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Key Points

- A gap in trade finance is represented by unmet demand for lending and guarantees to support $1.6 trillion in trade, $425 billion of which is in developing Asia.
- Availability of trade finance impacts economic growth and job creation.
- According to the findings of the survey, an increase of 5% in availability of trade finance could result in an increase of 2% in production and 2% more jobs.
- Trade finance programs of multilateral development banks help fill trade finance gaps, both globally and in Asian developing economies.

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Asian Development Bank Trade Finance Survey: Major Findings

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Executive Summary

A survey was conducted in the fourth quarter of 2012 to see whether any gaps for trade finance could be identified and quantified, and what, if any, is the relationship between these gaps and business expansion and job creation, both of which are crucial to economic growth and poverty reduction. Findings from this study will help stimulate debate on the importance of trade finance and draw attention to its implications on growth, jobs, and poverty reduction. The survey may also stimulate more rigorous and in-depth study in this area.

Banks surveyed said they rejected a substantial percentage of requests to finance imports and exports. According to the survey, this meant that $1.6 trillion of demand for global trade finance was unmet, with $425 billion unmet in developing Asia.

The companies participating in the Asian Development Bank (ADB) survey indicated that a 5% increase in trade finance support would mean a 2% growth in their business and a requirement to hire 2% more staff. The same companies said that a 10% increase in trade finance support would result in 5% more production and 5% more jobs. Reducing unmet demand for trade finance will result in economic growth and job creation.

Surveyed banks identified a number of factors inhibiting their financial support for trade, including poor payment records by correspondent banks, low country ratings in

* The authors are grateful for contributions made by banks and companies that participated in this survey. Standard Chartered Bank was especially helpful in identifying companies to complete surveys. The authors would also like to thank Changyong Rhee, Chief Economist at the Asian Development Bank (ADB), for his guidance. This report contains major findings of selected items in the survey conducted by ADB.

developing countries, and weak banking systems. Another factor aggravating trade finance support identified by banks was more stringent Basel III regulatory requirements. On average, surveyed banks indicated that they would reduce support to trade finance by about 13% if Basel III is fully implemented. Since the survey was concluded, Basel announced more lenient liquidity requirements for banks. This is expected to ease but not eradicate the perceived negative impact that Basel III may unintentionally bring about to trade finance.

To fill market gaps in trade finance, multilateral development banks (MDBs) have developed trade finance programs, which provide guarantees and loans to commercial banks to support trade, particularly in the most challenging countries where country ratings are low and banking systems are weak.

Over 70% of banks surveyed indicated that ADB's Trade Finance Program (TFP) is important or very important to supporting trade in developing countries. While the TFP operates in 18 countries and is focused on the poorest markets, its six most active countries are Bangladesh, Mongolia, Pakistan, Sri Lanka, Uzbekistan, and Viet Nam. The TFP is in the process of expanding to Myanmar. In 2012 alone the TFP supported $4 billion in trade through 2,032 transactions involving 1,577 small and medium-sized enterprises.

Surveyed banks indicated that without the ADB TFP, their trade finance support to companies in TFP's 18 countries of operation would decline by at least 13%. This suggests that ADB TFP supports production and jobs. Moreover, the catalytic impact of ADB, and presumably other MDB trade finance programs, is substantial in terms of its ability to mobilize private sector capital to support trade, economic growth, jobs, and ultimately poverty reduction in developing countries.

In conclusion, findings from the ADB survey suggest that trade finance gaps exist and need to be addressed because of the strong links between trade finance, business expansion, and job creation. The survey underscores the importance of further study and collaboration among MDBs, government, financial institutions, and companies to ensure maximum financial support to trade is available, given that the interlinked component parts of trade finance, business expansion, and jobs need coordination to create as much growth and poverty reduction as possible.

Introduction

ADB conducted a survey in the fourth quarter of 2012 to identify and quantify trade finance gaps,[1] if any, and to better understand the relationship, if any, between these gaps and business expansion and job creation, both of which are very important to economic growth and poverty reduction.

The survey questionnaires were issued online to two broad groups of targeted respondents: banking institutions that are ADB's partners in the TFP, and companies that are users of trade finance provided by ADB's partner banks under the TFP. The former consisted of 147 banks, while the latter included over 500 companies. The survey targeted partners and users of trade finance supported by ADB's TFP not only on account of their familiarity and firsthand experience with the subject, but also because of ADB's intent to systematically garner feedback on a number of critical issues from its clients and other beneficiaries of the TFP. Such feedback will be instrumental to mapping out the future of this program or designing additional programs related to trade finance.

Answers were required from senior management of the surveyed banks and companies, in charge of trade finance or imports and exports. Respondents from the targeted banks and companies are 106 (or 72%) and 138 (or approximately 28%), respectively.

Quantifying Trade Finance Gaps

1.1 Globally, what was the approximate total value of proposed trade finance transactions your bank received in 2011?

1.2 In 2011, approximately how many of the proposed global transactions for trade finance (as provided in 1.1) did your bank reject (in % terms), mainly due to the obstacles driving the trade finance gap?

1.3 Among Asian developing economies, including where your bank is domiciled, what was the approximate total value of proposed trade finance transactions your bank received in 2011? (Value must be less than the global trade finance transactions in 1.1).

1.4 In 2011, approximately how many of the proposed transactions for trade finance in Asian developing

[1] Defined in the survey questionnaire as "a financial institution's inability to meet the demand for any form of trade finance. The 'gap' represents the amount of trade finance that is not available to support imports and exports and therefore there is less trade than would be if there were no gap (no lack of trade finance)."

Table 1 Proposed trade finance, globally and in Asian developing economies

Region	Total ($ bil)
Global	
Value of proposed trade finance	4,598.08
Value of trade finance rejected	1,643.76
Asian Developing Economies	
Value of proposed trade finance	2,076.01
Value of trade finance rejected	424.72

economies, including where your bank is domiciled (as provided for in 1.3), did your bank reject (in % terms), mainly due to the obstacles driving the trade finance gap mentioned in section 2.1?

Key findings: The total value of trade finance requests received in 2011 by the banks responding to the survey amounted to about $4.6 trillion. Of this total amount, more than $1.6 trillion was rejected.

Among Asian developing economies, the proposed trade finance transactions received in 2011 by the banks responding to the survey amounted to almost $2.1 trillion, of which almost $425 billion was rejected.

Impact of Gaps on Growth and Jobs

1.5 Suppose your company has more trade finance support for its import/export activities. With the following % increase in finance, what corresponding % increase, if any, would you attribute to the following?

1.6 Suppose your company has less trade finance support for its import/export activities. With the following % decrease in finance, what corresponding % decrease, if any, would you attribute to the following?

Key findings: Increasing or decreasing trade finance support to companies will result in corresponding increases or decreases in their export activities, production, as well as job levels. For instance, a 5% increase in trade finance support would result in increase of exports by 2%, production level by 2%, and staffing by 2%.

Increasing or decreasing trade finance support to companies will result in corresponding increases or decreases in their export activities, production, as well as job levels

Figure 1 Correlation between trade finance growth and exports, production, and jobs

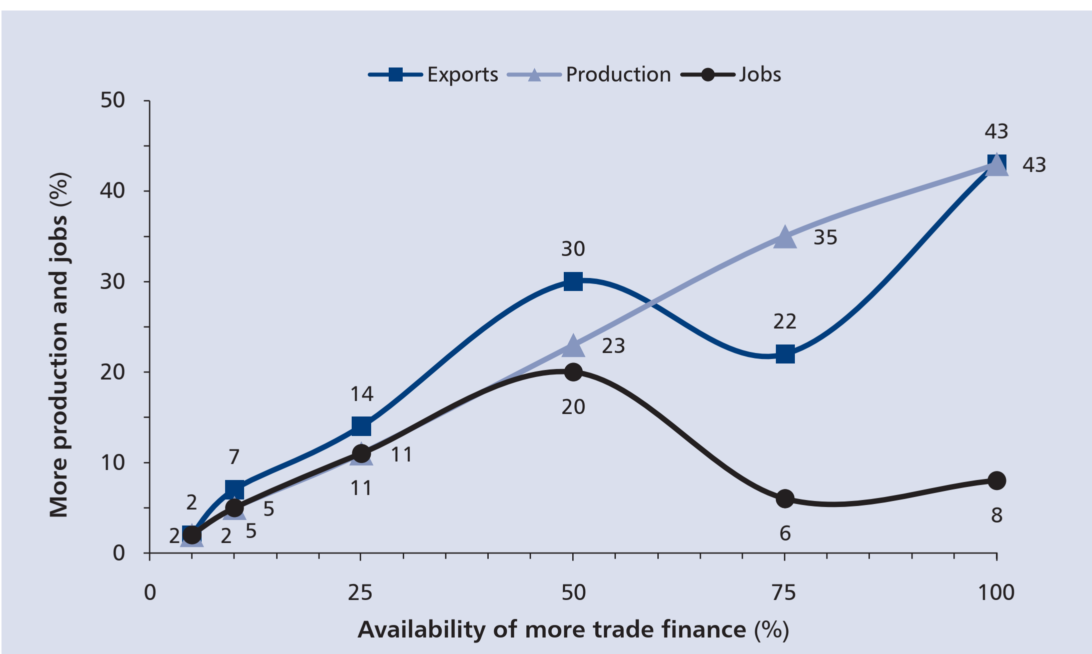
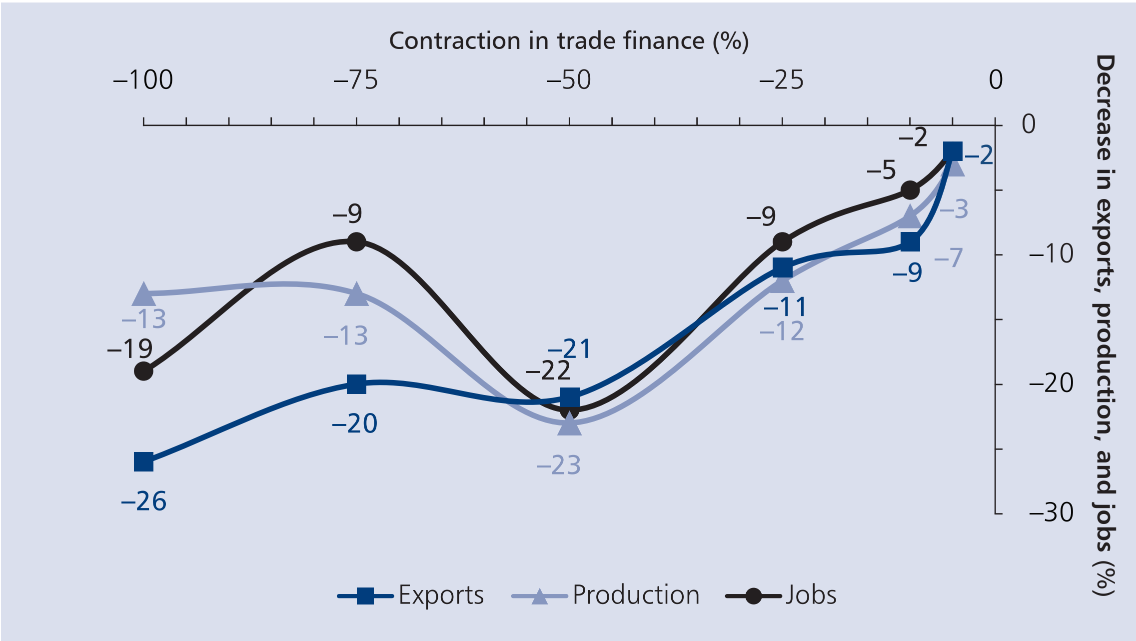


Figure 2 Correlation between contraction in trade finance and exports, production, and jobs

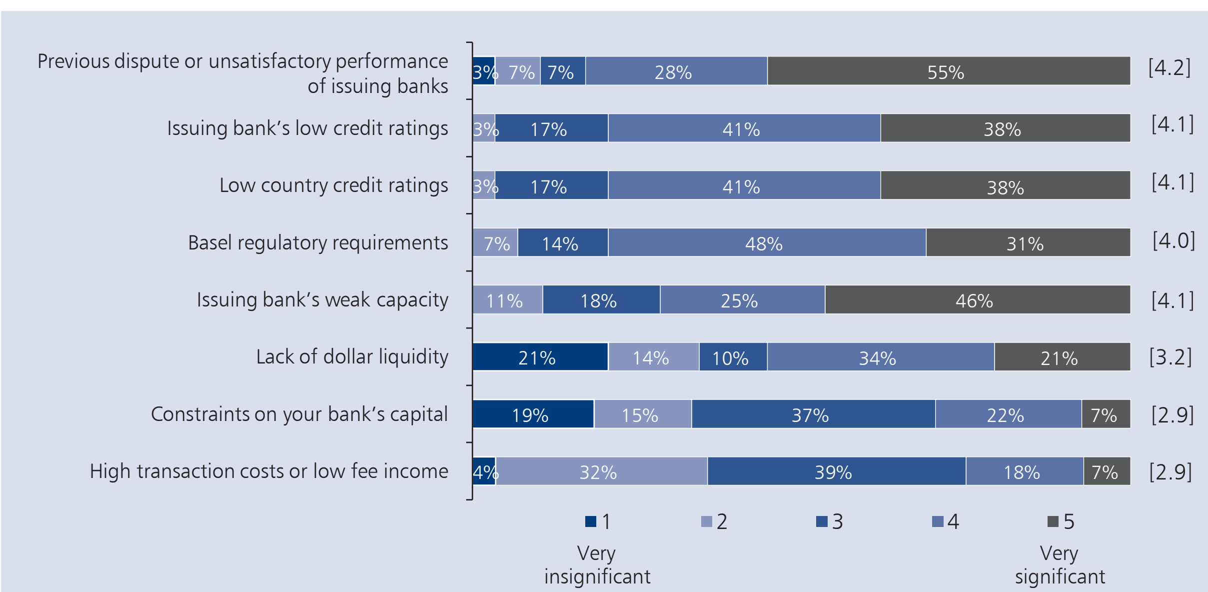


Obstacles Aggravating Trade Finance Gaps

2.1 Please rate how significant each obstacle is in terms of aggravating any trade finance gap, where "1" means "very insignificant" and "5" means "very significant".

Key findings: For international banks, the main factor that was perceived to aggravate the trade finance gap is previous dispute or unsatisfactory performance of issuing banks (83%). The issuing bank's low credit ratings, low country ratings, and Basel regulatory requirements also play a significant role in limiting trade finance (79%).

Figure 3 Obstacles aggravating the trade finance gap for international banks



Note: Numbers in brackets are weighted averages of ratings. The closer the average rating is to 5, the higher the level of significance. An average rating close to 1 indicates a low level of importance.

2.2 Roughly, by how much would your bank reduce its support for trade finance if Basel III is fully implemented?

Key findings: Table 2 shows the distribution of percent reduction in trade finance that will be made by banks if Basel III is fully implemented. On the average, respondent banks indicated they would reduce support to trade finance by about 13%, with about 48% of the banks indicating that they would reduce trade finance support by either 5%, 10%, or 20%.

Role of Multilateral Developments Banks to Fill Gaps

3.1 If you believe there is a lack of trade finance globally, please rate to what extent trade finance programs of multilateral development banks (MDBs) help fill gaps for trade finance, where "1" means "not at all" and "5" means "very great extent".

3.2 If you believe there is a lack of trade finance in Asian developing economies, please rate to what extent trade finance programs of multilateral development banks (MDBs) help fill gaps for trade finance, where "1" means "not at all" and "5" means "very great extent".

Key findings: Over 60% of the banks responding to the survey indicated that trade finance programs of MDBs have helped fill the gaps for trade finance to a great extent, both globally and in Asian developing economies.

3.3 Overall, if the ADB TFP no longer existed, by how much would your bank's trade finance support decrease in ADB TFP active countries, including where your bank is domiciled?

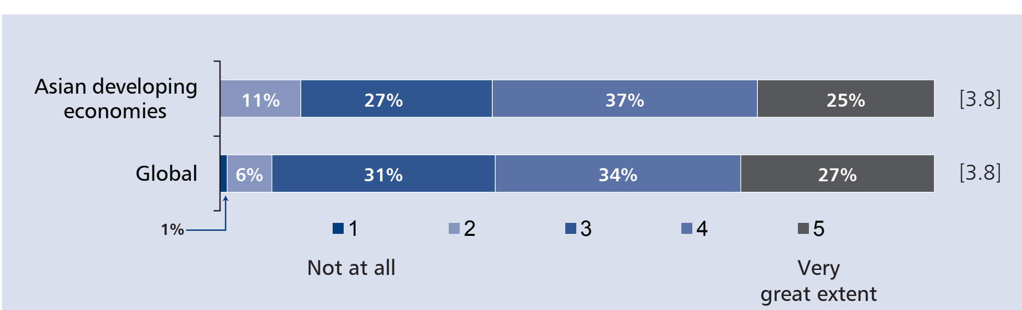
Key findings: If the ADB TFP no longer existed, international banks would decrease their trade finance support in concerned countries by 13%.

Table 2 Reduction in bank support if Basel III is fully implemented

% reduction in bank support	Banks (%)
0	22
2	1
3	2
5	14
10	19
15	6
20	15
25	7
30	9
35	1
40	2
50	1
60	1
Total	100%
n	96
Average	13%

Trade finance programs of MDBs have helped fill the gaps for trade finance to a great extent, both globally and in Asian developing economies

Figure 4 Impact of MDB trade finance programs



Note: Numbers in brackets are weighted averages of ratings. The closer the average rating is to 5, the greater the extent of impact. An average rating close to 1 indicates no impact at all.

Conclusion

The survey provided useful information and market feedback from a unique perspective of direct or indirect clients of the ADB TFP. In particular, the survey suggests the following:

- A gap in trade finance is represented by unmet demand for lending and guarantees to support $1.6 trillion in trade, $425 billion of which is in developing Asia.
- Availability of trade finance impacts economic growth and job creation.
- According to the findings of the survey, an increase of 5% in availability of trade finance could result in an increase of 2% in production and 2% more jobs.
- Trade finance programs of MDBs are perceived to be helpful in filling trade finance gaps, both globally and in Asian developing economies.

Moving forward, the following measures may help reduce unmet demand for trade finance and result in long-term economic growth and job creation:

- Following from this ADB TFP survey, more rigorous collection of data in bigger sample pools over longer time series for in-depth analysis and correlation between trade finance and economic growth and job creation should be undertaken.
- A continuation, along with broader and deeper statistics from the International Chamber of Commerce Trade Finance Register, and further study of other evidence that could (i) encourage the private sector to invest more in trade finance, and (ii) help align regulatory requirements with the low risk nature of trade finance.
- Further collaboration among MDBs, governments, financial institutions, and companies to enable more availability of trade finance to create as much economic growth and jobs as possible.

Asian Development Bank

ADB, based in Manila, is dedicated to reducing poverty in the Asia and Pacific region through inclusive economic growth, environmentally sustainable growth, and regional integration. Established in 1966, it is owned by 67 members—48 from the region.

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In this publication, “$” refers to US dollars.