PROJECT RESULT / CASE STUDY

Oiling the Wheels of the World Economy

ADB's investment in trade finance facilitation has helped Asian countries through the 2009 global financial crisis, and into recovery.

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Manila, Philippines ─ Trade finance is critical for oiling the wheels of the world economy. Without it, companies cannot get the goods consumers want to buy and factories cannot get essential components. That means fewer jobs, lower incomes, and, ultimately, slower economic growth.

But many exporters and importers in Asia's developing countries have trouble accessing trade finance, and ADB's Trade Finance Facilitation Program (TFFP) works with commercial banks to support these companies.

Trade Finance in the Global Financial Crisis

Trouble became calamity for Asia's export-dependent economies at the beginning of last year when the trade-finance network shrank dramatically as the global financial crisis spread into the real economy. Demand from developed markets plummeted and concerns that the deepest economic recession since the 1930s would only intensify made commercial banks reluctant to lend to all but the safest borrowers.

With international trade in free-fall and fears that a shortage of finance to support trade would impede a global recovery making front-page news around the world, multilateral lenders such as ADB and export credit agencies stepped up to fill gaps left by a decimated private financial sector, quickly implementing measures to increase trade-financing support to commercial banks and companies.

On 31 March 2009, ADB ramped up the TFFP to $1 billion from an exposure limit of $150 million when the program began in 2004. ADB also extended the maximum maturity of instruments to 3 years from 2 years.

"Making it easier for companies to get hold of trade finance should boost their business and encourage them to expand and create jobs. This is critical to sustainable long-term economic growth and to the poverty reduction that goes along with it," said Robert van Zwieten, director of ADB's Private Sector Capital Markets Division of which the TFFP is a part.

Boosting Banks in Emerging Markets

The TFFP provides loans and guarantees in conjunction with international and developing member country banks to support trade.

Backed by ADB's AAA credit rating, the program supports developing country banks by providing resources to support trade and facilitating partnerships with more than 150 participating banks worldwide. The TFFP also assists small and medium-sized firms by providing guarantees and loans and, by spurring cross-border trade, the program also promotes regional cooperation.

In 2009, the TFFP supported $1.9 billion of trade by companies - more than four times the $460.5 million supported in 2008. This figure represents the value of trade, including the risk taken by the private sector, in the 443 transactions that the program made possible in 2009. Since the program began in 2004, there have been no defaults.

Given the importance of ensuring that small and medium-sized companies received support to protect jobs as the global economic downturn shrank export markets, nearly two-thirds of transactions in 2009 supported this sector.

Half of the transactions last year backed trade between developing member countries. A typical value was $500,000, but they ranged in value from as little as $6,000 to as much as $79 million. The program allowed exporters to sell products as varied as agricultural commodities, medicines and medical equipment, electrical goods, oil, and a drilling rig.

One dollar of ADB exposure can attract a similar amount from the private sector. And since trade finance is usually short term, sometimes only for around 3 months, the portfolio can be rolled over at least once a year. This powerful leveraging therefore means the $1 billion program could provide as much as $15 billion in trade support by the end of 2013.
Trade Finance for Asia

ADB has negotiated agreements under the TFFP with banks in Afghanistan, Azerbaijan, Bangladesh, Cambodia, Indonesia, Nepal, Pakistan, Sri Lanka, Viet Nam, and most recently, Mongolia and the Philippines. The number of issuing banks increased to 73 in 2009, from 50 at the start of the year, and is expected to be at least 100 by the end of the third quarter 2010. The TFFP has more than 90 participating confirming banks. Bangladesh, Pakistan, and Viet Nam occupied large chunks of the portfolio in 2009 and continue to do so in 2010. Expansion to Tajikistan, Uzbekistan, and other central Asian countries is targeted during the year.

The TFFP not only provides the finance for trade but also links local banks and companies into international business and finance networks. The resulting regional and global cooperation helps build business relationships that support longer-term growth.

Better Knowledge

ADB is also working to close the gaps in the flow of information that make policy and program interventions by public institutions and regulators more of a guessing game than an exact science.

ADB has taken the lead in partnering with the International Chamber of Commerce (ICC) to establish the ICC

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