



Closing the Trade & Supply Chain Finance Gap:

Selected Observations

ARTNeT Research Workshop

Macau, China

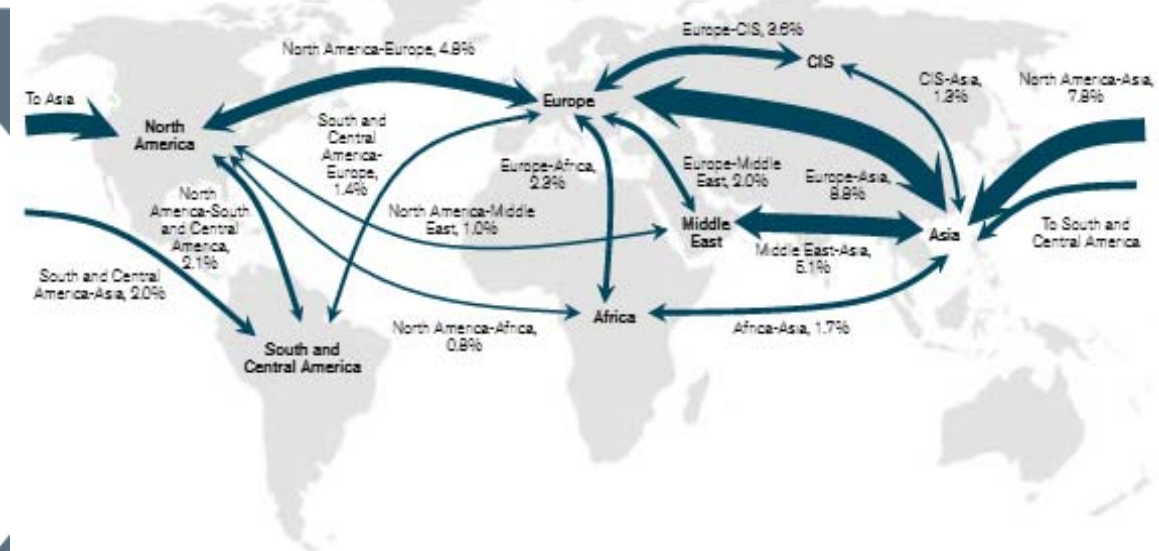
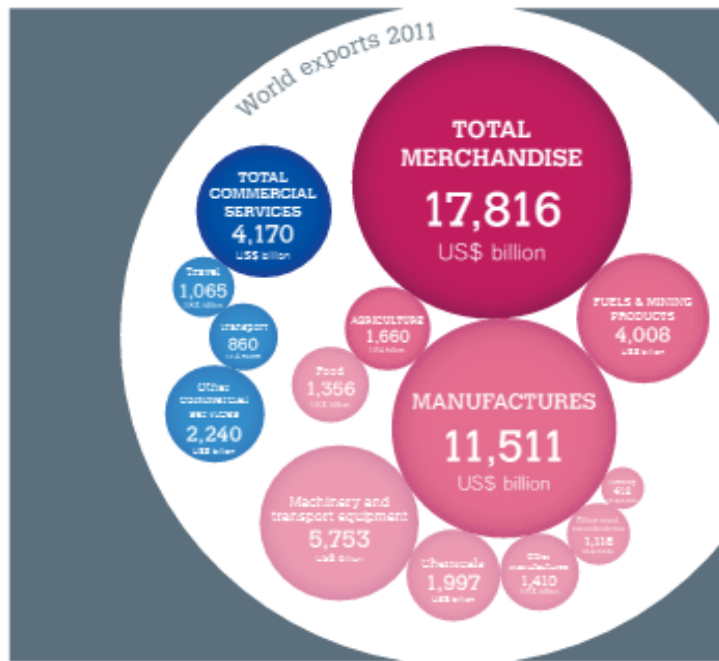
***Alexander R. Malaket, CITP, President
OPUS Advisory Services International Inc.***



Key Messages

- Trade is critical to the APAC Region, and ***trade finance enables up to 90% of global import and export flows***
- Trade continues to be acknowledged as an important driver for post-crisis recovery and a key contributor to international development, ***trade finance*** currently enjoys ***unprecedented profile***
- There is a significant gap in trade and supply chain finance globally, but ***our understanding of the nature of this gap***, and solutions to it, require more robust analysis
- There are ***important initiatives*** and innovations in trade finance, both in research and analysis and in product and solution-level innovations that will be ***critical to closing the gap***

International Trade Statistics 2012



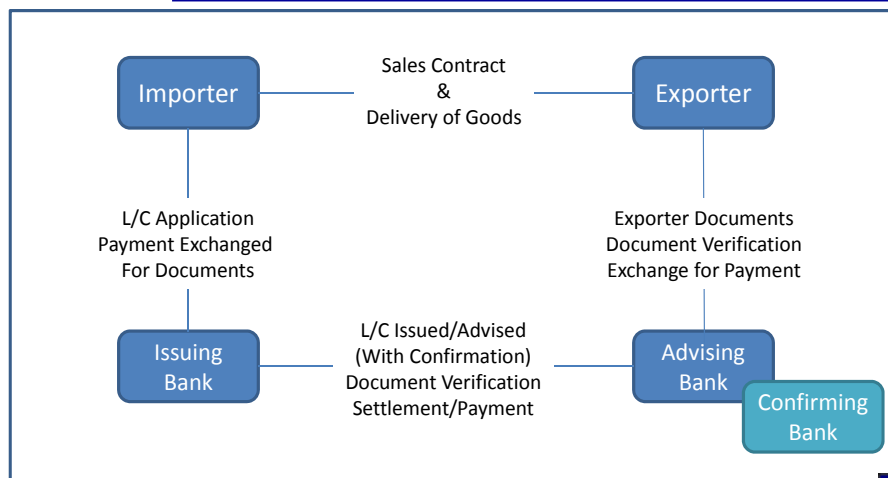
Source: WTO Secretariat estimates.

Note: World trade includes intra-EU trade. Arrow weights based on shares in 2011. Trade within regions and with unspecified destinations represented 54% of world trade in 2011.

- Industry metrics suggest 80-90% of global trade is supported by some form of trade finance. Export Credit Agencies (ECA's) alone support about 10% of global trade
- Emerging sourcing patterns and trade flows, including flows to and from Asia, are likewise dependent on financing. Extended global supply chains and regional trade flows alike require liquidity and risk mitigation solutions available through trade finance
- The link between trade finance and the creation of economic value has only recently been the focus of serious analysis; An Asian Development Bank (ADB) Survey suggests a 10% increase in trade finance can translate to a 5% increase in business activity and demand for human resources

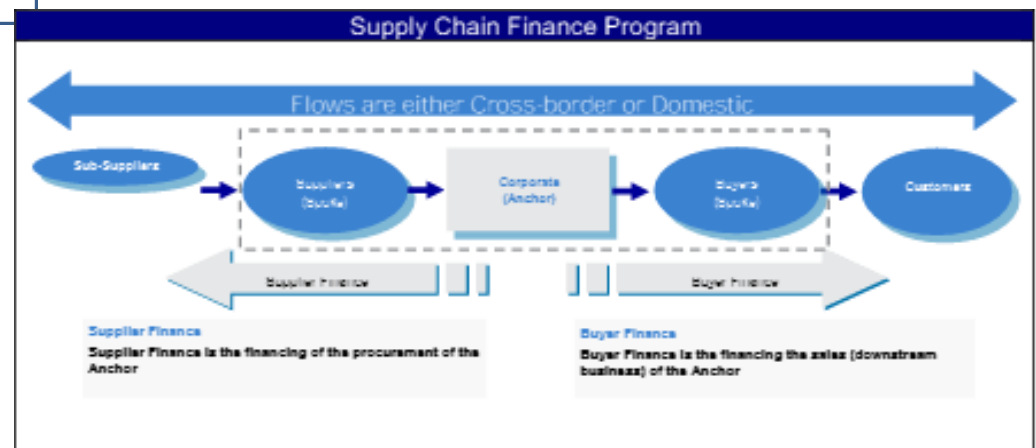
Traditional & Supply Chain Finance

Payment	Financing	Risk Mitigation	Information
<ul style="list-style-type: none"> Secure Timely & Prompt Global Low-cost All leading currencies 	<ul style="list-style-type: none"> Available to importer or exporter Several stages in the transaction No impact in Operating Line for exporters 	<ul style="list-style-type: none"> Risk Transfer Country, Bank and Commercial Risk Transport Insurance Export Credit Insurance 	<ul style="list-style-type: none"> Financial flows Shipment Status Quality of Shipment L/C systems include web & desktop solutions



- Long-established, familiar instruments supported by global rules and practices
- Effective in high-risk and developing markets
- SME's underserved by banks but supported by IFI's and ECA's
- Use of "Traditional Trade" globally is flat and trending down

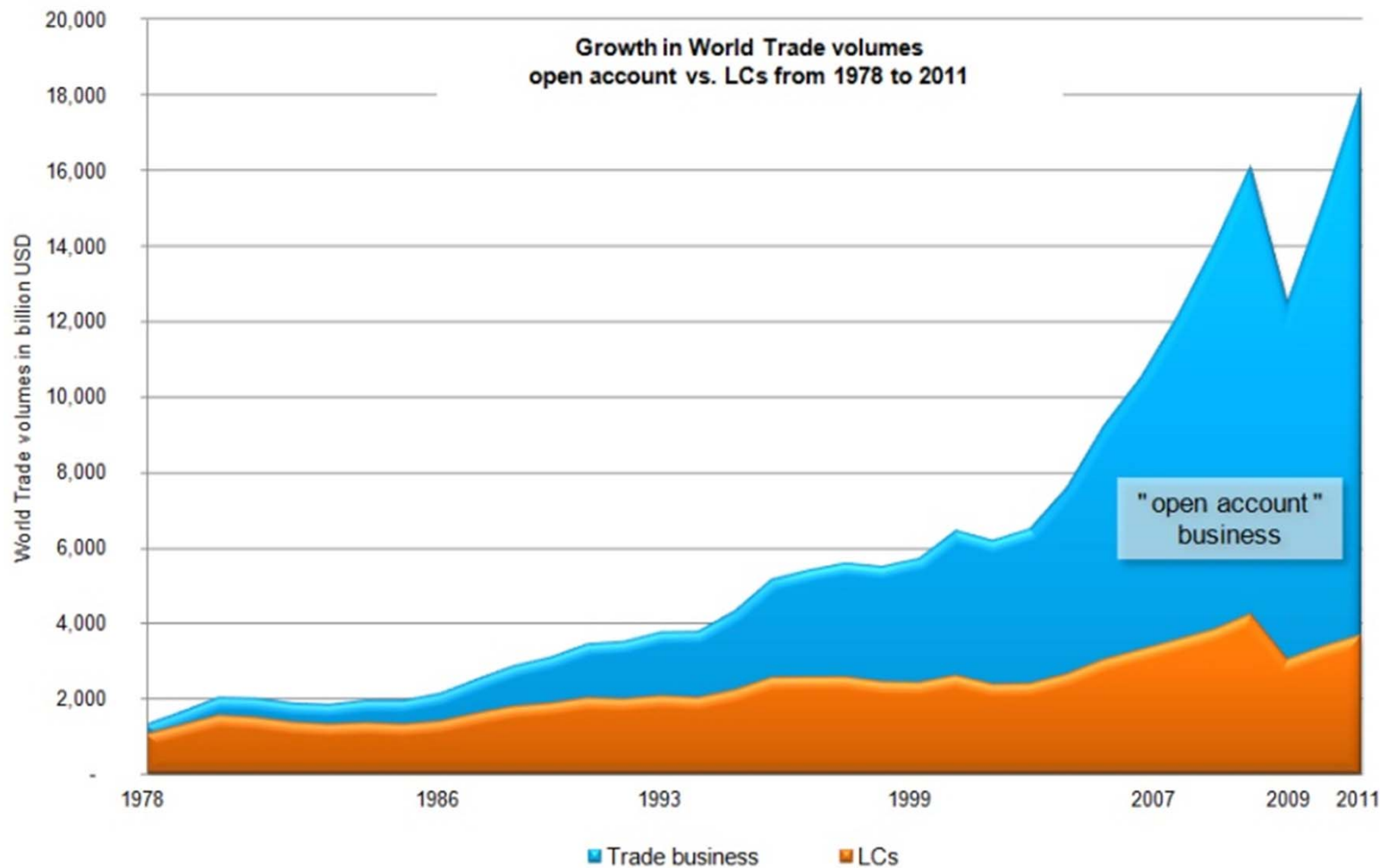
- Evolving proposition around global supply chains
- Strong potential for SME Suppliers based in Emerging and Developing Markets
- International Financial Institutions (IFI's) contributing significantly to evolution of SCF Proposition
- Rapid growth and utilization of SCF facilities
- Cross-border factoring growth 36% in 2012



cash in advance 19%–22% \$3.0 trillion– \$3.5 trillion	bank trade finance 35%–40% \$5.5 trillion– \$6.4 trillion	open account 38%–45%, \$6.0 trillion–\$7.2 trillion		
		credit covered by BU members \$1.25 trillion– \$1.50 trillion	arm's-length nonguaranteed	intrafirm

← \$15.9 trillion in global merchandise trade (2008 IMF estimate) →

Source: *Trade Finance During the Great Trade Collapse*, World Bank, 2012



Source: Unicredit
WTO Public Forum

The Trade/Supply Chain Finance “Gap”

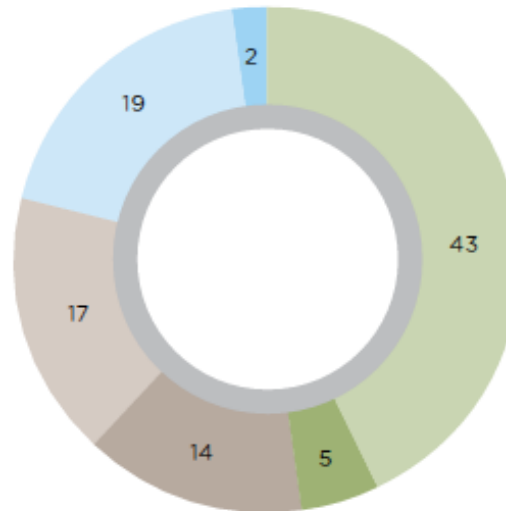
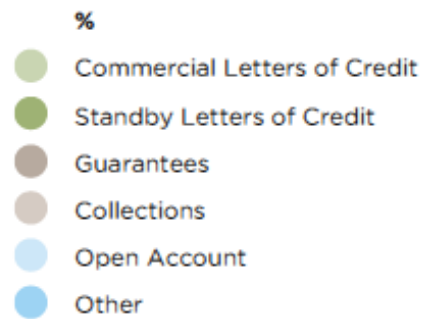
For instance, a recent ADB study cited in this report showed a trade finance gap, **represented by unmet demand for lending and guarantees**, of USD1.6 trillion in trade, **USD425 billion alone in developing Asia**. According to a World Bank-IFC study, total SME lending in South-Sahara Africa is also estimated at USD25 billion-30 billion, leaving a gap of USD80 billion-100 billion.

Source: ICC: Rethinking Trade and Trade Finance 2013

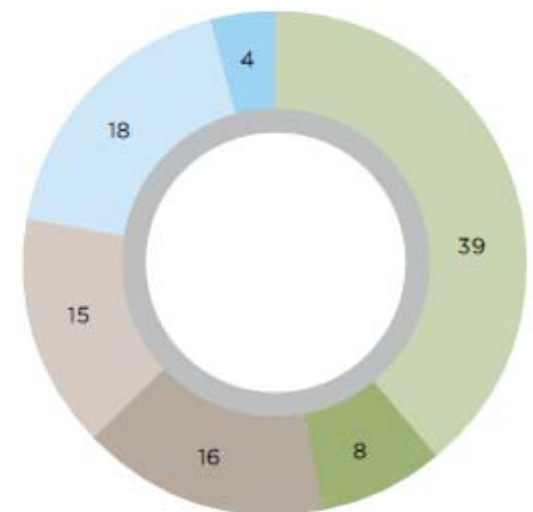
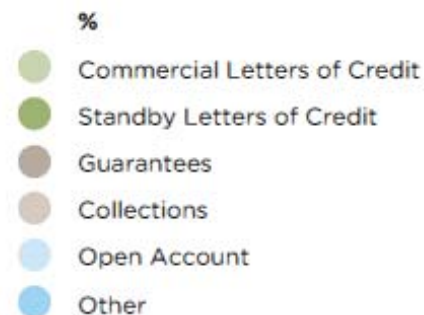
To understand “unmet demand”, we have used proxies such as declined financing requests, but this approach is likely to significantly underestimate the size of the trade and supply chain finance gap!

Open Account/SCF: Majority of Transactions, Minority of (Bank) Portfolios

Export Trade Finance Mix



Trade finance is a highly concentrated industry, globally. Top 7-10 banks might control 70-80% market share in traditional products, but penetration in open account and SCF is still low



So What...?

- We are just beginning to undertake academically robust analysis around trade and supply chain finance
- Basics such as industry and market sizing are now available, with room to refine the metrics
- ADB has taken the lead in establishing the critically important Trade Finance Default Register and is now leading in its effort to link trade finance directly to economic value-creation
- ECAs, IFIs and UN agencies increasingly important in part due to application of intellectual energy to the challenges of trade finance
- Discussion about closing the trade and supply chain finance gap is important, however, we need to understand the gap and some of its current/anticipated causes

Notable Trends & Developments

1



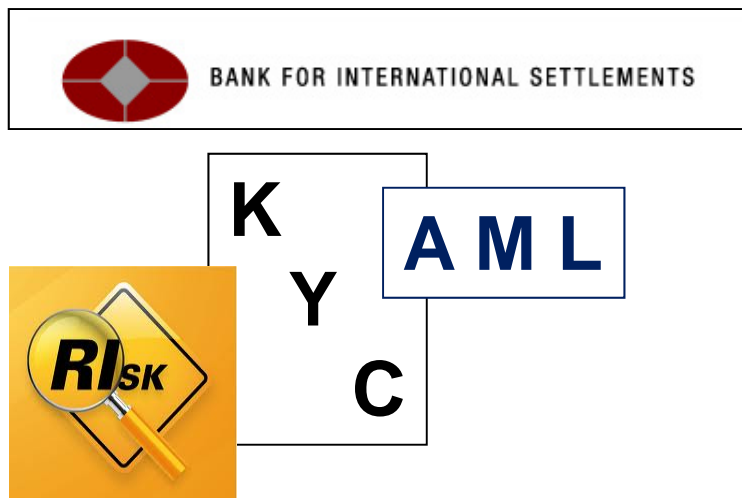
Analysis Matures, Gains Robustness

2



An Industry Finds its Voice(s)

3



Risk and Regulation at Forefront

1

The crisis motivated an unprecedented level of analysis around trade finance

2

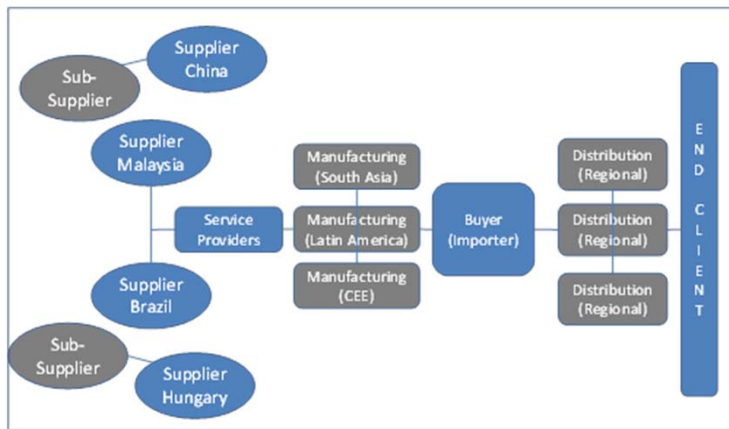
Industry stakeholders have taken a complementary and integrated approach, trade finance enjoys significant profile

3

Risk management and regulatory considerations take centre-stage

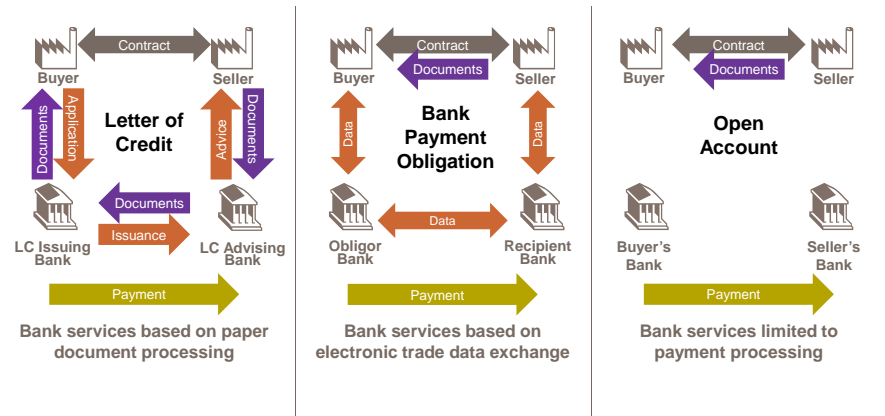
Notable Trends & Developments

4



Supply Chain Finance

5



The Bank Payment Obligation

6



Top-level Global Profile

4

Supply Chain Finance as a viable proposition:
Buyer-led programs and SMEs

5

Transformational innovations like the ICC/SWIFT
Bank Payment Obligation

6

Priority and Visibility Among Political, Business
and International Leaders

Implications for the “Gap”: Selected Challenges

- High concentration of market share coupled with banks retrenching to domestic/regional markets
- Risk-aversion and competition for scarce capital and balance sheet capacity
- Regulatory issues/pressures including capital adequacy make trade finance more expensive and less attractive to banks
- Opacity related to market metrics and dynamics, intentional “veil of mystery” and trade bankers’ historical preference for the “dark corners”: ineffective championing and difficulty in creating additional capacity for trade finance

Implications for the “Gap”: Selected Opportunities

- Serious efforts at attracting additional capital and capacity to trade finance: BAFT-IFSA London Group/Others: Net new capacity
- Evolution of SCF including buyer-centric programs allow SMEs to access finance through borrowing capacity of large corporates
- Competency development and TA programs through IFIs and others critical to maintaining/growing capacity
- Non-bank providers increasingly active, including in SCF
- Advocacy efforts (supported by data and analytics) in support of trade finance are mitigating “unintended”/adverse regulatory consequences on cost and availability

How Might we Contribute?

- Invest academically robust intellectual energy and methodologies in support of better understanding of the economic value of trade finance, but with a clear commercial view
- Facilitate greater engagement of IFI's and internationally influential entities to shape the trade finance architecture of the 21st Century
- Undertake initiatives to explicitly and visibly link trade finance to trade flows, trade-based economic development and trade-driven anti-poverty/development measures
- Link trade finance to trade development and promotion activities, including Single Window market access models
- Consider conceptualization and development of an APAC Trade Finance Centre of Excellence



Advisory Services
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Thank You.



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