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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

Paris, 20 February 2008

PURPOSE OF PAPER: This document contains the agreed text on the Principles and Guidelines to Promote Sustainable Lending Practices in the Provision of Official Export Credits to Low-Income Countries.

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PRINCIPLES AND GUIDELINES TO PROMOTE SUSTAINABLE LENDING PRACTICES IN THE PROVISION OF OFFICIAL EXPORT CREDITS TO LOW-INCOME COUNTRIES

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, favorable 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 and publicly guaranteed buyers[1] 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[2], foster sustainable development by avoiding unproductive expenditures, 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[3] to obtain reasonable assurances that their commercial lending 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:

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1 As defined case-by-case in the context of IMF-supported programs for concessionality requirements.

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

3 With respect to the practical implementation of sub-paragraphs 4(a), 4(b) and 4(c), it is understood that the operational details remain subject to further discussion, the result of which could be reflected in a future revision of the Principles and Guidelines.

(a) ECG Members will observe any applicable minimum concessionality requirements of LICs to the IMF and to IDA[4]; these requirements are intended to help reduce debt distress risks.

(i) A consolidated list of countries that are currently subject to concessionality requirements from the IMF and/or IDA is provided in Annex I, Table 1. This list is subject to change, and will be updated regularly.

(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[5] without concessionality requirements to the IMF and to IDA, 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[6] 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:

(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 consistent with the aims of the Debt Sustainability Framework for these countries, and

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

4 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.

5 A list of these countries is provided in Annex I, Table 2.

6 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.

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.

ANNEX I

Table 1. List of Low-Income Countries Subject to IMF/World Bank Concessionality Requirements
Last update: September 24, 2007

IMF and IDA	Minimum grant element (in percent)	IMF-only	Minimum grant element (in percent)	IDA-only	Minimum grant element (in percent)
				Bhutan	35
Afghanistan	60	Albania	35	Cambodia	35
Benin	35	Armenia	35	Comoros	35
Burkina Faso	35	Cape Verde	35	Congo, Democratic Republic of	35
Burundi	50	Georgia	35	Djibouti	35
Cameroon	35	Grenada	35	Eritrea	35
Central African Republic	50	Kenya	35	Ethiopia	35
Chad	35	Moldova	35	Ghana	35
Congo, Republic of	50	Nigeria	35	Guinea	35
Cote d'Ivoire	35			Guinea-Bissau	35
Gambia, The	45			Guyana	35
Haiti	35			Lao People's Democratic Republic	35
Kyrgyz Republic	45			Lesotho	35
Madagascar	35			Liberia	35
Malawi	35			Mongolia	35
Mali	35			Myanmar [1/]	35
Mauritania	35			Nicaragua	35
Mozambique	35			Senegal	35
Nepal	35			Somalia [1/]	35
Niger	50			Solomon Islands	35
Rwanda	50			Sudan [1/]	35
Sao Tome and Principe	50			Tajikistan	35
Sierra Leone	35			Timor-Leste	35
Tanzania	35			Tonga	35
Uganda	35			Togo [1/]	35
Zambia	40			Yemen, Republic of	35
Number of countries	25	Number of countries	8	Number of countries	26

[1/] Inactive countries, which would be subject to the non-concessional borrowing policy upon becoming active.

Table 2. IDA-Only Countries not Subject to IMF/WB Concessionality Requirements
Last update: November 5, 2007

Angola	Samoa
Bangladesh	Sri Lanka
Honduras	Vanuatu
Kiribati	
Maldives	