UN Financing for Development review brings welcome focus on trade finance gap

The UN review of the trade financing gap is a welcome step in addressing this chronic problem, the International Chamber of Commerce writes

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Short-term financing is an essential tool to support small business growth and sustainability, yet a growing trade finance shortfall hurts companies and countries that need it the most. World trade relies heavily on reliable sources of financing—both long-term (for capital investments) and short-term. The latter—commonly referred to as 'trade finance'—is the basis on which a significant proportion of world trade operates.

In trade finance, banks help mitigate traders' risks by bridging the time-lag in international transactions between the manufacture of goods, shipment and the receipt of payment. Such bank-intermediated transactions now represent more than a third of all world trade, equal to trillions of dollars each year.

US$1.6 trillion shortfall

Access to trade finance is generally recognised to be key to both the future outlook of global growth and the fulfilment of the United Nations (UN) Sustainable Development Goals (SDGs). A shortage of trade finance hurts small- and medium-sized enterprises (SMEs) the most, which represent around 95% of the world's companies and 60% of private sector jobs.

The UN has consistently recognised the importance of guaranteeing access to trade finance for development. In the 2015 Addis Ababa Action Agenda, UN members acknowledged that a *"lack of access to trade finance can […] result in missed opportunities to use trade as an engine for development".*

Recent studies have pointed to a US$1.6 trillion shortfall in trade finance globally that has in fact grown since the peak of the 2009 financial crisis—with the biggest gaps provision hitting developing and emerging economies in Africa and Asia. Moreover, ICC research suggests that almost 60% of applications for trade finance turned down by banks come from SMEs, suggesting that entrepreneurs and small business owners are particularly impacted by this trend.

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What's behind the gap?

According to the *2016 ICC Global Trade Finance Survey*—the largest industry survey of its kind—the now chronic trade finance shortfall is largely due to the unintended effects of global financial crime regulation.

ICC fully recognises the systemic importance of robust and well-targeted financial crime controls. Indeed, considerable progress has been made by the financial sector in addressing the risks posed by money laundering, terrorist financing, corruption and sanctions issues. However, the increasing complexity of global financial crime regulation—and associated regulatory and reputational risks—has resulted in banks adopting an extremely cautious approach to managing risk and as a consequence are reducing and exiting certain types of business.

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On the basis of ICC's engagement with the UN and national governments over recent weeks, the UN has also committed to carry out an official review of the trade financing gap and its underlying causes

Recent studies have confirmed these findings, showing that many global banks have begun to exit correspondent relationships with a significant number of banks in jurisdictions that are perceived as being high-risk. Some countries have been hit especially hard by this trend. In Argentina, for example, the number of correspondent banking relationships—bilateral agreements to handle basic trade-related services such as international payments or letters of credit—held by Argentinian banks dropped from 64 in 2009 to just 13 in 2016. A dozen countries are now down to a single correspondent banking relationship and risk being entirely cut off from the international finance system—including the Central African Republic, Nicaragua and the Solomon Islands.

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A call for UN action

The systemic issues raised by the erosion of the correspondent banking relationships on which trade finance depends are global in nature and require a globally coordinated response.

On this basis, ICC called on participants at the 2017 Financing for Development Forum—which took place last month in New York—to commit to an urgent UN-led review of the trade financing gap, with a particular focus on possible means to reverse the on-going erosion of international correspondent banking networks.

Having called for an urgent UN-led review of the trade financing gap, with a particular focus on possible means to reverse the on-going erosion of international correspondent banking networks, ICC welcomed official recognition of the estimated US$1.6 trillion trade financing gap in an intergovernmental text issued on the conclusion of the Forum.

In the text, the UN underscores the importance of ensuring adequate and cost-effective trade financing for small businesses and entrepreneurs – noting severe shortfalls in provision *"reported by the Asian Development Bank and the International Chamber of Commerce".*

Welcome progress

On the basis of ICC's engagement with the UN and national governments over recent weeks, the UN has also committed to carry out an official review of the trade financing gap and its underlying causes. This will form part of the UN's annual assessment of progress in mobilising finance to support sustainable development, with findings and recommendations to be issued in April 2018.

Following the release of the annual UN FfD review, ICC Secretary General John Danilovich said:

> *"We know that small businesses face increasing difficulties accessing bank finance to support international transactions. This means lost opportunities to use the international trading system to support inclusive growth and job creation – particularly as the internet opens up opportunities for many small businesses to trade internationally for the first time."*

Danilovich said that the decision to mandate an official UN review of the estimated US$1.6 trillion trade financing gap was a welcome step in addressing this now chronic problem.

> *"This is a complex global problem requiring a concerted global response in the context of the UN's 2030 Agenda for Sustainable Development,"* he said. *"ICC will continue to engage fully in this process, utilising its unique Observer Status within the UN system."* ■

The International Chamber of Commerce is the largest business organisation in the world with hundreds of thousands of member companies in over 130 countries

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