

2016

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ACKNOWLEDGEMENTS

We are very pleased to release the 2016 edition of the ICC Global Survey on Trade Finance. This annual publication, an initiative of the International Chamber of Commerce (ICC) Banking Commission has rightly gained its reputation as the most comprehensive report analysing the developments in trade and financing trade. Leading international institutions and foremost experts in banking collaborated in its completion.

The ICC Global Survey on Trade Finance uncovers patterns in business and trade, helping ICC Banking Commission members and various industry players make sense of these changes and their implications. An accurate snapshot of market trends, the survey enables bankers, traders and government officials to gauge global trade expectations.

We would like to thank all 357 respondents located in 109 countries for their timely, accurate and insightful answers to the survey, thus enabling us to generate the findings of the market intelligence product at hand. We would like to express our gratitude to all our ICC Banking Commission members and to ICC's network of 90 national committees for their valuable involvement in the continuing effectiveness of our shared efforts.

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With interests spanning every sector of private enterprise, ICC's global network comprises over 6 million companies, chambers of commerce and business associations in more than 130 countries. ICC members work through national committees in their countries to address business concerns and convey ICC views to their respective governments.

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Background information



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Key findings

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ACRONYMS

ADB	Asian Development Bank	IMF	International Monetary Fund
AfDB	African Development Bank	ITA	Information Technology Agreement
AGOA	African Growth and Opportunity Act	ITC	International Trade Centre
AML	Anti-Money Laundering	ITES	IT-enabled services
BEI	Banking Environment Initiative	ITFA	International Trade and Forfeiting Association
BPO	Bank Payment Obligation	KYC	Know Your Customer
BPO	business process outsourcing	L/C	Letter of Credit
CCFP	Critical Commodities Finance Program	LAC	Latin America and the Caribbean
CGF	Consumer Goods Forum	LACF	Latin American and the Caribbean Financial Intermediaries
CIS	Commonwealth of Independent States	LOI	letter of indemnity
CISL	University of Cambridge Institute for Sustainability Leadership	MDB	Multilateral Development Bank
COMESA	Common Market for Eastern and Southern Africa	MENA	Middle East and North Africa
EAC	East African Community	MLT	medium and long term
EBRD	European Bank for Reconstruction and Development	MSME	micro, small- and medium-sized enterprises
ECA	export credit agency	NAFTA	North American Free Trade Agreement
ECOWAS	Economic Community of West African States	NPL	non-performing loan
EF	export finance	OIC	Organization of the Islamic Cooperation
EM	Emerging Market	PRI	Political Risk Insurance
EMDE	Emerging markets and developing economies	SADC	Southern African Development Community
EU	European Union	SCFP	Supply Chain Finance Program
FCI	Factors Chain International	SEMED	southern and eastern Mediterranean
FDI	foreign direct investment	SITA	Supporting Indian Trade and Investment for Africa
FRPA	Funded Risk Participation Agreement	ST	short term
GBP	British pound	SWIFT	Society for Worldwide Interbank Financial Telecommunication
GDP	gross domestic product	TF	trade finance
GFC	Global Financial Crisis	TFA	Trade Facilitation Agreement
GRIF	General Rules of International Factoring	TFFP	Trade Finance Facilitation Program
GTFP	Global Trade Finance Program	TFP	Trade Facilitation Programme
GTLP	Global Trade Liquidity Program	TFTA	Tripartite Free Trade Agreement
GVCs	global value chains	TISI	Trade and Investment Support Institution
ICT	information and communications technology	TXF	Trade & Export Finance
IDB	Inter-American Development Bank	URC	Uniform Rules for Collections
IFC	International Finance Corporation	URF	Uniform Rules for Forfeiting
IFG	International Factors Group	URR	Uniform Rules for Bank-to-Bank Reimbursements
IIC	Inter-American Investment Corporation before	US Ex-Im	Export-Import Bank of the United States
ITFC	International Islamic Trade Finance Corporation	WTO	World Trade Organization



FOREWORD



These are unprecedented times when it comes to global trade and its associated financing.

For the past five years growth in the volume of world trade in goods and services has been weak. Growth rates have averaged around 3% – less than half the rate during the preceding three decades. World trade has barely kept pace with global GDP growth and latest projections anticipate trade growth of only 1.7% in 2016.

Recent analysis has pointed to several factors behind this worrying trend: low investment; rebalancing in China; a reversal in the development of global value chains; and changes in the balance between trade in goods and services. Lack of progress on the opening of global markets to trade – together with increased protectionist pressures – has added to the unprecedented trade slowdown.

But beyond these factors, relatively little attention has been given to the impact of trade finance shortages on sluggish trade growth. The results of the latest ICC Banking Commission survey report show that this is an area which requires much greater – and indeed urgent – attention from policymakers going forward. It is clear that a majority of small businesses now experience significant problems access trade credit – with almost 60% of applications for trade finance now rejected by banks.

What does this mean for the outlook for global growth? It has become somewhat of a cliché since the financial crisis to describe small- and medium-sized enterprises (SMEs) as the backbone of the global economy. But the figures show this to be an incontrovertible truth: globally 95% of enterprises are SMEs, representing around 60% of private sector jobs. In Europe, official estimates suggest that SMEs play an even greater role in promoting employment and social cohesion-providing two out of every three jobs in the private sector.

So the shortfall in trade finance for SMEs comes with a huge knock-on impact for economies and families across the world. In short, our research shows that the enormous potential of small businesses to create jobs and growth is being held back by increasingly limited access to trade finance.

Banks need to be prudent and financial regulation is, quite rightly, more demanding today than it was before the financial crisis. But if policymakers are serious about creating jobs and growth, we must urgently help deserving businesses get financing for their international operations. Our survey shows a number of areas that require urgent attention from policymakers – in particular the unintended effect of financial crime compliance on the ability of banks to finance trade. We also need to address skills shortages within the banking sector with regard to trade – something the ICC Academy was established to address just over one year ago.

We look forward to working with our partners – both in the public and private sectors – on these vital agendas in the months ahead.

A handwritten signature in black ink, reading "John L. Danilovich".

John Danilovich
Secretary General,
International Chamber of Commerce



SUMMARY REVIEW

With the purpose of identifying the highlights of this report, the following section outlines the key patterns, challenges and opportunities determined in trade and finance.

Key Findings and Expert Insights >



KEY FINDINGS AND EXPERT INSIGHTS

Global trade is key to the continuing expansion of economic development, alleviation of poverty and stability. Although not perfect, global trade has by and large delivered positive results to the global community.

The ICC was established by people with a shared vision of creating international prosperity through cooperation and business nearly 100 years ago in 1919 – the Merchants of Peace!

With the fall of the Berlin Wall in 1989, it was not only the wall that fell, but other trade barriers started to crumble. Since then global trade has been growing in pretty much a consistent manner. There were some drops and recoveries but the long term trajectory has been positive global trade growth, both in volume and value terms. Growth in the world economy was overtaken by exceptional growth in trade.

From 1990 towards the end of 2008, world merchandise trade growth accelerated at approximately two times the rate of world GDP.

The ICC Global Trade Finance Survey reports have consistently highlighted the challenges impacting the continuing expansion of international trade and in turn international trade finance.

We are now facing a new reality.

- The reality is that 2016 is likely to be fifth consecutive year in which global trade growth was below global GDP growth.
- The reality is that we saw growth of 2.7 per cent in trade volume terms for 2015 which means volume trade growth for the past 5 years has been under 3%.
- The reality is that the monetary value of world merchandise exports declined by 14 per cent in 2015, down to USD 16 trillion from USD 19 trillion in 2014.
- The reality is that the WTO has recently downgraded its forecast for world trade growth in 2016 to 1.7 percent, down from the WTO's previous estimate of 2.8 percent in April.



On the positive side, at the G20 meeting in Hangzhou, leaders of the G20 members, which account for 80 percent of the world's trade, agreed to promote growth by formulating a strategy for global trade development and creating guiding principles for the introduction of a global investment.

As President Xi Jinping urged at the G20, it is time to deliver 'real action' and 'no empty talk'.

The only way to solve a problem is to be aware of the problem, to take ownership and decisive action. The ICC Global Trade Finance Survey report is one of the primary channels to provide policy makers and commercial counterparties with timely international trade and finance insights and market intelligence to make informed forward looking decisions.

Developing markets facing headwinds

It was encouraging to see that developing economies had advanced to have a 42% share of merchandise trade in 2015, it was also encouraging to see the WTO report that merchandise trade between developing economies had increased from 41% to 52% of their global trade in the last ten years. Furthermore, trade between emerging and advanced economies now exceeds trade among advanced economies.

However, the developing economies remain over reliant on primary commodities which are priced in US Dollars. Any dramatic fall in commodity prices can have an immediate and dramatic impact on local liquidity and ability to trade and access trade finance in some of the poorer countries striving to expand cross border trade.

Since January 2016, primary commodity prices have fallen more than 50% on average with drops of around 20% for food and beverages, 30% for metals, and 65% for energy.

Facing this backdrop, where commodities are predominantly priced and funded by trade finance in USD, we have seen that trade growth turned negative in 2015 for emerging

markets. Furthermore, the uneven impact of low commodity prices and consequent imbalances can be seen across all markets. Clearly, commodity importers are faring substantially better than net commodity exporters: growth forecasts in 2016 for the commodity exporters have been scaled back to just 0.4% from 1.6%.

It is true that base commodities including fuels and mining accounted for more than half of the plunge in the value of trade in 2015, but that is not the full story. Declining trade in manufactured goods, agricultural products and even international services also contributed to the overall trade decline.

Despite challenges Asia remains a primary market for trade finance

Despite the much publicised challenges facing trade in Asia, the ICC Global Trade Finance Survey underlines the continuing importance of the Asian markets, and in particular for trade finance. China may be rebalancing its economy, but trade, even though it may become a smaller component will continue to be a major contributing factor in what will remain one of the countries near the top of the field in the GDP growth stakes.

Asia will continue to deliver the primary growth with global trade supply chains remaining materially anchored in Asia. While the growth rate is slower, China is now a much larger and more diversified economy. Since the financial crisis of 2008 it is estimated that the Chinese economy has grown in size by 85%. It was interesting to observe that 18% of respondents to the 2016 ICC Global Survey on Trade Finance reported that the Asian market remain their primary markets for trade finance. This figure is down from approximately 21% in 2015. Despite this moderate decrease the continuing importance of the Asian market for trade finance must be taken into account. Trends in terms of corporate debt and the nature of that corporate debt in Asia will assume increased importance in terms of trade finance risk management.



Africa focus: a continent of challenge – a continent of opportunity

Through research interviews and a highlight on Africa in the ICC Global Trade Finance Survey report 2016 it can be seen that the challenges in facilitating international trade and finance across Africa are enormous. In particular, Africa has encountered extreme difficulties in terms of the collapse in primary commodity prices.

Africa has suffered in terms of trade finance business volumes and values. With 80% of exports based on unprocessed commodities where letters of credit are predominant, the unprecedented fall in the value of commodities has had a huge impact not only in terms of business but also created liquidity gaps for many banks across Africa.

The China-Africa trade corridor also experienced setbacks in 2015. In December 2015, Africa's exports to China fell by 7.6%, receding for the 14th straight month. Total Chinese imports from Africa also fell by 40% to USD 45 billion in 2015.

De-risking and regulatory changes are adversely affecting trade finance flows and financial inclusion, especially for smaller banks and their SME customers across Africa.

Despite the challenges, there are significant opportunities in Africa. The Continental Free Trade Agreement (CFTA), agreed to by all African heads of state in 2012 is looking towards implementation in 2017. This agreement will create the largest free-trade area in the world, by number of countries. It will establish a single market with an estimated 2 billion people by 2020 and a potential gross domestic product of more than USD 3 trillion.

The negative consequences affecting Africa can also be seen in the SWIFT data reported for 2015 in that Africa is identified as the region that has experienced the highest annual decrease in import and export letter of credit messaging traffic with falls of more than 15% and 13% respectively.

Trade finance activity in volume terms increased moderately – troublesome trends persist

It was somewhat encouraging to see that 52% of the respondents reported increased trade finance activity in volume terms, though lower than 63% in last year. Despite market and operational challenges 89% of respondents felt that their bank's ability to satisfy their customers trade finance needs had remained stable or their ability to satisfy customers had increased.

In terms of trade finance fees, approximately 65% of respondents cited that there was no increase in trade finance fees during 2015. However, 31% of respondents expect to see trade finance fees increase during 2016 which is due predominantly to increased costs in terms of compliance and consequently, operational risk management.

The troublesome trends with claims under guarantees, court injunctions barring payment of bank independent undertakings, and allegations of fraud, continue to persist:

- 21% of respondents reported an increase in claims under bank guarantees and standby letters of credit.
- 15% of banks reported experiencing an increase of court injunctions.
- 13% of respondents reported an increase in the troublesome issue of allegations of fraud.

The good news, despite some jurisdictions taking excessive time to render judgments, is that the independence principle continues to be supported and protected through judicial decisions, with courts in the majority of jurisdictions guided by the major legal traditions, clearly recognizing the fundamental value of trade finance instruments and the importance of the principle of independence.

Trends in SWIFT messaging underline the low trade growth reality

Overall SWIFT trade finance traffic fell for the fifth year in succession during 2015 with a decline in volume during 2015 of almost 5%. This drop was steeper than that experienced in 2014 of 1.79%. The figures for issuance of documentary credits, the cornerstone trade finance product are particularly insightful where an accelerated rate of decline to 3.76% was experienced in 2015. Furthermore, it is worth noting that we have to go all the way back to 2009, in the aftermath of the financial crisis to find a lower volume of MT700 messages compared to that now reported in 2015. The decline in SWIFT trade finance traffic is global in nature with all regions experiencing falling SWIFT messaging volumes during 2015.

Africa was the region that showed the steepest annual decrease of 15.25%.

Cross border factoring moving forward but at a moderate pace

Factoring and variations of the product have been leading the charge in the expansion of trade and supply chain finance in recent years. However, the figures for 2015 for the growth of factoring around the world are also anaemic having increased only by 1.1% in 2015. Domestic factoring around the world actually declined in 2015 by 1% compared to 2014. In terms of trade finance and cross border supply chain, then international cross border factoring turned in a reasonably impressive positive growth rate of 8%. This growth in cross border factoring was driven predominantly by Europe. In 2015, even though Asia was the second largest factoring market, Asia experienced a decline of approximately 8%. The largest factoring market in Asia continues to be China where factoring remains popular with Chinese corporations.

Consistent with the indicators for trade activity for Africa, factoring across the African continent dropped by 13% in 2015. However, we believe that in the context of factoring and the African continent the glass remains 'half

full' and not 'half empty', in that Africa with its huge concentration of SME's and natural resources and only accounting for 1% of the global factoring market can, with the correct policies, legal structures and guidelines, experience significant factoring and other supply chain finance growth and expansion.

Berne Union members show support for short and medium term export credit insurance

The importance of the role played by Berne Union members in supporting cross border trade can be seen in that during 2015, Berne Union members supported approximately 11% of global trade. This was up from 10% of global trade supported in 2014. However, consistent with the falling product values in dollar terms the overall total value of Berne Union supported trade came in at USD 1.78 trillion which was a decline of 7% in 2014. In the context of current developments in international trade finance it is interesting to note the significance of the short term business which comprised USD 1.59 trillion of the overall cover written by Berne Union members, whereas despite the strategic importance of the medium and long term business, the figure for the latter came in at a much smaller figure of USD 154 billion.

The mission critical role played by the Berne Union members in keeping supply chain lines open to emerging markets since the financial crisis can be seen by the fact that since the financial crisis, Berne Union Members have paid out approximately USD 35 billion to exporters and banks in respect of defaults by buyers and other obligors.

Here again we see trends moving deeper into negative territory. Short term claims paid out by the Berne Union members rose from USD 2 billion in 2014 to USD 2.6 billion in 2015. In the context of claims paid out under the medium to long term transactions covered by Berne Union Members the numbers are also quite alarming with claims paid to policy holders amounting to USD 3.25 billion in 2015, a significant increase of 51% when compared to 2014 defaults of USD 2.15 billion.

Multilateral development banks going where commercial banks will not venture

The positive work of the multilateral development banks supporting trade transactions which would otherwise not be covered by commercial banks without MDB support is commendable. Billions of dollars of trade deals are supported through the MDB trade facilitation programmes which, without the MDB support, would never happen. When most of these transactions are supporting poorer developing markets and their SME sectors, this work takes on even greater importance. At time of writing this report, collectively the EBRD, the IFC, the IDB, the ADB and the ITFC have facilitated trade finance transactions in challenging markets to a level in excess of USD 120 billion.

In this report you will learn of the important work of the African Development Bank, which through its open door policy for trade is supporting trade through the banking sector across the continent of Africa, right down to the smallest grassroots SMEs.

SME's hardest hit by the trade finance gap and compliance challenges

Overall, in this years survey it was reported that 44% of proposed trade finance applications had been submitted by SMEs, 40% by large corporates and 16% by multinational companies. Many of these trade finance proposals were declined by banks, but SMEs were hardest hit. Of all the declined trade finance proposals, over half of them (58%) were submitted by SMEs. The rate of declined trade finance proposals from SMEs can be seen to have moved up from 53% reported for 2014.

Compliance is now part of the global financial system and rightly so. However, the percentage of respondents citing anti-financial crimes compliance as a significant impediment has been increasing, reaching 90% of respondents in this years 2016 survey, up from 81% in last year's survey.

Clearly, difficulties remain due to differing standards being applied - 65% of respondents consider that the lack of compliance harmonisation between jurisdictions is a great challenge to the trade finance industry, an increase from 53% reported last year. Again SME's are feeling the burden with 75% of respondents identifying SMEs as the customers most negatively impacted by more strict compliance standards.

Through detailed research and analysis conducted by the Asian Development Bank, the global trade finance gap currently stands at USD 1.6 trillion, USD 693 billion of which is in developing Asia.

Conclusion - turning challenges into opportunities

Recent global events and trends as reported in the 2016 ICC Global Trade Finance Survey are reported as being predominantly negative at this point in time for the international trade and finance communities across the globe.

However, following the G20 meeting in Hangzhou, China, the ICC put forward 4 practical steps that G20 can take in the coming months to revitalise world trade as a driver of growth, opportunity and jobs:

1. Ratify the WTO's Trade Facilitation Agreement

Four G20 countries are yet to ratify the World Trade Organisation's landmark Trade Facilitation Agreement forged in 2013. ICC has called for the deal to be ratified and implemented without delay to facilitate access to global markets by reducing unnecessary red tape at borders. The deal could add more than USD 1 trillion to global trade flows, creating 20 million jobs in the process. G20 governments need to lead by example in ensuring this agreement is implemented without further delay.

2. Stop protectionism in its tracks

A recent WTO report cited that between mid-October 2015 and mid-May 2016, G20 economies had introduced new protectionist trade measures at the fastest pace seen since 2008.

ICC has been clear that tackling protectionism should be a first order priority for the G20 and has called on the G20 to lead by example when it comes to refraining from introducing new trade barriers.

3. Spearhead talks on digital trade

In a letter to the Financial Times published Monday, ICC Secretary General John Danilovich said that spearheading talks on a new e-commerce agreement under the auspices of the World Trade Organisation could “unleash a new era of genuinely inclusive growth”.

With studies showing the growth of small- and medium-sized enterprises using online platforms to be five times more likely to export than those in the traditional economy, ICC believes efforts to level the global trading field must start with a concerted push to address remaining barriers to Internet-enabled commerce.

4. Make the case for why trade matters

ICC couldn't agree more with the G20's analysis that the benefits of trade and open markets must be communicated to the wider public more effectively. But amid souring public opinion on trade in many of the world's largest economies, what is the best way to explain how and why trade matters for all?

Launched earlier this year, ICC's TradeMatters campaign aims to promote a balanced and evidence-based debate on the role of trade in today's economy.

The G20 summit in China concluded with a pledge to fight protectionism and to boost trade growth and innovation because trade really matters.

President Xi Jinping declared in his closing G20 remarks: “We have agreed to support the multilateral trade system and oppose protectionism - We need to reignite the engine of growth via innovation.”

When we consider that the G20, represents 85 per cent of the world's gross domestic product and two-thirds of its population this declaration provides a solid platform for the advancement of trade and the continuing benefits that it brings to people in all corners of the world.



Vincent O'Brien

Member of the Executive Committee,
ICC Banking Commission Chair,
ICC Banking Commission Market
Intelligence Task Force



THE FULL REPORT

A detailed statistical analysis of the regional and global trends in trade and trade finance, followed by a digest of the latest trends in the support of trade operations by export finance, export insurance, forfaiting, factoring, as well as multilateral development banks, and views on the growing relevance of digitisation developments and the importance of financing trade sustainably.

[Global Economic Outlook >](#)

[Prospects For Global Trade >](#)

[Global and Regional Trends in Trade Finance >](#)

[Swift Trade Messaging Trends for the Calendar Year 2015 >](#)

[Business intelligence >](#)

[The SWIFT portfolio >](#)

[Trade Finance and SMEs: A Call for Action >](#)

[Analysis of Global Trade Finance Gaps >](#)

[Business Trends in export Finance >](#)

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[Trade Finance Landscape in Africa](#)

[Trade Finance Landscape in Africa: IFC Perspective](#)

[A New Era of African Trade Finance:](#)

[The Opportunities and Challenges for Local Banks](#)

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[Digitisation of Trade and Trade Finance >](#)

[ICC and the Banking Commission: Advocacy and engagement at the highest levels of the international system >](#)

[Multilateral Development Banks' Trade Financing >](#)

[Interview: Trade facilitation and development >](#)

[Notes >](#)

[Closing remarks >](#)

GLOBAL ECONOMIC OUTLOOK

World Bank Group contribution

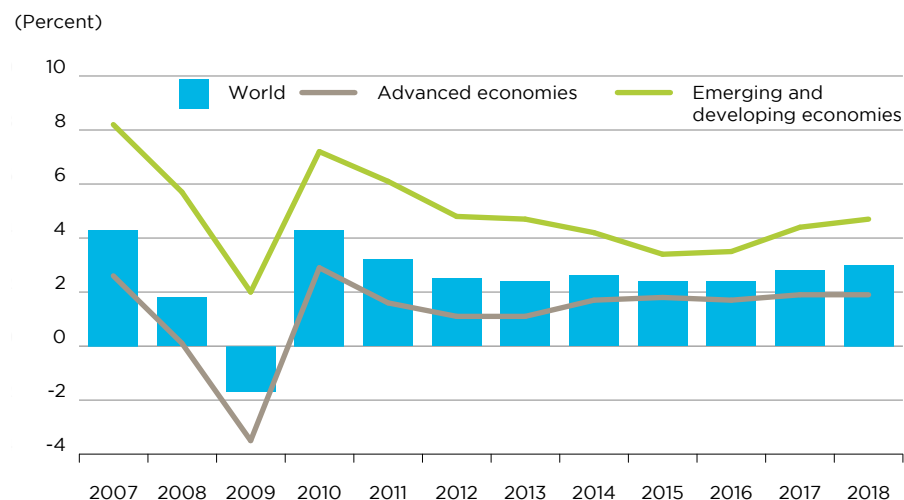
Global Trade Prospects

Seven years after the global financial crisis, the world economic outlook is one of sombre realities and pronounced risks. Momentum has yet to return, with global trade growth reaching a post-crisis low. Advanced economies, emerging markets, and developing economies each face a potent cocktail of interrelated challenges: sluggish growth, weak demand, tighter financial conditions, less global investment, and low commodity prices. And while there are hopes of recovery picking back up in 2017 as conditions in stressed economies begin to improve, the outlook for 2016 still reflects last year's disappointing pace. Global economic growth is projected at 2.4 percent, half a percentage point lower than January 2016 forecasts (Figure 1). The volume of world trade is expected to stay below 3 percent for the fifth consecutive year.

3%

**The volume
of world trade
stays below
3% for the fifth
consecutive year**

Figure 1: Global growth



Source: World Bank Group, 2016

1.6%
=>
0.4%

**Growth forecasts
for energy
exporters down
in 2016**

Prospects for growth remain uneven across emerging markets and developing economies (EMDE). In fact, a visible divergence in performance has emerged across EMDEs, largely based on whether or not the country is a commodity importer or exporter. Brazil and the Russian Federation, for example, continue to be mired in recession. Downward revisions have been largely based on shrinking growth forecasts for commodity-exporting EMDEs, exacerbated by weaker terms of trade and downside risk in the macroeconomic environment. Exporters of oil and other energy commodities have been particularly hard hit. Growth forecasts for energy exporters have been dialled back significantly, from 1.6 to just 0.4 percent projected growth in 2016.

Meanwhile, commodity-importing EMDEs have been more resilient, despite strong economic headwinds. Domestic demand in these countries (excluding China) has been consistent and is expected to accelerate. As a result, growth is projected to remain steady for this group, at 5.8 percent.

In China, the transition to a more balanced growth path continues. Credit and investment growth have slowed, as has industrial activity. In combination with the unwinding of prior excesses in the economy, concerns about global impact have caused some headwinds. Yet policy support measures continue to mitigate the effects of the slowdown. The country is registering robust growth in the services sector and consumption continues to grow, contributing 4.6 percentage points to GDP growth in 2015. Overall growth is expected to slow slightly to 6.7 percent in 2016, and average an estimated 6.4 percent from in 2017-2018.

Taken as a whole, growth in EMDEs remains below potential at 3.5 percent, 0.6 percentage points below earlier projections.

For low-income countries, the projection for growth is slightly less, at 5.3 percent for 2016. Lower commodity prices on export markets, as well as on-going security and political challenges, cooled off growth to just 4.5 percent in 2015, its weakest pace since 2009. As a result, the forecast for 2016 has been trimmed by 0.9 percentage points.

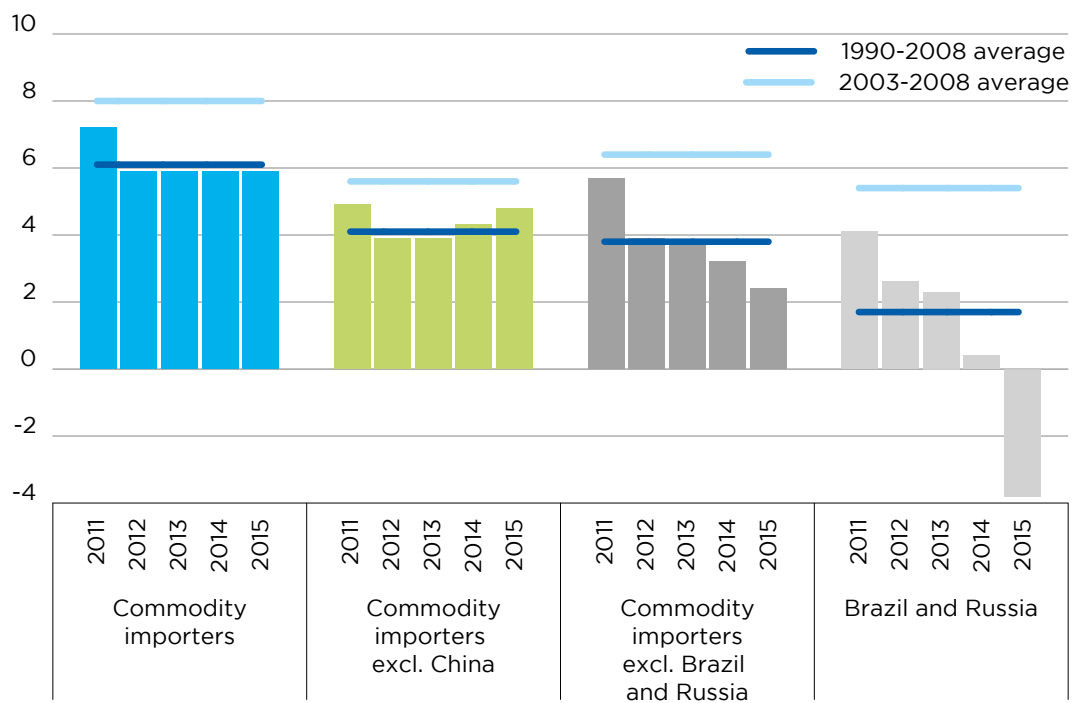
“Brexit”, the exit of the United Kingdom from the European Union (EU), may have a negative impact on trade and investment flows not just for the UK, but also for the countries with the largest exposure to the UK. The indirect impact of a Brexit-induced recession in the UK may also be felt in the EU because of their strong trade, investment, and financial linkages. The magnitude of these impacts will depend on the type of trade relationship that the UK negotiates with the EU, the duration of the negotiations, and the market confidence in the leadership of the UK, EU and other mayor players during the transition period.

The major effect of the Brexit vote is the withdrawal of the UK from the EU project of deep economic integration, raising the possibility that the same doubts that gave rise to Brexit lead to an interruption of trade openness and integration in other parts of the world.

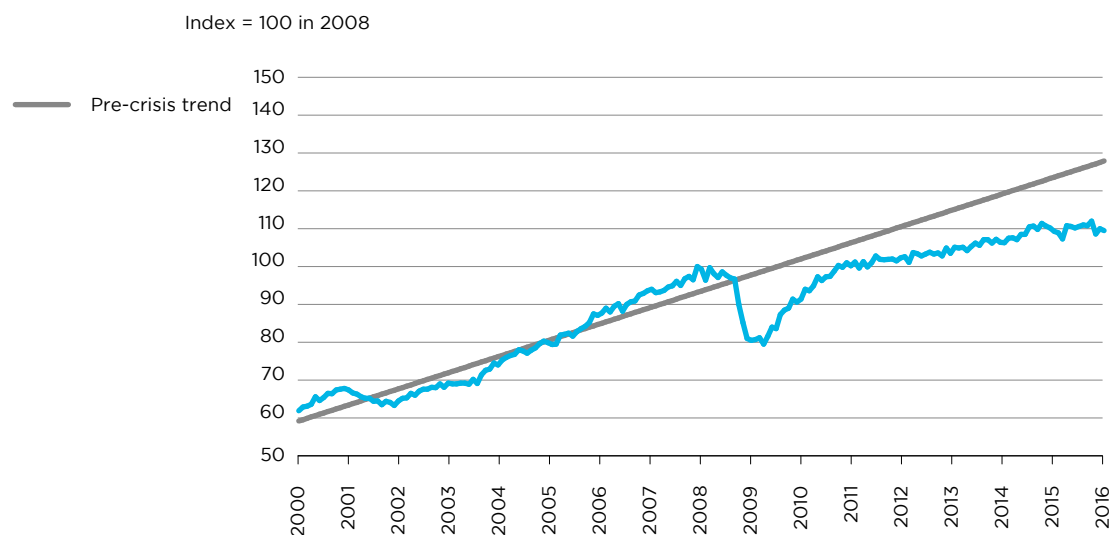
In other advanced economies, despite a boost from lower energy prices and improvements in labour markets, growth is expected to level off rather than strengthen in 2016. Growth is now forecast at 1.7 percent, down 0.5 percentage points from January. Any expectations of a stronger recovery in 2017 will hinge on growth in EMDEs, as growth in advanced economies is expected to remain muted.

Figure 2: GDP growth

(Percent)



Source: World Bank

Figure 3: Trade volumes

Source: World Bank

Contraction of commodities imports in Brazil, China and Russia

Some of the downside risks identified at the start of 2016 persist. Sluggish growth in advanced economies, geopolitical uncertainties, and stubbornly low commodity prices are most evident. There is also the potential for a sharper deceleration in major emerging markets. Eroding confidence in policy effectiveness could exacerbate protectionist sentiment and trigger financial market turbulence, which would have particularly outsized ramifications for EMDEs. The willingness of policymakers to use expansionary fiscal policy, the effectiveness of monetary policy stimulus, and the pace of monetary policy normalization in the United States should be watched closely.

Global trade trends in 2016 – Slowdown in trade

The slowdown in world trade since the global financial crisis shows few signs of abating, as economies remain plagued by a combination of cyclical and structural headwinds.¹ Declining commodity prices, China's rebalancing, and soft activity in advanced economies pushed merchandise trade to a post-crisis low in 2015. Lower commodity prices have reduced real incomes and led to currency depreciation in commodity exporting countries, contributing to lower import demand. This contraction in imports was especially sharp in Brazil and the Russian Federation, but had wide-reaching effects in EMDEs.

Demand for imported industrial commodities and intermediate goods continued to fall in China. In the United States and the Euro Area, subdued industrial activity and capital expenditure in the manufacturing sector generated further concern. All of this was compounded by concerns over stresses in other large emerging market economies and an overall decline in investment growth across emerging market economies, in part due to low commodity prices. These trends are likely to persist in 2016.

As a bright spot, trade in services has proven to be more resilient than trade in goods. According to recent calculations, services trade now accounts for one fifth of global trade volumes and half of value-added trade globally.² Services embedded in exports are critical to trade in global value chains. However, recent research suggests the trade slowdown has reduced the scope for productivity gains through further fragmentation of production, specialization, and technology transfer in GVCs.³ With supply chains in some sectors maturing (and even shortening), the slower pace of trade liberalization, and declining global investment, global trade is only expected to marginally outperform GDP growth over the next few years.

WTO G20 trade measures

The application of new trade-restrictive measures by G20 economies has also not helped global trade. According to the WTO's latest trade monitoring report⁴, G20 economies applied 145 new trade-restrictive measures between mid-October 2015 and mid-May 2016. Averaging almost 21 new measures a month, this marks the highest monthly average since the WTO began its monitoring exercise in 2009. It also brings the total of trade-restrictive measures over that time to 1,583—less than a quarter of which have been resolved and removed. According to WTO Director-General Roberto Azevêdo, this stockpile of measures, in combination with the notable rise in anti-trade rhetoric around the globe, could have a further chilling effect on global trade.⁵

Trade in services:

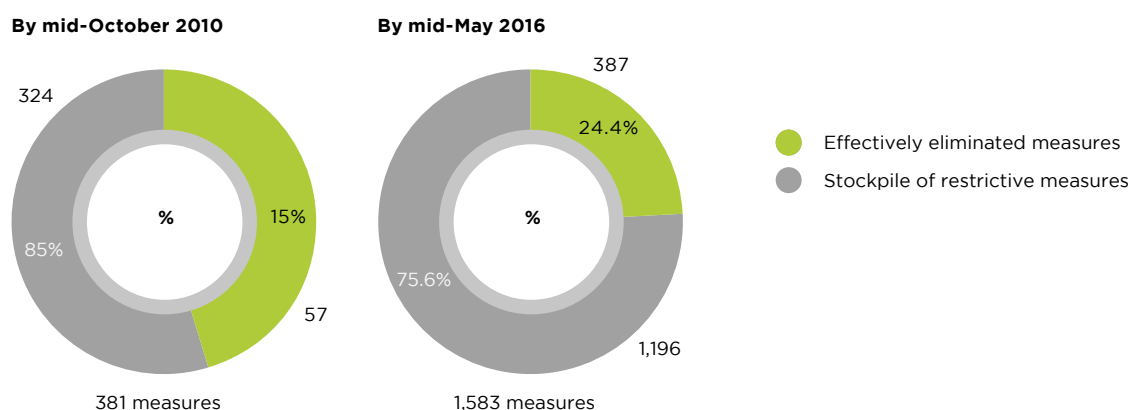
1/5

of global trade volumes

1/2

of global value-added trade

Figure 4: Stockpile of trade-restrictive measures



Source: WTO Secretariat



Financial volatility

Following a turbulent start to 2016, financial market conditions have improved. A short-lived, yet significant market sell-off reflecting concern over the global economic outlook and a sudden re-pricing of credit risks had a pronounced effect on highly leveraged energy companies and banks. The oil and gas industry was hurt by further slides in the oil price, leading to heightened concerns of default risks and a notable increase in credit spreads to levels not seen since 2008-2009. Energy companies in EDMs are among the most leveraged.⁶ Major state-owned oil companies have been issuing bonds at very high rates, with the share of bond issuance by energy companies worldwide doubling from 16 percent to 32 percent since 2010. Lower revenues and reduced collateral values are impacting balance sheets, and could still lead to a rise in defaults.⁷ However, on the whole, banks' exposure to credit risks in the energy sector remain manageable.

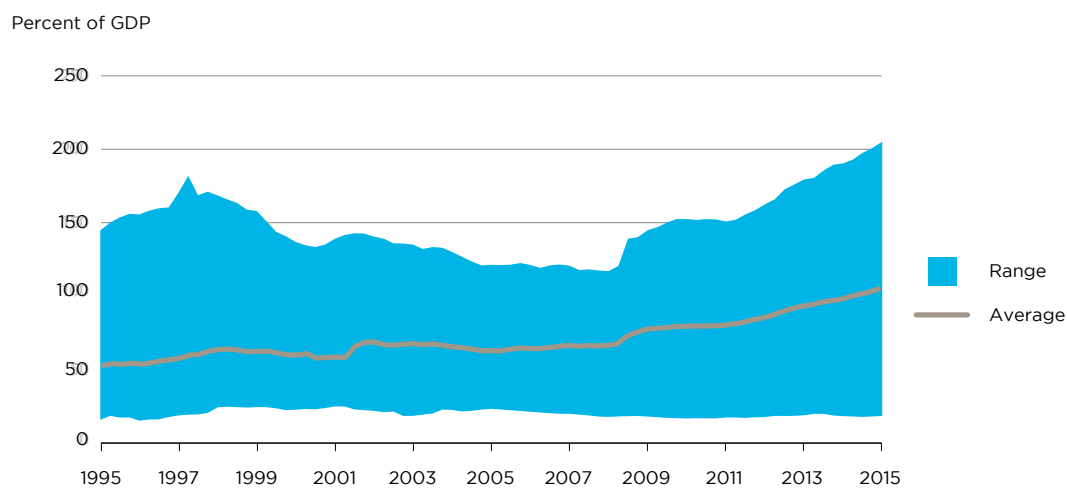
For their part, many international banks have offset declining interest revenues with higher lending volumes, lower risk provisioning, increased fees, and capital gains. Concerns at the start of the year over balance sheets had centred on slowing growth in advanced economies and the possibility of sustained low and negative interest rates cutting into profits, especially in the Eurozone and Japan, but these have eased somewhat. The US Federal Reserve seems unlikely to materially raise interest rates in 2016, meaning it is also unlikely that the European Central Bank or Bank of Japan will need to offset normalization through additional monetary policy accommodation.

For EMDEs, capital flows remain vulnerable to changes in investors' risk appetite and tighter financing conditions. Both have improved after a volatile start to the year, due in part to strong signals from major central banks that they will keep interest rates low. Rating agencies continue to reassess credit risks of EMDE borrowers, particularly commodity exporters. Several have been downgraded since the start of 2016, including Bahrain, Brazil, and Saudi Arabia. Low commodity prices in the mining sector have also reduced investment prospects, including foreign direct investment, in many EDMs. But FDI has historically been relatively less affected by short-term fluctuations in global financial markets. Reinvested earnings and intercompany loans are again projected to account for more than half of FDI inflows in 2016.

Private sector credit

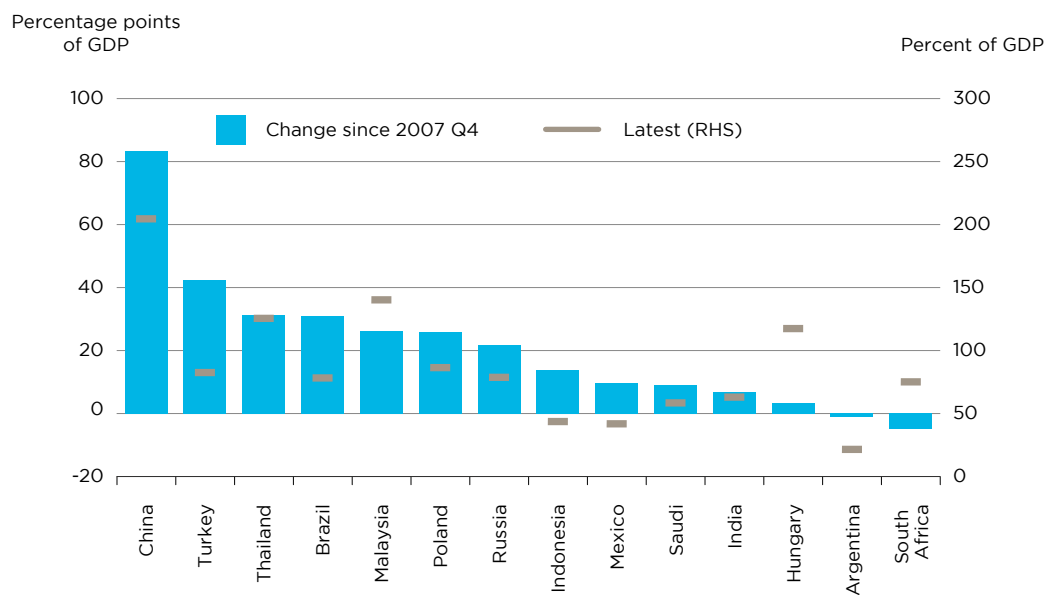
One final trend to keep an eye on: the rapid increase in private-sector credit in EMDEs since 2010. Credit growth in commodity-exporting EMDEs, in particular, has been increasing at a pace and at ratios of credit-to-GDP associated with past credit booms. Most EMDEs are still some distance from the thresholds generally considered a warning sign in the literature, and policy buffers to respond to financial stress are much more robust in these countries today than they were in the 1990s. However, there is a risk that slow growth could lead to private sector losses, requiring governments to step

Figure 5: Private sector credit in EMDEs



Source: World Bank

Figure 6: Private sector credit in selected EMDEs



Source: World Bank

201

**information
technology products
to have tariffs
eliminated within
the next 3 years**

in and provide financial support. If such a scenario were to follow as in past episodes of financial stress, this could lead to significant increases in public debt, shrinking fiscal space, and a rise in borrowing costs.⁸ All of which could result in difficulties managing fiscal policy while in the midst of a growth slowdown.

The situation is less of a concern in commodity-importing EMDEs, where credit has generally been stagnant or shrinking. Credit to the nonfinancial private sector has been the outlier, growing considerably higher (in percent of GDP) than levels seen in past credit booms. But that growth has begun to slow.

Heightened policy and geopolitical uncertainties: room for reform?

Against this backdrop of a slow-growing global economy and a relatively weak recovery, policymakers must identify room for reform. The capacity for monetary and fiscal stimulus has narrowed in many cases. And while reforms are never easy to introduce and implement, well-targeted structural reforms could do much to reduce vulnerabilities and signal to investors that government is committed to boosting medium- and long-term growth. The case for state-led investment in public infrastructure and human capital may be one promising path forward in the current low-demand, low-interest regime. Countries with less fiscal space may not be able to fill such gaps in the short term. However, much can still be done to reduce barriers to trade and investment.

On the positive side, this is already happening to some degree. The WTO reports that a total of 100 trade facilitating measures were enacted between mid-October 2015 and mid-May 2016. This represents a slight uptick in action, and the implementation of general economic support measures by G20 countries appears to be on the rise.⁹ In addition, the majority of investment policy reforms introduced in G20 countries over the same period were aimed at enhancing openness for foreign investment.¹⁰ Yet despite these efforts, investment is not necessarily easier or more attractive. Less tangible and measurable barriers remain, including the often cumbersome administration of policies and a lack of clear signals to the investment community.

Beyond national borders, policy developments in the international arena are also key to boosting the global recovery. The WTO Trade Facilitation Agreement will take effect once two thirds of members ratify the protocol of amendment and notify the WTO of acceptance. As of mid-July 2016, 86 countries had already ratified the agreement, quickly approaching the necessary total of 108. And as of 1 July 2016, WTO members implemented the first wave of tariff reductions under the WTO Information Technology Agreement. Over the next three years, tariffs will be eliminated on 201 information technology products, which could have significant spillovers on firm productivity and profitability through more intensive and extensive use of information technology.

These efforts, along with the potential for more and deeper bilateral and regional trade agreements, could help reinvigorate global trade.

Policymakers will have to balance national priorities with international ambition, forging a path forward in a time of limited capacity for monetary and fiscal stimulus. Domestic policy reforms should focus on structural conditions, enhancing integration, and the removal of barriers to trade and investment, all while keeping an eye on frontier issues and the evolution of the global trade landscape.

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PROSPECTS FOR GLOBAL TRADE

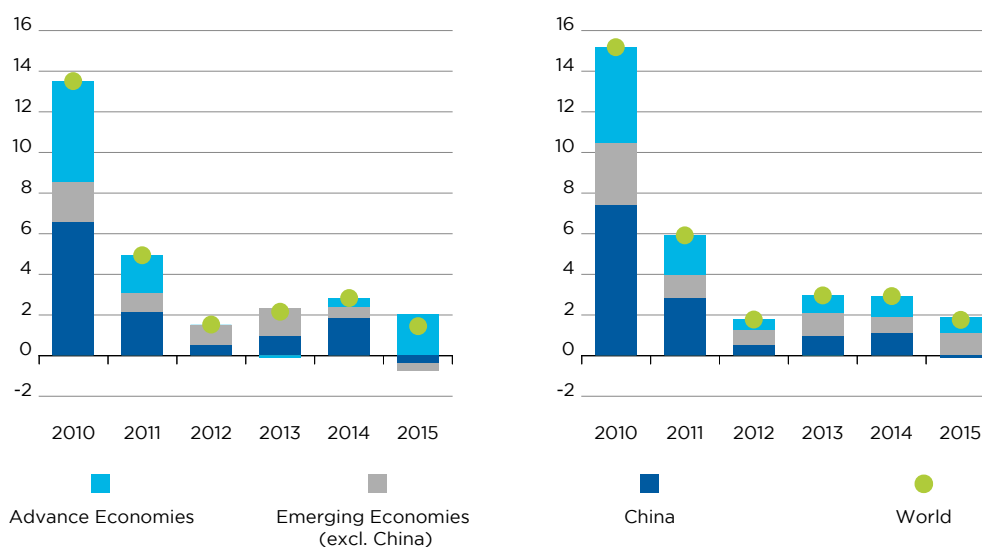
Already-weak world trade growth slowed further during 2015, triggered by weaknesses in global investment and in emerging markets

Despite an estimated global GDP growth of 3.1 percent in 2015, world import volume growth is estimated to have slowed to 1.3 percent (Figure 7).¹¹ This further slowdown prolongs the weak trade growth seen since the global financial crisis (GFC). Emerging market economies (EMs) contributed most to the trade recovery after the GFC, but EM trade growth turned negative in 2015. Declines in their import growth accelerated late in the year, reducing average EM import growth to -1.8 percent during the year. This flagging trade performance in EMs may have now also begun to affect exports of advanced economies.

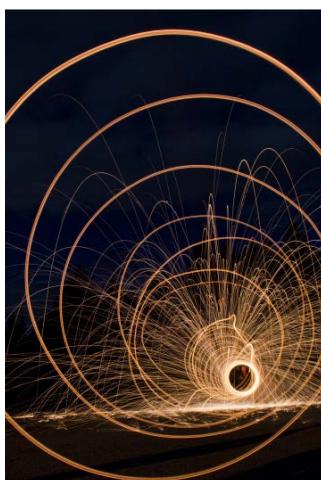
Trade growth turned negative in 2015 for emerging markets

Figure 7: Contribution to growth in world trade volume, 2010-2015

Import and Export volumes



Sources: CPB Netherlands Bureau of Economic Policy Analysis, and IMF staff calculations



The slowdown in world trade has become increasingly prominent since the global financial crisis

Global trade volume growth was nearly 7 percent per year on average during the 1990s, roughly 2.2 times world real GDP growth. Trade growth started to decelerate in the 2000s, particularly relative to world GDP growth. From 2008 to 2014, international trade grew at less than half the rate of 1991-2000, with the trade elasticity (the ratio of trade growth to GDP growth) falling to about 1. In 2015, world trade growth was of 2.7 percent, the lowest since the GFC. Available data on trade in services also show some deceleration since the GFC.

Cyclical factors have played a role in the slowdown, including in emerging market economies

Historically, the negative effect of a crisis on trade performance has tended to persist beyond the crisis itself¹², and there is evidence that the overall weakness in economic activity, in particular investment, has been a major constraint on trade growth since the global financial crisis. Trade weakness has been initially most pronounced at the epicentre of the crisis – in advanced economies, notably the United States and the Eurozone. In 2015, lower EM imports were a key driver. China's growth model has started to rebalance to one that is more dependent on domestic consumption and less dependent on investment and exports. As investment is more import-intensive than consumption, China's import growth has slowed considerably. Additionally, the fall in export revenues in many EMs outside Asia (importantly, through lower terms of trade) has led to a significant import contraction in these countries.

Figure 8: Average world trade and GDP growth, 1991-2015 (percent change, annual average)



Source: IMF World Economic Outlook

Structural factors are also likely weighing down on world trade

Key structural factors such as the maturation of many global value chains, and – after the GFC – changes in the composition of world income may be contributing to the slowdown. The trade elasticity increased as some regions experienced an international fragmentation of production through global value chains, and decreased as these regional processes matured¹³. The protracted weakness in global investment, originally associated with cyclical factors, may have become a more permanent influence weighing down trade. There was also a dearth of trade reforms in the 2000s which may have contributed to the lower trade elasticity. This is in sharp contrast to the 1980s and 1990s, which saw far-reaching trade reforms through unilateral liberalisation in developing countries, the Uruguay Round and establishment of the WTO, China's WTO accession, and large-scale preferential trade liberalization in EU expansions and NAFTA. While effects of these reforms have matured, no new large trade integration initiatives have yet come into effect. Lastly, a gradual build-up of protectionist measures since the GFC may also help explain the slowdown in global trade growth (see Figure 4: Stockpile of trade-restrictive measures, WTO Secretariat).

Several policy developments may help to indicate a way forward

Among these are several developments inside the WTO. The WTO Trade Facilitation Agreement (TFA) was concluded in December 2013 to reduce trade costs by strengthening customs practices, and will take effect when two thirds of WTO members complete their approval processes. The 53 participants of the WTO Information Technology Agreement (ITA) (agreed in December 2015) committed to eliminate tariffs on an additional 201 information technology products on a non-discriminatory basis. Finally, at the December 2015 WTO meeting, trade ministers agreed to eliminate remaining agricultural export subsidies. Outside the WTO, the Trans-Pacific Partnership (TPP) was signed in February 2016 by twelve countries¹⁵ that account for some 40 percent of global GDP. Members undertook commitments in many newer trade policy areas important to expanding regional and global trade as well as value chain integration.

The challenge now becomes harnessing such steps to reinvigorate trade integration more broadly

Recent progress on mega-regional agreements could spur a greater collective focus on multilateral negotiations. The path should preserve a development agenda, but also be grounded in addressing new issues facing the global economy and enhancing integration of production through global value chains. These frontier trade policy issues include services trade, investment, e-commerce, competition policy, intellectual property rights, and regulatory cooperation.

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2015 PERFORMANCE HIGHLIGHTS:

Total Assets: \$7.133 billion; **Gross Loans Outstanding:** \$6.168 billion; **Operating Income:** \$231 million; **Net Income:** \$125.32 million. **Winner:** Seven deals of the year awards (including Trade Finance Magazine's Best ECA in Africa; GTR's Best Deals of 2015; and EMEA Finance's Best Supranational Syndicated Loan). **Ratings:** Fitch: BBB-/F3 (stable); Moody's: Baa2/P-2 (stable).

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GLOBAL AND REGIONAL TRENDS IN TRADE FINANCE

ICC Banking Commission analysis

Key trade finance business and operational figures for the calendar year 2015

- Only 52% of respondents reported an increase in overall trade finance activity during 2015; down from 63% in 2014
- Commercial L/Cs make up 38% on average, of the trade finance product mix; down from nearly 45% in 2014
- Nearly 35% of respondents reported an increase in supply chain finance deals. For commercial L/Cs, on the contrary, nearly 50% of respondents reported a decrease
- 47% of respondents said their net income from trade finance had increased between 2014 and 2015
- 65% of respondents reported no changes in standard fees for trade finance instruments during 2015. However 18% anticipate fees to increase in the coming year
- 21% of respondents experienced an increase in claims made under guarantees and standby L/Cs
- 15% of banks reported experiencing an increase of court injunctions barring payment under bank independent undertakings
- 13% of respondents reported an increase in the troublesome issue of allegations of fraud
- 40% of survey respondents anticipate increased customer driven demand for confirmations of letters or credit
- 90% is particularly worrying as this is an increase from the figure of 81% reported in the 2015 survey
- 79% of respondents reported no change in their take-up of Bank Payment Obligations indicative that technology-driven change is not driving business practices substantially more in 2015 compared to 2014.



Overview

Trade, in large part across the globe, is undeniably dependent on trade financing, including the availability of financing and/or risk mitigation. This reality is increasingly appreciated in business, policy and academic circles, and directly relates to the effectiveness of trade as a driver of economic recovery, growth and international development – perhaps even stability and security. This overarching observation puts trade finance and supply chain finance in its appropriate macro context, and illustrates clearly why a previously underappreciated branch of finance has garnered such attention since 2009.

When analysing the global and regional impacts and trends in trade finance (including supply chain finance) it is important to distinguish between trends in the volume of international trade in goods and services versus trends in the monetary value of international trade in goods and services.

Trade finance limits, trade finance fees and business development within banks are based on forecasts and evaluations in monetary and currency terms.

Merchandise trade in volume terms, recorded a modest increase last year of 2.7%. However, the dollar value of world merchandise trade declined sharply in 2015 as the value of exports fell by almost 15 percent to USD 16 trillion, down from USD 19 trillion in the previous year.

World trade in services also moved decisively down with an unexpected 6 per cent drop to USD 4.7 trillion. Service sector trade is a reflection of the evolution of cross-border business activity moving upward along the value chain to higher-value activity, and is often used as a proxy to reflect economic development, in contrast to resource-based, low value-added trade, and for this reason, such a sharp drop in this important sector demands careful attention.

Trends in transport services provide forward guidance for trade expectations and in this context it is a matter of some concern to note that, according to the WTO, activities in the world transport sector fell by 10 per cent. While the reduction of activity is substantially driven by over-capacity in international transport, it is also a reflection of weaker than expected trade flow, including reduced consumption from major markets in Europe and the Americas, as well as reductions in flows from emerging markets to high-growth economies whose purchasing power has contributed to global demand and cross-border activity.

In considering that state of trade financing and supply chain financing, it is imperative to do so in the wider context of trade and supply chain activity, taking both a historical perspective and a forward view of trade flows, evolving trade corridors and sector-level activity as well as consumption capacity across regions and higher-growth markets in particular.

With responses from 357 respondents from 109 countries across the world the ICC Global Survey on Trade Finance 2016 provides substantive and compelling insights into trends affecting the international trade finance industry, and by extension, the cross-border commercial activity, economic value-creation and international development activities that are directly dependent on trade finance.

It is a matter of broad consensus that trade growth continues to be anaemic, and is at levels that are insufficient for trade to be the driver of economic recovery and growth – a role that it occupied for many decades prior to the global crisis, by outpacing GDP growth year-over-year.

Given that trade is one of relatively few commercial, economic and policy “levers” that can be influenced to drive growth, this is a matter of serious concern that has direct implications for trade financing, whether viewed from the demand side or the supply side. Limitations on the availability of timely and affordable trade financing (including supply chain finance, which can support far-reaching commercial ecosystems involving thousands of companies of all sizes) are contributing to modest trade growth, thus it must be a matter of priority to further understand the linkages between financing/risk mitigation and trade activity, ensuring adequate levels of the former, to help fuel growth of the latter.

The ICC Global Survey, enriched by data, insights and expert commentary from a variety of partners, contributors and specialists in trade, financing and development, provides a unique perspective on the foregoing issues, and can inform the decision of bankers, financiers, business executives and entrepreneurs, as well as policymakers at national, regional and international levels, with the objective of helping to restore trade as a driver of economic growth, value-creation and development.

Geographical spread of respondents

This 2016 survey reflects responses from 109 countries across the globe with a notable reduction in responses from Asia, which in 2015 represented approximately 25% of survey responses, versus just over 18% in the 2016 edition. This is worth highlighting, in consideration of the reality that many global supply chains, trade corridors and flows remain anchored in Asia, and several high-growth economies are in the region. Banks in Western Europe provided the greatest number of responses adding up to almost 20% of the responses received.

Overall, the geographical reach of the survey has improved with an appreciation by respondents that increased regional participation enhances the richness of the data collected for use as a resource by stakeholders and policy makers in international trade and finance.

ICC Global Survey on Trade Finance 2016

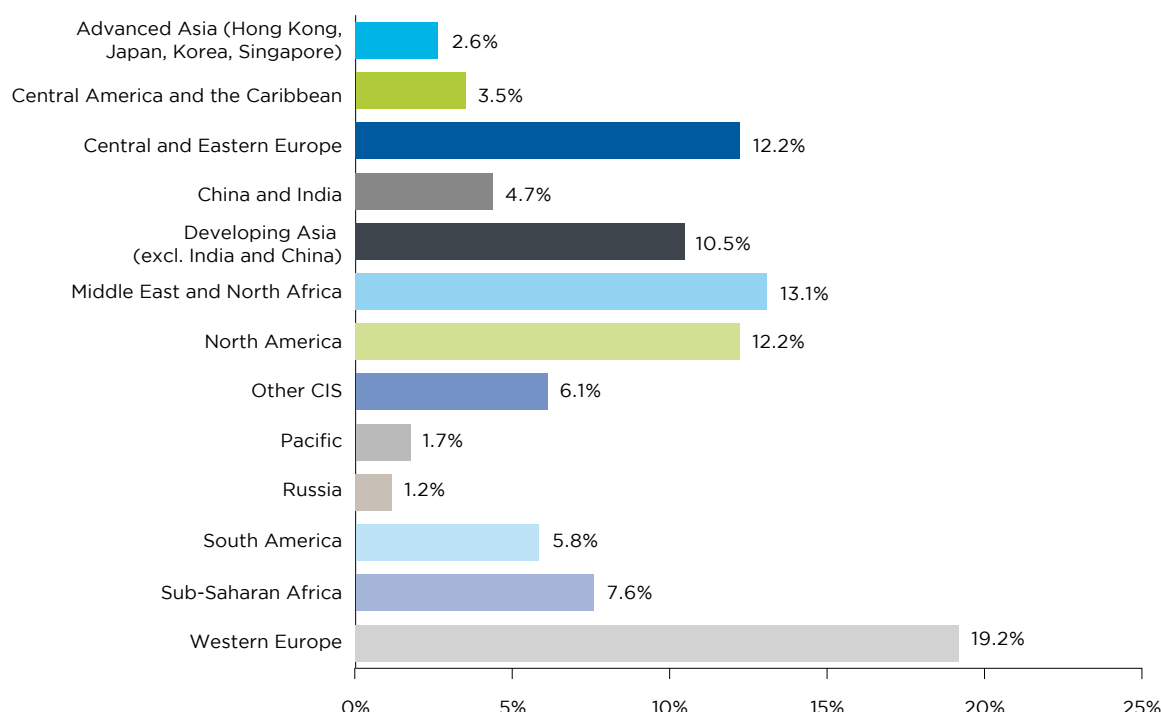
357

respondent banks

109

countries

Figure 9: Respondent geographical spread



Source: ICC Global Survey on Trade Finance, 2016

Employee level of respondents within trade finance banks

A large number of responses received were from smaller, national and regional banks in the 2016 edition of the Survey, with 54% of respondents coming from banks with less than 50 staff involved in trade finance processing activities. The participation of smaller banks indicates their active monitoring of the evolution of trends in the trade financing field, as well as their willingness to support market intelligence provision for the wider industry by providing their insights and data. The fact that more than half of the banks surveyed this year are smaller national and regional banks also reflects the efficiency of the partnership between the ICC Banking Commission and several multilateral development banks which encourage banks that are members of their Trade Facilitation Programmes to contribute to the questionnaire.

Banks employing between 51-150 people in their trade finance activities made up 18% of the contributions and banks with over 500 employees in trade finance accounted for just over 15% of respondents in the 2016 edition of the Survey.

The survey responses reflect a challenging trade finance environment for SMEs, which is articulated clearly in this report by the Asian Development Bank in the section “Analysis of Trade Finance Gaps”, as well as in the contribution from the WTO in the section titled ‘Trade Finance and SMEs: A Call for Action’.

Numerous reports, surveys and analyses have suggested that the post-crisis environment has been particularly difficult for SMEs and for developing economies in terms of access to finance and access to trade financing. The 2016 Survey supports these findings, reinforced in part because of the proportionately higher representation of these dynamics through the responses of smaller banks (with larger proportions of SME clients).

Regional market focus for trade finance business

Asian markets, despite the global slowdown, continue to be key markets for trade finance business with 37% of respondents reporting that the region remains their area of focus for trade finance. This figure is down marginally from approximately 39% in 2015. Despite this the importance of the region is clearly underscored by the fact that SWIFT data for 2015 demonstrates that in terms of L/C business Asia-Pacific accounted for a 72% share for import and a 76% share for export messaging as a proportion of world L/C traffic in 2015.

These findings are consistent with macro-level observations about the nature of trade flows and global supply chains remaining materially anchored in Asia. Additionally, the shift of certain economies, notably China, from largely export-driven to at least partly consumption-driven as a result of rising levels of disposable income, are also in line with the findings of this survey on concentrations in trade financing activity.

The 2016 edition of the ICC Survey reflects the increasing engagement of African economies and businesses in international trade, with combined SWIFT message flows in the MENA Region (7%) and in sub-Saharan Africa (5%) totalling 12% and reaching volumes comparable to the ones reported for North America, which stand at 12%. While this is certainly in part a result of proportionately higher flows on open account terms in North America, the data point is nonetheless indicative.

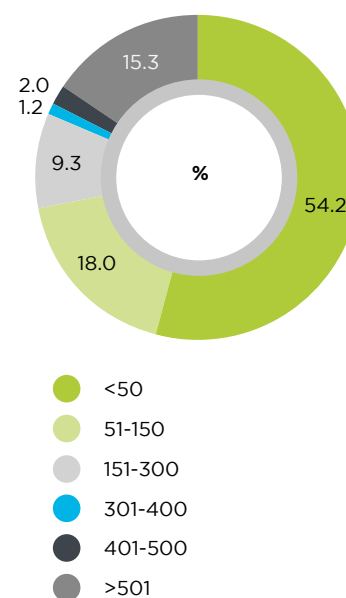
Despite the contractions experienced by European banks, 17% of banks surveyed responded that Western Europe accounts for their primary trade finance markets.

This may be due to the evolving popularity of supply chain finance within European financial institutions, in particular factoring, where in this report we see that Europe now accounts for approximately 65% of the global factoring market.

Growth in trade finance transactions both in volume and value terms are no longer predominantly driven by China. An increase in activity in South-East Asian countries is noticeable, with Vietnam in particular powering ahead.

Through its regional highlight, the 2016 ICC Global Trade Finance Survey also highlighted a number of trends in trade finance in Africa, including poor trade facilitation.

Figure 10: Number of employees involved in banks' trade finance function



Source: ICC Global Survey on Trade Finance, 2016

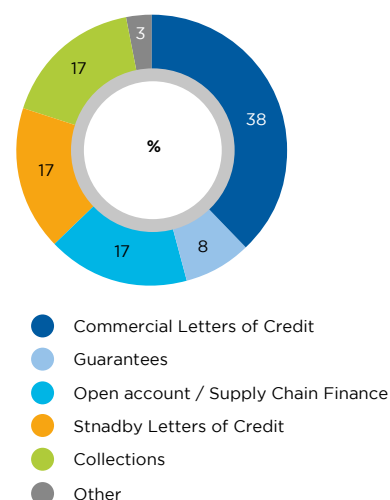
The logic supporting the proposition that we can expect to see an increase in the use of trade instruments to cover the risk of default is also underwritten in the 2016 survey, where it is reported that for export transactions, standby L/Cs now make up almost 8% of the mix.

Guarantees accounted for 17.25% of the overall export trade finance product mix. This is not surprising, as the use of demand guarantees and standby L/Cs to cover risks of default or non-performance is gaining pace in the current volatile trading environment.

Open account and supply chain finance reaching 16% of the product mix, must be understood in the context that the respondents to this survey generally originate from traditional trade finance operations. This survey captures only a small part of the bank-intermediated SCF, as these may be handled by different departments in a bank or even separate, bank-affiliated entities whose activities are managed separately from traditional trade finance. The increase in the figure for supply chain finance from almost 15% in the 2015 edition is not surprising as SCF techniques and products, including factoring, are continuing to grow, although at a slower pace than recorded in recent years.

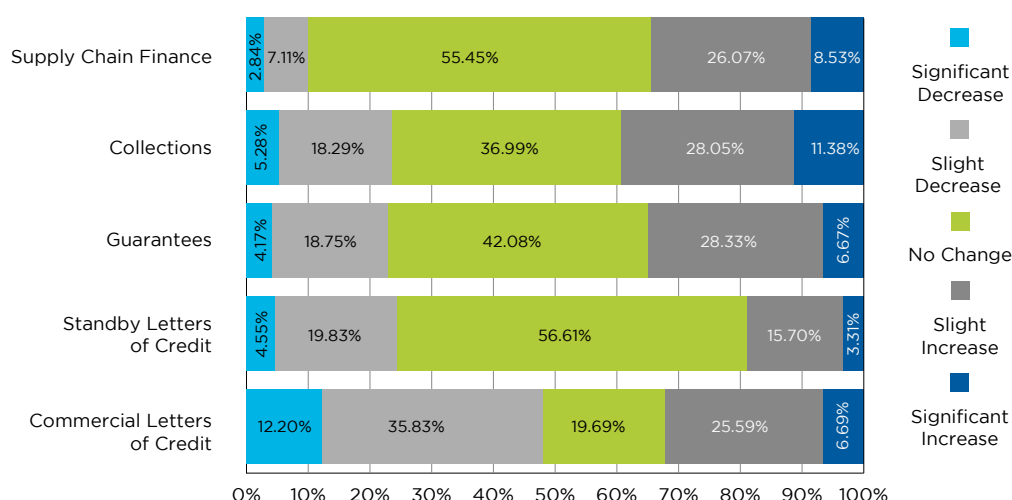
The reported increase in the use of the commercial letters of credit in last year's 2015 survey was short-lived, as anticipated. However, as has been repeatedly illustrated, the commercial letter of credit remains an important contributor to the enablement of global trade, and will remain a core part of the evolving portfolio of trade financing and risk mitigation solutions supporting cross-border trade for the foreseeable future.

Figure 12: Export trade finance product mix



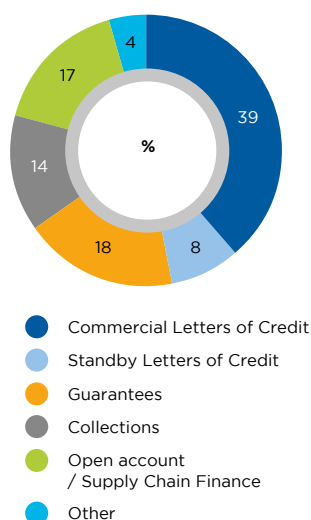
Source: ICC Global Survey on Trade Finance 2016

Figure 13: Trends in export trade finance volumes between 2014 and 2015



Source: ICC Global Survey on Trade Finance 2016

Figure 14: Import trade finance product mix



Source: ICC Global Survey on Trade Finance 2016

Note

Download the **Standard Definitions for Techniques of Supply Chain Finance** for more information.

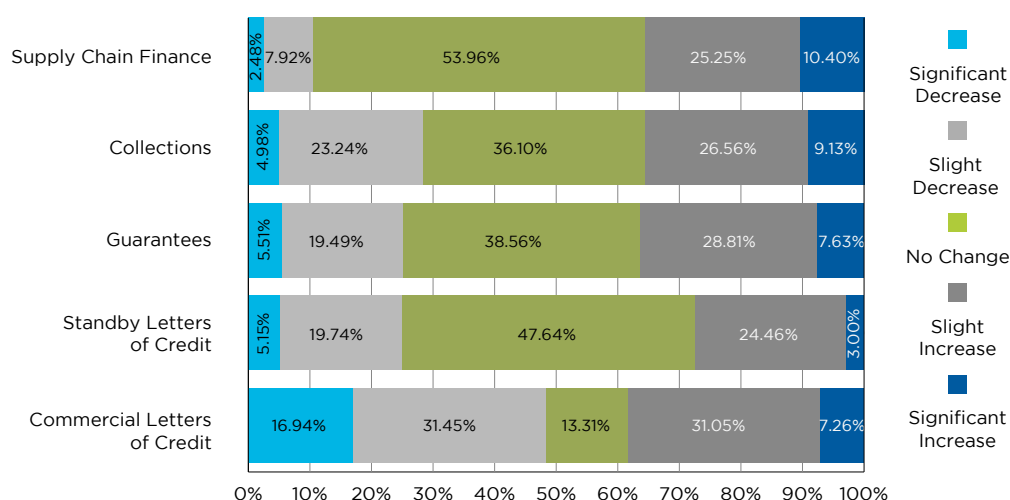
Overall trade finance activity

In the context of overall trade finance activity the reported figures, while not negative, are not as encouraging as reported in the 2015 responses from banks. Here we can see that 52% reported increased trade finance activity in volume terms which is down from 63% as reported in the 2015 survey.

On a positive note, it can be observed that 89% of respondents felt that their banks' ability to satisfy their customers' trade finance needs had remained stable or their ability to satisfy customers had increased.

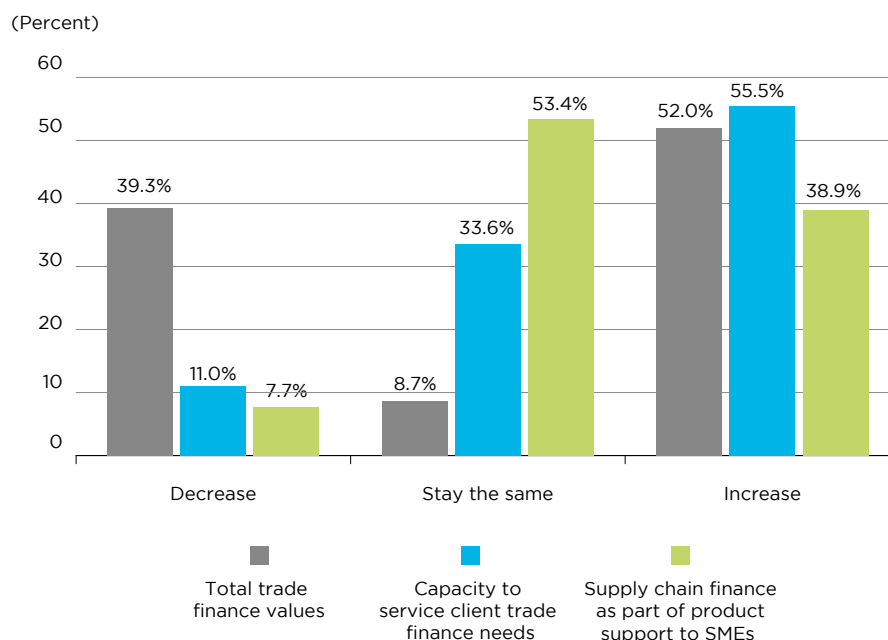
It was also worth highlighting that 39% of respondents reporting an increase in interest from their customer base in supply chain finance solutions. It is clear that trade is increasingly being viewed from the perspective of ecosystems of commercial relationships, as represented by cross-border supply chains, and thus, supply chain finance is increasingly becoming an important element of banks' propositions in the financing and mitigation of risk around international commerce. Variations of SCF, or specific techniques in the financing of supply chain activity, such as Payables Financing has been of particular interest to banks and their clients, with other mechanisms like Distributor Finance also beginning to show momentum.

Figure 15: Trends in import trade finance volumes between 2014 and 2015



Source: ICC Global Survey on Trade Finance 2016

Figure 16: Trends in trade finance values 2014-15 and capacity to service client needs

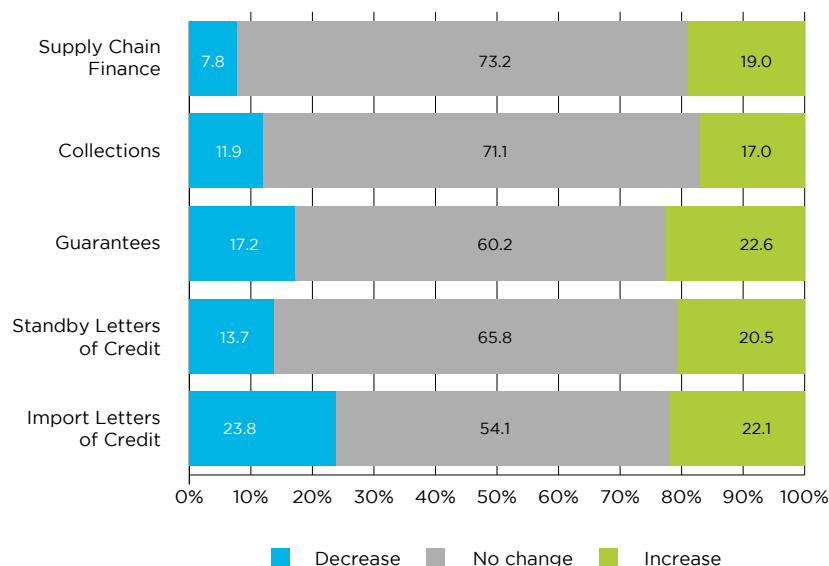


Source: ICC Global Survey on Trade Finance 2016

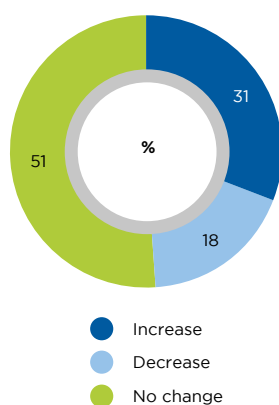
Trends in trade finance fees

The drop in commodity prices has had a negative effect on banks' outstanding trade finance obligations. The expectation among many market observers and financiers was that commodity prices, particularly those related to energy, would recover somewhat, however, subdued global demand persists, prices remain low and despite increased inherent risks banks margins and fees are not growing to reflect this increasingly risk prone and uncertain trade environment.

The logic in terms of risk analysis dictates that trade finance risk related fees should have increased significantly during 2015 but this is at a variance to what has been reported by market participants. Approximately 65% of respondents reported that there was no change in fees during 2015. Notwithstanding the continuing status quo in trade finance fees till now, it was curious to see that 31% of respondents expect to see trade finance fees increase during 2016, with 18% expecting the fees to decrease.

Figure 17: Trends in standard fees for trade finance instruments

Source: ICC Global Survey on Trade Finance 2016

Figure 18: Expectations on the evolution of standard fees for trade finance instruments

Source: ICC Global Survey on Trade Finance 2016

Increasing demand for letter of credit confirmations

The ICC Global Survey on Trade Finance highlights that default risks are on the increase, the factors that may trigger the defaults are various but the evidence of rising defaults is clear. For example, claims paid out by the Berne Union members under short term credit insurance which is predominantly open account business in respect of defaults on trade receivables rose from USD 2 billion in 2014 to USD 2.16 billion in 2015.

Furthermore, when we examine the claims paid out under medium and long term business by members of the Berne Union we see significant deterioration, increasing default risks and increased actual defaults. Claims paid out in this context amounted to USD 3.25 billion in 2015, a significant increase of 51% on defaults in 2014 from USD 2.15 billion.

With this backdrop it is not surprising to see that 40% of survey respondents anticipate that customer driven demand for confirmations of letters of credit will increase as we move forward through 2016.

This demand for confirmations of letters of credit is driven by the increased perception of risk by international traders active in the global markets. The risk environment has become complex, with significant geopolitical dynamics shaping global risk and security, persistent post-crisis economic challenges in numerous economies and ongoing concerns around country, bank and commercial risk across the globe.

The anticipated increase in demand for confirmations reported by respondents goes hand in hand with the fact that 32% of respondents believe this will also lead to an increase in the cost of confirmations for letters of credit as we proceed through 2016 and beyond.

Guarantees: claims, injunctions and the importance of the bank undertaking

The fundamental nature and value of bank guarantees and standby letters of credit rests in the reality that these instruments represent trusted, independent and generally ironclad undertakings to effect payment, in the event that some financial or performance obligation is not met.

The 2016 edition of the Global Survey reflects ongoing difficulties in this area, including significant use of court injunctions to attempt to prevent payment under these critically important banking instruments, the presence of fraud and the material levels of claims under guarantees and standbys.

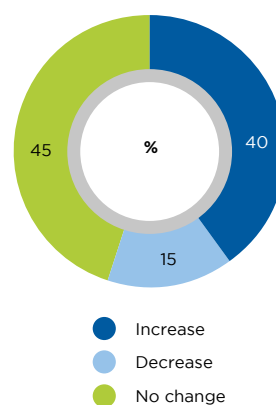
In this year's survey, almost 22% of respondents reported an increase in claims under bank guarantees and standby letters of credit, (14% reported a decrease). Incidents of default or non-performance increase during challenging economic times and during downturns in commodity markets as well as when the trade community is faced with increased risk (real or perceived) and increased volatility in international markets.

The independence of bank undertakings continues to be challenged in that 15% of banks reported experiencing an increase of court injunctions barring payment under bank independent undertakings. The good news, despite some jurisdictions taking excessive time to render judgments is that the independence principle continues to be supported and protected through judicial decisions, with courts in the majority of jurisdictions guided by the major legal traditions, clearly recognize the fundamental value of guarantee instruments and the importance of the principle of independence. 13% of respondents reported an increase in instances of allegations of fraud.

Discrepancy management

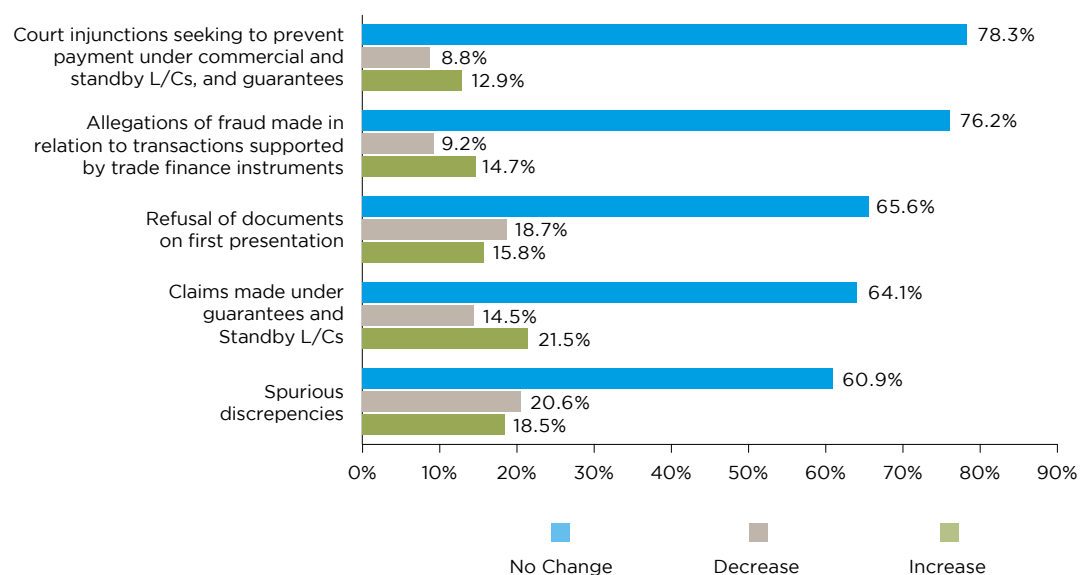
66% percent of respondents reported that they experienced no change in their overall refusal rate of documents on first presentation with nearly 19% indicating a decrease of documents rejected on first presentation under documentary credits. While it is difficult to precisely identify the causes of this notable and very positive development, this outcome is very likely rooted in a combination of factors, including improved commercial practice in the structure of letters of credit and the preparation and presentation of documents, as well as the increasing use of technology to prepare and submit documentation under an L/C.

Figure 19: Anticipated evolution of requests to add confirmation to L/Cs



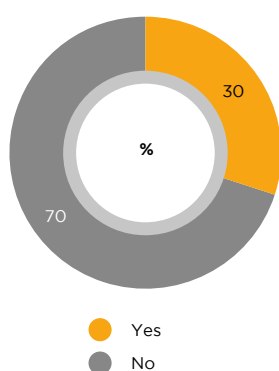
Source: ICC Global Survey on Trade Finance 2016

Figure 20: Trends in refusal of documents on first presentation, claims under guarantees, court injunctions and allegations of fraud



Source: ICC Global Survey on Trade Finance 2016

Figure 21: Banks changing their risk rating of commercial letters of credit, standby letters of credit and guarantees in 2014



Source: ICC Global Survey on Trade Finance 2016

Risk rating for commercial letters of credit

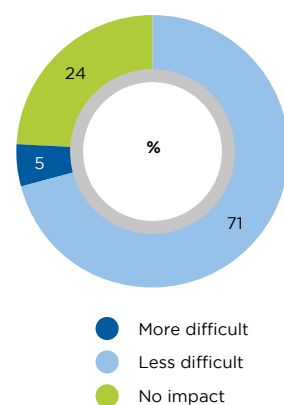
The volumes and values of commercial letters of credit decreased during the calendar year of 2015. As has been demonstrated, part of this decline was a direct consequence of the substantial decline in the value of international trade, particularly driven by commodities. However, survey results indicate that measures taken recently by banks are adversely impacting the ability of those banks to sustain and grow their trade finance business.

In particular, 30% of banks reported that their institutions have changed their risk criteria for evaluating letter of credit transactions with 71% reporting that the updated criteria had made the execution of the business more difficult to transact.

Significant impediments to trade finance activity

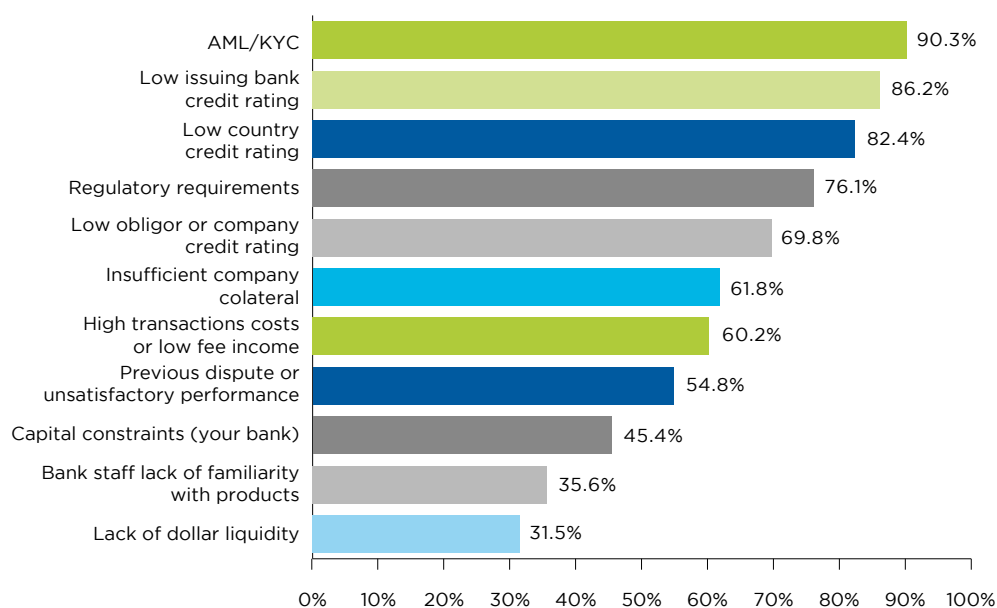
The 2016 ICC Global Trade Finance Survey reveals that once again AML and KYC issues are at the forefront of issues seen by practitioners to be impeding the underwriting of trade finance business, while also adversely complicating the processing of that business at the transactional level. Notably, 90 % of survey respondents pointed to this issue, in sharp contrast to 2015, when 81% highlighted this concern in the 2015 survey. Low issuing bank ratings and low country ratings come in second and third as major impediments. Lack of dollar liquidity was a major impediment identified in the 2015 survey and while it is still identified as an impediment by 31% of responses, this is a material improvement from the reported 44% in 2015. The underlying causes of this change may relate in part to banks seeking alternative options, including fast-growing use of the RMB in international payments, trade and financing.

Figure 22: Impact of the changes in risk criteria on trade finance transactions



Source: ICC Global Survey on Trade Finance 2016

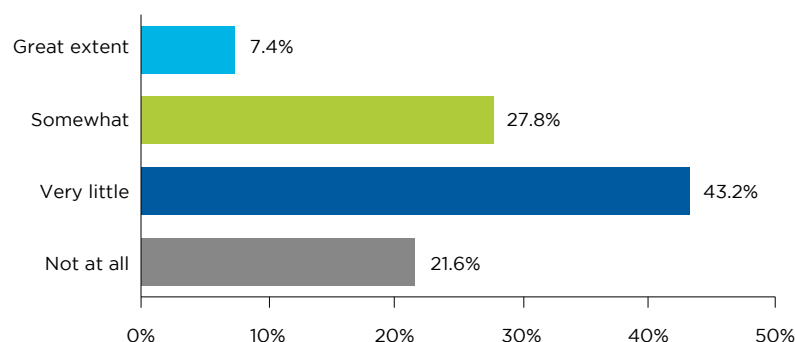
Figure 23: Significant and very significant impediments to trade finance



Source: ICC Global Survey on Trade Finance 2016

Digitisation of trade finance

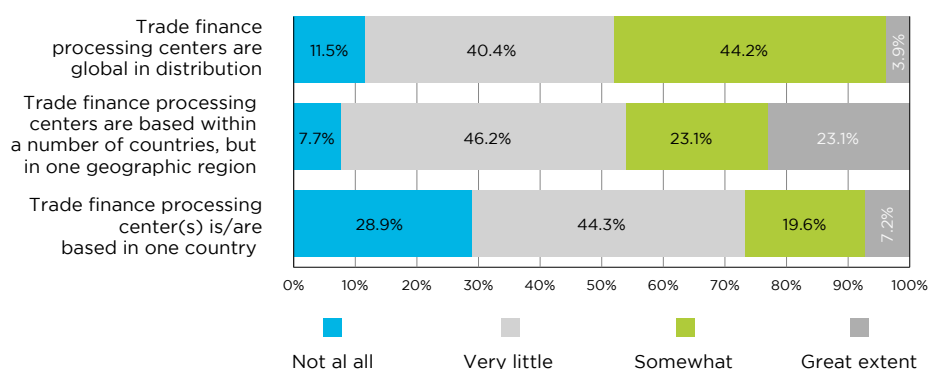
Prompted by the main developments in the digitisation of international trade finance, the 2016 ICC Global Trade Finance Survey requested input from its respondents on key direct questions in this context to the digitisation of trade finance transactions across the market.

Figure 24: Extent to which banks' trade finance transaction processes are digitised

Source: ICC Global Survey on Trade Finance 2016

The answers observed that only 7% of banks reported that their trade finance processes had been digitized “to a great extent”, with 43% reporting “very little” advancement in this regard. As expressed in a section of this report dedicated to the benefits of digitisation, the industry will experience the growth of digital trade before the end of the year and acceleration towards digitization in the years to come.

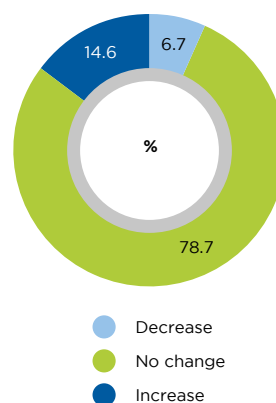
The numbers were too dispersed to assess take-up of digitisation by region. However, it was interesting to find from a further breakdown of the data that banks with trade finance functions with a global reach were far more likely to report that they had digitised their trade finance processes “somewhat” or “to a great extent”.

Figure 25: Digitisation of trade finance by banks' structure of trade finance processing of banks

Source: ICC Global Survey on Trade Finance 2016

The market uptake for the Bank Payment Obligation did not experience significant increase during the calendar year 2015, following a similar trend in 2014. While nearly 80% reported no change in their use of this instrument, nearly 15% reported an increase. This trend is aligned with the findings above on the degree of digitisation of bank processes with respect to trade finance. In spite of the increasing awareness and education on the benefits of digitising trade finance documents and process the uptake remains well below original market expectations.

Figure 26: Evolution of the demand for BPO in 2015



Source: ICC Global Survey on Trade Finance 2016



SWIFT TRADE MESSAGING TRENDS FOR THE CALENDAR YEAR 2015

SWIFT contribution

Key findings

- In 2015, SWIFT trade finance messaging volumes have shown a decrease of 4.99% (2014 reported a smaller decrease of 1.79%).
- Category 7 (documentary credits fell by 4.49% and Category 4 (documentary collections) fell by 6.79%.
- Asia-Pacific continues to register far greater volumes of MT 700 with a 72% share for import messaging and a 76% share for export messaging in 2015
- Countries that imported the most using SWIFT L/Cs are: South Korea, Bangladesh, China, India, and Hong Kong
- Countries that exported the most using the SWIFT L/Cs are: China, Hong Kong, India, Japan, and Singapore
- The region that shows the highest annual decrease in import and export SWIFT messaging was Africa which fell by more than 15% and 13% respectively
- The average value of a SWIFT issued letter of credit (MT 700 only, amount converted to USD) in 2015 was USD 350,000, a sharp decline from the average value USD 643,000 in 2014.

Global trends

Before considering SWIFT trade finance volume statistics and related comments, their context should be understood. SWIFT trade finance traffic is only a fraction of the overall picture, but it can be considered as a good indication of the overall usage trends, especially for the letter of credit product, since we assume that around 90% of the L/C transactions are transmitted via SWIFT.

“Traffic” refers to live messages sent over SWIFT. This chart refers to “Category 4” and “Category 7” traffic. SWIFT Category 4 messages are flows for documentary collections – with the exception of the three least commonly used “cash letter” messages. SWIFT Category 7 messages are flows for commercial and standby letters of credit and guarantees.

Definition



Category 7

Flows for commercial and standby letters of credit and guarantees. MT 700 is in this category.

Category 4

Flows for documentary collections, excluding the three least commonly used “cash letter” messages.

Definition



MT 700

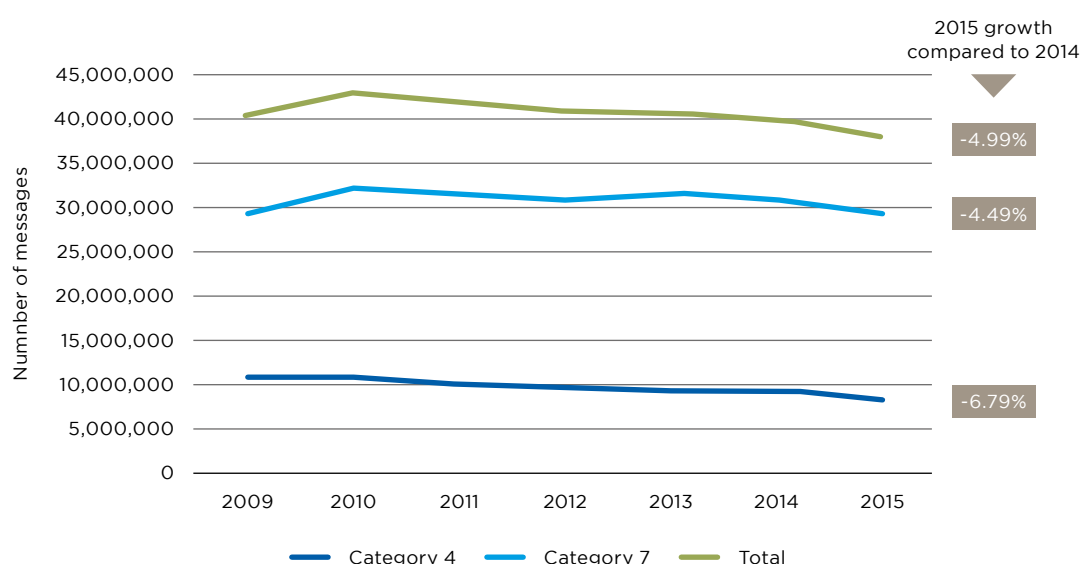
A letter from a bank guaranteeing that a buyer's payment to a seller will be received on time and with correct amount. SWIFT L/Cs are equivalent to MT 700.

Overall SWIFT trade finance traffic falls for the fifth year

SWIFT trade finance messaging traffic saw a further decline in volume during 2015, falling by almost 5%. This drop was steeper than that experienced in 2014 of 1.79%.

Category 4 messaging for documentary collections saw the steepest decline at 6.74% with overall category 7 messaging covering documentary credits and guarantees experiencing a decline of 4.49%

Figure 27: SWIFT trade finance traffic worldwide

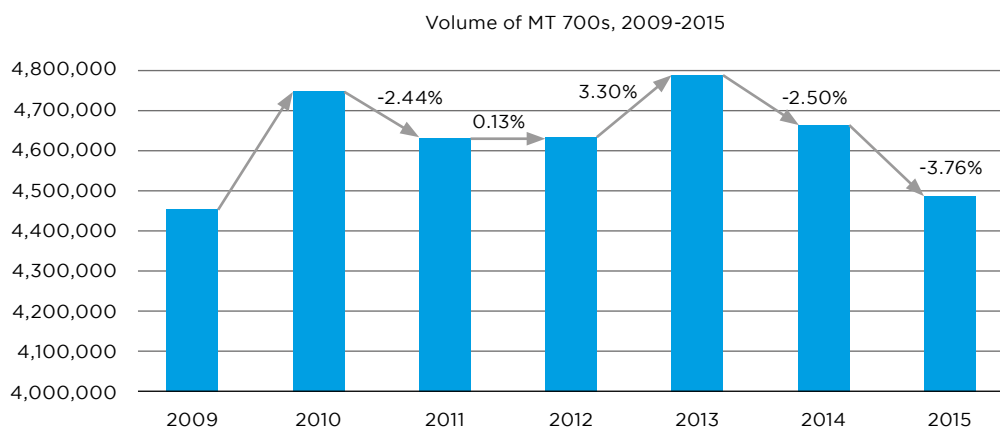


Source: SWIFT

Volume of MT 700 in 2015

Documentary credits are a cornerstone trade finance product in terms of payment security and the provision of trade finance. Despite this, there has been a continuing downward trend in the volume of documentary credits being issued (MT 700) through the SWIFT network. A decline of 2.5% was experienced in 2014 and an accelerated rate of decline to 3.76% was experienced in 2015. Furthermore, it is worth noting that we have to go back to 2009, in the aftermath of the financial crisis to find a lower overall volume of MT700 messages compared to that now reported in 2015. The decline in SWIFT trade finance traffic is global in nature with all regions experiencing falling SWIFT messaging volumes during 2015.

Figure 28: Volume of MT 700s, 2009-2015



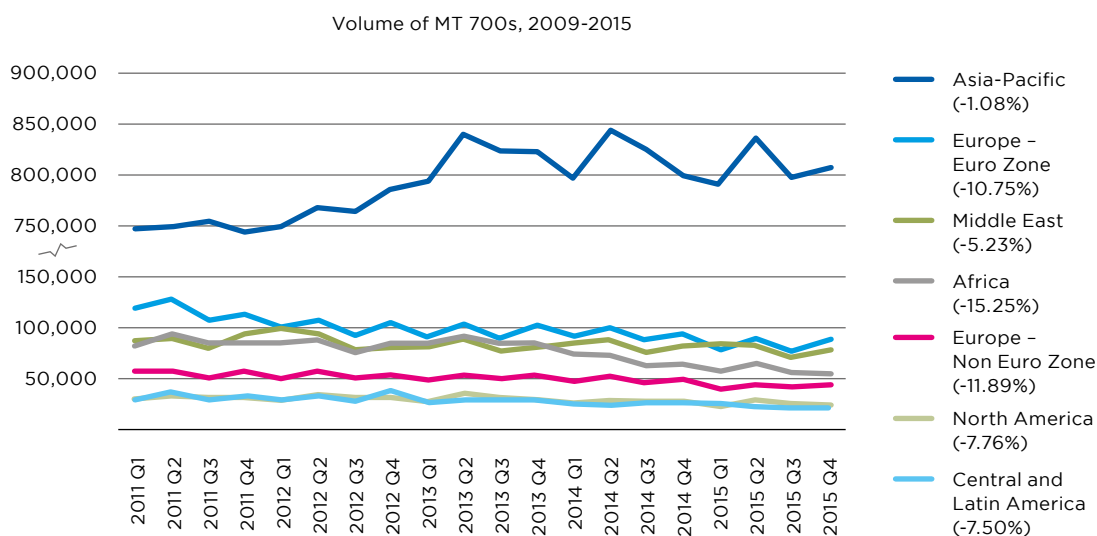
Source: SWIFT

SWIFT regional analysis – import letters of credit

Despite the slower pace of trade growth in China and other Asian markets, the Asia-Pacific region continues to register far greater volumes for sent (import) MT 700s with 72% of the world traffic in 2015. Asia-Pacific is followed by Europe – Eurozone (8%) and Middle East (7%).

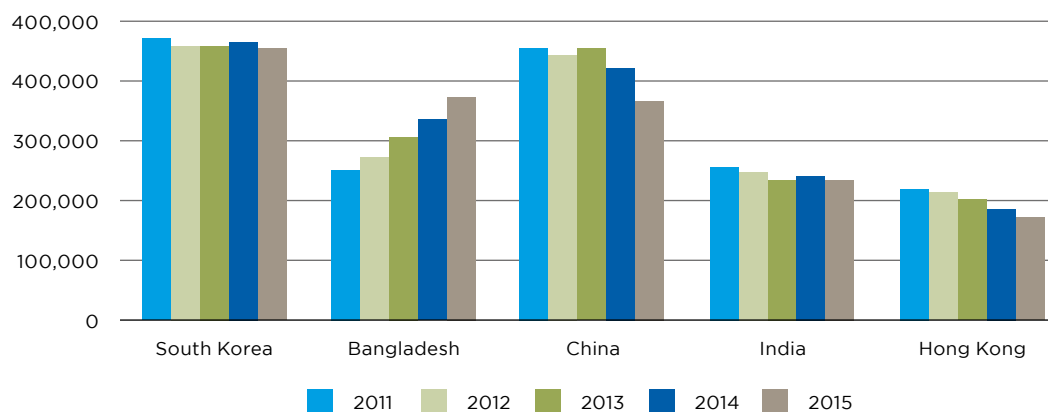
It has transpired that SWIFT trade finance traffic decreased in all regions during 2015. Consistent with the reported dramatic decrease in trade emanating from the African continent, the region that shows the steepest annual decrease was Africa with a 15.25%, decrease in 2015, followed by Europe (Non-Eurozone) with 11.89%.

Figure 29: Change in MT 700 sent traffic, 2011-2015



Source: SWIFT

The top 5 SWIFT import messaging countries



When we examine the cross border (excluding domestic flows) volume of MT 700s sent in 2015 (import) per country, the countries that issued the most import letters of credit by SWIFT were :

- A. South Korea (-2.19%)
- B. Bangladesh (+12.84%)
- C. China (-12.24%)
- D. India (-1.87%)
- E. Hong Kong (-8.55%)

*Ranking based on 2015 L/C volumes and growth: 2015 vs 2014

For countries with a yearly volume higher than 10,000 MT 700s sent internationally (import), the five countries with the highest growth in import letter of credit messaging during 2015 compared to 2014 were:

Cuba (31.55%)
Sri Lanka (15.88%)
Egypt (15.78%)
Bangladesh (12.84%)
Pakistan (12.22%)

For countries with a yearly volume higher than 10,000 MT700s sent internationally (import), the five countries with the steepest decline in 2015 compared to 2014 were:

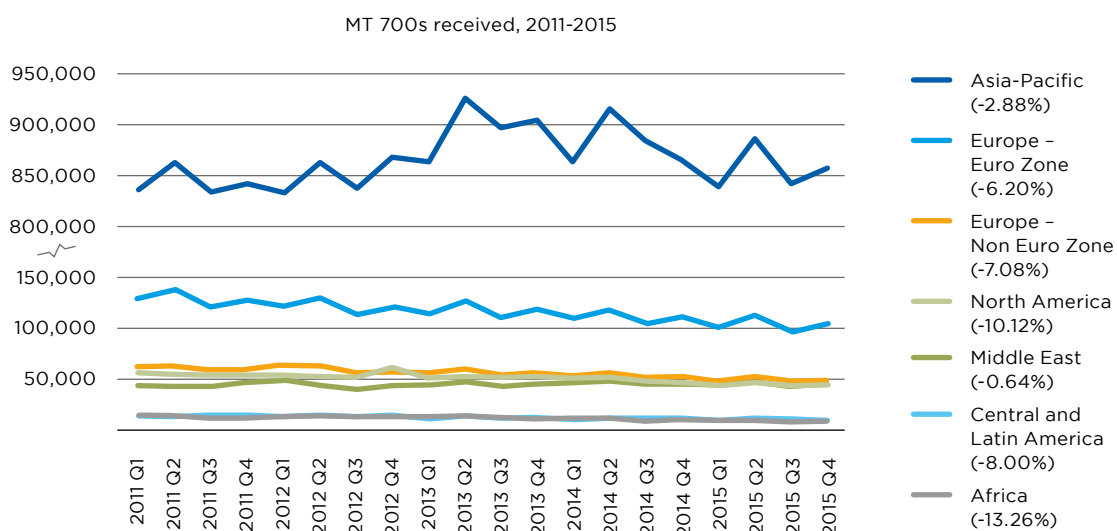
Algeria (30.73%)
Libya (24.62%)
The Netherlands (16.47%)
Canada (14.72%)
Germany (13.69%)

SWIFT regional analysis – export letters of credit

Similarly to the volume trend in import letters of credit, Asia-Pacific continues as the region to register far greater volumes for received (export) MT 700s with 76% of the world traffic in 2015. The Asia-Pacific region is followed by Europe – Eurozone (9%) and Europe – Non Eurozone (5%).

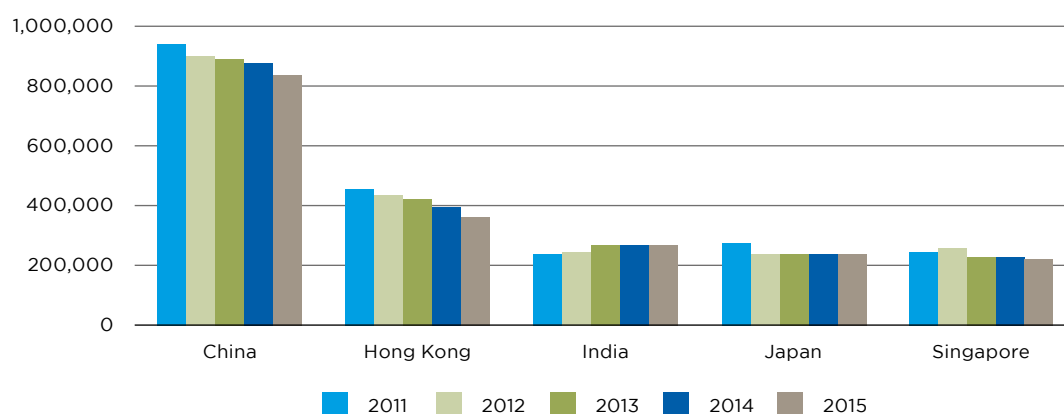
Even though 76% of world export letter of credit traffic in Asia-Pacific appears, at first sight impressive, there was no growth in 2015 for export traffic compared in 2014. The region that turned in the highest annual decrease for export letter of credit traffic was Africa with a decline of 13.26% in 2015 for export traffic compared to 2014, followed by North America (-10.12%) and Central and Latin America (-8.00%).

Figure 30: Change in MT 700 received traffic, 2011-2015



Source: SWIFT

The top 5 SWIFT export messaging countries



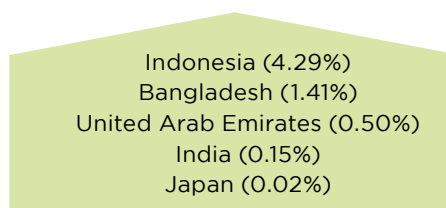
When we examine the cross border (excluding domestic flows) volume of MT 700s received in 2015 (export) per country, the countries that received the most export letters of credit by SWIFT were :

- 1 China (-3.59%)
- 2 Hong Kong (-10.17%)
- 3 India (+0.15%)
- 4 Japan (+0.02%)
- 5 Singapore (-3.65%)

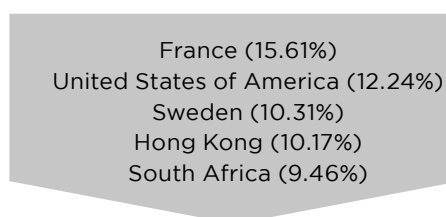
While China retains the number one position in terms of overall receipt of export letters of credit it is notable that a decline of 3.59% was experienced by China during 2015. The declines in export messaging for China, Hong Kong and Singapore perhaps reflect the challenging environment facing the broader export trade finance markets.

*The ranking is based on 2015 L/C volumes and growth: 2015 compared to 2014.

For countries with a yearly volume higher than 10,000 MT 700s received internationally (export), the five countries with the highest growth in 2015 compared to 2014 were:



For countries with a yearly volume higher than 10,000 MT 700s received internationally (export), the five countries with the steepest decline in 2015 compared to 2014 were:

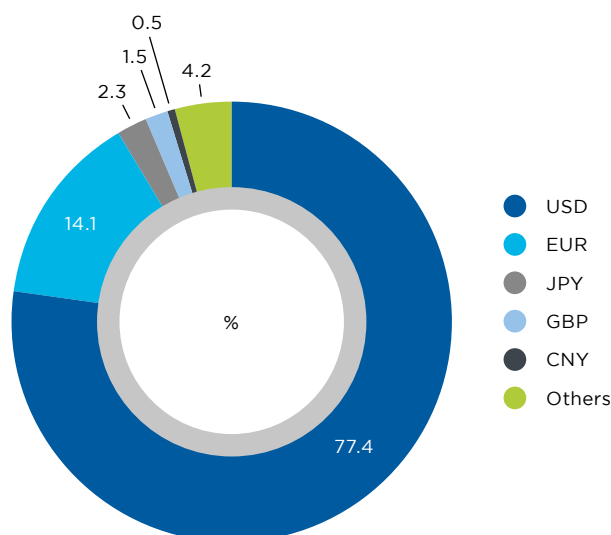


Average monetary value of SWIFT letter of credit – USD 350,000

The average value of a Letter of Credit (MT 700 only, amount converted to USD) in 2015 was USD 350,000. This was a substantial decrease of 45% from the 2104 average letter of credit value of USD643,000. We contend that this drop in value terms was to a significant degree due to the fall in commodity prices.

In 2015, the USD continued to be the dominant currency used in volume terms in respect of SWIFT trade finance messaging accounting for 77.40% of the MT 700 (volume of L/Cs issued = number of MT 700). European Euro (EUR) is used for 14.13% of the L/Cs.

Figure 31: Volume of L/Cs by currency in 2015



Source: SWIFT

Currency in terms of overall value of letters of credit issued

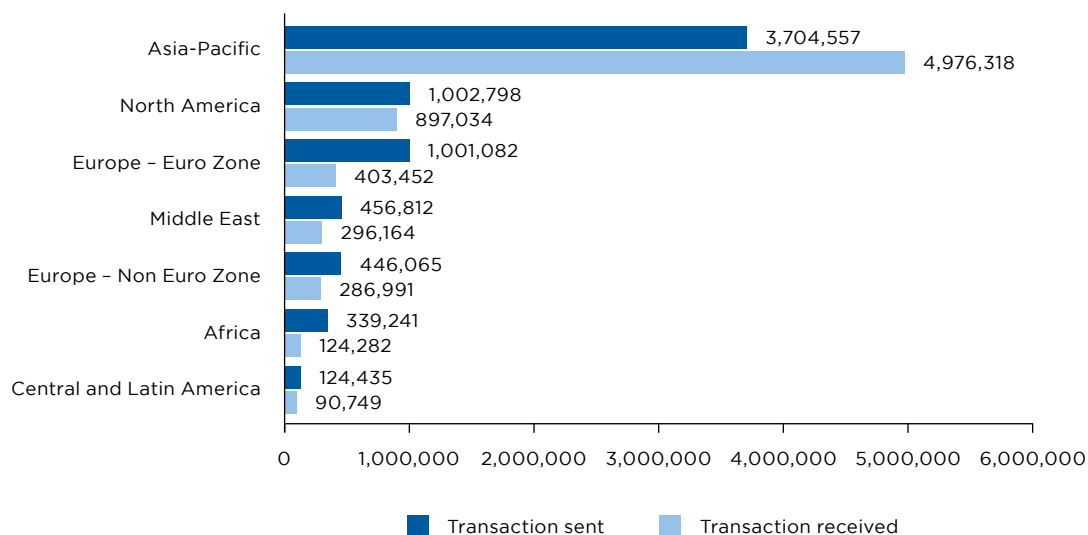
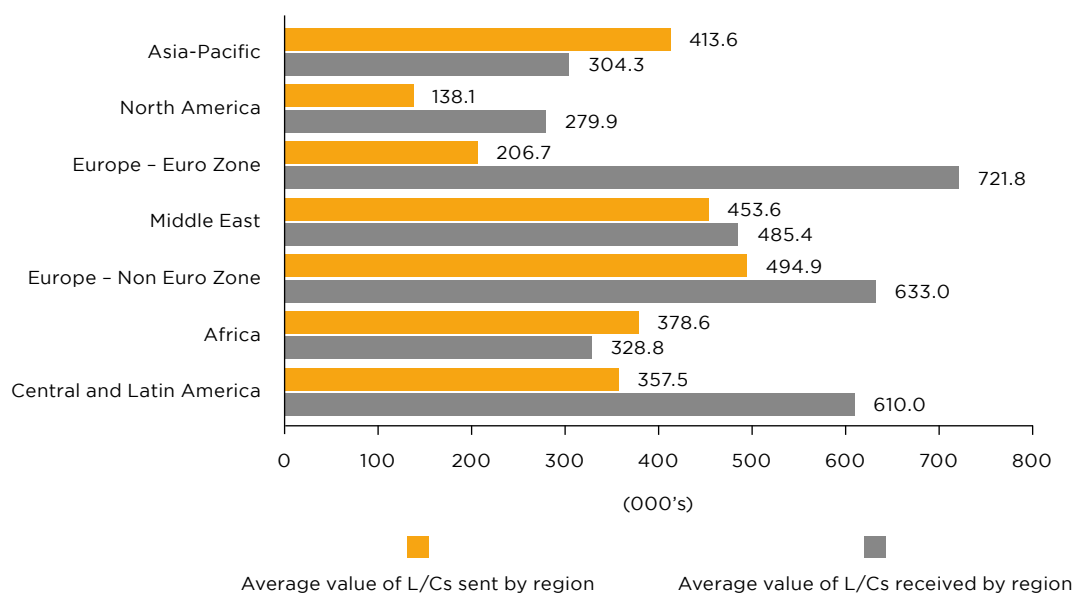
In 2015, the USD was the currency that represents 81.14% of the total value (converted to USD) of letters of credit issued via SWIFT. The Euro represents 7.00% and Chinese Yuan or Renminbi (CNY or RMB) represents 6.74% of the total value.

It is interesting to observe the Chinese currency and the Euro at a similar level as reported.

Prominence of Asia-Pacific for inter-regional trade

The highest number of issued letters of credit originated in the Asia-Pacific region with more than 3 million MT 700s. It is interesting to observe that most of this traffic was comprised of intra-regional messaging.

The highest number of letters of credit received was also recorded in the Asia-Pacific region, coming in at approximately 5 million MT 700s. Again, this is predominantly inter-regional in nature. The average value of a letter of credit in the Asia-Pacific region was comparatively low (USD 304,000 for exports).

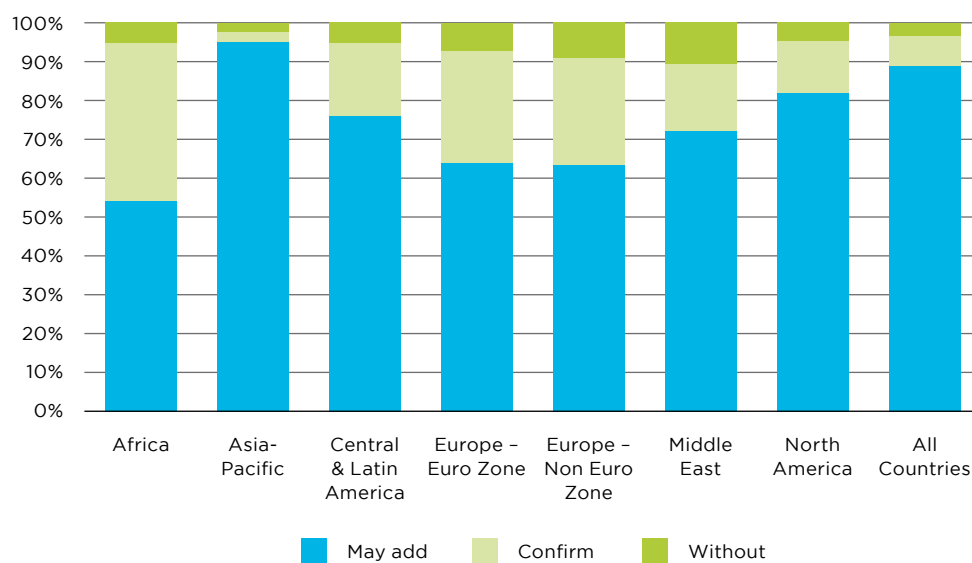
Figure 32: Volumes of L/Cs sent and received by region in 2015**Figure 33: Average value of L/C sent and received by region in 2015, in USD**

Source: SWIFT

Trends in requests or authorisations to add confirmation

The share of letters of credit issued by SWIFT requesting or authorizing confirmation fell by 0.5% in 2015 as opposed to 2014. Africa continued to receive the highest percentage of letters of credit authorizing or requesting confirmation to be added to SWIFT issued letters of credit.

Figure 34: Percent distribution of L/Cs received by confirmation per region, 2015



Source: SWIFT





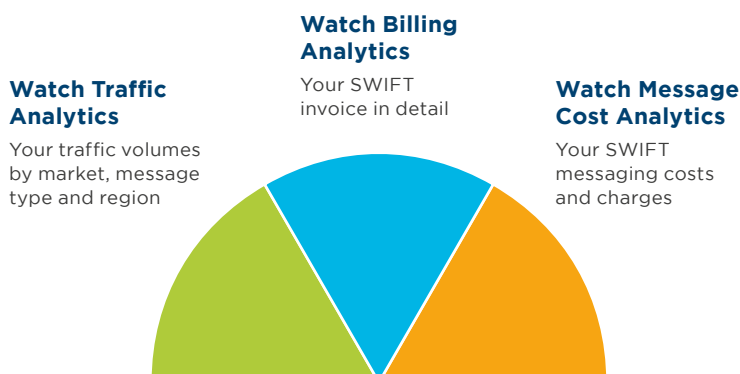
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When each business decision is crucial, business analytics, insights, BI Services and economic indicators can arm you with objective and detailed data to help you make the best decisions for your business.

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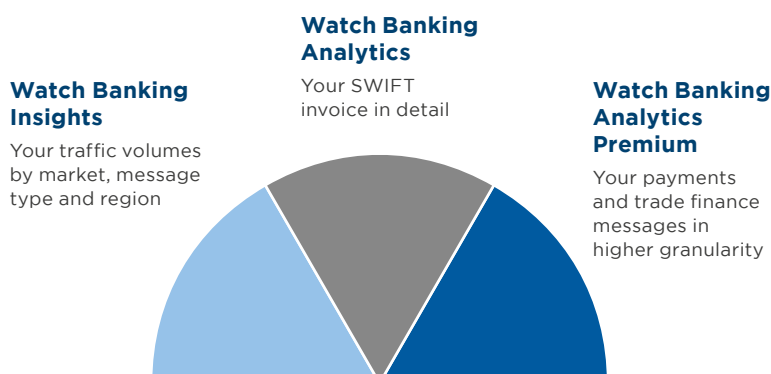


FEATURES

- Market trends and analysis of traffic flows
- Drill down into messaging costs
- Efficiency and quality gains
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Watch for Banking

Unique analysis and insights into your correspondent banking business through volume, value and currency analysis. Compare and monitor your performance against the market.



FEATURES

- Analyse your currency flows
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Visual and business-oriented dashboards on a subset of your customer's correspondent banking business. More market segments to follow. Pre-defined yet dynamic.

Develop footprint and portfolio for Payments and Cash Management



Your top cash management reporting messages sent and received YTD

Manage correspondent network for Payments and Trade finance



The evolution of the number of counterparties and countries you have activities with

Develop footprint and portfolio for Trade finance



You activity share in MT700 YTD and its variations compared to last year

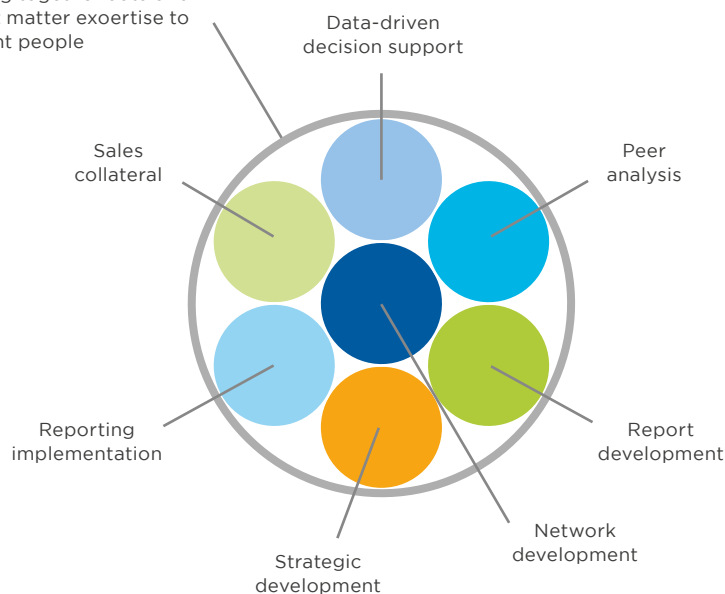
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- Visual, unique data for faster decision making
- Insights in to your activity share
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Our consultants bring subject matter expertise and more granular data, serving your transaction business teams with tailor-made market and anonymous competitive information.

Bringing together data and subject matter expertise to the right people



FEATURES

- Customised insights
- New fields and more data granularity
- Benchmarking against peers
- Direct access to subject matter experts

TRADE FINANCE AND SMEs: A CALL FOR ACTION

by Marc Auboin, Counsellor for Trade and Finance, World Trade Organization

The availability of trade finance is essential for a healthy and well-functioning trading system. Up to 80 % of global trade is supported by some sort of financing or credit insurance. For several years, global and regional surveys undertaken by the ICC, the African Development Bank and the Asian Development Bank, have pointed to the existence of relatively large gaps in provision, particularly in developing and emerging economies where trade is growing at the fastest rate.

Other surveys, emanating in particular from business organizations (World Economic Forum), emphasise that in regions such as Africa, the Caribbean or for Pacific Islands, lack of access to trade finance is regarded as the number one or two impediments to exporting. Without trade finance, opportunities for trade, growth and development are missed. Small- and medium-sized enterprises are particularly affected, while larger companies are benefitting from the extra liquidity provided by quantitative easing policies of many central banks.

The existence of trade finance gaps, notably at the “low-end” of markets, is not news, including for policy-makers. Already in 2011, the G20 asked for a review of the operation of trade finance facilitation programmes, and ways to make it more effective. This review led in particular to recommend the creation of a trade finance facilitation programme at the African Development Bank.

Since then, two important developments have taken place. First, with the reallocation of some labour-intensive industries such as garment towards new countries (Myanmar, Bangladesh, Vietnam, Ethiopia, and Rwanda, to name a few) has been accelerating. The frontiers of international trade are expanding. Such new links involve new players, investors, traders. It also requires trade finance.

At the same time, global financial institutions have shown less appetite to do business in developing countries. Market entry has been more cautious and a large number of correspondent banking relationships have disappeared. In this environment, there is a concern that de-risking affects the pace at which the benefits of global trade spread into new countries, in particular low-income countries where the local banking sector is not equipped, technically or financially, to respond to the new demand from traders.

Global financial institutions have shown less appetite to do business in developing countries





**Enhance trade
facilitation
programmes
from**

30

USD billion

currently to

50

USD billion

In the medium run, one could expect local and regional banks to fill the gap left by global institutions. But finance is one industry in which size matters. One does not build a global network of bank relationships overnight. In developing countries, recent cyclical factors have added to difficulties, as commodity prices fall and dollar availability has proven to be difficult again.

Hence, there is a particular concern that SMEs in developed and developing countries – particularly the latter – face lasting challenges in their integration into global trade. SMEs are known to be leading drivers of trade, employment and economic development. In developing countries, the few alternatives to bank financing such as inter-company lending and factoring may simply not exist. Trade credit insurance may not be available, and the legal framework for factoring may not be in place. As a result, when banks reject requests for trade finance, SMEs may be left with no alternative but to pay its trade in cash, seek an informal option, or forgo the transaction.

The numbers speak for themselves. Globally, over 50% of the requests for trade finance by SMEs are rejected, against only 7% for multinational companies. SMEs in developing countries are the most affected. The estimated value of unmet demand was USD 120 billion in Africa and USD 700 in developing Asia. The total value of unmet demand is nearing USD 1.4 trillion, according to the Asian Development Bank.

Action is needed to address these financing gaps. This was highlighted in the UN's Financing for Development Agenda. The WTO Director-General issues a report ("Trade Finance and SMEs", available at www.wto.org) looking at these issues in detail. It brings together the recent surveys and research to highlight the scale and geography of the gaps in trade finance provision, considers the actions currently being taken and outlines potential future action.

These actions include, along with WTO traditional partners in trade finance:

- Enhancing existing trade finance facilitation programmes to reduce the financing gaps, from USD 30 billion currently to USD 50 billion. Trade finance facilitation programmes were never designed to eliminate all market gaps, but they allow SMEs and their banks to locally engage in international trade, thereby building capacity and experience. The WTO Director-General target is inspired but achievable.
- Reducing the knowledge gap: we know that part of the financing gap reflects the knowledge gap which exists regarding the use and knowledge of trade finance instruments. Local financial institutions may lack the human and risk-taking capacity. Professional organizations from the private sector may cooperate with multilateral development banks by helping to pool the many training initiatives, where useful and when it generates economies of scales. The objective is to train 5,000 qualified trade finance professionals, in particular in developing countries.

- Maintaining an open dialogue with trade finance regulators to ensure that and development considerations are reflected in the implementation, and eventually design, or regulations.
- Improving monitoring of trade finance in provision. We need to improve the monitoring of trade finance provision to identify and respond to gaps, particularly relating to any future crisis. The WTO will continue to support the ICC and Asian Development Bank in their efforts.

Strong inter-institutional dialogue and coordination will be needed to take such action and initiative forward, notably with ICC.

On trade finance, the WTO and its partners have the flattering reputation of being able to deliver. Since 2009, the various actors, including the private sector (ICC, Berne Union, Factors Chain International), multilateral development institutions, and the WTO have been meeting in a consultative group, the expert group on trade finance, to discuss areas of potential cooperation.

The ICC has been an active partner in this group, with tangible contributions such as the ICC Trade Register and the ICC Global Survey on Trade Finance. In many areas, such as regulation, the ICC maintains a high level of technical expertise, which helps in the understanding and prioritization of issues. Under this new WTO-led initiative, let us hope that ICC keeps the same level of mobilization. We will need key ICC participation in increasing the capacity-building efforts, through the ICC Academy, interactions with the ICC on maintaining the dialogue with regulators, and of course increased ICC mobilization for the Trade Finance Gap Survey. Each of these elements is linked, as the gaps in trade finance survey is providing evidence which underpins efforts in other areas.

We value highly the support by the ICC given by ICC Secretary-General Danilovich on the issuance of the WTO report. Since then, support on the initiative has been growing within the WTO membership and at the G20. So let us make it work and deliver, as we have been in the past.

There is a need to improve the monitoring of trade finance provision



Trade finance: The landscape is changing — are you?

GET ICC ACADEMY CERTIFIED TO ACQUIRE SKILLS YOU'LL USE AT ALL STAGES OF YOUR CAREER



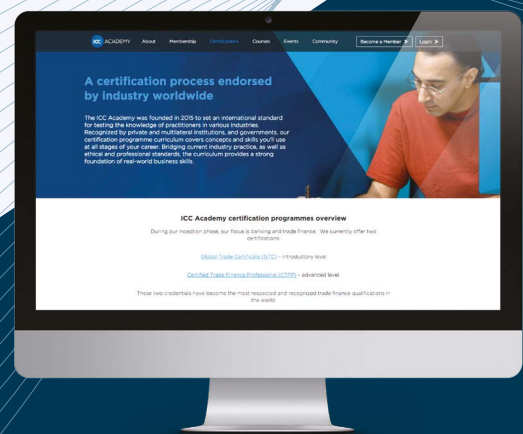
The ICC Academy through its digital platform offers to international trade professionals to combine specialized knowledge of their particular discipline with a broad understanding of international trade practices and global business strategies.

The **ICC Academy** was founded in 2015 to set an international standard for testing the knowledge of practitioners in various industries. The ICC Academy offers a wide range of specialized programmes, leveraging ICC's position as a world leader in defining commercial rules and standards to support international commerce.

The ICC Academy is a part of the Paris-based **International Chamber of Commerce** (ICC). It has 6.5 million members in more than 130 countries, including many of the world's largest companies, SMEs, business associations and local chambers of commerce. ICC promotes international trade, responsible business conduct and a global approach to regulation through a unique mix of advocacy and standard setting activities – together with market-leading dispute resolution services.

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- Industry-leading ICC certification
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THE ICC ACADEMY TRADE FINANCE CERTIFICATES

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The e-courses are delivered via our Learning Management System (LMS) using innovative tools for combining digital learning with industry-centric community discussions. The courses include videos, animations, case studies, and a self-assessment section. You can stop and re-start your training at where you left it and analyse your progress and understanding of individual subjects. All of the online courses and the exam for these certificates are available in English.

After completing all core courses and chosen elective courses, the examination will be made available for your completion. The 60-minute examination is based only on the core courses and will be proctored 'live' via the Internet. The pass grade is set at 70%. Upon passing the examination, learners will be issued an accredited certificate for the program, and may use the "GTC/CTFP" designation.

GLOBAL TRADE CERTIFICATE (GTC)	CERTIFIED TRADE FINANCE PROFESSIONAL (CTFP)
Those who earn this entry-level certificate increase their professional value through a better and more comprehensive understanding of trade finance products and techniques.	Aimed at experienced trade finance professionals who wish to focus on specific areas of trade finance and/or gain in-depth understanding of concepts and specific jurisdictions pertaining to that industry.
6 CORE COURSES	5 CORE COURSES
<ul style="list-style-type: none"> • Introduction to Trade Finance • Introduction to Documentary Credits • Introduction to Collections • Introduction to Guarantees • Introduction to Receivables Finance • Introduction to Distributor/Buyer Finance 	<ul style="list-style-type: none"> • Advanced Working Capital for Trade • Advanced Documentary Credits • Advanced Guarantees • Advanced Supply Chain Finance • Export Finance
ELECTIVE OPTIONS (SELECT 3)	ELECTIVE OPTIONS (SELECT 4)
<ul style="list-style-type: none"> • Introduction to Regulatory Capital and Pricing • Introduction to Trade Finance Compliance • Introduction to Fraud and Reputational Risk • Introduction to Risk Distribution • Introduction to Supply Chain Finance • Introduction to Trade Finance Sales • Overview of Cross Border Trade 	<ul style="list-style-type: none"> • Digital Trade & Trade Finance (Available December 2016) • Managing Trade Sales • Managing Trade Products (Available December 2016) • Managing Trade Operations • Advanced Commodity Finance • Advanced Standby Letters of Credit • Advanced Credit Risk (Available December 2016) <p><i>More coming soon</i></p>

ANALYSIS OF GLOBAL TRADE FINANCE GAPS

Asian Development Bank and ICC Banking Commission contribution

Key findings

- 61% of respondent banks believe that there is a global shortfall.
- SMEs face greater un-met demand compared to large corporates and MNCs
- Highest rejection rates are faced by clients in Russia, Middle East and North Africa (MENA), and sub-Saharan Africa.
- 90% of respondents report that the cost and complexity of compliance with regulatory requirements, including Basel III and anti-financial crimes regulation, remains a significant impediment to closing trade finance market gaps.
- Compared to last year, a smaller proportion of respondents reported termination of banking relationships due to compliance requirements, indicating that most of the disruption to banking relationships has already occurred.
- 20% of banks reported a decrease in credit lines to clients mostly due to more stringent credit criteria.
- The role of MDBs and ECAs in addressing trade finance gaps was perceived as helpful by 75% of the respondents.

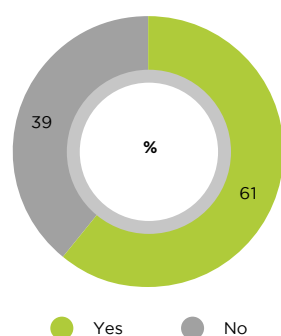
Overview

The ADB conducted this analysis as one part of a more comprehensive effort to quantify global trade finance gaps and their impact on growth and jobs. This section is a collaboration with the ICC to provide a first glimpse at 2015 trends in bank-intermediated trade finance by geographical region and client type. A more in depth report was released by ADB on 7th September 2016.

The continued global trade growth slow-down underscores the importance of trade finance. About one third of global trade is supported by bank-intermediated trade finance. As a result, shortfalls in trade finance contribute to the structural reasons for weak trade performance in affected markets. The ADB questions in the ICC survey aim to understand market gaps and the impediments to trade finance in order to address them.



Figure 35: Perceptions on trade finance shortfalls



Source: ICC Global Survey on Trade Finance 2016

After substantial changes to the 2015 survey questions, only minor adjustments were implemented this year. These included additional differentiation in client types and geography. While it is difficult to systematically compare across years since the surveyed population is different, the consistency in survey questions allows cautious inferences about the broad trends.

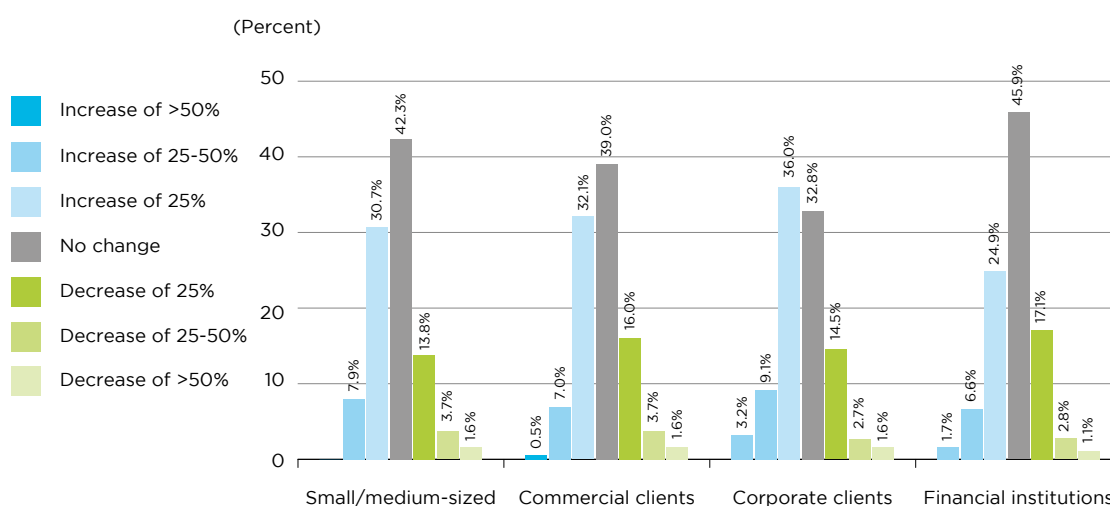
Trade finance availability

61% of surveyed banks agree that there is a global shortfall of trade finance, compared to 53% the previous year. The slowdown in global trade and the uncertain global economic environment may have contributed to this perception.

Responses to other questions indicate some tightening of trade finance availability. In 2015, fewer responding banks maintained or increased available credit lines. This held across all segments including SMEs, commercial and corporate clients, and financial institutions.

In fact, more than 20% of banks reported a decrease in credit lines. Banks report that the primary reason for the decrease is the application of more stringent credit criteria. This held across client types, causing almost half of the reduction in trade credit lines to SMEs, 30% to commercial clients, 25% to corporate clients, and 20% to financial institutions. Restrictions in capital allocation and the exit of relationships due to deteriorating credit were the other main factors.

Figure 36: Change in the level of trade finance credit lines offered by banks from 2014 to 2015



Source: ICC Global Survey on Trade Finance 2016

Responses to questions on proposed and rejected transactions reflect wide variation in availability of trade finance by client type, and region. SMEs continue to face the greatest hurdles in accessing bank-intermediated trade finance. It is also the client segment with the highest reported demand: 44% of all trade finance proposals were submitted by SMEs, higher than large corporates (40%) and multinational corporations (16%). Rejection rates were also highest for this segment, 58% of total rejections were faced by SMEs.

Geographically, the greatest unmet demand was reported in Russia, Middle East and North Africa, and sub-Saharan Africa. The proportion of rejected transactions for these regions was more than twice the proportion of proposed transactions. For example, trade finance proposals from Russia comprised only 5% of all proposed transactions, but 12% of rejections. Weak economic conditions due to low oil prices and continuing sanctions contributed to a perception of higher risk which affected rejection levels. In most other regions, the percentage of rejections was lower than the percentage of proposed transactions, implying a smaller level of unmet demand.

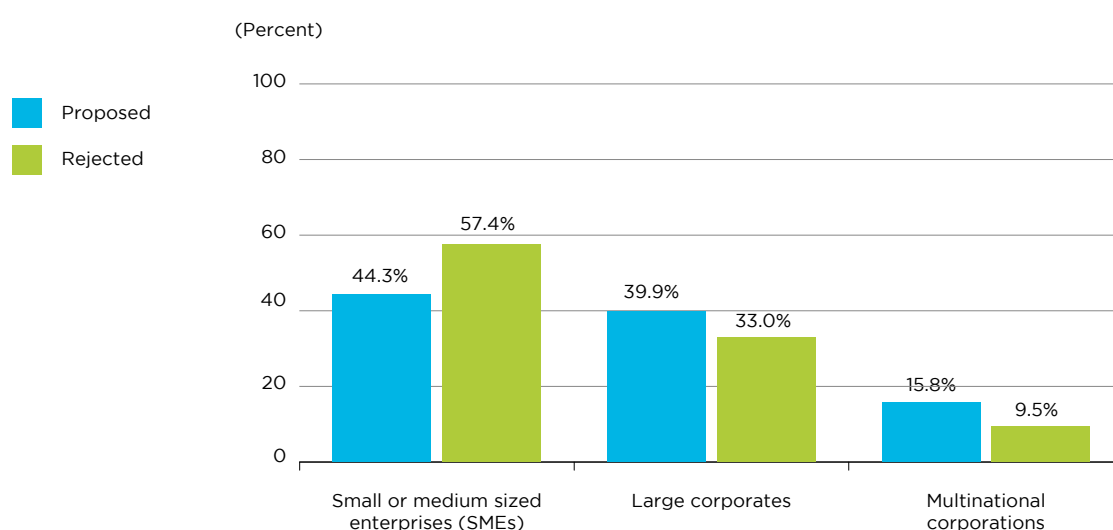
Asia's two biggest economies had similar experiences with trade finance. Even with the continued transition of the economy, China reflected the highest number of trade finance proposals (15% of all proposals), with a slightly lower rejection rate (12% of all rejections). Similarly, proposals from India comprised 7% of all proposed transactions, but only 5% of the rejections.

58%

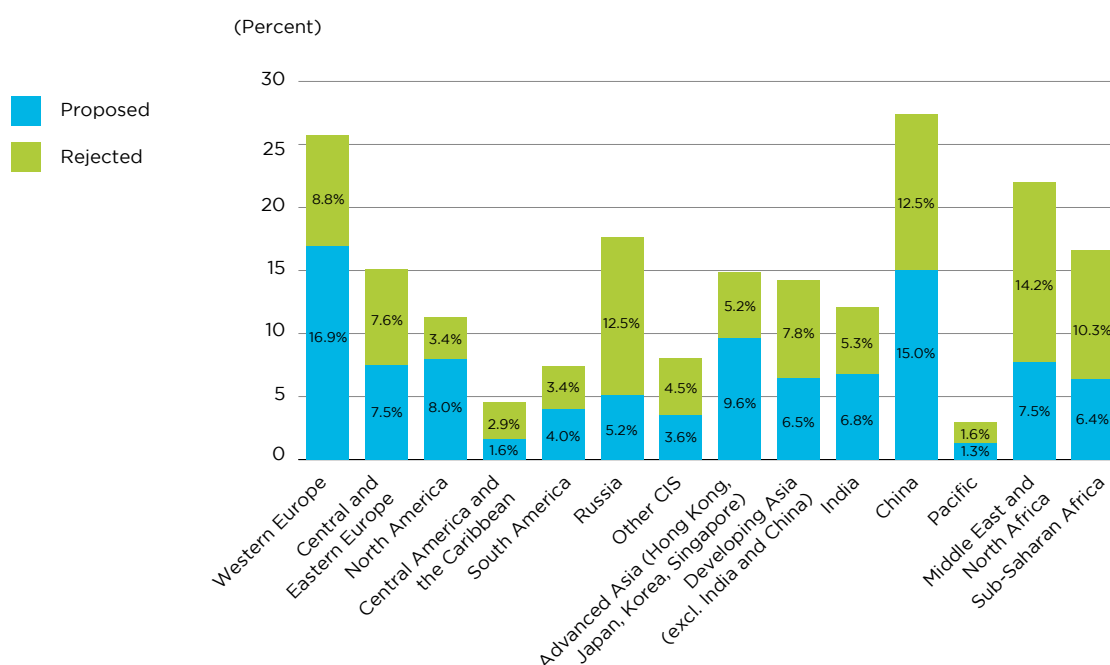
**SMEs account
for 58% of
total rejected
trade finance
transactions**

**Unmet trade
finance demand
reported highest
in Russia, Middle
East and North
Africa and Sub-
Saharan Africa**

Figure 37: Proposed and rejected transactions by client segment



Source: ICC Global Survey on Trade Finance 2016

Figure 38: Proposed and rejected transactions by region

Source: ICC Global Survey on Trade Finance 2016

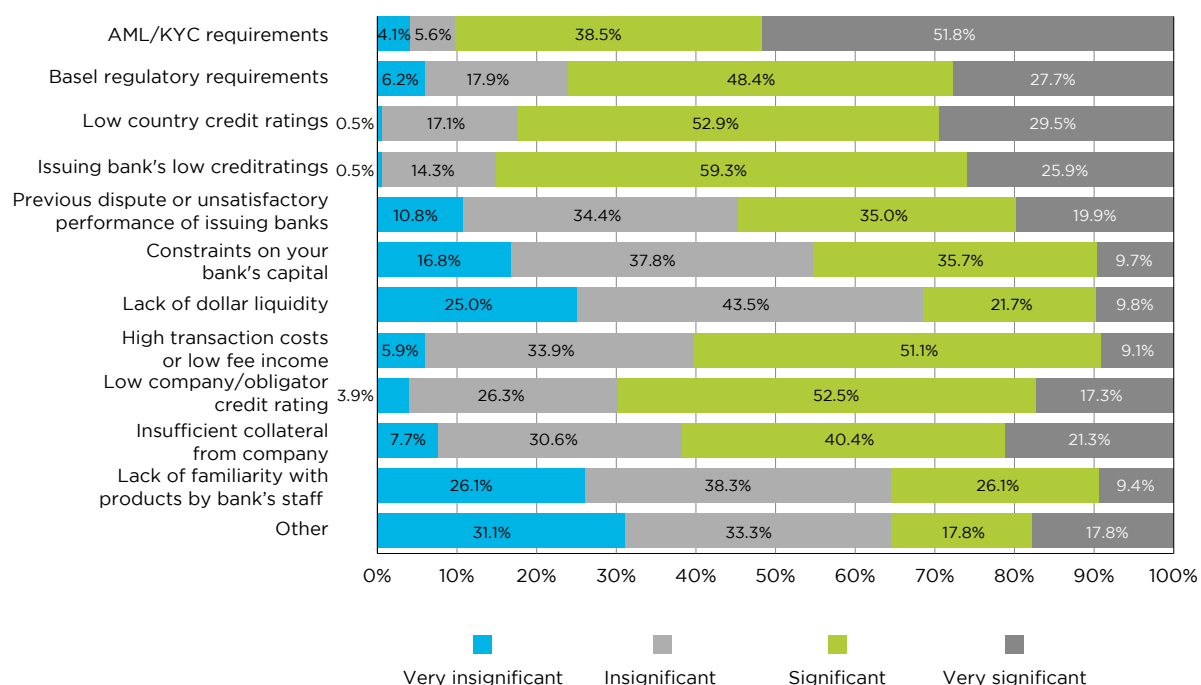
83%
expect
compliance
requirements
to increase
throughout
this year

Impediments to trade finance

This year's survey results continue to reflect concerns that regulatory requirements hinder banks from meeting market demand for trade finance. The percentage of respondents citing anti-financial crimes compliance as a significant impediment has been increasing over the years (reaching 90% this year), and the vast majority (83%) expect compliance requirements to increase through 2016.

The impact of compliance measures was reported to be the greatest in Russia/CIS, and MENA/sub-Saharan Africa. 75% of respondents reported that SMEs were the most adversely affected client group, indicating that the trade finance landscape for SMEs could become even more challenging as compliance requirements continue to evolve. Moreover, differing legal and regulatory requirements increases the cost and complexity of compliance. 65% of the respondents cited the lack of harmonisation across jurisdictions as a challenge.

Figure 39: Impediments to trade finance

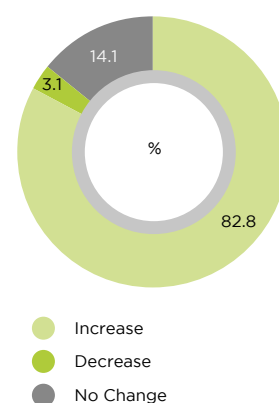


Source: ICC Global Survey on Trade Finance 2016

The impact of Basel III regulatory requirements was reported as a significant impediment by 77% of respondents compared to 57% last year. Unlike compliance requirements, Basel regulatory requirements affect all client types to a similar degree.

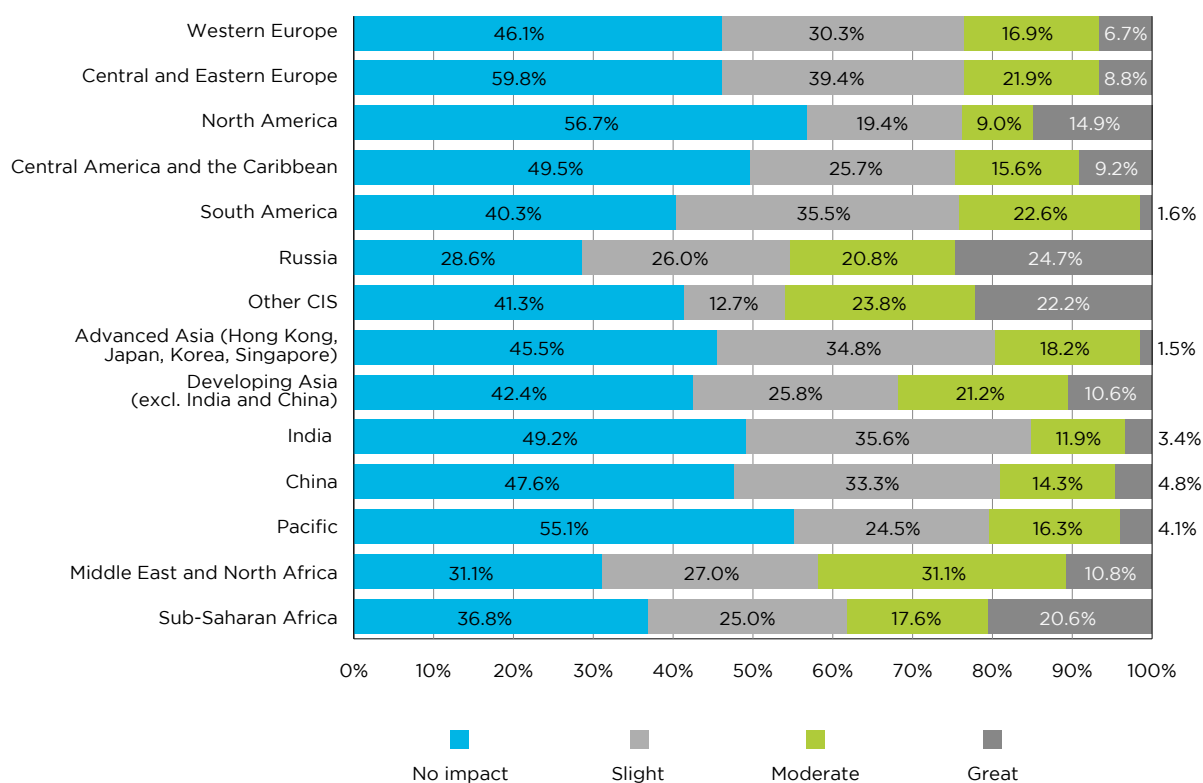
Other significant impediments related to more traditional measures related to risk including: low credit rating of the country, issuing bank or obligor, insufficient collateral and previous dispute.

Figure 40: Expectations for evolution of compliance requirements in 2016



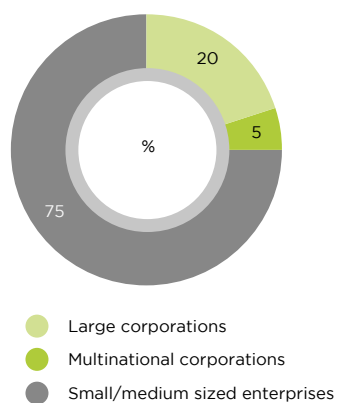
Source: ICC Global Survey on Trade Finance 2016

Figure 41: Regions and level of impact of increasing cost and complexity of compliance (including more stringent AML and KYC)



Source: ICC Global Survey on Trade Finance 2016

Figure 42: Customers most impacted by more stringent compliance (AML and KYC) requirements



Source: ICC Global Survey on Trade Finance 2016

Figure 43: Extent to which the lack of harmonisation of compliance requirements between jurisdictions poses a challenge to the trade finance industry

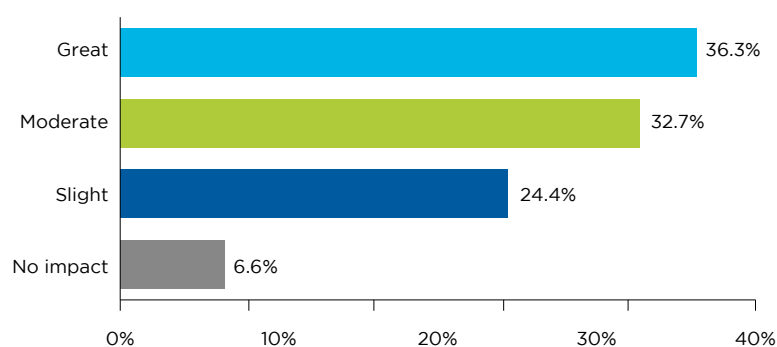
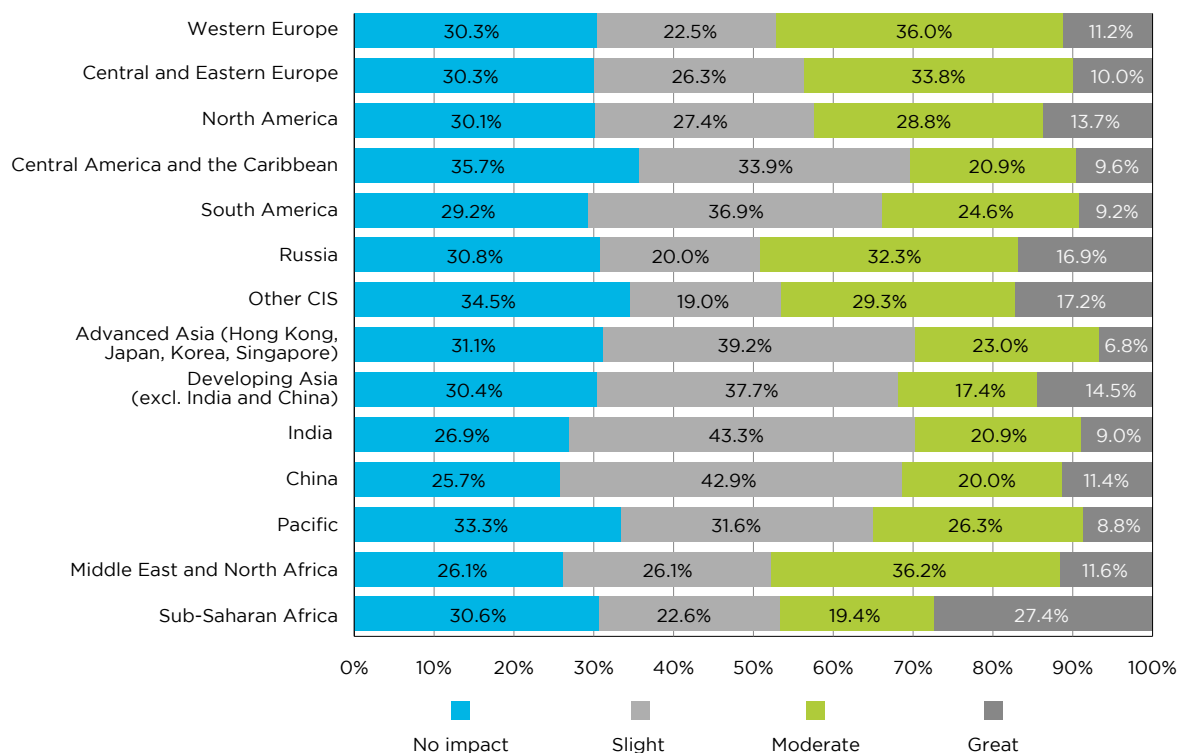
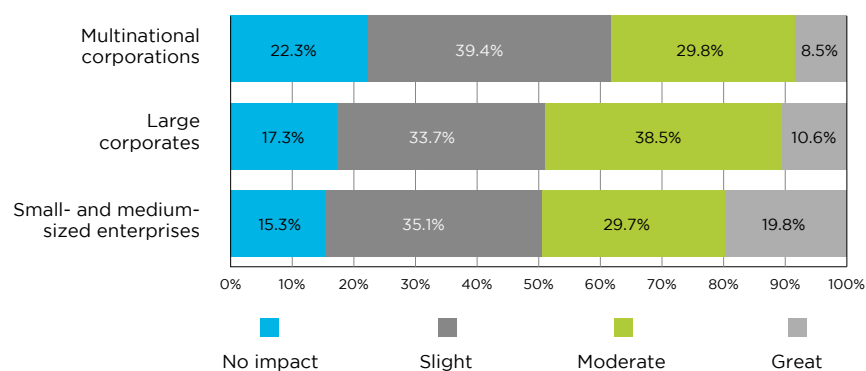


Figure 44: Perceived level of impact of Basel III in different regions of the world



Source: ICC Global Survey on Trade Finance 2016

Figure 45: Customers most impacted by Basel III requirements



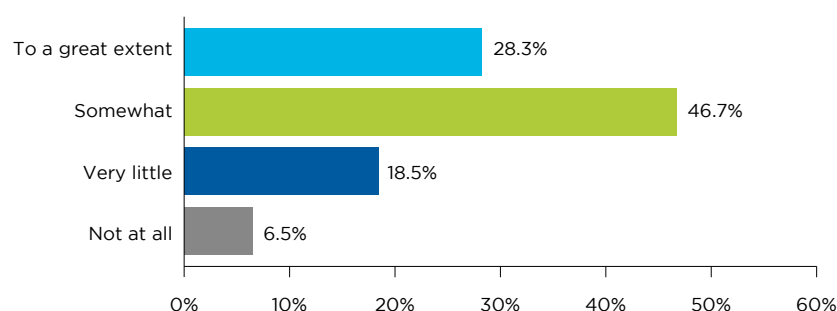
Source: ICC Global Survey on Trade Finance 2016

The role of multilateral development banks and export credit agencies

Surveyed banks remained positive about the role of multilateral development banks and export credit agencies in addressing shortfalls. MDBs and ECAs help narrow trade finance gaps, according to 75% of respondents. However, the perceptions

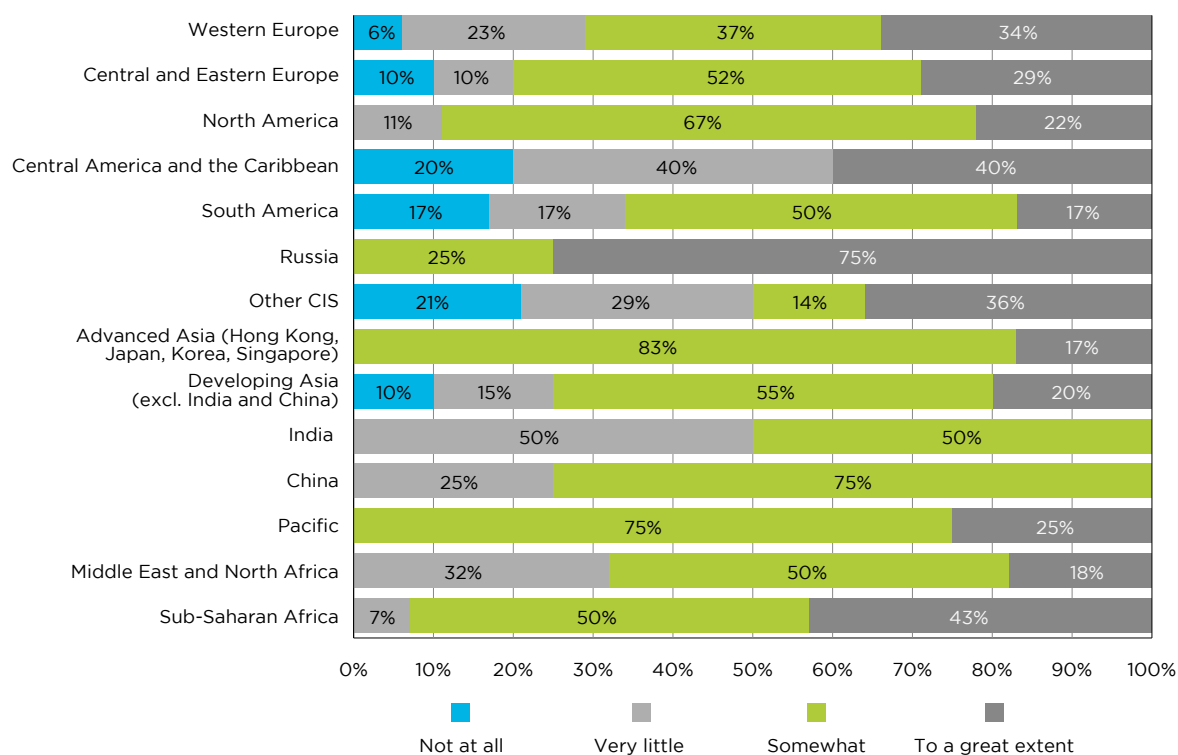
varied by region, and MDBs and ECAs were deemed most effective in Advanced Asia, Russia, and sub-Saharan Africa, and less in other in CIS countries, India, Central America and the Caribbean.

Figure 46: Extent to which trade finance programmes of MDBs and ECAs narrow trade finance gaps



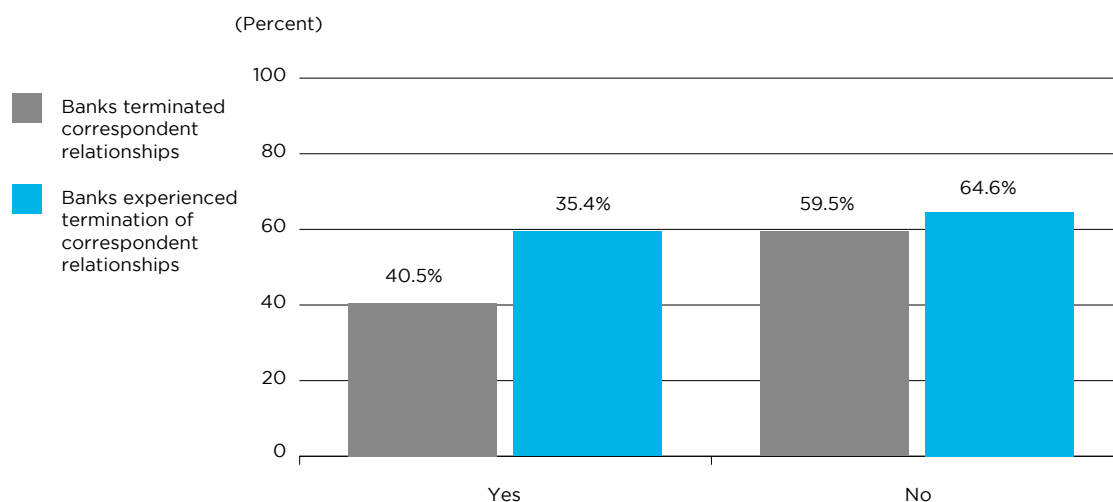
Source: ICC Global Survey on Trade Finance 2016

Figure 47: Extent to which trade finance programs of gaps of MDBs and ECAs narrow trade finance gaps, by region



Source: ICC Global Survey on Trade Finance 2016

Figure 48: Termination of correspondent relationships due the increasing cost or complexity of compliance (including more stringent AML and KYC in 2015)

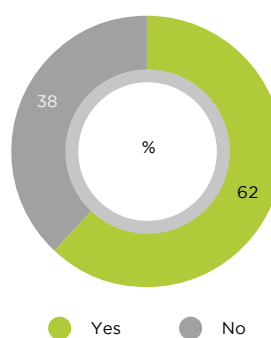


Source: ICC Global Survey on Trade Finance 2016

One of the fallouts of increasingly complex compliance measures has been the disruption of banking relationships. In this year's survey, a smaller percentage of banks reported having terminated correspondent relationships due to compliance measures (40% compared to 44% the previous year). This suggests that the global 'consolidation' or exiting of banking relationships has mostly already taken place and may be slowing.

The challenge for the trade finance community is now to both prevent further drawing down of existing relationships, as well as to re-establish broken links, especially in cases where global banks have completely withdrawn from operations in the affected countries. There is a role for multilateral development banks to play in providing support and information to banks in emerging markets to upgrade domestic regulatory frameworks and encourage harmonisation of compliance requirements across jurisdictions.

Figure 49: Banks declined trade finance transactions due to AML/KYC issues in 2015



Source: ICC Global Survey on Trade Finance 2016



Corporate Banking

Short paths to your global export markets.

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BUSINESS TRENDS IN EXPORT FINANCE

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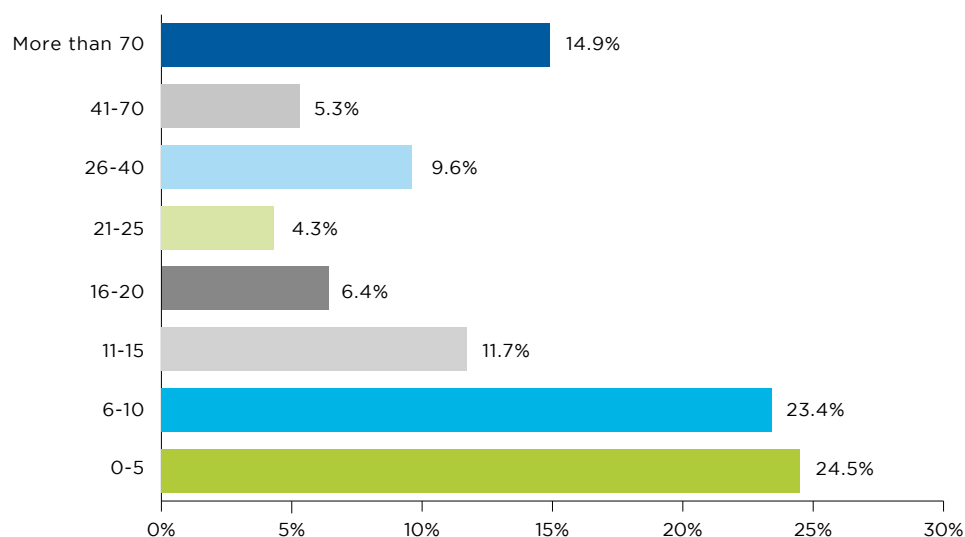
Year of risk takes its toll on export finance

- Low commodity price environment had a negative impact on 60% of professionals in the ECA market.
- 50% saw deals shelved or postponed due to US Ex-Im's reauthorisation battle.
- US the most popular country for export finance borrowing, followed by Turkey and Egypt.
- Power & transmission top sector for deals.
- Political instability was the biggest barrier to doing business in new markets.
- 54% report that pricing in export finance has decreased.
- Competition and liquidity levels cited as primary pricing driver.
- 14% state that export finance is either breaking even or making a loss.
- Narrow majority believe ECAs are not doing enough to support SMEs.
- Euler Hermes voted most efficient ECA.
- SACE and UKEF selected as most improved ECAs.

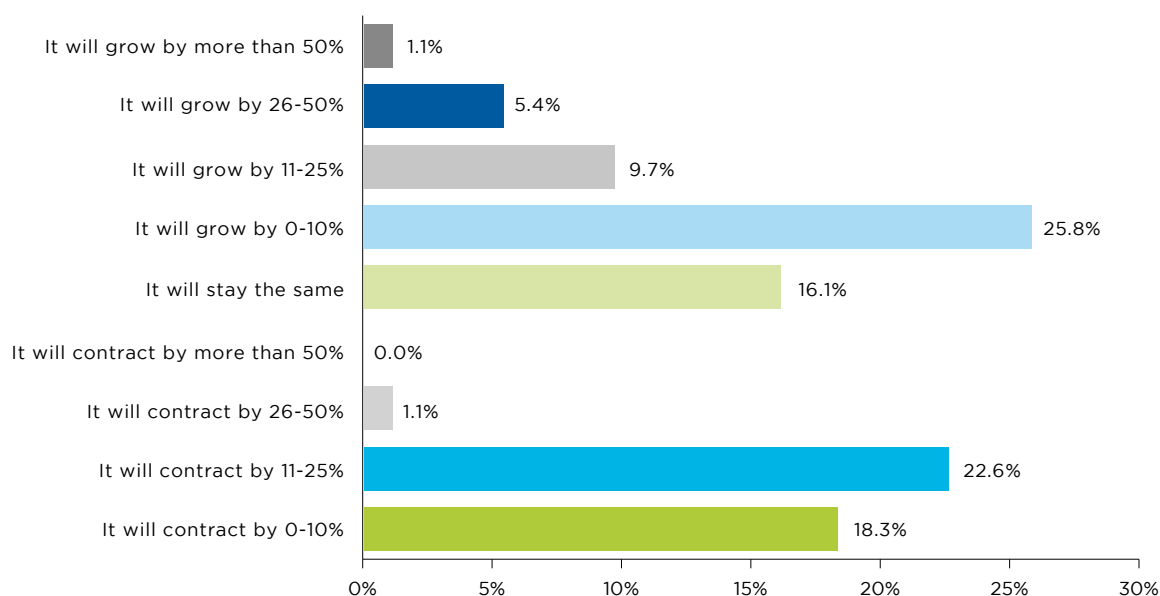
With a crash in the price of commodities, a boom in the cost of compliance, a slowdown in the world's second largest economy, and a raft of risks across the globe, 2015 was certainly a challenging year for the export finance community.

The TXF-ICC Global Survey on Export Finance, conducted among more than 100 export finance financiers, ECAs, exporters and borrowers – including the global heads of export finance (EF) at some of the world's leading EF banks – reveal the implications of these macro-drivers on the export finance industry.

**TXF surveyed
over 100
export finance
financiers, ECAs,
exporters and
borrowers**

Figure 50: Export finance deals in 2015

Source: TXF

Figure 51: Export finance market expectations for 2016

Source: TXF

Commodities cause a squeeze

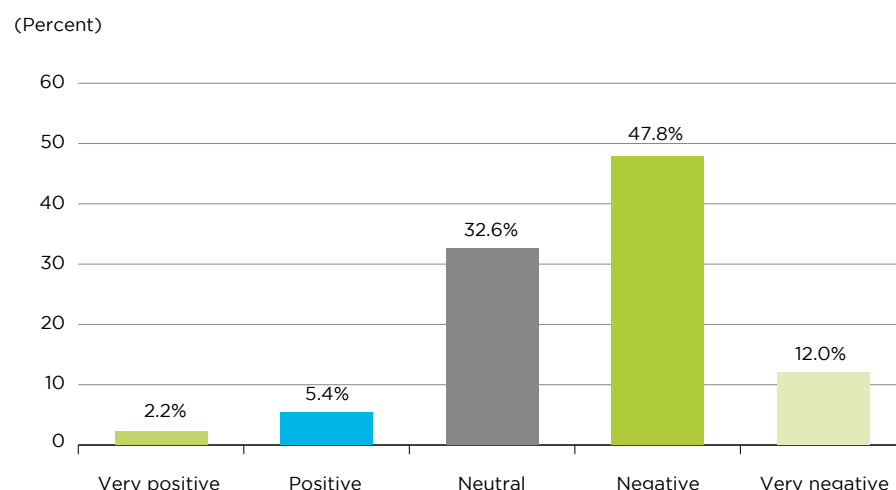
The last year has seen the continuation of a low-price commodity environment that has cut across virtually all key sectors, but particularly energy. When asked what impact this landscape had on their business, 6 in 10 described the impact as negative – including the 12% of respondents who described the impact as very negative.

This can be attributed to two primary factors: the struggles of producers who are finding themselves in distress as the gap between their production and sales costs narrows, and the lower overall financing volumes needed by various parties within the chain. Banks with a strong exposure to upstream commodity assets, for example, have been particularly hard hit.

Only 7% of respondents saw any positive impact of the low-price commodity environment.

Low commodity prices have also hit particularly banks with a strong exposure to upstream commodity assets

Figure 52: Impact of the low commodity price environment on businesses in 2015



Source: TXF

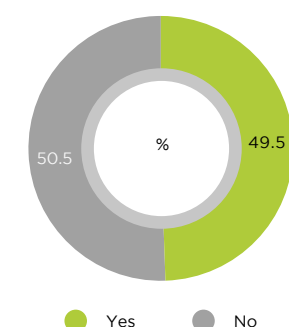
United States: A love-hate relationship with ECA finance

The struggle for the Export-Import Bank of the United States (US EXIM) to attain reauthorisation was one of the most dominant themes in the ECA world in 2015. The TXF-ICC survey demonstrates that the drawn-out affair had a very tangible impact on the ECA's business, with half of respondents seeing deals shelved or postponed because of the uncertainty.

This will have had the biggest impact on US exporters in the market for new deals who could not rely on state support in the same way, particularly as stability of financing is usually one of the primary draws of ECA finance. Aviation transactions – including for US manufacturer Boeing – were among those impacted.

US EXIM struggle to attain reauthorisation was a dominant aspect of the ECA industry in 2015

Figure 53: Deals postponed due to the delay/uncertainty over US EXIM's reauthorisation in 2015



Source: TXF

However, on the other side of the spectrum, the United States was also the most commonly cited borrower country in 2015 – with 26% of respondents listing it as one of their top three countries for export finance borrowing.

Beni Suef powers through

Aside from the US, the next two most popular borrower markets were Turkey (23%) and Egypt (22%), with the huge Beni Suef power deal being the highlight for the latter as it aims to combat crippling power shortages across the country.

Other popular borrower markets include Brazil (19%), Russia (17%), China (12%), India (10%) and Mexico (9%).

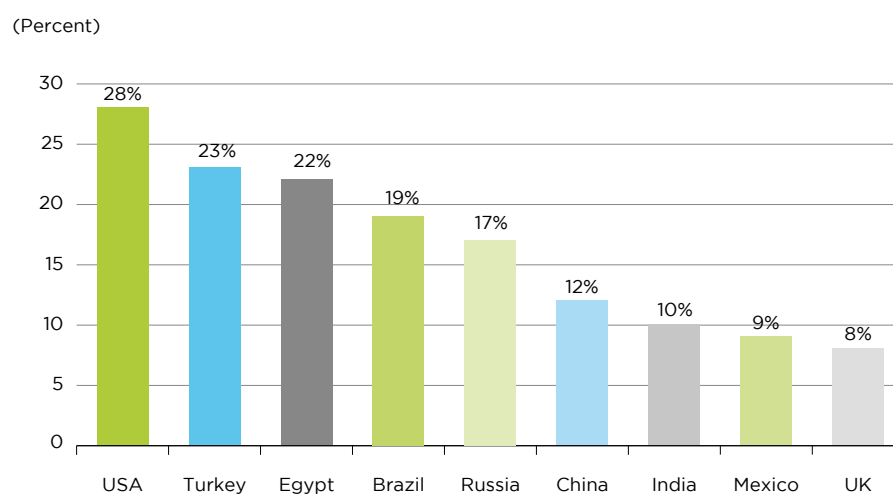
As mentioned above, power & transmission as a whole was the sector home to most ECA deals in 2015 with 42% of respondents listing it as one of their top three.

Next was industrial production and processing equipment (35%), followed by shipping (30%). In spite of this, the shipping sector has certainly endured a difficult time recently and the strength of the cruise line segment perhaps deflects attention away from serious struggles elsewhere.

Infrastructure was fourth (28%), followed by the oil and gas downstream sector and the telecommunications/satellite sector as joint fifth-sixth (24%).

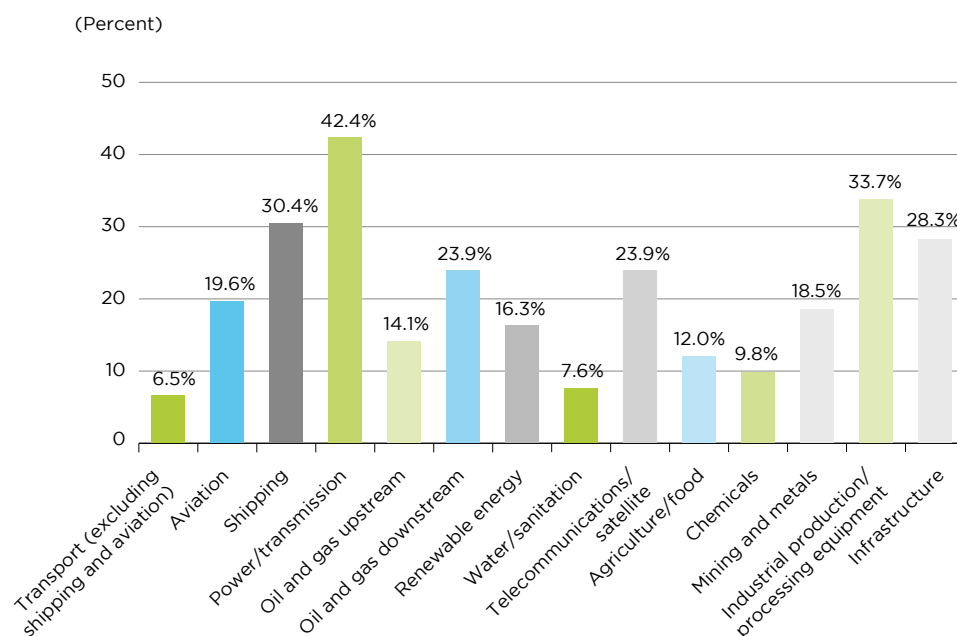
That renewable energy marginally outperformed oil and gas upstream further underlines the squeeze the commodities climate has had within the ECA business, as well as a small trend towards renewables.

Figure 54: Top countries for export finance borrowing in 2015



Source: TXF

Figure 55: Sectors ranked among top 3 for export finance



Source: TXF

A year of risk

Last year, 2015, was characterised by a number of risks across the continent, from the Chinese slowdown and migration crisis, to geopolitical turbulence and sluggish growth. This found expression in the survey through the factors most commonly cited as being the most prohibitive to doing export finance business in new markets: political instability (cited by 43% of respondents); sanctions (40%) and legal and regulatory hurdles (40%).

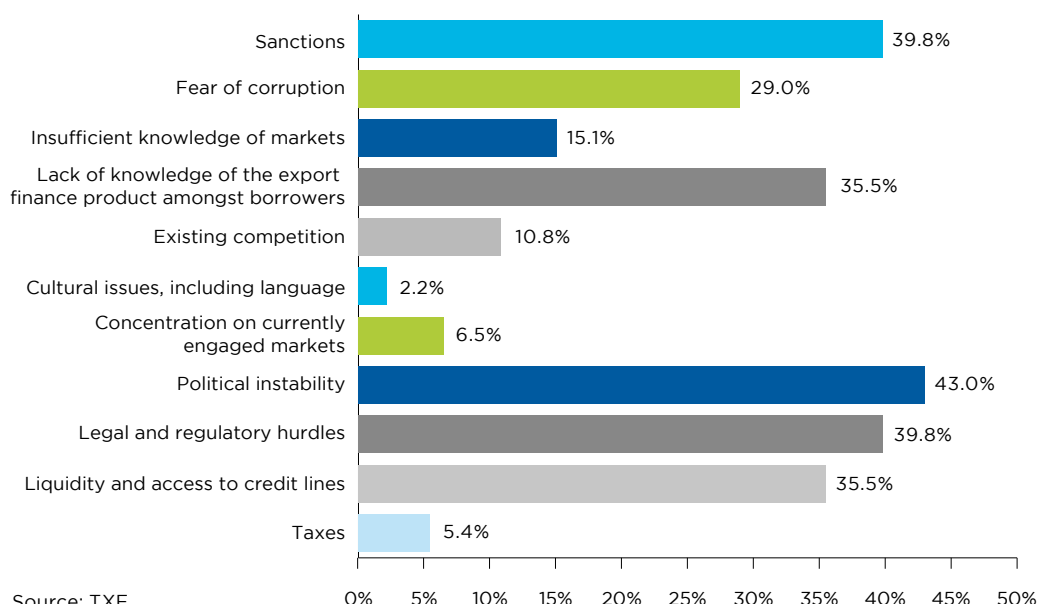
Perhaps the biggest winners of these trends are private insurance solutions providers, awareness of whom is growing in the market and whose products are proving increasingly effective when it comes to unlocking frontier markets.

Another observation is the inter-linkage between various prohibitive factors, for example the challenge of overcoming legal and regulatory hurdles often leads to a shortage of liquidity and access to credit lines (35%).

Similarly, fear of corruption was cited by 29% of respondents and is a problem compounded during times of high political instability, where shifts in power become more likely and the threat of the unknown becomes a greater consideration.

That concentration on currently engaged markets was mentioned by only 6% of respondents suggests that appetite amongst professionals to move to new geographies is prevalent, but being held back by the above-mentioned factors.

Increasing market awareness of private insurance providers solutions

Figure 56: Deterring factors for export finance businesses in new markets

**SACE (IT) and
UKEF (UK)
recognized
as the ‘most
improved’ ECAs**

European powerhouse ECAs lead the way

Germany’s Euler Hermes was ranked the “most efficient ECA”, gaining the votes of 22% of respondents. Hermes, which manages the official export credit guarantee scheme on behalf of the German government, supported a number of exporters in transactions across the world last year. These include a USD 1.5 billion shipping deal between Meyer Werft and Royal Caribbean Cruises, the previously mentioned Beni Suef power deal, and a petrochemicals transaction to support exports from Linde AG and Man Group to India’s Reliance. Sweden’s EKN placed second, notching up 15% of votes.

UK Export Finance (UKEF) and Italy’s SACE were the joint winners of the “most improved ECA”. Both had excellent years: UKEF’s highlights – over the 2015/2016 year – include a 23% increase on the number of companies it supported, up to 279; providing GBP 1.8 billion of support for exports to 69 countries and becoming the first ECA outside China to guarantee a loan in Chinese currency (the offshore renminbi), paving the way for UK companies to export more easily to the Chinese market.

SACE, meanwhile, defied the macroeconomic context of a slowdown in emerging economies and declining commodity prices to increase its net profit to EUR 407 million. During the process, it supported an EUR 800 million loan for construction of the new metro line in Lima and a EUR 575 million line of credit issued in favour of Eurochem to build an ammonia plant in Russia. SACE has also been ahead of the curve when it comes to Iran’s gradual re-introduction into the international

economic community, including signing a technical cooperation agreement with Export Guarantee Fund of Iran (EGFI) that will see SACE offer EGFI advisory and training services on products, processes, and risk assessment and management.

SME struggle goes on – but with signs of promise

More broadly on the ECA front, a small majority (54%) felt that ECAs were not doing enough presently in support of SMEs. This has to be understood in the context of wider challenges being faced by SMEs and the large trade finance gap they are suffering from.

Moreover, while SMEs can be a difficult segment to service, there have been notable strides to cater to their idiosyncratic needs in the last couple of years through greater involvement in supply chain finance programmes.

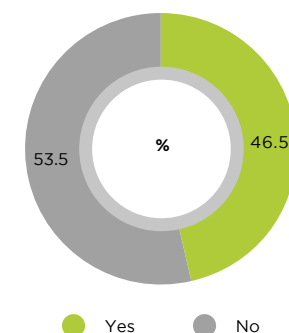
SME content is also surfacing more prominently in ECA deals. The Australian ECA EFIC contributed to the financing of the Oyu Tolgoi gold and copper mine expansion, partly with a view to engendering opportunities in the project's supplier chain which will be awarded to Australian SMEs, for example.

This is an area where more movement can be expected from ECAs in the future, given strong political will to support SMEs combined with commercial banks finding it more difficult to 'bank' these clients for profitability reasons.

Pricing: What goes down, must come up?

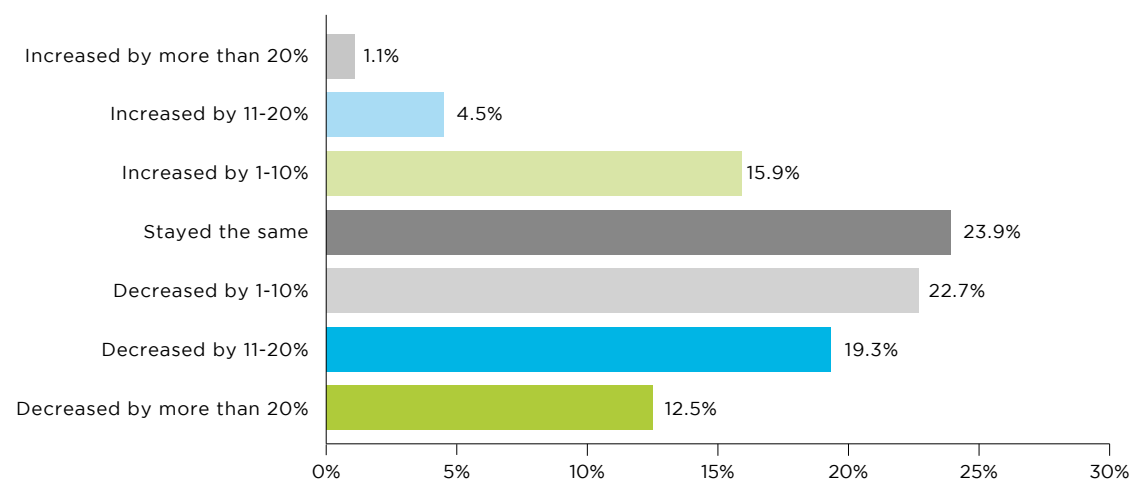
Given some of the aforementioned challenges in the market, it is perhaps unsurprising that more than half of respondents (54%) report that pricing in export finance has decreased over the last year. By contrast, only one out of five saw a pricing increase.

Figure 57: Sufficiency of ECA support for SMEs



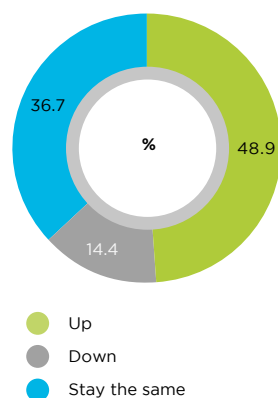
Source: TXF

Figure 58: Pricing variation of export finance over the last year



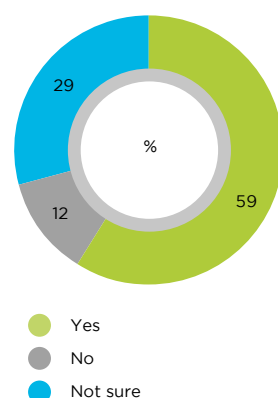
Source: TXF

Figure 59: Pricing expectations for the next 12 months



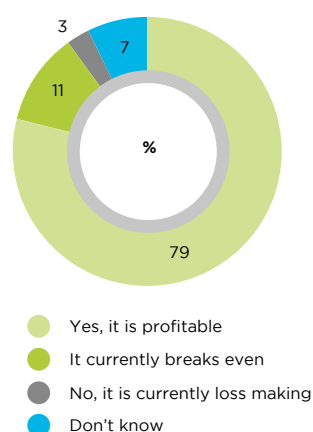
Source: TXF

Figure 60: Presence of Basel III pricing in export finance deals



Source: TXF

Figure 61: Profitability of export finance for institutions



Source: TXF

Competition, including levels of liquidity in the market, was cited as the key driver of pricing in the market at the moment, according to 54% of respondents.

Just under a third of professionals (32%) attribute the pricing to compliance and regulatory requirements, including Basel III – which for the traditionalists in the industry will be seen as a high proportion, but a necessary one in order to avoid falling foul of regulators' demands.

Despite this, confidence is relatively high that pricing will rise again through 2016 – with 49% of respondents making such a prediction. Over a third (37%) said it would stay the same, and 14% believe it will continue to go down.

Whether these forecasts come to bear remains to be seen, particularly as the above-mentioned pressures on pricing show no sign of abating. One positive reflection, particularly for the regulators, is that Basel III appears to be overwhelmingly priced into transactions now, with only 12% of respondents being confident that this was not the case. Where Basel is only partly being factored into transactions, that is likely due to existing pricing pressures and the need to remain competitive throughout a tough year.

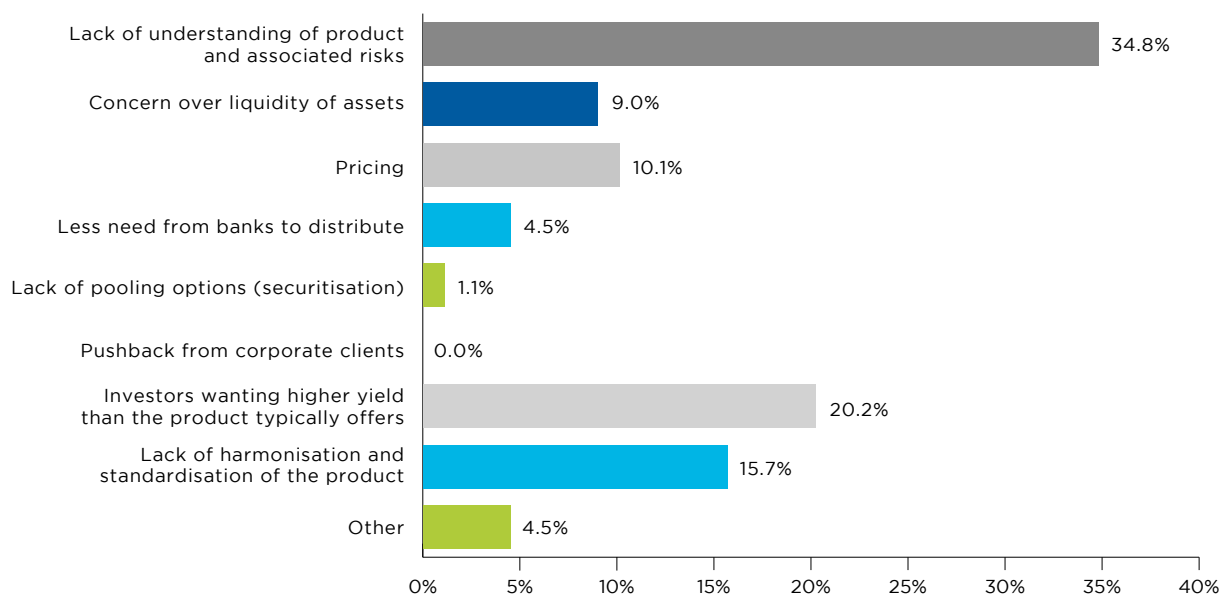
Finally, the survey reveals that at the sharpest end of the spectrum, export finance is witnessing significant financial distress: 14% of relevant respondents report that their export finance business is currently either breaking even or making a loss. Among other things, higher capital requirements, compliance costs and competition are behind the pressure being placed on the product.

Institutional investors

On the alternative liquidity front, 37% of respondents reported that they had successfully concluded business with institutional investors relating to export finance. This represents an increase from 30% that responded positively to the same question the previous year, and reflects the growing role alternative investors are playing in the ECA finance space. The majority of this involvement – 56% – is in the form of providing debt, followed by the purchase of packed export finance (36%).

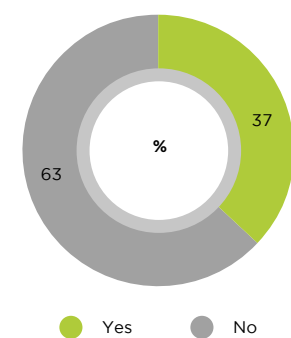
This trend is being driven both by the external macroeconomic environment of low interest rates, as well as greater capital constraints that banks are facing which is inclining more of them towards an 'originate-to-distribute' model. In spite of the former factor, one fifth of respondents still believe that the desire for higher yield than the ECA product typically offers is still the biggest barrier to great institutional investor involvement.

Figure 62: Challenges of having more institutional investors enter export finance



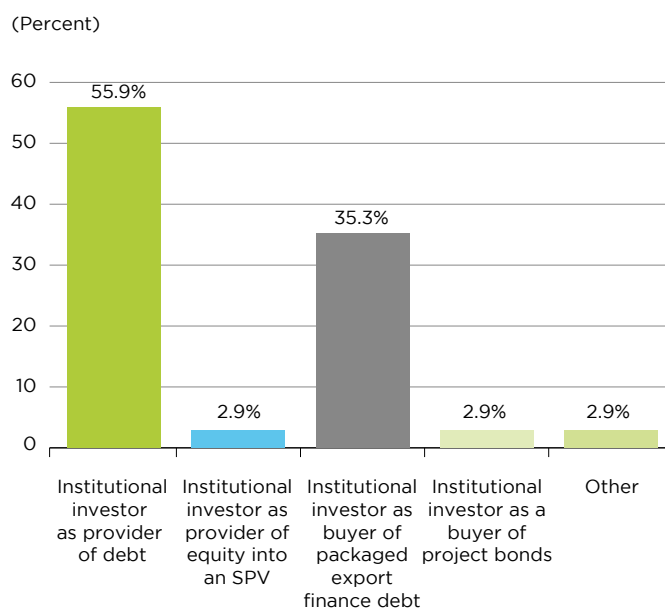
Source: TXF

Figure 63: Successful business operations accomplished with export finance institutional investors



Source: TXF

Figure 64: Main reasons for business completion with export finance institutional investors



Source: TXF



What are the biggest challenges in the export finance industry at the moment?

“The regulatory changes regarding sovereign risks, for example the end of the 0% risk weighting and/or introduction of large exposure limits for sovereign borrowers/guarantors.”

“Small and midsize deals need to be a lot more cost efficient. We need a solution to the KYC requirements, for example, for deals below USD 5 million.”

“There is limited availability of US dollar funding at competitive levels.”

“The lack of depth in the capital markets due to increased exposure fees in the aviation sector, Basel III requirements and limited capacity from US Ex-Im from not having enough board me.”

“Three key challenges: US EXIM’s lack of Board, China’s lack of transparency, and the low oil price environment.”

“Local currency financing requests.”

“Regulatory and compliance issues, including Basel III, KYC and AML.”

“The fact that global uncertainty is reducing global investments.”

“Coping with volatility in long-term funding and regulatory issues which make banks less appealing as providers of export finance solutions.”

“The expectations of borrowers that may not have yet factored in the general condition of the world economy!”

“The uneven playing field between those ECAs that observe OECD conventions and those that do not.”

“Widespread political and economic instability.”

“Risk deterioration in several countries / counterparties / sectors.”

“Unattractive pricing and too few deals.”

?

What is the most exciting aspect of the industry at the moment?

“New financing solutions coming from a change of our own business based on new business models.”

“Navigating a market environment that is characterised by moderate growth, geopolitical instability and high levels of volatility.”

“ECA finance is counter-cyclical, so that markets in some distress, such as Brazil, may become fertile ground for ECA solutions.”

“The fact that it has proven to be very resilient and is ready to welcome back Iran.”

“Economic certainty may actually open up opportunity in the next 12 months.”

“Industry 4.0” and the “internet of things.”

“The battle between ECA and Political Risk Insurance (PRI), as well as developments with regard to (previously) sanctioned countries.”

“As always, financing real things in interesting markets.”

“Making concerted efforts to realise projects despite economic and political fears.”

“The relief of international sanctions in Iran and Cuba.”

“ECA finance can play a key role supporting business during this global economic slowdown.”

“We are now seeing many multi-billion dollar projects are in the pipeline with ECA tranches, providing interesting and exciting opportunities.”

“New structures leading to a wider variety of liquidity for the sector.”

“New markets in Africa and South East Asia.”

“Creativity and new structures being devised drive the industry forward and keep the juices flowing!”

“The beginning of a new economic cycle.”

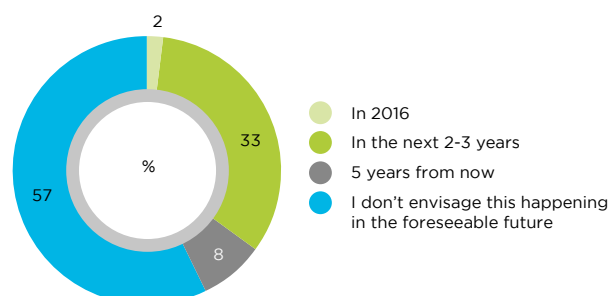
“The continued flexibility of ECAs as well as the increase in appetite for direct lending by ECAs.”

“The increased attention on non-oil exports, especially in countries rich in oil.”

“The AIIB. Hopefully.”

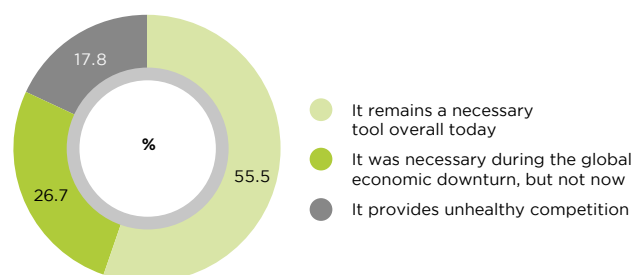
“The diversification of the players (new banks, multi-sourcing structures, PRI, institutional investors, etc.).”

Figure 65: Expected completion date of a transaction with the Asian Infrastructure Investment Bank (AIIB)



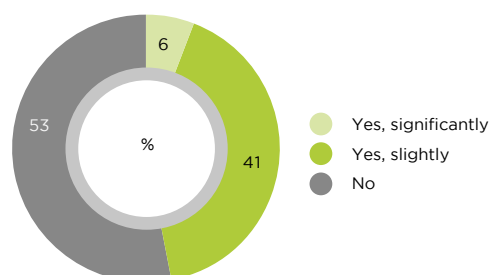
Source: TXF

Figure 66: Most frequent statements regarding direct lending by export credit agencies



Source: TXF

Figure 67: Increase of capital market solutions for export finance compared to 2015



Source: TXF

BUSINESS TRENDS IN EXPORT INSURANCE

Berne Union contribution

Export credit insurance declines due to continuing difficult economic environment

Due to global economic developments, the continuing low energy and commodity price levels and geo-political risk remaining at high levels, international trade in 2015 declined significantly. Hence the members of the Berne Union, the International Union of Credit and Investment Insurers saw their volumes of export credit insurance amount to USD 1.78 trillion in 2015, a decline of 7% from the previous year.

The total business volume was made up of more than USD 1.59 trillion in short-term export credit insurance and USD 154 billion in medium and long-term cover provided by official export credit agencies. Private insurers insuring medium- and long-term exports and state obligations reported USD 34 billion in new business.

The importance Berne Union members play in facilitating trade in difficult economic environments is underlined by the fact that they supported about 11% of international trade in 2015, up from 10% in the previous year. In other words, despite the decline in underwriting volumes in 2015, export credit and investment insurance, the relative importance of cross-border trade and investment continued to grow.

Total claims paid by Berne Union members during 2015 amounted to USD 5.9 billion, a 38% increase when compared to USD 4.3 billion recorded in 2014.

Since the beginning of the global financial crisis in 2008, Berne Union members have paid approximately USD 35 billion to exporters and banks to compensate them for losses suffered due to defaults by buyers or other obligors. Thus Berne Union members have provided ample and flexible risk capacity to support international trade transactions and to foster sustainable economic growth.

Short-term (ST) business

Short-term business represents insurance of exports with repayment terms of less than one year – often 30, 60 or 90 days. These transactions are typically shipments of consumer goods, with the movements of ST export credit insurance closely reflecting the fluctuations of the broader global economic environment.

11%

**Berne Union
members
supported 11%
of international
trade in 2015**



38%

**increase in the
claims paid by
Berne Union
members in 2015,
a total of
USD 5.9 billion**

The volume of ST export turnover insured by Berne Union members declined by 7% in 2015 and reached USD 1.59 trillion against USD 1.71 trillion reported in 2014. Partially contributing to the decline was the lapse of US EXIM Bank's reauthorisation on 1 July 2015. During the lapse period, i.e. July until December 2015, US EXIM was prevented from approving any new authorisations.

ST claims paid by Berne Union members to indemnify exporters for defaults on their trade receivables rose from USD 2.0 billion in 2014 to USD 2.6 billion in 2015. While the increase reflects a tougher business environment for international trade, the default-to-turnover ratio (i.e. claims paid as a share of the turnover business covered) was at 0.16% in 2015, still reflecting sound underwriting practices.

Not all members of the Berne Union report premium data. Nonetheless, the trend is quite compelling: the ST loss ratio (i.e. claims paid as a share of the premiums earned) continues to increase, now standing at about 75% against a loss ratio of 54% recorded in 2014.

When comparing the loss ratios of private commercial export credit insurers to that of ECAs, ECAs recorded higher ST loss ratios than their private peers in 2015. A credible cause is that, by mandate, ECAs operate in a special gap to support their national exporters, in particular where commercial insurance cover might otherwise be difficult to obtain.

The highest volumes of ST claims paid per country in 2014 and 2015 are as follows:

The highest volumes of ST claims paid in 2015 resulted from defaults in Russia (USD 237 million), Brazil (USD 205 million), Venezuela (USD 203 million), the United States (USD 161 million), and Saudi Arabia (USD 151 million).

Figure 68: Short term export credit insurance, 2005-2015

MILLION US\$	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Export turnover covered	841,283	971,418	1,126,721	1,296,878	1,122,873	1,257,794	1,495,088	1,538,609	1,641,786	1,707,568	1,586,394
Claims paid	707	783	1,007	1,128	2,417	1,508	1,323	1,827	1,913	2,005	2,576

Source: Berne Union

Medium- and long-term (MLT) business

The MLT statistics of the Berne Union capture export insurance coverage provided by official government-backed ECAs only. Alongside their export credit insurance or guarantee business, some ECAs in the Berne Union also provide direct financing, which is also reflected in the data and represents approximately 6.9% of the total business reported in 2015 (vs. 7.7% in 2014).

MLT export credit insurance covers exports of capital goods. These are transactions with longer repayment terms, typically 5-7 years, and up to 10 years or in some cases even 18 years for renewable energy and certain infrastructure investments. Most of the business is conducted with banks as the insured.

The total portfolio of MLT transactions insured by Berne Union ECAs reached USD 658 billion at the end of 2015, up from USD 650 billion reported in 2014, representing a slight increase of 1.2%.

New export credits in 2015 decreased by 6.8% to USD 154 billion in 2015 from USD 165 billion in 2014. To date, the highest-ever new export credit volumes were in 2009 and 2011 with record highs of USD 191 billion and 190 billion respectively.

In 2015 new business for the large ECAs based in OECD countries decreased, with very few exceptions. The decline reflects the underlying deal flow which appeared somewhat suppressed due to the dampened economic environment.

Claims paid to policy holders by ECAs under MLT transactions amounted to USD 3.25 billion in 2015, a significant increase of 51% when compared to 2014 defaults of USD 2.15 billion. The highest amounts of claims paid per country were due for risk events in Russia (USD 1.449 million), Iran (USD 375 million), United States (USD 301 million), Brazil (USD 193 million), and Ukraine (USD 168 million).

The background to the various claims situations is specific and differs significantly from country to country and case to case. A number of Berne Union ECAs continued to be affected by the Iranian sanctions situation, with obligors experiencing severe difficulties to effect payments abroad. We can however already observe that this situation, following the lifting of the sanctions, has improved in 2016. In Ukraine, the losses are directly linked to the unresolved conflicts and the shrinking economy.

The diversity of causes triggering claims in multiple countries illustrate the necessity for official support in gap areas that may affect exports across the globe. The support of ECAs appears to be increasingly crucial in helping banks and exporters trade internationally.

3.25
USD billion (2015)

2.15
USD billion (2014)

**Claims paid by
Berne Union
members for MLT
transactions**



Figure 69: Medium- and long-term export credit insurance, 2005-2015

MILLION US\$	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
New business covered	103,979	126,688	143,159	152,624	191,491	174,997	190,085	182,413	161,222	165,539	154,244
– of which insurance	100,145	119,104	133,411	141,255	164,874	163,106	176,037	158,984	147,125	152,757	143,621

Source: Berne Union

**Outlook – new risks and new opportunities**

The year 2015 was again a year of growing geopolitical risk and great uncertainty in the commodities sector. Their effect on export credit insurers is reflected by the lower number of new businesses covered and higher claims figures.

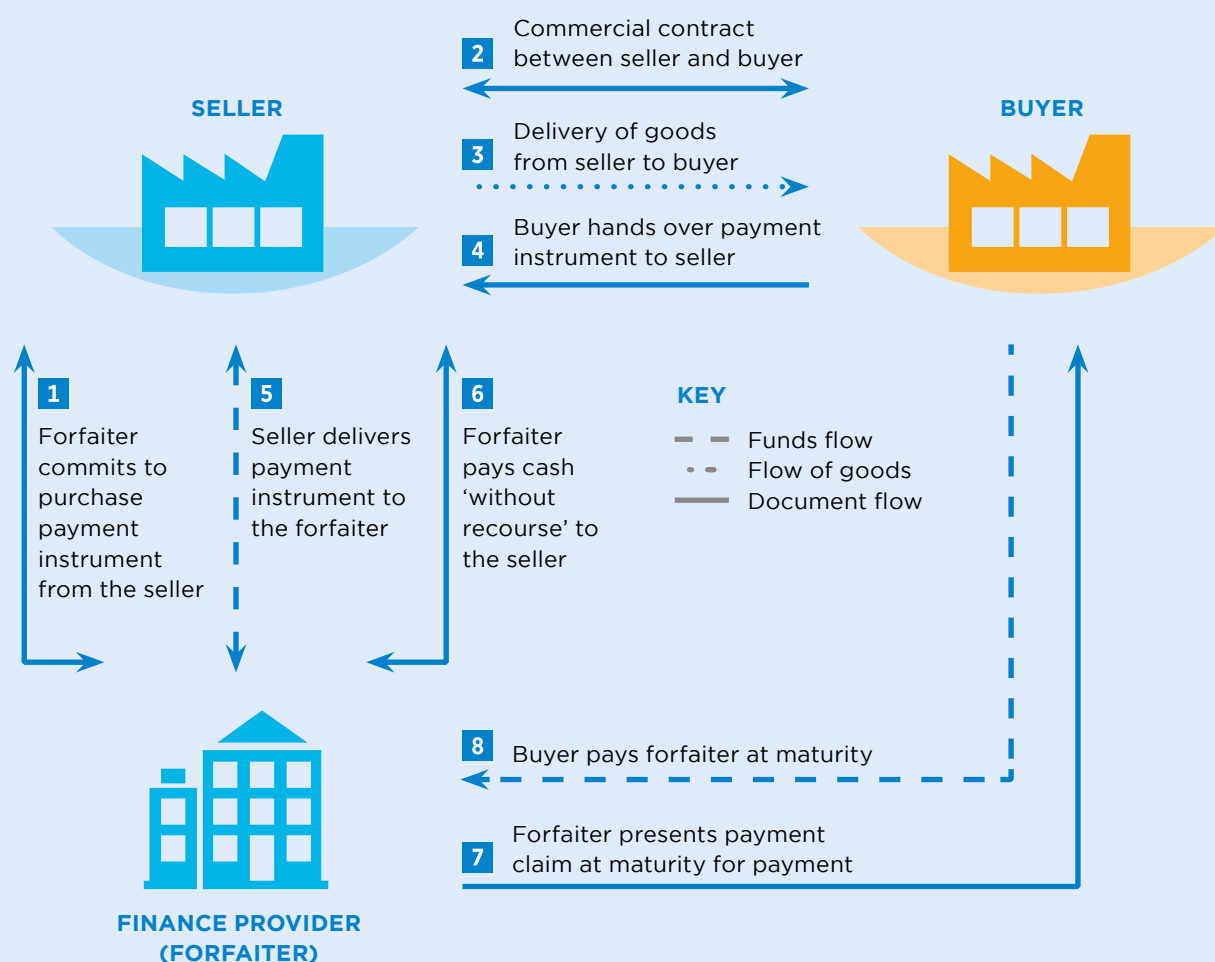
While these developments are likely to continue to strain insurers' businesses, regulatory issues (e.g. Basel III) are adding to an already uncertain market environment.

On the other hand, new opportunities are on the horizon. With the lifting of the Iran sanctions, exporters worldwide are re-positioning themselves in the race to enter the Iranian market. Export credit insurers will play a major role in supporting exporters exporting to Iran and will once again show the importance they play in facilitating international trade.

BUSINESS TRENDS IN FORFAITING

International Trade and Forfaiting Association and Asian Development Bank contribution

Figure 70: Diagrammatic representation of a typical forfaiting transaction



Source: Global SCF Forum

N.B. Where the payment claim is guaranteed by a third party (e.g. an avalised bill or note), demand for payment will be made on that guarantor and not the importer.

30
USD billion
Estimation of
Chinese forfaiting
market



Forfaiting as a tool for trade finance

Although a well-established technique, the proper function and vocation of forfaiting as a tool of international trade finance, particularly in receivables finance, has been re-asserted in the recent “Standard Definitions for Techniques of Supply Chain Finance” published by ICC and, amongst others, the International Trade & Forfaiting Association (ITFA). Forfaiting stands alongside payables finance and factoring as an appropriate and flexible method enabling the monetisation of trade receivables at given points along the physical supply chain when receivables are either in existence or are expected to become available.

A study of the receivables-purchase-based techniques in the Definitions will reveal that these techniques often have more in common than separates them. Traditionally, however, forfaiting has been distinguished from some of those other techniques by the following characteristics:

- it is a supplier-centric technique – but a buyer-centric approach is also possible
- it is without recourse – although a degree of well-defined recourse has always been accepted and has now been codified (see below)
- it requires the payment obligation being purchased – to be unconditional and independent of the underlying commercial transaction – this allows a surprisingly large range of trade receivables to be discounted
- the payment obligations are generally easily transferable and can be, and are, traded into a secondary market.

In fact, much of bank intermediation in trade-related receivables can be categorised as forfaiting although that label is often not applied. This can make estimation of volumes and flows difficult and most figures tend to be underestimates. In China, the forfaiting market is estimated at around USD 30 billion. The global market will, of course, be several degrees of magnitude larger but further work needs to be undertaken before reliable figures can be produced. What is clear is that many trade instruments are capable of being forfeited. Discounted letters of credit form the largest category of forfeited payment obligations (this market is especially large in China), but other ICC rules-governed instruments are also forfeited, for example collections and reimbursement undertakings under the Uniform Rules for Collections (URC) and Uniform Rules for Bank-to-Bank Reimbursements (URR) respectively. Bank Payment Obligations were forfeited shortly after their introduction although further work is needed to make the resulting obligations more widely tradeable.

Forfaiting also benefits from the only set of rules thus far published for the origination and trading of receivables, the Uniform Rules for Forfaiting (ICC Publication No. 800), a joint publication of the ICC and ITFA.

Hybrid structures which borrow from forfaiting but combine elements of other techniques have also been used in the market

➤ CASE STUDY

A UK mobile phone retailer approached the market in 2014 to establish a revolving GBP 150 million receivables purchase programme under which it proposed to sell invoices payable to it by network operators to a syndicate of banks.

There was concern as to the retailer's creditworthiness and associated performance risk leading to a perceived danger

that invoices would be subject to deductions or set-offs.

An experienced forfaiting team at the arranging bank instead proposed a forfaiting facility under which bills of exchange were drawn on and accepted by the networks. These were then purchased on a without-recourse basis from the retailer and held in trust by the arranger on behalf of the syndicate. The structure

removed performance risk on the retailer in case of their insolvency (as negotiable instruments are independent of the underlying commercial transaction).

The retailer became insolvent prior to the expiry of the facility and before the purchased bills had matured but all the outstanding receivables were paid in full and on time.

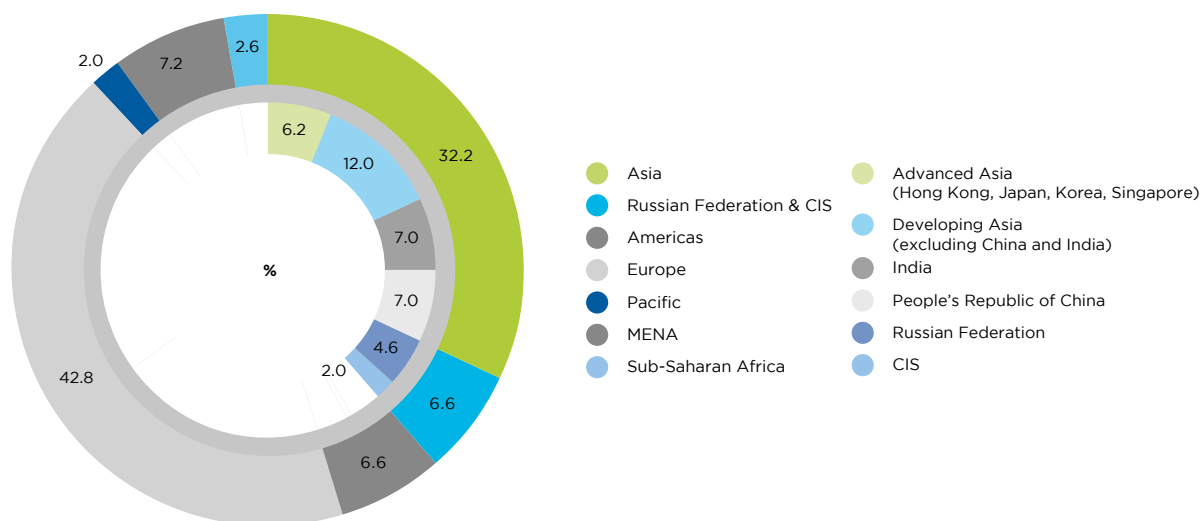
Geographical spread of forfaiting

It is no surprise that forfaiting is widely used globally given its essential simplicity which can be successfully reproduced across different jurisdictions without infringing local legal requirements. It is therefore an executable and scalable technique which, generally speaking, requires specialist legal knowledge only in relation to the registration and perfection rules in each country. Market knowledge is assured by a network of large banks and smaller niche finance houses.

The chart below shows the distribution of proposed forfaiting transactions by region in 2015 surveyed by Asian Development Bank.

**Europe and Asia
predominate
in the requests
for forfaiting
transactions**

Figure 71: Distribution of proposed forfaiting transactions by region



Source: Asian Development Bank Survey



48%
respondents
reported an
increase in the
value of forfaiting
activity

This chart includes both import and export transactions or buyer and supplier credits as they are sometimes known. While Asia and Europe predominate, other regions also have good coverage relative to their size. The MENA region is a growing market where the use of traditional negotiable instruments such as bills of exchange, promissory notes and even cheques is popular because of their perceived legal robustness. Within the Russian Federation & CIS, forfaiting has, in recent times, been largely confined to countries other than Russia in part due to Central Bank regulations relating to foreign exchange convertibility. In sub-Saharan Africa, volumes are low given the size of the region which is largely explained by a lack of infrastructure and suitable credits in an operating environment where local bank intermediation is needed in order to mitigate importer risk. At least one important regional multilateral bank is looking to change this situation.

Growth of forfaiting

Growth in all regions has been observed, however, relative to 2014. In the same ADB survey 48 % of respondents reported an increase in the value of forfaiting activity although the effect of falling commodity prices was felt by the same respondents. Without the exceptional fall in prices, values would have been higher, showing the strong underlying economics of this type of trade finance.

In terms of demand, 41% reported an increase in demand to support export transactions. Importantly, given the need for SME financing globally, 78% of respondents attributed the change in demand to requests from SMEs. Encouragingly, 70% of these respondents were able to answer these requests positively.

The cost of providing forfaiting services remained unchanged for 55% of respondents although more than half (59%) expect an increase for 2016. Generally, margins for forfaiting business remain squeezed in line with much of commodity-based business, but extra revenue can be earned from structuring and commitment fees. In addition, and especially where letters of credit are concerned, forfaiting can be a high-volume business with portfolios benefitting from a high return rate.

Impediments to forfaiting

The ADB survey showed a number of factors affecting the provision of forfaiting to customers. Many of these are common to other trade finance business but it is noteworthy that the three biggest obstacles are economic rather than related to compliance or regulation.

This is adding weight to the argument that, in an inventive and creative industry such as trade finance, “where there is a will, there is a way”, but also that the necessary will can only be summoned where it makes economic sense to do so. Techniques such as forfaiting can quickly be deployed where business exists. Forfaiting can be applied to a wide number of payment obligations as shown above. This technique or tool is ripe for use where conditions allow. Customer’s unfamiliarity with forfaiting was not considered an important factor preventing use of forfaiting, which underscores the widespread use of this technique, even where it is not formally designated as such.

AML/KYC requirements are not insignificant even in such a well-established business as forfaiting as shown in the chart. This is strongest in sub-Saharan Africa and the Middle East/ North Africa, a situation which needs to be remedied, as forfaiting is particularly apt for use in those regions where negotiable instruments are well understood and legally much more resilient than many other forms of payment obligation.

AML/KYC amongst most significant factors inhibiting factoring growth

Figure 72: Factors inhibiting forfaiting growth

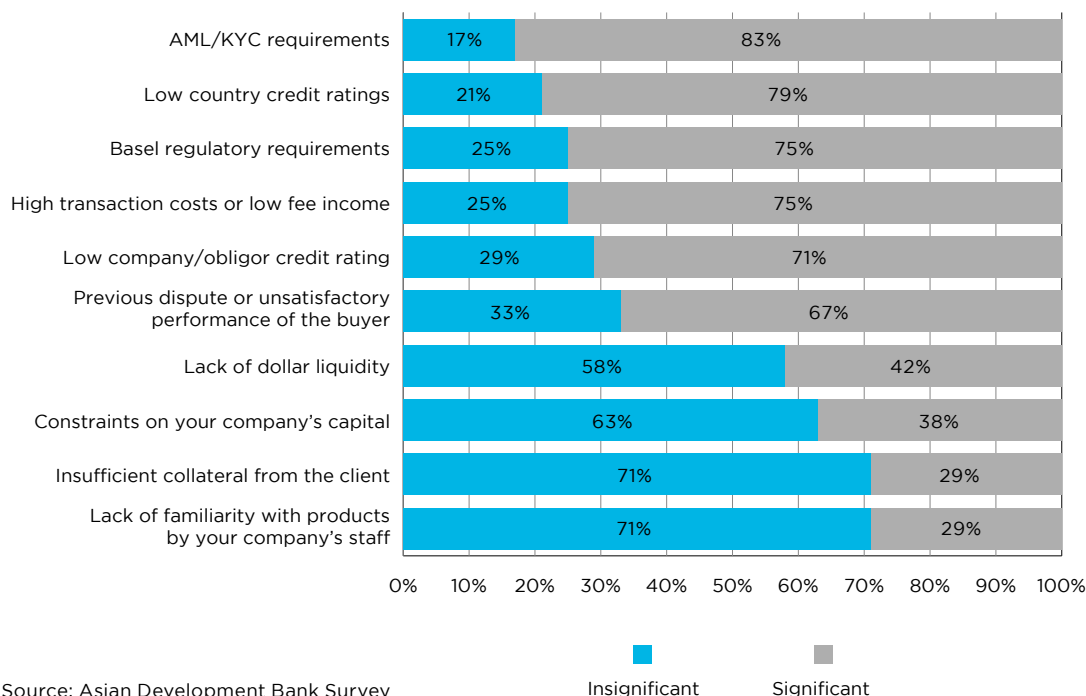
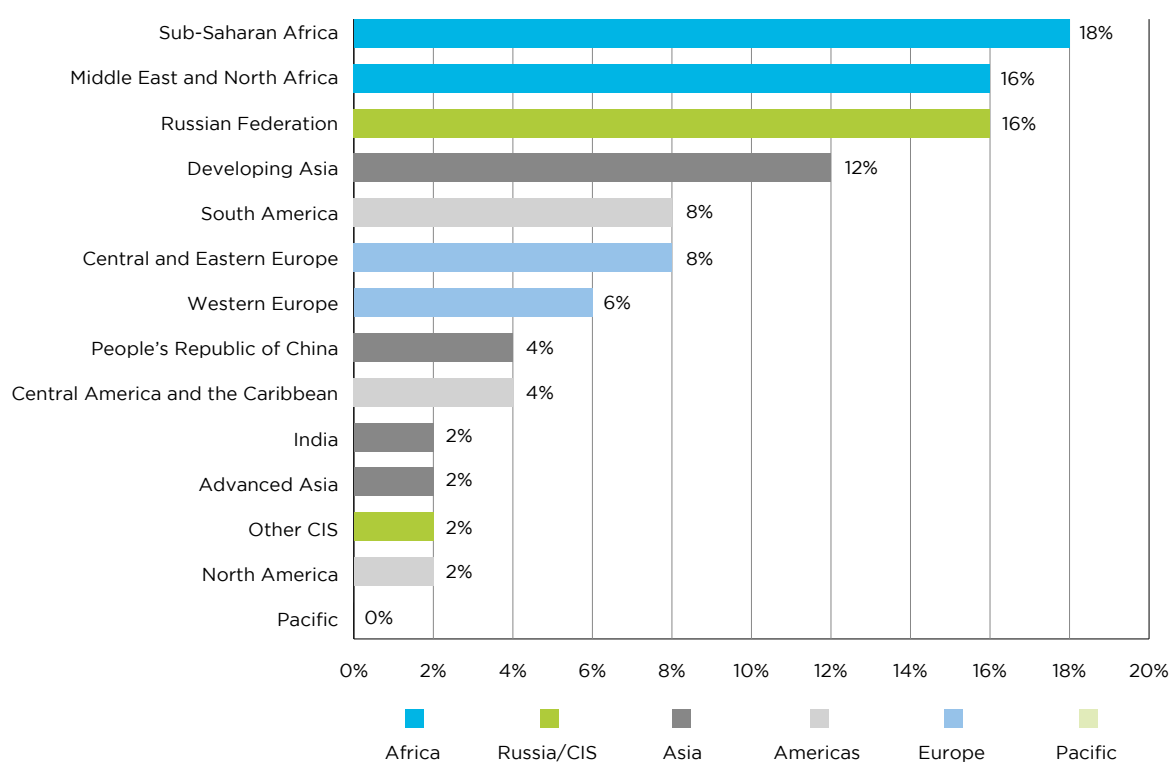


Figure 73: Sub-regions affected by compliance requirements

Source: Asian Development Bank Survey

Forfaiting is an adaptable technique that faces few legal or practical obstacles

Conclusion

Receivables finance has come to play a larger and larger part in trade finance since 2008 as corporates have sought to improve working capital and work their assets harder. For cross-border trade, forfaiting is an adaptable technique that faces few legal or practical obstacles. The Uniform Rules for Forfaiting (URF 800) provide a commercial and well-thought-out set of rules at an international level and, crucially, are not limited to a single type of underlying payment obligation, operating structure or portal.

BUSINESS TRENDS IN FACTORING

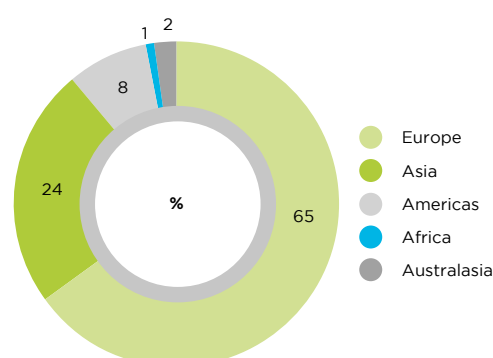
Factors Chain International contribution

Factoring achieves all-time high in 2015: EUR 2,373 billion, up 1.14% from 2014

The global factoring statistics were released for the year 2015 and we continue to witness a slowdown in the growth of factoring around the world, having increased an anaemic 1.1% last year. The growth of the factoring volume which had showed a constant upward trend over the past decade has apparently slowed to a trickle, and the 2015 figures reported indicate a very small difference compared to those of 2014: EUR 2,373 billion versus EUR 2,346 as indicated below.

Figure 74: FCI Global factoring statistics 2015 by region

EUR BILLION			
	2014	2015	GROUP RATE % CHANGE
Europe	1,463	1,539	+5%
Asia	615	563	-8%
Americas	207	187	-9%
Africa	21	19	-11%
Australasia	42	42	-1%
Total	2,346	2,373	1.14%

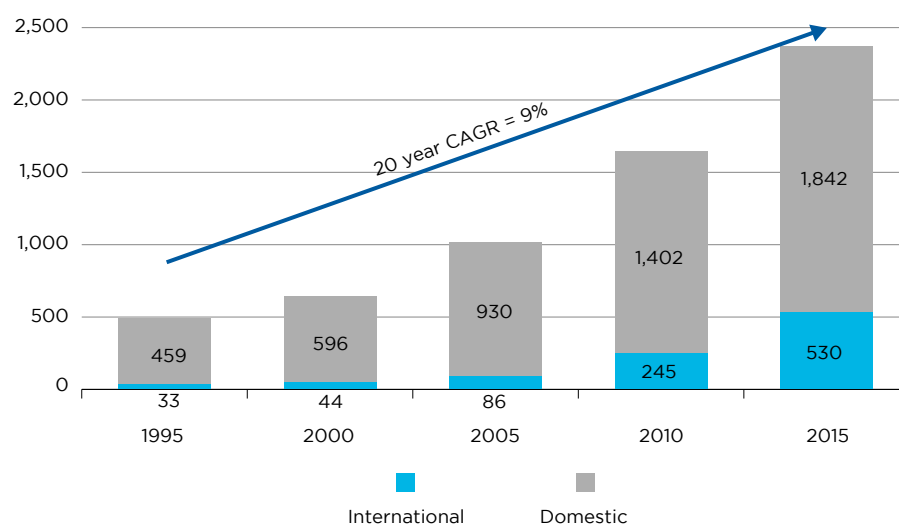


Source: Factors Chain International

Nonetheless, the global factoring industry has been growing at a rate of nearly 10% per annum over the past two decades, but similarly to the trends in trade, the factoring industry declined for the first time in 2009 as global demand diminished and trade as a result fell. However, we have not witnessed such a slow period of growth in 2015 since the financial crisis in 2009

Figure 75: Global factoring volumes 1995-2015

(in Euro billions)



Source: Factors Chain International

If we look especially at the last seven years, we have a better appreciation for this slowdown, as the factoring industry doubled in size, adding over EUR 1 trillion in annual factoring volume. During this seven-year period, the CAGR was nearly 11%.

Figure 76: Total world factoring volume 2009 - 2015 (EUR billion)

2009	2010	2011	2012	2013	2014	2015	CAGR
€ 1.283	€ 1.648	€ 2.015	€ 2.134	€ 2.201	€ 2.346	€ 2.373	10.8%

Source: Factors Chain International

In 2015, domestic factoring declined by 1% percent over 2014, indicative of the general slowdown in global GDP. That is compared to a 7-year CAGR of nearly 9%.

Figure 77: Total domestic factoring volume 2009 - 2015 (EUR billion)

2009	2010	2011	2012	2013	2014	2015	CAGR
€ 1.118	€ 1.402	€ 1.751	€ 1.780	€ 1.828	€ 1.857	€ 1.843	8.7%

Source: Factors Chain International

Compare this to international factoring, cross-border factoring grew at a much faster pace, reaching an increase rate of nearly 22%, more than double the pace of growth compared to domestic during this same period. Total cross-border factoring volume has grown even more rapidly than domestic factoring and has been the primary driver in the increase in factoring globally.

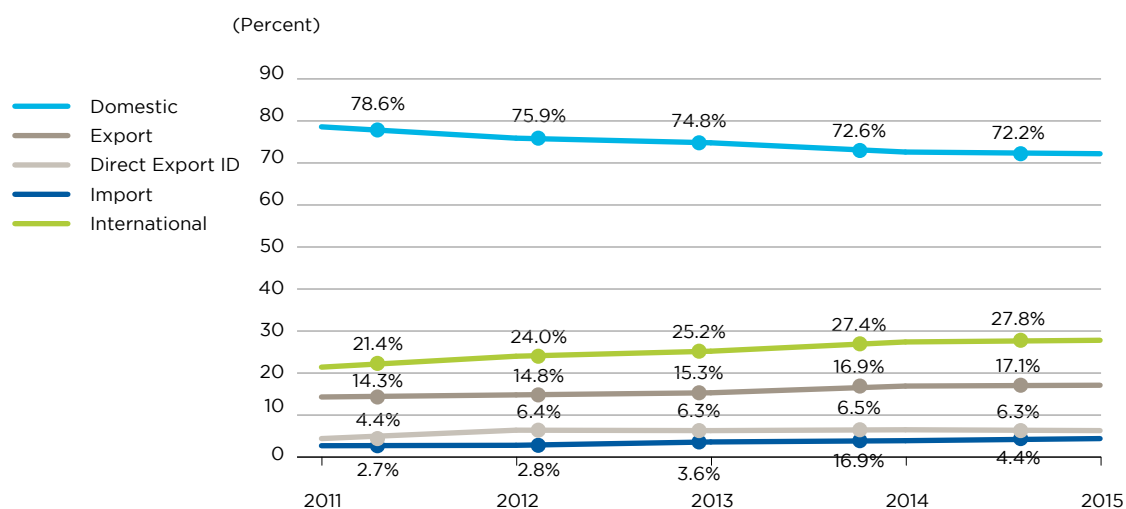
Figure 78: Total cross-border factoring volume 2009 - 2015 (EUR billion)

2009	2010	2011	2012	2013	2014	2015	CAGR
€ 165	€ 246	€ 264	€ 355	€ 403	€ 490	€ 530	21.5%

Source: Factors Chain International

Due to the much faster pace of growth in cross-border factoring, today domestic factoring accounts for 72% of the total factoring volume whereas cross-border accounts for 28%. A decade ago, cross-border accounted for less than 5% of the total.

Figure 79: FCI members share by product



Source: Factors Chain International

Certainly the two bright spots according to the statistics has been the continued growth in cross-border factoring, which increased by 8% percent in 2015, generating over EUR 530 billion and the impressive growth experienced last year in Europe.

Factoring by region

Europe, the largest factoring market worldwide, experienced the strongest growth, with a 6% volume increase to EUR 1,557 billion (2014: EUR 1,463 billion). The growth has mainly been driven by the strategic emphasis towards factoring by the commercial banking sector which controls approximately 90% of Europe's factoring volume. The top four European markets,

**Cross-border
factoring
increased by
8% in 2015**



24%
**Asia accounts
 for 24% of the
 world's factoring
 market**

UK, France, Germany and Italy, all grew last year and accounted for 66% of the region's total. Within Europe, the fastest growing markets were: Serbia (+45% to EUR 445 million), Romania (+35% to EUR 3,651 million) and Hungary (+34% to EUR 3,779 million). As a region, Europe accounts for 66% of the world's factoring market.

Asia, the second-largest global factoring market decreased by 8% to EUR 562.99 billion with China remaining the largest market in the region. With a volume of EUR 352.88 billion (-13%), its share of the regional factoring market is now 63%. The Asian region share of the global cross-border factoring volume in 2015 also dropped to just over 40%. However, in positive contrast, Japan (+6% to EUR 54.18 billion) and Hong Kong (+9% to EUR 33.42 billion) both experienced increased volumes. As a region, Asia accounts for 24% of the world's factoring market.

The Americas also suffered a decline, down 6% to EUR 194.17 billion. The US factoring market fell 3% from last year to EUR 95 billion. Brazil remained the second largest market in the Americas with a volume of EUR 28.97 billion (-9%). The third and fourth regional markets, Chile (-10% to EUR 22.30 billion) and Mexico (-24% to EUR 19.29 billion), both saw a decline in factoring volume. Uruguay, Argentina, Costa Rica and Colombia on the other hand grew by a very promising average of 20%. As a region, the Americas accounts for 8% of the world's factoring market.

In Africa, factoring fell by 13% to EUR 17.09 billion. South Africa experienced a 10% decline in volume, from EUR 14.53 billion in 2014 to EUR 13.04 billion last year, accounting for 76% of the total African region, a decline from 90% only five years ago. Egypt was the strongest performer in the region as the local factoring market there grew by 23% to EUR 537 million. Africa accounts for less than 1% of the world's factoring market.

About factoring and FCI

Factoring is an alternative and flexible means of finance which is widely used especially amongst SMEs. This is achieved by the supplier assigning and selling its accounts receivables to a bank or non-bank financial institution. The factor will provide a range of services to its clients, including providing capital against the assignment of their receivables, accepting the risk of bad debts and collecting on past due accounts. Factoring has been considered a stable financing alternative by many companies, particularly since the start of the financial crisis. As many SMEs were unable to obtain traditional bank funding during the financial crisis, due to the fact that SMEs are perceived to have a higher probability of default than larger firms, factoring filled the void, hence why we have witnessed in part such a surge and a doubling of the size of the industry in such a short period of time. And central bankers around the world have looked at this growth story and have come to appreciate the product as a safe and secure method of financing trade. In fact, the economic crisis has shined quite a positive light towards factoring.

Founded in 1968, FCI is a global network of leading factoring and receivables finance companies, whose common aim is to facilitate international trade through factoring and related financial services. FCI provides four pillars of service: cross-border services, education, advocacy and networking. First, FCI is a business network, providing its members a legal and communication framework to conduct cross-border correspondent factoring. The General Rules of International Factoring (GRIF) form the legal basis under which nearly all cross-border correspondent factoring business transactions are conducted, and this legal framework has been accepted by every international factoring company around the world. FCI members also use a proprietary communication system called Edifactoring.com. Like the SWIFT messaging system, edifactoring.com provides a sound and secure means by which members can issue factor guarantees, send invoice data, issue dispute notices, and send payment messages.

In 2016, International Factors Group (IFG) together with FCI formed a Union, creating the largest global association of factoring and receivables finance companies in the world today. As a result, FCI today has over 400 members located in more than 90 countries. Together, the FCI foundation has educated over 10,000 students on open account trade finance during this past decade. And the Union creates an even stronger platform for growth by providing a much larger network, offering enhanced education, creating an increased level of advocacy, and delivering new products and services to our members.

Conclusion

Factoring in general has entered a “golden era” and international factoring in particular. The product continues to grow at rates not witnessed in most other banking or trade finance services. FCI has helped lead this growth, as evidenced in the doubling in size in the industry over the past seven years. And Europe continues to grow, especially in Eastern Europe. However, other regions are less fortunate. In particular, the industry witnessed a significant downturn in Asia, with many affected by the disruptions felt in China due to its slowdown, and the effects of this continue to be felt into 2016. Companies in the region are more reluctant to purchase in larger quantities due to the decline in retail sales in the greater China region and the uncertainty that this brings to the market. The decline in commodity prices has also impacted volume, resulting in reduced valuation of invoices, though we have seen a reprieve in recent months. The slowing economy has also resulted in a contraction in financing, especially affecting SMEs as more financial institutions struggle with deteriorating financial performance within their portfolios. However, some expect the slack to be taken up by new players and new entrants in the markets, from the numerous independent commercial factors to new upstart Fintechs. Other global markets have also shown mixed performances and again these reflect the varying underlying economic environments. We expect 2016 to be another year of mixed fortunes.



FCI and IFG completed their union in 2016

Here for visionaries

You know that renewable energy can change lives.
By powering homes, businesses and communities.
Our commitment to support fast growing economies
is turning your vision into reality. That's good for progress.

Here for good

➤ **HIGHLIGHT:**

TRADE FINANCE LANDSCAPE IN AFRICA

African Development Bank contribution

The global picture

The past few years have been challenging for African trade. After rebounding sharply following the great trade collapse of 2009, the region's exports grew by an average of 18% between 2010 and 2012. Yet this momentum did not last. Merchandise exports declined by 8% in 2014, the largest decline since 2009. This was driven by falling commodity prices, as well as weak economic prospects for Africa's top trading partners, particularly the European Union and China.

In spite of its weak growth prospects, the EU remains the largest export market for Africa. Exports to the EU account for 36% of total African exports. But even so, this has been declining, falling by 8% in 2014 alone. Besides the EU, China continues to be the single largest trading partner for Africa since 2012, and accounts for 11% of Africa's exports. This reflects the broader importance of Asian countries as emerging trade partners for Africa. Exports to Asia have been growing, reaching 27% of the region's exports in 2014, up from 13% in 2000. Meanwhile, Africa's exports to North America have been declining and currently account for about 7% of total exports, down from 18% in 2000. Much of this is absorbed by the United States, which accounts for 85% of Africa's exports to North America.

Emerging markets, notably the BRICs (Brazil, Russia, India and China), are increasingly becoming active trade partners for Africa. In 2000, only 24% of the region's exports went to emerging markets, but they now account for nearly half of Africa's total exports to the world, consisting of mainly mineral and oil products. Indeed, African exports are dominated by a few commodity exporting countries. The top 5 exporters; Nigeria, South Africa, Algeria, Angola and Egypt generate a combined export value of USD 340 billion, and account for almost 54% of the region's merchandise exports to the world.

Intra-African trade

In 2014, intra-African merchandise exports were valued at USD 98 billion. With total merchandise exports by Africa valued at USD 555 billion, intra-African trade accounted for 17.7% in 2014 and has shown an upward trend from 10% in 2010. Yet, relative to other major regions, intra-African trade as a share of the region's total trade remains low. In 2014, intra-regional trade accounted for 63% of total regional trade for the European Union, 50% for North America, 52% for Asia and 26% for South and Central America.

555

USD billion
total
merchandise
exports by
Africa, out
of which

98

USD billion
are intra-African





Low intra-African trade partly stems from the lack of product market diversification that creates a mismatch between what Africa exports and what it imports. Africa's exports to the world have historically been dominated by primary products, such as mining and oil products that account for 80% of the regions exports, while the bulk of its imports consist of manufactured goods that constitute 78% of the region's imports.

Other contributing factors are low levels of intra-African investment and poor trade facilitation. Intra-African investment accounts for only 12% of the total value of investment in Africa (the corresponding figure for Asia is 33%). More intra-regional investments boost regional trade because they generate trade in intermediate goods between parent firms and their regional affiliates and vice versa. Poor intra-regional trade facilitation also increases the costs of market access, especially among landlocked countries, that account for 30% of countries in the region.

Challenges for African trade

A major source of anxiety for Africa's trade is that the economies of its major trading partners, the EU and China, remain fragile. With China and the EU being the largest trading partners for Africa, such slow growth in these economies makes Africa particularly vulnerable, and more so for its resource-rich countries such as South Africa, Nigeria and Angola. In 2014, combined exports to the EU and China was valued at USD 245 billion, and accounted for 44% of African total exports. Weaker growth prospects mean that these economies will continue to cut back on demand for oil, gas, copper, iron ore and other resources that feed the Chinese and EU manufacturing industries and for which Africa is the main source and for which prices are already low.

IMF estimates show that a 1% decline in China's domestic investment growth leads to a 0.6% reduction in export growth for sub-Saharan Africa. Indeed, in December 2015, Africa's exports to China fell by 7.6%, receding for the 14th straight month according Chinese official statistics. Total Chinese imports from Africa also fell by 40% to USD 45 billion in 2015. This is mainly due to the fact that commodities and oil-related exports that have experience falling prices over the past year account for more than 80% of Africa's exports to China.

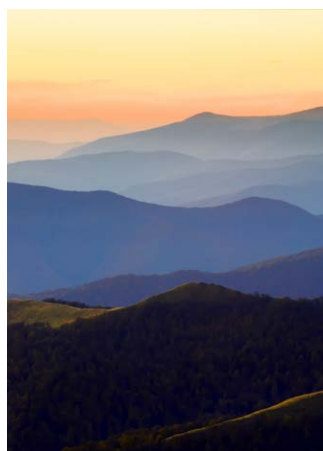
Beside global economic concerns, other structural problems remain for African trade, and more so for intra-African trade. While a majority of African countries belong to one trade bloc or another, according to the UN conference on Trade and Development (UNCTAD), firms trading across the continent still face an average tariff rate of 8.7% compared to 2.5% on international markets. In cases where tariff barriers are eliminated, other protectionist measures have quickly emerged to take their place, including exclusion lists, such as those imposed by the Economic Community of West African States (ECOWAS) and rules of foreign origin such as those required for SADC members.

12%

**of the total value
of investments
in Africa is
intra-African
investment**

40%

**decrease in
the Chinese
imports from
Africa in 2015**



Africa can do more to boost its internal trade, which lags behind that of other regions but has been growing over the past couple of years

Opportunities ahead

Going forward, opportunities still remain for Africa to continue building its trade momentum. One big fallback is to capitalize on the strength of the American economy. Despite signs of weak growth, some indicators of the US economic health remain robust: its housing market has stabilized and employment is growing. This will boost demand for consumables and resources from around the world, including Africa. In this regard, the renewal of the African Growth and Opportunity Act (AGOA) that expired in September 2015 puts Africa in a particularly good spot. AGOA allows African-made goods, including value-added manufactured goods such as textiles and shoes, to enter the US duty-free. Its extension to 2025 therefore provides the comfort and stability that attracts long-term investment in export products to the continent.

However, opportunities are not confined to looking outwards. Africa can do more to boost its internal trade, which lags behind that of other regions but has been growing over the past couple of years. In this regard, the ambitious Tripartite Free Trade Agreement (TFTA) that aims to unite 26 African countries in 3 major trade blocs: the East African Community (EAC), the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC) – by 2017 is a good development. Any form of aid for trade policy by the West can be geared towards making that a reality, and other countries, particularly those in West Africa, should be encouraged to join.

If it happens, it will simplify the region's overlapping and often ineffective trade blocs, thereby greasing the wheels on which intra-Africa commerce run. More so, it will create a consumer base of over 660 million, a significant proportion of which will be in the ranks of the African middle class, with a combined purchasing power of over USD 750 billion a year. This will unleash intra-African cross border market potential unfettered by tariff and non-tariff barriers.

All of these combined can set the stage for immense benefits from trade. Still, some less subtle and crucial changes will also help boost Africa's trade. African banks need to make a concerted effort to conform to international standards, especially regarding compliance and KYC rules that have become more stringent following the global financial crises. This will facilitate conducting trade transactions between African banks and international players and allow SMEs looking for trade support, both financial and technical, to participate in global commerce.

Efforts are also needed to promote initiatives that facilitate Africa's internal and external trade. Already, it is more time-consuming and expensive to trade across borders in sub-Saharan Africa than in any other region of the world. This is also true for business regulation. Nonetheless, there are signs that some countries in the region, such as Benin, Kenya, Uganda and Mauritius, are making progress, and doing so at a faster pace. The hope is that these improvements will

become ubiquitous. If they do, not only will that enlarge the region's export basket by making it possible to trade perishable products across the region, but it will also increase the volumes of commodities it currently exports.

Financing African trade

Yet taking advantage of these opportunities assumes that African traders will be able to attract much-needed financing to support foreign trade. But trade finance does not come in handy to many African traders, particularly for SMEs. A study of 276 commercial banks in 45 African countries by the AfDB in 2014 uncovered significant deficits in meeting trade finance demand in Africa even though 93% of banks in Africa undertake trade financing activities. Indeed, the value of banks' intermediated trade finance in Africa is estimated to be USD 320 billion. Given that total African trade currently stands at about USD 1.2 billion, this suggests that about a quarter of the total value of trade is intermediated by banks in Africa.

Financing intra-African trade is even trickier, as 82% of the total value of banks' intermediated trade finance is devoted to the continent's international trade. This may be explained by the fact that international trade represents the bulk of Africa's total trade, and the fact that the proportion of bank-intermediated trade finance dedicated to intra-African trade is not uniformly distributed across regions (Figure 80). North Africa has the lowest share of financing of intra-African trade while Southern and East Africa show the highest proportion.

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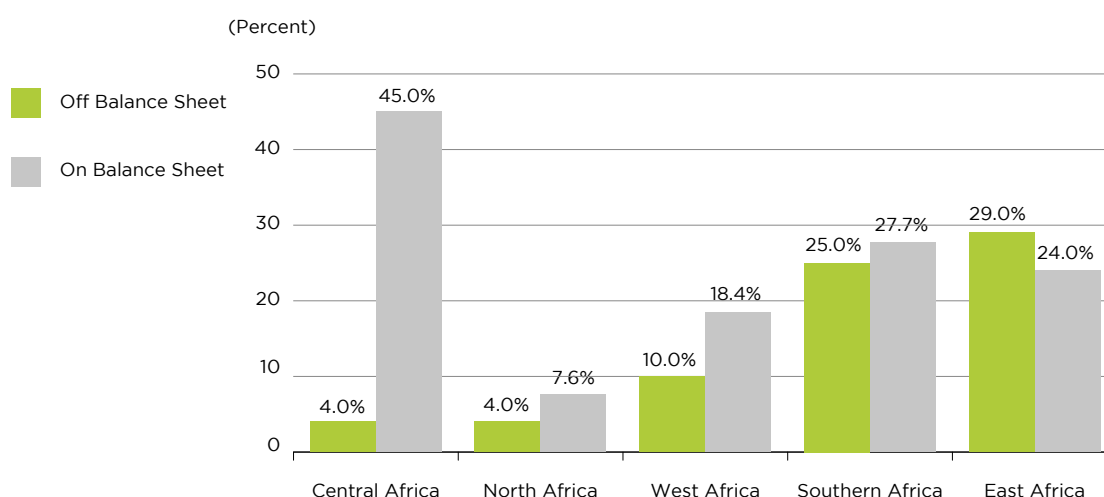
USD billion

estimated
value of total
African trade

25%

is intermediated
by banks
in Africa

Figure 80: Proportion of banks' trade finance assets supporting intra-African trade



Source: AfDB Trade Finance Survey, 2014

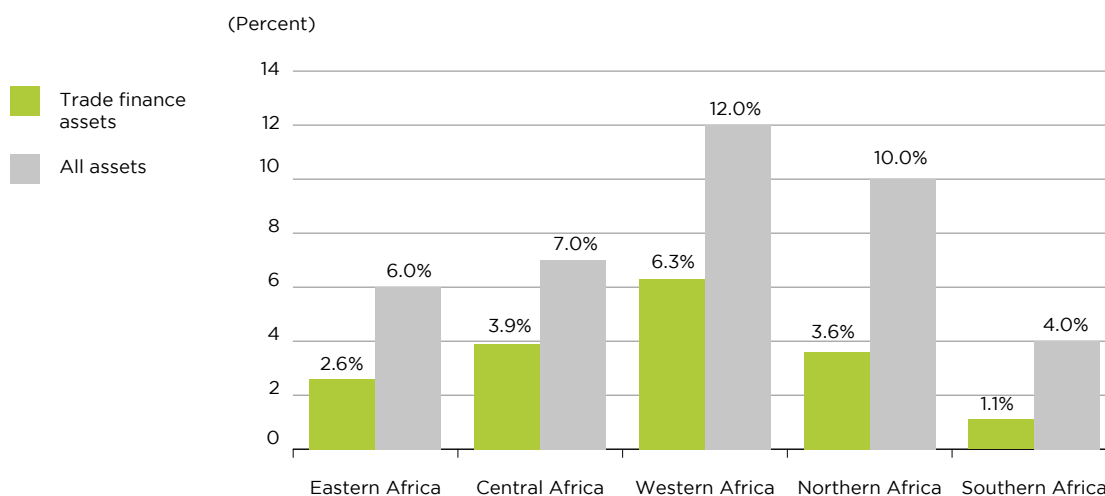
25%

percentage of
estimated unmet
demand for trade
finance in Africa

A conservative estimate puts the trade financing gap in Africa at between USD 110 and 120 billion, a range far higher than the previous estimate of USD 25 billion. This puts the percentage of total unmet trade finance demand at 25% of total demand. But such a gap is not specific to Africa. To put this in perspective, as a share of total trade financing, Africa's trade finance gap is on par with that of the world, where the value of trade financing is estimated at USD 4.6 trillion and financing gap is around USD 1.6 trillion.

The risk profile of trade finance activities by African banks appears to be more favourable than that for traditional bank lending. The average non-performing loan (NPLs) for trade finance portfolio in Africa is just 4%, which is lower than the NPL of 9% for traditional bank assets, but higher than the NPL of 1% for trade finance activities by banks outside Africa. There is strong variability in default rates for trade finance activities across Africa. West Africa has the highest default rate among all the sub-regions, with a default rate of 6.3%, while Southern Africa has the lowest default rate of 1.1%.

Figure 81: Default rates in trade finance in Africa



Source: AfDB Trade Finance Survey, 2014

Banks' rejection rate of letters of credit, the most common trade finance instrument used to support African trade, is 10%. The underlying reasons are typical of why banks often deny credit to businesses. Chief among them is poor creditworthiness. To a higher degree, this is symptomatic of the general absence of well-functioning credit reporting systems in many African countries. But it also reflects the limited capacity of most African banks in appraising the credit risk of their trade finance clients, especially with TF instruments that are sometimes unconventional and evolving.

Low single obligor limits from foreign confirming banks and forex liquidity constraints are other reasons for lack of access to trade finance, albeit to a lesser degree. When asked about the major constraints to trade finance portfolio growth, many respondent banks cited limited growth prospects, capital constraints and limited bank capacity as among the key constraints in expanding their trade finance portfolio as shown hereafter.

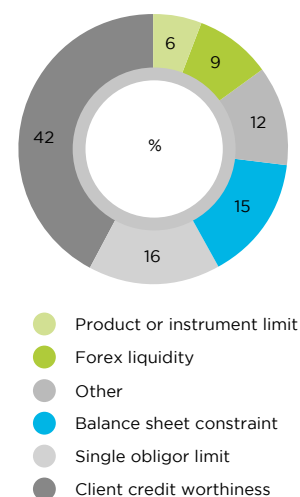
The AfDB TFP at a glance

For enterprises that need help, trade finance support is increasingly becoming available from selected MDBs operating in Africa. Following the G20 call for a more proactive role to support trade finance during the great trade collapse of 2008, the AfDB established a USD 1 billion Trade Finance Initiative (TFI) in 2009 to support African markets where trade liquidity was constrained. After its initial success and the realization that there was a huge trade financing gap that the private sector could not fill, the TFI was converted to a full-fledged Trade Finance Program (TFP) to serve all 54 countries in Africa in 2013. The overarching goal is to address the acute shortage of trade finance on the continent. Other MDBs have similar initiatives, including the IFC's Global Trade Finance Program (GTFP).

To achieve its prime objectives, the AfDB TFP has set up 3 complementary programs; namely, risk participation agreement (RPA) with major international banks that support trade in Africa through a network of corresponding banks, trade finance lines of credit to support financial institutions (FIs) for on-lending to SMEs and corporates that are engaged in trade, and soft commodity finance facility that provides financing for aggregators of soft commodities such as cocoa, coffee and tea. The program also makes selective use of equity and technical assistance instruments to enhance the risk-bearing and operational capacities of African FIs.

Since its inception, the TFP has supported more than 1000 trade transactions involving 85 financial institutions in at least 20 African countries, including countries often considered too risky by international banks; including Guinea Conakry, Liberia, the Gambia, Ethiopia and Zimbabwe. The program has so far supported a cumulative trade value of approximately USD 3 billion. Of this amount, intra-African trade accounts for more than USD 600 million, representing at least 20% of total trade supported. About 67% of all supported transactions are

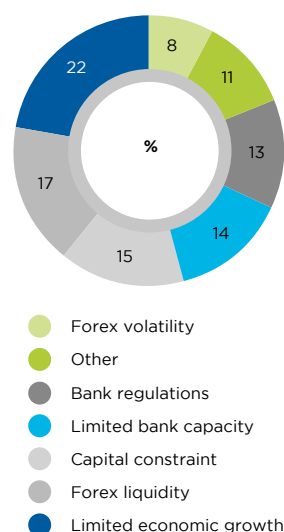
Figure 82: Reasons for banks' rejection of letter of credit applications in Africa



Source: AfDB Trade Finance Survey, 2014



Figure 83: Constraints to trade finance portfolio growth of African banks



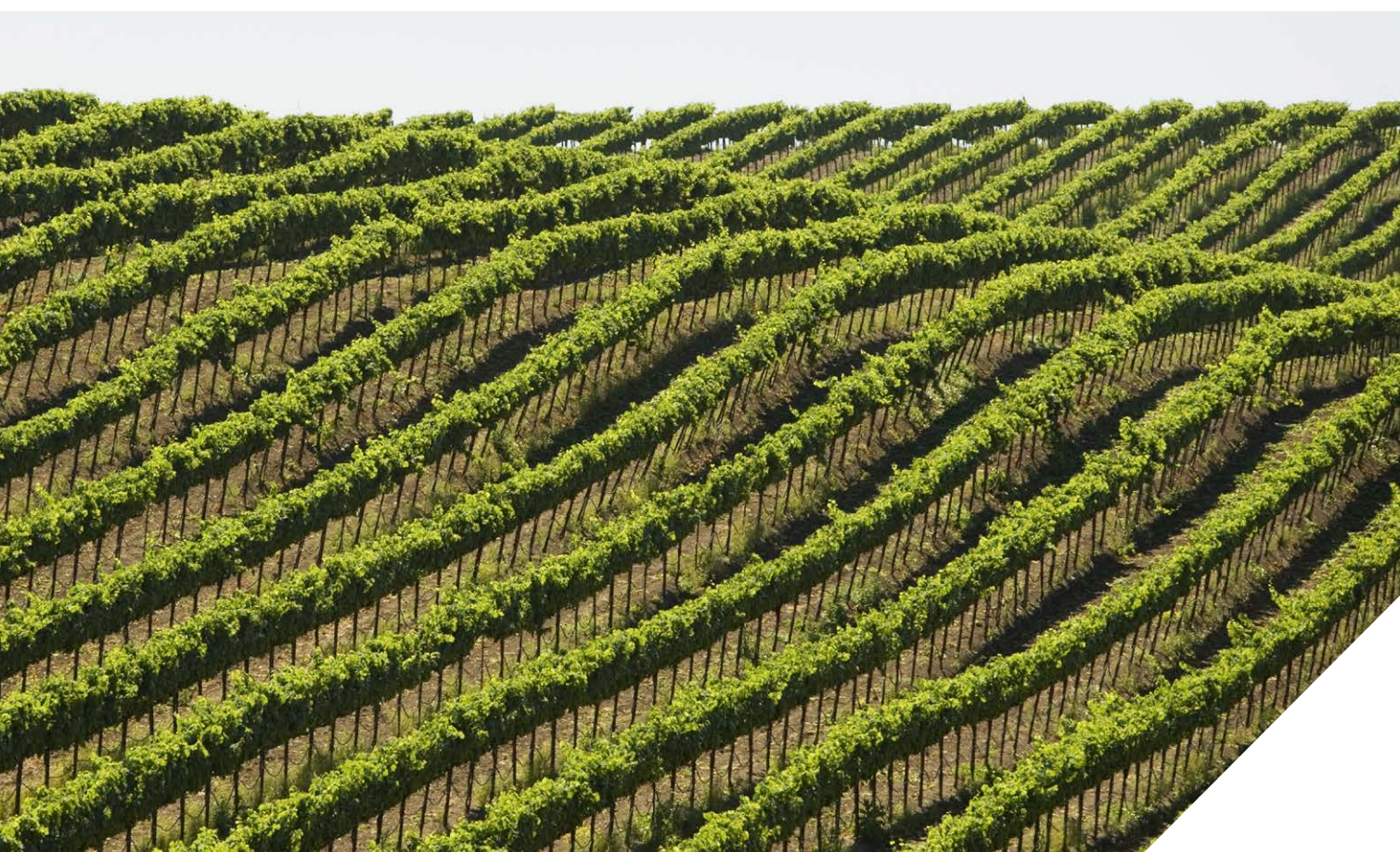
Source: AfDB Trade Finance Survey, 2014

attributable to SMEs, underscoring the bank's commitment to support small- and medium-sized enterprises engaged in trade.

Conclusion

Looking ahead, there is still much to be done to bridge the trade finance gap in Africa. The market is evolving and demand for trade finance continues to far outstrip supply. This calls for closer collaboration among the different suppliers of liquidity and risk mitigation on the continent to create the necessary synergy and better complement one another. This includes (but is not limited to) the exchange of information, co-sharing of risk as well as joint thematic research initiatives to better understand the all-too-evolving trade finance landscape.

The AfDB has learnt a number of lessons that could be used to refine the TFP to better respond to market needs. First, there is a growing demand for single transaction guarantees (direct guarantees) from both local banks and international banks, necessitating the introduction of new instruments that satisfy and respond to the needs and preferences of banks. There is also the need to expand and enhance capacity building initiatives to assist local banks improve their understanding of trade finance products and related operational services particularly. This will particularly benefit intra-African trade.



TRADE FINANCE LANDSCAPE IN AFRICA: IFC PERSPECTIVE

International Finance Corporation contribution

Africa is home to 388 million of the world's poorest people, who live on less than USD 1.25 per day. To move this massive portion of the population out of poverty, poor households must be able to access new opportunities to create wealth. The private sector has a huge role to play: as firms large and small are able to grow and reach new markets, they will create jobs and spur broader economic growth – helping to raise the incomes of the poor.

Trade is critical component of this effort. History shows that no country has lifted itself out of poverty by turning its back on trade. It is a key driver of poverty reduction and job creation via growth and productivity improvements. Exports directly contribute to economic growth by enabling local businesses to tap into global demand. Imports provide foundations of productivity advances: technology, capital equipment, infrastructure, ideas, and knowhow. Imports also bring raw materials needed to participate in global supply chains with value-added manufacturing.

In emerging markets, trade finance is essential to support trade. Trade finance propels goods through the economy, funding the working capital necessary to move manufactures from primary source to domestic use or foreign export. Lack of access to trade finance is a serious impediment to participating in trade, with small firms in low-income and conflict-affected countries most impacted. Trade finance gaps widen during crises, exacerbating challenges to economic growth. African businesses – and small- and medium-sized enterprises in particular – are acutely impacted by global trends.

Today's enhanced risk environment calls for increased trade finance to protect vulnerable markets as global banks retrench. Multilateral institutions like the World Bank Group and the African Development Bank have a critical role to play in supporting emerging market trade. Trade facilitation is a vital tool in the World Bank Group's efforts to achieve its twin goals: eliminating extreme poverty by 2030 and boosting shared prosperity – measured as the income of the bottom 40 percent of the population in every country. IFC, the private sector arm of the World Bank Group, has created a suite of trade products over the past decade and demonstrated that many structures

388

**million people
living on less
than USD 1.25
per day live
in Africa**



**39
of
77**
poorest
countries
eligible for loans
and grants
from the World
Bank Group
International
Development
Association
are in Africa

can be successful in mobilizing financing, managing risk, and filling market gaps – ultimately driving growth, creating jobs and reducing poverty.

Regional trends: growth vulnerabilities, increased integration

As commodity prices have fallen and global growth has remained weak, Africa's GDP growth decelerated to an estimated 3.0 percent in 2015 from 4.5 percent in 2014, according to the latest World Bank projections. The plunge in commodity prices – particularly oil, which fell 67 percent from June 2014 to December 2015 – and weak global growth, especially in emerging market countries, are behind the region's current economic challenges. This low pace of growth was last seen in 2009 following the global financial crisis, and contrasts sharply with the robust 6.8 percent average annual GDP growth in Africa from 2003-2008.

With commodity prices expected to remain low amid a gradual pickup in global activity, the World Bank forecasts that average growth in the region will remain subdued at 2.5 percent in 2016. For 2017-18, growth is projected to average 4.2 percent. The projected pickup in activity in 2017-18 reflects a gradual improvement in the region's largest economies – Angola, Nigeria, and South Africa – as commodity prices stabilize and policies become more supportive of growth.

The fall in global commodity prices represents a significant shock for the region, as fuels, ore and metals account for more than 60 percent of the region's exports. Oil production is highly concentrated in eight countries together comprising more than one quarter of the region's population and about half of the region's GDP. The impact of price declines has been seen most in oil-exporting countries, where average growth is estimated to have slowed from 5.4 percent in 2014 to 2.9 percent in 2015. Growth fell sharply in Nigeria, the Republic of Congo and Equatorial Guinea. Commodity price falls put a drag on economies that are dependent on a limited number of external income sources and threaten to pull more people into poverty.

Activity also weakened significantly in non-energy mineral-exporting countries, including Botswana, Sierra Leone, South Africa and Zambia. In several commodity exporters, adverse domestic developments, such as electricity shortages, severe drought conditions, policy uncertainty and security threats, exacerbated the direct impact of declining commodity prices.

Though some African countries may benefit from lower commodity prices, which drive down the costs of imports, reduced financing flows to the region are threatening the availability of basic commodities and leaving the poor vulnerable to food and energy shortages. Of the 77 poorest countries eligible for loans and grants from the World Bank Group's International Development Association, 39 are in Africa. Almost half of these countries import more than 30 percent of their cereals. Over 20 import more than 50 percent of their cereal needs. Meanwhile, 40 African countries rely on imports for more than 50 percent of their energy needs; 21

countries count on imports for more than 90 percent of energy needs. Continued flows of commodity financing will be critical to maintain food security for households and ensure these economies have the fuel necessary to function.

Broader efforts to promote financial inclusion and market integration will be necessary to bring opportunities to the poorest. An estimated 75 percent of the extreme poor in Africa live in rural areas, and most rural households are involved in staple crop production. Limited access to infrastructure and public services constrain the ability of the rural poor to benefit from trade opportunities, while increasing prices of material inputs, such as seeds and fertilizers. Freight costs in Africa are among the highest in the world at twice the global average. African smallholder farmers also face considerable challenges from weather-related events and price volatility. In rural areas of poor countries, small farmers are typically unable to obtain instruments, such as weather-indexed insurance and warehouse receipt systems, to effectively address these risks. The limited reach of risk management tools exacerbates the dearth of working capital and crop cycle financing. Poor infrastructure and inadequate access to finance keeps costs high and closes doors to regional and global trade and investment, hindering firms from growing and entrepreneurs from creating.

In spite of these daunting hurdles, Africa has experienced rapid trade expansion over the last 20 years. Annual export volume increased more than 2.5 times between 1995 and 2015. Thanks to favourable price developments, the real value of exports has surged fivefold, leading to a welcome increase in purchasing power for the region and helping finance much-needed infrastructure. Meanwhile, the region's trading partners have diversified. Trade flows with advanced economies, which represented close to 90 percent of the region's exports in 1995, slumped in the wake of the global crisis. In response, African countries have forged new partnerships with their emerging market peers, namely Brazil, China and India. At the same time, new trading unions have spurred unprecedented levels of cooperation and trade within the region. Intraregional trade has grown 11 percent annually from 1999 to 2013.

However, many factors limit growth in intraregional trade, which remains well below its potential and could be a boon to further economic development and integration. Commodity price drops in particular have lowered Africa's terms of trade in 2016 by an estimated 16 percent. Yet while dollar volumes are down significantly, mirroring global trends, trade volumes in terms of goods transported rose by 2.5 percent. As the volume of physical goods traded continues to grow, Africa's trade financing needs will only continue to increase.

Latest data shows trade finance challenges

Across the globe, European banks have historically provided the majority of cross-border lending to emerging markets across the globe. As the traditional financiers, these banks are now pulling back to focus on core clients. Over the six quarters through the end of 2015, European banks reduced their cross-

2.5%

**increase in the
volume of goods
transported**



39%
 decrease in the
 number of trade
 correspondent
 relationships
 between 2014
 and 2015
 experienced by
 banks in Africa

border lending to emerging markets by USD 700 billion, according to the latest data from the Bank of International Settlements. At the same time, combined lending from Asia and the Americas to emerging markets has remained virtually flat.

In Africa, the lending gap continues to widen as European banks withdraw and volatility endures. The region saw a notable downturn in cross-border lending in the second half of 2015. Africa lags behind all other developing regions as a recipient of international bank lending and represents just 5 percent of cross-border outstandings in emerging markets. Lending to Africa has been highly volatile in the aftermath of the global financial crisis.

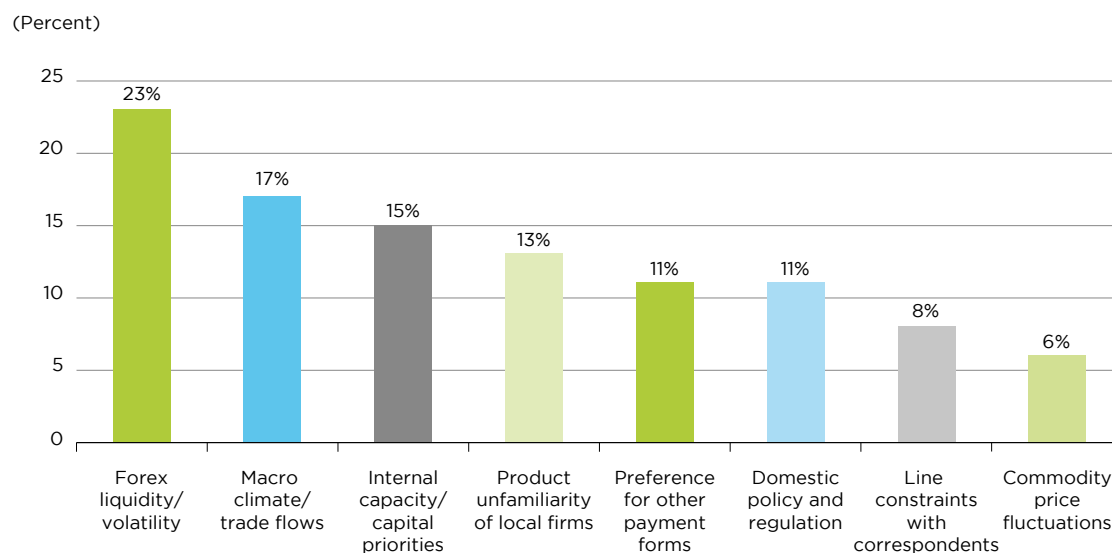
Trade finance as an asset class has suffered in an environment of increased sovereign risk, rising AML/KYC expenses, and the looming implementation of Basel III. A recent World Bank Group survey found that the lack of access to trade finance is a major obstacle to trade for 66 percent of exporters in Africa. Challenges are being felt most acutely by the smallest firms in the smallest markets.

IFC's Development Outcome Tracking System (DOTS) Survey, performed in April 2016, has identified some of the specific challenges African banks are facing in providing trade finance to their customers. Over 285 banks, including 67 banks across sub-Saharan Africa, have enrolled in a global trade facilitation network through IFC's Global Trade Finance Program (GTFP). GTFP member banks participate in the annual DOTS survey, the first of its kind to measure the development impact of trade finance. The survey also provides a snapshot of market conditions and outlooks across the 96 countries in which the GTFP is active.

This year's survey found that emerging market banks' expectations about correspondent relationships have grown more pessimistic since last year. A growing number of institutions across all emerging regions said that correspondents were less willing to provide international trade finance in the first quarter of 2016 (21 percent), compared to the same period in 2015 (3 percent). In Africa, this experience was more pronounced: banks reporting decreased support from correspondents rose from none to 27 percent – the largest increase among all regions. Banks in Africa saw the number of trade correspondent relationships fall by an average of 39 percent from 2014 to 2015.

Other concerns noted by many African banks included availability of foreign exchange, the macroeconomic climate and internal priorities (Figure 84). Banks most frequently cited foreign exchange liquidity or availability as a current barrier to the growth of their trade finance business.

Figure 84: Barriers to trade finance business growth of African banks



Source: IFC DOTS Survey, 2016

Globally, banks also had gloomier outlooks for the trade finance market in their home countries (Figure 85). Roughly a quarter of African banks said their outlook was negative, up from 13 percent in 2015. Only Latin America (40 percent) and the Middle East/North Africa (40 percent) had notably larger shares of pessimistic banks than Africa. However, African banks were slightly more optimistic than their counterparts in other regions. While 57 percent of banks in Africa said their outlook was positive, the global average among banks across all regions was 42 percent.

Among survey respondents, the average total trade finance dollar volume decreased slightly, from USD 1.18 billion in 2014 to USD 1.14 billion in 2015. The average number of transactions per respondent bank increased 33 percent compared to the previous year. These numbers mirror the demand for GTFP trade support to Africa, which remained unchanged at USD 1.7 billion, while the number of transactions support increased 49 percent. Such trends indicate that it may be more difficult to find financing for smaller-ticket items and for trade by small- and medium enterprises. Considering the results of IFC's survey and other recent market data, the downward trend in trade finance availability is likely to continue into 2016, increasing the funding gap in Africa.

The way forward: opportunities abound

Since 2005, IFC has supported over USD 15 billion in trade by African firms – including USD 3.5 billion of intraregional trade – by guaranteeing 8,500 transactions under the GTFP. IFC contributions to banks in sub-Saharan Africa reached a new record last year, as GTFP guarantees supported USD 2.4 billion in trade in FY2015 through financial institutions in 26 countries. Half of those countries were fragile and conflict-affected states.

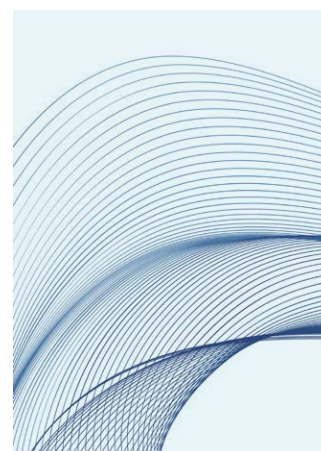
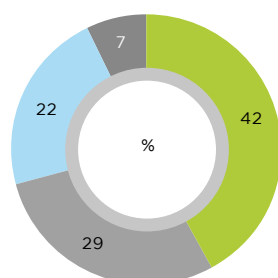
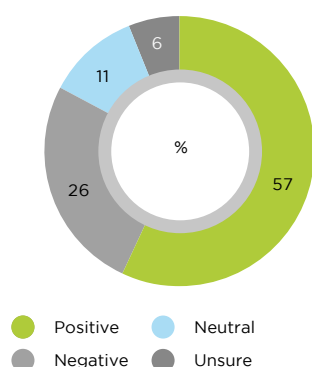


Figure 85: Emerging market banks' outlook for their domestic trade finance market

Overall Outlook for the Trade Finance Markets – Global



Overall Outlook for the Trade Finance Markets – Africa



Source: IFC DOTS Survey, 2016

To complement GTFP trade finance lines, IFC offers bank training across specialties and industries, including trade operations, risk management, know your customer and capital efficiency. IFC has run 244 training programmes in 67 countries for more than 6,000 bankers, exporters and importers. Of those participants, 34 percent have been women. A majority of these training programmes have taken place in Africa.

As international investors pulled out of Western African countries most heavily impacted by the Ebola outbreak in 2014-15, IFC extended working capital facilities for seven financial institutions across Guinea, Liberia and Sierra Leone to enable continued availability of lending products, including trade finance, for local businesses. Farmers and agricultural processors, and traders in Egypt, Mali, Senegal, Tanzania and elsewhere are benefitting from over USD 500 million in IFC warehouse finance lines to unlock the value of their produce and better manage their cash flows. In Ethiopia, IFC and its partners have financed the import of more than 1.7 million metric tons of petroleum products since 2013. This represents nearly 60 percent of domestic energy demand, and similar structured facilities have seen great success in Côte d'Ivoire and Mauritania.

Trade finance is just one product line in IFC's wide range of offerings to help channel additional financing into markets across Africa. In FY2015, IFC invested USD 3.7 billion in equity, loans, guarantees, and risk-management products in the region and provided wide-ranging advice to governments and private investors in projects across 30 countries. Private sector projects expanding infrastructure through power, transport and utilities received USD 1.1 billion in new long-term financing from IFC. Investments in financial institutions help lenders grow and extend their reach into critical and underserved market segments, providing businesses and households with direct financing and other risk management tools to generate income, protect against market shocks, and build financial resilience. Last year, IFC support to banks and other financial services providers enabled loans to two million entrepreneurs and one million farmers.

Trade remains as important as ever, and one thing is clear: emerging markets need continued support, and multilateral development banks are in a prime position to provide this assistance – in partnership with the private sector. Opportunities abound in Africa, where between 40 and 45 percent of the population – including the majority of cross-border traders – live in extreme poverty, and two thirds of adults do not have bank accounts and remain unserved by local financial institutions.

A basic market inefficiency – the gap between the low-risk nature of the trade finance product and the perceived high risk of doing business in some markets – still remains. By listening to the needs and concerns of the market, IFC will help make the case for emerging market banks before regulators, policymakers and global bodies like the G20 and, alongside clients and partners, pursue innovative solutions to maintain and expand financing for trade – in the 54 countries of Africa and beyond.

A NEW ERA OF AFRICAN TRADE FINANCE: THE OPPORTUNITIES AND CHALLENGES FOR LOCAL BANKS

EXX Africa contribution

Trade finance presents huge opportunities in emerging markets such as Africa, yet the business is still dominated by foreign banks rather than local African institutions. Over the next few years, there will be significant shifts in African project and trade finance that will increasingly favour the blending of institutionalised lending and private finance, as cash-strapped governments seek to cut public expenditure. For many European and other governments the public-private partnership (PPP) model will replace direct development financing in Africa. This trend will open up significant opportunities for international commercial banks, multilateral development institutions, and national development banks, as well as private equity, pension and sovereign wealth funds. Blended financing, including PPPs, will not be limited to funding of commodity trade and infrastructure projects, but will also include greater support for Africa's banking sector to expand lending and other credit facilities for local industries.

This shifting trend in international finance of African trade, infrastructure and local banking comes in the background to another evolution in the implementation of localisation. African governments are seeking improved local beneficiation and local value creation from foreign investments by encouraging or requiring increased local ownership or participation. Governments will impose more stringent local content regulations, while enforcing local processing and manufacturing requirements. Foreign investors will increasingly have to partner with local African entities to extract raw materials for manufacturing, processing and service provision. The same principles will be applied to trade finance, where increasingly African governments will require or encourage the participation of local banks in structured finance deals to fund exports or projects. The evolution of the blended finance model will therefore include greater participation from African banks and open significant opportunities for the local banking sector.

**Improvement
of local
beneficiation
and local value
creation sought
by encouraging
and requiring
increased local
ownership and
participation**

Is the African banking sector sufficiently prepared to participate in more trade and project finance transactions?



Yet there are serious concerns over whether the African banking sector is sufficiently prepared to participate in more trade and project finance transactions. In this article, we investigate two major challenges that will hamper local participation in African trade finance and potentially scupper deals.

Compliance challenges

The emergence of blended financing and partnerships with local banks will often be reliant on foreign investors and financiers partnering with politically affiliated or exposed individuals and entities. While such politically motivated partnerships are common practice across the African continent and often mitigate contract risks for foreign investors, many financial regulatory authorities regard partnerships that are created without due process or for unspecified gain as a corrupt practice and a suspect activity. Localisation in trade finance thus exposes foreign investors to corruption and subsequent scrutiny by investors' domestic regulatory authorities. Investors will face greater reputational damage and risks of financial penalties in their home countries, if found guilty of violating probity laws by forming such joint ventures with local African banks and other corporate entities. In November 2015, a UK court fined a UK-based bank as it had failed to carry out appropriate due diligence and know-your-customer checks on a local Tanzanian politically exposed entity. The case is unlikely to be a rarity and the threat of investigations and prosecutions will increasingly deter foreign investors to partner with local African entities.

An African banking crisis?

Many African banks lost out on the massive prospects in trade, project and commodity finance during the latest round of economic boom years, while those banks that did seek such opportunities are now facing almost insurmountable stress and serious financial stability risks. Struggling African economies now risk taking down its lenders with them. EXX Africa has published extensive research on the prospect of an African banking crisis in some of the continent's most established banking sectors. In May, Bloomberg published research, to which EXX Africa contributed, suggesting that Nigeria, Kenya, Ghana and Zambia were facing a series of bank failures due to declining profit and depleted capital levels. EXX Africa has also forecasted a potential banking crisis in Angola, the Democratic Republic of Congo and other African countries. In this article, we assess the outlook for some of sub-Saharan Africa's most established banking sectors and evaluate the prospect of a more systemic crisis that would hamper local banks' ability to participate in trade finance transactions.

Nigeria: The naira's free float mitigates risk of another banking crisis

Since late 2015, Nigerian banks have been battered by the low price of oil and Nigeria's economic slowdown. In April 2016, FBN Holdings announced a USD 600 million loan loss provision in the previous year. The loan losses were primarily due to

lower global oil prices and foreign currency shortages as the government imposed capital controls, which affected local oil companies' ability to service their debt. FBN's problems raised concern of another Nigerian banking crisis. The most distressed banks include Sky Bank, Unity Bank, Ecobank, Sterling, Fidelity Bank, FBN Holdings and Access Bank. In 2009, financial crisis in Nigeria saw a raft of banks collapse under non-performing loans. A USD 4 billion government bailout and consolidation in the sector followed. As much as 30% of local bank loans have gone to domestic oil groups. They have borrowed heavily to finance purchases from global majors retreating from the Nigerian industry. The collapse in oil prices means these groups are now struggling to pay the interest on their bank loans.

However, the prospect of another banking crisis in Nigeria has gradually begun to fade as the Central Bank of Nigeria abandoned its much-criticised 16-month currency peg in June to allow the naira to float freely, improving access to foreign exchange. The naira's peg to the dollar had overvalued the Nigerian currency, resulted in an economic contraction, and harmed investments. The new currency regime will mitigate the risk of state bankruptcies and a banking sector crisis. In 2015, the federal government orchestrated a USD 2.1 billion bailout of the states and assisted in restructuring their local bank debt.

This bailout avoided the risk of a banking collapse resulting from debt service defaults by the states, even though the IMF criticised the government for not imposing structural reform conditions to the bailout. In June, Finance Minister Kemi Adeosun confirmed plans to lend Nigeria's 36 states a total of USD 543 million to ease states' stressed balance of payments situation over the next year. The loans have been allocated in Nigeria's USD 30 billion expansionary budget, which will further help to avoid a banking sector collapse as distressed states regain the ability to service their debts and pay salaries.

Nevertheless, non-performing loans are likely to rise significantly in the near term but remain well below the extreme level reached at the height of the 2009 banking crisis. Moreover, ambiguity exists around the true size of direct foreign exchange risk in the Nigerian banking sector and profitability is expected to decline on regulatory changes and higher loan losses.

Angola: Non-performing loans threaten a severe banking crisis

Angola, which is now Africa's largest oil exporter, has suffered a serious loss of confidence in its banking sector as the country attempts to manage the plunging oil price – oil accounts for 45% of GDP and 95% of exports – and slowdown in China, Angola's largest trading partner. The Angolan banking sector is likely to face a serious crisis as government revenues fall and impact payments in the construction sector. The high exposure of Angola's banking sector both to oil revenues and the construction sector increases the systemic risk of a sector-wide banking crisis. As well as trying to manage their exposure to the oil sector, banks lent heavily to construction and property



30%
of local bank
loans in Nigeria
financed
domestic oil
groups

**Disparity
between Kenyan
large banks' fairly
benign structural
liquidity risk
profile and that
of small banks,
relying heavily
on inter-bank
funding lines**



companies during the boom. Many of these groups are now struggling in the downturn. Moreover, Angola's complex legal system makes it difficult for banks to recover non-performing loans.

Angola's central bank is working to reform the sector to assuage the regulatory fears of international banks. For the last year it has improved its regulatory framework to comply with international laws to include things like compliance, external auditing and anti-money laundering laws. It has focussed on improving corporate governance and transparency. In February, the Angolan central bank confirmed that the Financial Action Task Force (FATF), an international money-laundering watchdog, had removed Angola from its blacklist of nations that fail to meet international standards. However, compliance will mean banks will have to invest heavily in systems and staff, costs that could force consolidation in the sector.

Kenya: No systemic risk to the banking sector despite some weaknesses

Kenya's banking sector is unlikely to face a liquidity crisis and no large lenders face immediate risk of collapse. While three Kenyan lenders have collapsed in the past year, the banks were too small to cause a systemic risk. The central bank intervened in the banks over management issues, especially the issuance of irregular loans to managers that put intense stress on the bank's non-performing loan ratios. Following the closures of the distressed lenders, inter-bank rates surged temporarily as inter-bank funding lines froze on the back of a crisis of confidence in Kenya's small lenders. Although the surge was temporary, and the central bank stepped in to reassure markets of its readiness to support liquidity in the banking sector, the episode highlighted the disparity between large banks' fairly benign structural liquidity risk profile and that of small banks, which rely heavily on inter-bank funding lines and are thus vulnerable to a sudden spike in the inter-bank rate.

To mitigate the threat of contagion or a more systemic risk to the Kenyan banking sector, the central bank plans to improve supervision of local banks, tighten corporate governance, and ensure better compliance with existing regulations. Growth has been particularly fast-paced among Kenya's medium-sized banks, many of which have doubled and re-doubled in size within the last five years alone. However, some key challenges remain. Firstly, the banking sector faces a moderate level of near-term credit risk, which is fuelled primarily by sovereign-level risk factors. Kenyan banks directly hold more than one fifth of total assets in sovereign debt. Furthermore, the banking sector is vulnerable to deterioration in Kenya's fiscal balance given recurring payment arrears on the part of the government to contractors who are bank borrowers. In fact, half of the sector's recent outstanding non-performing loans (NPLs) were the result of government arrears to contractors. In the near term, resilient growth prospects should help support debt servicing overall.

Ghana: Poor economic headwinds indicate banking sector vulnerability

At least six Ghanaian banks are under pressure from a decline in profit or have reported heavy losses in the past year. On 6 June, credit ratings agency Moody's said that Ghana's gross financing needs were expected to reach 20% of GDP this year, while expressing concern over the country's high debt burden and very low debt affordability. The national debt burden currently stands at 70% of GDP. Growing current account deficits and rising government debt levels have exerted new pressures on the country's already strained banking sector. The banks under pressure include Trust Bank, UT Bank, CAL Bank, HFC Bank, GCB Bank and Republic Bank Ghana.

Ghana's banking sector is vulnerable to several key risks. Ghana's credit risk profile is elevated following several years of robust lending and in light of macroeconomic headwinds. The pace of credit growth is particularly concerning as it comes on the heels of an even stronger credit boom in 2005–08 and compounds myriad qualitative credit risk factors and macroeconomic concerns that are not captured by nominal credit growth rates alone. Recurrent fiscal slippages, poor credit risk assessment practices, concentrated loan portfolios and indirect foreign exchange risk are additional risk factors.

South Africa: increasing credit risk for the big five

Credit risks to South Africa's banking sector need to be reassessed in light of the increasingly likely prospect of another credit downgrade by ratings agencies in December 2016 and other sector vulnerabilities. Ratings agency Standard & Poor's has warned South Africa's big five banks would face growing credit risks mostly derived from high leverage and low wealth levels of domestic households. Meanwhile, corporate lending is also expected to fall below the 10% growth rate witnessed over the past five years. Standard & Poor's expects credit losses for the big five banks to range between 0.9% and 1.2% in 2016 and then to deteriorate by a further 20 basis points into at least early 2017. In June, credit ratings agencies held their outlook on South Africa's debt steady for now, yet further economic and political shocks will make a downgrade to sub-investment grade near inevitable by late 2016 or early 2017.

South African banks have been hit hard by the shock to the rand and financial markets, while already facing an increasingly vulnerable economy and the increasingly likely prospect of a credit downgrade to non-investment grade. Aggressive rate hikes by the South African Reserve Bank would further damage local banks given their exposure to household debt. Unsecured loans are a notable source of credit risk, given the composition of this lending, the low interest-rate environment in which this lending boom took place, high household indebtedness, and the proliferation of non-bank actors in the unsecured segment. However, the big five banks, which account for more than 90% of total sector assets, have maintained relatively low exposure to unsecured lending. Overall, the unsecured loan book remains relatively unseasoned and non-performing loans in this segment are likely to increase in the near term.

70%

**Ghana's national
debt burden
represents
70% of its GDP**



Prospects of a further credit downgrade by rating agencies likely for the South-African banking sector

Outlook

African banks will find growing opportunities in trade and project finance over the next few years, especially as Africa's governments implement local participation regulations for foreign transactions. However, cumbersome compliance and due diligence processes are likely to scupper some trade deals. Banking sectors with strict transparency and regulatory adherence will stand to benefit most strongly, while others may lose out. Meanwhile, international investors will face further headwinds as some African banks pose serious liquidity problems. Coherent analysis of banking sector stakeholders and counter-party risks will be key to maintaining strong relations and developing an African stake in African trade and project finance.



ISLAMIC TRADE FINANCE CORPORATION FINANCING IN THE REGION

ITFC contribution

Since its inception, ITFC has been primarily engaged in financing the agricultural sector, petroleum products, raw materials, strategic commodities, the health sector and basic infrastructures in sub-Saharan Africa.

ITFC's strategic area of intervention has always been to support cotton farming by funding the supply of necessary agricultural inputs and by purchasing cotton seeds directly from farmers and cooperatives, which are processed into fibre before export. Thus, over the years, ITFC has established itself as a major player in member countries' cotton sector. To date, the Corporation has approved financing operations in the cotton sectors of Burkina Faso, Cameroon, Côte d'Ivoire, Mali and Benin.

For this reason, despite a challenging global environment with depressed commodity markets, ITFC has been able to fulfil one of its main strategic objectives in sub-Saharan Africa by becoming the leading financing partner of the cotton sector, with more than USD 646 million funding provided since its beginning back in 2008.

Through its project "Revitalization of groundnut sector in selected African countries" in sub-Saharan Africa, ITFC identified the needs of targeted countries and corresponding actions were developed to support efforts to reduce least developed member countries' dependency on basic agricultural commodities.

"The Africa Initiative Strategy" with approvals reaching USD 235 million was revised in 2015 and re-launched with the objective of scaling up trade approvals to USD 1 billion by the year 2019. Since the launching of the revised Africa initiative, ITFC's trade portfolio for sub-Saharan Africa has registered significant growth, reaching USD 590 million in 2015. The initiative is focused on trade development in the region in terms of providing trade solutions for the strategic sectors of energy and agriculture, supporting SMEs through partnerships with regional and local financial Institutions and building capacity for sustainable growth.

646

USD million

**ITFC finance for
the cotton sector
in sub-Saharan
Africa**

144

USD million
in Two-Step
Murabaha
financing in Sub-
Saharan Africa



Arab Africa Trade Bridge Program is ITFC's other partnership development initiative launched in 2015, which is designed in consultation with regional partners who are members of the Arab Coordination Group, such as Arab Bank for Economic Development in Africa (BADEA), ICIEC, Arab Trade Finance Program and Saudi Export Program (SEP). This regional trade promotion program aims at supporting trade exchange between African and Arab regions. Business matchmaking activities, international exhibitions and some capacity building activities are supported through the program.

As mentioned above, an important role of ITFC is to partner with the banking sector for the development of SMEs in Africa. To do this, ITFC uses the Two-Step Murabaha approach to reach out to local and regional financial institutions by providing them a line of financing (first step) with the aim that these institutions will then provide financing (second step) to the SMEs within the region.

In 2015, ITFC approved a total of USD 144 million in Two-Step Murabaha financing in sub-Saharan Africa and is currently providing Murabaha Financing with eight intermediary financial institutions in five countries: Nigeria, Côte D'Ivoire, Mozambique, Burkina Faso and Togo, with more financing planned to reach additional Member Countries.

In addition to the efforts towards expanding the portfolio of Two-Step Murabaha financing in SSA, ITFC is looking forward to collaborating with new strategic partners and other affiliates of the Islamic Development Bank Group in order to create further awareness and to promote Islamic financing in the region.

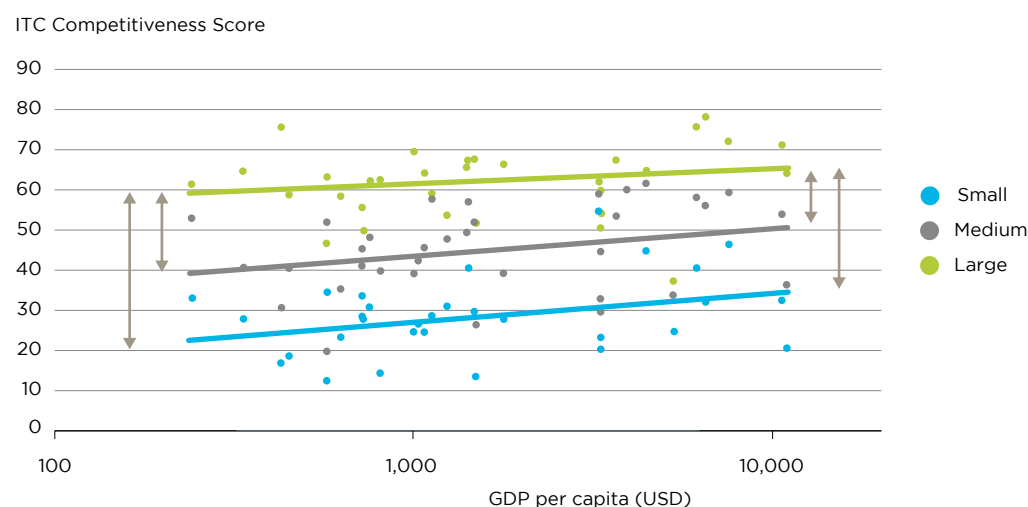
SME COMPETITIVENESS IN AFRICA: SPOTLIGHT ON FINANCE AND CONNECTIVITY

International Trade Centre contribution

Competitiveness diagnosis for Africa

African SMEs make a significant contribution to economies of individual countries. They contribute to employment, engage in regional and global trade, attract investment, and are a source of livelihood for many. Yet small companies are less competitive than larger ones and the gap is wider in poorer countries. Figure 86 plots the relationship between GDP per capita and competitiveness by firm size for African economies. All other regions show a similar situation, but the gap between the competitiveness of large firms and small firms is widest in African countries. Addressing this is likely to be key for sustainable and inclusive growth.

Figure 86: SME competitiveness gap in Africa: relations between competitiveness score and GDP per capita



Source: Factors Chain International

The productivity gap between SMEs and large firms is a global phenomenon, more pronounced in developing countries

Increased SME productivity could have a profound impact on national welfare, particularly in Africa – given their prominent role in employment and income distribution

SME presence is essential to sustaining a dynamic economy with potential for growth in turnover and employment. Economies with a presence of small, medium, and large firms are known to have higher firm entry and exit rates, and foster an environment with increased competition, ultimately resulting in higher firm productivity. A balanced firm-size distribution is also associated with more even distribution of market power. Large firms not only have more economic power than SMEs, but they often have more political power, particularly through the process of lobbying legislatures to pass laws, regulations and other policies that enhance their market position. SME presence, particularly in medium-sized firms, equalizes political and economic power, and ultimately works to equalize employment, wages and the overall income distribution.

SMEs tend to hire younger employees, reducing youth unemployment. Stagnant youth unemployment can be detrimental to an economy, leading to permanent skill attrition, human capital depreciation, and lower future earnings prospects. SMEs tend to employ the more vulnerable segments of society – not just youth, but women and those in precarious economic situations. Micro-enterprises in particular frequently hire family members, which could provide economic security for the ageing members of the population.

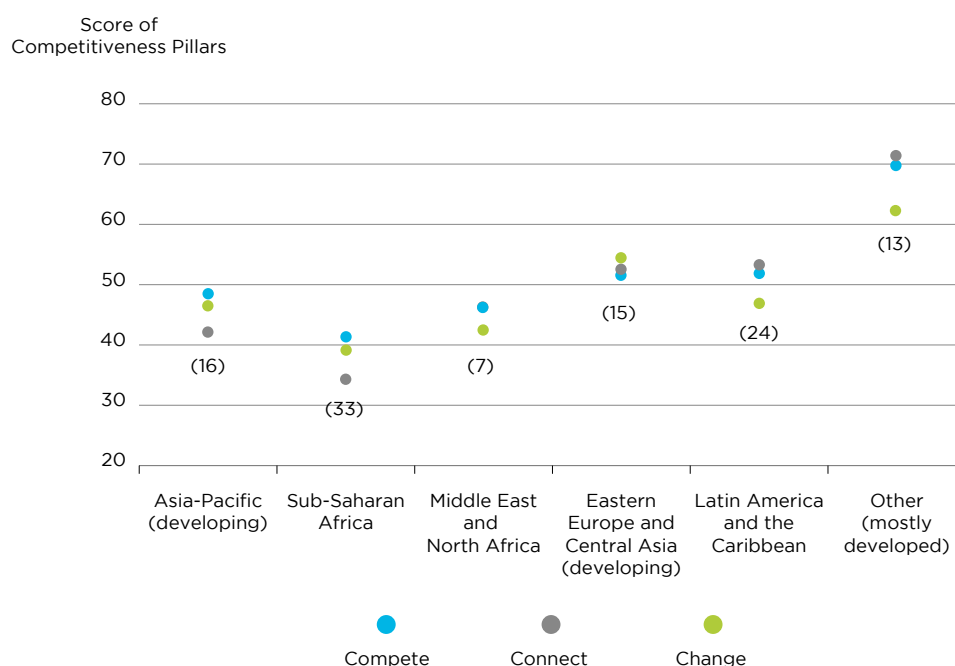
Despite their importance in job creation and equalization of the income distribution, SMEs are less productive than large firms. SMEs frequently specialize in labour-intensive, low-value added production at a small scale, which results in lower productivity, and therefore lower wages. This productivity gap between SMEs and large firms is a global phenomenon, but is particularly pronounced in developing countries.

Given their prominent role in employment and the distribution of income, increased productivity of SMEs could have a profound impact on national welfare, particularly in Africa. Enhancing SME productivity through competitiveness should be a priority of international, national and regional actors. Government agencies, trade and investment support institutions (TISIs), and the private sector each have an important role to play in achieving this objective. Better connectivity and access to finance are good places to start.

Africa lags behind other world regions in terms of its firm-level competitiveness and African SMEs are further away from their larger counterparts than elsewhere. The ITC competitiveness assessment distinguishes three pillars of competitiveness: compete, connect and change. The capacity to compete centres on present operations of firms and their efficiency in terms of cost, time, quality and quantity. The capacity to connect centres on the gathering and exploitation of market-relevant information and knowledge, and to execute change in response to, or in anticipation of, dynamic market forces and to innovate through investments in human and financial capital.

When comparing firm-level performance in the different pillars across regions (Figure 87), sub-Saharan Africa is below other regions in all pillars but in particular in firms' capacity to connect. The difference with the Middle Eastern and Northern African region is striking. That region is more or less on par with the Asia Pacific region and its strongest competitiveness pillar is the capacity to connect.

Figure 87: Regional competitiveness snapshot 2016: compete, connect and change scores

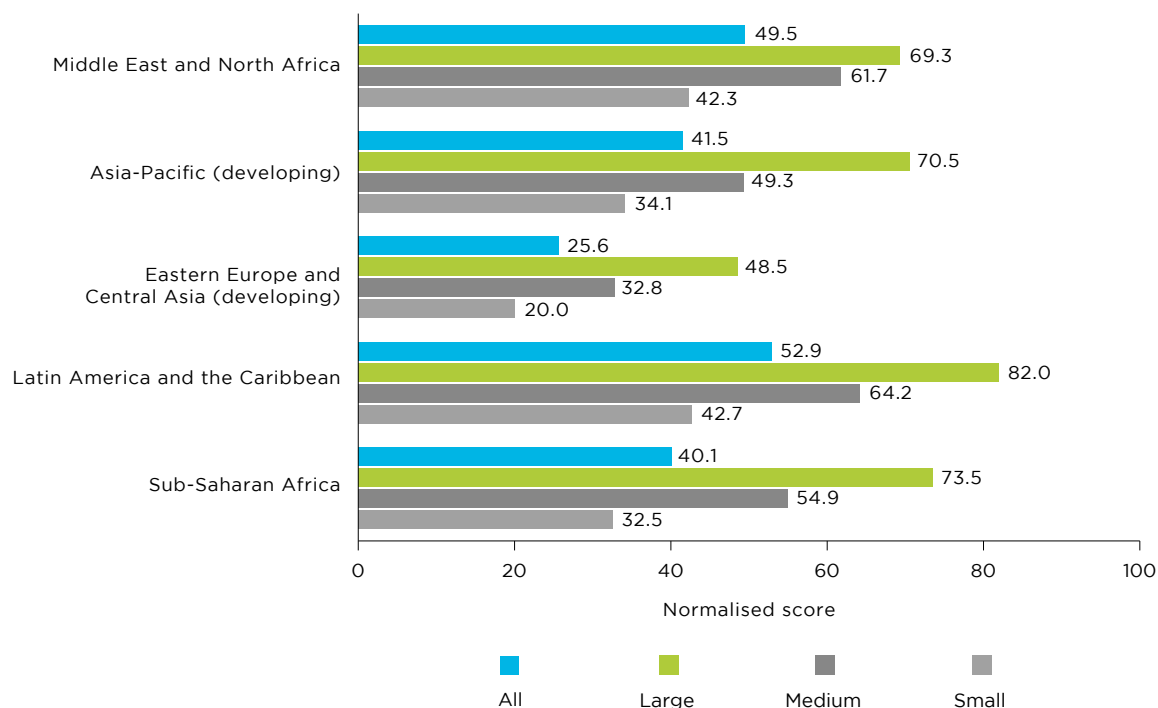


Source: ITC SME Competitiveness Outlook 2016

Access to finance is a concern, especially for SMEs

Access to adequate finance is one of the components of firms' capacity to change as it determines their capacity to make investments. Access to finance is a well-known concern for SMEs across the globe, but can be particularly restrictive for SMEs and firms in developing regions. In sub-Saharan Africa, small firms frequently report that access to finance is an obstacle to their operations (the score of 32 out of 100, twice as low as the score for large firms, Figure 88). Only Central Asian SMEs show lower scores. Most affected are small firms, followed by the medium-sized ones. The situation of large firms is best and is quite uniform in all regions.

Central Asian SMEs show a lower score than African counterparts in their access to finance

Figure 88: Twice the burden: access to finance by region and firm size

Source: ITC calculations based on the World Bank Enterprise Surveys' question "To what degree is access to finance an obstacle to the current operations of this establishment?"

20%
of MSMEs
adequately served
by top banks
in non-OECD
countries

5%
in sub-Saharan
Africa

According to the ITC SME Competitiveness Outlook 2015, thirty-eight percent of firms with 20-99 employees cite access to finance as a severe business constraint, and this number is likely to be higher for smaller firms. Only 20% of SMEs are adequately served by top banks in non-OECD countries, and this number is estimated to be as low as 5% in sub-Saharan Africa. In developing countries overall, 45-55% of SMEs are unserved (or underserved) by formal banking institutions.

The formal nature of most banking institutions is mismatched with the informal practices of most SMEs. Banks see SMEs as "high-risk/high-cost," particularly because of their lack of documentation (such as accounting records and financial statements) and lack of verifiable credit history. Additionally, most banks only accept land or real estate as collateral for loans, whereas most SME hold assets in the form of inventory or other movable commodities. This "collateral gap" also plays into loan scale mismatch, in which SMEs are hit particularly hard. SMEs are often too small for the large loans provided by formal banks, and too small to be served by microfinance institutions. The situation calls for interventions from national policy makers and international institutions, and one of such successful undertakings is presented below.

➤ CASE STUDY

SMEs receive grants to kick-start internationalisation in IT and IT-enabled services

The Competitiveness and Enterprise Development Project for Uganda (CEDP), funded by the World Bank and the Ugandan government, aims to improve the competitiveness of enterprises in Uganda through supporting reforms in priority sectors to encourage a better investment climate, with particular focus on micro, small- and medium-sized enterprises (MSMEs). The Matching Grant Facility, a component of CEDP, awarded matching grants to eight beneficiary SMEs in IT and IT-enabled services (ITES) in excess of USD 75,000, which greatly contributed to the internationalisation of their products and services.

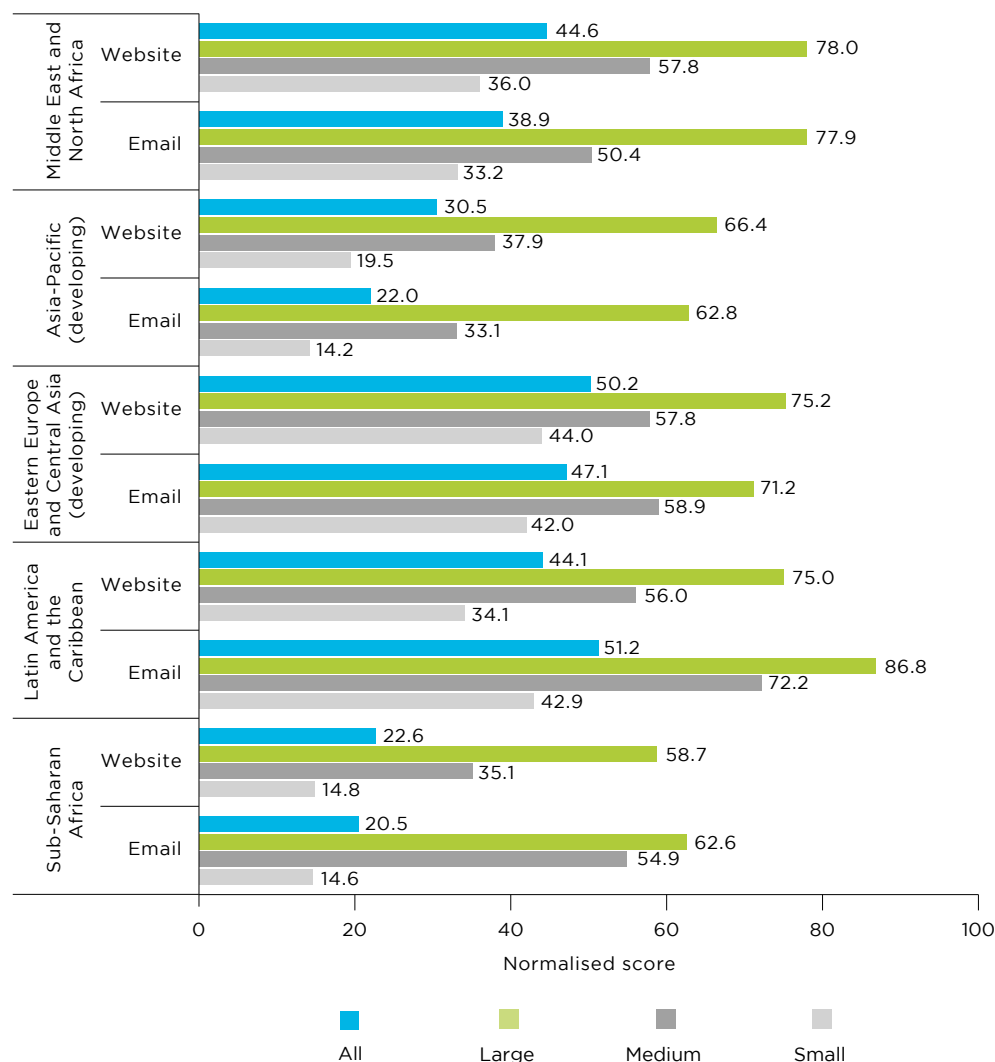
The matching grants targeted private firms, business associations, and MSME support institutions in four target sectors: agribusiness, fisheries, tourism, as well as information and communication technologies and business process outsourcing (ICT/BPO). To successfully qualify for a grant, applicants needed to provide a well-developed business proposal, proof of business registration, and proof of available funds. Once a proposal was approved and the applicant could confirm a 50% financial commitment, a grant was awarded to match the other 50% of funding to execute the project.

The International Trade Centre played an important role in assisting SMEs qualify for matching grants. ITC-trained Financial Management Counsellors assisted SMEs in developing viable business plans as part of the grant application process. The counsellors helped ensure that the grant applications were written correctly and accurately prior to submission.

Ultimately eight beneficiary companies and associations (40% of 20 beneficiaries overall that received financial counselling under the project) were granted over USD 75,000 worth of matching grants, which greatly contributed to the internationalisation of their businesses. These grants improved performance and export competitiveness of the SMEs and associations by funding implementation of activities such as implementation of ISO 9001 quality standards, developing a web portal and course curriculum for an online IT academy, and training staff of a call centre. Some grants kick-started access to international markets by funding market surveys abroad and website development. The access to finance made possible through CEDP helped SMEs overcome these sector-specific constraints and ultimately increase their market access.

Got financed? Now connect!

The weakest competitiveness pillar in the sub-Saharan Africa region is connectivity (Figure 89). In its competitiveness assessment, ITC considers factors affecting competitiveness within the firm, within the immediate business environment of the firm and at the national policy level. A more in-depth analysis reveals that the connectivity gap in sub-Saharan Africa exists at all levels (firm level, immediate business environment and national environment) but is especially driven by poor performance at the firm level. ITC SME Competitiveness Outlook 2015 measures connectivity at the firm level as the use of ICT to gather market information and the ability to connect to other key players in the firm's business environment. It is measured by the share of firms using e-mail to communicate

Figure 89: Digital divide: firm's website and email usage, by region and firm size

Source: ITC calculations based on World Bank Enterprise Survey data

with clients and suppliers, and the share of firms having its own website. Small firms have a score of 15 out of a possible 100 for both e-mail and website indicators (Figure 89). Interestingly, small firms in the Asia Pacific region also characterized by a weak performance in the connectivity pillar.

Many small companies in Africa still do not use internet for their business operations despite multiple advantages, such as cost-effectiveness, accessibility, credibility enhancement, online marketing and direct link to clients and suppliers. Higher capacity to connect can compensate for weak logistics and geographic disadvantages, e.g. location in landlocked countries. With the rise of e-commerce, services exports and value chains, online presence is becoming especially important.

➤ CASE STUDY

Supporting Indian trade and investment for Africa: connecting to value chains

Kevine Bajeneza is the owner of N@tcom Services Ltd, a fast-growing consultancy firm that focusses on bridging the gap between unemployed educated youth and the market-driven IT demands and opportunities in Rwanda. Her firm provides information technology training, accompanied by soft skills training.

Ms. Bajeneza was first introduced to the Supporting Indian Trade and Investment for Africa (SITA) project in May 2015, during a Rwandan BPO exhibition, where the ITC gave a presentation on the project. In September 2015, SITA sponsored Ms. Bajeneza's participation in the Indo-Africa ICT Expo, an exhibition that was organized by the Indian IT Association NASSCOM, and that brought more than 100 Indian ICT companies to Nairobi, Kenya. SITA facilitated business-to-business meetings with Indian companies, and following the workshop, Ms. Bajeneza signed a Memorandum of Understanding with JD-Soft, an Indian IT company. The agreement provides a framework for the companies to work together on IT training and consultancy.

In March 2016, Ms. Bajeneza participated in the Branding and Sales workshop organized by SITA in Kigali, Rwanda. "After the training, I was able to work on our marketing materials and I introduced a lot of changes to make them more professional and visible," Ms. Bajeneza said of the workshop.

Recently, Ms. Bajeneza travelled to Beijing with SITA's support to participate in the Services Buyer Mentor Group exhibition. This exhibition was attended by over 200 companies. "I applied the knowledge gained from the Branding and Sales workshop, mostly in the B2B meetings and it worked very well." Ms. Bajeneza is currently in partnership discussions with 7 companies she met in Beijing.

Resulting from the collaboration with SITA, Ms. Bajeneza's business has changed a lot. "We are now able to market and brand a lot in our country and in the East African Community region. We have extended our services: we now deliver in rural areas, and we are able to attract more customers from our neighbouring countries."

In addition to firm-level capacities to connect, room for improvement exists at the national and immediate business environment levels in the African region. At the national level, ICT access is an important determinant of connectivity. At the business environment level, ITC measures connectivity by research and development collaboration, supplier quality, marketing and the extent of cluster development. A case study above shows how the improvement in the capacities of the business owner in branding and sales, improved marketing and business-to-business meetings have made a world of difference for a small IT firm in Rwanda.

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SUSTAINABLE TRADE FINANCE – PERSPECTIVES ON THE STATE OF THE MARKET

University of Cambridge Institute for
Sustainability Leadership (CISL) which
convenes the Banking Environment
Initiative (BEI) contribution

**Changing risk landscape – sustainability
influencing client credit ratings**

**Chinese banking regulator
starts to show interest**

**Multi-laterals gearing up, with impact
for banks' cost of capital**

The International Chamber of Commerce has decided to put a stronger focus on 'sustainable trade finance' (by which we understand trade finance that takes social and environmental factors actively into account) in its Global Survey on Trade Finance this year. This reflects growing interest in the subject amongst industry leaders around the world. Indeed, 75% of surveyed respondents revealed that their bank is actively tracking this debate – see Figure 90. The ICC's decision also recognises that some of the fundamental forces shaping the industry are beginning to prioritise sustainability.

The direction of travel is clear; factoring sustainability into the strategy and operations of banks' trade finance activities is only going to be more important with time. The evolution of sustainable trade finance in practice, however, is still in its early stages. Here, we share our perspectives on why sustainability is becoming more material for trade financiers, both from a risk and opportunity perspective. We look at changing regulatory trends (including in major emerging markets like China), client preferences and the consequences for risk management. We then review what action individual banks can take today and priorities for the industry at large.

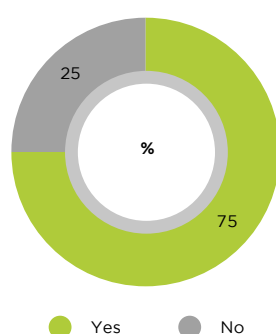
Authors



Andrew Voysey, Thomas
Verhagen and Tamara Slater

Figure 90: Banks tracking developments related to sustainable trade and trade finance

Is your bank tracking developments and market demands/expectations related to sustainable trade and sustainable trade finance?



Source: ICC Global Survey on Trade Finance 2016

**The Soft
Commodities
Compact
was produced by
the BEI and the
Consumer Goods
Forum**

I. How is the context for trade finance changing?

Regulatory trends: the Paris Agreement, Financial Stability Board and the G20

The last twelve months have seen significant advances in global policy or regulatory trends committing economic growth to a sustainable or 'green' trajectory. The UN Climate Summit in Paris late last year, for example, delivered political consensus on the need to keep global average temperature rise to well below 2 degrees Celsius above pre-industrial levels. This commitment means that governments, business and other stakeholders must achieve net zero greenhouse gas emissions from thriving economies well before the end of this century. This is nothing short of an economy-wide industrial revolution.

Meanwhile, the Financial Stability Board's Task Force on Climate-related Financial Disclosures was also established late in 2015. It aims to standardise how companies and financial institutions make climate-related financial risk disclosures. This reflects an underlying belief that the market requires greater transparency and reliability of information to make informed judgements about climate risk in everyday decision-making. To build on the FSB's work, the G20 (under the Chinese Presidency, this year) has set up a Green Finance Study Group to identify how some of the most influential Ministries of Finance and Central Banks in the world can help to make 'green finance' a consequence of mainstream financial decision-making.

While these regulatory efforts may not yet have a material impact on trade finance, there are important consequences to bear in mind. For example, tropical deforestation is responsible for approximately 15% of global greenhouse gas emissions¹⁶ and the clearing of land for agriculture is widely acknowledged as one of the greatest causes of such deforestation. The world's governments therefore cannot meet their climate goals, as well as feeding a growing population, without shifting away from a model of agricultural growth that relies on expansion into forested land.

Importer trends: Consumer Goods Forum and China

Continuing the focus on agriculture, the above trend has not gone unnoticed by major importers of agricultural commodities. In 2010, the Board of the Consumer Goods Forum (CGF), an industry network of approximately 400 consumer goods companies with combined sales of EUR 2.5 trillion, approved a resolution to achieve 'zero net deforestation' in their supply chains by 2020. This decision was made in recognition of the significant impact that the expansion of agricultural land can have on deforestation, local communities and ecosystems.

To support these companies to align their procurement policies with this goal, the CGF has developed 'Sustainable Sourcing Guidelines' for soy, palm oil and pulp and paper. It is also working with various partners, including governments and the banking industry, to create a wider movement for change. One group of international banks, operating under the auspices of the BEI, has worked with the CGF to agree a 'Soft Commodities' Compact. This is a client-led initiative aiming to align the banking industry's

services with the goal of achieving zero net deforestation in soft commodity supply chains by 2020. The 'Soft Commodities' Compact was endorsed by the CGF Board in 2013 and has now been adopted by banks representing more than 50% of the global trade finance market.

To focus only on the CGF in this particular story, however, would be to overlook the fact that a significant proportion of traded agricultural commodities are imported into the major emerging markets of Asia. Around 60% of the world's trade soy beans, for example, are imported to China¹⁷. Here, though, there is also evidence of a turning tide. In 2015, the BEI's Sustainable Trade Finance Council – a group of commodity importer, trader and the trade finance leaders – was invited by the Chinese banking regulator to work with Chinese banks to understand how they can incorporate sustainability into the trade finance that underpins China's commodity imports. The final results of this work have been published early September 2016. In the foreword to this report, Director Ye of the Chinese banking regulator CBRC was pretty outspoken in that there is 'further room for improvement in how Chinese banks 'green' their lending activities' and that the CISL report 'highlights... risks which China's banking institutions and leaders need to understand better'.

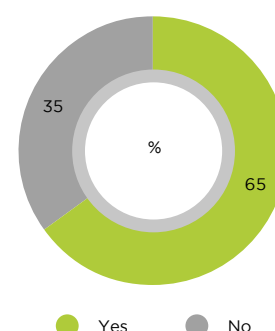
Risk trends: reputation and credit

The risks associated with unsustainable production and trade of soft commodities are becoming increasingly apparent. As consumer attitudes shift, reputational risks are arguably the first to materialise. An individual responsible for reputation risk management at a global bank recently observed to us that they were surprised that their peers had not already spotted the exposure of their trade finance business and taken appropriate action. In the ICC's recent survey, there is an indication that the industry is moving – nearly two thirds of respondents indicate that their bank is at least considering more stringent environmental and social criteria in respect of trade finance transactions (see Figure 91). We suspect their first motivation is managing reputation risk.

It is credit risk that we have spent most time working with industry leaders on, though. While shifting regulatory and importer trends are not always seen to impact individual trades, recent events have shown sustainability considerations becoming more material at the client level. To give one very specific example, a major Malaysian palm oil producer was suspended earlier this year from the industry's most widely recognised sustainability standards body (the RSPO) for failing to adhere to some of its criteria. Various of the company's customers quickly announced that they would no longer procure palm oil from the company. This prompted the credit rating agency, Moody's, to declare that it is considering a ratings downgrade. Incidentally, in less than two months from its suspension to Moody's intervention, the company's share price also fell by nearly 10%. While this is just one example, it demonstrates the consequences of companies getting caught on the wrong side of shifting mega-trends. Since most trade

Figure 91: Implementation of more stringent environmental and social criteria in trade finance

Is your bank implementing (or considering implementing) more stringent environmental and social criteria in respect of trade finance transactions?



Source: ICC Global Survey on Trade Finance 2016

Footnote

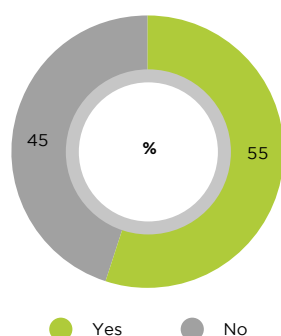
Access the report 'Greening the Finance of China's Commodity Imports: Lessons from Practice':

<http://www.cisl.cam.ac.uk/publications/sustainable-finance-publications/greening-finance-chinas-commodity-imports>



Figure 92: Rejection of trade finance transactions due to internal or external environmental policies

Has your bank rejected trade finance transactions due to internal or external environmental policies?



Source: ICC Global Survey on Trade Finance 2016

“There is further room for improvement in how Chinese banks ‘green’ their lending activities”

Mr Ye Yanfei
Policy Research Bureau
China Banking Regulatory
Commission

financiers seek to develop long term relationships with clients, as well as cross-sell a variety of different financial services to them, the rising materiality of sustainability factors within credit risk is of concern.

II. What action can individual banks take today? Client engagement, risk screening and pricing

Our work with leading practitioners across the global trade finance industry has revealed that banks can take action on at least three levels, depending on their ambition. We see banks progressing initiatives across all three.

The first level is client engagement, which involves integrating sustainability risk considerations into existing processes such as client on-boarding and due diligence processes. It also involves working with clients to manage the risks identified. Tools such as the International Finance Corporation’s Global Map of Environmental and Social Risks in Agro-Commodity Production (GMAP) are proving helpful.

The second level is risk screening, which amounts to ensuring that the bank is not involved in the worst or highest risk, trade transactions from a sustainability point of view. Interestingly, the finding from this year’s ICC Global Survey on Trade Finance that over 50% of banks have rejected trade finance transactions due to internal or external environmental policies (see Figure 92) may imply that a fair amount of energy is focussed here, albeit quietly.

The third level is pricing, which involves banks adjusting their pricing strategies to reward better sustainability practices. For clients with high-volume, low-margin businesses, such strategies can deliver a valued nudge. We have seen some banks approach this issue unilaterally, arguing that pricing is part of an overall strategy to build a client portfolio aligned with sustainability trends and aiming to make such a policy cost neutral on a portfolio basis. Others have worked with multi-lateral banks that are increasingly factoring sustainability into their trade finance programmes and therefore altering commercial banks’ cost of capital as a consequence, more of which below.

III. What are the priorities for the industry at large?

Despite the positive signals revealed by the ICC’s survey that the trade finance industry is placing greater emphasis on environmental and social factors, practice does still seem to be at an early stage. It is for this reason that having a platform for learning and leadership is so valuable, and it is one of the key reasons that the BEI convened its Sustainable Trade Finance Council in early 2015. The group has benefitted from the involvement of representatives of the ICC Banking Commission, as well as the transaction banking association, BAFT. Three priorities have emerged.

1. Product development

The BEI’s work to date has already determined that, in some circumstances, existing trade finance products can be used, simply and reliably, to deliver incentives to exporters that are doing the right thing.

The BEI's 'Sustainable Shipment Letter of Credit', for example, was developed initially using a case study of one commodity (palm oil) and for one trade finance instrument (the Letter of Credit). It aligns with existing bank processes in that it is buyer-led: the bank is simply responsible for checking if the Letter of Credit documentation includes the 'Certified Sustainable Palm Oil' stamp. By lending its support to this product through its Global Trade Finance Programme, the IFC has quickly enabled banks to benefit from reduced cost of capital if they book such transactions with the IFC. Such is the catalytic potential of this concept that the Financial Times short-listed the BEI for a 'Transformational Business Award' in 2015.

Where appropriate sustainability standards exist, this concept is in principle transferable to other commodities and other forms of documentary trade finance. Banks and clients alike are keen to explore such product development further.

2. Engaging multi-lateral development banks

At present, a relatively small circle of banks are working publicly towards sustainable trade finance becoming a new market norm. The BEI's Sustainable Trade Finance Council looked in some depth at the different options that could be deployed to engage the industry at scale. It published its consideration of these options, including Know Your Customer, compliance and regulatory processes, in a recent discussion paper¹⁹.

Above all, building on the engagement of the IFC in the Sustainable Shipment Letter of Credit and engaging other MDBs emerged as the top priority, when both impact and feasibility were taken into account. The simple thesis is that if all the major MDBs, which have potential to affect banks' cost of capital so directly through their trade finance programmes, could explicitly work with commercial banks on this topic, it would significantly accelerate the pace at which the industry engages with the topic. Since reaching this conclusion, we have already been approached by a major player in Asia.

3. Increasing the engagement of emerging market buyers

It is in the interest of all that signals coming from the world's most important import markets are as aligned as possible when it comes to sustainability. Without this, the transition to sustainable modes of production is more likely to be lumpy and disorderly.

It is for this reason that the BEI's Sustainable Trade Finance Council is looking to build on its early engagement with the Chinese banking industry and support its continued emergence in this field, under the direction of the banking regulator in Beijing.

Action in all of these priority areas will raise challenging questions and may take time, but tackling them is undeniably in line with how market conditions are changing. The ICC's survey is reassuring in revealing existing levels of industry engagement. There is much still to do, though, and many hands make light work.

Sustainable trade finance to become a new market norm

Footnote



The University of Cambridge Institute for Sustainability Leadership (CISL) brings together business, government and academia to find solutions to critical sustainability challenges. CISL is pleased to convene the Banking Environment Initiative (BEI), a group of international banks whose mission is to lead the banking industry in collectively directing capital towards socially and environmentally sustainable economic development. The views expressed in this article are the authors' own.



DIGITISATION OF TRADE AND TRADE FINANCE

essDOCS contribution

Today, many of the articles published talk at length about digitization, blockchain, uberization and the shared economy. The pressure to fundamentally change how core businesses are run has never appeared so great. And trade finance is no exception.

The much-hyped story of Fintechs competing with banks has validity, but it will be played out initially in the retail banking market with currency exchanges, crowd-funded loans and challenger banks. In the trade finance segment, the amount of funds in play, the regulatory framework and the expertise required to minimize risks means that Fintechs are partners to banks not competitors today.

Why digitise?

Digitisation offers real benefits to trade finance, allowing the convergence of the physical, financial and document chains. This convergence allows banks and corporates to reduce costs and complexity of trade finance, automate processes, improve working capital management and reduce operational cost. Simplification and reduced cost of trade finance will increase accessibility for SMEs, and in turn will stimulate global trade.

Some of the benefits of digitizing are outlined below:

- Collaboration: digital platforms enable all the parties involved in a shipment to collaboratively draft relevant documents, reducing errors, centralizing the process, maintaining data integrity, accelerating finalization and issuance of originals
- Automation: digital contracts and documents enable automation of key processes such as generating purchase orders and invoices, document comparisons and sanction checks
- STP: Straight-Through-Processing reduces data re-entry and corresponding errors, enabling data to flow from a sale of good contract or purchase order into the finance request, into the shipping documents and ultimately into the financial settlement

**Digital contracts
and documents
enable automation
of key processes:
generating
purchase orders
and invoices,
sanction checks
and document
comparisons**

If project management is akin to herding cats, and programme management to herding tigers, then digitising trade is like herding all the planet's animals onto Noah's Ark while it is still under construction!



- Risk reduction: eDocs greatly reduce fraud risk through greater control of the original, and the eliminated possibility of losing documents. In addition, the capability to transfer eDocs instantaneously across the globe means that companies should be able to greatly reduce risk, effort and timelines
- Eliminate LOIs: eDocs remove the risks to banks and corporates associated with issuing or relying on trading and discharge letters of indemnity (LOIs), including the fact that LOIs do not provide a pledge over goods and are not sufficient for capital adequacy requirements
- Compliance & Visibility: eDocs ensure that only authorized users can issue or endorse original documents or can be configured to prevent unwitting transfer to a Sanctioned Party; eDocs also provide improved visibility of title documents within an organization or group of companies
- Operational improvements: ability to access, review and approve original eDocs remotely and separately from other parties enables significant operational improvements at banks, ports and terminals
- Improved experience: digital solutions improve the experience of people within your organization and across the supply chain by making eDocs accessible from anywhere and by eliminating time lost looking for or managing paper.

Challenges

There are a number of significant challenges to digitising trade. The first is the size of the project. If project management is akin to herding cats, and programme management to herding tigers, then digitising trade is like herding all the planet's animals onto Noah's Ark while it is still under construction!

Digitising trade is a complex project because it requires simultaneous change across three industries, e.g. metals commodities plus shipping and banking. In addition, it must be supported by the acceptance by relevant governmental departments such as customs and financial regulators.

Even within an organization, contracts and process changes must be made across a number of departments. For corporates this change management includes trading, finance, execution or operations and freight departments. For banks it will have operational impacts across documentation teams across various products and branches.

Furthermore, because digital trade requires participation across the supply chain, the benefits increase with the size of the network and are limited before a solution reaches critical mass. In essence, that means a pre-critical mass digital network limits the return on investment to all parties, resulting in a chicken-and-egg dilemma.

Other issues that arise with digitisation

A side-effect of digitisation is that in reviewing current paper processes and rational for procedures, bad habits are frequently thrust into the spotlight. One possible example of this is the use

of Airwaybills and other non-negotiable receipts under letters of credit. Of course, such documentation fails to provide the bank with title and thus results in higher risks with such a trade finance arrangement.

While these habits are known workarounds for the inefficiency of paper, they are highlighted when exploring paper processes. (Fortunately, many of these bad processes can also be eradicated through digitisation, by for example combining a negotiable eAWB with a Bank Payment Obligation).

Emerging digital trade

While trade finance is in the nascent stages of digitisation, a significant amount of groundwork has already been laid. SWIFT's development of the MT798 and TSU; ICC's work on the eUCP and URBPO; and efforts by corporates to push adoption of electronic documents, including original bills of lading, has shown that paperless trade is achievable. In air freight, IATA's eAir-Waybill is 39% paperless today¹⁹.

Government joins the party

The members of the Pan-Asian Alliance²⁰ have long provided B2G solutions within their countries, and several offer electronic certificates of origin²¹ for cross-border trade.

National Plant Protection Agencies have joined the digital trade party, with the release of an ePhyto Standard by the IPPC (part of the UN Food & Agriculture Organization)²². The FAO approved an ePhyto Hub last year, which should accelerate the rollout and adoption of electronic Sanitary and Phytosanitary Certificates²³.

How to digitise: best practices and transitioning to paperless

The corporates and banks leading the transition to digitisation have established some best practices.

The first, and most important, is that once the strategic decision to digitize has been made within a company, that change needs to be facilitated emphasized through a senior, empowered cross-functional eDocs team which can support top-down adoption across the organization. It helps to also have an eDocs element in individual bonuses to ensure regular use and adoption by the ultimate users too.

Once your organization has senior level sponsorship, a senior cross-functional team which is properly incentivised to succeed, then digitisation is just a matter of good large project management, for example:

- Focus on easy wins to demonstrate internally that digitising is possible, and to demonstrate value
- Build industry consensus and momentum, as ultimately no company can digitise trade by themselves. In this regard, it is useful to focus on trades where others are in the process of digitising, both to gain experience and to allow that trade to reach digital critical mass (even if that trade isn't meaningful for you or if documentation in that trade does not cause problems for you)

39%

**IATA's
eAirWaybill is
39% paperless
today**

**Ultimately no
company can
digitise trade
by themselves.
Industry
consensus and
momentum need
to be built**

**We will
experience a
meaningful
acceleration
of digital trade
before the end of
this year**

- Digitise in steps to ensure that benefits can be quickly realized as you progress, for example, you can commence with digitising the creation of documents with an online DocPrep solution, then move to digitising trade finance via online applications and ePresentation of documents, before moving to end-to-end paperless trade
- Ensure that you publicly communicate your plans both within your organization and your industry, so others can learn from your work and work with you towards digitisation.

Lastly, it is important to set realistic timelines. Digitisation simply cannot happen overnight. Corporates and banks should set annual targets for the percentage of their business that they are looking to digitise and then work towards that goal. If you align your goals with those of your counterparties and industry competitors, it is far more likely that you will all be successful together in digitising trade.

Conclusion

A significant amount of work has already been completed in preparing to digitising digitise trade, namely on legal, standards, technical solutions and trade facilitation aspects.

As trade clusters reach digital critical mass, we will experience a meaningful acceleration of digital trade before the end of this year. Indeed, it is unlikely that you will not be involved in some aspect of digital trade in the next couple of years. While Asia Pacific may have has taken the lead in this transition to-date, but adoption will most certainly become faster and more global over the next 18 months.

While digitising trade has challenges, these are increasingly being overcome and both corporates and banks will soon be reaping the rewards.

➤ **HIGHLIGHT:**

ICC AND THE BANKING COMMISSION: ADVOCACY AND ENGAGEMENT AT THE HIGHEST LEVELS OF THE INTERNATIONAL SYSTEM

By Alexander R. Malaket, co-Chair ICC Banking Commission G20 Policy Consultation

The International Chamber of Commerce is a respected, authoritative business organization with global reach and the decades-long credibility to engage in thoughtful advocacy at the highest level of the international system.

ICC's ongoing engagement at the annual B20/G20 process, presided over in 2016 by China. The ICC is represented through the G20 CEO Advisory Group, chaired by Jeff Hardy, ICC Director and through membership or co-chairing of one or more of the B20 Task Forces. Additionally, the ICC Banking Commission hosts every year a G20 Consultation session, convening delegates representing key trade financing organisations to consider issues and formulate recommendations for enabling access to trade financing, co-Chaired by the author and by Steven Beck, Head of Trade Finance at the Asian Development Bank and member of the Banking Commission Advisory Board.

The ICC hosts a meeting of the CEO Advisory Board, with the delegation including senior ICC leadership as well as Chief Executives from leading companies around the world. As in past years, the ICC contingent is highly visible and active in panel discussions, presenting the views, concerns and priorities of the business community through the B20 activities, and through the Task Force Reports and recommendations which are formally presented to the G20 at the close of the B20 Summit. There are numerous streams

of activity around the G20, but the B20 or "Business 20" is thus far the only stream that is invited to hold its concluding Summit in proximity to the G20 Summit.

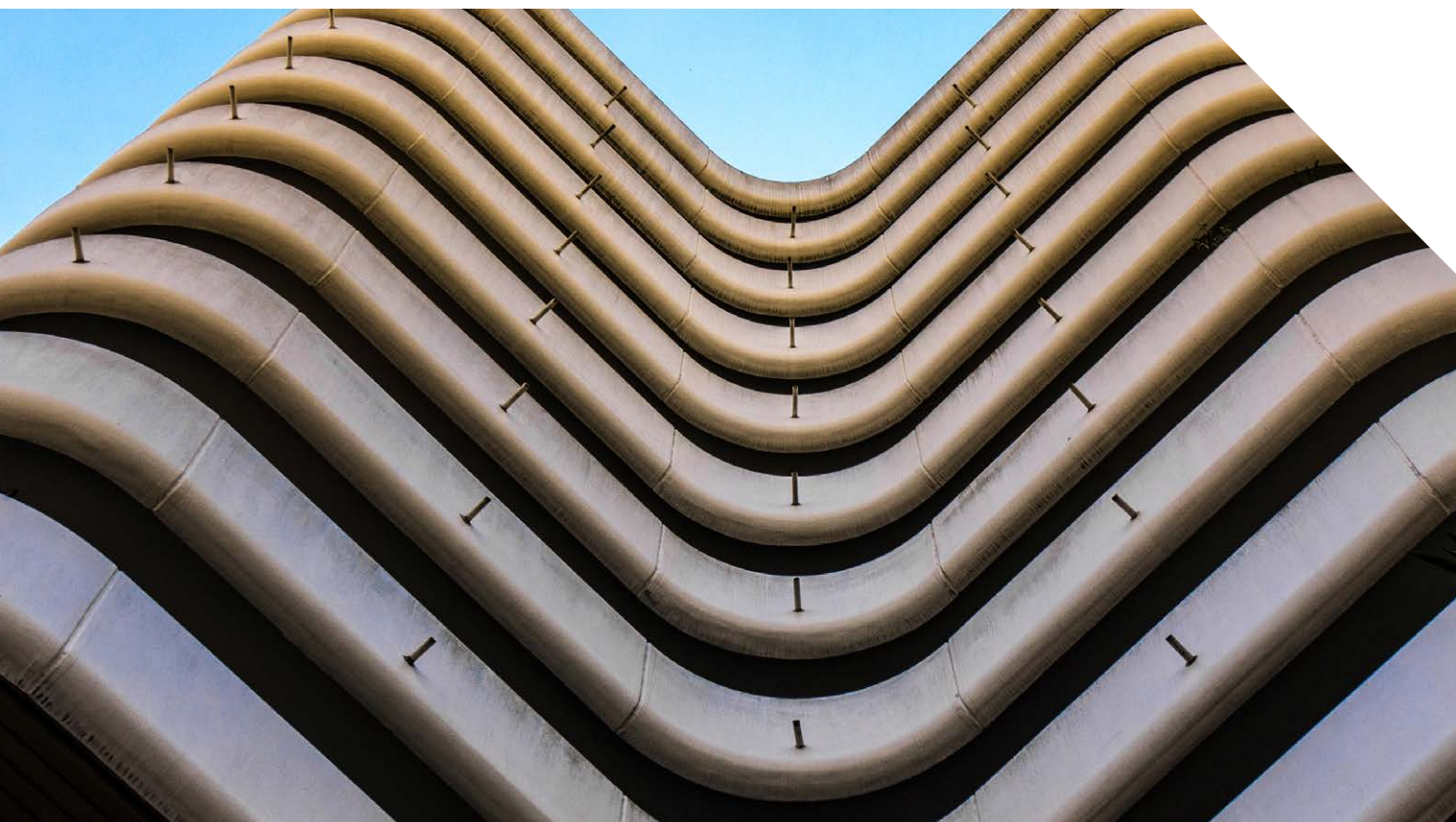
Each member of the G20, on taking over the G20 Presidency, will wish to set its own priorities and put its own "stamp" on the (typically) year-long policy and work cycle. Following the Australian Presidency in 2014 however, a specific proposal was made, to actively aim for some degree of continuity (thus, progress), year-over-year. Relatedly, the ICC publishes an annual B20/G20 Scorecard, aimed at tracking uptake of B20 recommendations by the G20.

Figure 94: ICC G20 Business Scorecard

OVERVIEW	SCORE
Trade	Poor (1.0)
Financing Growth	Good (2.8)
Infrastructure and Investment	Poor (1.3)
Employment	Fair (1.8)
Anti-corruption	Fair (2.3)
SMEs and Entrepreneurship	Fair (2.0)
Energy and Environment	Fair (2.2)
OVERALL SCORE	FAIR (2.0)

Source: International Chamber of Commerce





In addition to the Scorecard, the ICC this year has taken an additional step of publishing a set of parallel recommendations for consideration by the G20, to supplement the various recommendations reflected in the Task Force reports. The additional ICC recommendations related specifically to trade finance addressed regulation and FinTech:

Trade finance

- Ensure equitable, risk-aligned and consistent regulatory treatment of trade finance to enable the engagement of developing and frontier economies.
- Advance and multiply the positive impact of trade financing and trade, by actively enabling the deployment of FinTech solutions and propositions in international commerce.

The Task Forces established by China for 2016 were:

- Financing growth
- Trade and investment
- Infrastructure
- SME development
- Employment

In addition, an Anti-Corruption Forum was established. The Task Force Reports can be accessed here: <http://en.b20-china.org/documents/report>

Over the last two years, under the Turkish and Chinese Presidencies, there has been clear and demonstrable progress in raising the visibility of trade finance and supply chain finance in the deliberations and recommendations of the B20 work, for example, through the analysis of the Financing Growth and SME Development Task Forces. These contributions outline financing options for SMEs, articulate the effective risk mitigation and guarantee options facilitated through trade financing. Additionally, the regulatory issues around trade financing have been elucidated.

While it is understandably difficult to get the priorities of business in front of G20 Heads of State and their policymakers, it is worth noting explicitly that the work of the B20 Task Forces is of a quality and robustness, that the analysis and recommendations can form the basis of concrete outcomes and effective advocacy.

As Germany takes the Presidency for 2017, with the official handoff already completed in Hangzhou, the ICC and the Banking Commission will remain actively engaged, following up on the outcomes of the 2016 cycle and preparing to continue its leadership role at the highest levels of the 2017 cycle, both in the business stream of the B20 and in the political and policy stream of the G20.



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+

Our
risk
distribution
channels

=

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risk sharing solutions

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MULTILATERAL DEVELOPMENT BANKS' TRADE FINANCING

African Development Bank, Asian Development Bank, European Bank for Reconstruction, Inter-American Development Bank, International Finance Corporation, International Islamic Trade Finance Corporation and ICC Banking Commission contribution

MDBs provide financial assistance to developing countries, typically in the form of loans and grants, for investment projects and policy-based loans. Their models for financing trade operations are crucial in particular for enabling access to finance for a growing base of SMEs in emerging markets and developing countries.

The following section provides a summary of key achievements and market developments for global and regional Trade Facilitation programmes of MDBs. For the first time in this report, the section is significantly strengthened in its reach and representativeness, with input on trade finance support from the African Development Bank (further details can be found in the Highlight section on trade finance in Africa) and with the contribution from the International Islamic Trade Financing Corporation.

Figure 93: MDBs trade facilitation - summary of coverage for 2015

	IFC	IIC member of IDB group	EBRD	ITFC	ADB
Program title	Global Trade Finance Program (GTFP)	Trade Finance Facilitation Program (TFFP)	EBRD's Trade Facilitation Programme (TFP)	ITFC Trade Finance Program (ITFP)	ADB Trade Finance Program
Number of countries of operation	90	21	27	57	20
Programme commencement	2005	2005	1999	2008 (1977 under IsDB)	2004
Number of Transactions since commencement (year end 31 December 2015)	45,000	1,453 (7,304 underlying)	18,300	507	12,233 (11,026 of which are from 2009-2015)
Value of transactions since commencement	USD 45 billion	USD 6.20 billion	EUR 12.8 billion	USD 31.529 billion	USD 23.1 billion (USD 22.51 billion of which are from 2009-2015)
Number of confirming banks	1,100	300+	800+	Not applicable	200+
Claims paid to date	0	0	2	Not applicable	0
Website	www.ifc.org/gtfp	www.iadb.org/tffp	ebrd.com/tfp	www.itfc-idb.org	www.adb.org/tfp

23
USD billion
in 2015 IFC
Trade Solutions
support in
emerging
markets trade

International Finance Corporation (IFC)

In 2004, IFC conceived the Global Trade Finance Program (GTFP) as a worldwide bank network linking emerging market institutions with international banks for the purposes of facilitating trade and creating new opportunities for emerging market firms to participate in global value chains. Following GTFP's success, IFC embarked upon other initiatives, like the Global Trade Liquidity Program (GTLP) and Critical Commodities Finance Program (CCFP), to extend the availability of trade and commodity finance in emerging markets.

Growth has been rapid: while IFC supported USD 300 million in trade in all of 2005, by 2014 it was enabling the same volume of trade every five days. In 2015, all of IFC's Trade Solutions programs together supported USD 23 billion in emerging market trade.

The GTFP provides risk mitigation by guaranteeing trade-related payment of obligations that currently covers 295 eligible enrolled financial institutions in more than 90 emerging markets. The program provides up to 100 percent coverage on the country and commercial risks of individual trade-related instruments – including letters of credit, standby letters of credit, guarantees, bills of exchange and promissory notes – issued by emerging market banks. In essence, the GTFP expands the amount of trade finance available to emerging

market banks and their customers, and often reduces these customers' costs of obtaining credit. Six confirming banks joined the GTFP network in 2015, while the program welcomed 19 new banks, including ones in Argentina, Bangladesh, Cameroon, Chile, Democratic Republic of Congo, Egypt, Madagascar, Myanmar, Nepal, Romania and Turkey. Over 45,000 transactions guaranteed under the GTFP to date with no losses provide a significant demonstration effect.

Technical training for issuing banks represents an integral part of the GTFP. To complement IFC's financial product, the Trade Advisory Services program tailors training to meet the specific and unique needs of markets and clients. The advisory program helps expand emerging market financial institutions' operational capacity for trade finance through workshops, on-site capacity building, e-learning courses, trade certification and more. These training offerings seek to transfer current international best practices to local markets, upgrade the operational and technical skills of trade finance back offices, improve trade finance risk mitigation techniques and upgrade skills in structuring basic and complex trade finance transactions. Country-focussed engagements may entail group training with banks or provide additional support to related entities, including central banks, bankers' associations, and chambers of commerce.

In 2015, IFC supported a record USD 2.4 billion in trade via its banking network in sub-Saharan Africa. Banks in the region received extensive support from the Trade Advisory Services program, which provided assistance to 69 banks across 30 countries. Asia received USD 1.3 billion in trade support through the GTFP. IFC enrolled this year its second bank in Myanmar, Yoma Bank, and provided its first transaction support to both Yoma and its local counterpart Myanmar Oriental Bank. Working with three Bangladeshi banks, IFC facilitated the import of machinery and building materials from China, Finland and the United States to set up a new power plant and to maintain an existing power plant via four transactions totalling USD 48 million. Guarantees assisted importers in other regions as well: GTFP enabled much-needed agricultural equipment for a leading grain producer and exporter in Ukraine, where agricultural goods are the most important source of foreign exchange earnings. Likewise, through Bank of Palestine, IFC supported the import of medical equipment from Japan and power generators from the United Kingdom into the West Bank and Gaza.

Mobilising partners for scalable financing solutions

Leveraging the experience, infrastructure and capacity for innovation honed under the individual transaction model of the GTFP, IFC has developed a set of Portfolio Solutions products to provide financing and risk mitigation on a broad scale to financial institutions working with emerging market obligors.

These larger-scale risk-sharing facilities under the GTLP and CCFP collect many small trade instruments into a single facility. A targeted, country-specific version called Working

6

**new confirming
banks**

19

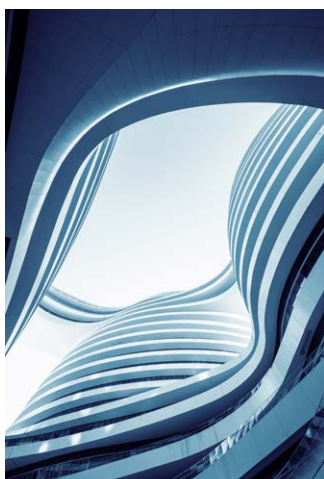
**new member
banks joined
the GTFP
network in 2015**

2.4

USD billion

**Record IFC
trade support
in sub-Saharan
Africa in 2015**

1.2
USD billion facility
600
USD million for
IFC account
record GTLP
facility launched
in 2015



Capital System Solutions (WCSS) provides short-term loans to emerging market banks to inject USD liquidity into low-income countries where macroeconomic events have created foreign exchange constraints or otherwise hindered foreign investment. Since 2009, IFC has committed to 27 trade portfolio risk-sharing facilities and to 22 short-term working capital facilities with banks. Altogether, the product has supported USD 60 billion in international trade and channelled financing to more than 1,000 beneficiaries. In addition to using funds from IFC's own account, Portfolio Solutions have mobilized more than USD 7 billion in additional funding from an array of governments, development finance institutions and private insurers.

A landmark GTLP facility launched in June 2015 with Citi was IFC's largest ever, totalling USD 1.2 billion, of which USD 600 million was for IFC's own account. The three-year extension of two existing facilities with Citi, one of the largest global providers of trade finance, will provide additional capacity and flexibility to reach more emerging market banks. Given Citi's previous experience with the Portfolio Solutions product and strong working relationship with IFC, this facility is expected to support over USD 4 billion in emerging market trade financing. Examples of trade transactions financed previously with Citibank include coffee exports from Ethiopia, which provide around 60 percent of that country's foreign exchange, and oil product imports into Benin, Ghana, and Mauritania, which support and maintain the function of the transportation infrastructure for commerce.

In addition, IFC renewed two working capital loans for BRAC and Eastern Bank in Bangladesh. IFC also deepened its engagement with two current GTFP customers, Armenia's Inecobank and Ecobank Gambia, which both became first-time recipients of direct working capital loans in 2015.

Innovative approaches to commodity finance support

In the aftermath of the Eurozone crisis, trade finance for critical commodities has emerged as an acute need for many emerging market countries, particularly in Africa, Eastern Europe, and the Middle East, which had relied heavily on European banks to support the majority of commodity trade flows. In response, IFC has created new offerings like warehouse finance and structured commodity finance to support global and regional bank partners in not only lending to banks but also financing their real sector clients. These product lines focus on funding trade flows of agricultural and energy commodities into and out of the poorest countries, including fragile and conflict-affected states. The warehouse finance product provides bank partners with liquidity or risk coverage backed by warehouse receipts, which can be used to extend financing to agricultural producers and traders ahead of export. The structured commodity finance product enables large cross-border commodity trade flows using collateral management to support lending at all stages of the supply chain: exporters/producers, trading companies, and importers/processors. Coupled with advisory services and other support tools,

including the development of commodity exchanges in several sub-Saharan African countries, IFC's Commodity Finance products have emerged as a new vehicle to sustain and transform developing economies.

For a third consecutive year, IFC extended material support via a structured commodity finance facility for energy imports into Ethiopia, preserving access to fuel required for the basic economic function of households and businesses. The USD 350 million discounting facility arranged by Natixis, with participations by IFC and Standard Bank South Africa, will finance 40 percent of gasoil and gasoline importation for one year. Since 2013, IFC has financed more than 2 million metric tons of petroleum products entering Ethiopia.

In April 2015, an IFC facility for South Africa's Nedbank helped commodity traders in sub-Saharan Africa import agricultural commodities and export cash crops. Through this facility, IFC provided risk mitigation to Nedbank so as to support lending to the agriculture sector against warehoused commodities. The facility financed rice importers in Liberia as it recovered from the Ebola crisis and helped them to cope with the remaining border restrictions and trade reductions. With IFC's support, Nedbank was able to provide funding to rice traders in Liberia to minimize interruptions in the availability of this critical staple crop.

Other deals were concluded in 2015 with Guatemala's Interbanco and Sudameris Bank in Paraguay. A warehouse finance credit line to Guatemala's Interbanco now supports the import of grains used for local chicken farms' feed supply. IFC also extended an existing warehouse finance loan to Sudameris Bank, a GTFP client since 2010 and the first-ever recipient of a GWFP loan in 2011. IFC's work with Sudameris has expanded access to finance for Paraguayan farmers, SMEs and exporters in the agribusiness sector, a key driver of economic growth and job creation in Paraguay that accounts for 25% of GDP and 60% of exports.

Market outlook and future direction

There still exists a large trade finance gap in emerging markets due to the continuing retrenchment of reduced cross-border financing flows from many global banks. Others have been slow to step in due to capital constraints, operational capacities and strategic choices, leaving a large number of countries vulnerable to liquidity shortages. IFC will look to expand upon its successful mobilisation efforts and seek additional opportunities to channel funding into the trade finance asset class through new structures, like trade credit risk securitisations, and new partnerships, for example with export-credit agencies. IFC will also continue to provide crucial backing to emerging market countries to aid them in accessing cutting-edge renewable technologies through the Climate Smart Trade initiative, which represented 10% (or approximately USD 600 million) of all GTFP guarantees issued in 2015.

**Agribusiness
sector in Paraguay
accounts for**

25%

of GDP and

60%

of exports

10%

**Climate Smart
Trade initiative
represented
10% of all GTFP
guarantees in
2015**

Over
300
participating
banks in the
IIC TFFP



Pipeline facilities place emphasis on supporting trade flows of agricultural goods in markets where growing local demand, production, consumption, and financing needs are observed. By supporting commodity-backed finance and outreach in partnerships with banks, projects can have a significant demonstration effect on local market development. It allows the promotion of agro-commodities as an asset class and encourages local and regional banks to participate in funding the commodities sector, which would ultimately increase access to finance. The market intelligence gleaned from network participants through direct data collection, such as from the DOTS survey referenced elsewhere in this report, as well as more informal contact with clients, will continue to drive the future strategy and direction of IFC programs.

Inter-American Investment Corporation, member of the Inter-American Development Bank Group

Background and markets

The Inter-American Investment Corporation (IIC), the private sector arm of the Inter-American Development Bank Group (IDB Group), leverages trade finance to support Latin America and the Caribbean (LAC) banks. The Trade Finance Facilitation Program (TFFP) provides loans, guarantees, advisory services and knowledge for clients to access international trade finance markets. Today the Program is present in 21 LAC markets.

The Program seeks to promote development and economic growth in the region through the expansion of trade finance to LAC banks, to ensure liquidity in periods of market volatility, as well as to broaden the sources of trade finance available for LAC importers and exporters. This facilitates their internationalisation and fosters, in turn, a global and intraregional integration through trade.

In the past decade since its creation, the Program has grown from 30 participating local and international banks to over 300, and from a maximum approved exposure of USD 400 million to USD 1 billion.

The transaction volumes supported by the Program have also grown significantly during these years. From annual volumes that ranged USD 200-300 million in 2008-2010 and USD 600-800 million in 2011-2012 (measured as IDB's exposure at issuance), in 2013 the Program reached an all-time record of USD 1.2 billion. In 2014, USD 952.9 million trade transactions were supported, setting a second historic high.

The TFFP recently participated in the IDB Group's consolidation of private sector activities into the Inter-American Investment Corporation. This consolidation, effective January 1, 2016, is aimed at creating leadership in development impact and client-service. The TFFP seeks to benefit through a wider and more efficient use of its resources under the new organizational structure. The IIC now has a balance sheet of over USD 7 billion in assets under management and over 330 clients across the region.

Individual summary of activity (volumes and values to end 2015)

During 2015, 63 guarantees and loans were issued and disbursed under the Program, to support 2,028 underlying trade finance transactions. Mobilised funds through syndicated trade loans reached a record of USD 473.40 million. At the end of the year, the TFFP had an accumulated exposure of USD 760 million in trade transactions.

Volumes were significant in 2015, though lower than those of previous years. This should not be interpreted as an indicator of market demand but rather the result of a lower rotation after two consecutive years of record activity.

As of December 31, 2015, the TFFP included 103 Latin American and the Caribbean Financial Intermediaries (LACFIs, formerly Issuing Banks) with approved lines of over USD 2.97 billion, and a network of over 300 Global Financial Intermediaries (GFIs, formerly Confirming Banks) present in 64 countries.

Regional highlights during 2015

By countries, in 2015 Argentina, Bahamas and Brazil accounted for 58.7% of the total volume of transactions supported through the Program's trade guarantees and loans. Guatemala, Honduras and Ecuador represented 26.5% of the volume generated, followed by Chile, Panama and Paraguay, with 12.7%. The rest was divided among Bolivia, Costa Rica and the Dominican Republic.

Also by volume, 51.9% of the transactions supported where exports, versus 48.1% related to imports. 77.2% of the total transactions were inter-regional (LAC trading with other regions outside LAC) and 22.7% of these were transactions intra-LAC.

From the total LAC exports supported under the Program, 92% were shipped from Brazil, Argentina and Guatemala. 48.8% of the exported goods from LAC consisted in agriproducts, followed by 16% of processed food and 14% of manufactured goods. The main destinations of LAC goods were the US (22.3%), China (9.6%), Switzerland (8.8%), Singapore (6.2%), Spain (5.3%) and The Netherlands (5.1%).

On the import side, the major buyers in LAC were Honduras (18.8%), followed by Guatemala (18.6%), Brazil (15.4%), Ecuador (12.2%), Argentina (8.1%) and Paraguay (8%). 20.3% of those imports came from the US, 15.2% from China, followed by Japan (7.1%), Belgium (5.7%), Argentina (5.6%) and Brazil (4.1%). Main imported products were manufactured goods (32.9%), chemicals (10.9%), vehicles (10.1%), oil and gas (9.3%) and equipment (7.4%).

From a macroeconomic perspective, international trade volumes in LAC declined in 2015 for the third consecutive year. According to IDB's Trade Trend Estimates Latin America and the Caribbean 2016 Edition²⁴ "in 2015 LAC exports experienced their greatest decline since the international financial crisis, with an estimated reduction of 14.0%". Looking into the causes of such deterioration, "the change in the pattern of global

IDB TFFP in 2015:

63

**guarantees and
loans**

2,028

**underlying
trade finance
transactions**

473.4

USD million

**Record number of
funds mobilised
through
syndicated trade
loans**



growth, notably the slowdown of China and of other developing countries, cooled real demand for regional products. In addition, the rapid deterioration of commodity prices—mainly oil, gas and metals—depressed the value of trade and caused a severe contraction in regional aggregate exports during the first half of 2015, after the decline suffered the previous year. In most countries, imbalances in the current account of the balance of payments were exacerbated, in an international environment characterized by increasing currency volatility and foreseeable stiffer conditions on access to international finance. While the deterioration affected all countries, those in South America were mostly hurt by the sharp decline in prices of commodities which are key to their export supply. Mexico and Central America experienced a reversal of prior export growth partly due to sluggish demand in the United States. Changes in the international economy, that do not appear to be transitory, point to the need to strengthen the export sector by enhancing diversification efforts in terms of partners and products exported”²⁵.

Summary of developmental impact

The TFFP’s commitment to development impact is measured, among others, by: (i) the percentage of individual trade transactions supported for small and vulnerable economies (50% since the Program’s inception); (ii) the volume of trade transactions processed for small- and medium-sized enterprises (73% of the total since the Program’s inception); (iii) the percentage of intraregional trade supported (23% of the total since the Program’s inception); and (iv) the amount of third-party trade funds mobilized through syndicated and co-loans (almost USD 1 billion since the Program’s inception).

The TFFP intends to achieve a meaningful development impact not only through financial support but also through capacity building. In 2015, the TFFP continued to roll out a training initiative started in 2014, delivering face-to-face training sessions aimed at helping TFFP member banks and their clients improve their trade finance capabilities and become more competitive and relevant in their industries.

Also in pursuit of a greater developmental impact, the TFFP continues to sign bilateral agreements with partner financial institutions that share our commitment towards improving and expanding the trade finance resources available in the region and has entered in this respect an alliance with the OPEC Fund for International Development (OFID).

As part of the IDB Group’s efforts to continue promoting LAC-Asia ties, we organized in 2015 the second Insights Program. The Program took place in South Korea, after a first experience in China in the previous year. This cultural immersion program helps LAC banks improve the commercial and financial relations between their client firms and companies from Asia. A networking event was also organized during the IDB Group’s Annual Meeting in Busan, at which more than 100 global financial institutions participated.

Default/ claims or losses experience

There have been no defaults since the Program's inception in 2005.

Innovations

The consolidation of the IDB Group's private sector activities into the new IIC represents a new chapter in its history. It reflects the Group's commitment to promote development through the private sector and to strengthen its role as partner of choice in the region.

The TFFP will continue to be a key component of the IDB Group's streamlined approach to private sector operations. Unleashing the existing trade finance knowledge, the IIC seeks to create a new trade and supply chain unit dedicated to TFFP and supply chain solutions for corporates and micro, small, and medium enterprises. This would expand the scope of the IDB Group's trade-related activities and strengthen its position as a leader in knowledge and financing for the private sector.

Outlook for the future

The IDB group does not expect a significant change in trade finance demand in 2016 with respect to 2015 levels. Pricewise, the region will continue to enjoy a comfortable liquidity position, although the recent economic downturn in some of our markets will continue to put upward pressure on prices (a tendency that will be exacerbated in those markets affected by de-risking activity).

As reported by IDB's Trade Trend Estimates Latin America and the Caribbean 2016 Edition²⁶, LAC export growth will continue tilted to the downside, as risk factors persist. "First, there are no signs of a reversal of the downward trend in commodity prices, which are approaching the levels seen at the beginning of the export boom in the early 2000s. Second, the modest growth of the United States and of the European Union are now combining with the deceleration of the Chinese economy and with the erosion of intra-regional demand to lower overall real export demand. Finally, the divergence in monetary policies in the United States and the Eurozone make a sustained appreciation of the dollar more likely, which could accentuate deflationary pressures on regional trade". In this context, it is urgent to implement trade promotion and facilitation policies that contribute to reverse the downward trend and to support trade diversification.

Looking at the region's expected economic prospects, according to IDB group's projections, the region will continue to experience flat to slightly negative growth in 2016, with an increasingly heterogeneous pattern across countries. As stated in IDB's 2016 Latin America and Caribbean Macroeconomic Report²⁷, "while the growth rate of the region as a whole is expected to be -0.3 percent, the simple average growth rate across the IDB's 26 borrowing countries is expected to be around 2 percent, with a median of 2.5 percent. [...] Given relatively low world growth, lower commodity prices and higher global interest rates, the region faces a transition to lower net income from abroad with a significant shift in relative prices."

-0.3%

**expected growth
rate of the Latin
America and the
Caribbean region**

2%

**simple average
growth rate
across IDB's
26 borrowing
countries**



**EBRD TFP in
2015:**

868

**EUR million
in total**

1,035

**trade finance
transactions**

285

**transactions of
less than
EUR 100,000**

The IIC will continue to work with its clients to tailor trade finance solutions that meet their needs in this evolving market. IIC's trade finance loans, guarantees, advisory services and knowledge aim to support banks and level the playing field for regional importers and exporters to compete on a global scale.

European Bank for Reconstruction and Development

The EBRD's Trade Facilitation Programme (TFP) was developed to promote and facilitate international trade to, from and within central and Eastern Europe, the Commonwealth of Independent States (CIS) and the southern and eastern Mediterranean (SEMED) region. Under the TFP, guarantees are provided to international commercial banks, thereby covering the political and commercial payment risk of transactions undertaken by participating banks (issuing banks) in the EBRD's countries of operations. At present there are 100+ issuing banks in 27 countries participating in the Programme, working with over 800 confirming banks and their subsidiaries throughout the world. Issuing banks in the region participate in the programme with total limits in excess of EUR 1 billion.

Since its inception in 1999, TFP has facilitated more than 18,300 foreign trade transactions worth a total of EUR 12.8 billion, and in 2015 the readers of the trade finance publications Euromoney Trade Finance Magazine and Global Trade Review voted the EBRD "Best Development Bank in Trade".

Programme activity during 2015

In 2015, TFP supported 1,035 trade finance transactions totalling EUR 868 million (2014: 1,756 transactions with a total amount of EUR 1.3 bn). The reduction of new business was driven by the following developments:

The global contraction of the trade flows continued and in 2015 the growth pace of international trade fell to its smallest value since the financial crisis of only 1.7%, compared to 3% in 2014 and the annual average of 7% between 1987 and 2007.

Regionally, many importers and exporters in the "old" EBRD countries of operation – Eastern Europe, the CIS, the Caucasus and the Balkans – reported less demand for imported and exported goods, reflecting persistent weaknesses in economic environment and a general reduction of business investment, particularly for capital expenditure.

TFP partner banks have been more cautious in taking new credit risk on importers and exporters, which resulted in lower demand for financing from foreign commercial banks and lower utilisation of EBRD TFP facilities.

Many importers have adopted stricter stock management policies, keeping the stock of goods low and granting only short payment terms to their clients, which resulted in lower demand for cash advances from partner banks.

TFP continued to predominantly support small transactions: of the 1,035 transactions financed in 2015, 285 transactions (28% of total) were less than EUR 100,000, with a further 566 transactions (55% of total) between EUR 100,000 - EUR 1,000,000.

In 2015 TFP facilitated 261 intra-regional transactions for EUR 179.6 million, representing 25% of all transactions. Examples of intra-regional trade transactions guaranteed by TFP in 2015 are imports of yarn and thread from Poland into Belarus, imports of radiators from Slovak Republic into Mongolia, imports of baby food from Kyrgyz Republic into Tajikistan or imports of fertilisers from Turkey into Tunisia.

TFP support was particularly needed by smaller- and medium-sized banks and banks in countries with lower country risk ratings which, as yet, do not have sufficient trade finance facilities from foreign commercial banks. Foreign commercial banks are often reluctant to establish trade finance facilities for smaller and regional TFP participating banks, due to the high capital requirements and the cost of compliance. Therefore, TFP continues to play an important role in helping smaller and regional TFP participating banks to grow their trade finance business to a level where they can attract trade finance facilities from foreign commercial banks. In 2015, 86% of all TFP transactions were with small and regional banks. Larger partner banks in the more advanced countries and in the Southern and Eastern Mediterranean region predominately used TFP for large-volume trade finance transactions where there was lower appetite from the foreign commercial banks.

Generally, the availability of trade finance limits from foreign commercial banks remains a significant impediment. Increased costs of compliance and higher capital charges on trade exposures have prompted commercial banks to reduce their presence in EBRD countries of operation even further. Where commercial banks continue to operate, they tend to prefer short-term transactions.

Most TFP transactions in 2015 facilitated the import and distribution of food and food commodities, metals and smaller machinery and equipment. The slowdown of economic growth resulted in a lower demand for larger machinery and production equipment. Imports of machinery and equipment (where happened) were mostly financed through letters of credit, while recurring imports of foodstuff, clothing, fast-moving consumer goods and vehicles were mostly financed through counter-guarantees with tenors of up to 6-12 months.

Import transactions continued to dominate TFP business volume and accounted for approximately 93% of the total number transactions in 2015. The programme works to expand the share of export business and in 2015 supported a number of export transactions such as the sale and delivery of: hazelnuts from Turkey to EU; cereals and oilseeds from Serbia to the Netherlands; glassware and kitchenware from Turkey to FYR Macedonia.

TFP support was particularly needed by smaller banks in countries with lower country risk ratings which, as yet, do not have sufficient trade finance facilities from foreign commercial banks

93%

of total number of transactions in TFP were import transactions

Economic challenges are combined with the absence of foreign direct investment and long-term funding in some EBRD countries of operation



Technical cooperation

Technical cooperation remains one of the key components of TFP. Technical cooperation has continued to develop and strengthen organisational capacities in trade finance, improve know-how and more generally, enhance transition impact of EBRD trade finance operations. To achieve these objectives, a range of tools are used, including: the provision of advisory services tailored to the needs of individual partner banks; supporting topical training workshops for partner banks; offering innovative internet-based training for partner banks' trade finance staff; hosting specialist forums; and producing and disseminating current trade finance news and accumulated knowledge through publications and other media.

In March 2015, TFP organised workshops in Dushanbe and Ashgabat on the topic of the ICC rules for the examination of documents known as International Standard Banking Practice (ISBP) for documentary transactions. These workshops were part of a technical cooperation project for partner banks in 20 EBRD countries of operation with the objective of providing practical training to middle and senior management as well as operational personnel and relationship managers. Overall more than 400 participants from over 80 banks attended the workshop.

In November 2015 a new training course "Introduction to Trade Finance" was conducted in Azerbaijan and Georgia for TFP client relationship managers in partner banks and for the first time the training was also attended by the partner banks' trade finance clients. The training was organised in cooperation with the Institute for Financial Services (IFS) London and the International Chamber of Commerce in Paris as a foundation course for Certificate of International Trade Finance (CITF). Further trainings in other EBRD countries of operation will follow in 2016.

Over 1,000 trade finance bankers in 23 EBRD countries of operation started TFP e-learning courses "Introduction to Trade Finance" and "ICC Rules for Documentary Credits" in 2015 and 464 bankers passed their exams.

The TFP has developed a new e-learning course for beginners in factoring/invoice financing which went live in the first half of 2015. The objective of this course is to enable course participants to gain basic knowledge in factoring and enhance their skills in order to sell, utilise and process factoring transactions in line with established international standards. Participants will obtain a better understanding of the product and operational risks inherent in invoice financing. This course will equip participants with sufficient knowledge to better structure trade transactions and improve assessment of client's financial profile linked to the underlying invoices.

Outlook for 2016

The difficult economic environment in EBRD countries of operation is unlikely to materially improve in 2016. The subdued economic activity will continue affecting international and

domestic trade in these countries. It is not anticipated that the overall number and volume of TFP transactions in 2016 will exceed the results of 2015.

In some EBRD countries of operation the economic challenges are combined with the absence of foreign direct investment and long-term funding. In such countries the programme is expected to remain in high demand. TFP will continue to focus on small- and medium-sized private banks and on the countries, where the trade finance gaps tend to be largest.

International Islamic Trade Finance Corporation (ITFC)

Background and markets

The International Islamic Trade Finance Corporation commenced operations on January 10, 2008, with an Authorized Capital of USD 3 billion of which USD 750 million were issued for subscription.

As an autonomous entity within the Islamic Development Bank Group (IDB Group), the ITFC was formed to merge the trade finance business that was formerly undertaken by various windows within the IDB Group. This consolidation increased the efficiency of service delivery and enabled the ITFC to rapidly respond to customers' needs in a market-driven business environment.

ITFC's remit is to promote and facilitate intra-OIC trade and provide trade promotion activities to foster socio-economic development, setting new benchmarks in ethical trade financing and developing innovative Shariah-compliant solutions. ITFC provides trade-financing solutions and assists member countries to access private and public funds for the purposes of advancing intra-trade as well as the development of investment opportunities. Thus, member countries are able to enhance their capacities to undertake international trade.

ITFC serves 57 member countries of the Organization of the Islamic Cooperation (OIC) from the Asia/CIS, MENA, sub-Saharan Africa and South America. ITFC focuses on financing commodities that have direct impact on economic development of many member countries such as energy, cotton, wheat, sugar, coffee, groundnuts, etc. ITFC is also actively participating in IDB Group-wide efforts to improve food security in member countries.

Regional highlights during 2015

Many ITFC member countries faced significant political and economic challenges. Despite these the Corporation was able to strengthen its position in Asia-CIS and MENA, while also expanding its footprint in Africa and South America. Improving energy security, support to the key agricultural sector and contribution to the private sector helped make 2015 another successful year with the Corporation supporting the improvement of the socio-economic condition of people in Member Countries, through the provision of trade.

57

**countries covered
by ITFC trade
finance**



10%
of total ITFC
portfolio is in sub-
Saharan Africa

Regional summary

Middle East and North Africa / Suriname in South America

ITFC is one the most active development institutions in the MENA region with 37% of its portfolio at USD 2,228 billion and activities in 12 countries. The MENA/South America portfolio growth focused on Egypt, Tunisia and Jordan as well as with the newly acquired sovereign business in Djibouti, Comoros and Suriname. It is worth noting that the MENA region has made a quantum leap in its business since 2014 whereby the volume grew by over 50% in one year, pushing the region to have a bigger slice of the ITFC portfolio of around 44% up from the traditional 28% that was prevailing in the previous years.

Countries in this region are actively searching a viable development model that can satisfy the economic and social aspirations of their young and fast-growing population. To build inclusive growth, ITFC has chosen to focus its efforts on supporting the region's access to energy at sound terms and conditions.

Sub-Saharan Africa

10% of ITFC's portfolio is in sub-Saharan Africa, a fast growing region. Over the past 10 years the region has repositioned itself, showing unprecedented economic and social vitality. Demographic growth, abundant natural resources human capital, agricultural and energy potential, an emerging middle class and a truly domestic market create new opportunities for the region. However, there are still challenges to overcome before sub-Saharan Africa can transform this potential into sustainable and equitable growth for its population. To contribute to the efforts in addressing these challenges, ITFC continues to place high priority on the region through its strategy under the flagship program "the ITFC Africa Initiative," which envisions scaling up ITFC's trade finance portfolio to the tune of USD 1 billion by the year 2019. The initiative focuses on providing trade solutions to the strategic sectors of agriculture, energy and support to SMEs through partnerships with local banks. ITFC business in sub-Saharan Africa is supported by field presence in Dakar.

ITFC's financing for sub-Saharan Africa witnessed significant growth over the past two years with the portfolio nearly doubling. Overall, in 2015, ITFC was able to consolidate its SSA portfolio as well as add new sovereign deals from countries in Francophone West Africa while growing its portfolio in Cameroon and Nigeria. A renewed focus will be placed on Eastern Africa, where the portfolio needs invigoration with deals expected to be structured through transactions covering commodities such as petroleum, rice, fertilizers and agri-products. African economies are experiencing growth, with seven out of the ten fastest growing economies worldwide being in Africa. This offers ITFC enormous opportunity for growth and expansion while fulfilling its mandate of contributing to economic and social development through the provision of trade.

Asia-CIS countries

53% of new ITFC commitments went to finance Asia and CIS countries, mainly in the energy and agri-business.

In 2015, ITFC provided major support to maintain energy access and promote wheat exports to several countries in addition to developing their scope within the private sector.

ITFC's plans for the region received a major boost with having presence on the ground in Istanbul, Jakarta and Dhaka in order to strengthen its presence.

Figure 95: ITFC Approvals by regions, in USD million.

Region	2014 Actual	%	2015 Actual	%
ASIA/CIS	2,464	47	3,229	53
MENA	2,291	44	2,228	37
Sub Saharan Africa	448	9	590	10
Total Approvals	5,203	100	6,047	100
Total Disbursements	2,826		4,551	

Summary of developmental impact

In the trade finance domain, ITFC provided financing to create value for agricultural output in early stages of production, which is a critical mission for food security in many least developed countries going forward. The Corporation had supported strategic exports in Gambia & Senegal, where several pre-export financing operations were granted to help farmers promote their agri-products. Financing was implemented in a structure that helps farmers secure the required agriculture inputs, such as quality seeds & fertilizers, at reasonable costs while allowing relevant government agencies procure harvests from farmers at good prices with payment on a timely basis.

Several facilities on an annual basis have a great development impact on farmers as it provides them with direct access to quality inputs and gives them the assurance of receipt of value for their crops in time. In Gambia, for example, ITFC's intervention benefitted over 300,000 local farmers, 70% of whom are in the rural areas whose livelihood depend on these crops. In other countries of the region including Benin, Burkina Faso and Cameroon, ITFC is lending vital support to the cotton industry and thus helping these member countries enhance the export of this strategic commodity.

ITFC also had contributed in alleviating poverty in Niger and Mali through financing food security. Both countries are landlocked countries with economies based on subsistence crops. The agriculture sector is a major contributor to the GDP and provides livelihood for a significant part of the population.

53%
of new ITFC
commitments
financed
operations in Asia
and CIS countries

Djibouti state-owned petroleum company was accompanied by ITFC in its restructuring



In addition, to ensure economic activity stability in countries like Comoros, Djibouti, Egypt, Mali, Mauritania, Morocco and others, ITFC financing is used to supply refined petroleum products leading to stability in energy supply. For example, one of the products financed is heavy fuel oil which is used in electricity generation. The stability in electricity generation has a positive impact on the economy in terms of continued operation of social services infrastructures, agriculture, main industries as well as individual homes. As an example, ITFC helped increase the strategic stock of fuel oil of the electricity company from 2 to 12 days in Mauritania and led to stability in electricity supplies avoiding power outages in the country.

ITFC's intervention in Comoros secures 100% of the country's energy imports, representing 600,000 barrels of equivalent oil, and sustaining the full fuel requirements for power generation, in addition to fuel for transportation and households. The program helped decrease the cost of supply, which impacted positively on the macroeconomic position and reduced public spending. In 2015, it generated USD 5 million savings (excluding the fall of oil prices) or 3.4% of the USD 147 million government general total expenditure. Moreover, it contributed to the restructuring of SCH - the state-owned petroleum company, which transformed, after one year only, from a bankrupt company to the largest state owned company with USD 77.3 million revenue and USD 9.75 million of net profit. In addition to that, the company paid the government USD 9.75 million of income tax.

In Djibouti, ITFC is having a similar impact. The Corporation secures 100% of 2.5 million barrels of petroleum products imported annually. The country witnessed positive macroeconomic impact and reduction of costs and public spending. In 2015, the program allowed for USD 21 million worth of savings on premiums (excluding the fall of oil prices) or 3.25% of the USD 645 million government general total expenditure. The ITFC accompanied the Djibouti state-owned petroleum company- in its restructuring. One year after resuming activities, the company also went from bankruptcy to being one of the largest state-owned companies with USD 220 million revenue and profitable operations. Moreover, Djibouti positioned itself as East-Africa's energy trading hub, with increasing regional re-export and trade. These new dynamics paved the way for new energy projects like the development of upstream activities (mainly exploration), building a new energy terminal, products pipeline with Ethiopia and even the first PPP photovoltaic solar power plant in the area.

Lastly, ITFC's financing in Egypt, which reached 13% of the country's imports of its hydrocarbons requirements, has helped the government in reducing the pressure on foreign currency reserves and has actually highlighted the Corporation's strength in mobilising considerable amounts from the international and regional market at critical times.

In the trade development domain, ITFC's Trade Cooperation and Promotion Program (TCPP) has provided consistent support to trade finance through its six lines of business, namely trade promotion, trade facilitation, capacity building, development of strategic products, trade mainstreaming and support to trade finance. It is worth mentioning here that the Aid for Trade Initiative for Arab States, Trade Development Forum, and Arab-Africa Trade Bridge Program are the flagship programs of TCPP, which have achieved significant progress. Furthermore, ITFC has created a Waqf²⁸ Trade Development Fund focused on mobilization of funds from external resources to support its trade development activities.

Innovations

ITFC has reinforced in the past years its innovative position in the world of Islamic Trade finance through the introduction of Islamic structured trade finance. Moreover, ITFC has recently finalized the needed documentation to launch its suppliers' financing scheme which replaces the effect of discounting, a true first in the world of Islamic trade finance. ITFC will be rolling out this product in 2016.

Outlook for the future

ITFC started its push for regional presence in 2014, and in 2015 it successfully established field presence in Turkey, Indonesia, Senegal & Bangladesh. Further expansion is expected especially because ITFC has recently signed a Host Country Agreement with the Government of UAE to establish a branch in Dubai. So far, the early results are promising as we see the investment in regional presence paying off; we believe that by being closer to our member countries, the results would translate into more diversification and better client proximity.

The Corporation has developed new financing products during the last few years, most especially the Structured Trade Finance, which has positively impacted the trade finance volumes and contributed to the cooperation and integration of the member countries' economies. Through STF, ITFC can provide funding to private sector entities in member countries. This way, STF provides a win-win solution allowing ITFC to deliver on its mandate while maintaining portfolio with acceptable risk profile.

With the growing importance of the trade in services at the international level, ITFC is starting to explore potential interventions to avail the wide opportunities that this sector stands to provide. Extending ITFC trade finance schemes to the trade in services industries will diversify ITFC's business toward new sectors and assist in reducing the concentration in just a few of them.

ITFC also achieved positive development impact by pooling of technical and financial resources from a network of development partners. The benefits from these initiatives filter right down through governments, financial institutions, corporations and even to SMEs availing of their services. Most importantly, ITFC will continue to expand its network by

ITFC expanded its regional presence in Turkey, Indonesia, Senegal and Bangladesh

2,000
transactions
supported by
ADB TFP in 2015



solidifying its relationship with its current partners, especially strategic long-standing partners, and bring on board additional ones to meet the growing financing needs of its clients in the coming years.

Asian Development Bank (ADB)

Background and markets

ADB's Trade Finance Program (ADB TFP) fills market gaps for trade finance by providing guarantees and loans through over 200 banks. ADB TFP supported USD 2.5 billion in trade in 2015, which was a drop from 2014 when it supported USD 3.8 billion. The drop was exclusively due to the collapse of commodity prices, which constitute an important part of TFP's portfolio. Notwithstanding the drop in dollar value support, the number of transactions supported by TFP in 2015 remained the same – almost 2,000 transactions.

Of the 20 countries where ADB's TFP operates, its most active markets in 2015 were Bangladesh, Pakistan, Viet Nam, and Sri Lanka. TFP does not assume risk in the People's Republic of China, India, Malaysia, Thailand and other relatively developed financial markets, focusing instead on markets where the private sector's capacity to provide trade finance is proportionally the smallest, leaving the largest market gap. In 2015, TFP expanded to Myanmar; and this year to the Pacific island countries.

Individual summary of activity (volumes and values to end 2015)

Since 2004, the TFP has supported more than 12,000 transactions across the region valued at over USD 23.1 billion—more than 7,700 of which involved SMEs—in sectors ranging from commodities and capital goods, to medical supplies and consumer goods. To help manage volumes, leverage resources and limits, and 'crowd in' the private sector as well as other participants, TFP shares risk with distribution partners. In 2013, the Government of Singapore entered a risk sharing scheme with TFP and Swiss Re insurance; and more recently, in May 2016, with Germany-based Munich Re insurance. These partnerships are in addition to TFP's risk distribution arrangements with Australia's export credit agency (EFIC), OFID (OPEC Fund for International Development), and FMO (a private sector-oriented development agency in the Netherlands).

Summary of developmental impact

ADB's TFP supported over 1,400 SMEs in 2015. This figure is particularly important to ADB, as SMEs are known to be a major source of job creation. Moreover, ADB's annual study, 'Trade Finance Gaps, Growth, and Jobs Survey', substantiates the perception that SMEs suffer most from a lack of trade finance support. TFP will continue providing as much support as possible to SMEs also through its growing Supply Chain Finance Program (SCFP).

ADB's annual trade finance market gap study also identifies developing countries as being underserved. TFP helps the private sector move into 'frontier markets'. As such, TFP is working to shrink the market gap in trade finance in the most challenging markets, both through its direct support and by mobilizing private resources into these markets. This helps create long-term relationships (credit lines) between banks in developed and developing countries. With these new relationships come greater financial links to support trade, job creation, and more prosperity in emerging Asia.

ADB's TFP supports the development of the banking sector in the developing economies where it operates. Its rigorous due diligence and ongoing risk monitoring processes – and related feedback to banks – instil an appreciation for best practices in bank management.

Disseminating information about TFP's countries of operation and partner banks has created tangible developmental impact. ADB's TFP holds regular discussions with banks and insurance companies, including their risk management departments, to provide valuable information that helps these institutions move into frontier markets or maintain and enhance limits to support trade. The TFP's comprehensive due diligence and risk monitoring processes, along with its regular presence in its countries of operation, underpin its ability to provide valuable information.

ADB's TFP also provides training and seminars on trade finance and banking. ADB conducted seven training seminars in 2015, to the following countries: Fiji, Lao PDR, Myanmar (twice), Papua New Guinea, the Philippines, and Vanuatu.

Default/ claims or losses experience

ADB's TFP has had no defaults or claims since its inception.

Innovations

TFP will be rolling out a new trade finance product in 2016 called the Funded Risk Participation Agreement (FRPA)—where TFP makes a disbursement to partner financial institution against a basket of underlying trade transactions; and funds would be used to participate, on a 50/50 risk share basis, in issuing bank risk connected to funded trade transactions (e.g., trade loans, discounting). When underlying transactions are settled, funds may be recycled for new transactions.

Outlook for the future

ADB's TFP is poised to continue supporting trade in emerging Asia. ADB has recently launched and is building its Supply Chain Finance Program to complement the TFP. The new SCFP will enable ADB to broaden its support for trade in developing Asia, especially among SMEs operating on an open account basis.

Despite the challenges, TFP's Myanmar operations commenced in October 2015 as it signed its first-ever trade finance agreement with a local bank in the country. Meanwhile, TFP's planned expansion to the Pacific gained momentum in late

**New trade
finance product
Funded Risk
Participation
Agreement
rolled out in 2016**

**Supply Chain
Finance Program
to complement
Trade Finance
Program**



2015 as TFP conducted due diligence visits to Pacific banks and held a region-wide training workshop in Fiji. In June 2016, TFP signed trade finance agreements with two Samoan banks – which is a first for TFP in the Pacific region.

The ADB TFP's knowledge products have had a positive impact in our countries of operation to date and, combined with the tremendous demand from our partners for more information about developing Asia, TFP is placing even more focus on developing and delivering its knowledge products for the future.

Concluding remarks

The overall representation of trends in financing trade by multilateral development banks during the calendar year 2015 is characterized by a marked retrenchment, driven by continuously weaker economic environment and persisting contraction of global trade flows. A few institutions on the contrary, experienced a rather strong take-up on direct programmes and support financing and education measures.

Overall, banks remain positive about the role of multilateral development banks and export credit agencies in addressing shortfalls, with 75% agreeing that MDBs (as well as the ECAs) help narrow trade finance gaps.

INTERVIEW

Trade facilitation and development

With the ICC's strong focus on supporting trade with emerging markets to foster economic development, [Vincent O'Brien](#), member of the ICC Banking Commission Executive Committee, is delighted to have had the opportunity to talk with [Yaw Adu Kuffour](#), Head of the Trade Finance Programme at the African Development Bank Group.

Our previous ICC Banking Commission Meeting in Johannesburg from 4 to 7 April 2016 was themed "Trade and Supply Chain Finance: enabling new trade corridors in and with Africa" – can you set the scene in terms of the current position and challenges facing Africa in terms of global trade and finance?

The markets of Africa are emerging developing markets with a huge dependence on open access to international markets where to a large degree primary commodities are the mainstay. Africa has been in a challenging position for quite some time, since the financial crisis but the challenges were becoming to a large degree manageable. Recent international events have compounded these challenges: Brexit creates uncertainty and uncertainty slows investment decisions and hinders signing off on trade market access agreements. We are also seeing a return to trade protectionist posturing by some leaders and potential leaders across the globe, the immigration problem in Europe can also be expected to have negative consequence for

remittances as a source of funds for the poorer developing countries in Africa. Europe which included the UK as part thereof, provided tariff free access to the least developed countries on the African continent. This is now all up in the air.

Simply put, trade is important everywhere but nowhere is trade development more critical today than in Africa, which we know has the world's highest proportion of low-income countries and yet accounts for only 3.3 per cent of global trade.

Let's be frank: slow export growth in most African economies is being exasperated by a rebalancing of the global economy. Just look at the changing the face of African trade as we speak. Possible recession in some of the key traditional export markets of Africa, low levels of growth, high unemployment and economic uncertainty persist across the European Union, China continues to grow but at a slower pace – and as just mentioned – Brexit!



Even the simple fact of the weakening of the Sterling has had an immediate negative impact on African exports.

If the expectation of global trade growth is subdued, then can you elaborate on the what Africa can do to counter these challenges?

We need to focus on intra-African and trade diversification while not losing sight of the supply chain connectivity Africa has already developed over the years with traditional markets. Stronger intra-African trade can act as a driver for growth. It is widely known that Africa's exports are 80% based on raw unprocessed commodities and 20% processed goods, intra-African trade accounts for 40% of the former and 60% of the latter.

For instance, looking back in time we can see that international trade was at the heart of the economic boom and internationalization that came from Asia. This trade expansion in Asia drove the creation of productive value added employment, in particular in manufactured goods, as developed markets, rightly in my view took advantage first of labour arbitrage and then benefitted further from the increasing sophistication of the production capacity that evolved in Asia.

While success in transforming an economy depends on your starting position it is clearly evident that larger numbers of higher quality jobs moved millions of South Korean and Chinese people out of poverty.

The current dynamic in Africa can provide a similar opportunity – we have the natural resource, we have the people, we have the talent – that is the opportunity!

I am not so sure I agree with you 100% on that point. For instance, when you look at the collapse in commodity prices which were and still are an African mainstay does the proposition of expanding trade really hold out that opportunity?

History has shown us that some of the best innovations have been borne, not from creative thinking but through necessity. In Africa we have necessity – but we also have the creative human resources to innovate.

Trade within the continent of Africa can be a driver of growth. More importantly, intra-African trade can also be the key to more equitable and sustainable growth right across the continent. But for that to happen we need to improve the physical infrastructure and work toward reducing the non-tariff barriers as well.

Think about it: Africa accounts for less than one per cent of manufacturing value added and imports a huge proportion of the manufactured goods that Africa consumes. Exports of primary commodities, which represent the bulk of the continent's trade, do not lead to the creation of so many productive jobs. Challenge and opportunity!

Of equal value, given the current external environment, building strong regional markets can help insulate developing countries within Africa from external shocks that are more frequently tending to emanate from the advanced economies. Strong and accessible regional markets also offer scope and opportunities for SMEs to expand their activities in these markets and benefit from economies of scale.

We can see that in terms of trade Africa has an open door policy with the rest of the World – now we need to be more effective in opening doors and connecting countries for trade within the African continent itself.

OK – point taken, but what can the African Development Bank do to advance this proposition: where does your Trade Facilitation Programme fit in, and what exactly can you hope to achieve?

We are not just hoping to achieve – we are demonstrably achieving.

First, the objective of the Bank is to promote sustainable economic growth in our member countries and by extension that means poverty reduction. As a trade specialist Vincent, you know that growth derives from trade and investment, so by facilitating trade we are targeting the essential first element of the growth equation. Facilitating trade as you know has a pretty much immediate and positive impact.

Second, the perception used to be that the trade finance market in Africa was sufficiently served by the commercial players. We now know from various studies, some of them articulated at your annual meeting in Johannesburg, that this is not the case and that there is a sizeable funding gap.

I am not going to blame everything on the 2008-09 financial crisis, but it was a negative tipping point.

What can we do at the AfDB you ask: Well It is part of our mandate to address market failure, and that implies that the TFP will go where the commercial market, which in reality means where commercial trade finance banks are unable or unwilling to go.

Right, so you have outlined where the AfDB is going but can you be more specific about how you are going to get there – I mean can you concisely explain how the trade facilitation measures actually work?

I am happy to do so. The TFP offers 3 complementary products core products: the Risk Participation Agreement which we call the RPA; the Trade Finance Line of Credit – the TFLOC; and The Soft Commodity Finance Facility – the SCFF.

Similar to the model developed by the other multilaterals such as the EBRD, the RPA is an unfunded facility. This is targeted at confirming banks that require capital relief to provide more support in confirming letters of credit coming from issuing banks in Africa.

Alternatively, the TFLOC allows AfDB to extend direct financing by way of advances to local banks specifically for trade finance. The local banks then extend finance to viable trade finance projects brought forward by their export and import customers.

The Soft Commodity Finance Facility – the SCFF is targeted at supporting export marketing entities and similar institutions engaged in providing agricultural inputs to local farmers. This one gets right down to the lowest level in the agricultural commodity supply chain and in doing so puts previously unavailable financial resources in the hands of the baseline mainstay commodity producers, the farmers.

This in turn supports the marketing of soft commodities such as coffee, cocoa and tea. As the bank is continually updating and innovating in the trade finance support structures I suggest that your ICC Banking Commission members occasionally visit: <http://www.afdb.org/en/topics-and-sectors/initiatives-partnerships/trade-finance-program/>

Thanks - that is now concise and clear. I can see how these targeted trade finance measures can help bridge the trade finance gap you mentioned. Can you elaborate on the size of this trade finance gap in Africa or is this just subjective guesswork?

At the AfDB we have been far from subjective in determining the trade finance gap in Africa.

Let me elaborate; The AfDB commissioned an African continent-wide trade finance survey, the results were published in December in 2014 and discussed with stakeholders in early 2015 and on an ongoing basis since then.

This objective study provided some insightful findings:

First, the survey revealed that the estimated value of bank-intermediated trade finance in Africa is between USD 330 billion and USD 350 billion. This represents roughly only one third of Africa's total merchandise trade which our friends at the WTO estimated at USD 1.29 trillion in 2014.

It is no surprise that most of this bank-intermediated trade finance is made up of documentary trade credit, notably confirmed letters of credit.

Second, it was also observed that the share of bank-intermediated trade finance devoted to intra-African trade represented only 18% (USD 68 billion) of the total trade finance assets of banks in Africa and quite surprisingly, that most of this financing was made up of trade loans rather than documentary trade facilities such as letters of credit.

Third, quite alarmingly the AfDB survey report revealed that the unmet demand for bank-intermediated trade finance is as high as USD 120 billion. This is significantly higher than previous estimates which were as low as USD 25 billion.

The gap is also bigger in fragile states and low-income countries than in middle-income countries.

Alarming indeed. Sitting here today doing this interview, can you spell out in a few words what you see as the primary headwinds holding back the advancement of trade expansion across Africa?

The external risk perception about Africa is still not very positive, and added to this is the growing cost of regulatory compliance to financial institutions. Basel III capital requirements and the ardent desire of global banks to avoid falling foul of various regulatory compliance regimes, whether in respect of capital adequacy or anti-money laundering, are constraining the availability of adequate trade finance support in Africa.

In advanced economies the bigger players 'de-risking' policies are having a negative impact. The negative consequences of these de-risking policies will be felt more severely over the medium term. It was good to see the IMF lead by Christine Lagarde in her address to the New York Fed on 18 July 2016 set out the challenges 'de-risking' and closure of correspondent relationship accounts are creating particularly in developing markets. The initiatives of the Financial Stability Board, the World Bank and other stakeholders such as the ICC must be commended in bringing together policymakers and the private sector to develop a shared understanding and possible solutions to these challenges.

Furthermore, it is no secret that the recent fall in the price of oil and other primary commodities is proving to be a significant challenge especially for oil-dependent export economies such as Nigeria, Angola, Congo and Gabon.

With such commodities predominantly priced in dollars and the price of the commodity at low levels then clearly dollar liquidity becomes a challenge.

You paint a challenging picture. Do you have specific figures on the actual impact of the fall in commodity prices?

Yes, off the top of my head I can provide you with headline figures.

The World Trade Organisation, by way of their International Trade Statistics 2015 indicated that Africa's total merchandise export fell by 8% in 2014 compared to 2013 – imports grew by a paltry 1%. As a result of the fall in Africa's key export commodity prices and other fiscal slippages, major African economies such as Nigeria, Angola, Ghana and South Africa are experiencing currency challenges.

This has left many local banks in these countries struggling to fulfil their trade finance commitments to international confirming banks. Despite the challenges the feedback from international commercial banks in terms of cooperation and final reimbursements are predominantly good news stories. Within this context, our Trade Finance Program has provided counter-cyclical support to local banks in Africa to help cushion the effects of foreign currency shortages.



Finally, despite the challenges you have articulated so well, you mentioned that in the medium term you are optimistic for the future. Can you in a few words explain why?

If we look around the globe, there is first of all consensus regarding the positive potential of Africa in terms of international trade. Starting at a comparative low level is a tough place to be, but there is only one way to go, and that is 'up'.

Clearly the stakeholders in the expansion of international trade finance are looking to Africa for the next big opportunity for trade expansion. Just look at the amazing turnout at your ICC Annual Banking Commission Meeting in Johannesburg – these serious trade finance people are not here by mistake – they can smell the coffee, not to mention the abundance of other commodities as well.

The African business mentality is also changing for the better. Despite the challenges the people are more empowered and geared up to take ownership of their future.

Dear Yaw – thank you for your insightful and open participation in this interview. The ICC Banking Commission is delighted to have you, your colleagues and the AfDB on board as our important partners in Africa.

You are welcome, Vincent. At the AfDB, we look forward to not only continuing but to enhancing the already excellent relationship with the ICC Banking Commission and in doing so facilitating the expansion of your good work in facilitating international trade across Africa.

NOTES

- 1 Constantinescu, Mattoo, and Ruta, 2016.
- 2 Hollweg et al., 2015.
- 3 Constantinescu, Mattoo and Ruta, 2016; Ahn et al., 2016; Melitz, 2003.
- 4 WTO, 2016b.
- 5 WTO, 2016c.
- 6 IMF, 2015; Bank for International Settlements, 2016.
- 7 Caruana, 2016.
- 8 Laeven and Valencia, 2012; Claessens et al., 2014; Bova et al., 2016; World Bank, 2015.
- 9 WTO, 2016b.
- 10 UNCTAD and OECD, 2016.
- 11 Real GDP growth is taken from the IMF World Economic Outlook database, while import volume growth is based on data from CPB Netherlands Bureau of Policy Analysis.
- 12 Freund, 2009; Abiad, Mishra and Topalova, 2014.
- 13 Constantinescu, Mattoo and Ruta, 2015.
- 14 Boz, Bussiere and Marsilli, 2014.
- 15 Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam and the United States.
- 16 WWF – http://wwf.panda.org/about_our_earth/deforestation/
- 17 AJG Simoes, CA Hidalgo. The Economic Complexity Observatory: An Analytical Tool for Understanding the Dynamics of Economic Development. Workshops at the Twenty-Fifth AAAI Conference on Artificial Intelligence. (2011).
- 18 Available online at <http://www.cisl.cam.ac.uk/business-action/sustainable-finance/banking-environment-initiative/news/bei-incentivising-trade-sustainably-produced-commodities>.
- 19 See: <http://www.iata.org/whatwedo/cargo/e/eawb/Pages/index.aspx>
- 20 Members include: China, Japan, Philippines, Chinese Taipei, Korea, Singapore, Hong Kong SAR, Macau SAR, Thailand, Indonesia and Malaysia. See: <https://paa.net>
- 21 A number of companies also provide electronic certificates of origin in various countries, like: eCertify, i2i solutions, etc. See: <http://www.iccwbo.org/chamber-services/trade-facilitation/certificates-of-origin/electronic-certificates-of-origin/electronic-co/>
- 22 See: <https://www.ippc.int/en/ephyto/>
- 23 See: <http://www.fao.org/news/story/en/item/281075/icode/>
- 24 Trade Trend Estimates Latin America and the Caribbean 2016 Edition – Update 1Q 2016 / Paolo Giordano, Kathia Michalczewsky, Alejandro Ramos. Inter-American Development Bank.
- 25 Trade and Integration Monitor 2015. Double-dip: Latin America and the Caribbean facing the contraction of world trade / Paolo Giordano, Alejandro Ramos. Inter-American Development Bank.
- 26 Trade Trend Estimates Latin America and the Caribbean 2016 Edition – Update 1Q 2016 / Paolo Giordano, Kathia Michalczewsky, Alejandro Ramos. Inter-American Development Bank.
- 27 Time to act: Latin America and the Caribbean facing strong challenges / coordinated by Andrew Powell. Inter-American Development Bank.
- 28 A Muslim charitable foundation created by an endowed trust fund.

CLOSING REMARKS

“The global trade finance report is an immensely useful tool that allows policymakers, regulators and international financial institutions to identify gaps in the availability of trade finance for local banks and their clients.”

SIR SUMA CHAKRABARTI
PRESIDENT, EBRD

The ICC Global Survey on Trade Finance 2016 is the 8th edition of this well-established and much anticipated yearly report on financing trade. One of the most comprehensive market intelligence publications, this unique report brings together industry actors from around the world to pool their knowledge and develop a valuable global view on the pressing issues of today in trade finance and beyond.

Continuously widening in scope and relevance, this year's edition looked at key developments in the trade and trade finance in Africa, growing relevance of forfaiting, digitisation of trade and its embracement by banks financing trade, as well as banks' undertakings with regards to sustainable trade finance. These insights were enabled with the knowledge, expertise and vision from our institutional partners, most of them contributing for the first time in this report, AfDB, EXX Africa, IFC, ITC, ITFC, ITFA, CISL and BEI, and essDOCS.

We take this opportunity to show the highest appreciation to our partners, survey respondent banks, sponsors and staff who contributed to the creation of this report. We also invite you to join your colleagues around the world to take part in the ICC Global Survey on Trade Finance 2017 and thus ensure the effectiveness of our shared efforts.

Thank you.

The ICC Banking Commission.

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