



**Rethinking Development in an  
Age of Scarcity and Uncertainty**  
New Values, Voices and Alliances  
for Increased Resilience



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**DAC (Traditional) & Non DAC (Emerging) Donors at the  
Crossroads: The problem of Export Credits  
(Work in Progress-15 May 11)**

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## Abstract

Lack of non DAC donors aid data availability can be attributed to non-access to data as either the data is not captured or methodology to measure the data is not in accordance with existing set standards like OECD's CRS classification. Given the growth in the number of official donors, and especially when non DAC donors like China and India are continuously increasing their respective aid financing, it becomes apparent that exclusion of their aid data will prohibit getting a full picture of the future aid architecture. In order to respond to the future trends of such aid flows from non DAC donors, it is essential to better understand the ways in which they can engage with the existing aid reforms initiative such as standardisation of aid data within the ambit of International Aid Transparency Initiative.

The paper attempts to locate lines of credit (also called officially supported export credits) against the backdrop of new actors and their policies in development cooperation. As both DAC donors (bilaterally as well as multilaterally through the World Bank) & Non DAC donors (especially China and India) are competing and cooperating with each other to reach out to recipient countries, a rigorous scrutiny of lines of credit is thereby called for. The issues surrounding lines of credit data in the OECD database, AidData or the proposed IATI data registry provide empirical evidence as to whether development cooperation policies of Non DAC donors are complementary and in harmony with DAC donors or not.

The lines of credit shall be used as a focus for discussing what different development tasks are emerging out of DAC & non DAC donor's official discourse of development (Ray, 1995). What are the agreements and disagreements among these donors in terms of deploying their respective means (aid or trade or Aid for Trade (AfT) instruments) and what development ends they target (Brautigam, 2009)? The paper will also overview the global export credit sector and institutional arrangements for its approval in DAC & non DAC countries. It will also critically evaluate a few basic questions as whether lines of credit are concessional enough to qualify as an ODA; if they are not ODA then are they Aid for Trade, and what's the links between tied aid Vis a Vis export credits (Sinha, 2010). It will also attempt to explore the linkages between aid, trade and investments when lines of credits are used and establish the relationship between lines of credits, debt and debt relief especially when lines of credit are not considered as ODA when provided but termed ODA when provided as a debt relief?

Given the past experience of export credits being converted into debts (Mandel, 2008) this is an important issue to open up and situate in the way development cooperation is renegotiated between DAC & non DAC donors.

## **Introduction**

Non DAC donors growing influence without transparent information sharing has raised concerns regarding the way they are financing development. Since, very little is known officially about their development aid and little formal affiliation with Organization for Economic Cooperation & Development (OECD), it is difficult to measure and compare the quantum and nature of aid flows by Non DAC donors with its traditional DAC counterparts.

Lack of non DAC donors aid data availability can be attributed to non-access to data as either the data is not captured or methodology to measure the data is not in accordance with existing set standards like OECD's Creditors Reporting System (CRS) classification. Given the growth in the number of official donors, and especially when non DAC donors like China and India are continuously increasing their respective development financing, it becomes apparent that exclusion of their aid data will prohibit getting a full picture of the present aid architecture and will continue to do so in the future. In order to respond to the future trends of such aid flows from non DAC donors, it is essential to better understand the ways to engage them with the existing aid reforms initiative such as standardization of aid data within the ambit of International Aid Transparency Initiative.

## **Export Credit Agencies (ECAs) of Non DAC Donors and their policies in Development Finance**

One of the objectives of the paper is to explore how export credit of Non DAC donors fares with their DAC counterparts. A quick comparison of the role of ECAs of twelve Non DAC donors is conducted to empirically inform the issues that are emerging out of the academic literature and policy documents regarding export credit finances of Non DAC donors. It was revealed that six out of twelve Non DAC donors deploys their ECA to extend official aid programmes i.e. China, India, Taiwan, Turkey, Venezuela and Thailand. Most of these Exim banks are fully owned by their respective governments (China, India, Taiwan, and Thailand) and operate in two distinct ways.

The financial flows of these financing agencies are either directly extended for official support or complemented, synergised or co-financed with their other official financial flows. In the case of Turkey, its Export-Import Bank and Development Bank is involved in the 'financial and investment dimensions' of Turkey's aid programmes where as the Economic and Social Development Bank of Venezuela looks for 'complementarities and synergies (including co-financing arrangements) between itself and other development finance institutions' (HIPC CBP, 2008 a & 2009a). Further India and China both extends their concessional loans to developing countries through its lines of credit window (HIPC CBP, 2008 b and c). In the case of Taiwan's, its Exim Bank provides export insurance, credit and guarantee services and relending facilities (HIPC CBP, 2009b). In the case of Thailand, Exim bank extends loans that are 'those using machinery or raw materials from Thailand, and those engaging Thai contractors or producing raw materials or energy for sale to Thailand. A lot of these soft loans are negotiated and implemented together with

National Economic Development Authority' (HIPC CBP, 2009c). Though it's not yet officially known as whether all the finances from ECAs from the Non DAC donors would qualify as an ODA or not. Brautigam (2000: 162-188) and Sinha (2010: 89-90) has argued that not all the lines of credit from ECA of China and India would qualify as an ODA. We will address the issue of qualification of export credit finance from Non DAC donors as an ODA later.

### **How much is known about Export Credit Finances?**

The present paper attempts to compare the DAC and Non DAC donor's official development aid policies by locating lines of credit (also called officially supported export credits) as a policy instrument of new actors and how it is deployed respectively in the aid architecture. However, before making any comparison, it's important to revisit as how much do we know about export credit finances of DAC donors. As various analysts have pointed towards growing aid financing especially Chinese and Indian Exim Bank financed lines of credit and lack of their reporting to OECD or its standard, it's important to assess how the DAC donors report their export credits to the OECD CRS.

It's important to note that the resource flow reported by DAC donors and a few Non DAC donors, who voluntarily does so, can be classified into three categories. Firstly, CRS aid database that captures official development assistance<sup>1</sup> and official aid<sup>2</sup> and informs about five aspect of flow of official development assistance i.e. sectoral and geographical distribution of aid, external indebtedness, tying status of aid, terms and conditions of aid and relating aid inputs to policy priorities (OECD). Important to note that the CRS data base on aid is accessible to public where as access to OOF database that captures other official flows (except export credits) and database that captures official export credits and private loans and credits under official guarantee or insurance is restricted (refer figure 1). The restricted access to information to official export credits and private loans and credits under official guarantee or insurance prohibits exploring and establishing the linkage between official export credits and external indebtedness. It also does not allow the role export credit play in determining the tying status of aid.

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<sup>1</sup> Flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective, and which are concessional in character with a grant element of at least 25 percent (using a fixed 10 percent rate of discount). By convention, ODA flows comprise contributions of donor government agencies, at all levels, to developing countries ("bilateral ODA") and to multilateral institutions. ODA receipts comprise disbursements by bilateral donors and multilateral institutions. Lending by export credit agencies—with the pure purpose of export promotion—is excluded. (OECD)

<sup>2</sup> Flows which meet conditions of eligibility for inclusion in Official Development Assistance (ODA), other than the fact that the recipients are on Part II of the Development Assistance Committee (DAC) List of Aid Recipients (OECD)

**Figure 1 CRS databases and their main uses**

<b>Public Access</b>	<b>Database</b>	<b>Flow of resources</b>	<b>Main uses of the data</b>
	<b>CRS/Aid</b>	<ul style="list-style-type: none"> <li>• Official development assistance</li> <li>• Official aid</li> </ul>	<ul style="list-style-type: none"> <li>• Sectoral and geographical distribution of aid</li> <li>• External indebtedness</li> <li>• Tying status of aid</li> <li>• Terms and conditions of aid</li> <li>• Relating aid inputs to policy priorities</li> </ul>
<b>Restricted Access</b>	<b>CRS/OOF</b>	<ul style="list-style-type: none"> <li>• Other official flows (except export credits)</li> </ul>	<ul style="list-style-type: none"> <li>• Sectoral and geographical distribution of other official flows</li> <li>• External indebtedness</li> </ul>
	<b>CRS/Export credits</b>	<ul style="list-style-type: none"> <li>• Official export credits</li> <li>• Private loans and credits under official guarantee or insurance</li> </ul>	<ul style="list-style-type: none"> <li>• External indebtedness</li> <li>• Exposure and new obligations of export credits (Trade Directorate)</li> </ul>

Source: OECD (2007b: 6)

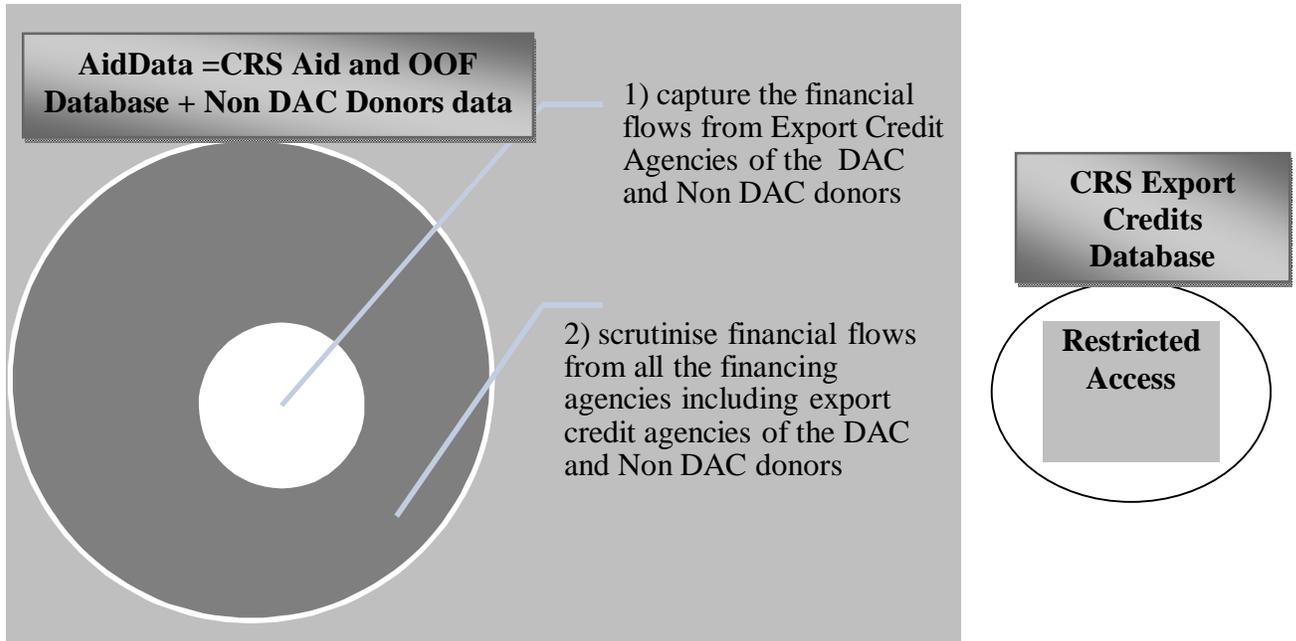
### **Locating Financial Flows of Export Credit from DAC & Non DAC Donors**

The paper focuses on the resource flow of DAC as well as Non DAC donors available in the AidData database that enables comparison of development finance data for both set of donors. The data on official development assistance, official aid and other official flows except officially supported export credit of DAC donors are based on OECD DAC CRS database. Whereas financial data on Non DAC donors are either shared by these donors with AidData secretariat or captured by AidData secretariat through alternative means i.e. generated by official documents and online resources. It's important to note that this database does not capture financial flows of official export credits and private loans and credits under official guarantee or insurance due to its restricted access to the public.

### Approach Followed -

- 1) To capture the financial flows from ECAs of the DAC and Non DAC donors i.e. all the financial flows of an ECA when it acts as a financing agency in the Aid and OOF database. For a DAC donor, the type of financial flow must be captured in the category of ODA or Other Official Flows (as per DAC definition).
- 2) To scrutinize flows from all the financing agencies including ECAs of the donors and capture the flows which have tied aid and debt relief component.

**Figure 2 Locating Financial Flows of export credit in Official Development Finance**



Source: OECD DAC CRS Database and AidData Development Finance Database

It's important to note that the above said database suffers various information asymmetries: a) all the DAC donors have historical data captured as per OECD DAC guidelines and are reported by their respective governments where as it's not the case with Non DAC donors whose data are generated by AidData team; and b) CRS export credit database which has restricted access does not have export credit information of Non DAC donors.

**Table 1: Use of ECA in Development Finance by DAC & Non DAC Donors**

Database	Donors	Which have its ECA reported to extend financial flows	Which does not have its ECA reported to extend financial flows
OECD DAC CRS Database	DAC	Austria, Belgium, Germany, Italy, Japan, Spain, Sweden, UK, USA	Australia, Canada, Denmark, Finland, France, Greece, Ireland, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Switzerland
AidData Database	Non DAC	India	Brazil, Chile, Columbia, Kuwait, Qatar, South Africa, South Arabia, Taiwan, Thailand, UAE

Source: OECD DAC CRS Database and AidData Development Finance Database

The ECAs of Austria, Belgium, Germany, Italy, Japan, Spain, Sweden, UK and the USA acted as one of their financing agencies and extended official development finance (OECD 2007a). And rest of the other DAC donors does not have their ECAs reported extending financial flows.

As discussed earlier, in the case of Non DAC donors China, India, Taiwan, Turkey, Venezuela and Thailand deploys their ECA to extend aid programme, the information on ECAs of Turkey and Venezuela is not captured in AidData database. Though AidData has attempted to compile the information on Chinese aid but lack of comparable project level aid information restricts them to capture in the same way as they have done for other Non DAC donors (Hawkins et al, 2010). Though development finance data of Thailand and Taiwan is captured by AidData, it does not have any financial flows where their ECAs are reported to extend financial flows. Therefore India's Exim portfolio is taken as a representative of financial flows of all Non DAC donors to compare and contrast the policies in development cooperation.

To summarise, it can be said that both DAC and Non DAC donors are deploying their ECAs to extend development finance. In the case of DAC donors under the category of ODA and OOF, it is publicly known because of the data availability of their official aid over a period of time but in the case of Non DAC donors it's not publicly known. Even within the non DAC donors, there are donors like India for which data from their ECA is compiled. In the case of China the data is less comparable and there are other non DAC donors for which data are not captured.

The next section will explore the role of ECA in the ODA and capture the financial flows from ECAs of the DAC and Non DAC donors. Then the next section will scrutinize the financial flows from all the financing agencies including ECAs of the DAC and Non DAC donors. We will discuss later as what it means when ECA is involved in providing ODA

## Donors ECA in the CRS & AidData Database

Table 2 reveals that the development finance flows from DAC and Non DAC donors that have used its ECA. From 1973-2008; there have been 2075 out of 501881 projects which were funded directly by DAC's ECA. There were 14142 projects in which financing agencies were reported either as miscellaneous or unreported/ others. Overall there were less than 1% development finance flows which were directed by an ECA. For Non DAC donors, only Indian development finance flows are captured which shows that approximately 18% of its flows are extended by its ECA.

It is important to mention that this Indian project level information captured by AidData is not complete and based on Ministry of External Affairs's annual report and not from the Exim Bank annual reports (see Sinha 2010). Another triangulation done with Afghanistan Donor Assistance Database<sup>3</sup> reveals that India has financed 79 projects with a commitment amount of USD 825,597,667 and AidData database<sup>4</sup> captures USD 444,648,405 from 32 projects. So it's difficult to compare DAC and Non DAC donor's development finance flows with existing information asymmetries in AidData database. Nevertheless, it would be useful to analyse the Non DAC donors use of their ECA from the mirror image perspective and explore as whether the growth trajectory of use of ECA in its foreign aid programme from Non DAC donors is the same as it used to be for the DAC donors.

**Table 2: Development Finance Flows from Donors ECA**

Year	Country	Development Finance Flows					Total	Export Agency as a % of total
		In which Financing Agencies are known	Directly by an ECA	In which Financing Agencies are reported as miscellaneous	In which Financing Agencies are unreported or categorized as others			
1974-08	Austria	11317	304	2009	9	13639	2.23	
1973-08	Belgium	39737	220	3	56	39796	0.55	
1973-08	Germany	58762	442	27	175	59406	0.78	
1973-08	Italy	87530	71	9	40	87641	0.08	
1973-08	Japan	49118	151	9	155	49433	0.31	
1988-08	Spain	68311	744	5481	5	74541	1	
1973-08	Sweden	43249	17	242	23	43531	0.04	

<sup>3</sup> <http://dadafghanistan.gov.af/index.jsp>

<sup>4</sup> <http://www.aiddata.org/home/index>

1973-08	UK	28286	5	2053	244	30588	0.02
1973-08	USA	102579	121	3409	197	106306	0.11
<b>Total</b>		<b>485893</b>	<b>2075</b>	<b>13242</b>	<b>900</b>	<b>501881</b>	<b>0.41</b>
2005-10	India	458	82	0	0	458	18.12

Source: OECD DAC CRS Database and AidData Development Finance Database

### Estimating Volume of Export Credit in Official Development Finance: How Much?

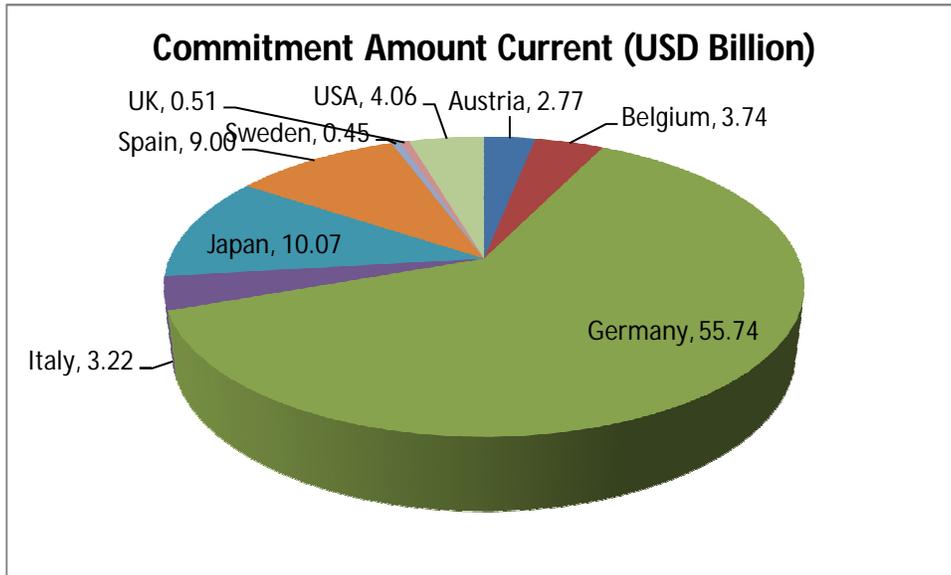
The total volume of export credit from DAC donors as reported in OECD DAC CRS<sup>5</sup> is approximately USD 85.8 billion. For India the figure as calculated by AidData is USD 1.16 billion. According to a financial times report, China through its China Development Bank and China Export-Import Bank has surpassed the World Bank and has loaned at least 110 billion dollars to foreign governments and companies in 2009 and 2010 compared to the World Bank which made loans of just over 100 billion dollars from mid-2008 to mid-2010 (Financial Times 2011<sup>6</sup>). Though it's difficult to determine how much is the volume of export credit unless the data is disclosed and whether to expect China to disclose it as per OECD DAC norm under ODA or OOF or to provide merely restrictive access as other OECD members does so for its official export credits, private loans and credits under official guarantee or insurance.

Germany, Japan and Spain are three top donors which have utilised their ECAs in providing official development finance. Approximately USD 75 billion i.e. 83% of the total official development finance by all the donors ECAs are provided by them. But does it mean that UK, Sweden, Austria, Belgium, Italy and the USA have used their export agencies comparatively on a lower scale than what Germany, Japan or Sweden has done. At least the reported figures suggest the same. We will come later on this while discussing USA export credit figures which are not reported as ODA or OOF but available in AidData database (probably generated either from OECD DAC or from EXIM of USA directly) and what's its place in official development finance.

<sup>5</sup> The figures correspond from 1973-2008.

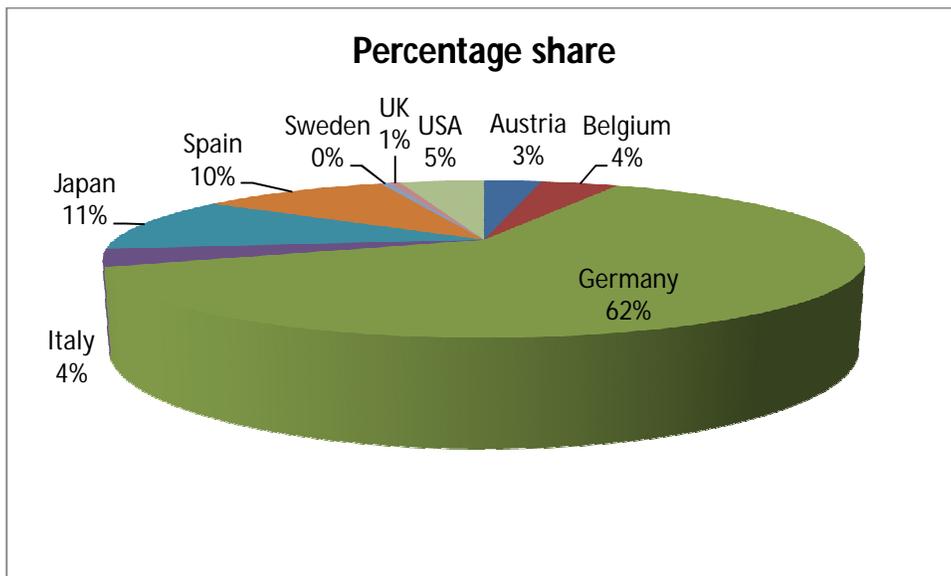
<sup>6</sup> <http://www.ft.com/cms/s/0/488c60f4-2281-11e0-b6a2-00144feab49a.html#axzz1MPmJs2eD>

**Figure 3 Volume of Export Credit**



Source: OECD DAC CRS Database

**Figure 4 Percentage of Export Credit**



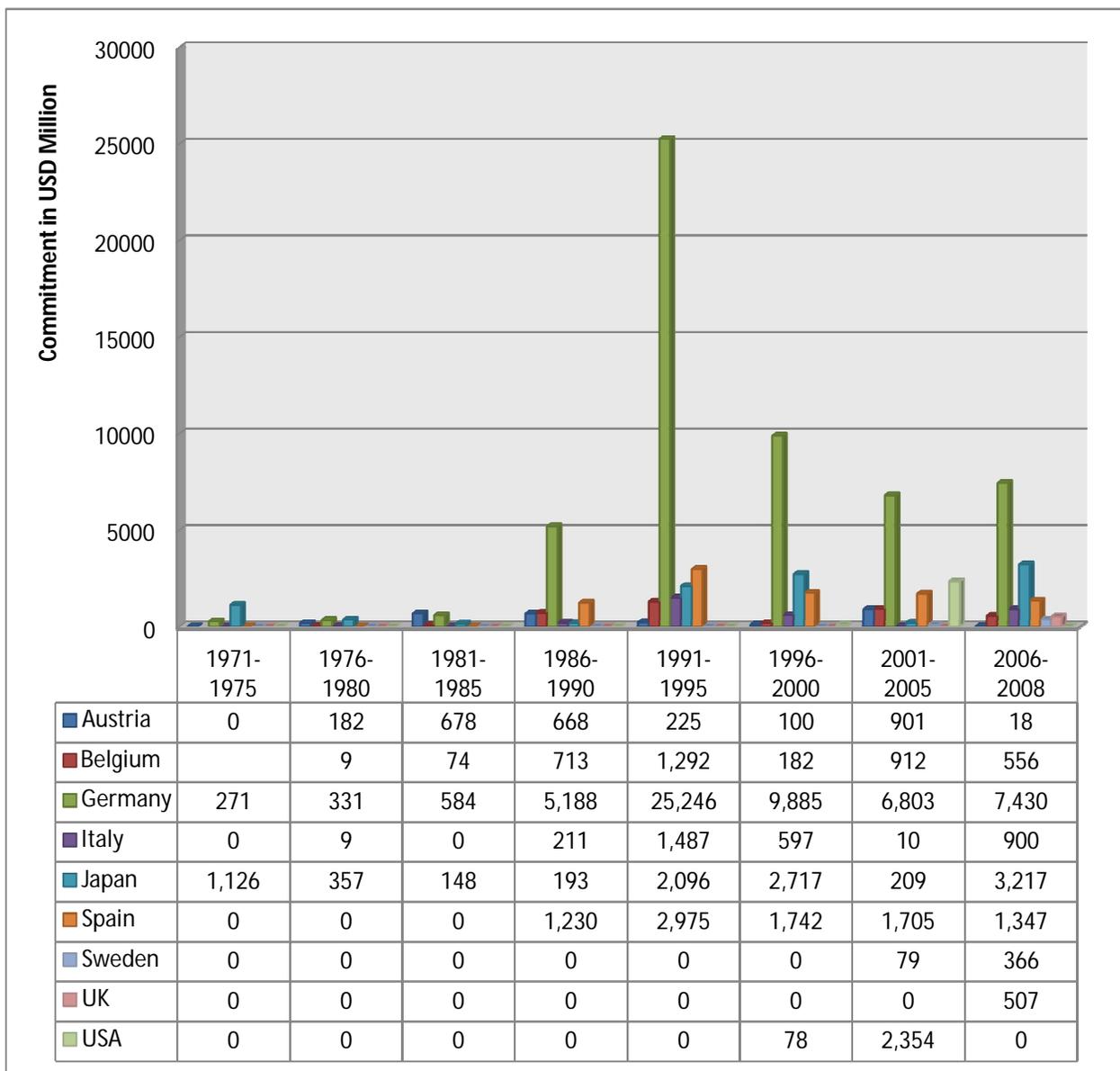
Source: OECD DAC CRS Database

**Historical Trend**

The figure 3 suggests that from 1971-1985, there was much less use of ECAs in providing official development finance. Japan and Germany have started using it since 1973 and gradually Belgium joined them till 1985. From 1981 onwards Germany has

extensively used its ECA compared to any other DAC donor and extended USD 55 Billion of export credit as ODF. During 1991-95, the use of export agencies was on its peak that extended USD 33 Billion, the highest ever in the history of official development finance industry. Gradually it started coming down but it's not completely done away with. Not all the donors share the same trend. For example Austria extended USD .9 billion, it's highest in 2001-05. Germany, Japan, Spain and Italy still have significant amount extended through ECAs. UK has used its export credit guarantee department only in 2006-08 and USA in 2001-05 except marginally in 1996-2000 and Sweden from 2001 onwards. For this we need to analyse for what purposes this (ODA grant or loan or OOF) was used for these years and is there any significant change can be observed over its deployment.

**Figure 5 Financial Flows from ECA**

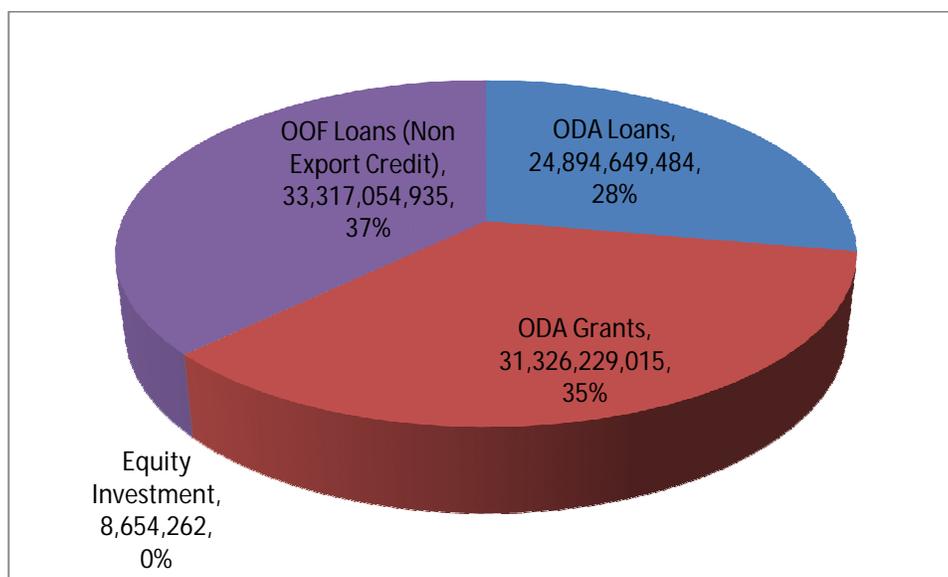


Source: OECD DAC CRS Database

### How much is ODA and how much is OOF?

Not all the DAC donors demonstrate the same behaviour while reporting flows from their ECA. Figure 6 shows that 63% of the DAC donor's official development finance is ODA loans (28%) and ODA grants (35) and rest i.e. 37% of them are OOF. Lack of Non DAC donor's development finance data prohibits the analysis to be done in the same line. It also suffers from absence of an officially declared aid policy from Non DAC Donor like China and India that mostly uses its ECA as a financing agency and whether they categorise use of Exim loans as a trade finance or aid finance. If they categorise it as aid finance, it would fall either under ODA loans or OOF loans and then it would be expected that they should disclose the aid information as per OECD DAC norm under ODA or OOF. Or if they prefer it to be categorised as trade finance it will suffer the weakness of existing development finance architecture which allows only restrictive access for other DAC donors for their official export credits, private loans and credits under official guarantee or insurance.

**Figure 6 Portfolio wise Financial Flows from DAC Donor's ECAs**



Source: OECD DAC CRS Database

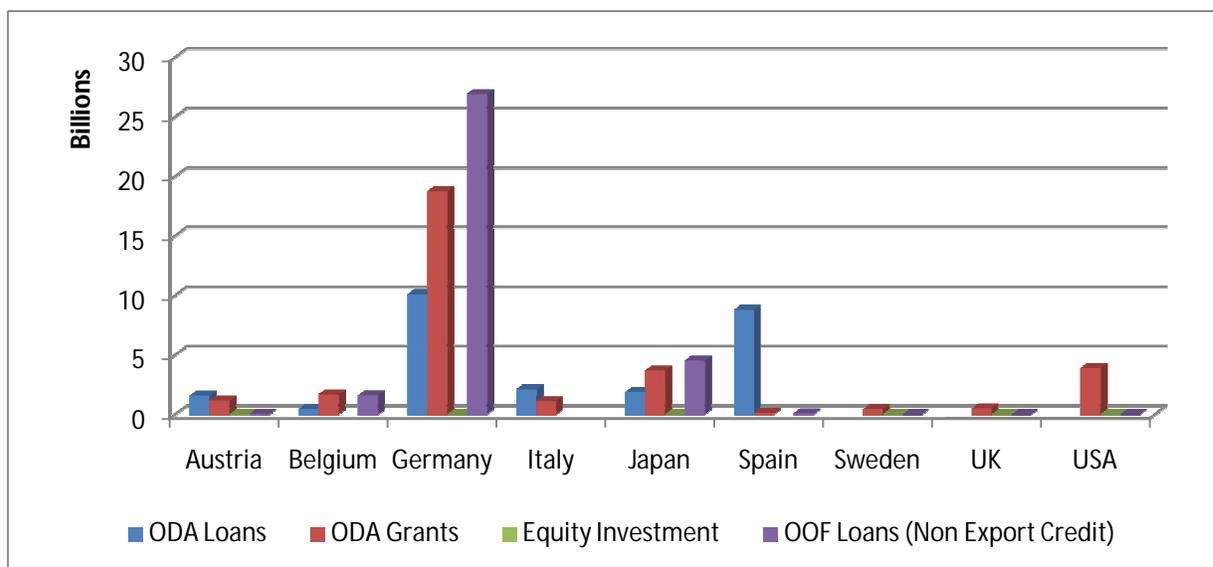
As shown in figure 7, most of the DAC donors (Austria, Belgium, Germany, Japan and Spain have used their ECA to extend ODA loans, grants as well as OOF loans (non export credit) but as discussed earlier, not all the DAC donors demonstrate the same behaviour while extending finances.

- i. A few donors (Germany, Japan and Belgium) have used their ECA in providing development finance in three categories; ODA loans, ODA grants and OOF. Germany which holds 62% of the total export credit finance from DAC donors have funded USD 10, 18 and 27 billion in ODA loans, ODA grants and OOF respectively. Germany and Japan resemble the same type of donor behaviour though Japan at a much lower scale.

- ii. Donors like Spain which does not provide ODA grants rather heavily prefer ODA loans (USD 8.78 billion i.e. 95% of its total ECA finance) and OOF.
- iii. Some donors (Sweden, USA and UK) have used its ECA to extend ODA grants only and not ODA or OOF loans
- iv. Austria has used it for extending equity investment as well
- v. Italy has used it for extending ODA loans and grants.

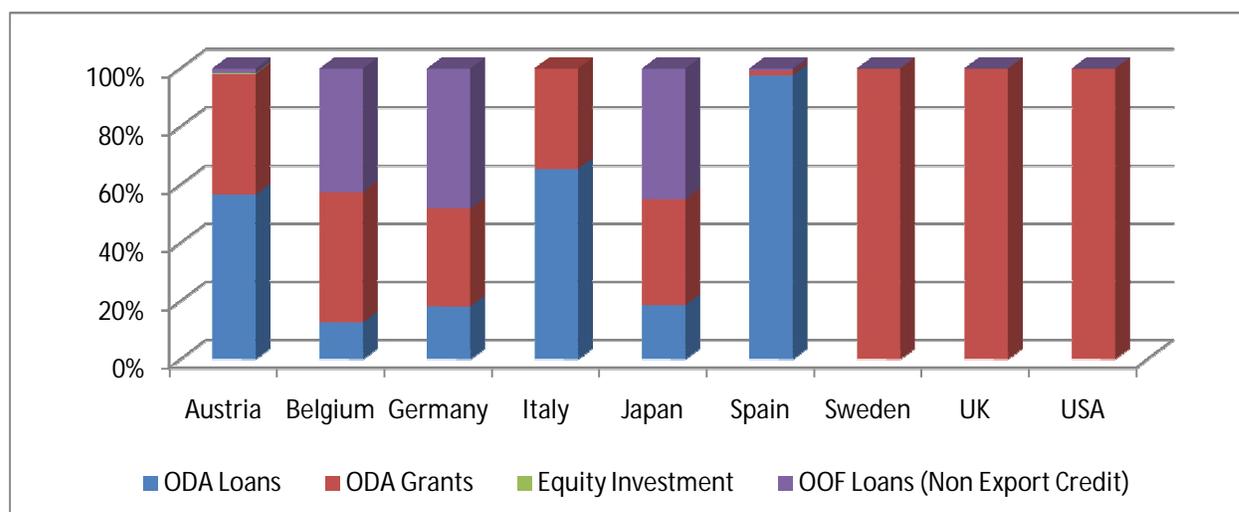
It throws up three important concerns - a) the quantum of finance from an ECA and its linkage or relationship with debt sustainability of the recipient countries and debt relief measures; b) what has been the impact if development finance from ECAs are used as a ODA loan, ODA grant or OOF loans and for what sector it's targeted; and c) what donor behaviour it reflects when this development finance agency/ instrument is used for extending ODA (loans and grants) and OOF. Most of the Non DAC donors would suffer the same strengths or weaknesses and we will address this concerns later.

**Figure 7 Development Finance Flows from DAC Donor's ECAs in Amount**



Source: OECD DAC CRS Database

**Figure 8 Development Finance Flows from DAC Donor's ECAs (in %)**



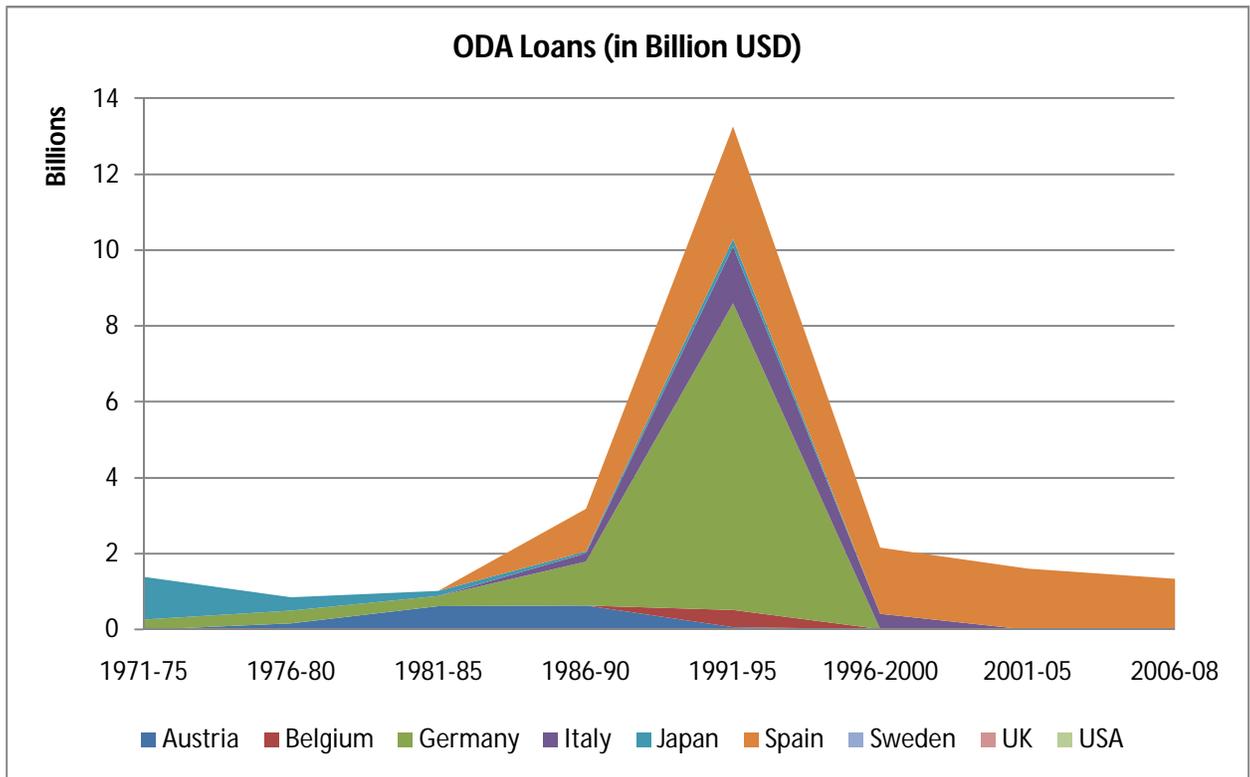
Source: OECD DAC CRS Database

### **Has the use of ECA been reduced over a period of time in Development Finance?**

Figure 9, 10 and 11 together reveals that DAC donor's use of ECA in providing development finance has not been reduced over last forty years. Its nature has changed and it significantly varies among various donors. Last forty years (since 1970) can be divided in three phases –

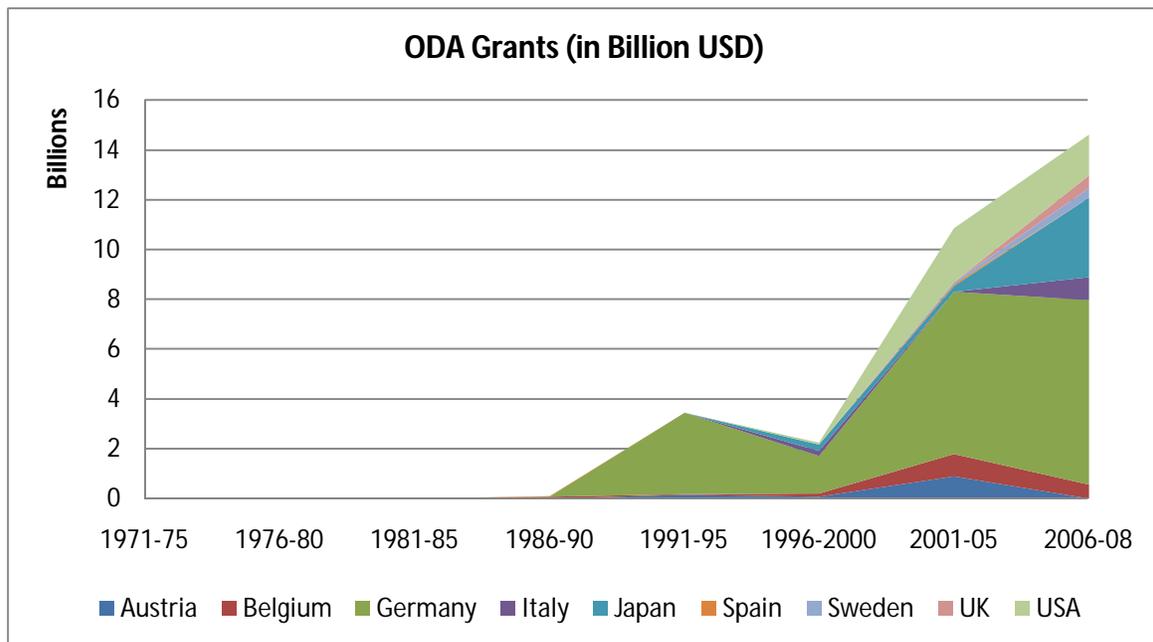
- a) During the 1<sup>st</sup> phase i.e. 1970 to 1980; the development finance from ECAs were reportedly provided as ODA loan and a very few donors (Germany, Japan and later joined by Austria) practiced this. OOF has just started but with a very nominal amount from Belgium. It did not extend ODA grant during this time
- b) Then during 1981-95 when ODA loan and OOF started peaking up and was at all time high. Germany extensively used its ECA to provide ODA loan (9.5) as well as OOF (18.24). Japan (3.89), Spain (4.1) and Italy (1.7) extensively used their ECAs to provide ODA loan whereas Japan (2.04), Belgium (1.5) provided OOF as well. ODA Grant started to be provided but was on a very low scale. Bulk of OOF from 1986 till 2000 came from Germany and Japan.
- c) Then post 1995, ODA loan started to fell down and has no longer been provided by donors other than Spain and Italy after 2000. After 1995, ODA grant started to be used by ECA and is ever increasing after 1995.

**Figure 9 ODA Loans from DACs ECAs**



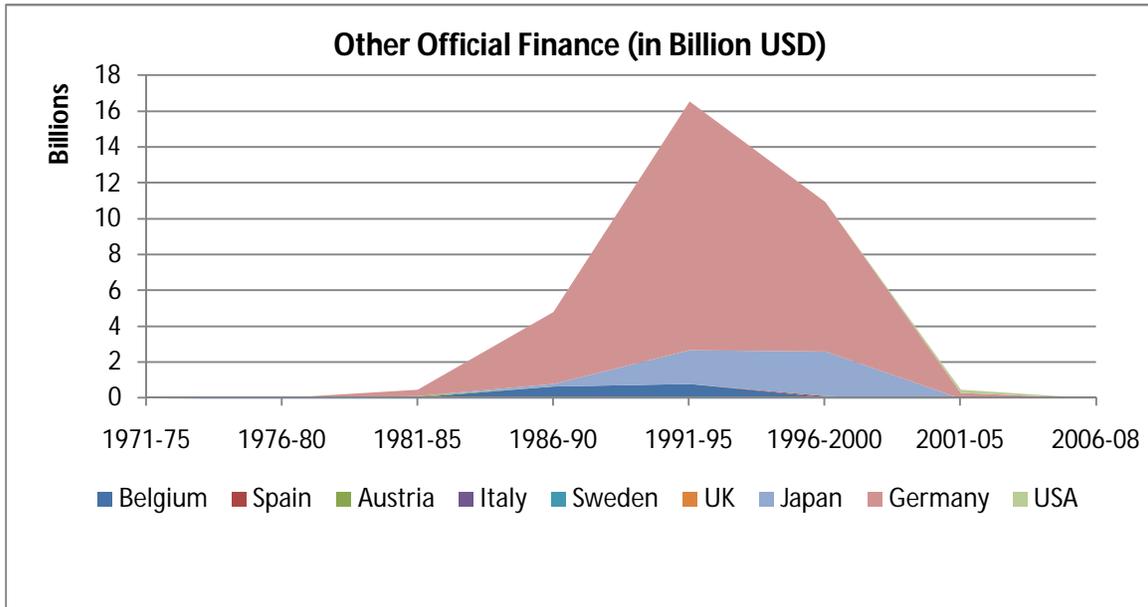
Source: OECD DAC CRS Database

**Figure 10 ODA Grants from DACs ECAs**



Source: OECD DAC CRS Database

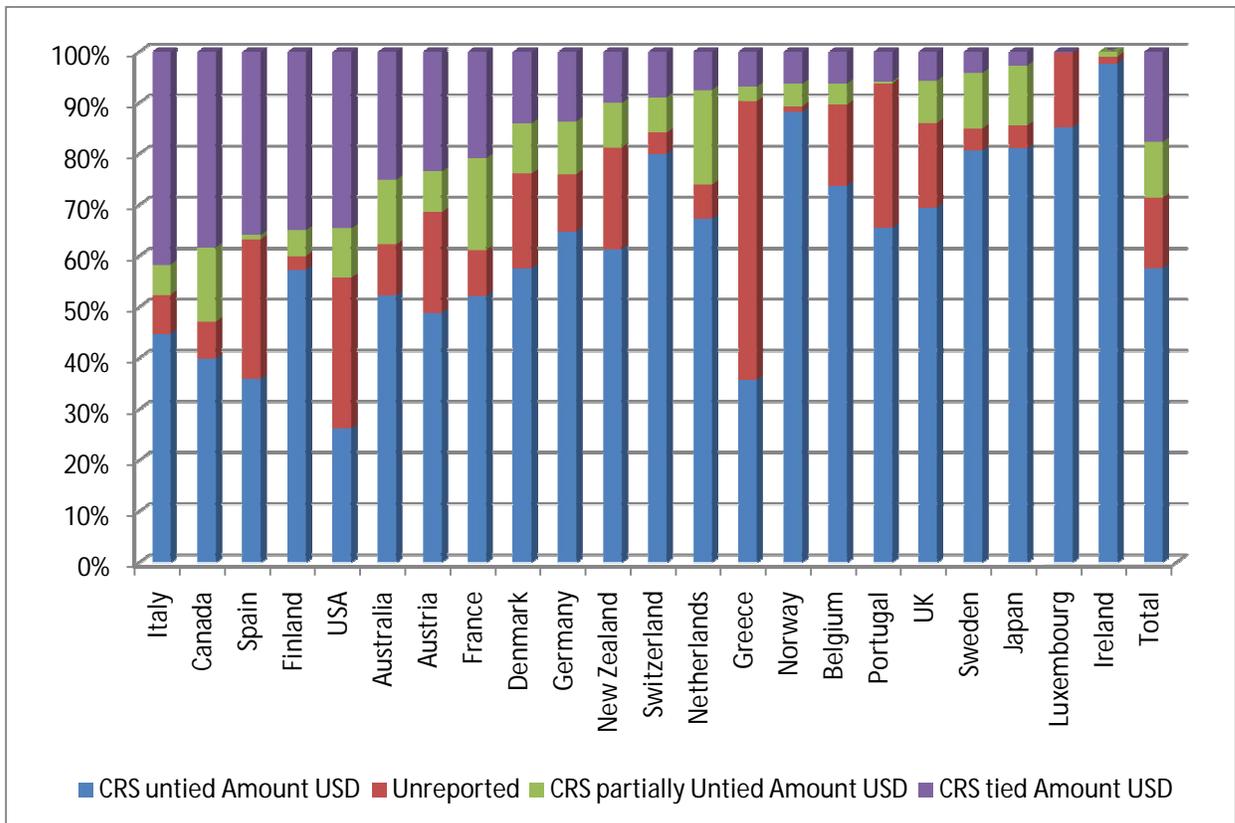
**Figure 11 Other Official Finance from DACs ECAs**



Source: OECD DAC CRS Database

**Development Finance Portfolio (ODA & OOF) of the DAC Donors**

**Figure 12 Development Finance Portfolios (ODA & OOF) 1973-2008 Commitment Current**

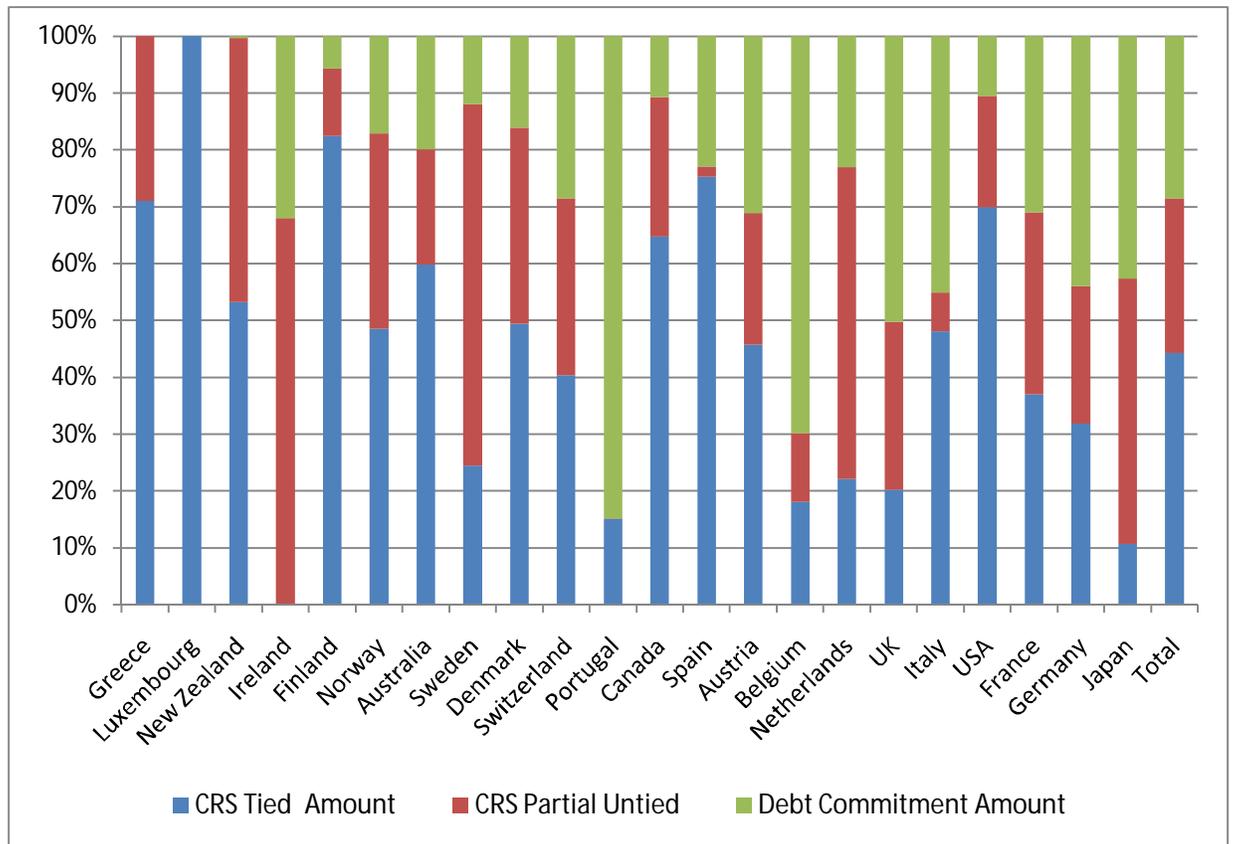


This section scrutinizes development finance from all the financing agencies including ECAs of the DAC donors and captures the flows to determine the status of tied aid and efforts taken under debt relief component. It's difficult to generalize that DAC donors that do not use their ECA have less proportion of tied aid at the same time DAC donors that use their ECA having high proportion of tied aid.

It can be observed that on an average, exporters have captured 29% of the total DAC donor's official development finance during 1973 to 2008. Over all Italy, Canada, Spain, Finland and the USA have 35% to 40% of their total development finance portfolio tied to their procurement. Ireland is the only donor which has not tied its aid to donor country procurement. UK, Sweden, Japan, Luxembourg and Portugal have less than 6% of their development finance tied to procurement.

**Whether DAC donors have provided more in Debt relief or received more as tied aid?**

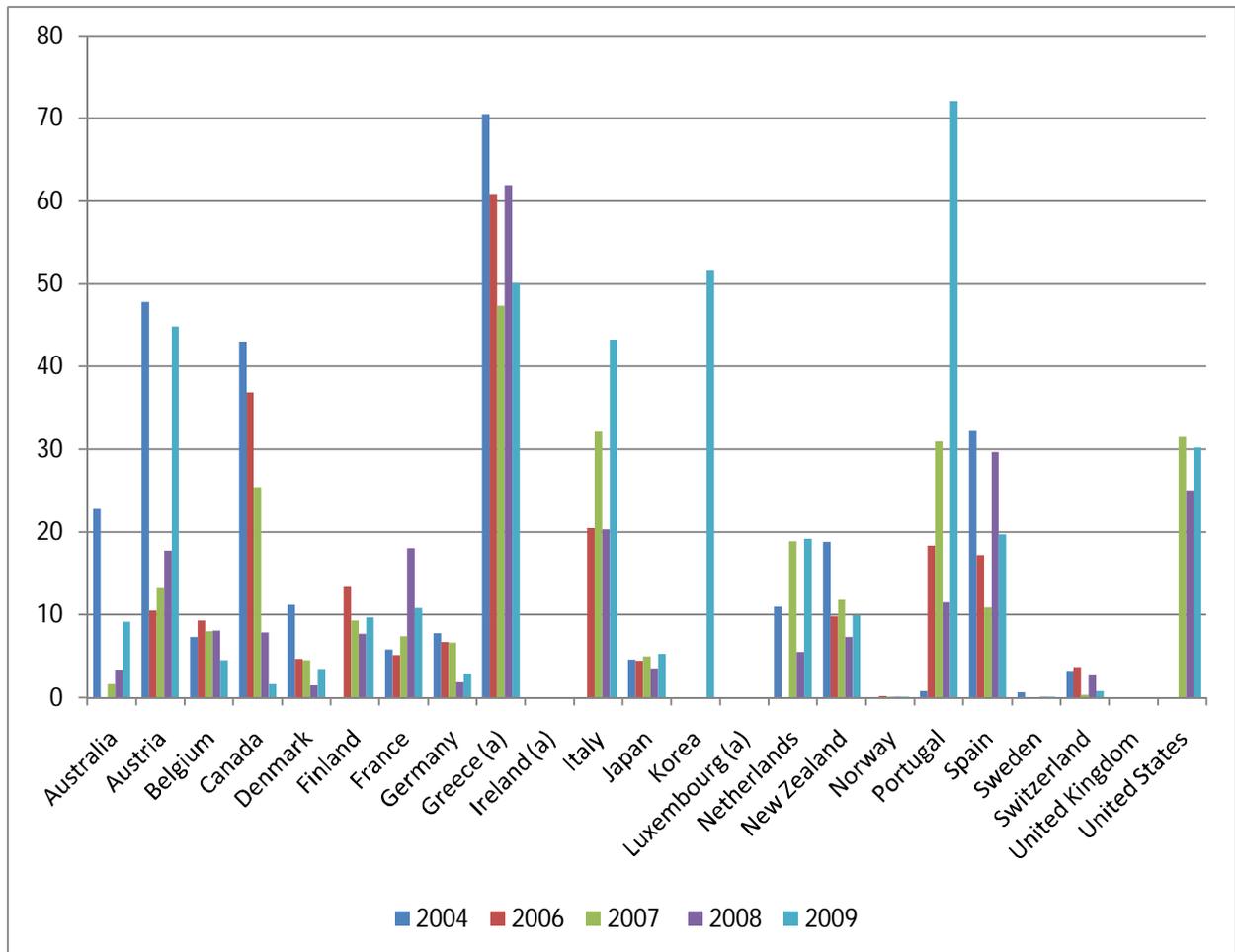
**Figure 13 Ratio of Tied aid vis-a-vis debt relief efforts in the ODA sector**



Although DAC donor debt relief measures are quite huge and overall they have made debt relief worth \$162 billion to debt distress developing countries, they have extended \$252 billion as tied aid and \$155 billion as partially untied. So it's important to explore

as what's the source of this debt which has been accumulated over a period of time that DAC donors extend as a debt relief measures. Is it due to ODA loans, Other Official Loans or Officially Supported Export Credits?

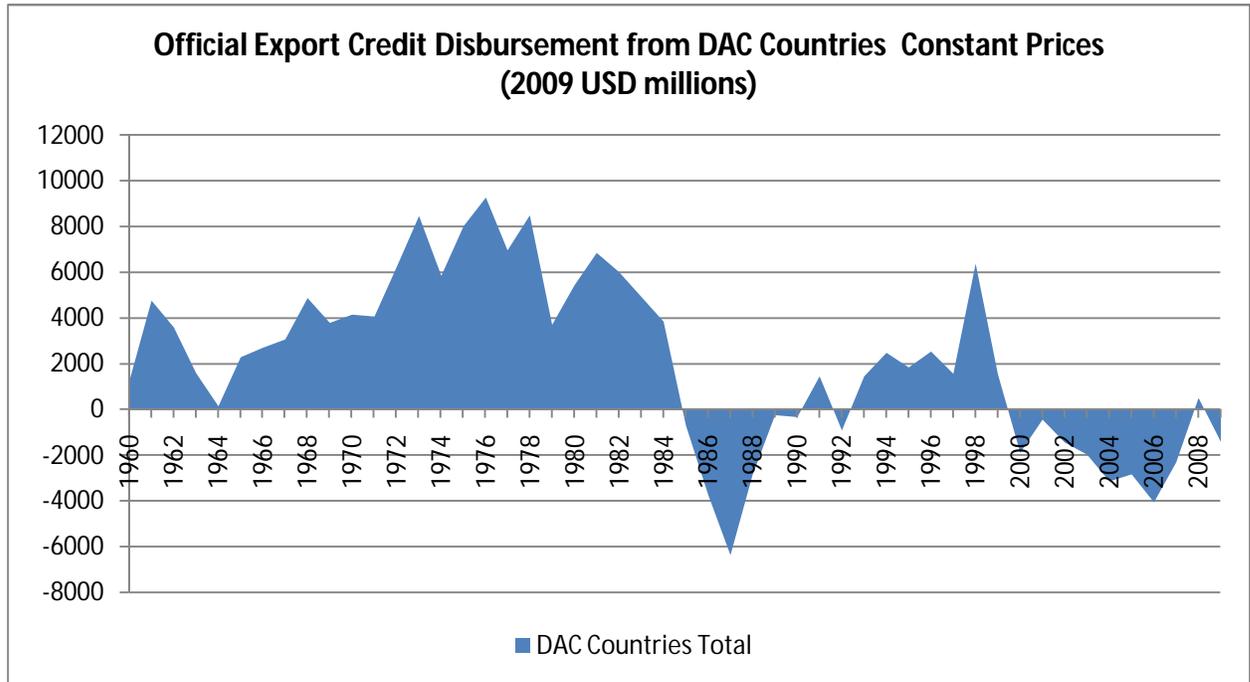
**Figure 14 Tying Status of ODA by DAC donors:**



Source: OECD QWIDS 2011

After the Paris Declaration, it's worth noting that the USA that was not reporting how much of its aid is tied has started to report it. Further, Korea that is a new entrant to the DAC architecture reflects more than 50% of its ODA as tied aid. There are a few DAC donors which do not tie aid anymore (UK, Ireland and Luxembourg), a few which have improved a lot (Australia, Canada, Germany and Japan) and a few which are tying more (Austria, Portugal and Greece) and few which are not doing much effort and remained at the same level (Austria and the USA). So within the DAC donors, there is a diverse behaviour towards aid untying.

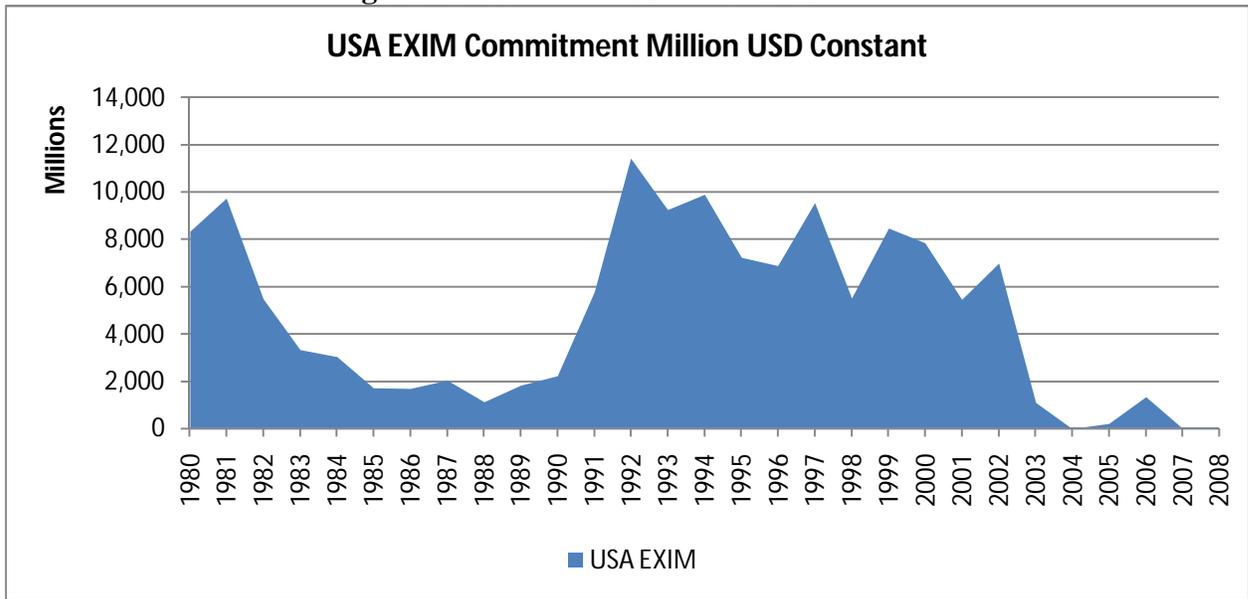
**Figure 15 Official Export Credit Disbursements from DAC Countries**



Source: OECD QWIDS 2011

From 1960-2009 (figure 15), \$140.7 billion (2009 constant prices) has been disbursed as official export credit out of which \$34 billion has been repaid and \$106 billion is still yet to be repaid. It's difficult to calculate how much interest it has accumulated over last 50 years. As noted earlier the DAC donor debt relief measures are quite huge and overall they have made debt relief worth \$162 billion to debt distress developing countries, it's difficult to calculate how much debt relief was made against official export credit. But as per the AidData database the USA Exim commitment from 1980- 2008 is \$137 billion, which presents very different and conflicting picture from what is given by OECD's QWIDS database (figure 16). Out of \$137, only \$4 billion is captured by DAC CRS and rest of the figures is generated by AidData database from the annual report of the ECAs of the USA. This indicates the black box problem within the export credit reporting which is largely restrictive in nature.

**Figure 16 USA Exim Commitments**

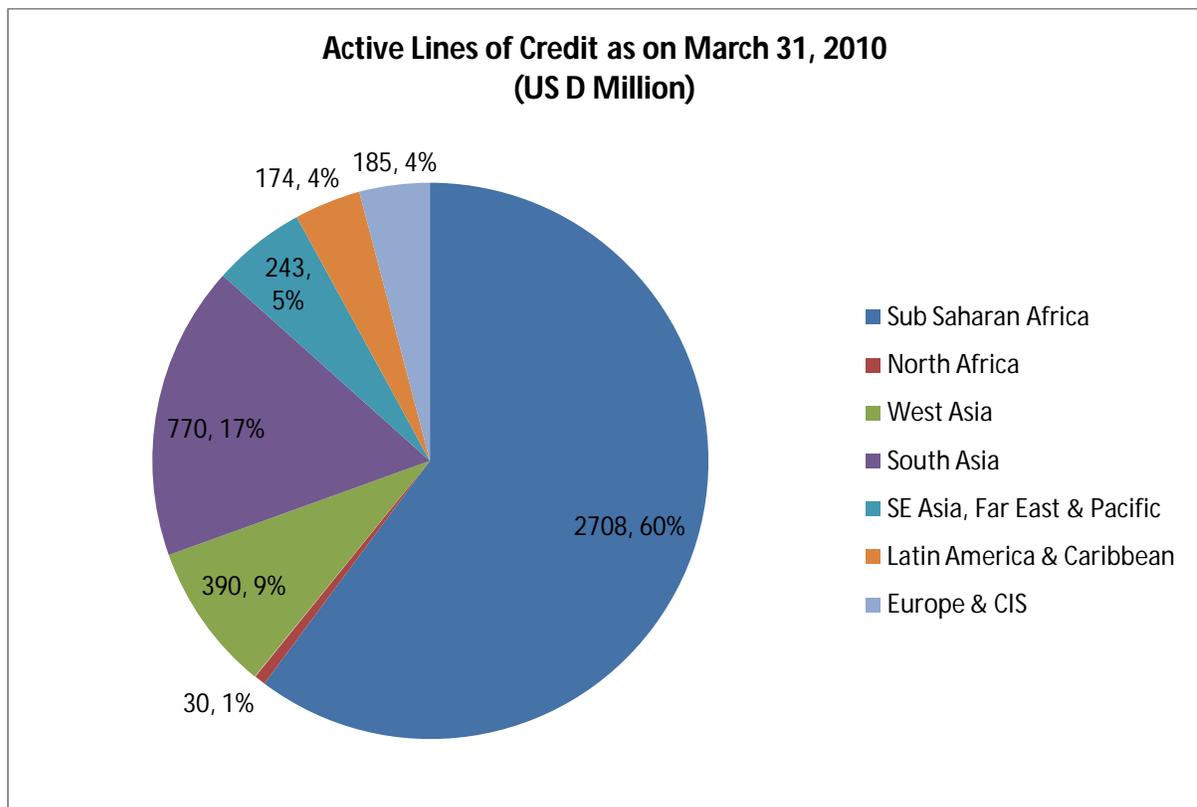


Source: AidData Development Finance Database

### A Non DAC Donor Case Study: India’s Lines of Credit (LOC) Programme

Another important but growing component of India’s development cooperation programme to Africa is the lines of credit (LOCs) extended by the Export-Import Bank of India. LOCs are generally extended to overseas financial institutions, regional development banks, sovereign governments and other entities overseas, to enable buyers in those countries to import goods and services from India on deferred credit terms. A line of credit is not a foreign aid instrument, but rather an instrument for promoting international trade. It is used as a tool not only to enhance market diversification but also as an effective market entry mechanism for small and medium Indian enterprises. Indian LOCs are tied to the ‘project exports’ to the tune of 85% of goods and services to be procured from Indian firms. In order to participate in the promotion of economic growth of these developing countries, Indian companies tend to participate in the execution of many projects such as railways, information technology, power generation and transmission, buses, sugar mills and agricultural projects. It is important to mention that extension of LOCs is considered to be an effective market entry mechanism especially for small and medium Indian enterprises.

**Figure 14 Indian Lines of Credit Outlay**



**Source: EXIM Bank Annual Report 2009-10**

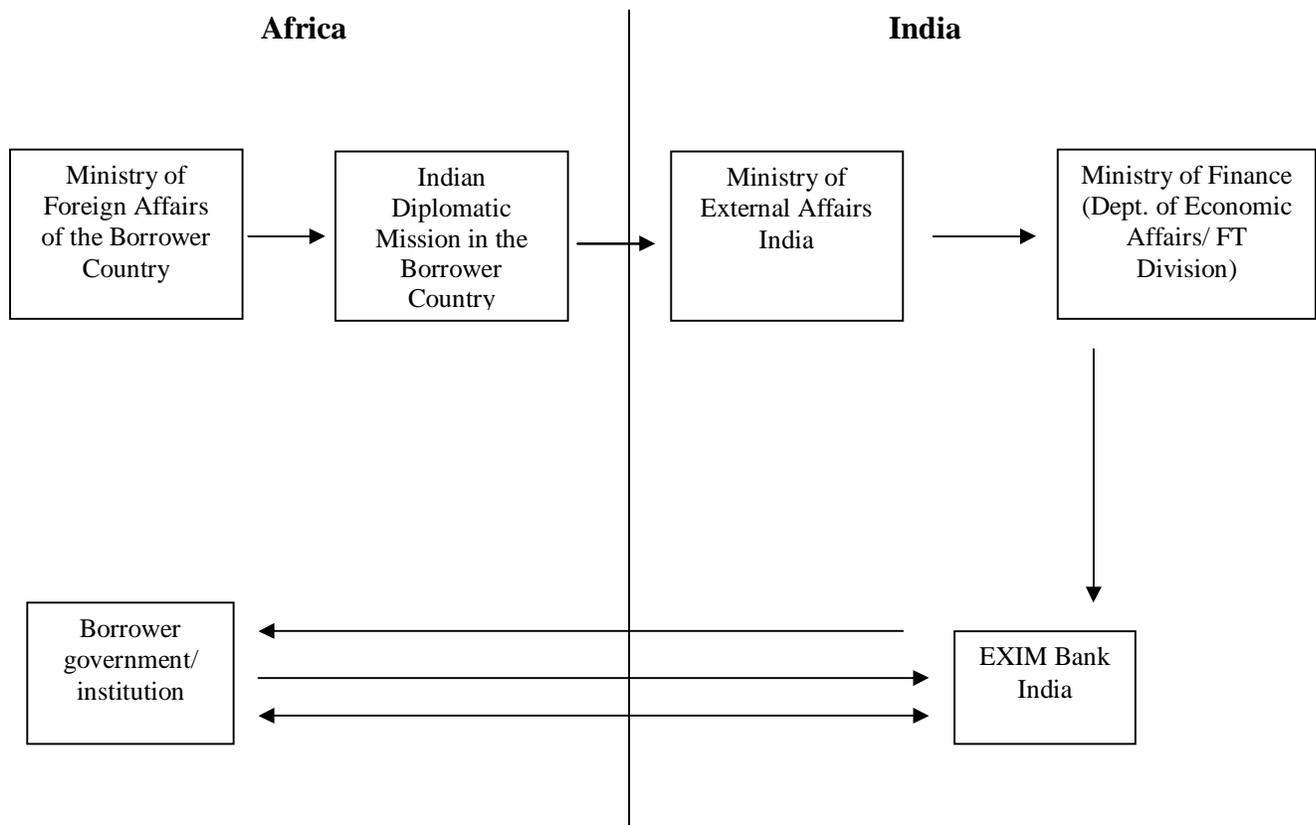
As of 31 March 2010, US\$ 2.708 billion or 60% of total EXIM Bank’s operative portfolio of US\$ 4.5 billion was operational in sub-Saharan Africa. During 200-10, the EXIM Bank extended 22 LOCs aggregating US\$ 753.21 million (EXIM Bank 2010). 136 LOCs covering 94 countries are currently available. New initiatives to double the existing

levels of lines of credit to Africa to US\$ 5.4 billion over the next five years, and a fresh grant of US\$ 500 million in the area of capacity building and human resource development, will only strengthen and enhance this development cooperation.

### **Institutional arrangement for approving LOCs**

The Ministry of Finance and the EXIM Bank are the two institutions responsible for the execution of the LOC programme. This section describes the approval process.

**Figure 15: Institutions and activity flow chart for approval of an LOC**



**Source: Based on EXIM Bank of India guidelines for LOC**

Figure 15 outlines the institutions involved for the approval of LOC and the steps in the approval process. This includes the following:

1. The Ministry of Foreign Affairs of the borrower country requests for an LOC which is accompanied by a pre- feasibility report of the proposed project, estimated cost of project, its justification and proposed repayment arrangement.
2. Indian diplomatic mission in borrower country forwards proposal with its recommendations/ comments to the head quarter in New Delhi.
3. The Ministry of External Affairs, New Delhi recommends the proposal to the Foreign Trade Division in the Department of Economic Affairs, Ministry of Finance for appraisal



### **Source: Based on EXIM Bank of India guidelines for LOC**

Under such circumstances, procedures for approval of contracts (Figure 14) are as follows:

1. The borrower government/institution proposes a project concept/proposal to the Ministry of External Affairs, New Delhi.
2. The Ministry of External Affairs, New Delhi, recommends project proposals to the Foreign Trade Division in the Department of Economic Affairs (DEA), Ministry of Finance, which forwards it to the EXIM Bank.
3. The EXIM Bank examines GOI-recommended proposals in the light of provisions of the LOC agreement. If found in line with all the requirements, it conveys approval for specific contracts/projects to the borrower government/ institution, MEA and DEA.
4. After receiving the approval from the EXIM Bank, the borrower government/ institution invites bids from Indian bidders.
5. After an evaluation of the awards and bids, the borrower government/ institution refers the awarded contract for approval to the EXIM Bank.
6. The EXIM Bank examines the contract in the context of provisions of the LOC agreement and may seek the following clarifications from the Indian exporter: (i) a list of sub-suppliers and their scope of work, (ii) delivery schedule and (iii) any other information considered necessary.
7. Finally, the EXIM Bank approves the contract and conveys this to the borrower government/ institution, MEA, DEA and Indian exporter.

### **Are Indian lines of credit concessional enough to qualify as ODA?**

Indian lines of credit are granted on the basis of the Paris Club initiative and the World Bank classification. Except for countries with middle level income and medium to high levels of debt (MILD), all other countries access these lines of credit on concessional terms. The grant element is 41.25% for the highly indebted poor countries (HIPC) group, 35.11% for countries having a low income and high levels of debt (LIHD) and 28.75% for countries having a middle level income and high levels of debt (MIHD).

**Table 3 Terms and conditions of Indian lines of credit**

<b>Group</b>	<b>Interest</b>	<b>Period</b>	<b>Grace</b>	<b>Grant Element</b>
HIPC declared under the Paris Club Initiative	1.75% (fixed)	20	5	41.25%
LIHD*	LIBOR+0.5% (floating)	15	5	35.11%
MIHD	LIBOR+0.5% (floating)	12	4	28.75%
MILD *	LIBOR+0.5% (floating)	8-10	2-3	17.11% - 24.56%

\*According to the World Bank Statistical Appendix 2003

**Source: Ministry of Commerce (2011), India**

As OECD defines them, the concessional loans are ‘extended on terms substantially more generous than market loans’ and ‘the concessionality is achieved either through interest rates below those available on the market or by grace periods, or a combination of these. Concessional loans typically have longer grace period’ (OECD 2007). In the case of HIPC, the interest rate charged under the Indian LOC is 1.75% at the fixed rate, with 20 years’ repayment and a five-year grace period. The grant element constitute 41.25% of the loan, making it highly concessional (EXIM Bank 2010; Rao 2006). Thus, on the basis of the concessionality of loans, Indian LOCs targeted towards heavily indebted African countries definitely qualify as overseas development assistance (ODA) because they carry a grant element of at least 25%.

### **But can Indian LOCs be technically considered as ODA?**

As India does not adhere to OECD/DAC guidelines and extends LOCs as one of its development cooperation tools, it is important to understand what definition of development assistance it would fall under and whether it can technically qualify as ODA or not. Looking into the OECD’s wider definitions of official development finance, it seems that it could either fall into the classification of ODA or officially supported exported credits (OSEC), depending on the purpose and concessionality element of the financial flows (OECD 2007).

As discussed above, Indian LOCs have qualified as ODA on the basis of their concessionality element as they carry a grant element of more than 25%. Nevertheless, since the purpose of LOCs extended by India is to promote international trade through financing the export of goods and services, it is likely that they would fall into the category of OSEC and not ODA. It is important to explore how OECD/DAC segregates the issue of LOCs vis-a-vis grant element/concessionality. It is interesting to note that OECD guidelines on ODA state that any ‘lending by ECAs – with the pure purpose of

export promotion – is excluded’ from the category of ODA. Therefore, based on this guideline, Indian LOCs do not qualify to be termed as ODA.

### **If it is not ODA then is it Aid for Trade?**

As the purpose of Indian LOCs is to promote developmental activities as well as international trade through financing the export of goods and services, it is essential to see how this development instrument fairs in the established international context. Question arises whether it is an aid for development, or an instrument for promoting trade between India and other developing countries. It is important to remember that India was actively encouraging African countries to sign on more LOCs while OECD was simultaneously carrying out a policy dialogue with its non-OECD members to buy into aid for trade (AfT) as an engine of economic growth and poverty reduction (OECD, 2006). This was organised on the basis of recommendations of the WTO task force to operationalise the AfT.

**Table 4 Financing for Trade (commitment in USD millions current)**

	<b>2002</b>	<b>2004</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
AfT Other Official Finance	11412	11904	9986	14176	20234	27305
AfT Official Development Assistance	14316	17855	23768	21976	23589	27084

**Source: Aid for Trade at a Glance: 2<sup>nd</sup> Global Review, WTO/OECD (2009:54)**

AfT, which includes both other official finance as well as official development assistance, was found to be an integral component of Financing for Trade. As these figures in Table 4 are calculated only for OECD DAC donor countries and not for Non DAC donors like India, it is possible that if India’s LOCs are considered from the same yardstick, they would fall into the category of ‘AfT Other Official Finance’ and widely recognised as a trade instrument (OECD/WTO, 2009b).

### **What’s the Issue of Tied Aid vis-a-vis Export Credit?**

The issue of tied aid in Indian lines of credits originates from the blurred line drawn between the way official development aid and officially supported export credit is defined by the OECD. It is important to mention that on the one hand, development cooperation directorate of OECD excludes export credits to be termed as an ODA and on the other hand, trade and agriculture directorate of OECD agrees that officially supported export credits cannot be considered as tied aid as long as it is in conformity with their agreed arrangement. Thus OECD DAC members are agreeing to have complimentary policies for export credits and tied aid where export credit policies should be based on open competition and the free play of market forces. At the same time, tied aid policies should provide needed external resources to countries, sectors or projects with little or no access to market financing (OECD, 2009a: 17). At the moment it seems that India like

other southern donors is not interested to locate whether its lines of credit falls under the category of ODA/ tied aid or not because extending such lines of credits is primarily considered as promotion of trade and investment under South-South cooperation rather than as foreign aid.

### **Debt Relief Measures on Export Credit: Divergence of DAC and Non DAC Donors**

In the recent past, large export credit inflows have caused concerns of debt sustainability in the African countries but there is no clear indication that whether these problem exists because of additional finance from Non DAC donors. Furthermore, there is a concern that limited absorptive capacity supplemented by large aid inflows may lead to over indebtedness in Africa and have the potential of hurting the recent debt relief efforts initiated by the World Bank, IMF and DAC donors.

But, a recent OECD study exploring the link between imprudent lending vis-à-vis emerging donors found that China is not ‘free riding’ on western countries debt relief measures and suspicion of ‘free riding’ by emerging lenders like China was hardly visible (Reisen & Ndoye, 2008, p 42). In fact new official export credits provided by China has benefited resource rich countries like Angola, Nigeria and Sudan that are not the direct beneficiaries of either Heavily Indebted Poor Countries (HIPC) initiative or Multilateral Debt Relief Initiative (ibid, p42). It was also observed that, ‘China too has granted debt relief (mostly to HIPC beneficiaries), and its subsidised export buyer credits would be considered as concessional by current DAC reporting standards’ (ibid, p42). It’s also widely believed that Both China and India has written off debts owed by poorest African countries.

It’s important to note that China considers ‘development sustainability’ as a key to its investment decisions over ‘debt sustainability’ and bank on ‘untapped capacity to service future debt’ (Brautigam, 2008, p29). China’s Eximbank works on this lending principle and lend export oriented investment as well as infrastructure projects. Reisen & Ndoye pointed out that, in Angola and Sudan, Chinese investment and the higher prices stimulated by China’s demand for raw materials has considerably improved debt-distress indicators in both countries’ (2008, p29). Though, comparing the volume of China and India’s debt relief vis-à-vis DAC donor’s debt relief would be inappropriate because of huge difference of assistance they provide. But it is worth noting that China, despite not being a Paris club<sup>7</sup> member, have forgiven \$1.27bn worth debt to 31 African states (Oya, 2006, p24). It has also planned to write off another \$1.27bn which would have amounted to 60% of the total debt owed to China, a significant contribution to debt relief not in absolute volume terms but in overall gross debt portfolio (Brautigam, 2008, p16).

Question arises as whether DAC and Non DAC donors have the same policy to extend debt relief of their export credits? The Netherlands has done so in the past and their debt relief components includes bilateral export credit<sup>8</sup>. Though it’s just anecdotal evidence but if we assume that’s the case with all the DAC donors, what’s the official policy of Non DAC donors towards providing debt relief of their export credits? It’s important to

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<sup>7</sup> The Paris Club is an informal group of 19 official creditors

<sup>8</sup> <http://www.fondad.org/uploaded/HIPC%20Debt%20Relief/Fondad-HIPC-Chapter7.pdf>.

note that ‘in June 2003, India announced its intention to write off all non-export credit claims on HIPCs. However, several agreements remain unsigned. (As of March 31, 2008) India has not yet agreed to provide full relief on export-credit claim’ (World Bank 2008)<sup>9</sup>. The data on debt relief efforts of Chinese export credit is not yet known and ‘the debt relief estimates for China are based on debt cancellations data provided by debtors’ (ibid). In the case of China, most of the export credit loans are backed by resource repayment instead of cash which otherwise is evident in the case of DAC donors. It is difficult to predict as why both India and China will not resort to providing debt relief measures like DAC donors. But at least in the case of Chinese export credits, it seems that China would not easily give up their preference of tying resource repayment against their export credit advances and would not provide debt relief because of its own past experiences. Brautigam (2010) has mentioned that the Chinese have been treated the same way from Japan, one of the DAC donors, in the past.

Though the point of divergence lies in different practice of DAC and Non DAC donors i.e. debt vis-a-vis development sustainability, the larger question remains the same. Whether it’s debt sustainability practiced by the IMF and DAC donors or development sustainability practiced by China, a huge amount of export credit inflows are targeted towards developing countries and it would continue to do so in the future. The restricted access to information to official export credits and private loans and credits under official guarantee or insurance prohibits exploring and establishing the linkage between official export credits and external indebtedness.

### **Conflict of Interest: To have a gentleman’s agreement is not enough**

‘The conflict of interest denotes a situation in which an official (development assistance) has a private financial interest (mercantile) sufficient to influence, or appear to influence, the exercise of its public duties and responsibilities (poverty reduction). The concept is applicable not only to situations where a conflict *actually* (use of ECA in delivering ODA) exists, but also where it *appears* (back door export subsidies associated with tied aid) to exist. A charge of conflict of interest may arise not only when public duty clashes with private interest, but also when they appear to converge (complementarities and synergies among aid and export finance)’ Williams (1985: p6) and Ray (1995).

Finances from ECAs acts as a means to promote domestic exports at the same time without adding to donor’s budgetary stress (Bond, 1991). The extent of the use of ECAs in the official development assistance reflects the donor’s commercial interest in its foreign aid programme.

The OECD’s arrangement on guidelines for officially supported export credits which provide a working rule for the ECAs of the participating countries. Ray mentions that ‘the arrangement has no means of enforcing its rules except the unwillingness of participants to be seen to be breaking their pledged word’ (1995: 40). Importantly he suggested that that among the two types of arrangement on guidelines for officially supported export credits, those providing transparency are more important than the ones those providing discipline (ibid, 41). As one of the possible tools to reduce conflict of

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<http://siteresources.worldbank.org/INTDEBTDEPT/Resources/hipscorecard.pdf?resourceurlname=hipscorecard.pdf>

interest is to promote transparency and encourage disclosure of the information. It will not only ensure that the agreed rules are followed by the participants but also make them accountable of their own behaviour to their constituents, in this case, to their own citizens as how their public money is allocated towards export promotion and official development assistance. The objective of this information disclosure is not to carry on with the back door export subsidies associated with tied aid and making efforts to distinguish whether the export credit flows are concessional enough to qualify as ODA or 'pure' for the purpose of export promotion and thus can't be termed ODA (and thus restricted from the public scrutiny). As the OECD's agreement required official export creditors to notify other participants in case of any diversion or deviation from established procedures and then other participants were allowed to deviate up to that extent subject to further notification (Pearce, 1980: 48). The objective of this notification is to keep all the participants informed and it seems to be the case even today as the access to export credit database has restricted public access.

**Note – what's to be pursued in further drafts of the paper**

The further draft would pull together the points of divergence among DAC and Non DAC Donor's use of export credit and explore the conflict of interest existing in export credit industry. It would also recommend how to reduce or minimize this gap through the use of information disclosure mechanism already set up by International Aid Transparency Initiative.

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