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Export Credit Agencies and Climate Change

Export Credit Agencies (ECAs) are significant sources of finance for developing countries (and indeed collectively outpace the multilateral development banks in terms of total financial flows). It is therefore no surprise that the role of ECAs in financing of energy projects – both fossil fuel-based and renewable and energy efficient projects – in developing countries is of critical importance for the G8, particularly given the agenda for this year's summit.

ECAs are instruments of government or public policy. All ECAs are government owned or directed with varying degrees of independence from government. All are bound by the OECD Arrangement on Officially Supported Export Credits (the "Consensus") which establishes guidelines for the terms and conditions of an export credit, including repayment term, interest rates, risk premiums, etc. There are special sector understandings for conventional power, nuclear power and aircraft. Conventional power is eligible for an extended repayment period of 12 years and nuclear can receive terms as long as 15 years. The argument for the longer terms for these sectors was traditionally that the large capital costs needed extended terms for the principal to be repaid.

Renewable energy projects however are limited to the standard repayment term of 10 years. Far from ECAs being in a position to encourage renewable energy in developing countries, the Consensus discourages renewable energy projects compared to conventional by forcing repayment of the loan amount to 10 years, thus often rendering renewable energy projects unviable (i.e. negative cash flow) over the 10 years. An extension of the repayment term to 12 years or longer would have the effect of reducing the annual debt service load and thus potentially making the project viable. Under the 10 year repayment term, governments have been forced to make a choice of not supporting the project at all, or providing concessional funds of a minimum of 35% to make it eligible for aid terms. This has been expensive and unnecessary. Meanwhile, ECAs have been associated with many, if not most, of the large fossil fuel-based projects in developing countries as these have entailed export of capital equipment from OECD countries.

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