

Bridging the Funding Gap: Role of Development Banks in Trade Finance

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How Organizations Like AfDB, EXIM Bank of India, and IFC Support SME Exporters/Importers, and examples of SME development

We can all agree that small and medium enterprises (SMEs) are critical contributors to global economic growth. Not only do they provide substantial employment but also are foremost in innovation and forward thinking.

But despite their contribution to economies in all sectors, SME's face several significant issues, in accessing all important finance and credit, expanding market reach in domestic and international markets, and ensuring they remain competitive, compliant and sustainably sound.

The answer lies with specialist and development banks, with skills and expertise, not only in support of regular domestic bank business, but assisting importing companies in the intricate areas of trading across the global ecosystem.

This is borne out by the emergence of institutions like the African Development Bank (AfDB), the Export-Import Bank of India (EXIM Bank of India), and the International Finance Corporation (IFC), who provide specific solutions to SMEs.

Looking at these companies in more detail, the key to their success is access to liquidity, financing funding gaps, focussing on regional solutions, provision of credit lines, risk mitigation through secure trusted financial instruments, and adherence to standards in complex jurisdictions. All these services engender trust, confidence and raising the probability and possibility to compete equally on the international stage.

Specifically in Africa, an example from the activities of the African Development Bank (AfDB) is their focus on funding export projects, featuring agribusiness, manufacturing, and energy sectors.

A second example is The Export-Import Bank of India (EXIM Bank), established to promote international trade among SME's which represent over 60 million companies contributing 30% of GDP and over 40% of exports. The bank is uniquely placed to enable SME exporters and importers to access global markets with short-term and long-term export credit facilities, boosting production, helping retain and effectively use working capital, and helping negotiations with foreign buyers.

Additionally, the bank specialises in advisory services, research and market intelligence, partnering with firms to provide the greatest opportunity for revenue generation and taking advantage of global opportunities.

With a history of producing fine textiles, the plethora of IT service companies and expertise in pharmaceuticals, companies are well served in tailored credit facilities.

Another example is the International Finance Corporation (IFC), supporting the private sector with financial and advisory services specifically for SME exporters and importers. Through their Global Trade Finance Program (GTFP), the organisation guarantees trade transactions ultimately reducing risks for SMEs, providing trade loans and working capital solutions, bridging financing gaps. When linked with digital platforms, advanced technology solutions which facilitate frictionless cross border trade, IFC is a powerful partner, ensuring compliance, standards, confidence and trust.

Their operations and methodologies have been well documented and internationally acknowledged in supporting SME's in emerging economies such as Africa and Latin America, specifically in critical areas of agriculture, manufacturing and consumer goods.

These examples along with other similar institutions have developed systems, products and services to meet the demands of SME's wishing to participate in global markets, where supply chains are complex, competition is fierce, risks are ever apparent, and where reputation can be destroyed instantly.

Whilst many firms have global ambitions, it is only with all important financial support, access to credit, strong financial instruments and risk mitigation tools, that they can effectively and efficiently hope to enter the trade arena, win contracts and retain global clients.

The additional benefits of such assistance are job creation, revenue generation for re-investment providing sustainability and resilience.

Whilst we recognised the impact of the development banks, the credit for growth, innovation, empowerment and job creation lies directly with the SME's, which are the true powerhouses in driving economies.

And we have many examples of companies taking advantage of the funding and expertise offered, whether it be via alternative financing providers, international companies or even governments, making a real difference in their markets.

Everyone needs food. And agriculture plays a vital role in Africa where intense investment has provided the means to deploy new technologies such as drones, AI and new crop analysis techniques to ensure maximum yield.

One specific initiative from AfDB is the Affirmative Finance Action for Women in Africa program. Empowerment of women and gender equality is also a key UN sustainability development goal. A true success story, in this case, their efforts have directed funding of over \$300 million for women-owned SMEs, with one company increasing production by 40%, creating 200 additional jobs, and established sustainable trade relationships abroad.

As mentioned, in India, textiles are a vital component to economic growth. But SME's tend to be smaller companies, and traditionally lack expertise, access to funding and advice in exporting, and the ability to fulfil large international orders.

The answer was delivered through a guaranteed buyer credit scheme, allowing the exporter to fulfil orders and meet a new market opportunity, this time in South America, which opened the door for a 50% increase in exports to more countries, more productive use of working capital and building a trusted reputation.

And with IFC, the story is the same. This time in Asia, as the trade community is considering digitising of processes and digitalisation of documents, their Global Trade Finance Program (GTFP) supported the roll out of a digital trade solution from a small Vietnamese fintech startup company.

With help from IFC funding the company through guarantees, it developed and offered affordable trade financing options, reducing trade costs by 30% to hundreds of SMEs in the region, previously disintermediated from participation in global markets.

A final example is the World Bank, with its clean technology initiative, supporting projects, funding affordable and clean energy, such as solar and wind power reducing carbon emissions and enhanced productivity, and creating new job and production opportunities.

With the close collaboration of development banks and forward-thinking SME's, economies can truly succeed, support ethical gender diversity, financial inclusion and empowerment, introduce new products into neighbouring and far economies, as demand for an ever-growing range of products means finding new supply chains and producers, all supported by appropriate funding and credit.

These close collaborations are truly the way forward.