The Case for Regional Cooperation in Trade and Investment Finance for Asia

This brief reviews the evolution of the role of export credit agencies (ECAs) and their impact on trade and investment. It argues that regional cooperation in Asia would foster regulation and facilitate access to trade and investment finance. Regional cooperation could take the form of regulation aiming at levelling the playing field; or it could go further, with the creation of a multilateral agency that would leverage the industry's best practices and a good credit standing to facilitate access to trade and investment finance across Asia, particularly in the countries where availability is limited. The brief reviews the lessons learnt from existing multilateral ECAs and national ECAs in Asia and argues that these should be carefully considered when designing a new regional ECA.

A SHORT HISTORY OF EXPORT CREDIT AGENCIES

ECAs are financial institutions that primarily support exporters, by providing credit to foreign buyers. ECAs can act directly, but also indirectly, by providing insurance or guarantees to third party financial institutions (OECD 2019). The variety of ECA models is the result of a century-long process, during which ECAs adapted to new economic circumstances by diversifying their nature as well as the products they offer.

ECAs can offer a combination of three products: trade credit insurance, investment guarantees, and direct lending (or project financing); but they always offer export credit insurance. In some countries, a single agency offers all products (e.g., Australia, Canada, France, the United States). In other countries, ECAs focus on trade credit insurance and investment guarantees, while Export–Import (Exim) Banks focus on direct lending (e.g., India, Japan, the Republic of Korea, the People’s Republic of China [PRC]) (Smallridge and Stephens 2002).

Most ECAs are state-owned. This is particularly true in developing countries, reflecting the lack of risk appetite of private insurers. However, precise institutional arrangements vary across countries, from the government directly serving as an ECA to a private company providing ECA services on behalf of the government (Table 1). In any case, ECA financing is by definition backed by the government.
Early Days

The Export Credits Guarantee Department of the United Kingdom was established as the first state-owned ECA, initially to support exports after World War I and the Russian Revolution. Export credit, guarantee, and insurance were then extensively used during the Great Depression; and by the mid-1930s, many developed countries had established their own ECAs. The Berne Union was set up in 1934, as a discussion forum among ECAs. More industrialized countries established national ECAs after World War II, this time, primarily to support their own companies seeking to export or invest in developing countries.


In the 1990s, ECAs had to adapt to the complex transaction risks associated with global value chains. In turn, several ECAs widened their mandate beyond the strict support of domestic exporters. ECAs also started to provide long-term financing for investment projects (project financing). With this new role, ECAs gradually strengthened their developmental, environmental and social safeguard standards. Two additional platforms were also created: the Prague Club (1993) and the Asian Exim Bank Forum (1996).

Also, in this period, developing countries gradually created their own ECAs to support their exporting sectors. However, the funding cost of ECAs follows that of governments, which are typically higher for developing countries. In turn, ECAs from developing countries have generally been unable to match the credit terms available in Organisation for Economic Co-operation and Development (OECD) countries. On the other hand, ECAs in developing countries are less regulated than in OECD countries, which gives them more flexibility to finance transactions as long as they are considered of national interest. ECA from developing countries are thus sometimes suspected to distort international competition by providing subsidized export finance.

By the end of the 1990s, most developing countries had joined the World Trade Organization (WTO), and the regulations included in the WTO’s Agreement on Subsidies and Countervailing Measures (ASCM) applied widely. The ASCM implies that ECAs shall not provide unfair support to domestic exporters by undercutting the market rates offered to foreign buyers. Most ECAs have thus found themselves in a position of lender of last resort—restricted to the segments that private insurers would find too risky, such as political risk—while still seeking to break even.

Private risk insurers emerged in the early 1980s, initially reinsuring ECAs by underwriting short-term political risk, before expanding to long-term risk coverage and lending. Due to changes in European legislation, state-backed ECAs such as Coface (France) and SACE (Italy) also created their own private windows.1 Commercial banks also began financing exports, by reinsuring the risk with ECAs and private insurers.2

The Global Financial Crisis: Expansion of Action

During the global financial crisis (GFC), ECAs de facto became insurers of last resort for cross-border transactions, when private insurers had left the stage (Asmundson et al. 2011). Governments collectively committed $250 billion in support to trade finance in April 2009, to try and reverse the trade contraction. To add to their countercyclical action, ECAs further expanded their operations to small and medium-sized enterprises (SMEs) and to direct lending.

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1 The Compagnie Française d’Assurance pour le Commerce Extérieur (Coface) was founded in 1946 as France’s government-backed ECA. Despite the privatization in 1994, Coface retained the function of providing government-backed trade credit insurance and investment guarantees until 2016, when the ECA function was transferred to Bpifrance Assurance Export. The Servizi Assicurativi del Commercio Estero (SACE) has been Italy’s state-owned ECA since 1977.

2 Government-backed ECAs cannot provide financing for more than 85% of an export contract as the OECD Arrangement stipulates that “purchasers of goods and services which are the subject of official support [shall] make down payments of a minimum of 15% of the export contract value” (OECD 2018).
ECAs from industrial Asian countries—including the PRC and the Republic of Korea—also considerably expanded support to exporters, to counteract the sluggish European recovery. They have also supported investments in mega projects in developing countries, often as part of a broader geostrategic agenda. The PRC’s Export and Credit Insurance Corporation (SINOSURE) has for example underwritten 420 investment projects, including a pipeline linking Turkmenistan’s gas fields with the PRC (Kenderdine 2018).

**Empirical Evidence on the Impact of ECAs on Trade and Investment**

Export growth and the activity of ECAs are correlated, but it does not necessarily follow that ECAs cause exports. ECAs might be created to accompany preexisting export growth (reverse causality) or they might be part of a broader pro-trade policy that includes other tools, such as fiscal incentives (omitted variable). Several empirical strategies have been designed to mitigate these concerns and isolate the causal effect.

One strand of literature has matched firm-level export data with bank-level data reflecting credit availability, to establish a causal link that relates the availability of credit—in general, not just trade finance—to exports. Amiti and Weinstein (2011) use this approach to isolate the impact of bank health on the exports of Japanese firms and Bricongne et al. (2012) apply a similar methodology to France. Another strand relies on Berne Union data on trade credit commitments by ECA. This literature has found a positive and significant impact of trade credit access on trade (Amiti and Weinstein 2011, Auboin and Engemann 2014). A third strand uses data provided by ECAs. This approach has also found positive impacts, although of widely varying magnitudes. For example, Egger and Url (2006) find that a 10% increase in export credit guarantees provided by Austria’s ECA translates into a 4%–5% increase in exports. They also find that the ECA has favored export diversification across countries, although not across sectors. Using data from Germany’s ECA (Euler Hermes), Moser et al. (2008) find a much smaller impact: a 10% increase in trade guarantees only leads to a 0.6% increase in exports. Interestingly, they find that the effect of guarantees on exports to non-industrial countries is insignificant, suggesting that frictions might be so large that guarantees do not provide sufficient relief. Finally, Felbermayr and Yalcin (2013) also find that a 10% increase in Euler Hermes guarantees results in an increase of exports, but only by 0.1%–0.2%.

**Empirical Evidence on the Impact of ECAs during Crises**

Trade finance may have an even larger impact for developing countries, where access to finance is more constrained. However, empirical evidence for developing countries is scant. One study by Manova and Yu (2012) shows that the lack of credit access limits the ability of Chinese firms to move up global value chains. Meanwhile, Brunner (2015) finds that within Africa and Asia, exports by countries with an ECA are on average 2.3 times larger than by countries without an ECA. However, care must be exercised in drawing causal implications from this correlation. Furthermore, empirical evidence on the impact of investment guarantees is also lacking, although the negative impact of political risks on FDI has been documented (Jun and Singh 1995, Busse and Hefeker 2007).

**RATIONAL FOR STATE-BACKED ECAS**

**ECAs Addressing Risks**

ECAs are designed to compensate the market failures that limit the provision of trade and investment finance. These market failures arise from information asymmetries that prevent parties from accurately assessing the risks associated with transactions. Incomplete information also affects the relationship between traders and insurers as more risky traders have more incentives to purchase cover (adverse selection). Traders who have purchased insurance might also be ready to accept higher counterparty risks (moral hazard), which further deters private insurers from providing risk coverage.

The commercial risks affecting trade transactions can be covered by conventional insurance policies. These risks include the non-honoring of a contract, and delays and losses occurring during shipment. A specificity of ECAs is that they also cover political risks, which are particularly relevant to cross-border transactions. Political risks notably include war, terrorism, government expropriation, restrictions on currency convertibility, trade embargos and sovereign defaults.

The volatility of international trade is amplified by its sensitivity to access to trade finance, which is considerably reduced during crises (Chauffour and Farole 2009). For example, bank- financed trade credits declined by about 50% in the Republic of Korea and 80% in Indonesia during the Asian financial crisis (1997–1998); and medium- to long-term trade finance contracted by 40% in the last quarter of 2008. When they do not exit the market, private insurers increase premiums during crises. Chauffour and Farole (2009) have also found that trade finance costs increased two- to three-fold during the GFC.

Since the Global Financial Crisis: Recovery, but Gaps Remain

The GFC increased risk awareness, affecting the role and function of ECAs. Despite concerns about ECAs crowding out the private sector, public and private insurers have largely complemented each other. In large developing countries, ECAs might attract private insurers as coinsurance and reinsurance partners. However, private insurers still rarely establish a local presence in smaller developing countries, where national ECAs often remain the only source of export credit insurance. Risk diversification and robust underwriting standards have ensured that private risk insurers could absorb large losses (Klasen and Meyer 2013). However, private insurers have remained more selective since the GFC, and they have substantially reduced activity in some countries, leaving more space for ECAs.

Even after a decade-long recovery, trade finance remains under- provisioned in developing countries, particularly for SMEs (Moore 2018). The 2019 Trade Finance Gaps, Growth, and Jobs Survey—a survey of financial institutions conducted by the Asian Development Bank (ADB)—estimates the global gap in trade finance at $1.5 trillion, 40% of which in Asia and the Pacific (Kim et al. 2019). Broading access to trade finance in developing countries therefore remains a challenge.
Based on data from a global survey, they show that 70% of banks increased the prices of letters of credit, mainly because of an increase in their own funding costs (80%) or in capital requirements (60%). Overall, Auboin (2009) estimates that 85%–90% of the trade collapse that followed the GFC is due to demand contraction, while 10%–15% can be attributed to the reduced availability of trade finance. Chor and Manova (2012) show that credit conditions were a key transmission channel for the GFC and that, in turn, US imports from countries and sectors where credit markets tightened the most fell particularly sharply. They argue that the dependence of exporters on trade finance calls for specific government intervention during crisis. In the case of Germany, Felbermayr and Yalcin (2013) have found that the positive effect of public trade guarantees on exports has been larger during episodes of negative or slow export growth, such as the GFC.

Potential Adverse Effects of ECAs
ECAs also have potential adverse effects that need to be considered and possibly mitigated.

First, state-backed export credit insurance is a form of indirect export subsidy, although it is allowed under the WTO’s ASCM through a “safe haven” clause, and regulated by the OECD’s Arrangement on Officially Supported Export Credits (OECD Arrangement). The WTO’s ASCM stipulates that WTO members may not provide finance at interest rates below their own sovereign borrowing cost, unless they comply with provisions from the OECD Arrangement. The role of the OECD in ECA regulation therefore excludes developing countries from setting the rules.

Second, ECAs could encourage firms to venture into riskier business due to their ability to purchase insurance (moral hazard). To mitigate this risk, ECAs typically limit their coverage to 95% of the risk.

Third, ECAs may contribute to reallocating resources across sectors as they disproportionately target exporting and FDI-intensive industries. This might improve economic efficiency by counteracting market imperfections. However, absent market imperfections, the effect would be the opposite.

Fourth, integrity issues might lead ECAs to favor firms that are involved in corruption. This can be mitigated through appropriate monitoring and compliance frameworks.

Fifth, ECAs might crowd out the private sector. In most developed countries, regulations prevent ECAs from covering marketable short-term risks. However, competition still arises in less regulated environments and for medium- to long-term risks.

Sixth, ECAs have been criticized for adding to the debt burden of developing countries. Brynildsen (2011) shows that 80% of the debt of developing countries to European governments arises from export credits, not development loans. However, debt to ECAs has become subject to the sovereign debt sustainability criteria imposed by the IMF in exchange for emergency support.

Lastly, ECAs may support investment projects that harm societies or the environment. To mitigate this risk, the OECD has elaborated “common approaches” to due diligence (OECD 2016). The European Union has gone further, by incorporating some of the (non-binding) provisions of the OECD Arrangement into its legislation. However, certain ECAs still avoid the burden of rigorous environmental and social safeguards.

THE CASE FOR A REGIONAL ECA IN ASIA

Berne Union, Asian Exim Banks Forum. The Berne Union now includes 85 institutions from 73 countries. Collectively, members provide trade credit insurance for 13% of world trade. At the regional level, the Berne Union has also encouraged interactions among Asian insurers, with the establishment of an Asian Regional Cooperation Group. As the vast majority of members of the Berne Union are from countries that are also part of the WTO, then they also follow the regulations under the ASCM. Also, many members are from OECD countries (only 15 are from Asia, excluding the Middle East), and so the OECD Arrangement also guides their activities.

Outside the Berne Union, nine institutions formed the Asian Exim Bank Forum (AEBF) in 1996—Australia, the PRC, India, Indonesia, Japan, the Republic of Korea, Malaysia, the Philippines, and Thailand, before expanding to Turkey and Viet Nam. However, AEBF members do not adhere to a strict set of rules. Rather, the AEBF acts as an informal platform, notably to facilitate bilateral agreements among institutions (Saraswati 2005). In any case, many ECAs and Exim banks in Asia are not part of these associations and therefore not affected by the informal standards they imply.

Existing sources of trade finance in Asia. Reviewing 45 countries in the region, we find that only 18 countries (40%) have a national ECAs or an Exim bank. To fill market gaps in trade finance, the Trade Finance Program (TFP) of ADB has been providing support since 2004, through short-term guarantees and loans to commercial and state-owned banks. The TFP leverages ADB’s AAA rating to finance cross-border transactions across Asia, through more than 240 partner banks located in more than 90 countries.

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3 Annex I, item j and k of the WTO’s Agreement on Subsidies and Countervailing Measures (ASCM).
4 The OECD Action Statement on Bribery and Officially Supported Export Credits provides a framework to this effect (Both ENDS 2007).
5 The 45 countries included in this review are all members of the Asian Development Bank, namely: Afghanistan, Armenia, Australia, Azerbaijan, Bangladesh, Bhutan, Brunei Darussalam, Cambodia, Fiji, Georgia, India, Indonesia, Japan, Kazakhstan, Kiribati, the Kyrgyz Republic, the Lao People’s Democratic Republic, Malaysia, Maldives, the Marshall Islands, the Federated States of Micronesia, Mongolia, Myanmar, Nauru, Nepal, New Zealand, Pakistan, Palau, Papua New Guinea, the Philippines, the PRC, the Republic of Korea, Samoa, Singapore, Solomon Islands, Sri Lanka, Tajikistan, Thailand, Timor-Leste, Tonga, Turkmenistan, Tuvalu, Uzbekistan, Vanuatu, and Viet Nam.
Between 2009 and 2018, the TFP has supported $36 billion worth of transactions, and provided cofinancing amounting to $22 billion (ADB 2019). To complement its trade finance business, ADB launched the Supply Chain Finance Program (SCFP) in 2014. The SCFP aims to close market gaps for SMEs operating in domestic and cross-border value chains. While the TFP assumes bank risk, the SCFP directly assumes corporate risk. However, despite these efforts, a 2019 global survey on trade finance revealed that banks expect the trade financing gap to increase in the next two years (Kim et al. 2019).

**New global developments require deeper regional cooperation.**

Global headwinds such as weak economic recovery in developed countries and increasing trade protectionism are causing uncertainties that affect trade and investment. Furthermore, global rules to prevent money laundering and the financing of terrorism as well as prudential regulations such as Basel III present challenges to developing countries and their financial system. Trade finance could thus be further constrained, weighing down small players and even some state-backed insurers. Lastly, gaps in project financing may also constrain future economic growth and development.

Next steps regarding regional cooperation in Asia could go on two pathways, albeit not necessarily in a mutually exclusive manner. The first option would be to follow the Berne Union model and agree on harmonized standards to ensure healthy regional competition. As a second option, a multilateral ECA could also be created. It could be a new institution, with subscription from governments and support from international development partners, as was the case for the African Trade Insurance Agency (ATI). Alternatively, it could build upon ADB’s TFP, which is already backed by ADB’s AAA rating and maintains relationships with a vast network of banks. Scaling up the TFP to take on the role of a regional ECA would require expanding the product range to provide the full suite of products in demand across Asia.

**Other regional ECAs.** An Asian multilateral ECA could build upon the experience of two existing regional ECAs: the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) and the ATI. ICIEC was established in 1994 and is owned by the Islamic Development Bank (IDB) (52%), Saudi Arabia (21%), and 43 other countries. It provides shariah-compliant trade credit and insurance (ICIEC 2018). ATI was founded in 2001 by 7 African countries and now includes 15 countries as well as 9 institutions, including the African Development Bank, European ECAs, and private insurers. Regional ECAs could address issues that commonly plague national ECAs. Furthermore, as with the case of ICIEC, regional ECAs do not need to compete with national ECAs, but rather, they can complement them through reinsurance and refinancing.

**Advantages of a regional ECA.** A regional ECA would notably bring the following:

**Economies of scale.** Regional ECAs allow to benefit from economies of scale by distributing fixed costs over a larger turnover. Serving a larger market notably increases spillovers in terms of expertise and data collection. Regional ECAs might also be better suited to finance large infrastructure projects due to their larger financial capacity. Their large size also makes them more interesting for private insurers and MDBs to partner with, including through reinsurance schemes.

**Risk diversification.** ECAs are vulnerable to a large number of claims being filed simultaneously, which is more likely when the insured risks concentrate in one market. A regional ECA, on the other hand, can easily mitigate this risk through geographic diversification. In turn, a regional ECA can also access cheaper financing and eventually pass on its lower funding costs to their clients.

**Good governance.** Multilateral ECAs are overseen by representatives of several governments. As power is not concentrated within a single government, this setting can limit governance issues such as rent-seeking behaviors. On the other hand, regional ECAs are more distant from citizens, which may limit accountability. In any case, regional ECAs would be particularly suited to support projects that require cross-border cooperation.

**Not too close, not too far.** To bring together economies of scale, diversification and good governance, Chauffour et al. (2010) propose the creation of a global ECA. The World Bank’s Multilateral Investment Guarantee Agency (MIGA) already provides some features of a global ECA, notably insurance to protect FDI from political risks. However, a global full-fledged ECA would have difficulties to articulate its efforts to country-specific contexts. In the end, the regional scale might provide an optimal equilibrium in the trade-off between proximity and risk concentration.

**Provision of guarantees to de-risk the trade finance portfolio of commercial banks.** Banks across the world are gearing up to comply with Basel II and III standards, which require better collateral and improved prudential ratios. As a result, banks are increasingly willing to de-risk their portfolio by providing loans with a partial credit guarantee from investment grade credit insurers. For banks, such guarantees constitute good quality collateral and reduce their holding of assets categorized as risky under Basel standards. This phenomenon in turn increases demand for the guarantees that could be provided by an investment grade regional ECA.

**Coordinated response to crisis.** Regional ECAs can also provide emergency trade finance support when a crisis affects one of its members. However, such risk sharing mechanisms require ex-ante acceptance by members of a temporary concentration of risk in a single country. Regional ECAs can also provide emergency response to regional or global crises. To limit financial stress during crises, regional ECAs should make full use of the existing risk mitigation tools, including third party guarantees, collateralized lending, and local currency lending. To obtain local currency in the first place, regional ECAs would need to issue medium and long-term local currency bonds, which would in turn contribute to the development of local currency bond markets.

**Policy and regulatory coordination.** By collecting information on firms and business conditions across member countries, regional ECAs can help identify other obstacles to cross-border trade and investment.
Best practices can also be shared and replicated across member countries. Finally, regional ECAs provide a natural platform to discuss regional regulations for ECAs; and they can carry the collective voice of the region in global regulatory discussions.

**LESSONS LEARNED IN REGIONAL ECAS AND ECAS IN ASIA**

Establishing a regional ECA in Asia requires to consider the lessons learned from existing multilateral institutions as well as national ECAs in the region.

**Ensure sufficient capitalization.** The Pakistan Export Finance Guarantee Agency was designed to break even within 3–4 years of its creation and was capitalized accordingly. However, it did not to meet this target and was eventually liquidated after several unsuccessful attempts to obtain refinancing from the government. ATI also had to face issues related to its capitalization as its capital structure initially required separate trust accounts for the capital of each member. In turn, risk coverage limits in each country were strictly set as a proportion of the amount of the capital contributed by this country. The ATI Charter was eventually amended in 2007 to allow pooling of capital, which greatly contributed to ATI obtaining an ‘A’ rating from Standard and Poor’s, in 2008 (ATI 2008, ATI 2012). The 2007 restructuring also increased the capital and allowed leveraging, which has allowed ATI to issue more policies.6

**Identify an appropriate product range.** ECAs can offer a wide range of products, including insurance, guarantees and credit, with various maturities. These products can be used to mitigate counterparty risk or obtain financing from banks, notably for working capital. ECAs sometimes also provide risk coverage for more sophisticated products, such as factoring—by which companies sell their invoices (receivables) in exchange for cash, at a discount—and securitization arrangements, by which firms’ receivables are further sold to investors. ATI’s initial product range was narrow, notably excluding non-payment (receivables) in exchange for cash, at a discount—and securitization arrangements, by which firms’ receivables are further sold to investors. ATI’s initial product range was narrow, notably excluding non-payment by obligors, except for very specific reasons. Following low uptake, the ATI Charter was amended in 2007 to widen its mandate, including the provision of commercial risk insurance.

**Ensure product awareness.** Several ECAs have faced limited uptake due to the limited local awareness of their products. In the case of Armenia, Abgaryan and Rosenthal (2017) report that only 70% of the companies covered by a 2015 survey had heard about export credit insurance. Consequently, they find that 90% of the policies granted by the Export Insurance Agency of Armenia (EIAA) in 2015–2016 had a bank or credit organization as the beneficiary. To mitigate this lack of awareness, the EIAA is now organizing information sessions, particularly targeting SMEs.

**Ensure sufficient expertise, notably through partnerships with private insurers.** As partners in reinsurance agreements (or even shareholders), third-party public or private insurers can bring both expertise and portfolio de-risking. For example, ATI has partnered with Atradius (Netherlands) through a reinsurance treaty since 2006 and counts several ECAs as shareholders.

**Limit political risk through the preferred creditor status.** A specificity of ATI is explicit preferred creditor status, by which member countries guarantee to cover claims arising from the materialization of insured political risks occurring in their own country. Failure to pay within 360 days allows ATI to deduct the amount from the capital contribution of the member country. ATI also maintains close links with governments, notably to ensure enforcement credibility.

**Address corruption risks through appropriate governance and monitoring.** In the case of Kazakhstan, the OECD (2017) has formulated recommendations to limit the risks of corruption. This includes recommendations that the ECA should clarify its documentation regarding corruption, encourage customers to refer suspicious activities and undertake rigorous due diligence.

**Using quantitative tools to identify best practices.** The relative performance of ECAs can also be assessed using data envelopment analysis (DEA). DEA allows to quantify the output achieved by the best performing ECAs (e.g., in terms of amount underwritten), for any quantity of inputs (e.g., total expenditures). Individual ECAs can then be benchmarked against this production possibility frontier. This method has been used by Yazdi et al. (2019) to rank a sample of 21 ECAs and Exim Banks. They find that ICIEC is the most efficient multilateral ECA, followed by the Arab Investment and Export Credit Guarantee Corporation (Dhaman), while ATI performs poorly.

Regarding national ECAs in Asia, they find that the Republic of Korea’s Trade Insurance Corporation is the most efficient among their sample, followed by Armenia’s EIAA. Extended to more ECAs, this method could further help identify best practices among existing institutions.

**CONCLUSION**

The role of ECAs has evolved over time. Initially, they were established to address market failures that affect cross-border trade and investment. Later on, they proved to be crucial in supporting trade during crises. The empirical literature has supported both arguments. However, the impact of ECAs for developing countries has not been estimated, although theory suggests an even larger impact for this underserved market.

In any case, national ECAs play a significant role in developing countries in Asia, especially in the current trade environment; and regional cooperation could be instrumental in optimizing their action.

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6 ATI could leverage up to 1.5 following the 2007 restructuring but chose to be more prudent and initially only leveraged 1.3 (World Bank 2014). ATI’s board has recently approved a 1.8 gearing.
Going one step beyond, one option would be to establish a regional ECA, which could take the form of a second-tier reinsurance and re-guarantee institution, to complement existing ECAs and private insurers. A regional ECA could yield larger business volumes to make up for initial and fixed operating costs. It could benefit from increased risk diversification to reduce funding and insurance costs. It could address governance issues that affect national ECAs. Finally, a regional ECA could provide a forum for regional cooperation on financial regulations, industrial and trade policies, and emergency response in times of crisis.

However, lessons from existing regional ECAs and national ECAs in Asia need to be considered. First, to fully reap the benefits of scale, a regional ECA should rely on fully paid-in capital from its inception. Second, to be able to maximize its effectiveness, it should also identify an appropriate product range and ensure product awareness. It should ensure inclusiveness by designing products that fit market needs and targeting low sophistication and scattered SMEs. Third, sustaining sound operations requires to ensure sufficient expertise, in-house but also through partnerships with private insurers. Fourth, a regional ECA should also limit political risks and maintain close links with member governments. Finally, a regional ECA should address integrity risks through appropriate governance and monitoring.

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