

BACKGROUND

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Worse Than the World Bank?

Export Credit Agencies—The Secret Engine of Globalization

by Aaron Goldzimer*

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?

—EUROMONEY¹

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, in a watershed that is home to more than 370 million people. Many experts predict the outcome will be a nightmare: enormous amounts of residential and industrial waste and 530 million tons of silt a year—currently flushed out to sea—will instead collect in the reservoir; by some estimates, the odds of the dam's breaking are 1 in 1,000 (not counting a military or terrorist attempt to destroy it), endangering tens of millions of lives downstream; and already nearly 2 million people are being forcibly evicted to make way for the reservoir.²

Under intense pressure from nongovernmental organizations (NGOs), the World Bank has refrained from financing the project due to the environmental, social, and economic controversies surrounding the dam. But few people know that other institutions run by the leading industrial nations have provided almost \$1.5 billion in taxpayer-backed loans, guarantees, and insurance to construct the dam.³ These institutions are export credit and investment support agencies (ECAs).

While movements for global justice have succeeded in generating public debate about other previously anonymous institutions, such as the World Bank, the World Trade Organization (WTO), and the International Monetary Fund (IMF), one big piece has been missing from our understanding of how the global economic system favors multinational corporations and banks from rich countries over the poor and the environment in developing countries. That missing piece is the role of export credit agencies. "ECA" must be the next international acronym dragged into the public light.



A worker sits on the ruins of a demolished building in an area to be flooded by the Three Gorges Dam reservoir.

Photo: IRN

*Aaron Goldzimer is a social scientist with Environmental Defense, where he specializes in environmental reforms of international financial institutions, specifically ECAs.

What Is an ECA?

An export credit agency is an agency of—or backed by—a government. Usually overseen by the finance, trade, or economics ministry, an ECA uses taxpayer money to make it cheaper and less risky for domestic corporations to export or invest overseas. Almost all industrialized nations have at least one ECA (see box). Like department stores that provide credit so people without cash will buy the stores' products, rich countries (through their ECAs) provide loans and credit to developing countries, so that they will buy the rich country's exports.⁴ The results include debt for poor countries and increased sales and foreign investment opportunities for multinational corporations based in wealthy countries.

Many ECAs offer direct loans; or, when commercial banks or exporters provide the loans or credit, ECAs provide guarantees or insurance—essentially promises to reimburse the banks or exporters and cover most losses. ECAs offer lower interest rates, premiums, and fees than the private market would—and can also back transactions that the private market would refuse.⁵ But for developing-country borrowers, ECA-backed loans are still at higher interest rates than many loans from

other official sources like the World Bank or the International Monetary Fund (IMF), or other development banks and aid agencies.⁶ Also, in addition to support for exports, many ECAs offer loans, guarantees, or insurance for direct investments in developing countries by corporations based in the ECA's home country.

How ECAs Drive the Global Economy

Few people recognize the scale and importance of ECAs' role in the global economy. One ECA enthusiast calls them "the unsung giants of international trade and finance."⁷ At a minimum, it is likely that ECA-backed export credits and foreign investment from industrialized countries towards developing countries amount to \$100 to \$200 billion annually.⁸ In comparison, the entire World Bank Group's commitments in 2000 came to only \$19.3 billion, and all official development assistance commitments from the global North to the global South amounted to only \$62.2 billion.⁹ Furthermore, despite recent downturns related to the Asian financial crisis and September 11 attacks, export credits to developing countries have been growing over the long term, while development assistance has declined or remained stagnant.

Indeed, 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 has actually driven the process of economic globalization.

Why ECAs Are Troubling

Not only are ECAs by far the single largest part of public financial flows from North to South, but as we will see, they are also the least examined, the least transparent, the least accountable, and, in some ways, the most harmful. Among the issues critics of ECAs raise are that they:

- Support destructive projects that even the World Bank will not touch
- Lack basic environmental, human rights, corruption, and other safeguards
- Undercut their governments' own developmental and environmental policies and multilateral agreements
- Contribute heavily to developing countries' debt burdens
- Have little or no transparency or accountability

COUNTRY	ECA NAME	OVERSEEN BY:
Canada	Export Development Canada (EDC)	Ministry of Finance and Ministry for International Trade
France	Compagnie Française d'Assurance pour le Commerce Extérieur (COFACE)	Ministry of Economic Affairs and Finance
Germany (3)	1. Hermes Kreditversicherungs-AG 2. PwC Deutsche Revision AG 3. Kreditanstalt fuer Wiederaufbau (KfW)	1 and 2. Federal Ministry of Economics 3. Federal Ministry of Economics; Federal Ministry of Finance
Italy (2)	1. Istituto per i Servizi Assicurativi del Commercio Estero (SACE) 2. Società Italiana per le Imprese all'Estero (SIMEST)	(both) Ministry of Industry; Interministerial Committee for Economic Planning
Japan (2)	1. Nippon Export and Investment Insurance (NEXI) 2. Japan Bank for International Co-operation (JBIC)	1. Ministry of Economy, Trade, and Industry 2. Ministry of Finance
U.K.	Export Credits Guarantee Department (ECGD)	Department for Trade and Industry
U.S. (3)	1. Export-Import Bank of the United States (EXIM) 2. Overseas Private Investment Corporation (OPIC) 3. Commodity Credit Corporation	1 and 2. Independent government agencies 3. Department of Agriculture

- Provide corporate welfare by passing business' risks and losses on to unwitting taxpayers
- Contribute significantly to the arms trade, the expansion of nuclear power, and global warming

Low-Risk Financing for High-Risk Projects

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 people know that they will be compensated by federally funded flood insurance for any flood damage, many more build their homes in floodplains. There is a similar dynamic at work with ECAs—except on a much greater scale. In many cases, the ECAs can absorb up to 85 or 95 percent of the risk from a given transaction, meaning that potential losses for corporations and banks can be minimal. When an ECA will take on most of the risk and provide nearly full compensation if something goes wrong, there is every incentive for corporations and banks to move ahead with any overseas transactions—even excessively risky ones. In fact, there is less incentive to do thorough due diligence and risk assessment to identify any risks in the first place.¹⁰

Not only can this result in a great waste of economic resources, but it also generates the kinds of large, risky projects that often involve enormous social and environmental impacts and, frequently, corruption. These include big dams, mines, oil development, nuclear power plants, and other large resource extraction and infrastructure projects. Not surprisingly, one of the fastest-growing segments of the ECAs' activity has been large projects in developing countries,¹¹ and ECA backing has become increasingly crucial for these kinds of deals. Most medium- and long-term ECA financing (which was approximately \$67 billion in 1999)¹² is for such projects. In comparison, the World Bank committed just \$7.68 billion to projects with potentially adverse environmental impacts in 2000.¹³ In addition, the actual financing leveraged by ECAs for these kinds of projects is much greater than that supported by ECAs directly,



IMB photo by Warren Johnson

Indonesian refugees in Ambon. The Indonesian government is a major importer of arms supported by the British ECA, the ECGD.

since every dollar provided or backed by an ECA can attract an additional two or more dollars of purely private financing.¹⁴

So one of the essential characteristics of the ECAs' rise to prominence in international trade, finance, and the global economy has been the large-scale shifting of risk for global trade and investment from private banks and corporations to public-sector ECA accounts.

Built-In Indifference to Negative Impacts, and Growing Policy Contradictions

At least in theory, lending by the World Bank, the IMF, and most other official or development agencies is supposed to contribute to local economic growth, development, and/or poverty alleviation. These aims constitute all or part of the stated missions of these institutions (even if much of what they do may contradict these aims). In contrast, most ECAs do not have a development mandate at all. Indeed, their sole purpose is the promotion of their own countries' exports or foreign investments, and they have resisted any other considerations. As one colleague has written, "They are not foreign assistance agencies. They are domestic assistance agencies."¹⁵

Moreover, after decades of debacles and mounting public pressure, the World Bank and other development institutions

have adopted some degree of transparency, as well as policies and standards intended to prevent social and environmental abuses by the projects they finance (although these safeguards are often insufficient, poorly enforced, and still lead to flawed schemes). But even though ECAs have become by far the largest and most important source of official support for such projects, most ECAs have no effective safeguards or transparency—and recent moves by ECAs towards such policies have been a grotesque sham in all but a handful of cases.¹⁶

For example, the vast majority of ECAs do not have to release any information about projects with potentially severe environmental or social impacts before they approve them—meaning that taxpayers, locally affected communities, and others may have no knowledge of ECA activities and imminent project impacts, nor any opportunity to provide input or to object. Many ECAs do not even release such information after they approve transactions unless the corporate client approves of this disclosure.

This creates a serious policy contradiction. Indeed, ECAs routinely support projects—like the Three Gorges dam and the Enron Corporation's Dabhol power plant—that the World Bank or other public institutions have refrained from financing because of their harmful economic, social, or environmental impacts.

Economic Meltdown in the Philippines

In the 1970s, during the regime of Ferdinand Marcos, the U.S. Export-Import Bank (EXIM), one of the largest ECAs in the world, played a major role in providing, guaranteeing, and facilitating the loans for the Bataan Nuclear Power Plant (BNPP). This huge project was situated on an earthquake fault line, badly designed, unsafe, extremely overpriced (which EXIM knew), and a magnet for corruption. Because of these safety and other concerns, the plant never even became operational. Nevertheless, Filipinos have been paying it off ever since—and are scheduled to do so until 2018. The debt service cost in 2000 alone was \$49 million.

But that's not all. With the mothballing of the BNPP in 1986, the National Power Corporation (NPC) lost its planned major source of power for the country, while the debts incurred for the BNPP project left the NPC with no money to invest in new generating capacity. This 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. Many of these IPPs were in turn supported by the ECAs of Japan, the U.S., and the U.K. The entry of IPPs led to further, serious financial problems for the Philippine government and people. Electricity rates have skyrocketed because of the onerous provisions in the contracts (PPAs) with the IPPs, including having to pay for unused electricity.

Source: Adapted from Maristela dela Cruz-Cardenas, "ECAs and Debt: A Look into the Philippine Power Industry and the Debt Crisis," *Freedom from Debt Coalition*: 2–3.

Leaving Behind Mountains of Debt

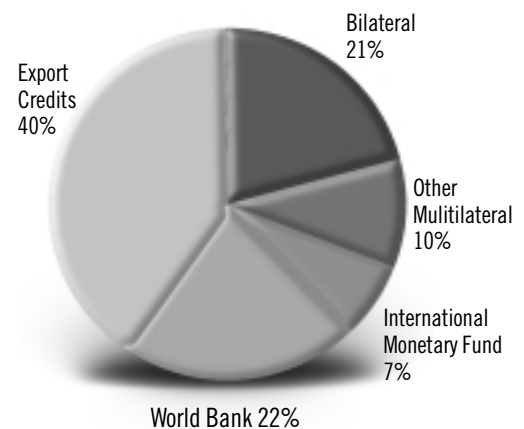
ECAs have become not only the largest single source of official finance flowing to developing countries, but also, according to the World Bank, these countries' largest official creditors—with ECA-related debt constituting the largest component of developing-country official debt.¹⁷ Roughly 64 percent of Nigeria's entire external debt is for export credits; for the Democratic Republic of Congo, it's 42 percent.¹⁸ And ECA-backed loans carry higher interest rates than do most World Bank, IMF, or other official loans.

There are a variety of ways export credits can contribute to developing countries' *sovereign debt*, or debt owed or guaranteed by the developing countries' governments—ECAs can also generate other kinds of massive financial liabilities for these governments that are not counted as debt. The most obvious ways ECAs can lead to sovereign debt are when they lend directly to a government or public entity, or when they guarantee or insure commercial bank or corporate credit or loans to a government or public entity.

But there are other, more subtle mechanisms. One is *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—owed by the developing country's government to the rich country's ECA. Here's how it works. 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, as we have seen. But when the buyer in the developing country is private, the ECA frequently insists that the Southern government also provide a counterguarantee. So if the private buyer in the developing country does not pay the Northern exporter or creditor, the Northern government (the ECA) will cover the losses—and then proceed to collect from the Southern government. The private transaction has turned into purely public, bilateral debt between the taxpayers of the two countries.

Another way 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 or guarantee a loan. For example, ECAs often finance power projects in developing countries—largely because the ECAs shoulder the risk for private investors in privatized power (and other infrastructure) sectors. However, many developing countries' governments must still offer extraordinarily generous terms in order to attract this private investment. In the case of a power project, the government may need to sign a power purchase agreement (PPA), which guarantees the purchase of power (whether it is needed or not), frequently at high, dollar-denominated prices.¹⁹ (Corruption also plays a role, as there are frequent allegations of bribes paid by foreign investors to secure these projects and their overly generous PPAs.) Since this purchase agreement is not a loan, it is not counted as debt, even though it may have multibillion-dollar budgetary implications. For example, after an Indian state electricity board refused to honor its power purchase agreement with the Enron Corporation's massive, ECA-funded Dabhol power plant in India (which had been the subject of widespread allegations of corruption), Enron estimated the size of its legal claim on the government of India at \$4 to \$5 billion—none of which is counted as debt.²⁰

Official Debt: All Developing Countries



Source: OECD, Joint BIS-IMF-OECD-World Bank Database

Hotbeds of Corporate Welfare

ECAs are national agencies doling out billions of dollars of financial backing for corporate activities in faraway places, largely out of the public eye, and often with little or no disclosure or other safeguards. As such, ECAs are more susceptible to “capture” by special interests, as well as approvals based on domestic or world politics, than are any other international financial institutions. Their links to their corporate clients are much more direct and involve much larger sums. Meanwhile, corporate and banking beneficiaries have every incentive to employ their ample lobbying power to keep the tap flowing and growing—with as little accountability as possible—and there are few significant opposing interests.

In an extraordinary exposé of the corporate welfare characteristics of the U.S. Export-Import Bank (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. . . . Not only are these companies major campaign contributors to members of Congress, they often are leading employers in many Congressional districts. . . .”²¹

A rough analysis of recent annual reports reveals that in 2001 more than 60 percent of EXIM’s loans and long-term guarantees went to just three corporations, and almost 90 percent went to just ten (see box). OPIC’s support is nearly as concentrated, and similar trends appear in other countries. In their defense, the ECAs argue 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 counterarguments do not change the fact that a relatively small number of the world’s biggest multinationals receive most of the benefits from ECAs.

Top ten recipients of EXIM loans and long-term guarantees in FY2001:

Client	Amount of Loans and Long-Term Guarantees	% of Loans and Long-Term Guarantees
Boeing	\$2,575,557,158	45.9%
Fluor Daniel Corp.	\$627,600,198	11.2%
Kellogg Brown & Root (subsidiary of Halliburton)	\$300,000,000	5.3%
General Electric	\$275,116,120	4.9%
ABB Lummus	\$210,364,084	3.8%
Varian Semiconductor Equipment Assoc.	\$210,201,600	3.7%
Raytheon Aircraft Corp.	\$195,527,880	3.5%
Bechtel	\$178,149,162	3.2%
M-I, LLC	\$130,000,000	2.3%
Siemens Westinghouse	\$103,904,672	1.9%
Total	\$4,806,420,874	85.7%

Source: Export-Import Bank of the United States, “FY 2001 Loans and Long-Term Guarantees,” Annual Report 2001: 24–30.

It is also important to note that one of the most important benefits that corporations are receiving from ECAs is not financial backing at all—but rather political backing. Corporations prize the political power that comes with an ECA loan, guarantee, or insurance policy—power that can be exerted on developing countries. For example, after the electricity board of the Indian state of Maharashtra cancelled its agreement to purchase overpriced power from Enron’s Dabhol power plant, the U.S. government exerted extreme pressure on the Indian government to pay, in a strategy coordinated at the highest levels of the U.S. government (the National Security Council) and involving even Vice-President Richard Cheney and Secretary of State Colin Powell. The U.S. did not do this just to assist Enron, but also to protect the hundreds of millions of dollars in U.S. taxpayer loans and insurance that had been supplied by U.S. ECAs.²² According to the Associated Press, U.S. government threats have even included cutting off aid to India.²³

In fact, through the mechanism of ECAs, Northern governments and taxpayers become unwitting partners or joint investors with multinationals in their transactions in developing countries,

meaning that the full foreign policy arsenal of Northern governments can then be used to protect corporate loans and investments (which have insidiously also become Northern taxpayer investments through ECAs). As the *New York Times* reported (quoting Edmund B. Rice of the pro-ECA corporate lobbying group Coalition for Employment Through Exports), “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.’”²⁴

Financing Harm: Guns, Nukes, and CO₂

Many ECAs help finance the export of weapons to developing countries, as well as nuclear power plants and large fossil fuel extraction and power projects. Again, a 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 most ECAs have no such scruples.

Guns. Though the United States dominates the global arms trade, its arms exports receive finance from export credit-like programs run out of the U.S.

Department of Defense rather than U.S. ECAs, with some exceptions. However, most European countries use their ECAs.²⁷ For example, although arms represent only 2 percent of the United Kingdom's exports, in 2000–2001 defense exports represented nearly half the portfolio of the U.K.'s ECA, the ECGD; and the arms business accounts for a massive portion of its outstanding claims.²⁸ Major recipients of ECGD-supported arms exports have included South Africa, Indonesia, Saudi Arabia, and Turkey.²⁹ The ECGD promoted the sale of Hawk jets to Indonesia despite their being used in the brutal suppression of East Timor. And in South Africa, facing an ECGD-backed purchase of over \$1 billion worth of fighter jets, church and human rights groups have argued that the country's large weapons procurement program directly contradicts its development needs.³⁰ Even Michel Camdessus, then the managing director of the International Monetary Fund, called for "abolishing the provision of export credit for military purposes."³¹

Nukes. Even though most Western countries have not built any nuclear power plants in their own countries in decades, their ECAs have kept their nuclear industries alive by supporting the proliferation of nuclear plants and technology in other countries. In 2001, there were 19 nuclear power plants being built in the world outside the G8 countries, and 14 of them were being supported by the ECAs of the

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Photo by Brian Z/pbase

Even as people in industrial countries struggle to move away from polluting power plants, their ECAs support the construction of new fossil fuel intensive projects.

Corruption

Transparency International has noted that until recently bribes—or "commissions"—could represent 10 to 20 percent or more of an ECA-backed contract's value and were simply included in the supply costs covered by the ECA.²⁵ After the fall of the Indonesian dictator Suharto in 1998, considerable evidence emerged about corruption in several power projects, where equity and other benefits had been offered to Suharto relatives and cronies in exchange for overpriced or even unnecessary power purchase contracts. All of these projects had been supported by ECAs from industrialized countries. Moreover, rather than cooperate with corruption investigations, the ECAs chose instead to apply pressure on the Indonesian government to honor the corrupt power contracts. There are countless other examples of corruption in ECA-backed transactions.

In December 2000, the Organisation for Economic Co-operation and Development (the OECD, an international organization mostly consisting of industrialized countries) issued an "action statement" regarding ECAs and bribery. Although it is a first, small step, this statement contains none of the measures—such as those recommended by Transparency International²⁶—that realistically would impede official export credit support for corporate transactions involving bribery and corruption.

G8 countries. Thus, these countries' ECAs are maintaining their nuclear power manufacturing base until—the industry hopes—new orders resume in Western countries. Furthermore, safety and other concerns have emerged in many of the ECA-supported plants, including the Temelin plant in the Czech Republic (which was also five years overdue and \$1 billion over budget).³²

CO₂. 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.³³ This points to the hypocrisy of both sides of the Kyoto Protocol debate. On one side, the United States rejects the Kyoto Protocol in part because the Protocol does not require emissions limits for developing countries—but U.S. ECAs are financing the fossil fuel and energy-intensive projects that will lock in higher emissions in the developing world. On the other side, European nations claiming to support action on climate change are nevertheless doing the same thing through their ECAs. Amazingly, the annual carbon emissions of fossil fuel projects in developing countries backed by Britain's ECGD from only May 1997 to February 2002—and scaled down by the proportion of the projects' finance backed by ECGD—are equal to more than a third of the U.K.'s total annual domestic emissions from power generation.³⁴ Similarly striking statistics exist for the United States.³⁵

The Beginnings of Change

Many nongovernmental organizations (NGOs) began to grapple with export credit agencies after discovering that they had become the principal financiers of the projects local communities in developing countries were battling because of environmental or social impacts, corruption, or other ills. A loose international network of NGOs and trade unions has grown rapidly over just the last three to five years, working on many of the issues discussed in this paper. In 2000, 347 NGOs from 45 countries documented their calls for reform with a platform statement known as the Jakarta Declaration. NGOs have successfully campaigned to stop or delay certain ECA projects, such as the Maheshwar dam in India and the Ilisu dam in Turkey. And NGOs have forced a few countries to adopt some significant ECA reforms, at least on the issues of transparency or the environment.³⁶ Moreover, every G8 communiqué between 1997 and 2001 included language encouraging or mandating international negotiations towards multilateral environmental reforms for ECAs.

However, after nearly five years of these international discussions and negotiations (which take place at the OECD), governments have failed, and most countries have decided to implement a proposal that NGOs rightly regard as a total sham.³⁷ (Negotiations are set to re-open later this year.) Moreover, attempts to address nonenvironmental issues surrounding ECAs—such as debt, corrup-

tion, and human rights, have either been similarly weak or simply nonexistent.

How Are ECAs to Be Dealt With? The Policy Debate

Many people favor eliminating ECAs, seeing them as socially harmful trade subsidies that benefit neither the ECAs' home countries nor the recipient countries. But if ECAs are going to exist, clear reforms should be the minimum price of their continued existence. At the very least, ECAs must abide by strict rules in order to prevent the crushing debt, human rights abuses, corruption, environmental damage, and other impacts that now frequently accompany ECA activities. These rules would fall into three categories:

- Screens, assessments, and binding standards to ensure that ECAs do not support transactions causing environmental or social harm, labor or human rights abuses, and/or unjustifiable debt.

- Measures to prevent ECA support for transactions involving corruption.³⁸
- Transparency, including 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.

Governments should not support projects that devastate local communities and the environment and leave little behind besides a few well-lined pockets and mountains of debt. If they continue to do so through their ECAs, the most destructive chapters in the history of development are sure to be repeated.

What Can You Do?

Like other previously anonymous institutions (the World Bank, IMF, WTO, etc.), ECAs will never change unless and until their impacts and their role in the global economic system are exposed and publi-

cized. Otherwise, they will continue to operate in near-anonymity and obstruct any efforts for change. The time has come for ECAs to be dragged into the public light—and for us to demand change from governments, legislatures, the G8 and OECD, and ECAs themselves. ECAs must become accountable to the world.

1. **To contact organizations working on ECAs.** Visit eca-watch.org to find lists of nongovernmental organizations (NGOs) in over 30 countries working on ECAs.
2. **For more information.** Visit environmentaldefense.org/go/eca or eca-watch.org. Also, this background is drawn from a larger paper that you may wish to read to delve deeper into the subject. It is entitled “Globalization’s Most Perverse Secret: The Role of Export Credit and Investment Insurance Agencies,” and it’s available at environmentaldefense.org/new-rules.org.³⁹

Notes

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,” www.probeinternational.org/pi/3g/index.cfm?DSP=content&ContentID=1708, October 31, 2000 (accessed August 30, 2002); International Rivers Network, “Three Gorges Campaign,” <http://irn.org/programs/three/> (accessed August 30, 2002).

³ Berne Declaration, et al., 7; Probe International, “Who’s Behind China’s Three Gorges Dam?” www.nextcity.com/probeinternational/Three-Gorges/who.html (accessed August 30, 2002).

⁴ Even though an increasing number of developing countries have created ECAs, most of them are negligible in size compared to industrialized country ECAs. Industrialized country export credits go disproportionately to developing countries. Malcolm Stephens, *The Changing Role of Export Credit Agencies*, Washington, DC: International Monetary Fund, 1999: 63.

⁵ 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 some export credits, as long as they abide by the terms of an agreement negotiated by rich countries at the OECD—although there is controversy over whether everything ECAs do is permitted by this “carve-out.”

⁶ Delio E. Gianturco, *Export Credit Agencies: The Unsung Giants of International Trade and Finance*, Westport, Conn.: Quorum Books, 2001: 2.

⁷ Gianturco, 1.

⁸ Because ECAs are so untransparent and disclose so little aggregate data or information on their transactions, we do not know exactly how many total export credits there are globally every year nor how many are extended to developing countries. These are conservative estimates extrapolating from Stephens, 63; and “Directory,” in *The Berne Union 2002 Yearbook*, ed. Jon Marks, London, UK: Newsdesk Communications Ltd, 2002: 200.

⁹ OECD, “Statistical Annex of 2001 DCR,” www.oecd.org/EN/document/0,,EN-document-57-nodirectorate-no-1-2674-15.00.html (accessed August 20, 2002).

¹⁰ This puts the burden of thorough risk assessment and due diligence on the 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 to ECAWatch Conference, Berlin, Germany, March 8, 2002. Also, the moral hazard of ECAs has been implicated in the pouring of \$12 billion of partially ECA-backed international finance into reckless investments in the Indonesia pulp and paper industry (fed with illegal, unsustainable clear-cuts of natural forest). Many of these investments are now insolvent, and it looks likely that ECAs will be picking up part of the tab. “Profits on Paper: The Political-Economy of Fiber, Finance, and Debt in Indonesia’s Pulp and Paper Industries,” Christopher Barr, Center for International Forestry Research and World Wildlife Fund, November 30, 2000: 2, 7 (Executive Summary), 32, 47.

¹¹ These projects have been perhaps the most important factor driving strong growth in medium- and long-term ECA commitments over the long term. The World Bank, *Global Development Finance*, Washington, DC: Office of the Publisher, 1998; vol. 1: 58. There have been recent downturns in ECA support of such projects due to the Asian financial crisis and Sept. 11, but “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: Newsdesk Communications Ltd, 2002: 53).

¹² IMF staff, “Official Financing for Developing Countries,” *World Economic and Financial Surveys*, Washington, DC: International Monetary Fund, 2001: 16.

¹³ This figure is for World Bank (IBRD and IDA) commitments to Category A and B projects, which are the classifications for projects with potentially adverse environmental impacts. This is a crude attempt to create a more appropriate comparison by screening out low-impact development projects—such as health or education projects—which are part of World Bank project lending but not typically financed by ECAs. The World Bank, www4.worldbank.org/sprojects/ (accessed August 6, 2002).

¹⁴ Crescencia Maurer and Ruchi Bhandari, “The Climate of Export Credit Agencies,” *Climate Notes*, Washington, DC: World Resources Institute, 2000: 4.

¹⁵ Bruce Rich, “Exporting Destruction,” *The Environmental Forum*, September/October 2000: 32–41.

¹⁶ ECAs with transparency and safeguard policies closer to the level of development finance institutions

Notes, continued

- include those of Australia, the U.S., Japan (with respect to transparency), and France (with respect to some environmental standards).
- ¹⁷ "Official debt" consists of debt owed to official (meaning public) creditors, whether bilateral or multilateral (this excludes debt owed to private banks and other private creditors). The World Bank, *Global Development Finance: Financing the Poorest Countries*, Washington, DC: Office of the Publisher, 2002; vol. I: 107.
- ¹⁸ OECD, "Creditor Reporting System online," www.oecd.org/htm/M00005000/M00005347.htm, November 28, 2001 (accessed August 8, 2002).
- ¹⁹ Navroz Dubash, e-mail to the author, June 29, 2002.
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