

WORLD TRADE ORGANIZATION

WT/AFT/W/24
21 March 2007

(07-1181)

Aid for Trade

AID FOR TRADE

Boosting Trade Financing to Developing Countries and Economies in Transition

Note by the Secretariat

1. More than 90% of international trade flows involve some kind of credit, mostly short-term. Simple and stand-by letters of credit, overdrafts, bills of exchange and bankers' acceptances are routinely used in North-North trade. However, international banks adopted much more stringent lending standards when trading with developing countries and emerging economies after the Asian and East European financial crises of 1997-99. Fees and rates on what is normally inexpensive finance were raised, country limits were reduced by large international banks and tenors (maturities) were cut. Following these financial crises, the IMF, World Bank, WTO, regional development banks, credit insurance agencies and international banks formed a group of experts to seek solutions to the scarcity of trade finance during the crisis itself, and what appeared to be a more general trend of large international banks withdrawing from smaller developing countries' markets.

2. While statistics seem to show that in the past two years export credit and export insurance credit agencies have to a large extent filled the gap of trade financing to developing countries for fairly large trade transactions (over \$1 million), a gap still exists in the market for smaller transactions (generally \$200,000 or lower) in countries with little access to international markets and/or no or low international ratings. In such countries, even where the banking system is sound, local financial institutions do not find partners to share the relatively limited risk of financing or guaranteeing trade transactions. In order to fill this gap, several regional development banks (RDBs) have put in place "trade finance facilitation programmes" (TFFP) to provide short-term guarantees to international and regional banks (confirming banks) to cover both the political and commercial risks of international trade credit transactions emanating from local banks (issuing banks) or to provide directly to specified companies and banks revolving credit facilities or cash advances to finance trade transactions, all of which can be provided at relatively little cost.

3. The first TFFP, initiated by the EBRD in 1999, has since helped to finance 5,800 private international trade transactions for a total amount of credit and guarantees of some \$6 billion. The EBRD scheme was followed by broadly similar schemes developed by the Asian Development Bank and the Inter-American Development Bank. These schemes are regularly reviewed to fit the demand from customers. Lately the International Financial Corporation (IFC), a subsidiary of the World Bank Group, has launched a successful scheme aimed mainly at developing the trade portfolio of local financial institutions in Africa (Table 1). The Executive Board of the IFC recently agreed to expand the IFC's trade finance operations for the benefit, primarily, of producers and traders in Africa. As far as it is concerned, the Asian Development Bank is adapting its scheme to further reduce bureaucracy, and improve productivity of processing demands, so as to reduce pricing and increase the trade turnover in ADB Member countries.

TABLE 1

Regional Trade Finance Facilitation Programmes

IFI	Started (year)	Number of transactions	Trade credit lines/guarantees (\$ billion)	Issuing banks	Confirming banks	Countries covered
EBRD	1999	5,800	6.2	109	630	21
IFC	2005	700	0.7	54	400	30
IDB	2005	51	0.1	22	77	12
ADB	2004	120	0.1	21	65	12

4. Donor funding has been supporting the expansion of these programmes in two ways:
- first by allowing some regional development banks to share the risk with individual donors (national development agencies). To this effect, donor funds (risk-sharing funds) are also being used to leverage the concessional guarantees or credit lines provided by RDBs. For example, Austria, Germany, the Netherlands, Norway, Switzerland, and Chinese Taipei are participating in a guarantee fund for the EBRD' TFPP. Funds may be earmarked for country-specific activities. All in all, risk-sharing funds, which are received in the form of grants (but which are generally recovered at the end of a country-programme if there have not been any losses) are in the area of \$25 million across all institutions mentioned above. The programme managers in the institutions concerned are of the view that an additional \$15 to 20 million could be absorbed easily, due to the high demand for these trade finance activities.
 - second, donor technical assistance funds are being used by all of the institutions for programmes to train experts in the financial sectors in developing countries in trade finance through seminars or *in-situ*. The EBRD alone has trained 300 personnel in 65 banks from 15 countries in South-East Europe and the CIS free of charge on the basis of donor funding. Ambitious training programmes have been prepared also at the IFC and the ADB and these will require donor assistance. While some funding already exists in the institutions' specific trusts (particularly the IFC and the EBRD), it does not fully cover the needs which, across all institutions, are in the order of \$5 to 10 million.
5. Relatively speaking, TFFPs are not very resource intensive, yet they have a proven track record of producing results in support, particularly, of small and medium-scale producers and traders in developing countries. There is demand from developing countries for the expansion of these programmes and donor funding in this area has a high leverage on trade and can be measured effectively.

Next steps

6. At the time of the emerging markets financial crisis in 1997-98, several WTO Members raised their concerns with the Director General about improving the availability of adequate trade finance facilities. Since Doha, the matter has been discussed in the Working Group on Trade, Debt and Finance which, in its report to the General Council just prior to the Cancun Ministerial Conference, stated that "Further efforts are needed by countries, intergovernmental organizations, and all interested partners in the private sector, to explore ways and means to secure appropriate and

predictable sources of trade finance, in particular in exceptional circumstances of financial crises." (WT/WGTDF/2).

7. The matter was also raised by WTO Members in the General Council meeting on Coherence in May 2003. In response, the Director General and the Managing Director of the IMF hosted meetings of public and private sector experts in trade finance, and the Director-General reported back to the General Council on the outcome of these meetings in February 2004 (WT/GC/M/85 and WT/GC/W/527).

8. The adoption of the Recommendations of the Task Force on Aid-for-Trade by the General Council offers a new opportunity to take stock in the WTO of progress made since then in improving the access of developing countries to more plentiful and secure sources of trade finance, and to identify areas where unfilled needs still exist.
