

TRADE AND AGRICULTURE DIRECTORATE
TRADE COMMITTEE

Working Party on Export Credits and Credit Guarantees

PRINCIPLES AND GUIDELINES TO PROMOTE SUSTAINABLE LENDING PRACTICES IN THE PROVISION OF OFFICIAL EXPORT CREDITS TO LOWER INCOME COUNTRIES (NOVEMBER 2016 REVISION)

This document contains the revised text of the Principles and Guidelines to Promote Sustainable Lending Practices in the Provision of Official Export Credits to Lower-Income Countries that was agreed by Members of the Working Party on Export Credits and Credit Guarantees at their 142nd Meeting held on 15 (afternoon) and 16 (morning) November 2016. It replaces the previous agreement [TAD/ECG(2008)15] that has been in force since 22 April 2008.

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**PRINCIPLES AND GUIDELINES TO PROMOTE SUSTAINABLE LENDING PRACTICES IN
THE PROVISION OF OFFICIAL EXPORT CREDITS TO LOWER-INCOME COUNTRIES
(NOVEMBER 2016 REVISION)**

1. Lower-income countries¹ have often struggled with large external debts that can overwhelm their ability to reduce poverty or provide essential government functions. Although many of these countries are not traditionally important markets for official export credits, Members of the Working Group on Export Credits and Credit Guarantees (ECG) nonetheless recognise that the provision of export credits to the public sector can play a role in the run-up of unsustainable external debt levels by these countries, and that due consideration of this risk should be taken before providing such support.
2. At the same time, lower-income countries are seeking to boost economic development through higher public investment levels, targeted in particular at large infrastructure gaps, while facing both a wider range of external financing opportunities and limits on the supply of traditional concessional financing. ECG Members recognise that official export credits can support the investments needs of these countries.
3. Although debt relief delivered by the Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) has significantly reduced debt ratios in many lower-income countries, issues related to debt sustainability remain a serious concern.
4. Bearing the above in mind, ECG Members acknowledge that concessional lending² generally remains the most appropriate source of external finance for most lower-income countries and agree that the provision of official export credits to public³ obligors or publicly guaranteed obligors⁴ in these countries should reflect prudent credit policies and 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

¹ For the purposes of this document, the term “lower-income countries” refers to countries that are eligible for financing through the International Monetary Fund (IMF) Poverty Reduction and Growth Trust (PRGT) or that only have access to interest free credit or grants from the International Development Association (IDA) of the World Bank (*i.e.* “IDA-Only” countries).

² Concessional loans are loans that are extended on terms substantially more generous than market loans, generally with a grant element in excess of 35% according to the methodology applied by the World Bank and International Monetary Fund (IMF).

³ Public entities 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 an entity in a country that is subject to a limit on public debt under a programme supported by IMF, Members may take recourse to the technical memorandum of understanding for an IMF programme, where the list of public institutions is defined. In case of doubt, Members are encouraged to consult with the IMF and the World Bank directly in order to determine the status of an entity.

⁴ This refers to any obligor whose repayment obligation is guaranteed by a public entity as defined above.

returns⁵, foster sustainable development by avoiding unproductive expenditures⁶, preserve debt sustainability and support good governance and transparency.

5. In order to promote coherent government policies as donors and as shareholders of international financial institutions and to ensure that official export credits to lower-income countries are consistent with sustainable lending practices, ECG Members agree to apply the following principles and practices to the provision of official export credits with a repayment term of one year or more to public obligors or publicly guaranteed obligors in lower-income countries.⁷ These practices are meant to ensure that Members' credit decisions do not contribute to debt distress in the future:

- (a) The decision to provide support 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, and the relevant programme or policy documents⁸ will be reviewed in relation to each transaction under consideration for support.
- (b) For transactions involving public obligors or publicly guaranteed obligors in lower-income countries that are subject to debt limits conditionality for non-concessional borrowing under the IMF's Debt Limits Policy (DLP) or the World Bank's Non-Concessional Borrowing Policy (NCBP), the decision to provide support will take into account the prevailing limits on public sector non-concessional borrowing for a specific country as follows:
 - (i) Support should not be provided for official export credit transactions involving public obligors or publicly-guaranteed obligors in lower-income countries that are subject to a zero limit on non-concessional borrowing under the DLP or the NCBP.⁹
 - (ii) For official export credit transactions involving public obligors or publicly-guaranteed obligors in lower-income countries that are subject to a non-zero limit on non-concessional borrowing under the DLP or the NCBP with a credit value in excess of SDR 5 million¹⁰, Members should, on a best-efforts basis, seek assurances from

⁵ This refers to expenditures whose overall positive impacts on a country's economy are expected to exceed their financing costs.

⁶ Unproductive expenditure generally refers to any transaction that is not consistent with a country's poverty reduction and debt sustainability strategies and does not contribute to its social and/or economic development.

⁷ The list of lower-income countries (as defined in footnote 1) to which the Principles and Guidelines apply is subject to change; the prevailing list that is provided and maintained by the IMF and the World Bank is available on the OECD Export Credits internet site. Concessional borrowing limits on the present value of new external debt under the DLP or NCBP can be found in the comments section next to each country.

⁸ The IMF's debt limits for specific countries are included in the program documents, and the Memorandum of Understanding (MoU) in those documents sometimes also includes reference to specific projects for which non-concessional borrowing is allowed. DSAs can be accessed at the following address: <https://www.imf.org/external/pubs/ft/dsa/lic.aspx>.

⁹ Under some limited circumstances countries can request to move from zero to non-zero limits under IMF and World Bank policies, however, this would require early consultation between country authorities and IMF and World Bank staff, with subsequent management/Board approvals from the respective institution.

¹⁰ For very small countries with low national income levels (less than USD 1 billion), Members will apply a threshold of SDR 1 million.

appropriate government authorities¹¹ in the debtor country that the project/expenditure is in accordance with the DLP or the NCBP for that country.¹²

- (c) Before the decision to provide support is finalised, Members will, as early as possible, inform the IMF and World Bank *via* the “LendingtoLICs” mailbox of their intention to provide support for any official export credit transaction involving a public obligor or guarantor in a lower-income country that is subject to debt limits conditionality for non-concessional borrowing under the DLP or NCBP with a credit value in excess of SDR 5 million¹³, providing the level of detail necessary in order for the project to be identified and for the basic financial terms and conditions to be known. The sole purpose for providing this information is to ensure that the IMF and World Bank are aware of all potential public external debt obligations related to projects in lower-income countries to be supported by official export credits in countries before they are contracted.

6. In terms of additional transparency, ECG Members will provide data *via* the OECD Secretariat to the IMF and World Bank on all transactions supported to lower-income countries on an annual basis in order to, *inter alia*, assess ECG Members’ success towards ensuring that official export credits to lower-income countries are not provided for unproductive purposes and are consistent with the aims of the Debt Sustainability Framework for these countries. In view of the introduction by the IMF and IDA of more flexibility in their non-concessional borrowing policies (*e.g.* by setting limits on the present value of new debt for some countries), an efficient and thorough information sharing mechanism is more important than ever in order to allow the IMF, World Bank and ECG Members to have a complete picture on debt build-up in lower-income countries. In this context, the ECG will invite the IMF and the World Bank to present information on the macro-economic developments in these countries or any other issues relevant to these principles and guidelines as warranted.

¹¹ The appropriate government authorities are those authorities that, according to the specific national legislation of the debtor country, are responsible for the country’s development and borrowing plans; this is generally the office in the Ministry of Finance or the central bank responsible for debt management.

¹² The participation of the Ministry of Finance or central bank in a transaction as the obligor or guarantor would be seen as sufficient evidence of this obligation having been met.

¹³ For very small countries with low national income levels (less than USD 1 billion), Members will apply a threshold of SDR 1 million.