

**GLOBALIZATION'S MOST PERVERSE SECRET:
THE ROLE OF EXPORT CREDIT AND INVESTMENT INSURANCE AGENCIES**

Aaron Goldzimer, Environmental Defense

Bankers are always very secretive about the precise structuring of their deals, but essentially the strategy is simple. The key is to get as high a return as possible, while palming the risk off on somebody else. That is why you should never listen when people tell you that export credit agencies are . . . dinosaurs. What could be nicer in times of turmoil than having the risk picked up by the taxpayer?

—*Euromoney*, December 1997¹

The Three Gorges dam project in China is probably the biggest and most controversial construction project on the planet. Its reservoir is nearly half the length of California, and it is in a watershed that is home to more than 370 million people. Many experts predict the outcome of the project will be a nightmare. Residential and industrial waste—much of which is currently dumped untreated into the Yangtze River and flushed out to sea—will instead collect in the reservoir, causing pollution and damaging public health. Each year, the reservoir will trap 530 million tons of silt, which will begin to fill it, threatening to eliminate the claimed benefits of the dam and possibly turning it into the world's most expensive waterfall. In addition, some experts have estimated the odds of the dam's breaking at 1 in 1,000 (not counting a military or terrorist attempt to destroy the dam), which would instantly threaten the lives of tens of millions of people downstream. Already nearly 2 million people are being forcibly evicted from their towns, cities, villages, and farms to make way for the soon-to-be-rising water.²

The World Bank, which many associate with large projects in developing countries, has told China not even to bother asking it for financing, owing to the environmental, social, and economic controversies surrounding the dam. But few people know that other institutions associated with the leading industrial nations, ones with far fewer scruples than the World Bank, have offered \$1.35 billion in taxpayer-backed loans, guarantees, and insurance to construct the dam.³ These institutions are export credit and investment insurance agencies (ECAs).

The World Bank also has refused to finance any of the network of dam projects of which Turkey's Ilisu dam is a part. In addition to its environmental impacts, the Ilisu dam would displace an estimated 78,000 people, mainly ethnic Kurds who have long been abused by Turkish authorities. Moreover, after a sustained international campaign by human rights and environmental organizations, several of the lead contractors bowed out of the project, with one (Balfour Beatty) citing "a thorough and extensive evaluation of the commercial, environmental and social issues inherent in the project."⁴ Even so, of the nine European, Japanese, and U.S.

¹ Rupert Wright, "Forfeiting for fun and profit," *Euromoney*, December 1997, 140-1.

² *Great Wall Across the Yangtze*, directed by Ellen Perry, 2000; Doris Shen, e-mail to the author, 21 June 2002; Berne Declaration et al., "A Race to the Bottom: Creating Risk, Generating Debt and Guaranteeing Environmental Destruction" (1999), 7; Probe International, "Three Gorges Dam Project". <http://www.probeinternational.org/pi/3g/index.cfm?DSP=content&ContentID=1708> (31 Oct. 2000, cited 30 Aug. 2002); International Rivers Network, "Three Gorges Campaign". <http://irn.org/programs/threeg/> (cited 30 Aug. 2002).

³ Berne Declaration et al., 7; Probe International, "Who's Behind China's Three Gorges Dam". <http://www.nextcity.com/probeinternational/ThreeGorges/who.html> (cited 30 Aug. 2002).

⁴ Concerned Non-Governmental Organizations, "UK Export Credit Policy, Corporate Governance and Future Investment in Turkey: Lessons from the Ilisu Hydroelectric Project" (2002), 1.

export credit agencies that were considering \$850 million in loans and guarantees for the project until the contractors bowed out, not one of them ever refused.⁵

Another example of reckless ECA financing, the Dabhol power plant represents the largest foreign direct investment ever made in India. A project of the Enron Corporation, it is the subject of numerous allegations of bribery, corruption, and fraud. In January 2002, Reuters reported that in 1995 the newly elected state government in India pushed through in 12 days a project three times larger than what was originally envisioned, after having campaigned against the plant. When local villagers protested, complaining about corruption, the unfair acquisition of land and water rights, and potential environmental impacts, Enron's contractors and the local police brutally suppressed the opposition. A 166-page Human Rights Watch report documents the beatings, harassment, attacks, arbitrary arrests, and other human rights abuses. The World Bank earlier rejected this project as too large, too costly, "not economically viable," and with terms excessively generous to Enron. So who is financing it? The U.S. taxpayers. Through the two U.S. export credit and investment insurance agencies, they lent the project \$460 million and insured it for approximately \$200 million. Now, however, because the Indian state government has refused to continue purchasing the plant's high cost of power, the plant stands idle, and Enron has notified the U.S. government that it intends to collect on its insurance policy.⁶

These are just three examples of ECA-supported projects. ECAs have become both the largest single source of official finance flowing to developing countries and, according to the World Bank, the largest official component of developing-country debt (both bilateral and multilateral).⁷ Yet few people recognize their large-scale global economic and financial impacts and implications, much less their human and environmental costs. In the current discussions of new rules for a global financial architecture, financing for development, sustainable development, globalization, debt, trade, and aid, few global trends and institutions are more significant or less appreciated than export credit agencies.

What Is an ECA?

Almost all industrialized nations have official export credit agencies to enable other countries, often developing countries, to buy the exports of the ECA's home country. For example, ECA-backed loans are extended to developing countries so that they can buy the goods or services of a corporation in the ECA's home country. Like a department store that provides credit to people without cash so that they will buy the store's products, government ECAs facilitate loans to foreigners so that they buy the country's products. The result is that ECAs sell a lot of goods and create a lot of debt.

ECAs finance and support exports and exporters through direct loans, as well as through guarantees and insurance protecting commercial banks and exporters from the risk that they will not be paid. As taxpayer-backed agencies, ECAs offer lower interest rates, premiums, and fees for their services than commercial banks and insurers. For developing-country borrowers, however, ECAs' terms are "nonconcessional," meaning that they cost much more than do many

⁵ Berne Declaration et al, 3.

⁶ Human Rights Watch, "The Enron Corporation: Corporate Complicity in Human Rights Violations". <http://www.hrw.org/reports/1999/enron/> (1999, cited 30 Aug. 2002); Robin Elsham, "Bid Terms Set for Enron's India Project," *Reuters*; Dana Milbank and Paul Blustein, "White House Aided Enron In Dispute," *Washington Post*, 19 January 2002, A01.

⁷ The World Bank, *Global Development Finance: Financing the Poorest Countries*, 2 vols. (Washington, DC: Office of the Publisher, 2002), I: 107.

loans from other official sources, such as development banks, the International Monetary Fund (IMF), and aid agencies. Even though an increasing number of developing countries have created ECAs, the overwhelming majority of ECA-supported exports come from industrialized countries, and a disproportionate amount of those exports—essentially all of it when short-term trade finance is excluded—go to developing countries.⁸

Many ECAs also offer support for direct investment in developing countries, largely through loans, guarantees, or insurance for investments in foreign markets by corporations from the ECA's home country.

As institutions for the promotion of exports and foreign investment, most ECAs do not have a mission, mandate, or even objectives related to the development or the needs and welfare of poor recipient countries. Only a few ECAs have environmental or social standards or safeguard policies of any significance or disclose even basic information about their activities and impacts.

The ECAs' Role in the Global Economy

Few people realize the scale and importance of ECAs in the global economy. One ECA enthusiast called them “the unsung giants of international trade and finance,” estimating that they cover \$800 billion of exports each year. “One out of every eight dollars of world trade is now financed by ECAs. Much of the remaining seven dollars is influenced by what the ECAs do.”⁹ Because of ECAs' lack of transparency, there is no official disclosure of even aggregate official export credits (except for long-term flows), much less information on sectors, projects, and countries. But Berne Union members—often used as a proxy for ECA activity—supported \$491 billion of exports in 2000 and insured \$13 billion of foreign direct investment (FDI).¹⁰ Although all these estimates include some private money as well as some ECA-financed trade between industrialized countries, it seems likely that the investment and export loans backed by official ECAs to developing countries amount to at least \$100-200 billion annually. In comparison, all the World Bank Group's commitments in 2000 came to only \$19.3 billion, and all official development assistance commitments from the “North” to the “South” amounted to only \$62.2 billion. Furthermore, despite recent downturns related to the Asian financial crisis and September 11 attacks, ECA activity has been on the rise over the long term, whereas development assistance has declined or remained stagnant. According to the World Bank, official export credit agencies' commitments to developing countries equaled 40 percent of all private creditors' commitments to developing countries (excluding bonds).¹¹ ECAs represent by far the single largest part of public financial flows from North to South and, as we will see, the least examined, the least transparent, the least accountable, and, perhaps in some ways, the most harmful.

⁸ Delio E. Gianturco, Export Credit Agencies: The Unsung Giants of International Trade and Finance (Westport, Conn.: Quorum Books), 2; Malcolm Stephens, The Changing Role of Export Credit Agencies (Washington, DC: International Monetary Fund), 63.

⁹ Gianturco, 1.

¹⁰ "Directory," in The Berne Union 2002 Yearbook, ed. Jon Marks (London, UK: Newsdesk Communications Ltd, 2002), 200.

¹¹ OECD, “Statistical Annex of 2001 DCR”. <http://www.oecd.org/EN/document/0,,EN-document-57-nodirectorate-no-1-2674-15,00.html> (cited 30 Aug. 2002); The World Bank, Global Development Finance: Financing the Poorest Countries, 2 vols. (Washington, DC: Office of the Publisher, 2002), I: 107.

Moreover, as major new commitments of development assistance have not been forthcoming from rich nations, their approaches to development and poverty alleviation increasingly focus on greater private-sector trade and investment as solutions to nearly every problem. The “G8 Africa Action Plan” issued by the 2002 Summit of leaders from the United States, United Kingdom, Canada, France, Italy, Germany, Japan, and Russia states, “We commit to. . . [h]elping Africa attract investment, both from within Africa and from abroad, and implement policies conducive to economic growth – including by. . . [f]acilitating the financing of private investment through increased use of development finance institutions and export credit and risk-guarantee agencies. . . .”¹² This suggests that North-South financial flows will continue to shift from traditional development assistance towards support for private trade and investment.

ECAs and Large Projects

The fastest-growing and most problematic segment of the ECAs’ activity is their financing of large resource extraction and infrastructure projects in developing countries.¹³ These include projects like dams, mines, oil development, and nuclear power plants that have been susceptible to corruption and severe economic, social, and environmental impacts. Most medium- and long-term ECA financing (approximately \$67 billion in 1999)¹⁴ is for large projects; the World Bank estimated that ECA commitments to project financing averaged at least \$55 billion a year between 1990 and 1996.¹⁵ According to the World Bank, “it seems probable that the great majority of large [infrastructure] loan syndications have been covered by export credit agency guarantees.”¹⁶ Again, in comparison, the World Bank committed just \$7.68 billion to category A and B projects in 2000.¹⁷ In terms of both finance for developing countries and support of large projects, ECA activity dwarfs that of the World Bank, the IMF, other development banks, multilateral and bilateral aid agencies, and all other official sources combined.

In addition, the actual financing leveraged by ECAs is usually greater than that supported by ECAs directly, since ECA-backed finance leverages much greater sums from the private sector. Every dollar provided or backed by an ECA might attract an additional two or more dollars

¹² “G8 Africa Action Plan”. http://www.g8.gc.ca/kan_docs/afraction-e.asp (cited 30 Aug. 2002), para 3.1.

¹³ The fastest growing portion of medium- and long-term ECA commitments, over the long-term. The World Bank, *Global Development Finance*, 2 vols. (Washington, DC: Office of the Publisher, 1998), I: 58. Despite recent downturns, “overall, the trend is likely to be for more longer-term project deals.” Jon Marks, Deven Godier and Paul Melly, “New challenges for growth industry,” in *The Berne Union 2002 Yearbook*, ed. Jon Marks (London, UK: Newsdesk Communications Ltd, 2002), 53. Also, even within the downturn, ECA backing is likely to become even more significant as a proportion -- and enabler -- of plummeting FDI and private flows. Delio E. Gianturco, personal interview with the author, 8 July 2002.

¹⁴ A Staff Team, *Official Financing for Developing Countries*, World Economic and Financial Surveys (Washington, DC: International Monetary Fund, 2001), 16.

¹⁵ Actual commitments to large projects may have been higher, since the World Bank’s definition of “project financing” may be limited to recourse arrangements. The World Bank, *Global Development Finance*, 2 vols. (Washington, DC: Office of the Publisher, 1998), I: 58.

¹⁶ The World Bank, *Global Development Finance*, 2 vols. (Washington, DC: Office of the Publisher, 1997), I: 24.

¹⁷ These are the classifications for projects with potentially adverse environmental impacts. This is a crude attempt to screen out low-impact development projects—such as health or education projects perhaps--which are part of World Bank project lending but not typically financed by ECAs. This figure only includes IBRD and IDA flows; IFC- and MIGA-backed flows are difficult to disaggregate by environmental category. The World Bank. <http://www4.worldbank.org/sprojects/> (cited 6 Aug. 2002).

of purely private financing.¹⁸ This could include private capital flows that are not backed by ECAs but that would not have been possible without an ECA's backing a component of the project's financing package.

The reason that ECAs are crucial to the financing of large projects in developing countries is the high risk associated with such projects. Private banks and corporations frequently will not accept this kind of risk without cover from an ECA. So one of the essential characteristics of the ECAs' rise to prominence in the global economy is the large-scale shifting of risk from private banks and corporations to public-sector ECA accounts.

ECAs and Globalization

The increasing role of ECAs in the global economy—directly backing hundreds of billions of dollars of international trade and investment and leveraging much more in purely private flows—raises the question of the extent to which government intervention through ECAs is actually driving the process called globalization. Whatever one's position is in the debate about globalization, one cannot ignore the role of ECAs in enabling large increases in international trade and investment, particularly between North and South.

ECAs and the Debt Crisis

According to the IMF, officially supported export credits represent almost half of developing countries' debt to official creditors, including the World Bank, the IMF, regional development banks, and multilateral and bilateral agencies.¹⁹ This makes the ECAs, according to the World Bank, "the largest official creditor of developing countries." The ECAs' "total exposure to developing countries reached an estimated \$500 billion at the end of 2000—one-quarter of developing countries' total long-term debt."²⁰ The *External Debt Statistics* of the Organization for Economic Cooperation and Development (OECD) lists the developing countries' export credit debt owed to OECD countries as \$374.1 billion to \$410.2 billion (depending on the methodology used) in 2000.²¹ This is far greater than developing countries' debt owed to the World Bank and IMF combined.

One noteworthy example is Nigeria. Roughly 64 percent of Nigeria's entire external debt is for export credits. Significant proportions of the debts of several highly indebted poor

¹⁸ Crescencia Maurer and Ruchi Bhandari, "The Climate of Export Credit Agencies" (Climate Notes, World Resources Institute, 2000), 4.

¹⁹ A Staff Team, *Official Financing for Developing Countries*, World Economic and Financial Surveys (Washington, DC: International Monetary Fund, 2001) 13.

²⁰ The World Bank, *Global Development Finance: Financing the Poorest Countries*, 2 vols. (Washington, DC: Office of the Publisher, 2002), I: 107.

²¹ OECD, "External Debt Statistics: 1999-2000" (OECD), 17. The OECD (in some tables) and World Bank formerly included all non-concessional official bilateral loans as export credits. Deborah Guz, e-mail to the author, 8 August 2002. According to a senior economist at the World Bank, the new methodology results in a major under-count. Although the numbers are quite different, she also cited this change in methodology as the reason that export credit-related debt for all developing countries in 1999, for instance, dropped inexplicably from \$386.25 billion to \$216.26 billion between the World Bank's Global Development Finance 2001 and 2002. She strenuously disagreed with the new method, saying that it results in a major under-count. Personal interview, 7 August 2002.

countries (HIPCs) also consist of export credits, including over 42 percent of the debts of the Democratic Republic of Congo.²²

Moreover, roughly 70 percent of the primary American ECA's exposure to developing countries appears to be sovereign (public or publicly guaranteed by the developing-country government), suggesting that developing countries' governments are liable for the vast majority of developing countries' export credit debt.²³

Not only are ECA-backed loans, according to the World Bank, the largest component of developing countries' debt to official creditors, but they also are usually the least concessional, meaning that they carry higher interest rates than do many World Bank, IMF, or other official loans. Thus, if ECAs represent almost half of developing countries' debt to official creditors, servicing this debt requires an even greater share of these countries' debt payments.

Another difference between ECA-generated debt and other official debt concerns its legitimacy. Although the merit of many of the World Bank's, IMF's, and other official loans has been questionable, these institutions at least technically intend that the loans be used for development and poverty alleviation, whereas the ECAs do not. Rather, the purpose of their activities is the promotion of their own countries' exports. With few exceptions, they do not even pretend to consider the impacts on the developing countries. Most ECAs also do not have serious social or environmental safeguards or rules regarding transparency, as most other official lending institutions do (inadequate and poorly enforced though they may be).

How Do ECAs Lead to Debt?

Export credit agencies can lead to developing countries' sovereign debt in a variety of ways. They can also lead to other, massive financial liabilities for developing countries' governments without their being directly counted as debt.

The most obvious ways that ECAs lead to sovereign debt is when they lend directly to a developing country's government or to a public entity; or when ECAs guarantee or insure commercial bank or corporate loans to a government or public entity. But there are other, more subtle mechanisms. One is through sovereign counterguarantees, which can turn even a purely private transaction between a Northern exporter and a private Southern buyer into a completely public bilateral sovereign debt. When a private exporter or a bank in the North seeks an export credit from a Northern ECA, this largely shifts the exporter's or bank's risk to the public ECA. But when the buyer in the developing country is private, the ECA frequently also insists that the Southern government provide a guarantee. So if the Southern buyer does not pay, the Northern government will reimburse the Northern bank or exporter,²⁴ and the Southern government must assume the Southern buyer's debt—now owed to the Northern government's ECA. Suddenly, a purely private transaction has turned into purely public, bilateral debt.

Another way in which ECAs can generate massive budgetary liabilities for developing countries' governments does not appear in debt statistics. It occurs when ECA projects involve governments in large contingent liabilities even when they do not borrow money or guarantee a

²² OECD, "Creditor Reporting System online". <http://www.oecd.org/htm/M00005000/M00005347.htm> (28 Nov. 2001, cited 8 Aug. 2002).

²³ The Department of Treasury and the Office of Management and Budget, U.S. Government Foreign Credit Exposure, 2 vols. (2000), I: 12, 32.

²⁴ This is in the case of a guarantee or insurance. In the case of a direct ECA loan, no reimbursement is necessary since the ECA itself has put up the money from the beginning.

loan. For example, ECAs often finance power projects in developing countries, largely because the ECA shoulders the risk for private investors in privatized power (and other infrastructure) sectors. However, when bargaining power is highly unequal (and corruption is rampant), many developing countries' governments must offer extraordinarily generous terms in order to attract private investment, such as power purchase agreements (PPAs) that guarantee the purchase of power (needed or not) at high, often dollar-denominated, prices.²⁵ Since this purchase agreement is not a loan, it is not counted as debt, even though it may have multibillion-dollar budgetary implications.

This is part of what happened with Enron's Dabhol power plant in India. In 2001, the Indian state government announced that it was renegeing on its agreement with the Enron consortium because it could not afford the high cost of power (there were numerous allegations of corruption regarding the signing of the PPA). Enron has since demanded that India buy out the Enron consortium and its creditors for \$2.3 billion, estimating its legal claim at \$4 billion to \$5 billion.²⁶

Box 1: ECAs and Debt

The U.S. Export-Import Bank (EXIM), one of the largest ECAs in the world, played a major role in spearheading—and providing, guaranteeing, and facilitating the loans for—the Bataan Nuclear Power Plant (BNPP), described by former U.S. Ambassador William Sullivan as “the largest and most expensive construction project ever undertaken in the Philippines” at that time. Partly because it lies along earthquake fault lines, the plant has never become operational. Filipinos have nevertheless been paying for it ever since President Ferdinand Marcos's administration and are scheduled to continue doing so until 2018. This debt has drained the public sector of resources and was a major reason for the privatization of the power sector.

In 1972, EXIM began discussions with the Philippine government about financing a nuclear power plant. Though in 1974 Westinghouse won the contract for the two-600 MW nuclear power plant with a bid for \$500 million, by the time the Philippine government formally applied to EXIM for a loan in September, the cost of one reactor alone had jumped to \$1.1 billion, or more than four times what Westinghouse had quoted just 15 months earlier. Despite these glaring discrepancies, EXIM authorized a direct project loan of \$277.2 million in January 1976, with

Why the BNPP should never be operational:

- *Aside from the very expensive cost, operating it would also pose a serious hazard to the safety and health of the residents where the plant is located.
- * BNPP lies along earthquake fault lines.
- * The plant's design was based on an old two-loop model that had never been thoroughly studied by the US Nuclear Energy Research Center because no similar plant existed in the US. The design was based on a Westinghouse plant still under construction in Yugoslavia, which in turn was based on another plant being constructed in Brazil, which in turn was based on a plant that was never built in Puerto Rico because of earthquake faults. In short there existed no similar nuclear power plant with a safety record of any sort.
- *Onerous nature of BNPP loan:
 - The plant was over-priced, and the creditors knew this;
 - Bribery was involved in securing government guarantees.

²⁵ Navroz Dubash, e-mail to the author, 29 June 2002.

²⁶ Dana Milbank and Paul Blustein; Human Rights Watch.

guarantees for an additional \$367.2 million. The bank also guaranteed the sales of bonds by a foreign public corporation to American investors to secure additional funding for the plant beyond what the commercial banks were willing to shoulder.

As of April 1999, the BNPP had an outstanding debt of P11.293 billion, to be amortized until 2018. In 2000 alone, Filipino taxpayers should have paid a staggering US\$49 million in foreign debt service on the loans obtained to build the mothballed plant.

The BNPP Leads to Privatization

With the mothballing of the BNPP, the National Power Corporation (NPC) lost its planned major source of power for the country. Furthermore, the debts incurred under President Marcos for the BNPP project left the NPC with no money to invest in new generating capacity. This debt crisis consequently gave rise to a power crisis in the early 1990s.

President Fidel V. Ramos addressed the power shortage by inviting the private sector, or independent power producers (IPPs), to supply power. However, the entry of IPPs (a number of them also supported by ECAs such as Japan's Japan Bank for International Cooperation, the United States' Overseas Private Investment Corporation, and the United Kingdom's Export Credits Guarantee Department)—the supposed solution to the power crisis—led to further, serious financial problems for the Philippine government and people. Electricity rates have skyrocketed because of the onerous provisions in the contracts with the IPPs, including having to pay for unused electricity.²⁷

Economic Welfare and Efficiency

As government-backed export-support programs, ECAs distort trade and markets by providing credit, guarantees, and insurance at lower rates and for longer terms than do private banks and insurers. They are able to do this because they have recourse to the full faith and credit of the national treasury and benefit from other types of taxpayer support. On an aggregate basis, in no year between 1980 and 1995 did the ECAs of the Berne Union make a net profit. Despite claims by many ECAs that they are no longer operating on a subsidized basis, many hidden subsidies may still be involved. In addition to direct appropriations, taxpayers may pay the ECA's administrative or overhead expenses--or the treasury may subsidize the ECA's financing or absorb its bad debts--out of separate accounts. There is also the implicit subsidy of having full recourse to the national treasury to pay claims, when necessary, as well as the freedom from taxes that many ECAs enjoy. Finally, what is the opportunity cost of the taxpayer dollars that might be tied up in export credits or in reserves to pay potential claims?

In the United States in 2000, the Export-Import Bank's direct appropriations alone, for programs and administration, were nearly \$1 billion. The United States' other main ECA, OPIC, claims to operate at no net cost to the taxpayer, but a closer examination suggests that OPIC may actually be losing money on its operations. OPIC's "profit" seems to come from the interest income that it receives from U.S. taxpayers on U.S. Treasury bonds, suggesting that taxpayers capitalized OPIC initially and are now covering OPIC's losses by paying it in order to borrow back their own money.

The government-backed, lower-than-market rates provided by ECAs mean that the export sector in ECA countries receives preferential treatment relative to those sectors that produce for

²⁷ Adapted from Maristela de la Cruz-Cardenas, "ECAs and Debt: A look Into the Philippine Power Industry and the Debt Crisis" (Freedom from Debt Coalition), 2-3.

domestic consumption. Theoretically, this could shift productive resources from the domestic to the export sector, even when production for domestic consumption might be more efficient. Such intervention might even lead to the perverse outcome of more imports in order to replace the lost production for domestic consumption. As the General Accounting Office stated, “Under conditions of full employment, government export finance assistance programs may largely shift production among sectors within the economy rather than raise the overall level of employment in the economy.”²⁸ And there is also the “helicopter test”: even if the ECA programs had some benefit, almost any other use of public resources (such as dropping cash from a helicopter) might have a greater benefit.²⁹

In any case, these interventions and costs would be justifiable if they were for a socially beneficial purpose, and indeed, many economists support ECAs for competitive reasons and to promote investment in developing countries. But other economists disagree, and people concerned with the economic, environmental, or human rights abuses associated with ECA-backed projects could argue that these are frequently subsidies for great harm rather than for a public good.

Interestingly, the World Trade Organization (WTO) trade agreements define export credits as a prohibited export subsidy. However, they then go on to include a famous “carve-out” that exempts and allows export credits, as long as they abide by the terms of a series of agreements negotiated at the OECD. Known as the Arrangement, these agreements have been negotiated over the past 25 years in an effort to harmonize many of the ECAs’ financial terms. In doing so, the Arrangement claims to reduce trade distortion, mitigate a treasury-draining competition among countries to subsidize their exports, and create a more level playing field between the export credit programs of different countries. Nonetheless the Arrangement still allows levels and degrees of export credit support that many developing countries could never hope to afford. And on a grand, global economic scale, economic decisions are still being based on financing terms coming from rich-country government export-promotion agencies, rather than on price, quality, and financing terms incorporating private banks’ thorough and honest assessment of risk, undistorted by ECA intervention. Moreover, because most industrialized countries now have ECAs offering more or less similar terms, none seems to actually win a much more competitive position. The true competitive advantage appears to go to the whole industrialized world vis-à-vis the whole developing world (much of which could never afford to offer export credits on a similar scale and terms) and to the Northern exporting and banking sectors vis-à-vis the taxpayers and other Northern sectors.

The developing-country perspective sees the issue somewhat differently. While Northern ECAs may offer amounts and terms for export finance that many developing countries could never afford, the developing countries—on the receiving end—are the beneficiaries of discounted finance for their imports and foreign direct investment. Thus, many mainstream economists, as well as many officials within developing countries’ governments, would claim that ECAs have a net benefit for developing countries. Nevertheless, the debt, human rights abuses, and environmental impacts of ECA-financed transactions tell a different side of the story.

Political Economic Concerns and Corporate Welfare

²⁸ General Accounting Office, “Key Factors in Considering Eximbank Reauthorization,” Testimony before the Subcommittee on International Finance, Senate Committee on Banking, Housing and Urban Affairs, 17 July 1997, 5

²⁹ Thea Lee, personal communication with the author, 23 May 2002.

Although ECAs probably approve most of their transactions according to professional and standardized criteria based on financial standards and procedures, these agencies are also more susceptible to “capture” by special interests, as well as to approvals based on domestic or geopolitics, than are any other international financial institutions. Any system doling out billions of dollars of financial backing for corporate activities in faraway places, largely out of the public eye, with little or no disclosure or other safeguards, is likely to have this result. Corporate and banking beneficiaries have every incentive to employ their ample lobbying power to keep the tap flowing and with as little disclosure as possible, and there are few significant opposing interests.

In an extraordinary exposé of the corporate welfare characteristics of the primary U.S. ECA (in which it is referred to as a “Reverse Robin Hood”), the *New York Times* illustrated the political economy behind ECAs:

“This is naked corporate welfare,” said Ron Paul, a Texas Republican and one of a handful of Congressional critics.... But there is a clear reason the bank thrives, no matter who occupies the White House or the top jobs in Congress. While the bank cannot lobby for itself, its beneficiaries can.... Money has always flowed from the bank to the politically savvy.... These days, blue-chip companies have even formed a trade association...whose sole job is to protect the bank from budget cutters.... “We have...a large number of companies that depend on Ex-Im,” said Edmund B. Rice, president of the Coalition. “We use the resources of our members to help make our case and apply that clout to the administration and members of Congress.” Not only are these companies major campaign contributors to members of Congress, they often are leading employers in many Congressional districts.... Export-Import works hand-in-glove with these lobbyists, giving them the ammunition they need. The bank keeps an extensive data bank that breaks down all the deals it has done, Congressional district by Congressional district.... When Mr. Bush took office, his administration called for a 25 percent cut in the bank’s budget as part of an effort “to reduce subsidies that primarily benefit corporations rather than individuals,” according to a White House statement on the 2002 budget. But Mr. Bush has now endorsed a five-year expansion plan that will increase the total value of the loans the bank can guarantee to \$100 billion from the \$56 billion currently outstanding.... When the Bush Administration first tried to cut the program, 31 senators, including top Republicans, sent a letter to the president opposing his action.... Facing political reality, Mr. Bush has joined the chorus singing the bank’s praises.³⁰

Another striking example of the vested economic lobbies behind ECAs involves the relationship between the two U.S. ECAs and the Enron Corporation. Enron was one of the biggest clients of EXIM and OPIC throughout the 1990s. U.S. taxpayers lent, guaranteed, or insured more than \$2.3 billion through U.S. ECAs for Enron projects throughout the world.³¹ In addition to India’s Dabhol scandal described earlier, another controversial project was Enron’s Cuiaba pipeline from Bolivia to Brazil, which now cuts directly through the world’s largest remaining dry tropical forest and also part of the Pantanal wetlands. It has damaged 38 indigenous communities plus other nonindigenous communities.³² The *Washington Post* has described in detail how OPIC approved a \$200 million loan for this project, despite numerous

³⁰ Leslie Wayne, “A Guardian of Jobs or a Reverse Robin Hood” *New York Times* September 1, 2001, Bu 1.

³¹ Milbank and Blustein; Jon Sohn, e-mail to the author, 23 January 2002.

³² The pipeline also was used by Enron to hide losses and debt from its balance sheet, inflate earnings, and enrich executives by selling it to a now-infamous partnership and then buying it back at a loss.

red flags raised by and evidence of violations of OPIC's own policies shown by other U.S. government departments and agencies, the World Bank (which said it would not have financed it), and OPIC's own staff. OPIC later canceled the loan after the Enron scandal erupted, but the pipeline has already been built, and the damage has already been done. In turn, Enron led the successful corporate defense of OPIC when there was a move to cut "corporate welfare" in the late 1990s by eliminating OPIC. Enron's CEO, Kenneth Lay, wrote a letter to every single member of Congress to that effort.³³ The *New York Times* describes Lay as also "one of the [Export-Import] bank's most active supporters, buttonholing politicians on all levels of government on its behalf."³⁴

Moreover, a rough analysis of recent annual reports reveals that in 2001, more than 60 percent of the U.S. Export-Import Bank's loans and long-term guarantees went to just three corporations, and almost 90 percent went to just ten. OPIC's services are nearly as concentrated, and similar trends appear in other countries. In their defense, the ECAs counter that these large firms, in turn, support many small-business suppliers and that the ECAs' services are not so concentrated when viewed by number (as opposed to value) of transactions. But these counter-arguments do not change the fact that a relatively small number of the world's biggest multinationals receive most of the benefits from ECAs; and they defend these benefits fiercely.

A different political economic phenomenon surrounding ECAs involves the political power that comes with an ECA loan, guarantee, or insurance policy—power that can be applied to developing-country clients. ECA finance makes Northern governments and taxpayers into partners with multinationals in their transactions with developing countries, so that the full foreign policy arsenal of Northern governments can be used to protect corporate loans and investments (which have, insidiously, also become Northern taxpayer investments through ECAs). For example, after the Indian state government cancelled its agreement to purchase power from Enron's Dabhol power plant, Enron filed a claim to collect on its roughly \$200 million insurance policy with a U.S. ECA (the Overseas Private Investment Corporation, or OPIC).³⁵ In addition, taxpayers had lent hundreds of millions of dollars to this venture through OPIC and the other U.S. ECA (EXIM). To protect both the government's and Enron's investments, the highest levels of the U.S. government have exerted extreme pressure on India to pay, in a strategy coordinated by the National Security Council and involving Vice-President Richard Cheney and Secretary of State Colin Powell.³⁶ According to the Associated Press, U.S. government threats have included cutting off aid to India.³⁷ As said by the *New York Times*, "the Export-Import bank can be a powerful ally. 'You've got the full weight of our U.S. embassy, our ambassador, the Treasury Department here and overseas, the State Department, all coming in,' said Mr. Rice at the [Coalition for Employment through Exports]."³⁸

³³ Amazon Financial Information Services, "Cuiaba Gas Pipeline: Case Study of a Controversial Project". http://redlisted.com/articles_analysis.html (July 2001, cited 4 Sept. 2002); James V. Grimaldi, "Enron Pipeline Leaves Scar on South America: Lobbying, U.S. Loans Put Project on Damaging Path," *Washington Post*, 6 May 2002, A01.

³⁴ Leslie Wayne.

³⁵ Dan Milbank and Paul Blustein; Human Rights Watch.

³⁶ Dana Milbank and Alan Sipress, "NSC Aided Enron's Efforts," *Washington Post*, 25 January 2002, A18.

³⁷ "U.S. official: Cutoff of aid to India possible if Enron project deemed 'expropriated'," Associated Press, 8 April 2002.

³⁸ Leslie Wayne, "A Guardian of Jobs or a 'Reverse Robin Hood'?" *New York Times*, 1 September 2002, Bu: 1.

Moral Hazard

Moral hazard is the term used to describe the perverse consequences that can arise when actors do not face the consequences of their actions. A textbook example might be flood insurance. If homeowners know that they will be compensated for any flood damage by federally funded flood insurance, many more people build their homes in flood-prone areas. There is a similar potential dynamic with ECAs—except on the much greater scale of hundreds of billions of dollars of international trade and investment. In many cases, the ECAs absorb up to 95 percent of the risk for a given transaction, leaving corporations and banks with little real incentive to do proper due diligence or risk assessment when considering these business opportunities. Like a homeowner who wants the benefits of living on a floodplain and knows that the costs of such a risky decision (any potential flood damage) would be borne by publicly funded insurance, corporations and banks know that they have all of the up-side (potential profits) and little of the down-side (potential losses) from undertaking excessively risky business decisions.³⁹

An example of this moral hazard effect is the apparent role of ECAs in the rapid rise of Indonesia's pulp and paper industries, which grew roughly 700 percent from a relatively modest level to one of the world's top ten producers in just one decade. These pulp and paper mills are largely fed with illegal, unsustainable clear-cuts of natural forest: 800,000 hectares by the year 2000. A study of what led to these multibillion-dollar investments (approximately \$12 billion was poured into these industries in the 1990s, many of which are now insolvent) determined that one of the key factors was that

loan guarantees provided by industrial-country export credit agencies (ECAs) have substantially reduced the risk exposure of investment banks, often motivating them to loan large sums to much riskier ventures than they might otherwise. . . . The use of public monies to relieve the debt burdens carried by Indonesia's major pulp and paper conglomerates suggests that their debt-driven expansion strategies have been characterized by a high degree of moral hazard. Indeed, just as these producers built their mills with money that did not belong to them, there are now indications that at least a portion of their debts will be paid off by funds coming initially from industrial-country tax-payers and which will ultimately come from the people of Indonesia.⁴⁰

Perversely, many creditors of the now-bankrupt pulp-and-paper companies have conditioned the rescheduling of their debt on even greater expansion of their mills' capacities (and, thus, deforestation) in order to pay off their debts sooner.⁴¹

Corruption

³⁹ This puts the burden of thorough risk assessment and due diligence on the government's ECA, whose incentives may not be so strictly aligned with the need to avoid undue risk. There is anecdotal evidence to suggest that this is the case. For example, one expert reported that most ECAs do not check and enforce compliance with loan covenants and other contractual agreements after they are approved nearly as much as do private banks, which tend to be much more vigilant throughout the life of a loan. Maria Sara Jijon C., presentation on international project financing, Berlin, Germany, 8 March 2002.

⁴⁰ Christopher Barr, "Profits on Paper: The Political-Economy of Fiber, Finance, and Debt in Indonesia's Pulp and Paper Industries" (Center for International Forestry Research and World Wildlife Fund, 2000), 1, 2 and 7 (Executive Summary), 2, 32, 47.

⁴¹ Christopher Barr, 8 (Executive Summary).

Traditionally, corruption and bribery have been major—and accepted—features of the overseas contracts signed by most ECAs. Transparency International, one of the leading organizations fighting international corruption, noted,

Bribing foreign officials in order to secure overseas contracts for their exports has become a widespread practice in industrial countries, particularly in certain sectors. . . . Normally these contracts are guaranteed by government-owned or –supported Export Credit [Agency] schemes. . . . The value of the bribes, in general presented as “commissions,” would normally be treated as part of the costs of supply and included in the total contract value covered by the guarantee. In case of the insurance coming to play, the indemnification of the exporter would include the amount of the bribe (which may represent 10 to 20%—sometimes even more—of the contract value).⁴²

According to Transparency International’s 2002 Bribe Payer’s Index, the three most corrupt sectors are leading recipients of ECA support: construction and public works, arms and defense (for certain ECAs), and oil and gas.⁴³ See box 2 for examples of ECA transactions associated with serious allegations of corruption.

In an effort to claim to implement the “OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions,” in December 2000 the OECD countries issued an “action statement” regarding ECAs and bribery. Although it is a first, small step, this statement contains no requirements that realistically would impede official export credit support for transactions involving bribery. For example, it does not appear to include any of the actions called for by Transparency International in its November 2000 presentation to the OECD on this issue.⁴⁴

Box 2: ECAs and Corruption

In Indonesia, corruption was particularly rampant in the power sector. "In the go-go years of the Suharto era, building a power plant in Indonesia was one of the best bets going", the Asian edition of the *Wall Street Journal* commented on 28 July, 1999. And it continued: "Western governments, eager to see their giants get a piece of the Indonesian action, were handing out risk insurance like candy." In many cases, foreign companies offered free shares and other benefits to friends and relatives of General Suharto. In return, they received contracts to build power plants or sell power at sometimes ridiculously high prices, and often for power which the country did not need at all. After the fall of the dictator in May 1998, the state power utility PLN, the national audit commission and the media produced considerable evidence about the corruption involved in several power projects. All of the projects in question had been funded or guaranteed by export credit agencies of OECD countries. The state power utility and Indonesia’s attorney-general attempted to investigate the suspected corruption, and to renegotiate the contracts in question. Yet the ECAs, some of which had strict anti-corruption guidelines in force, did not cooperate with the Indonesian authorities in order to overcome the corrupt legacy of the Suharto years. They rather chose to apply harsh political and

⁴²Dieter Frisch, “Transparency International Working Paper: Export Credit Insurance and the Fight Against International Corruption” (Transparency International, 1999), 2.

⁴³Susan Hawley, “Still Underwriting Corruption? The ECGD’s recent record” (The Cornerhouse, 2002), 2.

⁴⁴Michael H. Wiehen, "Transparency International Working Paper: OECD Working Party on Export Credits and Credit Guarantees" (Transparency International, 2000).

economic pressure on the government to honor the power contracts regardless of whether they were corrupt or not....

In Lesotho, nine companies, three international consortia and three officials of dam building companies [have been put] on trial under the charge of bribing the former head of the Lesotho Highlands Water Project to the tune of \$ 2 million. In cooperation with South African and Swiss colleagues, magistrates from Lesotho have managed to document bribes which the companies had paid between 1988 and 1998. The World Bank, which has been a catalyst for the funding of the project, [undertook] an internal investigation into the matter, even if narrowly restricted to the contracts directly funded through Bank loans. [It found that bribes were paid, disbarred the bribe-paying middleman from future Bank contracts, and is still reviewing whether to disbar the companies on whose behalf the bribes were paid.] Export credit agencies from several OECD and non-OECD countries have also supported the Lesotho Highlands Water project from the very start. Yet we are not aware that any of them have so far opened an investigation into the matter. They do not seem to be concerned about the coverage of corrupt practices by public credits or guarantees.⁴⁵

Source: Adapted from letter to Donald Johnson, Secretary General of the OECD, 5 Nov. 2000, "The OECD, Export Credit Agencies and Corruption," signed by 78 NGOs from 33 countries

Arms Trade and Nuclear Exports

Many ECAs help finance the export of weapons to developing countries and the construction of nuclear power plants there. Again, the comparison with the World Bank is useful: as a development institution, the World Bank does not fund either the export of arms or the construction of nuclear power plants, whereas export credit institutions have no such scruples.

The United States dominates the global arms trade, but most of its arms exports receive finance from programs run out of the U.S. Department of Defense rather than U.S. ECAs. Most European countries use their ECAs. Arms exports (and agriculture) are exempted from the OECD agreement (the Arrangement) setting some limits on export credit subsidies, meaning that arms exports can be financed by ECAs as generously as ECAs like.⁴⁶

Although military exports represent only 2 percent of the United Kingdom's exports, in 2000–2001 nearly half the portfolio of the country's ECA (the Export Credits Guarantee Department, or ECGD) was devoted to defense exports. This included approving \$2.6 billion of guarantees for 24 British Aerospace (BAe) Hawk fighter jets sold to South Africa, in conjunction with at least nine Gripen fighters produced by SAAB and also backed by EKN, the Swedish ECA. This project has led to a multitude of allegations involving the South African defense minister's midcourse change of the bid evaluation process that awarded the contract to BAe for

⁴⁵ Adapted from letter to Donald Johnson, Secretary General of the OECD, 5 Nov 2000, "The OECD Export Credit Agencies and Corruption," signed by 78 NGOs from 33 countries.

⁴⁶ Peter Evans, e-mail to the author, 19 July 2002; Peter Evans and Kenneth A. Oye, "International Competition: Conflict and Cooperation in Government Export Financing," in *EX-IM Bank in the 21st Century: A New Approach*, ed. Gary Hufbauer and Rita Rodriguez (Washington, DC: Institute for International Economics, 2001); OECD, "The Arrangement on Guidelines for Officially Supported Export Credits". <http://www.oecd.org/pdf/M00029000/M00029130.pdf> (1998, cited 4 Sept. 2002), p. 7.

£450 million more than an Italian competitor's offer.⁴⁷ Meanwhile, South African church and human rights groups have argued that the country's large weapons procurement program directly contradicts its development needs.⁴⁸

Even worse, the British ECA promoted the sale of 24 BAe Hawk jets to Indonesia in 1993 and then announced support for 16 more in 1996, despite "numerous eyewitness accounts of Hawks in action against villages in East Timor," which Indonesia had tyrannized since invading it in 1975. At the time, the then-opposition party's shadow foreign secretary stated, "Hawk aircraft have been observed on bombing runs in East Timor in most years since 1984." The Indonesian government owes the British ECA £488 million for defense equipment alone (£694.4 million if future maturities are included). Other major recipients of the British ECA's support for arms purchases include Saudi Arabia and Turkey. In addition, Zimbabwe owes the British ECA for defense purchases.⁴⁹

The British ECA's arms business accounts for a massive portion of its portfolio and outstanding claims, draining developing countries' resources and perhaps aiding major human rights abuses. Moreover, the arms portion of the portfolio appears to be specially subsidized. Over the last 11 years, £713 million more has been paid out in claims (plus interest rate subsidies) for defense-related business than has been earned on premiums and recovered from claims.⁵⁰ But the United Kingdom is not the only country whose ECA finances arms exports; it is merely the one that has been most investigated. For example, more than a third of the guarantees from COFACE, France's ECA, are allegedly for arms.⁵¹ Recognizing its impacts on debt and development, even Michel Camdessus, then the managing director of the International Monetary Fund, called for "abolishing the provision of export credit for military purposes."⁵²

Nuclear Power Plants

Even though most Western countries have not built any nuclear power plants in decades, their ECAs have kept their nuclear industries alive by supporting the proliferation of nuclear plants and technology in other countries. In 2001, of the 19 nuclear power plants being built outside the G8 countries (United States, United Kingdom, Canada, France, Italy, Germany, Japan, and Russia), 14 were backed by the G8's ECAs. The G8's ECAs have made these foreign orders possible, maintaining the nuclear power manufacturing base in the West until—the industry hopes—new orders resume. As an example, SACE, the Italian ECA, continues to support its nuclear industry's work abroad, even though the country itself has phased out nuclear power completely. Furthermore, safety and other concerns have emerged from many of the ECA-supported plants, including the Temelin plant in the Czech Republic, which was also five

⁴⁷ Apparently, a month before the change, BAe donated L614,000 to an ANC group of which the Minister was a founding trustee. The Minister also controlled a company destined to win a contract under the BAe deal, and a BAe partner gave discounted Mercedes automobiles to two other key government and ANC officials. Susan Hawley, "Still Underwriting Corruption", 2, 5-6; Ann Feltham, "The Case for removing arms from the ECGD's portfolio" (Campaign Against Arms Trade), 1; Peter Evans, e-mail; Susan Hawley, e-mail to the author, 4 Sept. 2002.

⁴⁸ "Submission by the Campaign Against Arms Trade in response to the Export Credits Guarantee Department Review of its Mission and Status" (Campaign Against Arms Trade, 1999), 7.

⁴⁹ "Submission"; Hansard Written Answers. (United Kingdom Parliament, 4 July 2002), Col 471-3W.

⁵⁰ Hansard Written Answers. (United Kingdom Parliament, 21 June 2002), Col 588-9W.

⁵¹ Feltham, 2.

⁵² "Submission", 10.

years overdue and \$1 billion overbudget. Moreover, nuclear power plants receive preferential treatment in the OECD agreement (the Arrangement) that sets some limits on the subsidies ECAs can provide in different sectors.⁵³

Global Warming

The World Resources Institute has estimated that just under half of all investment in energy-intensive sectors in developing countries is backed by ECAs, 71 percent of which is for fossil-fueled power or oil and gas development. Other institutions have calculated that the fossil fuel power and oil and gas projects in developing countries backed by the United States' two ECAs alone between 1992 and 1998 will release 29.3 billion tons of carbon dioxide over their lifetimes, roughly equal to an entire year of all global CO₂ emissions.⁵⁴

The United States rejected the Kyoto Protocol in part because the protocol does not require emissions limits for developing countries. But at the same time its ECAs are financing fossil fuel and energy-intensive projects that will lock in higher emissions in the developing world. Likewise, those European nations favoring measures to limit climate change are nevertheless supporting climate-changing projects through their ECAs. The Greenpeace UK organization has calculated that the annual carbon emissions of fossil fuel projects in developing countries supported by the British ECA are equal to more than a third of the United Kingdom's total annual domestic emissions.⁵⁵

Comments and Conclusions

After decades of debacles and mounting public pressure, the World Bank and many other development institutions have adopted policies and standards intended to prevent social and environmental abuses by the projects they finance (although these policies are often insufficient and poorly enforced and still lead to flawed schemes). But even though export credit agencies have become the largest and most important official source of support for such projects, with a few exceptions export credit agencies have no effective safeguards. The vast majority of them are not even required to release information about projects with potentially severe adverse impacts before they approve them, meaning that locally affected communities may not even know what is coming their way, much less have an opportunity to object.

This creates a serious policy contradiction. Through their export credit agencies, governments are undercutting the standards and safeguards of their own multilateral and bilateral development institutions, as well as everything we know about sustainable development. Indeed, ECAs routinely support projects like Three Gorges and Enron's Dabhol plant that our other public institutions have refused to support on economic, social, or environmental grounds. Indeed, what is the purpose of an environmental policy at the World Bank if an ECA from Canada or Germany will finance the damaging projects with few questions asked? And how many taxpayers in these and other countries realize that they are doing this?

⁵³ EU-Enlargement Watch, et al., "Financing Disaster: How the G8 funded the Global Proliferation of Nuclear Technology" (2001), 1-5; OECD, "The Arrangement," 7.

⁵⁴ Maurer and Bhandari, 4-5.

⁵⁵ Greenpeace, "Exporting global warming: The UK's support for fossil fuel energy in the developing world" (Media briefing, 2002), 1.

Many nongovernmental organizations (NGOs) began to grapple with these questions after discovering that ECAs had become the principal financiers of the projects that local communities in developing countries were battling because of corruption or environmental or social impacts. As a result, an evolving consensus on many of these issues has emerged; and a rapidly growing, loosely knit international NGO and trade union campaign has formed and has succeeded in raising these issues. In April 1998, 163 NGOs from 46 countries sent the “Call for Reform of Export Credit and Investment Insurance Agencies” to the finance and foreign ministries of the major industrialized countries. In May 2000, 347 NGOs from 45 countries expanded these demands in the Jakarta Declaration, which provided a platform for the NGO campaign. NGOs have been able to stop or delay some particularly harmful ECA projects, such as the Maheshwar dam in India and the Ilisu dam in Turkey. And a few countries—the United States, which in the 1990s instituted congressionally mandated reforms and, more recently, Australia and Japan—have made significant policy strides on the issues of transparency and the environment. Moreover, every G8 communiqué between 1997 and 2001 has included language encouraging or mandating the multilateral environmental reform of ECAs.

But after nearly five years of discussions at the OECD, governments have failed. Most countries have decided to implement unilaterally a proposal that NGOs widely regard as a sham, lacking even minimal criteria of international good practice in environmental assessment. Ironically, Germany continues to blemish its tradition of environmental leadership both with the weak environmental policies of its ECA (Hermes) and with its highly obstructionist role in these international negotiations. In most countries, ECAs tend to be insulated inside the finance or economics ministries and to have almost mercantilist worldviews and close links to their powerful exporter clients. In Germany as in other countries, this has contributed to the ECAs’ fierce resistance to change.

Most of the controversies and arguments surrounding ECAs, including those in this report, fit into two categories, and policy prescriptions are based on which one is driving the analysis. One argument questions the legitimacy of ECAs, maintaining that they are socially harmful trade subsidies that benefit neither the home countries nor the recipient countries. In home countries, ECAs are unjustified instruments of corporate subsidy, captured disproportionately by a small number of the world’s wealthiest and largest corporations and banks, which hand over most risks to the taxpayers. In recipient countries, meanwhile, ECA transactions have left a great legacy of debt and—especially in natural resource and infrastructure sectors—have involved more exploitation than development. Adherents of this argument would favor abolition of ECAs.

This argument is the subject of debate. Are ECAs important for competitive reasons, particularly if competitor countries have them? Perhaps. However, the most debatable—and the most important—part of this argument revolves around foreign direct investment (FDI). If you believe (as most economists do) that despite the cases of abuse and waste, FDI is, on balance, good for developing countries, then you would not want to abolish ECAs, because you would eliminate the public support that appears to make much of foreign direct investment possible.

Another, more narrow argument, however, maintains that if ECAs are going to exist, with such a massive role in promoting international trade and investment, then they must abide by strict rules in order to prevent the debt, human rights abuses, corruption, environmental damage, and other impacts that now frequently accompany ECA activities. These rules fall into three categories:

- Screens, assessments, and binding standards to ensure that ECAs do not support those transactions causing environmental or social harm, labor or human rights abuses, and/or unjustifiable debt.
- Measures to prevent ECA support for transactions involving corruption.⁵⁶
- Transparency, which has several elements: consultations with potentially affected communities and other stakeholders and the public release of project information, *before* a project's approval; and the release of data on the nature and extent of the ECAs' activities.

It is difficult to disagree with this argument. Although the missions of export finance institutions are different from those of development institutions, they do not have to work at cross-purposes and undermine each other's policies and objectives. And on moral terms, Northern governments should not support projects that devastate local communities and the environment while leaving behind little besides a few well-lined pockets and mountains of debt. In some ways, this argument seeks to transform export credit agencies into tied-aid agencies, leveraging their political support into less harmful and more beneficial financial flows for development. The only question here is whether this will work. Critics of the World Bank and other development banks—which are multilateral institutions with the mission of development and poverty alleviation—question whether these development banks do more harm than good. Given the political and economic pressures on export credit agencies, as well as their primary objective of promoting exports, can they succeed where development institutions have not?

The world can no longer remain unaware of the role ECAs play in the global economy and of their human and environmental impacts. Wealthy nations must look past the interests of powerful exporting industries and re-examine whether these little-known agencies are merely relics of subsidized corporate welfare and mercantilist economics. At the very least, governments must agree to incorporate real social and environmental protections and public participation into ECA finance. If not, the most destructive chapters in the history of development are sure to be repeated.

⁵⁶ Such as those called for in Wiehen, in Susan Hawley, "Still Underwriting Corruption?", and in Kristine Drew, "Recommendations to the UK Export Credit Agency," (Public Services International Research Unit and Unicorn, 2002).