How rising powers create governance gaps

Citation for published version:

Digital Object Identifier (DOI):
10.1162/glep_a_00490

Link:
Link to publication record in Edinburgh Research Explorer

Document Version:
Peer reviewed version

Published In:
Global Environmental Politics

General rights
Copyright for the publications made accessible via the Edinburgh Research Explorer is retained by the author(s) and / or other copyright owners and it is a condition of accessing these publications that users recognise and abide by the legal requirements associated with these rights.

Take down policy
The University of Edinburgh has made every reasonable effort to ensure that Edinburgh Research Explorer content complies with UK legislation. If you believe that the public display of this file breaches copyright please contact openaccess@ed.ac.uk providing details, and we will remove access to the work immediately and investigate your claim.
How Rising Powers Create Governance Gaps:
The Case of Export Credit and the Environment

Kristen Hopewell *
Senior Lecturer in International Political Economy
School of Social and Political Science
University of Edinburgh
18 Buccleuch Place, 4.03
Edinburgh UK EH8 9LD
Email: kristen.hopewell@ed.ac.uk

Abstract: How are rising powers affecting global governance? This article analyzes their impact on an important but understudied area of global governance at the intersection of trade and environment: export credit. State-backed export credit agencies (ECAs) play a major role in financing large infrastructure and energy projects, particularly in developing countries. Many of these projects carry significant environmental implications, yet there has been little scholarly attention to their governance. Since the 1990s, global governance of the environmental practices of ECAs has been progressively expanded and strengthened via the OECD Arrangement on export credit and Common Approaches for environmental and social due diligence. Recently, however, there has been a dramatic increase in export credit provision by rising powers, such as India and China, who are not members of the OECD nor subject to the Arrangement or Common Approaches. In this article, I argue that existing governance mechanisms have not caught up with the rapidly changing landscape of export credit. Drawing on the case of India’s financing for the Rampal coal-fired power plant in Bangladesh, I show that the problem of environmental governance for export credit increasingly extends beyond the advanced-industrialized states of the OECD. In a context where nearly half of all export credit is now provided by countries outside the OECD, I argue, existing governance mechanisms are no longer sufficient. The failure to cover the large and growing volume of export credit provided by the emerging powers represents a major gap in the established system of environmental governance for export credit.

* This is the final version of an article that has been accepted for publication and is forthcoming in Global Environmental Politics. This research was supported by an Economic and Social Research Council (ESRC) Future Research Leaders grant (ES/N017390/1). The author would like to thank three anonymous reviewers for their constructive comments on an earlier version of the paper.
Introduction

For over half a century, global governance has been dominated by the American hegemon and other advanced-industrialized states. Yet in recent decades, there has been a major shift in global economic activity from the Global North to South, with emerging powers such as the BRICS (Brazil, Russia, India, China and South Africa) becoming significant economic and political actors. Developing and emerging economies now make up more than half of the global economy, with the BRICS alone accounting for a third of global GDP (Hopewell 2016a). It is increasingly clear that, as one Financial Times commentator stated, “the West’s centuries-long domination of world affairs is now coming to a close” (Rachman 2016). Far less clear, however, is how an increasingly multipolar world will affect global governance (Gray and Murphy 2015; Lesage and Van de Graaf 2015). This article contributes to our understanding of the nature and implications of contemporary power shifts by analyzing a critical area of global governance that has generally been overlooked and understudied by scholars: export credit. The governance of export credit lies at the intersection of trade and environment, and as this analysis will show, it is an area where the rise of new powers is having significant effects.

The linkage between trade and environment has long been identified as an important challenge in global economic governance (Hochstetler 2013; Morin, Dür, and Lechner 2018). An extensive literature has analyzed the interaction between WTO rules and national or international environmental regulations; this is often seen as a conflictual relationship, with concerns about the constraining effects of international trade rules on efforts to promote environmental objectives (Eckersley 2004; Thomas 2004). However, there has been little analysis of the export credit regime, which represents, in part, an attempt to create international rules to address the potentially harmful effects of trade policy (specifically, export credit subsidies) on the environment.
For most major economies, official export credit – the use of loans and other forms of financing by states to facilitate exports – is a core element of industrial policy and strategies to foster economic growth. Export credit agencies (ECAs) play a significant role in financing large infrastructure and energy projects, particularly in developing economies (Blackmon 2017). Many of the projects financed by ECAs, such as large dams, power plants, mines, oil and gas, dredging and port construction, carry the potential for significant environmental and social implications. Yet while efforts to improve the environmental and social practices of the multilateral development banks have been the subject of extensive research and analysis (Buntaine 2016; Park 2014; Zawahri and Weinthal 2014), the activities of ECAs have received far less scholarly attention (Blackmon 2017).

At the global level, most ECAs are subject to a system of governance established under the auspices of the Organization for Economic Cooperation and Development (OECD). The OECD Arrangement on Officially Supported Export Credits (the “Arrangement”) was created in 1978 with the primary goal of limiting the ability of states to use export credit to subsidize their exports. Repeatedly strengthened since then, it has proven highly effective in restricting the use of export credit as a form of state subsidy. Since the 1990s, export credit governance has been expanded to create disciplines on the environmental and social practices of ECAs. These global governance arrangements, centered on the OECD Common Approaches for Export Credits and Environmental and Social Due Diligence (the “Common Approaches”), have been progressively expanded and deepened, steadily strengthening environmental safeguards and due diligence procedures for state-backed export credit. In recent years, however, there has been a dramatic increase in export credit provision by emerging powers, such as India and China, who are not members of the OECD nor subject to the Arrangement or Common Approaches. As I will show, the fact that several countries that are now among the world’s largest export credit providers are not bound by existing
environmental regulations poses a significant challenge to efforts to foster sustainable trade and investment.

This article analyzes how rising powers are creating new challenges in the governance of export credit, through an illustrative case study of India’s ECA financing of the Rampal coal-fired power plant in Bangladesh. This case illustrates the new role of major emerging economies as substantial providers of export credit, with potentially significant environmental consequences. The established system of global environmental governance for export credit, I argue, has not caught up with the rapidly changing dynamics in this area. The failure to cover the large and growing volume of export credit provided by the rising powers represents a major gap in existing governance arrangements for export credit. Analysis of India’s financing of the Rampal coal plant demonstrates the important implications of this governance gap, and underscores the pressing need to expand global governance to incorporate the broader range of actors emerging in this field.

The article is organized as follows. The next section introduces the core debates about rising powers in global governance that this article seeks to address. The subsequent section explains the function and workings of export credit, the global governance of ECAs, and how the rise of emerging economies as major export credit providers is transforming the landscape of export credit and presenting new governance challenges. The article then moves to an empirical analysis of the case of India’s financing for the Rampal power plant. This serves as an illustrative case to demonstrate both the significance of the environmental impacts of export credit provided by emerging economies and the consequences of the failure to integrate these rising actors in the field of export credit into existing or new governance regimes. This analysis is part of a larger project examining the global politics of export credit, which draws on field research conducted between 2015-2018 at the OECD, WTO, and
national capitals, including over 50 interviews with negotiators and senior government officials, as well as extensive documentary research.

**Debates over Rising Powers and Global Governance**

A major question and subject of debate is how the rise of new powers will affect the existing system of global governance constructed under US, and more broadly Western, hegemony. Pessimists predict that power shifts will weaken multilateral cooperation and destabilize the international governance architecture (Patrick 2010), while optimists expect that emerging powers will be supporters of, and seek to maintain, the global order that has facilitated and enabled their rise and will therefore cooperate with the traditional powers in its management (Nye 2015). For many, a key factor in determining whether global governance can be maintained is whether the US and other established powers adapt to the rise of new powers by incorporating them into existing institutions and their power structures (Kahler 2016; Paul 2016). Considerable emphasis is placed on the willingness of the established powers to make adjustments to accommodate rising powers: it is assumed that the emerging powers will actively seek to integrate into global institutions, provided that the US and other Western states act to reform those institutions to make room for the emerging powers and give them a role that reflects their economic weight (Ikenberry 2015). It is argued that this would lock in the emerging powers’ support for the existing governance architecture (Drezner 2007), and many contend that global governance could be renewed and strengthened by incorporating rising powers, becoming more inclusive, representative and legitimate (Vestergaard and Wade 2015).

Much of the existing literature has concentrated on institutions where emerging powers are, in fact, demanding greater influence and a seat at the table, such as the WTO, IMF, World Bank and G20 (Babb and Chorev 2016; Ferdinand and Wang 2013). Yet what about instances where emerging powers do not want to be incorporated? As the following
analysis will show, emerging powers may have little interest in participating in certain areas of global governance, but their absence creates a significant problem for meeting important governance objectives. In the case of environmental governance for export credit, India and other emerging powers have powerful economic and strategic reasons to resist incorporation. Not only do they have little incentive to join existing governance arrangements, which could restrict their room to maneuver and cost them exports, but they derive a competitive advantage from remaining outside the regime: since OECD countries are bound by disciplines on the use of export credit, while emerging powers are not, this serves to create an uneven playing field that benefits emerging powers and their exporters. However, the fact that India and other emerging powers are not part of the governance regime for export credit represents an important and growing gap, I argue, and one that ultimately threatens to undermine the efficacy of that regime. The case of the Rampal power plant, which illustrates the potentially serious environmental and social consequences of India’s use of export credit, underscores the importance of this problem.

I show that a significant gap has emerged in the system of environmental governance for export credit: the lack of coverage of major emerging economies, which are rapidly becoming among the largest suppliers of export credit. “Governance gaps” have traditionally been conceived as specific policy issues or areas lacking adequate governance mechanisms, such as appropriate rules, regulations and enforcement (Simons and Macklin 2014). In the case presented here, however, an established system of rules and enforcement exists, but it is in danger of being rendered increasingly irrelevant, as new powers emerge that are not part of this system and bound by its rules. This analysis thus draws attention to a new and increasingly important type of “governance gap” – areas of global governance that do not currently cover the rising powers and, as a result, now find their effectiveness at risk.
There is a growing literature on development finance provided by the emerging powers (Chin 2016; Hochstetler 2014). Attention has overwhelmingly focused on China, whose overseas financing has generated considerable debate, including concerns about its environmental implications (Bräutigam 2009; Gallagher, Irwin and Koleski 2012). Most of China’s development finance is actually export credit rather than aid (Bräutigam 2009). Yet governance arrangements in this area have to date received little analysis. This article focuses on the environmental practices of emerging economy ECAs within the context of the existing governance regime for export credit and analyzes their impact on that regime. As I will show, the issue goes beyond China: India has become the world’s second largest provider of export credit, with significant environmental consequences and implications for global governance.

Reflecting the predominant flow of export credit at the time – from Global North to South – the system of environmental governance for export credit was created to reign in the practices of OECD ECAs and limit their potential harmful effects, particularly on developing countries. Today, however, amid rapidly expanding South-South trade and financial flows (Hochstetler 2013), the reality is considerably more complex. As analysis of India’s financing of the Rampal coal plant will show, advanced developing countries have become major suppliers of export credit, and without adequate environmental and social safeguards, their use of export credit may have seriously adverse effects on other developing countries.

The Global Governance of Export Credit

Export credit is an important, but understudied, aspect of the global political economy. Every major economy has an export credit agency that provides various forms of financing to facilitate and expand exports, including direct loans to foreign buyers, insurance and loan guarantees, and finance for large-scale infrastructure and industrial projects (Gianturco 2001). Each ECA functions as a public or semipublic bank, borrowing from the
national treasury or capital markets and using the funds to finance exports (Blackmon 2017). Officially supported export credit occupies a crucial niche, filling gaps in the availability of private financing. ECAs are heavily involved, for example, in long-term export financing, including financing for complex, multi-billion dollar sales such as infrastructure projects. In such sectors, ECA support can help make transactions more commercially attractive by mitigating risks of financing or providing another source of funding to diversify risks. Globally, ECAs provide $300 billion in trade-related finance annually (Hopewell 2017).

Since an ECA is a state agency with access to capital at low government rates, state-backed export credit is usually offered at interest rates below those that would be charged on the market for similar loans, if such loans are available at all (Moravcsik 1989). However, an ECA could also go further and subsidize interest rates directly, by lending at rates below its own cost of borrowing. Given that financing often represents a significant portion of a large capital goods transaction or infrastructure project, even modest government credit subsidies could be a decisive factor in awarding a bid – and, indeed, in determining the feasibility of a project. Without global regulation, the natural tendency would be for states to offer increasingly higher subsidies in an effort to give their exports an advantage in global markets, distorting trade flows and triggering a subsidy war (Wright 2011).

The use of export credit by states is governed by a set of rules established at the OECD, an international institution comprised primarily of advanced-industrialized states and thus often described as a “rich man’s club”. The OECD Arrangement places strict limits on the financing packages that ECAs may offer to borrowers. Its highly specific and technical provisions define the most favorable terms under which credit may be granted (such as minimum interest rates and premiums). Since its creation, the Arrangement has been continuously revised and updated to tighten its disciplines, close loopholes and adapt to changing circumstances, bringing the global provision of export credit ever closer to market
principles (Gianturco 2001). Importantly, the Arrangement is not a universal agreement, but applies only to its participants. Its rules are backed by a system of detailed transparency and monitoring provisions to foster compliance.

The Arrangement is not a formal treaty and has no formal enforcement mechanisms; instead, it is an informal, consensus-based “Gentleman’s Agreement”. The Arrangement has nonetheless succeeded in achieving “thorough, deep, sustained compliance” among its participants (Levit 2004: 68). OECD and ECA officials report that non-compliance is extremely rare. Many argue that its “soft law” status has, in fact, been an advantage – ensuring that the Arrangement is flexible and adaptable and can more easily be reviewed, modified, amended, and strengthened. The Arrangement has largely eliminated export credit subsidies among its participants and is identified as an important example of effective international economic cooperation (Blackmon 2016; Levit 2004; Moravcsik 1989).

While the primary purpose of the Arrangement is to prevent a global subsidy war, it has also developed important environmental governance mechanisms. In the mid-1990s, Arrangement participants began a process of expanding its rules to address the potential environmental and social aspects of export credit (OECD 2011: 152-184). This came in response to mounting pressure on OECD ECAs to address the environmental and social impacts of the projects they finance (Schaper 2007). Beginning in the 1980s, prompted by the role of ECAs in a number of controversial projects, such as the Three Gorges Dam in China and the Bataan nuclear power plant in the Philippines, ECAs came under increasing scrutiny.¹ Concerns that laws and environmental standards in recipient countries may be lax or lack the enforcement needed to protect local populations and the environment prompted efforts to control the flow of financing from the source (Hao 2017). Public stakeholders and NGOs became increasingly vocal in calling for ECAs not to support projects that harm the

¹ Interviews with ECA officials, July 2015 and June 2016.
environment or adversely affect local communities. Civil society actors waged a large-scale transnational advocacy campaign that pressed OECD countries to accept that ECAs should promote compliance with international environmental and social standards (Schaper 2007; Wright 2011). There was recognition that unilateral action on the part of individual states would not be sufficient; global action was needed, involving all the major providers of export credit. This ultimately resulted in establishment of the Common Approaches in 2003, and the subsequent revision and deepening of its rules in 2005, 2007, 2012 and 2016.

The Common Approaches seek to ensure that all officially supported medium- to long-term export credit transactions are reviewed for their potential environmental impacts, and any negative impacts are mitigated or eliminated in order to achieve a high level of environmental protection (Karkovirta 2011). Rather than developing new benchmarks, the Common Approaches apply existing standards established by the World Bank and the International Financial Corporation (IFC). Part of the goal of creating common environmental procedures is to maintain a level playing field among participants by harmonizing environmental and social standards, ensuring that no country gains a competitive advantage through lower standards.

The agreement establishes a set of guidelines, or 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 state-backed export credit as an integral part of its participants’ decision-making and risk management systems. OECD ECAs are required to publish an environmental policy, adopt the environmental screening process used by multilateral development banks, and benchmark projects against World Bank or IFC Performance Standards. They are also required to report on implementation to the OECD semi-annually. Although a non-binding, consensus-based set of rules, compliance is reviewed regularly and monitored by the OECD Secretariat, and these
reviews have shown a high degree of ECA compliance with the Common Approaches (OECD 2016).

The environmental and social review process set out under the Common Approaches has resulted in ECAs declining to provide financing for projects on the basis of their environmental and social impacts, in a range of sectors including mining, oil and gas, power projects, hydro-power, and pulp and paper (OECD 2016). OECD ECAs also have policies in place to attach environmental and social conditions to their financing agreements, with procedures for monitoring compliance with those conditions and the ability to take punitive action (such as recalling the loan) in the case of non-compliance. The Common Approaches have been progressively expanded and strengthened over time, most recently in 2016 when they were broadened to include screening and due diligence for project-related human rights impacts and greenhouse gas reporting. Participants in the Arrangement have also developed agreements relating to specific sectors (known as “Sector Understandings”), including on financing to promote renewable energy, climate change mitigation and adaptation, and water projects (created in 2009 and expanded in 2012 and 2014) and restrictions on financing for coal-fired electricity generation projects (2015).

Over time, the OECD Arrangement has thus evolved from an instrument designed to address the subsidy component of export credit to a considerably broader and more complex regime addressing multiple aspects of export credit provision, including its environmental, social and human rights implications. This process is far from complete and there remains considerable room for further strengthening and improving the system of environmental governance created at the OECD (Gelder, German and Bailis 2012; Ruggie and Nelson 2015). But the Common Approaches and other related measures (such as the environment-related Sector Understandings) have nonetheless been identified as “a major step forward” in creating international standards for environmental and social due diligence on export credit,
improving the environmental practices of ECAs, and moving toward the “greening” of export credit (Eberlein et al 2010; see also Atzl 2014). The OECD rules have thus represented an essential global mechanism for governing the environmental and social aspects of export credit and protecting against its potentially adverse effects.

In recent years, however, the global landscape of export credit has changed dramatically. There has been an explosion in export credit provision by the major emerging economies: between 2000 and 2017, the BRICS increased their official export financing from less than 3% to 46% of the world total (US 2018). While considerable attention has focused on China’s export credit activities (Bräutigam 2009; Gallagher, Irwin and Koleski 2012), India has also emerged as a major player in this area: India is now the world’s second largest provider of export credit, after China. In 2017, India provided $9.7 billion in medium and long-term official export credit support, 9% of the world total (US 2018). Although smaller in scale, other emerging economies are using export financing strategically in key sectors to significant effect, such as Brazil in construction and mining and Russia in nuclear energy. Export credit is one of the prime means by which the emerging economies are seeking to give their firms a competitive advantage in global markets, while fostering industrial upgrading and the development of strategic sectors.

The rise of emerging economies as major providers of export credit presents a significant conundrum for the current system of global governance for ECAs. Emerging economies, like India and China, are not governed by the OECD Arrangement or its environmental and social provisions. This has raised concerns about the continued viability of the existing governance regime for export credit, in the absence of participation from countries that are now some of the world’s largest export credit providers. The focus to date has been on the threat that this poses to the Arrangement’s rules intended to prevent a competitive spiral of state subsidization via export credit (Hopewell 2016b). However, it also
raises important issues from an environmental perspective. Emerging economy ECAs are not bound by international rules governing the environmental and social aspects of export credit, but as the following analysis will demonstrate, their activities can have significant adverse effects for the environment and local populations.

Not only is this an important problem in its own right, but it has also raised concerns within the OECD about competition from non-OECD countries whose ECAs who are not obliged to apply the same disciplines, including fears that this could undermine existing disciplines and potentially trigger a race-to-the-bottom in environmental standards applying to export credit. Incorporating the major emerging economies into global rule making and disciplines on export credit is a key priority of the US, EU and other advanced-industrialized states (Hopewell 2017). As the head of the US Export-Import Bank put it, “it’s important that they play by the rules that everybody else is playing by” (Schewel 2011). OECD membership is not required to join the Arrangement; all major export credit providers are eligible to participate. But the emerging economies have refused to join the Arrangement, a set of rules they played no part in creating and which they view as counter to their development interests.2 In short, as one trade official stated, the emerging economies have “no interest in subjecting their export credit to these disciplines.”3

When the OECD rules were created, and indeed for several decades afterwards, they were effectively universal because they covered all of the world’s major export credit providers at the time. But now, with large emerging economies supplying substantial amounts of export credit, a significant gap has emerged. One negotiator summarized the situation as follows:

You have this Arrangement that’s worked well for decades and over time has gotten better and better as its disciplines bite more and more. The problem is that they were universal rules – everyone who exported capital goods [i.e.,

---

2 Brazil is a participant in the Sector Understanding on Civil Aircraft, but has shown no intention of joining the broader Arrangement.
3 Interview, July 2016.
plants, machinery and equipment] was a member – but now the world has completely changed. … If the Arrangement is going to operate in a meaningful way, it has to involve all the major exporters.4

Otherwise, as another OECD official stated, “the Arrangement becomes pretty irrelevant pretty quickly … There’s no point agreeing on reciprocal restraint if it doesn’t include all actors.”5 Given the volumes of export credit they are providing, the absence of the emerging powers significantly undermines the effectiveness of the Arrangement and its environmental regulations.

In 2012, driven by these concerns, the US launched a major diplomatic push to create a new International Working Group on Export Credits (IWG), involving 18 major developed and developing countries, to negotiate a successor to the OECD Arrangement. The IWG includes the nine participants in the Arrangement (the US, EU, Canada, Japan, Korea, Norway, Switzerland, New Zealand and Australia) as well as nine non-participants (the BRICS plus Indonesia, Israel, Malaysia and Turkey). The IWG is seen as a means to create new, more universal rules on export credit. Compared to the Arrangement, the IWG is considerably more inclusive, with half of its participants emerging economies. However, since the emerging economies have little incentive to subject themselves to new disciplines, despite significant pressure from the US and other advanced-industrialized states, there has been little progress in the IWG. While the IWG has held meetings every three to six months, negotiators indicate that there has been “very little movement.”6 One trade official summed up the IWG negotiations as follows: “The process has been going on for years and there has been zero progress.”7 Efforts by the traditional powers to engage the emerging powers in multilateral negotiations to create new restraints on export credit have thus far failed to yield results.

---

4 Interview, July 2016.
5 Interview, July 2016.
6 Interview, June 2016.
7 Interview, July 2016.
When the IWG began, the US and other advanced-industrialized states hoped it would mirror the Arrangement by going beyond dealing solely with the financial terms of export credit to address a range of related “good governance” issues, and ultimately incorporate similar provisions to those in the Arrangement, including for environmental and social due diligence processes, anti-bribery measures, and sustainable lending practices. Yet hopes that the IWG would be an effective forum for addressing such issues soon evaporated. As one negotiator stated, when the IWG initially began, various OECD countries “suggested the IWG deal with good governance. That will happen when pigs fly.”

It is proving exceedingly difficult even to negotiate standard export credit financing terms, never mind rules on good governance. Progress in the IWG negotiations has been extremely slow; it is not even anywhere near discussing environmental provisions and the prospects of an agreement anytime in the near future are dim. The following analysis of India’s financing for the Rampal coal plant, I argue, demonstrates why this matters, underscoring the important consequences of this governance gap.

**India’s Financing of the Rampal Coal Power Plant**

As this case will demonstrate, the problem of environmental and social governance increasingly extends beyond the ECAs of the advanced-industrialized countries of the OECD. Emerging economies, such as India and China, are now major providers of export credit, and their rapidly expanding use of export credit poses a significant challenge for environmental governance. Export credit no longer flows simply in a North-South direction; increasingly export credit flows are South-South (and, indeed, South-North). The case considered here – India’s financing of the Rampal Coal Power Plant in Bangladesh – involves an emerging economy financing a project in a LDC. As this case illustrates, the projects financed by

---

8 Interview, June 2016.
9 India and China have both provided export credit for sales to developed countries, such as the US and UK (Exim 2018: 24; CDB 2015). For example, China provided export credit for construction of the Hinkley Point nuclear power project in Britain (CDB 2015).
emerging economy ECAs can have significant environmental impacts. Consequently, existing environmental governance mechanisms – centered on the OECD Arrangement and Common Approaches – are no longer sufficient in a context where nearly half of all export credit is now provided by countries outside the OECD. As this case demonstrates, a pressing challenge is thus to find ways to integrate emerging economies into a strengthened set of environmental governance arrangements for export credit.

In April 2017, the Export-Import Bank of India (India Exim) agreed to provide a $1.6 billion loan (buyer’s credit) to finance the construction of a 1320 megawatt coal-fired supercritical power plant in Bangladesh. The deal has been identified by industry experts as one of India Exim’s “most aggressive and largest single financings to date” (Thompson 2017). Bangladesh India Friendship Power Company Limited (BIFPCL) a 50:50 joint venture between India’s state-owed National Thermal Power Corporation (NTPC) and the Bangladesh Power Development Board (BPDB) signed the agreement with India Exim. The project has a total cost of approximately $2 billion and a debt-to-equity ratio of 70:30, with India Exim providing the debt financing and Bangladesh and India equally splitting the equity component for the project (Thompson 2017).

BIFPCL entered into an engineering, procurement and construction (EPC) contract agreement for a turnkey package with Bharat Heavy Electricals (BHEL), India’s largest engineering and manufacturing company. Competing against Chinese firms, BHEL emerged as the lowest bidder, facilitated by the concessional finance provided by India Exim. According to a senior BHEL executive:

We have been trying to bid for this project for a long time. We finally approached the Prime Minister’s office to secure an attractive financial package to bid competitively. The package provided by India Exim was for all Indian manufactures and this will now be our largest overseas order to date. (cited in Thompson 2017)
Although the terms of India Exim’s financing have not been made public, best-available estimates suggest that, to secure the contract for BHEL, India Exim provided a below market rate loan to BIFPCL containing an implicit subsidy of $988 million over the 12-year period of the loan (IEEFA 2016). In other words, this represents a substantial subsidy paid by the Indian government to finance the project. In the face of China’s aggressive use of export credit to support the competitiveness of its firms abroad, it is likely that India would not have been able to secure the contract without this substantial state support.

Part of the reason the Indian government was willing to provide such large amounts of financing for the project is its broader geopolitical implications. This will be the biggest foreign project by an Indian power firm, and it is widely seen as part of India’s rivalry with China for regional dominance. China’s investment in building large infrastructure projects in India’s near abroad, such as a major Chinese-funded port development in Sri Lanka, has been perceived as a growing threat. Winning the bid for the Rampal power plant has thus been portrayed in India as an important national victory in its commercial and strategic competition with China (Reuters 2016).

While the plant will contribute to meeting Bangladesh’s burgeoning demand for energy, it raises significant environmental and social concerns. The plant, which will cover 1,834 acres of land, is being constructed in an ecologically sensitive area of considerable economic and social importance. The site of the plant is just 14km away from the Sundarbans, a UNESCO World Heritage Site. Spanning the river basins of the Ganges, Brahmaputra and Meghna rivers, and intersected by a complex network of other rivers and waterways, the Sundarbans are one of the world’s largest surviving mangrove forests (Mathiesen 2016). Its UNESCO designation indicates that the area “supports exceptional biodiversity in its terrestrial, aquatic and marine habitats.” The Sundarbans provide a rich habitat for numerous endangered or threatened species, including the Bengal tiger, Indian
Python, and Ganges and Irrawaddy river dolphins. Furthermore, two million people depend on the Sundarbans for their livelihoods, most of whom rely on agriculture, shrimp cultivation, and fishing, as well as wood and palm collection (UNESCO 2016b). The mangroves also provide communities with vital protection from storms and tidal surges.

The construction of a large coal-fired power plant in an ecologically fragile area carries significant environmental consequences. A UN fact-finding mission led by UNESCO and the International Union for the Conservation of Nature (IUCN) identified a number of concerns centered on damage to the ecosystem from air and water pollution, increased shipping and dredging, and the cumulative impact of industrial and related development infrastructure (UNESCO 2016a). Once in operation, the plant will burn 4.7 million tons of coal, emitting 7.9 million tons of carbon dioxide and other toxic gases annually. The processes employed in the plant will emit hazardous chemicals such as sulfur, carbon dioxide, cadmium, radium, arsenic, lead, mercury and nickel. Over 200 tons of different toxic gases could be discharged daily from the plant unless treated appropriately before emission (Akash 2013). These gases will be dispersed by wind and affect communities, plants, animals, soil and livestock. Heavy metals resulting from coal burning will be kept in a 183-acre coal ash pond containing toxic sludge. The tailings pond will be located on the banks of the Passur River, a cyclone and flood prone area, significantly increasing the risk that the plant will discharge toxic water into the water system (Roy 2015; Sajen 2015). If waste from the plant contaminates the surrounding air or water, in addition to damaging the ecosystem, it would threaten agricultural production and the health of local inhabitants and their livestock. Oil and chemical waste from coal-carrying vessels supplying the plant also threaten to contaminate the water.

In addition, the power plant’s presence could alter the critical water balance in the region. The plant will draw 9,150 cubic meters of water per hour from the Passur River for
its operation. The removal of freshwater from the river system is problematic, as it is already an increasingly saline environment that is starting to alter the functioning of the ecosystem (UNESCO 2016a). In addition, the plant will discharge 5,150 cubic meters of hot treated waste water every hour for the next 25 years back into the river. It is feared that the discharged water will be toxic and have a destructive effect on fisheries, shrimp farms, and mangrove-supported habitat (Roy 2015).

Furthermore, the project will require 13,000 tons of coal each day to be transported through the Sundarbans waterways to supply the plant. Ships carrying coal and other inputs for the plant would move through the mangrove reserve, requiring dredging and dumping of 32 million cubic meters of river bottom initially, as well as regular annual dredging to enable vessels to navigate. In an area prone to frequent shipping accidents, this will also increase the risk of oil and coal spills (Harvey 2016; Roy 2015). The ecosystem of the mangroves is already strained and environmental experts maintain that it should not be placed under further stress. Damage to the mangrove forests would significantly increase vulnerability to storms, cyclones, and other natural disasters.

The proposed plant has been widely condemned for not maintaining a safe distance from an environmentally critical area. Due to the likelihood of environmental pollution, international practice is that coal-fired thermal power plants are usually not approved within 15-25km of reserve forest, national park or public settlement (Transparency International 2015). Indeed, domestically, India’s own policies prohibit the construction of thermal power plants within a 25km radius of protected forests like the Sundarbans. Yet India Exim has nonetheless gone ahead with financing the project in a foreign jurisdiction.

The Environmental Impact Assessment (EIA) conducted for the project has been strongly criticized (Akash 2013). Instead of being conducted by a neutral, independent agency, as per accepted best-practice, the EIA was carried out by a government agency on
behalf of the Government of Bangladesh’s Ministry of Power, Energy and Mineral Resources. An independent evaluation conducted by Transparency International (2015) found major flaws in the EIA, including the omission of crucial information about the environmental and human health risks of the proposed plant, the failure to adequately assess its impact, and the provision of inaccurate and misleading information. The UN fact-finding mission similarly determined that the EIA was inadequate and failed to satisfactorily assess the threats associated with the plant (UNESCO 2016a).

In assessing the potential impact of the Rampal power plant, the UN mission determined that air and water pollution from the plant have “a high likelihood” of causing “irreversible damage” (UNESCO 2016a). It also found that “the plant itself is not applying the best available technology or the highest international standards for preventing damage commensurate with its location in the near vicinity” of an ecologically fragile World Heritage Site, including inadequate avoidance and mitigation measures. UNESCO (2016b) ultimately determined that the power plant posed a “serious threat to the site” and therefore recommended that “the power plant project be cancelled and relocated to a more suitable location.” These recommendations have not been acted upon.

The project has been subject to intense criticism and protest within Bangladesh. Environmental NGOs have vigorously protested against the plant, maintaining that resources should instead be invested in developing alternative electricity sources. As one representative argued:

Solar panels already provide affordable, reliable energy to 18 million people in the country, and other renewable energy options like wind power can be harnessed instead of condemning the Bangladeshi people to the toxic impacts from the 4.7 million tons of coal Rampal is set to burn every year. (quoted in Mathiesen 2016)

A collection of Indian-Bangla civil society actors have urged Indian Prime Minister Narendra Modi to cancel the development, arguing that it will have a “devastating impact on thousands
of fishworkers and forest dwellers” who are dependent on the Sundarbans in both India and Bangladesh, in addition to causing “damage to the natural protection from natural calamities like tsunami and cyclones” (Economic Times 2016). However, resistance from local communities, as well as national and international environmental and human rights NGOs, has failed to alter plans for the project or result in improved measures to avoid or mitigate its potential adverse environmental or social effects. With financing secured from India Exim, construction is now underway and the plant is expected to be in operation by 2020.

Rampal has been identified as one of the most potentially destructive coal plants in the world (IDI 2016). The project would be prohibited from receiving government-backed export credit support under OECD rules. First, according to the Common Approaches’ provisions for environmental and social review, projects are required to be benchmarked against and meet the standards of all ten World Bank Safeguard Policies or all eight IFC Performance Standards, as the basis for deciding whether to decline or provide support.10

However, an independent analysis of the Rampal plant found that “serious deficiencies in project design, planning, and implementation and due diligence obligations render the project non-compliant” with the IFC Performance Standards (BankTrack 2015). The analysis determined that the project violates five of the eight IFC Performance Standards, including: failing to adequately assess and manage environmental and social risks and impact, including complying with host country environmental laws; excessively high risks of pollution to air, water and land; and violating the prohibition on projects in critical habitats with adverse effects on biodiversity. Both the World Bank and the Asian Development Bank declined to finance the Rampal plant (Thompson 2017), suggesting the project failed to meet their standards. Furthermore, several commercial banks – including BNP Paribas, Crédit Agricole

---

10 Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence, TAD/ECG(2016)3, 2016: Section V, paragraphs 21 and 29.
and Société Génerale – applying the Equator Principles, which are modeled after the IFC Performance Standards, declined to invest in the plant after determining that it failed to meet minimum environmental and social standards (Lenin 2015). The Norwegian pension and sovereign wealth funds likewise excluded NTPC (the Indian half of the BIFPCL joint venture) from their portfolios, based on “an unacceptable risk that NTPC will contribute to severe environmental damage through the building and operation of the power plant at Rampal” (Roy 2015). Given available evidence suggesting that the Rampal project failed to comply with World Bank or IFC Performance Standards, it would not have met the criteria for export credit support under the Common Approaches.

Moreover, the Rampal plant would be barred from financing outright under the Arrangement’s regulations on export credit for coal-fired power plants. Prompted by concerns about the negative environmental impacts of coal power projects, Arrangement participants agreed in 2015 to restrict financing for the least-efficient and most-heavily polluting coal plants. While the Sector Understanding on Coal-Fired Power Plants allows support for the most efficient “ultra-supercritical” plants, it prohibits export credit for large plants (>500MW) employing less efficient “supercritical” and “subcritical” technologies. As a large, 1320MW supercritical plant, the Rampal plant is therefore ineligible for export credit under the Arrangement. The Rampal project would thus not have received ECA financing under the OECD Arrangement and Common Approaches.

The Rampal plant would almost certainly not be built without the availability of export credit from India (or China, its competitor for the project). Globally, there is less and less finance available for coal projects, as both public and private sector financial institutions increasingly refuse to finance them. Yet India Exim is not only financing the Rampal project,

---

11 OECD Arrangement, Annex VI: Sector Understanding on Export Credits for Coal-Fired Electricity Generation Projects: Chapter 2, Table 1.
but providing an estimated subsidy of nearly $1 billion (IEEFA 2016), thereby enabling a project that otherwise would likely not be commercially viable.

Conclusion

Analysis of India’s financing of the Rampal coal-fired power plant highlights the new role of emerging economies as substantial providers of export credit, with potentially significant environmental consequences. The current system of environmental governance for export credit is the product of a long, hard-fought battle to secure global-level environmental regulations in this area. However, as this case illustrates, the fact that India and other major emerging economies are not bound by established rules governing environmental safeguards represents a significant and growing gap in the regime. The absence of these countries risks undermining the credibility and effectiveness of efforts to regulate the environmental aspects of export credit provision. The Rampal case underscores the pressing need to expand global governance to incorporate the broader range of actors in this field. The challenge is to integrate emerging economies into existing or new governance mechanisms in a way that respects the development objectives of the emerging economies, and the recipients of their export credit support, while also ensuring that the negative environmental and social consequences of that financing are minimized.

Biography: Kristen Hopewell is a Senior Lecturer in International Political Economy at the University of Edinburgh. She specializes in the international politics of trade, development and environment, with a focus on global power shifts. Her award-winning book, *Breaking the WTO: How Emerging Powers Disrupted the Neoliberal Project*, was published by Stanford University Press in 2016. She currently holds an ESRC Future Research Leaders Grant to investigate the changing global dynamics of export credit.
References


Reuters. 2016. "India set to seal major power deal in Bangladesh, beating China." February 22.


—. 2016b. "World Heritage Centre and IUCN call for relocation of Rampal power plant, a serious threat to the Sundarbans." Press Release, October 18.


