January 2024

ExFi Lab

WHITE PAPER ON PUBLIC EXPORT FINANCE IN THE EU

“Better together in transformational times”

A supplement to the independent White Paper on Public Export Finance in the EU “Take Action or Fall Behind” by the Export Finance Lab

Prologue

This paper was written over the course of 2023 by a group of experts from 15 national Export Credit Agencies (ECAs) and their respective governments in the EU Member States. For the past year, the work has been pursued in an informal setting under the auspices of the Export Finance Lab Think Tank (ExFi Lab) through an exchange of views and ideas, research as well as discussions on a wide range of issues.

Members of the ExFi Lab include experts from Austria, Belgium, the Czech Republic, Denmark, Germany, Finland, France, Italy, the Netherlands, Sweden and the EU Commission. Views and conclusions expressed in the paper are based on the collective experience and competence of the expert group and not on institutional or national positions.

The objective of this paper is to supplement the 2020 ExFi Lab White Paper on Public Export Finance: "Take Action or Fall Behind"[1]. While the ExFi Lab is pleased that the call for action in the 2020 White Paper was heeded, we also note that the environment which ECAs operate in today looks considerably different from the world of 2020. The export finance landscape is under pressure from geopolitical tension, disrupted supply chains and rising public debt levels. At the same time we see a growing need to sharply increase public finance support for green projects and mobilization of the private financial sector. This leads to an environment of increased risks. The ExFi Lab therefore advocates re-exploring the ways in which EU ECAs and other EU providers of public finance operate order to maximize their impact and contribution to the current complex world. At the same time, the ExFi Lab urges the EU to continue its work on including export finance in its public policy toolbox, as recommended in the White Paper, taking full advantage of ECAs' strengths and expertise to ensure a sustainable and fit for future EU (public) export and trade finance ecosystem.

The ExFi Lab would like to thank all who contributed with valuable input to the discussions. In particular, we thank Ingeborg van den Nieuwendijk, Lise Pedersen and Zoé Colin for their work holding the pen and putting the paper together.

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A complete list of members of the ExFi Lab is attached in the annex.

[1] The ExFi Lab White Paper is available on the ExFi Lab LinkedIn page.

The picture on the front page was generated with the assistance of AI, using the prompts "Picture for front page international trade policy paper, global cooperation".

Executive Summary

Mobilizing capital in time and at scale to ensure a global sustainable transition requires coordinated efforts at EU and global level, also in the sphere of public finance.

The combined mandates of the many national and supranational public finance institutions within the EU speak to supporting a just and sustainable global economy by providing finance for a number of parameters of growth. Such parameters include access to trade (exports/imports), social infrastructure, green innovation, securing access to financial resources and human capital development, to name but a few. A positive global impact hand-in-hand with financial efficiency can only be achieved by these public institutions through coordinated efforts.

Such coordinated efforts must support EU competitiveness, as industries and businesses in the EU are key facilitators of the sustainable transition worldwide. Export credit agencies (ECAs) in the EU can draw on their long-standing expertise in backing companies in their international endeavors, particularly in an increasingly competitive economic environment. In order to meet unprecedented financing demands and to avoid entering a global credit race to the bottom, the EU and its Member States need to ***work better together*** *to build a resilient, cooperative and transparent EU public export and trade finance ecosystem that will support the private sector in increasing their contributions towards a just and sustainable economy in the EU and beyond.*

"...continued dialogue and cooperation are imperative for trade and climate policies to be mutually reinforcing, instead of each potentially becoming collateral damage of the other."

WTO (2023) *Trade Policy Tools for Climate Action*

I. Introduction

Three years have passed since the ExFi Lab called for action in its White Paper on the future of public export finance in the EU *"Take Action or Fall Behind"* (the "White Paper").

While the call has been heeded, we acknowledge that the world of 2020 was considerably different to the environment public ECAs operate in today. Significant events such as the global COVID19 pandemic and Russia's war in Ukraine prompted us last year to not only take stock of actions undertaken since the publication of the White Paper, but also reflect on the current state of play of the EU ECA community[1]. Finally, we look at what more is needed for a sustainable and fit for future EU (public) export and trade finance ecosystem.

ECAs are set up in very different ways

The organizational set-up of institutions providing official export finance differs across the world. This is especially true for the set-up in EU Member States. In some Member States, the ECA is a government department or agency. In others, a private insurance company or a financial institution performs this function under a public mandate. European ECAs all have a mandate of supporting national exports and offer a wide range of products like traditional export credits as well as working capital, export promotion, investment guarantees and the like.

However, some institutions have developed dual mandates with other policy objectives, and others are mandated to generate profits thus encouraging a more sales-based strategy and search for diversified portfolio. Furthermore, the type of support offered by the various export finance institutions varies widely, and some countries may have more than one official institution providing export finance. Thus, the EU ECA landscape is diverse, highly fragmented and there is currently no comprehensive strategy for financing EU exports, trade and investments.

2020 ExFi Lab White Paper on Public Export Finance in the EU

[1]By "EU ECA Community" we mean the ECAs, their respective governments and EU institutions.

II. The 2020 call for action was heeded - what has been achieved so far?

In 2020, the ExFi Lab urged the EU ECA community to take action in order to strengthen the competitiveness of EU exporters in a changing world and provided three overall recommendations for the EU and its Member States: a) develop a comprehensive EU strategy for public export finance, trade and investments, b) establish a global set of rules for public export finance and c) build a strategy for public export finance to contribute to the green transition. Stakeholders from both the public and private sectors in the EU have voiced their support for the recommendations. **The EU ECA community reacted swiftly, and major steps have since been taken in line with these recommendations.**

At EU level, the European Commission (EC) included in its 2021 Trade Policy Review[2] possibilities to explore options for an EU strategy on public export credits to ensure a better level playing field for EU businesses in third country markets, in which they increasingly compete with the financial support foreign competitors receive from their governments. Preliminary work[3] shows that opportunities lie in closer cooperation among EU ECAs (notably through the augmentation of reinsurance mechanisms) as well as better coordination between EU external financing providers (notably EU development finance and public export finance support). Enhanced coordination of EU instruments may increase efficiency of public spending and effective support of key EU strategic objectives, such as the Global Gateway or support for Ukraine.

Further, the EU and its Member States successfully drove the negotiations at the OECD to modernize the Arrangement on officially supported export credits[4]. The modernized text entered into force in July 2023, providing more flexible terms and conditions for public export finance especially when it comes to projects supporting the green transition and climate change adaptation. The revised Arrangement allows for more flexibility and competitiveness to structure export transactions in line with market needs. It can be seen to restore and broaden a global level playing field that ensures competition to be based on quality and price rather than the cost of finance.

Finally, regarding the efforts towards climate change mitigation and adaptation, the Council Conclusions on export credits of March 2022[5] stressed the importance of public export finance policies to phase out support to projects in the fossil fuel energy sector, to incentivize sustainable projects and to monitor transparently any progress. Commitments have also been made by several Member States in alliances such as the Export Finance for Future (E3F)[6], the Clean Energy Transition Partnership (CETP)[7] and the recently UN-convened Net Zero ECA Alliance (NZECA)[8], signaling that the EU ECA community continues to take action in support of the green transition and is willing to take on a leadership role. These initiatives can help ensure that public export finance is directed towards economic activities supportive of the objectives of climate neutrality and decarbonization of industries globally, taking into account objectives of a sustainable transition.

[2] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Trade Policy Review - An Open, Sustainable and Assertive Trade Policy, COM/2021/66 final.
[3] See in particular the key findings in the Joint Staff Working Document “Main outcomes of the mapping of external financial tools of the EU”, SWD(2023) 96 final, Brussels, 11.4.2023.
[4] The Arrangement on Officially Supported Export Credits, OECD, TAD/PG(2023)7, 17 July 2023.
[5] Council Conclusions on export credits of 15 March 2022.
[6] Export Finance for Future (E3F) is an initiative – launched by seven countries at ministerial level in April 2021 – to align public export finance with climate goals. The coalition aims to increase support for sustainable and climate-friendly projects and accelerate the progressive phasing out of fossil-fuel related projects.
[7] Statement on International Public Support for the Clean Energy Transition of 4 November 2021, issued during COP26. https://webarchive.nationalarchives.gov.uk/ukgwa/20230313124743/https://ukcop26.org/statement-on-international-public-support-for-the-clean-energy-transition/.
[8] The NZECA is the first net zero alliance for public finance institutions, launched at COP28. https://www.unepfi.org/climate-change/net-zero-export-credit-agencies.

III. 2024 - what new challenges are we facing?

Despite commendable efforts made over the past three years by the EU, Member States' governments and ECAs, external pressure continues to impact national and global economies. This indirectly affects the public export finance system, as the EU ECA community does not operate in isolation but forms an intrinsic part of the global economy and its financial ecosystem.

> *"...rising geopolitical tensions can lead to financial fragmentation through cross-border capital reallocation and sudden reversals of international capital flows. Financial fragmentation induced by geopolitical tensions can increase banks' funding costs, reduce their profitability, and prompt them to contract lending, with potentially adverse effects on economic activity. Emerging market and developing economies are more vulnerable to adverse geopolitical shocks than are advanced economies."*
>
> IMF Global Financial Stability Report, April 2023:
> *Safeguarding Financial Stability amid High Inflation and Geopolitical Risks*

Since 2020 and the publication of the White Paper, the ExFi Lab notes three developments that in particular impact the EU ECA community and give rise to increasing economic uncertainty:

i) **increasing geopolitical tension**, leading to supply chain ramifications, as well as the wars in Europe and the Middle East. This can be observed in global block formations and the regaining popularity of (protective) industrial policies,

ii) **an increasing sense of urgency for climate action** against the backdrop of a lack of bankable climate related projects and investments,

iii) **elevated debt vulnerabilities**, as fiscal buffers have eroded in many countries following the pandemic, increasing the mismatch between a growing call for a sustainable transition and available fiscal resources in both exporting and importing countries.

EU ECAs consequently find themselves operating in an environment of increasing risks (financial, technological societal, commercial and political[9]) and subsequent demands for further risk-taking.

Compared to previous periods of crisis (e.g., during the financial crisis of 2008-2010) **the demand for increased risk-taking is taking place simultaneously with a paradigm shift: ECAs are being asked to support national and EU strategic objectives, in light of the developments mentioned above, beyond their traditional role and mandate.** Besides export growth and national job creation, ECAs now increasingly focus on a more broadly defined national interest, which includes SME development as well as the aim to contribute to climate goals and the UN Sustainable Development Goals (SDGs). A time of multiple and simultaneous transitions and great uncertainty also sparks the urgent need for innovation, encouraging ECAs to broaden their range of activities beyond traditional export credit instruments and develop new products (in particular instruments no longer directly tied to national exports). ECAs are thus moving from a demand driven to a more proactive approach, focusing on promoting transactions in line with wider policy goals by inter alia engaging with companies and project developers at an earlier stage, as well as answering calls for up to date and relevant instruments within the international regulatory framework.

[9] Technological (e.g., in support of the green transition), societal risks (e.g., the extraction of critical raw materials), financial risks (e.g., new clients with shorter track records, rising debt and interest levels)

"Deployed to strengthen foreign policy objectives, advocate for sustainability goals, ensure the supply of essential inputs, and enhance domestic firms' competitiveness against international rivals, today's ECAs bear little resemblance to the ECAs of the past."

Global Trade Review (24-10-23) *From lender of last resort to multipurpose player: Charting the transformation of ECAs*

This is the case for example at the EU level, where the Commission is now including ECAs in its on-going work to achieve strategic external priorities. In the context of geopolitical tensions, major climate threats and elevated debt vulnerabilities, the EU has launched the Global Gateway Strategy to *"build more resilient connections with the world"*. The objective is to boost smart, clean and secure links in digital, energy and transport sectors and to strengthen health, education and research systems across the world. In effect, the strategy aims at catalyzing private sector investment in high quality infrastructures. With a proven historical track record[10] of ECAs supporting the internationalization of EU companies the ExFi Lab is pleased to see that the Commission has identified ECAs as a significant player to de-risk and crowd in the private (financial) sector to achieve this policy commitment.

[10] The first ECAs in Europe were established over 100 years ago.

IV. Moving forward on the basis of the 2020 Recommendations

The ExFi Lab sees two main areas of focus for the EU ECA community going forward:

1) **show leadership and agility in building a resilient EU export and trade finance ecosystem that supports the crowding in private capital for a sustainable transition** based on internationally agreed frameworks that is fit for an (uncertain) future, and

2) **enhance collaboration and coordination between providers of public finance at all levels (national, EU and global)** to increase leverage of EU and Member States' resources.

SHOWING LEADERSHIP AND AGILITY IN TERMS OF CROWDING IN PRIVATE CAPITAL FOR A SUSTAINABLE TRANSITION *– ECAs are close to the market and operate within an international regulatory framework based on financial data and expertise. Moreover, they are as acutely aware of the need to focus on ambitious ESG standards and practices as other public financial institutions. ECAs are used to working together to increase financial capacity when projects are too large or complex, able to crowd-in private capital and committed to using transparency and dialogue to avoid an unhealthy credit race to the bottom. ECAs are thus well placed to contribute to the transition towards a just and sustainable global economy.*

> *"...supporting the clean transition is the right thing to do if you do it right – in a transparent manner, in a spirit of cooperation, and in a way that ensures a level playing field. It should be a race against time, not a race against each other. It should be a race to the top, not a race to the bottom."*
>
> Speech by President von der Leyen at the European Parliament Plenary on the preparation of the European Council meeting of 15 December 2022

The ExFi Lab emphasizes that while redefining their mandate and partnerships, EU ECAs should not lose sight of their strengths and core qualities, which can help lead the way forward, namely shared expertise in a broad array of sectors and industries, pricing and management of risk, as well as accountability through transparency and monitoring. EU ECAs are equipped with the competences and expertise to mitigate high risks, mobilize private capital, and especially enable the provision of patient capital for long term risks and investments. In that context they are recognized for their expertise in providing export credit and trade finance while applying internationally recognised ESG standards, strong market knowledge and the required flexibility to keep up with international competition. Further, a high-risk environment benefits from more transparency and data sharing among public finance institutions as it reduces the level of perceived risk and would allow ECAs and others to do more. Here the ECAs can rely on existing transparency and data sharing frameworks and help show the way with regard to monitoring projects in which they are involved.

Crowding in private capital for a sustainable transition also requires being agile. In an ever-changing world, responsiveness to crises makes or breaks an instrument. The 2008/2009 financial crisis, the COVID-pandemic and the recent wars exemplify the upheaval that seems to be the one constant in today's world. ECAs have shown that they are able to adapt and adjust their regulations and operations when the above-mentioned events hit their national export industries. Even though ECAs have stepped up in times of increased risks and market failure, complex set-ups and bureaucratic hurdles at national, EU and OECD level may impede quick coordinated action - even when there is a mutual political will. Agility is a success factor and key ingredient for meaningful cooperation with the private sector as well as with fellow public financial institutions. While challenging our traditional mandates, we also need to ensure that internal processes and procedures do not hinder maximizing ECAs' role acting as a catalyst in the global financing landscape.

IN ORDER TO WORK BETTER TOGETHER WE NEED TO ENHANCE COLLABORATION AND COORDINATION – *Both policy makers and ECAs can contribute to taking down persisting silos between public finance institutions to urgently scale up mobilization of private resources and redirect private financial flows towards a just and sustainable transition. EU ECAs with their broad array of risk-mitigating instruments as well as long and broad sectoral experience of financing trade and international projects should be fully included in the public toolbox, at national and EU level, in support of relevant key policies and comprehensive responses to global challenges.*

> *"...the European financial architecture for development needs to be even more effective, efficient, coherent and impactful. Increased coordination through a Team Europe approach is more critical than ever to avoid fragmented actions and ensure better synergies and efficiencies."*
>
> EU Commission *Commission's roadmap for an improved European financial architecture for development and 2021 progress report (COM(2022) 139 final)*

The ExFi Lab believes that committing to new policy areas offers an opportunity for stronger coordination between all providers of (public) finance at national and EU level. In light of the massive investments needed to address global challenges such as climate change, loss of biodiversity, pollution and the energy crisis, public financial actors such as multilateral development banks (MDBs), development finance institutions (DFIs) and ECAs need to join forces to use their full potential. ECAs, MDBs and DFIs are today the main providers of external official financing. However, fragmentation, different policy mandates and lack of communication between the communities persist despite evidence of convergence in practices and objectives[11]. While ECAs are inherent public players when it comes to de-risking private investment and orienting private capital towards priority projects, cooperation with the development finance community requires deeper exploration from both parties. Risk-sharing practices need to be further developed by reinforcing synergies between ECAs themselves (e.g., through reinsurance mechanisms) and between ECAs and other providers of official finance, recognizing that the massive challenges of current complex times require joint action by all providers of official finance. ECAs have a long and finely honed history of working together across sectors and industries, and while each ECA individually may be focused on specific national industries, taken as a whole the EU ECAs cover the entirety of industrial strengths of the EU.

Advancing a whole-of-government approach is also a competitive issue. Non-OECD countries offer comprehensive project implementation and financing solutions to third markets. Being able to provide an easily accessible, sustainable and high-quality alternative may be crucial for the EU to continue to be an attractive partner and to improve the competitiveness of EU companies. It is also important to avoid an uncontrollable credit race to the bottom, particularly in an environment of elevated public debt levels. The Arrangement provides a framework to ensure a level playing field for all providers of public export finance for projects abroad whether the finance is provided by an ECA or another public finance institution. OECD Recommendations on export credits include recommendations on sustainable lending. This is relevant for public debt levels in both exporting and importing countries. **Hence, more and better common understanding and cooperation at all levels is needed.**

[11] Joint Staff Working Document "Main outcomes of the mapping of external financial tools of the EU" (SWD(2023) 96 final).

On this basis the ExFi Lab encourages pursuing the following action items in order to work better together in transformational times:

- At the ECA level, we encourage work on raising ECAs' visibility at EU level, making use of ECAs' in-depth knowledge and expertise, in order to build bridges between EU institutions and market players and bringing policy to business, whether in the form of informal networks or as a more formal form of representation/cooperation.

- At the Member State level, we encourage EU ECAs and their governments to work together and propose further understanding, cooperation and thought leadership around issues within the context of public international finance that will impact ECAs in the future (such as biodiversity, the blue economy, the circular economy, achievement of SDGs, etc.).

- At Member State and EU levels, we encourage public actors to work together and promote a "whole-of-government" approach, offering to third countries "financial packages" combining European, national, ECA, development and private financing to develop strategic projects in a broad range of fields, e.g. under the Global Gateway umbrella.

- At EU level, we recommend developing a body of experience on ways in which the whole-of-government approach can lead to the optimization of official financial support to promote key EU objectives.

- At global level, we encourage EU ECAs and their governments to work together with initiatives such as E3F or the NZECA to push the greening agenda further. Increasing transparency and reporting on the financing of fossil fuel activities will ensure accountability among exporters, the EU ECA community and beyond.

- At the global level, we encourage EU and its Member States to work together with non-OECD countries and show strong support for a multilateral set of rules, aligning all major players operating in the public export finance landscape.

V. Conclusion

The environment the EU ECA community operates in today looks different from the world at the time of the publication of the White Paper three years ago. We see an export finance landscape under pressure from geopolitical tension, disrupted supply chains and rising public debt levels as well as the need to sharply increase ECA support for green projects and mobilization of the private financial sector. This leads to an environment of increased risks. Therefore, the ExFi Lab advocates a rethink of how, where and when EU ECAs and other EU providers of public finance operate in order to maximize their impact and contribution to the current complex world. At the same time, the ExFi Lab urges the EU continue its work on including export finance in its public policy toolbox, as recommended in the White Paper, taking full advantage of ECAs' strengths and expertise. **The ExFi Lab calls on the EU ECA community to work better together with partners in and outside the EU to face the challenges of these transformational times.**

Annex

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