

Report  
Norwegian Debt Audit



Project: Norwegian Debt Audit 2013

Client: Ministry of Foreign Affairs

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The Audit Team has comprised the following:

Karstein Haarberg, Senior Manager, Deloitte (Team leader)

Erik Holtedahl, Senior Partner, Scanteam (Lending Expert)

Gillean Dean Nordal, Senior Manager, Deloitte (Auditor)

Kristin Dalsbo Pettersen, Senior, Deloitte (Auditor)

Grete Elgåen, Partner, Deloitte (Lead Partner and Quality Assurer)

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## Acronyms

<b>AO</b>	<b>Alminnelig ordning (Ordinary guarantee scheme)</b>
<b>BAPPENAS</b>	National Planning Development Agency of Indonesia
<b>DSA</b>	Debt Sustainability Analyses
<b>ECG</b>	OECD Working Party on Export Credits and Credit Guarantees
<b>EG</b>	Eksportgaranti (Export guarantee)
<b>Eurodad</b>	European Network on Debt and Development
<b>GAO</b>	Gammel alminnelig ordning (Former ordinary guarantee scheme)
<b>GDP</b>	Gross Domestic Product
<b>GIEK</b>	Garantiinstituttet for Eksportkreditt
<b>GSO</b>	Gammel Særordning (Former guarantee scheme for developing countries)
<b>IIF</b>	Institute for International Finance
<b>IMF</b>	International Monetary Fund
<b>LG</b>	Långivergaranti (Buyer's credit guarantee)
<b>MDA</b>	Ministry of Development Assistance
<b>MDRI</b>	Multilateral Debt Relief Initiative
<b>MFA</b>	Ministry of Foreign Affairs
<b>MFA</b>	Ministry of Foreign Affairs
<b>MoT</b>	Ministry of Trade
<b>MTI</b>	Ministry of Trade and Industry
<b>NGO</b>	Non-Governmental Organisation
<b>NHD</b>	Nærings- og Handelsdepartementet (Ministry of Trade and Industry)
<b>NHO</b>	Næringslivets Hovedorganisasjon
<b>Norad</b>	Norwegian Agency for Development
<b>OECD</b>	Organisation for Economic Cooperation and Development
<b>OECD – AOSEC</b>	OECD Arrangement on Officially Supported Export Credits
<b>OECD – CA</b>	OECD Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence
<b>OECD Sustainable Lending</b>	OECD Principles and Guidelines to Promote Sustainable Lending Practices in the Provision of Official Export Credits to Low-Income Countries
<b>SLG</b>	Supplerende långivergaranti (Supplementary lender's guarantee)
<b>SLUG</b>	Slett U-landsgjelda
<b>UN</b>	United Nations
<b>UN Principles</b>	UNCTAD Principles on Promoting Responsible Sovereign Lending and Borrowing
<b>UNCTAD</b>	United Nations Conference on Trade and Development
<b>UO</b>	U-landsordning (Developing countries guarantee)



# 1. Executive Summary

## 1.1 Introduction

The Audit Team has been engaged in response to The Norwegian Government's statement that an audit should be conducted of all public debt owed to Norway by developing countries. This statement, together with Norway's recent work within the area of responsible lending and borrowing, forms the foundation for the current debt audit.

Norway has made considerable efforts to address the topic of responsible lending and borrowing, including cancelling debt arising from the Ship Export Campaign and financing the UN Principles on Promoting Responsible Sovereign Lending and Borrowing (UN Principles). Norway has also taken a leading role in advocating international guidelines for responsible lending. In Norway's view, it is not only the size and sustainability of a country's debt that should be assessed but also how the debt originally arose and the conditions that were set at the time.

### **Purpose**

The multiple purposes of the audit may be, according to the Terms of Reference, divided into four principal areas. Each purpose is explained in more detail below and linked to execution of the assignment.

1. Perform a normative assessment: The rationale and approach for the debt audit is normative and builds on Norway's expressed intentions and goals for debt policy.
2. Foster public relations: The debt audit intends to attract attention, promote debate, and ultimately lead to a more responsible lending policy. The audit team has attempted to make the report and other audit deliverables comprehensible regardless of technical background.
3. Build knowledge: The audit process has been conducted in such a manner that it may serve as a model for future debt audits and, provide useful lessons for interested parties, including creditors and debtors. The audit team has developed an approach and methodology that can be used for assessing public debt. Reference is made to chapter 4 for a comprehensive description of the strategy and methodology of the audit.
4. Develop experience with UN Principles: The assignment should provide feedback on the newly launched UN Principles. Through testing the Principles as part of the audit, the Audit Team have attempted to contribute to their further development. This exercise also aligns with Norway's role of promoting financial and economic transparency.

The scope of the study is limited to Norway's remaining public claims on defaulted state-to-state loans with developing countries. The claims originate from 34 export credits extended to Sudan, Myanmar, Somalia, Egypt, Pakistan, Indonesia and Zimbabwe between 1978 and 2000, and guaranteed by the Norwegian Guarantee Institute for Export Credits (GIEK).

### **Methodology**

The assessment consists of three key analyses based on the following three sets of criteria:

1. Former GIEK procedures, rules and regulations – in place at the time the guarantees were provided (GIEK's regulations from 1964 to 2000) and OECD Arrangement on Officially Supported Export Credits (OECD Arrangement).
2. UNCTAD Principles on Promoting Responsible Sovereign Lending and Borrowing (UN Principles) – the principles were launched in April 2012 and have been endorsed by several countries, including Norway, Germany, Brazil and Italy.
3. Current GIEK procedures, rules and regulations, including the OECD Arrangement on Officially Supported Export Credits (OECD Arrangement), OECD Recommendation of the

Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (OECD Common Approaches), and the OECD Principles and Guidelines to Promote Sustainable Lending Practices in the Provision of Official Export Credits to Low-Income Countries (OECD Sustainable Lending).

The audit has comprised the following steps:

1. Mapping of role and responsibility of stakeholders.
2. Review of documentation, including guarantees primarily from GIEK's files, with supplementary information from Norad and Eksportfinans .
3. Meetings with Norwegian stakeholders; GIEK, Eksportfinans, Norad, Ministry of Trade and Industry, and selected NGO and exporters, Norsk Industri.
4. Interviews with recipient countries, and support from Deloitte country offices in Indonesia and Pakistan.
5. Interviews with Bretton Woods/UNCTAD bodies related to best practice and future ideas.

Following commencement of the audit in mid-March, an Inception Report was delivered mid-April and finalised in May. The assessment of the 34 contracts commenced in April concurrently with interviews with international organisations, NGOs, experts related to the countries in question as well as with subject matter experts. Feedback on preliminary findings was obtained in mid-June and a draft report submitted on 21 June.

### **Disclaimer**

The study has been conducted based on available documentation, data and information sources. Incomplete or missing guarantees, files and other documents may have consequences for the study and related findings. Interviews were held with experts and institution in Norway, key international institutions, NGOs and borrower countries. Not all of the invited institutions and persons contacted were available for interview. The study should therefore be read with these limitations in mind.

## **1.2 Conclusions**

We have noted certain deviations regarding compliance with GIEK's former rules and regulations. Our conclusion is, however, that these were not of such a nature that the guarantees should not have been issued, particularly given GIEK's mandate to enhance Norwegian export and Norad's evaluations of the developmental impacts of the projects.

Based on our audit findings, the guarantees neither satisfy in full the current requirements of GIEK's rules and regulations nor the UN Principles. However, with regard to the rules and regulations and UN Principles we have noted as being insufficiently addressed, these were not in force at the time of issuing the guarantees. It is possible that if the present rules and regulations had been in place at the time of considering the guarantee applications, GIEK's decisions regarding some of the projects might have been concluded differently.

This conclusion has been formed based on review of certain information found during assessment of some, but not all, of the credits granted in Indonesia, Myanmar, Pakistan and Zimbabwe:

- Indonesia: Wave power plant project highlighted concerns regarding the technical and commercial viability of the project.
- Myanmar: Serious design faults were noted in a vessel subject to guarantee.

- Pakistan: Allegations of weapon and drug dealing by the buyer were published before the guarantee was issued.
- Zimbabwe: State-owned buyer was already subject to widespread allegations of corruption several years before the guarantees were issued. We have not found evidence to suggest that Norwegian companies were involved in any allegations of corruption.

### 1.3 Findings

Sovereign lending is viewed as a growing area of international risk. Important developments are taking place when it comes to sovereign debt restructuring<sup>1</sup>.

OECD's rules and regulations are unique in the export credit market place for OECD exporters. However, as the larger emerging economies continue to grow (BICS<sup>2</sup>), OECD is struggling to maintain the level playing field regarding use of export credits.

On the developing countries' side, which usually constitute the borrowing countries, this imbalance is even more prominent. In the view of the Audit Team, there is currently no OECD-equivalent organisation in place to protect and help prevent the borrower countries from falling into the "race to the bottom"<sup>3</sup>.

Export guarantees based on governmental guarantees from borrower countries are generally no longer in common use by GIEK. The guarantees audited partly represent contracts from periods when the Norwegian economy was in recession, following the 1973 oil crisis and the downturn in the early 1990s.

Key conclusions drawn from our work relating to each set of criteria are described below.

#### **1. Former GIEK rules and regulations**

The assessment of guarantees generally demonstrates a high degree of compliance with the rules and regulations in place at the time. One deviation identified is a new paragraph in GIEK's regulations on risk assessment in the 1994 statutes, which required risk assessment of the buyer, the debtor, the project and the country. We have observed that risk assessments mainly focused on the political risk of the debtor countries. It should be noted that in all cases the state was either debtor or guarantor. This may, however, be acceptable in the cases where the buyer was a state body and therefore also the debtor. A number of the cases included mixed credits, where Norad undertook a partial assessment of the expected developmental effects. We did not find that GIEK undertook any substantial independent project assessments for guarantees issued, even for those granted later than 1994.

#### **2. UNCTAD Principles on Promoting Responsible Sovereign Lending and Borrowing (UN Principles)**

The UN Principles make a positive approach towards curbing a significant problem affecting a large number of countries; namely an unsustainable level of debt.

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<sup>1</sup> IMF 2013, "Sovereign Debt Restructuring – Recent developments and implications for the Fund's legal and policy framework", April 26, 2013

<sup>2</sup> BICS means Brazil, India, China and South Africa.

<sup>3</sup> This expression refers to why OECD's export credit cooperation ("The Arrangements") has been important for OECD countries, see OECD 2011, "Smart Rules for Fair Trade – 50 years of export credits", page 133.



The UN Principles are general in nature and are still in an early stage of roll-out. This is emphasised by the fact that relatively few countries have endorsed them so far.

The assessment of guarantees in accordance with the UN Principles leads to a main finding of partial compliance. This is in line with our expectations. The UN Principles were agreed in 2012. The new ideas of responsible sovereign lending and borrowing were therefore not reflected to any significant extent in GIEK's regulations of in the 1970s, 1980s and 1990s.

Nonetheless, it is our view that some of the UN principles have been partially complied with; such as Principles 1 Agency, 2 Informed Decisions, 3 Due Authorization and 4 Responsible Credit Decisions. We believe that Principles 6 International Cooperation and 7 Debt Restructurings have most likely been complied with in full. In our opinion, the guarantees generally are not in compliance with Principle 5 Project Financing.

On the borrowers' side we have found that the countries in scope normally had some form of identifiable process before entering into a contract. The degree to which processes in borrower countries were developed and consistently applied has, however, not been possible to assess, particularly for the earliest contracts. For later contracts in Zimbabwe, Indonesia and Pakistan there is clearer evidence of processes in place. In all countries there have been ex ante investigations relating to Principles 8 to 13. The quality of these processes differs however. Some countries have serious debt problems and have not managed to avoid over-borrowing, as required by Principle 14; this applies to Sudan and Zimbabwe in particular. The same countries are also struggling to undertake a restructuring, as required by Principle 15.

### **3. *Current GIEK procedures, rules and regulations***

Generally, we found the guarantees to be partially compliant with the present OECD Arrangement.

Both the Principles for Sustainable Lending and Common Approaches were agreed and enforced recently, in 2008 and 2012 respectively. The degree of compliance with the detailed technical requirements in Sustainable Lending Principles and Common Approaches is broadly assessed as low. However, elements of environment and social issues have been evaluated where Norad has been involved. Starting in the 1990s, GIEK introduced certain environmental clauses in connection with their guarantee polities.

## **1.4 Recommendations for improving UN Principles**

The UN Principles make a positive approach towards curbing a significant problem relating to sovereign borrowing and lending affecting a large number of countries. Efforts should therefore be sustained to further develop and implement the Principles and to secure funding for the future.

The scope of the Principles could be clarified and expanded upon. "Lenders" are identified, but other parties involved in the process of issuing export credits – guarantors for example – should, in our opinion, also be included. Guarantors are at present not included in scope.

The cooperation between and distribution of responsibilities amongst stakeholders in the export credit system is currently not clear enough and should be clarified and strengthened.

Efforts should be made to strengthen the collaboration between the borrowing countries.

In order to support the work of the UNCTAD Working Group and to align with existing principles, efforts should be made to use existing, accepted and perhaps already ratified concepts, where applicable. One example is the UN Global Compact<sup>4</sup>, which may be of help in developing Principle 5 Project Financing.

Specific recommendations relating to each of the UN Principles pertaining to lenders are shown below.

**1. Agency:** *Lenders should recognize that government officials involved in sovereign lending and borrowing transactions are responsible for protecting public interest (to the State and its citizens for which they are acting as agents).*

UNCTAD Working Group should further specify how the responsibility set out in Principle 1 is verified.

**2. Informed Decisions:** *Lenders have a responsibility to provide information to their sovereign customers to assist borrowers in making informed credit decisions.*

UNCTAD Working Group should also include cooperative behaviour.

**3. Due Authorization:** *Lenders have a responsibility to determine, to the best of their ability, whether the financing has been appropriately authorized and whether the resulting credit agreements are valid and enforceable under relevant jurisdiction/s.*

Lenders and guarantors should ensure that all export credits are properly authorised in accordance with legislation in the borrowing country.

**4. Responsible credit decisions:** *A lender is responsible to make a realistic assessment of the sovereign borrower's capacity to service a loan based on the best available information and following objective and agreed technical rules on due diligence and national accounts.*

UNCTAD Working Group should suggest an approach for undertaking such assessments.

This is particularly important as the present sustainable lending approach led by IMF is not sufficient in its own right, exemplified in a recent paper which stated that “[the present policy] fail[s] to establish debt sustainability and market access in a durable way”<sup>5</sup>.

**5. Project financing:** *Lenders financing a project in the debtor country have a responsibility to perform their own ex ante investigation into and, when applicable, post-disbursement monitoring of, the likely effects of the project, including its financial, operational, civil, social, cultural, and environmental implications. This responsibility should be proportional to the technical expertise of the lender and the amount of funds to be lent.*

UNCTAD Working Group should clarify the purpose of the investigation and monitoring, such as securing projects with benefits for the public, and that guidelines are developed for clarification of responsibilities.

UNCTAD Working Group should provide recommended guidelines for ex ante investigations and post disbursement monitoring of the projects.

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<sup>4</sup> <http://www.unglobalcompact.org/>

<sup>5</sup> IMF 2013

**6. International Cooperation:** *All lenders have a duty to comply with United Nations sanctions imposed against a governmental regime.*

Principle should be maintained as is.

**7. Debt Restructurings:** *In circumstances where a sovereign is manifestly unable to service its debts, all lenders have a duty to behave in good faith and with cooperative spirit to reach a consensual rearrangement of those obligations. Creditors should seek a speedy and orderly resolution to the problem.*

UNCTAD Working Group could change the formulation “speedy and adequate resolution”, as a recent IMF report showed that “debt restructuring has often been too little and too late...”.

The idea is that when restructuring needs to take place (Principle 7) then it should bring the borrower into a state where Principle 4 “Responsible credit decision” is fulfilled, i.e. have “capacity to service debt”.

## 2. Background

The Norwegian Government's political platform<sup>6</sup> states that an audit of all public debt owed to Norway by developing countries should be conducted. The debt audit that has resulted from this statement should therefore be understood in light of Norway's recent work and policy on the topic of responsible lending and borrowing. A debt audit is a natural follow-up to the work which Norway has already undertaken, namely the cancellation of debt arising from the Ship Export Campaign and the financing of the UN Principles on Promoting Responsible Sovereign Lending and Borrowing (UN Principles). The audit will focus on issues such as responsible lending and creditor co-responsibility and aims to raise the profile of debt policy, encourage debate and, ultimately, to promote a more responsible lending policy<sup>7</sup>.

Norway has taken a leading role in advocating international guidelines for responsible lending. Today, it is the size of a country's debt in relation to its GDP or annual export revenues that determines how much is cancelled through an assessment of debt sustainability, often through creditor institutions, like the Paris Club, and international organizations like the World Bank and IMF, through initiatives like HIPC and MDRI. In Norway's view, consideration should also be taken regarding how the debt came about in the first place and the conditions that were set. Debt cancellation should not just be a question of how much debt a country can sustain, but also a question of justice.

Although there are no generally agreed definitions of "responsible lending" and "illegitimate debt", the concepts are certainly interconnected. In this debt audit we do not use a set definition of the two concepts but instead look at various attempts to operationalise them. Our interpretation as a result flows from these operationalisations. A brief exploration of key concepts is nonetheless useful to understand the basis for the attempts at operationalisation.

Illegitimate debt does not have a formal definition. Most sources consulted appear to view illegitimate debts as those debts which did not benefit the populations of developing countries, which is the way Eurodad (European Network on Debt and Development) describes it. Eurodad is a network of 48 non-governmental organisations from 19 European countries working on issues related to debt, development finance and poverty reduction. Illegitimate debt is therefore often regarded as slightly more expansive than the concept odious debt that has a definition and a longer history. The definition of odious debt is still highly controversial. A debt can be considered odious debt<sup>8</sup> if the following three conditions hold:

1. **Absence of consent:** The debt were incurred without the consent of the people
2. **Absence of benefit:** The funds were not used for the public benefit
3. **Creditor awareness:** The creditor was aware – or should have been aware – of both of the above conditions.

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<sup>6</sup> The Norwegian government's political platform:

<http://www.regjeringen.no/upload/SMK/Vedlegg/Rapporter/Plattform-sm2-a4-web-english.pdf>.

<sup>7</sup> Ministry of Foreign Affairs 2012 "Consultancy Assignment Norwegian Debt Audit 2013 - Tender Document", Sak nr. 12/09267

<sup>8</sup> According to Alexander Nahun Sack, 1927.

The modern concept of odious debt was first articulated in 1927 by Alexander Nahum Sack, a Russian émigré legal theorist, based upon 19th-century precedents including Mexico's repudiation of debts incurred by Emperor Maximilian's regime, and the denial by the United States of Cuban liability for debts incurred by the Spanish colonial regime. The odious debt concept has had a renaissance during the last 10 years by a diverse set of actors. One example is Nobel laureate and economist, Joseph Stiglitz, who discussed Iraq's debt<sup>9</sup> (amongst other countries) within the odious debt terms. Also, Ecuador declared their debt to be illegitimate in 2008, arguing that the debt was odious. A number of NGOs have also pushed forward and advocated for debt forgiveness for debt they regard to be either odious or illegitimate.

Odious debt is the key when discussing what should not be considered proper lending. Other useful terms for describing types of sovereign debts –emphasis being on debt with a negative connotation – include onerous, imprudent, criminal and despotic debt, as illustrated in Figure 1.

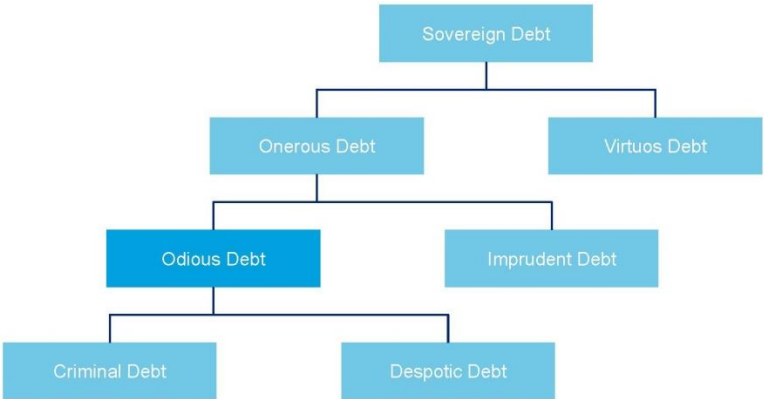


Figure 1 Types of Sovereign debt<sup>10</sup>

Ideally, lenders and borrowers should already establish ex-ante if a loan is responsible, including how to undertake a responsible lending and borrowing process. As with odious debt, several attempts have been made to bring responsible lending and borrowing forward. OECD has worked for 50 years to establish a level playing field primarily via their Arrangement on Officially Supported Export Credits, as well as bringing social, environmental and sustainability issues on board with various lending guidelines. Corruption and anti-fraud guidelines have also been made by OECD.

IIF (Institute for International Finance) – a global association of financial institutions - has adopted “Principles for stable capital flows and fair debt restructuring”, concerning transparency and flow of information, dialogue and cooperation to avoid restructuring, good faith actions and fair treatment. The aim is to establish flexible guideposts for cooperative behaviour of all parties concerned when restructuring debt<sup>11</sup>.

<sup>9</sup> Stiglitz, Joseph 2003, “Odious Rulers, Odious Debts: Should the people of Iraq be forced to pay back money borrowed by Saddam?” A Nobel laureate makes an urgent case for forgiveness. The Atlantic Monthly November 2003  
<sup>10</sup> Source: Leonce Ndikumana and James K. Boyce: “Africa’s Odious Debts: How Foreign Loans and Capital Flight Bled a Continent”. Page 89.  
<sup>11</sup> See website for information: <http://www.iif.com/emp/principles/>

NGOs have also drafted guidelines, like Eurodad with their Charter on Responsible Financing, concerning technical and legal terms and conditions, human rights and environment protection, public consent and transparency, procurement as well as repayment difficulties or disputes.

The latest offshoot is UNCTAD with their UN Principles on Responsible Lending and Borrowing. UN Principles are based on a set of principles both the sovereign lenders and borrowers should adhere to when lending<sup>12</sup>.

All of the above efforts to establish proper and common guidelines are based on a shift in opinion towards believing that the lender and borrower should have co-responsibility in deciding the terms of the loan. The pendulum has indeed begun to swing towards a position of shared responsibility; however, a proper mix of lender and borrower responsibility has yet to be established.

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<sup>12</sup> UNCTAD 2012: <http://www.unctad.info/en/Debt-Portal/News-Archive/Our-News/UNCTAD-Releases-Consolidated-Principles-on-Responsible-Sovereign-Financing-310112/>

### 3. Purpose of the audit

The multiple purposes of the audit may be divided into four principal areas: to perform a normative assessment; to foster public relations; to build knowledge; and to develop experience with the UN Principles. Each of these purposes is explained in more detail and linked to planned execution of the assignment below. The purpose of the audit is also described in detail in the Terms of Reference; refer to Annex 1, and the Inception Report delivered on 12 April.

1. *Perform a normative assessment:* The rationale and approach for the debt audit is normative and builds on Norway's expressed intentions and goals for debt policy.
2. *Foster public relations:* The debt audit intends to attract attention, promote debate, and ultimately lead to a more responsible lending policy. The audit team will seek to make the report and other audit deliverables accessible regardless of technical background. The deliverables will present clear and visual arguments, examples and illustrations. The assessment and discussion will be far-reaching, whilst remaining comprehensible for the interested public.
3. *Build knowledge:* The audit process should be conducted in such a manner that it may serve as a successful model for future debt audits. This will, hopefully, provide useful lessons for interested parties, including creditors and debtors. The audit team will develop an approach and methodology that can be used for assessing public debt. Refer to chapter 4 for a comprehensive description of the strategy and methodology of the audit.
4. *Develop experience with UN Principles:* The assignment should provide feedback on the newly launched UN Principles and contribute to their further development. This exercise also aligns with Norway's role of promoting financial and economic transparency.

The scope of the study is limited to Norway's total public claims on developing countries (state-to-state). The total public claims originate from 34 export credit contracts from Sudan, Myanmar, Somalia, Egypt, Pakistan, Indonesia and Zimbabwe. The contracts in question were entered into between 1977 and 2000.

# 4. Research strategy and methodology

The audit has been conducted based on the public debt owed to Norway by developing countries, comprising 34 contracts in total. The contract counterparties are Egypt, Indonesia, Myanmar, Pakistan, Somalia, Sudan, and Zimbabwe. The audit process and methodology is outlined below.

## 4.1 The Audit Process

The overall process of the debt audit is composed of seven principal phases; from contract signing and start up to delivery of the final report. Figure 2 illustrates the process.

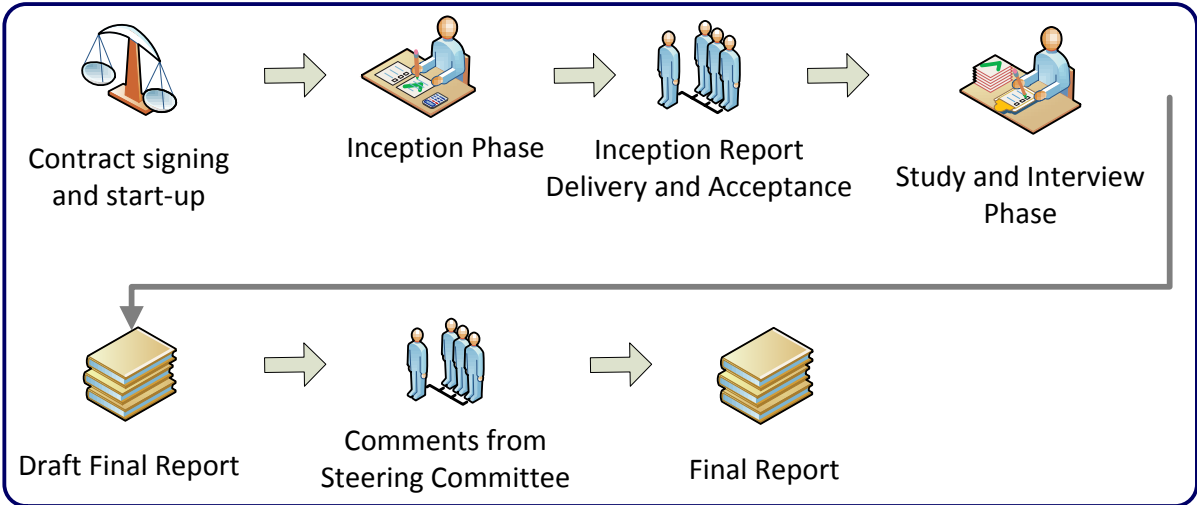


Figure 2 Overall process of the Debt Audit 2013

The Inception Report was developed throughout the Inception Phase and prepared with the aim of explaining precisely the Study and Interview Phase and related deliverables included in the Final Report. The research strategy and methodology of the Study and Interview Phase are outlined in the following sections.

The audit commenced on 12 March with an initial planning meeting and start of the inception phase. A draft Inception Report was delivered in mid-April with the final version approved on 21 May. In parallel, the review of the 34 guarantees was on-going. Interviews with international organisations, NGOs, experts related to the countries in question as well as experts on the issues in questions were undertaken between mid-April and mid-June. Telephone conferences with experts to discuss preliminary findings were held in mid-June. A draft report was handed over to the MFA on the 21 June, for distribution to the Steering Committee. Comments from the Steering Committee were received on 27 June and a final report was handed over to MFA on 15 August.



## 4.2 The Three Pillars of the Audit

The assessment consists of three key analyses based on the following three sets of criteria:

1. **Former GIEK procedures, rules and regulations** – in place at the time the guarantees were provided (GIEK’s regulations from 1964 to 2000) and OECD Arrangement on Officially Supported Export Credits (OECD Arrangement).
2. **UNCTAD Principles on Promoting Responsible Sovereign Lending and Borrowing (UN Principles)** – the principles were launched in April 2012 and endorsed by several countries, including Norway, Germany, Brazil and Italy.
3. **Current GIEK procedures, rules and regulations**, including the OECD Arrangement on Officially Supported Export Credits (OECD Arrangement), OECD Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (OECD Common Approaches) and the OECD Principles and Guidelines to Promote Sustainable Lending Practices in the Provision of Official Export Credits to Low-Income Countries (OECD Sustainable Lending)

Figure 3 below illustrates our approach to assessing the 34 guarantees in line with the criteria described in 4.2 above. Findings and observations arising from analysis of all three pillars have been gathered in order to assess the degree of compliance with both former and current rules and regulations, degree of compliance with the UN Principles as well as to provide cumulative feedback on the UN Principles. Section 4.2 provides more detail on the guarantee assessment process.

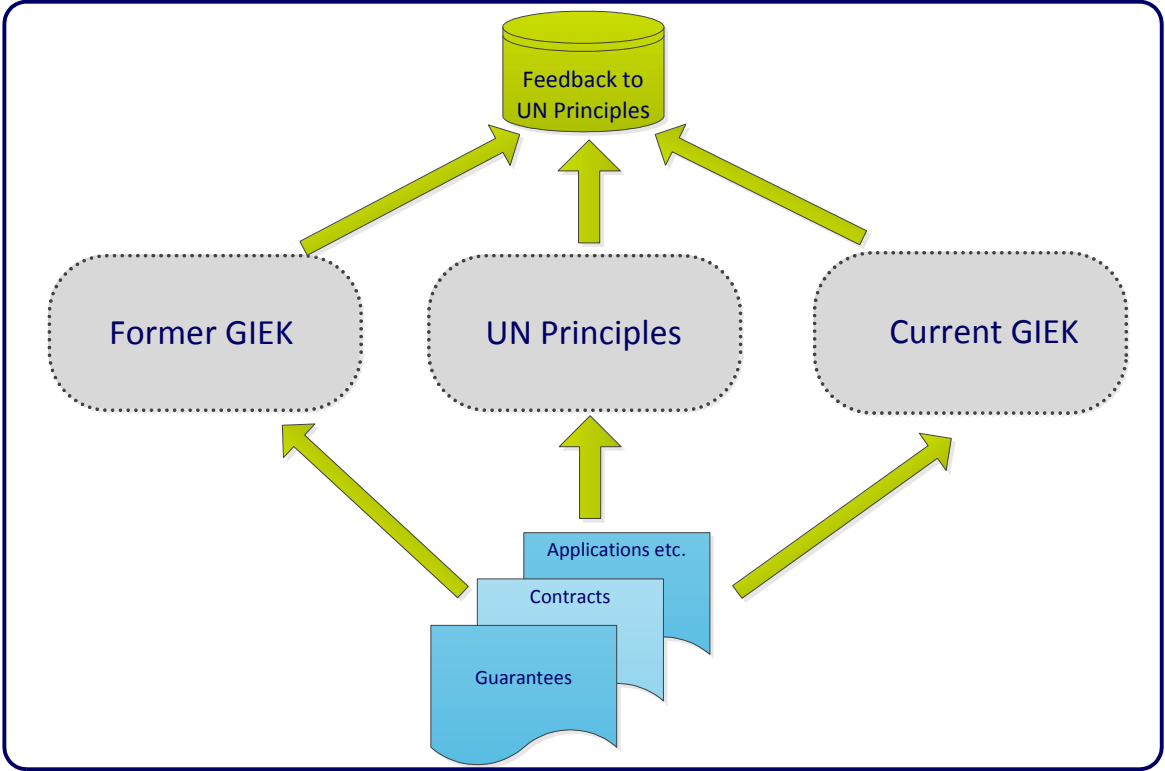


Figure 3 The Three Pillars of the Audit

## 4.3 Research approach and the audit process

The research approach builds on the audit phases and the three pillars described in section 3.1 and 3.2. We have divided the approach into specific areas which describe the steps and methodology of the audit.

### 4.3.1 Mapping of stakeholders, roles and responsibilities

Identifying the relevant stakeholders for each of the three pillars and mapping their differing roles, responsibilities and associated interests is critical to the debt audit. This step involved identifying possible conflicts or tensions, as well as similarities, between the stakeholders as well as roles and responsibilities related to complementary financing schemes, such as the Mixed Credit scheme. The mapping exercise was performed early on during the audit and was updated as the audit proceeded.

### 4.3.2 Review of secondary data

The approach to auditing public debt owed by developing countries may be new; however, there is already substantial research material to be found on the topic, including articles, findings and statements. This secondary set of data has been reviewed by the audit team, discussed with the Steering Committee and served to supplement the audit findings.

#### 4.3.2.1 Data sources

GIEK has provided, in addition to those documents listed in the tender document, an important source of documentation, links and other information. GIEK's cooperation partners such as Eksportfinans and Norad have also been interviewed and provided data.

Documentation received from these sources has not been complete. Important missing documents are listed in the contract matrix.

International stakeholders including the World Bank and UNCTAD were consulted during the audit. The team also consulted other organisations and stakeholders, for example, Slett U-landsgjelda (SLUG).

### 4.3.3 Inception Phase and Inception Report

In the Inception Phase, the team planned the audit approach and methodology. This included the initial mapping of stakeholders and collecting and reviewing secondary data. The Inception Report was the primary deliverable from the Inception Phase and was prepared in order to explain precisely the Study and Interview Phase and related deliverables that are included in the Final Report. The Inception Report was reviewed and approved by the Steering Committee.

### 4.3.4 Review of contracts

This is a pioneer debt audit and therefore no pre-determined audit tools exist. Part of the task has therefore been to establish a sound methodology. The audit team developed a "Contract Audit Matrix" for collecting and assessing data in accordance with the three sets of criteria that form the audit pillars. The Contract Audit Matrix has supported the team's conclusions for assessment of former and current GIEK rules and regulations, UN Principles and, to an extent, the recommendations for further development of the UN Principles.

### **4.3.5 Interviews**

The audit team held meetings and interviews with relevant stakeholders and Non-governmental organisations (NGOs) identified in the mapping of stakeholders. Interviews were undertaken in order to support the guarantee assessment, as well as to assist in developing potential feedback on the UN Principles. The stakeholders selected for interview can be divided into three major stakeholder groups; Norwegian stakeholders and NGOs, recipient countries, and organisations promoting schemes for sustainable lending. In the following sections, the three groups are described in more detail. Annex 5 comprises a list of the stakeholders interviewed.

#### ***4.3.5.1 Norwegian stakeholders and NGOs***

The team met representatives from GIEK, Eksportfinans, The Norwegian Agency for Development Cooperation (Norad), Ministry of Foreign Affairs (MFA), Ministry of Trade and Industry (NHD), The Federation of Norwegian Industries (Norsk Industri) and SLUG.

#### ***4.3.5.2 Recipient countries***

Although the audit has been conducted as a desk study, the audit team has attempted to identify and establish contact with relevant stakeholders in the debtor countries. Involving the debtor countries is interesting for several reasons. Firstly, it is a key issue whether or not the recipient countries made their own assessments regarding development through foreign loans before entering into a loan agreement, either as a guarantor or debtor. Secondly, it is of interest to find out more about the nature and development of the projects. To what extent, and on what basis, any assessments of the projects were made form potentially important findings for the audit but, as some of these loans were undertaken as far back as the 1970s, few interview candidates have been available.

The audit team has, however, utilised its global network to facilitate collection of information from some of the recipient countries. For Indonesia, Pakistan and Zimbabwe, where the guarantees were the most recent, Deloitte's national offices in the countries were mobilised in order to perform interviews and search for documents. During the time of investigation Zimbabwe were preparing for election. Debt was an important topic on the election agenda and there was therefore significant tension around the issues being raised. For security reasons, the Zimbabwean investigations were undertaken from Norway.

For Myanmar, Egypt, Sudan and Somalia attempts were made to establish contact with government officials, NGOs and other sources were applicable. The information from these countries was mostly scarce, and sources with experience with contracts not possible to identify.

#### ***4.3.5.3 International organisations***

The organisations behind the schemes forming the Three Pillars of the audit are of interest as they are important sources of knowledge and experience that may contribute to the assessments. The team has consulted experts in the United Nations Conference on Trade and Development (UNCTAD) and the World Bank. Representatives of The Organisation for Economic Co-operation and Development (OECD) have not been available during the short time span of the audit.

#### ***4.3.5.4 Interview templates***

In order to make the interview process as standardised and efficient as possible, model interview templates were developed for the identified stakeholder groups. In order to adapt

the interview to each specific case, questions tailored to the relevant contract were included. The templates also incorporated general input from the guarantee assessments.

#### **4.3.6 Analysis Phase and outputs**

The assessment of the 34 guarantees builds on the Three Pillars of the Audit, as explained in section 4.1. The analysis, in addition to secondary data, was based on the results from the assessments and the interviews. The audit has resulted in four key outputs, as explained in section 4.2.

#### **4.3.7 Draft final report and final report**

The results and findings from the Study and Interview Phase and the Analysis Phase have been included in the final report. Comments and certain amendments from the Steering Committee's review of the draft final report have been incorporated into the final report as the audit team deems necessary.

#### **4.3.8 Disclaimer**

The study has been conducted based on available documentation, data and information sources and the audit team's professional judgement. Incomplete or missing guarantees, files and other documents may have consequences for the study and related findings. Interviews were held with experts and institutions in Norway, key international institutions, NGOs and certain borrower countries. Not all of the invited institutions and persons contacted were available for interview. The study should therefore be read with these limitations in mind.

The report and its findings and conclusions are the sole responsibility of the audit team and do not necessarily reflect the views of the Norwegian authorities or any organisations or informants listed in the report.

# 5. Description of the schemes in the Three Pillars

In this chapter the schemes that form the Three Pillars of the audit, previous GIEK rules and regulations, UN Principles and Current GIEK rules and regulations, are explained.

## 5.1 Previous GIEK articles of association

GIEK was established by a Parliamentary resolution and its activities are based on annual decisions by Parliament, fixing among other things the main operating principles (including the purpose of enhancing Norwegian exports and the self-financing principle) and maximum guarantee ceilings. Based on the parliamentary resolutions the Ministry responsible (currently the Ministry of Trade and Industry) then issues detailed regulations.

After the establishment of the special guarantee scheme for developing countries in 1963, separate regulations were introduced for the ordinary guarantee scheme and the special guarantee scheme for developing countries. Both sets of regulations were amended from time to time. For the purpose of this audit we have reviewed the following regulations received from GIEK:

Guarantee scheme	Year of regulation				
	Ordinary guarantee scheme	1964	1980 <sup>13</sup>		1994
Special guarantee scheme for developing countries	1969	1980	1989	1994	1999-2005
Responsible ministry <sup>14</sup>	MoT	MoT	MDA	MFA	MTI

The regulations refer to the fact that the guarantees should be in line with the Parliamentary decisions on state guarantees valid at the time, and comprise such issues as:

- the purpose of the schemes,
- principles of fixing guarantee premiums,
- country limits and transaction limits,
- Norwegian content of guarantees,
- rules regarding appointment of the board and administration of GIEK,
- powers of attorney,
- main principles of issuing various types of guarantees,
- the guarantee fund, accounts, auditing and reporting to the Ministries.

For further details, reference is made to Annex 7 of the report.

As of 1980, GIEK’s regulations specifically stated that the guarantees should be in conformity with common international trade practice. GIEK as a member of The Berne Union (the International Union of Credit and Investment Insurers) has for a number of years co-operated closely with other credit insurance organisations, and is generally well informed on international credit insurance issues.

<sup>13</sup> The regulation of 1980 is not complete as one page is missing from the document.  
<sup>14</sup> MoT here means Ministry of Trade, MDA Ministry of Development Assistance, MFA Ministry of Foreign Affairs and MTI Ministry of Trade and Industry

In the 1970s, the Organisation for Economic Co-operation and Development (OECD) started discussing issues related to export credits. The background for this was that both officially supported export credits and tied aid credits and grants to developing countries were extended on terms controlled by governments. Therefore, there was a temptation for governments to use these financial instruments to subsidise commercial exports from their own countries or to counterbalance such an action from another government (matching). To limit these practices, and to create a level playing field for exporters from different countries, it was considered useful to standardize export credit conditions and to monitor matching and tied aid credits.

This led first to an informal agreement in 1976 among some OECD countries, known as "The Consensus". This was succeeded in 1978 by a gentlemen's agreement facilitated by the OECD's Trade Directorate, which established a Working Party on Officially Supported Export Credits. This gentleman's agreement, officially termed the Arrangement on Guidelines for Officially Supported Export Credits, is known as "The Arrangement". The Arrangement attempted to provide a "level playing field" for exporters from member countries, and contained rules i.a. on the following:

- maximum credit terms for different categories of countries
- minimum interest rates for different categories of countries,
- minimum size of grants in relation to contract value in connection with tied aid.

GIEK and Export Credit Norway regularly participate in the work of the OECD Trade Directorate, and have adhered to the rules of the arrangement from the beginning.

The Arrangement has been revised a number of times since its establishment. In 1992, the so-called Helsinki package was concluded among Arrangement participants. This agreement prohibits (with some exceptions) the provision of tied aid loans to high-income countries (based on World Bank per capita income), and for commercially viable projects. The commercial viability of all tied aid projects should therefore be assessed according to specific consultation procedures. For Least Developed Countries, the grant element of tied aid loans should constitute at least 50 % of the contract value, and for Middle Income Countries at least 35 % of the contract value.

Another important revision of the Arrangement took place in April 1999, when country risk categories were harmonised by the Arrangement and minimum premium rates were fixed for various risk categories. Until April 1999, GIEK, like other credit insurance agencies, practised its own system of risk categories and guarantee premiums. In all but one of the audited projects, for which the guarantee was issued after April 1999, GIEKs own premium system was applied.

Also after 2000, OECD introduced several important new schemes which are referred to in 5.3 below.

## 5.2 UN Principles

The Consolidated version of the Principles on Responsible Sovereign Lending and Borrowing was made public in January 2012. That version was discussed during UNCTAD XIII in Doha, Qatar in late April same year and provided the basis for the endorsement of the Principles.

The draft principles were the result of work undertaken by an Expert Group constituted by high-level academics and professionals from International Organisations, the private sector and the civil society. The Consolidated Principles thus represent the fruits of extensive bilateral consultations as well. OECD, World Bank and IMF were also observers in the UNCTAD Working Group. The principles have been endorsed by 13 countries so far, of these only Germany and Italy from major European economies and Argentine and Brazil from large emerging market economies. China and USA are missing. The principles are just “endorsed” and not ratified, therefore still are principles that very much are in the making.

The Principles reflect obligations for both lenders and borrowers. The Principles number 15 in total – seven principles for lenders and eight principles for borrowers. The Principles elaborated within this project encompass concepts as fiduciary duty, accountability, transparency, due diligence, co-responsibility, debt monitoring, good faith, etc.

The principles on the lender and borrower side to a large extent mirror each other. See **Error! Reference source not found.**

**Table 1: Overview UNCTAD Principles**

Issue	Responsibilities of Lenders	Responsibilities of Borrower
Agency	Principle 1	Principle 8
Informed and Responsible Decisions	Principle 2	Principle 4 and 14
Due Authorization	Principle 3	
Project Financing	Principle 5	Principle 12 and 13
International Cooperation and Binding Agreements	Principle 6	Principle 9
Restructuring	Principle 7	Principle 15
Transparency		Principle 10 and 11

They can be found in most domestic legal orders, including Norwegian, as we will elaborate upon later, but are missing at the international level. The UNCTAD principles do not constitute a part of GIEK’s operational procedures.

Each principle is summarised in turn in the section below.

### 5.2.1 Lenders

#### Principle 1 Agency

Lenders should recognize that government officials involved in sovereign lending and borrowing transactions are responsible for protecting public interest (to the State and its citizens for which they are acting as agents).



### ***Principle 2 Informed decisions***

Lenders have a responsibility to provide information to their sovereign customers to assist borrowers in making informed credit decisions.

### ***Principle 3 Due authorization***

Lenders have a responsibility to determine, to the best of their ability, whether the financing has been appropriately authorized and whether the resulting credit agreements are valid and enforceable under relevant jurisdiction/s.

### ***Principle 4 Responsible credit decisions***

A lender is responsible to make a realistic assessment of the sovereign borrower's capacity to service a loan based on the best available information and following objective and agreed technical rules on due diligence and national accounts.

### ***Principle 5 Project financing***

Lenders financing a project in the debtor country have a responsibility to perform their own ex ante investigation into and, when applicable, post-disbursement monitoring of, the likely effects of the project, including its financial, operational, civil, social, cultural, and environmental implications. This responsibility should be proportional to the technical expertise of the lender and the amount of funds to be lent.

### ***Principle 6 International cooperation***

All lenders have a duty to comply with United Nations sanctions imposed against a governmental regime.

### ***Principle 7 Debt restructurings***

In circumstances where a sovereign is manifestly unable to service its debts, all lenders have a duty to behave in good faith and with cooperative spirit to reach a consensual rearrangement of those obligations. Creditors should seek a speedy and orderly resolution to the problem.

## **5.2.2 Borrowers**

### ***Principle 8 Agency***

As to borrowers, Governments are agents of the State and, as such, when they contract debt obligations, they have a responsibility to protect the interests of their citizens. Where applicable, borrowers should also consider the responsibility of lenders' agents toward their organizations.

### ***Principle 9 Binding agreements***

A sovereign debt contract is a binding obligation and should be honoured. Exceptional cases nonetheless may arise. A state of economic necessity can prevent the borrower's full and/or timely repayment. Also, a competent judicial authority may rule that circumstances giving rise to legal defence have occurred. When, due to the state of economic necessity of the borrower, changes to the original contractual conditions of the loan are unavoidable, Principles 7 and 15 should be followed.

### ***Principle 10 Transparency***

The process for obtaining financing and assuming sovereign debt obligations and liabilities should be transparent.

#### ***Responsibilities of sovereign borrowers***

Governments have a responsibility to put in place and implement a comprehensive legal framework that clearly defines procedures, responsibilities and accountabilities. They should particularly put in place arrangements to ensure the proper approval and oversight of official borrowings and other forms of financing, including guarantees made by State-related entities.

### ***Principle 11 Disclosure and publication***

Relevant terms and conditions of a financing agreement should be disclosed by the sovereign borrower, be universally available, and be freely accessible in a timely manner through online means to all stakeholders, including citizens. Sovereign debtors have a responsibility to disclose complete and accurate information on their economic and financial situation that conforms to standardized reporting requirements and is relevant to their debt situation. Governments should respond openly to requests for related information from relevant parties. Legal restrictions to disclosing information should be based on evident public interest and to be used reasonably.

### ***Principle 12 Project financing***

In the context of project financing, sovereign borrowers have a responsibility to conduct a thorough ex ante investigation into the financial, operational, civil, social, cultural and environmental implications of the project and its funding. Borrowers should make public the results of the project evaluation studies.

### ***Principle 13 Adequate management and monitoring***

Debtors should design and implement a debt sustainability and management strategy and to ensure that their debt management is adequate. Debtor countries have a responsibility to put in place effective monitoring systems, including at the sub-national level, that also capture contingent liabilities. An audit institution should conduct independent, objective, professional, timely and periodic audits of their debt portfolios to assess quantitatively and qualitatively the recently incurred obligations. The findings of such audits should be publicised to ensure transparency and accountability in debt management. Audits should also be undertaken at sub-national levels.

### ***Principle 14 Avoiding incidences of over-borrowing***

Governments have a responsibility to weigh costs and benefits when seeking sovereign loans. They should seek a sovereign loan if it would permit additional public or private investment, with a prospective social return at least equal to the likely interest rate.

### ***Principle 15 Restructuring***

If a restructuring of sovereign debt obligations becomes unavoidable, it should be undertaken promptly, efficiently and fairly.

### 5.3 Current GIEK articles of association

GIEK's present framework comprises the following key components, illustrated in Figure 4:

- The parliamentary resolution (Stortingsvedtaket)
- GIEK's articles of association, rules and regulations set by the Ministry of Trade and Industry as well as the rules of the 108-agreement (see section 6)
- Annual Grant Letter from the Ministry of Industry and Trade
- Main instruction for the economic management

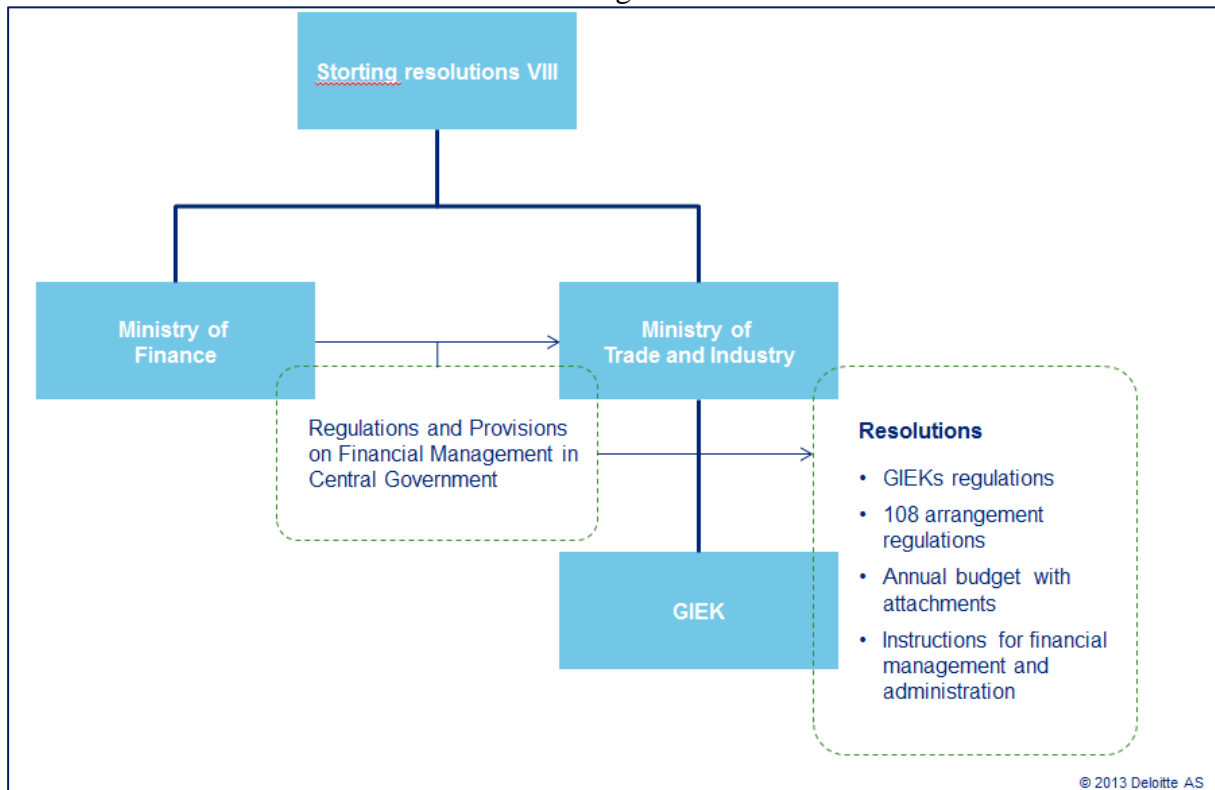


Figure 4: GIEK's present framework

#### 5.3.1 The Parliamentary Resolution

According to the current Parliamentary resolution concerning GIEK, GIEK's ordinary guarantee scheme has a ceiling of NOK 135 billion in 2013, whilst the scheme for developing countries has an upper limit of NOK 3.15 billion. GIEK also manages schemes for guaranteeing loans for construction of ships and long-term power contracts in power intensive industries.

#### 5.3.2 GIEK's articles of association

GIEK's current articles of association were set by the Ministry of Trade and in 1999 and have been amended several times, the last time being June 2013. The main general rules comprise:

- Purpose and frames
- General regulations
- Guarantees for export
- Investment guarantees
- The board

- GIEK's activities
- GIEK's administration
- Recoveries
- Drawing right
- Accounts, budget and auditing
- Reporting

In addition, there are specific regulations for special guarantee schemes, including the guarantee scheme for investments in and exports to developing countries.

For further details, reference is made to Annex 7 of the report.

The regulations among other things specify that the guarantees shall be in accordance with Norway's international obligations. This primarily refers to the following OECD schemes:

#### ***5.3.2.1 OECD Arrangement on Officially Supported Export Credits (The Arrangement)***

As mentioned in 5.1, the OECD Arrangement is subject to frequent adjustments. In addition to these adjustments of the Arrangement, after year 2000, several new OECD schemes were introduced which have a bearing on export credits. For the purpose of this audit, the most important ones are the 2008 Principles and Guidelines to promote sustainable lending practices in the provision of Official Export Credits to Low-Income countries and the 2012 Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence ("the Common Approaches"). The OECD's export credit group has also set common rules for handling environmental and corruption issues. An agreement on bribery was drawn up and published in 2003, and revised in 2006 (OECD Council Recommendation on Bribery and Officially Supported Export Credits).

GIEK is actively involved in the development of these regulations, which are seem to benefit exporters as common regulations and the greatest possible degree of openness between member countries help to prevent government financing plans which restrict the buyer's choice of supplier.

#### ***5.3.2.2 Principles and Guidelines for Sustainable Lending to Low Income Countries (2008)***

The agreement (Principles and Guidelines to Promote Sustainable Lending in the Provision of Official Export Credits to Low Income Countries) sets out commitments for Export Credit Agencies (ECAs) who wish to provide commercial (i.e. non-aid) credits to public borrowers **in low-income countries** who face challenges in managing their external debt. These include ensuring that these credits respect any limits on such borrowing that have been agreed between these countries and the IMF and World Bank and taking into account the latest Debt Sustainability Analyses (DSA) jointly produced by the IMF and World Bank. For larger transactions with a repayment term of two years or more, Members have also agreed to seek assurances from government authorities in the buyer country that the transaction is in line with the country's agreed borrowing and development plans. Finally, the Agreement cements existing Arrangements between ECAs and the World Bank and IMF regarding the sharing of information on official export credits provided to the countries subject to the Principles and Guidelines.

As far as the audited projects are concerned, Somalia, Sudan and Myanmar are presently classified as Low Income Countries.

With regard to GIEK's handling of these principles today, GIEK has informed that cases which are offered a guarantee go through GIEK's normal credit assessment process to ensure the ability to deliver, income and ability to handle the debt. In the case of poor countries, where it seems probable that the buyer has limited administrative capacity, GIEK is particularly careful to ensure that the transaction will benefit development. GIEK will not guarantee commercial loans in respect of projects which are contrary to the economic and social strategy of the recipient country. GIEK will also ensure that the case is not in conflict with the country's obligations to the IMF/World Bank. This policy applies to about 60 countries and covers transactions with public buyers and state owned companies and transactions with a government guarantee. Thanks to the HIPC program, and with the assistance of creditor countries, IMF and the World Bank, since 1996, 18 countries have completed the process and had their debts reduced. Reduction in debt and improving economic cycles and raw materials prices have brought markedly improved credit worthiness to many developing countries. As a follow up to the program, the OECD's export credit group has devised guidelines for the assessment of new credits to countries which are thought to have a limited capacity to take up new loans. Applying these principles will ensure that government guaranteed export credits are not used for unproductive purposes, that the project is endorsed in the country's development plans and that the IMF and World Bank's recommended limits for loans on commercial terms are respected. Non-OECD countries are invited to follow the same principles.

### ***5.3.2.3 Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (2012)***

Consistent with the mandate of the OECD Working Party on Export Credits and Credit Guarantees (ECG), OECD members have, since the mid-1990s, been sharing information on their policies, practices and experiences with regard to addressing environmental and, more recently, social issues, leading to discussions to establish common approaches for taking such issues into account when providing officially supported export credits.

The result of these discussions has been a series of agreements and OECD Recommendations since the late 1990s relating to measures Members should take to address the potential environmental and social impacts of projects for which official export credit support is requested.

The most recent agreement is a 2012 OECD Recommendation of the Council, which sets common approaches for undertaking environmental and social due diligence to identify, consider and address the potential environmental and social impacts and risks relating to applications for officially supported export credits as an integral part of Members' decision-making and risk management systems.

Whilst an OECD Recommendation is legally non-binding, it expresses the common position or will of the whole OECD memberships and therefore may entail important political commitment for Member governments.

GIEK has incorporated the OECD common approaches in its practice, which comprises screening and classifying and reviewing, evaluating and monitoring projects according to their potential environmental and social impacts.

The OECD Secretariat monitors Members' support for those projects classified as high or medium potential environmental and/or social impacts.

## 6. Mapping of stakeholders roles and responsibilities

In this chapter the audit stakeholders and their roles and responsibilities are identified.

### 6.1 Introduction

Norwegian exports have to a large extent traditionally consisted of raw materials and consumer goods. Norwegian industrial and trade policy in the period studied (1978-2000) aimed at achieving a larger share of processed products with a higher value added, including capital goods and ships. As other industrialized countries introduced subsidized medium and long term credits to support their producers of such products, export financing became an important competitive factor. Various Norwegian institutions were involved in financing Norwegian exports of capital goods and ships; several ministries and state institutions as well as private financial institutions and companies. This in sum amounted to **an export credit system**. Similar systems were established in other countries. The main participants in the Norwegian export credit system, as well as their main functions, are listed in Table 2.

**Table 2: Participants in the Norwegian export credit system in the period 1978-2000**

Institution	Main function
<b>GIEK</b>	- Provision of export guarantees
<b>Eksportfinans</b>	- Provision of medium and long-term export credits for capital goods
<b>Norad</b>	- Assessment of the developmental effect of the projects in connection with the old guarantee system for developing countries - Management of the new guarantee scheme for developing countries in co-operation with GIEK (from 1989) - Management of schemes for i.e. mixed credits and training
<b>Ministry of Trade (until 1987). Ministry of Trade and Industry (since 1997)</b>	- Responsible Ministry for GIEK - Fixing of guarantee ceilings, decisions on large export guarantees - Allocation of funds to cover losses under the old guarantee scheme for developing countries (in addition to Ministry of Foreign Affairs) - Provision of interest subsidies for the ship export campaign - Acquired 15 % of shares of Eksportfinans in 2001
<b>Ministry of Foreign Affairs (Ministry for Development Assistance – DUH- from 1983-1990)</b>	- Responsible Ministry for Norad - Allocation of funds to cover losses under the old guarantee scheme for developing countries (in addition to Ministry of Trade) - Allocations for the loss fund of the new guarantee scheme for developing countries established in 1989 - From 1987 to 1997 responsible Ministry for GIEK
<b>Ministry of Finance</b>	- Responsible Ministry for the agreement on interest subsidies and currency risk coverage (the so-called 108-arrangement) which made it possible for Eksportfinans to provide export financing conditions in accordance with the OECD Consensus agreement
<b>The exporters</b>	- Export of the goods and services
<b>The banking sector</b>	- Handling of parts of the documentation in connection with the export credits - Provision of guarantees as a supplement to GIEK

## 6.2 GIEK

### 6.2.1 Establishment and management

Garanti-instituttet for Eksportkreditt (GIEK) was established by Parliamentary resolution in 1960 as a state agency. The purpose was to enhance Norwegian exports and investments abroad by giving guarantees on behalf of the Norwegian state. The origin of GIEK goes back to the establishment of Statens Eksportkredittkommisjon in 1934.

During most of the period in question, GIEK was subordinated to the Ministry of Trade (later the Ministry of Trade and Industry), and from 1987 to 1997 to the Ministry of Foreign Affairs following the merger of the latter with the Ministry of Trade. Until the end of the 1970s the chairman was a civil servant from the Ministry of Trade. Other members of the board were representatives of the Norwegian Export Council, the Norwegian Association of Industrialists, the Labour Unions, the Norwegian Bankers' Association, the Ministry of Trade and the Ministry of Foreign Affairs, and, in particular cases, Norad (see section 6.2.3 below). From the middle of the 1980s representatives of the Ministry of Finance and academia were added to the board. The managing directors of GIEK in the audited period were also appointed by the Ministry. A new organisational system with an independent board was established in 1994 (see section 6.2.7 below).

### 6.2.2 Principles of operation

According to the guidelines which were based on parliamentary decisions, GIEK's ordinary guarantee scheme was supposed to be self-financing, meaning that the income from guarantee premiums and recoveries<sup>15</sup> should be sufficient to cover indemnities and administrative costs. GIEK provided cover against two types of risk, **political and commercial risk**. In simple terms, political risk involves non-payment from a public borrower or guarantor in the developing country, or lack of payment or transfer of payment due to war, civil war, expropriation, nationalisation and currency restrictions. Commercial risk comprises non-payment due to insolvency of a private buyer or guarantor. GIEK built up certain premium reserves towards the end of the 1970s largely due to income from short term guarantees for exports raw materials and consumer goods to developed countries.

In accordance with the guidelines which applied until the mid-80's, GIEK normally covered 90 % of the political risk and 80 % of the commercial risk (when relevant) towards the exporters. In addition, GIEK in many cases provided so-called lenders' or supplementary guarantees towards Eksportfinans, which always required guarantees from acceptable guarantors for 100 % of the credit amount. This system implied that in cases when GIEK had to pay indemnity to Eksportfinans, GIEK had recourse to the exporter for 10 % of the indemnified amount for political risk and 20 % for commercial risk. This in several cases led to serious problems for the exporters.<sup>16</sup>

Following the large indemnities, a public working party which was set up in 1983, in its report<sup>17</sup> proposed certain changes in GIEKs framework conditions, notably a system of risk sharing with private guarantors. This in particular applied to commercial risk in connection

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<sup>15</sup> By recovery is meant payment from the borrower or guarantor after GIEK has paid indemnity under a guarantee, including income from rescheduling agreements

<sup>16</sup> Edvard Stang: Skipseksportkampanjen. 2007

<sup>17</sup> Om Garanti-Instituttet for Eksportkredits (GIEK's) garantiordninger (NOU 1983.34)



with large projects (“the pro-rata system”). The changes, which were later decided by Parliament, included a decision that GIEK for contract above NOK 10 million should normally not provide 100 % cover to Eksportfinans. However, following another assessment in the 1990s, GIEK was once more given a possibility to offer 100 % cover for political risk.

### 6.2.3 Special guarantee scheme for developing countries

In 1963, a special guarantee scheme for exports to and investments in developing countries was established<sup>18</sup>. At the outset, the purpose of the new guarantee scheme was to enhance Norwegian exports and investments which could contribute to improving the economic growth potential in developing countries, particularly “in cases where exports and investments to a considerable degree had the character of help to the country in question”<sup>19</sup>. In order to improve the ability to assess the aid element, the board of GIEK was enlarged by a representative from Norad when dealing with such cases. In 1967, the reference to “*help*” was replaced through another parliamentary decision<sup>20</sup> which stated that the exports and investments should be likely to enhance *economic growth* in the country in question. Furthermore, a special provision was added to the guidelines, according to which the Ministry of Trade “in particular cases” could decide that a guarantee could be given even if Norad did not make an assessment of the relevant case. According to the guidelines<sup>21</sup> the special guarantee scheme for developing countries was not required to be self-financing as the guarantee premiums were lower than for the ordinary guarantee scheme. Possible losses exceeding the funds were to be covered by allocations from the budget of the Ministry of Foreign Affairs, or, if necessary, by special allocations from the budget of the Ministry of Trade.<sup>22</sup>

### 6.2.4 The ship export campaign

In 1976 a “ship export campaign” was launched following the international oil crisis, which dramatically affected shipyards all over the world. Norwegian authorities decided to search for projects in developing countries and offer favourable financing conditions for countries which were willing to purchase Norwegian ships. By means of this scheme, Norway exported altogether 156 ships and vessels to 21 developing countries. Export credits were given in the amount of NOK 3.7 billion. In addition, interest subsidies were given by the Norwegian government in a total amount of approximately NOK 1.5 billion<sup>23</sup>. The subsidies normally corresponded to 25 % of the contract value of the ships in line with the rules of the OECD Arrangement on Officially Supported Export Credits at that time. A committee headed by the secretary of state in the Ministry of Trade was set up to coordinate the campaign and to select projects. Three Norwegian ambassadors “en mission special” led the negotiations with the

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<sup>18</sup> Parliamentary proposition (St.prp.) nr. 108 (1962-63)

<sup>19</sup> Om Garanti-Instituttet for Eksportkredits (GIEK's) garantiordning på særlige vilkår ved eksport til og ved investeringer i utviklingsland (særordningen). Rapport fra arbeidsgruppen oppnevnt av Handelsdepartementet i mai 1983. Avgitt til departementet 20. juni 1984

<sup>20</sup> Parliamentary proposition (St.prp.) nr. 100 (1967-68)

<sup>21</sup> Reference is made i.a. to “Om Garanti-Instituttet for Eksportkredits (GIEK's) garantiordninger” – NOU 1983:34

<sup>22</sup> Om Garanti-Instituttet for Eksportkredits (GIEK's) garantiordning på særlige vilkår ved eksport til og ved investeringer i utviklingsland (særordningen). Rapport fra arbeidsgruppen oppnevnt av Handelsdepartementet i mai 1983. Avgitt til departementet 20. juni 1984

<sup>23</sup> Proposition S. nr 290 (1988-89). Proposition from the parliamentary committee for finance about GIEK's activities in 1986 and 1987 and about the orientation about the Ship Export Campaign (Parliamentary White Paper nr. 25)

governments in developing countries. The campaign was discontinued in 1980, but of the credits still outstanding, only the debt relating to Sudan remains.

In 1998, the Norwegian Government concluded that the decision-making process in general was characterised by time pressure, and that the Ministry of Trade attached decisive weight to the employment situation at the shipyards. This implied that the not necessarily the shipyards which were best qualified for the task was given the contract. The quality of the products which were supplied from the Norwegian side turned out not always to be satisfactory<sup>24</sup>. However, it was generally agreed that the campaign fulfilled its purpose of securing contracts for Norwegian shipyards at a time of crisis.

Most of the ship export contracts were financed by Eksportfinans with guarantees from GIEK. Almost all of the guarantees (NOK 3.5 billion) were issued under the special guarantee scheme for developing countries. Of this total, Norad approved credits to an amount of NOK 1.1 billion. The remaining NOK 2.4 billion was approved by the Ministry of Trade without the approval of Norad<sup>25</sup>. The final decisions regarding provision of all guarantees under the special guarantee scheme for developing countries as well as interest subsidies under the ship export campaign were made by the Ministry of Trade in accordance with GIEK's rules and regulations at that time<sup>26</sup>.

An international debt crisis unfolded in the beginning of the 1980s. Throughout the 1980s, large indemnities were paid out by GIEK, in particular in connection with the guarantee scheme for developing countries. This required transfers of considerable amounts from the state budget to GIEK. In 1980, Parliament decided that only guarantees approved by Norad should be covered by funds from the development assistance budget. The remaining funds were covered by the budget of the Ministry of Trade. Starting in 1986 all required funds for payment of indemnities were drawn from the budget of the Ministry of Trade.

In 1998, the government initiated a debt plan, whereby Norway offered to cancel debts if countries introduced reforms decided by the HIPC initiative or the Paris Club. In 2006, the Norwegian Parliament decided to cancel all debts related to the ship export campaign of Sierra Leone, Peru, Ecuador, Jamaica and Egypt. The debt of two remaining countries, Sudan and Myanmar (Burma) was not included in this initiative, and are subject to this audit. Cancellation of Myanmar's debt was confirmed by Parliament in June 2013. The special guarantee scheme for developing countries was discontinued in January 1988, but a new scheme was set up the following year, namely the U-landsordning (Developing countries guarantee scheme) of 1989.

### **6.2.5 Political risk assessment**

In its efforts to promote Norwegian exports and at the same time limit the risk, GIEK normally required what was generally considered the best possible security for its guarantees. In connection with all 34 projects studied in this audit, GIEK required either a state guarantee or a state debtor for the credit, even though in a few cases the importer was a private company. As a credit provided to or guaranteed by a foreign state per definition was considered as political risk, GIEK in these cases primarily assessed the political risk involved in the projects. As long as the debtors or guarantors were considered to be in a position to

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<sup>24</sup> Ibid

<sup>25</sup> Ibid.

<sup>26</sup> According to the guidelines of 1969, final decisions regarding all guarantees above NOK 20 million (later increased to NOK 25 and 50 million) were to be made by the Ministry of Trade

represent the government, this mainly implied an evaluation of the creditworthiness of the debtor country. However, in some cases additional securities were required by GIEK, in particular mortgages in ships. Such securities were sometimes utilized by GIEK in cases of default by the debtor/guarantor.

When assessing the political risk, GIEK based its judgement *inter alia* on information from Norwegian embassies, international sister organisations<sup>27</sup> and its own information gathering and analysis. GIEK also practiced a system of risk distribution implying that there were limits to the share of individual countries in the total portfolio of GIEK. The Ministry of Trade had to approve credits which surpassed these credit ceilings. GIEK elaborated country lists specifying its general risk cover policy, debtor or counter guarantee requirements and guarantee premiums for different countries. Project risks involved in the 34 projects were normally not assessed by GIEK in any great detail, for instance by independent feasibility studies, although the exporters sometimes provided project assessments in connection with their applications to GIEK.

### **6.2.6 New guarantee scheme for developing countries**

In 1989 a new guarantee scheme for investments in and export to developing countries (U-landsordningen) was established. The new scheme was originally supposed to be a development assistance instrument to be managed by Norad, and only covered political risk. According to its statutes<sup>28</sup>, the new scheme could be used when the risk was considered too high for the ordinary guarantee scheme. The new scheme has a loss fund provided by the budget of the Ministry of Foreign Affairs, and the scheme should break even taking into consideration the loss fund. GIEK, was supposed to assess the credit risk involved in the projects. Final decisions were made by the Ministry of Foreign Affairs (Ministry of Development Assistance). The new guarantee scheme was evaluated in 1993<sup>29</sup>. Among other things, the evaluators proposed abolishing the requirement of state guarantees from the debtor countries, and including coverage of commercial risk. Corresponding changes of the guidelines were introduced later. After an initial trial period, GIEK took over the management of the system in co-operation with Norad.<sup>30</sup> It was now up to GIEK to decide whether or not the application should be sent to Norad in order for them to assess the developmental effects of the project. If the application was sent to Norad, Norad then had the right of veto. All applications should be sent to Norad for information. If GIEK intended to turn down an application, Norad had the right to demand that the application be sent to the Ministry of Trade for a final decision.

### **6.2.7 New organisation structure and a new ordinary guarantee scheme**

In connection with a major reorganisation in 1994<sup>31</sup>, GIEK became a state company (“statlig forvaltningsbedrift”) with an independent, professional board. The company was divided into two parts; one part providing guarantees with a duration of more than two years<sup>32</sup>; and the other being responsible for short-term guarantees. At the same time, a new ordinary guarantee

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<sup>27</sup> GIEK is a member of the Berne Union, which is the co-operation organization of a number of international export guarantee agencies, which has an extensive exchange of information and opinions on credit risk issues.

<sup>28</sup> The regulations were approved by Royal Decree of 15.12.1989

<sup>29</sup> See: <http://www.norad.no/no/evaluering/publikasjoner/publikasjon?key=165610>

<sup>30</sup> Reference is made to regulations of GIEK approved by royal Decree of 22.12.1999

<sup>31</sup> The reorganization was based on a report from 1990 “Nye rammevilkår for GIEK”- NOU 1990:31) by an official working party headed by former Minister of Finance Per Kleppe

<sup>32</sup> A separate company owned 100 % by GIEK, GIEK Kredittforsikring AS, was set up in 2001 to provide guarantees with a shorter credit period than two years.

scheme was established. Like the old “ordinary guarantee scheme”, this new ordinary guarantee scheme was supposed to be self-financing in the long run.

Table 3 and Table 4 shows the distribution of the 34 projects between the four different guarantee schemes:

**Table 3: Guarantee schemes and number of projects in connection with the audit, rescheduled credits**

Guarantee scheme – rescheduled credits	Number of projects
The old ordinary guarantee scheme	9
The new ordinary guarantee scheme	7
The old guarantee scheme for developing countries	4
The new guarantee scheme for developing countries	1
<b>Total</b>	<b>21</b>

**Table 4: Guarantee schemes and number of projects in connection with the audit, not rescheduled credits**

Guarantee scheme – credits not rescheduled	Number of projects
The old ordinary guarantee scheme	4
The new ordinary guarantee scheme	2
The old guarantee scheme for developing countries	6
The new guarantee scheme for developing countries	1
<b>Total</b>	<b>13</b>

## 6.3 Eksportfinans

### 6.3.1 Establishment and principles of operation

Eksportfinans was established in 1962 by Norwegian commercial banks<sup>33</sup> for provision of long term loans at fixed interest rates. Export credits for capital goods and ships became one of its main activities as this type of financing normally required access to long term funds with fixed interest rates<sup>34</sup>. A particular feature of Eksportfinans’ way of operation was that it based itself on 100 % guarantees from GIEK and/or first class Norwegian or international banks and normally did not make any thorough project or risk assessments of their own. The debtor was usually supposed to issue promissory notes confirming their unconditional and irrevocable obligation to repay the debt independently of the contract between the buyer and exporter.

Starting in the 1970’s, Eksportfinans played an active role in promoting Norwegian exports by offering credit lines to prioritized countries in Eastern Europe and developing countries.

### 6.3.2 “108-agreement” and the ship export campaign

In 1978 Eksportfinans lost its access to the Norwegian bond market, but the government through the Ministry of Finance decided to establish a system of interest subsidies in

<sup>33</sup> In 2001, the Norwegian state, represented by the Ministry of Industry and Trade acquired 15 per cent of the share ,capital of Eksportfinans.

<sup>34</sup> In 2012, a new state owned institution, Norsk Eksportkreditt AS, took over the responsibility for new export financing transactions from Eksportfinans.

combination with a currency risk system (the so-called 108-arrangement), This made it possible to provide favourable export credit conditions, including interest rates, in accordance with the OECD Arrangement on Officially Supported Export Credits. The objective of the 108-agreement was to give Norwegian exporters internationally competitive credit terms on a par with exporters from other countries.

Eksportfinans was chosen as a vehicle for financing the ship export campaign based on guarantees from GIEK and interest subsidies from the Government. Later, in the 1990's, Eksportfinans played an active role in financing projects linked with the so-called Asia-plan and other governmental efforts to promote Norwegian exports to developing countries. A credit line on favourable interest terms based on mixed credits from Norad was concluded with Zimbabwe.

### **6.3.3 Buyer's and supplier's credits**

Most projects subject to this audit were financed by AS Eksportfinans (later Eksportfinans ASA) with guarantees from GIEK – either as buyer's or supplier's credits. As a general rule, large contracts (generally above NOK 50 million) were financed as **buyers' credits** and smaller contracts as **suppliers' credits**. One of the main reasons for this distinction was the considerable costs involved in establishing a buyer's credit. In the case of buyer's credits Eksportfinans concluded a direct credit agreement with the developing country. In these cases, Eksportfinans generally required legal opinions from local lawyers confirming that the credit was in line with the laws of the borrowing country and that the person(s) signing the credit agreement were empowered to do so. In a few cases, when there were questions regarding the content of the legal opinions, Eksportfinans consulted GIEK.

In the case of supplier's credits, the exporters were formally responsible for concluding the credit agreement with the borrower. In all but two of the 34 cases cases the exporters were refinanced by Eksportfinans. In these cases, Eksportfinans required a confirmation from a Norwegian agent bank that the loan documentation was in conformity with Eksportfinans' requirements. Among other things, the bank was required to check that all necessary authorisations, permits and licenses for repayment of the credit were in place.

In general, the same organisations were involved in the two types of credits. For the sake of simplicity, a diagram illustrating the buyers' credit system is presented in Annex 3.

## **6.4 Norad**

### **6.4.1 Establishment**

Norwegian official development co-operation started in 1952 by the establishment of the Fund for help to underdeveloped countries (Fondet for hjelp til underutviklede land). In 1962, the Fund was replaced by Norwegian Development Assistance (Norsk Utviklingshjelp), which was a free-standing governmental institution with its own board.

In 1968, Norad (Norwegian Agency for Development Cooperation) was established as a free-standing directorate under the Ministry of Foreign Affairs. The administration of Norwegian development assistance was split between the Ministry of Foreign Affairs and Norad, the latter being responsible for long term bilateral assistance. In the period 1984-89, Norad was a part of the Ministry for Development Assistance (DUH).

#### **6.4.2 Support schemes for private sector development, including mixed credits**

Norad managed several grant schemes which could be used in connection with Norwegian export activities, such as grants for feasibility studies, training, trade development, parallel financing and infrastructure investments. In addition, Norad had a role in assessing the developmental effect of the projects in connection with the guarantee schemes for developing countries.

A scheme for mixed credits was established as a trial scheme in 1985, and made permanent in 1990. The background for its establishment was the extensive use of mixed credits by other industrialised countries. The scheme was normally based on a combination of export credits from Eksportfinans, guarantees from GIEK and grants from Norad, which could be used for lowering the interest rates of the export credits and/or financing a part of the contract value. In order to be in line with international agreements (notably the Helsinki Arrangement of the OECD Arrangement on Officially Supported Export Credits adopted in 1992) the grant element should constitute at least from 35 to 50 % of the total contract value depending on the debtor country. Norad was responsible for management of the mixed credit scheme, which was abolished in 2000.<sup>35</sup>

According to Norad's guidelines of 1995<sup>36</sup> the mixed scheme could "only be used in areas which were prioritized in the recipient country and be considered as having a developmental effect according to the following criteria:

- Contribute to furthering sustainable economic growth in the developing country
- Result in high processing value and create profitable employment and improve social and economic conditions in the recipient country
- Give increased employment and comprise planned training of local workers
- Utilize and process the proper raw materials of the recipient country
- Contribute to improving the technological level of the recipient country as well as transfer and use of a technology which is adapted to the needs of the recipient country
- Contribute to an improved external economy through import compensation or increased exports
- Create a foundation for other economic growth
- Satisfy the requirement of the recipient country and international requirements as to environment and pollution

According to the guidelines, there was no requirement that each project satisfy all the criteria. Project applications were subject to a total consideration where the above criteria would be decisive. The scheme should be managed in accordance with the OECD guidelines for official development assistance as long as these were in accordance with Norwegian development assistance policy.

According to Norad, in connection with mixed credits to Africa, bilateral agreements were usually concluded between Norad and the authorities in the developing countries. The bilateral agreements provided for reporting and follow-up of the projects. In the case of Asian countries, such bilateral agreements were normally not concluded.

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<sup>35</sup> The mixed credit scheme was originally tied to exports of Norwegian goods and services. Later, a scheme for untied mixed credits was established, but never gained much momentum. This scheme was abolished around 2006/ 2007.

<sup>36</sup> Norad's guidelines of 1995 applied to a number of private sector schemes, including the mixed credit scheme

A credit line to Zimbabwe based on mixed credits was established by Eksportfinans in 1992 with an initial size of NOK 150 million on the basis of a bilateral agreement. According to FAFO<sup>37</sup>, six projects with a total contract value of NOK 188.5 million and a grant value of NOK 58.8 million were financed with Norwegian mixed credits. In addition, one of the audited projects was financed as an individual buyer's credit.

In the context of this audit, the mixed credit scheme was also used in connection with credits to all of the audited projects in Indonesia, all but one of the projects in Pakistan and all but one of the audited projects in Zimbabwe. The use of the mixed credit scheme was in most cases combined with guarantees under the ordinary guarantee scheme of GIEK.

In its evaluation of the Norwegian mixed credit scheme, FAFO<sup>38</sup> drew the following conclusions regarding Norad's administration of the scheme:

- Before the Helsinki Arrangement the *ex ante* evaluations of projects vary substantially. Some projects were initiated without extensive evaluation, while others (for example, in Botswana) were well documented. After 1994, documentation gradually improved. Nevertheless, the evaluation team has not been able to locate feasibility studies for a number of projects, while for others, the content of the documents varies.
- NORAD's internal guidelines call for an *ex ante* evaluation of development and macroeconomic effects (cost-benefit analysis and analysis of the debt situation in the recipient country). Often, however, the documentation deals with development effects through generic statements only. The team learnt that in NORAD, aid assessment is normally undertaken only in the case of projects being challenged in the OECD.
- The official policy is to implement not only the letter but also the intent of the Helsinki Arrangement. Challenges are to be avoided, but they do occur. Instances were found in which Norad has argued for not exceeding SDR 2 million per project. In one case, this was done to avoid the condition of non-commercial viability. Project documentation from Zimbabwe lends support to the assumption that small projects (less than SDR 2 million) are preferred.
- NORAD's *ex post* evaluation and project follow-up have been sources of concern. The internal Norad guidelines (1998) stipulate annual visits to the MC projects, either by NORAD, the embassies, or external consultants. The evaluation team has had access to a few evaluation reports. It is regrettable however, that none of these reports contains wider analysis of the economic soundness and development contributions of the projects<sup>37</sup>.

### 6.4.3 Guarantee schemes for developing countries

Norad was responsible for certain functions in connection with the old and new special guarantee schemes for developing countries.

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<sup>37</sup> FAFO 2000: Evaluation of the Norwegian Mixed Credits Programme

<sup>38</sup> FAFO 2000: Evaluation of the Norwegian Mixed Credits Programme

#### **6.4.3.1 *The old guarantee scheme for developing countries - assessment of the developmental effect***

As regards this audit, Norad was responsible for assessing the developmental effect of all but some of the ship projects in Myanmar guaranteed in connection with the old guarantee scheme for developing countries. According to the report of a working party established in 1984 by the Ministry of Trade to assess the special guarantee scheme, the following conditions were given particular weight in Norad's assessment of guarantee applications<sup>39</sup>:

“That the transaction enhances economic growth, increases the standard of living, increases the technical efficiency, improves the external economy by reduced imports or increased exports, gives new opportunities for employment, transfers technical or administrative knowledge to the developing country. It is not a requirement that the transaction fulfills all the criteria”.

Furthermore, the working party concluded that “in Norad's assessment of the developmental effect the type of project is considered important. In other words, if the effort is done in a form and in a sector (infrastructure, agriculture, industry, trade, shipping etc.) to which the receiving country gives priority and which is advantageous for society”.

According to the working party, Norad did not make in-depth assessments. The reasons for this were several: Lack of administrative capacity, lack of knowledge about the buyer/debtor and lack of background information about the country in question, etc.

The working party also stated that “an assessment of the qualities of the project is made to a limited extent ...because the credit which is guaranteed is usually given to or guaranteed by a public institution in the importing country. Since the assessment of the developmental effect under the special guarantee scheme is based on a criterion of economic growth, very few projects are not qualified for recommendation under the special guarantee scheme”.

As the guarantee amounts were frequently quite large, the board of Norad was involved in deciding a large number of projects.

#### **6.4.3.2 *The new guarantee scheme for developing countries***

Norad initially was responsible for the overall management of the scheme, later only for the assessment of the developmental *effect of projects*

The new guarantee scheme for developing countries was used in connection with one of the projects in Pakistan (1992) and one of the projects in Zimbabwe (2000).

In the case of the former guarantee, the guarantee decision was made by the Ministry of Development Assistance. GIEK's role was to assess the credit risk involved in the project. In the case of the latter guarantee, the guarantee decision was made by GIEK based on the guidelines given by Norad for the management of the scheme.

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<sup>39</sup> Om Garanti-Instituttet for Eksportkredits (GIEK's) garantiordning på særlige vilkår ved eksport til og ved investeringer i utviklingsland (særordningen). Rapport fra arbeidsgruppen oppnevnt av Handelsdepartementet i mai 1983. Avgitt til departementet 20. juni 1984. Page 48-49



## 6.5 The Ministry of Trade and Industry

Except for the period 1987-1997, the Ministry of Trade/Ministry of Trade and Industry was the responsible ministry for the activities of GIEK at the time of the granting of the guarantees. This included among other things the following tasks:

- Proposal of changes in the Parliamentary decisions regarding the export guarantee system, including increases in the guarantee limits fixed by Parliament
- Appointment of the board and managing directors of GIEK. Until the end of the 1970s, the chairman of the board of GIEK was a civil servant of the Ministry of Trade.
- Approval of large export guarantees (for instance all export guarantees provided in connection with the ship export campaign and other large projects.
- Decisions regarding certain export guarantees under the old guarantee scheme for developing countries in cases where Norad had not approved the project.
- Provision of interest subsidies for the ship export campaign before the system of mixed credits was established.
- -Responsible for Norwegian participation in rescheduling agreements in the Paris Club and the OECD export credit committee. Later, the responsibility of Paris Club negotiations was taken over by the Ministry of Foreign Affairs.
- -15 % shareholder in Eksportfinans since 2001

## 6.6 The Ministry of Foreign Affairs

As the Ministry responsible for development assistance, including the activities of Norad, the Ministry of Foreign Affairs (from 1983 to 1990 the Ministry for Development Assistance – DUH) was responsible for i.a. allocation of funds to cover losses under the guarantee scheme for developing countries. In 1987, the Ministry of Foreign Affairs was merged with the Ministry of Trade, and thereby became the responsible Ministry for GIEK until 1997. The responsibility of Paris Club negotiations was taken over from the Ministry of Trade.

## 6.7 The Ministry of Finance

The Norwegian Ministry of Finance was the responsible Ministry for the agreement with Eksportfinans on interest subsidies and currency risk coverage (the so-called 108-arrangement) concluded in 1978. This agreement made it possible for Eksportfinans to provide export credit conditions in accordance with the OECD Consensus agreement. The Ministry of Finance also was responsible for deciding an extension of the maximum credit term for mixed credits (normally 15 years) up to 23 years for some of the audited projects in Indonesia.

## 6.8 The exporters

Most of the exporters were Norwegian producers of capital goods, ships and consulting or other services. The most frequent sectors were hydro power production, telecommunications, ships and other maritime activities.

In addition to the responsibility for concluding and carrying out contracts for export of the goods and services, the exporters – in case of supplier's credits – organised the provision of credits to the importing countries in cooperation with their bankers, Eksportfinans and GIEK. In cases where GIEK provided 100 % guarantee towards Eksportfinans, GIEK had recourse to the exporter.

## 6.9 The banking sector

In addition to the provision of guarantees as a supplement to GIEK, the banking sector normally handled a large part of the documentary work in connection with export credits. Not only Norwegian banks were involved, but also German, Dutch, Danish and other banks.

## 7. Analysis and findings

### 7.1 Degree of compliance

#### 7.1.1 General remarks

In Annex 6, the 34 guarantees are assessed in detail with regard to their compliance with:

- i) previous GIEK procedures, rules and regulations,
- ii) the UN Principles, and
- iii) current GIEK's procedures, rules and regulations, including the three sets of OECD principles and guidelines (OECD Arrangement, OECD Common Approaches and OECD Sustainable Lending)

Due to the fact that some key documents are missing from the files, the following analysis contains some elements of uncertainty.

#### 7.1.2 Previous GIEK procedures, rules and regulations

The assessment shows that there is generally a high degree of compliance with the procedures, rules and regulations at the time of granting the guarantees.

Some general observations may be noted, as described below.

##### 7.1.2.1 Risk assessments

The analysis of the documentation shows that in some cases GIEK was in doubt whether to provide a guarantee or not, or whether to use the ordinary guarantee scheme or the guarantee scheme for developing countries. Even though, in hindsight, some of the decisions may be discussed, this does not necessarily imply that there was a **non-compliance** with the previous regulations. GIEK's role was to make decisions under uncertain circumstances. Risk assessments in developing countries are highly complex, in particular long term assessments. One central feature of all the 34 contracts was that the borrowing state acted either as debtor or guarantor. The assessment shows that the risk assessment of GIEK mainly comprised an analysis of the risk of non-payment of the debtor or guarantor. Project risks were normally not analysed in any depth. In other words, GIEK primarily assessed **the political risk** involved in the transaction. GIEK's mandate given by Parliament and reflected in the regulations was to enhance Norwegian exports and at the same time apply the principle of self-financing (in particular for the ordinary guarantee scheme).

In § 8 of GIEKs regulations of 1994, it is stated that the “judgement of the risk shall be made on the background of the risk picture at the time of the guarantee offer, and shall include an assessment of the buyer, the debtor, the project and the country”. As far as we can see, even after this point in time, GIEK primarily assessed the political risk involved. The project risk was normally limited to a brief description of the project (often based on information from the supplier) and the buyer, but generally did not include any independent project risk analysis or buyer and debtor on the part of GIEK.

##### 7.1.2.2 Role of Ministry of Trade

In the case of the oldest contracts (Myanmar, Sudan, Somalia and Egypt), all guarantee decisions above a certain amount were made by the **Ministry of Trade**, as foreseen by the regulations in force at that time. This in particular applies to the remaining contracts under to the ship export campaign (Myanmar and Sudan). As to all the projects in Myanmar, the

outstanding debts to Norway were cancelled by Parliamentary decision in June 2013. The government at the same time announced that a similar proposal may be made later regarding the ship project in Sudan.

### **7.1.2.3 Role of Eksportfinans**

The loan documentation, which in the case of buyers' credits was prepared by Eksportfinans, was based on unconditional obligations to pay on the part of the borrower or guarantor. Eksportfinans generally did not make any independent risk assessments, but based its loans on guarantees from GIEK and/or banks.

### **7.1.2.4 Role of Norad**

In some of the credits, Norad was involved either through the guarantee scheme for developing countries or the mixed credit scheme. With the exception of some of the contracts under the ship export campaign, Norad assessed the developmental effect of the projects. It should be noted that Norad's project review normally did not involve a full investigation of the project, but was limited to an assessment of whether the project was likely to fulfil some (but not necessarily all) criteria which were listed as potentially beneficial for the development of the country in question.

### **7.1.3 UN Principles**

Assessment of compliance with UN Principles is considered in section 7.2.

### **7.1.4 Current GIEK procedures, rules and regulations**

Since the time of granting the 34 guarantees, GIEK's rules and regulations have developed considerably. This is due to development of internal rules and regulations as well as the introduction of new OECD regulations, which have been incorporated into GIEK's practice. Reference is made to section 5.3.

As to the OECD Arrangement on Officially Supported Export Credits, the main new developments among other things comprise the following:

#### **7.1.4.1 The "Helsinki package" introduced in 1992**

Since this agreement prohibits the provision of tied aid loans for commercially viable projects, and since the commercial viability of all tied aid projects should be assessed, it is only natural that mixed credits and interest subsidies granted before 1992 were not subject to such commercial viability assessments.

Furthermore, as of 1992, for Least Developed Countries, the grant element of tied aid loans should constitute at least 50 % of the contract value, and for Middle Income Countries at least 35% of the contract value. For interest subsidies or mixed credits granted before 1992, a grant element of 25 % of the contract value was sufficient.

In 1999, OECD agreed a common system of country risk assessments, buyer and premium categories. Up until this time, GIEK just as its sister organisations in other OECD countries, practiced their own national systems of country risk and premium categories. Furthermore, no formalised system of buyer categories, like the OECD system, was practised by GIEK. In 1997, OECD agreed a new system of notification of all officially supported export credits regulated by the Arrangement. No universal notification system existed before this date, and

notifications were therefore not made by GIEK or other export credit agencies, except for mixed credits.

#### **7.1.4.2 Common Approaches**

As mentioned in section 5.3.2.3, OECD members have, since the mid-1990s, been sharing information on their policies, practices and experiences with regard to addressing environmental and, more recently, social issues. As a result, a series of agreements and OECD recommendations were introduced since the late 1990s relating to measures members should take to address the environmental and social impacts of projects. The most recent agreement is the so-called Common Approaches for undertaking environmental and social due diligence which was introduced in 2012. GIEK has incorporated the OECD common approaches in its practice. We have noted several instances of knowledge-sharing and consultation between OECD members as part of the guarantee assessment.

In line with expectations, the specific obligations of this agreement have not been observed in connection with the audited projects. However, certain environmental and social aspects have been assessed in connection with some of the projects, partly by GIEK and partly by Norad, in connection with the special guarantee scheme for developing countries or the mixed credit scheme.

#### **7.1.4.3 OECD Sustainable Lending Principles**

As described in section 5.3.2.1, the OECD Principles and Guidelines to Promote Sustainable Lending to Low Income Countries sets out commitments for Export Credit Agencies (ECAs) who wish to provide commercial (i.e. non-aid) credits to public borrowers **in low-income countries** who face challenges in managing their external debt. These include ensuring that these credits respect any limits on such borrowing that have been agreed between these countries and the IMF and World Bank and taking into account the latest Debt Sustainability Analyses (DSA) jointly produced by the IMF and World Bank. For larger transactions with a repayment term of two years or more, Members have also agreed to seek assurances from government authorities in the buyer country that the transaction is in line with the country's agreed borrowing and development plans.

As far as the audited credits are concerned, Somalia, Sudan and Myanmar are presently classified as Low Income Countries. It is obvious that these credits, which were granted in the late 1970s, were not subject to the mechanisms of the OECD Sustainable Lending Principles.

However, it may be argued that the assessment of the creditworthiness of the debtor countries by GIEK and of the developmental effect of projects by Norad contain some of the same elements which are applied in connection with the OECD sustainable lending principles.

#### **7.1.4.4 Convention on combating bribery**

An OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions came into force in 1999. This represented a major breakthrough in the fight against corruption. It committed the world's leading exporting countries to make it a crime to bribe foreign public officials when engaging with them in cross-border business transactions.

Tolerance for corruption is a clear example of how the regime has changed for the Norwegian companies and financial institutions. Until 2003 there was a practice that gifts given for business in certain states were tax exempt. The practice was formalised through directives from Norwegian tax authorities. The practice primarily applied to countries where gifts or

bribes were seen as a part of the business culture and considered necessary to accomplish business in the country. It is not excluded that such gifts in some cases were intended as bribes. The practice came under criticism and was terminated in 2003.

Our assessment of the 34 guarantees has not uncovered any conclusive evidence of bribery or corruption. We have, however, made an observation regarding Zimbabwe where a state-owned buyer was already subject to widespread allegations of corruption several years before the guarantees were issued. We have not found evidence to suggest that Norwegian companies were involved in any allegations of corruption.

## 7.2 Evaluation of the UN Principles

The aim of this section is to present an evaluation of the UN Principles as well as providing feedback that may contribute to their further development.

The UN principles and the Norwegian debt audit 2013 should be viewed in the context of recent developments like debt audits and changes in the global economy.

### 7.2.1 Debt audits

Several countries have made attempts at undertaking a debt audit. Until now, only debtor rather than creditor countries have performed such an audit. Ecuador is one example of such a debtor country.

#### 7.2.1.1 Ecuador

In mid-2007 Ecuador established a public debt audit commission with a mandate to review current debt arrangements. The Commission included representatives of the government and civil society. The Commission has been criticized for being biased. The Commission's report recommended that two major bonds be declared illegal. These bonds were the product of restructuring prior debt, which included debt assumed under military dictatorship as well as debt transferred from the private sector. The Commission also cited irregularities in the restructuring process. The debt default had a moderate impact on the already low level of public debt. However, it had a higher impact on the amount spent on interest payments<sup>40</sup>. This has freed up public-sector revenues for social spending.

Even though there is a frequent concern that defaulting on national debt will “disconnect the country from the capital markets”, the Ecuador case shows that this is not always the case. Even though the Ecuadorian debt commission was by many claimed to be biased, it did not wreck the country's rating. Already in the following rating (late 2009) Ecuador regained its CCC rating and improved to B- in 2010<sup>41</sup>.

The Ecuador case indicates that relegating some debt does not necessarily pose a threat of losing market access to capital markets or even a long term deterioration of rating status.

#### 7.2.1.2 OECD system

While OECD has the most advanced rules governing export credits in its “Gentlemen's agreement”, the dominance of OECD countries as exporters and providers of export credits is diminishing. Emerging economies like Brazil, China and India are also providing export credits, but not necessarily on the same terms as or in line with OECD. While OECD invites

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<sup>40</sup> INTERNAL AUDITING COMMISSION FOR PUBLIC CREDIT OF ECUADOR, 2007, “FINAL REPORT OF THE INTEGRAL AUDITING OF THE ECUADORIAN DEBT” and CEPR 2012, “Ecuador's Economy Since 2007”.

<sup>41</sup> Fitch Rating of Ecuador 2002 – 2012, [www.fitchratings.com](http://www.fitchratings.com).

countries to attend OECD, and some emerging economies, like Brazil, have accepted at least some specific aspects of the OECD rules<sup>42</sup>, other countries have signalled they do not want to join OECD. The bigger the emerging economies to grow, the less able does OECD become to provide a level playing field for the use of export credits.

On the side of the developing countries, which often are borrowing countries, this unbalance is even more prominent. No organization on the borrower or developing countries side protect southern countries from falling into the “race to the bottom”.

### **7.2.2 Feedback on the UN Principles**

Below, general observations are presented as well as specific comments regarding different sets of principles, including the UN Principles that were presented above in section 5.2. The complete Principles are attached in Annex 8.

We assess and give feedback based on the following assessments:

1. Findings in the audit of the export credit contracts in Annex 7
2. Findings from our interviews of stakeholders and experts, as well as the document review of the theme
3. To what extent do the UN Principles correspond to existing legal obligations of borrowers and lenders? In order to assess each underlying issue across different jurisdictions or in international law, a number of countries have been studied during the preparation of the UN Principles<sup>43</sup>. To the extent that the proposed principles find support in a large number of domestic jurisdictions and probably even in international treaties and practice, the legal character of these principles could be distinguished.

### **7.2.3 General observations on the UN Principles**

The UN Principles represent a positive approach to curbing a significant problem affecting a large number of countries; an unsustainable level of debts. In a recent report, IMF stated that “debt restructuring have often been too little and too late, thus failing to re-establish debt sustainability and market access in a durable way”<sup>44</sup>. The Principles represent a positive attempt to curb debt problems before they materialise.

Based on the assessment of the guarantees in light of the UN Principles, the main finding is there is generally only a partial degree of compliance. This is hardly surprising. The UN Principles were agreed in 2012. The new ideas of responsible sovereign lending and borrowing were therefore generally not reflected in the regulations of GIEK in the 1970’s, 80’s and 90’s.

Nevertheless, it is our judgement that some of the UN principles have been complied with fully or partially. This issue is discussed below under each Principle.

The coverage of the Principles could be clarified and expanded. They identify “lenders”, but also other stakeholders – like guarantors – should in our opinion be included. At the moment these are not included. This however, may require new rounds of discussions as well as

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<sup>42</sup> OECD 2011, “Smart Rules for Fair Trade – 50 years of export credits”.

<sup>43</sup> Goldmann, M (2012): «A Comparative Survey Written for the United Nations Conference on Trade and Development”, UNCTAD

<sup>44</sup> IMF 2013, «Sovereign debt restructuring – Recent developments and implications for the Fund’s legal and policy work», April 26 2013.

including also other parties – for instance export credit agencies – to be included as observers and possible participants in the discussions.

**1. Agency:** *Lenders should recognize that government officials involved in sovereign lending and borrowing transactions are responsible for protecting public interest (to the State and its citizens for which they are acting as agents).*

During our audit, we have not come across information to show that bribes or corruption occurred in connection with the audited projects. However, reference is made to section “Convention on combating bribery” in section 7.1.4.

Protecting public interest is the key; however the Principles do not further specify how the responsibility is verified in principle #1. There is reason to believe that consent from the public should be central in verifying this public interest. This consent is specified in the definition of odious debt as absence of consent is violation of one of the three conditions set to define odious debt. Public consent is difficult to identify if the regime acquiring it is not elected fairly and freely. Projects that produce Public Good may represent an exception. This, however, requires that the proper use of funds for achieving Public Good is secured and verified.

**2. Informed Decisions:** *Lenders have a responsibility to provide information to their sovereign customers to assist borrowers in making informed credit decisions.*

As far as we have been able to ascertain in our contract audit, the borrowers have generally been duly informed by the lenders about the terms and conditions of the loans, which were in general standard OECD Consensus type export credits or subsidised (mixed) credits. As mentioned in this principle, “the level of financial sophistication among sovereigns differs widely. Some are well informed about markets and financial techniques, others less so. The lender’s responsibility increases when dealing with an unsophisticated sovereign counterparty”. The Principle highlights that lenders should provide information to customers. Sharing information is important as the credit information needed to make a sound decision may be complex. Providing information, however, may not be enough as borrowers in our audit portfolio clearly could need capacity building. Norad had long ago included training as a preferred support when a large procurement of a relative advanced capital goods take place as was the case for the export credits. Principle 2 could also go further to include more cooperative behaviour, and not only providing information. Such cooperative behaviour is inherent in the IIF guideposts, showing that cooperative behaviour is valued also by lenders, however IIF guideposts are limited to restructuring efforts.

**3. Due Authorization:** *Lenders have a responsibility to determine, to the best of their ability, whether the financing has been appropriately authorized and whether the resulting credit agreements are valid and enforceable under relevant jurisdiction/s.*

The contract audit shows, that in connection with buyers’ credits, Eksportfinans, as lender, generally made thorough checks whether the financing had been authorised in accordance with the legislation of the borrowing country, and of the enforceability of the obligations of the borrowers and guarantors. The representations and warranties of the borrower were confirmed by legal opinions from governmental and/or independent legal advisers. For suppliers’ credits, the audit has not been able to assess to what extent the due authorisation was checked by the lenders (exporters) as relevant documentation has not been available for the audit. Most of the audited suppliers’ credits were refinanced by Eksportfinans. In such cases, a commercial bank acted as agent for Eksportfinans and



confirmed towards Eksportfinans that all required formalities had been fulfilled in connection with the credit.

It should be noted that buyers' credits were used for most large contracts and for all projects financed in the 1990's. Suppliers' credits were used only for relatively small contracts dating back to the 1970's and 1980's, and are generally no longer in use in the Norwegian export financing system.

**4. Responsible credit decisions:** *A lender is responsible to make a realistic assessment of the sovereign borrower's capacity to service a loan based on the best available information and following objective and agreed technical rules on due diligence and national accounts.*

The audit confirms that GIEK primarily has made assessments of the debtor country risk (the political risk). There was a close collaboration among OECD countries regarding country risk assessments. We therefore consider that GIEK – at the time of issuing the guarantees– did qualified assessments of the debtor country's capacity to service the loan.

**5. Project financing:** *Lenders financing a project in the debtor country have a responsibility to perform their own ex ante investigation into and, when applicable, post-disbursement monitoring of, the likely effects of the project, including its financial, operational, civil, social, cultural, and environmental implications. This responsibility should be proportional to the technical expertise of the lender and the amount of funds to be lent.*

The contract audit indicates that principle 5 – in particular the need for conducting an ex ante project investigation and post disbursement monitoring of the projects - has generally not been fully complied with. Norad, however, undertook assessments of the developmental effect of mixed credit projects and projects related to the special guarantee scheme for developing countries. These assessments normally did not amount to a complete investigation of the above-mentioned elements of the project, but usually only comprised a consideration of whether the project fulfilled certain criteria for measuring developmental effects. According to Norad's guidelines, it was not a prerequisite that the projects fulfilled all of the criteria.

Full ex ante project investigations and post disbursement monitoring represent a relatively new dimension to sovereign export credit lending. Traditionally, in cases where governments have acted as borrowers or guarantors for export credits, the main assessment has been of the political risk. The mandate of the export credit agencies was – and still is - to promote exports, and not to engage in development finance, although mixed credits do contain an element of development considerations.

Export credits are structured in a way which separates the legal obligation to repay the credit from the project delivery. When the borrower had accepted the loan, the borrower carried the full responsibilities for the repayment. The actual delivery and implementation of the project was - except from the acceptance declaration - delinked from the project itself. Ex-ante project investigation and post-disbursement monitoring move the credits closer towards the project delivery.

The principle is not clear as to what the investigation and monitoring should be used for. We believe that the Principles could be more specific on the issue of collaboration between stakeholders in the export financing system. The IIF (Institute of International Finance) has made cooperative behaviour essential when it comes to restructuring of debt, however this

relates only to restructuring. It seems that cooperative behaviour could be further developed also in the UN Principles.

Principle 5 identifies several issues (financial, operational, civil, social, cultural and environmental implications) that should be assessed and implicitly should adhere to good standards. UNCTAD tries here to establish some new guidance, but we believe that following broadly accepted principles – like the Global Compact – could be a more fruitful approach. The UN Global Compact's (UNGC) ten principles in the areas of human rights, labour, the environment and anti-corruption enjoy universal consensus and are derived from. Over 10,000 corporate participants and other stakeholders from over 130 countries have committed themselves to the Global Compact and it is the largest voluntary corporate responsibility initiative in the world<sup>45</sup>.

As discussed above under Principle 4, in the Norwegian jurisdiction the principles for sound management require a) adequate management, b) monitoring and c) control. Similarly, the principles for sound management, including the criterion of ethical behaviour, will necessitate an assessment as required by Principle 5, "Project Financing". Additionally, in our opinion, grounds for an assessment of ethics can be found also in the requirement reporting on social responsibility. However, from our viewpoint, it is unclear how far this reaches, and in this respect, clearer guidelines and regulation are warranted.

**6. *International Cooperation:*** *All lenders have a duty to comply with United Nations sanctions imposed against a governmental regime.*

Norway has generally adhered to internationally agreed sanctions directed towards specific countries. The trade embargo against the apartheid regime in South Africa may be cited as an example. In one of the audited projects, a guarantee was issued after a sanction was imposed on Pakistan following a nuclear test explosion in the late 1990's. However, there was a specific exception in the sanction regarding guarantee offers given before the sanction entered into force.

**7. *Debt Restructurings:*** *In circumstances where a sovereign is manifestly unable to service its debts, all lenders have a duty to behave in good faith and with cooperative spirit to reach a consensual rearrangement of those obligations. Creditors should seek a speedy and orderly resolution to the problem.*

Norway has generally been responsive to the needs of debt restructuring of countries with high debt burdens, and has participated actively in Paris Club restructurings since their beginning. Norway has been a front-runner in terms of debt cancellation related to the ship export campaign.

Good faith and cooperative spirit is emphasized in connection with rescheduling. These principles correlate well with the principle in IIFs principles, however IIF represent private sector lenders and is therefore not impartial. In the recent paper IMF<sup>46</sup> points to exploring ways to prevent the use of Fund resources to simply bail out private creditors, and measures to alleviate the costs associated with restructurings. It also points to the growing role of official lending and call for a clearer framework for official sector involvement, especially with regard to non-Paris Club creditors. Based on the findings in the IMF paper as well as findings from interviews and other documents, getting a speedy, orderly but also sustainable

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<sup>45</sup> Global Compact 2013, <http://www.unglobalcompact.org/AboutTheGC/index.html>.

<sup>46</sup> IMF 2013

restructuring – that can bring growth back in struggling country - is important, but not always the case.

## **II. Responsibilities of Sovereign Borrowers**

Norway, as a creditor nation, is primarily subject to lenders' responsibilities. We therefore have fewer observations and findings on the borrower side. We do, however, have some reflections on some of the Borrower Principles.

**8. Agency:** *Governments are agents of the State and, as such, when they contract debt obligations, they have a responsibility to protect the interests of their citizens. Where applicable, borrowers should also consider the responsibility of lenders' agents toward their organizations.*

Principle 8 in many respects mirrors Principle 1. The Implication section of Principle 8 clarifies the necessity of Codes of Ethics, fighting corruption etc. Debtor governments, however, still lack the same support as OECD lenders in relation to export credits. For borrower states which typically have less procurement and financial management capacity than lenders, a member organisation (similar to OECD) where borrower countries could meet and agree on terms, processes and learning would be beneficial. It is possible that borrower countries agree on less favourable terms than if they were united.

**12. Project Financing:** *In the context of project financing, sovereign borrowers have a responsibility to conduct a thorough ex ante investigation into the financial, operational, civil, social, cultural and environmental implications of the project and its funding. Borrowers should make public the results of the project evaluation studies.*

Principles 12 mirrors Principle 5 of the Lender's responsibilities. It is important that also debtor countries undertake ex ante investigations of the projects, and make public the results of the studies.

**13. Adequate Management and Monitoring:** *Debtors should design and implement a debt sustainability and management strategy and to ensure that their debt management is adequate. Debtor countries have a responsibility to put in place effective monitoring systems, including at the sub-national level, that also capture contingent liabilities. An audit institution should conduct independent, objective, professional, timely and periodic audits of their debt portfolios to assess quantitatively and qualitatively the recently incurred obligations. The findings of such audits should be publicized to ensure transparency and accountability in debt management. Audits should also be undertaken at sub-national levels.*

Based upon our interviews and document studies many debtor countries carry out monitoring of their debt portfolio. Several countries have established debt offices for this purpose. However, according to our information, even though incomplete, management and monitoring does not always comply with all the above requirements.

**15. Restructuring:** *If a restructuring of sovereign debt obligations becomes unavoidable, it should be undertaken promptly, efficiently and fairly.*

This paragraph mirrors paragraph 7 of the lender's principles. The approach of the debtor countries towards debt restructurings has not been subject to this audit.

In a restructuring process, treating creditor claims in an equitable manner is essential.

As mentioned in section 7.2.1.1 above, Ecuador is an example where the treatment – on the borrowers’ side – was not equitable but skewed. This skewedness was based on the debt audit undertaken immediately before the decision to default on some of the debt. We do therefore believe that many stakeholders – particularly lenders - will disagree with way Ecuador undertook its restructuring/unilateral default. It does however illustrate an alternative way of restructuring. Norway considers a fair treatment of all creditors as a central element in debt restructurings.

## 8. Conclusions and Recommendations

### 8.1 Conclusions

We have noted certain deviations regarding compliance with GIEK's former rules and regulations. Our conclusion is, however, that these were not of such a nature that the guarantees should not have been issued, particularly given GIEK's mandate to enhance Norwegian export and Norad's evaluations of the developmental impacts of the projects.

Based on our audit findings, the guarantees neither satisfy in full the current requirements of GIEK's rules and regulations nor the UN Principles. However, with regard to the rules and regulations and UN Principles we have noted as being insufficiently addressed, these were not in force at the time of issuing the guarantees. It is possible that if the present rules and regulations had been in place at the time of considering the guarantee applications, GIEK's decisions regarding some of the projects might have been concluded differently.

This conclusion has been formed based on review of certain information found during assessment of some, but not all, of the credits granted in Indonesia, Myanmar, Pakistan and Zimbabwe:

- Indonesia: Wave power plant project highlighted concerns regarding the technical and commercial viability of the project.
- Myanmar: Serious design faults were noted in a vessel subject to guarantee.
- Pakistan: Allegations of weapon and drug dealing by the buyer were published before the guarantee was issued.
- Zimbabwe: State-owned buyer was already subject to widespread allegations of corruption several years before the guarantees were issued. We have not found evidence to suggest that Norwegian companies were involved in any allegations of corruption.

### 8.2 Findings

Sovereign lending is viewed as a growing area of international risk. Important developments are taking place when it comes to sovereign debt restructuring<sup>47</sup>.

OECD's rules and regulations are unique in the export credit market place for OECD exporters. However, as the larger emerging economies continue to grow (BICS<sup>48</sup>), OECD is struggling to maintain the level playing field regarding use of export credits.

On the developing countries' side, which usually constitute the borrowing countries, this imbalance is even more prominent. In the view of the Audit Team, there is currently no OECD-equivalent organisation in place to protect and help prevent the borrower countries from falling into the "race to the bottom"<sup>49</sup>.

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<sup>47</sup> IMF 2013, "Sovereign Debt Restructuring – Recent developments and implications for the Fund's legal and policy framework", April 26, 2013

<sup>48</sup> BICS means Brazil, India, China and South Africa.

<sup>49</sup> This expression refers to why OECD's export credit cooperation ("The Arrangements") has been important for OECD countries, see OECD 2011, "Smart Rules for Fair Trade – 50 years of export credits", page 133.

Export guarantees based on governmental guarantees from borrower countries are generally no longer in common use by GIEK. The guarantees audited partly represent contracts from periods when the Norwegian economy was in recession, following the 1973 oil crisis and the downturn in the early 1990s.

Key conclusions drawn from our work relating to each set of criteria are described below.

#### **4. Former GIEK rules and regulations**

The assessment of guarantees generally demonstrates a high degree of compliance with the rules and regulations in place at the time. One deviation identified is a new paragraph in GIEK's regulations on risk assessment in the 1994 statutes, which required risk assessment of the buyer, the debtor, the project and the country. We have observed that risk assessments mainly focused on the political risk of the debtor countries. It should be noted that in all cases the state was either debtor or guarantor. This may, however, be acceptable in the cases where the buyer was a state body and therefore also the debtor. A number of the cases included mixed credits, where Norad undertook a partial assessment of the expected developmental effects. We did not find that GIEK undertook any substantial independent project assessments for guarantees issued, even for those granted later than 1994.

#### **5. UNCTAD Principles on Promoting Responsible Sovereign Lending and Borrowing (UN Principles)**

The UN Principles make a positive approach towards curbing a significant problem affecting a large number of countries; namely an unsustainable level of debt.

The UN Principles are general in nature and are still in an early stage of roll-out. This is emphasised by the fact that relatively few countries have endorsed them so far.

The assessment of guarantees in accordance with the UN Principles leads to a main finding of partial compliance. This is in line with our expectations. The UN Principles were agreed in 2012. The new ideas of responsible sovereign lending and borrowing were therefore not reflected to any significant extent in GIEK's regulations of in the 1970s, 1980s and 1990s.

Nonetheless, it is our view that some of the UN principles have been partially complied with; such as Principles 1 Agency, 2 Informed Decisions, 3 Due Authorization and 4 Responsible Credit Decisions. We believe that Principles 6 International Cooperation and 7 Debt Restructurings have most likely been complied with in full. In our opinion, the guarantees generally are not in compliance with Principle 5 Project Financing.

On the borrowers' side we have found that the countries in scope normally had some form of identifiable process before entering into a contract. The degree to which processes in borrower countries were developed and consistently applied has, however, not been possible to assess, particularly for the earliest contracts. For later contracts in Zimbabwe, Indonesia and Pakistan there is clearer evidence of processes in place. In all countries there have been ex ante investigations relating to Principles 8 to 13. The quality of these processes differs however. Some countries have serious debt problems and have not managed to avoid over-borrowing, as required by Principle 14; this applies to Sudan and Zimbabwe in particular. The same countries are also struggling to undertake a restructuring, as required by Principle 15.

## 6. *Current GIEK procedures, rules and regulations*

Generally, we found the guarantees to be partially compliant with the present OECD Arrangement.

Both the Principles for Sustainable Lending and Common Approaches were agreed and enforced recently, in 2008 and 2012 respectively. The degree of compliance with the detailed technical requirements in Sustainable Lending Principles and Common Approaches is broadly assessed as low. However, elements of environment and social issues have been evaluated where Norad has been involved. Starting in the 1990s, GIEK introduced certain environmental clauses in connection with their guarantee policies.

## 8.3 Recommendations for improving UN Principles

The UN Principles make a positive approach towards curbing a significant problem relating to sovereign borrowing and lending affecting a large number of countries. Efforts should therefore be sustained to further develop and implement the Principles and to secure funding for the future.

The scope of the Principles could be clarified and expanded upon. “Lenders” are identified, but other parties involved in the process of issuing export credits – guarantors for example – should, in our opinion, also be included. Guarantors are at present not included in scope.

The cooperation between and distribution of responsibilities amongst stakeholders in the export credit system is currently not clear enough and should be clarified and strengthened.

Efforts should be made to strengthen the collaboration between the borrowing countries.

In order to support the work of the UNCTAD Working Group and to align with existing principles, efforts should be made to use existing, accepted and perhaps already ratified concepts, where applicable. One example is the UN Global Compact<sup>50</sup>, which may be of help in developing Principle 5 Project Financing.

Specific recommendations relating to each of the UN Principles pertaining to lenders are shown below.

**1. Agency:** *Lenders should recognize that government officials involved in sovereign lending and borrowing transactions are responsible for protecting public interest (to the State and its citizens for which they are acting as agents).*

UNCTAD Working Group should further specify how the responsibility set out in Principle 1 is verified.

**2. Informed Decisions:** *Lenders have a responsibility to provide information to their sovereign customers to assist borrowers in making informed credit decisions.*

UNCTAD Working Group should also include cooperative behaviour.

**3. Due Authorization:** *Lenders have a responsibility to determine, to the best of their ability, whether the financing has been appropriately authorized and whether the resulting credit agreements are valid and enforceable under relevant jurisdiction/s.*

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<sup>50</sup> <http://www.unglobalcompact.org/>

Lenders and guarantors should ensure that all export credits are properly authorised in accordance with legislation in the borrowing country.

**4. Responsible credit decisions:** *A lender is responsible to make a realistic assessment of the sovereign borrower's capacity to service a loan based on the best available information and following objective and agreed technical rules on due diligence and national accounts.*

UNCTAD Working Group should suggest an approach for undertaking such assessments.

This is particularly important as the present sustainable lending approach led by IMF is not sufficient in its own right, exemplified in a recent paper which stated that “[the present policy] fail[s] to establish debt sustainability and market access in a durable way”<sup>51</sup>.

**5. Project financing:** *Lenders financing a project in the debtor country have a responsibility to perform their own ex ante investigation into and, when applicable, post-disbursement monitoring of, the likely effects of the project, including its financial, operational, civil, social, cultural, and environmental implications. This responsibility should be proportional to the technical expertise of the lender and the amount of funds to be lent.*

UNCTAD Working Group should clarify the purpose of the investigation and monitoring, such as securing projects with benefits for the public, and that guidelines are developed for clarification of responsibilities.

UNCTAD Working Group should provide recommended guidelines for ex ante investigations and post disbursement monitoring of the projects.

**6. International Cooperation:** *All lenders have a duty to comply with United Nations sanctions imposed against a governmental regime.*

Principle should be maintained as is.

**7. Debt Restructurings:** *In circumstances where a sovereign is manifestly unable to service its debts, all lenders have a duty to behave in good faith and with cooperative spirit to reach a consensual rearrangement of those obligations. Creditors should seek a speedy and orderly resolution to the problem.*

UNCTAD Working Group could change the formulation “speedy and adequate resolution”, as a recent IMF report showed that “debt restructuring has often been too little and too late...”.

The idea is that when restructuring needs to take place (Principle 7) then it should bring the borrower into a state where Principle 4 “Responsible credit decision” is fulfilled, i.e. have “capacity to service debt”.

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<sup>51</sup> IMF 2013



# Annexes

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**Annexes:**

- Terms of Reference
- Overview of contracts in the audit
- Mapping of stakeholders, roles and responsibilities
- List of documents
- List of interviewees
- Assessment of the 34 public debt guarantees

## Part 2: Terms of Reference

### Audit of the developing countries' public debt to Norway 2013.

#### 1. Background

##### 1.1 International Debt Cancellation

Export campaigns, the oil crisis and the rise in interest rates led to unsustainable debt burdens of poor countries in the 1980s. The full picture is a complex one and it is not possible to assign blame in a clear-cut way. Unsustainable debt burdens of poor countries are slowing down economic and social development. Money that could have been used to reduce poverty is being spent on servicing debt, and outstanding payments are complicating these countries' relationships with the international financial institutions and preventing them from taking up new loans.

Over the last 15 years, the international community has cancelled a large proportion of the poorest and most heavily indebted countries' debt. This is the result of two major international initiatives: the Heavily Indebted Poor Countries Initiative (HIPC) of 1996, and the Multilateral Debt Relief Initiative (MDRI) of 2005, both of which are under the auspices of the World Bank and the IMF. Because of the two instruments 33 of the 39 poorest and most heavily indebted countries have reduced its level of external debt to a sustainable level. The countries that have not qualified are either engaged in or have recently emerged from an armed conflict. An important principle of both initiatives is that the funds released by debt relief must be used for the benefit of the poorest. Unconditional debt relief can negatively change behaviour and incentives; moral hazard. Consequently debt relief alone is not enough; it must be part of a sound development policy.

The latest report on heavily indebted poor countries (HIPC) and the MDRI shows that the amount spent on servicing debt in the countries that qualified for HIPC treatment was more than halved between 2001 and 2006. Between 2006 and 2011, the figure was halved again. At the same time pro-poor spending has increased substantially. Less money spent on servicing debt means more money to invest in poverty reduction measures.

The international instruments for debt reduction and cancellation have been a success. Norway is a strong supporter of the above mentioned instruments. However, in many countries, traditional debt relief is not enough. Some of the countries that have received debt relief are again in debt distress.

##### 1.2 Norwegian debt policy

The action plan, *Debt Relief for Development* (2004), provides the guidelines for Norway's debt policy <http://www.regjeringen.no/upload/kilde/ud/rap/2004/0225/ddd/pdfv/217380-debtplan.pdf>

It sets out that Norway is to be at the forefront of efforts to cancel the debt of the poorest countries through bilateral efforts, strong support for multilateral debt relief instruments, and innovative approaches.

Norway's efforts to address poor countries' debt problems can be divided into three main areas: 1) traditional debt relief through international instruments, 2) normative work and 3)

efforts to prevent new debt crises from arising. All creditors support the first area of work, but Norway is one of the few that are also engaged in the other two areas.

### **Responsible lending and illegitimate debt**

Norway has taken a leading role in advocating international guidelines for responsible lending. Today, it is the size of a country's debt in relation to its GDP or annual export revenues that determines how much is cancelled. In Norway's view, consideration should also be taken of how the debt came about in the first place and the conditions that were set. Debt cancellation should not just be a question of how much debt a country can sustain, but also a question of justice. Although there are no generally agreed definitions of the terms responsible lending and illegitimate debt is interconnected. The debt movement uses broad definitions.

Norway has funded a UN project to draw up closer definitions and criteria. UN Principles on Promoting Responsible Sovereign Lending and Borrowing were launched in April 2012 and endorsed by many countries, including Norway.

[http://unctadxiii.org/en/SessionDocument/gdsddf2012misc1\\_en.pdf](http://unctadxiii.org/en/SessionDocument/gdsddf2012misc1_en.pdf)

Norway has funded reports from both The World Bank and the UN to study the notions of odious debt. Link to the UN study The Concept of Odious Debt in Public International Law

[http://unctad.org/en/Docs/osgdp20074\\_en.pdf](http://unctad.org/en/Docs/osgdp20074_en.pdf)

Norway has also funded efforts to identify illegitimate debt before a loan is made (ex ante), which in itself constitutes a kind of sanction; *Preventing Odious Obligations A New Tool for Protecting Citizens from Illegitimate Regimes*

[http://www.cgdev.org/files/1424618\\_file\\_Odious\\_Debt\\_FINAL\\_web.pdf](http://www.cgdev.org/files/1424618_file_Odious_Debt_FINAL_web.pdf)

Norway has also financed studies of illegitimate debt, conducted both by The world Bank and the UN.

Responsible lending and illegitimate debt are controversial issues and few creditor countries are willing to discuss them. It is vital to engage more countries in the debate, including the major new creditors and indebted countries.

The discussion encompasses several dilemmas. One is that if the criteria for responsible lending are too strict, developing countries will have less access to capital. There are also difficult sovereignty issues. Also; if there is too much focus on illegitimate loans, this may distract attention and funds from our top priority: helping the poorest countries to cancel their debts.

Norway's policy is to combine engagement in normative, long-term efforts with immediate action. For instance, we set an important example in 2007 with our unconditional and unilateral cancellation of all the remaining debt from the Norwegian ship export campaign of 1976–80, without any budget allocation. This has attracted considerable international attention. Norway exported 151 vessels to many developing countries. A review of the Campaign, ten years after, initiated from the Norwegian Parliament, concluded that necessary needs and risk assessments were not conducted and that the overall motivation from Norway was to help Norwegian ship yards. In 2007 the government, consequently decided to unilaterally cancel the remaining debt from that campaign owed by Ecuador, Jamaica, Peru and Egypt. See press release:

<http://www.regjeringen.no/nb/dep/ud/pressecenter/pressemeldinger/2006/cancellation-of-debts-resulting-from-the.html?id=272158>

## **Debt Audit**

Norwegian government's political platform

<http://www.regjeringen.no/upload/SMK/Vedlegg/Rapporter/Plattform-sm2-a4-web-english.pdf> says that Norway shall conduct a Debt Audit. Such exercise should be understood

and executed in the light of Norway's policy and recent work on the above mentioned topics *illegitimate debt and responsible lending*. The topics are, as mentioned, interconnected and a Debt Audit is a natural follow-up of the work Norway has done, both the cancellation of the debt from the Shipping export Campaign and the financing of the UN guidelines for responsible lending. Debts incurred through irresponsible lending in the past may come to be considered as illegitimate debt. This Audit will train a spotlight on issues such as responsible lending and illegitimate debt. It will be noticed. It will start a debate, and it may promote a more responsible lending policy.

Norway supports the World Bank/IMF Debt Sustainability Framework (DSF)

<http://www.imf.org/external/pubs/ft/dsa/lic.htm>

It is a relatively new and useful tool that will reduce the risk of new unsustainable debt burdens. However, the discussion on external debt is about more than sustainability. The discussion on external debt should not only focus on how much debt a poor country can have, from a debt sustainability point of view. It should also include how much debt a poor country should have based on how the loans were given. In other words; the discussion on external debt is also about creditor responsibility and fairness.

From a cost-benefit point of view, responsible lending and borrowing is more important than debt cancellation. Both the creditors and the debtors have responsibilities. Debtors have the responsibility to practice good public debt management and the creditor has the responsibility to be sensitive to needs and risks in the debtor country and to have a dialogue regarding these matters with the debtor countries.

## **2. Purpose**

The rationale for the debt audit is normative. There is no reason to believe that The Norwegian Export Credit Agency (GIEK) has acted irresponsibly. In light of Norway's debt cancellation policy's emphasis on responsible lending and creditor's co-responsibility, an audit of all public debt developing countries have to Norway will train a spotlight on issues such as responsible lending and creditor's co-responsibility. It will be noticed. It will start a debate, and hopefully promote a more responsible lending policy. Furthermore, as an integral part of this exercise, is the intention that the process should be conducted in such a manner that it can serve as a successful example of how a debt audit can be carried out. Hopefully this will serve as useful lessons to learn for interested actors, both creditors and debtors. A Norwegian debt audit also fits into Norway's role to promote financial and economic transparency. The purpose of the debt audit is not to cancel debt.

A secondary objective is to give feed-back to the newly launched UN guidelines on Responsible Lending and Borrowing. A debt audit will test the new guidelines and might provide important input to develop the guidelines further.

### **3. Scope**

#### **3.1 Scope and delimitations**

The scope of the study shall be limited to Norway's total public claims on developing countries (state-to-state). NOK 961,7 million 7 countries, originated from 34 contracts. See enclosed a list of 19 of the contracts with some basic facts and reference documents of each contract. This is a list of the contracts from which restructured debt in the Paris Club originate. In total a debt of NOK 391,2 million (excluding late interests) as of 30 June 2012.

In addition the debt audit shall study the contracts from which the debt not being restructured in the Paris Club originates: Zimbabwe 7 contracts, Myanmar 5 contracts, Sudan 2 contracts and Somalia 1 contract. NOK 570,6 million (excluding late interests) as of 30 June 2012. The list is exhaustive. Assessment of guarantees, as a part from debt, is beyond the scope of this study. Beyond the scope of this study is also debt owed by developed countries and/or debt owned by private or multilateral debtors.

All debt within the scope of this study originates from export credits guaranteed by the Norwegian Export Credit Agency, The Norwegian Guarantee Institute for Export Credits (GIEK).

### **4. Work Plan and Methodology**

The audit will be conducted as a desk study. Two main sets of criteria will be used:

- GIEK's procedures, rules and regulations, including OECD's guidelines for sustainable lending and borrowing and OECD's "common approaches". See 8. List of Selected Background Documents (not exhaustive).
- UN Principles on Promoting Responsible Sovereign Lending and Borrowing were launched in April 2012 and endorsed by several countries, including Norway, Germany, Brazil and Argentina. See 8. List of Selected Background Documents.

Methodological issues should be looked at in light of the purpose of the audit. To use today's glasses when assessing the issuance of guarantees from the 1980s and 1990s is not only challenging, it is unfair. However, when using today's developed guidelines, hopefully, lessons will be learned and today's criteria will be developed further.

All debt within the scope of this study originates from export credits guaranteed by GIEK. When assessing the 34 contracts, the consultants shall use GIEK's procedures, rules and regulations today. However, to make the report more interesting, useful and fair, the study shall also, where it is possible, assess whether GIEK's procedures, rules and regulations at the time when the guarantees were issued were followed.

The roles of- and collaboration between the different stakeholders (GIEK, The Norwegian Agency for Development Cooperation – Norad, the exporter, the private or public partner in the debtor county etc.) is of special interest. It will be necessary to conduct interviews with relevant stakeholders.

The consultants will outline a well formed research strategy and propose an appropriate methodology to ensure an objective, transparent and impartial conduct of the tasks outlined for this study. The consultants will mainly make use of GIEK's archive in its documentation, but also World Bank, IMF, UN and other relevant documents are important to study and use

in the study. The consultants will have to sign an agreement of confidentiality and non-disclosure, according to under the jurisdiction of the Public Administration Act §§ 13 to 13e.

## 5. Organisation

The evaluation is commissioned by the Norwegian Ministry of Foreign Affairs. A steering committee has been established, consistent of representatives from the Norwegian Ministry of Foreign Affairs and the Norwegian Ministry of Trade and Industry. Input from Norwegian NGOs at different stopping points / draft reports will be gathered. The Norwegian Ministry of Foreign Affairs will be leading the process and will be responsible for the final decisions concerning the terms of references and evaluation outputs (i.e. the inception and final report), with professional guidance from the steering committee. Relevant technical staff from all three entities will be invited by the steering committee to comment on all evaluation outputs before finalization. The evaluation will be carried out by an independent team of consultants contracted by the Norwegian Ministry of Foreign Affairs. The evaluation team is entitled to consult stakeholders pertinent to the assignment but it is not permitted to make any commitments on behalf of the Government of Norway. The evaluation team leader will be reporting directly to the Norwegian Ministry of Foreign Affairs.

## 6. Composition of the Team

A team consisting of at least three consultants is envisaged for this assignment. The team shall cover the following competencies (these must be documented in the tender):

<b>Competence of the team</b>		
<b>Academic</b>	Higher relevant degree	
<b>Discipline</b>	Accounting, auditing and finance	Public sector accounting and auditing
	Development cooperation	Also within development finance issues, export credit work/guarantee issuance, Human Rights, CSR, Legal aspects of development cooperation. Normative work, e. g. experience from the UN.
<b>Language</b>	English	Written, reading, spoken
	Norwegian/Swedish/Danish	Reading, spoken

## 7. Budget and Deliverables

The estimated value of the overall assignment is between NOK 1,5 and 3,0 million including VAT. The budget estimate includes the time allocated to the team members. The deliverables consist of an inception report, a draft final report and a final report prepared in accordance with the guidelines given in Annex 3 of the Tender Document. It will be discussed with the team and the steering committee before approval by the Norwegian Ministry of Foreign Affairs. The evaluation team shall present its preliminary analysis to relevant stakeholders, allowing for feedback and discussion.

Proposal shall be prepared in accordance with the guidelines given in Annex 3 of the Tender Document. It will be discussed with the team and the steering committee before approval by the Norwegian Ministry of foreign Affairs.

All presentations, reports, data collection tools and raw data (to be prepared in accordance with the guidelines given in Annex A-3 Guidelines for Reports of this document) are to be submitted in electronic form in accordance with the deadlines set in the time-schedule specified under Section 2 Administrative Conditions in Part 1 Tender specification of this document.

The Norwegian Ministry of Foreign Affairs retains the sole rights with respect to distribution, dissemination and publication of the deliverables.

## **8. List of Selected Background Documents (not exhaustive):**

The Norwegian Debt Relief Strategy “Debt Relief for Development”

<http://www.regjeringen.no/upload/kilde/ud/rap/2004/0225/ddd/pdfv/217380-debtplan.pdf>

The Norwegian government’s political platform:

<http://www.regjeringen.no/upload/SMK/Vedlegg/Rapporter/Plattform-sm2-a4-web-english.pdf>

UN Principles on Promoting Responsible Sovereign Lending and Borrowing were launched April 2012 and endorsed by over 20 countries, including Norway:

[http://www.unctad.info/upload/Debt%20Portal/Principles%20drafts/SLB\\_Principles\\_English\\_Doha\\_22-04-2012.pdf](http://www.unctad.info/upload/Debt%20Portal/Principles%20drafts/SLB_Principles_English_Doha_22-04-2012.pdf)

*Preventing Odious Obligations A New Tool for Protecting Citizens from Illegitimate Regimes*

[http://www.cgdev.org/files/1424618\\_file\\_Odious\\_Debt\\_FINAL\\_web.pdf](http://www.cgdev.org/files/1424618_file_Odious_Debt_FINAL_web.pdf)

Unilateral cancellation of Norwegian ship export campaign (1976–80), Press release from 2006: <http://www.regjeringen.no/nb/dep/ud/pressemeldinger/pressemeldinger/2006/cancellation-of-debts-resulting-from-the.html?id=272158>

OECD’s system of international regulations for export credits and associated guarantees has been built up over the course of many years. <http://www.giek.no/internasjonalt/oecd/en>

GIEK's social responsibility policy, including its main basis for work on environmental and social aspects is provided by the OECD's guidelines of 12 June 2007 (Common Approaches):

[http://www.giek.no/miljo\\_og\\_sosialt\\_ansvar/gieks\\_politikk\\_innen\\_samfunnsansvar/en](http://www.giek.no/miljo_og_sosialt_ansvar/gieks_politikk_innen_samfunnsansvar/en)

GIEK follows OECD’s principles of sustainable lending:

[http://www.giek.no/miljo\\_og\\_sosialt\\_ansvar/ansvarleg\\_langiving/en](http://www.giek.no/miljo_og_sosialt_ansvar/ansvarleg_langiving/en)

World Bank/IMF Debt Sustainability Framework (DSF)

<http://www.imf.org/external/pubs/ft/dsa/lic.htm>

The report from the UN financed by Norway in 2007: “The Concept of Odious Debt in Public International Law”

[http://unctad.org/en/Docs/osgdp20074\\_en.pdf](http://unctad.org/en/Docs/osgdp20074_en.pdf)

UN’s “Guiding principles on debt and Human rights”:

[http://www.ohchr.org/Documents/HRBodies/HRCouncil/RegularSession/Session20/A-HRC-20-23\\_en.pdf](http://www.ohchr.org/Documents/HRBodies/HRCouncil/RegularSession/Session20/A-HRC-20-23_en.pdf)

Eurodad’s “Responsible Finance Charter”:

<http://eurodad.org/4562>

OECD’s “Arrangement on Guidelines for Officially Supported Export Credits”:

<http://www.oecd.org/tad/exportcredits/thearrangementonexportcredits.htm>

Fafo’s report, “Evaluation of the Norwegian Mixed Credit Scheme”:

<http://www.fafo.no/ais/eastasia/evaluationofmixedcredits/index.htm>

”Is Indonesia’s Debt to Norway illegitimate?”:

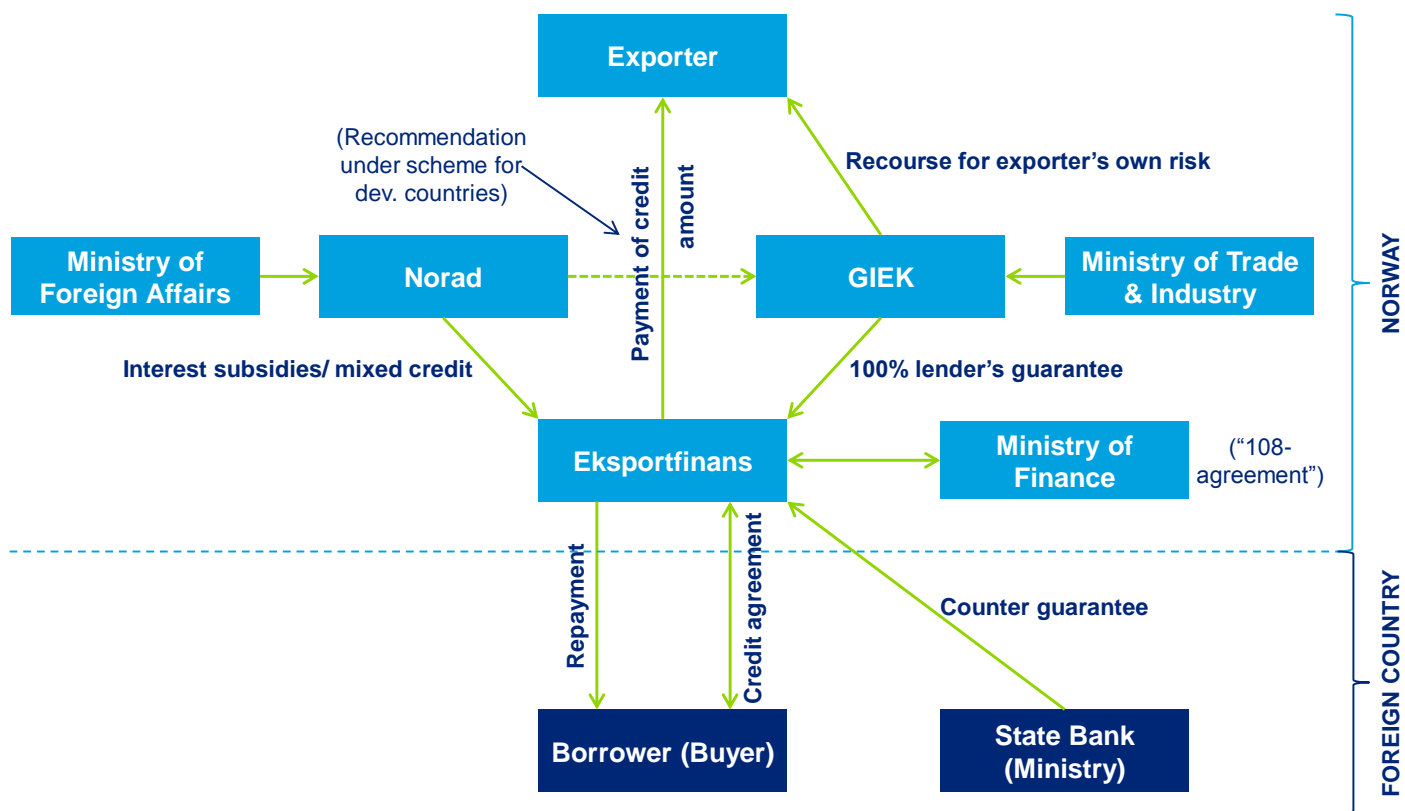
[http://www.slettgjelda.no/filestore/indonesiarapport\\_Web.pdf](http://www.slettgjelda.no/filestore/indonesiarapport_Web.pdf)

Annex 2 Overview of contracts in the audit

Ref	Land	Sak	Ordning	Oppr Gar.bel Mill kr	Beslutning	Dato	Blandet kreditt NORAD	Gar type	Annet
	Egypt	Tillegg fergeprosjekt	GSO	3,6 (254,5)	Avd dir, Norad-nei	80		LG?	skips-eksp k
	Egypt	Utstyr/	GAO	11,5	Styre	82		SLG	
	Egypt	IKT/Tele	GAO	1,1	K-sjef	83		SLG	
	Egypt	Cont.terminal/ Port Said Port Auth	GSO	126,5	Styre, Norad, HD	80/84		LG	
	Egypt	Utstyr	GAO	4,2	Adm dir	84		SLG	
	Indonesia	Bølgekraftv	GAO	29,3	Styre	95	X	LG	FAFO
	Indonesia	Digit.kartlegg	GAO	134,6	Styre	92	XHD/UD	LG	FAFO
	Indonesia	Havoverv	AO	70,9	Direksjon	96	X	LG	FAFO
	Indonesia	Sjøkartlegging	AO	256,9	Styre	95	X	LG	FAFO
	Indonesia	Forskn.fart	AO	115,8	Styre	96	X	LG	FAFO
	Pakistan	Kraftverkkomm	GAO	19,5	Direksjon	90	X	LG	
	Pakistan	Radiolinjeutstyr	GAO	63,7	Styre	92	X UD	LG	
	Pakistan	Sambandsmidl	GAO	9,0	Direksjon	94	X	LG	
	Pakistan	Feas st kraftv	AO	26,7	Styre	95	X	LG	
	Pakistan	Instrumentpakke	AO	7,7	Styre	97	X	LG	
	Pakistan	Radiolinjeprosjekt	AO	113,4	Styre Norad(?)	98	?	LG	
	Pakistan	Rådg ing.tj.	AO	12,7	Styre	96	X	LG	
	Pakistan	Radiolinjeutstyr	UO	65,5	Styre, Nor	92	X UD	LG	
	Sudan	Trevarefabrikk	GSO	5,1	K-sjef, Norad	79	HD nei	SLG	50 % Dekn.
	Sudan	Rådg tjen	GAO	1,5	Avd dir	77		EG	
	Sudan	Lektore River Oil Industry Services	GSO	189,0	Styre, Norad, HD	79		LG	
<b>21</b>	<b>SUM</b>	<b>MOR AVT</b>		<b>1268,2</b>					
	Myanmar	Pass skip/Burma Five Star Ship C	GSO	47,5		78	Rente-Støtte	LG	Skips-Eksp k
	Myanmar	Burma FSSC	GSO	89,165		78	Rentest	LG	-<-
	Myanmar	Fiskefartøy/ Peoples Pearl & Fisher	GSO	135,3		78	Rentest	LG	-<-
	Myanmar	M F Tr Bank	GSO	13,015		79	Rentest	LG	-<-
	Myanmar	My F Tr Bank	GSO	USD18,7		01.80		LG	
	Somalia	Tjenester ind	GSO	CHF13,1		79		EG	
	Zimbabwe	Oppgrad kraftverk	AO	17,460		96	Mixed Cr Line	LG	FAFO
	Zimbabwe	Renseanlegg vann	AO	USD 18.719.059		96	MCL	LG	FAFO
	Zimbabwe	Utstyr og systemer Z Post & T	GAO	41,2		91		LG	
	Zimbabwe	Nat Oil Co ZIM	GAO	USD13,5		94		LG	
	Zimbabwe	ZESA	GAO	USD 3,2		93	MCL	LG	FAFO
	Zimbabwe	ZESA	GAO	USD 2,9		93	MCL	LG	FAFO
	Zimbabwe	Min Fin	UO	17,1		2000	MCL	LG	FAFO
<b>13</b>	<b>SUM</b>	<b>IKKE MOR AVT</b>							



### Stakeholders Buyer's credit (Normal Set-Up)



### Annex 4 List of documents

(N.B. This list is non-exhaustive)

Author	Year/Date	Title	Link
<b>Center for Global Development</b>	2010	Preventing Odious Obligations A New Tool for Protecting Citizens from Illegitimate Regimes	<a href="http://international.cgdev.org/files/1424618_file_Odious_Debt_FINAL_web.pdf">http://international.cgdev.org/files/1424618_file_Odious_Debt_FINAL_web.pdf</a>
<b>GIEK</b>	N/A	N/A	<a href="http://www.giek.no/">http://www.giek.no/</a>
<b>GIEK</b>	Version 2012	Kredittåndbok	Paper format
<b>GIEK</b>	22 March 2011	Vedtekter med vedlegg	Paper format
<b>GIEK</b>	1964	Vedtekter for Garanti-Instituttet for Eksportkreditt fastsatt av Handelsdepartementet 24. februar 1964.	Paper format
<b>GIEK</b>	1969	Bestemmelser om statsgaranti på særlige vilkår ved eksport til utviklingsland og statsgaranti ved investeringer i utviklingsland, fastsatt av Handelsdepartementet 3. mai 1969	Paper format
<b>GIEK</b>	1980	Bestemmelser om statsgaranti ved eksport, fastsatt av Handelsdepartementet 3. september 1980	Paper format
<b>GIEK</b>	1980	Bestemmelser om statsgaranti på særlige vilkår ved eksport til utviklingsland og statsgaranti ved investeringer i utviklingsland, fastsatt av Handelsdepartementet 3. september 1980	Paper format
<b>GIEK</b>	1989	Nærmere bestemmelser om garanti etter stortingsvedtak om garantiordning for investeringer i og eksport til utviklingsland, 15.12.1989	Paper format
<b>GIEK</b>	1994	Vedtekter for Garanti-Instituttet for Eksportkreditt fastsatt av Utenriksdepartementet 14. februar 1994.	Paper format
<b>Ingrid Harvold Kvangraven (SLUG)</b>	December 2012	Exportable? How to Make The Norwegian Debt Audit Transferable To Other Countries	<a href="http://slettgjelda.no/filestore/tunisiarapport_web.pdf">http://slettgjelda.no/filestore/tunisiarapport_web.pdf</a>
<b>Jon Hanssen-Bauer (Team leader), Anthony David Owen and Bjørne Grimsrud (Fafo)</b>	2000	Evaluation of the Norwegian Mixed Credits Programme	<a href="http://www.norad.no/en/tools-and-publications/publications/publication?key=165405">http://www.norad.no/en/tools-and-publications/publications/publication?key=165405</a>
<b>Magnus Flacké (SLUG)</b>	2009	Is Indonesia's debt to Norway Illegitimate?	<a href="http://www.slettgjelda.no/filestore/in-donesiarapport_Web.pdf">http://www.slettgjelda.no/filestore/in-donesiarapport_Web.pdf</a>
<b>Ministry of Foreign</b>	2004	Debt Relief for Development	<a href="http://www.regjeringen.no/upload/kilde/ud/rap/2004/0225/ddd/pdfv/21738">http://www.regjeringen.no/upload/kilde/ud/rap/2004/0225/ddd/pdfv/21738</a>

<b>Affairs</b>			<a href="#">0-debtplan.pdf</a>
<b>Ndikumana and Boyce</b>	2011	Africa's Odious Debts - How Foreign Loans and Capital Flight Bled a Continent	Book – paper format
<b>Nuria Molina (Eurodad)</b>	2011	Responsible Finance Charter	<a href="http://eurodad.org/uploadedfiles/whats_new/reports/charter_final_23-11.pdf">http://eurodad.org/uploadedfiles/whats_new/reports/charter_final_23-11.pdf</a>
<b>OECD</b>	28 June 2012	Recommendation of the council on common approaches for officially supported export credits and environmental and social due diligence ("The Common Approaches")	<a href="http://search.oecd.org/officialdocuments/displaydocumentpdf/?cote=TAD/ECG%282012%295&amp;doclanguage=en">http://search.oecd.org/officialdocuments/displaydocumentpdf/?cote=TAD/ECG%282012%295&amp;doclanguage=en</a>
<b>OECD</b>	11 January 2013	Arrangement on Officially Supported Export Credits	<a href="http://www.jbic.go.jp/ja/finance/export/oecd/pdf/original.pdf">http://www.jbic.go.jp/ja/finance/export/oecd/pdf/original.pdf</a>
<b>OECD</b>	20 February 2008	Principles and Guidelines to promote Sustainable Lending Practices in the Provision of Official Export Credits to Low-Income Countries	<a href="http://search.oecd.org/officialdocuments/displaydocumentpdf/?doclanguage=en&amp;cote=tad/ecg(2008)1">http://search.oecd.org/officialdocuments/displaydocumentpdf/?doclanguage=en&amp;cote=tad/ecg(2008)1</a>
<b>Prof. Robert Howse</b>	July 2007	The Concept of Odious Debt in Public International Law	<a href="http://unctad.org/en/Docs/osgdp20074_en.pdf">http://unctad.org/en/Docs/osgdp20074_en.pdf</a>
<b>The Labour Party, Socialists Left Party and Centre Party</b>	2009	Political platform as basis for the Government's work	<a href="http://www.regjeringen.no/upload/SMK/Vedlegg/Rapporter/Plattform-sm2-a4-web-english.pdf">http://www.regjeringen.no/upload/SMK/Vedlegg/Rapporter/Plattform-sm2-a4-web-english.pdf</a>
<b>UNCTAD</b>	10 January 2012	Principles on promoting responsible sovereign lending and borrowing	<a href="http://www.unctad.info/upload/Debt%20Portal/Principles%20drafts/SLB_Principles_English_Doha_22-04-2012.pdf">http://www.unctad.info/upload/Debt%20Portal/Principles%20drafts/SLB_Principles_English_Doha_22-04-2012.pdf</a>
<b>United Nations</b>	10 April 2011	Report of the Independent Expert on the effects of foreign debt and other related international financial obligations of States on the full enjoyment of all human rights, particularly economic, social and cultural rights, Cephias Lumina	<a href="http://www.ohchr.org/Documents/HRBodies/HRCouncil/RegularSession/Session20/A-HRC-20-23_en.pdf">http://www.ohchr.org/Documents/HRBodies/HRCouncil/RegularSession/Session20/A-HRC-20-23_en.pdf</a>
<b>Ministry of Trade</b>	1962	St.prp. nr.108 (1962-63)	
<b>NOU 1983:34</b>	1983	“Om Garanti-Instituttet for Eksportkredits (GIEK's) garantiordninger”	
<b>Working party appointed by the Ministry of Trade</b>	1984	Om Garanti-Instituttet for Eksportkredits (GIEK's) garantiordning på særlige vilkår ved eksport til og ved investeringer i utviklingsland (særordningen).	
<b>NOU 1990:31</b>	1990	«Nye rammevilkår for GIEK»	
<b>Edvard Stang</b>	2007	Skipseksportkampanjen. Var det så galt?	

### *Annex 5 List of interviewees*

The enclosed list details the individuals or organisations with whom we consulted during the course of our work.

<b>Company/Organisation</b>	<b>Name</b>	<b>Position</b>
<b>Egypt</b>	Mahinour El Bedrawi	The Egyptian Center for Economic and Social Rights
<b>Eksportfinans</b>	Martine Mills Hagen	Executive Vice President - Director of Funding & Lending
<b>Eksportfinans</b>	Jens Feiring	Executive vice president and general counsel
<b>Eksportfinans</b>	Knut-Erik Regnell	Loan Administration Officer
<b>GIEK</b>	Nikolai Østråt Owe	Senior Adviser International Relations
<b>Giek</b>	Johan E. Mowinkel	Director, Market Analysis and International Relations
<b>Giek</b>	Victor Petersen	Chief Economist
<b>Giek</b>	Bjørn Egeland	Senior Environmental Specialist
<b>International Monetary Fund</b>	Reza Baqir	Policy Development and Review Department
<b>International Monetary Fund</b>	Laurence Allain	Deputy Division Chief, Strategy, Policy, and Review Department
<b>Members in UNCTAD's group of experts</b>	John Williamson	Economist at Petersons Institute for International Economics
<b>Members in UNCTAD's group of experts</b>	Lee C. Buchheit	Partner and lawyer, Gottlieb Steen & Hamilton LLP
<b>Ministry of Foreign Affairs</b>	Per Kristian Roer	MFA
<b>Myanmar</b>	Audun Aagre	Den norske Burmakomiteen
<b>NORAD</b>	Dag Larsson	Senior Adviser
<b>Other</b>	Kunibert Raffer,	Jurist and economist , Vienna University
<b>Other</b>	Léonce Ndikumana	Economist at University of Massachusetts
<b>SLUG (Norwegian Coalition for Debt Cancellation)</b>	Gina Ekholt	Coordinator
<b>SLUG (Norwegian Coalition for Debt Cancellation)</b>	Ingrid Harvold Kvangraven	Political advisor
<b>South Centre</b>	Manuel Montes	Senior Advisor, Finance and Development
<b>UNCTAD</b>	Pål Børresen	
<b>World Bank</b>	Shan Gupta	Sector manager, PREM
<b>Zimbabwe</b>	Eric Bloch	Dr, Economic Commentator
<b>Zimbabwe</b>	Ashok Chakravarti	Professor

For Indonesia and Pakistan Deloitte country offices did a short review and several offices and persons were interviewed. These interviewees are not in this list.

## *Annex 6 Assessment of the 34 public debt guarantees*

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General findings and observations.....	70
Egypt .....	74
Indonesia.....	79
Myanmar .....	88
Pakistan .....	96
Somalia .....	105
Sudan.....	107
Zimbabwe.....	112

### Introduction

Annex 7 presents the Contract Audit Matrix used to collect and assess data available for the 34 public debt contracts in scope and comprises findings and other observations only. The contracts in question were entered into between 1978 and 2000 and the borrowing countries in scope are Sudan, Myanmar, Somalia, Egypt, Pakistan, Indonesia and Zimbabwe.

The purpose of the matrix has been to systematically collect and assess significant amounts of data in accordance with the three sets of criteria described in the audit pillars. The matrix includes, in addition to background information on the contracts, applicable paragraphs from each of the following sets of criteria. The audit team has exercised professional judgement in deciding which paragraphs are applicable for the assessment of contracts:

- Former GIEK procedures, rules and regulations
- UN Principles
- Current GIEK procedures, rules and regulations, including OECD schemes

The assessment has been based primarily on available information found in GIEK's files. In addition, the audit team has reviewed supplementary information from Eksportfinans' and Norad's archives. Due to the age of the contracts, no information has been available in electronic format. In some instances, due to missing or incomplete documents, it has been difficult to ascertain what the final information or guarantee decisions were. In such cases we have, where possible, used information recorded in GIEK's file notes prepared at a later date, usually in connection with restructuring of the outstanding debt.

### Presentation structure

Generic findings applicable to the majority of contracts are presented first. Main findings per contract are summarised in tables grouped by country in alphabetical order. An accompanying description of the country's economic and political situation aims to provide background understanding and context for the contracts in question. Sub-Saharan African countries tend to use capital flight as a portfolio choice to a much larger extent than in other regions, according to research done but the World Bank, therefore capital flight estimates are included

for Sudan and Zimbabwe<sup>52</sup>. Grouping by geographical location is primarily for presentation purposes, although some of the contracts do result in similar findings per country.

The first two columns of the tables provide basic data about each contract. The next column lists missing key documents, if any. The final three columns summarise our assessment on the degree of compliance with the three pillars of the audit. Noteworthy exceptions or other observations are summarised under each pillar.

Former GIEK regulations have been amended over time and, for the purposes of this audit, we have reviewed only the applicable schemes in place. We have been unable to obtain page 8 of the ordinary guarantee scheme from 1980, therefore § 15 and 16 have not been assessed. We believe this omission is unlikely to have had a material impact on our findings and conclusions.

The current GIEK regulations consist of three parts; OECD Arrangements, OECD Common Approaches and OECD Principles on Sustainable Lending, which are commented separately in the last column of the tables. For further description of the schemes see chapter 5.

## Appraisals and assumptions for the audit

The schemes described above are detailed and some of the content is technical or out of scope for the audit, particularly the superseded GIEK schemes and the OECD regulations. The audit team has therefore been obliged to make some appraisals for the purpose of the audit. The audit team analysed the different schemes, sorting for paragraphs relevant to the guarantee decisions. Certain paragraphs e.g. pertaining to GIEK's business and administrative coordination or those which have been difficult to assess due to lack of information or the inherent limitations of a desk study, have not been included. Further, counter guarantees, foreign exchange guarantees or contract guarantees in cases where such guarantees have been provided by GIEK in addition to the guarantees under audit, have not been assessed.

## General findings and observations

This section summarises general findings and observations which are common for the majority of guarantees.

### **Degree of compliance with former GIEK procedures, rules and regulations**

All of the audited credits are assessed to have high degree of compliance with the previous GIEK rules and regulations. Further observations or exceptions noted are outlined in the tables.

### ***GIEK's assessment and decision on providing a guarantee***

In most cases, GIEK's final decision is documented in board memorandums and decision notes. The board memorandums usually include a description of the project and the proposed financing, as well as a risk assessment of the debtor country's economic and political situation. Risks and challenges in the borrower country's economy and political situation are often highlighted, but the ultimate conclusion noted is if the state is the borrower or a state guarantee can be obtained, the risk is considered acceptable.

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<sup>52</sup> Collier, Paul et.al 1999, "Flight Capital as a Portfolio Choice", World Bank

GIEK usually performed a risk assessment of the country in question and thereby, to a degree, a risk assessment of the debtor being the government of the respective country either as direct debtor or guarantor.

Based on available information, it appears that GIEK did not perform a specific risk assessment of the project or the buyer (relevant for cases under the ordinary guarantee scheme of 1994). In the cases where we have been provided with additional information of Norad's assessments, we have however seen evidence that Norad has performed an assessment of potential social and environmental impacts of the projects. In Norad's decision papers, and to some degree in GIEK's, we have seen a description, but not an evaluation, of the buyer.

### ***Project budgets***

Project budgets are not directly included as part of the regulations, but the audit team has looked for budget details provided by the exporter. This was mainly for the purpose of complementing the information on project evaluations, and to see whether there was evidence of commission payments. In most cases, project budgets are relatively simple and high level, if provided at all. In some cases, however, more detailed project budgets have been provided. The audit team has not seen evidence of questionable commission payments.

### ***Consultation with other OECD members***

The audit team has observed on several occasions that GIEK consulted with other OECD member countries on issues relating to the cases under audit. For example, GIEK consulted with other member countries in the question on practices regarding the acceptance of promissory notes. In relation to the Indonesian guarantees, GIEK consulted other members about whether or not they accepted the INPRES 8 regulations required from the Government of Indonesia. GIEK also answer a specific question from other OECD countries on whether they had provided more favourable terms than OECD – AOSIS allowed. The response, with supporting evidence, showed that this was not the case. These examples illustrate that GIEK has cooperated and interacted with other members.

### ***Degree of compliance with UN Principles***

The guarantees appear to comply partially with the UN Principles, as some of the UN principles have, according to our assessment, been complied with either fully or partially. Reference is made to chapter 7 for further detail.

### ***Informed Decisions – Lenders (2)***

Informed Decisions can be argued to be covered partly by the loan agreement issued by Eksportfinans. We have also seen correspondence between the borrower and Eksportfinans. Eksportfinans also visited the borrower country to finalise the terms of the loan agreement.

### ***Responsible Credit Decisions – Lenders (4)***

Responsible credit decisions addressed at least in part through GIEK evaluating the borrower country's economy and political situation in the case of a state debtor or state guarantor.

### ***Project Financing – Lenders (5)***

Where Norad approved interest subsidies or mixed credits there is usually evidence of review of the projects. We have not seen evidence of any thorough ex-ante project investigations; however, it is not clear from principle 5 how extensive such project evaluations should be.

### ***International Cooperation – Lenders (6)***

We have not noted any exceptions to Principle 6 requiring lenders to comply with UN sanctions imposed against a governmental regime, other than an observation from assessing one guarantee pertaining to Pakistan. We noted that economic sanctions were in place against Pakistan at the time (in June 1998), but as GIEK was already committed to the exporter, the sanctions did not affect this particular case.

### ***Debt restructuring – Lenders (7)***

We have noted for all the contracts reviewed that active efforts have been made by the Lender organisation to restructure the outstanding debt into a more manageable repayment schedule and amount for the borrowing country. We have noted only partial compliance with this Principle due to being unable to answer some of the more detailed aspects of the Principle, as documentation relating to rescheduling of the debts was outside the scope of the contract review.

### **Degree of compliance with current GIEK procedures, rules and regulations**

The contracts are generally assessed to show partial compliance with the *OECD Common Approaches*. In the cases where Norad has performed a project assessment, the requirements appear to have been covered in part.

Partial compliance with the *OECD Sustainable Lending Principles* has been noted but only in a minority of the cases. The credits show generally low degree of compliance with OECD Principles on Sustainable Lending. In cases with evidence of Norad's assessment of the project's environmental or social impacts some of the guidelines are covered in part.

All of the audited contracts appear to have high degree of compliance with the *OECD Arrangement*. General observations and exceptions relating to the OECD Arrangement are described below.

### ***Classification of country, sovereign and buyer risk:***

The OECD Arrangement states that a classification of country risk, as well as a classification of sovereign risk and buyer risk, should be conducted after specific terms set out by the OECD in April 1999. During our assessment of guarantees, we observed that GIEK classified country risk in line with its own internal rules and regulations. There are some differences in the two sets of rules, meaning that not all OECD requirements have been fulfilled. We have seen evidence of assessment of sovereign risk, although not in all cases, and therefore assess this to have been partially addressed. There is little evidence from our assessment to support GIEK's classification of buyer risk in accordance with OECD requirements.

### ***Project evaluations***

Independent project evaluations have not, as far as the audit team can see, been performed by GIEK for the contracts reviewed. However, in the instances where Norad has been involved, a project evaluation has been conducted. We do not have documentation of Norad's evaluation for all the relevant contracts, but the instances where such documentation have been found, an analysis of economic and social impacts appears to have been addressed.

### ***Notification***

The OECD Arrangement contains certain rules regarding notification of export credit terms to other OECD member countries. Notifications which were required to be sent to other OECD



member countries before issuing export credits were noted for some, but not all of the guarantee cases.

***Project Eligibility***

Evaluation of the project's commercial viability has in most cases not been evidenced. The audit team has, in certain instances, found support for partial coverage in most of the cases involving Norad. This is in line with our general assumption that Norad undertook certain project evaluations in order to reach a conclusion on the project. The degree to which this specifically covered commercial viability is however unclear, particularly where Norad's final approval documents are missing.

## Egypt

Altogether five credits were entered into with Egypt during the years 1980 to 1984, with a total amount of MNOK 146.9. One of the credits, delivery of a container terminal in Port Said, represents 86 % of the total amount, which means that the four remaining credits are relatively small, representing only 14% of the total amount.

Year	MNOK
1980	3.6
1982	11.5
1984	1.1
1984	126.5
1984	4.2
<b>Total</b>	<b>146.9</b>

### *Political situation /governance*

In 1970, the ruling President Nasser died and was succeeded by Anwar Sadat. He launched the Infitah economic reform policy, whilst clamping down on religious and secular opposition. In 1973, Egypt, along with Syria, launched the October War, which ended with a military defeat. Sadat made a historic visit to Israel in 1977, which led to the 1979 peace treaty in exchange for Israeli withdrawal from Sinai. Sadat was assassinated in 1981, and Hosni Mubarak came to power after and served until 2011<sup>53</sup>.

Egypt is ranked as number 118 of the 176 countries and territories in the Corruption Perception Index<sup>54</sup>.

### *Economic development*

The economy of Egypt was highly centralised under President Gamal Abdel Nasser. In the 1990s, a series of International Monetary Fund arrangements, coupled with massive external debt relief resulting from Egypt's participation in the Gulf War coalition, helped Egypt improve its macroeconomic performance. Since 2000, the pace of structural reforms, including fiscal, monetary policies, privatisation and new business legislations, helped Egypt move towards a more market-oriented economy and prompted increased foreign investment.

Egypt's GNI per capita has increased significantly since 1980.

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<sup>53</sup> Wikipedia

<sup>54</sup> Transparency International 2012 "Corruption Perceptions Index 2012", Number 1 is perceived as least corrupt and the 176 is the most corrupt.

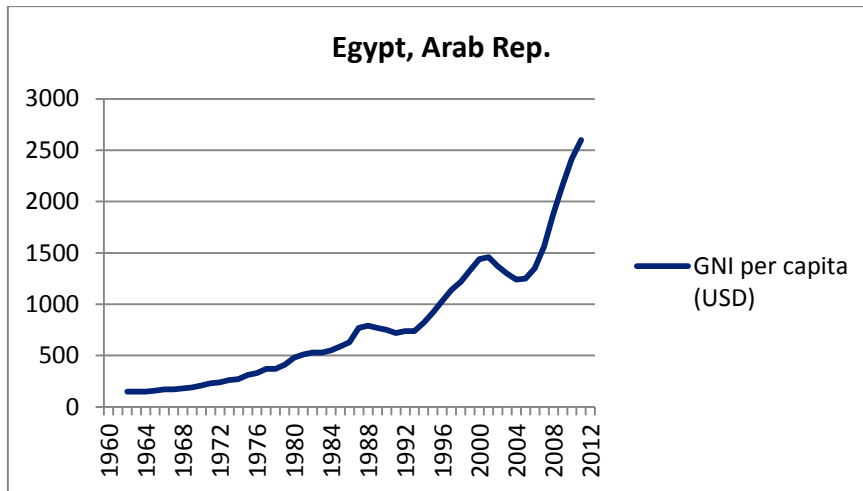


Figure 5: GNI per capita, Atlas and PPP (Purchasing Power Parity) method (current US\$). Source: World Bank

### ***Debt situation***

From the 1980s until today, Egypt has had four economic programs that were supported financially by the IMF. However, only about one fifth of the available amount was actually disbursed. The last of these programs ended in 1998. The total amounts outstanding have been paid back<sup>55</sup>.

### **Main findings**

The audit team has not uncovered any significant exceptions in relation to the Egyptian credits. Several purchase agreement were noted as missing.

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<sup>55</sup> IMF

**Table 5: Main findings – Egypt**

Guarantee Information	Contract Case	Missing Documents	Degree of compliance with Previous GIEK	Degree of compliance with UN Principles	Degree of compliance with Current GIEK
<ul style="list-style-type: none"> <li>- Buyer’s credit guarantee</li> <li>- Policy: 1980</li> <li>- Guaranteed amount: NOK 3.600.000</li> <li>- Buyer: MISR EDCO Shipping.</li> <li>- Applicable guidelines: GAO – 1980</li> </ul>	<p>Modification to car and passenger ferry (11292). Original contract to build two car and passenger ferries subject to earlier guarantee.</p>	<ul style="list-style-type: none"> <li>- Signed addendum relating to modifications to El Tor in addition to original contract to build the ferries</li> </ul>	<ul style="list-style-type: none"> <li>- High degree of compliance</li> </ul>	<ul style="list-style-type: none"> <li>- Generally low degree of compliance                             <ul style="list-style-type: none"> <li>• <i>Agency, Informed Decisions and Due Authorisation – Lenders: Project information was provided to Egyptian authorities and state guarantee required. Available information is insufficient to assess further</i></li> <li>• <i>Debt restructurings – Lender: active efforts have been made to restructure the outstanding debt owed by Egypt</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Generally high degree of compliance with OECD – AOSEC. Exceptions noted:                             <ul style="list-style-type: none"> <li>• <i>Classification of sovereign risk and buyer risk</i></li> <li>• <i>Notification</i></li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>- Supplier’s credit guarantee</li> <li>- Policy: 1982</li> <li>- Guaranteed amount: 11.500.000</li> <li>- Buyer: Egyptian Ferroalloy Co.</li> <li>- guidelines: GAO – 1980</li> </ul>	<p>Delivery of lining for four smelter furnaces</p>	<ul style="list-style-type: none"> <li>- Country assessment for Egypt</li> <li>- Body of supplementary lender’s guarantee (first page only available)</li> <li>- Final signed contract between buyer and seller</li> <li>- Final GIEK commitment document</li> <li>- Exporter’s</li> </ul>	<ul style="list-style-type: none"> <li>- Generally high degree of compliance despite missing documents. Following observations highlighted:                             <ul style="list-style-type: none"> <li>- <i>Do not see requirement for 70% Norwegian deliverables in contract</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Generally low degree of compliance. Some principles have been covered in part:                             <ul style="list-style-type: none"> <li>• <i>Agency, Informed Decisions and Due Authorisation – Lenders: Project information was provided to Egyptian authorities and state guarantee required. Available information is insufficient to assess further</i></li> <li>• <i>Debt restructurings – Lender: active efforts have</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Generally high degree of compliance with OECD - AOSEC. Some principles have been covered in part. Exceptions noted:                             <ul style="list-style-type: none"> <li>• <i>Classification of sovereign risk and buyer risk</i></li> <li>• <i>Project eligibility</i></li> <li>• <i>Notification</i></li> </ul> </li> <li>- Low degree of compliance with OECD – CA.</li> <li>- Low degree of compliance</li> </ul>

Guarantee Information	Contract Case	Missing Documents	Degree of compliance with Previous GIEK	Degree of compliance with UN Principles	Degree of compliance with Current GIEK
		recourse statement		<i>been made to restructure the outstanding debt owed by Egypt</i>	with OECD Sustainable Lending Principles.
<ul style="list-style-type: none"> <li>- Supplier's Credit Guarantee</li> <li>- 1982/1983</li> <li>- Guaranteed amount: NOK 1.080.000</li> <li>- Buyer: Org. of Broadcasting &amp; TV</li> <li>- Applicable Guidelines: GAO – 1980</li> </ul>	<ul style="list-style-type: none"> <li>- Delivery of text equipment to Egyptian TV</li> </ul>	<ul style="list-style-type: none"> <li>- State guarantee from Egypt (Banque de Caire)</li> <li>- Purchase agreement</li> <li>-</li> </ul>	<ul style="list-style-type: none"> <li>- High degree of compliance.</li> </ul>	<ul style="list-style-type: none"> <li>- Generally low degree of compliance. Some principles have been covered in part: <ul style="list-style-type: none"> <li>• <i>4. Responsible credit decisions: partly covered by that The Government of Egypt (Banque de Caire) guarantees for the loan, and that GIEK has evaluated Egypt's economy and political situation. However state guarantee is missing from the folder.</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Generally high degree of compliance with OECD – AOSEC. Exceptions noted: <ul style="list-style-type: none"> <li>• <i>Classification of sovereign risk and buyer risk</i></li> <li>• <i>Notification</i></li> </ul> </li> <li>- Low degree of compliance with OECD – CA.</li> <li>- Low degree of compliance with OECD Principles on Sustainable Lending.</li> </ul>
<ul style="list-style-type: none"> <li>- Buyer's credit guarantee</li> <li>- Policy: 1984</li> <li>- Guaranteed amount: 126,500,000</li> <li>- Buyer: Port Said Port Authority</li> <li>- guidelines: GAO – 1980</li> </ul>	Container terminal in Port Said	<ul style="list-style-type: none"> <li>- Country assessment later than March 1981</li> </ul>	<ul style="list-style-type: none"> <li>- High degree of compliance <ul style="list-style-type: none"> <li>• <i>Norad approved guarantee</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Generally low degree of compliance. Some principles have been covered in part: <ul style="list-style-type: none"> <li>• <i>Agency, Informed Decisions and Due Authorisation – Lenders: Project information was provided to Egyptian authorities and state guarantee required. Available information is insufficient to assess further</i></li> <li>• <i>Debt restructurings – Lender: active efforts have been made to restructure</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Generally high degree of compliance with OECD - AOSEC. Some principles have been covered in part. Exceptions noted: <ul style="list-style-type: none"> <li>• <i>Classification of sovereign risk and buyer risk</i></li> <li>• <i>Project eligibility</i></li> <li>• <i>Notification</i></li> </ul> </li> <li>- Low degree of compliance with OECD – CA.</li> <li>- Low degree of compliance with OECD Sustainable</li> </ul>

Guarantee Information	Contract Case	Missing Documents	Degree of compliance with Previous GIEK	Degree of compliance with UN Principles	Degree of compliance with Current GIEK
				<i>the outstanding debt owed by Egypt</i>	Lending Principles.
<ul style="list-style-type: none"> <li>- Supplier's Credit Guarantee</li> <li>- 1983/1984</li> <li>- Guaranteed amount: NOK 4.177.188</li> <li>- Buyer: Egyptian Ferroalloy CO. (EFACO)</li> <li>- Guidelines: GAO – 1980</li> </ul>	<ul style="list-style-type: none"> <li>- Smelting equipment - moulding machines and electrical equipment</li> </ul>	<ul style="list-style-type: none"> <li>- Signed guarantee commitment</li> <li>- Country note</li> <li>- Supplementary lender's guarantee</li> <li>- Purchase agreement</li> <li>- Loan agreement</li> </ul>	<ul style="list-style-type: none"> <li>- High degree of compliance. Underline the following observation: <ul style="list-style-type: none"> <li>• <i>Exporter applied for the required transmission guarantee in addition to the payment guarantee from Bank of Alexandria to be waived. GIEK approved on that only an irrevocable unconditional guarantee from Bank of Alexandria could be allowed, and waived the requirement of a transmission guarantee.</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Generally low degree of compliance. Some principles have been covered in part: <ul style="list-style-type: none"> <li>• <i>4. Responsible credit decisions: partly covered by that The Government of Egypt (Bank of Alexandria) guarantees for the loan, and that GIEK has evaluated Egypt's economy and political situation.</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Generally high degree of compliance with OECD – AOSEC. Exceptions noted: <ul style="list-style-type: none"> <li>• <i>Classification of sovereign risk and buyer risk</i></li> <li>• <i>Notification</i></li> </ul> </li> <li>- Low degree of compliance with OECD CA.</li> <li>- Low degree of compliance with OECD Principles on Sustainable Lending.</li> </ul>

## Indonesia

Altogether five credits in our audit portfolio were entered with Indonesia from 1992 to 1996, with a total guaranteed amount of MNOK 738. The largest credit was granted in 1995, representing 42 % of the total amount.

Year	MNOK
1992	169.10
1995	29.30
1995	312.55
1996	156.15
1996	70.90
<b>Total</b>	<b>738.00</b>

### Political situation/governance

Indonesia declared independence two days after the surrender of Japan in August 1945. President Sukarno moved Indonesia from democracy towards authoritarianism, and maintained his power base by balancing the opposing forces of the military and the Communist Party of Indonesia (PKI). An attempted coup on 30 September 1965 was countered by the army, who led a violent anti-communist purge, during which the PKI was blamed for the coup and effectively destroyed. Around 500,000 people are estimated to have been killed. The head of the military, General Suharto, outmanoeuvred the politically weakened Sukarno, and was formally appointed president in March 1968. His New Order administration was supported by the US government, and encouraged foreign direct investment in Indonesia, which was a major factor in the subsequent three decades of substantial economic growth. However, the authoritarian "New Order" was widely accused of corruption and suppression of political opposition.

Indonesia was the country hardest hit by the Asian financial crisis of the late 1990s. This resulted in popular protest against the New Order leading to Suharto's resignation in May 1998. Since Suharto's resignation, a strengthening of democratic processes has included a regional autonomy program, and the first direct presidential election in 2004. Political and economic instability, social unrest, corruption, and terrorism slowed progress, however, in the last five years the economy has performed strongly. Although relations among different religious and ethnic groups are largely harmonious, sectarian discontent and violence has occurred<sup>56</sup>.

### Economic development

Indonesia has a mixed economy in which both the private sector and government play significant roles. The country has a population of 237 million, is the largest economy in Southeast Asia and is a member of the G-20 major economies. Indonesia's estimated gross domestic product (nominal) as of 2012 was US\$928.274 billion with estimated nominal per capita GDP was US\$3,797. The industry sector accounts for 46.4% of GDP (2010). The country has extensive natural resources, including crude oil, natural gas, tin, copper, timber and gold. The country's major export commodities include oil and gas, electrical appliances, plywood, rubber and textiles.

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<sup>56</sup> Wikipedia

In the 1960s the economy deteriorated drastically as a result of political instability, a young and inexperienced government, and economic nationalism, which resulted in severe poverty and hunger. By the time of Sukarno's downfall in the mid-1960s, the economy was in chaos with 1,000% annual inflation, shrinking export revenues, crumbling infrastructure, factories operating at minimal capacity, and negligible investment. Following President Sukarno's downfall, the New Order administration brought a degree of discipline to economic policy that quickly brought inflation down, stabilised the currency, rescheduled foreign debt, and attracted foreign aid and investment. The 1970s oil price raises provided an export revenue windfall that contributed to sustained high economic growth rates, averaging over 7% from 1968 to 1981. Following further reforms in the late 1980s, foreign investment flowed into Indonesia, particularly into the rapidly developing export-oriented manufacturing sector, and from 1989 to 1997, the Indonesian economy grew by an average of over 7%.

During the Asian financial crisis there were sudden and large capital outflows leading the rupiah to go into free fall. Against the US dollar, the Indonesian rupiah dropped from about Rp 2,600 in late 1997 to a low point of around Rp 17,000 some months later and the economy shrank by 13.7%. These developments led to widespread economic distress and contributed to the political crisis of 1998 which saw Suharto resign as president. The rupiah later stabilised in the Rp. 8,000–10,000 range, and a slow but steady economic recovery ensued. However political instability, slow economic reform, and corruption slowed the recovery. Since 2007, however, with the improvement in banking sector and domestic consumption, national economic growth has accelerated to over 6% annually, and this helped the country weather the 2008–2009 global recession. The Indonesian economy performed strongly during the Global Financial Crisis, and in 2012 its GDP grew by over 6%<sup>57</sup>. The country regained its investment grade rating in late 2011 after losing it in the 1997. However, as of 2011, an estimated 12.5% of the population lived below the poverty line and the official open unemployment rate was 6.7%.

Transparency International has ranked Indonesia below 100 in its Corruption Perceptions Index.

Indonesia has had strong growth in GNI per capita after the Asian financial crisis of 1997–98.

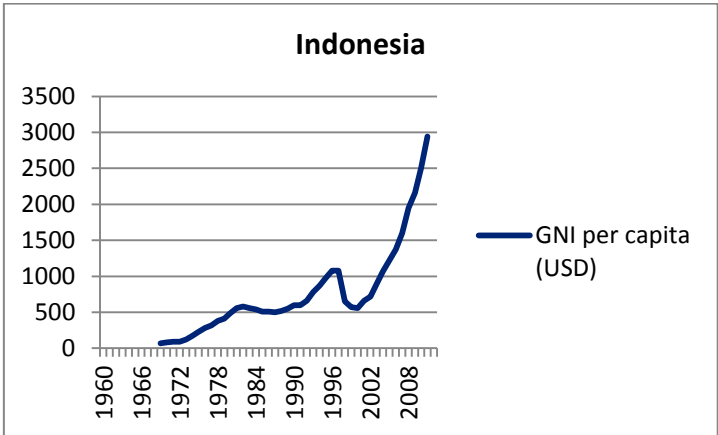


Figure 6: GNI per capita, Atlas and PPP (Purchasing Power Parity) method (current US\$). Source: World Bank

<sup>57</sup> Index Mundi 2013



## **Debt situation**

In recent years, the Indonesian government has promoted conservative fiscal policies, resulting in a debt-to-GDP ratio of less than 25%, a fiscal deficit below 3%, and historically low rates of inflation. Fitch and Moody's upgraded Indonesia's credit rating to investment grade in December 2011.

## **Evaluation**

As described in the introduction of this section, the credits granted to Indonesia had special requirements for credit time, but also for interest rates and grace period. More precisely, Indonesia required, through the INPRES 8 rules of 1994, the financial agreement to have a credit time of no less than 25 years (including a grace period for seven years) and that the interest rate should not exceed 3.5 per cent.

The five credits subject to this audit were granted in the period 1990-96. All of them are mixed credits approved by Norad, and guaranteed under GIEK's ordinary guarantee scheme. Due to fierce international credit competition, the duration of the credits was exceptionally long, which required a special approval from the Norwegian Ministry of Finance. Four of the contracts were based on Norwegian maritime technology and promoted actively by the Norwegian government. At the same time, the oil-rich Indonesian government was actively searching for modern technology.

Some of the projects comprised new technology which had not been sufficiently tested elsewhere, and ran into difficulties when applied in Indonesia. In its evaluation report from 2000, FAFO concluded that only the land-based project could be considered as successful, whereas the remainder "faced a number of obstacles that have resulted in performances well below those anticipated at project inception stage. In 1997, the Indonesian economy was struck by the Asian Financial Crisis. A rapidly declining currency, spiralling public and private sector debt, and associated political crises forced dramatic cuts in government expenditure. The consequent lack of recurrent operating and maintenance funding is clearly responsible for the inability of most of these mixed credit (MC) projects to operate according to design capacity. However, some projects also appear to have been plagued by fundamental problems in the areas of training, technology transfer, and institution building.

The priority list of officially sanctioned development projects is developed by the National Planning Development Agency (BAPPENAS), and is published in its *Blue Book*. In theory at least, these projects have been analysed by relevant government departments, non-governmental institutions, and state-owned corporations. As regards Norwegian MC for Indonesia, it is clear that some form of co-operation was established between the end user and the potential Norwegian supplier and/or Norwegian authorities well before the project appeared in the *Blue Book*. A close relationship also seems to have existed throughout negotiations relating to technical specifications, pricing, training, and other contractual arrangements. As a consequence, it was unlikely that the project would be submitted to international competitive bidding procedures. In addition, the field mission gained the impression that some projects were "adopted" by high-ranking individuals who took a personal interest in securing the projects' appearance in the *Blue Book*. This could have led to inappropriate investments in the context of enhancing aid delivery and encouraged corruption.

In Indonesia, the projects listed in the development plans may contain projects not related to the plan. In 1988, the first Indonesian project to receive funding from Norwegian MCs concerned an application for a "turnkey" wave power plant. The project was valued at NOK

53.3 million (70 per cent of which was to be supplied by Norway as the MC loan). This project was not listed in the Bappenas *Blue Book*, but the project loan agreement was nevertheless eventually concluded in 1995. The Norwegian supplier's choice of location for the plant was then found to be inappropriate and an alternative site had to be found. Work stalled when two-thirds of the loan had already been spent. The plant is still not built and is currently the subject of arbitration".

### **Findings from Deloitte Indonesia**

Deloitte Indonesia has, under instruction from the central audit team, undertaken a review of the five Indonesian credits in scope for the debt audit. The Indonesian team conducted an interview with the Ministry of Finance contact responsible for administering Norwegian loans and reviewed any available supporting documentation for the original loan processes. The responses given by the Indonesian Ministry of Finance as well as supporting documentation, if any, were then assessed against relevant UN Principles.

### ***Overview of the Indonesian process and comparison to UN Principles***

Certain relevant UN Principles are highlighted below and compared to the Indonesian processes in place in the work performed by Deloitte Indonesia.

#### **Principle 8 Agency**

- The Indonesian system for loans and grants is divided into two functions
  - Project management and
  - Funding or loan management.
- Process and responsibilities are defined:
  - BAPPENAS (Indonesian Department of Planning and Development) assesses the project proposal, including the potential beneficial effects of the project for the Indonesian people
  - The potential beneficiary prepares a feasibility study for review and approval by BAPPENAS
  - If BAPPENAS approves, The Ministry of Finance negotiates the terms and conditions of the loan and enters a loan agreement

#### **Principle 10 Transparency**

- Process and responsibilities are defined:
  - BAPPENAS assesses the project proposal and feasibility study
  - If BAPPENAS approves, The Ministry of Finance negotiates the terms and conditions of the loan and enters a loan agreement

#### **Principle 11 Disclosure and publication**

- All approved projects and loans should be published by BAPPENAS on publicly available website (Ministry of Finance of the Republic of Indonesia, Directorate General of Debt Management<sup>58</sup>)

#### **Principle 12 Project Financing**

- Feasibility studies should be conducted before entering a loan agreement
- All approved projects and loans should be published by BAPPENAS on publicly available website (Ministry of Finance of the Republic of Indonesia, Directorate General of Debt Management)

#### **Principle 13 Adequate Management and Monitoring**

- Monthly progress report submitted to Beneficiary and BAPPENAS

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<sup>58</sup> Ministry of Finance of the Republic of Indonesia, Directorate General of Debt Management: <http://www.djpu.kemenkeu.go.id/index.php/site/index>

- Audit conducted by The Audit Board of Indonesia once the project has been completed.

Principle 14 Avoiding Instances of Over-borrowing

- BAPPENAS studies the potential benefits for the Indonesian people. The Ministry of Finance assesses whether the terms and conditions of the loan are favourable to Indonesia.

Principle 15 Restructuring

- Indonesia has conducted three significant debt restructuring processes, the last of which was in connection with the Tsunami in 2004.

***Relevance for Indonesian debt audit contracts***

Due to the age of the contracts and the fact the system has undergone significant changes in the past few years, the Indonesian team were unable to obtain key documents other than the original loan agreements between the Republic of Indonesia and Eksportfinans and some information regarding project funding and approval. Information regarding project review before approval and ex-post project performance has not been found for any of the contracts. It has therefore not been possible to respond in detail to the loan contract processes other than noting that the Directorate General of Debt Management website does contain information regarding funding received and projects approved by the Government.

**Main Findings**

The most noteworthy findings from our assessment of the Indonesian guarantees were in connection with the wave power plant project as follows:

- Doubts were expressed early in the process EKUIN, the Indonesian Coordinating Department of Finance, Economy and Industry regarding the commercial viability of the project. The finding was noted through reviewing a letter from the Norwegian Embassy to Norad in 1991 and stated that there was not currently such a type of wave energy power plant in commercial use and that the project should be classified as R&D and that the risk should be borne by either the exporter or the Norwegian authorities. If it could be proved that the product was commercially viable in Indonesia then EKUIN would have no objections to allowing the project to go ahead under the expectation of fulfilment of Inpres-8 rules. Other strong arguments in favour of supporting the project were put forward by the Norwegian Embassy in the same letter
- This was confirmed in a letter from the exporter to GIEK 28.5.91 which stated that it was therefore necessary to improve the financial package on offer as well as to launch the planned feasibility study (wave measurement programme)
- Decision by GIEK's board of directors 18.6.91 was to improve the financial offer so that it was in line with Inpres-8 rules (extended credit time, grace period and below market interest rate)
- EKUIN later changed their opinion on the project and approved 8.6.95
- Norad, GIEK and Eksportfinans approved in 1995

Our findings appear to suggest that despite initial doubts raised on the Indonesian side over the commercial viability or suitability of the wave power plant for Indonesia, an improved financial offer in line with Indonesian rules as well as further developments, including a state visit from Norway and sustained interest from the exporter, the project was finally approved on both sides.

**Table 6: Main findings - Indonesia**

Guarantee Information	Contract Case	Missing Documents	Degree of compliance with Previous GIEK	Degree of compliance with UN Principles	Degree of compliance with Current GIEK
<ul style="list-style-type: none"> <li>- Buyer's credit guarantee</li> <li>- Policy: 1995</li> <li>- Guaranteed amount: NOK 29.300.000</li> <li>- Buyer: Badan Pengkajian Dan Penerapan Teknologi (BPPT)</li> <li>- Applicable guidelines: AO – 1994</li> <li>- Mixed credit approved by Norad</li> </ul>	Wave Power Project / Ocean Wave Energy Power Plant (tapered channel type)	<ul style="list-style-type: none"> <li>- Approval by Ministry of Trade to increase countrywide loan limit for Indonesia to MNOK 650</li> </ul>	<ul style="list-style-type: none"> <li>- High degree of compliance. Following observations highlighted:                             <ul style="list-style-type: none"> <li>• <i>Norad approved the project for mixed credit and thereby made an assessment of the developmental effects of the project Initial doubts expressed in letter from Norwegian Embassy in Jakarta to Norad regarding Indonesian EKUIN (Coordinating Department of Finance, Economy and Industry. EKUIN classified wave power project as R&amp;D and wanted Norway not Indonesia to take the risk. Later in process EKUIN changed opinion and approved project. Norwegian institutions agreed to change normal lending and credit terms to satisfy Indonesian Inpres-8 rules (normal practice for countries lending to Indonesia at the time).</i></li> <li>• <i>Norad undertook project evaluations but cannot conclude that GIEK</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Partial degree of compliance. Following observations highlighted:                             <ul style="list-style-type: none"> <li>• <i>Agency, Informed Decisions and Due Authorisation – Lenders: Project information was provided to Indonesian authorities as debtor in this contract but cannot assess whether this was sufficient information</i></li> <li>• <i>Project financing – Lenders: project information made available to Norwegian lenders. No evidence to suggest they performed own ex ante project investigations</i></li> <li>• <i>Debt restructurings – Lender: active efforts have been made to restructure the outstanding debt owed by Indonesia</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Generally high degree of compliance with OECD - AOSEC. Exceptions noted:                             <ul style="list-style-type: none"> <li>• <i>Classification of sovereign risk and buyer risk</i></li> <li>• <i>Assessment of project's commercial viability</i></li> <li>• <i>Cannot conclude from available information that notification was sent</i></li> </ul> </li> <li>- Partial compliance with OECD – CA.</li> <li>- Low degree of compliance with Sustainable Lending Principles:                             <ul style="list-style-type: none"> <li>• <i>Argument presented by exporter that the project and respective loan application that supported Indonesia's economic and social progress without endangering its financial future and long-term development prospects. However, available information not detailed or extensive enough to conclude that this principle followed</i></li> </ul> </li> </ul>

Guarantee Information	Contract Case	Missing Documents	Degree of compliance with Previous GIEK	Degree of compliance with UN Principles	Degree of compliance with Current GIEK
			<i>undertook own project evaluations or an evaluation of the buyer or debtor in line with § 8 Risiko in AO – 1994</i>		<i>appropriately</i>
<ul style="list-style-type: none"> <li>- Buyer's Credit Guarantee</li> <li>- 1991/1992</li> <li>- Guaranteed amount: NOK 169.100.000</li> <li>- Buyer: Badan Koordinasi Survey Dan Pemetaan Nasional (BAKOSURTANAL)</li> <li>- Applicable guidelines: GAO – 1980</li> <li>- Mixed credit approved by Norad</li> </ul>	<ul style="list-style-type: none"> <li>- Digital mapping of Java, Bali, Nusa Tenggara and Timor.</li> </ul>	<ul style="list-style-type: none"> <li>- Purchase agreement</li> </ul>	<ul style="list-style-type: none"> <li>- High degree of compliance. No exceptions noted.</li> </ul>	<ul style="list-style-type: none"> <li>- Generally low degree of compliance. Some principles have been covered in part: <ul style="list-style-type: none"> <li>▪ 2. <i>Informed Decisions: partly covered by loan agreement</i></li> <li>▪ 4. <i>Responsible credit decisions: partly covered by that Indonesia Ministry of Finance is debtor, and that GIEK has evaluated Indonesia's economy and political situation.</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Generally high degree of compliance with OECD – AOSEC.</li> <li>- Exceptions noted: <ul style="list-style-type: none"> <li>• <i>Classification of sovereign risk and buyer risk</i></li> <li>• <i>Assessment of if the project is commercially viable</i></li> <li>• <i>Notification</i></li> </ul> </li> <li>- Partial compliance with OECD – CA.</li> <li>- Low degree of compliance with OECD Principles on Sustainable Lending.</li> </ul>
<ul style="list-style-type: none"> <li>- Buyer's credit guarantee</li> <li>- Policy: 1996</li> <li>- Guaranteed amount: NOK 70.900.000</li> <li>- Buyer: Badan Pengkajian Dan Penerapan Teknologi (BPPT)</li> <li>- Applicable</li> </ul>	<ul style="list-style-type: none"> <li>- Seawatch – environmental monitoring of Indonesian waters</li> </ul>	<ul style="list-style-type: none"> <li>- Final decision on mixed credit from Norad</li> </ul>	<ul style="list-style-type: none"> <li>- Generally high degree of compliance. Following observations highlighted: <ul style="list-style-type: none"> <li>• <i>Norad undertook project evaluations but no documentation to show that GIEK undertook own project evaluations or an evaluation of the buyer or debtor in line with § 8 Risiko in AO – 1994</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Generally low degree of compliance noted. Some principles covered in part: <ul style="list-style-type: none"> <li>• <i>Agency, Informed Decisions and Due Authorisation – Lenders: Project information was provided to Indonesian authorities as debtor in this contract.</i></li> <li>• <i>Debt restructurings – Lender: active efforts have</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Generally high degree of compliance with OECD – AOSEC. Exceptions noted: <ul style="list-style-type: none"> <li>• <i>Agreed to commence loan pay-outs before 15% down payment made</i></li> <li>• <i>35% local costs accepted by lender authorities</i></li> <li>• <i>Sovereign risk</i></li> </ul> </li> </ul>

Guarantee Information	Contract Case	Missing Documents	Degree of compliance with Previous GIEK	Degree of compliance with UN Principles	Degree of compliance with Current GIEK
<p>guidelines: AO – 1994</p> <p>- Mixed credit approved by Norad</p>				<p><i>been made to restructure the outstanding debt owed by Indonesia</i></p>	<p><i>assessment and buyer risk classification</i></p> <ul style="list-style-type: none"> <li>• <i>Project eligibility addressed in part as some evidence found on commercial viability of project but cannot see how this was evaluated</i></li> </ul> <p>- Partial compliance with OECD – CA.</p> <p>- Low degree of compliance with Sustainable Lending Principles</p>
<p>- Buyer's Credit Guarantee</p> <p>- 1995</p> <p>- Guaranteed amount: NOK 312.550.000</p> <p>- Buyer: Badan Koordinasi Survey Dan Pemetaan Nasional (BAKOSURTANAL)</p> <p>- Applicable guidelines: AO - 1994</p> <p>- Mixed credit</p>	<p>- Hydrographical (marine) Mapping</p> <p>- UN's "Law of the Sea Convention - UNCLOS '82" (Havrettstraktaten), which entered into force in 1994, ordered all coastal states to manage their economic zones and their continental shelves in an efficient manner.</p>	<p>- Signed policy</p> <p>- Letter of approval on mixed credit from NORAD</p> <p>- Purchase agreement</p>	<p>- High degree of compliance. Exception noted:</p> <ul style="list-style-type: none"> <li>• <i>Risk assessment of the country and the debtor is covered by GIEK, but an assessment of the project and the buyer is not documented in the folder. GIEK has however described the project in a board memorandum (deviation from § 8 Risk, AO - 1994).</i></li> </ul>	<p>- Generally low degree of compliance. Some principles have been covered in part:</p> <ul style="list-style-type: none"> <li>• <i>4. Responsible credit decisions: partly covered by that Indonesia Ministry of Finance is debtor, and that GIEK has evaluated Indonesia's economy and political situation.</i></li> </ul>	<p>- Generally high degree of compliance with OECD – AOSEC. Exceptions noted:</p> <ul style="list-style-type: none"> <li>• <i>Classification of sovereign risk and buyer risk</i></li> <li>• <i>Assessment of if the project is commercially viable</i></li> <li>• <i>Notification</i></li> </ul> <p>- Partial degree of compliance with OECD – CA.</p> <p>- Low degree of compliance with OECD Principles on Sustainable Lending.</p>

Guarantee Information	Contract Case	Missing Documents	Degree of compliance with Previous GIEK	Degree of compliance with UN Principles	Degree of compliance with Current GIEK
<ul style="list-style-type: none"> <li>- Buyer's Credit Guarantee</li> <li>- 1995/1996</li> <li>- Guaranteed amount: NOK 156.150.000</li> <li>- Buyer: Indonesian Institute of Science (LIPI)</li> <li>- Applicable Guidelines: AO – 1994</li> <li>- Mixed credit approved by Norad</li> </ul>	<ul style="list-style-type: none"> <li>- Multipurpose research vessel for use in mapping and research of the marine area around Indonesia.</li> </ul>	<ul style="list-style-type: none"> <li>- Signed policy</li> </ul>	<ul style="list-style-type: none"> <li>- High degree of compliance.</li> </ul>	<ul style="list-style-type: none"> <li>- Generally low degree of compliance. Some principles have been covered in part: <ul style="list-style-type: none"> <li>• 4. <i>Responsible credit decisions: partly covered by that Indonesia Ministry of Finance is debtor, and that GIEK has evaluated Indonesia's economy and political situation.</i></li> <li>• 5. <i>Project financing: partly covered by NORAD's assessment of the projects potential social and economic effects.</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Generally high degree of compliance with OECD – AOSSEC. Exceptions noted: <ul style="list-style-type: none"> <li>• <i>Classification of sovereign risk and buyer risk</i></li> <li>• <i>Assessment of if the project is commercially viable</i></li> </ul> </li> <li>- Partial compliance with OECD – CA. <ul style="list-style-type: none"> <li>• 4. <i>General Principles: partly covered by Norad's assessment of the projects social impacts.</i></li> <li>• 10. <i>Potential environmental and social impacts: Partly covered by NORAD's assessment.</i></li> </ul> </li> <li>- Partial degree of compliance with OECD Principles on Sustainable Lending. <ul style="list-style-type: none"> <li>• <i>Norad's assessment of the projects potentially social economic effects.</i></li> </ul> </li> </ul>

## Myanmar

The five contracts subject to this audit date back to the late 1970s, and amounts to a total value of MNOK 482.2.

Year	MNOK
1978	47.5
1978	135.32
1978	89.17
1980	107.15
1980	13.02
<b>Total</b>	<b>482.16</b>

Four of the five contracts are ship contracts which were part of the Norwegian ship export campaign and were financed on favourable credit terms (interest subsidies). One of these was recommended by Norad under the special guarantee scheme for developing countries, whereas the other ship export guarantees were decided by the Ministry of Trade without the approval of Norad. There were technical problems with some of the ship designs. The last contract (supply of gas turbines for electricity production) was financed on commercial terms, but approved by Norad under the special guarantee scheme for developing countries

### *Political situation/governance*

The nation became an independent republic in 1948. General Ne Win took power as president after a military coup in 1962, and led the country until 1988. Military dictatorship continued until 2012, when democratic reforms were introduced. The military regime was characterised by numerous violations of human rights and rampant corruption.

Myanmar is ranked as one of the most corrupt countries in the world, and is number of 172 out of the 176 countries and territories in the Corruption Perception Index<sup>59</sup>.

### *Economic development*

Myanmar is one of the poorest nations in Southeast Asia, suffering from decades of stagnation, mismanagement and isolation. The lack of an educated workforce skilled in modern technology contributes to the growing problems of the economy. The country lacks adequate infrastructure. Energy shortages are common throughout the country, and only 25% of the country's population has electricity. The military government had the majority stakeholder position in all of the major industrial corporations of the country (from oil production and consumer goods to transportation and tourism). Inflation is a serious problem for the economy.

In recent years, both China and India have attempted to strengthen ties with the government for economic benefit. Many nations, including the European Union, imposed investment and trade sanctions on Myanmar, which have been lifted after the reforms of 2012<sup>60</sup>.

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<sup>59</sup> Transparency International 2012 "Corruption Perceptions Index 2012", Number 1 is perceived as least corrupt and the 176 is the most corrupt.

<sup>60</sup> No data for GNI per capita is available for Myanmar.



### ***Debt situation***

In January 2013, 20 of the world's largest creditor countries announced that they would be cutting nearly half of Myanmar's total foreign debt, worth some six billion USD. In April 2013, The Norwegian government proposed to Parliament to cancel all of Myanmar's debt to Norway.

Myanmar is considered a Low-Income Country (LIC) and is thereby subject to IMF/World Bank Concessional Requirements (IDA only).

The Norwegian Parliament confirmed the cancellation of Myanmar's outstanding loan obligations in June 2013.

### **Main findings**

The most noteworthy findings from our assessment of the Myanmar contracts were in connection with several contracts granted as part of the ship export campaign of the late 1970s:

- For one of the guarantees, the building of a tanker was granted after GIEK had been made aware of defects on the tankers, including the fact that some of the ships had rolled over when launching. The centre of gravity was misplaced on some of the ships. This was noted in findings in a report prepared by the exporter to GIEK.
- In approving one of the guarantees, Norad noted that the conditions in Burma were well placed for delivering the vessels in question and that this conclusion was based amongst other things on an assessment of the resource and market base, earning capacity, land and vessel facilities, manpower and other operational assumptions. Norad also suggested that a number of modifications in line with Burmese requirements should be made to the vessels under order to make them suitable for local conditions.
- Ministry of Trade was requested by GIEK to either prioritise between three related contracts to Myanmar or to increase the country loan limit to over NOK 300 mill. The extraordinary risk attached to the projects was highlighted by GIEK. This request was made without a recommendation having been obtained by Norad, explained as being due to time pressures. Norad later approved the guarantee. The Ministry of Trade also approved the projects in question, thereby increasing the loan limit for Myanmar.
- An employee of GIEK in a handwritten note in November 1977 initially expressed deep scepticism towards the Myanmar projects and suggested that the cases had been cast upon them from higher up in the system.

These findings appear to show that a major fault in the design of at least one of the exports may have been overlooked and that the guarantee was issued regardless. Norad was partly involved in the ship export guarantees although our observations also support the fact that the Ministry of Trade made full use of the Parliamentary resolution of 19 November 1976 permitting them the right to approve export guarantees without an evaluation or recommendation from Norad.

**Table 7: Main findings - Myanmar**

Guarantee Information	Contract Case	Missing Documents	Degree of compliance with Previous GIEK	Degree of compliance with UN Principles	Degree of compliance with Current GIEK
<ul style="list-style-type: none"> <li>- Buyer's credit guarantee</li> <li>- Policy: 1978</li> <li>- Guaranteed amount: NOK 47.500.000</li> <li>- Buyer: Burma Five Star Corporation</li> <li>- Applicable guidelines: GSO – 1969</li> <li>- Ship export campaign</li> <li>- Final guarantee decision by Ministry of Trade</li> </ul>	<p>Supply of two cargo liners and a coastal tanker.</p>	<ul style="list-style-type: none"> <li>- Country assessment for Myanmar including country risk classification</li> <li>- Confirmation of signatory authorisations from Myanmar</li> <li>- Follow-up documentation from Myanmar regarding Legal Opinion</li> </ul>	<ul style="list-style-type: none"> <li>- High degree of compliance. Following observations highlighted: <ul style="list-style-type: none"> <li>• <i>Ministry of Trade approved guarantee and interest subsidies in line with applicable Parliamentary resolution allowing the Ministry authority to decide guarantee without an approval from Norad.</i></li> <li>• <i>Legal opinion obtained by Eksportfinans with exception noted: Myanmar Foreign Trade Bank is statutory corporation, necessary that central law office confirms that your bank has obtained any and all necessary corporate consents, authorisation, licences and sanctions. Have not seen follow-up documentation from Myanmar.</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Low degree of compliance. Some principles have been covered in part <ul style="list-style-type: none"> <li>• <i>Agency and Informed Decisions – Lenders: Project information was provided to Burmese authorities. Insufficient information available to assess whether appropriate efforts were made to satisfy the principles but partial compliance is noted.</i></li> <li>• <i>Due Authorisation – Lenders: Legal Opinion was obtained from Burma with exception noted, no follow-up on file</i></li> <li>• <i>Debt restructurings – Lender: active efforts have been made to restructure the outstanding debt owed by Myanmar</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Generally high degree of compliance with OECD - AOSEC. Exceptions noted: <ul style="list-style-type: none"> <li>• <i>Classification of sovereign risk and buyer risk</i></li> <li>• <i>Project eligibility</i></li> <li>• <i>Notification</i></li> </ul> </li> <li>- Low degree of compliance with OECD – CA.</li> <li>- Low degree of compliance with Sustainable Lending Principles</li> </ul>
<ul style="list-style-type: none"> <li>- Buyer's credit guarantee</li> <li>- Policy: 1978</li> <li>- Guaranteed</li> </ul>	<p>Supply of various vessels including cargo and passenger vessels, a tanker and an ocean-going tug</p>	<ul style="list-style-type: none"> <li>- GIEK country assessment for Myanmar</li> <li>- State guarantee</li> </ul>	<ul style="list-style-type: none"> <li>- High degree of compliance. Following observations highlighted: <ul style="list-style-type: none"> <li>• <i>Letter from GIEK to Ministry of Trade</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Low degree of compliance. Some principles partially covered: <ul style="list-style-type: none"> <li>• <i>Agency and Informed Decisions – Lenders:</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Generally high degree of compliance with OECD – AOSEC. Some exceptions noted:</li> </ul>

Guarantee Information	Contract Case	Missing Documents	Degree of compliance with Previous GIEK	Degree of compliance with UN Principles	Degree of compliance with Current GIEK
<p>amount: NOK 89.166.000</p> <ul style="list-style-type: none"> <li>- Buyer: Burma Five Star Ship.Corp.</li> <li>- Applicable guidelines: GSO – 1969</li> <li>- Ship export campaign</li> <li>- Final guarantee decision by Ministry of Trade</li> </ul>			<p><i>January 1978 provided overview of the Myanmar ship export applications (9775, 9780 and 9778) and pointed out the extraordinary risk attached. Due to time pressures the Ministry was asked to make a final decision in the absence of a recommendation from and to consider increasing the country limit for Myanmar due to the projects exceeding NOK 300 mill</i></p> <ul style="list-style-type: none"> <li>• <i>Ministry of Trade authorised on a grant basis NOK 5.000.000 to be placed at the disposal of the Burmese Authorities for training or training equipment connected with the further development of the Burmese maritime and fishing industries, and be distributed between the two industries on the basis of their respective utilisation of the Norwegian credits - at the outset this is indicated as being NOK 4.000.000 for the maritime industry and NOK 1.000.000 for the</i></li> </ul>	<p><i>Project information was provided to Burmese authorities. Insufficient information available to assess whether appropriate efforts were made to satisfy the principles but partial compliance is noted.</i></p> <ul style="list-style-type: none"> <li>• <i>Debt restructurings – Lender: active efforts have been made to restructure the outstanding debt owed by Myanmar</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>Requirement for maximum local cost proportion of 30%</i></li> <li>• <i>Classification of sovereign risk and buyer risk</i></li> <li>• <i>Project eligibility</i></li> </ul> <ul style="list-style-type: none"> <li>- <i>Low degree of compliance with OECD – CA.</i></li> <li>- <i>Low degree of compliance with Sustainable Lending Principles</i></li> </ul>

Guarantee Information	Contract Case	Missing Documents	Degree of compliance with Previous GIEK	Degree of compliance with UN Principles	Degree of compliance with Current GIEK
			<i>fishing industry.</i>		
<ul style="list-style-type: none"> <li>- Buyer's credit guarantee</li> <li>- Policy: 1978</li> <li>- Guaranteed amount: NOK 135.318.000</li> <li>- Buyer: Peoples Pearl and Fishery</li> <li>- Applicable guidelines: GSO – 1969</li> <li>- Ship export campaign</li> <li>- Project approved by Norad</li> <li>- Final guarantee decision by Ministry of Trade</li> </ul>	Supply of fishing vessels Part of ship export campaign	<ul style="list-style-type: none"> <li>- Commitment document from GIEK</li> <li>- GIEK's country assessment of Myanmar (although some relevant information provided by Norad)</li> <li>- State guarantee</li> </ul>	<ul style="list-style-type: none"> <li>- Generally high degree of compliance. Following observations highlighted: <ul style="list-style-type: none"> <li>• <i>GIEK handwritten note in November 1977 described deep scepticism towards the Burmese projects and suggested that responsibility had been cast down upon them from higher up in the [Norwegian] system</i></li> <li>• <i>Norad approved interest subsidies and guarantee from GIEK</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Low degree of compliance. Some principles partially covered: <ul style="list-style-type: none"> <li>• <i>Agency and Informed Decisions – Lenders: Project information was provided to Burmese authorities. Insufficient information available to assess whether appropriate efforts were made to satisfy the principles but partial compliance noted.</i></li> <li>• <i>International Cooperation – Lenders: No UN sanctions in place at time of issuing guarantee</i></li> <li>• <i>Debt restructurings – Lender: active efforts have been made to restructure the outstanding debt owed by Myanmar</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Partial compliance with OECD – AOSEC. Exceptions noted: <ul style="list-style-type: none"> <li>• <i>Classification of sovereign risk and buyer risk</i></li> <li>• <i>Project eligibility</i></li> <li>• <i>Notification</i></li> </ul> </li> <li>- Partial degree of compliance with OECD – CA with following observation: <ul style="list-style-type: none"> <li>• <i>Information provided in Norad report relevant for analysis of social and environmental factors relating to project in Myanmar.</i></li> </ul> </li> <li>- Low degree of compliance with Sustainable Lending Principles</li> </ul>
<ul style="list-style-type: none"> <li>- Buyer's Credit Guarantee</li> <li>- 1979/1980</li> </ul>	- Construction of tanker	<ul style="list-style-type: none"> <li>- Signed guarantee commitment</li> <li>- Signed policy</li> <li>- Country note</li> </ul>	<ul style="list-style-type: none"> <li>- High degree of compliance. Underline the following observations: <ul style="list-style-type: none"> <li>• <i>The board of GIEK</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Generally low degree of compliance. Some principles have been covered in part:</li> </ul>	<ul style="list-style-type: none"> <li>- Generally high degree of compliance with OECD – AOSEC. Exceptions noted:</li> </ul>

Guarantee Information	Contract Case	Missing Documents	Degree of compliance with Previous GIEK	Degree of compliance with UN Principles	Degree of compliance with Current GIEK
<ul style="list-style-type: none"> <li>- Guaranteed amount: NOK 13.015.000</li> <li>- Buyer: Myanmar Foreign Trade Bank</li> <li>- Applicable Guidelines: GSO – 1969</li> <li>- Interest subsidies</li> <li>- Ship Export Campaign</li> </ul>		<ul style="list-style-type: none"> <li>- Document for classification of country risk</li> </ul>	<p><i>emphasize that the risk of investments with such a small cash amount and long credit time is large.</i></p> <ul style="list-style-type: none"> <li>• <i>Policy was granted after GIEK was made aware of defects on the tankers, some of the ships rolled over when launching. The centre of gravity was misplaced on some of the ships (findings from report prepared by North West Engineering to GIEK).</i></li> <li>• <i>Ministry of Trade approved guarantee and interest subsidies in line with applicable Parliamentary resolution (Stortingsvedtak av 19. november 1976 § 3.3.2.1) allowing the Ministry authority to decide guarantee without an approval from NORAD, as stipulated in § 3, GSO 1969.</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>2. Informed Decisions: partly covered by loan agreement</i></li> <li>• <i>4. Responsible credit decisions: partly covered by that Myanmar Foreign Trade Bank is debtor, and that GIEK has evaluated Myanmar's economy and political situation.</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>Classification of sovereign risk and buyer risk</i></li> <li>• <i>Assessment of if the project is commercially viable</i></li> <li>• <i>Notification</i></li> <li>- Low degree of compliance with OECD – CA.</li> <li>- Low degree of compliance with OECD Principles on Sustainable Lending.</li> </ul>
<ul style="list-style-type: none"> <li>- Buyer's Credit Guarantee</li> <li>- 1980</li> <li>- Guaranteed amount: USD 18.700.000</li> </ul>	<ul style="list-style-type: none"> <li>- Gas turbine/generator sets</li> <li>- Delivery of 8 units KG2 gas turbines to Myanmar Oil Corporation (USD 6 million) and 14</li> </ul>	<ul style="list-style-type: none"> <li>- Application to GIEK</li> <li>- Application to, and answer from, UD on cash and education grant</li> <li>- Final documentation on interest subsidies (it is only stated in</li> </ul>	<ul style="list-style-type: none"> <li>- High degree of compliance.</li> </ul>	<ul style="list-style-type: none"> <li>- Generally low degree of compliance. Some principles have been covered in part: <ul style="list-style-type: none"> <li>• <i>2. Informed Decisions: partly covered by loan agreement</i></li> <li>• <i>4. Responsible credit decisions: partly covered</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Generally high degree of compliance with OECD – AOSAC. Exceptions noted: <ul style="list-style-type: none"> <li>• <i>No documentation on local costs</i></li> <li>• <i>Classification of sovereign risk and</i></li> </ul> </li> </ul>

Guarantee Information	Contract Case	Missing Documents	Degree of compliance with Previous GIEK	Degree of compliance with UN Principles	Degree of compliance with Current GIEK
<ul style="list-style-type: none"> <li>- Buyer: Myanmar Foreign Trade Bank</li> <li>- Applicable Guidelines: GSO – 1969</li> <li>- Guarantee under GSO approved by Norad and Ministry of Trade</li> <li>- Interest subsidies</li> </ul>	<p>units KG5 gas turbines to Electric Power Corporation (USD 16 million).</p>	<p>letter from Ministry of Trade that cash grant will be provided, not the size)</p> <ul style="list-style-type: none"> <li>- Signed guarantee commitment</li> <li>- Signed policy</li> <li>- Purchase agreement</li> </ul>		<p><i>by that the Debtor is Myanmar Foreign Trade Bank, and that GIEK has evaluated Myanmar’s economy and political situation.</i></p>	<p><i>buyer risk.</i></p> <ul style="list-style-type: none"> <li>• <i>Assessment of if the project is commercially viable.</i></li> <li>• <i>No final information on cash and education grant</i></li> <li>• <i>Notification</i></li> </ul> <p>- Partial degree of compliance with OECD – CA.</p> <ul style="list-style-type: none"> <li>• <i>Norad has (with information from the application) emphasised the environmental and social aspects of the project. No throughout analysis, but Norad has concluded that the project may have positive social and environmental impacts. Partly in compliance with “II General Principles, 4”.</i></li> </ul> <p>- Partial degree of compliance with OECD Principles on Sustainable Lending.</p> <ul style="list-style-type: none"> <li>• <i>Norad emphasised the environmental</i></li> </ul>

Guarantee Information	Contract Case	Missing Documents	Degree of compliance with Previous GIEK	Degree of compliance with UN Principles	Degree of compliance with Current GIEK
					<p><i>and social aspects of the project (with information from the application). No throughout analysis, but Norad concluded that the project may have positive social and environmental impacts. Partly reflects the sustainable lending practices.</i></p>

## Pakistan

Altogether eight contracts in our audit portfolio were entered with Indonesia from 1990 to 1998, with a total value of MNOK 317.9.

Year	MNOK
1990	9,8
1992	125,4
1994	10,2
1995	28,1
1997	10.0
1997	12.7
1998	121.8
<b>Total</b>	<b>317.9</b>

All but one contract are guaranteed under GIEK's ordinary guarantee scheme, and six were approved by as mixed credits. Five contracts were concluded by the same Norwegian company for the supply of modern communication equipment. Two contracts comprise consultancy services in connection with hydro power plants.

### *Political situation/governance*

Pakistan became an independent nation in 1947. A civil war in 1971 resulted in the secession of East Pakistan as the new country of Bangladesh. The Pakistani military establishment has played an influential role throughout Pakistan's political history. Presidents brought in by military coups ruled in 1958–1971, 1977–1988 and 1999–2008. Benazir Bhutto was elected president in 1988 and re-elected in 1993. She had to resign in 1996 due to a corruption scandal, and was assassinated in 2008. The country is plagued by corruption. From 1999 there was a military dictatorship under President Pervez Musharraf, who resigned in 2008. Asif Ali Zardari was elected president in 2008. The country at present has a parliamentary democracy. The country is a nuclear power, and has a complicated relationship with its neighbours Afghanistan and India (in the latter case in particular about the disputed region of Kashmir). It also has a serious problem of violent internal opposition.

Pakistan is ranked as number of 139 of the 176 countries and territories in the Corruption Perception Index<sup>61</sup>.

### *Economic development*

Pakistan is a rapidly developing country with a population of about 180 million. It is South Asia's second largest economy. However, after decades of war and social instability, serious deficiencies in basic services such as railway transportation and electric power generation have developed. The economy is semi-industrialized. The diversified economies of Karachi and Punjab's urban centres coexist with less developed areas in other parts of the country. Pakistan's economic growth since its inception has been varied. It has been slow during periods of civilian rule, but more dynamic during the three periods of military rule, although a foundation for sustainable and equitable growth was not formed. Inflation reached 25% in 2008 and Pakistan had to depend on an aggressive fiscal policy backed by the

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<sup>61</sup> Transparency International 2012 "Corruption Perceptions Index 2012", Number 1 is perceived as least corrupt and the 176 is the most corrupt.



International Monetary Fund to avoid possible bankruptcy. The inflation rate for the fiscal year 2010–11 was 14.1%. The trade deficit in the same year was US\$11.217 billion. According to the Bank of Pakistan, foreign investment had significantly declined by 2010 due to Pakistan's political instability and weak law and order. Pakistan has had strong growth in GNI since 2000, see Figure 7.

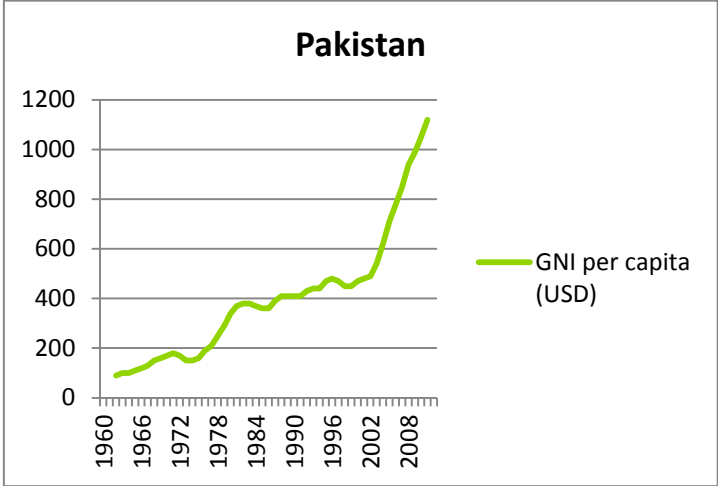


Figure 7: GNI per capita, Atlas and PPP (Purchasing Power Parity) method (current US\$). Source: World Bank

**Debt situation**

Weak fiscal effort and low growth led to mounting debt through the 1990s. This problem was compounded in the late 1990s. The Paris Club restructuring agreement in 2001 allowed for a substantial easing of the external debt service burden<sup>62</sup>. According to Pakistan's Ministry of Finance, total debt to GDP ratio stood at 59 per cent in 2008, increasing to 60 per cent in 2009 and 2010 and then dropping to 59.3 per cent in 2011. It increased again to 61.3 per cent in 2011-12. The debt burden is considered strained, but manageable.

**Main findings**

The most prominent finding of the Pakistan credits relates to the guarantee provided in connection with the contract between the exporter and the buyer, National Logistic Cell (NLC). The exporter delivered a radio line system to NLC in 1992, which was an establishment of a telecommunication system so that NLC could better exploit its transport capacity. Later it was argued, in an article published in Development Today in 1993<sup>63</sup> that NLC was controlled by the Pakistani army and that NLC were transporting both weapons and drugs (heroin). This raises the question whether or not a sufficient analysis of the buyer, NLC was done before granting the buyer's credit guarantee. The guaranteed amount was USD 21,880,000, and it was also granted mixed credit, approved by Norad.

In 1998 GIEK decided to grant a new buyer's credit guarantee, amounting to USD 21,250,000, for the second phase of the radio line system project to the same buyer. The audit team cannot find evidence that either GIEK or Norad made an assessment of the criticism of NLC noted above before issuing the new guarantee to NLC. However the audit team did find in Norad's archive, that Norad received a final report with a project evaluation of the first

<sup>62</sup> IMF Country Report No. 05/408

<sup>63</sup> Article in Development Today by Øivind Fjeldstad, Feb. 1993 (article found in GIEK-archive)

phase of the project. This, however, does not amount to evidence that a thorough analysis of the buyer, NLC was conducted.

**Table 8: Main findings - Pakistan**

Guarantee Information	Contract Case	Missing Documents	Degree of compliance with Previous GIEK	Degree of compliance with UN Principles	Degree of compliance with Current GIEK
<ul style="list-style-type: none"> <li>- Buyer's Credit Guarantee</li> <li>- 1990</li> <li>- Guaranteed amount: NOK 9.750.000</li> <li>- Buyer: Pakistan Water and Power Development Authority (WAPDA)</li> <li>- Applicable Guidelines: GAO – 1980</li> <li>- Mixed credit</li> </ul>	<ul style="list-style-type: none"> <li>- Power Line Carriers</li> <li>- WAPDA is a state-owned and partially self-governing organisation with the purpose of producing and distributing electricity, as well as development and maintenance of the high voltage network in Pakistan.</li> <li>- Syndicate agreement between GIEK (50 %) and Westdeutsche Landesbank (Europa) AG (50 %) which guarantees for MNOK 9.75 each.</li> </ul>	<ul style="list-style-type: none"> <li>- Document verifying the premium amount requested by GIEK</li> </ul>	<ul style="list-style-type: none"> <li>- High degree of compliance. Underline the following observations: <ul style="list-style-type: none"> <li>• <i>GIEK issued a commitment even though a previous recourse claim on the supplier was in dispute.</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Generally low degree of compliance. Some principles are covered in part: <ul style="list-style-type: none"> <li>• <i>2. Informed Decisions: partly covered by loan agreement</i></li> <li>• <i>4. Responsible credit decisions: partly covered by that the Debtor is The President of the Islamic Republic of Pakistan, and that GIEK has evaluated Pakistan's economy and political situation.</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Generally high degree of Exceptions noted: <ul style="list-style-type: none"> <li>• <i>Classification of sovereign risk and buyer risk</i></li> <li>• <i>Assessment of if the project is commercially viable</i></li> <li>• <i>Notification</i></li> </ul> </li> <li>- Low degree of compliance with OECD – CA.</li> <li>- Low degree of compliance with OECD Principles on Sustainable Lending.</li> </ul>
<ul style="list-style-type: none"> <li>- Buyer's Credit Guarantee</li> <li>- 1991/1992</li> <li>- Guaranteed amount: USD 21.880.000 (Norad= USD 11,67 mill. and GIEK =</li> </ul>	<ul style="list-style-type: none"> <li>- Radio Line System, establishment of a telecommunication system so that NLC could better exploit its transport capacity (phase 1).</li> <li>- See separate related contract description for phase 2.</li> <li>- This is a somewhat</li> </ul>	<ul style="list-style-type: none"> <li>- Application from NLC to GIEK is not complete</li> <li>- Signed guarantee commitment</li> <li>- Exporter's declaration</li> <li>- Purchase agreement</li> <li>- Document</li> </ul>	<ul style="list-style-type: none"> <li>- High degree of compliance. Underline the following observations: <ul style="list-style-type: none"> <li>• <i>GIEK claims that the risk in projects in Pakistan is generally too high to give a guarantee, but agrees to give guarantee in combination with a Norad guarantee for USD 11,67 mill through the UO - 1989.</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Generally low degree of compliance. Some principles have been covered in part: <ul style="list-style-type: none"> <li>• <i>2. Informed Decisions: partly covered by loan agreement</i></li> <li>• <i>4. Responsible credit decisions: partly covered by that the Debtor is The President of the Islamic Republic of Pakistan, and</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Generally high degree of compliance with OECD – AOSEC. Exceptions noted: <ul style="list-style-type: none"> <li>• <i>Classification of sovereign risk and buyer risk</i></li> <li>• <i>Assessment of if the project is commercially viable</i></li> <li>• <i>Notification</i></li> </ul> </li> </ul>

Guarantee Information	Contract Case	Missing Documents	Degree of compliance with Previous GIEK	Degree of compliance with UN Principles	Degree of compliance with Current GIEK
USD 10,21 mill.) - Buyer: National Logistic Cell (NLC) - Applicable Guidelines: GAO – 1980 and UO-1989 - Mixed credit approved by Norad	special case, due to the credit amount, U.S. \$ 24.31 million, and that it is a combination of GIEK's and Norad's guarantee schemes. (Outwardly) the syndicate consists of WLB and GIEK (GIEK fronts Norad for a part of the guarantee)	verifying the premium amount requested by GIEK	<ul style="list-style-type: none"> <li>• <i>No documentation on statement from GIEK to Norad (land assessment), nor on that notification has been sent. (UO-1989, § 8)</i></li> <li>• In an article from 1993 found in the folder, National Logistic Cell is associated with dealing in drugs and weapons.<sup>64</sup></li> </ul>	<i>that GIEK has evaluated Pakistan's economy and political situation</i>	<ul style="list-style-type: none"> <li>- Degree of compliance with the OECD – CA is low.</li> <li>• <i>Norad has received a final report with a project evaluation. This is partly in compliance with the requirement of ex post reports stipulated in paragraph 32.</i></li> <li>- Degree of compliance with the OECD principles for sustainable lending is assessed as low.</li> </ul>
- Buyer's credit guarantee - 1994 - Guaranteed amount: NOK 10.188.750 - Buyer: Pakistan Water and Power Development Authority (WAPDA) - GAO	Communications media for communication over power grid	No documentation available.	No documentation available	No documentation available	No documentation available

<sup>64</sup> Article in Development Today by Øivind Fjeldstad, Feb. 1993 (article found in GIEK-archive)

Guarantee Information	Contract Case	Missing Documents	Degree of compliance with Previous GIEK	Degree of compliance with UN Principles	Degree of compliance with Current GIEK
<ul style="list-style-type: none"> <li>- Buyer's credit guarantee</li> <li>- Policy: 1995</li> <li>- Guaranteed amount: NOK 28.132.000</li> <li>- Buyer: Pakistan Water and Power Authority (WAPDA)</li> <li>- Applicable guidelines: AO – 1994</li> </ul>	Feasibility study of a 500 MW power plant	<ul style="list-style-type: none"> <li>- State guarantee</li> <li>- Legal Opinion from the Ministry of Law and Justice in Pakistan</li> </ul>	<ul style="list-style-type: none"> <li>- High degree of compliance. Following observations highlighted: <ul style="list-style-type: none"> <li>• <i>Related application to Norad for financial support for training was rejected</i></li> <li>• <i>In passing limit of NOK 400 mill with this application, GIEK assessed risk assessment of Pakistan as acceptable</i></li> <li>• <i>Norad approved mixed credit, thereby undertaking certain assessments relating to the developmental effect of the project</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Generally low degree of compliance with some partial exceptions: <ul style="list-style-type: none"> <li>• <i>Agency and Informed Decisions – Lenders: Project information was provided to Pakistani authorities. Insufficient information available to assess whether appropriate efforts were made to satisfy the principles but partial compliance noted.</i></li> <li>• <i>Debt restructurings – Lender: active efforts have been made to restructure the outstanding debt owed by Pakistan</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Generally high degree of compliance with OECD – AOSIS, with following exceptions: <ul style="list-style-type: none"> <li>• <i>Sovereign risk assessment, buyer risk assessment</i></li> </ul> </li> <li>- Low compliance with OECD – CA with following observations: <ul style="list-style-type: none"> <li>• <i>Risk assessment of the project, the buyer is not documented in the folder, but in a board note GIEK refers to a country note, which implies that an assessment of the country's economic and political situation has been conducted.</i></li> </ul> </li> <li>- Low degree of compliance with Sustainable Lending Principles</li> </ul>
<ul style="list-style-type: none"> <li>- Buyer's credit guarantee</li> <li>- Policy: 1997</li> <li>- Guaranteed amount: NOK 9.973.000</li> </ul>	Instrument for checking and monitoring system for pipelines	<ul style="list-style-type: none"> <li>- No significant missing documents</li> </ul>	<ul style="list-style-type: none"> <li>- High degree of compliance.</li> </ul>	<ul style="list-style-type: none"> <li>- Generally low degree of compliance with UN principles with some partial exceptions: <ul style="list-style-type: none"> <li>• <i>Agency and Informed Decisions – Lenders: Project information was provided to Pakistani authorities. Insufficient</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Generally high degree of compliance with OECD – AOSIS, with following exceptions: <ul style="list-style-type: none"> <li>• <i>Sovereign risk assessment, buyer risk assessment</i></li> </ul> </li> <li>- Low degree of compliance</li> </ul>

Guarantee Information	Contract Case	Missing Documents	Degree of compliance with Previous GIEK	Degree of compliance with UN Principles	Degree of compliance with Current GIEK
<ul style="list-style-type: none"> <li>- Buyer: Sui Northern Gas Pipelines Limited (SNGPL)</li> <li>- Applicable guidelines: AO – 1994</li> </ul>				<p><i>information available to assess whether appropriate efforts were made to satisfy the principles but partial compliance noted.</i></p> <ul style="list-style-type: none"> <li>• <i>Debt restructurings – Lender: active efforts have been made to restructure the outstanding debt owed by Pakistan</i></li> </ul>	<p>with OECD – CA</p> <ul style="list-style-type: none"> <li>- Low degree of compliance with Sustainable Lending Principles</li> </ul>
<ul style="list-style-type: none"> <li>- Buyer's Credit Guarantee - 1998</li> <li>- Guaranteed amount: USD 21.250.000</li> <li>- Buyer: National Logistic Cell (NLC)</li> <li>- Applicable Guidelines: AO – 1994</li> </ul>	<ul style="list-style-type: none"> <li>- Expansion of a radio relay system (phase 2; for phase 1 see separate descriptions)</li> </ul>	<ul style="list-style-type: none"> <li>- Signed policy</li> </ul>	<ul style="list-style-type: none"> <li>- High degree of compliance. Underline the following observations: <ul style="list-style-type: none"> <li>• <i>Economic sanctions against Pakistan in June 1998, but since GIEK was already committed to the exporter, the sanctions did not affect this case</i></li> <li>• <i>GIEK found that the borrower has violated the cash element – Pakistan has paid with Promissory Notes instead of cash payment which violates with GIEK's assumption that 15 % of the contract amount is to be paid by cash (discussed in GIEK board memorandums). GIEK decided to accept this, as a one-time occurrence.</i></li> <li>• <i>December 1998, GIEK states that they cannot</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Generally low degree of compliance. Some principles are covered in part: <ul style="list-style-type: none"> <li>• <i>4. Responsible credit decisions: partly covered by that The President of the Islamic Republic of Pakistan guarantees for the loan, and that GIEK has evaluated Pakistan's economy and political situation.</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Generally high degree of compliance with OECD – AOSAC. Exceptions noted: <ul style="list-style-type: none"> <li>• <i>Classification of sovereign risk and buyer risk</i></li> <li>• <i>Notification</i></li> </ul> </li> <li>- Low degree of compliance with OECD – CA.</li> <li>- Low degree of compliance with OECD Principles on Sustainable Lending.</li> </ul>

Guarantee Information	Contract Case	Missing Documents	Degree of compliance with Previous GIEK	Degree of compliance with UN Principles	Degree of compliance with Current GIEK
			<p><i>continue with the payments under this guarantee as they know that the payments likely will be rescheduled under debt cancellation in Paris Club. Still GIEK accepted further withdrawals under the assumption that the consolidation time was moved so that the first payment took place after 31.12.2000, avoiding in this way the Houston-terms.</i></p> <ul style="list-style-type: none"> <li><i>In an article from 1993, National Logistic Cell is associated with dealing in drugs and weapons- we cannot find that GIEK has made any assessment of this before issuing the new guarantee to NLC.<sup>65</sup></i></li> </ul>		
<ul style="list-style-type: none"> <li>- Buyer's credit guarantee</li> <li>- Policy: 1997</li> <li>- Guaranteed amount: NOK 12.754.000</li> <li>- Buyer: Pakistan</li> </ul>	Engineering advisory services	- No significant missing documents	- High degree of compliance.	<ul style="list-style-type: none"> <li>- Generally low degree of compliance with UN principles with some partial exceptions: <ul style="list-style-type: none"> <li>• <i>Agency and Informed Decisions – Lenders: Project information was provided to Pakistani authorities. Insufficient information available to assess whether</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- High degree of compliance with OECD – AOSAC with following exceptions: <ul style="list-style-type: none"> <li>• <i>Sovereign and buyer risk assessment</i></li> </ul> </li> <li>- Partial compliance with OECD – CA <ul style="list-style-type: none"> <li>• <i>Project evaluations including potential</i></li> </ul> </li> </ul>

<sup>65</sup> Article in Development Today by Øivind Fjeldstad, Feb. 1993 (article found in GIEK-archive)

Guarantee Information	Contract Case	Missing Documents	Degree of compliance with Previous GIEK	Degree of compliance with UN Principles	Degree of compliance with Current GIEK
<p>Water and Power Authority (WAPDA)</p> <p>- Applicable guidelines: AO – 1994</p>				<p><i>appropriate efforts were made to satisfy the principles but partial compliance noted.</i></p> <ul style="list-style-type: none"> <li>• <i>Debt restructurings – Lender: active efforts have been made to restructure the outstanding debt owed by Pakistan</i></li> </ul>	<p><i>social, environmental and economic impacts were undertaken by Norad.</i></p> <p>- Low degree of compliance with Sustainable Lending Principles</p>



## Somalia

Only one contract from 1979 is in our audit portfolio, amounting to approximately MNOK NOK 44. The contract was a seismic survey off the coast of Somalia.

### *Political situation/governance and economic development*

Somalia has been in a state of civil war in the last decades also before the 1979 contract was entered. Mohamed Siad Barre took over in an essential bloodless takeover in 1969. In July 1977, the Ogaden War broke out. In 1979, the Barre government shifted partnership from Russia to USA.

The GNI per capita for Somalia is low, and have varied until 1991, when the Mohamed Siad Barre's government collapsed as the Somali Civil War broke out.

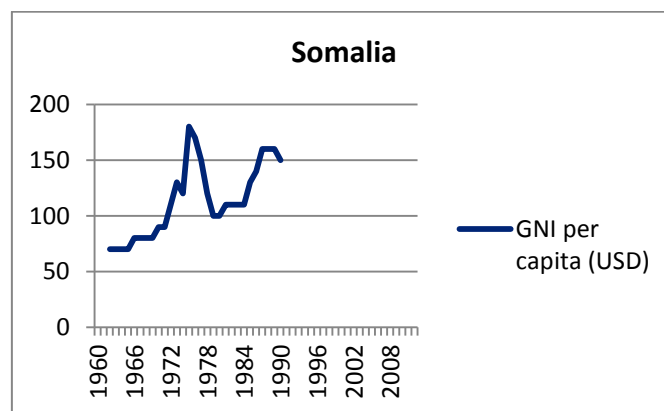


Figure 8: GNI per capita, Atlas and PPP (Purchasing Power Parity) method (current US\$). Source: World Bank

"Roadmap for the End of Transition", a political process led to the establishment of permanent democratic institutions in Somalia by late August 2012, and the first permanent central government in the country since the start of the civil came in place. Somalia is ranked as the most corrupt country (number 174 sharing the last place with North Korea and Afghanistan) of the 176 countries and territories in the Corruption Perception Index<sup>66</sup>.

### **Main findings**

The audit team has not uncovered any significant findings on the Somalia supplier's credit guarantee granted to the exporter in 1979. Some missing documents, for example signed policy and board memorandums, are summarised in Table 9. The guarantee is approved by Norad under the special guarantee scheme. Norad has made an assessment of the project which states that the project may have great influence on economic growth in Somalia.

<sup>66</sup> Transparency International 2012 "Corruption Perceptions Index 2012", Number 1 is perceived as least corrupt and the 176 is the most corrupt.

**Table 9: Main findings - Somalia**

Gr. No.	Guarantee Information	Contract Case	Missing Documents	Degree of compliance with Previous GIEK	Degree of compliance with UN Principles	Degree of compliance with Current GIEK
10587	<ul style="list-style-type: none"> <li>- Supplier's Credit Guarantee</li> <li>- 1979</li> <li>- Guaranteed amount: NOK 43.631.000</li> <li>- Buyer: Somali Democratic Republic</li> <li>- Applicable Guidelines: GSO – 1969</li> <li>- Guarantee approved by Norad under GSO</li> </ul>	<ul style="list-style-type: none"> <li>- Financing of seismic surveys off the coast of Somalia</li> <li>- Eksportfinans not involved in this transaction.</li> </ul>	<ul style="list-style-type: none"> <li>- Signed guarantee commitment</li> <li>- Signed policy</li> <li>- Purchase agreement</li> <li>- Signed loan agreement (only draft in the folder)</li> <li>- Board memoranda</li> </ul>	<ul style="list-style-type: none"> <li>- High degree of compliance.</li> </ul>	<ul style="list-style-type: none"> <li>- Generally low degree of compliance. Some principles have been covered in part:                             <ul style="list-style-type: none"> <li>• <i>4. Responsible credit decisions</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Generally high degree of compliance with OECD – AOSEC. Exceptions noted:                             <ul style="list-style-type: none"> <li>• <i>No documentation on local costs</i></li> <li>• <i>Classification of sovereign risk and buyer risk</i></li> <li>• <i>Notification</i></li> </ul> </li> <li>- Partial degree of compliance with OECD – CA.                             <ul style="list-style-type: none"> <li>• <i>General Principles: To some degree covered by Norad, who states that the project may have great influence on economic growth in Somalia.</i></li> </ul> </li> <li>- Partial degree of compliance with OECD Principles on Sustainable Lending.                             <ul style="list-style-type: none"> <li>• <i>To some degree covered by Norad, who states that the project may have great influence on economic growth in Somalia.</i></li> </ul> </li> </ul>

## Sudan

### Country note

Altogether three contracts are included in our audit from Sudan. The contracts were entered as early as 1977 and 1979, and had a total of about MNOK 179.4.

Year	MNOK
1977	1.8
1979	2.6
1979	175.0
<b>Total</b>	<b>179.4</b>

### *Political situation/governance*

Sudan suffered seventeen years of civil war during the First Sudanese Civil War (1955–1972) followed by the Second Sudanese Civil War between central government of Northern Sudan and the SPLA/M of Southern Sudan. This led to the Second Sudanese Civil War in 1983. Because of continuing political and military struggles, Sudan was seized in a bloodless coup d'état by colonel Omar al-Bashir in 1989, who thereafter proclaimed himself President of Sudan. The civil war ended with the signing of a Comprehensive Peace Agreement which granted autonomy to what was then the southern region of the country. Following a referendum held in January 2011, South Sudan seceded on 9 July 2011 with the consent of Sudan.

Sudan is ranked as one of the most corrupt countries in the world, ranked as number of 173 of the 176 countries and territories in the index<sup>67</sup>.

### *Economic development*

In 1972 the Sudanese government became more pro-Western, and made plans to export food and cash crops. However, commodity prices declined throughout the 1970s causing economic problems for Sudan. At the same time, debt servicing costs, from the money spent mechanising agriculture, rose. In 1978 the International Monetary Fund (IMF) negotiated a Structural Adjustment Program with the government. This further promoted the mechanized export agriculture sector. This caused great economic problems for the pastoralists of Sudan.

During the late 1970s and 1980s, the IMF, World Bank, and key donors worked closely to promote reforms to counter the effect of inefficient economic policies and practices. By 1984, a combination of factors, including drought, inflation, and confused application of Islamic law, reduced donor disbursements and capital flight led to a serious foreign-exchange crisis and increased shortages of imported inputs and commodities. More significantly, the 1989 revolution caused many donors in Europe, the U.S., and Canada to suspend official development assistance, but not humanitarian aid<sup>68</sup>. Below is an illustration of the GNI per capita for Sudan, showing an increase in GNI per capita until the late 1980s.

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<sup>67</sup> Transparency International 2012 "Corruption Perceptions Index 2012", Number 1 is perceived as least corrupt and the 176 is the most corrupt.

<sup>68</sup> Wikipedia «Economy of Sudan»

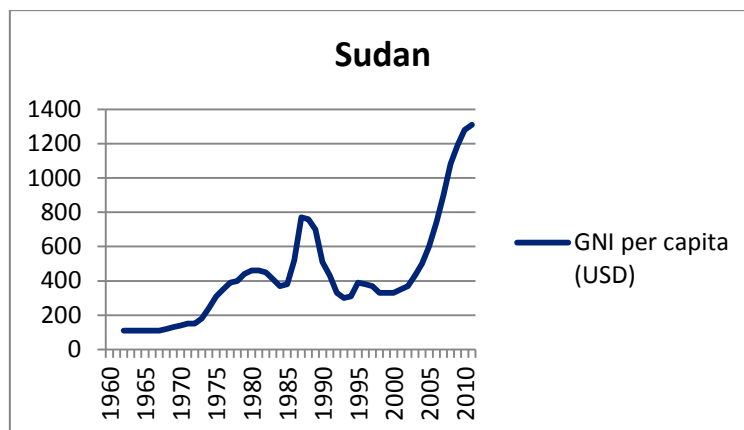


Figure 9: GNI per capita, Atlas and PPP (Purchasing Power Parity) method (current US\$). Source: World Bank<sup>69</sup>

### Debt situation

As Sudan became the world’s largest debtor to the World Bank and International Monetary Fund by 1993, its relationship with the international financial institutions soured in the mid-1990s and has yet to be fully rehabilitated.

### Capital flight

Sudan together with the many other countries in the Sub-Saharan region has had a significant capital flight out of the country. Below are figures for key indicators of capital flight, as average for the period 1970-2010.

The capital flight as percentage of GDP is 2.8% of GDP and is the 12th highest of the 33 countries in Sub-Saharan Africa covered in the statistic<sup>70</sup>.

	Capital flight / GDP (%)	Capital flight per capita (\$)	Capital flight/capital formation (%)
<b>Sudan</b>	2.8	34.9	15.6

### Main findings

The audit team has not identified any significant findings regarding the guarantees provided to Sudan. Some observations are though worth noting. In the case of the delivery of 82 barges for river transport it was a dispute about whether or not the Norwegian share of costs in the project was sufficient. In a letter to Eksportfinans, Norges Eksportråd expressed their concern for the low Norwegian share of costs in the project, and suggested a Norwegian supplier for the propellers. The project proceeded with the planned German supplier, defended by that the Norwegian supplier was too inexperienced with the technology.

<sup>69</sup> World Bank, <http://data.worldbank.org/data-catalog/GNI-per-capita-Atlas-and-PPP-table>

<sup>70</sup> Source: Boyce, James and Leonce Ndikumana, Political Economy Research Institute, University of Massachusetts.

**Table 10: Main findings - Sudan**

Guarantee Information	Contract Case	Missing Documents	Degree of compliance with Previous GIEK	Degree of compliance with UN Principles	Degree of compliance with Current GIEK
<ul style="list-style-type: none"> <li>- Supplier's Credit Guarantee</li> <li>- 1979</li> <li>- Guaranteed amount: NOK 2.550.000</li> <li>- Buyer: Su-No-Wood LTD</li> <li>- Applicable guidelines: GSO-1969</li> <li>- Guarantee approved by Norad under GSO</li> </ul>	<ul style="list-style-type: none"> <li>- Turn-key plant to wood factory (sawmill project)</li> </ul>	<ul style="list-style-type: none"> <li>- Signed guarantee commitment</li> <li>- Signed policy</li> <li>- Country note</li> <li>- Loan agreement</li> <li>- Board memorandum explaining the board's decision</li> </ul>	<ul style="list-style-type: none"> <li>- Due to few documented board memorandums explaining the board's recommendation, many of the paragraphs in GSO-1969 where difficult to assess. As a result we cannot conclude on whether or not the guidelines where followed. Underline the following observations: <ul style="list-style-type: none"> <li>• <i>GIEK found that the state guarantee from Sudan did not meet requirements. GIEK therefore reduced the coverage rate to the exporter from 90 % to 50%.</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Generally low degree of compliance. Some principles have been covered in part: <ul style="list-style-type: none"> <li>• <i>7. Debt Restructurings: Documents in the folder indicates that Eksportfinans and GIEK have been positively involved in trying to find a solution to the loan defaults</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- High degree of compliance with OECD – AOSEC. Exceptions noted: <ul style="list-style-type: none"> <li>• <i>Classification of country risk, sovereign risk and buyer risk</i></li> <li>• <i>Notification</i></li> </ul> </li> <li>- Low degree of compliance with OECD – CA.</li> <li>- Low degree of compliance with OECD Principles on Sustainable Lending.</li> </ul>
<ul style="list-style-type: none"> <li>- Buyer's credit guarantee</li> <li>- Policy: 1977</li> <li>- Guaranteed amount: NOK 1.829.000</li> <li>- Buyer: Ministry of Transport and Communication</li> </ul>	<ul style="list-style-type: none"> <li>- Advisory services relating to supervision of Sudanese satellite network</li> <li>- Eksportfinans were not loan providers in this contract.</li> </ul>	<ul style="list-style-type: none"> <li>- Final signed contract between buyer and seller</li> <li>- Project evaluations</li> <li>- State guarantee from Sudan</li> </ul>	<ul style="list-style-type: none"> <li>- Generally high degree of compliance noted despite missing documents.</li> </ul>	<ul style="list-style-type: none"> <li>- Generally low degree of compliance with UN principles <ul style="list-style-type: none"> <li>• <i>Agency and Informed Decisions – Lenders: Project information was provided to Sudanese authorities. Insufficient information available to assess further.</i></li> <li>• <i>Debt restructurings – Lender: active efforts have been made to restructure the outstanding debt owed by</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Generally high degree of compliance with OECD - AOSEC. Exceptions noted: <ul style="list-style-type: none"> <li>• <i>Classification of country risk, sovereign risk and buyer risk</i></li> <li>• <i>Assessment</i></li> <li>• <i>Project's commercial viability</i></li> <li>• <i>Notification</i></li> </ul> </li> <li>- Low degree of compliance with OECD – CA</li> </ul>

Guarantee Information	Contract Case	Missing Documents	Degree of compliance with Previous GIEK	Degree of compliance with UN Principles	Degree of compliance with Current GIEK
- Applicable guidelines: GAO				<i>Sudan</i>	- Low degree of compliance with Sustainable Lending Principles
- Buyer's Credit Guarantee - 1979 - Guaranteed amount: NOK 175.000.000 - Buyer: River Transport Corporation, Khartoum - Applicable guidelines: GSO-1969 - Ship Export Campaign - Interest subsidies - Guarantee under GSO approved by HD - Interest subsidies approved by Norad and HD	- Barges for river transport  - Delivery of: • 16 push tugs/boats • 50 cargo barges/bulk barges • 8 flat top barges • 2 crane barges • 6 oil barges	- Signed guarantee commitment - Document confirming UD's education and training subsidies - Signed policy - Board meeting minutes	- High degree of compliance. Underline the following observation: • <i>Eksportfinans made payments under the loan agreement on the basis of the present decree of the President until the approval of the People's Assembly (this was approved by Handelsdepartementet.)</i> • <i>In a letter to Eksportfinans, Norges Eksportråd expressed their concern for the low Norwegian share of costs in the project, and suggested a Norwegian supplier for the propellers. The project proceeded with the planned German supplier (defended by that the Norwegian supplier was too inexperienced with the technology).</i> • <i>The Norwegian share of costs is only estimated to 63 % of the contract amount, though approved</i>	- Generally low degree of compliance. Some principles have been covered in part: • <i>2. Informed Decisions: partly covered by loan agreement</i> • <i>4. Responsible credit decisions: partly covered by that the Democratic Republic of Sudan is the debtor, and that Norad has evaluated Sudan's economy and political situation.</i> • <i>5. Project Financing: partly covered by Norad's assessment of the projects potentially social economic effects.</i>	- Generally high degree of compliance with OECD – AOSEC. Exceptions noted: • <i>Classification of sovereign risk and buyer risk</i> • <i>Assessment of commercial viability of the project</i> • <i>Notification</i>  - Partial degree of compliance with OECD CA. • <i>4. General Principles: Partly covered by Norad, who states that the project may have great influence on economic and social development in Sudan.</i> • <i>10. Potential environmental and social impacts: Social impacts are partly covered by Norad's assessment.</i>  - Partial degree of compliance with OECD

Guarantee Information	Contract Case	Missing Documents	Degree of compliance with Previous GIEK	Degree of compliance with UN Principles	Degree of compliance with Current GIEK
			<i>by HD.</i>		Principles on Sustainable Lending. <ul style="list-style-type: none"> <li>• <i>Partly covered by NORAD, who states that the project may have great influence on economic and social development in Sudan.</i></li> </ul>

## Zimbabwe

Altogether seven contracts in our portfolio relate to Zimbabwe, with a total contract amount of approximately MNOK 149.4. The contracts were spread between 1992, 1993 and 1996, with a small contract entered into in 2000. Exportfinans concluded a mixed credit line with Zimbabwe in 1992.

Year	MNOK
1992	30.2
1993	18.3
1996	97.5
2000	3.5
<b>Total</b>	<b>149.4</b>

### Political situation/governance

Zimbabwe was established as an independent state in 1980 following the end of several years of guerrilla war. This was followed by a peace negotiation and an election in May 1980. A white minority regime stepped down and the two winning parties Zanu-PF and Zapu initially shared a coalition, but later Zanu-PF along with its leader Robert Mugabe demolished Zapu and declared a de facto one-party state in 1987, remaining in power ever since<sup>71</sup>.

### Economic development

The new government after independence promoted socialism, partially relying on international aid. The new regime inherited one of the most structurally developed economies and effective state systems in Africa.

The economy has been in decline more or less continuously since 1980 until 2008/2009 measured in GNI per capita, see Figure 10. After a political agreement was signed between Mugabe's Zanu-PF and the two MDC opposition fractions, the GNI has increased.

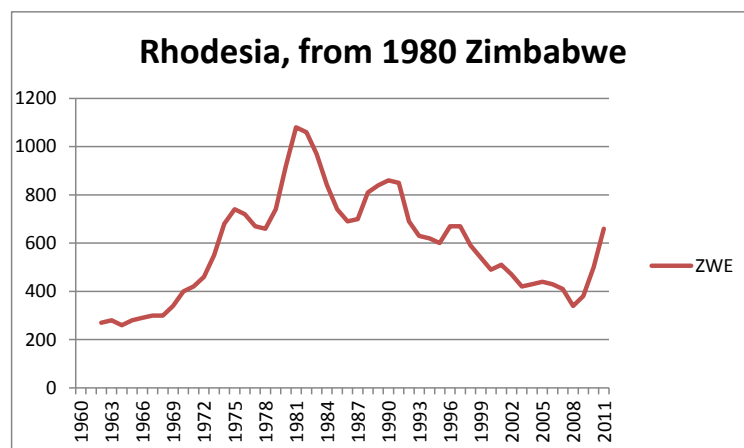


Figure 10: GNI per capita, Atlas and PPP (Purchasing Power Parity) method (current US\$). Source: World Bank<sup>72</sup>

The government started crumbling when a bonus to independence war veterans was announced in 1997 (which was equal to 3 per cent of GDP) followed by unexpected spending in Congo's civil war in 1998. In 1999, the country also witnessed a drought which weakened

<sup>71</sup> Meredith, Martin 2006, «The State of Africa – A history of fifty years of independence».

<sup>72</sup> World Bank; <http://data.worldbank.org/data-catalog/GNI-per-capita-Atlas-and-PPP-table>



the economy further; the economy could not recover, which ultimately led to the country's bankruptcy in the next decade. The local currency was taken out in 2009 after several years with hyperinflation beyond measurement, and now the Rand and USD are used instead. Zimbabwe is in debt distress with an unsustainable level of debt.

Zimbabwe is ranked as one of the most corrupt countries in the world, ranked as number of 174 countries out of 176 countries and territories<sup>73</sup>. Most contracts in this audit went to ZESA. Already in the late 1980s, ZESA was known for massive corruption, and corruption claims have recurred frequently since<sup>74</sup>.

**Capital flight**

Zimbabwe together with the many other countries in the Sub-Saharan region has experienced a significant capital flight out of the country.

	Capital flight /GDP (%)	Capital flight per capita (\$)	Capital flight/capital formation (%)
<b>Zimbabwe</b>	2.7	45.9	60.1

The capital flight as percentage of GDP is 2.7% of GDP and is the 13<sup>th</sup> highest of the 33 countries in Sub-Saharan Africa covered in this statistic<sup>75</sup>.

**Evaluations**

In its evaluation report from 2000, FAFO concluded that the projects in Zimbabwe were acceptable, but in the evaluation questioned if the planning process was sufficiently robust. The report found that mixed credit projects in Zimbabwe appeared to have been given development priority and were processed through normal routines within the appropriate government bodies. Projects are submitted by various government agencies and departments. They are then screened by a number of committees to establish their value and alignment with national development objectives, as well as their economic sustainability. The accepted projects are subsequently prioritised and decisions are then taken as to which of them can be undertaken with the domestic funds available. Foreign funds are sought to finance the remaining projects. The Ministries of Finance and Economic Planning are the key players in this process, and the Public Sector Investment Programme provides the formal framework for the prioritization of projects. Officially, all projects financed through mixed credits are linked with and integrated into development plans and policies. In practice, however, FAFO found that it is questionable whether these plans and policies are really cogent and fit for implementation. Prospective donors and suppliers seem to be able to exert considerable influence. On the one hand, formulated development plans and policies are not always followed and implemented. Even if the financed projects may all be important, it is unclear how they stand with respect to development value in competition with alternative proposals. In Zimbabwe, the end users generally initiated the projects themselves. However, once a need had been identified and expressed to both government and donors, informal lobbying for

<sup>73</sup> Transparency International 2012 "Corruption Perceptions Index 2012", Number 1 is perceived as least corrupt and the 176 is the most corrupt.

<sup>74</sup> Meredith 2006; Meredith 2002, « Mugabe – Power and Plunder in Zimbabwe»

<sup>75</sup> Source: Boyce, James and Leonce Ndikumana, Political Economy Research Institute, University of Massachusetts.

mixed credits by officials from the agencies concerned, government officials, prospective suppliers and by prospective donors often took place in way that could blur the formal procedure. Norwegian companies and official representatives were no exception to this rule, according to the report.

### **Main findings**

The most noteworthy findings from our assessment of the Zimbabwean contracts were as follows:

- As mentioned in earlier in this section ZESA (Zimbabwe Electricity Supply Authority, a state-owned company) was the buyer involved in the majority of contract within the scope of the debt audit. The contracts with ZESA were entered into in the early to mid-1990s when the corruption claims regarding the company were apparently already well known.
- For one of the guarantees with ZESA, a significant amount of documentation could not be located including the GIEK board of directors' meeting minutes evidencing risk assessment and approval of the guarantee. Other documentation, such as project analysis and budget were found on Norad's files and the loan agreement, GIEK's guarantee policy document, contract and legal opinion from Zimbabwe were found on Eksportfinans' files. The lack of documentation has made it difficult to assess the process around entering the contract but as this contract related to a series of contracts stemming from a frame agreement entered into in 1992 between the Government of Zimbabwe and Eksportfinans as well as several other loan agreements entered into with ZESA, there is enough cumulative information in order to form an opinion
- The GIEK country assessment for Zimbabwe dated June 1993 was considered in a GIEK board meeting in July 1993, where it noted that "the country had a relatively diversified economy. Experience with (re)payment was very good despite challenging times. However, foreign debt is increase to perilous proportions. Standard of living is decreasing dramatically and unemployment is increasing. The Government is facing heavy criticism but the opposition is not in reality a threat. It is likely that the country will continue to benefit from international aid. Conclusion: with regard to the above, the administration considers the risk to be acceptable for the case in question."
- With regard to one of the guarantees, it was noted that in terms of compliance with OECD – CA 16. Environmental and Social Impact Assessment (ESIA), Norad's evaluation of the environment, a "Detailed Environmental Assessment" is referred to that shall be conducted in accordance with governmental environmental regulations.

The observations show that serious risks and doubts relating to Zimbabwe were apparent at the time of issuing the contracts, particularly in relation to contracts awarded to ZESA.

**Table 11: Main findings - Zimbabwe**

Guarantee Information	Contract Case	Missing Documents	Degree of compliance with Previous GIEK	Degree of compliance with UN Principles	Degree of compliance with Current GIEK
<ul style="list-style-type: none"> <li>- Buyer's credit guarantee</li> <li>- 1991/1992</li> <li>- Guaranteed amount: NOK 37.090.260</li> <li>- Buyer: Zimbabwe Posts and Telecommunications Corporation (ZPTC)</li> <li>- Applicable Guidelines: GAO – 1980</li> </ul>	<ul style="list-style-type: none"> <li>- System for troubleshooting and maintenance of telephone lines / equipment.</li> </ul>	<ul style="list-style-type: none"> <li>- State guarantee from Zimbabwe</li> <li>- Exporter's declaration</li> <li>- Purchase agreement</li> </ul>	<ul style="list-style-type: none"> <li>- High degree of compliance. No exceptions noted.</li> </ul>	<ul style="list-style-type: none"> <li>- Generally low degree of compliance. Some principles have been covered in part:                             <ul style="list-style-type: none"> <li>• 2. <i>Informed Decisions: partly covered by loan agreement</i></li> <li>• 4. <i>Responsible credit decisions: partly covered by that the Zimbabwe Ministry of Finance is guarantor, and that GIEK has evaluated Zimbabwe's economy and political situation.</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Generally high degree of compliance with OECD – AOSEC. Classification of country risk seems to have been assessed according to Norad's procedures, and can therefore be said to comply in some degree. Exceptions noted:                             <ul style="list-style-type: none"> <li>• <i>Classification of sovereign risk and buyer risk</i></li> <li>• <i>Notification</i></li> </ul> </li> <li>- Low degree of compliance with OECD – CA.</li> <li>- Low degree of compliance with OECD Principles on Sustainable Lending</li> </ul>
<ul style="list-style-type: none"> <li>- Buyer's credit guarantee</li> <li>- Policy: 1992</li> <li>- Guaranteed amount: NOK 119.000.000</li> <li>- Buyer: National Oil Company of Zimbabwe (NOCZIM)</li> <li>- Exporter</li> </ul>	<ul style="list-style-type: none"> <li>- Electromechanical equipment for building mountainside fuel storage facilities</li> </ul>	<ul style="list-style-type: none"> <li>- Official response to application from Norad – whether approval or rejection of mixed credits</li> <li>- Project evaluations</li> </ul>	<ul style="list-style-type: none"> <li>- Generally high degree of compliance with previous GIEK. Following observations highlighted: documents:                             <ul style="list-style-type: none"> <li>• <i>Many documents, letters and other information on file, unclear which are final.</i></li> <li>• <i>No official response found from Norad other than GIEK note stating that Norad had rejected the application due to</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Generally low degree of compliance with UN principles. Some exceptions noted:                             <ul style="list-style-type: none"> <li>• <i>Agency and Informed Decisions – Lenders: Project information provided to Zimbabwean authorities. Insufficient information available to assess whether appropriate efforts were made to satisfy the principles but partial</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Variable degree of compliance with OECD - AOSEC. Some observations:                             <ul style="list-style-type: none"> <li>• <i>Sovereign risk assessment, buyer risk assessment</i></li> <li>• <i>Cannot find final applicable interest rate</i></li> <li>• <i>Project eligibility</i></li> <li>• <i>Notification</i></li> </ul> </li> <li>- Low compliance with OECD – CA.</li> </ul>

Guarantee Information	Contract Case	Missing Documents	Degree of compliance with Previous GIEK	Degree of compliance with UN Principles	Degree of compliance with Current GIEK
<p>took over original loan application from another related company</p> <ul style="list-style-type: none"> <li>- Applicable guidelines: GAO – 1980</li> </ul>			<p><i>being unable to assess the social impacts of the project based on available information</i></p> <ul style="list-style-type: none"> <li>• <i>Transfer of debt to another Zimbabwean state-owned company due to difficulties in obtaining USD currency. The risk was known to lending institutions before entering into loan agreement and guarantee.</i></li> </ul>	<p><i>compliance noted.</i></p> <ul style="list-style-type: none"> <li>• <i>Debt restructurings – Lender: active efforts have been made to restructure the outstanding debt owed by Zimbabwe</i></li> </ul>	<ul style="list-style-type: none"> <li>- Generally low level of compliance with OECD Sustainable Lending Principles</li> </ul>
<ul style="list-style-type: none"> <li>- Buyer’s credit guarantee</li> <li>- Policy: 1993</li> <li>- Guaranteed amount: NOK 20.400.000</li> <li>- Buyer: Zimbabwe Electricity Supply Authority (ZESA)</li> <li>- Applicable guidelines: GAO – 1980</li> <li>- Mixed credit approved by Norad</li> </ul>	<p>Delivery of three transformers and spare parts</p>	<ul style="list-style-type: none"> <li>- Project evaluations</li> <li>- Official response from Norad (project evaluation by Norad)</li> <li>- Exporter’s declaration</li> </ul>	<ul style="list-style-type: none"> <li>- Generally high degree of compliance with previous GIEK. Following observations highlighted: <ul style="list-style-type: none"> <li>• <i>Do not see requirement for 70% Norwegian deliverables as part of loan guarantee, a breach of § 4 GAO - 1980</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Generally low degree of compliance with UN principles. Some exceptions noted: <ul style="list-style-type: none"> <li>• <i>Agency and Informed Decisions – Lenders: Project information provided to Zimbabwean authorities. Insufficient information available to assess whether appropriate efforts were made to satisfy the principles but partial compliance noted.</i></li> <li>• <i>Debt restructurings – Lender: active efforts have been made to restructure the outstanding debt owed by Zimbabwe</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Partial degree of compliance with OECD – AOSEC. Some exceptions noted: <ul style="list-style-type: none"> <li>• <i>Cannot find confirmation that local costs capped at 30%</i></li> <li>• <i>Sovereign risk assessment, buyer risk assessment</i></li> <li>• <i>Cannot find final applicable interest rate</i></li> <li>• <i>Project eligibility</i></li> <li>• <i>Notification</i></li> </ul> </li> <li>- Partial compliance with OECD – CA: <ul style="list-style-type: none"> <li>• <i>Some degree of screening evident but insufficient support for consideration and</i></li> </ul> </li> </ul>

Guarantee Information	Contract Case	Missing Documents	Degree of compliance with Previous GIEK	Degree of compliance with UN Principles	Degree of compliance with Current GIEK
					<p><i>review of social and environmental factors</i></p> <ul style="list-style-type: none"> <li>- Generally low degree of compliance with OECD Sustainable Lending Principles</li> </ul>
<ul style="list-style-type: none"> <li>- Buyer's credit guarantee</li> <li>- Policy: 1993</li> <li>- Guaranteed amount: NOK 19,440,000</li> <li>- Buyer: Zimbabwe Electricity Supply Authority (ZESA)</li> <li>- Applicable guidelines: GAO – 1980</li> <li>- Mixed credit approved by Norad</li> </ul>	<p>Power II Project. Project deliverables planned to include engineering services, project management and construction inspection regarding expansion of high voltage power grid</p>	<ul style="list-style-type: none"> <li>- No significant documents missing</li> </ul>	<ul style="list-style-type: none"> <li>- Generally high degree of compliance with previous GIEK regulations. Following observations highlighted:: <ul style="list-style-type: none"> <li>• <i>Policy was later extended in 1993 to include currency guarantee as Eksportfinans offered loan in USD. Known to lending authorities that Zimbabwe had difficulties in obtaining transferable currency.</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Generally low degree of compliance with UN principles. Some exceptions noted: <ul style="list-style-type: none"> <li>• <i>Agency and Informed Decisions – Lenders: Project information provided to Zimbabwean authorities. Insufficient information available to assess further</i></li> <li>• <i>Debt restructurings – Lender: active efforts have been made to restructure the outstanding debt owed by Zimbabwe</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Generally high degree of compliance with OECD – AOSSEC. Some observations: <ul style="list-style-type: none"> <li>• <i>Sovereign risk assessment, buyer risk assessment</i></li> <li>• <i>Project eligibility</i></li> <li>• <i>Notification</i></li> </ul> </li> <li>- Generally low degree of compliance with OECD – CA: <ul style="list-style-type: none"> <li>• <i>Some degree of screening evident but insufficient support for consideration and review of social and environmental factors</i></li> </ul> </li> <li>- Generally low degree of compliance with OECD Sustainable Lending Principles</li> </ul>

Guarantee Information	Contract Case	Missing Documents	Degree of compliance with Previous GIEK	Degree of compliance with UN Principles	Degree of compliance with Current GIEK
<ul style="list-style-type: none"> <li>- Buyer's credit guarantee</li> <li>- Policy: 1995</li> <li>- Guaranteed amount: NOK 17.460.000</li> <li>- Buyer: Zimbabwe Electricity Supply Authority (ZESA)</li> <li>- Applicable guidelines: AO – 1994</li> <li>- Mixed credit approved by Norad</li> </ul>	Complete refurbishment of 330 kV Norton station in Zimbabwe	<ul style="list-style-type: none"> <li>- Minutes and decision taken by GIEKs board of directors</li> <li>- Approval of mixed credits by Norad (other than being co-signatory to contract)</li> <li>- Applications to GIEK, Eksportfinans and Norad</li> <li>- Project evaluations</li> <li>- Exporter's declaration statement</li> <li>- Whether foreign currency guarantee was required and issued</li> </ul>	<ul style="list-style-type: none"> <li>- Compliance with previous GIEK is assessed to be high despite the missing documents. Important documents have been reviewed including the original guarantee policy document, loan agreement and contract between buyer and supplier. It is also relevant to note that this contract stemmed from an original contract signed with Zimbabwe in June 1992 for which key documentation has been reviewed. Following observations highlighted: <ul style="list-style-type: none"> <li>• <i>Lack of available GIEK board minutes makes it difficult to understand the risk assessment that was performed and whether this satisfied the criteria set out in AO 1994 § 8 Risiko.</i></li> <li>• <i>Lack of information from Norad makes it difficult to assess how the project was evaluated</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Compliance with UN principles is considered as low based on assessment of information included as well as missing documents. Partial compliance is reasonable conclusion for some principles given Zimbabwean Government were signatories to contract: <ul style="list-style-type: none"> <li>• <i>Agency and Informed Decisions – Lenders: Project information was provided to Zimbabwean authorities. Insufficient information available to assess further</i></li> <li>• <i>Debt restructurings – Lender: active efforts have been made to restructure the outstanding debt owed by Zimbabwe</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Partial degree of compliance with OECD – AOSEC. Some observations noted: <ul style="list-style-type: none"> <li>• <i>Significant amount of missing documentation makes it difficult to assess</i></li> <li>• <i>Do not find requirement for maximum local cost proportion of 30%</i></li> <li>• <i>Classification of country risk, sovereign risk assessment and buyer risk</i></li> <li>• <i>Project eligibility</i></li> <li>• <i>Notification</i></li> </ul> </li> <li>- Low degree of compliance with OECD – CA</li> <li>- Low degree of compliance with Sustainable Lending Principles</li> </ul>
<ul style="list-style-type: none"> <li>- Buyer's Credit Guarantee</li> <li>- 1996</li> </ul>	- Mutare Water Supply Project – delivery of GUP tubes	<ul style="list-style-type: none"> <li>- Country note</li> <li>- Signed policy</li> <li>- Purchase</li> </ul>	<ul style="list-style-type: none"> <li>- High degree of compliance. Underline the following observations: <ul style="list-style-type: none"> <li>• <i>Risk assessment of the</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Generally low degree of compliance. Some principles have been covered in part:</li> </ul>	<ul style="list-style-type: none"> <li>- High degree of compliance with OECD – AOSEC. Exceptions noted:</li> </ul>

Guarantee Information	Contract Case	Missing Documents	Degree of compliance with Previous GIEK	Degree of compliance with UN Principles	Degree of compliance with Current GIEK
<ul style="list-style-type: none"> <li>- Guaranteed amount: NOK 126.350.000</li> <li>- Buyer: City of Mutare</li> <li>- Applicable Guidelines: AO – 1994</li> <li>- Mixed credit approved by Norad</li> </ul>		agreement	<ul style="list-style-type: none"> <li><i>buyer is not documented in the folder (deviation to § 8 Risk, AO - 1994).</i></li> <li>• <i>Norad has assessed the projects economic and environmental impacts.</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>4. Responsible credit decisions: partly covered by that The Government of Zimbabwe guarantees for the loan, and that GIEK has evaluated Zimbabwe’s economy and political situation.</i></li> <li>• <i>5. Project financing: partly covered by Norad’s assessment of the projects economic and environmental impacts.</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>Classification of sovereign risk and buyer risk</i></li> <li>- Partial degree of compliance with OECD – CA.</li> <li>• <i>4. General Principles: partly covered by Norad’s assessment of the projects economic and environmental impacts.</i></li> <li>• <i>10. Potential environmental and social impacts: Environmental impacts are partly covered by Norad’s assessment.</i></li> <li>• <i>16. Environmental and Social Impact Assessment (ESIA): In Norad’s evaluation of the environment, Norad refers to a Detailed Environmental Assessment that shall be conducted in accordance with governmental environmental regulations.</i></li> <li>- Partial degree of compliance with OECD Principles on Sustainable Lending.</li> </ul>

Guarantee Information	Contract Case	Missing Documents	Degree of compliance with Previous GIEK	Degree of compliance with UN Principles	Degree of compliance with Current GIEK
					<ul style="list-style-type: none"> <li>Partly covered by Norad's assessment of the projects economic and environmental impacts.</li> </ul>
<ul style="list-style-type: none"> <li>Buyer's Credit Guarantee</li> <li>1999/2000</li> <li>Guaranteed amount: NOK 16.301.939</li> <li>Buyer: Zimbabwe Electricity Supply Authority</li> <li>Applicable Guidelines: UO – 1989</li> <li>Guarantee under UO and mixed credit approved by Norad.</li> </ul>	<ul style="list-style-type: none"> <li>88 KV Substation - Cowdray Park</li> <li>Substation to provide electricity to a newly established residential and commercial area near Bulawayo.</li> </ul>	<ul style="list-style-type: none"> <li>Signed policy</li> </ul>	<ul style="list-style-type: none"> <li>High degree of compliance. Underline the following observation: <ul style="list-style-type: none"> <li>Providing this policy GIEK exceeded its country limit – MNOK 100 (stated in decision document)</li> <li>Payments under the policy where stopped in fall 2000. It was only paid out MNOK 3,5 under the policy, which is the amount outstanding to date plus interest. GIEK gave compensation to the exporter of MNOK 0.8 due to late notice of waiver of the policy.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Generally low degree of compliance. Some principles are covered in part: <ul style="list-style-type: none"> <li>4. Responsible credit decisions: partly covered by that The Government of Zimbabwe is the debtor, and that GIEK has evaluated Zimbabwe's economy and political situation.</li> <li>5. Project financing: partly covered by Norad's assessment of the projects potentially social economic effects.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>High degree of compliance with OECD – AOSEC.</li> <li>Exceptions noted: <ul style="list-style-type: none"> <li>Classification of sovereign risk and buyer risk.</li> </ul> </li> <li>Partial degree of compliance with OECD – CA. <ul style="list-style-type: none"> <li>4. General Principles: partly covered by Norad's assessment of the projects potentially social economic effects.</li> <li>10. Potential environmental and social impacts: Social impacts are partly covered by Norad's assessment.</li> </ul> </li> <li>Partial degree of compliance with OECD Principles on Sustainable Lending. <ul style="list-style-type: none"> <li>Partly covered by Norad's assessment of the projects potentially social economic effects.</li> </ul> </li> </ul>



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