

Perspectives on Trade Finance In the Financial Crisis

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Jean-Pierre Chauffour and Thomas Farole¹

International Trade Department

World Bank, Washington, D.C.

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Abstract

As world leaders agreed to massively support trade finance, this paper discusses the singularity of the issues related to trade finance in the context of the global economic crisis. Why should international trade finance be a particular issue of concern in the current circumstances? Are there specific market or government failures associated with trade finance that justify a special and differential treatment of the issue by policymakers? If so, what would then be the most appropriate policy instruments to address those concerns? The paper cautions against the notion of a large trade finance ‘gap’, yet highlights the possible rationales and conditions for an effective intervention in support of trade finance.

¹ Jean-Pierre Chauffour (jchauffour@worldbank.org) and Thomas Farole (tfarole@worldbank.org) are respectively Lead Economist and Senior Economist in the World Bank International Trade Department. The views expressed in this paper are those of the authors and do not necessarily represent those of the World Bank. Comments are welcomed.

1. [Introduction](#)

The global economic crisis has had a major detrimental impact on trade. As Pascal Lamy put it “*today it is clear that trade is one of the casualties of this economic crisis and that we run the risk that one of the engines of growth — in fact, one that is very important for many developing countries — stalls*” (Lamy, 2009). Whilst trade was still growing through the third quarter of 2008, volumes fell rapidly during the last quarter and the pace of decline accelerated in the first quarter of 2009. International trade is projected to contract in 2009— for the first time since 1982.²

This sharp contraction has been the result of both demand-side effects (through lower business and consumer wealth and confidence resulting in delayed or foregone investment and consumption) and supply-side effects (through various liquidity constraints curtailing trade and investment). In particular, on the supply side, there is strong anecdotal evidence that the financial crisis may have reduced the availability of trade finance, and hence the volume of trade that would have otherwise taken place – even in the face of the demand shock. Various estimates have put the size of this trade finance gap in the range of \$25-500 billion.³ This has raised serious concerns in many policy quarters and has led to calls for intervention to reduce the gap in order to avoid deepening and spreading the contagion. Governments and multilateral institutions have responded with a range of programs designed to support the trade finance market through increased liquidity and risk guarantees and insurance. Leaders of the G20 agreed to ensure \$250 billion of support for trade finance at their April 2009 summit in London in order to promote global trade and investment.⁴

Yet the dearth of data on trade finance and lack of analytical tools mean that we have little idea how large this supposedly trade finance ‘gap’ really is. That bank-intermediated trade finance volumes are down significantly is not in question – this we can deduce from data on bank short-term lending. Given the contraction in trade volumes, a lower demand for trade finance should not be surprising. The question is rather how much of the contraction in international trade may be caused by restrictions in the supply of trade finance. While there is little that can be done on the demand side to stimulate trade through targeted interventions aimed at trade finance, the supply side may be a more legitimate target for intervention. For this, at least three pre-conditions should be met: 1) the scale of the supply gap should be of some significance; 2) the shortfall in the provision of trade finance can be attributed to a structural or temporary market failure; and 3) targeted interventions can be designed to achieve the desired response by market participants (i.e., supplying trade credit at market-clearing prices) without creating unacceptable moral hazards or subsidizing the provision of credit that would have been extended in any case. Assessing these conditions is, of course, no simple task, particularly in a market that is relatively poorly understood.

² According to the World Bank’s Global Economic Prospects (April 2009), the world trade volume in goods and services is projected to decline by 6.1 percent in 2009, with a significantly sharper contraction in trade volumes of manufactured goods. These projections corroborate the WTO forecast of a 9 percent fall in world merchandise trade in 2009, with developed-economy exports falling by some 10 percent on average, and developing-country exports shrinking by 2–3 percent.

³ See, for example: WTO (2008); FIMetrix (2009); IFC Ltd. (2009)

⁴ “We will ensure availability of at least \$250 billion over the next two years to support trade finance through our export credit and investment agencies and through the MDBs. We also ask our regulators to make use of available flexibility in capital requirements for trade finance.” London Summit Communiqué, April 2, 2009.

The purpose of this paper is to discuss these issues with a view to addressing the following questions: Is there a trade finance gap and if so what is its scale and nature? Is there a rationale for intervention to support trade finance? What tools and policies are most fit for purpose to address it?

The remainder of this paper will proceed as follows. Based on the most recent literature, Section 2 will introduce the economics of trade finance, outline what may be unique about it, and discuss its economic implications. Section 3 will briefly review the nature of the current global crisis and discuss its practical impacts on the trade finance market. Section 4 will then attempt to identify the scale of a possible trade finance gap, and how this gap might affect developed and emerging markets differently. Section 5 will present the possible rationales for intervention to support trade finance. Section 6 will review the policies and tools that have been used to support trade finance in past crises and so far in the current crisis. To conclude, Section 7 will discuss the policies and tools that are likely to be the most effective in addressing the specific problems of trade finance experienced in the current crisis.

2. The economics of trade finance

By providing critical fluidity and security to enable the movement of goods and services, trade finance lies at the heart of the global trading system (Auboin & Meier-Ewert, 2008). Indeed, some 80 to 90 percent of all trade transactions are said to be financed.⁵ Trade finance mechanisms exist to support two fundamental aspects of the trading process:

- *Risk mitigation*: Any economic exchange involves an element of risk, principally that the seller will fail to deliver the goods or services as agreed or that the buyer will fail to pay or to accept the goods or services. In an international trading environment these risks are heightened by such factors as macroeconomic volatility, political risk, information asymmetry, and moral hazard. As a result, traders require facilities which mitigate and/or compensate for these risks.
- *Liquidity*: Suppliers normally face a gap in time between when they incur production costs and when they receive payment from the buyer. This creates a liquidity gap, which is often made greater by payment terms that grant buyers a period of days or weeks in which to make payment. In an international trading environment, this time period tends to be extended still further due to the relatively longer time required for products to reach their markets. Firms typically require access to credit to offset this liquidity gap.

The vast majority of trade finance involves credit extended bilaterally between firms in a supply chain or between different units of individual firms.⁶ However, banks also play a central role in facilitating trade, both through the provision of finance and bonding facilities and through the establishment and management of payment mechanisms such as telegraphic

⁵ Although this range of 80-90 percent is widely reported, the source and evidence for the claim is unclear.

⁶ According to messaging data from SWIFT, approximately 90 percent of trade finance occurs through inter-firm, 'open-account' exchange. However, a recent survey of banks by the IMF and BAFT (FImetrix, 2009) indicated that about 35 percent of transactions were bank-intermediated, with the remainder composed of open account (45 percent) and cash-in-advance (20 percent). Note, however, that some inter-firm transactions will bypass banks altogether.

transfers and documentary letters of credit. Complementing the activities of the banks are the following entities:

- *Export Credit Agencies (ECAs)*: ECAs are quasi-governmental agencies that generally provide cover – including partial or comprehensive insurance and guarantees – to exporters and banks. In most cases, ECAs do not provide direct funding but rather complement the role of banks by guaranteeing the trade financing they provide to exporters. An ECA’s operating mandate normally requires it to tie their support for trade to the national interests of their host country.
- *Private insurers*: Private insurers have recently played an increasingly important role in the market as providers of trade credit insurance, political risk insurance, and bonding facilities. Their involvement in providing short-term credit insurance is substantially greater than that of ECAs in all OECD countries, with the exception of Japan and Canada. Exporters typically use insurance policies as collateral to unlock working capital or accounts receivables; banks also often hold insurance policies on their L/C business lines.
- *Multilateral Development Banks (MDBs)*: The World Bank/IFC and a number of regional development banks (i.e., the ADB, EBRD, and IDB) operate formal trade facilitation programs designed to support their member countries.⁷ These programs extend and complement the capacity of banks, including developing country banks, to deliver trade financing by providing risk mitigation (by issuing guarantees) in new or challenging markets where trade lines may be constrained. The programs work exclusively with banks; however all are specifically targeted at small- and medium-size enterprises (SMEs) customers with no minimum transaction size.

Appendix 1 outlines the main products typically included in discussions of trade finance. These range from inter-firm credit to traditional forms of bank-provided credit (for liquidity and investment) to specific products aimed at mitigating the risks and addressing the liquidity gaps inherent in trade. Amongst the intermediated trade finance products, the most commonly used for financing transactions are letters of credit (L/Cs), whereby the importer and exporter essentially entrust the exchange process (i.e., payment against agreed delivery) to their respective banks in order to mitigate counterparty risk.

In the remainder of this paper, we will focus on inter-firm trade credit and bank-intermediated payment mechanisms and risk products. We exclude the more generic bank-intermediated credit products like investment and working capital as they are not necessarily tied directly to international trade transactions. Indeed, for investment capital and working capital, there is no clear distinction between products supporting international traders (i.e., exporters and importers) and firms operating solely in domestic markets. Reductions in the supply or significant increases in the cost of this type of financing will, of course, have a dampening effect on trade through direct effects on output and second-round effects on demand, which will in turn reduce the *demand* for trade finance.

Trade finance differs from other forms of credit (e.g., working capital, investment capital) in several ways, which may have important economic consequences during periods of financial crisis. As noted above, perhaps its most distinguishing characteristic is that it is offered and obtained not only through third party financial institutions (i.e., banks, insurers, ECAs) but also through inter-firm transactions. While traditional economic theory assumes that

⁷ In addition, the AfDB operates funding support on a country / project basis.

obtaining financing through suppliers would only be pursued where a company was constrained in their access to bank credit (due to the high implicit cost of inter-firm trade credit), most empirical evidence suggests otherwise (Petersen & Raghuram, 1997).

That inter-firm trade finance is so prevalent is typically explained by certain advantages that should enable trade partners to better assess and mitigate risk than third parties. The first of these is an *informational advantage* – it is perceived that trade partners should be in better position to assess the risk of non-performance, non-payment, or strategic default than banks, particularly where trading relationships have already been established. However, evidence on the extension of credit depending on the nature of products and services traded and on the market power of suppliers and buyers suggests that the informational advantage hypothesis may have only limited explanatory power (Giannetti, Burkart, & Ellingsen, 2007; Fabbri & Klapper, 2009). The second advantage is one of trust, or more specifically of *encapsulated interest*. Suppliers may be more willing to extend credit to a buyer than would be a bank as they have a greater interest in ensuring that the buyer stay in business and can continue to purchase from them in the future. The buyer, for their part, is less likely to engage in strategic default with a supplier of trade credit than with a bank, because they may rely on that supplier for critical inputs in the future (Giannetti, Burkart, & Ellingsen, 2007).

Of course, trading firms are not in the business of financing. They offer credit in order to enhance the competitiveness of their core product or service offering. As such a rational firm will only extend credit on the terms that allow them to maximise the profits of their core offering.⁸ As a result, market power should matter in the decision to extend or receive inter-firm trade finance. Suppliers facing little competition due to industry structure or the differentiated nature of their offering should be expected to extend less credit; similarly powerful suppliers should be expected to demand more favourable credit terms. Recent research shows that firms with less market power do indeed extend more credit (Fabbri & Klapper, 2009), and that a customer that generates a large share of its supplier's profits tends to have more credit extended to them (Giannetti, Burkart, & Ellingsen, 2007). On the other hand, Giannetti, Burkart, & Ellingsen (2007) also find that suppliers of services, which tend to be highly differentiated, extend more credit than suppliers of standardized goods. This may be due to the fact that services are almost impossible to divert and thus present no 'moral hazard', thereby limiting the risk of strategic default.⁹ In any case, this means that emerging market exporters, which are normally relatively small and more often sell standardized products, are likely to be forced to extend favourable credit terms whilst being less able to demand similar terms of their input suppliers.¹⁰

Relative to a standard credit line or working capital loan, trade finance – whether offered through banks or within the supply chain – is relatively illiquid, which means that it cannot easily be diverted for another purpose. This suggests that the risk of strategic default on trade finance should be relatively low. It is also highly collateralized – credit and insurance are provided directly against the sale of specific products or services whose value can, by and

⁸ Or more precisely, when the net return in terms of product profit for each additional dollar of trade credit extended is greater than the opportunity cost of holding (investing) that dollar (as derived from a discussion in Ellingsen & Vlachos, 2009).

⁹ This does not contradict the findings on the effects of market power, but rather suggests that other factors may in certain cases carry relatively more weight.

¹⁰ In fact, many emerging market exporters rely on capital equipment and inputs from developed markets. The suppliers from developed markets often require pre-payment or offer little to no financing as a result of their relative market power and perceived risk of developing country buyers. The net result is that emerging market exporters often face a substantial gap between trade credit extended and that received.

large, be calculated and secured.¹¹ Thus, in the case of default, the scale of loss on trade credit should be relatively low. In the specific case of supplier-extended credit, the risk of trade finance should be even lower. Buyers are less likely to default on supplier-extended credit simply because it is less able to be diverted to other uses than bank credit (which is somewhat more liquid). In other words, the ‘moral hazard’ is greater in the case of bank financing. In the event of non-payment, the supplier is likely to be in a position to obtain greater value from liquidizing the collateralized asset (i.e., the goods being traded) than would a bank. In both cases, the nature of the product being traded is important – the more differentiated the product the less it poses a moral hazard to buyers (Giannetti, Burkart, & Ellingsen, 2007) and the greater the relative liquidation advantage that would accrue to a supplier over a bank (Fabbri & Menichini, 2009).

Other unique aspects of trade finance may imply greater potential risk. The most obvious being its exclusively international context, which tends to raise the levels of both macro and counterparty risk. Cross border trades face macro-level risks which could impact the value of return (e.g., exchange rate fluctuations, changes to policy) and the likelihood of default (e.g., conflict, political upheaval). In addition, they face counterparty risk linked to the greater difficulty of enforcement across borders, exacerbated in many developing countries by poorly functioning institutions, particularly legal systems (Menichini, 2009). Weak cross-border enforcement raises the risk of strategic default on the part of suppliers, creating a problem of “credible commitment” across borders (Ellingsen & Vlachos, 2009). Finally, the cross-border nature of trade financing means that data on which to assess counterparty credit risk is often limited or non-existent (e.g., where there limited public credit registry coverage or public access to accounts or court proceedings). These risks may be compounded in the case of supplier-extended credit, by the fact that most suppliers operate in ‘credit chains’ – i.e., firms which extend credit to their suppliers in turn have credit extended to them from their suppliers. Inter-firm credit through these chains provides critical working capital to facilitate production and trade. However, they are vulnerable to shocks as they can quickly propagate problems across the chain (Kiyotaki & Moore, 1997; Raddatz, 2008), contributing to systemic risk. This may be particularly acute with the extension in the length and scope of credit chains that has resulted from the recent growth of global production networks (Escaith and Gonguet, 2009).

[3. The financial crisis and its impact on trade finance](#)

Before discussing the possibility of a trade finance ‘gap’ resulting from the global economic crisis, it is worth summarising briefly the causes and nature of the financial crisis to understand their possible trade finance ramifications. It has become clear that the global economic crisis has many culprits.¹² A series of interconnected factors combined to produce the crisis, some causative and some amplifying. First, a prolonged period of loose monetary conditions by the US in what appears to be a loss of control by the Fed. Second, a consequent mega imbalance between savings and consumption across the world (typified by the US-China trade imbalance). Third, a major financial regulatory failure, especially over the “non-traditional” segment of the financial industry that did not technically take deposits but grew so large as to carry massive systemic risk (the “shadow banking” of, among others, hedge

¹¹ This is of course not true in all cases. Specific problems occur with products that are perishable (i.e., whose value erodes quickly or immediately), that are extremely differentiated (i.e., where there is little or no market value outside the intended buyer), and for services (which are not generally able to be collateralized).

¹² This discussion borrows from the summing up by Marcelo Giugale of the special meeting of the "Growth Commission" on April 20-21, 2009.

funds and special investment vehicles). Fourth, a policy-induced mortgage market crash in the form of subsidies to housing, from the tax treatment of mortgage interest to the implicit guarantees of Freddie Mac and Fannie Mae. Fifth, pro-cyclical accounting principles that mechanically marked assets at market prices even when there was no longer a market. Sixth, myopic underestimation of tail-end risk ("black swans" events). Seventh, global lack of sound and liquid financial assets, which kept investors pouring money into the US. Eighth, agency problems between shareholders of financial institutions and their celebrity managers ("fake alpha" traders). Ninth, unbridled "animal spirits" in the form of greed and herd-like behavior by investors. And, tenth, securities so complex that only a few traders could tell good from bad ("snake-oil securities").

Although trade finance has neither been a proximate nor ultimate cause of the financial crisis, it quickly became a collateral damage.¹³ As the financial crisis unfolded, the availability of trade finance tightened and its cost rose because of growing liquidity pressure in mature markets and a perception of heightened country and counterparty risks. The contraction in trade finance was also fuelled by the loss of critical market participants, such as Lehman Brothers, a drying up of the secondary market for short-term exposure (as banks and other financial institutions deleveraged), and the volatility of commodity prices.¹⁴ The implementation of the Basel II Accord on banking laws and regulations, with its increased risk sensitivity of capital requirements, in an environment of global recession is also generally considered to have put additional pressure on banks to hold back on trade finance. Regardless of the impact of Basel II, as companies continue to be downgraded, higher risk premiums increase capital requirements, further reducing access to trade credit, especially for SMEs and banks in emerging markets.

The mechanics at play in the banking industry was particularly detrimental to trade finance. In order to deliver ever-higher return on equity, commercial banks during the 1990s and 2000s bought investment paper from investment banks (repackaged credits), which bore simultaneously a high yield (LIBOR plus 40-50 basis points for AAA rated paper) and a strong, albeit untested credit rating. The assigned ratings of this paper turned out to be highly unreliable and massive downgrading resulted. This destroyed substantial capital from banks, which raised regulatory issues (including compliance with Basel II), forcing banks to recapitalise through external shareholders and (ultimately for many) through government bailouts. Resulting concerns over bank solvency led to investors refusing to roll over short-term credit—including trade finance—and depositors withdrawing deposits, exacerbating the liquidity problems. Similarly, banks responded by engaging in a deleveraging exercise and withdrawing interbank lines hoping to restore their individual liquidity positions. This aggravated still further the liquidity problems, led to a temporary paralysis in the interbank market and a dramatic increase in the cost of capital to banks and subsequently to their customers. This can be seen most clearly in the spread of Libor (the interbank reference rate) over T-bills (US Government Treasury bills) in the period that followed the collapse of Lehman Brothers. This spread – which historically was in the range of 10-30 basis points – rose dramatically to over 400 basis points in the second half of 2008. Large-scale government intervention has since brought these spreads down, but they continue to trade at levels well above historical averages.

¹³ The discussion which follows in this paragraph is drawn from IFC Ltd. (2009)

¹⁴ The secondary market plays a key role in helping banks undertake transactions that are larger than their current credit and cross-border limits.

Notwithstanding various financial bailouts and stimulus programs, the evidence so far suggests that banks in developed markets are not recycling the cash and capital injections into new loans and guarantee programs, as they are managing their liquidity position tightly and anticipating further increases in the probability of default and associated rises in capital requirements (dictated both by regulatory regimes and the market). The result is that banks are largely refraining from long-term lending and the risk premium on short term lending is making it highly costly. Similarly in emerging markets, banks are undergoing this recapitalization process. However, in many of these markets central banks have neither the financial nor the budgetary resources to intervene in favour of their own domestic markets. As a result, the burden of recapitalization is falling on corporates. Banks are cutting their exposure to corporates and at the same time supporting their own recapitalization by cancelling credit facilities and refusing financing.

Thus, both developed and developing markets are facing liquidity constraints. Credit lines are being cut and so the flow of working capital and investment capital has been diminished. But what of trade finance specifically? Is there any evidence to suggest that it has been more or less affected than other forms of credit? Is there a significant 'gap' in trade finance?

4. Evidence of a trade finance 'gap'?

Evidence from the financial crises which engulfed various emerging markets in the late 1990s-early 2000s suggests that, despite it being a relatively low risk product, the supply of bank-intermediated trade finance declined well in excess of what would have been expected based on market fundamentals.

Trade finance has tended to be highly vulnerable in times of crisis. For instance, trade finance to developing countries collapsed during the 1997–98 East Asian financial crisis. Bank-financed trade credits declined by about 50 percent and 80 percent in the Republic of Korea and Indonesia, respectively, in 1997–98. In Indonesia, for instance, Auboin and Meier-Ewert (2008) report that, at the peak of the crisis, "Cross border" international trade finance for imports became a particular problem, where international banks reportedly refused to confirm or underwrite L/Cs opened by local banks because of a general loss of confidence in the local banking system. Given the high import content of exports (over 40 per cent in the manufacturing sector), Indonesia's growth of exports was seriously affected by the difficulty of financing imported raw materials, spare parts and capital equipment used in its export sectors. The financing of exports became an issue for enterprises which bear the exchange rate risk or the risk of non-payment from their clients. Argentina and Brazil found themselves in similar situations during the 2001–02 crisis episodes. During the late 1990's and early 2000's crisis episodes in Thailand, Korea, Pakistan, Argentina, Brazil and other emerging economies in, liquidity and solvency problems encountered by the local banking systems made it difficult for local producers to get pre- and post shipment finance, open L/Cs, obtain advance payment bonds and other forms of "domestic" trade finance. In Argentina and Brazil, trade credits declined by as much as 30–50 percent (Allen 2003).

With no comprehensive and reliable data on trade finance available, an overall assessment of trade finance developments in 2008-09 remains difficult. Selected information indicates that—along with global demand—trade finance flows declined in the last quarter of 2008. According to Dealogic, "structured" medium- and long-term trade finance instruments (such as syndicated loans) contracted by about 40 percent in the last quarter of 2008 compared with

2007.¹⁵ While structured trade finance represents only a fraction of medium- and long-term global trade finance, it appears to be indicative of a broader trend. On short-term trade finance, data from the Society for Worldwide Interbank Financial Telecommunication (SWIFT) indicate that the number of trade finance messages declined by 4.8 percent in December 2008, compared with the same period in 2007. This covers collection and cash letters as well as documentary credits and guarantees.

Findings from recent surveys conducted by the IMF and the World Bank paint a mixed picture. The IMF/BAFT survey of global banks (2009) indicates that 71 percent of banks reported a decline in the value of their L/C business, with an overall 8 percent decline in the year to October 2008 (versus 2007), accelerating to 11 percent during the period October 2008 to January 2009. This was significantly greater than the declines for export credit insurance and short-term export credit working capital (4 percent and 3 percent respectively in the latest quarter). Whilst 73 percent of banks recognized the role of falling trade demand on the decline in trade finance lines, more than half also attributed to a decline in available credit (i.e. a decline in supply). In a World Bank survey of 60 global buyers and suppliers in early 2009, 40 percent of companies indicated that foreign sales have been delayed or cancelled due to drops in new orders and 30 percent due to difficulties in obtaining trade finance. Findings from two other World Bank surveys of firms and banks in 14 developing countries across five regions¹⁶ indicate that although a drop in demand played a central role in explaining the decrease in trade finance flows, a number of firms, especially SMEs, reported to be also constrained by lack of trade finance/pre-export finance. Firms most affected are generally highly exposed to the international financial market (e.g., Brazil); SMEs that are being crowded out by large firms in accessing trade finance (e.g., Chile, Philippines); and firms that are highly integrated in global supply chains (e.g., Tunisia, Turkey, India, Indonesia). Firms that are least affected are those in low income countries with underdeveloped domestic banking system, especially in sub-Saharan Africa (e.g., Ghana). These developments are consistent with the data released by the Berne Union of export credit and investment insurance agencies, which indicate that, in the last quarter of 2008, new insurance commitments increased strongly for high-income countries and decreased for developing countries.¹⁷ Trade finance access and costs are more binding for capital goods exporters and intermediary suppliers within a global supply chain, and in commodity exporting economies where foreign exchange reserves have dropped. The top concern of most firms surveyed is the global economic slowdown and poor export prospects for 2009, delays in payments and pressure on cash-flows (which in turn weaken their financial position with banks).

At the same time, the price of trade finance and the need for securing transactions through guarantees and insurance has increased markedly. Tight credit conditions have allowed lenders to drive up interest rates for their loans in many countries, especially in emerging markets. When banks are under pressure, the capital needed for trade finance may be allocated elsewhere on balance sheets. With no secondary market to offload loans, balance

¹⁵ In total only 116 trade finance loans (excluding aircraft and shipping) were signed in the last quarter, the lowest quarterly count since 2004.

¹⁶ Indonesia and the Philippines; Turkey and Ukraine; Brazil, Chile and Peru; Egypt and Tunisia; India; and Ghana, Kenya, Sierra Leone, and South Africa.

¹⁷ Evidence of liquidity pressure on trade finance has also been reported by the banks participating in the IFC's Global Trade Finance Program. Major international banks participating in the program have been unwilling to assume a portion of the risk in a particular transaction, leaving the underlying risk to the IFC alone.

¹⁷ For example, confirmed L/Cs increasing from +15 basis points to +24 and export credit insurance rising from +9 to +19 basis points.

sheets have been constrained. In addition, global currency volatility and more rigorous counterparty risk assessment contributed to higher cost of trade finance for importers, exporters, and financial intermediaries. By the end of 2008, trade finance deals were offered at 300–400 basis points over interbank refinance rates—two to three times more than the rate a year earlier. The cost of L/Cs was reported to have doubled or tripled for buyers in emerging countries, including Argentina, Bangladesh, China, Pakistan, and Turkey.

This assessment was confirmed in the IMF/BAFT survey, which found widespread increases in pricing of all trade finance instruments relative to banks' costs of funds. More than 70 percent of respondents indicated that the price of various types of L/Cs increased because of an increase in their own institution's cost of funds (80 percent of respondents), an increase in capital requirements (60 percent of respondents), or both. Perhaps most importantly, the survey suggests that the cost of trade finance instruments increased rapidly in the quarter October 2008-January 2009,¹⁸ whilst during the same period, the premium on short and medium term lending actually *declined*.¹⁹ This seems to suggest a systematic reappraisal of trade finance risk and with it both a decline in the available supply of trade credit and an increase in its price (possibly to a level that cannot be supported by exporters).

Quantifying the perceived 'gap' in demand is difficult, due in part to a significant lack of data on trade finance transactions. This is made more difficult by the challenge of trying to disentangle the elements of possible market imperfections in the demand and supply components of the gap. To give a very general perspective on the scale of the gap, we can take the data from the IMF survey above which indicates an 11 percent decline in L/C volumes during the period from October 2009 to January 2009. Looking specifically at the bank intermediated share of trade finance (which represents 35 percent according to the IMF-BAFT survey), this suggests that trade finance volumes were down by as much as \$500 billion by early 2009. Given that actual declines in global trade during this period are somewhere in the range of 6-10 percent however, a supply-side 'gap' would be in the range of \$50 to \$220 billion – substantially less but significant nonetheless.

Another approach involves looking at data from the Bank of International Settlements (BIS) on short-term claims in non-local currencies.²⁰ This is a good proxy of trade finance flows amongst reporting banks in BIS countries because short-term (< 1 year) country risk exposure is predominantly trade finance be it through off-balance sheet confirmations of L/Cs or on-balance sheet money market advances. According to a study conducted by International Finance Consulting (IFC) Ltd., the data indicate a strong reaction by BIS banks during Q3 2008 (following a year of substantial growth in credit), reducing exposures in both developed and emerging markets. Set against the last 10 years during which banks only grew their loan books on the back of a wave of international expansion, these Q3/Q2 reductions are quite marked and potentially indicative of the seriousness of the banking crisis. Considering that the financial crisis has deepened throughout the first months of 2009, the reduction in the availability of trade finance is likely to have widened since year end 2008. A country-by-country simulation, assuming that sovereign risk ratings would drop two notches during

¹⁸ For example, confirmed L/Cs increasing from +15 basis points to +24 and export credit insurance rising from +9 to +19 basis points.

¹⁹ From +20 to +16 basis points and from +24 to +19 basis points, respectively.

²⁰ BIS covers 55 central banks, including the EU, US, most OECD and leading emerging markets

Q1/Q2 2009 when comparing to Q2 2008 suggests that the overall reduction in trade finance would come close to \$500 billion by the end of Q2 2009.²¹

According to the IFC Ltd. Study, countries the most likely to be adversely impacted by a lack of trade finance were some poor African countries, some larger and wealthier emerging market countries that were already benefiting from relatively sizeable commercial and financial funding (e.g., Egypt, Kazakhstan, Malaysia, Philippines, countries at war (Georgia), and the more vulnerable CEE-countries like Croatia, Serbia and Lithuania). With regard to the potential impact of a double notch downgrade, countries with either the best rating (AA/A), the ones belonging to the BB category and countries having a B minus rating are most likely to be severely hit.

Finally, in a recent attempt to disentangle the effects of trade finance from demand shocks using disaggregated bilateral import and export data from the US, Germany and Japan, Freund and Klapper (2009) show that trade in industries more dependent on inter-firm financing with countries more exposed to the crisis has not been affected more than overall trade. This suggests that trade finance has not been affected more than other types of financing that firms rely on. However, they also find some evidence that, in countries more affected by the crisis, trade in industries that are more dependent on short-term financing, broadly defined, has fallen more sharply. This implies that financial needs have played a role in affecting trade patterns during the crisis. However, the results do not necessarily suggest that trade finance has constrained overall trade growth—rather there has been a substitution away from firms in the most affected countries toward firms in less affected countries in industries with high financial dependence.

5. Is there a rationale for intervention to address a perceived trade finance 'gap'?

Although it is difficult to assess the nature and quantify the scale of a trade finance 'gap', what is clear is that trade finance volumes have not only declined significantly in nominal terms, but that they seem to have declined more than other forms of credit and perhaps more than what should be expected based on market fundamentals. A critical question is whether this is the result of market and/or government failures, and therefore whether there is a rationale for intervention or correction to address them.

A precondition for answering this question is to understand what a trade finance gap is and what could contribute to its existence. First, a decline in demand for trade finance cannot constitute a gap. A drop in trade finance could simply be the consequence of declining trade volumes, as long as these trade declines did not derive wholly and directly from *trade* finance constraints. If, for example, a South African producer/exporter cannot obtain a loan to purchase a new piece of capital equipment as a result of the seizing up of credit markets and/or a recalibration of market-level risk, this is likely to have a dampening effect on trade. However, it suggests a problem with credit markets more generally and not necessarily one of trade finance per se. In fact, the uncertainty brought about by the crisis might actually result in an *increase in demand* for trade finance (at pre-existing price levels), as trading partners resort to more formal, bank-intermediated instruments in order to reduce the higher expected

²¹ Assuming banks' capital would not be increased to cope with the unavoidable higher capital charges under Basel II.

probability of default in open account trade.²² Indeed, in the recent ICC Survey (ICC, 2009) 48 percent of banks indicated they had experienced an increase in demand for issuance of bank undertakings between the last quarter of 2007 and the last quarter of 2008 (despite stagnant trade volumes).

A potential gap would only emerge in a situation in which the supply of trade finance is insufficient to clear markets either because it is not being supplied at all (i.e., missing markets) or at prices that are temporary too high to meet demand in the market (i.e., overshooting markets). The first scenario corresponds to a decline in the supply of trade finance (at any price) despite the existence of demand; while the second scenario is that of a supply of trade finance at prices that firms are unwilling or unable to pay. Both scenarios suggest a real 'gap', which would result in deadweight loss for the economy. In these cases, intervention may be required.

'Missing markets': insufficient supply of trade finance

Whilst trade finance transactions are dispersed globally, overall volumes are quite highly concentrated in a few major international banks. Several of the largest global providers of trade finance, including Lehman Brothers, went under in the latter part of 2008. Their business would be expected to be reallocated relatively quickly amongst other suppliers, at least in an efficiently functioning market. However, the severe liquidity constraints and a collective collapse of confidence may, in the short term, mean that alternative banks were unable or unwilling to take on this business. Thus, there might well be a need for some transitory intervention to address this supply gap in the market. In addition, the poor risk management practices of banks like Lehman Brothers may well have had negative reputational effects on their customers seeking to find alternative trade credit lines in the wake of their collapse. Thus, customers may be facing a market sanction that has little to do with their individual risk profile. Such situations are a common motive for government intervention in many markets, including insurance and credit.

There are a number of reasons why bank deleveraging and risk-adjustment processes in response to the financial crisis might unfairly restrict the supply of trade finance more than other forms of bank credit, despite the fact that trade finance should be a relatively low risk product line.²³ If banks took a strategic decision to deleverage across the board, the relative supply of trade financing (in relation to previous periods) would be expected to fall. But its share of overall credit should remain broadly the same. Thus, a financial crisis should not necessarily alter the balance – i.e. banks should not be expected to offer less trade finance relative to other lines of credit – *unless* banks are systematically treating trade finance differently. But, as discussed previously, trade finance has traditionally been amongst the least risky lines of credit and insurance. If this is the case, by choosing to not adequately supply the trade finance market, banks are failing to maximize profits. Why might banks leave money on the table?

²² The economic crisis would be expected to threaten the viability of firms across supply chains and so would raise the overall probability of default in any inter-firm financed exchange.

²³ Bank deleveraging and risk-adjustment is not in itself a reason for intervention. Indeed, it is a critical process to restore stability and confidence in the financial system over the medium and long-term

Part of the problem may lie in the inability of the market to properly calculate the risks – in other words, it is not a problem of risk per se but uncertainty.²⁴ Uncertainty clearly affects international credit markets more so than domestic ones. And uncertainty plagues trade finance (at least bank-intermediated trade finance) more than other forms of finance because of the number and nature of the parties involved – for example in the case of L/Cs the bank is reliant on three parties two of which are located in foreign countries.²⁵ This uncertainty may not have been perceived as a problem when banks were well capitalized and profits high, but with the shock of the financial crisis and the subsequent reappraisal of risk, the problem of uncertainty becomes more acute.

Indeed, the distinctly international nature of trade finance, and its contribution to the problem of uncertainty, may be one of the main factors explaining the failure of markets to supply trade finance. There is evidence to suggest that the current economic crisis has resulted in a systematic recalibration of international risk relative to domestic risk. This stems in part from real perceptions of higher macro level risks. But much of it is linked to a collective lack of confidence and greater uncertainty, which appear to be more acute across international borders. Indeed, past financial crises were characterized by herd behaviour, in which developed country financial institutions withdrew rapidly from certain international markets based on risk perceptions. What has been unique in this crisis, however, is the widespread collapse of confidence. It is not just developed country banks lacking confidence in their developing country counterparts, but also the other way round—a key new development. This collective lack of confidence within the banking system may be squeezing trade finance customers more so than customers of traditional lines of credit because the most common forms of bank-intermediated trade finance, such as L/Cs, rely on *interbank* payments. This is particularly problematic for exporters in developing countries, who often lack access to other guarantees (e.g., through ECAs and Eximbanks) to cover the risks of non-payment from developed country importers. The problem of inter-bank trust suggests a need for intervention – at the very least in emerging markets – either through the use of guarantees to restore confidence or through the imposition of institutions to ensure transparency and enforcement.

Information asymmetries in international markets, particularly acute in trade finance due to lack of transparency (Allen, 2003; Auboin & Meier-Ewert, 2008), contribute to the uncertainty problem and may be another source of market failure.²⁶ In the best of times such information problems raise the risk of adverse selection. But as Ellingsen and Vlachos (2009) point out, the problem of ensuring a “credible commitment” from borrowers becomes more severe in a liquidity crisis due to the increased incentive to hoard cash. Extending their argument to the current crisis – characterized by large lending spreads and low returns for most private investors – banks may react by substantially reducing the availability of trade credit and diverting it to credit lines in which the counterparty’s incentive to hoard cash is relatively lower. Thus the risk of strategic default is high, particularly so if there is less trust between banks operating across borders. This ‘moral hazard’, might be contained through intervention aimed at reducing the incentives to divert credit for other purposes.

²⁴ Here we refer to Knight's (1921) classic distinction between risk - i.e. where the probability of an outcome can be calculated mathematically - and uncertainty- i.e. where the probability of an outcome cannot be calculated (and so cannot be insured against).

²⁵ Their customer, the foreign trade partner, and the foreign bank

²⁶ It is normally difficult to get reliable information on the balance sheet of a foreign company – especially an SME – or a foreign bank

The short-term nature of trade finance may also contribute to its ‘unfair’ treatment relative to other forms of bank credit. With the liquidity crisis forcing banks to recapitalise as quickly as possible, trade finance credit lines – the majority of which have terms less than 180 days – are relatively easy to call in and so tend to be the first lines of credit banks cut. Indeed, in a liquidity crisis it may be rational for banks to forego profitable lending in order to protect liquidity – i.e., the value of assets (cash) today may be greater than the value of a profits tomorrow. This may be particularly true in the case of trade finance where profit margins are historically low. Whilst banks may maximize their own gains by choosing liquidity over loans, in doing so they may fail to take into account the wider benefits to their customers in terms of increased productivity and improved liquidity, and their subsequent spillovers to firms down the supply chain.²⁷

Finally, there may be strong political-economy factors which contribute to the insufficient supply of trade finance during the financial crisis. As much of the response to the crisis has taken place at the national level, through central banks providing substantial liquidity to domestic banks, there is likely to be strong political pressure and moral suasion to use these funds to support domestic lending. Informal requirements for lending locally have been introduced in several countries. In the case of trade finance, funds made available to banks in Country A to support trade finance would generally be used to support the transactions of buyers in Country A, with the principal beneficiary being the seller in Country B. Despite the global benefits, in any individual country there is likely to be little political will to supply funds for such a purpose. Actually, the state interventions necessitated by the financial crisis have had international repercussions, most notably when governments extend guarantees to financial intermediaries—that distorts capital flows, and through capital and other support measures—than often favour national institutions and have a bias towards local lending and local interest (Claessens 2009). Interventions do create distortions, not only domestically but also across borders, leading to various competition effects across segments of the credit system. This suggests the possible need for intervention to re-establish the level playing field and support collective action in this regard.

In the case of inter-firm trade finance, there may also be situation of “missing markets” in the sense that there is no “market” for inter-firm trade finance. When firms decide to hold back on extending credit for fear of default, buyers would be forced to pile into the formal, bank-intermediated market (as noted earlier). This could really exacerbate the gap between market demand and supply of trade finance.

‘Overshooting markets’: supply and demand not clearing

The largest piece of the trade finance ‘gap’ may result not from a lack of demand or supply, but of the two failing to meet – specifically, where the prices at which banks are willing to supply trade finance are too high to clear market demand. The result is that there is substantial demand at prices, which the market will not supply. Again, there appear to be specific aspects of trade finance which may make it relatively more prone to this form of market failure, particularly during a financial crisis.

In this case, the market failure may be linked to synchronous price rigidities affecting trade finance suppliers and their customers. On the supply side, systematic recalibration of risk has essentially forced a downward shift in the supply curve for all kinds of credit. The short-term collapse of confidence and the resultant high costs of finance (i.e., the large spreads on

²⁷ This may be particularly relevant during a recessionary period when spare capacity is likely to be high.

interbank lending) both elevate the price floor for lending and makes it more rigid. As discussed previously, banks may have an incentive to hoard cash rather than lend during a liquidity crisis (Ellingsen & Vlachos, 2009). But why are traders not willing to take on the higher costs of credit? If risks were simply adjusting to new market realities, its cost should at least in part be passed on to their customers. Here price rigidities may come into play. The current economic crisis appears to be bringing with it strong deflationary pressure. Many parts of the developed world are already experiencing sharp contractions in inflation and there are fears of structural changes in consumption, with long-term deflationary impacts like that experienced in Japan over the past twenty years. As a result, market prices for most goods are sticky, with pressure downward if anything; thus, there appears to be little scope for traders to pass on the higher costs of trade finance. In the short term, traders may absorb these additional costs fully in order maintain existing business; however, if prices remain sticky they are unlikely to be able to maintain this in the medium term. This suggests that the problem of market clearing may yet become worse if risk premiums keep the cost of trade finance high. Finally, it may be worth noting that given the highly collateralized nature of trade finance, these same deflationary pressures may also contribute to the level and rigidity of trade credit prices, as banks may adjust downward their calculations of the liquidation value of the assets collateralised through trade loans.

Changes in regulatory regimes may also temporarily affect the efficient functioning of markets – specifically setting the floor price above that which would clear the market. There is some evidence to suggest that the implementation of Basel II may be having just such an effect on the market for trade finance by exacerbating the tendency toward geographical deleveraging. Major international banks have recently criticized Basel II not only for restraining credit during a time where liquidity is already a problem, but specifically for treating trade finance in a way that essentially imposes an excessive capital “tax” on trade (D’Hulster & Stephanou, 2009). Basel II aims to increase the risk sensitivity of the minimum regulatory capital requirements of banks. Whilst it is not specific to trade finance per se, the way in which Basel II characterizes risk (i.e., focusing on counterparty risk – normally proxied simply by country risk – rather than performance risk), penalizes trade finance as the risk premiums on international transactions tend to be relatively high, despite the low performance risk of trade finance. The case is aggravated still further for trade involving developing countries, which generally have the highest risk ratings. In a financial crisis, where general market risk is heightened anyway, the impact is multiplied. Thus Basel II may raise the cost of trade finance to such a degree that they restrict their supply of it, or offer it only at prices which are not likely to clear demand. It should be noted, however, that only developed country banks have implemented Basel II and even with those banks, substantial discretions exist which allow national regulators to apply the rules flexibly, particularly to lower the capital requirements for short-term exposures like trade finance (D’Hulster & Stephanou, 2009).

Virtually all of the market failures discussed above derive from the severe crisis of confidence affecting markets, leading to greater uncertainty, recalibration of risks, and changed lending behaviour. Such a problem of confidence is generally a transitory phenomenon. Markets are already undergoing an adjustment process in terms of the view that risk is assessed and treated. In any adjustment it is likely that markets will overshoot the equilibrium for a time. In this case, the result is that where markets may have systematically underestimated risk in recent years, they may well be overestimating it in the short term, before settling in to a longer-term equilibrium. In this process of adjustment, there is reason to believe that trade finance is being hit particularly severely. Although the problem is a

transitory one, it has real costs, for trading companies and for the economy more widely. There may be a case for government intervention that can speed up the adjustment process or that compensates the short-term losers.

Two final rationales for intervention in support of trade finance lie in the potential multiplier effects inherent in it. The first of these relates to the importance of credit chains and the propagation effects of these chains. In the face of a demand of liquidity shock – either at the macro or sectoral level – inter-firm credit chains act as a contagion, transmitting the shock quickly across the supply chain. Because of the strong interaction effect between bank-intermediated credit and inter-firm credit, a banking sector liquidity shock not only reverberates down supply chains, but subsequently resonates back into the financial system as a result of increased levels of default (Escaith and Gonguet, 2009). Thus, trade finance may serve to amplify and prolong the initial crisis. In the case of global production networks, these credit chains also concentrate the effects of an economic crisis on firms at the upstream end of the chain, which tend to be commodity suppliers in developing countries. As intermediate suppliers experience delays in receiving payment from end customers in developed countries, they seek to extend payment periods down the chain, with the result that the upstream supplier experiences the greatest liquidity crunch. And the negative feedback loop between the banking system and supply chain is greatest in open economies, which are integrated in global production networks (Escaith and Gonguet, 2009). At the same time, an easing of the shock (e.g. through the injection of liquidity or a demand stimulus) can also spread quickly across the chain. The nature of these chains means that no individual seller is likely to fully take into account the cross-supply chain gains (including demand as well as liquidity gains) of extending credit. As such, in a liquidity crisis there is likely to be an insufficient provision of inter-firm trade credit along a supply chain.

Second, the complementary nature of trade finance and other forms of firm financing (e.g., investment and working capital) suggests that intervention to support trade finance could have a multiplier effect. Ellingsen and Vlachos (1999) point out that because trade credit cannot easily be diverted from production, it actually reduces the likelihood of default on other forms of firm-level financing. Thus, interventions to increase the flow of trade finance (with the caveat that this does not come with a corresponding increase in the default rates of trade credit lines) may have the effect of reducing the cost of capital more generally, or at least of improving banks' liquidity positions.

[6. What has been the experience with intervention?](#)

The international community has had significant experience in dealing with financial crises, most recently as a result of the Asian crisis and further emerging markets crises in Latin America, Russia, and Turkey amongst others. As such, a wide range of policies, tools, and programs have been implemented to address problems in trade finance markets, targeted at specific issues such as liquidity, risk perception, and collective action (Box 1).

Box 1. Brief Review of Intervention in favour of Trade Finance¹

Domestic government interventions: A number of countries intervened to support trade finance both by providing liquidity to the domestic banking sector and by financing guarantees aimed at restoring confidence of international banks in the domestic banking system. Examples include:

- *Brazil:* The Central Bank provided US\$1.8b from August 2002 to provide liquidity to trade finance markets (targeted at pre and postshipment finance). Credits were offered on a short-term basis and at market interest rates; once the private sector market appeared to be normalizing in early 2003, the credits were stopped.
- *Indonesia:* In late 1998, the Central Bank deposited US\$1b in 12 foreign banks as a guarantee to export L/Cs issued from Indonesian banks, in order to address the problem of international banks refusing to underwrite L/Cs from Indonesian banks. They also provided a short-term hedging facility for exporters to provide additional liquidity. These facilities were seen to be relatively effectively. The government also offered insurance to trade financing extended by Indonesian banks, but this service was poorly designed and resulted in margins that were too high. As a result it was little used.
- *South Korea:* In 1997, the Bank of Korea provided US\$2.3b to commercial banks to finance imports of raw materials and purchase export bills of exchange from exporters.

ECA and Eximbank interventions: Some bilateral support was provided through credit agencies but these were relatively limited. Indeed, subsequent analysis of the Asian financial crisis concludes that ECAs did not contribute significantly to resolving problems in the supply of trade finance (Stephens, 1998). Examples include:

- *Japan - Indonesia:* Japan Export Import Bank (JBIC) provided financing via the Bank of Indonesia to guarantee L/Cs issued by domestic Indonesian banks. Strict qualification requirements restricted its take up in the market, although it improved as some of these issues were addressed.
- *US - South Korea:* The US Eximbank extended US\$900m short-term credit to South Korea in 1998 to be used as insurance on US auto exports to the country. However, by simultaneously reducing long-term insurance in the market the intervention offset its benefits and may have contributed to undermining the perceived credit-worthiness of the country's banking system.

Multi-lateral Development Bank interventions: MDBs facilitated a wide range of interventions, providing both liquidity as well as guarantees to reduce market risk perceptions. Examples include:

- *ADB - Thailand:* The Asian Development Bank extended a \$1 billion export financing facility to Thailand consisting of two 5-year loans to the Thai Export-Import Bank: a \$50m loan from the ADB, and a \$950m syndicated loan by 10 international banks and partially guaranteed by the ADB. Both loans were lent directly or through selected Thai financial intermediaries to provide pre- and post-shipment financing to Thai exporters, particularly SMEs. The loan was only partly successful: it was wound up early in part due to faster-than-expected improvements in the liquidity in the banking system, but design problems and pricing also hindered its impact.
- *ADB-Pakistan:* In 2000, the ADB made available a \$150m Political Risk Guarantee Facility to international banks confirming Pakistani L/Cs. The facility provided open access to any international bank, covering only political risks, while leaving commercial risks to the banks. This facility was effective and was the precursor to the ADB's Trade Facilitation Programme (TFP).
- *EBRD-Eastern Europe:* In 1999, the European Bank for Reconstruction and Development launched its Trade TFP, which has so far guaranteed and financed more than 1,300 foreign trade transactions in Central and Eastern Europe and the CIS, totalling more than 900 million Euros. Most of the support provided under the TFP has been effective.
- *IFC and IADB-Brazil:* In August 2002, the International Finance Corporation provided separate credit lines and syndicated loans to banks, e.g. \$200 million to Banco Itau and \$275 million to Unibanco, to help Brazil address the shortfall in commercial credit. The money was to be lent to private sector entities to fund Brazilian trade-related activities. Similarly, In March 2003, the Inter-American Development Bank extended a loan of \$110 million to Banco Bradesco as part of the joint IDB-IFC initiative to restore access to trade finance. The loan funded pre- and post-shipment financing for Brazilian companies and their subsidiaries abroad.

Several important lessons can be drawn from the successes and failures of past interventions, as drawn from Allen (2003):

- Interventions to support trade finance must be accompanied by macro and structural reforms;

- Where the domestic banking sector is weak, interventions that rely on the sector for intermediation are likely to fail;
- The importance of targeting pre and post export liquidity; in the absence of this, there may be no trade transaction to finance ;
- The importance of timely implementation of initiatives, including winding them down when markets begin to normalize;
- Ensuring that interventions are designed so that they are used by the specific parties being targeted; and
- Ensuring that pricing is appropriate, balancing between the risks of moral hazard and failing to complete markets.

Whilst the current economic crisis is still unfolding, a number of domestic and multilateral interventions have been launched. As part of the financial sector bailouts, given the rapidly deteriorating trade finance landscape, a number of national authorities started to intervene to provide blanket liquidity to banks and targeted trade credit lines and guarantees for exporters that have been cut from trade finance. For instance, in October 2008, Brazil's Central Bank was one of the first to issue loans in an attempt to provide relief to exporters. Appendix 2 provides an overview of the trade finance measures adopted by governments to mitigate the impact of the trade finance crisis. Governments have also increased their support of ECAs to reflect substantial increases in demand in the wake of the drying up of credit from traditional sources.²⁸ However, the financial interventions did not always lead to the desired results, because banks were concerned about increased counterparty risk and remained cautious, with many preferring to use the injected liquidity to purchase government paper. Moreover, as noted above, as developed countries bailed out their banks, there has been political pressure to finance domestic transactions rather than provide trade finance that goes to developing countries.

Coordinating national interventions could send a powerful signal to market participants that could help restore confidence and eventually lower the overall cost of public intervention. When central banks lack the foreign exchange reserves to provide trade credit lines, other central bankers could offer currency swaps to help keep normal trade flows. The intervention of the U.S. Federal Reserve in support of Brazil and Mexico through currency swaps in late 2008 was a case in point. ECAs from developed countries could be further mobilized to provide short-term insurance, and lending when possible, for bilateral trade credits. Promoting the use of local currencies in intraregional trade to reduce the dependence on the U.S. dollar and the euro as currencies of payment is another option to consider for reducing pressure on foreign exchange. When these steps are not possible, hard-pressed countries could consider depositing a collateral fund offshore to encourage acceptance of L/Cs by local importers, as the Indonesian Central Bank did during the 1997–98 Asian crisis. At the regional level, APEC established the Asia-Pacific Trade Insurance Network at the end of 2008 to facilitate regional trade. The program provides a mechanism for reinsurance cooperation amongst ECAs in the region, with Japan's NEXI as the main underwriter.

²⁸ Amongst those that have launched new programmes are: the US, Germany, France, the Nordic countries, Hong Kong, China, and Chile. These include some specific bilateral agreements to provide targeted funding through Exim banks, including US\$20 billion between the US and China and US\$3 billion between the US and South Korea.

In parallel, there is scope for financial institutions and enterprises to promote other sources of short-term financing. Factoring is a type of supplier financing that could be particularly suited to a heightened risk environment. Because factoring involves the outright purchase of invoices at a discount rather than the collateralization of a loan, the creditworthiness of the seller becomes less important in the decision process than the value of the seller's underlying assets. Hence, factoring could become an instrument of choice when firms in developing countries have difficulty accessing trade financing. While still a relatively small source of credit in emerging markets, the crisis could be an opportunity to expand factoring in both low-income and emerging countries.

For sectors and products highly integrated in a global supply chain, supply-chain finance solutions should remain a relatively stable source of working capital and thus financing. Corporations already use credit across multiple transaction types as part of daily operations. Since these credits are not intermediated through banks and their underlying risks are borne among party constituents (absent factoring and insurance), they should be more resilient to the credit crunch, at least to its initial direct effect. They will, however, remain vulnerable to the global economic and financial prospects.

Development institutions have taken actions to help ease access to trade finance. For example, in response to the financial crisis, the International Finance Corporation (IFC) has, among other actions, doubled its Global Trade Finance Program to \$3 billion to facilitate trade by providing guarantees that cover the payment risk in trade transactions with local banks in emerging markets. To deal with the liquidity constraint, the IFC has also introduced a Global Trade Liquidity Pool, which, in collaboration with official and private partners, is expected to provide up to \$50 billion of trade liquidity support over the next three years. Regional development banks such as the African Development Bank (AfDB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), and the Inter-American Development Bank (IDB) have also launched or expanded their trade finance programs to extend guarantee facilities to international banks confirming local banks' L/Cs, with a focus on small transactions in low-income countries that have little access to international markets and no or low international ratings.

The international community has recognized the importance of dealing with trade finance concerns in a coordinated fashion. As noted earlier, at the G20 meeting in London, in April 2009, leaders reached agreement to ensure \$250 billion of support for trade finance. This was to come from programs launched by multilateral development banks (MDBs) as well as additional funds from national governments to support domestic banks and ECAs. G20 leaders also asked their regulators to make use of available flexibility in capital requirements for trade finance under Basel II.

[7. What is the most appropriate approach for intervention to support trade finance in the current crisis?](#)

As discussed in Section 4, the current economic crisis has a number of distinct characteristics which are important to take into account when considering any interventions. Chief amongst these is the widespread and rapid collapse in confidence across the financial system. It is not only developed country banks fearing default of their emerging market counterparts, but vice versa; indeed, in this crisis the lack of interbank trust is equally acute *within* developed country markets. Moreover the confidence problem spread quickly outside of the banking

sector to impact the trading sector. In addition, several unique aspects of trade finance must also be considered. Amongst these are its international nature, information gaps leading to acute problems of uncertainty, and the important role of inter-firm credit chains.

Whilst the scale of the supply gap is unclear, its existence is not. As Section 5 outlined, there appears to be a case for intervention to support trade finance, at least on a temporary basis. Section 6 shows that actions are already being taken. It is of course important to ensure that any interventions are as effective as possible. Based on the discussions in this paper, following is an overview of 10 principles for intervention to support trade finance in the current economic crisis.

Targeted interventions

The experience of previous crises suggests that most successful facilities and initiatives were designed to target specific market failures. One clear lesson that has already emerged from this crisis is that any money flowing into the banks – unless it is properly ringfenced and conditions are attached – is at risk of being used for recapitalisation rather than lending. This can be overcome by asking the banks to set up ‘special purpose vehicles’ for trade finance which would be required to use the new money / risk capacity for the sole purpose of trade finance with emerging markets.

Holistic response

Notwithstanding the need to target interventions to avoid moral hazard on the part of banks, it is also important to ensure that interventions to support trade finance do not occur in isolation. Without corresponding measures to address wider liquidity issues of banks and to stimulate lending for investment and working capital purposes, neither the banks nor their customers who participate in the trade finance market will be healthy enough to do so. Firms require access to working capital, at minimum in the form of pre- and post-export financing. And clear complementarities have been shown to exist in the banks’ loan portfolios between trade finance and other forms of credit.

Integration with existing institutions

Most trade finance operates within fairly well-established institutional relationships using simple products, such as L/Cs. Effective interventions in past crises have generally worked within these existing market practices and documentation and did not seek to reinvent mechanisms or to apply unduly complicated documentation or practices. This is particularly important given the short-term nature of trade finance.

Collective action

The interdependencies in the financial system are more than ever demanding a coordinated effort to revive trade finance flows. This of even greater importance due to the international, interbank nature of trade finance. And in this particular crisis, where uncertainty knows no geographical bounds, the need for collective action to offset herd behaviour in the markets is paramount. Whilst national government interventions to support liquidity in the domestic banking systems will no doubt be crucial, coordinated international action is required to address collective risk perceptions. In past crises, central banks of individual countries deposited funds in offshore banks in order to guarantee trade finance underwritten by their domestic banks. In this crisis, however, trade is too integrated and the contagion too widespread for such actions to be effective. As such, MDBs are likely to be the keystones of

collective action. Finally, in the absence of coordinated action, trade finance may be penalized further by the domestic bias of bank bail-out funding.

Addressing both risk and liquidity

As discussed above, the current crisis requires interventions that address real liquidity constraints (for banks and firms) as well as those that perceived escalation of counterparty risk. For those trade finance transactions that require liquidity, targeted trade finance support can be provided to banks by buying back existing trade finance loans at book value and asking participating banks to re-use this new funding under ringfenced structures for trade finance cash transactions. On the risk side, the use of partial guarantee programmes – like the World Bank’s Global trade Liquidity Program – which help offset the heightened risk premium in the current market, may be effective to catalyse trade finance lending (as long as beneficiaries are relatively tightly defined).

Target emerging markets but recognise the importance of developed market banks

Looking only at what can be done in emerging markets to get trade finance moving will not generate a real impact, which is to get banks in the developed world to start lending again in support of trade. Without attention to international banks’ involvement in trade finance and acknowledging their huge distribution power and networks as fundamental part of the global supply chain, initiatives which are devised to address the crisis may be too fragmented to have more than a marginal impact. In addition traditional solutions which might aim to get money into the hands of the emerging market banks or corporates will have limited impact as the money will merely re-cycled to the developed market banks as they continue to deleverage. As the trade finance gaps may be expected to widen considerably in the short term, any new risk capacity should be distributed by institutions having the necessary processing capacity and technical expertise. As such, financial institutions in developed markets will be the key players.

Promoting inter-firm credit

Given the scale of inter-firm trade credit, this market may offer an important short-term source of credit in the face of constraints on bank-intermediated credit. It may be particularly valuable given the level of uncertainty in the market, due to its informational and encapsulated interest advantages. This channel will, of course, only be an option for some firms and in some sectors.²⁹ But the inter-firm credit market is facing similar problems of liquidity and heightened risk perception as the bank-intermediated market. Moreover, interventions to promote inter-firm credit may be extremely difficult to target and administer. One option may be to promote greater use of factoring and forfeiting.

Level playing field in terms of risk weight

As a result of Basel II, market dynamics, and domestic political pressures linked to bank bailouts, banks are increasingly going to give preference in their capital management processes and lending decisions to either the domestic customers or their customers with a favourable risk profile. One way to offset the risk handicap trade finance counterparties in emerging markets incur as a result of this is to provide partial risk guarantees from a AAA-

²⁹ Specifically smaller, more specialised firms without long-established trade relationships, particularly those from emerging markets, are less likely to be able to turn to inter-firm credit. These traders will need to access bank-intermediated credit. As such, interventions in that market should aim, where practical, to target these beneficiaries; bearing in mind the cost implications and also the fact that such exporters may represent a higher risk profile than the overall sector

rated institutions, along the lines of the programs offered by the MDBs. In the short term at least, it may also be helpful to promote continued flexibility in the implementation of Basel II risk weighting in order to give some relief to trade finance.

Improving transparency

It is quite clear that Basel II rules on the treatment of trade finance have resulted in a somewhat unfavourable treatment of this asset class as compared to other types of business lines. However it is also clear that the lack of availability of loss data for trade finance transactions as well as the ‘one size fits all’ approach by participants that all trade is low risk, is a major factor in this problem. This can only be remedied by a concerted effort on the part of all the major trade finance banks to collaborate in the collation of default and loss given default data so that appropriate relief can be argued with regulators and BIS. The creation of a ‘Berne Union’ of banks forum which allows regular sharing of such data confidentially could be a potential long-term solution. In inter-firm credit markets, extending ‘public credit registers’ and voluntary exchange mechanisms to developing countries, where these systems are often still being designed, and promoting the sharing of this information across trading countries could be an important long-term solution. By acquiring information about repayment history of the customer across a range of suppliers, the seller firm may increase the information on which to base its credit extension decision

Avoiding moral hazards and wasteful subsidies

Achieving the desired aims of stimulating greater trade finance lending is a significant enough challenge. Doing so without creating substantial moral hazards or subsidising ‘winners’ is an even greater one. This challenge can be partly addressed through targeted programs which restrict access to banks and firms who really need them. However, experience has shown that achieving this often results in complicated programs that end up being too cumbersome and costly to be taken up in the market. Amongst the practices which have been shown to be effective in limiting moral hazards and wasteful subsidies are:

- *Limiting timeframe*: programs should stay in the market only as long as needed and avoid crowding out commercial banks and displacing private activities; identifying triggers for when the market is returning to normal (e.g., the evolution of credit spreads) and planning a ‘soft exit’ from the market is critical.
- *‘Market rate’ loans and shared risk*: Sharing rather than fully underwriting risk is preferable to avoid moral hazard on the part of banks. Similarly offering loans at a reasonable market rate (to the degree the issue is one of supply rather than price per se) helps avoid adverse selection in loans.

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APPENDIX 1: Overview of trade finance products

Category	Product	Description
Inter-firm / supply chain financing	Open account	<ul style="list-style-type: none"> Contract is settled between importer and exporter without third party security or risk management arrangements, either directly or (most commonly) through transfers between their banks; one party (normally the exporter) extends credit by way of accepting payment after a certain (usually 30-90 days)
'Traditional' bank financing	Investment capital	<ul style="list-style-type: none"> Medium term finance for investment in the means of production (e.g. machinery)
	Working capital	<ul style="list-style-type: none"> Short-term finance provided to cover ongoing costs (addressing mismatch in timing between cash receipts and costs incurred) including payment of suppliers, production, transport costs, etc.; also used to cover risks of (or real) delays in payments, effects of currency fluctuations, etc.
	Pre-export finance	<ul style="list-style-type: none"> Similar to working capital but bank takes a security interest in the goods being shipped and a right to receive payment for those goods directly from the importer; typically used for commodity production.
Payment mechanisms and liquidity	Letter of credit- usance	<ul style="list-style-type: none"> Provided by importer's bank to exporter's bank; when exporter fulfils L/C conditions the relevant documents of proof are submitted to exporter's bank who submits them to importer's bank, who remits funds to exporter's bank which then pays exporter (importer subsequently remits funds to importer's bank). This is designed to mitigate the counterparty risk inherent in open account transactions.
	Letter of credit- usance	<ul style="list-style-type: none"> Operates similarly to L/C – sight but is designed for contracts where payment by importer is made in instalments after delivery.
	Supplier credit	<ul style="list-style-type: none"> Extended or deferred payment terms offered by the supplier to the buyer, but typically linked with bank financing to enable exporter to receive cash on delivery (e.g. factoring)
	Buyer credit	<ul style="list-style-type: none"> Term financing provided to finance cash payments due to supplier
	Countertrade	<ul style="list-style-type: none"> Addresses liquidity (in particular access to foreign exchange, and so particularly relevant in emerging economies) by promoting two-way trade of equivalent value merchandise (e.g. barter, buy-back, counterpurchase)
	Factoring and forfaiting	<ul style="list-style-type: none"> Factoring is a financial service offered that purchases an exporter's invoices or accounts receivable at a discount and assumes the risk of non-payment; addresses both liquidity and risk mitigation Forfaiting is similar to factoring but typically involves medium-term accounts receivables for exporters of capital goods or commodities with long credit periods.
Risk management	Advance payment guarantees	<ul style="list-style-type: none"> Security provided to importer when exporter requires mobilisation payment; this is usually a matching amount callable on demand.

Category	Product	Description
	Performance bonds	<ul style="list-style-type: none"> • Security provided to importer (normally in case of capital goods export), callable in the event of exporter's failure to perform (compensates for costs of finance, re-bidding, etc.)
	Refund guarantees	<ul style="list-style-type: none"> • Security provided to importer when importer is required to make stage payments during manufacturing by exporter (normally in case of large capital goods export), callable in the event of non-delivery of goods.
	Hedging	<ul style="list-style-type: none"> • Security (e.g. through a financial instrument issued by a bank) to offset market (rather than counterparty) risks, including fluctuations in exchange rates, interest rates, and commodity prices.
Export credit insurance / guarantees	Export credit insurance	<ul style="list-style-type: none"> • Insures exporters against a range of risks including: non-payment, exchange rate fluctuations, political risk, etc.; Can be used to securitize other forms of trade and non-trade finance from banks
	Export credit guarantees	<ul style="list-style-type: none"> • Instruments to protect banks providing trade finance; facilitates the degree to which banks can offer trade finance products (e.g. to SMEs without sufficient export track records)

APPENDIX 2: Overview of trade finance measures taken by governments to mitigate the impact of the trade finance crisis, as of April 2009

Governments are taking measures to make trade finance more accessible and affordable and also to support industries through potentially trade-distorting measures. With the liquidity crunch, international traders are requiring more secured means of payments than open accounts, putting extra demand for documented transactions (e.g., L/Cs) and guarantees. SMEs in developing countries are particularly challenged in coping with the rapidly changing risk landscape.

Summary Table

Country	Trade Finance Measures
Argentina	√
Brazil	√
China	√
Ecuador	√
EU	√
France	√
Finland	√
Germany	√
Italy	√
Netherlands	√
Norway	√
Portugal	√
Indonesia	√
India	√
Israel	√
Japan	√
New Zealand	√
Korea	√
Serbia	√
Taiwan	√
Thailand	√
US	√
Vietnam	√
Asean, Japan, China, Korea	√
ADB	√
AfDB	√
G20	√
IDB	√
Islamic Development Bank	√
World Bank	√
IMF	√
EBRD	√

Note

1. **Trade finance** includes loans and guarantees, forex allocations, subsidies and other government financial support, including tax reductions and rebates.

Country	Trade Finance Measures
Argentina	<p>03/2009</p> <p>Action: introduce new facility that would allow the central bank to offer repurchasing-agreement contracts in dollar to allow bank use their foreign-currency deposit. It is expected that \$4 billion in trade finance would be available as a result of the operation</p>
Brazil	<p>10/20/2008:</p> <p>Action: Brazil's central bank issued \$1.62bn (£940m) in six-month loans on Monday in an attempt to provide relief to exporters.</p> <p>12/03/2008:</p> <p>Action: The Central Bank sold \$1.96 billion on offer in a dollar repurchase agreement auction aimed at increasing trade finance lines that have been squeezed by the global credit crisis. The bank sold the repos at 2.382 per dollar and will buy them back on Jan. 16, when participating banks provide guarantees that they used the funds to extend trade financing to exporters.</p> <p>02/09/2009</p> <p>Plan: Brazil's central bank will offer up to \$1 billion in dollar repurchase agreements in an auction aimed at increasing trade finance lines squeezed by the global credit crunch.</p>
China	<p>12/24/2008:</p> <p>Plan: Exporters will be able to increase their advances on foreign-currency payments to 25 percent from the current 10 percent, Importers' quota for deferred foreign-currency payments also rose to 25 percent from 10 percent.</p> <p>01/01/2009:</p> <p>Plan: HK will seek legislative approval by late January for the government to guarantee banks' issuance of \$12.9 billion worth of letters of credit for exports.</p> <p>02/01/2009</p> <p>Action: Suzhou Industrial Park provided a special guarantee fund of 50 million yuan in the support of processing trade in surrounding areas of SIP</p> <p>02/19/2009:</p> <p>Action: State Administration of Foreign Exchange (SAFE) will encourage trade credit and cross-border financing, and take steps to match these actions with proper risk management</p> <p>12/15/2008</p> <p>Action: Hong Kong: Under a time-limited \$100 billion Special Loan Guarantee Scheme, the maximum amount of loan that each enterprise may obtain is \$6 million, within which \$3 million can be used as a revolving credit line such as commercial overdraft and letter of credit. All companies except listed companies may apply.</p> <p>03/12/2009</p> <p>Action: Hong Kong Export Credit Insurance Corporation has introduced a series of measures to strengthen its support for SMEs during the current financial turmoil. The key ones are as follows:</p> <ul style="list-style-type: none"> o Higher insurance cover for exports o Higher insurance cover for emerging markets o Annual Policy Fee Waiver o Expediting the processing of small credit limit applications o Free credit checks <p>04/08/2009</p> <p>Action: China will support the financing of global trade by buying private bonds of the International Finance Corporation.</p>
Ecuador	<p>11/21/2008:</p> <p>Action: a help package for the external sector, including measures to facilitate easier access to credit for the export sector, tariff increases, and important restrictions</p>

Country	Trade Finance Measures
EU	01/22/2009: Plan: The European Bank for Reconstruction and Development plans to increase its trade finance facility to 1.5 billion of euro from 800 million
France	12/16/2008: Action: Announcement of the provision of credit guarantees to carmakers under the provision that production will not be shifted.
Finland	01/27/2009: Action: Finland tripled export credits to 3.7 billion Euros.
Germany	01/12/2009: Plan: discussing the final details for the approval of a 100 billion Germany Fund of credit guarantees to help cash-starved businesses.
Indonesia	12/17/2008: Action: issued a trade financing policy that would guarantee exporters from possible financing failures, along with income tax reductions for certain business sectors.
India	11/17/2008: Action: The RBI more than doubled the funds it makes available for banks to refinance export credit at favorable interest rates to Rs220bn (\$4.5bn, €3.8bn, £3bn). 11/19/2008: Plan: The government is firming up a proposal to expand the resource base of the Export Import Bank of India that provides credit to traders. The government is also considering providing a special line of credit for the ExIm Bank. These efforts are aimed at generating nearly \$10 billion which the bank can deploy for lending to the export sector 02/05/2009 Action: Reserve Bank of India has announced that it would raise interest rates for export credit. Banks' costs of raising funds abroad have increased because of which they are finding it difficult to extend credit within the current interest rate ceiling. 02/06/2009 Action: RBI further raised the ceiling on export credit in foreign currency to Libor (London inter-bank offer rate) plus 350 basis points. However, banks will not levy any other charges, like management fee, service charge, etc. By increasing the ceiling over Libor that banks can charge from exporters, RBI has ensured that banks do not reject forex credit applications of exporters simply due to the fact that such loans could be economically unviable due to high cost of financing of foreign currency funds. As a result, while exporters will have to pay higher interest, they will also be able to get higher amount of credit
Israel	01/29/2009 Action: Bank of Israel is operating an expansionary interest-rate policy, lowering rates to 1 percent; called upon the government to ease criteria for receiving insurance coverage for export-credit transactions offered by Ashra, the Israel Export Insurance Corp. Ltd., which is fully owned by the government.
Italy	01/29/2009: Action: Italian central bank (Banca d'Italia) has just created a Collateralised Interbank Market, where the Banca d'Italia will serve as the universal counterparty, guaranteeing settlement in case of default.

Country	Trade Finance Measures
Japan	<p>11/14/2008: Plan: Japan has proposed an Asia-Pacific trade insurance network for reinsurance cooperation among export credit agencies in the region to facilitate trade and investment flows during the current financial crisis</p> <p>01/31/2009: Action: Japan will hand out \$17 billion in development aid to other Asian countries to help them face the global financial crisis</p>
	<p>03/03/2009 Action: Japanese government will dip into \$1 trillion worth of foreign currency reserves to lend dollars to Toyota, Sony and other struggling exporters.</p>
	<p>03/31/2009 Action: The Japan Bank for International Cooperation plans to provide \$6 billion for developing countries, and the Nippon Export and Investment Insurance will supply an additional \$16 billion in trade insurance coverage.</p>
Netherlands	<p>01/16/2009 Action: For exports to east European states such as Russia, Kazakhstan and the Baltic states, where commercial export loan insurance is no longer available, the government will issue risk cover so that trade remains possible. It will also guarantee 50% of company loans up to EUR50 million "to ensure that businesses have access to sufficient capital to maintain production and investments."</p>
New Zealand	<p>02/04/2009 Action: New Zealand Export Credit Office's (NZECO) will provide short-term trade credit guarantee to exporters and their banks where overseas buyers are offered repayment terms of less than 360 days to ensure that exporters have the means to continue to accept orders that in the current environment might otherwise not occur.</p>
Norway	<p>11/27/2008 Action: The Norwegian state would loan up to 50 billion kroner (US\$ 7.2 bln) to cash-strapped export credit institution Eksportfinans.</p>
Pakistan	<p>11/18/2008: Plan: The Central Bank will provide 100% refinancing to banks against export finance provided by them to exporters under Part I of the Export Finance Scheme (EFS). Earlier, the State Bank was providing export finance to the banks up to 70 percent. Export finance already provided by banks under Part I of EFS from own sources at the ratio of 30 percent and outstanding as on Oct. 31, 2008 will also be refinanced by the State Bank for the remaining period of individual loans</p>
Portugal	<p>12/03/2008 Action: 200 million euro credit line for auto and car parts exporters.</p>
	<p>01/09/2009 Action: The Portuguese government has approved export credit support mechanisms worth 2 billion Euros to rejuvenate economic activity and exports. The sum will be divided equally to support sales to OECD and non-OECD markets.</p>
South Korea	<p>11/4/2008: Plan: The Ministry of Finance and Strategy will provide \$6 billion to companies who seek the export finance and the payment for the import of commodity. The ministry will spare \$6 billion from \$20 billion that it decided to lend via competitive bid with no securities.</p>
	<p>12/04/2008: Plan: raise the guarantee ratio and guarantee limit for the export fund of small- and medium-sized enterprises, respectively up to 100 percent and 10 billion won.</p>

Country	Trade Finance Measures
	03/10/2009 Plan: Export-Import Bank of Korea (KEXIM) plans to double the amount of trade financing to local SMEs by providing 13 trillion won (\$8.44 billion) in trade financing to small local trading companies, mostly exporters, in 2009, double the 6.5 trillion won provided in 2008.
	03/19/2009 Plan: State-run Export-Import Bank of Korea plans to provide 4 trillion won to help local ship parts makers ease liquidity problems.
Serbia	01/30/2009 Action: The government earmarks RSD 122 bn for boosting production, export in 2009. Exporters will have priority when the funds are allocated and will be granted loans for specific export projects.
Taiwan	12/25/2008: Plan: Taiwan cabinet approved a 8.53 bln TWD export stimulus program that will extend until the end of 2012 will help local exporters garner at least 540 bln twd of overseas contracts a year.
Thailand	11/14/2008: Plan: The ExIm Bank will seek 12.7 billion baht in funds from the government to help support a new soft-loan program for exporters. The bank would also petition the Finance Ministry for funds to support low-interest loans for exporters.
	02/11/2009 Action: The Council of Economic Ministers endorsed the Export-Import Bank of Thailand and the Small Business Credit Guarantee Corporation to raise capital worth a combined 8 billion baht to enable them to extend more credit to both exporters and SMEs' entrepreneurs worth a combined around 200 billion baht to further turning around local economy.
US	12/08/2008: Action: The US ExIm Bank i) increased access to direct lending and working capital loan guarantees; ii) a provision that allows companies that produce goods or services sold to U.S. companies and subsequently exported to apply for working capital loans guaranteed by the ExIm Bank; iii) increase from 10 to 100 percent the amount of a working capital loan guarantee available for these indirect exporters; iv) covering warranty letters of credit up to 20 percent of the loan amount or \$1.5 million, whichever is lower, for a term of 12 months. This is a tripling of the previous ceiling of \$500,000.
	12/05/2008: Action: US and China Announce \$20 Billion in Finance Facilities that will create up to \$38 billion in annual trade finance to assist global trade
	03/03/2009 Action: Ex-Im Bank, which traditionally insures only loans made by private banks, is lending money directly to non-American buyers of American products, exercising a legal authority that it has but almost never uses.
	03/11/2009 Plan: The US is working with the World Bank and other countries to boost trade financing; specific amount will be determined later.
	04/08/2009 Action: The US Ex-Im Bank will grant four Angolan banks at least US\$120 million in credit to cover imports from the US. The credit line will be granted to the African Investments Bank, Angola's Foment Bank, Angolan Savings and Credit Bank and Angola's Espirito Santo Bank.
Vietnam	12/31/2008: Plan: apply a more flexible exchange rate to facilitate export activities. They will also apply financial policies, including tax reduction and exemption to assist enterprises

Country	Trade Finance Measures
Zambia	
Asean Japan China South Korea	02/23/2009 Action: Asian nations will form a \$120 billion pool of foreign-exchange reserves that can be used by countries to defend their currencies in an expansion of efforts to battle fallout from the global financial crisis.
ADB	04/01/2009 Action: The Asian Development Bank has expanded its Trade Finance Facilitation Program (TFFP) to \$1 billion, a move that could generate up to \$15 billion in much-needed trade support by the end of 2013.
AfDB	03/04/2009 Action: The AfDB established a US\$ 1 billion Trade Finance Initiative (TFI), which will be implemented in phases. The Bank looks to launching in a first phase a new line of credit for trade finance of US\$500 million to enable commercial banks and development financing institutions in Africa to help trade financing operations.
IDB	10/13/2008: Action: The IDB has launched liquidity facilities for Latin America and the Caribbean, a new credit line worth \$6 billion. The aim is for the funds to be made available to domestic firms via commercial banks that may face transitory difficulties in accessing foreign and inter-bank credit lines as a result of the financial crisis in the United States and Europe. In addition, the Andean Development Corporation (CAF) announced a liquidity facility of \$1.5 billion and the Latin American Fund of Reserves (FLAR) offered \$1.8 billion as part of its liquidity arrangements 1/9/2009 Action: The IDB is increasing its Trade Finance Facilitation Program (TFFP) limit from \$400 million to a maximum of \$1 billion. It will also add loans to its current offering of guarantees. It will support non-dollar denominated trade finance transactions to address the growing demand of transactions denominated in other currencies, especially in Euros.
G20	04/03/2009 Action: G20 countries will pledge US\$250-billion to assist trade finance over the next two years. The amount will be channeled through export-credit and investment agencies, and through international development banks such as the World Bank.
Islamic Development Bank	04/08/2009 Action: The Islamic Development Bank has signed a Mudaraba agreement with a newly-formed Islamic trade finance institution to manage a \$1 billion fund to boost trade in the Organization for Islamic Conference (OIC) member countries.
World Bank	11/11/2008: Action: i) The IFC plans to double its Global Trade Finance Program from US\$1.5 billion to US\$3.0 billion. The trade guarantees issued under the program will have an average tenor of six months, thereby supporting up to US\$18 billion for short-term trade finance over the next three years. The expanded facility would benefit participating banks based in 66 countries, including some of the world's 78 poorest countries. The program offers banks partial or full guarantees covering the payment risk in trade related transactions. ii) The IFC plans to launch a Global Trade Liquidity Program Of \$6-8 bln to address the liquidity constraint on global trade finance

Country	Trade Finance Measures
	<p>12/9/2008: Action: announced the creation of a \$ 2 billion fast-track facility to speed up grants and long-term, interest-free loans to help the world's poorest countries cope with the impact of the global financial crisis. The facility would be based on strong country analysis focusing on (a) the impact of the financial crisis on household welfare, growth, capital flows, financial sector, trade finance, infrastructure development, employment, balance of payments, and government budget, financing, and debt sustainability; (b) government plans for policy response; and (c) financing needed to address the impacts while maintaining expenditures in key sectors, including the social sectors and infrastructure.</p>
	<p>01/27/2009: Action: Armenia will receive at least \$525 in fresh low-interest loans from 2009 through 2012 from WB. On top of that, it will get separate assistance from the bank's commercial arms, the International Finance Corporation and the Multilateral Investment Guarantee Agency, that could raise the total to \$800 million.</p>
	<p>03/31/2009 Action: World Bank unveiled plans to launch a \$50 billion fund to help finance trade flows.</p>
	<p>04/07/2009 Action: The Stanbic Banking Group has received \$400 million from the International Finance Corporation (IFC) to support trade finance in 17 African countries, including Tanzania.</p>
IMF	<p>11/17/2008 Action: A 24-month stand-by loan of 12.3 billion euros (\$15.7 billion) for Hungary A package worth about 12.9 billion euros for Ukraine</p>
EBRD	<p>12/10/2008: Action: EBRD disburses first factoring loan in Ukraine by lending to Ukreximbank. The bank signed a factoring finance facility with the EBRD Trade Facilitation Programme earlier this year of up to \$10 million to finance sales by small and medium-sized producers, importers and traders across the country. Through factoring, Ukreximbank provides its corporate clients with an additional way to obtain trade finance without having to mortgage property. Factoring - the purchase, administration and collection of short-term accounts receivable by a financial intermediary - is a fast and flexible method of improving a company's cash flow.</p>
	<p>01/23/2009 Action: increase Trade Facilitation Program's budget from €800 million to €1.5 billion to boost trade with and within eastern Europe, Central Asia, Russia and Ukraine.</p>
	<p>02/27/2009 Action: committed 6 billion Euros to financial institutions and in trade finance for East and Central Europe</p>