GENERATING DEBT

ECAS: DEBT GENERATORS

THE ROLE OF EXPORT CREDIT AGENCIES IN DEBT

Roughly 64% of Nigeria's entire external debt is for export credits.

Citizens worldwide are increasingly aware of global institutions — like the IMF and the World Bank — and their impact on debt and development. But few realize that government bodies known as Export Credit Agencies are responsible for nearly half of all developing country debt owed to public institutions. That is much more than the debt owed to the World Bank and IMF combined!

WHAT ARE ECAS?

Export Credit and Investment Insurance Agencies, commonly known as ECAs, are government-backed agencies that exist to get other countries to buy from corporations in the ECA's home country. Most industrialized nations have at least one ECA, which is usually an official or quasi-official branch of their government. ECAs provide direct loans, insurance, and guarantees of commercial bank loans – all in order to to support corporate exports or overseas investments.

So when a company wants to invest or sell a product or service overseas, the company or its bank may get backing from an ECA. If the project fails or the foreign buyer does not pay up, it is the public ECA that covers much of the losses, not the company – the taxpayer picks up the bill!

ECAS IN THE UNITED STATES

The Export-Import Bank of the United States (Ex-Im)

The Export-Import Bank of the United States, or Ex-Im for short, was established in 1934 to promote US exports at a time of global economic crisis. Ex-Im receives an annual appropriation from Congress and operates with the full faith and credit of the United States government. In 2001, Ex-Im authorized $6.1 billion in guarantees, $2.3 billion in insurance and $861 million in loans. *Over 60% of Ex-Im's loans and long-term guarantees went to only 3 corporations.*

When explaining its activities to Congress and the public, Ex-Im likes to characterize itself as a friend of small business and a protector of US jobs. The data suggest otherwise. The services that Ex-Im provides to its corporate clients appear to have done little to retain American jobs; Time magazine reported in 1998 that AT&T, Bechtel, Boeing, GE, and McDonnell Douglas – Ex-Im's top five recipients of loans and long-term guarantees at that time – had collectively eliminated some 300,000 jobs during the 1990s.

The Overseas Private Investment Corporation (OPIC)

Congress created the Overseas Private Investment Corporation (OPIC) in 1971. In 2001, OPIC issued $775.4 million in loans and $691.3 million in insurance. Over 75% of this went to just 10 of America's biggest corporations.

As an independent agency of the federal government, OPIC pays no income taxes and also benefits from the full faith and credit of the US government. Also, although OPIC claims to operate at no net cost to the taxpayer, OPIC's profits do not come from its overseas investment activities but rather from interest payments on its U.S. Treasury securities—interest that is paid by U.S. taxpayers. Without these payments, OPIC is actually losing money on its operations.

Top five recipients of EXIM loans and long- term guarantees in 2001:

Client

1. Boeing
2. Fluor Daniel Corp.
3. Kellogg Brown & Root (subsidiary of Halliburton)
4. General Electric
5. ABB Lummus

Top five recipients of loans and insurance from OPIC in 2001:

Client

1. Bank of America
2. Enron Corporation
3. El Paso Energy
4. Williams Companies
5. AES Corporation

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How do ECAs generate debt for impoverished countries?

The most obvious ways are when ECAs lend directly to a developing country's government, or when they guarantee or insure commercial bank or corporate loans to a developing country.

But there are other, more subtle mechanisms. One is sovereign counter-guarantees, which can turn even a purely private transaction between a Northern exporter and a private Southern buyer into a completely public debt owed by the developing country government to the rich country's government/ECA. Here's how it works.

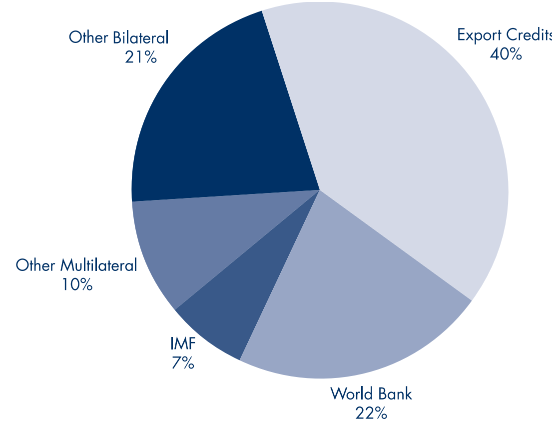
When a company wants to invest or sell a product or service overseas, the company may get backing from its government's ECA, as usual. This shifts the risk from the corporation or its bank onto the ECA. But when the buyer is a private company in a developing country, the ECA frequently insists that the developing country's government also provide a guarantee. So if the private buyer in the developing country does not pay, the rich-country government (the ECA) will cover the losses and then collect from the foreign government. This shifts the burden from the private companies to the people living in the developing country as a debt their government now owes!

ECA Debt

ECA debt is different from other kinds of debt owed to public institutions because it comes with higher interest rates and because most ECAs do not have a development mandate and consequently do not even pretend that poverty or development guide their actions. Rather, the sole purpose of ECAs is to promote their own countries' corporate exports and foreign investments.

Most ECAs also do not have serious social or environmental policies or safeguards and have virtually no transparent public disclosure about the actions they are considering (U.S. ECAs are slightly better in this regard). Thus, ECAs often back projects that even the World Bank and other development and aid agencies reject because of their harmful economic, social, or environmental impacts.

Official Debt:
All Developing Countries, 2000



Source: OECD, Joint BIS-IMF-OECD-World Bank database

Enron and Debt: The Case of Dabhol

U.S. taxpayers, through our 2 Export Credit Agencies, have loaned, guaranteed, or insured $2.3 billion to the Enron corporation for its projects around the globe. One of them is the Dabhol power plant – the largest foreign investment ever in India, to which we loaned $460 million and gave a $200 million insurance policy. In 2001, the Indian state government announced that it was canceling its agreement with the Enron consortium because of the high cost of electricity (as well as numerous allegations of corruption). Enron has demanded that India buy out the Enron consortium and its creditors for $2.3 billion, estimating its legal claim against the government of India at $4 billion to $5 billion.

Meanwhile, Enron has filed a claim to collect on its roughly $200 million insurance policy with OPIC. As a result, the highest levels of the U.S. government – in a strategy coordinated by the National Security Council and involving Vice-President Richard Cheney and Secretary of State Colin Powell – have pressured India to pay Enron. According to the Associated Press, U.S. government threats have included cutting off aid to India. This is an example of how ECA finance makes Northern taxpayers into partners in multinationals in their transactions with developing countries, so that the full foreign policy arsenal of Northern governments can be used to protect corporate investments – which have also become Northern taxpayer investments through ECAs.

To Learn More:

www.eca-watch.org or www.actglobal.org/ecas
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