Unclassified **TAD/ECG(2008)15**

Organisation de Coopération et de Développement Économiques
Organisation for Economic Co-operation and Development **22-May-2008**

English - Or. English

TRADE AND AGRICULTURE DIRECTORATE
TRADE COMMITTEE

TAD/ECG(2008)15
Unclassified

Working Party on Export Credits and Credit Guarantees

PRINCIPLES AND GUIDELINES TO PROMOTE SUSTAINABLE LENDING PRACTICES IN THE PROVISION OF OFFICIAL EXPORT CREDITS TO LOW INCOME COUNTRIES (APRIL 2008 REVISION)

PURPOSE OF DOCUMENT: This document contains the revised text of the Principles and Guidelines for Sustainable Lending to Low-Income Countries agreed by the Members of the Working Party on Export Credits and Credit Guarantees (ECG) at their 114th Meeting held on 22 April 2008.

LINK TO PROGRAMME OF WORK AND BUDGET: Output Results 8R311005

Contact: Mr. Michael GONTER, Export Credits Division, Trade and Agriculture Directorate, OECD
Tel: +33 (0)1 45 24 18 22; Fax: +33 (0)1 44 30 61 58
E-mail: michael.gonter@oecd.org; cc: xcred.secretariat@oecd.org

JT03246229

English - Or. English

PRINCIPLES AND GUIDELINES TO PROMOTE SUSTAINABLE LENDING PRACTICES IN THE PROVISION OF OFFICIAL EXPORT CREDITS TO LOW-INCOME COUNTRIES (APRIL 2008 REVISION)

1. The financial environment for low-income countries has changed significantly over the past few years. Thanks to increased official financing flows, successive rounds of debt relief, favourable commodity markets and the impact of financial globalization, external financing opportunities -- including non-concessional official export credits -- for low-income countries (LICs) have both expanded and diversified. While this is welcome, history shows that borrowing booms can end up hindering development if resources are not well used.

2. Although debt relief has significantly reduced debt ratios in many LICs, many other economic circumstances remain largely unchanged and these countries face real challenges in terms of budgetary, project, and debt management capacities. Most outlays related to the Millennium Development Goals (MDG) do not, by nature, generate sufficient cash flow to the government in the near term to service official non-concessional debt. Accordingly, Members of the Working Group on Export Credits and Credit Guarantees (ECG) acknowledge that concessional lending generally remains the most appropriate source of external finance for most LICs.

3. Bearing the above in mind, ECG Members agree that the provision of official export credits to public buyers[1] and publicly guaranteed buyers[2] in LICs should reflect Sustainable Lending practices, *i.e.* lending that supports a borrowing country's economic and social progress without endangering its financial future and long-term development prospects. In consequence, such lending should, *inter alia*, generate net positive economic returns[3], foster sustainable development by avoiding unproductive expenditures[4], preserve debt sustainability and support good governance and transparency.

4. In order to promote coherent government policies as donors and as shareholders of international financial institutions and to ensure that official export credits to LICs are consistent with Sustainable Lending practices, ECG Members agree to apply the following principles to obtain reasonable assurances

---

1 Public buyers comprise the central, regional and local governments, and public enterprises whose debt obligations would be assumed by the government in the case of a default. In order to determine the status of a buyer in a country that is only subject to IMF concessionality requirements, Members may take recourse to the list of public institutions defined case by-case in the context of IMF-supported programs for concessionality. For buyers in other LICs, Members are encouraged to consult with the World Bank and IMF in order to determine their status

2 This refers to any buyer whose repayment obligation is guaranteed by a public entity as defined above.

3 This refers to expenditures whose overall positive impacts on a country's economy are expected to exceed their financing costs.

4 Unproductive expenditure generally refers to transactions that are not consistent with a country's poverty reduction and debt sustainability strategies and do not contribute to their social and/or economic development.

that their credit decisions are not likely to contribute to debt distress in the future in relation to any official export credit with a repayment term of one year or more:

(a) ECG Members will observe any applicable minimum concessionality requirements of LICs to the IMF and to IDA[5]; these requirements are intended to help reduce debt distress risks.

(i) A consolidated list of countries that are subject to concessionality requirements from the IMF and/or IDA will be maintained and updated on a regular basis.[6]

(ii) As a result, Members will provide support for non-concessional credits only in as far as this will allow borrowers (to continue) to meet the relevant concessionality requirements. To help with this process, the IMF and the World Bank have established dedicated mailboxes to channel inquiries on their concessionality requirements by ECG members, and quick responses would be expected.

(b) For those IDA-only countries without concessionality requirements to the IMF and to IDA[7], ECG Members agree that the provision of official export credits should take into account the results of the most recent IMF/World Bank country-specific debt sustainability analyses (DSAs) conducted within the joint Debt Sustainability Framework.

(c) Good governance is a key ingredient of sustainable development while transparency reduces the risks of misuse of public resources. ECG Members will seek assurances from government authorities in the buyer country[8] for any transaction involving a public or publicly guaranteed buyer in a IDA-Only country or a country with an IMF concessionality requirement with a credit value exceeding SDR five million and a repayment term of two years or more that the project/expenditure is in line with the country's borrowing and development plans (*e.g.* consistent with its Poverty Reduction Strategy Paper [PRSP] and/or the budget) following the procedures set forth by the national legislation (*e.g.* Parliament approval, where required). In line with previous principles, ECG Members also will refrain from providing support for unproductive expenditures. In terms of transparency, ECG Members will continue to:

---

5 Countries subject to the concessionality policy of IDA include 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. 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. Concessionality requirements are a standard feature of IMF-supported programs and apply to all sectors of activity.

6 The list of countries that are currently subject to concessionality requirements from the IMF and/or IDA is subject to change; the prevailing list is available on the OECD internet site (in Table 1) at the following address: http://www.oecd.org/tad/xcred/sustainable-lending/.

7 The list of the IDA-only countries without concessionality requirements to the IMF and to IDA is subject to change; the prevailing list is available on the OECD internet site (in Table 2) at the following address: http://www.oecd.org/tad/xcred/sustainable-lending/.

8 The buyer government authorities in the buyer country are those authorities that, according to the buyer specific national legislation, are responsible for the country's development and borrowing plans.

(i) provide data on transactions supported to IDA-Only countries for review on an annual basis, in order to, *inter alia*, assess ECG Members' success towards ensuring that official export credits to low-income countries are not provided for unproductive purposes and are consistent with the aims of the Debt Sustainability Framework for these countries, and

(ii) via the OECD Secretariat, share such data with the IMF and World Bank staffs on an ongoing basis.

5. ECG Members stress that the Principles will bring their full benefits only if all creditors act in broad harmony together. In this regard, ECG Members invite non-OECD Members to adopt these principles and to participate in further discussions on their practical implementation and the ongoing review of experience in their application. In addition, ECG Members agree to share and discuss information amongst themselves, the World Bank and the IMF and any non-OECD Member who applies the principles on their implementation and any problems raised by possible non-adherence to them. ECG Members call on the IMF and the World Bank to pursue their own outreach efforts to non-OECD Members and private creditors to ensure that their lending practices are consistent with debt sustainability.