



*In 2009, OFID's Trade Finance Facility received a considerable injection of resources, leading to an eight-fold increase in funded operations and a four-fold increase in guarantees.*

Photo: PICT

## 4. Trade Finance Facility

Historically, OFID has supported mainly public sector projects and programs aimed at developing infrastructure and social services. In the last few years, however, the institution has expanded the scope of its operations in order to increase both the developmental impact and relevance to partner countries. As trade promotes economic growth and development in a number of ways and helps integrate local economies into the global economy, OFID launched in 2006 a new financing window, the Trade Finance Facility (TFF).

Within the context of the TFF, OFID provides support for the flow of goods within and between countries through a variety of instruments, including funded operations (loans and lines of credit) and unfunded operations (guarantees). Loans are extended directly to clients in partner countries to finance the trade of a

wide range of commodities. Lines of credit to financial intermediaries are provided for working capital, pre- and post-shipment or import finance and are aimed at supporting small and medium-sized enterprises (SMEs). Guarantees are issued to development finance institutions and/or commercial banks to increase their trade finance exposure for the benefit of local small businesses. OFID plans to expand its activities to other demands of the market as and when required.

### **Trade and trade financing in 2009**

The year 2009 presented a diverse situation. Due to the global financial crisis, commodity prices and volumes in the earlier part of the year continued to experience a slump. Prices recovered later in the year, however, mainly as a result of accelerated demand in Asia. Overall, world trade volumes declined in 2009 for the first time since 1982.

Financing continued to be scarce, as commercial banks withdrew from trade finance and had less appetite for risk. During the latter part of 2009, liquidity conditions eased, as government stimulus packages began to take effect.

Pricing for trade finance increased strongly, particularly in the first half of 2009, due to a liquidity crunch and the perception of higher risk. SMEs suffered most. Lead arrangers of syndicated facilities recommended substantially higher pricing in order to obtain sufficient subscriptions.

### **OFID strategy and performance in 2009**

OFID's strategy during 2009 and beyond is to expand its trade finance activities for funded and unfunded transactions for the benefit of its partner countries. The involvement of OFID in trade finance will have a positive impact in helping partner countries alleviate their difficulties in accessing credit in days of credit disruption. As such, OFID, together with its partners, will play a countercyclical role.

OFID seeks to expand its strategic partnership network of leading commercial banks and development finance institutions to help deploy the resources of the TFF more efficiently, while increasing OFID's visibility in the market and balancing its risk portfolio. As a result, the geographical scope of TFF operations will increase, as will the product range. This networking strategy should also benefit OFID's public and private sector operations.

In 2009, the TFF received a considerable injection of resources that enabled the facility to further expand the scope of its operations and respond to the higher demands of the market. Transaction volumes grew substantially across all instrument types. Regarding unfunded operations, two major portfolio-based risk-sharing programs with leading commercial banks were approved giving OFID exposure to guarantees in over 30 countries. In addition, one unfunded transaction in the field of supply of inputs to the agricultural sector was approved. This is perceived as particularly complementary to OFID's funding of investments in agriculture for increased crop intensity and general productivity.

For funded operations, OFID joined in a number of transactions with the International Islamic Trade Finance Corporation. The institution also participated in a number of prestigious syndicated facilities, such as the Ghana Cocoa Board and Afreximbank. Additionally, several lines of credit were structured with several regional development finance institutions and commercial banks.

Also approved was a contribution to the Global Trade Liquidity Pool, which was a collaborative response to the financial crisis. This program was initiated by the

### **Highlights of the year**

#### *Unfunded risk-sharing with Standard Chartered Bank*

In October, OFID signed an agreement for a \$500 million risk-sharing program with Standard Chartered Bank. Under the agreement, OFID will guarantee letters of credit issued by banks in developing countries to support trade transactions of local corporations. Due to the short-term nature of the transactions, the risk-sharing program will generate substantial incremental trade.

#### *Participation in Ghana Cocoa Board*

OFID joined as lead arranger in the Ghana Cocoa Board's 2009 Receivables-Backed Trade Finance Facility, the largest structured soft commodity syndicated deal in Africa. The Ghana Cocoa Board continues to be regarded internationally as one of the world's premier cocoa organizations.

#### *Participation in African Export Import Bank*

OFID participated in two major syndicated loans for the Pan-African Supranational African Export Import Bank. The funds from both loans will be used to support trade financing and for working capital purposes.

IFC and works through global and regional banks to extend trade finance to importers and exporters in developing countries.

For 2009, total approvals for funded operations amounted to \$359 million, a significant increase over the \$44.5 million approved in 2008. In the form of guarantees, risk-sharing agreements were concluded with a number of institutions for a maximum revolving amount of \$480 million. This compares very favourably to the previous year when total guarantees amounted to \$104.5 million.