



REPUBLIC OF TURKEY
MINISTRY OF TRADE



European Bank
for Reconstruction and Development

Research Results:

SUPPORTING DIGITAL TRADE IN TÜRKIYE THROUGH LEGAL REFORM

Business case survey results for aligning the Türkiye legislation to the MLETR

07.03.2024

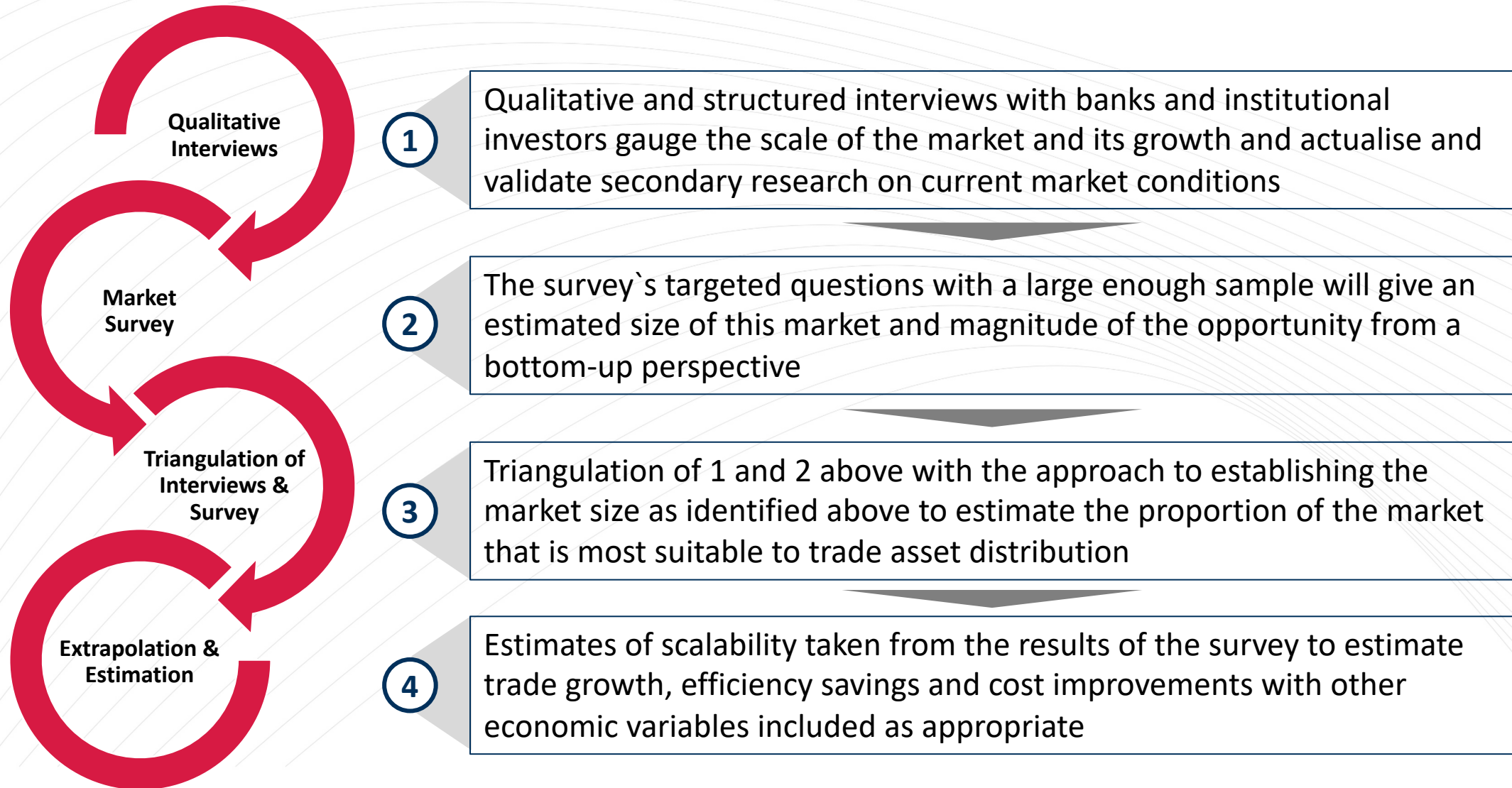
1 Background & Executive Summary

2 Empirical Results & Insights

3 The Impact on Trade

4 Concluding Remarks

Our Research on the impact of aligning the Türkiye legislation to the MLETR



Interviews and surveys were conducted in Turkish to ensure effective communication and understanding

Recap: What is the UNCITRAL Model Law on Electronic Records (MLETR) of 2017?

The UNCITRAL Model Law on Electronic Transferable Records(MLETR) provides a legal framework for the use of **electronic transferable records** in international trade. It is not a convention which has direct legal effect after ratification but is rather a template for national legislative bodies to adopt local legislation.


Transferable Records:

Embody obligations to pay or deliver goods, and it recognizes that these records and the ownership of them can exist in electronic form and can also be transferred electronically.


- Airway bills
- Bills of exchange
- Bills of lading
- Cargo insurance certificates
- Marine insurance policies
- Promissory notes
- Seaway bills
- Ships delivery orders
- Warehouse receipts

Executive summary


The problem for business: 76% of Türkiye's businesses say their trade finance is manual; 43% have been disadvantaged by slow processes in accessing trade finance



The wake-up call from banks: Uptake is slow - only 70% expect to have some or all processes digitised in next five years but 90% of banks say that legal barriers are limiting digitisation



The solution: Change the law to enable digital trade and digital documentation in trade finance. 90% of banks say this would speed up the processes



The result: Annualised trade growth faster than current trend by around 3% per year; \$57bn in additional exports; net cost reduction of 7% for businesses and trade productivity improvement of 21%

1 Background & Executive Summary

2 Empirical Results & Insights

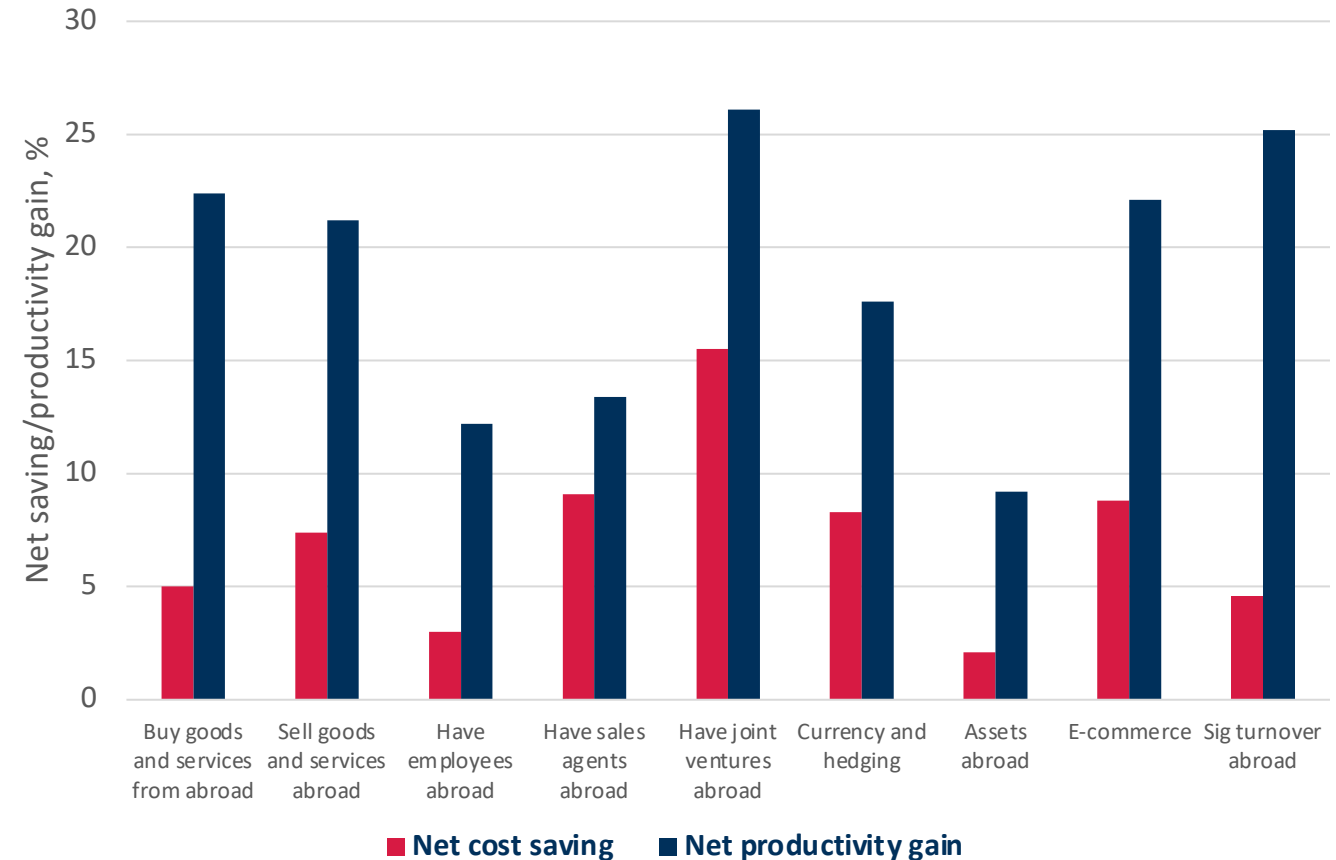
3 The Impact on Trade

4 Concluding Remarks

There is material economic potential of trade digitisation according to banks and businesses

- Bank survey (N = 50); Business survey (N = 181)
- Qualitative survey of banks: business growth estimate of 50% but great deal of uncertainty
- Net productivity gain from business survey of 21%
- 25% productivity gain for companies where overseas turnover was significant contribution to total turnover
- Costs; 7.2% net saving across all types of international business but 5% for importers and 7.4% for exporters

Net cost savings and productivity gains from digital trade by supply chain type



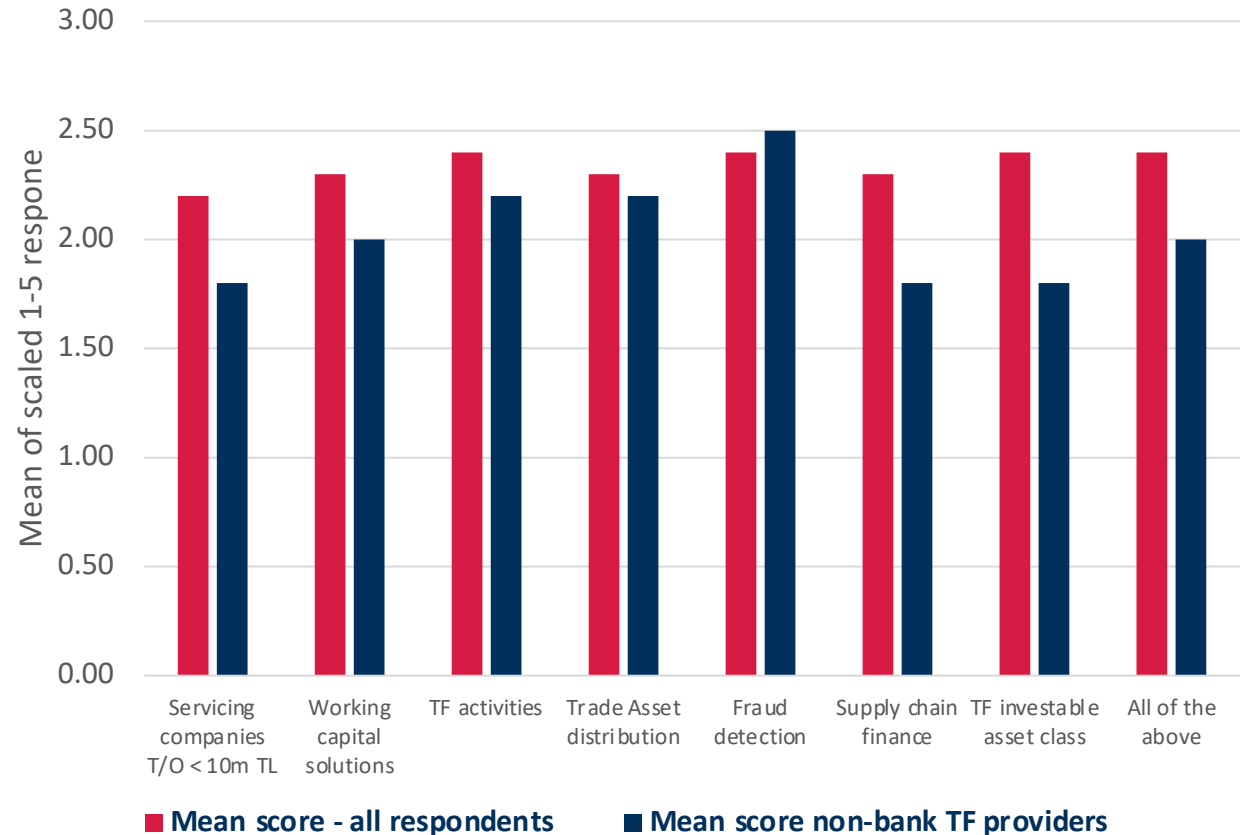
Source: Digital implementation survey, businesses, Türkiye, Feb 2024 N = 181

The banks expect net cost savings across all areas of trade finance

- **Question:**
How do you see your costs changing in a set of areas; Question was asked on a sliding scale of 1-5 from 1 – much less expensive to 5 – much more expensive

Across the sample, this suggests roughly 24% improvement in the cost base across all business lines
- Chart shows comparison of means across these business areas
- A score of 3 would be no overall impact on costs; less than 3 means a net reduction in costs across all areas
- Banks were very close to the mean
- Significant difference in responses from non-bank trade finance providers shown in chart

Non-banks see bigger impact on costs than the sample as a whole

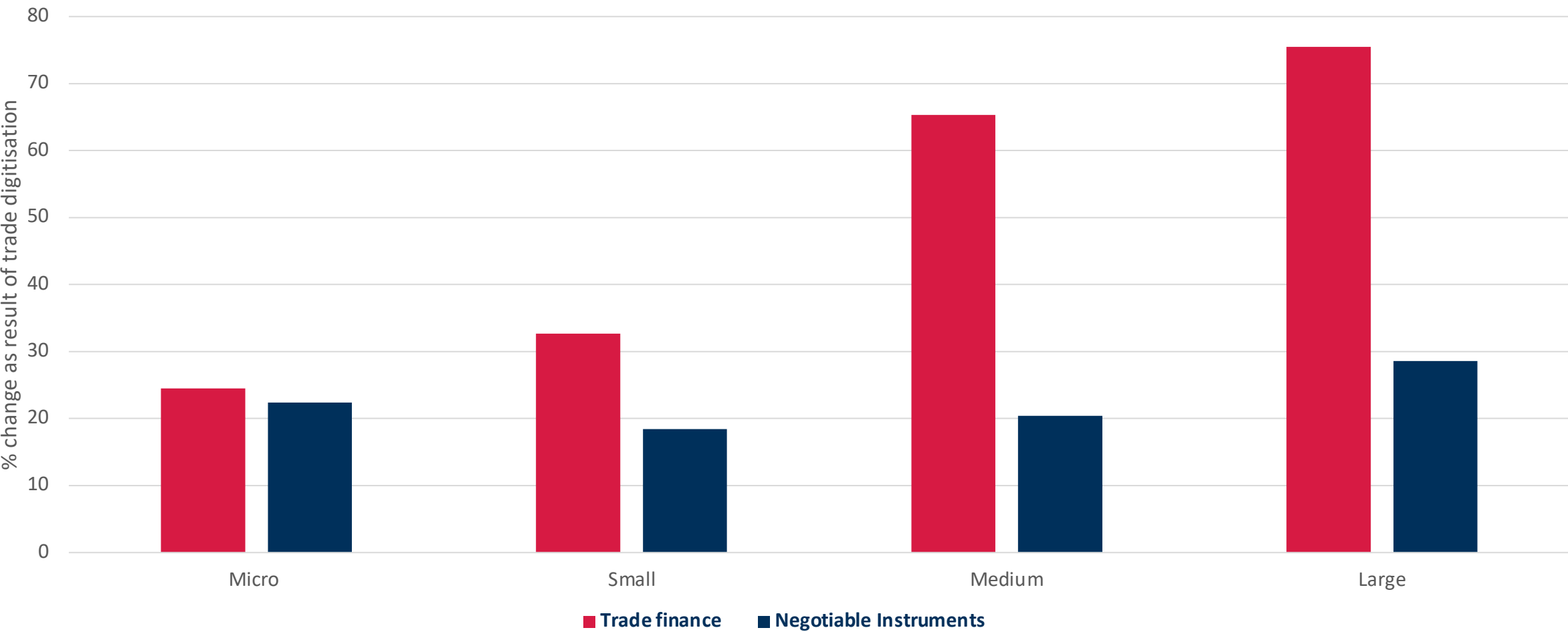


Source: Digital implementation survey, banks, Türkiye, Feb 2024 N = 50

Banks believe digitisation will improve service to larger companies most



Increase in servicing by banks by business type

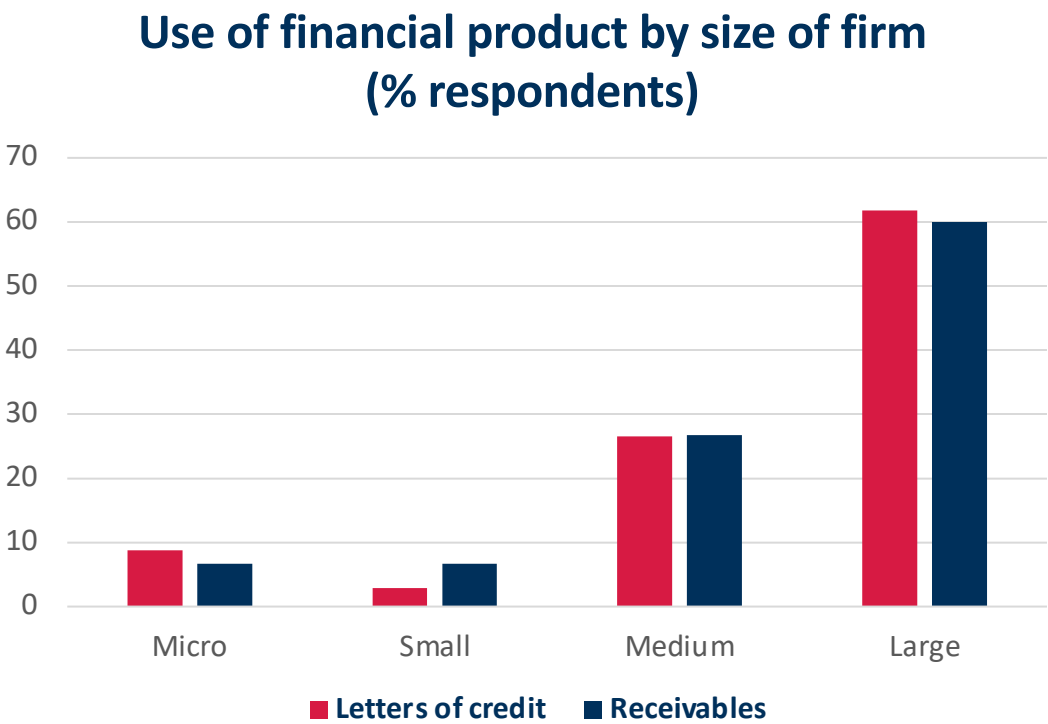
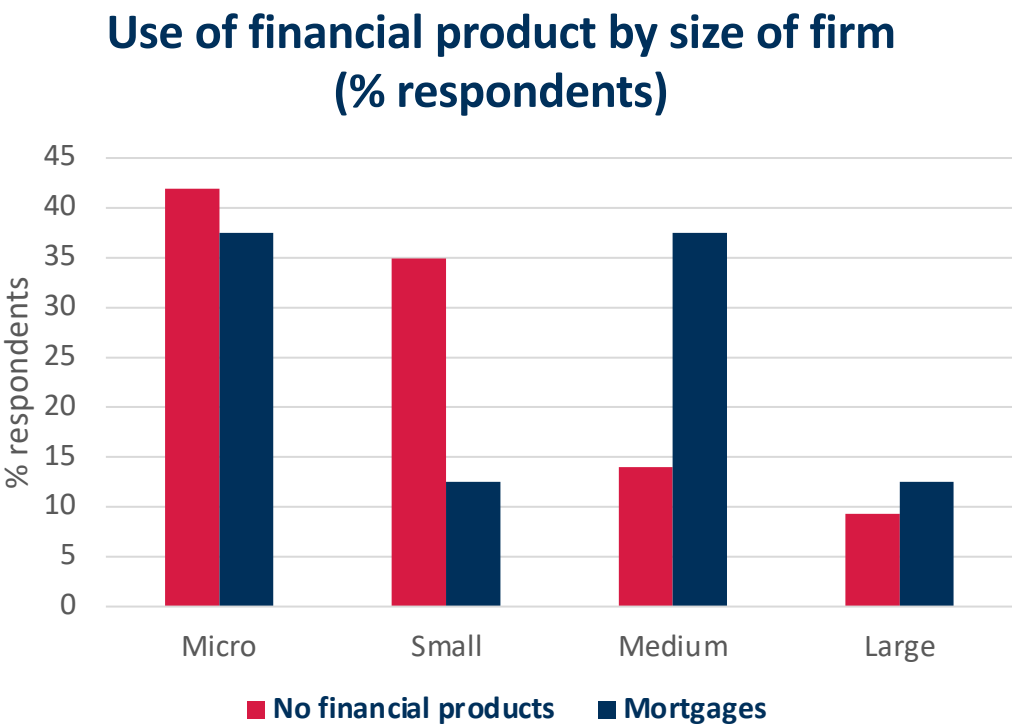


Source: Digital implementation survey, banks, Türkiye, Feb 2024 N = 50

But small Turkish businesses consume fewer financial products

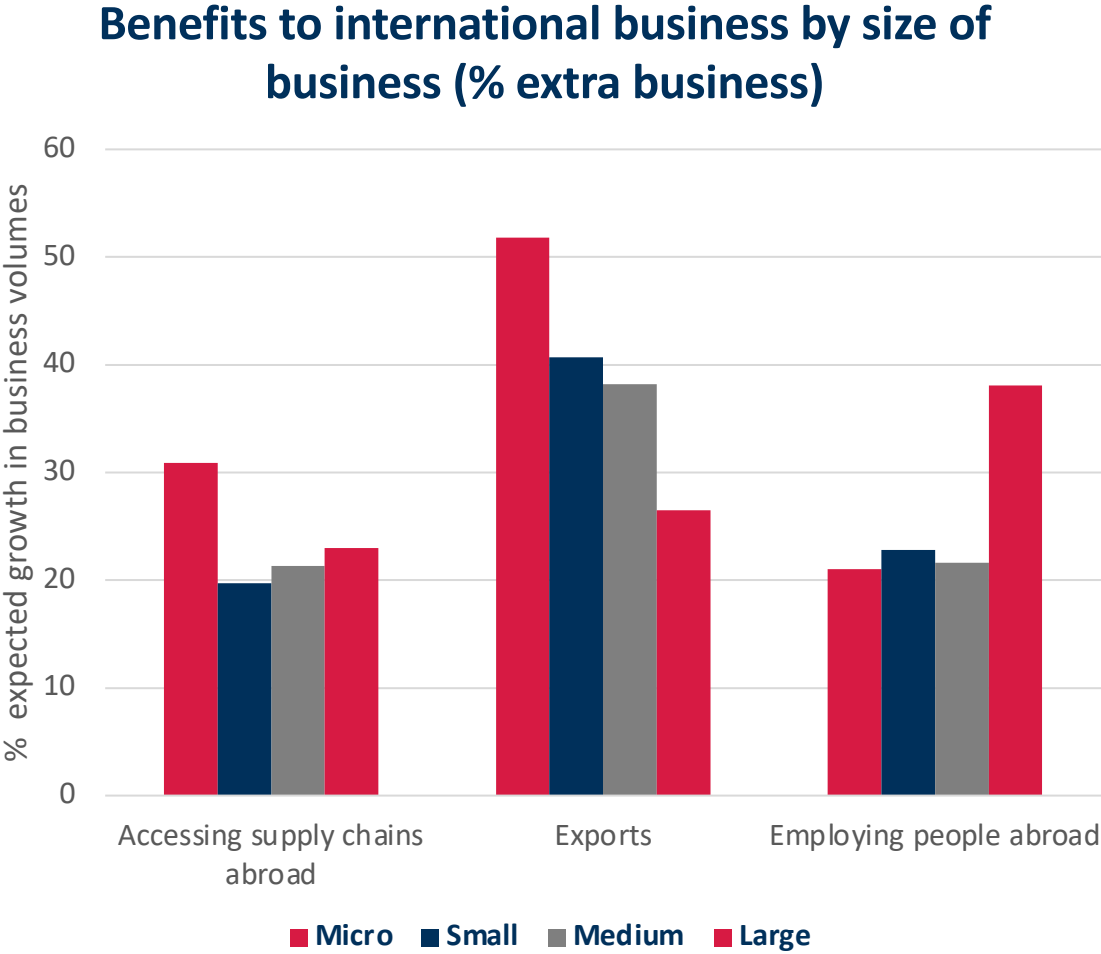
Smaller companies consume no financial products or property-based products ...

... and large firms dominate LCs and receivables

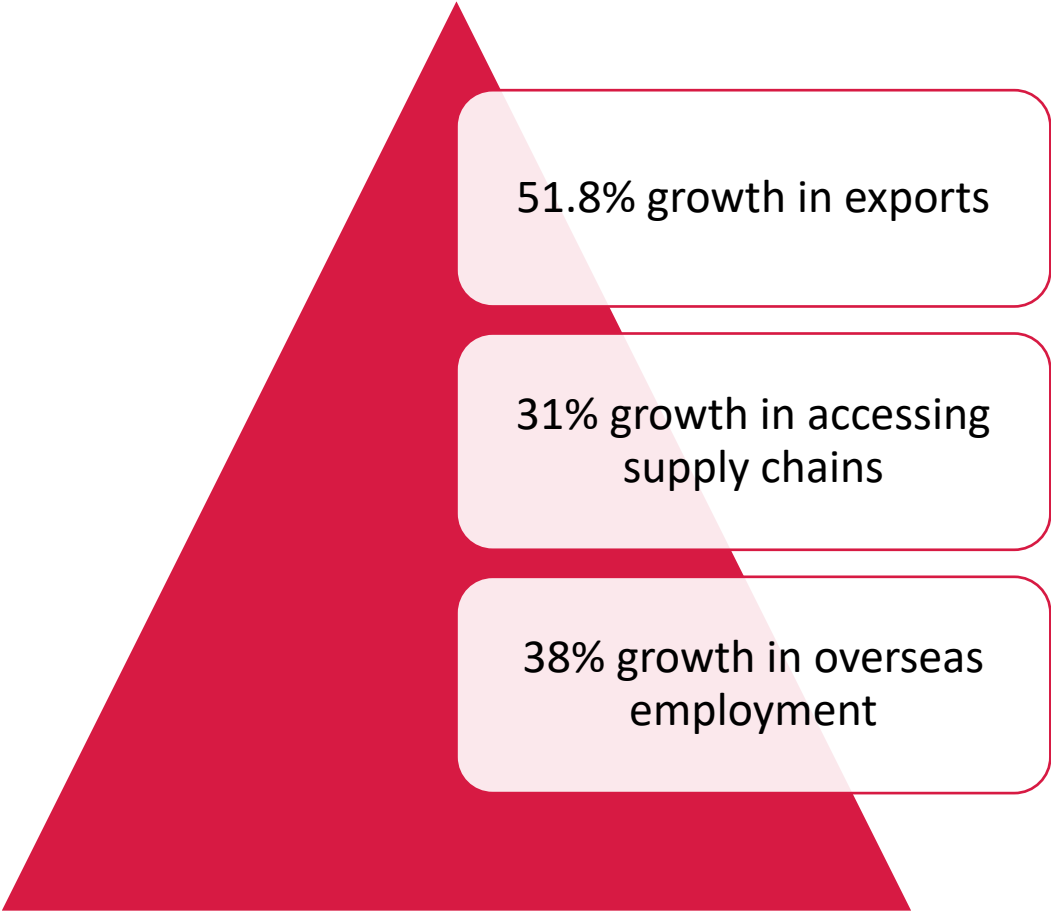


Source: Digital implementation survey, businesses, Türkiye, Feb 2024 N = 181

Nevertheless, businesses say digital trade and faster finance will help trade and international employment

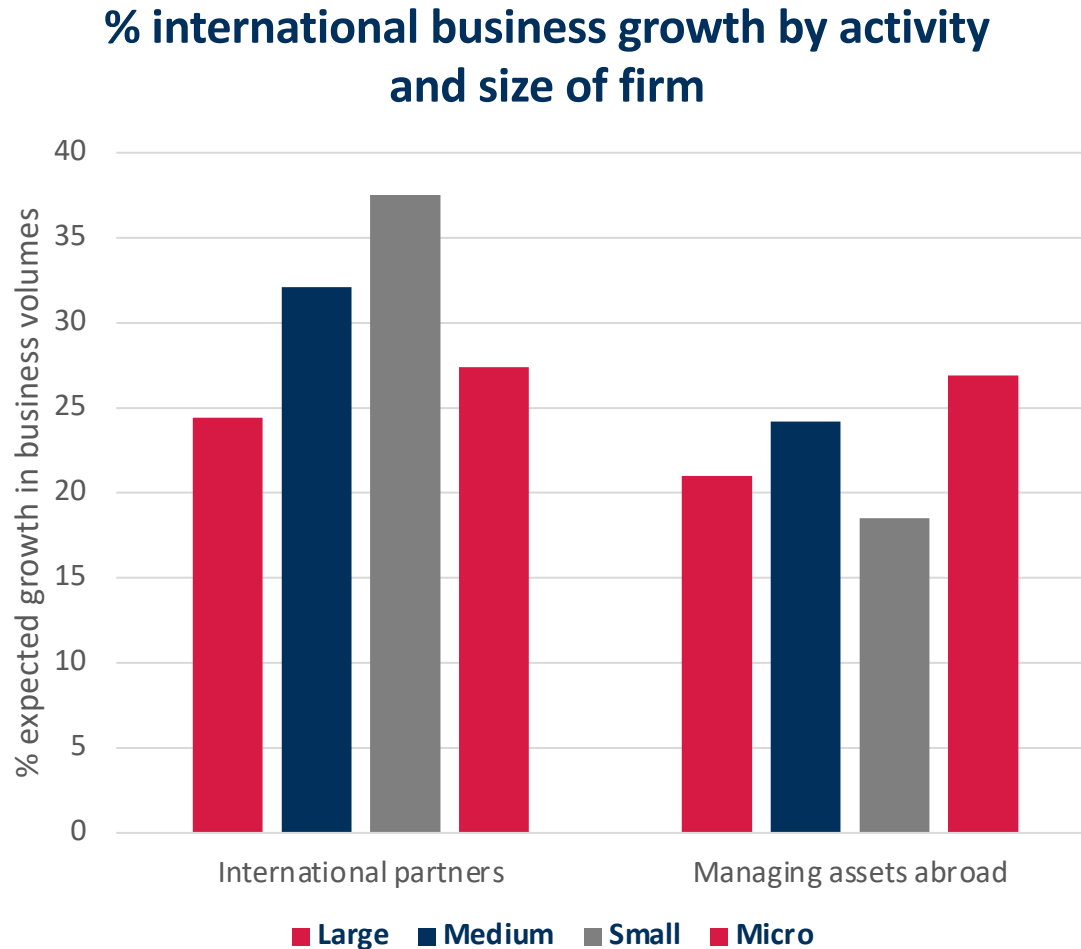


Micro firms said swifter access would create...



Source: Digital implementation survey, businesses, Türkiye, Feb 2024 N = 181

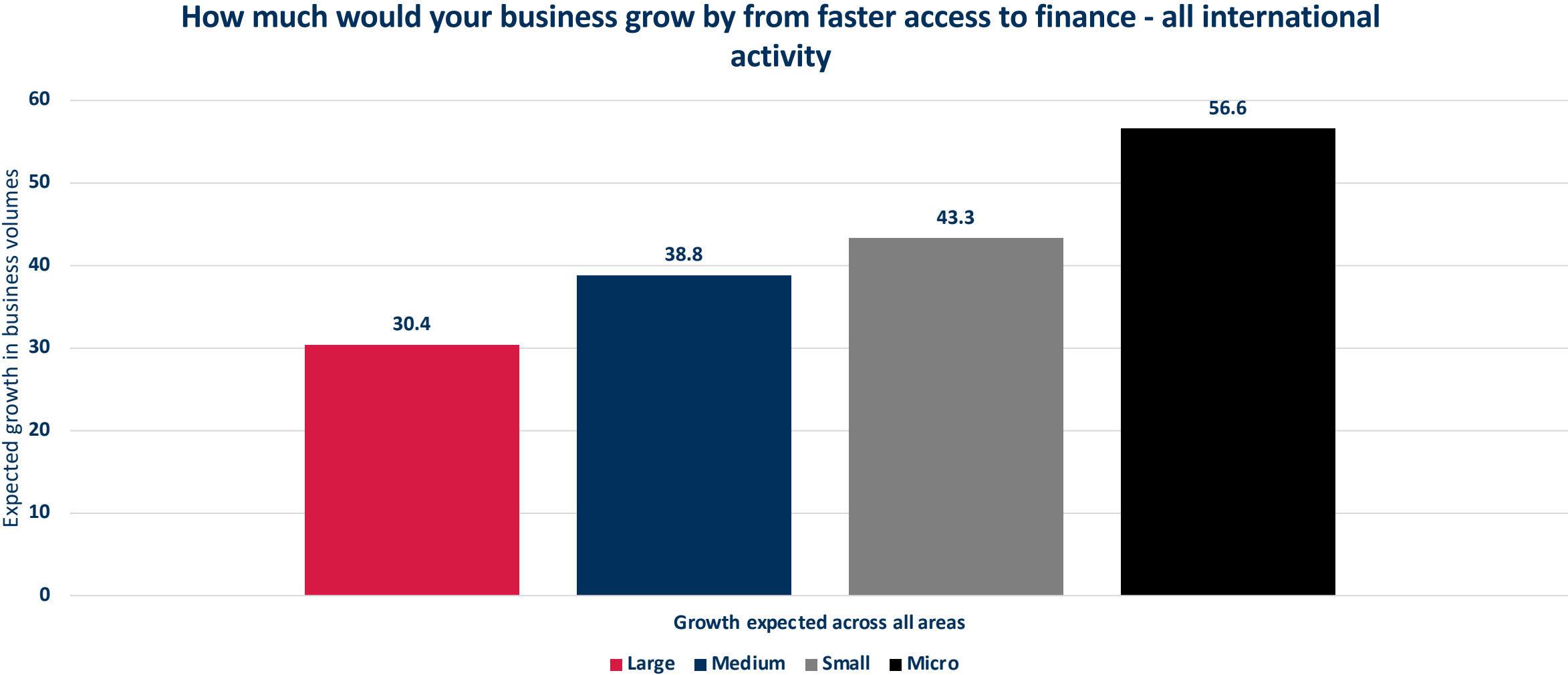
Swifter finance also gives operational advantages to SMEs



- Small and medium sized businesses would have more strategic partnerships
- Medium and micro businesses would manage more assets abroad
- Large firms already access proportionately more finance and so the impact is less marked but still substantial

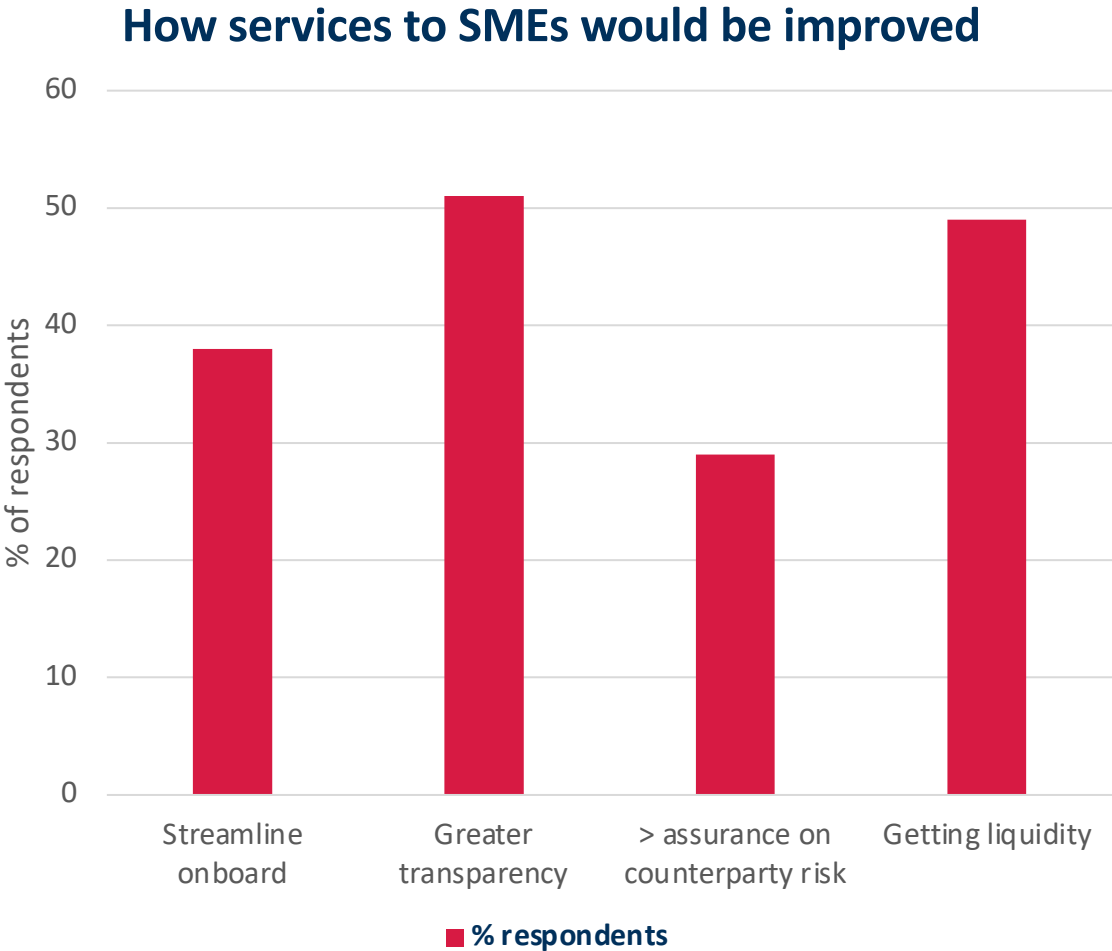
Source: Digital implementation survey, businesses, Türkiye, Feb 2024 N = 181

Micro businesses would benefit the most across the board



Source: Digital implementation survey, businesses, Türkiye, Feb 2024 N = 181

Banks can help SMEs achieve this with digitization ...



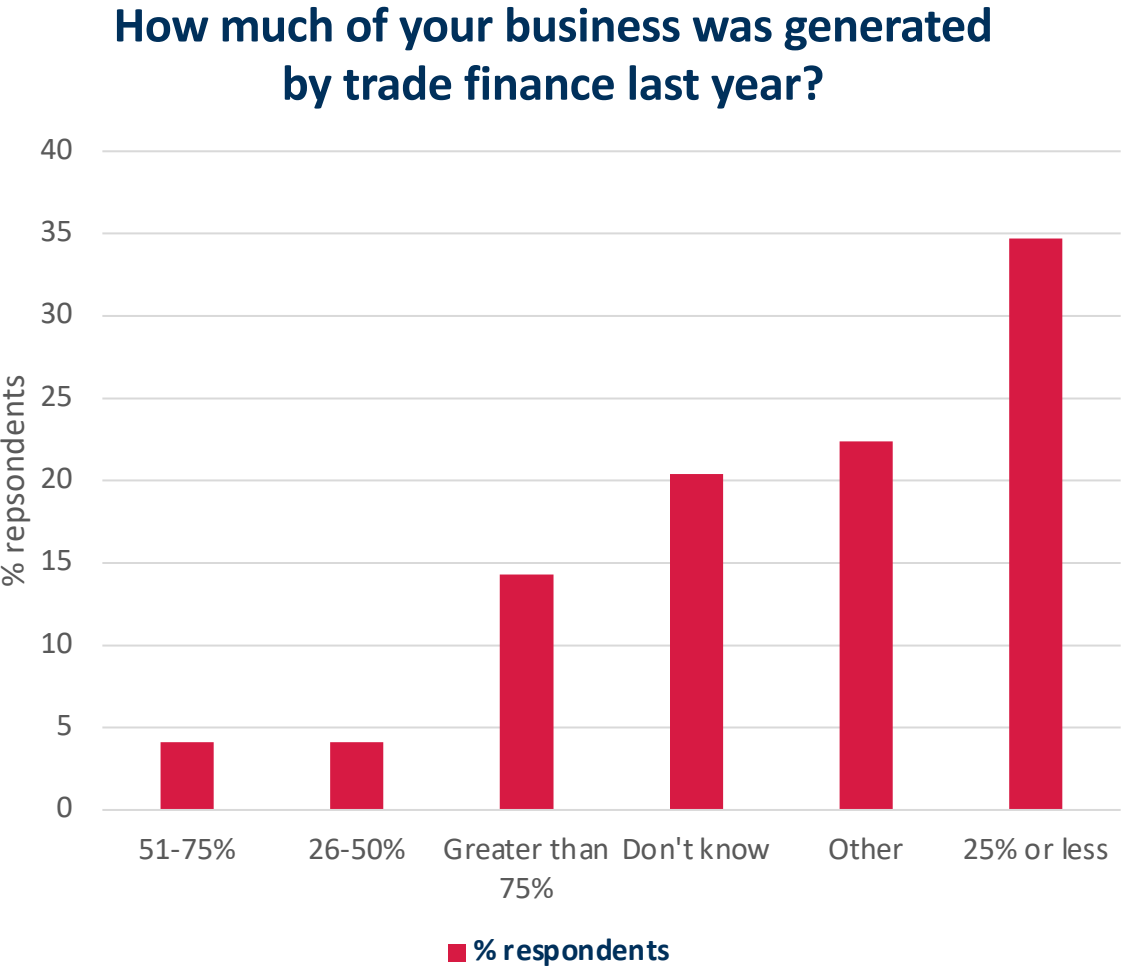
This triangulates with the interviews:

- Swifter onboarding
- Greater supply chain transparency
- Better risk management
- Higher liquidity

All seen as major benefits of digitisation by bank interviewees

Source: Digital implementation survey, banks, Türkiye, Feb 2024 N = 50

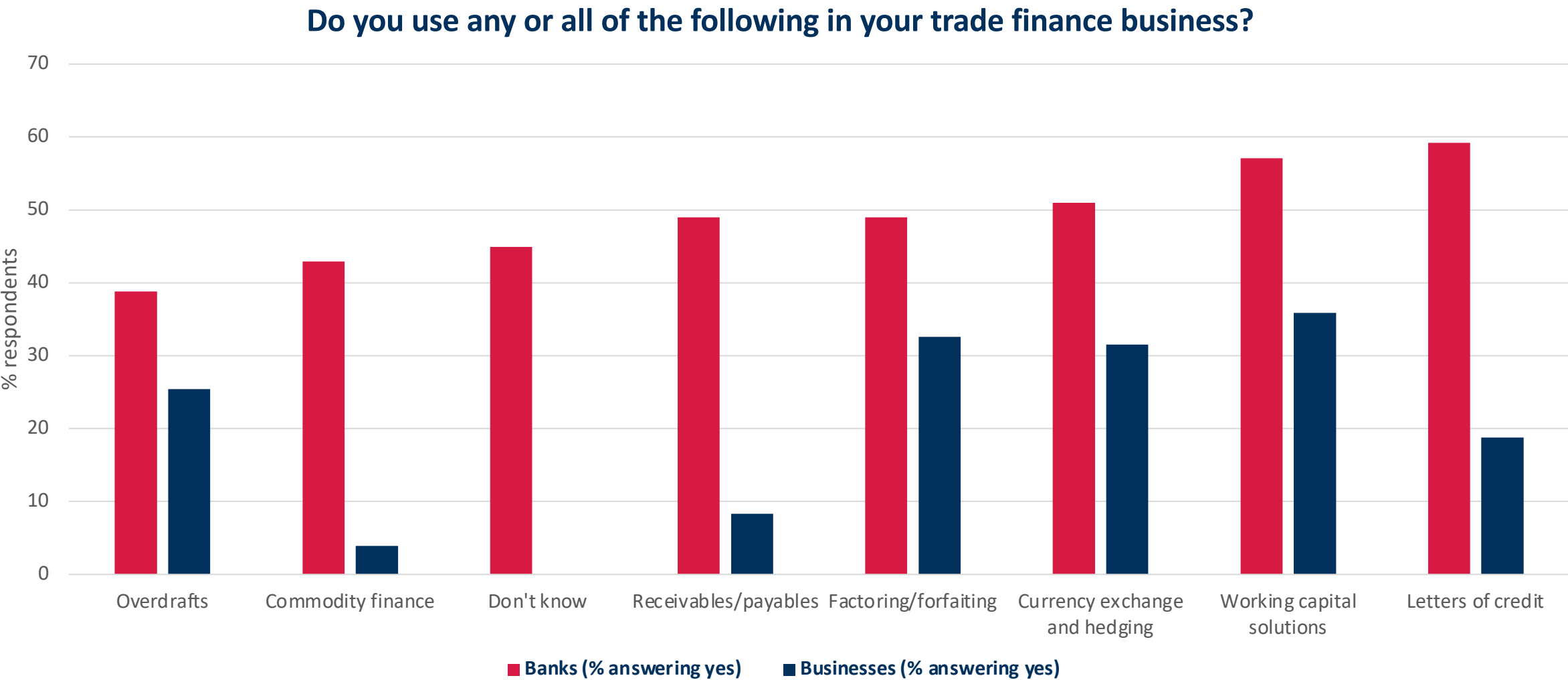
Banks are diversified and not dependent solely on Trade Finance, but this may be about awareness and profile



- Trade products are a relatively small proportion of business for respondents
- “Other” and “don’t know” were common responses but this is partly because there were Fintech and Insurance respondents as well
- Most respondents had some trade finance exposure in their business

Source: Digital implementation survey, banks, Türkiye, Feb 2024 N = 50

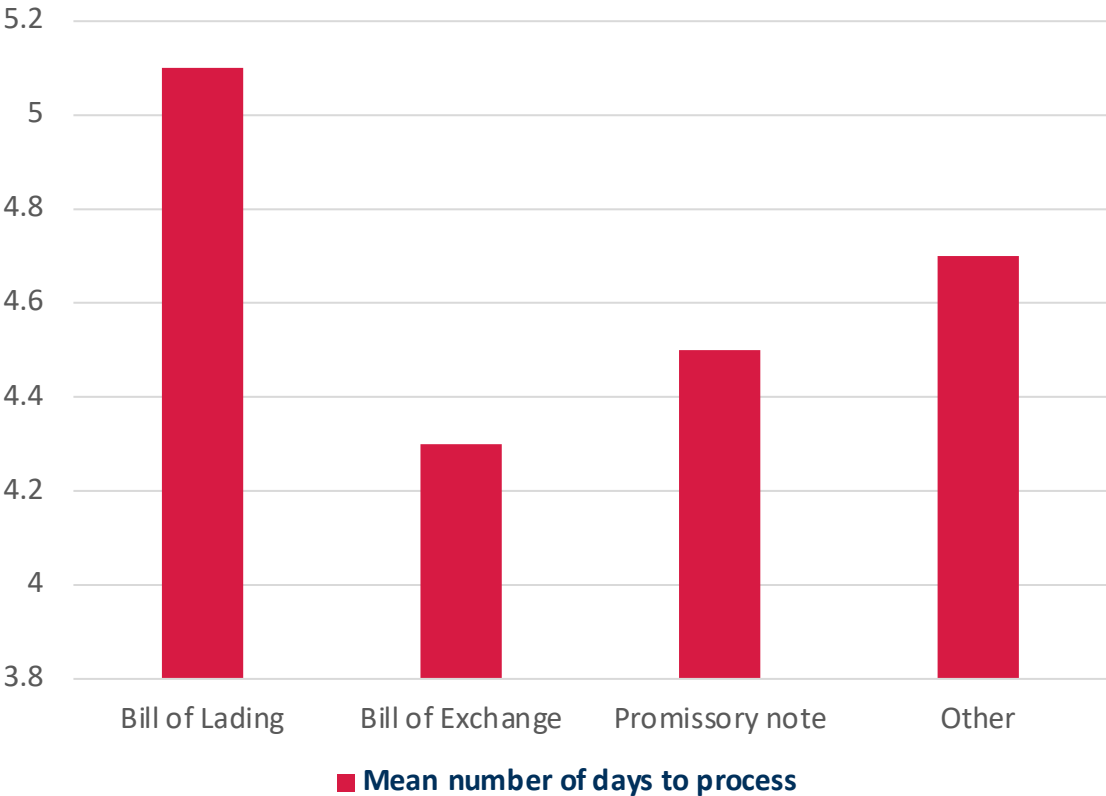
Letters of credit are most common trade product for banks – but as shown before, companies are most likely to use working capital



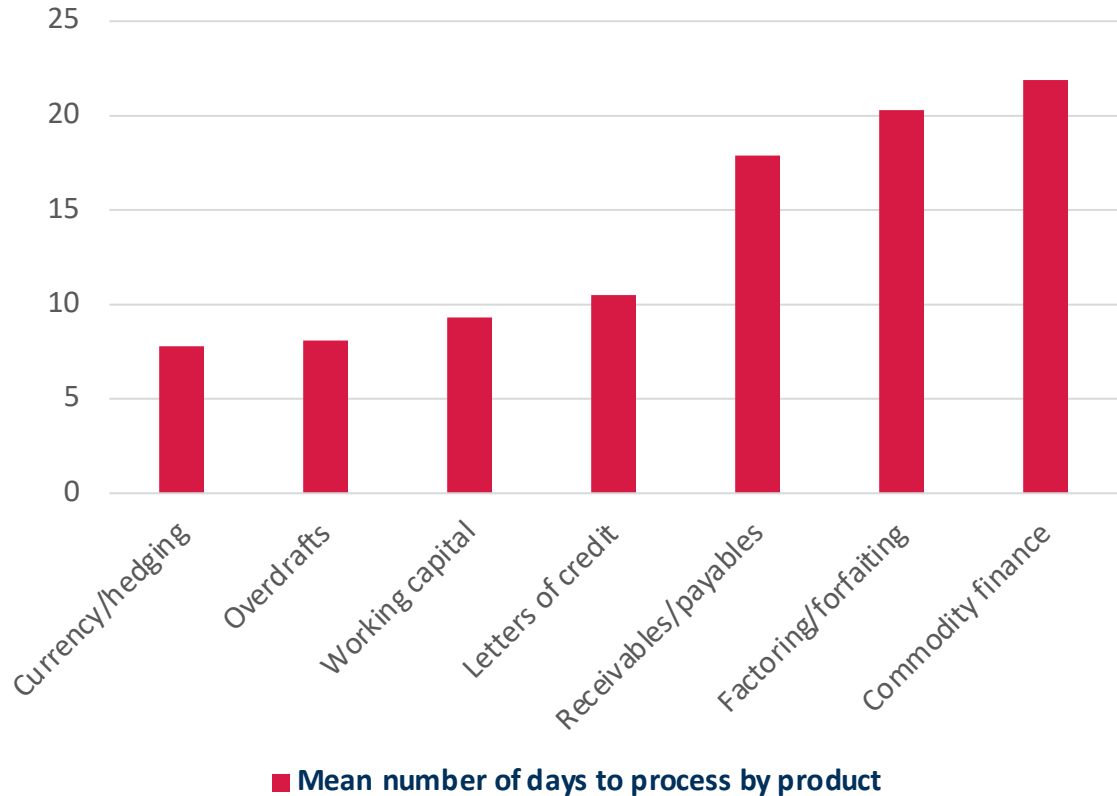
Source: Digital implementation survey, banks, Türkiye, Feb 2024 N = 50

An average trade finance product can take anything between 8 and 21 working days to process – and these may not be consecutive

Mean number of days to process a document



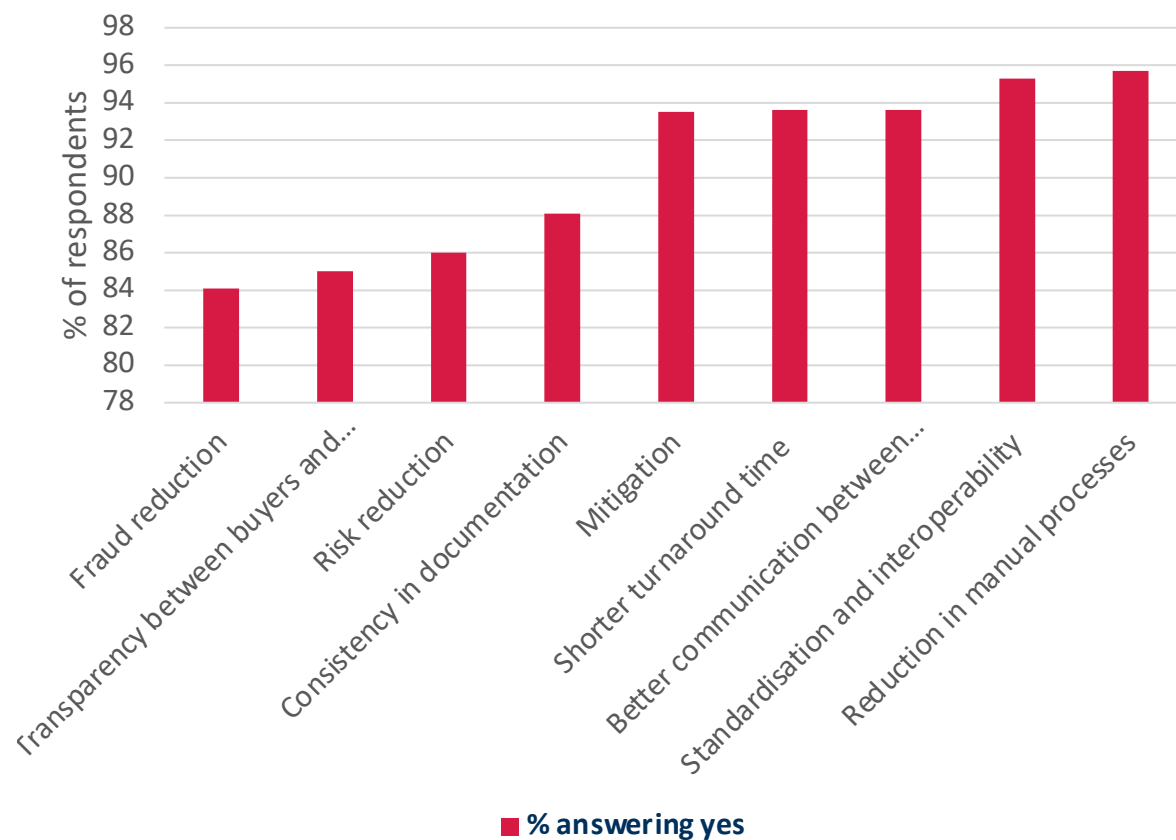
Mean number of days to process by product



Source: Digital implementation survey, banks, Türkiye, Feb 2024 N = 50

This means that costs could fall among other advantages of digitisation

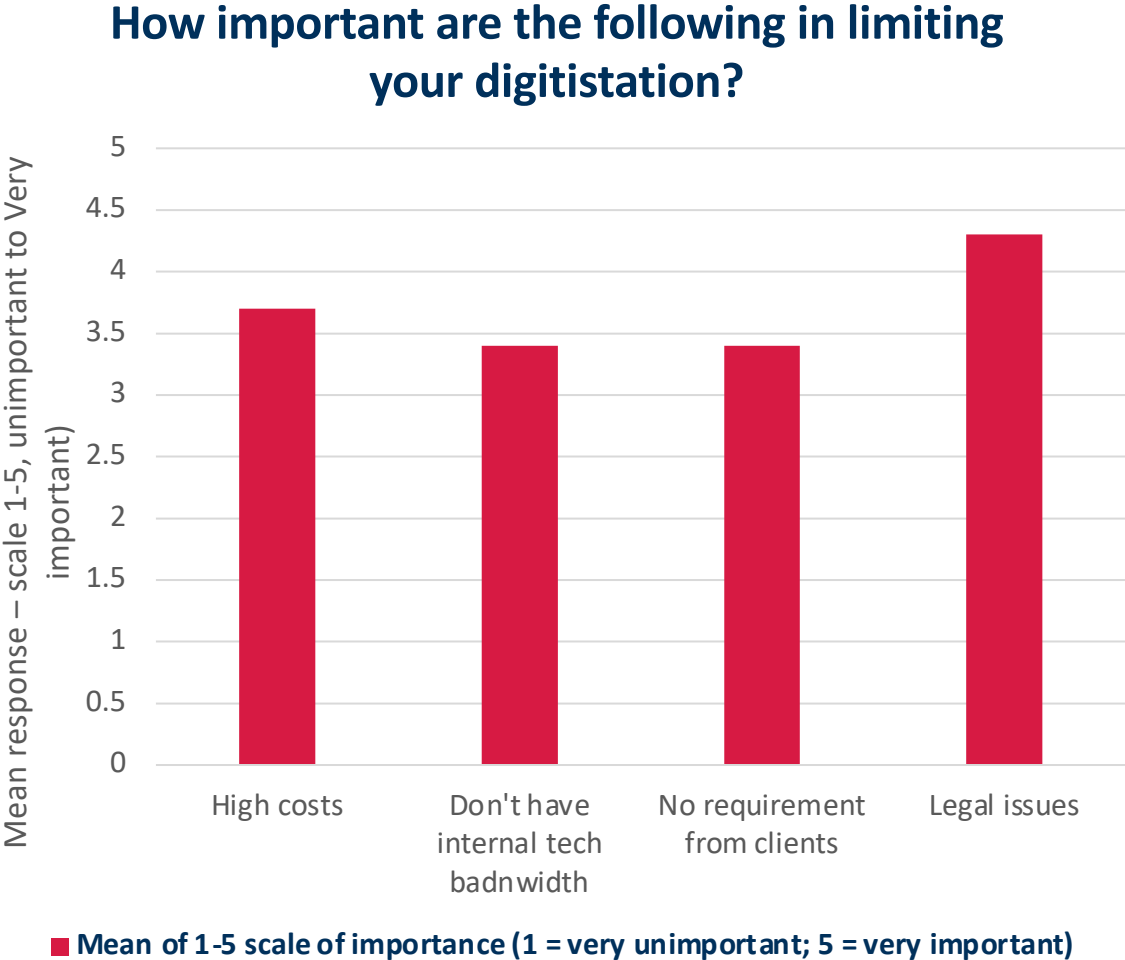
Reasons why costs will reduce through digitisation



- The biggest reason that banks saw for a fall in costs was the reduction in manual processes
- However, all areas were seen as important by the majority of banking respondents
- This means that there are significant advantages from the bank side as well as the business side – this was corroborated by interviewees as well

Source: Digital implementation survey, banks, Türkiye, Feb 2024 N = 50

Although there are barriers...



- If a mean is above 3 then it is an important limitation
- **Here, the most important limitation is legal issues with a mean across the sample of 4.3**
- This is followed by high costs with a mean of 3.7
- The reduction in costs from digitization is expected over the long term according to interviewees

Source: Digital implementation survey, banks, Türkiye, Feb 2024 N = 50

Unsurprisingly banks really want a change in the law

Would change in law to allow buyers and sellers to use digital techniques accelerate your adoption?

87.8% said yes

Would a change to the law enable buyers and sellers to use digital negotiable instruments accelerate your adoption?

89.6% said yes

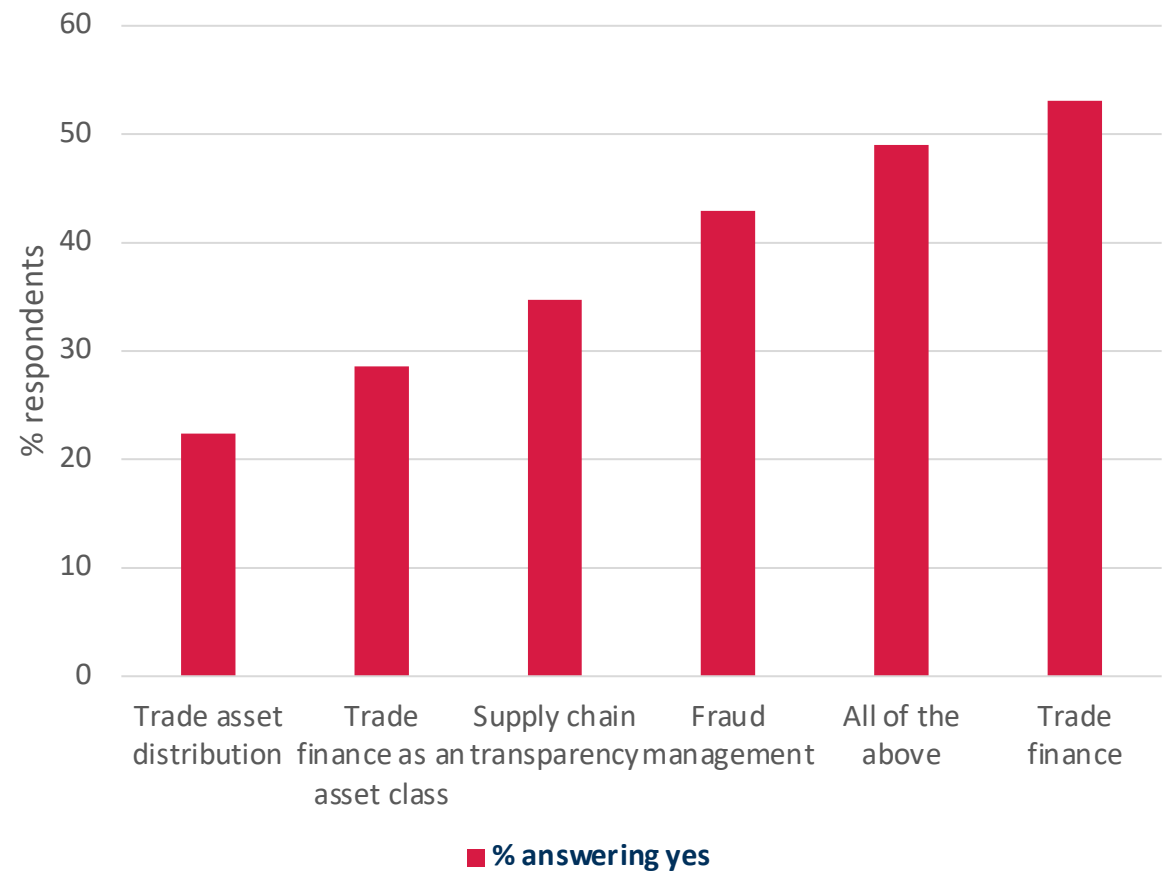
Qualitative interviews suggested it would

1. It increases financial inclusion and streamlines trade facilitation
2. It improves collateral management to make management of financial assets in supply chains easier
3. Eliminates human error (eg missing documents)
4. Reduces fraud
5. Streamlines processes
6. Allows use of big data
7. Greater security of trade documents
8. Greater verification of trade documents
9. Increases speed, transparency and visibility
10. Creates common standards

Source: Digital implementation survey, banks, Türkiye, Feb 2024 N = 50

Greater digitisation would also improve trade finance, its operations, instruments, products and status as an asset class

Would greater digitization help any or all of the following?

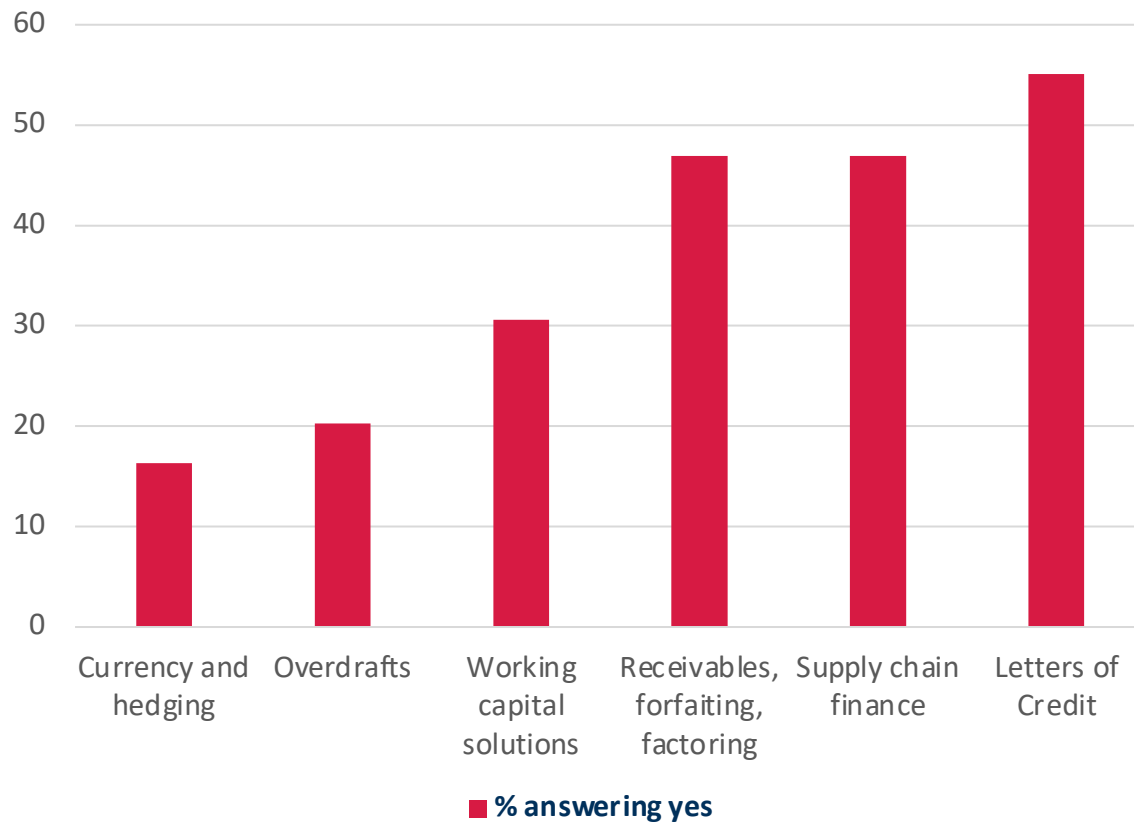


- Clear message from financial services respondents is that trade finance generally and trade across the board would benefit
- The benefits for trade finance as an asset class and asset distribution are less marked
- This is in line with the interviews: making trade finance simpler and reducing fraud were seen as major advantages

Source: Digital implementation survey, banks, Türkiye, Feb 2024 N = 50

And letter of credits, supply chain finance and receivables would benefit most from digitisation

Which of the following products would benefit most from digitisation?



There is clear evidence that the technical and most complex aspects of trade finance would benefit from digitization

- Letter of Credits (55%)
- Supply chain finance (46%)
- Receivables, forfaiting and factoring (46%)

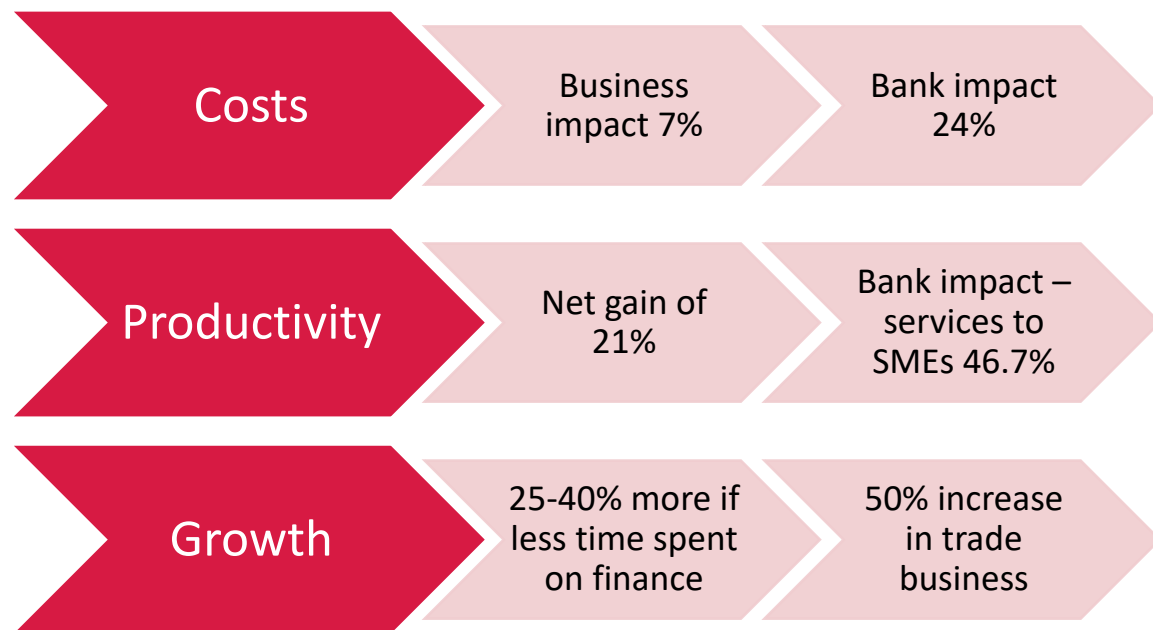
These are also the areas which take a lot of time.

Source: Digital implementation survey, banks, Türkiye, Feb 2024 N = 50

- 1 Background & Executive Summary
- 2 Empirical Results & Insights
- 3 The Impact on Trade
- 4 Concluding Remarks

Applying prior results and extrapolate them to Türkiye's trade

Assumptions on costs and growth come from qualitative and survey work:

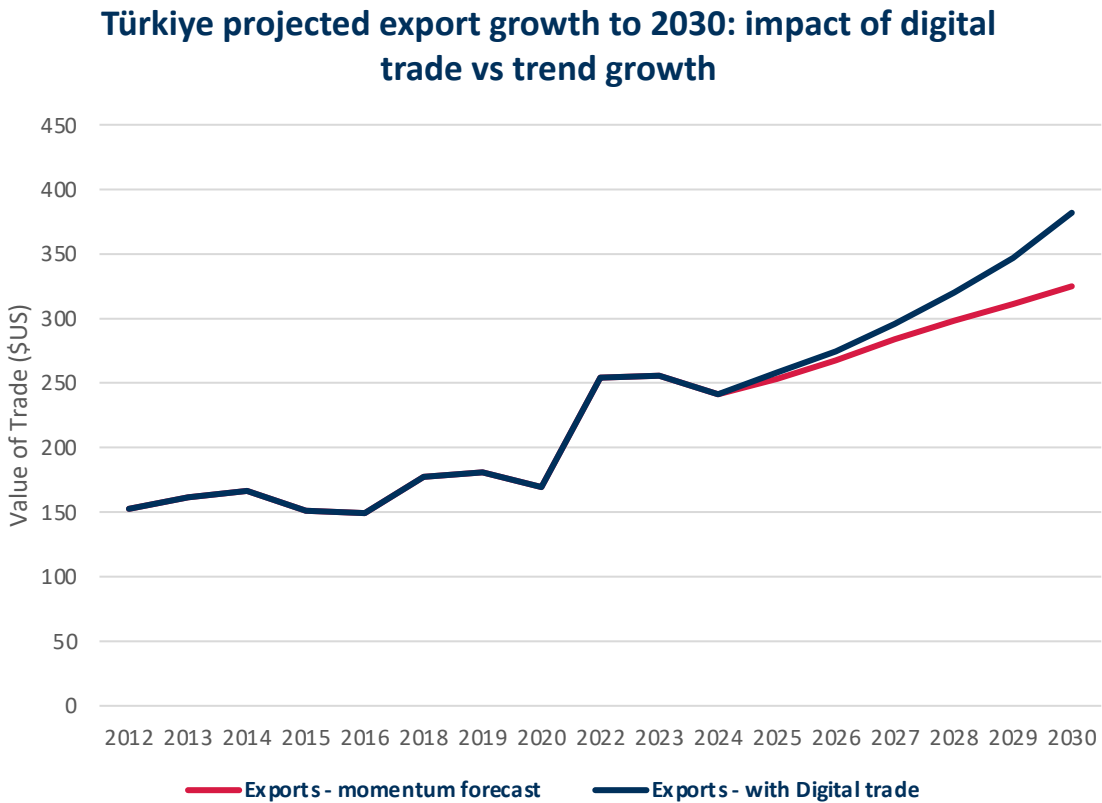


These are used to augment a simple forecast of trade growth

- Base forecast growth – simple trend estimate of imports & exports
- The field work suggests an impact on trade of around 25% to 2030 based on:
 - 7% net cost improvement for businesses & 24% improvement for banks
 - Productivity gain of 21% for businesses
 - Lower estimate of growth of 25% if less time spent on finance from survey – deliberately biased to larger firms as these dominate export volumes
- Effects of 25% growth over survey will amplify over time as efficiencies and productivity improvement take effect

Impact on exports: Potential export growth 2/3rd higher by 2030

Exports: \$57bn extra trade by 2030



Highlights:

- Exports are forecasted on current trend to grow by 5.1% annually until 2030
- With 25% growth assumed over the time period this adds another 3% annually to growth
- The fastest growth is towards the end of the time period

- 1 Background & Executive Summary
- 2 Empirical Results & Insights
- 3 The Impact on Trade
- 4 Concluding Remarks

Change in the law

- ✓ Digital signatures
- ✓ Digital negotiable instruments
- ✓ Digital trade – customs/single windows

Awareness and trust building

- ✓ Businesses are not aware of the use-cases for digital negotiable instruments
- ✓ Trust also needs to be built between banks and businesses and through supply chains

Concluding Remarks



83% of banks say that legislation is a barrier to trade digitisation

87% of banks say a change in legislation would accelerate adoption

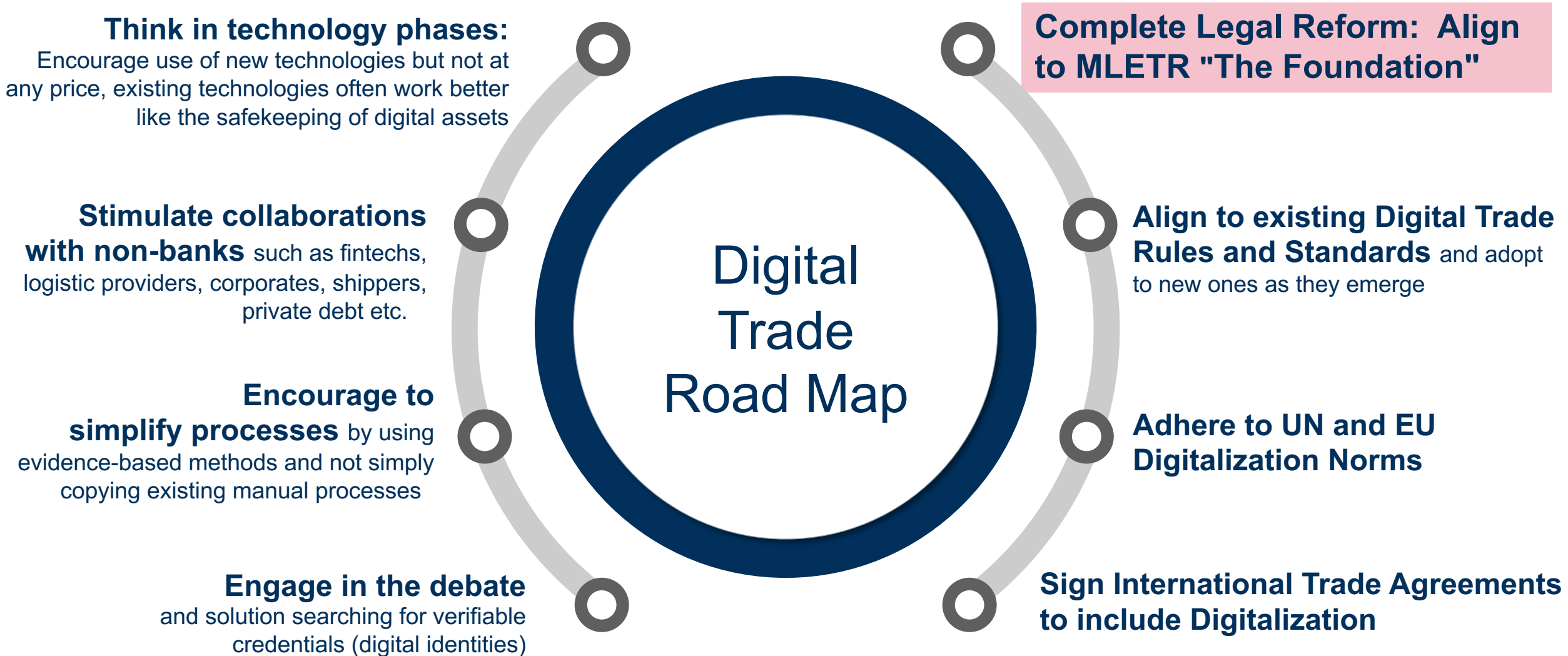
There are material productivity benefits that are evident from the results

A change in the legislation is seen as the foundation

Key Research results in comparison to other studies

UK Study	Commonwealth Study	G7 Study	Türkiye Study
<ul style="list-style-type: none">• Business growth estimated at 16%• Cost improvement 25%	<ul style="list-style-type: none">• Business growth estimated at between 16% and 45%• Costs – up to 95% depending on stage of economic development	<ul style="list-style-type: none">• Business growth estimated at 16%• Costs improvements between 7 and 25%	<ul style="list-style-type: none">• Business growth estimated at 25 – 40%• Costs improvement Businesses: 7% Banks: 24%

Digital Trade Road Map – Focus points for Türkiye





Rebecca Harding

rebecca.harding@t3ipartner.network

Tel.: +44 (0) 7803 710711

Daniel Cotti

daniel@t3ipartner.network

Tel.: +44 (0) 7515 671970

Meral Sengöz

meral.sengoz@t3ipartner.network

Tel.: +90 (0) 552 753 61 55

Frank Wendt

frank@t3ipartner.network

Tel.: +41 (0) 762696598

We appreciate your business and the opportunity!