A workshop on "MSMEs and Access to Finance" was held on Tuesday, 5 November 2019.

In his opening remarks, the Chair, H.E. Mr. Chad Blackman, Ambassador of Barbados, noted the critical importance for MSMEs to expand and scale up production and, therefore, be able to serve a broader customer base, both national and international. He recalled the focus on this topic at the Global Review of Aid for Trade in July 2019 and suggested it was time to revisit this issue, including the role technological innovations can play in enabling the delivery of financial services and the importance of mainstreaming women's economic empowerment in attempts to address MSME financing gap.

Marion Jansen, Chief Economist and Director in the Division of Market Development at the International Trade Centre (ITC) set the scene for the workshop by highlighting the importance of connecting the real economy to the financial sector. Financing for MSMEs was also as a key component of achieving the 2030 Agenda. Increasing annual investments in small and medium-sized enterprises by US$ 1 trillion would yield dividends in terms of progress towards the Sustainable Development Goals. These investments also have the potential to deliver healthy returns for investors and would correspond to closing one fifth of the MSME finance gap calculated by the International Finance Corporation. To boost investment in developing country small firms, stronger local investment facilitators (actors which connect firms to investors) are key. They play major roles in bundling investments for small firms into large packages and in disseminating information on small business export and investment readiness. She emphasized the role Aid for Trade can play in strengthening local investment facilitators and in strengthening the capacity of MSMEs to "speak investment language" with them. Aid for trade can bridge the MSME finance gap by facilitating risk assessment through better prepared MSMEs and stronger local investment facilitators.

Crispin Conroy, Representative Director at the International Chamber of Commerce (ICC) introduced the work of ICC and its Banking Commission. The Commission helps business, particularly small and medium sized companies access the financing they need to grow. Trade finance is a particular problem with MSMEs accounting for almost two-third of rejected trade finance transactions. Trade finance is especially crucial for MSMEs, which may lack the resources to advance the necessary funds to import or export goods on their own. To ensure that companies are able to access the financing they need and level the playing field worldwide, ICC produces voluntary rules and guidelines for issues such as documentary credits, forfaiting, demand guarantees, bank payment obligation and dispute resolution. In providing this common framework, ICC allows companies and governments around the world to speak the same regulatory language without burdening banks with red tape. Bringing trade finance experts from over 70 countries together, ICC also serves as a forum for those who seek to develop common strategies and standards to free up financing for SMEs, especially in developing countries and emerging markets.

Kijin Kim, Economist in Economic Research and Regional Cooperation Department at the Asian Development (ADB) discussed the importance of addressing the large unmet demand in trade finance. ADB’s trade finance survey finds there is a trade finance gap of about $1.4–$1.6 trillion, or around 8% of world merchandise trade, an issue which affects MSMEs more than larger firms. He outlined three main challenges in trade finance. First, the continued use of paper-based transactions which are prone to costly delays and errors. Second, financial institutions are required to conduct significant due diligence, which raises the cost of supplying trade financing. Third, while banks require knowledge of their clients
to mitigate information asymmetry, this may pose significant hurdles in MSMEs accessing finance. He discussed ways in which digitalization and automation can help address some long-standing issues in trade finance, such as high transaction processing costs and costly know-your-customer procedures. Technologies can help reduce costs and facilitate transactions by eliminating manual documentation and facilitate risk assessment of MSMEs through data collection. He highlighted the role governments and institutions can play in developing digital infrastructure, harmonized standards, and regulations to encourage widespread technology adoption. In addition, policy initiatives can promote and incentivize private sector participation in trade finance. Improved awareness of trade finance products, reinforced by government support programs, can also facilitate MSMEs access to trade finance.

Discussions on the presentations focused on the role standardization and model laws, including those developed by UNCITRAL, play in reducing transaction cost and facilitating access to finance. The panelists also explored common reasons for rejected transactions and the support provided by international organizations in addressing these challenges, particularly in bridging the gap between perceived and actual risk of lending to MSMEs. The Q&A also provided an opportunity to discuss ways to adapt regulatory requirements, such as anti-money laundering legislation, so as to facilitate MSME compliance.

In the second session of the workshop, Andre Casterman, Member of the International Trade and Finance Association Board (ITFA) focused his presentation on the role fintech plays in facilitating access to finance for MSMEs. He stated that regulatory requirements and de-risking may at times have unintended consequences on trade financing, particularly MSMEs. Technology enables access to finance by facilitating the provision of on-demand transaction-level services and real-time processing. Fintech aims at increasing efficiency and/or modernizing existing practices to the benefit their clients and investors. Most fintech companies are collaborating with trade banks and act as software solutions or as hubs of new eco-systems. He provided a few case stories from ITFA Members who have successfully leveraged new technologies to bridge gaps in access to finance. These include connecting MSMEs directly to foreign financing institutions for their trade finance requirements, helping exporters find optimized funding from new funders and credit insurers, reducing barriers to trade finance, and moving away from paper-based system. He noted future trends in this area including an increasing number of platforms to facilitate short-term financing, more institutional investors entering the market, and increased use of machine learning and digital asset technology. He identified regulatory cooperation as a critical enabler.

Emmanuelle Ganne, Senior Analyst in the Economic Research and Statistics Division at the WTO began her presentation with a brief introduction to blockchain technology. Her presentation focused on the role blockchain technology plays in enabling MSME finance, including trade finance. She presented various projects that leverage distributed ledger technologies to ease peer-to-peer financing, reduce costs and streamline trade finance procedures, facilitate compliance with Know Your Customer legislation, help assess credit worthiness, and help SMEs to build a credit history and monetize their collaterals through tokenization. The presentation showed that blockchain technology presents new options and opportunities for SMEs to secure financing.

The final presentation by Cecile Barayre-El Shami, Program Manager, ICT Analysis Section at United Nations Conference on Trade and Development (UNCTAD) provided a brief introduction to UNCTAD’s Programme on Rapid e-Trade Readiness Assessment which has been designed to provide a thorough overview of digital connectivity and e-commerce evolution, including opportunities and challenges, in different countries. She presented the top 10 challenges faced by LDCs in e-commerce development, including limited internet access in rural and remote areas, weak legal and regulatory frameworks, overreliance on cash-based transactions, among others. Access to finance remains costly and constrains
the ability of MSMEs to emerge and expand. She highlighted a number of common challenges MSMEs and LDCs face in that regard. Banks typically lend to big firms in traditional industries, whereas e-commerce and start-up companies are viewed as risky investments. MSMEs are often forced to resort to private sources of funding or to informal ones. Low financial literacy and unsuitable financial mechanism can also hamper efforts to engage in e-commerce. In exploring some key policy options, she underscored the need to provide financial literacy, increase awareness of incubators, develop tailored lending standards and products, and increase financial inclusion. She highlighted the main findings of Uganda Rapid eTrade Readiness Assessment in support of her arguments.

Discussions from the last session explored the potential of blockchain as complements to the banking system and the role of microcredit system. The panellists highlighted the need to leverage technology as a tool to reduce operational cost, enhance visibility, and improve traceability of transactions. The Q&A also touched upon the importance of bridging the digital gap to ensure that everyone can benefit from this technology.

In closing, the Chair concluded by highlighting a few key points emerging from the workshop:

- One is the role of standards. This is a dimension that is essential to facilitating technology solutions to help bridge the MSME financing gap
- A second point is facilitating information exchange between the real economy and the financial sector. Finding the right language and company information is needed.
- A third point is the challenge of scaling up fintech innovations so as to get around the market limitations in the traditional financial sector. The role of technology in reducing compliance costs for regulatory and market risk emerged strongly.
- A further issue was the potential affected by blockchain technology to decentralize and disintermediate financial transactions, with enhanced traceability, trust, and automation that open to possibilities for MSMEs.
- Finally, the digital connectivity dimension to access to finance was highlighted, Access to finance was identified as a constraint for MSMEs to get online and access fintech solutions.

Copies of presentations and a podcast are being made available on the WTO website.