INTERNATIONAL FINANCIAL CONSULTING

Trade in Crisis

This paper summarizes a speech delivered by Diana Smallridge, President of International Financial Consulting Ltd, to an IBC Conference held in London in October 2003.

Introduction

This paper addresses the importance of trade to economies in crisis and the role that trade can and does play in bringing economies out of crisis. It explores ways in which trade could be maintained during times of economic crisis. In discussing possible measures to maintain trade when economies are in crisis, the paper explores the roles that various entities, such as export credit agencies (ECAs), international financial institutions (IFIs) and national governments, can play. Argentina is used as the context in which to examine these topics.

Why Argentina? Argentina's economic crisis has been very complex. There has been conflict with the International Monetary Fund (IMF) and multiple national governments introducing a multiplicity of complicated measures within a brief period of time, including convertibility restrictions and "pesofication", in which the government "dedollarized" all transactions and redenominated them in pesos. These factors have made the Argentine case difficult to grasp. Perhaps it is because the Argentine case is so complicated that it provides an interesting context in which to explore trade in crisis. The Argentine case may also provide an argument for not intervening with measures to maintain trade credit in times of crisis, allowing the market to work things out naturally.

This paper does not go through the complexities of the Argentine crisis, but provides a brief overview of what has taken place in the market and discusses more generally how the international community could come together in an effort to maintain trade during times of economic crisis.

Background to the Crisis

In 1908, Argentina was the world's eighth richest country, with per capital GDP higher than Germany, France and Holland. Twenty years later, Argentina was ranked number twenty. A great deal has happened since those glory days and while this paper does not start from 1930 and work through to 2003, it does sketch Argentina's efforts at economic stability from the 1980s, because its relationship with the IMF played a significant role over the past twenty years and the debate continues about the benefits and challenges of that relationship and what the relationship should look like going forward.

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To those who have not followed the Argentine situation over a period of time, it may come as a surprise to know that Argentina was the "poster child" of the IMF for most of the past twenty years. After going through the experiences of the past twenty years with the IMF, the good times and then the brutal crash, it is understandable - though perhaps not justified, but understandable - that Argentines would feel bitter about the relationship. While much of the Fund's measures were pursued by Argentina, some, especially those with respect to fiscal restraint, were not.

From the 1980s, IMF and Argentine policymakers devised an economic strategy that involved privatizing state enterprises, liberalizing foreign trade and investment, and tightening monetary policy. In addition, and to temper rates of inflation that ran as high as 200% a month, Argentina and the IMF devised a plan to create a "currency board" whereby the peso was pegged one-for-one against the dollar. To assure the fixed exchange, the Board kept a supply of dollars on reserve and could not expand the supply of pesos without an equivalent increase in dollars that it held. By restricting the growth of money supply, the system brought inflation to heel.

During the 1990s, the country's economy did well, with real per capita income growing rapidly at an annual rate of approximately 4.5%. Strong growth resulted from increased exports and foreign investment. Short-term injections of government revenues from the sale of state enterprises also helped improve the state of the nation.

But growth also came with an increasing accumulation of international obligations in the form of debt to private banks, the IMF, and foreign governments. It was not only external debt obligations that expanded during this period. Just before the crisis hit at the end of 2001, 15% of Argentine banks' total assets were in Argentine sovereign debt.

Although the currency board system had virtually eliminated inflation in Argentina by the mid 1990s, it had also eliminated flexibility in monetary policy. When the recession started to materialize in the late 1990s, and international investors became increasingly wary of emerging market risks in light of troubles in Asia and Russia, the government could not stimulate economic activity by expanding the money supply, something many Western governments are doing today in an effort to stimulate their sluggish economies.

As the economy deteriorated, the in-flow of dollars slowed, forcing the currency board to restrict the money supply even further. To make matters worse, the dollar appreciated against other currencies in the late 1990s, which meant, because of the one-to-one rule, the peso also increased in value. As a result, the price of Argentine exports rose, further weakening international demand for Argentina's goods.

Events culminated dramatically at the end of 2001. Hard-currency reserves declined by 42%. Argentina's inability to implement a timely fiscal adjustment, and popular resistance to structural reform, led to soaring interest rates which further trapped the country in a deepening recession. Low consumer confidence, a severe local credit crunch, and the global economic slowdown resulted in a continued contraction in GDP, industrial output, and tax collections, which compounded mounting fiscal pressures.

On November 6, 2001 the government announced its decision to carry out a distressed debt exchange. The worsening crisis raised fears that the government would abandon the currency board system and devalue the peso. Argentines were keen to change pesos into dollars. In one day, November 30, 2001, deposits decreased by $1.8 billion and interbank rates reached 900%. The situation was threatening the viability of the banking system. In a move to stave off these threats, the government limited bank withdrawals.

It was at this point that Argentina's unemployment rate was reaching 20% and per capita income had dropped by 14% since 1998. Argentines took to the streets, President de la Rua resigned and a hastily assembled government immediately announced the largest debt default in history, defaulting on some $95 billion in debt. This was the nadir.

<u>The Case Against Intervention</u>

There are those who believe that economies naturally emerge from crisis and that intervention of one kind or another, regardless of how well intentioned, is a futile waste, which serves only to delay and exacerbate the very crisis that ultimately serves to put an economy back on more stable feet.

In support of this argument, one only need look at Argentina today. The crisis has brought the de-pegging of the currency, and the resulting 70% devaluation of the peso last year. Now one sees impressive, albeit tenuous rates of growth, lead by exports. Indeed, after almost five years of terrible economic news, culminating in double-digit declines in economic activity during most of last year, the Argentine economy is forecast to grow by between 4 and 6% this year. Industrial production has soared in recent months. Furthermore, inflation and interest rates are forecast to go lower this and next year, along with a strengthening peso.

While the argument for leaving an economy to correct itself through natural market forces is compelling, the suffering and ancillary risks compels an opposing argument for intervention in reasonable and balanced doses. Moreover, a one-nation economic crisis is no longer an isolated affair, as fears of contagion have become reality to varying degrees in today's globalized environment.

The case against intervention also points to various examples throughout history, where measures to intervene not only failed, but often worsened the situation. When deciding on whether or not to intervene and when creating measures for intervention, crises must be diagnosed and dissected thoroughly in order to create measures that will address challenges with surgical precision. Too often, blunt and/or bad instruments have been applied to crises, making intervention ineffective and even damaging. This point cannot be over emphasized and is therefore raised a number of times in this paper.

<u>The Case for Intervention</u>

While Argentina is starting to experience its first signs of economic recovery, it is by no means out of the woods, leaving plenty of room for the international community to work with Argentines, in conjunction with market forces, to build on the first signs of renewed economic life.

Despite efforts by the federal government to run a primary surplus and signs of improvement from provincial governments in this regard, it is unclear how broad or deep is the commitment to improve further the consolidated fiscal performance. Indeed, a whole host of items that need to be addressed – from adjusting tariffs and contracts of the privatized utilities to restructuring the banking system – appear destined to be delayed until next year after the coming provincial elections are complete.

Perhaps the most important item that needs to be addressed, and which is the likely precursor to the restoration of credit lines and other good things, is an agreement with the IMF and then Paris Club negotiations. Once these discussions are finalized, it is estimated that Argentina will require a surplus of 3% over GDP to service debt obligations once they have been restructured. Moreover, and in the context of a banking environment that remains in tatters, many analysts are questioning if this year's economic growth will be sustainable in the absence of available credit, whether it is trade credit or credit for purely domestic purposes.

Despite some good news starting to emerge out of the chaos of 2001-2002, Argentina is far from fully emerging from the crisis.

Now that an overview of the Argentine situation has been provided, this paper explores how the country could continue emerging out of crisis with the assistance of the international community, meaning OECD export credit agencies (ECAs), international financial institutions and the private sector, working in conjunction with local entities. If the international community is to intervene in an effort to moderate the devastating effects of economic crisis, what might these measures entail?

Trade is the Key

While no specific statistical data exists to demonstrate that most economic recoveries are export-driven, this reality seems commonly accepted. As in Argentina, when economies are in crisis, currency will depreciate, making exports more competitive. As in Argentina, when domestic markets are depressed and consumption drops sharply, manufacturers look to foreign and more vibrant markets to sell their goods. As with Argentina, exports bring foreign exchange, which helps service debt and eventually helps stabilize domestic currency. Export proceeds are taxed and bring more revenue to starved government coffers … and so on. As written above, Argentina will need significant surpluses and growth to service debt once rescheduling has been agreed and there is no more obvious way to achieve this goal than through trade.

With this simplified, but nevertheless justified argument that trade leads countries out of economic crisis, this paper examines how the players involved in trade reacted to the crisis.

How Trade-Related Parties React to Crisis

The Crisis is Confusing

First, it should be recognized that in a crisis the magnitude of Argentina's, there is a great deal of confusion and uncertainty. What should be done with existing deals and exposures and what will take place in the future all come into question. Clarity, or at least some degree of it, unfolds over a period of several months, if not longer, depending on the case.

The importance of proper diagnosis can not be overstated when considering what measures and instruments to employ to maintain trade credit in times of economic crisis. Each party which is involved in the crisis may face a different set of circumstances and issues to be addressed. It is therefore crucial to understand the perspective of each player in the trade supply chain.

Needless to say, information, statistics and some degree of clarity are required to perform such diagnosis. Unfortunately, crisis is confusing and does not always cooperate with those who seek to get rid of it. Information can be very difficult to come by and diagnosing what ails an economy in crisis is no easy task. When researching the crisis in Argentina, the lack of statistical and other information available to assist in the diagnosis is a serious problem. Toward the end of this paper, a Trade-in-Crisis Unit is proposed as one way in which this problem might be addressed.

Argentine Importing/Exporting Company Perspective

One can imagine that when crisis hit, and the peso declined substantially, Argentine buyers were concerned about their ability to pay in foreign exchange for imports. Argentine companies, buyers and/or exporters, would also be concerned about their ability to get access to working capital and/or pre-export financing. If access were available, Argentine companies would be concerned about an acceptable interest rate, which enables them to remain in business and, for instance, to produce goods for subsequent export. Argentine companies, including importers/buyers, would have to consider their ability to sell imported goods (or final products that include imported components) if domestic demand is uncertain and if domestic buyers are unable to pay for goods. These are some of the many considerations that Argentine companies have had to factor in determining how to react to the crisis.

Argentine Commercial Bank Perspective

Local commercial banks had, and continue to have, a myriad of problems associated with the crisis.

Local banks face substantial non-performing loans. Above, it was written that a significant percentage of assets was sovereign-based, which, needless to say would not be performing all that well. Given the situation for Argentine companies, along with depressed real-estate and stock-market valuations, which are often used as security against credit lines, one can imagine the state of local banks' portfolios. One can imagine the liquidity problems for local banks arising from the crisis, which has had a direct effect on Argentine companies' ability to get access to credit.

Local banks have had problems not only in providing credit, but also in appraising the financial position and creditworthiness of commercial clients in the new reality of crisis. This can mean that either local banks are not willing to open letters of credit at all on behalf of clients, or that they require large sums of money on deposit to do so. But given the state of Argentine banks, would international commercial banks, suppliers, ECAs and private insurers be willing to accept an L/C from an Argentine bank? Barring structured arrangements where, for example, Argentine banks would "pre-pay" L/Cs by providing hypothecated funds in correspondent banks in New York, the answer is likely to be "no". Given the state of Argentine banks in the crisis, their reaction has had to be one which involves a severe curtailing of credit.

There has been one exception, however and this involves what many in the market refer to as Tier 1 companies. Tier 1 companies are those in Argentina which produce commodities such as wheat, barley, oil/gas and the likes. What makes these commodity producers Tier 1, is the fact that they have an international market that is virtually always ready to consume their product and pay for it in hard currency, often off-shore, without repayment having to emanate from Argentina. Pre-Export financing for commodities is short-term, in line with this sector's business cycle, which also serves to mitigate a bank's risk. Local banks have not been the only ones vying for Tier 1 business, as large commodity traders, such as Cargill, have long-standing relationships with many of Argentina's commodity producers and have played a significant role in short-term pre-export commodity financing. While fertilizers, seeds and other inputs to the commodity sector have been financed on short-terms, machinery has also been financed against future, off-shore hard-currency receivables deriving from the export of commodities.

While Tier 1 commodity-based exporters have had access to credit, albeit at relatively high rates, the rest of the pack (Tier 2 and Tier 3 companies) have largely been without.

Suffice it to say that the banking sector requires restructuring and re-capitalization before it can become the lynchpin of sustainable economic development that it must be. Given the importance of foreign-owned Argentine banks in the market, it will be interesting to see if parent banks will inject the kind of capital required for this undertaking.

International Commercial Bank Perspective

In the Argentine crisis, it is virtually inconceivable that international commercial banks would have maintained credit lines to Argentine banks, governments and, possibly with a limited number of exceptions, corporates. This is the case, not only because of the state of these entities' balance sheets and the confusion surrounding the Argentine crisis, but also because these entities were barred, at one time or another by the Argentine government, from meeting international financial obligations. Dealing with complex measures such as "pesofication" and knowing that repayment of existing (and future) obligations was uncertain, international commercial banks had no option but to cut credit to Argentina.

As a general comment, which applies to all parties involved in trade, it should be recognized that case-by-case unofficial work-out deals, which can be a factor in maintaining credit in times of crisis, have hardly been evident in Argentina. Perhaps the depth and complexity of the Argentine crisis are to blame.

Another complicating factor, perhaps the single greatest impediment to working out outstanding obligations and then moving forward to restore credit to Argentina, is its lack of a medium-term Agreement with the IMF. An arrangement with the IMF is a precursor to Paris Club and London Club arrangements. Virtually all international commercial banks indicate that a substantial agreement with the IMF, not like the current ones simply rollingover obligations, but a substantial agreement, is the first of many steps that are required before any significant amounts of credit return to Argentina.

Export Credit Agency Perspective
ECAs are no doubt also grappling with existing Argentine exposure and with having to pay-out under their clients' claims. Their situation is similar to that of the international commercial banks, in that they already have delinquent exposure, difficulty assessing risk in the crisis environment and certainly have a high risk of non-payment of any future loans. ECAs, therefore, also reacted by cutting lines to Argentina and are also looking for an IMF agreement, followed by a Paris Club agreement before seriously considering any substantial credit for Argentina.

International Financial Institution Perspective
IFI involvement in Argentina, as with other markets, mostly involves credits for medium and long-term exposures. Their involvement in the vital area of short-term trade credit is, unfortunately, somewhat limited. Unfortunate, not because IFIs should compete with the private sector in the area of short-term credit, but because there are gaps IFIs can fill in this market segment, especially in times of crisis.

IFIs have some of the same concerns as the commercial banks. They have a non-performing Argentine portfolio, not because their preferred access to hard currency was not respected by Argentine authorities, which it was, but because the commercial reality in crisis is such that companies are not able to repay. While the IFIs have Preferred Creditor status, which covers certain political risks, namely transferability, IFIs continue to have the same commercial risks as private entities.

While IFI's are not commercial banks and have mandates to develop economies, rather than to maximize profits, they too will be concerned about their existing non-performing exposure. Moreover, they may be looking for projects, but may have trouble finding ones that are commercially viable in the currently environment.

That said, IFC has undertaken some structured trade finance deals in Argentina recently and IDB is apparently considering involvement in the same line of business.

Finally, when considering the IFI perspective and reaction to the crisis, one can imagine their position is a particularly difficult one in this circumstance, as the IMF, with which IFIs must work, has yet to reach an arrangement with Argentina.

Concerning private credit insurance, their reaction to the crisis was similar to those offered under the other headings, especially international commercial banks and ECAs.

Which Parties Should Work to Maintain Trade Credit in Crisis?

This paper has explored some background to the crisis and has broadly examined how various parties have reacted to the crisis. This paper now goes on to examine which parties may be involved in efforts to maintain trade credit in times of crisis and what sort of measures might be taken.

Not Private Entities

First, it should be acknowledged that local (as well as international) commercial banks and private insurers should not be expected to maintain credit in times of crisis if they deem the risk unacceptable. These privately held entities must be profit-driven and it is in the market's interest that they remain so. After all, it is when private financial institutions take decisions that do not adequately consider risk and project-viability that they falter, which is in no one's interest.

That said, there are many examples where the private sector has perceived a risk that, in large measure does not exist, or are significantly over-estimated. This phenomenon has been described as the herd mentality, where all those involved in a market fly out the door at the first signs of trouble. When private entities answer to nervous shareholders who read alarming newspaper articles about a particular crisis, one can appreciate the difficulty in not following the herd. Here again, proper diagnosis of a situation can lead to the implementation of instruments that mitigate the effects of herd mentality. Partial guarantees, for example, might be appropriate in some circumstances.

Not ECAs

OECD export credit agencies (making the distinction between these and the local ECA of the country in crisis) should also not be responsible for maintaining trade credit in times of crisis. While ECAs are mandated to support the exporters of their respective countries, they are expected to do so with the public purse in mind and over time to break even. Furthermore, maintaining trade credit in times of crisis can often be more akin to aid and development work, two areas that differ considerably from an ECA's mandate. That said, it would be imprudent to cut lines that exist, but more so to increase exposures on existing buyers or insure new exports.

IFIs and Local Government are Pivotal

Given the mandate of IFIs (being economic development and poverty alleviation) and given their shareholder structures, it is these entities which bear the pivotal responsibility for maintaining trade and other credit in times of economic crisis. Local governments must also play a pivotal role as well, but more on this below. It is for this reason that as the paper concludes by focusing on ideas to maintain trade credit in times of economic crisis, it largely addresses what IFIs can do toward meeting this challenge and the role that local government must play as well.

<u>IMF Provides Trade Finance Tranche in Agreements</u>

In an effort to maintain trade credit, perhaps the IMF could consider creating a tranche specifically for trade finance when structuring Agreements with countries in economic crisis. Depending on the situation, the IMF Trade Finance tranche could be targeted to those areas of the economy that would provide most development, while not encroaching on or excluding the private sector.

<u>Implementation of Programs to Maintain Trade Credit in Times of Crisis</u>

Whether or not there is such a tranche, programs to maintain trade credit in times of economic crisis will need to be implemented and it is with implementation where things can really go wrong.

Bearing in mind the Argentine context, the banks are in a mess, the government is deep in debt, existing obligations have yet to be restructured - let alone repaid - and the ability to assess a company's viability is even more difficult than under normal circumstances. And just for good measure, the currency is volatile and one has to navigate a multiplicity of complex bits of legislation; "pesofication", FX repatriation etc. Who would implement a program to maintain trade credit in times of economic crisis and how would such credit be implemented?

For the answers, one must go back to IFIs and local government, in this case the Government of Argentina. As stated above, IFIs are clearly the entities possessing the mandate and shareholder structure that are appropriate for the task. As far as government is concerned, there must be a local partner, one that speaks for the people and that has responsibility and a mandate for the welfare of the economy. This entity can only be government or a government institution. It must be acknowledged that bad government, or bad government agencies, such as state-owned development banks, can be a major barrier to implementing a program successfully. This issue is address below the importance of institution building and the role IFIs have to play in this.

<u>IFIs Need to Make TF a Priority</u>

Prior to addressing institution building for local governments and related agencies, such as state-owned development banks, this paper offers a different, yet related question for consideration. If IFIs are to play a pivotal role in maintaining trade credit in times of economic crisis, are they equipped to do so? After all, IFIs have traditionally left trade finance to the private sector and really have not paid much attention, despite the fact that trade is what tends to bring countries out of economic crisis and beyond. While progress is being made on this front, much work needs to be done.

EBRD has made an impression on some of its piers with its Trade Facilitation Program, which provides guarantees on L/Cs and other trade-realted instruments issued by selected financial institutions. This Program has also started to provide pre-export financing facilities through local financial institutions. While EBRD's Trade Facilitation Program can and hopefully will be built upon, it is considered pioneering in the IFI community, as it: A) recognizes the importance of trade finance in development and; B) seeks to support this crucial sector through the basic schemes described. Furthermore, the EBRD's Program means that there are people within the Bank who understand trade finance, unlike most IFIs, and this in-house knowledge is an important first step in the process of maintaining trade credit when crisis strikes.

IDB and other financial institutions have started to pick up on the importance of trade finance. On March 5, 2003, the IDB announced a $1 billion International Trade Reactivation Program, which will provide loans and guarantees in support of the private sector. In the words of IDB's president, Enrique Iglesias, "If a country following a shock loses access to trade credit, it does not have the flexibility to adjust production and seek out new markets and areas of competitive advantage that correspond to the new economic reality." While a couple of transactions have taken place in Brazil under this Program, apparently there are no specific plans for Argentina.

As an aside, Asian Development Bank is now in the process of establishing a Trade Finance Program, modeled after EBRD's. Hopefully there will be more of these announcements, because much work remains to be done in the area of IFIs playing a major role in trade as well as maintaining trade credit in times of crisis. The establishment of an EBRD-type trade finance program is the first step of many that should be undertaken.

<u>Importance of Institution Building</u>

Having established a role for IFIs in the process of maintaining trade credit in crisis, this paper goes back to government's role and efforts at institution building. What if the government in question is bad and what if its agencies, such as state-owned development banks (perhaps the local ECA) are also poor? This certainly makes implementation of programs to maintain trade credit much more difficult, but as discussed earlier, there is no better or appropriate entity to work with when the private sector, including banks, are shell shocked from crisis.

It is here that one has to emphasize the importance of institution building.

What does institution building mean? It means transferring knowledge to support the development of institutions into ones that are based on international best practices, incorporating integrity and professionalism. It means training managers, providing expertise in credit-risk assessment, IT systems, reporting, portfolio management and anything else that makes an institution sound and professional.

Those who oppose intervention of any kind will point out that the same state entities largely responsible for crisis are given funds with which to create an even bigger mess. The point is well taken and the importance of institution building can not be over stated.

Over the past few years, IFIs have been quite focused on institution building, but much more work remains to be done in this important area.

<u>Structure of Trade-Credit-Maintenance Program</u>

In addition to ideas involving trade facilitation programs and IMF trade finance tranches, what else should be considered for implementation? Is it as simple as IFIs giving money to local government, which in turn passes funds to state-owned development banks, which disburse credits far and wide? And by extension, do IFIs take all the related political risk while local government takes all commercial risk?

Again, the issue of proper diagnosis is paramount. IFIs may find their most effective intervention is providing liquidity to an illiquid financial sector, or providing political risk guarantees to confirming banks to cover perceived risk, or perhaps other forms of intervention best suit the particular challenge at hand.

Could a Sovereign Chapter 11 Bring Credits Back More Quickly?

As mentioned above, IFIs, as well as other entities, must be in a somewhat uncomfortable position waiting for Argentina to make its long journey through the process of IMF negotiations and beyond. It is in the context of this painstaking process between the Fund and Argentina that the idea of a "Sovereign Chapter 11" is relevant.

This long process of negotiations has a real and adverse effect on Argentina's ability to have credit restored more quickly. Going through the IMF-Paris Club process (in which emotions run high on both sides of the debate) as a necessary precursor to re-establishing significant lines of credit to Argentina, is a very slow and somewhat unstructured process. It is the lack of structure, relative to a Chapter 11 work-out, that can cause much of the delay and therefore, arguably, prolong as well as deepen crisis.

Assuming the international community became comfortable that capital would continue to flow into emerging markets in a Chapter 11 world and that countries around the world would manage to harmonize legislation such that an American-style Chapter 11 could function, it would be very interesting to see how much faster, if at all, a country could restructure its debt, have credit restored and emerge from crisis.

Moral Hazard

When designing instruments to maintain credit in times of economic crisis, there are some potential adverse effects that must be taken into consideration. Moral hazard is a nasty phenomenon that threatens to ruin most any good plan involving government (arguably perhaps not so much one in default) and IFIs. If international investors, lenders, guarantors and insurers know that their Argentine risk is ultimately backed by government and IFIs, a number of problems can arise. 1. too much money can flow into an economy in crisis, which can result in various market distortions 2. when the private sector does not face the real prospect of losing its own money, bad credit decisions tend to be taken.

The private sector is important to any credit program being implemented. One of the main goals of any trade credit program must be to encourage the private sector back into the market in crisis, so that the trade credit program could either be dissolved as soon as possible, or reoriented to other areas of the economy that have yet to experience renewed interest from the private sector. But enticing the private sector in to the market must be done with moral hazard in mind.

Partial Guarantees + Private Sector Involvement

While the idea of employing IFI partial guarantees is not original, it nonetheless should be given greater consideration in times of economic crisis and be specifically geared toward the maintenance of trade credit. Partial guarantees acknowledge that IFIs must play a pivotal role in maintaining credit. Partial guarantees also recognize the importance of the private sector, while mitigating the risk of moral hazard.

So while partial guarantees provide some enticement for private investors, lenders and insurers to re-enter the market, they also do not cover a portion risk, therefore necessitating appropriate due diligence, rather than a reliance on official parties to cover problems that may arise. So private and official credit is bundled under A/B loan-type structures and disbursed by IFIs to local governments, or state-owned banks, possibly including the local ECA where applicable and appropriate.

As far as government is concerned, it will likely need to be on the hook for 100% of the commercial risk, unless, on a case-by-case basis, local government (or state-owned banks) could team up with local commercial banks, to share risk and to share information when performing due diligence. For good or bad, in the Argentine context, Banco de la Nacion and Banco de la Provincia de Buenos Aires, two state-owned banks, have a combined market share of 26% and would likely factor into any trade-credit maintenance program for Argentina. Again, institution building is crucial to such development programs.

Trade-in-Crisis Unit

Notwithstanding the complications posed by the IMF-Argentine relationship, cooperation is very important when implementing a program to maintain trade credit in times of crisis. This is a trite statement, but how often do institutions get this wrong and to what adverse effect. So with this in mind, one last thought for consideration is offered: the establishment of a Trade-in-Crisis Unit.

These Units would be comprised of a person representing each relevant IFI (including the IMF), the government, the exporting and industrial sectors, local commercial banks, government-owned institutions which would be implementing the program on the ground as well as an international commercial bank, a private insurer and an OECD ECA. Such a Unit would be established when a crisis hits an economy and would play an important role in designing a trade-credit-maintenance program and in working together to ensure smooth implementation of the program.

As this paper has emphasized, one cannot overstate the importance of diagnosing and dissecting a crisis before determining what measure and instruments to employ. As stated above, crisis brings chaos and in such environments, getting the information required to properly diagnose a crisis can be very difficult. Given the broad representation of such a Unit, it could be instrumental and pivotal in compiling the information required for a proper diagnosis.

While this paper has explored some possible measures to maintain trade credit during economic crisis, one must recognize that each environment and each crisis is different. The Trade-in-Crisis Unit would help ensure that blanket and uniform solutions are not indiscriminately imposed on each and every crisis. The Unit would ensure tailor-made solutions, which take into account the peculiarities and circumstance of each crisis.

<u>Crisis Requires Market-Friendly Intervention</u>

On the contrary, it prevents partnerships from emerging and it is partnership that is most required in emerging markets, as will be examined later.

Economic crisis, especially the magnitude of Argentina's, has devastating effects on people and threatens contagion regionally and internationally. While the arguments for no intervention can be compelling (especially when the method and means of intervention are ineffective) , the risks to intervention are acceptable when interference is kept to a minimum and works as much as possible in tandem with market forces. Finally, to diagnose the crisis accurately, is crucial in ensuring intervention is constructive and effective.

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