

IFC leaps defiantly

into new markets



In March, the IFC's global trade finance programme hit the US\$2bn mark in terms of cumulative guarantees issued. It seems the emerging market-focused scheme has yet to feel the impact of any economic downturn.

GTR finds out the latest from Bonnie Galat, global head of marketing and distribution for the global trade finance programme (GTFP), at the IFC.

GTR: How has the institution's role in trade-related areas changed since you joined 15 years ago?

BG: IFC always supported trade but not in a programmatic way or as a strategic product – it was generally through bilateral facilities requested by a particular international bank. IFC would share risk in order to alleviate exposure constraints in a specific country or region where demand for trade support was high among a set of issuing banks. These risk-sharing facilities would take months to negotiate and, given the dynamic nature of trade, we would often miss the market window in which we were needed. We recognised this wasn't an effective model and that led us to adopt the open architecture platform that European Bank for Reconstruction and Development (EBRD) had pioneered in its region. The beauty of the approach is that it moves beyond supporting needs of a pre-defined market on a bilateral basis using a predictive framework. We can now support the needs of hundreds of banks transacting trade across the emerging

markets globally on an as needed, per-transaction basis. The success of the global trade finance programme rests on its ability to respond, on the same day if necessary,



IFC's Bonnie Galat

to the needs of any of the 200 plus banks in the programme for risk mitigation in trade transactions to or from the emerging markets.

GTR: What is the aim of the programme?

BG: Trade is vitally important in an integrated world, and it can be an effective tool in private sector development, which is IFC's mandate.

IFC's GTFP supports the flow of goods and services to and from developing countries with an objective of supporting the smaller private banks and entrepreneurs with special emphasis on particularly challenging markets. Operationally, a key objective has been to build a network of bank partnerships that will develop familiarity and a track record working together with our support. Our goal is that eventually they will work directly, without IFC, to transact trade but also to find broader areas of cooperation in the financial services business.

GTR: Does the programme have any priority regions?

BG: The programme has had a particularly strong focus and development impact in countries where no documentary credit was previously available and where trade lines with international banks were insufficient to support the growing demand for imports and exports.

The early and continuing priority is Sub-Saharan Africa where, to date, 50% of guarantees have been issued. Trade has been supported in post-crisis countries such as Sierra Leone and Liberia, and most recently in Haiti where banks have also received advisory services and training courses.

We also work to reach the smaller entrepreneur through supporting smaller trades. To date, 70% of the guarantees issued have been for trades under US\$1mn

and the median is US\$200,000.

Another priority focus is smaller private sector banks in our client countries that have had limited access to an international bank network. Initially, with the help of our risk mitigation, some international banks have established correspondent relationships to transact trade in smaller markets and with smaller banks than they would normally devote resources to.

We can also help banks leverage their lines in particularly high growth, dynamic economies where they often run into exposure constraints, such as Nigeria, Bangladesh, Brazil or Russia.

GTR: How do you measure the success of the programme?

BG: IFC's vision is to alleviate poverty and improve lives. From the perspective of the GTFP that means ensuring that the trades we facilitate are benefiting the banks, sectors, and entrepreneurs that help meet our mandate.

Cumulative and fiscal year (FY) 2008 statistics show that 64% of the programme's transactions have supported trade with the world's poorest countries. Since the programme's launch in 2005, more than a third of the number of guarantees issued were for South-South trade or for flows between developing countries.

Individual banks report to us that they have gained active trade clients, have seen significant trade volume growth, and have broadened their base of international bank relationships, including credit, since joining

the programme. This suggests that the programme is effective and showing results in trade and beyond.

GTR: Can you give some noteworthy examples of success?

BG: Last month (March), the GTFP reached a milestone of US\$2bn in cumulative guarantees issued. The trade that took us over that milestone was a shipment of medicine from Spain to Yemen. Other notable transactions include guarantees issued for the sale of Indian industrial machinery to Sierra Leone, the import of Russian cement by Gambia, rolled steel from Indonesia to Vietnam and fertiliser from Tunisia to Pakistan.

GTR: How do commercial banks work with the programme?

BG: Under the programme, IFC extends and complements the capacity of banks to deliver trade financing by providing guarantees covering the payment risk of banks in emerging markets. The availability of risk mitigation on a demand basis encourages banks to transact trade with new and challenging markets.

The process is very simple. Banks sign a master agreement with IFC that allows them to tap the programme for risk mitigation of up to 100% of the value of the transaction. As long as the lines can accommodate the trade, it's as easy as a phone call. We do not do silent guarantees though so the issuing bank needs to consent to using their line for that

particular trade.

We can work with banks on a wide variety of trade instruments including letters of credit, bills of exchange, promissory notes and guarantees.

GTR: What worries you about the present economic downturn and how might this affect the work of the programme?

BG: Demand from the market has been growing this year and that in part reflects constraints on global liquidity. Banks are increasingly having to manage their balance sheets due to capital concerns in the current environment. Growing demand for risk mitigation also reflects a contracting secondary market, where banks actively shared risk.

We are still operating comfortably under our US\$1bn revolving limit, but in future growing demand could lead to us to increase the ceiling.

GTR: What encourages you despite the downturn?

BG: So far the impact of the crisis on developing countries has been muted and strong developing country demand is even cushioning the slowdown in the US. We have not seen dramatic changes yet in the demand for our programme although we have noted an increase in enquiries which may suggest a growing interest and need down the road. The volume figures for the GTFP suggest that trade flows haven't contracted to date. This all suggests banks are still servicing their customers but that they can't do it all on their own book.

If things were really bad, we might see an onslaught of demand for risk mitigation. The other thing that could happen in a crisis would be that the trades wouldn't happen at all and we wouldn't get called – and we were nowhere near that. The fact that we are still operating entirely normally is encouraging. The other encouraging thing is that risk premiums have really only changed marginally in the set of countries where the IFC GTFP is most active. And in fact, in Africa, they are trending down. This underscores the fact that the current crunch is a financial issue rather than a fundamental credit issue on the borrower side.

Results at a glance	Cumulative since Sept 05	Fiscal Year 08
No. of guarantees	1,579	695
No. of underlying transactions	2535	1421
Volume supported	2bn	1bn
Average tenor	5.45 months	5 months
Average size	US\$1.3mn	US\$1.46mn
South-south	35%	36.60%
Small and medium-sized businesses (under US\$1mn)	75%	75.40%

Average transaction size is US\$832,000 for year to date and US\$758,000 for '08. This is a better figure to use than average guarantee size as some guarantees involve bundled transactions