



NEWS

THE NEWSLETTER OF
THE GLOBAL NETWORK OF
EXIM BANKS AND DEVELOPMENT
FINANCE INSTITUTIONS

ISSUE NO. 10: JANUARY – MARCH 2010

In This Issue

- ❖ From The President's Desk
- ❖ G-NEXID Members
- ❖ Major Events
- ❖ News From Members
- ❖ Focus On
- ❖ Contact Us

FROM THE PRESIDENT'S DESK

Dear Network Members,

The years 2008 and 2009 were tumultuous ones for global trade. The simmering sub-prime crisis in the US in 2007 which triggered the global financial crisis in September 2008 spread its tentacles in full, leading to a full blown global recession resulting in unprecedented fall in global trade. The global economic crisis also impacted trade credit and there is strong anecdotal evidence that the financial crisis have reduced the availability of trade credit leading to decline in the volume of trade and possibly deepening and prolonging the recession. Small and Medium Enterprises (SMEs) and exporters in emerging markets appear to have faced the greatest difficulties in accessing affordable credit. Increased uncertainty initially led exporters and importers to switch from less secure forms of trade finance to more formal arrangements.

Governments and multilateral institutions have responded with a range of trade finance programmes, including a pledge by the G20 leaders at their April 2009 London Summit to provide US \$ 250 billion of support for trade finance. The commitment of G-20 leaders was reaffirmed in the Pittsburg Summit in September 2009, calling for swift implementation of the package and a collective fight against protectionism. Multilateral agencies also responded quickly to counter the trade finance aspect of the crisis. Governments across the world have also taken various policy initiatives. In the wake of the crisis, most banks moved away from funding open-account facilities to more traditional forms of cash-backed or collateralized letters of credit. Several countries entered into bilateral agreements to ease the strains on access to foreign currencies, including trade credit. Export Credit Agencies (ECAs) have also greatly helped Governments, particularly in the developing countries, channel trade finance to firms. In addition, some Governments' actions directly targeted the reported shortage of trade finance to firms. According to the World Bank, while some Governments have tried to achieve this objective by establishing rediscount and refinance facilities to increase liquidity for trade loans and export credit, many have implemented direct measures through the established ECAs or Export Import (Exim) Banks. In the absence of formal entities established by the Government, that offer trade finance instruments, some Governments have decided to set them up or make existing ones legal and use other public bodies. As demand has started to recover, banks have become more positive about the economic outlook.

There is a growing realisation that the ability of countries to conduct business across national borders and the ability to cope with the possible downside risks would depend, *inter alia*, on the soundness of the financial system. We, as bankers have to contribute in strengthening the financial system, through adoption of strong and transparent, prudential, regulatory, supervisory, technological and institutional processes that are on par with international best practices. All these necessitate transformation in: the mindset, the business processes, and finally, in knowledge management. This process is possible with an IT-based platform for sharing of credit information and risk management practices with the member institutions across borders. We, G-NEXID member institutions, should work towards achieving establishment of such an IT-based platform at the earliest.



Yours sincerely,

(Jean-Louis EKRA)

Honorary President

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MAJOR EVENTS

❖ COPENHAGEN SUMMIT 2009

The 2009 United Nations Climate Change Conference, commonly known as the Copenhagen Summit, was held at the Bella Centre in Copenhagen, Denmark during December 7 - 18 2009. The conference included the 15th Conference of the Parties (COP 15) to the United Nations Framework Convention on Climate Change, and the 5th Meeting of the Parties (COP/MOP 5) to the Kyoto Protocol.

Key points proposed in the Copenhagen Accord include:

- ❖ A commitment "to reduce global emissions so as to hold the increase in global temperature below 2°C" and to achieve "the peaking of global and national emissions as soon as possible"
- ❖ Developed countries must make commitments to reduce greenhouse gas emissions, and developing countries must report their plans to curb greenhouse gas emissions to the UN by 31 January 2010
- ❖ New and additional resources "approaching US \$ 30 bn" will be channeled to poorer nations over the period 2010-12, with an annual sum of US \$100 bn envisaged by 2020
- ❖ A Copenhagen Green Climate Fund will be established under the UN convention on climate change, to direct some of this money to climate-related projects in developing countries
- ❖ Projects to reduce greenhouse gas emissions in developing countries will be subject to international monitoring, if they are internationally funded.
- ❖ Programmes to provide developing countries with financial incentives to preserve forests - REDD and REDD-plus - will be established immediately.
- ❖ Implementation of the accord will be reviewed in 2015 and an assessment will be made of whether the goal of keeping global temperature rise within 2°C needs to be strengthened to 1.5°C.

The accord was not signed and one of the major reasons for the Copenhagen Climate Summit to fail was that the key governments did not want a global deal. Until the end of the summit, it appeared that all governments wanted to keep the keys to combating climate change within the UN climate convention. Implicit in the convention, though, is the idea that governments take account of each others' positions and actually negotiate. That happened at the Kyoto summit. Developed nations arrived arguing for a wide range of desired outcomes; during negotiations, positions converged, and a negotiated deal was done. But during the Copenhagen summit no clear decision was made. The Copenhagen summit highlighted the continuing sharp differences between developing countries and developed countries on climate change issues. The rejection by developing countries follows two weeks of heightened dissent by many developing countries about attempts to drive a consensus among a select

MAJOR EVENTS

group of about 30 developed and major developing countries, Brazil, South Africa, China and India; and excluding most of the developing countries that are particularly vulnerable to the impacts of climate change. The accord does not mention specific targets or deadlines for greenhouse gas emissions. It merely agrees to reduce global emissions to stop the rise in global temperatures below two degrees Celsius. The logical conclusion is that this is the arrangement that the big players prefer - an informal setting, where each country says what it is prepared to do - where nothing is negotiated and nothing is legally binding.

❖ UNITED NATIONS CONFERENCE ON SOUTH-SOUTH COOPERATION - DECEMBER 1-3, 2009

The high-level UN Conference on South-South Cooperation has encouraged the developing countries – with support from developed countries and international organizations – to take concrete steps to make their cooperative efforts work better in tackling the serious challenges they faced in achieving socio-economic advancement. The three-day Conference highlighted the growing potential and economic ties within the developing world, as countries of the South assume leading roles in handling global issues ranging from economic recovery to food security and climate change. The Conference also reviewed 30 years of progress since the 1078 UN Conference on Technical Cooperation among Developing Countries, held in Buenos Aires. The Conference participants reaffirmed the South-South cooperation differed from ODA as ‘a partnership among equals, based on solidarity’, and guided by the principles of respect for national sovereignty and ownership, free of any conditionality.

❖ EXIM BANK COMMENCEMENT DAY ANNUAL LECTURE 2010 ON "RECONSTRUCTING ECONOMIC GOVERNANCE: AN AGENDA FOR SUSTAINABLE GROWTH AND DEVELOPMENT

Dr. Supachai Panitchpakdi, Secretary-General, United Nations Conference on Trade and Development (UNCTAD), while delivering the Twenty-Fifth Exim Bank Commencement Day Annual Lecture, has reflected upon the need for global economic governance reform for achieving sustainable growth and development. On the occasion, while welcoming the Guest Speaker, Mrs. Ravneet Kaur, Chairperson and Managing Director of Exim Bank, highlighted that Exim Bank's Annual Lecture series, instituted in 1986 to mark the Bank's Commencement Day, has earned recognition as an important milestone in contributing to the debate and discussions on contemporary trade and development issues impacting global economy. Dr. Subir Gokarn, Deputy Governor, Reserve Bank of India, presided over the function.

MAJOR EVENTS

Dr. Supachai highlighted the need for change in economic policy and governance in the light of the recent global financial crisis, and the need to refocus upon the goal of economic activity on building productive capacities and hence sustainable employment and growth opportunities. In order to achieve sustained economic growth in an interdependent world,

Dr. Supachai suggested that a strong profit-investment nexus has to be supported by availability of markets to absorb the potential expansion in output. Thus, while building robust domestic markets is a key to long-term growth and development, exporting is also an essential feature of any balanced economy.



Dr. Supachai also noted that a well-designed global financial system has to create equal conditions for all parties involved and help to avoid unfair competition. He stressed the growing importance of avoiding competitive currency depreciations and other monetary distortions that have negative effects on the functioning of the international trading system in today's highly interdependent world as compared to any other time in history. He stressed the need for reshaping international monetary arrangements that help avoid the build-up of large current-account imbalances and their counterpart, large unbalanced asset positions across countries that could address the current potential for regulatory arbitrage.

Dr. Supachai further suggested that regulators based in different countries should share information, aim at setting similar standards, and avoid races to the bottom in financial regulation. He stressed the need to rely more on a multilateral approach, and opined that the same rules and regulatory discipline that apply to international trade should also apply to international finance. In this respect, he pointed out the long overdue requirement of a set of multilaterally agreed rules on exchange rates, and a mechanism to correct long-term misalignment in exchange rates.

Dr. Supachai opined that open-minded, tolerant and pragmatic approaches to the development challenge, consistent with today's increasingly interdependent world, are urgently needed to place economic policy and governance once again at the service of financial stability and economic prosperity for all.

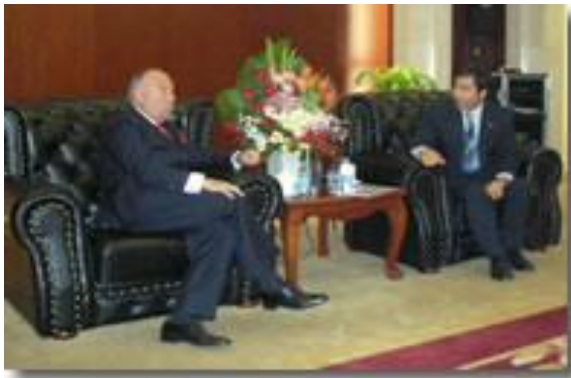
NEWS FROM MEMBERS

❖ PANAMA BECOMES FULL MEMBER OF CAF

Panama's compliance with the requirements for becoming a full member of CAF was announced by President & CEO Enrique García at the end of the XIV Extraordinary General Meeting, which was attended by Panamanian Minister of Economy and Finance Alberto Vallarino. The entry of Panama as full member of CAF reflects its evolution into a development bank for Latin America and the Caribbean region, while CAF's presence in Panama has been strengthened by the opening of an office in the capital in early 2009.

CAF is currently financing important activities in Panama, such as the Panama Canal Expansion and Road Rehabilitation and Improvement programs, the Pre-investment study of the Metro, and support for Banco Nacional de Panama. In addition, jointly with the government, operations are being proposed to strengthen the national electricity sector and social infrastructure in the field of water, sewerage and sanitation, among others.

❖ CAF DEEPENS RELATIONS BETWEEN CHINA AND LATIN AMERICA



During the visit to Asia by CAF President & CEO Enrique García, agreements were signed with Export Import Bank of China (China Exim) and China Development Bank (CDB), as one of the actions by this Latin American institution to deepen trade and investment relations between Latin America and China. The objective of the Memorandum of Understanding signed with the Export Import Bank of China, represented by its vice president, Liu Liange, was joint

progress of activities in favor of the economic, financial and social development of CAF partner countries.

New funds from China for Latin America

A second cooperation agreement was signed by Enrique García of CAF and Chen Yuan, president of China Development Bank in Beijing, covering economic, financial and social development actions in CAF partner countries. The two institutions confirmed their excellent level of relations and successful joint work, which has improved their mutual knowledge. The agreement signed will define new lines of credit; move forward with agreement on cofinancing operations for small-, medium and large enterprises; set up a trust fund; and promote exchange of staff.

NEWS FROM MEMBERS

❖ NEW DEVELOPMENT MECHANISM FOR MICROFINANCE

CAF, jointly with the Multilateral Investment Fund (MIF) administered by the Inter-American Development Bank (IDB), the Inter-American Investment Corporation (CII), and four private investors has launched the Microfinance Growth Fund (MiGroF), a new form of support for Latin American and Caribbean microfinance institutions. The signing ceremony took place in Cancun, Mexico, during the IDB meeting. In most Latin American and Caribbean countries, demand for microcredit continues high but sources of medium- and long-term financing are limited, which reduces the capacity of microfinance institutions to meet the demand. The Fund plans to increase its capital to US\$50 million with the possibility of leverage up to US\$200 million. The initial investors are CAF (US\$10 million), MIF (US\$10 million), CII (US\$5 million), along with a group of private investors formed by Banamex, Norwegian Microfinance Initiative (NMI), ACCION International, and BlueOrchard

❖ JAPAN CREDIT RATING AGENCY (JCR) AFFIRMS CABEL'S RATING AT A+

Japan Credit Rating Agency (JCR) affirmed Central American Bank for Economic Integration (CABEL) A+ credit rating on its long term debt. The outlook for this rating is stable, which primarily reflects CABEL's importance as one of the few and stable long-term fund providers to the Central American regional economies, its long track record of operations since its establishment in 1960, the strong and continuous support it has enlisted from its member countries and the international community even during the periods of economic and political difficulties in the region, its preferred creditor status, and a strong financial position. JCR has highlighted CABEL's presence as a reliable fund provider that is all-important and indispensable for the development of Central American member countries.

❖ NAMIBIA'S FIRST MICROFINANCE BANK GETS LICENSE TO OPERATE

Namibia's first micro-finance bank is a reality after the Bank of Namibia (BoN) granted Financial Systems Development Services AG (Fides) Bank, Namibia, a permanent banking license. Financial Systems Development Services AG (Fides) has start-up capital of N\$15 million, and will provide financial services to Namibians who are economically active, but who do not have a fixed salary. The bank intends to concentrate on savings, credit and transfer services for small entrepreneurs and self-employed [people] in rural and urban areas, but will not provide consumer lending and payroll deduction. In five years, Fides Bank Namibia intends to have seven branches, employ 100 people, have about 23 000 micro and small entrepreneurs and boast an asset base of N\$207 million.



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FINANCE INSTITUTIONS

www.gnexid.org

ISSUE NO. 10: JANUARY - MARCH 2010

NEWS FROM MEMBERS

The bank aims to provide reliable and sustainable solutions to the key issue of facilitating economic development in Namibia, by creating access to financial services for people who were till now excluded from the formal banking system, and to create an offer of financial services for small and medium enterprises (SMEs). It will target, in a first step, the rural communities of northern Namibia and gradually reach out to other rural, urban and semi-urban clients throughout Namibia.

❖ APPROVAL OF THE FINANCING OF EIGHT NEW PROJECTS DURING THE 27TH MEETING OF THE BOARD OF DIRECTORS OF EBID

The 27th meeting of the Board of Directors of the ECOWAS Bank for Investment and Development (EBID) was held on 18 December 2009 in Accra. The deliberations of the Meeting centered around the approval of the financing of eight projects amounting to a total of UA 37.62 million (equivalent to USD 58.51 million). This amount is shared between the public sector and the private sector, respectively, to the tune of 31% and 69%. These commitments relate to three financial projects, one agro-industrial project, and four infrastructural projects. The beneficiary countries are Benin, Côte d'Ivoire, Burkina-Faso, Ghana, and Togo.

❖ EXIM BANK OF ROMANIA WAS AWARDED FOR ITS PACKAGE OF SERVICES TO THE INDUSTRY IN THE AFTERMATH OF CREDIT CRUNCH

Exim Bank of Romania was awarded with the Prize by Gala of Piata Financiara Magazine - 2009 edition, for its endeavours to meet the requirements of companies, in the aftermath of the global credit crunch. Even though the prize was awarded for the range "the banking product of the year", EximBank-Romania was designated as a winner for tailoring the whole package of products and services to meet the economic conditions that prevailed in the aftermath of the financial crisis worldwide.

Exim Bank of Romania has initiated a package of products providing co-financing, pre-financing, and non-committal letters of intent for the assistance of companies and public authorities which have tackled projects that have shortage from structural funds. In order to curtail the working time with the bank, the new version of internet banking was designed by EximBank of Romania,- the e-ximBanking - duly providing the users with a more accessible way of account processing and management alongside with a reduced visualizing time of deals.

NEWS FROM MEMBERS

❖ EXIM THAILAND APPOINTS NEW SENIOR EXECUTIVE VICE PRESIDENT

Export-Import Bank of Thailand (EXIM Thailand) appointed Mr. Somporn Chitphentom, Executive Vice President, as EXIM Thailand's Senior Executive Vice President, effective from December 1, 2009, in charge of Business Promotion, and Branch Administration Departments, which are engaged in development of marketing strategy, export consulting, export credit and short-term export credit insurance promotion, preliminary credit analysis, debt collection, review of annual credit line, and branch and sub-branch management.

❖ USD 100 MILLION BILATERAL LOAN AGREEMENTS SIGNED BETWEEN JAPAN BANK FOR INTERNATIONAL COOPERATION (JBIC) AND INDONESIA EXIMBANK (IEB)

The USD 100 million Bilateral Loan Agreement between Japan Bank for International Cooperation (JBIC) and Indonesia Eximbank (IEB) has been signed in the presence of Mr. Mulyani Indrawati, Minister of Finance, Mahendra Siregar, Chairman of the Board/Executive Director of IEB, and Nobuyuki Higashi, Head, Asia and Oceania Finance Department of JBIC. The loan will play an important role in the development of the Indonesian economy as well as in supporting cooperation between the two countries in building efforts to contribute to the development of Asia Region trade, especially in solving the challenge of the decreasing trade volume, following the global financial crisis. The loan has been classified as one of the responses to the global financial crisis. Complementary to the signing of loan agreement, JBIC and IEB has also come to a common understanding on the need for further cooperation through the activities of capacity building/ technical assistance, management projects of climate change control, as well as the programs of trade enhancement, mutually benefitting to both countries. JBIC and IEB has also signed a Memorandum of Understanding (MoU) to cover the recognition. It is also interesting to know that Japan, through JBIC, has allocated a limit up to USD 500 million to help Indonesia to support the efforts to revive trade among ASEAN countries. And the performance of utilization of the USD 100 million is one determinant factor to JBIC to consider extending the remaining USD 400 million of loan limits to Indonesia.

❖ T.C.A. RANGANATHAN APPOINTED AS CMD OF EXIM INDIA

Mr. T.C.A. Ranganathan has been appointed as Chairman & Managing Director of Export-Import Bank of India (Exim Bank). Prior to this appointment, Mr. Ranganathan was Managing Director of State Bank of Bikaner & Jaipur.

NEWS FROM MEMBERS

Mr. Ranganathan is a career banker with 35 years of experience with State Bank of India (SBI). He has held diverse assignments including, inter alia, Chief General Manager, International Operations; Head, Corporate Finance; Regional Controller of Branches. He was also member of the Technology Planning Group set up by SBI in early 2000 for introducing new technology and change management initiatives. He was also the North India Head of SBI Capital Markets Ltd. and also General Manager, Mid-Corporate Group, New Delhi Region. In 2005, he opened the first branch of SBI in Shanghai, making SBI the first Indian Bank to commence operations in China. He has also subsequently been the Chief General Manager of the Bank's Gujarat operations during the period when State Bank of Saurashtra was getting integrated into the main Bank during 2009 after the financial merger.



Mr. Ranganathan holds a Masters degree in Economics from Delhi School of Economics, and has also attended Executive Development Programs at Wharton, and IIM, Lucknow.

❖ EXIM BANK OF INDIA EXTENDS LINE OF CREDIT TO LESOTHO



Exim Bank of India has extended a Line of Credit (LOC) of US\$ 4.7 million to the Government of Lesotho for financing setting up of a vocational training centre for empowerment of youth and women, in Lesotho. The LOC Agreement to this effect was signed in New Delhi, on March 9, 2010, by Exim Bank's Executive Director Mr. Prabhakar Dalal and Lesotho's Minister of Foreign Affairs and International Relations, Mr. Mohlabi K. Tsekoa, in the presence of Shri Shashi Tharoor, Minister of State for External Affairs, Government of India. This is the second Line of Credit extended by Exim Bank to the Government of Lesotho. Exim Bank had earlier extended an LOC of US\$ 5 mn to Lesotho, which has been utilized for importing of tractors, irrigation equipment, pump sets, generator sets and portable diesel engines from India. Exim Bank will reimburse 100% of contract value to the Indian exporters, upfront upon the shipment of goods. The LOC will be used for financing at least 85% of total contract value through sourcing of goods and services from India. Major export items from India to Lesotho are petroleum products, pharmaceutical products, cotton yarn fabrics made-ups and machinery and instruments.

NEWS FROM MEMBERS

❖ EXIM BANK SIGNS US\$ 5 MN LINE OF CREDIT PACT WITH GOVERNMENT OF SENEGAL

Exim Bank of India has, at the behest of Government of India, extended a Line of Credit (LOC) of US\$ 5 million to Government of Senegal for financing supply of medical equipments, furniture and other accessories to four hospitals in Senegal. The LOC Agreement to this effect was signed in New Delhi, on Monday, March 15, 2010, by Mrs. Ravneet Kaur, Chairperson and Managing Director, on behalf of Exim Bank, and H. E. Mr. Karim Wade, Minister for International Cooperation, Infrastructure, Land Development and Air Transport, on behalf of Government of Senegal. The Agreement was signed at the 6th CII-Exim Bank conclave on India Africa Project Partnership, held during March 14-16, 2010 in New Delhi, which was attended by over 400 African delegates from 34 African countries comprising Ministers, bureaucrats, bankers and businessmen, and around 500 delegates from India.



Exim Bank of India has, at the behest of and with the support of GOI, already extended seven Lines of Credit amounting to US\$ 112.95 million to Government of Senegal. Earlier LOCs to Senegal were utilized for projects for development of urban transport infrastructure, irrigation systems, information & communication technology (ICT), women poverty alleviation, rural administration, railway infrastructure, agriculture, rural electrification and fishing industry, which have resulted in creation of basic infrastructure, generation of employment, enhancement of skills, increase in income of women in rural areas and overall development of Senegal.

As on date, Exim Bank has in place 134 Lines of Credit, covering over 94 countries in Africa, Asia, Latin America, Europe and the CIS, with credit commitments of over US\$ 4.46 bn, available for financing exports from India. Exim Bank's LOCs afford a risk-free, non-recourse export financing option to Indian exporters. Besides promoting India's exports, Exim Bank's LOCs enable demonstration of Indian expertise and project execution capabilities in emerging markets.



NEWS FROM MEMBERS

❖ EXIM BANK OPENS ITS OFFICE IN CHANDIGARH

India's North-West Region, covering states like Punjab, Haryana, Himachal Pradesh, and Jammu and Kashmir, has significant export potential, which has propelled Export Import Bank of India (Exim Bank-India) to launch its Representative Office in Chandigarh. The Bank will provide alternative financing solutions to exporters in the region, aiding them in their efforts to be internationally competitive. The bank is looking at a huge business from exporters in textile, auto component, sports goods, scientific instruments, hand tools and agro industry. With a huge potential of exports from this region and its contribution to the country's export basket, the Bank is looking at having direct physical presence in order to serve exporters from this region. This Regional Office will be tenth in India, in terms of number.

The Bank is not only looking at big ticket exporters from this region as clients, but also the SME sector that forms the backbone of the industry in the region. The Bank has recently set up a group to cater to the financing requirements of export-oriented SMEs. This group handles credit proposals from SMEs under different lending programmes. The agri business group of the bank, too, will help agri exporters in this region for enhancing their value addition and thereby to promote exports.



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FOCUS ON

Global Economic Prospects 2010

Global Economic Prospects 2010 warns that while the worst of the financial crisis may be over, the global recovery is fragile. It predicts that the fallout from the crisis will change the landscape for finance and growth over the next 10 years. Global GDP, which declined by 2.2 percent in 2009, is expected to grow by 2.7 percent this year and 3.2 percent in 2011. Prospects for developing countries are for a relatively robust recovery, growing at 5.2 percent this year and 5.8 percent in 2011 -- up from 1.2 percent in 2009. GDP in rich countries, which declined by 3.3 percent in 2009, is expected to increase much less quickly-by 1.8 and 2.3 percent in 2010 and 2011, respectively. World trade volumes, which fell by a staggering 14.4 percent in 2009, are projected to expand by 4.3 percent, and 6.2 percent this year, and in 2011.

While this is the most likely scenario, considerable uncertainty continues to cloud the outlook. Depending on consumer and business confidence in the next few quarters and the timing of fiscal and monetary stimulus withdrawal, growth in 2011 could be as low as 2.5 percent and as high as 3.4 percent. Unfortunately, overnight recovery cannot be expected from this deep and painful crisis, because it will take many years for economies and jobs to be rebuilt. The poorest countries, those that rely on grants or subsidized lending, may require an additional US \$ 35-50 billion in funding just to sustain pre-crisis social programs.

In this still weak environment, oil prices are expected to remain broadly stable, averaging about US \$ 76 a barrel; and other commodity prices should rise by only 3 percent per year on an average during 2010 and 2011. The report warns that, despite the return to positive growth, it will take several years before economies recoup the losses already endured. It is estimated that about 64 million more people will be living in extreme poverty (on less than US \$ 1.25 a day) in 2010 than would have been the case had the crisis not occurred. Further, over the next 5 to 10 years, increased risk aversion, a more prudent regulatory stance, and the need to curb some of the riskier lending practices during the boom period that preceded the crisis can be expected to result in scarcer, more expensive capital for developing countries.



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As international financial conditions tighten, firms in developing countries will face higher borrowing costs, lower levels of credit, and reduced international capital flows. As a result, over the next 5 to 7 years, trend growth rates in developing countries may be 0.2 to 0.7 percent lower than they would have been had finance remained as abundant and inexpensive as in the boom period. While all forms of finance are likely to be affected, foreign direct investment (FDI) should be less constrained than debt flows. However, parent firms will face higher capital costs, reducing their ability to finance individual products. As a result, growth in FDI inflows are projected to decline from recent peaks of 3.9 percent of developing country GDP in 2007 to around 2.8-3.0 percent over the medium term. The consequences of such a decline could be serious, as FDI represents as much as 20 percent of total investment in Sub-Saharan Africa, Europe and Central Asia and Latin America.

While developing countries cannot avoid tighter international financial conditions, they can and should reduce domestic borrowing costs and promote local capital markets by expanding regional financial centers and improving competition and regulation in local banking sectors. The report finds that the very relaxed international financial conditions from 2003, through 2007 contributed to the boom in developing country finance and growth. Much lower borrowing costs caused both international capital flows and domestic bank lending to

expand, which contributed to a 30 percent increase in investment rates in developing countries. The resulting rapid expansion of the capital stock explained more than half of the 1.5 percentage point increase in the rate of growth of potential output among developing countries. While very strong developing country growth during the boom period may reflect underlying growth potential, the global financial conditions that fueled it were clearly unsustainable.

Source: The World Bank



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