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Unequal Support: Rethinking the IFC's Trade Finance Priorities

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Executive summary

The International Finance Corporation's (IFC) trade finance programs are vital to the World Bank Group's (WBG) private sector operations. Trade finance has the potential to integrate poor and emerging markets into global value chains. However, its implementation raises significant concerns regarding transparency, additionality, and alignment with the Paris Agreement.

Since 2018, over 50% of the IFC's own-account investment commitments have been allocated to trade finance. In FY2024 alone, the IFC's trade finance portfolio accounted for approximately **$18,067 million**. Trade finance is clearly not just a byproduct of private sector operations but should be at the center of the WBG's overall development strategy.

Indirect financing and export finance bias: IFC trade finance operates primarily through guarantees and loans provided indirectly via large multinational banks and companies. This approach closely resembles export finance. It favors large exporters that are often already well-served by established export finance agencies and neglects local traders in low- and middle-income countries. Consequently, it remains unclear whether this strategy bridges significant financing gaps and fosters inclusive economic growth as intended.

Transparency and additionality challenges: The IFC cannot convincingly demonstrate additionality due to a persistent lack of detailed public data, particularly regarding regional and sector-specific allocations. The harmonized framework for additionality, established with seven other development banks in 2018, mandates that IFC support must add market value without simply crowding out private investment. The failure to publish detailed and consistent project-level data severely limits accountability and raises doubts over these investments' real developmental impact.

Fossil fuel investments and environmental risks: Estimates by Urgewald highlight that in FY2023 the IFC trade finance portfolio was still committed in fossil fuel-related activities. For instance, substantial investments channeled through the SMBC group and direct collaborations with entities like Addax Energy S.A. underscore how these funds may reinforce environmentally harmful practices, directly contradicting the Paris Agreement's decarbonization objectives.

To harness trade finance's potential for long-lasting development impact, the IFC should consider directly supporting traders in low- and middle-income countries. Establishing partnerships with local financial institutions and implementing stricter transparency and reporting standards would enable better monitoring of fund usage and provide robust evidence of additionality. Such measures would ensure that public resources are deployed to drive inclusive trade and effectively contribute to ending poverty on a livable planet.

Our recommendations:

1. Add coal, oil, and gas to the IFC exclusion list.
2. Develop a standalone IFC Performance Standard that covers all trade finance activities to secure a positive development impact.
3. Prioritize direct trade finance solutions for traders and banks in low- and middle-income economies.
4. Publicly disclose complete and consistent information about all trade finance projects, including data about the sector, country, duration, and amount of the investment.

Introduction

The trade finance programs of the International Finance Corporation (IFC) can play a decisive role in integrating poor and emerging markets in international trade flows. As the private sector arm of the World Bank Group (WBG), the IFC carries a critical responsibility to invest in trade finance transactions that drive operational efficiency and support the WBG's overarching mission of ending poverty on a livable planet.

Trade finance comprises a range of short-term financial instruments designed to mitigate risks and bridge payment gaps in international trade. These instruments, such as letters of credit, bank guarantees, or revolving credit facilities, are typically provided by private banks to facilitate international trade transactions. Unlike private banks, the IFC does not lend directly to small traders. Instead, it acts as a creditor offering guarantees and loans to large multinational banks or companies, which in turn finance the international trade activities of importers and exporters.

The IFC's efforts to enhance transparency and mitigate associated environmental and social risks remain inadequate. At the same time, trade finance represents over 50% ($18,067 million in FY2024) of the IFC's own account investment commitments since 2018. Moreover, since the IFC typically provides financing indirectly through large multinational banks or companies, it is difficult for the institution to pinpoint which trade transactions are supported. This lack of detailed oversight undermines accountability across the value chain. It exposes the WBG to substantial reputational risks, such as a lack of alignment with the Paris Agreement[1]- especially in light of the institution's non-exclusion of fossil fuel projects.

In 2018, the IFC and seven other multilateral development banks (MDBs) established a framework to harmonize regulations for demonstrating additionality in private sector operations.[2] Additionality is defined as "MDB support of the private sector should make a contribution that is beyond what is available, or that is otherwise absent from the market, and should not crowd out the private sector." For trade finance projects, this framework requires evidence regarding the "current situation of single obligor and country/sector limits" to prove that each investment offers a tangible advantage over existing private solutions.

In essence, the IFC must show that its trade finance commitments create value that would otherwise be absent. However, for many trade finance projects, the IFC is unable or unwilling to disclose even the regions where the funds will be invested. This underscores a significant lack of transparency and casts serious doubt over the additionality of taxpayer money in IFC trade finance.

[1] https://www.worldbank.org/en/publication/paris-alignment

[2] https://bit.ly/3Y7gfPQ

For example, the IFC's projects with the Sumitomo Mitsui Banking Corporation (SMBC) highlight the reputational and environmental risks inherent in its trade finance approach. Since 2016, the IFC has committed $2,325 million to SMBC's trade finance operations under the Global Trade Liquidity Program (GTLP), with $2,050 million in loans and $275 million in guarantees across six project cycles. The IFC recently signed an additional $1,000 million loan with SMBC under the Global Supply Chain Finance (GSCF) Program. The IFC has thus allocated a total of $3,325 million in trade finance to the SMBC group over the past 9 years. Over three-quarters of these commitments cannot be publicly traced, nor does the IFC provide evidence for its development impact.

Research by Urgewald and partner organizations shows that, during the same period, SMBC provided financing to companies active in the coal, oil, and gas industries.[3] From 2016 to 2023, 11% of SMBC's financing went into fossil fuel companies. Therefore, without any further information disclosure on the projects in which the trade finance commitments of the IFC flowed, we must assume that $263 million of the IFC trade finance support for SMBC went into fossil fuels between 2016 and 2023.

While the commitments to the SMBC group provide indirect fossil fuel financing, the IFC and Addax Energy S.A. (Addax) collaboration directly supports petroleum imports in West African countries. Since 2018, the IFC has contributed $280 million to Addax petroleum trade operations as part of a syndicate managed by Société Générale Corporate & Investment Banking.[4] Rather than channeling public funds toward renewable energy projects in line with the Paris Agreement, the IFC continues to promote fossil fuel production.

Moreover, a study by Public Eye[5] reveals that traders like Addax frequently import refined petroleum products into fragile countries with abundant crude oil resources but limited refining capacity, thereby securing long-term, fixed-price crude oil exports that are often undervalued. Such arrangements perpetuate dependency on multinational traders and hinder fragile nations from leveraging their resources for domestic benefits.

These two examples underscore several structural risks inherent in IFC trade finance commitments. Firstly, short-term trade financing is often renewed repeatedly, effectively replacing long-term funding. The lower reporting requirements for short-term lending increase the likelihood of negative environmental and social impacts associated with this practice. Secondly, the ability to reuse guarantees under a single contract can further amplify these negative effects. Thirdly, the overall lack of transparency, particularly in the IFC's indirect approach to trade finance, exposes the World Bank Group to significant risks, including reputational damage. Lastly, the IFC's trade finance operations structure enables large multinational banks or corporations to use public funds for private profit maximization instead of the purported development impact.

The following sections delve deeper into trade finance mechanisms, distinguish it from export finance, and critically assess whether the IFC's approach truly contributes to ending poverty on a livable planet.

[3] https://investinginclimatechaos.org/

[4] https://disclosures.ifc.org/project-detail/SII/48045/gtst-addax-waf-and-mauritania-2023

[5] https://www.publiceye.ch/en/publications/detail/trade-finance-demystified

Trade finance explained and contrasted with export finance

Trade finance is an umbrella term for a set of financing instruments that support international trade. Trade finance aims to reduce risks and payment gaps in global value chains and provides financing options for exporters and importers.

Exporters involved in international trade risk that buyers do not pay the agreed amount or do not pay at all once the goods have arrived. Furthermore, in an open account shipment, the exporter only receives payments after the arrival of the goods. This means that the exporter has to cover all ongoing production and shipment costs in advance and is typically only reimbursed 30 to 90 days after the invoice date. This leaves a liquidity gap in the exporter's accounts. The money that is spent on exporting cannot be invested in other business activities and cannot generate returns until the importer pays the outstanding amount. Therefore, the exporter not only bears the risks of non-payment but also has to bridge a potentially long period of non-payment. This double whammy can make international exports extremely expensive.

One solution to overcome exporters' high risks and payment gaps is upfront payment by the importers. This means the seller sends the goods only after receiving the money. While upfront payment solves risk and payment gaps for exporters, it shifts the risk to importers. Imports through upfront payments are based on trust that the sellers send the goods as promised. Importers bear all risks if the goods do not arrive as promised, including damage incurred during shipment.

Thus, international trade faces a potential impasse: Exporters prefer to get paid before shipment to reduce risks and operational costs. At the same time, importers favor receiving the goods before payment to ensure they get what they ordered. Trade finance aims to overcome this impasse and provide financing solutions that reduce risks for both exporters and importers and make transactions faster and more efficient.

Trade finance solutions typically involve two banks: the issuing bank, which acts on behalf of the importer, and the confirming bank, which supports the exporter. These banks work together to reduce payment risks and facilitate secure international transactions. Depending on the specific instrument used, one or both banks may provide financing or simply ensure the safe and timely transfer of funds between buyer and seller.

In the following, we explain some of the most commonly used instruments and highlight how trade finance can make trade faster and more feasible.

Letter of credit (LC): Letters of credit are one of the most common tools in trade finance. It is a promise from a bank, made on behalf of the importer, to pay the exporter once all agreed conditions are met. This commitment reassures the exporter that payment will be received as long as they comply with the terms specified in the LC. Although letters of credit are especially popular in trade between developing countries (South-South trade), arranging one can be quite bureaucratic and costly.[6]

Bank guarantees: A bank guarantee is a promise by a bank to cover a financial obligation on behalf of its client if that client fails to meet their contractual commitments. In trade finance, this instrument ensures that the exporter's payment is protected or that the importer is offered added financial security. It ensures any default will be financially mitigated.

Documentary collections: This trade finance instrument involves the exporter's bank as an intermediary to secure payment from the importer. The bank withholds important shipping documents—like bills or invoices—until it receives payment or a formal promise of payment from the importer. Once the payment or commitment is confirmed, the bank releases the documents, allowing the importer to claim the goods. Documentary collections are less costly than LCs but require more trust between the traders.

[6] https://www.econstor.eu/bitstream/10419/110981/1/827713851.pdf

Revolving credit facility (RCF): A flexible line of credit that large borrowers can draw upon repeatedly up to a preset limit. Rather than requiring full repayment before accessing more funds, an RCF lets traders tap into available liquidity to support ongoing operations such as managing cash flow, meeting margin calls during price volatility, acquiring assets, or pre-financing transactions. This facility is typically arranged by a syndicate of banks that share the risk. It is generally unsecured, meaning that no specific collateral is pledged. RCFs offer significant advantages to traders by providing rapid access to capital and operational flexibility. However, this same flexibility also introduces risks. Because RCFs are not tied to individual transactions, banks often have less detailed oversight of how the funds are used. This low level of transparency makes it challenging to fully assess and manage credit risk, and it exposes banks to reputational and regulatory risks if funds are deployed in ways that conflict with compliance standards. While RCFs empower major market players to respond quickly to market opportunities, they also demand rigorous internal controls from banks to mitigate the risks associated with their less transparent, open-ended nature. Additionally, RCFs are only available for large traders, which puts smaller companies in international markets at a disadvantage.

Differentiating trade finance and export finance
Export finance is a specialized subset of trade finance that focuses exclusively on meeting exporters' financial needs. It provides targeted solutions—such as pre-shipment and post-shipment financing, export credit insurance, and working capital loans—that help exporters cover production costs, manage cash flow, and navigate cross-border trade challenges. In contrast, trade finance is a broader concept that supports all parties involved in international trade by offering a variety of tools to manage risks throughout the trade cycle. Notably, export finance often benefits exporters from wealthier nations, where robust financial systems and strong government support secure more competitive financing terms. Box 1 highlights key differences between trade finance and export finance.

Trade finance	Export finance
Trade finance primarily focuses on facilitating international trade as a whole, ensuring that all parties involved are protected and financial risks are minimized. It caters to the financial needs of both importers and exporters.	Export finance serves the specific financial needs of exporters, enabling them to compete in the global market more effectively. It helps reduce the risks associated with exporting goods across borders.
Importers can use letters of credit and bank guarantees to ensure timely delivery and quality of goods. Exporters can access funds through pre-shipment and post-shipment finance, helping them cover production and operational costs and bridge gaps until they receive the payment.	Here, exporters can leverage tools like pre-shipment and post-shipment financing, export credit insurance, and forfaiting/ factoring (exporters sell their rights to trade receivables) to ensure a smooth export process.
Trade finance provides valuable tools throughout the trade cycle. It covers all stages, such as pre-shipment, shipment, and post-shipment.	Export finance specifically targets the financing requirements of exporters, both before and after shipment, to ensure a smooth export process.
Trade finance provides a broader range of risk mitigation tools that address various risks in international trade, including credit, currency, political, and payment risks.	Export finance often includes risk mitigation tools such as export credit insurance and export guarantees, which help exporters manage credit risk.

Box 1 Based on: https://www.tradewindfinance.com/de/blog/2023/08/31/export-finance-vs-trade-finance/

Is trade finance in the IFC the right tool to end poverty on a livable planet?

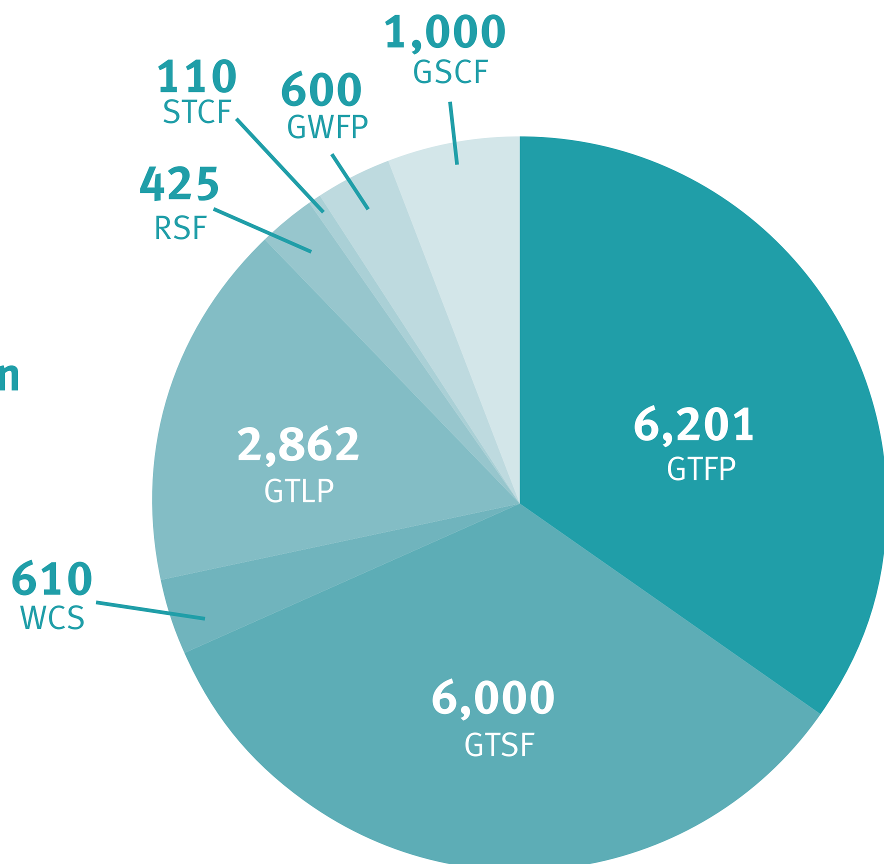
The World Bank Group is working towards "ending poverty on a livable planet." As the private sector arms of the WBG, the IFC and the Multilateral Investment Guarantee Agency (MIGA) should contribute to this overarching goal with all of their activities. Moreover, all IFC/MIGA financing can and should be evaluated according to its alignment with this goal. If a project does not contribute to reducing poverty and protecting the planet, it should not be financed by any of the WBG institutions.

Within the World Bank Group, trade finance activities are the responsibility of the IFC and MIGA. While the IFC hands out both loans and guarantees, MIGA only gives guarantees to private banks. In FY2024, the IFC's trade finance portfolio accounts for $18,067 million, while MIGA's trade finance portfolio covers a comparatively small amount of $895 million.

Since the launch of the MIGA guarantee platform in 2023, nine trade finance projects have been financed with a total volume of $2,667 million,[7] which is less than IFC's trade finance investments in FY2024 alone. Even though the MIGA trade finance portfolio grew by 243% in the last three years, this report focuses mainly on the trade finance activities of the IFC due to its magnitude.

According to the information on the IFC disclosure website,[8] 58% of the IFC's investment commitments in trade finance in FY2024 took the form of guarantees, and 42% were loans. Unless otherwise indicated, a project duration of three years was assumed. For FY2025, a 15% increase in short-term investments is expected.

IFC trade finance programs in FY2024, in $ million



[7] https://www.miga.org

[8] https://disclosures.ifc.org/

$12,201 million of the trade finance investment commitments in FY2024 are from the Global Trade Finance Program (GTFP) and Global Trade Supplier Finance (GTSF) program, the only two programs highlighted in the IFC's annual reports. The investment commitments on the IFC disclosure website about these two programs are $2,005 million higher than the own account commitments stated in the IFC annual report. There are two most likely reasons for this discrepancy. Firstly, projects that are no longer active might be included in the calculation since the disclosure website does not define trade financing duration time. Secondly, short-term investments on IFC's disclosure website include own-account financing and capital mobilization, which would explain $1,929 million of the $2,005 million discrepancy. Either way, the IFC's publicly released information does not entirely explain the difference.

The IFC's trade finance portfolio includes seven active programs and projects with risk sharing facilities (RSFs). The largest program ist the Global Trade Finance Program (GTFP). The GTFP was launched in 2005 and contains 34% of IFC trade finance in FY2024. According to the IFC, the GTFP "was conceived as a vehicle to facilitate the provision of trade finance to banks in the emerging markets, with particular emphasis on IDA countries and smaller institutions which serve SME clients."[9] On the program's official website,[10] one can find a list of pre-approved confirming banks eligible to receive financing for trade activities within 24 to 48 hours.[11] Even though the list covers 1,270 private banks from 101 countries, the majority of these banks are located in high-income economies (56.1%) and China (21.7%).[12] Only 4 (0.3%) confirming banks are from low-income economies.[13] The confirming banks can apply for guarantees to cover a set of trade financing instruments of up to 100% of the transaction value. The trade finance guarantees are valid for up to three years. The GTFP also provides funding to confirming banks for short-term pre-export financing, which only makes up a small part of GTFP financing. In total, the portfolio of the GTFP included $6,065 million (98%) in guarantees and $136 million (2%) in loans in FY2024.

As mentioned above, confirming banks only represent the interests of sellers and, therefore, only provide export finance solutions. This means that the GTFP only provides trade finance guarantees for banks of sellers and neglects importers' direct needs. In contrast, issuing banks can only receive technical training in trade finance through the GTFP, and in selected cases, experienced trade finance bankers are placed with issuing banks for skill development. The different treatment between major international confirming banks and local issuing banks indicates that the GTFP promotes export finance rather than real trade finance solutions for both exporters and importers.

Figure 1 shows a simplified trade transaction with IFC trade finance support. It demonstrates how the IFC interacts only with the confirming bank and stays completely out of the actual trade transaction between exporter and importer. Thus, only exporters have access to the IFC's indirect trade financing. In the case of the GTFP, 90% of confirming banks are located in upper-middle and high-income economies. This means that traders in the poorest economies that the IFC should be supporting have almost no access to trade finance.

[9] https://shorturl.at/jWsQ8 - (p.4)

[10] https://bit.ly/3RVdsFI

[11] https://shorturl.at/OJ39j

[12] https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups

[13] By far the most confirming banks from a single country are from China (276, 21.7%). 713 (56.1%) banks are from high-income economies, 429 (33.8%) banks are from upper-middle income economies including China (153 or 12% without China), 124 (9.8%) banks are from lower-middle income economies, and only 4 (0.3%) banks are from low-income economies.

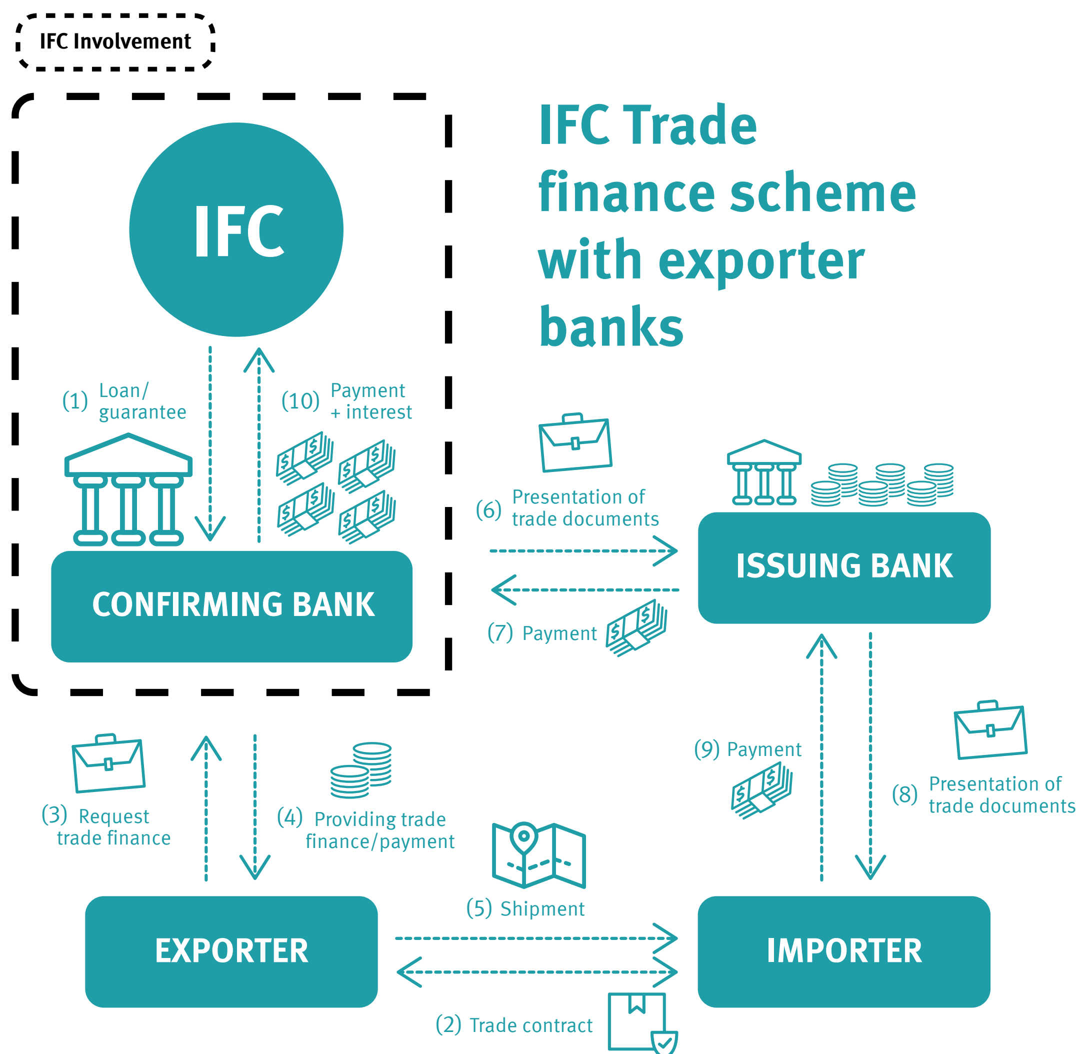


Figure 1

The other trade finance programs of the IFC are:

- the Global Trade Supplier Finance (GTSF) program,
- the Global Trade Liquidity Program (GTLP),
- the Working Capital Systemic Solutions (WCS) program,
- the Structured Trade & Commodity Finance (STCF) platform,
- the Global Warehouse Finance Program (GWFP),
- the Global Supply Chain Finance (GSCF) program,
- and risk sharing facility (RSF) projects.

Most of the programs function similarly to the GTFP and provide guarantees or loans to global or regional confirming banks that in turn hand out trade financing instruments to different global traders. The programs focus on different types of traders and provide trade finance solutions tailored to the needs of the corresponding partner banks.

One exception is the GTSF, which works directly with global buyers of goods or provides risk-sharing facilities through banks. Global importers like Barry Callebaut AG or McCormick & Company, two international food producers, partner with the IFC to lower risks for imports from emerging markets. On the one hand, this helps small and medium suppliers reduce risks and lower their payment gaps between shipment and payment; however, on the other hand, the program also benefits rich global enterprises that shift risks away to the IFC while importing carefree from small and medium suppliers in emerging markets. It remains questionable if partnerships between the IFC and large globally active enterprises are the most effective way to support small and medium exporters in emerging markets or if parts of IFC funds end up in the pockets of some of the biggest companies in the world. In this instance, the IFC should instead consider enhancing the development impact by granting exporters direct access to funds, thus making them more competitive in global markets.

IFC trade finance's questionable development impact

At first glance, the IFC's approach might seem like a good strategy to enhance the inclusion of traders from poor and emerging markets into global value chains. However, the fast approval times and the unequal distribution of funds to large international banks rather than to exporters from emerging markets raise questions about the risks and efficiency of the IFC's approach. Furthermore, the nature of IFC trade finance activities aligns with export finance requirements rather than actual trade finance solutions. As highlighted above, export finance is a tool to promote national exports rather than local development, and it is already supported by many national export credit agencies (ECAs) around the globe, primarily in rich countries. The extensive network of ECAs renders the IFC gratuitous in providing additional export financing, to say the least.

Furthermore, the insufficient disclosure of information regarding the IFC's trade finance activities raises serious concerns that trade finance could be used as a loophole to bypass the IFC's own sustainability standards and finance fossil fuels.[14] The IFC needs to improve its transparency and reporting standards in order to generate trust in its trade finance portfolio.

However, the lack of transparency in the IFC's trade finance activities might not be solely due to meager disclosure standards. Due to the complex nature of some trade finance instruments, especially RCFs, it is often impossible for private banks to know exactly how traders use their funds.[15] For the IFC, which channels funds indirectly through financial intermediaries, tracking the precise usage becomes even more challenging. As a result, the institution remains heavily dependent on the reporting practices of its intermediaries, thereby further obscuring the actual impact of its investments.

This lack of clarity becomes even more problematic when considering the abovementioned framework for additionality in private sector operations.[16] This harmonized framework demands evidence for additionality within every trade finance project, meaning that the support provided goes beyond what is available from the private sector and does not simply crowd out private investments. To meet this requirement, projects must clearly indicate the context, such as specific sector limits and country-level data. However, in many cases, the IFC fails to disclose even the world region of the project, making it nearly impossible to establish that its investments offer any real advantage over market alternatives.

Recent analyses by Urgewald amplify these concerns: Estimates based on publicly available information indicate that IFC committed substantial sums in fossil fuel trade finance activities in FY2022[17] and FY2023[18]. The fossil fuel exposure suggests that IFC trade finance activities cause environmental harm and negatively impact local communities. Moreover, the uncertainty surrounding the ultimate use of these funds not only undermines the IFC's capacity to monitor compliance with its own exclusion list[19] and performance standards[20] but also exposes the World Bank Group to significant reputational risks without the IFC even recognizing the violations.

Despite posing significant risks to the environment, affected communities, and even the IFC/WBG itself, the IFC's trade finance portfolio has expanded rapidly in recent years. The high demand for trade allows the IFC to consistently present a vast and quickly growing portfolio. Since FY2018, more than half of that portfolio has been trade finance. This growth has occurred mainly without any additional publicly traceable strategic effort.

[14] https://shorturl.at/opLOh

[15] https://www.publiceye.ch/en/publications/detail/trade-finance-demystified

[16] https://shorturl.at/RdWkH

[17] https://shorturl.at/LHPyV

[18] https://shorturl.at/fTxHn

[19] https://shorturl.at/eoEUZ

[20] https://www.ifc.org/en/insights-reports/2012/ifc-performance-standards

How long can short-term lending be?

The IFC classifies its commitments between long-term and short-term investments. Long-term investments are often in infrastructure or agricultural projects and have a maturity of 7 to 12 years. For short-term investments, there is no uniform time limit within the IFC. The nature of trade finance implies short-term investments to finance or securitize a particular trade transaction directly. Therefore, it is not surprising that the two trade finance programs listed in the IFC annual reports (GTFP and GTSF) can be found under short-term investment commitments. At least for the GTFP, we know that trade guarantees run for up to three years. This implies that the IFC considers even three-year investments short-term. The classification as short-term finance in turn prevents the application of the performance standards.

However, it is highly unlikely that ongoing trade transactions last three years. In open account transactions, payments are typically made within 90 days of the invoice date or delivery, whereas in other international trade deals, payments usually occur within a few months. This means that IFC trade finance guarantees cover a period far exceeding the actual time of the trade transaction. This allows banks that receive trade guarantees from the IFC to secure trade transactions repeatedly as long as the full amount of the guarantee has not been utilized. For example, an IFC guarantee of $100 million could be used multiple times within the three-year project cycle, covering trade transactions much higher than the committed $100 million. The possible multiple usage of trade guarantees makes it even harder for the IFC to oversee what the guarantees are covering.

Next to the potential multiple usage of funds within one project, the IFC also renews some of its trade finance projects multiple times. The two projects highlighted in the introduction, involving Addax Energy S.A. and the Sumitomo Mitsui Banking Corporation (SMBC), are just examples of the many projects that receive short-term IFC funds through trade financing for many years. This begs the question: Why are projects funded for far more than three years, like the SMBC loans and guarantees that are ongoing since 2016 organized in renewed short-term trade finance instead of long-term lending (7 to 12 years)?

One possible reason is that the standards for long-term financing are much stricter. While long-term projects have to fulfill all Performance Standards of the IFC and pass intensive checks, short-term financing is subject to much less rigorous environmental and social due diligence.[21]

[21] "In the case of structured finance products the need for application of the PSs will depend on the type of assets covered by such products. If they include project finance or long-term corporate finance, then PS application will be required. However, in cases where the product is to cover risks associated with SMEs or trade finance, then application of the PSs will not be required." (IFC Guidance Note on Financial Intermediaries, p. 6)

The case for lending directly to traders

Considering that the World Bank Group's overarching goal is to end poverty on a livable planet, it is questionable whether the IFC's trade finance approach is the most effective way to use public funds to achieve that.

In many of the poorest economies, local export production outpaces domestic financial institutions' capacity to provide adequate trade finance support. Rapid growth in production and trade has created significant financing gaps and left smaller companies with limited access to affordable funding. To bridge this gap, MDBs can play a crucial role in offering concessional trade finance solutions that pool resources and leverage co-financing strategies with existing providers, mobilizing public-sector support to overcome structural challenges and ensure that expanding local trade networks receive the necessary financial backing.[22]

Because of the crucial role that MDBs can play in overcoming the financing gap for exporters in low- and middle-income countries, it is even more important to use public money in the best and most efficient way. As described above, the IFC's mode of operation in most cases is to cooperate with large multinational banks or companies and enable them to facilitate international trade, including traders from low- and middle-income countries. Therefore, the IFC's trade finance approach only provides an indirect mechanism to foster trade in poor and emerging markets. The cooperation with smaller, local banks and companies could make IFC trade finance more efficient and avoid that large multinational banks and companies receive shares of the IFC's scarce public budget. The focus on partners in poor and emerging markets might require a higher initial effort, but the long-term effects could be a unique opportunity for the IFC to achieve its own goals in the most effective and lasting manner.

Using public IFC funds to directly provide trade finance solutions to traders in low-income and middle-income economies could solve many issues with the current system. It would allow the IFC to monitor projects directly and make sure that they are in line with its own standards. This approach would decrease uncertainty for the IFC and increase its impact to steer global trade flows. It would also allow the IFC to provide evidence for additionality and directly measure the development impact of projects in sectors and countries that need public support the most.

Generally, trade finance is considered a low-risk asset class. This means that default rates of trade financing instruments are extremely low on average, making trade finance a relatively safe investment for banks. However, there are differences between the trade financing instruments and the countries and regions of the trade. For example, the 2022 default rates of export and import LCs were only 0.02% and 0.10%, respectively,[23] and almost all defaults in export LCs were concentrated in Russia and not in the countries in which the IFC is invested. The highest default rates for import and export loans were in African countries, especially in countries with high debt distress.

These numbers support the conclusion that the IFC's current trade finance approach does not sufficiently support traders in low- and middle-income countries. The securitization of large multinational banks in their export credit financing increases already rich banks' returns rather than supporting small exporters in poor and emerging markets. Direct partnerships with traders and banks in countries with high default rates of trade finance transactions could avoid the costs of large banks freeriding and make the trade finance portfolio of the IFC more efficient in ending poverty on a livable planet without wasting public money.

[22] https://www.econstor.eu/bitstream/10419/110981/1/827713851.pdf

[23] https://www.tradefinanceglobal.com/posts/breaking-trade-finance-default-rates-rise-icc-trade-finance-register

Conclusion

Trade finance is a collection of short-term financial instruments designed to reduce risks and bridge payment gaps in international trade. This makes it an essential tool for integrating poor and emerging markets into global value chains, as it supports both importers and exporters. Since 2018, the IFC's trade finance portfolio has accounted for over 50% of its own account commitments, demonstrating a strategy of indirectly channeling public funds through large multinational banks and companies.

Although the IFC's approach is intended to promote global trade and support development, it largely replicates export finance mechanisms. In practice, these tools tend to favor large exporters who already rely on well-established export credit agencies. This raises doubts about whether local traders in low- and middle-income economies receive the support they truly need.

Furthermore, the IFC's continuous investments in trade finance structures, like its engagements with the SMBC group, and Urgewald's estimates that $4.7 billion of the IFC's trade finance went into fossil fuels in FY2023 highlight a persistent lack of transparency in the portfolio. The IFC's failure to disclose detailed regional and sector-specific information undermines its ability to prove additionality, a framework meant to ensure that MDB support adds value beyond what is available in the market and does not crowd out private investment. Without precise, traceable data, serious questions remain about the environmental and social impacts of these investments and whether they align with the IFC's own sustainability and development goals.

Looking ahead, the IFC should enhance the development impact of its trade finance activities by directly supporting traders in low- and middle-income countries. Establishing partnerships with local financial institutions and traders and adopting stricter transparency and reporting standards would allow the IFC to monitor fund usage better and demonstrate additionality. This approach would help ensure that public resources contribute to inclusive and sustainable economic growth.

While trade finance holds the potential to drive global development, the IFC's current reliance on the goodwill of large multinational intermediaries limits its effectiveness for small traders and exposes the IFC and the broader World Bank Group to significant reputational risks. Addressing these challenges through targeted reforms could transform the IFC's trade finance portfolio into a more effective engine for ending poverty on a livable planet.

We recommend:

- Add coal, oil, and gas to the IFC exclusion list.
- Develop a standalone IFC Performance Standard that covers all trade finance activities to secure a positive development impact.
- Prioritize direct trade finance solutions for traders and banks in low- and middle-income economies.
- Publicly disclose complete and consistent information about all trade finance projects, including data about the sector, country, duration, and amount of the investment.

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urgewald e.V.
Von Galen Straße 4
D-48336 Sassenberg
Tel.: +49 2583 304920
www.urgewald.org

Author: Jannis Perzlmeier
Editing: Dustin Schäfer
ViSdP: Ognyan Seizov

Design/Layout: Toby Dodwell - bytoby.co
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Urgewald is an environmental and human rights organization that challenges banks and corporations when their activities harm people and the environment.

Our guiding principle: Whoever gives the money bears the responsibility for the business.

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Contact: For more information, please contact dustin@urgewald.org or jannis.perzlmeier@urgewald.org

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