Overview: A Public-Private Partnership to Revitalize Global Trade

Since its official launch in July 2009, GTLP implemented a rapid-response approach to mobilize and channel funding to support emerging markets trade finance. This momentum continued through the end of June 2010, supporting more than $6.1 billion in trade to date in 40 countries. Our partnership with governments and other global financial institutions enabled us to reach out to hundreds of local banks. In terms of utilization, 83 percent supported small and midsize businesses and 37 percent supported lower-income countries.

During this quarter (April-June 2010), African Export-Import Bank (Afrexim) joined the program as a utilization bank, and will be responsible for channelling $200 million in trade financing throughout continental Africa. Including Afrexim, GTLP disbursed a total of $400 million this quarter, bringing GTLP disbursements to date to $1.5 billion. Citibank also signed a new $120 million Africa-focused (60:40) risk-sharing facility aimed at increasing development impact in Africa.

As outlined in our previous newsletter, we are launching GTLP Phase 2. This includes GTLP Guarantee, an unfunded risk-sharing program that provides portfolio-based guarantees, and GTLP Food and Agriculture, which provides trade financing for the agricultural sector. Intesa Sanpaolo and Banco Galicia are the first participants in Phase 2 programs.

The need for GTLP Phase 2 comes as an increasing number of global banks have improved liquidity positions, yet still face heightened risk aversion and lower lending appetite. This is particularly true in Africa and other emerging markets, leading banks to seek efficient risk mitigation products. GTLP Guarantee responds to rising demand for unfunded regional and multi-regional solutions, and also meets the needs of potential program participants who wish to use guarantees instead of liquidity. IFC, Swedish International Development Cooperation Agency (SIDA), and OPEC Fund for International Development (OFID) will launch the first GTLP Guarantee facility for €250 million through Intesa Sanpaolo. GTLP also will continue to channel trade financing to target maximum impact where the needs are most acute, such as for food and agriculture. The first GTLP Food and Agriculture transaction is through Banco Galicia for a $40 million facility ($20 million each from OFID and IFC). This program represents an opportunity to reach small farmers and small and midsized agricultural businesses through Galicia’s strong distribution network and reach in rural frontier regions.
Market Outlook

As the financial crisis deepened, the availability of trade finance tightened as a result of higher lending costs and risk premiums. The problem was further exacerbated by a contraction of the secondary market for short-term exposure as banks and other financial institutions de-leveraged and key players exited the market. The implementation of the Basel II Accord on banking laws and regulations, with its increased risk sensitivity of capital requirements, may have also adversely affected trade finance. These developments resulted in a rapid increase in the price of short-term trade finance by as much as 300 basis points. Demand also increased for bank-intermediated trade finance transactions as a result of a decline in open account financing in favor of letters of credit and other forms of bank-supported trade finance. Tighter credit conditions increased the cost of trade finance and negatively affected trade transactions in many markets.

Today, statistics show that world trade has commenced a slow recovery in varying degrees across regions. However, a recent IMF/Bankers’ Association for Finance and Trade survey of 88 banks found that risk premiums charged for private trade finance continue to rise, although at a slower pace than during the peak of the crisis. Separately, the International Chamber of Commerce’s Global Survey published in April 2010 said that banks continue to be risk averse and selective in the supply of trade finance. According to the survey, 76 percent of banks interviewed cited more stringent credit criteria being applied. Capital allocation restrictions ranked fourth in the survey, cited by 24 percent of the banks. One underlying reason for this acute situation is that many countries and banks suffered credit rating downgrades, which forced increased capital allocation. The report also said that the food flow will potentially become more difficult and expensive to finance due to heightened country and bank risk. Trade finance is being routed to larger, stable corporations instead of small traders to avoid emerging market and bank risk. This is exacerbated given the aftershocks of Greece and the Eurozone crises. Currently, the big unknown is the emergence of new banking regulations, termed as Basel III, which will require banks to set aside more cash reserves, making business more expensive and less attractive.

GTLP continues to maintain good geographical diversity. Latin America & Caribbean, and East Asia & Pacific represent 61% of the GTLP trade supported. Trade supported in Sub-Saharan Africa accounts for 20%, South Asia accounts for 14%. We signed a new Africa-focused facility with Citibank and we expect to sign another facility very soon that will further increase our Africa reach. A new disbursement of US$100 million to an existing Africa-dedicated facility is in the process and will also play an important role in further increasing our reach in Africa.

GEOGRAPHIC REACH

Overall, GTLP-supported trade since inception reached $6.1 billion, through approximately 3,900 transactions. About 83% of these transactions were for small and medium enterprises. 20% of the trade volume reached Sub-Saharan African countries, and about 37% reached Lower Income Countries. 31% of the trade supported IDA countries.

RESULTS AT A GLANCE

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume of Trade Supported</td>
<td>$ 6.1 billion</td>
</tr>
<tr>
<td># of Trade Transactions</td>
<td>~4,200</td>
</tr>
<tr>
<td>SMEs financed</td>
<td>83%</td>
</tr>
<tr>
<td>Sub-Saharan Africa Coverage</td>
<td>20%</td>
</tr>
<tr>
<td>(By Volume of Trade supported)</td>
<td></td>
</tr>
<tr>
<td>Low Income &amp; Lower-Mid Income Countries</td>
<td>37%</td>
</tr>
<tr>
<td>IDA Countries</td>
<td>31%</td>
</tr>
</tbody>
</table>

Based on actuals and estimates as of June 30, 2010.
On-the-Ground Stories

From Tanzanian Cotton to Latin American Garments

New Tabora Textiles Tanzania Limited is a cotton manufacturer and exporter located in Tabora, a town in west central Tanzania. After only seven years in business, the export-focused company established a 26,000 square-meter plant with an annual capacity of 6,200 tons of yarn. New Tabora embarked on a two-phase plan: rehabilitation and modernization of the plant, and doubling daily cotton production. Through GTLP, New Tabora exported $47,000 worth of Tanzanian cotton yarn to Manufacturas Eliot, one of the biggest textile and garment manufacturers in Colombia. Manufacturas Eliot began operations in 1992 with markets in South America, and has started exporting to Central America as well. GTLP, with a post-import finance trade instrument, facilitated the transaction through Bancolombia. This enabled Manufacturas Eliot to expand export markets in Latin America and helped New Tabora change the face of the East African textile industry.

Trade in a Time of Post-Conflict Reconstruction

Angola was still recovering from the destruction of its towns during the years of struggle for independence, only to go through another period of instability with years of civil war that finally ended in 2002. Post-civil war, the Angola National Private Investment Agency said that the country is practically on the verge of reconstruction and almost every sector is to be included. As Africa’s second-biggest oil producer, it comes as no surprise that Angola is deeply dependent on the oil sector. But there are other industries in the offing. Ango Rayan Group International is based in Luanda, and began operations towards the end of the civil war. It employs 700 staff, working on food distribution, highway construction, and wholesaling electrical equipment, among other projects. Ango Rayan’s sales territory is 100 percent local. Its main customers are Angolan agencies, local stores and outlets. Early this year, Ango Rayan imported $500,000 worth of food products from Palmar Industrial de Alimentos Ltda., a meat exporter in Paraná, in southern Brazil. The financing was extended by Brazil’s Banco Bradesco through GTLP. Companies such as Ango Rayan can contribute to the diversification of industries to preserve jobs and help reconstruct post-conflict Angola. The country has the potential to be one of Africa’s most prosperous nations. GTLP and its partners are helping to move the private sector to forefront of Angola’s development.

South-South Rice Trading

Amidst a significant 30% dip in Thailand’s rice exports, GTLP recently facilitated a trade transaction through Nigeria’s Access Bank. A post-import finance instrument enabled Thailand’s TMP Rice Mill Company Limited to export US$ 7,560,000 worth of brown rice to Dansa Foods Limited. Dansa Foods produces and distributes various food products such sugar, dairy and fruit juice, and is a subsidiary of one of Nigeria’s diversified business conglomerates headquartered in Lagos. A couple of years ago, Dansa Foods embarked on a healthy food campaign and expanded its product awareness to three major cities in Nigeria (Lagos, Abuja and Ibadan), targeting children, youths and the general public who reside in rural as well as medium urban areas.

An Award-Winning Cocoa Financing Deal in Nigeria*

Nigeria’s Stanbic IBTC successfully closed a $15 million cocoa financing for Agro Traders (ATL) in November 2009. The facility supports ATL’s purchase of cocoa beans for the 2009/10 Nigerian cocoa harvest for export to Europe. The transaction is one of the first applications of the Africa-dedicated trade finance lines from IFC to support trade to and from Sub-Saharan Africa. The transaction gives support to the Nigerian cocoa industry, which is undergoing regeneration as part of the Nigerian federal government’s efforts to encourage the growth of the agricultural sector and enhance the country’s non-oil exports and revenues.

The facility also provided much-needed access to US dollar funding and liquidity support at a time when local and international banks were withdrawing their US dollar liquidity lines, and/or applying punitive interest rates to Nigerian corporate borrowers, due to the financial crisis engulfing the Nigerian banking sector. IFC’s support through a $400 million funding line for trade finance in Sub-Saharan Africa enables Stanbic to originate transactions in West Africa, resulting in more deals in the continent.

* Source: GT Review Magazine, March 16, 2010
GTLP Phase 2

As the global financial crisis evolves, the proven GTLP platform (operational processes, IT/MIS, human resources, standardized documentation, accounting, agency role, mobilization framework) is providing solutions to meet market demands as well as IFC’s and program participants’ development priorities. Generally, market demand is shifting from liquidity support to a mix of liquidity and guarantees, the latter of which should have greater demand as market recovery takes root. Though an increasing number of global banks has improved liquidity positions, these institutions face increased risk aversion and lower lending appetite, particularly in Africa. Large global banks continue to focus on improving their capital base and are increasingly seeking efficient risk mitigation support. This shift in market demand is expected to be gradual as the secondary market remains inactive. Banks continue to find GTLP attractive to expand trade finance in emerging markets while prudently managing risk exposure.

GTLP Unfunded Risk-Sharing (GTLP Guarantee)

GTLP Guarantee is a component of GTLP Phase 2 that will respond to increasing demand for unfunded regional and multi-regional solutions, and also meet the needs of program participants who do not have liquidity yet wish to support trade finance. IFC and the program participants will provide credit guarantee coverage for up to 40% on portfolios of trade transactions (or 50% in Africa to provide inducement to expand in this region) originated by utilization banks through their networks of emerging markets issuing banks. IFC will provide the guarantee as primary guarantor, with the program participants providing a pro-rata counter-guarantee in the countries that they have agreed to support. This structure allows IFC to fulfill its agency role to quickly mobilize and channel risk-sharing support from various mobilization sources to banks as well as providing AAA guarantee coverage. GTLP Guarantee will encourage banks to finance trade by helping to mitigate the credit risk of re-entering and expanding into emerging markets.

GTLP Food & Agriculture

GTLP Food and Agriculture is the other main component of GTLP Phase 2, with a primary focus on the agricultural industry. It complements the G-20 pledge to establish the Global Food Security Program to improve food security through support to the agribusiness sector and increased agriculture investments. GTLP Food and Agriculture provides short- to medium-term funding. It is designed to extend trade and working capital loans through regional banks in developing countries to eligible food and agribusiness farmers and small and midsize businesses in regions with an active food and agriculture export market to achieve a wider reach and greater development impact. Our target is to raise $500 million from program participants over the next 12-18 months to develop a $750 million GTLP Food and Agriculture program. Initial transactions are expected to have facility sizes of approximately $50 million, and a mobilization portion that at least equals IFC’s portion.

Program Partners

GTLP is the first global, collaborative solution of its kind in the trade finance business and represents a well-coordinated effort among IFC and its program partners—CDC (UK), DFID (UK), OFID, Saudi Fund for Development, the Canadian Government, African Development Bank, the Netherlands Government, JBIC of Japan, Chinese Government, and SIDA of Sweden. Direct committed funds raised to date are $2.5 billion. JBIC of Japan has made an additional $1.5 billion under a Memorandum of Understanding.

Utilization Banks

Standard Bank South Africa, Standard Chartered Bank, Citibank, Rabobank, Commerzbank, JPMorgan Chase, Afreximbank, have a combined facility size of US$ 6.6 billion and a lifespan of two to three years. Banco Galicia and Intesa Sanpaolo are the Utilization Banks for GTLP Phase 2.

Inquiries: German Vegarra, Gvegarra@ifc.org • Hyung Ahn, Hahn@ifc.org • Yasmin Saadat, YSaadat@ifc.org
Bulletin prepared by Global Trade Liquidity Program Operations Team

Creating Opportunity Where It’s Needed Most