annex 1 on methodology for a detailed break-down of the sources²⁹

the market value on their books while the reported debt relief is of the original nominal value, which is much higher than the market value. This differs from normal practice of settling commercial debts where market prices of the debt – which are much lower than the nominal value at the time of a settlement – are usually taken as a reference, thus resulting in a significant write-off by the creditor. Another way in which the accounted amount of debt relief is inflated, is by including the value of interest and penalties accumulated after the debtor country defaulted on the debt. Accrued interests are not in the books of the creditor, which in this case is the ECA. Hence, the amount counted as debt relief (and hence as ODA) is often much higher than the actual losses on the books of the creditor.

In the case of Denmark, relief of ECA debt effectively results in Danish aid subsidising the general budget. This is because the Danish ECA, Denmark's Erhvervsfond (DE), is no longer active, so its outstanding credits are repaid to the general State budget.³¹

This is how export credit guarantees and creative accounting allow OECD countries to use aid money to support their own general budgets and to inflate aid budgets. Even part of the debt relief reported as contributing to *multilateral* debt relief operations is actually ECA debt. Creditors at the Paris Club have committed to cancel only 90 percent of bilateral debts once a country reaches HIPC completion point, but most of them actually cancel 100 percent of the debts. However, the extra 10 percent is not given for free. For instance, the UK registers this ten percent to top-up the figures it reports as multilateral debt relief.³²

The practice of using aid budgets to offset debts is still going on today. In 2005, a record 38 percent of total ODA budgets was used for debt relief, resulting from a highly politically motivated debt relief to Iraq.³³ Although debt relief as part of ODA has fallen since the exceptional Paris Club debt relief to Iraq and Nigeria in 2005 and 2006, the impact of debt relief on specific countries' aid budgets is still significant. In 2009 Austrian aid levels fell by more than 30 percent due to reduced levels of debt relief compared to 2008. In Switzerland net ODA rose by 11.5 percent. The increase was partly due to special debt relief to Togo and partly because Switzerland counted increased costs for asylum seekers in its ODA.³⁴ The overall result was that Switzerland reduced its transfers to developing countries.

It is worthwhile to note that this mechanism (of counting debt relief as ODA) absorbs ODA that could otherwise have been used for a real transfer of resources to HIPCs. It is also arbitrary to charge the ODA budget for the relief, as it mostly represents a failure of quasi-commercial lending policy.

Enrique Cosío-Pascal, United Nations Conference on Trade And Development (UNCTAD)³⁰

Sudan in debt: The next aid budget inflation?

Sudan is likely to be subject of the next example of export credit debt cancellation that massively inflates aid budgets and diverts money away from real aid. Sudan's debt is unsustainable and debt cancellation is urgently needed. The country's external debt amounts to a total of US\$ 35 billion, of which about 70 percent is owed to other governments.³⁶

As part of negotiations related to the separation of South Sudan in July 2011, Sudan agreed to assume the full external debt on the condition that the international

community provides debt relief. The country is now in a process to qualify for debt relief through the HIPC initiative. This will mean that at least 90 percent of the bilateral debt owed to members of the Paris Club is cancelled. In 2009, Sudan's debt to Paris Club creditors was US\$ 11 billion.³⁷ 90 percent of this amount is most likely interest accrued since the country stopped servicing its debts in 1984.³⁸ For instance, in the case of Denmark, less than ten percent of the total amount owed by Sudan is principal (the actual amount of money lent to the country), whereas about 90 percent of the debt is interest accrued after 1984.³⁹ Since 1984, exceptional high interest rates of 10 per cent or more have been notionally charged on Sudan's

defaulted debt. All debts owed by Sudan to Denmark are the result of export credit guarantees. Although this is only anecdotal evidence in an area where figures are difficult to obtain, it is a strong indication that Denmark is possibly not alone in this situation.

Sudan is the biggest debtor of several European Export Credit Agencies. The UK's ECA claims that Sudan debts to it amount to US\$1,032 million (£663 million) – a debt which has its origins in export credit guarantees extended in the 1970s. The UK charges an interest rate on the original US\$ 242 million (£150 million) debt of 10-12 per cent per year, meaning the debt increases by US\$ 24 million (£15 million) every year.⁴⁰ Sudan's debt

to the Swiss ECA has increased from about US\$ 30 million (40 million CHF) in 2005 to just less than US\$ 144 million (144 million CHF) in 2010.⁴¹ Sudan is by far Denmark's largest bilateral debtor, owing about US\$1 billion US\$ (between 5-6 billion DKK).⁴²

The travesty of this is that while debt cancellation to Sudan will *not* imply any real costs to governments since these are non-performing debts and the majority of the outstanding debt corresponds to interests accrued over the last three decades, real financial transfers *will* be made from aid budgets to the ECAs or Finance Ministries when Sudan's debt is cancelled.

After the crisis: As export credit guarantees increase, so does developing country debt

In 2008 as markets dwindled and the global crisis threatened export industries world-wide, EU governments increased the average insurance and guarantee capacity of their ECAs by 35%, aiming to boost export industries.⁴³

Over the last decade, export credit guarantees issued for buyers in developing countries were relatively stable. However, in 2008 the **guarantees for exports to these countries⁴⁴ almost tripled compared to pre-crisis levels.⁴⁵** Looking at sample countries, official guarantees from the Norwegian ECA for export to developing countries were almost 25 times higher in 2008 than average pre-crisis levels.⁴⁶ A substantial share of the new credit guarantees were given to the ship-building industry (as was also the case during the Ship Export Campaign in the late 1970s).⁴⁷

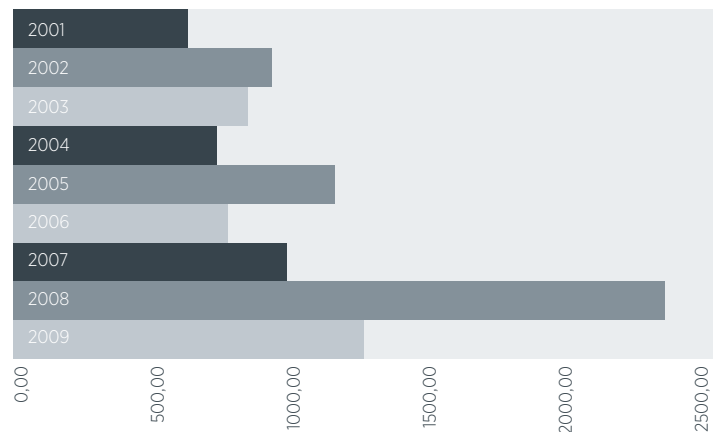
The amount of export credit guarantees to developing countries sharply increased in 2008. While the amounts started to decrease again in 2009, in 2009 the total of official credit guarantees for export to developing countries were still fifty percent higher than before the crisis. In a context of increased debt vulnerability and where the IMF estimates that low-income countries will have to permanently use a higher share of their income for debt service,⁴⁸ this dramatic increase

in export credits to developing countries is particularly worrisome.

Additionally, in many cases we do not know the shares of public and private buyers. In the former case, export credits directly increase public sector debt, whereas in the latter some would claim that in theory the export credits only have an impact on sovereign debt levels if there is a public guarantor.

While we do not yet have access to this information, the global crisis has taught us a couple of tough lessons: it is never too early for crisis prevention, as crisis management and resolution is much harder to address; and no one should dismiss the importance of private debt in a country's finances. An overly cautious approach to export credit guarantees now could probably save problems in the future. It should also come hand in hand with an assessment of what types of development finance are most needed in the world's poorest countries to unleash long-term sustainable and equitable growth.

Figure 1: Export credit guarantees to developing countries 2001-2009 (SDR mill)



Source: : OECD (2009): Review of official export credit commitments to IDA-only countries (2001-2009).

Public losses for private buyers' debts?

Most debts owed by developing countries for previous export credits were contracted in the 1970s and 1980s. Although detailed information regarding the origins of the debt is not available, from most ECAs not even on request, several ECAs have confirmed that it is highly realistic to assume that they were contracted several decades ago.

At the time it was normal procedure that when a European government provided guarantees for export transactions to a developing country they required the host state to guarantee that the government would take on the debts in the case the private buyer defaulted.

When a private buyer defaulted on repayments, the guarantee was triggered and the host government became the actual debtor and had to repay the credits.

Today counter guarantees from host governments are hardly used to cover

private buyers' defaults. They are almost exclusively used for public buyers such as public directorates, local harbours or government entities on local, regional and central levels.⁴⁹ This means that formally developing country governments do not bear any risk related to import credit transactions by their country's private entities. However, debt that is not explicitly guaranteed may also constitute a significant risk to the sustainability of government debt. Debt held by local governments, State Owned Enterprises or even private entities are considered contingent liabilities for the central government. Moreover, in the case of external shocks to the economy, economic and financial crises, or natural catastrophes, governments may consider it necessary to step up and assume the debt obligations of sub-government, semi official or even private entities, even though no guarantees have been issued.

The global financial crisis has shown that private debt dramatically increases sovereign debt vulnerability and impacts on public budgets and citizens' welfare. In the UK in 2007, public debt was only 43 percent of GDP while private debt was estimated to be more than ten times higher; that is, more than 430 percent of GDP. Bailouts of UK banks following the international

financial crisis shifted debt from the private sector to the government. By early 2011, the bailouts of banks had increased government debt by US\$ 170 billion⁵⁰ (£110 billion) or 7.5 per cent of GDP.⁵¹

In a recent report, **the IMF warns against not taking sufficient regard to contingent liabilities and increasing levels of private debt when analysing countries' debt sustainability**.⁵² Although the report only considers debts of countries that have access to financial markets, the risk posed by contingent liabilities is also highly debated when it comes to developing country debt. International Financial Institutions and debt managers in developing countries have expressed strong concerns about the threat of sub-government debt and State Owned Enterprises. Recently, a representative from the Commonwealth secretariat also expressed concern about the seemingly increasing debt of private entities in developing countries.

There are several reasons why a government decides to assume private debt by bailing out private companies or financial institutions. In the case of an external shock to the economy, such as a global financial crisis, governments may decide to assume private sector debt

Photo: Nick Ward / Jubilee Debt Campaign



to mitigate financial and economic instability, provide credit to key industries, and halt the spiral of job losses and massive unemployment.

A report by Eurodad member Both ENDS states that another reason for assuming private debt is based on the fact that developing country governments are in a weak negotiating situation vis-à-vis ECAs, export industries from rich countries, and their governments. Given a certain degree of financial dependence with regards to donor countries, developing country governments are likely to be concerned about consequences for future commercial and financial transactions and may thus have incentives to protect foreign investments against private default by assuming the responsibility for the private debt, even in cases where they have not explicitly signed an agreement to do so. There are also cases where bilateral trade or investment agreements include the protection of ECAs.⁵³

In a recent report to the UN General Assembly, the UN Independent Expert on Debt and Human Rights⁵⁴ supports Both ENDS' argument, pointing at the fact that within the energy sector Power Purchase Agreements (PPA) are another off-balance sheet mechanism whereby developing country governments guarantee the debts contracted by private sector actors operating in their countries. PPAs are agreements where the government guarantees the purchase of power at a fixed price.⁵⁵ Sources from within ECAs that prefer to remain anonymous have warned that this is likely to be one of the main ways in which export credits will create sovereign debt in the future.

Export credits to developing countries have increased dramatically since the outset of the financial crisis,

increasing the level of contingent liabilities of developing countries. The risk of contingent liabilities becoming actual government debt obligations is even higher in times of instability in the global economy, which has unpredictable effects on developing countries.

Although we have seen time and time again how non-guaranteed private debts turn public as the result of financial crises, with official institutions publicly stating similar concerns, the very same institutions remain reluctant to discuss the risks that private sector debts pose to sovereign debt sustainability. This is even more worrying in the case of ECA debts that are not transparent and leave the amounts of private debt to ECAs an unknown variable in the equation of potential future sovereign debt crises.

“Developing country Governments often have to offer extraordinarily generous terms to attract certain private investments such as those for power projects. The Government may have to sign a power purchase agreement guaranteeing the purchase of power at high dollar-denominated prices. Since such a purchase agreement is not a loan, it is not counted as debt, although it may have massive budgetary implications for the Government concerned.”⁵⁶

The UN Independent Expert on the effects of foreign debt and other related international financial obligations of States on the full enjoyment of all human rights, particularly economic, social and cultural rights



In a recent report, the IMF warns against not taking sufficient regard to contingent liabilities and increasing levels of private debt when analysing countries' debt sustainability.

Export Credit Agencies: Jeopardising development?

Export Credit Agencies are covered by their governments' obligations to comply with international treaties as well as their commitments towards policy coherence for development.

The European Union and its Member States have repeatedly committed to promote trade and finance policies which are coherent with the Union's development objectives.⁵⁷ The European Consensus for Development stresses that policies such as trade, agriculture and finance shall not undermine the objectives of EU development cooperation. Countries both within and outside the EU also have national policies on policy coherence for development.⁵⁸

Following civil society scrutiny shedding light on harmful impacts of ECA-supported transactions on development, international guidelines have been put in place over the last decade to ensure that ECA supported projects at least do no harm to people in developing countries.

The increased focus on mitigating negative impacts of ECA-backed projects follows only after several decades when ECAs have operated in the dark, without much public attention.

The OECD is the most significant forum for international standards guiding ECAs. Most relevant OECD standards include the *Common*

Approaches on the Environment and Officially Supported Export Credits, the Arrangement on Officially Supported Export Credits, and the Principles and Guidelines to Promote Sustainable Lending in the Provision of Official Export Credits to Low Income Countries. However, the European Union is also becoming increasingly relevant in coordinating ECA policies in its Member States. Each national ECA also has its own Corporate Social Responsibility (CSR) policies that require companies and financial institutions that apply for credit or credit guarantees to answer a set of questions regarding the expected social and environmental implications of the project. Companies also have to comply with international anti-corruption guidelines and guidelines for sustainable lending to the poorest and most indebted countries.

Unfortunately, these standards are weak and lack key measures that are crucial to avoiding harmful development and environment impacts. Monitoring and reporting mechanisms are insufficient to ensure duly implementation of the numerous guidelines.

Although some national guidelines for ECAs state that the ECA shall comply with the government's foreign policy (as is the case with SERV in Switzerland) or make explicit reference to the government's commitments to policy coherence for development (which is the case for EKN in Sweden), policy makers have so far been reluctant to flesh out the practical implications of their commitments to policy coherence on their ECAs.

There is however a notable exception to this rule which civil society hopes will set higher benchmarks in the future. In September 2011, after a strong push from the European Parliament and civil society organisations, the EU decided that *"The Member States should comply with the Union's general provisions on External Action, such as consolidating democracy, respect for human rights and policy coherence for development, and the fight against climate change, when establishing, developing and implementing their national export credit systems and when carrying out their supervision of officially supported export credit activities."*⁵⁹

This decision also includes a reporting mechanism whereby based on Member States' annual activity reports, the European Commission *"shall produce an annual review for the European Parliament (...) including an evaluation regarding the compliance of ECAs with Union objectives and obligations."*⁶⁰

Protecting competition: Race to the bottom or race to the top?

One of the key arguments by governments and private sector for developing international guidelines for responsible ECA lending is to create a "level playing field".⁶¹ Governments and private actors fear that strong guidelines protecting the environment, human rights and equitable development may harm business by creating a comparative

advantage for those ECAs from countries that do not adhere to such guidelines. Unsurprisingly, ECA guidelines and CSR standards are strikingly similar across the board and broadly reflect internationally agreed standards for ECAs.

Yet some bilateral differences regarding responsible finance standards still exist. One example is the spectre of projects subject to international guidelines. While ONDD in Belgium applies the OECD social and environmental guidelines (the OECD Common Approaches) to all projects, the ECGD in the UK changed its internal guidelines in 2010 so that they are only applied to the bigger and longer term projects, as formally required by the OECD, arguing that the British export industry would suffer from not being able to compete on equal terms with companies based in other countries. The UK government went further in relaxing ECGD's guidelines: As from 2010, not even child labour and forced labour are considered under the reviewed ECGD guidelines anymore.⁶²

The example of the UK relaxing the responsible financing guidelines of their ECA, arguing that they will lose competitiveness, is one example of how governments and private entities justify a race to the bottom with regards to CSR and responsible finance standards. It is very telling that there are examples of ECA backed projects for which development agencies such as the World Bank and regional development banks have refused funding because of the risk of severe negative impacts on the environment and the society.⁶³ If they are serious about transparency and policy coherence for development, policy makers need to turn this trend on its head by creating a race to the top on responsible financing requirements for their ECAs. European governments have the opportunity to do this, as they have a strong say in how guidelines are defined at an international level.



If they are serious about transparency and policy coherence for development, policy makers need to turn this trend on its head by creating a race to the top on responsible financing requirements for their ECAs.

Eurodad has made concrete proposals for drastically strengthening guidelines for responsible finance within lending and investments, including for ECAs.⁶⁴ This chapter makes an assessment of the main international guidelines for responsible finance and puts forward recommendations for how guidelines and enforcement mechanisms should be improved to make sure that ECA supported activities do no harm and do not violate governments' commitments. The recommendations are based on the Eurodad Responsible Finance Charter.

Social and environmental standards: Too weak to be properly enforced

In 2003 members of the OECD export credit group (ECG) agreed on a set of non-binding social and environmental guidelines for ECAs: the Common Approaches. These Common Approaches were reviewed in 2007; at the time of going to print, another review planned for 2010 has not yet been concluded.

The Common Approaches encourage OECD members to undertake a classification of supported projects into three categories according to their potential environmental impacts. It also provides a list of sectors which single out the projects that are likely to have adverse environmental impacts. Members are also encouraged to identify projects affecting "sensitive locations" and "involving involuntary resettlements of a significant number of affected people" as projects with high probability of negative environmental impacts. The Common Approaches recommend undertaking measures to prevent or mitigate environmental damage according to the classification of the project.

The OECD Secretariat is mandated to monitor the implementation of the Common Approaches by compiling information in an annual report, including project information, the reasons for project classification, and

international standards against which the project was benchmarked. This is all information provided by the ECAs.⁶⁵

Civil society organisations have raised serious concerns regarding the fact that the Common Approaches are only voluntary, there are loopholes in their content, and enforcement mechanisms are weak.⁶⁶ The guidelines are only applicable to projects with a repayment term of more than two years and where the ECA share is above SDR 10 million. Moreover, the Common Approaches explicitly state that **non-compliance is accepted as long as the ECA provides a justification in the case that benchmark standards were not met or the required information is not disclosed.**

Concerns about non-compliance have also been echoed by sources within ECAs who fear that weak reporting requirements are hindering the actual implementation of the guidelines. For instance, when ECAs are required to make project information publicly available at least 30 days prior to a final decision on guarantees for projects considered likely to be a high risk to the environment (so-called Category A projects), they can easily remove the information 29 days prior to the decision and still tick the box proclaiming that documents were made publicly available. Another way of getting away with poor reporting is simply to hand in the report without answering all questions.

Non-compliant ECAs are only subject to a "name and shame" exercise through peer reviews, which have broadly proved to be a poor enforcement mechanism. In addition, **reporting requirements are not sufficient to check whether ECAs and supported companies follow the guidelines as set out in the Common Approaches, as reporting takes place on a relatively aggregate level.** Whereas in development cooperation independent external evaluations are quite common both at policy and at project level, and evaluation results are generally publicly disclosed, in the case of ECA-backed projects,

British bridges to Sri Lanka

In 2007, the UK government debated whether ECGD should back an US\$ 165 million loan (£80 million) to the already indebted Sri Lankan government to buy bridges from a British company – who happened to be under investigation for alleged corruption in other developing countries. Despite Sri Lanka being judged by the IMF and World Bank to be at 'moderate risk of debt distress,' a junior minister agreed to back the loan, viewing it as a finely balanced case.

Since the loan was given, the Sri Lankan government's foreign debt has increased from 30 to 40 percent of GDP. In 2009, 16 percent of government revenue left the country in debt repayments. Yet the UK government is currently considering backing another loan of US\$ 66 million (£40 million), again for bridges.⁷¹

such evaluation and transparency is close to absent.

Moreover, no independent analysis is recommended or required to assess how a given project must be classified. The classification of project applications according to the risk of adverse environment and social impacts is made by the ECA itself. The ECA also decides on measures to be taken to mitigate the risk of adverse social and environmental impacts although it is clearly an affected party with vested interests. Regarding projects categorised as likely to have adverse environmental impacts, the Common Approaches suggest that an Environmental Impact Assessment of the project "should not be carried out and reviewed by the same party." Although this is a welcome recognition of the need for impartiality, independent assessments are not recommended.

There is no complaint mechanism for stakeholders⁶⁷ and no independent monitoring of project implementation throughout the project period.

Sustainable lending: Little more than rhetoric

Following international initiatives to limit debt burdens of the poorest countries, in 2001 members of the OECD Working Party on Export

Credit and Credit Guarantees agreed on a statement of principles for official export credits to highly indebted developing countries. The principles state that credits should not be provided for unproductive expenditure in these countries. Unproductive expenditure is defined as "transactions that are not consistent with these countries' poverty reduction and debt sustainability strategies and do not contribute to their social and/or economic development." However, "equipment deemed essential to the debtor country's national security or required to combat e.g. the drug trade, smuggling, piracy" is excluded from the definition of unproductive expenditure, hence allowing support for exports of, for instance, arms and other military equipment.⁶⁸

In 2008, the OECD Working Party on Export Credits and Credit Guarantees also agreed on a set of guidelines for sustainable lending, implicitly recognising the potential negative impact of debt from export credit guarantees and acknowledging "that concessional lending generally remains the most appropriate source of external finance for most LICs."⁶⁹ The sustainable lending principles apply to export credits with a repayment term of more than 12 months to public and publicly guaranteed buyers in countries that are not allowed by the IFIs to borrow



The UK government went further in relaxing ECGD's guidelines: As from 2010, not even child labour and forced labour are considered under the reviewed ECGD guidelines anymore.⁵⁷

The increased focus on mitigating negative impacts of ECA-backed projects follows only after several decades when ECAs have operated in the dark, without much public attention.

at market terms.⁷⁰ The guidelines do not permit unlimited lending to the countries on the list, and require that credits have a grant element attached to them in cases where the country in question is required to comply with the requirements to borrow only at concessional terms.

While the commitment to contribute to debt sustainability and perhaps a recognition of the responsibility that lies with credit providers is a positive step, the guidelines rely heavily on the World Bank and the IMF's Debt Sustainability Framework which defines sustainable debt on the basis of incomplete indicators which leave out important factors such as domestic debt, contingent liabilities and private debt. They also fully ignore a country's financial needs to fulfil its obligation to protect citizens' basic rights. Moreover, the guidelines do not apply to guarantees issued for exports to private buyers without sovereign counter guarantee. This is worrying because private companies and financial institutions' external debt is a significant implicit liability for central governments.

Blind spots in the guidelines: Tax evasion and human rights

Human rights and tax issues are two important elements dismissed by existing guidelines.

While the UN has stated that governments shall take responsibility for protecting populations against human right abuses by business enterprises that are either owned or controlled by the state or receive support and services from the state, such as ECAs,⁷² human rights impacts are not explicitly addressed in any of the international guidelines for ECAs and their policy holders. Compliance with internationally agreed standards on human rights is encouraged in the Common Approaches, but members are permitted to justify their decision not to apply these standards. Failing to regulate ECAs in a way that ensures human rights are fully complied with is a breach of governments' obligations under international human rights law.⁷³ The UN Human Rights Council also states the responsibility of business enterprises themselves to respect all human rights.⁷⁴

It is encouraging that the revised Common Approaches are likely to include a (non-binding) requirement regarding compliance with human rights obligations. Not least, **the new EU regulation that will indeed be binding on EU Member States, takes an important step by requiring that Member States' ECAs must respect human rights in their operations.**⁷⁵

Another factor that is urgently missing from the financial guidelines and key to both policy coherence

for development and financial transparency is consideration of ECAs and policy holders' tax policies. **Private funds and companies investing in developing countries often breach responsible financing standards by resorting to aggressive tax planning practices.** These practices undermine developing countries' abilities to raise and mobilise domestic resources, and have seriously detrimental impacts on developing countries' democratic governance. Tax-related illicit flows amounted to more than US\$700 billion in 2009.⁷⁶

Although the European Parliament put reporting requirements on tax related issues on the table during the negotiations between the European Parliament and the EU Council regarding the new EU regulations on "application of certain guidelines in the field of officially supported export credits"⁷⁷, reporting requirements that would ensure sufficient information to significantly reduce tax avoidance were not included in the final agreement. **If governments are serious about development and policy coherence, however, they must take urgent measures to make sure that ECA supported companies and financial institutions comply with best practises regarding tax policies.**

Technical and legal terms and conditions

Purpose and amount of loan: The loan document must state clearly the purpose, amount and beneficiaries of the loan.

The Arrangement requires that this information is shared with other participants, i.e. those OECD members that signed the Arrangement. However, it does not explicitly state that this information needs to be part of the loan contract and shared with the purchaser.

Mutual obligations and predictable disbursement: The contracting parties must commit to spend and deliver the funds as stipulated in the loan agreement.

The Arrangement sets out rules for predictable repayments of the credit (paragraph 14).

Compliance with national and international laws: The parties to the loan must comply with national laws and regulations in the borrower and lender nations and with international law. Disregard for applicable laws can render any later claims invalid.

The Common Approaches (CA) only require compliance to “host country standards,” i.e. standards of the borrower nation.

Repayment assumptions: The borrower government and lender must make public the economic ‘assumptions’ they have made in relation to how the loan is to be repaid.

The Arrangement states that “Countries shall be classified according to the likelihood of whether they will service their external debts” (paragraph 25-26). Buyers or guarantors are also risk classified (paragraph 27). Premiums are charged according to the risk group. Special concessionality rules apply to tied aid projects (Arrangement, chapter 2). No information is provided on the actual repayment assumptions.

Agreements between borrower and lender: The contract must contain details of any host government agreement, production-sharing agreement, power purchase agreement or any other similar accord and must clearly state how goods and services to be delivered have been valued.

Transparency regulations are not in place.

Technical feasibility: The investor shall have an ex ante feasibility study on the basis of sound economic and financial principles and provide an independent review of the feasibility study which certifies that the figures provided are accurate. The investor and host state must have an independent needs and impact assessment.

The CA require that ECAs “enhance financial risk assessment of new projects and existing operations by taking into account environmental aspects” (paragraph 3). However, the CA do not require independent reviews of the feasibility studies, independent needs assessments or independent impact assessments.

State financing and guarantees: The state is not obliged to provide any funds or credits, issue guarantees or otherwise become liable directly or indirectly for any financing of the project. The investors shall not aggressively promote schemes which require sovereign counter-guarantees.

According to information from five of the ECAs covered by this research, sovereign counter-guarantees are almost exclusively used for public buyers, and private guarantors are used for some private (and public) buyers.

Social, environmental and human rights standards

Respect for human rights: Activities financed must not violate human rights and must not contribute to the violation of internationally recognised human rights treaties and conventions.

New EU regulation requires ECAs to comply with EU Member States’ human rights obligations. Human rights standards are currently not mentioned by OECD standards, but are likely to be included in the revised CA.

Respect for internationally recognised social, labour and environmental standards: The loan or investment must not support any venture that contravenes internationally accepted minimum standards on social, labour and environmental protection. The contracting parties recognise that it is inappropriate to encourage lending or investment by relaxing domestic labour, public health, safety or environmental measures.

According to the CA, projects should comply with host country standards and are expected to meet specific multilateral standards. However, the CA allow for a justification of not following international standards. No mention is made of internationally recognised social, labour and environmental standards.

Ex ante impact assessment: The lender or investor has a fiduciary responsibility to ensure that activities financed are legal and viable, as attested by an independent ex ante long-term integrated impact assessment. The assessments shall be publicly disclosed and accessible to the affected local communities prior to the approval of the loan or investment contract in a language understood locally.

The CA require ECAs to classify projects according to the potential risk of adverse negative environmental risks. Projects with potentially “significant adverse environmental impacts” should be subject to an Environmental Impact Assessment (EIA). The EIA should not be carried out and reviewed by the same party (paragraph 9).

Precautionary principle: Investors, lenders and country authorities shall apply the precautionary principle to their ex ante impact assessment and to decisions taken in relation to a proposed investment.

The precautionary principle is not mentioned in ECA guidelines.

Tax related measures

Public revenues: Contracts must contain provisions to ensure that companies financed comply with national tax legislation.

This is not included in ECA guidelines.

Tax information exchange: All jurisdictions through which the loan or investment funds flow must be committed to "on request", spontaneous and automatic information exchange.

This aspect is not included in ECA guidelines.

Financial transparency:

Lenders, borrowers and investors shall ensure that companies involved in the transaction do not avoid taxes or engage in abusive transfer pricing practices. Companies must disclose reliable annual information related to sales, employees, profits made and tax paid in the country and automatically disclose information regarding beneficial ownership of any legal structure directly or indirectly related to the company.

The Arrangement sets out internal reporting and notification requirements among participants to the Arrangement and the OECD secretariat. There is no requirement on country by country reporting and no public reporting or transparency requirements.

Procurement

Local procurement: The contract shall state that, where feasible, the borrower's country system will be used as the first option for all public financial management and procurement procedures related to the loan. To facilitate access for local socio-economic actors, including small and medium enterprises, loan contracts should contain provisions for local advertisement of tenders in accessible languages, as well as tailored eligibility criteria and smaller lot sizes.

The Arrangement checklist for aid supported projects asks which procurement procedures will be used and envisages checking the price and quality of supplies. However, it does not contain any provisions to support local procurement.

Public consent and transparency

Parliamentary and citizen participation: The contraction process must be transparent and participatory, i.e. parliaments, citizens and affected communities in the host country must be given adequate time and information to debate the loan or investment.

According to the CA, an environmental review should state "the results of any public consultations on the project with relevant stakeholders" (Paragraph 8). In the case of tied aid, the Arrangement checklist for aid financed projects asks: "In the case of a private sector project, has it been approved by the government of the recipient country?" and "Is the project part of investment and public expenditure programmes already approved by the central financial and planning authorities of the recipient country?" (Annex IX). No mention is made to parliamentary and citizen participation.

Public disclosure of information: The contract and any supplementary documentation must be available to the public in home/ host states.

Untied loans from state to state are published on the website of the ECD-DAC, but information on rate stabilisation, interest credits and interest subsidies is not made available. The CA require that information on projects with significant potential for adverse impacts be made available 30 days prior to a final commitment to grant official support. However, non-compliance can be justified. Information on some projects should be publicly disclosed "subject to legal provisions on public disclosure in Members' countries."

Financial transparency: The borrower or investor is responsible for maintaining accurate accounting records regarding activities and to support all fiscal returns or any other accounting reports required by the state.

Provisions of the Arrangement require ECAs to report to the Creditor Reporting System (CRS) of the OECD. However, ECAs are not required to annually present detailed reports of their financial performance.

Language: The contract must be available in the relevant languages of the host nation. Both original and translated versions should have equal validity in a court of law.

Not mentioned in ECA guidelines.

Adherence to integrity and anti- corruption efforts: agencies and agents found to have violated anti-corruption guidelines should be debarred from contracts.

The OECD Recommendation on Bribery and Officially Supported Export Credits recommends members to "take appropriate measures to deter bribery in international business transactions benefiting from official export credit support". The Recommendation is voluntary.⁷⁸

Progress reports and loan evaluation: There should be regular progress reports, a clear timetable for completion of the project and independent and timely evaluation and audit of the project implementation. Project reports and evaluations must be public.

According to the CA "members should, where appropriate, encourage project sponsors to make ex post monitoring reports and related information publicly available" (paragraph 17). Members to the CA report to the OECD secretariat which publishes an annual synthesis report online. However, reporting is on an aggregate basis and members can easily miss out on some of the reporting requirements. The new EU regulation will include a reporting mechanism whereby Member States provide an annual activity report to the European Commission, which reports annually to the European Parliament.

Transparency and accountability: the business of Export Credit Agencies

Accessing data on ECA supported projects is extremely challenging and in many cases an impossible mission. To make things worse, lack of transparency is not only a problem regarding individual ECAs; international organisations with competency on the issue have not been particularly welcoming of civil society requests for information regarding ECAs and resulting developing country debt. ECAs are generally secretive about all their financial operations, including past and current project information, figures regarding guarantees issued, amounts recovered and outstanding claims, which are only reported on highly aggregate levels.⁸⁰

The main rules defining ECAs' reporting requirements are set out in the OECD Arrangement on Officially Supported Export Credits, the purpose of which is to "provide a framework for the orderly use of officially supported export credits," and which provides no standards on public transparency measures.⁸¹ In practice, this means:

- providing a level playing field whereby exporters compete on the basis of price and quality of their products rather than the

financial terms provided; and

- working to eliminate trade distortions related to officially supported export credits.

While the Arrangement requires ECAs to break even in the medium term, reporting and transparency standards do not require that sufficient information is available to prove that this rule is actually respected and that ECAs do not effectively receive state subsidies.

The Arrangement also requires that social and environmental risks be included in the risk calculations of a supported project. However, reporting on the inclusion of non-economic risks is not mandatory. Looking at national guidelines, EKN states that "the assessment of environmental issues is an integral part of EKN's administration, risk assessment, and its decisions concerning guarantees";⁸² Atradius DSB recognises that this is an area where they "wish to better coordinate our environmental and social impact assessment with our credit risk analysis for each transaction. In the future, both will therefore be carried out in the same department in our organisation."⁸³

The Arrangement is a "Gentlemen's Agreement" among Participants of the Export Credit Group of the OECD and has no legal force. This has however changed for EU Members

States as the EU has recently incorporated the Arrangement into EU Regulations through a co-legislative procedure of the Council and the European Parliament.

The new EU regulations will make ECAs of EU Member States more accountable and more transparent regarding financial accounting and the development impacts of their activities. The new regulations also oblige EU Member States to develop an annual activity report that will make it easier to hold ECAs to account on their break even commitments, their methodologies for including social and environmental issues in their financial risk assessments as well as their compliance with commitments to policy coherence for development and respect for human rights.

The regulation also addresses the risk of contingent liabilities, stating that "where contingent liabilities might arise from officially supported export credit activities, those activities shall be reported as part of the Annual Activity Report."⁸⁴

The initial reporting under the new regulation will take place in the second half of 2012 and cover activities from 2011, and, given that the European Commission lives up to best practices on transparency, will equip the European Parliament with a tool in holding EU Member States to account for their ECA policies.

"It proves impossible to find out what ECAs finance or have financed in the past. There are only scant data available. Some national ECAs do not even report the overall balance of their annual operations regularly. Many others do not report disaggregated data of their sectoral lending or the geographical distribution."

Yannick Jadot, Member of the European Parliament and rapporteur for the "Report on the proposal for a decision of the European Parliament and of the Council on the application of certain guidelines in the field of officially supported export credits."⁷⁹

Conclusions and recommendations

Export credit guarantees: the real origins of developing country debt.

This report shows that export credit guarantees are at the root of most developing country debt owed to European governments. Eurodad assessed the debts owed by developing countries to four European countries and found that **almost 80 percent of poor countries' debts originated from export credits, not development loans.**

While export credit guarantees boost the coffers of richer countries' Export Credit Agencies, they weigh on developing country treasuries who must repay the debts. Borrowing for productive investments that promote sustainable and equitable development can be an important strategy for developing countries; however, copious anecdotal evidence provided by case studies reveal that all too often financial transactions guaranteed by ECAs have had damaging impacts on development, the environment and/or contributed to severe human rights violations. Requiring that taxpayers in poor countries repay loans with seriously contested legitimacy not only diverts much needed resources away from investing in social services and productive development projects, but it also places these debt repayments in a legally and morally grey zone.

Creative accounting: How donors divert development aid to boost their exports to poor countries

ECAs also use up precious aid, as the latter is used to subsidise exports of rich country companies. When creditor governments decide to cancel developing country debts, they use aid budgets to cover any losses of their national ECA. In practice, this means that aid money from development ministries is transferred to trade and finance ministries and agencies of the creditor country instead of being channelled as new and fresh resources for poverty eradication in developing countries.

Eurodad research shows that 85 percent of the bilateral debt cancelled from 2005 to 2009 were debts resulting from export credit guarantees.⁸⁵ As a result, massive amounts of aid resources were transferred from aid budgets to the coffers of Export Credit Agencies, draining much-needed resources for poverty eradication.

As export credit guarantees increase after the crisis, so does developing country debt

Over the last decade, export credit guarantees for buyers in developing countries were relatively stable. However, **in 2008 guarantees for exports to these countries almost tripled compared to pre-crisis levels.⁸⁶**

It is too early to know how the sudden jump in export credit guarantees for exports to developing countries will impact on sovereign debt levels. Nevertheless, the global crisis has taught us that it is never too early for crisis prevention; mitigation is less harmful and more efficient than crisis adaption and reparation. An overly cautious approach to export credit guarantees now could probably save problems in the future.

How private buyers' debts hit the public coffers

Even in cases where the developing country buyer of goods imported with an export credit guarantee has been a private entity, private debt has often resulted in public debt.

This has occurred when the host government has had to issue a guarantee to cover the loss of the exporting company where a private buyer has defaulted on its debts. While such government counter guarantees are barely used to cover private buyers' defaults, debt that is not explicitly guaranteed may also constitute a significant risk to the sustainability of government debt.

Indeed we have seen time and time again how non-guaranteed private debts turn public as the result of financial crises, and official institutions have publicly stated

similar concerns. Nevertheless, the very same institutions remain reluctant to discuss the risks that private sector debts pose to sovereign debt sustainability. This is even more worrying in the case of ECA debts that are not transparent, and leave the amount of private debt to ECAs an unknown variable in the equation of potential future sovereign debt crises.

Export Credit Agencies: Jeopardising development?

ECAs are included in governments' obligations to comply with international treaties as well as their commitments towards policy coherence for development. However, policy makers have so far been reluctant to flesh out the practical implications of their commitments to policy coherence on their ECAs.

Following civil society scrutiny that sheds light on the harmful development impacts of ECAs, international guidelines have been put in place over the last decade to ensure that ECA supported projects at least do no harm to poor people in poor countries. Unfortunately, these standards are weak and lack key measures that are crucial to avoid harmful development and environment impacts. Not least monitoring and reporting mechanisms are insufficient to ensure duly implementation of the numerous guidelines. Concerns about non-compliance have also been echoed by sources within ECAs who fear that weak reporting requirements are hindering the actual implementation of the guidelines.

Governments and private actors fear that strong guidelines protecting the environment, human rights and equitable development may harm business by creating a comparative advantage for those ECAs from countries that do not adhere to such guidelines. The approach of creating a "level playing field" is used to justify a race to the bottom with regards to responsible finance standards. Instead, what policy makers need to do is to turn this trend on its head by creating a race to the top on responsible financing requirements

for their ECAs. Proposals for drastically strengthening guidelines for responsible finance have been put forward by civil society including in the Eurodad Responsible Finance Charter. This report shows that there is a significant gap between recommended standards and actual guidelines covering ECAs.

Transparency in ECAs' operations and financial accounting is also a serious concern. Accessing data on ECA supported projects is extremely challenging and in many cases is an impossible mission. To make things worse, lack of transparency is not only a problem concerning individual ECAs; international organisations with competency on the issue have not particularly welcomed civil society requests for information regarding ECAs and resulting developing country debt.

There is however a notable exception to the rule of no willingness to oblige ECAs to comply with development policy commitments. In September 2011, after a strong push from civil society organisations and the European Parliament, the EU agreed on a regulation that obliges the ECAs of EU Member States to comply with EU development policies. The new regulation will require Member States to report annually on their ECAs' activities. However, regulations on key aspects such as tax matters are still lacking, and the level of compliance remains to be seen, as the first report after the new regulation was introduced is expected to be released during the second half of 2012.

This report has explained why these token measures are not enough. At a time of scarce aid resources and of fragile public budgets around the world, it is more important than ever to ensure that developing countries are not pushed to the brink of a new debt crisis as a result of an aggressive commercial strategy from European countries, and that aid resources are preserved for the purposes that they are intended for: eradicating poverty and giving world poor citizens a chance to a decent life.

Recommendations

To creditor governments:

- Put in place binding regulations to ensure that export credits are not peddled aggressively to developing countries responding to the commercial policies and needs of companies based in industrialised countries
 - Put in place responsible financing guidelines to apply to all financial support provided by ECAs as identified in the Eurodad Responsible Finance Charter;
 - Stop using aid money to subsidise export industries by reporting cancellation of export credit debt as ODA;
 - Request all companies and financial institutions backed by ECA guarantees to disclose reliable annual information related to sales, employees, profits made and taxes paid in the country as well as information regarding the beneficial ownership of any legal structure directly or indirectly related to the company;
 - Ensure that ECAs and projects they back are open to public scrutiny and, while protecting strictly necessary commercial information, make sure that the contraction process is transparent and participatory;
- Ensure that information regarding ECA backed projects and financial operations are available to the public on a disaggregated level, including on how social and environmental risks are included in their financial risk analysis;
 - Introduce full detailed financial reporting of ECAs (financial accounts) similar to the requirements of other financial institutions;
 - Based on an assessment of the origins, purposes and impacts of outstanding claims on developing countries that originate in export credit guarantees, creditor governments should take responsibility for past failures and cancel debts that have had significant negative impacts or did not benefit the citizens of the debtor country;
 - ECAs should cancel export credit debt at face-value, rather than at the nominal value that includes the original stock with the accrued arrears in payments of arrears and penalties;
 - Industrialised countries should consider separating the role of ECAs providing insurance, guarantees and credit, from the role of ECAs as debt collectors;

To the OECD export credit group:

- Include in the Common Approaches explicit reference to ECAs' obligation to protect human rights and other internationally recognised social, labour and environmental standards;
- Include in the Common Approaches a requirement of independent impact analysis of all ECA backed projects;
- Require open and disaggregated reporting by ECAs to ensure true accountability to citizens of home and host countries. This requires reporting on a level that allows public monitoring of whether ECAs comply with financial and CSR guidelines.

To the WB – IMF:

- Include a thorough analysis of private debt and other contingent liabilities in the debt sustainability analysis of developing countries debt;
- Support the introduction of a fair, transparent and independent debt resolution mechanism to replace Paris Club negotiations.

Developing countries are defined as International Development Association (IDA) countries and IDA blend countries as defined by the World Bank country classifications.⁸⁷ This gives a sample of the 80 developing countries that have access to IDA, the World Bank's fund for the poorest countries.

The term "IDA-only countries"

refers to countries that only have access to interest-free credits and/or grants from the International Development Association (IDA) of the World Bank, i.e. countries that do not have access to loans from the International Bank for Reconstruction and Development (IBRD) which are meant for middle-income countries. Concessional requirements are a standard feature of IMF-supported programs and apply to all sectors of activity.⁸⁸

The group of countries that are noted as being subject to the concessionality policy of IDA, includes all IDA-only countries which are receiving grants from IDA i.e. countries that are at moderate or high risk of debt distress according to IMF/World Bank Debt Sustainability Analysis, in addition to IDA-only countries which have benefited from the Multilateral Debt Relief Initiative.⁸⁹

Sample of ECAs assessed

Eurodad has looked at six European ECAs: Atradius DSB in the Netherlands, ECGD in the United Kingdom, EKN in Sweden, GIEK in Norway, ONDD in Belgium and SERV in Switzerland.

Challenges related to obtaining information from ECAs due to their general lack of transparency have

guided the choice of ECA sample. Some ECAs that were part of the initial Eurodad selection were left out of the sample because of past severe difficulties in accessing relevant data. The amount and type of information received from the six ECAs differ widely.

Data and sources

The main source used is the information provided by each ECA. Eurodad researchers requested all ECAs' assessed figures on:

guarantees issued;
recoveries;
outstanding debt;
debt relief from 2001-2010

The level of detail of the information provided and the period covered have varied between the different ECAs assessed.

Table 1: In order to calculate the share of total outstanding debt originating in export credit guarantees, the following sources were used:

- Belgium: Answer to written question to Mr. Wouter De Vriendt at the Treasury on 1 June 2011. 2010 figures used.
- The Netherlands: Overview by Jubilee Netherland⁹⁰ and email from the Finance Ministry on 30 August. End 2009 figures
- Norway: ECA figures provided by GIEK, figures as of end 2010. Total outstanding debt from the 2010 national budget, figures as of end March 2011.⁹¹ Please note that the debts of the Democratic Republic of Congo and Liberia were cancelled between end March and

end December 2010 and are hence excluded from the total debts owed to Norway.

- United Kingdom: Figures as of March 2010 made available to Jubilee Debt Campaign.

Table 2: In order to calculate debt relief, the The Query Wizard for International Development Statistics (QWIDS) database of the Organisation for Economic Co-operation and Development (OECD) was used to find each country's total debt relief.⁹² For the share of debt relief originating from export credits, the following sources were used:

- Belgium: OECD QWIDS database
- Netherlands: OECD QWIDS database
- Sweden: OECD QWIDS database
- Switzerland: SERV annual reports
- UK: DFID Statistics on International Development 2010 Annex 3, table 5⁹³

Due to differences in data available from the ECAs, figures from Belgium show data for HIPCs only, and figures for the United Kingdom show data for IDA only countries. The rest of the figures are based on data for IDA and blend countries. Due to changes in accounting procedures, figures from EKN and SERV are only available from 2006.

Figure 1: Figure 1 was produced from data from the OECD "Review of official export credit commitments to IDA-only countries (2001-2009)" and shows data for IDA only countries.

Note from the author: ECAs take no responsibility for accidental errors in data provided by them.

Exchange rates have been calculated using the currency converter of the European Commission Financial Programming and Budget⁹⁴. Exchange rates used are taken from December in each year.

1 The term "developing countries" in this report generally refers to the countries classified by the World Bank as IDA and blend countries. Please see Annex 1 for more information.

2 The result is based on data provided by five ECAs; Atradius DSB in the Netherlands, ECGD in the UK, EKN in Sweden, ONDD in Belgium and SERV in Switzerland. Data from GIEK in Norway has not been included since Norway does not report bilateral debt cancellation as ODA.

3 Figures include IDA only countries, not IDA blend countries, for which data is not available at the OECD

4 UN General Assembly (2011): Report of the independent expert on the effects of foreign debt and other related international financial obligations of States on the full enjoyment of all human rights, particularly economic, social and cultural rights <http://www.ohchr.org/EN/Issues/Development/IEDebt/Pages/Annual-Reports.aspx>

5 Eurodad (2009): Debt in the downturn, p. 8. http://www.eurodad.org/uploadedFiles/Whats_New/Reports/Eurodad%20Debt%20discussion%20paper%20Annual%20Meetings%20Sep09_final.pdf?n=2641

6 IMF (2010): Preserving debt sustainability in low-income countries in the wake of the global crisis. www.imf.org/external/np/pp/eng/2010/040110.pdf

7 IMF (2011): World Economic Outlook, World Economic Outlook: Slowing Growth, Rising Risks, p. 77 <http://www.imf.org/external/pubs/ft/weo/2011/02/index.htm>

8 IMF (October 2011): List of LIC DSAs for PRGT-Eligible Countries As of October 7, 2011 <http://www.imf.org/external/pubs/ft/dsa/dsalist.pdf>

9 These countries are Afghanistan, Burkina Faso, Burundi, Democratic Republic of Congo, The Gambia, Guinea-Bissau, Haiti and Sao Tomé and Príncipe.

10 See note 8.

11 These countries are Antigua and Barbuda, Barbados, Grenada, Guinea-Bissau, Guyana, Jamaica, St. Kitts and Nevis and the Seychelles.

12 International Policy Centre for Inclusive Growth (2011): Addressing Unsustainable Debt in Small Island Developing States

13 For examples, please see notes 19-22 and Aktion Finanzplatz Schweiz (2009): How to Challenge Illegitimate Debt <http://www.aktionfinanzplatz.ch/pdf/Buch-d.pdf>

14 See for instance the Guardian (2003) on arms sales to Iraq here <http://www.guardian.co.uk/world/2003/feb/28/iraq.politics?INTCMP=SRCH> and here <http://www.guardian.co.uk/politics/2003/mar/06/uk.iraq2?INTCMP=SRCH> and Jubilee Debt Campaign (2011) on arm sales to Mubarak, Egypt, here: <http://www.jubileedebtcampaign.org.uk/Vince-3720Cable3727s3720department3720demanding3720payment3720for3720arms-3720sales3720to3720Mubarak+7296.twl>

15 For examples, please see notes 19-22 and Aktion Finanzplatz Schweiz (2009): How to Challenge Illegitimate Debt <http://www.aktionfinanzplatz.ch/pdf/Buch-d.pdf>

16 Eurodad (2011): Eurodad Responsible Finance Charter <http://www.eurodad.org/whatsnew/reports.aspx?id=4562>

17 Jubilee Debt Campaign (2011): The Department for Dodgy Deals <http://www.jubileedebtcampaign.org.uk/REPORT-373A3720The3720Department3720for-3720Dodgy3720Deals+6700.twl>

18 Sweden is not included in this table because the government has not provided the total amount of debts owed by developing countries. In Switzerland, government and ECA staff provided Eurodad with the requested data; however, a comparison of the figures received was not possible due to differences in the time periods covered by the data provided.

19 Jubilee Debt Campaign (2011): The Department for Dodgy Deals, see note 16.

20 Eurodad and members (2007): Skeletons in the Cupboard: Illegitimate Debt Claims of the G7 http://www.eurodad.org/uploadedFiles/Whats_New/Reports/Eurodad%20Skeletons-CupboardG7Report.pdf

21 Information provided by the Spanish ECA CESCE

22 SLUG (2010): Is Indonesia's debt to Norway illegitimate? http://www.slettgjeld.no/filestore/indonesiarapport_Web.pdf

23 CRBM (2009): The Daule Peripa project: Italy's responsibilities in Ecuador's illegitimate debt http://www.eurodad.org/uploadedFiles/Whats_New/Reports/The%20Daule%20Peripa%20Project_CRBM.pdf

24 Abildsnes, Kjetil (2007): Why Norway took Creditor Responsibility - the case of the Ship Export campaign <http://www.slettgjeld.no/filestore/eng.pdf>

25 Ministry of Foreign Affairs, Norway (2006): Cancellation of debts incurred as a result of the Norwegian Ship Export Campaign (1976-80) http://www.regjeringen.no/en/dep/ud/dok/rapporter_p/planer/rapporter/2006/Cancellation-of-debts-incurred-as-a-result-of-the-Norwegian-Ship-Export-Campaign-1976-80.html?id=420457

26 For more information, please see SLUG (2011): The Norwegian Debt Audit from an International Perspective http://www.slettgjeld.no/filestore/TheNorwegianDebtAudit_lowres.pdf

27 Jubilee Debt Campaign (2011): Uncovering Britain's Debt Secrets <http://www.jubileedebtcampaign.org.uk/BRIEFING373A3720Uncovering3720Britain3727s3720Debt3720Secrets+7160.twl>

28 This average is based on the information available from five European countries. Due to changes in accounting procedures, figures from EKN and SERV are only available from 2006.

29 Norway is not included because the government does not report bilateral debt relief as ODA and hence cancellation of ECA debt does not influence the aid budget.

30 UNCTAD (2008): The emerging of a multilateral forum for debt restructuring: The Paris Club http://www.unctad.org/en/docs/osgdp20087_en.pdf

31 IBIS Analyse, (2011): Sudans gæld -en lukrativ forretning for Danmark <http://www.ulusandsnyt.dk/nyhed/04-07-11/ibis-i-analyse-sudans-gaeld-en-lukrativ-forretning>

32 DFID Statistics on International Development (2010): Table 4: Total DFID and UK Debt Relief 2005/06-2009/10, footnote 2. Can be downloaded here <http://webarchive.nationalarchives.gov.uk/+http://www.dfid.gov.uk/About-DFID/Finance-and-performance/Aid-Statistics/Statistic-on-International-Development-2010/SID-2010-Annex-3---Debt-Relief/>

33 World Bank (2007): Aid architecture: An overview of the main trends in official development assistance flows <http://siteresources.worldbank.org/IDA/Resources/Seminar%20PDFs/73449-1172525976405/3492866-1172527584498/Aidarchitecture.pdf>

34 OECD website (2010): Development aid rose in 2009 and most donors will meet 2010 aid targets. Accessed 10 August 2011. <http://www.oecd.org/document/0,3746,>

en_2649_34447_44981579_1_1_1_1,00.html

35 Please see Eurodad (2009): A fair and transparent debt work-out procedure: 10 civil society principles <http://www.eurodad.org/whatsnew/reports.aspx?id=3946>

36 IDA and IMF (2010): Sudan Joint World Bank/IMF 2009 Debt Sustainability Analysis, p 2 <http://www.imf.org/external/pubs/ft/scr/2010/cr10256.pdf>

37 Ibid.

38 According to the Norwegian Ministry of Foreign Affairs at a meeting with Norwegian NGOs September 2011.

39 Ibis Analyse (2011), see note 30.

40 According to data made available to Jubilee Debt Campaign.

41 According to data provided by SERV

42 IBIS Analyse, (2011): Sudans gæld -en lukrativ forretning for Danmark

43 Eurodad (2009): Debt in the downturn, p. 8.

44 Figures include IDA only countries, not IDA blend countries, for which data is not available at the OECD

45 OECD (2001-2009): Review of official export credit commitments to IDA-only countries

46 Data provided by GIEK

47 Nettavisen (23.11.2008): 50 milliarder i økte bevilgninger <http://www.nettavisen.no/okonomi/article2418168.ece>

48 IMF (2011): Preserving debt sustainability in low-income countries in the wake of the global crisis

49 Based on information from the sample countries in this research.

50 End January exchange rate

51 Jubilee Debt Campaign (2010): Private debt, Public pain: What the Third World debt crisis means for Europe <http://www.jubileedebtcampaign.org.uk/?id=6671>

52 IMF (2011): Modernizing the Framework for Fiscal Policy and Public Debt Sustainability Analysis <http://www.imf.org/external/np/pp/eng/2011/080511.pdf>

53 Both ENDS (2008): Export Credit Debt. How ECA support to corporations indebts the world's poor. <http://www.bothends.org/index.php?documentId=32>

54 Which bears the title "Independent Expert on the effects of foreign debt and other related international financial obligations of States on the full enjoyment of all human rights, particularly economic, social and cultural rights"

55 Goldzimer, Aaron (2003): Worse Than the World Bank? Export Credit Agencies-The Secret Engine of Globalization <http://www.foodfirst.org/node/50>

56 UN (2011): Report of the Independent Expert on the effects of foreign debt and other related international financial obligations of States on the full enjoyment of all human rights, particularly economic, social and cultural rights. A/66/271 <http://www.ohchr.org/EN/Issues/Development/IEDebt/Pages/AnnualReports.aspx>

57 See for example Council of the European Union (2009): Council conclusions on Policy Coherence for Development http://ec.europa.eu/europeaid/where/asia/regional-cooperation/support-regional-integration/asm/ documents/council_conclusions_17th_november_2009.pdf

58 For more information, please see Sweden: Government Communication 2005/06:204 Sweden's Global Development Policy <http://>

regeringen.se/sb/d/108/a/92462

Norway: NOU 2008:14: Coherent for Development? http://www.regjeringen.no/en/dep/ud/Documents/Reports-programmes-of-action-and-plans/Reports/2008/hou_coherent.html?id=528066

59 European Parliament legislative resolution of 13 September 2011 on the proposal for a regulation of the European Parliament and of the Council on the application of certain guidelines in the field of officially supported export credits. Available at <http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P7-TA-2011-0363&language=EN&ring=A7-2010-0364#BKMKD-38>

60 Ibid.

61 See for instance the European Commission Directorate General for Trade: http://ec.europa.eu/trade/creating-opportunities/trade-topics/export-credits/index_en.htm

62 Jubilee Debt Campaign (2011): The Department for Dodgy Deals <http://www.jubileedebtcampaign.org.uk/REPORT-373A3720The3720Department3720for-3720Dodgy3720Deals+6700.twl>

63 See for example Goldzimer, Aaron (2003): Worse Than the World Bank? Export Credit Agencies-The Secret Engine of Globalization

64 See Eurodad (2011): Eurodad Responsible Finance Charter <http://www.eurodad.org/whatsnew/reports.aspx?id=4562>

65 For more information, please see Revised Council Recommendation On Common Approaches on the Environment And Officially Supported Export Credits the OECD [http://www.oecd.org/officialdocuments/displaydocumentpdf/?cote=TAD/ECG\(2007\)9&doclanguage=en](http://www.oecd.org/officialdocuments/displaydocumentpdf/?cote=TAD/ECG(2007)9&doclanguage=en)

66 See for instance letters from ECA-Watch to the OECD Export Credit Group at the OECD webpage. Correspondence with Stakeholders: http://www.oecd.org/document/3/0,3746,en_2649_37431_42375491_1_1_1_37431,00.html

67 Exceptions are the Japanese JBIC and the Canadian EDC that both have a sort of complaints mechanism.

68 OECD (2007): Statement of Principles <http://www.oecd.org/trade/xcred/sustainablelending/statement/>

69 OECD Working Party on Export Credits and Credit Guarantees (2008): Principles and guidelines to promote sustainable lending practices in the provision of official export credits to low-income countries (April 2008 revision) <http://www.oecd.org/officialdocuments/displaydocumentpdf/?cote=TAD/ECG%282008%2915&doclanguage=en>

70 Countries subject to the concessionality policy of IDA include all IDA-only countries that are receiving grants from IDA i.e. countries that are at moderate or high risk of debt distress according to IMF/World Bank Debt Sustainability Analysis, in addition to IDA-only countries which have benefited from the Multilateral Debt Relief Initiative. (Definition provided in the guidelines)

71 Jubilee Debt Campaign (2011): UK considering loan to indebted Sri Lanka <http://www.jubileedebtcampaign.org.uk/UK3720considering3720loan3720to3720indebted-3720Sri3720Lanka+7238.twl>

72 UN (2011): Report of the Independent Expert on the effects of foreign debt and other related international financial obligations of States on the full enjoyment of all human rights, particularly economic, social and cultural rights. See note 50

73 Ibid.

74 Ibid.

- 75 European Parliament legislative resolution of 13 September 2011 on the proposal for a regulation of the European Parliament and of the Council on the application of certain guidelines in the field of officially supported export credits. See note 53
- 76 Hollingshead, Ann (2010): Privately Held, Non-Resident Deposits in Secrecy Jurisdictions. Global Financial Integrity http://www.gfintegrity.org/index.php?option=com_content&task=view&id=297&Itemid=142
- 77 See the Opinion of the Committee on Development (27.10.2010) for the Committee on International Trade on the proposal for a decision of the European Parliament and of the Council on the application of certain guidelines in the field of officially supported export credits (COM(2006)0456 - C7-0050/2010 - 2006/0167(COD), amendment 9 <http://www.europarl.europa.eu/sides/getDoc.do?type=REPORT&reference=A7-2010-0364&language=EN>
- 78 For more details, please see OECD (2006): Recommendation on Bribery and Officially Supported Export Credits <http://www.oecd.org/officialdocuments/displaydocumentpdf/?cote=td/ecg%282006%2924&doclanguage=en>
- 79 European Parliament Committee on International Trade (2010): Draft report the proposal for a decision of the European Parliament and of the Council on the application of certain guidelines in the field of officially supported export credits. 2006/0167(COD). <http://www.europarl.europa.eu/sides/getDoc.do?type=COMPARL&mode=XML&language=EN&reference=PE452.514>
- 80 Some ECAs provided detailed breakdown of all or some of these elements upon request
- 81 The OECD Arrangement on Officially Supported Export Credits can be found here: [http://www.oecd.org/officialdocuments/displaydocumentpdf/?cote=tad/pg\(2011\)13&doclanguage=en](http://www.oecd.org/officialdocuments/displaydocumentpdf/?cote=tad/pg(2011)13&doclanguage=en)
- 82 EKN (2007): Environmental policy and guidelines for issue of EKN guarantees
- 83 Atradius Dutch State Business (2011): 2010 Sustainability report, p. 4 http://www.atradiusdutchstatebusiness.nl/Images/dsben/ATR_DSB_sustainability%202010_tcm1009-145519.pdf
- 84 European Parliament legislative resolution of 13 September 2011 on the proposal for a regulation of the European Parliament and of the Council on the application of certain guidelines in the field of officially supported export credits (COM(2006)0456 - C7-0050/2010 - 2006/0167(COD) Annex 1.1. See note 53.
- 85 The result is based on data provided by five ECAs, please see note 2
- 86 Figures include IDA only countries, not IDA blend countries, for which data is not available at the OECD
- 87 For the World Bank Country and Lending Groups, please see <http://data.worldbank.org/about/country-classifications/country-and-lending-groups>
- 88 Definition according to the OECD (2007): Principles and Guidelines to Promote Sustainable Lending Practices in the Provision of Official Export Credits to Low-Income Countries, note 5. [http://www.oecd.org/officialdocuments/displaydocumentpdf/?cote=TAD/ECG\(2008\)15&doclanguage=en](http://www.oecd.org/officialdocuments/displaydocumentpdf/?cote=TAD/ECG(2008)15&doclanguage=en)
- 89 Ibid.
- 90 www.jubileenederland.nl/de-cijfers
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Eurodad

The European Network on Debt and Development is a specialist network analysing and advocating on official development finance policies. It has 54 member groups in 19 countries. Its roles are to:

- research complex development finance policy issues
- synthesise and exchange NGO and official information and intelligence
- facilitate meetings and processes which improve concerted advocacy action by NGOs across Europe and in the South.

Eurodad pushes for policies that support pro-poor and democratically-defined sustainable development strategies. We support the empowerment of Southern people to chart their own path towards development and ending poverty. We seek appropriate development financing, a lasting and sustainable solution to the debt crisis and a stable international financial system conducive to development.

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