



2021 TRADE FINANCE GAPS, GROWTH AND JOBS SURVEY

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Webinar on closing the trade finance gaps | 23 November 2021



Overview of the Survey

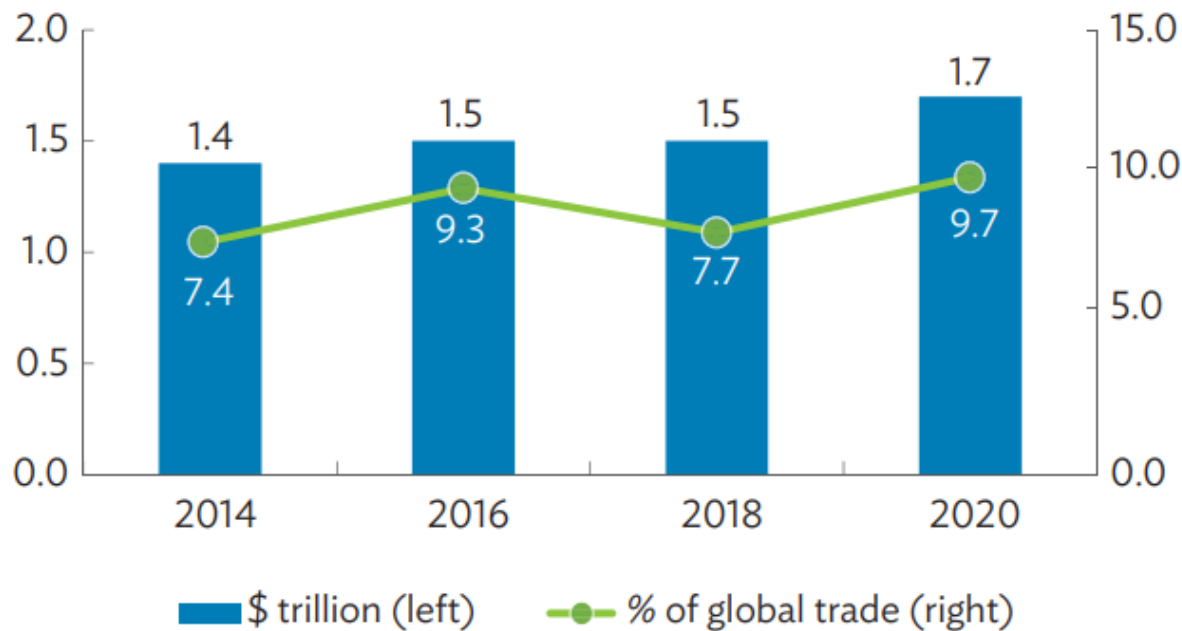
- The Survey covers:
 - ☐ Trade finance market gaps in 2020
 - ☐ Impact of the pandemic on trade finance markets
 - ☐ Prospects of post-COVID-19 recovery and major barriers to recovery
 - ☐ Access to SME trade financing
 - ☐ Use, role, and potential of fintech and digital solutions, and obstacles to their growth
 - ☐ Policy implications
- Included 81 banks from 40 countries (including major providers) and 469 firms from 72 countries.
- Online survey from April to July 2021.

Partners



Trade finance gap rose to \$1.7 trillion in 2020, from \$1.5 trillion in 2018

Global Trade Finance Gap



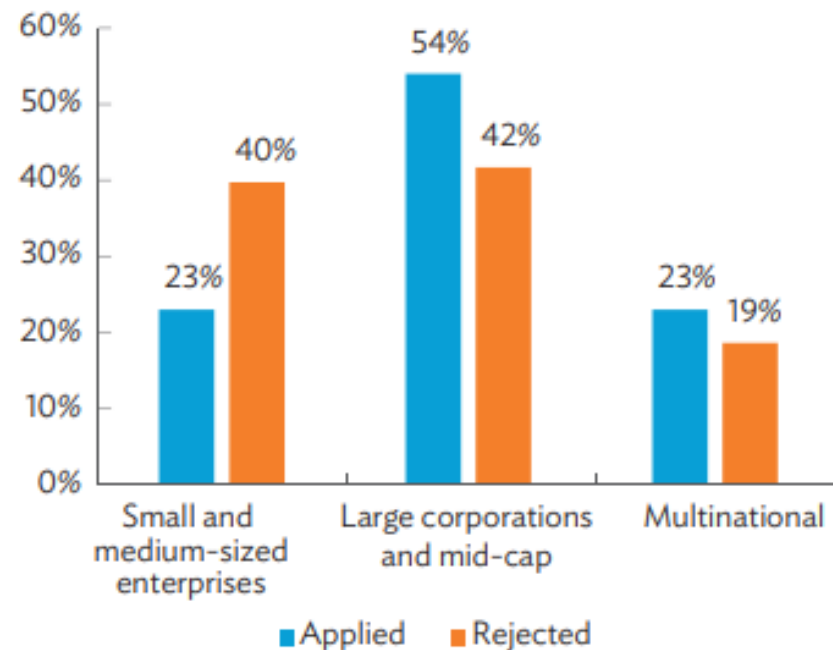
Source: ADB. 2021 Trade Finance Gaps, Growth, and Jobs Survey— Banks; and World Trade Organization. WTO Data. <https://data.wto.org/> (accessed 23 August 2021).

- This is about 10% of global goods trade in 2020, up from 8% in 2018
- Increased economic and financial raised the likelihood of rejections in trade finance applications

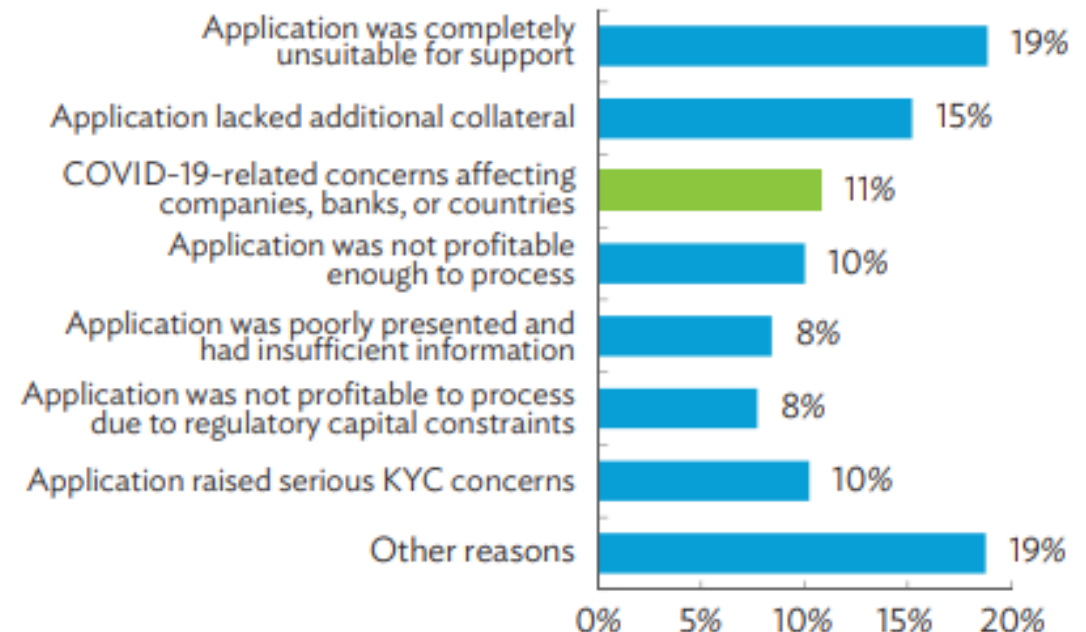
Access to trade finance continued to be favorable toward large firms

- Only 23% of trade finance demand are from SMEs, but they account for 40% of trade finance rejections
- Additional collateral is usually required by banks to mitigate risk of SME lending

Trade Finance Rejections by Firm Size

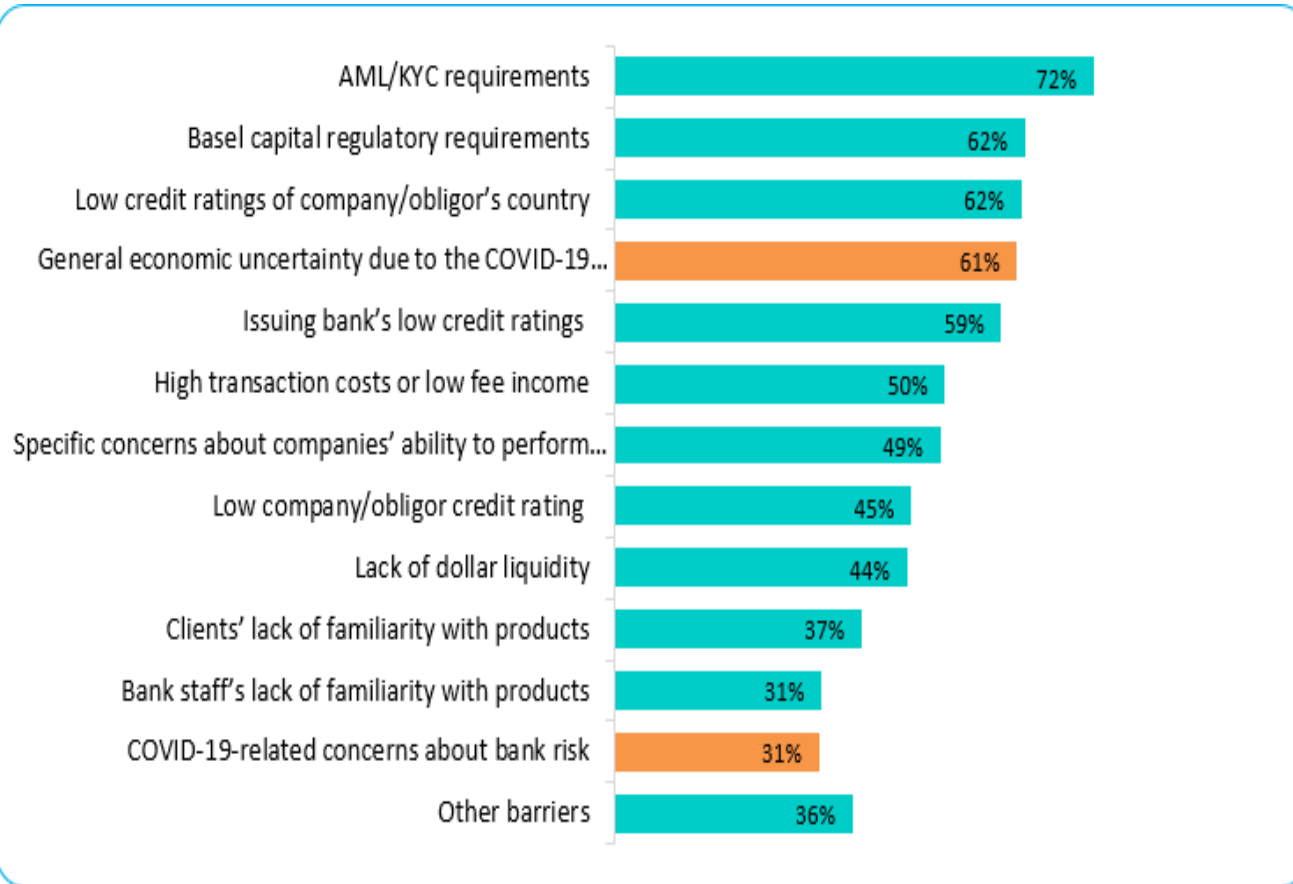


Why Proposals were Rejected



AML/KYC requirements continue to be the top barrier for banks to serve global trade finance needs

Barriers to Servicing Global Trade Finance Needs (% of responses)



- Heightened economic uncertainties due to the pandemic also constitutes one of the top barriers.
- Other barriers include Basel capital regulatory requirements; low credit ratings of applying firms and bank's low credit ratings.

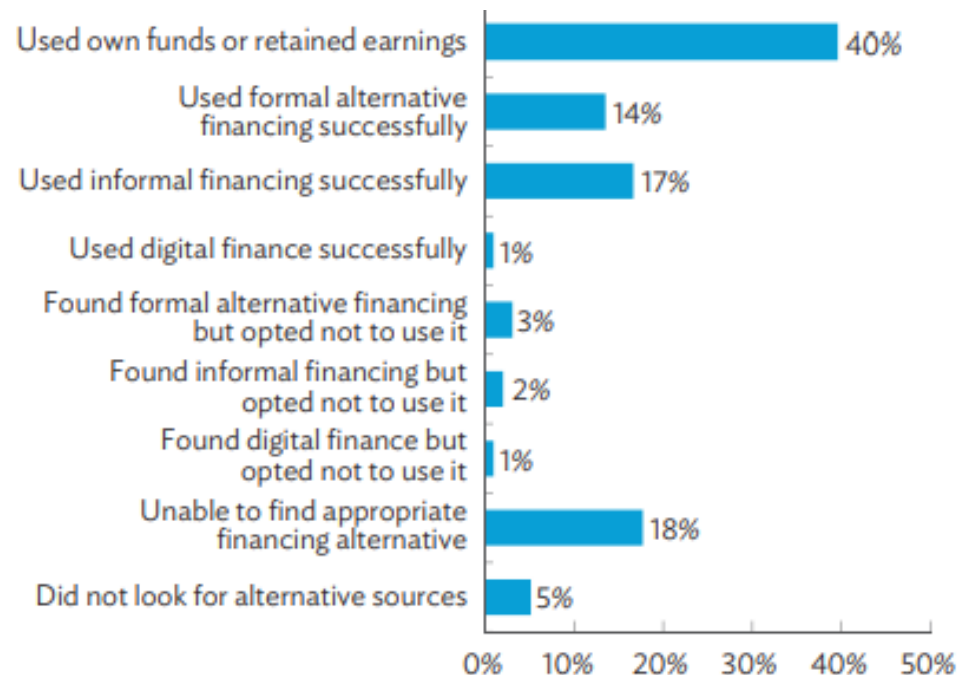
AML = anti-money laundering, KYC = know your customer.

Source: ADB. 2021 Trade Finance Gaps, Growth and Jobs Survey—Banks.

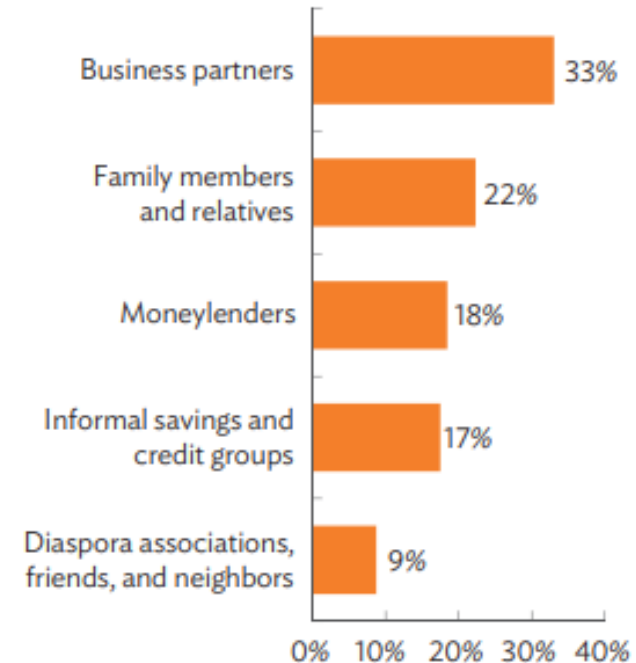
SMEs with rejected applications relied on using their own funds and informal sources

- SMEs who were initially rejected used alternative financing through their own funds (40%) and informal channels (17%).
- Business partners and families are major sources of informal financing.

Alternative Financing Sources Sought and Outcome of Efforts (% of responses)



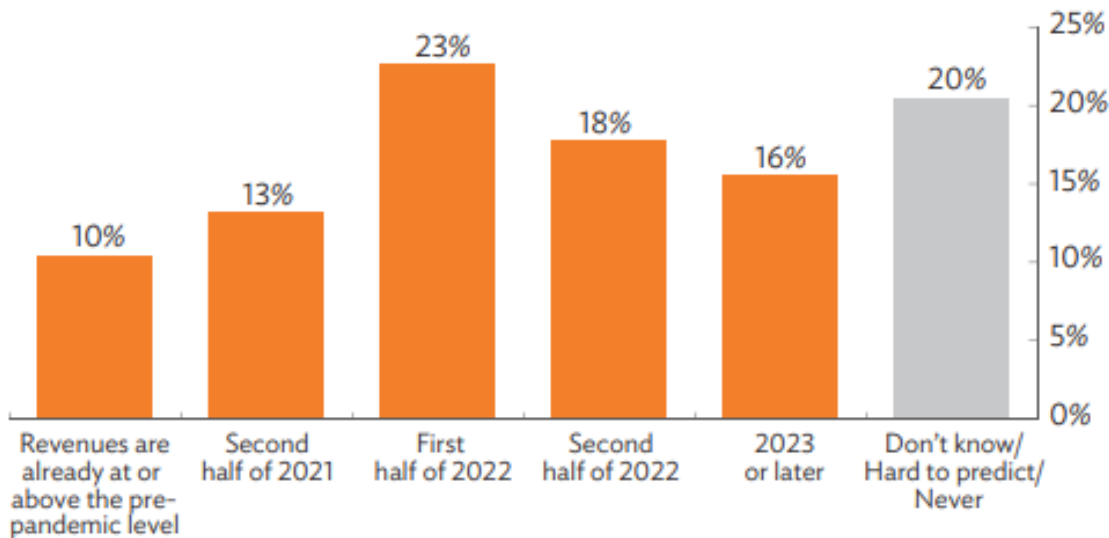
Informal Financing Sources Sought (% of responses)



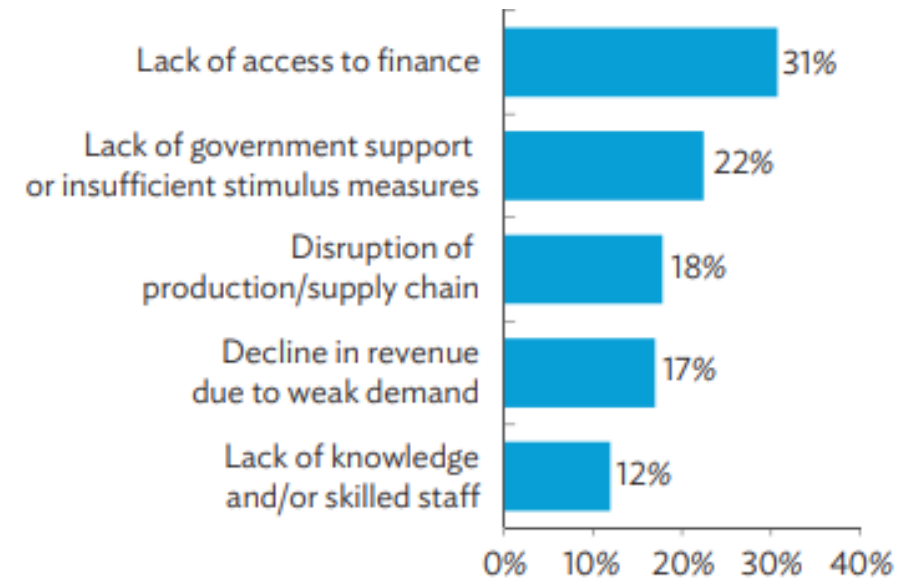
Greater access to finance and public sector support are key to post-pandemic recovery for firms

- More than a half of the surveyed SMEs believe their business will recover in the first half of 2022 or later
- Lack of access to finance is one of the major barriers that should be addressed, followed by more public-sector support.

Return of Firms' Revenues to Pre-Pandemic Level



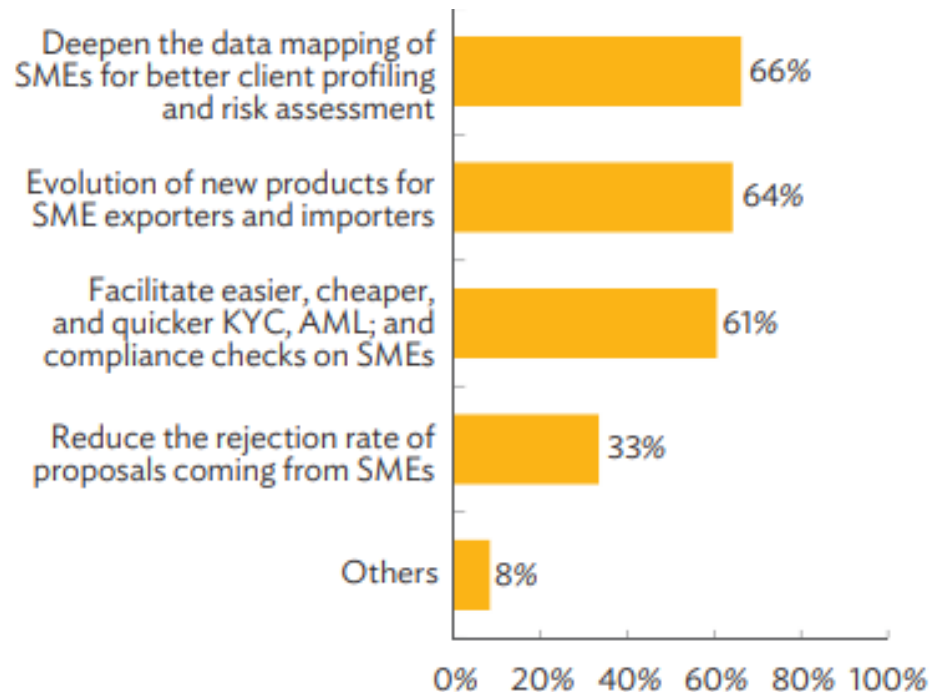
Major Types of Barriers to Firms over the Next Year



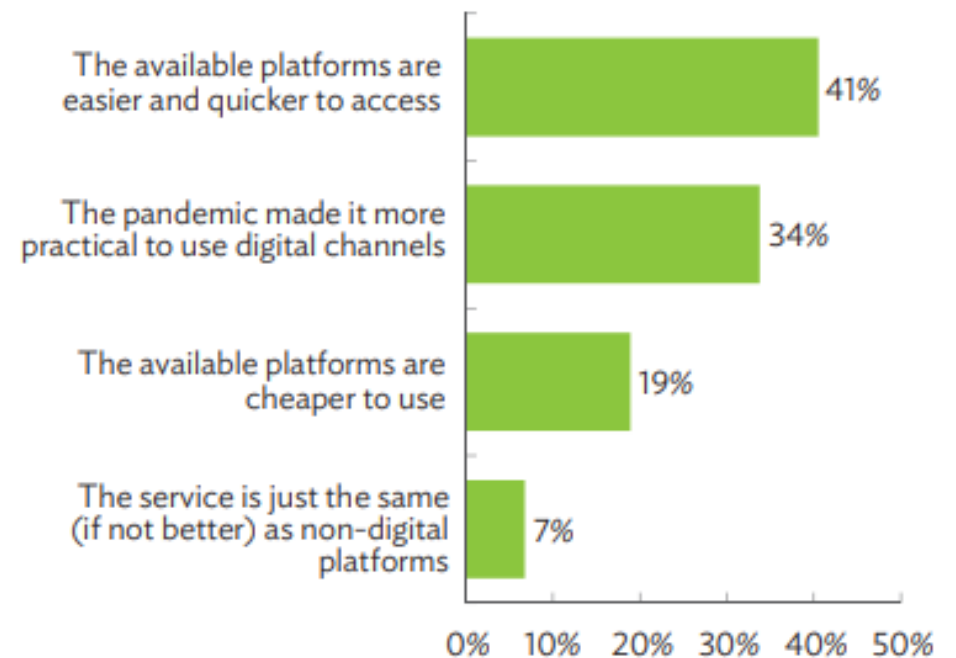
Digitalization in trade can help close the gap

- Banks acknowledge the potential of digital technology presents for SME
- Firms use digital platforms due to ease of access, practicality, and lower cost

Banks' Engagement with SMEs through Technology
(% of responses)



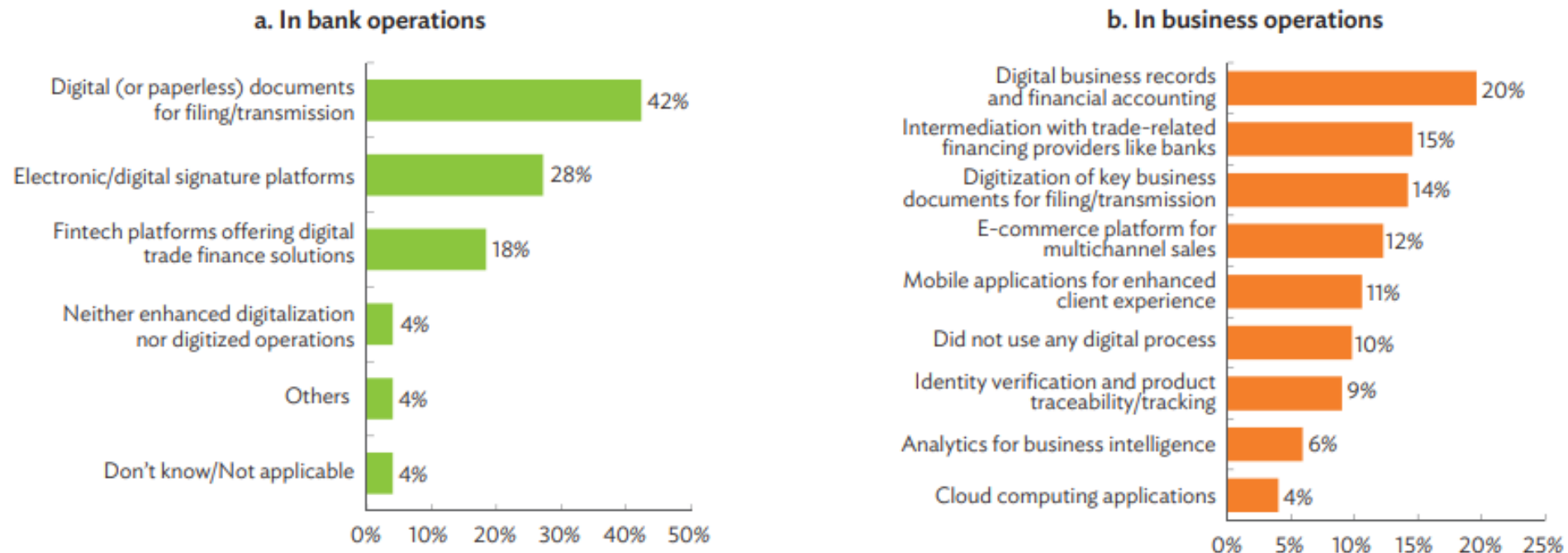
Why Firms Use Digital or Web-based Platforms
(% of responses)



Yet, the use of fintech and digital solutions is limited and concentrated on certain areas only

- Banks use digital solutions mainly for digital filing/transmission and electronic signature platform purposes
- Firms use digital solutions primarily for digital record keeping and accounting

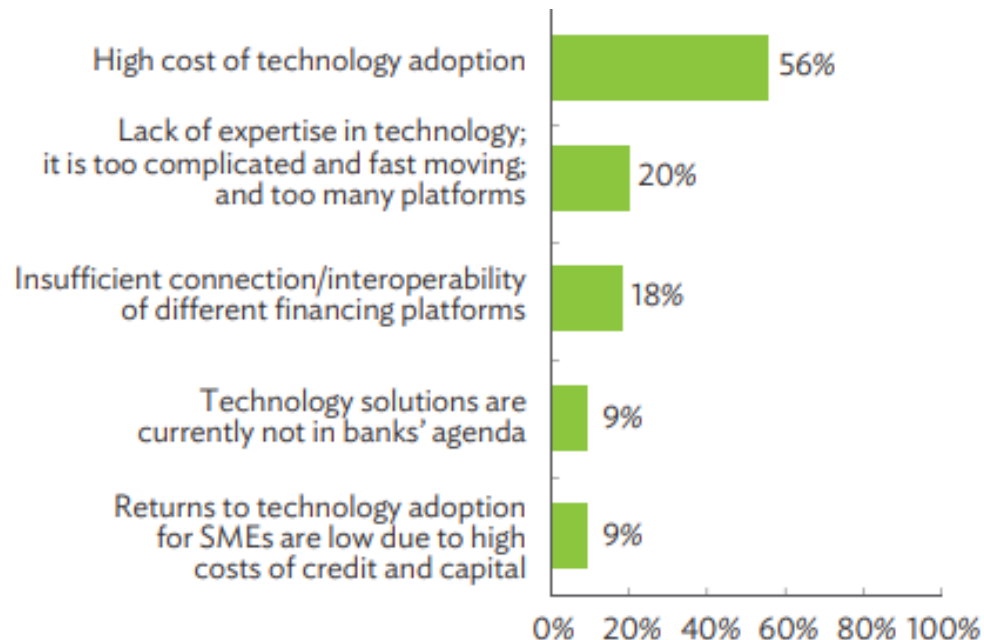
Areas of Digital Channel/Process Utilization



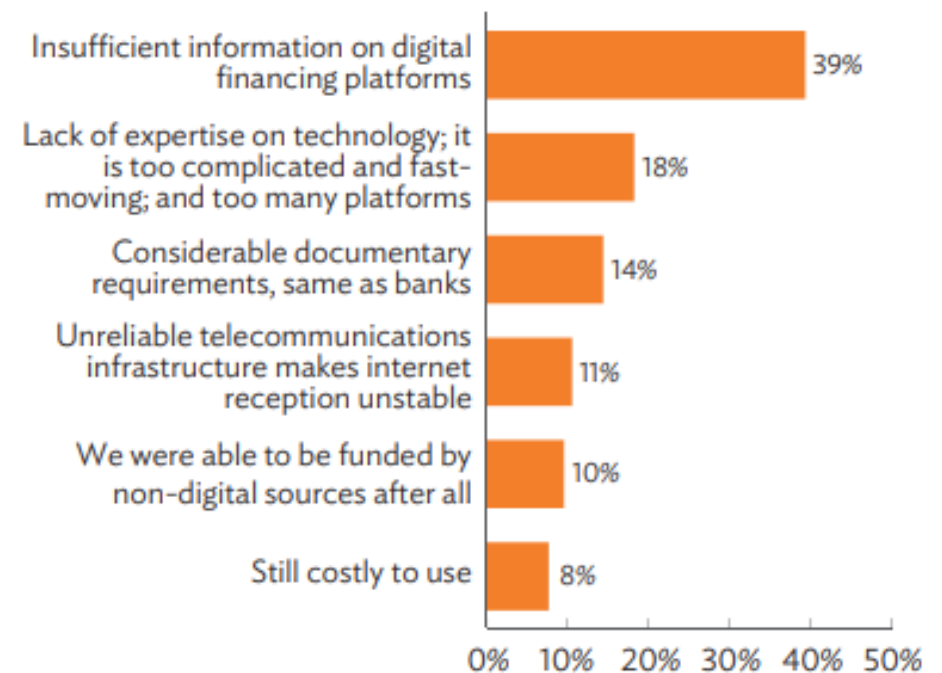
Banks and firms see different kinds of constraints to digitalization

- Banks cite high cost of technology adoption (56%) and lack of expertise (20%)
- 39% of firms note lack of information on digital financing platforms

Major Reasons for Banks Not to Use Technology to Maximize Potential to Service SMEs (% of responses)



Why Firms Do Not Use Digital or Web-based Platforms (% of responses)



Given relatively small public sector support for trade finance, strengthening public-private partnership is critical



Public sector should support developing economies and vulnerable sectors



Global standards and legislation are required to realize digitalization potential



Greater inclusion of women throughout the global financial system is important to close trade finance gaps



Greater supply chain transparency helps to identify bottlenecks in production and delivery of essential goods



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ADB BRIEFS

KEY POINTS

- The global trade finance gap is estimated to have increased to \$1.7 trillion during the COVID-19 pandemic in 2020 from \$1.5 trillion in 2018.
- Despite various measures to support small and medium-sized enterprises (SMEs) during the pandemic, 40% of trade finance applications rejected by banks were from SMEs.
- More than half of the surveyed firms identified that greater access to finance and public sector support are keys to the path to post-pandemic recovery.
- Digitalization in trade can help close the gap, but global standards and legislation are required to realize this potential while the high cost of technology adoption and lack of expertise should also be addressed.
- As public sector support is relatively small against the size of the market gap, it is critical to strengthen the partnership between the public sector and private sector.

2021 Trade Finance Gaps, Growth, and Jobs Survey

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INTRODUCTION

In 2020, the coronavirus disease (COVID-19) pandemic devastated the global economy, causing global gross domestic product to shrink by 3.2% and global trade to contract by 7.5%.¹ As governments around the world tried to contain the spread of the virus by imposing mobility restrictions, sharp declines in economic and trade activities jeopardized markets. Trade finance is vulnerable to economic crises despite being a low-risk asset class, and yet it is vital to support trade-led growth, which is critical to growing economies ravaged by the pandemic. In economies where trade finance gaps were already high prior to the pandemic, the panic and uncertainty induced by the rapid global spread of COVID-19 aggravated the trade finance access issue.

The 2021 Asian Development Bank (ADB) Trade Finance Gaps, Growth, and Jobs Survey aims to enhance our understanding of the size of the trade finance shortfall and the related pandemic impact. Now on its seventh cycle, the survey continues to find large market gaps for trade finance that impede the full potential of trade to deliver growth, jobs, and poverty reduction. Against the backdrop of the COVID-19 pandemic, the survey discusses the following:

- Trade finance market gaps in 2020;
- Impact of the pandemic on the supply and demand in trade finance markets;
- Prospects of post-COVID-19 recovery and major barriers to the path to recovery;
- Access to SME trade financing and support measures for SMEs during the pandemic;
- Use, role, and potential of fintech and digital solutions, and obstacles to their growth; and
- Policy implications including the role of digitalization in trade and trade finance and international cooperation in promoting trade finance.

¹ Based on the International Monetary Fund's *World Economic Outlook* July 2021, and the World Trade Organization. <https://data.wto.org/> (accessed 23 August 2021).

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