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Trade Finance and the Commonwealth*

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Contents

Executive Summary

There is very significant opportunity to expand both intra-Commonwealth trade, as well as the share of Commonwealth member countries' trade with the rest of the world. There is also a very substantial empirical literature which provides evidence for the importance of trade for the economic prospects of developing countries. Doing so offers the opportunity to increase income, promote learning, increase the diffusion of technical knowledge, expand employment, improve standards of living and contribute to structural transformation. Empirical evidence also points to a range of domestic and international policies which can be supportive of trade, including international trade rules which improve the prospects of the poorest, smallest and most vulnerable developing countries to sustain and expand trade, strengthening of domestic institutions, skills, technology and infrastructure to support trade, as well as the availability of trade finance.

2. The paper examines this latter ingredient – access to trade finance on affordable terms - in achieving an expansion in intra-Commonwealth trade; and in strengthening Commonwealth trade with the rest of the world. Trade finance is a neglected aspect of policy focus, yet an important element of modern trading relationships. With global trade estimated to aggregate in excess of $18 trillion, some 80-90 per cent of trade, or between $14.4 - $16.2 trillion, is covered by some form of trade finance, including letters of credit, open account and others instruments. Access by Commonwealth members to adequate, reliable sources of trade finance at reasonable cost is an active, not passive contributor to their prospects for growth and employment; and for the deepening of intra-Commonwealth economic relations. Adequate trade finance serves as an essential ingredient in sustaining trade flows during periods of economic volatility and downturn; offers the liquidity required to proactively expand trade in periods of growth; and is particularly crucial in supporting small, medium-sized enterprises (SMEs) in the tradable goods and services sectors in the poorest, smallest and most vulnerable developing countries.

3. Since the global economic crisis in 2009, trade finance flows have improved and a number of multilateral and regional institutions have instituted new mechanisms for the provision of trade finance. Initiatives by the IFC and multilateral development banks have been particularly valuable. Yet empirical evidence points to the presence of very significant gaps in the availability of trade finance, particularly for the poorest and smallest developing countries. A recent Asian Development Bank study for example signals a gap in unmet global demand for trade finance of $1.6 trillion. Given the scale of the challenge, concerted Commonwealth initiative will be needed, if trade finance gaps are to be narrowed in Commonwealth member countries.

4. The Commonwealth's poorest, smallest and most vulnerable countries, particularly the association's 32 small states and 15 least-developed countries, are most significantly impacted by challenges in access to adequate and cost-effective sources of trade finance. They are among the most open economies in the world and thus suffer disproportionately from global financial and trade volatility and during periods of global crisis. Their domestic

markets and institutions do not provide a sufficient range of instruments and mechanisms to secure trade finance on the scale needed to support steady state trade flows and to expand trade; and costs of trade finance are disproportionately high, limiting trade opportunities, impeding private sector development and particularly the development of SMEs in Commonwealth developing countries and limiting opportunities for growth and employment. Finding ways to expand access to sufficient, affordable sources of trade finance is a priority development challenge for these countries.

5. Improving trade finance in Commonwealth member countries can also provide the liquidity to catalyse intra-Commonwealth trade. Evidence of intra-Commonwealth trade patterns reveals an enormous untapped opportunity to expand trade. Successfully achieving this will require collective Commonwealth initiative inter alia to address domestic constraints to trade, including strengthened institutions, infrastructure and technology; but will not be able to succeed in the absence of additional sources of trade finance for the poorest, smallest and most vulnerable Commonwealth developing countries.

6. Commonwealth initiatives to strengthen access to trade finance can also contribute to structural transformation. The UN High-Level Panel on the Post-2015 Development Agenda identifies the transformation of economies for jobs and inclusive growth as one of five transformational objectives of the Post-2015 framework; and within this objective, the encouragement of open, fair and development friendly trade. Access to trade finance on affordable terms is crucial to the promotion of trade; and an important cog in the achievement of the Post-2015 development framework will be the identification of additional sources of trade finance, particularly for poor and small economies; and more concerted efforts to resolve gaps between the large demand for and absence of adequate supply of trade finance.

7. Both quantitative and qualitative analysis of the availability, sources, gaps and challenges in augmenting trade finance across the Commonwealth warrants both closer focus and improvement. There are substantial gaps in knowledge and data; yet several Commonwealth advanced and emerging economies have sophisticated and well-established markets and institutional knowledge which can support the broader members. The Commonwealth can promote collective Commonwealth initiatives to strengthen intra-Commonwealth trade and support the closing of trade finance gaps in the poorest and smallest countries. A short, focused programme of analytical and research work can be pursued, reporting to Commonwealth Finance Ministers in 2014. This can examine trade finance prospects and challenges more systematically, including the demand for and supply of trade finance within the Commonwealth, the nature, causes and extent of trade financing gaps, Commonwealth opportunities and strengths in enhancing trade finance and options for Commonwealth action to augment access to trade finance, particularly for the poorest, smallest and most vulnerable members.

Introduction

Important opportunities are available for Commonwealth members to expand trade, both within the Commonwealth and to the rest of the world. The opportunities are available to all members, notwithstanding heterogeneity of economic size and stage of development. Many ingredients are necessary in a successful collective endeavour to uplift pan-Commonwealth trade and in efforts to expand Commonwealth members' trade with the rest of the world, including improved and more responsive multilateral trade rules, capacity of trade policy makers to negotiate trade agreements, improving the effectiveness and enhanced resourcing of regional and national institutions responsible for trade promotion, and strengthened domestic policies, institutions, infrastructure, skills and technology. These have been the subject of interest Commonwealth discourse over several years.

2. One further element is also central to achieving a sustained expansion in trade: improving access to trade finance. Global trade is estimated to aggregate in excess of $18 trillion per annum, with trade finance underpinning between 80-90 per cent - or between $14.4 -$16.2 trillion of all trade flows globally. Trade finance intermediation provides immediate risk mitigation, provides cash flow and liquidity to both importers and exporters and is a primary source of foreign exchange for a very significant proportion of SMEs in seeking to finance their imports. Trade finance is characterised by low default risk, the absence of leverage, with maturities primarily short-term and with security provided by the underlying goods financed by the transaction. These characteristics have tended to remove trade finance from the detailed international policy focus characterising other forms of finance, particularly those amenable to leverage.

3. Yet by dint of its sheer scale and its crucial role in driving global trade, trade finance occupies a central position in determining economic policy outcomes. The absence of adequate sources of trade finance limits trade; and there is evidence to demonstrate that in periods of crisis, the absence of adequate trade finance can compound economic downturns. By contrast trade finance can reduce volatility, limit the economic and other consequences of sudden and unexpected shocks and provides a crucial source of liquidity and foreign exchange to SMEs, themselves a critical engine for income, output and employment in most developing countries. Through these channels, trade finance contributes to achieving higher levels of income, growth, employment.

4. This paper examines trade finance in a Commonwealth context. The first part briefly examines the importance of facilitating trade itself, particularly in the context of the post-2015 world; considers the empirical effects of the role of trade finance in promoting trade and growth, with recent evidence suggesting that augmenting trade finance can contribute to growth and job creation; and considers the opportunities – hitherto untapped – to expand intra-Commonwealth trade. Adequate and affordable sources of finance will be crucial to achieving this, particularly for the Commonwealth's poorest and smallest developing countries. The second part focuses on trade finance, examining its composition, identifying the major providers of trade finance and considering trends in the provision of trade finance since the global financial crisis in 2008/2009. The section then considers the extent of unfilled demand for trade finance and the constraints faced by Commonwealth developing countries

in accessing trade finance. The third section briefly outlines options for Commonwealth action to address persistent gaps and the final section concludes.

Facilitating Trade in the Post-2015 World

5. Commonwealth members, including the associations' poorest, smallest and most vulnerable developing countries are individually and collectively engaged in contributing to the ongoing global discussion on a post-2015 development framework, with the overarching goal of achieving a sustainable framework which can help eradicate poverty and achieve higher levels of growth. The report of the High Level Panel on the post-2015 development agenda discusses a number of transformational shifts as objectives in the post-2015 framework: (i) leave no one behind, (ii) put sustainable development at the core, (iii) transform economies for jobs and inclusive growth, (iv) build peace and effective, open and accountable institutions for all, and (v) forge a new global partnership.

6. With respect to the shift to "Transform Economies for Jobs and Inclusive Growth", the Panel that prepared the report calls for a "quantum leap forward in economic opportunities and a profound economic transformation to end extreme poverty and improve livelihoods. This kind of inclusive growth has to be supported by a global economy that ensures financial stability, promotes stable, long-term private financial investment, and encourages open, fair and development-friendly trade."

7. The report does not discuss the role of trade in detail but trade is a fundamental way to enable this transformation, through more efficient allocation of economic activities, providing valuable financial resources and enhancing productivity. A range of careful empirical studies provide evidence for the importance of trade for economic prospects in developing countries. There is evidence to suggest that greater 'openness to trade' – measured as the volume of trade (imports and exports) as a share of GDP – is associated with greater economic incomes (Sachs and Warner, 1995). Wacziarg and Welch (2008) examined 141 liberalisation episodes, comparing growth before and after liberalisation and found that the impact of trade liberalisation on growth was substantial, even after controlling for several other determinants of growth. Per capita growth of liberalising countries was around 1.5 percentage points higher than before liberalisation. Brückner and Lederman (2012) suggested that trade openness causes economic growth in Sub Saharan Africa: a 1 percentage point increase in the ratio of trade to GDP is associated with an annual increase of 0.5 per cent in growth year in the short-run and an annual 0.8 per cent in the long-run.

8. Export growth promotes learning and the diffusion of technical knowledge (Grossman and Helpman, 1991; Chuang, 2000). Dutz et al. (2011) use a sample of more than 26,000 manufacturing establishments across 71 countries (both developed and developing) and find that firms that export are significantly more likely to engage in R&D and innovation, and have higher total factor productivity. The type of exports matters. Econometric evidence on the sophistication of exports developed by Hausmann et al. (2006) suggests that developing countries which have exported goods closer to the productive structures of more developed economies, such as manufactured goods, have tended to grow faster than others.

9. Given the potential benefits of trade, it is important that a range of domestic and international policies are supportive of trade. Of course, better international trade rules help. Laborde et al (2011)[1] estimate that the welfare gains for developing countries from the tariff reductions suggested in the Doha WTO round will be $70 billion per year. Policies to improve customs procedures could lead to gains of hundreds of billions globally and about $6 billion in sub-Saharan Africa, while improvements in port efficiency could lead to even greater financial gains. But the binding constraints to trade can also be domestic, in the level of capabilities including skills, technology or infrastructure; or in the availability of trade finance. Given the importance of trade finance for modern trading relationships a financial crisis, volatility in the availability of finance or simply weak financial development can constrain trade and hence the benefits this offers.

Expanding Trade – Opportunities for the Commonwealth

10. There are major, unexploited opportunities to expand both intra-Commonwealth trade and Commonwealth trade with the rest of the world. Doing so can help Commonwealth countries improve their prospects for achieving their Millennium Development Goals in the remaining period to 2015; can help contribute to their attainment of the Post-2015 development goals and can help promote growth, employment and improved living standards, while strengthening the Commonwealth and its international role and influence. In turn, expanding the availability of trade finance, particularly to SMEs and other private sector enterprises in the Commonwealth's poorest, smallest and most vulnerable countries will be a crucial component in any concerted collective Commonwealth endeavour to expand trade.

11. Recent trade data reveal the extent of unfulfilled opportunity for intra-Commonwealth trade. In 2011, the Commonwealth states exported $413 billion worth of goods to other member countries, representing only 16 per cent of their total exports (ITC, 2013). Moreover between 2007 and 2011 intra-group exports among the Commonwealth States remained in the range of 16–18 per cent, resulting in no substantive expansion of intra-Commonwealth trade. This is despite the presence of abundant opportunities to leverage the opportunities derived from Commonwealth membership, inter alia a common language, common values, often reinforced by similar regulatory and legal systems, historical trading relationships and notwithstanding the concentration of large numbers of Commonwealth members in the Caribbean, Sub-Saharan Africa, South Asia and the Pacific regions.

12. Beside the low level of trade dependence among Commonwealth members, several other factors point to the strong opportunities for deepening intra-Commonwealth trade. Firstly Commonwealth developing countries have become important as export destinations. They offer significant opportunities for the expansion of exports by both Commonwealth developed and developing countries. For example in 2011 Commonwealth countries in their trading relationships with other Commonwealth members exported mainly to Commonwealth developing countries, with an export value of $253 billion, accounting for approximately 25 per cent of their total exports towards all developing countries. The relative importance of the developing country group as a destination for Commonwealth exports is

[1]http://econ.worldbank.org/external/default/main?pagePK=64165259&piPK=64165421&theSitePK=469382&menuPK=64216926&entityID=000158349_20110606144538

also growing, with the share of Commonwealth exports to developing countries progressively increasing from 59 per cent (2007) to 61 per cent (2011).

13. Secondly, intra-Commonwealth trade is currently concentrated at a regional level, with Commonwealth members preferring to establish trade relations among regional neighbours who are also Commonwealth members. Yet the opportunity to develop intra-Commonwealth trade among more distant Commonwealth members and regions has thus far not be pursued, despite the commonalities of Commonwealth membership and the fact that all regions in which the Commonwealth has substantial concentrations of membership include a large number of members who are net importers.

14. Thirdly, even within intra-Commonwealth regional trade relationships, there is abundant scope to expand intra-Commonwealth trade: while smaller economies within a regional setting are net importers, their larger Commonwealth neighbours are also net importers, offering scope for the former group to diversify their export bases even within their respective regions.

15. Fourthly, there is significant scope for the promotion of Commonwealth trade by several advanced Commonwealth economies. Recent intra-Commonwealth trade data shows that while the absolute values of these countries' exports to other Commonwealth countries are among the highest in the Commonwealth, in comparison with other Commonwealth countries, their share of total trade directed to other Commonwealth members is among the lowest, with trade relations focused predominantly on trade with the rest of the world.

Trade Finance

(i) Components of Trade Finance and Major Providers

16. The global market for trade finance is very substantial indeed. In 2009, global trade finance was estimated at approximately $10 trillion (Auboin, January 2009); and this figure has grown since the crisis. Global trade is currently estimated at approximately $18 trillion. The World Trade Organisation estimates that about 80 to 90 per cent of trade transactions involve some form of credit, insurance or guarantee. (WTO, 2013). This suggests a contemporary global market in trade finance of approximately $14-$16 trillion. These trade credit, insurance and guarantee products help to turn export opportunities into actual sales and payments for exports, by effectively managing the risks associated with doing business internationally.

17. A recent survey conducted by the Asian Development Bank (ADB), provides further useful contemporary estimates of the aggregate extent of trade finance (global and regional) provided by international banks which offer trade finance facilities and which are partners with the ADB in the provision of trade finance. The study, conducted in the final quarter of 2012 surveyed 147 banking institutions that are partners of the ADB's Trade Finance Programme and 500 institutions which utilise the finance offered by the programme suggests that these banks alone provide approximately $3 trillion in trade finance. Total demand for trade finance from the banks which responded to the survey aggregated $4.6 trillion, with $1.6 trillion of this rejected for financing by these banks and the balance provided to the

relevant institutions. These figures exclude trade finance provided by other international banks to regions other than Asia.

18. It is these sources of trade finance which have driven the enormous growth of international trade in recent decades. Typically trade finance reconciles the divergent needs of exporters and importers; and comprises trade credit and insurance/guarantees, mostly of a short-term nature which mitigates the business risks between importers and exporters in international trade.

19. Several forms of trade finance are in use, including letters of credit arranged between the banks of purchasers and sellers; cash-in-advance, for example upfront wire and credit card payments by purchaser to seller; documentary collections, with remitting and collecting banks exchanging documents required for the transfer of title to the goods and implementing instructions for payment; and open account transactions, in terms of which goods are shipped in advance of payment. It is estimated that over 80 per cent of global trade is conducted on an open account basis (Trade Finance Magazine)[2].

20. Trade finance is provided by multilateral, regional, domestic and private institutions. **The major multilateral provider is the International Finance Corporation (IFC)** which provides trade finance through its Global Trade Finance Program (GTFP). The programme offers banks partial or full guarantees to cover payment risk on banks in the emerging markets. These guarantees are transaction-specific and apply to letters of credit; trade-related promissory notes and bills of exchange; bid and performance bonds; advance payment guarantees; suppliers credits for the import of capital goods. According to its website, the programme reached $5 billion. The programme is global in scope with 265 issuing banks across 94 developing countries.

21. **The IFC also supports the Global Trade Liquidity Programme (GTLP).** Accessible to the same client countries, GTLP began its operations in May 2009, channelling funds to support trade in developing countries. Phase 2 was launched in January 2010 to support trade finance directed at the food and agribusiness sectors. The programme was extended in January 2012 to continue to stabilise and foster trade and commodity finance with emerging markets. The IFC's initial commitment to the programme is $1 billion.

22. **Regional development banks are also active in the provision of trade finance.** Four among these are particularly substantial:

- The trade finance programme at the **Asian Development Bank (ADB)** provided support for $4 billion in transactions in 2012. This is the result of a sharp rise, from $7 million in 2004. With a client base of 90 developing country banks in 18 Asian countries, ADB's trade finance programme offers credit guarantee, risk participation agreement and revolving credit facility depending on the risks and composition of the trade that is involved.

- The **European Bank for Reconstruction and Development (EBRD)'s** trade facilitation program has almost doubled since the aftermath of the 2008-9 financial crisis to €1.5

[2] http://www.tradefinancemagazine.com/AboutUs/Stub/WhatIsTradeFinance.html

billion and the programme has supported a total transaction up to €8.2 billion since 1999. It can guarantee any genuine trade transaction to, from and between the countries of operations with a large range of products. (See appendix A).

- The **African Development Bank (AfDB)'s** Trade Finance Initiative Program commenced in March 2009 with a total of $1 billion and provides particular support to African financial institutions aimed to facilitate their own trade finance operations. The programme currently serves 101 issuing banks in 22 countries and has products such as Risk Participation Agreement (RPA), Trade Finance Line of Credit (TFLOC) and Soft Commodity Finance Facility. More recently, in March 2013 the AfDB launched a new and more ambitious Trade Finance Programme, detailed later in this paper; and is planning to expand this initiative to a $10 billion trade finance programme by 2015.

- **The Inter-American Development Bank's Trade Finance Facilitation Program (TFFP)** currently comprises a network of 231 Confirming Banks from 87 different international banking groups, and 67 Issuing Banks in 18 Latin American and Caribbean countries, with more than $1.16 billion in approved credit lines. To date, the Inter-American Development Bank (IDB) has provided loans and issued guarantees for over $750 million in support of about 1000 individual trade transactions of more than $1 billion.

23. **National development banks and Export Credit Agencies** tend to have a strong bias in promoting their own domestic firms and their exports. There are many non-Commonwealth examples, including for example the Export-Import Banks of the United States and China.

24. Within the Commonwealth, there are a wide range of Export-Import Banks as well as several Export Credit Agencies. Depending on their size and scope of operation, these institutions commercial and standby letters of credit, loans for imports and exports, insurance and guarantees. Several Commonwealth members have national agencies with very significant portfolios, expertise, market knowledge and capacity to finance. These include, for example the ECGD (UK), EFIC (Australia), Exim Bank of India, Export Credit Insurance Corporation (South Africa), Export Development Corporation (Canada), Export-Import Corporation of Singapore; and the Nigeria Export-Import Bank.

25. An illustrative list of some Commonwealth Export Credit Agencies and institutions is provided in Appendix B. Analysis of the agencies reflected in the sample listing highlight several preliminary features in regard to institutional coverage for export finance across the Commonwealth:

- The largest Commonwealth members have significant, diversified national institutions for the promotion of trade, including particularly for export promotion. These provide financing for a wide range of trade financing services, to a very wide range of destinations.

- Few of the Commonwealth's small states have national institutional mechanisms to promote exports. In several cases the predominant institutional suppliers comprise commercial banks.

- In several Commonwealth developing countries, facilities are housed in or under the auspices of Central Banks. Few among these appear to comprise dedicated, full-service and autonomous agencies focused on trade and particularly export promotion through the provision of export finance.

- There also appears to be little if any formal coordination among Commonwealth agencies, in the provision of trade finance, or the pooling or sharing of risk. In several instances, national export credit agencies do combine with other agencies in the provision of finance for specific projects, but this is in the context of project finance, rather than in the context of pooling resources specifically for trade finance. Hence for example the recent financing of Papua New Guinea's LPG programme was supported by commitments by the Exim Banks of Australia, the US, Japan and China.

26. Preliminary evidence across the Commonwealth is thus surprising, revealing a predominant focus on national export promotion objectives, with little institutional incentive to co-finance, create risk-pooling and risk-sharing mechanisms or other forms of pan-Commonwealth institutional support for trade finance to promote pan-Commonwealth trade. If pan-Commonwealth trade is to be effectively promoted and if trade finance is to be augmented in support of this objective, it is clear that more detailed analysis will be required to determine opportunities for more concerted collaboration in enhancing trade finance within and across the Commonwealth.

27. **Commercial banks** also provide significant sources of trade finance. However they publish little data on the amount of finance they provide due to commercial reasons. Citigroup, J.P. Morgan and ING Commercial Banking are among the many commercial banks which provide trade finance. Citigroup's Trade Services and Finance programme has a client base of 15,000 corporations and financial institutions in over 70 countries. ING commercial banking has a network of offices in 65 countries and provides trade finance through their international trade and export finance group. J.P. Morgan's Trade Solution programme provides some information on their programmes including bilateral and Multilateral Agency-backed Finance, limited Recourse Export-backed Finance, private Sector Insurance, project-Related Finance Structures, silent Trade Payment Guarantees, secured Receivables Finance, supplier-driven Medium and Long-Term Finance Structures, syndicated, Medium and Long-Term Trade Related Loans and working Capital Guarantee Program/Export-Import Bank.

28. **Emerging Potential Sources:** Trade finance provision to developing countries has expanded in recent years, driven particularly by the expansion of facilities by the multilateral agencies and regional development banks. This has improved the range and size of available trade financing. However demand has far exceeded increased supply. One response in seeking to address these challenges, as well as the challenge in meeting additional demands for infrastructure and long-term infrastructure financing, has been the escalating interest in establishing new plurilateral infrastructure and trade finance institutions. Two new recent developments point to the increasing diversification of sources of trade and infrastructure financing, to meet surging demand, particularly among developing countries.

29. A first initiative comprises the announcement in 2012 of the launch in 2015 of a new development bank, by the governments of five countries, including two Commonwealth countries (India, South Africa, Brazil, Russia and China). While no details have emerged regarding the specific products and scope of operation of the new BRICS Bank, the recent announcement at the St. Petersburg Summit in September 2013 that the bank will be capitalised at $100 billion and will help to stabilize and expand local currency settlement and loan operations, as well as strengthen important investment projects, promote financial cooperation, capital market cooperation, and information exchange, signals intent to fill significant financing gaps among these countries. Trade finance is closely linked with the provision of infrastructure finance; and is expected to represent an important component of the new banks' operations, promoting trade finance flows both in these countries and in countries in which the BRICS members direct infrastructure financing.

30. Secondly, the African, Caribbean and Pacific Group of States (ACP) has conducted detailed analysis of the feasibility of an ACP Investment Bank, with an estimated capitalisation of $1 billion. The feasibility study is extensive and emphasises the benefits to be gained from collective country action, information sharing and risk pooling.

31. Both initiatives signal the emergence of a new and additional approach to development financing, including the provision of trade finance and the acceleration of product and institutional innovation in seeking solutions to address bourgeoning demands for development finance.

Questions and Issues for Senior Finance Officials

There are a wide range of national, regional and international sources of trade finance and risk mitigation coverage.

- From your experience how widely accessible are these to you?
- Which are the main sources of supply of trade finance and who are the main beneficiaries in your country?
- Are the terms affordable?
- What if any limitations are being experienced in securing trade finance?

(ii) Trends in Trade Finance

32. The provision of trade finance has varied significantly since 2008. Over the course of 2008 the overall liquidity squeeze in global financial markets began to impact the supply of trade credit, with refinancing increasingly difficult, and lending affected by the general re-assessment of risk linked to the worsening global economic climate. Spreads on short-term trade credit facilities increased to 300 to 600 basis points above LIBOR, compared to 10 to 20 basis points in normal times. In November 2008, a market gap emerged among the largest suppliers of trade finance, estimated by the main private Wall Street banks to be around $25 billion in November 2008 – out of a global market for trade finance estimated at that time of some $10 trillion a year; and large banks reported on several occasions that the lack of

financing capacity had rendered them unable to finance trade operations. For example, a $1 billion bilateral trade contract between the US and China was dropped due to a lack of finance. (Auboin, January 2009). Subsequently, the liquidity problem spread to developing countries, which account for one-third of world trade. These countries faced similar challenges in opening letters of credit and other trade financing instruments in their local markets. According to a survey conducted jointly by the IMF and the Banker's Association for Trade and Finance, flows of trade finance to developing countries declined by some 6 per cent or more year-on-year.

33. Early in the crisis the G20 recognised the importance of trade finance in supporting trade and global economic activity; and in helping avert a more precipitous immediate decline in global economic output. At its Summit meeting in 2009, the G20 committed to ensure the provision of $250 billion in additional trade finance. The G20 trade finance initiative was intentionally designed to be a broad and flexible framework capable of responding effectively to market gaps affecting global and regional trade flows. The G-20 trade finance package consisted largely of guarantees provided by export credit agencies and multilateral agencies against commercial and political risk of trading transactions. The packages restored confidence and stabilized trade finance markets fairly rapidly and have largely been viewed as successful.

34. In 2009 several other complementary initiatives were also taken to support trade finance.[3] Firstly, **regional development banks and the IFC enhanced their trade facilitation programmes:** the IFC from $1.5 billion to $3 billion, the Inter-American Development Bank (from $0.5 billion to $1 billion), the EBRD (from $1 billion to $2 billion), and the Asian Development Bank (from $0.4 billion to $1 billion). This brought the total capacity to $7 billion on a roll-over basis, financing potentially approximately $30 billion of trade involving developing countries and with an average value per transaction of $250,000.

35. **Secondly, central banks in countries with large foreign exchange reserves increased their repurchase agreements, supplying foreign exchange to local banks and importers through these instruments**. For example Brazil's central bank provided $10 billion to the market in 2008/2009. The Korean central bank pledged $10 billion of its foreign exchange reserves to do likewise; and within the Commonwealth, several central banks, including the Reserve Bank of India and the South African Reserve Bank expanded repurchase operations.

36. **Thirdly, national export credit agencies increased their exposure**, with programmes for short-term lending of working capital and credit guarantees aimed at small and medium enterprises. Over time, other forms of cooperation have developed among export credit agencies, with support, for example, recently expanding to help promote regional trade, in particular chain-supply operations. To this effect, a recent APEC summit announced the establishment of an Asia-Pacific Trade Insurance Network to facilitate intra- and extra-regional flows and investment through reinsurance cooperation among export credit agencies in the region. Japan's NEXI is establishing itself as the leader and main underwriter of this collective re-insurance system. The US and China agreed that their respective import-

[3] http://www.voxeu.org/article/challenges-trade-financing

export banks would make an additional $20 billion available for bilateral trade, and the US and Korea made a similar commitment for $3 billion. Chauffour and Saborowski (2010) note that export credit agencies (ECAs) played an important role in preventing trade finance markets from drying up completely during the 2008/9 financial crisis. Yet as we note further below, most Commonwealth developing countries do not have ECAs or other similar institutions and for these countries, particularly those dependent on external finance, trade finance shortages have continued to persist.

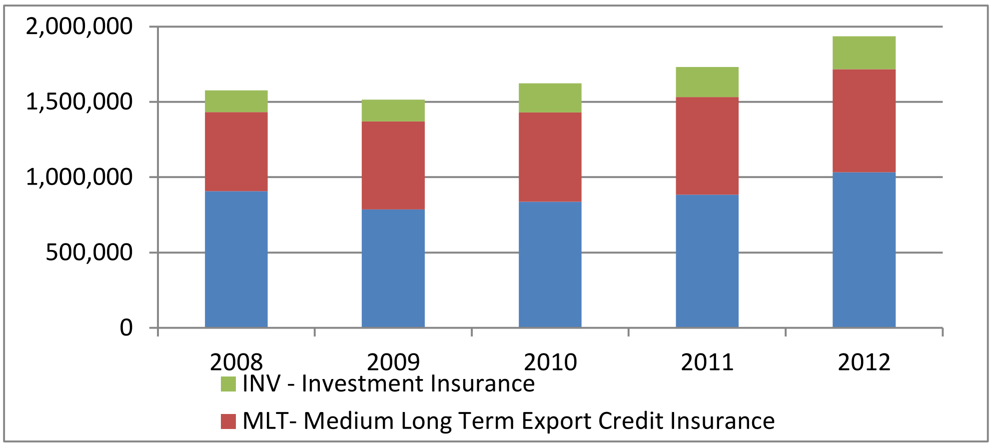
37. The responses to the 2009 crisis and subsequent developments demonstrated the capacity of larger advanced and dynamic emerging market economies to respond to significant global downturns, through collective action and through the responsiveness of their national export-import and other institutions. As a result, these economies were able to fill critical gaps in trade finance utilising the facilities provided in 2009. For the larger group of poor, small and vulnerable developing countries, however, including many Commonwealth members, the benefit of these facilities was more muted.

38. In 2011 the G20 requested the WTO to produce a report on Trade Finance, particularly assessing the impact of the trade finance measures instituted in 2009 at the height of the crisis. The report from the WTO Expert Group on Trade Finance to the G-20 (2011) revealed that **only a third of the 60 poorest countries in the world benefited regularly from the services offered under the newly established trade finance programmes.** The lack of risk mitigation programs in these countries partly explained the very high fees and collateral requirements paid by local importers. Such high fees were out of line with risk statistics revealed by the International Chamber of Commerce's loss default register on trade finance (According to the ICC "trade finance loss register", the average default rate on short-term international trade credit is smaller than 0.2 per cent, of which 60 per cent is recovered). This suggested a gap. The WTO Expert Group on Trade Finance further confirmed that many small businesses in small countries have limited financial sector capacity to oil trade were increasingly requesting support from multilateral development banks. [4]

39. Subsequent to 2009, trade finance patterns have varied, improving progressively but marginally. Several sources of information on global trade finance trends are available, including the ICC Banking Commission, the Berne Union - the organisation of export credit insurers - and Dealogic, a private institution tracking trends in global trade finance. For example, statistics released by Berne Union (July 2013), provides an overview of the level of overall exposure by its members between 2008 and 2012, with the volume of short term export credit insurance, a proxy for short term export credit and hence one component of trade finance, recovering since 2008 and has beginning to exceed pre-crisis levels.

[4] http://etraining.wto.org/admin/files/Course_365/CourseContents/TF-R1-E-Print.pdf

Figure 3: **Berne Union members' exposure at year end (USD millions)**



Source: Berne Union Statistics 2008-2012 last updated July 22nd 2013

40. Yet while trade finance flows have resumed an upward trend, recent industry surveys point to the persistent of significant challenges impeding the more prompt resumption of pre-crisis rates of expansion in trade first. Two among these are particularly challenging:

41. **Firstly, deleveraging brought about by the sovereign debt crisis in the Eurozone**, has reduced an important source of supply of trade finance. Many Eurozone banks have sold bank assets, including trade finance assets, thereby removing significant sources of supply of trade finance. The extent of deleveraging is highlighted by the IMF, which indicate that European banks could shrink their balance sheets by $2.8 trillion by end-2013. The ICC Banking Commission highlights the significant adverse impact of these developments on prospects for the global supply of trade finance, while also noting that US and Asian banks are nevertheless expanding their trade finance activities; and that multilateral development banks are also expanding the supply of trade finance, particularly to developing countries.

42. **Secondly, the emerging Basel III regulatory framework is also being increasingly held responsible for the limitation on the expansion of global trade finance supply**, with greater regulatory compliance cited as prompting reduced profit margins among financial institutions, including those active in supplying trade finance.

43. In conclusion, experience from the 2008/2009 financial crisis, with its spill-over effects on trade finance and the policymakers' reaction to it, shows that measures to strengthen the supply of trade finance were coordinated; and recognised the immediate importance in providing liquidity to sustain global trade. A 2011 review of the benefits of the trade finance package announced by the G20 illustrated the limited extent to which these resources were able to be utilised by the poorest developing countries. And subsequently the international banking system has yet to fully recover and challenges in accessing trade finance remain.

(iii) Gaps in Trade Finance

44. **The availability of trade finance data at a country level is limited, particularly for developing countries,** as it is difficult to obtain quantitative information on the extent to which the availability of letters of credit for developing country traders has increased or decreased. However evidence from several recent surveys in developing countries, including Commonwealth developing countries, using proxy measures to estimate trade finance, suggests the presence of very significant gaps, representing unmet demand for trade finance.

45. **A recent International Chamber of Commerce (ICC) survey point to the presence of very substantial unfilled gaps in demand for trade finance.** The ICC (2013) survey provides a recent summary of global and regional trends in trade finance. It argues that whilst there are signs that more trade finance is available, the reported global increase is marginal. The shortage of trade finance for international trade remains a major challenge for economic recovery and development. The study finds that to finance exports and imports traders, especially SMEs in emerging markets, continue to rely on loans in local currency or overdrafts, restricting their ability to trade. The survey poses a large number of questions and finds inter alia that a large gap remains in the market for trade finance and risk coverage; Know Your Customer Principles are seen to be hampering the smooth flow of trade finance; the implementation of Basel III regulations is to some extent or a large extent affecting the cost of funds and liquidity for trade finance. At the same time, documented losses on trade finance products remains low, signalling the opportunity to scale up supply at little risk.

46. **Also using a survey, the Asian Development Bank (March 2013) finds inter alia that there is an unmet global demand for trade finance worth $1.6 trillion in trade.** The survey also identifies a gap in trade finance in developing Asia of $425 billion. This is an enormous gap, illustrating a very significant opportunity loss to trade enhancement in the region. With the region including as it does several Commonwealth developing countries whose economies can gain significantly should augmented and new sources of supply emerge to fill existing gaps, it also represents a substantial potential opportunity for both regional and collective Commonwealth action.

47. **The ADB survey also provides evidence of the impact of trade finance on production and employment.** Institutions receiving trade finance through the ADB's Trade Finance Programme indicate that an increase of 5 per cent in the availability of trade finance would enable these enterprises to raise production and employment each by 2 per cent. The finding, which provides direct empirical evidence to link the availability of trade finance to increased output, economic growth and job creation, is of particular importance to the Commonwealth: if trade finance gaps can be narrowed or closed and underlying trade facilitated as a consequence, employment and production can be significantly spurred. The opportunity is particularly tangible, as historical evidence demonstrates that underlying risk in trade finance transactions is low. Finally, the survey also finds that the trade finance programmes of multilateral development banks help fill trade finance gaps, both globally and in Asian developing economies.

48. **Trade finance gaps are also large in other Commonwealth regions.** A detailed analysis of trade finance gaps in member countries of the ACP group of countries, for example, provides detailed insights into the trade finance gaps in the ACP region. [5]

49. **The study estimates the size of the trade finance gap in Sub-Saharan African countries at approximately $225 billion per year.** Key constraints in filling this gap include the availability, cost and tenors of facilities, particularly during periods of crisis; strong external dependency on sources of trade finance; vulnerability to crisis; high costs; and the limited institutional capacity of local players. The study notes that regional institutions are increasing their trade finance programmes, although an enormous financing gap remains.

50. Evidence of unmet demand is also supported by the significant and ongoing expansions of regional development bank trade finance programmes. In Sub-Saharan Africa the AfDB approved a new Trade Finance Program (TFP) in February 2013. The $1 billion initiative extends credit to African financial institutions and is expected to support over $10 billion in trade volumes over four years. Five transactions totaling $520 million have already been processed, of which two are risk participation agreements with Standard Chartered Bank and Commerzbank for which the AfDB is contributing, respectively, $200 million and $100 million to be matched by these two partners.[6]

51. The AfDB has also initiated a $20 million Trade Finance Line of Credit for UT Bank Ghana (UT Bank) to support the trade finance activities of Small and Medium Enterprises (SMEs) and local corporates in Ghana.[7] The facility will foster financial sector development and enhance regional integration through intra-African trade. It is expected to facilitate $140 million of trade in raw materials, intermediate and finished goods, and equipment to support economic growth in Ghana. The AfDB can provide UT Bank with medium term resources that are not currently readily available in the trade finance market.

52. **The ACP study estimates trade financing gaps among Pacific ACP members, including many Commonwealth members, at approximately $1.4 billion.** However the study emphasises the paucity of available data. Improved country and regional data is clearly needed to better understand both the size and causes of trade finance gaps; and institutional, capacity and resources needs to address these gaps.

53. **There also remain significant gaps in access to information on financing gaps in Caribbean countries.** The ACP study for example, finds that a crucial constraint comprises access to available resources, driven particularly by a lack of knowledge of their availability. SMEs in the region face particular challenges in accessing trade finance.

54. In regard to the challenges in securing adequate and affordable trade finance, recent survey studies also highlight a number of needs in developing countries, inter alia including: reducing the cost of trade finance; improving the availability of trade finance to the smaller,

[5] http://www.acp.int/sites/acpsec.waw.be/files/ACP%20BANK%20-%20EXECUTIVE%20SUMMARY.pdf

[6] http://www.afdb.org/en/news-and-events/article/transforming-africas-trade-finance-industry-what-next-11930/

[7] http://www.africabusinesscommunities.com/index.php/rss-abc-news/202105-afdb-approves-a-usd20m-trade-finance-line-of-credit-for-ut-bank-ghana-to-support-smes-and-local-corporates

less experienced businesses that currently do not meet the criteria of commercial banks; improving access to trade finance for women in business and for businesses operating in outlying regions; providing further education for businesses to help them access trade finance; and advising and assisting in improving the regulatory environment. The ACP study encourages the establishment of a new institutional mechanism to provide these facilities and the ACP itself is considering launching a $2 billion ACP Investment Bank, which is inter alia proposed to provide trade finance facilities to member countries.

55. Evidence from recent survey studies highlights four sets of considerations in considering pathways for more concerted Commonwealth action in promoting trade finance within the association:

56. **Firstly, there are significant gaps in trade finance, but country-specific data is relatively poor.** Improving the evidence base through a programme of data collation can support specific subsequent action by the Commonwealth to address gaps.

57. **Secondly, a diversified range of factors underpins the absence of or inadequacy of supply.** Better understanding these will also help support focused initiatives to improve trade finance flows within the Commonwealth.

58. **Thirdly, as noted earlier there is escalating evidence that regional as well as plurilateral institutional mechanisms are being expanded and considered, respectively**, to pool financing, reduce risk and drive down trade finance costs.

59. **Fourthly, the extent to which trade financing gaps are persisting in the poorest and smallest developing countries highlights the presence of structural and other factors** impeding the development of trade finance markets in these countries; and the need for a multi-faceted response. Indeed Auboin and Engemann (January, 2013) consider that long-term challenges remain in addressing the structural gaps in the availability of trade finance in low-income countries. They note that ad hoc programmes have been designed to fill the gap between the perceived and actual risk of extending trade credit to traders in these countries; and that at the firm level, structural difficulties in the most challenging markets vary across different types of firms:

- Large corporates using the trade services of large banks in both developed and developing countries have been benefitting from higher volumes of finance and lower costs
- Smaller but well-managed corporations using the services of tier one local banks have also been in a position to benefit from the recovery of trade demand, to the extent that such local banks had stepped back into trade finance
- A third group comprising small businesses in small countries having limited financial sector capacity to "oil" trade; and has increasingly been requesting support, in particular from regional development banks and the IFC.

60. In conclusion, traders in low-income countries face the greatest problems to obtain affordable finance for international transactions. Regulation of the trade finance market needs to continue to take into account its low-risk character, the absence of leverage and its

impact on development. The availability of data on trade finance requires improvement, in order to enable policy-makers and institutions to better assess the status of the trade finance market. Moreover, notwithstanding significant increases in multilateral and regional bank provision of trade finance, there remain very significant gaps in the availability of trade finance in the poorest, smallest and most vulnerable developing countries. The persistence of these gaps will prevent these countries from expanding trade and deriving the employment, income and growth-related gains from trade. Within the Commonwealth, the persistence of trade finance gaps, particularly in the poorest and smallest developing countries runs the risk of circumscribing the significant opportunities which exist to expand both intra-Commonwealth trade and Commonwealth trade with the rest of the world.

Questions and Issues for Senior Finance Officials

Significant gaps exists between demand for trade finance and its supply. A recent estimate by the Asian Development Bank suggests a global gap of approximately $1.6 trillion, with $425 billion of this gap in Asia alone.

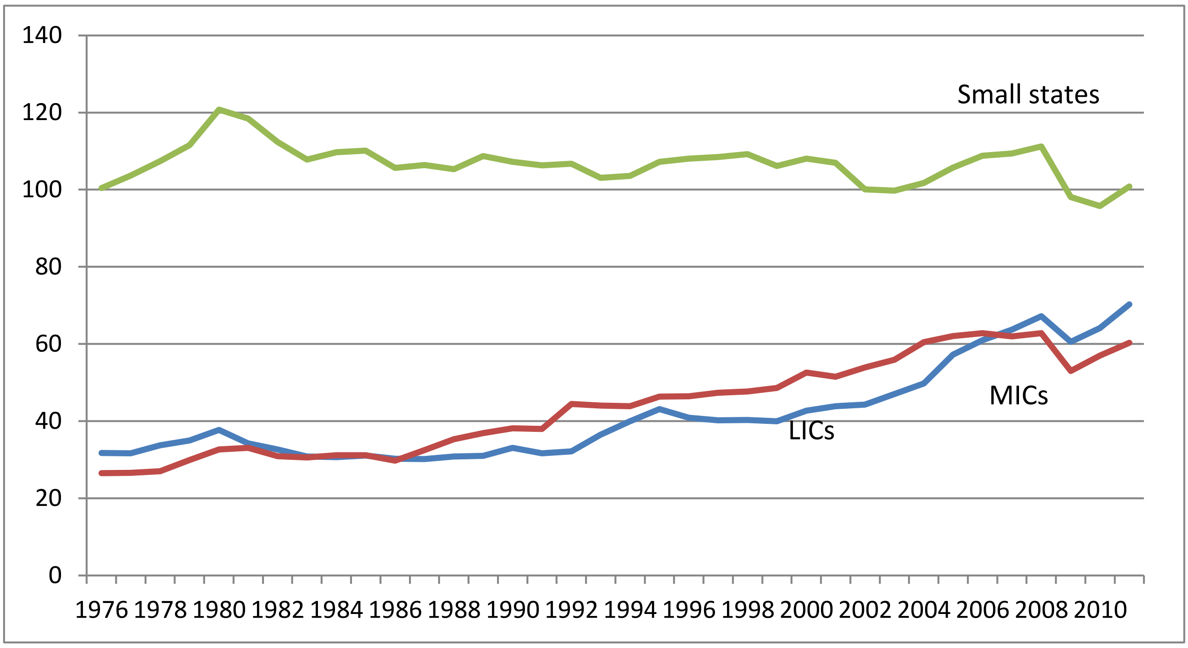
- What are your experiences is sourcing trade finance? Are there gaps in supply?
- Has the increased supply of trade finance by multilateral development banks been adequate to fill demand for trade finance?
- What else can be done to expand sources of trade finance?
- What role can the Commonwealth play in promoting efforts to close trade finance gaps?

(iv) Constraints in Accessing Trade Finance in the Commonwealth

61. Trade finance is crucial in supporting trade. Yet as we have noted, there are significant gaps in the availability of trade finance, in developing countries, including in many Commonwealth developing countries. These gaps can present a binding constraint on trade; and can hamper the achievement of the multiple gains from trade. Understanding why countries experience unmet demand can help develop solutions to this challenge. In the context of Commonwealth countries, at least five significant factors are constraining the poorest, smallest and most vulnerable members from accessing trade finance on affordable terms; and are directly impeding these countries from expanding trade and thus their employment, income and growth prospects.

62. **Firstly the large majority of the membership comprises small states and least developed countries, which are also among the most open economies in the world.** The Commonwealth includes 32 small states, of which 25 are small island developing states; and 15 least developed countries. Trade openness facilitates specialisation in production and increased allocative efficiency. In addition, learning by exporting can increase productivity of the domestic industry. But their disproportionate openness also makes them vulnerable to sudden changes in access to external sources of finance and to a sudden deterioration in global trade conditions. Figure 2 shows that small states in particular are more much more dependent on foreign markets than other middle-income and low-income countries.

Figure 2: Trade (export and imports as per cent of GDP is greatest for small states



Source: WDI (2013)

63. The table illustrates that whilst such dependence (measured as trade over GDP) has been declining relative to that of the other countries, it is still much larger than low-income countries (LICs) and middle-income countries (MICs) on average. Further, the table illustrates the disproportionately large impact on small states of the 2008-2009 global financial crisis. In this period small states' trade-to-GDP ratio declined by 13.2 per cent, in comparison with the decline experienced by LICs (6.7 per cent) or MICs (9.7 per cent). If part of this drop in trade owes to the low availability of finance, and better and more trade finance can mitigate this, then Commonwealth small states have in principle much to gain from smoothing trade through trade finance as this will raise the resilience of small states to external shocks and hence their development prospects.

64. **Secondly, the Commonwealths' poorest and smallest countries suffer from low country ratings and weak banking systems**, **resulting in both a dearth of trade finance products and disproportionately higher costs of trade finance.** Domestic banks often lack the ability to provide a sufficiently diverse, competitive and adequate source of trade finance. Many correspondent banks in these countries exhibit relatively poor payment records, rendering it more difficult and more costly for traders to access trade finance on competitive terms. These countries also lack resilience, including institutional mechanisms to smooth periods of price and demand volatility. At the same time, there have been shifts in the usage among trade finance instruments from trade conducted and trade finance provided on the basis of open accounts, with risk placed on the seller (exporter). Increasingly sellers are less willing to bear this risk, with risk increasingly transferred through instruments such as letters of credit (LCs). These require confidence and liquidity to be maintained at various points along the chain of payment from the importer, to the issuing bank, to the advising/confirming bank and to the exporter. The absence of strong and well-developed financial systems has limited

the ability of the poorest developing countries to adjust to these shifts, resulting in disproportionately high costs and limited availability of trade finance, with the banks becoming more risk averse and selective in the supply of credit and with a greater insistence on more guarantees and insurance to facilitate the release of trade finance funds.

65. **Thirdly, export credit agencies (ECAs), import-export banks and similar institutions are either poorly developed or do not exist** on a scale and with institutional capacity adequate to address both existing and potential future trade finance needs. This has constrained the growth of and prevented competition in these markets; and limited the available range of trade finance and risk mitigation instruments. The absence of robust export credit agencies in many of the Commonwealth's poorest and smallest developing countries has impeded their ability to reduce credit risk and to sustain trade. According to Chauffour and Saborowski (2010), recent Berne Union data suggests that ECAs may have played a significant role in stabilising the trade finance market, and thus helped reduce credit risks and allowed exporters to offer open account terms in competitive markets in an environment characterised by heightened systemic and counter-party risks. Yet ECAs are complex institutions and their effectiveness is demanding in terms of their ability to monitor global economic developments, in institutional design, and in governance arrangements. ECAs are thus often more easily able to develop in advanced and emerging market economies, with low-income countries largely obliged to tap the trade finance instruments offered by the international financial institutions, regional development banks and commercial banks.

66. **Fourthly, a large share of external trade in Commonwealth developing countries is transacted by SMEs**, which lack sufficient access to sources of trade finance and which are therefore reliant on the most expensive sources of finance to support their trade transactions. Lending to SMEs is severely constrained as a result of their lack of credit history, their poor knowledge of trade finance and their absence of adequate or acceptable forms of security. As a result they either face an absolute dearth of financing or where it is available, are typically reliant on local currency loans and overdraft facilities to finance their trade operations, placing them at an enormous disadvantage in financing their imports and in transacting trade.

67. **Fifthly, developing countries are significantly adversely affected by deleveraging in the financial system.** The sovereign debt crisis in the Eurozone in particular has resulted in significant deleveraging by banks which are traditional suppliers of trade finance, with credit squeezed banks less willing to lend to companies in general; and with increased restrictions on the availability of trade finance provided to developing countries, with counterparty banks in developing countries considered a greater risk than in the past and with developed country investors withdrawing funds from these markets. This has diminished the supply of trade finance from these sources to developing countries. In response, multilateral and regional development banks have sought to fill emerging gaps, although evidence from several sources suggests that trade finance gaps remain large and are growing.

Questions and Issues for Senior Finance Officials

Many factors constrain the availability and terms of trade finance, particularly in the Commonwealth's poorest, smallest and most vulnerable developing countries

- Are there particular challenges faced by the Commonwealths' poorest and smallest members in accessing trade finance; and how are these countries managing these challenges?
- What are the most important constraints and how can these be addressed?
- Are limitations in the supply of trade finance responsible for limiting trade?

Addressing Challenges in Trade Finance – Options for the Commonwealth

68. The above analysis sets out a range of challenges for the poorest, smallest and most vulnerable Commonwealth developing countries in accessing adequate and affordable sources of trade finance. Several factors are responsible, including structural characteristics of poor and small countries and the institutions within them to provide trade finance; global risk aversion; and the uncertain pace of global recovery. There is also an absence of sufficient information on trade finance gaps. And in several Commonwealth developing countries, national Export Credit Agencies are not fully developed, with commercial banks providing, in many cases the predominant supply of trade finance. If intra-Commonwealth trade is to expand, if the association's poorest, smallest and most trade-open developing countries are to enjoy gains from this process and if trade is to provide a strong impetus for pan-Commonwealth growth and employment, an important and probably crucial pan-Commonwealth task will be to narrow trade finance gaps in the Commonwealth; and to drive down limitations to access and costs at a pace faster than the rest of the world. Innovation and further supply at the multilateral level and through regional development banks will help this process, but the pace of expansion of supply to date signals that trade finance gaps will remain enormous and unfilled for the medium- to long-term. Finding uniquely Commonwealth solutions can help improve Commonwealth trade prospects significantly. Narrowing trade finance gaps in Commonwealth countries, particularly the poorest, smallest and most trade-open economies will require at least four sets of initiatives.

69. **Firstly, gathering improved information, at both country and regional levels, to better understand the key requirements for trade finance, sources of supply, financing gaps and the challenges associated with lack of access due to cost.** This is particularly important for the Commonwealth's poorest, smallest developing countries, including particularly those whose economies are most open and thus most susceptible to volatility in the supply of trade finance. Important insights can be revealed from this approach, to help calibrate Commonwealth responses.

70. **Secondly, examining how best risk-pooling and risk-mitigation in the provision of trade finance can be promoted within and across the Commonwealth.** What steps can

Commonwealth members individually, at regional and at pan-Commonwealth level take, to reduce and better spread the risks associated with intra-Commonwealth trade? How can this address existing constraints; and how can this provide a channel to support a concerted drive to promote substantially improved intra-Commonwealth trade? Further work is required to identify best-practices among existing Export Credit and similar agencies within the Commonwealth; to clarify how these agencies integrate their own operations with those of regional and multilateral institutions; and to understand how risk is spread and costs driven down through these processes. As part of this endeavour, further information is required on the capacity of the Commonwealth's larger and better established Export Credit Agencies, including their ability to offset and mitigate regional trading risks.

71. **Thirdly, better understanding regional best practices across the Commonwealth.** Specific trading risks may be prevalent in various regions in the Commonwealth, particularly in the Caribbean, Sub-Saharan Africa, South Asia and the Pacific; and understanding how these are being addressed and what best-practices may have emerged will be valuable in determining a more cohesive Commonwealth approach.

72. **The Secretariat is well placed to arrange for the preparation of the above three strands of analytical work**, drawing on the support and inputs of Commonwealth member countries. Once completed the Secretariat can appropriate ways to share this information with Commonwealth members suggest proposals to further enhance Commonwealth action in this area.

73. **Fourthly consideration will also be needed as to the most appropriate national, regional and Commonwealth mechanisms for promoting Commonwealth initiatives to improve sources of trade finance for Commonwealth members.** Many mechanisms are prevalent internationally, including risk-pooling and risk-sharing mechanisms, multilateral and regional institutional mechanisms, mixed regional and private sector pooling, as well as reliance on private sources of trade finance. A wide range of innovative mechanisms are also emerging, or are under discussion, inter alia including the recently-announced BRICS Bank, whose ambit will include the provision of both trade and investment financing; and further institutional mechanisms have been mooted, inter alia by the ACP group of countries. Understanding what these are and how they are intended to support their beneficiary member countries will be valuable in determining how best the Commonwealth can support the association's membership in securing adequate trade finance at reasonable cost.

Questions and Issues for Senior Finance Officials

There are significant challenges for Commonwealth countries, particularly the most trade-open economies and the poorest and smallest members, in accessing trade finance at reasonable cost. There are also significant opportunities for the association to expand sources of trade finance and improve the terms on which finance is available.

- What steps can the Commonwealth take to improve the availability of trade finance particularly to the Commonwealth's poorest, smallest and most vulnerable members?

Conclusions

74. Trade finance is an important element of modern trading relationships and depends on trust. Some 80-90 per cent of trade or in excess of $14 trillion is covered by some form of trade finance (letters of credit, open account and others). Trade finance supports trade and growth, curbs volatility in trade and its provision during economic crises can contribute to reducing the extent of economic downturn. Global trade is expanding driven particularly by significant increases in South-South trade and in exports to developing countries. Intra-Commonwealth trade, however, is languishing and only one sixth of all Commonwealth trade is directed within the Commonwealth, with no shift in relative share in the past six years. Yet with its mix of advanced, emerging and developing countries, there is vast opportunity to expand intra-Commonwealth trade; and similarly very significant opportunity to expand the Commonwealth's share of world trade. The availability of an adequate supply of trade finance, on reasonable terms, will be critical to any collective Commonwealth endeavour to boost intra-Commonwealth trade.

75. Trade finance flows have improved since the global financial crisis; and important steps have been taken since the 2009 crisis to expand sources of trade finance for developing countries. But additional supply has been quickly dwarfed and overwhelmed both by the escalation in global trade and by increasing demand for trade finance; and the gap in unsatisfied demand remains very significant. As a result, there is evidence of very significant unmet demand, with the Asian Development Bank estimating an unmet global trade finance gap of $1.6 trillion, of which $425 billion in the Asia-Pacific region. Deleveraging by Eurozone banks and the implementation of the Basel III rules are expected to continue to constrain supply. SMEs in developing countries in the Commonwealth and elsewhere are particularly disadvantaged by inadequate sources of trade finance, limiting their access to liquidity and their ability to finance imports and their opportunity to export, resulting in unfilled potential for employment, income and growth. Evidence points to large gaps in unmet demand for trade finance for SMEs.

76. The challenge is escalating; and in the absence of new initiatives, trade and demand for trade finance is expected to accelerate, particularly in and among developing countries; and gaps can reasonably be expected to widen.

77. If intra-Commonwealth trade opportunities are to be taken advantage of these gaps, particularly in the large majority of the Commonwealth's poorest, smallest and most vulnerable developing countries will need to be narrowed. There is particularly urgency and particular need for the Commonwealth's 32 small states and 15 least developed countries, in many of which financial institutions are relatively poorly developed and lack the range of instruments required to provide finance and risk coverage for trade transactions. New initiatives will be needed by the Commonwealth if trade finance gaps are to be closed. Further analysis and research is needed, in order to consider options to augment the availability and terms of trade finance.

78. Senior Finance Officials are invited to review this paper and to commend the conclusions, particularly the need to review options to improve trade finance for the poorest, smallest and most vulnerable Commonwealth members, to Ministers for their endorsement.

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Appendix A Some Multilateral and Regional Public Providers of Trade Finance

Official Banks	What programme	Size	Trend	When started?	What products	Which country it can support?	Which country is has support?
International Banks							
International Finance Corporation (IFC)	Global Trade Finance Program (GTFP)	$5 billion	Since June 2006, over 4,100 participants from more than 60 countries have benefited from trade finance training programs.	2005	The program offers confirming banks partial or full guarantees to cover payment risk on banks in the emerging markets. These guarantees are transaction-specific and apply to: • letters of credit • trade-related promissory notes and bills of exchange • bid and performance bonds • advance payment guarantees • suppliers credits for the import of capital goods	global	http://www.ifc.org/wps/wcm/connect/af68ae004a2a1accaf7daf8969adcc27/IFC_IB_List.pdf?MOD=AJPERES Over 265 issuing banks across 94 emerging markets
IFC	Global Trade Liquidity Pool (GTLP)	IFC's commitment to the program is $1 billion. With targeted initial commitments of $5 billion from public sector sources, the program should be able to support up to $50 billion of trade.	With targeted commitments of $4 billion from public sector sources, the program has supported nearly $20 billion of trade since its inception.	May 2009	GTLP began its operations in May 2009, channelling much-needed funds to back trade in developing countries. Phase 2 was launched in January 2010 with an unfunded solution, based on the existing GTLP platform, to support trade finance directed at the food and agribusiness sectors. The program was extended in January 2012 to continue to stabilize and foster trade and commodity finance to emerging markets. GTLP brings together governments, development finance institutions (DFIs), and private sector banks to support trade in developing markets and address the shortage of	global	http://www.ifc.org/wps/wcm/connect/af68ae004a2a1accaf7daf8969adcc27/IFC_IB_List.pdf?MOD=AJPERES Over 265 issuing banks across 94 emerging markets

					trade finance resulting from the global financial crisis.		
Regional Banks							
Asian Development Bank	Trade Finance Program	Transaction supported in 2012 $4.0 billion	Value of transaction supported: From $7.0 million in 2004, to $4.0 billion in 2012	2004	• Credit Guarantee ADB provides guarantees of up to 100% risk protection against nonpayment by approved participating banks, in support of trade transactions, responding within 24 hours of receiving a request. Through this support, the Credit Guarantee (CG) product establishes new partnerships between banks and companies, therefore increasing trade and access to challenging markets. • Risk Participation Agreement For banks with large and consistent trade finance volumes, ADB provides a maximum 50% risk protection against nonpayment of a financial obligation issued by a bank in support of a trade transaction. Unlike the CG product, the Risk Participation Agreement (RPA) provides risk protection on a portfolio basis, rather than on a transaction-by-transaction basis. The RPA provides partners with an innovative and highly efficient vehicle to manage portfolios of trade assets, providing banks with the capacity to support more companies in challenging markets. • Revolving Credit Facility ADB provides loans to eligible banks for on-lending to importers and exporters to finance trade-related transactions. This product is most frequently used for pre-export financing.	Asian Developing Countries	90 Developing country banks in 18 Asian countries: Afghanistan, Armenia, Azerbaijan, Bangladesh, Bhutan, Cambodia, Georgia, Indonesia, Kazakhstan, Kyrgyz Republic, Mongolia, Nepal, Pakistan, Philippines, Sri Lanka, Tajikistan, Uzbekistan, Vietnam. Six most active TFP countries in 2012: Bangladesh, Mongolia, Pakistan, Sri Lanka, Uzbekistan, Viet Nam

European Bank for Reconstruction and Development (EBRD)	Trade Facilitation Programme	€1.5 billion	In early 2009, the program's budget was increased from €800 million to €1.5 billion. Total transaction value since 1999 adds up to €8.2 billion	1999	The programme can guarantee any genuine trade transaction to, from and between the countries of operations. Guarantees may be used to secure payment of the following instruments issued or guaranteed by participating banks: • letters of credit and standby letters of credit from the issuing bank • deferred payment and "red-clause" letters of credit • advance payment guarantees and bonds, and other payment guarantees • bills of exchange and trade-related promissory notes • bid and performance bonds and other contract guarantees • longer tenors are approved (where appropriate) to cover finance of imported capital equipment and for other term guarantees • other types of trade finance instruments can also be considered In addition to providing trade finance guarantees, we also extend short-term loans to selected banks and factoring companies in our countries of operations.	The programme can be used to cover instruments issued by banks in any of the countries of operation of the EBRD, which have signed the issuing bank agreement, and which have an active TFP line in operation at the time of application.	Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Estonia, FYR Macedonia, Georgia, Hungary, Kazakhstan, Kosovo, Kyrgyz Republic, Latvia, Lithuania, Moldova, Mongolia, Montenegro, Poland, Romania, Russia, Serbia, Slovak Republic, Slovenia, Tajikistan, Tunisia, Turkey, Turkmenistan, Ukraine, Uzbekistan
African Development Bank	The Global Trade Finance Initiative Program	The total size of the TFP is $1 billion for an initial period of 4 years.	Multi-phase $1 billion Trade Finance Initiative. Issuing banks in	March 4, 2009	• Risk Participation Agreement (RPA) These are arrangements under which confirming banks and the African Development Bank share the default risk of a portfolio of trade finance transactions. The RPA is designed to give regional and international confirming banks partial cover for their trade finance	African developing countries	At present there are 101 issuing banks in 22 countries participating in the Programme.

			the region participate in the Programme have total limits in excess of €1 billion.		operations in Africa, with the AfDB typically taking a 50 per cent share of the risk. • Trade Finance Line of Credit (TFLOC). These are short term lines of credit, offered to African financial institutions to facilitate their own trade finance operations. The AfDB seeks to support financial institutions with a strong focus on developing trade finance. Proceeds from TFLOC enable financial institutions to extend credit support to SMEs operating in either the import or export sectors of the economy. • Soft Commodity Finance Facility This is a funded trade finance product targeted at commodity aggregators and export marketing agencies for soft and agri-based commodities, such as cocoa and coffee .These organizations, which deal directly with farmers, use SCFF loans to support the agri-commodity supply chain at the grassroots level, leading for example to the increased presale of produce.		
Inter-American Development Bank	Trade Finance Facilitation Program	The TFFP currently comprises a network of 231 Confirming Banks from 87 different international banking groups, and 67 Issuing Banks in 18 Latin American and Caribbean countries, with more than $1.16	To date, the IDB has provided loans and issued guarantees for over $750 million in support of about 1000 individual trade transactions of	2005	Trade finance instruments related to: • Exports from IDB Borrowing Member Countries to any other country. • Imports to IDB Borrowing Member Countries from any IDB (Borrowing or Non-Borrowing) Member Country. Typical eligible instruments include: (i) Documentary Letters of Credit; (ii) Export and import financing funded by Confirming Banks; (iii)International Guarantees (Bid, Performance, Advance Payment)	Latin-America and the Caribbean	

		billion in approved credit lines.	more than $1 billion.				
Islamic Develop ment Bank	The International Islamic Trade Finance Corporation (ITFC)				The ITFC's trade finance arm is responsible for providing Shariah-compliant trade financing for both public and private sector entities in the OIC member countries, with a particular focus on financing OIC intra-trade. The ITFC provides direct financing and also works with other international financial institutions to support OIC trade and intra-trade. As a member of the IDB Group, the ITFC has leverage over Government and acts as a facilitator in mobilizing private and public resources to build and develop intra-trade. The ITFC is also able to streamline the trade financing process by issuing an Irrevocable Commitment to Reimburse (ICR) on Letters of Credits (LCs) issued under ITFC approved finance.	Organization of the Islamic Conference (OIC) member Countries	

Appendix B Sample of Export Credit Agencies and Other Sources of Trade Finance in the Commonwealth

Multilateral Export Credit Agencies from which Commonwealth countries can benefit	1. African Export-Import Bank http://www.afreximbank.com/ 2. Asian Development Bank (ADB) http://www.adb.org/ 3. Inter-American Development Bank (IADB- Latin America) http://www.iadb.org/ 4. Multilateral Investment Guarantee Agency (part of the World Bank) http://www.miga.org/
Export Credit Agencies by Specific Commonwealth Country	
Country	**Agencies**
Antigua and Barbuda	- Antigua and Barbuda Development Bank, http://www.abdbank.com/
Australia	- Export Finance and Insurance Corporation (EFIC, Australia) http://www.efic.gov.au/ - Atradius, http://www.atradius.com.au/products/creditinsurance/overview-credit-insurance.htm/ - Coface, http://www.coface.com.au/CofacePortal/redirection.jsp?pageId=pages/home/wwd/p/creditinsurance&site=AU/en_EN - Euler Hermas, http://www.eulerhermes.com/en/credit-insurance/credit-insurance.html - QBE, http://www.qbe.com.au/Business/Trade-Credit/Insurance.htm/
The Bahamas	- Scotia Bank (Bahamas) http://www.bahamas.scotiabank.com/
Bangladesh	- Sadharan Bima Corporation Export Credit Guarantee Department (ECGD), http://business.highbeam.com/137722/article-1G1-95679958/export-credit-guarantee-department
Barbados	- The Central Bank of Barbados Export Credit Insurance and Guarantee Scheme, http://www.centralbank.org.bb/
Belize	- Belize Bank, http://www.belizebank.com/
Botswana	- Botswana Export Credit and Insurance (BUCI), http://www.beci.co.bw/
Brunei Darussalam	- Bank Islam Brunei Darussalam (BIBD), http://www.bibd.com.bn/
Cameroon	- Fond d'Aide et de Garantie des Credits aux Petites et Moyennes Enterprises (FOGAPE), http://business.highbeam.com/137722/article-1G1-80316059/fonds-daide-et-de-garantie-des-credits-aux-petites
Canada	- Export Development Canada (EDC, Canada) http://www.edc.ca/index_e.htm
Cyprus	- Export Credit Insurance Service (ECIS), http://www.cyprustrade.gov.cy/
Dominica	- Finnish Export Credit Ltd (FEC), http://www.fec.fi/
The Gambia	- Standard Chartered Bank (Gambia) Ltd, http://www.standardchartered.gm/en/ - International Commercial Bank (Gambia) Ltd, http://www.icbank-gambia.com/productandservices.php
Ghana	- African Trade Insurance Agency, http://www.ati-aca.org/

	- Export Finance Company Ghana ltd, http://www.infofinancenews.com/FinanceCompanies/export-finance-company-ltd-ghana - Eximguaranty Company (Ghana) Ltd, http://www.eximghana.com/
Grenada	- Scotiabank, http://www.scotiabank.com/gd/en/0,,5083,00.html
Guyana	- Guyana Bank for Trade and Industry Limited, http://www.gbtibank.com/
India	- Export-Import Bank of India (I-Eximbank, India) http://www.eximbankindia.com/ - Export Credit Guarantee Corporation of India (ECGC), http://www.ecgcindia.in/en/pages/ecgcaphome.aspx
Jamaica	- National Export–Import Bank of Jamaica Ltd (EXIM, Jamaica) http://www.eximbankja.com/
Kenya	- Central Bank Kenya, http://www.centralbank.go.ke/ - African Trade Insurance Agency, http://www.ati-aca.org/
Kiribati	- ANZ Kiribati, http://www.anz.com/kiribati/en/about-us/anz-in-kiribati/
Lesotho	- Central Bank of Lesotho, http://www.centralbank.org.ls/home/default.php
Malawi	- African Trade Insurance Agency, http://www.ati-aca.org/
Malaysia	- Malaysia Export Credit Insurance Berhad (MECIB, Malaysia) http://www.mecib.com.my/
Maldives	- Maldives International Islamic Trade Finance Corporation, http://www.itfc-idb.org/content/maldives - MCB Maldives Corporate Banking, http://www.mcbmaldives.com/corporate_details.asp?id=326&mainid=5
Malta	- Malta Export Credit Guarantee Company - Malta Export Credit Insurance (MECI), http://mim.maltaenterprise.com/default.asp?page=companya&show=18686
Mauritius	- Development Bank of Mauritius (DBM), http://www.dbm.mu/
Mozambique	- SGS Finance, http://www.sgs.co.mz/en/Finance/Trade.aspx
Namibia	- Standard Chartered Bank Namibia, http://m.standardbank.com.na/home.jsp - Bank of Namibia, https://www.bon.com.na/
New Zealand	- Exgo (a division of State Insurance, News Zealand) http://www.state.co.nz/
Nigeria	- Nigerian Export-Import Bank (NEXIM), http://neximbank.com.ng/about_us.php
Pakistan	- Pakistan Insurance Corporation, http://www.pakre.org.pk/ms/ - State Bank of Pakistan, http://www.sbp.org.pk/
Papua New Guinea	- Maybank, http://www.maybank.com.pg/#section1
Rwanda	- African Trade Insurance Agency, http://www.ati-aca.org/
Samoa	- ANZ Samoa, http://www.anz.com/samoa/en/personal/ - Samoa Commercial Bank, http://www.scbl.ws/
Seychelles	- Barclays Bank Seychelles, http://www.barclays.sc/ - Development Bank of Seychelles, http://www.dbs.sc/
Sierra Leone	- Ecobank Sierra Leone, http://www.ecobank.com/branches.aspx?btype=3&cid=74085

Singapore	- Export Credit Insurance Corporation of Singapore (ECICS)Ltd (ECICS, Singapore) http://www.ecics.com.sg/ - Monetary Authority of Singapore (MAS), http://www.mas.gov.sg/
Solomon Island	- ANZ Solomon Islands, http://www.anz.com/solomonislands/en/business/markets-trade/international-trade-services/
South Africa	- Export Credit Insurance Corporation of South Africa (ECIC) http://ecic.co.za - Credit Guarantee Corporation of Africa (CGIC, South Africa) http://www.creditguarantee.co.za
Sri Lanka	- Sri Lanka Export Credit Insurance Corporation (SLECIC, Sri Lanka) http://www.tradenetsl.lk/slecic/
Swaziland	- Central Bank of Swaziland Export Credit Guarantee Scheme (ECGS), http://www.centralbank.org.sz/press-room/public-relations/credit-guarantee-schemes.html
St Lucia	- Microfin St Lucia, http://www.microfin.org/stlucia.htm - Bank of St Lucia, http://www.bankofsaintlucia.com/
St Kitts and Nevis	- Scotiabank St Kitts and Nevis, http://dr.scotiabank.com/kn/cda/content/0,1244,CCDkn_CID1795_LIDen_SID89_YID21,00.html
St Vincent and the Grenadines	- Scotiabank St Vincent and the Grenadines, http://dr.scotiabank.com/vc/cda/content/0,1244,CCDvc_CID1956_LIDen_SID93_YID22,00.html
Trinidad and Tobago	- Export-Import Bank of Trinidad and Tobago (Eximbank, Trinidad & Tobago) http://www.caricomproduce.com/partners/eximbank_ad.asp
Tonga	- ANZ Tonga, http://www.anz.com/tonga/en/business/international-treasury/international-trade-services/
Tuvalu	- National Bank of Tuvalu
Uganda	- Central Bank of Uganda, http://www.bou.or.ug/bou/home.html - African Trade Insurance Agency, http://www.ati-aca.org/
United Kingdom	- Export Credits Guarantee Department (ECGD, UK) http://www.ecgd.gov.uk/ - Cox Insurance Political Risk Unit (CPRU, UK) http://www.cox.co.uk/ - Hiscox Trade Credit Insurance (UK) http://www.hiscox.com/ - COFACE LBF, http://www.cofaceuk.com/ - NCM Credit Insurance, http://ncmgroup.com/ - Trade Indemnity Group, http://creditindemnity.com/important-news-from-nexus-group/
United Republic of Tanzania	- African Trade Insurance Agency, http://www.ati-aca.org/ - Barclays Bank Tanzania, http://www.barclays.com/africa/tanzania/
Vanuatu	- ANZ Vanuatu, http://www.anz.com/vanuatu/en/personal/ - National Bank of Vanuatu, http://www.nbv.vu/
Zambia	- Zambia Export and Import Bank (ZEXIM), http://de.cyclopaedia.net/wiki/Zambia-Export-and-Import-Bank - African Trade Insurance Agency, http://www.ati-aca.org/