



TRADE FINANCING AND COVID-19

We are writing to draw attention to the significance of the growing trade finance gap and suggest possible avenues for private and public sector actors to work together to reduce it.

Mind the Trade Finance Gap

The restoration of cross-border trade will undoubtedly be vital in driving a global economic recovery in the wake of the COVID-19 pandemic. A return to trade-led growth will hinge on creating enabling conditions for businesses to import, export and service international markets.

A critical element of an enabling trade environment is the availability of trade finance. Globally, a significant share of trade is financed by some form of credit, guarantee or insurance – meaning that most businesses will need cost effective trade-related credit to support the recovery of both imports and exports. This will be a challenge; the ICC conservatively estimates that financing capacity ranging from a lower end estimate of USD2trn to an upper end estimate of USD5trn will be needed to meet this demand.

This comes in a context of a structural shortfall of trade finance: in recent years, the Asian Development Bank estimated the global trade finance gap to be in the order of US\$1.5 trillion, with developing countries and MSMEs being the most affected by the shortfall. As the greater need for trade finance materializes with increased demand for trade transactions, providers of trade finance will face a deterioration of the risk and of its perception, which in turn could further deteriorate supply and lead to increased gaps in provision.

We are concerned that further gaps will have a disproportionate effect on actors in the global economy hardest hit by the economic effects of COVID-19: micro-, small- and medium-sized enterprises (MSMEs) and businesses in developing and least-developed countries.

In this respect, we welcome the joint statement of heads of international institutions of 1 July pledging increased trade finance support to developing countries and smaller businesses. Such support will help the private sector share the risk of operating in economies most in need during the recovery.

Finally, the trade finance situation would be eased if the trade finance industry could further move away from labour intensive paper-based transactions, which are not practical in the COVID-19 context. In many jurisdictions, this will require greater clarity on the use of electronic equivalents in national legal systems. The private sector is committed to work with national governments towards such clarification.

How to Fill the Gap?

We acknowledge that the private sector is the main provider of trade finance. Despite current challenges, trade finance suppliers are encouraged to support trade globally bearing in mind its favourable risk profile, even in period of crisis.

We also welcome the many positive emergency measures that many central banks, governments, development banks and regulators have taken since crisis unfolded, and which helped stabilize the situation in trade finance markets.

Given the scale of the shortfall, the public and private sectors should work together to:

1. **Enable a rapid transition to paperless trading** by: (a) making progress in removing legal requirements for trade documents to be in hard-copy paper format; and (b) fast-tracking the adoption of the UNCITRAL Model Law on Electronic Transferable Records to provide a sound legal basis for the use of e-documents in the processing of trade finance transactions.
2. **Exchange views on how regulatory authorities could help** mitigate constraints hindering the deployment of essential trade finance— particularly to MSMEs.
3. **Share risk to support trade finance during this period, especially among export credit agencies, multilateral development banks, and private sector banks, including in the short-term segment of the market.**
4. **Further scale development bank schemes, if possible,** to provide risk mitigation and liquidity for trade finance transactions, especially in countries that need it the most.

Given the scale of financing required to support a rapid rebound in global trade flows— which may potentially reach the upper end of the ICC estimate of US\$5 trillion—we encourage all actors to take proactive steps to prime the trade finance market to ensure it can play a central role in driving a post COVID-19 recovery. Timely interventions will be especially vital to ensure that MSMEs have continued access to reliable, adequate and cost-effective sources of trade financing—not only to weather the crisis, but hopefully to emerge from it stronger than ever.