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**TRADE-RELATED E-FINANCE FOR SMALL AND
MEDIUM-SIZED ENTERPRISES**

16 June 2004 – Summary prepared by the UNCTAD secretariat

1. Access to finance for trade and working capital is crucial for the competitiveness of small and medium-sized enterprises (SMEs). However, the scale and risk profiles of SMEs mean that the barriers they face in accessing finance are particularly high. In developing markets, lack of adequate information on the financial condition and creditworthiness of SMEs is one of the principal obstacles to SMEs' obtaining adequate financing. For this reason, many SMEs are forced to rely on self-financing or expensive informal financing. Emerging trade-related e-finance and risk management techniques, including ICT-based solutions such as online credit information, credit insurance and e-payments, could contribute considerably to improving the situation.
 2. Participants in the event, who represented (among others) leading global, regional and Brazilian financial services providers, held interactive discussions and brainstorming sessions on opportunities for collaboration between various private- and public-sector actors, both national and international, including banks, credit insurers, credit information providers, enterprises and their associations as well as national authorities in charge of SME development, development banks and other national and international organizations working to increase access by SMEs in developing and transition economies to trade-related finance and e-finance.
 3. Participants discussed the potential for synergies between bank-based trade finance and credit information and credit insurance networks having at their disposal standardized and interoperable e-credit information databases on enterprises. In many developing and transition economies, a network of credit information on enterprises has yet to be established. Creation of local credit bureaus and credit insurance agencies, establishment of international players in local markets and their close collaboration with banks and enterprise associations might help to close this gap. From the banks' perspective, the geographical expansion of credit insurance and credit rating systems could help to further internationalize the trade finance market towards developing countries and facilitate cross-border trade finance operations based on better assessments of country and commercial risks.
 4. Participants discussed UNCTAD's proposal to combine existing e-credit rating solutions with collaborative risk sharing arrangements to improve SMEs' access to e-trade finance. The first pillar of the proposed scheme is risk sharing between commercial banks, credit insurance and information
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agencies and local business associations. The second one assumes the need to backstop the first one by a co-guarantee scheme built up by international financial institutions, regional and local development banks and public institutions. If information on the credit riskiness of enterprises were shared among concerned parties, including commercial banks, credit insurers, credit information providers, card issuers, local business associations and development banks, then the number of enterprises receiving positive credit ratings from credit insurers or credit bureaus might increase, and these enterprises could in turn access trade and working capital financing at more competitive terms.

5. For example, a credit insurer could provide a creditor bank with partial insurance coverage for a rated borrowing company, while a local business association could provide both the credit insurer and the bank with confidential information on the reliability of their member while also participating in risk sharing through a mutual insurance scheme. The borrower company should also provide partial collateral to the bank. Risk-sharing schemes would vary according to market conditions within countries. Banks and credit insurers would be responsible for the selection of clients, based on credit ratings, and should share credit risk accordingly. SME associations might also provide partial coverage through the mutual insurance schemes mentioned above, and SMEs enjoying a favourable credit rating must be able to offer partial asset-based collateral to creditor banks. In addition, SME associations providing partner financial institutions with confidential information on the financial and payment performance of their members would actually encourage these financial institutions to cover SMEs' risks. The establishment of co-guarantee facilities by international financial institutions might be a high priority especially in low-income countries. They could also consider extending full guarantees in case of generalized financial crises.

6. The success of such arrangements would motivate SMEs to provide credit information in order to get rated. To deal with large numbers of SMEs, the credit information and credit insurance agencies would need to extend the networks of suppliers of basic credit information for their databases. In developing and transition economies, those suppliers include local credit insurers and credit bureaus. However, their number and capacity to collect information are as yet very limited. In this context, large networks such as the World Trade Point Federation (WTPF) with its Trade Points might act as agents collecting basic credit information for credit bureaus and credit insurance companies.

7. Online card-based and other e-payment solutions for e-trade finance were also proposed. A scheme was discussed in which rated SMEs might use payment cards with insured credit limits to finance exports, or for short-term working capital. Using special payment cards for trade could permit SMEs to perform rapid electronic transactions, improving their competitiveness. Improved access to e-finance through this scheme might encourage the increased adoption by SMEs of e-business practices, including purchasing inputs at more competitive terms, developing their own supply chains and participating as suppliers in the Web-based chains of large companies.

8. Discussions of the current situation in developing countries focused on the need to develop an awareness of e-finance among SMEs, in particular regarding card and other e-payments. A development bank's innovative and successful scheme involving card-based trade financing and payments for SMEs was presented. Also discussed was a unique highly developed credit information system in a major developing country that considerably improved enterprises' access to finance. Ideas regarding developing-country SMEs' access to local e-banking and a case of successful bank strategy vis-à-vis SMEs in a major developing country were introduced. Participants examined possibilities for extending these or similar approaches to other developing and transition economies.

9. For SMEs that do not have bank accounts or prefer to pay in cash, and that are located in remote areas, ways of intermediating cash payments via e-payment schemes were discussed. In particular, the WTPF proposed to leverage its network in more than 80 countries by making Trade Points e-payment agents for SMEs, thus permitting less costly and more transparent e-payments to intermediate cash

payments between “non-banked” SMEs. Such an initiative would require reaching satisfactory agreements between the WTPF, payment card associations and local issuing banks.

10. While UNCTAD’s proposals were carefully considered and suggestions were made for how they could be implemented, other e-business-based models were also suggested. A proposal to create a working group to draft a plan of activities with a view to setting up a private-public partnership in this domain was carefully considered and endorsed.
