BUSINESS at OECD

# Building on the momentum for a more fit-for-purpose OECD Arrangement

November 2023

Position and proposals by *Business at OECD* (BIAC) on the OECD Arrangement post-modernization discussions on payment and credit terms

**Established in 1962, *Business at OECD* (BIAC) is the officially recognized institutional business stakeholder at the OECD. We stand for policies that enable businesses of all sizes to contribute to economic growth, sustainable development, and societal prosperity.**

**Through *Business at OECD*, national business and employers' federations representing over 9 million companies provide perspectives to cutting-edge OECD policy debates that shape market-based economies and impact global governance. Our expertise is enriched by the contributions of a wide range of international sector organizations.**

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# Key Messages

- *Business at OECD* (BIAC) thanks all Participants of the Arrangement on the **modernization** of its "Arrangement on Officially Supported Export Credits" (**OECD Consensus**). In *Business at OECD*'s view, **important milestones have been reached** to reduce its complexity and to regain the attractiveness of the Arrangement.

- Continuous efforts to **establish a global level playing field are still necessary** to ensure that competition amongst exporters is based on the quality and price of goods and services, rather than on the favorability of public financial support. It is also important to reaffirm that the core purpose of the OECD Consensus is to make a uniform and practicable set of rules for all official support for cross-border trade-related finance.

- **There is a need to align the rules for development and export finance on debt products more coherently**. The current set of rules prevent effective financing support for countries which are more vulnerable. They foster isolated approaches and do not reflect the project reality, while tied vs. untied products and programs are not reflected comprehensively in the Arrangement. Thus, a more favorable framework conditions should foster an easier combination of export and development finance tools to consider projects needed urgently such as for social infrastructure.

- Considering the **efforts of the OECD Consensus to address climate change, *Business at OECD* would also like to draw attention to the technologies necessary for the energy transition towards a carbon neutral industry, also in the context of the upcoming revision of the Common Approaches (CA)**. We strongly believe that in their efforts to reform the currently outdated CA, decision-makers should carefully analyze global competition and practicability, versus the risk of an overly burdensome reporting requirements. *Business at OECD* is ready to exchange views on a more coherent but also more business-oriented approach, and to define a common position since the current Consensus lacks a clear bottom line for applicable standards. Finally, we advocate for the revision of universal standards that could derive from the OECD Common Approaches and related standards (such as IFC Performance Standards, World Bank EHS Guidelines) which could serve as potential guiding principles.

# Introduction

With this position paper, *Business at OECD* (BIAC) aims to contribute to the ongoing discussions within the OECD on the modernization of its "Arrangement on Officially Supported Export Credits" (OECD Consensus). *Business at OECD* and its members are grateful and applaud all actions, engagement and the determination of the Participants and the Secretariat in achieving the recent modernization package. The steps taken reflect a wide range of the positions advocated for by *Business at OECD* with the goal of making the OECD Consensus again fit-for-purpose, while it has a significant focus on mere credit and loan repayment terms. Again, we support all efforts for a more fit-for-purpose Arrangement, especially considering the need to account for new products and business models in the context of the post-Covid global economic landscape that is still filled with many uncertainties. At the core of our concerns are especially the continuing constraints on energy supplies and the global energy transition, ensuring a fair and competitive global trade environment, and improving public welfare.

The overall interest since 1974 has been to create a global level playing field to ensure that competition amongst exporters is based on the quality and price of goods and services rather than on the favorability of public financial support. With this modernization, an important milestone has been achieved in terms of market-reflected payment and repayment terms, whilst addressing global constraints such as climate change actions and climate-related transformation approaches.

Besides the relevance of global value chains and the widely acknowledged increased competition outside the OECD Arrangement, that also propose better financing conditions, there is a continuous need to ensure that the OECD Consensus remains attractive for the re-establishment of a real global level playing field. *Business at OECD* supports convincing existing members to adhere to the set of given rules in the Arrangement, and to further attract new members as a response to the challenges that emerge from recent BRIC initiatives and beyond.

Therefore, we are committed to further exchanges with the Practitioners, representatives from the banking sector and *Business at OECD* as well as NGOs. In our 2023 paper, we provide several recommendations that – in our view – are necessary amendments to the terms and conditions of the OECD Consensus.

# Recommendations

## A) Expanding the scope of technologies to fight climate change

The recent modernization of the Arrangement also included technological developments to fight climate change. This updated sector understanding on export credits for climate change was certainly a good first step to support climate change mitigation projects beyond renewable energy projects. However, in *Business at OECD*'s view, its scope should be extended. We think that more generally **circular economy, recycling (not solely for BEV), biofuel** are some examples that could be covered in the CCSU annex. We urge the Participants to agree on criteria, standards and definitions to keep low emissions manufacturing and Clean Energy Mineral and Ores in the scope of the CCSU beyond 30 June 2024. Additionally, biofuels should be incorporated in this revision.

Moreover, we stress that the recently updated CCSU and its promotion in coverage and funding for **energy transformation technologies** should not be ceased, since it is a continuous necessary effort. It also needs to be considered in view of **global competition and customer requirements**, especially in emerging and developing countries.

## B) A strong case for the adaptation of the OECD Consensus towards a more flexible set of rules

Besides the increased competition outside OECD rules with flexible and fit-for-purpose financing conditions as well as an increased relevance of global value chains, there is new product and business model related evidence from the day-to-day business of exporters that make **a strong case for the adaptation of the OECD Consensus towards a more flexible set of rules**.

**New product and business models** related to greater flexibility, such as pay-per-use business models and new products that are typically not bound to physical exports, e.g. cloud-based and software solutions, pay-per-use models, or cross-border lease and rent cannot be financed by the current OECD Consensus. In that regard, flexible repayment models, open residual values and low (or nil) down-payments must be considered. Similarly, there is not always a traditional sale of goods, e.g., a customer abroad may not buy a machine, but instead purchase a right (license) of use. The respective ECA cover should hence not only relate to a physical export, but to a cross-border contractual relationship. The structures and their legal consequences are diverse and need to be covered by the OECD Consensus as it exists today.

## C) Proposals for concrete updates

*Business at OECD* **proposes the following concrete updates regarding the OECD Consensus' financing terms and conditions** as concerns (1) minimum down payments, (2) the scope of Consensus and (3) the minimum premium for credit risks.

### (1) Minimum down-payment requirement

It remains difficult to source funding for the 15 percent of the export contract value, particularly for large government contracts. For public buyers/borrowers – especially in emerging and developing markets – liquidity requirements are often challenging. Customers are forced to reserve liquidity for working capital that is lacking for investments, i.e., down-payments. Private insurance companies and commercial banks show little or no willingness to provide unsecured financing or risk cover (credit insurance) for "medium-term" advance payment financing. Furthermore, in addition to the effects of the Covid pandemic, many private buyers (e.g., in Southern and Eastern Europe, Asia, etc.) often face liquidity shortages due to an increased need for regular working capital and for delivery and service scopes that cannot be covered by ECAs.

We propose that ECAs should have more flexibility to support the financing of the down-payment by a maximum cover of 95 percent of the export contract value, including third country supply, i.e., a minimum of 5 percent down payment but excluding local costs. This would be possible thanks to the amendment (through a so-called "Common Line") in force since 5 November 2021, but:

- This amendment is only valid for renewable periods of 12 months, while most files are discussed over larger periods of time, which might cause potential problems when files are finalized.

- The amendment only benefits loans extended to (or guaranteed) by a Sovereign borrower, whilst excluding most projects with public but non-sovereign entities and private buyers.

**There is also a need to further extend the common line for another year until November 2024.** It is important to achieve an overall general understanding for a broader and more flexible approach to the currently strict handling of the down-payment for all supported projects.

## (2) Scope of the OECD Consensus, definition of scope

The scope of the Arrangement is outdated and does not reflect new business models and continuous unaddressed issues which were communicated by the 17 UN SDG´s. The Arrangement also does not set parameters for programs outside its scope of rules, such as a provision for untied export credits, untied investment loans or untied development loans and for official support for equity investment. We believe the Arrangement would be more comprehensive and more incorporating if ways could be found to better combine the export credits with development aid products. **We therefore would like to start a discussion regarding the possibility to consider – if possible, in a separate sector understanding – affordable public social infrastructure**, e.g., health care, as a key priority to ensure the delivery of basic essential services in emerging market economies.

These social infrastructure projects are partly revenue and partly non-revenue generating (unlike for instance green power generation projects), and therefore longer repayment terms – **in line with what is contemplated for the CCSU** – and other useful incentives such as a premium reduction would be very much appreciated by our business partners in emerging economies. The Participants may consider defining sectors and criteria that would also include social projects.

**Further outreach to new members, as well as discussions on issues related to forming an understanding of tied and untied aid**, lie ahead. The question from BIAC's point of view is not how we can limit and find stricter regulatory approaches but how to continue fostering support for home-based industries as well. It is important to find common ground on how we are going to tackle the immense tasks and questions which lay ahead of us in terms of social infrastructure, UN SDGs, energy and public transport transformation, climate change, health, digitalization, CI and other issues. For the trillions of funds needed currently and, in the future, narrowing programs and products is not the path forward. Cooperative and inclusive actions are necessary to help to onboard more players and provide solutions for the challenges ahead.

## (3) Minimum premium for credit risks

**Without publishing or notifying, non-OECD and OECD competitors have created tools and mechanisms to subsidize premiums, interest rates or provide grants.**

As the ECA premium becomes the ECA's main tool for regulating and pricing the choice of tenor, for assets with a very long-life expectancy or a second life expectancy following rehabilitation services, we think it may be interesting to explore improving the project/ borrower rating if it addresses climate change, the energy transition, the UN SDGs, or social impact. Consequently, this approach would also enable a reduction of the premium.

This can be especially relevant to infrastructure development and benefit a more sustainable use of resources. Especially for least developed countries, a better coordination and combination with ODA instruments needs to be implemented to keep the global relevance of OECD players alive and foster exports and services from the Participants in the global environment. It might thus be worth considering the creation a certain form of a bonus- related system on the premium for borrowers that have not produced any default, e.g., by providing a one notch better buyer category for the next project to be covered. For smaller transactions, the notification requirements should be reduced.

This could be done without questioning the need for the ECA activities to be self-supporting over an economic cycle. Data from the OECD Export Credit Group shows that since 1999, prior to any recovery, premiums have covered indemnifications and operating costs. We would also propose a revision of the **TCMB methodology. In our view, this is an inadequate methodology and approach that makes prohibitive** the ECA solution prohibitive for Cat 0 countries.

We fully understand the need to respect a benchmark methodology with private markets but with current market developments and the need to support investments in climate change and the energy transition that require billions of capital expenditures, it is important that the Participants ensure supporting those developments in developed countries too.

The TCMB model can sometimes result in a premium level that turns out higher than the private market and a Cat 0 country project may have a premium higher than a Cat 2 or 3 country project. Therefore, premiums for Cat 0 countries should ultimately not be more expensive than those given as a minimum rule for projects in Cat 1.

Additionally, an alternative may be to set a cap on projects addressing those in the CCSU annex, with positive social impacts, etc. in capping the result (similar to premiums in the case of longer tenor post-modernization for clients rated BB- or below).

## D) Upcoming review: The reform of the Common Approaches and its related standards

Moreover, the OECD consensus currently lacks a clear set of minimum ESG standards. The OECD Common Approaches (CA) and related standards (IFC Performance Standards, World Bank EHS Guidelines) could be guiding principles and serve as a potential base line definition. Hence, they need to be fit-for-purpose to form a strong and respected framework that is put into practice through engagement.

As already stated in our key messages, we as members of *Business at OECD* and representatives of the private sector at the OECD, are committed to a more sustainable future and to addressing climate change. Although the current CA might be outdated, it is critical to always carefully consider global competition and practicability versus an over-stretched reporting that can lead to counterproductive results. We do not believe that more required data as well as additional processes would help to improve the overall project situation tremendously, neither would that be true for more costly reports of external consultation works, etc. Hence, *Business at OECD* stands ready for an exchange of views on the current Consensus and to advocate for the revision of universal standards that could derive from the OECD Common Approaches and related standards (such as IFC Performance Standards, World Bank EHS Guidelines).

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