Trade Exchange

THE QUARTERLY MAGAZINE ALL ABOUT THE EBRD'S TRADE FACILITATION PROGRAMME JUNE 2012

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www.ebrd.com/tfp
TFP e-Learning Programme:
ebrd.coastlinesolutions.com

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EDITOR'S LETTER

Summer is here! And so is our third issue of *Trade Exchange*. As London enjoys an extraordinary summer commemorating the Queen's Diamond Jubilee and hosting the Olympic Games, the EBRD's TFP team and participating banks celebrated their own event, the TFP Annual Event and Awards Ceremony, which took place in London on 17 May 2012.

We have a dedicated feature on this event, which was attended by over 250 bankers and trade finance specialists. As part of the event the EBRD held an awards ceremony for its most active confirming and issuing banks. Find out which ones took the trophies home and which bank was the first to win the newly established ICC/EBRD Academic Excellence Award.

As we welcome to the EBRD TFP network new banks from the southern and eastern Mediterranean region, we will be telling you more about our activities, for example our information session in Cairo in April (see page 5).

The ICC used the EBRD platform to present the latest results of its Global Survey 2012: Rethinking Trade and Finance. You can find a short summary and the key findings of this survey, also on page 5.

Our regional sections are full of stories from Russia and Mongolia, which we received from EBRD Resident Offices and our participating banks.

But don't think we haven't been busy back at the office. We have launched the new Trade Finance e-Learning Programme web site where you can find out about what training projects we have developed throughout the year. Please visit http://ebrd.coastlinesolutions.com.

Lastly, we are also very excited to tell you more about the EBRD's newly elected president – Sir Suma Chakrabarti – the first ever from the United Kingdom.

Happy reading!


Sir Suma Chakrabarti

Kamola Makhmudova

Kamola Makhmudova, Executive Editor
makhmudk@ebrd.com

Find out how Mongolia is thriving
PAGE _20

NEWS *UPDATE*

The EBRD Board of Governors' session at the Annual Meeting

FOCUS ON

Managing in turbulent times

The EBRD brought its 21st Annual Meeting and Business Forum to its headquarters in London on 17-19 May 2012. The overall theme was "Managing in turbulent times" – an apt topic in these fast-paced, yet uncertain, times.

At the opening session, EBRD President Thomas Mirow, Austrian Finance Minister Maria Fekter and UK Chancellor of the Exchequer George Osborne noted that the EBRD continued to play an important role in fostering economic growth amid the recent turmoil in global financial markets.

As in previous years, the TFP invited its members and everyone interested in the topic of financing international and intra-regional trade to attend the TFP Annual Event and Awards Ceremony (see more on pages 10-15).

A NEW PRESIDENT…

The EBRD Board of Governors elected Sir Suma Chakrabarti as President of the EBRD for the next four years, from 3 July 2012. Sir Suma, currently the most senior civil servant in the British Ministry of Justice, has long experience in international development economics and policy-making. He played a key role developing the United Kingdom's successful Know-How Fund for Central and Eastern Europe, set up in the early 1990s, and worked with the European Commission in improving its programmes in the Middle East and North Africa.

…AND A NEW REGION

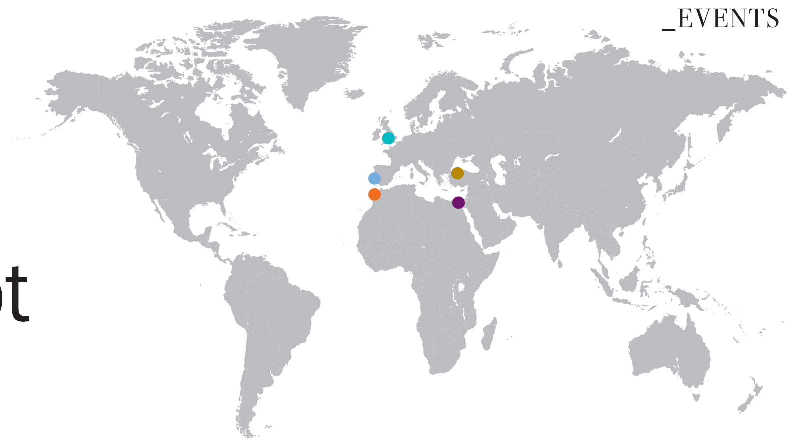
The EBRD's shareholders agreed to the creation of a €1 billion special fund to start investments in emerging Arab democracies in response to the wave of political change in parts of the Middle East and North Africa. The Bank is planning to invest up to €2.5 billion a year in the southern and eastern Mediterranean, specifically Egypt, Jordan, Morocco and Tunisia, and has already opened preliminary offices in these countries.●

www.ebrd.com/news

OPINION

"Similarly to the situation in the late 1980s and early 1990s, the international community should now also extend "the hand of friendship" and make the necessary resources available to help the peoples in the Arab world who yearn for economic development and political participation."

George Osborne, Chancellor of the Exchequer, UK



CAIRO DISCUSSIONS

Trade finance options for Egypt

With the ongoing political and economic uncertainties in Egypt, many foreign investors and business partners have become cautious about their activities there. Trade finance has been particularly affected, with many foreign commercial banks reducing their trade finance limits for banks in the country. This has made it difficult for local importers and exporters to conduct their international trade finance business.

As part of the EBRD's planned expansion to the southern and eastern Mediterranean (SEMED) region, the TFP team held an information session in Cairo on 23 April. The aim was to show local banks how the programme works and what the advantages are of joining it.

More than 60 local representatives and specialists attended the event. Particularly popular was a panel discussion featuring representatives of Commerzbank, JP Morgan and Rabobank. It provided practical feedback on the advantages of working with the EBRD and the opportunities for cooperation under the TFP in Egypt and other SEMED countries.

The session also explained what trade finance training and consultancy services the EBRD offers.

One TC project that Egyptian banks have already been able to take advantage of is the Trade Finance e-Learning Programme for trade finance specialists. A graduation ceremony took place at the end of the information session to recognise the achievements of the first Egyptian trade finance bankers to have completed the programme.●

Below: Mohamed El-Naggar, National Bank of Egypt, Rudolf Putz, EBRD TFP and Vincent O'Brien, ICC Banking Commission

ICC SURVEY 2012

Mixed economic messages

A new report from the International Chamber of Commerce (ICC) analysing global trade finance patterns is set to enhance our understanding of international trade finance markets. It was launched at the EBRD's Annual Meeting and Business Forum on 17 May 2012.

The report – entitled "ICC Global Survey 2012: Rethinking Trade and Finance" – came about during the global financial crisis of 2008-09. The lack of comprehensive trade finance data meant that businesses and policy-makers found it hard to make informed decisions; in particular, the inability to estimate the size of market gaps and where such gaps existed was something that could be avoided in the future.

The survey, which began back in 2009, shows that bankers and traders face some tough decisions in 2012 as they strive to decipher an abundance of mixed economic messages. Market conditions remain grim, with traders' confidence sliding because of market volatility. The supply and demand of trade finance remains in jeopardy, and regulatory constraints are causing considerable concern. At the same time, the banking sector faces fundamental challenges: greater competition, consolidation of business with core trade institutions, increased capital costs, changing patterns of global trade and a retrenchment of European banks, which were previously the world leaders in commodity finance.

The international trade in goods and services is vital for a well-functioning global economy and this survey provides the knowledge needed to help keep trade moving.●

Below: Thierry Sénéchal and Kah Chye Tan, ICC Banking Commission

Future Events

TFP Information Session on Financing Foreign Trade with Morocco

11 SEPTEMBER 2012

CASABLANCA, MOROCCO

The TFP will host an information session in which leading foreign commercial banks active under the TFP will share their experiences of financing foreign trade with Morocco. The TFP will also present its recent initiatives in education and professional development of bankers and trade finance specialists in the region.

Contact the EBRD TFP team for more information.

TFP Trade Finance Forum

26-28 SEPTEMBER 2012

ISTANBUL, TURKEY

This year's TFP Trade Finance Forum will feature sessions covering topical international trade finance issues and, as in previous years, will offer excellent networking opportunities. The Forum attendance is free of charge but participants are expected to cover travel and accommodation costs.

Contact the EBRD TFP team for more information.

ICC Banking Commission Meeting

15-19 APRIL 2013

LISBON, PORTUGAL

Contact Paulina Martinez at paulina.martinez@iccwbo.org for more information.

TOP INDUSTRY AWARDS

TFP wins major accolades

Rudolf Putz, EBRD TFP receiving the award from *Trade Finance Magazine*

This year the EBRD scooped two top industry awards: the Best Global Developmental Financial Institution Award, in the *Trade Finance Magazine* Awards for Excellence 2012, and Gold Award as the Best Developmental Financial Institution, in *Trade & Forfaiting Review*'s Excellence Awards 2012.

Commenting on the awards, Rudolf Putz, Head of the TFP, said: "We are delighted that the readers of *Trade Finance Magazine* and *Trade & Forfaiting Review* have once again recognised the EBRD's achievements."

He added that the awards were important because they could help to raise donor funds from EBRD shareholders and attract additional risk-taking capacity from international development agencies. "All of our trade finance conferences, our e-Learning Programme, training courses and consultancy projects are sponsored by international donors," he explained. "They, along with other development agencies such as FMO and OFID, also provide us with additional risk-taking capacity in countries where the demand for trade finance exceeds the EBRD's own ability to take risk."

For more information please visit www.ebrd.com/pages/workingwithus/trade/news.shtml.

PRESS TALK

"What I love about the TFP's *Trade Exchange* is that it showcases trade finance and project finance deals in action, on the ground, making a difference to a region's GDP. We get to meet the exporter, how the TFP funding was used and how the risk was managed in each country of operation. Keep them coming!"

Clarissa Dann
Editor, *Trade & Forfaiting Review*

"*Trade Exchange* is a helpful, fact-filled publication giving a comprehensive overview of financing projects being supported by the EBRD. As the financial crisis deepens, the role of multilateral development banks in supporting projects from less developed countries has become vital. *Trade Exchange* shines a light on the important work the EBRD is doing in this field."

Ron Katz
Editor, *DCInsight*
(*DCInsight* is ICC's quarterly magazine on letters of credit. To order a copy, visit www.iccbooks.com.)

Facts & figures

A brief history

Launched in 1999, the Trade Facilitation Programme (TFP) aims to promote foreign trade to, from and among the EBRD countries of operations through a range of products.

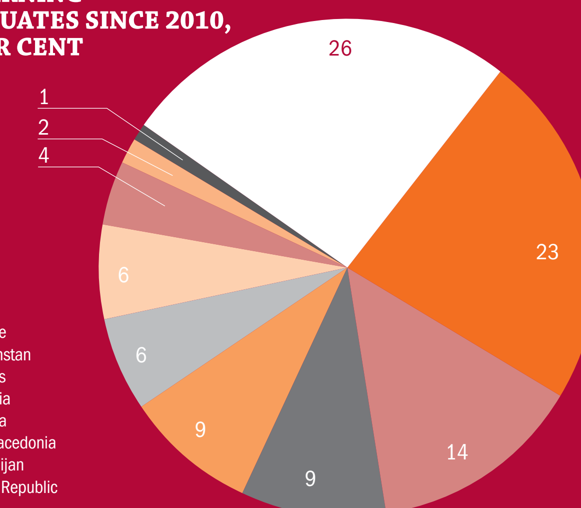
Through the Programme, the EBRD provides guarantees to international confirming banks and short-term loans to selected issuing banks and factoring companies for on-lending to local exporters, importers and distributors.

CONFIRMING BANKS OPERATE IN 77 COUNTRIES

TOP 10 CONFIRMING BANKS
January-March 2012

	Bank	Country
1	Commerzbank	Germany
2	UBS	Switzerland
3	Deutsche Bank	Germany
4	Raiffeisen Bank International	Austria
5	UniCredit Bank Austria	Austria
6	UniCredito Italiano	Italy
7	Credit Suisse	Switzerland
8	Yapi ve Kredi Bankasi	Turkey
9	JPMorgan Chase	United Kingdom
10	Intesa Sanpaolo	Italy

E-LEARNING GRADUATES SINCE 2010, IN PER CENT



TOP 10 COUNTRIES BY NUMBER OF TRANSACTIONS
January-March 2012

	Country
1	Belarus
2	Georgia
3	Russia
4	Armenia
5	Ukraine
6	Kazakhstan
7	Azerbaijan
8	FYR Macedonia
9	Moldova
10	Serbia

101
NUMBER OF ISSUING BANKS IN 20 EBRD COUNTRIES OF OPERATIONS

€1.4 billion
TOTAL VALUE OF INTRA-REGIONAL TRANSACTIONS SINCE 1999

800+
NUMBER OF CONFIRMING BANKS OPERATING IN 77 COUNTRIES *see map above*

2,300
TOTAL NUMBER OF INTRA-REGIONAL TRANSACTIONS SINCE 1999

IN *DEPTH*

KEEPING TRADE *FLOWING*

Imports are holding up well in light of the financial crisis

When the global financial crisis struck, some observers feared the real economy would be damaged. There were concerns that world trade flows might be negatively affected, aggravated by the European sovereign debt crisis. But what has been the reality for imports in the EBRD's countries of operations?

In general, the situation has been encouraging. Despite imports of the EBRD's countries of operations between 2008 and 2009 falling by around 30 per cent to below US$ 1 billion, they recovered well to about US$ 1.2 billion in 2010-2011, although not to pre-crisis levels. Also, the principal importers could defend their relative positions: Russia, for example, holds a sustained share of about 22 per cent of imports among these countries, followed by Poland and Turkey with about 15 per cent each.

Charts 1 and 2 show the trends in trade flows and the turnover in documentary transactions.

Some trade finance specialists believed the crisis would lead to a renaissance of the letter of credit (L/C) and its kid brother, the documentary collection (D/C), since suppliers may have sought more security. Again, these expectations were not realised. Evidently suppliers' confidence in Turkey, central and eastern Europe and the central Asian countries remained strong.

An analysis of the flow of outgoing L/Cs (MT700) and payment advices for D/Cs (MT400) showed the same trend as import volumes. While the total number of L/Cs and D/Cs for imports by EBRD countries of operations decreased in 2009 by 13 per cent to 220,000 – in line with the general slump in import volumes – numbers recovered again to an annual average of roughly 240,000 in 2010/2011.

> "Sustained levels of trade depend on the outcome of the European sovereign debt crisis"

Also, there was no shift from D/Cs to L/Cs – as some observers may have expected – because of any desire for more protection. Of all L/Cs and D/Cs used for imports by EBRD countries of operations, L/Cs make up a sustainable 60 per cent.

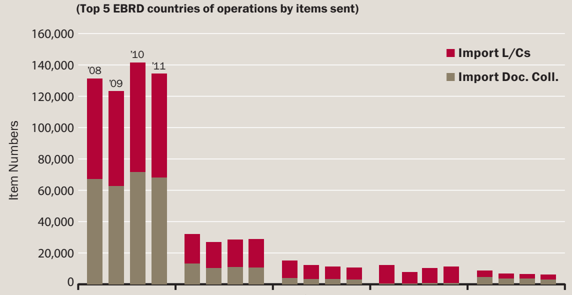
It is interesting that use of the L/C and D/C to handle imports does not correspond with import volumes. Turkey, for example, has a tradition of carrying out imports by means of documentary transactions and, of all countries of operations, uses the highest number of these instruments; but it ranks clearly behind Russia in terms of import volume.

In contrast, Russia executes a relatively small portion of its imports by means of documentary business (ranking only fourth in terms of L/Cs and D/Cs for imports – see Chart 1) but is the largest importer among the EBRD countries of operations (see Chart 2). Significant intra-CIS trade volumes contribute to this.

Looking ahead, sustained levels of trade depend on the outcome of the European sovereign debt crisis, among other things. The EBRD's Trade Facilitation Programme will be instrumental in keeping trade moving.

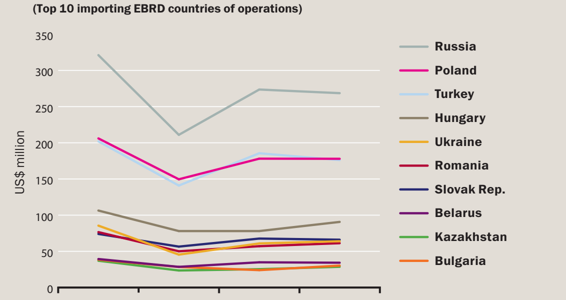
Michael Hennecke, Senior Vice President, Landesbank Baden-Württemberg

Chart 1
Import letters of credit and import documentary collections
(Top 5 EBRD countries of operations by items sent)



Source: SWIFT

Chart 2
Annual import volume
(Top 10 importing EBRD countries of operations)



Source: IMF, Direction of Trade Statistics. Note: Est. refers to extrapolation, utilising 1st half 2011 numbers.

CREDIT SUISSE

JOINING FORCES

Credit Suisse shares risk with the EBRD

By working together, issuing banks, confirming banks and the EBRD's Trade Facilitation Programme can add value to international trade and bring together financial institutions on all levels. A complex transaction involving an infrastructure project, supported by Ukreximbank, is a perfect example of this. And we at Credit Suisse are pleased to be a part of it.

We have been operating under the TFP since 1998, but so far only as a confirming bank, so this was our first experience of risk-sharing.

When Ukreximbank approached us about risk-sharing with the EBRD in order to release limits for deals in the pipeline, we were eager to support our key relationship in Ukraine – the bank is an anchor of stability in the country's banking system and the most active Ukrainian bank under the TFP.

We decided to take part in the risk-sharing because TFP transactions are carefully reviewed and they usually support high-profile projects with strategic importance for the issuing bank, corporate clients, the country of origination and eastern Europe as a whole.

And with the EBRD facilitating the documentation as well as taking ultimate credit risk, our Financial Institutions, Credit Risk Management, and Syndication and Distribution teams were happy to green-light, negotiate and execute the agreement.

In my view, the TFP is a guarantee of quality for high business standards, enhanced due diligence and a good risk-return profile. This is because transactions are reviewed by professionals with both global and local expertise, and are approved on multiple levels.

We are very grateful to the whole TFP team for the longstanding cooperation we have enjoyed over the years, and especially for being the driving force behind this transaction.

Thank you very much for such an enriching and fruitful cooperation!

Aneta Anguelova, Senior Relationship Manager, Credit Suisse

> "In my view, the TFP is a guarantee of quality for high business standards"
>
> Aneta Anguelova

Sharing the risk

With the EBRD having a limited risk-taking capacity, the TFP actively invites co-financing partners to share risk with the EBRD in TFP transactions in order to increase available trade finance limits for issuing banks.

Co-financing partners include other development agencies such as FMO, the Dutch development bank, and OFID, the OPEC Fund for International Development. Both institutions share risk with the EBRD in TFP transactions in countries such as Armenia, Azerbaijan, Georgia, Moldova, Russia and Tajikistan.

Marco Nindl, Associate Banker, EBRD

Ozgur Sulkalar, Demir Kyrgyz International Bank receiving the award

TFP ANNUAL EVENT AND AWARDS CEREMONY 2012

A day ahead of the EBRD's Annual Meeting and Business Forum, on 17 May 2012, more than 250 bankers and trade finance specialists from around the world gathered at the EBRD's headquarters to debate the vital economic topic of trade finance.

Rudolf Putz, Head of the TFP, highlighted the challenges that commercial banks involved in trade finance and small and medium-sized enterprises faced following the credit crisis and recent turmoil in the financial markets.

"There was less foreign funding and risk-taking appetite available from commercial banks, especially when it came to lending to or working with smaller private banks in eastern Europe and the CIS. The costs for foreign funding and confirming fees were also significantly higher than they used to be," he said.

In addition, more stringent regulation can prove a challenge to the trade finance community. While important for many aspects of banking, the rules foreseen on bank leverage in Basel III can have a negative effect on trade finance in eastern Europe and central Asia, the participants of the panel discussion agreed.

Despite this regulatory challenge and the debt crisis in many Western countries, the participants were overwhelmingly positive about the outlook for trade finance in central Europe and central Asia.

With trade activity growing between CIS countries, Russian bankers were particularly enthusiastic about the various opportunities presented by intra-regional trade finance. >

Marco Nindl, EBRD TFP, Bat-Ochir Dugersuren, XacBank and Daniel Bolschun, EBRD TFP

Networking at the TFP Annual Event

Exchanging views on trade finance

Thierry Sénéchal, ICC Banking Commission

Anna Belyaeva and Oksana Gudzenko, Promsvyazbank and Rudolf Putz, EBRD TFP

Mirjana Zalar, EBRD TFP

Saša Obradović, Čačanska Banka Čačak

The TFP is grateful to the donors and sponsors who have provided financial support for its 2012 Annual Event and Awards Ceremony.

Sergey Budkin and Vladislav Kolpakov, BystroBank

"The Russian trade turnover with CIS countries increased by more than 6 per cent in the first quarter of 2012 compared with the first quarter in 2011 and exceeded US$ 27 billion," stated Olga Strekalova, Managing Director for Trade Finance and Forfaiting at VTB Bank. This trend is expected to continue and provides good opportunities for trade finance in the foreseeable future, several participants added.

The event also saw a lively discussion on the launch of the ICC Global Survey 2012: Rethinking Trade and Finance (see page 5).

TRADE FINANCE AWARDS

The event honoured the most active TFP issuing and confirming banks by number of transactions in 2011.

For the first time, the EBRD, together with the ICC, handed out a new award for the bank whose participants obtained the best results in the EBRD Trade Finance e-Learning Programme. ●

This year's TFP Annual Event and Awards Ceremony could not have happened without Portuguese and Taiwanese funding and support from our sponsors Bank of Georgia, BHF-Bank, Commerzbank, Credit Suisse and Landesbank Baden-Württemberg.

"TRADE FINANCE IS A VITAL PIECE OF THE PUZZLE THAT KEEPS OUR ECONOMIES GOING EVERY DAY"

TFP AWARDS 2011

Most active TFP issuing banks and confirming banks in 2011, by number of transactions

Most active confirming bank
COMMERZBANK

Most active issuing bank in Armenia
ARARATBANK

Most active issuing bank in Azerbaijan
Bank Respublika

Most active issuing bank in Belarus
Priorbank

Most active issuing bank in Bosnia and Herzegovina
Raiffeisen BANK

Most active issuing bank in FYR Macedonia
komercijalna banka ad skopje

Most active issuing bank in Georgia
Bank of Georgia

Most active issuing bank in Kazakhstan
CENTERCREDIT

Most active issuing bank in the Kyrgyz Republic
DemirBank

Most active issuing bank in Moldova
Moldova Agroindbank

Most active issuing bank in Mongolia
KHAN BANK

Most active issuing bank in Mongolia
XacBank

Most active issuing bank in Russia in short-term trade finance
CREDIT BANK OF MOSCOW

Most active issuing bank in Russia in medium-term trade finance
Promsvyazbank

Most active issuing bank in Serbia
ČAČANSKA BANKA a.d.

Most active issuing bank in Ukraine
Raiffeisen BANK AVAL

Most active issuing bank in Turkmenistan

Most active local confirming bank in intra-regional trade
İŞBANK

ICC/EBRD Academic Excellence Award
komercijalna banka ad skopje

COMMERZBANK, GERMANY

Axel Nikolaus Bommersheim and Per Fischer, Commerzbank

Commerzbank has received the TFP award for the most active confirming bank for the eighth time. This is largely due to our wide bank-client network in eastern Europe and the CIS. Many banks, corporates and countries benefit from the TFP and we thank all of our partner institutions for their contribution to this remarkable success.

Ayse Gulenc Tuna, Türkiye İş Bankası receiving the award

TAIPEI REPRESENTATIVE OFFICE, UK

Congratulations to the EBRD TFP team on its outstanding performance in 2011, especially given the difficult global economic conditions. The year 2011 also saw the launch of the EBRD's quarterly magazine *Trade Exchange*. This and other TFP initiatives encourage banks and their clients to promote international trade. I am proud that the Taipei Representative Office in the UK is a proactive partner of TFP projects.

Ambassador Lyushun Shen, Taipei Representative Office in the United Kingdom

Ana Kavtaradze, Bank of Georgia

AWARDS SPECIAL ~ AWARDS SPECIAL ~ AWARDS SPECIAL

Vladislav Lee, Bank CenterCredit receiving the award

Ivan Varenitsa, Priorbank

Gagik Sahakyan, Ameriabank and Vincent O'Brien, ICC Banking Commission

Olena Kosenko, Wells Fargo Bank and Valentina Nagay, Sberbank (Kazakhstan)

Marco Nindl, EBRD TFP and Degi Erdenedelger Bavlai, Khan Bank

Zaruhi Melkonyan, Araratbank accepting the award

Daniel Bolschun, EBRD TFP and Dmitry Zakharov, Belrosbank

Elena Urumovska, EBRD accepting the ICC/EBRD Excellence Award on behalf of Komercijalna Banka Skopje

Left: Graça Imaginario, Millennium BCP and Gladstone Siqueira, Banif

Abel Mateus, Board Director for Portugal and Greece, EBRD

PORTUGAL/GREECE CONSTITUENCY, EBRD

Portugal was happy to sponsor the 2012 TFP Annual Event, which brought together businesses, banks and trade finance experts to discuss the challenges and opportunities that trade faces in the EBRD's countries of operations in the current context of economic and financial turbulence.

Katerina Vasilenko and Philipp Rossberg, JP Morgan Chase Bank and Olena Kosenko, Wells Fargo Bank

TFP ANNUAL EVENT AND AWARDS CEREMONY 2012

Aslan Abasov, Bank Respublika, Kamola Makhmudova, EBRD TFP and Axel Nikolaus Bommersheim, Commerzbank

Rudolf Putz, EBRD TFP, Aneta Anguelova, Credit Suisse, Evgeny Kaplin, Sberbank, Olga Strekalova, VTB Bank, Sergey Kostogryz, Raiffeisen Bank Aval and Ivan Varenitsa, Priorbank

CREDIT BANK OF MOSCOW, RUSSIA

REAPING THE REWARDS

Boris Bezrukavnikov explains how Credit Bank of Moscow has benefited from participating in the TFP

At Credit Bank of Moscow, we have been enjoying membership of the TFP since 2005, having concluded more than 200 deals and greatly expanded our partner bank network and client base.

We have been able to work with a much larger group of financial institutions and to expand our product range.

Of course, achieving relatively large business volumes in trade finance is not possible without succeeding in the domestic market; for example, our assets were up 40 per cent[1] in 2011 compared with 2010, asset quality is good (1.1 per cent of NPLs), we have a diversified funding base that is supported by our shareholders, and a solid reputation in a very competitive market. What is more, we focus primarily on trading companies in Moscow and the Moscow region, offering a full range of banking products, a flexible working relationship with our clients, and tailor-made solutions backed by reasonable risk management policy.

A HELPING HAND

We believe the key to success is having access to the TFP line not only in times of economic growth, but during downturns when there tends to be a lack of credit. Through the TFP, the EBRD extends a helping hand, which is crucial for the issuing banks.

The TFP is also sometimes the only option for financing deals beyond the scope of unsecured bilateral lines, whose tenors typically do not exceed 540 days for medium-sized, privately owned banks. So the TFP is one of the limited sources of medium-term funding.

Besides these advantages, TFP participants also benefit from an intensive e-learning programme and a wide number of conferences and seminars with useful networking events.

We have found that cooperating with the EBRD and taking part in its TFP gives us a significant advantage in meeting customers' needs and extending our international business.●

Boris Bezrukavnikov, Head of Trade and Structured Finance, Credit Bank of Moscow

A view of Moscow's international business centre, known as Moscow-City

"We have concluded more than 200 deals and greatly expanded our partner bank network and client base"

[1]According to audited IFRS financial statements for 2011.

ASIAN-PACIFIC BANK, RUSSIA

A freight train crossing Primorskiy Kray in Russia's Far East

TRADE FINANCE WITH A SIBERIAN *FLAVOUR*

As small businesses in Russia grow, banks are looking to the TFP for help

Since joining the TFP as an issuing bank in 2011, we have conducted numerous transactions under the TFP. However, most of them are not in our core region – Russia's Far East. Our efforts to promote trade finance in this vast territory have so far resulted in just a dozen letters of credit.

It goes without saying that the biggest trading partner for small and medium-sized enterprises (SMEs) in eastern Russia is China. Almost all of our customers and their Chinese counterparts use money transfers as the payment method. There may be deferred payments by 180 days after shipment of goods or 180 days before it, or 50 per cent advance along with the order and 50 per cent balance against a bill of lading sent by fax, but always money transfers. No letters of credit, no collections, no guarantees.

These payment patterns have developed over years of cross-border trade with China, after the state monopoly for foreign trade in Russia was abolished in 1991. Russian newcomers entered the market and many were unfamiliar with trade finance instruments. Trying to minimise their risks they opted to split payments, and their Chinese counterparts were eager to support them.

UNFAMILIAR TERRITORY

Now many start-ups have developed into well-established enterprises and want to grow further, and they need to finance their foreign trade business as inexpensively as possible.

But the idea of using letters of credit as instruments for reducing risks, and on comparatively competitive terms, is still alien to many of them. But with technical assistance from the EBRD we hope to work closely with clients on increasing the use of documentary instruments in trade finance transactions with Chinese counterparts.●

Alexander Golev, Director of International Business and Financial Institutions Department, Asian-Pacific Bank

EBRD RESIDENT OFFICE, MOSCOW

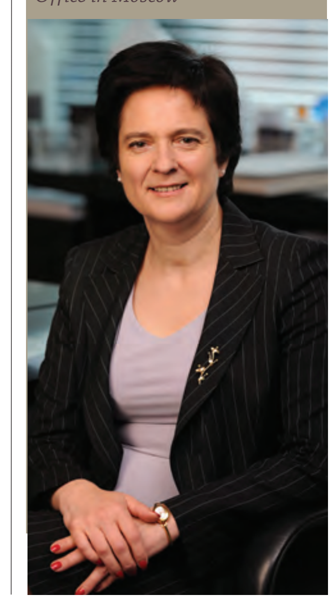
20 years in Russia

The EBRD's Resident Office in Russia first opened its doors in autumn 1991. Since then it has faced dramatic events such as the political upheavals of October 1993 and the financial crisis of August 1998.

Over the 20 years of operating in Russia, the EBRD has provided over €20 billion to more than 700 successful projects in all sectors of the economy. In 2011 the Bank had a record year with 74 new transactions, including 23 equity investments, worth close to €3 billion and accounting for about a third of the Bank's 2011 business.

To promote trade and Russia's integration in the world economy the EBRD has facilitated 2,824 transactions worth €3.38 billion since 1999, and is currently supporting 24 Russian issuing banks.

Natasha Khanjenkova, Head of the EBRD's Resident Office in Moscow



LOCKO-BANK, RUSSIA

SUPPORTING SMALL BUSINESS

Banks need to spread the word about trade finance, as Tatyana Muravyeva and Marina Musiets explain

Trade finance contributes hugely to a country's business sector and economy. A study by Russian ratings agency Expert RA in 2011 revealed that, as of the end of 2010, the volume of documentary operations totalled US$ 115 billion. This made up about 18 per cent of Russia's total foreign trade turnover in 2010.

The most popular instrument was the export letter of credit, accounting for over 50 per cent of total volume. Import letters of credit, making up over 10 per cent, were the next most popular.

So there is no denying that trade finance is important. But who uses it the most?

There is popular belief that large corporate clients are the main consumers of trade finance, but when looking at the number of transactions, small and medium-sized enterprises (SMEs) take a large share of import financing transactions. Expert RA estimates that more than half of import trade finance contracts are executed with SMEs.

Most of these contracts are guarantees, standby letters of credit, confirmation on uncovered basis and letters of credit with financing.

But SMEs tend not to use trade finance products on a mass scale because their comparatively weak financial indicators mean they find it difficult to borrow from banks; when liquidity is scarce, most banks favour large and financially stable returning clients.

Operating on a smaller scale, however, can work in the SME's favour. The financial crisis, followed by a decline in available financing and shorter tenors offered by foreign financial institutions, had a less adverse effect on the trade finance business of SMEs than of large corporates. This is because SMEs aren't usually involved in the large investment projects that require large amounts of funds and long-term financing.

MORE SME INVOLVEMENT

Some banks specialise in lending to SMEs as well as offering trade finance products. Locko-Bank is one example; as one of the top 10 Russian banks according to volume of SME lending and one of the most active participants in the trade facilitation programmes of the EBRD and International Finance Corporation, the bank is well placed to sell trade finance products to SMEs. In 2011 the average amount of import letters of credit issued by application of a typical Locko-Bank client was US$ 200,000.

> "Expert RA estimates that more than half of import trade finance contracts are executed with SMEs"

It is true that, when conducting trade finance, SMEs depend on their bank's expertise and support more than large corporates do. In many cases SMEs are not aware that they can reduce their financing costs through documentary operations and so don't apply to banks for trade finance products.

SME niche banks selling trade finance products need to educate their clients about trade finance through direct support, such as seminars and conferences. They may not see an immediate increase in documentary product sales, but it will lead to a gradual penetration of trade finance products in the SME sector.●

Tatyana Muravyeva, Head of Trade and Structured Finance, Locko-Bank

Marina Musiets, Deputy Head of Financial Institutions Rating Department, Expert RA

NBD BANK, RUSSIA

BANKING ON THE TFP

NBD Bank's Artem Betin explains how banks and small businesses alike benefit from the TFP

As a bank specialising in supporting small and medium-sized enterprises (SMEs), NBD Bank's participation in the EBRD's Trade Facilitation Programme is vital.

SMEs in central Russia rarely import or export on their own. As a rule they are companies acting as agents that link importers and end-consumers. They purchase foreign goods that have already been imported by larger wholesalers and distribute them regionally. These are our target clients. Taking part in the TFP means that we can meet these clients' needs better than ever.

Our partnership with the TFP began in 2004 when we were the first regional Russian bank to become an issuing bank. Since then our work with the TFP has strengthened and we are now able to offer modern trade finance products to our clients.

INTRA-REGIONAL TRADE

We have also boosted foreign trade between our clients and their partners in the CIS and other countries of Europe and Asia. Since 2006, more than 130 transactions for the import of machinery and goods for a total of more than US$ 100 million have been supported by the TFP.

SMEs are the backbone of a vibrant market economy and by supporting them we can help to further the economic development in central Russia, creating new jobs and opportunities for smaller entrepreneurs outside Moscow.

For us, the result has been an increase in our trade finance portfolio by more than Rb 1 billion over two years, which totals 13 per cent of our overall portfolio. And, importantly, the quality of this portfolio remains high because all transactions financed under the TFP remain structured, and utilisation of funds is strictly monitored.●

Artem Betin, Trade Finance Manager, NBD Bank

> "SMEs are the backbone of a vibrant market economy and by supporting them we can help to further the economic development in central Russia"

Small businesses, such as this textiles manufacturer, benefit from the TFP

CHARTING MONGOLIA'S PROGRESS

Over the last 20 years trade volume has increased and export markets diversified. The EBRD's Office of the Chief Economist reports

After the collapse of the Soviet Union, Mongolia was forced to fundamentally change its place in the world economy and look for new trading partners in a competitive environment.

But sandwiched between China and Russia, the country is hardly in a favourable location for international trade: it is landlocked and 1,724 km away from the nearest seaport, sharing borders with only two countries.

Nevertheless, at the beginning of the 1990s when Mongolia began its transition from a centrally planned economy to a market-based open economy, it started to reform its trade structure and diversify its trading partners. Reforms accelerated after Mongolia joined the World Trade Organization in 1997. As a result, the country's average tariff rate has been significantly reduced to about 5 per cent from 18 per cent, trade volume has increased and trade flow has diversified.

WHAT, WHERE AND HOW MUCH

Chart 1 shows that China is Mongolia's largest single export market by far, accounting for around 80 per cent of exports, followed by Canada, Russia and the United Kingdom. In terms of export structure, mining products such as gold, copper and other minerals comprised approximately 80 per cent of Mongolia's exports on average. Manufactured goods made from livestock and raw materials, such as textiles and garments, represent approximately 20 per cent.

As for import markets, Russia and China constitute the largest proportion (see Chart 2). In fact, Russia supplies almost all of Mongolia's petroleum products – around an estimated 90 per cent as of 2011.

The effect of the global financial crisis of 2008-09 had a significant impact on Mongolia's international trade (see Chart 3). As a result, exports and imports declined by 25 and 34 per cent, respectively. However, this significant decline in trade was followed by a spectacular growth, with around 54 and 49 per cent increases in exports and imports, respectively. This trade recovery is driven by high economic growth in Mongolia fuelled by a mining boom and its main trading partner, China.●

Tsetserleg, capital of Arkhangai province in Mongolia

"China is Mongolia's largest single export market by far, accounting for around 80 per cent of exports"

Mongolia's buoyant economy

The Mongolian Empire was established by Genghis Khan and Mongolian warriors on horses moving at lightning speed. Eight hundred years later, backed by large deposits of minerals such as coal and copper and the fast growing economy of China next door, Mongolia is making impressive progress - two recent bond issues by Mongolian companies were 10 times oversubscribed, with over US$ 10 billion of investor demand.

In this thriving economy, the EBRD is playing a pivotal role by supporting the private sector, with US$ 560 million of investments in 43 projects since its office in Ulaanbaatar opened in 2006.

An active and healthy banking sector is essential for the diversification of Mongolia's economy and the EBRD has been a constructive partner by providing equity and loans to Mongolian banks for on-lending to small and medium-sized enterprises. In 2012 the EBRD expects to further expand its work in this vital area of Mongolia's economy.

Philip ter Woort, Head of the EBRD's Resident Office in Ulaanbaatar

Chart 1
Export destinations as a share of total exports

Source: National Statistical Office of Mongolia

Chart 2
Importing countries as a share of total imports

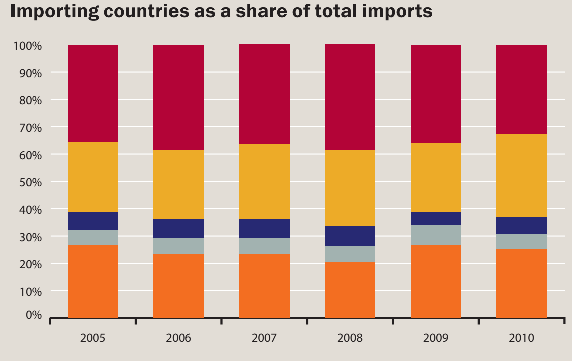
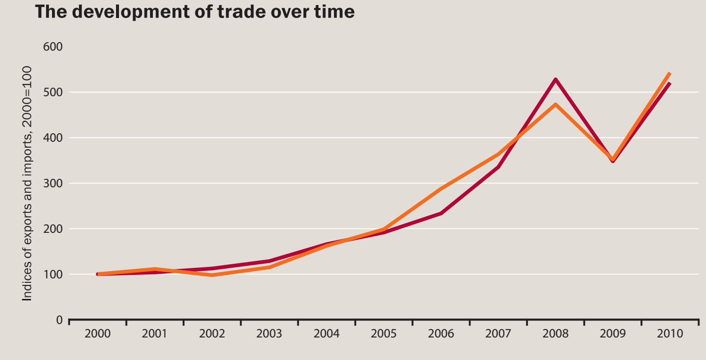


Chart 3
The development of trade over time



"Trade recovery is driven by high economic growth in Mongolia fuelled by a mining boom"

TRAINING *DIGEST*

E-LEARNING PROGRAMME GRADUATION IN ALMATY

Thirteen students from Kazakhstan have successfully completed the EBRD Trade Finance e-Learning Programme. The graduation ceremony to recognise the students' achievements took place on 10 April 2012 in Almaty.

Graduates included trade finance professionals from Kazkommertsbank, Bank CenterCredit, Alliance Bank, ATFBank and Sberbank.

Nine graduates were pleased to receive International Chamber of Commerce (ICC) certificates of achievements, which were presented to them by the EBRD's Mike Taylor, Director for Central Asia, Caucasus and Mongolia, Financial Institutions, and Michael Weinstein, Director for Kazakhstan.●

It was great to meet a group of such young, energetic and enthusiastic bankers totally committed to trade finance, which is, after all, the lifeblood of many of our partner banks' business. I wish them the best of luck in their future careers.

Mike Taylor, Director for Central Asia, Caucasus and Mongolia, Financial Institutions, EBRD

WHAT THE STUDENTS SAY

The e-Learning Programme has substantially improved my knowledge of trade finance and UCP 600. The tutorials are well-structured, it's very convenient to study on-line, and good examples are provided throughout all modules.

Nelli Rastopchina, Head of Financial Institutions and Global Transactions Banking, ATFBank

The e-Learning Programme was not only enjoyable but also useful. With an ever-changing environment in global trade, such a programme helps bankers to better meet clients' needs and raises awareness of the environmental and social risks in trade.

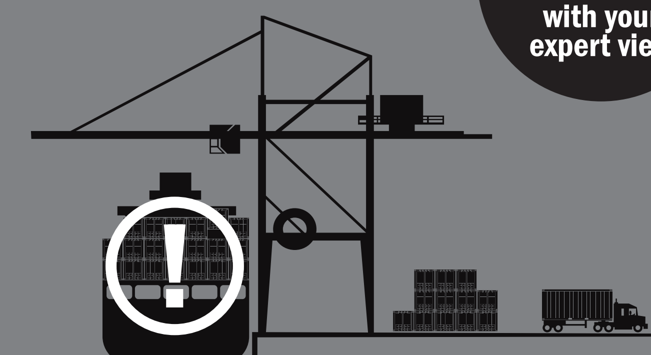
Sanzhar Bekbergenov, Head of International Department, Alliance Bank

Below: e-Learning graduates with Mike Taylor (centre) and Michael Weinstein (centre-left)

PIT YOUR WITS AGAINST THE EXPERTS!

Every issue of *Trade Exchange* will include a brain-teaser, drawn from the real-life trials of a trade finance expert. Here is your chance to demonstrate your ability to disentangle the most involved, contentious, or just plain weird combinations of documents and to solve a puzzle in the field of documentary collections.

What do you think?
Provide us with your expert view



Confirmed or not confirmed

We apologise for asking what appears to be a rather basic question, but even within our bank there are different opinions as to the correct approach to take when upholding the international rules for letters of credit – that is, UCP 600.

We issued a letter of credit for a large sum which was available with a nominated bank by deferred payment. The L/C was issued as "irrevocable transferable" and requesting confirmation.

The nominated bank effected one transfer of the L/C to one second beneficiary (shipper of goods) at the request of the first beneficiary.

However, the nominated and now confirming bank only added its confirmation to the credit as advised to the first beneficiary but did not add its confirmation to the portion transferred in favour of the second beneficiary, who was anxiously awaiting the arrival of a confirmed credit before it would actually ship the goods.

The problem is that the second beneficiary (shipper of the goods) refused to ship as it did not receive a confirmed letter of credit as agreed in its contract.

Can the bank that was requested to add its confirmation do so only to the credit as advised to the first beneficiary or must the confirmation also extend to the second beneficiary of the credit as transferred?

SOLUTION
"Military action as force majeure"

(March 2012 issue)

First, once the confirming bank has added its confirmation as per UCP 600, Article 2, it gives a "definite undertaking" to honour "a complying presentation" of documents.

Second, as the confirming bank did not issue a notice of refusal by the close of the fifth banking day following the day of presentation, the confirming bank is now clearly precluded from claiming that the documents do not constitute a complying presentation – and must honour.

Third, the unfortunate events mentioned did not interrupt or affect the business of the confirming bank whose undertaking is additional and separate to that of the issuing bank.

Bluntly put, the confirming bank in this case is quoting Article 36 out of context and must honour, which means the confirming bank has an obligation to effect payment on the maturity date.

WINNERS

The bankers and trade finance specialists who answered correctly are (in alphabetical order):

Innesa Amirbekyan, Ameriabank, Armenia
Lusine Balasanyan, Ameriabank, Armenia
Mohamed El-Naggar, National Bank of Egypt, Egypt
Mariia Minaeva, Locko-Bank, Russia
Vitaliy Shvayuk, Raiffeisen Bank Aval, Ukraine

Send your answers to **TF-Expert@ebrd.com.** Solutions and prize-winners will be announced in the next issue of *Trade Exchange*.

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