

## **PUBLIC CONSULTATION ON CHANGES TO ECGD'S POLICY ON SUPPORT FOR FOREIGN CONTENT**

I frequently attend "British Expertise" meetings on behalf of Taylor Woodrow, who are Corporate Members. I am an individual member however and am responding to this Consultation in my personal capacity.

ECGD's support services for international business development need to return to the premier position they have occupied in the past. The allowable foreign content should be much more flexible as multi sourcing is increasingly the "name of the game", and ECGD's "One-Stop-Shop" approach does not satisfactorily address this matter. It is also necessary to ensure that the assessment of what constitutes "UK" content is clear so that the role ECGD can discharge in supporting international project development is clear.

The questions addressed in this consultation are reproduced below and the reaction is set out in capital letters relative to each question.

- **Should ECGD change its current policy for supporting foreign content under credit contracts?**

YES, ECGD SHOULD CHANGE ITS POLICY.

ECGD SHOULD SUPPORT MORE EFFECTIVELY PROJECT DEVELOPMENT IN DIFFICULT MARKETS. IT SHOULD ALSO BE UNDERSTOOD THAT ECA GUARANTEES FACILITATE CROSS BORDER LENDING ACTIVITIES IN SUPPORT OF THESE PROJECTS. BANKS' INTERNATIONAL LENDING ACTIVITIES ARE HEAVILY CONSTRAINED THROUGH THE IMPOSITION OF "RISK WEIGHTED CAPITAL ADEQUACY CONTROLS".

THESE CONTROLS WERE INTRODUCED FOLLOWING INTERNATIONAL CONSULTATION BY THE BANK FOR INTERNATIONAL SETTLEMENTS IN BASLE. THEY RESTRICT BANKS' BUSINESS ACTIVITIES BY REQUIRING BANKS TO ALLOCATE AGAINST ALL BUSINESS ACTIVITIES AN AMOUNT OF CAPITAL TO REFLECT THE RISK THEY ARE TAKING. IT WAS FELT NECESSARY TO INTRODUCE THESE CONTROLS FOLLOWING THE PROBLEMS EXPERIENCED BY BANKS DURING THE FINANCIAL CRISIS FOLLOWING INTERNATIONAL SOVEREIGN DEBT DEFAULTS IN THE 1980's

THE AVAILABILITY OF A GUARANTEE FROM AN OECD GOVERNMENT OWNED OR CONTROLLED ECA CHANGES THE RISK SUCH BUSINESS ACTIVITIES LEAD TO. WITHOUT SUCH A GUARANTEE, APPROPRIATE LOAN FACILITIES FOR THE DEVELOPMENT OF ESSENTIAL INFRASTRUCTURE, ESPECIALLY IN THIRD WORLD AND EX HIPC COUNTRIES CANNOT BE EFFECTIVELY SUPPORTED BY THE BANKS.

OTHER PROJECTS, WHERE A CASH FLOW GENERATED FROM PROJECT OPERATIONS CAN REPRESENT A MEANS OF CREATING SECURITY THAT EFFECTIVELY "EXTERNALISES" THE RISKS ASSOCIATED WITH THE BUSINESS. THESE TYPES OF "GOOD PROJECTS" DO THEREFORE CONTINUE TO BE SUPPORTED BUT THIS AREA OF BUSINESS NEEDS TO BE REVIEWED TO DETERMINE ITS IMPACT OF THE HOST ECONOMY.

- **In general, how much foreign content should ECGD be willing to support?**

IN INCREASING SUPPORT FOR PROJECTS INCLUDING MORE THAN THE CURRENT LEVEL OF FOREIGN CONTENT ALLOWABLE, ECGD SHOULD ALSO BE SATISFIED WITH OTHER ASPECTS OF THE PROJECT.

THEY SHOULD BE SATISFIED AS TO ITS IMPORTANCE IN DEVELOPMENTAL TERMS:

- TO THE HOST COUNTRY CONCERNED;
- TO THE PROJECT SUSTAINABILITY;
- TO THE ENVIRONMENTAL IMPACT ASSESSEMENT; AND

MANY OTHER ISSUES RELATING TO THE IMPACT OF THE PROJECT ON THE HOST ECONOMY NEED TO BE REVIEWED. TO SET A MAXIMUM LEVEL OF FOREIGN CONTENT REQUIRED IS DIFFICULT SINCE THIS WOULD DEPEND ON THE PROJECT BUT IT SHOULD PROBABLY BE SET IN THE ORDER OF 35-50% OF THE PROJECT VALUE. WITH THIS TYPE OF SUPPORT IN PLACE SUCH ISSUES AS AFFORDABILITY, VALUE FOR MONEY, SUSTAINABILITY AND OTHER ISSUES SUCH AS THOSE MENTIONED ABOVE CAN BE TAKEN INTO ACCOUNT.

- **Should ECGD's policy include the flexibility to support more of less foreign content for a particular credit?**

ECGD's POLICY SHOULD PROVIDE FLEXIBILITY TO SUPPORT MORE FOREIGN CONTENT, AS EXPLAINED ABOVE.

- **What factors should be govern whether such flexibility should be exercised in individual cases?**

THE MOST IMPORTANT ISSUES SHOULD ALWAYS BE:

- PROJECT SUSTAINABILITY;
- AFFORDABILITY; AND
- VALUE FOR MONEY.

THE PRIORITY OF A PROJECT FOR THE HOST GOVERNMENT AND THE STATUS OF THE PROJECT WITHIN THE COUNTRY'S DEVELOPMENT PLANS WILL ALSO BE VITALLY IMPORTANT CONSIDERATIONS. MANY OF THE COUNTRIES LIKELY TO BE CONCERNED HAVE AGREED POVERTY ALLEVIATION STRATEGIES, AND ARE ALSO WORKING TO ACHIEVE MILLENIUM DEVELOPMENT GOALS.

- **Should ECGD simplify its policy? If so, how?**

HOPEFULLY THE ABOVE COMMENTS WILL HAVE PROVIDED GUIDANCE AS TO THE IMPORTANCE OF THE REQUIRED FLEXIBILITY ECGD SHOULD ADOPT. IT REALLY ISN'T A CASE OF SIMPLICITY BUT IS A NEED TO SEE ECGD FOLLOWING ITS ORIGINAL OPERATIONAL PRINCIPLES TO FACILITATE INTERNATIONAL BUSINESS AND ECONOMIC DEVELOPMENT ON APPROPRIATE TERMS.

**THERE IS OBVIOUSLY A LIKELIHOOD THAT ISSUES WILL ARISE AS THIS WHOLE QUESTION IS CONSIDERED. A FURTHER QUESTION IS THEREFORE LIKELY TO ARISE AND THAT WILL NEED TO BE ADDRESSED.**

- **With these changes implemented, ECGD may find itself being asked to support business that may be judged as extremely risky. How can ECGD support for such business be justified?**

THE ABOVE COMMENTS ATTEMPT TO STRESS THE ISSUES OF VALUE FOR MONEY, SUSTAINABILITY AND AFFORDABILITY. THESE ARE CLEAR ISSUES THAT SHOULD PRECEED THE DECISION MAKING PROCESS FOR THE RIGHT PROJECTS.

THE PRIORITISATION OF THESE PROJECTS WITHIN GOVERNMENT DEVELOPMENTAL PROGRAMMES, AND IN COMPLIANCE WITH THEIR AGREED POVERTY ALLEVIATION STRATEGIES SHOULD FACILITATE A PROPER EXAMINATION OF PROJECTS THAT WILL ENSURE THAT ONLY THE RIGHT BUSINESS IS SUPPORTED.

IT SHOULD ALSO BE BORNE IN MIND THAT WHILST THIS CONSULTATION DOES NOT SPECIFICALLY ADDRESS SUSTAINABILITY, THIS CANNOT BE IGNORED IF THE ECA SECTOR IS GOING TO BE ABLE TO CONTRIBUTE TO SENSIBLE PROJECT DEVELOPMENT, PARTICULARLY IN POOR COUNTRIES.