POTENTIAL ROLES FOR EXPORT CREDIT AGENCIES

IN CATALYZING PRIVATE SECTOR GREEN FINANCING

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GREENING THE FINANCIAL SYSTEM
Accelerating green finance in emerging markets.

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TABLE OF CONTENTS

I. Introduction 1

II. The Covid-19 Pandemic Can Mobilize ECA Funds to Support Recovery and Sustainable/Resilient Energy Projects 3

III. ECA Fund Characteristics 6

IV. Export Credit Agencies in Southeast Asia 12

IV-I. The Function of Developed Economy ECAs in the Southeast Asia Region 15

V. Export Credit Agencies' Transitional Period 17

VI. Innovation Needed for Developed Economy ECAs to Support Developing Economies' Green Recovery from the Pandemic 19

VII. References 25

I. INTRODUCTION

Export Credit Agencies (ECAs) evolved over time and have proven essential during turbulent times such as world wars, financial crises and an unanticipated pandemic.

The OECD defines an export credit agency as an organization in a creditor country that provides insurance, guarantees, or loans for the export of goods and services.[1] ECAs are government institutions or private companies backed by government to primarily support exporters by providing credit to foreign buyers. ECAs can also function as insurance provider or guarantee issuer to third-party or accredited financial institutions.[2]

The first such export credit agency was the Export Credits Guarantee Department (ECGD) established by the United Kingdom in 1919. Its purpose was to encourage and support exports to Russia after World War I.[3] In 1933 during the Great Depression, the US Government created US Export-Import Bank to finance US trade with the newly-recognized Soviet Union, although this aid was never delivered. Through this ECA, the United States concluded trade agreements with 19 countries under the Reciprocal Trade Agreements Act, notably Belgium, Brazil, Canada, Colombia, Costa Rica, Cuba, Czechoslovakia, Ecuador, El Salvador, Finland, France, Guatemala, Haiti, Honduras, the Netherlands, Nicaragua, Sweden, Switzerland, and the United Kingdom.[4]

During the global financial crisis of 2008-2009, the G20 leaders agreed to implement USD250 billion in trade finance initiatives to support trade finance

[1] https://stats.oecd.org/glossary/detail.asp?ID=5944

[2] https://www.oecd.org/trade/topics/export-credits/

[3] https://www.imf.org/external/pubs/nft/1999/change/

[4] https://history.state.gov/milestones/1921-1936/export-import-bank

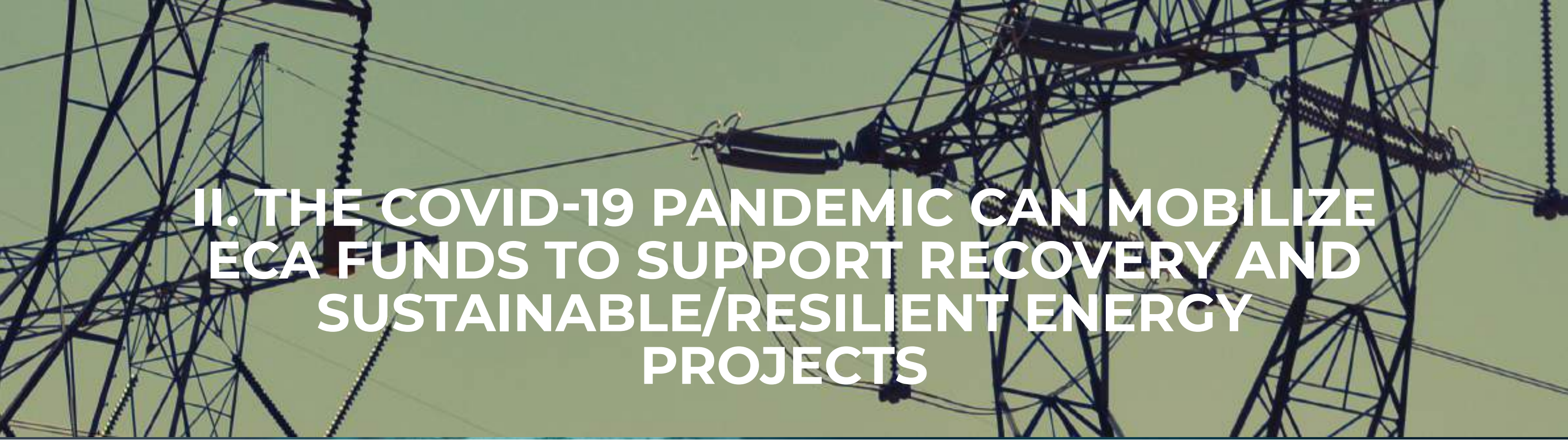
through export credit and investment agencies.[5]

After more than a decade since the global financial crisis, the unanticipated COVID-19 pandemic of 2020/21 has had catastrophic effects on human health and mortality and has caused devastating economic losses. Hard lockdowns and community quarantine were declared by countries across the globe. The Philippines' lockdown imposed in March 2020 is still in effect.[6] It has stifled business activity while focusing on the provision of essential goods and services. Consequently, financial institutions such as private sector banks have filed loan-loss provisions of USD2 billion from January to June 2020[7] to cushion against anticipated loan defaults. In this challenging time for the financial value chain, ECA funds can be enlisted to increase banks' readiness to resume lending and join the "build back better" and "build forward stronger" movement.

[5] https://www.imf.org

[6] https://www.bloomberg.com/news/articles/2021-04-03/philippines-plans-to-extend-manila-s-lockdown-by-at-least-a-week

[7] https://www.philstar.com/business/2020/10/01/2046269/banks-loan-loss-provisioning-remain-high-next-year



II. THE COVID-19 PANDEMIC CAN MOBILIZE ECA FUNDS TO SUPPORT RECOVERY AND SUSTAINABLE/RESILIENT ENERGY PROJECTS

Conventional sources of funding will be insufficient to finance essential sustainable energy infrastructure. Southeast Asian countries, therefore, need to access international and national sources of finance such as ECAs to drive low-carbon and climate-resilient development alongside their recovery from the COVID-19 pandemic.

An OECD survey[8] found that 43% of government-supported ECAs have increased their short-term funding since 2020. The US EXIM reported a 112% increase in working capital guarantees and a 12% increase in short-term export credit insurance in 2020.[9] Germany's ECA recorded an increase of more than 33% in the number of applications for export credit guarantees for the first half of 2020 versus 2019.[10] Below is a sample of ECA-financed sustainable projects in 2020:

EXAMPLE 1. GERMANY'S ECA FINANCED LOWER GREENHOUSE GAS EMITTING BUSES IN SAUDI ARABIA

In July 2020, Germany's Euler Hermes Aktiengesellschaft, its export and loan guarantee administrator, financed a USD258 million loan for Saudi Arabia's Ministry of Finance (MoF) to purchase German buses that will alleviate traffic congestion and reduce greenhouse gas emission in Riyadh. HSBC was mandated

[8]https://www.oecd.org/coronavirus/policy-responses/trade-finance-in-the-covid-era-current-and-future-challenges-79daca94/

[9]Exim Bank (Jan 2021), *2020 Exim Bank Annual Report*, https://www.exim.gov/news/reports/annual-reports.

[10]Euler Hermes (2020), *Export Credit Guarantees - Interim Report 2020*, https://www.agaportal.de/_Resources/Persistent/f1ac3248303281c85ae7a2c8d80065bd48e387f0/e_hjb_2020.pdf.

as the lead arranger, original lender, and agent bank for the transaction. The loan documentation includes reporting on positive environmental impacts in compliance with the Loan Market Association's Green Loan Principles.[11]

EXAMPLE 2. KOREA TRADE INSURANCE CORPORATION (K-SURE) BACKED A SYNDICATED GREEN LOAN FOR SIX HAPAG LLOYD CONTAINER SHIPS

K-Sure backed a USD417 million syndicated green loan with a 12-year maturity to finance three of six container ships Hapag Lloyd order in 2020. The credit syndicate consists of 11 banks with KfW IPEX-Bank and BNP Paribas in charge in structuring and coordinating the transaction. The state-of-the art vessels being built in Korea are scheduled for delivery in 2023 and should reduce Lloyd-Hapag's vessel carbon footprint by 15 to 20%.[12]

EXAMPLE 3. SEVEN EXPORT CREDIT AGENCIES PROVIDED INSURANCE COVERAGE TO A 589 MW OFFSHORE WIND FARM FOR TAIWAN.[13]

Nippon Export and Investment Insurance, Atradius Dutch State Business NV, EKF Denmark's Export Credit Agency, Korea Trade Insurance Corporation, UK Export Finance, Norwegian Guarantee Institute for Export Credits, and Germany's KfW IPEX-Bank provided insurance coverage to the USD2.7 billion loan with a tenor of 18 years to private institutional lenders – MUFG Bank, Sumitomo Mitsui Banking Corporation, Mizuho Bank, Crédit Agricole Corporate and Investment Bank, Deutsche Bank, DBS Bank, Société Générale, OCBC Bank, Standard Chartered Bank, and HSBC.[14]

While there are currently no stimulus packages from developed economy ECA funds to developing countries, in addition to ECA funds for green projects, there is

[11] https://www.gbm.hsbc.com/insights/sustainable-financing/mobilising-saudi-public-transportation

[12] ttps://www.hapag-lloyd.com/en/press/releases/2021/02/green-financings-concluded-for-six-large-container-ships-on-orde.html

[13] https://theasset.com/article/39935/kfw-ipex-to-structure-financing-for-offshore-wind-farm-in-taiwan

[14] https://www.nexi.go.jp/en/topics/newsrelease/2020011002.html.

an opportunity for ECA funds to be more deliberate in supporting stimulus packages distributed to various sectors to generate environmental and social benefits. ECA supported stimulus packages provided during the pandemic can be deployed to advance recovery of the Southeast Asia Region through financing low-carbon and resilient projects aligned with the Sustainable Development Goals (SDGs). A 2020 United Nations Study titled "The Impact of COVID-19 on South-East Asia" found that the decline in the costs of renewable energy and energy efficiency projects created more opportunities – as shown in Figure 1 – to pursue green energy development versus expensive carbon-intensive technologies.[15]

Figure 1. Opportunities for Low Carbon Development through Stimulus Packages: "The Impact of COVID-19 on South-East Asia" (2020).[16]

Energy and electricity	Investment in renewable energy projects.
	Investment in grid infrastructure to strengthen smart grid management technologies.
	Fiscal reform on fossil fuel subsidies.
Land-transport and mobility	Investment in walking and cycling infrastructure in cities.
	Incentives for zero emission shared mobility.
	Investment in smart and zero emission public transport.
	Financial incentives for zero emission vehicles.
Aviation	Conditional support for aviation industry to adopt energy efficiency.
	Incentivize use of rail to replace short haul flights.
Industry	Support the uptake of energy efficiency measures.
	Make support conditional on energy efficiency and emissions targets.
Buildings	Support for energy efficiency retrofits of existing buildings.
	Support for construction of new zero emission buildings.

[15] https://www.unescap.org/sites/default/d8files/2020-07/SG-Policy-brief-COVID-19-and-South-East-Asia-30-July-2020.pdf

[16] https://www.unescap.org/sites/default/d8files/2020-07/SG-Policy-brief-COVID-19-and-South-East-Asia-30-July-2020.pdf

III. ECA FUND CHARACTERISTICS

ECAs are required to support their own country's exporters – or buyers in an importing country – with the aim of expanding their overseas presence and boosting economic activity. However, this presents a limitation for private sector to access ECA funds to develop green energy projects due to the condition of importation of green energy equipment from only ECA funding country.

1 ECAS HAVE BINDING CONDITIONS WITH OWN COUNTRY'S TRADE PRODUCTS (KNOWN AS OWN COUNTRY CONTENT[17])

ECAs are primarily established to support domestic businesses in exporting their country's own products and services. This is a requirement for any ECA loan or guarantee to be granted. This is beneficial for exporters to explore promising new markets without setting up new operations or offices in the receiving country.[18] ECAs impose binding domestic content rules and will only finance exports that contribute to the national economy. The exact requirements vary from one country to another, some ECAs finance a portion of own-country content plus varying amounts of foreign content of the purchase order amount.[19, 20]

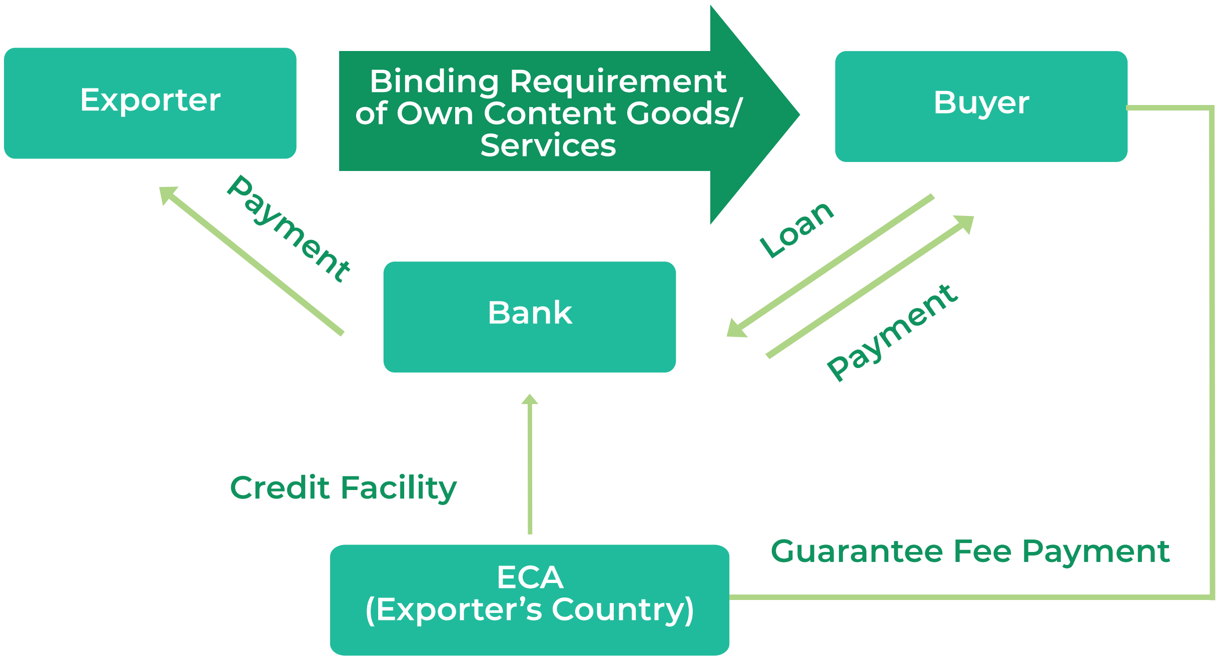
[17]Own country content refers to products are made in the country of exporter and ECA. This also applies to products manufactured outside of exporter's country but ownership still with own country's exporter.

[18]https://corporatefinanceinstitute.com/resources/knowledge/credit/export-credit-agency-eca/

[19]https://www.txfnews.com/special/GuideForImporters

[20]Despite the complexity. Of global supply chains, it can be classified national content various ways such as: (1) national ownership with manufacturer in foreign country, or (2) items manufactured in own country despite foreign ownership. Cases can be vary, depending on each country ECA's terms and condition.

Chart 1. Current Export Credit Agency (ECA) Structure



For example, The Taiwan's Export-Import Bank of the Republic of China (CHEXIM) relending facility is an ECA financial facility that encourages foreign end-users and dealers to purchase products such as equipment, parts, raw materials, and other goods from Taiwan-based exporters.[21]

2 ECA EXPORT CREDIT INSURANCE COVER

Export credit insurance cover varies depending on time frames. Short-term export credit insurance covers 90–95% coverage against a buyer's payment default, generally across sales of items such as consumer goods, materials, and services up to 180 days and small capital goods and bulk commodities up to 360 days. Medium-term export credit insurance provides 85% cover of the net contract value on sales of high-value capital equipment, for up to 5 years.[22]

[21] https://www.eximbank.com.tw/en-us/BankService/RelendingFacility/Pages/RelendingFacility.aspx
[22] https://www.trade.gov/export-credit-insurance

For example, the Nigerian Export-Import Bank's (NEXIM) Export Credit Insurance Facility offers cover as follows: Pre-shipment Insurance: 75% of the loss or of the gross invoice value (GIV), whichever is less. Post-shipment insurance: 85% of the loss or of the GIV, whichever is less. If the cause of loss is non-acceptance of goods, NEXIM's liability is limited to 68% of the loss or of the GIV, whichever is less.[23]

3 ECA FUNDS ARE ORIENTED TO PUBLIC SECTOR PROJECTS

ECAs' function is to support the domestic economy and employment at companies doing business in overseas markets. As a result, ECAs tend to finance, guarantee and insure public sector projects of national importance to the importing country to mitigate sovereign risk. Below are some of public sector projects supported by ECAs.

In the Philippines, for example, the Japanese government through its Japan Bank for International Cooperation (JBIC), reaffirmed its commitment to financing national projects in 2020. Japan has approved JPY3.1 billion in technical assistance for the Cebu-Mactan Bridge (4th Bridge) and Coastal Road Construction Project, the Master Plan for Subic Bay, the Parañaque Spillway, and the Cagayan de Oro-Malaybay Section of the Central Mindanao Highway project.[24] Japan formalized the loan agreements amounting to a total of JPY154.1 billion, for the 4th Cebu-Mactan Bridge and the Davao City Bypass Construction Project.

Backed by Sinosure[25] in 2020, the ECA fund of China National Technical Import & Export Corporation (CNTIC) financed a 90-megawatt gas-fired plant for Electric Power Generation Enterprise (EPGE), Myanmar's state-owned electricity company.[26]

[23] https://neximbank.com.ng/export-credit-insurance-facility/

[24] https://www.dof.gov.ph/philippines-japan-reaffirm-close-cooperation-on-build-build-build-projects-mindanao-development/

[25] Sinosure ; Chin

[26] https://www.gtreview.com/news/asia/deutsche-bank-provides-sinosure-backed-facility-for-myanmar-power-project/

4 ECA SUPPORT FOR FOSSIL FUEL PROJECTS ENCOURAGES PRIVATE SECTOR TO CROWD-IN

Oil Change International's 2016-2018 report stated that G20 countries provided an average of USD77 billion per year in public finance for fossil fuel projects.[27] Public finance for fossil fuels (as shown in Figure 2 and 3) encourages the private sector to crowd-in, and in so doing diminishes private sector participation in green energy development.

The report found noteworthy increases in fossil-based public finance from China and Canada. China, the report said, has doubled its annual average funding from USD13 billion to USD25 billion, while Canada virtually trebled its fossil based public finance from USD 3 billion to USD 10 billion. Fossil-based public finance in the Southeast Asia Region is driven primarily by China, Canada, Japan, and South Korea.

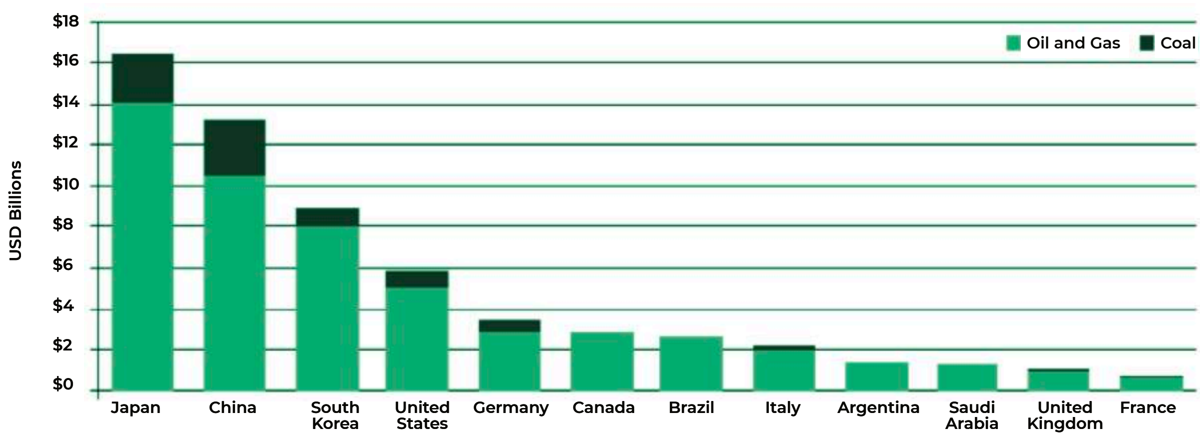
5 LIMITED CAPITAL OF ECAS IN SOUTHEAST ASIA REGION

Most government-backed ECAs in Southeast Asia have limited capital and can only finance consumer and non-consumer goods that are not as capital-intensive as energy infrastructure. Because of this limitation, ECA funds are usually drawn locally by companies and users of guarantee facilities. A guarantee facility serves as an alternative for conglomerates facing banks' single borrowers' limit (SBL)[28] or as a derisking mechanism for newly formed special purpose corporations to improve their credit risk rating.

[27] https://www.eximbank.com.tw/en-us/BankService/RelendingFacility/Pages/RelendingFacility.aspx

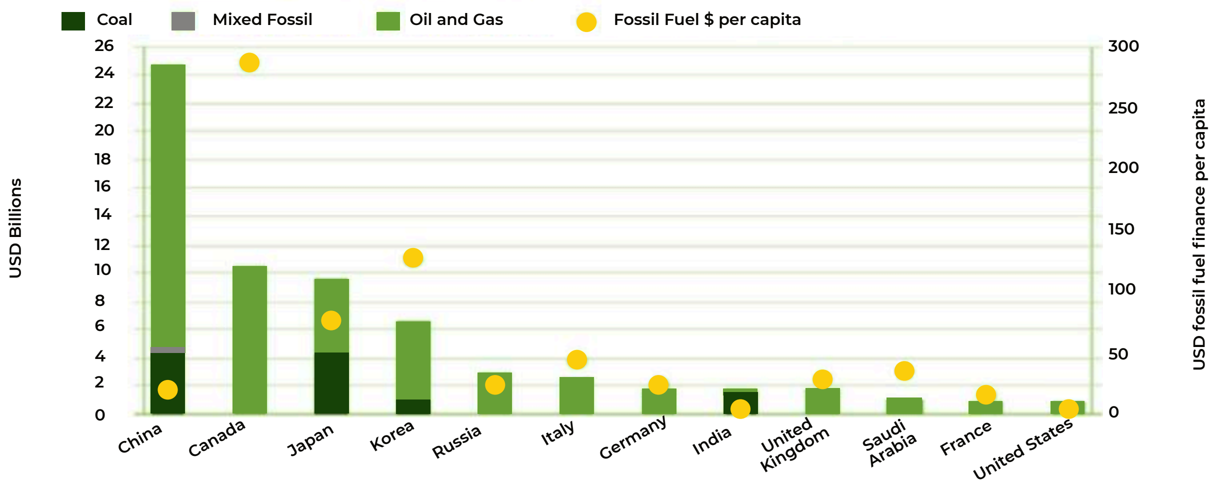
[28] https://www.trade.gov/export-credit-insurance

Figure 2. Top 12 G20 countries total fossil fuel public finance and fossil fuel finance annual average, 2013-2015, USD billions *



Source: Oil Change International Shift the Subsidies Database. Note: For all figures, data does not include majority government-owned banks that function commercially or quasi-commercially, which are particularly relevant for India and China.

Figure 3. Top 12 G20 countries total fossil fuel public finance and fossil fuel finance per capita, annual average, 2016-2018, USD billions *



Source: Oil Change International Shift the Subsidies Database. *This table does not include Multilateral Development Bank finance.

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6 ECA FUNDS FLOW FROM DEVELOPED TO DEVELOPING ECONOMIES AND NOT VICE VERSA

Corporations or exporters in developed economies such as the G20 countries are mostly the supplier of advanced technology or high-value manufactured products to importers in developing economies. The ECA fund in a developed country is usually directed at the development of public infrastructure, including the energy sector, of developing economies. In this way, power generation projects can be funded by developed-country ECAs.

For example, the Japan Bank for International Cooperation (JBIC) funded a project finance-based buyer's credit[29] (export finance) amounting to USD900 million (JBIC portion) with Pengerang Refining Company Sdn. Bhd. (PRC) of Malaysia in 2019. The loan is co-financed with Mizuho Bank, Ltd, which acts as the facility agent for the credit facility, Sumitomo Mitsui Banking Corporation, MUFG Bank, Ltd., and Citibank N.A., Tokyo branch, bringing the total amount financed to USD1.5 billion. The co-financed portion was covered by insurance from Nippon Export and Investment Insurance (NEXI).[30]

In 2012, Mong Duong 2 – an independent power producer in Vietnam – had a 1,240MW baseload coal-fired independent power plant that was backed by Korean Export and Import Bank (KEXIM).

According to **ijglobal.com** "The project cost US$2 billion, of which US$1.5 billion was debt financed. The US$1.46 billion financing was provided by 12 international banks plus Korea's export credit agency Kexim, which took the largest ticket at US$340 million as a direct, 18-year loan.

"The financing is also backed by a 25-year power purchase agreement with Vietnam Electricity (EVN), the state-owned power company, as the sole off taker. The PPA [power purchase agreement] is US dollar-denominated and allows for a fuel cost pass through, protecting the project from fluctuations in coal prices."[31]

[29]Buyer's credit is a loan JBIC extends directly to a foreign importer (buyer) to finance the importation of machinery and equipment or other goods from a Japanese company.

[30]https://www.jbic.go.jp/en/information/press/press-2019/0402-012044.html

[31]https://ijglobal.com/articles/76779/mong-duong-2-ipp-vietnam

IV. EXPORT CREDIT AGENCIES IN SOUTHEAST ASIA

ECAs in Southeast Asia are mostly government-owned and support export-import transactions that are of national interest and involve mostly consumer and non-consumer goods. Many Southeast Asian countries' resources and technical capacity are too limited to develop energy infrastructure such as coal plants and even renewable energy projects.

1. Indonesia Eximbank is a financial institution established in 2009 under the Government of the Republic of Indonesia. Its services include export financing, export guarantees, export insurance and advisory services.[32]

- **Example:** In 2018, Indonesia Eximbank signed an agreement with Afreximbank to commit up to USD100 million to support business activities and trade between Indonesia and Africa. Indonesia Eximbank facilitates direct financing to African buyers of Indonesian goods and services backed by a guarantee from Afreximbank.[33]

2. Export Credit Insurance Corporation of Singapore (ECICS) was established in 1975 by Singapore government to support export growth but was privatized in 2013 and became a fully-licensed general insurer under the approval of Monetary Authority of Singapore.[34]

- **Example:** ECICS which initially started as an institution focused on export business activities has evolved to general insurer and recently launched COVID-19 Optional Cover for Domestic Helpers.[35] This is a financial product that is

[32] https://www.indonesiaeximbank.go.id/general-information

[33] https://www.afreximbank.com/afreximbank-signs-100-million-partnership-agreement-with-indonesia-eximbank/

[34] https://www.ecics.com.sg/ourcompany/

[35] https://www.peoples.com.sg/

relevant in current circumstances with significant social impact.

3. The Export-Import Bank of the Republic of China (CHEXIM) is a government-owned bank established in 1979 to facilitate Taiwan's exports and imports Taiwan through offering Export Credit Insurance, a Relending Facility and other financing facilities.[36]

- **Example:** In 2015, CHEXIM and the European Bank for Reconstruction and Development (EBRD) agreed to boost their cooperation and co-finance projects in regions where the EBRD invests. Both parties will promote projects that support sustainable economic infrastructure development such as power and renewable energy, natural resources, transport, telecommunications, and information technology from central Europe to central Asia and in the southern and eastern Mediterranean.[37]

4. PhilEXIM was established in 1977 and was renamed in 2020 as the Philippine Export and Foreign Loan Guarantee Corporation (PHILGUARANTEE). It is the Philippines' lead agency for guaranteed finance and facilitates international trade and investment to meet the country's developmental needs.[38]

Through the merger of PhilEXIM and the Home Guaranty Corporation (HGC) and the transfer to the PhilEXIM of the guarantee functions, programs and funds of the Small Business Corporation (SBC), and the transfer to PhilEXIM of the administration of the Agricultural Guarantee Fund Pool (AGFP) and the Industrial Guarantee and Loan Fund (IGLF), all these state guarantee firms and funding programs was consolidated into a single entity– Philippine Guarantee Corporation (PHILGUARANTEE).[39]

Newly named PHILGUARANTEE concentrates on more guarantee functions on the nation's priory sectors including renewable energy and energy efficiency projects together with manufacturing, export and infrastructure etc.[40]

[36] https://www.eximbank.com.tw/en-us/AboutUs/Pages/Profile.aspx

[37] https://www.ebrd.com/news/2015/ebrd-and-exportimport-bank-of-republic-of-china-join-forces.html

[38] http://www.philexim.gov.ph/index.php/about-us/mandate-and-historical-background

[39] https://www.dof.gov.ph/dof-to-speed-up-merger-of-philexim-with-other-state-guarantee-firms/

[40] https://www.dof.gov.ph/philguarantee-reports-p216-b-portfolio-in-2019/

- **Example:** PhilGuarantee, the export credit agency with limited capital recently conducted technical training or capacity building on financing renewable energy projects and major infrastructure to accelerate the guarantee functions on renewable energy and energy efficiency projects, which ultimately aim to crowd in private investments to nation's RE and EE developments.

5. EXIM Thailand is a state-owned financial institution established in 1993 to provide financing facilities related to international trade and investment.[41]

- **Example:** On May 5, 2021, EXIM Thailand provided a credit facility of USD73.95 million or approximately 2,300 million baht to SUPER Group to finance its investment in a wind power plant in Vietnam.[42] EXIM Thailand has remained steadfast in supporting renewable energy projects amid the challenging times brought on by the COVID-19 pandemic.

[41] https://www.exim.go.th/en/About-Exim-Thailand/About-us/Background.aspx

[42] https://www.ryt9.com/en/prg/249405

IV-I. THE FUNCTION OF DEVELOPED ECONOMY ECAS IN THE SOUTHEAST ASIA REGION

ECAs in developed countries can reinforce the cooperative relationship among financial institutions and government agencies through financial support for individual projects and infrastructure such as renewable energy in the Southeast Asia Region.

1. Japan Bank for International Cooperation (JBIC) signed a memorandum of understanding with International Finance Corp. (IFC) in 2020[43] to support business activity in environmental protection and quality infrastructure in Africa, South Asia, and the Mekong Region through its financing capability such as the Growth Investment Facility[44]. This facility has more relaxed conditions for own-country content than traditional ECA requirements.

Eligible projects under the Growth Investment Facility are expected to reduce greenhouse gas emissions and other environmental damage through means such as renewable energy, energy savings, green mobility solutions, air pollution prevention, water supply, water pollution prevention, and waste disposal. JBIC can finance up to 60% of the co-financing amount. It is made available in US dollars, euro, Japanese yen and other currencies to be determined.

2. Export-Import Bank of the United States (EXIM) signed a memorandum of understanding with the Republic of Indonesia's Ministry of Finance and Ministry of Planning in 2020 to unlock potential opportunities for EXIM to finance an estimated USD750 million worth of infrastructure, railway and road transportation, energy (including renewable energy), mining supply chain infrastructure,

[34]https://www.ecics.com.sg/ourcompany/

[35]https://www.peoples.com.sg/

environmental projects, communications, information and communications technology, broadcasting, weather and climate monitoring, safety and security, health care, and geospatial information.[45] This transaction had no publicly disclosed criteria that mandated the use of manufactured products from the United States.

3. Export-Import Bank of Korea (KEXIM) and Credit Guarantee and Investment Facility (CGIF) each guaranteed 50% of a 171.4 billion won green bond issued by Hanwha Solutions on April 15, 2021. The green bond's proceeds were earmarked to strengthen the company's ESG management, increase the financial capital of its subsidiaries in China and other countries producing solar cell and module products, and repay existing loans.[46]

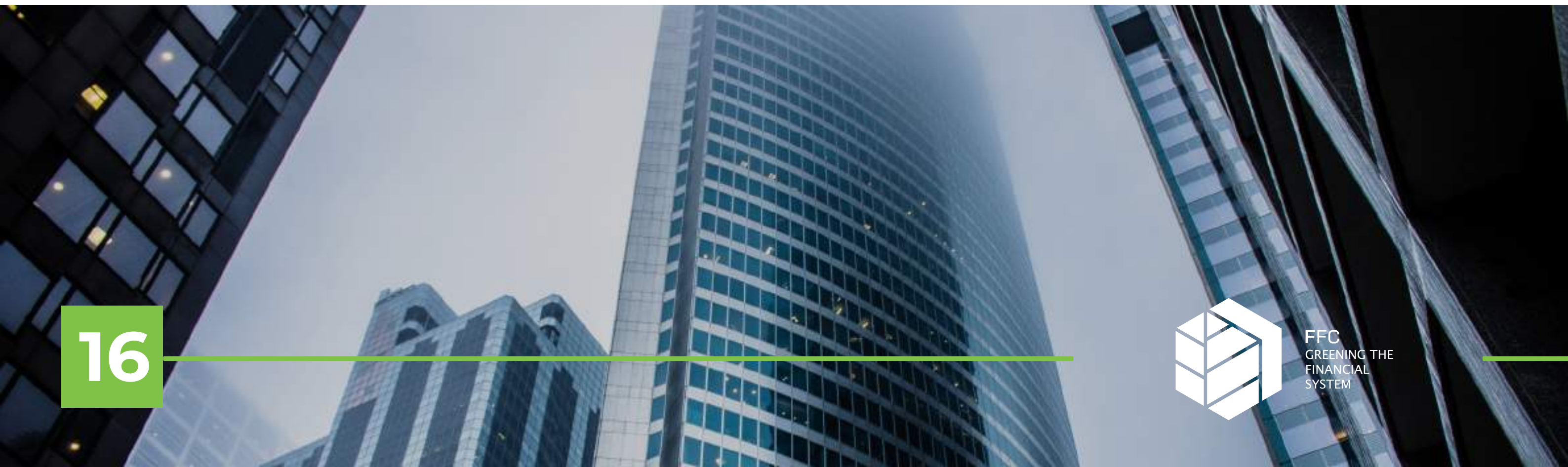
4. KfW IPEX-Bank of Germany has loaned EUR200 million to support renewable energy production in India through its borrower, Rural Electrification Corporate (REC). REC is a government agency that will then on-lend to solar and wind power investors at a low interest rate.[47]

5. China Export Credit Insurance Corporation (Sinosure) guaranteed a USD69 million credit facility for Longi Green Energy Technology Company's expansion of photovoltaic production in the Malaysian State of Sarawak.

[45] https://www.exim.gov/news/exim-signs-750-million-memorandum-understanding-republic-indonesia%E2%80%99s-ministry-finance-and

[46] https://www.koreaexim.go.kr/site/program/board/basicboard/view?boardtypeid=284&boardid=63980&menuid=002001008001

[47] https://www.gtreview.com/news/asia/german-development-bank-supports-indian-renewables/



V. EXPORT CREDIT AGENCIES' TRANSITIONAL PERIOD

Rising concerns around climate change and the COVID-19 pandemic have motivated ECAs to support green recovery. ECA-backed project deals in 2019 and 2020 created opportunities to generate jobs while ensuring greater resilience and sustainability during times of crisis such as a pandemic. ECAs now play a major part in crowding risk-averse private sector lenders into green energy projects.

1 RENEWABLE ENERGY (WIND)

Australian Trade Credit Insurer Atradius, Denmark's Eksport Kredit Fonden (EKF), Norway's Garantiinstituttet for eksportkreditt (GIEK), Korea Trade Insurance Corporation (K-sure), Nippon Export and Investment Insurance (NEXI), and UK Export Finance (UKEF) backed the Taiwan's Formosa II Wind Power Company NT$62.4 billion financing of a 376MW wind farm located off the Coast of Miaoli County in northwest Taiwan in December 2019.

2 ENERGY EFFICIENCY

In 2020, Bangladesh Chemical and Industries Corporation's USD1.3 billion Ghorasal Polash urea fertilizer plant project secured backing from Multilateral Investment Guarantee Agency (MIGA), a member of the World Bank Group. MIGA issued USD357 million in guarantees to support the construction, equipping and operation of the plant. The guarantees were issued to HSBC and MUFG which provided the facility along with Japan Bank for International Cooperation for up to 14 years. This is the largest financing effort backed by ECAs in Bangladesh.[48]

[48] https://www.theasset.com/article-esg/39950/miga-guarantees-energy-efficient-fertilizer-project-in-bangladesh

3 ESSENTIAL SERVICE (HEALTHCARE)

Chinese ECA China Export & Credit Insurance Corporation (Sinosure) in 2020 backed the government of Sri Lanka's USD72 million facility to finance upgrade of health facilities at various hospitals. HSBC was the lead arranger, lender, and agent.[49]

4 RENEWABLE ENERGY (HYDRO)

The Nepal Water and Energy Development Company's (NWEDC) 216-megawatt run-of-the-river hydropower plant on the Trishuli River near Kathmandu was supported by the Asian Development Bank (ADB) to the tune of USD60 million. The project was co-financed with International Finance Corporation; Export-Import Bank of Korea; Korea Development Bank; Asian Infrastructure Investment Bank; Commonwealth Development Corporation; the Netherlands' FMO overseas development bank, the OPEC Fund for International Development; and France's Société de Promotion et de Participation pour la Coopération Economique (Proparco).[50]

[49] https://www.asiamoney.com/article/27i6gralrq1bhg3whzzls/awards/new-silk-road-finance-awards/best-bank-for-infrastructure-project-finance-in-the-region-2019

[50] https://www.adb.org/news/adb-signs-60-million-private-sector-deal-build-hydropower-plant-nepal

VI. INNOVATION NEEDED FOR DEVELOPED EVONOMY ECAS TO SUPPORT DEVELOPING ECONOMIES' GREEN RECOVERY FROM THE PANDEMIC

Government-backed ECAs can influence private sector capital to scale up green finance by stipulating de-risking mechanisms for capital-intensive greenfield renewable energy projects. It is, therefore, most important to structure innovative and enabling terms and conditions for green finance eligible projects because the harms of climate change transcend national borders.

1 RELAXED TERMS AND CONDITIONS

JBIC launched its Growth Investment Facility for Development of Quality Infrastructure for Environmental Preservation and Sustainable Growth (QI-ESG Window)[51] in January 2020. The eligibility criteria do not require Japanese own-country content in products or services. Other ECAs should follow this less-stringent scheme and its transparency in disclosures on terms and conditions in order to accelerate green financing.

JBIC has been proactive in global environmental preservation efforts in cooperation with local banks, such as the case of JBIC's USD50 million relending facility agreement with BDO Unibank, Inc. in the Philippines. The facility was intended to finance renewable energy in the Philippines and is noted as the first green finance transaction with that country that has no binding requirement to use Japanese products and services.

2 QUALIFYING ECA FINANCING FOR NDC TARGETS AND CLIMATE PROSPERITY PLAN OPPORTUNITIES IN EXPORTER COUNTRY

[51]https://www.jbic.go.jp/en/information/news/news-2019/0131-013038.html

ECA funds that are disbursed for green finance eligible goods and services can be claimed by exporter country as a contribution to its Paris Agreement Nationally Determined Contributions (NDCs) target and the CVF/V20-led Climate Prosperity Plans (CPPs).[52] The NDC contribution and Climate Prosperity Plan opportunities of the exporter and importer country will be computed in line with agreed norms such as a pro-rata counting method depending on the amount financed.

3 LIMIT ECAS' PARTICIPATION IN CARBON-INTENSIVE AND NON-CLIMATE RESILIENT PROJECTS

Transitioning to a low-carbon and climate-resilient economy has no shortcuts and will take time. While in process, ECAs can start implementing a reduced limit or threshold for carbon-intensive projects and support shifting to lower carbon footprint business activities or technologies. Additional Carbon tax should be charged to ECAs that finance greenfield fossil fuel power projects in Southeast Asia.

Despite the Philippines' declaration of coal moratorium in 2020[53], it has the following pipeline of coal power plants - 10GW in operation, 9GW at the pre-construction stage, and 2GW under construction.[54] If these projects are to be financed by ECAs they should pay a carbon tax to compensate for the environmental and social harms these projects are likely to cause.

Accordingly, the pass-through charges[55] imposed on end-users from baseload coal power plants operations should be abolished. Instead, these charges must be paid by the coal power plants or ECAs that have supported the project.

[52]Climate Prosperity Plans by the Climate Vulnerable Forum (CVF) and Vulnerable Twenty (V20) Group of Finance Ministers are strategic investment frameworks to mobilize financing, especially through international cooperation, for implementing renewable energy and resilience projects. https://www.v-20.org/our-voice/news/climate-vulnerable-economies-seek-bolder-global-prosperity-plan

[53]Cusi declares moratorium on endorsements for greenfield coal power plants

[54]EA (2020), Electricity Market Report - December 2020, IEA, Paris https://www.iea.org/reports/electricity-market-report-december-2020

[55]Pass through charge refers any increased fee is transferred to the end users of electricity due to the price increase of supply such as fuel prices increase or foreign exchange differences.

4 ECA FUNDS TO MATCH THE LOCAL CURRENCY OF THE BUYER COUNTRY

Central banks should craft enabling regulations in terms of hard currency being advanced by ECAs to local commercial banks to ensure borrowing is affordable and accessible for clients. Current central bank regulation in some Southeast Asian countries requires that if a credit facility is provided by a foreign country to local banks the funds must be booked and recorded in a Foreign Currency Deposit Unit (FCDU) and should be relent to local banks' clients in foreign currency. However, most bank clients in the energy sector earn their revenues in local currency while most of ECAs offer the credit facility to local commercial banks in hard currency. This process discourages clients from borrowing for their projects due to the exchange-rate risk.

To overcome this problem, banks must attempt to swap or hedge the hard currency internally through their treasury units due to the lack of swap markets in developing countries. Hedging the currency will only be available for a maximum of three months. Therefore, due to the mismatched loan tenor and currency of ECA funds, hedging in developing countries will raise operational costs for the commercial banks and clients' borrowing costs. In the end, loans from an ECA credit facility may be of little benefit to end-borrowers despite a seemingly attractive original offer.

5 ECAS CAN FINANCE THEIR OWN COUNTRY'S LOCATORS IN ECONOMIC ZONES

Economic zones have been established in the Philippines primarily to encourage foreign corporations to manufacture their products there and eventually export them across the world. The incoming industries, or locators, benefit from fiscal incentives, access to essential infrastructure, and skilled workers.

A market sounding of the University of Philippines Los Baños (UPLB) Agro-Industrial Information and Technology Parks Project was held On June 7, 2021, to gather insights of from stakeholders. This Public-Private Partnership (PPP) project involves developing 70 hectares of state university land into a sustainable agro-industrial and IT park.[56] ECAs can finance this type of green project through either direct investment, guarantee or insurance. In lieu of a traditional ECA own-country

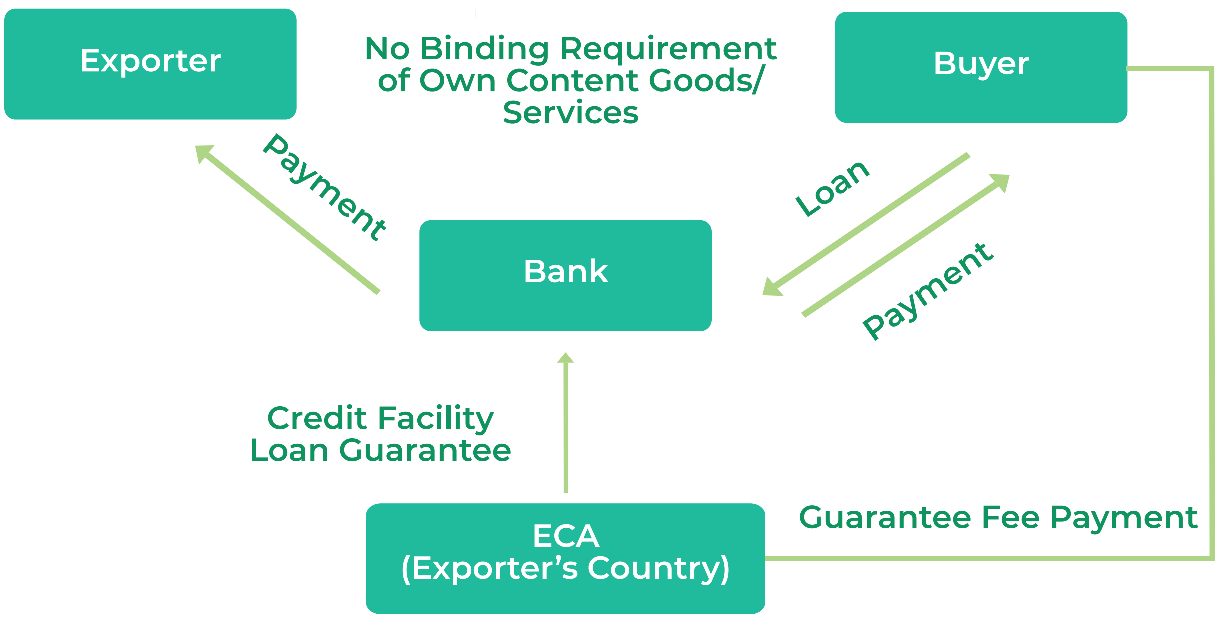
[56] https://ppp.gov.ph/ppp_projects/up-los-banos-agro-industrial-information-and-technology-parks/

content requirement, financing locators in foreign countries such as the Philippines is an alternative way of supporting their domestic economies.

6 RISK SHARING FACILITY BY ECAS

ECAs financing fossil fuel investments in foreign countries should share the risks with local banks to minimize the problem of stranded assets. A "pari passu" proceeding or equal footing in gains and risk should be embedded in the contractual agreement's risk-sharing terms and conditions. A risk sharing facility can be structured to ensure that the first loss will be absorbed by participating local banks and the second loss can be shared if and when the project asset becomes stranded.

Chart 2. Proposed ECA Structure with relaxed terms and conditions



NDC CONTRIBUTION AND CPP OPPORTUNITIES CALCULATION

Determine

- Project cost per MW **(A)**
- Amount Financed by Exporter Country ECA and Importer Country Local Bank **(B)**

Quantify

- Greenhouse gas emission avoidance of the renewable energy project per MW and resilience analytics in percentage saved or enhaned through avoided losses **(C)**
- **NDC Contribution/CPP Opportunity = B/A x C**

Report

- Greenhouse gas emission avoidance and resilience enabled of financed renewable energy project to government agency in-charge of coordinating NDC targets/CPP opportunities
- Monitoring status of GHG emission avoidance to ECAs in order

Example:

A. Total project cost of 6MW biomass power plant per MW = USD 12Mn
USD 12Mn/6 MW = USD 2Mn project cost per MW

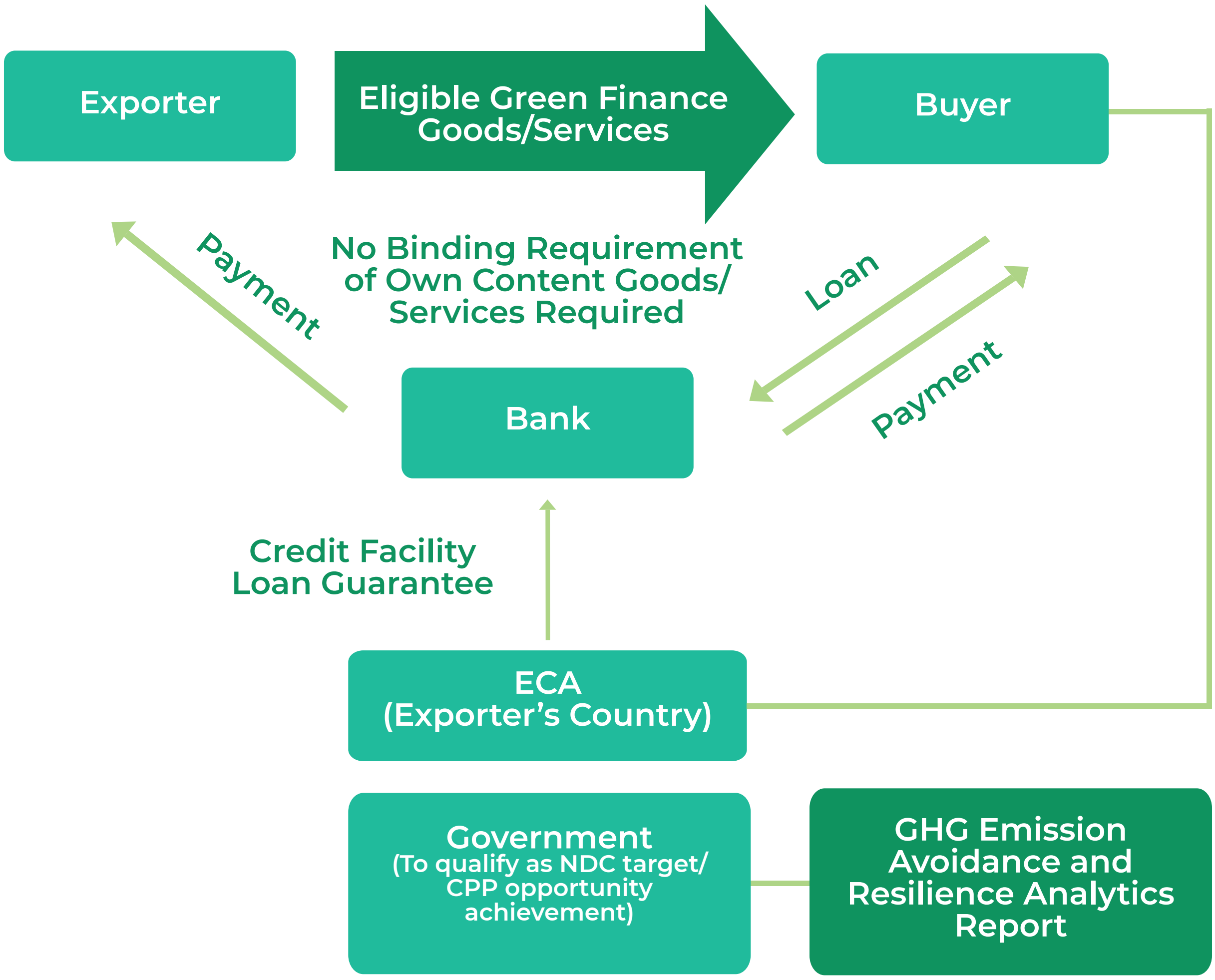
B. Amount financed by exporter country = 50%
Importer country local bank = 50%

C. Biomass' annual avoidance of greenhouse gas emission per MW = 4,000 tonnes

Biomass' resilience improvement/avoided losses = 15% enhanced power system

NDC Contribution/CPP Opportunity
(USD 12Mn x 50%) = USD 6Mn
USD 6Mn /USD 2Mn = 3 MW
3 MW x 4,000 tonnes = 12,000 tonnes

Chart 3. Proposed Export Credit Agency (ECA) Structure to Catalyze Green Financing



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