

4. Trade Finance Facility

Established in 2006, OFID's Trade Finance Facility (TFF) is a further means of supporting the economic and social development of partner countries. Its purpose is to provide trade finance to a wide range of institutions, including governments, parastatals, banks and private enterprises. The TFF was created in response to financing requests and as a result of the strategic planning process, whereby it was identified that OFID must adopt new products in order to remain relevant to the changing needs of its partner countries.

Although partner countries have access to trade finance, frequently it is at a high cost and for a short term, therefore presenting a substantial burden. OFID's TFF seeks to be additional and to assist in the areas of highest need.

In principle, all developing countries are eligible for financing under the TFF. As with Private Sector financing, however, a prerequisite for any TFF financing for private entities is the conclusion of an AEPI between OFID and the government of the host country.

Support for trade is provided through different instruments, including loans, lines of credit and guarantees. Loans are extended directly to clients in beneficiary countries for the financing of imports or exports of a wide range of commodities. Lines of credit to financial intermediaries are provided for pre-/post-shipment or import finance and are aimed at supporting SMEs. Guarantees under the TFF are issued by OFID to other development finance institutions and/or commercial banks to increase their trade finance exposure for the benefit of local small businesses.

The year 2008 was characterized by high commodity prices until mid-year leading to higher import needs for most developing countries. As of the second half of 2008, commodity prices declined substantially. Meanwhile, the worldwide financial and economic crisis deepened, inducing a contraction of available worldwide trade financing and diminished risk appetite among many of the major financing partners.

During 2008, the emphasis of the TFF was on enlarging the number of cooperating partners, in particular with a view to providing risk-taking capacity to other international development finance institutions and to commercial banks. In

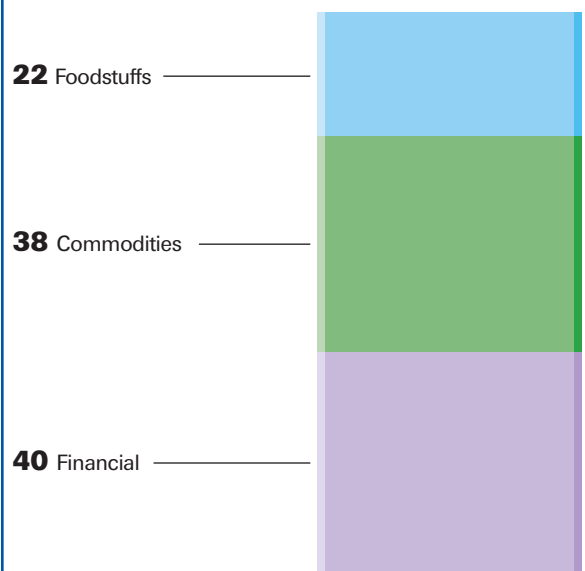
addition, the operational foundations of the new facility were strengthened and the implementation of already approved transactions was pursued. In March 2008, OFID organized and hosted a Trade Finance Workshop, which was attended by more than 25 global financial institutions, regional development banks, export credit agencies, commercial banks and OFID sister organizations.

Cumulatively since inception, TFF approvals for loans and lines of credit amount to \$118.8 million for 19 operations in nine countries. Limits for risk-sharing guarantees in the amount of \$14.2 million have been allocated to OFID partners for banks in Azerbaijan and Tajikistan. In addition, a risk-sharing scheme with a leading commercial bank in the maximum amount of \$100 million was approved in 2008, the implementation of which is planned for 2009. ●

Chart 4

Trade financing approved by product in 2008

(in percent)





Trade is fundamental to economic growth. Through its dedicated Trade Finance Facility, OFID seeks to help its partner countries increase their potential for development.

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Table 5

Trade financing approved in 2008 – geographical distribution

(in millions of dollars)

Country/Region	Recipient	Type of finance	Amount
Gambia, The	Republic of The Gambia	Loan	5.00
Mauritania	Central Bank of Mauritania	Loan	10.00
Africa			15.00
Armenia	Inecobank	Line of credit	2.00
Maldives	State Trading Organization	Loan	12.50
Sri Lanka	National Development Bank	Line of credit	15.00
Asia			29.50
Total			44.50
Country/Region	Recipient	Type of finance	Amount
Various	Union de Banques Arabes et Françaises (UBAF)	Guarantee	100.00
Africa			100.00
Azerbaijan	Azerigazbank	Guarantee	4.50
Asia			4.50
Total			104.50