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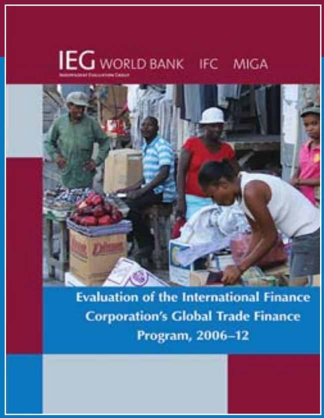
Evaluation of the International Finance Corporation's Global Trade Finance Program 2006–12



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Background

The International Finance Corporation (IFC) introduced the Global Trade Finance Program (GTFP) in 2005 to "support the extension of trade finance to underserved clients globally." The program has since expanded rapidly, and its authorized exposure ceiling was increased in three stages from $500 million in 2005 to $5 billion in 2012. In FY12, the GTFP accounted for 39 percent of total IFC commitments, 53 percent of its commitments in Sub-Saharan Africa, and 48 percent of its commitments in Latin America and the Caribbean.

In its early years, the GTFP was concentrated in higher-risk, lower-income countries, particularly in the Africa Region. During the global financial crisis, the program's risk-mitigation instrument became relevant in much broader markets. In the years since the 2009 crisis, although the GTFP has continued to expand in high-risk markets, in terms of dollar volume it has grown faster in low- and medium-risk countries.

In 2011, the Bank Group identified its priorities in supporting global trade over the next decade. Its strategy document, *Leveraging Trade for Development and Inclusive Growth*, outlined areas of emphasis in supporting trade as a driver of economic growth in developing countries. The strategy's main objectives are to help enhance trade competiveness and export diversification; reduce trade costs; expand market access; and improve management of shocks and increase opportunities to participate in trade (see figure

The World Bank Group's Strategy to Support Trade, 2011-2021

Economic Growth and Poverty Reduction

Increased Trade

Enhanced Trade Competitiveness and Export Diversification
- Increased value of exports
- Increased # of export markets
- Improved survival rate of exporters

Improved economy-wide incentive framework

Increased trade in services

Specific actions to address market failures

Reduced Trade Costs
- Reduced costs associated with moving goods and services along international supply chains, including transport, logistics, and finance costs

Improved trade corridors and regional trade facilitation frameworks

Improved markets for transport and logistic services

Improved border management

Increased access to trade finance

Expanded Market Access

Improved international trade rules and institutions

Improved regional integration of markets

Improved inter-governmental regulatory reform and cooperation

Effective Management of Shocks and Increased Opportunities to Participate in Trade

Better management of trade shocks by most vulnerable

Inclusion of the gender dimension in trade support activities

Improved response to food price increases and volatility

Expanded benefits of trade to lagging regions within countries for priorities under each objective). Progress toward each of these objectives is considered critical to attaining the overall goal of enhancing trade in developing counties. Among the interventions is support for the provision of trade finance, which is identified as helping reduce trade costs but can also help increase access to finance as well as mitigate shocks that can affect trade flows.

Findings

The GTFP has been a relevant response to demand for trade finance risk mitigation in emerging markets, although faster recent expansion in lower-risk markets raises the need for close monitoring of its additionality in these areas. The GTFP significantly improved IFC's engagement in trade finance from its past efforts by introducing an open, global network of banks and a quick and flexible response platform to support the supply of trade finance. The GTFP has high additionality among high-risk countries and banks, where the supply of trade finance and availability of alternate risk-mitigation instruments are lower.

The program has been effective in helping expand the supply of trade finance by mitigating risks that would otherwise inhibit the activity of commercial banks. It has been weighted toward low-income countries relative to their share in global trade, and played a useful role in helping connect local emerging market banks with global banks. Global banks have been aided in extending their capacity to do business in developing countries, which can be limited by regulatory constraints on capital, among other factors.

Indicators, such as small and medium enterprise and sector reach, are not fully informative of program effectiveness in themselves, as the instrument has little influence over the local bank's risk appetite among its clients. Despite its initial goal to support longer-term trade finance transactions, GTFP guarantees have tenors only slightly longer than the broader market. The GTFP has helped IFC engage in difficult countries and has led to long-term investments with 40 new clients. The GTFP has been profitable, although not to the extent originally expected. The program appears to be low risk and has not paid any claims to date. The opportunity costs of the program for IFC are relatively low. Even though the GTFP accounted for 39 percent of IFC commitments in FY12, it accounted for 2.4 percent of its capital use, 1.2 percent of its staff costs, and 0.6 percent of its net profit.

IFC work quality, particularly with respect to the GTFP processing time, marketing and client relationships, and the depth and quality of IFC's due diligence, has been good and has been appreciated by clients. At present, the system to handle cases of covenant breach among participating banks lacks clarity. Although substantial progress is seen in developing systems to assess the development effectiveness of the program, more can be done to address the apparent data reporting and collection burden on client banks as well as the difficulty in attributing many of the outcome indicators to the program.

Recommendations

In sum, the Independent Evaluation Group (IEG) finds GTFP to have been a relevant response to demand for trade finance risk mitigation in emerging markets, and to have significantly improved IFC's engagement in trade finance by introducing a flexible response platform to support the supply of trade finance. IEG recommends that IFC:

- continue to strengthen the GTFP's focus in areas where additionality is high and increase the share of the program in high-risk markets and where the supply of trade finance and alternate risk-mitigation instruments are less available;
- adopt additional methods of reporting volume that can reflect the distinct nature of trade finance guarantees;
- refine the means by which GTFP profitability is monitored and reported;
- review the costs and benefits of the monitoring and evaluation framework;
- ensure that a transparent process is in place to govern cases of covenant breach; and
- enhance the program's ability to meet the demand for coverage of longer-term trade finance tenors.