



**Evaluation of the International Finance  
Corporation's Global Trade Finance  
Program, 2006–12**

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# Evaluation of the International Finance Corporation's Global Trade Finance Program, 2006–12



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# Abbreviations

DOTS	Development Outcome Tracking System
EBRD	European Bank for Reconstruction and Development
GTFP	Global Trade Finance Program
GTLP	Global Trade Liquidity Program
ICC	International Chamber of Commerce
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
LIC	Low-income country
MDB	Multilateral development bank
MIC	Middle-income country
MSME	Micro, small, and medium-size enterprises
SME	Small and medium-size enterprise
SWIFT	Society for Worldwide Interbank Financial Telecommunications
XPSR	Expanded Project Supervision Report



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# Overview

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.

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.

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.

The GTFP has been effective in helping expand the supply of trade finance by mitigating risks that would otherwise inhibit the activity of commercial banks. The program has been weighted toward low-income countries (LICs) relative to their share in global trade. The GTFP played a useful role in helping connect local emerging market banks with global banks. It has also helped global banks extend 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 GTFP has been profitable, although not to the extent originally expected. The program appears to be low risk and has not paid any claims to date. The opportunity costs of the program for IFC are relatively low. Even though the GTFP accounted for 39 percent of IFC commitments in FY12, it accounted for 2.4 percent of its capital use, 1.2 percent of its staff costs, and 0.6 percent of its net profit.

IFC work quality, particularly with respect to the GTFP processing time, marketing and client relationships, and the depth and quality of IFC’s due diligence, has been good and has been appreciated by clients. At present, the system to handle cases of covenant breach among

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participating banks lacks clarity. Although substantial progress has been made in developing systems to assess the development effectiveness of the program, more can be done to address the apparent data reporting and collection burden on client banks as well as the difficulty in attributing many of the outcome indicators to the program.

The Independent Evaluation Group (IEG) recommends that IFC (i) 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; (ii) adopt additional methods of reporting volume that can reflect the distinct nature of trade finance guarantees; (iii) refine the means by which GTFP profitability is monitored and reported; (iv) review the costs and benefits of the current monitoring and evaluation framework; (v) ensure that a transparent process is in place to govern cases of covenant breach; and (vi) enhance the program's ability to meet the demand for coverage of longer-term trade finance tenors.

### Background and Context

The Bank Group seeks to help enhance trade finance in emerging markets as part of its strategy to support global trade. It has broad strategies to support trade and financial sector development. In 2005, the Bank Group identified investments in trade finance as a means to support trade in developing countries. In 2011, supporting trade finance was identified as a component of the Bank Group's formal strategy to support trade over the next decade.

Intermediation by the banking sector can provide risk mitigation and improve the liquidity and cash flow of trading parties. Although much of global trade is conducted directly between firms, some 20–40 percent of trade transactions is estimated to involve intermediation by the banking sector. The most common trade finance instrument used by banks to intermediate trade transactions is the letter of credit. A bank issuing a letter of credit replaces the credit risk of the buyer in a transaction. A confirmed letter of credit transaction involves a local “issuing bank” and an international “confirming bank” that guarantee the trade transaction payment.

Several key characteristics distinguish the market for trade finance from other financial

markets. Trade finance is characterized by short-term maturities, with the tenor of a trade finance transaction averaging five months. The industry is dominated by some 30 international confirming banks that account for more than 80 percent of global trade finance. The industry is also relatively low risk, with surveys indicating that the average default rate on import letters of credit in recent years was 0.08 percent (ICC 2011).

Globally, trade finance has been recovering since the financial crisis, although some changes are apparent in the industry. Following the onset of the financial crisis in 2008 both international trade and trade finance volumes dropped. Both recovered after the crisis, although trade is growing at a slower rate than in the past, partly because of the rebalancing of the world economy toward domestic demand in emerging markets as well as slower growth in developed countries (IMF 2011). The industry has also shown greater selectivity in risk taking and flight to quality customers (ICC 2011). The European sovereign debt crisis has also caused some large European banks to reduce their presence in trade finance. Meanwhile, some U.S.- and Asian-based banks have increased their trade finance activity, although the extent to which



they can fill the gaps left by the European banks remains to be seen.

This evaluation covers the GTFP since its inception in 2004. In recent years, IFC has substantially increased its engagement in trade finance. IFC, mainly through the GTFP—its flagship trade finance product—as well as through the Global Trade Liquidity Program (GTLP) and other trade and supply chain products. This evaluation focuses on the GTFP, which IFC established in FY05 and which started operations in FY06. It provides an overall assessment of the program’s development effectiveness against the criteria of relevance, efficacy, and efficiency.

### Program Objectives, Design, and Evolution

The GTFP aims to help increase the availability of trade finance in underserved markets. In November 2004, the Board of Directors approved IFC’s proposed \$500 million GTFP. The goal of the program was to “support the extension of trade finance to underserved clients globally.” The new model sought to address a range of weaknesses in IFC’s past trade finance efforts. To encourage the flow of trade finance, IFC would guarantee the payment obligation of a local bank in a developing country to an international confirming bank. The program was intended to allow IFC to respond quickly to support liquidity when and where it was needed, assist local banks develop relationships with international counterparts, and enhance trade finance capabilities among local banks.

Since its initial approval, the program has expanded significantly. In December 2006, IFC reported that demand for GTFP guarantees had surpassed expectations, particularly in Africa, and requested an increase in the program’s ceiling to \$1 billion. In September 2008, shortly before the full effects of the emerging global financial crisis were felt, IFC requested a further increase in the ceiling to \$1.5 billion. IFC indicated that the program

had seen rapid growth, and Africa continued to be its main focus. In December 2008, IFC went back to the Board to request that the program ceiling be doubled to \$3 billion so that it could respond to the unfolding global economic crisis. Finally, in September 2012, the program ceiling was increased to \$5 billion because of continuing strong demand.

IFC has introduced several other trade and supply chain products in the last few years. In May 2009, IFC established the GTLP to help address liquidity constraints and temporarily support trade finance flows to developing countries in response to the global financial crisis. The \$1 billion program was a collaborative effort among bilateral and multilateral development finance institutions and governments to disburse funds to global and regional banks with extensive trade networks. The program was modified in January 2010 into an unfunded guarantee facility. In FY11, two additional trade and supply chain programs were initiated: the Global Trade Supplier Finance program and the Global Warehouse Finance Program. These two programs aim to support access to working capital for suppliers in developing countries and for farmers and small and medium-size enterprises (SMEs) in the agriculture sector.

The GTFP has become a large part of IFC’s annual commitments, although IFC’s method of reporting may overstate its relative size. Since its establishment in 2005, the GTFP has grown from 5 percent of IFC’s total annual commitments in 2006 to 39 percent in 2012. The GTFP grew by an annual average of 75 percent a year compared with 10 percent a year for long-term finance commitments. In 2012, the GTFP accounted for 48 percent of IFC commitments in the Latin America and the Caribbean Region and 53 percent of commitments in Sub-Saharan Africa. IFC’s method of reporting its short-term trade finance volume, however, may overstate its relative size in IFC’s business.

### Program Relevance

#### *Factors Affecting the Supply of Trade Finance*

The relevance of the GTFP lies in its ability to enhance the supply of trade finance, without preempting existing market solutions that might be available at reasonable cost. IFC's mandate is to support private sector development in member countries without undertaking activities for which sufficient private capital would be available on reasonable terms. Supporting private sector development without competing with private players or undermining market solutions—its “additionality”—provides the underlying rationale for IFC's engagement in any activity. The additionality of IFC engagement in trade finance lies in the extent to which it helps enable viable trade transactions that would otherwise not occur because of the inadequate supply of trade finance on reasonable terms. It is this definition of additionality that is applied in this report.

There are several scenarios in which international confirming banks may not supply adequate trade finance to meet demand from issuing banks in emerging markets. Factors that may inhibit the supply of trade finance from an international confirming bank to a local issuing bank include (i) the perceived high credit risk of the local issuing bank; (ii) internal constraints to the confirming bank, such as capacity to undertake due diligence, prudential controls, or access to information; (iii) external prudential regulations, such as those required by Basel III agreements that can affect capital requirements and costs; (iv) risks in the banking sector of the emerging market, such as poor regulation that could affect the issuing bank's ability to honor its obligations; and (v) political and macroeconomic risks in the country that could also affect the bank's ability to honor its debts.

Various other risk-mitigation options to help the flow of trade finance may or may not exist in different markets. In general, risk-mitigation instruments that can encourage the supply of trade finance from international banks to local banks when a clean credit limit is reached include cash deposits from the local bank to the international bank, interbank risk sharing, private credit insurance, insurance from an export credit agency, or a guarantee from a multilateral trade finance program, such as IFC's GTFP. Each instrument may or may not be available in specific markets and has its strengths, limitations, and applicability in different circumstances.

#### *Additionality of the GTFP*

The GTFP was a relevant response to demand for trade finance risk mitigation and was concentrated in high-risk, low-income countries in its early years. When the GTFP became effective in FY06, IFC's AAA credit rating and the program's flexibility, quick response mechanism, and foundation on IFC's global network of partner banks placed it in a position to meet demand for trade finance risk mitigation in high-risk markets. In FY06–08, 45 percent of GTFP volume was in high-risk countries (using IFC's country risk rating); 52 percent in LICs; and 47 percent in the Africa Region. GTFP guarantees were also used in countries that were experiencing temporary political and economic crises that affected external risk perceptions. This was the case in Lebanon in 2006–07; Kenya following the elections in 2007; Pakistan following political uncertainty and macroeconomic instability after 2007; and Nigeria during banking sector crises in 2006 and 2008.

During the global economic crisis, the program offered a viable risk-mitigation instrument with relevance in significantly broader markets. The global financial crisis affected the risk appetite of international confirming banks as well as the availability of other risk-mitigation instruments in emerging

markets. There ensued a strong, broader-based demand for the GTFP for coverage even among more credit-worthy banks in countries with limited political risk. The increased demand was driven less by crises or underlying weaknesses in specific emerging markets than by increased caution and more stringent prudential norms among international confirming banks.

In the years since the 2009 crisis receded, the GTFP has maintained a significant presence in lower-risk markets, raising a need for closer monitoring of its additionality in these markets. With the broader demand after the onset of the crisis, the GTFP was no longer “concentrated” in the highest risk markets. In 2009–12, the share of total guarantee amount in high-risk countries was 27 percent; in LICs, 16 percent; and in Africa, 22 percent. The proportion of the GTFP guarantee amount issued to support low risk banks in low risk countries rose from 10 percent in 2006–08 to 21 percent in 2009–12. Nonetheless, the GTFP remains “overweight” in LICs: Although LICs accounted for seven percent of developing country trade, they accounted for 21 percent of GTFP volume in FY06–12.

Case studies point to high GTFP additionality in high-risk, crisis-affected countries. IEG case studies in Côte d’Ivoire, Liberia, and the Democratic Republic of Congo and interviews with international confirming banks indicated that the GTFP has relatively high additionality in these countries. Each was a conflict-affected country with weak banking systems that affected perceptions of risk. Both GTFP and non-GTFP issuing banks indicated that they had to put up cash collateral for most trade transactions, which reduced funds available for additional lending. The small volumes and perceptions of high country and banking sector risk discouraged large lines of credit from international banks and made few risk-mitigation instruments available other than cash collateral. International confirming banks indicated that the costs of undertaking

and maintaining due diligence with local banks in these markets is often not justified. Although the GTFP did not change these costs, participation in the program increased their comfort and enabled higher volumes.

The GTFP has also had shown high additionality in countries that have weak banking systems or long-standing country risks. In the East Asia and Pacific Region, Vietnam has dominated the share of GTFP, representing about 60 percent of volume in the region. Its banking sector has been consistently perceived as high risk because of rapid credit growth and weaknesses in banking supervision. In Pakistan, which is the largest GTFP user country in the Middle East and North Africa Region, the banking sector has also been perceived as high-risk because of poor credit quality, concerns over political interference in loan recovery, and political and macroeconomic instability.

Participating banks indicated that they generally did not use the GTFP for transactions that they would have conducted anyway. A key underlying criterion for IFC additionality is whether the trade transaction would not have happened without the GTFP. In an IEG survey of GTFP participating banks, 56 percent of responding issuing banks and 71 percent of responding confirming banks indicated that they had not used the program for transactions that they would have done anyway. IEG interviews suggest that GTFP was a convenient and quick response option when credit lines were full and alternative risk-mitigation instruments were not available. However, given that the availability of alternate risk-mitigation instruments can vary on a day to day basis as well as variable use of GTFP depending on the availability of headroom on credit lines, it is difficult to establish with certainty if any particular trade transaction would or would not have happened without GTFP.

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Under some circumstances, the likelihood of a GTFP-supported transaction taking place without the GTFP is higher. In IEG's survey, 44 percent of the issuing banks that responded (that accounted for 17 percent of GTFP commitments since 2006) indicated that they have used the program for transactions that they would have executed anyway. In IEG interviews, local issuing banks indicated that for their well-established customers, they would seek alternate means and somehow make the transaction happen, even at higher cost. Large importers, such as traders in oil and other commodities, were also more likely to find an alternate source of trade finance or provide cash to make a transaction happen. Some confirming banks that follow their corporate customers also indicated that they would somehow find a way to make the transaction happen for these customers, even at higher cost, including by going through another confirming bank with relationships in that country.

Pricing is an important tool to help IFC ensure that alternate market solutions are not impeded. Given the difficulties in ex ante measures of additionality on a case by case basis, along with the possibility of crowding out an existing private sector solution, IFC's pricing is an important tool to help ensure its additionality. At present, IFC aims to price guarantees at market levels. However, the process is not fully transparent and pricing each transaction involves some subjectivity.

IFC currently has regional volume targets but does not have return to capital-based targets. This may create some tension between the dual objectives of meeting volume targets and ensuring pricing levels that do not risk crowding out any viable existing instruments. The goal should be to price guarantees at a level that will not undermine the use of other risk-mitigation instruments, but still be commercially viable. Although an emphasis on encouraging the highest possible pricing that a market can absorb may have a trade-off

in terms of volume, it can also help ensure the additionality of the GTFP and its concentration in the most relevant markets.

### **Program Effectiveness in Supporting Access to Trade Finance in Underserved Markets**

IEG assessed the GTFP's effectiveness against achievement of key objectives. The overarching objective of the GTFP is to help increase access to trade finance among underserved markets. Key targets and intermediate goals identified by the program include (i) reaching low-income, International Development Association (IDA), and fragile countries; (ii) helping banks build partner networks; (iii) reaching SMEs; (iv) supporting critical sectors of the economy; (v) leveraging commercial bank financing; (vi) enabling longer-term trade finance tenors; (vii) helping improve liquidity in times of crisis; (viii) opening doors for IFC in difficult markets; (ix) supporting South-South trade; and (x) building trade finance capacity in issuing banks.

Case studies illustrate the benefits of enabling trade transactions. This evaluation did not endeavor to demonstrate the links between trade and development, which are well established in the literature. In cases where the GTFP provided risk mitigation when viable risk-mitigation alternatives were not available, it helped enable trade transactions that were otherwise unlikely to have occurred. When a seller required a confirmed letter of credit and if the local banks available to the buyer did not have access to trade finance from international banks and no risk-mitigation options were available at reasonable cost (including cash in advance), then the importer would not have been able to complete the transaction.

### ***Reaching Low-Income and Fragile Countries***

Since its inception, the GTFP has issued nearly \$4 billion in guarantees for issuing banks in

LICs. This represents 21 percent of the total program volume, compared with the 7 percent share of LICs in developing country trade during the period, indicating an “overweight” position in LICs. However, guarantee volume for LICs decreased from more than \$1 billion in FY09 to \$500 million in FY12 as large users such as Nigeria, Pakistan, and Vietnam moved from LIC to MIC status.

More than half the program is in IDA countries. By International Bank for Reconstruction and Development/IDA borrowing status, the share of guarantee volume in IDA/blend countries rose from 45 percent in FY07 to 51 percent in FY12. The dollar amount of guarantees issued in IDA/blend countries rose from \$410 million in FY07 to \$2.9 billion in FY12. The volume in fragile and conflict-affected states dropped from 22 percent of the program in FY06–08 to 4 percent in FY09–12 (or from an average of \$181 million in FY06–08 to \$109 million in FY09–12). This is similar to the 4 percent proportion of IFC long-term investments in fragile and conflict-affected states.

The program’s concentration in a small number of countries has been declining, although a few large countries still account for a large share of GTFP volume. The top 10 GTFP countries (by location of issuing banks) accounted for 76 percent of the program’s volume in FY09–12, compared with 95 percent in FY06–08. The number of countries in which the program was active increased substantially, from 37 in FY08 to 84 in FY12. Nevertheless, the program remains concentrated, and 10 countries accounted for 73 percent of its volume since 2006. There are strong concentrations in each region. Four countries—Nigeria, Ghana, Kenya, and Angola—accounted for 90 percent of GTFP volume in Africa; two countries—Pakistan and Lebanon—accounted for 89 percent of volume in the Middle East and North Africa Region; and Vietnam and China accounted

for 98 percent of volume in the East Asia and Pacific Region.

### *Helping Banks Build Partner Networks*

The GTFP has played a useful role in connecting local issuing banks with global confirming banks. A core GTFP objective has been to help trade finance banks establish direct relationships with each other that can then lead to enhanced flows of trade finance. In IEG’s survey, 66 percent of issuing banks and 60 percent of confirming banks indicated that the GTFP influenced their decision to add new banks to their trade networks.<sup>1</sup> Feedback from GTFP and non-GTFP banks in IEG case study interviews indicated demand among lower-tier, less-well-established banks to become part of the GTFP network as a door opener and seal of approval that can help build relationships.

In some banks, capacity extension rather than introduction to new partners has been a key driver of GTFP use. The GTFP is also used by some international confirming banks that already have emerging market networks to extend their capacity that is constrained by prudential or regulatory constraints on their use of capital. In these cases, the GTFP helps the banks issue more trade finance within their existing networks than they would otherwise be able to do. This was the case, for example, among some of the larger confirming banks that had global presences and did not need the GTFP to help them establish new relationships. In IEG’s survey, 25 percent of confirming banks (that accounted for 26 percent of GTFP volume) indicated that the GTFP did not help increase their network of trade finance counterpart banks in emerging markets, and 39 percent (that accounted for 34 percent of volume)

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<sup>1</sup> As part of the research for this evaluation, IEG conducted a survey of participating GTFP banks in September 2012.

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stated that they had not established new relationships as a result of the program.

GTFP volume is concentrated among a few confirming banks. The number of accredited international confirming banks in the GTFP increased from 64 in FY06 to 234 in FY12. However, 10 international banks have accounted for 63 percent of GTFP volume since 2006, and in 2012, three banks accounted for 44 percent of the volume. The concentration partly reflects the nature of the industry, which is dominated by 20–30 international banks. However, it also suggests that demand could be variable, depending on the trade finance strategies, risk perceptions, and current business models of these banks. The concentration is most pronounced in the East Asia and Pacific Region, where four confirming banks accounted for 83 percent of the program’s volume since 2006. A single bank’s business in Vietnam has accounted for 38 percent of GTFP volume in the East Asia and Pacific Region since 2006.

### ***Reaching Small and Medium-Size Enterprises***

Eighty percent of GTFP guarantees (by number) were worth less than \$1 million, although the bulk of the program’s volume supported large transactions. IFC uses the proxy measure of transactions less than \$1 million to indicate whether the GTFP is reaching SMEs or not. Nearly 80 percent of the number of guarantees issued since FY06 was less than \$1 million. The average size of a GTFP guarantee increased from \$0.8 million in FY06 to \$1.9 million in 2012. Average guarantee size has varied significantly across markets, with smaller transactions more prevalent in high-risk, low-income countries and with higher-risk banks.

Although recent studies indicate that the proxy measure for loans reflects the SME status of borrowers, more research is needed to clearly establish this for trade finance. A

recent study conducted by IFC concluded that the \$1 million loan size proxy captured the micro, small, and medium-size enterprise status of the beneficiary firm (IFC 2012b). In a sample of 3,000 loans of less than \$1 million, 80 percent of beneficiaries were found to be SMEs and 18 percent were microenterprises. However, whether this is also valid for trade finance transactions has not yet been verified. There are clear differences in properties between direct loans to firms and trade finance transactions. Additional study is needed to determine whether the \$1 million trade transaction size is also a good proxy for the SME status of the emerging market party of a trade transaction.

An SME reach indicator is not in itself informative of GTFP effectiveness. IFC endeavors to add “SME-oriented” issuing banks to the GTFP in order to enhance the reach of the program among SMEs. However, regardless of the definition of SMEs, there is some question as to whether the indicator in itself is informative of the program’s effectiveness. Under the GTFP, IFC does not take the payment risk of the local firm applying for a trade finance instrument. The GTFP therefore does not directly influence the risk appetite of the local issuing bank or its selection of clients, which can be large firms or SMEs. An issuing bank can also require cash up front from local firms, regardless of whether they have GTFP coverage or not. Moreover, the profile of the local issuing bank is the key determinant of the additionality and achievement of the program. In theory, the program could have all its transactions less than \$1 million but not reach underserved markets if the transactions are through well-established banks that could have obtained trade finance anyway. Use of an SME reach indicator is therefore not fully informative in itself and needs to at least be supplemented by indicators of the profiles of the issuing banks.

Refusing large transactions is unlikely to enhance the achievements of the program. The primary means by which IFC can affect the proportion of the program that is allocated to transactions of less than \$1 million is by refusing to cover large transactions. This, however, has its limitations. If IFC had refused all transactions over \$1 million since 2006, then the total GTFP volume over the program's life would have been \$4 billion instead of \$19 billion. Moreover, given that SMEs can often benefit further up or down the supply chain, as suppliers or distributors, it is not clear that restricting the program only to direct SME importers would be in the interests of SMEs.

### ***Supporting Critical Sectors of the Economy***

The type of product covered by IFC guarantees is not in itself fully informative of the program's effectiveness. IFC reports key achievements of the GTFP in supporting "critical" economic sectors such as agriculture and energy efficiency. Some 20 percent of the GTFP supported trade transactions involving agricultural products. However, as with SME reach, this is also not a fully informative indicator of effectiveness.

The GTFP does not control the type of product for which trade finance is requested. The GTFP is fundamentally demand driven and does not create trade transactions – it facilitates those for which there is already demand. IFC can influence the sector share of the program by communicating preferred sectors to support or by refusing to cover some sectors or products. However, it is questionable if this is warranted. In the case of imports into developing countries, it is not clear whether some "critical" sectors do or do not have less access to trade finance, as this is more a function of the creditworthiness of the importer and the issuing bank rather than the product being imported. Some products perceived as not developmental may also have

substantial indirect effects, further raising the question of the use of the product share as an indicator of program achievement.

Excluding eligibility of public sector corporations represents a potential gap in reach. IFC's mandate is to support development of the private sector in member countries. For this reason, trade transactions that involve a public corporation (as importer or exporter) have been ineligible for coverage under the GTFP. However, excluding these transactions may represent a gap in coverage. IEG interviews and survey responses indicated a demand from both confirming and issuing banks for GTFP coverage of transactions that involve public sector corporations on the grounds that they indirectly affect private firms. It was emphasized that importers that are public sector corporations are often intermediaries only, with the goods being sold to the private sector for input into processing industries or for retail distribution. At the same time, however, there could be reputational risks associated with some public sector entities. Given the potential benefits as well as risks, further review and consideration of expanding eligibility to include public sector corporations is warranted.

### ***Leveraging Commercial Bank Financing***

The extent to which the GTFP has been able to directly leverage commercial bank funding of trade finance has been less than expected. The GTFP has helped introduce banks that have gone on to establish relationships with each other and in this way has indirectly influenced confirming bank financing of trade in emerging markets. However, an initial goal was to use the GTFP to directly leverage confirming banks' own capital. A stated GTFP goal to this end was to limit IFC guarantee coverage to 75 percent of the underlying trade transactions at a portfolio level. This limit has not been realized, and guarantee coverage has averaged 80 percent of trade transactions. This can be partly

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attributed to factors such as the global financial crisis, more stringent prudential regulations, and the European banking crisis that affected the risk appetite of confirming banks in emerging markets.

### ***Enabling Longer-Term Trade Finance Tenors***

GTFP guarantees have had tenors only slightly longer than the market average. An original program goal was to support long-term trade transactions, for which the supply of trade finance was not readily available in the market. In middle-income countries, although there was better access to trade finance than in LICs, there was a gap in trade credit for longer-term transactions, particularly capital good import transactions. However, the average GTFP tenor has been only slightly longer than the average market term. The average tenor of all trade finance products in the market in 2005–10 was 4.9 months, compared with the GTFP average of 5 months. In middle-income countries the average GTFP guarantee tenor was also 5 months. Feedback from IEG interviews and surveys indicates a continued demand for GTFP coverage of longer-term transactions.

### ***Helping Improve Liquidity in Times of Crisis***

The GTFP has also reached countries going through and recovering from economic and political crises. The program has been useful in times of crisis, when international banks increased risk aversion to particular countries. For example, in Lebanon in 2006–07 political instability and violence led to decreased risk appetite among commercial banks, despite the country's well-established banking sector. In Pakistan, political uncertainty along with macroeconomic and financial instability led to a rise in GTFP use from \$9 million in FY07 to \$260 million in FY09. In Nigeria, crises in the banking sector in 2006–08 triggered the cancellation or reduction of credit lines and

GTFP use increased by 60 percent between FY07 and FY10. Past IEG evaluations found the program to be a flexible and responsive tool for IFC during the crisis (IEG 2011b, IEG 2012). Sixty-four percent of issuing banks surveyed indicated that the GTFP helped maintain their trade finance business during the global financial crisis.

### ***Opening Doors for IFC in Difficult Markets***

The GTFP has led to long-term investments with more than 40 new clients. The low-risk nature of trade finance allows IFC to engage issuing banks with risk characteristics that would be unacceptable for its longer-term investment activities. This has allowed it to develop relationships with these banks, become more familiar and comfortable with them, and subsequently make more traditional long-term investments with them. IEG identified 60 projects that were committed subsequent to the GTFP project among 41 new GTFP clients. However, using the GTFP to help IFC enter difficult markets is a secondary benefit and does not itself provide a rationale for the program. If, for example, the GTFP is not additional in a new market and is crowding out viable existing means of trade finance risk mitigation, then its use as an entry point for IFC would not be justified.

### ***Supporting South-South Trade***

One-third of GTFP volume has supported South-South trade. A goal of the program was to support transactions in which both the exporter and importer are in developing countries. Given the nature of the instrument, the bulk of GTFP guarantees (78 percent) supported imports into developing countries (from both developed and developing countries). Since 2006, 34 percent of the program volume supported South-South trade, compared with the 23 percent share that South-South exports comprise in global trade. In the Africa and East Asia and Pacific



Regions, more than 40 percent of transactions supported South-South trade. IFC identified this as a priority and increased the number of confirming banks in developing countries (excluding branches) from 14 in 2007 to 72 in 2012. According to IEG client interviews, there is demand for more confirming banks from developing countries to be added and IFC has indicated a continued focus on this going forward.

### ***Building Trade Finance Capacity in Issuing Banks***

Participation in IFC's Trade Finance Advisory Program has helped some participating banks expand their trade finance capacity. In IEG's survey of participating GTFP banks, 57 percent of issuing banks indicated that IFC's trade finance capacity-building program had helped them increase the number of trade finance transactions that they undertook. Prior IEG project-level reviews of several early Advisory Services projects found that they were mostly successful, although there was an inadequate framework to measure their long-term contributions. The capacity-building program is not fully coordinated with other IFC advisory services in access to finance that may cause opportunities to leverage synergies between the programs to be missed.

### **Program Efficiency**

The GTFP is profitable, although not to the extent originally projected by IFC. The GTFP I–IV Board papers projected a cumulative gross income of \$179.5 million for 2007–12. Actual gross income was \$59.3 million over this period, and on a net income basis, the program had a loss of \$4.7 million over the period. Gross return on risk-adjusted capital has been positive since 2008 and was 17 percent in 2012, compared with 23 percent for IFC overall. Net return on risk-adjusted capital turned positive in 2011 and increased from 3.9 percent in 2011 to 8.0 percent in 2012, compared with 21 percent for IFC

overall. Multiple factors account for the gap between projected and actual profitability. In particular, projected direct expenses were lower than actual. In addition, the original projections assumed an average transaction price of 2.4 percent, when the average annual price in 2006–12 was 1.5 percent, resulting in lower revenues than originally projected.

The current system inhibits a comprehensive view of GTFP profitability at a program level. During the preparation of this evaluation, IFC worked with IEG to prepare a profit and loss statement for the GTFP business line, which had not been previously done. Because of the nature of the program and the ownership of the portfolio by each region rather than the central department, the routine departmental income statements do not present a complete picture of program profitability, as they do not incorporate the direct expenses represented by the central department.

The program appears to be low risk and has not paid any claims. Although the program has booked nearly \$19 billion in guarantees since 2006, there have been no claims paid to date. This partly reflects the relatively low-risk nature of the industry and products involved. The lack of claims may also reflect a two-stage buffer implicit in each transaction. For example, even if an importer defaults on a GTFP-guaranteed trade transaction to the issuing bank, an issuing bank may not necessarily default on that amount to the confirming bank. This may be so, for example, in the interests of protecting its broader relationship with the confirming bank.

The GTFP consumes a limited amount of IFC capital and staff time and its opportunity costs are relatively low. Based on an economic capital framework that incorporates the relatively low-risk nature of trade finance transactions, IFC maintained a risk weight for the GTFP of 11 percent of the total outstanding exposure. In comparison, the weight for senior loans and subordinated debt

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is 20–35 percent and for equity it is 60–70 percent. Applying this weighting, in 2012 the economic capital allocation for GTFP was \$278 million, representing 2 percent of IFC’s total capital use. This proportion will further drop following a 2012 reduction of the risk weight for short-term finance from 11 percent to 5 percent. The average staff cost and actual hours spent on the GTFP were both about 1 percent of IFC’s total staff costs over FY06–12. In this respect, the opportunity costs of the program are low and limited to what other activities IFC could do with this level of capital and staff resources.

The GTFP is not a significant contributor to IFC’s bottom line. In FY12, GTFP guarantee commitments were \$6 billion, compared to IFC commitments of \$15.5 billion (excluding mobilizations). GTFP net income was \$10.1 million, compared to \$1.7 billion (before grants to IDA) for IFC. Thus, even though the GTFP represented 39 percent of IFC commitments during the year, it accounted for just 0.6 percent of its net income. Even with its low losses and its new lower capital allocation, the GTFP contribution to net income is small and below the level suggested by its capital allocation, reflecting either low returns or a high capital allocation, or both. IFC reports GTFP commitments in the same manner as long-term investments, even though the average GTFP transaction is five months. The manner of reporting therefore may overstate the relative weight of GTFP commitments in relation to other IFC activities.

### IFC Work Quality

#### *GTFP Operations*

Client feedback has been positive on the quality of IFC’s processing and turnaround time. GTFP operations aim to ensure high-quality service and a quick response time, while protecting against reputational risk. IEG’s survey of confirming banks indicated that IFC’s operations are viewed positively. More

than 90 percent of respondents indicated that GTFP handled transactions quickly and accurately and responded to requests with flexibility. Nearly all respondents (97 percent) indicated that transactions were turned around within the agreed time limits. IEG interviews with both confirming and issuing banks also revealed broad satisfaction with GTFP operational processing. Client banks expressed appreciation that a public multilateral could respond so quickly and praised the GTFP’s “commercial” rather than “bureaucratic” mindset.

Some areas that can be improved include an inadequate billing system. Although the three-stage approval process provides some security, the GTFP platform relies on some manual entry, so the possibility of human error remains, particularly in the event of rapidly increasing volumes. Client banks also emphasized weaknesses in the billing system.

#### *GTFP Marketing and Client Relationships*

The GTFP’s marketing and client relationships are strong. There was consistent feedback from IEG interviews and surveys that IFC staff were experienced, responsive, and knowledgeable on emerging market countries, institutions, and markets. Some confirming banks emphasized IFC’s constructive role as a knowledge provider. Some of the larger confirming banks appreciated IFC’s responsiveness and flexibility in appraising and adding issuing banks at their request. Issuing banks in the case study countries also expressed appreciation for the information sharing and knowledge capacity of GTFP staff.

#### *Appraisal and Supervision of Issuing Banks*

GTFP client feedback also indicates that IFC’s due diligence is thorough and of high quality. Confirming banks interviewed by IEG expressed confidence in IFC’s appraisal and

supervision process and indicated that IFC's listing of an issuing bank sent a strong signal on the creditworthiness of the bank. Issuing banks surveyed by IEG also expressed positive views on the reasonableness, timeliness, and flexibility of IFC's appraisal process. Some issuing banks interviewed by IEG—particularly in countries with relatively strong banking regulation and supervision, such as Lebanon and Sri Lanka—indicated that the process can at times be overly cumbersome.

There is inadequate transparency in handling cases of breach of contract. One part of the quarterly supervision process is a review of the extent to which clients have breached any of the financial covenants agreed to as part of the legal agreement. In the case of the GTFP, IEG identified numerous cases where GTFP guarantees were issued at a time when the issuing bank was in breach of at least one covenant. In other cases, lines had been frozen or suspended in the event of covenant breaches. A clear and transparent process to govern use of the program in the event of a breach of covenant in order to ensure that IFC's development contribution through covenant enforcement is maintained as well as to protect IFC against potential losses was not present. A comprehensive review of the breaches and full assessment of the current process to ensure adequate transparency is warranted.

### ***Creation of a Common Trade Finance Platform among Multilateral Development Banks***

IFC has helped make considerable progress toward establishing a single standard for multilateral development bank (MDB) support for trade finance. One of the original objectives of the GTFP was to help standardize the approach to trade finance among MDBs to provide advantages to commercial banks in terms of time and cost savings, easier communication, and multiple solutions. Good progress toward this

objective was made. The GTFP itself was based on the European Bank for Reconstruction and Development's model, and IFC subsequently helped other MDBs, including the Asian Development Bank and the African Development Bank, establish trade finance programs based on the same model. Some differences among the programs remain, however, including the eligibility of public sector corporations and use of "silent" guarantees in which the issuing bank is not aware that a guarantee has been issued against its payment risk.

Although there is some competition among the MDBs, this does not appear to be unhealthy, and the large potential market offers room for multiple actors. IFC has the largest trade finance program among the MDBs, with total volume twice the value of the Asian Development Bank and the European Bank for Reconstruction and Development and eight times larger than the Inter-American Development Bank. It is the only MDB with a global presence. There is considerable overlap in issuing banks among the MDBs. During IEG interviews, there were some anecdotal reports of GTFP banks checking prices among MDBs and trying to "play" one against the other. However, this did not appear to adversely affect the activities of the MDBs. In general, as long as each MDB adheres to the principle of ensuring additionality, then competition between the MDBs is not necessarily unhealthy. There are fewer opportunities for direct cooperation in trade finance than initially expected.

### ***Reporting, Monitoring, and Evaluating the GTFP***

From a corporate perspective, the GTFP is not as large as it seems. As reported in IFC's annual report, the GTFP accounted for 39 percent of IFC's total commitments in 2012. However, the manner in which IFC reports its trade finance activities may overstate their relative magnitude. In reporting overall

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commitments, short-term guarantee “commitments” are treated in the same manner as long-term loans or equity commitments, even though they have tenors of around 5 months (compared with maturities of generally 7–12 years for long-term loans). Moreover, the program accounts for 2.4 percent of IFC’s capital and 1.2 percent of IFC’s staff costs. Alternate methods of reporting—such as a risk-weighted approach—might better capture the relative size of the program.

IFC began implementing a formal monitoring and evaluation system for the GTFP in FY12. IFC has been working to develop an evaluation framework for GTFP activities at the transaction and institutional levels. In FY12, IFC began including the GTFP in its Development Outcome Tracking System (DOTS). In the past year, as a part of the GTFP DOTS pilot, IFC collected some 6,000 survey points from over 200 banks and conducted a post-pilot review of data collection, survey methodology and client feedback. The DOTS for GTFP aims to collect and assess information at five levels: (i) the trade transaction level, (ii) the country level, (iii) the confirming bank level, (iv) the issuing bank level, and (v) the beneficiary company level. Inclusion of trade finance in DOTS represents an important effort on IFC’s part to try and measure the development outcomes of its short-term trade finance products.

A range of challenges exists with the current monitoring and evaluation approach. The costs and benefits of applying the DOTS/Expanded Project Supervision Report framework to the GTFP are not fully apparent. It adds a substantial data reporting and collection cost to issuing banks and attribution of many outcomes to the program is difficult. Extensive reporting on the part of issuing banks may be perceived as overly intrusive, given the relatively limited contribution that the program can have on a

bank’s overall activities. The logical relationship between some of the DOTS indicators and guarantees on trade finance transactions is questionable. For example, it would be difficult to attribute an increase of the institution’s profitability to GTFP because of multiple factors that affect a bank’s profitability. IFC is currently applying lessons learned to innovate both content and process to capture the benefits of GTFP DOTS while improving operational feasibility.

Preparation of an annual programmatic-level assessment of the GTFP warrants consideration. As of the end of FY12, IFC had completed more than 12,000 transactions under the GTFP. The nature of the trade finance guarantee instrument makes evaluation in the same manner as a long-term investment difficult. Instead, a programmatic-level review that tracks relevant indicators and makes an overall assessment of the program’s relevance/additionality, effectiveness, and efficiency may be more useful.

Relevant indicators of program effectiveness and achievement include country risk and the tier of the issuing banks. Some indicators of program effectiveness that are currently used, such as SME and sector reach, are less informative in themselves, as the instrument has little control over the relationship between the issuing bank and its clients. More informative indicators of program achievement include (i) participation of lower-tier banks, (ii) the degree of country/political risk, (iii) inclusion of countries in political or financial crisis, (iv) inclusion of countries with underlying weaknesses in their financial systems, (v) the extent to which confirming banks increase/decrease their lines of credit, (vi) the extent to which confirming banks undertake their first transaction with an issuing bank because of the GTFP program, and (vii) the extent of trade finance that was catalyzed in the longer-term because of a relationship that was established through the GTFP.

## The Global Trade Liquidity Program

Introduced in 2009, the GTLP was established to protect and catalyze the supply of dollar liquidity to fund trade finance during a time when dollar financing was freezing; global trade finance markets were diminishing, and there were increasing concerns on the effects of the crisis on global trade and emerging market short term finance. IFC showed flexibility and responsiveness to changing market conditions by adjusting the design of the program.

The GTLP benefited largely low- and medium-risk countries. Consistent with the GTLP's objective of addressing systemic issues in trade finance liquidity, the program did not target IDA or LICs. The majority of banks supported by the GTLP were in the BB to BBB credit rating range, because of the need to quickly inject liquidity into the system. Participants and partners saw the main value of the program as sending a signal that demonstrated the commitment of development finance institutions to trade finance and therefore instilled confidence in the market. The extent to which the GTLP resulted in an increase in trade finance is hard to judge, given the fungibility of funding. The current information system does not permit an accurate, reliable assessment of the program's profitability.

## Findings and Recommendations

The GTFP has been a relevant response to demand for trade finance risk mitigation in emerging markets. In recent years, although the GTFP has continued to expand in high-risk markets, in terms of dollar volume, it has grown faster in lower-risk markets, raising a need for closer monitoring of its additionality in these markets. The program has been largely effective in helping expand the supply of trade finance by mitigating risks that would otherwise inhibit the activity of commercial banks. In terms of efficiency, profitability has been less than expected, but improving in

recent years. IFC work quality, particularly with respect to GTFP processing time, marketing and client relationships, and the depth and quality of IFC's due diligence, has been good and appreciated by clients, although some weaknesses in processing are apparent.

### *Recommendations*

***Continue to strengthen the focus in areas where additionality is high and seek to 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, while managing risks in a manner consistent with IFC's risk assessment and management standards.*** Key steps to consider include (i) adding more high-risk issuing banks, (ii) adding more banks in high-risk countries, (iii) introducing internal country risk-based volume targets to supplement absolute volume targets, (iv) introducing internal targets for return on economic capital to support optimal pricing of GTFP guarantees, and (v) establishing a comprehensive additionality assessment process for the program.

***Adopt additional methods of reporting volume that can reflect the distinct nature of the trade finance guarantee instrument and provide a better picture of the relative size of the GTFP in IFC.*** GTFP short-term guarantee "commitments" are treated in the same manner as long-term IFC investments, even though they have an average tenor of 5 months. This may overstate the size of the GTFP relative to other IFC activities. Although the GTFP accounted for 39 percent of IFC commitments in 2012, it accounted for 2.4 percent of IFC's capital, 1.2 percent of IFC's staff costs, and 0.6 percent of IFC's profit.

***Refine the means by which profitability of the GTFP is monitored, analyzed, and***

***reported internally in order to better capture a comprehensive picture at the program level and to guide future program directions.*** Because of the nature of the program and ownership of the portfolio by regions rather than the central department, the routine departmental income statements do not present a complete picture of the program's profitability. Closer monitoring of the profitability of the program, including disaggregation by different markets (such as region, country risk, and country income group), would help guide future directions of the program. A clear understanding of the profitability of the GTLP is also warranted.

***Review the costs and benefits of fully applying the DOTS and Expanded Project Supervision Report frameworks to the GTFP instrument and consider adopting an annual program-level evaluation that includes relevant indicators of additionality and effectiveness.*** There are challenges with adapting the evaluation approach used for long-term IFC loans and equity investments: It adds a substantial data reporting and collection cost to issuing banks, and attribution of many outcomes to the program is difficult. An annual program-level evaluation with relevant indicators should be considered. IFC should also continue to develop more relevant indicators to measure its additionality and achievements, such as the tier of the issuing banks, the degree of country and banking sector risk, or the extent to which confirming banks have increased/decreased their lines of credit as a result of the program.

***Ensure that a formal, consistent, and transparent process is in place that governs the use of the program in the event of covenant breaches on the part of issuing banks.*** IEG identified numerous cases where GTFP guarantees were issued at a time when the issuing bank was in breach of at least one covenant. In other cases, lines were frozen or suspended in the event of

covenant breaches. A clear and transparent process to govern use of the program in the event of a breach of covenant was not in place. Establishing a transparent formal process would help ensure that IFC's development contribution through covenant enforcement is maintained, protect IFC against potential losses, as well as allow for flexibility, as needed.

***Take steps to enhance the ability of the GTFP to support trade transactions that require longer-term tenors to help meet demand in this segment of the trade finance market.*** An original GTFP goal was to support longer-term trade transactions for which trade finance was not readily available in the market. In practice, the average tenor of GTFP guarantees has only been slightly longer than the market average. An area of clear demand from IEG's surveys and interviews with clients was for the GTFP to cover longer-term trade finance tenors.

### ***Other Issues for Consideration***

***Enhance the information-sharing platforms of the program.*** Some of the important benefits of the GTFP are intangible, such as informal advice and knowledge sharing between IFC trade and marketing officers and participating issuing and confirming banks. However, the current information sharing platforms are limited. An online mechanism that allows for easy communication between parties and quick transfer of information would add value to the GTFP network.

***Invest in further automation of the operational system.*** Though the current GTFP operation is strong and widely perceived as efficient and responsive, there are some weaknesses that could undermine operations with further expansion of the program. Further automation and streamlining of key functions would enhance the already strong operational function.

***Consider expanding coverage to include trade transactions that involve public sector companies.*** IEG interviews and survey responses indicated a consistent demand from both confirming and issuing banks to allow GTFP coverage of transactions that involve public sector corporations. In some countries, public sector companies remain large importers, which then sell goods to smaller private companies for distribution or processing. At the same time increased reputational risks may be associated with expanding coverage to public sector companies. Further review and consideration

of expanding eligibility to public sector corporations is warranted.

***Fully coordinate trade finance training with other IFC Access to Finance Advisory Services.*** IFC Advisory Services for trade finance are planned and administered independently from other IFC training for commercial banks. Further coordination might be able to better leverage different programs to enhance broader aspects of bank capacity that in the end contribute to a bank's ability to provide trade finance services to its clients.





# Management Response

## I. Introduction

We welcome the Independent Evaluation Group's (IEG) *Evaluation of the International Finance Corporation's Global Trade Finance Program, 2006–12*, which assessed the context, relevance, effectiveness, and efficiency of IFC's Global Trade Finance Program (GTFP) and Global Trade Liquidity Program (GTLP). We appreciate IEG's constructive engagement and collaborative approach with the International Finance Corporation's (IFC) team.

We appreciate that the report acknowledges the broad success of GTFP. From its inception in 2005 through December 31, 2012, the GTFP has covered over 25,000 trade transactions and has supported over \$27 billion in emerging market trade. GTFP commitments in International Development Association (IDA) countries topped \$11 billion, while \$5.4 billion went to Sub-Saharan Africa, \$5.8 billion was in agriculture, and \$4.7 billion was in small and medium enterprises (SMEs), which represented more than 80 percent of the transactions covered. The GTFP's asset risk profile has enabled it to open doors for new relationships for IFC, adding over 155 financial institutions to IFC's client base. Over 40 of those banks have benefitted from additional IFC products. Additionally, the GTFP has provided IFC a gateway to engage in otherwise challenging markets; it has supported trade in 27 of the 35 current fragile and conflict-affected situations, committing investment volume in 19 of these areas in FY12. Among the noteworthy transactions supported by the GTFP are cancer-screening equipment for women in Gaza, anti-retrovirals for HIV patients in the Democratic Republic of the Congo, energy-efficient machinery for Armenia's first and only steel production facility, turbines and other equipment for a hydroelectric dam in Honduras, and the relocation of an entire power plant to Pakistan from Germany.

We agree with the overall findings and recommendations of the report. We welcome IEG's recognition of GTFP's continued relevance in supporting trade finance in emerging markets. As noted several times in the report, "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." We particularly appreciate IEG's recognition of the importance of the GTFP with respect to the World Bank Group's strategy for trade; GTFP's global leadership in emerging market trade finance; the recognition of GTFP's relevance in multiple scenarios; GTFP's additionality in high-risk, low-income countries; its client responsiveness; its efficient use of IFC staff and capital; and its

capacity to support the enabling of trade transactions, South-South trade, the growth of emerging market Issuing Bank correspondent networks, and trade finance volume.

## II. Specific Comments

To complement the report's in-depth and rigorous assessment of the GTFP, we are pleased to provide additional context on a few specific topics:

- **GTFP's Additionality in Lower-Risk Countries:** In addition to IEG's findings of the GTFP's strong additionality in higher-risk countries, we would like to emphasize the equally necessary role we play in medium- and low-risk countries, where we focus support on lower-tier banks, lower-income regions, and less available trade finance products. IFC's intent, upon launch, was to establish a global program, flexibly leveraging a vast network of bank partnerships to tap effective trade finance solutions across many trade corridors. While the program was piloted in targeted markets in Sub-Saharan Africa, as it extended, it enrolled banks that demonstrated both a need for trade finance and specific clients that would benefit from IFC's engagement. This strategy incorporates not only the country's risk profile, but also the risk tiers of individual banks and their frontier region coverage, among other factors. As the GTFP grew toward a more balanced and global emerging market portfolio, even while responding to recent market challenges starting in FY09, IFC continued to provide 76 percent of GTFP dollar volume to medium- to high-risk countries. At same time, more than 33 percent of trade transactions by transaction count supported South-South trade and 55 percent occurred in IDA countries. In FY12, 61 percent of GTFP's project count was in IDA countries. Current banking system challenges are fundamentally changing how risk is assessed and capital is limited among financial institutions. A continued need for trade finance support across emerging markets, regardless of income level, is evident.
- **Existing Market Solutions:** While we appreciate the report's articulation of risk-mitigation products that broadly exist, we wanted to draw attention to the limitations and applicability of bank risk-mitigation options for specific trade transactions. In cases in which alternatives exist, it has been our experience that the end beneficiaries often face additional financial challenges. When available, alternatives may be less effective than the GTFP at enabling local banks to do business on an unsecured basis, necessitating cash collateral requirements that could not otherwise be used as working capital financing for clients. If the GTFP were crowding out truly viable market alternatives, one would expect to see full utilization of IFC's trade finance lines and receive complaints from other market

players. Utilization data on GTFP and bank responses to IEG do not bear out this hypothesis.

- **Units of Measure:** The report assesses program presence based on a percent allocation of dollar volume per country and compares rate of dollar volume growth between countries. As larger markets tend to have a higher total of trade dollar volume, there are more effective units of measure to gauge program success, particularly given this study's views on the limitations of commitment volume stemming from cross-country differences. Given the significant diversity among markets in terms of macroeconomic characteristics and structural limitations alone, assessing GTFP growth in individual markets would be more suitable. While the percent allocation of dollar volume committed in Africa, for example, has fallen, GTFP commitment volume in Africa has grown sevenfold, an average of 42 percent per year, from \$185 million in FY06 to \$1.3 billion in FY12. In addition, since smaller, riskier markets tend to have smaller transaction sizes, the number of trade transactions supported per country would also provide a more balanced comparison of the GTFP's market presence. The percentage of transactions supported by the program in IDA countries has consistently grown from year to year since 2007.
- **Impact on SMEs and Critical Sectors:** As with other IFC products that work through financial intermediaries, the GTFP enables SMEs and participants in other critical sectors to access financing they would not otherwise be able to access in a commercially viable manner. In general, SMEs in emerging markets are more likely to face greater limits and constraints in access to trade finance, so SMEs garner significant benefit from the GTFP. While IFC is not taking the underlying risk, its guarantee is enabling its partner banks to take that risk. Generally, IFC's SME products are at arm's length, as direct IFC investment in SMEs tends to be a less efficient use of IFC's capital and operational resources. Thus, IFC's partner banks determine whether or not to lend to the SMEs, and the risk profile of the SME borrowers. Through the GTFP, this approach has been applied to other critical sectors as well, where trade finance remains a challenge to obtain. In addition, the GTFP influences the financing of both critical sectors and SMEs through careful selection of bank partners, considering their client base, as well as proactive discussions with program members regarding IFC's support of certain sectors so as to encourage member banks and confirming banks to finance critical areas. IFC performs extensive analysis to assess, among other aspects, the viability and potential impact of each trade finance transaction and, in some cases, plays a proactive "matchmaker" role between counterparty banks on specific transactions. Furthermore, by guaranteeing SME transactions

## MANAGEMENT RESPONSE

as well as transactions in critical sectors, the GTFP ensures that trade finance is available for important IFC stakeholders, regardless of their size.

We appreciate the expert panel's input, and to complement the panel's input we provide additional context on a few specific points:

- The panel indicates that “right pricing” is essential in ensuring additionality of the program. IFC agrees and suggests that pricing any transaction holds importance far beyond the exclusive provision proof of additionality. Consistent with pricing practices established and communicated at the GTFP's inception and with other development finance institutions, the GTFP effectively prices at market, which takes into account many of the pricing elements suggested by the panel. This is confirmed by IEG's report and is further supported by IEG's statistical analysis of the GTFP's past pricing data, which concludes that IFC uses elements such as market and counterparty risk. Pricing GTFP guarantees under market would crowd out potentially viable alternatives, should they exist. On the other hand, pricing above market would unfairly penalize IFC stakeholders as well as their clients, some of which are SMEs. Pricing above market would be contrary to IFC's private sector development mandate, and could create reputational risk for the World Bank Group.
- Given the complexity of GTFP's additionality, care should be taken when interpreting isolated survey data. For instance, the panel's report states, “[Forty] percent of issuing banks stated that they would have done some of the transactions operated under the GTFP anyway.” The IEG report specified that it was actually 40 percent of the issuing bank respondents that noted this, which approximates 28 banks out of a network of over 250 GTFP issuing banks. While these banks did not make clear the circumstances or associated costs of executing such transactions, 25 of the 28 acknowledged assistance from the GTFP in the form of increased foreign bank relationships, the ability to access longer-tenor financing than otherwise would have been available, reduced cash collateral requirements, and a higher amount of funding available under clean lines. This survey result will be considered, but will be viewed in a broader context. The GTFP's FY11 Development Outcome Tracking System (DOTS) survey of issuing banks, for example, offers proof of our additionality. Ninety-two percent of GTFP Issuing Bank's 155 respondents said IFC helped their institution increase their trade finance business in 2011. And in an environment where market uncertainty was putting bank-to-bank relationships under duress, 88 percent of those same 155 banks maintained or increased their correspondent bank network under the GTFP.

### III. Conclusion

Our specific responses to IEG's recommendations are in the Management Action Record. We also appreciate the report's other suggestions in the areas of information technology system improvements, information sharing platforms, providing trade finance to public sector companies through private sector GTFP banks, and enhancing internal Advisory Services coordination on GTFP-related work. We will assess these suggestions and consider operationalizing them as appropriate.

Finally, IFC would like to thank IEG for a well-timed and highly relevant assessment, which will inform the GTFP as we continue to use this program in helping fill the significant trade finance gap in emerging markets. This report from an independent source will clearly help in enhancing the development effectiveness of the GTFP going forward.

# Management Action Record

IEG Findings and Conclusions	IEG recommendations	Acceptance by management	Management response
<p>1. The GTFP has demonstrated high additionality in riskier markets where there are trade needs but lines of credit from international confirming banks and alternate risk mitigation instruments are less available. In recent years, while the GTFP has expanded in higher-risk markets, in terms of dollar volume it has grown faster in low- and medium-risk countries. IFC has not yet fully developed a comprehensive process to assess GTFP additionality. Guarantee pricing is an important tool to help ensure additionality.</p>	<p>Continue to strengthen the focus in areas where additionality is high and seek to 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 while managing risks in a manner consistent with IFC's risk assessment and management standards.</p> <p>Key steps to consider include (i) adding more high-risk issuing banks, (ii) adding more banks in high-risk countries, (iii) introducing internal country risk-based volume targets to supplement absolute volume targets, (iv) introducing internal targets for return on economic capital to support optimal pricing of GTFP guarantees, and (v) establishing a comprehensive additionality assessment process for the program.</p>	<p>Agree</p>	<p>IFC agrees that it should continue to ensure that the GTFP focuses on areas where its additionality is significant. IFC further recognizes that, consistent with the importance of maintaining a global emerging market presence, it has significant additionality in IDA countries, in fragile and conflict-affected situations, and in middle-income countries. In middle-income countries, IFC focuses on frontier regions and lower-tier and regional banks that have limited or no access to international confirming bank networks and/or do not have sufficient trade lines or other trade finance products to meet the requirements of importers, including those that cater to the needs of SMEs and other key stakeholders. It is important to note that the GTFP has always intended to be a global program, responding to market demand across emerging markets with a wide range of income and risk profiles.</p> <p>IFC appreciates the following key steps IEG has recommended for IFC's consideration:</p> <p><b>(i) Add more high-risk issuing banks:</b> IFC agrees with the intent of this recommendation and will continue to seek innovative ways to identify viable banks in lower tiers and smaller markets. Riskier banks can face a number of challenges, including financial viability, trade finance capacity, and reputation, among others. As such, IFC will balance its efforts to reach more challenging banks while not compromising its credit</p>

		<p>standards in the pursuit of higher-risk counterparties. Both development impact and financial sustainability will remain key considerations. IFC will look to establish more formal coordination between its investment and advisory services to identify banks that need improved risk profiles prior to participating in the GTFP and to help them make adjustments.</p> <p><b>(ii) Add more banks in high-risk countries:</b> IFC agrees that the GTFP should seek to grow its bank membership in IDA countries, as well as in countries where trade finance is nascent, or where companies are forced to resort to cash collateral to finance their trade and banks do not have access to viable alternatives to offload risk. The program will increase its emphasis on considering banks from more fragile areas.</p> <p>As noted in IEG's recommendation, the GTFP is a demand-driven program and has significant responsibility for the tangible and proven "seal of approval" membership this program provides for all existing members. Care must be taken to balance growth in severely challenging markets, taking into account both market need and investment and reputational risk.</p> <p><b>(iii) Introduce internal country risk-based volume targets to supplement absolute volume targets:</b> IFC agrees in principle that targets for less developed markets are useful. Thus, per IEG's recommendation, IFC plans to continue incorporating the GTFP's contributions to the risk and income-based targets that IFC establishes, particularly with IDA country targets. In addition to its global commitment volume and project number targets, IFC has targets for poor countries, high-risk countries, and high-risk regions in non-IDA countries (frontier regions). Achievements of targets in</p>
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			<p>IDA and conflict-affected situations feed into IFC's staff performance and rewards programs.</p> <p><b>(iv) Introduce internal targets for return on economic capital to support optimal pricing of GTFP guarantees:</b> IFC uses risk-adjusted performance measures when considering new investments, and also for assessment of historic profitability. IFC currently applies risk-adjusted return on economic capital as a factor in loan pricing. Risk-adjusted return on capital is one of the metrics used by IFC in considering historic portfolio performance. IFC has taken steps to integrate GTFP investments into our risk-based profitability approach. We will continue our efforts going forward, and will consider setting risk-adjusted return on capital targets for the GTFP, consistent with the rest of the portfolio. This work will build on historic GTFP risk-adjusted return on capital analysis.</p> <p><b>(v) Establish a comprehensive additionality assessment process for the program:</b> IFC agrees that a comprehensive measurement of additionality should be undertaken and is continuing its efforts to develop a process of assessing additionality based on its current framework, which comprises both country risk and issuing bank tiering.</p>
<p>2. GTFP short-term guarantee "commitments" are treated in the same manner as long-term IFC investments, even though they have an average tenor of five months, compared to tenors of several years for long-term loans. This may overstate the size of the GTFP relative to other IFC activities. Although the GTFP accounted for 39</p>	<p>Adopt additional methods of reporting volume that can reflect the distinct nature of the trade finance guarantee instrument and provide a better picture of the relative size of the GTFP in IFC.</p>	<p>Agree</p>	<p>IFC agrees that commitment volume for the GTFP has different characteristics than traditional IFC products (as loans and equity are different), and simply consolidating volume could inappropriately imply incomparable growth if an audience were to assume all volume was generated by traditional products. However, commitment volume is a broadly accepted World Bank Group measurement, and changing the term's definition in this case would also be contrary to reporting accuracy. We did not find any evaluative basis in the report regarding the</p>



<p>percent of IFC commitments in 2012, it accounted for 2.4 percent of IFC's capital, 1.2 percent of IFC's staff costs, and 0.6 percent of IFC's profit.</p>			<p>appropriateness of IFC's current methodology vis-à-vis its peers and industry best practice. IFC would consider reporting GTFP commitment volume separate from IFC's other business lines. We would also report the GTFP's outstanding portfolio balances and economic capital utilization.</p>
<p>3. Beyond IFC's corporate profitability assessment procedures, GTFP profitability has not been closely monitored at the program level. Due to the nature of the program as well as the fact that the portfolio is managed regionally instead of centrally, the routine departmental income statements do not present a complete picture of the program's profitability. Close monitoring and analysis of the profitability of the program would help guide future directions of the program. IFC does not have a clear picture of the profitability of the GTLP.</p>	<p>Refine the means by which profitability of the GTFP is monitored, analyzed, and reported internally to better capture a comprehensive picture of profitability at the program level and to guide future program directions. A clear understanding of the profitability of the GTLP is also warranted.</p>	<p>Agree</p>	<p>IFC's management closely monitors IFC's income, both for current results and projections, every quarter. The investment operations' contribution to IFC profitability is also reported every quarter across regions and industries, of which GTFP projects are a subset. At the IFC aggregate level, discussions largely focus on those drivers that could have a sizeable impact on IFC's realized income, particularly equity revenue driven by market volatility. However, on an annual basis, during IFC's strategy cycle, the GTFP and overall profitability of trade and supply chain products is projected and discussed for impact.</p> <p>Beginning with FY10, and as part of its focus on enhanced profitability measurement for investment operations, IFC produces annual profitability targets for all regions and industry departments for controllable cash income and cash income—the former not including realized capital gains and corporate overhead. As GTFP investments are owned not by the global product department itself, but by the industry and/or regional departments, all profitability targets assume a GTFP share where applicable, for which revenue and expenses are projected. These targets are revised throughout the course of the fiscal year in the form of latest projections and discussed by management and operations. Since IFC's profitability is captured at project level, analysis around country, region, sector and other views can be and is conducted as part of the operations' oversight of portfolio and profit and loss for current results and future</p>

			<p>outlook.</p> <p>IFC agrees that the best approach and methodology for measuring product profitability for internal Trade and Supply Chain departmental product management could be assessed beyond what is already in place. Assessment of market and best practices in this regard will continue, as well as the development of individual Trade and Supply Chain product profitability assessments as operationally feasible.</p>
<p>4. There are a range of challenges with adapting the evaluation frameworks used for long-term loans and equity investments. In particular: (i) applying the DOTS framework places a heavy data gathering and reporting burden on client banks that may not be commensurate with the relatively limited nature of the instrument; and (ii) there is no clear logical link between many of the results indicators in the framework and the trade finance guarantee or advisory services instruments. Attributing results to the GTFP instruments is therefore difficult.</p>	<p>Review the costs and benefits of fully applying the DOTS and Expanded Project Supervision Report (XPSR) frameworks to the GTFP instrument. An annual program-level evaluation that includes relevant indicators of additionality and effectiveness could be considered.</p>	<p>Agree</p>	<p>IFC highly values the approach designed for GTFP's DOTS program and has made significant progress in its implementation (less than two years). IFC is the first and only institution in the world to measure development results of trade finance. IFC agrees to review the costs and benefits of fully applying the DOTS and XPSR frameworks to the GTFP instrument and will consider the approach of an annual program-level evaluation. The team welcomes IEG's continued input as it considers how best to integrate GTFP's DOTS with IFC's existing DOTS process.</p>
<p>5. IEG identified numerous cases where GTFP guarantees were issued at a time when the issuing bank was in breach of at least one covenant. In other cases, lines were frozen or suspended in the event of covenant breaches. A clear and transparent process to govern use of the program in the event of a breach of covenant to ensure that IFC's development</p>	<p>Ensure that a formal, consistent, and transparent process is in place that governs the use of the program in the event of covenant breaches on the part of issuing banks.</p>	<p>Agree</p>	<p>IFC has completed a full analysis of the breaches and has undertaken the necessary steps including issuing waivers and related internal processes in concert with each regional portfolio manager. As with all IFC portfolio investments, the program has had an established practice where portfolio managers assess materiality of breaches and issue waivers where needed, as well as notifying the GTFP team when to freeze or drop a GTFP line, subject to the materiality of the breach. There have been numerous instances where GTFP has frozen lines</p>

<p>contribution through covenant enforcement is maintained as well as to protect IFC against potential losses was not present.</p>			<p>in Vietnam, Bangladesh, Belarus, Ecuador, Sierra Leone, and so forth because of covenant breaches—as well as suspending banks from the program. While in some instances portfolio communication has occurred informally, it is indeed important to immediately develop a formal, consistent, transparent process where Portfolio informs the GTFP team quarterly of GTFP banks that have breaches, with a documented recommendation for each of what action, if any, should be taken. It should be noted that in no instance did the GTFP ever contravene Portfolio’s instructions, and while new business was conducted with GTFP counterparties that were in covenant breach, due to the nature of the risks associated with the trade finance product itself, zero losses have been incurred in the \$22 billion in trade that GTFP has directly supported. The formalization of the treatment of GTFP client covenant breaches has already been implemented.</p>
<p>6. An original goal was to support longer-term trade transactions for which trade finance was not readily available in the market. In practice, the average tenure of GTFP guarantees has only been slightly longer than the market average. An area of clear demand from IEG’s surveys and interviews with clients was for the GTFP to cover longer-term trade finance tenors.</p>	<p>Take steps to enhance the ability of the GTFP to support trade transactions that require longer-term tenures to help meet demand in this segment of the trade finance market.</p>	<p>Agree</p>	<p>IFC agrees that there are gaps in the tenor offerings of commercial banks as well as Berne Union members and has set into motion the IFC investment process that will request from the Board approval this fiscal year for GTFP to better meet client needs by extending tenors within newly established guidelines for the importation of small/medium ticket capital equipment.</p>



# Chairperson's Summary: Committee on Development Effectiveness

The Committee on Development Effectiveness (CODE) considered the Independent Evaluation Group's (IEG) *Evaluation of the International Finance Corporation's Global Trade Finance Program, 2006–12* and draft Management Response.

## Summary

The Committee supported IEG's findings and recommendations and acknowledged the relevance and success of the IFC's Global Trade Finance Program (GTFP), which fills a market gap for financial institutions in many emerging markets, particularly high-risk countries. They congratulated the International Finance Corporation (IFC) for filling market gaps and suggested that it create a more robust framework to measure the additionality of the GTFP. While recognizing that it is a demand-driven program, members underscored the need to increase IFC's engagement with strong low-income countries (LICs) and high-risk markets while closely monitoring the market. Members encouraged a more proactive approach to South-South trade cooperation. They urged IFC to creatively assess how the GTFP could engage with public sector companies in order to maximize impact. Members encouraged management to focus on longer-term trade transactions, particularly in LICs, to meet market demand. They also asked management to continue paying close attention to pricing to avoid undercutting or exceeding the market and to further reach out to second-tier banks, where appropriate.

Anna Brandt, Chairperson



# Statement by the External Expert Panel

The external expert panel has reviewed the draft Independent Evaluation Group (IEG) report *Evaluation of the International Finance Corporation's Global Trade Finance Program, 2006–12* and has also received the comments of the International Finance Corporation (IFC) management on the report. The panel discussion of the report resulted in the following comments.

## Overall Comments

The panel congratulates IEG on a well-executed and well-written report that does a very good job in raising the central issues relevant for the evaluation of the IFC Global Trade Finance Program (GTFP). The panel finds that it is a good time to take stock and reflect on the program, given that the worst of the financial crisis following the Lehman bankruptcy is over and new challenges in the global financial sector are being faced.

**Relevance.** The panel finds that the GTFP is relevant. In particular for low-income countries, there is a strong perception of persisting market gaps for trade finance. This creates an opportunity for the IFC to support trade finance while adhering to the requirement of additionality. In regard to the expansion of the GTFP to additional less-risky markets, the report addresses the right questions on additionality and pricing.

**Efficacy.** The overall finding of the report that the key objectives of the program have been met is shared by the panel. Given that there are many different objectives, a clearer statement on effectiveness would have been appreciated.

**Efficiency.** Although the report does not do a full cost benefit analysis, it does a good job in raising the central points of pricing and profitability. The panel believes that addressing the issue of pricing, which is discussed in more detail below, would help improve the efficiency of the GTFP.

**Effective Management.** The report raises some very pertinent issues – in particular, the fact that 10 percent of transactions are being undertaken while issuing banks are in breach of a covenant.

The panel would like to note the following specific points:

**Additionality and Pricing.** In accordance with the report, the panel sees pricing as a central aspect to focus on in the further development of the program. The current case-by-case methodology seems problematic and could be replaced or complemented by a systematic pricing methodology based on country and counterparty risk ratings, economic cost of capital, default probabilities, and so forth. A pricing system could be based on internal data of previous GTFP transactions as well as on external information. The panel strongly agrees with the report in that the right pricing is essential in ensuring additionality of the program. Combining an enhanced approach to pricing with a greater focus on financial return to the IFC of GTFP would underpin both additionality and financial sustainability of the program.

The panel finds the concept of “inadequate supply of trade finance at reasonable cost” difficult. The “reasonable cost” criterion is problematic, as there is no obvious definition for this term. An alternative would be “prohibitive cost,” but that would probably be too strong, as some economic transactions might not be profitable enough to justify the implied transaction costs.

The panel agrees with the report on its interpretation of the survey conducted by the IEG with issuing banks. The fact that about 40 percent of issuing banks stated that they would have done some of the transactions operated under the GTFP anyway should be seen as an indicator that additionality is a central concern.

**Imports, Exports, and South-South Trade.** The panel noted that most of the focus of the GTFP is on supporting imports, with the notable exception of export working capital financing in the Latin America and the Caribbean Region (the report does not provide data on what proportion of GTFP volume is export related). From a welfare and development point of view, it might be good to consider the optimal balance between supporting export and import activities, as facilitating export potential might be more central for economic development. In this regard, the support of South-South trade can be seen as particularly relevant through supporting two-way trade between low-income countries.

**Long-Tenor Trade Finance.** The panel noted that long-tenor trade finance tends to be project finance related and is a distinct business from short-term trade finance. Projects and participating firms tend to be larger. Furthermore, the stronger presence of export-supporting government agencies in the long-tenor market might render IFC support less necessary.

**Targeting High-Risk Countries and Banks.** The panel shares the view of the report that targeting high-risk countries would be advisable, as additionality is expected to



be highest there. This is less clear for high-risk banks. They should only be targeted to the extent that this allows reaching additional regions and additional ultimate borrowers in order to meet key objectives of the IFC.

All else being equal, a low-risk bank seems to be a better cooperation partner, and targeting high-risk banks per se might generate unnecessary risk. The panel would also like to raise the point that a clearer definition of a high-risk country could be provided. GTFP could be incentivized to increase its focus on high-risk countries, as recommended by the report, through pricing, internal capital weighting, or other program incentives as suggested by the report.

**Non-Letter of Credit Activities.** Forty-three percent of GTFP activities do not represent documentary credit support but represent support to other forms of engagement like pre export financing support. The panel noted that non-documentary credit-based activities were not differentiated in the report and were given an equal weighting in the evaluation findings.

**Trade Finance Discussion.** At the beginning of the report, a more detailed explanation of trade finance could be given to help non-expert readers.

**Advantage of IFC Compared to Other Guarantors.** The panel would have like to see a more direct discussion in the report on why IFC would be better able to address market imperfections and risks than other guarantors. This would help justify the GTFP.

**Alternative Instrument.** The panel wonders if GTFP would be more effective if it issued guarantees on pools of trade finance exposures rather than on individual exposures. As it is, the program has relatively high costs compared to revenues. The basic idea is that insurance is like writing a put option, and the exposure and costs of writing a put on a portfolio of exposures are lower than writing puts on all the components of the portfolio.

**Marc Auboin**, Senior Economic Counselor, Trade and Finance Division, World Trade Organization

**Fritz Foley**, Professor, Finance Unit, Harvard University

**Tim Schmidt-Eisenlohr**, Research Fellow, Nuffield College, University of Oxford

**Diana Smallridge**, President, International Financial Consulting Ltd.

**Harvey Susser**, Senior Evaluation Manager, Evaluation Department, European Bank for Reconstruction and Development



# 1. Background and Context

## *Chapter Highlights*

- ❖ The World Bank Group has broad strategies to support trade and financial sector development that include support for the supply of trade finance flows in emerging markets.
- ❖ A range of trade finance instruments provided by the banking sector supports liquidity and risk mitigation in global trade transactions.
- ❖ The trade finance industry is characterized by short-term credit maturities and relatively low risk of default and is dominated by some 30 international banks.
- ❖ Trade finance recovered after the global crisis, although gaps in market coverage remain and changes in the industry are taking place.

## The World Bank Group's Strategy to Support Trade and Financial Intermediation

There are well-established links between trade and economic development. According to the World Bank Group, no country in the last 50 years has increased per capita incomes without expanding trade with the rest of the world (World Bank 2011b). In the last few decades, significant trade liberalization undertaken by developing countries has resulted in faster growth and substantial reductions in poverty.<sup>1</sup> Open trade enables countries to exploit their comparative advantage, create competitive industries, specialize and develop economies of scale, improve resource allocation efficiency, and generate economic opportunities and employment (see, for example, Dollar and Kraay 2003; Berg and Krueger 2003). Key measures to open the economy and catalyze private sector-led, export-oriented growth in many developing countries have included removal of price controls, subsidies, and disincentives to export; elimination of nontariff barriers; rationalization and reduction of tariffs; customs reform; and improved foreign exchange regimes. Experience in developing countries has indicated that for trade reforms to be effective they need to be implemented alongside other policies and investments that affect productivity and growth, including development of infrastructure, the business environment, the financial sector, and maintenance of macroeconomic stability through prudent fiscal and monetary policy (see Hallaert 2010; Hoekman 2010; IEG 2011a).

The Bank Group has a broad strategy to support trade. In 2005, a multilateral development initiative – Aid for Trade – was launched at a ministerial meeting of the World Trade Organization. The initiative recognized the importance of trade in development and the need for measures to support developing country efforts to overcome obstacles to free trade, including developing infrastructure and removing

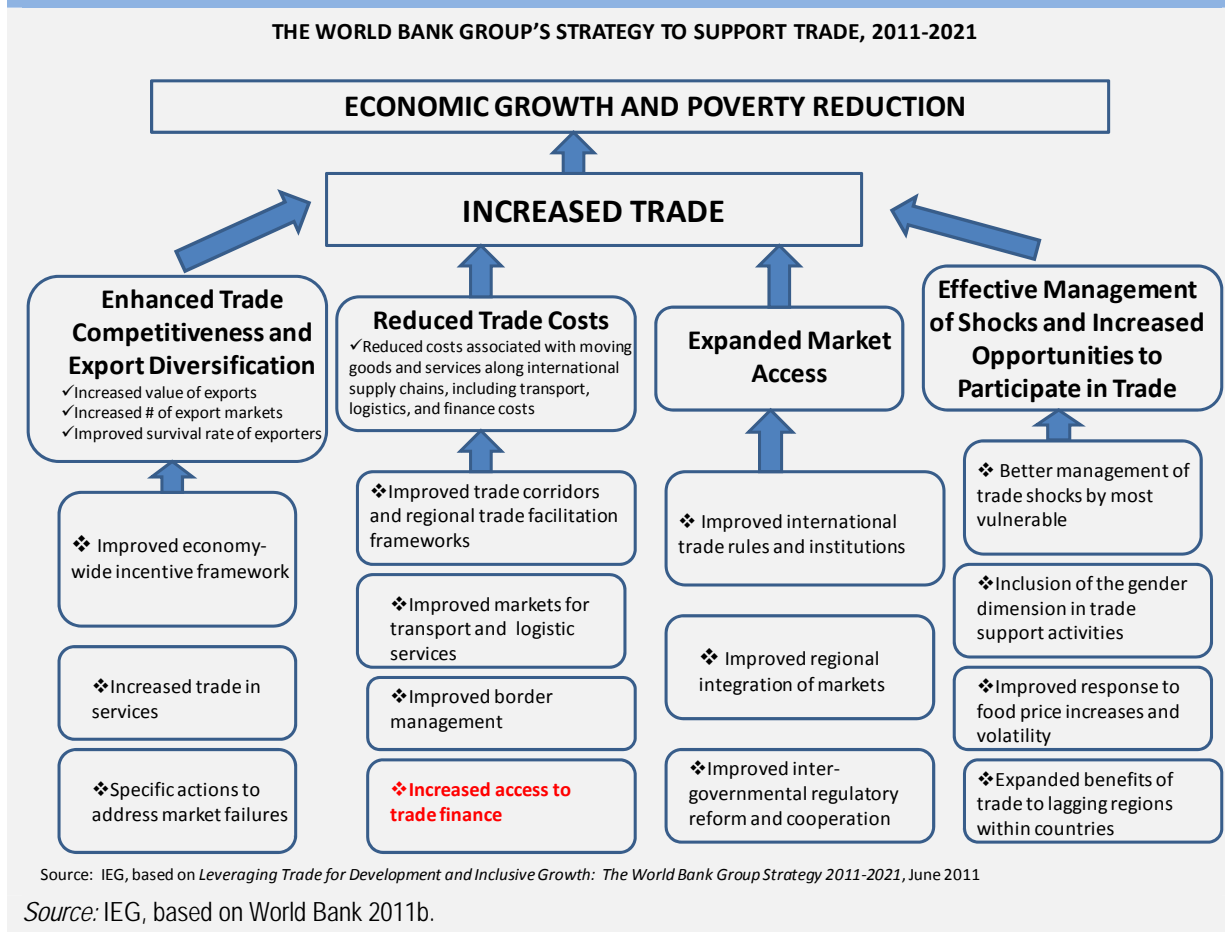
## CHAPTER 1 BACKGROUND AND CONTEXT

trade-stifling regulations and policy disincentives.<sup>2</sup> The initiative led to the establishment of the Aid for Trade Program of the World Bank Group that sought to help countries maximize and leverage trade opportunities by enhancing competitiveness (Hoekman 2010). The program encompassed a range of Bank Group initiatives to support trade, including Bank lending for trade-related projects; investments by the International Finance Corporation (IFC) in private sector activities such as trade finance, policy advice and technical assistance, and knowledge generation activities such as the Diagnostic Trade Integration Studies in low-income countries (LICs).

In 2011, the Bank Group identified its priorities in supporting global trade over the next decade. The 2011 strategy document, *Leveraging Trade for Development and Inclusive Growth* (World Bank 2011b), outlined areas that the Bank Group is currently emphasizing in its support for trade in developing countries. The strategy is premised on the central role of trade as a driver of economic growth in developing countries. Its main objectives are to help enhance trade competitiveness and export diversification; reduce trade costs; expand market access; improve management of shocks; and enable greater participation in trade activities (see Figure 1.1). Progress toward each of these objectives is considered critical to attaining the overall goal of enhancing trade in developing countries. Among the interventions is support for the provision of trade finance, which is identified in the strategy as helping reduce trade costs, but can also help increase access to finance as well as mitigate shocks that can affect trade flows.

The Bank Group also emphasizes the importance of a well-functioning financial sector in developing countries. Support for trade finance is a financial sector intervention and therefore also forms part of the Bank Group's efforts to support financial sector development. According to the Bank Group's strategy, when financial markets work well, they channel funds to the most productive uses and allocate risks to those who can best bear them, thereby enhancing productivity and expanding economic opportunities.<sup>3</sup> In contrast, when financial markets do not work effectively, they hinder growth and accentuate inefficiencies and inequality of opportunity (IFC 2012a). Weaknesses in financial intermediation in developing countries include small domestic financial markets, a narrow range of instruments, undeveloped nonbank financial institutions, undeveloped capital markets, and limited reach of financial services. These weaknesses are often caused less by the unavailability of funds and more by factors such as unsound macroeconomic policies, inadequate regulatory framework, poor quality contractual and regulatory institutions, and ineffective transactional and informational infrastructures.<sup>4</sup>

Figure 1.1. The World Bank Group's Strategy to Support Trade, 2011–21



The Bank Group aims to help establish effective financial systems and expand access to finance. The Bank Group's objectives in the financial sector have been to help (i) establish the legal and regulatory foundation for financial services, (ii) build market and institutional infrastructure (such as contract enforcement, payment systems), (iii) foster the diversity of the financial system, (iv) develop capital markets, and (v) improve access by the poor and micro, small, and medium-size enterprises (MSMEs) to financial services. The Bank supports achievement of these objectives through policy lending, financial intermediary lending, and its analytic and advisory activities. IFC supports development of local financial markets through institution-building, financial products, and mobilization that emphasizes access to finance among MSMEs. IFC's strategy in financial markets has involved (i) working alongside the Bank to create supportive policy, legal, and regulatory frameworks; (ii) investing and providing technical assistance to financial institutions; and (iii) helping build the necessary financial infrastructure for such institutions to operate effectively. Along with helping increase access to longer-term financing, IFC has also increased emphasis on expanding access to short-term working capital and trade finance.

## The Role of Trade Finance

Much of international trade is conducted directly between firms, without intermediation from the banking sector. Total world merchandise trade in 2011 was valued at \$18 trillion (WTO 2012). Of this, it is estimated that some 80 percent is conducted between firms without direct intermediation of the banking sector.<sup>5</sup> Transactions that are conducted directly between firms can involve *cash in advance* from the buyer to the seller or can be done on an *open account* basis, with the buyer paying the seller at a later point. The cash in advance option is safest for the exporter, but may not always be available in competitive markets, where the importer may have a choice of sellers.

An open account transaction is more favorable to the importer. The exporter ships the goods and then collects payment on delivery or at another point. In this case, the exporter bears the risk of non-payment by the importer. Studies estimate that direct cash in advance payments are most prevalent among small and medium-size enterprises (SMEs) in developing countries, whereas open account transactions tend to be used in more developed, competitive markets (Chauffour and Malouche 2011; IMF and BAFT 2009).

Trade finance provided by the banking sector supports liquidity and risk mitigation in trade transactions.<sup>6</sup> In addition to making payment arrangements directly between themselves, importers and exporters can use the banking sector to intermediate a transaction. Such intermediation can reduce risk, improve the liquidity and cash flow of the trading parties, and provide locally oriented firms with access to hard currency needed to finance imports (Chauffour and Malouche 2011). Some 20–40 percent of world trade is estimated to be intermediated in this manner. The choice of direct or banking sector-intermediated trade will depend on the familiarity and degree of trust between the buyer and the seller, as well as broader country, sector, and institutional factors that increase or decrease the risk of nonpayment for the goods and services being traded.

The most common type of trade finance instrument is the letter of credit. Several types of instruments exist for banks to intermediate trade transactions. The most prevalent is the letter of credit that was used in some 15–20 percent of world trade transactions in 2011.<sup>7</sup> A letter of credit can be either *unconfirmed* or *confirmed*. In an unconfirmed letter of credit transaction, an importer requests a local bank to issue the letter of credit in favor of the exporter. The local bank (“issuing bank”) then issues a letter of credit through which it irrevocably agrees to pay the exporter on agreed terms (such as presentation of relevant documents). In this transaction, there is only one bank that is financially involved – the bank that issues the letter of credit. The exporter takes the risk that the local issuing bank will not honor its obligations (for example, because of credit or country events). Such unconfirmed letters of credit

are more common when the local issuing bank has a strong balance sheet and is in an economically and politically stable country.

A confirmed letter of credit transaction is often used in trade between developed and developing countries. In a *confirmed* letter of credit transaction, a second bank (the confirming bank), usually in the exporter's country or region, is also involved. If an exporter is unwilling to take the payment risk of the local issuing bank, then it can request that a second bank add its commitment (or confirmation) that payment will be made to the exporter. A confirmed letter of credit is generally used when there is a perception that there is a risk that the local bank issuing may not fulfill its obligation to pay for any reason, including bank failure, country instability, or country regulations. In this case, the confirming bank takes the payment risk of the local issuing bank in the country of the importer.

For a confirming bank to take the payment risk of the local issuing bank, it has to establish a relationship with the issuing bank, conduct its due diligence on the bank, and establish a prudential credit limit, up to which it is willing to be exposed to this bank. As discussed below, the majority of transactions (70 percent) involving IFC's Global Trade Financing Program (GTFP) involve confirmed letters of credit (with the balance supporting other instruments, such as pre-export and pre-import finance).

Other trade finance instruments include performance bonds and guarantees. A bank can provide a performance bond or guarantee to ensure satisfactory performance by a party under a contract, such as in a tender purchase. In these transactions, an issuing bank provides a guarantee to an importer on behalf of its client (the exporter) that guarantees compensation in the event that the exporter does not meet specific financial or performance standards. The guarantee reduces the need for cash or other collateral from the exporter to support its performance obligations. Types of guarantees include (i) a bid guarantee, which signals the exporter's intent to comply with the requirements of an order; (ii) an advance payment guarantee, which assures an importer that has made an advanced payment that the payment will be recoverable in the event of a performance failure on the part of the exporter; (iii) a performance guarantee, which assures compensation to an importer in the event of a financial or performance failure on the part of the exporter; and (iv) a standby letter of credit, which comes into effect only if the importer defaults after receiving the goods.

Pre-import and export loans provide working capital to trading firms. Another trade finance instrument is a pre-import loan, which is a short-term facility provided by a local issuing bank to an importer prior to receipt of the goods. This helps the importer manage its cash flow so that it might receive the goods and process and/or sell them prior to paying for them. A pre-export loan is also a short-term facility that is linked to an export transaction. The local bank will issue a loan to an exporter that

has received a purchase order that bridges the gap between processing of the order and receipt of payment. This is a common means of working capital financing when a letter of credit is used as the settlement instrument. IFC's trade finance programs support each of these instruments.

## Characteristics of the Trade Finance Industry since 2006

Several key characteristics distinguish the market for trade finance from other financial markets. The trade finance industry is characterized by short-term maturities, with security in the underlying goods being moved in a transaction. The average tenor of a trade finance transaction in 2005–10 was 147 days (4.9 months).<sup>8</sup> The trade finance industry is dominated by 30 international banks that account for more than 80 percent of global trade finance.<sup>9</sup> International Chamber of Commerce (ICC) surveys over the last few years have indicated that trade finance industry remains a relatively low-risk industry. Low default and loss rates and high recovery rates were reported across product types in the industry. The average default rate on import letters of credit in 2008–10, for example, was 0.08 percent, with only 947 defaults in a sample of 5.2 million transactions. Actual losses were even less, at 0.0007 percent. Fewer than 3,000 defaults were observed out of the 11.4 million transactions in the 2005–10 data sets.

The global financial crisis affected trade flows. Prior to the onset of the global economic crisis in 2008, financial markets were buoyant, there was substantial liquidity, and there were unprecedented levels of capital flows to developing countries.<sup>10</sup> Following the onset of the crisis, both international trade volumes and trade finance volumes dropped sharply. Although there were some initial hypotheses that the drop in trade was linked to the decline in financial liquidity, subsequent research indicates that the decline in trade was more a result of lower demand for traded goods, and the decline in trade finance was a result of the lower level of trade (Chauffour and Malouche 2011). This condition was reinforced by a shift from non-bank-provided trade finance into the safer bank-provided trade finance at a time when banks were themselves suffering a shortage of liquidity and were unwilling or unable to increase their activities. Evidence also suggests that developing countries were hardest hit by the crisis in terms of access to finance, especially firms at the margins of the formal finance networks (Malouche 2009).

After the initial crisis passed, trade finance recovered, although some changes in the industry are evident. In September 2012, the World Trade Organization downgraded its forecast for world trade expansion from 3.7 percent to 2.5 percent. According to the World Trade Organization, slowing trade growth since 2011 is linked to the rebalancing of the world economy toward domestic demand in emerging markets as well as lower growth in developed countries. Although liquidity returned to the main trade markets after 2010 and spreads have declined,



U.S. dollar funding has remained an issue outside the United States. The industry has also shown greater selectivity in risk-taking and “flight to quality” customers. The European sovereign debt crisis is also causing some realignment of the industry. Some European banks have been under pressure to reduce leverage and have accomplished this by selling assets, including trade finance assets, and raising capital – or “deleveraging” – to strengthen their balance sheets and regain investor confidence. A recent International Monetary Fund study showed that of a sample of 58 European Union-based banks, 24 – including some of the largest global banks active in trade finance – plan to sell some \$2 trillion in assets over 2011–13 (IMF 2012). Meanwhile, there are indications that U.S.- and Asian-based banks are stepping into the void being created by European banks and increasing their trade finance activities, although the extent to which they can fill the gap remains to be seen (Braithwaite 2012).

There are some views that the new Basel III framework will impact adversely on the provision of trade finance services. The changes in the Basel III regulatory framework that are being phased in have caused the trade finance industry to point out some concerns. In particular, there are concerns that (i) banks will move away from the trade finance market into higher return products because of higher capital requirements; (ii) inconsistencies in the implementation of the regulatory regime across countries might create competitive arbitrage opportunities for some financial institutions and may impact on the domiciling of banks; (iii) by not treating trade finance as a low-risk asset class, the new Basel capital framework may unduly raise the costs of trade finance; and (iv) increasing compliance costs will further erode the narrow margins in trade finance.

## Summary

- The World Bank Group has broad strategies to support trade and financial sector development that include support for trade finance flows to emerging markets.
- Intermediation of the banking sector in trade transactions can mitigate risk and improve the liquidity and cash flow of trading parties. The most common trade finance instrument that banks use to intermediate trade transactions is the letter of credit. A confirmed letter of credit transaction involves a local issuing bank and an international confirming bank that guarantee the trade transaction payment.
- Several characteristics distinguish the market for trade finance from other financial markets: short-term maturities, self-liquidating transactions, domination by 30 large international banks, and relative low risk.

## CHAPTER 1 BACKGROUND AND CONTEXT

- The trade finance industry recovered after the immediate effects of the global crisis, although some changes in the industry are evident: although liquidity returned, spreads have declined and U.S. dollar funding is an issue outside the United States; the industry has shown greater selectivity in risk taking and “flight to quality” customers; and the European sovereign debt crisis is also causing some realignment of the industry.

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### NOTES

<sup>1</sup> IMF and World Bank, Doha Development Agenda and Aid for Trade, 2006.

<sup>2</sup> WTO document, Ministerial Meeting, Hong Kong, 2005.

<sup>3</sup> World Bank Group, Financial Sector Strategy, 2007.

<sup>4</sup> World Bank Group, Financial Sector Strategy, 2007.

<sup>5</sup> SWIFT data. There are substantial variations in the estimates. This estimate is assumed to comprise banking sector intermediation at points immediately preceding or following cross-border movement of goods or services and exclude financing further up or down the supply chain.

<sup>6</sup> In this report, “trade finance” is treated as financing provided by the banking sector at the points immediately preceding or following the cross-border movement of goods or services. It would, therefore, exclude banking sector financing further up or down the supply chain.

<sup>7</sup> SWIFT data.

<sup>8</sup> International Chamber of Commerce Trade Register.

<sup>9</sup> These banks include Bank of America Merrill Lynch, Bank of China, Barclays, BNP Paribas, Citibank, Commerzbank, Crédit Agricole, Credit Suisse, Deutsche Bank, HSBC, ING, J.P. Morgan Chase, Royal Bank of Scotland, Santander Global Banking, Standard Chartered Bank, Sumitomo Mitsui Banking Corp, UniCredit, and Wells Fargo.

<sup>10</sup> IMF, *Global Financial Stability Report*, various issues.

## 2. IFC's Global Trade Finance Program: Objectives and Design

### *Chapter Highlights*

- ❖ IFC introduced its current trade finance model in FY05 to support the supply of trade finance to underserved clients globally.
- ❖ The program aimed to take advantage of IFC's existing global network of banks and bridge gaps in the supply of trade finance to developing countries.
- ❖ The Board raised the authorized ceiling of the program several times, from \$500 million in FY06 to \$5 billion in FY13.

### Program Objectives, Design, and Evolution

IFC introduced its current trade finance model in FY05. In November 2004, the Board of Directors approved IFC's proposed \$500 million Global Trade Finance Program (GTFP I). The objective of the program as stated in an internal IFC Board document was to "support the extension of trade finance to underserved clients globally." Trade in developing countries was not being supported by adequate amounts of trade finance because of "high perceived risks, a lack of guarantors, a lack of capacity among development banks, and limited mandates of national export credit agencies". Under its new program, IFC would assume the trade-related payment risk of local "issuing" banks in developing countries by providing guarantees to their correspondent "confirming" banks (see Box 2.1). The program aimed to enable IFC to respond quickly to support liquidity when and where it was needed; help local banks develop relationships with international counterparts; and enhance trade finance capabilities among local banks through training and technical assistance.

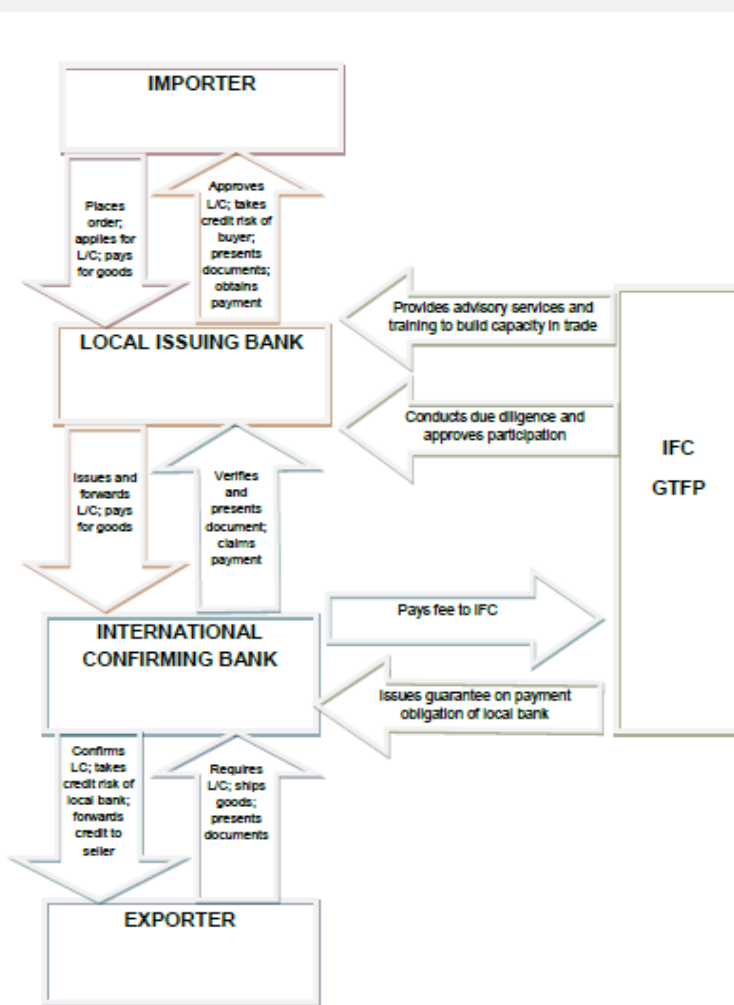
The new model sought to address several weaknesses in IFC's past support for trade finance. Between 1998 and 2004, before the launch of the GTFP, IFC established 24 trade finance facilities for a total committed amount of \$652 million. Of these 24 facilities, only 3 were fully disbursed; 10 were partially used; and 11 were never used. Weaknesses with previous programs included their restriction to bilateral agreements, which were designed for use with a single country with a narrow set of eligible parties; cumbersome procedures that undermined the ability to respond to changing market conditions; fixed prices that may not have been in line with market rates; stringent financial reporting requirements that did not follow market practices for trade-related transactions; and high capital charges that were not in line with the

lower-risk profile of trade finance and that reduced the profitability of the trade facilities. The GTFP was based on the European Bank for Reconstruction and Development's (EBRD) trade finance model that was introduced in 1999. Key elements of the model included the flexibility to support trade as it shifted with market conditions; a quick response process and documentation in line with the nature of short-term trade transactions; flexible pricing according to market rates; and the ability to take 100 percent of the risk coverage.

**Box 2.1. Operation of a Typical GTFP Letter of Credit Transaction**

Most GTFP guarantees have supported letters of credit transactions. Under the GTFP, IFC conducts due diligence and establishes a roster of approved local "issuing banks" in developing countries. It can then guarantee their payment obligations on specific trade transactions. The guarantees are comprehensive, covering both political and commercial risks, and IFC can cover either the full amount or a partial amount of the transaction. Tenors have ranged from 1 day to over 2 years and have averaged 5 months.

The diagram at right illustrates the operation of a typical letter of credit transaction guaranteed by the GTFP. An importer places an order from an exporter. The importer's bank issues a letter of credit through a correspondent bank (usually in the same geographical region as the exporter). The correspondent bank may then request a partial or full guarantee from IFC to cover the payment risk of the issuing bank. Having received the IFC guarantee, the confirming bank then undertakes an obligation to pay the exporter on presentation of relevant documents.



Source: IEG, based on IFC program information.

The GTFP aimed to take advantage of IFC's existing network of banks and bridge gaps in the provision of trade finance. It initially sought to take advantage of the depth and breadth of the network of banks with which IFC had established relationships through its long-term investments. The main target market was local banks in higher-risk markets that regularly reached limits on trade volumes and that had a limited number of relationships with international confirming banks. Introducing banks to each other was expected to help expand trading networks. The program was expected to help expand available financing to local banks in LICs, particularly to support their SME clients. In middle-income countries (MICs), the program would make longer-term tenors (over 360 days) available for import of capital goods. The flexibility of the program was expected to help IFC respond to shifting global needs without delaying implementation or adding costs. Along with issuing guarantees, the program would also provide cash advances where there was no liquidity available. To mobilize confirming banks' use of their own capital, the GTFP would aim to restrict its coverage to 75 percent of the transaction value at the program level.

IFC also introduced the Trade Advisory Program to help local banks build capacity in trade operations. In 2006, IFC established the Trade Advisory Program to help transfer international best practices and improve banker's technical and operational skills in trade finance. Through training and advisory services to banks, the program aimed to (i) transfer capacity to structure basic and complex trade finance transactions; (ii) improve trade finance risk-mitigation techniques; (iii) upgrade trade finance back office skills; and (iv) build capacity to provide trade finance services to local SMEs. The program sought to help local issuing banks fully benefit from participating in the GTFP as well as mobilize additional trade finance in the longer term by establishing relationships with international banks.

In FY07, IFC reported that GTFP volume had surpassed expectations, particularly in Africa, and requested an increase in the program's ceiling. In December 2006, IFC went back to the Board to request a \$500 million increase in the GTFP (GTFP II), to bring the program ceiling to \$1 billion (see Table 2.1). It reported a "very favorable" market response to the program. In the program's first 14 months, \$555 million in guarantees had been issued, compared to projections of \$150 million. The program was also mainly supporting trade finance in Africa and other smaller, less-developed countries, as well as trade in goods in the SME sector. The substantial projected volume in Europe and Central Asia had not been realized because of the inability to realize a risk-sharing arrangement with EBRD. However, volume in Africa, which had initially been projected to be 4 percent of the program, had actually been 70 percent. In addition, although the majority of the GTFP volume supported imports into developing countries, some \$93 million had supported exports from developing countries.

Table 2.1. Increases in the GTFP Program Limit since FY05

Board date	Amount of increase	New program ceiling	Rationale for increase
November 11, 2004	NA	\$500 million	Objective: To increase access to trade finance in underserved markets globally by bridging gaps in the market supply of trade finance.
January 11, 2007	\$500 million	\$1 billion	Favorable market response, particularly in Africa and smaller, less-developed countries. Continued strong demand seen in Africa.
October 2, 2008	\$500 million	\$1.5 billion	Increased demand was expected from continued demand in Africa, expansion in the number of confirming banks by 50 percent, broader familiarity with the program; reduced credit appetite among major banks because of tightening credit conditions and reduced liquidity; and higher oil and commodity prices that had increased the value of imports.
December 18, 2008	\$1.5 billion	\$3 billion	Increased demand as a result of the credit tightening, increased risk aversion, and capital constraints among the major international trade banks; expansion of program to existing client banks that previously did not need the program; risk-sharing arrangements with development finance institutions and private insurers.
September 27, 2012	\$2 billion	\$5 billion	Larger trade finance gaps caused by withdrawal of some major trade finance banks from business; strong demand as a result of continuing crises and more stringent regulations, especially among European banks; increased demand in Asia.

Source: IEG based on IFC GTFP Board Documents, 2004, 2008a, 2008b, 2012.

Several modifications to the program were proposed, and IFC planned to expand the program beyond its existing network of client banks. To further enhance use of the program, four modifications were proposed: (i) expand eligibility to include nonbank financial institutions (ii) expand eligible transactions to include intra-country trade; (iii) permit undisclosed guarantees in which the issuing bank would not be aware of the guarantee (silent confirmations); and (iv) allow 100 percent guarantee coverage on transactions with financial institutions that were appraised on a desk-based basis as long, as they did not exceed 10 percent of the program total. IFC also identified a shift in the program's emphasis away from IFC's existing network of banks. At that point, many of IFC's existing client banks were large banks in their respective markets and did not need guarantee support from the GTFP. Instead, IFC would engage a "wide universe" of second-tier and smaller banks. Given the strong demand seen in Africa, that region was identified as the strategic focus of the program. The "vast majority" of new issuing banks added to the program were expected to be in frontier markets.

A further \$500 million increase in the program ceiling was requested in early FY09. In September 2008, shortly before the full effects of the emerging global financial crisis took effect, IFC requested a further increase in the GTFP ceiling to \$1.5 billion (GTFP

III). The program had seen continued rapid growth. Africa continued to represent a major focus of the program, with one-third of issuing banks in the Africa Region. IFC also emphasized the program's reach among confirming banks in developing countries and its support for South-South trade.

IFC noted that the risk-sharing proportion of the program had declined (from 34 percent in 2007 to 23 percent in 2008) because of tightening liquidity, a decline in the secondary markets, and decreased risk appetite in international markets. Increased demand for the GTFP was expected from the continued demand in Africa; expansion in the number of confirming banks; broader awareness and familiarity with the program; reduced credit appetite among major banks because of tightening credit conditions; and higher oil and commodity prices that had increased the value of imports. In this context, the higher ceiling would enable IFC to continue to support trade finance in markets such as agriculture, IDA countries, South-South, and Africa.

In December 2008, the GTFP's authorized ceiling was doubled as part of IFC's response to the global financial crisis. Three months later, the Board approved a further \$1.5 billion increase in the program size, bringing its ceiling to \$3 billion. The increase was part of several initiatives proposed by IFC in response to the global financial crisis. These included a bank recapitalization fund, an infrastructure crisis facility, and refocusing advisory services to help clients through the crisis. The additional increase in the GTFP was based on increased demand seen as a result of the credit tightening, increased risk aversion, and capital constraints among the major international trade banks ensuing from the global financial crisis. IFC also planned to expand the program to existing client banks that previously had not needed the program, as well as to enter into risk-sharing arrangements with other development finance institutions and private insurers. As part of its crisis response, in May 2009, IFC also introduced the Global Trade Liquidity Program (GTLP) to support liquidity among international banks engaged in trade finance in developing countries during the crisis (see Box 2.2).

In FY13, the program's ceiling was increased to \$5 billion. In September 2012, the Board approved a further \$2 billion increase in the GTFP to bring the program's ceiling to \$5 billion. The program had continued to grow, and in June 2012, outstanding guarantee commitments had reached \$2.9 billion, its highest ever. Further expected growth was also expected because of aggravation of the gaps in trade financing caused by the deleveraging by some European banks that were traditionally large players in trade finance, increased demand from Asia, and increased costs of regulatory compliance. No changes were proposed to the program's design. Key elements of the program achievements highlighted by IFC include its high-reach, low-risk profile; reach in IDA and fragile countries; ability to provide "first-touch" investment opportunities for IFC; and support for strategic sectors such as agriculture and clean energy.

### Box 2.2. IFC's Trade and Supply Chain Products

#### **Global Trade Finance Program**

- Established in FY06, the GTFP is IFC's flagship trade finance program that developed a new, more flexible, quicker-response means to support trade finance.
- GTFP aims to support access to trade finance in underserved markets worldwide. Its authorized ceiling has grown from \$500 million in FY06 to \$5 billion in FY13.

#### **Global Trade Liquidity Program**

- Established in FY09, the GTLP is a multipartner initiative of governments, development finance institutions, and private sector banks that aims to help address the shortage in trade finance resulting from the global financial crisis.
- Using both funded and unfunded instruments, the program has sought to increase access to trade finance in emerging markets by providing liquidity and risk mitigation to some international banks with large trade networks.

#### **Global Trade Supplier Finance**

- Established in FY11, this program is a combined investment and advisory program that provides short-term financing to exporters in emerging markets that sell to large international companies on open account terms.
- The program seeks to increase direct access to short-term finance for exporters in developing countries, reduce the costs of finance for exporters, and increase local supplier sales to large international firms in the program.

#### **Global Warehouse Finance Program**

- Established in FY11, the program aims to increase working capital financing to farmers and agriculture producers by leveraging their production stocks.
- The program provides banks with liquidity or risk coverage backed by warehouse receipts, which can be used to provide short-term loans or guarantees to agricultural producers and traders ahead of export.

#### **Critical Commodities Finance Program**

- Established in FY12, the Critical Commodities Finance Program supports the movement of agricultural and energy products to and from developing countries by promoting commodity-backed finance.

*Source:* IEG, based on IFC documents.

## Other Trade Finance Initiatives

The GTFP is the flagship product among several other trade and supply chain programs introduced by IFC in the last few years. In May 2009, IFC established the GLTP to address liquidity constraints and temporarily support trade finance flows to developing countries. The \$1 billion program was a collaborative effort among bilateral and multilateral development finance institutions and governments to disburse funds to global and regional banks with extensive trade networks. The program was enhanced in January 2010 with a further \$1 billion in unfunded



guarantee support. As a temporary crisis response measure, the GTLP was scheduled to be phased out in 2012, but has since been extended because of continued weaknesses in global financial markets. A review of the GTLP is presented in Appendix A. In FY11, two additional trade and supply chain programs were initiated: the Global Trade Supplier Finance Program and the Global Warehouse Finance Program. These two programs seek to enhance trade by supporting access to working capital for suppliers in developing countries and for farmers and SMEs in the agriculture sector (see Box 2.2).

The GTFP has become a major part of IFC's activities. Since its establishment in 2005, the GTFP has grown from 5 percent of IFC's total annual commitment volume to 39 percent in 2012 (Table 2.2). In 2012, the GTFP accounted for 48 percent of IFC commitments in the Latin America and the Caribbean Region and 53 percent of commitments in the Sub-Saharan Africa Region. GTFP commitment volume has grown by an annual average of 75 percent a year since FY06 compared with 10 percent a year for long-term finance. As discussed in Chapter 4, however, IFC's method of reporting its trade finance products may overstate their relative size in IFC's business.

**Table 2.2. Annual GTFP Commitments as a Proportion of Total IFC Commitments (percent)**

Region	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY06–08	FY09–12
East Asia and the Pacific	0	0	2	13	22	31	43	1	27
Europe and Central Asia	1	3	2	9	18	29	34	2	23
Latin America and the Caribbean	3	12	16	32	40	49	48	10	42
Middle East and North Africa	2	9	15	40	36	49	40	9	41
South Asia	2	2	2	9	16	28	24	2	19
Sub-Saharan Africa	29	27	44	36	32	43	53	33	41
Total	4	9	13	23	27	38	39	9	32

*Source:* IEG, based on IFC data.

This evaluation focuses on the GTFP in the period FY06–12. This is the Independent Evaluation Group's (IEG's) first comprehensive evaluation of an IFC trade finance program. It therefore pilots an evaluation approach and methodology. During the approach paper stage, the evaluation proposed to cover the GTFP, the GTLP, and IFC's trade finance Advisory Services. During the preparation phase of the report, IEG determined to focus primarily on the GTFP because of the differences among instruments and the need to adequately develop and test a methodology prior to applying it to other trade and supply chain products. The focus of this evaluation is therefore on the GTFP, with lesser coverage of the Trade Advisory Program and the GTLP (a review of which is presented in Attachment II). The other trade and supply

chain products such as the Global Warehouse Finance Program and Global Trade Supplier Finance were introduced recently and do not have adequate data and experience to be evaluated as yet. IEG will prepare additional evaluations that will build on the methodology introduced in this report and cover other trade and supply chain products in the future.

## Summary

- IFC introduced GTFP in FY05 with a ceiling of \$500 million to help enhance the supply of trade finance in underserved markets.
- The main target market for GTFP was local banks in higher-risk markets that regularly reached their limits on trade volumes and that had a limited number of relationships with international confirming banks.
- The GTFP ceiling was increased to \$1 billion in FY07. In FY08, the GTFP ceiling was further increased to \$1.5 billion. In FY09, the ceiling was doubled to \$3 billion because of increased demand during the financial crisis. Most recently in FY13, the GTFP ceiling was increased to \$5 billion.
- The GTFP is the flagship product among several other trade and supply chain programs introduced by IFC in the last few years. It has increased substantially to 39 percent of total IFC commitments.
- This evaluation introduces a methodology for IEG to evaluate IFC's trade finance programs and focuses on the GTFP in the period FY06-12.

# 3. Relevance of the Global Trade Finance Program

## Chapter Highlights

- ❖ The GTFP has been a relevant response to demand for trade finance risk mitigation in emerging markets, although rapid growth in lower-risk markets in recent years raises the need for close monitoring of its additionality in these markets.
- ❖ The GTFP was highly relevant as it was designed and introduced. In its early years it was concentrated among high-risk, low-income countries and in the Africa Region, where access to trade finance was least available.
- ❖ The global financial crisis triggered an expansion in demand and relevance of the program beyond the higher-risk markets in which it was initially concentrated.
- ❖ Since the crisis, the relevance of continued expansion of the program in lower-risk markets is less clear, and there is a need for IFC to strengthen its additionality assessment methodology.

## Factors Affecting the Supply of Trade Finance

The relevance of the GTFP lies in its ability to enhance the supply of trade finance without preempting market solutions. IFC's mandate is to support private sector development in member countries without undertaking activities for which sufficient private capital would be available on reasonable terms.<sup>1</sup> Supporting private sector development without competing with private players or undermining viable market solutions – IFC's *additionality* – provides the underlying rationale for IFC's engagement in any activity. The additionality of IFC engagement in trade finance lies in the extent to which it helps enable viable trade transactions that would otherwise not occur because of the inadequate supply of trade finance at reasonable cost. It is this definition of additionality that is applied in this report.

The GTFP is a supply-side intervention that aims to increase the supply of trade finance from international banks to local banks. It aims to enhance the supply of trade finance so that demand in underserved markets can be met. Other than through advisory services programs aimed at importers/exporters to increase awareness of trade finance instruments, the GTFP generally does not seek to influence the demand side of trade finance. Assuming that banking sector intermediation is required for a transaction to take place, there are two levels at which the risk/reward perspective of banks may cause an inadequate supply of trade finance and prevent transactions from happening. First, the local banking sector may be unwilling to extend credit to the local importer/exporter without cash up front or collateral that the local firm may not

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RELEVANCE OF THE GLOBAL TRADE FINANCE PROGRAM

be able to provide. The GTFP does not aim to address this relationship between issuing banks and their local clients, other than by helping increase the overall available volume of trade finance. Second, the issuing bank may not be able to get credit (for example, by getting a letter of credit confirmed) from international banks in the exporter's region. The GTFP aims to influence this second relationship and the perception of risks between banks.

Table 3.1. Factors That May Limit the Supply of Trade Finance

Factor	Reasons	Potential GTFP role
Perceived high credit risk of local importer or exporter by local issuing bank	The local issuing bank's risk/reward perspective may favor large, high-volume, well-established local importers with collateral rather than small, unknown local importers with limited collateral and small volumes.	The GTFP does not directly influence this relationship, other than by helping increase the overall level of trade finance available. Long-term solutions involve improving the competitiveness in the banking system that affects the risk/reward perspective of banks to reach smaller, riskier clients.
Perceived high credit risk of local issuing bank by international confirming bank	The international confirming bank's risk/reward perspective may favor a well-established local bank with strong balance sheets in large markets, rather than smaller, riskier, less well-established local banks in small markets.	The GTFP is among several risk-mitigation instruments that can limit the exposure of international banks to the credit risk of a local issuing bank. Other risk-mitigation instruments include cash collateral, interbank risk sharing, private insurance, export credit agency guarantees, and other DFI trade finance programs. The availability and cost of these other instruments varies substantially across markets. Long-term solutions involve building the reputation, market position, and financial strength of the local bank.
Constraints on the international confirming bank caused by internal factors	Factors affecting an international bank's risk/reward perspective may include its capacity to establish relationships in emerging markets, internal prudential controls and exposure limits, familiarity with the country, capital position, and access to information.	The GTFP can help address some of these internal factors by substituting the payment risk of the issuing bank with IFC's AAA rating, introducing banks to each other, and sharing information. Long-term options include improving the risk/reward perspective of doing business in emerging markets and increased information availability.
Constraints on the international confirming bank caused by external regulations	Prudential regulations, such as Basel III, may govern capital adequacy and leverage ratios that can affect an international confirming bank's risk/reward perspective of doing business in emerging markets.	By substituting the payment risk of the emerging market bank with IFC's AAA rating, the GTFP can help reduce capital costs and improve the risk/reward perspective of international confirming banks.
Perceived high risks in the banking sector of the local issuing bank	Regardless of the standing of individual banks, overall weaknesses in the banking sector in a host country can affect the international confirming bank's risk perspective. These include a poor regulatory environment; poor compliance; capital inadequacy; high nonperforming loans; and high exposure to the sovereign.	GTFP can substitute the payment risk of the emerging market bank with IFC's AAA rating. Long-term solutions include an improved banking sector regulatory environment and compliance and strengthened financial soundness indicators in the system.
Perceived high political and macroeconomic risks in the country of the local issuing bank	An international confirming bank's risk/reward perspective may be affected by political and macroeconomic instability in the developing country that may affect a local institution's ability to honor debt.	GTFP provides a comprehensive guarantee that covers political and commercial risks. Long-term solutions include improved governance and political and macroeconomic stability that reduce perceptions of political and macroeconomic risk.

Source: IEG.

Note: DFI = development finance institution.

There are several scenarios in which international confirming banks may not supply adequate trade finance to issuing banks in emerging markets. Conditions under which the supply of trade finance can be limited include if international confirming banks have no relationship or credit limit with the local issuing bank; if they have reached their exposure limits with the issuing bank or the country of the issuing bank; or if they have risk/reward perspectives that result in trade finance prices that are too high to meet local demand (Table 3.1).

The least risky scenario for an international bank to confirm a letter of credit is to obtain prepayment or cash deposits for the value of the transaction from the issuing bank. However, this may not be competitive or viable. For an international bank to provide trade finance credit it has to take the payment and country risks of the issuing bank. To do so, it will need to establish a relationship with the issuing bank and conduct and maintain due diligence that assesses the creditworthiness and probability of default of the institution based on both institution-specific and country macroeconomic and political risks. It will also need to obtain other information to meet “know-your-customer,” anti-money-laundering, and other due diligence requirements. Based on its due diligence, it will then establish a credit line that sets a limit up to which it is willing to be exposed to that bank. The confirming bank will then provide credit, including confirming letters of credit, up to this limit.

Several risk-mitigation options may exist once a confirming bank reaches its exposure limits on an institution or country. If the prudential limit on a line of credit is reached, if a confirming bank’s overall exposure limit in a country is reached, or if a confirming bank is otherwise unwilling to take the payment risk of an issuing bank, then it will not assume exposure to the local bank without some form of risk mitigation. The availability of the different risk-mitigation options varies significantly from market to market. Depending on the availability of instruments in each market, the international confirming bank can do any of the following:

- *Refuse the transaction.* This is likely only if no viable risk-mitigation options exist at all. In general, confirming banks will seek to somehow accept the transaction, including by charging fees that are commensurate with the risks. Banks that follow their corporate clients may seek to somehow enable the transaction in order to serve their clients. However, banks that deleverage and reducing their trade finance portfolios might refuse transactions regardless of the risk-mitigation opportunities. In the event of a refusal by a confirming bank, the issuing bank can seek confirmation from another confirming bank that it may have a clean line with or that is willing to employ a form of risk mitigation.
- *Ask the issuing bank to prepay or deposit cash collateral for the value of the transaction.* This option may be viable for issuing banks in liquid positions, where the opportunity cost of deploying cash in other income-earning

instruments is low. This option might be less viable in the case of illiquid issuing banks or those with inadequate foreign currency reserves, where the opportunity costs are high. In such cases, a confirming bank requesting cash collateral from the issuing bank may make the transaction commercially unviable. If cash security from the issuing bank is obtained, the trade transaction has minimal risk for the confirming bank.

- *Share the transaction with another confirming bank.* A main form of risk mitigation is for a bank to go through another confirming bank that has adequate room on its credit line. A bank can also sell part of its trade finance exposure in an emerging market transaction, institution, or country to other banks. The applicability and availability of the interbank risk-sharing market is subject to the risk perspectives and exposures of other confirming banks. The market is reported to be less available for riskier institutions and countries following the global financial crisis.
- *Obtain private insurance against the value of the transaction.* Private insurers such as Lloyds of London can provide cover against default on a transaction. Limitations of private insurance are that only some, usually less-risky, markets are covered; private insurers will not insure the full amount of the transaction; or the confirming bank now bears the risk of the insurance company.
- *Obtain insurance from an export credit agency or other government agency.* Insurance from an export credit agency is a public sector solution. Limitations of insurance from these agencies include (i) coverage only of exports originating out of their country, (ii) a focus on medium to longer-term transactions, and (iii) slow and cumbersome processing that can take weeks to get approved.
- *Obtain a trade finance guarantee from a development finance institution.* Multilateral development bank (MDB) providers of trade finance insurance include IFC, EBRD, the African Development Bank, the Inter-American Development Bank, the Asian Development Bank, and the Islamic Development Bank. Once a guarantee is obtained, then the confirming bank bears the payment risk of the MDB.

A range of internal factors can influence a confirming bank's exposure limits and use of risk-mitigation instruments. A bank's prudential framework will guide its exposure limits to each country and institution as well its use of risk-mitigation instruments, each of which has particular capital allocation and cost implications. Other factors include the bank's prior experience and activity in the country; lack of familiarity with institutions outside its core countries of business; availability of information; and the resources available to conduct due diligence. High due diligence costs can make commencing and continuing business with small emerging market banks unprofitable. The trade finance line of the bank may also be competing with its other business lines to use country and institution exposure limits.

Banks that aim to provide full service to their major corporate customers will be driven by the nature and presence of their client businesses, whereas other banks engaged in trade finance as a self-standing line of business will have a different approach. The establishment of an initial line might be based on the overall low risk of trade finance, but confirming banks might see the risk/reward ratio of a transaction as too high because of factors such as the inability to calculate risks, difficulty in obtaining information, small markets, high due diligence costs, and perceived high country political and macroeconomic risks.

Country and specific institutional factors are important determinants of the size of credit lines and availability of risk-mitigation instruments (see Figure 3.1). Factors determining the availability and size of clean credit lines from confirming banks as well as the applicability of alternate risk-mitigation instruments include (i) the political and macroeconomic risks in the country – or likelihood that adverse government policies and actions will lead to a payment default; (ii) the state of the banking sector in the country: if the banking sector is well regulated, has depth, is diversified, and most banks have strong balance sheets, these factors mitigate against a default; and (iii) factors particular to that institution – the institution’s market position, management quality, or financial health.

These factors may be long standing (that is, in politically unstable countries or countries with undeveloped financial systems) or short term, such as countries in a temporary political or financial crisis. Such crises can be the result of causes within a country or region, or global reasons, or a combination of these factors. When risks are high or increase, international banks will contain or reduce their exposure limits. In these situations, there is also less likelihood that viable market-based risk-mitigation instruments will be available. Private insurance and interbank risk-sharing mechanisms are less available in high political risk countries, in countries that may have fundamentally weak banking systems, in countries in crisis, or in smaller countries where the limited volumes generated might not justify the costs of due diligence involved.

The regulatory environment is also a key factor behind a confirming bank’s risk appetite. The establishment of credit limits and the availability of risk-mitigation instruments are also affected by the national or international prudential regulatory environments for confirming banks. Basel II guidelines that set international prudential standards for banks in 2004–11 established risk-weighted capital adequacy norms that influenced the trade finance risk appetite, credit exposures, and pricing by international commercial banks in riskier emerging markets. Since 2011, higher risk-weighted capital adequacy ratios and leverage ratios (unweighted by risk) are being phased in under Basel III. The new requirements are expected to further the deleveraging process among some European banks that is occurring to offset capital erosion caused by the sovereign debt crisis in Europe.

Figure 3.1. IFC Additionality in Providing Risk Mitigation under the GTFP

↑ Low Risk = Financial Institution Risk = High Risk ↓	<b>IFC additionality, where alternate risk-mitigation instruments are not available</b>	<b>Highest IFC additionality</b>
	<ul style="list-style-type: none"> <li>• Stable country with lower political and macroeconomic risks</li> <li>• Higher risk institution (smaller, lower-tier, newly established institution)</li> <li>• Some alternate risk-mitigation instruments available</li> <li>• More likelihood of knowledge gaps; prohibitive due diligence costs/expected volume; need for introductions</li> </ul>	<ul style="list-style-type: none"> <li>• Risky country and risky issuing bank</li> <li>• Confirming banks will generally have restricted exposure limits and higher pricing because of higher capital provisioning requirements</li> <li>• Alternate risk-mitigation instruments such as private insurance; risk sharing will be less available</li> <li>• Local issuing banks generate volume larger than prudential limits</li> <li>• IFC takes a higher degree of risk</li> </ul>
	<b>Lowest IFC additionality</b>	<b>IFC additionality, where alternate risk-mitigation instruments are not available</b>
	<ul style="list-style-type: none"> <li>• Safest countries and issuing banks</li> <li>• Confirming banks will generally have higher exposure limits</li> <li>• Greater availability of risk-mitigation instruments</li> <li>• Possibility of regulatory arbitrage</li> <li>• IFC takes a lower degree of risk</li> </ul>	<ul style="list-style-type: none"> <li>• Higher country political and macroeconomic risks</li> <li>• Less risky financial institution (that is, top-tier, well-established, financially strong)</li> <li>• Some alternate risk-mitigation instruments available</li> </ul>
<b>← Low Risk = Emerging Market Country Risk = High Risk →</b>		

Source: IEG.

IFC has developed a preliminary framework for assessing additionality using a matrix of country and institutional indicators. In a 2012 internal report to the Board, IFC described its ongoing work on developing an additionality matrix that proposes to measure the additionality of trade finance operations based on both institutional and country factors. Its matrix proposes to categorize the “market position” of issuing banks as well as the “trade finance risk” of the country. To measure the market position of the participating institution, the client banks will be classified based on factors such as the number of correspondent banks in their network, the market share the bank, and clean lines available. To measure the trade finance risk in the country, the proposal aims to gauge the risk of private bank default on trade obligations as well as the risk that a country’s government would fail to support trade obligations in the event of a private bank default. Additionality would then be



measured based on the degree of maturity and market position of the issuing bank, as well as the trade finance risk in the country.

IEG's framework adopts a similar logic but uses basic indicators of country and institution risk that are presently available. As IFC's matrix and indicators are further refined and developed, they are likely to provide a more detailed measure of the program's additionality.

**Table 3.2. Changes in the Use of GTFP, 2006–12**

	FY06	FY07	FY08	FY09	FY10	FY11	FY12	All years FY06–12
Volume of guarantees issued (\$ millions)	265	770	1,448	2,376	3,462	4,623	5,975	18,919
Share of GTFP in LICs (%)	74	53	47	43	19	10	8	21
Share of issuing banks in LICs (%)	63	46	53	45	28	24	20	34
Share of GTFP in IDA and blend countries (%)	75	53	51	51	51	53	48	51
Share of issuing banks in IDA and blend countries (%)	68	56	66	58	57	59	59	57
Share of GTFP in high-risk countries (above 75) (%)	74	57	33	33	28	28	24	29
Share of issuing banks in high-risk countries (IFC) (%)	63	40	34	52	53	48	42	52
Share of volume in Africa (%)	70	49	41	27	22	20	22	25
Share of issuing banks in Africa (%)	47	26	29	26	25	23	26	25

*Source:* IEG, based on IFC data.

### **Additionality of the GTFP**

The GTFP was a relevant response to market demand for trade finance risk mitigation and it was concentrated in high-risk, low-income countries in its early years. When the GTFP was approved by the Board in FY05, global financial markets were highly liquid and there were low expectations of volatility (IMF 2005a, 2005b, 2006). Low global credit spreads along with improved policy environments and improving resilience in domestic banking systems in many emerging markets were encouraging international investors to move out along the risk spectrum with greater appetite and favorable credit terms to emerging markets. Demand for additional risk-mitigation instruments was in the highest risk markets. The GTFP addressed numerous weaknesses in IFC's past efforts to support trade finance. Its flexibility, quick response mechanisms, and foundation on IFC's global network of partner banks placed it in a position to meet this demand.

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In the first years of the program, guarantees were mainly issued in the highest risk markets. In FY06–08, 45 percent of GTFP volume was in high-risk countries (using IFC’s country risk rating); 52 percent was in LICs; and 47 percent in the Africa Region (Table 3.3). It was also used in countries that were experiencing temporary crises that had increased risk aversion among confirming banks. This was the case, for example, in Lebanon following political instability in 2006–07, in Kenya following the elections in 2007, and in Pakistan following political uncertainty and economic instability after 2007.

During the global economic crisis, the GTFP offered a viable risk-mitigation instrument with relevance in significantly broader markets. By mid-2008, global credit markets had tightened sharply, precipitated by the U.S. subprime mortgage crisis. The deterioration in credit quality reduced liquidity and increased uncertainty, widened credit spreads, and triggered a broad deleveraging process and retrenchment from riskier markets (IMF 2008a, 2008b, 2009a). In late 2008, with the collapse of several major global financial institutions, credit markets briefly froze.

The high level of uncertainty abated shortly thereafter and credit markets resumed, although with a higher degree of risk aversion. The crisis also affected the availability of risk-mitigation instruments, including private credit insurance and interbank risk sharing. The GTFP saw a temporary drop in demand, mirroring the lack of activity among major international banks in early late 2008. There then ensued strong, broader-based demand for the GTFP and other MDB trade finance programs for coverage even among more credit-worthy banks in countries with lower political risk. This demand was to some extent driven by increased caution and more stringent prudential regulations among international banks rather than temporary crises or underlying weaknesses in some developing countries.

Table 3.3. GTFP Use by Country and Issuing Bank Risk Ratings by Region, 2006–12

Region	Share in high-risk countries (75+) (%)	Share in high-risk banks (4B and higher) (%)	Share in both high-risk banks and high-risk countries (%)
Africa	23	9	5
East Asia and Pacific	0	33	0
Europe and Central Asia	21	12	8
Latin America and the Caribbean	23	5	5
Middle East and North Africa	88	29	28
South Asia	5	16	1

Source: IEG, based on IFC data.

Note: “Country risk” is based on IFC’s country risk rating and “institution risk” is based on IFC’s credit risk rating for each client bank. The composition of the credit risk rating is such that it includes an element of country risk, and therefore there is some overlap in the two indicators. IFC is developing indicators to measure the maturity and market position of the issuing bank as well as the “trade finance risk” in the country. The country risk rating scale is from 0 to 100, with 100 being the highest risk. The bank credit risk rating scale is, from lowest to highest risk: 2A, 2B, 3A, 3B, 4A, 4B, 5A, 5B, 6.

The supply of trade finance recovered in 2010, although with continued risk aversion in difficult markets. By mid-2010, the immediate adverse effects of the crisis on trade finance had abated (ICC 2011). Some commercial banks active in the Africa Region reported increased liquidity and noted that “supply of trade finance was not the problem” but that demand was lower because of a drop in trade volumes and that trade finance prices were dropping (Turner, Mokaddem, and Ben Ahmed 2010). In 2011–12, the European sovereign debt crisis worsened, however, affecting European-based banks that were traditionally major players in trade finance. A deleveraging process was initiated by these banks to improve their capital positions and enable them to comply with the new Basel III regulations. At the same time, U.S.- and Asian-based banks began to increase their trade finance activities, although whether they will fill the gaps left by European banks remains to be seen.

Since 2010, GTFP use has increased in high-risk markets, but its continued relevance in some lower-risk markets is less clear. The proportion of GTFP use in *high-risk banks in high-risk countries* increased from 3.5 percent of the program volume in 2006–08 to 9 percent in 2009–12 (Table 3.4). However, the proportion of the program volume in *low-risk banks in low-risk countries* rose from 10 percent in 2006–08 to 21 percent in 2009–12 (Table 3.4). With the broader demand for the program after the onset of the crisis, the GTFP was no longer “focused” on high-risk, low-income, Africa Region countries.

**Table 3.4. GTFP Guarantees by Country and Issuing Bank Risk (percent of total GTFP volume)**

Country risk	2006	2007	2008	2006-08	2009	2010	2011	2012	2009-12	Total
<b>High Risk (&gt;75)</b>	<b>74</b>	<b>57</b>	<b>33</b>	<b>45</b>	<b>33</b>	<b>28</b>	<b>28</b>	<b>24</b>	<b>27</b>	<b>29</b>
High-risk banks (4B, 5A, 5B, 6)	6	3	3	4	8	9	8	10	9	8
Moderate-risk banks (4A)	1	9	14	11	16	13	14	6	11	11
Low-risk banks (2A, 2B, 3A, 3B)	31	39	15	24	8	6	5	5	6	8
Unrated	37	6	1	6	1	1	0	2	1	2
<b>Medium Risk (55–70)</b>	<b>26</b>	<b>42</b>	<b>49</b>	<b>44</b>	<b>45</b>	<b>45</b>	<b>49</b>	<b>53</b>	<b>49</b>	<b>48</b>
High-risk banks (4B, 5A, 5B, 6)	0	1	1	1	5	4	8	7	6	6
Moderate-risk banks (4A)	0	2	2	2	10	17	12	14	13	12
Low-risk banks (2A, 2B, 3A, 3B)	17	29	43	36	29	23	29	28	27	28
Unrated	9	10	4	6	2	1	1	4	2	3
<b>Low Risk (&lt; 50)</b>	<b>0</b>	<b>1</b>	<b>18</b>	<b>11</b>	<b>22</b>	<b>27</b>	<b>23</b>	<b>24</b>	<b>24</b>	<b>22</b>
High-risk banks (4B, 5A, 5B, 6)	0	0	0	0	0	0	0	0	0	0
Moderate-risk banks (4A)	0	0	0	0	0	1	0	0	0	0
Low-risk banks (2A, 2B, 3A, 3B)	0	1	17	10	21	26	21	19	21	20
Unrated	0	0	0	0	1	0	1	5	2	2
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

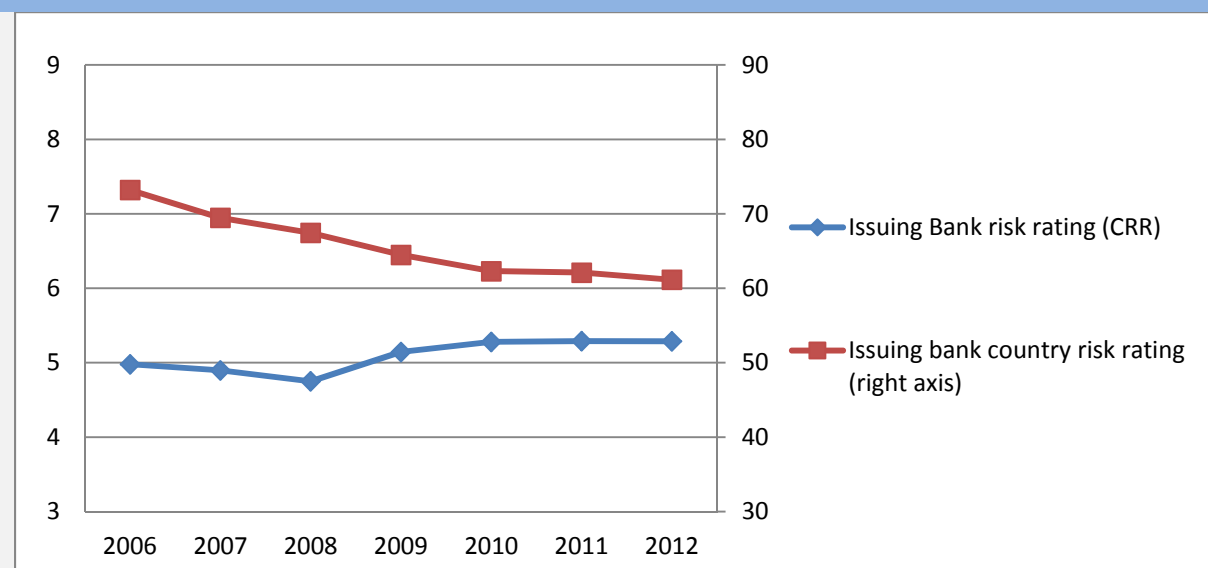
Source: IEG, based on IFC data.

Note: The country risk rating scale is from 0 to 100, with 100 being the highest risk countries. The bank credit risk rating scale, from lowest to highest risk: 2A, 2B, 3A, 3B, 4A, 4B, 5A, 5B, 6.

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In 2009–12, the share of guarantees in high-risk countries was 27 percent (from 45 percent in 2006–08); 16 percent in LICs (from 52 percent); and 22 percent in Africa (from 47 percent). Figure 3.2 illustrates the trend in the risk profile of the GTFP by country and bank risk. The trend suggests a decline in country risk profile with a modest increase in bank risk profile (Table 3.4). However, an analysis of new banks added into the program suggests that both country and bank risk levels have declined over time. Although GTFP started as a facility designed to facilitate trade in opaque financial systems in risky countries, it has increasingly generated new business in less risky country and bank settings. The absence of a method to assess additionality (that is currently being developed) inhibits a clear determination of GTFP’s relevance and additionality in some of these markets.

Figure 3.2. Average GTFP Country and Issuing Bank Risk Levels, FY06-12 (volume weighted)



Source: IEG, based on IFC data.

Note: Issuing bank rating 3 = lowest risk; 9 = highest risk. Country risk rating: 30 = lowest risk; 90 = highest risk.

Case studies point to high GTFP additionality in small, high-risk, crisis-affected countries. It is difficult to establish additionality for each trade transaction given limited information on the availability of alternate risk-mitigation instruments and their price, limitations, and suitability in any given point in time. However, IEG case studies in Côte D’Ivoire, Liberia, and the Democratic Republic of the Congo and interviews with international confirming banks indicated that the GTFP had high additionality in these countries. Each was a conflict-affected country with weak banking systems that affected perceptions of risk and the availability of trade finance and risk-mitigation options. Both GTFP and non-GTFP issuing banks in these countries indicated that they had to put up cash collateral for most trade transactions.

The small volumes and perceptions of high country and banking sector risk discouraged large lines of credit from international trade banks and made few risk-mitigation instruments available other than cash collateral. An international confirming bank indicated that it needs to spend \$50,000 a year per issuing bank in such countries to maintain its due diligence. The infrequent and small volumes generated in these countries made maintenance of the relationship and credit lines unviable. Large confirming banks interviewed by IEG also indicated that the GTFP “made a difference” to them in the more risky markets, but in safer markets, they were more able to find an alternative to make the transaction happen.

GTFP has also had high additionality in larger countries that have fundamentally weak banking systems or long-standing country risks, particularly by targeting lower-tier institutions. Vietnam has dominated the share of GTFP in the East Asia and Pacific Region, representing about 60 percent of total volume in the region since 2006. Its banking sector has been consistently perceived as relatively high risk because of overly rapid credit growth in the mid-2000s, the uncertain quality of loans, and weaknesses in banking sector regulation and supervision of the financial sector. The banking sector has seen increasing stress in 2012, with low liquidity, volatile funding sources, and the 2012 arrest of several high-level banking executives.<sup>2</sup> In Pakistan, which is the largest GTFP user country in the Middle East and North Africa Region, the banking sector has been perceived as high risk because of high levels of nonperforming loans, concerns over political interference in loan recovery, and political and macroeconomic instability.

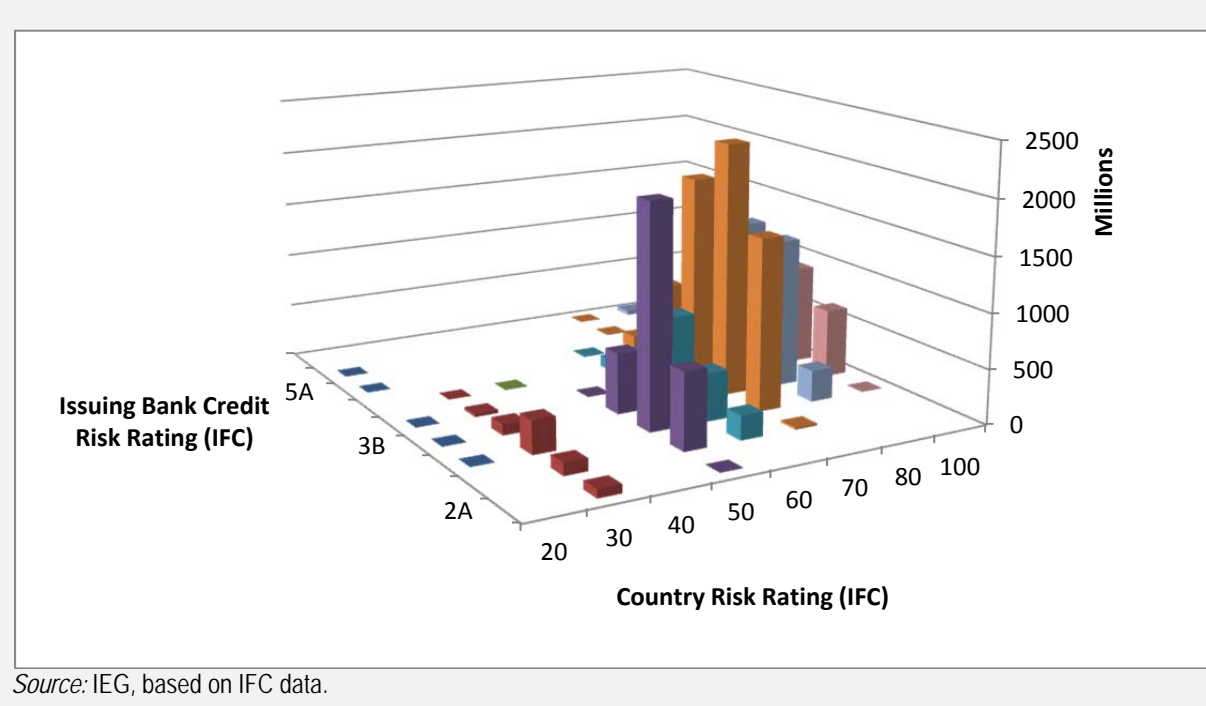
Case studies indicated a concentration of GTFP activity in less-risky, top-tier banks in some countries (see Figure 3.3).<sup>3</sup> Lebanon has consistently been rated as a high-risk country. At the same time, however, its banking sector was not significantly affected by the global financial crisis, and since 2008, it has seen substantial growth and profitability.<sup>4</sup> Five of the six GTFP issuing banks are top-tier (“alpha”) banks that accounted for 98 percent of the GTFP volume in Lebanon.<sup>5</sup> These banks are the largest, most liquid, highest capitalized banks in the country and have well-established trade finance businesses and long-standing relationships with international confirming banks around the world. In Nigeria, which is a medium-risk country, GTFP is concentrated in low-risk banks, which accounted for 94 percent of the volume in the country in FY06–12. Moreover, a significant proportion of the volume was driven by two confirming banks that used the GTFP to confirm letters of credit issued by their own parent companies.

Participating banks indicated that they generally did not use the program for transactions that they would conduct anyway. A key underlying criterion for IFC additionality is whether the trade transaction would not have happened without the IFC intervention. In a survey of GTFP participating banks conducted by IEG, 56 percent of issuing banks and 71 percent of confirming banks indicated that they had

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not used the program for transactions that they would have done anyway. In many cases, it is likely that a GTFP guarantee was needed for the transaction to take place, as alternative risk-mitigation instruments were not available, particularly in the higher-risk markets. A confluence of various factors needs to be present that eliminates all other possible options, and this is often the case in higher risk markets. Given the nature of the instrument, however, it is very difficult to establish with certainty if any particular trade transaction would or would not have taken place without the GTFP.

Figure 3.3. GTFP Guarantee Volume by Country and Issuing Bank Credit Risk Ratings, 2006–12



Under some circumstances, transactions are more likely to have taken place without the GTFP. In IEG’s survey of participating banks, 44 percent of issuing banks (accounting for 17 percent of GTFP commitments since 2006) and 20 percent of confirming banks (5 percent of commitments) indicated that they have used the GTFP for transactions that they would have done anyway.<sup>6</sup> IEG interviews indicated some circumstances under which transactions would likely have happened anyway. For example, confirming banks that follow their corporate customers and aim to meet all their needs indicated that they would somehow find a way to make a transaction happen, including by going through other banks.

Well-established local issuing banks in countries such as Nigeria, Lebanon, and Pakistan also indicated that they would somehow make a transaction happen for their well-established customers, although at possible higher cost. Large importers,

such traders in oil and other commodities, were also more likely to find an alternate source of finance or put cash up to make a transaction happen.

IFC's pricing is an important tool to help ensure additionality. Given the difficulties in measuring additionality for each transaction, along with the potential ability of the program to crowd out existing market solutions, IFC's pricing is an important tool to help ensure additionality. The aim is to price guarantees at levels that do not undermine the use of other available risk-mitigation instruments but that still make the transaction commercially viable. At present, GTFP guarantees are priced by regional trade officers on an individual transaction basis at "market." This is done by checking with issuing and confirming banks on what price they would offer/pay for such a transaction on a clean (unsecured) basis. IFC's pricing will then be set at a slightly lower price than what the issuing bank would pay the confirming bank for a clean transaction, in order to provide the confirming bank with a margin. The final price to the issuing bank is therefore the same as if it were a clean line.

Pricing is correlated with size, country risk, and institutional risk. A regression analysis of GTFP data estimated the impact of four factors on the pricing of letters of credit guarantees: tenor (in months), amount (in millions of dollars), country risk (IFC rating), and credit risk rating (measured as part of the quarterly portfolio review process). Of the four factors, three were estimated to have a statistically significant impact on price: amount, country risk, and credit risk. The relationship between transaction tenor and price was not statistically established. The transaction amount was found to have a significantly negative impact on pricing: larger transactions are charged lower prices. Both measures of risk—country and credit—were shown to have a positive impact on prices: more risky countries and issuing banks are charged higher prices. The results suggest that a \$10 million increase in transaction size would lower the price by 30 basis points. Conversely, an increase in the country risk score of 10 points (on a 100-point scale) would increase the price by 10 basis points. A deterioration of the credit risk rating of an issuing bank by a single notch (from, say, 3A to 3B) would increase the price of the guarantee by 13 basis points.

GTFP prices have varied considerably across markets. Pricing has averaged 1.5 percent over the life of the program, with considerable variation by region, product, country income group, country risk, and institution risk. For example, guarantee pricing averaged 2.4 percent in South Asia and 1.9 percent in Europe and Central Asia, compared with 1.1 percent in the East Asia and Pacific and Latin America and the Caribbean Regions (see Table 3.5). In China and India, GTFP pricing averaged 0.7 percent and 0.9 percent, respectively, indicating the availability of lower-priced trade finance in these countries. Pricing of guarantees under GTFP has been highest in the Africa Region among LICs and among high-risk countries. The average price was 1 percent in low-risk countries, compared with 1.7 percent in high-risk

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countries. By institution, the average price for a safe 2A-rated bank was 0.7 percent, compared with higher than 2 percent for more risky 5A/5B banks.

Table 3.5. Pricing of GTFP Guarantees, FY06–12 (volume-weighted annual average, percent)

	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY06–12
<b>All GTFP</b>	1.9	1.6	1.3	1.7	1.7	1.4	1.4	1.5
<b>Region</b>								
East Asia and Pacific		3.3	0.9	1.3	1.3	1.0	1.2	1.1
Latin America and the Caribbean	0.7	0.8	0.9	1.5	1.0	1.0	1.3	1.1
Africa	2.2	2.0	1.7	1.6	1.7	1.6	1.5	1.6
Middle East and North Africa	0.9	1.2	1.0	1.8	2.3	1.8	1.4	1.7
Europe and Central Asia	2.5	2.0	1.8	2.5	2.5	1.8	1.5	1.9
South Asia	2.2	2.1	2.3	2.5	2.5	2.5	2.2	2.4
<b>Country risk (IFC)</b>								
Low Risk (< 50)		0.8	0.9	1.4	0.8	0.8	1.1	1.0
Medium Risk (55-70)	1.3	1.4	1.6	1.8	1.9	1.5	1.5	1.6
High Risk (>75)	2.2	1.7	1.1	1.8	2.1	1.8	1.6	1.7
<b>Bank credit risk rating (IFC)</b>								
2A				0.6	0.9	0.6		0.7
2B		0.7	0.9	1.2	0.7	0.6	0.9	0.8
3A	1.5	1.8	1.6	1.7	1.1	1.2	1.2	1.3
3B	2.2	1.7	1.3	1.6	1.9	1.5	1.5	1.6
4A	1.5	1.0	1.0	1.9	2.0	1.7	1.6	1.7
4B	2.3	1.2	1.8	1.6	1.8	1.4	1.4	1.5
5A			1.1	2.7	2.5	2.1	1.8	2.1
5B		1.2	2.1	2.7	2.3	1.7	1.7	2.0
6				1.6	2.1	1.6	1.8	1.7
<b>GTFP product</b>								
Pre export finance	0.7	0.7	0.8	1.5	0.9	1.0	1.3	1.1
Pre import finance		1.3	1.2	1.3	1.3	1.0	1.3	1.2
Letter of credit	2.2	1.8	1.5	1.8	2.0	1.8	1.5	1.7
Performance guarantee	3.0		1.4	2.3	1.4	2.9	1.4	1.9
<b>Country income group (issuing bank)</b>								
High Income		0.8	0.8	1.0	1.0	1.0	0.9	1.0
Upper middle Income	1.7	1.2	1.0	1.6	1.3	1.2	1.2	1.2
Lower middle Income	0.7	0.9	1.6	1.7	2.1	1.5	1.5	1.6
Low Income	2.2	2.0	1.6	1.9	1.6	1.9	1.9	1.8

Source: IEG, based on IFC data.

Note: The country risk rating scale is from 0 to 100, with 100 being the highest risk countries. Bank credit risk rating scale, from lowest to highest risk: 2A, 2B, 3A, 3B, 4A, 4B, 5A, 5B, 6.



Further efforts to support optimal pricing can help ensure additionality. Feedback from IEG's survey and interviews indicates that IFC's prices were largely aligned with market prices. Among participating banks surveyed, 82 percent of confirming banks and 52 percent of issuing banks indicated that GTFP pricing was around the market average. However, pricing each individual transaction involves some subjectivity, and the process is not fully transparent. The main concern is that in an opaque market, it may not be clear if IFC is providing a service to help ensure that a trade transaction takes place or is offering a more competitive option for trades that would happen anyway and therefore crowding out market solutions.

In IEG's survey of participating GTFP banks, 18 percent of confirming banks and 18 percent of issuing banks indicated that IFC's pricing was below market average. IFC currently has regional volume targets that encourage achieving certain volumes in each region but does not have parallel revenue or return on capital targets. This may create some tension between the dual objectives of meeting volume targets and ensuring pricing that will not crowd out viable existing options. Additional efforts to ensure optimal pricing may therefore be warranted. Although an emphasis on ensuring the highest pricing that markets can absorb may have a trade-off in terms of volume, it can help ensure the GTFP's continued additionality and its concentration in the most relevant markets.

## Summary

- The GTFP is a supply-side intervention that aims to influence the relationship between international and local banks. It does not directly address the relationship between issuing banks and their local clients. IFC aims to choose member banks, in part based on their SME client base.
- Alternate risk-mitigation instruments to the GTFP may or may not exist in each market and include prepayment or cash deposits from issuing banks for value of the transaction; interbank risk sharing; private insurance; and insurance from an export credit agency. The availability of these instruments varies considerably across markets.
- The GTFP program was a relevant response to demand for trade finance risk mitigation in risky markets. In its early years, it was concentrated in high-risk, low-income countries, particularly in Africa. During the global economic crisis, the GTFP offered a viable risk-mitigation instrument with relevance in significantly broader markets.
- In the years since the 2008 global financial crisis, the GTFP has increased its presence in higher-risk markets but also maintained a significant presence in

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lower-risk markets, raising a need for close monitoring of its additionality in these markets.

- Pricing is an important tool to help ensure additionality. IFC's pricing process has ensured that its prices are largely aligned with markets.
- IFC has internal regional volume targets but not revenue targets that may create some tension between the dual objectives of meeting volume targets and ensuring pricing levels that will not crowd out viable existing instruments.

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## NOTES

<sup>1</sup> See IFC, *Articles of Agreement*, Article III: Operations (as amended through June 27, 2012).

<sup>2</sup> Economist Intelligence Unit. Vietnam's banking sector has consistently received a CCC rating since 2008 from EIU Financial Services. Definition of a CCC rating: "Questionable capacity and commitment to honoring obligations. Patchy payment record."

<sup>3</sup> Although the terms *first tier* and *second tier* are often used to justify GTFP activity, IFC does not apply a formal definition of the tier of a bank in a country and does not have a database that systematically tracks this across countries.

<sup>4</sup> Economist Intelligence Unit, World Bank.

<sup>5</sup> Data and classification of banks in Lebanon is from the Lebanon Banker's Association.

<sup>6</sup> On September 5, 2012, IEG sent surveys to 217 issuing banks and 237 confirming banks in IFC's GTFP network, of which 76 issuing banks (35 percent) and 40 confirming banks (17 percent) responded. The response rates for active banks (those that used the program more than 10 times in the last 6 years) were 22 percent for confirming banks and 35 percent for issuing banks. The issuing banks that responded account for 37 percent of the GTFP total since 2006; the confirming banks that responded account for 45 percent.

## 4. Effectiveness of the GTFP in Supporting Access to Trade Finance in Underserved Markets

### *Chapter Highlights*

- ❖ The GTFP has been effective in expanding the supply of trade finance in underserved markets by mitigating risks that would otherwise inhibit the activity of commercial banks.
- ❖ The GTFP has played a useful role in connecting local issuing banks with global confirming banks.
- ❖ The GTFP network of banks remains broad, but there is a concentration of usage among confirming banks in some regions.
- ❖ The SME reach and type of product covered by IFC guarantees are not in themselves informative indicators of the program's effectiveness.
- ❖ IFC's Trade Advisory Services are well regarded and have helped some commercial banks expand their trade finance capacity.

IFC Board documents identify several subobjectives and measures to gauge the development contributions of the GTFP. The objective of the GTFP is to help increase access to trade finance among underserved markets. It does this by supporting the supply of trade finance from international confirming banks to local issuing banks in developing countries. Key targets and intermediate goals identified by the program include (i) reaching low-income/IDA (International Development Association) and fragile countries, (ii) helping banks build partner networks, (iii) reaching SMEs, (iv) supporting “critical” sectors of the economy, (v) leveraging commercial bank financing, (vi) enabling longer-term trade finance tenors, (vii) helping improve liquidity in times of crisis, (viii) opening doors for IFC in difficult markets, (ix) supporting South-South trade, and (x) building trade finance capacity in issuing banks.

### Reaching IDA, Low-Income, and Fragile Countries

The GTFP remains “overweight” in low-income and IDA countries. As designed, the program intended to focus on access to trade finance in under-served markets. Country income group and fragile status provide an indication of the likely lower availability of both trade finance and trade finance risk-mitigation instruments caused by small volumes of trade as well as higher perceptions of risk associated with these countries. Since its inception, the GTFP has issued nearly \$4 billion in guarantees for banks in LICs. This represents 21 percent of the total program

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### EFFECTIVENESS OF THE GTFP IN SUPPORTING ACCESS TO TRADE FINANCE IN UNDERSERVED MARKETS

volume, compared with the 7 percent share that LICs have in developing country trade, indicating a program bias toward them, or an “overweight” position (Table 4.1). Half the volume of guarantees issued since 2006 supported banks in IDA countries, with volume in IDA countries increasing from \$194 million in FY06 to \$2.8 billion in FY12.

Table 4.1. GTFP Reach in Low-Income and IDA Countries

	FY06	FY07	FY08	FY09	FY10	FY11	FY12	All years FY06–12	Share of dev. country GDP	Share of dev. country trade
GTFP volume in LICs (\$ millions)	197	406	680	1,022	641	472	505	3,923		
<b>GTFP use by developing country income group (share of total volume)</b>										
High income	0	1	0	1	1	1	1	1	6	7
Upper middle income	8	25	45	42	42	39	44	41	39	35
Lower middle income	17	21	8	14	39	50	46	37	49	50
Low income	74	53	47	43	19	10	8	21	6	7
<b>GTFP use by IDA/Non-IDA status (share of total volume)</b>										
IDA	74	52	46	51	51	53	48	50	4	3
Blend	1	2	5	0	0	0	0	1	12	9
Non-IDA	25	47	49	49	49	47	52	49	84	88

Source: IEG based on IFC/World Bank data.

Note: GDP = gross domestic product; IDA = International Development Association; LIC = low-income country.

GTFP volume in LICs has declined since 2009 because of the movement of several large countries from LIC to MIC status. Although guarantee volume for LICs increased from \$200 million in FY06 to more than \$1 billion in FY09, it declined to \$500 million in FY12 as large users such as Nigeria, Pakistan, and Vietnam moved from low-income to middle-income status over the period. In FY12, the largest LIC GTFP users were Bangladesh and Ghana (accounting for 56 percent of GTFP volume in LICs). With the increase in guarantee volume in MICs since the crisis, the share of GTFP volume in LICs dropped from 58 percent in FY06–08 to 20 percent in FY09–12.

The number of fragile and conflict-affected states in which the program was active rose from 2 in FY07 to 15 in FY12, although the volume in these countries dropped from 22 percent of the program in FY06–08 to 4 percent in FY09–12 (or from an average of \$181 million in FY06–08 to \$109 million in FY09–12). This is similar to the 4 percent proportion of IFC long-term-term investments in fragile and conflict-affected countries. The main fragile and conflict-affected countries in which the program is active are Angola, Nepal, Georgia, and West Bank and Gaza.

The program's concentration in a small number of countries has been declining, although a few large countries still account for a large share of GTFP volume. The share of the top 10 GTFP countries declined from 95 percent of the program volume in FY06–08 to 76 percent in FY09–12. The number of countries in which the program was active also increased substantially, rising from 37 in FY08 to 84 in FY12.

Nevertheless, the program's volume remains concentrated in a few countries. In FY12, 10 countries accounted for 67 percent of the program. In comparison, the top 10 investment countries for IFC long-term investments accounted for 36 percent of its total investments in FY12 (Table 4.2).

Table 4.2. Top Ten GTFP Countries by Volume, 2006–12

Country	Region	Share of GTFP FY06–12 (%)	Share of developing country imports (%)	Income group 2011	IDA/IBRD status 2012	Share of active IBs (%)	Average country risk	Rank by IFC commitment (excl. TF) 2006–12
Brazil	LAC	17	3.5	MIC	IBRD	5	Low	3
Nigeria	SSA	17	0.9	MIC	IDA	4	Medium	17
Vietnam	EAP	9	1.5	MIC	Blend	4	Medium	25
Pakistan	MENA	8	0.8	MIC	Blend	5	High	13
Russian Federation	ECA	7	4.4	MIC	IBRD	6	Medium	2
Lebanon	MENA	5	0.3	MIC	IBRD	2	High	38
Argentina	LAC	4	1.1	MIC	IBRD	3	High	19
Bangladesh	SA	3	0.5	LIC	IDA	2	Medium	43
Ghana	SSA	2	0.2	MIC	IDA	2	Medium	18
Honduras	LAC	2	0.2	MIC	IDA	2	High	46
Share of total		73	13.4			35		

Source: IEG based on IFC/World Bank and World Trade Organization data.

Note: Countries were middle income in 2011. EAP = East Asia and Pacific Region; ECA = Europe and Central Asia Region; IB = issuing bank; LAC = Latin America and the Caribbean Region; MENA = Middle East and North Africa Region; SA = South Asia Region; SSA = Sub-Saharan Africa Region; TF = trust funds.

There are also strong concentrations of GTFP use in a few countries in each region. Two countries – Pakistan and Lebanon – accounted for 89 percent of the volume in the Middle East and North Africa, while Vietnam and China accounted for 98 percent of the volume in East Asia and Pacific (Table 4.2). In Africa, four countries – Nigeria, Ghana, Kenya, and Angola – accounted for 90 percent of the GTFP volume, compared to 42 percent of regional imports (excluding South Africa) (IMF 2012). The concentration arises from several factors, including IFC's corporate decisions not to engage with some large countries in the region (such as Sudan and Zimbabwe); the favorable trade terms with South Africa enjoyed by some southern African countries that preclude the need for the GTFP; and the limited scope for the GTFP in some countries resulting from weak banking sectors and/or the dominance of the banking sector by foreign banks (such as most of Francophone west and central Africa).

Table 4.3. Concentration of GTFP Compared to IFC Long-Term Investments (percent)

	2006	2007	2008	2009	2010	2011	2012	All years FY 06– 12
Share of top 10 countries—GTFP (percent of total GTFP)	92	89	84	76	75	74	65	73
Share of top 10 countries—IFC investments in financial markets (percent of total IFC investments in financial markets)	58	56	42	22	44	54	44	46
Share of top 10 countries—IFC investment (percent of total IFC investments)	49	52	55	32	40	39	36	44

Source: IEG, based on IFC/World Bank data.

Case studies illustrate the benefits of enabling trade transactions. This evaluation does not endeavor to demonstrate the links between trade and development, which are established in the literature. IEG interviews with local banks and importing firms during the country case studies provided an anecdotal indication that, subject to additionality criteria, helping increase access to trade finance addressed an important constraint to trade. In cases where the GTFP provided risk mitigation when viable alternate risk-mitigation instruments were not available, it helped enable trade transactions that would otherwise not likely have occurred. When a seller required a confirmed letter of credit and if the buyer's local bank did not have access to trade finance from international banks and no risk-mitigation alternatives were available, then the transaction would likely not have happened without the GTFP. By enabling a trade transaction in this manner, the GTFP also supported economic activity prior to and following the trade transaction.

The GTFP is not an instrument to support broad improvements in a banking sector. As an instrument to encourage confirming bank business in markets where they otherwise might not be, the GTFP has high additionality in countries with weak banking systems. However, the instrument is not able to address underlying weaknesses in a country's banking sector. IEG also did not find any evidence that the GTFP has undermined the achievement of reforms relevant to the banking sector. The GTFP has generally been too small to have an overall impact on a country's financial sector.

### Helping Banks Build Partner Networks

A key contribution of the GTFP has been connecting local issuing banks with global confirming banks. A core GTFP objective has been to help trade finance banks establish relationships with each other that can then lead to enhanced flows of trade finance. By appraising and approving issuing banks, IFC sends a signal to

international banks on the creditworthiness of the bank. In IEG's survey, 80 percent of confirming banks that responded indicated that the GTFP influenced their decision on doing trade transactions in emerging markets where they had not been engaged previously. Feedback from GTFP and non-GTFP banks in IEG case studies indicated demand among lower-tier, less-established banks to become part of the GTFP network as a seal of approval and door opener that could be used to develop relationships.

A large international confirming bank indicated that it used IFC's list of approved issuing banks as a first screen in developing new relationships, even if it did not end up using GTFP guarantees. In the longer term, the more relationships that are established, the more trade finance capacity will be created, there will be more competitive pricing for local banks, and there will be less need for risk-mitigation instruments such as the GTFP. For example, if a local bank has relationships with five rather than one international bank, it is more likely to be able to shop around for prices and access clean lines with other banks when one is full.

In some banks, capacity extension rather than introduction to new partners has been a key driver of GTFP use. The GTFP is also used by some banks that already have established relationships, in order to extend capacity that is constrained by prudential or regulatory constraints in their use of capital. In these cases, the GTFP helps the banks issue more trade finance within their existing emerging market networks than they would otherwise be able to do. This was the case, for example, among some large U.S.- and European-based confirming banks that had global presences and did not need the GTFP to help them establish new relationships. Twenty-five percent of confirming banks (that accounted for 26 percent of GTFP volume) indicated that the GTFP did not help increase their network of trade finance counterpart banks in emerging markets. Thirty-nine percent (accounting for 34 percent of GTFP volume) indicated that they had not established new banking relationships as a result of the program.

In the Africa Region, a substantial part of GTFP volume has been to help enhance capacity rather than introduce new partners to each other. In Africa, 70 percent of the volume of guarantees issued since 2006 was concentrated in five large Nigerian-based banking groups. One bank has 17 subsidiary banks across the region that are part of the GTFP and account for the program's presence in 10 African countries. Some of these banks have opened subsidiaries in Europe that act as confirming banks for letters of credit issued by banks within the same group; these are also accredited as GTFP confirming banks. Two bank subsidiaries in Europe, for example, confirmed GTFP transactions with their own group's issuing banks that represented 21 percent of GTFP volume in Africa in 2012. In these cases, the use of the GTFP has not helped banks build relationships, but helped expand the availability of trade finance that would otherwise be limited because of regulatory constraints on capital use.

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Although the GTFP network of banks remains broad, there is a concentration of usage among a few confirming banks in some regions. The number of accredited international confirming banks increased from 64 in FY06 to 234 in FY12. However, there is a strong concentration of the program among a few banks that actively use the program. Ten international banks accounted for 63 percent of GTFP volume since 2006, and in 2012, three confirming banks accounted for 44 percent of the program's volume.

The concentration partly reflects the nature of the industry, which is dominated by some 20–30 major international banks. However, it also suggests that demand could be variable, depending on the trade finance strategies, risk perceptions, and business models of a few major banks. The concentration is most pronounced in the East Asia and Pacific Region, where the top four confirming banks accounted for 83 percent of the program's volume and 67 percent of the number of transactions since 2006. GTFP volume in this region is heavily influenced by one international confirming bank's business in Vietnam, which accounted for 38 percent of GTFP volume in the region since 2006. There is less concentration among confirming banks in Europe and Central Asia, Latin America and the Caribbean, and the Middle East and North Africa, where the top four confirming banks in each region accounted for less than 50 percent of the volume in each region.

#### Reaching Small and Medium-Size Enterprises

Most guarantees issued by the GTFP (80 percent, by number) were worth less than \$1 million, although the bulk of the program's volume supported large transactions. IFC uses the proxy measure of transactions below \$1 million to indicate whether the GTFP is reaching SMEs. Nearly 80 percent of the number of guarantees issued since FY06 has been smaller than \$1 million. By dollar volume of guarantees, in contrast, 23 percent was issued in guarantees of less than \$1 million, with the balance (77 percent) supporting transactions larger than \$1 million. Smaller transactions were more predominant in the Middle East and North Africa and East Asia and Pacific Regions, where 25–26 percent of the volume was issued in guarantees of less than \$1 million, compared with 14 percent and 19 percent in the Europe and Central Asia and Africa Regions, respectively. There is also a higher proportion of smaller guarantees (less than \$1 million) in higher-risk countries (32 percent) than in lower-risk countries (19 percent); and well as among higher-risk banks (27 percent) versus lower-risk banks (19 percent).

The average size of GTFP guarantees has more than doubled since 2006. This average rose from \$830,000 in FY06 to \$1.9 million in 2012.<sup>1</sup> Average guarantee size has also varied significantly across markets. For example, in East Asia and Pacific, the average guarantee was \$4.2 million (driven by large guarantees in China), whereas in the Middle East and North Africa the average guarantee was \$700,000



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(driven by smaller size transactions in the plastics industry in Pakistan). There is also significant variation by country risk and income level as well as by the riskiness of banks. The average guarantee amount in upper-middle-income countries was \$2.7 million, compared with \$1.1 million in LICs; \$4.3 million in low-risk countries, compared with \$0.8 million in high-risk countries; and \$1.9 million in low-risk banks, compared with \$1.1 million in high-risk banks (see Table 4.4).

Table 4.4. Change in the Average Size of GTFP Guarantees, FY06–12 (\$ millions)

	FY06	FY07	FY08	FY09	FY10	FY11	FY12	All years FY06–12
<b>All GTFP guarantees</b>	0.8	1.4	1.4	1.3	1.2	1.5	1.9	1.5
<b>Region</b>								
Africa	0.7	1.3	1.1	1.0	1.2	1.5	1.7	1.3
East Asia and Pacific	0.0	0.3	1.1	1.6	3.3	6.0	5.7	4.2
Europe and Central Asia	1.7	1.5	2.0	1.2	1.6	2.0	2.6	2.0
Latin America and the Caribbean	1.7	1.8	2.4	2.5	2.6	2.7	3.3	2.7
Middle East and North Africa	0.6	1.0	1.7	1.1	0.5	0.6	0.8	0.7
South Asia	0.8	1.0	0.9	0.5	0.8	0.9	1.1	0.8
<b>Country income group (issuing bank)</b>								
High income	0.0	3.5	0.1	4.4	5.3	4.9	10.6	5.5
Upper middle income	0.9	1.5	2.5	2.4	2.4	2.6	3.4	2.7
Lower middle income	1.7	1.4	0.6	0.8	0.8	1.2	1.5	1.1
Low income	0.7	1.3	1.2	1.0	1.2	1.1	1.2	1.1
<b>Bank credit risk rating (IFC)</b>								
Higher risk (4B, 5A, 5B, 6)	0.7	0.8	0.5	0.9	0.8	1.2	1.7	1.1
Moderate risk (4A)	0.5	1.7	2.0	1.3	1.0	1.0	1.3	1.1
Lower risk (2A, 2B, 3A, 3B)	0.6	1.4	1.5	1.4	1.8	2.1	2.5	1.9
<b>Country risk rating (IFC)</b>								
Higher risk (>75)	0.7	1.3	1.3	0.8	0.6	0.7	0.8	0.8
Medium risk (55–70)	1.4	1.5	1.4	1.4	1.7	2.2	2.8	2.0
Lower risk (< 50)	0.0	2.7	2.0	3.8	5.2	4.4	5.1	4.3

Source: IEG, based on IFC/World Bank data.

Note: The country risk rating scale is from 0 to 100, with 100 being the highest risk countries. Bank credit risk rating scale, from lowest to highest risk: 2A, 2B, 3A, 3B, 4A, 4B, 5A, 5B, 6.

Although recent studies suggest that the proxy measure for loans accurately reflects SME status, more research is needed to verify whether this is the case for trade finance transactions. A recent study found that the loan size proxy captured the

MSME status of the beneficiary firm (IFC 2012b). In a sample of 3,000 loans of less than \$1 million, 80 percent of beneficiaries were SMEs and 18 percent were microenterprises (using a World Bank/International Monetary Fund MSME definition based on number of employees, sales, and assets). However, although a correlation is apparent between the size of a loan and SME status, this has not yet been verified for trade finance transaction size. A large company may be less likely to borrow in amounts less than \$1 million, but this may not necessarily be the case for trade transactions. From IEG case studies, it is apparent that both small and large firms are among the applicants for trade finance that end up being covered by GTFP guarantees. IFC endeavors to add “SME-oriented” issuing banks to the GTF in order to enhance the reach of the program among SMEs.

Regardless of the definition of SMEs, using an SME reach indicator is not necessarily relevant for the GTFP. Under the GTFP, IFC does not take the payment risk of the local firm applying for a letter of credit or other trade finance instrument. The GTFP instrument in itself therefore does not directly influence the risk appetite of the local issuing bank or its selection of clients. Its clients can be large firms or SMEs. Moreover, the profile of the local issuing bank is the key determinant of the additionality and achievement of the program rather than the profile of the applicant for a loan or letter of credit. For example, in theory it is possible for the program to have 100 percent of transactions less than \$1 million but not reach underserved markets if the transactions are through well-established banks in low-risk countries that would have obtained credit from confirming banks anyway. Use of an SME reach indicator in itself is therefore less relevant and needs to at least be supplemented by indicators of the profile of the issuing banks.

Case studies suggest that SMEs can benefit from trade finance support even if they are not direct importers. In several small countries in Africa, participating GTFP banks affirmed that their main import partners were larger private and public corporations. In the Democratic Republic of the Congo, IEG visited four of the five importers in which GTFP guarantees were used. Two were large corporations – a multinational brewery and a large wholesale distributor – and two were medium sized – a distributor of pharmaceuticals and medical supplies and an iron and steel company.

In Nigeria, 54 percent of the GTFP volume was concentrated in the oil and gas industry, in which importers tend to be large commodity brokers. At the same time, however, in most cases, smaller firms were indirectly affected, working further up the supply chains of the larger companies or further down as retail distributors.

In Pakistan, 36 percent of the guarantee volume issued since FY06 supported transactions of less than \$1 million. One-third of this volume was in the plastics industry, where the average guarantee was only \$140,000. These importers comprised a range of firms from a large commodity importer with more than 6,000 employees to individual SME plastics processors. In Lebanon, although direct

importers tend to be large, well-established companies, their retail distribution networks often involved SMEs.

Refusing large transactions is unlikely to enhance program achievements. As discussed, the GTFP instrument does not allow IFC to directly affect the relationship between the issuing banks and importers. The primary means by which IFC can affect the proportion of the program that is allocated to transactions of less than \$1 million is by refusing large transactions. This approach would have its limitations, however. Had IFC refused transactions of more than \$1 million, then its total volume since 2006 would have been \$4.3 billion instead of \$19 billion. Moreover, given that SMEs can often benefit further up or down the supply chain, as suppliers or distributors, it is not clear that restricting the program to direct SME importers would be in the interest of SMEs. Finally, it remains to be demonstrated whether the proxy indicator of transaction size is valid for trade finance transactions.

### Supporting “Critical” Sectors of the Economy

A key measure of reach reported by IFC has been the program’s support for critical sectors of developing country economies. Three broad product groups – agriculture (20 percent), oil and gas (18 percent), and metals and minerals (14 percent) – accounted for more than 50 percent of the type of goods that were covered by GTFP guarantees since FY06 (Table 4.5 and Table 4.6). There are sharp differences in the types of goods covered in each region. In Africa, for example, half of the GTFP volume supported oil imports into the region, with less than 10 percent for agricultural products and inputs. In South Asia, in contrast, half the volume was for imports of agricultural products. In Latin America and the Caribbean, with the concentration on pre-export financing, exports of agricultural products and foodstuffs accounted for 46 percent of the GTFP volume in the region.

The type of product covered by IFC guarantees is not in itself necessarily a relevant indicator of program effectiveness. By supporting access to trade finance in various sectors, the GTFP has clear benefits in each area of engagement. However, it is not clear that this is an appropriate indicator of effectiveness. Other than by refusing to cover certain transactions, IFC does not influence the type of products that may or may not be covered by a GTFP guarantee. The GTFP is fundamentally demand driven and does not create trade transactions – it facilitates those for which there is already demand. The GTFP does not have control over which products issuing banks request letter of credit confirmations or financing from international banks for. For example, when local firms apply for letters of credit, the issuing bank will issue letters of credit within its clean credit limits with confirming banks. Only when this limit is reached will additional forms of risk mitigation such as the GTFP be needed. At that point, a request may be made for the GTFP to cover the letter of credit, regardless of the nature of the products of the trade. Whether a letter of credit

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receives an IFC guarantee or not therefore depends on the timing of the request for the letter of credit rather than on the product group.

Table 4.5. GTFP Use by Sector, FY06–12 (percent of total GTFP volume)

Sector	FY06	FY07	FY08	FY09	FY10	FY11	FY12	All years FY06-12
Agricultural goods (including fertilizer)	12	12	19	26	26	19	18	20
Oil and gas	27	25	18	15	16	19	20	18
Iron, steel, other metals, minerals	10	11	10	16	12	13	16	14
Machinery and parts, industrial goods	15	18	10	10	10	8	7	9
Automotive and parts, other transport	15	6	10	6	6	9	6	7
Food and beverage	3	5	10	8	6	5	6	6
Electronics, computers, ICT	2	3	5	3	7	5	7	6
Chemicals	4	4	4	3	5	3	5	4
Energy efficiency	-	-	-	-	2	7	6	4
Textiles, apparel, leather	5	5	5	5	4	3	2	3
Other sectors	7	10	9	8	7	8	8	8

Source: IEG, based on IFC data.

Note: ICT = information and communications technology.

Refusing transactions on the grounds that the products are “not developmental” is unlikely to enhance the program. IFC can influence the sector share of the program by refusing to cover some sectors, although it is questionable if this is warranted. In the case of imports into developing countries, it is not clear that some “critical” sectors have less access to trade finance, as this is more a function of the creditworthiness of the importer and the issuing bank than of the product being imported. Some products perceived as not developmental may also have substantial indirect effects, further raising the question of the use of the product share as an indicator of program achievement.

There is no indication that confirming banks will decline letters of credit based on types of goods. Instead, it is factors such as the local bank’s creditworthiness and transaction tenor and size that may affect its decision. For example, if an importer of “critical” agricultural inputs is a large, well-established commodity trader with access to a top-tier local bank that has adequate headroom on its credit lines, then it is likely that a letter of credit will be confirmed in any event, and GTFP coverage will not have achieved much. In contrast, if there is a market for luxury cars in a developing country and an importer requests issuance of a letter of credit, but the local bank is unable to get it confirmed because its credit line is full, then this transaction may not happen without the GTFP. In this case, a GTFP guarantee will have made a substantial contribution. In addition, products sometimes perceived as

not “developmental” may also have important effects. For example, the luxury car industry may create employment and SME opportunities through car dealerships, mechanics, servicing, spare parts, drivers, and so forth.

Table 4.6. GTFP Use by Sector and Region, FY06–12 (percent of total)

Region	Sector					
	Oil and gas	Agriculture	Minerals and metals	Machinery	Energy efficiency	Other
Africa	50	9	7	9	0	25
East Asia and Pacific	6	8	0	52	13	22
Europe and Central Asia	14	20	0	12	16	37
Latin America and the Caribbean	3	33	7	5	12	41
Middle East and North Africa	28	15	16	14	0	27
South Asia	15	49	0	15	4	16
Total	18	20	14	9	4	34

Source: IEG, based on IFC data.

Excluding eligibility of public sector corporations represents a potential gap in reach. IFC’s mandate is to support development of the private sector in member countries. Trade transactions that involve a public corporation (as importer or exporter) are therefore not eligible for coverage under the GTFP. At the time of the approval of GTFP III in September 2008, IFC considered including transactions with public sector corporations, particularly those related to food imports, in the context of the food crisis. However, this was not subsequently implemented. IEG interviews and survey responses indicated a demand from both confirming and issuing banks to allow GTFP coverage of transactions that involve public sector corporations on the grounds that they indirectly benefit private firms.

In Vietnam and Pakistan, for example, importers that are public sector corporations are often intermediaries only, and the goods are then sold to private sector firms for input into processing industries or for retail distribution. Moreover, given the nature of the instrument, it is primarily the issuing bank that is being supported by the GTFP guarantee, rather than any particular importer. For example, a newly established, riskier issuing bank that warrants support through the GTFP may have a client that is a public sector corporation. At the same time, however, there could be increased reputational risks associated with some public sector entities. Given the potential benefits as well as risks, further review and consideration of expanding eligibility to include public sector corporations is warranted.

## Leveraging Commercial Bank Financing

The extent to which the GTFP has been able to directly leverage commercial bank funding of trade finance in underserved markets has been less than expected. The GTFP has helped introduce banks that have then gone on to establish relationships with each other and open direct credit lines (see above). In this way it has indirectly helped influence and expand confirming bank financing of trade transactions in emerging markets. However, an initial goal was to use the program to directly leverage participating international confirming bank's own capital. To this end, a stated GTFP goal was to limit IFC guarantee coverage to 75 percent of the underlying trade transactions at a portfolio level. This has not materialized as expected. Guarantees have covered an average of 80 percent of the underlying trade transactions. This is partly because of increased risk aversion and demand for full coverage after the crisis. Client feedback indicates that IFC's product is widely appreciated and used because of its 100 percent coverage.

## Enabling Longer-Term Trade Finance

GTFP guarantees have had tenors only slightly longer than the market average. The original Board document indicated that "IFI trade programs are especially useful to smaller, less developed countries where short-term tenors for the import of consumer goods and commodities are in demand but trade credit is limited" (IFC 2004). In addition, a particular goal for the program was to provide longer-term guarantees in MICs. Although MICs had better access to trade finance than LICs, there was a gap in trade credit for longer-term transactions, particularly in the import of capital goods. To date, GTFP guarantees have had tenors only slightly longer than the market average. According to the ICC, the average tenor of all trade finance products in 2005–10 was 147 days (4.9 months). GTFP guarantees have had an average (unweighted) tenor of 5 months (Table 4.7). In MICs, the average guarantee was also 5 months, with just 5 percent of the total volume since FY06 going to transactions of longer than 1 year. Feedback from IEG interviews and surveys indicates a demand for coverage of longer-term transactions because of the higher risks involved and lower supply of trade finance for these transactions.

Table 4.7. Average Tenors of GTFP Guarantees (months)

	FY06	FY07	FY08	FY09	FY10	FY11	FY12	All FY06–12
<b>Average tenors, by Region</b>								
Sub-Saharan Africa	5.5	6.0	6.6	5.4	4.6	4.3	4.4	5.1
East Asia and the Pacific		13.5	5.4	2.9	5.2	7.8	7.1	6.9
Europe and Central Asia	11.7	14.2	10.4	6.0	7.0	8.0	8.0	7.8
Latin America and the Caribbean	7.9	5.5	4.3	4.2	5.4	4.7	5.4	4.9
Middle East and North Africa	5.6	5.4	5.4	3.9	3.4	3.0	3.3	3.5
South Asia	4.6	5.1	5.0	3.6	4.0	4.5	3.9	4.0
<b>Average tenors, by country income group</b>								
High Income		1.6	9.4	2.7	7.5	1.0	2.6	4.7
Lower middle Income	7.9	6.6	5.7	4.5	3.8	4.3	5.2	4.6
Upper middle Income	8.0	6.2	4.5	4.4	5.5	5.8	5.9	5.3
Low Income	5.4	6.2	6.4	4.5	5.5	4.9	4.6	5.2
Total	6.0	6.3	5.2	4.4	4.8	4.8	5.3	5.0

Source: IEG based on IFC data.

## Helping Improve Liquidity in Times of Crisis

The GTFP has supported trade finance flows in countries going through temporary crises. A key original objective of the program was to enable IFC to respond quickly to “support liquidity when and where it was needed in the system.” The program has been useful in times of crisis, when international banks increase their risk aversion to particular countries. In Lebanon in 2006–07, political instability and violence led to decreased risk appetite among commercial banks, despite the country’s well-established banking sector. In Pakistan, perceptions of country risk increased following political uncertainty and macroeconomic and financial sector instability after 2007. The banking sector and country risk ratings were downgraded and interests rates on letters of credit confirmation rose. The use of GTFP rose sharply from \$9 million in FY07 to \$260 million in FY09.

In Nigeria, crises in the banking sector in 2006 and 2008 triggered the cancellation or reduction of credit lines by confirming banks and the use of the GTFP in Nigeria increased by 60 percent between FY07 and FY10. During interviews with IEG in mid-2012, some international confirming banks indicated interest in IFC adding issuing banks in other countries going through crisis, such as Egypt and Iraq, where the private banking sector was having difficulty getting letters of credit confirmed. To do this, IFC needs to add or reduce credit lines according to market needs as well

as quickly appraise and add creditworthy issuing banks in countries that might temporarily need additional risk-mitigation instruments.

Past IEG evaluations found the GTFP to have been a flexible and responsive instrument during the crisis. Sixty-four percent of issuing banks surveyed by IEG indicated that the GTFP had helped them maintain their trade finance business during the global financial crisis. IEG's recent evaluations of the Bank Group's response to the global financial crisis (Phases I and II) (IEG 2011b, 2012) also concluded that the program had been effective during the crisis. It helped address banks' needs for liquidity and capital support to maintain their trade finance activities during the crisis, when global banks became very cautious about financing deals because of sharply increasing portfolio default rates, eroding capital bases, and a significant spike in the cost of capital.

The program saw a sharp growth in demand during the crisis years. The program's geographic footprint also expanded vastly, with the numbers of issuing and confirming banks nearly doubling between FY08 and FY10. The IEG evaluation found that the GTFP leveraged and built on IFC's strategic strengths – its global and local network and knowledge of financial markets and the institution's AAA credit rating, which allowed the program to respond effectively to market demands for trade finance risk mitigation during the crisis.

### Opening Doors for IFC in Difficult Markets

The GTFP has led to long-term investments with more than 40 new clients. The low-risk nature of trade finance allows IFC to engage some issuing banks with risk characteristics that would be unacceptable for its longer-term investment activities. This has allowed it to develop relationships with these banks, become more familiar and comfortable with them, and subsequently make traditional long-term IFC investments with them. Of the 265 GTFP issuing bank clients that were active as of the end of FY12, the GTFP was their first IFC project for 167 of them. Among these new clients, IFC subsequently committed 60 new long-term investment projects in 41 of these banks. As most of those post-GTFP projects are still relatively new, only one has an Expanded Project Supervision Report (XPSR) that evaluates its performance. For that project, financial performance of the loan was satisfactory, whereas financial performance for the equity investment was unsuccessful, although the return was positive. Both the extent to which the GTFP is able to introduce new clients to IFC and the extent to which it leads to subsequent IFC projects have therefore been substantial.

Nevertheless, using the GTFP to help IFC enter difficult markets remains a secondary benefit of the program. In the past, IFC traditionally used Advisory Services operations as its entry point in countries with difficult investment climates



(IEG 2009). Since the expansion of the GTFP after 2008, trade finance has played an increasingly prominent role as an entry point for long-term IFC engagement and partnership with some countries and clients. However, ensuring the additionality of the program in specific markets remains the primary goal, rather than the creation of opportunities for other IFC investments. If, for example, the GTFP is competing with viable existing means of trade finance risk mitigation, then its use as an entry point for IFC would not be justified. The ability of the program to help IFC develop relationships and other investments is therefore a secondary benefit to that of the primary program goal of helping enhance the supply of trade finance that would otherwise not take place.

### Supporting South-South Trade and Exports from Developing Countries

The GTFP has been “overweight” toward South-South trade. A goal of the program has been to support South-South transactions in which both the exporter and importer are in developing countries. Given the nature of the instrument, the bulk of GTFP financing (78 percent) has been used to support imports into developing countries. This reflects the demand for risk mitigation when buyers are in developing countries. That is, greater risk and exposure limits are associated with developing countries rather than with developed countries, and the demand for risk mitigation is therefore in the direction of imports into developing countries.

Table 4.8 GTFP South-South Transactions (percent of total)

	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	All FY 06–12
All GTFP South-South (% of number)	38	36	33	38	32	28	27	33
All GTFP South-South (% of \$)	37	31	35	32	33	34	34	34
South-South in Africa (% of \$)	39	31	41	37	46	56	48	44
South-South in East Asia and Pacific (% of \$)	—	16	57	62	50	36	39	42
South-South in Europe and Central Asia (% of \$)	30	12	22	33	43	51	40	32
South-South in Latin America and the Caribbean (% of \$)	29	31	27	25	22	19	23	25
South-South in Middle East and North Africa (% of \$)	16	47	39	30	20	14	21	26
South-South in South Asia (% of \$)	68	2	30	37	36	42	37	36
Share of South-South exports in world trade (%)	18	19	20	21	23	—	—	—

Source: IEG, based on IFC and UNCTAD data.

## CHAPTER 4

### EFFECTIVENESS OF THE GTFP IN SUPPORTING ACCESS TO TRADE FINANCE IN UNDERSERVED MARKETS

The program also reflects a weighting toward South-South trade. Since 2006, 34 percent of the program volume supported South-South trade, compared to a 23 percent share of South-South exports in world trade in 2010 (Table 4.8) (UNCTAD 2012). In Sub-Saharan Africa and East Asia and Pacific, more than 40 percent of transactions supported South-South transactions, reflecting imports from other developing countries into these regions. IFC increased the number of confirming banks in developing countries (excluding branches) from 14 in 2007 to 72 in 2012.<sup>2</sup> According to IEG client interviews, there is demand for even more confirming banks from developing countries to be added. IFC has established this as a clear priority going forward.

In Latin America and the Caribbean, the GTFP has a unique approach and mostly supports pre-export finance instruments. The focus on imports into developing countries applies across regions, except for Latin America and the Caribbean, where pre-export finance is the most common trade finance instrument guaranteed (see Table 4.10) and accounts for 82 percent of GTFP volume in the region (mostly in Brazil and Argentina) since 2006. In these transactions, an exporter with an export order requests a loan from a local issuing bank to support processing of the order. The local issuing bank then finances this loan from an international confirming bank, and the GTFP guarantee supports the payment obligation of the local issuing bank. Unlike letter of credit transactions, in these cases IFC often actively seeks a confirming bank that is willing to enter into the transaction on behalf of the issuing bank. IFC may shop around among confirming banks to see who offers the most competitive rates. These transactions aim to support liquidity among the local issuing banks. The main benefit of the IFC guarantee is that the issuing bank does not have to use its own capital to finance the loan to the exporter. Through this process, IFC has been able to introduce local banks to international confirming banks that have helped them build relationships.

Table 4.9. Main Trade Finance Instruments Supported in Each Region (percent of total)

Region	Letter of credit	Pre- import finance	Pre-export finance	Other
Africa	96	2	0	3
East Asia and Pacific	28	62	6	4
Europe and Central Asia	71	6	1	22
Latin America and the Caribbean	5	25	71	0
Middle East and North Africa	97	1	1	1
South Asia	96	3	0	1
Total	57	16	23	4

Source: IEG, based on IFC data.

## Building Trade Finance Capacity in Issuing Banks

IFC Advisory Services in trade finance aim to help build trade finance capacity in banks. To supplement GTFP guarantees, IFC developed an Advisory Services program to provide training in trade finance-related topics. The program sought to develop the institutional capacity and expertise for trade finance operations of local issuing banks. The program was initiated in 2006 with a set of independently organized country-level training programs to introduce local bankers to trade finance products. It has since evolved into a centralized global program with a set of courses covering a range of trade-related topics. The courses were initially offered primarily to the employees of a single bank, but are now open to employees of a group of banks in a single country or a set of neighboring countries. The courses are taught by consultants who are trade experts and typically hired to provide a series of courses over a period of time. A joint certification program with the ICC is offered through the Internet.

The program has been mostly funded through several trust funds earmarked for the initiative. The program began with a \$4.35 allocation from the Funding Mechanism for technical assistance and Advisory Services. These funds were to finance activities for a 39-month period from April 2006 to June 2009. Formally, the program is authorized to run through 2016, but it could be extended if funding, about 60 percent of which has been provided by donors, remains available.

Since it started in 2006, the trade advisory program has trained nearly 5,000 participants. Between FY06 and FY12, the program trained 4,700 people in Asia (38 percent), Africa (37 percent), Latin America and the Caribbean (15 percent), the Middle East and North Africa (7 percent), and Europe and Central Asia (1 percent). The main topics of training included trade operations, basic and advanced trade finance, trade products, trade sales, and SME issues.

The focus of training varied by region. In Asia, training focused on trade finance and SME issues; in Africa on trade operations, trade products, and trade sales; in Latin America and the Caribbean on trade products; and in the Middle East and North Africa on advanced trade finance. In FY12 the \$1 million program budget supported 19 programs offered to 454 students. Events were held in 16 countries and were attended by students from 31 countries. Africa was the most represented region, accounting for 8 of the events and 165 students.

Participation in the trade finance advisory program helped some commercial banks expand their trade finance capacity. In most courses, students are given a pre-training assessment of their knowledge, and the course ends with a post-training assessment. The results of these assessments are reported to IFC in formal completion reports. Of the programs administered in FY12, on average, scores increased by 39 percent as a result of the training, suggesting the impact on student

knowledge was significant. In IEG's survey of participating GTFP banks, 57 percent of issuing banks indicated that the program had helped them increase the number of trade finance transactions that they undertook. Feedback from IEG interviews with training participants in Pakistan, Sri Lanka, Cambodia, and Vietnam indicated that the quality of the instructors selected by IFC was high and they were generally experienced, knowledgeable, and good trainers; and the courses were practical and used relevant case examples. It was also observed that it was difficult to assess the impact of training on a bank's business and that it was mostly for professional development.

Prior IEG reviews of several early Advisory Services projects found them to be mostly successful, although there was an inadequate framework to measure their long-term contributions (see Table 4.11). Among six Advisory Services projects evaluated in FY08–10, 64 percent had successful development effectiveness ratings. Strategic relevance was found to be mostly satisfactory except in cases where the global financial crisis had changed circumstances or where clients were selected because of an existing client relationship rather than an assessment of actual need. Design weaknesses included overly optimistic projections, lack of baseline data and targets, and inadequate logical frameworks that enabled meaningful assessment of the development contributions if the efforts. At present, follow-up on the extent to which this additional knowledge is actually incorporated into the workplace continues to be limited.

Table 4.10. Past IEG Reviews of Trade Finance Advisory Projects

Country	Number	Activity completion date	IEG Evaluation Note date	IEG development effectiveness rating	IEG IFC's role and contribution rating
Nicaragua	550146	30-Oct-06	23-Jan-09	Mostly unsuccessful	Partly unsatisfactory
Mexico	556145	01-Jun-07	1-Dec-08	Mostly successful	Satisfactory
Bangladesh	561386	30-Jun-08	13-Aug-10	Successful	Satisfactory
Pakistan	561486	31-Jul-08	13-Aug-10	Successful	Satisfactory
Papua New Guinea	562753	30-May-08	09-Dec-10	Cannot verify	Partly unsatisfactory
Bangladesh	563736	30-Jun-08	05-Aug-10	Successful	Satisfactory

Source: IEG.

The program is not closely coordinated with IFC's other advisory services for commercial banks under the Access to Finance Advisory Services business line. The due diligence for appraising and accrediting GTFP banks follows IFC's standard procedures, including credit appraisal, assessment of shareholders, corporate governance, and anti-money-laundering compliance. In cases where an issuing bank's financials show some weaknesses, a corrective action program is agreed on. In such cases, the needs of the issuing bank may go well beyond trade finance. In many less-established banks in emerging markets, where the training is provided,

the banks' trade finance needs represent only a part of their broader capacity needs. At present, trade finance advisory programs are planned and implemented independently from other IFC Advisory Services to commercial banks in developing countries under its Access to Finance Advisory Services business line. Close cooperation between the GTFP training program and other IFC training programs for commercial banks may help influence longer-term capacity development in target banks.

## Summary

- The GTFP remains weighted toward LICs, given their share of global trade, although program volume in LICs has declined since 2009 because of the graduation of several large countries to MIC status.
- Although the program's concentration in a small number of large countries has been declining, a few countries still account for a large share of GTFP volume. The top 10 GTFP countries accounted for 76 percent of the program's volume in FY09–12, compared with 95 percent in FY06–8. In each region, GTFP use is concentrated in one or two countries. There is also a concentration of GTFP volume among a few confirming banks.
- The GTFP has played an important role in connecting local issuing banks with global confirming banks. At the same time, the GTFP is also used among banks that already have established relationships to increase volume by extending capacity that is limited by prudential or regulatory constraints on capital use.
- Although there is recent evidence that the proxy measure of loan size reflects the SME status of the borrower, more research is needed to verify this for trade finance. Moreover, both the SME status of a local firm and the type of product in the underlying trade, although descriptive, are not in themselves necessarily relevant indicators of the achievement of the GTFP.

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## NOTES

<sup>1</sup> IFC suggests that the increase in guarantee size is partly driven by the increase in commodity prices.

<sup>2</sup> These confirming banks used the GTFP program at least once in the last 6 years.

## 5. Efficiency of the Global Trade Finance Program

### Chapter Highlights

- ❖ In terms of efficiency, profitability has been less than expected, but it has improved in recent years.
- ❖ The program appears to be low risk and has not paid any claims.
- ❖ The GTFP consumes a very limited amount of IFC's capital and staff time, and the opportunity costs for IFC loans and investments are low.
- ❖ The GTFP is not a significant contributor to IFC's bottom line.

GTFP is profitable, although not to the extent originally projected by IFC. The GTFP I-IV Board Papers projected a cumulative gross income of \$179.5 million for 2007–12 (Table 5.1).<sup>1</sup> Actual gross income was \$59.3 million over this period. On a net income basis, the program had a loss of \$4.7 million over the period (Table 5.2). GTFP attained gross income profitability in 2008, with profits of \$14.1 million in 2011 and \$21.3 million in 2012. On a net income basis, the program did not produce positive income until 2011. Gross return on risk-adjusted capital has been positive since 2008 and was 17 percent in 2012, compared with 23 percent for IFC overall. Net return on risk-adjusted capital turned positive in 2011 and increased from 3.9 percent in 2011 to 8.0 percent in 2012, compared with 21 percent for IFC overall.

Multiple factors account for the gap between projected and actual profitability. In particular, direct expenses were projected to be lower than actual realized direct expenses. In addition, the original projections assumed an average transaction price of 2.4 percent, when the actual average annual price in 2006-12 was 1.5 percent, resulting in lower revenues than originally projected.

Table 5.1. GTFP Gross Income Projections (\$ millions)

Instrument	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
GTFP I (Oct. 2004)	1.9	4.3	7.6	12.8	20.8			
GTFP II (Dec. 2006)			4.5	15.0	23.4	28.3		
GTFP III (Sept. 2008)					5.9	10.2	15.2	19.6
GTFP IV (Dec. 2008)					15.2	46.3	55.8	42.9
Latest projection	1.9	4.3	4.5	15.0	15.0	46.3	55.8	42.9

Source: IEG, based on IFC data.

GTFP profitability has not been closely monitored at a program level. During the preparation of this evaluation, IFC worked with IEG to prepare a profit and loss statement for the GTFP business line, which had not been previously done. Given the nature of the program and the ownership of the portfolio by each region rather than the central department, the routine departmental income statements do not present a complete picture of program profitability, as they do not incorporate the direct expenses represented by the central department.

**Table 5.2. GTFP Actual Financial Performance, 2006–12 (\$ millions except as noted)**

	2007	2008	2009	2010	2011	2012
Revenues	4.4	7.9	14.0	21.8	27.6	36.5
Direct costs	4.5	3.2	8.3	8.2	13.5	15.1
Gross income	(0.1)	4.7	5.7	13.6	14.1	21.3
Gross RORAC (%)	-1	16	14	22	15	17
Overhead	8.0	7.5	12.1	14.7	10.4	11.2
Net income	(8.1)	(2.8)	(6.5)	(1.1)	3.7	10.1
Capital allocation	14.8	30.0	41.6	63.0	96.5	126.1
Net RORAC (%)	(54.9)	(9.4)	(15.6)	(1.7)	3.9	8.0
<b>Memo</b>						
Outstanding	295	599	832	1,261	1,930	2,523
Annual average price (%)	1.55	1.31	1.70	1.67	1.42	1.41
Expected losses	0.6	1.2	1.7	2.5	3.9	5.0
Adjusted net income	(8.7)	(4.0)	(8.1)	(3.6)	(0.1)	5.1

*Source:* IEG, based on IFC data.

*Note:* Gross income = revenues – direct costs; net income = revenues – total costs; gross RORAC = gross income/capital allocation; capital allocation = outstanding\*0.05; net RORAC = net income/capital allocation; expected losses = 20bp\*outstanding; adjusted net income = net income – expected losses; outstanding = average monthly outstanding as reported by management information system. A 5 percent capital allocation has been applied to all years, even though that capital charge is below the historical value, which has changed over time.

The program appears to be low risk and has not paid any claims. Although the program has booked nearly \$19 billion in guarantees since 2006, there have been no claims paid to date. This partly reflects the relatively low-risk nature of the industry and products involved. Although there are not extensive data on trade finance losses, a global review by the ICC reported that the actual losses on import letters of credit (the largest part of the GTFP program) were 0.007 percent in recent years. This reflects results in the overall trade finance industry, however, and IFC's experience, which operates in a subset of the industry, could differ over time. The lack of claims on IFC guarantees may also reflect a two-stage buffer implicit in each transaction. For example, even if an importer defaults on a GTFP-guaranteed trade transaction to the issuing bank, an issuing bank may not necessarily default on that amount to the

confirming bank. It may not do so, for example, to protect its broader relationship with the confirming bank. If the issuing bank does default on its obligation to the confirming bank, then the confirming bank also has the option of making a claim on IFC and again, for various reasons, may choose not to do so.

The GTFP consumes only a limited amount of IFC capital and staff time, and the opportunity costs for IFC loans and investments are low. Based on an economic capital framework that incorporates the relatively low-risk nature of trade finance transactions, IFC had established a risk weight for the GTFP of 11 percent of the total outstanding exposure. In comparison, the weight for senior loans and subordinated debt is 20–35 percent and for equity it is 60–70 percent. Applying this weighting, in 2012 the economic capital allocation for GTFP was \$278 million, representing 2 percent of IFC's total capital use. In 2012, following a further review, IFC reduced the risk weight for short-term finance from 11 percent to 5 percent. The average staff cost and actual hours spent on GTFP were both about 1 percent of IFC's total staff costs over FY2006–12. In this respect, the opportunity costs of the program are low and limited to what other activities IFC could do with this level of capital and staff resources.

GTFP is not a significant contributor to IFC's bottom line. In FY12, GTFP commitments were \$6 billion, compared with IFC commitments of \$15.5 billion (excluding mobilizations). GTFP net income was \$10.1 million, compared with \$1.7 billion (before grants to IDA) for IFC. Thus, even though GTFP represented 39 percent of IFC commitments during the year, it accounted for just 0.6 percent of its net income. Even with its low losses and its new lower capital allocation, the GTFP contribution to net income is limited and below the level suggested by its capital allocation, reflecting low returns or a high capital allocation, or both. As indicated, IFC reports GTFP commitments in the same manner as long-term investments, even though the average GTFP transaction is 5 months compared with 7–12 years for long-term investments. The manner of reporting therefore may overstate the relative weight of GTFP commitments in relation to other IFC activities.

IFC has adopted relatively conservative accounting assumptions for these products. The 20 basis point expected loss is the actual level of expected losses that IFC uses in its financial reporting (see memo item in Table 5.2). Both the GTFP history to date and the experience of major players in the market (noted above) suggest that the level is likely to be much lower. These expected losses have an impact on income and returns through loss reserves. The expected losses can be used to illustrate the sensitivity of income to that level of loss, which is dramatic as reported in the adjusted net income and return on capital (Table 5.2). In addition, the losses can be used to illustrate the sensitivity of income to pricing variation as losses and price



decreases have the same impact. As noted, actual pricing has been well below original projections.

### Summary

- The GTFP is profitable, although not to the extent originally projected by IFC.
- The GTFP appears to be low risk and has not paid any claims.
- The GTFP consumes a very limited amount of IFC's capital and staff time and the opportunity costs for IFC loans and investments are low.
- GTFP is not a significant contributor to IFC's bottom line. Although it represented 39 percent of IFC commitments during the year, it only accounted for 0.6 percent of net income.

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### NOTE

<sup>1</sup> Gross income in this case is defined as revenues minus direct expenses. Net income is defined as gross income minus allocated overhead. Gross and net returns on risk-adjusted capital are defined as the ratio of gross (net) income to allocated capital. Program profit and loss statements are unavailable for 2005-06.

## 6. IFC Work Quality

### *Chapter Highlights*

- ❖ IFC work quality, particularly with respect to the GTFP processing time, marketing and client relationships, and the depth and quality of IFC's due diligence has been good and appreciated by clients, although some weaknesses in processing are apparent
- ❖ IFCs marketing and client relationships have been strong.
- ❖ Client feedback suggests that IFCs due diligence has been thorough and of high quality.
- ❖ The monitoring and evaluation framework for the GTFP needs to be revisited.

### GTFP Operations

GTFP operations aim to ensure high-quality service and a quick response time while protecting against reputational risk. The GTFP operations function aims to process, approve, and issue guarantees within 24 hours. While maintaining this quality of service commitment to clients, the operations function also aims to ensure the eligibility of each transaction and protect against reputational risks to IFC. The operations function was transferred to Istanbul in 2010 to take advantage of the time zone for global operations. Operations staff include three analysts and two supervisors based in Istanbul. Once a request for a guarantee is received via a Society for Worldwide Interbank Financial Telecommunications (SWIFT) message from the issuing or confirming bank, the process involves manually entering the information into the GTFP platform and ensuring that the transaction is eligible for coverage under the GTFP (the goods being traded should not be on IFC's exclusion list, importers and exporters should be private companies, and so forth).

In the case of new trading parties, names are checked against ICC's commercial crime service and other lists to verify the bona fides of the parties and the transactions. Transactions then go through three levels of clearance and approval: supervisor, manager, and IFC's risk management department. On approval, the guarantee is then issued via a SWIFT message to the confirming bank.

Client feedback has been positive on the quality of IFC's processing and turnaround time (see Table 6.1). IEG's surveys indicated that IFC's operations are well regarded by clients. More than 90 percent of confirming banks that responded indicated that the GTFP handled transactions quickly and accurately and responded to requests with flexibility. All respondents indicated that transactions were turned around within the agreed time limits. IEG interviews with both confirming and issuing banks also revealed broad satisfaction with GTFP operational processing. Client

banks expressed satisfaction that a public multilateral could respond so quickly and praised the GTFP's "commercial" rather than "bureaucratic" mindset. However, some cumbersome processing issues were identified. For example, one issuing bank indicated that there is limited flexibility in the current system when amendments are made and even a spelling mistake in the initial request had to be resubmitted over SWIFT rather through an email. Another bank indicated that filing an initial request through SWIFT is cumbersome, requiring several pages of material and could be simplified.

Table 6.1. Confirming Bank Feedback on GTFP Operations

Issue	No. of responses	Percent
<b>IFC handles your transactions accurately</b>		
Strongly agree/agree	28	97
Disagree/strongly disagree	1	3
Total	29	100
<b>IFC is flexible in responding to your requests</b>		
Strongly agree/agree	27	96
Disagree/strongly disagree	1	4
Total	28	100
<b>IFC is timely in responding to your requests</b>		
Strongly agree/agree	26	90
Disagree/strongly disagree	3	10
Total	29	100
<b>IFC completed your transaction within the agreed time limits</b>		
Strongly agree/agree	27	100
Disagree/strongly disagree	0	0
Total	27	100

Source: IEG.

Note: On September 5, 2012, IEG sent a survey questionnaire to 216 issuing banks and 227 confirming banks in IFC's GTFP network. Seventy five issuing banks (35 percent of the total) and 30 confirming banks (13 percent) responded. Responding banks accounted for 35 percent of active GTFP issuing banks (those that used the program for 10 or more transactions in 2006–12) and 22 percent of active GTFP confirming banks. The issuing banks that responded accounted for 39 percent of the GTFP dollar volume since 2006 and the confirming banks that responded accounted for 45 percent of the GTFP's dollar volume since 2006.

Weaknesses in the system include vulnerability to human error. Although the three-stage approval process provides some security, there remains the possibility of human error, which is likely to be exacerbated with rapidly increasing volumes. At the moment there are several manual steps: entry of data in the incoming SWIFT message from the requesting bank into the system, reviews for policy and regulatory compliance, and entry of fees. There is also not a system check against inbound

messages from SWIFT to outgoing messages to confirm whether the guarantees were issued or declined – that is, no input versus output reconciliation. Analysis and conceptual design work is under way for a new platform. Potential improvements include, for example, online live systemic review for regulatory compliance of all applicable regulations. As the program crosses multiple borders, there is a high likelihood of conflict of law issues. A system that is live online as data are entered will reduce regulatory compliance risks. The existing database could be reviewed on a regular basis, not just when a transaction is initiated or amended. Increased transactional volume is also likely to stress the system. It takes approximately seven to eight months for new staff to become proficient. Rapid expansion of the program entails transactional risk due to staff size and the lead time to secure and train staff and presents a threat to the ability to deliver against the service level agreements with clients.

There remain weaknesses in the GTFP billing system. Billing is done through the IFC's accounting system on a quarterly basis. Client banks emphasized weaknesses in the billing system. In particular, the system only allows for quarterly billing, which does not align with commercial bank billing processes and also makes specific transactions difficult to identify. Client banks expressed preferences for a more flexible billing system that would allow billing to occur on the maturity of a transaction. IFC also risks losing control of accurately monitoring its revenues.

### **GTFP Marketing and Client Relationships**

IFC's marketing and client relationships are strong. There was consistent feedback from IEG case studies and surveys that IFC staff were experienced, responsive, and knowledgeable on emerging market countries, institutions, and markets. Some confirming banks emphasized IFC's constructive role as a knowledge provider, and GTFP staff were reported to be in continuous touch with clients and responsive to requests for informal advice and information. Some larger confirming banks appreciated IFC's responsiveness and flexibility in appraising and adding issuing banks at their request. Issuing banks in each of the case study countries also expressed appreciation for knowledge and capacity of GTFP staff and the availability and willingness of staff to share information.

In Armenia, GTFP client banks were highly satisfied with their working relationship with IFC and indicated that GTFP staff were knowledgeable, quick to respond, and always ready to answer questions and requests. In Pakistan, likewise, most banks interviewed by IEG assessed the quality of service, responsiveness, turnaround time, professionalism, and support from IFC staff as excellent. IFC staff were seen as supportive and continuously in touch, ensuring smooth execution of transactions.

## Appraisal and Supervision of Issuing Banks

Client feedback indicates that IFC's due diligence is thorough and of high quality. Prior to approving issuing banks for participation in the GTFP, IFC conducts the same level of due diligence that it would conduct for a long-term investment and adds an assessment of the bank's trade finance capabilities. Following approval of a bank, IFC then prepares quarterly supervision reports (approved by regional portfolio managers) that review client financial statements and the market environment, assess the credit risk rating, and determine if the bank is in breach of any of the financial covenants agreed with IFC. GTFP trade officers also maintain a close relationship with the bank. This monitoring of the client and markets allows IFC to suspend operations and reduce its exposure, if warranted. The appraisal and supervision process is also a key means of encouraging and supporting sound prudential management in the client institution. Confirming banks interviewed by IEG expressed confidence in IFC's appraisal and supervision process and indicated that IFC's listing of an issuing bank sent a strong signal on the creditworthiness of the bank. Issuing banks surveyed by IEG also expressed strongly positive views on the reasonableness, timeliness, and flexibility of IFC's appraisal process (Table 6.2).

Table 6.2. Issuing Bank Feedback on IFC's Appraisal Quality

Question	No. of responses	Share of total (%)
<b>The application was easy to complete</b>		
Strongly agree/agree	61	94
Disagree	4	6
<b>The amount of information you were asked to provide was reasonable</b>		
Strongly agree/agree	60	92
Disagree	5	8
<b>IFC was responsive in resolving issues</b>		
Strongly agree/agree	65	100
Disagree	0	0
<b>The application was approved in a reasonable amount of time</b>		
Strongly agree/agree	62	95
Disagree	3	5

Source: IEG.

Note: See note in Table 6.1 for information on survey respondents.

However, some overly cumbersome procedures were also identified. Some issuing banks interviewed by IEG in countries with relatively strong banking regulation and supervision – such as Lebanon and Sri Lanka – indicated that the appraisal process can be overly cumbersome. It was suggested that the reporting burden on clients

could be reduced by IFC using quarterly reports to central banks rather than requiring separate reporting and that IFC covenants match the country's central bank's covenants.

There is inadequate transparency in handling cases of breach of contract. One part of the quarterly supervision process is a review of the extent to which clients have breached any of the financial covenants agreed to as part of the legal agreement. A breach is a violation of the legal agreement and, in theory, in the case of long-term investment, no new commitments or disbursements would take place until either the breach is addressed by the client or a waiver is obtained from IFC's credit department. In the case of the GTFP, this process is less clear. IEG identified some 1,400 cases of GTFP transactions over the period 2010–12 that were processed at a time when the client was in breach of at least one covenant. In some cases, a waiver from the credit department had been obtained, but in other cases there was no evidence of such a waiver. Both to ensure that IFC's development contribution through covenant enforcement is maintained, as well as to protect IFC against potential losses, a review of the breaches and assessment the existing process to ensure appropriate formality and transparency are warranted.

### **Creation of a Common Trade Platform among Multilateral Development Banks**

IFC has helped make good progress toward establishing a single standard for MDB support for trade finance. One of the original objectives of the program was to help standardize the approach to trade finance among MDBs. A more uniform approach to trade finance would provide advantages to commercial banks in terms of time and cost savings, easier communication, and multiple solutions to getting more difficult transactions done. Substantial progress toward this objective has been made. The GTFP itself was based on EBRD's model. IFC subsequently helped other MDBs, including the Asian Development Bank and the African Development Bank, establish their trade finance programs. Each MDB trade finance program is based on the same principles, as established by EBRD's and IFC's programs. Table 6.3 identifies some of the key features of each program.

Although there is some competition among the MDBs, this does not appear to be unhealthy, and the large potential market offers room for multiple actors. IFC has the largest trade finance program among the MDBs, with total volume twice the value of the Asian Development Bank and EBRD and eight times larger than the Inter-American Development Bank. It is the only MDB with a global presence and therefore has the potential to compete with other MDBs. There is considerable overlap in issuing banks among the MDBs.

For example, of the 45 issuing banks in the Europe and Central Asia Region, 58 percent are also EBRD banks. With the planned expansion of EBRD's trade and finance program in the southern and eastern Mediterranean region, EBRD, IFC, and

the African Development Bank will likely be offering similar services, thus intensifying competition in some areas. During IEG interviews, there were some anecdotal reports of banks checking prices among MDBs and trying to “play” one against the other. However, from IEG interviews, this did not appear to adversely affect the activities of the MDBs. In principle, as long as each MDB adheres to principle of ensuring additionality and not undermining viable existing risk-mitigation instruments, then competition between the MDBs is not necessarily unhealthy. There has been less joint support for trade finance transactions by MDBs than initially expected.

**Table 6.3. Comparison of the Key Features of MBD Trade Finance Programs**

Program Title	IFC	ADB	EBRD	IDB
	Global Trade Finance Program	Trade and Finance Program	Trade Facilitation Program	Trade Finance Facilitation Program
Program commencement	2005	2004	1999	2005
Region of operations	Worldwide	Asia	Europe and Central Asia	Latin America and the Caribbean
Number of countries of operation	91	16	20	20
Number of transactions since Commencement	11,900	4,236	11,600	1,966
Value of transactions since Commencement	\$17 billion	\$8.8 billion	€7.2 billion (\$9.5 billion)	\$1.96 billion
Number of confirming banks	229 in 91 countries (+800 with affiliates)	112 (+400 with affiliates)	+800 (with affiliates)	102 in 54 countries (268 with affiliates).
Number of issuing banks	234 in 93 countries	72	102 in 20 countries	84 in 21 countries
State-owned banks eligible?	No	Yes		Yes
Default/loss profile	0	0	2 claims; no losses	0

*Source:* IEG, based on MDB websites, annual reports, interviews with MDB staff.

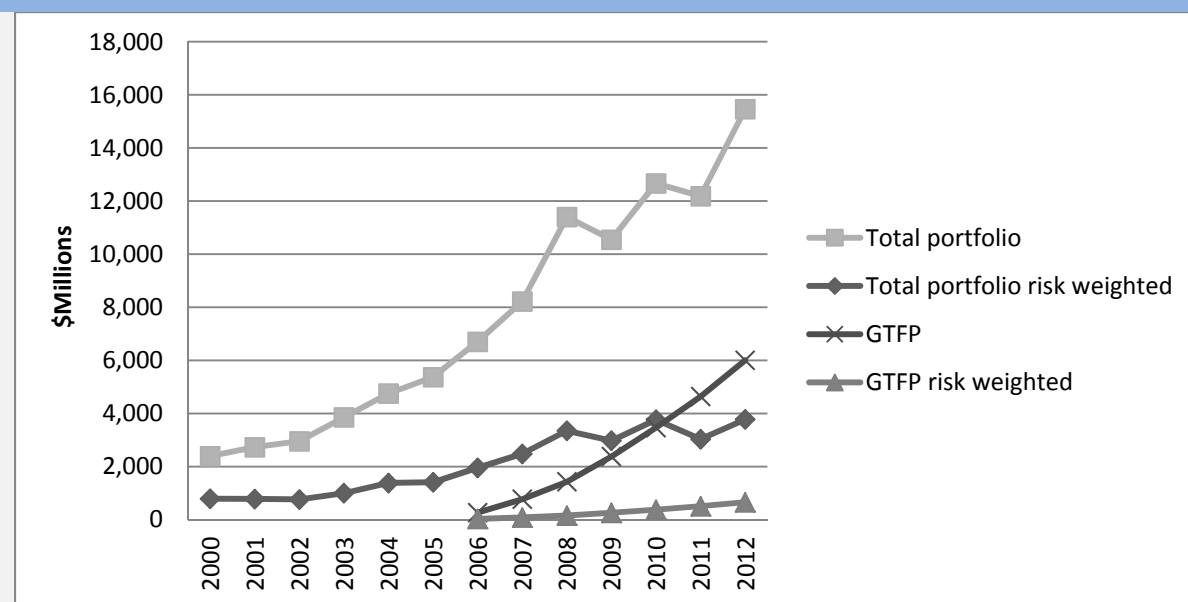
*Note:* ADB Asian Development Bank; EBRD = European Bank for Reconstruction and Development; IDB = Inter-American Development Bank.

## Reporting, Monitoring, and Evaluation of the GTFP

From a corporate perspective, the GTFP is not as large as it seems. As reported in IFC’s annual report, in FY12 the GTFP accounted for 39 percent of IFC’s total financing (IFC 2012c). However, the manner in which IFC reports its trade finance activities may overstate their relative magnitude. In reporting overall commitments, short-term guarantee “commitments” are treated in the same manner as long-term loans or equity commitments. However, short-term trade transactions have an average tenor of 5 months, compared with tenors of generally 7–12 years for long-term IFC loans or equity investments and average holding periods of 6–8 years for

equity investments. Therefore, a \$10 million 30-day trade finance guarantee, for example, has the same weight as a \$10 million 15-year equity investment. Moreover, the program accounts for only 2.4 percent of IFC’s capital and 1 percent of its staff costs. The rationale for reporting in the current manner seems to be driven by the use of IFC “commitments” as a key measure of the institution’s achievements. Alternate methods of reporting might provide a different picture of the size of the program. For example, if IFC’s annual commitments were reported on a risk-weighted approach (in which short-term transactions are valued at 5 percent of their commitment value, long-term loans at 20–35 percent, and equity investment 60–70 percent of their commitment value), then relative size of the GTFP would be much smaller than as currently presented (Figure 6.1).

Figure 6.1. Relative Size of the GTFP Commitments Using a Risk-Weighted Approach



Source: IEG, based on IFC data.

In IFC’s regular reporting, a key indicator of the success of the program has been the volume of guarantees that it has been able to generate. The program’s volume can be an important indicator of achievement, subject to conditions of additionality. That is, given established links between trade and economic growth and development, enabling trade transactions that would otherwise not occur can be assumed to generate positive economic benefits. It needs to be clearly demonstrated, however, that the program is directed toward markets where the availability of clean lines of credit and alternate risk-mitigation instruments are less available and where IFC ensures that it is not crowding out viable existing means of risk mitigation. In such a situation, the volume generated by the program can be an important indicator of effectiveness. In the absence of such parallel measures, however, volume in itself is not a sufficient measure of achievement.



IFC has been working to develop an appropriate evaluation framework for GTFP activities, in collaboration with IEG. In FY12, IFC began including GTFP in its Development Outcome Tracking System (DOTS). The DOTS for the GTFP collects and assesses information at five levels: (i) the trade transaction level; (ii) the country level; (iii) the confirming bank level; (iv) the issuing bank level; (v) the beneficiary company level. To date, IFC has developed detailed criteria to assess development outcomes at the issuing bank level. At the time of approval of each GTFP issuing bank, IFC staff are expected to establish a baseline for each measure, a target value for a number of years in the future, and expected values for each year between the approval year and the target year. Information is then collected during quarterly supervision reviews as well as through annual surveys of issuing banks. At present, the costs and benefits of the system have yet to be fully assessed.

The measurement criteria at the issuing bank level include the following:

- *Financial performance.* The DOTS framework for trade finance proposes to assess whether trade finance has developed into an “attractive business” for the issuing bank. Information to be collected includes the contribution of trade finance to a bank’s overall revenue and profitability and the market share of the issuing bank.
- *Economic performance.* Indicators are being collected that aim to measure the issuing bank’s contribution to the country’s economic development and the efficiency of financial markets. These include total employees (including total female employees); number and volume of import and export transactions; proportion of transactions that are less than \$1 million (as an indicator of SME reach); the number of trade finance customers; and the tenor of transactions.
- *Private sector development.* Private sector development indicators aim to capture the benefits that may accrue to beneficiaries beyond the issuing bank, including the trade finance sector as a whole. Indicators include bank trade products, correspondent bank relationships, and clean lines from international banks.
- *Environmental and social performance.* The DOTS framework intends to assess the “environmental and social” performance of the issuing bank by determining whether the bank complies with relevant IFC environmental and social standards. For trade finance, this includes tracking the degree of compliance with IFC’s exclusion list as well as compliance with “know-your-customer” and anti-money-laundering policies.

The costs and benefits of applying the DOTS/XPSR framework to the GTFP are not fully apparent. Inclusion of trade finance in the DOTS system represents an important effort on IFC’s part to measure the development outcomes of its short-term trade finance products. The system represents an effort to move beyond reporting volume and aims to create real-time feedback on development outcomes.

However, a range of challenges exist with implementing the current approach. Its main weaknesses are that it adds a substantial data collection and reporting cost to client banks and attribution of many of the outcome indicators to the program is difficult. Extensive reporting on the part of issuing banks may be perceived as overly intrusive, given the relatively limited contribution that guarantees on some trade finance transactions can have on a bank's overall activities. Some measures may not be practical. For example, in measuring project business success, banks may not separate their trade finance business from their other businesses. The logical relationship between some of the DOTS indicators and GTFP guarantees is also questionable. For example, it would be difficult to attribute an increase of the institution's profitability to GTFP guarantees because of the multiple factors that affect its profitability. Moreover, growth and development of a bank's trade finance capabilities depend not only on its trade finance volume, but also on its overall health and management capacities.

Preparation of an annual programmatic-level assessment with relevant indicators can be an effective means of reporting on the GTFP's development effectiveness. The merits of an annual program-level review that identifies and tracks key indicators of relevance/additionality, effectiveness, and efficiency warrants close attention. As of the end of FY12, IFC had completed more than 12,000 transactions under the GTFP. The nature of the trade finance guarantee instrument makes evaluation in the same manner as a long-term investment difficult. Instead, a programmatic-level review that tracks relevant indicators and makes an overall assessment of the achievements of the GTFP may be more useful. Some indicators, such as SME and sector reach, are less informative in themselves, as the instrument has little control over the relationship between the issuing banks and their risk appetite among clients.

Additional indicators that warrant consideration include (i) clear definition of lower tier banks and the extent of participation of these banks in the program; (ii) the degree of country/political risk, (iii) inclusion of countries in political or financial crisis, (iv) inclusion of countries with persistent underlying weaknesses in their banking systems, (v) the extent to which confirming banks increase/decrease their lines of credit, (vi) the extent to which confirming banks undertake their first transaction with an issuing bank because of the GTFP program, or (vii) the extent of trade finance that was catalyzed in the longer term because of a relationship that was established through the GTFP program.

## Summary

- IEG's interviews and surveys indicated that clients view GTFP staff as experienced, responsive, and knowledgeable on emerging market countries, institutions, and markets.

- In terms of quality of processing of transactions and turnaround time, more than 90 percent of the survey respondents indicated that the GTFP staff handled transactions quickly and accurately and responded to their requests with flexibility.
- A high proportion of issuing banks expressed strong positive views on the reasonableness, timeliness, and flexibility of IFC's appraisal process.
- There are weaknesses in the GTFP billing system; for instance, it does not allow for quarterly billing, which does not align with commercial bank billing process.
- From a corporate perspective, the GTFP is not as large as it seems.
- IFC should revisit the monitoring and evaluation system for GTFP. Preparation of an annual programmatic-level assessment of the relevance/additionality, effectiveness, and efficiency of the program should be considered.

# 7. Main Findings and Recommendations

## Main Findings

The GTFP has been a relevant response to demand for trade finance risk mitigation in emerging markets. In recent years, although the GTFP has continued to expand in high-risk markets, in terms of dollar volume it has grown faster in lower-risk markets, raising a need for closer monitoring of its additionality in these markets. The program has been largely effective in helping expand the supply of trade finance by mitigating risks that would otherwise inhibit the activity of commercial banks. In terms of efficiency, profitability has been less than expected, but improving in recent years. IFC work quality, particularly with respect to GTFP processing time, marketing and client relationships, and the depth and quality of IFC's due diligence has been good and appreciated by clients, although some weaknesses in processing are apparent.

### RELEVANCE/ADDITIONALITY

- **The GTFP significantly improved IFC's engagement in trade finance.** It addressed major flaws in IFC's prior approach to trade finance, including introducing an open global network, a quick response platform, flexibility to support trade as it shifted to market conditions, and flexible pricing.
- **The GTFP is a relevant program that supports the supply of trade finance in riskier markets.** The GTFP was highly relevant as it was designed and introduced and was concentrated in high-risk, low-income countries in its early years. During the global economic crisis, the program became relevant in a much broader range of markets. The additionality of the program is high in riskier countries and institutions, where clean credit lines and alternate risk-mitigation instruments are less available. GTFP additionality is also high in countries experiencing temporary banking or political crises, when risk aversion among international trade finance banks rises.
- **Since 2010, the GTFP has maintained a significant presence in lower-risk markets, raising a need for close monitoring of its additionality in these markets.** In the years since the crisis, although GTFP has continued to expand in high-risk markets, it has also expanded among lower-risk banks and countries, where its relevance is less clear, given the higher availability of alternate risk-mitigation instruments in these markets.
- **Pricing is an important tool to help ensure additionality.** Given difficulties in accurately measuring the availability of alternate risk-mitigation instruments at the time of each transaction, the right pricing level is an important tool to ensure that IFC is not undermining use of alternative viable risk-mitigation instruments.

EFFECTIVENESS

- **The program has remained overweight in LICs, although it remains concentrated in a few countries, mostly MICs.** The GTFP remains “overweight” in low-income countries relative to their share of developing country trade. However, the dollar volume in LICs has declined since 2009, with the move of several large GTFP countries from LIC to MIC status. The program has expanded its reach among developing countries in all regions. However, 10 countries still account for 70 percent of the program. Demand is largely concentrated among five international confirming banks.
- **The GTFP is not an instrument to support broad improvements in a banking sector.** As an instrument to encourage confirming bank business in markets where they otherwise might not operate, the GTFP has high additionality in countries with weak banking systems. However, the instrument is not able to address underlying weaknesses in a country’s banking sector. IEG also did not find any evidence that the GTFP has undermined the achievement of reforms relevant to the banking sector. The GTFP generally has been too small to have an overall impact on a country’s financial sector.
- **The GTFP has been effective in introducing banks to each other.** A key means through which the GTFP has helped enhance the supply of trade finance in underserved markets has been through helping connect confirming banks with local issuing banks, particularly smaller or less established banks. The lack of relationships between banks can reflect factors such as the costs of due diligence and lack of information in unfamiliar markets that limit the supply of trade finance. The ability to connect banks with each other is an important contribution from IFC that reflects some of IFC’s key attributes: its global presence, awareness of local markets in developing countries, and strong due diligence capacity.
- **The program has also helped extend the capacity of confirming banks in developing countries when perceptions of risk or regulatory constraints on capital use have limited their capacity.** The GTFP has also supported the supply of trade finance by extending the capacity of international banks to lend to local issuing banks beyond their clean credit lines. This contribution addresses constraints to the supply of trade finance arising from limited risk appetite caused by factors within a confirming bank or external prudential requirements that limit the use of capital in some markets, particularly small, higher-risk countries. In this case, IFC uses its AAA rating to replace the credit risk of the local issuing bank and thus helps create additional capacity to meet demand for banking sector intermediation in trade.
- **The SME reach indicator is not fully informative on the effectiveness of the program.** Nearly 80 percent of GTFP guarantees (by number) were less than \$1 million, although the bulk of the program’s volume supported large transactions. There is recent evidence that the proxy measure for loans

reflects the SME status of borrowers, although more research is needed to verify this for trade finance. Under the GTFP, IFC does not take the payment risk of the local firm applying for a letter of credit or other trade finance instrument. The GTFP instrument therefore does not directly influence the risk appetite of the local issuing bank or its selection of clients. Moreover, the profile of the issuing bank is the key driver behind the additionality and achievement of the program rather than the profile of the applicant for a loan or letter of credit.

- **Sector classification is also less informative as a measure of program achievement than measures of the profile of the issuing bank.** Although the sectors of the economy that received GTFP guarantees (such as agriculture, oil) offer a description of the program, they do not provide a good measure of the program's effectiveness. Given the nature of the instrument, the GTFP does not control the sector and product of the trade. It is also not clear that some "critical" sectors of the economy have less access to trade finance, as it depends on the creditworthiness of the importer and local issuing bank, not the product.
- **GTFP guarantees have tenors only slightly longer than the broader market.** An initial goal was to support longer-term trade finance transactions that were supported less by other risk-mitigation instruments. The average tenor of a GTFP guarantee has been 5 months, compared with 4.9 months in the broader trade finance market.
- **IFC has used the GTFP as an entry product for IFC in difficult countries, although this remains a secondary benefit of the program.** The low-risk nature of trade finance allows IFC to engage issuing banks with risk characteristics that would be unacceptable for its longer-term investment activities. This has allowed it to develop relationships with these banks, become more familiar and comfortable with them, and subsequently make more traditional long-term investments with them. However, using the GTFP to help IFC enter difficult markets remains a secondary benefit. If, for example, the GTFP is competing with viable existing means of trade finance risk mitigation, then its use as an entry point for IFC in a country would not be justified.
- **Client feedback indicates that IFC's trade finance training is of high quality and is relevant.** IEG interviews and surveys indicated that the IFC's trade finance capacity building program is well regarded by clients and has helped them increase participating banks' trade finance business. However, there continues to be limited follow-up on the extent to which additional knowledge is actually incorporated into the workplace. The capacity-building program is not fully coordinated with other advisory services in financial markets.

## EFFICIENCY

- **The GTFP is currently profitable, albeit not to the extent originally envisaged by IFC.** The GTFP I-IV Board Papers projected a cumulative gross income of \$179.5 million for 2007–12. Actual gross income was \$59.3 million over this period and on a net income basis, the program had a loss of \$4.7 million over the period. Multiple factors account for the gap between projected and actual profitability. In particular, direct expenses were projected to be lower than actual realized direct expenses. In addition, the original price projections assumed an average yield on transactions of 2.4 percent, when actual yields over 2006–12 were 1.5 percent, resulting in lower revenues than originally projected.
- **The program appears to be low risk and has not paid any claims to date.** This partly reflects the relatively low-risk nature of the industry and product, as well as a two-stage buffer for IFC implicit in each transaction.
- **The GTFP consumes a limited amount of IFC’s capital and staff time, and the opportunity costs for IFC loans and investments are low.** Applying an economic capital weighting of 11 percent, in 2012 the economic capital allocation for GTFP was \$278 million, representing 2 percent of IFC’s total capital use. The average staff cost and actual hours spent on GTFP were both around 1 percent of IFC’s total staff costs in FY06–12. The opportunity costs of the program are limited to what other activities IFC could do with the same level of capital and staff resources.
- **The GTFP is not a significant contributor to IFC’s bottom line.** In FY12 GTFP net income was \$10.1 million, compared with \$1.7 billion (before grants to IDA) for IFC. Thus, even though GTFP represented 38 percent of IFC commitments during the year, it accounted for just 0.6 percent of net income.

## WORK QUALITY

- **GTFP is perceived as a very quick-response program for a public multilateral institution.** Client feedback has been positive on the quality of IFC’s processing and turnaround time. IFC has maintained a highly responsive transaction processing environment and turnaround time. Client banks expressed appreciation that a public multilateral could respond so quickly and praised the GTFP’s “commercial” rather than “bureaucratic” mindset.
- **There are some weaknesses in the GTFP operational system, including the billing system.** Although the three-stage approval process provides some security, there remains the possibility of human error in the processing process entry, particularly with rapidly increasing volumes. Weaknesses in the billing system were emphasized by client banks. The GTFP bills

quarterly rather than by transaction as preferred by some banks; and it does not permit easy modification of data.

- **IFC's marketing and client relationships are strong.** IEG received consistent feedback from clients that IFC staff were experienced, responsive, and knowledgeable on emerging market countries, institutions, and markets. Some confirming banks emphasized IFC's constructive role as a knowledge provider, the responsiveness of GTFP staff, and IFC's flexibility in appraising and adding issuing banks. Issuing banks also expressed appreciation for the GTFP staff's knowledge, capacity, and willingness to share information.
- **IFC's due diligence is perceived as thorough and of high quality.** Confirming banks interviewed by IEG expressed confidence in IFC's appraisal and supervision process and indicated that IFC's listing of an issuing bank sent a strong signal on the creditworthiness of the bank. Issuing banks surveyed by IEG also expressed positive views on the reasonableness, timeliness, and flexibility of IFC's appraisal process.
- **IFC has helped make good progress toward establishing a common standard for MDB support for trade finance.** Several MDBs have established trade finance programs that are based on the EBRD and IFC models. Although there is some competition among the MDBs, this does not appear to be unhealthy, and the large potential market offers room for multiple actors.
- **IFC's current reporting methodology may overstate the size of the GTFP relative to other IFC products.** As reported by IFC, in FY12, the GTFP accounted for 39 percent of IFC's total annual commitments. Short-term guarantee commitments are treated in the same manner as long-term investments, even though they have an average tenor of 5 months, compared with tenors of generally 7–12 years for long-term loans. The program accounts for 2.4 percent of IFC's capital, 1 percent of its staff cost, and 0.6 percent of its profits.
- **The full costs and benefits of applying the DOTS/XPSR framework to the GTFP are not yet apparent.** IFC has been developing an evaluation framework for GTFP activities. In FY12, IFC began including GTFP in DOTS, and this reflects an important effort on IFC's part to capture the development effects of its trade finance operations. A range of challenges exists with the current approach, however. Key weaknesses are that it adds a substantial data reporting and collection cost to issuing banks and attribution of many outcome indicators to the program is difficult. The merits of an annual program-level review that develops and tracks indicators to measure the relevance/additionality, effectiveness, and efficiency of the program warrants close attention.



## Recommendations

1. *Continue to strengthen the focus in areas where additionality is high and seek to 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, while managing risks in a manner consistent with IFC's risk-assessment and management standards.* Key steps to consider include:

- *Adding more issuing banks in high-risk countries.* Since 2006, the GTFP has been concentrated in 10 countries (nine of which are middle income) that account for 76 of the program's volume. Given high additionality in smaller, low-income, riskier countries, where international banks are less likely to extend credit lines and other risk-mitigation instruments are less available, a strong GTFP focus on these countries is warranted. Given the large size of the potential trade finance market, it is likely that IFC could expand its program in higher-risk countries, without necessarily compromising volume.
- *Adding more higher-risk issuing banks.* The low-risk nature of the business and zero claims paid to date indicate that IFC could take additional risks where its additionality is highest – among higher-risk local banks, which are less likely to have access to trade finance from international banks. Given past trends, transactions in higher-risk institutions (and countries) also translate into higher prices and revenues for IFC.
- *Introducing country risk-based volume targets to supplement absolute volume targets.* To date, the program has a strong underlying emphasis on volume as a key indicator of effectiveness. However, given price variations, as well as higher additionality in some markets, further measures to encourage transactions in these markets are warranted. Introduction of a risk-based volume targets (where volume in a higher-risk country carries more weight than volume in a lower-risk country) can help move the program in this direction.
- *Introducing targets based on return on economic capital.* GTFP pricing is an important tool to help ensure its additionality. A guarantee should ideally be priced at a point that would not undermine other available risk-mitigation options, but that would still enable the transaction to be commercially viable. To balance the incentives to reach volume targets, a return on economic capital target would further the objective of ensuring additionality as well as enhancing the program's profitability and sustainability.
- *Establishing a comprehensive additionality assessment process for the program.* IFC is currently developing an "additionality matrix" that proposes to measure the additionality of trade finance operations based on institutional and country factors. IEG's framework presented in this report adopts a similar

logic and uses basic indicators that are presently available. A clear measure of the program's additionality is essential to help guide its direction and ensure that it focuses in the most relevant markets.

2. ***Adopt additional methods of reporting volume that can reflect the distinct nature of the trade finance guarantee instrument and provide a better picture of the relative size of the GTFP in IFC.*** GTFP short-term guarantee "commitments" are treated in the same manner as long-term IFC investments, even though they have an average tenor of 5 months. This may overstate the size of the GTFP relative to other IFC activities. Additional methods of reporting might provide a better picture of the relative size of the program.
3. ***Refine the means by which profitability of the GTFP is monitored to better capture a comprehensive picture of profitability at the program level and to guide future program directions.*** Given the ownership of the portfolio by regions rather than the central department, the routine departmental income statements do not present a complete picture of the program's profitability. Close monitoring of the profitability of the program, including disaggregation by different markets (such as region, country risk, and country income group) would help guide future directions of the program. A clear understanding of the profitability of the GTLP is also warranted.
4. ***Review the costs and benefits of fully applying the DOTS and XPSR frameworks to the GTFP instrument and consider adopting an annual program-level evaluation that includes relevant indicators of additionality, effectiveness, and efficiency.*** There are challenges with adapting the evaluation approach used for long-term loans and equity investments: it adds a substantial data reporting and collection cost to issuing bank clients and attribution of many outcomes to the program is difficult. An annual program-level evaluation with relevant indicators should be considered. IFC should also continue to develop other indicators to measure its additionality and achievements, such as the tier of the issuing banks and the degree of country and banking sector risk.
5. ***Ensure that a formal, consistent, and transparent process is in place that governs the use of the program in the event of covenant breaches on the part of issuing banks.*** IEG identified numerous cases where GTFP guarantees were issued at a time when the issuing bank was in breach of at least one covenant. In some cases, lines were frozen or suspended, but in other cases this was not the case. A clear and transparent process to govern use of the program in the event of a breach of covenant was not in place. Establishing a transparent formal process would help ensure that IFC's development contribution through covenant enforcement is maintained, protect IFC against potential losses, as well as allow for flexibility, as needed.

6. *Take steps to enhance the ability of the GTFP to support trade transactions that require longer-term tenors to help meet demand in this segment of the trade finance market.* An original GTFP goal was to support longer-term trade transactions for which trade finance was not readily available in the market. In practice, the average tenor of GTFP guarantees has only been slightly longer than the market average. An area of clear demand from IEG's surveys and interviews with clients was for longer-term trade finance tenors.

### Additional Issues for Consideration

1. *Enhance the information sharing platforms of the program.* Some of the important benefits of the GTFP are intangible, such as informal advice and knowledge sharing between IFC trade and marketing officers and among participating issuing and confirming banks. However, the current information sharing platforms are limited. An online mechanism that allows for easy communication between parties and quick transfer of information would add value to the GTFP network.
2. *Invest in further automation of the operational system.* Though the current GTFP operation is strong and widely perceived as efficient and responsive, there are some weaknesses that could undermine operations with further expansion of the program. Further automation and streamlining of key functions would enhance the already strong operational function.
3. *Consider expanding coverage to include trade transactions that involve public sector companies.* IEG interviews and survey responses indicated a demand from both confirming and issuing banks to allow GTFP coverage of transactions that involve public sector corporations on the grounds that private firms benefit indirectly. In some countries, public sector companies remain large importers, which then sell goods to smaller private companies for distribution or processing. At the same time increased reputational risks may be associated with expanding coverage to public sector companies. Further review and consideration of expanding eligibility to public sector corporations is warranted.
4. *Fully coordinate trade finance training with other IFC Access to Finance Advisory Services.* IFC Advisory Services for trade finance are planned and administered independently from other IFC training for commercial banks. Further coordination can help better leverage different programs to enhance broader aspects of bank capacity that in the end contribute to a bank's ability to provide trade finance services to its clients.

# Appendix A

## Note on the Global Trade Liquidity Program

### Objectives

The Global Trade Liquidity Program (GTLP) aims to support trade in developing markets by addressing the shortage of trade finance resulting from the global financial crisis. It works through global and regional banks to extend trade finance to importers and exporters in developing countries. The following banks have participated in the GTLP program: Africa Export Import Bank, Banco Galicia, Banco Itau Paraguay, Citibank, Commerzbank, FIMBank, Intesa Sanpaolo, J.P. Morgan Chase, Rabobank, Standard Bank of South Africa, and Standard Chartered Bank.

When the program was initiated, the International Finance Corporation (IFC) estimated that the GTLP would directly and indirectly support approximately \$45 billion of emerging-market trade. The GTLP builds on IFC's strengths – global and local knowledge of financial markets and the institution's AAA credit rating – to alleviate potential trade finance shortages. The GTLP also built on the experience and best practices of the Global Trade Finance Program in terms of operational processes, information technology/management information services, human resources, standardized documentation, accounting, agency role, and mobilization framework.

### Evolution of Program Design

The GTLP supports the incremental demand for trade finance that confirming banks cannot or are unwilling to underwrite on their own because of various factors, including sovereign or bank credit risk exposure limits. The program takes a portfolio approach, funding pools of trade investment instruments issued by emerging-market banks and confirmed by participating banks and for up to \$1 billion and up to 40 percent participation with a maturity of two to three years. The remaining 60 percent is held by participating banks.

The GTLP is a coordinated global initiative that raises funds from governments, development finance institutions, and private sector banks. The GTLP mobilized funding from IFC and other partners to fund trade finance in individual banks. Its aggregate funding was \$4.1 billion as of January 31, 2010. The GTLP platform benefited from the engagement of the following development finance institution partners: African Development Bank, Canada's Department of Finance, Commonwealth Development Corporation Group, Japan Bank for International Cooperation, Swedish International Development Cooperation Agency, The Netherlands' Ministry of Foreign Affairs, The Organization of the Petroleum Exporting Countries Fund for International Development, The Saudi Fund for

Development, and The United Kingdom – Department for International Development.

The first (funded) phase of the program was wound down in 2010 (within one year of initiation), because the acute liquidity shortages in trade finance were abating and funding from partners was expiring. GTLP Phase 2 was launched in January 2010 as an unfunded guarantee solution, based on the existing GTLP platform. The second phase was less ambitious than the first phase, with four confirming banks – Intesa, Galicia-Agri, GTLP Itau, and Coda Africa – joining the program. The support was focused on credit mitigation through smaller, regional facilities. It aimed to support trade finance in emerging economies in Central and Eastern Europe, Africa, and Latin America. In response to the global call for action on food, Phase 2 included targeted food and agribusiness solutions.

In January 2012, in light of the continuing turbulence in financial markets and the withdrawal of European banks from financing trade, a revised program (GTLP III) was approved by the Board (see Table A.1). GTLP III aims to help stabilize and foster trade and commodity finance in emerging markets. Its design – a funded credit risk sharing – is similar to GTLP I. It seeks to mobilize \$1 billion from program partners and another \$2 billion from commercial banks for a portfolio that could reach up to \$4 billion. If rotated twice per year over a three-year period, this would allow for support of up to \$18 billion in emerging-market trade finance over the life of the program.

Table A.1. Outstanding GTLP Commitments by Participating Bank (as of January 2012)

	Facility	Region	Committed	Current outstanding
GTLP I	CITI	Global <sup>a</sup>	100	80
	Standard	Africa	100	0
	Rabo	Asia & Latin America and the Caribbean	150	0
	SCB	Global	150	150
	Commerz	Global	125	0
	JPMC	Global	100	100
	Afrexim	Africa	50	50
	FIMBank	Africa—Middle East and North Africa	15	15
	Total GTLP I		790	395
GTLP II	Intesa <sup>b</sup>	Southern Europe and Central Asia	86	86
	Galicia-Agri <sup>c</sup>	Latin America and the Caribbean	20	2.75
	GTLP Itau-Agri <sup>c</sup>	Paraguay	20	20
	Coda Africa <sup>b</sup>	Africa	75	75
	Total GTLP II		201	183.75
Total GTLP I & II			991	578.75

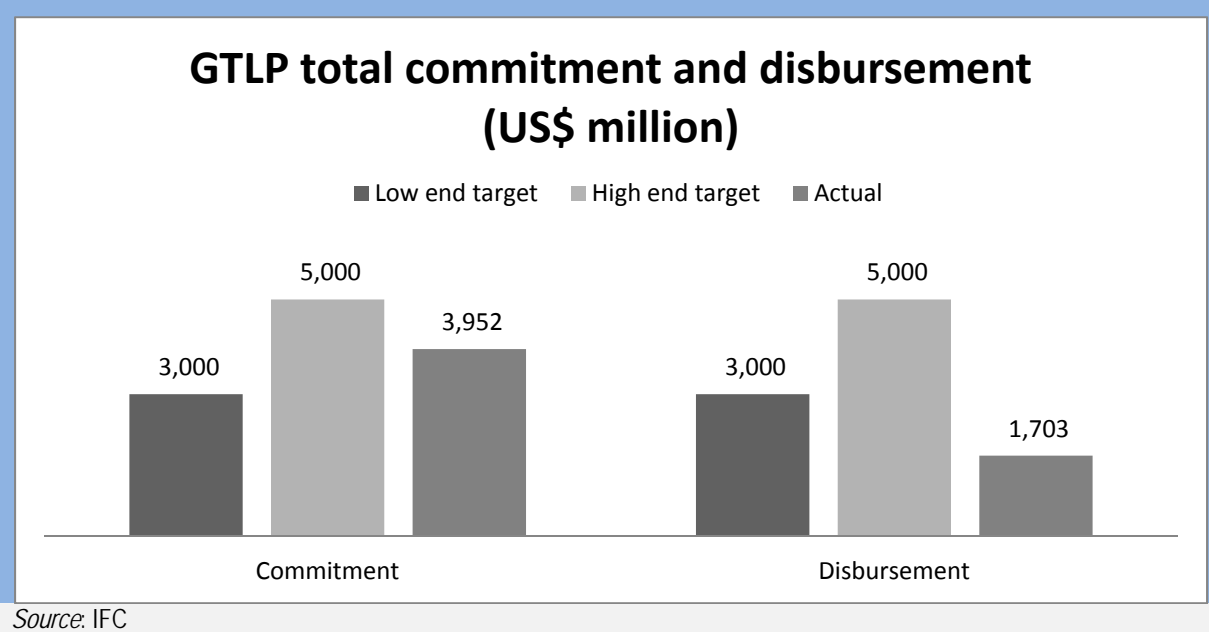
Source: IFC 2012d.

a. Includes Citi Africa commitment.; b. Guarantees.; c. Loans.

## Implementation

The GTLP met its objectives regarding commitments but disbursements fell short of original targets (see Figure A.1). The GTLP began its operations in May 2009 with targeted commitments of \$4 billion from public sector sources. IFC estimates that the program has helped support about \$20 billion in trade volume by channeling capital through more than 600 banks and development finance institutions since it was launched in 2009. This fell short of the \$45 billion originally estimated, which was based on a number of assumptions that were not fully realized, including total available donor funding; full utilization for a period of 3 years; continuous demand from partner banks; and ongoing demand.

Figure A.1. Target and Actual Commitments (IFC plus mobilization) and Disbursements of GTLP, FY09–11 (FY11 as of end of March 2011)



As a result of the slower-than-expected implementation of the facility, the target disbursements of \$1.5 billion–\$2.5 billion were not met in FY09. In FY10, actual disbursements reached \$1.5 billion. As of the third quarter FY11, actual disbursements of \$1.7 billion were trailing behind target disbursements of \$3 billion–\$5 billion (Figure A.1). Disbursements lagged compared partly because implementation was slower than expected. Official partners needed more time to obtain final authorization and allocate funds and, as a new product, the GTLP needed an operational ramp-up period. In addition, banks issuing the product had to develop systems and train people to manage it. The projections were also predicated on a protracted and extended liquidity crisis. Liquidity was restored in the financial system far faster than expected and as a result the funded Phase 1 was wound down.

## Relevance

The GTLP was introduced at a time of global scarcity in trade finance. It was especially relevant in early 2009 because of liquidity shortage; therefore, numerous banks were enthusiastic about it. The GTLP had the potential to meet a genuine market need. By late-2009 the liquidity shortages dissipated. Qualifying and joining the GTLP took time. Credit related requirements, such as percentage state owned, percentage in a given country and bank limited the attractiveness of the program to some banks. IFC adjusted the design of the program on two occasions to respond to evolving needs and to maintain its relevance.

## Efficacy and Reach

A key contribution of the GTLP was in sending a signal that demonstrated the commitment of the financial institutions to trade finance and therefore instilled confidence in the market. The GTLP program was structured with certain parameters on issuing bank limits, state owned bank limits (a small percentage was allowed), number and size of large transactions and geographical distribution. These parameters arose from the need to balance donor requirements, meeting credit specification, and ensuring proper geographic reach. The program reached 56 countries in all 6 IFC regions, and largely benefitted upper-middle-income countries (49 percent) and lower-middle-income countries (28 percent). Four percent reached low-income countries (see Table A.2).

**Table A.2. Beneficiaries' Income Diversity (percent)**

Country classification	FY10	FY11	FY12	Average
High income	24	21	14	20
Low income	8	2	2	4
Lower middle income	28	23	35	28
Upper middle income	41	54	48	49
Total	100	100	100	100

Source: IFC

Latin America and the Caribbean and East Asia and Pacific represent 38 and 29 percents of the trade supported by the GTLP, respectively, and South Asia 11 percent (see Table A.3). Central and Eastern Europe used 5 percent of the total resources. Sub-Saharan Africa accessed 13 percent of the program's resources.

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NOTE ON THE GLOBAL TRADE LIQUIDITY PROGRAM

Table A.3. Geographic Diversity (percent)

Region	FY10	FY11	FY12	Average
East Asia and Pacific	26	29	34	29
Europe and Central Asia	4	3	8	5
Latin America and the Caribbean	35	44	31	38
Middle East and North Africa	2	4	8	4
South Asia	14	9	10	11
Sub-Saharan Africa	20	10	9	13
Total	100	100	100	100

Source: IFC

Based on IFC country risk ratings, the GTLP benefited mostly low- and medium-risk countries – which used 96 percent of the GTLP credit amount (see Table A.4). When the countries are rated based on a composite score of overall crisis severity, developed by the Independent Evaluation Group (IEG), which captures vulnerability to crisis (see Table A.5), 42 percent of GTLP funding was allocated to severely-affected countries. The majority of banks supported by GTLP were in the BB to BBB credit rating range (see Table A.6).

Table A.4. GTLP Allocation by Country Risk (percent)

Country risk	FY10	FY11	FY12	Average
High	5	2	4	4
Low	40	41	37	39
Medium	55	57	60	57
#N/A	0	0	0	0
Total	100	100	100	100

Source: IFC

Table A.5. GTLP Allocation and Vulnerability to Crisis (percent)

Crisis severity	FY10	FY11	FY12	Average
High	46	39	41	42
Low	11	10	14	12
Medium	40	48	45	45
#N/A	2	2	1	2
Total	100	100	100	100

Source: IFC



Table A.6. Bank Sector Risk (percent)

Banking sector rating	FY10	FY11	FY12	Average
0	0	0	0	0
A	0	6	12	5
B	18	15	33	20
BB	53	43	21	41
BBB	18	27	24	24
C	3	0	0	1
CCC	7	9	9	8
#N/A	1	1	1	1
Total	100	100	100	100

Source: IFC

The GTLP supported relatively large trade transactions of above \$1 million (89 percent of transactions). Small and medium-size enterprises (SMEs), defined as transactions under \$1 million by IFC, accessed 11 percent of the program's resources (see Tables A.7 and A.8). If calculated by the number of transactions, about 80 percent of these transactions were less than \$1 million.

Table A.7. Share of GTLP Transactions, Volume (percent)

Transaction size	FY10	FY11	FY12	Average
>10 million	47	52	47	49
\$1–\$10 million	41	38	41	40
\$200,000–\$1 million	8	7	9	8
< \$200,000	3	3	3	3
Total	100	100	100	100

Source: IFC

Table A.8. Share of Transactions, by number (percent)

Transaction size	FY10	FY11	FY12	Total
> \$10 million	3	4	3	3
\$1–\$10 million	16	18	19	18
\$200,000–\$1 million	27	25	28	27
< \$200,000	54	53	50	53
Total	100	100	100	100

Source: IFC.

## Efficiency

The current information system does not permit an accurate and reliable assessment of the program's profitability. It is desirable that this matter is given more attention going forward.

## Conclusion

The GTLP was especially relevant when it was introduced in early 2009 at a time of global scarcity in trade finance. Complicated administration of the program resulted in below-potential uptake in the critical initial period. IFC showed flexibility and responsiveness to changing market conditions by adjusting the design of the program.

Based on IFC country risk ratings, the GTLP benefited largely low- and medium-risk countries. Consistent with GTLP's objective of addressing systemic issues in trade finance liquidity, the program did not target IDA or low-income countries. Over 40 percent of GTLP funding was allocated to high-risk countries based on an IEG measure on countries' vulnerability to crisis.

The majority of banks supported by the GTLP were in the BB to BBB credit rating range. A key contribution of the program was in sending a signal that demonstrated the commitment of development financial institutions to trade finance, thereby helping instill confidence in the market. The extent to which the GTLP resulted in an increase in trade finance is hard to judge, given the fungibility of funding. The current information system does not permit an accurate and reliable assessment of the program's profitability.

# Appendix B

## People Interviewed

Name		Designation	Organization	Location	
<b>GTFP LOCAL ISSUING BANKS</b>					
Serge	Buhendwa Kusinza	Institutional Banking and Relationship Officer	Access Bank	Kinshasa	Democratic Republic of Congo
Kyle	Lackner	Banking services and operations Manager	Access Bank	Monrovia	Liberia
Ali Amisi	Patrick	Assistant of Head of Credit Risk Management	Access Bank	Kinshasa	Democratic Republic of Congo
Banjo	Adegbhungbe	General Manager, Global Trade & Payments	Access Bank plc	Lagos	Nigeria
Gboyega	Orelaja	Corporate Finance	Access Bank plc	Lagos	Nigeria
Egunjobi	Mayoya	Trade Product Research and Development	Access Bank plc	Lagos	Nigeria
Sovan	Bhopa	VP & Head, Financial Institution Department	ACLEDA Bank plc	Phnom Penh	Cambodia
Thou	Kosal	AVP & Manager, Credit & Marketing Unit	ACLEDA Bank, plc	Phnom Penh	Cambodia
Muhammad Salman	Khan	Head, Financial Institutions Division	Allied Bank	Karachi	Pakistan
Talha Bin Ali	Khan	Relationship Manager, Financial Institutions	Allied Bank	Karachi	Pakistan
Ahmed Faraz	Qahir	Group Head, Financial Institutions & Cash Management	Allied Bank	Karachi	Pakistan
Astghik	Manrikyan	Head of International Operations Department	Ameconombank	Yerevan	Armenia
Luisine	Balasyan	Chief Specialist	Ameriabank	Yerevan	Armenia
Suren	Kocharyan	Head of Trade Finance Department	Ameriabank	Yerevan	Armenia
Ashiq	Abbas	Assistant General Manager	Bank AL Habib Ltd.	Karachi	Pakistan
Mohammad Zafar	Amin	General Manager, International Division	Bank AL Habib Ltd.	Karachi	Pakistan
I.U.	Ansari	Chief Manager	Bank AL Habib Ltd.	Karachi	Pakistan
Nazim	Dharamsey	Assistant General Manager	Bank AL Habib Ltd.	Karachi	Pakistan
Mahid	Fahim	Relationship Manager	Bank Alfalah Ltd	Karachi	Pakistan
Syed	Hasan	Assistant General Manager/Head	Bank Alfalah Ltd	Karachi	Pakistan
Ali	Sultan	Group Head	Bank Alfalah Ltd	Karachi	Pakistan
Moussa	Abdallah	Head of Correspondent Banking	Bank of Beirut	Beirut	Lebanon

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**PEOPLE INTERVIEWED**

Name		Designation	Organization	Location	
Alexandre	Moujaes	Head of Global Markets Division	Bank of Beirut	Beirut	Lebanon
Najib Anwar	Choucair	Executive Director, Head of Banking Department	Banque du Liban	Beirut	Lebanon
Rana Shalak	Beydoun	Head of Correspondent Banking	Banque Libano-Fraçaise	Beirut	Lebanon
Maurice	Iskandar	Manager, International Division	Banque Libano-Fraçaise	Beirut	Lebanon
Walid	Haddad	Senior Manager & Head of Support Division	BBAC Bank	Beirut	Lebanon
Catherine Matar	Koudsi	Assistant Head of Correspondent Banking	BBAC Bank	Beirut	Lebanon
Elie A.	Nakad	Head of Correspondent Banking	BBAC Bank	Beirut	Lebanon
Patrick J. Bou	Abboud	International Banking Relations Officer	BLC Bank	Beirut	Lebanon
Elie A.	Tabet	Head, International Banking Relations	BLC Bank	Beirut	Lebanon
Felix	Tohme	Head of Group Financial Institutions Department	Byblos Bank	Beirut	Lebanon
Katia Massad	Touma	Senior Relationship Officer, International Division	Byblos Bank	Beirut	Lebanon
Duminda	Kurukulasuriya	Assistant General Manager, International	Commercial Bank	Colombo	Sri Lanka
Michel	Khadige	Deputy General Manager/Board Member	Credit Libanais	Beirut	Lebanon
Marwan	Khaled	Assistant General Manager, Corporate Division	CreditBank	Beirut	Lebanon
Costi	Khoury-Haddad	Head of Financial Institutions	CreditBank	Beirut	Lebanon
Obianuju	Okafor	Team Lead, Correspondent banking	Diamond Bank, plc	Lagos	Nigeria
Segun	Olatona	Head, International Operations banking	Diamond Bank, plc	Lagos	Nigeria
Mojo	Akinseye	Head, FI/TO Team	Ecobank	Lagos	Nigeria
Samba	Coulibally	Corporate Banking	Ecobank	Abidjan	Côte D'Ivoire
Osa	Ezekiel	Financial Institutions Unit	Ecobank	Lagos	Nigeria
Steven	Howard	Head of Treasury	Ecobank	Monrovia	Liberia
Omoboye	Odu	Financial Institutions Team	Ecobank	Lagos	Nigeria
Caroline	Richards	SME/Local Corporate	Ecobank	Monrovia	Liberia
Felix	Saint-Jean	Head of Corporate Bank	Ecobank	Monrovia	Liberia
Sam	Tannous	Trade Services	Ecobank	Monrovia	Liberia
Mariam	Comara	Country Head Finance	Ecobank	Abidjan	Côte

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**PEOPLE INTERVIEWED**

Name		Designation	Organization	Location	
					D'Ivoire
Issa	Fadiga	Assistant to Vice President, Corporate Banking	Ecobank	Abidjan	Côte D'Ivoire
Asegun	Olufolahan	Trade Operations	Ecobank	Lagos	Nigeria
Cynthia	Anyanwu	Treasury Group	Fidelity Bank	Lagos	Nigeria
George	Ikechi Mbachu		Fidelity Bank	Lagos	Nigeria
Lovelyn	Jojo	Treasury Group	Fidelity Bank	Lagos	Nigeria
Oluwaseum	Adetiba	Sr. Structured Trade Analyst	First City Monument Bank	Lagos	Nigeria
Nomso	Ezenta	Sr. Structured Trade Analyst	First City Monument Bank	Lagos	Nigeria
Mazen	Assaad	Senior Relationship Officer, International Division	FRANSABANK SAL	Beirut	Lebanon
Camille	Jabbour	Principal Manager, International Division	FRANSABANK SAL	Beirut	Lebanon
Mohamed	Kanneh	Credit Officer	Guaranty Trust Bank	Monrovia	Liberia
Olatunde	Macaulay	Executive Director	Guaranty Trust Bank	Monrovia	Liberia
Sudacious	Varney	Credit Officer	Guaranty Trust Bank	Monrovia	Liberia
Bayo	Veracruz	Deputy General Manager	Guaranty Trust Bank	Lagos	Nigeria
Oladipo	Ayola	Assistant Manager	Guaranty Trust Bank plc	Lagos	Nigeria
Tariq Mateen	Khan	General Manager & Head Financial Institutions	Habib Bank	Karachi	Pakistan
Aamir	Dar	Head of Financial Institutions	Habib Metropolitan Bank	Karachi	Pakistan
Zartashia	Malik	Officer, International Division	Habib Metropolitan Bank	Karachi	Pakistan
Sehba	Mansoor	Chief Manager, International Division	Habib Metropolitan Bank	Karachi	Pakistan
Vahe	Harapetyan	Credit Assessment and Monitoring Department	Inecobank	Yerevan	Armenia
Victoria	Ter-Sagisova	Development and External Relations Department, Acting Team Head	Inecobank	Yerevan	Armenia
Reginald	Bropleh	Senior Vice-President, Finance	LBDI	Monrovia	Liberia
John	Davies	President and CEO	LBDI	Monrovia	Liberia
Roosevelt	Julne	Head Operations	LBDI	Monrovia	Liberia
Clavenda	Payman	Comptroller	LBDI	Monrovia	Liberia
Hanif Iqbal	Brohi	Senior Vice President	MCB Bank Ltd.	Karachi	Pakistan

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**PEOPLE INTERVIEWED**

Name		Designation	Organization	Location	
Khwaja Humayun	Nizami	Executive Vice President	MCB Bank Ltd.	Karachi	Pakistan
Syed Tahir	Ali	Team Leader Financial Institutions & Correspondent Banking	Meezan Bank	Karachi	Pakistan
Abdullah Ahmed	Muhammad	Senior Executive Vice President	Meezan Bank	Karachi	Pakistan
Reynold	Abeykoon	Chief Manager, Trade Services	Nations Trust Bank	Colombo	Sri Lanka
Navamali	De Silva	Manager, Trade Services	Nations Trust Bank	Colombo	Sri Lanka
Suresh	Goonewardene	Manager , Corporate Banking	Nations Trust Bank	Colombo	Sri Lanka
Rivindu	Nanayakkara	Assistant Vice President/Head Trade Finance	NDB Bank	Colombo	Sri Lanka
Shafquet	Asim	Head of Financial Institutions	NIB Bank Ltd.	Karachi	Pakistan
Mazhar	Hussain	Senior Relationship Manager	NIB Bank Ltd.	Karachi	Pakistan
Muhammad Waqas	Khan	Relationship Associate	NIB Bank Ltd.	Karachi	Pakistan
Nguyen Thuong	Giang	Deputy of Manager, Business Development Dept., Commercial Banking Division	Orient Commercial Joint Stock Bank	Ho Chi Minh City	Vietnam
Pham	Linh	Deputy General Director	Orient Commercial Joint Stock Bank	Ho Chi Minh City	Vietnam
Vo Quant	Long	Manager, Investment Department	Orient Commercial Joint Stock Bank	Ho Chi Minh City	Vietnam
Nguyen Duong Thu	Trang	Business Development Manager Financial Institutions South of Vietnam	Orient Commercial Joint Stock Bank	Ho Chi Minh City	Vietnam
Ngo Thu	Ha	Deputy General Director	Saigon-Hanoi Commercial Joint Stock Bank	Hanoi	Vietnam
Nguyen Thi Thuy	Phuong	Director, International Banking Center	Saigon-Hanoi Commercial Joint Stock Bank	Hanoi	Vietnam
Le Thi	Yen	Manager, International Relations Department	Saigon-Hanoi Commercial Joint Stock Bank	Hanoi	Vietnam
Syed Tahir Sameen	Ali Ghani	Senior Manager Head, Financial Institutions Div. & Cash Management	Silkbank Limited	Karachi	Pakistan
Kouadio Kouadio	Arsene	Director, Marketing Department	Société Ivoirienne de Banque	Abidjan	Côte D'Ivoire

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PEOPLE INTERVIEWED**

Name		Designation	Organization	Location	
Ouattara Yeo	Bakary	Director, Enterprises Department	Société Ivoirienne de Banque	Abidjan	Côte D'Ivoire
Sawadogo Bibata	Berthe	Director, Risk and Control Department	Société Ivoirienne de Banque	Abidjan	Côte D'Ivoire
Ahua	Jerome	Director, Large Companies Department	Société Ivoirienne de Banque	Abidjan	Côte D'Ivoire
Sanogo	Mariame	Director, Operations Department	Société Ivoirienne de Banque	Abidjan	Côte D'Ivoire
Bongroh	Pascal	Trade Operations Officer	Société Ivoirienne de Banque	Abidjan	Côte D'Ivoire
Siddiqueh	Khalil	Senior Vice President, International & Correspondent Banking Division	Soneri Bank	Karachi	Pakistan
Do Diem	Hong	Executive Vice President	Techcom Bank	Hanoi	Vietnam
Dinh Kieu	Linh	Head of Foreign FI Department	Techcom Bank	Hanoi	Vietnam
Joe	Fernando	Manager, Trade Services	Union Bank	Colombo	Sri Lanka
Sanjev	Perera	Chief Manager, International	Union Bank	Colombo	Sri Lanka
Nguyen Thi	Ha	Deputy Manager, Trade Processing	Vietnam International Bank	Hanoi	Vietnam
Tran Thi Minh	Ngoc	Deputy Manager, Trade Processing	Vietnam International Bank	Hanoi	Vietnam
Ngo Thu	Thuy	Head, Financial Institutions	Vietnam International Bank	Hanoi	Vietnam
Ifeyinwa	Nwobodo	Asst. General Manager, Correspondent Banking Dept.	Zenith Bank	Lagos	Nigeria
Millicent	Ojiyi	Manager, Correspondent Banking Department	Zenith Bank	Lagos	Nigeria
<b>GTFP INTERNATIONAL CONFIRMING BANKS</b>					
Monique	Hafkamp	Director	ABN AMRO	Amsterdam	Netherlands
Orkun	Oskan	Head of Banks, Asia & LatAm	ABN AMRO	Amsterdam	Netherlands
Peggy	Coorssen	Director	Bank of America	New York	United States
Dinh Thi Quynh	Chi	Assistant Manager, Corporate Banking Dept. No. 2	Bank of Tokyo-Mitsubishi UFJ, Ltd.	Ho Chi Minh	Vietnam
Kanji	Nagai	Assistant General Manager/Head of Corporate Banking Dept.	Bank of Tokyo-Mitsubishi UFJ, Ltd.	Ho Chi Minh	Vietnam
Vinh Tran	Tran	Account Officer, Corporate Banking Dept.	Bank of Tokyo-Mitsubishi UFJ, Ltd.	Ho Chi Minh	Vietnam

**APPENDIX B**  
**PEOPLE INTERVIEWED**

Name		Designation	Organization	Location	
Georges	Affaki	Member of Executive Committee & Head of Structured Finance	BNP Paribas	Paris	France
Nicolas	Beyazov	Head, Transaction Bank Group - Switzerland	BNP Paribas	Geneva	Switzerland
Evelyne	Braidy	Head, Global Trade Solutions	BNP Paribas	Paris	France
Francois	Jammes	Regional Manager, Transaction Bank Group	BNP Paribas	Geneva	Switzerland
Cinzia	Tatti	Global Head, Transaction Bank Group	BNP Paribas	Geneva	Switzerland
Matthieu	Toulemonde	Legal Counsel - CIB Legal	BNP Paribas	Paris	France
Bana Akkad	Azhari	Managing Director/Regional Executive, Levant & North Africa	BNY Mellon	Beirut	Lebanon
Anurag	Chaudhary		Citibank N.A.	London	United Kingdom
Ha Tung	Hoa	Vice President	Citibank N.A.	Hanoi	Vietnam
Aetif Nabi	Malik	Trade Product Manager	Citibank N.A.	Karachi	Pakistan
Amir	Masood	Vice President	Citibank N.A.	Karachi	Pakistan
William	Mor	Managing Director	Citibank N.A.	Hanoi	Vietnam
Michel	Sawaya	Global Transaction Services Head - Levant / Vice President	Citibank, N.A.	Beirut	Lebanon
Yvonne	Bischoff	Product Manager - Trade / Assistant Director	Commerzbank	Frankfurt	Germany
Hans	Krohn	Head, Product Management Trade Services	Commerzbank	Frankfurt	Germany
Hans-Joerg	Krohn	Head, Product Management - Trade Services	Commerzbank	Geneva	Switzerland
Pascale	Bolivard	Team Head, Bank Portfolio Management	Credit Agricole	Paris	France
Henri	D'Ambrieres	Global Head, Origination	Credit Agricole	Paris	France
Margaryan	Karmen	Head of International Transactions Service Division	Credit Agricole	Yerevan	Armenia
Monique Vredeveld	Richard	Director, Structured Export & Multilateral Finance	Credit Agricole	Paris	France
Uwe	Noll	TF CMC Risk & Portfolio Management	Deutsche Bank	Frankfurt	Switzerland
Abbas	Haider	Vice Pres/Head Trade Finance & Cash Management	Deutsche Bank	Karachi	Pakistan
Kamo	Margaryan	Trade and Supply Chain Sales Manager	HSBC	Yerevan	Armenia



**APPENDIX B**  
**PEOPLE INTERVIEWED**

Name		Designation	Organization	Location	
Arthur	Petrosyan	Manager Trade and Supply Chain	HSBC	Yerevan	Armenia
Luu Thi Minh	Lan	Vice President, Financial Institutions Group - Banks	HSBC Bank (Vietnam) Ltd.	Ho Chi Minh City	Vietnam
Nguyen Thi Hong	Loan	VP Sales and Client Management, Global Trade & Receivables Finance	HSBC Bank (Vietnam) Ltd.	Ho Chi Minh City	Vietnam
Tran Thi Thu	Thuy	Head of Products, Trade & Supply Chain	HSBC Bank (Vietnam) Ltd.	Ho Chi Minh City	Vietnam
Alain	Gaignard	Manager, Financial Institutions & Structuring, Trade & Supply Chain	HSBC France	Paris	France
Roelf	Beekes	Officer, Trade Finance Services	ING	Amsterdam	Netherlands
Peter	Grevendonk	Regional Head, Africa Trade Finance Services	ING	Amsterdam	Netherlands
Antonio	Di Maggio	VP, Head of Emerging Markets & Trade Finance	INTESA San Paolo	New York	United States
Paula	Pastorino	VP, Emerging Markets & Trade Finance	INTESA San Paolo	New York	United States
Alex Lotocki	De Veligost	Executive Director, Treasury Svcs, Global Trade Credit Insurance	J.P. Morgan	New York	United States
Jo	Morrison	Executive Director, Global Trade Services	J.P. Morgan	New York	United States
Indirah	Toovey	Executive Director / Regional Head, Trade Solutions Delivery	J.P. Morgan	New York	United States
Zammy	Uddin	Vice President, Global Trade	J.P. Morgan	London	United Kingdom
Jan	Decoene	Senior Relationship Manager, Africa	KBC Bank	Brussels	Belgium
Karel	Vandebeek	Regional Head Trade Finance	KBC Bank	Brussels	Belgium
Marc	Vandermolen	Expert Transactional Finance & Process Manager	KBC Bank	Brussels	Belgium
Michael	Hennecke	Sr VP, Supranational Institutions & Strategic Cooperatiosn	Landesbank Baden Württemberg	Stuttgart	Germany
Michael	Henecke	Sr. VP Supranational Institutions & Strategic	LBBW	Frankfurt	Germany
Ivar	Cambridge	Head, Global Risk Distribution	Rabobank	Utrecht	Netherlands
Paul Christian	Van Zantvoort Karam	Manager, Risk Distribution Karam	Rabobank SMBC	Utrecht London	Netherlands United Kingdom
Jane	Belova-Barr	Director, Trade Asset Sales, Transaction Banking	Standard Chartered	New York	United States

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PEOPLE INTERVIEWED

Name		Designation	Organization	Location	
Farina	Ibrahim	Associate Transaction Banking	Standard Chartered	Karachi	Pakistan
Joon S	Kim	Managing Director, Transaction Banking	Standard Chartered	New York	United States
Deepak	Menghrajani	Director, Transaction Banking	Standard Chartered	New York	United States
Rohit	Prasad	Director Financial Institutions Origination and Client Coverage	Standard Chartered	New York	United States
Mukarram	Saifee	Director, Head of Corporate Products	Standard Chartered	Karachi	Pakistan
Minhaj	Subhani	Director, Transaction Banking	Standard Chartered	Karachi	Pakistan
Nisrin	Hala	Officer, Africa Desk, Global Trade Finance Department	Sumitomo Mitsui Banking Corporation	London	United Kingdom
Wasiu	Fatai	Head, Trade Finance	The Access Bank UK	London	United Kingdom
Ola	Isola	Head, Trade Finance	The Access Bank UK	London	United Kingdom
Norman	Buchbinder	Senior Vice President & Manager, International Risk Mitigation and ECA Finance	Wells Fargo Bank	New York	United States
NON-GTFP LOCAL ISSUING BANKS					
Ung Sam	Ol	SVP & Head, Trade Finance Division	ACLEDA Bank plc	Phnom Penh	Cambodia
Philip	Dias	Manager, Trade Services	Amana Bank	Colombo	Sri Lanka
Puth	Phally	Head of Trade and Supply Chain	ANZ Royal Bank (Cambodia) Ltd.	Phnom Penh	Cambodia
Vigen	Barseghyan	Deputy General Director	Areximbank	Yerevan	Armenia
Zhanna	Sahakyan	Head of International Operations Department	Areximbank	Yerevan	Armenia
Akaralogbe	Mwenenge	Treasury and International Institutions Manager	Banque Commerciale du Congo	Kinshasa	Democratic Republic of Congo
Greg	Ebenga	Corporate Clients Officer	Banque internationale pour l'Afrique au Congo	Kinshasa	Democratic Republic of Congo
Nono	Nzau	Deputy Chief Operations Officer	Banque internationale pour l'Afrique au Congo	Kinshasa	Democratic Republic of Congo
Moreau	Kaghoma	Chief of Operations Department	BGFIBank	Kinshasa	Democratic Republic of Congo
M.K.	Ng	Senior Manager	Canadia Bank plc	Phnom Penh	Cambodia

**APPENDIX B**  
**PEOPLE INTERVIEWED**

<b>Name</b>		<b>Designation</b>	<b>Organization</b>	<b>Location</b>	
Salawu	Akintoye	Head Corporate Finance	Enterprise Bank	Lagos	Nigeria
Henri	Saamoi	General Manager and Acting CEO	International Bank	Monrovia	Liberia
Rowly	Isioro	Global transaction Banking	Keystone Bank	Lagos	Nigeria
Uchenna	Okwodu	Head, Global transaction Banking	Keystone Bank	Lagos	Nigeria
Amucheazi	Onamma	Global transaction Banking	Keystone Bank	Lagos	Nigeria
Amadi	Peter	Trade services	Keystone Bank	Lagos	Nigeria
Mpiana	Malou Monie	Chief of Organization Department	Procredit Bank	Kinshasa	Democratic Republic of Congo
Nadeem	Akhtar	Risk Manager, Risk and Credit Department	Rawbank	Kinshasa	Democratic Republic of Congo
Jean-Jacques	Kabwe	Forex Operations Officer, Risk and Credit Department	Rawbank	Kinshasa	Democratic Republic of Congo
Sudhir	Sudhakaran	Assistant Credit manager, Risk and Credit Department	Rawbank	Kinshasa	Democratic Republic of Congo
Sarath	Kumarasiri	Assistant General Manager, International Department	SEYLAN Bank plc	Colombo	Sri Lanka
Amani	Nanayakkara	Assistant Manager, Correspondent Banking	SEYLAN Bank plc	Colombo	Sri Lanka
Aruna P. Hanna	Ranashinghe Maroum	Deputy General Manager Director General	SEYLAN Bank plc Sofibanque	Colombo Kinshasa	Sri Lanka Democratic Republic of Congo
Tito	Salum	Deputy Director of Operations	Sofibanque	Kinshasa	Democratic Republic of Congo
Moses	Akinnawonu	Group Head, Trade services	Sterling Bank	Lagos	Nigeria
Ayodele	Ogunmeru	Trade Services Group	Sterling Bank	Lagos	Nigeria
Olanrewaju	Olalusi	Structured Trade and Multilateral Finance	Sterling Bank	Lagos	Nigeria
Kayode	Adenowo	Head, Foreign and Treasury Operations	Unity Bank	Lagos	Nigeria
Nguyen Thi Minh	Hang	Deputy Head, Financial Institutions	Vietnam Prosperity Bank	Hanoi	Vietnam
Luu Thi Anh	Xuan	Deputy CEO	Vietnam Prosperity Bank	Hanoi	Vietnam
<b>GOVERNMENT OFFICIALS</b>					
Nerses	Yeritsyan	Deputy Governor	Central Bank of Armenia	Yerevan	Armenia
Willy Mudiay	Mpinga	Director of Financial Intermediaries Department	Central Bank of Congo	Kinshasa	Democratic Republic of Congo

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PEOPLE INTERVIEWED

Name		Designation	Organization	Location	
Mussah	Kamara	Director, Regulation and Supervision Department	Central Bank of Liberia	Monrovia	Liberia
Michael	Ogun	Deputy Director, Regulation and Supervision Department	Central Bank of Liberia	Monrovia	Liberia
Yvette	Fernando	Additional Director, Bank Supervision Department	Central Bank of Sri Lanka	Colombo	Sri Lanka
Dr. Saeed	Ahmed	Director	State Bank of Pakistan	Karachi	Pakistan
MULTILATERAL/BILATERAL DEVELOPMENT AGENCIES					
Areg	Barseghyan	Senior Country Coordination Officer	ADB	Yerevan	Armenia
Poullang	Doung	Economics Officer, Cambodia Resident Mission	ADB	Phnom Penh	Cambodia
Werner E.	Liepach	Country Director, Pakistan Resident Mission	ADB	Islamabad	Pakistan
Chris	Alexander	Economist	DFID	London	United Kingdom
Mark	Dray	Economist, Investment & Finance Team	DFID	London	United Kingdom
Anna	Khachatryan	Associate Banker	EBRD	Yerevan	Armenia
Marco	Nindl	Associate Banker, Trade Facilitation Programme	EBRD	London	United Kingdom
Christopher	Olson	Senior Evaluation Manager	EBRD	London	United Kingdom
Agris	Preimanis	Sr. Economist, Financial Institutions	EBRD	London	United Kingdom
Rudolf	Putz	Deputy Director, Financial Institutions	EBRD	London	United Kingdom
Harvey	Susser	Senior Evaluation Manager	EBRD	London	United Kingdom
Valeriu	Razlog	Head of Yerevan Office	EBTD	Yerevan	Armenia
Karl-Heinz	Fleischhacker	Head, Financial Sector Division, Sub-Saharan Africa	KfW	Frankfurt	Germany
Silke	Heuser	Sr. Project Manager, Evaluation Dept.	KfW	Frankfurt	Germany
Nicole	Keller	Vice President	KfW	Frankfurt	Germany
Ylva	Renner-Haberle	Senior Project Manager	KfW	Frankfurt	Germany
Matthias	Von Bechtolsheim	Senior Evaluation Manager	KfW	Frankfurt	Germany
Jane	Korinek	Economist	OECD	Paris	France
Marc	Auboin	Counsellor, ERSD	World Trade Organization	Geneva	Switzerland
Pascal	Lamy	Director General	World Trade Organization	Geneva	Switzerland

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PEOPLE INTERVIEWED

Name		Designation	Organization	Location	
<b>PRIVATE SECTOR FIRMS</b>					
Shiraz	Hemraj	Director General	Beltexco	Kinshasa	Democratic Republic of Congo
Mushtaque	Rawji	President	Beltexco	Kinshasa	Democratic Republic of Congo
Johan	Hans Van Mameren	Executive Director Delegate	Bralima	Kinshasa	Democratic Republic of Congo
Kithsiri	Dasanayake	Gen. Manager, Fin. for National Agriculture Development	CIC Agri Businesses (Pvt) Ltd	Colombo	Sri Lanka
Husna	Usuph	Group Financial Controller	Delmege Forsyth & Co. Ltd.	Colombo	Sri Lanka
Bouchra	Aoun	Group Procurement Auditor	Malia Trust	Jdeidet-el-Metn	Lebanon
Georges Abou	Haidar	General Manager	Malia Trust	Jdeidet-el-Metn	Lebanon
Kanayo	Iwuchukwu	Executive Secretary	Manufacturers Association of Nigeria	Lagos	Nigeria
Edwin	Ibude	Group Executive Director	Nosak Group	Lagos	Nigeria
Joseph	Oboko	Group Treasurer	Nosak Group	Lagos	Nigeria
Alex Isoken	Osunde	Managing Director	Nosak Group	Lagos	Nigeria
Jean-Claude	Damseaux	Director General	Orgaman Group	Kinshasa	Democratic Republic of Congo
Dilani A.	Gunawardane	Treasurer	Serendib Flour Mills (Pvt) Ltd.	Colombo	Sri Lanka
Chandimal	Perera	Manager, Financial Reporting	Serendib Flour Mills (Pvt) Ltd.	Colombo	Sri Lanka
Mohamed	Zaif	Assistant Manager, Imports & Exports	Serendib Flour Mills (Pvt) Ltd.	Colombo	Sri Lanka
Tang Pheng	Por	Chairman	Tang Pheng Por Glass Tempering Factory Co., Ltd.	Phnom Penh	Cambodia
Cyprian	Orakpo	MD/CEO	Transerve	Lagos	Nigeria
<b>OTHER STAKEHOLDERS</b>					
Denise	Akl	Documentaliste	Association of Banks in Lebanon	Beirut	Lebanon
Makram	Sader	Secretary General	Association of Banks in Lebanon	Beirut	Lebanon
Peter M.	Jones	Secretary General	Berne Union	London	United Kingdom

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PEOPLE INTERVIEWED**

Name		Designation	Organization	Location	
Fabrice	Morel	Deputy Secretary General	Berne Union	London	United Kingdom
Jeff	Ando	Head of Conference Production	Exporta	London	United Kingdom
Ralph	Dahan	Business Development Manager	Lebanese Credit Insurer s.a.l.	Beirut	Lebanon
Dominique	Meessen	Head, Underwriting & Account Management	Office National Du Ducroire	Brussels	Belgium
Frank	Vanwingh	Deputy Chief Executive Officer	Office National Du Ducroire (ECA)	Brussels	Belgium
Andre	Casterman	Head of Cash, Trade & Supply Chain	SWIFT	Brussels	Belgium
Mushtaque	Jindani	Chief Executive	The Institute of Bankers Pakistan	Karachi	Pakistan
Shahnoor	Meghani	Head, Strategic Planning	The Institute of Bankers Pakistan	Karachi	Pakistan
WORLD BANK GROUP STAFF					
Kiran	Afzal	Private Sector Development Specialist	World Bank	Islamabad	Pakistan
Emiliano	Agopian	Trade Finance Analyst	IFC	Washington, DC	
Hyung K.	Ahn	Manager	IFC	Washington, DC	
Ajibola Frank	Ajilore	Resident Representative	IFC	Monrovia	Liberia
Murat	Ayik	Trade Finance Supervisor	IFC	Istanbul	Turkey
Ehsanul	Azim	Investment Officer	IFC	Colombo	Sri Lanka
Henry K.	Bagazonzya	Senior Financial Sector Specialist	IFC	Colombo	Sri Lanka
Georgina	Baker	Director, Trade and Supply Chain	IFC	Washington, DC	
Hande	Berdan	Trade Finance Analyst	IFC	Istanbul	Turkey
Olivier	Buyoya	Sr. Trade Finance Officer, Trade & Supply Chain	IFC	Johannesburg	South Africa
Kobina Egyir	Daniel	Senior Operations Officer	IFC	Monrovia	Liberia
Etiene	De Belloy	Investment Analyst	IFC	Ho Chi Minh	Vietnam
Frank	Douamba	Head, Strategy and Coordination Unit	IFC	Washington, DC	
Joao Lucas	Duchene	Chief Credit Officer, Investment & Credit Risk Department	IFC	Washington, DC	
Pham Kim	Dung	Associate Investment Officer	IFC	Ho Chi Minh	Vietnam
Madhumita	Dutta-Sen	Manager, CSE Financial Markets Operations	IFC	Istanbul	Turkey
Zeynep	Ersel	Supervisor- Operations	IFC	Washington, DC	
Antonio Alves	Ferreira Neto	Principal Trade Finance Officer	IFC	Washington, DC	

**APPENDIX B**  
**PEOPLE INTERVIEWED**

Name		Designation	Organization	Location	
Bonnie	Galat	Head	IFC	Washington, DC	
Errol George	Graham	Senior Economist, AFTP3	World Bank	Washington, DC	
Chadi Bou	Habib	Senior Economist	World Bank	Beirut	Lebanon
William	Haworth	Chief Strategy Officer, Financial Market Department	IFC	Istanbul	Turkey
Jariya	Hoffman	Senior Economist, AFTP3	World Bank	Monrovia	Liberia
Olayemi	Idris- Animashaun	Investment Officer	IFC	Lagos	Nigeria
Thomas J.	Jacobs	Senior Country Officer	IFC	Beirut	Lebanon
Shabana	Khawar	Senior Investment Officer	IFC	Islamabad	Pakistan
Martin	Kimmig	Chief Risk Officer, Investment & Credit Risk Department	IFC	Washington, DC	
Lana	Kobeissi	Office Manager	World Bank	Beirut	Lebanon
Cung Thi Mai	Loan	Investment Analyst	IFC	Hanoi	Vietnam
Zuberoa	Mainz	Trade Finance Officer	IFC	Washington, DC	
Mariem	Malouche	Senior Economist, PRMTR	World Bank	Washington, DC	
Carlos	Mayorga	Manager, CLA Financial Markets Operations	IFC	Washington, DC	
Sokim	Mel	Associate Operations Officer	IFC	Phnom Penh	Cambodia
Anurag	Mishra	Principal Trade Finance Officer	IFC	Bombay	India
Gbenga	Oduowo	Investment Analyst	IFC	Lagos	Nigeria
Bilge	Ozistik	Global Head Trade Operations	IFC	Istanbul	Turkey
Annie	Parseghian	Investment Officer	IFC	Beirut	Lebanon
Vivek	Pathak	Director, Investment & Credit Risk Department	IFC	Washington, DC	
Solomon	Quaynor	Senior Manager	IFC	Lagos	Nigeria
Mark	Rozanski	Investment Officer, Trade & Supply Chain	IFC	Washington, DC	
Madu	Selvakumar	Research Analyst	IFC	Istanbul	Turkey
Gimhani	Seneviratne	Global Head Trade Finance Advisory	IFC	Johannesburg	South Africa
Nadeem	Siddiqui	Chief of Mission, Pakistan	IFC	Islamabad	Pakistan
Priyamvada	Singh	Global Product Lead, Trade Supplier Finance	IFC	Washington, DC	
Gboyega	Songonuga	Principal Trade Finance Officer, Trade & Supply Chain	IFC	Johannesburg	South Africa
Susan	Starnes	Investment Officer, Trade and Supply Chain Department	IFC	Washington, DC	
Scott	Stevenson	Senior Manager, Trade and Supply Chain Department	IFC	Istanbul	Turkey

APPENDIX B  
PEOPLE INTERVIEWED

Name		Designation	Organization	Location	
Jose Alberto	Vivanco	Trade Finance Officer	IFC	Mexico City	Mexico
Zahid	Yousaf	Chief Credit Officer, Investment & Credit Risk Department	IFC	Washington, DC	



# Appendix C

## Survey Instruments

On September 5, 2012, IEG sent a survey questionnaire to 216 issuing banks and 227 confirming banks in IFC's GTFP network. Seventy five issuing banks (35 percent of the total) and 30 confirming banks (13 percent) responded. Responding banks accounted for 35 percent of active GTFP issuing banks (those that used the program for 10 or more transactions in 2006-12) and 22 percent of active GTFP confirming banks. The issuing banks that responded accounted for 39 percent of the GTFP dollar volume since 2006 and the confirming banks that responded accounted for 45 percent of the GTFP's dollar volume since 2006.

### A. Survey of Confirming Banks

#### SECTION I. Background Information

1. Name of Institution \_\_\_\_\_ Your Location \_\_\_\_\_ (City, Country)
2. Your headquarters is located in \_\_\_\_\_ (City, Country)
3. You are reporting for:
  - Headquarters reporting for all locations
  - Headquarters reporting for Headquarters location activity only
  - Subsidiary or Branch reporting for subsidiary or branch only.
4. Geographical Activity in Emerging Markets. Please rank 1 – 6 the regions your location is most active in trade finance. #1 would be most active. If you are not active in a region, do not give it a number.
  - \_\_\_\_ Africa (sub-Saharan continent)
  - \_\_\_\_ East Asia and Pacific
  - \_\_\_\_ Eastern Europe Central Asia
  - \_\_\_\_ Latin America and the Caribbean
  - \_\_\_\_ Middle East and North Africa
  - \_\_\_\_ South Asia (Bangladesh, Bhutan, India, Maldives, Nepal, Sri Lanka)
5. What are the major obstacles to expanding your trade finance business in emerging markets?  
\_\_\_\_\_  
\_\_\_\_\_
6. What are the risk mitigating techniques do you commonly use? Please rank in order of importance: (1 is most important. Do not assign a number if you do not use it)
  - \_\_\_\_ Cash Collateral
  - \_\_\_\_ IFC's GTFP program
  - \_\_\_\_ Investor-based risk sharing
  - \_\_\_\_ Other Multilateral Development Bank(s). Please Name \_\_\_\_\_
  - \_\_\_\_ Private insurance
  - \_\_\_\_ Unsecured
  - \_\_\_\_ Other. Please explain \_\_\_\_\_
7. To what extent were your institution's trade finance transactions in emerging markets affected by the global financial crisis?
  - \_\_\_\_ Large increase
  - \_\_\_\_ Moderate increase
  - \_\_\_\_ Not significantly affected
  - \_\_\_\_ Moderate decrease
  - \_\_\_\_ Large decreasePlease explain: \_\_\_\_\_

APPENDIX C  
SURVEY INSTRUMENT

SECTION II: Your Institution's Participation in the IFC's GTFP

8. Does your institution use IFC's Global Trade Finance Program?

Yes  No

If no, please state reasons why your institution does not use the IFC GTFP:

9. If you do not use IFC's GTFP, please go directly to Question 29.

10. How did your relationship with IFC begin?

Initiated by IFC  Initiated by your institution  
 By another party. Please explain (client, consultant, referral, and so forth) \_\_\_\_\_  
 Unknown

11. Does IFC's GTFP influence your decisions on entering new countries?

Yes  No  Uncertain

Please comment \_\_\_\_\_

12. Does IFC's GTFP influence your decisions on adding new banking relationships?

Yes  No  Uncertain

Please comment \_\_\_\_\_

13. Has IFC's GTFP program helped you do transactions that would *not* have otherwise taken place?

Yes  No  Uncertain

Please explain \_\_\_\_\_

If yes, please estimate approximately how many transactions per year?

2006  2007  2008  2009  2010  2011  2012

14. Do you use IFC's GTFP program in transactions that you would undertake anyway – *even without the GTFP guarantee?*

Yes  No  Uncertain

Please explain \_\_\_\_\_

If yes, please estimate approximately how many per year?

2006  2007  2008  2009  2010  2011  2012

15. Has IFC's GTFP program helped you increase the financial volume of emerging market trade finance transactions processed by your institution?

Yes  No  Uncertain

If yes, please estimate by approximately what percent a year?

2006  2007  2008  2009  2010  2011  2012

16. In general, has IFC's pricing for trade finance guarantees under the GTFP been:

Below market average  At the market average  
 Above market average  Other – Please Explain: \_\_\_\_\_

17. What is the impact on your margin or profitability of a transaction using IFC's GTFP?

GTFP increases margin on a transaction  
 GTFP reduces margin on a transaction  
 GTFP has a neutral influence (does not increase or decrease margin)

18. Has IFC's GTFP helped increase your network of trade finance counterpart banks in emerging markets?

Yes  No  Uncertain

If yes, please estimate how many new counterpart bank relationships have been established as a result of IFC's program?  1 – 5  6 – 10  11 – 25  26 or more

19. Has your institution added clean lines in emerging markets as a result of the IFC's GTFP?

Yes  No  Uncertain

If yes, please estimate how many lines were added as a result of IFC's GTFP

2006  2007  2008  2009  2010  2011  2012

20. Has your institution increased your clean line *limits* in emerging markets as a result of the IFC's GTFP?

\_\_\_\_\_ Yes                      \_\_\_\_\_ No                      \_\_\_\_\_ Uncertain

If yes, please estimate how many lines were increased as a result of IFC's GTFP

\_\_\_\_\_ 2006    \_\_\_\_\_ 2007    \_\_\_\_\_ 2008    \_\_\_\_\_ 2009    \_\_\_\_\_ 2010    \_\_\_\_\_ 2011    \_\_\_\_\_ 2012

21. What impact did IFC's GTFP play in helping your institution maintain its trade finance volume with emerging markets after the onset of the global financial crisis?

\_\_\_\_\_ Had limited or no impact    \_\_\_\_\_ Had a moderate impact    \_\_\_\_\_ Had a significant impact.

Please explain: \_\_\_\_\_

22. Is IFC's GTFP competing with your institution in the provision of trade finance in emerging markets?

\_\_\_\_\_ No                      \_\_\_\_\_ Yes                      If yes, how?

23. If IFC's GTFP program did not exist, what would be the main impact on your trade finance business in developing countries?

\_\_\_\_\_

24. If your institution has confirmed trade transactions in new countries as a result of IFC's GTFP, please estimate how many countries: \_\_\_\_\_

Please name the countries if possible: \_\_\_\_\_

25. Please rate IFC's performance in processing of your institution's guarantee requests:

Performance	Strongly agree	Agree	Disagree	Strongly disagree	Does not apply
IFC handles your transactions accurately					
IFC is flexible in responding to your requests					
IFC is timely in responding to your requests					
IFC completed your transaction within the agreed time limits					

### SECTION III: Summary Questions

26. What are the primary benefits to your institution in participating in IFC's trade finance programs?

\_\_\_\_\_

27. What would you say are the **main strengths** of IFC's GTFP in order of importance?

\_\_\_\_\_

28. What would you say are the **main weaknesses** of IFC's GTFP in order of importance?

\_\_\_\_\_

29. What changes do you suggest that IFC make to improve the GTFP?

\_\_\_\_\_

APPENDIX C  
SURVEY INSTRUMENT

SECTION IV. Trends in Your Institution's Trade Finance Business

30. Data on your Location's (as identified by you in Question #3) trade finance activities. Please complete as much of the below table as possible. If actual numbers are not available, please use your best estimate.

What is Your Fiscal Year: Start Month \_\_\_\_\_ End Month \_\_\_\_\_

Data for fiscal year	2006	2007	2008	2009	2010	2011	2012 (January 1 To date)
What is the <i>approximate</i> number of trade finance transactions <sup>1</sup> undertaken in emerging markets <sup>2</sup> in each year?	#	#	#	#	#	#	#
What is the <i>approximate</i> volume in US\$ Millions for trade finance transactions <sup>1</sup> undertaken in emerging markets <sup>2</sup> each year?	#	#	#	#	#	#	#
How many emerging market countries <sup>2</sup> does your institution do trade finance transactions <sup>1</sup> with?	#	#	#	#	#	#	#
How many emerging market financial institutions <sup>3</sup> does your institution work with?	#	#	#	#	#	#	#
How many emerging market financial institutions <sup>3</sup> do you extend advised ( <i>uncommitted</i> ) clean trade finance lines <sup>4</sup> to?	#	#	#	#	#	#	#
What is the total US\$ amount of these advised ( <i>uncommitted</i> ) clean trade finance lines?	#	#	#	#	#	#	#

Notes:

1. Trade Finance Transactions are those transactions eligible for GTFP coverage: Private sector Import letters of credit and standby letters of credit, as well as the obligation of the issuer of performance bonds, bid bonds, and advance payment guarantees; the obligation of the issuer of a financial instrument for trade financing on-lent to its clients using instruments such as promissory notes, standby LC, or credit guarantees in favor of participating confirming banks that provide funds to the issuing bank; trade finance credit from confirming banks, which supports LC bill discounting or negotiation, bankers' acceptance financing, pre-export or post-shipment financing, and post-import financing on a trade asset portfolio or for individual trade transactions, suppliers credits for the import of capital goods.
2. Emerging Markets: Non-OECD countries.
3. Emerging Market Financial Institutions: Financial Institution located in an emerging market.
4. Clean trade finance lines: trade finance transaction without collateral or third-party guarantee.

## B. Survey of Issuing Banks

### SECTION I. Background Information

31. Name of Institution \_\_\_\_\_ Location \_\_\_\_\_ (City, Country)
32. Your headquarters is located in \_\_\_\_\_ (City, Country)
33. You are reporting for:
- Headquarters reporting for all locations
  - Headquarters reporting for Headquarters location activity only
  - Subsidiary or Branch reporting for subsidiary or branch only
34. Do you do business with other emerging market countries? If so please rank the regions by importance. #1 would be most active. If you are not active in a region, do not give it a number.
- \_\_\_\_ Africa (sub-Saharan continent)
  - \_\_\_\_ East Asia and Pacific
  - \_\_\_\_ Eastern Europe Central Asia
  - \_\_\_\_ Latin America and the Caribbean
  - \_\_\_\_ Middle East and North Africa
  - \_\_\_\_ South Asia (Bangladesh, Bhutan, India, Maldives, Nepal, Sri Lanka)
35. To what extent were your institution's trade finance transactions affected by the global financial crisis?
- \_\_\_\_ Large increase      \_\_\_\_ Moderate increase      \_\_\_\_ Not significantly affected
- \_\_\_\_ Moderate decrease      \_\_\_\_ Large decrease
- Please explain: \_\_\_\_\_

### SECTION II. Your Institution's Participation in the GTFP

36. Does your institution use IFC's Global Trade Finance Program?
- \_\_\_\_ Yes      \_\_\_\_ No
- If no, please state reasons why your institution does not use the IFC GTFP:
- \_\_\_\_\_
- \_\_\_\_\_
37. How did your relationship with IFC begin?
- \_\_\_\_ Initiated by IFC      \_\_\_\_ Initiated by your institution
  - \_\_\_\_ By another party. Please explain (client, consultant, referral, etc.) \_\_\_\_\_
  - \_\_\_\_ Unknown
38. What are the main reasons you decided to become part of IFC's GTFP? Please list in order of importance:
- \_\_\_\_\_
- \_\_\_\_\_
39. Does your institution have any other relationship with IFC other than the GTFP?
- \_\_\_\_ IFC has an investment in this institution
  - \_\_\_\_ IFC provides advisory services (training, consulting, etc.) to this institution
  - \_\_\_\_ Other relationship with IFC \_\_\_\_\_
  - \_\_\_\_ No other relationship with IFC      \_\_\_\_ Uncertain
40. How would you describe the efficiency of IFC's appraisal process in approving your institution for participation in the GTFP?

APPENDIX C  
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Detail	Strongly agree	Agree	Disagree	Strongly disagree	Does not apply
The application was easy to complete					
The amount of information you were asked to provide was reasonable					
IFC was responsive in resolving issues					
The application was approved in a reasonable amount of time					

SECTION III. Role of IFC's Trade Finance Program

41. Has IFC's GTFP program helped increase the number of trade finance clients you have?  
 Yes  No  Uncertain  
 If Yes, please estimate the number of trade finance clients you had each year:  
 2006  2007  2008  2009  2010  2011  2012
42. Has IFC's GTFP program helped you add new trade finance products?  
 Yes  No  Uncertain
43. Has IFC's GTFP program helped increase the number of trade finance transactions processed by your institution?  
 Yes  No  Uncertain  
 If yes, please estimate by approximately how many:  
 2006  2007  2008  2009  2010  2011  2012
44. Has IFC's GTFP program helped increase the financial volume of trade finance transactions processed by your institution?  
 Yes  No  Uncertain  
 If yes, please estimate by approximately how much:  
 2006  2007  2008  2009  2010  2011  2012
45. If the IFC GTFP program were to expand, would you want to do more business in  
 Import LC Guarantees  Export financing  
 Other (please explain) \_\_\_\_\_
46. Has IFC's GTFP program helped you do transactions that you would not have done without the program?  
 Yes  No  Uncertain  
 Please explain why \_\_\_\_\_  
 If yes, please estimate approximately how many transactions per year?  
 2006  2007  2008  2009  2010  2011  2012
47. Have you used IFC's GTFP program in transactions that you *would have done anyway* – even without the GTFP guarantee?  
 Yes  No  Uncertain  
 Please explain why \_\_\_\_\_  
 If yes, please estimate approximately how many per year?  
 2006  2007  2008  2009  2010  2011  2012
48. In general, has IFC's pricing for trade finance guarantees under the GTFP been:  
 Below market average  At the market average  Above market average  
 Other – Please Explain: \_\_\_\_\_
49. Has IFC's GTFP program helped increase the overall profitability of your trade finance business?  
 Yes  No  Uncertain
50. What is the impact on your margin or profitability of a transaction using IFC's GTFP?

- \_\_\_\_\_ GTFP increases margin on a transaction      \_\_\_\_\_ GTFP reduces margin on a transaction  
 \_\_\_\_\_ GTFP has a neutral influence (does not increase or decrease margin)
51. Has IFC's GTFP program helped increase the number of relationships your institution has with foreign banks?  
 \_\_\_\_\_ Yes    \_\_\_\_\_ No    \_\_\_\_\_ Uncertain  
 If Yes, please estimate by how many in each year:  
 \_\_\_\_\_ 2006    \_\_\_\_\_ 2007    \_\_\_\_\_ 2008    \_\_\_\_\_ 2009    \_\_\_\_\_ 2010    \_\_\_\_\_ 2011    \_\_\_\_\_ 2012
52. Has IFC's GTFP program helped you receive more competitive pricing from Confirming Banks?  
 \_\_\_\_\_ Yes    \_\_\_\_\_ No    \_\_\_\_\_ Uncertain  
 Please explain \_\_\_\_\_
53. Has IFC's GTFP program helped you access longer trade financing tenors from Confirming Banks?  
 \_\_\_\_\_ Yes    \_\_\_\_\_ No    \_\_\_\_\_ Uncertain
54. Has IFC's GTFP program helped reduce cash collateral requirements from Confirming Banks?  
 \_\_\_\_\_ Yes    \_\_\_\_\_ No    \_\_\_\_\_ Uncertain
55. Has IFC's GTFP program helped you attract a higher total available amount under clean credit lines from banks?  
 Clean trade finance lines are lines of credit for which you do not post cash or other collateral such as third-party guarantees.  
 \_\_\_\_\_ Yes    \_\_\_\_\_ No    \_\_\_\_\_ Uncertain  
 If yes, please estimate by how much: (in US\$)  
 \_\_\_\_\_ 2006    \_\_\_\_\_ 2007    \_\_\_\_\_ 2008    \_\_\_\_\_ 2009    \_\_\_\_\_ 2010    \_\_\_\_\_ 2011    \_\_\_\_\_ 2012
56. What impact did IFC's GTFP program have in helping your institution maintain its trade finance business after the onset of the global financial crisis?  
 \_\_\_\_\_ Had limited or no impact    \_\_\_\_\_ Had a moderate impact    \_\_\_\_\_ Had a significant impact  
 Please explain: \_\_\_\_\_
57. Please rate IFC's performance in approving and processing of your institution's guarantee requests:

Performance	Strongly agree	Agree	Disagree	Strongly disagree	Does not apply
IFC handles your transactions accurately					
IFC is flexible in responding to your requests					
IFC is timely in responding to your requests					
IFC completed your transaction within the agreed time limits					

**SECTION IV: Advisory Services Provided by IFC:**

58. Have you received formal Advisory Services (training, consultants, etc.) from IFC?  
 \_\_\_\_\_ Yes    \_\_\_\_\_ No    \_\_\_\_\_ Uncertain
59. If yes, what type of training/ consultancy has your bank received from the IFC?  
 \_\_\_\_\_ Basic training, introduction to trade finance specific to your bank  
 \_\_\_\_\_ Advanced training specific to your bank    \_\_\_\_\_ Seminars    \_\_\_\_\_ Consultancy services  
 \_\_\_\_\_ Internet/computer based training    \_\_\_\_\_ Other. Please describe: \_\_\_\_\_
60. If you have received IFC training and consulting services please complete the table below:

Results of IFC training and consulting	Strongly agree	Agree	Disagree	Strongly disagree	Does not apply
Trade finance transactions in your institution are processed with a higher degree of accuracy due to IFC training					

**APPENDIX C  
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Results of IFC training and consulting	Strongly agree	Agree	Disagree	Strongly disagree	Does not apply
Trade finance transactions in your institution are processed with a higher degree of speed due to IFC training					
Your institution has acquired new clients due to IFC training					
Your institution has increased its number of trade finance products due to IFC training					

Other Comments on IFC Training and Consulting Services: \_\_\_\_\_

**SECTION V: Summary Questions**

61. What would you say are the main strengths and weaknesses of IFC's GTFP?  
Main strengths, in order of importance

\_\_\_\_\_

\_\_\_\_\_

Main weaknesses, in order of importance

\_\_\_\_\_

\_\_\_\_\_

62. What changes do you suggest that IFC make to improve the GTFP program?

\_\_\_\_\_

\_\_\_\_\_

**SECTION VI. Evolution of your Trade Finance Business**

63. Data on your location's (as identified by you in Question #3) trade finance business. Please complete as much of the below table as possible. If actual numbers are not available, please provide your best estimate.

What is your fiscal year: Start month \_\_\_\_\_ End month \_\_\_\_\_

Data for fiscal year	2006	2007	2008	2009	2010	2011	2012 Fiscal Year to Date
What is the <u>approximate</u> number of import trade finance transactions <sup>1</sup> undertaken in each year?	#	#	#	#	#	#	#
What is the <u>approximate</u> total volume in US\$ Millions for import trade finance transactions undertaken in each year?	#	#	#	#	#	#	#
What is the <u>approximate</u> number of export trade finance transactions <sup>1</sup> undertaken in each year?	#	#	#	#	#	#	#
What is the <u>approximate</u> total volume in US\$ Millions for export trade finance transactions undertaken in each year?	#	#	#	#	#	#	#
What is the approximate number of staff <sup>2</sup> directly working in trade finance?	#	#	#	#	#	#	#
Approximately how many of your trade finance transactions <sup>1</sup> were under US\$200 Thousand in each year?	#	#	#	#	#	#	#



**APPENDIX C**  
**SURVEY INSTRUMENT**

Data for fiscal year	2006	2007	2008	2009	2010	2011	2012 Fiscal Year to Date
Approximately how many of your trade finance transactions <sup>1</sup> were under US\$1 million in each year?	#	#	#	#	#	#	#
How many trade finance customers <sup>3</sup> does your institution serve?	#	#	#	#	#	#	#
How many foreign banks has your trade finance business worked with?	#	#	#	#	#	#	#
What was the total volume of clean <sup>4</sup> lines, in US\$ you had each year?	#	#	#	#	#	#	#

*Notes:*

1. Trade Finance Transactions are those transactions eligible for GTFP coverage: Private sector Import letters of credit (LC s) and standby letters of credit (SBLC s), as well as the obligation of the issuer of performance bonds, bid bonds, and advance payment guarantees; the obligation of the issuer of a financial instrument for trade financing on-lent to its clients using instruments such as promissory notes, standby LC s, or credit guarantees in favor of participating Confirming Banks that provide funds to the Issuing Bank; Trade finance credit from Confirming Banks which supports LC bill discounting or negotiation, bankers' acceptance financing, pre-export or post-shipment financing, and post-import financing on a trade asset portfolio or for individual trade transactions, suppliers credits for the import of capital goods.
2. Include both front office and back office staff in your location.
3. Trade Finance Customers are those engaged in the activities listed in number 1 above.
4. Clean trade finance lines: trade finance lines of credit for which you do not post cash or other collateral such as third-party guarantees.

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