Evaluation of the International Finance Corporation’s Global Trade Finance Program 2006–12

**Background**

The International Finance Corporation (IFC) introduced the Global Trade Finance Program (GTFP) in 2005 to “support the extension of trade finance to underserved clients globally.” The program has since expanded rapidly, and its authorized exposure ceiling was increased in three stages from $500 million in 2005 to $5 billion in 2012. In FY12, the GTFP accounted for 39 percent of total IFC commitments, 53 percent of its commitments in Sub-Saharan Africa, and 48 percent of its commitments in Latin America and the Caribbean.

In its early years, the GTFP was concentrated in higher-risk, lower-income countries, particularly in the Africa Region. During the global financial crisis, the program’s risk-mitigation instrument became relevant in much broader markets. In the years since the 2009 crisis, although the GTFP has continued to expand in high-risk markets, in terms of dollar volume it has grown faster in low- and medium-risk countries.

In 2011, the Bank Group identified its priorities in supporting global trade over the next decade. Its strategy document, *Leveraging Trade for Development and Inclusive Growth*, outlined areas of emphasis in supporting trade as a driver of economic growth in developing countries. The strategy's main objectives are to help enhance trade competitiveness and export diversification; reduce trade costs; expand market access; and improve management of shocks and increase opportunities to participate in trade (see figure).
The Independent Evaluation Group (IEG) is charged with evaluating the activities of the International Bank for Reconstruction and Development (IBRD) and International Development Association (the World Bank), the work of International Finance Corporation (IFC) in private sector development, and the Multilateral Investment Guarantee Agency’s (MIGA) guarantee projects and services.

This is a short summary of an IEG evaluation containing evidence that can inform the realization of the Financing for Development agenda and the World Bank Group’s engagement therein. Other IEG resources specifically dedicated to the agenda can be found at ieg.worldbankgroup.org/f4d.

Findings

The GTFP has been a relevant response to demand for trade finance risk mitigation in emerging markets, although faster recent expansion in lower-risk markets raises the need for close monitoring of its additionality in these areas. The GTFP significantly improved IFC’s engagement in trade finance from its past efforts by introducing an open, global network of banks and a quick and flexible response platform to support the supply of trade finance. The GTFP has high additionality among high-risk countries and banks, where the supply of trade finance and availability of alternate risk-mitigation instruments are lower.

The program has been effective in helping expand the supply of trade finance by mitigating risks that would otherwise inhibit the activity of commercial banks. It has been weighted toward low-income countries relative to their share in global trade, and played a useful role in helping connect local emerging market banks with global banks. Global banks have been aided in extending their capacity to do business in developing countries, which can be limited by regulatory constraints on capital, among other factors.

Indicators, such as small and medium enterprise and sector reach, are not fully informative of program effectiveness in themselves, as the instrument has little influence over the local bank’s risk appetite among its clients. Despite its initial goal to support longer-term trade finance transactions, GTFP guarantees have tenors only slightly longer than the broader market. The GTFP has helped IFC engage in difficult countries and has led to long-term investments with 40 new clients.

The Independent Evaluation Group (IEG) finds GTFP to have been a relevant response to demand for trade finance risk mitigation in emerging markets, and to have significantly improved IFC’s engagement in trade finance by introducing a flexible response platform to support the supply of trade finance. IEG recommends that IFC:

- continue to strengthen the GTFP’s focus in areas where additionality is high and increase the share of the program in high-risk markets and where the supply of trade finance and alternate risk-mitigation instruments are less available;
- adopt additional methods of reporting volume that can reflect the distinct nature of trade finance guarantees;
- refine the means by which GTFP profitability is monitored and reported;
- review the costs and benefits of the monitoring and evaluation framework;
- ensure that a transparent process is in place to govern cases of covenant breach; and
- enhance the program’s ability to meet the demand for coverage of longer-term trade finance tenors.

Recommendations

In sum, the Independent Evaluation Group (IEG) finds GTFP to have been a relevant response to demand for trade finance risk mitigation in emerging markets, and to have significantly improved IFC’s engagement in trade finance by introducing a flexible response platform to support the supply of trade finance. IEG recommends that IFC:

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