ASIA-PACIFIC TRADE FACILITATION FORUM 2013
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"Trade Finance : SMEs Emerging Needs"

Is there a Need for Financial Innovations and Systemic Change?

BY

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Is there a Need for Financial Innovations and Systemic Change ?

Trade finance is the lifeline of trade because more than 90% of trade transactions involve some form of credit, insurance or guarantee. However, SMEs often have limited access to trade finance, making it difficult for them to engage in international trade or to participate in international supply chains

(*Source:* International Trade Centre (2009), How to Access Trade Finance: A guide for exporting SMEs.)

“ This session will bring together selected experts and practitioners to discuss how to facilitate trade financing for SMEs in Asia-Pacific developing countries, both through banks as well as through more innovative arrangements” : APTFF 2013.

SMEs Trade Finance : Prevailing System & Modalities In Asia & The Pacific

- Trade Finance is short-term & transaction-based financing system
- Need not be Debt-Equity based transaction
- Covers both domestic and international trade, including exports
- Contributes to payments, financing, risk mitigation & collection of information
- Trade Finance comes in two stages: (a) Pre-shipment & (b) Post-shipment
- Trade finance instruments are: Letters of Credit (L/Cs); Import bills for collection; Import financing, Shipping guarantee, L/C confirmation; Documents' negotiation; Pre-shipment export financing; Invoice financing; Receivables purchase, etc.
- It also includes export credit guarantees or insurance.
- More than 90% of trade transactions involve trade finance including guarantees or insurance coverage.
- Four common payment methods in international trade are: cash-in-advance, letters of credit , documentary collection and open account.

Whether SMEs and Banks See Eye to Eye ?

How SMEs as Borrowers Perceive Banks

- Banks are not confident & consider SMEs vulnerable to fluctuations, SME financing is taken more as a social cause / obligation rather than viable business
- Banks unsympathetic to start-ups and unhelpful when SMEs are in distress
- Credit extended always falls short of genuine demand
- Complex procedure, high credit cost, delayed disbursements
- Very unreasonable and high collaterals demand (100-200%), trade finance instruments are not innovative and relevant to market, many activities and services are not accepted for trade finance assistance

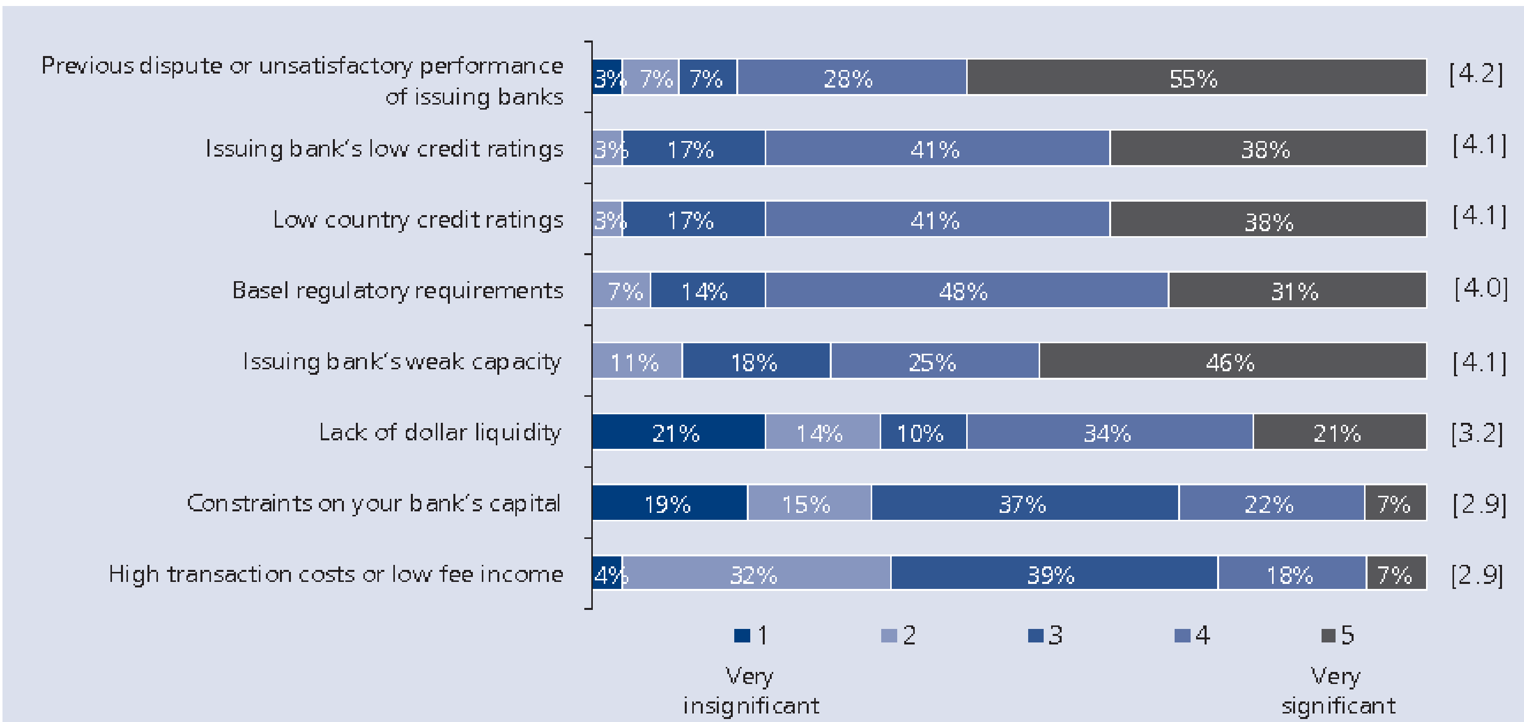
How Banks as Lenders Perceive SMEs

- SMEs as a sector not bankable, generally due to unviable business plans
- SMEs borrow short and invest long, , possessive and secretive of giving reliable information, averse to change, lack technical feasibility and economic viability
- Highly vulnerable to market fluctuations especially in international trade due to low capital base and high defaults
- Can offer only limited collaterals
- Globally not competitive, enter global markets without adequate export preparedness and skills

Relevance of the Prevailing System & the Instruments

Obstacles aggravating the Trade Finance gap for International Banks

Source: Asian Development Bank Trade Finance Survey, March 2013



Value of Trade Finance Proposed & Rejected Globally and in Asian Developing Economies

REGION	**Total in $ Billion**
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

[Source: Asian Development Bank Trade Finance Survey, March 2013]

Trade Finance : Unmet Demand and the Gap :

Asian Development Bank Trade Finance Survey, March 2013- 147banks and 500 companies surveyed

- A gap in trade finance lending and guarantees globally is $ 1.6 trillion in trade, $425 billion of which is in developing Asia
- An increase of 5% of availability in trade finance could result in an increase of 2% in exports, 2% in production and 2% more jobs
- Obstacles aggravating Trade Finance Gaps:

  =Unsatisfactory performance of banks issuing trade finance (83% of banks surveyed)

  =Issuing banks' low credit ratings, low country ratings, Basel regulatory requirements (79%)