UNITED NATIONS

E

ECONOMIC AND SOCIAL COUNCIL

Distr.
LIMITED
E/ESCWA/ED/1998/WG.1/2
20 November 1998
ORIGINAL: ENGLISH

Economic and Social Commission for Western Asia

Seminar on Trade Efficiency
in the ESCWA Member States
30 November - 2 December 1998
Beirut

TRADE EFFICIENCY IN ESCWA MEMBER COUNTRIES: A COMPREHENSIVE STUDY

"BANKING AND INSURANCE"

- Issued as submitted.

99-0470

Table of Contents

	Page
- List of Abbreviations	
- Introduction	1
- **Part I: General Background**	3
Chapter I. General Features of Trade-Related Financial & Insurance Aspects.	3
I-A. Insufficient Finance & Insurance	3
I-B. Foreign Trade Payment & Financing Mechanisms	4
I-C. Export Finance Guarantee	6
I-D. Electronic Payments	7
I-E. Risk Management & Insurance	8
I-E.1. Post-Shipment Export Credit Risks & its Management	9
I-E.2. Marine Insurance	9
I-F. Creating Adequate Environment for Efficient Trade	10
I-F.1. The Role of Governments & Central Banks	10
I-F.2. The Role of Commercial Banks & Non-Governmental .... Organizations	10
I-F.3. The Role of International Trade Points	11
- **PART II: Trade-Related Financial & Insurance Services in the ESCWA Member Countries**	12
Chapter II: Regional Perspective	12
II-A. The Structure of Financial and Insurance Sector	12
II-B. Availability of Export Finance and Guarantees	13
II-C. Export Financing & Payment Tools	13
II-D. The Role of Governments & Central Banks	14
II-E. Electronic Communication & Payment	15
II-F. Regional Facilities for Export Credits & Finance	15
Chapter III: Case Studies	18
Introduction	18
III-1. The Case of Egypt	18
III-1.A. *Trade Finance and Banking*	19
III-1.B. *Trade-Related Risk Management & Insurance*	23
III-1.C. *The Role of the International Trade Point in Egypt*	25
III-1.D. *Conclusions & Recommendations*	26
III-2. The Case of Jordan	27
III-2.A. *Trade Finance and Banking*	28
III-2.B. *Trade-Related Risk Management & Insurance*	30
III-2.C. *Conclusions & Recommendations*	32
III-3. The Case of Lebanon	33
III-3.A. *Trade Finance and Banking*	33
III-3.B. *Trade-Related Risk Management & Insurance*	36
III-2.C. *Conclusions & Recommendations*	37
III-4. The Case of Qatar	37
III-4.A. *Trade Finance and Banking*	37

Continue

Page

III-4.B. *Trade-Related Risk Management & Insurance* 38
III-4.C. *Long-Run Strategy* 39
III-2.C. *Conclusions & Recommendations* 39
III-5. The Case of the UAE 39
III-5.A. *Trade Finance and Banking* 39
III-5.B. *Foreign Trade Insurance* 41
III-5.C. *Conclusions & Recommendations* 41
- Annex I: Some Foreign Trade Payment & Financing Mechanisms 42
- References 43

List of Abbreviations

ATFP	Arab Trade Financing Program
BDL	Banue Du Liban
BID	Bank of Industrial Development
CBE	Central Bank of Egypt
CBJ	Central Bank of Jordan
C.I.F.	Cost, Insurance and Freight
ECE	Economic Commission for Europe
ECEG	The Egyptian Company for Export Guarantee
EDBE	Export Development Bank of Egypt
EFB	Export and Finance Bank
EU	European Union
IAIGC	The Inter-Arab Investment Guarantee Corporation
IBS	Institute of Banking Studies
ICC	International Chamber of commerce
ICIIEC	Islamic Corporation for the Insurance of Investment and Export Credits
IDB	Islamic Development Bank
JD	Jordanian Dinar
JLGC	Jordan Loan Guarantee corporation
L/Cs	Letters of Credits
LIBOR	London Inter-Bank Offer Rates on US $
LP	Lebanese Pound
NBE	National Bank of Egypt
NGOs	Non-Governmental organzations
SMEs	Small and medium sized enterprises
SWIFT	Society for World-Wi9de Inter-Bank Financial Transactions
UAE	United Arab Emirates
UCP 500	Uniform customs and Practice for Documentary Credit 500
UNCTAD	United Nation conference on Trade & Finance
WTO	World Trade Organization

INTRODUCTION

Going global requires special national arrangements; part of which encompasses the improvement of foreign trade-related financial and insurance services and the enhancement of its efficiency. Availability, reliability, cost and quality of such services could affect the country's comparative advantage and, hence, its competitive position in the world markets in several ways:

i) Lack of adequate finance for potential export production indicates exclusion from the world markets.
ii) Available but costly finance and insurance schemes means higher relative prices of exported commodities, lower comparative advantage and fragile competitive status in the international arena.
iii) Lack or inadequate export credit insurance policies intimate slim chances for extending preferable terms of payment for foreign buyers. Those buyers generally prefer to deal with exporters who are willing to accept flexible payment conditions.
iv) Antiquated communication and payment techniques imply delays and eventual loss of foreign business.

Small and medium-sized enterprises (SMEs) represent a considerable part of the socio-economic foundation of most countries, especially in the developing economies. Many of the SMEs have strong potential to be competitive exporters. However, they are often denied access to the world markets owing to shortcomings associated with inefficiency of trade-related financial and insurance products. Inadequate access to such products is considered a principal barrier to international trade and export promotion in many of the developing countries.

With the current rapid growth of the world markets and the fast expansion of the globalisation trend, the ESCWA region is in great need to strengthen its competitive presence in the international markets. Yet, it confronts foreign trade difficulties and constraints similar to those faced by many other developing economies. Participation of SMEs in the international trade is essential not only as a way of expanding exports and opening new markets for domestic production, but also as a basic medium of increasing employment, creating new sources of income and conquering national socio-economic problems. Boosting efficiency of trade-related financial and insurance services is one major component of a large package of reforms and serious actions to be followed in order to develop trade capacity in the ESCWA countries and establish a solid base for a sustainable growth of its foreign exports.

This study is an attempt to provide a better comprehension of the prevailing financial and insurance environment that affect the performance of the foreign trade sectors in ESCWA countries. **The major aims** of the study contain the following:

i) Investigate the current state of trade-related financial, payment, communication, risk management and insurance services in the ESCWA region.
ii) Assess the influencing roles of governments and Central Banks regarding the efficiency of trade-related financial and risk management products.
iii) Depict the major problems facing SMEs involved in foreign trade, when they search for adequate and reasonable sources of finance, guarantees and risk management schemes.

iv) Explore opportunities of increasing efficiency and making better use of existing national and regional trade finance, guarantee and credit insurance programs, particularly those in support of SMEs.

The study pursues these objectives in two main parts:

i) Part one presents the general features of the foreign trade financial and insurance aspects. Chapter I addresses the issues of adequacy of foreign trade finance, its tools, its guarantees, as well as foreign trade payment mechanisms and its efficiency. Trade-related risk management instruments, its availability, export credit risk and the supply of its insurance, form a significant portion of the subjects of concern. Moreover, the roles of governments, central banks, commercial banks, and non-governmental organisations in establishing adequate environment for efficient trade, are among the topics investigated in this chapter.

ii) Part two of the study concentrates on the ESCWA region.

- ➢ The regional perspectives regarding the various aspects of financial and insurance services that influence foreign trade efficiency in the ESCWA member countries are reviewed and analysed in chapter II.
- ➢ After setting the main objectives as well as the methodology of conducting case studies for a number of ESCWA member countries -in the introductory section of chapter III- reports of the results of the case studies on Egypt, Jordan, Lebanon, Qatar and UAE will follow in order. The structure, availability, accessibility to export financing opportunities and its devices are reviewed in each case study. Assessing the cost of finance and analysing the role of the country's Central Bank in export development are also parts of all case studies. Export-related risk management and insurance services are investigated, as well, in every case study. The concluding section for each case study comprises the main inferences and a number of recommendations for handling the major bottlenecks facing the country subject to investigation.

PART I: General Background

CHAPTER I: General Features of Trade-Related Financial and Insurance Aspects

International trade in many developing economies is hindered by inadequate access to competitive sources of finance and insurance facilities in addition to inefficient payment arrangements. This problem is particularly acute for the small and medium sized enterprises (SMEs), which tend to be excluded from the global markets by the power of unfair competition with exporters from other countries[1]. Banks' requirement for excessive finance guarantees is another barrier facing potential exporters, particularly SMEs. Inability to provide the required credit guarantee deprives many potential exporters from acquiring their financial needs to move ahead with their export production plans and transactions. Moreover, inefficient channels of communication between foreign buyers and sellers tend to create many misunderstandings and delays in processing documents, shipments and payments for the internationally delivered commodities. Meanwhile, absence or incompetent tools for managing post-shipment non-payment risks may limit the market domain for many exporters and reduce their chances for securing profitable deals in many markets. These are some of the issues that affect trade efficiency and, therefore, would guide our proceeding discussion in this chapter.

I-A. Insufficient Finance & Insurance:

SMEs need capital to finance expansion of their export production. They also need short-term finance to sustain their cash flow and continue their operations without having to wait for the expected payment funds. Banks, however, consider SMEs high-risk clients and regard them as unqualified for credit. In the cases where SMEs have access to domestic export finance, they usually obtain it at relatively higher cost[2] compared to large well-established enterprises. Moreover, the inadequate schemes of export credit risk insurance render them vulnerable to accept unfair terms of trade and to pursue business in very restricted markets. As a result, SMEs end up paying more for the financial and insurance services while they receive poorer quality for these services in return. Still, they are left to globally compete with the large enterprises, enduring many of the risks associated with foreign trade.

One possible –but limited- solution for acquiring short-term credit is to rely on "overdraft" facilities or "credit lines" with the exporter's bank. However, high interest rates render

---

[1] UNCTAD. 1994-a. "*Ad Hoc Working Group on Trade Efficiency*". A Report of the Third Session by the UNCTAD Secretariat, May, Geneva.

[2] UNCTAD. 1997-c. "*Services Infrastructure for Development and Trade Efficiency Assessment*". Trade and Development Board Commission on En.erprises, Business Facilitation and Development. December 1, Geneva.

this financial alternative very expensive and inappropriate for large volumes of transactions[3].

The problem of insufficient trade-related financial services to SMEs could be explained by two groups of variables:

i) The first group of variables which directly affects the supply of these services includes the general scarcity of financial capital, inadequate capacity of insurance business, regulatory constraints, state monopoly of certain financial products, etc[4].

ii) The second group of variables aggravates the inefficient distribution of financial services and raises its delivery cost. The lack of information, incompetent telecommunication systems, inexperienced personnel, inappropriate economic policies, corruption, strong influence of certain powerful groups, and bureaucracy are examples of these variables.

Many countries around the world provide a variety of supporting services for the national exporting firms. This support could range from publications and expert advice to subsidized export credit insurance and low cost loans. Small companies that have not fully investigated possibilities for government support may be unaware of low-cost consulting and finance sources that could greatly increase their chances of success.

Regional financing programs have evolved –in the past few years- to extend medium and short-term loans and rediscounting facilities in support of international trade. A growing number of such programs cover different regions of the world[5].

I-B. Foreign Trade Payment & Financing Mechanisms:

A wide variety of payment mechanisms are available in international trade, each with particular advantages and disadvantages. The foreign trade-related methods of payment range between two polarities: the "open accounts" and the "certified documentary credits".

In cases when trading parties are well established, creditworthy, have absolute confidence in each other as well as in the country's stability; **"open account"** terms of payment are more common. The exporter simply invoices the importer after shipment, granting him a certain credit period. So, the seller extends credit to the buyer without documentary

---

3 Jimenez Guillermo. 1997. *ICC Guide to Export - Import Basics: The Legal, Financial, and Transport Aspects of International Trade*. The International Chamber of Commerce & the World Business Organisation: ICC Publishing S.A. (Paris).

4 UNCTAD. 1997-a. "*Services Infrastructure for Development and Trade Efficiency Assessment*". Trade and Development Board Commission on Enterprises, Business Facilitation and Development. January 20, Geneva.

5 UNCTAD. 1996. "*Review of Progress in Trade Finance Facilities of Developing Countries in the International, Regional and Sub-regional Levels*". March 22, Geneva.

security for the buyer's indebtedness[6]. Despite the efficiency of "open accounts" as a payment device, it substantially increases the exporter's risk. Its use is more common in case of trade among developed economies. For instance, 65% of USA's trade with the European Union (EU) countries in 1989, was in terms of open accounts, whereas this mechanism was used to pay for only 6% and 3% of USA trade with Latin America and the Middle East, respectively[7]. Nevertheless, an "open account" payment backed by a credit guarantee, can be as secure as "cash in advance". **"Documentary collection"** is a trade-related payment mode that provides the exporter with more protection than open accounts. However, it is not as safe as letters of credits (L/Cs), but significantly cheaper[8]. **"Bank guarantee"** is another payment mechanism, which allows exporters to grant importers the same favorable terms of using open accounts, but backed-up with a payment security. **"Documentary credits" or "letters of credit" (L/Cs)**, are the most widely used method of payment for international transactions. It is highly recommended in cases of lack of confidence or no previous dealings between trading parties. Data of USA's foreign trade in 1989 shows that 76% and 69% of USA's trade with Latin America and the Middle East, respectively, were paid for by confirmed L/Cs, whereas this mechanism was used to pay for only 1% of USA's trade with EU countries[9].

On the exporter's side, the documentary credit has its drawbacks in that the fulfilment of physical delivery of goods does not excuse a documentary failure. When documents are processed behind schedules or contain erroneous or incomplete information, the exporter faces the risk of delayed payment or non-payment. Moreover, the exporter must have a rigorous documentary system in place, to be presented to the bank. This in particular is a problem for many SMEs, which rarely have organised bookkeeping. With such possible complications, L/Cs may hamper efficiency of foreign transactions.

The "International Chamber of Commerce" (ICC) always tries to boost the efficiency of L/Cs, by customizing the norms and aligned documents that control its global use. It standardized the "international commercial terminology" that are used in L/Cs. This lowers the chances of making mistakes and misinterpretation that cause delays of payment. Currently, most commercial banks around the globe apply the rules of "UCP 500", e.g., the "Uniform Customs and Practice for Documentary Credit 500".

Exporters usually need **short-term financing** in order to continue their pre- and post-shipment operations while waiting for later payment funds. A steady flow of cash is essential to keep motors of export production running. Some of the currently common trade payment techniques can also be used to obtain funds, such as L/Cs for instance.

---

[6] Jimenez Guillermo. 1997. *ICC Guide to Export - Import Basics: The Legal, Financial, and Transport Aspects of International Trade*. The International Chamber of Commerce & the World Business Organisation: ICC Publishing S.A. (Paris).

[7] UNCTAD. 1994-b. "*Final Report of the Ad Hoc Working Group on Trade Efficiency*". May 2-11. Geneva.

[8] For more details about foreign trade payment mechanisms, the reader can go to "Annex I".

[9] UNCTAD. 1994-b. "*Final Report of the Ad Hoc Working Group on Trade Efficiency*". May 2-11. Geneva.

Letters of credits and acceptance financing, are the traditional and most common instruments of pre- as well as post-shipment trade financing, particularly for exporters in developing countries. Meanwhile, several non-traditional tools of export financing such as **"Factoring" and "Forfeiting"**, have been developed and are rapidly growing and gaining grounds in the international arena. Some of these non-traditional export financing mechanisms –such as factoring- combine the convenience of supplying finance as well as credit inter-mediation at the same time[10]. Exporters tend to turn to factors when other means of short-term trade finance are unavailable or inappropriate. One of the main advantages of factoring is that it entitles the exporter to provide open account payment's terms for importers who have been approved by the factoring house. Nonetheless, factoring is useful only for financing experienced large exporters who generate significant levels of export turnover, and who are in need to manage a continuous flow of payments by foreign customers. So, it generally helps the exporter who has a continuous flow of transactions in the foreign market. Forfaiting, which is currently operated by international banks and specialized investors centred in European markets, also tends to favour large exporters who are engaged in massive foreign trade deals of $50,000 or higher values.

Importers in developed economies are increasingly reluctant to accept export offers that require issuing L/Cs (due to the involved expenses and paperwork). Consequently, exporters in developing countries with no access to alternative financing and risk management tools (such as factoring), are continuously loosing trade opportunities when competing for business in the markets of developed economies[11].

I-C. Export Finance Guarantee:

Banks –as risk averse institutions- try to insure themselves against the insolvency or default of any of their clients, by requiring enough guarantees to support any credit request. In most cases, large exporters enjoy a relative advantage over SMEs. Banks have more confidence in large companies with whom they have regular business, whereas, they miss-trust small and new businesses, even when they offer economically sound export projects or operations. Accordingly, for large exporters, the required guarantees are usually at its minimum levels, while for SMEs the credit collateral can be - in certain circumstances- twice as large as the size of the requested finance. Therefore, unequal opportunity of acquiring reasonable finance for export operations is a major deficiency in the foreign trade system in many countries.

To overcome that deficiency, sspecialised institutions have been created –in an increasing number of developed as well as in developing countries- to provide credit guarantee for financially promising small and medium size projects, which include export projects and operations as well. In Japan and France, the credit guarantee companies can pledge up to 100% of the required finance, i.e., the financing bank does not incur any loss in case of

[10] For more details about "Factoring" and "Forfeiting", the reader can go to "Annex I".

[11] UNCTAD. 1997-a. "*Services Infrastructure for Development and Trade Efficiency Assessment*". Trade and Development Board Commission on Enterprises, Business Facilitation and Development. January 20, Geneva.

borrower's default. In other countries in Europe and some developing economies the provided guarantee does not usually exceed 50% of the credit value[12].

Guarantee funds –in case of risk materialisation- can be raised from different sources[13]:

i) Some countries, such as Japan and Germany, have established special funds for financing the risk of the guarantee companies. Those funds are financed by contributions of financial institutions, governmental authorities, and chambers of commerce and industries.
ii) Other countries, such as Indonesia, provide complete finance through its Central Bank. Whereas in countries such as Holland, USA, and Canada the governments are responsible for supplying the guarantee funds in case of risk materialisation.
iii) In a country like Korea, the credit guarantee programs are financed by collecting a certain percentage of realized profits of all banking institutions eligible for the benefit of those guarantee programs.

Commission charges on such guarantees vary from one country to another. In countries like UK and Indonesia, the Guarantee companies charge 4% commission fees on the guaranteed part of the loan, while in other countries such as India and some Latin American countries, they charge commission on the whole value of the loan not just the guaranteed portion. In most developing countries, the commission is about 1%.

I-D. Electronic Payments:

In international trade, when documents and payments switch hands between exporters and importers, more than one bank is usually involved in the transfer, hence, delays could occur. It is not untypical for a payment transfer to take up to 30 days in some cases[14]. Such inefficiency is another impediment to trade, where many foreign trade dealers avoid repeating doing business with slow parties.

Current modern communication and payments technology, enable businessmen to take advantage of trading opportunities in a less costly manner. In communication between banks, **SWIFT** *(Society for Worldwide Inter-Bank Financial Transactions)* has became the system most in use today on both local and international arenas. Meanwhile, electronic commerce is developing rapidly on both sides of supply and demand. Money can become truly electronic and intangible, in the form of digital denominations and signatures[15].

---

[12] Jamal Salah. 1996. "*Guarantees of Loans to Small and Medium Sized Projects and Export Guarantees, with Special Emphasis on the Jordanian Experience*". In Current Issues of Banking: Loans, Export Credit, and Deposit Guarantees. Union of Arab Banks, Beirut, Lebanon.

[13] Ibid.

[14] UNCTAD & Economic Commission for Europe. 1994. *Compendium of Trade facilitation Recommendation.* United Nations, New York and Geneva.

[15] UNCTAD, world Trade Centre, and Geneva Trade Point. 1996. "*The Global Trade Point Network*". Midrand.

Nonetheless, a serious constraint still hampers that progress, particularly in many developing countries. There is no internationally agreed method to ensure legal validity and security of electronically exchanged payment messages when those messages are originating from or sent to a party that is not a bank[16]. The growing use of electronic commerce mechanisms in international trade, on the other hand, will increase the demand for risk management procedures[17].

I-E. Risk Management & Insurance:

International transactions entail risks of dealing not only with foreign markets and currencies, but also with foreign countries of differing political and economic environment. Exporters need protections against unanticipated changes in one or some of these variables. Therefore, intelligent risk management techniques are at the heart of foreign trade. Some sources of risk could be handled with the exporter's bank, while others are managed through specialized agents or insurance institutions.

Exporters can insulate themselves from exchange rate fluctuations or government's imposition of foreign exchange controls by **"hedging contracts"**, such as foreign currency forward, future or option contracts. In many countries, commercial banks often sell forward foreign exchange contracts to its clients. Option and future contracts, though very common in developed and some developing economies[18], are not widely used by exporters in many of the developing countries, especially when exchange rates are very much controlled by the government. Another justification for the absence or non-popularity of such derivative instruments in developing countries, is the lack of experienced professionals who should have a thorough understanding of its implementation and managing techniques.

Wide changes in interest rates in some countries could motivate exporters to fix or reduce the costs of borrowing when pre-financing a major trade transaction, by buying **"interest rate swaps"** and related instruments. Such risk management tools are mostly used by large exporters in developed economies and at times of high economic uncertainty.

The **"non-credit risk"** is another source of insecurity faced by exporters. It evolves from future fluctuations in the prices of the exported commodities. **Futures, Options and Swap contracts** are familiar instruments for hedging. These tools are mostly used in case of certain products such as oil, metals, cotton, coffee, sugar, cocoa, lumber, wheat, etc.

---

[16] UNCTAD & Economic Commission for Europe. 1994. *Compendium of Trade facilitation Recommendation*. United Nations, New York and Geneva.

[17] UNCTAD. 1997-b. "*Services Infrastructure for Development and Trade Efficiency Assessment: Proposal for a Trade Efficiency Assessment Methodology (TEAM)*". A Report by UNCTAD Secretariat. October, Geneva.

[18] For more information regarding such financial tools and derivatives, the reader can consult with many books such as: Watsham Terry J. 1992. *Options and Futures in International Portfolio Management*. Chapman & Hall: New York & London. Also, Henderson Schuyler and Price John. 1984. *Currency and Interest Rate Swaps*. Butler & Tanner Ltd.: London.

I-E.1. Post-Shipment Export Credit Risks & its Management:

It is not always easy for exporters to evaluate the creditworthiness of their foreign trade partners or to assess their countries' risks. Consequently, in international trade the risks of non-payment, late payment, or outright fraud always exist. Therefore, worrying exporters usually insist on payment by irrevocable documentary credit to minimize the risk element in their foreign transactions. The post-shipment export credit insurance is a way of avoiding dependence on documentary credits with all its potential drawbacks. Accepting non-documentary deferred payment settlements, fortifies the competitive position of the exporter in the world market. Accordingly, availability of post-shipment credit insurance encourages exporters to welcome the use of more efficient -but risky- payment mechanisms, such as "open accounts". Moreover, the insurance policy itself could be used as a guarantee to the bank when applying for post-shipment export finance.

The post-shipment export "credit risk" or the "risk of non-payment", could evolve from "commercial" as well as "non-commercial" factors. **Commercial risks** are related to the foreign buyer himself. It could be due to reasons such as the importer's insolvency, his failure to effect payment to the exporter for the fully agreed value of the delivered goods, as well as his failure or refusal to accept the shipped goods provided that the exporter has met all his obligations. **Non-commercial risks** evolve from actions or accidents in the importer's country that result in the default of the importer to pay for the exported commodity. Reasons for such risks include expropriation, nationalization, sudden inconvertibility of the currency of the importing country, cancellation of a valid import license, sudden change in laws and regulations, refusing entry of the shipped goods, etc. This is in addition to the unforeseen events, which may render goods' delivery impossible, such as strikes, war, revolutions, natural disasters, etc.

Different kinds of insurance policies will provide protection against all or certain types of the above mentioned risks. The insurance premium varies by the insured case and kind of policy, but it is normally in the range of 1% to 2% of the contract price, plus a base fee of the insurer's minimum processing charges[19].

Insurance against non-payment risks is commonly utilized in Europe and Japan to protect trade transactions[20]. It is increasingly used in other developed and developing countries as well. In addition to state-controlled export credit insurance companies, other private, multilateral and regional credit insurers are widely emerging in the developing world.

I-E.2. Marine Insurance:

Insurance against transport-related risks such as risks of damage, loss, or theft, is very common and widely used in foreign trade. Insuring goods transported abroad by any mean -ships, planes, trucks, etc.- comes under "Marine" insurance. It is one of the oldest, most regulated sectors of insurance business. Risk coverage can vary between "All risk" policy -"clause A"- and "minimum cover" policies, i.e., "clause C". Marine insurance can be

---

19 Jimenez Guillermo. 1997. *ICC Guide to Export - Import Basics: The Legal, Financial, and Transport Aspects of International Trade*. The International Chamber of Commerce & the World Business Organisation: ICC Publishing S.A. (Paris).

20 UNCTAD. 1994-b. "*Final Report of the Ad Hoc Working Group on Trade Efficiency*". May 2-11. Geneva.

purchased for a specific shipment, or for all shipments that take place during a specified time period (floating policy). The "floating policy" is usually used by large traders with high level of "turn-over" and who insure their foreign shipments on a regular basis. The average cost of insurance would be normally lower when using a "floating policy" compared to the "specific policy".

Many factors interfere –with different weights- in determining the marine insurance premium. Type of insurance policy (clause A, B, or C), kind of insured commodity, packaging, quality of containers, carrier, shape of carrier, reputation of shipping company, destination, time of the year, and value of shipment are all examples of such factors. On average, the premium may range between 0.5% and 1% in most normal cases.

I-F. Creating Adequate Environment for Efficient Trade:

I-F.1. The Role of Governments & Central Banks:

Furnishing an environment adequate for promoting efficient trade-related financial and insurance products necessitates the co-operation of three major parties affecting foreign trade: the government, the banking system, and the non-governmental organisations.

Government's economic policies as well as the Central Bank's monetary policy and regulations have significant direct and indirect impacts on the availability, accessibility and cost of trade-related financial services. In many countries, Central Banks' laws do not allow for the introduction of certain non-traditional financial services and derivatives. Exchange control regulations in many developing countries, restrict trade opportunities and stimulate inefficiency in managing financial resources. Due to the critical role that financial institutions play in a nation's economy, their financial operations are usually subject to heavy regulations and supervision, in many countries. For instance, obligating foreign traders to insure their overseas shipments only with local insurance companies curbs competition; increases cost and degrades quality of service. Insurance brokers estimate that marine rates in some of these countries are as much as 20% above the prevailing rates in the international insurance market[21]. Similar effects arise from limitations or bans on subsidiaries or branches of foreign financial institutions.

Establishing harmony between current practice of commercial banks and insurance institutions on the one hand, and the accepted international conventions on the other hand, requires a thorough revision –by concerned departments- of current laws and regulations that affect trade finance, insurance, and international payments.

I-F.2. The Role of Commercial Banks & Non-Governmental Organisations

Providing adequate finance to promising export projects, modifying complicated documents, enhancing modern communication channels between trade parties, implementing advanced techniques of finance and payment, informing users of available credit lines, providing credit and financial advisory, etc. are all parts of the commercial banks' role in advancing towards trade efficiency.

---

[21] UNCTAD. 1994-a. "*Ad Hoc Working Group on Trade Efficiency*". A Report of the Third Session by the UNCTAD Secretariat, May, Geneva.

As a linking point between foreign exporters with all their trade-related problems and the governmental authorities, the non-governmental organisations (NGOs) can influence the performance of financial institutions regarding the kind and quality of services offered to exporters. Currently many NGOs such as local chambers of commerce or exporters associations, often provide various sorts of information, training, counseling services, etc. to exporters. However, almost no part of such assistance is devoted to financial and insurance aspects of international trade.

I-F.3. The Role of International Trade Points:

UNCTAD has elected an ambitious set of activities to enhance efficiency of trade-related financial and insurance services. This package is to be implemented by the International Trade Points in various countries. The objective is to give SMEs a fair chance of access to international markets[22]. According to their initiatives, Trade Points should be equipped to:

i) Offer financial advisory services to SMEs, in particular. Services include information on all types and sources of export credit, payment tools, credit guarantees and risk management alternatives, both domestically and internationally.
ii) Facilitate access to qualified sources of non-traditional devices for export financing, as well as to advanced communication channels and electronic payments.
iii) Co-operate with national and multinational agencies to draw up finance guarantee programs appropriate to the local needs and capabilities.
iv) Harmonise information and documents along with regulations and legislation concerning export credit, payment and insurance.
v) Increase transparency in procedures and help traders to build realistic expectations regarding time and costs involved.
vi) Develop an international mechanism to ensure the legal validity and security of electronically exchanged payment messages.

[22] UNCTAD. 1994-c. "*Report of the International Symposium on Trade Efficiency*". October 17-21, Columbus: Ohio.

PART II: Trade-Related Financial & Insurance Services in the ESCWA Member Countries

Aggregating the characteristics of the trade-related financial and insurance services in the whole ESCWA region would be inappropriate due to variations in the size and the domain of these products, in addition to the policies and regulations governing its supply in each of ESCWA member countries. Accordingly, it would be preferable to highlight the main general features of these markets in chapter II, and then move –in the subsequent chapter- to explore its profile and constraints in a number of the ESCWA member countries.

CHAPTER II: Regional Perspective

One of the major problems that constraint the growth of exports of some ESCWA member countries is the lack of adequate finance for pre- and post- shipments as well as credit guarantees and payment insurance for small and medium size potential exporters. Many countries in ESCWA region have made significant efforts to liberalise and adjust their trade-related financial and insurance services, policies, and practices to enhance foreign trade efficiency. The private sector is now playing an increasingly visible role in trade financing and insurance in the region. This trend is evident in a number of products. Nonetheless, more intensive efforts are needed, specifically in the area of export credit insurance and export finance guarantees. Such financial services are indispensable and particularly useful to SMEs.

II-A. The Structure of Financial and Insurance Sector:

The banking structure widely varies from one country to another. Allowing foreign competition has become a common characteristic of many countries. However, some countries -such as Kuwait and Syria- still protect their commercial banks by clogging the way for foreign competition. In Syria, the trade-related financial service market is less-developed compared to a number of other countries. At the end of 1996, there was only one commercial bank with monopolistic power over foreign transactions, and three specialised banks, all state owned and operated[23].

Despite the relatively large number of commercial banks in several ESCWA countries, insufficiency of financial institutions specialised in providing export credits and guarantees, is one common feature in the region. Commercial banks do not give high priority to export financing, especially in cases where the degree of risk is high. A number of ESCWA countries have over-capacity in the marine insurance sector, which is completely controlled by a very large number of domestic and foreign private companies,

---

[23] Abul-Eyoun Mahmoud. 1997. "*Financial Services Liberalisation in the ESCWA Region: Challenges and Opportunities*". In Expert Group Meeting on the Challenges and Opportunities of the New International Trade Agreement (Uruguay Round): Post-Uruguay Preparations and Adjustments. Kuwait. November 14-26. United Nations and Arab Planning Institute.

as in UAE, Lebanon, Jordan and Kuwait. In other countries, such as Egypt and Syria, the market is still dominated by public companies. As for the post-shipment export credit insurance, the market is generally limited in most countries, despite the emerging insurance facilities offered by some regional organisations. A few member states have just one domestic export credit insurance institutions, while others have none.

II-B. Availability of Export Finance and Guarantees:

The availability of export credit and guarantees varies throughout ESCWA countries. Despite of funds' availability in the GCC countries, for instance, very little attention is devoted to export finance. Of course, this is basically explained by the lack of non-oil-based export products, in which these countries can have comparative advantage and be able to compete abroad. In a country like Oman, total credits constituted about 69% of total commercial banks' assets in 1995. Nonetheless, most of that credit was directed to personal loans[24]. Good potentials for export promotion and diversification are obvious in other countries such as Egypt and Jordan. Nevertheless, SMEs in many countries are facing difficulties in obtaining sufficient pre-shipment export finance. A wide gap exists between the needs for these services and the existing facilities. In Syria, for instance, the banking sector is chiefly involved in financing the public institutions with preferential treatment as compared to the private business. For that reason, among others, many businessmen in Syria rely on neighbouring countries' banking facilities[25].

In all countries, extending credit to SMEs is very much conditional on providing excessive amount of guarantees. This problem motivates some SMEs to switch to non-banking financial institutions –when available- where they can get better credit conditions, faster and cheaper services, as is the case in Kuwait[26].

II-C. Export Financing & Payment Tools:

L/Cs is the most common instrument utilised to finance as well as to pay for foreign trade in ESCWA countries. **Bank drafts** (sight and time) are also used to pay for exports, but it is not as common as L/Cs. **"Overdrafts"** is a highly significant source of short-term pre-shipment credit, which is automatically used to finance working capital. It is, however, one of the most expensive credit facilities that exporters could utilise. In addition, tools such as term-loans, credit lines, etc. are all parts of the export-financing package in the region, but with different intensities. A survey study in Kuwait revealed that services such as documentary credit facilities, overdraft facilities, short-term and working capital loans, and long –term loans are all of equal significance to SMEs[27].

---

[24] Ibid.

[25] UNCTAD. 1996. "*Review of Progress in Trade Finance Facilities of Developing Countries in the International, Regional and Sub-regional Levels*". March 22, Geneva.

[26] Institute of Banking Studies. 1997. "*Bank Services to the Small Business*". Kuwait.

[27] Ibid.

Tools such as "Forfeiting" and "Factoring", were lately introduced in a few markets in the region. **Forfeiting** is of more use in case of financing exports of high values such as capital products and durable goods, which is not the common case in most of ESCWA countries. Accordingly, forfeiting is occasionally used to finance capital imports –not exports- in countries like Egypt and Kuwait, but on a very limited scale. **Factoring** facilities are almost absent –so far- in most of the member countries in the region. It was used on a very limited scale in Oman and Kuwait. The benefits expected from relying on international factoring houses to finance exports in the ESCWA region, are not very promising. Many of those houses consider an annual export turnover of more than half a million dollars as a minimum threshold. Moreover, "factors" often prefer not to handle on-off transactions, which is the problem of the region, where the size of SMEs' exports is usually small, and export operations may not be very frequent throughout the year. A solution for such a problem could be through the "big brother" approach. In other words, some domestic agent can act as a big agent for many small exporters in dealing with foreign markets, i.e., act as a correspondent for international "factors". Another problem restricting benefiting from "factoring" services is that the use of factoring requires adequate telecommunications, software, training, and appropriate legal infrastructure, which is not the common case –yet- in many of the region's countries.

II-D. The Role of Governments & Central Banks:

Outright bans on subsidiaries or branches of foreign banks and financial institutions are common in some ESCWA members, such as Kuwait, Syria, and Iraq. To the contrary, in some other member countries, such constraints either did not exist –in Lebanon for instance- or have been relaxed together with a number of other de-regulations, as in Egypt. Restrictions on traditional tools of foreign payment and credits, while absent in many of the ESCWA member countries, are still strict in a few others. Non-traditional financial devices –so far- are not legally advocated.

The use of certain monetary tools in controlling the rate of interest and directing credit facilities –such as the discount rate- is limited, except in periods of liquidity problems. Freeing interest rates has become a way of igniting competition among banks in many ESCWA members such as Qatar, Egypt, Lebanon, and Jordan. However, in some countries like Kuwait, interest rate ceilings on deposits and credits have been tied to the discount rate, which is frequently manipulated by the Central Bank. In Syria, the government controls interest rates. Changing lending/deposit ratios is a common tool of controlling the size of commercial banks' credit in some markets such as in Lebanon.

Foreign exchange control regulations and accessibility to sources of foreign exchange have been freed in many of ESCWA countries. However, they are still major impediments to foreign trade in some member countries, such as Syria and Iraq.

Despite the great significance of "refinancing" the foreign trade credit extended by the banking sector, a very few member countries have started to take actions towards implementing programs for "export refinancing".

Besides the price and quality of the exported goods, the competitive position of domestic products in foreign markets is significantly affected by the easiness of payment conditions. Exporters who accept deferred payments have stronger competitive positions in the market. Accordingly, fostering the idea of "buyer's credit" deserves more attention in the region. Egypt has taken actions to persuade importers by offering "buyer's credits".

II-E. Electronic Communication & Payment:

The use of SWIFT is growing very rapidly in most banks in several ESCWA countries. In some GCC states such as Kuwait, the "corporate banking" services were introduced few years ago to enable businessmen to transfer L/Cs, bills of exchange, etc., directly to their trade partners through SWIFT (using a pass-word). Transferring payments by electronic systems other than those used in banks is considered insecure and will take quite some time to develop and gain traders' acceptance in the region.

II-F. Regional Facilities for Export Credits & Finance:

Given that trade financing, export guarantees, and credit insurance schemes are not always adequate at the national level, some regional corporations have logged in to bridge that gap. Regional corporations have better standing in terms of pooling trade risks and spreading it over several countries. The main features of the regional schemes are described below.

II-F.1. Export Financing Programs:

The **Islamic Development Bank (IDB)** -which was established in 1975 to foster the economic development of its member countries- extends medium to long-term credit to foreign trade operations originating among those countries, that is in addition to its regular activity of projects financing. Since its inception, 72% of the value of its operations were allocated to foreign trade finance[28]. The IDB conforms to "Shariah". It purchases the export goods and re-sell them to the importing member countries, against a reasonable mark up - the LIBOR plus a spread of 1.5%- with deferred payment arrangements. Lately, the IDB has shown tendency to give up the spread over the LIBOR. This profit margin is usually lower than interest rates charged by any financial institution in case of a deferred L/C[29]. Moreover, a 15% discount on agreed profit margin is granted to the importer in case of prompt payment.

Traditionally, IDB financing funds were channelled mostly to governments. Recently, it has undertaken measures to finance the private sector as well. However, its highly restrictive financing conditions confine SMEs' accessibility to such funds. One of the impediments is that the exporter should submit letters of guarantees issued by both of the Central Bank and the government of his country.

The **Arab Trade Financing Program (ATFP)** –which started in 1991- aims at creating a better environment for trade among Arab countries, through the provision of short-term

---

[28] Central Bank of Egypt. 1997. *Economic Report 1996-97.* Vol. 47, No. 4, Cairo, Egypt.

[29] Islamic Development Bank. 1997. *Program of Long-Term Trade Finance Among the Member countries of Islamic Conference: A Guide for Export Finance.* Jeddah, Saudi Arabia.

refinancing facilities to foreign trade operations[30]. The program functions by extending short-term financial credit lines to national agencies designated by Arab countries. It refinances up to 85% of pre- and post-shipment export finance extended by the national agents. The interest charged in most cases is equal to the LIBOR. In cases of financing long-term or high- risk transactions, a premium of no more than 0.5% is added to the LIBOR. The national agent is allowed to add a mark up to cover its administrative costs. Moreover, the ATFP supports the idea of "buyer's credit" which is a good source of export promotion among the Arab countries.

A number of economic and non-economic obstacles hinder the effectiveness of the ATFP as well as any external export financing program. In brief, SMEs still have to deal with their national agents –usually commercial and export banks- that apply their own usual standards for credit extension. This means, SMEs will be facing the same dilemma of providing the large collateral required by banks. The ATFP itself admits that it has failed in solving this crucial problem. This leads us to believe that augmenting the potential benefits of external export financing programs requires pre-establishment –or strengthening- of national institutions specialised in guaranteeing SMEs at the banks.

II-F.2. Export Credit Insurance:

The **Inter-Arab Investment Guarantee Corporation (IAIGC)** provides insurance against commercial and non-commercial risks, for both Arab investment and foreign trade originating among Arab countries[31]. Insured exporters can obtain all sorts of benefits initiated by the usual schemes of non-payment risk guarantee. This motivates exporters to explore new markets and to grant credit to importers by accepting deferred payment. Moreover, exporters are entitled to post-shipment credit, by discounting the primary notes or any other kind of draft bills at any financial institution eligible to the corporation's signature. The IAIGC has the advantage of offering both the "Comprehensive Policy" that covers all exporter's transactions during the contract period, and the "Specific Policy" which insures exports to a specific importer or country. Besides the fixed application and investigation fees, the exporter pays a commercial fee of 0.1% of the total value of the export contract. Premiums are determined according to the corporation's risk assessment. In case of risk realization, the IAIGC compensates for 85% to 90% of the incurred losses.

Likewise, the **Islamic Corporation for the Insurance of Investment and Export Credits (ICIIEC)** -started in 1995 as a subsidiary of the IDB- provides export receivable insurance to cover both commercial and non-commercial risks, evolving from trade among member states of the Islamic Conference Organization[32]. Nonetheless, demand for the services of the ICIIEC is considered very weak, partly because the private business demand for the products of IDB financing program is still at its initial steps in ESCWA countries. Taking in consideration the significance of this kind of guarantee in export

---

[30] Arab Trade Financing Program. 1997. *Objectives & Guidelines of Arab Trade Financing Program*. October. Charjah, UAE.

[31] Inter-Arab Investment Guarantee Corporation. *Activities & Services*. Kuwait.

[32] UNCTAD. 1996. "*Review of Progress in Trade Finance Facilities of Developing Countries in the International, Regional and Sub-regional Levels*". March 22, Geneva.

expansion and promotion, further actions should be investigated and implemented to vitalize its use in ESCWA countries.

CHAPTER III: Case Studies

Introduction

Investigating the current trends of trade financing, insurance and risk management facilities in a number of selected ESCWA member countries, would help us to:

i) Assess the factors affecting availability, accessibility, sufficiency as well as cost of various trade-related financial and insurance services, as indicators for its efficiency.

ii) Depict the long-run schemes for enhancing efficiency and improving the quality of those services.

iii) Identify the major financial and insurance obstacles curbing the SMEs' opportunities for competing and gaining grounds in the world markets.

iv) Evaluate the role of International Trade Points –when exists- in enhancing the efficiency of trade-related financial and insurance services.

v) Deduct a number of conclusions regarding the current status of the topics of concern, in most of ESCWA member countries.

vi) Spell out a list of general recommendations for the development of a healthier environment for the promotion of foreign trade and exports, in particular.

The investigation methodology of conducting the case studies has been based on the following approach:

i) Consulting with top-ranking officials in the Central Banks, Ministries of Economics and Trade, International Trade Point, a well-selected representative sample of banks and insurance companies, as well as export credit guarantee and insurance companies.

ii) Discussing with representatives of some concerned non-governmental organisations such as: Chambers of Commerce, Exporters Associations, Federations of Industries, Businessmen Associations, Union of Arab Banks, and Unions of Insurance Companies.

iii) Exploring the perceptions of a number of SMEs involved in foreign exports, regarding the major financial and insurance impediments to their foreign operations.

Thus the objectives stated above, would be served through analysing the outcomes of the conducted investigations and using the results of other previous studies as well as the relevant data and information that happened to be available in each of the countries of concern.

III-1. The Case of Egypt

Egypt is pursuing a vigorous scheme for export development and promotion. Adequate, accessible, and efficient sources as well as instruments of finance and insurance are indispensable for achieving a considerable growth in the country's foreign exports. Investigating such aspects, with emphasis on the status and obstacles that face small and medium sized export enterprises in Egypt, is the theme of our study.

III-1.A. *Trade Finance and Banking:*

III-1.A.i. Structure:

In Egypt, the banking sector comprises 64 banks, 28 of which are commercial[33]. Nonetheless, about 60% of the commercial banking activity are in hands of the four state-owned banks (the National Bank, Misr Bank, Bank of Alexandria, and Bank of Cairo). In general, most of these banks extend credit to SMEs. However, the extent of that finance is considered very limited relative to the needs of SMEs, on the one hand, and compared to what is usually offered to large well-established enterprises, on the other hand. Unlike some of ESCWA countries, no non-banking financial institution operates in the Egyptian market to supply short-term credit for foreign trade business. The currently existing "investment institutions" can only provide long-term credits for investment projects.

III-1.A.ii. Accessibility:

Banks prefer dealings with large enterprises that have developed substantial experience in working with foreign markets. It is more profitable and less risky for commercial banks to concentrate on financing large clients -whenever possible- rather than SMEs. The published figures, however, do not help in figuring out the exact amount of credit facilities channelled by banks to the foreign trade sector. In the Export Development Bank of Egypt (EDBE), roughly about 75% of the credit facilities are directed towards foreign trade, with special emphasis on exports. Discussion with officials in other banks -specially the private and joint venture commercial banks- revealed that most of the foreign trade finance is usually extended to accommodate imports (80%-90%) rather than to facilitate exports. One justification for such result is that the risk of financing export operations is higher than that of financing imports, whereas, the margin of profit is much smaller. Moreover, in case of imports, the bank has more control over the goods either in the port or in the storage places.

III-1.A.iii. Pre-Shipment Export Finance & Required Guarantees:

The role of commercial banks in pre-shipment finance of exports varies from one bank to another. This role is more obvious and relatively intensive in case of the four state-owned commercial banks as well as some of the large private and joint-venture banks. Egyptian banks had always financed pre-shipment operations of cotton exports. In the industrial sector, banks take part in financing the imports of raw materials and intermediate products needed to be processed locally and re-exported. Some large banks -such as Bank of Alexandria, National Bank of Egypt, EDBE, and others– provide direct sources of pre-shipment finance for exports through owning shares in a number of large production and trading companies engaged in foreign exports. The EDBE can finance up to 50% of the value of export contracts of agricultural as well as industrial products. For the EDBE and the other banks, the pre-shipment finance is still considered a risky subject. To reduce the amount of risk taken by the bank, a credit priority is given to exporters who are producers as well, because –in this case- the goods would serve as a source of guarantee for the bank. Banks extend pre-shipment finance to a large exporter, guaranteed by his factory, even without the presence of an export contract.

[33] Central Bank of Egypt. 1997. *Economic Report 1996-97.* Vol. 47, No. 4, Cairo, Egypt.

A related subject, is the issue of credit guarantee. Commercial banks –like everywhere else- reckons mainly to the client's creditworthiness and his ability to generate revenues to repay his credit. In general, Egyptian banks do not emphasise obtaining physical guarantees for extending credits to large known clients. For instance, around 70% of short-term credit advanced by commercial banks during the period 1991-1997, was without "in-kind" guarantee[34]. However in cases of high risk –as in the case of small, new, unknown, or even large but doubtful customers- the bank usually insists on obtaining adequate guarantee. The types of guarantees vary according to the kinds of traded commodities, size of transaction, reputation of the foreign client, the risk assessment of the foreign country, creditworthiness of the Egyptian client, etc.

III-1.A.iv. Foreign Trade Financial & Payment Devices:

So far, Egyptian banks are mainly engaged in providing the **traditional** financial services for the foreign trade sector. **L/Cs** are considered the most common and trusted payment device for foreign trade, especially among SMEs. Exporters can easily use their irrevocable L/Cs to obtain short-term pre-or post-shipment finance from the bank. An "**Export Contract**" –which is usually certified- can also be used to acquire pre-shipment finance. Credit could be obtained against transportation documents, such as the "**bill of lading**", even without L/Cs. However, the bank's commissions and interest rates on such finance are typically higher than in case of financing against irrevocable confirmed L/Cs. The use of "**Bills of Exchange**" and "**Open Accounts**" as tools for payment in foreign trade, is still limited in Egypt.

Banks' preference and acceptance to provide finance against one payment device rather than the other, depends on a number of factors such as the client's reputation, type of exported commodity, confidence in the foreign partner, the risk assessment of the importing/exporting country, etc. In fact, we conceive heavy reliance on documentary payments as one of the obstacles that might hinder export expansion efforts in some markets. Documentary payments are usually preferred as a method for proving each side's rights, nonetheless, it curbs the domain of foreign markets for some exports. With the wild competition accompanying the globalisation of world markets, importers in Europe and USA find it less costly and more time saving to avoid using documentary payment devices as much as possible.

Non-traditional financial devices such as "Factoring" and "Forfeiting", are not common in the Egyptian market, except in a few cases where such devices are used on a very limited scale. Developing such tools, however, is part of the long-run modernisation strategy in a number of the large banks.

Some banks have already started taking steps towards improving their financial services, which is expected to have a positive effect on the quality and quantity of Egyptian exports in the future. For instance, one achievement of the "National Bank of Egypt" (NBE)–the largest commercial bank in Egypt- in 1997, was its participation in "**Financial Leasing**" operations, which facilitate importing advanced production machinery and equipment.

[34] Ibid.

This was accomplished by establishing a leasing company in co-operation with some specialised international companies[35]. Moreover, "**Buyers' Credit**" is among the financial services to be launched by a number of the large banks in the future. It is an indirect method of financing exports through extending finance to potential foreign importers of the Egyptian products.

III-1.A.v. Cost of Finance:

When it comes to cost, all banks admit that they discriminate between small and large businesses when they determine the rates of commissions on foreign trade services and interest on credit supply. Such variables have become part of the factors that ignite competition among commercial banks in Egypt. Banks are free in fixing rates of commissions on foreign trade services. Accordingly, the actual charges depend on a number of variables such as: creditworthiness of the client and his market power, the kind and size of foreign operation, the country risk assessment, etc. In most cases, large and well-known companies enjoy special rates of commissions. According to the estimates given by some private trading companies, the bank's commissions represent around one percent –on average- of the foreign transaction value. Still, this percentage will depend on the client's bargaining power with the bank. Many senior bankers believe that the cost of interest, though high, does not represent a big element in the total cost of large enterprises engaged in foreign trade. Consequently, interest rates do not significantly affect the business' decision. On the other hand, businessmen have a different opinion in this respect. They see that interest rates on credit facilities provided to finance foreign trade are quite high. In case of imports financing, the range of interest rates can vary between 10.5% and 18%, depending on factors similar to what was mentioned above.

As a way to promote Egyptian exports and enhance its competitive position in world markets, interest rates on export credit were reduced –during the past few years- to levels below the market rates. Nevertheless, many senior officials in the banks, government, NGOs, and private export companies, still consider the cost of interest as a genuine obstacle for SMEs who operate –usually- with very low profit margins due to the severe competition they face in certain export markets. According to estimates of businessmen engaged in foreign trade, bank's charges to process and finance a foreign trade transaction, averages to about 2% of its value, whereas the profit margin –in some cases- may be as low as 2%.

III-1.A.vi. The Role of the Central Bank:

Bankers agree that **no limitations** are currently imposed by the Central Bank of Egypt (CBE) or any governmental authority on their foreign trade operations. Old restrictions that prevailed for the past few decades were abolished throughout the 1990s, as a way to encourage foreign trade and vitalise exports. In January 1991, ceilings and floors on rates of interest were removed, and the lending market became very competitive. Limitations on services' commissions were also eliminated in 1996, as a consequence of the GATT Agreement's recommendations. Foreign exchange transfers are freely admissible. Meanwhile, the CBE imposes no constraint on foreign payment devices. One restriction,

[35] National Bank of Egypt. 1998. *Annual Report: 1996-1997.* Cairo, Egypt.

however, still exists; e.g., commercial banks can provide foreign exchange credit only to companies that self-generate foreign exchange. Therefore, foreign exchange lending is permissible -at a subsidised rate- only to enterprises operating in both sectors of exports and tourism.

The CBE tries to fortify the role of banks in financing exports, through "moral-suasion" rather than direct orders. It ceases the opportunities of its regular meetings with banks' representatives, to energise the export financing issue and stress the need for channelling additional financial resources towards SMEs with high export potentials. In co-operation with the Ministry of Finance, the Central Bank has prepared a scheme for reducing interest rates on export credits extended to SMEs, to a level of 6% instead of the current levels that average around 12%. This would significantly reduce the financial cost of small exporters and strengthen their competitive position in the foreign markets. 93. Currently, the CBE is studying the possibility of "re-financing" export's credits in the commercial banks' portfolios. No conclusion has been reached yet. Such a program, if implemented, could increase the supply of export credit facilities and accelerate the export financing process.

III-1.A.vii. External Sources of Finance:

Relatively inexpensive sources of short to medium-term pre-and post-shipment export finance are generated through a number of external credit suppliers, such as (IDB) and (ATFP). Nevertheless, to maximize the potential benefits of the existing supply of export financing funds, a more aggressive marketing policy for those funds should be followed with emphasis on the needs of the most promising export producers, especially SMEs. Moreover, good co-ordination efforts among the focal points are indispensable.

III-1.A.viii. Electronic Communication & Payments:

The use of electronic commerce and payments has become a common feature of foreign trade among developed countries. In Egypt, "SWIFT" is widely used in a rising number of banks –over 40 banks- as a tool of electronic communication and payment. Apart from banks, the use of electronic paper-less system in conducting foreign trade transactions and payments still needs time to develop and materialise in the Egyptian market. The financial, legal, and business environment is not prepared for the introduction of such electronic advancement. Even if the banking sector develops an acceptable way to widen utilisation of such electronic system in foreign trade transactions, businessmen will still prefer to have paper rather than electronic documents in their hands.

III-1.A.ix. Long-Run Strategy:

Senior bank officials express their intention of enhancing financial services offered to SMEs, in terms of both quality and quantity. The main perceived objectives of the long-run strategies of major commercial banks in Egypt overlap and they have many similarities. Major commercial banks have taken active steps towards export promotion. The theme of their strategies focuses on establishing a separate export financing division or institution equipped with facilities and well trained personnel who can deal with all sorts of export affairs. The services to be provided include: financial consulting, marketing advising, creating distribution channels for Egyptian commodities, fetching new sources for pre and post-shipment export credit, transportation, issuing and examining export-related documents, etc. That is in addition to information centres with a complete database regarding export opportunities in all markets. On the other hand, the EDBE has a strategy for expanding its major operations with particular emphasis on financing "non-traditional exports", which include services such as: construction contracts, movies, videos, books, art works, business consultations, etc. Due to the high level of risk involved in such exports, its financing requires different tools, modern management's attitudes and special training for the people who handle it. Meanwhile, the CBE does not save efforts to enhance the sources of finance to sound export oriented projects. "Refinancing of export credits" is one of its anticipated projects to fortify the role of the banking sector in supplying export credit.

III-1.B. Trade-Related Risk Management & Insurance:

III-1.B.i. Management of Foreign Exchange Risks:

The only risk management scheme offered by commercial banks to the foreign trade business sector is "hedging" against fluctuations in the foreign exchange rates, through "forward exchange contracts". However, it is worth noting that this device is not widely used at the time being owing to the current relative stability of the Egyptian pound.

III-1.B.ii. Availability of Export Credit Guarantee & Insurance:

In Egypt, there exists only one company for export credit insurance; e.g., the "Egyptian Company for Exports Guarantee" (ECEG). The company was established in 1992 by the efforts of the Export Development Bank of Egypt, the National Investment Bank and three of the large public insurance companies. The relatively low rate of return on such investments in Egypt explains, partially, the absence of other competing enterprises in this market[36]. Since its inception, the Company concentrated on providing post-shipment export insurance against risks of non-payment by foreign importers. Its main insurance policy -the "Basic Policy"- covers post-shipment commercial as well as non-commercial risks for all export operations anticipated by the client during the period covered by the policy. In July 1996, the company introduced its second insurance policy to include pre-shipment risks of canceling or ceasing the export transaction by the importer himself, or due to reasons originating in his country, or caused by actions taken by the Egyptian government[37].

No financial institution in Egypt specializes in offering the "pre-shipment export credit guarantees" that are usually required by banks for extending short-term credit to the exporters to finance his pre-shipment operations. However, small exporters can indirectly acquire this kind of guarantee through the company that guarantees the banking credit's risk of small projects. This company was established in 1991 –with help from the government and some international organizations- to assist small starting and developing projects in all fields of production to obtain short to medium-term banking finance for their operations. The company guarantees up to 50% of the credit with 2% commission, provided that the project owner self-finances 30% to 50% of the total value of his

---

[36] Egyptian Company for Export Guarantee. 1988. *The company's Brochure. Cairo, Egypt.*

[37] Fahmi Salah. 1997. *"Credit Risk's Guarantee: Case Study of Egypt".* In Current Issues of Banking: Loans, Export Credit, and Deposit Guarantee. Union of Arab Banks, Beirut, Lebanon.

investment[38]. In addition, regional sources of export credit guarantee and insurance such as those provided by the "IAIGC" are available, but they lack intensive marketing efforts. Lately, additional sources have been introduced by the "ICIIEC", but they are still at their preliminary phase.

III-1.B.iii. The High Cost of Export Credit Insurance & its Drawbacks:

The **Premium** on the export credit insurance is calculated as a weighted average of all sources of risks. The differences in the insurance premiums depend on a number of factors such as: the type of exported goods, the history of the relationship between the exporter and the importer, the political stability of the importing country, and the term of credit. On average, insurance premiums charged by the ECEG range between 1% and 2% of the total value of exported goods. However, as the private businessmen have pointed out, that cost can actually go up –in some cases- to 7% of the value of the foreign operation.

The high cost of this type of insurance is not the only variable affecting the level of **demand for this service** in the Egyptian market. There are other factors that minimize the Company's ability to penetrate the market. They include the following:

i) A high percentage of Egyptian exports are traditional exports (oil, cotton, rice, aluminum. etc.). They do not usually need this sort of insurance.
ii) The Company's inability to reinsure a high percentage of its non- commercial risks constraints the domain and size of its operations. The Company refuses to cover risky markets, though most of the current Egyptian exports are with high-rated risky countries.
iii) Many large exporting companies take advantage of their own market studies and analysis of risks involved in each transaction, by avoiding the risky deals. Therefore, they minimize their need for this type of insurance.
iv) Regarding small exporters, not only that they can not afford the relatively high cost of the insurance premium, but also often the limited number, small size and the infrequency of their export operations do not allow them to obtain the "Basic Policy" of insurance.
v) Some executives in the insurance business relate the low level of demand for their products to cultural and religious impediments. This, however, may not be the case because the same exporters, when they anticipate physical risk to their shipments, do not hesitate to obtain marine insurance for their exports regardless of their religious beliefs or cultural background.
vi) The Company does not initiate an active marketing program for its services due to its limited financial and human resources.

In general, the lack of reasonably cheap schemes for pre-and post- shipment export credit insurance in Egypt creates serious constraints to the export sector. Many exporters – especially the SMEs- are forced to confine their deals to specific foreign markets and with a small number of clients. Normally exporters will prefer to do business with clients of complete trust, with whom they have dealt before, or who are willing to provide irrevocable confirmed letters of credits. Almost all businessmen interviewed assert that they never perform any foreign deals if it would involve high-risk. Such conditions

[38] Ibid.

minimize the size of potential markets for Egyptian exports, and may drive the exporter to accept unfair or non-competitive terms for the export deals.

III-1.B.iv. Marine Insurance:

Unlike the non-payment risk insurance, the physical insurance on commodities is well established in Egypt. Most of the users are quite familiar with kinds of products offered by insurance companies. Private business entry in the insurance and re-insurance market has become free. As a result, the number of companies has risen in the past few years from only four large state-owned companies –of which one is specialized in reinsurance- to eleven companies. This is in addition to two joint venture companies working in the free zone area. The number of operating firms is still low relative to the size of the Egyptian market. However, the companies compete to attract clients by reducing the rate of premium. Currently, the average premium on marine insurance –according to some officials in the insurance market- is around 0.4%. This estimate is somewhat lower than what is given by businessmen, who –generally- believe that the marine insurance cost is relatively high, especially for SMEs.

The demand for the domestic marine insurance services in Egypt is considered to be low, and some of the foreign trade agents prefer to insure their products abroad, for better quality of service and less hassling by bureaucracy in case of accidents or risk materialization. Therefore, higher levels of demand and satisfaction could be achieved with more focus on the quality of the insurance services.

It is quite noticeable that in trading with Arab countries -especially in case of exporting fruits and vegetables- there is no preference for insuring the shipments. Businessmen justify this by a number of factors such as:

(i) the small risk involved compared to the cost and hassle of acquiring insurance,
(ii)the insurance documents are not required because trading parties do not depend on documentary credits in accomplishing their transactions, and
(iii) shipments are not too large and quite frequent.

These justifications are major indicators for the need to improve the marine insurance business in Egypt.

III-1.C. The Role of the International Trade Point in Egypt:

Information on export credit opportunities and foreign trade financial devices, is one of the services supplied by the "Egyptian International Trade Point". The "Union of Banks" periodically appoints one banker to work with the Trade Point. His job is to organise such information and provide advice on various financial services that can be of use to the SMEs, sources of that finance, cost of credit, required guarantees, etc. Meanwhile, the Trade Point provides special financial information for the starting small businesses that acquire credit from the "Social Fund for Development". The Trade Point services are usually of more value to SMEs because most of the large companies have their own sources of information.

One of the unique advantages of the Egyptian Trade Point is the provision of its services in centres outside the two large cities of Cairo and Alexandria, where the SMEs often have no access to such financial information and advice.

There is an ample room for co-ordination between the Trade Point and other organisations (governmental and non-governmental) that provide information on creditworthiness of potential foreign clients, pre-and post-shipment finance opportunities, credit guarantee and insurance, as well as on other aspects of foreign trade. Moreover, the Trade Point could play a more active role in assisting its clients in obtaining the appropriate mix of trade finance, guarantee, and insurance services. It could clarify the relative advantages of new financing techniques and ways to obtain it.

III-1.D. Conclusions & Recommendations:

A number of conclusions and relevant recommendations could be deducted from the previous discussion:

1. In general, availability of lending funds is not an obstacle in most of the commercial banks engaged in providing traditional financial services and credit to the foreign trade sector. The problem, however, is the limited finance directed to the SMEs relative to the needs of those companies. Most of the foreign trade finance extended by the commercial banks is used to accommodate imports rather than to facilitate exports. For a country as large as Egypt, the role of its export development bank is not -yet- as sufficient as it should be. Moreover, absence of non-banking financial institutions in the Egyptian market deprives the SMEs from a potential competing source of short-term credit.

2. The required guarantees for extending credit to the SMEs are extremely binding. Absence of institutions effectively specialized in providing pre-shipment export credit guarantees diminishes the chances of many small potential exporters to receive adequate finance for their export production. Therefore, providing adequate attention to the issue of pre-shipment export credit guarantee is indisputable.

3. Heavy reliance on documentary payment devices could harm the current intensive efforts for export promotion in certain markets, where many foreign businessmen prefer to escape dealing with L/Cs. The development of non-traditional foreign trade financing instruments, which has recently been initiated by a few large banks, should be intensified as a part of a long-run modernisation strategy.

4. It is usually too costly for commercial banks to deal with a large number of the SMEs. Therefore, it might be more appropriate to divert financial resources to special "Funds" or financial institutions that concentrate on financing the SMEs with high export potentials.

5. Maximising the potential benefits of financial funds supplied by (ATFP) and (IDB) requires good efforts for co-ordinations between national agents on the one hand, and those in charge of implementing export promotion programs, on the other hand.

6. Accessibility to finance information, could be a real problem for inexperienced businessmen who have little or no previous exposure to export operations and its handling. Co-ordination between various governmental and non-governmental agencies supplying information regarding trade-related financial and insurance services is essential.

7. The Central Bank can encourage the commercial banks to augment their export financing operations by increasing the solubility of the export financing assets and documents. This could be achieved via two various alternatives: establish a special fund

for the "refinancing of export credits", and / or create a "secondary acceptance market" where banks can liquidate some of their foreign trade financial assets.

8. Greater reliance on NGOs should be a part of the great vision for export promotion. They should have the initiative of organising workshops, seminars, and training programs for SMEs to accomplish different missions such as:
i) Explain advantages and disadvantages of various trade-related financial devices, and illustrate its use.
ii) Clarify banks' requirements for credit approvals (cash flows, feasibility studies, etc.).
iii) Elevate the awareness of the significance of export credit insurance.
iv) Identify various sources of supplying adequate finance and ways to approach them.
v) Demonstrate the different insurance services, policies and ways to interpret different articles of the insurance policies.

9. To overcome many of the problems that small potential exporters anticipate, it might be useful to advocate the idea of establishing non-governmental exporting agencies, "trade-houses", or allow for what is known as the "big brothers". The "trade-house" or the big "export agency" should take the responsibility of preparing contracts with foreign buyers, divide the large contracts between SMEs according to their production capacities, supply the SMEs with the required pre-shipment finance, and handle all procedures of the marine as well as the export credit insurance.

10. Allowing for the introduction of certain risk management derivatives and financing tools requires some ratification in the existing financial laws. Meanwhile, enhancing the use of electronic sphere in transposing information, trade documents, trade payments and other trade-related financial services, necessitates introducing new regulations to ensure the legal validity and security of various electronically exchanged messages[39].

11. Lack of detailed information concerning various export finance and insurance products constraint efforts aimed at assessing the existing status quo and pursuing further studies. Therefore, preparation of a comprehensive "data base" emerges as an urgent non-substitutable input in the process of enhancing trade efficiency and export promotion.

III-2. The Case of Jordan

A significant share of Jordan's foreign trade -specially exports- relies on markets in the neighbouring Arab countries. Diversification and expansion of foreign exports has become a main objective of the Jordanian economy since the beginning of this decade. The years 1996-1997 has specifically witnessed a significant attention paid to the SMEs and their role in accelerating economic development and promoting the exports of the Kingdom's. The banking and insurance sectors perform a basic role in the process of achieving this goal.

---

[39] World Trade Organisation. 1998. "*Checklist of Issues Raised During the WTO Trade Facilitation Symposium*". Council for Trade in Goods. April 21, Geneva.

III-2.A. *Trade Finance and Banking:*

III-2.A.i. Structure & Availability of Finance:

In addition to the 21 commercial, investment and specialised banking institutions operating in Jordan, there are a small number of non-banking financial institutions that can extend credit to the business sector. However, the importance of these financial institutions has declined owing to the relative growth of the banking sector and its financing activities.

Pre-and post-shipment export credits are both available in the Jordanian financial market, but with various extents. The Arabic Bank –the largest commercial bank in Jordan- directs around 30 % of its lending activity towards the trade sector in general (including domestic and foreign trade). For banks such as the "Export & Finance Bank" (EFB) and the "Bank of Industrial Development" (BID), the situation is somewhat different. Officially 50% of the total credits offered by EFB should be directed towards export oriented projects. In reality, they channel about 60% to 70% of their credit facilities to export projects[40].

III-2.A.ii.Accessibility to Finance Opportunities and Required Guarantees:

As everywhere else, banks' officials do not conceal their preference of channelling most of the credit resources to large enterprises. Factors such as: the firm's financial status, its previous record with the bank, its experience in the field of exports, the financial reputation of its foreign trade partners, and the political risk of the foreign country, are still of great significance in determining the client's creditworthiness. Commercial banks assert that they do not deny small businesses' requests for finance, as long as they offer the required guarantees. Nonetheless, some SMEs assure that banks reject pre-financing their sound export projects for no reasons besides their relatively small size.

Credit guarantees required by banks can be of various sorts; real-estate, physical capital, cash deposits, commercial papers, stocks, bonds, L/Gs from other reputable financial institutions, personal guarantees by other individuals, etc. The degree of risk affects the type of guarantee accepted by the bank. For instance, in case of imports, to open a letter of credit for a foreign beneficiary, some banks ask for a cash guarantee that could reach 100% of the value of the operation. Only a certified irrevocable L/C is a sufficient guarantee for the bank to advance export credit. Otherwise, varying sorts of guarantees are usually required, even if the "bill of lading" is among the presented documents. In some banks, if the L/C is not confirmed, they demand collateral that covers 10% - 50% of the required finance.

III-2.A.iii. Cost of Finance:

The cost of financing exports depends on the market interest rates plus a premium. The margin of that premium varies with the client, the type and size of risk, size of the operation, the time duration, etc. Interest rates on facilities extended in local currency are determined by the market forces, whereas the interest on advances in foreign currencies against L/Cs is specified by the Central Bank of Jordan (CBJ) to equal the LIBOR plus 2%. This interference of the CBJ might be advantageous to the exporter, taking in consideration that the cost of lending in local currency ranges –on average- between 11%

---

[40] Export and Finance Bank. 1998. The *Annual Report: 1997*. Amman, Jordan.

and 14%, and can actually rise to 17% in some cases. Bankers admit that the interest rates are high, but not high enough to turn a profitable transaction into a loss. Cost of available finance is not the real problem facing export promotion in Jordan. The major obstacle is the very modest rates of profitability in export industries, which is affected by factors other than finance availability and its levels of cost.

Commissions on banking services, which are still determined by the CBJ, could be as high as 3% in some cases. Some bankers anticipate relaxing these restrictions or removing it in the near future.

III-2.A.iv. The Role of the Central Bank:

The CBJ practices a vital role in driving the process of export promotion in Jordan. It has introduced several actions to support the export sector:

i) Foreign exchange controls were removed in 1993, and the Jordanian Dinar (JD) became a convertible currency since 1997.

ii) The CBJ introduced a special program for refinancing commercial banks that finance exporters with unconfirmed L/Cs or bills of collection. The refinancing interest rate is equal to the discount rate plus a premium of one percent. They offer up to 75% finance in case of unconfirmed L/Cs against collection. This percentage rises to 90% with bills of collection.

iii) Since the beginning of the 1990s, the CBJ created a special credit line of JD 10 millions to promote industrial production for exports. The rate of interest on such credit is determined by the discount rate (7.75% in 1997) less one percent[41].

III-2.A.v. Foreign Trade Payment & Financial Devices:

Payment and financial devices are mostly **traditional** ones. **L/Cs** come on top of the list, followed by payment against documents where acceptance for a **deferred bill of exchange** can be discounted, while other deferred payments can not be discounted. **Open accounts** are used only in cases of complete trust between buyers and sellers. For certain continuous stream of exports such as vegetable and fruits, for instance, exporters rarely ask for L/Cs. Most of this kind of trade is with neighbouring Arab countries where reliance on personal relationships and previous dealings with trade partner is of great importance. Therefore, payments are usually made by **checks** or by **draft transfers**, and finance can come from sources as **overdraft facilities** that constituted about 33% -on average- of total credit extended by the banking sector during 1993-1997[42].

As mentioned earlier in the case of Egypt, heavy reliance on documentary payments could confine the domain of potential foreign markets for exports. **Non-traditional** financing devices such as "Leasing", "Factoring" and "Forfeiting" are neither used in the Jordanian market, nor exist active steps for its future inclusion.

---

[41] Central Bank of Jordan. 1998. *Monthly Statistical Bulletin.* July & August, vol. 34, No. 5 & 6. Amman, Jordan.

[42] Ibid.

III-2.A.vi. Sources of Export Finance:

In addition to commercial banks, Jordanians have other relatively cheap sources of finance for their foreign exports. Those sources originate from domestic institutions as well as from Arab and international organisations. The CBJ special credit line for exports (of JD 10 millions) is administered by the EFB since its inception in 1996. The EFB was also able to obtain a long-term credit line from the World Bank, at a rate of interest equals to the LIBOR. So, after adding a margin of 2%, the interest charged to domestic export industries will be significantly lower than any other lending rate in the Jordanian market. However, it is rather early to evaluate the impact of this relatively new bank on the process of export promotion in Jordan.

The (ATFP) contributes to the credit sources for Jordanian exporters. It provides a credit line of $ 4 million with interest rate one percentage higher than the LIBOR, to finance trade with other Arab countries. Moreover, the (IDB) is about to launch a similar credit line for long-term finance, to be utilised for developing Jordanian exports to countries of the Islamic Conference. The "Jordan Export Development & Commercial Centres Corporation" is in charge of directing this line of credit at relatively soft conditions and export supporting services. The Corporation's commission is only 0.1% of the contract's value.

III-2.A.vii. Electronic Payments:

SWIFT is widely used in transferring documents and payments in a number of banks. Other banks are in the process of introducing this electronic device. For reasons similar to those mentioned in the case of Egypt, other electronic payments and paper-less innovations are not used even between banks and its branches in foreign countries, and are not expected to prevail for some time to come in the future. Officials in the CBJ envision no constraints on developing electronic payment system, but only among domestic banks.

III-2.A.viii. Long-Run Strategy:

In Jordan, the significance, the need, and the efforts spent to improve the credit facilities and furnish the financial environment that incubates promising export business can not be understated. Nonetheless, it is not easy to know what the exact long-run strategy for pursuing that objective in the future would be.

III-2.B. Trade-Related Risk Management & Insurance:

III-2.B.i. Hedging Against Risks of Foreign Exchange:

Forward contracts for hedging against fluctuations in the foreign exchange rates are available, but not widely used. Financial derivatives such as "Options" and "Futures" are not domestically handled because the market is not developed enough for utilising these devices.

III-B.2.ii. Marine Insurance:

There exist a relatively large number of private insurance companies in the Jordanian market (27 companies). They compete to offer the cheapest and best marine as well as other insurance services for their customers. On average, the marine insurance represents about 15% of the total insurance spending in Jordan[43].

Two factors play a strong role in enhancing demand for marine insurance in Jordan. First: insurance policy is part of the documents required for acquiring trade related services and credits. Second: tariffs on imported goods are valued according to the (c.i.f) rule. Nonetheless, many companies still prefer not to insure their shipments especially to the Arab countries. Large firms which deal regularly with an insurance company can get very good discounts, while the charges to small businesses or those which are not frequently using the insurance service, are closer to the standard rates. Foreign traders have a general feeling of satisfaction regarding the cost of marine insurance services offered in Jordan. They agree that its average cost is usually below 1% of the value of the insured commodities.

III-2.B.iii. Export Credit Guarantee & Insurance:

The "Jordan Loan Guarantee Corporation" (JLGC)–which was founded in 1994- started supplying services for both "export credit guarantee" and "non-payment risk insurance" in 1997. This corporation provides consultation services to the SMEs, which seek finance for their projects (exports and others). It helps them to prepare feasibility studies and sketch "expected income flows", which the banks normally require for considering financing any project. Such service should reduce the bank's workload, and hence, accelerate its decision making process. The fee charges for this service is 0.2% of the loan value.

The number of guaranteed loans –to all sectors- has risen from 28 in 1994 to 508 at the end of 1997[44]. Such rapid growth in this branch of the corporation's activities, is an indication of its significance for enhancing the small producer's opportunity of acquiring his financial needs. The "pre-shipment export credit guarantee" helps exporters in securing short-term loans from local banks to finance their working capital with minimum collateral. The corporation guarantees up to 75% of the outstanding balance of the principal and accumulated interest over 180 days. The "post-shipment export credit insurance" covers 85% of the loss value caused by any of the commercial risks covered by the policy. The cost of post-shipment export credit insurance depends on the risk assessment involved in each operation. The range of cost can be as low as 0.5% or can rise to 3% or 4%, depending on the expected risk. Providing information on new foreign buyers and their financial positions is another service of the corporation. The service is obtained through its direct line connection with the "COFACE Group" which includes major guarantee companies worldwide.

Supply of export credit guarantee is fortified by the recent entry of the "Inter-Arab Investment Guarantee Corporation" and the "Islamic Organisation for Investment and Export Credit Guarantee" into the Jordanian market. Expansion of supply helps to

---

[43] Ministry of Industry & Trade. 1988. *Twenty First Annual Report on Insurance Operation in Jordan: 1993:1996.* Amman, Jordan.

[44] Jordan Loan Guarantee Corporation. 1998. *Annual Report for the Fiscal Year 1997.* Amman, Jordan.

improve quality of services, reduce its cost, and –eventually- attract more exporters to the market.

III-2.C. Conclusions & Recommendations:

1. Part of the export promotion problem in Jordan, is that most of the current trade finance is directed towards the well-established large companies. Financing export operations of SMEs is relatively expensive for commercial banks. This emphasises the need for directing more attention, close supervision, continuous tuning, and greater support for the EFB activities.

2. Current activities of the chambers of commerce and industry in Jordan do not embody the financial problems and needs of the SMEs. Many SMEs tend to consider such organisations as chiefly directed for the service of large enterprises. Therefor, it might be advisable to sketch a more comprehensive role, for such NGOs, to assist the SMEs when they pursue their financial needs.

3. Despite the availability of some relatively cheap financial opportunities in certain financial institutions, no special privilege is given to small industries with good potentials for exports. In most cases, the required collateral could halt the operations of many rewarding small export projects. Meanwhile, many potential exporters are unaware of the credit guarantee and insurance services supplied in the Jordanian market. Accordingly, devoting higher levels of financial support as well as publicity to the institutions supplying export credit guarantees and insurance is strongly recommended.

4. Many SMEs avoid borrowing from the commercial banks. The rationales being offered are:

i) the time taken by the bank to investigate and analysis the exporter's creditworthiness, is considered somewhat long,

ii) dealing with banks requires too many documents and financial details, which is either not available to the small businessmen or its preparation is considered costly and time consuming, and

iii) Preference of some companies not to declare the real value of their foreign deals in order to underestimate their tax bills, cost of insurance, or the required tariffs on imported goods.

The first two obstacles could be overcome by establishing special financial institutions that can deal closely with the needs and endowments of small but promising exporters.

5. Regional financing programs face some implementation impediments in Jordan as well as in other countries in the region. For instance:

i) Advertising through channels such as the E-mail, the chambers of commerce and industry, and the national agents, may not be commonly accessible to most of the SMEs.

ii) Most of the exporting companies are themselves producers of exported goods. Many of those industries are small family businesses which prefer to rely upon self-finance and avoid loans from the financial institutions which usually require unaffordable credit guarantees.

iii) Weak rates of return on investments in the export sector render most available inexpensive financial opportunities costly.

Enhancing the potential benefits of such export financing credit lines deserves conducting closer analytical investigations of the real reasons behind the existing shortcomings and exploring the practical solutions.

6. The limited diversity of exportable goods as well as its markets constraint the fields of operation for the export credit insurance programs in Jordan. Encouraging specialisation in production for exports may help to ease this problem. Moreover, banks would have more confidence in dealing with small exporting companies who can compete in the world markets with good quality specialised products.

III-3. The Case of Lebanon

The value of Lebanon's exports did not exceed 10% of its total imports throughout the period 1993-1997[45]. Capital inflows of Lebanese emigrants finance a significant portion of the huge trade deficit (about75% of the deficit). These contributions come mainly in the form of banking time deposits, which is equivalent to about 150% to 200% of Lebanon's GDP[46]. To encourage foreign exchange inflows, exchange rate has to be stable and interest rates should be kept at high levels. High interest rates, however, constraint growth of production, in general, and of exports, in particular. In Lebanon, the export sector is chiefly dominated by a large number of SMEs, which need catered financing and insurance programs for strengthening its competitive position in the world markets.

III-3.A. Trade Finance and Banking:

III-3.A.i. Structure, Availability and Accessibility to Finance:

The banking sector is relatively large. 70 commercial banks are operating in Lebanon, 15 of which are branches to foreign banks. In addition, 20 non-banking financial institutions are licensed to extend credit to the business sector in Lebanon[47].

A high share –almost 80%- of the banks' financial facilities is directed towards short-term commercial uses. Nonetheless, less than 12% of the total credit in the banking sector is channeled towards the industrial production, which should furnish the base for exports[48].

The pre-shipment export finance is available, but its conditions are quite harsh for the SMEs. Most exporters –who are manufacturers as well- face problems with respect to financing their operations through loans from the banking sector. To the commercial banks, SMEs are high-risk clients. Accordingly, both the size and types of guarantees required by banks are considered genuine financial barriers to many small exporters, who

---

45 Ministry of Economics & Trade. 1998. *Unpublished Data.* Beirut, Lebanon.

46 Banque Audi. 1998. *Unpublished Data.* Beirut, Lebanon.

47 Banque De Liban. 1997. *The Annual Report 1996.* Beirut, Lebanon.

48 Banque De Liban. 1998-a. *Quarterly Bulletin.* First Quarter 1998, No. 76. Beirut, Lebanon.

may have economically sound projects but lack the adequate guarantee for credit. Consequently, such exporters are forced to rely on self-financing, in addition to overdraft facilities which –despite its relatively high cost- represents about 29% of the total banking credit facilities in Lebanon[49].

III-3.A.ii. Cost of Finance:

The relatively high rates of interest on various bank deposits have pushed interest rates on credit to outstanding levels. Interest rates on loans in Lebanese Pound (LP) averaged close to 30% during 1993-1995[50]. Consequently, the majority of businessmen were driven away from borrowing in LPs, and most of the banking sector credits –88% on average- were in foreign exchange, where the average lending interest rates on US$ ranged between 12% (for large customers) and 15% (for small high risk clients). These interest rates are considered high enough to discourage industrial expansion and export development.

III-3.A.iii. Foreign Trade Financial Devices:

Almost all commercial banks in Lebanon handle various kinds of traditional foreign trade-related financial instruments. Bankers in Lebanon conceive **L/Cs** as the most common and safest way to deal with foreign trade partners. During 1993-1997, L/Cs were used in financing 63% -on average- of the total export credit extended by commercial banks, whereas, "**bills of collections**" backed-up about 30% of that finance[51]. A limited number of large commercial banks introduced, in 1996, the **lease/purchase** financing tool, where they offered a number of loans to different sectors in the economy, but probably not for exports. In 1997, the "Credit Libanais Bank" established a company for leasing operations. The company has been active in financing acquisition of industrial plants, machinery and other equipment required for their clients' activities[52]. This is a step forward towards modernizing trade financing mechanisms and enhancing its efficiency. Generally, other non-traditional trade-related financing mechanisms such as "**Factoring**" and "**Forfeiting**" are not prevalent in the Lebanese market. It is expected, however, that such tools would be developed in the future.

III-3.A.iv. The Role of the Central Bank:

In Lebanon, each commercial bank decides its own lending policy (overdrafts, documentary credits, term-loans, etc.) and the types of credit guarantees, with no interference from the Central Bank –Banque Du Liban (BDL)- except for regular control and auditing regulations. Moreover, no restrictions are imposed by BDL on interest rates or financial services' commissions. This task is left to the "Banks' Association" in

---

[49] Ibid.

[50] Ibid.

[51] Banque Audi. 1998. *Unpublished data*. Beirut, Lebanon.

[52] Credit Libanais Sal. 1998. *The Annual Report 1997*. Beirut, Lebanon.

Lebanon. There is no required reserve ratio on deposits in foreign currency, but banks should not exceed a maximum ceiling (70% of the bank's deposits in foreign currency) when lending in that currency. Nonetheless, this ratio is not really constraining the lending operations of most banks.

Banque Du Liban does not directly interfere in mobilising extra financial resources for SMEs in the export sector. Indirectly, however, it can influence exports through the exchange rate policy and actions to promote the manufacturing production, such as:

i) Canceling what was called the "custom's dollar" in July 1995 and replacing it by the official dollar exchange rate. As a result, exporters have benefited from the domestic appreciation of the dollar (from \$ 1 equivalent to LP 800 to \$1 = the market value, which was around LP. 1800 in 1995).

ii) Increasing the amount of credit diverted towards financing the manufacturing sector in Lebanon. Banque Du Liban has gradually allowed commercial banks to increase the ratio of (credit/deposits) from 55% in 1993 to its current level of 70%. This action has not really helped small exporters because the problem is not the lack of the banks' liquidity, but rather the high risk of SMEs.

iii) Offering -on behalf of the government since April 1997- an interest rate subsidy of 5% per year on medium and long-term loans extended to all production sectors, including exports[53]. This policy aims to reduce the cost of production and increase the competitiveness of Lebanese products. However, such subsidy could help only export producers who already have access to bank's financial credits. Unfortunately, this is not the case for many small exporters.

iv) BDL in co-operation with the "Banks' Association" in Lebanon, will soon launch a project to guarantee loans offered to SMEs – in all production sectors including exports- up to a maximum of LP 100 million[54]. This would assist hundreds of SMEs, which have sound investment projects, but do not possess the collateral required by banks to acquire their financial needs. However, this policy is not export oriented.

III-3.A.v. External Sources of Finance:

The (ATFP) has recently launched one of its soft credit lines to finance pre-and post shipment inter-Arab trade into the Lebanese economy. The fact that most of Lebanese exports –59% on average during the period (1994-97)- are directed to other Arab countries[55], should empower the potential benefits of the ATFP credit facilities. But, so far, the actual demand for the program's facilities is not significant. This might be partially explained by the barriers that confine the SMEs' access to the credit facilities managed by the commercial banks.

---

[53] Banque De Liban. 1998-b. *Monthly Bulletin*. May, Department of Statistics & Economic Research. Beirut, Lebanon.

[54] Riad Salama. 1998. *"The Achievements of the Central Bank"*. The Lebanese and Arab Economy Journal, Chamber of Commerce, Industry and Agriculture in Lebanon, July, vol. 1. Beirut, Lebanon.

[55] Ministry of Economics & Trade. 1998. *Unpublished Data*. Beirut, Lebanon.

III-3.A.vi. Electronic Payments:

Modernising the payment system and exploiting information technology –despite its tremendous cost- is becoming a general feature of the current competition among the commercial banks in Lebanon. Since the inception of SWIFT in 1994, its implementation has grown rapidly in accomplishing many of foreign as well as domestic operations of about 60% of the Lebanese banks. Moreover, a number of banks are in the process of providing the "corporate banking services", i.e., enabling the corporations to send direct wire transfers, L/Cs and bills of exchange to their trade partners through SWIFT, by using a pass-ward.

Despite the efforts spent to modernise methods of payment for international trade, and investigate the possibility of introducing advanced electronic communication systems in Lebanon, accepting an electronic paper-less trading and payment system needs time to materialise. Moreover, such a change requires certain ratification in the banking law.

III-3.A.vii. Long-run Strategy:

Various agents in the export production sector and in the banking system are exercising scattered efforts to promote Lebanon's exports. Nonetheless, we can not say –per se- that either the government or the other involved parties has any sort of a long-run vision or strategy for promoting Lebanese exports in the foreseen future.

III-3.B. Trade-Related Risk Management & Insurance:

III-3.B.i. Managing Risks of Foreign Exchange:

Forward contracts to hedge against fluctuation in the foreign exchange rates, are available in Lebanon, but hardly used by exporters. Other currency-based risk management instruments such as futures, options, swaps, and other derivatives are not utilised in the Lebanese market. This could be explained by the insufficient development of both the financial market and the experience of managing such derivatives.

III-3.B.ii. Export Credit Guarantee and Insurance:

At the moment, there exist no Lebanese institution for pre- or post- shipment export credit guarantee. The Ministry of Economics & Trade has issued a decree to create a Lebanese company for export guarantee, but the idea has not materialized yet. The Lebanese market, however, does not lack the opportunities for guaranteeing its export credit or insuring its export earnings against post-shipment commercial and political risks. Since a considerable part of the Lebanese exports are directed towards Arab countries, it is easy to use the services of the "Inter-Arab Investment Guarantee Corporation". Nevertheless, the current demand for these guarantee products is still close to nil for reasons need clarification by further investigations.

III-3.B.iii. Marine Insurance:

The rate of insurance penetration is quite high in the Lebanese economy. The number of working insurance companies in Lebanon (covering all sorts of insurance) is considered to be large, about 8o companies. Sixty-nine of those companies are Lebanese and the rest are foreign companies working in the Lebanese market. To attract customers, they compete to improve the quality of services rather than to reduce the insurance premium. In general, the insurance premiums are considered relatively high. The average cost of All-risk insurance (clause A) ranges between 0.2% and 3.5%. This wide range is influenced by the various factors of risk, which are usually taken into account when determining the insurance premium.

Different taxes levied by the Lebanese government on the value of insurance premium - which sum up to about 9%- add to the already high cost of insurance policies[56]. Consequently, to avoid this extra cost, many businessmen in Lebanon prefer to insure their shipments abroad with foreign insurance companies.

III-3.C. *Conclusions & Recommendations:*

1. Lending funds are available in the banking sector. High interest rates and harsh financing conditions, however, are the factors constraining extending adequate finance to the export sector, which is dominated by a large number of SMEs. The size of required guarantees for obtaining banking finance is usually far beyond the means of small exporters. Special efforts, therefore, should be employed to accelerate the implementation of any proposed export credit guarantee projects.

2. The Lebanese economy lacks a comprehensive strategy for export development and promotion. In drawing a long-run vision for augmenting the financial resources available to the export sector, special emphasis should be directed to issues such as production specialisation, export credit guarantees, as well as subsidising the interest rates on loans to finance the production of exportable commodities.

III-4. The Case of Qatar

Like most of the GCC member countries, crude oil dominates Qatar's foreign exports. The average share of non-oil exports did not exceed 29% of the total exports during the period 1989-1994[57]. Most of the companies involved in foreign exports are owned by families who rely on personal communications for acquiring finance from the banking sector.

III-4.A. Trade Finance & Banking:

III-4.A.i. Structure, Availability and Accessibility to Finance:

The banking sector in Qatar comprises fourteen banks, eight of which are foreign owned banks[58]. Relative to the size of population, the number of working banks is considered quite large. The problem in Qatar is not the deficiency or the inaccessibility to adequate

---

[56] Ibid.

[57] Economic & Social Commission for western Asia. 1997. *Statistical Abstracts of the ESCWA Region.* Seventeenth Issue, United Nations, New York.

[58] Abul-Eyoun Mahmoud. 1997. "*Financial Services Liberalisation in the ESCWA Region: Challenges and Opportunities*". In Expert Group Meeting on the Challenges and Opportunities of the New International Trade Agreement (Uruguay Round): Post-Uruguay Preparations and Adjustments, Kuwait, November 14-26. United Nations and Arab Planning Institute.

sources of export finance. It is rather the insufficiency of tradable commodities that constraints Qatar's exports.

In general, lending constitutes around 62% -on average- of the commercial banks' total assets[59]. These banks are willing to provide medium and long-term loans to their clients. These banks, however, generally prefer to extend personal rather than company loans. For the banks in Qatar, it is easier to assess the creditworthiness of a person than to evaluate the financial conditions of his company. As revealed by senior officials in the leading commercial bank in Qatar, e.g., the "National Bank of Qatar", commercial banks have not been seriously involved in financing pre- and post-shipment export credit. Their activities are concentrated around the regular commercial credits. Nonetheless, commercial banks as well as the Central Bank of Qatar do not perceive pre- and post-shipment export credit as a real problem for the Qatari export sector.

III-4.A.ii. The Roles of the Government & the Central Bank:

The government of Qatar has recently established the "Bank for Industrial Development" to extend credit for the SMEs which are involved in the industrial production for both of the domestic consumption and foreign exports. It is a mixed bank that is heavily subsidized by the government. If the bank fails to achieve the level of profit that allows shareholders to receive at least 75% of the domestic rate of interest, the government interferes to raise the profit dividend to that targeted ratio. This governmental policy could be viewed as a tool for promoting industrial production from which exports could emerge. The Central Bank, however, is not in favor of establishing a bank that survives on governmental subsidies instead of efficiency standards. The Central Bank prefers that commercial banks comprehend their activities to include financing industrial projects on commercial bases.

III-4.A.iii. Foreign Trade Payment Devices & Electronic Communication:

As in the rest of the ESCWA member countries, certified **L/Cs** is the most common way of payment for imports in Qatar.

The system of electronic communication between banks in Qatar needs further developments. Commercial banks still depend mainly on fax, telex and telephone in their communications with the rest of the local and foreign parties concerned with foreign trade transactions. They use an "on-line" communication system only to contact their local and foreign branches.

III-4.B. Foreign Trade Insurance:

Officials in the Central Bank of Qatar envisage no urgent need –at the time being- for establishing certain mechanism for export credit guarantee. However, in the future, with larger production for exports, such a guarantee will be justified.

With the current size of exports, it is not economical to introduce a separate identity to offer post-shipment export insurance against non-payment risks. If some large exporters

---

[59] Institute of Banking Studies. 1997. *"Bank Services to the Small Business"*. Kuwait.

need this type of export insurance, they can obtain such service from various regional and international specialized corporations. The "Qatar Insurance Company" practices all sorts of insurance, including marine insurance. The company basically applies all the international standards in that field. When the need arise, the company thinks that it is feasible for insurance companies to create a suitable mechanism for guaranteeing export credit.

III-4.C. Long-Run Strategy:

At the moment, neither the banking system nor the government has a specific long-run vision of a potential financing mechanism for developing a sustainable base for the non-oil export sector.

III-4.D. Conclusions & Recommendations:

1. Lack of non-oil-based production for exports is perceived as the sole major problem confining the growth of Qatari exports. Pre- and post-shipment export finance as well as export credit guarantees would be available whenever a significant demand for these services evolves. Hence, the real obstacle is how to develop new domestic products with high potential for foreign exports.

2. The recent establishment of the "Bank for Industrial Development" is a step on the road towards achieving production diversification and creating an industrial base from which exports can take off. Continuous support by the government is required, since mere dependence on private initiatives would not be sufficient in the beginning. Further actions should include setting economic measures to guarantee the rational employment of available funds.

III-5. The Case of the United Arab Emirates

Crude oil exports dominate the foreign export sector of the United Arab Emirates (UAE). A special character of the UAE economy, however, is its involvement in the "re-exporting" activity. In 1996, the value of re-exports was four times as large as the value of non-oil exports, though the later has tripled in value during the period of 1981-1996[60].

III-5.A. Trade Finance & Banking:

III-5.A.i. Structure, Availability and Accessibility to Finance:

The banking sector in the UAE has developed fast to be one of the largest in the region. By the end of 1996, the number of commercial banks has reached 46, including 27 foreign banks. The share of national banks in the total operations of commercial banks in 1996, has reached 67% [61].

---

[60] Central Bank of UAE. 1998. *Statistical Bulletin Quarterly.* January-March. Abu-Dhabi, UAE.

[61] Abul-Eyoun Mahmoud. 1997. "*Financial Services Liberalisation in the ESCWA Region: Challenges and Opportunities*". In Expert Group Meeting on the Challenges and Opportunities of the New International Trade

No financial problem exists in terms of funds availability. In general, the private industrial business is the biggest user of the banking sector's credits in the UAE. On average, this sector utilizes about 60% of the total credits extended to the private sector[62]. Short-term finance is accessible to both exporters and importers. Together with "overdrafts", short-term finance accounted for 90% to 91% of the total banking credit to residents during the past three years. Overdrafts are relatively expensive sources of short-run credit, where interest rates on its balances has gone up –in some cases- to 18% in 1997-1998[63]. Nonetheless, it is rather a convenient and accessible source of finance to many businessmen.

Pre- and post-shipment export finance –with the exact meaning of the terms- is not part of the banks' activity. However, it could be easily provided with the right guarantee. This means that "guarantees" are considered –as elsewhere in the ESCWA member countries- as a constraint on extending credit to finance exports. Loans provided to the residents of the UAE against real-estate mortgage have averaged around 6.5% of the total banking credits to all residents (not just exporters) during the past three years[64].

III-5.A.ii. Foreign Trade Payment Devices:

L/Cs are considered the most common and accepted method of payment for foreign trade, followed by "open accounts". Other tools are not very popular due to the high-risk involved in them. Some banks and importers in the UAE, however, abuse L/Cs. Mistakes in filling the L/C forms often happen due to the lack of knowledge on the importer side. Though it is the responsibility of the commercial bank to confirm the accuracy of filling the L/C forms, some banks are known for their malpractice. In some cases, importers intend to insert false information on their L/Cs to cause payment delays and use this as a tool for pressurizing the foreign supplier to give certain discounts on the contracted price, before payment is authorized. This type of malpractice has spelled out its drawbacks in various forms. For instance:

i) Foreign suppliers who anticipate malpractice, exaggerate in the value of the exported good.
ii) Some foreign banks have stopped doing business with the domestic banks of bad reputations.
iii) Foreign suppliers have stopped accepting L/Cs issued by certain domestic banks.
iv) Delays in financial settlements have been reflected in the form of inflated cost of imported goods.

Agreement (Uruguay Round): Post-Uruguay Preparations and Adjustments, Kuwait, November 14-26. United Nations and Arab Planning Institute.

62 Central Bank of UAE. 1998. *Statistical Bulletin Quarterly.* January-March. Abu-Dhabi, UAE.

63 Ibid.

64 Ibid.

III-5.A.iii. Electronic Communication and Payments:

Banks are electronically connected with its domestic and foreign branches, but not with other trade parties. Reliance on electronic communications and messages instead of papers and documents, is not yet accepted by customers. In other words, cultural barriers are still curbing the extent of advancements in this field.

III-5.A.iv. The Roles of the Government & the Central Bank:

These role are –still- quite minimal. The Central Bank does not substantially interfere in the way commercial banks handle their foreign operations. Moreover, neither party has a long-run strategy to promote exports of the SMEs.

III-5.B. Foreign Trade Insurance:

In general, the UAE is one of the ESCWA countries, which are characterized by their high insurance penetration. However, due to the limited size and scope of the non-oil export operations, no national institution provides –at the moment- export credit insurance schemes in the UAE. Yet, regular insurance companies envisage the possibility of supplying such services, individually or collectively –through a consortium- when the need exists and the right mechanism is found, with or without the government participation.

The insurance companies in the UAE, though they are not directly involved in insuring credit lines extended by the ATFP, they take part in "re-insuring" those credit lines which are originally insured by the IAIGC. Insurance companies sometimes provide sort of pre-shipment guarantee for the importers (not exporters), by issuing L/Cs to the foreign supplier or the responsible bank on behalf of the domestic importer. However, such operations are executed in very limited cases, and it is usually relatively expensive.

As for marine insurance, it is available and offered according to the international standards and forms. Many insurance companies are electronically connected with their domestic and foreign branches, but not with the other parties concerned with trade transactions.

III-5.C. Conclusions & Recommendations:

1. As is the case in most of the GCC countries, availability of funds to finance exports is not the real constraint that hinders the growth of the non-oil exports in the UAE. Pre- and post-shipment export finance could be easily provided with the right guarantee. This means that required "guarantees" –in some cases- might be a source of restricting potential export opportunities.
2. Paving the road towards a successful development of the export production opportunities would not materialise with the sole reliance on the private sector endeavours. A wider and more comprehensive perception of the different financial and insurance needs of the non-oil export sector should be treated as a national task. Both of the government and the Central Bank should participate in drawing the financial and insurance schemes that furnish an appropriate environment for achieving the export promotion goal.

Annex I
Some Foreign Trade Payment & Financing Mechanisms

"Documentary collection" is a trade-related payment mode. In a collection process, the exporter forwards shipping documents (such as bill of lading) with a draft to the importer's bank. The importer's bank –in its turn- will make sure not to permit access to the goods till the importer pays or accepts to pay the draft. In other words, documentary collection allows the exporter to retain control of the goods till he has received either payment or an assurance of receiving payment. Nonetheless, the exporter must take the risk that the importer will not pay or accept the documents.

"Bank guarantee" or a "standby credit" is another payment mechanism, where the exporter agrees to grant the importer the favorable terms of payments of the open accounts, but only on the condition that the importer issues a standby credit or a bank guarantee as a payment security. If the importer fails to pay the invoice, that cash deposit will be available to the exporter.

"Documentary credits" or "letters of credit" (L/Cs), are the most widely used method of payment. With L/Cs, the exporter is assured of payment upon production of constructive evidence of shipment of the contracted merchandise, and the importer is confident that the exporter will not be paid if he has not met the documentary requirements.

Forfeiting is a form of discounting practice. It is frequently used to finance foreign transactions of high-value (above $50,000 to $100,000), such as exports of capital goods, where longer repayment terms are desired. Under forfeiting, the exporter sells the bills of exchange -usually drawn in a series with semi annual maturity- to a third party (the forfeiter). Forfeiting operations are generally limited to bills supported by a bank guarantee. With forfeiting, payment is made on the full value of the invoice price, minus the discounting charge (usually higher than the LIBOR).

Factoring is a broader term covering a package of diverse services offered either separately or in combination. It has emerged as an effective method of financing and credit risk inter-mediation for exporters in developing countries. Credit risk assessment and financing the exporter through cash advances against accounts receivable, are among the factoring services. Exporters tend to turn to factors when other means of short-term trade finance are unavailable or inappropriate. The factoring house assumes the credit risk and collection responsibilities for certain fees. One of the main advantages of factoring is that it entitles the exporter to provide open account payment terms for importers who have been approved by the factoring house.

References

1. Abul-Eyoun Mahmoud. 1997. "*Financial Services Liberalisation in the ESCWA Region: Challenges and Opportunities*". In Expert Group Meeting on the Challenges and Opportunities of the New International Trade Agreement (Uruguay Round): Post-Uruguay Preparations and Adjustments, Kuwait, November 14-26. United Nations and Arab Planning Institute.
2. Arab Trade Financing Program (ATFP). 1997. *Objectives & Guidelines of Arab Trade Financing Program*. October, Charjah, UAE.
3. Banque Audi. 1998. Unpublished Data. Beirut, Lebanon
4. Banque Du Liban. 1997. *The Annual Report 1996*. Beirut, Lebanon.
5. Banque Du Liban. 1998-a. *Quarterly Bulletin*. First Quarter 1998, No. 76, Beirut, Lebanon.
6. Banque Du Liban. 1998-b. *Monthly Bulletin*. May, Department of Statistics and Economic Research, Beirut, Lebanon.
7. Central Bank of Egypt. 1997. *Economic Report 1996-97*. Vol. 47, No. 4, Cairo, Egypt.
8. Central Bank of Jordan. 1998. *Monthly Statistical Bulletin*. July & August, Vol. 34, No. 5 & 6, Amman, Jordan.
9. Central Bank of UAE. 1998. *Statistical Bulletin Quarterly*. January-March, Abu-Dhabi, UAE.
10. Credit Libanais Sal. 1998. *The Annual Report 1997*. Beirut, Lebanon.
11. Egyptian Company for Export Guarantee. 1998. *The Company's Brochure*. Cairo, Egypt.
12. Economic & Social Commission for Western Asia. 1997. *Statistical Abstract of the ESCWA Region*. Seventeenth issue, United Nations, New York.
13. Export & Finance Bank. 1998. *Annual Report: 1997*. Amman, Jordan.
14. Fahmi Salah. 1997. "*Credit Risks' Guarantee: Case Study of Egypt*". In Current Issues of Banking: Loans, Export Credit, and Deposit Guarantees. Union of Arab Banks, Beirut, Lebanon.
15. Henderson Schuyler and Price John. 1984. *Currency and Interest Rate Swaps*. Butler & Tanner Ltd.: London.
16. Inter-Arab Investment Guarantee Corporation (IAIGC). *Activities & Services*. Kuwait.
17. Institute of Banking Studies. 1994. "*Bank Products and Services : An International Survey*". Kuwait.
18. Institute of Banking Studies. 1997. "*Bank Services to the Small Business*". Kuwait.
19. Islamic Development Bank (IDB). 1997. *Program of Long-term Trade Finance Among the Member Countries of Islamic Conference: A Guide for Export Finance*. Jeddah, Saudi Arabia.
20. Jamal Salah. 1996. "*Guarantee of Loans to Small and Medium Sized Projects and Export Guarantees, with Special Emphasis on the Jordanian Experience*". In Current Issues of Banking: Loans, Export Credit, and Deposit Guarantees. Union of Arab Banks, Beirut, Lebanon.
21. Jimenez Guillermo. 1997. *ICC Guide to Export-Import Basics: The legal, Financial and Transport Aspects of International Trade*. International Chamber of Commerce & The World Business Organization: ICC Publishing S.A. (Paris).
22. Jordan Loan Guarantee Corporation. 1998. *Annual Report for the Fiscal Year 1997*. Amman, Jordan.
23. Ministry of Economics & Trade. 1998. Unpublished Data. Beirut, Lebanon.
24. Ministry of Industry & Trade. 1998. *Twenty First Annual Report on Insurance Operation in Jordan: 1993-1996*. Amman, Jordan.

25.National Bank of Egypt. 1998. *Annual Report: 1996-1997*. Cairo, Egypt.

26.Riad Salama. 1998. "*The Achievements of the Central Bank*". The Lebanese and Arab Economy Journal, Chamber of Commerce, Industry and Agriculture in Lebanon, July, vol. 1, Beirut, Lebanon.

27.UNCTAD. 1994-a. "*Ad Hoc Working Group on Trade Efficiency*". A report of the third session by the UNCTAD secretariat, May, Geneva.

28.UNCTAD. 1994-b. *Final Report of the Ad Hoc Working Group on Trade Efficiency*. May 2-11, Geneva.

29.UNCTAD. 1994-c. "*Report of the UN International Symposium on Trade Efficiency*". October 17-21, Columbus, Ohio.

30.UNCTAD & Economic Commission for Europe. 1994. *Compendium of Trade Facilitation Recommendation*. United Nations, New York and Geneva.

31.UNCTAD. 1996. "*Review of Progress in Trade Finance Facilities of Developing Countries in the International Regional and Subregional Levels*". March 22, Geneva.

32.UNCTAD. 1997-a. "*Service Infrastructure for Development and Trade Efficiency Assessment*". A Report by Trade and Development Board Commission on Enterprise, Business Facilitation and Development. January 20, Geneva.

33.UNCTAD. 1997-b. "*Service Infrastructure for Development and Trade Efficiency Assessment: Proposal for a Trade Efficiency Assessment Methodology (TEAM)*". A Report by UNCTAD Secretariat. October, Geneva.

34.UNCTAD. 1997-c. "*Services Infrastructure for Development and Trade Efficiency Assessment*". Trade and Development Board Commission on Enterprise, Business Facilitation and Development. December 1st, Geneva.

35.UNCTAD, World Trade Centre, and Geneva Trade Point. 1996. "*The Global Trade Point Network*". Midrand.

36.Watsham Terry J. 1992. *Options and Futures in International Portfolio Management*. Chapman & Hall: New York & London.

37.World Trade Organisation. 1998. "*Checklist of Issues Raised During the WTO Trade Facilitation Symposium*". Council for Trade in Goods. April 21, Geneva.