



Recommendation of the Council on
Sustainable Lending Practices and
Officially Supported Export
Credits

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Date(s)

Adopted on 30/05/2018

Background Information

The Recommendation on Sustainable Lending Practices and Officially Supported Exports Credits was adopted by the Council meeting at Ministerial level on 30 May 2018. It was developed by the Working Party on Exports Credits and Export Credit Guarantees (ECG), on the basis of the 2016 Principles and Guidelines to Promote Sustainable Lending Practices in the Provision of Official Export Credits to Lower-Income Countries. As a general principle, the Recommendation obliges Adherents to take due consideration of the information provided in a country's most recent Debt Sustainability Analysis in deciding whether or not it would be appropriate to provide export credit support to the public sector in countries covered by the Recommendation. Beyond this general obligation, the Recommendation rests upon two concrete pillars concerning the provision of non-concessional credits to the public sector in countries that are subject the IMF's Debt Limits Policy or the World Bank's Non-Concessional Borrowing Policy. The first pillar is a commitment to refrain from providing such credits to countries that are subject to a zero limit on non-concessional borrowing. The second pillar is an obligation to inform the IMF and the World Bank about any credits that an Adherent plans to support to countries that do not have a zero limit on non-concessional borrowing.

For more information about OECD work on export credits and sustainable lending, please consult: www.oecd.org/trade/xcred.

Contact information: xcred.secretariat@oecd.org.

THE COUNCIL,

HAVING REGARD to Article 5 b) of the Convention on the Organisation for Economic Co-operation and Development of 14 December 1960;

RECOGNISING that official export credits can support the investment needs of lower income countries seeking to boost economic development through higher public investment levels, targeted in particular at large infrastructure gaps, while facing both a wider range of external financing opportunities and limits on the supply of traditional concessional financing;

RECOGNISING that the provision of export credits to the public sector can play a role in the run-up of unsustainable external debt levels by lower-income countries;

RECOGNISING that concessional lending generally remains the most appropriate source of external finance for most lower-income countries and that accordingly the provision of official export credits to public obligors or publicly guaranteed obligors in these countries should reflect prudent credit policies and sustainable lending practices, that is, lending that supports a borrowing country's economic and social progress without endangering its financial future and long-term development prospects and, inter alia, generates net positive economic returns, i.e., expenditures whose overall positive impacts on a country's economy are expected to exceed their financing costs, fosters sustainable development by avoiding unproductive expenditures, preserves debt sustainability and supports good governance and transparency;

CONSIDERING the efforts of the international community, in particular the International Monetary Fund's Debt Limits Policy and the World Bank's Non concessional Borrowing Policy to promote sustainable lending practices;

NOTING that the present Recommendation builds upon the experience in implementing the 2001 Unproductive Expenditure and Officially Supported Export Credits: Statement of Principles [TD/ECG(2001)9], the 2007 Debt Sustainability and Responsible Lending: 2007 Statement of Principles on Unproductive Expenditure [TAD/ECG(2007)10/FINAL], the 2008 Principles and Guidelines to Promote Sustainable Lending Practices in the Provision of Official Export Credits to Low Income Countries [TAD/ECG(2008)15], and the Principles and Guidelines to Promote Sustainable Lending Practices in the Provision of Official Export Credits to Lower Income Countries [TAD/ECG(2016)14] which are embodied in the present Recommendation.

On the proposal of the Working Party on Export Credits and Credit Guarantees:

- I. **AGREES** that, for the purposes of this Recommendation, the following definitions are used:
- "Appropriate government authorities" refers to those authorities that, according to the specific national legislation of the debtor country, are responsible for the country's development and borrowing plans, generally the office in the Ministry of Finance or the central bank responsible for debt management;
 - "Lower income countries" refers to countries that are eligible for financing through the International Monetary Fund (IMF) Poverty Reduction and Growth Trust (PRGT) or that only have access to interest free credit or grants from the International Development Association (IDA) of the World Bank ("IDA Only" countries);
 - "Public obligors" or "publicly guaranteed obligors" refer to any obligor whose repayment obligation is guaranteed by a public entity. In this context, a public entity refers to the central, regional and local governments and public enterprises whose debt obligations would be assumed by the government in the case of a default. In order to determine the status of an entity in a country that is subject to a limit on public debt under a programme supported by the IMF, recourse may be had to the technical Memorandum of Understanding for an IMF programme, where the list of public institutions is defined, or to consultation with the IMF and World Bank;

- “Unproductive expenditure” refers to any transaction that is not consistent with a country’s poverty reduction and debt sustainability strategies and does not contribute to its social and/or economic development.

II. RECOMMENDS that, when deciding to provide official export credits with a repayment term of one year or more to public obligors or publicly guaranteed obligors in lower income countries, Members and non-Members having adhered to this Recommendation (hereafter the “Adherents”):

- (a) take into account the results of the most recent IMF/World Bank country specific debt sustainability analyses (DSAs) conducted within the joint Debt Sustainability Framework, and review the relevant programme or policy documents in relation to each transaction under consideration for support. The IMF’s debt limits for specific countries are included in the programme documents, and the Memorandum of Understanding in those documents sometimes also include reference to specific projects for which non concessional borrowing is allowed.
- (b) take into account the prevailing limits on public sector non concessional borrowing, according to the methodology applied by the World Bank and the International Monetary Fund, for a specific country for transactions involving public obligors or publicly guaranteed obligors in lower income countries that are subject to debt limit conditionality for non-concessional borrowing under the IMF’s Debt Limits Policy (DLP) or the World Bank’s Non-Concessional Borrowing Policy (NCBP). To that effect, Adherents should:
 - i. not provide support for official export credit transactions involving public obligors or publicly guaranteed obligors in lower income countries that are subject to a zero limit on non-concessional borrowing under the DLP or the NCBP (recognising that, in rare circumstances, countries may be moved from a zero to a non zero limit under IMF and World Bank policies following consultations between country authorities and IMF or World Bank staff, as well as subsequent management/board approvals from the respective institutions);
 - ii. seek assurances, on a best effort basis, from the appropriate government authorities in the debtor country that the project/expenditure is in accordance with the DLP or the NCBP for that country for official export credit transactions involving public obligors or publicly guaranteed obligors in lower-income countries that are subject to a non zero limit on non-concessional borrowing under the DLP or the NCBP with a credit value in excess of SDR 5 million (for very small countries with low national income levels of less than USD 1 billion, a threshold of SDR 1 million should be applied). In this regard, participation of the Ministry of Finance or central bank in a transaction as the obligor or guarantor would be sufficient evidence of this obligation having been met.
- (c) so that the IMF and World Bank are aware of all potential public external debt obligations related to projects in lower-income countries to be supported by official export credits in countries before they are contracted, inform the IMF and World Bank via the “LendingtoLICs” mailbox, as soon as possible and in any event before the decision to provide support is finalised, of their intention to provide support for any official export credit transaction involving a public obligor or guarantor in a lower-income country that is subject to debt limits conditionality for non-concessional borrowing under the DLP or NCBP with a credit value in excess of SDR 5 million (for very small countries with low national income levels (less than USD 1 billion), a threshold of SDR 1 million should be applied), providing the level of detail necessary in order for the project to be identified and for the basic financial terms and conditions to be known.

III. RECOMMENDS that Adherents provide data via the OECD Secretariat to the IMF and World Bank on all supported transactions to lower income countries on an annual basis in order to, inter alia, assess Adherents’ success towards ensuring that official export credits to lower income countries are not provided for unproductive purposes and are consistent with the aims of the Debt Sustainability Framework for these countries.

IV. INVITES the Adherents and the Secretary-General to disseminate this Recommendation.

V. INVITES non-Adherents to take due account of and to adhere to this Recommendation.

VI. INSTRUCTS the Working Party on Export Credits and Credit Guarantees to monitor the implementation of this Recommendation and to report thereon to Council no later than five years following its adoption and regularly thereafter.

Adherents*

OECD Members

Australia
Austria
Belgium
Canada
Chile
Czech Republic
Denmark
Estonia
Finland
France
Germany
Greece
Hungary
Iceland
Ireland
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Italy
Japan
Korea
Latvia
Luxembourg
Mexico
Netherlands
New Zealand
Norway
Poland
Portugal
Slovak Republic
Slovenia
Spain
Sweden
Switzerland
Turkey
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Non-Members

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- **Decisions:** OECD legal instruments which are legally binding on all Members except those which abstain at the time of adoption. While they are not international treaties, they entail the same kind of legal obligations. Adherents are obliged to implement Decisions and must take the measures necessary for such implementation.
- **Recommendations:** OECD legal instruments which are not legally binding but practice accords them great moral force as representing the political will of Adherents. There is an expectation that Adherents will do their utmost to fully implement a Recommendation. Thus, Members which do not intend to do so usually abstain when a Recommendation is adopted, although this is not required in legal terms.
- **Declarations:** OECD legal instruments which are prepared within the Organisation, generally within a subsidiary body. They usually set general principles or long-term goals, have a solemn character and are usually adopted at Ministerial meetings of the Council or of committees of the Organisation.
- **International Agreements:** OECD legal instruments negotiated and concluded within the framework of the Organisation. They are legally binding on the Parties.
- **Arrangement, Understanding and Others:** several ad hoc substantive legal instruments have been developed within the OECD framework over time, such as the Arrangement on Officially Supported Export Credits, the International Understanding on Maritime Transport Principles and the Development Assistance Committee (DAC) Recommendations.