



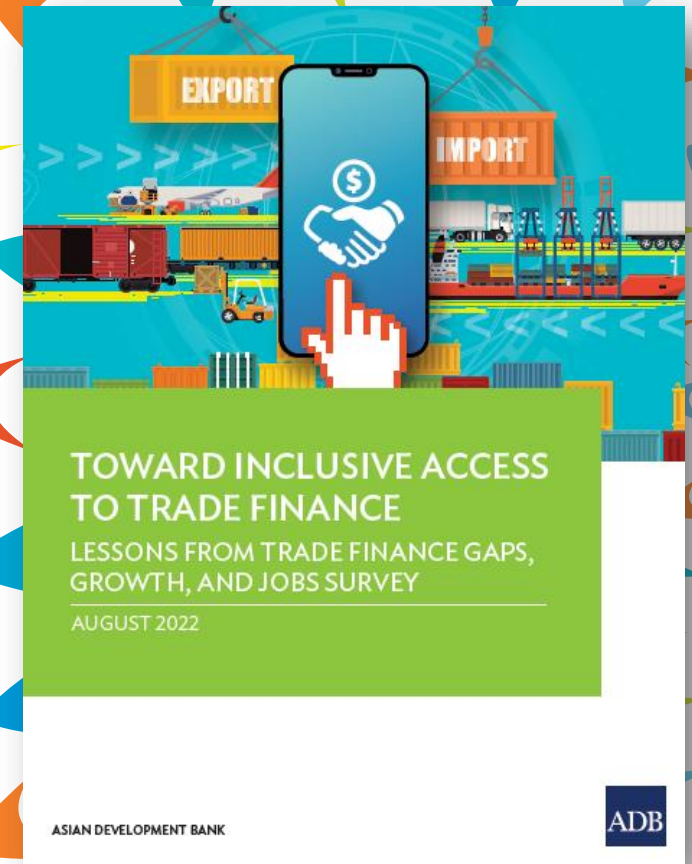
TOWARD INCLUSIVE ACCESS TO TRADE FINANCE: LESSONS FROM THE TRADE FINANCE GAPS, GROWTH, AND JOBS SURVEY

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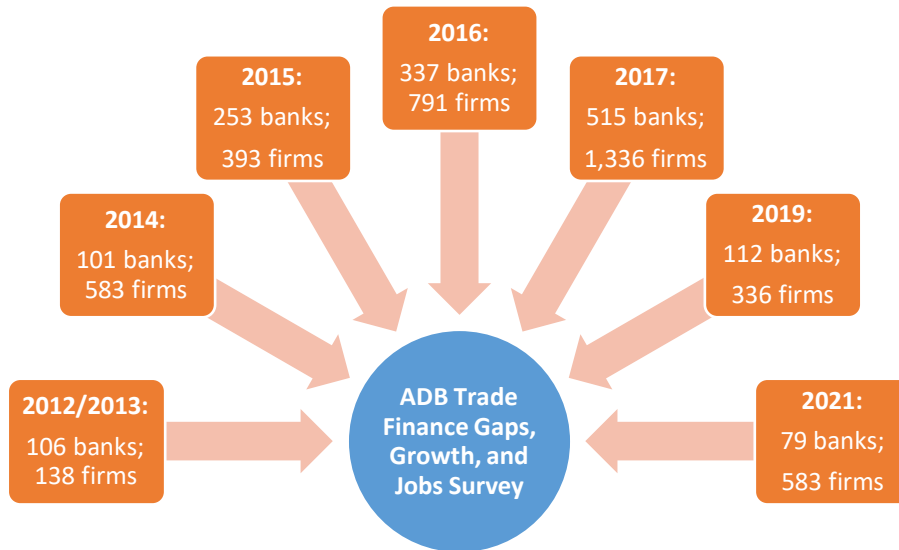
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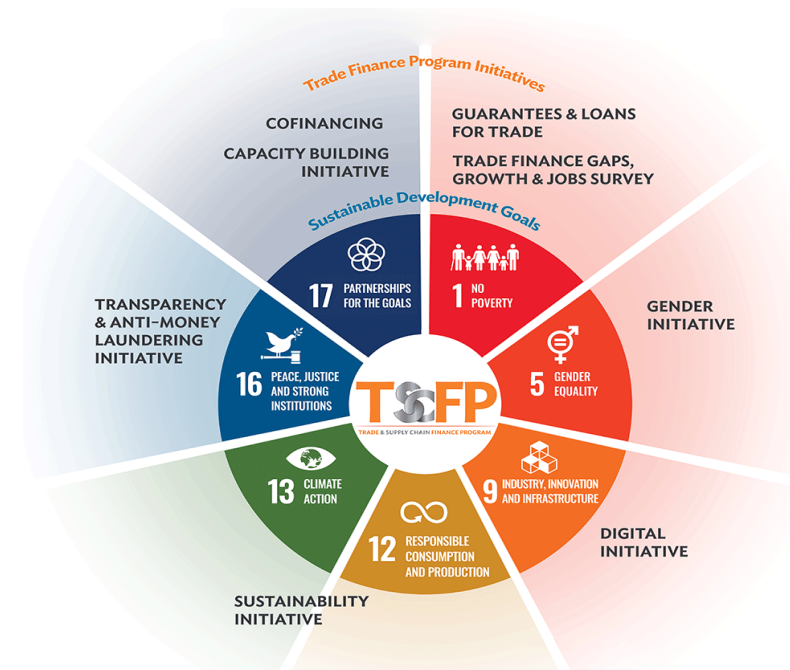
What is the ADB's Trade Finance Gaps, Growth, and Jobs Survey?

- The survey, which has since evolved, started from a collaboration within ADB in an effort to understand the challenges facing MSMEs in trade finance and quantify the unmet demand.
- ADB's Trade and Supply Chain Finance Program provides loans and guarantees for green, resilient, and inclusive global trade and supply chains

Number of Respondents in the ADB Trade Finance Surveys



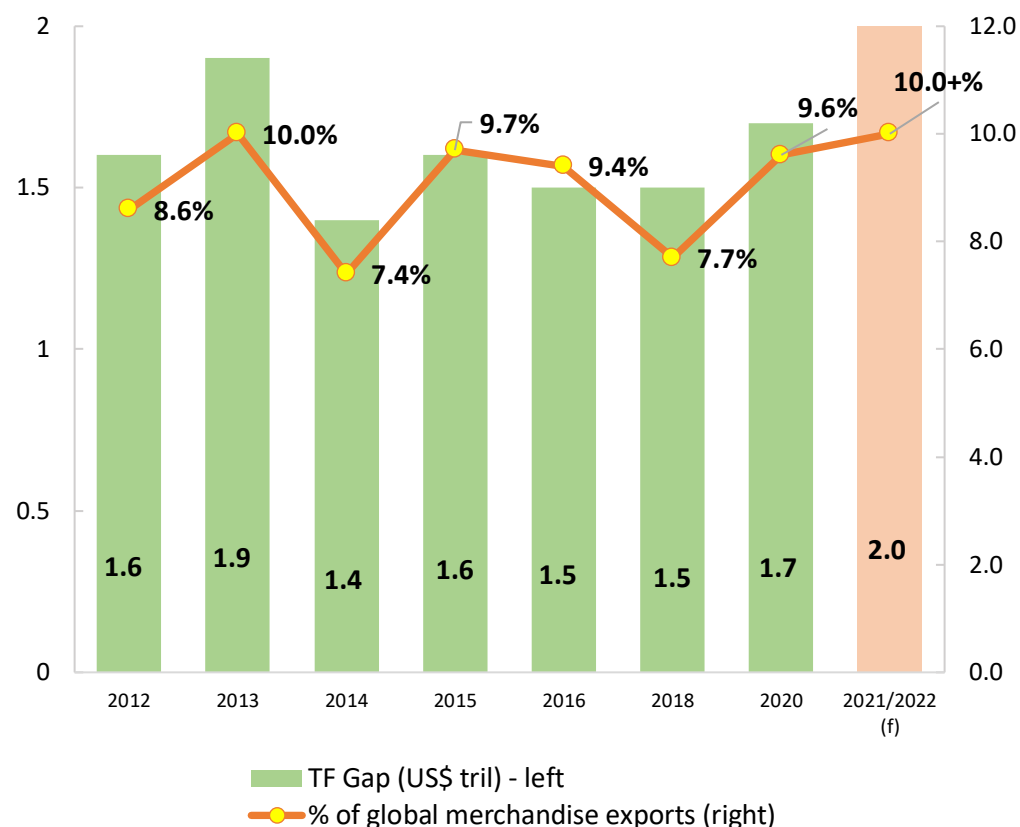
ADB Trade and Supply Chain Finance Program



Source: Authors' compilation using data from DiCaprio, Beck, and Daquis (2014); DiCaprio, Beck, and Daquis (2015); DiCaprio et al. (2016); DiCaprio, Kim, and Beck (2017); Kim et al. (2019), and Kim et al. (2021).

Trade finance gap remains persistently large over the past decade

Trend of the Trade Finance Gap



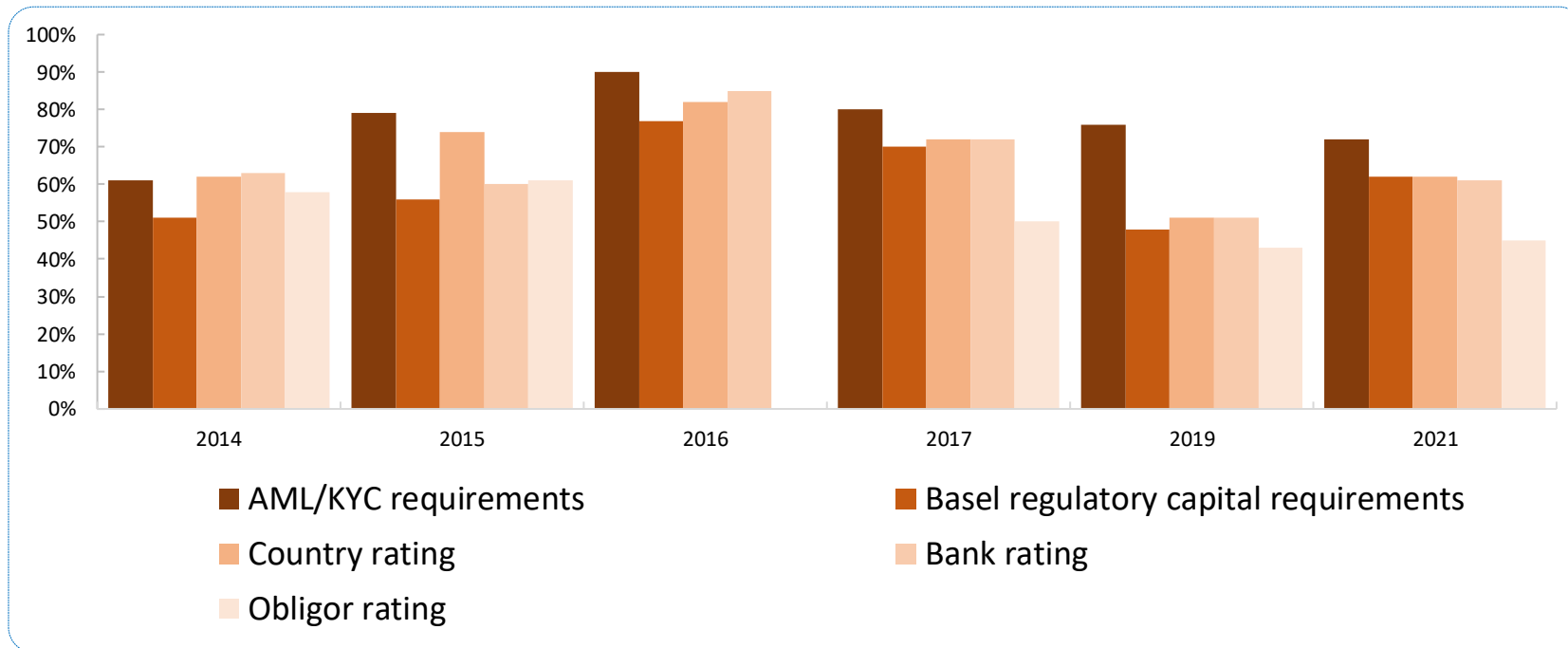
Note: The calculation of the gap is based on figures from bank-intermediated finance markets only.
Source: Kim et al. 2021 and authors' estimate

- Starting in 2012, unmet demand for trade finance lingers between 7 – 10% of global merchandise export values.
- In terms of level, highest trade finance gap recorded in 2020 during the pandemic.
- Estimated to further widen to US\$ 2 trillion in 2022.

Impediments to trade finance provision

- Costly compliance to KYC and AML requirements
- Capital requirements by Basel

Top Impediments to Trade Finance Provision

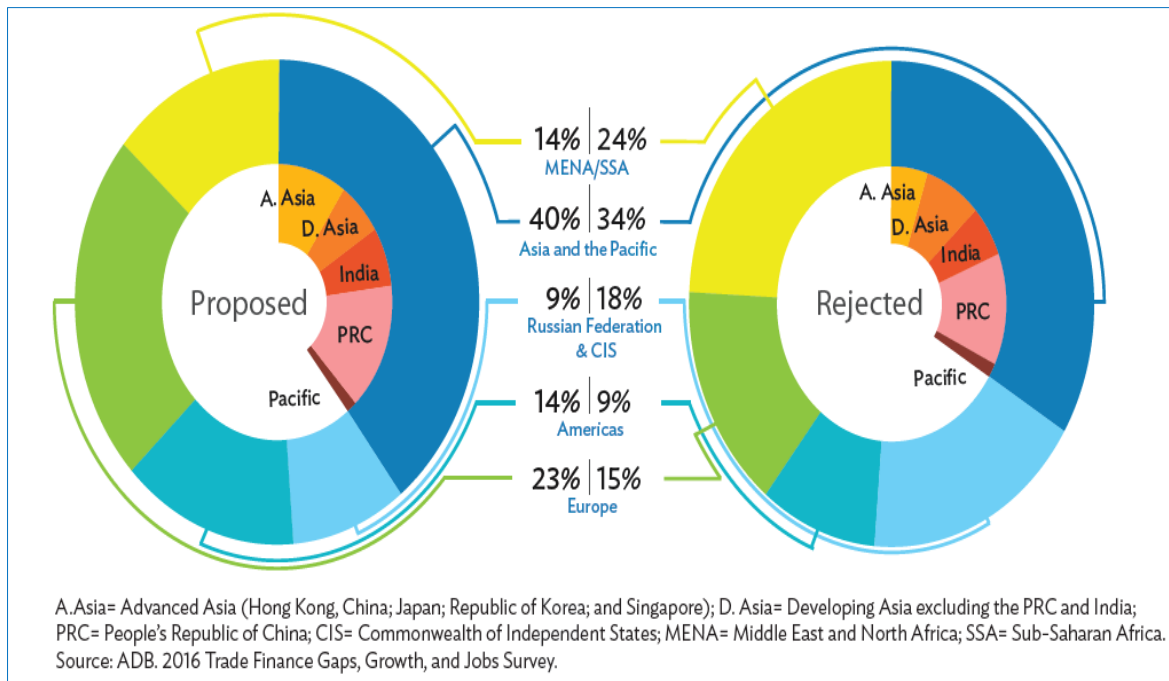


AML = anti-money laundering, KYC = know your customer.

Source: Authors' compilation using DiCaprio, Beck, and Daquis (2014); DiCaprio, Beck, and Daquis (2015); DiCaprio et al. (2016); DiCaprio, Kim, and Beck (2017); Kim et al. (2019); and Kim et al. (2021).

The Asia-Pacific region is vulnerable to trade finance rejections

Trade Finance Proposals and Rejections by Region, 2016



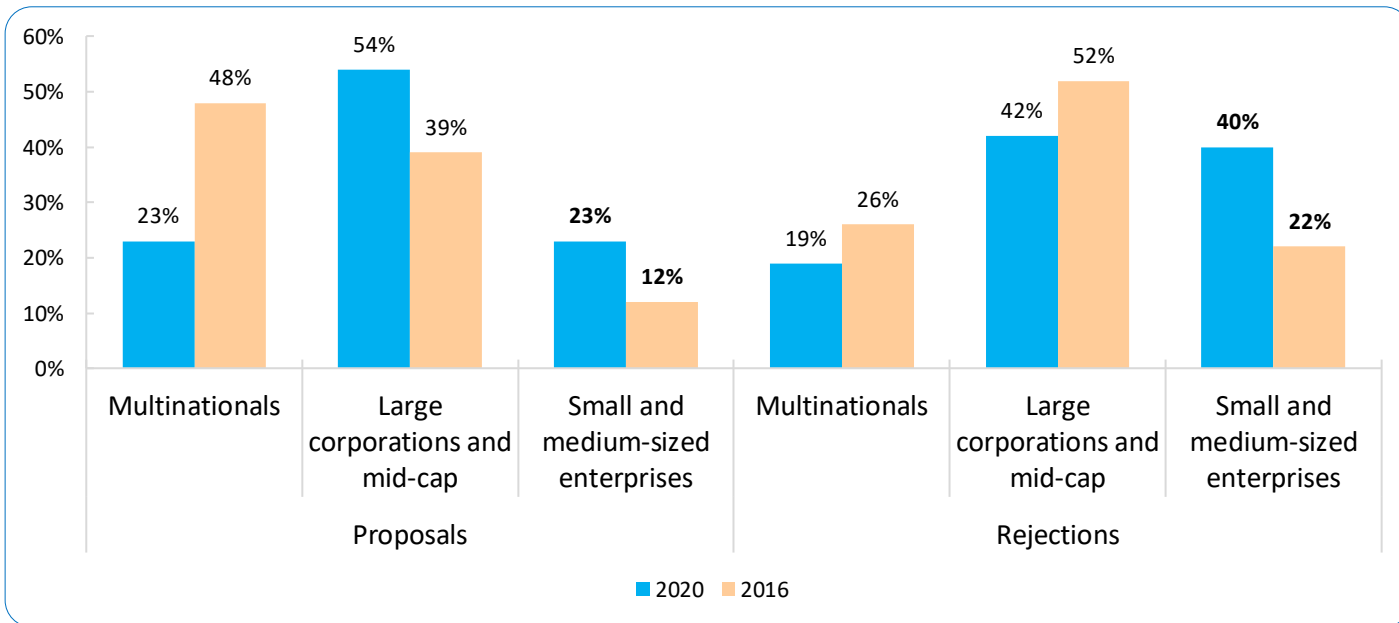
A. Asia = Advanced Asia (Hong Kong, China; Japan; Republic of Korea; and Singapore); D. Asia = Developing Asia excluding the PRC and India; PRC = People's Republic of China; CIS = Commonwealth of Independent States; MENA = Middle East and North Africa; SSA = Sub-Saharan Africa.

Source: DiCaprio et al. (2016).

- Traders from the region account for the highest rates of both proposals and rejections
- Firms in Asia and the Pacific lag in accessing inter-firm, nonbank, and digital trade finance channels and rely mostly, instead, on bank-supplied trade finance services.

SMEs suffer higher rejection rates, particularly women-owned firms

Share of Rejections, by Firm Size

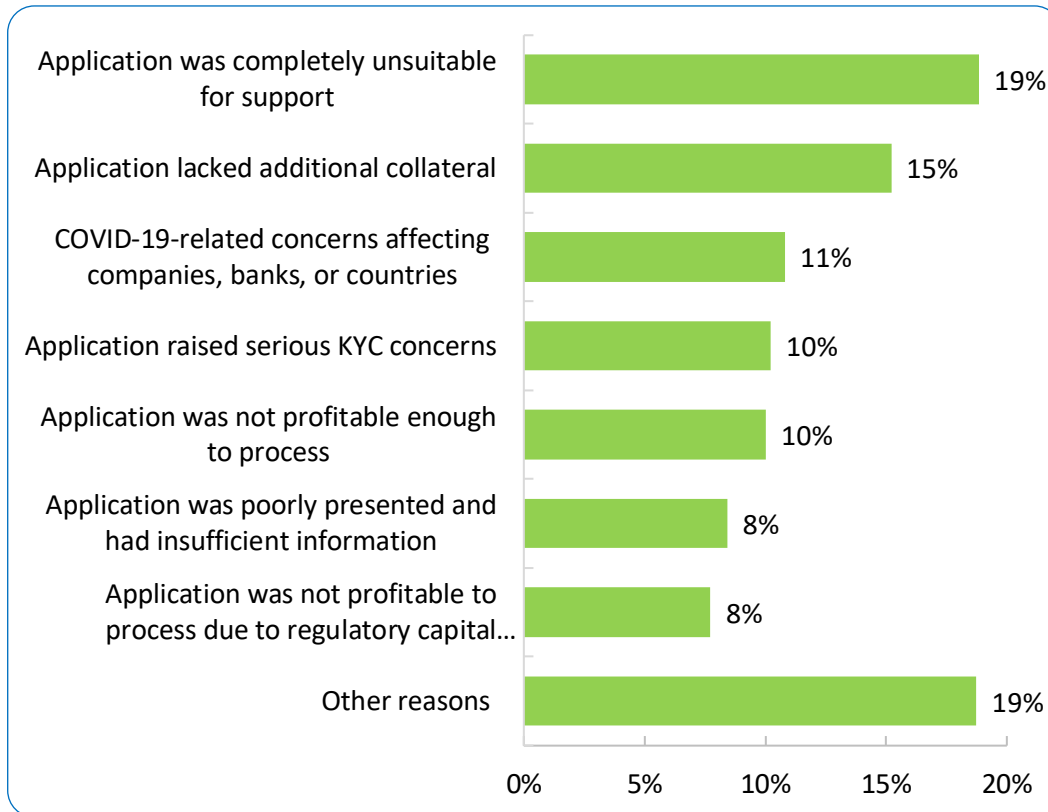


Source: Authors' compilation using DiCaprio et al. (2016); Kim et al (2019); and Kim et al. (2021).

- More stringent requirements imposed by banks (i.e high loan collaterals and third-party guarantees)
- Higher interest rates faced by smaller trading firms
- Financial access less favorable to women-owned firms.
- During the pandemic, women-owned firms experienced deeper financial distress

Failure to meet standard bank requirement leads to rejected trade finance applications

Reasons for Rejection by Banks



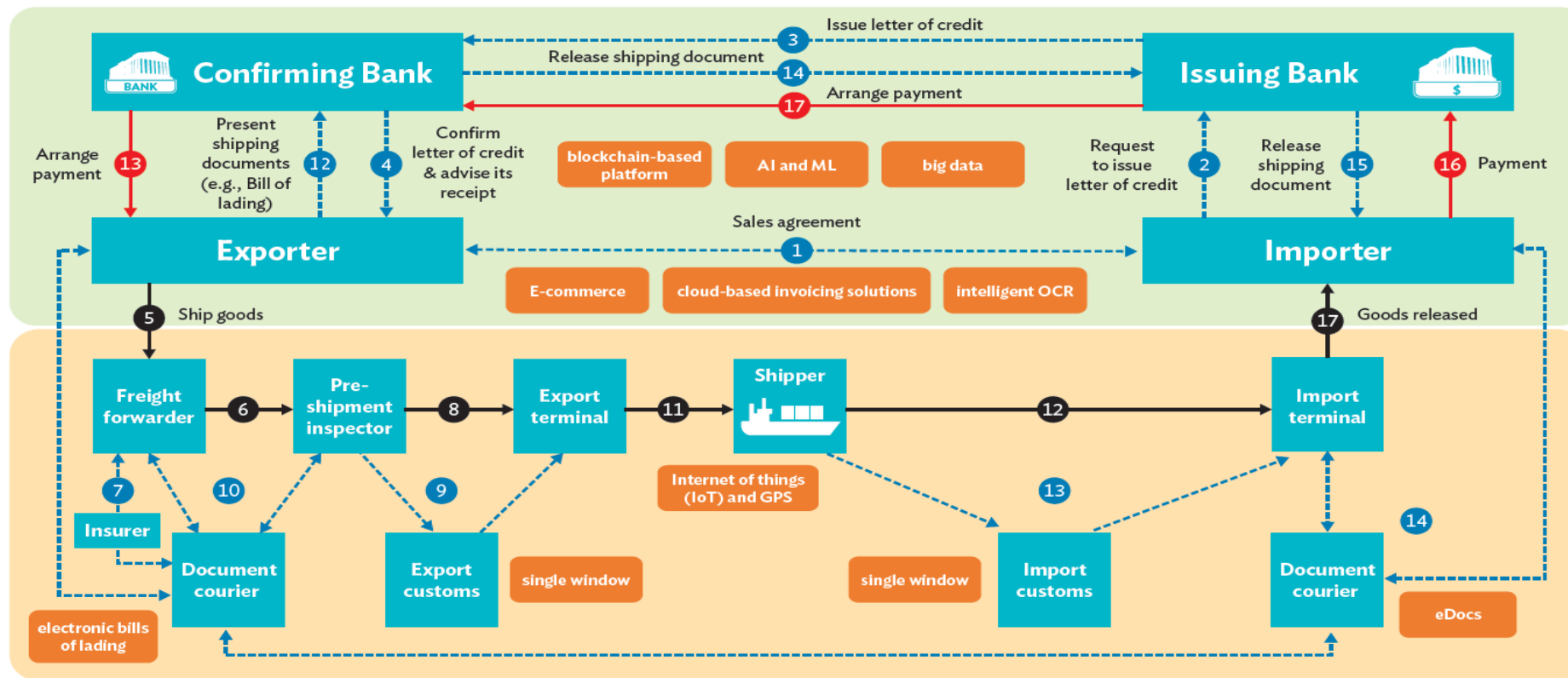
Source: Authors' calculations using data from the 2021 ADB Trade Finance Gaps, Growth, and Jobs Survey—bank and company surveys.

- Failure to comply with bank requirements (i.e collateral, documentation, and valid company record) result to rejection of finance application.
- Banks rejected around 44% of loan proposals because the application was totally unsuitable to support, did not have enough collateral, and had insufficient information

Digitalization has great potential to narrow trade finance gap...

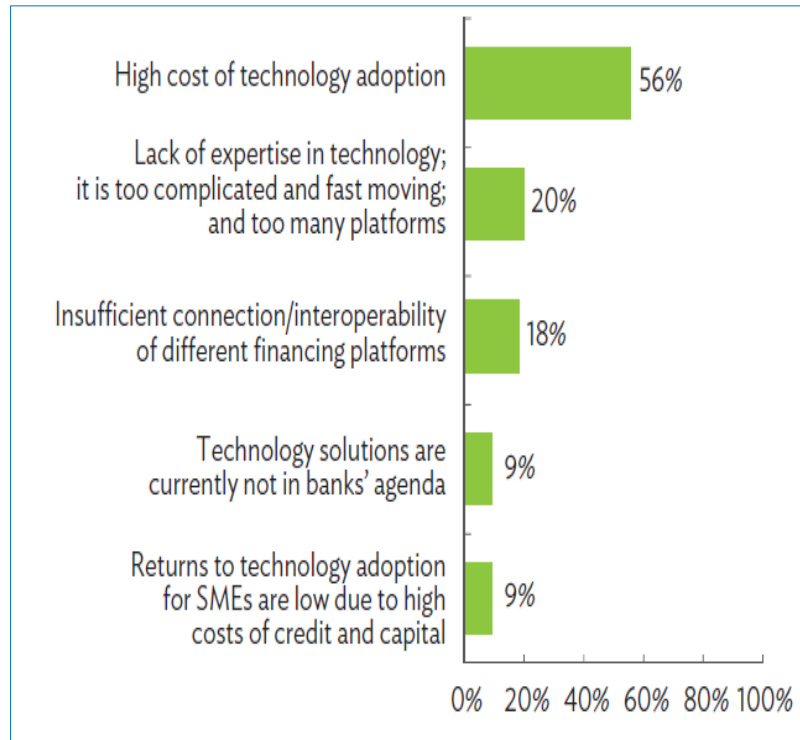
- Adopting technology-driven processes can make trade finance more accessible, inclusive, and useful in narrowing the trade finance gap

Technology-Enabled Solutions in Trade Finance



...but uptake remains slow and limited

Banks' Major Areas of Concern Regarding Technology, 2021

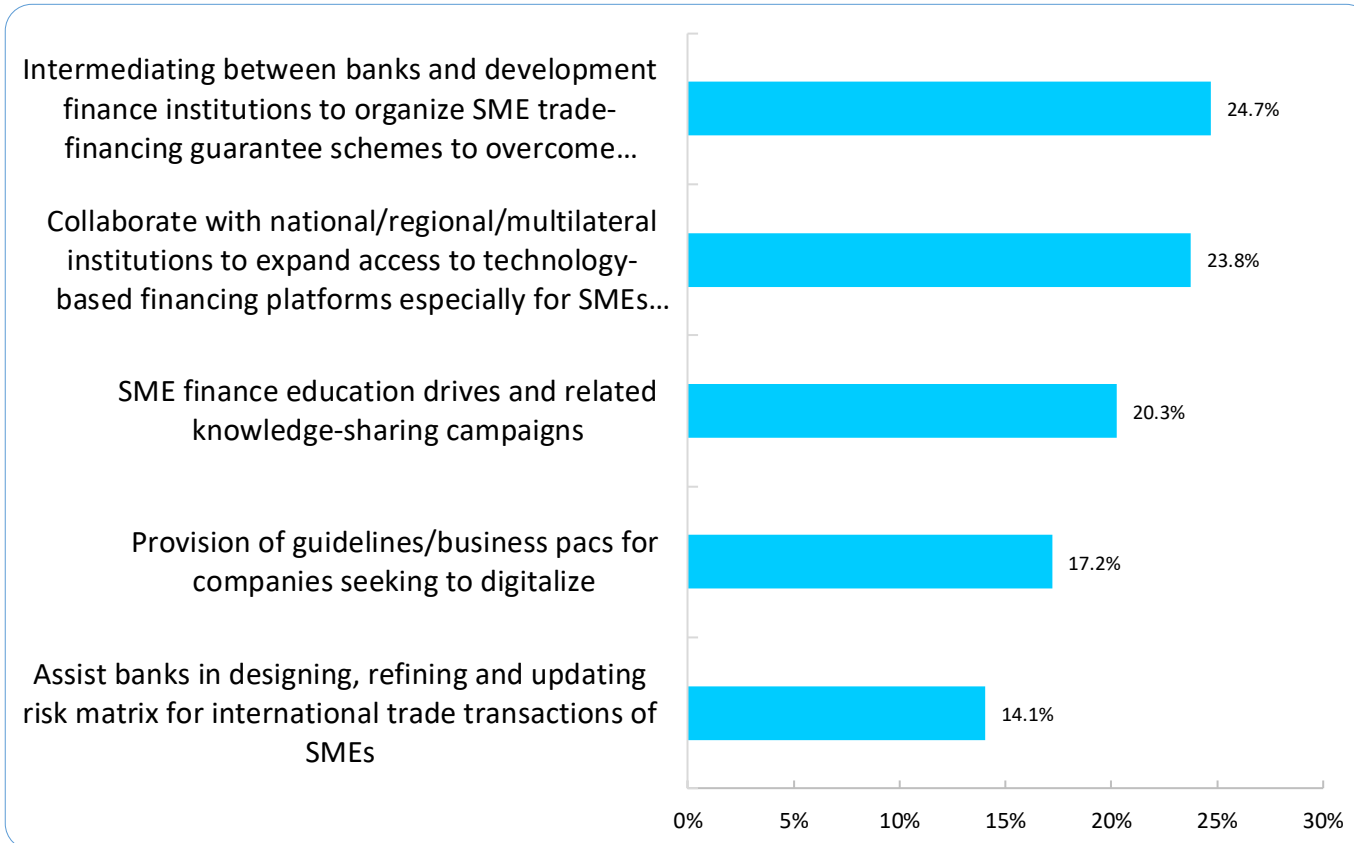


Source: Kim et al. 2021.

- Digital solutions is used only for digital filing, transmission, and electronic signature purposes in banks.
- While record keeping and accounting for firms.
- High cost of technology is a valid concern, along with lack of expertise in technology, and issues of interoperability.

Greater public sector support is needed for inclusive access to trade finance

Firm's Perceptions on How Regional/International Organizations Can Help Make Finance Affordable for SMEs



- Improved perception on the positive role of MDBs and ECAs in narrowing trade finance gap.
- MDBs and international organizations have played a role in facilitating adequate provision of trade finance

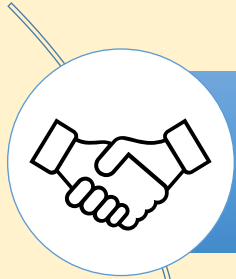
SME = small and medium-sized enterprise.

Source: ADB staff calculations using 2021 ADB Trade Finance Gaps, Growth, and Jobs

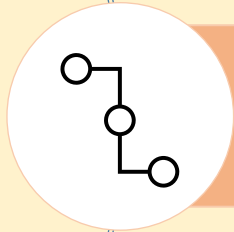
Survey – Company



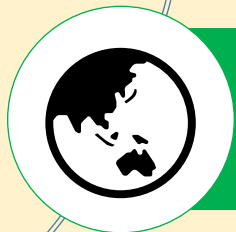
How to make an enabling environment for digitalization in trade and sustainable trade



Public-private collaboration can create an enabling environment conducive to technology adoption



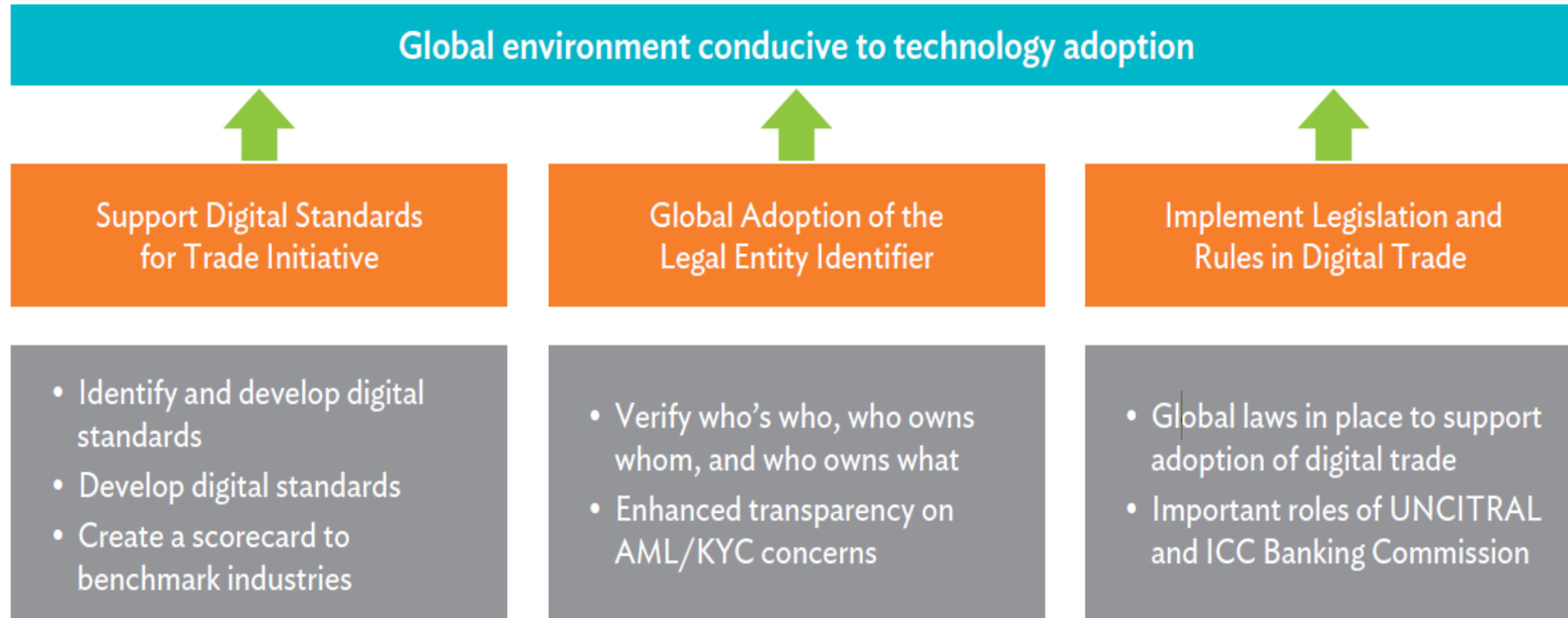
Make supply chains more resilient and transparent to address key global issues such as improving environmental, social, and labor standards



Long-term investment in infrastructure is also needed to sustainably support short-term trade finance

Creating an environment conducive to technology adoption

Three Initiatives to Build an Environment Conducive to Technology Adoption



AML = anti-money laundering, KYC = know-your-customer, UNCITRAL = United Nations Commission on International Trade Law, ICC = International Chamber of Commerce.

Source: ADB compilation.

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Thank you

