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STUDY ON CONVERGENCE OF DEVELOPMENT FINANCE AND EXPORT FINANCE

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TABLE OF CONTENTS

Table of Contents i
List of Figures v
List of Tables vi
List of Abbreviations vii

PRÉCIS i

EXECUTIVE SUMMARY i

1 INTRODUCTION 1
1.1 Background and Objectives 2
1.2 Analytical Framework 3
1.3 Structure of this Study 4

2 THEORETICAL BACKGROUND 5
2.1 Overview 6
2.2 Rationale and Vehicles for Public Interventions 6
2.2.1 Introduction 6
2.2.2 Market Failure 6
2.2.3 Policy Goals 7
2.2.4 Financing vehicles for Interventions 8
2.2.5 Descriptive Analysis 9
2.3 Principles of Interventions 10
2.3.1 Introduction 10
2.3.2 Additionality 11
2.3.3 Catalytic Or Demonstration Effect 13
2.3.4 Sustainability 14
2.3.5 Descriptive analysis 16
2.4 Summary 17

3 REGULATORY FRAMEWORK 18
3.1 Overview 19
3.2 World Trade Organization 19
3.2.1 Introduction 19
3.2.2 Agreement on Subsidies and Countervailing Measures 19
3.2.3 Descriptive Analysis 22
3.3 OECD 23
3.3.1 Introduction 23
3.3.2 The Arrangement 23
3.3.2.1 Scope of Arrangement 24
3.3.2.2 Terms and Conditions 25
3.3.2.3 Role and Mechanisms of Transparency Provisions 26
3.3.2.4 Relation to WTO 27
3.3.2.5 Market Window 27
3.3.3 Good Governance provisions In the Context of Export Credits 27
3.3.3.1 Common Approaches 28
3.3.3.2 Recommendation on Bribery 28
3.3.3.3 Recommendation on Sustainable Lending 29
3.3.4 The Development Assistance Committee 29

3.3.5 Descriptive Analysis *30*
3.4 Basel Regulations 31
3.4.1 Introduction *31*
3.4.2 Impact on ECAs, DFIs and MDBs *32*
3.4.3 Descriptive Analysis *32*
3.5 EU Regulation 33
3.5.1 EU Regulation No 1233/2011 ..... *33*
3.5.2 Council Decision No2006/789/EC *34*
3.5.3 Communication from the Commission (2012/C 392/01) *34*
3.6 Summary 34

4 INTRA- COMPARATIVE ANALYSIS OF DFIS, MDBS AND ECAS 35
4.1 Overview 36
4.1.1 DFIs *36*
4.1.2 MDBs *37*
4.1.3 ECAs *38*
4.2 DFIs 39
4.2.1 Mandates *39*
4.2.1.1 Mandate *39*
4.2.1.2 Institutional Structure *40*
4.2.1.3 National Interest Considerations *40*
4.2.1.4 Market Complementarity and Competition *42*
4.2.2 Strategy *42*
4.2.2.1 Strategy *42*
4.2.2.2 International Representation *43*
4.2.2.3 Cooperation *43*
4.2.3 Products and Clients *45*
4.2.3.1 Private Sector Loans *46*
4.2.3.2 Equity *47*
4.2.3.3 Insurance and Guarantees *47*
4.2.4 Markets *48*
4.2.4.1 Geographies *48*
4.2.4.2 Sectors *49*
4.2.5 Governance *52*
4.2.5.1 Oversight *52*
4.2.5.2 Environmental and Social Governance *53*
4.2.5.3 Transparency *54*
4.3 MDBs 55
4.3.1 Mandate *55*
4.3.1.1 Mandate *55*
4.3.1.2 Institutional Structure *55*
4.3.1.3 National Interest Considerations *55*
4.3.1.4 Market Complementarity and Competition *56*
4.3.2 Strategy *56*
4.3.2.1 Strategy *56*
4.3.2.2 International Representation *57*
4.3.2.3 Cooperation *57*
4.3.3 Products and Clients *58*
4.3.3.1 Public Sector Loans *60*
4.3.3.2 Private Sector Loans *60*
4.3.3.3 Trade Finance Programmes *62*

4.3.3.4 Equity 63
4.3.3.5 Guarantees, Treasury and Capital Market Solutions 63
4.3.3.6 Grants 64
4.3.3.7 Non-financial Services 64
4.3.4 Markets 64
4.3.4.1 Geographies 64
4.3.4.2 Sectors 65
4.3.5 Governance 67
4.3.5.1 Oversight 67
4.3.5.2 Environmental and Social Governance 68
4.3.5.3 Transparency 69
4.4 ECAs 69
4.4.1 Mandates 69
4.4.1.1 Mandate 69
4.4.1.2 Institutional Structure 70
4.4.1.3 National interest considerations 71
4.4.1.4 Market Complementarity and Competition 72
4.4.2 Strategy 73
4.4.2.1 Strategy 73
4.4.2.2 International Representation 73
4.4.2.3 Cooperation 74
4.4.3 Products and Clients 75
4.4.3.1 Loans 78
4.4.3.2 Insurance and Guarantees 80
4.4.3.3 Equity 81
4.4.3.4 Development Finance Windows linked with ECAs 81
4.4.3.5 Non-financial Services 82
4.4.4 Markets 83
4.4.4.1 Geographies 83
4.4.4.2 Sectors 83
4.4.5 Governance 85
4.4.5.1 Oversight 85
4.4.5.2 Environmental and Social Governance 86
4.4.5.3 Transparency 86
4.5 Summary 87

5 INTER- COMPARATIVE ANALYSIS OF DFIS, MDBS AND ECAS 88
5.1 Overview 89
5.2 Mandate 89
5.2.1 Institutional Structure 90
5.2.2 National Interest 91
5.2.3 Market Complementarity 91
5.3 Strategy 92
5.3.1 Strategy 92
5.3.2 International Representation 92
5.3.3 Cooperation 93
5.4 Products and Clients 94
5.5 Markets 96
5.5.1 Geographies 96
5.5.2 Sectors 97
5.6 Governance 98

5.6.1 Oversight *98*
5.6.2 Environment and Social Governance *99*
5.6.3 Transparency *100*
5.7 Summary 101

6 CASE STUDIES 102
6.1 Introduction 103
6.2 MDB/DFI Project – Case Study One 103
6.2.1 Backround and Overview *103*
6.2.2 Transaction Structure *104*
6.2.3 Role of the Public Instruments *105*
6.2.4 Rationale for Public INtervention *105*
6.2.5 Summary *106*
6.3 ECA/DFI/MDB Project – Case Study Two 107
6.3.1 Background and Overview *107*
6.3.2 Transaction Structure *107*
6.3.3 Role of the Public Instruments *108*
6.3.4 Rationale for Public Intervention *109*
6.3.5 Summary *110*
6.4 ECA/DFI/MDB Project – Case Study Three 111
6.4.1 Backround and Overview *111*
6.4.2 Transaction Structure *111*
6.4.3 Role of the Public Instruments *113*
6.4.4 Rationale for Public INtervention *114*
6.4.5 Summary *115*

7 RESEARCH QUESTIONS: SUMMARY AND CONCLUSIONS 116
7.1 Introduction 117
7.2 Regulations 117
7.2.1 WTO *117*
7.2.2 OECD *118*
7.2.3 IWG *120*
7.2.4 Basel Regulation *121*
7.3 Additionality and National Interest 121
7.3.1 Private Sector Crowding In or Out *122*
7.3.2 National Interest *123*
7.4 Competition and Level Playing Field 125
7.4.1 Competition *125*
7.4.1.1 Policy Level *125*
7.4.1.2 International Competition between Financing Instruments *126*
7.4.1.3 Institutional Competition between bilateral DFIs, MDBs and ECAs *127*
7.4.2 Level Playing Field *128*

ANNEXES 130
ANNEX A: Scope of Research 131
ANNEX B: List of References 134
ANNEX C: Factsheets 138

LIST OF FIGURES

Figure 1: Research Questions 2
Figure 2: Assessed Institutions 3
Figure 3: Concept of Market Failure 7
Figure 4: Financing Vehicles' Mandates and Strategic Approaches 10
Figure 5: Reference Cases and Additionality 11
Figure 6: DFI Catalytic Effects 14
Figure 7: Annual and Accrued Results German ECA 1980-2017 (€ mn) 16
Figure 8: Overview of Key Basel III Ratios 31
Figure 9: Dimensions of Analysis 36
Figure 10: European DFI Portfolio by Region (EUR, billion) 37
Figure 11: New Approvals by Multilateral Development Banks 38
Figure 12: New MLT Export Credit Volumes 2017 ($ billion) 39
Figure 13: Product Portfolio Breakdown by Commitments (2017) 45
Figure 14: Bilateral DFIs Exposure by Geographies (2015) 48
Figure 15: Selected Bilateral DFIs Exposure by Geographies (2017) 49
Figure 16: European bilateral DFIs exposure by sectors (2015) 50
Figure 17: Selected bilateral DFIs portfolio exposure by sectors (2017) 52
Figure 18: Commitments by Product (2017) 59
Figure 19: Total Portfolio by Customer (2017) 59
Figure 20: MDB Commitment by Geographies (2017) 65
Figure 21: MDB exposure by sectors (2017) 66
Figure 22: Product breakdown (2017) 77
Figure 23: ECA exposure by geographies (2017) 83
Figure 24: ECA portfolio exposure by sectors (2017) 84
Figure 25: Comparison of Top 10 Countries, IFC and Berne Union Members 97
Figure 26: Azura-Edo IPP Project Structure 104
Figure 27: PETN Financing Structure 108
Figure 28: Sankofa Financing Structure 113
Figure 29: Research Questions 117
Figure 30: Selected MLT Offerings 119

LIST OF TABLES

Table 1: Summary Overview of Standard Arrangement Terms and Conditions 25
Table 2: Transparency Mechanisms......26
Table 3: Mandate 39
Table 4: Institutional Structure 40
Table 5: National Interest 41
Table 6: Strategic Priorities 42
Table 7: International Representation 43
Table 8: Overview of Selected Bilateral DFI's Loan Offerings 46
Table 9: Oversight and Shareholders......53
Table 10: Environmental and Social Governance 54
Table 11: Transparency 54
Table 12: Mandates of MDBs 55
Table 13: Procurement Eligibility 56
Table 14: Strategic priorities 57
Table 15: Overview of Selected MDB Financial and Non-financial Services 58
Table 16: Overview of Selected MDB Private Sector Loan Offerings......61
Table 17: Overview of IFC Syndication Products......62
Table 18: Overview of MDB Trade Facilitation Programmes......63
Table 19: Oversight 68
Table 20: ECA Mandates 70
Table 21: Institutional structure 71
Table 22: National Interest 72
Table 23: Strategic Priorities 73
Table 24: International Representation 74
Table 25: Loan Product Overview......78
Table 26: Non-traditional ECA Loan Products 79
Table 27: Insurance and guarantee products 80
Table 28: Transparency 87
Table 29: Summary Overview – Mandate......89
Table 30: Summary Overview – Institutional Structure 90
Table 31: Summary Overview – National Interest Considerations......91
Table 32: Summary Overview – Strategy......92
Table 33: Summary Overview – International Representation......93
Table 34: Summary overview – Cooperation 93
Table 35: Summary overview – Products and clients......94
Table 36: Summary Overview – Geographies 96
Table 37: Summary Overview – Sectors......97
Table 38: Summary Overview – Oversight......98
Table 39: Summary Overview – Environmental and Social Governance 99
Table 40: Summary overview – Transparency 100

LIST OF ABBREVIATIONS

4IR	Fourth Industrial Revolution
ACN	Australian Company Number
ADB	Asian Development Bank
ADSB	Atradius Dutch State Business
AFD	Agence Francaise de Developpement
AfDB	African Development Bank
AIIB	Asian Infrastructure Investment Bank
APEC	Asia-Pacific Economic Cooperation
BDC	Business Development Canada
BRI	Belt and Road Initiative
CCIP	Cleantech Co-Investment Programme
CDC	Commonwealth Crown Corporation
CDP	Cassa Depositi e Prestiti
CEXIM	Export-Import Bank of China
CIB	Canada Infrastructure Bank
CIRR	Commercial Interest Reference Rate
DAC	Development Assistance Committee
DEG	Deutsche Investitions- und Entwicklungs-gesellschaft
DFAT	Department of Foreign Affairs and Trade
DFI	Development Finance Institution
DFIC	Development Finance Institute Canada
DFID	Department for International Development
DGGF	Dutch Good Growth Fund
DIT	Department for International Trade
DSF	Debt Sustainability Framework
DTIF	Dutch Trade and Investment Fund
ECA	Export Credit Agency
ECN	Export Credit Norway
EDC	Export Development Canada
EFIC	Export Finance and Insurance Corporation
EH	Euler Hermes
EIB	European Investment Bank
EKF	EKF Denmark's Export Credit Agency
EMDE	Emerging Markets and Developing Countries
EMDG	Export Market Development Grants
EU	European Union
FDI	Foreign Direct Investment
FY	Financial Year
G7	Group of Seven Countries
GAC	Global Affairs Canada
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GE	General Electrics
GIEK	The Norwegian Export Credit Guarantee Agency
HIPSO	Harmonized Indicators for Private Sector Operations
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
ICCF	Interact Climate Change Facility
IFC	International Finance Corporation
IFCL	International Financial Consulting Ltd.
IFU	Investment Fund for Developing Countries
IPP	Independent Power Plant
IWG	International Working Group on Export Credits
JBIC	Japan Bank for International Cooperation
KfW	Kreditanstalt für Wiederaufbau
LDC	Least Developed Country
MCC	Millennium Challenge Account
MDB	Multilateral Development Bank
MLT	Medium and Long-Term Financing
MWOB	Minority and women-owned businesses
NAFTA	North American Free Trade Agreement
NAIF	Northern Australia Infrastructure Facility
NEA	Netherlands Enterprise Agency
NL	The Netherlands
OCTP	Offshore Cape Three Points
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OMB	Office of Management and Budget
OPIC	Overseas Private Investment Corporation
PPP	Public-Private Partnership
Proparco	Promotion et Participation pour la Cooperation Economique
PwC	PricewaterhouseCoopers
R&D	Research and Development
SDGs	Sustainable Development Goals
SECO	State Secretariat for Economic Affairs
SERV	Schweizerische Exportrisikoversicherung
SIF	Strategic Investment Fund
SIFEM	Swiss Investment Fund for Emerging Markets
SME	Small and Medium-Sized Enterprise
SSAAC	Sub-Saharan Africa Advisory Committee
SWF	Sovereign Wealth Fund
TOSSD	Total Official Support for Sustainable Development
UK	United Kingdom
UKEF	UK Export Finance
US	United States
US EXIM	Export-Import Bank of the United States
WTO	World Trade Organization

PRÉCIS

The Study on Convergence of Development Finance and Export Finance takes stock of the official finance scene, analysing selected development finance institutions (DFIs), multilateral development banks (MDBs) and export credit agencies (ECAs).

With changing needs for export finance, modernisation of development finance in the Organisation for Economic Co-operation and Development (OECD) and the quest for mobilising private capital for financing of global challenges, the international official finance architecture is undergoing enormous pressure for change. How is this change taking place? Are we moving towards more collaboration between different types of institutions leading to more financing or are we seeing an increase in competition between the different institutions? How does this affect private markets? Are we using our resources efficiently? To even begin answering these questions, the first step is to understand the market and the division of labour between the many official financial institutions. This is what this report attempts to shed light on and why we as institutions have sponsored the study by International Financial Consulting Ltd. (IFCL) and the Institute for Trade and Innovation (IfTI) at Offenburg University.

The report has been written by an independent body, and it does not represent the views or positions of the sponsoring ECAs.

Atradius, EKF, EKN, Euler Hermes, Finnvera, GIEK, UKEF

Key Takeaways

The Study on Convergence of Development Finance and Export Finance (the Study) provides an overview of the different policy intervention frameworks behind the three different types of official finance institutions (DFIs, MDBs and ECAs). It also takes a deep dive into a number of selected institutions and assesses motivations and drivers for DFI, MDB and ECA strategies and involvement in transactions – both from a theoretical point of view as well as from a practical point via in-depth case studies of real-life transactions.

The Study focussed on three research questions:

What regulations do ECAs and DFIs have to follow? In the face of the stated developments, will the OECD Arrangement continue to be relevant?	How do development finance institutions avoid crowding out commercial financing and to what degree do national interests play a role?	To what extent do development finance institutions and export credit agencies compete with each other? How safe is the level playing field for exporters?

The main findings include:

1) Business and activities of DFIs, MDBs and ECAs are converging but institutions still operate under different regulatory systems.

The Study confirms that there is increasing convergence in the business and activities of the different institutions. Common rules for financing trade are essential for fair competition, but the Study observes that national ECAs and DFIs do not apply WTO and OECD rules for export related support to the same extent. Moreover, MDBs do not have to follow the same rules as national institutions (by nature as they are multilateral institutions).

This contributes to an unlevel playing field in financing, and projects, buyers and exporters seeking finance will find different offerings depending on which official institutions they contact. The Study also confirms a trend where the part of business that ECAs are doing outside the regulatory framework of the OECD Arrangement is increasing, indicating that the OECD regulatory framework, and the OECD Arrangement in particular, is under pressure as a provider of a level playing field for official trade and project finance.

2) How to avoid crowding out commercial finance? Different approaches are emerging.

DFIs, MDBs and ECAs all have the intention to act in a complementary manner to the private market. While ECAs have relied on OECD regulation as a way of handling their relationship to the market, DFIs and MDBs have a different approach. Most of the assessed DFIs direct their capital on transactions where they can provide additionality and "crowd in". However, there is no evidence that this motivation holds true for all DFIs. This is particularly true for Chinese institutions, which are providing significant support irrespective of whether commercial financing is available or not.

The Study, moreover, confirms a trend of competition for financing the most attractive transactions. However, it is hard to broadly confirm whether this trend also increases risks of crowding out the commercial market. Interviewees in this Study indicate that DFI and MDB pricing does not systematically undercut pricing related to commercial banks or ECAs which are regulated in their pricing. It is clear from the Study that more transparency is needed to be able to assess pricing levels and mechanisms across institutions appropriately.

3) New challenges of the global economy give rise to converging mandates between institutions. This may increase competition, but also collaboration.

Some DFIs are increasingly driven by the intention to target national companies and demonstrate a positive impact on the domestic economy. In tandem, many ECAs are loosening their national content requirements and increasing their focus on positive Environmental, Social and Governance (ESG) impact, which means that strategies of DFIs and ECAs are converging and products are overlapping. DFIs and ECAs have both expanded their product offerings including equity, mezzanine financing and direct lending as well as insurance and guarantees.

China (and some other Asian countries) use DFIs and ECAs actively in their national strategies in which they play systematic and complementary roles in order to strengthen the overall offering. Such collaboration or blending of types of support between DFIs and ECAs as well as MDBs is growing, for instance in the form of co-finance and/or in order to insure large energy projects in difficult markets.

Overall, the concept of the level playing field is in question. The key challenge is the significant rise of non-OECD development and export finance institutions in terms of number of deals, financing volumes and market power. Converging strategies and products across different types of institutions, increasing competition from non-OECD countries, and the strategic approach to the integration of DFI, MDB and ECA products in Asia are challenging the traditional OECD regulatory framework and may result in global trade distortion.

EXECUTIVE SUMMARY

A. Background and Objectives

Atradius N.V. (Atradius), Euler Hermes Aktiengesellschaft (EH), EKF Denmark's Export Credit Agency (EKF), the Swedish Export Credits Guarantee Board (EKN), Finnvera plc. (Finnvera), the Norwegian Export Credit Guarantee Agency (GIEK) and UK Export Finance (UKEF) (the Project Sponsors) have sponsored International Financial Consulting Ltd.(IFCL) to conduct a *Study on Convergence of Development Finance and Export Finance* (the Study). IFCL's research partner was the Institute for Trade and Innovation (IfTI) at Offenburg University. The report has been written by IFCL with research support from IfTI as an independent body, and it does not represent the views or positions of the sponsoring ECAs.

The Study consists of a quantitative and qualitative analysis regarding collaboration and competition of development finance and export finance instruments. The aim is to map selected bilateral development finance institutions (DFIs), multilateral development banks (MDBs) as well as export credit agencies and export-import banks (ECAs). The Study also assesses regulatory frameworks and matches the different organisations in an intra- and inter-comparison approach. It looks at motivations and drivers for the involvement of DFIs, MDBs and ECAs in specific transactions, and thus analyses the financing landscape within a transactional context. The focus is on the following research questions:

Research Questions

What regulations do ECAs and DFIs have to follow? In the face of the stated developments, will the OECD Arrangement continue to be relevant?

How do development finance institutions avoid crowding out commercial financing and to what degree do national interests play a role?

To what extent do development finance institutions and export credit agencies compete with each other? How safe is the level playing field for exporters?

In addition to a theoretical overview regarding policy interventions, five OECD (Organisation for Economic Co-operation and Development) and non-OECD bilateral DFIs are assessed in addition to five MDBs and five OECD ECAs to allow a broad representation of the DFI, MDB and ECA market after consultation with the Project Sponsors. The approach follows a cross-sectional study design based on qualitative and quantitative methods in order to investigate general and specific characteristics.

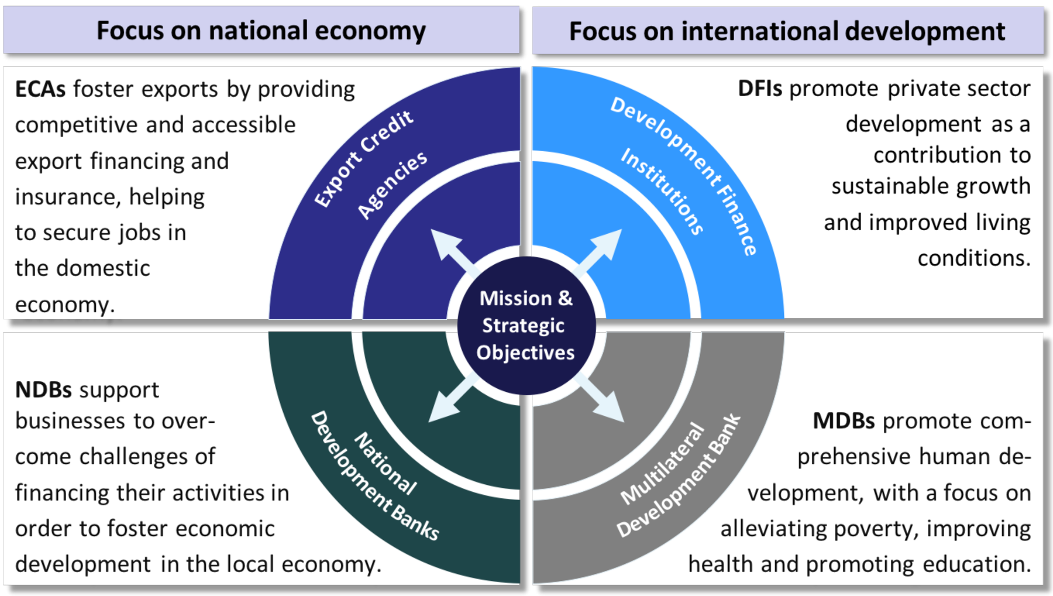
The following institutions were included: China Development Bank (CDB), Deutsche Investitions- und Entwicklungsgesellschaft (DEG), the Dutch development bank (FMO), Japan International Cooperation Agency (JICA), and the Overseas Private Investment Corporation (OPIC) (DFIs); Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB), European Investment Bank (EIB), Inter-American Development Bank (IDB) and International Finance Corporation (IFC) (MDBs). Export Development Canada (EDC) in Canada, EKF, Japan Bank for International Cooperation (JBIC), Korea Eximbank (KEXIM) and UKEF.

Over a four-month period, primary research was conducted. Qualitative data from DFIs, MDBs and ECAs as well as exporters, emerging markets borrowers and commercial banks was gathered via more than 30 open-ended, semi-structured formal and informal individual and telephone interviews. Secondary quantitative and qualitative data from DFI, MDB and ECA annual reports and websites as well as other reports from publicly available sources was extensively examined providing another important basis for the Study. Challenges included limited data availability.

B. Theoretical Background

Markets are mechanisms for allocating resources and are, by and large, the most efficient way to coordinate an economy. However, shortcomings of markets are widely acknowledged in certain situations in which conditions for perfect competition are not met. In such events, markets may lead to inefficient outcomes, which provide a rationale for government intervention. In addition to market failure, policy goals can be a crucial aspect for public interventions. As governments play an important role in growth processes, policy goals can be related to provision of domestic infrastructure such as transportation and education in the national economy. Many governments in both developed and developing economies have set up government financing vehicles in order to address market failure and reach specific policy goals. These instruments intend to improve access to finance, foster innovation, promote exports or stimulate economic development. Financing vehicles can include, for example, national development banks (NDBs), innovation funds, DFIs or ECAs. On a multilateral level, MDBs provide financial support to developing countries through grants, equity, loans, guarantees as well as technical assistance.

Financing Vehicles' Mandates and Strategic Approaches



Because policy objectives are related to investment in sustainable private sector projects and mobilization of private sector capital in developing countries, DFIs generally operate according to three core principles: Additionality, catalyzing investments from other investors, and promotion of sustainable economic development. Additionality is also central to the mandate of MDBs, providing products that are additional to services from the private market. Principles of ECAs can include a 'lender or insurer of last resort' approach, catalytic effects in export development, as well as sound risk underwriting and organisational financial viability. However, some agencies also provide solutions through or close to 'market window' financing by applying terms and conditions consistent with those available from commercial banks.

C. Regulatory Framework

Summary

- The set of regulations applicable to DFIs, MDBs and ECAs is different. However, government-owned DFIs and ECAs in WTO member countries have to comply with the SCM Agreement. This is not only related to specificity. Although not fully tried and tested under WTO law, a common approach is the consideration of the OECD Arrangement ‘safe haven’ where DFIs might need to comply, and pure cover ECAs face potential threats.
- The OECD Arrangement intends to prevent a ‘race to the bottom’ in the provision of subsidised financing terms by its participants and is relevant for ECAs and DFIs. Support from non-participants creates challenges for OECD participants, and DAC reforms can blur the line between ODA and export credits.
- Basel regulations might increase the market gap for export finance. Tight regulations are also a challenge for some DFIs due to unintended effects of Basel IV on development finance.
- EU Regulations apply for ECAs in member states creating implications for public institutions assessed in this Study, in particular regarding competition with non-EU member states.

In Detail

WTO

The World Trade Organization has produced agreements targeted at specific aspects of trade. Of particular relevance to ECAs and bilateral DFIs is the Agreement on Subsidies and Countervailing Measures (SCM Agreement), which addresses multilateral disciplines regulating the provision of subsidies. ECAs and bilateral DFIs are subject to the SCM Agreement if they are government-owned and established in a WTO member country. Bilateral DFIs need to ensure that the development financing they provide to a business is not specific and de facto not linked to direct or indirect, actual or anticipated exportation or export earnings for their respective country. Alternatively, the pricing and terms of the financing should be provided on market or OECD Arrangement terms. ECAs also have to comply with the SCM Agreement showing their long-term sustainable behaviour. In addition, the safe haven and the exception it provides applies for ECAs. However, it has been argued that these are available only for direct credits. As a consequence, there is a risk that export credit support except for direct credits might not be WTO-consistent even where it conforms to the OECD Arrangement.

OECD

The OECD provides two reference points relevant to ECAs and DFIs. The Arrangement on Officially Supported Export Credits (OECD Arrangement) provides a framework for the orderly use of officially supported export credits. It seeks to create a level playing field among its members and other nations for official export credit support, in order to encourage competition among exporters based on quality and price of goods and services exported. It is intended to prevent subsidization of trade finance by its Participants. A founding principle is to ensure that its Participants achieve a break-even position in their export credit systems over the long term. The Development Assistance Committee, or DAC, has paid attention to the potential for national and multilateral DFIs to mobilize additional financial resources for development by initiating a broader ODA reform. This has led to controversial discussions, amongst others with the OECD export credit committees on the risk of blurring the lines between ODA and export credits. Regulations for ECAs are wide-ranging and very much advanced while there are much more limited regulations or official recommendations for DFI activities.

Basel Regulations

As a result of and response to the 2008 Global Financial Crisis, the Basel Committee on Banking Supervision hosted by the Bank for International Settlements has initiated regulatory reforms for more resilient banks and banking systems. Most of the public institution such as ECAs, bilateral DFIs and MDBs are not bound to apply Basel regulations, either because they are not lending institutions (which is the case for many ECAs) or because their founding legislation and state-owned nature exempts them. However, exceptions exist. The main challenge for export finance is, however, that the enhanced Basel regulation is likely to disincentivize commercial banks from providing long-term and high-volume lending for export transactions due to liquidity ratios, while the combination of capital and leverage ratios is feared to have the effect that banks will seek to preserve their profitability by shifting their portfolios into potentially riskier and more lucrative market segments – often away from the ‘real economy’.

EU Regulation

There are specific areas where member states of the European Union (EU) have authorised the EU to legislate. With trade and competition rules being among the competence areas of the EU with exclusive legislative rights, certain resulting regulations can have implications for the public institutions assessed in this Study, potentially creating competitive disadvantages in relation to non-EU member states.

D. Intra-Comparative Analysis of DFIs, MDBs and ECAs

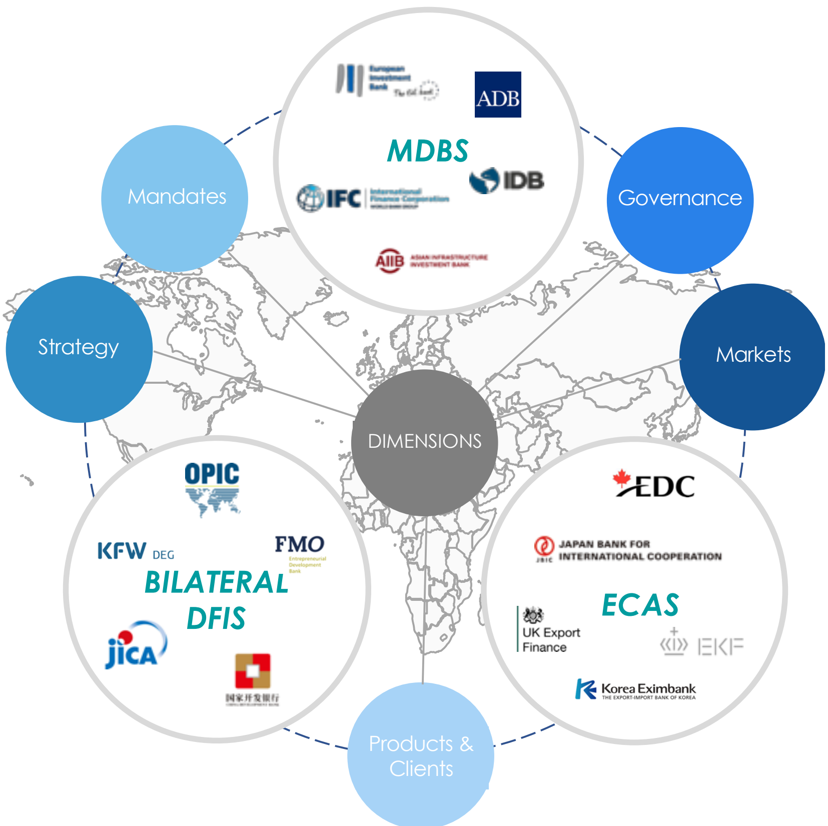
Summary

- Assessed DFIs' products and markets are comparable focusing mostly on equity, loans and guarantees. Although mandates and strategies vary, some DFIs specifically promote the national economy and follow significant national interest considerations.
- MDB offerings are relatively homogeneous regarding products, although assessed institutions vary regarding public and private or only private sector operations. The same applies for markets and clients, as some MDBs have a regional focus or concentrate, e.g., on infrastructure.
- ECAs have the mandate to promote export and national economies. The spectrum of institutional structures, strategies or products is very large. Some agencies follow a 'last resort' approach providing only pure cover, others act in a commercial manner with an extensive offering.

In Detail

The Study compares mandates, strategies, products and clients, markets, as well as governance of the selected DFIs, MDBs and ECAs.

Dimensions of Analysis

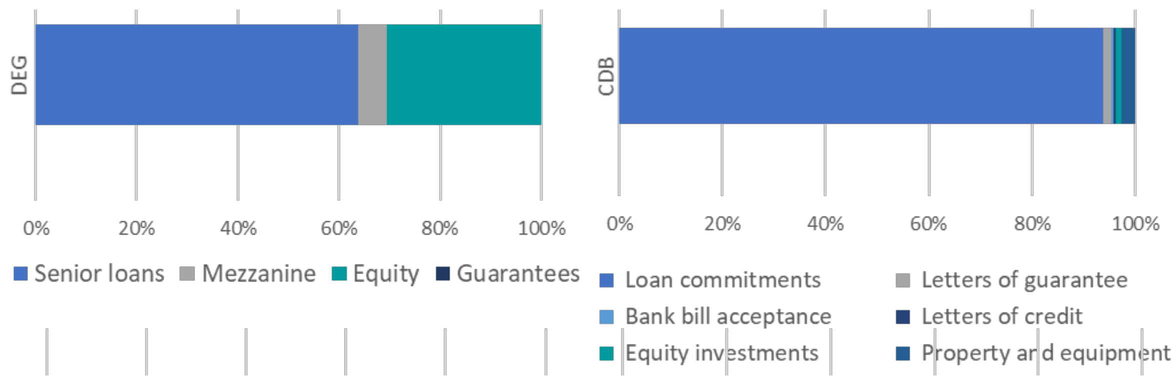


This Executive Summary focuses on DFIs, as DFIs and ECAs are the most similar institutions with national ownership by the same government, the same national political background and business structure shaping the mandate and operation of the institutions. However, the full Study also covers all relevant aspects of MDBs and ECAs. Looking at the **mandates** of bilateral DFIs, they largely revolve around poverty reduction, green and inclusive growth and development. Typically, their focus is restricted to building the private sector's capacity in developing and emerging countries. Some bilateral DFIs have a mandate to promote the national economy as part of their engagement in developing countries. Looking at the **institutional structure**, most bilateral DFIs are set-up as independent government-owned financial institutions applying private-sector management principles. While there is no clear or shared definition or concept of **national interest** among bilateral DFIs, it is often displayed by support to and promotion of national businesses or investors to expand their activities into emerging and developing markets. Most bilateral DFIs are to act in a **complementary** fashion to the private financial market and should direct their capital on transactions where they can provide additionality. However, no agreed definition of additionality among bilateral DFIs yet exists.

There are several commonalities in **strategic priorities** of the selected bilateral DFIs, gearing towards achieving and enhancing impact, ensuring financial sustainability and sound operations of the institution itself as well as a promoting a form of national interest. The European bilateral DFIs tend to have **international representations**, and many bilateral DFIs emphasise **cooperation** at an international level as a means to scale up investments and maximize impact.

With regard to **products**, development finance institutions provide a broad range of financial and non-financial services and serve various categories of clients. Loans still occupy a major portion of bilateral DFIs' portfolio, for example at DEG and CDB.

Product Portfolio Breakdown by Commitments (2017)



Bilateral DFIs' portfolios cover all major **regions**. Due to the substantial development challenges faced by many countries on the African continent, bilateral DFIs in general place a strong focus on promoting private sector development in African countries. They are mainly active in economic **sectors** such as infrastructure, manufacturing, services and agribusiness. In light of global climate change commitments, investments in renewable energies and energy efficiency have become a strategic focus.

E. Inter-Comparative Analysis of DFIs, MDBs and ECAs

Summary

- DFIs, MDBs and ECAs have different mandates and follow different rules. While MDBs do not have to consider WTO or OECD regulations, DFIs and ECAs work within a comparable regulatory environment. European ECAs have further limitations.
- The principles of additionality as well as catalytic and demonstration effects apply to most DFIs, MDBs and ECAs. There is no evidence for crowding out of commercial institutions deriving from this Study. However, there are numerous indicators for convergences regarding strategic aims such as national interest.
- DFIs, MDBs and ECAs emphasize that there is no intention to compete. However, mandates and strategies increasingly converge, product offerings are often comparable, and geographies and sectors match in many cases according to the intra-comparative analysis.

In Detail

Following the intra-comparison of the three types of public policy institutions, and taking into consideration the different characteristics within the respective peer groups, the inter-comparative analysis examines similarities and differences between bilateral DFIs, MDBs and ECAs in detail.

Although **mandates** are different, there is a growing convergence among all three types of institutions:

	Bilateral DFIs	**MDBs**	**ECAs**
Mandate	Promote poverty reduction and inclusive growth through sustainable private sector development in developing countries. OPIC and CDB's mandates are prioritizing the support of national companies and industries to expand to emerging markets	Promote economic development and regional integration	Promote exports and national economies

In the majority of cases, bilateral DFIs and MDBs are structured as independent financial institutions owned by one or many governments applying corporate management principles and seeking to maintain financial sustainability. The institutional **structures** of ECAs tend to be more diverse.

	Bilateral DFIs	**MDBs**	**ECAs**
Institutional structure	Stand-alone financial institution	Stand-alone supranational financial institution	Diverse institutional structures ranging from government department to commercially operating financial institution

Looking at **national interest**, ECAs have started to reduce their national content requirements and are increasingly able to support projects that are no longer directly linked to national procurement or exporters, but instead are linked to a broader understanding of national interest. Meanwhile, bilateral DFIs that do not already have the dual mandate to support their national economy are increasingly driven by their respective governments to demonstrate their positive impact on the national economy. Due to the nature of their set-up, MDBs on the other hand do not pursue national interests.

	Bilateral DFIs	MDBs	ECAs
National interest considerations	Trend to also/increasingly target national companies within the assigned mandate	No national interest as by multilateral nature of institution; however certain procurement restrictions with regard to membership exist	Trend to reduce national content requirements and diversify into product areas that are not bound to a specific export transaction

Bilateral DFIs, MDBs and most ECAs are required by their mandates to be **complementary** to the private sector. This requirement is also often found in their founding charters, articles of agreement, key operating principles and strategies.

Looking at **strategies**, ECAs are mostly focussed on advancing the national economy and specifically the respective country's trade and export performance. Similarly, all bilateral DFIs assessed in this Study have an element of national interest in their respective strategies. MDBs are gearing their strategies towards improving development impact in their member countries.

Part of a strategic approach is to set-up **international offices** and hubs to move closer to target groups and gain a better understanding of local environments with the purpose of shaping and enhancing products and services.

	Bilateral DFIs	MDBs	ECAs
International representation	International representation varies widely among bilateral DFIs	Strong regional representation, typically in every member country	International representation varies widely among ECAs, however with a trend towards increasing international representations

Cooperation becomes also more important, although mostly occurs within the respective peer group, with some more cooperation between bilateral DFIs and MDBs taking place in the form of co-financing as well as policy development and knowledge exchange. In few cases, bilateral DFIs and MDBs report to seek ECA insurance for eligible transactions to free up their balance sheets.

All three types of institutions have a similar core **product** offering consisting of loans, equity, guarantees and non-financial services. The following table shows examples regarding private sector loans as well as insurance and guarantees:

	Bilateral DFIs	MDBs	ECAs
Private sector loans	Focus area of bilateral European DFIs; various forms of private sector loans available. FMO and CDB specifically offer export loans.	Core product; IFC and IDB Invest dedicated private sector arms; various forms of private sector loans available.	Core product by lending ECAs; various forms of loans available.
Insurance/ guarantees	Guarantees as standard product offering. OPIC also offers political risk insurance. FMO, DEG and CDB also offer trade finance guarantees.	Partial credit guarantees are most common form of guarantees. Trade finance programmes available at IFC and IDB Invest.	Core product of non-lending ECAs. Various forms of insurances and guarantees available.

Bilateral DFIs, MDBs and ECAs have in common that they are all engaging in international finance. With regard to **geographies**, their risk exposures are typically spread across various countries and/or continents.

	Bilateral DFIs	MDBs	ECAs
Geographies	Primarily focused on emerging markets, particularly Africa. Some also focus on geographies they have regional or cultural proximity and/or historical ties with.	Defined by and reflective of their membership. Strong focus on emerging markets, particularly Africa, as well as low-income and fragile or conflict-affected countries.	Broad and closely interlinked with the respective country's national export structure thereby representing a mix of developed, emerging and developing countries.

Overall, the **sectors** in which ECAs (especially from OECD countries), bilateral DFIs and MDBs are active are similar. However, as their mandates and strategic objectives vary, the reasons behind their promotion of, or support to, certain sectors is varied.

	Bilateral DFIs	MDBs	ECAs
Sectors	Mainly active in economic sectors such as infrastructure, manufacturing, services and agribusiness; Investments in renewable energies and energy efficiency have become a specific strategic focus area; Often work to strengthen local financial institutions.	MDBs strategic and sectoral priorities display a strong link with global commitments and policies; Strong support for infrastructure and energy; some of MDBs' sectoral priorities are defined according to the specific need of a region.	ECA's sectoral activity is a reflection of the respective national export structure; ECAs also specifically promote certain sectors and technologies deemed of national strategic importance.

Oversight is a key component of good **governance** and it exists to ensure institutions are held accountable for delivering on their mandates and public policy objectives. It is also crucial to ensure the efficient and transparent management of public resources.

	Bilateral DFIs	MDBs	ECAs
Oversight	National government is shareholder; Board governance structure with government representation.	Governments from Member and Non-Member countries are shareholders; Board governance structure with government representation.	National governments are shareholders; Various oversight mechanisms and levels of operational influence depending on the institutional structure; Most ECAs have a Board governance structure; Government representation is common with some exceptions (i.e. EDC).

Environmental and social governance is a key topic among public sector finance institutions. Environmental and Social Governance is an important requirement for all three types of institutions.

	Bilateral DFIs	MDBs	ECAs
Environmental and Social Governance	Established systems, active knowledge sharing between European DFIs	Established systems, thought leadership and capacity building offered	Regulated system including structured transaction-based transparency and regular knowledge sharing between OECD ECAs including yearly learning event with MDBs.

Transparency, particularly in decision making, is a central aspect of accountability for any public sector institution. Bilateral DFIs, ECAs and MDBs are accountable to their shareholders, as well as on occasion to various regulatory authorities, to their customers or clients as well as the broader public.

	Bilateral DFIs	MDBs	ECAs
Transparency	Trend towards increased transactional and operational transparency	Comprehensive transparency on proposed and approved projects	Established transparency mechanisms among OECD ECAs under the OECD Arrangement

F. Case Studies

The Study also provides three case studies with further qualitative analysis in order to answer the research questions in a cohesive approach. It explores three types of transactions where an MDB and/or DFI successfully financed and/or guaranteed a project in which the export aspect was crucial and an ECA would be an appropriate alternative, and a joint project giving evidence for a collaboration between MDB and/or DFI and ECA instruments.

The three case studies touch upon issues such as the roles of the different types of institutions, risk of crowding out the private sector, as well as each other, where collaboration has led to improved synergy and where national interests play a role for the national institutions involved, i.e. DFIs and ECAs.

MDB/DFI Project – Case Study One

The Azura Edo Independent Power Plant (IPP) 459 MW project (Azura-Edo IPP) was constructed under a turnkey engineering, procurement and construction (EPC) contract by a consortium of Siemens in Germany and Julius Berger Nigeria. It consisted of the development, financing, construction, operation and maintenance of the power plant drawing from Nigeria's natural gas reserves. The financing of the project included the sponsors with $190 million of equity as well as 15 international lenders and local financiers from nine countries providing $686 million of debt with the following facilities: i) A senior commercial tranche of $234 million arranged by Standard Chartered Bank with guarantees from the World Bank Group; ii) a senior DFI tranche of $267 million as well as a $65 million DFI mezzanine facility arranged by IFC and FMO; and iii) a local bank tranche for local debt of Naira 24 billion ($120 million) provided by the Central Bank of Nigeria Power and Aviation Intervention Fund.

ECA offerings competed with MDB and DFI offerings to a certain extent, as the MDB took over traditional ECA functions by providing risk mitigation instruments such as debt guarantees and political risk insurance. There was, however, no evidence for trade distortion despite the ECA having been opted out due to the strict regulation and no crowding-out of the private sector due the fact that the MDB/DFI involvement allowed commercial lenders to provide financing, in particular because of the guarantees. An important take-away of the case is that the behaviour of the project sponsors was key for the financing structure including the product offerings from IBRD and MIGA. This mirrors a general trend that an involvement of a public instrument is more and more driven by project sponsors or foreign buyers, and not by the exporter. Buyers increasingly demand innovative funding concepts to pool the necessary resources, and this creates substantial challenges to highly regulated ECA financing. Transactions such as Azura-Edo IPP increasingly not only include ECA-backed commercial loans but also MDB or DFI financing in parallel or instead.

ECA/DFI/MDB Project – Case Study Two

Parc Eolien Taiba N'Diaye (PETN) was the first utility-scale wind power project in Senegal, sponsored by Lekela Power, a renewable energy power generation company. The wind farm is planned to have a capacity of 158.7 MW representing approximately 15% of Senegal's currently installed capacity. The financing of the project finance transaction involved the project sponsor Lekela Power with an equity and shareholder loan investment of up to €74 million as well as the two international lenders OPIC and EKF. OPIC provided a senior loan amounting to approximately $116 million and EKF availed €140 million in form of an export loan with a repayment term of 17 years. OPIC also provided a cross-currency interest rate swap guarantee to Goldman Sachs. The project sponsors equity and shareholder loan investments were insured against political risks by MIGA with a reinsurance portion of OPIC.

Both EKF and OPIC were introduced to the project due to their respective national relationships and programmes (i.e. as Danish ECA and through the US Power Africa Initiative). No competitive situation existed between both public instruments at any time during the project development and the institutions' risk appetite appeared to be at the same level. In addition, national interest requirements needed to be met by both OPIC as well as EKF. The project benefited from OPIC's broad instrument mix through which the bilateral DFI was able to address and mitigate several financing challenges. Given the lack of commercial risk appetite, EKF's flexible direct lending facility further facilitated the financing process.

ECA/DFI/MDB Project – Case Study Three

The oil and gas TEN project in Ghana combines project financing aspects, such as long-term tenors based on take-or-pay offtake contracts and reserve accounts, with aspects of reserve-based lending, such as annual borrowing base redeterminations. While the operator financed its share through $2.2 billion of equity and shareholder loans only, another partner in the joint venture structured its share of financing through a mix of equity, shareholder loans and limited recourse debt financing. This $1.35 billion debt financing consisted of a $400 million UKEF facility split into a $310 million loan reflecting the very high level of UK content and a $90 million UKEF buyer credit guarantee; a $300 million IFC facility split into a $235 million IFC loan and $65 million loan from IFC's managed co-lending portfolio programme; a $180 million MIGA covered facility for up to 14 years providing commercial lenders with cover in respect of currency inconvertibility and transfer restriction, expropriation, war, terrorism and civil disturbance and breach of contract; and finally a $470 million uncovered commercial bank facility.

Representing a first of its kind, the project was only made possible through the broad and innovative support by the different agencies of the World Bank Group and provided comfort to commercial lenders through its embeddedness in a comprehensive sectoral support programme. The project demonstrated how the respective public finance instruments are able to mitigate different payment and country risks and thereby mobilize substantial additional private financing in countries and sectors with perceived higher risk. No competitive situation existed between the public instruments during the project development, and the institutions' risk appetite appeared to be at the same level. National interest and national content requirements needed to be met by UKEF.

G. Research Questions: Summary and Conclusions

Research Question 1: Regulations

The first Research Question focuses on the regulatory aspect of bilateral DFIs, MDBs and ECAs and looks, in particular, at the relevance of the OECD Arrangement.

The SCM Agreement of the **WTO** is the over-arching global regulation, and government-owned DFIs and ECAs in WTO member countries have to comply with the SCM Agreement. Although not fully tried and tested under WTO law, a common approach is the consideration of the OECD Arrangement 'safe haven' where DFIs might need to comply, and pure cover ECAs face potential threats. MDBs are usually not affected by the SCM Agreement as they have multiple government shareholders.

The **OECD** Arrangement has the goal to provide a framework for the orderly use of officially supported export credits. OECD DFIs and ECAs have to comply with Arrangement terms creating a level-playing-field in competitive situations, but it is not confirmed that DFIs apply these terms if they provide export-related financing support. DFIs can also be better placed because there is limited transparency, and thus no sanctions, to compete with non-OECD institutions outside any regulatory framework. In addition, a major challenge is the significant rise of non-OECD institutions in terms of numbers, financing volumes and market power. The most obvious example are Chinese government financing vehicles offering a very broad and flexible product portfolio including equity, loans as well as guarantees and insurance. Challenges also exist within the OECD where primarily Asian participants are acting in a more flexible way with larger volumes and with more market power. Furthermore, MDBs do not follow OECD rules and regulations which can create an un-level playing field. This is of particular relevance for transactions in regions or sectors where ECAs are active as well, when MDBs offer loans or guarantees without advance payments or maximum credit periods.

Participants of the Arrangement, China and other non-OECD countries created the **International Working Group** on Export Credits (IWG), serving as a platform to discuss and negotiate a new set of universal rules for officially supported export credits. However, there is limited progress due to the fact that different views exist on scope, general definitions, as well as includable transactions and financial institutions. An inability to cooperate via a new IWG regulatory body could lead to growing multipolarity and fragmentation: Countries use their political influence for export promotion or development policy while representing a diverse range of opposed interests, and policy interventions will be uncoordinated, or can conflict.

The **Basel Regulations** are a minor but still relevant aspect of the first Research Question. Most assessed bilateral DFIs, MDBs and ECAs are not bound to apply Basel regulations, despite some taking these regulations (as well as the Solvency regulations for insurance companies) voluntarily into account as part of their capital management frameworks. However, the regulations are indirectly relevant to ECAs via commercial banks and pose a risk to the future effectiveness of export credits and attractiveness of ECA cover.

Research Question 2: Additionality and National Interest

The second Research Question focuses on additionality and national interest, discussing how development finance institutions avoid crowding out commercial financing, and to what degree national interests play a role in bilateral DFI and MDB strategies and operations, also compared to ECAs.

The mandate of the bilateral DFIs assessed in this Study centre on specific SDGs. DFI mandates are also often restricted with the requirement to create effective development impact, and a specific commercial objective with regard to profit maximisation does not apply. DFI products are relatively broad as there are equity, loan and guarantee offerings available. The majority of European DFIs concentrate on smaller transactions. Assessed Asian DFIs reveal limited transparency on lending criteria. Looking at regions and sectors, portfolios cover all major regions and many sectors. Sector priorities and portfolios vary, although energy, financial institutions and agribusiness often play an important role.

Focusing on the aspect of **private sector crowding in or out**, many bilateral DFIs and MDBs act in a complementary manner to the private market. Although no agreed definition on additionality exists, most assessed DFIs direct their capital on transactions where they can provide additionality and behave as catalysts, i.e. supporting transactions in challenging regions and sectors or through products leveraging private sector sources. However, there is no evidence that this also holds true for Asian and particularly Chinese institutions. The market feedback from banks and exporters is that CDB provides significant support without the need to take into account if there is commercial financing available. In addition, there is a consistent feedback that the competition between bilateral DFIs becomes more relevant with DFIs increasingly present in more developed countries. Financing commercially viable transactions with significant development impact can be highly competitive between DFIs and MDBs.

Interviewees consistently raised the issue of pricing models and how this can lead to different pricing levels. Most DFIs and MDBs noted that ECAs' regulatory framework and financial structures can allow lower pricing than what DFIs and MDBs wish or are able to offer. Some ECAs have less sophisticated pricing models than assessed European DFIs and MDBs, for example not applying economic capital models and risk-adjusted return on capital calculations.

National interest or national content definitions vary with regard to the different institutions. Providing equity, loans or guarantees and insurance can be completely untied to domestic companies' activities and might only focus on the developing economy where the project is conducted. This is a typical approach for bilateral DFIs. National interest remains secondary to the development mandate, but a win-win between development and national interests becomes a political wish for many governments. Therefore, several bilateral DFIs identified national companies as a more important client segment. If they do not already have the dual mandate to support domestic businesses, they are increasingly driven by their government to demonstrate positive impact on the domestic economy. National interests thus play an increasing role for bilateral development finance institutions. ECAs, on the other hand, usually focus on national interest or national content. An increasing number of institutions takes cover decisions or provides loans based on R&D activities or know-how created, sometimes without considering where the goods delivered were manufactured. The strategy and policy approach of bilateral DFIs and ECAs thus increasingly converges in some respects.

Research Question 3: Competition and Level Playing Field

The third Research Question looks at competition between the different institutions and also focuses on the level playing field for exporters.

In general, bilateral DFIs, MDBs and most ECAs are required by their mandates to be complementary to the private sector. They usually also follow different objectives concentrating on development finance or export finance support. However, significant competition can exist on **policy level** where some countries follow a very strategic approach regarding public interventions while others apply the role of a lender or insurer of last resort. Japan has focused on the economic revitalisation with the so-called 'Abenomics' consisting not only on monetary policy, but also export expansion. Accompanying financial support for export-related government activities is a major objective for JBIC. JICA's finance and investment activities are often embedded combining both ODA and grant financing as well as technical cooperation. The same applies for other Asian countries such as China or South Korea. The analysis shows that there is growing competition between public financing vehicles due to a growing competition between countries strategically using these financing vehicles.

Looking at the **international competition between financing instruments**, research results indicate that competitive aspects are increasing. The reason is that the world of bilateral DFIs, MDBs and ECAs has changed considerably in response to new challenges of the global economic environment and financial markets. Public financing vehicles around the globe have expanded their product offering including equity, mezzanine financing, direct lending, working capital facilities, as well as insurance and guarantees. Other institutions took steps to substantially increase their risk appetite, supporting particularly infrastructure projects in emerging markets and developing economies. However, there is not only competition between bilateral DFIs, MDBs and ECAs, research results also show that there is growing collaboration. The main forms are transaction-related cooperation such as syndication and information sharing, and new or improved products leveraging the partners' respective strength.

Looking at **institutional competition between DFIs, MDBs and ECAs**, there is a growing convergence between bilateral DFIs, MDBs and ECAs to promote and track sustainable development goals. Different institutions also have a similar product offering: For example, equity is a core product for DFIs and MDBs, and although many ECAs today do not provide equity, it is an emerging product also associated with national interest. Insurance and guarantees are additional examples. Competition can also take place because of main geographic or sectoral overlaps between all three types of institutions.

The **level playing field** is mainly driven by the OECD Arrangement. As discussed above, a key challenge is the significant rise of non-OECD institutions in terms of numbers, financing volumes and market power leading to limited relevance of the Arrangement. This shift is less of a problem for large and experienced exporters. Multinational companies can source from different sites in different countries or continents using products from ECAs in the respective OECD or non-OECD country. Small and medium-sized exporters are less able to benefit from this global environment, and they are not able to develop or keep specific financing experience. Despite competitive goods and services, these exporters might become less attractive business partners. As a consequence, an un-level playing field not only undermines the existing Arrangement but also distorts global trade and competition.

1 INTRODUCTION

1.1 BACKGROUND AND OBJECTIVES

Background to the Study

Atradius N.V. (Atradius), Euler Hermes Aktiengesellschaft (EH), EKF Denmark's Export Credit Agency (EKF), the Swedish Export Credits Guarantee Board (EKN), Finnvera plc. (Finnvera), the Norwegian Export Credit Guarantee Agency (GIEK) and UK Export Finance (UKEF) (the Project Sponsors) have sponsored International Financial Consulting Ltd. (IFCL) in a reverse tender procedure to conduct a *Study on Convergence of Development Finance and Export Finance* (the Study). EKF has acted as the Project Manager on behalf of the above-mentioned Project Sponsors.

Scope and Research Questions

In line with the objectives outlined in the Scope of Services (see Annex A), the Study consists of a quantitative and qualitative analysis regarding collaboration and competition of development finance and export finance instruments. The aim is to map selected bilateral development finance institutions (DFIs), multilateral development banks (MDBs) as well as export credit agencies and export-import banks (ECAs). The Study also assesses regulatory frameworks and matches the different organisations in an intra- and inter-comparison approach. It looks at motivations and drivers for the involvement of DFIs, MDBs and ECAs in specific transactions, and thus analyses the financing landscape within a transactional context.

The focus of the Study is on the following research questions:

Figure 1: Research Questions

What regulations do ECAs and DFIs have to follow? In the face of the stated developments, will the OECD Arrangement continue to be relevant?

How do development finance institutions avoid crowding out commercial financing and to what degree do national interests play a role?

To what extent do development finance institutions and export credit agencies compete with each other? How safe is the level playing field for exporters?

Source: Developed for this Study

Team and Timeframe

The team of IFCL consisted of Ms. Jennifer Loewen, Ms. Jennifer Henderson and Ms. Diana Smallridge. IFCL's research partner was the Institute for Trade and Innovation (IfTI) at Offenburg University. The IfTI team included Professor Andreas Klasen, Ms. Theresa Bürkel and Mr. Patrick Baarß. The Study was undertaken between October 2018 and May 2019. The report has been written by IFCL with research support from IfTI as an independent body, and it does not represent the views or positions of the sponsoring ECAs.

1.2 ANALYTICAL FRAMEWORK

The approaches adopted by DFIs, MDBs and ECAs in terms of mandates, strategies, product offerings or markets are informed by different policy contexts, institutional backgrounds, transactions as well as regulatory frameworks. In line with the scope of this work, the Study focuses on a holistic understanding of the differences and similarities of DFI, MDB and ECA offerings, and as such an intra- and inter-comparison of institutions.

Figure 2: Assessed Institutions

Approach

In addition to a theoretical overview regarding policy interventions, five OECD (Organisation for Economic Co-operation and Development) and non-OECD bilateral DFIs are assessed in addition to five MDBs and five OECD ECAs to allow a broad representation of the DFI, MDB and ECA market after consultation with the Project Sponsors.

The analytical approach follows a cross-sectional study design based on qualitative and quantitative methods in order to investigate general and specific characteristics, assessing China Development Bank (CDB), Deutsche Investitions- und Entwicklungsgesellschaft (DEG), the Dutch development bank (FMO), Japan International Cooperation Agency (JICA), and the Overseas Private Investment Corporation (OPIC) in the United States (US).

Assessed MDBs include the Asian Development Bank (ADB), the Asian Infrastructure Investment Bank (AIIB), the European Investment Bank (EIB), the Inter-American Development Bank (IDB) and the International Finance Corporation (IFC).

In addition, on the ECA side, we focus on Export Development Canada (EDC) in Canada, EKF in Denmark, Japan Bank for International Cooperation (JBIC), Korea Eximbank (KEXIM) and UK Export Finance.

Data

Primary research was conducted over a four-month period. Qualitative data from DFIs, MDBs and ECAs was gathered via open-ended, semi-structured individual and telephone interviews. In addition, qualitative data was derived from interviews with selected exporters, emerging market borrowers and commercial banks, totalling more than 30 formal and informal interviews. Secondary quantitative and qualitative data from DFI, MDB and ECA annual reports and websites as well as other reports from publicly available sources such as the Organisation for Economic Co-Operation and Development (OECD) and the World Trade Organization (WTO) was extensively examined providing another important basis for the Study. Challenges included limited data availability.

1.3 STRUCTURE OF THIS STUDY

The Study consists of seven chapters, including the introduction with a description of the assignment and objectives, the analytical framework and the structure of this Study.

In order to better understand the context and most important drivers for the provision of government financing instruments, the second chapter focuses on the theoretical background. This elaboration includes the rationale and principles for public interventions of development finance institutions, multilateral development banks and export credit agencies.

Chapter Three outlines the regulatory frameworks for DFIs, MDBs and ECAs providing an overview regarding scope and implications for public institutions assessed in this Study. The review covers, for example, the WTO, the OECD as well as regulations applicable to member states of the European Union (EU). The chapter provides the basis for the first research question, i.e. which regulations the assessed institutions have to follow.

The next chapter focuses on an intra-comparative analysis of development finance institutions, multilateral development banks and export credit agencies. Chapter Four assesses selected institutions' mandates, strategies, products and clients, markets, as well as governance. This approach allows to establish a sound basis for the second research question focusing on the practical application of additionality and catalysis, as well as national interests.

Following the intra-comparison of the different public policy institutions in the fourth section, Chapter Five examines the similarities and differences between DFIs, MDBs and ECAs in an inter-comparison. The aim is to provide further facts and analyses regarding the question how development finance institutions and export credit agencies compete with each other, and how safe the level playing field for exporters is.

This third research question is also assessed in Chapter Six applying a cohesive approach with three case studies. The chapter explores three types of transactions, for example examining a project where an MDB and several DFIs successfully financed and guaranteed a transaction in which the export aspect was crucial and an ECA would be an appropriate alternative.

The final chapter summarises and concludes, drawing together the analysis and concrete responses regarding the research questions, i.e. which regulations DFIs, MDBs and ECAs have to follow, how DFIs avoid crowding out commercial financing and to what degree national interests play a role, as well as to what extent DFIs and ECAs compete and how safe the level playing field is.

2 THEORETICAL BACKGROUND

2.1 OVERVIEW

This Chapter provides the theoretical background and overview of the rationale for public interventions via financing vehicles such as development finance and export finance institutions. It also discusses common principles of government financing interventions including additionality, catalytic or demonstration effects, and project or organisational sustainability.

Although these principles of interventions through bilateral DFIs, MDBs and ECAs overlap to a certain extent, they can also differ in some important dimensions. Chapter Two thus describes the approach DFIs, MDBs and ECAs are taking based on a comprehensive literature review.

The chapter is deliberately designed in a descriptive manner introducing an overview of academic theory. This will allow DFI and MDB practitioners to better understand the background and rationale of ECA activities, and vice versa. An intra-comparison among the three categories of institutions under review follows in Chapter Four while an inter-comparison between these categories will follow in Chapter Five.

2.2 RATIONALE AND VEHICLES FOR PUBLIC INTERVENTIONS

2.2.1 INTRODUCTION

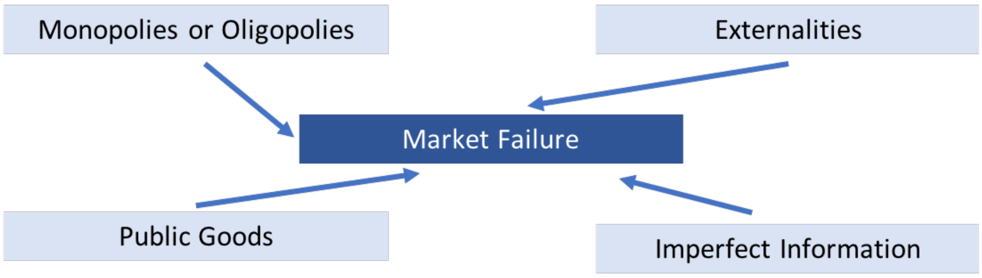
Markets are mechanisms for allocating resources and are, by and large, the most efficient way to coordinate an economy. Within a secure legal and regulatory framework as well as with the existence of key public institutions such as a judiciary, a modern economy is able to function without significant government involvement. If markets are perfectly competitive, participants have perfect information, and there are no externalities and no public goods, market outcomes without major public interventions are efficient (Stiglitz and Walsh, 2006; Stiglitz, 1998; Bator, 1958).

2.2.2 MARKET FAILURE

However, shortcomings of markets are widely acknowledged in certain situations in which conditions for perfect competition are not met. In such events, markets may lead to inefficient outcomes, which provide a rationale for government intervention. There are four main types of situations in which market failure can occur: Monopolies and oligopolistic markets, externalities or third-party effects, imperfect information, or public goods (see, e.g., Lipsey and Chrystal, 2011; Stiglitz, 1989).

Monopolies or oligopolies exist if only one or few firms produce an industry's entire output. Public goods occur if these goods are consumed by everyone in the market. Externalities can be defined as transaction costs or benefits falling on people not involved in the respective transactions. Imperfect information or information asymmetries between potential transaction partners can prevent mutually beneficial investment from occurring (Figure 3).

Figure 3: Concept of Market Failure



Source: Developed for this Study based on Lipsey and Chrystal, 2011.

With regard to the provision of financing, markets can fail to achieve efficient outcomes because they suffer, in particular, from imperfect information and externalities. Stiglitz and Weiss (1981) have shown that this can result in unmet demand for credit. Potential borrowers might not receive investment loans or export finance even if they indicate a willingness to pay more than the market interest rate, or to put up additional collateral.

Capital markets then do not work efficiently, because commercial institutions have, for example, not enough information about small firms' performance. Information asymmetries can also be the underlying reason for market failure in insurance markets that suffer from adverse selection and moral hazard (Williamson, 1973). Externalities are typically a main justification given for government intervention to support export industries or provide development financing (Tewes-Gradl, Blomberg and Scholl, 2018; Klasen, 2014; Harrison and Rodríguez, 2009). Wider positive effects on economic development associated with international trade represent positive externalities for which providers of export finance will not receive payments. As a result, private market actors will provide less export finance than socially desirable.

It has to be mentioned that market gaps are usually defined as a systemic, ongoing lack of financing or insurance availability. On the other hand, market disruption is a temporary withdrawal of support by commercial banks or private insurers such as what occurred during the 2008 Global Financial Crisis where market participants were unable to maintain trade credit lines or insurance offerings, creating significant unmet demand.

2.2.3 POLICY GOALS

In addition to market failure, policy goals can be a crucial aspect for public interventions. As governments play an important role in growth processes, policy goals can be related to provision of domestic infrastructure such as transportation and education in the national economy. In addition, policy goals can be associated with employment in the national economy or industrial policy objectives (Klasen and Eicher, 2017; Klasen, 2012). Emphasis in a multilateral environment can also be placed on the United Nations Sustainable Development Goals (SDGs), for instance zero hunger, gender equality, or peace, justice and strong institutions (Hale, Held and Young, 2013).

Focusing on development finance and export finance, many highly-industrialized countries such as Finland or the Netherlands have formulated policies aiming to support developing economies to alleviate poverty and reduce inequalities, or fostering sustainable and equitable growth for the poorest populations. Free global trade and fair competition are of particular importance for export-oriented economies such as Denmark, Germany and Sweden with the aim to strengthen the rules-based international trade system and support national businesses in exporting to foreign markets within a common framework.

A number of governments such as Canada and Norway also combine trade and development cooperation policy objectives focusing, for example, on SDGs such as climate action (SDG 13) and life below water (SDG 14) while enhancing international earning capacity by pursuing a progressive international trade agenda. An approach of combining different policy goals and critical success factors is in line with recent research that has shown that economic policy-making needs to be embedded in a broader framework, following a coherent set of policy objectives (Hale, Held and Young, 2013; May and Jochim, 2013; Meyer and Klasen, 2013).

2.2.4 FINANCING VEHICLES FOR INTERVENTIONS

In order to address market failure and reach specific policy goals, many governments in both developed and developing economies have set up government financing vehicles to improve access to finance, foster innovation, promote exports or stimulate economic development. These financing vehicles can include, for example, national development banks (NDBs), innovation funds, DFIs or ECAs.

The establishment of development banks goes back to the 19th century when rapid industrialisation could often only be achieved by government provisions of long-term financing for risky transactions. A need for reconstruction after World War I and II as well as capital assistance to the local industry were further drivers for the establishment of development banks, for instance Kreditanstalt für Wiederaufbau (KfW) (Armendáriz de Aghion, 1999; Diamond, 1957; Fergusson, 1948). Since then, not only highly-industrialized countries but also emerging markets and developing economies (EMDEs) established NDBs focusing on microfinance or housing.

Some development banks concentrated not only on the domestic economy but also on assistance and financing for foreign developing countries already at an early stage. In addition, many governments established institutions in the 1960s or 1970s solely focusing on developmental assistance. This support often includes (see, e.g., Brech and Potrafke, 2014; Addison and Mavrotas, 2008):

- aid via grants and technical cooperation for humanitarian and development assistance,
- concessional and non-concessional public sector loans to governments and state institutions, whereas concession generally measures the benefit compared to a loan at market rate, and
- equity, loans or guarantees for private sector businesses, projects and financial institutions with financial resources from private markets in developing countries being difficult to obtain.

To expand economic growth and foreign trade, governments around the globe also promote exports and established trade-related financing and risk mitigation instruments. The first ECA was established 100 years ago in the United Kingdom, followed by other industrialized countries such as Germany, Italy, Spain and Denmark. Private credit insurers and commercial banks still often have limitations in terms of costs and risk appetites, in particular for exports to high-risk markets and transactions with extended credit periods involving capital goods creating a need for ECA support in developed economies. Due to limited private offerings and export-related policy goals, many EMDEs also started to provide export credit and insurance facilities in recent decades (Broocks and Biesebroeck, 2017; Klasen, 2012; Gianturco, 2001).

On a multilateral level, MDBs provide financial support to developing countries through grants, equity, loans, guarantees as well as technical assistance. The International Bank for Reconstruction and Development (IBRD, World Bank Group) was set up at the Bretton Woods Conference in 1944. Other institutions such as the African Development Bank (AfDB) followed in the 1950s and 1960s (Frankel, 2005; Gibbon and Schulpen, 2004). Most recently, new multilateral development banks such as the Asian Infrastructure Investment Bank (AIIB) were founded, some of them focusing on infrastructure or energy projects in order to intensify regional and global trade relations (Flint and Zhu, 2019; Gallagher et al., 2018). Multilateral institutions by definition do not support specific national governments or national industries. The approach is centred around multilateral action, financing investment projects in developing countries or offering policy-based loans. Support can also focus on specific sectors such as infrastructure or on regional development goals. For some MDBs, the aspect of trade can play a role, for example with regard to trade finance programmes and technical assistance provided by ADB, EIB and the World Bank Group (Beck and DiCaprio, 2019).

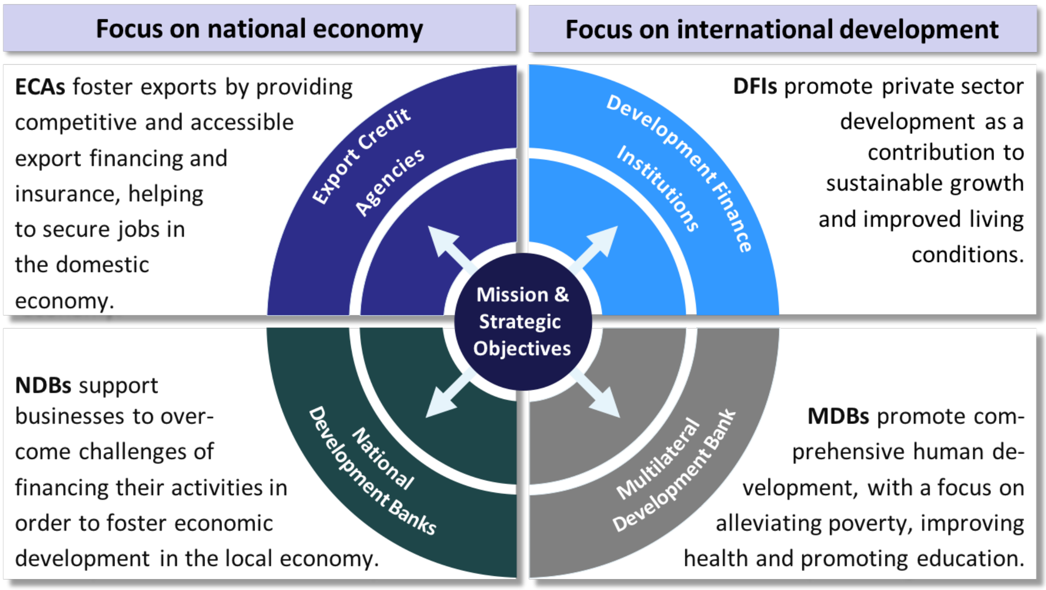
2.2.5 DESCRIPTIVE ANALYSIS

Market failure is a main rationale for government interventions, for example in development or export finance. Different institutions such as NDBs, innovation funds, bilateral DFIs or national ECAs have different mandates and strategic approaches for policy interventions: DFIs usually promote private sector development as a contribution to sustainable growth and improved living conditions. ECAs finance or insure and guarantee exports, fostering trade and helping to secure jobs in the domestic economy. MDBs do not have a national policy objective but promote comprehensive human development on a multilateral level, often with a focus on alleviating poverty (Figure 4).

However, as this Study demonstrates, there are growing overlaps in some countries leading not only to potential collaboration but also competition between development finance and export financing. Several DFIs and MDBs included trade support in their strategic objectives. Some DFIs are operating in the same industries and buyer countries as ECAs, for example in climate finance and African economies. On the other hand, a number of ECAs are met with increasing demands to focus on their impact: ECAs add SDGs to their mandates and strategies. Some ECAs also assume domestic risks. Blurred lines appear in Asia, in particular in the People’s Republic of China. Being an aid recipient for decades, the country significantly extended its presence in the arena of both international development assistance and export financing with a broad variety of instruments including loans on better terms, at lower interest rates, and with longer repayment periods (Harpaz, 2016; Kojayashi, 2013;

Addison and Mavrotas, 2008). Chinese activities center on infrastructure, innovation, export and health. Tied aid is one of the characteristics of Chinese activities particularly in the African continent and a policy instrument used to reach specific economic and political goals (Liu and Tang, 2018).

Figure 4: Financing Vehicles' Mandates and Strategic Approaches



Source: Developed for this Study.

This Study will not explore the role of National Development Banks or potential overlaps they may have with other national vehicles.

2.3 PRINCIPLES OF INTERVENTIONS

2.3.1 INTRODUCTION

Because policy objectives are related to investment in sustainable private sector projects and mobilization of private sector capital in developing countries, DFIs generally operate according to three core principles: Additionality, catalyzing investments from other investors, and promotion of sustainable economic development. Additionality is also central to the mandate of MDBs, providing products that are additional to services from the private market (Beck and DiCaprio, 2019; Yescombe, 2014, Massa, 2013; te Velde, 2011).

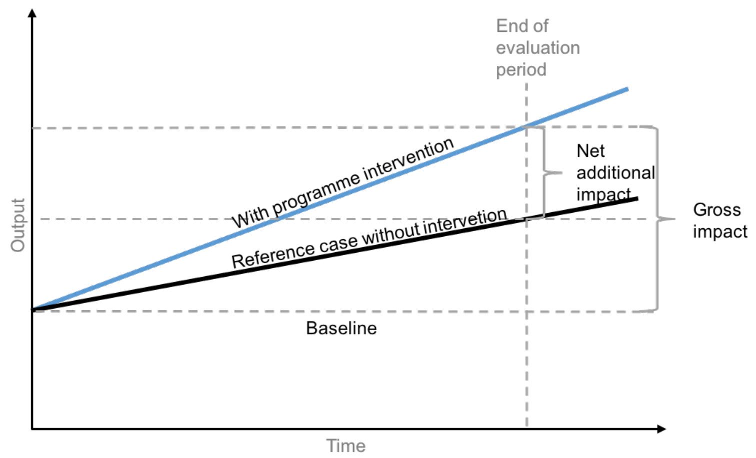
As discussed above, the rationale for ECA activities usually is to stimulate national exports if there is market failure in commercial lending or private credit insurance. Principles of ECAs can include a 'lender or insurer of last resort' approach, catalytic effects in export development, as well as sound risk underwriting and organisational financial viability (Bischoff and Klasen, 2012; Klasen, 2011; Gianturco, 2001). However, some agencies also provide solutions through or close to 'market window' financing by applying terms and conditions consistent with those available from commercial banks.

2.3.2 ADDITIONALITY

Background

The concept of additionality is based on the theory of market failure adapted from neo-classical economics (Metcalfe, Georghiou and James, 1997). As discussed above, public institutions have an opportunity to intervene for the public benefit with a view to improving otherwise suboptimal market outcomes. There are various ways in which the public sector might step in to achieve objectives through intervention options, for example investment being directed towards sectors where private financial intermediaries do not invest (Armendáriz de Aghion, 1999). However, only 'net changes' that are brought about over and above what would take place in the absence of the intervention can be considered to constitute additionality. Therefore, a scenario without intervention which represents the reference case has to be taken into account when evaluating the (net) impact (Figure 5):

Figure 5: Reference Cases and Additionality



Source: Developed for this Study.

In order to establish the net benefit or additionality of the intervention, the expected or observed outcome of the reference case needs to be deducted from the expected or observed outcome of the scenario with the intervention. In addition to the intervention options and the reference case, several key components are relevant for the assessment of additionality: Gross direct effects, leakage, displacement, substitution, and economic multiplier effects. Effects related to leakage, displacement and substitution have to be deducted as part of an additionality assessment, while multiplier effects need to be added.

Bilateral DFIs and MDBs

Additionality is a key element of the bilateral DFI and MDB concept, and their ultimate rationale is to address market and coordination failures in capital markets. European DFIs only support developing economies when financial contributions are additional, i.e. enabling an investment that would not otherwise happen (Savoy, Carter and Lemma, 2016; te Velde, 2011; Abegaz, 2005). Several institutions and some scholars have developed definitions regarding additionality, differentiating between financial, development and/or value additionality. MDBs intend to support private sector operations with a contribution through interventions beyond what is available in the market, not crowding out the private sector (Sennett et al., 2018). The Netherland's DFI FMO defines financial additionality as "providing financial services only where the market can or does not do the same, or otherwise does not provide on an adequate scale or on reasonable terms" (FMO, 2019).

Measuring impact as part of evidence-based policy making is a common approach, and evaluation studies are widely undertaken at global, regional and national levels. The impact of financial (and non-financial in the case of advisory services) interventions made by governments, bilateral DFIs as well as MDBs has been the subject of numerous theoretical and empirical studies (see, e.g., Gnangnon and Brun, 2018; Jakupec and Kelly, 2016). In addition to micro-level impacts and capital market failures, development finance can address market and coordination failures associated for example with technology adoption and the environment (te Velde, 2011). However, there is also criticism that empirical evidence for additionality is difficult to provide (Carter, 2017).

ECAs

Traditionally, many export credit agencies followed a comparable approach of market failure labelling their concept as the 'lender or insurer of last resort'. Although an increasing number of institutions are much more actively pursuing opportunities working alongside banks and on equal terms to provide capacity, several ECAs such as EH in Germany or the Export-Import Bank of the United States (US-EXIM) only step into the breach when commercial banks or private insurers do not offer sufficient facilities due to their mandate as insurer or lender of last resort. In these cases, the rationale for official involvement is to stimulate national exports if there is market failure in commercial lending or private credit insurance coverage. This can be due to high country risks, substantial buyer risks or long financing tenors (Bischoff and Klasen, 2012; Klasen, 2011; Egger and Url, 2006).

There is no standard definition or approach for the ECA concept of additionality comparable to DFIs or MDBs. However, the approach is set out in regulations such as the OECD Arrangement. Proof of market failure can be provided by using a market test or by requiring letters of rejections from commercial banks or private insurers. The main criterion is that an ECA offering is not competing with other commercial institutions in the provision of the respective product, thus filling a need that would otherwise be not met. Several procedures can be applied to assess if the risk premium would not be lower than comparable commercial financing. A main approach on market benchmark pricing was put in place as part of the Malzkuhn-Drysdale Package for OECD "Category 0" countries (Drysdale, 2015). Impact measurement or an analysis of additionality are less common, although a limited number of ECAs measure effects of job creation and safeguarding through ECA interventions (see, e.g., Felbermayer and Yalcin, 2013), or undertake benchmarking exercises in an input-output-outcome-impact model (Klasen and Bärtl, 2018).

2.3.3 CATALYTIC OR DEMONSTRATION EFFECT

Background

The doctrine or concept of catalytic finance revolves around the idea that providing government assistance to a country, a company, or a specific transaction, encourages other and in particular private actors to engage as well (Morris and Shin, 2006; Bird and Rowlands, 2004). As discussed by Cottarelli and Giannini (2002), the concept was initially based on the idea that the addition of investors to lend to a country increases when the International Monetary Fund (IMF) provides a "seal of approval" on a country's economic programme. The terms of catalysing, leveraging or mobilising private financial flows are also applied in the context of development or export financing tools, however without a precise or internationally agreed definition (Mirabile, Benn and Sangaré, 2013; Griffiths, 2012).

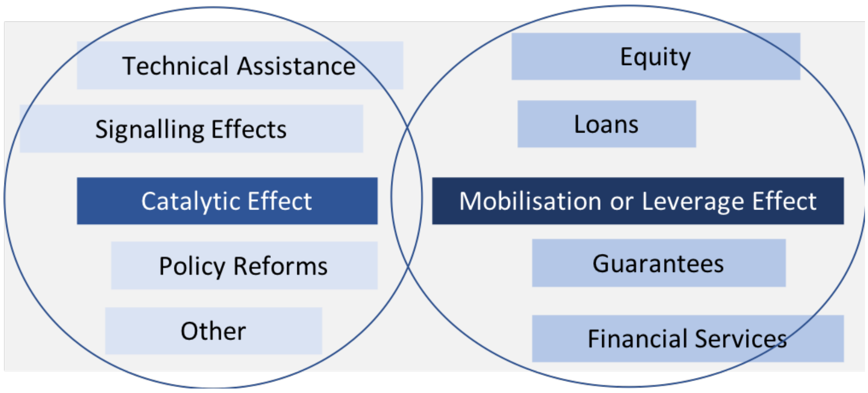
Private direct mobilisation includes financing from a commercial player due to a government financing activity, or indirect mobilisation in sponsor financing if the sponsor is a private entity (World Bank, 2018). There is a common understanding that the private sector is key to create jobs, increase public revenues through tax payments, and create growth. Government financing vehicles are often labelled as a "gatekeeper" unlocking or opening the door to private capital and other financial flows.

Bilateral DFIs and MDBs

Bilateral development finance institutions have the intention to operate as catalysts, sending signals to the private market through the promotion of commercially viable projects. In addition to providing risk mitigation instruments or funding for projects which otherwise would not have been implemented, catalytic effects extend to the ability of DFIs to promote private sector investments in the developing economy. Bird and Rowlands (2004) describe several dimensions related to catalytic effects: For example, a DFI involvement can indicate that the economic policy will be better designed and be more appropriate in the future. In addition, bilateral DFIs and MDBs often act as first movers and initial risktakers through piloting and investment testing in specific industry sectors. Although precise amounts or effects are difficult to measure, there is a common understanding that bilateral DFI and MDB activities can allow for commercial actors to act in the respective country and/or sector (Savoy, Carter and Lemma, 2016; Dalberg, 2011; Addison and Mavrotas, 2008; Gibbon and Schulpen, 2004).

In addition to the theoretical approach of DFIs and MDBs acting as catalysts, the changing development finance architecture described below gives evidence for the catalytic effect. Access to commercial finance is a key issue in particular for small and medium-sized enterprises (SMEs). By focusing on equity, loans and guarantees as well as financial services for private-sector projects, DFI and MDB strategic approaches and practical reality are driven by a leverage effect or mobilisation of additional capital from private-sector sources (Hartig, 2011; Abegaz, 2005) (Figure 6). There is a growing track record of projects where commercial investors are involved in addition to development finance institutions, in particular in infrastructure and climate finance projects. These transactions also demonstrate opportunities related to new investments leading to additional activities by other commercial players.

Figure 6: DFI Catalytic Effects



Source: Developed for this Study.

ECAs

ECAs also play a crucial role in mobilising financing from private-sector sources. Similar to DFIs, the involvement of ECAs demonstrates to commercial lenders and insurers through credit decisions that transactions in risky political and economic environments can be viable. In addition, there is a portion of risk in a transaction not funded by the ECA on a regular basis: This applies to advance payments, in particular in medium and long-term transactions due to OECD Arrangement regulations, as well as the self-retention of the exporter or of the commercial bank under the insurance or guarantee schemes of an ECA.

Therefore, offerings from ECAs enable private market involvement through risk mitigation. This is because they lower the commercial and political risk to the private market players ensuring adequate cover at all times and market situations (Große-Puppendahl, Karaki and Bilal, 2016; Schöne, 2015). In addition, ECA covered commercial financing can be an efficient catalyser for trade through signalling effects to international commercial banks being active in ECA financing.

2.3.4 SUSTAINABILITY

Background

The concept of sustainability for government policy instruments has two main embedded concepts: sustainable development and financial sustainability. Sustainable Development is a relatively new idea and appeared in the early 1980s. Followed by the first global climate conference in 1979, the UN report of the Brundtland Commission combined social and economic topics with environmental issues. Sustainable development was defined as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (Borowy, 2014; World Commission on Environment and Development, 1987). Today, sustainability covers both public and corporate behaviour with regard to economy, society and the environment both in a policy and a business context. Although most private investors are still relatively disengaged from sustainable investing, there is an intense debate about related decision-making frameworks (Paetzold and Busch, 2014).

Looking at sustainability of policy instruments and institutions in a narrower sense focusing on financial behaviour, sustainability is basically a concept of not making losses. Financial Sustainability is closely connected to the financial well-being in the sense of a sustainable financial behaviour. With regard to investment activities, sustainable corporate behaviour might require a capital allocation decision between a short-term rate of return culminating in long-term losses, or lower but stable long-term profits. Sustainable financial behaviour is thus related to sound investment criteria, i.e. if a business activity or investment will generate more than it costs, or if the investment costs exceed the present value of financial inflows (Lagoarde-Segot, 2019; Corelli, 2018; Thibierge and Beresford, 2015; Hira, 2012). In addition, the aspect of global debt sustainability becomes more important. Global total debt amounted to more than $246 trillion in 2019, an increase of 20 percentage points since 2012 where global total debt amounted to approximately $208 trillion (IIF, 2019).

Bilateral DFIs and MDBs

Sustainability or sustainable behaviour in the context of DFIs and MDBs often have different meanings. Some scholars and practitioners focus on the aspect of sustainable growth in a macroeconomic environment as well as improving standards with regard to governance, compliance and environmental regulations. Sustainability then means, for example, promoting human rights and environment standards, as well as the helping local governments to build sustainable and growing sources of tax income by investing or financing local companies (Dalberg, 2011).

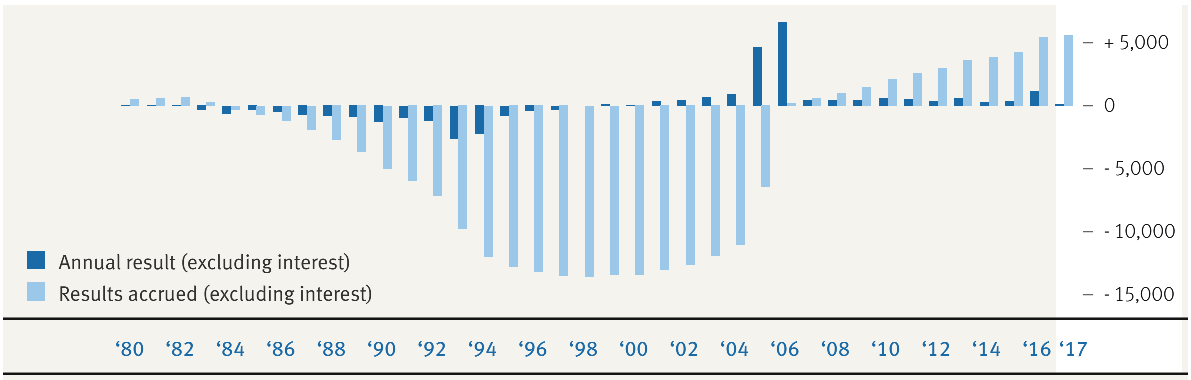
Other approaches define sustainable behaviour of bilateral and multilateral development finance institutions as an investment in financially viable projects, thus looking at the investment decision from a market lender perspective. DFIs and MDBs today usually look at projects which are financially sound and expect viability from a long-term perspective (Massa, 2013; Große-Puppendahl, Karaki and Bilal, 2016). European DFI decision behaviour also focuses towards pricing which is not below the commercial market. Looking at global debt sustainability, DFIs and MDBs also take into account financial vulnerabilities due to borrowing by emerging countries. MDBs such as the World Bank work together with the IMF to support efforts of EMDEs to achieve economic growth without creating future debt problems through the Debt Sustainability Framework (DSF).

ECAs

ECAs include several aspects of sustainability in their financing and insurance underwriting decisions. Although the main goal of an export credit insurance scheme is to promote national exports, it is sometimes an objective to give foreign buyers access to finance. In addition to emerging markets' support, there are approaches of some ECAs such as EDC or GIEK to combine commercial liquidity and government assistance for SDGs such as decent workplaces, life below water or climate action. Although SDGs are a secondary objective, ECAs are now increasingly organising themselves to find solutions on how they contribute more to sustainable development goals, for instance in the context of the UN's 'Sustainable Energy for All' initiative. This multi-stakeholder partnership teams governments, the private sector and civil society in an effort to reduce interconnected challenges relating to energy – energy access and climate change. ECAs are increasingly organising themselves to find solutions on how they can contribute more meaningfully to the SE4All initiative (Otieno, 2015). In this context, having access to suitable financing opportunities is an essential issue in order to gradually move from an economy run on fossil fuel towards a future based on new and greener business models (Vassard, Richter and Lindhardt, 2015). Other aspects of sustainability include recommendations regarding environmental and social due diligence in the transactions/projects (OECD Common Approaches).

The question of financial sustainability of ECAs has been a topical issue for decades. Similar to DFIs, there is a relationship between additionality and financial sustainability. But from a legal perspective, there is a precise framework for export financing instruments: In principle, export subsidies are prohibited under WTO law (Matsushita et al., 2015). However, as is discussed in the next chapter, WTO disciplines make a limited exception for export credit support conforming to the OECD Arrangement: The 'safe haven' exempts export credits issued in conformity with interest rates provisions of the OECD Arrangement (Coppens and Friedbacher, 2015; Karkovirta, 2015). ECAs' financial sustainability thus looks at interest rate provisions of the Arrangement. In addition, there is a common understanding that institutions are not allowed to continuously create losses but have to be self-sustainable in the long run. For example, the accrued total balance of the German ECA amounted to approximately €5.5 bn in 2017 (Figure 7).

Figure 7: Annual and Accrued Results German ECA 1980-2017 (€ mn)



Source: Euler Hermes, 2018.

Similar to DFIs and MDBs, countries' debt sustainability plays a significant role for export credit agencies as well taking level of debt into account when issuing new export credit guarantees or providing financing. As lower income countries have often struggled with large external debts, members of the OECD Working Party on Export Credits and Credit Guarantees (ECG) adhere to principles and guidelines regarding sustainable lending practices since 2008.

2.3.5 DESCRIPTIVE ANALYSIS

Additionality is based on the theory of market failure, and the intervention of DFIs and MDBs is central to their mandates. For them, it is crucial to support projects only when contributions enable an investment in emerging markets or developing economies that would not otherwise happen. This is the approach in most OECD member countries' DFIs and for MDBs. ECAs conceptually follow a comparable approach regarding additionality due to the fact that many agencies traditionally apply an 'insurer or lender of last resort' concept. Many agencies only step into the breach when commercial lending or private credit insurance coverage is not happening. However, some ECAs such as EDC act on a commercial basis with the 'market window' approach. Others actively support specific industries without the 'last resort' concept due to a strategic mandate, for example in infrastructure exports. For ECAs, there has been a shift in recent years with agencies such as EDC approaching companies in buyer countries very proactively offering with 'pull' loan facilities without the necessity of a specific export transactions.

The catalytic effect concept focuses on leveraging or mobilizing private financial flows in the same or related transactions where DFIs and MDBs provide support. The catalytic impact can include a signalling effect for private sector involvement in general, or it can mobilize and leverage concrete financial flows through equity, loans or guarantees from commercial actors. The same impact is achieved through ECA financing and insurance. In addition to the signalling effect, ECAs mostly finance only a part of the transaction. However, there are situations where government institutions are not "crowding in" financial institutions but crowd them out because of a quasi market-driven behaviour. EDC's market-window approach is one example.

As discussed above, sustainability is a conceptual framework without clear definitions. However, key elements of environmental or social sustainability are involved in DFI, MDB and ECA regimes. Financial sustainability is also a common approach for development and export finance institutions. This is either related to stakeholder and shareholder requirements, for example at multilateral development banks where equity preservation and accompanied rating issues are significant. In addition, it is required by regulatory frameworks such as the OECD Arrangement and the WTO requirements linked to the prohibition of export subsidies.

As a result, there are many different policy and strategic objectives with regard to DFIs, MDBs and ECAs. There are also varying definitions regarding key principles. However, additionality, catalytic effects and sustainability are guiding ideas for bilateral and multilateral development finance instruments as well as export financing tools.

2.4 SUMMARY

- Market failure is a main rationale for government intervention through financial instruments. In addition, policy goals can be a crucial aspect for public interventions.
- Public interventions appear in the form of financing vehicles including national development banks, innovation funds, DFIs and MDBs or ECAs. These financing instruments follow specific objectives.
- From a theoretical perspective, principles of public interventions are related to additionality or an insurer or lender of last resort approach, catalytic or demonstration effects, as well as the concept of sustainability.

3 REGULATORY FRAMEWORK

3.1 OVERVIEW

The following chapter seeks to outline the regulatory frameworks relevant for bilateral DFIs, MDBs and ECAs. The review will cover the WTO, the OECD including the Development Assistance Committee (DAC) and the work of its two Export Credit Committees, the Basel Regulation as well as the EU Regulation applicable to member states. As such, the chapter provides an overview of the respective regulatory frameworks' scope and implications for public institutions assessed as part of this Study. The International Working Group (IWG) is not covered in this Chapter as it has yet to be made into regulations that would govern the activity of ECAs, but is a forum for both non-OECD and OECD countries to discuss the establishment of new global standards for export credit support. This chapter forms the basis for the analysis in Chapter Seven, answering the first research question.

3.2 WORLD TRADE ORGANIZATION

3.2.1 INTRODUCTION

The World Trade Organization provides the framework for the global rules of trade. It succeeded the General Agreement on Trade and Tariffs (GATT) in 1994 as the governing body for a rules-based system, ensuring that trade takes place as smoothly, predictably and freely as possible.

3.2.2 AGREEMENT ON SUBSIDIES AND COUNTERVAILING MEASURES

In addition to its over-arching agreements in support of global free trade, the WTO has produced agreements targeted at specific aspects of trade. Of particular relevance to ECAs and bilateral DFIs, WTO members created a separate Agreement on Subsidies and Countervailing Measures, which addresses multilateral disciplines regulating the provision of subsidies. Article 1 of the WTO Agreement on Subsidies and Countervailing Measures (SCM Agreement) provides the definition of a subsidy:

> *"1.1 For the purpose of this Agreement, a subsidy shall be deemed to exist if:*
>
> *(a)(1) there is a financial contribution by a government or any public body within the territory of a Member (referred to in this Agreement as "government"), i.e. where:*
>
> *(i) a government practice involves a direct transfer of funds (e.g. grants, loans, and equity infusion), potential direct transfers of funds or liabilities (e.g. loan guarantees);*
>
> *(...)*
>
> *and*
>
> *(b) a benefit is thereby conferred.*
>
> *1.2 A subsidy as defined in paragraph 1 shall be subject to the provisions of Part II or shall be subject to the provisions of Part III or V only if such a subsidy is specific in accordance with the provisions of Article 2."*

The SCM thus stipulates that for a measure to constitute a subsidy, it must represent a financial contribution or income support by a government which confers a benefit to a specific recipient (Matsushita et al., 2015). The provision of development finance or export credits by a government therefore does not necessarily mean that a benefit has been conferred. Only where equity, a particular loan or guarantee is provided on terms more beneficial to the recipient than those available under the relevant market benchmark, that financial contribution is a subsidy and is covered by the disciples of the SCM Agreement. The provision of the government support then constitutes the relevant financial contribution, and the below-market interest terms constitute the benefit. As a consequence, ECA market window operations (i.e. support on commercial terms reflecting what the market offers) have been recognized not to constitute a subsidy due to a lack of benefit following the rulings in the dispute on aircraft financing between Brazil and Canada (Knorr, Bellmann and Schomaker, 2012). When filling a market gap due to their legitimate purpose of complementing commercial banks and private insurers, however, ECAs are subsidizing in the meaning of the SCM Agreement (see, e.g., Coppens, 2009). The same applies for bilateral DFIs when providing financing or risk mitigation instruments.

However, the aspect of specificity of Article 2 of the SCM Agreement has to be met as well. This is defined as follows:

"2.1 *In order to determine whether a subsidy, as defined in paragraph 1 of Article 1, is specific to an enterprise or industry or group of enterprises or industries (referred to in this Agreement as "certain enterprises") within the jurisdiction of the granting authority, the following principles shall apply:*

(a) *Where the granting authority, or the legislation pursuant to which the granting authority operates, explicitly limits access to a subsidy to certain enterprises, such subsidy shall be specific.;*

(b) *Where the granting authority, or the legislation pursuant to which the granting authority operates, establishes objective criteria or conditions governing the eligibility for, and the amount of, a subsidy, specificity shall not exist, provided that the eligibility is automatic and that such criteria and conditions are strictly adhered to. The criteria or conditions must be clearly spelled out in law, regulation, or other official document, so as to be capable of verification;*

(c) *If, notwithstanding any appearance of non-specificity resulting from the application of the principles laid down in subparagraphs (a) and (b), there are reasons to believe that the subsidy may in fact be specific, other factors may be considered. Such factors are: use of a subsidy programme by a limited number of certain enterprises, predominant use by certain enterprises, the granting of disproportionately large amounts of subsidy to certain enterprises, and the manner in which discretion has been exercised by the granting authority in the decision to grant a subsidy (…).*

2.2 *A subsidy which is limited to certain enterprises located within a designated geographical region within the jurisdiction of the granting authority shall be specific (…).*

2.3 *Any subsidy falling under the provisions of Article 3 shall be deemed to be specific."*

Article 2 is an important aspect for DFIs. They are usually not restricting all or selected services to "an enterprise or industry or group of enterprises or industries within the jurisdiction of the granting authority" and thus are less at risk of breaching the SCM Agreement. This might however not be the case for bilateral DFIs that limit their services to a group of enterprises such as OPIC. Furthermore, Article 3 defines prohibited subsidies. The relevant parts read as follows:

> *"3.1 Except as provided in the Agreement on Agriculture, the following subsidies, within the meaning of Article 1, shall be prohibited:*
>
> *(a) subsidies contingent, in law or in fact, whether solely or as one of several other conditions, upon export performance, including those illustrated in Annex I.*
>
> *(...)."*

A prohibited subsidy is therefore contingent on export performance. For DFIs, footnote 4 of Article 3 is relevant:

> *"This standard is met when the facts demonstrate that the granting of a subsidy, without having been made legally contingent upon export performance, is in fact tied to actual or anticipated exportation or export earnings. The mere fact that a subsidy is granted to enterprises which export shall not for that reason alone be considered to be an export subsidy within the meaning of this provision."*

The relevance of this footnote thus is in relation to whether a subsidy is "tied" or "untied" to export performance, in law or in fact. In other words, it may not be sufficient to say that a subsidy is untied in law, when facts actually suggest otherwise. The footnote further broadly defines "export performance" as "actual or anticipated exportation or export earnings".

In the case of ECAs, export credit support is by definition related to foreign trade as loans or insurance are extended to exporters or foreign buyers being 'de jure' contingent upon exportation (Coppens, 2009). Therefore, ECA support is automatically deemed specific under Article 2. However, footnote 5 says:

> *"Measures referred to in Annex I as not constituting export subsidies shall not be prohibited under this or any other provision of this Agreement."*

Annex I is referred to as the "Illustrative List of Export Subsidies". Item (j) and (k) are relevant to the field of export credit. While item (j) refers to the aspect of sustainability discussed in Chapter Two, the second paragraph of item (k) refers to an international undertaking on official export credits (which is universally recognized as the OECD Arrangement). Thus, it provides a "safe haven" for certain export credit practices and which are in conformity with the OECD Arrangement. The items read in the relevant parts:

> “(j) *The provision by governments (or special institutions controlled by governments) of export credit guarantee or insurance programmes, of insurance or guarantee programmes against increases in the cost of exported products or of exchange risk programmes, at premium rates which are inadequate to cover the long-term operating costs and losses of the programmes.*
>
> (k) *The grant by governments (or special institutions controlled by and/or acting under the authority of governments) of export credits at rates below those which they actually have to pay for the funds so employed (or would have to pay if they borrowed on international capital markets in order to obtain funds of the same maturity and other credit terms and denominated in the same currency as the export credit), or the payment by them of all or part of the costs incurred by exporters or financial institutions in obtaining credits, in so far as they are used to secure a material advantage in the field of export credit terms.*
>
> *Provided, however, that if a Member is a party to an international undertaking on official export credits to which at least twelve original Members to this Agreement are parties as of 1 January 1979 (or a successor undertaking which has been adopted by those original Members), or if in practice a Member applies the interest rates provisions of the relevant undertaking, an export credit practice which is in conformity with those provisions shall not be considered an export subsidy prohibited by this Agreement.”*

3.2.3 DESCRIPTIVE ANALYSIS

The SCM Agreement applies to national governments, sub-national governments, and public bodies such as state-owned or state-supported companies. ECAs and bilateral DFIs are subject to the SCM Agreement if they are government-owned and established in a WTO member country.

For a measure to constitute a subsidy, it must represent a direct or indirect financial contribution or income support by a government such as grants, loans and loan guarantees. This contribution must confer a benefit which is more favourable than what normal commercial practices in the market would provide to the beneficiary. In addition, there must be a specific recipient. For example, subsidies which solely or as one of several other conditions are contingent on export performance are automatically deemed to be specific and are prohibited. If the scheme is not included in the illustrative list, complainants must demonstrate that the scheme is either de jure or de facto a prohibited export subsidy, or is an actionable subsidy.

As such, bilateral DFIs need to ensure that they comply with the terms of the SCM Agreement. Specifically, they can either ensure that the development financing they provide to a business is not specific and de facto not linked to direct or indirect (via foreign subsidiaries of national companies), actual or anticipated exportation or export earnings for their respective country. Alternatively, in case there is a direct or indirect link to export performance from their respective country, the pricing and terms of the financing should be provided on market or OECD Arrangement terms (reflecting the opinion of specialized WTO lawyers, although no panel decisions exist to further substantiate the conclusion). As such, the financing would either not represent a subsidy by not conferring a benefit or would benefit from the 'safe haven' carved out in the SCM Agreement.

Export credit agencies also have to comply with the SCM Agreement showing their long-term sustainable behaviour. In addition, the safe haven and the exception it provides also applies for ECAs. However, it has been argued that the safe haven and the exceptions are available only for those forms of export credit support to which interest rate provisions of the OECD Arrangement are applicable – that is, direct credits (Coppens and Friedbacher, 2015). WTO disciplines would prohibit pure cover when provided to exporters on terms better than could be secured at market, even if such support conforms fully to the minimum premium and other disciplines in the OECD Arrangement. Similarly, matching would be no defence to export subsidy claims in a WTO dispute, even though it is an essential feature and provides the entire deterring force of the OECD Arrangement. As a consequence, there is a risk that export credit support except for direct credits might not be WTO-consistent even where it conforms to the OECD Arrangement.

3.3 OECD

3.3.1 INTRODUCTION

The mission of the Organisation for Economic Co-operation and Development is to promote policies that improve the economic and social well-being of people around the world. Its origins date back to 1960, when 18 European countries plus the United States and Canada joined forces to create an organisation dedicated to economic development and good policy.

Today, the OECD has 36 member countries spanning the globe, from North and South America to Europe and Asia-Pacific. They include many of the world's most advanced countries but also emerging countries like Mexico, Chile and Turkey. The OECD works closely with other emerging economies like the People's Republic of China, India and Brazil, and developing economies in Africa, Asia, Latin America and the Caribbean.

3.3.2 THE ARRANGEMENT

The Arrangement on Officially Supported Export Credits, generally referred to as the Arrangement, initially came into effect in April 1978. It was developed within the OECD framework and is of indefinite duration. The Arrangement is referred to as a "Gentlemen's Agreement" among the Participants. It is not an OECD Act, although it receives the administrative support of the OECD Secretariat.

The Participants to the Arrangement currently are: Australia, Canada, the European Union, Japan, Korea, New Zealand, Norway, Switzerland, Turkey and the United States. Other OECD Members and non-members may be invited to become Participants by the current Participants. The Participants to the Arrangement form a stand-alone committee (the "Participants") that is not a formal OECD Body, but it operates within the context of the OECD and applies its rules and procedures.

The main purpose of the Arrangement is to provide a framework for the orderly use of officially supported export credits. The Arrangement seeks to foster a level playing field among its members and other nations for official export credit support. It encourages competition among exporters based on quality and price of goods and services exported, rather than on the most favourable officially supported financial terms and conditions.

3.3.2.1 Scope of Arrangement

The scope of the Arrangement is defined in Chapter 1, Article 5 Scope as follows:

> *"The Arrangement applies to all official support provided by or on behalf of a Participant government for exports of goods and/or services, including financial leases, which have a repayment term of two years or more.*
>
> *a) Official support may be provided in different forms:*
> *1) Export credit guarantee or insurance (pure cover)*
> *2) Official financing support:*
> *- direct credit/financing and refinancing, or*
> *- interest rate support*
> *3) Any combination of the above.*
>
> *b) The Arrangement shall apply to tied aid; the procedures set out in Chapter IV shall also apply to trade-related untied aid.*
>
> *c) The Arrangement does not apply to exports of Military Equipment and Agricultural Commodities.*
>
> *d) Official support shall not be provided if there is clear evidence that the contract has been structured with a purchaser in a country which is not the final destination of the goods, primarily with the aim of obtaining more favourable repayment terms."*

As defined in its scope, the Arrangement applies to Participant countries and not to defined institutions. As such if a country through one of its institutions provides official support as defined in Chapter 1, Article 5, the Arrangement applies. In other words, the application of the Arrangement is not restricted to certain institutions, for example ECAs. Instead, if a bilateral DFI finances an export with repayment terms longer than two years and if tested against the WTO ASCM, the transaction would classify as prohibited export, the transaction should fall under the scope of the Arrangement. Given the legal status of the Arrangement for EU member states as discussed further below in 3.5, Arrangement terms and conditions could in this case automatically apply for EU bilateral DFIs.

Furthermore, the Arrangement in Chapter I, Article 5 defines that the Arrangement applies to "official support provided by or on behalf of a government for export of goods and/or services, including financial leases". Notably, it also does not specify the origin of the export. However, in conjunction with the WTO ASCM, it can be derived that a similar concept to the WTO ASCM's "export contingency" is implied. It is important to note that the concepts "tied" or "untied financing" (vis-à-vis "tied/untied aid") are neither referenced nor defined by the Arrangement.

3.3.2.2 Terms and Conditions

The Arrangement defines and specifies detailed terms and conditions for transactions falling into the scope of Arrangement.

Table 1: Summary Overview of Standard Arrangement Terms and Conditions

Down payment	Minimum 15% of export contract value
Maximum official support	Maximum 85% of export contract value excluding
Local costs	Maximum 30% of export contract value
Maximum repayment term	Maximum 8.5 years for high income OECD countries; maximum 10 years for all other countries
Repayment terms	Principal sum of export credit to be repaid in equal, maximum semi-annual repayments First instalment of principal and interest no later than six months after starting point of credit.
Pricing	For financing: Based on an agreed upon methodology, the Commercial Interest Reference Rates (fixed) is calculated on a monthly basis. For insurance: The Arrangement defines a methodology for the calculation of minimum premium rates for transactions in country categories 1 to 7 which is based on country and buyer risk categories as well as agreed upon credit enhancement and local currency factors. For country category 0: A market pricing methodology has been developed for countries that are not classified (category 0 countries) and for countries where private market financing is generally available.
Sector understandings	The Arrangement contains tailored agreements with adapted terms and conditions for the following sectors: - Ships - Nuclear Power Plants - Civil Aircraft - Renewable Energy, Climate Change Mitigation and Adaptation and Water Projects - Rail Infrastructure - Coal-Fired Electricity Generation Projects As well as adapted terms and conditions for Project Finance Transactions.

3.3.2.3 Role and Mechanisms of Transparency Provisions

The Arrangement contains various transparency mechanisms that apply to official support provided under the Arrangement including tied aid as well as trade-related untied aid. As the Arrangement constitutes a Gentlemen's Agreement, the transparency provisions are an important mechanism to ensure compliance with the agreed upon rules and ultimately are meant to safeguard the level playing field. Transparency provisions also shed light on the practices and trends in officially supported export credits and are a way to gather a body of evidence on which basis future decisions with regard to terms and conditions can be based. As such, transparency provisions are also commonly used when introducing, for example, a new sector understanding.

Transparency mechanisms under the Arrangement can take various forms. The most common ones are outlined in Table 2.

Table 2: Transparency Mechanisms

Prior notifications with discussion	▪ Ex-ante information on terms and conditions provided with respect to an officially supported transaction where other Participants have the option to request a discussion on the proposed terms and conditions. ▪ Ex-ante communication can vary between 10 to 30 working or calendar days before issuing a commitment.
Prior notifications	▪ Ex-ante information on terms and conditions provided with respect to an officially supported transactions without the option for discussion. ▪ Ex-ante information can vary between 10 to 30 working or calendar days before issuing a commitment.
Prompt notifications	Information on an officially supported transaction within approximately two working days of the commitment.
Information on official support	Ex-post information is provided on all official support committed.
Enquiry	A Participant to the Arrangement may ask another Participant about the attitude it takes with respect to a third country, an institution in a third country or a particular method of doing business.

Source: OECD Arrangement on Officially Supported Export Credits.

Transactional information provided through the transparency mechanisms is typically very detailed and reflective of the terms and conditions prescribed in the Arrangement. It also entails the names of the buyer, borrower and/or guarantor. In certain cases, a detailed rationale or description by the Participant is required. The disclosure of the information is typically agreed upon with the client as part of the application process.

Although not part of the Arrangement, the ex-post reporting mechanism/XCR1 transaction database is also an important transparency mechanism within the export credit community. It is also important to mention that it covers more transactions than the ex-ante notifications.

3.3.2.4 Relation to WTO

A founding principle of the Arrangement is to ensure that its Participants achieve a break-even position in their export credit systems over the long term. By having its Participants aspire to break even (or better) with no net fiscal cost or subsidy over the long term, the Arrangement is intended to prevent subsidization of trade finance by its Participants.

It has thus been argued that the Arrangement represents a de facto carve out from the WTO SCM Agreement, whereby compliance with Arrangement terms by its Participants implies compliance with the SCM Agreement. The carve-out has been confirmed to include financing at official interest rates, called the Commercial Interest Reference Rates, which are defined by the Arrangement. Pure cover transactions or floating rate lending have not been yet accepted within the definition of the carve-out.

3.3.2.5 Market Window

In the context of the Arrangement, market windows are considered public finance institutions (or certain financing windows of these institutions) that are operated on a commercial basis and following market principles. As a result, Participants to the Arrangement that undertake so called market window transactions do so on terms and conditions congruent with the market rather than the Arrangement. Without needing to comply with the Arrangement rules, these market window transactions are therefore also considered not subject to the Arrangement's transparency requirements.

As discussed in 3.2.2, WTO case law established that public support on commercial terms reflecting what the market offers, does not constitute a subsidy. Participants operating market windows therefore consider the SCM Agreement the applicable law, as to the extent no benefit is conferred, no prohibited subsidy exists and consequently there is no need to claim the 'safe haven' with the OECD Arrangement.

3.3.3 GOOD GOVERNANCE PROVISIONS IN THE CONTEXT OF EXPORT CREDITS

Besides the Participants' group, the OECD Working Party on Export Credits and Credit Guarantees is the second committee at the OECD in charge of working on export credits. Different to the Participants, the ECG is a formal OECD body operating as a subsidiary body of the OECD Trade Committee. The ECG's primary focus is good governance issues relating to export credits. Thereby, the ECG seeks to promote coherence between national export credit policies, broader policies on environmental and social due diligence processes, antibribery measures, and sustainable lending policies as well as other government-wide objectives.

Currently the following three main OECD legal instruments have been developed by the ECG and are continued to be monitored and further enhanced by the committee.

3.3.3.1 Common Approaches

Sharing experiences and practices on environmental and – over time – also social issues and human rights risks around officially supported export credits has been part of the ECG agenda since the mid-1990s. The exchange among the member countries gradually evolved into the OECD Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence ("Common Approaches") which has been approved in its current form in April 2016. The Common Approaches outline minimum environmental and social due diligence requirements to be followed by the Adherent Member Countries when providing official support for exports. The objective of the Common Approaches is that the consideration of environmental and social impacts and risks of supported transactions and projects becomes an integral part of Member's decision making and risk management systems.
The Common Approaches apply to all export credits for goods and services with repayment terms of two years or more and an officially supported transaction volume of SDR 10 million or more. Additionally, all transactions with a repayment term of two years or more which are realized in or nearby sensitive areas or with high risks that severe project-related human rights impact will occur – irrespective of the transaction volume. The entire project is subject to due diligence (not only the supported transaction) and due diligence is conducted against IFC Performance Standards or World Bank Safeguard Policies. The Common Approaches also entail transparency mechanisms for projects with a potentially high or medium environmental and social risk (referred to as Category A and Category B projects) as well as a commitment to building a body of experience regarding the application of the recommendation.

3.3.3.2 Recommendation on Bribery

The ECG also has been working since 1997 on devising a set of recommendations to address bribery in the context of officially supported export credits. In 2006 the working group approved the first "Recommendation of the Council on Bribery and Officially Supported Export Credits". A revised Recommendation was adopted by the OECD council in March 2019. Part of the latest revisions include a broader scope of the Recommendation. As a result, the Recommendation applies to bribery of foreign and – under certain provisions – public domestic officials, as well as to bribery in the private sector where prohibited under an Adherent's national laws. Furthermore, the Recommendation no longer only applies to situations where transaction parties are currently under charge or have been convicted of bribery but also to situations where transaction parties are under investigation by public prosecutors or have been charged by a publicly-available arbitral award. The Recommendation further seeks to improve applicability by better reflecting the workflow at ECAs. Reporting, monitoring and settlement (thus avoiding charges and potentially conviction) provisions have been strengthened to build a body of experience from the implementation of the revised Recommendation. Regular workshops for Adherents to exchange on best and evolving business practices as well as international developments will also be conducted.

3.3.3.3 Recommendation on Sustainable Lending

Given the impact of export credits on debt sustainability, in the past two decades the ECG has refined principles and guidelines for providing officially supported export credits to the public sector in lower income countries. As part of an alignment with World Bank and IMF policy changes, these principles and guidelines evolved into the formal Recommendation on Sustainable Lending Practices and Officially Supported Export Credits in 2018. The Recommendation is closely aligned to the Joint World Bank-IMF Debt Sustainability Framework for Low Income Countries and states that debt sustainability of lower income countries should always be taken into account when considering support for a transaction involving a public sector buyer or guarantor in a lower income country. Therefore, the Recommendation outlines specific due diligence and information exchange procedures that Adherent countries should follow when providing non-concessional public sector loans in lower income countries.

3.3.4 THE DEVELOPMENT ASSISTANCE COMMITTEE

The Development Assistance Committee (DAC) was created at the OECD in 1960 and currently has thirty members. The overarching objective of the DAC for the period 2018-2022 is to promote development co-operation and other relevant policies in order to contribute to the implementation of the 2030 Agenda for Sustainable Development.

In an effort to achieve this overarching objective, the DAC is committed to monitoring, assessing and promoting the provision of resources that support sustainable development. Supported by the OECD secretariat and by its members, the DAC undertakes a number of functions, including

- collecting and analyzing data and information on member countries' aid flows, formally referred to as official development assistance (ODA), and other official and private flows,
- reviewing development co-operation policies and practices, particularly in relation to national and internationally agreed objectives and targets, promoting transparency and mutual learning, and advancing the integrity of ODA,
- providing analysis and advice on good practice, to assist the members of the DAC and the expanded donor community to enhance innovation, impact, and development effectiveness, as well as
- helping to shape the global development architecture with a view to maximizing sustainable development results, supporting the implementation of the 2030 Agenda for Sustainable Development and stimulating mobilization of resources.

Against the backdrop of the growing importance attached to private sector capital mobilization in the quest to implement the ambitious 2030 Agenda for Sustainable Development, the DAC in recent years has taken an increased interest in the role of bilateral DFIs. In 2014, DAC as the custodian of the ODA definition proposed to amend the calculation and thereby definition of ODA by introducing 'private sector instruments'. By large, this meant to measure the equivalent ODA value or "grant element" of loans, guarantees and equity provided by bilateral DFIs.

While the reform seeks to further incentivize donors to use ODA funds to crowd-in additional private finance for development purposes, critics mainly from the civil society warn that the reform is likely to shift donor funding away from the public and social sectors and result in an overall decrease of aid effectiveness. The underlying assumption is that public and social sectors typically benefit from grant funding, while the ODA reform might have the (unintended) effect that governments increase PSI as a cost-efficient alternative to grant funding in order to achieve the ODA target of 0.7%. Also, ECAs voiced their concerns that the reform would blur the line between ODA and export credits and potentially have unintended WTO implications as it is likely to find both PSI and ECAs financing in the same or similar projects while being treated differently (i.e. regarding the "grant equivalent" calculation). Due to the comparatively limited transparency agreed upon in the ODA reform, ECAs further suggest a threat to the level-playing field for exporters as the reform might increase the risk of hidden export credits or "tied aid". As PSI will be counted as ODA and thereby positively influence the ODA target of 0.7% that many OECD member countries subscribed to, and given the national interest element found in many bilateral DFIs, the reform bears the risk of creating an incentive to label traditional export credits as PSI – either to increase ODA and/or to circumvent the OECD Arrangement on Export Credits.

Following years of intensive stakeholder and intra-governmental discussions and negotiations within the DAC on controversial aspects of the planned reform, such as calculation methods of the "grant element", transparency provisions, the concept of additionality and reporting, DAC members in December 2018 reached an agreement on provisional reporting arrangements for private sector instruments shifting the majority of the controversial issues into the future.

3.3.5 DESCRIPTIVE ANALYSIS

The OECD provides two reference points relevant to ECAs and DFIs. The Arrangement on Officially Supported Export Credits provides a framework for the orderly use of officially supported export credits. It seeks to create a level playing field among its members and other nations for official export credit support, in order to encourage competition among exporters based on quality and price of goods and services exported.

The Arrangement is intended to prevent subsidization of trade finance by its Participants. A founding principle is to ensure that its Participants achieve a break-even position in their export credit systems over the long term.

It has been argued the Arrangement represents a de facto carve out from the WTO SCM Agreement, whereby compliance with Arrangement terms by its Participants implies compliance with the SCM Agreement. However, this carve-out notion has not been fully tested at the WTO.

The Development Assistance Committee, or DAC, was created at the OECD to promote development co-operation and other relevant policies as well as to gather relevant statistics (i.e. TOSSD) in order to support the global development agenda. The DAC has paid attention to the potential for national and multilateral DFIs to mobilize additional financial resources for development by initiating a broader ODA reform which has led to controversial discussions, amongst others with the OECD export credit committees on the risk of blurring the lines between ODA and export credits. As shown above, the regulation for ECAs is wide-ranging and very much advanced while there are much more limited regulations or official recommendations for DFI activities. However, European DFIs have endorsed a set of commitments with regard to responsible financing, impact management and transparency.

3.4 BASEL REGULATION

3.4.1 INTRODUCTION

As a result of and response to the 2008 Global Financial Crisis, the Basel Committee on Banking Supervision hosted by the Bank for International Settlements has initiated regulatory reforms for more resilient banks and banking systems which are commonly known as Basel III. The reforms were meant to address the underlying causes of the financial crisis, such as the built up of excessive on- and off-balance sheet leverage, the low ability of existing capital buffers to absorb losses, the inconsistency concerning the definition of capital in different legal systems, the inability to liquidate supposedly high-quality assets, to name a few. While Basel III further enhances the three pillars introduced through Basel II consisting of (1) minimum capital requirements, (2) regulatory supervision and (3) disclosure and market discipline, it mainly evolves around four key principles expressed in the form of ratios.

Figure 8: Overview of Key Basel III Ratios

Capital Ratios	Banks are hit by three simultaneous developments in terms of capital: 1) Capital ratios are rising 2) Eligible (Tier 1) Capital is defined more restrictively 3) Risk-weightings for Assets increase	Capital (Tier 1 ▼) / ▲ Risk Weighted Assets
Leverage Ratio	The Leverage Ratio (LR) puts both on- and off-balance sheet assets of a bank in relation to its regulatory capital.	Capital (Tier 1 ▼) / Total assets
Liquidity Coverage Ratio	The new Liquidity Coverage Ratio (LCR) forces banks to hold enough high quality liquid assets – such as government bonds – to be able to meet anticipated cash outflows during a 30-day stress period ("run"). Assets that are not deemed to be both, of a high quality and liquid, will most probably attract higher bank-internal liquidity charges going forward.	Stock in high quality liquid assets / Net cash outflows over a 30-day time period ≥ 100%
Net Stable Funding Ratio	The new Net Stable Funding Ratio (NSFR) in essence forces banks to refinance long-term assets (maturity >1 year) with (more expensive) long(er) term liabilities.	Available amount of stable funding / Required amount of stable funding ≥ 100%

Source: Developed for this Study.

While Basel III is in an advanced implementation process of Basel Committee member jurisdictions, regulation is being further refined. The latest so-called Basel IV reforms are reworking the various credit, market and operational risk frameworks (including the standard and internal ratings-based approaches), introducing a standardised capital floor and revising the leverage ratio to further tighten minimum capital requirements. The latest reforms are set to be implemented by member countries until 2022 with a longer timeline for the ultimate standardised capital output floor (BCBS, 2017).

3.4.2 IMPACT ON ECAS, DFIS AND MDBS

Most of the public institution such as ECAs, bilateral DFIs and MDBs are not bound to apply Basel regulations, either because they are not lending institutions (which is the case for many ECAs) or because their founding legislation and state-owned nature exempts them. However, exceptions exist. For example, FMO is one of the bilateral DFIs having to adhere to Basel regulation while other public institutions only strive to apply it on a voluntary basis.

It is commonly agreed that the enhanced Basel regulation is likely to disincentivize affected commercial banks from providing long-term and high-volume lending due the liquidity ratios, while the combination of capital and leverage ratios is feared to have the effect that banks will seek to preserve their profitability by shifting their portfolios into potentially riskier and more lucrative market segments – often away from the ‘real economy’. In combination with Basel IV requirements, a significant additional capital demand is expected, most likely further increasing the costs of available financing for businesses and households. Lastly, Basel reforms are also expected to have specific implications on the availability of certain financing models such as asset-based financing.

3.4.3 DESCRIPTIVE ANALYSIS

As a result, non-lending ECAs fear that the implementation of Basel will increase the market gap for export finance as well as significantly increase its cost, due to the fact that commercial banks have historically considered ECA-backed export finance with its long-tenors and large volumes a low-risk and low-margin business. Furthermore, European ECAs were facing the risk that the implementation of Basel could threaten their underlying business-model to address market failures by enabling commercial banks to apply a 0% risk weight of their insured/guaranteed ECA portfolio. Following a joint lobbying effort by the European Council’s Export Credit Group, by removing the 0% risk weight of ECA business EU member states were able to effect a carve-out for officially supported export credits for the capital and leverage ratio as well as the large exposure limit in the latest EU capital requirements regulation and directives (CRR/CRD) which amongst others translates Basel reforms into EU law.

For FMO, the Basel regulation poses a challenge to fulfilling its mandate that is built on the banks’ ability to provide long-term capital to clients in developing countries. According to FMO, the higher capital requirements specifically for equity investments restrict the banks' ability to meet their clients financing demand (FMO, 2017). In a joint position paper with Rabobank, FMO further details the potential unintended negative effects of the Basel IV regulation on development finance and the real economy in developing countries specifically for highly collateralized financing in the agricultural sector, for commodity and project finance as well as for the provision of long-term capital through equity investments in developing countries (FMO and Rabobank, 2017).

KfW, to which the German bilateral DFI DEG belongs, and EIB as part of the long-term financial institutions' working group on banking supervision have also voiced their concerns by referring to the negative implications of the regulation on their investment potential, amongst others. Specifically, the working group of long-term investors highlights that in order to maximize their effectiveness, long term investors rely on a banking system with a complimentary risk appetite for long term investments. Given the dependence on external risk ratings for their refinancing purposes, the working group further highlights that market participants and rating agencies tend to benchmark the capitalization of institutions such as KfW and EIB vis-à-vis Basel principles thereby putting them at risk of potential rating downgrades with a ripple effect on their ability to fulfill their respective mandates.

3.5 EU REGULATION

There are specific areas where EU member states have authorised the EU to legislate. Customs union, competition rules, monetary policy, trade and marine plants and animals are policy areas where the EU has exclusive legislative competences and where regulation is a legally binding act that is directly applicable in all member states. With trade and competition rules being among the competence areas of the EU with exclusive legislative rights, certain resulting regulations can have implications for the public institutions assessed in this Study, potentially creating competitive disadvantages in relation to non-EU member states. This section covers main aspects of export credit regulation and thus is not an exhaustive list. Other regulations and decisions would include, for example, EU State Aid rules.

3.5.1 EU REGULATION NO 1233/2011

The EU Regulation No 1233/2011 on the application of certain guidelines in the field of officially supported export credits specifies that the OECD Arrangement and the guidelines and rules contained therein shall be applied by its member states. As such, guidelines and rules contained in the OECD Arrangement which form a gentlemen's agreement at the OECD-level become legally binding for EU member states. The EU Regulation further encompasses additional transparency requirements such as the preparation of annual activity reports. Furthermore, in certain cases transactions are notified on an ex-ante basis among EU members.

3.5.2 COUNCIL DECISION NO2006/789/EC

The Council Decision on consultation and information procedures in matters of credit insurance, credit guarantees and financial credits specifies the scope and procedures of consultations to be adhered to member states and their institutions that provide credit insurance or finance foreign credits. Under certain circumstances relating to the terms and conditions of these instruments, deals have to be notified on an ex-ante basis among EU members states.

3.5.3 COMMUNICATION FROM THE COMMISSION (2012/C 392/01)

The Communication from the EU Commission refers to the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to short-term export credit insurance. To avoid market distortion through State aid and safeguard the level-playing field for exporters, the EU Commission restricts publicly supported export credit insurance with a risk period of less than two years in so-called marketable risk countries. It further specifies the circumstances under which a country can be declared temporarily non-marketable and therefore eligible for publicly supported short-term export credit insurance. One example for these temporary exceptions was Greece during the course of its sovereign debt crises.

3.6 SUMMARY

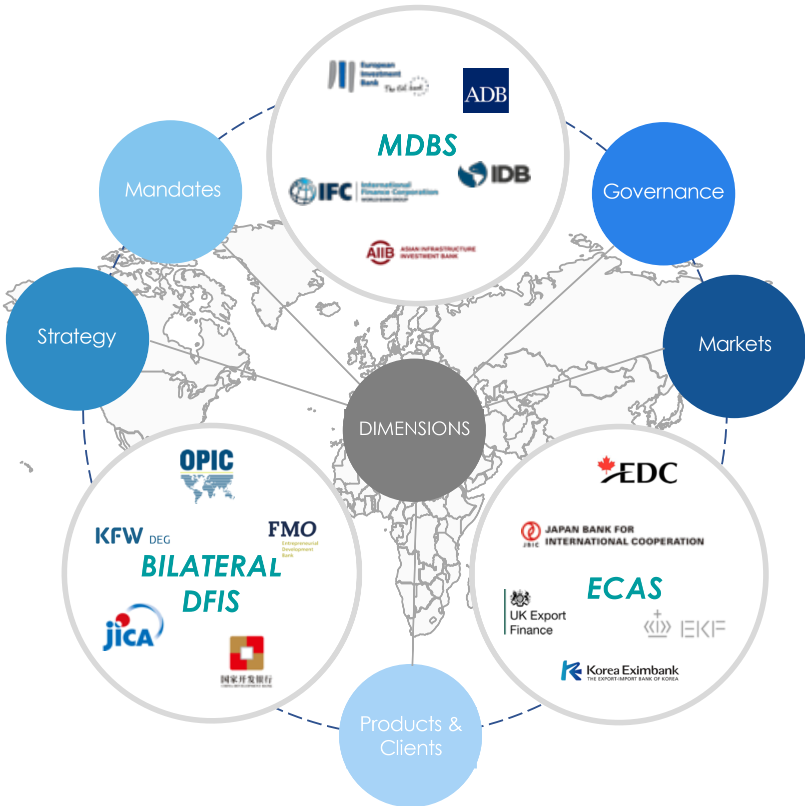
- The set of regulations applicable to DFIs, MDBs and ECAs is different. However, government-owned DFIs and ECAs in WTO member countries have to comply with the SCM Agreement. This is not only related to specificity. Although not fully tried and tested under WTO law, a common approach is the consideration of the OECD Arrangement ‘safe haven’ where DFIs might need to comply, and pure cover ECAs face potential threats.
- The OECD Arrangement intends to prevent a ‘race to the bottom’ in the provision of subsidised financing terms by its participants and is relevant for ECAs and DFIs. Support from non-participants creates challenges for OECD participants, and DAC reforms can blur the line between ODA and export credits.
- Basel regulations might increase the market gap for export finance. Tight regulations are also a challenge for some DFIs due to unintended effects of Basel IV on development finance.
- EU Regulations apply for ECAs in member states creating implications for public institutions assessed in this Study, in particular regarding competition with non-EU member states.

4 INTRA-COMPARATIVE ANALYSIS OF DFIS, MDBS AND ECAS

4.1 OVERVIEW

This Chapter examines the three types of public policy institutions reviewed in this Study: Bilateral DFIs, MDBs and ECAs. It begins with a short overview of the nature and key features of each type of institution before going into an intra-comparative analysis of the selected institutions within each distinct category of DFIs, MDBs and ECAs. Hence, for each category of institution, the dimensions of analysis are fivefold. The Study compares selected institutions' 1) mandates, 2) strategies, 3) products and clients, 4) markets, and 5) governance.

Figure 9: Dimensions of Analysis



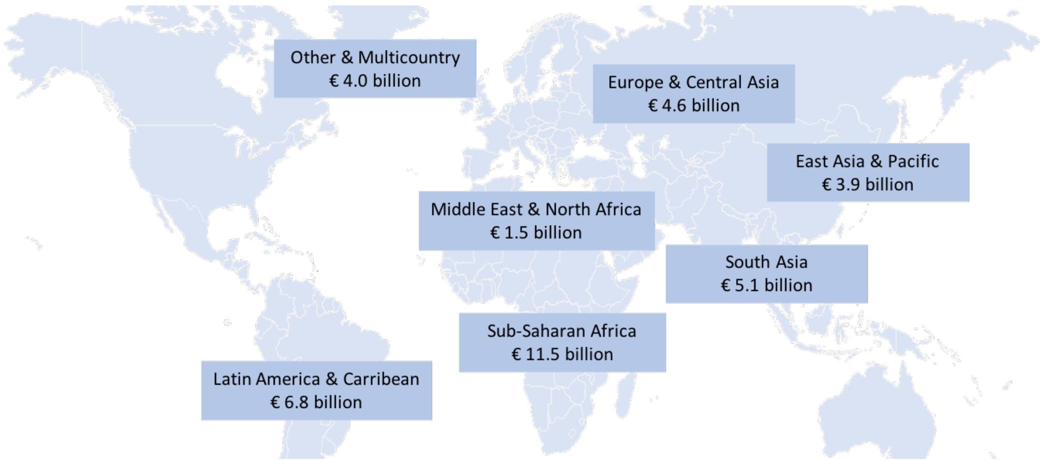
4.1.1 DFIS

As discussed in Chapter Two, DFIs are either independent institutions such as FMO in the Netherlands and SIFEM in Switzerland or part of larger national development banks such as DEG in Germany and SIMEST in Italy. There are numerous DFIs on a global level offering equity, loans and guarantees for development finance. In addition to OPIC in the US or JICA in Japan, there are many traditional European players such as the UK's development finance institution CDC, the Danish Investment Fund for Developing Countries (IFU), or the French DFI Proparco.

Furthermore, there is a growing number of new institutions. This does not only include the recently established Development Finance Institute Canada (FinDev) but also DFIs created by EMDEs such as China. The country has been a large recipient of net aid for many years, but became a major player in development assistance and finance in the last two decades. China did not only grow into the role of an important donor in Central Asia and poorer economies in South-East Asia, but is also particularly active in Africa. A major driver for increasing aid and development financing are the framework of South-South cooperation, as well as the Belt and Road Initiative (BRI). The strategic approach is economic integration, regional influence, and global geopolitical competition (Flint and Zhu, 2019; Liu and Tang, 2018).

While DFIs initially mostly focused on Official Development Assistance (ODA), the area of development finance has substantially changed since 2000. Financing with more than 25% grant elements particularly from bilateral institutions based in OECD countries significantly went down. On the other hand, financing of private sector development dramatically increased, a consequence of the reorientation in development thinking in the 1980s (Savoy, Carter and Lemma, 2016; Gibbon and Schulpen, 2004) (Figure 10):

Figure 10: European DFI Portfolio by Region (EUR, billion)



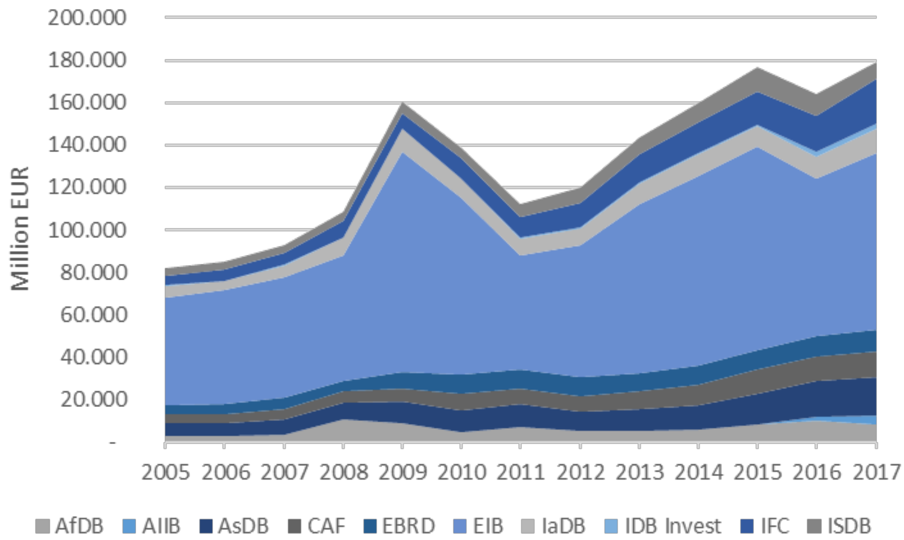
Source: Developed for this Study based on EDFI, 2019.

4.1.2 MDBS

Multilateral development banks today include not only the World Bank Group with IBRD/IDA, IFC and the Multilateral Investment Guarantee Agency (MIGA) but also several other regional institutions founded some 50 years ago such as the Inter-American Development Bank (IDB), the African Development Bank (AfDB) and ADB. The European Bank for Reconstruction and Development (EBRD) followed in 1991 with a policy mandate for democracy-building activities as well as specific private sector targets. Most recently, new multilateral development banks such as the Asian Infrastructure Investment Bank or the New Development Bank (NDB) were founded by EMDE governments. Some of them focus specifically on infrastructure or energy projects in order to intensify regional and global trade relations (Flint and Zhu, 2019; Gallagher et al., 2018).

Most MDBs have a significant equity base and undertook large new commitments in 2017. For example, IBRD/IDA and IFC's new commitments amounted to more than $50 billion.

Figure 11: New Approvals by Multilateral Development Banks



Source: Annual Reports.

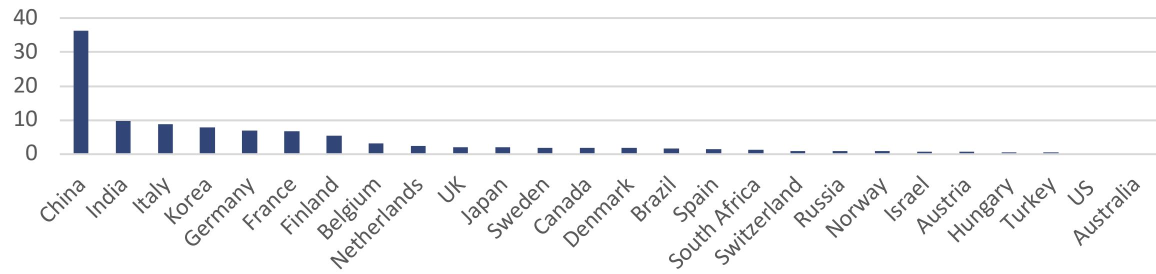
4.1.3 ECAS

Looking at ECAs, there are three main forms of government export finance and insurance operations: ECAs can be part of the government, act as an independent government agency, or are designed as a commercial organisation acting on behalf and for account of the state. More than 60 countries have established national export-import banks or export credit agencies.

In addition to traditional ECAs such as Atradius in the Netherlands, EKF in Denmark, Finnvera in Finland or GIEK in Norway, a rising number of developing economies have established export credit agencies in recent years: This includes smaller economies such as Armenia with the Export Insurance Agency of Armenia (EIAA) being operational since 2015 or Qatar Development Bank's insurance scheme Tasdeer established in 2011. Larger countries such as Pakistan are also in the process of establishing an export finance and insurance institution.

Many ECAs in highly-industrialized countries only have low levels of short-term credit insurance or have left the credit insurance market to the private sector. Prominent public providers today are China's Sinosure and K-Sure in South Korea, as well as EDC. In Europe, ECAs must follow the European Commission's directive against state-support of short-term (ST) "marketable risks", and only EH, SACE and Bpifrance report relevant new global ST commitments. In addition, more than 25 governments provided financing and insurance for medium and long-term (MLT) transactions in 2017 with China and India as non-OECD countries at the top (Figure 12).

Figure 12: New MLT Export Credit Volumes 2017 ($ billion)



Source: Developed for this Study based on US EXIM, 2018.

4.2 DFIS

4.2.1 MANDATES

4.2.1.1 Mandate

Mandates of bilateral DFIs largely revolve around poverty reduction, green and inclusive growth and development. Typically, their focus is restricted to building the private sector's capacity in developing and emerging countries. DEG's objective is to promote private enterprises as a contribution to sustainable growth in developing and transitioning countries and, as such, it commits to projects that '*make an effective developmental policy impact, meet environmental standards and comply with social principles*'. Similarly, FMO promotes sustainable private sector growth in developing markets focusing on green and inclusive development.

Some bilateral DFIs have a mandate to promote the national economy as part of their engagement in developing countries. OPIC is an example of this; it only supports projects where there is US ownership or strong US involvement and is mandated to 'help American businesses gain footholds in new markets' and 'advance US foreign policy and national security priorities'. With a mandate to align to national economic development strategies, China Development Bank is also focused on strengthening national competitiveness. JICA's mandate as a development aid or cooperation agency rather than financial institution displays a broader development approach (Table 3).

Table 3: Mandate

CDB	Enhancing national competitiveness and improving people's livelihood
DEG	Private sector promotion with the aim of contributing to development in poorer countries and to improved living conditions of the people
JICA	Secure peace, stability, and prosperity and realize human security and quality growth
FMO	To promote private sector development in developing countries
OPIC	Provide businesses with the tools to manage the risks associated with foreign direct investment, fosters economic development in emerging market countries, and advances US foreign policy and national security priorities

Source: Developed for this Study based on Annual Reports, annual plans and strategies.

4.2.1.2 Institutional Structure

Most bilateral DFIs are set-up as independent government-owned financial institutions applying private-sector management principles. DEG operates as a non-profit limited company and a legally independent, wholly owned subsidiary of the German Development Bank, KfW, and FMO is set-up as a public-private partnership with the Dutch government and private investors, including several commercial banks and other shareholders. While OPIC is established as an agency of the US Government, it is organized as a corporation with a corporate structure. OPIC is currently undergoing a substantial reform, as the US administration seeks to consolidate its development finance functions and strengthen its bilateral DFI in support of development and national security goals. As part of the process, OPIC will be merged with the credit guarantee scheme of USAID, the US's international development agency.

There are also examples where bilateral DFIs are subsidiaries of national Export Credit Agencies, namely FinDev, the newly established Canadian DFI, as well as SIMEST, the Italian DFI. JICA in its current form has been created in 2008 after years of restructuring the Japanese Official Development Assistance (ODA) set-up. Today's JICA is a result of a partial merger of development programmes previously implemented by the Ministry of Foreign Affairs, the Japanese Bank for International Cooperation (JBIC) and JICA.

Based on these examples, the diversity of institutional structures found with bilateral DFIs is evident.

Table 4: Institutional Structure

CDB	Incorporated as China Development Bank Corporation – a policy financial institution under the State Council
DEG	Non-profit limited company and a legally independent, wholly owned subsidiary of the German Development Bank Kreditanstalt für Wiederaufbau (KfW)
JICA	An incorporated administrative agency in charge of administering Japan's ODA
FMO	Incorporated as a public-private partnership
OPIC	Self-sustaining US Government agency

Source: Developed for this Study based on Annual Reports, websites, charters.

4.2.1.3 National Interest Considerations

There is no clear or shared definition or concept of national interest among bilateral DFIs but it is often displayed by support to - and promotion of - national businesses or investors to expand their activities into emerging and developing markets. While the majority of the bilateral DFIs provide financing that is not always contractually tied to procurement from the respective country, almost half of the European bilateral DFIs need to ensure an element of national interest as a prerequisite to provide financing for a project or transaction. Examples include Cofides (Spain), Finnfund (Finland), IFU (Denmark), SIMEST (Italy), SOFID (Portugal) and SBI (Belgium).

This national interest requirement is often met by national companies or shareholders, involvement by national investors, joint ventures with a national company, etc. Other times, national interest is stated in the negative, i.e. that the DFI will not support anything that is against national interest. For example, as part of its assessment for funding, OPIC reviews all potential projects to ensure they will have no negative impact on US jobs or the US economy. Meanwhile CDB's operating principles include consideration of the national "strategic value" of projects.

German corporates are one of DEG's main customer groups. In 2017, it reached more than 130 German corporates with its financing and promotional programmes. According to DEG's 2017 annual report, the bilateral DFI made €436.1 million in equity finance available to them for proposals in emerging market and developing countries (up from €252.5 million in 2016) as well as loans and equity participations for German direct investments. DEG's support also includes providing financing to local enterprises in EMDEs for the purchase of German components either directly or via local banks. DEG provided a further €26.7 million to 98 German corporates via promotional programmes (up from €15.7 million for 93 German corporates in 2016). As a recent initiative, DEG together with the local German Chambers of Commerce has set-up so called "German Desks" in Bangladesh, Ghana, Indonesia, Kenya and Nigeria. The German Desks target German SMEs and their local trading partners. According to DEG, services provided range from setting up accounts through services for financing trade and transaction banking, to credit lines or investment financing for local companies wishing to acquire German equipment.

FMO has increasingly been requested by the Dutch government to combine impact in developing countries with value creation for the Netherlands in recent years. Hence, in addition to supporting Dutch international commitments in meeting SDGs and climate goals, FMO has taken steps to play a central role in assisting Dutch companies investing in emerging markets through its subsidiary NedLinx. In 2017, €94 million of Dutch business was supported. FMO is also preparing for the establishment of Invest-NL (to be incorporated in 2019) and a joint venture with FMO's NL Business activities. The cooperation is meant to focus on providing financing solutions and supporting Dutch companies in marketing their products to international markets. The joint-venture may also support Dutch companies in bidding for foreign contracts that require integral solutions, from development and financing to realisation.

Table 5: National Interest

CDB	Will support projects viewed as having national "strategic value"
DEG	Seeks to support German corporates by providing equity finance and loans. Also providing financing to local enterprises for the purchase of German components either directly or via local banks.
JICA	Viewing private-sector activity as a major driver for economic growth in developing countries, JICA has launched new schemes to support Japanese small and medium enterprises (SMEs) overseas business development and resumed the program of Private-Sector Investment Finance (PSIF).
FMO	Expected to combine impact in developing countries with value creation for the Netherlands. Therefore, it plays a central role in assisting Dutch companies investing in emerging markets through its subsidiary 'NedLinx B.V., and is establishing 'Invest-NL' to support Dutch businesses.
OPIC	Ensures all financial commitments will have no negative impact on US jobs or the US economy.

Source: Developed for this Study based on Annual Reports.

4.2.1.4 Market Complementarity and Competition

As discussed in Chapter Two and defined by their mandate, most bilateral DFIs are to act in a complementary fashion to the private financial market and should direct their capital on transactions where they can provide additionality. However, no agreed definition of additionality among bilateral DFIs yet exists. According to bilateral DFIs, additionality is assessed and argued on a case-by-case basis, and no standard requirement exists for a borrower to provide proof of the lack of commercial financing available.

The concept of competition between DFIs is becoming more relevant. While there should be no incentive for bilateral DFIs to engage in a race-to-the-bottom regarding financing terms and conditions, bilateral DFIs also need to support good deals to ensure a balanced portfolio. However, as there are currently fewer 'good' deals in terms of acceptable risk and at the same time sufficient liquidity in emerging markets exists, competition for certain deals may arise. There are no mechanisms in place to regulate competition among bilateral DFIs, i.e. unless the financing is tied to national procurement in which case the OECD Arrangement applies.

4.2.2 STRATEGY

4.2.2.1 Strategy

As can be seen in Table 6, several commonalities in strategic priorities of the selected bilateral DFIs exist. All strategies are geared towards achieving and enhancing impact, ensuring financial sustainability and sound operations of the institution itself as well as a promoting a form of national interest.

Table 6: Strategic Priorities

CDB	Supporting China's social and economic development while sustaining its own development: (1) Supporting key sectors in infrastructure, basic and pillar industries; (2) Contributing to economic upgrading; (3) Improving people's livelihood; (4) Actively and steadily promoting international cooperation; (5) Continuously strengthening risk management; and (6) Pursuing finer operations and management.
DEG	(1) A sustainable return, (2) Business that has an impact on development, and (3) Providing a comprehensive offer for the German economy
JICA	(1) Realize peace, security, prosperity as well as an international environment with high stability, transparency and predictability, (2) Contribute to enhancing the international community's confidence in Japan, strengthening the relationship between developing areas and Japan, and formulating the order and the norms of the international community, (3) Contribute to the vitalization of the economy and society in Japan strengthening the relationship between developing areas and Japan
FMO	(1) Higher impact portfolio, (2) Deeper relationships (including support to Dutch business activities in emerging markets), (3) Higher productivity
OPIC	(1) Advancing US government development and national security objectives, (2) Catalysing private sector investment, (3) Benefitting the US economy, (4) Operational efficiency and effectiveness

Source: Developed for this Study based on strategy documents and Annual Reports.

Another common aspect in the strategies of bilateral DFIs is to prioritize engagement in low-income and least developed countries and consolidate activities on geographies or sectors where the institution feels best positioned to add value and achieve impact. Furthermore, cross-cutting themes in many strategies are support to SME/mid-cap businesses, gender equality and pro-poor investments. Often bilateral DFIs or their governments establish special funds or dedicated teams to address these priority themes. FMO's financial inclusion fund, MASSIF, for example, exists to enhance financial inclusion for MSMEs that are disproportionately affected by a lack of access to financial services.

4.2.2.2 International Representation

The European bilateral DFIs tend to have international representations, often linked with embassies and foreign Chambers of Commerce. For example, DEG has 13 global offices and 5 so-called satellites. Proparco maintains 11 offices worldwide, and the British CDC has 2 foreign offices. FMO only shares one international representation with DEG in South Africa but relies on its well-established network with embassies and local financial institutions. JICA – as Japan's development cooperation agency rather than DFI – has a significant international presence with close to a hundred offices worldwide. Similarly, CDB has a broad spread of branches across mainland China and considerable international representations in Russia, Brazil, Australia, Laos, Indonesia, Kazakhstan, and the UK.

Table 7: International Representation

		Regional Presence				
	Overseas Offices (#)	Asia & Oceania	Europe	Africa & MENA	LAC	North America
CDB	10	+	+	+	+	
DEG	13	+	+	+	+	
JICA	+90	+	+	+	+	+
FMO	1			+		
OPIC	0					

Source: Developed for this Study based on websites and Annual Reports.

4.2.2.3 Cooperation

Many bilateral DFIs emphasise cooperation at an international level as a means to scale up investments and maximize impact. There are established co-financing mechanisms between FMO, Proparco and DEG in place, which allows for risk-sharing in bigger projects. There is also significant co-financing between bigger and smaller European DFIs, enabling the smaller DFIs to participate in deals that they would not have been able to finance on their own. In addition, DEG, FMO and Proparco apply an "Independent Complaints Mechanism" developed as a joint initiative by FMO and DEG.

European bilateral DFIs also founded the European DFI association 'EDFI'. The association is tasked with fostering cooperation with EU institutions and other bilateral DFIs outside Europe as well as with the IFC. Furthermore, EDFI facilitates knowledge-sharing and learning among members and to this end has set-up or participates in several working groups on topics such as environmental and social governance and blended finance. In 2018, EDFI further signed a Memorandum of Understanding with the North American DFIs OPIC and FinDev in order to intensify transactional, operational and policy-related cooperation among bilateral DFIs.

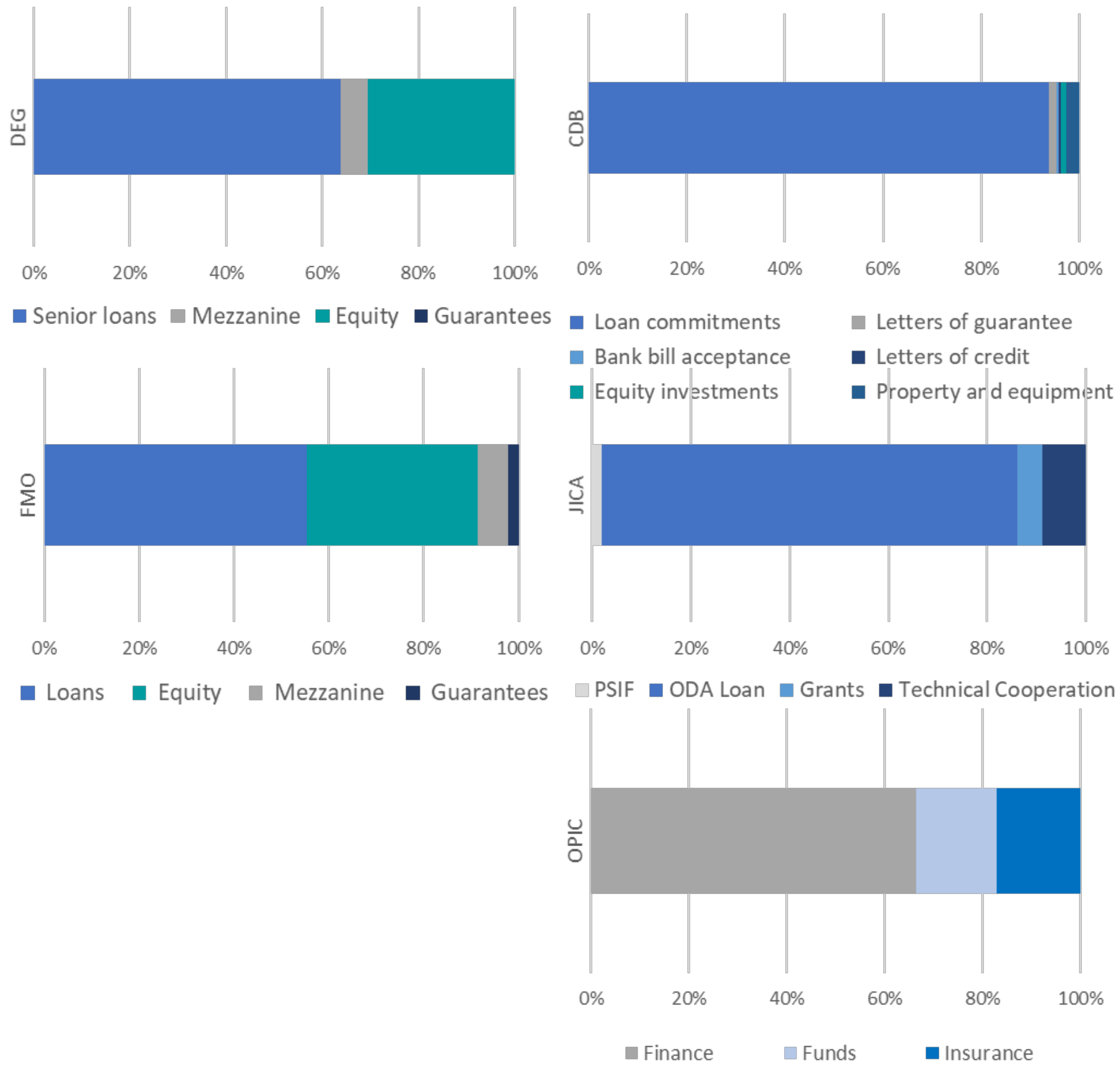
Most bilateral DFIs cooperate with MDBs at the transaction level, as well as on a policy level. At a transaction level, for example, OPIC and IDB Invest cooperate on the joint equity initiative 'Fund Mujer'. Syndications with MDBs, such as IFC, are also common practice among bilateral DFIs. However, cooperation does not only occur at transaction or financing level. At the policy level, MDBs and DFIs together have negotiated and adopted HIPSO, the Harmonized Indicators for Private Sector Operations, a set of indicators for private sector investment operations based on best practices.

Another example of collaboration between DFIs and MDBs is the International Development Finance Club (IDFC), a platform specialised in climate finance consisting of 24 effective members representing bilateral DFIs as well as MDBs including DEG, Proparco, JICA and CDB amongst others. CDB has also adopted international cooperation as key element of its strategy and has a dedicated department for Global Cooperation which seeks to promote multilateral and bilateral cooperation in support of initiatives like the BRI.

4.2.3 PRODUCTS AND CLIENTS

Figure 13 provides an overview of the portfolio breakdown by products and customer cluster for the bilateral DFIs examined in this study. Development finance institutions provide a broad range of financial and non-financial services and serve various categories of clients. Loans still occupy a major portion of bilateral DFIs' portfolio. Typically, financial institutions also occupy a large proportion of their portfolio as they leverage them to reach target sectors, geographies and development needs.

Figure 13: Product Portfolio Breakdown by Commitments (2017)



Source: Developed for this Study based on websites and annual reports. FMO and OPIC figures based on total portfolio.

4.2.3.1 Private Sector Loans

Two different types of loan instruments are typically provided by bilateral DFIs: Mezzanine loans/subordinated debt and senior debt. The specific loan offering of CDB, DEG, FMO and OPIC is similar and entails a broad range of services including corporate financing, project financing, M&A financing, and for some also foreign currency lending and trade financing.

In addition, CDB and FMO provide export finance. FMO then typically seeks cover from the Dutch ECA ADSB and thereby complies with OECD Arrangement terms and conditions. However, this is a case-by-case decision and FMO may also opt to provide export financing without ADSB cover. In this case, FMO does not see itself regulated by OECD Arrangement terms and conditions.

Recently, OPIC has developed a loan syndications program, similar to the A/B-loan programme of IFC (see 4.3.3), in which OPIC acts as a lender of record. Other private-sector cross-border investors in turn may purchase participations in OPIC's loans. The syndications increase efficiencies and are a way to attract private investors that would not have considered investing in emerging and developing markets.

OPIC, FMO and DEG do not provide concessional loans. Limited transparency on lending criteria make it unclear whether CDB and JICA (under its Private-Sector Investment Finance scheme) are concessional.

The majority of European DFI lending typically does not exceed $50 million per project. The majority of CDB transactions, on the other hand, identified and tracked through public sources in the past 15 years appears to be significantly larger than $50 million – often amounting to several hundred million or even billion $ (Strange et al., 2017).

Little public transactional information exists with regard to the JICA private-sector scheme. In 2018, financing committed under the scheme amounted to $389 million which was provided to six organisations. Of the six transactions, JICA co-financed three with IFC and ADB and one with a private financial institution. As Japan's agency for development, JICA further manages Japan's ODA loans which comprise various types of Project Loans as well as Program Loans which are granted on a concessional basis to developing country governments. These ODA loans comprise the vast majority of JICA's overall portfolio representing $17 billion financing committed in 2017. JICA's annual ODA loan commitments have almost doubled in the past three years.

Table 8: Overview of Selected Bilateral DFI's Loan Offerings

Institution	Products	Size	Tenor	Covenants /Securities	Pricing	Currency
CDB	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
DEG	- Long-term - Mezzanine	€3-25 m	4-10y (mezzanine 10+y)	Typically assets	Market, fixed/ variable	EUR, $, local currency
FMO	- MLT	n.a.	n.a.	n.a.	Fixed/variable	n.a.
JICA	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
OPIC	- Debt	$0.5-350m	5-20y; max. 30y	n.a.	Project related	n.a.

Source: Developed for this Study based on websites.

4.2.3.2 Equity

Equity instruments play an important role for the European bilateral DFIs DEG and FMO, representing between one third (FMO) and almost half (DEG) of the respective DFI's total portfolios. Equity is either provided directly or indirectly via dedicated funds. Typical criteria for direct equity investments are a clear exit strategy and that the DFI share represents a minority stake.

OPIC exclusively provides support to private equity funds in the form of a non-amortizing loan, rather than as a direct provider of equity. Typically, OPIC initiates a fund manager selection process on a quarterly basis through a "call process". As a rule, OPIC refrains from providing more than 25% of a fund's capital base. With regard to OPIC's overall portfolio, its fund participations play a smaller role amounting to approximately €2 billion.

CDB provides equity and investments through its subsidiary CDB Capital Co. Reportedly, in 2017 CDB Capital Co. made new investments worth approximately €7.9 billion. Furthermore, CDB created the China-Africa Development Fund in 2007, the first Chinese investment fund dedicated to spurring investments of Chinese enterprises in Africa. In 2017 this Fund had some $4.6 billion under management.

According to JICA, its Private-Sector Investment Finance also provides equity investments (as well as loans) which appears to represent the vast majority of the financing under this scheme.

4.2.3.3 Insurance and Guarantees

FMO, DEG and OPIC offer guarantees as part of their product offering. While the last guarantee DEG issued was recorded in 2014, FMO's guarantee portfolio amounted to more than €200 million in 2017. DEG and FMO guarantees are mainly provided to financial institutions. OPIC uses loan guarantees to catalyse commercial financing for clients. Other bilateral European DFIs that have bigger guarantee portfolios are Austria's OeEB, France's Proparco and the UK's CDC. The latter has the most substantial guarantee portfolio amongst European bilateral DFIs.

CDB's product portfolio contains a broad range of guarantee instruments, specifically supporting trade finance, including letters of guarantee, bill of acceptance and letters of credit. No information is publicly available in English as to whether JICA offers guarantees.

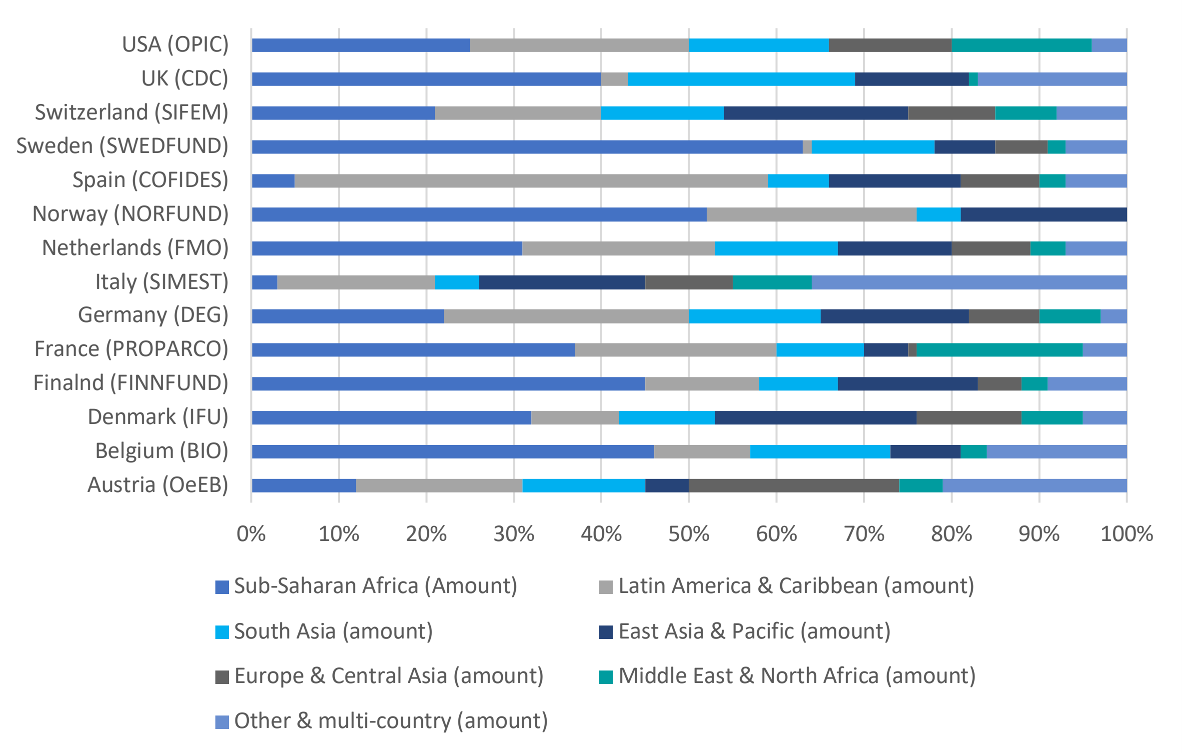
In addition to debt financing and support for private equity funds, OPIC offers political risk insurance to US foreign direct investors or investments. In other countries, this product is typically provided by ECAs. At OPIC, political risk insurance is often provided as a supplementary product in combination with OPIC financing. The US connection requirement for political risk insurance is stricter than for OPIC's debt financing and fund product offering. To be eligible for OPIC's PRI, a corporation must be established in the US and have more than 50% US ownership or, if established overseas, have at least 95% US ownership. However, for debt financing, it must be a US-organized entity that is 25% or more US-owned or a foreign-organized entity that is majority US-owned. Similarly, OPIC provides debt financing to private equity investment funds where the fund i) has raised, or 'uses best efforts to raise,' US equity equal to 25% of OPIC's loan support, or ii) Is managed by either a US entity that is at least 25% US-owned or a foreign entity that is majority US-owned.

4.2.4 MARKETS

4.2.4.1 Geographies

Bilateral DFIs' portfolio covers all major regions. Due to the substantial development challenges faced by many countries on the African continent, bilateral DFIs in general place a strong focus on promoting private sector development in African countries. Regional and cultural proximity as well as historic ties also play a role for the institutions' regional and portfolio strategies, as can be seen in **Figure 14** with regard to JICA's and Cofides' (the Spanish DFI) portfolio composition. Similarly, FMO has declared that it is growing its investments in Middle Eastern and North African countries, which it refers to as "Circle around Europe".

Figure 14: Bilateral DFIs Exposure by Geographies (2015)

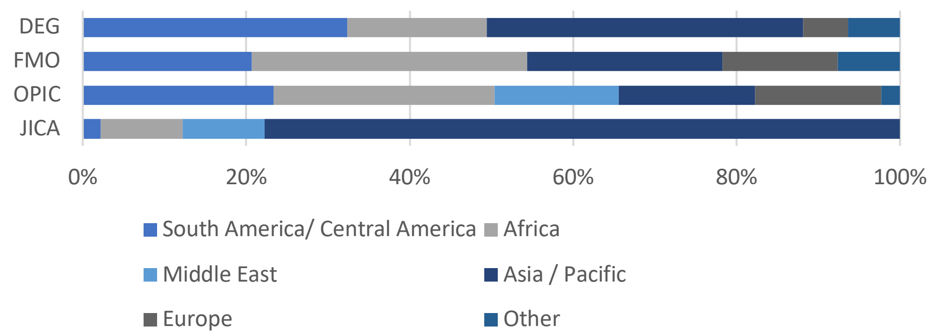


Sources: Developed for this Study based on EDFI Flagship Report 2015 and OPIC Annual Report 2015. No more recent reports are available by EDFI.

Due to the lack of available country-specific exposure data, a specific emphasis on low-income, least developed and fragile countries could not be confirmed. Instead, based on available transactional data, it can be assumed that bilateral DFIs pursue a balanced portfolio mix with transactions in middle and upper middle-income countries to safeguard their institutions' financial sustainability and achieve an adequate portfolio mix that allows them to also finance transactions in countries perceived higher risk.

With regard to the selected bilateral DFIs' more recent geographic exposure as displayed in Figure 15, Asia and Latin America remained DEG's strongest regions. Africa fell slightly compared to previous years. However, it continues to remain DEG's strategic focus region. FMO's biggest regional portfolio is Africa, followed by Asia and Latin America and the Caribbean. The bank is also active in Eastern Europe and Central Asia and maintains a smaller non-specific regional portfolio through its equity fund investments. In terms of committed portfolio, FMO's top five countries are India, Turkey, Nigeria, Bangladesh and Georgia.

Figure 15: Selected Bilateral DFIs Exposure by Geographies (2017)



Source: Developed for this Study based on Annual Reports.
For CDB no geographic breakdown outside of China was available.

One of OPIC's geographic focus areas are conflict-affected regions. As an instrument of US foreign policy, OPIC considers its private sector investment support as a stabilizing force. In recent years OPIC specifically focussed on supporting investments in Eastern Europe, the Middle East, as well as in Central America. Sub-Saharan Africa remains another geographic priority given the development challenges African countries continue to face.

JICA, as Japan's development cooperation agency, has a much broader intervention focus than bilateral DFIs. It is active in 146 countries across all continents. However, given the regional proximity to Japan, South Asia and South East Asia and the Pacific remain Japan's primary focus areas measured by the volume of JICA's programs. No detailed information with regard to the regional distribution of JICA's Private Sector Investment Finance Facility exists.

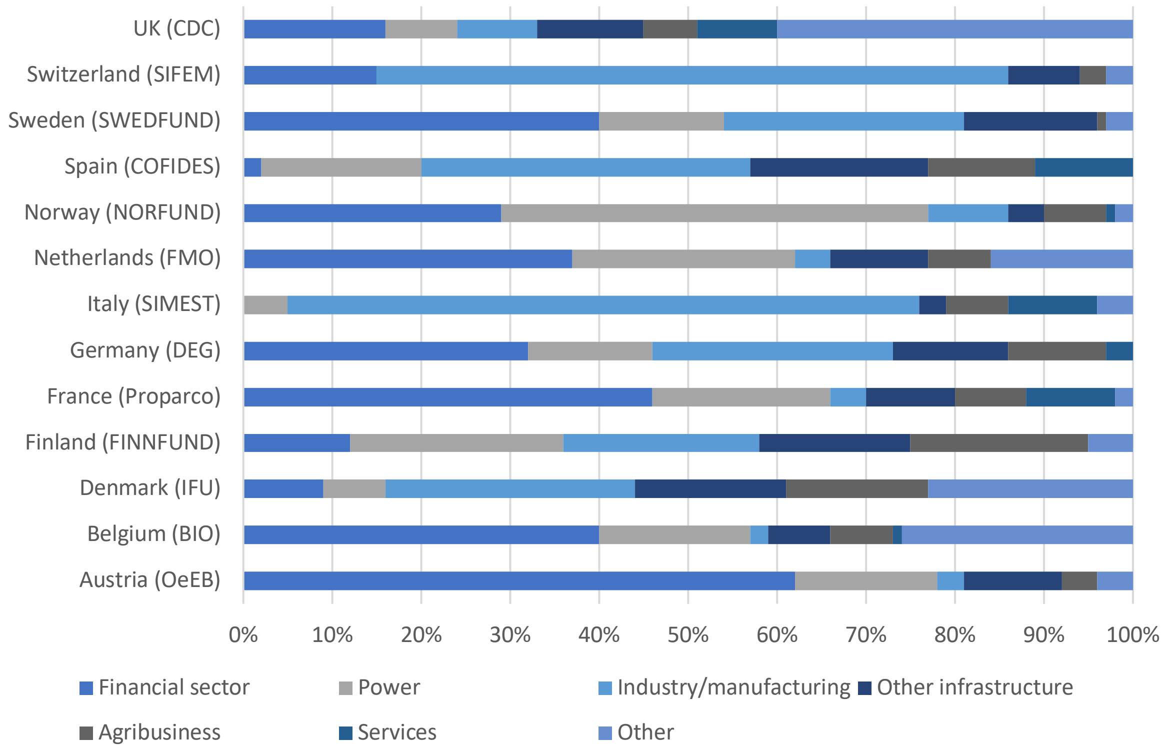
CDB's overseas activities are guided by China's foreign economic cooperation and promotion initiatives such as the Belt and Road Initiative. The vast majority of CDB's financing activities occur within China. CDB's exposure outside of China only amounts to 2.35 per cent. Due to the immense size of the bank, 2.35 per cent still represent a portfolio of €33.2 billion.

4.2.4.2 Sectors

In line with their mandate to promote private sector development and inclusive economic growth, bilateral DFIs are mainly active in economic sectors such as infrastructure, manufacturing, services and agribusiness. In light of global climate change commitments, investments in renewable energies and energy efficiency have become a specific strategic focus area for many bilateral DFIs besides general investments to improve electrification and access to energy in developing markets.

Due to the importance of micro, small and medium enterprises as well as women-led enterprises for job creation and pro-poor growth, many bilateral DFIs opt to work with and strengthen local financial institutions to better serve these target groups and ensure that sufficient capital and liquidity is available in local financial markets. As such, an important part of bilateral DFI's portfolio are equity participations, loans and credit lines in emerging and developing countries' financial sectors.

Figure 16: European bilateral DFIs exposure by sectors (2015)



Source: Developed for this Study based on EDFI Flagship Report 2015.
No more recent reports are available by EDFI.

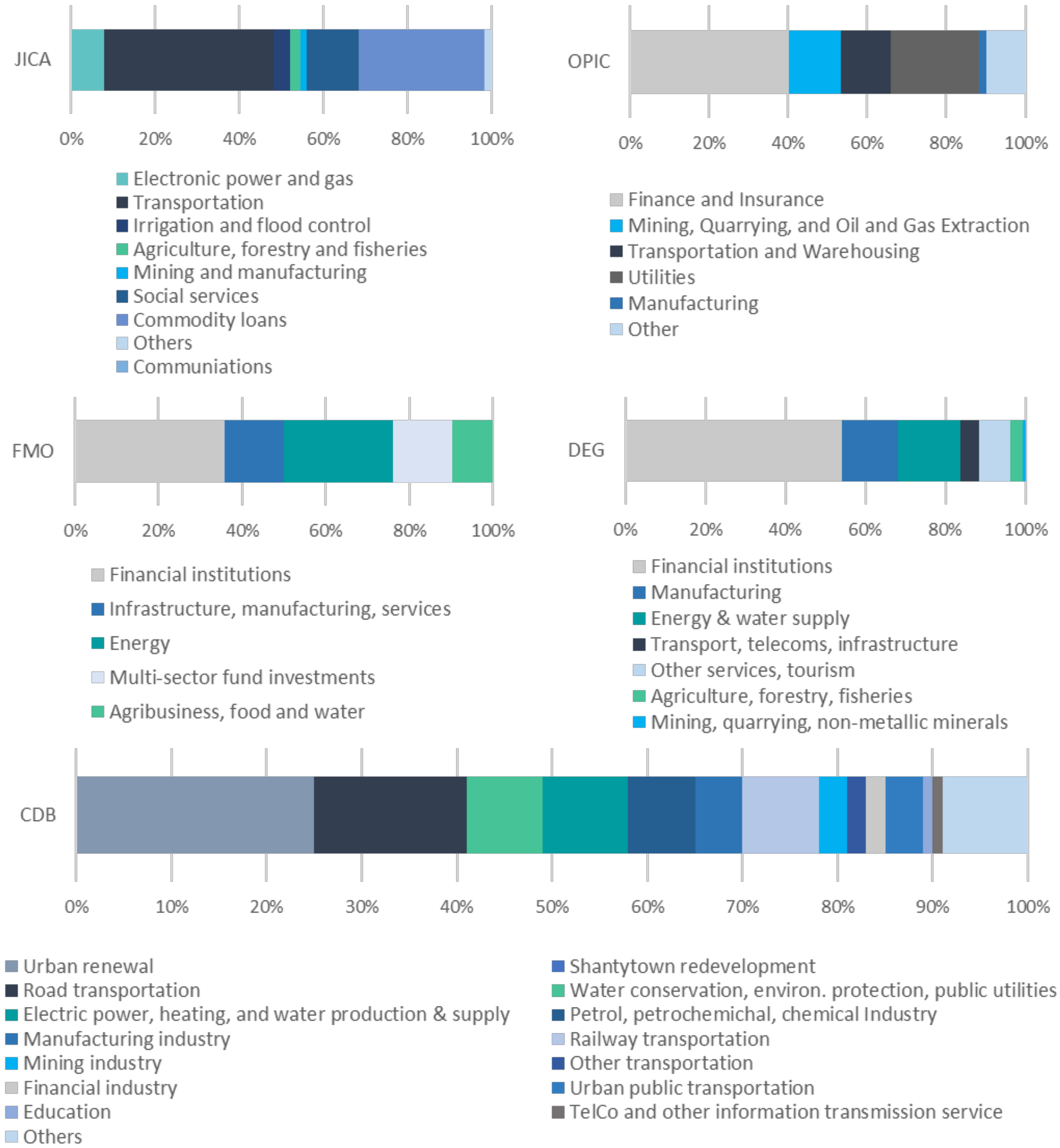
With regard to the selected bilateral DFIs, one third of DEG's new commitments promoted the protection of the climate and environment and proposals for the development of renewables were prioritised. After updating its strategy in 2017, FMO decided to focus its interventions on three key sectors where FMO believes to have the highest impact. Firstly, through its engagement in the agribusiness, food and water sector, the bank specifically seeks to improve food security, support sustainability and efficient water use as well as promote inclusive development. Secondly, in the energy sector, FMO invests in long-term projects in energy generation and distribution. Finally, FMO continues to cooperate with financial institutions in local markets by improving access to finance and supporting financial inclusion.

In terms of sectors, OPIC follows a broad, demand-driven approach recognizing the various persisting private sector development needs in its target regions and countries. As such, it has supported projects ranging in sector from energy, to healthcare, technology, and education. Through its support of private equity funds, OPIC seeks to further position itself in the impact investing sector.

Due to its set-up as a development cooperation agency (versus DFI), JICA's operations are guided by development issues and themes rather than economic sectors. However, similar to bilateral DFIs, JICA's focus includes amongst others poverty reduction, climate change, infrastructure, global environment, rural and industrial development. No sectoral information exists with regard to its Private Sector Investment Finance portfolio. However, based on available press releases hint at a broad sectoral spectrum of JICA's PSIF portfolio. For example, JICA signed a corporate finance local currency loan agreement under the scheme with an Indonesian Infrastructure Finance Agency set-up to promote the participation of the private sector in infrastructure projects. Another example reports a loan agreement for an Agricultural Supply Chain Enhancement project in Brazil.

CDB is closely aligned with China's national policies and strategies such as the 13th national development plan and China's supply-side structural reform. As such, that CDB's portfolio mix is different to other DFIs is likely a reflection of this alignment. CDB provides funding to major national construction projects and supports the modernization of China's transportation system. Its support is focussed on major industrial sectors including railway, highways, urban rail transit, water resources, social housing. The bank further supports China's strategic emerging industries.

Figure 17: Selected bilateral DFIs portfolio exposure by sectors (2017)



Source: Developed for this Study based on Annual Reports.
JICA figures based on total commitments.

4.2.5 GOVERNANCE

4.2.5.1 Oversight

As noted earlier, most DFIs are owned by their respective governments. Some bilateral DFIs also have private sector shareholders. However, the government remains the majority shareholder in these cases. For example, private sector Dutch banks have a 42% share in FMO. Similarly, private sector banks have minority shares in Spain's DFI, Cofides. In Germany, DEG is a subsidiary of KfW who in turn is owned by the Federal German Government. China Development Bank's shareholding is split between the Ministry of Finance, a state-owned company, a company funded by the State Administration of Foreign Exchange, and the operations arm of the National Social Security Fund.

While bilateral DFIs usually have a majority government shareholding structure, most have strong private sector representation on their Board of Directors. Typically, the Board will meet four or more times a year to provide policy and strategy guidance and approve major projects. Appointed positions vary among DFIs, but the government plays a key role in selection. OPIC, for example, is governed by a Board of Directors, President and CEO, all nominated by the US President and approved by the Senate. As a non-listed bank, FMO has a two-tier board structure consisting of a Management Board and a Supervisory Board. Under DEG's articles, its Supervisory Board consists of fifteen members; five are staff representatives elected, while the other members are appointed by the Shareholders' Meeting. The German Federal Government has the right to appoint four members while the remaining members are selected in consultation with the Federal Ministry for Economic Cooperation and Development typically consisting of private sector and civil society representatives.

Most European DFIs enjoy full autonomy regarding strategic and operational decision-making. Their risk appetite is defined by their respective balance sheets. Although executing policy directives, there is no interference by governments with regard to the credit decisions on specific transactions.

Table 9: Oversight and Shareholders

	Shareholders	Oversight
CDB	Ministry of Finance, Central Hijin Investment Ltd., Buttonwood Investment Holding Company Ltd., National Council for Social Security Fund	13 Supervisory Board members, comprising three executive directors (including the Chairman), four government agency directors and six equity directors
DEG	Kreditanstalt für Wiederaufbau (KfW)	15 Supervisory Board Members; 5 staff representatives, 4 federal government appointments; 6 members selected in consultation with the Federal Ministry for Economic Cooperation and Development.
JICA	The Government of Japan	10 Board members; one president and three auditors, one executive senior vice president and up to eight senior vice presidents. Board is mixed between government, academic and private sector representatives.
FMO	The State of the Netherlands, Dutch Banks, Employers' associations, trade unions and individual investors	A 6-person Supervisory Board decided by a general shareholder meeting; and 3- person Management Board decided by the supervisory board and consisting of one or more directors.
OPIC	US Government	15 Board Members; 8 Private sector representatives, 7 federal government appointments. All members must be appointed by the President of the United States and confirmed by the US Senate.

Source: Developed for this Study based on Charter Documents.

4.2.5.2 Environmental and Social Governance

Most bilateral DFIs have an environmental and social sustainability and governance (ESG) framework of which the IFC Performance Standards are usually a key pillar. JICA, for example, has established an Environmental and Social Considerations framework which takes into account host countries laws, policies and plans, the IFC's safeguards policies and other internationally accepted standards. Joint working groups hosted by the European DFI association (EDFI) exist to share information on ESG questions and developments. Many bilateral DFIs are in continuous exchange with IFC on the development of the Performance Standards, however no common agreed upon ESG framework exists among bilateral DFIs. China Development Bank has prioritised sustainable growth and, therefore, continued to increase its dialogues and engagement with international bodies, including the United

Nations Global Compact (UNGC), the United Nations Environment Programme (UNEP). While the Bank issues Sustainability Reports, an explicit ESG policy/ framework is not publicly available.

Table 10: Environmental and Social Governance

CDB	Annual sustainability reporting
DEG	Overall risk evaluation includes environmental and social risks' the Sustainability Department verifies whether actions are environmentally responsible, human rights are being respected and fair working conditions are being offered.
JICA	Environmental and Social Considerations framework which takes into account the principles, and standards such as the host countries laws, policies and plans, the IFC's Performance Standards and other internationally accepted standards.
FMO	Updated Sustainability Policy in early January 2017 inclusive of a human rights position statement, a land governance position statement, and a gender position statement.
OPIC	Publishes annual sustainability plans and greenhouse gas reports.

Source: Developed for this Study based on Annual Reports, publicly available Manuals and Policies.

4.2.5.3 Transparency

Increased pressure for transparency by civil society organisations has been felt globally. As such, many institutions have started to publish all supported projects and transactions on their respective website providing details on the project, environmental and social aspects as well as the development rationale, however, without detailed financial information. OPIC, given its requirement to ensure national interest, also reports on the expected impact on the US economy for every transaction. From the selected bilateral DFIs, only FMO and OPIC have established ex-ante disclosure mechanisms of transactions which are categorized with high environmental and social risks. FMO discloses transaction information a minimum of 30 days before transaction closure to allow input from stakeholders into its investment decisions. OPIC posts summaries of 'ESG category A' projects on its website at least 60 days before the investment decision is taken.

Table 11: Transparency

	Transaction transparency (ex-ante)	Transaction transparency (ex-post)
CDB	n.a.	n.a.
DEG	n.a.	Access to transaction information available on website for a period of two years after closure of financial agreement.
JICA	n.a.	Access to project information for all ODA loans after conclusion of loan agreement. Access to project information for all projects classified as Category A, B or FI. Entails a variety of reports including review as well as monitoring results.
FMO	30 days prior to investment decision for ESG category A and B+ projects	Access to all projects since 2009 financed by FMO or administered government funds
OPIC	60 days prior to investment decision for ESG category A projects	Access to all projects supported by OPIC until 2017

Source: Developed for this Study based on policy documents and website information.

4.3 MDBS

4.3.1 MANDATE

4.3.1.1 Mandate

In examining MDB's mandates, two common themes are evident: (1) fostering sustainable economic development; and (2) supporting regional cooperation, economic integration and intra-regional trade within the region or among member states. MDBs that emerged in more recent decades also often have an explicit expectation through their mandate that they will support policy-makers address global challenges and the achievement of Agenda 2030 under the SDGs. Linked to this, most MDB's mandates also incorporate notions of poverty reduction and inclusive growth. MDB mandates can be restricted to a geographic area of operation and/or to only serving the private sector (i.e. IFC and IDB Invest). Few MDBs have a more specialized focus, such as infrastructure for AIIB.

Table 12: Mandates of MDBs

ADB	Promoting economic growth and cooperation in Asia and the Far East and contribution to the acceleration of the process of economic development of the developing member countries in the region, collectively and individually.
EIB	Contribution to the balanced and steady development of the common market in the interest of the community.
IFC	To further economic development by encouraging the growth of productive private enterprise in member countries, particularly in the less developed areas
IDB Invest	Maximize impact on development within a long-term financial sustainability framework.
AIIB	Sustainable economic development, wealth creation and improvement of infrastructure connectivity in Asia, and promotion of regional cooperation and partnership in addressing development challenges.

Source: Developed for this Study based on Charter Documents.

4.3.1.2 Institutional Structure

MDBs are supranational entities owned by multiple governments. They are typically not subject to any regulation and managed to ensure financial sustainability. MDBs have different organisation arrangements. Some MDBs house both private sector and public sector operations under one roof (such as ADB and EIB), while others have stand-alone subsidiaries (such as IFC and IDB Invest) which are focusing on the private sector, exclusively.

4.3.1.3 National Interest Considerations

As supranational institutions, MDBs do not specify national interest criteria. However, the scope of most MDB's operations are limited to financing of projects or programs that form part of national, sub-regional or regional development agendas. There are also varied approaches for procurement eligibility with regards to whether non-member providers are eligible to bid and compete for procurement contracts.

Table 13: Procurement Eligibility

ADB	Non-members are not eligible to bid for contracts. Member-country restrictions apply except in the case of co-financed operations or when waived on a case-by-case basis by the ADB board.
EIB	Non-members can bid for contracts, but they face terms that are worse than those enjoyed by member-country companies and they are not eligible for special funds.
IFC	All countries are eligible, but there are certain blanket exceptions, such as countries breaking international rules.
IDB Invest	Only member countries are eligible to bid for contracts.
AIIB	All countries are eligible, but there are certain blanket exceptions, such as countries breaking international rules.

Source: Developed for this Study based on Overseas Development Institute (2018).

4.3.1.4 Market Complementarity and Competition

MDBs seek to demonstrate the viability of a project, entity, or market to private sector actors through financial or non-financial inputs. As discussed in Chapter Two, additionality and catalyst effects are key concepts for multilateral development banks. Regarding the aspect of competition, anecdotal evidence has been encountered that competition between MDBs, bilateral DFIs, and even with commercial banks may be occurring. However, no details on specific transactions are available. This may not be an intentional policy position of an MDB; rather such behaviours may be evidenced within certain country offices and transactions.

4.3.2 STRATEGY

4.3.2.1 Strategy

Typically, MDB's strategic objectives are derived from their mandates as enshrined in their foundational documents and, therefore, incorporate elements of private sector advancement and regional integration. It is also common for their strategic objectives to align with member country development themes and other global initiatives such as the sustainable development goals. Emphasis on building capacity among local financial institutions appears in several MDB's strategies. EIB's strategy, for example, refers to blended finance and advisory services to support and crowd-in local financial institutions. IDB Invest highlights partnering with financial institutions to increase the scale of its impact, and a core pillar of AIIB's strategy is 'private capital mobilization'.

As with DFIs, most MDBs strategies highlight development objectives as a core part of their strategy, while maintaining indicators and emphasis on financial performance or sustainability. In general, MDBs do not articulate specific financial performance indicators in their overarching strategy, but rather, will define the parameters of their financing activities; for example, EIB specifies 'financial sustainability' as part of its strategy.

MDB's with a specialized mandate such as the AIIB (infrastructure) will tend to have a narrower set of strategic objectives than their wider-focused counterparts. Hence, comparing the IFC's strategy with the AIIB, the IFC outlines broad objectives to 'address constraints to private sector investment in fragile and low-income countries,' and 'directing more financing to these geographies, and maintain a robust presence in Middle-income Countries,' etc. while the AIIB's defines objectives such as 'promoting green infrastructure'.

Table 14: Strategic priorities

ADB	• Addressing remaining poverty and reducing inequalities • Accelerating progress in gender equality • Tacking climate change, building climate resilience, and enhancing environmental sustainability • Making cites more liveable • Promoting rural development and food security • Strengthening governance and institutional capacity • Fostering regional cooperation and integration
AIIB	• Sustainable Infrastructure • Cross-Border Connectivity • Private Capital Mobilization
EIB	• Innovation • SMEs & Midcap finance • Infrastructure • Environment • Economic and Social Cohesion • Climate Action
IDB Invest	• Seeking ways to incorporate climate and gender equality as cross-cutting business issues • Manage risk and ensure prudent growth • Continue generating IDB group synergies and leveraging the Multilateral Investment Funds • Operational excellence • Increase presence to 26 borrowing member countries
IFC	• A more deliberate, systematic approach to creating markets • Putting IFC's toolbox to work • Mainstreaming IFC's approach to upstream support • Systematic coordination of advisory services with investment • Maximising finance for Development by leveraging sustainable private sector solutions • Scaling up mobilization efforts

Source: Developed for this Study based on strategy documents and Annual Reports.

4.3.2.2 International Representation

For the most part, MDB's international representation reflects the number of countries in which the bank operates. For example, IFC as a global institution has over a hundred country offices while regional focused MDBs such as ADB and IDB Invest only have offices throughout their region.

4.3.2.3 Cooperation

Representing multiple nations, it is in the nature of MDB's to be engaged in shaping global development agendas and strategies and driving thought leadership on persisting development challenges. Most MDB's are highly active in facilitating and contributing to international platforms for cooperation and knowledge sharing. MDB annual meetings are often an opportunity for various member country governments to forge solutions and plans to tackle shared development, social and environmental challenges. MDBs further promote cooperation through established co-financing mechanisms that serve to pool additional resources and leverage MDB's impact.

4.3.3 PRODUCTS AND CLIENTS

MDBs provide a broad range of financial and non-financial services for both sovereign and non-sovereign projects as displayed in Table 15. While the World Bank Group, the Inter-American Development Bank Group and the Islamic Development Bank Group have all set-up stand-alone private sector arms, namely IFC, IDB Invest and ICD, ADB and AIIB provide their private sector financing solutions through special private sector operation units.

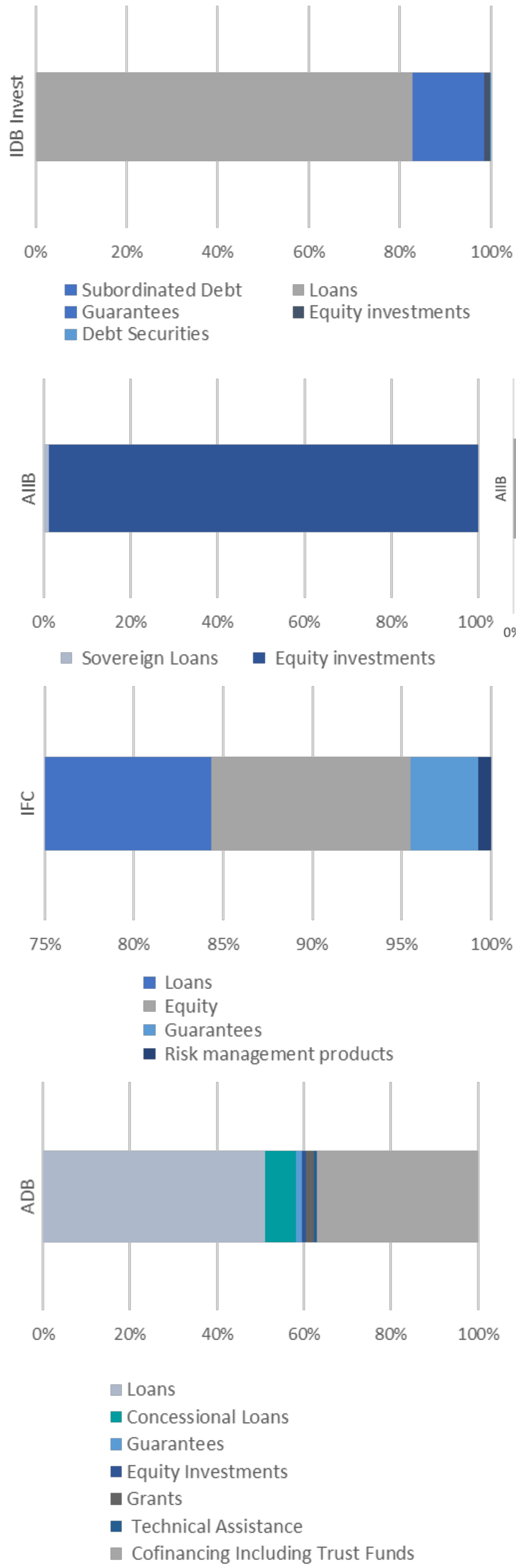
Table 15: Overview of Selected MDB Financial and Non-financial Services

		Products	ADB	AIIB	EIB	IDB Invest	IFC
Financial	Sovereign	Grants	+				
		Public sector loans	+	+	+		
		Concessional loans	+				
	Non-Sovereign	Blended finance	+		+	+	+
		Equity	+	+	+	+	+
		Private sector loans	+	+	+	+	+
		Syndications	+			+	+
		Mezzanine	+	+	+	+	+
		Guarantees	+	+	+	+	+
		Trade and Supply Chain Finance	+			+	+
		Treasury/ Capital market solutions				+	+
Non-financial	Sovereign/ Non-Sovereign	Advisory/Technical Assistance	+		+	+	+

Source: Developed for this Study based on publicly available information.

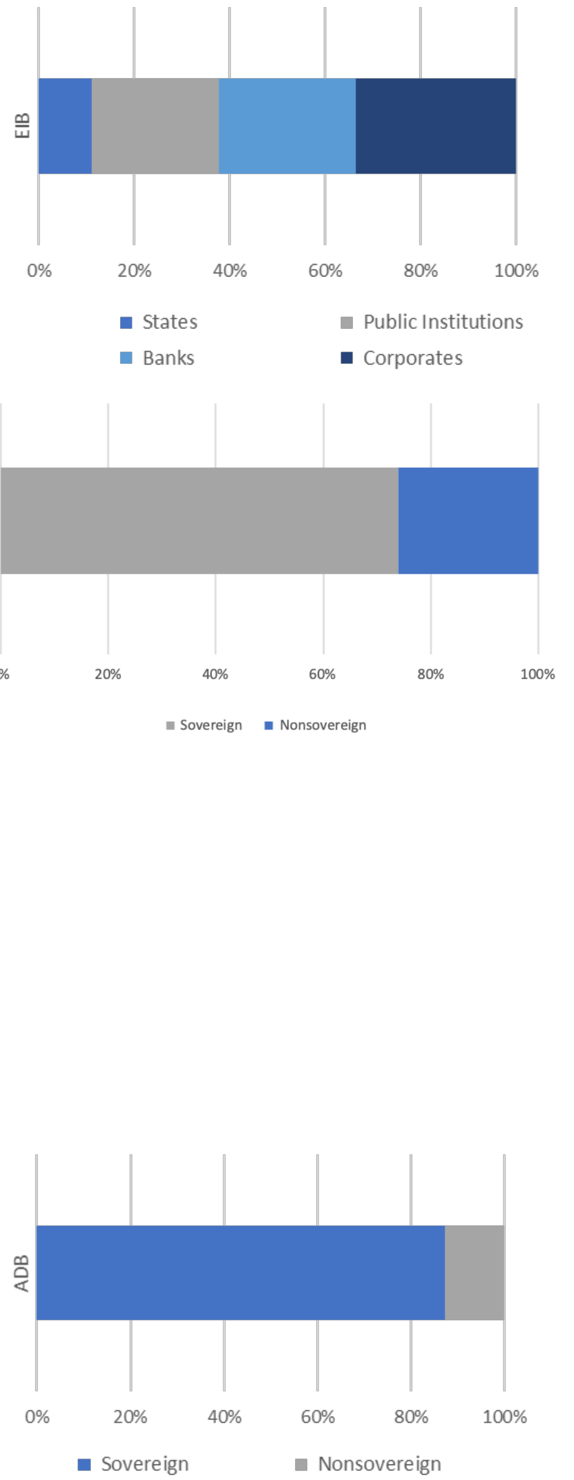
Of the MDBs selected for this study, the portfolio breakdown in terms of product utilization and customer type varies. This is shown in Figures 18 and 19.

Figure 18: Commitments by Product (2017)



Source: Annual Reports.
Values shown for AIIB are total approvals. Portfolio information broken down by products was unavailable for EIB.

Figure 19: Total Portfolio by Customer (2017)



Source: Annual Reports.
Customer breakdown unavailable for IDB Invest and IFC.

4.3.3.1 Public Sector Loans

Public sector loans are provided by ADB, AIIB and EIB. Regarding ADB's public sector loans, ADB assigns its regional member countries into different categories depending on the creditworthiness of the country and the gross national income (GNI) per capita to determine if a country is eligible to receive concessional loans. Concessional loans can have maximum maturities of up to 40 years with grace periods of up to 10 years and annual interest rates between one and two per cent.

ADB's public sector loans can be provided through different modalities such as project loans, sector loans or policy-based loans. The latter are a form of budget support linked to structural reforms and development expenditure programs of the regional member country. Similarly, sector loans are linked to the development of a sector and aim to improve sector policies and strengthen institutional capacity. Market-based public sector loans to sovereign or sovereign-backed borrowers are provided as LIBOR-based loans offering a high degree of flexibility in terms of choice of currency, choice of interest rate basis and repayment terms. Average loan maturity is subject to a limit of 19 years.

AIIB is currently in its start-up phase and initially primarily looked primarily for sovereign lending. The bank envisages its sovereign-backed loans to have an average maturity of up to 20 years and a final maturity limit of up to 35 years. However, there is not only a rising number of sovereign projects but also non-sovereign transactions. In 2018, 21 out of 35 total projects were cofinanced and 14 were done on a stand-alone basis.

Unlike ADB and AIIB, EIB does not distinguish its product portfolio into sovereign and non-sovereign products. However, to finance multi-annual and multi-component investment programmes which are typically led by national or local public sector bodies, EIB specifically offers so-called "framework loans". These loans can be used to finance multiple small and medium sized projects, usually in the size range of €1-50 million over a period of normally 3-5 years. EIB typically cannot provide more than 50% of the overall investment programme and individual projects under the framework loan are subject to different levels of EIB appraisals depending on their size.

4.3.3.2 Private Sector Loans

Similar to DFIs, MDBs private sector loan offering can be differentiated into senior and subordinated/mezzanine loans. However, among the MDBs studied only little information is available with regard to the financing terms and conditions of loans for private sector entities.

Table 16: Overview of Selected MDB Private Sector Loan Offerings

	ADB	*AIIB*	*EIB*	*IDB Invest*	*IFC*
Products	Loans and other debt instruments	Loans	Project loans	Loans	Loans
Loan size	n.a.	Maximum 35% of project value or 35% of long-term capital of obligor	More than €25 m or up to 50% of total eligible investment cost. Midcap facility for loan volumes between €7.5 and 25 m.	n.a.	n.a.
Tenor	n.a.	Maximum 18y	Depending on credit risk profile and linked to the economic life of the project (assets); typically up to 15yor longer (maximum up to 30y) on a case-by-case basis	n.a.	Typically 7 to 12y
Rank	Senior, sub-ordinated, mezzanine, converti-ble debt	Senior, sub-or-dinated	Senior, sub-ordinated	Senior or subordi-nated	n.a.
Covenants & Securities	Case-by-case	n.a.	Secured or unsecured, decided on case-by-case basis	n.a.	n.a.
Pricing	Market-based fees. Floating-rate loans (spread over LIBOR or Euro interbank rate), fixed-rate loans at fixed-rate swap equiv-alent.	n.a.	Fees for project appraisal, legal services, commitment, non-utili-zation. Interest rates can be fixed, floating, revisable, con-vertible.	Market-based	n.a.
Currency	Case-by-case	n.a.	Wide range of currencies	Wide range of currencies	74 local cur-rencies

Source: Developed for this Study based on publicly available information.

In light of the increasing importance of mobilizing private sector capital to achieve SDGs and overcome persisting developmental challenges, IFC has steadily expanded its syndication mechanisms to raise additional capital from third parties such as commercial banks, institutional investors, other development finance institutions. Similarly, IDB Invest also offers A/B loans, parallel co-financing and B-Bonds (where the B-lender is a special purpose vehicle (SPV) or trust that funds itself by selling securities to institutional investors). ADB offers A/B loans as well as Unfunded Risk Participations.

Table 17: Overview of IFC Syndication Products

	B Loans	Parallel Loans	Unfunded Risk Participations (URPs)	Managed Co-Lending Portfolio Programs (MCPPs)	A Loan Participations
Type of Investor	Commercial banks	Development finance institutions and sovereign entities	Insurance companies	Institutional investors (public and private)	Commercial banks
Investment approach	Active deal by deal selection	Active deal by deal selection	Active deal by deal selection	Passive portfolio participation in eligible projects	Active deal by deal selection
Investor's strategy	Follow their own client strategy	Developmental mandate	Follow their own credit strategy	Follow IFC's strategy	Follow their own client strategy
Investment process	Investor makes credit approval	Investor makes credit approval	Investor makes credit approval	Full delegation to IFC post mandate	Investor makes credit approval
Tenor	Generally shorter than A loan	Generally matching A loan	Matching IFC A loan tenors	Matching IFC's A loan tenors	Generally shorter than A loan
Portfolio rights	Voting	Voting	Limited voting and consultation	Follow IFC's decision	Voting
Documentation	Participation in an IFC loan agreement	Parallel loan with a common terms agreement	Unfunded risk participation agreement	Administration agreement/ Common service agreement	Participation agreement

Source: IFC, 2019.

4.3.3.3 Trade Finance Programmes

Commercial bank's de-risking and regulatory changes are adversely affecting trade finance flows and financial inclusion. Filling the trade finance gaps is one of the objectives of "trade facilitation programmes (TFPs)", developed by several MDBs. TFPs not only facilitate short-term guarantees to confirming banks covering both the commercial and political risks of international trade credit transactions emanating from issuing banks, they also provide revolving credit facilities directly to specified companies and banks. In doing so, these programmes try to address the lack of availability of trade finance for countries with little access to international markets and/or no or low international ratings, and for small transactions. They also aim at increasing the capacity of local banks and traders to handle themselves trade finance operations on a routine basis. The following table summarizes major trade facilitation programmes.

Table 18: Overview of MDB Trade Facilitation Programmes

	IFC	EBRD	ADB	IDB Invest	AfDB
Programme title	Global Trade Facilitation Programme (GTFP)	EBRD Trade Facilitation Programme (TFP)	ADB Trade Facilitation Programme (TFP)	Trade Finance Facilitation Programme (TFFP)	Trade Finance Program (TFP)
Number of countries	85	26	22	21	40
Programme commencement	2005	1999	2004	2005	2013
Number of transactions so far (year end 2017)	57,000	21,000	16,607 *(2009-2017)	1,571	1433
Value of all transactions	$64bn	$18.5bn	$30.09bn	$6.5bn	$3.7bn
Number of partner banks	1,400	800	240+	100+	300+
Claims paid	0	2	0	0	1

Source: Annual Reports and websites of respective MDBs.

In addition to the Global Trade Facilitation Programme, IFC also offers trade portfolio asset financing and risk management programmes (i.e. Global Trade Liquidity Programme, Critical Commodities Finance Programme) as well as commodity and supply chain finance solutions (i.e. Global Warehouse Finance Programme, Structured Commodity Finance Solutions, Global Trade Supplier Finance). IDB Invest as well as ADB also provide supply chain finance solutions.

4.3.3.4 Equity

Equity solutions constitute a key product of MDBs. Equity investments are either done directly or through venture or private equity funds. Some MDBs such as IDB Invest and EIB specifically mention microfinance institutions, SMEs or anchor investors in infrastructure projects as equity recipients.

IFC restricts its equity participation to 5-20% of a company's shares. AIIB and ADB also do not seek a controlling interest in the investee company. AIIB caps its equity to maximum 30% of the company's ownership holdings.

4.3.3.5 Guarantees, Treasury and Capital Market Solutions

Guarantees, like private sector loans and equity, are a product offered by all selected MDBs in this study. ADB, for example, only started its guarantee product offering in 2015. Since then its guarantee exposure increased to almost $500 million. AIIB will introduce a guarantee product in 2019.

The most common guarantee product among MDBs is the partial credit guarantee (PCG), a credit enhancement mechanism for debt instruments (bonds and loans). It is an irrevocable promise by the MDB to pay principal and/or interest up to a certain amount. By making use of their good credit ratings, MDBs seek to facilitate a successful transaction and support borrowers in obtaining financing and extending maturities. Some MDBs are also offering the partial risk guarantees (PRG), which is not dissimilar in structure to a political risk guarantee, similar to what MIGA offers, as well as ECAs and OPIC.

4.3.3.6 Grants

From the selected MDBs, only ADB offers grants to sovereign borrowers as part of its product portfolio. Since 2005, grants are provided through ADB's Asian Development Fund (ADF) arm which is regularly replenished by contributions from ADB member countries. Only regional member countries with a moderate to high risk of debt distress qualify to receive ADB grants. The proportion of assistance provided as grant financing is contingent on the country's risk of debt distress. For example, high-risk countries receive 100% of their allocations as grants.

4.3.3.7 Non-financial Services

Non-financial services such as advisory or technical assistance are provided by MDBs to further support a lasting impact of their investments. Common themes for advisory services include climate change, gender, MSMEs, innovation, public-private partnerships, environmental and social governance and corporate governance, amongst others. In 2017, IFC implemented more than 700 advisory projects in 100 countries with a total value of $1.5 billion. ADB committed technical assistance worth $201 million in 2017 of which $192 million was directed at sovereign entities. EIB mainly deploys other European sources instead of their own funds for advisory and technical assistance projects.

4.3.4 MARKETS

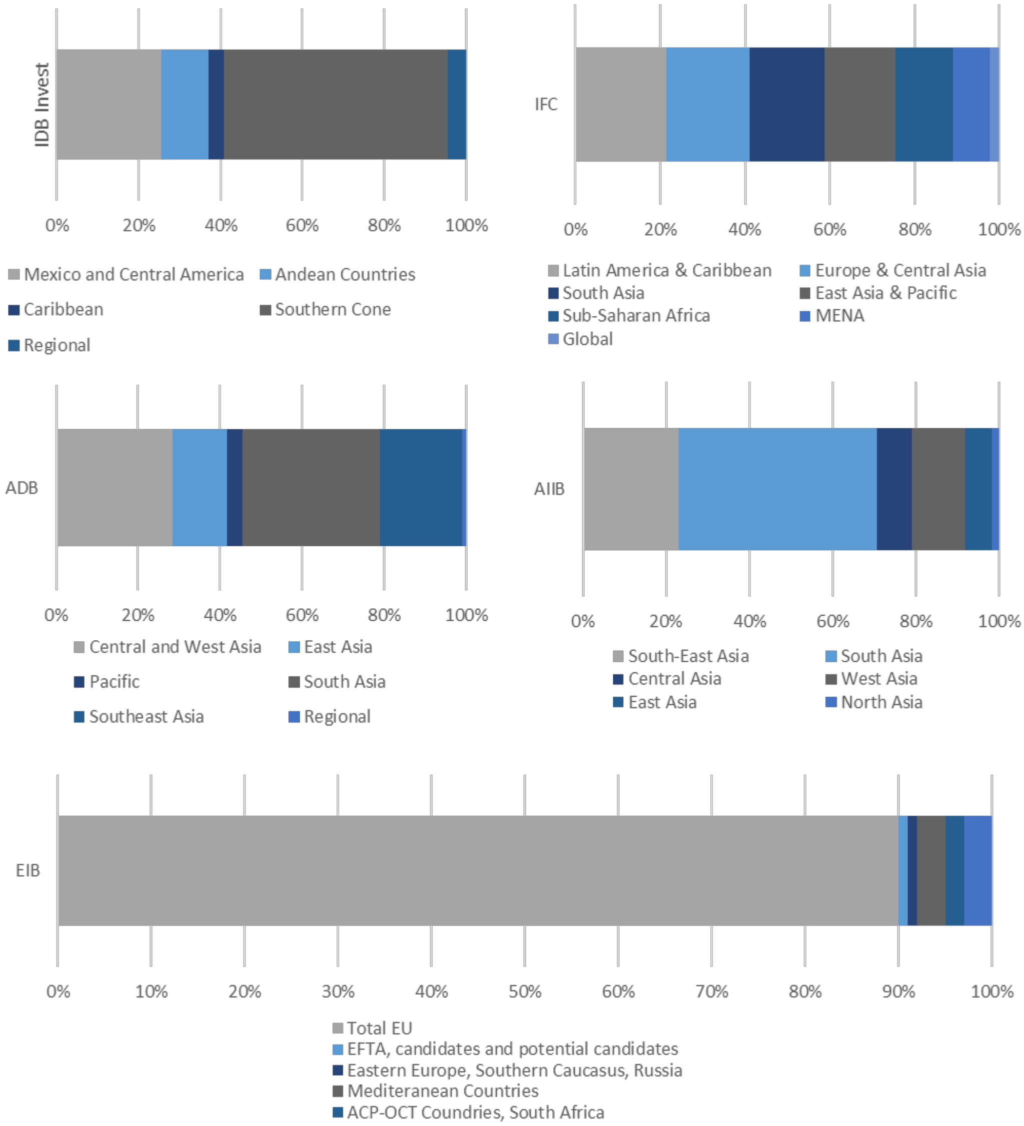
4.3.4.1 Geographies

MDBs' membership determine the countries in which they can be active. With regard to the MDBs selected for this study, IFC is the only MDB with a global mandate and balanced portfolio. IFC places specific focus on financing for IDA-eligible as well as fragile and conflict-affected countries. According to IFC, nearly 30% of 2017 commitments went to IDA-eligible countries. For 2030, IFC declared the objective to have 40% of IFC's investments in IDA countries and in fragile and conflict-affected areas – including 15 to 20% in low-income and fragile and conflict-affected IDA countries.

While EIB also finances projects and transactions around the globe, 90% of the bank's financing exposure is within European Union member states. For financing activities outside the European Union, EIB requires specific mandates by its shareholders, the European member states. Typically, these mandates are provided to support EU development and cooperation policies. EIB's current external mandates are clustered, for example, into enlargement countries such as Albania and Turkey or the European Free Trade Association.

ADB, AIIB and IDB Invest all have regional mandates and therefore focus their financing activities on their "developing or regional" member states, as can be seen in **Figure 20**.

Figure 20: MDB Commitment by Geographies (2017)



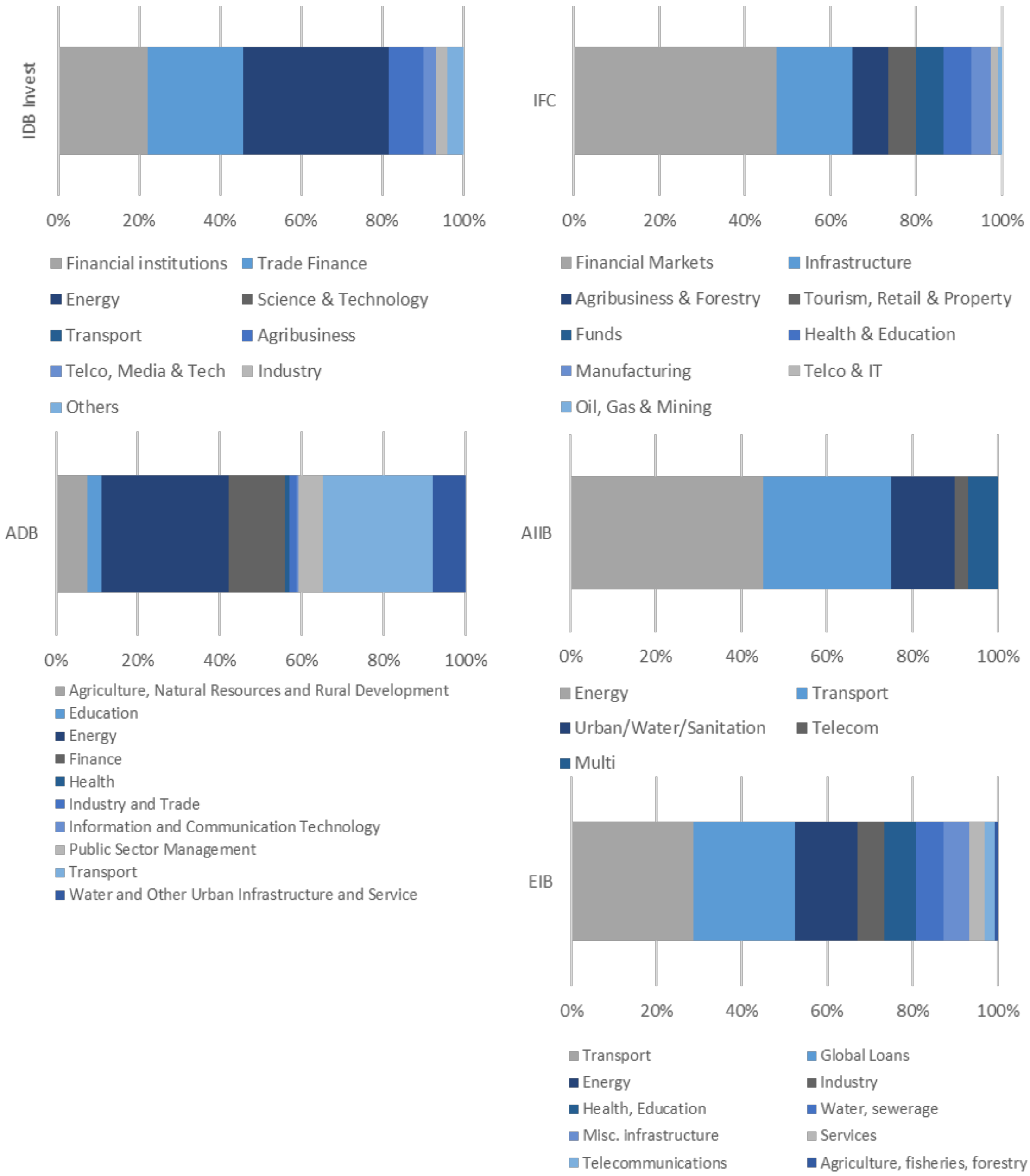
Source: Annual reports of respective MDBs

*IDB Invest numbers based on approvals. EIB numbers based on signatures. AIIB numbers based on portfolio exposure.

4.3.4.2 Sectors

MDBs strategic and sectoral priorities display a strong link with global commitments and policies, frequently referring to climate mitigation and adaptation projects, infrastructure promotion, provision of inclusive finance and pro-poor job creation through agribusiness and industrialization. IFC and IDB Invest who both share an exclusive private sector mandate further have a strong focus in the financial sector as displayed in **Figure 21**.

Figure 21: MDB exposure by sectors (2017)



Source: Annual reports of respective MDBs. IDB Invest numbers based on approvals, EIB numbers based on stock of loan, AIIB numbers based on portfolio exposure.

As shown in **Figure 21**, among the MDBs in this Study, energy and transport are the most prominent sectors. This is not entirely surprising given the shared emphasis on infrastructure development and contribution to the SDGs (of which sustainable energy and good infrastructure are key pursuits) within the MDBs' strategies. Additionally, both energy and transport (infrastructure) projects typically require a significant financing volume that can exceed the risk appetite of the private sector. The involvement of MDBs in these transactions therefore often has a catalyzing effect. By financing respective projects in high risk countries and less developed segments of the energy and transport sectors, such as renewable energy, MDBs can also path the way for commercial financing to follow suit. Given their broader mandate with regard to products and clients (grants and concessional loans as well as sovereign and non-sovereign clients), ADB, AIIB and EIB also have exposures in less financially viable sectors such as education and health.

In the case of AIIB, its mandate already entails a sectoral focus on infrastructure. It has developed a 'Sustainable Energy for Asia Strategy' stating that the bank will invest in energy projects that will increase access to clean, safe and reliable electricity. To implement the strategy, AIIB will further support member countries in fulfilling the Paris Agreement.

IDB Invest seeks to focus on 'key sectors for sustainable development' which it considers to be infrastructure, energy, agribusiness, manufacturing and tourism. As new sectors, it has defined agribusiness (with approved and pipeline projects in 17 of 26 regional member countries) and telecommunications which it regards as key infrastructure of the 21st century.

Some of MDBs' sectoral priorities are defined according to the specific need of a region. For example, EIB's support in the Mediterranean has a sectoral focus on (1) private sector support, specifically promoting MSMEs and the industrial sector, and (2) infrastructure. Meanwhile, its activities in Eastern Europe are focussed on SMEs, social and economic infrastructure development, and climate change mitigation and adaptation.

ADB in turn has defined differentiated approaches and sectoral priorities based on country categories. For example, for countries in fragile and conflict-affected situations ADB's support is geared towards essential infrastructure and social services (amongst others). Small island developing states are another ADB geographic classification with a sectoral focus on climate change adaptation and disaster risk management.

4.3.5 GOVERNANCE

4.3.5.1 Oversight

At the highest level, MDBs are typically overseen by a Board of Governors which consists of representatives (usually one governor and one alternate) appointed by each member country. Typically, Governors are high-level government representatives (in most cases Ministers or Permanent Secretaries) of the respective member country. As such, the size and shape of the governing bodies depend on the overall size of the institution.

Additionally, the level of influence that Governors or Board members have on a given institution depends on the MDB's constitutional documents. Usually the level of voting power held by Governors (and Directors) is commensurate with the size of their capital subscription. For instance, EIB's governors enjoy a share of the votes proportional to the share of capital subscribed by their nominating member state. Thus, the member nominated by Germany holds 16% of the votes, while the member nominated by Malta holds 0.04%.

In many MDBs, corporate powers are vested in the Board of Governors who meet annually. The Board of Directors is given a limited delegated authority to approve and set the institutional strategy, annual plan and budget; approve policies; take credit decisions and other decisions concerning the operation of the Bank; supervise management; and establish an oversight mechanism.

In general, most MDBs have non-resident Boards of Directors. However, of the institutions in this study the IFC, ADB and IDB invest have resident Board of Directors. The frequency with which Board of Directors meet varies depending on the institution and level of authority delegated to the Directors. The ADB's Board of Directors are fulltime at ADB Headquarters, and IDB Invest Directors meet once a week; IFC's Board of Directors meet "as required", EIB's meet monthly and AIIB's appear to meet at least each quarter.

For EIB and AIIB, a committee of international advisors / experts is structured alongside the Board of Directors to partake in meetings – without any voting power.

Table 19: Oversight

ADB	Board of Governors comprising of one representative per member country; Board of Directors comprising of 12 elected members and alternates.
EIB	Board of Governors comprising of ministers designated by each of the 28 Member States, usually the Finance Ministers; Board of Directors comprising of 29 Directors (one per Member State and one nominated by the European Commission), 19 alternates and 6 expert advisors with non-voting rights.
IFC	Board of Governors comprising of one representative per member country; Board of Directors comprising of 25 elected members and alternates.
IDB Invest	Board of Governors comprising of one representative and one alternate per member country; Board of Directors comprising of 13 elected members and alternates.
AIIB	Board of Governors comprising of one representative per member country; Board of Directors comprising of 12 elected members and alternates.

Source: Developed for this Study based on Charter Documents.

4.3.5.2 Environmental and Social Governance

Environmental and Social Governance is of primary importance for MDBs. In general, MDBs will frame their investment and lending decisions around environmental and social considerations which are articulated in an environmental and social policy framework. Such a framework might fall within a wider safeguards and procurement framework that consists of key categories or pillars such as: "Environment", "Involuntary resettlement" and "Indigenous Peoples". Certain activities will be completely excluded from a MDB's financing if not compliant with ESG principles (i.e. through an exclusion list). In addition, most MDBs with explicit safeguard policies have a designated inspection panel/independent complaint mechanism to address grievances.

IFC has played a leading role in developing and promoting performance standards relating to ESG risks. The Equator Principles, a framework designed to improve labour standards and environmental practices and strengthen engagement with indigenous peoples and local communities emerged out of lessons learned from the IFC's standards. These have influence across the banking industry, including development banks. The IFC PS are the standard used by the industry and part of ECA Recommendations. The Equator Principles include DFI, MDB and ECAs among their membership.

4.3.5.3 Transparency

Most MDBs have an independent evaluation office which reports directly to the Board of Directors. It is also common practice to have policies on public communication or disclosure. Many older global and regional MDBs have registered with the International Aid Transparency Initiative (IATI), including ADB, EIB and IFC (World Bank Group).

All of the MDBs assessed in-depth as part of the Study publish project/transaction-related information on their respective website. The information typically entails a description of the project, objectives and expected outcomes, main transaction parties and volume of financing/support as well as details on the environmental and social aspects of the project including relevant documentation. Detailed information on terms and conditions of the financing are not provided. In line with the respective institution's disclosure and transparency policies, the published projects/transactions also include those under consideration (i.e. not yet approved).

4.4 ECAS

4.4.1 MANDATES

4.4.1.1 Mandate

ECAs typically have the mandate to promote exports and national economies. However, differences exist with regard to the promotion of national jobs versus the promotion of national companies. Internationalization, participation in value chains, and support in entering new markets are also common themes. For example, EDC's mandate is to 'support and develop, directly or indirectly, Canada's export trade and Canadian capacity to engage in that trade, as well as respond to international business opportunities.' Similarly, EKF's purpose, as defined in its act is to 'facilitate Danish companies' export and internationalisation opportunities, participation in the global value chain and cultivation of new markets through internationally competitive financing and risk cover'. Meanwhile, UKEF's mandate positions it towards a similar outcome but takes a slightly different tone: 'to ensure that no viable UK export fails for lack of finance or insurance, while operating at no net cost to the taxpayer'.

Table 20: ECA Mandates

KEXIM	The Export-Import Bank of Korea was established with aims to facilitate the development of Korea's economy and enhance economic cooperation with foreign countries through the provision of financial supports for export and import transactions, overseas investments projects, and the development of overseas natural resources.
EKF	To facilitate Danish companies' export and internationalisation opportunities, participation in the global value chain and cultivation of new markets through internationally competitive financing and risk cover.
JBIC	Contributing to the sound development of Japan and the international economy and society by: promoting the overseas development and securement of resources which are important for Japan; maintaining and improving the international competitiveness of Japanese industries; promoting the overseas business having the purpose of preserving the global environment, such as preventing global warming; preventing disruptions to international financial order or taking appropriate measures with respect to damages caused by such disruption.
UKEF	To ensure that no viable UK export fails for lack of finance or insurance, while operating at no net cost to the taxpayer. UKEF helps UK companies: win export contracts by providing attractive financing terms t their buyers, fulfil contracts by supporting working capital loans and contract bonds, get paid by providing insurance against buyer default.
EDC	To support and develop, directly or indirectly, Canada's export trade and Canadian capacity to engage in that trade, as well as respond to international business opportunities.

Source: Developed for this Study based on Annual Reports and Charter Documents.

4.4.1.2 Institutional Structure

While no two ECAs are alike, most institutions fall into one of three broad categories: 1) Private Company Acting as Agent; 2) Government Department/Facility; and 3) State-Owned/Independent Agencies.

The first model, an agent model, applies in Germany and the Netherlands. In these countries the Government has an exclusive arrangement with the private company concerned (Euler-Hermes in Germany and Atradius in the Netherlands) and the company issues medium/long-term policies as agent for the government. When acting as agent for the government, all risks are taken by the government. Most of the key decisions are taken by the government but it usually is the responsibility of the private company to make recommendations and to provide not only services for the issuance of policies but also for the initial evaluation of the risks involved.

Within the OECD countries, the United Kingdom, Switzerland and New Zealand operate their ECAs as the second model under the aegis of government departments. In the UK, UKEF is a separate department. NZECO, New Zealand's export credit agency, comes under the authority of the Treasury department.

The most common form of delivery for export credit facilities is the third model, via an autonomous financial institution owned by the government. However, there are many different versions of this institutional arrangement, not least defined by the products (lending, insurance, or a combination of both) on offer. Some ECAs take the form of an insurance company while others take the form of a bank. While Exim-banks have been more prominent in North America and Asia, European ECAs have also started to introduce lending products.

Table 21: Institutional structure

Model	Some examples
Private company acting as Agent	Atradius, Euler Hermes
Government Department	UKEF, NZEC
State-Owned/ Independent Agency	JBIC, EDC, KEXIM, EKF

Source: Developed for this Study based on Annual Reports.

4.4.1.3 National interest considerations

As a result of their mandates, the concept of national interest is at the core of ECAs. However, these national interest considerations among ECAs are shifting from the more traditional focus on national content typically associated with national value creation to a broader concept of national interest. For many ECAs, a minimum percentage of national content is still a prerequisite for an export transaction to become eligible for traditional export and buyer financing products. For example, UKEF requires a minimum of 20% UK content for export credit products. However, over time and due to increasingly globalized supply chains, ECAs have reduced their minimum percentages. More importantly, ECAs have diversified their product portfolios and are now offering a broader range of financial services (i.e. untied financing, overseas/investment financing) that aim at promoting national interests rather than content.

There are some ECAs such as EKF and EDC that do not consider the actual percentage of national content in a proposed transaction or project even for traditional export finance, but rather these ECAs assess if there is a national interest element. This can take varying forms, for example national shareholders, national company, national content, strategic country, prospects for procurement from national companies at a later stage. EKF largely emphasises a company's total value for Denmark instead of just focusing on the individual transactions. To this end, EKF has developed a specific methodology and launched a 'Danish Economic Interest (DEI) account' whereby it calculates a company's total value for Denmark based on the latest audited annual accounts. The DEI account then enables EKF to participate in the financing of transactions equivalent to the value that a company creates for Denmark each year. Similarly, EDC has developed a sophisticated process to measure, record and assess the direct and indirect benefits generated by transactions it facilitates.

Table 22: National Interest

KEXIM	Articles of Incorporation includes provision KEXIM achieves to lend to foreign governments or foreigners for the purpose of 'promoting the import of goods or the introduction of technology from the Republic of Korea'; or for foreigners 'to make capital contribution or lending to foreign corporations to which Korean nationals make capital contributions'; or 'for the projects which are considered conducive to the industrial development of particular overseas regions and also considered important for the promotion of an increase in economic exchanges between the Republic of Korea and such regions'
EKF	EKF emphasises a company's total value for Denmark instead of just focusing on the individual transactions. EKF uses a 'DEI account' to participate in the financing of transactions equivalent to the overall value that a company creates for Denmark each year.
JBIC	National Content requirements on Buyers Credit (30%) and Local Buyer Credit* (50%). Overseas Investment Loans only available for Japanese Affiliates or joint-ventures where Japanese Companies have an active role.
UKEF	In general, minimum of 20% UK content for export credit products (Principle One). However, UKEF can also take account of UK content contained in a related project or related current, past or prospective contracts (Principle Tow), or may provide support if it can be demonstrated that the proposal is conducive to supporting or developing UK exports (Principle Three).
EDC	As Canada's export credit agency, EDC is expected to support Canadian exports and direct investment abroad, with related positive impacts on economic output and jobs. EDC developed an elaborate methodology to determine 'Canadian benefits' derived of its insurance and financing activities.

*JBIC's Local Buyer Credit refers to the structure when JBIC finances a sale of a Japanese affiliate in the respective buyer's country. For example, JBIC finances a transaction between a Japanese affiliate in India and an Indian buyer.

Source: Developed for this Study based on Charter Documents and publicly available product brochures.

4.4.1.4 Market Complementarity and Competition

While some ECAs act as commercial players such as EDC, operating within the financial sector, other ECAs are limited by their mandates to addressing market gaps.

Important to the overall health of a country's export credit system is the extent to which the private sector – both banks as well as private insurers – are actively engaged in providing export credit facilities. A key issue here is the degree to which an ECA is supporting domestic or international banks, particularly with financing medium and long-term capital goods and project business. For example, EH in Germany, Bpifrance or UKEF only step into the breach when commercial banks or private insurers do not offer sufficient facilities. By providing export credit insurance or guarantees, these ECAs then seek to catalyse financing from commercial banks. The same applies for Nordic ECAs such as EKF and Finnvera focusing on a partnership approach with commercial banks. This partnership approach is also driven by the understanding that the commercial banks' international branch network and marketing force help national exporters in their international activities through identifying opportunities and structuring deals. Market complementarity also includes an ECA's ability to work with and complement the activities of private insurers in all areas of business: ST credit insurance, MLT credit insurance and investment insurance.

Despite the fact that market complementarity is anchored in the mandate of many ECAs worldwide, there is no shared understanding among the ECAs how market complementarity can be tested or proven. While some ECAs for this purpose maintain a close exchange with exporters, financial institutions and insurers via regular round tables and discussions, other ECAs require formal rejection letters by banks or private insurers as part of their products' eligibility requirements.

Export finance is a very competitive market. Underlying transactions are regularly resulting from a procurement process and, as such, there is often competition between exporters of different countries. Hence, export finance and the terms and conditions offered can be a decisive factor in the procurement decision of an international buyer. As discussed in Chapter Three, OECD ECAs have tried to minimize competition on export finance terms and conditions through the OECD Arrangement on Export Credits. However, over the past ten years, exporters have reported increasing competition with regard to financing terms resulting from Asian public financing, specifically by Chinese institutions that do not consider themselves bound to OECD rules.

4.4.2 STRATEGY

4.4.2.1 Strategy

As public-policy backed institutions, most ECAs align their strategies with their respective government's policy goals to provide 'development/impact' returns. As such, the strategies of ECAs around the world are increasingly focussed on promoting national SMEs, underrepresented exporters and economic sectors of strategic importance to the respective country. Many ECAs emphasize international collaboration as key pillar of their strategic framework. Linked to this are generally notions of facilitating national exporters' capacity to enter new markets and supporting global value chains. JBIC in its 2020 Business Plan, for example, highlights infrastructure-related exports supporting Japanese companies in expanding into frontier markets as a key component of its strategy for growth. EDC has a key performance indicator that is linked to business supported in emerging markets. An underlying trend reflected in these strategies is that over the past two decades, the ECA approach has shifted from pure trade facilitation to a stronger engagement on the trade creation side.

Some ECAs also have an explicit strategy to implement government policies, such as KEXIM whose strategic goals include: 'to encourage industrial dynamism by implementing government policies', while for others this is implied by their mandate.

Table 23: Strategic Priorities

	SME focus	Helping exporters enter new markets	Other (e.g. climate/ Tech etc.)
KEXIM	x	X	Infrastructure
EKF	X	X	Wind
JBIC	X	X	Infrastructure
UKEF	X	X	x
EDC	X	x	Cleantech, women and indigenous led businesses

Source: Developed for this Study based on strategy documents and Annual Reports.

4.4.2.2 International Representation

A reflection of the shift towards trade creation is the fact that ECAs are increasingly setting up international representations that allow them to directly engage with local financial institutions and potential foreign buyers. This trend is more the case with ECAs providing financing (examples are EDC, KEXIM, JBIC), but pure cover providers (i.e. the German ECA) are following. EDC, for example, has sought to use its growing branch network to generate business opportunities for Canadian companies through its pull facility. SACE has a broad network of representations abroad, and UKEF has established representations abroad. The German ECA is also in the process of setting up international representations.

Table 24: International Representation

KEXIM	26
EKF	0*
JBIC	16
UKEF	8
EDC	21

Source: Developed for this Study based on strategy documents and Annual Reports.
* EKF has had "export credit ambassadors" at some Danish embassies and currently a part time person in Taiwan dedicated to EKF.

4.4.2.3 Cooperation

Cooperation with international entities, export finance counterparts and non-ECA financing institutions can be a significant mechanism for ECAs to realise their strategic objectives and expand the support they are able to provide to domestic exporters and investors. The most common form of cooperation for ECAs providing insurance are re- and co-insurance agreements with other ECAs reflecting today's reality of globalized supply and value creation chains. Through re- and co-insurance, ECAs are able to only bear the risk portion of the transaction representing the actual national content. This risk sharing mechanism is mainly used in higher risk transactions or to manage exposure and limits.

There are also examples of cooperation with promotional instruments. EKF, for example, cooperates internationally with the European Investment Fund (EIF) primarily to support innovative Danish SMEs with working capital. Similarly, the Dutch ECA, Atradius Dutch State Business (ADSB), administers several concessional funds (i.e. Development Related Infrastructure Investment Vehicle, Dutch Good Growth Fund) established by the Dutch Ministry of Foreign Affairs and administered by the Netherlands Enterprise Agency.

Additionally, a key area of cooperation for ECAs is inter-governmental with other agencies and departments for facilitating business and building a broader trade and foreign investment ecosystem. UKEF and the Department of International Trade are strategically aligned and work closely on identifying opportunities overseas, but also in raising awareness of UKEF and its products and services in the UK and linking the two together where access to finance is key. EDC on the other hand is continuing to strengthen its collaboration and partnership with the Canadian Trade Commissioner Service in support of Canada's trade creation efforts abroad.

Furthermore, an important platform of cooperation for ECAs is the Berne Union, the global association for the export credit and investment insurance industry. It facilitates knowledge and information exchange related to market as well as product trends and developments. OECD ECAs and their respective governing authorities also participate in various fora at OECD-level related to the continuous development of the OECD Arrangement on Export Credits as well as other agreements such as the Common Approaches.

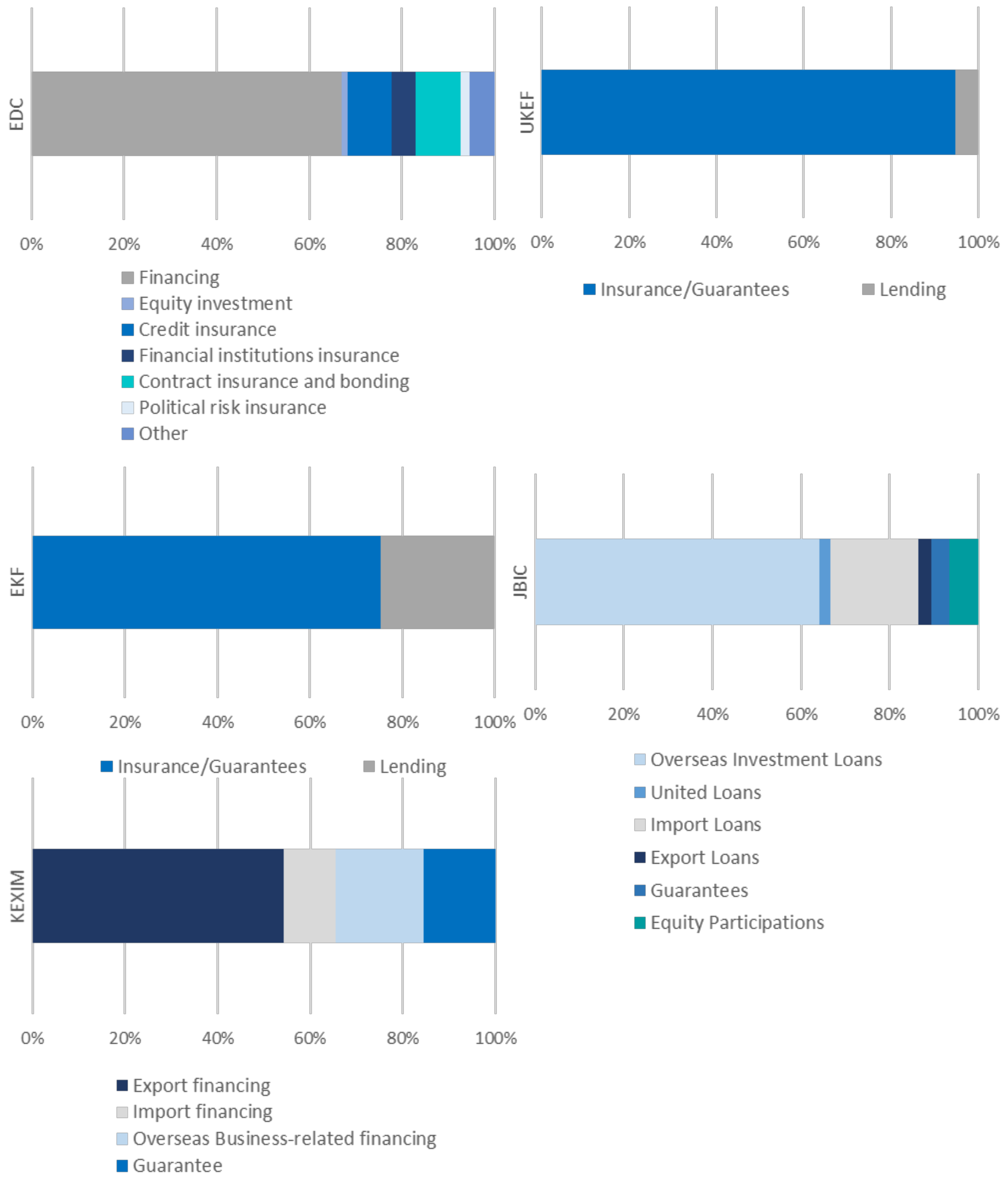
4.4.3 PRODUCTS AND CLIENTS

Regarding the product offering of ECAs, a distinction can be made between ECAs offering financing, which are often referred to as direct lenders or Exim-banks, and ECAs acting as insurance or pure cover providers. While in Asian countries such as India, Japan, China and Korea, it is common that both types of ECAs exist as separate institutions, other countries like the US, Canada and Australia have combined both lending and insurance offerings in the same institution.

As a result of the 2008 Global Financial Crisis, the product portfolio of ECAs has significantly broadened. Especially European ECAs, formerly more focused on insurance provision, have introduced new financing windows to meet the gaps in the availability of liquidity from the private market to fund the transactions. Another noticeable trend has been an increase in targeted product offerings for national SMEs and as a result a growing exposure of national (versus international) risks in the books of ECAs. Globally, ECAs today are increasingly providing products targeted at trade creation (versus trade facilitation) and investment promotion, manifesting a shift away from traditional export financing products that are directly tied or linked to export transactions.
This history is also due to the structure of the European financial markets with a lot of European banks heavily involved in international trade, thus making pure cover a way of avoiding crowding out the financial markets with direct lending.

Figure **22** shows the breakdown of products among the ECAs selected for this study. Funded products represent a significant portion of each institutions portfolio among the institutions studied. Only EKF and UKEF are still more heavily focused on guarantee and insurance products given their history as pure cover providers. This history is also due to the structure of the European financial markets with a lot of European banks heavily involved in international trade, thus making pure cover a way of avoiding crowding out the financial markets with direct lending.

Figure 22: Product breakdown (2017)



Source: Developed for this Study based on Annual Reports. KEXIM figures are by disbursement; UKEF, EDC and EKF figures are by exposure; OPIC and JBIC figures are by commitments.

4.4.3.1 Loans

Generally, four types of loan products can be identified. Lending ECAs can provide lending to national companies as working capital facilities, to grow their export capacities or, in case of Exim-banks, to finance imports. The other category of loans is targeted towards national companies seeking to invest overseas. Export loans are typically linked to an export transaction and so-called untied loans serve to either secure access to minerals or to support other national interest which are not in the form of exports.

Table 25: Loan Product Overview

	EDC	EKF	JBIC	KEXIM	UKEF
Loans directed at national companies	Direct lending**	-	Import loan	Export promotion loan – directed at…	-
	-	-	-	Export growth loan	-
	-	-	-	Export project loan	-
	-	-	-	Import facilitation loan	-
	-	-	-	Import loan	-
	-	-	-	Overseas investment loan	-
Loans directed at foreign/international companies or financial institutions	Buyer financing*	Export loan	Overseas investment loan	Overseas project loan	Direct lending facility (UK export focus)
	Direct lending**	-	Export loan	Overseas business facilitation loan	-
	Structured and project financing	-	Untied loan	Interbank export loan*	-
	Pull loan	-	Bridge loan	Untied interbank loan	-
	-	-	-	Export facilitation loan*	-

Source: Developed for this Study based on Annual Reports and websites.
*OECD Arrangement terms and conditions can apply.
** Secured loans directed at international expansion of Canadian companies or their foreign affiliates.

UKEF and EKF also introduced direct lending to overseas buyers or projects. UKEF's direct lending facility is directed at overseas companies that are investing and seek to purchase capital goods and/or services from UK exporters. EKF's seeks to support medium- and long-term transactions with its new export loan instrument.

EDC, JBIC and KEXIM offer a broad variety of lending facilities. Only a small portion of the total lending provided by these entities is traditional export finance bound to OECD Arrangement terms and conditions.

Table 26: Non-traditional ECA Loan Products

Product	Description
Pull loan (or guarantee)	Pull loans are corporate loans typically directed at overseas buyers. The loan is not linked to a specific export transaction, but there is an underlying agreement that the ECA will facilitate connections to national exporters with the aim to create trade between the overseas buyer and national exporters at a later stage during the relationship. With this product, ECAs seek to assume the role of a matchmaker and broker for national exporters. Examples are Canada and Italy (however in the case of Italy, SACE, the Italian ECA, provides a guarantee for a loan or line of credit).
Untied loan (or guarantee)	Several ECAs are providing untied loans (or guarantees) to foreign entities or projects in the pursuit of national strategies, especially with the prospect to secure access to rare raw materials for the country. Examples are Japan, but also Germany. Typically, untied instruments are considered not to be contingent on exports but may encompass broader national interest themes, such as raw material supply or policy objectives like promotion of climate-friendly investments.
Overseas investment loan	Especially Asian ECAs are increasingly providing financing to support the expansion of their national companies overseas. This is partly linked to their national export structure. Many of the leading EPC contractors are Korean. As part of their contracts, these EPC contractors are often required to from joint-ventures or have subsidiaries in the countries they are operating in.

Source: Developed for this Study based on publicly available information.

EDC has multiple products to directly finance international trade and investment. Not being restricted by its mandate to act complementary to the private financial sector (except with regard to domestic risks), EDC may compete alongside private financial institutions. By applying market terms and conditions for its financing, EDC is not bound to the "safe haven" of the OECD Arrangement terms and conditions when financing export transactions but its activities fall within the scope of the WTO SCM Agreement.

According to KEXIM, its product portfolio is very broad and diversified – allegedly due to the lack of risk appetite in the Korean banking sector for export and trade-related business. At the same time the Korean economy is very much oriented towards trade and export; hence, KEXIM's portfolio is designed to meet various needs by KEXIM's range of stakeholders (including the government, Korean businesses, overseas clients). KEXIM aims to be a one-stop-shop solution provider to its clients offering its range of products to best meet a client's need.

JBIC's operational principles state that it is to complement and not compete with private sector financial institutions. As such its exposure in a transaction is restricted to 50-60% of the project/transaction value. Based on the same complementarity principle, JBIC's financial operation in developed countries has also been mainly limited to so-called 'integrated infrastructure system projects'. For Overseas Investment Loans, JBIC has revised its mandate to also provide such loans in developed countries focusing on strategic sectors (i.e. railways, renewable energy power generation, nuclear power generation, power transformation, smart grid, development of telecommunications network, shipbuilding). JBIC also offers untied loans for a variety of purposes. Like other ECAs' untied programmes, JBIC uses this loan to secure access to stable supplies of energy and mineral resources. However, a special focus of JBIC's untied operations are also called 'Green Operations'. Eligible projects include renewable energy and energy efficiency projects as well as projects evolving around methane emission reduction, carbon capture and storage and other greenhouse gas reduction methodologies. Terms and conditions of JBIC's untied loans are not bound by the OECD Arrangement.

Usually tenors of untied loans tend to be longer than export credits and JBIC may offer fixed or floating interest rates.

While terms and conditions of traditional medium- to long-term export finance transactions that are specifically linked to the financing of an export contract are regulated by the OECD Arrangement on Export Credits, more flexibility (and less transparency) exists with regard to the other types of loan products described above.

4.4.3.2 Insurance and Guarantees

While JBIC and KEXIM do not provide export credit insurance due to their country specific institutional set-up, export credit insurance is the core product for the majority of OECD ECAs. Export Credit Insurance is typically offered on a medium to long-term basis to either exporters (referred to as supplier credit) or financial institutions (referred to as buyer credit) that finance an export deal and is considered as traditional trade facilitation instrument. ST export credit insurance (as supplier credit) plays a more dominant role for ECAs in developing countries, as their countries' export structure is often still based on commodities and consumables. However, ST export credit tends to be offered as well by non-European OECD ECAs (such as EDC, Korea's K-Sure and Japan's NEXI), as European ECAs are bound by the EU Directive prohibiting state aid for short-term marketable risks (see Chapter Three).

Bonds and guarantees (i.e. performance guarantees) are addressing specific trade finance needs of national exporters in connection with the actual export transactions. They are often designed to free liquidity or catalyse financing from commercial financial institutions. Typical examples are bid, advance payment and warranty guarantees or counter-guarantees. Guarantees (versus insurance policies) can also be used to improve refinancing options for financial institutions and buyers. This is for example the case with the Airbus guarantee provided by the German, French and British ECA as well as the different refinancing facilities designed by ECAs following the 2008 Global Financial Crisis.

While product names for specific guarantees and insurance products vary across ECAs, product functionalities tend to be the same. However, terms and conditions vary slightly.

Table 27: Insurance and guarantee products

Products	**EDC**	**EKF**	**JBIC**	**KEXIM**	**UKEF**
Export credit insurance/guarantee (for exporters and banks)	+	+			+
Portfolio/Whole-turnover export credit insurance	+				
Political risk/ investment insurance/guarantee	+	+			+
Foreign exchange/local currency guarantee	+	+	+		+
Working capital guarantee	+	+			+
Contract guarantee (performance, surety, etc.)	+	+	+	+	+
Export refinancing/Funding/Securitisation guarantee		+	+		+
Capital expenditure/import loan guarantees		+	+	+	
Line of credit guarantee		+			+
Letter of credit guarantee		+			+

Source: Developed for this Study based on websites and Annual Reports.

4.4.3.3 Equity

The provision of equity is a relatively new field for ECAs and only represents a small portion of the portfolio of ECAs offering this product. Typically, equity is provided to sectors considered of national strategic importance with export potential attached to them. Of the ECAs selected to be assessed more in-depth as part of this study, EDC, JBIC and KEXIM provide equity products in the form of direct equity and fund investments. EKF is able to provide equity according to its Act, but it is not actively offering equity investments.

EDC has a mandate to support the capital needs and growth ambitions of Canadian companies in two ways. Initially, its investment program focused on investing in funds that would improve the access of export-oriented companies to private equity. More recently, EDC has chosen to invest directly in high-potential Canadian companies to help them expand into international markets. Its total portfolio exposure represents nearly CAD 2 billion in value, through direct investment in 47 Canadian companies, and indirect investments in an additional 365 Canadian companies, supported through investments in 97 funds.

While EDC targets its equity investments towards Canadian-based companies, JBIC focusses its equity participation on overseas investment projects undertaken by Japanese firms in developing countries. Equity investments in developed countries are only eligible for certain industries of strategic importance to Japan. Similarly, KEXIM limits its direct equity investments to companies where Korean investors hold at least a 10 per cent share. Direct equity investments are typically also only provided together with a KEXIM loan.

4.4.3.4 Development Finance Windows linked with ECAs

KEXIM administers the Economic Development Cooperation Fund (EDCF) which was established in 1987 to promote economic cooperation between Korea and developing countries through concessional loans. Based on its own development experience, Korea through the Fund seeks to provide developing countries with necessary funds to spur their industrial development as well as economic stability. The Fund is managed by a council consisting of ministerial-level government officials. KEXIM's role is to administer the fund including the appraisal of projects, execution of loan agreements and disbursements as well as the monitoring and evaluation of projects. Since its foundation, the Fund has provided $14.6 billion financing to developing country governments for 395 projects in 54 countries.

It is noteworthy mentioning that Korea's development finance is marked by a high portion of tied aid as well as a high concentration on economic infrastructure as well as countries with which Korea already has strong economic links. As a result, its development finance is intended to further strengthen the country's national economy. While operations of the Economic Development Cooperation Fund appear to be organisationally separated from KEXIM's trade and investment operations, cooperation and interlinkages at the transaction level exist. Mixed credits – a combination of concessional financing and export credits – are offered for strategic projects. Since 1996, five mixed credits were committed amounting to $439 million of concessional/grant financing and $188 million of export credit. In 2017, the Fund management decided to scale up its support using mixed credits.

Cairo Metro Line 3 Project – KEXIM's use of mixed credits

According to KEXIM, a Korean company was competing against French Alstom for the contract to supply trains in connection with the Cairo Metro Line 3 Project. The French offer allegedly included highly concessional loans and was countered by the Korean government and KEXIM with a mixed credit. Ultimately both the Korean as well as the French company were declared joint winners of the contract.

In the past 20 years, JBIC underwent substantial reorganisations. In 1999, the Japan Bank for International Cooperation was founded by merging the Export-Import Bank of Japan (JEXIM) with the country's Overseas Economic Cooperation Fund (OECF). After a decade of mutually managing both, Japan's export as well as development finance instruments under one roof, the decision was taken to integrate JBIC's former international financial operations into the Japan Finance Corporation while the overseas economic cooperation operations were integrated into JICA, Japan's international cooperation agency. However, in 2012 the international financial operations were taken out of the Japan Finance Corporation again and the new Japan Bank for International Cooperation was established in accordance with the JBIC Act.

As one of the few OECD countries without a bilateral DFI and after several years of political discussions, Canada founded Development Finance Institute Canada with its brand name FinDev in January 2018. The Government of Canada decided to establish FinDev as a subsidiary of EDC so that the new financial institution could learn from and leverage on EDC's longstanding knowledge as financier of international projects. FinDev's current set-up further relies on a shared-service system with EDC to ensure cost-efficiency and a quicker implementation of activities. It was assigned an initial capital of CAD 300 million which EDC will inject in its subsidiary over the next three years. While there was initially a notion in the Government of Canada that FinDev should also cater for Canadian interests and rely on EDC for business development, it was subsequently decided to instead focus on creating, distinguishing and strengthening FinDev's own brand as a stand-alone institute. Since its launch in January 2018, FinDev has focussed on growing its business in a partner-oriented manner and has placed its focus on identifying co-financing opportunities with bilateral EU DFIs in the sectors and markets FinDev seeks to focus on. So far, FinDev has invested equity into two projects.

4.4.3.5 Non-financial Services

ECAs have over the years increasingly expanded their non-financial service offering. Typically, this entails trainings, information sharing events and advisory services for exporters and investors. Many ECAs have also started to provide export specific market information or cooperate with their national trade and export promotion institutions to facilitate connections to potential foreign buyers. Target group of these services are often national SMEs.

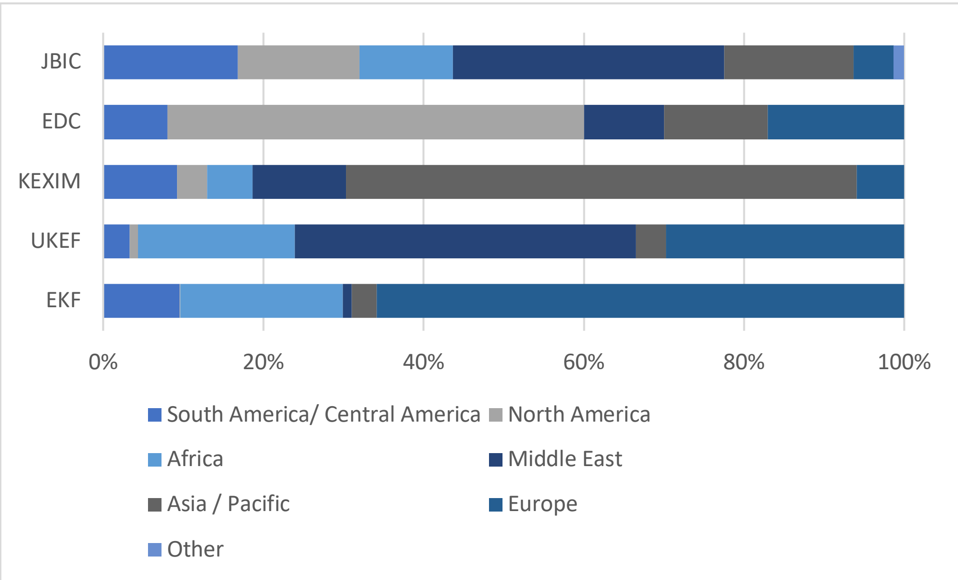
4.4.4 MARKETS

4.4.4.1 Geographies

ECA's geographic coverage is broad and closely interlinked with the respective country's national export structure thereby representing a mix of developed, emerging and developing countries. Business in developed countries is often limited to certain sectors such as shipping, aircraft, infrastructure and energy projects that typically require large financing volumes where ECAs close existing market gaps. National exposures are often related to pre-shipment finance, imports and SME support instruments such as working capital finance.

In line with national export diversification strategies, ECAs increasingly focus on helping exporters expand to emerging markets to seize new growth opportunities. An element of this support is the ECA trend to engage more actively in trade creation and set-up international representation in markets deemed of national interest as discussed earlier. For example, in the past year, UKEF in cooperation with the Department for International Trade have recruited market experts across its priority markets, including Indonesia, UAE and Brazil. EDC who spearheaded the trend of international representations has a performance measure linked to business in emerging markets. Currently, approximately CAD 1 billion of EDC's revenues are generated through emerging market business.

Figure 23: ECA exposure by geographies (2017)

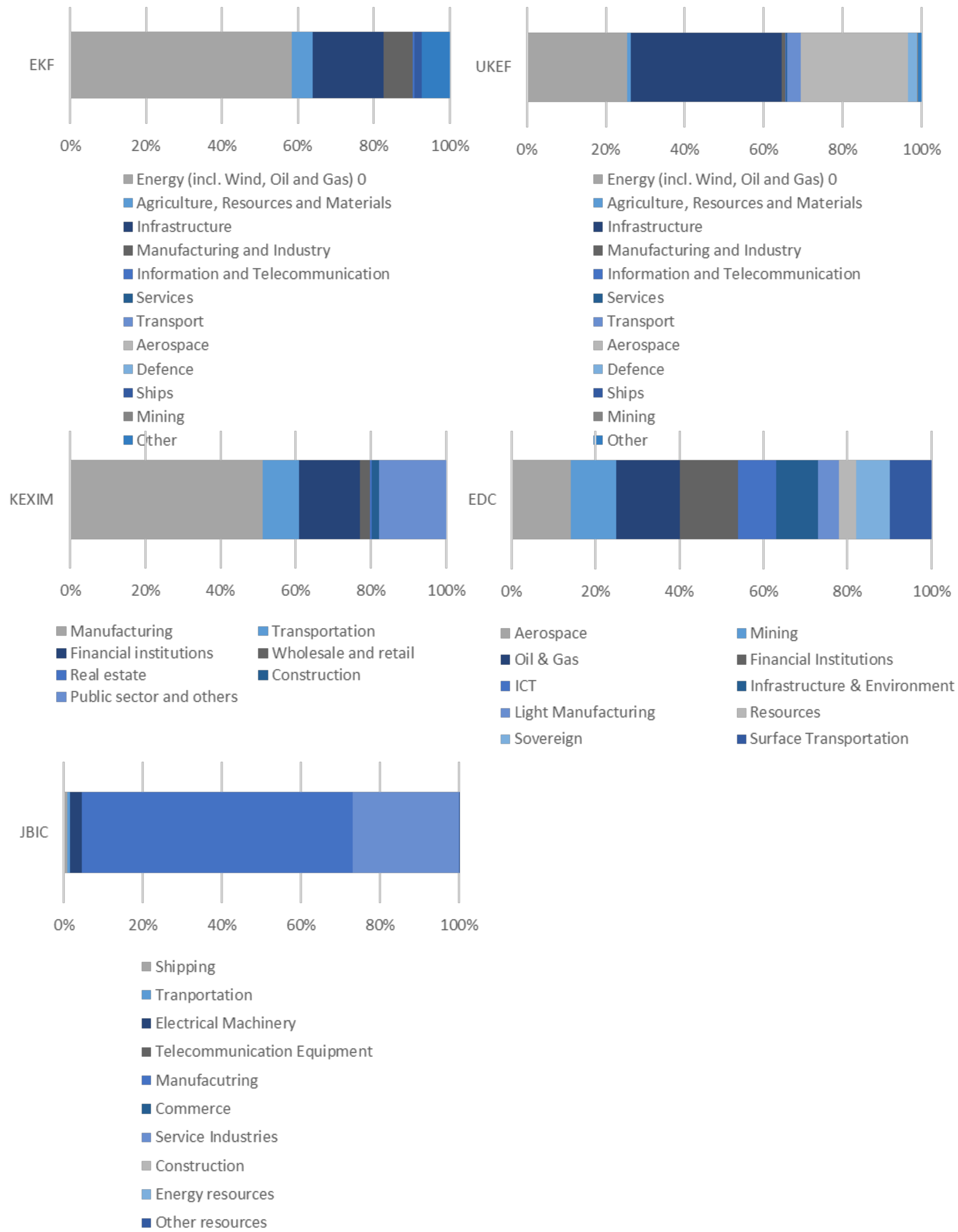


Source: Developed for this Study based on submitted data and Annual Reports. JBIC numbers based on commitments.

4.4.4.2 Sectors

Similarly, to its geographic spread, ECA's sectoral activity is a reflection of the respective national export structure. In alignment with national policies, ECAs also promote certain sectors and technologies deemed of national strategic importance.

Figure 24: ECA portfolio exposure by sectors (2017)



Source: Developed for this Study based on submitted data and Annual Reports. JBIC numbers based on commitments.

JBIC sectoral priorities are displayed in its organigram as its operational departments are structured into (1) Energy and Natural Resource Finance Group (including oil, gas, mining and metal financing), (2) Infrastructure and Environment Finance Group (including new energy and power financing as well as social infrastructure), (3) Industry Finance Group (including marine and aerospace financing), and (4) Equity Finance Group.

Similarly, KEXIM's defined areas of support are infrastructure and plant financing, representing Korea's overseas construction industry. Specific sectors comprised under this category are oil and gas, LNG, petrochemicals, power, water and other industrial infrastructure-related projects. Natural resource financing, as another area of support, is provided for oil, gas, mineral resource and related infrastructure development projects. Shipbuilding and shipping industries continue to remain Korea's core export sector. Furthermore, KEXIM has identified several growth industries it seeks to support, namely (1) new energy, (2) service, (3) ICT convergence, (4) future transportation and (5) promising consumer goods.

As Denmark hosts three major wind energy companies and many sub-suppliers, EKF largest exposure is wind projects. In this sector, EKF seeks to support its clients expand in new markets such as Asia and South America.

EDC's main sectors are extractive (including oil, gas and mining) as well as aerospace. However, in line with national strategies, EDC has declared support for clean technology as corporate priority and derived a cleantech sector strategy 2020 setting specific targets for business volumes and number of cleantech companies supported.

4.4.5 GOVERNANCE

4.4.5.1 Oversight

Depending on the institutional structure, the government might be a shareholder (government-owned company) or partial shareholder.

In the case that the ECA is outsourced (see 4.4.1.2, "Private company acting as Agent"), oversight is typically directly exercised by a designated ministry (typically a country's Ministry of Finance or Ministry of Trade/Economic Affairs) or several ministries in the form of an inter-ministerial committee. In this institutional set-up, it is typical that the government body responsible for oversight sets policies, defines risk appetite and even takes individual credit decisions over a certain threshold and/or when a credit decision is linked to high-risk countries.

ECAs set-up as independent government-owned financial institutions tend to run on "commercial principles" and have much higher levels of autonomy as long as they operate in an agreed-upon risk management framework. In the case of EKF, oversight is exercised by a Board of Directors comprising of two employee representatives and 7 members from the private sector appointed by the Minister. The Danish Ministry of Industry, Business and Financial Affairs also conducts three annual inspection meetings in addition to the annual ordinary company meeting. Similarly, EDC is governed by a Board of Directors consisting only of private sector representatives appointed by the Minister of International Trade Diversification. The Canadian government further exercises oversight through a variety of instruments. For example, it issues an annual statement of priorities and accountabilities, approves annual corporate, capital budget and borrowing plans, conducts financial and performance audits and can issue directives and cabinet decisions to be followed by EDC. JBIC, as well, is governed by a Board of Directors and subject to inspections by the Board of Audits of Japan and by the Financial Services Agency delegated by the Minister in charge of JBIC.

UKEF, for example, reports to the Secretary of State for International Trade and works alongside the Department for International Trade, yet it remains a separate government department for governance and accounting purposes, operating under the consent of HM Treasury, due to UKEF's significant capacity to take on financial risk. In the case of UKEF, the government (HM Treasury) sets out the risk appetite limit of the institution.

As such notions of autonomy refer to the government's oversight of, and participation in, the activities of the ECA. As described, in some countries, this may involve participating directly in underwriting decisions, or legislatively reauthorizing the activities of the ECA on a regular basis (as in the US). Alternatively, in other countries the guardian authority can have fairly strong notional control, but, in reality, may have relatively less influence over the day-to-day activities of the state-backed scheme.

4.4.5.2 Environmental and Social Governance

At OECD level, ECAs have agreed on a shared standard to assess environmental and social risks in supported export credit transactions. In 2003, the member countries of the OECD came to a non-binding agreement on a common approach to the environmental and social review of projects supported by their government's ECAs. The agreement, the current version of which was issued in 2016, is the OECD Recommendation on Common Approaches on Environment and Officially Supported Export Credits. ESG practitioners of OECD ECAs regularly meet to discuss and update the standard as well as share information on the day-to-day implementation. The Common Approaches are based on the World Bank Operational Safeguard Policies, IFC Performance Standards and the World Bank's Environmental, Health and Safety Guidelines. More than 30 OECD ECAs have adopted approaches like the Equator Principles which require application of IFC's performance standards. A regular exchange between the OECD ECA working group and IFC exists. While the Common Approaches serve as minimum ESG standard for OECD ECAs, many OECD ECAs have further enhanced respective policies and procedures within their institutions.

4.4.5.3 Transparency

OECD ECAs face an increased pressure by the public and civil society organisations to become more transparent regarding the transactions financed or insured. As a consequence, many OECD ECAs have started to publish details on policies and procedures as well as on transactions that have received government support. Additionally, some ECAs, like US Exim,have to report to Parliament.

Due to the fact that export finance is a powerful policy instrument that can be used to create a competitive advantage for national exporters, OECD ECAs have established a regulatory framework that encompasses detailed transparency mechanisms as a way to ensure compliance. As discussed in Chapter Three, OECD ECAs submit financial details of all concluded loan agreements and insurance policies to the OECD on a regular basis which in turn avails this information to all members of the OECD Arrangement on Export Credits. Under certain circumstances as defined by the OECD Arrangement, ECAs are also required to share transaction-related information on an ex-ante basis.

In line with the Common Approaches, OECD ECAs are obliged to publish details on transactions and projects with potentially high environmental and social risks (classified as Category A according to the Common Approaches) 30 days prior to approval.

Table 28: Transparency

KEXIM	KEXIM states that it follows generally accepted disclosure practices as they exist in South Korea and it claims to have adopted transparent management practices to increase public trust. As such, it publicly provides consolidated financial statements and product information.
EKF	In addition to what is required under the OECD Arrangement, EKF – since 2010 – has published selected information at the individual transaction level after 60 days following the issue of the final guarantee. The selected individual transaction information includes name of exporter, name of buyer, country of buyer, project description, product, creditor, debtor/guarantor, environmental and social sustainability category, date of issue, credit period and EKF's liability.
JBIC	JBIC publishes its annual operations and activities as well as its financial conditions in various disclosure materials, including annual reports, business reports, financial statements, and Form 18-K, which is submitted to the US Securities and Exchange Commission. JBIC also publishes these reports that summarize its activities for environmental sustainability.
UKEF	UKEF publishes details of the business it supports both as part of its annual reporting of its performance. This includes business supported, product applied and the maximum liability. UKEF's reporting also includes where relevant, the ESG risk/impact categorisation in line with the definitions in the OECD Common Approaches and Equator Principles.
EDC	EDC reports individual transaction information on all financing (including guarantees), political risk insurance, and equity transactions. Environmental and Social reporting is in line with OECD Common Approaches. In addition, a project review summary is provided online for all signed Category A projects.

Source: Developed for this Study based publicly available information.

4.5 SUMMARY

- Assessed DFIs' products and markets are comparable focusing mostly on equity, loans and guarantees. Although mandates and strategies vary, some DFIs specifically promote the national economy and follow significant national interest considerations.
- MDB offerings are relatively homogeneous regarding products, although assessed institutions vary regarding public and private or only private sector operations. The same applies for markets and clients, as some MDBs have a regional focus or concentrate, e.g., on infrastructure.
- ECAs have the mandate to promote export and national economies. The spectrum of institutional structures, strategies or products is very large. Some agencies follow a 'last resort' approach providing only pure cover, others act in a commercial manner with an extensive offering.

5 INTER-COMPARATIVE ANALYSIS OF DFIS, MDBS AND ECAS

5.1 OVERVIEW

Following the intra-comparison of the three types of public policy institutions, and taking into consideration the different characteristics within the respective peer groups, this Chapter aims to examine similarities and differences between bilateral DFIs, MDBs and ECAs in detail.

5.2 MANDATE

An institution's mandate defines its purpose. It also sets the foundation for defining its target clients as well as for shaping the products and services it will offer.

Table 29: Summary Overview – Mandate

	Bilateral DFIs	MDBs	ECAs
Mandate	Most bilateral DFIs have a mandate to promote poverty reduction and inclusive growth through sustainable private sector development in developing countries. OPIC and CDB's mandates are prioritizing the support of national companies and industries to expand to emerging markets	Promote economic development and regional integration	Promote exports and national economies

Source: Developed for this Study.

With regard to the public institutions that this study seeks to compare, ECAs have been founded to promote a country's exports, national companies engaging in international trade, national employment linked to international trade as well as the national economy as a whole. Similarly, some bilateral DFIs' mandates also reference the promotion of the national economy, national competitiveness and national companies or investors venturing abroad. OPIC is an example of this as well as CDB. The same applies for many bilateral European DFIs. However, these bilateral DFIs typically also emphasize the developmental impact that their supported engagements pursue in developing countries. Other bilateral DFIs such as DEG and FMO are mandated to promote private sector development in emerging and developing countries to alleviate poverty and foster inclusive growth. MDB's mandates are more broadly directed at economic development. In addition, regional integration is a strong focus for MDBs that are often focussed on a certain geographic region. However, like bilateral DFIs, poverty reduction and inclusive growth are also common themes among their mandates. JICA, who is a development cooperation agency rather than a bilateral DFI, shares the MDBs' broader mandate and only has a relatively small facility targeted towards the private sector.

There is a growing convergence among all three types of institutions to promote and track SDGs as well as to support the low-carbon and climate-resilient economy. While these policies and commitments constitute a primary policy objective for many bilateral DFIs and MDBs, the pursuit of SDGs is currently more a win-win than a driving agenda for most ECAs. However, alignment with SDGs is an emerging topic for most OECD ECAs and further work on how ECAs can proactively contribute to SDGs is expected to be done. Hereby, ECAs will be able to build on their track-record in promoting Good Governance and responsible business conduct (i.e. with regard to environmental implications, sustainable lending).

Currently, national agendas on export promotion, industrial sectors, international relations, or general economic development are the key signposts for most ECAs and some bilateral DFIs. Similarly, bilateral DFIs are also guided by national policies and commitments on ODA and international relations. MDBs on the other hand – by their nature – tend to be more committed to the international development agenda (like the SDG) and their regional member country development goals and priorities.

With regard to each type of institution's mandate, it can therefore be concluded that bilateral DFIs and MDBs tend to share common developmental mandates such as inclusive economic development and poverty reduction. While fostering development is not yet anchored in ECA's mandates, global commitments and SDGs have already entered the ECA world and are increasingly dominating the policy dialogue.

Furthermore, a policy overlap exists between ECAs and bilateral DFIs who share the mandate to support their respective national economies by fostering national companies' foreign expansion. It also becomes evident that national economic promotion mandates and mandates targeted at fostering growth and reducing poverty do not contradict each other. Instead these institutions demonstrate that dual mandates can also be a win for both – the shareholding country as well as the foreign partner/recipient countries.

5.2.1 INSTITUTIONAL STRUCTURE

Institutional structures should support the implementation of an institution's mandate and are often reflective of the products and services offered. Some institutions are also historically grown while others keep on evolving over time to reflect best practices.

Table 30: Summary Overview – Institutional Structure

	Bilateral DFIs	MDBs	ECAs
Institutional structure	Stand-alone financial institution	Stand-alone supranational financial institution	Diverse institutional structures ranging from government department to commercially operating financial institution

Source: Developed for this Study.

In the majority of cases, bilateral DFIs and MDBs are structured as independent financial institutions owned by one or many governments applying corporate management principles and seeking to maintain financial sustainability. The institutional structures of ECAs tend to be more diverse. However, the majority of OECD and Non-OECD ECAs are set-up similarly as autonomous financial institutions owned by their respective governments. Other models exist where ECAs are government departments or are implemented through an agency agreement with a private insurance firm. In both cases, these institutional structures typically apply to non-lending ECAs. Due to their different primary mandate, governments may regard ECAs more as competitive national economic promotion instrument and as such may have opted to maintain closer oversight and influence on the operations of their respective ECA.

5.2.2 NATIONAL INTEREST

In the light of globalized supply chains and increasingly multinational companies, ECAs, over time, have started to reduce their national content requirements and are increasingly able to support projects that are no longer directly linked to national procurement or exporters, but instead are linked to a broader understanding of national interest.

Meanwhile, bilateral DFIs that do not already have the dual mandate to support their national economy are increasingly driven by their respective governments to demonstrate their positive impact on the national economy. As a consequence, bilateral DFIs have identified national companies as another client segment and have developed a variety of financial products and services to enable these companies to increase their footprint in emerging and developing countries (DEG and FMO are examples). As such, a trend towards convergence exists with regard to national interest considerations for OECD ECAs and bilateral DFIs.

Due to the nature of their set-up, MDBs on the other hand do not pursue national interests. Instead their financing is bound to strict procurement standards aimed at safeguarding a fair and open competition for procurement contracts. However, some MDBs restrict procurement eligibility to their shareholding countries only.

Table 31: Summary Overview – National Interest Considerations

	Bilateral DFIs	MDBs	ECAs
National interest considerations	Trend to also/increasingly target national companies within the assigned mandate	No national interest as by multilateral nature of institution; however certain procurement restrictions with regard to membership exist	Trend to reduce national content requirements and diversify into product areas that are not bound to a specific export transaction

Source: Developed for this Study.

5.2.3 MARKET COMPLEMENTARITY

Bilateral DFIs, MDBs and most ECAs are required by their mandates to be complementary to the private sector. This requirement is also often found in their founding charters, articles of agreement, key operating principles and strategies. As discussed in Chapter Two, DFIs and MDBs justify their private sector engagement through the broader concept of additionality which is typically broken down into financial as well as non-financial additionality. ECAs on the other side, predominantly approach complementarity from the angle of market failure with the exception of a few ECAs that act as commercial players within the private sector.

5.3 STRATEGY

5.3.1 STRATEGY

Strategies serve as a mechanism to operationalize institutional mandates. Strategic themes and objectives are therefore an outflow of the respective institution's mandate.

Table 32: Summary Overview – Strategy

	Bilateral DFIs	MDBs	ECAs
Strategy	Common strategic objectives are enhancing operational performance, increasing development impact and supporting the national economy. Strategic themes cover aspects around inclusiveness such as SMEs and pro-poor investments, priority sectors such as local financial sectors, infrastructure and climate finance as well as geographic focus (i.e. fragile states, low income countries)	Strategic themes and objectives evolve around • geographies (fragile and low-income countries), • sectors (infrastructure, financial sector, climate finance, social sectors), • mobilizing or catalysing private capital and blended finance, • increasing impact, • partnerships and country-centred approaches, • SMEs, and • Institutional efficiency	Strategic themes and objectives evolve around • growing and diversifying national exports, • supporting SMEs' international business, • expansion into emerging markets, • trade creation, and • targeted support for national priority sectors.

Source: Developed for this Study.

ECA strategies – due to their nature and mandate – are mostly focussed on advancing the national economy and specifically the respective country's trade and export performance. Similarly, all bilateral DFIs assessed in this study have an element of national interest in their respective strategies. Common strategic elements with both types of institutions are furthermore priority sectors, geographies as well as the promotion of SMEs. However, bilateral DFIs define these elements with a view to creating impact in developing and emerging markets, while ECAs still emphasize more on their impact at home while safeguarding that this impact is achieved in a responsible manner (i.e. regarding human rights, environmental social implications). MDBs who by their nature lack the element of national interest, are gearing their strategies towards improving development impact in their member countries. Identified priority sectors such as infrastructure, financial institutions and energy, priority geographies such as conflict-affected, fragile and low-income countries and target groups such as MSMEs and women are therefore more overlapping between bilateral DFIs and MDBs.

5.3.2 INTERNATIONAL REPRESENTATION

Institutions and businesses set-up international offices and hubs to move closer to their target group and gain a better understanding of local environments with the purpose of shaping and enhancing their products and services.

Table 33: Summary Overview – International Representation

	Bilateral DFIs	MDBs	ECAs
International representa-tion	International representation varies widely among bilateral DFIs	Strong regional representation, typically in every member country	International representation varies widely among ECAs, however with a trend towards increasing international representations

Source: Developed for this Study.

International representation is part of an MDB set-up and increasing authority is granted to in-country offices. Some bilateral DFIs have also embarked on expanding their international footprint via representations, and the same applies for ECAs. Notably, it still appears more common for lending ECAs to expand internationally than for insurance-only ECAs. However, the latter are following suit. Both bilateral DFIs and ECAs use their foreign presence for business development purposes – targeting both, foreign companies and local financial institutions. Especially for ECAs, this is a clear sign for their shift towards pro-active trade creation discussed in Chapter Four.

5.3.3 COOPERATION

Cooperation can be regarded as a strategy to achieve an institution's mandate or enhance its impact. As such, three main forms of cooperation can be identified across the three types of public institutions. One form displayed within each group is cooperation at transaction level in the form of syndication, co- or reinsurance. A second form is policy development, knowledge or information sharing and the third form is designing or offering a new or improved service or product by leveraging the cooperation partners' respective strengths (i.e. products, access to certain target groups).

Table 34: Summary overview – Cooperation

	Bilateral DFIs	MDBs	ECAs
Cooperation	Knowledge sharing and close exchange among European bilateral DFIs and MDBs; co-financing among European DFIs	Promote cooperation and knowledge at policy level and with regard to environmental and social management practices; promote co-financing with other non-MDB actors (i.e. governments, DFIs, commercial banks) to leverage MDB's resources	Most common cooperation among ECAs takes place through regulation and reinsurance; inter-governmental cooperation on export promotion and trade creation initiatives are common, and the Berne Union plays an important role; few co-operations with promotional or development financing instruments

Source: Developed for this Study.

However, cooperation mostly occurs within the respective peer group, with some more cooperation between bilateral DFIs and MDBs taking place in the form of co-financing as well as policy development and knowledge exchange. In few cases bilateral DFIs and MDBs report to seek ECA insurance for eligible transactions to free up their balance sheets (i.e. EIB with EKF and FMO with ADSB). Apart from these examples, systematic cooperation or even regular exchange still appears to be the exception at international as well as national level between ECAs and bilateral DFIs – even though both institutions often share the same national shareholder or guardian authority.

5.4 PRODUCTS AND CLIENTS

All three types of institutions have a similar core product offering consisting of loans, equity, guarantees and non-financial services.

Table 35: Summary overview – Products and clients

	Bilateral DFIs	MDBs	ECAs
Grants	Available in form of non-financial services or blended finance	Typical for MDBs, provided to sovereigns based on economic criteria. Only offered by ADB.	./.
Public sector loans	Dependent on mandate of bilateral DFI; CDB and JICA offer public sector loans.	Depends on set-up of MDB; provided by ADB, AIIB and EIB.	Core product by lending ECAs.
Private sector loans	Focus area of bilateral European DFIs; various forms of private sector loans available. FMO and CDB specifically offer export loans.	Core product; IFC and IDB Invest dedicated private sector arms; various forms of private sector loans available.	Core product by lending ECAs; various forms of loans available.
Insurance/ guarantees	Guarantees as standard product offering. OPIC also offers political risk insurance. FMO, DEG and CDB also offer trade finance guarantees.	Partial credit guarantees are most common form of guarantees. Trade finance programmes available at IFC and IDB Invest.	Core product of non-lending ECAs. Various forms of insurances and guarantees available.
Equity	Core product. Linked with national interest considerations for OPIC and CDB.	Core product	Emerging product; linked with national interest.
Blended finance for private sector organisations	Various forms of blended finance, harmonization across MDBs and bilateral DFIs initiated.	Various forms of blended finance, harmonization across MDBs and bilateral DFIs initiated.	No evidence available for this Study.
Non-financial services	Advisory and technical assistance services as well as support for feasibility studies around common themes (climate change, gender, MSMEs, innovation, public-private partnerships, environmental and social governance and corporate governance)	Advisory and technical assistance around common themes (climate change, gender, MSMEs, innovation, public-private partnerships, environmental and social governance and corporate governance)	Advisory and technical assistance around export promotion and export finance topics, as well as environmental and social issues.

Note: Various definitions of "blended finance" exist. The World Economic Forum and the OECD define blended finance as the strategic use of development finance and philanthropic funds to mobilise private capital flows to emerging and frontier markets. Source: Developed for this Study.

Grants and concessional loans are offered by MDBs to sovereign borrowers who fulfill certain eligibility criteria. However, with regard to the selected institutions, only ADB and JICA, Japan's development cooperation agency, provide grants and concessional loans. For European bilateral DFIs, grants play a role, for example, when bilateral DFIs provide business support services in conjunction with their lending products. Similarly, concessional loans only tend to be offered by bilateral DFIs through third parties. Grants and concessional loans are also not part of the core product offering of ECAs and strict regulation applies to tied aid transactions. Some ECAs may be involved in the provision of concessional loans through cooperation with their development agencies i.e. EKF and Danida co-operating on the Danish tied aid programme. KEXIM administers the Economic Development Cooperation Fund on behalf of the Korean government which provides concessional loans to developing countries. While the administration of the fund is kept separate from KEXIM's ECA business, cooperation in the form of mixed credits, which are regulated by the OECD Arrangement on Export Credits, exists.

MDBs' public sector loan offering is typically differentiated into project, program, sector and policy loans. However due to their specific institutional set-up IFC and IDB Invest are focussed on private sector financing only. Similarly, DEG, OPIC, FMO and JICA's Private Sector Investment Finance facility target their products exclusively at the private sector. On the other hand, ECAs and EIB do not distinguish their respective product offerings by public or private sector.

The private sector loan offering of both MDBs and bilateral DFIs is very broad and includes various forms of financing such as corporate, project and M&A financing as well as senior, subordinated or mezzanine debt. Financing is claimed to be provided on market terms as both types of financial institutions are mostly governed by principles of financial sustainability. However, the later could not be confirmed for CDB and JICA's Private Sector Investment Finance facility. Anecdotal evidence hints to the fact that MDBs are generally able to provide larger volumes than bilateral DFIs. Due to the preferred creditor status granted to by their member countries, risk appetite of MDBs might be higher than for bilateral DFI.

Lending ECAs also provide corporate, project and asset-based financing, mainly in the form of senior debt. While their origin lies in the financing of export transactions, financing ECAs have continued to broaden their loan offering. Today, ECA loans are no longer exclusively linked to specific export transactions but instead finance investments in capital expenditure or infrastructure projects as well as investments into projects of strategic national importance, for example to secure the supply of resources and rare metals. Financing of export contracts by OECD ECAs is governed by OECD Arrangement terms and conditions, but little information is available on the terms and conditions of lending ECAs' other financing products.

At the same time, some bilateral DFIs (like CDB and FMO) provide export finance. When providing export finance, FMO typically seeks cover from the Dutch ECA ADSB and thereby complies with OECD Arrangement terms and conditions. However, this is a case-by-case decision and FMO may also opt to provide export financing without ADSB cover. In this case, FMO does not see itself regulated by OECD Arrangement terms and conditions.

Insurance and guarantee products are at the core of non-lending ECAs and tailored to meet the various export, trade and investment-related financing needs of exporters, financial institutions and investors. Most ECAs offer political risk and investment insurance products to their national investors. However, this is not the case in the US where political risk insurance is provided by OPIC (and not US EXIM). Both bilateral DFIs and MDBs also offer specialized trade finance guarantees to financial institutions in developing countries. Despite limited balance sheets and increasing efforts to mobilize private finance, the guarantee product offering and exposure by many bilateral DFI appears to be rather limited.

The provision of equity either directly or through funds is a key product of bilateral DFIs and MDBs and has in recent years also became more popular with ECAs. As a shared principle, all institutions seek to limit their participation to minority shareholding. ECAs as well as OPIC also restrict their equity contributions to national interest criteria.

Private sector mobilization is considered crucial to the achievement of SDGs and blended finance has become a new focus of bilateral DFIs and MDBs as it aims to catalyse private sector resources for developmental purposes. Using development finance for the mobilisation of additional sources towards sustainable development in developing countries is a strategic goal for many institutions. This helps to bridge an investment gap for the SDGs, and the OECD has developed five principles to mobilise such additional financing. IFC, for example, applies blended finance to foster transformative projects with a high impact in sectors such as agribusiness, climate change and food security. Other areas include financing for SMEs and supporting women entrepreneurship. Examples for activities are IFC's Global SME Finance Facility and the Goldman Sachs Foundation.

Non-financial services are a complementary offering aimed at reinforcing the impact of the respective institution's financial services. Services provided by DFIs and MDBs often consist of expert advice around developmental topics such as climate change, gender, MSMEs, innovation, public-private partnerships, risk management, environmental and social governance and corporate governance. ECAs on the other side focus their interventions on capacity building around export-related topics and target national exporters and investors. As public finance institutions with strong government linkages, clients of bilateral DFIs, MDBs as well as ECAs specifically value the institutions' ability to provide political support to projects during the entire project-life-cycle.

5.5 MARKETS

5.5.1 GEOGRAPHIES

Bilateral DFIs, MDBs and ECAs have in common that they are all engaging in international finance. Their risk exposures are typically spread across various countries and/or continents.

Table 36: Summary Overview – Geographies

	Bilateral DFIs	MDBs	ECAs
Geographies	Primarily focused on emerging markets, particularly Africa. Some also focus on geographies they have regional or cultural proximity and/or historical ties with.	Defined by and reflective of their membership. Strong focus on emerging markets, particularly Africa, as well as low-income and fragile or conflict-affected countries.	Broad and closely interlinked with the respective country's national export structure thereby representing a mix of developed, emerging and developing countries.

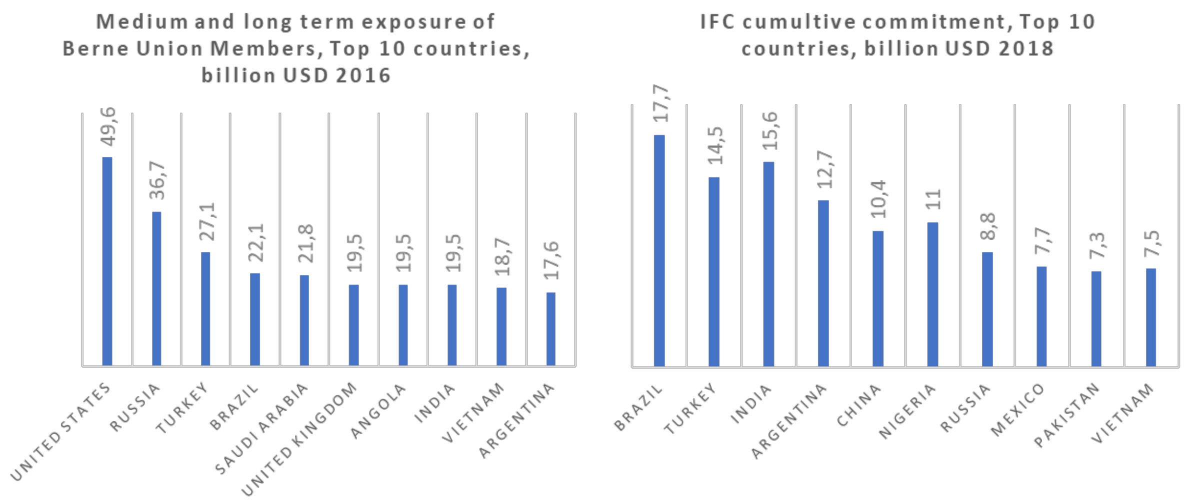
Source: Developed for this Study.

The main geographic overlap between all three types of institutions exists in emerging markets. For bilateral DFIs and MDBs this is due to their developmental focus and applied additionality principle. In the case of ECAs, they are promoting exporters expand to these markets to seize new growth opportunities in line with national export diversification strategies. At the same time, due to the significant infrastructure investment gap in these countries, all three types of institutions are often involved when it comes to realizing major infrastructure projects.

While the institutions' overlap in countries and regions may vary due to the different memberships as well as investment factors, such as export structures, regional and cultural proximity or historical ties, there are no indications that a different country risk appetite may be influencing investment decisions.

Instead bilateral DFIs, MDBs and ECAs tend to invest on a demand-driven base with the shared principle of maintaining an overall financially sustainable portfolio. The following figure compares the investment activities of ECAs with IFC's cumulative investment commitments. The similarity in geographic investment activity is demonstrated by the fact that IFC and Berne Union Members have 6 out of the top 10 investment countries in common.

Figure 25: Comparison of Top 10 Countries, IFC and Berne Union Members



Source: Developed for this Study based on Berne Union statistics and IFC Annual Reports.

Furthermore, according to DEG's 2017 annual report, 51% of the DFI's commitments represent an investment grade country risk. For FMO, 42.8% of its gross loan exposure is classified BB- or better (taking into account both country as well as credit risk). These numbers also hint at the rather balanced geographic portfolio of bilateral DFIs which thereby allows for a broader overlap with ECAs.

5.5.2 SECTORS

Overall, the sectors in which ECAs (especially from OECD countries), bilateral DFIs and MDBs are active are similar. However, as their mandates and strategic objectives vary, the reasons behind their promotion of, or support to, certain sectors is varied.

Table 37: Summary Overview – Sectors

	Bilateral DFIs	MDBs	ECAs
Sectors	Mainly active in economic sectors such as infrastructure, manufacturing, services and agribusiness; Investments in renewable energies and energy efficiency have become a specific strategic focus area; Often work to strengthen local financial institutions.	MDBs strategic and sectoral priorities display a strong link with global commitments and policies; Strong support for infrastructure and energy; some of MDBs' sectoral priorities are defined according to the specific need of a region.	ECA's sectoral activity is a reflection of the respective national export structure; ECAs also specifically promote certain sectors and technologies deemed of national strategic importance.

Source: Developed for this Study.

All three have seen a rise in activity around sectors linked to sustainable development and climate mitigation/ adaptation. For DFIs and MDBs this is partially due to their commitments to the SDGs and other global sectoral priorities, which has seen them put new emphasis in sectors such as renewable energy and infrastructure as well as local financial sector development. In contrast, ECAs sectoral focus is determined by national export structure and policies. Yet, with many governments also focused on upholding their commitment to the SDGs, national ECAs are under pressure to increase their activity in sectors linked to sustainable development.

Furthermore, each institution (with few exceptions) is market gap driven. As such, industries where there is obvious under-participation among private sector actors is likely to attract support from ECAs, bilateral DFIs and MDBs alike. Energy, transport and infrastructure projects have high upfront and long-term cost with delayed returns. These, therefore, are sectors which have had obvious gaps for MDBs and DFIs to fill. ECAs, while they tend to have diverse portfolios which are linked their respective national export structure, are also active in supporting infrastructure, energy and other sectors with high barriers for private-sector participation through their various instruments including lending, credit and political risk insurance or other guarantees. This is especially true for OECD-ECAs.

5.6 GOVERNANCE

5.6.1 OVERSIGHT

Oversight is a key component of good governance and it exists to ensure institutions are held accountable for delivering on their mandates and public policy objectives. It is also crucial to ensure the efficient and transparent management of public resources.

Table 38: Summary Overview – Oversight

	Bilateral DFIs	MDBs	ECAs
Oversight	National government is shareholder; Board governance structure with government representation.	Governments from Member and Non-Member countries are shareholders; Board governance structure with government representation.	National governments are shareholders; Various oversight mechanisms and levels of operational influence depending on the institutional structure; Most ECAs have a Board governance structure; Government representation is common with some exceptions (i.e. EDC).

Source: Developed for this Study.

While bilateral DFIs and ECAs are by-in-large government-owned and therefore share the same national shareholder, their respective guardian authorities may vary. ECAs often fall under the aegis of a country’s Ministry of Trade or Economic Affairs while bilateral DFIs are often more closely linked to the respective Ministry of Foreign Affairs or Development Cooperation. Though bilateral DFIs and ECAs differ in mandate and are, therefore, accountable for different performance metrics, their shared government shareholder is ultimately concerned with the institution's financial and social return on investment to the same government balance sheet.

Indeed, MDBs on the other hand —by virtue of being multilateral institutions—have more complex shareholder arrangements made up of numerous governments with varying voting rights typically based on contributions. In addition, Member Countries' shareholder participation often fall under the responsibilities of different ministries across member countries. For example, looking at the World Bank (IFC) Board of Governors, different 'types' of Ministers have been nominated for oversight duties across different shareholder countries.

5.6.2 ENVIRONMENT AND SOCIAL GOVERNANCE

Environmental and social governance is a key topic among public sector finance institutions. Environmental and Social Governance is an important requirement for all three types of institutions.

Table 39: Summary Overview – Environmental and Social Governance

	Bilateral DFIs	MDBs	ECAs
Environmental and Social Governance	Established systems, active knowledge sharing between European DFIs	Established systems, thought leadership and capacity building offered	Regulated system including structured transaction-based transparency and regular knowledge sharing between OECD ECAs including yearly learning event with MDBs.

Source: Developed for this Study.

Depending on institutional and shareholder requirements, ESG analysis and monitoring undertaken may include assessment of greenhouse gas (GHG) emissions by the project, displacement of persons, environmental degradation and other effects. This analysis typically results in an overall rating of the project specifically from an environmental and social impact perspective, which may or may not be used as one part of the investment/ transaction/project's "score" used to calculate its overall suitability for support from the bilateral DFI, ECA or MDB. Close cooperation and knowledge exchange take place among OECD ECAs as well as among bilateral DFIs. MDBs are seen as thought leaders in the development and promotion of ESG standards and IFC – as an example – works with both OECD ECAs and bilateral DFIs to share lessons learned and engage on the further development and update of the respective standards. There are examples of institutions from within all three categories that have adopted the Equator Principles as a key underlying framework.

OECD ECAs adhere to a common set of Environmental and Social Governance rules, the OECD Common Approaches. The agreement on a common set of rules also with regard to ESG is due to the competitive nature of their financing support and the need to share knowledge and enhance competences. No coordinated and common standard exists among bilateral DFIs or MDBs, but European bilateral DFIs tend to draw from similar sources, such as the Equator Principles and IFC Performance Standards. Both MDBs and bilateral DFIs offer complaint and grievance mechanisms enabling affected communities an easier access to the international financing institutions. Notably, there is a market perception that emerging market ECAs, DFIs and MDBs place less emphasis on Environmental and Social Governance Standards.

5.6.3 TRANSPARENCY

Transparency, particularly in decision making, is a central aspect of accountability for any public sector institution. Bilateral DFIs, ECAs and MDBs are accountable to their shareholders, as well as on occasion to various regulatory authorities, to their customers or clients as well as the broader public. Especially, as institutions that have been created with taxpayers' money to fulfil a public policy goal, a higher degree of transparency and accountability, particularly on aspects like value for money, development impact, human rights, and environmental sustainability is generally expected.

Table 40: Summary overview – Transparency

	Bilateral DFIs	MDBs	ECAs
Transparency	Trend towards increased transactional and operational transparency	Comprehensive transparency on proposed and approved projects	Established transparency mechanisms among OECD ECAs under the OECD Arrangement

Source: Developed for this Study.

Despite this general understanding, all three types of institutions are faced with increasing pressure from civil society organisations and the broader public to become more transparent with regard to their operations and transactions. As such, many ECAs, bilateral DFIs and MDBs have started to publish information on operational policies and supported transactions – while MDBs are at the forefront regarding the transactional information published online. However, little information on the financial terms and conditions of individual transactions are made public by all three groups. This is often argued with the fact that ECAs, bilateral DFIs and MDBs deal with private sector entities and some of the project and transaction information is considered business confidential.

Different to bilateral DFIs and MDBs, OECD ECAs have established ex-ante and ex-post transparency mechanisms to share more detailed transaction information among OECD countries. These mechanisms serve to ensure compliance with regulation and thereby maintain level playing field among the OECD exporters.

5.7 SUMMARY

- DFIs, MDBs and ECAs have different mandates and follow different rules. While MDBs do not have to consider WTO or OECD regulations, DFIs and ECAs work within a comparable regulatory environment. European ECAs have further limitations.
- The principles of additionality as well as catalytic and demonstration effects apply to most DFIs, MDBs and ECAs. There is no evidence for crowding out of commercial institutions deriving from this Study. However, there are numerous indicators for convergences regarding strategic aims such as national interest.
- DFIs, MDBs and ECAs emphasize that there is no intention to compete. However, mandates and strategies increasingly converge, product offerings are often comparable, and geographies and sectors match in many cases according to the intra-comparative analysis.

6 CASE STUDIES

6.1 INTRODUCTION

This Chapter provides three case studies with further qualitative analysis in order to answer the research questions in a cohesive approach. It explores three type of transactions where: i) an MDB and/or DFI successfully financed and/or guaranteed a project in which the export aspect was crucial and an ECA would be an appropriate alternative; and ii) a joint project giving evidence for a collaboration between MDB and/or DFI and ECA instruments. The three case studies touch upon issues such as the roles of the different types of institutions, risk of crowding out the private sector, as well as each other, where collaboration has led to improved synergy and where national interests play a role for the national institutions involved, i.e. DFIs and ECAs.

6.2 MDB/DFI PROJECT – CASE STUDY ONE

6.2.1 BACKROUND AND OVERVIEW

Nigeria has numerous conventional and non-conventional energy resources with some of the largest oil and gas reserves in the world. The country is one of the most significant oil producers in Africa, and it has the biggest reserves of natural gas on the continent. In addition, hydro energy is a main renewable energy resource. However, Nigeria had one of the most inefficient power sectors as investment in the nationalised energy sector diminished in the 1990s, and maintenance budgets were substantially reduced. Inadequate grid capacity and electricity outages are a substantial problem for commercial businesses and private households. With electricity demand outstripping capacity, the energy sector has been a key constraint for economic development in Nigeria.

Due to the deteriorated infrastructure and the critical energy supply situation, the Federal Government of Nigeria initiated a liberalisation of the electricity industry in 2000 with its 'National Electric Power Policy'. The aim was to ensure adequate and stable electricity supply at a reasonable cost, unbundling the sector and transferring ownership to private sector operators. The privatisation process was largely completed in 2013 when the majority shares of almost all of the government's hard assets in electricity were sold off. The privatisation successfully led to initial steps in improving capital inflow. However, substantial commercial risks such as dilapidated transmission grids and a lack of transparency remain. Furthermore, there are challenges such as macroeconomic instability as well as political risks due to deep ethnic, religious and regional divisions.

In order to improve the energy situation in Nigeria, several new projects have been initiated in the last decade, including a new open-cycle gas power plant located in Edo State: The Azura Edo Independent Power Plant (IPP) 459 MW project (Azura-Edo IPP). The Azura-Edo IPP was constructed under a turnkey engineering, procurement and construction (EPC) contract by a consortium of Siemens in Germany and Julius Berger Nigeria. It consisted of the development, financing, construction, operation and maintenance of the power plant drawing from Nigeria's natural gas reserves. The power plant started to generate electricity in December 2017, creating approximately 1,000 jobs during its construction and operation.

6.2.2 TRANSACTION STRUCTURE

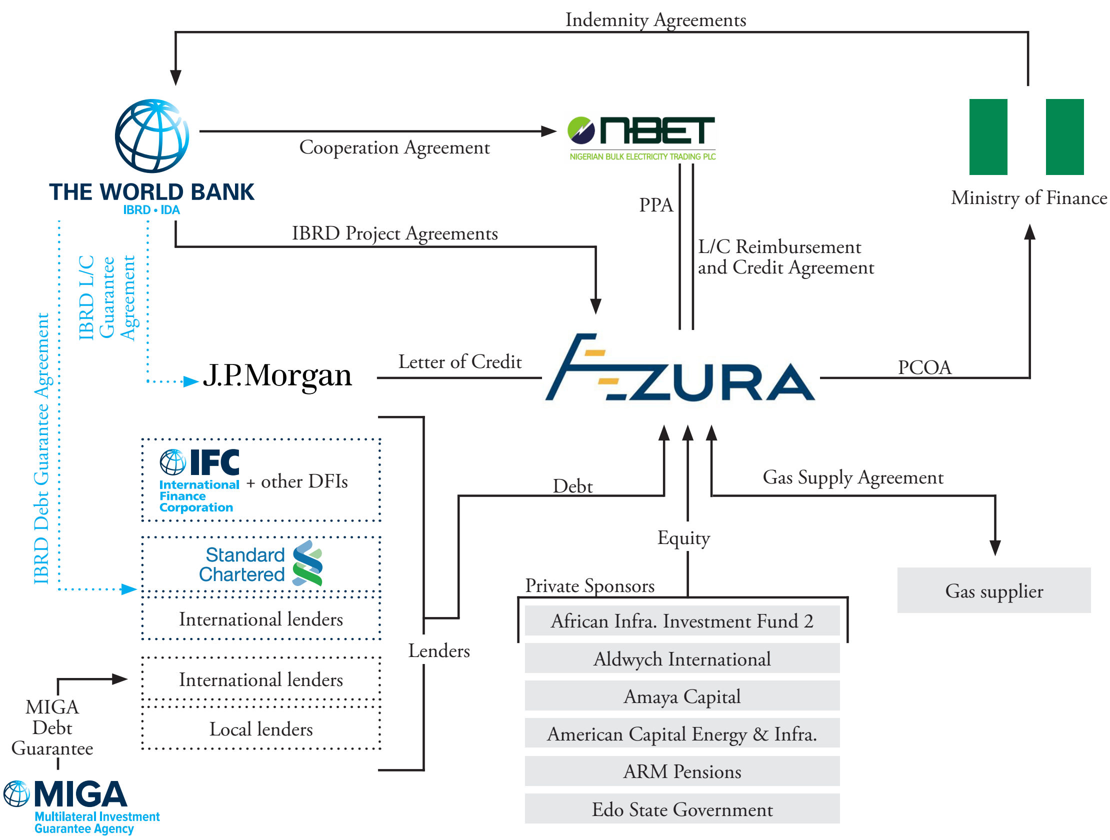
Azura-Edo IPP was Nigeria's first project-financed independent power plant comprising, in particular, gas turbines, generators and transformers produced by Siemens in Germany.

The project was developed by a consortium of local and international investors led by Amaya Capital and American Capital Energy & Infrastructure. The Edo State government is a minority shareholder and assisted the project development with regard to local communities.

The financing of the project included the sponsors with $190 million of equity as well as 15 international lenders and local financiers from nine countries providing $686 million of debt with the following facilities: i) A senior commercial tranche of $234 million arranged by Standard Chartered Bank with guarantees from the World Bank Group; ii) a senior DFI tranche of $267 million as well as a $65 million DFI mezzanine facility arranged by IFC and FMO; and iii) a local bank tranche for local debt of Naira 24 billion ($120 million) provided by the Central Bank of Nigeria Power and Aviation Intervention Fund.

Azura-Edo IPP sells the electricity under a long-term take-or-pay power purchase agreement (PPA) to Nigerian Bulk Electricity Trading (NBET), a government entity that bulk purchases electricity from generators. NBET on-sells electricity to distribution companies, then selling energy to end users. The Ministry of Finance provided termination payment assurances. Figure 26 shows the project structure.

Figure 26: Azura-Edo IPP Project Structure



Source: World Bank, 2018.

6.2.3 ROLE OF THE PUBLIC INSTRUMENTS

Public financing and risk mitigation instruments played a crucial role for the project due to several aspects: First, the involvement of an MDB and several DFIs led to the financing of this first IPP in Nigeria. As a privately-developed greenfield project with a limited recourse project finance structure, Azura-Edo IPP established a precedent for the power sector in Nigeria. Because of the activities of the World Bank Group as well as several DFIs, the government of Nigeria was able to show its commitment for developing electricity supply. The project would not have happened without the MDB and DFI involvement because the commercial market was not able to finance the project in Nigeria on reasonable terms, thus giving evidence for additionality.

The World Bank Group also played a crucial role as a catalyser due to two aspects: IFC acted as a co-lead arranger and provided funding through a $50 million debt portion, an additional $30 million subordinated debt, and a mobilisation of $212.5 million. Furthermore, the senior commercial tranche was guaranteed through an IBRD and a MIGA guarantee. MIGA covered commercial lenders against political risk, i.e. transfer and inconvertibility risks, expropriation, war and civil disturbance as well as breach of contract by the host government. The equity shareholders were also covered by MIGA's political risk guarantees. In addition, an IBRD debt mobilisation guarantee allowed the project company to secure a tranche of commercial debt. IBRD's payment guarantees protected the revenue stream, also to backstop NBET's payment security obligations under the power purchase agreement.

The project is a vivid example how MDBs and DFIs can successfully collaborate. The Dutch development bank in its role as co-lead arranger and debt finance provider was not the only bilateral development finance institution involved in the project. In addition to FMO, other DFIs such as CDC, DEG, OPIC and Swedfund provided debt financing in collaboration with IFC.

Furthermore, the project showed that, although there was a significant export component from Germany, MDBs and DFIs can take over the role of ECAs with regard to risk mitigation instruments. Guarantees or credit insurance from ECAs for energy projects are very common, and the EPC contractor also approached EH in Germany as well as other ECAs. However, ECA cover was not the preferred option of the project sponsor. A key determinant was the risk-averse behaviour of the German ECA with regard to the buyer country. In addition, the possibility for the project sponsors to implement a tailor-made solution for financing and risk mitigation without typical ECA regulations such as national content requirements or shorter maturities due to the Arrangement was relevant for structuring the transaction. Whereas pricing and tenor were not key triggers, the innovative and flexible structure with regard to the MDB guarantees was seen as a driver.

6.2.4 RATIONALE FOR PUBLIC INTERVENTION

Several aims and rationales led to the various public interventions in the project.

From a development perspective, infrastructure investments in the energy sector in developing countries are a focus area for many MDBs and DFIs. Access to affordable, reliable, sustainable and modern energy for all is not only a sustainable development goal per se (SDG7), energy projects are also key to reach other SDG targets. Multilateral development banks are especially well suited for energy financing due to the fact that they can offer long-term facilities at affordable costs needed for infrastructure projects to become profitable. The project thus was a typical opportunity for the World Bank Group to engage. In addition, it aligned to other DFIs' strategies such as OPIC, by contributing to the 'Power Africa' initiative launched by former US-President Obama in 2013.

In addition, the World Bank Group had the ambition to develop the financing of Nigeria's first IPP, and Azura-Edo IPP was the first Nigerian power project to benefit from IBRD's partial risk guarantee in addition to MIGA's political risk insurance. The idea was not only to help the Nigerian government to demonstrate its commitment to develop required electricity supply but also creating a template for further private investment in the power sector. The intended 'best-in-class' stakeholders' approach included private advisors, commercial contractors and service providers but also the involvement of leading commercial banks such Standard Chartered Bank, KfW IPEX and Standard Bank.

Furthermore, World Bank Group wanted to provide instruments designed to de-risk the execution and operation of the Azura-Edo IPP. This included mitigating the exposure to significant supply chain constraints not only through the choice of the site location but also by using political risk cover and other insurance solutions. Revenue streams were protected with the IBRD payment guarantee ensuring the project's bankability for commercial lenders. The debt mobilization guarantee allowed to secure a tranche of a $118 million commercial debt. As mentioned above, the World Bank Group could show the benefit of risk mitigation instruments by using several guarantee and insurance tools, and why MDB guarantees are additional and create a catalytic effect.

A further important take-away of the case is that the behaviour of the project sponsors was key for the financing structure including the product offerings from IBRD and MIGA. The involvement of a public instrument is more and more driven by project sponsors or foreign buyers, and not by the exporter. Buyers increasingly demand innovative funding concepts to pool the necessary resources, and this creates substantial challenges to highly regulated ECA financing. As discussed above, transactions such as Azura-Edo IPP increasingly not only include ECA-backed commercial loans but also MDB or DFI financing in parallel or instead.

6.2.5 SUMMARY

- Azura-Edo IPP was an important transaction for a German exporter, and created significant positive effects for the buyer country as Nigeria's first project-financed independent power plant.
- ECA offerings competed with MDB and DFI offerings to a certain extent, as the MDB took over traditional ECA functions by providing risk mitigation instruments such as debt guarantees and political risk insurance. There is no evidence for trade distortion despite the ECA having been opted out due to the strict regulation.
- There was no crowding-out of the private sector effect due the fact that the MDB/DFI involvement allowed commercial lenders to provide financing, in particular because of the guarantees.
- An advantage of MDB instruments is that they can follow more innovative approaches for the particular transaction, also because they do follow a less restrictive regulatory framework.

6.3 ECA/DFI/MDB PROJECT – CASE STUDY TWO

6.3.1 BACKGROUND AND OVERVIEW

From a political and economic perspective, Senegal is regarded as one of Africa's most stable democracies recording an economic growth of over 6% since 2015. With its population of 15 million, Senegal remains largely dependent on the import of heavy fuel oil and diesel for its power generation. Together with biofuels and waste, they make up almost 90% of Senegal's current primary energy supply. Only 64% of the population has access to electricity, with significantly lower rates of approximately 44% in rural areas. However, the Government seeks to achieve universal access by 2025 through a combination of on- and off-grid solutions, but significant challenges persist with its rural concessions program. But installed generation capacity only amounts to 864 MW from thermal (733 MW), hydro (60MW) and solar (50MW) sources.

Aiming to become an emerging economy by 2035, the Government of Senegal is prioritizing the power sector development in its 'Plan Sénégal Emergent'. Apart from the recent discovery of significant on- and off-shore oil and gas deposits which may make Senegal an oil- and gas-producing (instead of importing) country, significant potential to develop solar and wind power also exists. Since 2008, the importance of renewable energy has also been explicitly acknowledged in Senegal's national energy policy, the Letter of Policy Development of the Energy Sector. In 2010 the country passed its Renewable Energy Law regulating the renewable energy sector. Since then the Government has expressed its political will to develop renewable energy sources on several occasions and has formulated a National Action Plan for Renewable Energies (PANER) including targets and strategies.

One of the projects in line with the government strategies and plans is Parc Eolien Taiba N'Diaye (PETN). It is the first utility-scale wind power project in Senegal and currently the biggest wind farm planned in West Africa and sponsored by Lekela Power, a renewable energy power generation company owned by the private equity company Actis and Mainstream Renewable Power. The wind farm is located about 75 km from Dakar and is planned to have a capacity of 158.7 MW representing approximately 15% of Senegal's currently installed capacity. Financial closure of the project finance deal took place in July 2018. According to Vestas, the Danish wind turbine manufacturer, who has been awarded the EPC contract, turbine delivery is to start between the second and third quarters of 2019 and the wind farm is scheduled to come on stream in 2020. The energy produced will be fed into the grid. The plant will operate for 20 years.

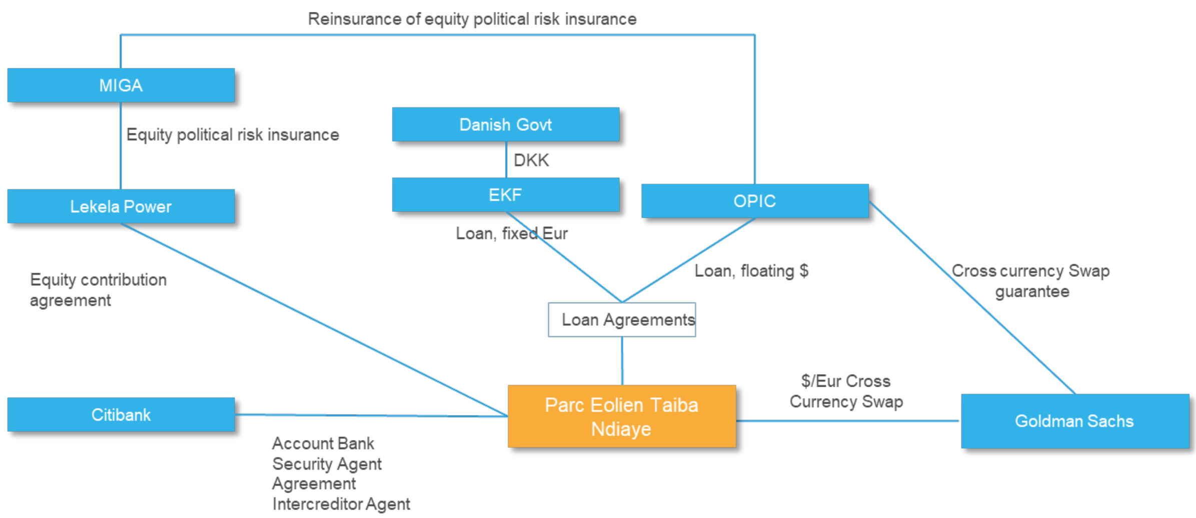
6.3.2 TRANSACTION STRUCTURE

The project development for PETN has come a long way since the idea for PETN was first conceived in 2007 by the French project developer Sarreole and the special purpose vehicle PETN was formed in 2009.

A 20-year PPA with Senegal's national utility company Senelec (Societe Nationale d'Electricite du Senegal) was signed in 2013. In the same year, Vestas won the call for tenders to provide the engineering, construction and maintenance of the future wind farm through a full EPC contract. In 2014, Sarreole secured an equity investment from American Capital Energy & Infrastructure to co-fund the project development via a joint development agreement. In 2016, Lekela Power purchased the development rights from both ACEI and Sarreole and became shareholder of PETN in 2018. Lekela Power proceeded with renegotiating the PPA with Senelec to make it bankable and further obtained a state guarantee for the PPA.

The financing of the project finance transaction involved the project sponsor Lekela Power with an equity and shareholder loan investment of up to €74 million as well as the two international lenders OPIC and EKF. OPIC provided a senior loan amounting to approximately $116 million and EKF availed €140 million in form of an export loan with a repayment term of 17 years. OPIC also provided a cross-currency interest rate swap guarantee to Goldman Sachs. The project sponsors equity and shareholder loan investments were insured against political risks by MIGA with a reinsurance portion of OPIC. Figure 27 shows the financing structure of the project finance deal.

Figure 27: PETN Financing Structure



Source: Developed for this Study.

6.3.3 ROLE OF THE PUBLIC INSTRUMENTS

In the case of PETN, the interim project developer and sponsor ACEI identified OPIC as a lender to the transaction. Both ACEI and OPIC are forming part of the US government-led Power Africa initiative leveraging partnerships with the objective of increasing access to power in Sub-Saharan Africa. Vestas has also been instrumental in supporting the project development given the Danish company's vast experience in the sector, including with the East African sister project Lake Turkana. Vestas introduced EKF as a financing partner to the transaction. They share a long-standing business relation and have implemented numerous project finance transactions together.

Both Vestas and EKF would typically first choose to catalyse commercial financing through the provision of export credit insurance, but there was insufficient risk appetite by commercial lenders to participate in the transaction. As such, EKF opted to provide an export loan via its direct lending facility.

Furthermore, the cooperation between EKF and OPIC was already established, as both public institutions had already worked together on the Kenyan Lake Turkana Wind Park project.

As OPIC already had substantial exposure in the project through its project loan and cross-currency swap, the bilateral DFI was reportedly instrumental in facilitating political risk insurance from MIGA for Lekela's equity contribution agreement. However, MIGA was not the only World Bank Group member relevant for the transaction. In 2016 IFC invested into Mainstream Renewable Power Africa Holding. The latter used the equity to provide further equity funding for Lekela Power. IFC is also a Board Member at Lekela Power.

There are several take-aways that can be derived from the Case Study. The project shows that OPIC can apply a broad tool box to meet the varying needs of projects. In the case of PETN, OPIC deployed three different products, namely a long-term loan, a long-term cross currency swap guarantee as well as a partial reinsurance of MIGA's political risk insurance. Similarly, EKF was able to still partake in the project despite the lack of commercial lending risk appetite due to its direct lending facility. Furthermore, given EKF's and OPIC's similar loan exposures and structures an alignment in risk appetite can be assumed. Lastly, it appears that apart from the financial terms and conditions, past successful partnerships and institutional relationships between the lenders, sponsors and contractors can influence the stakeholder composition of projects.

6.3.4 RATIONALE FOR PUBLIC INTERVENTION

As the largest wind park farm not only in Senegal but also in West Africa, the landmark project presents itself as natural fit for both multilateral and bilateral development finance institutions who see it as their mandate to facilitate market entry in both challenging and nascent markets as well as uncertain investment environments – factors that many renewable energy investments in African countries have still in common. As such, the Case Study combines two elements driving the involvement by development financiers. Bilateral DFIs and MDBs can provide financial as well as value additionality and supported projects have the prospect of a demonstration effect for commercial investors and lenders who ideally become increasingly confident and start following DFI's and MDB's footsteps into renewable energy markets in developing countries.

In the case of Senegal, the latter is however still not the case. Instead all major power generation projects have been financed by MDBs and bilateral DFIs. OPIC together with IFC financed the Cap de Biches power plant run by the US-based power generation company Contour Global and Proparco provided 80% of funding for the Senergy solar power plant built by the French Engie Group with a total capacity of 30 MW, making it one of the largest in Western Africa in 2017. CDC through its investment in Meridiam Infrastructure Africa Fund (MIAF) also participated in the Senergy solar power plant as well as in another solar project in Senegal. Given the high environmental and social risks associated with many renewable energy projects – for example PETN was classified as a high-risk Category A project – bilateral DFIs and MDBs are in the position to provide support (also referred to as value additionality) to manage environmental and social impacts and mitigate potential adverse effects caused by the projects.

Besides additionality, renewable energy investments represent a strategic priority for many bilateral DFIs and MDBs, as the public institutions seek to align with global development commitments and strategies such as the SDGs and the Paris Agreement. Improved access to energy in which renewable energy plays an important role – especially in developing countries' rural areas – is furthermore understood as an important prerequisite for private sector development and inclusive growth. Concretely, PETN is projected to increase clean electricity production by 15%, diversify Senegal's energy mix and provide power for over 2 million people. By becoming one of the lowest cost producers, the project is also expected to help reduce the cost of electricity generation in Senegal, which still has one of the highest generation costs in Sub-Saharan Africa.

Apart from the developmental perspective, national interest considerations are another aspect to consider when assessing the rationale for public intervention. As Danish ECA, EKF's involvement in the project is directly linked to the Danish EPC contractor Vestas. However, a positive developmental impact in the project country as well as a demonstration effect with regard to private capital mobilization can also become a decisive factor in the decision process of an ECA, especially in cases when a project or transaction is considered higher risk. But national interest considerations not only form part of the rationale for EKF, they can also be attributed to OPIC. The bilateral DFI was brought into the project by the American sponsor ACEI and typically requires a meaningful involvement by the US private sector in order to support a project or transaction. Due to the exit of ACEI, OPIC later had to justify its continuous support through indirect US shareholding in the new sponsor Lekela Power.

6.3.5 SUMMARY

- Both EKF and OPIC were introduced to the project due to their respective national relationships and programmes (i.e. as Danish ECA and through the US Power Africa Initiative)
- No competitive situation existed between both public instruments at any time during the project development and the institutions' risk appetite appeared to be at the same level.
- National interest requirements needed to be met by both OPIC as well as EKF.
- The project benefited from OPIC's broad instrument mix through which the bilateral DFI was able to address and mitigate several financing challenges. Given the lack of commercial risk appetite, EKF's flexible direct lending facility further facilitated the financing process.

6.4 ECA/DFI/MDB PROJECT – CASE STUDY THREE

6.4.1 BACKROUND AND OVERVIEW

Having suffered a number of external and domestic macroeconomic shocks in recent years, Ghana's real GDP growth recovered to 8.5% in 2017 according to AfDB. Ghana continued its growth path in 2018, making the country with its approximately 29.6 million inhabitants one of the world's fastest growing economies. Ghana's economic expansion is mainly driven by its extractive industry, namely oil and gas. According to the World Bank some of the past external shocks were caused by the low and disrupted gas supply from Nigeria through the West African Gas Pipeline as well as the slower than expected domestic gas development due to a long-running maritime dispute with Ivory Coast. These developments, amongst others, resulted in a steep increases of oil imports in recent years to mitigate the country's energy gap and generate electricity.

However, the comparatively small oil and gas producing West African country, is now expected to significantly increase both its domestic oil and gas generation – also after the International Tribune for the Law of the Sea ruled in favor of Ghana its dispute with Ivory Coast – to obtain affordable and secure supply of gas, meet its growing electricity demand and generate critical foreign currency resources through oil exports. Among the several recent and ongoing commercial oil and gas developments are the Jubilee oil field, discovered in 2007, the oil and gas TEN project, an integrated development of the Tweneboa, Enyenra, and Ntomme fields, and the Offshore Cape Three Points (OCTP) block, which includes the non-associated gas fields of Sankofa and Gye Nyame ("Sankofa gas field") as well as the Sankofa East oil field.

The OCTP fields are located in deep water 60km offshore of Western Ghana and sponsored by Eni Exploration and Production Ltd a subsidiary of Eni S.p.A. of Italy and Vitol Ghana Upstream a subsidiary of Vitol Group. According to the sponsors, the gas from the project will fuel up to 1,000MW of domestic power generation for more than 15 years, representing an estimated 25% of Ghana's expected thermal power generation capacity in 2020. Financial close of the project took place in March 2017 and gas deliveries to Ghana's power producers commenced in August 2018.

6.4.2 TRANSACTION STRUCTURE

The transaction is considered a first of its kind, as it combines project financing aspects, such as long-term tenors based on take-or-pay offtake contracts and reserve accounts, with aspects of reserve-based lending, such as annual borrowing base redeterminations.

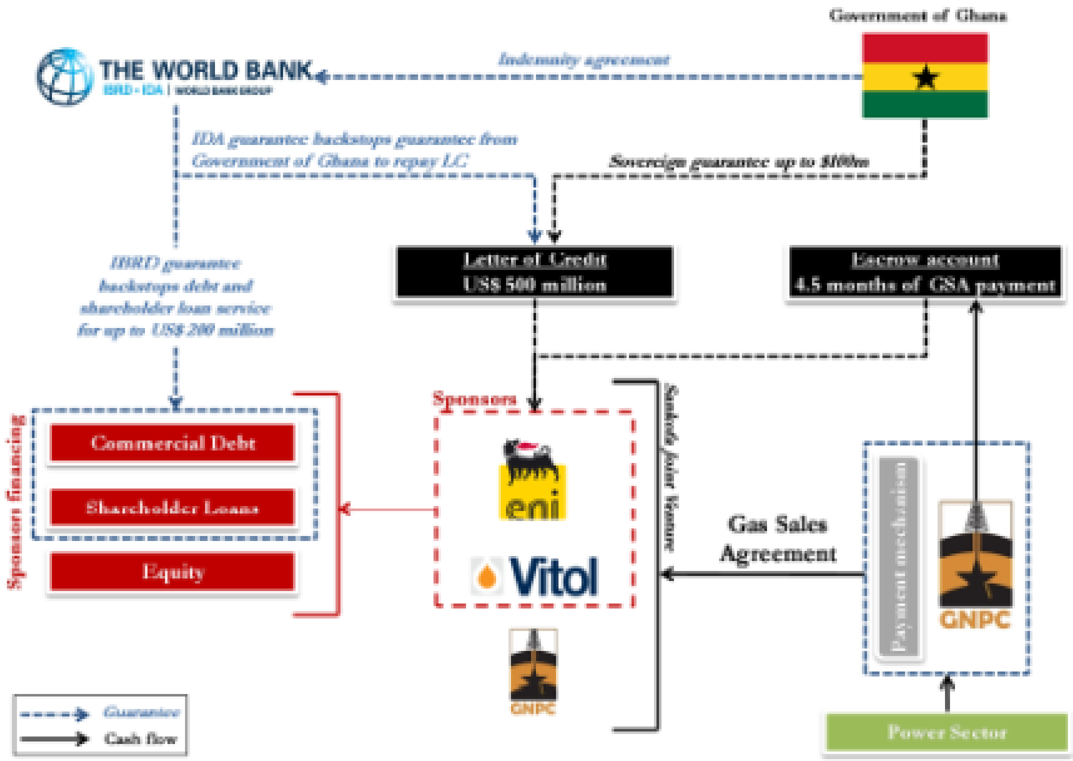
The project is led by the Sankofa Joint Venture consisting of ENI Ghana Exploration & Production Ltd. (44.44%), Vitol Ghana Upstream (35.56%) and Ghana National Petroleum Corporation (20%). A joint operating agreement exists with ENI Ghana Exploration & Product Ltd. who acts as sole operator. The gas is to be purchased by Ghana National Petroleum Corporation on the basis of a gas sales agreement (take-or-pay arrangement) for a minimum volume of gas at a fixed price. Ghana National Petroleum

Corporation’s 15% share of development costs is carried by Eni and Vitol at no cost whilst the remaining 5% will be financed by the partners and repaid with the proceeds from oil liftings and its share of gas sales.

While ENI is reportedly financing its share of the OCTP through $2.2 billion of equity and shareholder loans only, Vito has structured its share of financing through a mix of equity, shareholder loans and limited recourse debt financing. Vitol’s $1.35 billion debt financing consists of a $400 million UKEF facility split into a $310 million loan reflecting the very high level of UK content and a $90 million UKEF buyer credit guarantee; a $300 million IFC facility split into a $235 million IFC loan and $65 million loan from IFC’s managed co-lending portfolio programme; a $180 million MIGA covered facility for up to 14 years providing commercial lenders with cover in respect of currency inconvertibility and transfer restriction, expropriation, war, terrorism and civil disturbance and breach of contract; and finally a $470 million uncovered commercial bank facility. The Vitol debt financing was arranged and structured by UKEF, IFC, HSBC, ING, Société Générale, Standard Charter, Mizuho, MUFG, Natixis and Bank of China. UKEF direct lending facility finances GE Oil & Gas, a subsidiary of General Electric headquartered in the UK, who supplies subsea production systems to the Sankofa gas field project.

In order to mitigate Ghana National Petroleum Corporation’s payment risk under the gas sales agreement, a comprehensive and elaborate payment security support mechanism was negotiated, and World Bank support sought. As a result, the project benefits from a unique combination of an IBRD and IDA guarantee. The IDA payment guarantee amounting to $500 million covers the risks of non-payment by Ghana National Petroleum Corporation under its gas sales agreement, while the IBRD enclave loan guarantee of $200 million supports the project financing for the private sector by covering debt service defaults as a result of breach of specified contractual obligations by the Ghana National Petroleum Corporation and the Government of Ghana. Notably, the World Bank support only applies to the natural gas and not the oil development part of the project.

Figure 28: Sankofa Financing Structure



Source: World Bank, 2015.

6.4.3 ROLE OF THE PUBLIC INSTRUMENTS

The World Bank Group and the Millennium Challenge Corporation (MCC), a US Government foreign aid agency, are implementing a broad energy support programme in Ghana. The sectoral programme entails the provision of technical assistance for energy sector reforms, assistance with the drafting of a new renewable energy law, the provision of off-grid energy services for remote communities, and support for private sector participation in the distribution utility, Electricity Company of Ghana (ECG). Reportedly, MCC is providing close to $500 million of funds between 2016 and 2021, known as “Ghana Power Compact”, to stimulate private investment into the country’s power sector. The initiative is part of the US Government’s “Power Africa” Initiative mentioned already in the Lekela Case Study with which the US seeks to double access to power on the African continent. The OCTP development project is recognized and embedded in this broader sectoral development approach.

In line with MDBs’ mandates to act as lenders of last resort and catalysers for private sector investment, the World Bank Group’s support through its arms International Development Association (IDA) and International Bank for Reconstruction and Development (IBRD), was requested by the private sponsors ENI and Vitol who have been unsuccessful in seeking commercial insurance in support of the payment security structure proposed under the project. As such, an IDA partial risk guarantee as well as an IBRD enclave guarantee (a partial risk guarantee for IDA-only countries in support of projects with foreign exchange revenues) were issued to mitigate GNPC’s offtake, payment and long-term political risks in Ghana and to ensure timely completion of the OCTP project. Similarly, Vitol sought support from MIGA, another World Bank Group member, to provide complementary coverage of political risks for part of the sponsor's commercial debt.

UKEF was brought into the transaction by the supplier General Electrics to fill the remaining financing gap alongside IFC – which was possible as UKEF (different to other ECAs) accepts IFC's preferred creditor status. Given the large scale of Vitol's debt financing, commercial banks' risk appetite was exhausted. UKEF therefore decided to meet the remaining financing demand through its direct lending facility. As prerequisite GE's supplies had to fulfil UKEF's stricter national content requirements for its direct lending facility.

6.4.4 RATIONALE FOR PUBLIC INTERVENTION

Ghana's macroeconomic development challenges paired with significant investment needs in its energy sector as well as the expected development opportunities and impacts resulting from an improved and cheaper energy supply were the underlying drivers for continuous development (finance) support. Specifically, the World Bank Group sought to mobilize finance from private investors and commercial lenders for the OCTP energy project through an innovative and comprehensive mix of public finance instruments, such as (partial) risk guarantees, political risk guarantees, and loans.

The availability of the proposed World Bank risk mitigation instruments was considered a key condition in the early stages of the project development (i.e. for the gas supply agreement, security document term sheets), furthermore enabling private sponsors to undertake a far larger investment than initially planned. While the World Bank guarantees did not directly improve the financial viability of the energy sector, they contributed to building the investor's confidence in Ghana and specifically the country's energy sector. In the same light and according to sources, Vitol's lenders also took significant comfort from the broad World Bank Group participation in the OCTP financing, as well as the Bank's wider development support to Ghana's energy sector mentioned earlier.

However, due to the large volume of Vitol's required debt financing, commercial banks' risk appetite was eventually exhausted. In line with their respective additionality principles, UKEF and IFC decided to meet the remaining financing demand, taking on approximately $300 million of debt each. Different to IFC, UKEF's involvement in the transaction was further tied to GE's supplier contract which had to meet UKEF's national interest and content requirements and comply with OECD Arrangement terms. As UKEF typically seeks to leverage commercial financing through the provision of buyer guarantees, the project benefitted from UKEF's flexibility to instead access its direct lending facility. Lastly, by involving MIGA in the project, Vitol meant to complement IDA and IBRD guarantees and attract additional commercial financing to the transaction. Being in line with the agency's mandate to facilitate investment into countries eligible for concessional financing from IDA and to support transformational projects, MIGA positively responded to Vitol's proposal.

6.4.5 SUMMARY

- Representing a first of its kind, the project was only made possible through the broad and innovative support by the different agencies of the World Bank Group and provided comfort to commercial lenders through its embeddedness in a comprehensive sectoral support programme.
- The project demonstrates how the respective public finance instruments are able to mitigate different payment and country risks and thereby mobilize substantial additional private financing in countries and sectors generally perceived higher risk.
- No competitive situation existed between the public instruments during the project development and the institutions' risk appetite appeared to be at the same level.
- National interest and national content requirements needed to be met by UKEF.

7 RESEARCH QUESTIONS: SUMMARY AND CONCLUSIONS

7.1 INTRODUCTION

This chapter provides answers to the Research Questions, as laid out in Figure 28, drawing on the analysis provided in the preceding chapters.

Figure 29: Research Questions

What regulations do ECAs and DFIs have to follow? In the face of the stated developments, will the OECD Arrangement continue to be relevant?	How do development finance institutions avoid crowding out commercial financing and to what degree do national interests play a role?	To what extent do development finance institutions and export credit agencies compete with each other? How safe is the level playing field for exporters?

Source: Developed for this Study.

7.2 REGULATIONS

The first Research Question focuses on the regulatory aspect of bilateral DFIs, MDBs and ECAs and looks, in particular, at the relevance of the OECD Arrangement. As discussed above, a main rationale for government interventions through financial instruments is market failure. The support provided by bilateral DFIs, MDBs and ECAs performs a crucial role in helping to fill gaps in commercial financing and insurance. Policy goals are an additional and important aspect of public interventions following objectives such as poverty reduction, climate finance, infrastructure, the creation of jobs in the domestic economy, or internationalisation of businesses. The relevance of regulations is following a common understanding in market-based economies that companies are not able to compete only on the quality of their products and the price of goods or services, unless there are common rules for public interventions.

7.2.1 WTO

The SCM Agreement of the WTO is the over-arching global regulation. It has relevance to bilateral development finance institutions and export credit agencies as these institutions provide financial products or 'contributions' under the meaning of the SCM. If equity, a loan, guarantees or insurance are provided on terms more beneficial to a recipient than those available under the relevant market benchmark, the financial contribution of the bilateral DFI and ECA is a subsidy under WTO law.

It has been shown in Section 3.2 that the SCM Agreement applies to national governments as well as government-owned institutions in WTO member countries such as bilateral DFIs and ECAs. DFIs are less at risk of breaching the SCM Agreement due to the fact that their offerings were traditionally not intended to be directly tied to export performance. However, WTO rules can also be relevant for development finance institutions if they provide financial support to a specific group of companies or by tying their financial products, in law or in fact, to export performance. Export credit support of ECAs is automatically deemed specific under the SCM Agreement. However, exceptions provided by the safe haven for certain export credit practices and offerings which are in conformity with the OECD

Arrangement are a common argument that ECAs act in accordance with WTO law. However, this argument has yet to be confirmed for insurance only or “pure cover” transactions, rather it most certainly applies to ECAs offering interest make-up or direct lending.

Answering the first Research Question with regard to the WTO, government-owned DFIs and ECAs in WTO member countries have to comply with the SCM Agreement. This is not only related to specificity. Although not fully tried and tested under WTO law, a common approach is the consideration of the OECD Arrangement ‘safe haven’ where DFIs might need to comply, and pure cover ECAs face potential threats. MDBs are usually not affected by the SCM Agreement as they have multiple government shareholders. Looking at the assessed DFIs and ECAs from OECD countries, the institutions show a long-term sustainable financial behaviour. It is not clear if this also applies to non-OECD institutions such as CDB, and whether their activities are tied to Chinese exports or whether their terms are below relevant market benchmarks. This is due to a lack of publicly available data. Furthermore, there is no evidence that bilateral DFIs always comply with the terms of the SCM Agreement if they provide support which is directly or indirectly linked to export due to a lack of transparency. DFIs usually do not act on market terms or apply OECD Arrangement rules. On the other hand, WTO disciplines might also prohibit pure cover of ECAs when provided to exporters on terms better than could be secured at market according to leading WTO lawyers, even if such support conforms fully to the minimum premium and other disciplines in the Arrangement. However, this is a controversial topic and has not yet been subject of a WTO panel decision.

7.2.2 OECD

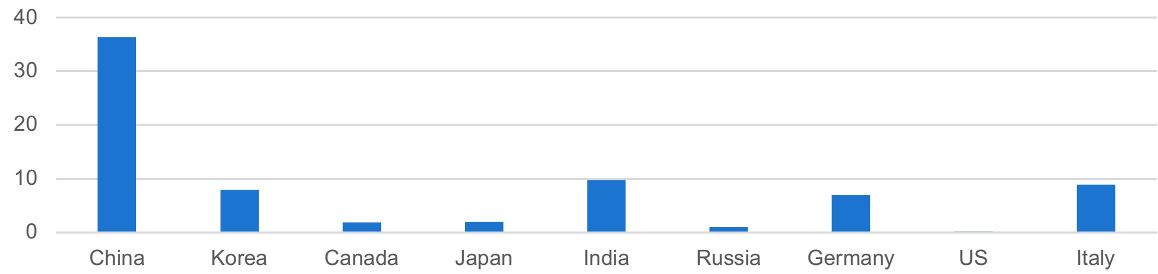
The Arrangement has the goal to provide a framework for the orderly use of officially supported export credits. The rationale is to provide a level playing field encouraging competition among exporters based on quality and price of goods and services exported, rather than on the most favourable officially supported financial terms and conditions. As discussed in Section 3.3, detailed terms and conditions for transactions falling into the scope are defined and specified in the Arrangement. Short-term as well as market window transactions are not subject to OECD regulations.

Similar to the SCM Agreement, the Arrangement applies to participant countries and not to specific institutions. Arrangement terms and conditions thus automatically apply not only to export credit agencies but also to bilateral development finance institutions or national bodies providing grants and concessional financing. In addition, there are some other practices in the OECD for ECAs which follow good governance provisions such as the Common Approaches. DFIs are active in the DAC which is committed to monitoring, assessing and promoting the provision of resources that support sustainable development.

Looking particularly at the first part of the first Research Question, OECD DFIs and ECAs have to comply with Arrangement terms, but it is not confirmed that DFIs apply these terms if they provide export-related financing support. MDBs do not follow OECD rules and regulations. This is of particular relevance for MLT transactions in regions or sectors where ECAs are active as well, for example infrastructure-related transactions or climate finance projects. MDBs can offer loans or guarantees without advance payments or maximum credit periods comparable to OECD Arrangement requirements. Although this would be unproblematic if procurement would be fair and open for all exporters, this can create an un-level playing field if financing support is geared towards a limited number of exporters and MDBs would start to compete with ECAs.

According to our research, a major challenge regarding the applicability of the Arrangement is not an overlap between OECD DFIs and ECAs or MDBs and ECAs. It is the significant rise of non-OECD institutions in terms of numbers, financing volumes and market power, often following a strategic national approach, having wide mandates and broad product offerings, as well as providing large financing and insurance volumes. This holds true, in particular, for EU member countries due to the fact that the OECD Arrangement is legally binding because of its transition into EU law. The most obvious example are the government financing vehicles in China. For example, the different mandates of China Exim, Sinosure and CDB are wide with the opportunity to offer a very broad and flexible product portfolio including equity, loans as well as guarantees and insurance. Following the approach of a 'strategic eco(n)system', China Exim, Sinosure and China Development Bank act in a coordinated manner and follow the same objective. In addition, the institutions together form the largest export support system in the world. This objective is often aligned with broader national strategies such as the BRI. As shown in Figure 30, other non-OECD countries such as India and Russia also provide significant volumes of both short-term and medium and long-term offerings.

Figure 30: Selected MLT Offerings



Source: Developed for this Study based on US EXIM, 2018.

As a consequence, the purpose of the Arrangement creating a level-playing-field is only fulfilled in competitive situations between OECD countries. Its significance is also shrinking in terms of financing and insurance volumes. In addition, it has to be mentioned that the commitment of OECD participants is decreasing as well, and challenges exist within the OECD where primarily Asian participants are acting in a more flexible way with larger volumes and with more market power. Many exporters no longer regard the OECD Arrangement as empowering or relevant, but as restriction in competition with exporters from non-OECD countries. Research results show growing criticism not only from exporters but also from OECD governments and ECAs: The Arrangement is regarded as too static, creating a corset which is tight and not appropriate for a rapidly changing global trade environment. Furthermore, a common perception is that discussions for further developing OECD regulations take years with limited results or effects while the relevance of non-OECD institutions grows at breathtaking speed. In addition, OECD ECAs are broadening their product spectrum outside the Arrangement, for example, with financing support for innovation related to research and development. OECD governments are thus evolving their financial instruments outside of the Arrangement to best support and position their national economies, thereby “limiting” also themselves the relevance of the Arrangement with regard to the instruments captured by it. This can place DFIs better in a competitive situation because there is limited transparency, and thus no sanctions, for them to compete with non-OECD institutions outside any regulatory framework. However, this would also endanger the competition on price and quality.

7.2.3 IWG

In addition to the existing OECD Arrangement creating a level playing field for member countries, participants of the Arrangement, China and other non-OECD countries created the International Working Group on Export Credits in 2012. The IWG serves as a platform to discuss and negotiate a new set of universal rules for officially supported export credits. As mentioned in Section 3.1, it has yet to be made into regulations that would govern the activity of governments.

Focusing on the research question, the IWG seems to be a most obvious sign that the future of international export finance and credit insurance rules and regulations is unclear. On the one hand, governments are working on a new set of international disciplines on export financing and insurance within the IWG. The IWG includes not only OECD participants but also major new export credit providers such as China, Brazil, India and the Russian Federation. IWG participants are discussing on horizontal, general rules for several years now. The goal is to agree jointly upon improved standards for financial terms and conditions for export credit support provided by national governments.

On the other hand, there is limited progress due to the fact that different views exist on scope, general definitions, as well as includable transactions and financial institutions. The organisation of the IWG is still rudimentary, and the approach and set-up may lack some innovation as it attempts more of a ‘copy-and-paste’ of existing OECD Arrangement approaches. Countries’ selective participation and engagement in the IWG stems from collective action problems, and there is limited progress locking decision-makers from national governments into a global framework due to a lot of change in the respective governments as well as trade policy priorities over the course of time. Disagreement on enhanced financing conditions of trade promotion between OECD participants and non-OECD members also prevents positive integration.

More than seven years after they began, negotiations for global standards have yet to meet significant success and there is a continuing divergence of interests. As a conclusion, the establishment of novel global standards outside the established international organisations by accepting and using the plurality of national trade institutions, as well as complementing existing multilateral agreements, may still be possible, but very challenging to implement. The consequence of an inability to cooperate via a new IWG regulatory body would be growing multipolarity and fragmentation: Countries use their political influence for export promotion or development policy while representing a diverse range of opposed interests, and policy interventions will be uncoordinated, or can conflict.

7.2.4 BASEL REGULATION

The Basel Regulations are a minor but still relevant aspect of the first Research Question. It has been discussed in Section 3.4 that most of the assessed public institutions such as bilateral DFIs, MDBs and ECAs are not bound to apply Basel regulations, despite some taking these regulations (as well as the Solvency regulations for insurance companies) voluntarily into account as part of their capital management frameworks. This is either due to the fact that they are not lending institutions, or because their founding legislation and state-owned nature exempts them. However, exceptions exist.

FMO for example, is one of the bilateral DFIs having to adhere to Basel regulation while other public institutions only strive to apply it on a voluntary basis. The Basel regulation poses a challenge to fulfilling FMO's mandate that is built on the banks' ability to provide long-term capital to clients in developing countries. There can thus be a competitive disadvantage due to regulatory issues.

MDBs are not regulated by national or regional regulatory authorities but usually limit the total amount outstanding of financing including guarantees to the total amount of unimpaired subscribed capital, reserves and retained earnings. They also set high policy limits, for example by setting a minimum coverage of 25%-30% by shareholder equity for sovereign-backed lending and guarantees, or even higher percentages for non-sovereign backed engagements. In addition, policies usually require to maintaining liquidity for 100% of the disbursed amounts of guaranteed obligations.

Many ECAs, on the other hand, are often much more flexible and able to cover substantially higher amounts. ECAs do not have to follow the Basel Regulations. However, the regulations are indirectly via commercial banks also relevant to ECAs and, hence, pose a risk to the future effectiveness of export credits. One example is the current supervisory slotting approach which can be regarded as not being sufficiently sensitive to the risk of an underlying project. The supervisory slotting approach does not fully recognise the guarantees for risk mitigation. For instance, ECA guarantees can only be used as a factor for assigning risk weights to specialised lending exposures, but not as a post-mitigation technique. As a consequence, amended Basel regulations might continue to have negative effects on the attractiveness of ECA cover.

7.3 ADDITIONALITY AND NATIONAL INTEREST

The second Research Question focuses on additionality and national interest. Section 2.3 analysed the principles of public interventions and showed that the concept of additionality is based on the theory of market failure. In addition, the rationale of bilateral DFI support was discussed in Section 4.2 taking into account not only mandates, market complementary and products but also considerations regarding national interest. Section 4.3 analysed MDBs' mandates, strategy products as well as regions and sectors. This part of the Study will answer the second Research Question discussing how development finance institutions avoid crowding out commercial financing, and to what degree national interests play a role in bilateral DFI and MDB strategies and operations, also compared to ECAs.

7.3.1 PRIVATE SECTOR CROWDING IN OR OUT

The theoretical background of additionality refers to the unique inputs (products and services) provided by a public institution to achieve a given objective, by causing a project to occur or to have occurred to a higher standard or level of quality. Inputs are 'additional' in that they complement – and do not substitute for – what other institutions are willing or able to provide. Additionality inputs can be financial or non-financial. As discussed in Section 2.3.2, additionality is a key element of the bilateral DFI concept. This also holds true for multilateral development banks. Additionality is closely related to catalytic and demonstration effects. The latter is generally understood to be the potential for pioneering investments to then be replicated by others. The same applies for MDBs. Their strategic approaches and practical reality are often driven by the idea of additional capital's mobilisation from private-sector sources. Projects can demonstrate the potential for new types of investments, helping open new markets, and leading to further investments by private actors.

Focusing on the analytic dimension in the context of this research, the mandate of the bilateral DFIs assessed in this Study centre on specific SDGs such as green and inclusive growth or poverty reduction. A particular topic is the support of private sector capacities in emerging markets and developing economies. DFI mandates are also often restricted with the requirement to create effective development impact, and a specific commercial objective with regard to profit maximisation does not apply. However, there is also a necessity to show a sustainable financial behaviour with regard to individual transactions and the institutions' portfolio. DFI products are relatively broad as there are equity, loan and guarantee offerings available from the assessed institutions as well as many other DFIs globally. Mezzanine loans/subordinated debts are common, and the majority of European DFIs concentrate on smaller transactions. Assessed Asian DFIs reveal limited transparency on lending criteria, and this particularly holds true for CDB. Looking at regions and sectors, the assessed DFIs have a portfolio covering all major regions and many sectors, although there is a strong focus on African countries. Latin America and Asia play a major role as well, the latter particularly for JICA. Sector priorities and portfolios vary, although infrastructure including energy, financial institutions and agribusiness often play an important role.

The analysis of both quantitative and qualitative data shows that many bilateral DFIs in fact act in a complementary manner to the private market. This applies, in particular, for European development finance institutions. Although no agreed definition on additionality exists, most assessed DFIs direct their capital on transactions where they can provide additionality and behave as catalysts, i.e. supporting transactions in challenging regions and sectors or through products leveraging private sector sources. Commercial banks usually focus on lending operations and prefer large transactions due to transaction costs. Mezzanine loans and subordinated debt offerings are rare, and private market actors often have limited risk appetite in developing markets. However, there is no evidence that this also holds true for Asian and particularly Chinese institutions. The market feedback from banks and exporters is that CDB provides significant support without the need to take into account if there is commercial financing available.

In addition, there is a consistent feedback that the competition between bilateral DFIs becomes more relevant. This is due to the fact that financing commercially viable transactions with significant development impact can be highly competitive between DFIs and MDBs. While there should be no incentive for DFIs to engage in a race-to-the-bottom regarding financing terms and conditions, bilateral DFIs also need to support good deals to ensure a balanced portfolio. As there are currently fewer 'good' deals in terms of acceptable risk and at the same time sufficient liquidity in emerging markets exists, competition for certain deals may arise. A challenge is that no mechanisms exist to regulate competition among bilateral DFIs.

Several aspects discussed above also hold true for MDBs. MDB's mandates usually intend to foster sustainable economic development in the context of SDGs. Additionality and catalyst effects are key concepts, and multilateral development banks would rarely find themselves competing with commercial banks or private insurers due higher pricing and a focus on longer maturities in challenging markets and industries. In fact, MDB's strategic objectives incorporate elements of private sector advancement and regional integration. Similar to bilateral DFIs, multilateral development banks provide a broad range of financial and non-financial services for both sovereign and non-sovereign clients. Financial products for sovereigns include grants, public sector loans and concessional loans. Non-sovereign offerings are usually equity, private sector loans, mezzanine financing, blended finance, capital market solutions, trade finance solutions or guarantees. Further examples are efforts of DFIs and MDBs to make transactions more bankable, for example through project preparation facilities. Geographies and sectors vary depending on global or regional mandates or industry focus, for example infrastructure projects at AIIB.

Looking at the competitive environment between ECAs, bilateral DFIs and MDBs, interviewees consistently raised the issue of pricing models and how this can lead to different pricing levels. Most DFIs and MDBs noted that ECAs' regulatory framework and financial structures can allow lower pricing than what DFIs and MDBs wish or are able to offer. Some ECAs have less sophisticated pricing models than assessed European DFIs and MDBs, for example not applying economic capital models and risk-adjusted return on capital calculations.

Finally, another trend is the use of blended finance. In addition to complementary tools in private sector financing discussed above, some DFIs and MDBs consider blended finance as a critical tool to mitigate project risk or early-entrant costs. IFC's concessional funds in the form of blended finance, for example, are a tool to demonstrate viability in climate finance transactions then opening the door for financing on fully commercial terms. Blended finance has also become a new focus for bilateral DFIs.

7.3.2 NATIONAL INTEREST

Trade liberalisation continues to contribute to global wealth creation, and the expansion of the multilateral trading system shaped by the WTO is still effective in many cases. However, the importance of 'national interest' or 'national content' considerations on a policy level is on the rise in numerous countries. National trade promotion approaches grow outside existing multilateral frameworks. Policymakers increasingly remove existing regional or multilateral trade strategies, and nationalism occupies a growing role in trade governance. Drivers include different policy preferences affected by interest configuration centring on populism, defensive motives with economies experiencing limitations to economic growth, and the increase of lobbying by companies towards their national government to bolster their competitive position.

National interest or national content definitions vary with regard to the different institutions. Providing equity, loans or guarantees and insurance can be completely untied to domestic companies' activities and might only focus on the developing economy where the project is conducted. This is a typical approach for bilateral DFIs. On the other hand, national content or a substantial national interest can be a core requirement for support, and ECAs traditionally have linked their support for exports with national content requirements. MDBs do not apply national interest criteria but often focus on regional development goals.

As discussed in Section 5.2.2, several bilateral DFIs identified national companies as a more important client segment. If they do not already have the dual mandate to support domestic businesses, they are increasingly driven by their government to demonstrate positive impact on the domestic economy. There is a global trend of bilateral institutions to develop financial products and services enabling domestic firms to increase their footprint in emerging markets and developing economies. For example, DEG seeks to support German corporates through equity and loans, and JICA launched a new programme supporting Japanese SMEs regarding their overseas activities. The same applies for FMO in the Netherlands, as the DFI plays a central role in assisting Dutch companies investing in emerging markets. CDB supports projects with a national strategic value. In addition, the national interest approach in China is most obvious when looking at the strategic priorities: CDB's strategy is geared toward support of China's social and economic development in addition to engagement in low-income and least developed countries.

Answering the second part of Research Question two, national interests play an increasing role for bilateral development finance institutions. The majority of DFIs continues to provide untied financing, i.e. supporting transactions which are not contractually tied to procurement from their own country. However, the combination of value creation for the domestic economy with the generation of impact in developing countries is increasingly required due to requests from the respective national government. Although national interest remains secondary to the development mandate, it has ascended to strategic level and a win-win between development and national interests is a political wish for many governments now.

ECAs, on the other hand, usually focus on national interest or national content. Countries such as Japan and Germany have a minimum amount of domestic content required to qualify for cover. Sinosure usually asks for Chinese content of at least 60% of the contract value with a reduction to 40% in ship finance. However, more and more ECAs are changing their approach away from a focus on domestic production but at a more broadly defined national interest. The reason is that governments accept that it can be difficult for national businesses to provide evidence for value creation in the domestic economy in times of global supply chains. As a consequence, there is an increasing number of institutions taking cover decisions or providing loans based on R&D activities or know-how created, sometimes without considering where the goods delivered were manufactured. The strategy and policy approach of bilateral DFIs and ECAs thus converge in some respects.

7.4 COMPETITION AND LEVEL PLAYING FIELD

The third Research Question looks at competition between bilateral development finance institutions, multilateral development banks and export credit agencies. This Section also focuses on the level playing field for exporters. As discussed in Chapter Five, there are different mandates or characteristics when comparing DFIs, MDBs and ECAs. ECAs have been founded to support domestic businesses to engage in international trade, and job creation in the national economy often plays a key role. Bilateral DFIs typically focus on specific development impacts, and MDBs are more broadly directed at regional development and integration. However, trade aspects can play a major role not only for ECAs but also for DFIs and MDBs. In addition, there is a growing convergence among the three types of institutions which can lead to competition and the challenge of maintaining a level playing field for exporters.

7.4.1 COMPETITION

Competition is a core aspect of free market economies, and competitive behaviour refers to the degree to which organisations actively compete with each other. Perfect competition can exist when products are homogeneous and there are sufficient buyers and sellers that market prices cannot be influenced by altering the product quantity. However, public interventions are not intended to provide competitive offerings but to address market failure and specific policy goals. In general, bilateral DFIs, MDBs and most ECAs are required by their mandates to be complementary to the private sector. As discussed in Section 2.1.3, they usually also follow different objectives concentrating on development finance or export finance support. However, significant competition can exist on policy level, and there is competition and overlaps between financing instruments both from an international and an institutional perspective as further explored in the following sections.

7.4.1.1 Policy Level

Focusing on the policy level, some countries follow a very strategic approach regarding public interventions while others apply the role of a lender or insurer of last resort. The last resort model is one in which government instruments relate to the private sector sources of financing, rather than consider what other related instruments do. For example, USEXIM and OPIC can be involved in similar transactions, for different reasons, but with a very different structure, approach and pricing, as USEXIM adopts the last resort philosophy.

On the other hand, Japan has focused on the economic revitalisation with the so-called 'Abenomics' consisting not only on monetary policy and flexible fiscal policy, but also export expansion. The government unveiled a comprehensive policy package to support the Japanese economy, for instance in the field of infrastructure exports with a 'one-voice in a united front' approach. Lobbying of Japanese infrastructure support is the first pillar of government activities. In addition, government support led not only to signings of memorandums of understanding but also concrete contracts. Consortium formation is a further aspect of government support. Looking at development finance and export credit offerings, accompanying financial support for export-related government activities is a major objective for JBIC with a wide range of product offerings. JICA's finance and investment activities are often embedded combining both ODA and grant financing as well as technical cooperation. In a coherent approach, Japanese government agencies also improved structures and processes for collaboration.

The same applies for other Asian countries such as China or South Korea. Economic growth and industrial development have been considerably supported by a targeted Korean industrial strategy, and participation in large-scale infrastructure projects is a crucial part. Lobbying for strategic industries such as infrastructure has been a priority in recent years, and state-owned agencies providing financing and insurance play a key role already in lobbying exports. A main policy tool for project generation and consortium formation is the Korea Consulting Center for Overseas Infrastructure & Plant Projects with members such as Korea Development Bank, KEXIM and K-Sure. Looking at the financing perspective, there is an obvious overlap within KEXIM's threefold mandate: As ECA it facilitates export transactions and supports overseas investments. In addition, KEXIM administers the Economic Development Cooperation Fund mobilising developing finance for large-scale infrastructure projects. Furthermore, it executes the Inter-Korean Cooperation Fund serving as a clearing settlement bank.

Focusing on the third Research Question, the analysis shows that there is growing competition between public financing vehicles due to a growing competition between countries strategically using these financing vehicles. Lobbying activities for exports have been significantly extended by many governments, and some countries are extensively using visits of their presidents or prime ministers for business purposes, as well as for project opportunity generation and consortium formation. Looking at the particular focus of this Study, this competition includes a strategic use of development finance and export finance institutions for economic policy including industrial strategies or trade policy.

7.4.1.2 International Competition between Financing Instruments

The competitive aspect of finance is at the heart of ECAs because national economies and their respective businesses are in competition with each other. As such, OECD ECAs have formulated the OECD framework to regulate competition in line with economic theory avoiding market distortion to achieve an overall better outcome for economies. The foundation of DFIs is different to ECAs as they do not talk about competition but are mainly built on the understanding that they need to do more to strengthen the private sector in developing countries. For DFIs, it is thus mainly about filling financing gaps. However, the research results also indicate that competitive aspects are increasing on a bilateral DFI level.

As discussed above, the world of bilateral DFIs, MDBs and ECAs has changed considerably in response to new challenges of the global economic environment and financial markets in recent years. Public financing vehicles around the globe have expanded their product offering including equity, mezzanine financing, direct lending, working capital facilities, as well as insurance and guarantees. Other institutions took steps to substantially increase their risk appetite, supporting particularly infrastructure projects in emerging markets and developing economies.

One example for a more competitive behaviour on an international level is the approach of using benchmarking studies as a strategic tool. An increasing number of DFIs and ECAs systematically assess the demand for development finance, export financing or credit insurance. Some institutions also analyse the coherence of development finance and foreign trade support. Benchmarking analyses look at enablers and results assessing input, output, outcome and impact, for example with regard to foundations and governance, products and services, as well as business, customer and economic results. Bilateral DFIs and ECAs also increasingly look at amended approaches or innovative actions for improved government financing support.

However, there is not only competition between bilateral DFIs, MDBs and ECAs, the research results also show that there is growing collaboration between development finance institutions and export credit agencies on a global level. As mentioned above, three main forms can be identified. One form displayed within each group is cooperation at the transaction level in the form of syndication, coinsurance or reinsurance. A second form is policy development, knowledge or information sharing. The third form is designing or offering a new or improved service or product by leveraging the cooperation partners' respective strength. Although cooperation mostly occurs within the DFI environment or between ECAs, other examples exist as well: Bilateral DFIs and MDBs work together in the form of co-financing as well as policy development and knowledge exchange. Some bilateral DFIs and MDBs also seek ECA insurance for eligible transactions to free up their balance sheets. Examples are climate finance projects financed by EIB and insured by EKF, or the cooperation between FMO and ADSB.

7.4.1.3 Institutional Competition between bilateral DFIs, MDBs and ECAs

An overlap between mandates, target groups and products of two or more public institutions within a country usually leads to less efficiency. It is also the intention of most governments that regulatory frameworks or policy objectives prevent competition between government financing vehicles. However, the research shows that there is a significant overlap with regard to the assessed institutions on a national level.

As mentioned in Section 5.2., there is a growing convergence between bilateral DFIs, MDBs and ECAs to promote and track sustainable development goals including, for instance, financing and guaranteeing projects supporting a low-carbon and climate-resilient economy. These commitments are usually a primary policy objective for development finance activities while covering SDG aspects is currently more a win-win than a driving agenda for most export credit agencies. However, alignment with SDGs is an emerging topic for many ECAs.

The research results also show that the different institutions have a similar product offering. Equity, for example, is a core product for bilateral DFIs and is sometimes linked with national interest considerations. Equity is a core product for MDBs as well, and although many ECAs today do not provide equity, it is an emerging product also associated with national interest. Private sector loans are a focus area of bilateral European DFIs with various forms of financing. FMO and CDB specifically offer export loans. Private sector loans are also a core product for MDBs, and various forms are available as well. The same applies for ECAs where private sector loans are a key product from lending agencies. A third example is the insurance and guarantee offering. Although guarantees are less relevant regarding the share of the portfolio for most DFIs and MDBs, guarantees are standard product offerings, sometimes even with a trade finance aspect involved. Partial credit guarantees are the most common form when looking at MDB financing solutions. Insurance and guarantees are the main products of most ECAs, and various forms of insurance and guarantees are available.

Competition can also take place because of main geographic overlaps between all three types of institutions. For example, due to the significant infrastructure investment gaps in emerging markets and developing economies, bilateral DFIs, MDBs and ECA are often involved when it comes to financing or insuring large infrastructure transactions. There are also several other sectors in which bilateral development finance institutions, multilateral development banks and export credit agencies are active.

However, the assessment also shows that the competitive aspect among OECD countries has so far not been a practical problem. As mentioned in the first Case Study of this Report, ECA offerings, for instance, can compete with MDB and DFI offerings to a certain extent in energy transactions, and the MDB can take over traditional functions of export credit agencies by providing risk mitigation instruments such as debt guarantees and political risk insurance. However, there is evidence that exporters mostly prefer ECAs offerings when looking at product quality and policy complexity, as well as application and approval processes for financing and insurance support. Pricing is an additional or even a key driver, and ECAs are usually or mostly less expensive than bilateral DFIs. This result, however, only holds true for European DFIs as data availability for Asian institutions was limited particularly with regard to CDB.

7.4.2 LEVEL PLAYING FIELD

The level playing field is mainly driven by the OECD Arrangement. As discussed above, the intention is to secure a framework for the orderly use of financing support. The Arrangement seeks to foster a level playing field among the OECD participants and other nations for official export credit support allowing them to compete on quality and price and not financial terms and conditions provided by their respective government. The Arrangement has successfully prevented OECD member states from entering a subsidy race through common standards for minimum interest rates and risk premiums as well as maximum maturities.

Looking at the second part of the third Research Question, it has been mentioned that the most important challenge is the significant rise of non-OECD institutions in terms of numbers, financing volumes and market power with strategic approaches including wide mandates and broad product offerings. The relevance of the Arrangement seems to be limited today. When it was first established four decades ago, global industrial exports were mainly stemming from a concentrated and relatively small number of highly-industrialised economies. Now, exporters from emerging markets and developing economies have become serious competitors not only in low value-added products, but also in capital goods. They receive substantial support from a competitive system of state-run financing programmes and insurance schemes.

This shift is less of a problem for large and experienced exporters. Multinational companies can source from different sites in different countries or continents using products from national export credit agencies in the respective OECD or non-OECD country. These large exporters are often important clients for several ECAs with significant knowledge how the different products and policies work. Large and experienced exporters are also able to benefit from financing and guarantees from bilateral development finance institutions or multilateral development banks. This is due to the fact that their financing departments have the necessary expertise to structure complex cross-border transactions with multiple stakeholders.

On the other hand, small and medium-sized exporters are less able to benefit from this global environment. If national content or national interest rules apply, small exporters will not comply with the requirements from the respective ECA. It is also difficult for small or medium-sized firms to develop or keep significant experience in using development finance or export finance. These firms usually do not have specialized staff for export transactions. Despite competitive goods and services, these exporters might become less attractive business partners. As a consequence, an un-level playing field not only undermines the existing Arrangement but also distorts global trade and competition.

ANNEXES

ANNEX A: SCOPE OF RESEARCH

"Quantitative and Qualitative Research Study on the Convergence of Development and Export Finance"

1) Objective and Purpose of the Study

Background
International Financial Consulting Ltd. has been active in the field of development and export finance since early 2000. Through its engagements and successfully accomplished projects and studies, IFCL gathered a broad and deep understanding of the different financing and risk mitigation instruments applied by Development Finance Institutions and Export Credit Agencies around the globe. Our research partner, the Institute for Trade and Innovation (IfTI) at Offenburg University, complements our experience by leveraging strategic policy initiatives and practitioner-led research. IfTI members have a reputation for their methodologies and methods as well as their unparalleled experience in innovation, trade policy as well as export and development finance.

Since the global financial crisis, official export as well as development finance have evolved rapidly to meet financing gaps and spur the economic recovery and development. Some of the main drivers of today's **export and development finance landscape** are:

Export finance drivers	Development finance drivers
Widespread political shift towards protectionism	Focus on trade as a key driver of economic development and growth
Suspected negative impact on risk appetite for long-term financing due to Basel banking regulation	Political will to mobilize private sector finance towards SDGs
Demand for more accountability and good governance in ECAs	Pressure to honour global political commitments (i.e. SDGs, AAAA, Paris Declaration)
Introduction of highly innovative ECA-instruments and a trend towards direct lending	High liquidity and risk appetite manifested by development finance institutions
Exponential growth of Chinese financing to implement aggressive national strategies	Unregulated and limited transparency, but facing increasing demand for accountability and data

Objective of the Study
Based on our profound experience in the development and export finance spheres and the described recent trends and developments, IFCL supported by the Institute for Trade and Innovation seeks to conduct a quantitative and qualitative study on the convergence of development and export finance.

The study is guided by the following research questions:

1. *To what extent do development finance institutions and export credit agencies compete with each other? How safe is the level playing field for exporters?*
2. *How do development finance institutions and export credit agencies avoid crowding out commercial financing, and to what degree do national interests play a role?*
3. *What regulations do ECAs and DFIs have to follow? In the face of the stated developments, will the OECD Arrangement continue to be relevant?*

2) Scope of Work

Our work under this research study will be structured along the following phases:

Initial Phase
In consultation and agreement with the participating bidders, we will identify up to ten Multilateral and Bilateral Development Finance Institutions (i.e. AIIB, EIB, IADB, FMO, OPIC, IFC, Proparco, etc.) as well as up to five OECD and Non-OECD Export Credit Agencies and/or Exim-Banks. Guided by the research questions, we will conduct an initial desk research and collect available quantitative data from the identified development and export finance institutions. Based on the researched information, we will map the identified institutions and assess and compare their

- Mandates and strategies,
- Regulatory frameworks (i.e. environment, transparency, bribery), and
- Products and markets.

As an interim result, we will compile a kick-off report highlighting our initial findings with regard to the research questions. We will also draw up a detailed outline of the research report.

The initial phase is estimated to take three weeks.

Data and Analysis Phase
For the purpose of generating a wholistic understanding of the differences and similarities of ECA and DFI financing, we will apply a Case Study approach for our detailed analysis. Thereby, we seek to explore drivers for MDB, DFI and/or ECA involvement in transactions, and analyse the changing landscape within a transactional context. Together with the participating bidders, we will identify three suitable transactions that reflect perspectives from both exporters and importers.

To identify the transactions, we will draw on our existing networks as well as the networks and provided information from study participants. We will then investigate the three identified transactions in-depth and complement the Case Study analysis by telephone interviews with transactional stakeholders such as exporters, importers, commercial banks, DFIs and ECAs. This way, we will explore and gather evidence on factors influencing the use of DFI and ECA financing. As a result, we will present the transactions as comprehensive case studies, analyzing the research questions (i.e. overlapping mandates, opportunities for collaboration, aspects of competition) from a transaction perspective.

Following the initial phase, we will also request additional primary data from the analyzed institutions, develop interview guidelines and conduct in-depth interviews with key DFIs, MDBs and ECAs for complementary qualitative data, taking into account both the policy and transaction perspectives.

The data and analysis phase is estimated to take eight weeks, depending on the availability of interview partners.

Concluding Phase
In the concluding phase, we will present our key results to the participating bidders and agree on a final approach to the research study. We will then compile our analysis and draft the research report. The draft report is shared for comments and feedback with study participants and selected stakeholders. After finalizing the independent study, we will formally present and share the study results with the participants and selected stakeholders.

The concluding phase is estimated to take six weeks, depending on the availability of interview partners.

3) Specific Inputs by the Participants

The participants of the study will:

- Ensure timely review of reports submitted and facilitate the provision of feedback within two weeks of receipt of reports,
- Initiate the consultation and co-operation of relevant stakeholders required to provide support for realization of the relevant aspects of the research study, and
- Provide access to relevant existing information.

4) Expected Results of the Research Study

The expected results of the study include the following deliverables

- **Kick-off report** in English including:
    - Full scope of independent study,
    - Analytical approach, and
    - Study structure.

- **Final report** in English including:
    - Introduction to study,
    - Background and MDB/DFI/ECA environment, definition of relevant financing instruments and explanation of analytical framework,
    - Analysis of (i) export and development finance ecosystem, (ii) strategies of key DFIs and ECAs, (iii) ECA/DFI comparison of regulatory frameworks, mandates, and financing instruments as well as (iv) transactional evidence provided by the participating institutions,
    - Three comprehensive case studies assessing motivations and circumstances for using DFI, MDB and/or ECA financing from the perspectives of importers as well as exporters, and
    - Analysis and summary of findings with regard to research questions.

- **Presentation** in English
    - Presentation of results to participating bidders.

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ADB

Asian Development Bank

FOUNDED: 1966 HEADQUARTERS: MANILA, PHILIPPINES

Mandate

Promoting economic growth and cooperation in Asia and the Far East and contribution to the acceleration of the process of economic development of the developing member countries in the region, collectively and individually.

Strategy

Vision:

Prosperous, inclusive, resilient, sustainable Asia and the Pacific by achieving global commitments and promoting sustainable development

Guiding Principles:

- Using a country-focused approach, promoting innovative technology, and providing integrated solutions

Major Initiatives

- Addressing remaining poverty and reducing inequalities
- Accelerating progress in gender equality
- Tacking climate change
- Making cites more liveable
- Rural development and food security
- Strengthening governance and institutional capacity
- Fostering regional cooperation and integration

Shareholders: 67

48 member countries; 19 non-member countries

Top Shareholders

Member	Subscribed capital (% or total)	Voting Power (% of total)
Australia	5.786	4.928
Japan	15.607	12.784
China	6.444	5.454
India	6.331	5.363
USA	15.607	12.784

Capital

SUBSCRIBED
USD 151.2 billion

PAID-IN
USD 7 billion

RESERVES
USD 43.3 billion

Employees

3,134

Credit Rating: AAA

Financial Resources

Shareholder capital, bond issuance, borrowing, investments (liquidity portfolio), retained earnings and replenishments (Asian Development Fund, AsDF).

Modalities

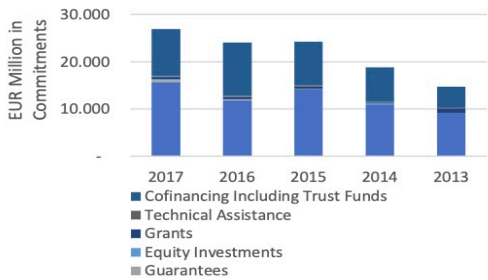
Ordinary capital resources, Asian Development Fund Resources, Special Funds Resources

Operations

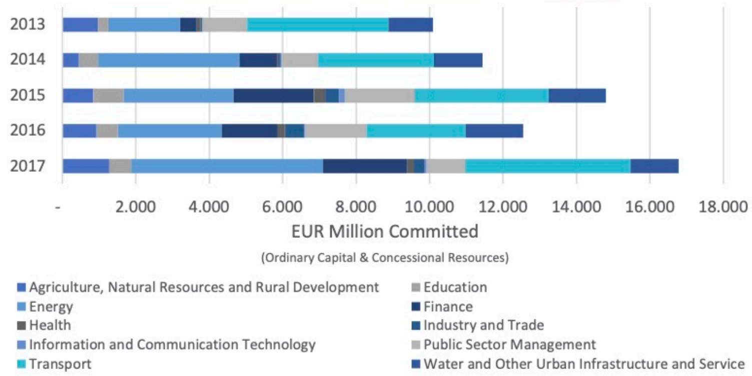
Eligibility criteria

- Recipients must be a 'developing member country' (DMC)
- Criteria for graduation from concessional assistance is based on the following criteria:
  - GNI per capita (same as IDA; above $1,165 in FY18)
  - positive creditworthiness assessment.
- Criteria for graduation from non-concessional assistance:
  - GNI per capita (uses world bank's GNI per capita estimates; above $6,895 for FY18);
  - availability of commercial capital flows on reasonable terms;
  - attainment of a certain level of development by key economic and social institutions.

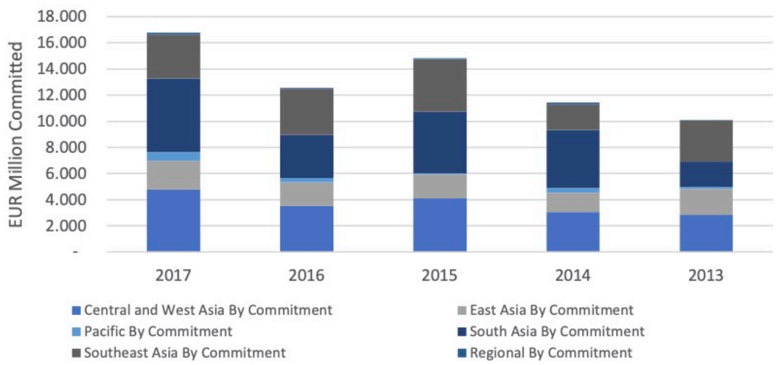
Instruments



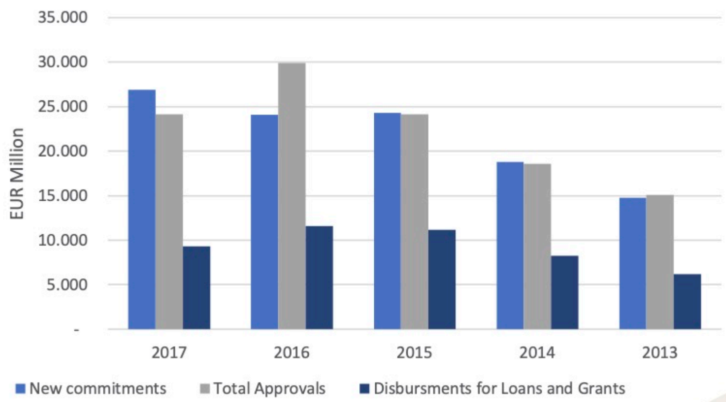
Sector priorities



Geographic focus



Financing operations



NATIONAL INTEREST

Member-country restrictions apply for procurement opportunities except in the case of co-financed operations or when waived on a case-by-case basis by the ADB board.

ENVIRONMENTAL AND SOCIAL GOVERNANCE

ADB is governed by its Safeguard Policy and consists of the categories "Environment", "Involuntary resettlement" and "Indigenous Peoples".

DEVELOPMENT IMPACT

ADB's Development Impact Framework includes Development Effectiveness Reviews which contains a scorecard of KPIs for both its and the Asia Development Fund's contributions to development results. This is grouped by sectors (energy, transport, water, finance, education, and regional cooperation and integration). ADB supports the SDGs, spreadings its disbursements relatively across the different SDGs.

AIIB

Asian Infrastructure Investment Bank

FOUNDED: 2015 HEADQUARTERS: BEIJING, CHINA

Mandate

Sustainable economic development, wealth creation and improvement of infrastructure connectivity in Asia, and promotion of regional cooperation and partnership in addressing development challenges.

Strategy

- Sustainable Infrastructure: promoting green infrastructure and supporting countries to meet their environmental and development goals.
- Cross-country connectivity: prioritizing cross-border infrastructure
- Private Capital Mobilization: devising innovative solutions that catalyze private capital, in partnership with other MDBs, governments, private financiers and other partners.

Major Initiatives

- Co-financing, especially with the World Bank and Asian Development Bank
- Provision of grants to finance technical assistance needed for project preparation under the AIIB Special Fund for Project Preparation
- Cooperation with other multilateral development banks, bilateral agencies and the private sector operating in Asia on sustainable energy projects
- Financing for sustainable cities and transport sector across Asia

Shareholders: 93

Top Shareholders

Member	Subscribed capital (% or total)	Voting Power (% of total)
China	29,780.4	27
India	8,367.3	7.75
Russia	6,536.2	6.11
Germany	4,484.2	4.27
Korea	3,738.8	3.6

Capital

SUBSCRIBED
USD 90.32 billion

PAID-IN
USD 18.07 billion

Employees
79

Credit Rating: AAA

Financial Resources

- Shareholders
- Borrowing
- Chinese capital market

Modalities

Co-financing, PPPs (proposed), Ordinary capital resources

Operations

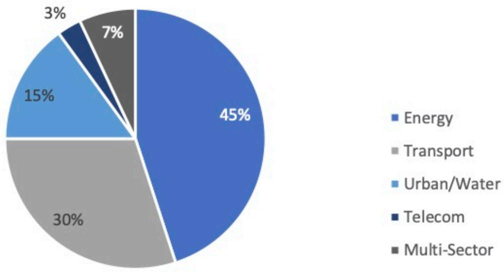
Eligibility criteria

- In its Articles of Agreement, eligibility to borrowing is open to any agency, instrumentality or political subdivision thereof, or any entity or enterprise operating in the territory of a member, as well as to international or regional agencies or entities concerned with economic development of the region;
- A recipient must comply with the Bank's environmental and social policy and standards.

Instruments

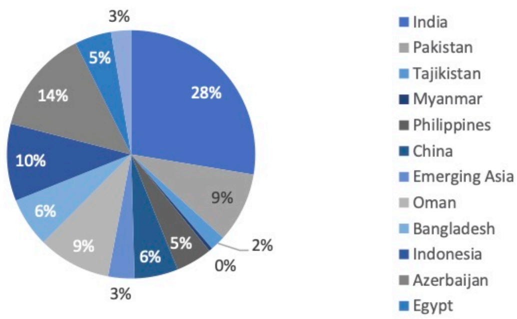
- Sovereign loans;
- Non-sovereign backed financing;
- Equity Investments;
- Guarantees.

Sector priorities



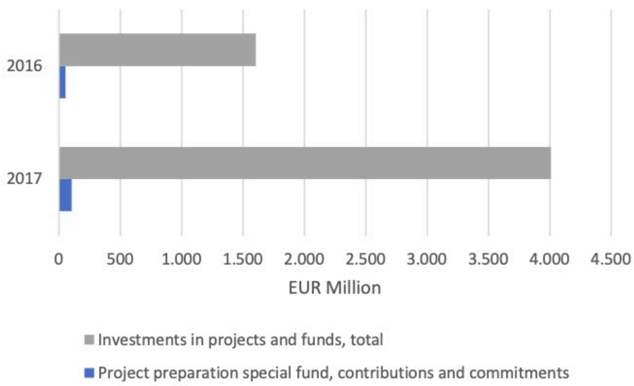
Approved projects by sector since inception

Geographic focus



Percentage of loans approved since inception

Financing operations



NATIONAL INTEREST

There is unconditional procurement eligibility with regards to non-member countries.

ENVIRONMENTAL AND SOCIAL GOVERNANCE

AIIB has an Environmental and Social (E&S) Framework in place. The framework is the basis for AIIB's E&S policy and standards relating to: environmental and social assessment and management, involuntary resettlement, and indigenous people.

DEVELOPMENT IMPACT

As yet, there are only results indicators for individual approved projects. No overall development effectiveness framework exists.

CDB

China Development Bank

FOUNDED: 1994 HEADQUARTERS: BEIJING, CHINA

Mandate

Enhancing national competitiveness and improving people's livelihood

Strategy

- Vision: building a world-class DFI to provide sustained support for economic and social development.
- Alignment with Chinese major medium- and long-term development strategies to support strategic emerging industries, new urbanization, balanced regional development, and green financing.
- Key focus: defusing financial risks, pursuing targeted poverty alleviation, and preventing and controlling pollution.

Major Initiatives

- Supporting national strategies and construction initiatives in key sectors;
- Social housing and urbanization;
- Supporting the One Belt, One Road initiative;
- Moving into green finance - issued international green bond in 2017, and has set targets in energy saving, industrial sectors, and in green development.

Shareholders:

- Ministry of Finance – **36.54%**
- Central Huijin Investment Ltd – **34.68%**
- Buttonwood Investment Holding Company Ltd. – **27.19%**
- National Council for Social Security Fund – **1.59%**

Capital

REGISTERED
RMB 421.248 billion

Credit Rating: A+

Financial Resources

Debt securities, loans and advances.

Employees

9,147

Modalities

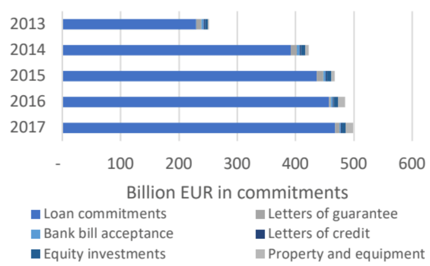
Wholesale lending, bond issuing, subsidiaries, special funds (e.g. China-Africa Fund)

Operations

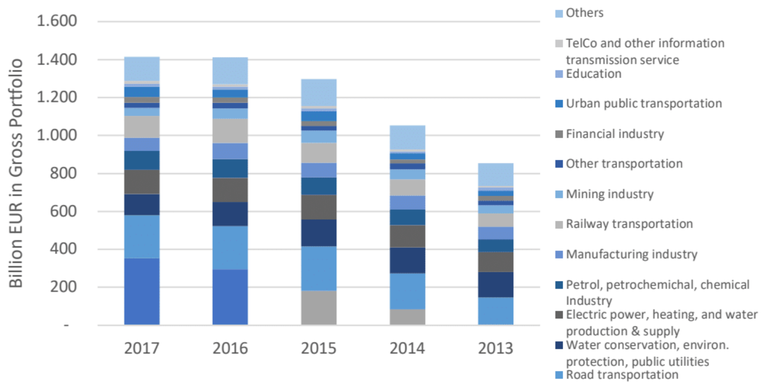
Eligibility criteria

- Alignment with Government policies and regulatory requirements in China
- Consideration of international standards and conventions

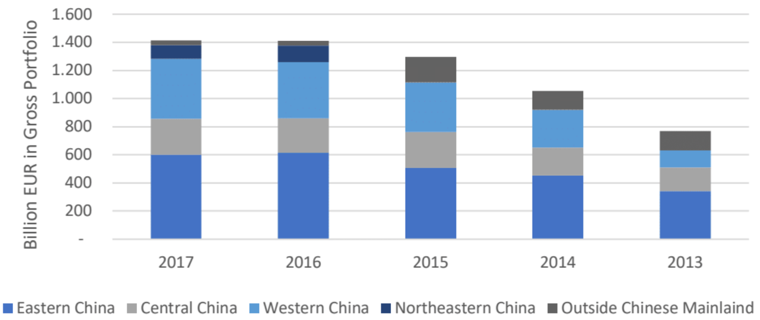
Instruments



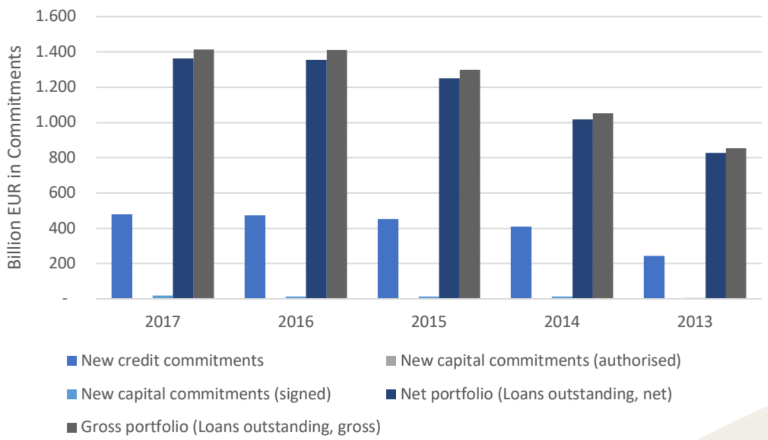
Sector priorities



Geographic focus



Financing operations



NATIONAL INTEREST

Specific national interest criteria are not publicized, rather CDB's Cultural Manual indicates that it "ensures value preservation and appreciation for state-owned assets while promoting common growth and prosperity through cooperation with other countries."

CDB has an Environment and Social Safeguards policy in place. In 2017 CDB celebrated the Tenth-Anniversary of its Sustainability Report which highlights its achievements in promoting the sustainable economic, social and environment development.

DEVELOPMENT IMPACT

CDB seeks to serve the Chinese Government's national development strategy, mainly engaging in medium- and long-term investment and financing projects in China. Information on the existence or use of a Development Impact Framework is not publicly available.

DEG

Deutsche Investitions und Entwicklungsgesellschaft

FOUNDED: 1962 HEADQUARTERS: COLOGNE, GERMANY

Mandate

Private sector promotion with the aim of contributing to development in poorer countries and to improved living conditions of the people.

Strategy

Three strategic goals:

1. Sustainable return,
2. Developmental impact, and;
3. German business.

Major Initiatives

- Development Partnerships with the Private Sector, including develoPPP.de, “Up-Scaling” and the establishment of “German Desks”
- Climate Partnerships with the Private Sector
- Business Support Services Programme

Shareholders: KfW – 100%

Capital

SUBSCRIBED
USD 750 billion

PAID-IN
USD 750 billion

RESERVES
USD 1,618 billion

Employees

570

Credit Rating: AAA

Financial Resources

- Debt capital from KfW in the form of borrowers’ notes and overnight loans.
- Investments

Modalities

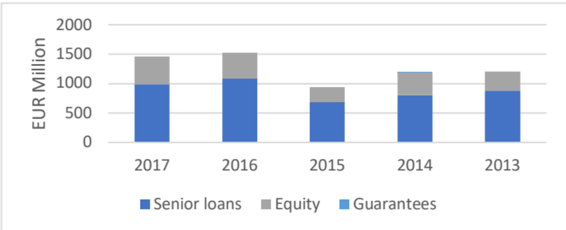
Loans, guarantees, loans with equity features and participating interests.

Operations

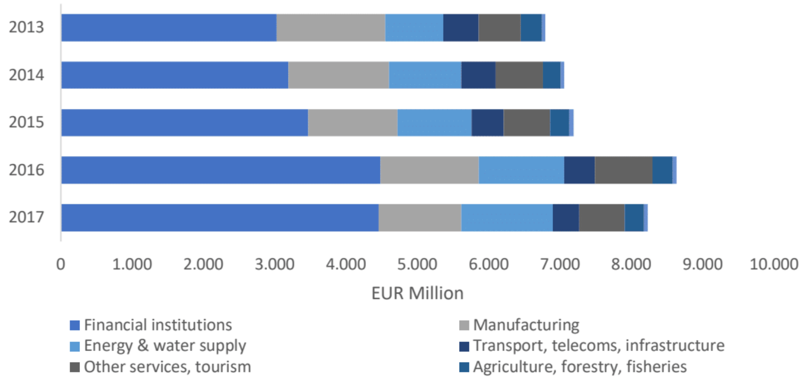
Eligibility criteria

- Collateral (fixed for long-term corporate loans, subordinated for Mezzanine finance)
- Compliance with ESG criteria

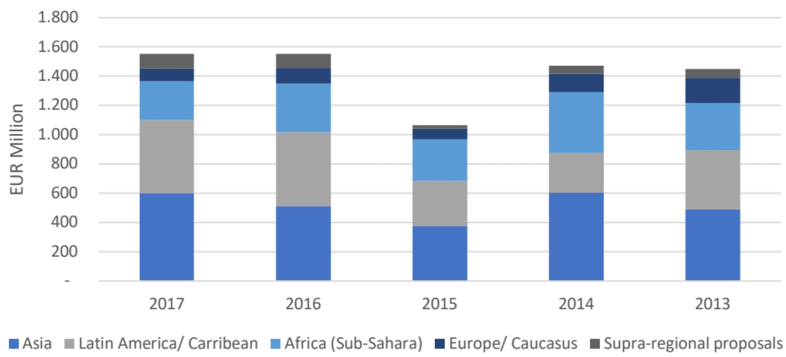
Instruments



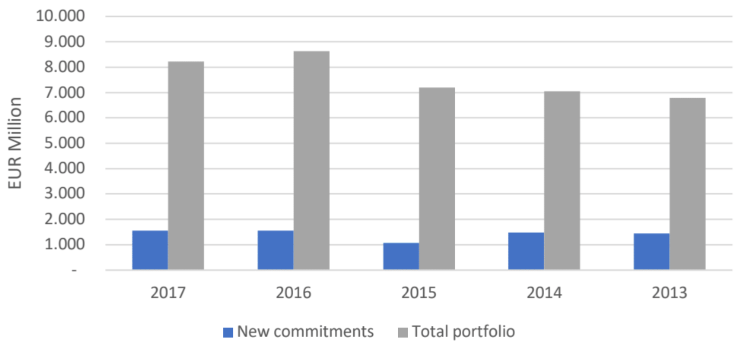
Sector priorities



Geographic focus



Financing operations



NATIONAL INTEREST

German corporates are one of DEG's main customer groups. In 2017 it made EUR 436.1 million in equity finance available to them.

ENVIRONMENTAL AND SOCIAL GOVERNANCE

DEG observes: IFC Performance Standards (standard for the private sector); the "Environmental, Health and Safety Guidelines" of the World Bank Group; and the conventions of the International Labour Organization (ILO). It also adheres to the KfW Group's policy of carbon-neutral operations.

DEVELOPMENT IMPACT

DEG applies its Development Effectiveness Rating (DERa) system and seeks to align with the SDGs. Each customer's contributions to development are assessed across five impact categories: good and fair employment, local income, development of markets and sectors, environmentally sound operations, benefit to local communities.

EDC

Export Development Canada

FOUNDED: 1966 HEADQUARTERS: OTTAWA, CANADA

Mandate

Support and develop, directly or indirectly, Canada's export trade and Canadian capacity to engage in that trade, as well as respond to international business opportunities.

Strategy

- Vision: EDC is the leader in helping every Canadian company go, grow and succeed internationally
- Key strategic objectives:
  - Build greater awareness among Canadian companies of EDC's solutions
  - Anticipate the needs of Canadian companies with a range of financial solutions that will launch — and then accelerate — their ability to grow internationally.
  - Expand opportunities for Canadian companies to succeed internationally

Major Initiatives

- Trade facilitation: responding to the needs of exporters of all sizes and types for credit and risk management expertise to underpin the ongoing flow of export transactions
- Originate or "create" new Canadian trade opportunities by developing relationships with creditworthy foreign buyers

Shareholders: 100% Government of Canada

Capital

TOTAL
CAD 10.4 billion

Credit Rating: AAA

Financial Resources

- Capital injections from the government of Canada
- Investments and portfolio returns

Employees

1,482

Modalities

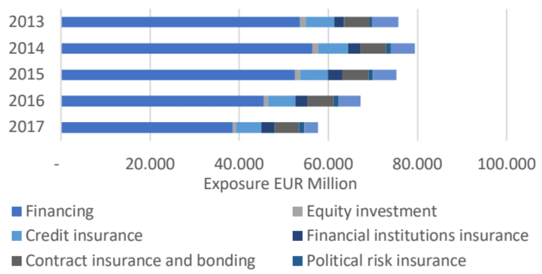
Direct financing, credit and political risk insurance, guarantees (financing and insurance), investment in funds

Operations

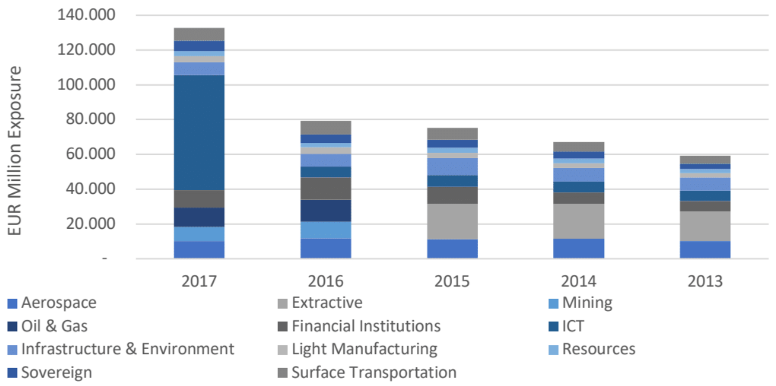
Eligibility criteria

- Not publicly available.

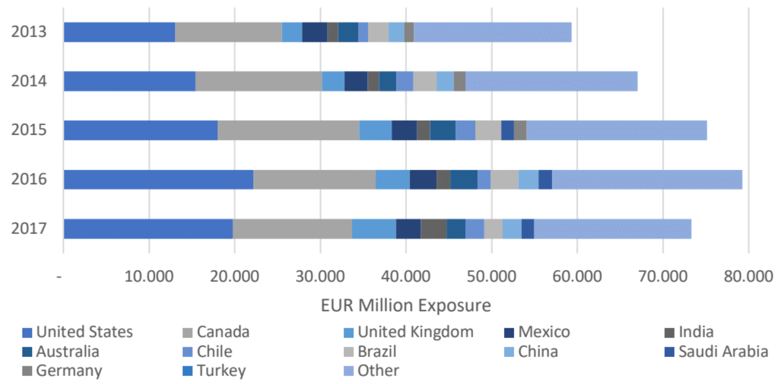
Instruments



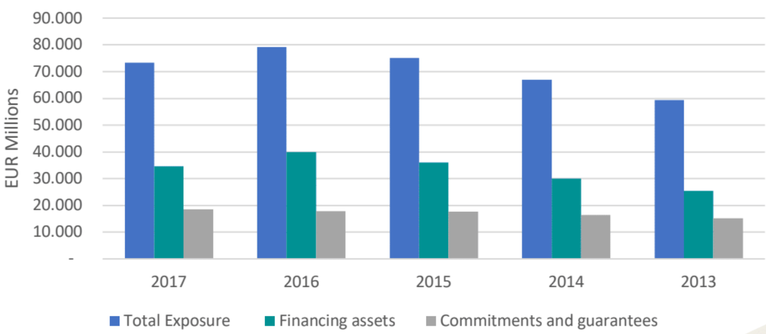
Sector priorities



Geographic focus



Financing operations



NATIONAL INTEREST

EDC is expected to support Canadian exports and direct investment abroad, with related positive impacts on economic output and jobs. EDC developed an elaborate methodology to determine 'Canadian benefits' derived of its insurance and financing activities.

ENVIRONMENTAL AND SOCIAL GOVERNANCE

EDC's environmental and social risk management framework integrates its statutory obligations and various international commitments (OECD Common Approaches, Equator Principles). EDC's ESG polity commits it to actively promoting best practices and assessing and considering ESG risks in throughout the transaction lifecycle.

DEVELOPMENT IMPACT

EDC is expected to support Canadian exports and direct investment abroad, with resulting positive impacts on economic output and jobs. A Canadian Benefits framework exists.

EIB

European Investment Bank

FOUNDED: 1958 HEADQUARTERS: LUXEMBOURG, LUXEMBOURG

Mandate

Contribution to the balanced and steady development of the common market in the interest of the Community.

Strategy

- Strengthening new lending and advisory services;
- Financial sustainability;
- Impact and additionality;
- Building on people and organizational responsiveness.

Major Initiatives

- Committed to the SDGs and therefore focused on innovation and skills, small and medium enterprises, infrastructure, environment and climate;
- A EUR 21 billion guarantee programme, the European Fund for Strategic Investments (EFSI);
- Provision of blended finance to increase impact;
- Advisory services.

Shareholders: 28

Membership is restricted to EU member countries

Top Shareholders

Member	Amount (EUR)	Voting Power (% of total)
Germany	39,195,022,000	16.1
France	39,195,022,000	16.1
Italy	39,195,022,000	16.1
UK	39,195,022,000	16.1
Spain	23,517,013,500	9.7

Capital

SUBSCRIBED
USD 256.45 billion

PAID-IN
USD 22.87 billion

RESERVES
USD 43.88 billion

Employees

3,081

Credit Rating: AAA

Financial Resources

- Shareholder capital
- Bond issuance
- Borrowing
- Derivatives
- Retained earnings

Operations

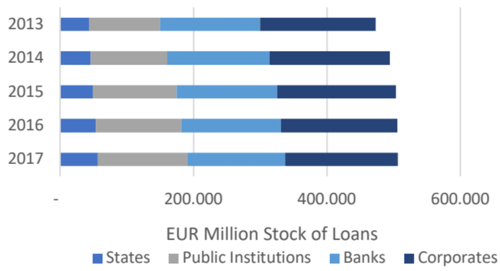
Eligibility criteria

Projects must contribute to EU economic policy objectives and comply with EIB environmental and procurement policies.

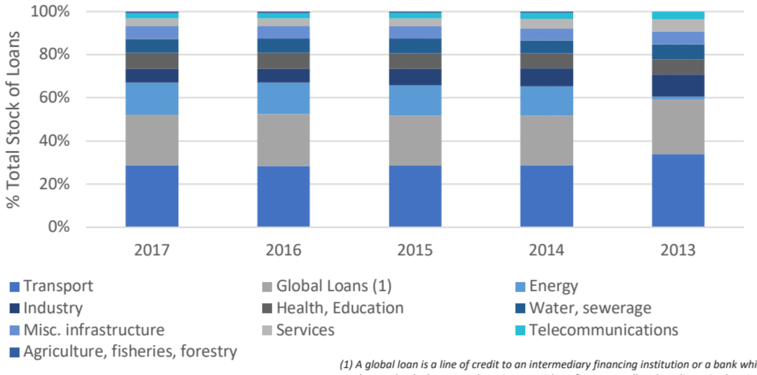
Instruments

- Project and intermediate loans
- Venture capital and venture debt
- Technical assistance
- Guarantees
- Equity, fund and co-investments

Customer Type

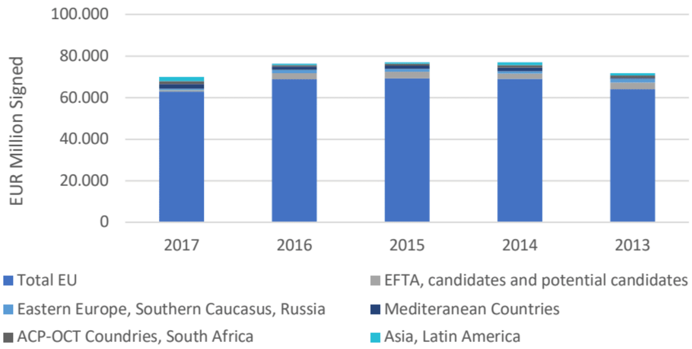


Sector priorities

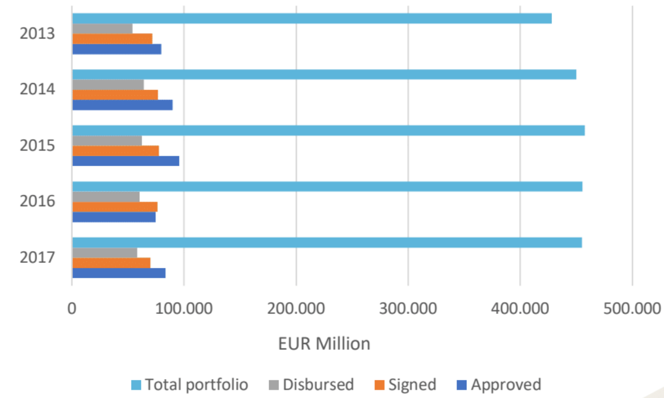


(1) A global loan is a line of credit to an intermediary financing institution or a bank which then on-lends the proceeds, at its own risk, to finance small and medium-sized projects being undertaken by private or public sector promoters.

Geographic focus



Financing operations



National Interest

Non-members are eligible to compete for procurement contracts but not for projects financed by special funds or trust funds.

ENVIRONMENTAL AND SOCIAL GOVERNANCE

All projects supported have to meet EIB environmental and social principles and standards as well as EIB procurement standards. The EIB appraises and monitors all the investment projects it finances with regard to their sustainability credentials. Certain activities are completely excluded from EIB financing and are discarded from the beginning.

DEVELOPMENT IMPACT

EIB's Results Measurement (ReM) Framework builds on three pillars: contribution to EIB, EU and national priorities; quality and soundness of the project; and EIB technical and financial contribution. The specific indicators vary by project but among other things environmental and social outcomes are emphasized.

EKF

FOUNDED: 1922 HEADQUARTERS: COPENHAGEN, DENMARK

Mandate

To facilitate Danish companies' export and internationalization opportunities, participation in the global value chain and cultivation of new markets through internationally competitive financing and risk cover.

Strategy

- EKF's four strategic focus areas are:
  - SME segment
  - Large Corporates
  - Wind
  - Business development

Major Initiatives

- Helping foreign buyers buy products from Danish suppliers
- Protecting Danish exporters abroad and in entering new markets
- Providing working capital and capital expenditure guarantees as well as other guarantees to support Danish businesses.

Shareholders: 100% Danish State

Capital

DKK 7,856 million

Credit Rating: Aaa

Financial Resources

Portfolio returns

Employees

124

Modalities

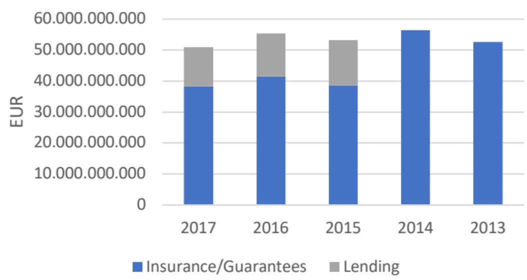
Equity, working capital solutions, bonds, guarantees, export credits and insurance

Operations

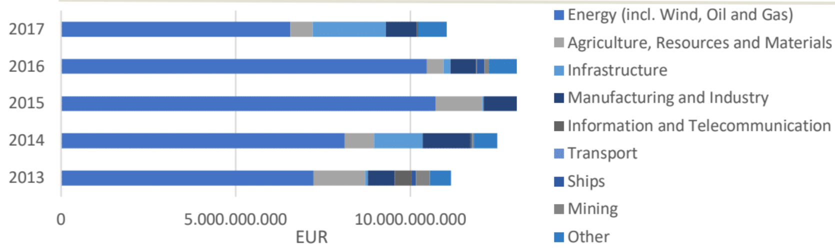
Eligibility criteria

- Eligibility criteria not publicly available but subject to OECD Arrangement terms.

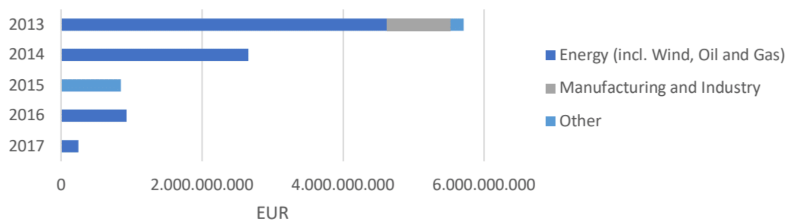
Instruments



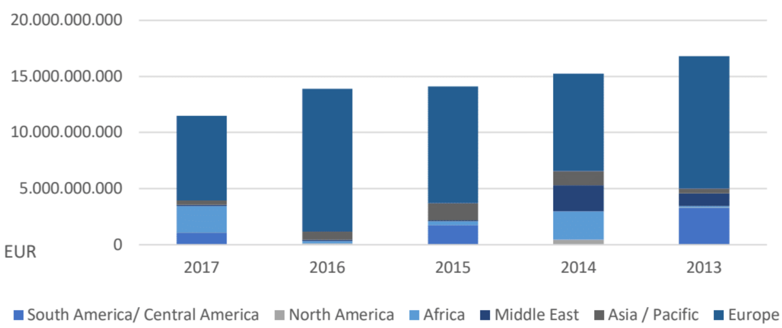
Sector priorities - Insurance



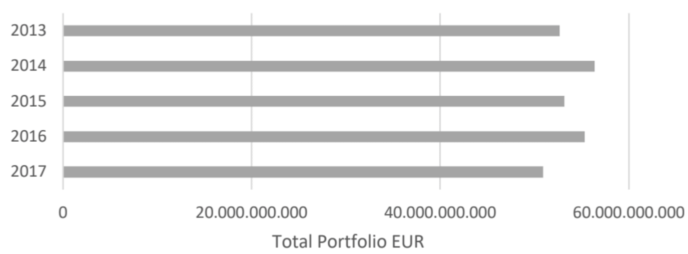
Sector priorities - Lending



Geographic focus



Financing operations



NATIONAL INTEREST

EKF largely emphasizes a company's total value for Denmark instead of focusing on the individual transactions. To this purpose, EKF has launched a so-called DEI account. It calculates a company's total value for Denmark based on the latest audited annual accounts. The DEI account enables EKF to participate in the financing of transactions equivalent to the value that a company creates for Denmark each year.

EKF's CSR policy also covers environmental and employee conditions for its own business. At EKF, it is an absolute requirement that the transactions in which it is involved comply with international standards such as the IFC Performance Standards, the OECD Common Approaches, the OECD Multinational Enterprise Guidelines, the UN Global Compact and the UN Guiding Principles on Human and Business Rights.

DEVELOPMENT IMPACT

Information not available.

FMO Entrepreneurial Development Bank

FOUNDED: 1970 HEADQUARTERS: THE HAGUE, THE NETHERLANDS

Mandate

Promoting sustainable private sector growth in developing markets focusing on green and inclusive development

Strategy

- Vision: We believe in a world in which, in 2050, 9 billion people will live well and within the means of the planet's resources.
- Mission: We empower entrepreneurs to build a better world.
- Focus Areas: Alignment with the Sustainable Development Goals (SDGs). Particularly, SDG8, SDG10, SDG13.

Major Initiatives

- FMO's financial inclusion fund, MASSIF, enhances financial inclusion for MSMEs
- Access to energy fund - to support private sector projects aimed at providing long-term access to energy services in Sub-Saharan Africa.
- Infrastructure development fund - to support private investments in infrastructure.

Shareholders:

The State of the Netherlands – **51%**
Dutch Banks – **42%**
Employer's associations, trade unions and individual investors – **7%**

Capital

SUBSCRIBED
EUR 9.2 billion

Employees

492

Credit Rating: AAA

Financial Resources

- FMO funds itself in public markets and through private placements aiming for diversification in markets, geography, investor types and tenor of its funding.
- The Dutch State guarantees FMO's bonds via an explicit issuer guarantee.

Modalities

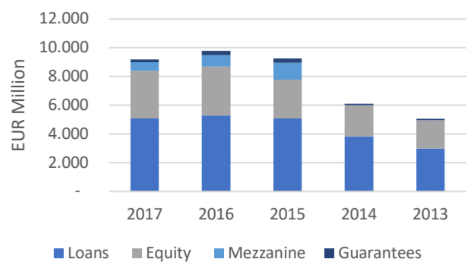
Co-financing; special purpose funds.

Operations

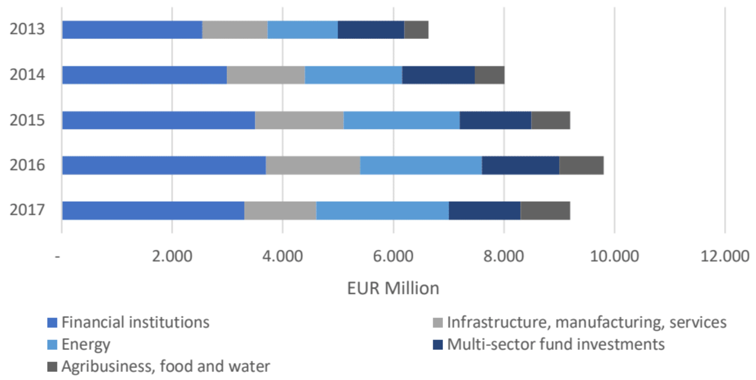
Eligibility criteria

- Meet standard investment criteria and creditworthiness which includes ESG compliance
- Green investments are subject to FMOs green eligibility criteria and aligned with the Common Principles for Climate Mitigation Finance, the Common Principles for Climate Adaptation Finance and the International Development Finance Club (IDFC) "Other Environmental Activities"

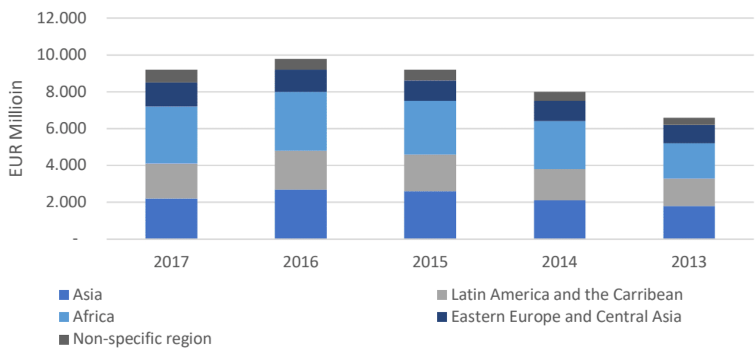
Instruments



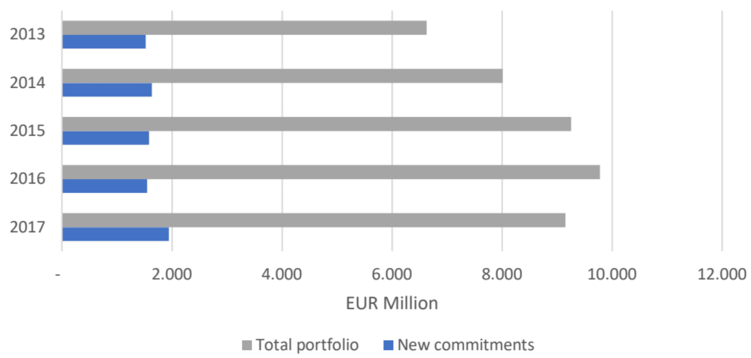
Sector priorities



Geographic focus



Financing operations



NATIONAL INTEREST

Value for the Netherlands has become more of a priority in recent years. Hence, while there is not national interest criteria, FMO seeks to enable Dutch companies to invest in developing/ emerging countries.

ENVIRONMENTAL AND SOCIAL GOVERNANCE

FMO published its updated sustainability policy in early January 2017, followed by a human rights position statement, a land governance position statement and a gender position statement. As of 2018 FMO implemented a new system to track and mitigate ESG risks in its investment portfolio.

DEVELOPMENT IMPACT

- FMO conducts strategic sector evaluations on a different sector each year; Agribusiness and Food; Access to energy; Financial Institutions.
- Key impact indicators include:
  - Financial Institutions: Number of SME loans; Number of micro loans
  - Agribusiness, food & water: Number of smallholders supported
  - Energy: Equivalent number of people served via power generation

IDB Invest

FOUNDED: 2017 HEADQUARTERS: WASHINGTON, DC
REGIONAL HUBS IN ARGENTINA, COLOMBIA, PANAMA AND TRINIDAD AND TOBAGO

Mandate

The mandate of the Inter-American Investment Corporation is to maximize its impact on development within a long-term financial sustainability framework.

Strategy

IDB Invest's mission is to promote the economic development of its regional developing member countries by encouraging the establishment, expansion, and modernization of private enterprises.

Major Initiatives

- Infrastructure: renewable energy, transport, social infrastructure, WASH.
- Value-added sectors: agribusiness; telecom/ media/ technology; manufacturing; and tourism.
- Support for MSME segments
- Partnerships with financial institutions to increase the scale of impact.
- Advisory and knowledge services for climate and gender equality.

Shareholders: 45

26 Latin American and Caribbean member countries

Top Shareholders

Member	Subscribed capital (% or total)	Voting Power (% of total)
Argentina	11.5	10.5
United States	12.48	16.56
Brazil	8.79	8.98
Spain	4.84	4.63
Korea	4.68	3.90

Capital

SUBSCRIBED
USD 1,444,580

PAID-IN
USD 1,283,414

Employees

263

Credit Rating:

AA1 – Moody's; AA – Standard & Poor's; AAA – Fitch Ratings

Financial Resources

- Global Bonds (71%)
- Local bonds (11%)
- Loans (18%)

Modalities

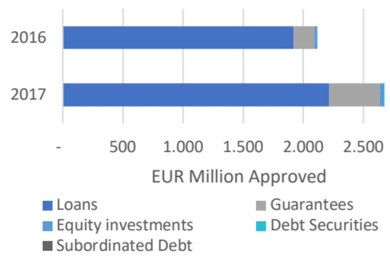
The IDB Invest manages the IDB's private sector portfolio. It only invests in for-profit projects and charges market rates for the products and services provided.

Operations

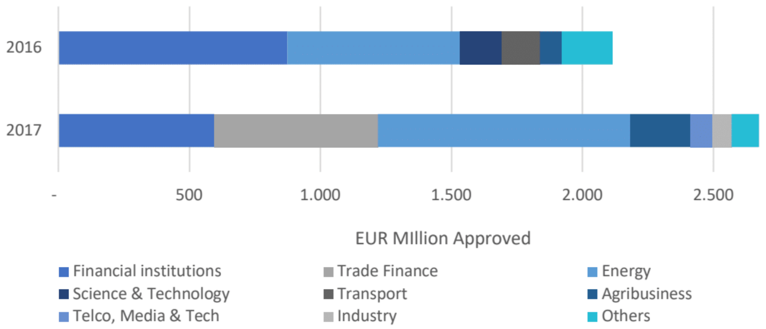
Eligibility criteria

- Projects: are profitable investment opportunities and generate sustainable economic development, foreign exchange income, or promote the economic integration of LAC.
- Financial Institutions: banks; microfinance institutions; leasing companies; savings and loans; and specialized financial institutions.
- Corporates: profitable business, audited financial statements, have good growth potential, and comply with domestic social and environmental regulations.

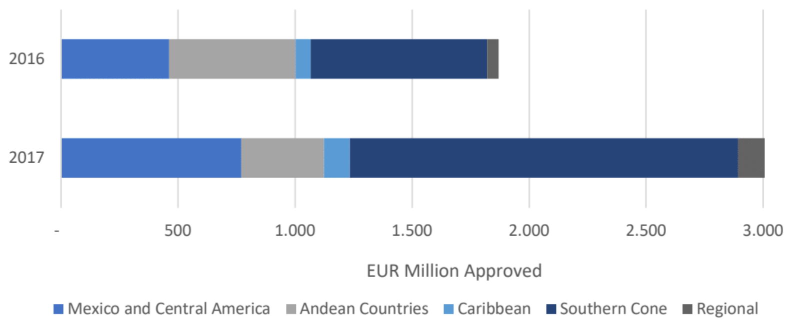
Instruments



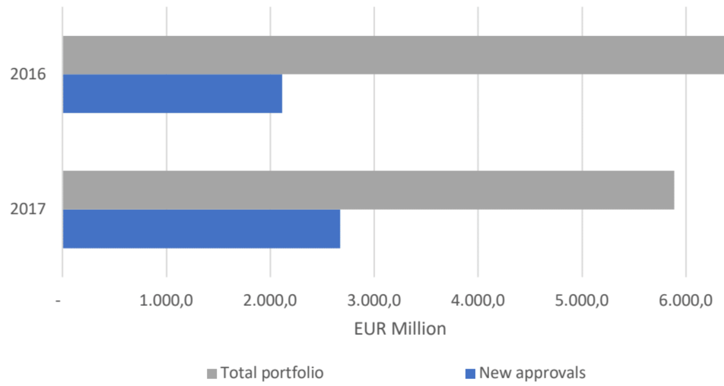
Sector priorities



Geographic focus



Financing operations



NATIONAL INTEREST

Only member countries are eligible to compete for procurement contracts.

ENVIRONMENTAL AND SOCIAL GOVERNANCE

IDB Invest follows its Environmental and Social (E&S) sustainability policy which uses international standards including the IFC Performance Standards. All financed projects are subject to an environmental and social review process prior to investment, which accounts for domestic environmental legislation, waste management practices, and occupational health and safety issues.

DEVELOPMENT IMPACT

IDB Invest uses a development effectiveness framework to track, evaluate and communicate the results of projects and investments. Key to the framework is the 'Development Effectiveness Learning, Tracking, and Assessment' tool which takes into account a project/ investment's alignment to Country and Corporate priorities, development outcomes and additionality, and overall design quality.

IFC

International Finance Corporation

FOUNDED: 1956 HEADQUARTERS: WASHINGTON, DC

Mandate

- Encouraging the growth of productive private enterprise in three broad ways:
  - investing alongside others in private enterprises;
  - Mobilizing capital from others by bringing investment opportunities to investors;
  - Advising to help stimulate private capital flows and improve the investment climate.

Strategy

- Address constraints to private sector investment in fragile and low-income countries and direct more financing to these geographies.
- Maintain a robust presence in Middle-income Countries by helping to address challenges (e.g. infrastructure needs, urbanization, climate change, etc.)
- Take an active leadership role in developing harmonized MDB definitions and consistent standards.

Major Initiatives

- Implementing a more deliberate and systematic approach to market development
- New Diagnostic Tools (e.g. 'Country Private Sector Diagnostics' and 'Sector Deep Dives')
- Creating Markets Advisory Window (CMAW), the new funding instrument to enhance upstream project preparation

Shareholders: 184 member countries

Top Shareholders

Member	Shares
USA	35,168,000
UK	14,400,000
China	6,646,000
France	5,815,000
India	4,431,000

Capital

TOTAL CAPITAL

USD 26,136 million

Employees

3,921 FTES

1,092 Short-term/ temporary

Credit Rating: AAA

Financial Resources

- Income from equity investments, debt securities , loans and guarantees, and liquid asset trading

Modalities

Blended finance

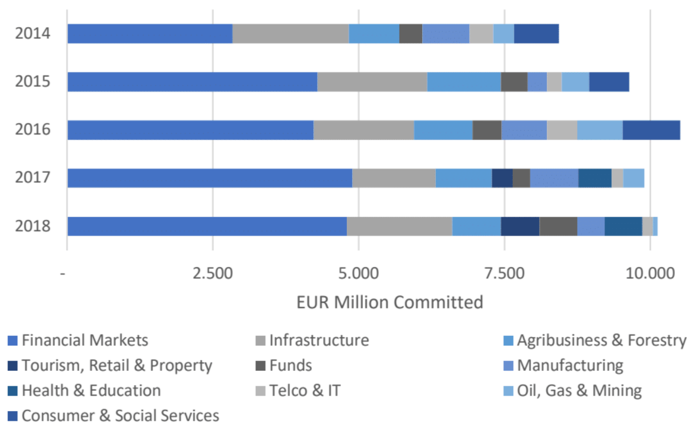
Operations

Eligibility criteria

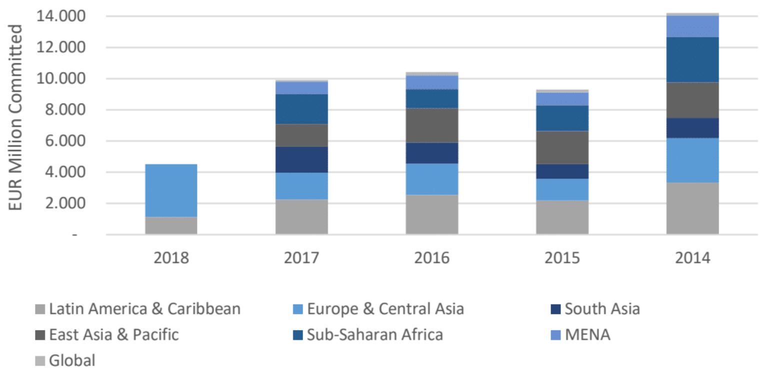
- For project finance, the project must be located in a developing country that is a member of IFC; be in the private sector; be technically sound; have good prospects of being profitable; benefit the local economy; and satisfy IFC environmental and social standards as well as those of the host country.
- To qualify as an Eligible Financial Institution (EFI), the financial institution cannot be an official agency (government/quasi-government); will have at least one investment grade long-term foreign currency; and cannot be incorporated, nor can it have its head office in the country where the borrower is incorporated.

Instruments

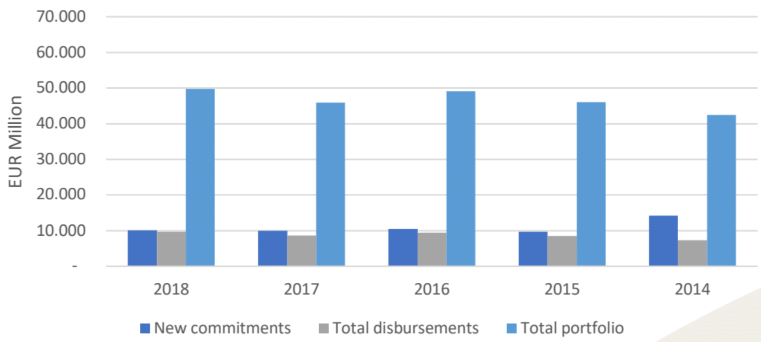
Sector priorities



Geographic focus



Financing operations



NATIONAL INTEREST

None. Only countries breaking international rules excluded.

ENVIRONMENTAL AND SOCIAL GOVERNANCE

IFC's approach to sustainability is governed by its Sustainability Framework and its Corporate Governance methodology. The Sustainability Framework comprises the Sustainability Policy, the Performance Standards on Environmental and Social Sustainability, and the Access to Information Policy. IFC requires investment clients to have a sustainability policy as part of clients' overall environmental and social management system. The IFC has also played a leading role in developing ESG standards in banking globally.

DEVELOPMENT IMPACT

IFC's impact assessment and results-measurement system begins with country and sector diagnostics under the Country Private Sector Diagnostics (CPSDs) tool. The Anticipated Impact Measurement and Monitoring (AIMM) system then enables IFC to estimate the expected development impact of projects—at their initial stage. Finally, IFC's project/program evaluations aim to articulate credible and comprehensive development impact results of activities.

JBIC

Japan Bank for International Cooperation

FOUNDED: 1999 HEADQUARTERS: TOKYO, JAPAN

Mandate

To contribute to the sound development of Japan and the international economy and society

Strategy

- Vision: Development of the national economy through the promotion of international economic cooperation.
- Strategic goals:
  - to support clients in expanding to new overseas markets and pursuing higher value-added projects
  - to encourage industrial dynamism by implementing government policies
  - to lead the economic growth of partner countries

Major Initiatives

- Promoting the overseas development and securement of resources which are important for Japan
- Maintaining and improving the international competitiveness of Japanese industries
- Promoting overseas business which preserve the global environment
- Preventing disruptions to international financial order

Shareholders: Japan Government

Capital

1,765.2 Billion Yen

Employees

3,134

Credit Rating: AAA

Financial Resources

Capital contributions and borrowings from Japan Government 'Fiscal Investment and Loan Program' (FILP); borrowing from 'Foreign Exchange Fund Special Account'; Government guaranteed long-term loans

Modalities

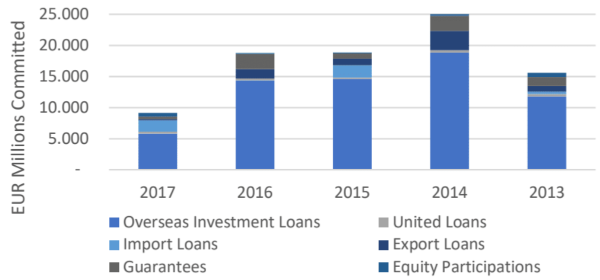
Loans and Investments; 'Global Facility to Promote Quality Infrastructure Investment for Environmental Preservation and Sustainable Growth' (QI-ESG)

Operations

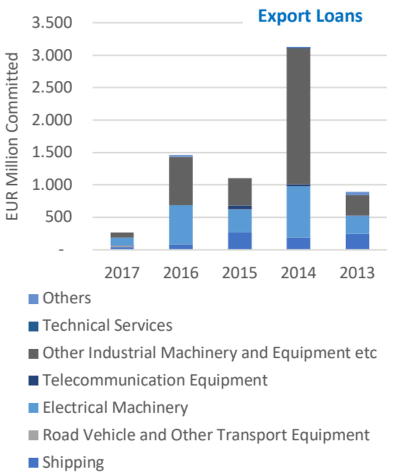
Eligibility criteria

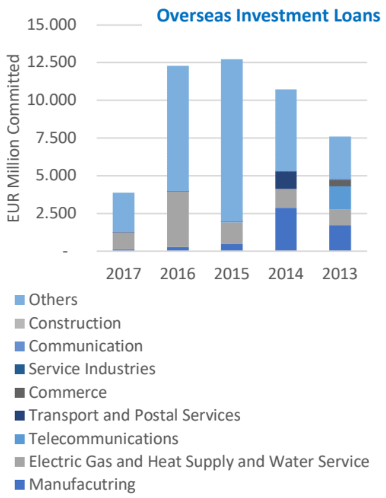
- Determined based on the Arrangement on Officially Supported Export Credits (OECD Arrangement)
- Specific criteria apply for different products

Instruments

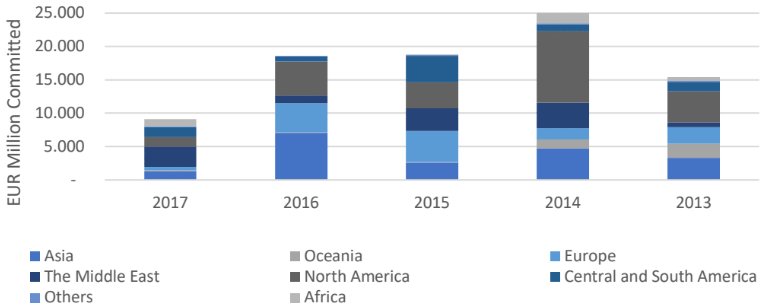


Sector priorities

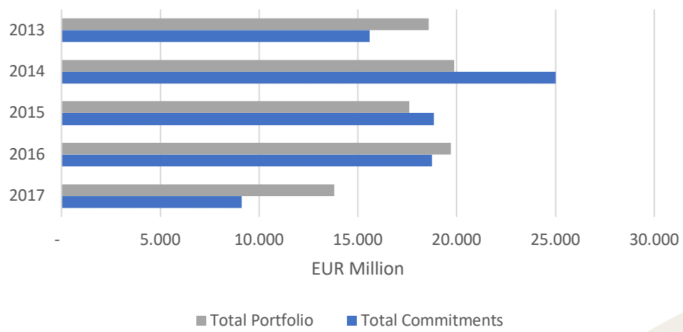




Geographic focus



Financing operations



NATIONAL INTEREST

National Interest applies for some products. For Overseas Investment loans can be provided to Japanese companies (investors), overseas Japanese affiliates (including joint ventures) and foreign governments or financial institutions that have equity participations in or provide loans to such overseas affiliates.

ENVIRONMENTAL AND SOCIAL GOVERNANCE

JBIC's "Guidelines for Confirmation of Environmental and Social Considerations" set out the procedures, criteria and requirements that JBIC-financed projects must meet in confirming ESG considerations. Prospective projects are screened prior to funding, and classified into risk categories.

DEVELOPMENT IMPACT

Information not available.

JICA

Japan International Cooperative Agency

FOUNDED: 2006 HEADQUARTERS: TOKYO, JAPAN

Mandate

An incorporated administrative agency in charge of administering Japan's ODA supporting the resolution of issues in developing countries through flexible combination of various types of assistance methods.

Strategy

- Vision: JICA, with its partners, will take the lead in forging bonds of trust across the world, aspiring for a free, peaceful and prosperous world where people can hope for a better future and explore their diverse potentials.
- Mission: JICA, in accordance with the Development Cooperation Charter, will work on human security and quality growth.
- Strategy: Think and act strategically with broad and long-term perspectives.

Major Initiatives

- Integrated Administration of Technical Cooperation, Finance and Investment Cooperation and Grants for Synergy
- Closer Partnership with the Private Sector
- Closer Partnership with Communities and Universities
- Efforts to Address Global Challenges

Shareholders: 100% Government of Japan

Capital

8 trillion 99.8 billion yen

Employees

1,909

Credit Rating: S&P A+ Positive

Financial Resources

Government investment, borrowing

Modalities

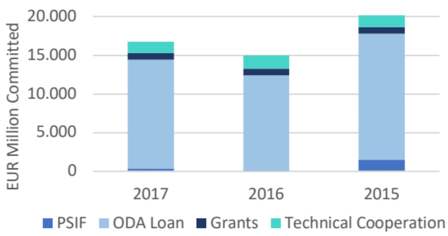
Technical Cooperation; Finance and Investment Cooperation; Grants; Emergency Disaster Relief; Public-Private Partnerships; Citizen Participation

Operations

Eligibility criteria

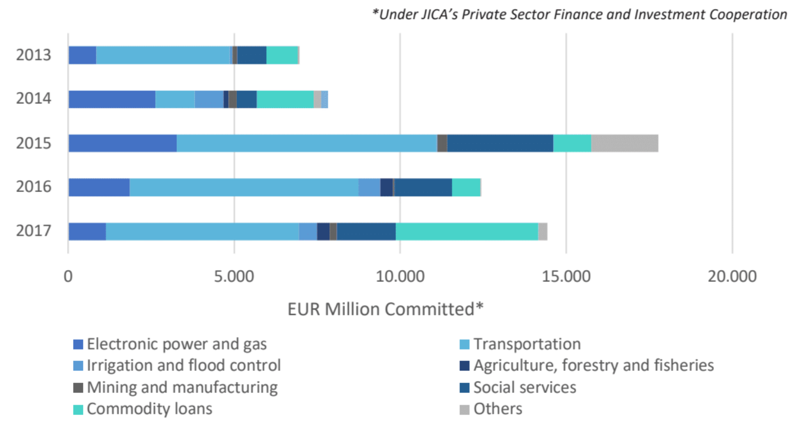
Client eligibility is categorized by three tiers: 1) Least Developed and Low-Income Countries; 2) Lower-middle Income Countries; 3) Upper-Middle Income Countries.

Instruments*

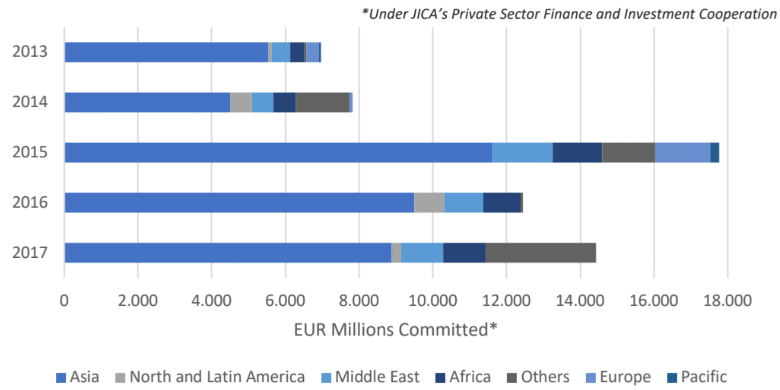


**Values only available for 2015-2017*

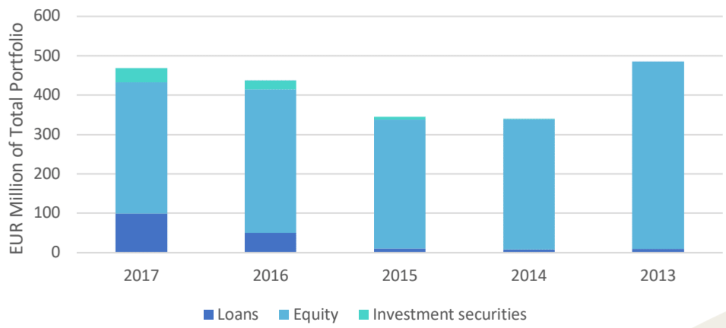
Sector priorities



Geographic focus



PSIF Financing operations



NATIONAL INTEREST

JICA has launched new schemes to support Japanese small and medium enterprises in overseas business development.

When considering a project or investment JICA applies its Guidelines for Environmental and Social Considerations framework which takes into account the principles, and standards such as the host countries laws, policies and plans, the World Bank's safeguards policies and other internationally accepted standards. JICA does an E&S assessment which covers elements such as resettlement, migration, and urbanization, impacts on vulnerable populations, pollutions etc. JICA E&S assessments are publicly disclosed. Projects and Investments are categorized by E&S risk.

DEVELOPMENT IMPACT

JICA aims to define the impact of its operations by tailoring its various development mechanisms and encouraging a more strategic approach that clarifies its contributions for achieving the SDGs.

KEXIM

Korea Eximbank

FOUNDED: 1976 HEADQUARTERS: SEOUL, KOREA

Mandate

To facilitate the development of Korea's economy and enhance economic cooperation with foreign countries through the provision of financial supports for export and import transactions, overseas investments projects, and the development of overseas natural resources.

Strategy

Mission:

- Development of the national economy through promotion of international economic cooperation

Major Initiatives

- Providing long term financial support for Korean Companies and strengthening support for SMEs
- Facilitating exporter' global advancement in bio technology, renewable energy, ICT, etc. by facilitating support for M&A and R&D
- Maximizing the utility of development resources by blended finance
- Gearing up for strengthened socio-economic cooperation between North and South Korea

Shareholders: 100% Korean Government

Capital

PAID-IN
USD 11 billion

Credit Rating:

Fitch: AA-; S&P: AA; Moody's: Aa2

Financial Resources

Borrowings, bond issuances, and self-generated from repayment of the Bank's outstanding loan assets.

Modalities

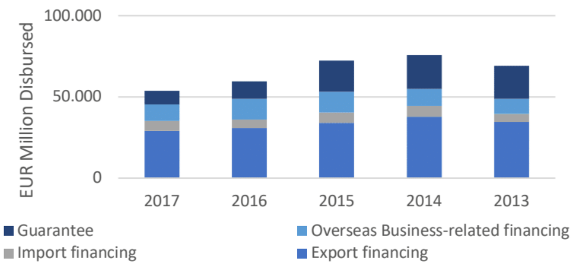
Traditional ECA tools and two government-entrusted funds: the Economic Development Cooperation Fund (EDCF), and the Inter-Korean Cooperation Fund (IKCF)

Operations

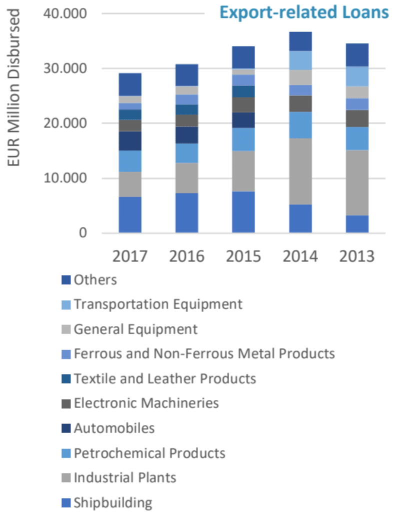
Eligibility criteria

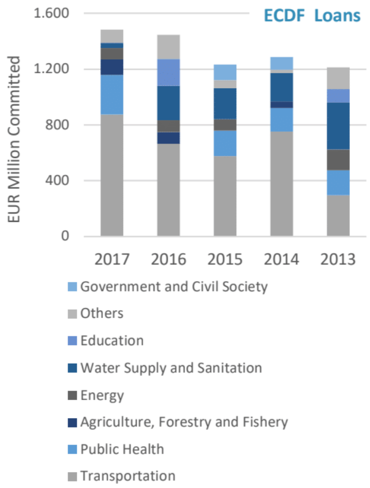
- The terms and conditions of loans extended to foreign governments or companies (buyer's credits) conform to the requirements of the OECD Arrangement. For the other types of borrowers, the Bank's internal rules apply.
- The eligibility requirements (regarding transactions, beneficiaries, etc.) for Financial Guarantees are the same as for the Bank's Loans.

Instruments

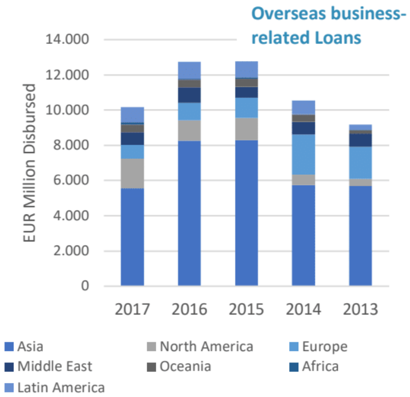


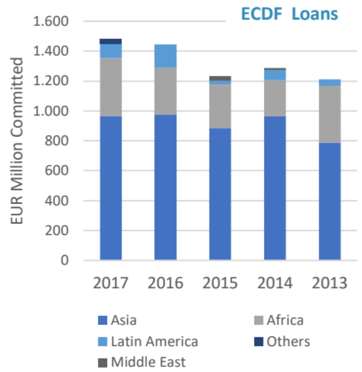
Sector priorities



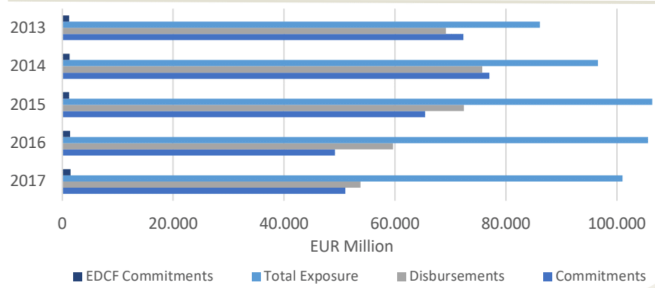


Geographic focus





Financing operations



NATIONAL INTEREST

Loans are extended to Korean companies to assist in their export activities, or support import transactions, or to entities that contribute to import transactions that are essential to the national economy.

ENVIRONMENTAL AND SOCIAL GOVERNANCE

The Bank incorporates ESG risk assessment into the overall risk assessment process. It promotes compliance with the OECD Recommendation of the Council on Common Approaches, transparency, and observes international standards.

DEVELOPMENT IMPACT

KEXIM administers the Economic Development Cooperation Fund (EDCF) to promote economic cooperation between Korea and developing countries through concessional loans. Information on the use or existence of a Development Impact framework is not available, but as part of the project cycle KEXIM monitors completion progress, undertakes an ex-post evaluations and reviews project operation and maintenance.

OPIC

Overseas Private Investment Corporation

FOUNDED: 1971 HEADQUARTERS: WASHINGTON, DC

Mandate

OPIC provides businesses with the tools to manage the risks associated with foreign direct investment, fosters economic development in emerging market countries, and advances U.S. foreign policy and national security priorities.

Strategy

- Transition to a new DFC under the BUILD Act, whereby OPIC will have the ability to make equity investments, provide technical assistance and feasibility studies, and support and complement other U.S. Government tools that advance development and American foreign policy.
- Redouble efforts to promote inclusive economic growth in the world's least developed countries.
- Promote an economically viable form of private-sector-led investment.

Major Initiatives

- 2X Women's Initiative
- Committed to invest $1 billion in Africa over the next three years through the new Connect Africa initiative
- Northern Triangle Initiative to mobilize investment as a stabilizing force in Central America.
- Venture capital program to support emerging entrepreneurs in the developing world.

Shareholders: 100% US Government

Maximum Exposure Limit*

USD 29 billion

Credit Rating: Aa2

Financial Resources

Investment returns, government funding.

Employees

271

Modalities

Direct loans and guarantees, political risk insurance, private equity investment funds that invest in emerging market companies

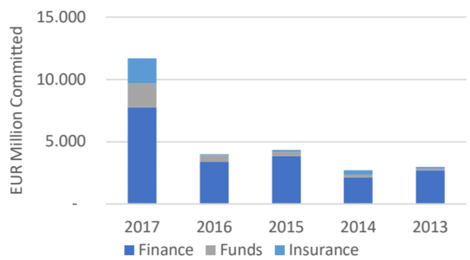
**Due to its institutional set-up OPIC does not have capital*

Operations

Eligibility criteria

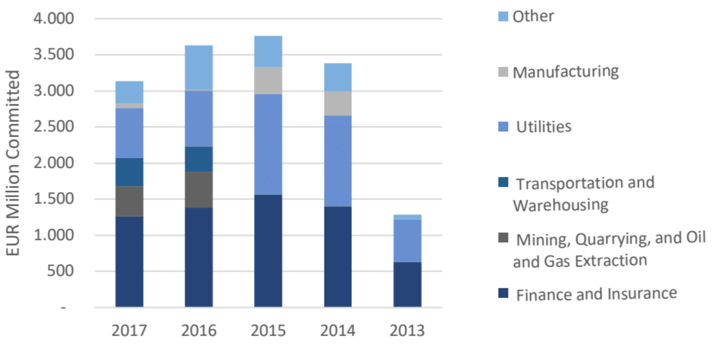
- A strong business plan and a successful track record in the industry
- An inability to attract sufficient private financing or insurance. OPIC does not compete with commercial banks but provides loans and guarantees when private funding is not available.
- Compliance with international standards on worker rights, human rights and the environment.

Instruments



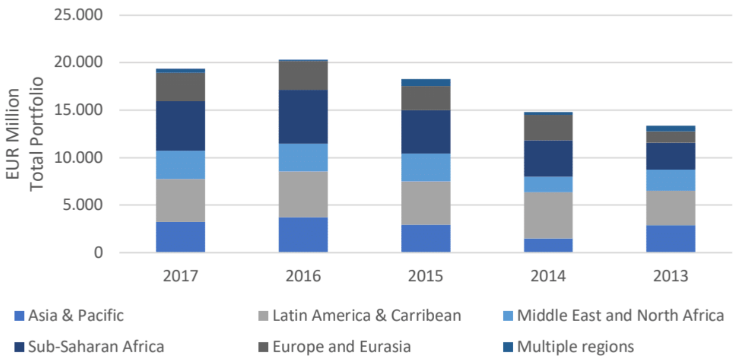
**2017 figures by new exposure*

Sector priorities

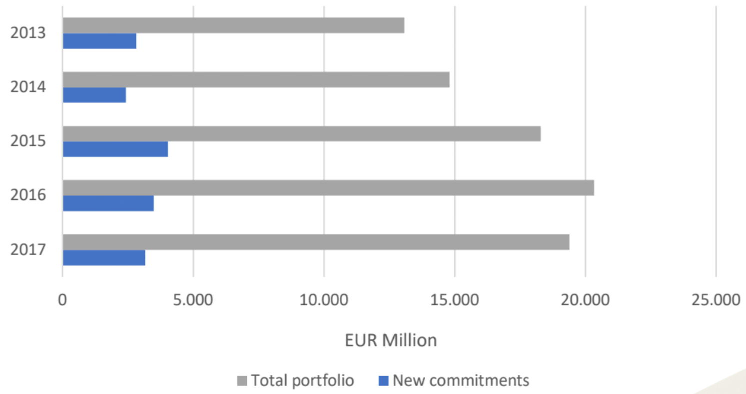


**5 highest sectors shown; all remaining grouped as other*

Geographic focus



Financing operations



NATIONAL INTEREST

Requirements for eligible projects include U.S. ownership or strong U.S. involvement. OPIC reviews all potential projects to ensure they will have no negative impact on U.S. jobs or the U.S. economy. Political risk insurance has stricter requirements.

ENVIRONMENTAL AND SOCIAL GOVERNANCE

OPIC's operations are guided by its Environmental and Social Policy Statement and Environmental and Social Assessment Procedure Manual. The policy relates to human rights, low carbon/ environmental standards, labour rights, etc. and adopts, as a standard for the environmental and social review process, the International Finance Corporation's Performance Standards on Social and Environmental Sustainability and Industry Sector Guidelines.

DEVELOPMENT IMPACT

OPIC measures its development impact by several parameters: Jobs and Human Capacity Building; Demonstration Effects; Host Country Impact; Environmental and Community Benefits; and Development Reach.

UKEF

UK Export Finance

FOUNDED: 1919 HEADQUARTERS: LONDON, UNITED KINGDOM

Mandate

UKEF's mandate is to ensure that no viable UK export fails for lack of finance or insurance, while operating at no net cost to the taxpayer.

Strategy

UKEF seeks to help UK companies:

- win export contracts by providing attractive financing terms to their buyers
- fulfil contracts by supporting working capital loans and contract bonds
- get paid by providing insurance against buyer default

Major Initiatives

- Collaborate with the Department for International Trade and other government departments (as part of the UK GREAT Campaign)
- Provide lending, guarantee, risk-sharing and insurance products

Shareholders: 100% UK Government

Maximum Commitment

57.3 Billion GBP
*2018

Employees

303

Credit Rating: AA

Financial Resources

HM Treasury, UK Government

Modalities

Working capital and bonding products, buyer finance products

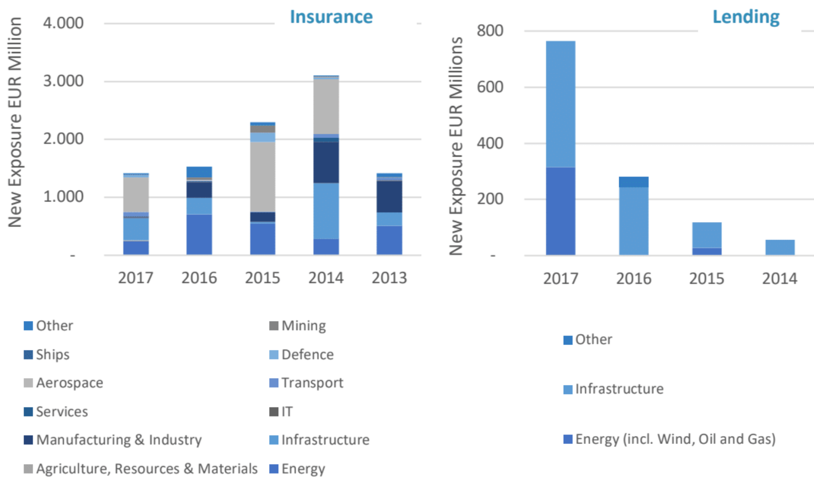
Operations

Eligibility criteria

- Must adhere to the OECD arrangements and meet minimum national content requirements as well as environment and social risk assessment
- An exporter must be carrying on business in the UK and have an established place of business there and the buyer must carry on business overseas
- The exporter must be unable to obtain credit insurance from the private market for short term export credit insurance

Instruments

Sector priorities

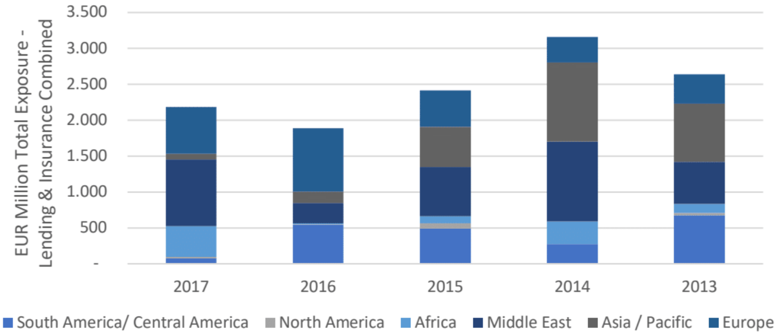


NATIONAL INTEREST

For export credit products UKEF requires a minimum of 20% UK content. At the time of writing, UKEF is consulting on its foreign content policy.

UKEF examines the environmental, social and human rights (ESHR) risks and potential impacts of projects. UKEF's ESHR framework aligns to the OECD Common Approaches and the Equator Principles. Due diligence and monitoring is part of the project cycle.

Geographic focus



Financing operations


Sortie