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OFID moves into trade finance



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OFID moves into trade finance

The OPEC Fund for International Development (OFID) describes its movement further into supporting trade finance.

Historically, OPEC Fund for International Development (OFID) has mainly supported public sector projects and programmes aimed at developing infrastructure and social services especially in the transportation, agriculture, education, health, water, sanitation and energy supply sectors. During the last few years, OFID has been expanding the scope of its operations and offering new products in order to increase its developmental impact as well as its relevance to partner countries.

In so doing, OFID has introduced a number of new financing windows. Its Blend Facility for example has introduced more flexibility into its public sector lending, bringing into the realm of its financing commercially-run publicly owned projects. Most recently, OFID has launched a new trade financing window.

The rationale for OFID's involvement in trade finance is summarised by Suleiman Al-Herbish, OFID's director-general: "Trade promotes economic growth and development in a number of ways and helps integrate local economies into the global economy. Many developing countries face problems in taking advantage of trading opportunities due to small market size, geographic isolation and inadequate finance all of which can raise the cost of trade."

He adds: "We believe that the involvement of OFID in partnership with leading commercial and development banks can have a major impact in helping beneficiary countries to alleviate their difficulties in accessing credit in these days of credit disruption."

OFID provides funding on its own or in partnership with other institutions. OFID's commitment typically varies from \$5 million to \$50 million per transaction. By virtue of its mandate, which emphasises support to countries other than Organisation of the Petroleum

Exporting Countries (OPEC) member countries, OFID does not promote trade in its shareholding countries but could fund imports from, or exports to, OPEC countries if the transactions originate in eligible countries. Funding may be given to a broad list of essential products including oil and oil products. However, the latter are not prioritised in any way.

Trade facilitation tools

OFID uses a number of instruments for its trade financing and trade facilitation operations. These include: lines of credit to financial intermediaries to fund trade related advances to local companies; guarantees to international confirming banks for letters of credit (or other instruments) issued by local banks; loans to governments and companies for strategic imports (e.g. food, oil, capital equipment) or to support exports (especially agribusiness) and, finally, structured trade finance, such as in the case of commodity export funding.

Although relatively new, OFID's activity in trade financing includes a number of significant transactions in its different areas of focus. Lines of credit are being implemented with major trade finance players such as Afreximbank and Bladex as well as with a large number of local banks.

OFID has financed strategic imports for Bangladesh, Pakistan, Morocco, Egypt, Senegal, Benin, Maldives and Seychelles. Risk sharing agreements have been signed with Standard Chartered Bank, the European Bank for Reconstruction and Development (EBRD) and Union des Banques Arabes et Françaises. Others are currently under discussion. Structured finance is a newer area for OFID; an example of such transactions is its participation, in Ghana's 2009 Cocobod funding.

The risk sharing agreement that OFID signed with Standard Chartered in October 2009 is an important milestone in the development of its trade financing activities (see p14, this issue). OFID and Standard Chartered will implement a programme of risk sharing amounting to \$500 million, shared equally between the two institutions. The agreement will generate an estimated incremental trade of \$2 billion annually. Eighty banks in 18 emerging and developing countries stand to benefit from the programme, which may be expanded to include more countries and more banks as per demand.

For OFID, trade financing is a natural progression in its efforts to align with the demands of its partner countries. Trade financing complements OFID's broadening range of products, which until now have covered long- and medium-term financing for projects and programmes in the public and private sectors.

Through its funding of trade and through other interventions, OFID is contributing to the broad based programmes launched by the development institutions in response to the financial crisis. The main objective of OFID is to remain a source of funding for trade especially between developing countries in line with its mandate to promote South-South cooperation ■

The OPEC Fund for International Development

(OFID) is a multilateral development finance institution established by the member states of the Organisation of the Petroleum Exporting Countries (OPEC). The primary aim of OFID is to work with low-income countries in pursuit of their social and economic advancement. Since its creation in 1976, OFID has committed over \$11 billion in development financing to 121 countries. OFID cooperates closely with international institutions including a group of sister institutions. This group includes the Abu Dhabi Fund for Development, the Arab Bank for Economic Development in Africa, the Arab Fund for Economic and Social Development, the Islamic Development Bank, the Kuwait Fund for Arab Economic Development and the Saudi Fund for Development. Collectively these institutions have provided over \$90 billion in development financing in the last thirty years.