Trade Finance in Crisis
Market Adjustment or Market Failure?

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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.

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Executive Summary

Along with the rapid decline in trade during the latter half of 2008, the financial crisis may have reduced the supply of trade finance, raising fears that the lack of trade finance may deepen and prolong the recession. Various estimates have put the size of a possible trade finance "gap" in the range of $25-500 billion. Governments and multilateral institutions have responded with a range of trade finance programs, including a pledge by the G20 leaders at their April 2009 London Summit to ensure $250 billion of support for trade finance.

Historically, trade finance has tended to be highly vulnerable in times of crisis, as was the case in East Asia in the late 1990s. Indeed, trade finance differs from other forms of credit, such as investment or working capital, in ways that make it higher risk—during periods of crisis—because of the difficulty of securing and enforcing credible commitments across borders in times of turmoil.

In the current crisis, it is clear that access to affordable trade finance has been constrained. A number of banks, global buyers, and firms surveyed by the World Bank are reporting to be constrained by lack of trade finance and other forms of finance, such as working capital and pre-export financing. In addition, the costs of trade finance are substantially higher than they were pre-crisis, raising the problem of affordability for exporters. SMEs and exporters in emerging markets appear to be facing the greatest difficulties in accessing affordable credit.

Yet, available information also suggest that trade finance is not down to nearly the same degree as actual trade flows. Data from the IMF indicate that trade volumes declined by about four times faster than trade finance volumes during the period October 2008 through January 2009. In short, while the contribution of trade finance to the massive decline in world trade should not be overestimated, there is evidence that a trade finance shortfall participated in the drop of international trade and risks hindering its eventual recovery.

A critical question is therefore whether the decline in the supply of trade finance is the result of market and/or government failures, and, hence, whether there is a rationale for public intervention to address them. Two broad cases that would create a real trade finance "gap" would be where there is insufficient supply (i.e., "missing markets") or where it is being supplied at prices that are temporarily too high to meet demand in the market (i.e., "overshooting markets").

Missing markets. There are a number of reasons why bank deleveraging and risk-adjustment processes in response to the financial crisis might 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 in normal times.

First, there may be a temporary inability of the market to properly calculate risk – in other words, not a problem of risk per se but uncertainty, which is particularly acute in opaque and highly internationalized markets like trade finance. Second, information asymmetries in international markets have been exacerbated by a collapse of interbank trust and a hoarding for cash, raising the risk of interbank strategic default. Third, 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 – tend to be the first lines of credit banks cut. Finally, there may be strong political economy factors at play. As much of the response to the crisis has taken place at the national level, through central banks and governments providing liquidity and insurance to domestic banks, there is likely to be strong political pressure and moral suasion to use these resources to support domestic lending.

Overshooting markets. 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 temporarily too high to clear market demand. 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.

First, systematic recalibration of risk has essentially forced a downward shift in the supply curve for all kinds of credit. However, deflationary pressures in the real economy makes prices for most goods sticky, giving international traders little scope to pass on these costs. Changes in regulatory regimes (specifically Basel II) may also have raised the price of trade finance to a level that is out of line with its true risk profile, due to its calculation of counterparty risk through a geographic rather than a performance lens. Third, with markets undergoing a rapid process of risk recalibration, the adjustment process may overshoot the equilibrium temporarily.

A final rationale for intervention in support of trade finance lies in its potential multiplier effects. Strong interaction amongst bank-intermediated trade finance, other forms of bank credit, and inter-firm credit, means that banking sector shocks may trigger chain reactions in the trading sector, which resonates back to the banking sector, amplifying and prolonging the crisis. As no individual seller is likely to fully take into account the cross-supply chain gains of extending credit, there may be an insufficient provision of inter-firm trade credit along a supply chain. Intervention to support liquidity in the banking sector may therefore contribute to realizing these potential multipliers.

These failures – both market and government in nature – may require government interventions in the form of liquidity injection and risk mitigation to address market confidence, information provision, and collective action, as well as to manage the adjustment process. Whilst the current economic crisis is still unfolding, a number of domestic and multilateral interventions have been launched that may or may not lead to the desired results.

Drawing on the lessons from past crises, effective public actions in support for trade finance should be guided by number of key principles. These include: (1) targeting interventions to address specific failures; (2) ensuring a holistic response that addresses the wider liquidity issues of banks; (3) channelling the response through existing mechanisms and institutions; (4) ensuring collective action in the response across countries and regions; (5) addressing both risk and liquidity issues; (6) recognizing the importance of banks in developed countries for freeing up trade finance for emerging market exporters; (7) promoting greater use of inter-firm credit and products like factoring; (8) maintaining a level playing field in terms of risk weight; (9) improving transparency in the trade finance market; and (10) avoiding moral hazard and crowding out commercial banks by setting clear time limits and exit strategies for intervention programs and sharing rather than fully underwriting risk.

1. Introduction

The global economic crisis has had a major detrimental impact on trade. International trade is projected to decline in 2009—for the first time since 1982.[2] 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]

Notwithstanding this increased activism around trade finance, it remains largely unclear how much of the contraction in international trade may be caused by restrictions in the supply of trade finance and to what degree this represents a legitimate target for intervention. For intervention to be justified, at least three pre-conditions should be met. First, the scale of the supply gap should be of some significance. Second, the shortfall in the provision of trade finance can be attributed to a structural or temporary market failure. And third, 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 taken place in any case.

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? And what tools and policies are most fit for purpose to address it?

2. Is there a trade finance gap?

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). 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* and *liquidity*.

What is trade finance?

Appendix 1 outlines the main products typically included in discussions of trade finance. The vast majority of trade finance involves credit extended bilaterally between firms in a supply

[2] According to the World Bank's Global Economic Prospects (June 2009), the world trade volume in goods and services is projected to decline by 9.7 percent in 2009, with a significantly sharper contraction in trade volumes of manufactured goods.
[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.
[5] Although this range of 80-90 percent is widely reported, the source and evidence for the claim is unclear.

chain or between different units of individual firms.[6] 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 transfers and documentary letters of credit (L/Cs). Amongst the intermediated trade finance products, the most commonly used for financing transactions are 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.

Complementing the activities of the banks are: export credit agencies (ECAs), which guarantee and insure domestic exporters; private insurers, which provide trade credit insurance, political risk insurance, and bonding facilities; and multilateral development banks (MDBs), which operate formal trade facilitation programs designed to support banks by mitigating risks in new or challenging markets where trade lines may be constrained.

Trade finance differs from other forms of credit (e.g., investment and working 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 but also through inter-firm transactions. That inter-firm trade finance is so prevalent is typically explained by certain features that enable trade partners to better assess and mitigate risk than third parties, including an *informational advantage* and the advantage of trust, or e*ncapsulated interest* (Giannetti, Burkart, & Ellingsen, 2007). 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. It is also highly collateralized – credit and insurance are provided directly against the sale of specific products or services whose value can, by and large, be calculated and secured.[7] This suggests that the risk of strategic default on trade finance should be relatively low, as should be the scale of loss in the event of default.

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-level risks (e.g., exchange rate fluctuations, changes to policy, conflict, political upheaval) and counterparty risk, linked to the greater difficulty of enforcement across borders (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", which are vulnerable to shocks as they can quickly propagate problems across the chain (Kiyotaki & Moore, 1997; Raddatz, 2008).

[6] According to messaging data from SWIFT, approximately 90 percent of trade finance occurs through inter-firm, 'open-account' exchange. Estimates from FImetrix (2009) suggest that 10-20 percent of trade finance is composed of cash-in-advance payments (these mainly involve SME buyers, and inordinately in developing countries); 45-80 percent is on open account (of which 30-40 percent is intra-firm), and 10-35 percent is bank intermediated.

[7] 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).

The impact of the financial crisis on trade finance

It has become clear that the global economic crisis has many culprits, including amongst others: a prolonged period of loose monetary conditions in the US, regulatory failure, a policy-induced mortgage crash in the US, the growth of "shadow banking" and the use of every-more complex financial instruments, and greed and herd-like behavior by investors. The subsequent collapse in confidence in the banking sector 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.

Although trade finance has neither been a proximate nor ultimate cause of the financial crisis, it quickly became a collateral damage. 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. However, with no comprehensive and reliable data on trade finance available, an overall assessment of trade finance developments in 2008-09 remains difficult. Historical precedents and selected information indicates that—along with global demand—trade finance flows declined in the last quarter of 2008.

Trade finance has tended to be highly vulnerable in times of crisis. During the late 1990s and early 2000s crisis episodes in Argentina, Brazil, Indonesia, Pakistan Korea, Thailand, and other emerging economies, liquidity and solvency problems encountered by 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. For instance, bank-financed trade credits declined by about 50 percent and 80 percent in the Republic of Korea and Indonesia, respectively, in 1997–98. During the crisis episode in Latin America in early 2000s, trade credits in Argentina and Brazil declined by as much as 30–50 percent (Allen, 2003).

The IMF/BAFT survey of global banks (FImetrix 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). Overall, as can be seen in the table below, the IMF estimates that the decline in the value of trade finance transactions has been far less than the decline in export value in the period October 2008 through January 2009.

Value of trade transactions

% change, January 2009 v October 2008		
	Trade finance	Exports
Industrialized	-9%	-26%
Latin America	-9%	-45%
Central Europe	-11%	-40%
Eastern Europe	-13%	-55%
Middle East/Maghreb	-5%	-26%
Emerging E. Asia	-10%	-37%
South Asia	-9%	-13%
Sub-Saharan Africa	-8%	--

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 (Arvis & Shakya, 2009). Findings from two other World Bank surveys of 400 firms and some 80 banks in 14 developing countries across five regions[8] indicate that although a drop in demand played a central role in explaining the decrease in trade finance flows, 30 percent of firms, especially SMEs, stated that lack of finance on buyer's or company's part to explain the decline in exports (Malouche, 2009). 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.

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). However, the World Bank survey indicates that the biggest financing constraint – particularly for SMEs and firms operating in global supply chains (which generally work through open account methods) is not access to trade credit (e.g. L/Cs) per se, but rather pre-export finance. It is here where banks have become particularly stringent in their risk evaluation, particularly with regard to emerging market participants and SMEs. As exporters who normally self-finance are forced by the crisis to seek additional liquidity, this may become the most important inflection point of the trade finance "gap".

Perhaps more important than supply alone, 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. 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 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

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

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.

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 more adversely impacted 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.

These findings reflect with the fact that bank-intermediated trade finance is only a very small part of the story. In most cases, exporters are: extending credit within the supply chain with payments made on open account; and funding working capital / pre-export finance through retained earnings. This means that firms for the most part have actually not been as badly constrained by trade finance as one may have anticipated. Yet, the massive drop in export orders over the past 6 months means that the internal liquidity of these firms is likely to have dried up. So as trade starts to pick up again, firms that normally self-financed may need to seek a line of credit (working capital / pre-export financing) from banks. And the evidence from the surveys seems to suggest that this type of financing (rather than necessarily L/Cs and other guarantees) is where banks are becoming more selective and imposing adverse conditions (more collateral required and higher interest rates), particularly on SMEs. So whilst the interbank crisis of confidence may be over by mid 2009, there is still danger of a second-round effect that could constrain trade and hinder the recovery.

3. Is there a rationale for intervention to address a trade finance "gap"?

A critical question is whether the decline in the supply of trade finance 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. 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 probability of default in open account trade.[9] 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

[9] 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.

stagnant trade volumes). 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, total new insurance commitments have fallen by much less (7 percent) than trade volumes (20 percent), with medium and long-term commitments remaining constant in volume.

A real "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").

"Missing markets": insufficient supply of trade finance

Whilst trade finance transactions are dispersed globally, overall volumes are highly concentrated in a few major international banks, several of which (e.g. 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.

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.[10] Part of the problem may lie in the temporary inability of the market to properly calculate the risks – in other words, it is not a problem of risk per se but uncertainty.[11] Uncertainty plagues trade finance (at least bank-intermediated trade 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. [12] This may not have been perceived as a problem when banks were well capitalized and profits high. However, 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 both from real perceptions of higher macro level risks as well as a herd-like "flight to safety" that works against international transactions.

Unique to this crisis is that it is not just developed country banks lacking confidence in their developing country counterparts, but also the other way round. 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

[10] 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

[11] 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).

[12] For example in the case of L/Cs the bank is reliant on three parties (customer, the trade partner, and the partner's bank) two of which are located in foreign countries

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. [13] 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.

The short-term nature of trade finance is also an issue. 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. 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. [14]

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 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. 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". 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. Similarly, as retained earnings that normally fund pre-export working capital dry up in the face of the recession, exporters may be forced to seek extended bank credit lines. 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

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

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

supply trade finance are too high to clear market demand. 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.

On the supply side, systematic recalibration of risk has essentially forced a downward shift in the supply curve for all kinds 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. As a result, market prices for most goods are sticky, giving traders little scope to pass on these costs.

Changes in regulatory regimes (specifically Basel II) may also temporarily affect the efficient functioning of markets – specifically setting the floor price above that which would clear the market. 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.

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. 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. 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 amplify and prolong the initial crisis, particularly in open economies which are integrated in global production networks. 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. But as 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, there may 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 may have the effect of reducing the cost of capital more generally, or at least of improving banks' liquidity positions.

4. What is the most appropriate approach for intervention to support trade finance in the current crisis?

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.

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 (see Appendix 2). 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. 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.[15] 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 Program, 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.

[15] 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.

10 principles for intervention to support trade finance in the current crisis

Targeted interventions

One clear lesson that has already emerged from this crisis is that any money flowing into the banks – unless it is properly ring-fenced 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 liquidity/risk capacity for the sole purpose of trade finance with emerging markets.

Holistic response

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.

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.

Collective action

The interdependencies in the financial system are more than ever demanding a coordinated effort to revive trade finance flows. 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. Coordination at the regional level can also be effective. For example, APEC established the Asia-Pacific Trade Insurance Network at the end of 2008 to facilitate regional trade. The international community appears to have recognized the importance of such coordination, and initiatives coming out of the G20 meeting in London have adhered to this approach.

Addressing both risk and liquidity

The current crisis requires interventions that address real liquidity constraints (for banks and firms) as well as those that perceived escalation of counterparty risk. This may involve a combination of ring-fenced funding to support trade finance loans as well partial guarantee programs – like the IFC's Global Trade Finance Program – which help offset the heightened risk premium in the current market, may be effective to catalyse trade finance lending.

Target emerging markets but recognise the importance of developed market banks

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. 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 key players.

Promoting inter-firm credit

There is scope for financial institutions and enterprises to promote other sources of short-term financing, particularly for the large share of the market involved in integrated global supply chains. One such instrument that may be well-suited to the heightened risk environment is factoring, which involves the outright purchase of an exporter's invoices at a discount rather than the collateralization of a loan. 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.

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-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

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 the specific problem of uncertainty in the trade finance market. 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 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.

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 that 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 the timeframes of programs to avoid crowding out commercial banks, and sharing rather than fully underwriting risk.

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APPENDIX 1: Overview of trade finance products

Category	Product	Description
Inter-firm / supply chain financing	Open account	• 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	• Medium term finance for investment in the means of production (e.g. machinery)
	Working capital	• 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	• 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	• 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	• Operates similarly to L/C – sight but is designed for contracts where payment by importer is made in instalments after delivery.
	Supplier credit	• 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	• Term financing provided to finance cash payments due to supplier
	Countertrade	• 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	• 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	• Security provided to importer when exporter requires mobilisation payment; this is usually a matching amount callable on demand.
	Performance bonds	• Security provided to importer (normally in case of capital goods export), callable in the event of exporter's failure to

Category	Product	Description
		perform (compensates for costs of finance, re-bidding, etc.)
	Refund guarantees	• 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	• 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	• 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	• 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	03/2009 **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
Brazil	10/20/2008: **Action**: Brazil's central bank issued $1.62bn (£940m) in six-month loans on Monday in an attempt to provide relief to exporters.
	12/03/2008: **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.
	02/09/2009 **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.
China	12/24/2008: **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.
	01/01/2009: **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.
	02/01/2009 **Action**: Suzhou Industrial Park provided a special guarantee fund of 50 million yuan in the support of processing trade in surrounding areas of SIP
	02/19/2009: **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
	12/15/2008 **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.
	03/12/2009 **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: 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
	04/08/2009 **Action:** China will support the financing of global trade by buying private bonds of the International Finance Corporation.
Ecuador	11/21/2008: **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
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

Country	Trade Finance Measures
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.
Japan	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 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
	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.

Country	Trade Finance Measures
	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 $16 billion in trade insurance coverage.
Netherlands	01/16/2009 **Action**: For exports to east European states such as Russia, Kazakhstan and the Baltic states, where commercial export loan insurance is no longer available, the government will issue risk cover so that trade remains possible. It will also guarantee 50% of company loans up to EUR50 million "to ensure that businesses have access to sufficient capital to maintain production and investments."
New Zealand	02/04/2009 **Action**: New Zealand Export Credit Office's (NZECO) will provide short-term trade credit guarantee to exporters and their banks where overseas buyers are offered repayment terms of less than 360 days to ensure that exporters have the means to continue to accept orders that in the current environment might otherwise not occur.
Norway	11/27/2008 **Action**: The Norwegian state would loan up to 50 billion kroner (US$ 7.2 bln) to cash-strapped export credit institution Eksportfinans.
Pakistan	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
Portugal	12/03/2008 **Action**: 200 million euro credit line for auto and car parts exporters.
	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.
South Korea	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.
	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.
	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 smal 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.

Country	Trade Finance Measures
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
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.

Country	Trade Finance Measures
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
	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.
	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.
	03/31/2009 **Action:** World Bank unveiled plans to launch a $50 billion fund to help finance trade flows.
	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.

Country	Trade Finance Measures
IMF	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
EBRD	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.
	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.
	02/27/2009 **Action**: committed 6 billion Euros to financial institutions and in trade finance for East and Central Europe