Issue Brief: IFC Global Trade Finance Program

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FINANCIAL CRISIS RESPONSE:

- Through its $3 billion Global Trade Finance Program, IFC is able to play a critical role and respond to the global credit crisis by supporting trade with emerging markets.
- Trade is vitally important in an integrated world, and can be an effective tool in private sector development. At times of crisis, imports may be particularly critical to a country and exports can generate much-needed foreign exchange. However, during crises banks tend to reduce their exposure as a defensive measure, which results in a decrease in short-term trade lines.
- The IFC Global Trade Finance Program facilitates trade by providing guarantees that cover the payment risk in trade transactions with local banks in emerging markets. This enables the continued flow of trade credit into the market.
- In response to increased demand as a result of the financial crisis, IFC increased the Global Trade Finance Program by $500 million to $1.5 billion in October 2008 and then from $1.5 billion to $3 billion in December 2008.
- The demand for trade-related risk mitigation has increased significantly as a result of the global financial crisis. In September, the GTFP issued $250 million in guarantees – double the historical average monthly demand. In the first 5.5 months of FY09, the Program reached $1 billion in outstanding commitments, representing 70 percent of FY08 volume.
- In Central and Eastern Europe, one of the hardest hit regions by the financial crisis, the Program issued more dollar volume of guarantees in the first 5.5 months of FY09 than it did for the whole of FY08. The same applied in South Asia. In the East Asia and Pacific region, 93 percent of the FY08 dollar volume was issued in the first 5.5 months of FY09, and in the Middle East and North Africa the figure was 87 percent.
- Noteworthy trades supported by the GTFP in recent months include shipments of paper from Indonesia to Nigeria, textiles from China to Bangladesh, milled flour from Egypt to Sierra Leone, car tires from Turkey to Azerbaijan, peas from Ukraine to the West Bank and Gaza, wheat from Russia to Pakistan, and motor vehicle parts from Brazil to Bolivia.

KEY FACTS:

- The GTFP extends and complements the capacity of banks by providing risk mitigation to encourage trade with new or challenging markets, or with markets where trade is constrained.
- Since its inception in October 2005, GTFP has issued over $3.4 billion in trade guarantees to support more than 2,600 individual trade transactions.
- 50 percent of the dollar volume of guarantees has supported trade with IDA countries.
- Nearly half the dollar volume of guarantees has supported trade with sub-Saharan Africa.
- Over one third of total guarantees has supported trade between emerging markets.

- 75 percent of dollar volume of guarantees covered shipments of less than $1 million, serving small business importers and exporters.
- Banks participating in the GTFP have access to an extensive global network of more than 200 partner institutions. The network now includes 135 issuing banks in 69 countries and 154 confirming banks in 76 countries.
- The GTFP reaches banks and their customers in underserved markets. Banks that have recently joined the program include Bank of Palestine in the West Bank and Gaza, Prior Bank in Belarus, and Ficohsa in Honduras.

Current Achievements

- **Strong Support for IDA and Post-Conflict Markets:** The GTFP has a strong development impact in countries where no documentary credit has previously been available and where trade lines with international banks have been insufficient to support the growing demand for imports and exports. Trade has been supported in post-conflict countries such as Lebanon, Liberia, and most recently Haiti where banks have received advisory services and training courses.

- **Support for South-South and Multiple Transactions:** Other notable transactions include guarantees issued for the sale of dairy products from Ukraine to Tajikistan, the import of textile machinery into Bangladesh, dry yeast from Turkey to Burundi, and medicines from China to Argentina.

- **Advisory Services and Training Build Capacity:** The GTFP has been providing training and advisory services aimed at strengthening the capacity of banks. Since 2006, more than 700 participants from 252 banks across 47 countries have benefited from the 45 training and advisory services programs. Basic and intermediate training courses have been carried out in Senegal, Cameroon, Ghana, Kenya, Nigeria, Sierra Leone, Tanzania, Ethiopia, South Africa, Rwanda, Mozambique, Nicaragua, Mexico, Peru, Haiti, Trinidad & Tobago, and Bangladesh. Additionally, extended on-site advisory services were carried out in Sierra Leone, Liberia, Nicaragua, Uganda, Haiti, Mongolia, and Papua New Guinea.

- **Expanding Trade Finance through Smaller Banks:** Beyond the benefits to IDA countries, the GTFP offers benefits for small banks in the middle income emerging markets, a segment which is traditionally underserved by the international banking community. Data from individual client banks indicates that participation in the program allows them to expand their number of correspondent banks, increase their volume of trade and attract new customers.

Please visit www.ifc.org/GTFP for updated country coverage.

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