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%. 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.

Participants in the 2021 survey included 79 banks from 43 countries and 469 firms from 72 countries. The participating banks include major trade finance providers with all regions of the world covered. The survey responses were collected online from April to July 2021.

TRADE FINANCE GAPS AND COVID-19 IMPACT

The global trade finance gap is estimated at $1.7 trillion in 2020, having increased 15% from the latest estimate of $1.5 trillion in 2018 (Figure 1). As a percentage of global goods trade, the gap increased to 10% in 2020 from 8% in 2018. Firms’ demand for trade finance declined as the COVID-19 pandemic dampened world trade and disrupted global value chains. However, the likelihood of trade finance applications being rejected rose significantly as the pandemic heightened economic and financial uncertainties while trade- and finance-related transactions costs increased because of supply disruptions. As the availability of trade finance is essential to trade, its shortage could have contributed to the global trade contraction during the pandemic.

Despite the widened trade finance gap, the responses from banks indicate that 79% of them did not reduce capital availability and 73% of them did not reduce limits to support trade during the pandemic. However, 50% of banks expect trade finance defaults to increase because of the pandemic (Figure 2). On the expected impacts of the pandemic, nearly 60% of the surveyed banks viewed that trade finance support for SMEs and current and new clients was maintained while 14%–23% of the banks agreed that the pandemic reduced trade finance availability (Figure 3). This suggests that even if trade finance continued to be available to a certain extent, clients’ weaker balance sheets coupled with macroeconomic uncertainty may have intensified banks’ perceptions of increased default risk, resulting in higher rejection rates.

COVID-19 = coronavirus disease, SMEs = small and medium-sized enterprises.

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

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2 ADB acknowledges the advice, support, and cooperation of our partner organizations. These include the International Chamber of Commerce (ICC) Banking Commission, the Center for the Promotion of Imports from developing countries, the International Trade Center, Pacific Trade Invest Australia, the Central Asia Regional Economic Cooperation (CAREC) Program, and the many banks and companies that took time to complete our surveys. This brief benefited from comments from Marc Auboin, Emmanuelle Ganne, Cyn-Young Park, and Sanchita Basu Das. In particular, the 2021 survey could not have been successful without the support of Global Credit Data, Amrutha Harish, and Aaron Dayle S. Cruz.
Heightened economic uncertainties due to the pandemic constitute one of the top barriers for banks to serve global trade finance needs (61%) while 31% of the responding banks note that the pandemic raised risks faced by banks (Figure 4). Other major barriers are quite persistent—of the top five factors identified in the current survey, four have been included in the 2019 survey. These include Basel capital regulatory requirements (62%); low credit ratings of applying firms (62%); and banks’ low credit ratings (59%). Requirements on anti-money laundering (AML) and know your customer (KYC) remain the top barriers to expanding trade finance operations according to 72% of banks. The complexity and costs involved in the conduct of AML/KYC due diligence alongside measures to combat the financing of terrorism (CFT) often override correspondent relationships that are essential for SMEs and clients in developing economies to continue to access finance to support their trade transactions.

### A PATH TO RECOVERY

More than half of the surveyed SMEs believe their business will recover in the first half of 2022 or later (Figure 5). On the path to recovery, firms noted that lack of access to finance (31%) is one of the major barriers that should be addressed over the next year (Figure 6). They see that more public sector support is warranted (22%). Under the prolonged restrictive mobility measures, continued disruptions of production and supply chains (18%) and weak consumer demand (17%) are also major concerns. Nearly all banks surveyed echoed that the provision of trade finance is essential for post-COVID-19 trade growth and economic recovery. As to areas of public sector support, responding firms agreed on the key roles of regional and international organizations in SME trade-financing guarantee schemes (25%), collaborating with national and multilateral institutions to expand technology-based financing platforms to vulnerable groups (24%), and providing SMEs with finance education and related knowledge-sharing campaigns (20%).

#### Figure 4: Barriers to Servicing Global Trade Finance Needs (% of responses)

- AML/KYC requirements: 72.4%
- Basel capital regulatory requirements: 62.1%
- Low credit ratings of company/obligor’s country: 61.5%
- General economic uncertainty due to the COVID-19 pandemic: 60.9%
- Issuing bank’s low credit ratings: 58.5%
- High transaction costs or low fee income: 50.0%
- Specific concerns about companies’ ability to perform during COVID-19: 49.3%
- Low company/obligor credit rating: 44.9%
- Lack of dollar liquidity: 44.3%
- Clients’ lack of familiarity with products: 37.4%
- Bank staff’s lack of familiarity with products: 31.4%
- COVID-19-related concerns about bank risk: 31.0%
- Other barriers: 36.1%

AML = anti-money laundering, COVID-19 = coronavirus disease, KYC = know your customer.

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

#### Figure 5: Return of Firms’ Revenues to Pre-Pandemic Level

- 10%: Revenues are already at or above the pre-pandemic level
- 13%: Second half of 2021
- 23%: First half of 2022
- 18%: Second half of 2022
- 16%: 2023 or later
- 20%: Don’t know/Hard to predict/Never

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

#### Figure 6: Major Types of Barriers to Firms over the Next Year

- Lack of access to finance: 31%
- Lack of government support or insufficient stimulus measures: 22%
- Disruption of production/supply chain: 18%
- Decline in revenue due to weak demand: 17%
- Lack of knowledge and/or skilled staff: 12%

Source: ADB. 2021 Trade Finance Gaps, Growth, and Jobs Survey—Banks.
MEASURES TO SUPPORT SME TRADE FINANCE

National governments as well as regional and global institutions have executed various initiatives to mitigate the impact of the pandemic on trade finance shortage. Common forms of support included easing of terms, working capital and liquidity support, bank-charge waivers, tax relief, etc. Many export credit agencies reported an increase in their business levels, which were mostly short-term financing, while they also took measures aimed at increasing working capital support by expanding the coverage of existing programs and creating new facilities.⁵

Banks have also introduced various measures to support SMEs impacted by the pandemic—27% of the responding banks offered a moratorium on debt repayments; 23% have increased capital availability and limits to SMEs; 23% created pandemic-related products for affected clients; 13% made compliance procedures easier, quicker, and cheaper; and 8% reduced the rejection rate of SME proposals (Figure 7). Meanwhile, there were many SMEs that expressed a lack of available support or did not know about available support, which could be indicative of the lack of coordination in disseminating information.

SMES, UNMET DEMAND, AND ALTERNATIVE FINANCING

Access to trade finance continued to be favorable toward large firms. SMEs account for only 23% of trade finance demand compared with 54% for large corporations, based on the trade finance proposals received by banks surveyed. Yet, SMEs account for 40% of trade finance rejections, much higher for its share of trade finance applications (Figure 8a). Additional collateral is generally required by banks to mitigate the risk of SME lending under the traditional banking system, and this has been persistently one of the major obstacles that caused many SMEs to fail to secure approvals on their trade finance applications (Figure 8b). Limited access to finance could also push SMEs into financial difficulties, constrain their businesses, and make them more vulnerable to crisis.

Women-owned SMEs still face considerable difficulties in accessing trade finance—among the women-owned firms surveyed, about 7% of their applications were totally or partially rejected. Among SMEs who were initially rejected and sought alternative financing, 40% used their own funds (Figure 9). A slightly higher percentage of firms used informal (17%) rather than formal financing alternatives (14%) successfully.⁴

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Figure 7: Measures Introduced to Support SME Clients Affected by COVID-19 (% of responses)

<table>
<thead>
<tr>
<th>Measure</th>
<th>% of Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt moratorium on repayments</td>
<td>27%</td>
</tr>
<tr>
<td>Increased capital availability and increased limits to support SME transactions</td>
<td>23%</td>
</tr>
<tr>
<td>Developed new COVID-19-related products for SME exporters and importers</td>
<td>23%</td>
</tr>
<tr>
<td>Facilitated easier, cheaper, and quicker KYC, AML, and compliance checks on SMEs</td>
<td>13%</td>
</tr>
<tr>
<td>Reduced the rejection rate of proposals coming from SMEs</td>
<td>8%</td>
</tr>
<tr>
<td>Did not introduce measures to support SME clients affected by COVID-19</td>
<td>2%</td>
</tr>
<tr>
<td>Others/Don’t know/Not applicable</td>
<td>7%</td>
</tr>
</tbody>
</table>

AML = anti-money laundering, COVID-19 = coronavirus disease, KYC = know your customer, SMEs = small and medium-sized enterprises.

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

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⁴ Informal financing refers to financial services provided outside the legal or formal system such as informal savings and credit groups and moneylenders.
The take-up of digital finance remains low at 1%. Around 18% of companies were unable to find an appropriate financing alternative, which is suggestive of either a knowledge gap or a financing product gap. Firms who sought informal finance resorted mostly to business partners (33%) and family members and relatives (22%) before seeking out other informal sources (Figure 10).

FINTECH AND DIGITAL SOLUTIONS

Among digital finance products, purchase order advances show the highest usage rate (38%) (Figure 11). Invoice financing and peer-to-peer appear to be relatively well-known, but the usage rate was only 19% for invoice financing and 15% for peer-to-peer. The majority of respondent firms are not aware of crowdfunding (52%) and debt-based securities (57%), suggesting that more financial education and literacy would be needed to broaden the reach of digital and financial products and services for SMEs.
Despite the promised gains and wide potential for growth, the use of fintech and digital solutions is limited and concentrated on certain areas only. Currently, many of responding banks use digital solutions for digital filing and transmission (42%) and electronic signature platform purposes (28%), while firms use them primarily for digital record keeping and accounting (20%) (Figure 14).

The high cost of technology (56%) was cited by banks as the major constraint on maximizing their potential to engage SMEs (Figure 15). The lack of technological expertise (20%) and insufficient connection or interoperability (18%) across different financing platforms also hinder banks from evolving their business units into technology-enabled operations. Firms’ lack of information about digital platforms (39%) and their lack of expertise in managing these types of technology (18%) are key factors which prevent them from embracing the possibilities of digital and/or web-based platforms (Figure 16). This implies that more and better training for SMEs can help them take advantage of innovative financing.

**POLICY CONSIDERATIONS**

Trade will be a critical engine of growth to fuel recovery for economies reeling from the pandemic. Yet, prolonged supply chain disruptions and associated increases in trade costs are causing inflation—transitory or otherwise—to creep into commodities, including food and agricultural products. This is particularly hard on the poor whose expenditure on food and other basic goods is proportionally high. Rising prices could erode whatever country and counterparty financing limits are in place to support trade and exacerbate the gap.
Without sufficient financing, maximum gains from trade will not be realized. The Addis Ababa Declaration on Financing for Development recognized the importance of trade finance to meet the Sustainable Development Goals. Closing trade finance gaps is therefore an important policy objective. Following are four policy recommendations to close trade finance gaps:

1. **Strengthen Public–Private Partnerships**

Public sector support is vital to close trade finance market gaps but the private sector must play a larger role. The public sector needs to maintain, and in some cases increase its support, especially for poor and developing countries and for underserved segments of the global economy. During the pandemic, the trade
finance programs of multilateral development banks significantly increased transaction numbers,\(^5\) demonstrating high market demand for public sector involvement at a time when private sector capacity has retrenched, as demonstrated in the higher rejection rates, against elevated risk concerns. However, public sector support is relatively small against the size of the market gap.\(^6\) Public–private partnerships including cofinancing can help fill the gap further.\(^7\) More granular data including default and loss statistics by country would help the private sector gain a clearer understanding of the risks involved, and identify where greater needs, and therefore opportunities, of trade finance lie.\(^8\)

2. Realize the Potential for Digitalization: Standards and Legislation

Relying on traditional forms of finance—public–private partnerships—may not be sufficient to close trade finance gaps. Digitalization can play an important role but steps must be taken to realize its potential. To move digitalization forward meaningfully, two things need to happen:

First, global standards and protocols are required. These global standards will drive interoperability (i) between various platforms and (ii) between components of the trade ecosystem: from exporters to shippers, ports, customs, warehousing and logistics, and finance to importers. Beyond the expected productivity gains and lower barriers to entry for SMEs, the metadata generated could expose and help address impediments to closing financing gaps, while making global trade and supply chains more robust and less susceptible to shock.

To address the lack of global standards and protocols, the Government of Singapore, the International Chamber of Commerce (ICC), and ADB teamed up to create the Digital Standards Initiative (DSI), which is housed at the ICC. The DSI has made good progress for the past 1 year in creating an umbrella under which various standardization initiatives are being harmonized into one globally coordinated effort.

Second, governments need to adopt legislation that recognizes digital documents in law. Until that happens, digitalization will not gain traction materially. Fortunately, the United Nations Committee for International Trade Law has drafted model legislation. Few governments have adopted the Model Law on Electronic Transferable Records but now that some have, such as Bahrain, Singapore, and the Abu Dhabi General Market, other governments are taking notice. ADB is partnering with regional organizations, along with countries that have adopted the legislation, to advocate its adoption.

3. More Inclusion of Women

Greater inclusion of women throughout the global financial system is important to close trade finance gaps. The Trade Finance Gaps, Growth and Jobs Survey shows that underrepresented groups including women-led businesses are likely to face higher rejection rates and therefore greater financing gaps than businesses led by well-represented groups. Attracting, retaining, and promoting more women in finance is important to closing the gap. Banks need to adopt and advance practical gender- and diversity-inclusive human resource policies and practices to increase women’s participation in banking, which should help translate to more understanding about the challenges faced by women entrepreneurs and higher trade finance support for women-owned businesses. More capacity building targeted at women-led businesses and opening networks to include women will also help close these gaps. The same needs to be applied for other underrepresented groups where financing gaps tend to be proportionally larger.

4. Innovate Tools and Mechanisms for Greater Transparency

Greater transparency throughout global trade and supply chains is important to close financing gaps. It is also important to close non-financing gaps related to the environment and human rights.

The survey has identified the unintended consequences of AML requirements in contributing to financing gaps, particularly among SMEs. Streamlining these requirements through global adoption of the Legal Entity Identifier (LEI)—a unique, electronic, 20-digit standard identifier for legal entities—would enhance transparency of the global economic and trade system, thwart money laundering and terrorist financing and simplify know-your-customer requirements.

Beyond transparency for AML, which has been topical for the past 20 years, there is a relatively new realization that transparency in supply chains is required to (i) identify bottlenecks in supply chains that inhibit the production and delivery of important goods,

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\(^5\) ADB’s Trade Finance Program saw a 50% increase in transaction numbers in 2020 compared with the previous year, supporting over 7,000 transactions.

\(^6\) Speaking in May this year, World Trade Organization (WTO) Director General Ngozi Okonjo-Iweala pointed out that while multilateral development banks had provided a record $35 billion in trade finance in a single year, “it is only a dent in the $1.5 trillion trade finance gap.” Majority of the public sector support for trade finance is provided by export credit agencies (ECAs). In 2017, ECAs supported about 13% of global goods exports while MDB-supported trade finance accounted for less than 1% (Source: ADB and ESCAP 2019. Asia–Pacific Trade Facilitation Report 2019).


\(^8\) In 2010, ADB created and funded the International Chamber of Commerce’s first Trade Register Report to demonstrate the low-risk nature of trade finance to (i) encourage the private sector to fill more market gaps, and (ii) provide empirical evidence to regulators to support appropriate capital and other treatment of trade finance as an asset class.
including medical supplies; (ii) ensure environmental standards are being observed throughout supply chains; and (iii) know that human rights and international labor standards are being met throughout the value chain.

More transparency is required to meet these three nonfinancial objectives and strengthen global trade and supply chains. Better tools and mechanisms are needed to create detailed maps of supply chains, including all companies involved in each component part of production and distribution. And more effective tools and mechanisms are required to monitor and verify that environmental and labor standards are being met throughout the chain. There is an important opportunity for the private sector to innovate tools for transparency and for the public sector to encourage this process.