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Silent Dealings, Deafening Impacts

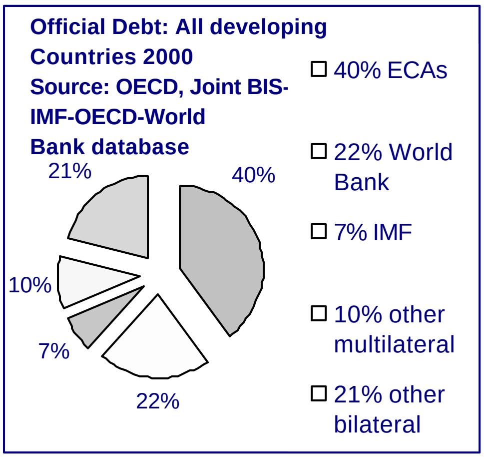
The role of Export Credit Agencies in generating developing country debt.

By Kate Walsh

Activists and campaigners all over the world have been highlighting the crippling debt in developing countries generated by those terrible twins on the financial block, the World Bank and the International Monetary Fund (IMF). As protests have erupted internationally over their role, there is a little known but equally damaging player lurking in the shadows – export credit agencies (ECAs).

You may not know much about them but ECAs are now responsible for more than half of the developing country debt to public institutions.

That's more than the World Bank and IMF combined.



What are they?

ECAs have emerged as collectively the largest public international financial institutions in the world today. They provided around US$510 billion in support to exporters in the financial year 2000/2001. To give a sense of their growing influence, the Japanese ECA, JBIC, lends approximately the same amount as the World Bank.

ECAs are government-backed corporations (like the ABC) that assist domestic companies exporting overseas. They do this by absorbing the risk that exporters take by providing loans to overseas companies to purchase goods or by providing insurance against political instability or non-payment. They also guarantee commercial bank loans.

What's wrong with ECAs?

ECAs have no development mandate despite being the largest source of public finance in the developing world. Their sole purpose is to assist companies from their own countries export and invest abroad. However, their impact on people and the environment of developing countries cannot be underestimated.

Despite being government-backed corporations, most ECAs have no environmental or social standards unlike other publicly-backed international financial institutions such as the World Bank. They commonly fund projects such as coal power plants, large scale dams, mines, road development in pristine tropical forests, gas and oil pipelines, forestry and plantation schemes, weapons and nuclear power plants.

ECAs financially support projects that most other public international financial institutions won't touch.

Take for example, the largest power project in the world, the Three Gorges Dam on China's Yangtze River, for which five ECAs have negotiated finance. This project was rejected by the World Bank because of the massive environmental impacts and the forced resettlement of up to 1.9 million people. Or Australia's own ECA, the Export Finance and

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Insurance Corporation (EFIC) which lent the Indonesian Government money to buy Australian defence equipment in 1997.

ECAs cloak themselves in a shroud of secrecy with minimal reporting and limited access to their dealings because of 'commercial-in-confidence' legislation. This lack of transparency means that it is difficult to find out what they are financing and when.

EFIC's GREATEST HITS

Year	Facility	Country	Project
1978	Loan $4.2 Million	PNG	Bougain-ville Copper Mine
1991	Loan (Line of Credit) $212 million	PNG	Ok Tedi Gold Mine
1995/6	Political Risk Insurance	PNG	Lihir Gold Mine
1995	Loan $6,430,128	Tibet	Telecom-munications
1997	Loan $16, 179.711	China	Nuclear exports
1997	Loan $1,690, 554 Loan $4,296,460 Loan $3,764,230	Indonesian governmen t	Defence exports
1999	Loan $5,119,922	Indonesian governmen t	Defence exports
2003	Political Risk Insurance	Laos	Sepon Gold Mine

Source: EFIC Annual Reports 1978 – 2003

How do ECAs generate debt?

The easiest way that ECAs generate debt is when they lend government money to buy goods, or guarantee or insure commercial bank loans to a developing country. The money the developing country borrows is then added to their bilateral (or 'official') debt.

There is, however, a more insidious way that ECAs generate debt. This is through the use of sovereign guarantees.

If a company is exporting overseas to a developing country it will get a loan for the overseas buyer or insure itself for non-payment or political risk from its government's ECA. In this way the ECA takes on the risk of the exporter.

The exporter may also have to secure one more deal. The ECA often insists that the developing country government also provide a guarantee to the ECA. This means that the host government agrees to take on any risk if the project fails. If something goes wrong with the project such as the private buyer in the developing country doesn't pay, the ECA will cover the losses to the domestic company but then collect that loss from the host developing country government. The private company wins, the ECA also wins but the loss or debt is added to the bilateral debt of the developing country government.

What this means is that private debt is turned into public debt. In effect, Northern governments and companies are effectively forcing people in the South to subsidise their exports, the chief beneficiaries being the shareholders of some of the richest companies in the world. In the end it's the poor who pay the price.

What makes ECA debt special?

The debt that ECAs generate is different to other types of debt such as that owed to the World Bank. Since ECAs have no development mandate, all their loans are on non-concessional terms, that is they have to be repaid at commercial rates.

In possessing no environmental or social standards, most ECAs can lend money to whoever they like for whatever they like. The non-transparent nature of ECAs makes it difficult to find out where the debt is generated and for what type of project.

Australia's ECA – the Export Finance Insurance Corporation (EFIC)

EFIC is responsible to the Minister for Trade, Mark Vaile, and comes under the Department of Foreign Affairs and Trade. It is small in comparison to the big ECAs in Japan, USA, France and the UK, but has financed its fair share of environmentally and socially disastrous projects. Last year it supported A$7.2 billion worth of Australian exports.

Money owed to Australia by developing countries at 30 August 2002 in Australian dollars.		Percentage of this debt that is EFIC related
Country	**Total in AUD**	**%**
Bangladesh	$11,749,583	100%
Bhutan	$429,174	100%
China	$410,082,814	100%
Cook Is	$291,434	100%
Cuba	$9,652,140	100%
Egypt	$186,847,839	100%
Ethiopia	$8,527,635	100%
India	$64,654,107	100%
Indonesia	$1,611,511,474	100%
Iraq	$717,131,474*	100%
Nepal	$8,332,669	100%
Nicaragua	$6,279,627	100%
Papua New Guinea	$28,506,592	12.6%
Philippines	$274,118,585	100%
Russia	$636,051,956	100%
Solomon Is	$13,454,659	100%
Sri Lanka	$64,696,378	100%
Thailand	$10,080,098	100%
Tonga	$1,354,870	100%
Vietnam	$8,309,308	100%
United Arab Emirates	$1,182,180	100%
** plus accrued interest*		
Source: Question on Notice to Australian Federal Parliament: Question No. 684 Senator Brown asked the Minister representing the Minister for Foreign Affairs, upon notice, on 24 September 2002.		

Due to a strong campaign by non-government organisations in 1999/2000, EFIC introduced environmental guidelines.

These guidelines do not take into account the debt or development impacts of EFIC's work.

The first project has just passed through these guidelines, the Sepon Gold and Copper Mine in Laos. Developed by Australian company Oxiana and partly owned by mining giant Rio Tint, it has been the target of an international campaign due to the lack of environmental safeguards and community development. The fact that this mine has passed the test of EFIC'S environmental guidelines raises serious questions about their effectiveness.

EFIC has generated debt in a number of countries and the percentage of debt owed to Australia that is generated by EFIC is 95.4 per cent.

How can we change this?
There is no question that export credits contribute to a country's overall debt burden. AID/WATCH is calling for:

1. Cancellation of all debt
Cancel all debt owed to EFIC by developing countries.

2. Review past projects
Start an immediate review of EFIC's projects that have generated debt and make the findings of this review public.

3. Implementation of guidelines to screen new projects
Implement transparent, public guidelines, developed with wide civil society consultation, to monitor any future borrowings to developing countries. Guidelines need to be developed to screen all future short, medium and long term borrowings, insurance and guarantees to prevent unproductive, illegitimate and unsustainable lending.

4. End to non-productive exports
There must be an end to non-productive exports. Non-productive expenditures are those transactions that are not consistent with a country's poverty and debt reduction strategies and do not contribute to their social and economic development.

5. End to sovereign guarantees
There must be an end to sovereign guarantees and cancellation of current sovereign guarantee arrangements. Sovereign guarantees have the effect of transferring private debt to public debt, thereby preventing governments of developing countries from allocating resources to health, education and other social programs.

6. Increased reporting
Increase transparency and accountability measures to report past, current and annual EFIC debt generation in developing countries in federal parliament and in EFIC annual reports.

7. Implementation of exclusion areas

The immediate implementation of exclusion areas; geographically by ceasing exposure in undemocratic countries and by sector through ceasing exposure in oil, gas, mining, nuclear and defence.

Take Action

Here are a range of ideas to discover more about export credit agencies and to tell the Australian government what you think.

1. Check out the ECA-Watch website for the best overview of Export Credit Agencies around the world. www.eca-watch.org
2. Have a look at the AID/WATCH website to see the latest on what is happening with Australia's ECA, the Export Finance Insurance Corporation. www.aidwatch.org.au
3. Listen to the Radio National, Background Briefing edition on Export Credit Agencies. www.abc.net.au/rn/talks/bbing/ Free CDs are available from AID/WATCH.
4. Write a letter to the Minister in charge of EFIC – the Minister for Trade, Mark Vaile.
5. Write to EFIC and ask them why they have generated so much debt.
6. Call EFIC's hotline and ask them the same question. 1800 685 109
7. Speak to your local parliamentarian and give them a copy of this article and ask them why they are not doing anything about EFIC related debt.
8. Host an information night with your church local group, school, friends with a speaker on Export Credit and Debt.
9. Contact Jubilee or AID/WATCH and we will happily provide a speaker.

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