



Financing for Development: Areas of Cooperation for Export Credit Agencies and Multilateral Development Banks

Mr. Prahalathan Iyer
Chief General Manager,
Export-Import Bank of India
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**Characteristics
of ECA and
MDB Financing**

**Financing for
Infrastructure
Development**

**Role of ECAs and
MDBs in
Restoring Trade
Finance**

**Future Areas of
Cooperation
and Knowledge
Sharing**

Key Characteristics of ECA and MDB Financing

Mandate

- MDBs provide finance for investments in human and physical capital that in turn promote economic development
- ECAs focus on promoting and financing exports. ECA programs lead to economic development in host countries; promote inclusive growth in domestic economy

Ownership

- MDBs have multilateral shareholding structure and preferred creditor status; subsidized capital base and access to other sources of funds
- ECAs are usually fully owned by the Governments; Backed by Sovereign

Terms of Financing

- Both ECAs and MDBs can lower pricing, lengthen tenor, add transparency, and take higher risk. The unique financial structure of the MDBs allows them to leverage contributions from MDB shareholders and provide financing at low cost.

Soft Support

- Both provide 'soft support' through their intra-government relationships, political knowledge, diplomatic goodwill, and reputational strength. Both ECAs and MDBs benefit from cooperation agreements and relationships with each other, as also with other multilateral agencies, banks, private insurers, DFIs, among others.

Financing for Infrastructure Development

- The world must invest **3.8 percent of GDP**, or **US\$ 3.3 trillion a year to 2030** towards infrastructure development. In **Latin America**, the required **annual investment in infrastructure is estimated at US\$ 300 billion per year**⁽¹⁾
- Given fiscal constraints, emerging markets **have been increasingly seeking external assistance from MDBs and ECAs**

• **MDBs have an institutional legacy in financing infrastructure**, and the lending is either acyclical or countercyclical

- MDBs have the finance, depth of expertise and scope that can support full-scale comprehensive approach
- MDBs can pool and manage risks for bilateral donors and private capital, mitigating them through policy reform and sharing them through deployment of guarantees
- MDBs can take the long-term perspective that is necessary in fragile situations

• **ECAs have emerged as leading players for financing large infrastructural projects**

- Officially supported export credit/project finance programs of ECAs have cheaper cost of financing than commercial loans, which leads to cheaper project costs for importer
- Insurance facilities, make debt investments more attractive for foreign investors
- ECAs can cover export and supply of goods/services for infrastructure projects, which enable projects to access much larger long term facilities

- Co-financing is a well-established way of development financing. Donors, multilateral institutions, and development agencies come together to assist developing countries in a variety of projects

Models for Collaboration in Infrastructure Financing

Joint Co-financing

In joint co-financing, MDBs, ECAs, and other partners finance a common list of goods, works, and services required for the project in agreed-upon proportions, and terms.

Parallel Co-financing

In parallel co-financing, the project is divided into specific, identifiable components or contract packages, each of which is separately financed by MDBs and ECAs, at their own terms.

Insurance/ Re-Insurance

Like commercial banks, MDBs could cover part of their loan / guarantee exposure with ECAs. A good example is MIGA, which reinsures approximately 40% of its gross exposure with ECAs and PRIs.

Coinsurance

MDBs and ECAs could share the risks on co-insurance basis. This could be parallel or in agreement with each other.

ALIDE which has membership from national DFIs, MDBs and ECAs provides a platform for collaboration

Itezhi - Tezhi Hydro Power Project, Zambia

- The project involved development, construction, operation and maintenance of a 120 MW base load hydro power plant, and was a first-of-a-kind public private partnership in the power sector of Zambia.
- The project was **co-financed by several lenders** including **multilateral banks** such as the AfDB and the European Investment Bank; **DFIs** such as the Development Bank of Southern Africa, Dutch development bank FMO, and French development financial institution PROPARCO; and **ECAs** such as Export-Import Bank of India (Exim India).
- The support from MDBs and ECAs reduced the project cost and thereby made the project economically viable



Role of ECAs and MDBs in Restoring Trade Finance

- ECAs and MDBs played an important **stabilizing role by easing financing terms and increasing supply of trade finance** in an environment characterized by heightened risk, particularly after the global financial crisis
- In the face of slowdown in global merchandise exports, **ECAs have enhanced their focus on project exports**. ECAs also continue to **maintain high level of engagement in the SME segment**
 - Exim India has also enhanced its focus on project exports: Guidelines for existing programs streamlined; several new programmes introduced to enhance competitiveness of project exporters
 - Exim India supports SMEs through financing products, capacity building, and marketing support
- MDBs have set up several programs which provide **risk mitigation capacity (guarantees)** to both issuing and confirming banks and allow for rapid endorsement of letters of credit - the main instrument used to finance trade transactions
- Trade finance programs of major MDBs (EBRD, IFC, ADB, IDB, AfDB, ITFC) **supported close to US\$ 109.8 billion of transactions in 2016**, facilitating a host of trade transactions which otherwise may not have been supported
- Several **ECAs have collaborated with MDBs in the trade finance programs**
 - Exim India is a confirming bank in the IFCs's Global Trade Finance Program (GTFP).

Future Areas of Cooperation and Knowledge Sharing

- ECAs should consider **reporting the developmental impact of their operations** and how they contribute to the UN Sustainable Development Goals. In this area, ECAs can learn a lot from the MDBs
- **Structural exchange of information** on country specific issues will also have benefits for both ECAs and MDBs. In this regard, associations such as ALIDE can facilitate interactions
- Countries with ECAs active in international project financing, could **consider membership in regional MDBs**. This would open up opportunities in co-financing.
 - China joined the IDB in 2009. The IDB has approved US\$ 1.2 billion for 49 projects in 17 countries through the China Co-financing Fund.
 - India is also considering membership in the IDB
- **Bankability of projects** is a concern. Project preparation facilities need to be set up by the MDBs and ECAs
 - Project Preparation Facility has been set up for projects that may be considered for financing under Exim India's LOC program; also established the Kukuza Project Development Company in collaboration with AfDB

Future Areas of Cooperation and Knowledge Sharing

- **Co-financing** needs to be encouraged, in terms of both direct lending and insurance.
 - Register of Projects can be maintained for sharing early stage projects
 - If leading MDBs insure part of their exposure with ECAs/ PRIs, approx. \$169 billion of additional finance could become available for development.
- Role of MDBs and ECAs will remain crucial in **capacity building of the local financial sector** and improving trade financing infrastructure
 - GTFP of IFC, for example, has technical assistance modules. At times, IFC also places experienced trade finance bankers with issuing banks to help enhance their expertise.
 - Exim India provides assistance to other developing countries for developing export financing architecture. Currently in discussion with the Govt. of Suriname for institutional capacity building in export credit
- DFIs and ECAs from developing countries, with support from MDBs can explore the prospects for **a regional trade finance facility** to enhance the access to trade finance by companies and banks from participating countries
 - Small States, many of which are in the Caribbean, were disproportionately impacted in the post-crisis period. India contributed US\$ 5 mn towards capital of a Commonwealth Small State Trade Finance Facility



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