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BOOSTING TRADE FINANCE IN DEVELOPING COUNTRIES: WHAT LINK WITH THE WTO?

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Abstract

The paper discusses the efforts deployed by various players, mainly multilateral financial institutions, regional development banks, export credit agencies, to mobilize greater flows of trade finance for developing countries, with a view to help them integrate in world trade. As an institution geared towards the balanced expansion of world trade, the WTO is in the business of making trade possible. Its various functions include reducing trade barriers, negotiating and implementing global trade rules, and settling disputes on the basis of the rule of law. The WTO is also interested in strengthening the "supply-side" of developing countries so that they can respond to new market opportunities. To this end, it supports various initiatives aimed at improving the "trade infrastructures" of developing countries, ranging from the ability to meet international product, safety and sanitary standards, to run efficient customs, or to participate effectively to the multilateral trade negotiations by training public servants. The WTO carries out various initiatives with other partners (public and private sector institutions), in the context of its own technical assistance program, or in the context of multi-agency projects such as the Integrated Framework or the Aid-for-Trade Initiative.

Since more than 90% of trade transactions involve some form of credit, insurance or guarantee, one can reasonably say that trade finance is the lifeline of trade. Producers and traders in developing or least-developed countries need to have access to affordable flows of trade financing and insurance to be able to import and export, and hence integrate in world trade. From that perspective, an efficient financial system is one indispensable infrastructure to allow trade to happen. In line with the above initiatives, the WTO has been following actively, and at times, directly supporting, initiatives to boost the availability of trade finance in developing and least-developed countries wherever it was needed. Since the WTO is not a financial institution, it has been supporting in the past few years partners engaged in this effort such as international financial institutions, export credit agencies, large banks and regional development banks.

Initially, the WTO has been asked by its members at several points in recent years to examine the issue of availability of trade financing – as a key infrastructure needed by developing and least-developed countries to integrate in world trade. Paragraph 36 of the Ministerial Declaration of Doha requested WTO Members to examine, and if necessary come up with recommendations, on measures that the WTO could take, within its remit, to minimize the consequences of financial instabilities on their trade opportunities. In the context of the newly created Working Group on Trade, Debt and Finance (WGTDF), the interruptions of the flows of trade finance in emerging markets during the Asian and Latin American financial crises were quickly identified as concerns by Members, as well as the chronic difficulties of low income Members to secure more affordable flows of trade financing in the long-run. These concerns were channelled to the WTO Ministerial Meetings in Cancun (2003) and Hong-Kong (2005).[2] During this period of examination, the Heads of the IMF, World Bank and the WTO agreed at the General Council Meeting on Coherence of 2002 to form an expert group including all interested parties, multilateral and regional public institutions, export credit agencies, private banks to examine what went wrong in this segment of financial markets, and how to create an enabling environment in local markets to provide adequate flows of trade finance on a on-going basis.

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[2] WTO Documents WT/WGTDF/3 and 5.

In chairing one of these meetings, the Director-General of the WTO defined the role of the WTO in this area: encouraging liberalization of this type of financial services under the financial services agreement, being a regulator of export credit and guarantee subsidies under the ASCM, and serving as a forum to discuss WTO-compatible ways of providing support to developing countries. Conclusions by the Working Group were presented at the WGTDF, and later at the General Council.[3] WTO Secretariat work on this topic up to 2003, in particular its contribution to the WGTDF and to the expert group, was summarized in WTO Discussion Paper 2.[4]

While the liquidity in financial markets improved from 2002 until the recent turmoil created by the crisis of the sub-prime mortgage markets, trade finance remained an issue for concern for WTO Members, in particular the poorest, which do not have access to international financial markets or for emerging markets which remain prone to changes in market sentiment, and hence credit rating. Despite the rapid development of "trade finance facilitation" schemes developed by regional development banks and the IFC, with immediate success in low income countries, the issue of availability of trade finance came back among other "supply-side" constraints identified by the Aid-for-Trade Task Force, after the WTO Ministerial Meeting in Hong-Kong.[5] While the mandate of the WTO under the Aid-for-Trade is essentially one of evaluation and monitoring, it may be in cases one of advocacy. Based on the work being carried out since 2002, and after consultation with partners (regional development banks, multilateral institutions, export credit institutions,...), input by the WTO Secretariat to boost the availability of trade finance for developing countries under the Aid-for-Trade umbrella was welcomed by Members.[6] Lack of trade financing and guarantee infrastructures were identified as one of the barriers to integration of low income countries in world trade by each of the three regional Aid-for-Trade Reviews.[7] It was acknowledged that the current Aid-for-Trade Initiative could provide the extra leverage to convince WTO partners to deliver more plentiful of trade credit and guarantees to WTO members that need it the most.

This paper provides background on the difficulties of some countries and traders to access affordable trade credit and finance, on the growing divide between these low income countries and economically advanced countries in handling modern trade finance instruments, and on the joint reflection undertaken by the WTO, most recently under the Aid-for-Trade programme, and previously under the umbrella of the WGTDF and the Coherence Mandate, to help strengthen developing countries' capacities in this area.

Keywords: Trade financing, cooperation with international financial institutions, aid-for-trade, coherence
***JEL* classification**: E44, F13, F34, F36, O19

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[3] WTO Documents WT/WDTDF/W/22 and 23, and WT/GC/W/527.

[4] WTO (2003), Improving the Availability of Trade Finance in period of crises, Discussion Paper 2, Geneva.

[5] WTO Document WT/AFT/1, page 2.

[6] WTO Document WT/COMTD/AFT/W/1.

[7] In their common report (Mobilizing Aid-for-Trade: Focus Latin America and the Caribbean, November 2007), the WTO and Inter-American Development Bank identified trade finance as one of the four key priorities to be addressed in an effective aid-for-trade program for the region ("expanding the scope of initiatives on trade finance was identified as a priority for the region", p.7.). A similar conclusion was drawn during the Asia-Pacific review, which identified trade finance as one of the 4 cross-cutting priorities for the development of trade (Asian Development Bank and WTO, Mobilizing Aid-for-Trade, Focus Asia and the Pacific, Report and Recommendations, November 2007, p.7); likewise for Africa, as the common report by the African Development Bank, the United Nations' Economic Commission for Africa and the WTO emphasized that "particularly critical was the availability of efficient and competitive private-service suppliers in areas ranging from trade finance and risk insurance to trucking and warehousing." (African Development Bank, Economic Commission for Africa, WTO, Mobilizing Aid-for-Trade, Focusing Africa, November 2007, p.7).

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The availability of trade finance is a key topic for developing countries, since the largest share of international trade flows involve some kind of credit, mostly short-term. The expansion of North-South and South-South trade needs to be supported by adequate flows of available credit at affordable rates. Concerns about the scarcity of trade finance for poor countries has been identified by the WTO Group on Trade, Debt and Finance as an issue for examination,[8] which was carried out in cooperation with experts from partner institutions, including the IMF, World Bank, regional development banks, export credit and insurance agencies, and international banks in the aftermath of the Asian crisis in what appeared to be, at the end of the 1990's, a brutal interruption of credit flows in period of crisis. Results of that analysis undertaken have been communicated to WTO Members.[9]

The trade finance market has benefited from a substantial recovery since 2002, with the development of new technology, the appearance of new institutions and actors in developing countries, and the development of financing and guarantee facilities by regional development banks (RDBs) and by the International Financial Corporation (IFC) to fill the market gaps in the financing of smaller transactions in countries with little access to international markets. However, poor countries continue to feel that trade expansion in their countries is hampered by a structural lack of affordable trade credit, while large emerging markets feel vulnerable to shifts in market sentiments, which appear to affect negatively their ability to access commercial credit in the long-run, as expressed most recently in the WTO context, in the Working Group on Trade, Debt and Finance, and under the Aid-for-Trade Initiative (the availability of trade finance was identified by the Task Force on Aid-for-Trade as a key supply-side constraint to be addressed in low income countries, a view which was confirmed during a dedicated Aid-for-Trade meeting on trade finance in April 2007, and during the regional and global reviews on Aid-for-Trade).[10] Under the Aid-for-Trade Initiative's umbrella, the WTO is cooperating with its traditional partners to advocate for more financing in favour of developing countries, and perhaps more importantly, strengthening developing countries' capacity to handle trade finance instruments and build adequate trade finance institutions that will support trade transactions in an efficient and cost-effective manner.

Section I discusses the recent evolution of the sources and methods of trade finance, their importance for the expansion of South-South trade, as well as the recurrent concerns of developing countries to be left behind the wave of innovation in this market. Section II looks at the efforts of the

[8] WTO Document WT/WGTDF/1.

[9] The Director-General of the WTO reported to the General Council on the work done by the group of experts on trade finance established by the dedicated session of the General Council on Coherence of May 2002, in WTO Document WT/CG/W/527. In addition, the work of experts directly fed into the examination by the Working Group on Trade, Debt and Finance of the trade finance topic under WTO Document WT/WGTDF/W22 and 23. Trade Finance had been identified by WTO Members as a key area for concern to WTO Members in the sense of paragraph 36 of the Doha Ministerial Declaration. The IMF presented its own views to the group of experts in IMF (2004), Trade Finance in Financial Crises, Assessment of Key Issues, Paper for the Information of the Executive Board, available at www.imf.org.

[10] The issue of how to boost trade finance for the poorest countries has been raised in the context of an Aid-for-Trade meeting between WTO Members and representatives of the regional development banks and the IFC on April 28, 2007 (WTO Document WT/AFT/25), after having been identified by the WTO Members' Task Force on Aid-for-Trade (WT/AFT/1), established by the Hong-Kong Ministerial Declaration, as one of supply-side constraints related to trade in low income countries. Further concerns regarding the deterioration of trade credit conditions of emerging markets have also been expressed at the last meeting of the WTO Working Group on Trade, Debt and Finance (WT/WGTDF/M/15 of 27 September 2007), during which it has been alleged that financial instabilities stemming from the collapse of the US sub-prime mortgage markets had a negative spill-over effect on the credit risk of large developing countries, resulting in restrictions on the volume and prices of commercial credit available to them. In November 2007, trade finance figured as a priority of the Aid-for-Trade Initiative in all three reports of the regional reviews on Aid-for-Trade hosted in Manila, Lima and Dar El Salam by respective regional development banks in September 2007 (IaDB and WTO (2007); ADB and WTO (2007); AfDB and WTO (2007)). Subsequently, commitments were made during the WTO Global Review on Aid-for-Trade on November 19-21, 2007, particularly by the President of the World Bank and heads of regional development banks (statements are available on www.wto.org/aid-for-trade).

WTO to address the issues, both in or out of periods of financial crisis, in the context of its trade and finance work programme and under the current Aid-for-Trade Initiative, with a view to address impediments to supply in this area.

I. Trade finance market: recent changes and related-policy concerns

A. Changes to trade finance markets

The rapid expansion of world trade in the past few years could not have taken place without a recovery in the traditional sources of financing, both long and short-term. While short-term finance, like any form of credit, involves a commercial risk – for example the exporter being unable to secure payment for his merchandise in case of insolvency of the importer or the importer bearing risks of alteration of goods or delayed delivery – and other risks (transportation, exchange rate, political risk), it is still considered as relatively routine and secure operations given the short maturities and the supporting documentation involved. Trade finance is providing fluidity and security to the movement of goods and services worldwide. Financial instruments and actors are relatively well identified; instruments of financing that involve banks are commonly known as letters of credit, which are exchanged/endorsed/confirmed by such banks on behalf of their customers, and reflect a commitment to pay an export or an import based on the presentation of stipulated documents such as shipping and insurance documents or commercial invoices – the so-called documentary credits. Banks may extend short-term or long-term loans, discount letters of credit or provide advance payment bonds for the exporter for example, to ensure that the company has sufficient working capital for the period before the shipment of goods and that the company can bridge the period between shipping the goods and receiving the goods from the importer (pre- and post-shipment financing). Other forms of credits do not necessarily involve a banking intermediary, such as supplier's credit, bills of exchange or promissory notes. Export credit agencies (ECAs) and/or private sector insurance companies can provide insurance and re-insurance against all sort of risks, including non-payment, freight-related losses, political risk (one of the ECAs specialty) and foreign exchange risk. Traditional actors and instruments are summarized in WTO (2003).[11]

While some of these financing instruments have a long history in international trade, the local capacity to handle it efficiently depends on the development of the local financial system and the integration of local firms in regional or international trade. If the liberalization of capital markets and the expansion of international trade have proceeded in parallel, there is a good chance that banks in a particular country or region have acquired the knowledge to finance and intermediate international trade transactions. The development of domestic financial systems in developing countries has generally increased access to working capital and trade credit for firms, in particular listed firms and reputable importers and exporters. However, in countries where the liberalization of capital account transactions has lagged that of international trade, trade credit extended directly between suppliers and customers have generally been dominant – at least in the lower end of markets – while larger transactions and contracts have generally been financed by ECAs or foreign banks re-insured by ECAs. In such cases, lack of financing may at some point limit trade expansion, as either banks are barred by regulators to provide the necessary working capital to accompany the development of their client's trade activity (for example if foreign exchange regulation prescribe inter-bank borrowing with non-resident entities), or simply because they do not have the experience of handling trade finance instruments, which is hence left to the foreign customer/supplier's bank.

Hence, strengthening the capacity by local banks to provide adequate trade finance flows can be a real challenge in developing and least-developing countries. Typically in poor countries, the first (and perhaps the second) largest bank is in a position to handle financing of international trade because it concentrates the limited know-how of the country in this field, because it tends to attract

[11] WTO (2003), Improving the Availability of Trade Finance During Financial Crises, Discussion Paper no. 2, Geneva.

the most creditworthy and internationally-oriented local firms (those two factors may be closely related) and perhaps also because it might benefit from a regulatory "advantage", for example the holding of a foreign exchange licence (when access to foreign exchange is restricted). At the same time, the lack of local capacity beyond these actors prevents and crowds out the emergence of new actors and traders which hence cannot find the appropriate finance to innovate and expand. In a study, Rajan and Petersen (1997) provide evidence that firms use trade credit between themselves when they cannot obtain loans from financial institutions at affordable rates. In areas or countries where the perceived risk of lending for trade is assessed to be too high (due to lack of available documentation, legal system, collateral, etc.), banks simply ration credit to avoid excessive rates to be charged.[12]

Despite technical assistance provided by public and private sector institutions to reduce the knowledge gap affecting poor countries on the use of traditional instruments of trade finance, there is a danger that these efforts be defeated by a growing technology gap which results from innovations in advanced markets. With globalization, trade finance services have become increasingly automated in a way that allows financing to be fully integrated with the global sourcing and logistics of manufacturing activities across countries, either within the context of one single multinational company, between that company and its suppliers, or across a wide range of suppliers (supply chain finance). In recent years, large international banks and information technology firms have put in place online portals allowing to support open account transactions or provide credit on an automatic basis at key points of the supply chain. For example, buyers can obtain financial support for inventory when suppliers can access accounts receivable discounting and working capital.[13] In order to keep light structures able to respond to complex demands from corporate customers, large banks or institutional investors as varied as middle Eastern finance group or large US securities have invested in non-bank funds that are providing the expertise and tailor-made solutions. Such independent finance companies are called on by exporters to finance equipment deals in emerging markets on a "one-off" basis – as opposed to the ongoing and traditional bank relationships that have linked for years traders and their financial advisors.

The automation of cross-border payment systems does not change the nature of trade financing, but it lowers considerably its cost by cutting on bureaucracy and time. As a result, bankers and traders accessing these new forms of international "e-banking" are becoming more cost-effective and competitive. Web portals provide for electronic preparation of documents and exchange, the reconciliation of purchase orders and invoices and the actual payment, the on-line provision of credit by banks and insurance of such credit by private sector insurer, all of them being linked within a single electronic system. On-line trade finance not only cuts cost and saves time, but it also spreads vital information among suppliers, customers and their financial intermediaries on the transaction (including trade documents), thereby creating a sense of security and a reduction of risk across the supply chain. In that way, customers feel more comfortable to offer early payments, suppliers can provide discounts, and in the end such suppliers can permanently reduce prices when contracts are re-negotiated.

Also, on-line and supply-chain trade financing tends to boost the banks' role in open account transactions, which are more secure than in the past, at the detriment of letters of credit, which are less used in North-North trade. In the United States, both trade and industry tend to converge around the same services, large financial institutions hiring supply chain managers from industry to support tailored services for open account transactions in specific sectors, whereas trade management software-services groups and sourcing-supplier networks are teaming up to offer trade finance (arranging credit, discounting payments to suppliers, financing receivables, with or without the

[12] Rajan, R. and M. Petersen (1997), "Trade Credit: Theory and Evidence", Review of Financial Studies 10, pp.661-91.

[13] See in particular, Barovick, R. (2007), "Traders now enjoy multiple options in financing foreign transactions", World Trade Magazine, pp. 18-21, September 2007.

assistance of banks). This, of course, is only possible in a fully deregulated financial system, in which non-financial companies can be licensed to offer financial services.

These innovations are not only available in North-North trade but are made available to the rest of the world through the SWIFT international banking communication systems, which offer standard messaging services linking up financial intermediaries involved in trade transactions, and, as indicated above, providing a bias in favour of more straight-forward open account transaction against letters of credit. Trade finance, which in the past has largely been structured around the needs of importers, is increasingly tailored for exporters, which benefit from the automation of more targeted credits, linking up high technology companies, financial intermediaries and exporters. New technologies makes it clearer that trade finance is becoming by itself a condition of the competitiveness of traders – and integral to the cost and quality of trade transactions. The resulting transactional cost reduction would benefit mainly actors involved in global trade management, large companies, trade finance-oriented banks and foreign direct investors. In the end, suppliers or importers in developing countries might benefit – in terms of cost-efficiency and economies of scale on the documentation needed for each individual transaction, but electronic systems are primarily aimed at global firms which can generate huge economies of scale, starting with the elimination of paper documentation – particularly those aimed at optimizing supply chain transactions for buyers having tens or hundreds of suppliers across all continents.[14]

The policy problem generated by market changes is that the technology gap might increase the risk of marginalization of poor countries in trade transactions. While market analysts believe that letters of credit will remain the backbone of trade in South-South transactions, access to liquidity will be easier for developing countries that have access to the technology network and can work with international banks and suppliers on the basis of the new efficiency standards of the markets. Trade finance operators in developed countries are likely to be more inclined to allocate the existing amount of working capital to counterparts in developing countries that can participate in reducing the cost of transactions by providing a maximum of information in the required electronic format

Remedying the knowledge and technology gaps concerning the use of traditional instruments of trade finance is one of the objectives of "trade finance facilitation programmes (TFFPs)", developed by regional development banks and the International Financial Corporation (the IFC, a subsidiary of the World Bank Group). TFFPs not only provide short-term guarantees to international and regional banks (confirming banks) covering both the commercial and political risks of international trade credit transactions emanating from local banks (issuing banks), as well as providing directly to specified companies and banks revolving credit facilities, all of which at little cost; in doing so, these programmes try to address the lack of availability of trade finance for countries with little access to international markets and/or no or low international ratings, and for small transactions. These programmes also aim at increasing the capacity of local banks and traders to handle themselves trade finance operations on a routine basis. To this aim, donor technical assistance funds are being used by all institutions offering these programmes to train experts in the financial sector of in developing countries in finance through seminars or *in-situ* training.

For example, the EBRD alone has trained 300 personnel in 65 banks from 15 countries in South-East Europe and the CIS free of charge on the basis of donor funding. Ambitious training

[14] In Trade Finance Magazine, "Banks assert their role in trade and supply chain", September 2007, Mr. Tan, head of trade services at Standard Chartered Bank in Singapore explain the development of the market in recent years: "one of the most obvious innovations is in the area of information integration. Every supply chain transaction begins its life as a trade transaction and ends it as a cash transaction in a current account with a bank. But in between the trade and the cash there are multiple handovers ranging from the warehouse operator to the shipping companies. Bank handling the trade and cash parts of the transactions are in the enviable position of integrating the flow of the information through a product life cycle. Further, the asset conversion cycle in any supply chain transaction in getting shorter, the working capital being freed up is being now used to finance more trade".

programmes have been prepared also at the IFC and the ADB and these will require donor assistance. While some funding already exists in the institutions' specific trusts (particularly the IFC and the EBRD), it does not fully cover current needs. One of the interesting feature of TFFPs is the user-friendly character of its use, whereby requests for financing or guarantees to RDBs and the IFC can be made on-line, and replies be processed with minimum response times, thereby offering a chance to participants to close the technology gap mentioned above.

B. Developing capacity for trade finance in the poorest countries

The risks of a structural gap in the trade finance market, a financing gap and a technology gap exist particularly in the poorest countries where the financial sector remains risk averse, and where much of the deposits are invested in low-risk instruments including short-term liquid assets and (foreign) government bonds. The largest banks, which concentrate the know-how and customers to handle trade finance operations, do provide finance only on the basis of strong collateral requirements and the "reputation" (credit record) of companies. Emerging companies (particularly in new businesses sectors) that are creditworthy but are not as "reputable" as the well-established companies face higher interest rates, higher fees on letters of credit and higher capital requirements, which overall impedes the development of such new businesses and the diversification of activities in these economies.

The World Bank has surveyed the constraints faced by traders and banks in Africa, which can be summarized as follows:[15]

- Many banks in Africa are conservative, an unsurprising attitude given the relatively poor repayment culture (albeit improving) developed from years of failed government credit projects and donor subsidies. As the other end of the market, bank insolvencies in the 1990's have caused some public distrust in formal financial institutions, so small business are turning to informal sources of finances such as through family and social networks. These factors limit the financial sector ability to tap the commercial potential of small and medium size enterprises (SMEs) and help them expand their market share through the provision of adequate trade finance;

- The banks' lack of effectiveness in handling small, medium or long-term credit risk (lack of training of loan officers, lack of information on borrowers, absence of a reliable credit registry, etc.) result in the small entrepreneurs being burdened with high requirements, such as up to three years of financial statements, enough collateral to cover both the loan principal and interest (including a cash deposit that may be up to 30% of the loans' net present value), and to provide every detail of the international trade transaction in question. Lease and hire purchase products are not developed enough and adapted to accommodate the complexities associated with SME's development on both the domestic and international markets – the result being limited access to finance and investment in general in the agricultural and agro-industry sub-sector.

- Related with the above, the low penetration of banks in rural areas, secular conservatism, and lack of trust on SMEs are not playing in favour of financing agricultural projects. Banks view agricultural investment projects as extremely risky. The main manner in which the bank intervene in agricultural export finance is through organized sub-sectors (e.g. cotton, coffee or tea) which usually have collection, storage, export guarantee support mechanisms well in place. This indeed does not play in favour of the emergence of completely new activities, unless it comes as a diversification by a reputable producer.

All in all, the World Bank had engaged in trade finance "clinics" with active capacity building programs for export and import financing in Africa. Exporters and importers are being informed of

[15] World Bank (2005), Developing Capacity for Regional Trade Finance in Africa, World Bank Institute, available at www.worldbank.org.

the various innovative products and mechanisms to finance and insure their trade, including through dissemination of best practices by private sector banks, products offered by the Africa Trade Insurance Agency (ATI), and the Global Trade Finance Program of the IFC. It remains that, the bulk of the financing of international trade coming from private sector banks and ECAs, demand for funding and guarantees in Africa continues to outweigh supply.

C. Turbulences in financial markets and trade finance

While trade finance is in theory one of the most secure mode of finance due to its short maturities, the existence of physical collateral (goods), a fair amount of banking documentation, costs have historically reflected the relatively low level of risk on such operations. During the Asian financial crisis of 1997-98, international banks reportedly refused to underwrite letters of credit opened by local banks in some crisis-stricken countries. A number of analysts offered interpretations emphasizing the general loss of confidence in local banking systems at the heart of the crisis, the total absence of information on the creditworthiness of individual financial institutions from credit rating agencies and central banks, and at some stage a brutal movement of withdrawal by foreign creditors willing to close up all risk exposure in the absence of adequate information, particularly about the level of foreign exchange reserves at the central banks and the real level of liquidity in money markets. This phenomenon, referred in some publications as "herd behaviour", is felt by many to explain why the retreat turned into a rout in some of the crisis-hit countries, where inadequate information made an objective evaluation of the situation more difficult (Summers, 2000)[16]. A number of analysts offered interpretations in terms of international liquidity crisis (Sachs and Radelet, 1998).[17]

The tightening of trade finance, if not stoppage, in crisis-stricken countries, has delayed the recovery of these countries, which had to rely on trade to redress their balance-of-payments. In the case of Indonesia, the high import content of exports (over 40 per cent) explained why the growth of exports was for some months seriously affected by the difficulty of financing imported inputs for use in its export sectors. To alleviate the problem, the Indonesian Government and Central Bank extended guarantees to foreign banks for letters-of-credit opened by Indonesian banks, and encouraged the Steering Committee of private borrowers and lenders to find an arrangement to maintain trade finance facilities and settle arrears.[18] In the wake of the crisis, ASEAN Members agreed on the principle of reducing their dependence on the U.S. dollar as a currency of payment and promoting the use of local currencies in intra-regional trade (WTO, 1998)[19].

Episodes of credit crunch in Asia and later in Latin American raised suspicion of a confusion by private markets – in absence of reliable information about risk, between country risk and individual company or bank risk.[20] Standard economic theory in such extreme circumstances would indicate that solvable demand for credit emanating from companies with good credit rating should meet supply at a higher prises. However, it seems that in periods of acute crisis, this supply simply did not exist in certain countries, raising suspicion of market failure. In the light of a general loss in confidence in a local banking system, international banks forced up confirmation fees or inter-bank spreads, and reduced or cancelled "bank limits" as well as "country limits". It has been reported that in Indonesia the total value of trade finance bank limits fell suddenly from $6 billion from 400 international banks, down to $1.6 billion from 50 banks.[21] Following the crisis, international banks can be reluctant to restore credit limit at the pre-crisis level, hence perpetuating a period of credit

[16] Summers, L.H. (2000), International Financial Crises: Causes, Prevention and Cures", American Economic Review, May. Volume 90.

[17] Sachs, J. and S. Radelet (1998), "The Onset of the East Asian Financial Crisis", NBER Paper no.6680.

[18] For details, see in particular WTO (1998), Trade Policy Review of Indonesia, p. 10 and p. 77.

[19] WTO (1998), Trade Policy Review of Indonesia, Geneva.

[20] Stephens, Malcom (1998), "Export Credit Agencies, Trade Finance and South East Asia, IMF Working Paper 98/175, International Monetary Fund, Washington DC.

[21] WTO Document WT/WGDTF/6.

crunch, at least until an agreement between creditors and borrowers lead to the re-financing of outstanding short-term credit lines.

In order to avoid a prolonged interruption of regional and international trade flows, targeted intervention by public or semi-public entities took place in the middle of the crisis to restore a minimum of confidence on trade markets, even before exchange rate stabilized.[22] The ad-hoc solutions proposed by country authorities, regional development banks and export credit agencies were regarded by market participants to have been successful, in terms of having suffered no default or losses while keeping minimum cross-border trade finance available. Both the Inter-American Development Banks and the Asian Development Bank extended guarantee facilities to international banks confirming local banks' letters of credit. The Indonesian Central Bank deposited a collateral fund offshore to encourage acceptance of letters of credit issued by Indonesian Banks. Some export credit agencies from developed countries provided short-term insurance for credit extended during the crisis period on bilateral trade.[23]

Urgency trade finance schemes, which were initially largely inspired by the EBRD "trade finance facilitation programme", have developed and become more standardized after the Asian crisis. While the trade finance market recovered with the exceptional expansion of trade and the world economy from 2002 onwards, "trade finance facilitation programmes" have found their "market" in the niche left by export credit agencies and private banks for the smaller transactions in small countries, which have little access to international financial markets while being safe and sound. Statistics shows that export credit and export insurance agencies are to a large extent filling the gap of trade financing to developing countries for fairly large trade transactions (over $1 million), but a gap exists in the market for smaller transactions (generally $200,000 or lower) in countries with little access to international markets and/or no or low international ratings. In such countries, even where the banking system is sound, local financial institutions do not find partners to share the relatively limited risk of financing or guaranteeing trade transactions. In order to fill this gap, several regional development banks (RDBs) have put in place in their region of operation such "trade finance facilitation programmes" (TFFP), to provide short-term guarantees to international and regional banks (confirming banks) to cover both the political and commercial risks of international trade credit transactions emanating from local banks (issuing banks), or to provide directly to specified companies and banks revolving credit facilities or cash advances to finance trade transactions, all of which can be provided at relatively little cost.

TFFP's are mainly build on the model introduced by the EBRD in 1999, which has since helped to finance close to 6.000 private international trade transactions for a total amount of credit and guarantees of some $6 billion.[24] The EBRD scheme was followed by broadly similar schemes developed by the Asian Development Bank and the Inter-American Development Bank, although the schemes have been revamped in 2004 and 2005, respectively.[25] These schemes are regularly reviewed to fit the demands from customers. Lately the International Financial Corporation (IFC), a subsidiary of the World Bank Group, has launched a successful scheme aimed mainly at developing the trade portfolio of local financial institutions, mainly in Africa (Table 1).

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[22] Details available in World Bank (2003), Financing Developing Countries Trade, Global Economic Prospects, September, Washington DC.

[23] WTO (2003), Improving the Availability of Trade Finance During Financial Crisis, Box.3, p.9, Discussion Paper no.2, Geneva.

[24] EBRD (2007), EBRD's Trade Facilitation Program, available at ebrd.com/tfp

[25] Asian Development Bank (2007), Trade Finance Facilitation Program, available at www.adb.org/PrivateSector/Finance/trade_fin.asp; Inter-American Development Bank (2007), TFFP, press release of 18 March, 2007 at iadb.com/news.

The Executive Board of the IFC recently agreed to expand the IFC's trade finance operations for the benefit, primarily, of producers and traders in Africa.[26] As far as it is concerned, the Asian Development Bank is adapting its scheme to further reduce bureaucracy, and improve productivity of processing demands, so as to reduce pricing and increase the trade turnover in ADB Member countries, while in 2007 the IaDB has incorporated its TFFP in a new structured and corporate finance department, in order to leverage its trade finance facilitation programme, in the context of a strengthened support for private sector development.

TABLE 1

Regional Trade Finance Facilitation Programmes

IFI	Started (year)	Number of transactions	Trade credit lines/guarantees ($ billion)	Issuing banks	Confirming banks	Countries covered
EBRD	1999	6,000	6.2	110	630	21
IFC	2005	800	1.3	130	400	30
IDB	2005	51	0.1	22	77	12
ADB	2004	120	0.1	21	65	12

While TFFPs are well adapted to small and medium-size banks and companies from developing countries willing to engage into South-North or South-South trade, more is probably needed to secure appropriate sources of finance for developing countries in case of recurrence of financial instabilities. While because of their short-term, collaterized and self-liquidating nature, the supply of trade finance used to be more resilient in episodes of financial instabilities until the Asian crisis, inversely trade finance has now become extremely sensitive to liquidity squeezes, as shown in Argentina (2002) and most recently in the context of the sub-prime mortgage crisis. Some long-term reasons may explain that trade credits are no longer distinguished from other loans by creditors – and hence are subject to the same restrictions in case of consolidation of risks – for example the global consolidation recorded in recent years in international markets, which tends to customize market behaviour, in particular decisions to invest and divest from emerging markets, and also the fact that short-term trade finance no longer seem to enjoy preferential treatment in London Club debt restructurings.

However, the collapse of the US sub-prime mortgage markets and its domino effects on other markets (since most lending has been securitized) are apparently creating spill-over effects on trade finance markets – suggesting again that the markets remains volatile for emerging markets and developing countries. Of course, the lack of transparency over the real exposure of financial institutions to sub-prime mortgage markets, which results in only gradual disclosure of losses by individual banks, does not help bringing a sense of safety in financial markets. The abrupt correction of the riskiest asset markets is certainly a by-product of a global movement of re-estimation of risks by financial institutions and re-pricing of asset prices in a context of rising interest rates. This movement of "purge" of balance-sheets may take place only gradually. Again, rating agencies are criticized for failing to anticipate risks (like in 1997-2000), due to their inability to collect enough information on the real creditworthiness of investors. While at this stage there seems to be a consensus that large international banks are liquid enough to absorb the losses from their most

[26] International Financial Corporation (2007), Global Trade Finance Program: IFC supports trade in emerging economies with $billion in guarantees, news release of July 19, 2007, available at ifc.com/ifext/gfm.nsf/content/TF-NewsandUpdates.

leveraged investment funds, the greatest risk lies with non-bank financial institutions (securities house, capital equity funds) on which fewer data is available.

At a recent meeting of the WTO Working Group on Trade, Debt and Finance, delegates from large developing countries complained that the recent financial instabilities had already affected their credit risk in general, and in particular the credit lines they accessed as a guarantee for commercial banks in trade finance operations.[27] Earlier, Brazil had complained that market instabilities recorded after presidential elections had forced multilateral institutions to grant exceptional and very large credit lines to guarantee and finance the continuation of the country's cross-border trade.

II. Boosting the availability of trade finance for developing countries: what can the WTO do?

A. WTO's role and the continued interest by Members to secure greater flows of trade finance

Since the Asian crisis, the Secretariat has maintained a good working relationship with all the participants of the expert group established in the immediate aftermath of that crisis. The group examined the market structures and eventually failures that explained the disruptions in the supply (and demand) of trade finance/credit/guarantees during the crisis. The group was composed of representatives of multilateral institutions such as the World Bank/IFC, the IMF, the WTO, regional development banks, the Bern Union (the coalition of the world's main export credit agencies (ECAs) and insurers), individual Export Credit Agencies (the US eximbank, SACE, EDC, EKF), and large international banks specialized in structured finance. A summary of the reflections carried out in the group are available in WTO (2003) and IMF (2003).[28]

These reflections were shared with the relevant bodies of the WTO, in particular with the General Council, which supported the work of staff and members under the WTO Working Group on Trade, Debt and Finance.[29] The Council emphasized the crisis prevention role of all initiatives by international institutions, as it involved a wide range of considerations, including the stability of macroeconomic conditions, reforms in the local financial system to ensure its safety and soundness, greater depth and liquidity in different segments of the local banking market, improved economic governance, and, in general, a micro-economic environment conducive to competition, transparency, and openness, including a liberal trade environment. Importance was attached to an on-going dialogue between the local government and all investors in a country, so as to help maintain confidence when shocks occur. The Council expressed a positive view of the creating of permanent instruments, along the lines of those used for emergency purposes (such as TFFPs), which could contribute to maintaining flows of trade financing to developing countries, a development that actually took place on a demand-driven basis.

The role of the WTO was clearly laid out, in particular its contribution through market access, and its role in the area of rules. As far as market access is concerned, the liberalization of financial markets was regarded as an important tool with which to address some of the issues mentioned above, for example conducting pro-growth strategies, promoting crisis prevention, and avoiding demand constraints linked to weaknesses of local banking systems. In this regard, the current round of negotiations under the GATS could be used to increase the WTO's contribution to making the provision of trade-financing more secure and more readily available, particularly in developing countries.

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[27] WTO Document WT/WGTDF/M/15.

[28] WTO (2003), Id.; IMF (2003), <u>Trade Finance in Financial Crisis: Assessment of Key Issues</u>, Washington DC, available at www.imf.org.

[29] WTO Document WT/GC/W/527.

Commitments in GATS schedules, either cross-border or through commercial presence, help generate a climate of predictability and legal certainty for the provision of trade-financing by foreign banks, and allow WTO Members to create deeper and more liquid markets domestically for these services. It allows them also to benefit from the experience of large international banks active in this area of finance, and provides them with a substitute for local export credit agencies. GATS commitments can be formulated so as to target trade-financing services in particular, within the broad category of "all types of lending" and the narrower one of "financing of commercial activities". Ninety WTO Members currently have GATS commitments on lending activities in general, including trade-financing. Most of these commitments have been made under mode 3 (commercial presence), under which limitations may be placed on, for example, foreign ownership or on the number of foreign service providers. To date, some forty Members have made commitments on lending activities in general under mode 1 (cross-border). At the time of the Asian financial crisis, some Members liberalized their restrictions on trade in financial services shortly after making commitments under the Agreement on Trade in Financial Services (the Fifth Protocol under the GATS), but have not to date made commensurate commitments in their GATS schedules.

There is no impediment to defining trade-financing activities specifically and narrowly in a GATS schedule. One example of a Member that has used its own terminology in this regard is Chile, which has made a GATS commitment in "credit granting, defined as current loans, loans in letters of credit, issue and negotiation of letters of credit for imports and exports, issue and confirmation of stand-by letters of credit". Similarly, Morocco defines trade-financing as "lending to finance commercial transactions with Morocco". Other financial services linked to trade-financing can also be considered for similar treatment, for example credit reference analysis, and the insurance of cargo or goods in transit which is part of the transaction that is made through a letter of credit. It was noted in the expert group discussion that although such GATS commitments may not prevent foreign banks from cutting credit lines in periods of crisis, they foster local, regional and international financial activity and lead to stronger and more resilient markets that can encourage foreign banks to remain engaged.

As far as rules are concerned, one issue raised in the past, particularly by some export credit agencies in developed countries, is how emergency trade-financing that they make available in times of crisis on concessionary terms might be treated under the WTO's rules, and particularly the Agreement on Subsidies and Countervailing Measures (ASCM). The context in which this was addressed in the expert group meeting was of a political consensus existing in the international community at the time of a financial crisis to provide special financial support, usually under IMF-supported programmes. In clarifying the scale of this concern, the WTO Secretariat noted that the prohibitions contained in the ASCM are rather limited in scope. The Agreement prohibits only two kinds of subsidy, of which a subsidy contingent upon export performance seems to be most relevant in the context of trade-financing. A significant number of developing-country Members are exempt from this prohibition, and nothing in the Agreement would prohibit other WTO Members from intervening to ensure the availability of trade-financing for imports in periods of crisis so long as no contingency on export performance was involved.

A second point relates to actions by multilateral and regional bodies to ensure access to trade finance in times of crisis. The ASCM is in general drafted to address situations where a WTO Member is subsidizing the production or sale of its own goods, and it is not entirely clear whether or not the Agreement applies where the subsidizing entity is not within the territory of the Member whose goods are allegedly being subsidized. Leaving aside this legal uncertainty, many WTO Members appeared to be of the view that development aid provided by multilateral development institutions lay outside the scope of ASCM disciplines, or in any event that it would not be proper to take action under the Agreement in this context. To date, no Member has challenged multilateral development assistance as a subsidy in WTO dispute settlement proceedings.

It was also noted that the Agreement contains a "safe haven" for export credit practices that are in conformity with the interest rate provisions of the OECD Arrangement on Officially Supported Export Credits. Thus, to the extent that the actions taken to insure that a Member has access to trade financing are taken in conformity with those provisions, the prohibition on export subsidies will not apply. The OECD Arrangement applies in the case of credits with a maturity of two years or more. In cases where the Arrangement is not applicable, steps to ensure access to trade financing, such as through export credits or export credit guarantees, would not create problems if they did not involve a subsidy. Discussion in the 2002-03 expert group focused on the applicability of the Agreement to export credit agencies providing short-term export financing in times of crisis on concessional terms (or with a "blanket" government guarantee), and how certain of these practices might be accommodated in times of acute financial crisis. Rather than taking up this issue from the point of view of WTO rules, it was felt that there was need for more conceptual work to define an economic benchmark which allowed risk to be properly priced in extreme situations, for example of a currency crisis. It was noted that this was difficult to do a priori, given the day-to-day uncertainty that prevailed at such times, and that it was difficult also to stipulate "market clearing" conditions that would allow commercially viable behaviour to be defined.[30]

It was noted also that even if such a benchmark could be found and agreed on, no existing institution had the mandate to determine when "exceptional circumstances" exist. In practical terms, the Director-General suggested that when circumstances arise in which the international financial community takes coordinated action to provide special financial support to maintain trade flows in periods of crisis, he would bring this promptly to the attention of WTO Members through the General Council. In doing this, he would consult closely with the Managing Director of the IMF. In the interest of greater coherence between trade and financial policies, it would seem that such circumstances should be taken duly into account by WTO Members when making trade policy decisions, and every effort should be made to keep markets open to exports from crisis-hit economies.

B. Keeping the link between market actors, public agencies and WTO Members

The WTO has been maintaining a sustained dialogue on trade finance even after the recovery in financial markets, at the beginning of the 2000's, in particular in the light of the interest manifested at the General Council of the WTO and in the WTO Working Group on Trade, Debt and Finance. The WTO maintains on-going working relations with regional development banks and the IFC, the main providers of trade finance and guarantees under the trade finance facilitation programmes, and with ECAs and its individual members (*inter alia*, US EXIM bank, Euler-Hermes (Germany), Nexi (Japan), ECGD (UK), COFACE, and equivalent export-import banks from other developed countries and emerging economies (China, India, Brazil, South Africa, HK, Malaysia, etc), to create synergies in the identification of market gaps, technical assistance and capacity-building, and information sharing. Lately, the Bern Union and the Prague Club (a club of other developing countries' ECAs) merged to form a group of 100 institutions, which, combined, finance or insure altogether a flow of $1.2 trillion of trade transactions. The expansion of the Berne Union is a welcome development as it can take initiatives in favour of trade finance on a wider scale and disseminate to a larger number of members its "guiding principles", which aim at promoting sound, transparent and responsible professional practices among its members.

In general, developing countries confirmed their interest in the topic in the context of the Working Group on Trade, Debt and Finance, and countries such as Argentina, Brazil and Cuba, feeling that recent financial turbulences could spread to their region asked the group to focus on current cost and availability of trade finance, as apparently spreads on trade finance borrowed to international financial institutions (RDBs and the World Bank) surged recently. Another look at the

[30] This problem arises also in the context of the OECD Arrangement.

topic of possible contagion of financial instabilities on trade drew general support from developing countries.[31]

With a good on-going relationship between the WTO, RDBs, ECAs, the World Bank group and other partners such as the private sector, the Aid-for-Trade Initiative turned out to provide a very good umbrella under which outstanding problems of supply and cost could be addressed, and under which synergies between international institutions could be enhanced.

C. Trade finance and the Aid-for-Trade Initiative

It came across as quite obvious that the topic of trade finance and trade finance facilitation programmes were particularly relevant for the Aid-for-Trade Initiative. If the Aid-for-Trade Initiative aims at increasing the focus on trade in international aid flows[32] – as part of an increased attention on the competitiveness and growth of developing countries – it is natural that one of the first requirement of developing countries – before the goods are shipped, before they benefit from better roads and harbours and cross more efficient customs, is that secure finance be available to them, since most trade transactions involve a credit. As argued above, private financial institutions in developing countries, when delivering a letter of credit indicating that they will pay on behalf of their client, often face a credibility gap because of lack of reputation on international markets, despite often good levels of safety and soundness. "Trade finance facilitation programmes" provide comfort to larger private banks that they can finance trade with smaller ones in developing countries at little risk. In developing countries, too often the perceived level of risk is higher than the actual level of risk. Regional development banks help mitigate this risk.

<u>Cooperation with regional development banks and the IFC</u>

The "trade finance facilitation programmes" fit nicely with the requirements of the Aid-for-Trade Initiative. They are relatively cost-effective since they do not require new administrative structures; programmes have been launched by international financial institutions some time ago, with an increasingly "global coverage". Second, they aim at helping the private sector; credit guarantees benefit private traders and trade bankers. Third, the programmes are demand-driven, and demand seems to exceed supply. Finally, the programmes provide not only for trade finance facilitation itself, but also for technical assistance, to help local banking sectors develop capacity with donor assistance.

To raise the awareness of WTO Members, a meeting took place at WTO Headquarters on 27 April 2007 between the heads of TFFPs and WTO Members. The meeting fit nicely with the process of in-country assessments and regional review, as trade facilitation programmes do already exist and many WTO Members were already aware of it. Regional development banks and the IFC were already active in the respective regions. Since these programmes are directed towards the private sector, the needs assessment was in a sense to be made by the private sector itself. The challenge for the international community was to look at how to boost <u>supply</u> because, as demand for trade finance facilitation credit guarantees and financing far outweigh supply. In presenting what had been achieved in just a few years, the international and regional agencies gave a sense of what was the current demand in the market, and the problem they faced in meeting this demand. A dialogue was engaged on how these activities could be supported in the Aid-for-Trade Initiative context. The outcome of this meeting was reported to the WTO Committee on Trade and Development.[33]

Representatives of the IFIs explained how in the Aid-for-Trade context, they could benefit from WTO support, in calling up for increased donor funding at a later stage. They explained in

[31] WTO Document WT/WGTDF/W/15, of 27 September, 2007.

[32] The objectives and progress of the Aid-for-Trade Initiatives are laid out in WTO Document WT/AFT/W/26.

[33] WTO Document WT/AFT/W/25 of 22 May, 2007.

particular that the donor funding has been supporting the expansion of TFFPs programmes, with a high leverage between the small amount of funds required and the amount of trade generated. Donor funds help in two ways:

- first by allowing some regional development banks to share the risk with individual donors (national development agencies). To this effect, donor funds (risk-sharing funds) were also being used to leverage the concessional guarantees or credit lines provided by RDBs. For example, Austria, Germany, the Netherlands, Norway, Switzerland, and Chinese Taipei were participating in a guarantee fund for the EBRD' TFPP. Funds could be earmarked for country-specific activities. All in all, risk-sharing funds, which are received in the form of grants (but which are generally recovered at the end of a country-programme if there have not been any losses) are in the area of $25 million across all institutions mentioned above. The programme managers in the institutions concerned were of the view that additional funds could be absorbed easily, due to the high demand for these trade finance activities.

- second, donor technical assistance funds were being used by all of the institutions for programmes to train experts in the financial sectors in developing countries in trade finance through seminars or *in-situ*. The EBRD alone had trained 300 personnel in 65 banks from 15 countries in South-East Europe and the CIS free of charge on the basis of donor funding. Ambitious training programmes had been prepared also at the IFC and the ADB and these required donor assistance. While some funding already existed in the institutions' specific trusts (particularly the IFC and the EBRD), it did not fully cover the needs.

Relatively speaking, TFFPs are not very resource intensive, yet they had a proven track record of producing results in support, particularly, of small and medium-scale producers and traders in developing countries. There was demand from developing countries for the expansion of these programmes and donor funding in this area has a high leverage on trade and could be measured effectively.

<u>Cooperation with Export Credit Agencies</u>

Dialogue with export credit agencies matured to a point where it became evident that their knowledge, experience, large membership, and organic relationship with the WTO (on rules for example) made it a natural partner to participate to the Aid-for-Trade Initiative.

Large Berne Union ECAs (NEXI from Japan, US EXIM, Euler-Hermes from Germany, COFACE, ECAs from Nordic Countries) already provide significant technical assistance to set up counterpart ECAs in least-developed countries, *inter alia* the recent establishment of the African Trade Insurance Agency and the assistance provided by NEXI for the establishment of an EXIM Bank in Cambodia. On-going assistance is generally provided in the context of bilateral trade relations, but mostly on commercial terms. Heads of leading ECAs are learning to do more in the area of credit re-insurance where ECAs from developing countries are lagging. The question for large ECAs is not so much one of willingness to participate but one of <u>incentive</u> to deliver. The question is how to access funding from donors under the Aid-for-Trade Initiative, since ECAs are commercial institutions normally charging market prices for their capacity-building/consultancy services (in rare cases, public-owned ECAs such as NEXI are directly mandated by their shareholders (Finance Ministries) to provide assistance). Another question is how to get the necessary "push" from multilateral organizations to "sell" such activities to their shareholders (Finance Ministries) and get recognition for it.[34]

To discuss these issues, on September 11, 2007, WTO Director-General Pascal Lamy and the President of the Berne Union of Export Credit Agencies (ECAs) and Insurers, Mr. Lars Kolte, met to

[34] ECAs also see the Aid-for-Trade Initiative as a useful tool to redress their perceived "negative" image of subsidizing and dumping national goods, and breaking up regional or multilateral subsidy rules.

exchange ideas about the ECAs participation to the trade finance part of the Aid-for-Trade initiative. For example, ideas of pooling the resources of RDBs and ECA with respect to training and technical assistance, whether human or financial resources to obtain economies of scale in training developing countries, were discussed. The DG of the WTO also invited representatives of ECAs to dialogue with their various partners are the regional level, to establish concrete modes of regional cooperation. On the side lines of the trade finance session of the Manila Conference, it was agreed that:

- "trade finance facilitation programmes" of regional development banks were complementary to the financing provided by the Export Credit Agencies and Export Insurers, not substitutes. Therefore, synergies between the two sets of institutions could be developed, particularly in Asia.

- The demand for trade finance under the ADB's trade finance facilitation programme outweigh by far the supply. ADB limits for 2007 have been reached. Asian EXIM banks are apparently filling the gap but are poorly equipped in risk quantification, export credit assessment and in general capacity to manage small risks. Since the ADB meets twice a year with regional EXIM banks, the Berne Union, which has both the expertise on such issues and a budget for technical assistance, will co-organize such meeting with the ADB and undertake technical assistance for local EXIM banks (including China, which is interested) in three areas: improving risk quantification, allowing them to set up insurance activities (Asian EXIM banks lend but do not insure), and improve risk assessment.

In short, the ADB and the Berne Union agreed to join forces in providing technical assistance to locals EXIM banks. As to create trade finance capacity for local banks, further discussion will be held between the Berne Union and regional development banks and the IFC in the coming weeks. In addition, the Berne Union President invited representatives of the WTO at the Union's Annual Meeting held in New Delhi (15-19 October, 2007) to brief heads of EXIM Banks, private insurers (ING, Zurich) and other partners on concrete cooperation that Berne Union members may undertake with partners in trade finance to increase technical assistance .

It came out from the contacts with WTO representations and that of the Berne Union that ECAs would participate in any discussion on trade finance taking place during or at the margin of the General Council of Coherence/Aid-for-Trade in 20-21 November, 2007.

Also, it turned out that the Berne Union and RDBs were "demanders" of informal or formal meeting between multilaterals, large private banks and them on a regular basis to examine Aid-for-Trade projects, but also, like in 2002-04, to brainstorm about potential "gap filling" exercises in cases of other local episodes of financial crises in their domain. The WTO was asked to play a (coordinating) role, along with other multilateral institutions.

<u>The interest of the WTO in encouraging inter-institutional and private/public sector cooperation</u>

The WTO is indeed supportive of efforts developed by the RDBs and the IFC in boosting the availability of trade finance in the low-end of developing countries' markets, to the extent that it does not overlap with private markets or ECAs – a pre-condition for cooperation. This support has been on-going for many years, and is complementary to the WTO's own role in trying to achieve greater market access in the field of financial services in general and trade finance in particular.

Second, the WTO is supportive of any efforts aimed at strengthening the capacity of developing countries to finance their own trade (in particular in the context of South-South) and in building the know-how to handle trade finance instruments. From that perspective , RDBs and IFC technical assistance efforts in this field are welcome as they aim at the emergence of local trade finance departments in developing countries' banks. In parallel, ECAs are also active in institutional building, whereas the most experienced ECAs support the efforts of ECAs partners in developing countries to increase capacity and professionalism. For example, some ECAs have been very active in supporting the creation of regional ECAs in Africa, and provided in situ training. The ground for cooperation and complementarity between ECAs and RDBs in the field of technical assistance is obvious. Some institutions such as the IFC and the EBRD, for example, have well established programmes of technical assistance in training experts able to handle trade credit instruments, or set up trade credit departments in financial institutions of developing countries. RDBs have funds for this useful task, but sometimes lack the manpower and expertise. In this area, the WTO is fully in its role to advocate and encourage synergies with a view to promote efficiency and cost-effectiveness of aid, and at a later stage to evaluate and monitor.

D. The next steps

Regional development banks could all claim to have increased lending and guarantee operations in 2007, and the IFC likes to publicize that its trade finance facilitation programme is not only becoming its single largest lending facility, but no loss has ever been incurred on any claim to date. The IFC's programme, plus the punctual lines of credit offered by the World Bank to some of its large customers for trade financing in periods of financial turbulences (Brazil, Argentina, Indonesia), show that the World Bank is providing a major contribution to this aspect of Aid-for-Trade. As indicated above, regional development banks, the IFC and large ECAs are also providing substantial technical assistance, and, since the Manila Regional Review, have agreed to cooperate on the basis of an established schedule.

The WTO wishes to build on these existing instruments and cooperation to mobilize more funds and financing for these programmes, and perhaps more importantly to help channel the information around and bring together a relatively dispersed crowd of actors. WTO staff and their counterparts have been working at addressing the priorities defined at the regional review on Aid-for-Trade, all of which included making progress on trade finance.[35] At the Global Review on Aid for Trade on November 19-20, 2007, several announcements were made on cooperation, extra-funding and staffing. The President of the World Bank Group, R. Zoellick, announced that trade finance services would be expanded significantly. Already in 2007, the IFC was expected to provide \$1.3 billion of finance. The plan is, by the end of the commitment period for aid-for-trade (2010) to almost double the existing volume of trade finance to \$ 2 billion a year and to double the number of partner banks to 260. Also related technical assistance and training courses for banks in IDA countries would be doubled (up to 20-25 seminars per annum). He also pledged to leverage this platform of activities to develop new trade finance products.[36] The ADB and IaDB had separately announced an increase in credit and guarantee limits for trade finance facilitation programmes. The Berne Union of export credit agencies and insurers will work with the Asian Development Bank in providing technical assistance to new export credit agencies and insurers (public or private) in low income countries, while the Islamic Development Banks described the significant increase in trade financing provided to Middle East and African countries. The Islamic Development Bank laid out its

[35] As described in footnote 7, regional development banks and the WTO held regional reviews setting out priorities for the aid-for-trade initiative. Trade finance came up in all three of them as one key factor for a successful integration of low income countries in world trade. In page 7 of "Mobilizing Aid-for-Trade: Focus Latin America and the Caribbean, November 2007", the WTO and Inter-American Development Bank identified trade finance as one of the four key priorities to be addressed in an effective aid-for-trade program ("expanding the scope of initiatives on trade finance was identified as a priority for the region"). The Asia-Pacific review, also identified trade finance as one of the 4 cross-cutting priorities for the development of trade (Asian Development Bank and WTO, Mobilizing Aid-for-Trade, Focus Asia and the Pacific, Report and Recommendations, November 2007, p.7); likewise for Africa, as the common report by the African Development Bank, the United Nations' Economic Commission for Africa and the WTO emphasized that "particularly critical was the availability of efficient and competitive private-service suppliers in areas ranging from trade finance and risk insurance to trucking and warehousing." (African Development Bank, Economic Commission for Africa, WTO, Mobilizing Aid-for-Trade, Focusing Africa, November 2007, p.7).

[36] Address by President R. Zoellick, available on www.wto.org/aid-for-trade.

project of increase the flows of trade finance and to develop its activities in the area of trade insurance. Several bilateral donors indicated their interest in participating to some of these activities, through technical assistance or joint partnership.

Furthermore, in relation to the growing "networking" between different actors of trade finance but in the context of growing financial market turbulences, during their Assembly leading ECAs supported the request of the Berne Union representatives made to you earlier, that we revive the informal "contact group" that existed in the post-Asian crisis period between leading private trade finance banks, ECAs, RDBs and multilaterals (WTO, IMF and WB) to brainstorm over risk, market gaps, exchanging information on country credit risk, etc., anything that would contribute to crisis prevention. It was asked whether the WTO would be willing to support, participate or host such an expert group, perhaps in course of 2008.

In the months to come, it was proposed at the Global Review on Aid-for-Trade that follow-up meetings take place, although it is still unclear under what form. Since trade finance is discussed in the Aid-for-Trade context (the Committee on Development), in the Working Group on Trade, Debt and Finance or in the context of the Annual Report on the Director-General on Coherence, there are many channels by which Members will be able to guide Secretariat work in this area, keeping in mind the scope for increased inter-institutional cooperation in many sub-areas, for example, information exchange – the WTO such as other multilateral agencies would certainly be interested in the new data collected by the Berne Union on its members' activities by country, product, sector and amount. At the same time, it is feasible to allow access to the Berne Union of WTO data on trade flows. Also further work is needed to measure the grant element of aid on trade finance, whether it takes the form of concessional financing or grants for technical assistance. These statistics could useful enrich the OECD-DAC database on Aid-for-Trade.

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