

Meeting of the Council at Ministerial Level, 30-31 May 2018

**DRAFT RECOMMENDATION OF THE COUNCIL ON SUSTAINABLE
LENDING PRACTICES AND OFFICIALLY SUPPORTED EXPORT CREDITS**

JT03431022

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.