International Financial Consulting

EXIM Banks and their Role in Trade Finance during the Current Financial Crisis

Presentation to the ADFIAP Annual Meeting
Muscat, Oman
April 2009

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The Current State of Trade Finance Globally

- No figures exist, but by our calculations using proxy figures, the stock of Trade Finance from banks (in 55 BIS countries) to emerging markets has dropped by $200-$300 bn in Q4 2008 alone.

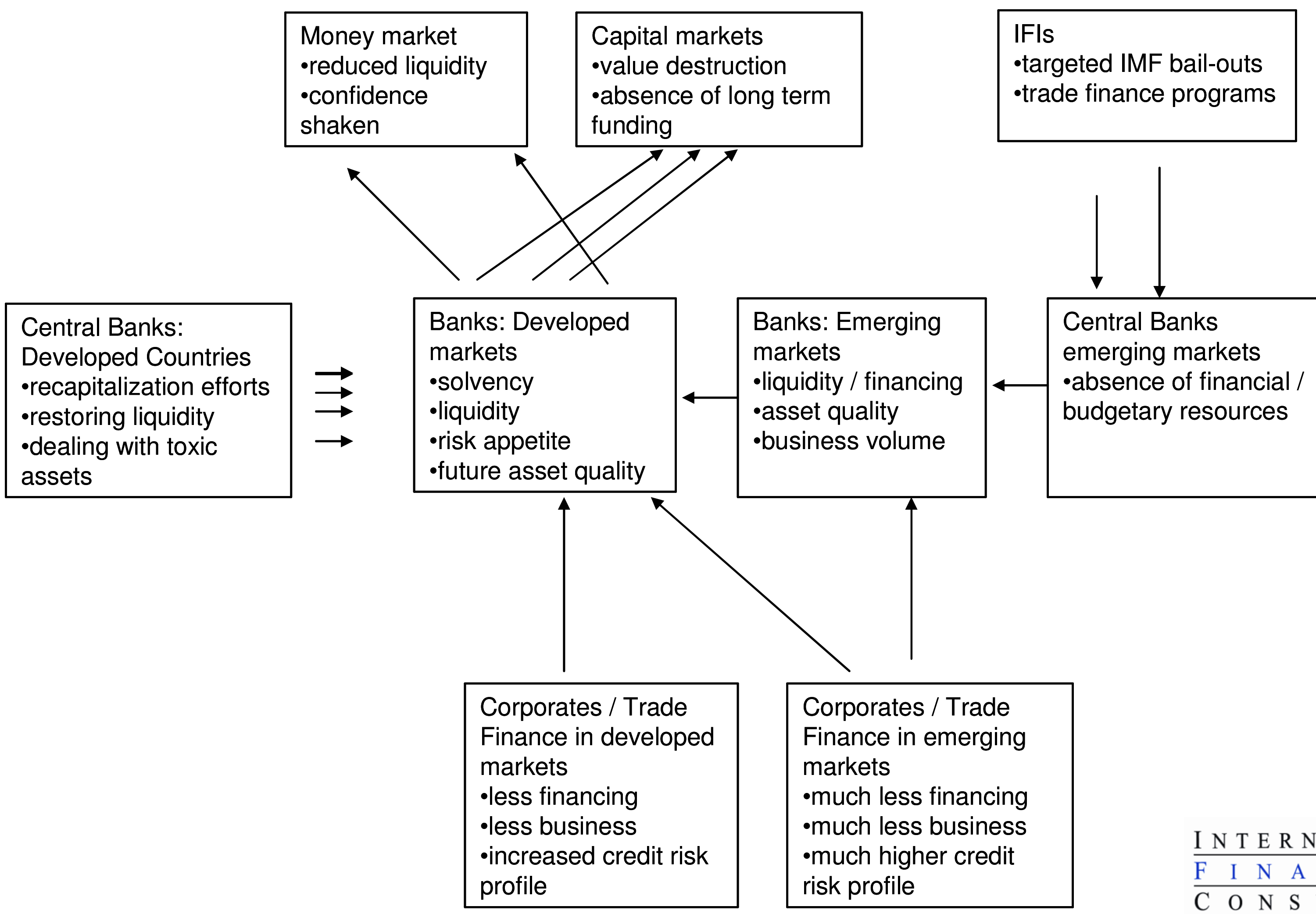
- By Q1 2009, this number is likely to have risen by $500 bn

- This represents a drop of between 6 and 10 %, a staggering figure by any standard.

The Origins of the Crisis in Trade Finance

- Banks in OECD markets have toxic assets on their books
- This has resulted in a reduction in capital and a threat to their capital adequacy levels
- Rationing of scarce capital has meant a reduction in cross-border exposures which are more capital intensive under Basel 2
- Moreover, political pressure at home has resulted in more focus on domestic lending

Reversal of Flow of Funds in Trade Finance



The Consequences of the Reduction in Trade Finance Supply

- The short-term nature of trade finance has made it "easy" to reduce lines to emerging market banks
- The consequence:
  - Less trade finance for Emerging Market Banks
  - Importers in EM not able to access finance for imports – equipment, raw materials, etc
- The role of EXIM Banks in Emerging Markets is therefore crucial, especially on the IM side
- Of the EXIMs, we have researched only some 25% have IM facilities

The G20 Commitment

- $250 bn in support of trade finance
- Mechanisms and modalities still need to be developed
- IFC's Global Trade Liquidity Program which will facilitate the provision of up to $50bn in liquidity to EM banks will help partially to meet the market demand
- There is a danger of it not being effective if the solutions are not properly implemented, i.e. do not "work with the grain" of the existing trade finance system

What this means for EXIM Banks

1. Import finance is important
2. Liquidity/cash advance facilities are more useful than credit guarantee facilities
3. Movement to more secure transaction terms such as LC business
4. Decreased liquidity an increased cost of funds

THANK YOU!

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