

AID-FOR-TRADE CASE STORY: EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

EBRD Trade Facilitation Programme: Results of the Survey of Participating Banks

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OBJECTIVES, DESIGN and IMPLEMENTATION

Introduction

Since 1999 the European Bank for Reconstruction and Development (EBRD) has been an active provider of trade finance in countries of Emerging Europe and Central Asia through its Trade Facilitation Programme (TFP). The programme offers EBRD partner bank in countries of operations lines for guarantees and cash advances to banks' clients with the view to promote cross-border trade.

It is widely recognized that trade is an important driver of economic growth and job creation, both directly, by underpinning a vibrant services sector, and indirectly, through greater regional integration that enables businesses to exploit new opportunities and achieve efficiency gains. Trade is often facilitated by small and medium-sized enterprises acting as intermediaries (for instance, importers and distributors) creating employment opportunities for the less well-off and thus contributing to poverty alleviation.

Although trade opportunities may be relatively simple (import and distribution of working tools, for example), like with other businesses there is often a significant break in firm's cashflow between the moment when upfront payment for goods and services is made and when delivery and sales take place and revenues are collected. Entrepreneurs thus need substantial amounts of working capital to start and run a trade business. By facilitating access to finance, private sector may play a crucial role in promoting trade. The primary objective of TFP is to enhance the role of the private sector in supporting trade and to facilitate access to trade finance across the region of operations of EBRD.

The ten-year experience with the programme, surveyed below, suggests that TFP has been overall an effective facilitator of trade in the region, and that its main impact comes through technical assistance and training of staff of partner banks in the region, enabling partner banks to successfully develop specialized trade finance programmes and leverage multiple times the amount of EBRD investment.

Overview of the TFP programme

Under the guarantee product of TFP, EBRD provides credit enhancement in the form of a counter guarantee issued by the EBRD to cover the credit risks taken by international counterparties on the participating banks. Credit enhancement may be required for participating banks whose credit rating and / or track record are not sufficiently strong to be accepted by counterparty banks (confirming banks in other countries). Under the cash advance product, TFP provides credit lines to eligible banks for the purpose of on-lending to customers

to fund trade-related transactions.

These products are complemented by technical assistance in the form of training and technical consulting. Training is usually offered in basic or advanced trade finance practice. Consulting may include developing or redesigning the trade finance business model of a bank including changes to commercial policies and risk management practices, and upgrades of internal systems and procedures.

The key objectives of the trade facilitation programme are to foster trade both within the EBRD region and between the EBRD region and the rest of the world; to provide liquidity to the trade finance system; to assist participating banks in creating track records with international banks; and to strengthen banks' trade finance capabilities.

TFP was launched in six countries in 1999 with 10 participating banks, 18 confirming banks and a business volume of € 51 million. By 2008 TFP was active in 18 countries in the region, with 56 participating banks, 119 confirming banks, over 1,100 transactions and a total volume in excess of € 900 million. Over the period 1999-2008 a total of 124 banks from 22 EBRD countries of operations participated in the programme, including banks from Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Macedonia, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Mongolia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

RESULTS: SURVEY OF PROGRAMME PARTICIPANTS

Survey coverage

To obtain a better insight into the results of the TFP programme, in 2009 EBRD conducted a comprehensive survey of TFP partner banks in all countries of operations participating in the programme. The survey asked managers of the banks about their trade finance activities, their assessment of TFP and its impact on trade finance operations of their bank (both in terms of financial products and in terms of training and consultancy services). Responses were received from 65 banks in 16 countries representing a full range of participants in the programme from those who joined in the early years of TFP to those that joined recently. Of the 65 banks, 14 were subsidiaries of banks with headquarters in other countries. Responses were received from current participants of TFP programme as well as from former participants who were no longer among active users of TFP.

Institution building

The survey results strongly suggest that TFP training and consultancy services helped partner banks to develop trade finance operations and increase the level of technical expertise. Among the recipients of technical assistance and consultancy services, 69 per cent of respondents indicated that training and technical assistance led to very significant or significant improvements in accuracy of operation (versus only 4 per cent who reported no impact at all, the rest reporting some impact); two thirds reported a significant reduction in transaction processing time; half of the participants reported significant improvements in risk management practices associated with trade finance.¹

Almost all participants indicated an increase in product range offered as a result of participation in the TFP programme (with only 11 per cent not reporting any) and in the number of trade finance clients (with only 19 per cent reporting no such increase in response to participation in TFP). By 2008 TFP programme was managed by specialized trade finance departments in 42 per cent of the banks.

Competition and growth in trade finance

The survey also indicates an increase in competition in trade finance services across EBRD countries of operation. In particular, the proportion of banks who claim to have less than three direct trade finance competitors in their key market segment fell from 29 per cent in 2000 to less than 20 per cent in 2008.

According to the survey, banks tend to compete primarily on price of services, making trade finance more affordable for clients, but ability to offer longer tenors and less stringent collateral requirements were also

¹ Answers to qualitative questions about the impact TFP were typically given on a five-point scale corresponding to none – some – fair – significant – very significant.

cited as major dimensions of competition (by 45 and 53 per cent of respondents, respectively).

In line with growth in volume of international trade, volume of trade finance transactions expanded rapidly: in 2008 forty per cent of respondents saw their trade finance business volume top € 100 million compared with only 7 per cent in 2000.

The survey also reveals a commensurate increase in the number of transactions processed by TFP partner banks (with 15 per cent of respondents processing over 1,000 transactions annually compared with 5 per cent in 2000). Commensurate growth of the volume and number of transactions suggests that most programme participants continue processing very small transactions ensuring access of small businesses to trade finance – this has also been confirmed during follow-up field interviews with bank managers.

Nonetheless, in lesser developed countries in the region significant challenges remain: 12 per cent of respondents reported processing less than 25 transactions per year, a very low frequency for sustainable trade finance operations. However, this proportion was drastically lower than in 2000, at the start of TFP programme, when 55 per cent of survey respondents processed less than 25 trade finance transactions per year.

Sustainability

The results are also reassuring in terms of sustainability of trade finance operations developed in the context of TFP. According to the survey the proportion of participating banks fully relying on TFP for trade finance decreased from 14 to 2 per cent between 2000 and 2008. Of the banks using TFP guarantees, 63 per cent were able to obtain confirmation lines from banks not already in their network (resulting on average 6.5 new lines per participant) as well as obtain new “clean” (free of guarantees or collateral) lines from banks already in their network (on average 11 such lines per participant). Most respondents also reported increased values (on average by 40 per cent) and lower costs of such lines.

Support to exporters

Banks acknowledged a significantly stronger impact of TFP on import business compared with export business. This is perhaps not surprising, given that in most EBRD countries of operations medium-sized enterprises – key ultimate beneficiaries of the TFP programme – are much more likely to be importers than exporters. Nonetheless, approximately a quarter of banks participating in the guarantee programme and 47 per cent of banks participating in the cash advance programme reported a very significant or significant impact of TFP on the development of export business.

Environmental awareness

The survey also attests to the increasing environmental and social policy awareness among providers of trade finance. Three fifth of survey respondents confirmed that they have received environmental training as part of the TFP programme, and 44 per cent of respondents have a specific section on trade finance within their environmental policy.

CONCLUSIONS

The survey results suggest that participating banks view TFP programme as overall successful in terms of achieving its key objectives. In particular, TFP training and consultancy services helped partner banks to develop trade finance operations and increase the level of technical expertise and sophistication, and participation in the programme helped banks in EBRD countries of operations to expand their networks of confirming banks.