

I N T E R N A T I O N A L
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C O N S U L T I N G

**CONCEPT PAPER ON THE CREATION
OF A REGIONAL EXPORT CREDIT AND
FINANCE SCHEME**

Submitted to the Asian Development Bank

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TABLE OF CONTENTS

Introduction	1
Section I: Overview of Export Credit	3
A. What is Export Credit?.....	3
B. What is an ECA?.....	3
C. What is an EXIM Bank?	4
D. Main Models	4
E. ECA Market Segments	6
Section II: Asian Market Dynamics, Challenges, and Gaps.....	11
A. MLT Support for Asian Economies.....	11
B. Competitive Challenges	12
C. Gap Definition	14
Section III: Review of Existing Proposals	18
A. Introduction.....	18
B. Emerging Market ECA: Proposal	18
C. Export Finance Bank: Proposal	18
D. Other Market Proposals: APRI	19
E. Comparative Analysis of the Proposals	19
F. Gap Analysis.....	20
Section IV: Conclusions and Recommendations	21
A. Conclusions.....	21
B. Recommendations.....	22
Annex A: Illustrative List of Asian ECAs and EXIM Banks.....	26
Annex B: Survey – Asian ECA and EXIM Bank.....	27

INTRODUCTION

The purpose of this Concept Paper is threefold. First, to provide Asian Development Bank (ADB) and other relevant stakeholders with a more detailed understanding of the existing market challenges and gaps facing Asian exporters in the availability of internationally competitive export credit and export finance facilities. Second, to review and assess a number of recent proposals aimed at addressing these key challenges and gaps. Third, to draw conclusions and make recommendations for appropriate responses by ADB to both the challenges and gaps, as well as the proposed initiatives.

Recently, a number of government-supported or “official” Export Credit Agencies (ECAs) and Export-Import Banks (EXIM Banks) located in Asia have expressed the need for some kind of new “regional” ECA and/or EXIM bank which could fill perceived market gaps, and ensure that Asian exporters are able to compete on a more level playing field (see Annex A for an illustrative list of Asian ECAs and EXIM Banks). As explained later in this paper, “gaps” are strictly those in respect of the provision of medium to long term (MLT) export credit support to Asian exporters and investors;¹ and “leveling playing field” refers to the ability of these exporters and investors to compete internationally solely on the basis of price and quality of their goods/services, by neutralizing any competitive disadvantages relating to the price and quality of the associated export credit.²

Increasingly Asian economies depend on their official ECAs and EXIM Banks to help exporters become internationally competitive, particularly in the area of capital goods exports and for South-South trade. However, there are two perceived challenges for these official institutions to be internationally competitive, particularly vis-à-vis their official and/or private-sector counterparts in OECD countries: (i) the credit quality of their insurance or guarantees (a so-called “credit gap”); and (ii) their ability to mobilize in a cost effective manner the hard currency funds necessary to provide MLT export finance support (a so-called “funding gap”).

The credit gap and funding gap issues have drawn increasing attention, as evidenced by the number of representations made to ADB by a wide variety of private- and public-sector stakeholders. For example, during 2003, two major international banks independently approached ADB offering to help address some of the challenges they perceive exist in the short-term and MLT export credit and export finance market. One proposal argued in favour of establishing a new regional ECA, while another outlined the need for a regional EXIM Bank. ADB was also approached by other banks to discuss the need to address perceived market gaps in this area.

¹ Some gaps may exist in the provision on non-MLT export credit in Asia (e.g., short-term credit insurance, bonding, working capital, etc.). However, any such gaps that may exist are perceived as temporary, rather than structural, and are not addressed in this paper.

² Article 1.(b) of the OECD’s “Arrangement on Officially Supported Export Credits” (the so-called “OECD Arrangement”) describes a level playing field as “competition among exporters based on quality and price of goods and services exported rather than on the most favourable officially supported financial terms and conditions.”

Further, ADB was approached by the possible sponsors of the Asia Risk Exchange (ARX), a proposed multilateral initiative to facilitate the exchange of selected insurance risks within the region. This led to ADB working on a draft business plan for the Asian Political Risk Insurance Company (APRI), which looked at possible market gaps for political risk insurance (PRI) in project finance and short term trade credit in Asia.

In developing this Concept Paper, International Financial Consulting Ltd. consulted with a number of major public- and private-sector stakeholders and “thought leaders” active in the region. This included direct discussions, feedback on drafts of the Paper. All parties contributed helpful and thoughtful views regarding the perceived credit and funding gaps, as well as the means to best address these gaps.³

The Paper is divided into four sections. Section I provides a brief contextual overview of export credit, including the major international ECA models and the main ECA market segments. Section II focuses on the particular dynamics, challenges, and gaps of the Asian market, including issues relating to the credit quality of ECA cover and EXIM Bank funding cost. Section III reviews and analyzes the proposals in the context of the Asian market challenges and gaps identified in the previous section. Finally, Section IV presents conclusions and recommendations for the possible role of ADB in supporting the proposals and/or helping address the identified Asian market challenges and gaps.

³ A survey on the MLT export credit and export financing challenges faced by Asian ECAs and EXIM Banks has also been developed (see Annex C), which could assist with consultations with these entities in the event the ADB proceeds with the recommendations and next steps set out in Section IV.

SECTION I: OVERVIEW OF EXPORT CREDIT

Before reviewing the main types of ECA models and market segments, it is important to clarify a few basic concepts.

A. What is Export Credit?

The term “export credit” describes a range of facilities or schemes, and can mean different things in different contexts. Strictly speaking, export credit refers to (i) credit extended by exporters to importers (i.e., supplier credit), or (ii) MLT loans made by banks (or EXIM Banks), used to finance projects and capital goods exports (i.e., buyer credit). It includes credit extended both during the period before goods are shipped or projects completed (often referred to as the pre-shipment period or pre-credit period) and the period after delivery or acceptance of the goods or completion of the project (often referred to as the post-shipment period or credit period). Export credit is the main type of facility offered by an ECA.⁴

B. What is an ECA?

The traditional role of an ECA is to support and encourage exports and outward investment by insuring international trade and investment transactions. While no two ECAs are identical, they do share some common characteristics and mandates.

At the very basic level, the common function of an ECA is to take or provide cover to exporters, banks, or investors for political and commercial risks causing loss over a short, medium, or long term.

For export credit transactions, political risks are the risk of non-payment on an export contract or project due to action or failure by an importer’s host government. Such action may include intervention to prevent the transfer of payments, cancellation of a license or acts of war or civil war. Commercial risks arise primarily as a result of non-payment by a private buyer, commercial bank or a public buyer, due to default, insolvency or bankruptcy, or failure or willingness to take delivery of the goods (i.e. repudiation).

For foreign direct investments, ECAs (through investment insurance or PRI) can also cover political risks associated with expropriation, confiscation and nationalization without compensation, inability to convert and transfer profits and dividends, and the effects of war and civil war.

Most ECA export credit support is provided via insurance or guarantees, and there is little practical difference between these instruments. ECA guarantees are more similar

⁴ Stephens, Malcolm. *The Changing Role of Export Credit Agencies*, International Monetary Fund, 1999.

to insurance than typical financial guarantees. Typically, an insurance or guarantee policy embraces commercial and political causes of loss against specified risks or classes of risk and is therefore conditional. While insurance usually covers less than 100% of the risk, guarantees are usually for 100% of the risk.

C. What is an EXIM Bank?

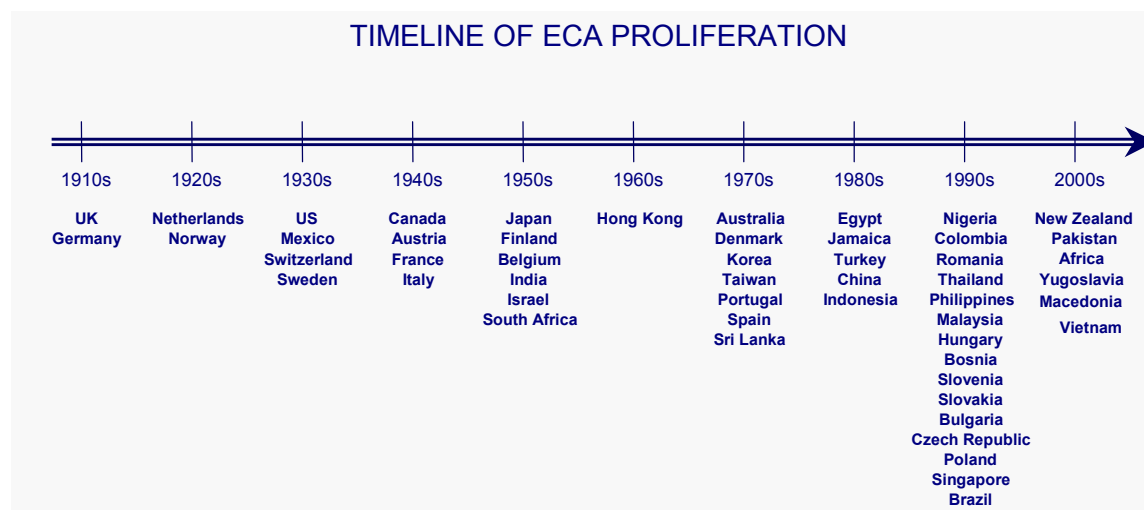
EXIM Banks support and encourage trade and outward investment by providing loans directly. The essential difference between an "ECA" and "EXIM Bank" is that ECAs take risks using another institution's (normally a bank's) balance sheet, while EXIM Banks take risks using their own balance sheet, with actual loans and liabilities.

Also, some EXIM Banks provide ECA-type export credit insurance and guarantees in addition to direct financing facilities. Annex A provides an illustrative list of Asian ECAs and EXIM Banks.

D. Main Models

Virtually every developed country and most developing countries have an official ECA and/or EXIM Bank.⁵ Each has been tailored to its own particular national circumstances.

The first ECA, Export Credit Guarantee Department (ECGD) of the UK, was established in 1919. By the 1970s, most major OECD countries had an ECA and, during the past 25 years or so, developing countries too have been actively establishing ECAs as an important tool for export development.



However, there is no single or perfect model or status or organization or, for that matter, structure for government involvement in an official export credit scheme. Nor is there a typical ECA and/or EXIM Bank.

⁵ According to Article 5.(a) of the OECD Arrangement, the term "official support" comprises: (i) export credit guarantee or insurance (pure cover); (ii) official financing support in the form of direct credit/financing and refinancing or interest rate support; and (iii) any combination of (i) and (ii).

Some countries provide export credit support via government departments, some via public corporations and some via private companies. Some countries have both ECAs and EXIM Banks. Some provide working capital facilities to exporters where the commercial banks are unwilling or unable to do so because of either capacity or cost. Some only offer export credit and some only investment insurance but most (at least of the larger agencies) do both. Some primarily underwrite political risks and some write primarily commercial risks, but most now cover both categories.

While no two official schemes are alike, they all support and encourage exports and investment by providing insurance, guarantees, loans, or some combination of these products. Four of the most common international models for described below. These models range from virtual entities managed remotely by third parties, to full-service multi-line institutions offering insurance, guarantees, and direct loans. From a product perspective, it is worth noting that while all models give rise to the provision of export insurance and/or guarantee instruments, only Model 3 (State-Owned/Independent Agencies) gives rise to direct lending activities.

Model 1: Private Company Acting as Agent

This is the model which applies in France, Germany, the Netherlands, and until recently, in South Africa. Typically, the government has an exclusive arrangement with a private company (e.g., COFACE in France, Euler-Hermes in Germany, Atradius (former Gerling-NCM) in the Netherlands) which issues MLT insurance policies as agent for the government. When acting as agent for the government, all risks are taken by the government. Most of the key decisions are taken by the government but it usually is the responsibility of the private company to make recommendations and to provide not only services for the issue of policies but also for the initial analysis of the risks involved.

Model 2: Government Department/Facility

Within the OECD countries, the United Kingdom and Switzerland operate their ECAs as government departments. In the UK, the Export Credit Guarantee Department is a separate Department funded through budgetary allocations responsible to the Secretary of State for Trade and Industry. In Switzerland, Export Risk Guarantees is part of the Secretariat for Economic Co-operation. In the case of New Zealand, the Export Credit Office comes under the authority of Treasury.

Model 3: State-Owned/Independent Agencies

The most common form of delivery for export credit facilities is via an autonomous institution, which is owned by the government. However, there are many different versions of this institutional arrangement, and many different product line variations. Some agencies provide only insurance (e.g. SACE in Italy and NEXI in Japan) while others provide only lending (e.g. JBIC in Japan). Many more are full-service institutions, combining both insurance, guarantees and lending under one roof (e.g. EDC, US Eximbank, and Phil EXIM). Meanwhile, only in the US and Germany is export credit and investment insurance support in separate institutions (i.e. US Eximbank and OPIC; Hermes and PWC).

Of note, this is the dominant model for official schemes in Asia, including stand-alone insurers, stand-alone lenders, and “full service” institutions (see Annex A for an illustrative list of these institutions in Asia). Also, the historical trend for these institutions in Asia is for different types of agencies to report to different government ministries. Typically, EXIM Banks report to their countries’ Finance Ministries, while ECAs report to Trade Ministries.

Model 4: Virtual ECA

A relatively new model, developed in New Zealand which re-entered the export credit market after having privatized its national ECA in the 1980s, is the “virtual” ECA. The Government recognized that it no longer had any underwriting expertise and, therefore, it outsourced this function to an agent. The Danish ECA undertakes the risk analysis and makes recommendations to the Government of New Zealand, while the Government’s role is to provide risk capital and take the risk.

E. ECA Market Segments

The market in which ECAs operate is made up of different segments, of which the three major categories are: (i) short-term export credit; (ii) MLT export credit (which comprises both MLT insurance/guarantees and well as direct financing); and (iii) investment insurance. Working capital facilities and bonding facilities are also provided by certain ECAs. Each of these categories is reviewed below.

i. Short-Term Business

Short-term business is the traditional product of export credit insurance. This is not surprising since at least 90% of world trade is conducted on the basis of cash or short-term credit. While there is no universally accepted definition for short-term business, in practice most short-term credit business involves not more than six months/180 days’ post-shipment credit.

Normally, both political and commercial risks are covered. The basic insurance will apply to risks which can arise after shipment/delivery of the goods and services, but most insurers also will consider providing cover against risks which can arise in the period between signing of contracts and shipment/delivery. The traditional product has been a framework or umbrella policy which will cover all or an agreed part of the exports of the insured party over an agreed period (normally one year). Individual transactions are handled under separate credit limits on individual buyers which can either be set by the insurer or agreed by policyholders under arrangements for discretion given by the insurer.

It is in this short-term area that the activities of the private sector have grown most substantially, and where there is now very significant capacity within the private reinsurance market.

ii. Medium and Long-Term Business

Within the ECA community, the conventional definition of medium-term business is insurance or financing transactions having a credit period of between one and five years; for long-term business, the traditional period is more than five years.⁶ These export transactions typically involve capital goods (e.g., aircraft, rolling stock, machinery and equipment, etc.) or projects (e.g., telecoms networks, port developments, highways, gas pipelines, power plants, etc.).

MLT business is now clearly the mainstream of official scheme activity in OECD countries and, more and more, in larger emerging economies with strong industrial bases. Unlike short-term business, which has proven increasingly attractive to private-sector insurers, MLT business still remains largely the domain of ECAs and EXIM Banks, and is growing in importance.

This is because commercial banks are not comfortable with MLT credit risks in emerging markets and therefore seek to mitigate their risks. Since the Asian financial crisis in the late 1990s, banks are more careful taking on MLT export finance assets notwithstanding ECA cover. The impending Basle II regulations may exacerbate this trend. For example, banks are often willing to fund a MLT export loan, but may be prepared to assume only a portion of the underlying credit risk. Similarly, a bank may find some/all of the credit risk acceptable, but needs to mitigate the transaction's political risk. This lack of comfort extends to Asian regional and local banks, which have little experience in MLT export finance because of their limited ability to participate in OECD ECA transactions in the past.

In most OECD countries, the emphasis for MLT export credit support has increasingly been on providing insurance and guarantees (rather than on direct lending). (This is mainly because banks are readily able to fund themselves for long terms in hard currencies.) This increasing focus on insurance and guarantees is noteworthy, as it highlights another crucial motivation of private-sector players in supporting export transactions: the underlying credit quality of the insurer. Credit quality of the guarantor/insurer dictates how much capital the insured bank must allocate against the insurance policy. This, in turn, affects the overall cost competitiveness of the export credit transaction. For example, under typical capital adequacy guidelines for banks in OECD countries an export credit guarantee issued by a AAA-rated, OECD-based ECA would carry a zero-risk weighting for capital allocation purposes.

Government involvement in MLT business has traditionally taken two forms – credit risk and official financing support, as discussed below. Both forms of government support are covered by the OECD Arrangement on Officially Supported Export Credits and are

⁶ The OECD Arrangement specifies maximum repayment terms for official support depending on country Category and industry sector.

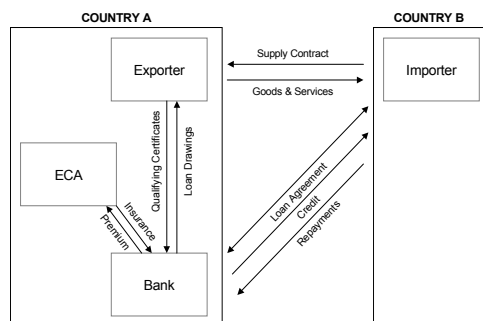
referred to in the WTO Agreement on Subsidies and Countervailing Measures (SCM Agreement).⁷

Credit Risk Support

The first form of support is in taking the commercial and/or political risks, usually through the provision of insurance or guarantees. As mentioned above, the distinction between commercial and political risks is important and it is not uncommon for lenders involved in export credit transactions to seek separate or additional PRI cover. Such PRI cover may facilitate the lender's credit committee approval of a transaction in an emerging market, or may serve as a risk mitigant when country risk limits are scarce.

The most common form of MLT credit in use today is buyer credit. As Figure 1 below shows, this involves not only a contract between an exporter and a buyer, but also a loan agreement with a borrower in the buying country. In most cases, a commercial bank in the exporter's country provides the loan and the export credit facility then either takes the form of an insurance policy or guarantee given to the bank. Where an EXIM Bank lends directly, this is equivalent to a buyer credit.⁸

Figure 1: Buyer Credit



In most cases, banks play a crucial facilitative and risk-sharing role in the delivery of export credit. As such, it is important to note the rapidly changing competitive landscape for the banking community. The increasing globalization of financial markets has resulted in fewer, larger banks with a desire to rationalize their service delivery model to ensure optimal deployment of scarce shareholder capital.

This gives rise to two crucial and inter-related implications for how many banks (particularly large banks with international networks) tend to pursue export credit business. First, driven by a desire to deploy capital as cheaply as possible, banks prefer export credit insurance/guarantees which are zero-risk weighted (e.g., from AAA-rated, OECD-based ECAs). Second, since ECA-guaranteed loan assets tend to be low-margin, long dated and capital intensive, banks seek creative ways of removing such

⁷ Annex 1 of the Illustrative List of the WTO SCM Agreement as items j and k. Item j refers to: "...premium rates which are inadequate to cover the long-term operating costs and losses of the programs....." Item k refers to: "interest rates provisions of the [OECD Arrangement] shall not be considered an export subsidy prohibited by this Agreement."

⁸ It should be noted that some larger firms have specialized captive financing entities which provide buyer credits.

assets from their balance sheets via such mechanisms as off-balance sheet securitization vehicles and instruments.

Official Financing Support

The second form of government support is what is referred to as “official financing support”. This is in the form of direct loans, refinancing or interest make-up schemes (IMUs). Most official schemes in OECD countries provide IMUs, since there are generally lenders willing and able to provide funding for the underlying export credit transaction. However, some exceptions include Canada, U.S., Japan, Korea, and Australia, which offer direct loans. Direct loans from EXIM Banks are much more prevalent in newly industrialized, emerging and developing countries, since Asian banks have far less capacity to fund transactions, especially for large amounts, in hard currencies or for long tenors.

Of particular importance to official financing support is the underlying cost of funding for the EXIM Bank providing the loan. Virtually all such schemes are funded by the national government, either directly or by way of guarantee of third-party funding.

As such, the credit quality of the EXIM Bank’s government will have a direct impact on the EXIM Bank’s ability to fund the loans that it makes to offshore buyers on a competitive and attractive basis. For OECD-based lenders, this has not been a significant issue since most of their respective government’s have AAA or near-AAA credit ratings. However, governments in emerging or developing countries have lower credit ratings, which directly impacts on the funding cost of their EXIM Banks. This funding cost differential between developed and developing country EXIM Banks is a potentially significant competitive issue.

iii. Investment Insurance

Investment insurance is another major market segment for most ECAs.⁹ Traditionally this insurance only covered foreign direct investment in the form of equity investments and shareholder loans against loss due to political risks. Since commercial risks were not covered, investment insurance became known as political risk insurance, or PRI by some. This, however, is distinct from and should not be confused with the political risk business underwritten as part of export credit insurance, which traditionally had the greatest share of political risk activity. In recent years, investment insurance has been provided to cover bank loans, as well as equity, and tenors have been extended in excess of 12 years.¹⁰

iv. Working Capital

Very few OECD official schemes are still involved in this market segment. Working capital is the financing required by an exporter to start or to continue to operate and to produce goods and services to be exported. A few ECAs are involved in the provision

⁹ Because this cover is not trade related, there should be no risk of distorting the playing field for exports, and thus this cover is not regulated by the OECD Arrangement.

¹⁰ The Berne Union has a committee which deals with overseas investment insurance, with a large number of official ECAs as members including OPIC, and NEXI, plus AIG and other private sector PRI providers along with MIGA from the World Bank Group.

of working capital (referred to as “pre-shipment finance”), offering guarantee facilities to banks or loans directly to exporters. In some developing countries, banks are not able to provide working capital to companies due either to a lack of capacity, or because of the cost of funding or bad debt provisioning. As a result, some ECAs provide working capital loans at what could be seen as subsidized rates. However, this is a difficult and high-risk area, especially if the exporter fails to perform its contractual duties and, as a result, is not paid by the importer.¹¹

v. Bonding and Guarantees

Most ECAs can provide cover to commercial banks that issue guarantees to buyers on behalf of exporters. The instruments can be in the form of tender, advance payment, bid, performance or retention bonds. A performance bond, for example, is a guarantee of the bank that the exporter will meet the terms of its contract with the buyer. A wrongful call on the bond will result in a claim paid by the ECA, if the call can be shown to be unfair for political reasons. Since the bank is taking the credit risk of the ECA that provides the cover (and not the exporter), the overall cost and value of the bonding/letter of guarantee instrument will be influenced by the credit rating of the ECA.

¹¹ The ECA's risk is somewhat mitigated by the fact that that an export contract exists with a buyer for which (in most cases) the ECA itself has provided credit insurance cover.

SECTION II: ASIAN MARKET DYNAMICS, CHALLENGES, AND GAPS

Having set out the international landscape of export credit models, market segments, and particularly how these relate to credit risk and funding risk issues for ECAs, it is now helpful to shift the focus to the Asian regional context. This section first examines the importance of internationally competitive export credit and MLT financing support for newly industrialized, emerging and developing countries in Asia. Then, we highlight the key competitive challenges faced by existing Asian ECAs and EXIM Banks with respect to their funding costs and the relative quality of their export credit guarantees and insurance. From these competitive challenges, we then define the specific gaps that may currently exist in the availability of internationally competitive export credit and export finance support and consider whether such gaps are structural or temporary.

There are three basic directions or dimensions of trade and investment patterns relevant to the competitiveness of Asian economies. These are generally referred to as North-South, South-North and South-South. Within each of these three trade and investment directions/dimension, exporters and investors are supported by countless private, public, and multilateral financial intermediary and risk management mechanisms provided by ECAs, EXIM Banks, IFIs, capital markets, commercial banks, and insurance companies.

Certainly, it is beyond the scope of this paper to address all of these dimensions and all of these mechanisms. Rather, the focus is on those market developments, challenges, and gaps most relevant to Asian exporters, ECAs, and EXIM Banks in the context of the MLT segment. While some gaps may exist in the other main ECA market segments described earlier (i.e., short term insurance, investment insurance, bonds, and working capital), any such gaps are viewed as temporary, not structural, and thus less important and pressing than perceived MLT gaps for Asian exporters and investors.

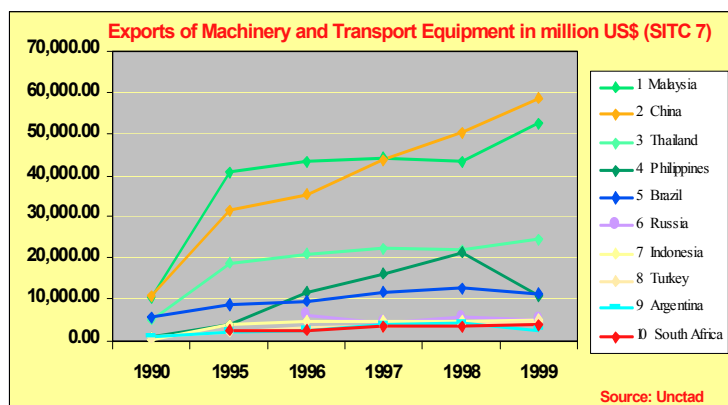
A. MLT Support for Asian Economies

Asian countries are becoming evermore highly integrated into intra-regional, inter-regional, and inter-continental trade and investment networks. For example, many Asian firms serve as critical links in global supply chains, particularly in sectors such as information technology. At the same time, the rapid industrialization of a number of economies, particularly following the Asian crisis of the late 1990s, has renewed demand for a broad array of infrastructure projects and other highly capital-intensive activities, such as port developments, transit systems, and telecoms networks.

Notably, the export of manufactured goods is quickly supplanting more traditional developing-country export staples such as food, agricultural raw materials, natural resources and fuel. Export of manufactured goods as a percentage of total developing country exports grew from 54% in 1990 to 66% in 1999. The figure below shows the

rapid growth in exports of machinery and transport equipment during the 1990s in major Asian countries.

Figure 2: Exports of Machinery and Transportation Equipment



As these sectors continue to grow in importance, the demand for MLT export credit and export finance grows as well. In some cases, the mere availability of MLT support may make the difference between an export opportunity being won or lost. In other cases, particularly for South-South and South-North trade, the all-in cost of the export credit may be a key factor in the overall competitiveness of the Asian exporter or investor. Any market circumstance which may limit the availability or impair the cost-effectiveness MLT support will likely have a negative impact on the economic growth prospects for the region in the near term and on the international business competitiveness and attractiveness of the region in the long term.

B. Competitive Challenges

Asian exporters face a number of competitive challenges relating to the cost and availability of MLT export credit. For example, for buyers or projects that do not have access to hard currency cash flows, local currency financing is crucial, but is either unavailable or of insufficient tenor or size. Further, buyer credit in hard currency may not be available, either due to transfer/convertibility risks or the funding capabilities of Asian financial institutions. Where such funding is available, foreign exchange fluctuation risk and other economic factors may render such financing prohibitively expensive over the term of the financing.

Even if a Asian or international bank is willing and able to consider funding an export transaction, attempting to cover commercial and political risks associated with the buyer by way of insurance or guarantees is highly problematic. In some cases, there is no ECA presence in the exporter's market (many emerging market ECAs are involved only in short-term supplier credit transactions). If an ECA is present, adequate cover may not be achievable. Even if cover is achievable, its cost may render the underlying transaction uneconomic for the banker, the exporter, or both parties. As a result, rather than an exporter's goods and services competing internationally on the basis of quality

and price, the playing field is tilted against the exporter from the outset on the basis of an inferior export credit package.

The competitive challenges for MLT export credit are perhaps best understood from the perspective of the main public- and private-sector providers of such support:

- Asian **EXIM Banks** face two distinct challenges in providing MLT support. First, since their government owners/funders have relatively weaker credit ratings, their cost of funding is higher than EXIM Banks and other MLT lenders in OECD and other developed markets. Second, they have more limited potential to risk-share or co-finance export transactions with other lenders or insurers, since there are fewer of these financial intermediaries available and less overall risk capacity in the Asian region.
- Asian **ECAs** face a credit challenge similar to EXIM Banks. The relatively weaker credit ratings of their government owners/funders extends to the credit quality of the ECA itself and, ultimately, to the guarantee and/or insurance cover they issue. Since the credit quality of Asian ECA cover is not as strong as the credit quality of similar cover from OECD-based ECAs, this impacts the lending bank as insured party. Also, some Asian ECAs pay their claims in local currency, whereas most export loans continue to be denominated in hard currencies (i.e., U.S. dollars, Euro, Yen), which results in foreign exchange exposure for the insured party. As a result, many of these ECAs tend to focus more on short-term credit insurance business, provided directly to Asian exporters, instead of MLT business, which is in favor of foreign banks and offshore buyers.
- Asian **commercial banks** face a number of barriers when asked to provide a buyer credit to support an exporter or buyer client. Compared to their counterparts in OECD countries, their weaker credit standing translates into relatively high funding costs. In many developing Asian countries, the relatively illiquid and unsophisticated nature of capital markets makes it difficult for Asian banks to fund for large amounts or long tenors. Moreover, access to hard currency funding or hedging instruments may be limited. In addition to funding constraints, there is a tendency for OECD-based ECAs and exporters to deal with international banks, particularly those with representation in their home countries.
- Finally, **international banks** face challenges working with all of the above entities in support of MLT transactions. Regarding ECA-related activity, these banks are used to booking AAA-rated, zero-risk weighted loan assets for transactions guaranteed by OECD ECAs. These have a low cost to the bank if kept on the balance sheet and may be transferable (e.g., by way of securitization, secondary market transactions, etc.) off the balance sheet if necessary. Since ECA cover from most Asian ECAs would result in the bank holding a more costly and risky loan asset, this is a relatively much less attractive use of the bank's limited balance sheet capacity. Moreover, the weaker credit quality of the loan asset makes it more difficult to transfer off the bank's balance sheet if/when necessary.

These above-noted factors make it challenging for Asian ECAs and EXIM Banks to provide competitively priced MLT export credit through loans, guarantees and insurance. This places Asian exporters at a disadvantage vis-à-vis their OECD counterparts.

C. Gap Definition

Prior to assessing the existence of gaps, it is important to be clear on what constitutes a “gap”. A market gap is, by definition, the unmet demand for a given product or service. However, the concept of a market gap is not straightforward. For example, it is crucial to take account of the difference between (a) the existence of a gap (i.e., lack of availability from existing sources of supply) and (b) the unwillingness or inability of firms to pay the price sought by suppliers.

In fact, there are perhaps three characteristics of gaps in the supply of a given product or service:

- (i) supply does not exist at all;
- (ii) supply does exist but is exceeded by demand; or
- (iii) supply may exist but at a price that firms are unwilling to pay.

For the purposes of this Paper, relevant “gaps” are strictly those in respect of the provision of MLT export credit support to Asian exporters and investors. As such, the gap analysis excludes from consideration any competitive advantages or disadvantages in such areas as cost of labour, transportation, etc.

Based on the above gap definition and characteristics, the competitive challenges described in Part B point to the existence of a **credit gap** and a **funding gap**, which: (i) impact the availability of internationally competitive MLT export credit and export finance support for Asian exporters in newly industrialized, emerging and developing countries, and (ii) could result in these exporters losing out on export opportunities to better supported competitors in OECD markets.

In addition to the credit gap and funding gap, there is another gap which has risen largely due to the timing discrepancy in the development of official schemes in Asian versus OECD countries. This has created an “experience gap”, which can result in a non-level playing field in such areas as underwriting quality, training, governance, and information.

These gaps create different competitive issues, and affects different market players. At the same time, these gaps have related causes and influences. Each is considered in turn below.

i. Credit Gap

The credit gap primarily impacts the activities of Asian ECAs and their financial intermediaries (i.e., international and Asian banks). This gap arises due to the relatively

weaker credit standing of Asian ECAs compared to their OECD-based counterparts. The weaker credit of the Asian ECA's cover negatively affects the quality and the attractiveness of the cover, as well as the overall pricing of the underlying export transaction. This gap is most directly and negatively felt by international and commercial banks, as it materially affects their ability (or desire) to provide funding for the MLT export credits.

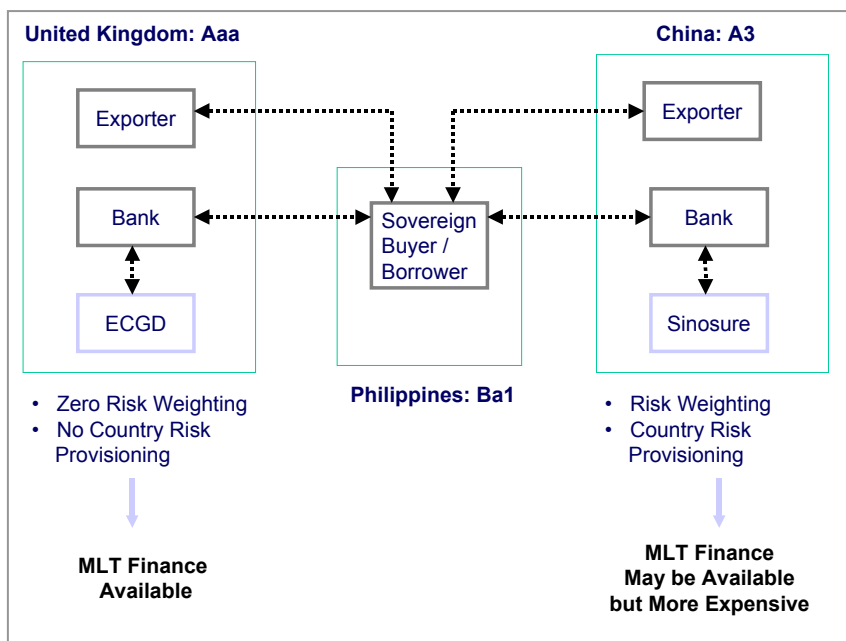
Further, it is important to note that the credit gap affects not only the commercial risk element of the cover, but also the political risk cover provided by ECAs. As noted earlier, it is increasingly common for banks to seek political risk cover on MLT loans for transactions in emerging and developing Asian countries; this is especially the case for infrastructure projects with long tenors and large exposures. However, since private-sector supply has been constrained by the ongoing conservatism in the direct PRI underwriting and reinsurance markets, more of the burden for such cover is falling on the shoulders of ECAs both within and outside the region.

The ECA cover provided by a non investment grade ECA can never make the export credit transaction investment grade: regardless of the guarantee, it will never be stronger than the creditworthiness of the ECA's government. This is a particularly important issue for project finance transactions, which often have tenors well in excess of 10 years.

At best, the lesser credit quality of Asian ECA commercial and political cover will drive up the overall cost of the export credit, since, for example, banks will have to allocate significant capital against the Asian ECA guarantee. At worst, the bank may decline to participate on the basis of insufficient quality of the ECA cover.

To illustrate, suppose there is a capital goods export opportunity to a sovereign buyer/borrower in the Philippines which is being competed on by two exporters, one in the United Kingdom and one in China (see the diagram below). Banks wishing to fund the transaction on the basis of MLT export credit cover have two options: (i) sourcing a guarantee from ECGD (the UK ECA) with a Aaa credit rating (implied based on Moody's Investors Service rating for U.K. sovereign risk), zero capital adequacy allocation, and no country risk provisioning; or (ii) sourcing a guarantee from Sinasure (the Chinese ECA) with a lower A3 credit rating (implied based on Moody's Investors Service rating for China sovereign risk), higher capital adequacy allocation, and country risk provisioning. Even if sufficient cover is available from Sinasure, clearly the bank will favour ECGD cover in terms of guarantee pricing and counterparty risk. As a result, the Chinese exporter faces an uneven playing field from the outset: instead of competing solely on the basis of price and quality of its goods/services, the exporter is disadvantaged by the price/quality of the associated export credit.

Figure 3: Importance of the Credit Quality of ECA to Banks



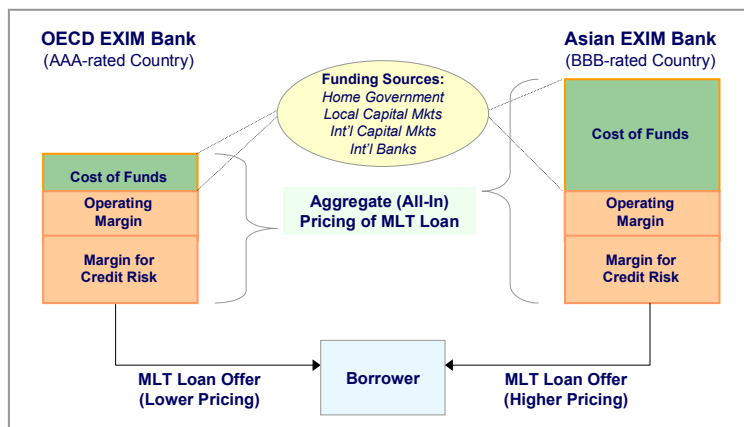
The credit gap described above is a structural phenomenon. The gap itself may narrow or widen based on a host of factors, including credit ratings, capital market conditions, economic conditions, etc. However, these fundamental conditions which create the gap are neither temporary nor easily resolved by existing market mechanisms.

ii. Funding Gap

The funding gap primarily impacts the activities of Asian EXIM Banks and Asian banks, and, to an extent, international banks. This gap arises primarily due to the cost or the availability of medium to long term capital to the actual funder of the MLT export credit.

For EXIM Banks which rely on funding from their governments, and for Asian banks which rely on funding from under-developed domestic markets or uncertain offshore markets, the relative high cost of funds results in smaller net financing margins to the EXIM Bank/bank or higher loan costs to the borrower, or both. Either way, as illustrated in Figure 4 below it is much more difficult for these entities to provide competitively priced MLT export credit.

Figure 4: Funding Cost Differential between OECD and Asian EXIM Banks



In addition to the cost, it is often difficult for Asian banks to source funding for sufficient tenors to match the required MLT support, particularly in the case of project transactions which can have extended repayment terms in excess of 12 years.¹² Alternatively, for international banks, aside from the credit gap issues discussed above, they may face issues such as the ability to source host-currency funds, or adequately hedge their exposures in accordance with their risk management requirements.

Similar to the credit gap, the funding gap exists because of both the availability and cost of accessing longer-term capital by the lenders of the MLT export credit. The availability is almost certainly a structural issue, since this is a circumstance beyond the control of the lenders themselves. The cost of medium to long term capital – at least for some lenders – could change by virtue of an improvement in a lender's credit strength. (For example, an improvement in a lender's credit rating would likely reduce its cost of borrowing in capital markets.)

iii. Experience Gap

As shown in the timeline in Section I, many OECD official schemes have decades more experience than their Asian counterparts. This experience gap, although less tangible than the credit and funding gaps, is no less important to the provision of Asian MLT export credit support. The gap, while prevalent across most Asian ECAs and EXIM Banks, will vary in degree by country and by institution. The gap is temporal, as long as effective mechanisms are developed and implemented to increase the experience and knowledge, and competencies of the Asian ECAs and EXIM Banks, as well as related stakeholders (e.g., governing ministries, etc.).

¹² ECAs that are not in countries participating in the OECD Arrangement could possibly exceed the 12 year maximum tenor for project finance transactions.

SECTION III: REVIEW OF EXISTING PROPOSALS

A. Introduction

During the past 12 months ADB has received various proposals for institutional structures to address the market challenges and gaps identified in Section II. This Section examines three significant proposals in order to assess objectively and comparatively: (i) what the schemes actually do; (ii) how they relate to one another; (iii) whether they address a defined need; and (iv) whether they should be linked, separated, sequenced, etc. Further, this Section considers the relevance of these proposals to the needs of the Asian region.

Prior to examining the proposals, it is important to bear in mind any potential institutional solution to the identified gaps should take full account, and “follow the grain”, of existing ECA schemes, private sector institutions, and market mechanisms. Further, it should be noted that each proposal reflects, to a large degree, the interests and motivations of its sponsor(s). An appreciation for some of these interests and motivations will help to provide context for, and more objectively analyze, the ideas presented therein.

B. Emerging Market ECA: Proposal

This proposal outlined the need for and activities of a Multilateral Emerging Market ECA (MEMECA).

MEMECA (or a modified virtual facility like EMEC) would generate benefits for market players:

- For emerging market exporters, it could help level the playing field vis-à-vis OECD-based exporters.
- For banks, its services could enhance their risk return profile for business activities in the coverage area.
- For private risk insurers, it could create potential for more co- and re-insurance arrangements to help the private sector diversify risks and consider taking on new and larger risk opportunities. There is also the possibility that MEMECA's/EMEC's status could provide some “umbrella” protection to private-sector insurers, thereby further reducing the risk associated with export transactions.

C. Export Finance Bank: Proposal

This proposal argues for the need for an Export Finance Bank (EFB).

Of particular benefit would be:

- EFB’s funding ability as an entity with strong credit standing, its “market staying” power, and product promotion capabilities;
- offering banks and other transaction originators in the region an outlet for securitization-type risk transfer without the cost and complexity of captive securitization vehicles; and
- an opportunity for transaction originators and other regional market participants to take an equity stake and governing role in EFB’s operations.

D. Other Market Proposals: APRI

ADB recently worked on a draft business plan for an entity called the Asian Political Risk Insurance Company (APRI), which would be a subsidiary of an entity called the Asian Risk Exchange (ARX).

According to the draft business plan, APRI could help facilitate and catalyze the flow of additional trade and investment in Asia.

E. Comparative Analysis of the Proposals

The proposals for MEMECA/EMEC, EFB, and APRI are all intended to address various challenges and gaps in Asian export credit activity. Ultimately, their goal is to facilitate more trade and investment in and between Asian markets (including South-South activity), by enabling existing market players do more business for the benefit of exporters and importers. There is also consideration of the need to “level the playing field” between the relative advantages enjoyed by OECD- and developed-country exporters, financial institutions, ECAs, and EXIM Banks and the disadvantages for similar players in newly industrialized, emerging and developing economies in respect of MLT export credit.

However, each proposal addresses these challenges from different directions. For example, the MEMECA/EMEC approach is designed to spur growth in long-term capital flows to the region, primarily from North-based banks and other financiers, but also from South-based entities. MEMECA/EMEC would do this by increasing the capacity of AAA-rated, zero-risk-weighted credit insurance and guarantees, which may would attract both more funding capacity from existing lenders and new capacity from new lenders.

By comparison, the EFB proposal has, as a primary focus, the goal of reducing the current and future amount of low-margin, long-tenor, ECA-covered MLT export credit loan assets on the balance sheets of banks and other trade finance entities by centralizing the funding for such transactions in EFB. This would free up banks to earn their fees more by originating, arranging, and structuring export credit transactions, while redeploying their balance sheet risk capital toward higher-return business opportunities.

Finally, the APRI proposal is focused on facilitating the exchange, diversification, and mitigation of political risks as these relate to trade and investment transactions in Asian markets. By pooling private, public, and multilateral risk capital and product know-how, it expects to be able to supply more political risk coverage to lenders and investors into more markets.

F. Gap Analysis

In addition to analyzing the proposals on a comparative basis, it is perhaps more instructive for the purposes of this Paper to assess them in light of their potential ability to address the structural market gaps identified in Section II (i.e., the credit gap and the funding gap) in the provision of competitive MLT export credit for Asian exporters and investors in newly industrialized, emerging and developing countries. The table below presents a summary assessment.

	MEMECA/EMEC	EFB	APRI
<i>Credit Gap</i>	<ul style="list-style-type: none"> ➤ As a primary or secondary guarantor could credit-enhance Asian ECA export credit guarantees, making them more attractive to funding banks 	<ul style="list-style-type: none"> ➤ No significant effect 	<ul style="list-style-type: none"> ➤ APRI, as an insurer could credit-enhance or reinsure Asian ECA export credit guarantees, making them somewhat more attractive to funding banks
<i>Funding Gap</i>	<ul style="list-style-type: none"> ➤ Guarantee of Asian ECA guarantees could make them more attractive and cost-effective to funding banks by ensuring AAA-rated, zero-risk weighted loan assets ➤ Direct export credit guarantees could catalyze additional funding capacity from international banks and other financiers 	<ul style="list-style-type: none"> ➤ EFB could directly fund or refinance EXIM Banks or Asian banks with insufficient funding capacity or sources, to enable more competitive funding of export credits ➤ EFB could directly fund the export credit, fund Asian banks, or co-finance with Asian banks, freeing up the banks' scarce balance sheet capacity ➤ EFB could purchase existing export credit assets from International banks, thus freeing up their balance sheet capacity to potentially fund new export credits 	<ul style="list-style-type: none"> ➤ APRI insurance could help banks mitigate country risk limits for export credits funded by them

SECTION IV: CONCLUSIONS AND RECOMMENDATIONS

A. Conclusions

No major structural gaps appear to exist in the areas of Asian short term credit insurance, working capital, and bonding. As such, the conclusions and recommendations presented below focus on the MLT export credit and export finance gaps. Based on the analysis presented in this paper, five important conclusions can be drawn regarding the export credit market challenges facing Asian exporters and investors in pursuing MLT business opportunities.

First, there are two critical market gaps which challenge the ability of Asian companies to compete on a level playing field with respect to MLT export credit packages. A credit “gap” arises due to the relatively weaker credit standing of ECAs in newly industrialized Asian countries as compared to their OECD-based counterparts. This gap impacts on the quality of the Asian ECA’s cover, and (ultimately) on the price competitiveness of the underlying MLT export credit. Further, this gap has the potential to render uncompetitive not only the commercial risk cover provided by the ECAs, but also their political risk cover.

There is also a funding gap issue. This gap arises due to the cost or availability of capital to the lender of the MLT export credit. Compared to OECD countries, the funding sources for Asian EXIM Banks and Asian commercial banks (i.e., home governments, capital markets, etc.) are costlier and less reliable. This makes it more challenging for Asian funders to provide competitive MLT export credits in terms of pricing, tenor, and other dimensions.

Second, the ADB has been approached by a number of potential stakeholders to help address the market gaps because it is seen to be a key player. Moreover, many are looking to the ADB’s leadership to develop solutions in a way that is both balanced and effective. The ADB plays a crucial and leading role in Asia’s socio-economic development; in doing so, it endeavours to cooperate with and complement the activities of local, regional, and international stakeholders. Also, it has a broad range of credit enhancement tools, technical assistance and other resources upon which it can draw to address specific market challenges and needs. Finally, its risk capacity and credit standing provide stability and comfort to public- and private-sector market participants.

Since the ADB plays such a leading role in Asia, it must bear in mind that -- whatever its role in developing or participating in solutions -- all other stakeholders, including other MDBs, will be closely watching. The ADB’s decision to pursue (or not pursue) a course of action will serve as a bellwether for other potential participants.

Third, whatever solutions are pursued, the ADB must ensure that the solutions “work with the grain” of existing public, private, and multilateral mechanisms, institutions, and frameworks. Ideally, any proposed solution should be a measured response to the market gaps, and positioned in a way that does not distort market characteristics, impede existing mechanisms, or operate in a part of the market which currently works well or in which existing players would otherwise be willing to operate.

In this respect, it is dangerous to leap immediately to “big bang” solutions (e.g., major new institutions) without first considering other more incremental approaches, as these can impose unintended adverse consequences on the existing institutional landscape.

Fourth, any solution supported directly or indirectly by the ADB must respect international guidelines dealing with export credit (i.e. the OECD Arrangement). This means that any support the ADB provides must be within the OECD Arrangement guidelines with respect to maximum tenors, repayment profile, minimum down-payments, minimum interest rates, minimum premium levels, etc. The other international agreement which must be considered is the WTO SCM Agreement, which requires premium at least to cover long-term operating costs and losses. Adherence to such guidelines will enhance the market acceptance and legitimacy of any solution supported by the ADB, even though it is debatable whether a multilateral agency like the ADB would be subject to these guidelines.

Fifth, in considering, developing, and implementing solutions, the ADB must take into account the motivations of the sponsors/promoters of a proposed solution. This will help ensure that solutions are designed with regard to addressing the structural gaps for Asian exporters and investors, as opposed to the temporal or operational gaps of market participants.

B. Recommendations

The credit and funding gaps as described in this paper are genuine issues which ultimately impact on the ability of Asian exporters and investors to compete on a level international playing field. However, it is important to keep in mind that each gap is distinct, with different causes and different effects. As such, any solution for each gap should be pursued independently of the other, but in close co-operation. That being said, solutions could (and probably should) be pursued concurrently, as the gaps are equally important and pressing issues for Asian trade and investment competitiveness.

Presented below are recommendations for addressing the credit gap and funding gap issues.

i. Recommendation – Credit Gap Issue

The creation of a MEMECA-like institution is not considered to be the appropriate first step in dealing with this gap. Such a “big bang” solution is not necessarily warranted without first considering other more measured approaches. The credit gap issue is

likely best addressed in an incremental manner, with a view to developing and refining over a period of time the appropriate financial and risk management mechanisms, and establishing a demonstrable track record of success.

Accordingly, through the revised EMEC Facility, ADB could start with bilateral support for transactions with individual Asian ECAs. This could be done via a structured PRG or the PCG Facility, with or without the counter guarantee or indemnity: depending on a number of factors including ADB's per borrower limits for private sector operations and the value ADB sees in the existing counter guarantee arrangements between the participating ECA and its government. In this regard, it is noteworthy that an Asian ECA carrying the full faith and credit of its home government has recently obtained multilateral agency cover for breach of contract risk, for the benefit of funding banks. Also, the ADB has an existing short-term facility, the Trade Finance Facilitation Program, which could potentially serve as a template for developing a counter-guarantee mechanism for MLT transactions.¹³

Eligibility criteria for such support will need to be defined and should take into account, *inter alia*, whether the Asian financial markets are considered open (e.g., is the country a signatory to the financial service sector agreement of GATS).

In evaluating the ADB's possible use of credit enhancement tools, it is crucially important to ensure that the commercial banks that fund MLT export credits in the region view any such instruments as effective and attractive. Ultimately, it is these banks, and their credit committees, which will decide whether a particular instrument works in this respect. As such, it is equally important to determine whether an ADB credit enhancement mechanism should be as "primary obligor" (i.e., a direct unconditional guarantee to the funding bank) or as "conditional security" (i.e., enforceable only after the funding bank exhausts all recourse against the participating ECA and its government). There may be important considerations for the banks in terms of capital allocation requirements, and attractiveness of the credit enhancement mechanism from a timing and risk perspective.

Once a bilateral framework and track record has been established on a pilot basis with one or two key regional ECAs, arrangements could be developed with a number of regional ECAs to invite them to also participate in the EMEC Facility. After a number of arrangements are in place, there could be consideration of the establishment of a more formal operating structure which could seek treaty reinsurance from the private market and from other participating ECAs in the EMEC Facility, thus creating a reinsurance pool. Eventually, there could be a valid case to establish MEMECA-like institutional capacity in order to formalize the multilateral arrangement and provide greater operational/financial stability for such export credit support mechanisms to grow.

Regarding investment insurance or PRI to support foreign direct investment into or within the Asian region, the analysis of the gaps for MLT business does not at this point

¹³ In practice, ADB would provide its PRG/PCG to credit enhance the Asian ECA in order to make the export credit transaction more attractive and cost-effective to the lender.

suggest that there are real structural market gaps for PRI. Moreover, there does not appear to be a sufficiently compelling case to justify a new stand-alone institution as suggested by the APRI proposal.

However, there could be value in exploring ways of generating greater market capacity for particular “sub-risks” such as terrorism (e.g., a facility for reinsurance of terrorism cover). As for the more traditional forms of PRI cover, given the number of existing schemes already in place (including ADB’s PRG), any incremental support from ADB should be in the form of reinsurance or through the use of “guarantor of record” arrangements, which should only be offered when clearly needed and justified (at least until such time as more detailed analysis demonstrates a clearer and more compelling market gap).

ii. Recommendation – Funding Gap Issue

The EFB proposal presents an institutional solution to the MLT challenges facing two main constituencies: (i) Asian EXIM Banks and Asian commercial banks; and (ii) international banks funding export credit transactions in Asia. However, a key question is whether EFB is addressing a structural funding gap issue for each of these constituencies.

In the case of EXIM Banks and Asian banks, EFB clearly does this: its support could help address pressing structural gaps regarding cost of funding, availability of funding, and risk capacity of the funder. As for international banks, the case is not as convincing: EFB’s greatest impact appears to be in helping free up the banks’ balance sheet capacity to pursue higher-margin business activities. This is arguably an operational issue, rather than a structural gap, for the banks. However, new Basle II regulations could give rise to structural gaps for the banks by making it more challenging to hold MLT emerging market loans.

Also, as stated in the Conclusions, it is important to ensure that solutions “work with the grain” of existing market mechanisms in a way that does not cause distortions or unintended adverse consequences. The creation of major new institutions (so-called “big bang” solutions) should only be considered if the alternative incremental solutions are less attractive in terms of effectively addressing the market gaps.

For example, one alternate suggestion is for the ADB to open a “discount window” to buy MLT export loans from banks, based on standard terms, documentation, etc. While this could potentially address some of the capacity issues for international banks, it does little to support Asian banks which often cannot fund the underlying export loan in the first place. Moreover, it has negative implications for the ADB in terms of tying up its own balance sheet capacity, or becoming effectively a “funder of last resort” for poor quality export loans.

Another possibility is to create some form of “virtual” EFB-like model. However, this approach would be less effective in helping international banks manage capacity issues,

or helping Asian banks raise MLT capital. Also, to the extent that it is important for EFB to acquire a high-quality credit rating, this is much more difficult if structured on a “virtual” basis.

Since these incremental approaches fail to adequately address the identified gap, the ADB should proceed to develop and refine an EFB-like institutional model to address the funding gap issue. The main objective should be on mechanisms to address the specific challenges facing Asian EXIM Banks and Asian banks, as this is a clear and pressing structural gap. Mechanisms targeting the challenges of international banks could also be considered (including, potentially, the issue of balance sheet capacity); if it can be shown that by correcting such gaps the banks would support incremental MLT export credits. Moreover, even if it cannot be fully demonstrated that structural gaps exist, there could be valid and important ancillary reasons for an EFB-like entity to acquire OECD ECA-guaranteed export credits from international banks, such as building an initial “critical mass” of high-quality financial assets for the purposes of obtaining a desired credit rating and/or generating a revenue stream in order to fund operating costs.

The ADB could be a cornerstone, catalytic investor and sponsor of an EFB-like initiative, via a private sector operation in the form of equity or subordinated debt forming tier 2 capital.

iii. Recommendation – Experience Gap Issue

To address this gap, technical assistance could help, although such assistance should be based on a comprehensive needs analysis, supported by detailed consultations and analysis by experts in the field of international export credit systems. This needs analysis could then be translated into a training program, tailored to the specific needs and circumstances of individual institutions and countries. In doing so, previous training programs (such as APEC’s “Capacity Building Program for Trade and Investment Insurance Practitioners”) should be carefully reviewed in order to avoid duplication.

Also, in assessing the various experience gaps, it should be noted that some Asian ECAs and EXIM Banks attend the Prague Club¹⁴, which may influence their level of experience and capability.

¹⁴ Prague Club: A group of newly formed ECAs which meet under the auspices of the Berne Union. It was set-up in the early 1990’s to facilitate the development of the newly formed East European ECAs through funding from the EBRD. It has grown to include members from other continents, including Asia, and is seen now to be a “mini Berne Union” for those ECAs who have not yet met the criteria for membership into the Berne Union.

ANNEX A: ILLUSTRATIVE LIST OF ASIAN ECAs AND EXIM BANKS

Country	Entity Name	ECA (Insurance)	EXIM Bank (Loans)	Full Service (Ins/Gtees/Loans)
Bangladesh	SBC ECGD	*		
China	The Export-Import Bank of China		*	
	Sinosure	*		
India	Export-Import Bank of India		*	
	Export Credit Guarantee Company	*		
Indonesia	Bank Ekspor Indonesia		*	
	ASEI	*		
Japan	Japan Bank for International Cooperation		*	
	Nippon Export and Investment Insurance	*		
Korea	The Export-Import Bank of Korea		*	
	Korea Export Credit Insurance Corporation	*		
Malaysia	Export Import Bank of Malaysia Berhad		*	
	MECIB	*		
Philippines	The Export-Import Bank of the Philippines			*
Thailand	The Export-Import Bank of Thailand			*

ANNEX B: SURVEY – ASIAN ECA AND EXIM BANK

The survey presented was sent to a number of Asian ECAs and EXIMs; however, only Phil EXIM replied. It is expected that this survey could assist with further consultations with Asian ECAs and EXIMs in the event the ADB proceeds with the next steps outlined in Section IV of this paper.

International Financial Consulting Ltd. is conducting a study for the Asian Development Bank to examine the challenges faced by Asian ECAs and EXIM Banks to provide internationally competitive export credit and export finance support. A major focus of the study is on the challenges of supporting trade of capital goods from one Asian country to another, particularly in light of competition from exporters and ECAs in OECD countries and other developed markets. As part of its study, International Financial Consulting Ltd. is conducting a survey of Asian ECAs and EXIM Banks.

Instructions for Completion

This survey should take approximately 20 minutes to complete. Please respond using the tools below, and return to us by pressing SUBMIT at the bottom of the survey by March 8th, 2004. All responses are confidential.

PART 1: GENERAL INFORMATION

1. Name of Institution: _____

2. Location of Institution:

Address: _____

City: _____ Country: _____

3. Institution's Product Offering:

Loans:

Short-Term

- Domestic
- Export

Medium/Long-Term

- Domestic
- Export

Insurance/Guarantees:

- Short-term
- Medium/Long-term
- Investment insurance / Political risk insurance
- Other: _____

4. Which best describes your institution’s main area(s) of activity? (check one or more boxes)

- supporting exports from your country
- supporting imports to your country
- supporting exports from your country to other emerging/developing regions
- supporting imports from other emerging/developing regions to your country
- supporting exports from your country to OECD countries or other developed countries
- supporting imports from OECD countries or other developed countries to your country
- other: _____

5. Does your institution see itself as the “official” ECA of its country?

- Yes
- No

6. Does your institution comply with the OECD Arrangement in respect of its activities?

- Yes
- No

PART II: EXPORTS

7. Approximately what is the value (in US \$) of annual capital goods exports from your country?

8. To which destinations?

- OECD
- Asian
- Other emerging markets

9. What are the main factors that influence your institution’s ability to support export transactions?

	No Influence			Much Influence		
Your Institution’s Credit	0	1	2	3	4	5

Standing/Rating						
Your Institution's Cost of Funding	0	1	2	3	4	5
Your Institution's Capitalization	0	1	2	3	4	5
Economic Conditions (Domestic/Foreign)	0	1	2	3	4	5
Competitor Activities	0	1	2	3	4	5
Other: _____ _____	0	1	2	3	4	5

Please elaborate:

10. Do you expect any changes in the near term in your institution's typical coverage, and, if so, what external and internal factors are driving these changes?

PART III: UNDERWRITING APPROACH

11. Describe your institution's "typical coverage" for medium/long-term export credit/finance business (e.g., 100% guarantee, 95% insurance, etc.).

12. Does your institution offer only "pure cover" (i.e. no direct lending and/or interest make-up arrangements)?

- Yes
- No

13. Aside from your institution, what sources of credit and risk management support are available to Asian exporters or importers of capital goods? (check one or more boxes)

- Offshore ECAs or EXIM Banks
- International capital markets
- Asian capital markets
- International banks or other financial institutions

- Asian banks or other financial institutions
- International private credit insurers
- Asian private credit insurers
- Other: _____

14. In terms of export credit and insurance support, do you perceive that Asian exporters/importers of capital goods enjoy a “level playing field” (i.e. internationally competitive) compared to similar entities in OECD or other developed countries/regions?

- Yes
- No

Please elaborate:

15. If you answered “no” above, please provide an example of an export opportunity that was lost due to this absence of a “level playing field”? (References to customers and transactions can be generic so as to not disclose commercially confidential information.)

16. What are your main challenges in delivering competitively priced financial products in support of your customers? (check one or more boxes)

- Limited access to third-party funding sources
- High cost of third-party funding
- High cost of internal funding
- Limited availability of risk-sharing partners
- Limited range of Asian capital markets instruments
- Other: _____

17. In terms of their support for medium/long-term export/import transactions, how would you rate *Asian commercial banks* on the following dimensions?

	Very Poor			Very Good		
Risk Capacity (Overall)	0	1	2	3	4	5
Risk Capacity (Per Transaction)	0	1	2	3	4	5
International Scope of Activities	0	1	2	3	4	5

Range of Financial Products	0	1	2	3	4	5
Structuring/Arranging Expertise	0	1	2	3	4	5
Knowledge of Foreign Markets	0	1	2	3	4	5
Cost of Funding	0	1	2	3	4	5
Credit Rating/Credit Standing	0	1	2	3	4	5
Desire for Partnering/Risk Sharing	0	1	2	3	4	5

18. In terms of their support for medium/long-term export/import transactions, how would you rate *international banks* on the following dimensions?

	Very Poor			Very Good		
Risk Capacity (Overall)	0	1	2	3	4	5
Risk Capacity (Per Transaction)	0	1	2	3	4	5
International Scope of Activities	0	1	2	3	4	5
Range of Financial Products	0	1	2	3	4	5
Structuring/Arranging Expertise	0	1	2	3	4	5
Knowledge of Foreign Markets	0	1	2	3	4	5
Cost of Funding	0	1	2	3	4	5
Credit Rating/Credit Standing	0	1	2	3	4	5
Desire for Partnering/Risk Sharing	0	1	2	3	4	5

19. Do you believe your institution may be losing out on transaction opportunities with banks or financial institutions because of an inability to provide guarantees or insurance on a zero-risk-weighted basis? If Yes, Please explain.

- Yes
- No

PART IV: GENERAL COMMENTS

20. Please provide any additional comments you feel may be relevant to the subject of this study:

21. If you would like to discuss these topics further with International Financial Consulting Ltd, please provide the following information:

Name of Respondent: _____

Phone Number: _____

Email Address: _____

Thank you for your participation

[\[Submit\]](#) [\[Reset\]](#)