

## International Cooperation vital in addressing Trade Finance gap: WTO & IFC

According to a co-publication: **Trade Finance and the Compliance Challenge** launched by the WTO and the International Finance Corporation (IFC), the lack of availability of trade finance is severely hindering the trade opportunities of small businesses, in developing countries in particular. The study looks into the reasons for the growing reluctance of the global financial sector to engage in this form of financing and presents case studies of capacity-building programmes organized by the international community to address this issue.

### **Executive Summary**

- Up to 80% of trade is financed by credit or credit insurance but availability of finance varies across regions. A lack of trade finance is a significant barrier to trade, particularly (but not exclusively) in developing countries.
- Small and medium-sized enterprises (SMEs) face the greatest hurdles in accessing affordable financing. The poorer the country in which they are based, the greater the challenges SMEs face in accessing trade finance. 75% of rejected requests for trade finance relate to SMEs. The number of international banks involved in trade finance continues to decline.
- The estimated value of unmet demand for trade finance is USD 1.5 trillion annually. About 40% of this unmet demand is in developing Asia, and 10% is in Africa. Bridging this gap would unlock the trading potential of many thousands of individuals and small

businesses around the world.

- Gaps in trade finance provision are widest in developing countries, where opportunities to trade are increasing as global production patterns evolve.
- The reluctance of the global financial sector to invest in developing countries after the 2008-09 financial crisis compounds the problem of gaps in trade finance in certain countries because local banks require trade finance transactions to be settled in the currency of the transaction, which requires the participation of banks in the country which issues that currency. Local banks need international correspondent banks to confirm their letters of credit, engage with them in supply chain finance and clear trade-related payments in foreign currency.

**Please find enclosed the full report on Trade Finance and the Compliance Challenge: A Showcase of International Cooperation released by WTO for your kind reference.**

Please contact for any query related to this mail to Ms Bhawna Kakkar, Research Associate at [bhawna.kakkar@phdcci.in](mailto:bhawna.kakkar@phdcci.in) with a cc to Dr S P Sharma, Chief Economist at [spsharma@phdcci.in](mailto:spsharma@phdcci.in) and Ms Surbhi Sharma, Associate Economist at [surbh@phdcci.in](mailto:surbh@phdcci.in) PHD Chamber of Commerce & Industry.

Warm Regards,

Dr S P Sharma

Chief Economist

PHD Chamber of Commerce and Industry

PHD House, 4/2 Siri Institutional Area

August Kranti Marg, New Delhi-110016, India

Tel: +91 49545454

Fax: +91 11 26855450

Email: [spsharma@phdcci.in](mailto:spsharma@phdcci.in)



Website: [www.phdcci.in](http://www.phdcci.in)

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PHD House, 4/2 Siri Institutional Area, August Kranti Marg, New Delhi - 110 016 (India) • Tel. : +91-11-2686 3801-04, 49545454, 49545400  
Fax : +91-11-2685 5450 • E-mail : [phdcci@phdcci.in](mailto:phdcci@phdcci.in) • Website : [www.phdcci.in](http://www.phdcci.in), CIN: U74899DL1951GAP001947



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