Powering trade in the energy sector

THE TFP in facts and figures

THE QUARTERLY MAGAZINE ALL ABOUT THE EBRD’S TRADE FACILITATION PROGRAMME MARCH 2012
First of all, a big thank you for the many emails we received following our first issue of Trade Exchange in December 2011. Our trade finance clinic was of most interest and attracted a good number of responses – six of you managed to find the right solution. Check the correct answer on page 23 and test your knowledge with another brain-teaser.

Last year was a successful one for the Trade Facilitation Programme (TFP) and we processed transactions in many different sectors. Hundreds of these transactions were in power and energy, and to tell you more about what we do in this sector my colleagues from the EBRD’s Power and Energy team have put together a short feature.

Our regional focus stories were sent to us this time from colleagues and participating banks in Belarus, Moldova and Ukraine. You can read about the views of banks participating in the TFP in those countries, as well as the EBRD’s activities there.

Our Trade Finance e-Learning Programme is highly respected throughout the industry. Read about the recent graduation ceremony in Moscow and the feedback from some of our students. But what of our continuing role in the trade finance community? Watch this space to find out how we will be contributing further.

We greatly enjoyed compiling this issue and could hardly squeeze in all the interesting contributions from around the world. Let us know what you think – contact us on makhmudk@ebrd.com and your message will go straight to the Editor’s inbox.

Happy reading!
A record year of investments in 2011 provided strong EBRD support to a region that continues to face risks, especially from persistent economic tension in the eurozone. The EBRD provided financing of just over €9 billion across countries stretching from south-eastern and central Europe to central Asia. This was up slightly from the €8 billion invested in 2010. The total number of individual loans and equity investments remained strong at 360.

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**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.

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**News update**

ACHIEVEMENTS

**Trading} Update**

FACTS & FIGURES

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“Due to the continued lack of availability of trade finance in many countries of [the] EBRD’s region, and combined with the increased demand for trade finance, it is expected that the EBRD’s TFP will remain high in demand.”

Trade Finance
June 2011

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“This is a must read for anyone interested in trade facilitation programmes. The EBRD have come up with an extremely well-designed publication that just oozes with useful stats and interesting highlights. I am looking forward to the next one.”

Dickon Harris
Deputy Editor, Trade Finance

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Trade finance uncertainty as IFI additionality increases

Trade finance has had another rollercoaster year in 2011, and the outlook for the industry this year is becoming at least as challenging.

In this post we take a look back at developments in trade finance in 2011, and examine the outlook for 2012, with a particular focus on the strong role of the EBRD’s Trade Facilitation Programme in this area.

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To read more visit: www.ebrdblog.com/wordpress/2012/02/rising-uncertainty-for-trade-finance-and-increasing-ifi-additionality.
"Being part of the TFP has certainly brought huge benefits for us"

Vitaliy Kyslenko

RAFFEISEN BANK AVAL, UKRAINE

LASTING RELATIONSHIPS

Vitaliy Kyslenko of Raiffeisen Bank Aval reflects on his bank’s cooperation with the EBRD

It’s been 10 years since Raiffeisen Bank Aval and the EBRD began working together under the TFP. Despite our experience in documentary business and trade finance, and having a strong position in the Ukrainian banking market, entering into the TFP immediately opened up new challenges and opportunities for us to improve our trade finance business. Over the past 10 years the TFP team has been continually developing advantages for its participating banks. In particular, the range of products has expanded. For example, banks are able to act as issuing banks and confirming banks, as well as receive cash advances under the revolving credit facility. The EBRD also cultivates a high level of professionalism in its participating banks through training and consultancy services. Its online training – the e-Learning Programme – is one of the best examples of how it ensures banks have a detailed understanding of trade finance and documentary business.

Being part of the TFP has certainly brought huge benefits for us. For instance, the mere fact we were approved as a participating bank was an affirmation of our good reputation. Then after being approved, most other participating banks in the EBRD’s countries of operations received information about us, which automatically extended our business relationships. Although the TFP is not the only credit line our bank has that supports trade-related transactions, it has given additional confidence to us and our customers, especially in times of crisis. The quality of TFP services is a new benchmark that we use when establishing relationships with other banks for trade-related transactions. With TFP support Raiffeisen Bank Aval has finalised transactions for Ukrainian importers and supported businesses in areas such as automobiles, agricultural machinery and retail of household equipment. I am sincerely grateful to the TFP team for its long-term support, loyalty, development and training opportunities.

Vitaliy Kyslenko, Head of Public Sector and Trade Finance Division, Raiffeisen Bank Aval

Conducting trade finance is tough work in Belarus

If anyone asked me to describe our work in documentary business in one word, I would say that it was a fight – a fight to defend our customers’ desire to be successful and rightful importers on the international markets.

One of the difficulties is how foreign banks in developed countries view Belarusian banks; the risks involved when dealing with Belarusian banks are high, and nowadays access to the news is so easy and the ratings of various countries tend to make headlines. Another obstacle is that prepayment for imported goods is still forbidden in our country, so a letter of credit is the only payment method for most of our customers. That is why the EBRD’s Trade Facilitation Programme is our best chance of obtaining confirmation and guarantees from foreign commercial banks. What is more, when we want to cooperate with an unknown bank, we pay special attention to whether it collaborates with the TFP; if it does, we know we can easily establish a relationship and that it will accept EBRD guarantees. Competition among Belarusian banks is high and our experience and knowledge are essential, which is why we are constantly striving to learn and obtain new skills. The TFP e-Learning Programme has brought us new benefits, practical knowledge and key answers to questions that often arise in our daily operations. It has also made our staff real business experts and professionals. Thanks to the documentary business we conduct we are getting to know new customers. And thanks to our customers, we are working with new banks – all of which will help us to win our fight!

Kate Bogomazava, Deputy Head of Settlements Department, Minsk Transit Bank

MOLDOVA-AGROINDBANK

Support for intra-regional trade

We have been active as an issuing bank under the TFP since 1999. The EBRD particularly supports us in intra-regional transactions; one example being the import of metal products to Moldova from Ukraine. We issued several letters of credit confirmed by ING Bank, Ukraine, and the EBRD guaranteed 100 per cent of the political and commercial risk.

Our participation in the TFP has allowed us to improve our trade finance business and widen the range of products and services we offer. And our clients benefit too; they enjoy limited risk and lower funding costs, and because the TFP provides an additional source of funding, they have been able to increase their international trade activity and expand their market share.

Natalia Vrashke, President, Moldova-AgroindBank

EBRD RESIDENT OFFICE, KIEV

The EBRD is the largest financial investor in Ukraine

Our Resident Office in Kiev reports on its results for 2011

The EBRD is the largest financial investor in Ukraine. As of 31 December 2011 it had committed over €7.5 billion (US$ 9.6 billion) in 294 projects. Last year saw the Bank’s second highest operational result since 1993; it signed 41 new transactions worth €1.02 billion (US$ 1.3 billion).

Other significant numbers for 2011

• 35 private enterprises and 5 financial institutions benefited from EBRD funding.
• The Bank made 16 equity investments, which set an all-time annual record for the EBRD in Ukraine.
• Almost €20 million went into projects in the manufacturing sector.
• Agrifinance signings matched over €190 million through 12 transactions.
• Nearly €19 million was provided to the Ukrainian banking sector.
• The Bank launched a new US$ 100 million lending facility for micro, small and medium-sized enterprises in Ukraine.

"Being part of the TFP has certainly brought huge benefits for us"

Vitaliy Kyslenko

MINSK TRANSIT BANK, BELARUS

STRIVING FOR SUCCESS

In depth

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Kate Bogomazava, Deputy Head of Settlements Department, Minsk Transit Bank

Commerzbank, Germany

Using clean lines and EBRD limits, Commerzbank has a long history of trade finance with banks in Moldova, Ukraine and Belarus. In Moldova, GDP grew 6 per cent in 2011 and demand for trade in international equipment and machinery grew accordingly. Therefore we expect further increasing demand for letters of credit and guarantees.

In Ukraine, financial institutions are also conducting trade finance business using tools such as sight letters of credit, post financings and guarantees. Trade finance here has huge potential: GDP grew 4.5 per cent in 2011 and we expect an augmentation of 2.5 per cent in 2012. In Belarus, Commerzbank accommodates transactions with various trade finance instruments. The modernisation plan for the economy provide for substantial further growth potential.

Holger Kautzky and Axel Nikolai Bommerhein, Financial Institutions - CIS, Baltic Countries, Mongolia, Commerzbank
Belarus has great potential for change and EBRD support can help achieve this. With street names such as Komsomolskaya, Karl Marx and Lenin, it’s easy to believe that Belarus is a Soviet theme park. From Minsk Traktorni Zavod, one of the largest tractor manufacturers in the world, to the neighbourhoods of the city that used to be the manufacturing heart of the country, old and new hallmarks of the former Soviet Union are everywhere, generating around 75 per cent of the country’s GDP. Yet there are signs of a nascent private sector. Minsk is a key location for the largest tractor manufacturers in the region, and is endowed with factories that produce cars, trucks, buses, flat metals and metal pipes, dairy and milling products face less competition in Belarus and Kazakhstan because producers from third countries (for instance, in south-east Asia) have been put at a disadvantage. Customs union membership might be costly in the short run for countries with lower duties, but it should start to bring benefits once trade facilitation and reductions in non-tariff barriers have been achieved. Countries can increase their chances of reaping the rewards from the CU by conducting structural reforms and improving their business environment to attract investors. These should stimulate intra-regional trade and increase the competitiveness of Belarus, Kazakhstan and Russia on an inter-regional scale.

In January 2010 Belarus, Kazakhstan and Russia introduced a common external tariff (CET) on imports from third countries, based mostly on the Russian duties that prevailed until that year. Since Russian duties were the highest among the three countries there have been significant duty hikes on a number of sensitive products in Belarus and Kazakhstan, with varying exceptions in each of the three member countries. The three countries conducted free trade with each other before the CU existed, so the only change is in the implementation of the external tariff. The removal of internal tariff and non-tariff barriers among countries with a CET can have either positive or negative effects; it can increase the gain from trade if the importer from the partner country substitutes less efficient (higher costs) domestic supplies for more efficient (lower costs) imports from that country, resulting in trade creation. Or it creates “trade diversion” if the lower-cost imports from outside the CU are replaced by the output of a partner country because of the distorting impact of the tariffs.

It is hard to say how the CET has affected the CU members, as few quantitative analyses have been conducted. But one study – by Souza (2011) – demonstrates that the CU would be a GDP-reducing framework wherein the negative trade diversion effects clearly overwhelm any positive trade creation effects. Most industries are negatively affected and the external positions of the CU members worsen.

But there are some short-term economic benefits from being in the CU. Belarus can hope for lower energy prices, as duties on Russian oil imports for further re-exportation will be eliminated. Kazakhstan may benefit from duty free exports of commodities such as coal, metal and petrochemicals to the rest of the CU.

For Russia, the CET should benefit its manufacturers since the import duty will increase the common tariff that led to import duty hikes for various items in Belarus and Kazakhstan. By building up a “common tariff wall”, Russian producers of cars, trucks, buses, flat metals and metal pipes, dairy and milling products face less competition in Kazakhstan and Belarus because producers from third countries (for instance, in south-east Asia) have been put at a disadvantage. Customs union membership might be costly in the short run for countries with lower duties, but it should start to bring benefits once trade facilitation and reductions in non-tariff barriers have been achieved. Countries can increase their chances of reaping the rewards from the CU by conducting structural reforms and improving their business environment to attract investors. These should stimulate intra-regional trade and increase the competitiveness of Belarus, Kazakhstan and Russia.

Since our Resident Office opened in 1996 we have invested over €1 billion in 85 projects. But there is much more to be done. In 2012 we will continue to invest in infrastructure and transport, promote private sector development, provide debt and equity financing to local partner banks and support international and intra-regional trade.

Julia Otto feels the presence of the EBRD Arriving in Chisinau as an EBRD banker you get a real sense of our work here. Driving down the main street in Chisinau, for example, it is hard not to notice the new trolleybuses with the EBRD and EU logos on the back windows. Chisinau is a good reason to visit this country. Not just because of the great architecture, but also because of the people themselves. Friendly, well-educated and effortlessly switching between at least two languages (Romanian and Russian) or often three (plus English or French), Moldovans are always open for constructive dialogue. And this is largely the reason why the EBRD is so active here.

Since our Resident Office opened in 1996 we have invested over €1.1 billion in 85 projects. But there is much more to be done. In 2012 we will continue to invest in infrastructure and transport, promote private sector development, provide debt and equity financing to local partner banks and support international and intra-regional trade.

Julia Otto, Head of the EBRD’s Resident Office in Chisinau

**Boosting the Private Sector**

EBRD Resident Office, Minsk

Making our Mark in Moldova

Julia Otto feels the presence of the EBRD
In each issue we will be highlighting a particular sector of the EBRD’s work. This quarter we look at the Power and Energy team.

W
en the TFP swings into action to finance the sale of a transformer, turbine or drum of electric cable, it is participating in one of the largest and most important sectors of any economy: the one that supplies electricity from industrial generators through a network of cables and transformers to every home and business and so provides heat, light, entertainment, cooking, communications and industrial processes.

The EBRD has been closely involved with this crucial sector since its foundation in 1991, working with governments to improve the institutional and regulatory framework, and providing long-term finance for the renewal of ageing and polluting infrastructure.

To date the TFP has supported 413 power and energy transactions worth €342 million; in 2011 alone, 17 transactions worth up to €39 million were completed. One of these – notable because it was intra-regional – involved the import of a diesel generator set to Belarus from Poland. Here, a bank in Minsk issued a letter of credit that was confirmed by a bank in Warsaw, and the EBRD guaranteed the political and commercial risk that was partially shared by FMO.

WHO WE ARE
The Power and Energy team has 35 staff who work on electricity and gas distribution projects throughout the EBRD’s countries of operations. Among us there are more than 20 nationalities. Most of us have studied economics and finance and some have an engineering background.

We have a passion for social and economic development and enjoy the work we do. It is rewarding to see the positive impact of the Bank’s financing on people’s lives, which could be anything from extending the electricity distribution network to remote villages, to building a new power plant that replaces a polluting and inefficient facility.

WHAT WE DO
We provide loans and make equity investments in all types of power projects – from greenfield generation plants, especially renewable energy, through the transmission grid to distribution networks and individual meters.

We support private investors through equity investments in power and gas companies in countries such as Bulgaria, Moldova, Poland, Romania and Turkey, and financing independent power producers in central Europe.

We engage in dialogue with governments and, through technical cooperation, support the reforms that enable energy sectors to function according to market principles, such as increased competition, market liberalisation and private ownership.

We strengthen the framework for the regionalisation of electricity markets through financing cross-border transmission lines and boosting energy trading. We are also heavily involved in transmission investments, including the Black Sea Transmission Line between Georgia and Turkey, and projects in Ukraine, Kazakhstan, Russia and the Western Balkans.

CASE STUDY
Supporting renewable energy in Georgia

Georgia’s mountains have huge potential to generate clean renewable energy from hydro power. Less than 20 per cent of this potential has been developed, while neighbouring Turkey’s fast-growing economy urgently needs power.

The EBRD’s strategy in Georgia has focused on using this potential to meet that demand, for example through the construction of the 87 MW Paravani greenfield hydro power plant (HPP) in the Samtskhe-Javakheti region of Georgia, for which the EBRD is providing US$ 63.5 million through its A/B loan structure and US$ 5 million in equity.

The project is being developed by Anebolu Endüstri Holding, one of Turkey’s largest conglomerates. The first Turkish energy investment in Georgia, the Paravani plant will supply electricity to both the Georgian and Turkish electricity grids.

The Paravani HPP sets an important precedent for future renewable energy projects financed by the EBRD in Georgia and the first power plant to use the Black Sea Transmission Line. It will also be the first private power generation project in Georgia, where state-owned facilities control around 50 per cent of the domestic electricity supply.

“…we are working more and more in priority areas such as the Caucasus and Central Asia, including recent investments in Georgia’s Paravani hydro project and Tajikistan (a €7 million loan to fund metering refurbishment).

Our team is the biggest contributor to the EBRD’s Sustainable Energy Initiative. We contribute 42 per cent of the Bank’s investments in energy-efficiency-related projects, including large hydropower plants and renewable energy projects. Of all projects financed by the Power and Energy team in 2011, renewables represented about 44 per cent and comprised mainly wind, small hydropower plants and biomass projects.

Did you know…?

148 Cumulative EBRD financing to power and energy projects since 1991 is €1 billion across 148 projects, with a total value of €23.5 billion.

1.2bn Since its inception, the Bank has gradually increased annual business volume in the power sector, which has exceeded €1 billion across 200 projects, and matched over €1.2 billion in 2011 in more than 25 projects across 18 counties.
TO STANDBY OR TO GUARANTEE?

Kim Sindberg looks at the structural differences between guarantees and standby letters of credit

Approaches to standby letters of credit

The traditional guarantee begins in the situation where a guarantor issues an undertaking vis-à-vis a beneficiary. If the beneficiary would like to obtain an undertaking from its own bank, then this is solved by using a counter-guarantee. This means that the beneficiary of the guarantee receives a guarantee issued by a bank (guarantor), even though it is originally issued by the applicant’s bank (counter-guarantor). The counter-guarantee indemnifies the guarantor in the event a complying demand is made (by the beneficiary) under the guarantee. The counter-guarantee and the guarantee are independent of one another.

“The rules used are important. They define the basis for the transaction.”

In similar circumstances using a standby, the standby is generally confirmed by a confirming party. The ISP 98 rules state that the “issuer” includes a “confirming party” as if the confirming party was a separate issuer and its confirmation was a separate standby issued for the account of the issuer (ISP 98, Rule 1.13(b)). In other words, there is only one instrument, but two parties (issuer and confirm) obligated under it. As such, ISP 98 involves a more sophisticated “gallery of characters” than URDG 758. A standby may nominate a person to carry out certain duties, for example confirm the standby (ISP 98, Rule 2.04), while the rules for guarantees do not include this option. For guarantees, it is only possible to add an “advising party”, whose sole role is to advise the guarantor and not to assume any kind of “undertaking” under it (for example, URDG 758, Article 15(b)). If an undertaking by another party is required, then a counter-guarantor is necessary.

The table (right) is a comparison of the structural differences of demand guarantees and standbys. The assumption is a situation where the beneficiary’s bank has obligated itself to the beneficiary.

Problems

The general rule is that when a confirming party pays out on a confirming party that is in default, the confirming party is “protected” by the applicable rules. This is the case, for example, where a court injunction is filed against the issuer.

Future

The general rule is that when a confirming party pays out on a confirming party that is in default, the confirming party is “protected” by the applicable rules. This is the case, for example, where a court injunction is filed against the issuer.
I was the afternoon of 7 February 2012 and the Petrovsky Salon in Moscow’s Marriott Royal Aurora was packed. The last session of Exporta’s 5th Annual Russia and Eurasia Export and Finance conference was taking place, but no one dared to leave early because the second annual graduation ceremony of the EBRD Trade Finance e-Learning Programme was about to start.

The graduates of 2012 learned from the Russian weather and traveled to Moscow to receive their ICC Certificates of Achievement. All of them had 12 months to complete seven modules – the most extensive suite of trade finance training available to any trade finance professional worldwide.

You couldn’t tell who was more nervous – the graduates, the TFP team or Thierry Sénchal, Senior Policy Manager at the ICC Banking Commission who came to Moscow especially for this event. For many graduation it was a rare opportunity to receive their certificates directly from the regulator in trade finance.

THE PRIZE-WINNERS
As in the previous year, the TFP’s partner banks awarded the top graduates with special prizes.

The PRIZE-WINNERS
Commerzbank best students with special prizes. As in the previous year, the TFP’s partner banks awarded the top graduates with special prizes.

TRADE FINANCE

Belgradprombank, Belarus

The graduates of 2012 braved frosty Russian weather and continued our ground-breaking work in educating trade finance professionals throughout the EBRD’s countries of operations.

E-Banking

The graduates of 2012 braved frosty Russian weather and continued our ground-breaking work in educating trade finance professionals throughout the EBRD’s countries of operations.

20 Olga Belovolova

Bank of Moscow, Russia

19 Radmila Andonova

Bank of Macedonia

20 Michael Gutia

Credit Bank of Moscow, Russia

1 Michal Gutia

Credit Bank of Moscow, Russia

2 Nina Asambeck

Amersham, Armenia

3 Maria Ivanchenko

Raiffeisen Bank Avla, Ukraine

4 Nadica Bosiljkova Boskova

Komerzijalna Banka, FYR Macedonia

5 Suren Kocharyan

Ameriabank, Armenia

6 Natalia Shoshlo

Belgazprombank, Belarus

7 Aneta Stojmanovska

Komerzijalna Banka, FYR Macedonia

8 Kristina Sopotkova

Ameriabank, Armenia

9 Natalia Aksayeva

Bank of State Petersburg, Russia

10 Marina Dzhulai

Raiffeisen Bank Avla, Ukraine

11 Yaroslav Bedencchuk

Raiffeisen Bank Avla, Ukraine

12 Katerina Shuliga

Raiffeisen Bank Avla, Ukraine

13 Anna Barayun

Ameriabank, Armenia

14 Natalia Khashyants

Credit Bank of Moscow, Russia

15 Mikhail Timofeyev

Transcapitalbank, Russia

16 Oksana Sevastieva

Demir Kyrgyz International Bank, Kyrgyz Republic

17 Nikita Podosenkov

Credit Bank of Moscow, Russia

18 Vitaliy Garbakhov

Raiffeisen Bank Avla, Ukraine

19 Radmila Andonova

Komerzijalna Banka, FYR Macedonia

20 Olga Belovolova

NBD Bank, Russia

RUDOLF PUTZ, EBRD TFP, with Natalia Shoshlo, Raiffeisen Bank Avla, Ukraine

WHAT THE STUDENTS SAY

For me, the major attraction of the e-Learning Programme is its flexibility and how it can be accessed any time, which allows you to learn around a busy work schedule and family life. Besides the flexibility, the excellent course material and the quizzes improved my knowledge of documentary collections, sets of credit and standards, as well as helping me to solve some difficult business issues on a daily work.

Nadja Bosilkova Boskova

Officer in Charge in the Intergovernmental Payment Operations Unit, Komerzijalna Banka Skopje

I like the fact that the programme is online and the students can study at any time. Moreover, it incorporates all the latest changes in internationally accepted rules and standards. Experienced managers like myself can refresh their knowledge and professional vocabulary, which we use every day when structuring trade finance transactions with our partner banks from abroad.

Olena Kazetin

Head of Financial Institutions and Trade Finance, The State Export-Import Bank of Ukraine

I enjoyed the TFP e-Learning Programme immensely. The modules are very well organised and take the student from the very basic concepts of trade finance to the depths of each topic. Having completed the Certified Documentary Credit Societies (CDCS) course in the past, I found the programme very interesting, and that it complemented my existing knowledge.

Mohamed El-Naggar

Senior supervisor at the Trade Finance Unit, National Bank of Egypt

RULES FOR SUCCESS

Ameriabank staff describe what the e-Learning Programme has done for them

Benjamin Franklin once said that “an investment in knowledge pays the best interest”, and we agree. That is why our staff take part in the EBRD Trade Finance e-Learning Programme, which helps those involved in the TFP to achieve best international practice and promotes the correct application of the ICC Trade Rules.

In 2011 three of our staff successfully completed the programme – Suren Kocharyan, Head of Trade Finance Department; Lustine Balaakaryan, Chief Specialist of Payment Instruments and Escrow Accounts Division; and Tena Koko, Chief Specialist of International Banking Division. Everyone involved in trade finance can participate – from beginners to experienced international trade professionals. As it’s online it can be used any time and anywhere, and a combination of audio, video, animation, on-the-spot feedback and case studies all help to keep the learner interested and motivated. The e-Learning Programme has helped us enormously. It has given us an opportunity to refresh our trade finance knowledge and skills under the eyes of the world’s leading trade finance experts. But more importantly the material and information on the course applies to our day-to-day operations, which means we can better structure our trade transactions. For example, having completed the “Environmental and Social Issues in Trade” module, we can now conduct – almost unassisted – thorough environmental due diligence on a trade finance transaction; previously we needed to consult another department to get the best expertise.

Ameriabank is one of the leaders in trade finance in Armenia and we believe this training will help us to further improve our business in this area. So if this is a personal thank you to the TFP staff for their dedication, enthusiastic support and motivation, for helping us get the most from the e-Learning Programme, in particular, and our fruitful cooperation with the EBRD in general.

“We can now conduct – almost unassisted – thorough environmental due diligence on a trade finance transaction.

Suren Kocharyan, Head of Trade Finance Department, Ameriabank

Could it be you?
The ICC Banking Commission will be inviting one of next year’s best graduates to attend its meeting in Portugal in spring 2013, with travel and accommodation expenses paid.

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The ICC Banking Commission will be inviting one of next year’s best graduates to attend its meeting in Portugal in spring 2013, with travel and accommodation expenses paid.
Technical cooperation is vital for banks wanting to improve their trade finance business

Donor funding from governments and international institutions is crucial to the EBRD’s work. The funding helps banks, most of which are already taking part in the TFP, to increase their trade finance operations and offer a wide range of trade finance products and structures to their clients.

Technical cooperation (TC) is one of the three key components (the other two being guarantees and trade advances) of the TFP whose overarching goal is to increase the pace and sustainability of the transition process in the EBRD’s countries of operations by creating a sound basis and environment for direct investment, trade and financial intermediation.

TC also helps participating banks to better meet the needs of local importers and exporters by providing consultants who train and advise bank staff in processing trade finance products and documents, and to improve their transaction structuring skills. This in turn should lead to a growth in international and intra-regional trade finance transactions at these banks.

**TYPES OF TC**

Under the TFP, TC is delivered in four major ways, and these cover the most essential areas of trade finance development. They are:

- seminars and workshops, providing local, country-specific, regional or supranational trade finance knowledge
- advisory services to improve the skills of staff and ability of banks to provide trade finance services
- the e-Learning Programme
- conferences and other types of TC (such as legislative support).

**CONSULTANTS**

The most commonly used method is bespoke consultancy services for banks that are joining the TFP for the first time, or advanced training for banks that already participate but require further training or advice. These projects normally entail the consultant visiting the bank between one and five times to train trade finance staff and other relevant personnel over a period of up to a year. The sessions are tailored to each bank’s needs and focus on the areas in which they need to improve most.

Using knowledgeable, personable and flexible experts to help deliver the goals of the TFP has meant we have received positive feedback from beneficiaries of TC and participants of TFP-related events.

**DONORS**

It is no exaggeration to say that the success of previous and ongoing TC assignments could not have been possible without donor funding. It is key to preparing and enabling countries whose banking sectors are in need of development, to safely and profitably engage with other regions.

Donors can contribute TC funding either individually or through multi-donor funds. TFP TC projects are funded by the European Union, the Shareholder Special Fund, the European Union, the Shareholder Special Fund, the Shareholder Special Fund, Taiwan, and other donors.

The EBRD Shareholder Special Fund (SSF) is a multi-donor fund established to complement existing TC funding for projects across sectors and regions. It provides flexibility and predictability as well as additional funding for multi-donor funds where it is often used to co-finance.

The EBRD’s online training programme – the e-Learning Programme – is one of the best examples of how it ensures banks have a detailed understanding of trade finance and documentary business.

“Taiwanese funding not only contributes to technical cooperation projects of the TFP, but also provides expertise in high-tech and green energy related to the EBRD’s operations. We share the Bank’s vision in creating a sound and sustainable environment for direct investment, trade and financial intermediation.”

Ambassador Shen Lushun, Taipei Representative Office in the UK

“Our TC advisory projects and innovative programmes, such as e-learning, are very important for educating our clients, bringing them up to international standards and, ultimately, enabling them to do business with commercial banks without the EBRD.”

Gana Petersen, Senior Manager, EBRD

“Donors can contribute TC funding either individually or through multi-donor funds. TFP TC projects are funded by the European Union, the Shareholder Special Fund, the European Union, the Shareholder Special Fund, Taiwan, and other donors. For more information visit www.ebrd.com/TFP."
Igor Roussine recounts his experiences of training local staff in the Russian regions

From a chilly minus 25 degrees in Novosibirsk to Almaty in the middle of a hot and dry Central Asian summer – as a TFP consultant I have travelled to 9 countries and met more than 60 banks while delivering training in trade finance. It’s a varied role. Sometimes you give a presentation to 70 people who have gathered from all the regional branches of a bank in Moldova; sometimes you meet just a few well-experienced trade finance specialists from a top bank in Moscow; or sometimes you have a very enthusiastic team of young and motivated officers of a medium bank somewhere in the Caucasus.

One particular workshop sticks in my mind. It was the winter of 2010 when I began work on a new project to advise banks participating in the TFP on the use of trade finance facilities. I travelled with a colleague to Nizhny Novgorod, an old Russian city on the banks of the Volga and Oka rivers, 400 km north-east of Moscow, to deliver a two-day training course.

**REVIEWING DOCUMENTATION**

I had visited Nizhny Novgorod several times in 2007 and 2008 and I’ve always enjoyed my time there – it has a great view of the Volga from the famous “Utyos”, which in Russian means a high sharp hill on the river’s side.

Our task there – in the middle of that winter of 2010 – was to update local NBD Bank staff on the EBRD’s requirements for underlying transactions.

“Our task there – in the middle of the winter of 2010 – was to update local NBD Bank staff on the EBRD’s requirements for underlying transactions.”

As part of the training, we reviewed a selection of internal documents relating to the import of frozen meat, fish and vegetables, as an example of a transaction arranged by NBD Bank. We realised, however, that we needed to see for ourselves underlying financial and transport documents to establish that the goods were of foreign origin. So a half-day drive brought us to the warehouse facilities of NBD Bank’s client.

The client’s accountant immediately referred us to the “TORG-12” document (which I had, until then, not heard of), which is a local document – in Russian called “torgovaya nakladnaya” – signed by two parties to a contract for every lot delivered. It lists the quantity and price of the handled goods and was the exact document we needed to verify each delivery of the imported goods. In addition, a certificate from the local veterinary authority confirmed the foreign origin of the frozen meat, and that the product could be distributed in that particular region. We were very pleased with the outcome of our trip and we gave a detailed report to the EBRD’s TFP team with guidance on how to structure trade finance transactions for fast-moving goods in Russia.

As I heard later, NBD Bank had substantially increased its use of the TFP line for supporting transactions for fast-moving goods in Russia.

Crisis response workshops on restructuring and legal proceedings in connection with bad debt in trade finance, jointly funded by the EBRD Shareholder Special Fund and Western Balkans Investment Framework

**FACTORING WORKSHOPS IN BOSNIA AND HERZEGOVINA AND FYR MACEDONIA FUNDED BY THE WESTERN BALKANS INVESTMENT FRAMEWORK**

**BANKS IN BELARUS RECEIVED TRADE FINANCE ADVISORY SERVICES FUNDED BY THE EBRD SHAREHOLDER SPECIAL FUND**

**FRAMEWORK BALKANS INVESTMENT AND THE WESTERN COUNTRIES (ETC) FUND, SWISS TECHNICAL COOPERATION FUND, THE EARLY TRANSITION COUNTRIES (ETC) FUND AND THE WESTERN BALKANS INVESTMENT FRAMEWORK**

As for the seminars, they provided an introduction to factoring for virtually all participants, whose main interest was in learning as much as possible about factoring functions, product variations, legal issues, types of organisation, structure of a factoring operation unit, appropriate IT systems and business outlook.

“When delivering training, one size doesn’t fit all, of course. You have to tailor your approach to each client’s circumstances.”

**A BESPOKE SERVICE**

But when delivering training, one size doesn’t fit all, of course. You have to tailor your approach to each client’s circumstances. Some of the banks were thinking of setting up a factoring unit, either as a bank division or as a separate company, and others had only recently started factoring operations. Those who had already started operations were keen for professional advice on modifying the structure already in place and some support for possible improvements to their processes.

As for the seminars, they provided an introduction to factoring for virtually all participants, whose main interest was in learning as much as possible about factoring functions, product variations, legal issues, types of organisation, structure of a factoring operation unit, appropriate IT systems and business outlook. More than once it became apparent that some of the attendees would have liked more detail and I did my best when answering their questions. However, a seminar format is not a full course and it has a limited scope as well as time constraints.

From the comments I received and my own impression, all participants improved their knowledge and became more familiar with factoring, despite being at different levels. And since my work with them I have heard that some have already achieved healthy volumes of factoring business. It’s great to know I have contributed in a positive way.

**LEARNING ABOUT FACTORING**

** Silvio Fasola describes his work for the TFP**

As an independent consultant teaching and advising on factoring, my job is varied and can take me all over the world. Between 2006 and 2011 it brought me to the EBRD’s Trade Facilitation Programme, where I supported banks and factoring companies in Russia and Herzegovina, FYR Macedonia, Montenegro, Serbia, Russia and Ukraine through seminars and consultancy services.

“...my job is varied and can take me all over the world...”

**A FRAMEWORK**

From the comments I received and my own impression, all participants improved their knowledge and became more familiar with factoring, despite being at different levels. And since my work with them I have heard that some have already achieved healthy volumes of factoring business. It’s great to know I have contributed in a positive way.
The EBRD rolls out training on recently introduced international trade and finance rules

The EBRD has launched an advanced workshop based on recently introduced international trade and banking rules of the International Chamber of Commerce (ICC).

The two-day workshop, entitled “Guarantees under URDG 758 and Incoterms® 2010”, is being delivered in 15 of the EBRD’s countries of operations by Vincent O’Brien, a member of the ICC Banking Commission’s Task Force on Guarantees. The first day focuses on best international practice in the use of guarantees. Participants are given advanced training on the use of, and how to apply, URDG 758 to the benefit of all parties involved in international contracting where demand guarantees are required. According to the 2011 ICC Global Trade Finance Survey, the use of demand guarantees to support trade contracts is increasing dramatically.

The second day focuses on the new Incoterms® rules and the creation of two new important ones, namely DAP and DAT. However, traders seem to be used to the new rules and they are clearly getting the benefit of a tightly defined set of rules applicable to the contract of sale. Interestingly, the rules are used extensively for international contracts, as well as being commonly used for domestic contracts.

Workshops have already been held in Mongolia, Russia and Georgia throughout February 2012. The schedule until June 2012 is listed below.

Vincent O’Brien, ICC Banking Commission Market Intelligence Group

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For further information about guarantees under URDG 758 see page 14.

The second day is dedicated to the revised Incoterms® 2010 rules which have now passed their first birthday as the new international commercial terms came into effect globally on 1 January 2011. Vincent O’Brien explains: “The past year has seen the new Incoterms® rules applied in every country in the world. I have seen some teething problems where counter-parties experienced confusion with the removal of four rules and the creation of two new important ones, namely DAP and DAT. However, traders seem to be used to the new rules and they are clearly getting the benefit of a tightly defined set of rules applicable to the contract of sale.”

Interestingly, the rules are used extensively for international contracts, as well as being commonly used for domestic contracts. Workshops have already been held in Mongolia, Russia and Georgia throughout February 2012. The schedule until June 2012 is listed below.

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Military action as force majeure

As a beneficiary’s main bank under letters of credit, we confirm most, but not all, of our exporting customers’ letters of credit.

About five months ago we forwarded a presentation as a second advising bank to a confirming bank under a credit available by deferred payment at 30 days from the date of issuing date with that confirming bank.

The confirming bank processed the documents without any communication to us or the beneficiary regarding discrepancies or otherwise. However, it has since transpired that, because of local unrest and subsequent military action in the country of import, it has been impossible to unload the goods at the port of discharge stated in the letter of credit. Furthermore, the issuing bank has been closed for some time.

We have been advised by the confirming bank that payment may be delayed due to a “force majeure event” at the port and country of destination.

We argued on behalf of the beneficiary that this was not the correct approach as they had earlier added their confirmation to the letter of credit, and that the confirming bank must honour on the forthcoming maturity date.

The confirming bank stated that they had no liability as this situation was a “force majeure event”, quoting UCP 600 Article 36: “A bank assumes no liability or responsibility for the consequences arising out of the interruption of its business by Acts of God, riots, civil commotions, insurrections, wars, acts of terrorism, or by any strikes or lockouts or any other causes beyond its control.”

WINNERS

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

Inessa Ambekyan, Ameriabank, Armenia
Lusine Balasanyan, Ameriabank, Armenia
Suren Kocharyan, Ameriabank, Armenia
Lusine Balasanyan, Ameriabank, Armenia
Suren Kocharyan, Ameriabank, Armenia
Mariia Minayeva, Locko-Bank, Russia
Irina Ryzhova, ICC Bank Eurasia, 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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