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# How Close the Aid-Community and ECA Universes Are

Ferdinand Schipfer

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While backgrounds and motives of Export Credit Agencies and Development Institutions may differ, the countries, projects and objectives they are working on are very often the same. This calls for much more and better coordinated co-operation.

There are more similarities between the multilateral development bank (MDB)/ development finance institution (DFI) and export credit agency (ECA) universes than meet the eye. While I have been striving for many years to bring together the aid community with traditional credit financing institutions, I consider the time for closer co-operation is now more opportune than ever. Admittedly, the public perception of export credit agencies is not based on in-depth knowledge of them. If ECAs are known at all, their reputation hovers somewhere between 'sometimes helpful' and 'problematic in one way or the other'. I do not want to deny that there are some ECA portfolios heavy on defence, some support environmentally questionable projects and others might even burden their national budgets.

What all ECAs have in common is some mistrust on the part of MDBs, international financial institutions (IFIs), DFIs and civil society: ECAs are supposed to try to avoid international competitive bidding and to blindly favour their national companies, thus being 'egoistic trade distorters'. Not deservedly so! Very much encouraged by the present discussions within the OECD, but also by several personal encounters, I would like to demonstrate how close the 'two universes' are.

## The two universes

What I have gleaned from the ongoing debates and efforts is the beginning of an increase in co-operation and co-financing between the aid world and ECAs, (undoubtedly) to the benefit of suppliers or foreign sponsors but even more to the advantage of countries, institutions and companies investing in infrastructure or industrial projects or attracting foreign direct investors. True, the broad objective of ECAs is support for their national companies whether they are suppliers or overseas stakeholders. However, putting aside this motive and looking at the regions or projects supported, it is fair to state that, in fact, ECAs are also a sort of development institution: The countries, the partners and the projects we work on are often the same as those of aid institutions in a broad sense! This applies to both export credit activities and overseas investment insurance.

## Export credit activities

Mandated by a European Union Member State Government, OeKB is confined to supporting only so-called non-marketable risks, with the following two consequences: all short-term business with trading partners in better-off countries (by and large OECD member states) is catered for by the private insurance market. OeKB's activities, in contrast, focus on medium and long-term credits for exports to newly industrialised countries, to transition economies and to emerging markets. Business is basically split into infrastructure and commercial industrial transactions.

## Infrastructure

Very much in keeping with Austria's industrial structure and main capabilities, a major portion of OeKB's portfolio is the supply of goods and services for basic infrastructure investments: energy generation and distribution, health, railway infrastructure or environmental projects – all focal points of MDBs and IFIs.

## Tied aid and soft loans

OeKB's 'development institution' character is all the more pronounced as, like some other ECAs, we manage a special credit programme called 'soft loans'. In essence, soft loans are deliberately subsidised funds to make 'commercially non-viable' infrastructure projects possible in emerging regions. As opposed to market-based 'hard' loans these credit facilities carry 'sweetened' terms. They comprise grants and subsidies resulting in, on a net present-value basis, concessional levels of at least 35 per cent and at least 50 per cent for LDCs respectively. According to OECD consensus rules, such loans may be made available only to developing countries. The inhabitants' gross national income per capita must not be higher than close to US\$4,000 per annum. The object of soft loans is assistance for not-that-well-off countries and projects and, at the same time, promotion of Austrian exports including Austrian value-added.

The Austrian practice is to extend loans with very long tenures, namely, 20 or 25 years, and without any interest payment obligation. Occasionally, we also extend mixed credits, meaning a combination of a small grant (e.g. 10/20 per cent) and a concessional loan. In view of such long credit periods, the benefiting borrowers must be the best-rated partners in a given country, namely, the Ministry of Finance. The outstanding Austrian volume, as of today, is roughly EUR 2.5 billion, that is, approximately 10 per cent of OeKB's overall portfolio. The regional focus is Asia with sharp increases in African countries during the last decade. The sector hit list is topped by health and vocational training projects, communication and transportation infrastructure, small renewable energy, water treatment and other environmental infrastructure projects. Stringent monitoring report requirements over several years after the starting point of a credit, forcing the involved supplier not only to deliver his goods and services properly but also to cater for post-implementation project management – including reasonable training of local people and the provision of spare parts, if necessary – are part of the game.

#### Industrial/commercial transactions

OeKB's non-infrastructure export credit activity supports commercially viable investments in a variety of industrial fields. In MDB and DFI terminology, this is nothing more than 'private sector initiatives', most typically resulting in the strengthening of emerging economies, an increase in local employment, enhanced inclusion of companies in global supply chains or in the transfer of technical know-how.

#### Local cost

Whether supporting infrastructure or straightforward commercial projects, ECAs are encountering more and more requests by host country governments to raise the participation of local companies. The catchword is 'localisation'; it is brought into play not only in Brazil, Russia or Iran. Having tried tirelessly to increase the multi-layered skills of their workforce, having facilitated the purchase of production facilities in various sectors, and having attracted foreign direct investors (often with preferential tax treatment), many governments understandably insist on increasing involvement of their local capacities in larger investments. The current discussions within the OECD on modifying the local-cost rules (allowing for an inclusion of high local contributions in ECA-covers) are clear proof of OECD-ECA objectives to strengthen local economies. Such moves will further increase opportunities for project ventures in evolving economies and, hopefully, more co-operation between aid institutions, private sector initiatives and ECAs.

#### Overseas investment insurance

In this field, ECAs most typically provide political risk insurance (PRI). It is evident that we are talking about investments in somewhat difficult parts of the world. By buying companies,

by establishing joint ventures or by building new production facilities in emerging countries, investors provide equity and funds, build plants and transfer know-how, thus building a host country's economic capacities. Do you see similarities with the goals of the World Bank, Asian Development Bank, African Development Bank, European Bank for Reconstruction and Development, Asean Infrastructure Bank ...?

#### ECA financing

OeKB is, admittedly, only one of the few (but growing number of) ECAs that not only provide risk insurance but also very attractive financing. In our case, we refinance commercial banks that we draw on for export and investment projects in remote regions. With our financing scheme, buyers and investors all over the world benefit from the Republic of Austria's excellent credit rating. In a recent meeting, a representative from a landmark MDB termed OeKB's 'normal', non-subsidized long-term financing conditions as 'concessionary' financing by his institution's standards.

#### Sustainable development goals

In their daily work, it has become customary for OECD ECAs to take into account – explicitly or implicitly – several SDGs: checking a project's environmental impact is standard. Potentially positive bearings on local living conditions, exceptional humanitarian aspects, potential import substitution effects or an increase in local employment are all factors that favourably influence ECA underwriting decisions.

(By no means do I advocate databased benchmarking ECA contributions against SDG for each and every transaction supported! After all, we are service providers for exporting or investing companies or banks that simply do not issue relevant numbers if they, let us say, export or finance spare parts to a hospital in India.)

I could mention many more commonalities and concept similarities between the two worlds (at least in Austria) like OeKB's general policy not to support (unproductive) defence projects, OeKB's 100 per cent share in the Austrian Development Bank, our constant exchange of ideas with (the state-owned company) Austrian Development Aid including occasional co-operation or regular contact with other aid community stakeholders.

#### Co-operation experience

While we are seeing intensive co-financing activities with other ECAs and have a huge multi-sourcing portfolio together with our ECA sister organisations, co-operation ventures with MDBs, IFIs or DFIs are relatively rare. As we know from various discussions within the Berne Union, this phenomenon is by no means confined to Austria. If development institution and ECA collaboration does take place on a given project, it is very often only a rather loose, uncoordinated working side by side that includes the double assessment of environmental, technical or commercial aspects. This is a pity! Only every

now and then do we witness very close co-operation – not to mention the ideal, old EBRD concept ‘ECLAT’ (export credit leveraged loan technique) which managed to combine an international competitive bidding process with risk sharing between EBRD and ECAs.

## Conclusions

Charitable assistance in sectors like healthcare or education and long-term loans partly on sweetened terms for infrastructure (like energy generation, water supply, transportation or environmental protection) must be complemented by private sector development to improve self-sufficiency and integration of emerging economies into international supply chains. In view of the global need, but also in view of the giant threats posed by a changing climate, we must succeed in overcoming existing co-operation hurdles, we must increase the exchange of information about potential

projects and we must facilitate more cross-acquisition and joint projects.

Considering the enormous combined capacities of MDBs, IFIs, DFI and ECAs and taking into account the ongoing convergence of our aims, concepts and procedures, I am optimistic that we have a good chance of moving forward fast. While our institutional backgrounds and our motives may differ, the countries, projects and objectives we are working on are very often the same. Finally, I hope that some readers of my commentary can join me in questioning the legitimacy of speaking about universes in the plural, perhaps re-phrasing this article’s title and talking about a *single* universe of project opportunities.

## Author Information

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