

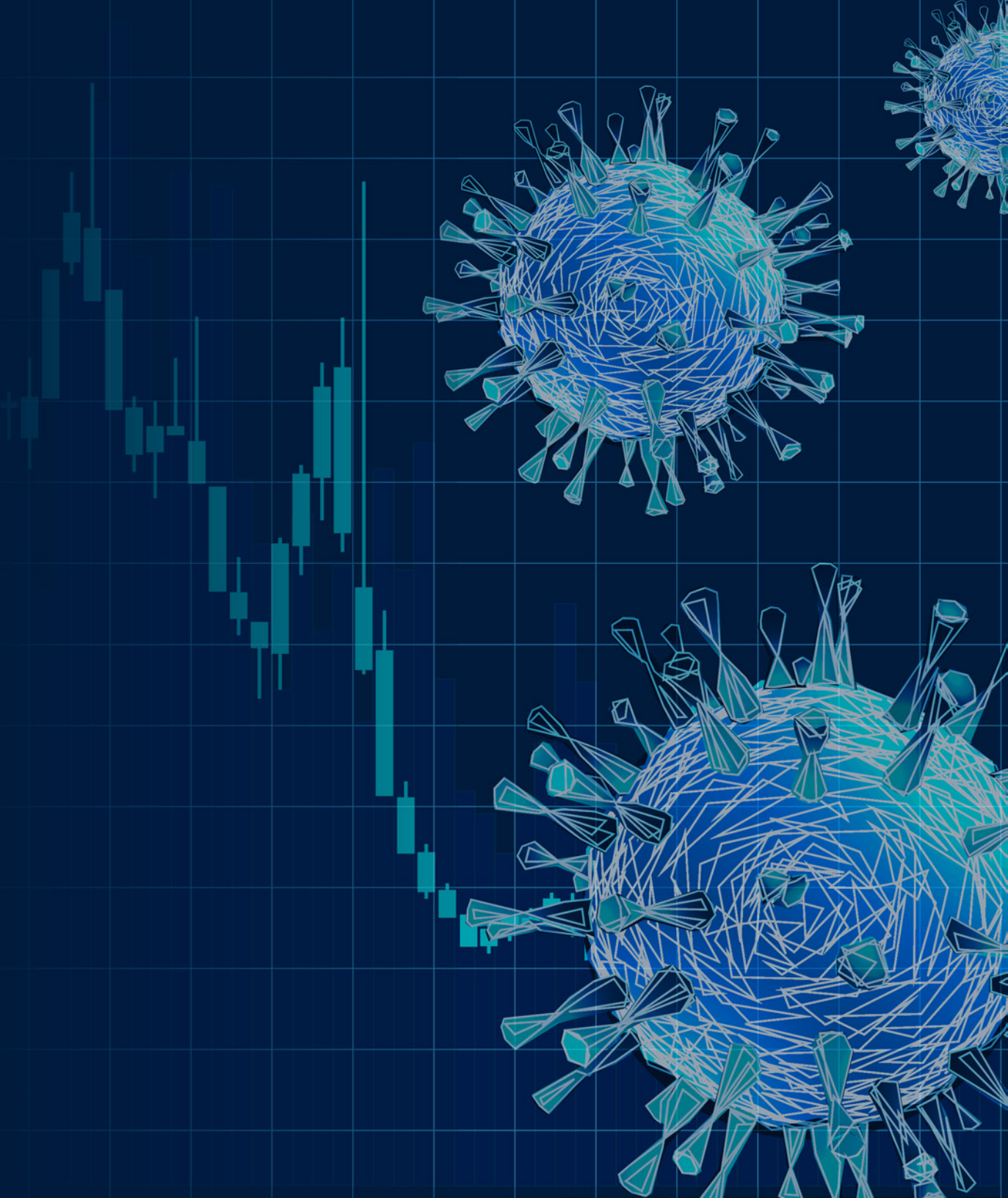
MARCH, 2021

COVID-19 AND TRADE FINANCE IN EMERGING MARKETS

An overview
of IFC's Annual
Respondent Bank
survey



Creating Markets, Creating Opportunities



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Respondent Bank survey

A Collaborative Effort between IFC's Sector
Economics and Development Impact Department
and The Global Trade Finance Program

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INTRODUCTION

As detailed in IFC's October 2020 note "When Trade Falls—Effects of COVID-19 and Outlook,"¹ the COVID-19 crisis has put significant downward pressure on trade, which was already facing rising challenges prior to the pandemic. In line with early predictions, global trade volume fell dramatically in 2020, exceeding even the decline observed during the 2008-2009 global financial crisis. The primary drivers of the trade slump are the effects of virus containment efforts on both global demand and supply, as countries have found both their capacity to produce goods and to export them curtailed during the pandemic. While preliminary data shows a fledgling recovery may be underway, the speed and endurance of that recovery is, at present, undetermined.²

In addition, because the availability of trade finance is critical to trade, its relative scarcity during the crisis threatens to exacerbate the trade decline. This is not unprecedented. Studies show that a shortage of trade finance was a material driver (up to 20 percent) of the 2008-2009 trade collapse.^{3,4} Since that crisis, the world has become even more integrated, and trade as a share of GDP has increased across country income groups, with positive effects on economic growth. We believe that trade and trade finance will play similarly significant roles in the current crisis. Thus, while the economic contagion of COVID-19 constricted global trade and created unprecedented challenges for the global economy, the reignition of global trade promises to help many economies accelerate their post-pandemic recoveries.

Trade finance is essential for international trade; in many cases, goods do not cross borders without it, especially in

emerging markets (EMs). History has shown that the use of trade finance products tends to increase proportionately with the perceived risks of trade, as depicted in IFC's November 2020 note "Why Trade Finance Matters—Especially Now."⁵ EMs continue to face an enormous and persistent trade finance gap. Prior to the COVID-19 pandemic, as pent-up global demand for trade finance outpaced supply, the gap appeared to be expanding across all EM regions. At present, as pandemic-related pressures on both global and local financial systems create cross-border counterparty bank retrenchment, the supply of the relatively shorter tenor trade finance asset class is particularly vulnerable, despite its near-zero default rates. In fact, the International Chamber of Commerce estimates that an additional US\$ 1.9 to US\$5 trillion is needed just to return to the 2019 trade finance supply level⁶; in 2019, the global trade finance gap was already estimated to be US\$1.5 trillion.⁷ This is a significant concern because trade finance provides essential short-term liquidity. Also, additional trade finance will be urgently required going forward, as the opening of economies post pandemic will require a significant injection of capital to allow production, operations and, ultimately, trade to resume. While the pandemic creates opposing forces on demand for trade finance (increased risk and liquidity needs push demand up while reductions in trade drive demand down), the transmission of these forces to the trade finance gap is having different effects as the economic impact of COVID-19 evolves and reverberates throughout the global economy. The complexities of the economic impact of the pandemic on individual countries and bilateral trade pairs create differences in trade finance trends and timing among

countries. However, while indicators suggest that trade finance has fallen globally, and on-the-ground intelligence also suggests that it is falling in particular countries, there are also pockets of spikes, muted reductions, and nascent recovery of demand, particularly in EMs.

There is cause for cautious optimism about an economic recovery as several countries have approved multiple effective vaccines^{8,9,10} through emergency authorization of use,¹¹ and vaccine rollouts have begun. However, this optimism remains tempered by two major obstacles. One, the availability, affordability, and distribution of these vaccines may be limited in some EMs, particularly poorer countries.¹² And two, the implications of new strains of the COVID-19 virus, along with the uncertainty regarding vaccine effectiveness against them, may postpone pandemic recovery.¹³ Despite potential limitations, the prospects for economic recovery suggests that the EM trade finance gap is poised to expand, and perhaps sooner than expected.

With so many uncertainties about the course of the pandemic and the rollout of vaccines—and the impact of those factors on economies and trade—the more information policy makers and development finance institutions (DFIs) have, the better. While news and high-level trade and economic data provide important information about trade and trade finance in emerging market and developing economies, there is also powerful market intelligence in the collective voice of IFC's emerging market private sector client network. Combined, IFC's financial institution clients hold an estimated 29 percent of global emerging market banking assets (and nearly half of

total banking assets in Sub-Saharan Africa).¹⁴ Thus, there is important knowledge residing in each of IFC's financial institution clients: mastery of challenges that others face, market intelligence that does not exist elsewhere, and very deep experience in absorbing and responding to external forces to support their own countries through their customers. Therefore, a focused and systematic approach to gathering, consolidating, and sharing this institutional knowledge can provide unprecedented value, not just directly to IFC clients, but also beyond them. For this reason, IFC conducted a survey to assess the effects of COVID-19 from a trade and trade finance perspective. Some 163 banks across 63 countries responded to IFC's survey of emerging market financial institutions, all of them clients of its Global Trade Finance Program between April 2020 and July 2020. Despite incredibly challenging operating conditions, which are noted in this report, these clients had a clear desire to have their voices heard and to shape the path forward, as evidenced by the 86 percent response rate.

This report presents the findings of IFC's survey of the Global Trade Finance Program's EM client banking network, compiling the voices of these 163 banks across 63 countries. Through their responses we can see systematically and exactly how COVID-19 is affecting these banks' capacity to supply trade finance, their customers' access to it, and other challenges that COVID-19 has presented. In the absence of systematic and timely public data on EM trade finance during this global crisis, this survey data is absolutely critical to comprehensive understanding and addressing the challenges to closing the trade finance gap and rebuilding global trade post pandemic.

KEY SURVEY TAKEAWAYS

- *The impact of the COVID-19 pandemic on EM banks and their customers has been systemic, extensive, and pervasive.*
- *Nearly all of the EM banks surveyed, along with their trade finance customers, are experiencing significant disruptions due to the pandemic.*
- *The extensiveness of the challenge is represented by the multitude of adverse impacts. The high frequency of each pandemic impact suggests that countries in all regions and at income levels have been significantly affected by the crisis across many fronts.*
- *While all EM countries are facing significant challenges, the collected data suggests that IDA17 and Fragile and Conflict Affected States (FCS)¹⁵ are experiencing specific disruptions in their production cycles and trade value chains; and they are facing challenges beyond those faced by other EMs.*
- *Substantially, all sectors and customer segments were gravely affected by the crisis, creating increased stress and potentially devastating short- and medium-term impacts on trade and economies in general.*
- *Survey responses suggest that several factors constrain the EM banks' capacity to support their customers. EM banks face increased correspondent banking relationship challenges, with COVID-19 exacerbating problems that had existed for several years. Thirty-nine percent of survey respondents reported some form of correspondent banking stress, including fewer lines, increased pricing/cost, line limit restrictions, and increased compliance requirements.¹⁶*
- *One out of every three respondent banks reported liquidity limitations during the first half of 2020, and they expected their situations to worsen. Over 38 percent of survey respondents experienced fee increases for basic trade finance instrument confirmation at the start of the pandemic, with anecdotal evidence suggesting that those fees remain high.*
- *As this fast-evolving crisis disrupted nearly every sector, EM banks quickly adapted their operations to meet challenges presented by the crisis. However, several negative consequences beyond the control of these banks persist.*
- *Over 90 percent of survey respondents said they needed some form of additional support. From a trade finance perspective, EM banks need more support than ever before.*
- *Market outlooks are negative for the short term, but there is hope for a steady recovery post crisis.*

SURVEY APPROACH AND RESPONSE RATE

IFC attempted to survey 189 of its Emerging Market Financial Institution clients across 69 emerging markets between April and July 2020 to assess the effect of COVID-19 from a trade finance and trade perspective. Eighty-six percent, or 163 banks, participated during that time period. Regional participation and countries covered are depicted in Annex A, showing both the variance in regional participation and the extensiveness of country coverage. We note that there were roughly the same number of survey respondents located in IDA/FCS countries as in non-IDA/FCS countries, also detailed in Annex A.

Responses to the survey were received between mid-April and end-July 2020, and despite the varying progress of the crisis across regions and countries, most banks suggested that they were already experiencing COVID-19- related stress.

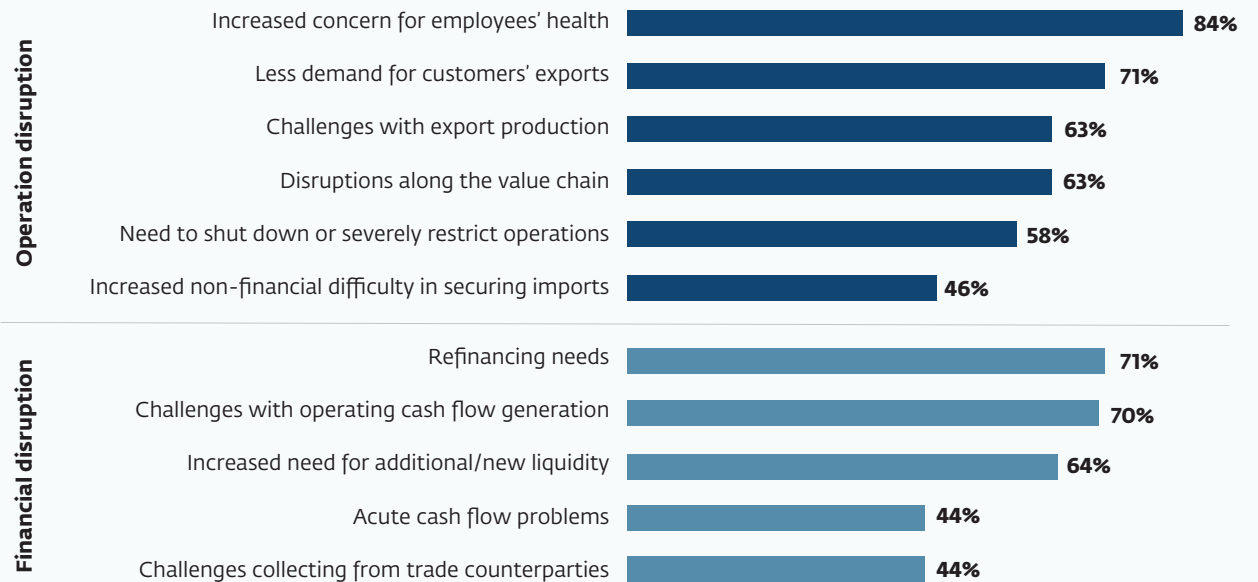
COVID-19 CRISIS THROUGH THE LENS OF EMERGING MARKET BANKS

IFC's 2020 Annual Respondent Bank Survey offers preliminary insights about COVID-19-related effects on GTFP client banks' trade finance business and their respective countries. A majority of survey respondents said they expect the crisis to continue and cause severe disruptions in the short to medium term. The impact of the COVID-19 pandemic, articulated through EM banks' on-the-ground insights, is systemic, extensive and pervasive.

3.1 COVID-19 CHALLENGES IN EMS THROUGH THE LENS OF GTFP CLIENT BANKS

IFC's 2020 Annual Respondent Bank Survey clearly revealed the challenges faced by GTFP client banks, their customers, and their countries, through the lens of EM banks. For example, 98 percent of participating banks noted that their customers were negatively affected by the pandemic, beginning in the second quarter of 2020. EM banks noted a wide range of challenges, ranging from concerns for their employees' health to an extensive array of obstacles facing their customers. In fact, 91 percent⁷ of these banks mentioned that their customers faced some form of acute cash flow needs, and 99 percent indicated either concern for their own employees' health or operational challenges that their customers faced. These two challenges are shown in greater detail in Figure 1.

FIGURE 1: The impact of COVID-19 on EM banks' trade finance customers: The percentage of survey respondents reporting specific disruptions



“[The crisis] has completely changed the scenario. Banks had to operate with the least number of employees on premises and more working from home. Banks encouraged [the use of] digital solutions and platforms.”

- GTFP Client Bank, South Asia

Figure 1 illustrates the extensiveness of COVID-related challenges in EMs. Businesses faced pressure on all fronts, as demonstrated by the sheer number of issues identified. An overwhelming majority of survey respondents' customers faced more than one challenge; on average, survey respondents cited seven different challenges. The number of obstacles faced by almost all of banks in the GTFP network highlights both the complexity and the severity of the crisis. While the range of challenges cited indicates the pervasiveness of the crisis, even the least frequently cited difficulties were still faced by over 40 percent of survey respondents. While survey responses were received from April to July, there was no significant variation in the issues reported in early and later submissions. While the spread of the COVID-19 virus lagged in some regions, the contagion of economic effects moved rapidly across the globe.¹⁸ Countries have become much more connected over the past 20 years, from both a financial and a real sector perspective. The pandemic shocked global supply chains, exacerbated existing financial vulnerabilities, and increased volatility across many markets. This in turn resulted in a fairly synchronized global economic effect.

“Due to COVID-19, there has been a general holiday declared in our country. The nationwide stay-at-home order has resulted in simultaneous supply and demand shocks which affected almost all the sectors. SMEs are also facing challenges ranging from liquidity crisis to supply chain disruption, resource and inventory breakdown, and a sudden drop in demand. On the export side, the major export destinations of [systematically important export industry] have also been impacted, which caused order holding or cancellations... Though it has been only one and half months, the pandemic has had large-scale impact. The situation is evolving rapidly, and it may improve or deteriorate from here on.”

- GTFP Client Bank, South Asia

Banks in all six regions noted extensive challenges, with the top challenge mentioned by 84-94 percent of banks in each region.

Two issues, employee health concerns and faltering export demand, made the top five concerns in every region, as shown in Table 1:

Certain regions faced a few unique obstacles, even though these were not among the top five challenges. For example, in Sub-Saharan Africa, banks noted that documentation delays affected their trade transactions; some banks in Sub-Saharan Africa and South Asia noted an increased challenge of collecting from trade counterparties; and some South and East Asian banks faced cash flow issues. In Latin America, nine in ten banks highlighted the need for refinancing their trade finance transactions owing to the crisis, which was a much higher percentage than in other regions. Similarly, value chain disruption was the top concern for both Sub-Saharan African and South Asian banks, while it did not feature in the top five for the other regions.

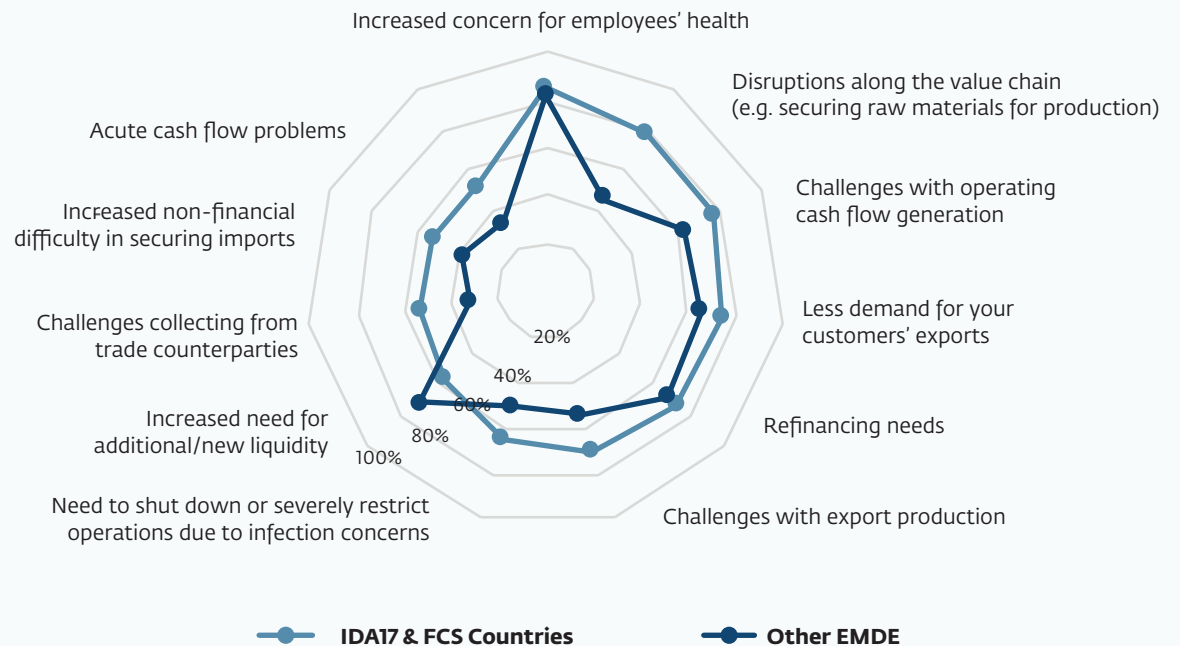
TABLE 1: Five biggest concerns and disruptions caused by the crisis, by Region

East Asia and the Pacific	Europe and Central Asia	Latin America and the Caribbean	Middle East and North Africa	South Asia	Sub-Saharan Africa
Less demand for customers' exports 86%	Concern for employees' health 86%	Refinancing needs 90%	Concern for employees' health 86%	Less demand for customers' exports 94%	Disruptions along the value chain 84%
Challenges with export production 79%	Challenges with export production 70%	Concern for employees' health 85%	Refinancing needs 57%	Disruptions along the value chain 94%	Concern for employees' health 84%
Challenges with operating cash flow generation 79%	Less demand for customers' exports 59%	Challenges with operating cash flow generation 81%	Increased need for additional/new liquidity 57%	Concern for employees' health 89%	Challenges with operating cash flow generation 77%
Refinancing needs 79%	Increased need for additional/new liquidity 59%	Increased need for additional/new liquidity 75%	Less demand for customers' exports 57%	Challenges with export production 83%	Less demand for customers' exports 68%
Concern for employees' health 71%	Need to shut down or severely restrict operations 51%	Less demand for customers' exports 71%	Need to shut down or severely restrict operations 57%	Challenges with operating cash flow generation 78%	Refinancing needs 65%

IDA countries and otherwise fragile countries are particularly hard-hit. Banks in countries of all sizes are facing serious and multifaceted challenges. Categorizing the survey respondents into two groups—banks in IDA17 and Fragile and Conflict Affected States (FCS) countries,¹⁹ and banks in all other EMs that are non-IDA17/FCS—revealed stark differences between the two groups. Specifically, as with other crises, IDA17 and FCS countries are even more affected. The frequency of challenges cited in each group ranged between 33 percent and 85 percent, underscoring the severity of the crisis. With an approximately equal number of survey respondents from each group, banks in the IDA17 and FCS group more frequently mentioned that they are facing COVID-19 crisis-related barriers than banks in Non-IDA17/FCS. The range of challenge frequency for IDA17 and FCS is depicted in the spider chart below, where many of the challenges listed above approach 80 percent reporting frequency in IDA17 and FCS, as shown in Figure 2.

Survey respondents in both groups were equally concerned about their employees' health. However, IDA17 and FCS countries face more problems than other EMDEs as they more frequently reported more challenges. The survey response frequency difference between IDA17 and FCS banks (vs. others) was the largest for the category entitled "Heightened disruptions along their customers' production cycles and trade value chains." Challenges collecting from trade counterparties had the second largest difference. Cross-border collection challenges underline one mechanism by which COVID-19-related economic contagion spreads: businesses facing lockdown measures in one country find it more difficult to pay their suppliers in other jurisdictions.

FIGURE 2: IDA17 and FCS countries reported more severe COVID-19-related challenges



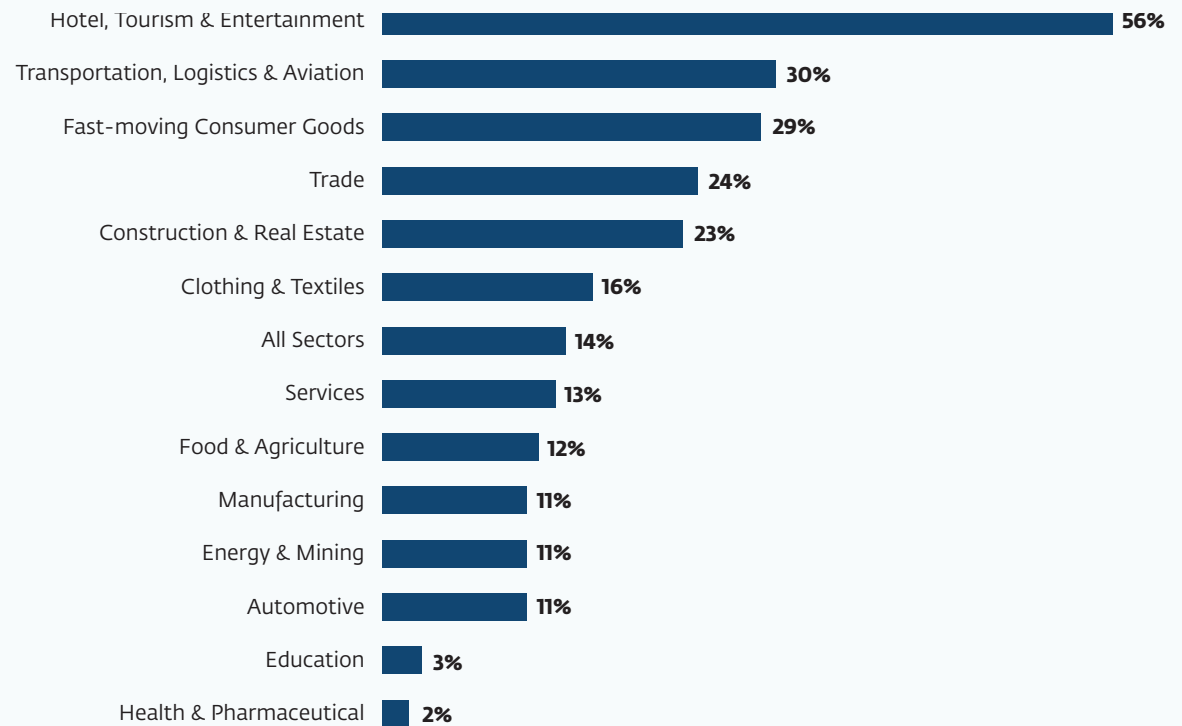
While the IDA17 and FCS banks focused on sustaining their trade business, banks in non-IDA17/FCS countries report that their trade finance customers are facing an increased need for liquidity.

3.2 SECTORAL EFFECTS OF COVID-19

Almost all sectors were significantly affected by the crisis in different economies. According to survey respondents, following the outbreak of the pandemic almost all sectors of their economies were immediately affected. These economies saw dramatic slowdowns due to government restrictions on movement of people and commerce to contain the spread of the virus. As shown in Figure 3, the most directly affected sectors were those pertaining to travel and leisure, as all nonessential activities in the economy came to a halt. With curtailed economic activity and a significant uptick in work-from-home policies, the transportation and aviation sectors also saw a dramatic reduction in business.

Interestingly, many survey respondents specified the “trade sector” as under stress, even though trade is not typically considered a sector; rather, it is an enabling function across many sectors. Reduced economic activity, regulatory restrictions and, in some cases, shuttered economies have affected trade flows. Trade operations slowed due to delays in procurement of raw materials, production of goods, transportation, and documentation. Trade supports growth and employment, both as a direct source of income with exports and indirectly through imports. It is also worth noting that several respondents indicated that “all sectors” were deeply affected, instead of highlighting one specific sector.

FIGURE 3: Sectors most affected by the COVID-19 crisis as reported by survey respondents²⁰



“We notice that while service sectors seem to be the most severely affected, other sectors such as energy, retail, and transportation also experienced the largest losses from the crisis. To slow down the spread of COVID-19 the government has been taking drastic measures, implementing nationwide social distancing rules... While proving [successful] in reducing contagion rates, these measures...come at the expense of negative economic effects. Some sectors, such as airlines, tourism, hotels, and transportation have been facing a complete breakdown of demand.”

- GTFP Client bank, East Asia
and the Pacific

IFC’s note “Taking Action on Trade: From Concern to Support”²¹ provides context for the survey responses. According to the note, regulatory and protectionist responses to the pandemic have expanded over the past 11 months, severely affecting exports and imports, and have amplified the crisis in EMs. As a result of both the pandemic and related protective measures, year-over-year world merchandise trade value decreased in the first half of 2020. In the second quarter of 2020 alone, trade fell by 21 percent year-over-year. While the value of world trade did begin to recover during the third quarter,^{22, 23} it had yet to return to its pre-pandemic level.²⁴

In addition, external data on sectoral effects conforms with the survey’s findings. Aligning with frequency of tourism sector damage, international tourist arrivals fell by 72 percent over the first ten months of 2020 due to restrictions on travel, low consumer confidence, and the global struggle to contain the COVID-19 virus. International arrivals declined by 74 percent in 2020, which represents an estimated loss of \$1.3 trillion in export revenues, or more than 11 times the loss recorded during the 2009 global economic crisis. The crisis has also put between 100 and 120 million direct tourism jobs at risk, many of them in small and medium-sized enterprises.²⁵ Due to reduced movement and economic

activity, the transportation, logistics, and aviation sector was the second most frequently mentioned sector affected by the crisis. The Container Throughput Index of the RWI and ISL²⁶ (which covers container throughput for over 90 international ports and about 60 percent of global container throughput), recorded its largest ever drop of 11 points, to 102, in February. It continued to fall in April-May, decreasing by 6 to 7 percent year on year in each period. Air cargo capacity measured by industry-wide “cargo tonne-kilometres” contracted by 28 percent year on year in April, the sharpest decline since 1990 and worse than declines observed during the Global Financial Crisis (e.g., a decline of 24 percent in January 2009). Both port and air cargo have experienced recent improvements, however, only very recently approaching pre-crisis levels.²⁷

The sectors most severely affected by the crisis varied by region. Across all regions but one, the hospitality-related sector (hotels, tourism, and entertainment) was most frequently mentioned as being immediately affected by the crisis; hospitality ranked third only in South Asia. However, the transportation, logistics, and aviation sector found its way into the top three in four of six regions, as shown on the next page.

TABLE 2: Top three sectors affected by the crisis, by Region

East Asia and the Pacific	Europe and Central Asia	Latin America and the Caribbean	Middle East and North Africa	South Asia	Sub-Saharan Africa	Global
Hotel, Tourism & Entertainment 85%	Hotel, Tourism & Entertainment 76%	Hotel, Tourism & Entertainment 54%	Hotel, Tourism & Entertainment 43%	Trade 61%	Hotel, Tourism & Entertainment 40%	Hotel, Tourism & Entertainment 56%
Transportation, Logistics & Aviation 46%	Transportation, Logistics & Aviation 35%	Fast-moving Consumer Goods 42%	Transportation, Logistics & Aviation 43%	Clothing & Textiles 39%	Transportation, Logistics & Aviation 27%	Transportation, Logistics & Aviation 30%
Energy & Mining 38%	Fast-moving Consumer Goods 32%	Construction & Real Estate 32%	Trade 43%	Hotel, Tourism & Entertainment 33%	Construction & Real Estate 23%	Fast-moving Consumer Goods 29%

Beyond the top three sectors, regional respondents pinpointed a few unique sectors affected by the crisis. For example, the energy and mining sector in Sub-Saharan Africa and the fast-moving consumer goods (FMCG) sector in East Asia and the Pacific were mentioned as affected by the crisis at a higher frequency, even though those sectors did not make it to the top three in their respective regions.

For survey respondents in IDA17 and FCS countries, trade was the second most affected sector following the hotel, tourism, and entertainment sector, while banks in non-IDA17/FCS EMDEs mentioned the fast-moving consumer goods sector as the second most frequently affected sector, reflecting principal drivers of those countries' manufacturing output.

3.3 COVID-19 EFFECTS ON CUSTOMER SEGMENTS

In addition to the industrial sector, specific customer segments such as small and medium enterprises (SMEs) have also been affected by the crisis. Twenty-eight percent of survey respondents identified specific customer segments that have been affected by the crisis. Among the few survey respondents that highlighted segment-level effects, most were concerned about micro, small, and medium enterprises (MSMEs) (62 percent)

and retail customers (51 percent), as shown in Figure 4.

Survey respondents also noted that MSMEs are experiencing a variety of hardships as a consequence of the negative economic effects of the pandemic, including declines in sales and income, increases in per-unit operating costs resulting in reduced production, and temporary or sometimes permanent shuttering of their businesses.

The vulnerability of MSMEs is due to several factors. In addition to supply and demand shocks, MSMEs have faced uncer-

tainty and financial constraints during the crisis. The results of a recent World Bank Enterprise Survey in 13 countries suggest that MSMEs are 8 percent more likely than larger firms to have temporarily shut down due to COVID-19.²⁸ Depending on individual business circumstances and the severity of the impact, some MSMEs may end up closing for good. MSMEs typically report higher uncertainty over sales than larger firms.²⁹ They also faced deeper financial constraints (less liquidity from external financing or from previous years' profits) compared to larger firms.³⁰ On average, it was estimated that MSMEs have enough liquidity only to cover fixed costs for ten weeks on average, which increases their vulnerability.³¹ It is important to note, however, that larger firms only have on average about three additional weeks of liquidity; thus they are nearly as vulnerable from a liquidity standpoint. In addition, COVID-19 has generated uncertainty that is likely compelling firms of all sizes to postpone investments, which is likely to delay post-pandemic growth.

FIGURE 4: Customer segment most severely affected by the crisis: frequency of mentions

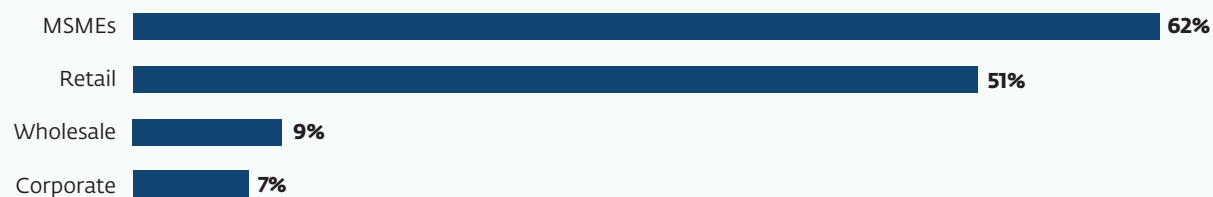


TABLE 3: Top two customer segments affected by the crisis by region*

East Asia and the Pacific	Europe and Central Asia	Latin America and the Caribbean	South Asia	Sub-Saharan Africa	Global
MSMEs 50%	Retail 60%	MSMEs 74%	Retail 75%	MSMEs 80%	MSMEs 62%
Retail 50%	MSMEs 47%	Retail 42%	Wholesale 75%	Retail 40%	Retail 51%

* MENA is not reported due to low response rate on customer segments

In most regions, MSMEs took one of the top two spots among customer segment concerns. Regional variance appeared where almost three-fourths of survey respondents in Latin America and the Caribbean mentioned MSMEs as the most vulnerable business line, while about 60 percent in Europe and Central Asia mentioned that the retail customer segment was most affected by the crisis. It is also important to note that the severity of the COVID-19 impact on MSMEs is heterogenous across countries, depending on country vulnerability. For example, the survey found that MSMEs in IDA17 and FCS countries are more often affected by the crisis than in non-IDA/FCS countries. In IDA17 and FCS countries about 67 percent of survey respondents mentioned that their MSMEs were severely affected by the crisis, versus 58 percent in Non-IDA17/FCS countries.

COVID-19 EFFECTS ON THE CORRESPONDENT BANKING NETWORK AND LIQUIDITY IN EMERGING MARKETS

4.1 COVID-19 AND GTFP CLIENT BANKS' CORRESPONDENT BANKING RELATIONSHIPS

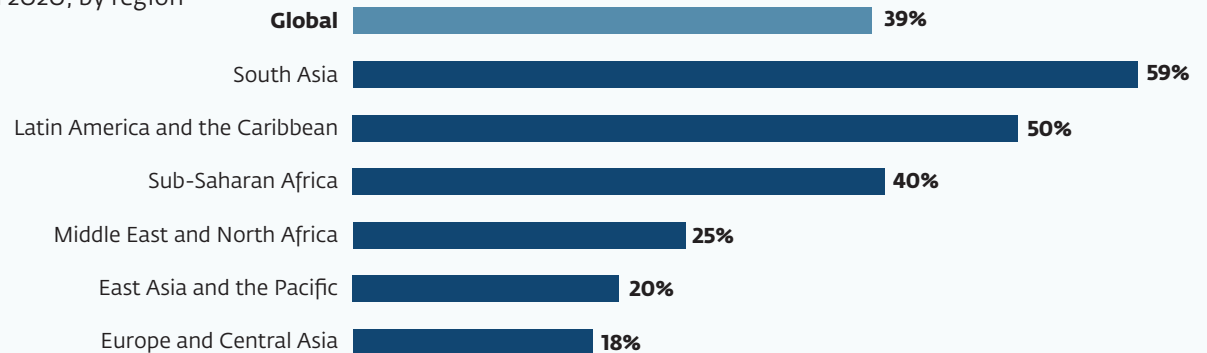
Global CBRs, or correspondent banking relationships, are networks of financial institutions across trading economies; they consist of individual bank-to-bank relationships forged through bilateral financial transactions and strengthened over time. As discussed in IFC's "Why Trade Finance Matters—Especially Now," trade finance is essential to global trade; in many cases goods cannot cross borders without it. This is particularly true in EMs, as risk perceptions, jurisdictional differences, unfamiliar counterparty relationships, and geographic distances, among other factors, create the need to document and share risk on shipments. CBRs are essential to issuing, confirming and settling cross-border trade finance transactions. CBRs are also important to maintain a cohesive global financial system that includes trade finance, and they are vital to linking EM banks to that system. These linkages between global trade, trade finance, and correspondent banking relationships are severely threatened whenever actual, potential, or perceived financial risks increase sharply in countries on either side of a trade transaction. Trade finance is particularly vulnerable, given its short-tenor, lower-yield, and cross-border nature, its dependence on a strong correspondent banking network, and its denomination in U.S. dollars.³²⁻³³ (U.S. dollar debt coming due across all asset classes faces increased risk when the dollar appreciates relative to the local currency and the supply of available dollars is compressed.³⁴⁻³⁵) In response to

exogenous or endogenous shocks, cross-border banks tend to look for quick ways to shore up capital while protecting returns. Trade finance portfolios, with short tenors, provide opportunities to rapidly increase capital simply by not taking on new financing obligations as existing ones expire. And because trade finance's yield is relatively low (due to its low risk profile and short tenors), trade finance returns are only significant when the business remains at scale. As a result, crises put downward pressure on trade finance, despite the asset class's favorable credit risk profile. The COVID-19 pandemic has worsened existing financial vulnerabilities and has generated increased volatility across many markets. As such, correspondent banking relationships have been under stress

for EM banks for some time.

Global trade is reliant upon trade finance; trade finance is in turn supported by strong cross-border correspondent banking relationships, many of which are under stress, according to survey respondents. Networks of cross-border correspondent banking relationships are a fundamental component of trade finance. The stress on CBR lines directly translates to significant challenges with the timing, frequency, cost, or amount of trade between countries. The COVID-19 pandemic has caused additional stress on EM CBRs. In 2020, nearly 40 percent of banks³⁶ reported some form of CBR stress,³⁷ as shown in Figure 5.

FIGURE 5: Percentage of Survey Respondents Reporting Correspondent Banking Relationship Stress in 2020, by region



“The global clearing centers, especially U.S.-based banks, have closed USD accounts and have even started cancelling RMAs due to cost issues...”

- GTFP Client bank,
East Asia and the Pacific

“From the beginning of the COVID crisis, we have seen restrictions in credit line usage, increased margin cost, and reduction in tenors.”

- GTFP Client bank, Latin America
and the Caribbean

While all regions face CBR stress, some regions and specific countries face particularly obstinate challenges. As shown in Figure 5, half of banks in the Latin America and the Caribbean region reported stress on CBRs, which exceeds the 41 percent that reported stress in 2019. Banks in the East Asia and the Pacific (EAP), Europe and Central Asia, and Middle East and North Africa (MENA) regions reported lower stress frequencies than other regions, though smaller economies in these regions had higher frequencies of reported stress. However, comparing CBR stress frequency year over year, more banks are reporting challenges than before. Over 70 percent of banks reported CBR stress in either this year’s or last year’s survey.³⁸ Approximately 35 percent of the 2019 IFC survey’s “CBR stress-free” respondents indicated CBR stress in 2020, while another 22 percent said their CBR stress levels in 2019 continued to persist into 2020. Surprisingly, the survey found that respondents in IDA17 and FCS countries faced CBR stress that was closely aligned with non-IDA17/FCS banks with frequencies of 40 and 37 percent, respectively; this corroborates the idea that the effects of COVID-19 from a trade finance perspective are pervasive, hindering both larger and smaller economies.

As a specific component of CBR stress, the compounded effects of current and previous multi-year relationship disconnections create acute hurdles. During IFC’s 2017 survey on correspondent banking, 17 percent of banks reported

actual decreases in CBRs (compared with low-end single digit decreases prior to 2017). About 9 percent of banks that responded to surveys in all of the past three years (2018-2020) reported decreases in at least two of the three years.

Relationship disconnections can be even more harmful when there is a smaller base number of relationships. Roughly 51 percent of the survey respondent banks domiciled in 45 countries reported having 10 CBRs or fewer, with 23 percent of survey respondent banks in 29 countries reporting five CBRs or fewer. Risk appetites of cross-border correspondent banks are affected by both the risk of their EM counterparties (the respondent banks) and their own domicile country challenges. Thus increased risk in either country can cause a correspondent bank to retrench, further reducing CBRs, which is particularly hazardous if there are already very few. While trade finance is short-term, the infrastructure required to facilitate it is decidedly long-term. In fact, the current global trade finance network embodies decades of investment by individual banks to build familiarity and expertise in this asset class. It also contains specialized actual, legal, and documentary pathways of trade transactions, as well as mastery of each bank’s cross-border counterparts and geographies. Thus, multiple CBRs are necessary to reduce concentration, and it can be difficult to replace terminated relationships.^{39, 40}

FIGURE 6: Frequently mentioned reasons for CBR stress by respondent banks

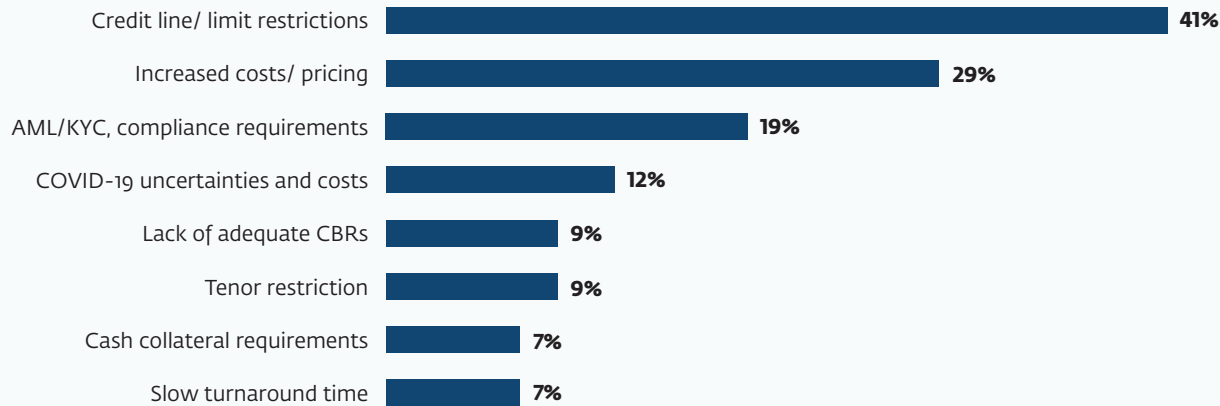
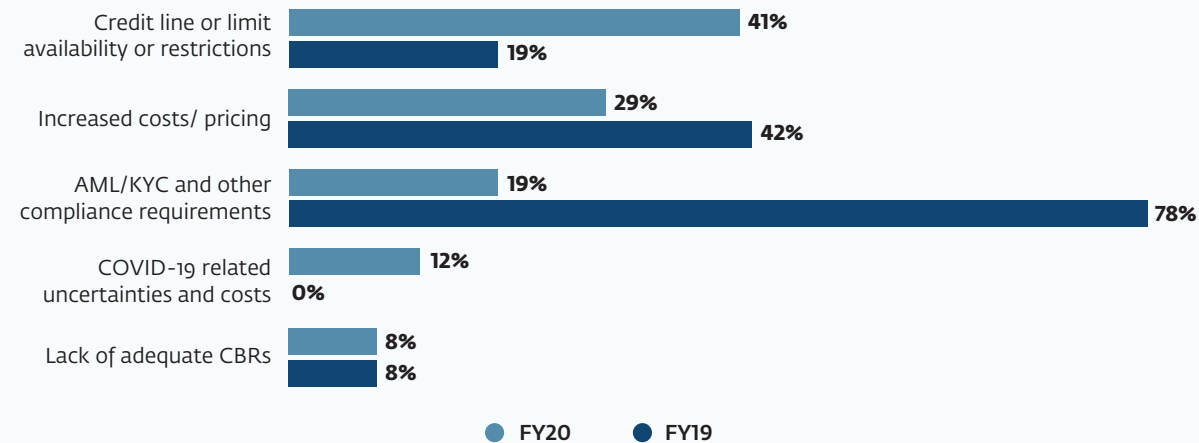


FIGURE 7: Comparison of most frequently cited reasons for CBR stress in the last two surveys



As CBR stress has continued to increase, the COVID-19 crisis has shifted the primary source of that stress.

Survey respondents indicated correspondent bank credit restrictions as the most frequent stress driver, as shown in Figure 6.

Top drivers of CBR stress, which remained consistent for several years, have changed due to the COVID-19 crisis.

In the 2019 Annual Respondent bank Survey, survey respondents frequently mentioned increased correspondent banking requirements (e.g., compliance requirements) as the leading cause of CBR stress. In fact, the three factors most frequently mentioned were all related to compliance requirements or issues. In 2020, by contrast, credit line limit restrictions and increased pricing were the most reported stress factors, while compliance requirement-related issues was only the third most reported stress factor.

“Due to the COVID-19 pandemic there are temporary freezes on some our trade lines. Transactions are processed on a case-by-case basis, thereby causing strain on the business”

- GTFP Client bank, Sub-Saharan Africa

In 2020, from a regional perspective, banks in Latin America and the Caribbean region expressed more CBR stress factors than other regions, but that region was closely followed by banks in Sub-Saharan Africa and South Asia. Banks in the LAC region were already facing several macroeconomic issues prior to 2020; the COVID-19 crisis exacerbated these challenges.

In 2020, Banks in IDA17 and FCS countries much more frequently mentioned credit related restrictions (48 percent), than banks in non-IDA17/FCS countries (33 percent) as a prominent barrier to CBRs. Conversely, banks in non-IDA17 and non-FCS countries more frequently faced increased compliance or collateral requirements (22 Percent and 11 percent, respectively) than banks in IDA17 and FCS (16 and 3 percent).

“Due to the COVID-19 situation, the demand for financing with correspondent banks has been greater and we have experienced in the months [following the pandemic], an increase in financing prices. Also, during this time, some correspondent banks limited disbursements until further notice.”

- GTFP Client bank, Latin America and the Caribbean

TABLE 4: Three most frequently cited reasons for CBR stress, by region*

East Asia and the Pacific	Europe and Central Asia	Latin America and the Caribbean	South Asia	Sub-Saharan Africa	Global
Credit line or limit restrictions 67%	AML/KYC, compliance requirements 57%	Credit line or limit restrictions 50%	Credit line or limit restrictions 60%	Credit line or limit restrictions 31%	Credit line or limit restrictions 41%
Increased costs/pricing 33%	Increased costs/pricing 29%	Increased costs/pricing 38%	Increased costs/pricing 30%	Tenor restrictions 23%	Increased costs/pricing 29%
COVID-19 related uncertainties and costs 33%	Lack of adequate CBRs 14%	COVID-19 related uncertainties and costs 21%	AML/KYC, compliance requirements 20%	COVID-19 related uncertainties and costs 15%	AML/KYC, compliance requirements 19%

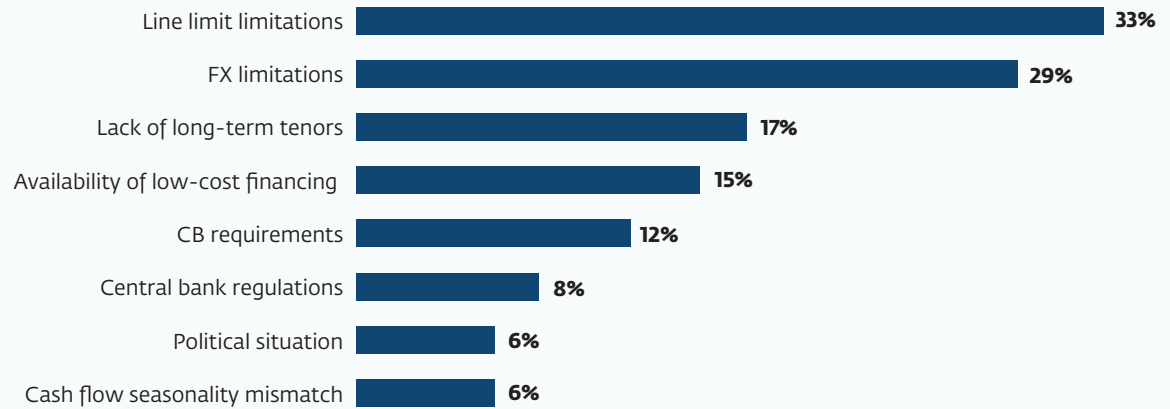
* MENA is not reported due to low response rate on customer segments

4.2 COVID-19 AND LIQUIDITY OF GTFP CLIENT BANKS

Globally, in the second half of 2020, one out of every three respondent banks reported that they faced limitations on access to finance, thereby reducing their ability to help their customers. Approximately 33 percent of survey respondents reported notable challenges to accessing dollar liquidity and working capital solutions for their trade finance business. Survey respondents mentioned several factors that hinder their capacity to help their customers. Among these, increased line limitations were mentioned as the main barrier to liquidity, as shown in Figure 8.

The majority (about 81 percent) of these limitations were related to obtaining liquidity for the banks' customers or matching liquidity with the type of trade finance transactions their customers need. However, about a quarter of survey respondents who had liquidity limitations also mentioned that political, regulatory, or compliance issues were responsible for these liquidity challenges. Beyond fundamental liquidity needs, many survey respondents indicated sudden price spikes and quote freezes that are rare in the trade finance industry. In addition, most survey respondents explicitly reported all letter of credit (LC) confirmation fee increases occurred in March and April of 2020, aligning both with news of the pandemic's spread and government-mandated protective measures. While the survey response frequency varied across regions, it is important to note that banks in all regions reported such spikes; interestingly, countries with relatively higher income classifications noted this market phenomenon even more frequently than IDA and FCS countries.

FIGURE 8: Most frequently mentioned liquidity limitations faced by EMDE banks

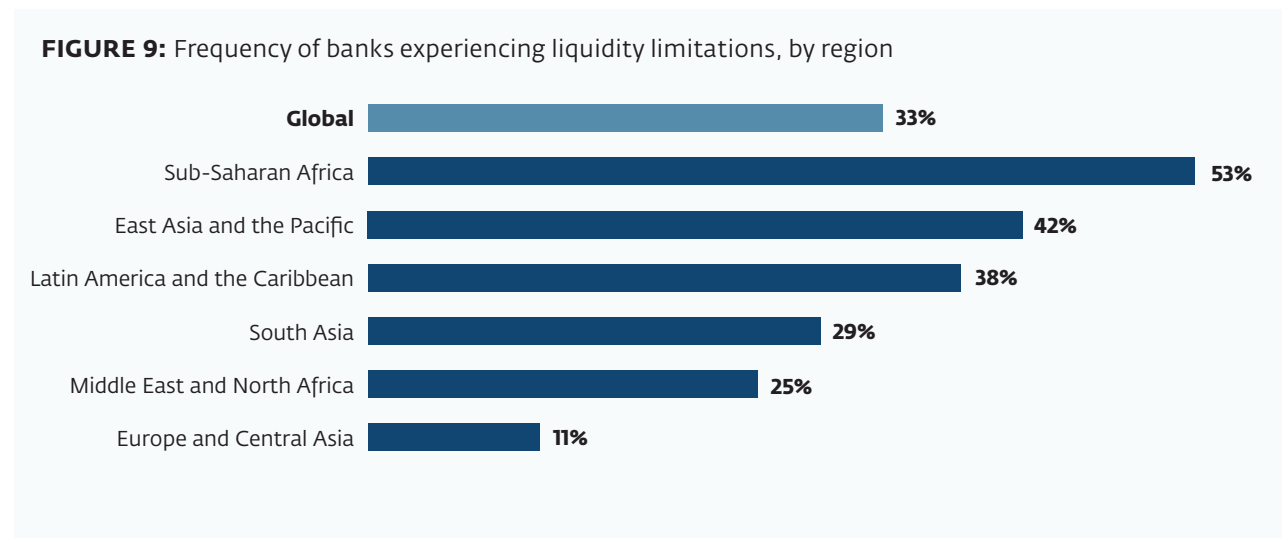


“Based on the COVID-19 crisis that we are facing; we expect a decrease of 40 percent in the trade finance operations. However, we are receiving support from different organizations such as IFC for working capital purposes.”

- GTFP Client bank, Latin America and the Caribbean

The extent to which liquidity limitations affect respondent banks' ability to meet customer demand varied greatly by region. For example, as much as 53 percent of participating banks in Sub-Saharan Africa reported liquidity related limitations, as shown in Figure 9. Multiple regions include countries that have preexisting financial vulnerabilities. For example, survey respondents most frequently attributed Sub-Saharan Africa's liquidity shortages to external market conditions, including commodity prices and exchange rate volatility, which appear to have further worsened since the survey's completion.⁴¹ 2020's trade contraction also reduced Sub-Saharan African countries' ability to obtain foreign currency, which may have further contributed to liquidity shortages. According to survey respondents, liquidity constraints were more pronounced in IDA17 and FCS countries, where 40 percent of banks reported them, while only 27 percent of banks in non-IDA17/FCS countries said they faced liquidity constraints.

IFC recently published the second and third notes of its "Trade and COVID Trilogy," both of which provide more details on specific trade finance supply constraints and liquidity shortages. The pandemic placed multipronged pressure on many EMs' ability to access foreign currency, which is needed to support financial sector resilience and to import critical goods. Some trade-dependent EMs rely on exports as a source of foreign exchange revenue. Thus, when their exports decline (as they have in this pandemic), their supply of foreign exchange does too. The pandemic ushered in early financial and economic turmoil, which triggered



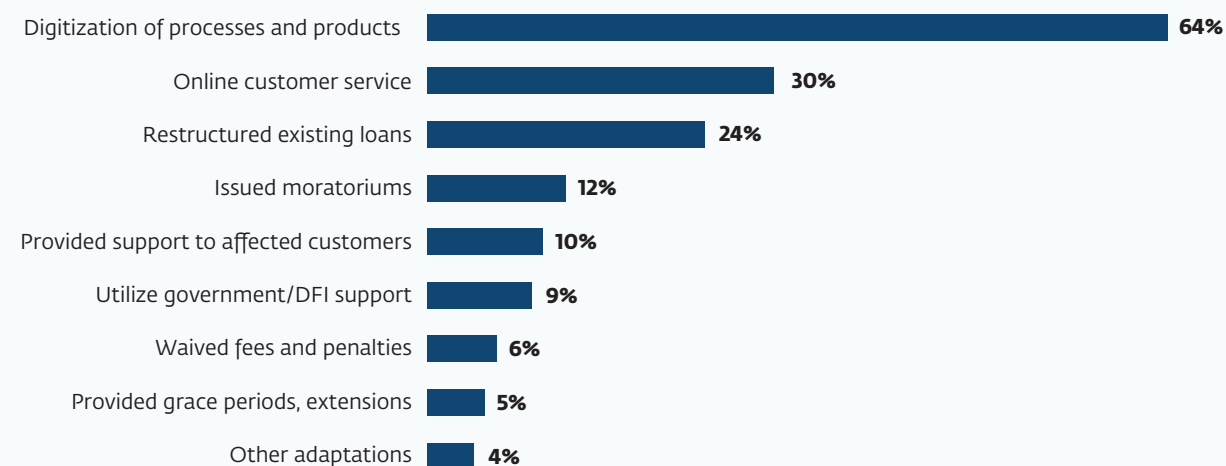
sharp currency devaluations in some EMs, making it more expensive for them to access foreign currency and service foreign currency debt or boost reserves; this, in turn, put further pressure on their currencies. (Dollar appreciation goes hand-in-hand with contractions of cross-border bank lending in dollars, the denomination in most trade finance transactions.^{42, 43}). The same process compressed the volume of exports among EMs, reducing their capacity to earn foreign currency. The situation was exacerbated by a reduction in some commodity prices, which reduced the value of the already declining exports, further suppressing export revenue and the availability of liquidity.^{44, 45}

STRATEGIC RESPONSE BY EMERGING MARKET BANKS

In general, banks quickly reacted to the crisis by adopting practical strategies to protect their staffs and continue to service their customers. Survey respondents quickly focused on continuing operations and supporting customers. Of all of the survey respondents that were proactive in adapting to crisis conditions, a majority (64 percent) made it easier for customers to continue accessing services by accelerating the use of digital solutions for standard processes and products, as shown in Figure 10.

Beyond adaptations to assist their customers, as shown in Figure 10, the immediate concern for many banks was to continue operations while protecting employees' health and well-being. In fact, over a third of survey respondents (36 percent) instituted work-from-home policies and/or shift work, and updated workplace guidelines based on WHO recommendations (e.g., social distancing and the use of face coverings, gloves, and sanitizers). Many banks also reduced work hours for staff and physical branches, restricted travel, and invested in technology infrastructure to support immediate and prolonged remote work. Nearly all banks had comprehensive business continuity plans in place that made it less strenuous to shift to the new work environments, but the plans did not always anticipate the depth of disruptions caused by the pandemic. In fact, as mentioned in IFC's note "Why Trade Finance Matters—Especially Now,"⁴⁶ staff in some EM banks lacked authorization for remote connections, which disrupted services immediately after lockdown and social distancing measures were instituted. However, most banks quickly addressed such shortfalls.

FIGURE 10: Strategies adapted by EM banks for customer business continuity amidst the crisis



Banks demonstrated an acute awareness of the operational difficulties faced by their customers as well as a willingness to ease their financial burdens by responding quickly. Banks found creative solutions across many areas to cushion their customers' operations from the extreme adverse financial effects arising from the crisis. Expedited digitization, as shown above, was often the go-to solution. Some of the quick adaptations for digitization of the banks' standard processes and products included: (i) expanding digital banking applications for more types of transactions; (ii) remote communication with customers using digital channels like virtual meetings; (iii) implementing electronic signature

options; and (iv) offering different Internet banking platforms such as phone banking and digital wallets. The digital platforms used for trade finance services allowed customers to submit transaction applications and receive soft copies of LCs, guarantees, and other standard documents—remote activities for which there was less appetite among bank customers before the crisis. Some survey respondents that had not yet implemented digital solutions by the survey's date mentioned that they were actively looking for technological solutions to cover a broad spectrum of standard operations. Beyond digitization, banks incorporated other measures as well. Some banks were also able to tap into DFI or govern-

ment sponsored COVID-19 crisis response schemes to access additional financial resources.⁴⁷ In fact, survey respondents actively utilized the resources available from GTFP. Additional strategies adopted by banks to support their customers during this crisis (which are captured in “other adaptations”) included: (i) providing rebates on repayments, (ii) launching new products, (iii) increasing daily cash limits on borrowing, and (iv) strengthening communications with their customers to attend to their service requirements.

Across regions, there were several common threads in terms of strategies adopted by banks. For example, technological adaptations for operational processes and products, combined with restructuring some existing loans, were some of the quick adjustments many banks made, as shown in Table 5.

Even though it did not appear among most regions’ top strategies, it was common for banks in all regions to leverage the external support provided by DFIs and governments to the financial sector. For example, over the past year, IFC’s Trade and Commodity Finance Programs have provided close to \$10 billion in trade finance support. Regional DFIs also established facilities designed to supply liquidity to their respective markets. In many EMs, regulators instructed banks to effect specific responses such as loan payment moratoriums, reductions in capital conservation buffers, and increases in the lending ratios as part of statewide crisis response policies. Some survey respondents worked with central banks to help customers access the support offered by respective governments. The top response strategies executed by survey respondents across country income groups are strikingly similar to each other and to responses across regions, regardless of country income groups. In

TABLE 5: Top three crisis response strategies adopted by EM banks, by region

East Asia and the Pacific	Europe and Central Asia	Latin America and the Caribbean	Middle East and North Africa	South Asia	Sub-Saharan Africa
Digitization of standard processes and products 50%	Digitization of standard processes and products 70%	Digitization of standard processes and products 69%	Digitization of standard processes and products 50%	Digitization of standard processes and products 60%	Digitization of standard processes and products 63%
Restructuring existing loans 36%	Online customer service 47%	Changes to bank’s operation 39%	Online customer service 25%	Changes to bank’s operation 40%	Changes to bank’s operation 40%
Issued moratoriums 21%	Changes to bank’s operation 43%	Restructuring existing loans 22%	Utilizing Government or DFI support 25%	Online customer service 27%	Online customer service 33%

particular, 63 percent of banks in IDA17 and FCS countries digitized standard processes and products, and another 29 percent shifted customer support to online channels, while for banks in non-IDA17/FCS countries, 66 percent adopted digitization and 31 percent added online customer services.

EM banks also worked to balance expedited customer assistance with prudential risk management in order to protect capital availability and prepare to emerge from the crisis, among other factors. Roughly 93 percent of survey respondents indicated that they put in place increased risk management practices and prioritized certain

strategic sectors for their respective markets (e.g., health, pharmaceutical, food, and agriculture). While many sector prioritizations were made at the bank level, governmental pandemic mitigation measures sometimes directed financial resources to those sectors that needed to remain operational. Many banks chose to offer products with shorter tenors such as working capital and trade finance over long-term loans in order to balance lending flexibility and risk with customer support. In addition, several banks indicated a need to reduce portfolio exposure to particular sectors or customers to balance risk and make financing more available for critical sectors; other banks focused

exclusively on supporting existing customers instead of adding new ones. Others noted that prudential management and corporate governance required increased capital conservation when assessing financing requests; 52 percent of survey respondents applied stricter credit approval processes that included increased risk assessment for specific individual credit applications; and 22 percent suspended or reduced lending, reduced credit limits, or restricted tenors to individual customers or transactions. These choices display the agonizing balance that banks must achieve to protect their capital from the hazards of extreme economic crisis while also supporting their customers during that same crisis.⁴⁸

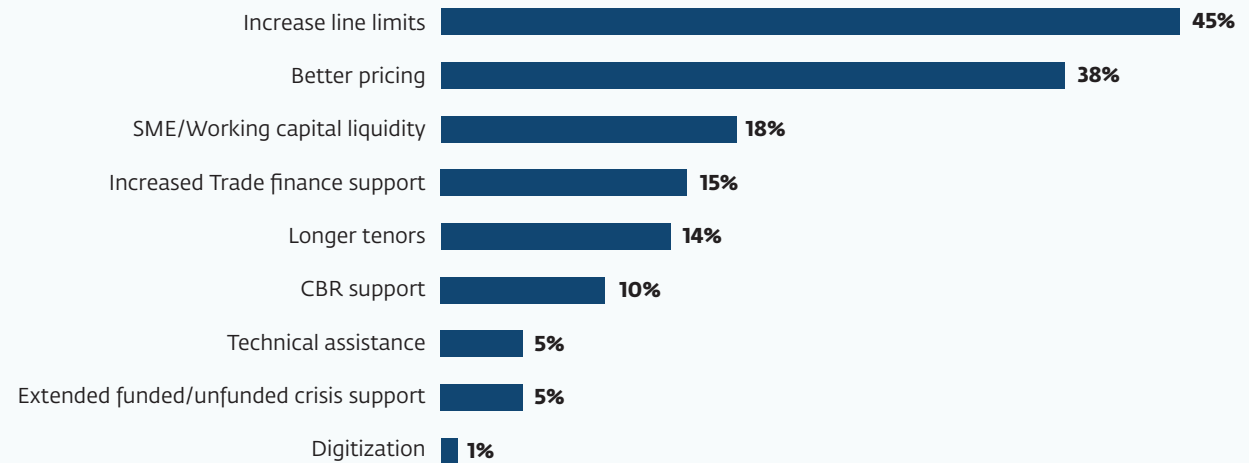
At the regional level, Europe and Central Asia survey respondents more frequently adjusted their credit approval processes while other regions prioritized certain sectors or customers. Survey respondents in IDA17 and FCS countries more frequently prioritized strategic sectors, while banks in non-IDA17/FCS more commonly introduced stricter credit approval process and suspended or reduced lending and/or credit limits across the board.

SUPPORT REQUESTED BY EMERGING MARKET BANKS

Despite their crisis response strategies, a majority of survey respondents need additional support to continue supporting their clients. About 91 percent of survey respondents indicated that they needed some form of additional support from DFIs to deal with the negative effects of the COVID-19 crisis. Among the most notable responses to the survey, 45 percent of survey respondents specified that they needed increased or maintained trade finance line limits in order to support their customers, as depicted in Figure 11.

Through these responses, banks requested additional funded and unfunded trade finance support (specific to and beyond the crisis). Ninety-six percent of the requests detailed above relate to helping banks expand or extend their financial capacity. Responding to these requests would complement banks' crisis response strategies and help to bolster financial systems during crisis recovery. The importance of supporting EM banks during this crisis is also captured in IFC's January 2021 note, "Taking Action on Trade: From Concern to Support."

FIGURE 11: Support requested by EM banks to combat adverse impact from the COVID-19 crisis



“A larger credit line [would be helpful], because most of our credit lines with other banks have been closed until further notice, but they would work with us if IFC is involved.”

- GTFP Client bank, Latin America and the Caribbean

At the regional level, the external support requested by survey respondents was analogous, demonstrating the systemic obstacles shared by all EM banks. In particular, all regions asked for increases in line limits and lower pricing of trade finance products to better serve customers. Several banks in Europe and Central Asia and South Asia asked for longer tenors as the crisis was extending normal business cycles, as shown in Table 6.

Survey respondents from all regions emphasized that support needed post crisis would be more substantial than during the crisis. This could include making dollar-funded facilities available, as traditional sources of foreign exchange (such as remittances) has collapsed in all regions. Some of the survey respondents' requests were addressed, in part, by numerous DFIs in 2020.

Slicing the data by country income level, banks in IDA17 and FCS countries more frequently requested better pricing of financial products than banks in non-IDA17/FCS countries. Banks in non-IDA17/FCS countries more commonly raised requests for increases in trade line limits, additional liquidity, and working capital support. Nonetheless, the pool of requests generated by survey respondents was comprised of largely similar items among all country categories. Thus, assistance to EMs of all regions and income groups, according to their specific needs, will be critical so that banks can support the restoration of trade to their pre-crisis development trajectories. This is especially important given the outlook on trade and trade finance by GTFP client banks.

TABLE 6: Top three additional types of support urgently needed by EM banks, by region

East Asia and the Pacific	Europe and Central Asia	Latin America and the Caribbean	Middle East and North Africa	South Asia	Sub-Saharan Africa
Better pricing 55%	Better pricing 52%	Increase line limits 56%	Increase line limits 43%	Increase line limits 44%	Better pricing 48%
Increase line limits 36%	Increase line limits 39%	SME/Working capital liquidity 33%	Better pricing 29%	Better pricing 38%	Increase line limits 38%
Funded/unfunded support 36%	Longer tenors 12%	Better pricing 21%	CBR support 29%	Longer tenors 25%	CBR support 21%

MARKET OUTLOOK

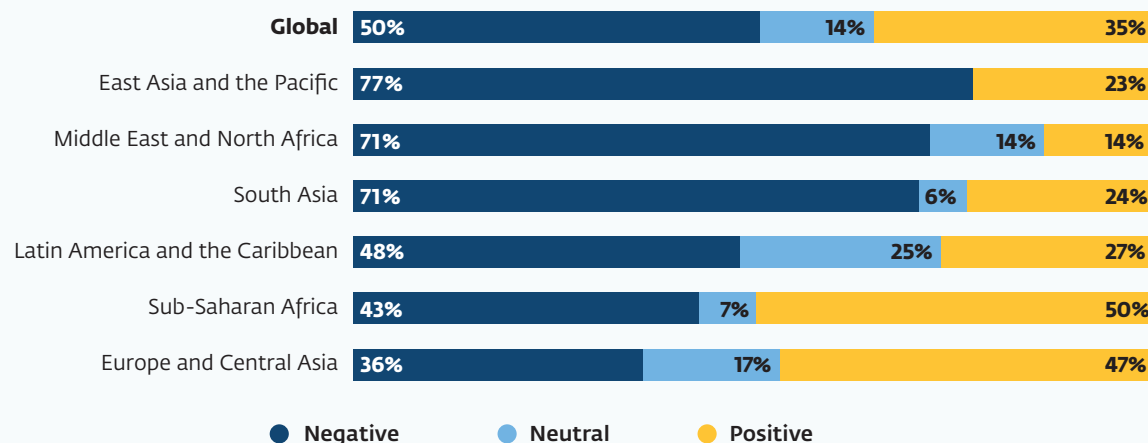
Survey respondents' market outlooks are negative for the short term, but remain hopeful for a recovery post crisis.

For example, over half of all survey respondents conveyed a negative outlook on trade and trade finance until the pandemic is contained. Furthermore, when establishing their trade and trade finance outlooks, about 89 percent of survey respondents used the end of strict government measures to contain the spread of COVID-19 as the moving time frame to define "short term." For as long as the crisis and government measures remain in place, survey respondents expressed largely negative outlooks.

For the longer term, despite the enormous barriers experienced by real sector and financial institutions, more than a third of GTFP client banks in this survey expressed a positive outlook on trade and trade finance, as shown in Figure 12.

Many survey respondents expressed concerns that the disruptions in supply chains would continue to adversely affect trade until government measures to reduce the spread of the virus were lifted. Survey respondents that expressed negative sentiments for the short term described reactive chains of events, ranging from struggling trade businesses to reduced line limits by correspondent banks, as the key reasons for a gloomy market outlook. Many banks said that their trade finance portfolio balances had fallen significantly by the first half of 2020, and that they did not expect a full recovery until COVID-19 and the related economic crisis are fully under control. These types of concerns proved prescient, as nonperforming loans appear to be trending upward and additional sovereign downgrades have occurred for some EMs.⁴⁹ Survey respondents expect that the demand for trade finance could fall temporarily (since the cur-

FIGURE 12: Trade and trade finance outlook, by region



rent crisis has caused a decrease in trade), with a follow-on increase. Trade finance demand is expected to remain flat or increase in many EMs going forward, even as some factors continue to apply downward pressure.

The outlook turned positive when banks opined on the trade and trade finance landscape post pandemic. Banks said they expected trade to pick up when business environments returned to near-normal conditions. Also, banks that had a positive outlook for the short term commonly acknowledged the central role of trade in domestic economies, including the supply of critical goods through trade, including health-care products and agricultural commodities, among others. Because of its importance, these banks expected trade to support economic activity during the crisis, and emerge strongly after governments lift their strict mitigation mea-

asures. Many survey respondents expect the recovery process to offset some (if not all) of trade's downward movement during the crisis in the medium term.

This collective outlook is in line with predictions made in the IFC note "Why Trade Finance Matters—Especially Now." Trade is also expected to begin to recover, albeit slowly, among bilateral trading partners that are either less affected by COVID-19 or are already recovering.⁵⁰ Countries facing increased stress will continue to require additional working capital and trade finance infusions to weather the crisis and help businesses survive. And when businesses begin to restart and relaunch trade, the immediate demand for trade finance is expected to spike. In addition, the pandemic has already reduced the capacity of institutions to provide trade finance services. Consequently, the EM trade finance gap, which has existed since before the 2008-2009 crisis, could

persist and is likely to expand over time. Reduced economic activity and trade may lead to flatter long-term development trajectories, increased unemployment, and lower incomes, as noted by several survey respondents.

Between regions, the short-term outlook varied widely.

Nearly 77 percent of banks in East Asia and the Pacific had negative projections compared to around a third in Europe and Central Asia

Sub-Saharan Africa and Europe and Central Asia had the highest frequency of banks with positive outlooks. Banks in these regions repeatedly highlighted the critical role of trade in their respective countries and indicated that they expected global trade to pick up in 2021. Survey respondents in all regions acknowledged that the disruptions brought by the crisis would erode the peak demand for trade products, but respondents said the demand for essential goods would keep trade activities afloat. Banks from import-dependent countries more commonly provided positive prospects for the short term.⁵¹

Across all country income groups, negative outlooks outweighed positive ones for the duration that the virus remains rampant. IDA17 and FCS countries had the highest percentage of banks, 58 percent, expressing negative sentiments. Whereas a minority of banks in non-IDA17/FCS countries, 42 percent, expressed negative sentiments. However, through this lens, banks expected trade and trade finance to quickly pick up after the worst of the crisis has passed. The post-crisis outlook across all income group was largely positive.

The outlook for trade and trade finance by GTFP client banks in this annual survey dovetails with what was captured in

the “Trade and COVID-19 Trilogy.” Both exercises suggest that trade was expected to continue to fall in the short term, with the pandemic’s full impact still uncertain. Even though there are now early signs of tentative recovery, the immediate future remains unclear. As the world eyes a potential crisis recovery, trade can help expedite economic recovery for many countries, which would contribute to the “virtuous cycle” of trade and economic growth. This is borne out by the fact that research shows that trade both leads and lags economic growth.^{52, 53, 54, 55, 56, 57, 58, 59, 60, 61} Thus, countries that proactively pull forward bilateral and global connections through trade are likely to experience faster recoveries, along with their trade counterparties.

As countries across the world roll out COVID-19 vaccines, the robust recovery of trade that was anticipated by EM banks may finally be in sight, although the pace of that recovery remains unknown at the present time. What is clear, from high-level research down to individual client voices, is that trade and working capital finance remain in high demand across EMs as companies in all sectors seek to weather this global crisis. The trade finance gap will certainly persist and is likely to expand as EM banking customers and countries seek to accelerate recovery from this exceptionally challenging period in global economic history. Finally, when the pandemic and its economic impact begin to finally decline, evidence of expedited paradigm shifts in cross-border financial corridors and practices will bring new opportunities for all participants, and hopefully for EMs in particular.

“Customer demand for trade finance has decreased significantly due to the Covid-19 related government restrictions and the financing banks have started requesting for additional coverage from IFIs. It will likely stay the same throughout the next 12 months.”

- GTFP Client bank, East Asia and the Pacific

ANNEX A: SURVEY PARTICIPANTS BY REGION

IFC's 2020 GTFP Survey received feedback from 163 banks in 63 countries covering six regions. The number of survey participants per country ranged from one to eight.

TABLE 7: Participants by region

Region	Number of Participants
East Asia and the Pacific (EAP)	15
Europe and Central Asia (ECA)	39
Latin America and the Caribbean (LAC)	52
Middle East and North Africa (MENA)	8
South Asia (SA)	18
Sub-Saharan Africa (SSA)	31
Total	163

TABLE 8: Participants by country income/fragility category

Country Income Group	Number of Participants
IDA17 and FCS countries	81
Non-IDA17/FCS countries	82
Total	163

TABLE 9: Countries represented in each region

Country	Region	Country	Region	Country	Region
Albania	ECA	Ecuador	LAC	Nicaragua	LAC
Angola	SSA	Egypt, Arab Republic of	MENA	Nigeria	SSA
Argentina	LAC	El Salvador	LAC	North Macedonia	ECA
Armenia	ECA	Georgia	ECA	Panama	LAC
Bangladesh	SA	Ghana	SSA	Papua New Guinea	EAP
Belarus	ECA	Greece	ECA	Paraguay	LAC
Bhutan	SA	Guatemala	LAC	Peru	LAC
Bolivia	LAC	Haiti	LAC	Romania	ECA
Bosnia and Herzegovina	ECA	Honduras	LAC	Serbia	ECA
Brazil	LAC	Iraq	MENA	Sierra Leone	SSA
Bulgaria	ECA	Jordan	MENA	South Africa	SSA
Burkina Faso	SSA	Kenya	SSA	Sri Lanka	SA
Cambodia	EAP	Kosovo	ECA	Tajikistan	ECA
Cameroon	SSA	Liberia	SSA	Tanzania, United Republic of	SSA
Cape Verde	SSA	Madagascar	SSA	Thailand	EAP
China	EAP	Malawi	SSA	Turkey	ECA
Colombia	LAC	Malta	MENA	Uganda	SSA
Congo, Dem. Rep.	SSA	Moldova	ECA	Ukraine	ECA
Costa Rica	LAC	Mongolia	EAP	Uzbekistan	ECA
Cote d'Ivoire	SSA	Myanmar	EAP	Vietnam	EAP
Dominican Republic	LAC	Nepal	SA	West Bank and Gaza	MENA

ANNEX B: 2020 IFC ANNUAL GLOBAL TRADE FINANCE PROGRAM (GTFP) RESPONDENT BANK SURVEY

1. a. How has GTFP helped you increase or maintain your trade finance business during calendar year 2019?
- b. How has GTFP helped you increase or maintain your trade finance business so far in 2020?

Trade Finance Liquidity and Cash Flow

2. In 2019, what kinds of trade finance products/instruments did your bank offer to your clients? Please also list the industry sectors and the customer segments that you serve (e.g., traders, corporates, small businesses, women-owned, Money Transfer Operators, other banks, etc.).
3. Please describe the liquidity limitations (if any) that affect your bank's ability to meet the trade finance needs of your customers?
4. If you had sufficient liquidity and/or unfunded support from correspondent banks, IFC, or other financial institutions, what is your estimate of additional trade finance (in US dollar) that you could provide your clients?

Trade Finance Business (Quantitative)

When answering the questions below, please only consider your bank's international trade business, which may be unfunded documentary transactions (e.g.: cross-border L/Cs, SBLCs, L/Gs, performance bonds, etc.) or funded trade transactions (e.g.: import L/Cs with post-financing, international trade-related borrowings, pre-export finance facilities, post-shipment finance facilities, etc.). Please do not consider transactional products (e.g.: collections or trade related payments/transfers) in this definition.

A reminder: Please provide monetary totals in US dollars, using the average exchange rate for calendar year 2019.

5. During calendar year 2019, what was the total dollar volume of trade supported by your bank?
Please indicate the total dollar volume of your bank's international trade finance business. Please include in your total, all trade transactions executed by your bank both with and without IFC's support.
6. During calendar year 2019, how many underlying trade transactions (total count) did your bank support?
Please indicate the total number (count) of underlying transactions of your bank's international trade finance business. Please include in your total, all trade transactions executed by your bank both with and without IFC's support.

7. Which factors most determined the year-on-year change in dollar volume of trade supported by your bank in 2019, and in 2020?
8. What are your best estimates for the following so far in year 2020, compared to 2019?

	Increased	Stayed the same	Decreased	Estimated percent change in 2020
Demand for <u>Unfunded</u> Trade Finance				
Your Bank's capacity to meet that demand for <u>Unfunded</u> Trade Finance				
Demand for <u>Funded</u> Trade Finance				
Your bank's capacity to meet that demand for <u>Funded</u> Trade Finance				

- g. a. What was the average all-in LC confirmation fee (percent) for the LCs that your bank issued in 2019 (including those that were not guaranteed by IFC)?
- b. What is the average all-in LC confirmation fee (percent) for LCs that your bank has issued so far in 2020 (including those that were not guaranteed by IFC)?
- c. If the all-in LC confirmation fees have increased during 2020, describe when [approximately which week] they increased significantly, and what caused the increase

- Challenges collecting from trade counterparties
- Other: please specify: _____
- It has not affected us at all (business as usual)

b. Based on your observation, which industry sectors or customer segments are more severely affected by the COVID-19 crisis? Please also describe how.

c. How has your bank had to change or adapt its services or product offerings in response to the challenges from COVID-19 crisis?

d. What do you need the most from IFC and others in order to support your bank during this crisis and, separately, post-crisis?

Trade Finance Network

In this section, the term “Correspondent Banking” refers to your bank’s relationships with other counterparty banks abroad. Specifically, we refer to the accounts (such as Nostro accounts) you hold in other banks that you use to settle cross-border trade finance transactions for your clients.

11. a. In 2019, how many active cross-border correspondent banking relationships (CBRs) did your bank have?

CBRs are the number of banks with which you had one or more Nostro accounts that you used to settle cross border trade finance transactions.

b. How many of those CBRs had Clean Lines*?

***Clean Lines are defined as lines that don’t require any security, guarantee, or cash collateral**

12. How did your bank’s cross-border correspondent banking relationships change in 2019, compared to 2018?

- Increased
- Stayed the same
- Decreased

13. How have your bank’s cross-border correspondent banking relationships changed so far in 2020, compared to 2019?

- Increased
- Stayed the same
- Decreased

14. a. How many of your correspondent banks require cash collateral?

b. What kinds of limitations does that create for your business (if any)?

15. Are you currently experiencing any form of correspondent banking stress? If so, please describe.

COVID-19 Crisis

10. a. How has COVID-19 and its effects impacted your customers? (Select all that apply)

- Need to shut down or severely restrict operations due to infection concerns
- Increased concern for employees’ health
- Less demand for your customers’ exports
- Challenges with export production
- Disruptions along the value chain (e.g. securing raw materials for production)
- Increased non-financial difficulty in securing imports
- Challenges with operating cash flow generation
- Refinancing needs
- Acute cash flow problems
- Increased need for additional/new liquidity

Trade Finance Market and Outlook

16. Outside of the COVID-19 crisis and its effects, what are the three largest barriers to trade in your country? How do these barriers affect trade?

17. Please describe your views on your market's usage of Open Account vs. Documentary Trade Finance. (–for example, how the usage has evolved over time, how you expect it to evolve in the future, and why, etc.).

18. How would you describe the outlook for Trade and Trade Finance for your bank and your country for the next 12 months?

Please comment on factors such as customer demand, correspondent bank support, the economy, trade, new entrants, sector specific conditions, your concerns regarding the current economic landscape etc.

19. a. What is your best estimate for the Total Trade Finance volume for your Country in 2019?

b. Please briefly describe your estimation approach (for Q19. a. above):

20. Approximately what percentage of your country's imports are covered by LCs?
Your best estimate is sufficient.

21. a. Approximately, how many banks in your country offer trade finance?

b. What is your best estimate of your bank's trade finance market share (percent)?

22. What kinds of customers and sectors in your country need more trade finance but are unable to obtain it?

23. In your experience, what causes the demand for trade finance for your customers to increase or decrease? Is it predictable?

Trade Finance Gaps

24. During the calendar year 2019, approximately how many trade finance transaction requests did your bank receive from your clients?

25. Approximately what percent (percent) of these trade financing requests did your bank reject for any reason?

Digital Banking for Trade Finance

26. Does your bank use and/or provide any form of digital trade finance? Does it leverage information on individual trade transactions that are collected and/or shared using recent technological advances? If yes, please describe.

27. What is your biggest challenge/concern with either launching digital trade finance applications for the first time or continuing to expand your existing applications?

28. What topics in the digital trade finance space would you most like to learn more about?

- Basic overview of the digital trade finance landscape
- Range of digital trade finance applications available
- Guidance on a first entry into the usage of digital trade finance
- Regulatory considerations for digital trade finance
- Guidance on further implementation of digital trade finances
- Risks with digital trade finance
- Benefits and cost considerations for planning digital trade finance innovation/application
- Update on cross border correspondent bank digital trade finance: challenges, progress and lessons learned
- Best practices in digital trade finance implementation
- Digital trade finance: innovations on the horizon
- Other - Please specify: _____

ENDNOTES

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