

Summary of Discussions

Roundtable on Trade Finance

Trade Finance Constraints

- The financial crisis has dried up trade finance flow
- International banks have cut trade letters of credit due to the huge losses they have encountered
- Trade volumes are falling due to the financial crisis and the drop in commodity prices
- Available trade finance instruments are not being used. Although confirmation lines are available, pricing has gone up and tenors shortened
- Banks are building up market positions and reducing trade finance
- The number of international banks engaged in trade finance has decreased
- Refinancing is not available

Current Programs to Address the Challenge

- IFC's Global Trade Finance Program provides guarantees to emerging market banks to promote trade
- The Global Trade Liquidity Program (GTLP), a coordinated response of international financial institutions, provides liquidity to emerging market banks to promote trade
- AfDB's Trade Finance Initiative provides credit lines to African financial institutions to promote trade
- AfDB is considering using the second tranche of its trade finance initiative, potentially through the GTLP
- The African Trade Insurance Agency (ATI) is pursuing the expansion of its membership towards building appropriate economies of scale

Discussion and Proposed Further Solutions

- Moving quickly and efficiently to address the problems is critical. Only six months ago several market actors had denied suffering adverse consequences of the crisis.
- Increasing trade finance alone is not going to resolve the problem
- We need to raise the institutional capacity of African banks and reduce the perceived risk of doing business with and in Africa
- We need to ensure that financing does not stop at banks and reaches small and medium businesses
- Different market players face different problems and consequently needed different solutions. Generalizing, he noted that large banks needed USD liquidity, whereas smaller banks needed equity
- The comprehensive crisis response initiatives by AfDB and IFC will together serve as a good foundation on which to build fruitful collaboration, together with other institutions

Conclusions

- IFIs and DFIs need to act to preempt the crisis from worsening and prevent further negative impact
- It is time to utilize the momentum to begin implementing practical measures
- IFIs and DFIs need to coordinate and streamline activities to be proactive, speedy, and flexible
- Strong partnerships are crucial to address the challenges of the crisis, and forums such as the African Financing Partnership can be used to foster collaboration
- We need to adopt an increased sense of urgency as people are losing jobs and poverty is increasing
- DFIs and IFIs need to step in with targeted interventions and help devise a new African growth model to prevent the crisis from becoming a development crisis