DEVELOPING EFFECTIVE TRADE FINANCING TOOLS FOR INCREASING EXPORT IN THE OIC MEMBER COUNTRIES

Assoc. Prof. Dr. Ali AYCI

Ankara Yıldırım Beyazıt University

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Overview of the Presentation

Chapter 1: Introduction & Methodology	Chapter 2: Market Dynamics & Instruments	Chapter 2: Megatrends, Rules & Ecosystem
• Background & Rationale: Trade finance as export catalyst • Aim & Objectives: Strengthening OIC trade systems • Scope & Coverage: 57 OIC States & World Bank Tiers • Methodology: Enterprise survey (215 firms) & case studies	• Market Dynamics: Key actors & \$2.5T Trade Finance Gap • Instruments: Traditional credit to working capital tools • Supply Chain Finance: Open Account shift & reverse factoring • Digitalization & AI: Paperless trade, DLT & smart contracts	• Global Megatrends: ESG priorities & geopolitical shifts • Regulatory Framework: Basel IV, AML/KYC & MLETR • Support Architecture: MDBs, ECAs & IsDB Group • Islamic Finance: AAOIFI, IFSB & IIFM standard setters

Structure of the Report

Chapter 1 – Introduction

- Defines aim, scope, and methodology
- Establishes study rationale and context for export financing development

Chapter 2 – Conceptual Framework & Global Trends

- Reviews global and OIC trade finance systems, institutions, and regulations
- Examines conventional and Islamic instruments and emerging global trends
- Identifies trade finance gaps and SME challenges

Chapter 3 – Country Case Studies & Survey Results

- Presents case studies from Malaysia, Egypt, Nigeria, Germany, and the UK
- Identifies good practices and benchmarks
- Analyses comparative case studies and OIC-wide survey findings

Chapter 4 – Policy Recommendations

- Develops targeted policy actions on governance, regulation, instruments, and SME support
- Provides differentiated guidance based on development and enterprise levels
- Proposes incentive-based measures, Islamic finance solutions, and the S-JTFDF

Chapter 1: Introduction

- ➔ Background and Rationale
- ➔ Aim and Objectives
- ➔ Scope and Coverage
- ➔ Methodological Overview

1.1 Background & Rationale

Trade finance as a strategic catalyst for export growth and economic diversification in OIC member states

01

Core Enabling Role

Resolves the fundamental payment timing mismatch between exporters and importers by linking financial intermediation directly to real cross-border trade.

02

Structural Barriers

Exporters face persistent trade finance gaps in OIC economies driven by institutional weaknesses, collateral scarcity, weak credit histories, and elevated risk perceptions.

03

Disproportionate SME Impact

Small and medium-sized enterprises face severe credit rationing, restricting their ability to manage liquidity, scale operations, and access global markets.

04

Strategic Low-Risk Asset

Inherently low-loss and tied to physical goods, making trade finance a highly effective mechanism for policy intervention, export diversification, and regional integration.

1.2 Aim & Objectives of the Study

PRIMARY AIM OF THE STUDY

To assess how trade financing systems can be strengthened to better support export growth and diversification in OIC member countries through improved financial instruments, institutional arrangements, and policy frameworks.

01. Map the Trade Finance Landscape

- Review current practices, emerging trends, and persistent constraints
- Compare global developments with OIC country experiences

02. Assess System Maturity Across Countries

- Examine differences in regulatory frameworks across member states
- Evaluate institutional capacity and technological readiness

03. Evaluate Instrument Effectiveness

- Analyse financial tools and support mechanisms
- Identify barriers to liquidity and risk management, especially for SMEs

04. Develop Practical Policy Guidance

- Draw lessons from comparative country experiences
- Propose context-sensitive recommendations to strengthen national strategies

1.3 Scope & Coverage of the Study

CORE ANALYTICAL FOCUS & WORLD BANK ALIGNMENT

To avoid a 'one-size-fits-all' policy approach, our 57 OIC member state classification consolidates the World Bank's 4 GNI per capita income groups (Low, Lower-Middle, Upper-Middle, High) into Tier 1 and Tier 2 to streamline actionable policy actions.

Instruments Covered

- Conventional & Islamic (ITF) financing tools
- Liquidity: L/Cs, DCs, & Supply Chain Finance (SCF)
- Risk Mitigation: Credit insurance & guarantees

Institutional Coverage

- National: Ministries, Central Banks, Lenders, ECAs
- Business Support Orgs (Chambers of Commerce)
- International: MDBs & Global Standard Setters

Tiered Country Scope

- 57 OIC Member States mapped by WB Income Groups
- Tier 1: Low & Lower-Middle Income States
- Tier 2: Upper-Middle & High Income States
- Target Sectors: SMEs, Agriculture, & Manufacturing

1.4 Methodological Overview

EMPIRICAL RIGOR & EVIDENCE-BASED APPROACH

Combines quantitative enterprise analytics (215 firms across OIC countries) with qualitative institutional interviews and 5 deep-dive country case studies to deliver actionable, evidence-based policy guidance.

01
Desk Research

- Structured review of policy documents & academic literature
- Analysis of global & regional statistical databases

02
Primary Data

- Enterprise survey across 215 firms (strategic focus on SMEs)
- Institutional surveys & expert interviews with regulators

03
Case Studies

- 5 Deep-dive studies: Malaysia, Egypt, Nigeria, Germany, UK
- Field visits & comparative ecosystem diagnostics

04
Policy Synthesis

- Data validation & comparative analytical synthesis
- Formulation of tiered, context-sensitive recommendations

Field Visit - Malaysia

Field Visit - Egypt

Chapter 2: Conceptual Framework and Global Trends in Trade Finance

CHAPTER 2

CONCEPTUAL FRAMEWORK & GLOBAL TRENDS

CHAPTER OVERVIEW

01 **Global Market Dynamics**
Key Actors, Market Size, and Transaction Structure

02 **Trade Finance Instruments**
Traditional vs. Modern Working Capital Tools

03 **Emerging Megatrends**
Supply Chain Finance, AI & Digitalization, and ESG

04 **Regulatory Environment**
Basel Standards, AML/KYC, and Bank De-Risking

05 **The Trade Finance Gap**
The $2.5 Trillion Deficit & SME Access Barriers

06 **Islamic Trade Finance (ITF)**
Shariah Principles, Instruments, and Global Role

2.1 Global Market Dynamics

Key Actors in the Global Trade Finance Architecture

01

Commercial Enterprises

Demand Drivers

Exporters, importers, corporates, and SMEs generating real cross-border commercial transactions and financing demand.

02

Commercial Banking & Fintechs

Liquidity & Tech Enablers

Primary credit providers, factors, and digital platforms executing trade facilities, discounting, and automated workflows.

03

Global & Regional Banks

Cross-Border Intermediaries

International banks facilitating global correspondent networks, clearing services, and complex syndicated facilities.

04

MDBs & ECAs

Risk Absorbers & Mitigators

Multilateral Development Banks & Export Credit Agencies providing guarantees, insurance, and counter-cyclical liquidity.

05

Regulators & Standard Setters

Governance & Compliance

Central banks, BIS, ICC, and FATF establishing capital adequacy (Basel), AML/KYC norms, and global trade rules.

2.1 Global Market Dynamics — Market Size & Trade Finance Gap

$2.5T

Global Trade Finance Gap

- Equates to ~10% of global merchandise trade volume.
- SMEs represent 45% of all credit proposal rejections globally.

$22.5 Trillion — Supported Merchandise Trade

80% to 90% of all international merchandise trade flows rely on trade credit, guarantees, or credit insurance.

$9.0 Trillion — Bank-Intermediated Flow

Annual volume of traditional bank facilities, including Letters of Credit (L/Cs), documentary collections, and loans.

$63 Billion — Global Market Revenues

Global trade and supply chain finance revenues grew 6.3% in 2022, demonstrating strong structural resilience.

$1.0 Trillion — Intra-OIC Trade Milestone

Intra-OIC trade volume reached historic highs, anchoring a stable ~20.4% share of total OIC global trade.

2.1.3 Market Structure of Global Trade Finance

3 Transactional Pillars

Inter-firm Credit (Open Account): Accounts for ~60% of global exports; used between established commercial partners in low-risk environments.

Bank-Intermediated Finance: Accounts for ~40% of global trade (L/Cs, DCs); preferred for high-risk destinations or new counterparties.

Supply Chain Finance (SCF): Technology-driven working capital optimization; leverages anchor buyer's credit rating for supplier early payment.

Institutional Cross-Border Nexus

Firm-to-Firm & Bank-to-Bank: Direct credit terms (Open Account/CIA) and correspondent banking L/C confirmation networks.

Bank-to-Firm & Insurer-to-Insured: Direct trade loans alongside private ECA/MDB payment and political risk mitigation solutions.

ECA/DFI & Regulator-to-Bank: Official sovereign buyer credit guarantees and micro/macro prudential oversight (Basel III, KYC/AML).

Market Drivers & Disparities

Hump-Shaped Risk Reliance: Bank intermediation (L/Cs) peaks in intermediate-risk countries; highest-risk reverts to Cash-in-Advance due to high fees.

Regional Disparities: High banking concentration in West Africa (top 5 banks = 50% supply); Asia-Pacific holds >50% of global L/C exposures.

Regulatory De-Risking: Basel III capital rules and AML/KYC compliance costs cause global banks to exit smaller or volatile markets.

2.2 Trade Finance Instruments: Functional Categorization

From traditional documentary credits to integrated working capital and value-chain solutions

01
Payment Methods
Timing & Security

Establishes payment timing and risk allocation between commercial parties.

- **Cash in Advance**
- **Letters of Credit (L/Cs)**
- **Documentary Collections**
- **Open Account**
- **Consignment**

02
Export Financing
Exporter Liquidity

Provides working capital before or after shipment to bridge cash flow gaps.

- **Pre-Shipment Finance**
- **Post-Shipment Finance**
- **Factoring & Forfaiting**
- **Receivables Discounting**

03
Import Financing
Buyer Capital

Facilitates cross-border procurement and short-term working capital for buyers.

- **Buyer's Credit**
- **Supplier's Credit**
- **Import Trade Loans**
- **Working Capital Facilities**

04
Risk Mitigation
Credit & Political Protection

Insulates against commercial default and sovereign non-payment risks.

- **Export Credit Insurance**
- **Export Credit Guarantees**
- **Bank Guarantees / Standbys**
- **Performance Bonds**

05
Ecosystem & SCF
Value-Chain Optimization

Integrates multi-party financing across global supply chain networks.

- **Supply Chain Finance (SCF)**
- **Reverse Factoring**
- **ECA Direct Lending**
- **Project-Based Trade Lines**

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2.3. Emerging Global Trends in Trade Finance

Supply Chain Finance

Evolution of Trade Finance: Transitioning from traditional L/Cs to integrated, tech-driven working capital solutions.

Market Drivers: Driven by open-account trade (now 60%–90% of global exports) and complex value chains.

Ecosystem Approach: Uses digital platforms to optimize liquidity across entire supply chains rather than single transactions.

Core SCF Instruments:

- **Approved Payables Finance (Reverse Factoring)**: Leverages buyer credit to provide suppliers early discounted payments while extending buyer DPO.
- **Dynamic Discounting**: Buyers use excess liquidity to pay suppliers early in exchange for cash discounts.
- **Receivables & Inventory Finance**: Uses invoice discounting and inventory repo agreements to unlock short-term liquidity.

2.3. Emerging Global Trends in Trade Finance

Supply Chain Finance

Deep-Tier SCF Innovation:

- Extends anchor buyer credit strength to Tier-2 and Tier-3 SME suppliers.
- Unlocks critical working capital for SMEs facing 45% traditional lender rejection rates.

Strategic Priority for Banks:

- **Sticky Relationships**: Generates recurring transaction flows across buyer-supplier networks.
- **Better Credit Assessment**: Approved invoices and real-time trade flows improve risk modeling.
- **Market Resilience**: Collaborative networks help sustain liquidity during economic downturns.

Key Operational & Financial Risks:

- **Concentration Risk**: High exposure and over-reliance on a few large anchor firms.
- **Dilution & Dispute Risk:** Commercial offsets, rebates, or returns can delay or lower settlements.
- **Digital Vulnerabilities:** Heavy tech integration brings cyber, data, and third-party operational risks.

2.3. Emerging Global Trends in Trade Finance

AI & Digital Ecosystem Transformation

>90%

Processing Cost Reduction

Transitioning from paper-heavy workflows to integrated digital trade platforms drastically cuts operational overhead.

Blockchain & Smart Contracts

Provides immutable ledgers and self-executing contracts, eliminating double-financing risks and automating payment settlements.

AI & Machine Learning Integration

Automates document processing, enhances Trade-Based Money Laundering (TBML) detection, and streamlines regulatory compliance.

IoT & Cargo Telemetry

Sensors track physical location, temperature, and status of goods in real time, validating trade events before triggering financing.

2.3. Emerging Global Trends in Trade Finance

Sustainability and ESG as Strategic Priorities

Strategic Focus: 82% of global banks view sustainable trade finance as a primary strategic focus.

Growth & Inclusive Inclusion: 80% see green finance as a major growth opportunity, with 75% expecting surging demand—expanding SME and women-owned enterprise access to Global Value Chains.

Public Sector & MDB Leadership: ECAs and Multilateral Development Banks are realigning core mandates with climate goals.

Harmonization & Standardization Barriers: Scaling is hindered by fragmented taxonomies, inconsistent definitions, and unstandardized data frameworks.

Upfront Costs vs. Long-Term Value: High initial compliance and diligence costs are offset over time by access to dedicated green capital and preferential financing rates.

2.3. Emerging Global Trends in Trade Finance

Geopolitical Fragmentation

Shift to a "Multipolar Patchwork": Transition toward regional blocs ("slowbalisation") prioritizes supply chain resilience over efficiency.

Trade & Capital Friction: Growth slowed to 2.5–3.0% in early 2025, driven by new tariffs, regulatory shifts, and rising costs.

Accelerated Global De-Risking: Banks exiting high-risk markets to ease compliance, severing correspondent ties in developing regions.

Disproportionate Externalities:

- **SMEs**: Face severe market uncertainty and limited finance access, crippling their capacity for long-term investment and planning.
- **Low-Income Economies**: Hit by shrinking trade volumes, soaring shipping costs, and high trade barriers.
- **Regional Integration Hurdles**: egulatory fragmentation increases friction, stalling major initiatives like the AfCFTA.

2.4. Regulatory & Legal Environment

Basel IV Capital Rules

Fundamentally overhauls Risk-Weighted Assets (RWA) and recalibrates Credit Conversion Factors (CCFs). Treats short-term, self-liquidating trade assets with standardized capital penalties, driving up financing costs and squeezing off-balance-sheet exposures.

Compliance & De-risking

Strict AML & KYC mandates aligned with FATF Recommendations cause major operational hurdles. Global correspondent banks terminate respondent networks in emerging markets to avoid regulatory fines, isolating vulnerable economies.

Legal Standardization

Governed by ICC's UCP 600 (autonomy principle separating credit from sales contract) and URDG 758. Legal modernization via UNCITRAL MLETR legally validates paperless trade and electronic bills of lading.

2.5.1. Global Institutions Supporting Trade Finance

1. Trade rules & policy coordination

- **WTO**: trade-finance policy coordination, advocacy, analytical work, and Aid for Trade.
- **UNCTAD**: trade facilitation, digital trade, logistics, export diversification, and GVC integration.

2. Standards & regulatory framework

- **ICC**: internationally recognized rules for documentary trade finance, including UCP 600 and demand guarantees; Trade Register supports evidence-based regulation.
- **BCBS**: prudential and capital-treatment rules; recognizes the short-term and self-liquidating nature of many trade-finance exposures.
- **OECD**: international disciplines for officially supported export credits, including repayment terms, interest rates, and premiums.

3. Multilateral liquidity & risk sharing

- **IFC**: Global Trade Finance Program guarantees and correspondent-banking support.
- **ADB**: Trade and Supply Chain Finance Program; guarantees, loans, risk participation, and Trade Finance Gap Survey.
- **AfDB**: guarantees, credit lines, and risk participation to expand African trade-finance capacity.
- **EBRD**: Trade Facilitation Programme, guarantees, credit lines, and technical assistance.

2.5.1. Regional Institutions Supporting Trade Finance

1. **Regional trade-finance institutions**

- **Afreximbank** — structured trade finance, factoring, forfaiting, AfCFTA support, and regional value-chain development.
- **ATFP** — refinancing facilities and credit lines supporting Arab exporters and importers.
- **Dhaman** — export-credit and political-risk insurance, supporting trade and receivables liquidity.

2. **Export Credit Agencies (ECAs)**

- Government-supported insurance, guarantees, and—in some cases—direct financing.
- Reduce commercial and political risks faced by exporters and financial institutions.
- Facilitate financing in higher-risk and emerging markets.
- **Berne Union:** global platform for ECAs, multilateral insurers, and private credit insurers; promotes information sharing and best practices.

2.5.2. OIC Institutions Supporting Trade Finance

IsDB & ITFC — Development & Trade Finance

IsDB: sustainable development, infrastructure, private-sector development, and trade facilitation through Shariah-compliant, asset-backed and risk-sharing structures.

ITFC: dedicated trade-finance institution of the IsDB Group.

- Murabaha-based trade finance and line of trade financing
- Lines of Finance to local banks
- Syndication with international financial institutions and private investors
- Regional trade-development and connectivity programs

ICD — Strengthening Domestic Financing Capacity

- Provides Lines of Finance to Islamic banks and financial institutions.
- Expands liquidity available for SMEs and export-oriented businesses.
- Supports Islamic financial-sector development and syndicated financing.
- Indirect contribution: strengthens domestic banks' capacity to provide trade finance.

ICIEC — Shariah-Compliant Risk Mitigation

- Export credit and investment insurance
- Political-risk coverage and reinsurance
- Bank Master Policy and other risk-sharing arrangements
- Reduces counterparty, sovereign, political, and commercial risks.
- Mobilizes greater participation from commercial banks and private investors.

COMCEC – Policy Coordination

- ✓ Promotes intra-OIC trade integration.
- ✓ Supports TPS-OIC, customs cooperation, trade facilitation, connectivity, digitalization, and SME development.
- ✓ Shapes the policy environment for ITF institutions.
- ✓ Challenge: uneven implementation across member countries.

2.5.2. International Organizations for Islamic Finance

Standards & Market Infrastructure

AAOIFI

- ✓ Shariah, accounting, auditing, governance, and ethics standards.
- ✓ Reduces legal uncertainty and supports cross-border standardization.

IFSB

- ✓ Prudential standards for Islamic financial institutions.
- ✓ Capital adequacy, liquidity, governance, and risk management.

IIFM

- ✓ Standardized legal documentation and contractual templates.
- ✓ Facilitates Islamic trade-risk participation and hedging transactions.

Capacity & Market Confidence

CIBAFI

- ✓ Professional training, technical assistance, policy dialogue, and knowledge dissemination.

IIRA

- ✓ Credit assessments and Shariah governance ratings.
- ✓ Improves transparency, correspondent-banking relationships, and access to international liquidity.

2.6. Trade Finance Gap & SME Financing Challenges

Severe Rejection Disparity

- **45% vs. 20% Rejection**: SMEs face 45% rejection rates compared to 20% for large multinationals.
- **Key Drivers**: Driven by data gaps, weak credit registries, and collateral shortfalls.

Geographic Trade Finance Gap

- **80% vs. 20% Coverage**: Bank solutions cover 80%+ of trade in advanced economies, but only 20% in vulnerable regions.
- **Global Access**: Severely restricts emerging market integration into global value chains.

Correspondent Banking Fractures

- **De-Risking**: International bank exit cuts correspondent links and inflates transaction costs.
- **Compliance Pressure**: Constrains credit scale for local banks navigating strict AML/KYC rules.

Fintech & Non-Bank Solutions

- **Next-Gen Tools**: Platforms use AI risk tools and central invoice registries for asset-based financing.
- **Unlocking Capital**: Expands funding access for SMEs with limited credit histories.

2.7. Islamic Trade Finance

- **Core Ethical Framework**: Asset-backed, risk-sharing model prohibiting interest (riba), uncertainty (gharar), speculation (maysir), and haram industries.
- **Asset-Backed Ownership**: Requires physical or constructive possession of goods before resale (e.g., Murabahah), keeping money as a medium of exchange.
- **SME Protection & Inclusion**: Supports underserved SMEs (facing >50% conventional rejection rates) by eliminating compounding late fees and hidden charges.
- **Systemic Financial Resilience**: Risk-sharing principles prevent over-leveraging, enhancing market stability during economic crises.

Contract Class	Primary Mechanism	Trade Application
Murabahah (LC-i)	Cost-plus sale with agreed markup and deferred payment terms.	Imports/exports, Letters of Credit, and short-term working capital.
Salam & Istisna'	Advance payment for future goods (Salam) or staged project payments (Istisna').	Agricultural export pre-financing (Salam) and equipment/construction (Istisna').
Musharakah & Mudarabah	Joint capital contributions (Musharakah) or capital-manager partnerships (Mudarabah).	Shared-risk trade partnerships and equity-based joint ventures.
Wakalah & Kafalah	Fee-based agency representation (Wakalah) and third-party performance guarantees (Kafalah).	Trade agency administration and cross-border shipping/bank guarantees.

THANK YOU