NO ROLE FOR EXPORT CREDITS IN THE EU'S DEVELOPMENT FINANCE

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Counter Balance
Challenging Public Investment Banks

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Export Credit Agencies (ECAs) are increasingly present in the financing agenda of a range of new EU policy proposals, from development finance to securing critical raw materials. Yet, there are serious concerns about their suitability for these purposes – even more so in absence of adequate binding human rights and environmental standards, transparency, due diligence and accountability at the EU level.

Export Credit Agencies are governmental or private institutions that provide loans, guarantees and insurance backed by public budgets to corporations globally, and finance export of goods and services originating in the country providing the finance. They support risky projects that might not get off the ground without this backing. While ECAs operate mostly in high income countries, they have nearly the same investments in low income countries as the EU's main development bank, the European Investment Bank (EIB)[1].

Unfortunately, due to their weak regulation, ECAs have been allowed to use public funds for projects in some of the most environmentally harmful industries on the planet, and have contributed to worsening national debt burdens in the global South. Their current accountability, transparency and due diligence policies are insufficient, allowing for rights violations, environmental damages and negative impacts on livelihoods of local communities to take place in countries in which they operate.[2] Overall, they remain the least examined international financing institutions, even though they provide the largest share of public financial investments from the global North to the South.[3]

Recently, a so-called enhanced coordination of export credits and development finance – such as the European Fund for Sustainable Development Plus (EFSD+) tool under the Neighbourhood, Development and International Cooperation Instrument (NDICI) Regulation[4] – has been proposed in several initiatives to advance European interests abroad linked to trade, raw materials supply chains, clean tech manufacturing and market access.

This has been a prominent discussion under the Global Gateway strategy – the latest EU's development policy approach criticised by parliamentarians and civil society organisations

[1] According to the EC data, LICs comprise EUR 4.9 billion of the ECAs' portfolio, and EUR 5.1 billion of the EIB's. Moreover, some of the EU's ECAs (in France, Italy, Austria, Portugal, Poland and Spain) already provide 'tied aid' (concessional loans to developing countries that are tied to procurement from donor countries), without having a development mandate.

[2] See Eurodad report 'Exporting goods or exporting debts?'.

[3] Transparency ECA Watch

[4] NDICI Regulation.

for promoting interests of the European private sector with backing of the EU's development aid budget over sustainable and equitable development outcomes that aim to eradicate poverty, reduce inequalities, and ensure better lives for the most vulnerable and marginalised communities. The Global Gateway strategy refers to enhanced export credit as a tool for European businesses to compete with foreign subsidised competitors for large infrastructure and clean tech projects in third countries.[5]

The EU's strategy for an 'EU external energy engagement in a changing world' also refers to the Commission's plan to develop an EU strategy for export credits in order to benefit EU's green tech companies and to 'improve the level playing field for the EU businesses in non-EU country markets'. This aligns with the ambition of the Global Gateway to secure tendering opportunities for European companies vis-à-vis Chinese competitors from the onset of the design of such projects designed in Brussels without a meaningful discussion in the recipient countries. The enhanced cooperation of development finance institutions (DFIs) and ECAs is also included in the Commission's Communication adopted alongside the Critical Raw Materials Act (CRMA).[6]

The Global Gateway communication proposes a creation of a European Export Credit Facility to complement national export credit.[7] The Green Deal Industrial Plan (GDIP)[8] and the Critical Raw Materials Communication include a call for the facility and export credit strategy as well. For now, the interest in creating the Export Credit Facility across the Member States seems to be limited.

[5] Joint Communication: 'EU external energy engagement in a changing world'.

[6] Communication: 'A secure and sustainable supply of critical raw materials in support of the twin transition'.

[7] The Global Gateway Joint Communication.

[8] "We will develop an export credits strategy including an EU export credit facility and enhanced coordination of EU financial tools. These can foster coherence with EU policies such as the European Green Deal or Global Gateway which pledged to invest in infrastructures aligned with pathways towards net-zero emissions.", in the Green Deal Industrial Plan for the Net-Zero Age Communication.

MORE DERISKING FOR EUROPEAN COMPANIES

Derisking private corporations with development funds under the mantra of leveraging private finance is an ineffective and inappropriate approach for a sustainable and equitable development agenda. An inherent need of securing good returns for the European private sector as a priority inhibits investments that are commercially not interesting but essential for development – access to affordable public services such as renewable energy, housing and healthcare, and support to local productive capacity development. Additional promotion of export credits in such development projects financed with aid budgets risks exacerbating current dynamics of financialisation of development policies, in a quest to attract private sector finance in exchange for extraction of maximum profit from social infrastructure and public goods.

It is already extremely hard to gauge the impetus for providing development assistance in sectors that are commercially viable for donor countries. Enhancing coordination of export credit and development finance in spite of their different mandates and socio-economic objectives will further add to this difficulty. Importantly, additionality of development finance in cases where there is a commercial interest for ECAs is questionable. The European Parliament recently raised concerns over a conflict of interest between export credit agencies and EIB Global development finance, and its impact on the development additionality of the EIB Global's projects.[9]

The Commission's Feasibility Study on an EU strategy on Export Credits already raises the issue of ensuring that ODA guarantees such as EFDS+ do not in fact crowd out ECAs' insurance, and recommends tools to ensure better additionality rankings, especially in light of similarity between DFIs' and ECAs' private sector and investment loans.[10] Instead of following up on commitments to untying aid to improve its effectiveness, the study is more preoccupied with improving European companies' international market access.[11] It goes as far as to propose channelling EU concessional finance through tied aid, including an option to split the EIB's concessional loans into an untied and a tied component.[12] In this context, this approach risks eroding further the EU's credibility as a global development actor.

Another level of hypocrisy is a simultaneous subsidising of European companies for renewables under the decarbonisation agenda and ongoing roll-out of polluting fossil fuel projects outside of the EU with export credits.[13] This type of finance locks the countries into fossil fuel energy systems and obsolete infrastructure, fuels conflict (such as the ECA-backed Mozambique gas projects[14]), and creates stranded assets, depriving the countries from means to advance socially and environmentally just public investments.[15] While some progress has been achieved on the EU's commitments to end export credit finance for fossil fuels and align it with the Paris Agreement, a number of European countries still lag behind, allowing them to continue such projects for years to come.[16]

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9 European Parliament's annual report on the EIB's financial activities (2023).

10 The Commission's Feasibility Study on an EU Strategy on Export Credits.

11 'Strings still attached: Unmet commitments on tied aid', Eurodad.

12 The Commission's Feasibility Study on an EU Strategy on Export Credits.

13 SwedWatch policy paper 'Key considerations for sustainable European export finance'.

14 EU export credits insure decades of fossil-fuel in Mozambique, EUObserver, 24 MAY 2023.

15 For another example, see a recent report of ReCommon on how the Italian public insurer SACE can favour the interests of Gazprom by supporting an Uzbek company constructing a mega petrochemical plant in which ENI is involved through its subsidiary Versalis.

16 For ECA-backed fossil fuel projects, see Oil Change International database.

RULES – FOR WHOM?

While ECAs continue to operate in secrecy and escape adequate democratic scrutiny and accountability, the Commission is bringing DFIs and ECAs increasingly in one space with a view to boost the EU's presence in global markets. Pilot projects for the ECA-DFI coordination have been already put forward by the European External Action Service and the Commission's Trade and International Partnerships policy departments, selecting three projects: specific critical raw materials projects including a lithium mine in Argentina, electric buses in Costa Rica in cooperation with the government, and vaccine manufacturing in Ghana by a private pharmaceutical operator[17]. An expert group of DFIs and ECAs to increase coordination has already started discussions in 2024[18] This line of work is advancing without parliamentary or civil society involvement despite clear risks of violating EU commitments under the NDICI Regulation, as well as WTO and OECD rules on tied aid and export subsidies as stated by the European Commission itself in the Joint Staff Working Document mapping external financing tools in the EU in April 2023.[19]

Given such constraints, the enhanced coordination is currently envisaged within a framework of information exchange and transparency between ECAs and EU institutions to facilitate European exporters' participation in operations funded by the Commission development finance, with an aim to avoid 'separate but parallel presence of an export and a development finance element in the same project package (e.g. under a Team Europe Initiative)'. However, checking alignment with international rules of this information exchange is challenging in practice. Contractual and tendering conditions remain closed to the public. It is therefore not easily possible to assess the tenders and its conditions that might favour European companies. Moreover, just because a project itself would not include both an ECA and DFI finance does not provide sufficient guarantees of clear development additionality. This is particularly relevant in view of the fact that the EIB operations abroad make up 1/3 of EU development aid.[20] In 2021, 83% of disbursements met concessionality threshold to qualify as ODA.

For example, when supporting local entities with development funds, enhanced coordination with export credit finance can include proposals – 'information exchange' – for sourcing goods or services from entities supported by export credits. Since these negotiations happen behind closed doors, it is difficult to assure that informally tied aid – associated with a reduced development impact in the recipient country, and increasing costs for development projects by as much as 30%[21] - does not

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[17] Commission's written answer to the European Parliament's question.

[18] Joint Staff Document of EEAS and European Commission: Main outcomes of the mapping of external financial tools of the EU.

[19] 'Enhanced coordination cannot mix export credit support and the Commission development investment support in a way that would make provision of development aid contingent upon sourcing from EU exporters', Ibid.

[20] EIB's donor partners – the European Commission.

[21] OECD, Untied aid.

take place. Such practices can further extend to cases when a local entity supported with development funds is in fact a subsidiary of a European company in the donor country. Using development finance to allow local companies or European companies' local subsidiaries to buy European products thanks to export credit makes a distinction between the two finance streams increasingly blurry.

Renewable energy in Latin America

An example of a European company's subsidiary benefiting from export credits and finance from the EIB Global – EIB's development branch – are Enel's renewable energy projects in Latin America, according to the EIB its largest financing to a private sector entity outside Europe to date.[22] The EIB created an investment facility of 600m EUR backed by guarantees of SACE, Italy's export credit agency, to support Enel's subsidiary Enel Green Power Perú S.A.C. via the framework loan. The project includes renewable energy generation, addition of generation capacity from renewables, and upgrades of the electricity network.

The EIB counts these operations as climate action and as aligned with its Climate Bank Roadmap despite the fact that SACE still backs fossil fuel projects abroad in contradiction to EU's commitments to phase out export credit finance of fossil fuels, and Enel has been involved in a court case due to its planned new fossil gas power plant in Italy.

In Brazil, the initial project promoter benefitting from the project finance was Eletropaulo Metropolitana Electricidade de São Paulo SA. But already in 2018, Enel acquired the formerly state-owned power company privatised in the late 90s in a process investigated by the Brazilian government for a rigged bidding process by American companies.[23] The company is now defunct and called Enel Distribuição São Paulo. Since then, Enel faced scrutiny from the Ministry of Justice over a long power outage affecting millions and Enel's compensation to the consumers.[24] The EIB still lists the project as approved but not signed. In Peru and Chile, the project promoters are Enel's local subsidiaries. As of 2024, the Peruvian project – entailing the extension of an existing Enel's Wayra Onshore Wind farm already financed by the EIB[25] – is still under appraisal by the EIB since April 2022, and the Chile project was approved in December 2022 but not yet signed.

The SACE-backed project was supposed to extend to Colombia, too. In 2023, Enel's wind power project in the country was suspended due to years of protests by indigenous communities over rights violations.[26] The EIB does not list any Enel projects financed in Colombia.

As for project support, enhanced coordination between development and export finance institutions is envisaged to 'increase the chances of exporters from the donor country to win the relevant contract', without officially tying the aid. Manoeuvring around the OECD ODA rules puts in question development objectives when aid budgets are to be used to support European companies instead of development and growth of local public or private entities, own technological and industrial productive capacity development, and keeping value added locally.

Moreover, increasing risk of informally tied aid is particularly problematic given that already over half of all officially untied contracts reported to the OECD DAC were awarded to suppliers in the DAC member's country- while 11% were awarded to suppliers in Least Developed Countries (LDCs) and Heavily Indebted Poor Countries (HIPCs).[27]

22 EIB project ENEL ENERGY EFFICIENCY & RENEWABLES FL (LATAM).
23 'Brazil to Probe Energy Bid Allegations', CT Insider, May 20, 2003.
24 'Following outage, Justice Minister to scrutinize Sao Paulo Power Supplier', The Brazilian Report, November 6, 2023.
25 EIB project 'ENEL GREEN POWER PERU'.
26 'Enel suspends Colombia wind farm construction after years of protests', Reuters, May 25, 2023.
27 'This year's 2022 Effective Development Co-operation Summit could be a game-changer for untying aid', Eurodad, April 1, 2022.

Wind power in Kenya

The Lake Turkana Wind Power Project (LTWP) is hailed as another good example of financing by DFIs, commercial banks and an export credit including EUR 225 million from the EIB, and a cover from the Danish ECA EKF. But it raises serious concerns about DFI-ECA coordination given the issues resulting from the LTWP such as exorbitant costs to taxpayers, intransparency and human rights abuses.[28] Moreover, it exposes emblematic problems associated with PPP projects, slammed even by the European Court of Auditors for not always being effectively managed and not providing adequate value-for-money.[29]

The project of EUR 623 million for electricity generation from wind power was developed by the Lake Turkana Wind Power Ltd (LTWP), a consortium of foreign and local entrepreneurs. The complex financing metric included a grant of EUR 10 million provided by the Netherlands and another grant of EUR 25 million through the EU Africa Infrastructure Trust Fund. A collection of Nordic development finance institutions made up the balance of the equity, together with the Danish turbine supplier Vestas and a minority local shareholder.30 The initial developers of the project, KP&P Africa – a consortium of Dutch and Kenyan entrepreneurs – were joined by UK Aldwych International in 2009. The project achieved financial close in 2014 and reached operations in early 2019.

Although the project was developed as the least costly power development plan, it incurred significant costs for Kenyan taxpayers. An estimated Sh10 billion (€83.3 million) were paid by Kenyan taxpayers as a result of delays in completion of a transmission line. In accordance with the Power Purchase Agreement (PPA), the energy was to be bought at a fixed price by the Kenya Power and Lighting Company PLC. As a result, citizens were forced to pay for power they did not receive, and at higher cost for electricity because of a revised tariff hike.

The World Bank withdrew from providing a guarantee to the project owing to numerous issues including project's huge scale considered unfeasible for completion, a lack of competitive basis for ensuring cost-effectiveness, the nature of the Power Purchase Agreement (PPA) which exposed the domestic utility company to a high financial risk, and an unrealistic timeline for construction of the transmission line.

The Spanish government offered concessional tied financing to Kenya with a transmission contract awarded to a Spanish company. There were transparency issues in the selection process. The company went bankrupt during the course of the contract and the process had to start again.

Moreover, indigenous communities were not asked permission to use the land in question. In 2021, the Kenyan Environment and Land Court in Meru declared the title deeds to the land on which the LTWP stands irregular and unlawful. The LTWP case shows that pooling development and private finance, guarantees and export credits drives flawed model that prioritise corporate sector profits over public interests.

[28] Counter Balance and Eurodad report 'The Emperor's New Clothes What's new about the EU's Global Gateway?'
[29] 'Auditors expose the failure of public-private partnerships (PPPs) and slam EU's support', Counter Balance and Eurodad, 20 March 2018.
[30] 'Green macrofinancial regimes', Daniela Gabor and Benjamin Braun, October 21, 2023.

DEVELOPMENT AND EXPORT CREDIT FINANCE FOR RAW MATERIALS PROJECTS

Mining is a high impact sector, uprooting large tracts of land, using tremendous amounts of water, and causing destructive impacts and consequences for communities and the environment. The unchecked advance of export credit finance for extractive activities is particularly alarming as past ECA-supported projects have had negative human rights and environmental impacts, lacked appropriate due diligence procedures and created severely unsustainable debt for project countries.[31]

As certain metals and minerals are key for green technologies and the geopolitical race to secure global value chains, large mining corporations and governments greenwash extractivism and the metal mining to boost the European industry. However, the concept of 'green mining' is a myth according to civil society. Materials like copper, iron and aluminium are used in construction and other industries such as the military sector that are far from sustainable. Carbon emissions linked to primary metal and mineral production accounted for around 10% of global energy-related emissions in 2018.[32]

What's more, while the extended use of export credit tools is being already promoted in this context, the EU has been stalling on addressing the serious lack of scrutiny, transparency, and binding due diligence requirements in ECAs' operations.[33] Their current compliance with EU objectives and obligations is far from adequate, and difficult to verify. This results in contraddictions within the EU's own commitments, objectives and policies – as also stressed in a study carried out by the European Parliament.[34] At the same time, development finance institutions such as the EIB still have persistent shortcomings in transparency, accountability, due diligence, and human rights and environmental standards. This is particularly concerning as extraction and mining of strategic raw materials are eligible for EIB financing. For example, in December 2023 the EIB signed a critical raw materials investment partnership with Rwanda, followed by an agreement between Rwanda and the Commission in February 2024. The agreement has been heavily criticised by civil society due to Rwanda's role in exploitation and illegal trade in 'blood minerals' which is central in the violent conflict in the east of the Democratic Republic of the Congo for almost 30 years, involving serious human rights violations.[35]

Public funds should be used to support strictly environmentally and economically sound projects that strive to meet development objectives and respect rights of local communities instead of an extractivist agenda serving European manufacturers and clean tech exporters.

Combined with the flow of development aid towards European private sector derisking through the Global Gateway approach, the enhanced coordination of DFIs and ECAs rings a loud alarm bell about the alignment of EU institutions' development agenda with EU's objectives and legally binding commitments.

[31] For more, see Both ENDS.

[32] 'Green mining' is a myth: The case for cutting EU resource consumption', Friends of the Earth Europe and European Environmental Bureau report.

[33] Moreover, the OECD Arrangement regulations (reflected in the EU Regulation) apply to only those operations falling under the arrangement – only a percentage of all ECA-backed operations.

[34] 'Aligning European Export Credit Agencies with EU policy goals', a study requested by the EP's INTA Committee.

[35] Minerais de sang: en s'alliant avec le Rwanda, « l'UE atteint le paroxysme du cynisme géostratégique » (Mukwege), Afriquactu.net.

RECOMMENDATIONS

>> Enhanced coordination between ECAs and DFIs needs to be halted pending a review of compliance of such operations as well as of the Global Gateway strategy with the EU's NDICI Regulation and other relevant international frameworks.

>> Export credit Regulation 1233/2011 needs to be revised. It is outdated and fails to adequately reflect new EU policy objectives, such as climate and human rights. It must include a more effective reporting and accountability mechanism to ensure that European ECAs comply with EU policies and obligations, and introduce decent transparency standards for ECAs to publicly disclose essential data (type of project, public funds involved, project owner, due diligence and impact assessments etc.).[36]

>> The European Parliament should demand a more active role to fill in accountability and scrutiny gaps, and establish a regular reporting agreement with the European Commission, making all the work underway on ECA-DFI coordination public.

>> All EU Member States must follow up on their commitment to provide science-based phase out policies to end fossil fuel export credit finance, in line with the March 2022 Council Conclusions on export credits. [37]

[36] For more, see the SwedWatch policy paper 'Key considerations for sustainable European export finance'.
[37] Council Conclusions on export credits, 15 March 2022.