

# EXPORTNÍ GARANČNÍ A POJIŠŤOVACÍ SPOLEČNOST ČESKÁ EXPORTNÍ BANKA



*Why are environment and climate change still taboo for the Czech exports?*

Czechia is a significantly open export-oriented economy mainly to EU (80%), of which Germany accounts for almost 40%. According to the international classification of SITC, the decisive item of Czech exports is machinery and transport means which in the long term constitute more than half of the volume of Czech exports. Considerable dependence on exports raises the need for state export support, especially when some traditional markets outside the EU have been lost, mainly in Asia and Africa. An important part of the Czech Republic's export strategy for 2012-2020 is gaining access to Czech exports to developing countries.

In Czechia, a dual export support system was set up in the 1990s which still consists of two state ECAs. On the one hand, it is the Czech Export Bank (Česká exportní banka, CEB), which provides state-subsidised loans for companies exporting to developing countries, and on the other hand, the Export Guarantee and Insurance Corporation (Česká exportní garanční a pojišťovací společnost, EGAP), which offers insurance.

In 2018, Slovakia, the Republic of Cuba, Côte d'Ivoire, Papua New Guinea, but also the traditional USA or Russia and according to volume of activities China, Georgia, Turkey, Bulgaria, Egypt, India,<sup>1,2</sup> were among their target countries under newly concluded agreements.

Both institutions continued to expand their collaboration with SMEs and also diversified their portfolio of services in response to increasingly competitive global environment of ECAs. The reason for this decision was the bad experience of the financial crisis. The losses resulting from some past activities also put pressure on the effectiveness of the institutions' activities. This was first seen in 2018, when the state shares of all the ministries involved were transferred to the sole administration of the Ministry of Finance.<sup>3,4</sup> Furthermore, in May 2019, the Ministry submitted a proposal to transfer all shares of CEB under EGAP, which would in fact bring the two agencies into one.<sup>5</sup>

At present, however, the ownership structure of 2018 still applies. EGAP is wholly owned by the State through the Ministry of Finance. For CEB, the direct majority owner is the state, 86%

through the Ministry of Finance and the rest, 14% through EGAP.

Export agencies form an integral part of the system of institutions that through their activities interfere with the implementation of some fundamental policies and strategies of Czechia - the Export Strategy and the Foreign Policy Concept. The diversity of these policies also implies a need for coherence between them. However, this proves to be unfulfilled in the long term. There is no exception to the scope of activities of export agencies monitoring mainly economic impacts of supported projects, although they should also monitor other impacts such environmental and social, political, human rights or development.

## Applicable rules

Since the Regulation (EC) No 1233/2011 of the European Parliament and of the Council on the application of certain guidelines in the field of officially supported export credits and the withdrawal of the Council Decision 2001/76 / EC have been in force since 2011, they have come to the fore not only Member States' reports on the activities of their export credit agencies reporting on the state of assets and liabilities, claims paid and recoveries, new liabilities, business risks and premium rates as well as important information on environmental risks and other significant problems in implementing their export projects when examining the environmental and social impacts of projects.

When examining the environmental and social impacts of projects, ECAs must follow OECD recommendations, which are specifically reflected in the OECD's 2004 Common Approaches to the Environment and Officially Supported Export Credits. They state a positive assessment of the acceptability of exports and investments in terms of environmental impacts in the country of final destination is one of the basic preconditions for the conclusion of the relevant insurance contract. An environmental review should be carried out for all projects for which the exporters applied for State-supported credit insurance with a repayment of more than 2 years. Exceptions to this rule are support in agricultural and defence sectors, and also support through official development assistance.

1. <https://www.egap.cz/cs/vyrocní-zpravy>
2. <https://www.ceb.cz/kdo-jsme/povinne-zverejnovani-informace/vyrocní-zpravy/>
3. <https://echo24.cz/a/SqdJV/ceb-a-egap-by-nove-mely-spatat-jen-pod-ministerstvo-financi>
4. <https://byznys.ihned.cz/c1-66078700-ceska-exportni-banka-a-pojistovna-egap-by-mely-nove-spatat-jen-pod-ministerstvo-financi-rozhodla-vlada-zmena-posoudi-cnb>
5. <https://www.mfcr.cz/cs/aktualne/tiskove-zpravy/2019/ministerstvo-financi-predklada-navrh-nov-35256>

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## Due diligence and reporting

Available sources indicate EGAP does not review nor classify projects that are not subject to this rule in terms of their potential impact on the environment and human rights. It refers to the fact that this classification is not binding under the Common Approaches. In cooperation with Czech Technical University (ČVUT) in Prague, EGAP developed and uses a system of risk assessment described as "Efficiency of Export Support". This system is focused on assessing economic risks only, and does not include environmental or social aspects.

CEB proceeds as EGAP. Since 2002, applicants for officially supported export financing through CEB have been obliged to provide the export bank with information enabling it to assess the potential impact of the project on the environment in the country of destination according to the Common Approaches. The impact of projects that are not subject to the obligation is not evaluated in this case either.

Although both institutions claim to be inspired by the practice of the Export Development Canada in impact assessment, neither institution has yet used a methodology other than mandatory Common Approaches in impact assessment. However, in the case of other export agencies, we encounter a wide range of other frameworks that can be applied. Many agencies use standards recommended by the OECD to be used as complementary to their own framework - Performance Standards and the International Finance Corporation (IFC) Environmental, Health, and Safety Guidelines. In addition, there is also the Equator Principles framework, or OECD Guidelines for Multinational Enterprises, Guiding Principles on Business and Human Rights and the UN Global Compact. At the same time, however, these institutions are not pursuing any further activities in the field of improving the impact assessment of supported exports.

Projects involving both institutions usually carry out an initial assessment and categorisation of EGAP. When CEB provides loans for projects without EGAP insurance (so far the situation is rather exceptional), the process must be carried out by the bank itself. Institutions have been working together for a long time to develop impact assessment practices.

Regarding compliance and transparency, both organisations send quarterly reports to the Czech National Bank (ČNB), namely the Solvency and Financial Situation Report and the Regulatory Supervision Report. Once a year, the Chamber of Deputies of the Parliament of the Czech Republic receives a report on state-

supported financing through EGAP and CEB. This report is then published and usually discussed in the Economic Committee of the Chamber of Deputies. Both institutions provide annual reports online. CEB Annual Report since 1998 provides some relatively detailed information on business activities, key market risks and finances compared to other annual reports of the European Court of Auditors. However, it is not clear from these reports which projects are supported by the state budget and to what extent and which projects are not. In none of these reports ECAs mention projects in terms of their impact on society and environment.

CEB only states general information on the fulfilment of the OECD evaluation requirement. Literally, it is stated in both reports: "When financing export credits with a maturity of at least 2 years, CEB adheres to the rules for their assessment in terms of the environmental impacts of the implementation of financed export projects in the target country of export.

It follows the procedures of the OECD Council Recommendation "Common Approaches to Officially Supported Export Credits and Environmental and Social Due Diligence" (2016) on the application of certain rules in the field of officially supported export credits. CEB does not carry out any activities of its own in the field of the environment. It is important to mention there is no significant effort made this disclosure transparent. It is only mentioned in the chapter "1. Profile of the Bank" or the subchapter "1.4. Further information on the CEB" and its wording has remained completely unchanged during the last 9 years.

EGAP does not mention or disclose impacts of insured projects on society and environment at all although providing more detailed disclosure of information is common practice in other ECAs (eg. Dutch ECA Atradius DSB<sup>6</sup>).

Objectively, both institutions have a serious problem with transparent publications of their projects. According to the Common Approaches, agencies should disclose information on projects where there are environmental or social impacts. The ESIA (Environmental and Society Impact) reports on Category A projects with significant impacts should be published 30 days before the support contract is signed. General information on Category B projects that are expected to have minor impacts should be published in addition to information on Category A projects once a year. While EGAP complies with these requirements and also publishes reports on the impact of Category B projects<sup>7</sup>, CEB does not publish any of the required information<sup>8</sup> on its website. A comparison of the Dutch ECA Atradius, EGAP and CEB in terms of published

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6. <https://atradius.cz/documents/atradius-annual-report-2018.pdf> (str. 45)

7. <https://www.egap.cz/cs/o-vlivu-vyvozu-na-zivotni-socialni-prostredi>

8. <https://www.ceb.cz/kdo-jsme/legislativni-predpisy/mezinarodni-standardy/spolecenska-odpovednost-csr/hodnoceni-vlivu-na-zivotni-prostredi-a-s1/>

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project information can be found in the annex to this report.

Both, EGAP and CEB, offer a complaint mechanism on their websites.<sup>9,10</sup> The submission of a complaint is based on the information provided about the complainant. CEB verifies anonymous complaints internally, but does not publish, nor does EGAP that even does not handle complaints, but keeps on records only.

Due diligence lags not only at national but also at international level. In May 2018, the European Ombudsman first issued a Recommendation and later in December 2018 a Decision against the European Commission on non-compliance with the Regulation No 1233/2011 (see more in the chapter Applicable Rules). Proposed remedies include the requirement to revise existing Checklist (in cooperation with representatives of civic society) and draft guidelines for reporting. However, Czech ECAs are not aware of this situation, and therefore do not carry out any related preparatory activities.

## Paris proof ECAs

During the existence of CEB and EGAP, there were also situations where funds were provided that should not be provided in compliance with all legal rules. CEB was even accused several times of violating legal rules for the management of public funds. Troublesome projects of both organisations include project signed in 2010 for the construction of the Yunus Emre fossil fuel (brown coal or lignite) power plant (Adularya) in Turkey. The power plant was built by the Ostrava-based Vítkovice Power Engineering company of Jan Světlík for the Turkish holding Naksan. CEB granted a loan to the Turkish investor of approximately CZK 11.7 billion. However, so far the power plant has not worked. According to an official study, the poorly designed and manufactured fluidized bed boiler and improper connection of technologically complex equipment are to blame. In order to reduce losses, the Czech side agreed to sell the power plant. The TMSF, a Turkish management fund managing the sale organises 3rd round of sale at present and estimates the plant's value to be about CZK 4.5 billion. Return of CEB's loan is endangered and Czech state budget is facing a significant loss.

In March 2019 Prime Minister Andrej Babiš's trip to Turkey was announced, where he was to meet with Turkish Prime Minister Erdogan to discuss this case. However, the trip did not take place and was postponed until the autumn of this year.

In addition to the already mentioned project of the construction of the Adularya power plant,

the similar fate was met by the Kolubara power plant projects in Serbia, Balloki and Kuridke power plants in Pakistan, Kurganskaya power plant in Russia and some others. It is estimated that all measures designed to help many Czech exporters to overcome the financial crisis will be unprofitable.

In recent years, CEB and EGAP have used state funds to fund a number of projects that are problematic both financially and environmentally. These include coal, natural gas and nuclear power plants. There are several causes. The main one can be considered the preference of export support over some principles of sustainability and the related loosening of rules during the financial crisis. The fact that the Czech police has been investigating several projects since 2014 shows that this problem may have a criminal aspect. Following the experience of problematic projects, the eagerness of ECAs after risk projects has decreased relatively. According to CEB, internal rules and procedures for assessing new projects have been tightened in this respect. Nevertheless, projects funded by CEB and EGAP, such as the Krasavina and Poljarnaja power plants in Russia, raise concerns about accuracy of their decision-making processes, transparency and accountability.

## Conclusion

Finally, it is clear that some of the ECAs projects supporting coal and natural gas extraction and combustion have negative impacts on global climate developments and are incompatible with Paris Agreement's objectives. Whether the vague assessment of project impacts or the outdated business strategies of Czech companies are to blame, the Czech approach to export support needs to be reconsidered. ECAs should help transform and develop societies focusing on sectors such as renewable energy and efficient public transport.

At the same time, stricter criteria should be adopted to prevent the financing of fossil fuel projects. Neither CEB nor EGAP seem to have clearly defined policies in response to climate change. It can be assumed that sectoral discussions within the OECD ECG are conducted on the subject. Both agencies should therefore not only identify the types of projects that have the potential to produce significant negative impacts, but should also clearly identify those types that are not supported under any conditions for their environmental or human rights impacts. As both CEB and EGAP work with public finances, full transparency of access to environmental and social impacts should be ensured. Projects monitored for their riskiness should be disclosed and adequately presented to the general public whose taxes are used to fund these projects.

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9. <https://www.egap.cz/cs/vyrizovani-stiznosti>

10. <https://www.ceb.cz/kdo-jsme/povinne-zverejnovani-informace/stiznosti/>

## Disclosure: Atradius - EGAP - ČEB

	Atradius Dutch State Bank	EGAP	ČEB
Which projects are published?	All	Category A & B	<b>No information</b>
Date of signature	Yes	Yes	
Country of destination	Yes	Yes	
Name of debtor	Yes	Only name of supplier	
Name of exporter / investor	Yes		
Name of guarantor	Yes	No (always EGAP)	
Name of financier	Yes	<b>No *</b>	
Transaction description	Yes	Only project name	
Loan value	Yes	Yes	
Information about impacts	Yes	Only distinction of A & B cat.	
Related to development?	Yes (related / not related)	No	

### Atradius

Date	Country	Debtor	Exporter / Investor	Guarantor
2-1-2015	Saudi Arabia	Joannou & Paraskevaides Ltd	BOM Greenhouses B.V.	N/A
Financier	Transaction	Max. compensation (EUR)	Environmental screening	Development aid
N/A	Delivery of a greenhouse project including supervision of assembly and installation	418.800	no	N/A

### EGAP

Project name	Export country	Contractor	Export contract value	Category	Category reason	Date of contract conclusion
Completion of Units 4 and 4 of Mochovce NPP	Slovakia	DOOSAN ŠKODA POWER s.r.o.	EUR 143 ml	A	Based on the opinion of an authorized expert	18.0.2014