



# Promoting SME Trade Finance in Asia and the Pacific

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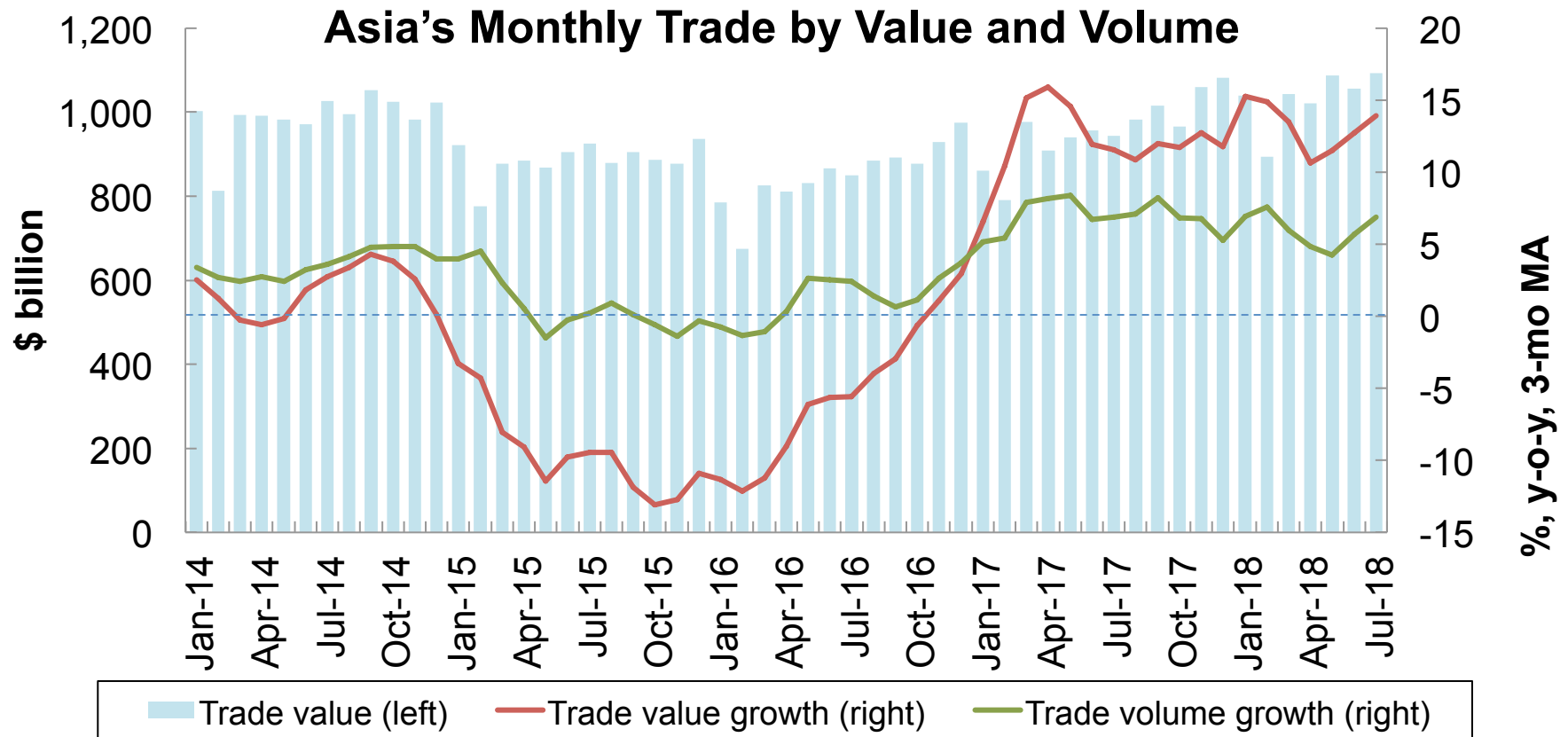
# Outline

- 1. Progress of Trade and Investment in Asia and the Pacific***
- 2. Introduction to ADB's Trade Finance Gaps, Growth, and Jobs Survey***
- 3. SMEs and SME financing in Asia***
- 4. Main findings from the ADB TF Survey***
- 5. Concluding remarks***



# Progress of Trade and Investment in Asia and the Pacific

# Asia's trade growth continues, with the impact of trade friction still contained



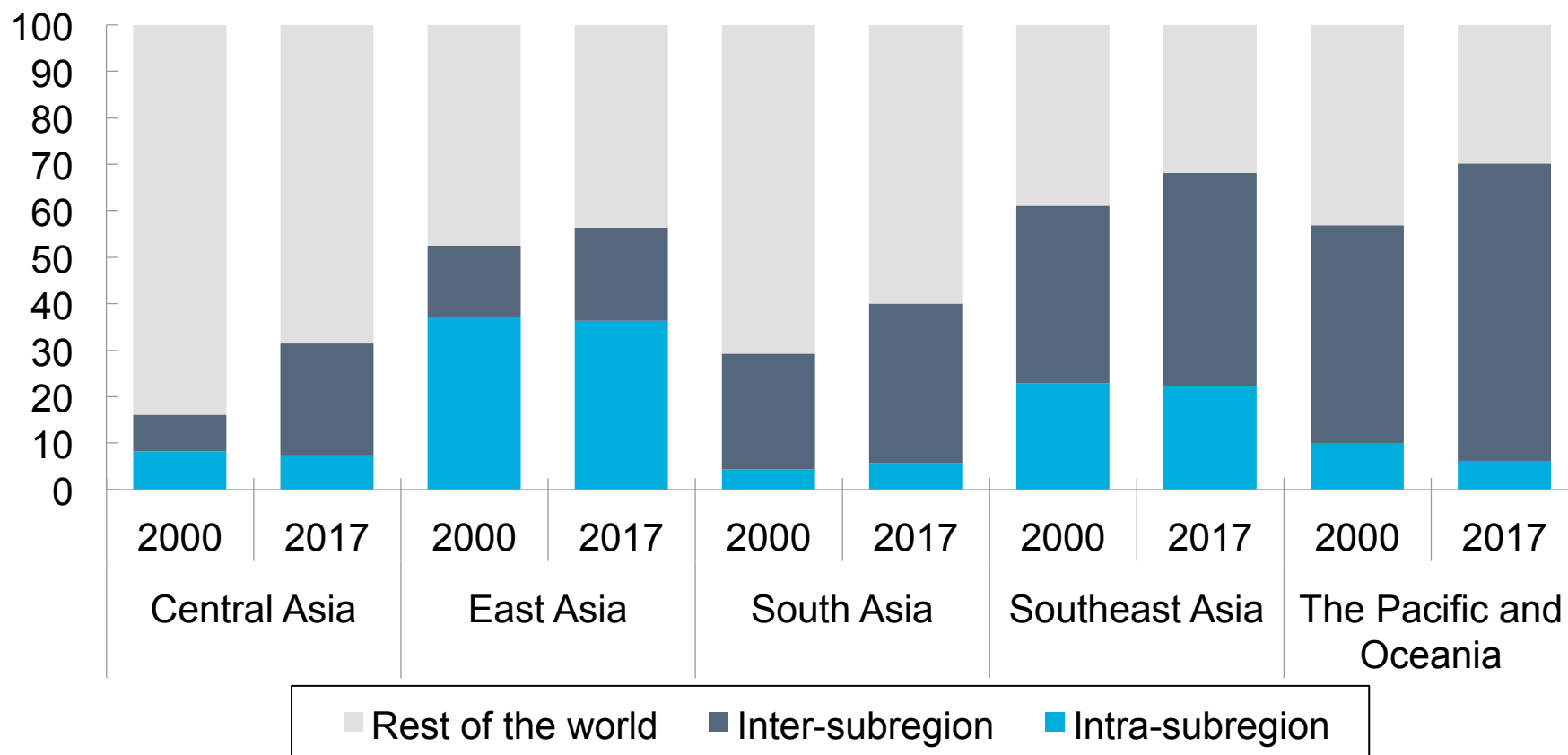
y-o-y = year-on-year, mo = month, MA = moving average

Note: Trade volume growth rates were computed using volume indices. For every period and trade flow type (i.e., imports and exports), the available data includes only an index for Japan and an aggregate index for selected Asian countries, which include People's Republic of China; Hong Kong, China; India; Indonesia; the Rep. of Korea; Malaysia; Pakistan; the Philippines; Singapore; Taipei, China; Thailand; and Viet Nam. To come up with an index for Asia, trade values were used as weights for the computations. On the other hand, trade value levels and growth rates were computed by aggregating import and export values of the same Asian economies.

Source: ADB calculations using data from CEIC; and CPB Netherlands Bureau for Economic Policy Analysis, World Trade Monitor. <https://www.cpb.nl/en/data> (accessed September 2018).

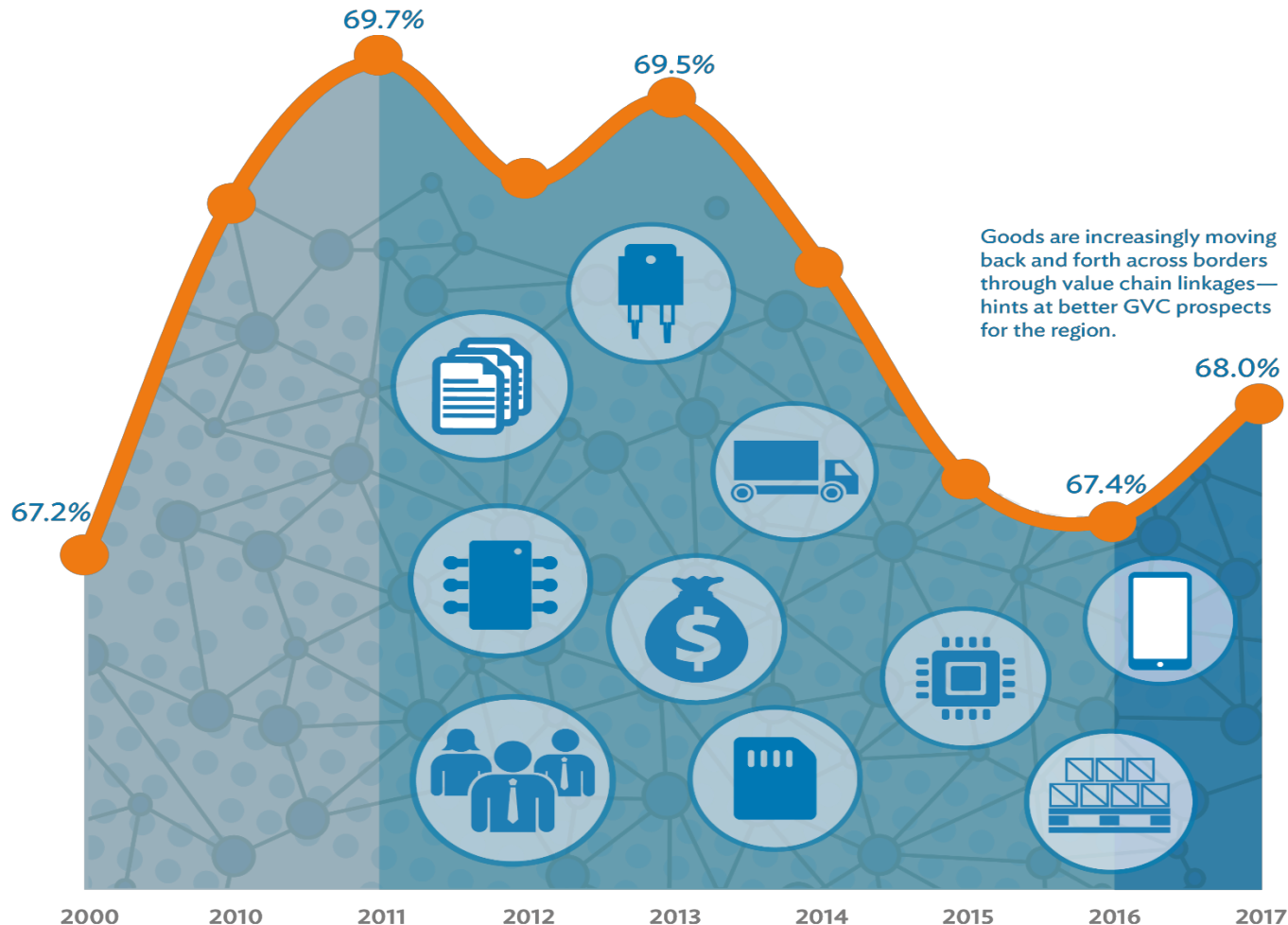
# Regional trade integration strengthens

## Asia Intra- and Inter-subregional Trade Shares (%)



Source: ADB calculations using data from *Direction of Trade Statistics*, International Monetary Fund.

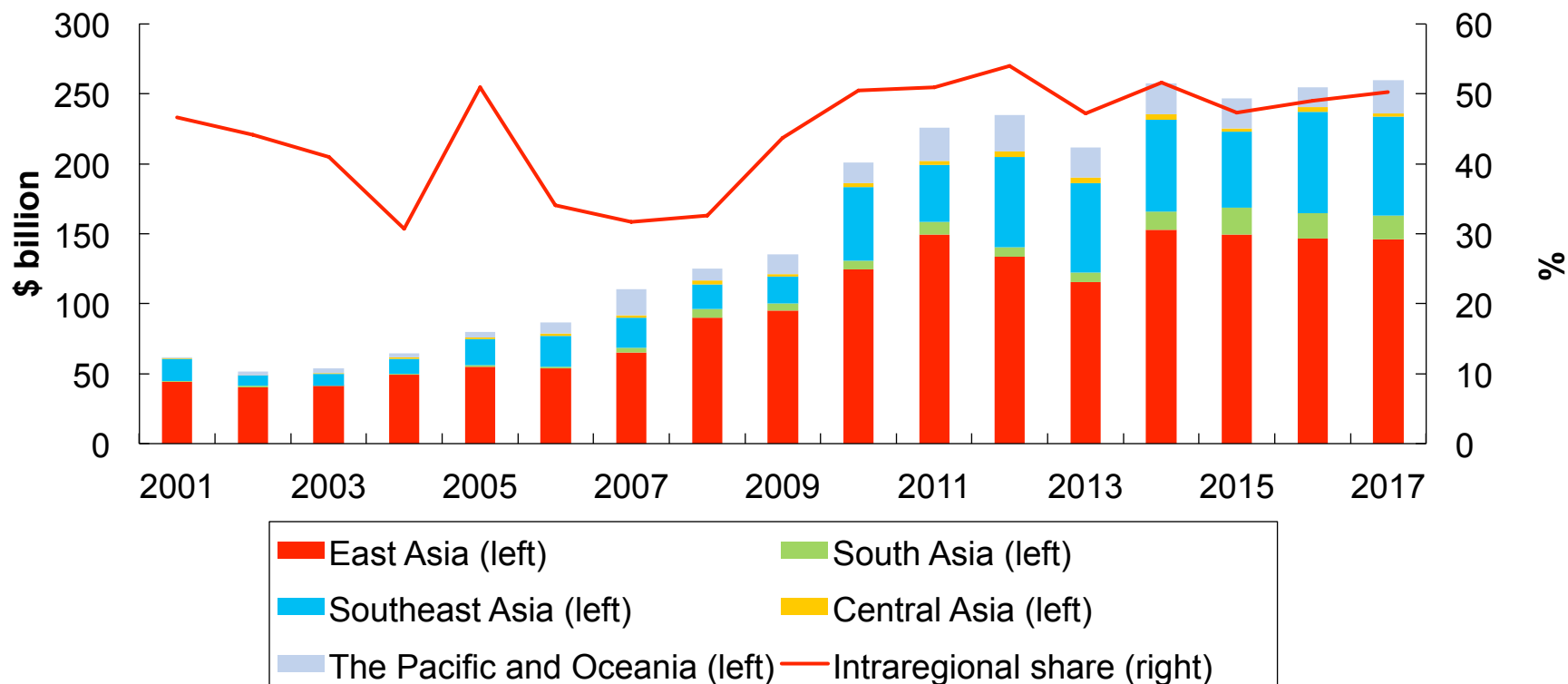
# Asia's deepening GVC participation



Note: The GVC participation rate is the share of gross exports that involves production in at least two countries using cross-border production networks.

# Amid slowdown in inward FDI, intra-Asia FDI expands

## Intraregional FDI Inflows—Asia



FDI = foreign direct investment.

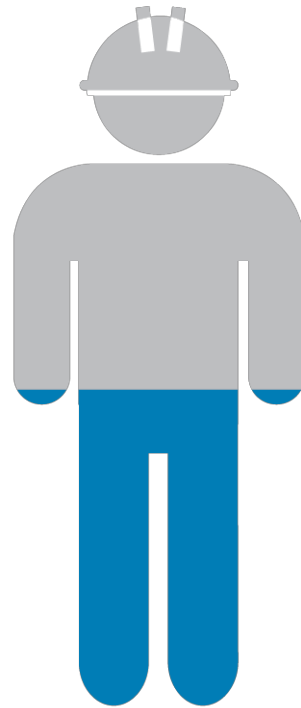
Note: Based on balance of payments (BOP) data. Due to limited availability of bilateral FDI data, missing values were imputed with gravity model estimates.

Sources: ADB calculations using data from Association of Southeast Asian Nations Secretariat. ASEANstats Database; Eurostat. Balance of Payments.; United Nations Conference on Trade and Development. Bilateral FDI Statistics; and World Investment Report 2018 Statistical Annex Tables.

# Asia's greenfield FDI creates jobs

**667,039**

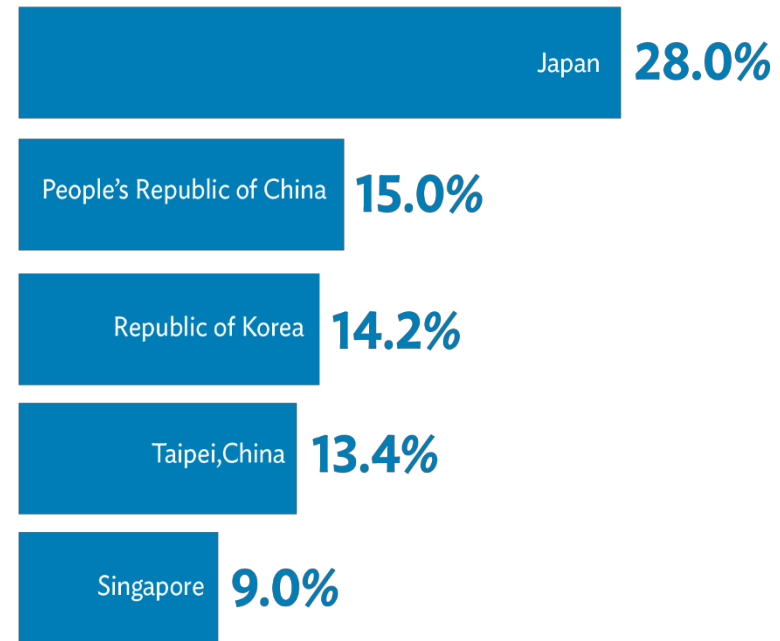
Number of jobs created in 2017  
by greenfield FDI in Asia



**46.2%**

Greenfield jobs created  
by intraregional FDI

## Jobs created by Intra-Asia FDI, by Source, 2017



Source: ADB calculations using data from Financial Times. fDi Markets.



# Subregional initiatives: key progress in 2017

## CAREC

- 185 projects worth \$31.6 billion as of 2017

- CAREC 2030 endorsed: expands into new areas including financial stability, tourism, agriculture, etc.

## GMS

- 87 projects worth \$20.8 billion as of 2017

- Ha Noi Action Plan adopted: \$66 billion project pipeline, covering 227 investment and TA projects in 10 sectors

## EAST ASIA

- Border economic zones in GMS

- Cross-border trade and economic corridor development in CAREC

- Regional Knowledge Sharing Initiative

## SASEC

- 49 projects worth \$10.7 billion as of 2017

- Flagship initiatives launched: cross-border power trade and new energy projects

## PACIFIC

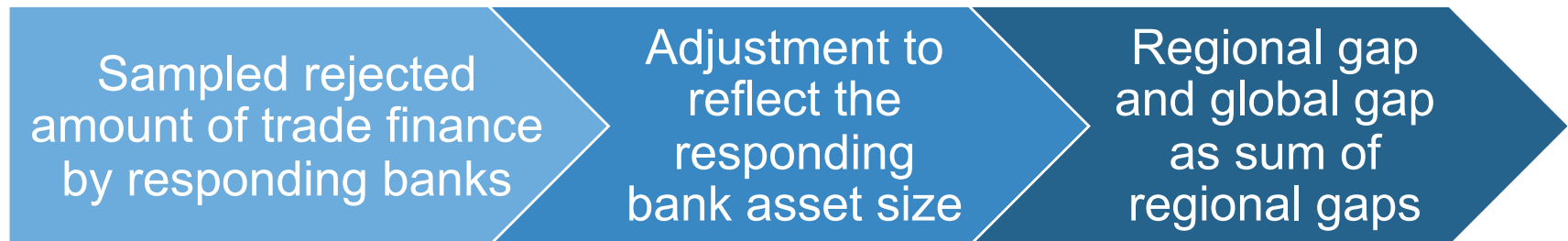
- Pacific Disaster Resilience Program designed to develop regional contingent financing



# **Introduction to ADB's Trade Finance Gaps, Growth, and Jobs Survey**

# ADB' Trade Finance Gaps, Growth, and Jobs Survey

- Began in 2012 and conducted annually until 2017 (now biannual)
  - In partnership with (i) the *International Chamber of Commerce Banking Commission* for bank surveys, and (ii) *International Trade Centre*, and *Centre for the Promotion of Imports* for company surveys, and (iii) other organizations.
- Analyzes trade finance gap (measured by the rejected value of trade finance applications received by responding banks) and its impact on growth and jobs
- To quantify the TF gap:



- The results are indicative of the current survey only.

# Trade finance surveys by partner organizations

Organization	Highlights
<b>International Chamber of Commerce Banking Commission (ICC)</b> May 2018	The annual publication shifts from highlighting the linkages between trade financing and the successful pursuit of international trade, now well established, to bringing back into focus <u>trade as a driving force in global economic growth, prosperity and inclusion</u> .
<b>Centre for the Promotion of Imports from developing countries (CBI)</b> March 2013	<u>Access to trade finance was shown to be the second biggest obstacle to companies' exports, next to drop in demand in target countries</u> . Some of the other obstacles identified were inefficient government bureaucracy, inadequate infrastructure, and tax rates.
<b>International Trade Centre (ITC)</b> November 2013	<u>Lack of access to trade finance</u> was cited by more than a third of respondents as posing major export constraints
<b>Berne Union</b> March 2018	Vast majority of the respondents (85%) anticipate an increase in <u>insured commitments</u> ; 78% of respondents anticipate an increase in MLT cover provided through the course of 2018.
<b>Factors Chain International (FCI)</b> June 2018	While capital constraints remain a concern, there was a marked improvement in the confidence in the capacity to provide <u>factoring to fund international business</u> .
<b>The International Trade and Forfeiting Association (ITFA)</b> February 2017	Results accessible only to members

# Literature on Trade Finance

## Financial crisis & trade finance

- Much of the empirical work on the effect of trade finance on international trade started during the global financial crisis.
- Shocks to trade finance in the period of the 2008–09 crisis had an effect in the decline in trade activity (Asmundson et al., 2011)
- Credit shocks, including to working capital and trade finance, possibly account for about 15–20% of the decline in trade during the crisis (Bems et al., 2012)

## Firm growth & trade finance

- Impact of access to export finance on firm growth is significant only for small firms, and not for medium and large ones (Beck, Demirgüç-Kunt & Maksimovic, 2005)

## Export performance & trade finance

- Credit constraints (such as interbank rate hike) negatively affects exports (Chor & Manova, 2012; Kohler & Saville, 2011; Manova, Wei & Zhang, 2015)

# Lack of trade finance data complicates the ability to gauge its impacts

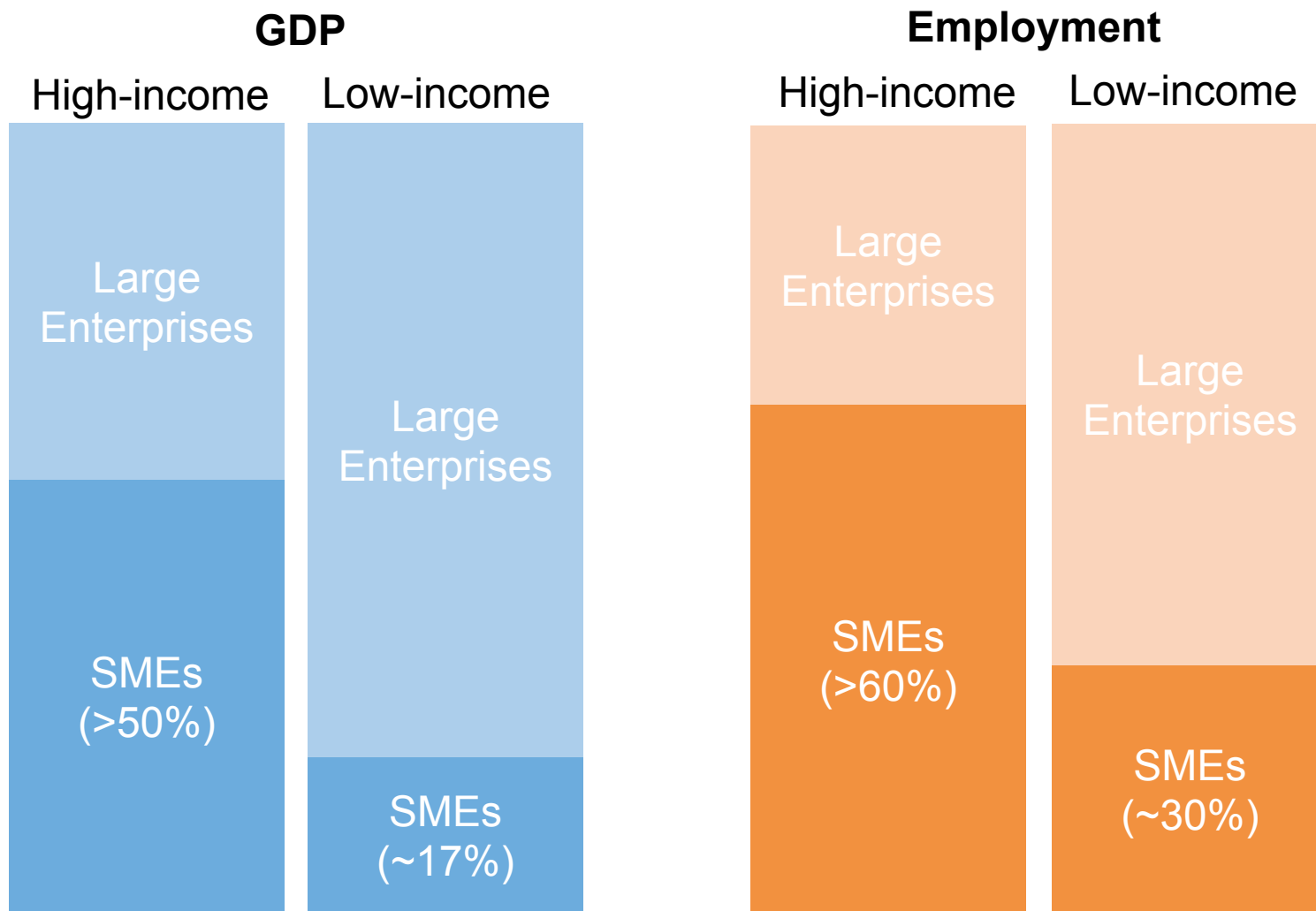
- Data limitations make estimation difficult, including separating the effects of trade finance from worsening financial conditions.
- Existing data sources complemented by market outreach can support assessment of any sector-specific response.
- Enhancing standardized national / industry statistics and extending coverage would aid such an approach.

Source: BIS (2014) Trade Finance: developments and issues

# **SMEs and SME financing in Asia**



# It is more challenging for SMEs to grow in low-income countries than in high-income countries

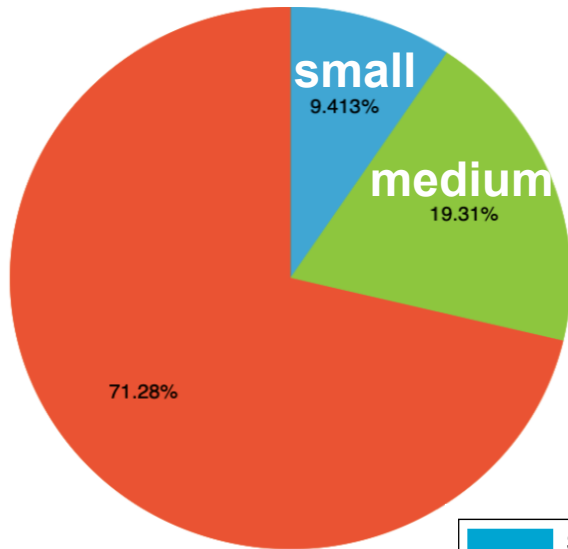


Source: Ayyagari et al (2003) *Small and Medium Enterprises across the Globe : A New Database. Policy Research Working Paper; No. 3127*

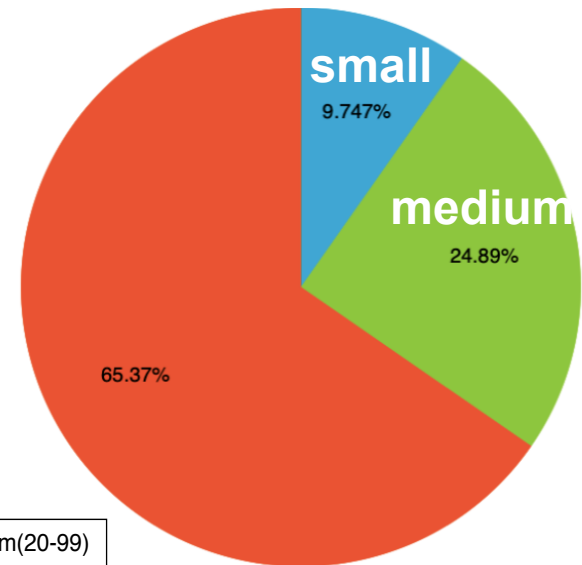


# SMEs' contribution to employment in Asia has a lot more room to grow

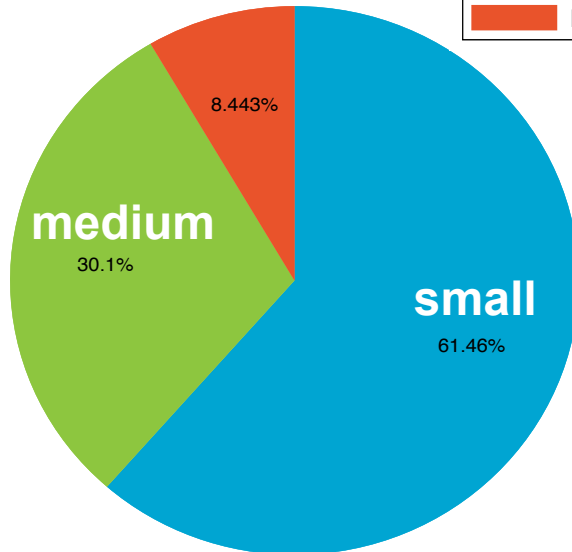
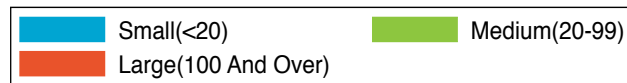
Asia and the Pacific



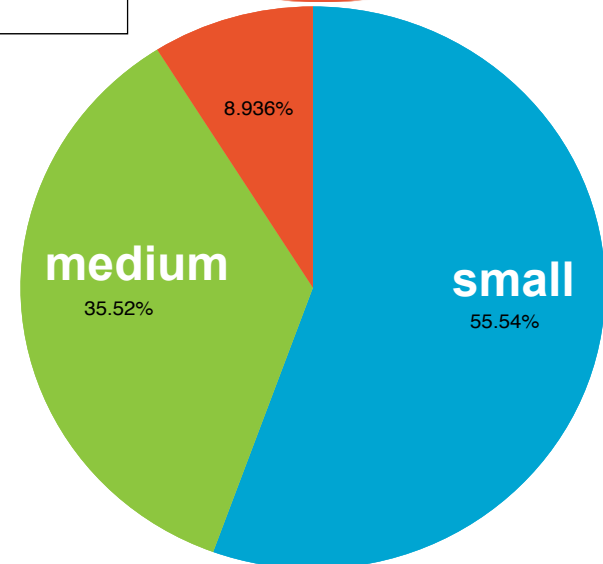
CAREC



*Employment*

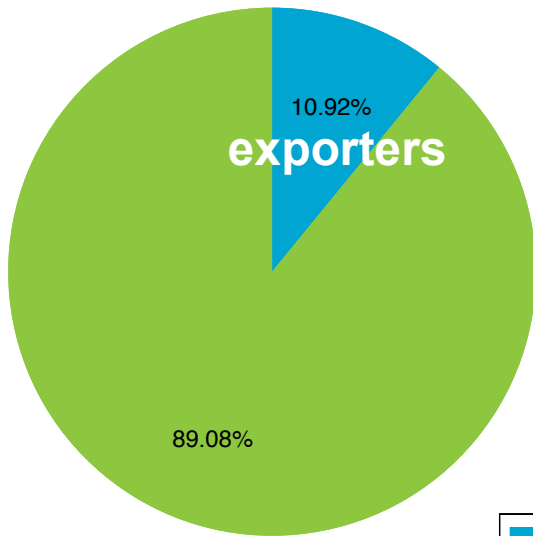


*Number of Firms*

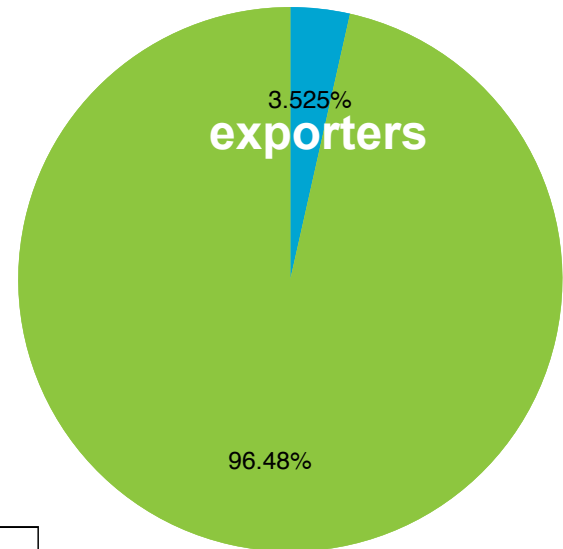


# Only 1 in every 10 SMEs in Asia are exporters

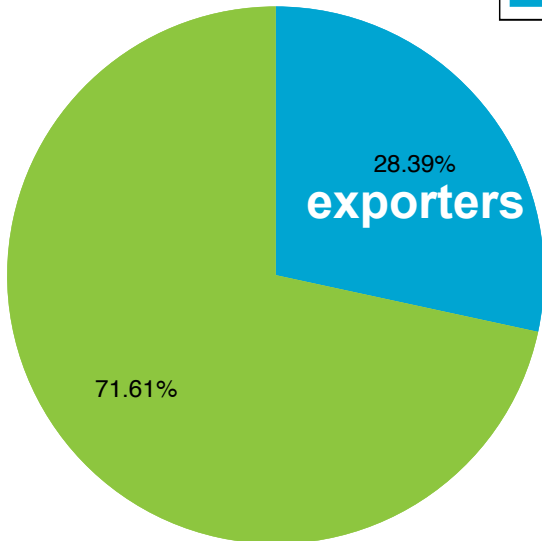
## Asia and the Pacific



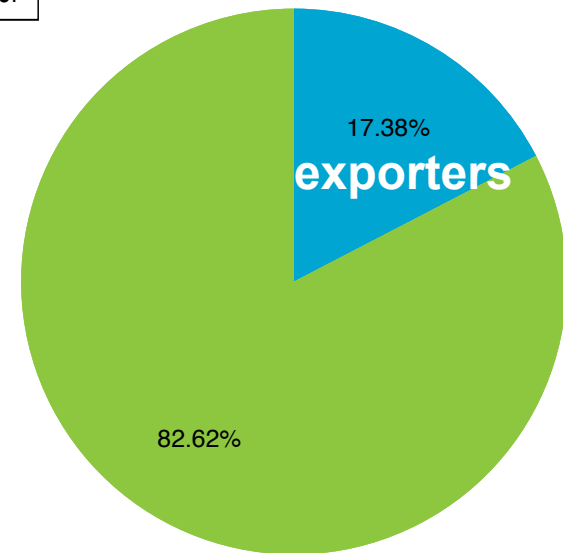
## CAREC



### Number of SMEs



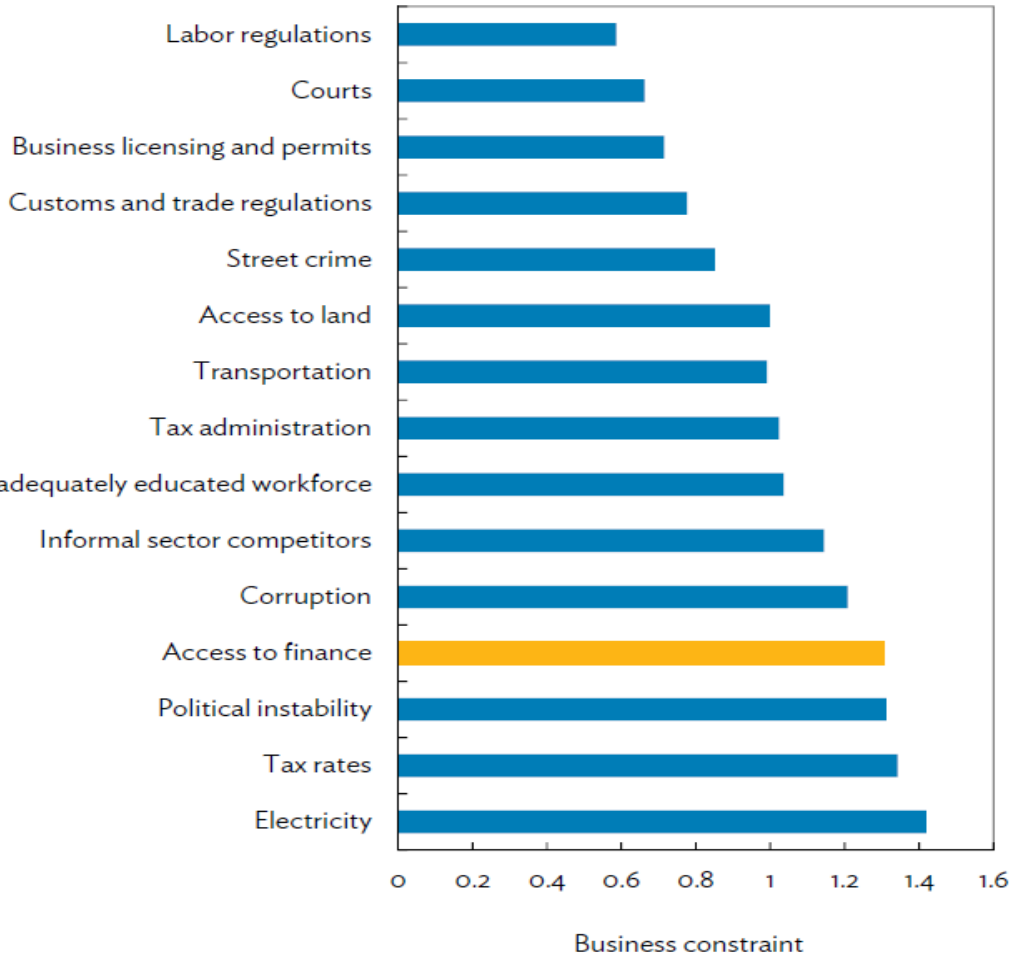
### Number of Large Firms



# Financing obstacles are found to one of the major constrains on firm growth

## Constraints faced by firms in developing Asia

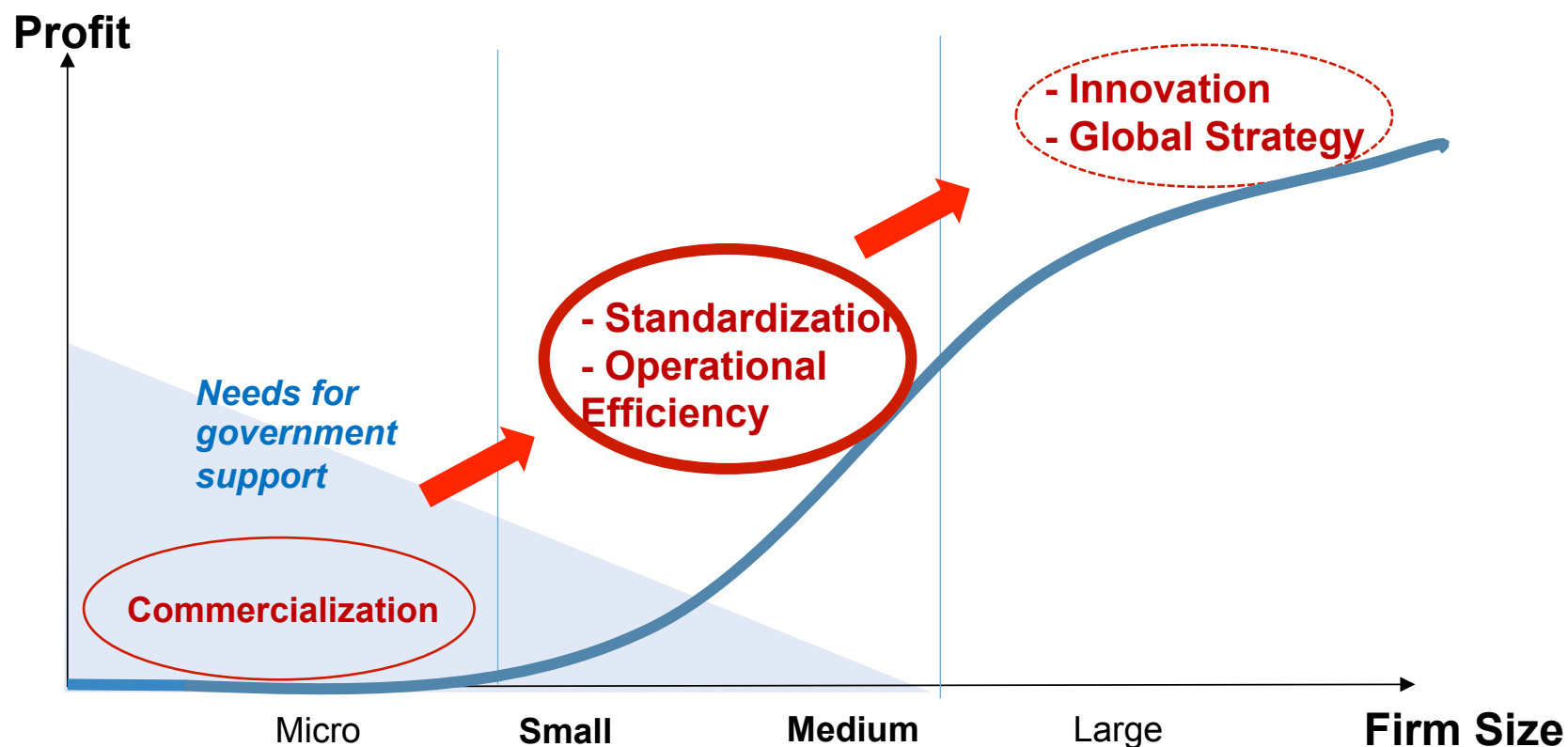
## Why do firms not apply for loans?



(%)	Developing Asia
No need	55.36
Unfavorable interest rates	14.75
Complex application procedures	10.81
Collateral requirements	8.21
Size of loan and maturity are insufficient	3.36
Did not think it would be approved	3.22
Other	4.29

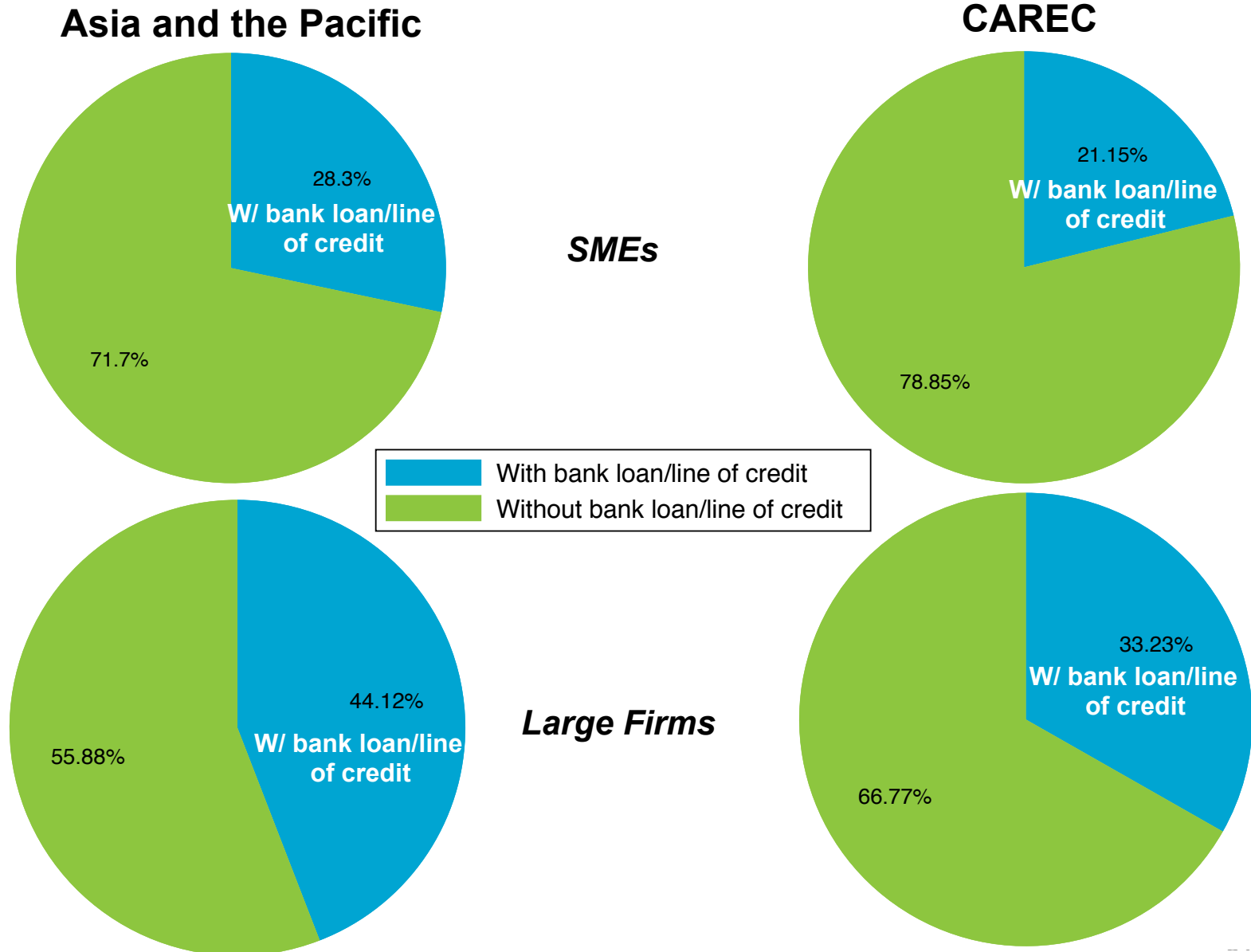
# Access to “external finance for growth” is key

- Internally generated cash is not sufficient for entrepreneurial activities. MSMSs have lack of scale for formal financial institutions.

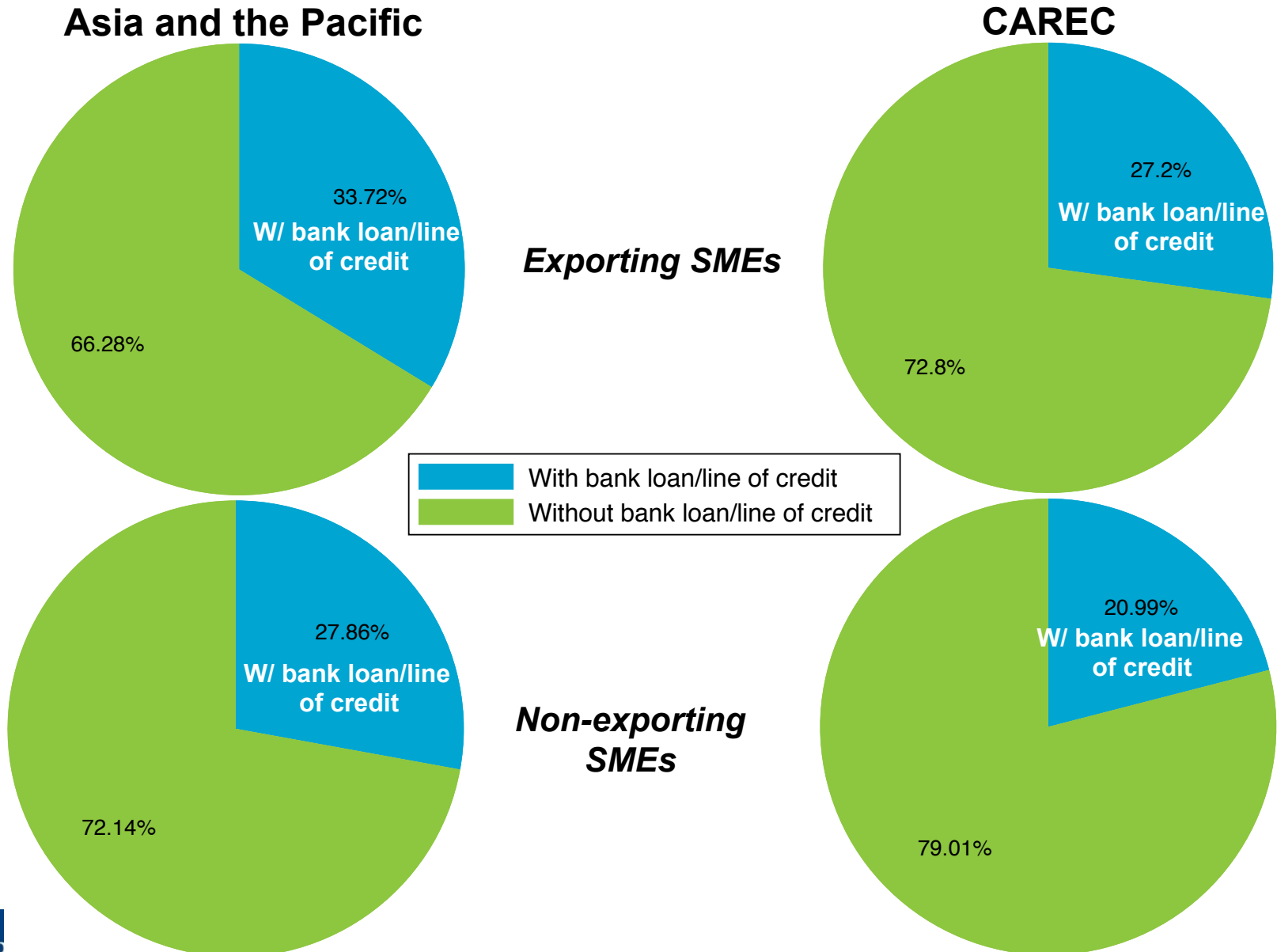


Source: ADB based on ADB (2015) “Integrating SMEs into GVC: Challenges and Policy Actions in Asia”

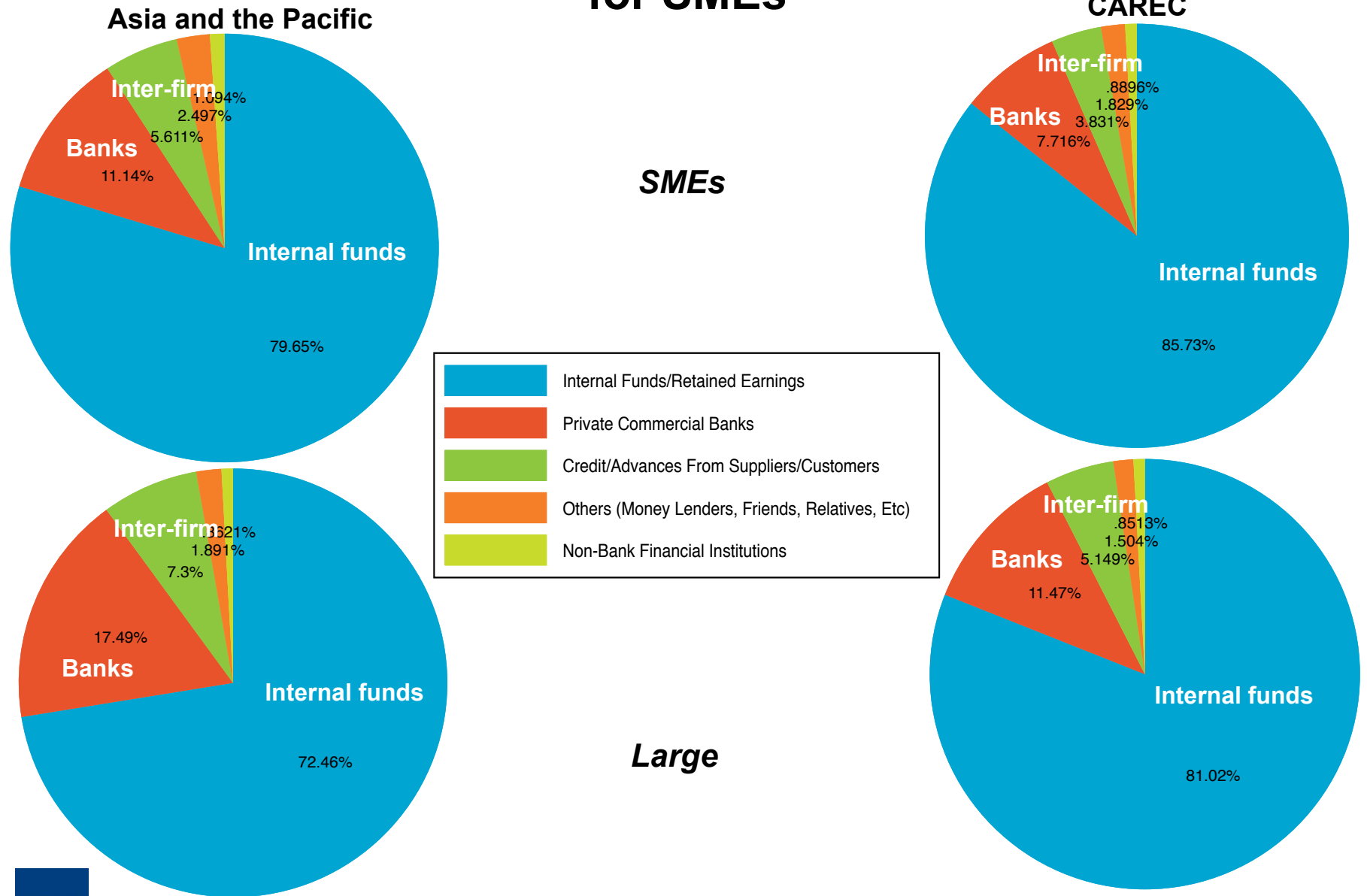
# 3 in every 10 SMEs in Asia have access to bank finance



# 3 in every 10 exporting SMEs have access to bank finance

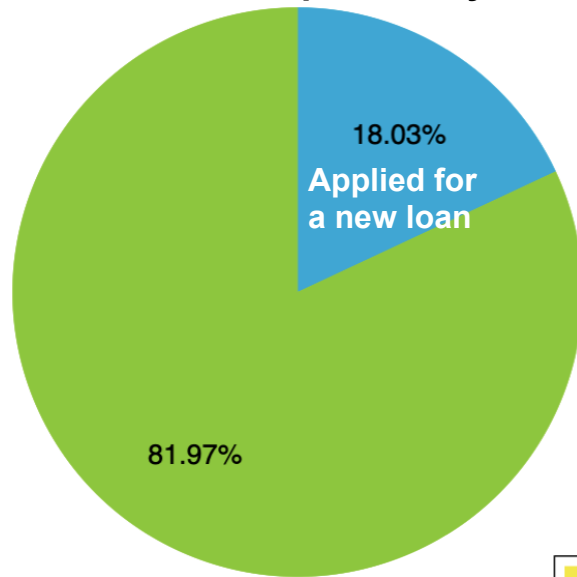


# Internal funding is the largest source of working capital for SMEs

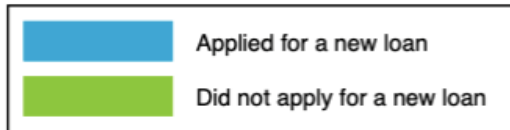


# Bank loan rejection rates are higher for SMEs compared to large firms

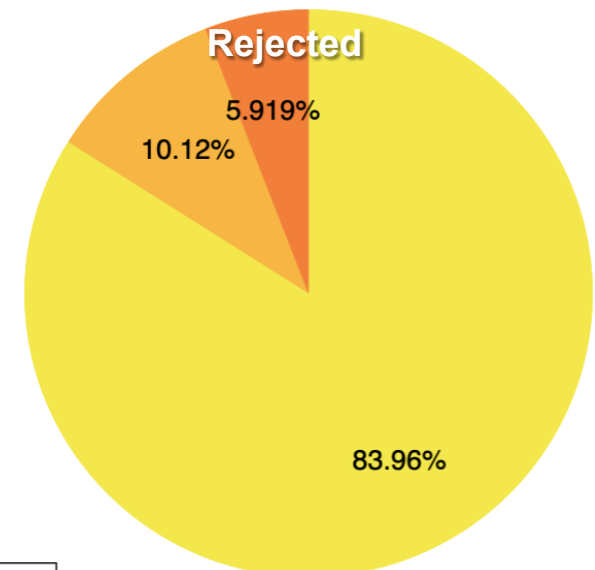
Proportion which applied for a new loan in the previous year



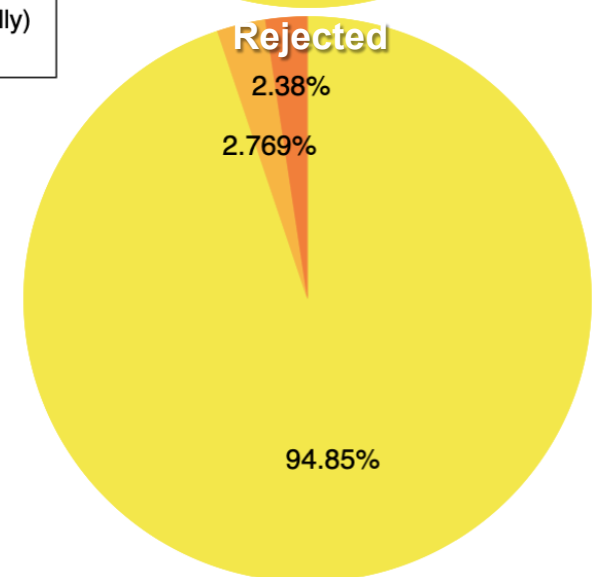
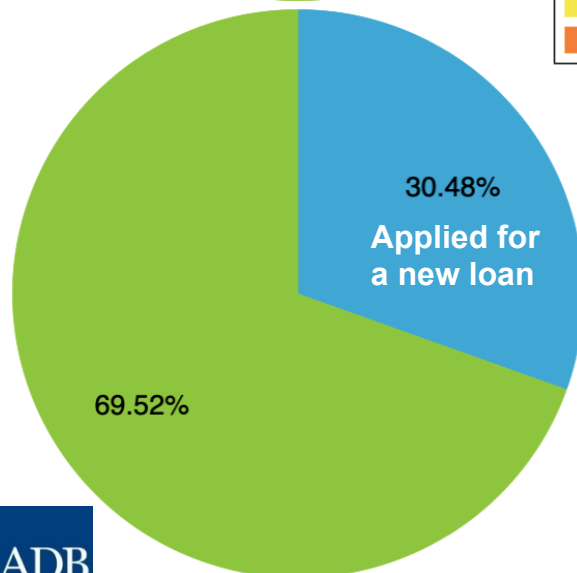
*SMEs in Asia*



Approval rate



*Large Firms in Asia*



Source: Author's calculation using the World Bank Enterprise Survey (using the latest surveys available for each country)





# Main Findings from the 2017 Trade Finance Gaps, Growth, and Jobs Survey

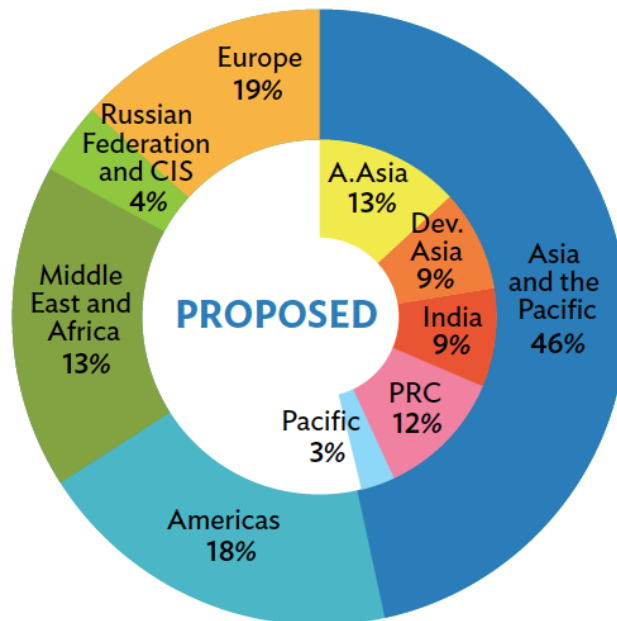
# Key Findings

- The global trade finance gap is estimated at \$1.5 trillion.
- 40% of the gap originates in Asia and the Pacific.
- 74% of rejected trade finance transactions come from SMEs and midcap firms.
- Female-owned firms report higher rejection rates, and are less likely to find alternatives in the formal financial sector.
- At least 36% of rejected trade finance may be fundable by other financial institutions.
- A 10% increase in trade finance could boost employment by 1%.
- 80% of banks report digitization will cut costs, yet no evidence that savings translate to additional trade finance capacity.

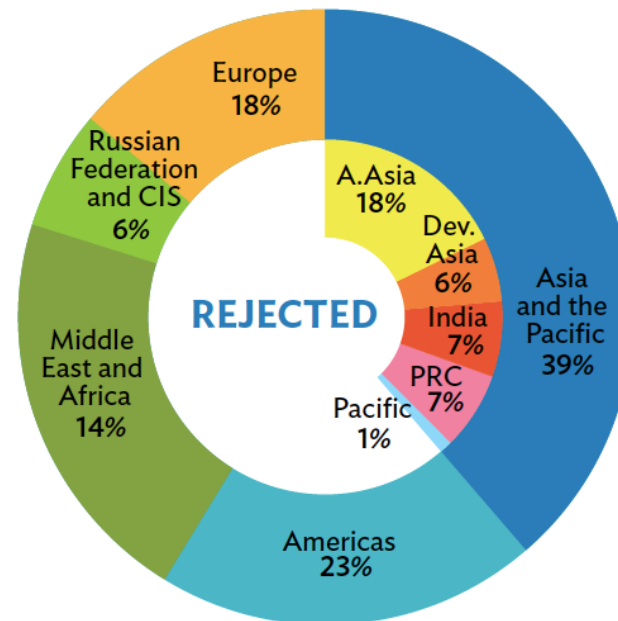
# Emerging economies continue to face the greatest shortfalls of trade finance

- Asia and the Pacific is the largest source of both proposals and rejections.

Regional distribution of PROPOSED trade finance transactions



Regional distribution of REJECTED trade finance transactions



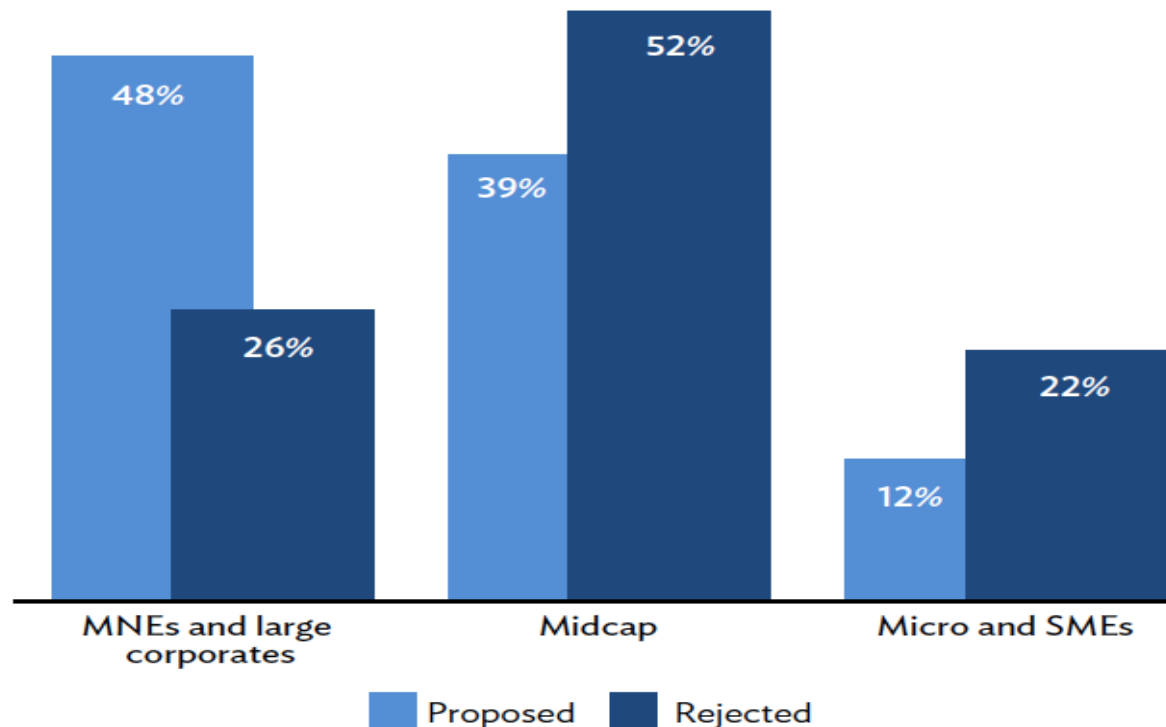
A.Asia= Advanced Asia (Hong Kong, China; Japan; the Republic of Korea; and Singapore); CIS= Commonwealth of Independent States; Dev. Asia= Developing Asia excluding the PRC and India; PRC= People's Republic of China.

Source: ADB. 2017 Trade Finance Gaps, Growth, and Jobs Survey.

# Micro and SMEs remain more underserved

- Banks report that 74% of rejections come from MSMEs and midcap firms.

Proposed and Rejected Trade Finance Transactions (by firm size)

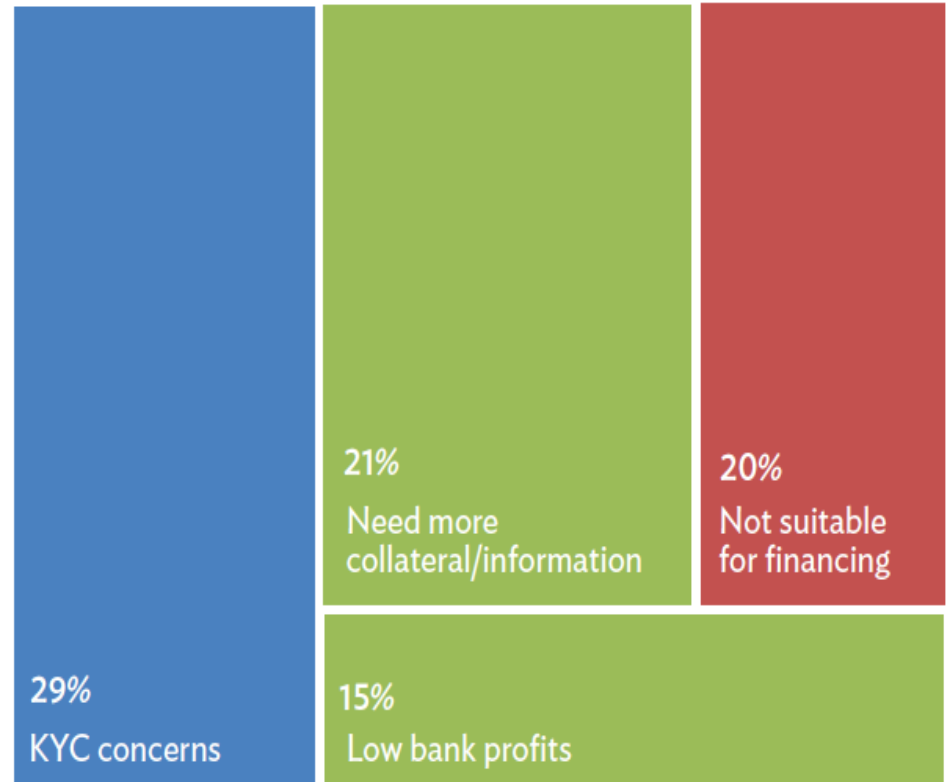


MNEs = multinational enterprises, SMEs = small and medium-sized enterprises.  
Source: ADB. 2017 Trade Finance Gaps, Growth, and Jobs Survey.

# Why banks reject trade finance applications

- About 36% of rejected trade finance transactions were considered viable.
  - Either low profitability (15%) or the need for additional client information or collateral (21%)
- These types of rejections may be fundable by other financial institutions such as fintech firms which have different requirements.

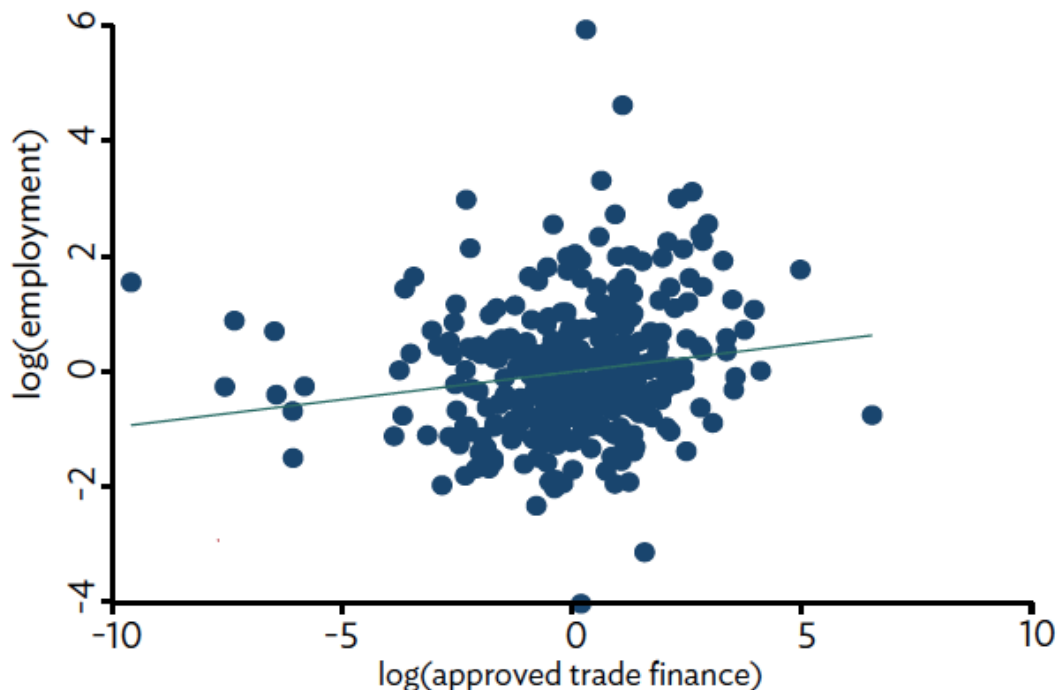
Reasons Banks Reject Trade Finance Applications (% of rejections)



Source: ADB. 2017 Trade Finance Gaps, Growth, and Jobs Survey.

# Firms receiving more trade finance are likely to employ more workers

## Impact of Trade Finance on Employment



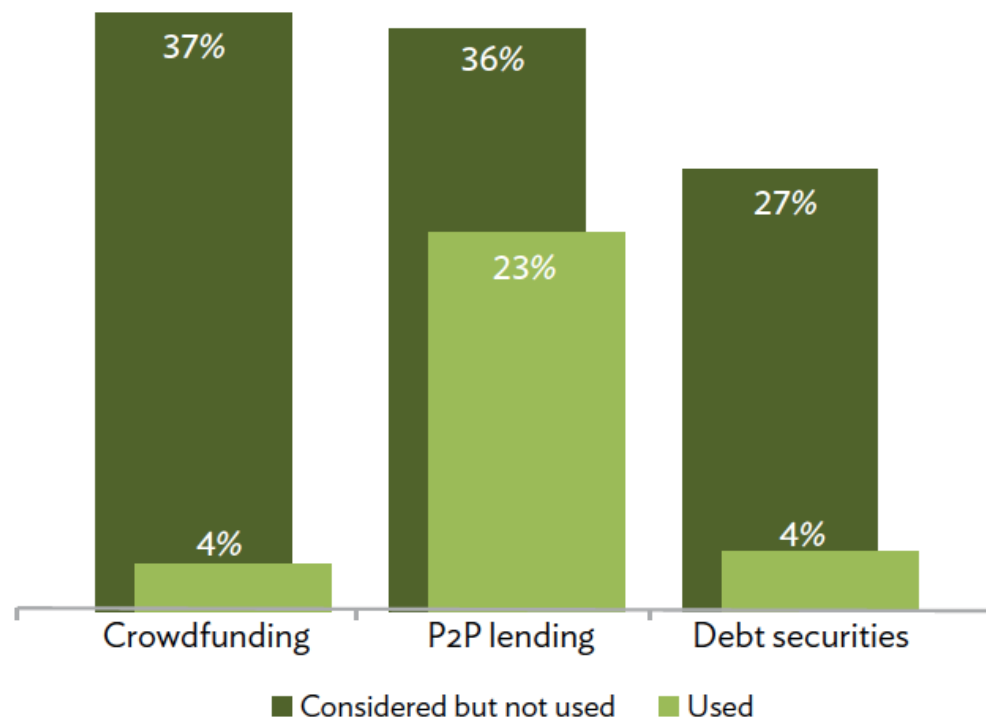
coefficient = 0.097, (robust) standard error = 0.037, t = 2.630

Note: A partial regression plot where the slope represents the percentage change in employment when amount of trade received increases by 1%, given other things equal. More details on the model are available at <https://aric.adb.org/2017TFSappendix>  
Source: ADB calculations using data from the 2016 and 2017 Trade Finance Gaps, Growth, and Jobs Survey.

# Use of digital finance platforms still limited

- Only around 20% of all reporting firms have used digital finance platforms.
- Among those firms, peer-to-peer (P2P) lending continues to be the type of fintech that was most used.

Use of Digital Finance Platforms  
(by type, % of respondents)



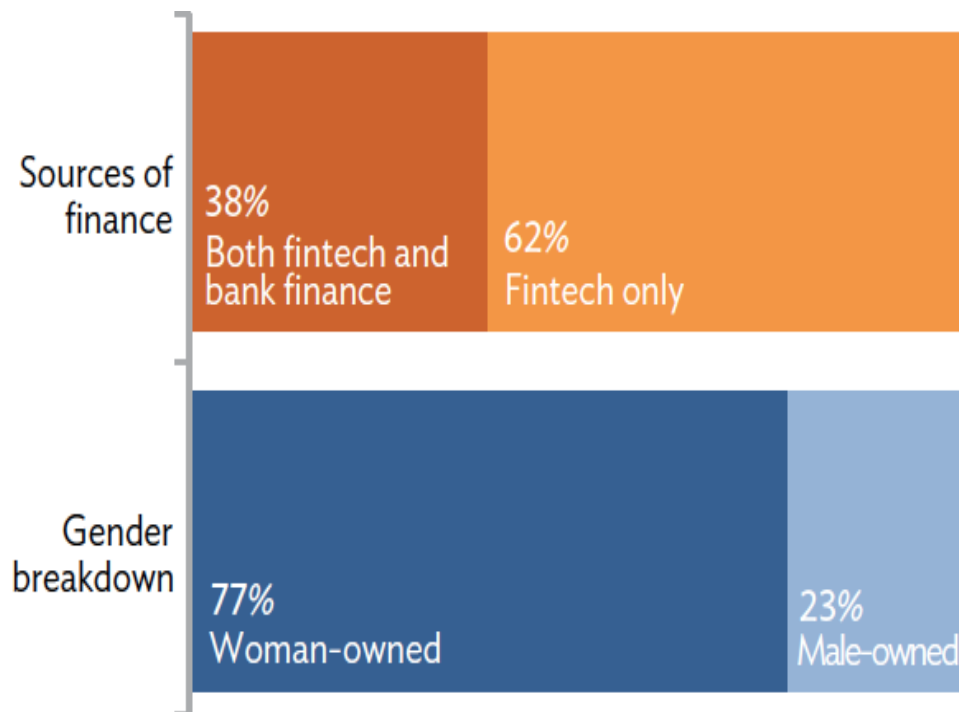
P2P = peer-to-peer.

Source: ADB. 2017 Trade Finance Gaps, Growth, and Jobs Survey.

# Fintech can help firms diversify financing

- Around 38% of firms that used fintech solutions also received bank finance, suggesting that fintech is being used to diversify firms financing.
- Woman-led firms are more likely to use fintech financing than the general population.

Profile of Fintech Users (% of respondents)



Note: Fintech defined as crowdfunding, peer-to-peer lending, and debt-based securities.

Source: ADB. 2017 Trade Finance Gaps, Growth, and Jobs Survey.



# Concluding remarks

- Narrowing of trade finance gaps will lead to more economic growth and job creation.
- Trade finance programs of MDBs play a role in reducing trade finance gaps
- More outreach to companies about “nontraditional” forms of trade finance can contribute to closing trade finance gaps.
- Harmonize digital standards in the financial and trade sectors
- Need for comprehensive and standardized data to conduct in-depth analysis on issues and challenges of trade finance



**Thank you**