



## Promoting SME Trade Finance in the CAREC Region

3-4 December 2018

Xiamen, People's Republic of China

### I. Background

1. Small and medium enterprises (SMEs) are essential for economic diversification and sustainable development. Their substantial contribution to global employment, trade and GDP is well-recognized. Around 95% of firms all over the world are SMEs.<sup>1</sup> However, SMEs potential as an engine of growth is limited by financing gap estimated to be about 700 billion dollars in developing Asia.<sup>2</sup>

2. Trade finance is one important aspect of SME financing. Availability of trade finance is essential for healthy growth of SMEs involved not just in domestic trade but also to participate in regional and global transactions. To date, 80% of global trade is supported by some sort of financing or credit insurance.<sup>3</sup> Lack of access to trade finance is a key barrier to integration of SMEs in international supply chains. ADB's 2017 Survey finds that global trade finance gap is estimated at \$1.5 trillion, of which 40% of the gap originating in Asia and the Pacific. The report also suggests that 74% of rejected trade finance transactions come from SMEs and midcap firms. Identified policies to address the shortfalls include: (i) to implement identity solutions to address challenges in know your client (KYC) due diligence; (ii) scale up new methods of credit risk assessment. Supply chain finance for example, enables a different approach to risk assessment; (iii) harmonize digital standards in the financial and trade sectors; and (iv) continue to collect data with a view to creating a consolidated data architecture for the global trade finance market. A powerful way to promote good policy on trade finance is through detailed data analysis, benchmarking, trend analytics and advocacy.<sup>4</sup>

3. Under the *CAREC 2030* strategy, strengthening access to finance is a priority. This includes proposals to (i) develop trade finance and the possible establishment of a multilateral trade credit and investment guarantee agency to cover CAREC members and (ii) bolster SME financing, which is a common constraint in most member countries, and where cross-country learning could be useful to adopt effective financing models.<sup>5</sup>

4. Nonetheless, SMEs still face supply-side and demand-side challenges in terms of providing inclusive financial regulations and institutions, restrictive collateral requirements, high cost of screening and interest rates, and innovative tools to improve access to finance. Overcoming those challenges will help CAREC countries not only, to contribute to SME development, but also to improve overall business environment and trade within the region.

<sup>1</sup>WTO. 2016. Leveling the trading field for SMEs.

<sup>2</sup>WTO. 2016. Trade finance and SMEs – Bridging the gaps in provisions.

<sup>3</sup>Ibid.

<sup>4</sup>DiCaprio, Kim and Beck. 2017, 2017 Trade Finance Gaps, Growth, and Jobs Survey. ADB Brief No. 83. September 2017.

<sup>5</sup>ADB. 2017. CAREC 2030: Connecting the Region for Shared and Sustainable Development. Manila.

During the past two years, CAREC Institute has conducted workshops on SME development and SME financing. This workshop will focus on promoting trade finance for SMEs to support their increased participation in the global and regional supply chain.

## **II. Key Objectives and Expected Outputs of the Workshop**

5. The workshop aims to help CAREC countries promote SME trade finance consistent with CAREC 2030's priority of bolstering SMEs financing through cross-country learning. The workshop is expected to generate the following outputs:

- Enhanced capacity of CAREC countries to provide enabling environment for SME trade finance through analyzing supply- and demand- side challenges/impediments for SMEs;
- Enhanced knowledge among government officials on the trends, prospects and options of for increased SME access to trade finance, address regional financing gaps for SMEs, and potential use of innovation;
- Lessons learned from country experiences and availability of data and information to support policy dialogue and cooperation among CAREC countries; and
- Workshop report which may feed into development of policy briefs, presentation materials, and country papers which will be uploaded in the websites of CAREC Secretariat, CAREC Institute and partner institution, if any.

## **III. Workshop Content**

6. The workshop will be conducted for 2 days and will cover the following topics:

- Concepts of trade finance and SMEs;
- Role of development and commercial banks in SME trade finance and overall SME development;
- Experience of CAREC countries in trade finance especially catering to SMEs;
- Regulatory reforms and innovative solutions to improve SME access to trade finance;
- Bridging financial gap in SME trade finance in CAREC region.

## **IV. Pre-workshop Requirements and Format of the Workshop**

7. The workshop will be participatory and interactive delivered through lectures, panel discussions, and country presentations. Every session will allot sufficient time for open forum (Q&A session) to encourage exchange of ideas, share experiences, and discuss issues and challenges. It is an opportunity to exchange views on the current state of SME trade finance in Central Asia, including issues related to business environment for SMEs and innovation.

## **V. Target Audience**

8. The target participants will be 22 middle-level government officials (2 from each country) (i) from central banks supervising or responsible for SME trade finance and (ii) departments/divisions of ministries of trade or commerce responsible for overall SME development. International experts, financial institutions and commercial banks with experience in SME trade finance will be invited as resource persons.

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Provisional Agenda

<b>DAY ONE (3 December 2018)</b>	
08:45 – 09:00	<b>Registration of Participants</b>
09:00 – 09:15	<p><b>Welcome and Opening Remarks</b></p> <p><i>Mr. <b>Samad Bashirli</b>, Head of Knowledge Services Unit, CAREC Institute</i></p> <p><i>Mr. <b>Guangzhong LIU</b>, Party Secretary of Xiamen National Accounting Institute</i></p> <p><i>Mr. <b>Giacomo Giuseppe Giannetto</b>, Principal Financial Sector Specialist, ADB</i></p>
09:15 – 09:30	<b>Group Photo</b>
09:30 – 10:30	<p><b>SESSION 1: Trade Finance and SMEs</b></p> <p><i>This session will provide an overview of SME development in the CAREC region, trends and challenges, including factors limiting SMEs access to trade finance such as strict collateral requirements, higher interest rates and transaction costs and low financial literacy.</i></p> <p><i>Moderator: Mr. <b>Kijin Kim</b>, Economist, ADB</i></p> <p><i>Speaker:</i> <i>Dr. <b>Farhad Taghizadeh-Hesary</b>, Faculty Member, Faculty of Political Science and Economics, Waseda University</i></p>
10:30 – 10:45	<b>Coffee Break</b>
10:45 – 12:00	<p><b>SESSION 2: Country presentations on the current situation of SME trade finance</b></p> <p><i>This session will share the experiences and lessons learned of CAREC countries in promoting SME trade finance. Each country will make brief presentation (1 minutes) to give more time for Q&amp;A.</i></p> <p>Representative of Afghanistan Representative of Azerbaijan Representative of PRC Representative of Georgia Representative of Kazakhstan</p> <p><i>Moderator: Mr. <b>Samad Bashirli</b>, CAREC Institute</i></p>

12:00 – 13:30	<b>Lunch Break</b>
13:30 – 15:00	<p><b>SESSION 2: Country presentations on the current situation of SME trade finance</b></p> <p>Representative of Mongolia  Representative of Pakistan  Representative of Tajikistan  Representative of Turkmenistan  Representative of Uzbekistan</p> <p><i>Moderator: Dr. <b>Farhad Taghizadeh-Hesary</b>, Waseda University</i></p>
15:00 – 15:15	<b>Coffee Break</b>
15:15 – 16:30	<p><b>PANEL SESSION 3: The Role of Banks in Trade Finance</b></p> <p><i>This session will discuss the experience of commercial banks in providing trade finance to SMEs, various financial products and the supply-side challenges and issues of SME trade finance. The Panel format will be adopted to give more opportunities to compare experiences and appreciate the role of banks and elaborate on private sector perspectives on how to provide enabling environment for SME trade finance.</i></p> <p><i>Moderator: Ms. <b>Nana Khurodze</b>, Investment Specialist, Trade Finance Program, ADB</i></p> <p><i>Panelists:</i>  <i>Ms. <b>Bolortuya Tsedevsuren</b>, Trade Finance Manager, International Banking Unit, Corporate Banking Division, XAC Bank Mongolia</i>  <i>Mr. <b>Shuhrat Babadjanov</b>, Head, Trade Finance Department, JSIC IpakYuli Bank, Uzbekistan</i></p>
16:30 – 17:00	<p><b>SYNTHESIS OF DAY 1</b></p> <p>Each session moderators will give their impressions of the highlights of discussions.</p> <p><i>Chair: Mr. <b>Giacomo Giuseppe Giannetto</b>, ADB</i></p>

**DAY TWO: (4 December 2018)**

09:00 – 10:15	<p><b>SESSION 4: Creating an Enabling Environment for SME Trade Finance: Learning from PRC</b></p> <p><i>This session will discuss the role and impact of public intervention in trade finance and reforms in the regulatory and incentives framework to encourage trade financing for SMEs from the experience of PRC.</i></p> <p><i>Moderator: Mr. <b>Giacomo Giuseppe Giannetto</b>, ADB</i></p> <p><i>Speaker: Dr. <b>Zongxin Qian</b>, Associate Professor, Renmin University of China</i></p>
10:15 – 10:45	<p><b>Coffee Break</b></p>
10:45 – 12:00	<p><b>SESSION 5: Analyzing Trade Finance Gaps Issues and Prospects – Outcomes from 2017 Survey</b></p> <p><i>The session will introduce the highlights and methodology of the <u>2017 Trade Finance Gaps, Growth, and Job Survey</u> conducted by ADB and ADBI.</i></p> <p><i>Moderator: Dr. <b>Farhad Taghizadeh-Hesary</b>, Waseda University</i></p> <p><i>Speaker: Mr. <b>Kijin Kim</b>, Economist, ADB</i></p>
12:00 – 13:30	<p><b>Lunch Break</b></p>
13:30 – 15:00	<p><b>SESSION 6: Bridging financial gap in SME trade finance in the CAREC region</b></p> <p><i>This session will discuss existing and potential deployment of trade financing resources such as trade finance program, supply chain finance, and establishment of trade credit agency. This may also cover success stories of past SME finance projects.</i></p> <p><i>Moderator: Mr. <b>Samad Bashirli</b>, CAREC Institute</i></p> <p><i>Speakers:</i> <i>Ms. <b>Nana Khurodze</b>, ADB</i> <i>Dr. <b>Farhad Taghizadeh-Hesary</b>, Waseda University</i></p>

15:00 – 15:15	<b>Coffee Break</b>
15:15 – 16:00	<p><b>SESSION 7: Innovative solutions to unlock SME's access to source of capital including trade finance</b></p> <p><i>This session will discuss innovative solutions in SME finance including blockchain technology, crowd funding, peer-to-peer lending and supply chain finance and feasibility of applying them in CAREC countries. It will also explore whether blockchain technology could re-architect trade finance to make it more inclusive and how it can extend beyond driving operational efficiency to actually narrowing market gaps in frontier markets and among SMEs.</i></p> <p><i>Moderator: Mr. <b>Giacomo Giuseppe Giannetto</b>, ADB</i></p> <p><i>Speaker:</i>  <i>Ms. <b>Elene Grigolia</b>, LMD component Manager, National Agency of Public Registry, Georgia</i></p>
16:00 – 17:00	<p><b>Panel Session 8: Way Forward</b></p> <p>This session will discuss the highlights of the workshop and identify next steps or recommendations both at the country and at the regional level to promote SME trade finance in the region including:</p> <ul style="list-style-type: none"> <li>- Increasing awareness among SMEs on available financing</li> <li>- Further analysis (e.g., encouraging CAREC countries participation in the ADB survey on trade finance to be undertaken in 2018)</li> <li>- Specific areas for further capacity-building and policy dialogue</li> <li>- Potential investment areas including on innovation and other soft infrastructure</li> </ul> <p><b>Panel Members:</b>  <i>Mr. <b>Samad Bashirli</b>, CAREC Institute</i>  <i>Mr. <b>Giacomo Giuseppe Giannetto</b>, ADB</i>  <i>Dr. <b>Farhad Taghizadeh-Hesary</b>, Waseda University</i>  <i>Ms. <b>Nana Khurodze</b>, ADB</i>  <i>Mr. <b>Kijin Kim</b>, ADB</i>  <i>Ms. <b>Bolortuya Tsedevsuren</b>, XAC Bank Mongolia</i>  <i>Mr. <b>Shuhrat Babadjanov</b>, JSIC IpakYuli Bank, Uzbekistan</i></p> <p><b>Closing</b></p>