

# Supporting a secure trade flow in LatAm

*The Inter-American Development Bank (IDB) is committed to trade and export development in the LAC (Latin America and Caribbean) region and has established, through its private sector department, a new \$400 million regional trade finance facilitation programme (TFFP). The programme was rolled out in July 2005. Alexander Malaket speaks to two key members of the IDB project team, Juan José Garcia and Joao Viane Da Silva, to provide an overview and update on this important initiative.*

## **Trade finance is critical to the LAC region**

Latin America and the Caribbean (LAC) have been adversely impacted by volatility and economic shocks on a recurring basis for many years, and the Inter-American Development Bank (IDB) considers trade and export development to be critical to the economic health and long-term prosperity of the region.

The availability of short and medium-term trade finance has been inconsistent at best, particularly during times of economic instability when it is arguably most needed, to offset the shock, as well as to support economic recovery and growth. International sources of financing have tended to retreat from the region during these recurrent crises and such dynamic (some have said volatile) capital flows introduce an additional element of uncertainty to the economics of the region.

The IDB's trade finance facilitation programme (TFFP) is intended to help secure a reliable flow of trade finance, by helping to offset systemic and transaction risks in order to encourage the ongoing engagement of international banks in trade finance within the LAC region. The IDB seeks to be able to step in when other institutions are leaving a market, with the TFFP acting in a counter-cyclical manner, providing diversification in the funding of trade finance and a degree of comfort to international funding sources.

The TFFP provides partial guarantees to international banks, to allow leading institutions to support eligible trade-related instruments (for example, to confirm letters of credit issued by LAC region banks) at various stages in a trade transaction. The TFFP miti-

gates overall transaction risk, facilitating the conduct of trade, and supporting the economic health of the region.

The TFFP is also intended to contribute to the development of intra-regional trade flows and regional integration, as well as to introduce new international banks to the LAC region.

## **Programme overview**

The TFFP has \$400 million of exposure capacity, approved for five years, which can be extended to LAC banks on a revolving basis; the IDB has so far secured the participation of 59 confirming banks in 24 countries. Some \$270 million in lines of credit have been approved for 10 selected issuing banks in six Latin American countries. The programme has supported nearly 40 transactions valued at about \$25 million.

Under the TFFP, the IDB can guarantee up to 90% of risks on individual trade transactions, with a maximum tenor of three years, at competitive market-driven rates. In addition to confirmations under letters of credit, the TFFP may be applied to guarantees related to bid, performance and advance payment bonds. Pre-export and import finance may also qualify for support. Maximum country exposure under the TFFP is currently set at \$120 million.

The TFFP is consistent with similar programmes established by multilateral development banks in various parts of the world however, "its distinctive pricing approach as a portion of the margin charged by inter-

national banks on a transaction-by-transaction basis ensures that IDB guarantees are always remunerated in line with market conditions,” says Juan José García, investment officer, private sector department of the IDB and a senior member of the TFFP team. He adds: “This constitutes a self-regulating mechanism in those transactions where our institution’s support is really needed, avoiding a crowding-out of the commercial market when available.”

**“We see the TFFP as a great platform for strengthening ties between LAC banks, international financial institutions and the IDB, through the sharing of experiences and the development of innovative trade financing structures, even beyond the scope of the TFFP.”**

Given the typically short duration of crises likely to impact liquidity flows to the LAC region, the TFFP is designed to act as a ‘shock absorber’, requiring rapid response to address trade finance needs. The IDB can assess requests on individual transactions within 24 to 48 hours, and continues to refine processes on a best practices basis to ensure that the programme fulfills its objectives.

Joao Viane Da Silva, senior trade finance specialist, notes: “Just the enrollment of issuing banks in the pro-

gramme has had a valuable impact among international players, who see these banks as reliable potential partners that have been submitted to a strict credit approval process by the IDB. For confirming banks, the programme is also important, helping them to mitigate country and commercial risk as well as to leverage their capacity to do more business with the LAC region.”

### The TFFP tomorrow

The IDB’s trade finance facilitation programme has demonstrated promise and potential very early in its five-year term, assisting in the facilitation of numerous trade transactions, bringing new participants to trade finance in the LAC region, and injecting further discipline and due diligence (as well as risk mitigation) in short to medium-term trade finance.

Garcia states: “We will continue consolidating the programme throughout its different fronts, putting particular attention to the enrollment of participating banks, as a way of creating a network of strong banking relationships with capacity to respond to volatile circumstances in a quick and effective manner. We see the TFFP as a great platform for strengthening ties between LAC banks, international financial institutions and the IDB, through the sharing of experiences and the development of innovative trade financing structures, even beyond the scope of the TFFP.” ■

*Trade Finance* magazine will continue to provide updates on this programme as it evolves. For further information on the IDB’s trade finance facilitation programme, contact Joao Viane Da Silva (+1-202-623 1352 – [joaov@iadb.org](mailto:joaov@iadb.org)) or Juan Jose Garcia (+1-202-623 2141 – [juanjoseg@iadb.org](mailto:juanjoseg@iadb.org))



The IDB trade finance team in Washington DC. Front: Rahul Desai, Hans Schulz (division chief), Andrea Oñate, Yumiko Kusakabe, Susanne Kern. Back: Juan José García, Daniela Carrera, Nathaniel Jackson, Joao Viane Da Silva.