

## Sustainable Lending Questionnaire and Guidance

### Introduction

In 2008, the OECD published its sustainable lending practices (SLPs)<sup>1</sup>. These are designed to ensure that lending by export credit agencies remains productive and sustainable. To ensure that UK Export Finance (UKEF) lending adheres to the SLPs, all UKEF lending to countries covered by the ‘sustainable lending criteria’<sup>2</sup> is subject to a Sustainable Lending Assessment (SLA) carried out by the Foreign, Commonwealth & Development Office (FCDO).

The SLA focuses on three key criteria, each of which has subtopics:

1. Does the project preserve the borrowing country’s **debt sustainability**?
  - The joint IMF-World Bank debt sustainability assessment
  - Any non-concessional borrowing limits in place with the IMF or World Bank
2. Does the project meet the UK’s high standards for **good governance and transparency**?
  - Wider national context
  - Procurement
  - Cost
  - Government and financial
3. Does the project generate **positive economic returns** and avoid unproductive expenditure? (See Annex I for more details)
  - Economic returns
  - Viability and risks.

The above criteria and subtopics form the basis of the Sustainable Lending Questionnaire (SLQ, below) that exporters must complete, in consultation with the mandated lending banks, the relevant line ministries, and the country’s Finance Ministry or debt management office, as appropriate.

If the answers provided in the SLQ provide strong evidence that all three SLPs are met, FCDO will write to His Majesty’s Treasury (HMT) recommending UKEF support. The final decision on whether to approve financing of the project will be made by HMT.

In answering the SLQ, **exporters must:**

1. **Be as thorough as possible and provide supporting evidence** where appropriate, such as cost-benefit analyses, feasibility studies, and other documents
2. **Avoid general statements and instead offer detailed information.** For instance, the statement, “the project will improve transport links” is far less helpful than more detailed information on which transport links will be

<sup>1</sup> <https://www.oecd.org/en/topics/sub-issues/sustainable-lending-practices.html>

<sup>2</sup> Countries eligible for funding from the IMF’s Poverty Reduction and Growth Trust (PRGT) or the World Bank’s International Development Association (IDA).

improved, the impact on journey times and road capacity, road safety, and so on

3. **Include data and their own analysis as far as possible.** This makes it far easier and much faster for FCDO to complete its SLA.

## Sustainable Lending Questionnaire

### A. Overview

<b>Part A: Overview of project</b>
<b>Guidance</b> <ul style="list-style-type: none"> <li>• Overview of the project and outline the rationale (e.g. explain the issue/s it is intended to resolve)</li> <li>• Set out the background to the project and its timeline</li> <li>• What is the expected lifetime of the project?</li> <li>• State the total cost of the contract</li> <li>• Provide details of the UKEF loan:             <ul style="list-style-type: none"> <li>○ Loan Amount</li> <li>○ Finance structure</li> <li>○ UKEF product/s to be utilised (for instance, Buyer Credit Facility or Direct Lending, or a combination of the two)</li> </ul> </li> <li>• Who is/ are the contractor/s involved in delivering the project?</li> </ul>
<b>Response</b>

### B. Debt sustainability

<b>Part B: Debt sustainability</b>
<b>Borrowing limits</b>
<b>Guidance</b> <ul style="list-style-type: none"> <li>• Check <a href="#">this</a> list. Is the country subject to any limits on non-concessional borrowing under the IMF's Debt Limits Policy or the World Bank's Sustainable Development Finance Policy?             <ul style="list-style-type: none"> <li>○ If there is a zero limit, the project will automatically fail the SLA on the grounds of debt sustainability</li> <li>○ If there is a (are) <i>non-zero</i> limit(s), please provide written evidence from the borrowing country's Finance Ministry or debt management office that this project will not lead to a breach of the limit/s</li> </ul> </li> </ul>

- Note that FCDO will also check the country's latest joint IMF-World Bank Debt Sustainability Assessment (DSA) as part of the SLA process. There is no requirement for exporters to provide evidence on the country's DSA.

**Response****C. Good governance and transparency****Part C: Good governance and transparency****Subsection 1: Wider national context****Guidance**

- Explain how the project fits into the wider national context, such as the country's national development plan (NDP) or other strategies or documents
  - Provide evidence of this, through identifying the project in the country's NDP or other published, official strategies (e.g., the government's roads or health strategy) or other documents (e.g., the ruling party's manifesto)
    - Provide links or digital copies of documents, with relevant pages identified
- Does this project complement other projects?
  - If yes, provide details. If no, indicate this.

**Response****Part C: Good governance and transparency****Subsection 2: Government and financing****Guidance**

- Who is the borrower?
- Who is the buyer?
- Is the buyer in the public or private sector?
  - If *public*, provide written evidence of:
    - Approval of the project within the country's budget. If this has not yet happened, explain why and when it is expected
    - Parliamentary approval. Again, if this has not yet happened, explain why and when it is expected
  - If *private*, explain what would happen if the private sector entity was unable to pay. Provide written evidence of this arrangement.

**Response**

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**Part C: Good governance and transparency**
**Subsection 3: Procurement**
**Guidance**

- How was the contract awarded for the project – open tender or direct appointment?
  - If *open tender*, explain why the exporter's proposal was favoured
  - If *direct appointment*:
    - Explain why an open tender was not used
    - Explain why the exporter was chosen over other options
    - Provide evidence that the contract is still competitively priced. This could be via a benchmarking exercise versus other companies or projects. FCDO will accept a written report or spreadsheet
- Explain whether the exporter has previously completed similar projects in the region (or elsewhere) or indicate that they have not
- Provide evidence that the procurement exercise has been carried out in accordance with the country's procurement law
  - For instance, with a flowchart and/ or evidence of cross-government approvals.

**Response**
**Part C: Good governance and transparency**
**Subsection 4: Cost**
**Guidance**

- Provide a detailed breakdown of project costs
  - A spreadsheet or table in a document is likely to be most useful
    - *Examples*: raw materials, labour, training, professional services
- How will the project be maintained and financed beyond completion? Will it be self-financing or require government support?
  - If it is expected to be *self-financing*, please provide supporting evidence. This could be a written explanation or a spreadsheet of finances/ project forecast
  - If the project will require *government support*, explain why this is necessary and prudent.

**Response**

**D. Positive economic returns****Part D: Positive economic returns****Subsection 1: Economic impact****Guidance**

- Provide a cost-benefit analysis or cost-effectiveness analysis, considering all costs and benefits:
  - Do the project's expected benefits exceed its costs?
  - Provide aggregate metrics such as the Net Present Value (NPV), Benefit-Cost Ratio (BCR), and payback time of the project
  - Demonstrate that the full impact of the project has been considered, in both the short- and long-term, and primary and secondary benefits
    - *Example:* a primary benefit of an agricultural project might be improved agricultural output, whilst a secondary benefit might be improved health outcomes
- Explain the employment impacts of the project:
  - Will the project generate jobs, both during the construction phase and on an ongoing basis? If yes:
    - How many in each of the construction and operational phases?
    - What percentage of the workforce will be hired locally?
    - What proportion of the jobs will be skilled vs. unskilled?
    - What training, if any, will be provided?
- Provide key statistics that best summarise the expected impact of the project
  - *Examples:* transport infrastructure – road capacity, journey times, emissions, accidents; health – hospitalisations, hospital capacity, incidence of disease, deaths; agriculture – yields, productivity, employment, output.

**Response****Part D: Positive economic returns****Subsection 2: Viability and risks****Guidance**

- Identify possible risks to project completion
- Explain how these risks will be mitigated
- Explain how the social and environmental costs (e.g., resettlement, habitat destruction) will be managed.

**Response**

Foreign, Commonwealth & Development Office  
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## **Annex I – Positive Economic Returns**

To adhere to the SLPs, all UKEF projects must generate positive economic returns for the country and avoid unproductive expenditure. A project has positive economic returns if its overall benefits to a country are expected to exceed the overall financing costs, after discounting to present values.

### **The UK Government's Approach to Project Appraisal**

Appraisal is the process of assessing the costs, benefits, and risks of alternative ways to meet government objectives. It helps decision makers to understand the potential effects, trade-offs, and overall impact of options by providing an objective evidence base for decision-making.

The appraisal of social or public value includes all significant costs and benefits that affect the welfare and wellbeing of the population, not just market effects. For example, environmental, cultural, health, social care, justice and security effects are included. This welfare and wellbeing consideration applies to the entire population that is served by the government, not simply taxpayers.

In the UK, the first step in appraisal is to provide the rationale for intervention. The main focus of appraisal is on the analysis of a shortlist of options. The appraisal of shortlisted options is where expected costs and benefits are estimated, and trade-offs are considered. Social Cost Benefit Analysis (CBA) or Social Cost Effectiveness Analysis (CEA) are the means by which cost-benefit trade-offs are considered. Identification of the preferred option is based on the detailed analysis. It involves determining which option provides the best balance of costs, benefits, risks, and un-monetisable factors, thus optimising value for money (VfM).

A variety of measures can be used to summarise Social CBA. Estimates of Net Present Value (NPV) and Benefit-Cost Ratios (BCR)s are commonly used. See [here](#) for full HMT Appraisal Guidance.

### **FCDO's Approach to Value for Money**

As highlighted above, CBA and CEA can be used to assess economic returns. FCDO typically assess the cost-effectiveness of the UK's Official Development Assistance (ODA) interventions. In FCDO, VfM means making the best possible use of all resources to maximise impact. As a minimum, benefits must exceed costs.

More substantively, FCDO interventions should provide the most significant possible benefit for their cost, given the relevant contextual factors. Where possible, analysis should be supported by available evidence on effectiveness (intervention benefit) and cost-effectiveness (level of benefit per pound). Significant differences in cost-effectiveness can arise within any sector. Cost-effectiveness is about the intervention's ultimate impact on objectives, relative to the inputs that we or our agents invest. Maximising cost-effectiveness maximises overall VfM.