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

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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

<table>
<thead>
<tr>
<th>Year</th>
<th>Banks</th>
<th>Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012/13</td>
<td>106</td>
<td>138</td>
</tr>
<tr>
<td>2014</td>
<td>101</td>
<td>583</td>
</tr>
<tr>
<td>2015</td>
<td>253</td>
<td>393</td>
</tr>
<tr>
<td>2016</td>
<td>337</td>
<td>791</td>
</tr>
<tr>
<td>2017</td>
<td>515</td>
<td>1,336</td>
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<tr>
<td>2018</td>
<td></td>
<td></td>
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<tr>
<td>2019</td>
<td>112</td>
<td>336</td>
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<tr>
<td>2020</td>
<td></td>
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<tr>
<td>2021</td>
<td>79</td>
<td>583</td>
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<tr>
<td>2022</td>
<td></td>
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</tbody>
</table>

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

- 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.

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

- 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

- 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

- Application was completely unsuitable for support: 19%
- Application lacked additional collateral: 15%
- COVID-19-related concerns affecting companies, banks, or countries: 11%
- Application raised serious KYC concerns: 10%
- Application was not profitable enough to process: 10%
- Application was poorly presented and had insufficient information: 8%
- Application was not profitable to process due to regulatory capital: 8%
- Other reasons: 19%

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

- 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

- Support Digital Standards for Trade Initiative
  - Identify and develop digital standards
  - Develop digital standards
  - Create a scorecard to benchmark industries

- Global Adoption of the Legal Entity Identifier
  - Verify who’s who, who owns whom, and who owns what
  - Enhanced transparency on AML/KYC concerns

- Implement Legislation and Rules in Digital Trade
  - Global laws in place to support adoption of digital trade
  - Important roles of UNCITRAL and ICC Banking Commission

Source: ADB compilation.
Thank you