TOWARD INCLUSIVE ACCESS TO TRADE FINANCE

LESSONS FROM THE TRADE FINANCE GAPS, GROWTH, AND JOBS SURVEY

AUGUST 2022

ASIAN DEVELOPMENT BANK

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Foreword

International trade and participation in global value chains have underpinned growth and development in Asia and the Pacific for decades, backed by more open trade policies and lower tariffs, infrastructure, and trade facilitation and finance. Indeed, some form of trade finance, such as trade credit and insurance, has been used for an estimated 80% of international trade. Yet, unmet demand for trade finance—the trade finance gap—remains persistently large.

That gap—which the latest Asian Development Bank (ADB) study estimates at about 10% of global merchandise trade—represents lost economic and development opportunity. More importantly, the trade finance shortage is even more acute for micro, small, and medium-sized enterprises (MSMEs), which comprise more than 90% of firms and the bulk of employment in developing Asia. Strengthening their participation in trade is thus crucial for inclusive trade and economic growth.

As such, the trade finance ecosystem plays a key role in facilitating trade flows, and understanding it is important. Lacking data on the scope of trade finance, therefore, ADB and other institutions have conducted surveys to gauge the needs of market participants and determine the policies needed to mitigate this unmet demand.

This report provides a retrospective of ADB's Trade Finance Gaps, Growth, and Jobs Survey, conducted since 2012. It reviews the trends, research findings, and lessons of the past decade and discusses new developments, including rapid digitalization in trade and trade finance markets. Authorities should address and coordinate their responses to the chronic trade finance shortage in Asia and the Pacific by enhancing public finance and through digitalization, nonbank financing, and multilateral support for trade finance, digital infrastructure, and knowledge development.

Given the dominance of MSMEs in Asia, enabling their participation in international trade would promote greater inclusivity in growth. But these firms usually lack the resources and collateral for qualifying for trade finance loans and the know-how for navigating the complex and fragmented trade finance system. Moreover, banks and other trade finance providers face high regulatory compliance costs.

Digitalization, which has accelerated during the pandemic, could drive down the cost of trade and trade finance by simplifying the complex and redundant manual processes and reducing transaction costs. But it requires strong policy support for domestic reforms and international cooperation to reduce barriers, establish common standards, and connect isolated "digital islands" that have arisen.

Access to finance and expanded markets is crucial to MSME growth. Asia's rapid digital transformation offers a unique opportunity to create and capture new value from digital trade. However, firms need to learn new ways of doing business and policy makers need to review and reform policy to address the challenges and risks of digitalization, particularly those facing MSMEs.

The report identifies the specific challenges smaller firms must overcome in accessing trade finance and makes policy recommendations to promote adoption and use of digital solutions among MSMEs. I am confident the report will be useful to both policy makers and the private sector in achieving resilient and sustainable recovery through inclusive and innovative trade finance.

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Highlights

Unmet demand for trade finance has been persistently large for at least a decade, suggests the Asian Development Bank (ADB) Trade Finance Gaps, Growth, and Jobs Survey since 2012. The survey, widely known as the Trade Finance Survey, is based on responses from banks, firms, and export credit agencies globally. Banks are included to profile factors that hinder trade finance supply, and companies for demand-side factors of trade finance applications and rejections. Initially estimated at $1.6 trillion in the fourth quarter of 2012, the trade finance gap moderated to $1.4 trillion in 2014, and rose to $1.5 trillion in 2016 and $1.7 trillion in 2020 during the coronavirus disease (COVID-19) pandemic. This amounts to about 7%–10% of global merchandise trade during this period.

As a vital instrument in facilitating trade flows, trade finance suffers from high perceived risk despite low default rates. ADB and the International Chamber of Commerce established the Register on Trade and Finance in 2009 to boost knowledge about trade finance and establish a repository of information to support the low-risk nature of trade finance. The 2010 Register on Trade and Finance report indicated that trade finance transactions were relatively short term (averaging 80 days) with very low default rates (averaging less than 0.5%). Even when defaults occur, recovery rates are quite high.

The surveys indicate a structural shortfall in trade finance. Despite greater assistance from national export credit agencies and multilateral development banks, barriers to narrowing the trade finance gap still constrain the suppliers of trade finance and the firms seeking it. Micro, small, and medium-sized enterprises, which play a key role in employment and inclusive growth, nonetheless continue to face high rejection rates in trade finance applications. For banks, know-your-customer (KYC) and anti-money laundering (AML) due diligence requirements raise the costs of extending trade finance loans, especially for small borrowers. Asia and the Pacific has the highest share of trade finance proposals and rejections globally, suggesting significant lost opportunity for trade and development.

Costly regulatory compliance limits bank lending to small firms, while collateral and other requirements for firms present hurdles to their borrowings. Regulatory requirements such as KYC and AML raise the cost to banks for providing loans and cause them to reject applications or terminate correspondent banking relationships. Basel capital requirements also limit trade finance allocation. In 2021, more than 70% of banks considered AML/KYC requirements the biggest hindrance to trade finance and around 60% the Basel requirements. Meanwhile, firms have difficulty fulfilling requirements for collateral, documentation, and valid company records. In the 2021 survey, banks rejected around 44% of loan proposals from unsuitable applications, lack of collateral, and insufficient information; and 36% of firms considered collateral a major factor for application rejections. Because Asia and the Pacific relies on bank-intermediated finance, it is vulnerable to such rejections; and other modes of finance such as inter-firm, nonbank, and digital trade finance remain limited. Moreover, small companies can often lack knowledge about trade finance products. As many firms still have only limited knowledge of traditional and nontraditional sources of finance, they rarely seek alternative sources for financing after banks reject their proposals.

Digitalization and financial technology offer huge potential to reduce transaction and information costs, but uptake is still limited. The 2017 survey indicated that 80% of banks expected technology to reduce the costs of meeting regulatory and due diligence requirements, especially small banks. In the 2019 survey, the majority of banks said they were enhancing readiness to service more small and medium-sized enterprises through technology by more efficiently processing KYC (79%), deepening their ability to data-map this market segment (73%), developing new products (70%), and possibly helping to reduce their rejection rates (46%). Yet uptake of technologies was still limited. In the 2021 survey, 56% of banks said they were constrained by the high cost of technology, 20% lacked expertise, and 18% had limited connection to and interoperability of different financing platforms. Many respondent banks did use digital solutions for digital filing and transmission and electronic signature platforms, while firms used them primarily for digital record keeping and accounting.

A globally concerted effort is needed to enhance trade finance resources, digitalization, and implementation of common standards to close trade finance gaps and promote sustainable economic recovery. Further sector support from governments and multilateral institutions to catalyze funding for micro, small, and medium-sized enterprises; women entrepreneurs; and other underserved segments can encourage them to participate in trade and enable a business environment for private finance providers to extend loans. Digitalization can also reduce information asymmetry between borrowers and lenders to reduce the costs of information and finance provision for both parties. While most economies experience rapid digital transformation, disparate system developments constrain the potential for creating a seamless global system. International coordination is needed to achieve common standards and protocols, while multilateral institutions can support and enable developing economies to gain the needed infrastructure and know-how. Examples of global efforts include support for the Digital Standard Initiative, the Legal Entity Identifier system, and legislative reforms across countries to implement the Model Laws on Electronic Transferable Records.

1

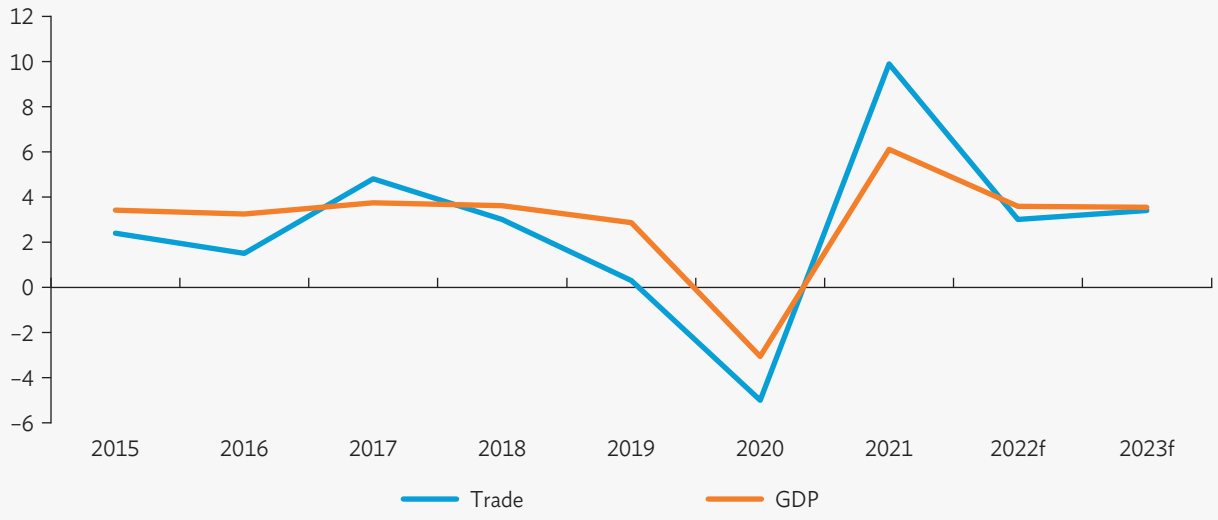
Introduction

Recent Trends in Trade and Trade Finance Gap

The coronavirus disease (COVID-19) pandemic saw global trade plunge to record lows in 2020. Trade performance across the world deteriorated during the pandemic—global trade volume contracted 5.0% in 2020, to its biggest contraction since the global financial crisis of 2009. This occurred amid temporary export and import bans on essential medical goods and equipment and trade restrictions on critical food supplies (Figure 1). Port closures and stricter border crossing and quarantine procedures impeded the seamless flow of goods. Temporary supply chain disruptions due to logistics bottlenecks in sourcing raw materials and deploying key personnel on sites exacerbated the problems.

Figure 1: Growth in Merchandise Trade Volume and Real GDP—World

(%)



f = forecast, GDP = gross domestic product.

Notes: Trade volume growth refers to the average of export and import volume growth. According to the World Trade Organization, their trade growth forecasts are preliminary and may be subject to revision due to uncertainty about the course of the Russian invasion of Ukraine.

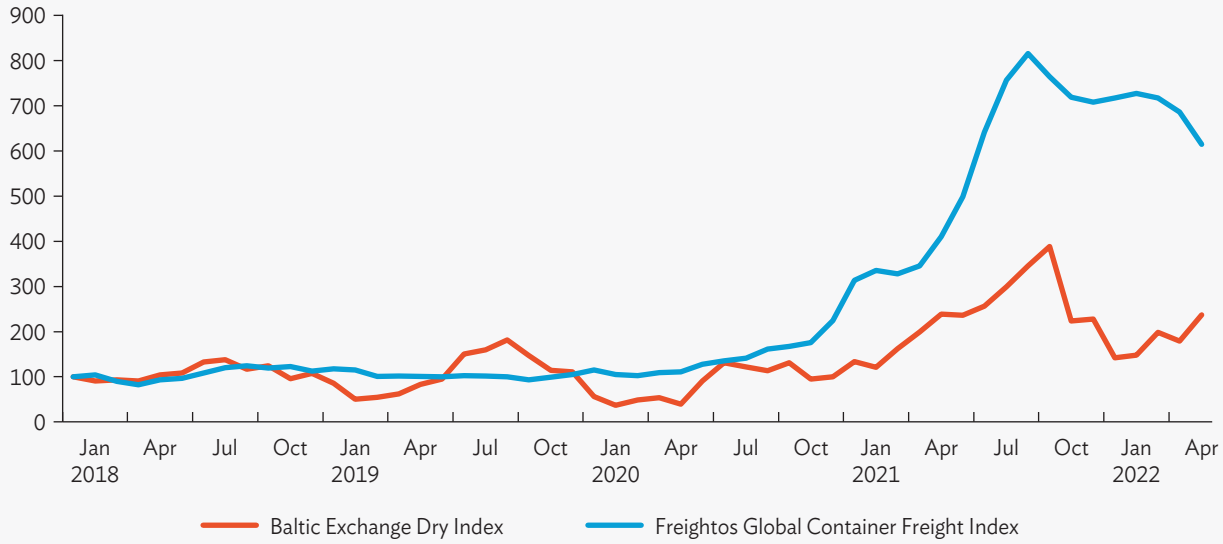
Sources: International Monetary Fund. World Economic Outlook April 2022 Database. https://www.imf.org/en/Publications/WEO/weo-database/2022/April for GDP growth; and World Trade Organization. WTO Stats. https://stats.wto.org for trade volume growth (accessed 9 June 2022).

Global trade recovered sharply in 2021, but is expected to ease through 2022 and 2023. Global trade volume grew at a record 9.9% in 2021, the combined effect of higher commodity prices, easier pandemic-related mobility and trade restrictions, and a strong recovery in demand due in large part to economic stimulus packages. As these trends are likely to moderate, global trade is expected to normalize during 2022. According to new forecasts in April 2022, the World Trade Organization (WTO) (2022) expects global trade volume to grow 3.0% in 2022 and 3.4% in 2023. The 2022 forecast was lowered from 4.7% as prospects for the global economy dimmed with the Russian invasion of Ukraine in February 2022.

Lingering supply-chain bottlenecks, geopolitical tensions, and inflation could further dampen the global trade outlook. The unprecedented supply chain disruptions that emerged during the COVID-19 pandemic continue to contribute to supply shortages and rising shipping costs and freight rates have remained elevated (UNCTAD 2022) (Figure 2). Global supply chain pressures are also likely to persist as the Russian Federation continues its invasion of Ukraine, in that both economies are key global suppliers of raw materials for semiconductor, automobile, and electronics manufacturing (ADB 2022). Escalating geopolitical tensions could also raise energy and food prices further, stoking inflationary pressures.

Trade finance markets are vulnerable during economic and financial crises. During the global financial crisis of 2008, 15%–20% of the drop in trade was attributable to trade finance shortages (IFC 2020). Banking crises hamper export growth and affect firms more severely in countries with less developed financial systems (Iacovone and Zavacka 2009). The effects of a trade credit collapse on exports also worsen as crises deepen (Siregar 2010).

Figure 2: Shipping Indexes
(Jan 2018 = 100)



Notes: The Baltic Dry Index measures shipping costs for dry bulk commodities (including coal, grain, iron ore, finished steel, and other metals, minerals, and similar materials). The Freightos Global Container Freight Index represents transport spot freight rates for a standard 40-foot, unrefrigerated container, based on rolling tariffs and related surcharges reported by freight carriers, freight forwarders, and shippers.

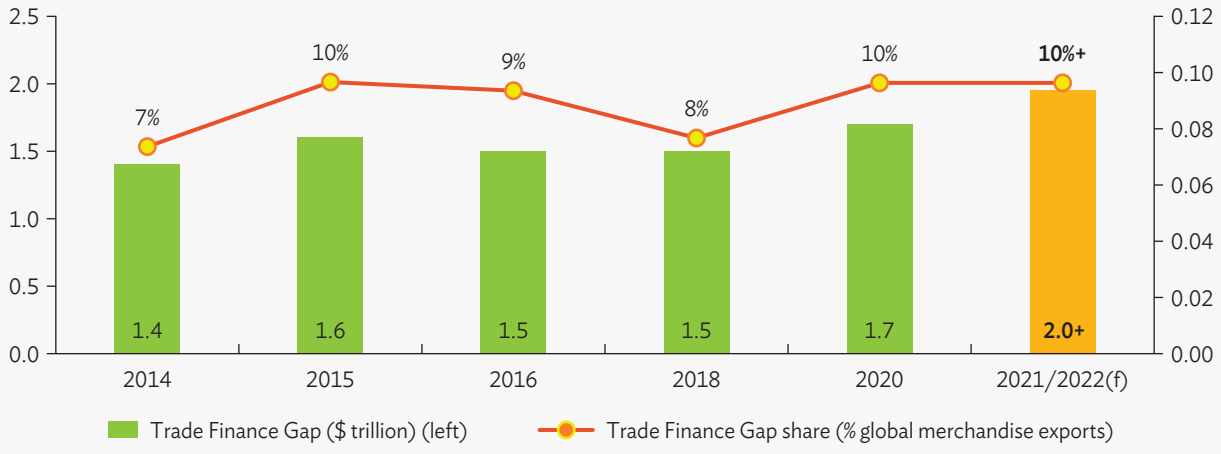
Source: CEIC Data Company (accessed 9 June 2022).

The COVID-19 pandemic has led to a record high trade finance gap, that is, unmet demand. The trade finance gap widened to an estimated $1.7 trillion in 2020, as per the latest Trade Finance Survey, accounting for 10% of global goods trade (Kim et al. 2021a). The pandemic reduced merchandise trade by 10% and global services trade by 19% in 2020 (over 2019), pushed up the cost of trade, and reduced trade finance revenues (Patel 2021, African Development Bank, n.d.). Macroeconomic uncertainty also intensified banks' perceptions of increased default risks by its borrowers and overshadowed banks' efforts to maintain capital availability and credit lines for its clients, which led to higher rejection rates.

Increased economic and financial uncertainties do not bode well for the trade finance market in 2022. Lingering market tensions fueled by geopolitics, supply chain disruptions, and inflationary pressures have doused demand pent-up from the pandemic, and weaker global trade will bear down on exporters and importers. In addition, tighter financing conditions are expected amid higher trade costs, including more expensive export insurance, and as inflation erodes banks' counterparty and country financing limits and results in interest rate hikes. On top of existing onerous capital and regulatory requirements, heightened risk aversion could also lead to even higher rejection rates in trade finance applications, as banks potentially cease taking on new financing obligations. Not only would this compound existing constraints faced by regular trade finance borrowers, but it would also make trade finance even more inaccessible to small and medium-sized enterprises (SMEs) and women-owned enterprises. The overall result is a larger trade finance gap.

Against this backdrop, the trade finance market will likely continue to suffer in 2022 with the gap estimated to be at least $2 trillion. The trade finance gap has historically hovered around 7%–10% of global merchandise export values, hitting its highest level during the pandemic in 2020. If merchandise trade value is assumed to grow about 15% in 2022 based on the latest forecasts for global trade, and energy and food prices (WTO 2022, World Bank 2022), maintaining a trade finance gap of 10% would result in a trade finance gap of around $2 trillion (Figure 3). If constraints on trade finance push banks to reject more trade finance proposals, the trade finance gap could be larger.

Figure 3: Trend of the Trade Finance Gap



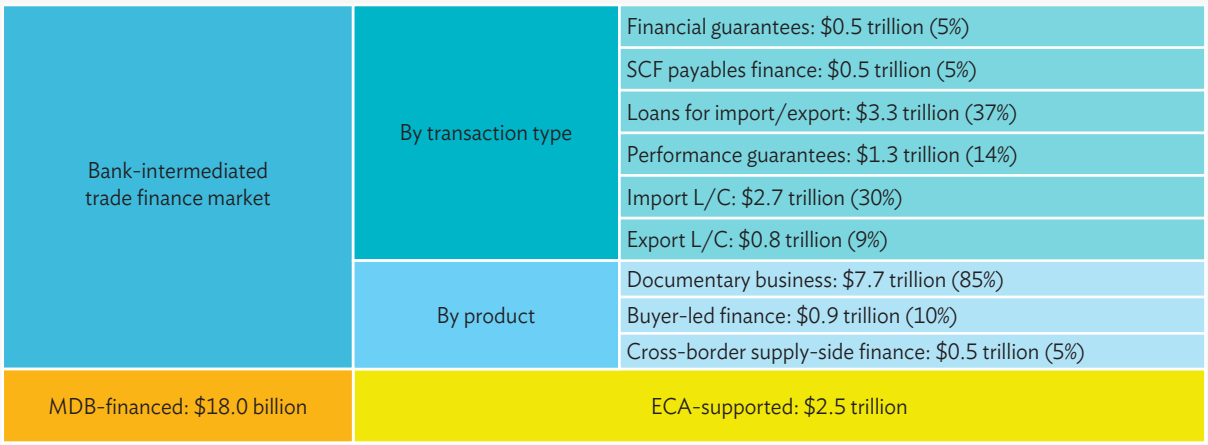
Sources: Kim et al. 2021 and authors' estimate.

Importance and Benefits of Trade Finance

Trade finance is indispensable to international trade. An umbrella term for a variety of financial instruments that enable successful conduct of cross-border trading of goods and services, trade finance promotes international trade by facilitating financing and payments and mitigating risks due to information asymmetry (Figure 4). In 2020, the volume of trade finance transactions supported by major global banks was estimated to be around $9 trillion and trade loans, letters of credit, and guarantees account for 90% of trade finance transactions.

Trade finance significantly impacts trade flows and its availability and access help ensure the continuity of international trade. A number of studies confirm the importance of access to trade finance on trade and economic growth. Higher trade credit stimulates firms' output and exports (Van Biesebroeck 2014, Siregar 2010). Not only does trade finance correlate positively to import and export volumes, but countries with access to external trade finance are also able to export more (Liston and McNeil 2014). Access to trade finance is also essential for export orientation and internationalization of firms, especially SMEs, which expands their access to cross-border markets and sharpens their competitiveness (Pietrovito and Pozzolo 2019).

Figure 4: Structure of Trade Finance by Transaction Type



ECA = export credit agencies, L/C = letter of credit, MDB = multilateral development bank, SCF = supply chain finance.

Notes: Global merchandise trade in 2020 is $35.5 trillion. Trade finance values are based on the estimated $9-trillion value of transactions processed by respondents in the International Chamber of Commerce (ICC) Global Survey 2020. Documentary business includes traditional on- and off-balance-sheet trade finance instruments, such as letters of credit, international guarantees, and banks' payment obligations, which allow enterprises to cover the risks inherent in cross-border trade transactions. Buyer-led finance includes products that enable both buyers and suppliers to optimize their working capital for cross-border trade through programs sponsored by buyers such as payables financing (or reverse factoring), and dynamic discounting. Supplier-side finance includes factoring, receivables discounting, forfaiting, and other products that address corporate sellers' financing needs by anticipating the liquidity resulting from commercial transactions.

Sources: Authors using ADB (2020c); ADB (2021b); Berne Union (2021); European Bank for Reconstruction and Development. Trade Facilitation Programme: Overview. https://ebrd.com/work-with-us/trade-facilitation-programme.html (accessed 9 June 2022); IDB Invest. https://idbinvest.org/tffp/en/ (accessed 9 June 2022); ICC (2020); ICC (2022); International Finance Corporation. Global Trade Finance Program. https://www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/financial+institutions/priorities/global+trade/gtfp (accessed 9 June 2022); McKinsey & Company, International Chamber of Commerce, and Fung Business Intelligence (2021); Sonbol (2021); and World Trade Organization. WTO Stats. https://timeseries.wto.org/ for total merchandise trade (accessed 9 June 2022).

Knowledge Gap and Motivation for the Trade Finance Survey

Despite having generally low default rates, perceptions persist about trade finance instruments becoming suddenly risky in times of heightened uncertainty or severe global shocks (ICC 2010). For an asset class to be consistently perceived as carrying far more risk than it actually does points to severe knowledge gap issues which, unfortunately, unfairly impact both exporters and importers. The consequences of these negative perceptions often snowball into deep cuts in the income, output, and employment prospects of firms, SMEs, and women-owned firms. Disseminating information on the low-risk nature of trade finance using a comprehensive database could reduce the gap between the perceived and actual risk level of trade finance transactions (IFC and WTO 2019).

To expand knowledge about trade finance and establish a repository of information to support the low-risk nature of trade finance, ADB and the International Chamber of Commerce agreed to establish the Register on Trade and Finance in 2009. Up until that point, evidence was limited for the claim that trade finance was, indeed, a relatively low-risk asset class. With an aggregate throughput value of $2.5 trillion, the Register on Trade and Finance report in 2010 indicated that trade finance transactions were relatively short term (averaging 80 days) and that trade finance instruments also had very low default rates (averaging less than 0.5%). During 2008–2021, default rates were 0.10% and 0.02% respectively for import and export letters of credit, while those for export/import loans were 0.18% over the same period (Table 1). Even when defaults occur, recovery rates are fast and quite high: 62.7% and 63.7% for import and export letters of credit, and 62.3% for export/import loans over the same period.

Table 1: Default Rates in Trade Finance Instruments, 2008–2021 (%)

Trade Finance Product	Exposure Weighted Default Rate	Recovery Rate	Expected Loss
Import letters of credit	0.10	62.7	0.04
Export letters of credit	0.02	63.7	0.01
Loans for import/export	0.18	62.3	0.07
Performance guarantee	0.24	42.0	0.00
Supply chain finance	0.24	...	...
Export finance	0.62	95.2	0.03

Notes: Exposure weighted default rate refers to bank-declared defaults weighted by the volume of exposure in line with Basel methodology. Recovery rate is the extent to which principal and accrued interest on defaulted debt can be recovered. Expected losses refer to banks' expected losses resulting from lending to borrowers that may default.

Source: ICC Trade Register Dashboard, https://iccwbo.org/publication/icc-trade-register-report/ (accessed 10 May 2022).

The gap between the perception and actual risk level of the transactions is clearly one of the main causes of the lack of trade finance. One way to reduce the "confidence" gap is to continue disseminating information about the low risk of trade finance and to maintain a strong database supporting this. Key trade finance institutions and market players have also started publishing trade finance statistics, which have added depth and nuance to the body of knowledge about trade finance gaps (Box 1).

Box 1: Statistics on Trade Finance

A single comprehensive source of cross-country trade finance data has yet to be established. However, key trade finance market players regularly publish trade finance statistics such as size and composition by type of transactions at an aggregate level. These include the Society for Worldwide Interbank Financial Telecommunication (SWIFT), the International Union of Credit and Investment Insurers (Berne Union), Factoring International, and the International Credit Insurance & Surety Association.

SWIFT relies on documentary finance instruments such as letters of credit at a higher data frequency. Data on trade finance messaging traffic are available publicly and monthly for Europe, Middle East, and Africa; Americas and the UK; and Asia and the Pacific. As 90% of letters of credit are transmitted via SWIFT, the data present an accurate snapshot of documentary trade finance markets.[a] In the pre-pandemic period, total messages averaged 26.8 million annually from 2016 to 2019. Gains from infrastructure upgrades significantly improved the speed, transparency, and data capabilities. The volume of messages increased to 28.3 million year-to-date in November 2021 from 26.8 million in the previous year, after it had launched SWIFT Go in July 2021, a new service that enables financial institutions to offer a seamless payments experience for the low-value transactions often initiated by small and medium-sized enterprises.[b]

Berne Union's trade finance statistics are based on data provided twice annually by its members, which include export credit agencies, private credit and political risk insurers, and multilateral institutions located in 73 economies.[c] From 2016 to 2019, Berne Union's support for exporters has risen an average of $300 billion annually. During the coronavirus disease (COVID-19) pandemic in 2020, Berne Union's export credit support rose to $2.52 trillion in new financing, increase of 2.4% from 2019, on the back of higher short-term export credit as export credit agencies have taken a more substantial role in responding to the pandemic by providing short-term liquidity and the surprisingly swift rebound of the trade sector.

Factoring International is primarily engaged in factoring or accounts receivable financing of both domestic and international trade receivables. Its global presence in 90 economies indicates that international factoring volume jumped from $2.5 trillion in 2016 to $3.1 trillion in 2017 and has risen steadily since. By 2020, factoring volume topped $3.4 trillion.[d]

The International Credit Insurance & Surety Association, which provides trade credit insurance and surety bonds to its members, reported an insurance exposure of €2.4 trillion in 2020, lower than the €2.6 trillion average for 2016–2019. Association members account for 95% of private credit insurance providers globally.[e]

[a] ICC. 2016. Rethinking Trade and Finance: An ICC Private Sector Development Perspective. ICC Banking Commission. https://cdn.iccwbo.org/content/uploads/sites/3/2016/10/ICC-Global-Trade-and-Finance-Survey-2016.pdf.

[b] Society for Worldwide Interbank Financial Telecommunication (SWIFT). SWIFT in Figures. https://www.swift.com/about-us/discover-swift/fin-traffic-figures/swift-fin-traffic-document-centre?category%5B0%5D=169561 (accessed 14 March 2022) and SWIFT (2022).

[c] Berne Union. 2021. Export Credit & Investment Insurance Industry Report 2020. https://www.berneunion.org/DataReports.

[d] FCI (Association). Industry Statistics. https://fci.nl/en/industry-statistics (accessed June 2022).

[e] International Credit Insurance & Surety Association. 2021. ICISA-TCI-Insured Exposure 2006–2020. https://icisa.org/wp-content/uploads/2021/06/ICISA-TCI-Insured-Exposure-2006–2020.pdf.

Sources: ADB staff report using ICC (2016); SWIFT in Figures; SWIFT (2022); Berne Union (2021); FCI (Association); and International Credit Insurance & Surety Association (2021).

The data pooled by the Register on Finance and Trade provided impetus to review the risk-mitigating factors of trade financing instruments under the Basel framework. It also paved the way for more refined data collection exercises to underscore the role of trade finance in supporting international trade transactions for global economic recovery and growth. Riding on this objective, ADB conducted a survey on trade finance in the last quarter of 2012 to determine the trade finance gap and its link to production and jobs. From this exercise, the *ADB Trade Finance Gaps, Growth, and Jobs Survey* was born.[1]

Given the dearth of data on trade finance, earlier ADB Trade Finance Surveys made effort to derive data points and establish empirical information to clarify the links between trade finance and economic growth and employment. Analysis of survey results aimed to help policy makers, regulators, and financial institutions better understand the role and challenges that trade finance markets face, the issues facing exporters and importers in accessing financing, and ways policy making could alleviate financial access problems. As the surveys continued, the focus shifted primarily to identifying global gaps in trade finance and ways to close the gaps.

Other institutions also conduct trade finance surveys and provide additional layers of information to better understand and better address the implications of the trade finance gap. Firm-level surveys, such as those by the International Chamber of Commerce, the International Finance Corporation, and the African Development Bank have addressed the absence of systematic data on trade finance and complemented macroeconomic statistics with information on use of trade finance instruments, especially for developing economies where such data may be more limited (Box 2).

Box 2: Other Institutions Conducting Trade Finance Surveys

The International Chamber of Commerce, the International Finance Corporation, and the African Development Bank also conduct trade finance surveys. Common objectives among these surveys are gauging the size of the trade finance markets, identifying obstacles banks face in expanding operations, and determining how development finance institutions can help mitigate financing gaps.

The International Chamber of Commerce trade finance survey started in 2008.[a] Since then, it has conducted annual surveys with over 250 banks in more than 90 countries, the bulk coming from financial institutions in Asia and the Pacific and Western Europe. For 2020, its survey covered 346 banks in 85 countries accounting for about $9 trillion in trade finance transactions.[a] It focused mainly on the impacts of the pandemic and strategies adopted by banks, and included the size and types of trade finance transactions, sectors, firm sizes, trade finance obstacles, digital preparedness, and outlook in the next 1–5 years.

The International Finance Corporation conducts annual trade finance surveys among its partner banks to support its Global Trade Finance Program. In 2020, its survey covered 163 of its financial institution clients in 69 emerging market economies to determine the major disruptions caused by the coronavirus disease (COVID-19) crisis across different sectors, the strategies adopted and support needed by banks, and the outlook on trade and trade finance.[b] Its 2020 survey targeted only banks in emerging markets and focused on the operational and financial disruptions on banks' clients.

continued on next page

[1] From here referred to as the *ADB Trade Finance Survey*.

Box 2, continued.

Since 2013, the African Development Bank has conducted three trade finance surveys with banks within the African region as respondents. Its first survey highlighted the size of the financing gap and challenges faced by African financial institutions, while the second survey examined the challenges of small and medium-sized enterprises and commercial banks' first-time trade finance clients. Its latest report took stock of the trade finance landscape in the 9 years to 2019 and revealed that unmet demand in trade finance declined from $120 billion in 2011 to $81 billion in 2019 on account of the work of key players and development finance institutions.[c] Over the same period, however, trade finance participation by banks steadily decreased from 92% to 71%, while rejection rates of small and medium-sized enterprise trade finance applications increased from 20% to 40% during 2013–2019. Moreover, bank-intermediated trade finance averaged only 40% of total trade in the region, compared to 80% globally.

Main findings in the surveys conducted by each of these organizations confirm key findings from the ADB Trade Finance Surveys. These include the obstacles posed by know-your-customer and anti-money laundering compliance requirements in expanding trade finance; the majority of rejected applications from micro, small, and medium-sized enterprises; the tight availability of US dollar liquidity and higher costs of short-term financing of banks due to the COVID-19 pandemic; and the greater use of digitalized products and processes by banks in response to the pandemic. These surveys also indicated that banks sought assistance from development finance institutions and governments during the pandemic and that receiving such assistance during normal times can help address the persistently large trade finance gap.

[a] ICC. 2020. 2020 ICC Global Survey on Trade Finance: Securing Future Growth. https://iccwbo.org/publication/global-survey/.

[b] IFC. 2021. COVID-19 and Trade Finance in Emerging Markets. Washington, DC. https://www.ifc.org/wps/wcm/connect/c5f0f4fe-ef39-4684-a602-37f3e53078a0/76329_Draft_03.24_11.35am.pdf?MOD=AJPERES&CVID=nxAUpKw.

[c] African Development Bank. 2020. Trade Finance in Africa: Trends Over the Past Decade and Opportunities Ahead. https://www.afdb.org/en/documents/trade-finance-africa-trends-over-past-decade-and-opportunities-ahead.

Source: ADB staff report using ICC (2020); IFC (2021); and African Development Bank (2020).

II

Background

ADB began conducting its Trade Finance Survey in 2012. Trade finance markets have evolved since as digital solutions have spread, especially during the COVID-19 pandemic, and export credit agencies and multilateral institutions have increased support. Despite these developments, the global trade finance gap remains wide. While many factors continue to restrain trade finance among banks and keep small firms from accessing it, digitalization offers greater opportunity to address some of these problems.

Access to Finance for Small Firms

Micro, small, and medium-sized enterprises (MSMEs) drive developing Asia's economies and their development remains key to promoting inclusive growth in the region. On average, MSMEs account for 97% of all enterprises and 69% of national labor forces. In Southeast Asia, 61%–89% of MSMEs are in services, many engaged in traditional wholesale and retail trade; 72%–85% of MSMEs operate in rural areas, while absorbing 70%–84% of MSME employees in their countries (ADB 2020a). In South Asia, MSMEs accounted for an average 99.6% of all enterprises, 76.6% of the workforce, and 33.9% of each country's gross domestic product (GDP) (ADB 2021a).

While MSMEs employ most workers in the region, their contribution to GDP and exports shows room for improvement. This is reflected for instance in ADB's survey of MSMEs in Southeast Asia and South Asia. In Southeast Asia, while 69% of employees work in MSMEs, their contribution to GDP was only about 41% in 2010–2019 (Table 2). In South Asia, MSMEs accounted for 77% of total employees but only 34% of GDP. Moreover, MSMEs serve mostly domestic markets and do not participate in global value chains as much as large firms. About one in five MSMEs in developing Asia was able to export, compared to more than one-third of large firms (ADB 2019a). Access to international markets remains a major challenge for MSMEs in the region.

Table 2: Share of Micro, Small, and Medium-Sized Enterprises in Southeast Asia and South Asia (%)

	Southeast Asia	South Asia
Number of MSMEs to total enterprises	97.2	99.6
MSME employees to total employees	69.4	76.6
MSME contribution to national GDP	41.1	33.9
MSME export to total export value	20.4	47.0

GDP = gross domestic product, MSMEs = micro, small, and medium-sized enterprises.

Note: Figures for Southeast Asia refer to 2010–2019 (2010–2018 for exports), while those for South Asia are in 2020.

Sources: ADB 2020a, 2021a.

Enhancing the participation of MSMEs in global value chains is crucial to unlocking new productivity and inclusive growth. The rise of value chains and e-commerce offers opportunities for MSMEs to engage in international trade and contribute more to economies. This can be done by directly exporting intermediate goods, services, or supply inputs to local or multinational firms (forward linkages), or by using imported inputs in their production through backward linkages. Moreover, e-commerce can add to opportunities for MSMEs by providing platforms for sales, marketing, payments, and financial access. Across South Asia for instance, textiles and ready-made garments remain a promising MSME export opportunity (ADB 2021a).

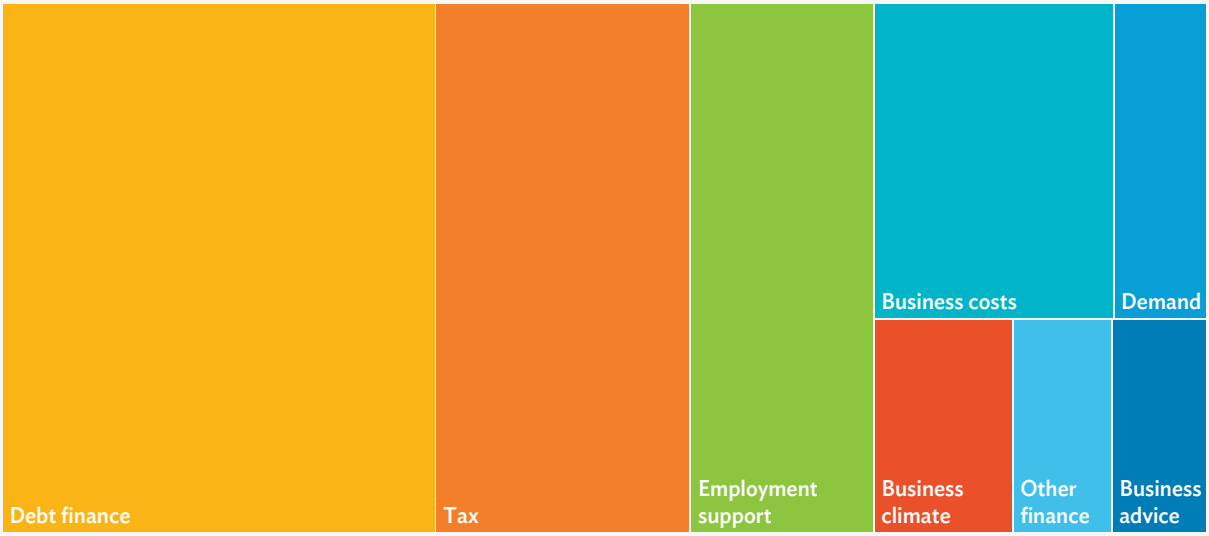
However, MSMEs continue to face higher trade costs and are less equipped than large firms for managing risks. In developing Asia, an estimated 96.7 million, or 43% of formal MSMEs, have unmet financing needs, estimated at $2.6 trillion (ADB 2019b). Moreover, women-owned firms tend to face more obstacles in getting credit, and account for 50% of the MSME financing gap in the region. Key challenges to internationalizing MSMEs include (i) a lack of business links with large multinationals; (ii) a lack of quality, competitive products, and low investment in research and development; (iii) a lack of business literacy and capacity; (iv) weak regulatory compliance; and (v) limited access to finance (ADB 2021a).

Getting MSMEs more access to bank credit and finance is a crucial challenge in the region. For example, in India, economic uncertainty during the pandemic led to weak consumer demand, making it difficult for MSMEs to repay loans. It is also challenging for lenders to assess the creditworthiness of MSMEs due to a lack of information, business records, and plans, especially in rural and remote areas. In Pakistan, commercial bank credit is skewed toward the public sector with less risk as many MSMEs are unregistered and cannot provide the documentation required for bank credit applications.

The pandemic hit MSMEs harder, exacerbating their chronic limited access to finance. A survey of more than 30,000 business leaders across 50 countries found that 18% of SMEs in Asia and the Pacific had to close their operations from January to May 2020 (Facebook, OECD, and World Bank 2020). In ADB's MSME survey in developing Asia in November 2020, these small firms reported widespread cuts in staffing and in working hours across all countries. The report indicated that work from home was not a good option for these firms, despite attempts to implement it (ADB 2020a). In the Lao People's Democratic Republic, the Philippines, and Thailand, about 60% of MSMEs saw no change in employment after the outbreak, while the remaining 40% reduced their workforces. In Indonesia, 60% of MSMEs reduced staff during March and April 2020, while more than half of small firms in Indonesia and the Philippines suspended wages. MSMEs across the region also reported severe lack of funds to continue operations, including difficulty in raising working capital to survive. In Indonesia, 88% of microenterprises had no cash or savings. Export performance also declined. In South Asia, while MSME exports increased at a compound annual growth rate of 2.9% from fiscal year 2013 through 2020, MSME exports fell sharply (17.5%) as foreign demand declined during the COVID-19 pandemic (ADB 2021a).

Governments responded with several measures to tide SMEs over and avoid major bankruptcies, keep MSMEs afloat, and defend employment. In Asia and the Pacific, debt finance was the top government support for MSMEs during the COVID-19 pandemic, including new lending, rapid loan approval, credit guarantees, and delayed repayments, followed by tax and employment support (Figure 5). Small businesses outside the ambit of government support relied on borrowing from close relatives, the most common source of financing for MSMEs. Many small firms also switched their businesses from personal contact modes to e-commerce, while more digitally operated MSMEs started up or expanded their mobile/online business strategies.

Figure 5: Government Support for Micro, Small, and Medium-Sized Enterprises in Asia and the Pacific
(as of October 2020)



Notes: Based on the number of each policy instrument; "Debt finance" instruments include new lending, rapid approval, credit guarantees, delayed repayments, reduced or no interest for existing loans, and lowering capital requirements. "Tax" refers to incentives given to corporates and investors for tax reductions, simplified tax procedures, and expedited tax reimbursements, among others. "Employment support" covers subsidies related to wage, unemployment, labor training, and sick leave as well as new working schemes. "Business costs" are instruments that reduce costs related to the business operations such as rent, utilities, government fees, and compliance requirements. "Business climate" includes simplified foreign exchange arrangements, reduced import restrictions, and increasing threshold for bankruptcy. The "demand" instrument is a form of stimulus package that targets specific sectors such as small and medium-sized enterprises (SMEs) in tourism, and those that are in coronavirus disease (COVID-19)-related production, among others. "Other finance" includes grants and cash flow assistance for firms that have reduced operations. "Business advice" covers provision of vouchers for businesses to encourage SMEs to use online tools for remote working.

Source: World Bank. Map of SME-Support Measures in Response to COVID-19. https://www.worldbank.org/en/data/interactive/2020/04/14/map-of-sme-support-measures-in-response-to-covid-19 (accessed 10 May 2022).

Trade and Supply Chain Finance Program

ADB established its Trade Finance Program in 2003 to fill funding gaps in trade finance, especially for SMEs. Traditional purveyors of trade finance—the system of loans and guarantees that ensure buyers of traded goods get the goods they pay for and sellers receive payment—are unwilling or unable to meet demand in parts of developing Asia. That can be because of undeveloped regulatory regimes in some countries, low ratings for countries or counterparty banks, or the risk reversal tendency of international banks in times of crisis. The lack of trade finance limits growth and job creation and the entry of developing country economies into the global trading system. ADB's participation in the trade finance market means that international banks can factor in its AAA rating and that trades which would not otherwise take place can go ahead. The urgent need for ADB's loans and guarantees to keep trade rolling in Asia can be seen in the growth of the program, from a $150 million limit at inception in 2003 to $2.1 billion in 2022.

The Supply Chain Finance Program was launched as an accompaniment to the Trade Finance Program in 2012. Supply chain finance is an innovative approach to financing SMEs. Traditional trade finance can be difficult for some SMEs because of its focus on financials and collateral. In supply chain finance financial institutions work with larger corporates to deliver financing to SMEs in their supply chain at reasonable rates. Supply chain finance provides a steadier flow of working capital, which gives SME suppliers funds to seek out more contracts and expand their businesses. Supply chain finance can be an important source of growth and job creation, particularly among SMEs.

The two programs were merged operationally in 2020 into the Trade and Supply Chain Finance Program. In 2021, the program took part in more than 9,000 trade and supply chain transactions worth almost $8.4 billion, which included $5.5 billion in cofinancing generated from the private sector that otherwise would likely not have been spent. The value of the trade transactions it supported in 2021 grew 38%, while on the supply chain side they grew 52%. About 3,500 of those transactions directly benefited small and medium-sized companies. The Trade and Supply Chain Finance Program contributed importantly to ADB's COVID-19 response, including goods from vaccines and test kits to ventilators and other medical supplies. For example, 40% of vaccines imported in Sri Lanka came through ADB-supported transactions. In addition to transactions, the program developed a knowledge product it published on ADB's website that maps the entire supply chain—all the companies involved—in the manufacturing process of 34 COVID-19-related goods.[2]

As its work in the trade and supply chain finance markets has grown rapidly, so has the need for its funding and capacity building efforts. Increasingly, the Trade and Supply Chain Finance Program has also involved itself in shaping the market and the regulatory regimes that govern it to make them more receptive to trade by developing countries. Those efforts engage the problem in two ways, first by helping developing countries and their banks improve their practices and skills so they can be accepted within the global system. The program works with regulators and governments as well as developing Asian banks to help bring their systems up to speed. Second, the program works to minimize the ways the system fails to accommodate developing countries and developing country banks. This work is carried out through capacity-building training and education, technological innovation, and participation in international efforts to improve the system. One of the unintended consequences of new trade regulations, which seek to combat criminal activity such as money laundering, is that they can also impede trade. In response, the Trade and Supply Chain Finance Program is carrying out a pilot project with the United Nations and developing member economies to ensure that new rules minimize negative effects (Beck and Estrada 2021).

[2] Asian Development Bank (ADB). Supply Chain Maps for Pandemic-Fighting Products. https://www.adb.org/multimedia/scf/#/ (accessed 10 May 2022).

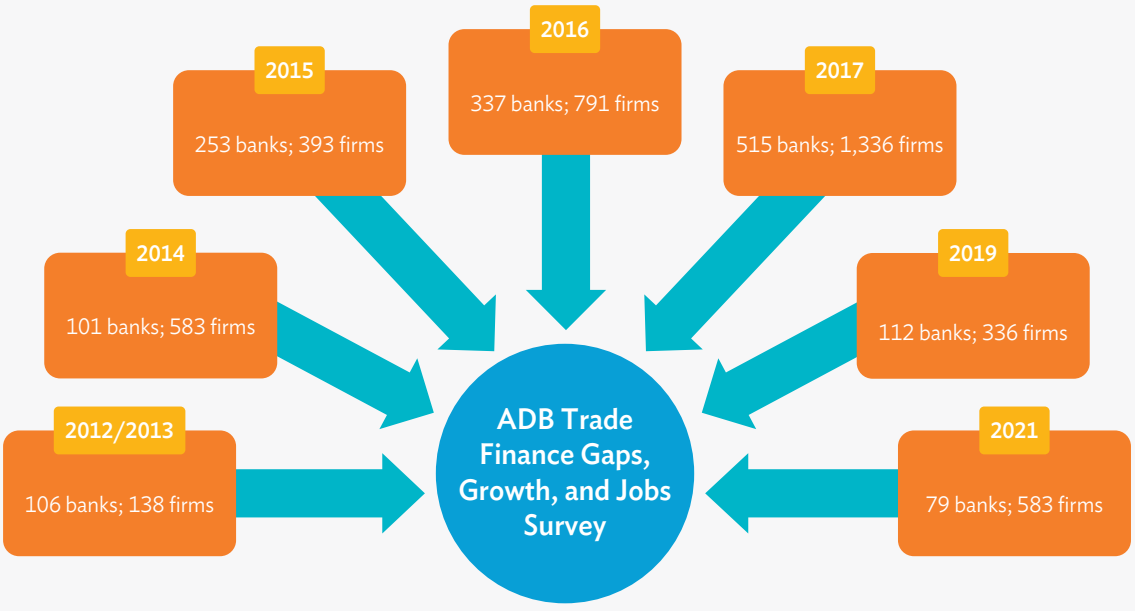
Trade Finance Gaps, Growth, and Jobs Survey

Birth and history

ADB's Trade Finance Program and Economic Research and Regional Cooperation Department began a joint study in 2012 to better understand the challenges facing MSMEs in trade finance markets and quantify unmet demand for trade finance, known as the global trade finance gap. The Trade Finance Gaps, Growth, and Jobs Survey is based on responses from banks, firms, and export credit agencies globally and is the world's leading barometer of trade finance health. Among the key findings of this survey was a trade finance gap of $1.6 trillion, of which $425 billion was in developing Asia. Survey results also suggested that increasing trade finance by 5% could potentially lead to a 2% increase in both output and jobs. Results of this survey were included in the release of the 2014 ADB Trade Finance Survey. Over the years, the Trade Finance Program has updated this study to quantify and inform policy makers and market participants about the main drivers for this persistent trade finance gap (Beck 2013).

Since 2012, ADB has gone through seven survey cycles until 2021. For each cycle, survey questionnaires were created for bank respondents (2013–2021), companies (2013–2021), factoring companies (2014–2016), forfaitors (2014–2016 and 2019), and credit insurance firms (2014–2016 and 2019). Figure 6 indicates the number of participants and variations per survey cycle. Core questions per survey cycle gather as many responses as possible for estimating the trade finance gap; additional questions about current issues relevant to global trade finance are also explored for inclusion. Examples of issue-related questions asked in previous surveys which could impact the trade finance environment and its supply include commodity price fluctuation, trade tensions, and the COVID-19 pandemic.

Figure 6: Number of Respondents in the Trade Finance Surveys

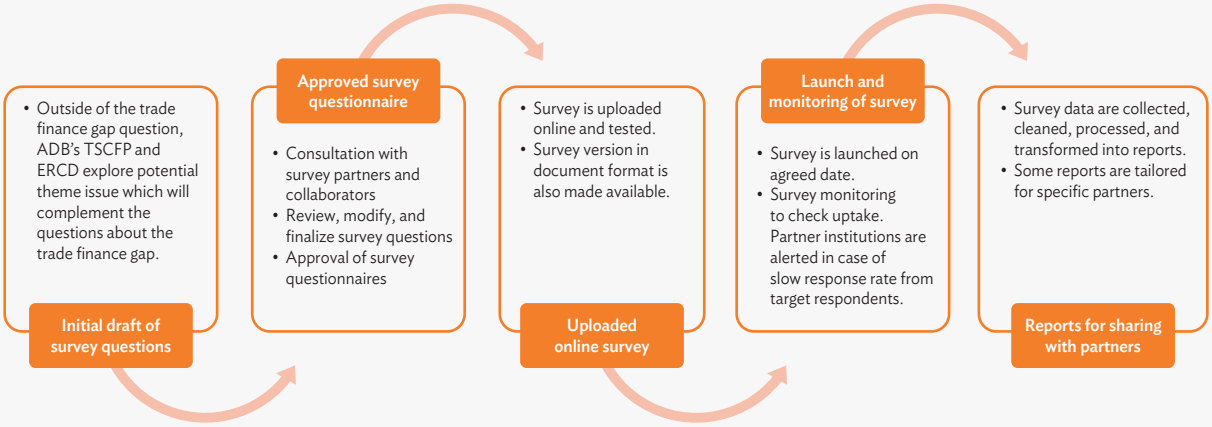


ADB = Asian Development Bank.

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).

Figure 7 summarizes how the trade finance survey is processed. Various public and private institutions have supported the survey in designing, collecting responses, and reviewing results.[3]

Figure 7: Flow of Survey Development



ERCD = Economic Research and Regional Cooperation Department, TSCFP = Trade and Supply Chain Finance Program.
Source: Authors.

Survey by Respondent

Bank Survey

The primary, necessary information to estimate the trade finance gap is collected through the bank survey.[4] Responses from the bank survey are processed to profile the major reasons why banks reject trade finance applications and the various factors hindering trade financing. Each bank survey cycle also included questions to ascertain banks' opinions about issues that could impact their trade finance activities (Figure 8). Perception-related surveys in 2014 to 2016 monitored banks' views about the termination of correspondent banking relationships, the costs of compliance requirements, and if these influenced banks' attitudes toward rejection. In the 2017 and 2019 surveys, the issue of trade protectionism was raised alongside anticipated changes in trade finance gap over the next 2 years. On the matter of the severity of trade finance shortfall, some questions sought what banks think of the role of multilateral development banks and export credit agencies in narrowing the trade finance gap. The 2021 survey dedicated questions related to the pandemic and the availability of trade finance, the acceleration of available digital platforms, and the extent to which trade finance could boost global economic recovery.

[3] Major collaborators include ICC Banking Commission for the bank survey; Centre for the Promotion of Imports from Developing Countries, International Trade Centre, Pacific Trade Invest, Central Asia Regional Economic Cooperation Program for the firm survey; Berne Union for the Export Credit Agencies survey; the International Trade and Forfaiting Association for the forfaitor survey; and Factors Chain International for the factor survey.

[4] The latest survey questionnaires for banks and firms are presented in the Appendix.

Figure 8: Select Perception-Related Questions in the Bank Surveys

AML = anti-money laundering, COVID-19 = coronavirus disease, KYC = know-your-customer.
Source: Authors' compilation using ADB Trade Finance Gaps, Growth, and Jobs Survey—bank survey questionnaires.

With technology making greater inroads in international finance, the issue of digitalization was brought to the fore in the 2017 survey cycle. Questions included the role of technology in the operation of respondent banks, aspects of banking operations which were using technology, whether and how digitalization technology enabled banks to deepen their engagement of SME clients, and the reasons inhibiting digitalization adoption by banks. Analysis of these responses provided a window to technology's potential in helping narrow the trade finance gap.

Company Survey

Information collected from company surveys shed light on the demand side of trade finance by featuring basic firm characteristics and the amounts of trade financing applied for and rejected. Firms' perception of why proposals were rejected were mirrored against banks' reasons for rejection. The gap between these reasons provided insights into the persistence of the trade finance, the possibilities to narrow them, and the role of multilateral development banks and international stakeholders to reduce the financing gap. Another objective of the company survey is to monitor key finance issues which impact the firms and determine how the dynamics between external shocks and trade finance influence firms' operations and ability to create jobs, improve production, and promote inclusive growth.

Successive surveys find that companies lack knowledge about trade finance products and this persistent knowledge and information gap presents a considerable barrier to their access to finance. Companies were also asked how they think their staff might benefit from knowing about different forms of trade financing.

In surveys 2015 to 2017, firms were asked how an increase in trade financing might impact their operations, revealing potential scenarios of greater sales, output, and increasing employment if only more financing could be had. Firms' behavior toward alternative sources of finance were also monitored throughout the surveys, and since 2016, the survey featured questions on firms' usage of fintech and digital finance as alternative sources. Relatedly, the 2021 survey queried firms' technology-usage behavior during the pandemic.

Gender-related perspectives were also obtained from company surveys beginning in 2016, when questions about female ownership of firms and female employment were included. This enabled an initial (albeit rough) map of female-owned firms in trade finance rejections and their alternative finance-seeking behavior.

Factoring, forfaiting, and export credit insurance surveys

Surveys for factoring, forfaiting, and export credit insurance companies from 2014 to 2017 featured the trade finance proposals received and rejected by these firms, the major reasons for rejecting proposals, impediments to financing, and respondents' perceptions about the trade finance shortfall. In 2019, survey questions given to forfaiting and credit insurance companies focused on the role of technology and how it could potentially help forfaitors and credit insurers service more SMEs.

The Trade Finance Gap

No precise statistical datasets exist to indicate the aggregate global demand for financing and the gross amount of funding that is available for trade purposes. If comprehensive statistical data indicating the total demand for and supply of trade finance were available, the trade finance gap would simply be the difference between them. Given this shortcoming, the survey-based extrapolation estimation method is used. IFC (2017) is one of the few attempts to estimate the MSME "financing gap" (covering trade finance gap in scope) was made by using firm and country level data (Box 3).

The trade finance gap is estimated based on the amounts of trade finance applications that banks rejected or did not support, using responses to questions about the total (estimated) US dollar value of trade finance applications received and rejected by banks in specified year(s). The trade finance gap in the survey refers to the amount of financing that is not available to support exporters and importers because of the inability of financial institutions to meet the demand for trade finance. Figure 9 shows the gap-relevant questions from the 2021 survey.

Estimating the 2020 trade finance gap entails (i) knowing the total (estimated) US dollar value of trade finance applications rejected by banks in 2020 and 2019, and (ii) applying the estimated 2020 growth rate on the level of the trade finance gap in the previous trade finance survey. This methodology has been in use since the 2019 survey. In the previous surveys, each response from the bank survey was weighted by the bank's total year-end assets. This process provides a proxy value of the survey's global coverage. A global gap value is then projected by dividing the gap reported by surveyed banks by its projection weight. Bank assets were used because they are the most accessible, complete, and available information about banks. However, the latest change in the methodology is a growth-rate-based extrapolation because the need to capture a gap trend properly increased as the waves of the survey rose and changing bank samples in each wave resulted in unstable aggregate level estimates.

Figure 9: Survey Questions to Estimate the Trade Finance Gap

Application	What was the total US dollar value of all trade finance applications—meaning all requests for trade finance support from clients and non-clients—your bank received in 2020? in 2019?
Rejection	Given the total US dollar value of all trade finance transactions your bank received in 2020 (2019), how much did your bank reject/not support?

US = United States.
Source: 2021 ADB Trade Finance Gaps, Growth, and Jobs Survey Questionnaire—Banks.

Box 3: Estimating the Trade Finance Gap for Micro, Small, and Medium-Sized Enterprises Using Other Data Sources

Only a few attempts exist to access the size of the micro, small, and medium-sized enterprise (MSME) (trade) financing gap, other than the Trade Finance Gaps, Growth, and Jobs Survey of the Asian Development Bank (ADB). For example, the International Finance Corporation introduced a new approach in estimating the unmet financing requirement, particularly for MSMEs in developing economies.[a]

The financing gap refers to the difference of potential demand for financing and current available financing. Their methodology relies on various databases and data repositories of the World Bank, International Monetary Fund (IMF), and the Organisation for Economic Co-operation and Development (OECD), among others. It creates a counterfactual scenario to estimate the amount of financing that MSMEs need and that banks can provide in an improved environment. To simulate this, 10 benchmark developed countries with smooth functioning credit markets were identified. Mean debt-to-sales ratios for major sectors of the economy were computed from firms in these countries using the ORBIS database. These ratios are then applied to all MSMEs in each sector to derive the potential demand. Finance supply for MSMEs, on the other hand, is based on the Financial Access Survey of the IMF and the OECD SME Scorecard. The table compares various facets of the ADB and International Finance Corporation (IFC) surveys.

Table B3.1: Differences in Concepts

	ADB Trade Finance Survey	IFC MSME Finance Gap
Definition	Rejected bank-intermediated trade finance applications	Potential demand minus current supply financing (by benchmarking 10 developed countries)
Method	Survey-based extrapolation (from bank survey)	Estimation based on existing data sources (i.e., ORBIS database, FAS, etc.)
Firms	All firms (MSMEs + large firms) involved in cross-border trade	All MSMEs
Global Gap	$1.5 trillion–$1.7 trillion [MSME: $0.6 trillion–$0.8 trillion (40%–45%)]	$4.8 trillion (Micro: $0.6 trillion; SME: $4.1 trillion)
Gap in Asia	$0.7 trillion–$0.8 trillion (40%)	$2.6 trillion (53%)

ADB = Asian Development Bank; FAS = Financial Access Survey; IFC = International Finance Corporation; MSMEs = micro, small, and medium-sized enterprises; SMEs = small and medium-sized enterprises.
Sources: IFC (2017); DiCaprio, Kim, and Beck (2017); Kim et al. (2019); and Kim et al. (2021).

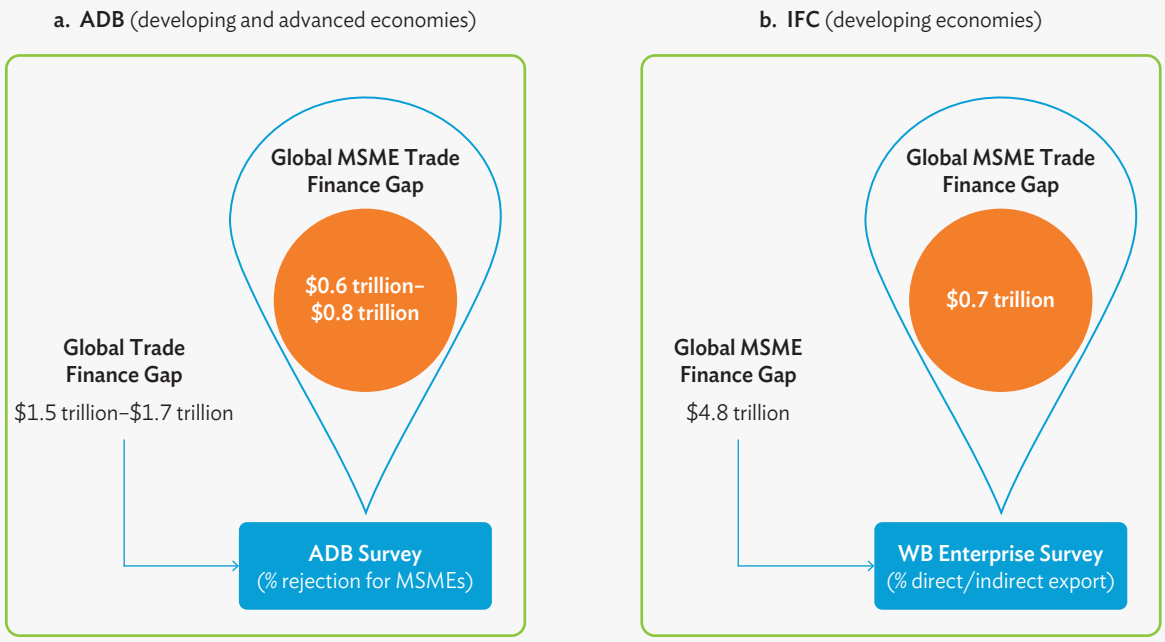
continued on next page

Box 3, continued.

Given the lack of a consistent, comparable set of statistics for the trade finance gap, this exercise is to create similar composition and coverage of the trade finance market to allow for valid assessment. In carrying this out, we extrapolated the International Finance Corporation series and trimmed the ADB sample, to merit comparison. Considering that the IFC figures include all MSMEs regardless of the firms' activities, we utilized the World Bank Enterprise Survey to limit the sample to only firms engaged in cross-border activities. Drawing on the item, "Percent of firms exporting directly and indirectly (at least 10% of sales)", we applied this to derive the trade finance gap of MSMEs. To match this, the ADB survey was also amended by filtering the sample to MSMEs only.

The figure shows the results of these adjustments. This activity yields similar results, when we adjust the sample space to have similar composition. That is, limiting the scope of the ADB Trade Finance Gaps, Growth and Jobs Survey to MSMEs only, and restricting the coverage of the IFC series to MSMEs with trading activities. The global trade finance gap for MSMEs is tallied at around $0.7 trillion.

Figure B3.1: Trade Finance Gap Estimates for Micro, Small, and Medium-Sized Enterprises



ADB = Asian Development Bank; IFC = International Finance Corporation; MSMEs = micro, small, and medium-sized enterprises; WB = World Bank.

Sources: Authors' estimates using IFC (2017); DiCaprio, Kim, and Beck (2017); Kim et al. (2019); Kim et al. (2021); and World Bank Enterprise Survey.

[a] IFC. 2017. MSME Finance Gap: Assessment of the Shortfalls and Opportunities in Financing Micro, Small, and Medium Enterprises in Emerging Markets. Washington, DC. https://openknowledge.worldbank.org/handle/10986/28881.

Sources: ADB staff report using IFC (2017); DiCaprio, Kim, and Beck (2017); Kim et al. (2019); Kim et al. (2021); and World Bank Enterprise Survey.

III

Major Findings and Insights from the Surveys

The findings and lessons from the series of surveys provides a sound basis for policy formulation. The surveys offer major findings, such as the persistence of trade finance gap, which tends to rise during economic crises, the difficulties encountered by trade finance borrowers, their uptake of alternative trade finance sources, and determinants of trade finance proposals. They also offer a glimpse into the potential of digital solutions and fintech availability.

Bank Survey and Trade Finance Provision

Global trade finance gap values have been persistently large over the years. Initially estimated at $1.6 trillion in the fourth quarter of 2012, the gap moderated to $1.4 trillion in 2014, rose to $1.5 trillion in 2016, before peaking at $1.7 trillion in 2020 during the COVID-19 pandemic (Figure 10). Throughout this period, the trade finance gap is proportional to around 7% to 10% of global merchandise trade. The persistently large gap is also consistent with banks' perception that the shortage in trade finance will only increase (Figure 11).

The cost-push effect of complying with KYC and AML requirements has consistently hindered banks' servicing of global trade finance needs. Banks identified regulatory and risk-related constraints among the factors which consistently hinder their provision of trade finance (Figure 12). Complying with AML and KYC provisions stands out among these factors not because they directly limit banks' funding capabilities but because complying with these diligence requirements is hugely time-consuming and, hence, increases the cost of loan service provision. The complexity of complying with regulatory requirements, such as KYC and AML procedures, increases the cost of processing loans, which can make trade finance providers very selective of applications to approve.

Tight international guidelines and high fines imposed by authorities on noncompliance with AML/KYC by banks have heightened the perception that while the requirements mitigate trade finance risks, they can compound the trade finance gap and keep liquidity away from regions which need it most (Box 4). Survey responses revealed that AML/KYC due diligence requirements were significant impediments to trade finance provision because compliance is costly, resulting in banks declining transactions and terminating correspondent relationships. De-risking strategies by around one-third of banks negatively impacted importers and exporters, especially those in Asia and Africa.

Figure 10: Trade Finance Gap
($ trillion)

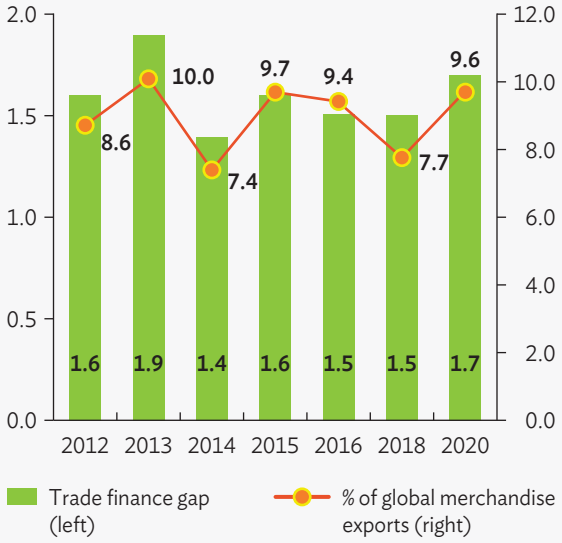
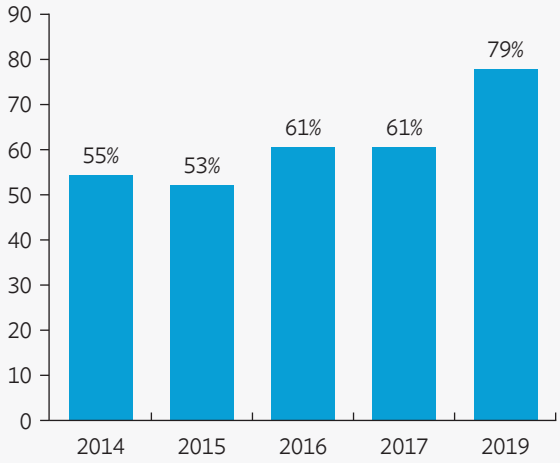
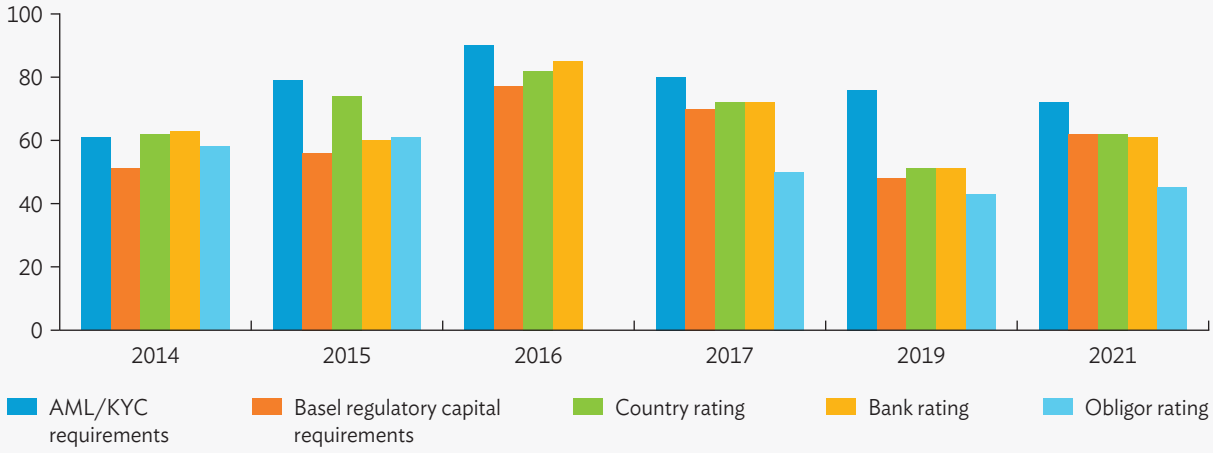


Figure 11: Banks' Perception of Trade Finance Shortage
(% of responses)



Source: Authors' calculations 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).

Figure 12: 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).

Box 4: Regulatory Compliance Requirements—Necessary but Costly

The complex and highly distributed nature of trade finance has exposed it to fraud and illicit money laundering activities. These illegal activities using the trade finance platforms are part of the umbrella term "trade-based money laundering."[a] According to a survey conducted by the International Chamber of Commerce in 2015, around 20% of responding banks saw an increase in trade finance related fraud. As regulators responded by introducing more stringent compliance requirements and imposing heavy fines on offenders, banks have been fined billions of dollars for these compliance transgressions (Hu 2016).[b]

Higher costs resulting from regulatory compliance have also caused banks to terminate corresponding banking relationships (also known as de-risking) and decline transactions, affecting at least 40% of surveyed banks in 2014 and 2015 (DiCaprio et al. 2014, 2015). Cuts made in low-income regions to were so sharp to the point some economies in these regions have practically been excluded from international financial networks.[c] This has brought serious consequence when it comes to the exchange of goods and services and may have even compromised the economic development of affected low-income economies (Arcand 2016).[d]

[a] "Trade-based money laundering" covers a broad spectrum of financial and other services, including those financial services referred to as trade finance, but also transactional activities across current and deposit accounts, payments, etc., which are not in the purview of trade finance operations of financial institutions (ICC and BAFT 2019).

[b] Hu, C. 2016. De-risking and its Implications on Trade and Finance in Asia Pacific. *The Asian Banker*. 3 October. https://www.theasianbanker.com/updates-and-articles/de-risking-and-its-implications-on-trade-finance-in-asia-pacific.

[c] Trade finance instruments, intermediated by commercial banks, are premised on an existing credit relationship between counterparty banks. International banks, which are, for example, required to "confirm" the future payment to the exporter, take on the reimbursement risk related to local emerging market banks. Thus, for goods to be shipped, a confirming bank must be willing to take the payment risk of the local bank. This may not be possible if the trade finance transaction causes that international confirming bank to exceed its client or country exposure limits (IFC and WTO 2019).

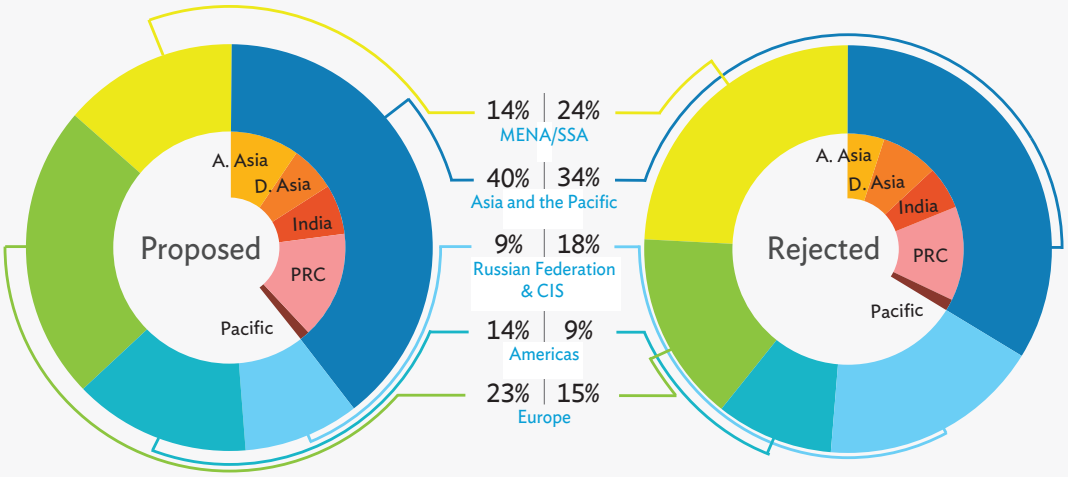
[d] Arcand, J. 2016. Options for Trade, Finance and Development: Getting the Institutions Right. E15 Expert Group on Trade, Finance and Development – Policy Options Paper. E15 Initiative. International Centre for Trade and Sustainable Development and World Economic Forum, Geneva. https://www3.weforum.org/docs/E15/WEF_Finance_Development_report_2015_1401.pdf.

Sources: Author and ADB staff report using Arcand (2016); DiCaprio, Beck, and Daquis (2014, 2015); Hu (2016); IFC and WTO (2019); and Wolfsberg Group, ICC, and BAFT (2019).

Basel requirements, on the other hand, mandate banks to hold more capital on their balance sheets, which induce banks to lend selectively and only to highest-rated borrowers (Clark 2017). Differences in risk weighting also tilt financing away from emerging markets and low-income economies. Organisation for Economic Co-operation and Development economies are assigned a 20% risk-weighting, while weights for developing economies are higher and could be as much as 150%. This makes banks much more likely to lend to larger corporations in developed economies than to SMEs in emerging markets.

The uncertainty of the COVID-19 crisis could affect the flow of economic activity and financing in the medium term. A 2020 report by the International Chamber of Commerce has indicated that 70% of banks see traditional trade finance among its priority areas of development, alongside digital trade and online platforms, and supply chain financing. Yet, even with these pockets of opportunities, at least half of banks surveyed in 2021 were concerned that future growth will be hindered by usual suspects—capital regulatory and compliance requirements. These pernicious constraints not only affect banks' financing provision capabilities, but also influence banks' willingness or reluctance to lend to different client segments.

Figure 13: Trade Finance Proposals and Rejections by Region, 2016



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

Source: DiCaprio et al. (2016).

Asia and the Pacific is a key player in the global trade finance market, but its reliance on bank-intermediated finance leaves firms in the region vulnerable to trade finance rejections. Traders from the region account for the highest rates of both proposals and rejections—in 2016, for instance, the region accounted for 40% of global proposals and a rejection rate of 34% (Figure 13). Relative to their European counterparts, 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 (Narain 2015). Accessing innovative nonbank channels has yet to be a standard recourse for cross-border trading firms in Asia and the Pacific. This makes the trade finance gap and the generally limited access to finance among the primary barriers to business growth in the region. Dominance by banks in financial intermediation suggests that financial markets in Asia have more than enough wiggle room to let more nonbank entities enter the financial industry and for regulators to permit nonbank credit providers to provide adequate and timely financial services to more geographies and client segments.

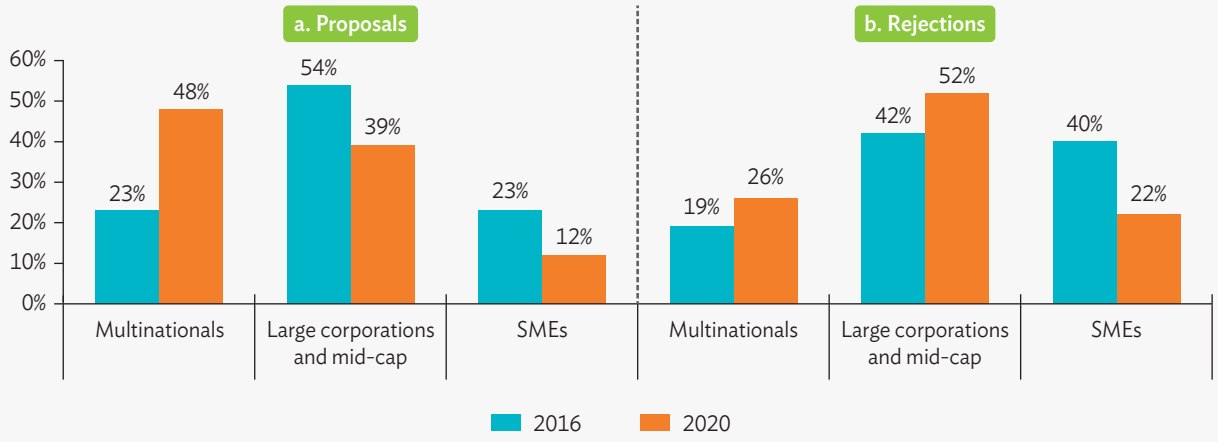
Company Survey and Firms' Access to Finance

Global shocks such as the global financial crisis, rising protectionism, the pandemic, and war impact most economic activities and access to trade finance, especially for MSMEs, business firms integral to developing Asia's business landscape. One objective of the company survey was to monitor key finance issues which impact the firms and determine how the dynamics between external shocks and trade finance influence firms' operations and ability to create jobs, improve production, and promote inclusive growth.

Persistent Gaps in Access to Trade Finance

Successfully accessing trade finance remains a staple constraint of SMEs. The survey results suggest that SMEs generally show higher share of total rejections relative to share of total proposals, which implies that SMEs have to face higher rejection rates (Figure 14). This may suggest systemic stubbornness on the part of both banks and SMEs: to mitigate risk on SME borrowers, banks generally tend to subject smaller firms to requirements such as high loan collaterals and third-party guarantees, which add another layer of barrier to accessing finance. In economies tagged as high loan default markets, banks may charge very high interest rates on top of collateral conditions, crowding out smaller trading firms which might not have the resources to operate at scale, furthering the trade finance divide. This difficult access to finance—coupled with limited access to market and entrepreneurial networks—lowers the economic participation of SMEs and restrains its capacity to grow, create more jobs, and contribute to the achievement of Sustainable Development Goals. To break this cycle of stringent collateral requirements from firms that could hardly comply, banks should evolve more innovative credit-scoring and evaluation techniques by exploring alternative data points to be used as indicators of smaller firms' financial activities and viability (Iskenderian 2017).

Figure 14: Share of Rejections, by Firm Size



mid-cap = mid-capitalization, SMEs = small and medium-sized enterprises.

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

The gender divide in financial access remains less favorable to women-owned firms. The International Finance Corporation (IFC) estimates that a $300 billion gap in financing exists for formal, women-owned small businesses, and more than 70% of women-owned SMEs have inadequate or no access to financial services.[5] Women-owned businesses account for 23% of MSMEs and 32% of the MSME finance gap.[6]

[5] IFC. Bridging the Gender Gap in Access to Finance. https://www.ifc.org/wps/wcm/connect/news_ext_content/ifc_external_corporate_site/news+and+events/news/bridging+the+gender+gap+in+access+to+finance (accessed 14 March 2022).

[6] SME Finance Forum. https://www.smefinanceforum.org/data-sites/msme-finance-gap (accessed 10 May 2022).

A study of women-owned SMEs in Cambodia, Indonesia, the Philippines, and Viet Nam found that 79%–97% are unserved, underserved or choose not to access formal financing (Women's World Banking 2015). This difficulty in accessing finance could be related to the characteristics of firms that women own and operate rather than women's ownership per se. Women-owned business tend to concentrate in operating smaller and informal firms where establishing strong financials and formal creditworthiness can be challenging (IFC 2011; DiCaprio, Kim, and Beck 2017). As such, women-led firms are also likely to face higher rejection rates and therefore greater financing gaps than businesses led by well-represented groups (Kim et al. 2021). ADB trade finance surveys in 2017 and 2019 reveal related results—that is, woman-owned firms faced higher rejection rates than male-owned firms (DiCaprio, Kim, and Beck 2017; Kim et al. 2019).[7] Women-owned firms also have to struggle more to earn revenues, earning just $0.3 for every dollar earned by a privately held company (Fallon 2020).

Lack of funding and skewed access to finance worsened during the pandemic when balance sheets weakened—female-owned businesses tend to have lower capital reserves when income stream is low and uneven—and aggravated the challenge of coming up with collateral deposits required by banks (EU Business School 2021, Kim et al. 2021). An analysis of firm-level data during the COVID-19 crisis revealed that women-owned firms displayed deeper financial distress than male-owned firms and were more than twice as likely to have their loan applications rejected than male-owned firms (Hyland et al. 2021). In the face of restrictive access to bank-supplied finance, woman-led firms are also twice as likely to turn to informal financial providers, which impose higher interest on loans but are considered more flexible loan sources than banks (DiCaprio et al. 2016; Women's World Banking 2015).

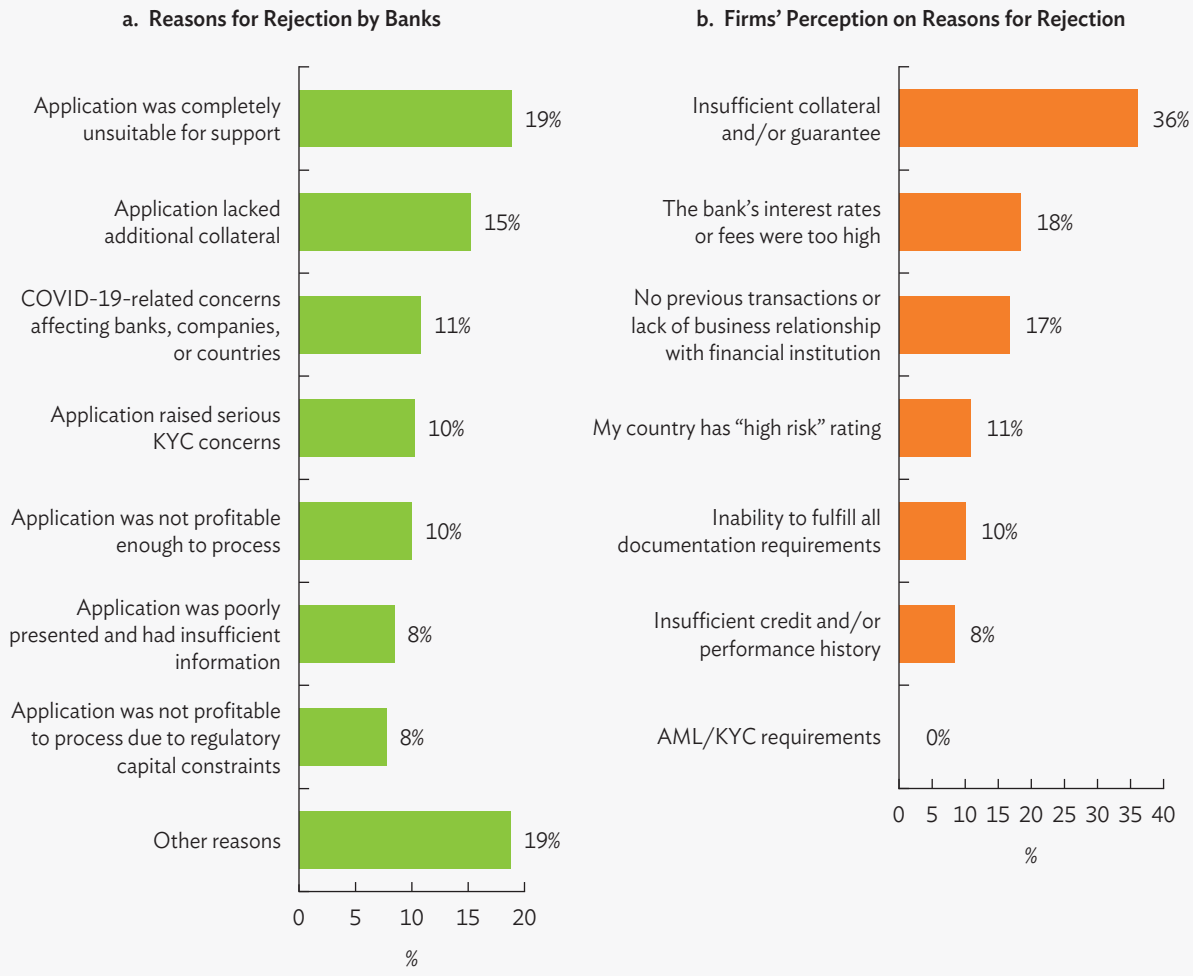
Overall, attracting, retaining, and promoting more women in the global financial system is important to closing the gap (Kim et al. 2021). Advancing practical gender- and diversity-inclusive financial access policies could lessen challenges faced by entrepreneurs from underrepresented groups by making trade finance support more accessible to women-owned businesses.

Perceptions About Rejections

Firms are aware that failure to fulfill standard banking requirements is the main cause of rejection by banks. Analysis of ADB Trade Finance Survey responses indicates that collateral, documentation, and valid company records comprise the holy trinity of bank requirements for which failure to comply would result in the rejection of a loan proposal. In the 2021 survey, for instance, banks rejected around 44% of loan proposals because the application was totally unsuitable to support, did not have enough collateral, and had insufficient information (Figure 15, panel a). Collateral requirements are onerous for businesses and around 36% of firms believe this requirement to be the tipping point of rejected loan applications (Figure 15, panel b). Smaller firms are at a disadvantage at the outset because they are perceived to have limited collateral which makes banks cautious to lend, especially in developing economies where legal systems backing property registry and enforcement of property rights are likely to be weak.

[7] In the 2017 ADB Trade Finance Survey, women-owned firms were 2.5 times more likely to have 100% of their proposals rejected by banks than male-owned firms. In the 2019 ADB Trade Finance Survey, proposals from women-owned firms were 44% compared to 38% for male-owned firms.

Figure 15: Why Firms' Trade Finance Proposals Are Rejected

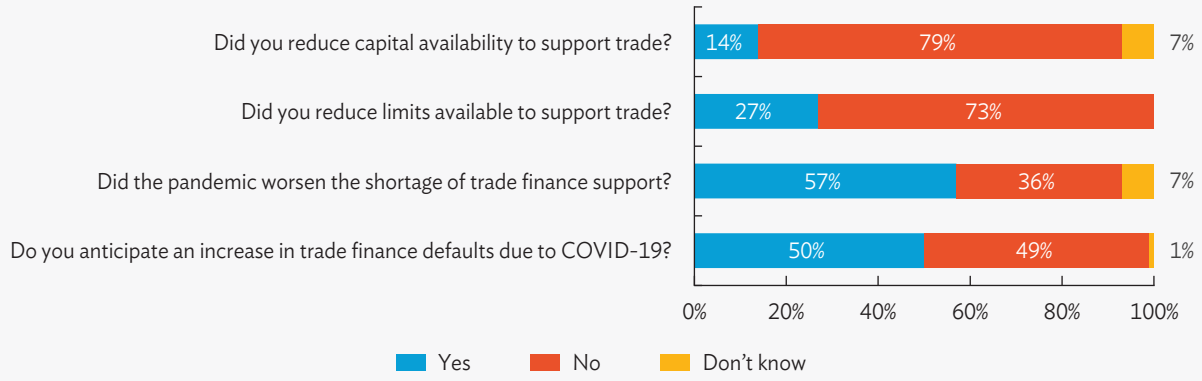


AML = anti-money laundering, KYC = know-your-customer.

Source: Authors' calculations using data from the 2021 ADB Trade Finance Gaps, Growth, and Jobs Survey—Bank and Company Surveys.

The time and effort to process applications and provide advisory support to SME clients reinforce the perception that SME loan transactions are high-cost transactions. Compared to bigger firms for which due diligence and disclosure are common, SMEs tend to report only the minimum information required by banks. This opacity aggravates systemic information gaps between banks and SMEs, reinforcing bank perceptions that SMEs are high cost-to-serve clients while inadvertently eroding opportunities for SMEs to display capacity and willingness to pay. In times of crises such as the COVID-19 pandemic, when formal lending sources could be overly cautious to lend, available financing could come at a cost so high it would discourage businesses to borrow, especially SMEs. In the 2021 ADB Trade Finance Survey, 73% of banks neither reduced capital availability nor reduced limits to support trade, and 58% of banks did not reduce funds for SMEs (Figure 16). Yet, the pandemic heightened macroeconomic uncertainties, which intensified banks' perceptions of increased default risk, resulting in higher rejection rates—40% of SMEs applications were rejected.

Figure 16: COVID-19 Pandemic Trade Finance Support, Shortage, and Anticipated Defaults
(% of responses)



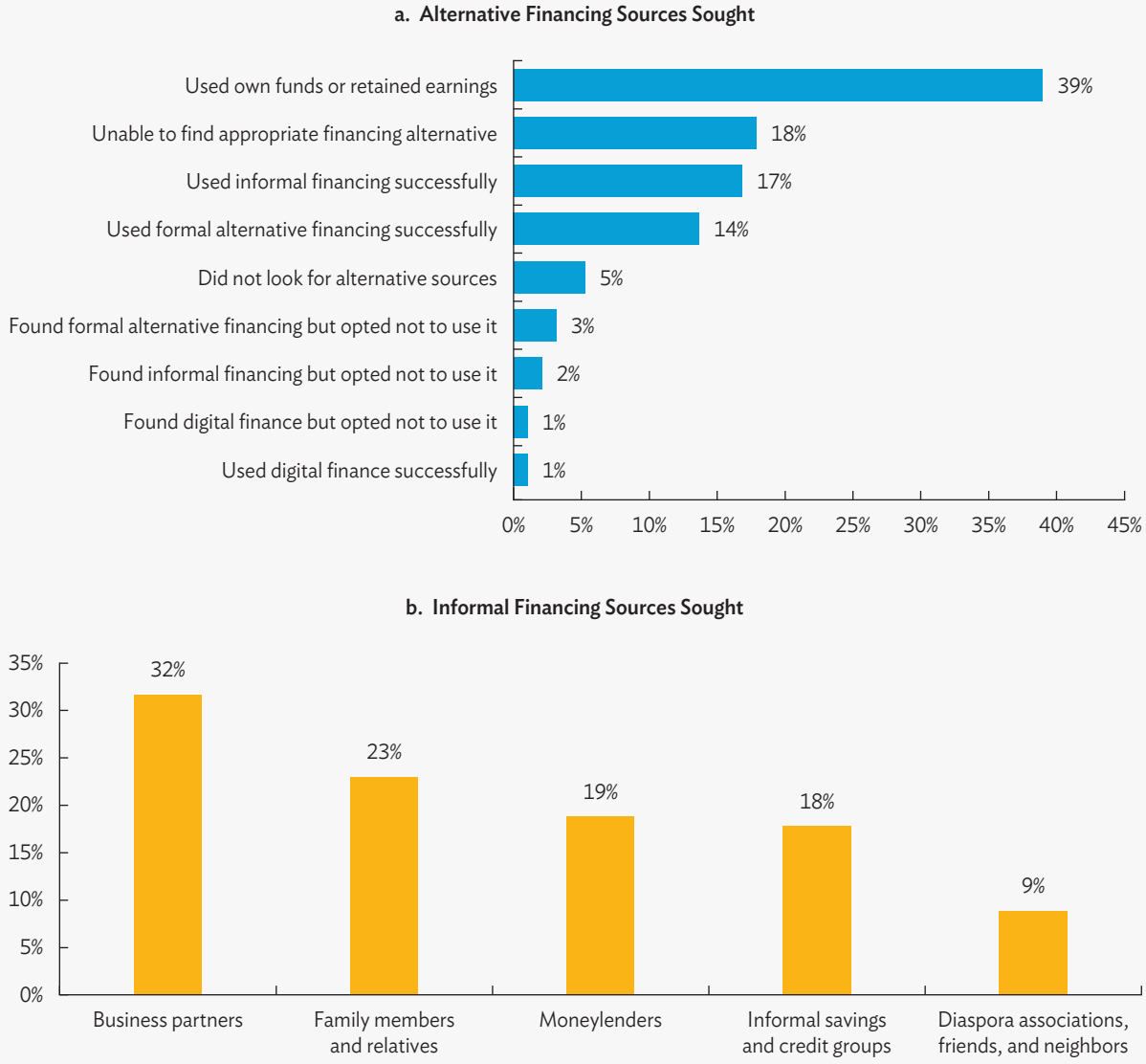
COVID-19 = coronavirus disease.
Source: Kim et al. 2021.

Many SMEs lack knowledge about the common required practice of information disclosure, consequently impacting their behavior when transacting with lending institutions. Rather than viewing disclosure as a form of market discipline toward competitiveness, many small firms consider it tantamount to surrendering business independence. SMEs used to making quick business decisions might have limited appreciation for the premium banks put on KYC processes and the time banks require to assess and evaluate trade finance applications—less than 1% of firms cited KYC as a potential reason behind trade finance rejections (Figure 15, panel b). Firms which find banks' application processes lengthy and bureaucratic could lose interest in accessing formal finance.

Alternative Financing Including Fintech Platforms

Firms with rejected trade finance applications face limited success in accessing alternative finance. Limited knowledge of both traditional and nontraditional sources of finance may be behind the high proportion of companies which reported not seeking alternative sources of finance—in the 2016 survey, 70% of respondents were unfamiliar with any type of trade finance; in 2017, 53% of rejected firms did not bother to look for alternative sources (DiCaprio et al. 2016; DiCaprio, Beck, and Kim 2017). Smaller firms with rejected proposals tend to rely on internal sources and informal financial providers, reinforcing the underserved status of this market segment. In the 2019 survey, among SMEs initially rejected and that sought alternative sources, 47% were unable to find anything suitable. In the 2021 survey, among SMEs which sought alternative financing, 39% resorted to using their own funds while a slightly higher percentage (17%) resorted to informal financing rather than formal financing alternatives (14%) (Figure 17, panel a). Around 18% of rejected small firms were unable to find anything appropriate. Among firms that used formal financing alternatives, the uptake of digital finance remains negligible (1.0%). Firms which sought informal finance resorted mostly to business partners or family members and relatives before seeking out other informal sources (Figure 17, panel b).

Figure 17: Behavior of Small and Medium-Sized Enterprises Toward Alternative Financing, 2021



Sources: Authors using data from 2021 ADB Trade Finance Survey.

Increased regulation of banks and emerging technology solutions in financial services will likely push small businesses to seek other ways of raising capital and accessing credit. During the recovery from COVID-19, banks are especially likely to focus on restructuring bad debts and portfolios rather than extending new credit. This may further constrain credit in affected sectors such as tourism and retail. Fintech companies and informal credit providers may be able to offer more flexible products for borrowers and better returns for investors than bank deposit rates. Financial regulators should consider appropriate regulatory frameworks for fintech and informal credit markets by putting consumer protection at the top of policy priority but avoid stifling innovation.

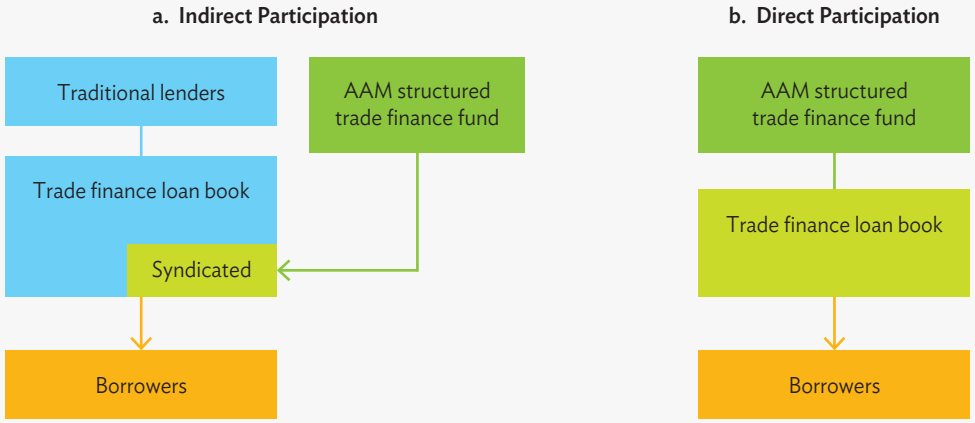
Trade finance has also been increasingly attracting private credit participation due to low default rates and the short tenor of trade finance instruments. A survey by Simmons and Simmons (2021) based on a global sample of 151 banks, corporates, and alternative asset managers revealed that about half of the respondents have direct exposure to trade finance, while 47% indicated having both direct and indirect exposure (Box 5). Alternative asset managers with exposure to trade finance assets also noted increasing likelihood of obtaining higher returns for their investors. These include pension funds, insurance, and hedge funds that have invested in trade finance assets, while regulatory capital requirements have motivated banks to securitize portfolios of trade finance to add to capital for additional lending.

Box 5: Trade Finance Activity in Private Credit Markets

Private credit assets under management nearly tripled from $275 billion in 2009 to more than $800 billion in 2019 (Ellwood-Russell and Sung 2020).[a] This is due to bank retrenchment, borrower demand for tailored finance solutions, and investor appetite for differentiated returns since the global financial crisis. Although private credit growth is more prevalent in the United States and United Kingdom, private credit assets under management in Asia and the Pacific grew nearly fivefold from $12.4 billion to about $57 billion in 2019, but the region's share of the private credit market is around 7%.

Alternative asset managers participate indirectly or directly in trade finance markets. In indirect participation, the most common, the arranging bank sells participation in a trade finance loan to the alternative asset manager, which passively holds the exposure to maturity (Figure B5.1, panel a). The alternative asset manager still performs due diligence with a record of commodities, countries, exporters, and importers, effectively acting as "lender of record" with a direct relationship with the borrower rather than entering a "sub-participation" agreement (Cambridge Associates 2018). Alternative asset managers specializing in trade finance may also directly originate, underwrite, and manage their own trade finance loans (Figure B5.1, panel b). This requires them to evaluate borrowers and commodities, while having the requisite infrastructure to collect and review documents, track shipments, and secure payments. This will often have higher interest rates but more flexible financing terms and faster execution for borrowers.

Figure B5.1: Participation by Alternative Asset Managers



AAM = alternative asset manager.
Source: Chaturvedi (2018).

continued on next page

Box 5, continued.

The survey in Simmons and Simmons (2021) finds that banks partner with alternative asset managers in order to mitigate risk, lessen financial strain (both 67% of respondent banks), and gain from the ability of alternative asset managers to enter regions where banks found it difficult to enter (53%) (Figure B5.2). Alternative asset managers also benefit from banks' established relationships with trade finance borrowers, while also potentially offering borrowers lower interest rates by partnering with banks rather than acting on their own. Alternative asset managers in effect can benefit from the origination loan capabilities of banks. Moreover, 48% of corporates note that their inability to gain bank funding was the main reason for choosing to access private credit (Figure B5.3). Firms also benefit from alternative asset managers' faster decision-making and execution times and greater flexibility.

Figure B5.2: Reasons Banks Work with Alternative Asset Managers
(% of responses)

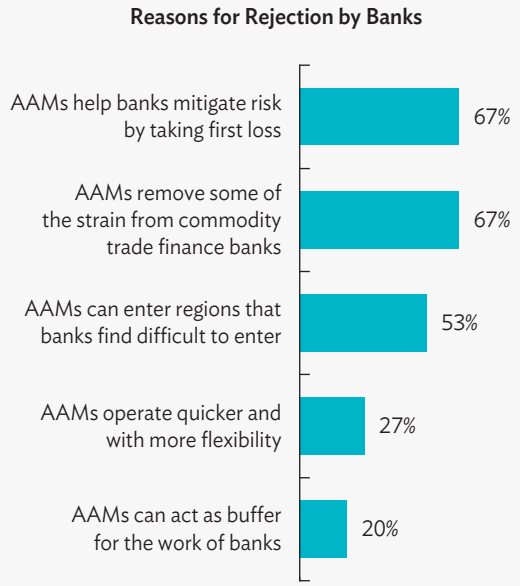
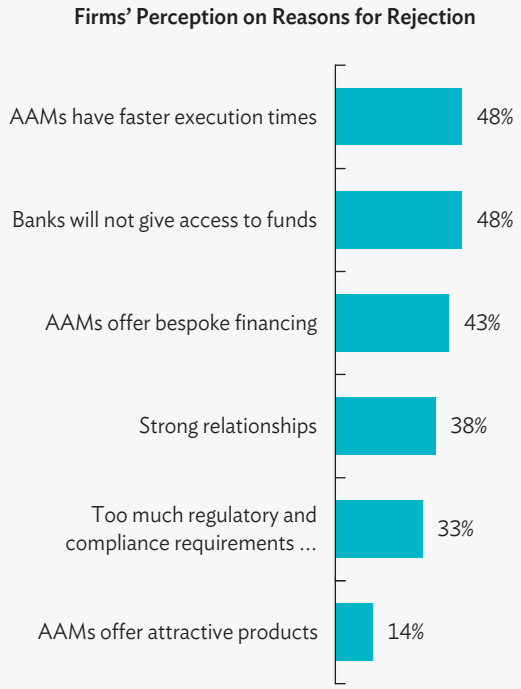


Figure B5.3: Reasons Corporates Access Private Credit
(% of responses)



AAM = alternative asset manager.

Source: Simmons and Simmons (2021).

[a] Private credit is an umbrella term for lending by nonbanks, referring usually to regulated asset management firms such as pension funds, insurance companies, hedge funds, and others that pool investor money into funds used to finance businesses (Simmons and Simmons 2021).

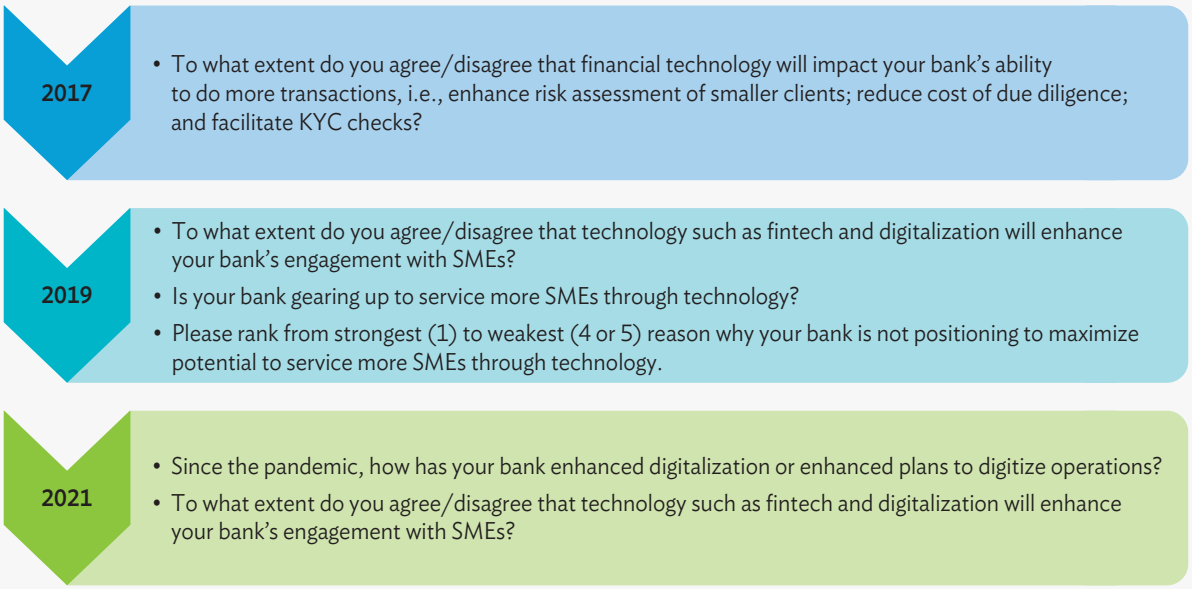
Sources: ADB staff report using Chaturvedi (2018) and Simmons and Simmons (2021).

Digitalization

Digitalization has great potential to help overcome trade finance issues. Beginning in 2017, the ADB Trade Finance Surveys have included questions on technology to determine banks' perception of its impact on banking operations, banks' attitudes to enhancing digitalization and how they think technology would help them better engage their SME clients (Figure 18). Survey results in 2017 indicated that 80% of banks expect technology to reduce the costs associated with regulatory requirements and due diligence, especially for small banks (Figure 19, panel a). The majority of banks reported gearing up to service more SMEs through technology in the 2019 survey—by more efficiently processing KYC (79%), deepening their ability to data-map this market segment (73%), developing new products (70%), and possibly helping to reduce their rejection rates (46%) (Figure 19, panel b). A similar pattern in the shares of responses to all areas of technology-driven improvement was captured in the 2021 survey.

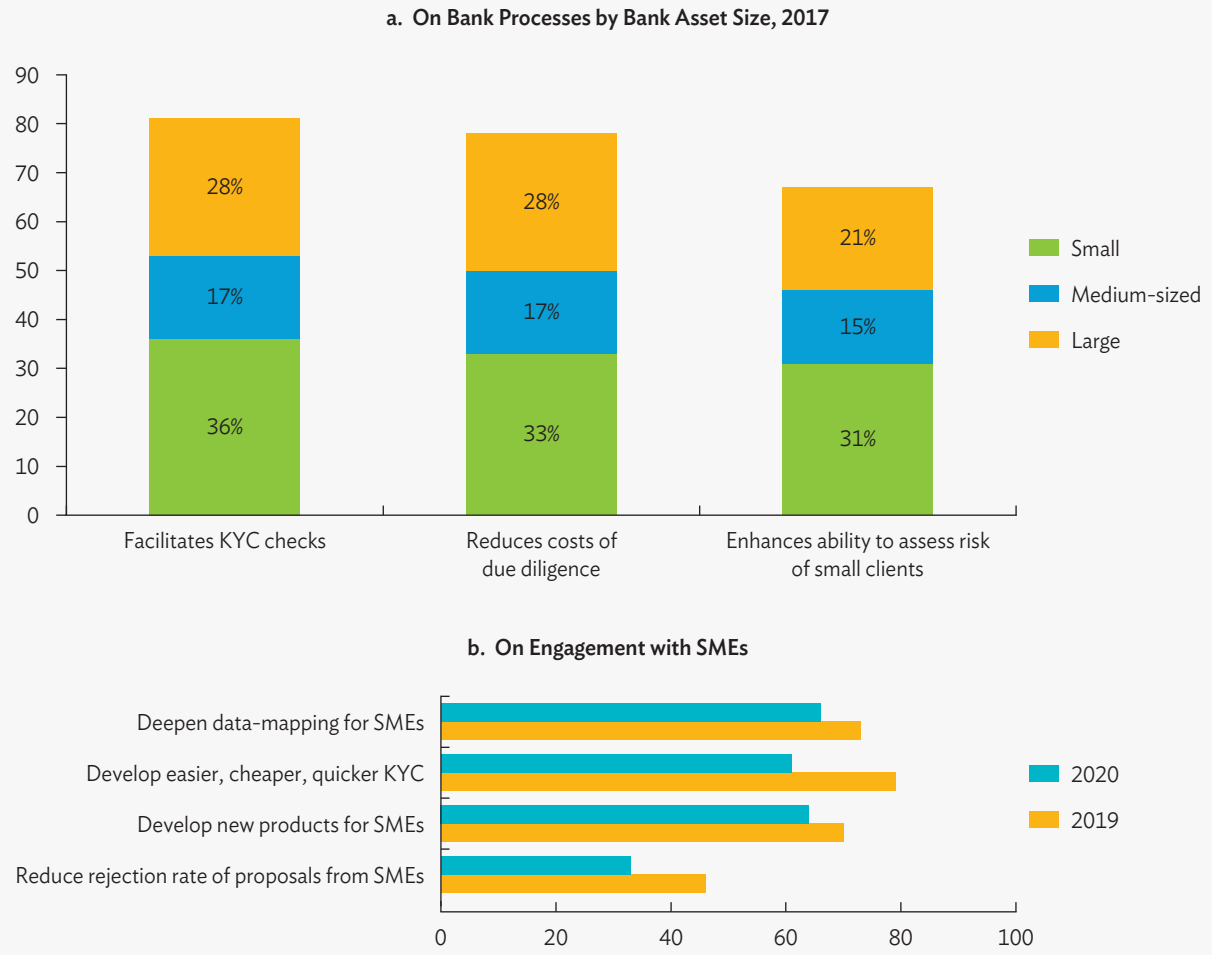
Considerable knowledge gap persists about fintech and trade finance. Many firms lack knowledge about trade finance and during the early survey cycles when around 78% of companies reported that they would benefit from greater financial education (DiCaprio, Beck, and Daquis 2014). In the case of nontraditional products such as factoring, forfaiting, and supply chain finance, less than 40% of companies report familiarity with these instruments. Even within traditional bank products, companies reported limited familiarity with relatively established products such as credit insurance. Although invoice financing is relatively well-known and used, at least half of responding firms are unaware of alternate tech-related ways of obtaining trade finance.

Figure 18: Survey Questions on Financial Technology and Trade Finance



KYC = know-your-customer, SMEs = small and medium-sized enterprises.
Source: ADB Trade Finance Gaps, Growth, and Jobs Survey—Banks.

Figure 19: Expected Impacts of Digitalization on Banking Business (%)



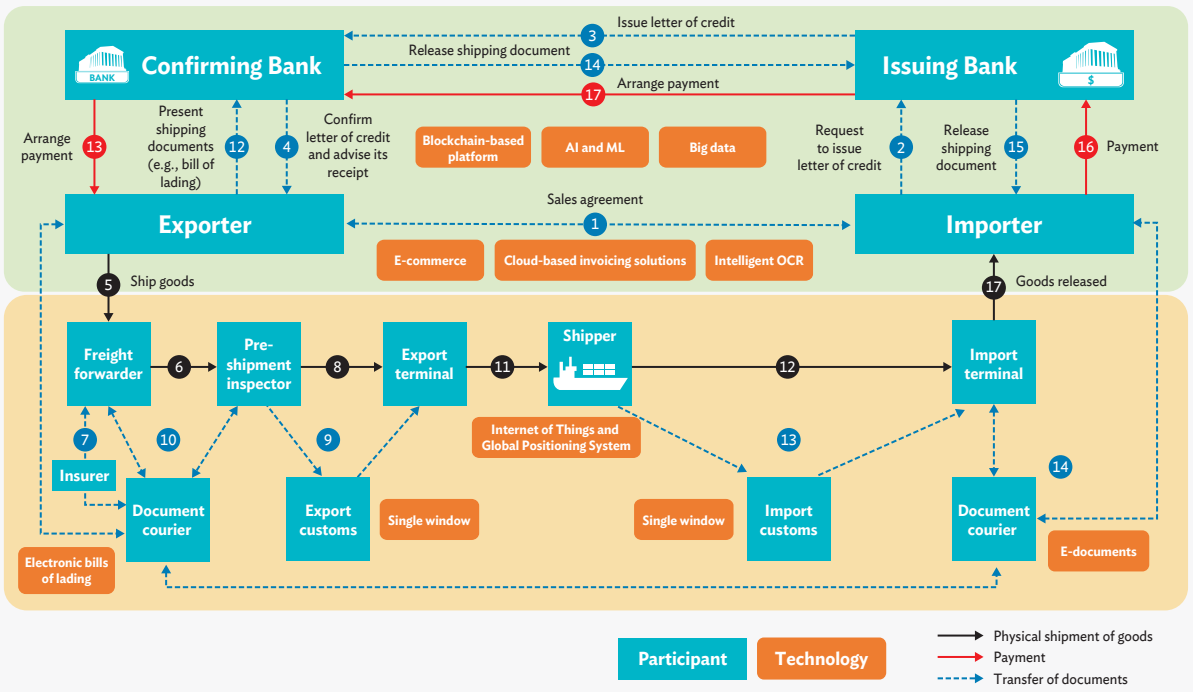
KYC = know-your-customer, SMEs = small and medium-sized enterprises.

Notes: Values refer to agree and strongly agree responses as percentage of total responses. Large banks are those whose assets in 2016 are higher than $50 billion, medium-sized between $10 billion and $50 billion, and small less than $10 billion.

Sources: DiCaprio et al. (2017); Kim et al. (2019); and Kim et al. (2021).

Adopting technology-driven processes can make trade finance more accessible, inclusive, and useful in narrowing the trade finance gap. A legacy of traditional trade finance is that most processes are still largely paper-based, meaning all information is locked on paper. Normally, banks only capture around 40–50 key pieces of information from paper documents for screening, leaving a lot of unchecked information (De Jong 2018). Rapid developments in technology hold immense potential to transform cumbersome and time-consuming trade finance processes (Figure 20). Technology solutions enabling automated document/data-checking and validation plus critical compliance and trade-based money laundering checks can facilitate KYC procedures in less time. Electronic trade documents provide increased end-to-end visibility and reduce the risk of fraud. Banks are exploring the use of distributed-ledger technology to replace paper invoices and create a common platform to identify transactions already financed by other banks.

Figure 20: Technology-Enabled Solutions in Trade Finance

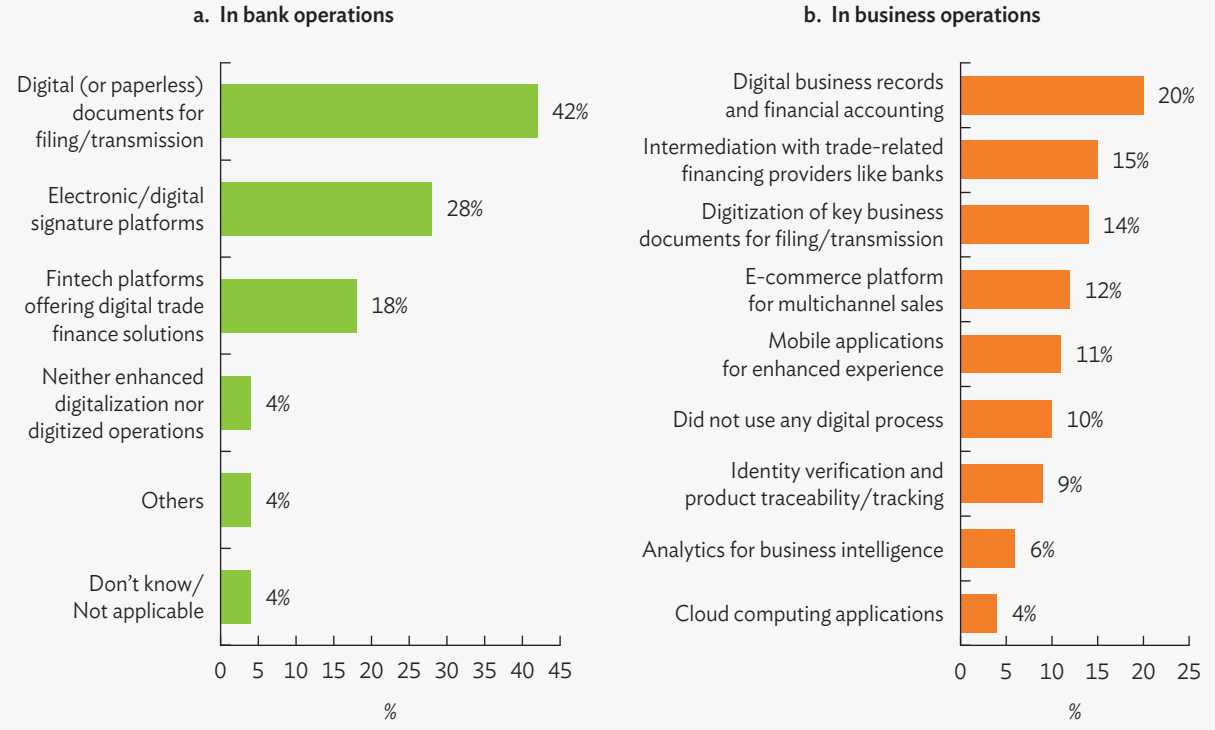


AI = artificial intelligence, ML = machine learning, OCR = optical character recognition.
Source: ADB 2019b.

The greater likelihood of women-owned firms using fintech platforms could boost opportunities for leveraging technology-enabled financial solutions. Fintech platforms have been reconfiguring credit assessment solutions that depart from the traditional collateral-based requirements of banks. By including characteristics of women-owned firms and tailoring collateral requirements to include movable assets, which many women firm-owners possess, fintech platforms are helping clear the path to reduced financial access barriers among women-owned businesses (DiCaprio, Yao, and Simms 2017). Normalizing gender-blind credit assessment practices, which are increasingly common in fintech, can help increase the probability that women-owned firms could secure trade financing and eventually narrow the trade finance gap.

Despite this potential, the reach and uptake of technology-enabled solutions have been slow, and usage remains limited to certain areas. Currently, many responding banks use digital solutions for digital filing and transmission and electronic signature platform purposes, while firms use them primarily for digital record keeping and accounting (Figure 21). Ideally, digital finance solutions can help narrow trade finance gaps. While recognition of fintech is slowly improving, the uptake of digital finance is still low across regions and firm sizes. Firms that resort to digital finance experience higher average rejection rates for their proposed transactions with traditional financial institutions. However, among firms familiar with digital finance, the uptake of peer-to-peer in particular is strong. Peer-to-peer lending had the highest recognition rate and debt-based securities had the lowest.

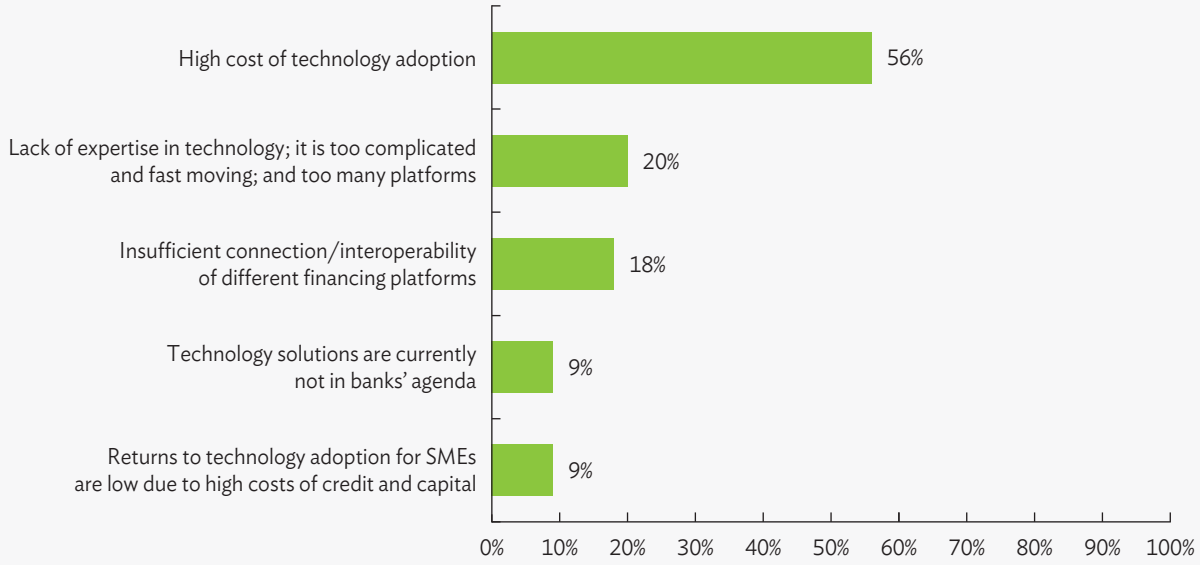
Figure 21: Areas of Operations Where Digital Solutions Are Utilized



Source: Kim et al. 2021.

Despite its widely perceived high potential, digitalization remains low among banks in emerging and developing economies. A persistent gap exists between digitalization's potential to impact the trade finance gap and the degree to which banks and firms are knowledgeable and use digital solutions to trade finance. Addressing the knowledge gap especially among firms is important—in the 2016 survey, 70% of firms reported being unfamiliar with digital finance; in the 2017 survey, among the few firms familiar with fintech solutions to finance, only 20% reported having used such platforms (DiCaprio et al. 2016; DiCaprio, Kim, and Beck 2017). Although banks are very positive about the potential of digitalization to reduce costs, there is still no evidence that technology is creating more trade finance capacity or reducing the trade finance gap (DiCaprio, Kim, and Beck 2017; Kim et al. 2019). In the 2021 survey, banks which have yet to hitch on the digitalization bandwagon remain concerned with the high cost of technology, lack of globally established rules and standards for digital finance, lack of technological expertise, and lack of interoperability (Figure 22). Digitizing operations is expensive for any firm or bank, especially given the ever-changing technical landscape. Unresolved interoperability issues can create problems for clients, supply chains, and financial institutions. Without established international technical standards, protocols on digitalization, and sufficient legislation to support digitalized commercial activities, technology will not be able to unleash its potential in the international finance sphere and have little bearing in closing the trade finance gap.

Figure 22: Banks' Major Areas of Concern Regarding Technology, 2021



SMEs = small and medium-sized enterprises.

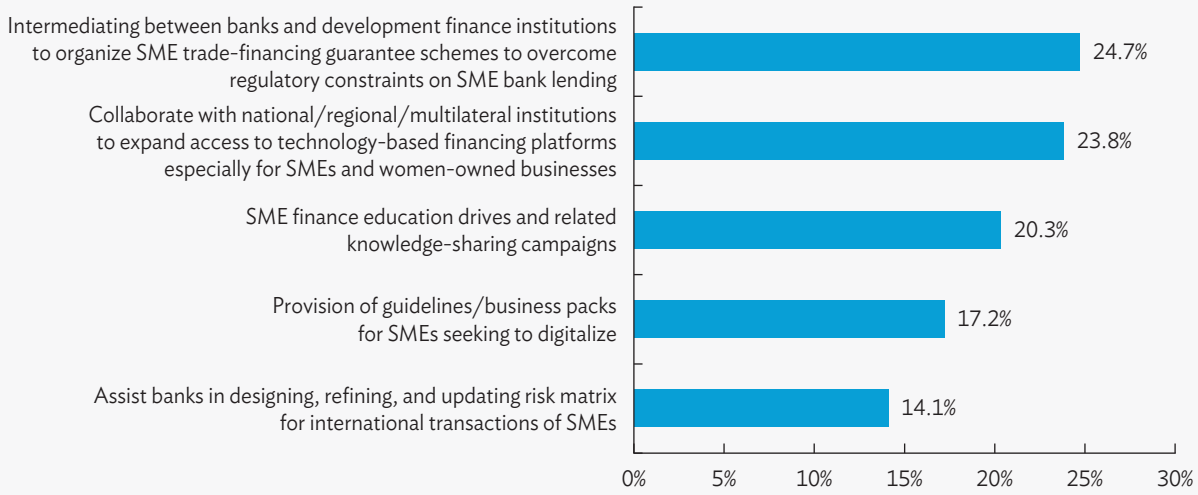
Source: Kim et al. 2021.

Role of Public Sector Support

Responding banks and firms in the survey recognize the need for greater public sector support for inclusive access to trade finance. Perceptions of the positive role of the multilateral development banks and export credit agencies have improved over the course of the trade finance surveys. In 2016, only 27% of bank respondents believed that the trade finance programs of multilateral development banks and export credit agencies would narrow the trade finance gap. This perception improved greatly to 84% of bank respondents in the 2019 survey. Firms' expectations of the role of multilateral development banks and international organizations are more specific (Figure 23). For improving trade finance access, 25% of respondents in the 2021 survey were convinced that the intermediating capacity of banks and development financial institutions could help create SME trade-financing guarantee schemes. This can help smaller firms overcome the regulatory hurdles and constraints they encounter when seeking financing. Meanwhile, 24% of firms thought that institutions (national/regional/multilateral) could be instrumental in expanding digital financing platforms to SMEs and women-owned firms.

Multilateral development banks and international organizations have played a role in facilitating adequate provision of trade finance for underserved markets and players. Their strong financial standing and credit ratings allow additional funding and guarantees to de-risk transactions for commercial banks and help to promote trade transactions with a greater focus on SMEs, where private lenders acting alone would not enter. International support for trade finance has also strengthened during economic downturns and crises such as the latest COVID-19 pandemic (Box 6).

Figure 23: Firm's Perceptions on How Regional and International Organizations Can Help Make Finance Affordable for Small and Medium-Sized Enterprises



SMEs = small and medium-sized enterprises.

Source: ADB staff calculations using 2021 ADB Trade Finance Gaps, Growth, and Jobs Survey—Company.

Box 6: International Support for Trade Finance During the COVID-19 Pandemic

In July 2020, the heads of the World Trade Organization, International Finance Corporation (IFC), European Bank for Reconstruction and Development (EBRD), Asian Development Bank (ADB), African Development Bank Group, International Islamic Trade Finance Corporation, and the Inter-American Development Corporation (IDB Invest) released a joint statement promising to address shortages in trade finance, given the financial market stresses arising from the coronavirus disease (COVID-19) crisis (ADB 2020). They also urged other institutions to join their ongoing efforts to provide vital financing support for cross-border trade. The multilateral development banks have been hard at work since the onset of the crisis:

1. IFC launched a $6 billion trade and working capital finance initiative, comprising $2 billion from each of the Global Trade Liquidity Program/Critical Commodities Finance Program and the Working Capital Solutions program and $2 billion from the existing $5 billion Global Trade Finance Program.
2. ADB ramped up its $2.45 billion trade and supply chain programs as part of the $20 billion comprehensive support package to assist its developing member countries in their fight against COVID-19.
3. The EBRD launched two Solidarity Packages for a massive increase in trade finance support. In the first 5 months of 2020 alone, the EBRD has provided amplified financing for trade with a record €1.5 billion.
4. The African Development Bank has earmarked up to $1 billion in trade finance liquidity and risk mitigation support to local banks in all 54 eligible African member countries.
5. The International Islamic Trade Finance Corporation launched a $850 million intervention, as part of the Islamic Development Bank Group's $2.3 billion COVID-19 economic recovery program.
6. IDB Invest will increase its guarantee and lending program by $1.5 billion for a total of $3 billion under the Trade Finance Facilitation Program.

Source: ADB staff report using ADB (2020c).

The WTO, multilateral development banks, and the International Chamber of Commerce have also supported efforts to close knowledge gaps in trade finance. They train more than 1,500 people at local financial institutions across 60 countries, each year (Auboin and Behar 2020). Firms also count on regional and international organizations to help SMEs with knowledge-sharing campaigns, digitalization guidelines, and refining the risk matrix for internationalizing SMEs. National and regional institutions can provide an enabling environment for private trade finance provision to thrive. This calls for lowering the cost of technology adoption by providing infrastructure and capacity building and developing common information systems and platforms for use by borrowers and lenders.

Mitigating Knowledge Gap in Trade Finance

While trade finance metrics have advanced, scope for improvement remains considerable. The data area still has room for improvement, and the absence of a globally consistent and comprehensive set of trade statistics lingers. Innovations in the trade finance market also raise the challenge of measuring new financial instruments routed through digital channels. The COVID-19 pandemic stressed the importance of timely research for evidence-based policy making to facilitate informed market assessment and adequate interventions. Although the availability of survey-based data provides practical information on trends, these only gives a partial glimpse of the trade finance market. Thus, a joint effort at the national and international levels to create timely, official statistics is imperative. This can offer essential information when the international market needs immediate support and facilitate early warning analysis of potential liquidity crises.

Further research can help improve trade finance policy design and operation for more inclusiveness. Since its inception, the ADB trade finance survey has elicited several studies to better understand the trade finance markets and the implications for inclusive and sustainable growth. Key findings of these studies suggest that the rejection rate among MSMEs is at least 12 percentage points higher than that for larger firms (Lee et al. 2022) and the rejection is dependent on risk and profitability of the transaction, shifting of financial institutions to lower risk markets, and the implementation of screening mechanisms (DiCaprio and Yao 2017). DiCaprio, Yao, and Simms (2017) also find gender discrimination in access to finance, with women traders facing greater barriers in seeking financing for their export activities. The role of technology was highlighted in a recent ADB study (ADB 2019b) to mitigate the trade finance gap by managing process inefficiency, information asymmetry, and regulatory compliance. Lee, Yang, and Kim (2019) provided supportive evidence that fintech and reduced information friction can help lower the probability of a good firm being misclassified as bad.

IV

Conclusions and Way Forward

ADB's Trade Finance Surveys have shown that the trade finance gap has remained persistently wide in the last 10 years, with increased vulnerability during crises. MSMEs also tend to have the most difficulty during crises given their limited financial capacity. Despite increased assistance from national export credit agencies and multilateral development banks, MSMEs continue to face high rejection rates in trade finance applications, a problem given the important role these small firms play in employment and inclusive growth. For banks, due diligence requirements in know-your-customer and anti-money laundering as well as Basel capital regulations mean higher costs in extending trade finance loans, especially for small borrowers. Asia and the Pacific has the highest share of trade finance proposals, yet the region's relatively heavy reliance on bank-intermediated finance has meant it also has the highest rejections globally, suggesting significant lost opportunities for trade and development.

Digitalization is taking the center stage in the current and coming era of international trade for its increasing role in boosting trade and spurring sustainable growth. This can be achieved through more public–private collaboration and building an enabling environment conducive to technology adoption. Public intervention can play a bigger role in the inclusive and green trade on which sustainable growth will be based. Stakeholders in trade finance, including regulators and legislators, should note that this nonbank financing including fintech, informal channels, and private capital may offer an opportunity to mitigate the trade finance gaps persistent in bank-intermediated markets. Moreover, the need for sustainability practices is growing in trade practices, including trade finance, as environmental, social, and governance frameworks and policies are developed to adhere to sustainability goals.

Without action on supply chains, starting with digitalizing antiquated paper-based systems, the road toward a greener and more socially responsible global economy is much more complicated. The COVID-19 pandemic highlighted the vulnerabilities in global supply chains as shortages blamed on faults in the global manufacturing and delivery system affected the stocks on store shelves, at gas pumps, or in hospitals and pharmacies. Fixing those faults became a priority, along with the imperative to make supply chains more resilient and transparent so that they could be used to address key global issues such as improving environmental, social, and labor standards. As such, the need for collaborative public intervention in trade and supply chain finance is likely to continue to grow.

Supply chains need to be the focus of any serious climate change alleviation and other globally important issues need to be addressed through supply chains as well. More than 80% of greenhouse-gas emissions and more than 90% of the impact of the operations of consumer goods companies on air, land, water, biodiversity, and geological resources came from their supply chains (Bove and Swartz 2016).

Well-managed and more transparent supply chains can contribute to climate change mitigation. Furthermore, they will also help guarantee that unfair labor practices are weeded out of the global trading system, that gender equity exists in the workplace, and that poverty reduction is a side effect of growth (Box 7).

Box 7: Environmental, Social, and Governance Considerations in Trade Finance

Non-financial considerations such as environmental, social, and governance (ESG) are increasingly being factored into decisions across sectors. The momentum toward sustainability in investments has fostered ESG considerations in the financial sector, both in investment practice and public policy. Many countries have introduced regulations and codes requiring investors to take account of ESG concerns in their decision-making (United Nations Principles for Responsible Investment 2019). The Simmons and Simmons (2021) survey, 4.4 out of 5 corporates cited ESG as very important for their outlook. In light of growing demand, the finance industry is creating more products and services tailored to Sustainable Development Goal ratings, indices, and funds (Boffo and Patalano 2020). Central banks have also expressed support for ways to transition financial systems toward greener, low-carbon outcomes. While ESG working principles are still being worked out—such as ESG definition, data availability, and benchmarking—corporate responsibility and incorporating ESG by corporates and consumers in transactions is growing, while alternative asset managers are also adopting more responsible investment practices such as impact management.

ESG in trade finance, currently in an early stage being led by large financial institutions, will become an important business consideration as sustainable and greener trade is increasingly highlighted. Major global banks such as Citigroup and HSBC have been engaging in sustainable trade financing (Citigroup 2022, Wragg 2022). J.P. Morgan works with the European Bank for Reconstruction and Development's Green Trade Facilitation Programme to better facilitate trade finance transactions that support trade of green technologies (JP Morgan 2020). International trade associations and other stakeholders also support ESG in trade finance. For instance, the International Chamber of Commerce (ICC) has published due diligence guidelines for its member firms on sustainable trade (ICC 2019). The global initiative led by the ICC toward an "interoperability layer" on common standards and platforms for trade finance stakeholders also notes support for and monitoring of sustainability goals (McKinsey & Company 2021). Trade finance products are adding new dimensions, while agendas of financial institutions, export credit agencies, and trade organizations are evolving to incorporate sustainability goals.

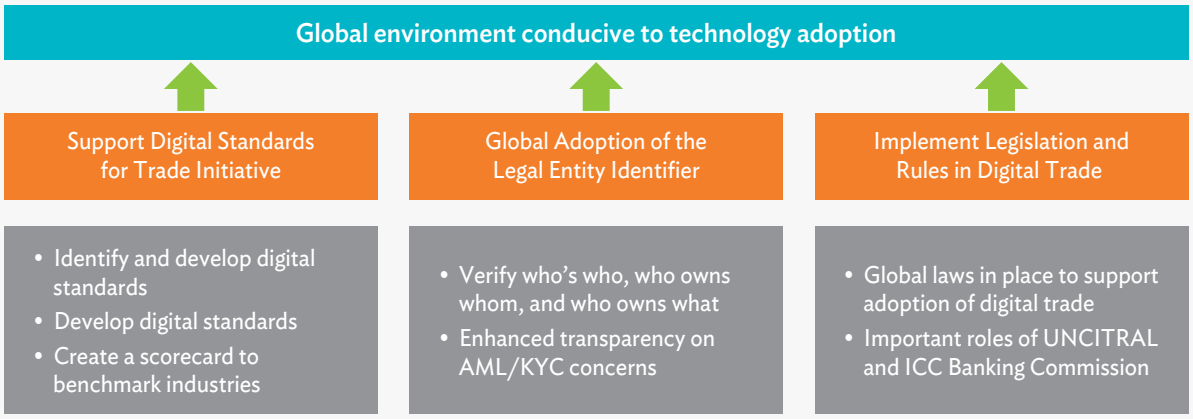
Sources: ADB staff report using Boffo and Patalano 2020; Citigroup 2022; ICC 2019; JP Morgan 2020; McKinsey & Company 2021; Simmons and Simmons 2021; United Nations Principles for Responsible Investment 2019; and Wragg 2022.

Understanding how supply chains work is vital in mapping the issues connected to them. According to Villena and Gioia (2020), many supply chains stretch to small suppliers who "often do not have sustainability expertise or resources, and they may be unaware of accepted social and environmental practices and regulations. They are also frequently located in countries where such regulations are nonexistent, lax, or not enforced at all." The study noted that the big multinational companies ultimately at the end of those chains may have strict practices in place to adhere to environmental and social standards. But "they frequently don't even know who their lower-tier suppliers are, let alone where they're located or what capabilities they have (or don't have)."

Digitalization is the first step to improve transparency in supply chains. By shifting trade and supply chains into the digital world, away from the ponderous process of paper documentation that exists now, the trade ecosystem can be better measured, monitored, and regulated. The lack of standards has created fragmentation and inefficiencies in trade as information is difficult and cumbersome to exchange digitally,

and the system remains heavily reliant on relaying paper between parties involved in moving goods and services around the world. Industry and regulators need to agree on common systems and practices and governments need to upgrade or alter laws that now insist that trade deals be tracked by paper trails. Ad tools such as distributed ledger technology for transactions and QR codes rich in information about traded products need to be normalized (Figure 24).

Figure 24: Three Initiatives to Build an Environment Conducive to Technology Adoption



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

Source: ADB (2019a).

Along with the ICC and the Government of Singapore, the Trade and Supply Chain Finance Program established the Digital Standards Initiative to create digital standards and protocols. The initiative will develop standards and protocols to drive interoperability between fintech platforms and between component parts of the trade ecosystem: exporters, shippers, ports, customs, warehouses, banks/insurance, and importers. Interoperability/connections between supply chain stakeholders will also lead to greater transparency, enabling "tracking and tracing" of component inputs throughout the supply chain. This will underpin efforts to ensure supply chains are green, resilient, respect labor standards, and are socially responsible. The Digital Standards Initiative is part of Trade and Supply Chain Finance Program's overall digital strategy, which included the first digital trade finance transaction by a multilateral development bank, which was successfully undertaken in 2020, and multipronged efforts to educate and assist governments, regulators, and other financial authorities on legislative upgrades that would allow for digital trade (ADB 2021b).

Another key component of trade digitalization is the global adoption of the Legal Entity Identifier system. Managed by the Global Legal Entity Identifier Foundation with the support of the G20, the Financial Stability Board, and many regulators around the world, the Legal Entity Identifier is a harmonized identity system that provides a unique identifier via a 20-character alphanumeric code for each business registered and helps support accurate information on company ownership. This, in turn, encourages market integrity and risk management, and addresses KYC/AML concerns for financial providers and regulators.

As of May 2022, more than 2 million businesses globally had acquired a legal entity identifier (Global Legal Entity Identifier Foundation website). Global adoption of a Legal Entity Identifier can be supported by more affordable costs for adoption, marketing and information campaigns, and most of all, by legislations requiring business entities to use Legal Entity Identifiers (Beck, Hyde, and Laysa-See 2019).

Legislation reform is also needed to enable UN Model Laws on the electronic transfer of records. The United Nations Commission on International Trade Law (UNCITRAL) created various Model Laws on the electronic transfer of records, including the Model Law on Electronic Transferable Records, Model Law on Electronic Commerce Laws, and Model Laws on Electronic Signatures. UNCITRAL developed these Model Laws as legislative guides to enable the legal acceptance of digital transfer of various documentation and enhance speed, efficiency, and transparency in digital trade transactions.[8]

Long-term investment in infrastructure is also needed to sustainably support short-term trade finance. As the dynamics of trade finance evolves, it must continuously be supported by a complex network of cross-border finance infrastructure, a dependence relationship that is distinct to this asset class and economic activity. COVID-19 provided strong impetus for the acceleration of digitalized trade and trade finance and will likely produce hybrid trade finance products, combining traditional mechanisms with more contemporary innovations (Starnes and Nana 2021). As this happens, trade finance players and stakeholders must secure the growth of corresponding infrastructure to allow future evolutions in trade finance to reduce the trade finance gap, amid persistent challenges. Moving forward, the reduction in the trade finance gap, especially for SMEs, could also help narrow the productivity gap between SMEs and larger companies, and potentially add $15 trillion in value added to global GDP (Castaneda-Navarete et al. 2021).

[8] As of May 2022, the following countries and jurisdictions have adopted legislation based on the Model Law on Electronic Transferable Records: Bahrain, Belize, Kiribati, Papua New Guinea, Paraguay, Singapore, United Arab Emirates-Abu Dhabi Global Market (UNCITRAL website). Similarly, the United Kingdom has published draft legislation on allowing legal recognition of electronic versions of trade documents (Psarska 2022).

Appendix

Questionnaires

BANK SURVEY, 2021

1. Please record your response in the box provided.

Bank Name (required)	
Country (required)	
Email Address (preferred but optional)	
Phone Number (optional)	

TRADE FINANCE GAPS

2. What was the **total (estimated) US$ value of all trade finance applications**—meaning all requests for trade finance support from clients and non-clients—**your bank received** in 2020 and 2019? (Please record your response in the space below. Enter whole numbers only by rounding up or down and do not use commas or decimal places. If you are unsure of the number, provide a best estimate.)

   In 2020: US$_____ In 2019: US$_____

   Note: This US$ value should include requests for trade finance your bank did and did not support. And please include all (documentary and open account) forms of trade finance supporting cross-border trade: all forms of letters of credit (confirming and issuing), guarantees, supply chain finance, discounting export receivables, pre- and post-export finance.

3. What was the **total (estimated) US$ value of trade finance applications <u>rejected</u>** in 2020 and 2019? In other words, of the total US$ value of trade finance transactions your bank received in 2020 (this information was provided in previous question #2) **how much did your bank <u>reject/not support</u>**? (Please enter whole numbers only and do not enter commas or decimal places. If you are unsure, provide a best estimate.)

   In 2020: US$_____ In 2019: US$_____

4. Provide a (estimated) **percentage breakdown** of the **total** US$ value of trade finance **applications** your bank **received** in 2020 and 2019 **by client type**.

(Please apply whatever definition for SME and other client types are used by your bank. Complete the table below by entering the percentage for each client type. Enter whole numbers only and do not enter commas or decimal places. If you are unsure of the percentages, provide best estimates.)

Client type	**% Received in 2020**	**% Received in 2019**
Multinational		
Large corporations and Mid-cap		
Small and medium-sized businesses (SMEs)		
	Total = 100%	Total = 100%

5. What (estimated) **percentage** of trade finance applications was **rejected** in 2020 and 2019 (based off total US$ rejected value provided under question #3 above) broken down **by client type**?

   (Please complete the table below by entering the percentage in the boxes provided. Please enter whole numbers only and do not enter commas or decimal places. If you are unsure, please provide best estimates.)

By Client type (based on responses from previous question if client type greater than zero)	**% Rejected in 2020**	**% Rejected in 2019**
Multinational		
Large Corporate and Mid-cap		
Small and medium-sized businesses (SMEs)		
	Total = 100%	Total = 100%

6. Please provide a (estimated) **percentage** break down **by region** of trade finance **applications** your bank **received** in 2020 and 2019.

Region	**% Received in 2020**	**% Received in 2019**
Central Asia		
East Asia		
South Asia		
Southeast Asia		
Oceania		
The Pacific		
Africa		
Europe		
Latin America and the Caribbean		
Middle East		
North America		
Other (please specify)	% Received	% Received

7. Please provide the (estimated) **percentage** break down **by region** of trade finance applications your bank **rejected** in 2020 and 2019.

By Region (based on responses from previous question if region greater than zero)	**% Rejected in 2020**	**% Rejected in 2019**
Central Asia		
East Asia		
South Asia		
Southeast Asia		
Oceania		
The Pacific		
Africa		
Europe		
Latin America and the Caribbean		
Middle East		
North America		
Pacific		
Middle East and North Africa		
Sub-Saharan Africa		
Other (please specify)	Total = 100%	Total = 100%

8. Of the total US$ value of trade finance applications received in 2020 and 2019, what **percentage** was **rejected** for each of the following reasons?

Rejected Applications	**% Rejected in 2020**	**% Rejected in 2019**
COVID-19-related concerns affecting companies, banks, or countries.		
Application was completely unsuitable for support.		
Application was poorly presented and had insufficient information.		
Application raised serious KYC concerns.		
Application lacked additional collateral.		
Application was not profitable enough to process.		
Application was not profitable to process due to regulatory capital constraints.		
Other reasons (please specify in the space below)		
	Total = 100%	Total = 100%

9. To what extent do you **agree/disagree** that the following are **barriers** to financial institutions servicing the trade finance needs of the global market? Please select only one box in each row.

	Strongly agree				Strongly Disagree	Don't know/ Not sure
	5	4	3	2	1	
General economic uncertainty due to the COVID-19 pandemic						
Specific concerns about companies' ability to perform during COVID-19						
COVID-19-related concerns about bank risk						
High transaction costs or low fee income						
Low company/obligor credit rating						
Issuing bank's low credit ratings						
Low credit ratings of company/obligor's country						
AML/KYC requirements						
Basel capital regulatory requirements						
Bank staff's lack of familiarity with products						
Clients' lack of familiarity with products						
Lack of dollar liquidity						
Other barriers: please specify						

10. Rank (from 1 to 9) the most frequently used Supply Chain Finance techniques:

- ☐ Receivables purchase: Receivables discounting
- ☐ Receivables purchase: Forfaiting
- ☐ Receivables purchase: Factoring
- ☐ Receivables purchase: Payables finance
- ☐ Loan or Advance-based: Loan or advance against receivables
- ☐ Loan or Advance-based: Distributor finance
- ☐ Loan of Advance-based: Loan or advance against inventory
- ☐ Loan of Advance-based: Pre-shipment Finance
- ☐ Bank Payment Obligation
- ☐ None

COVID-19 AND GOVERNMENT SUPPORT

11. Does your bank anticipate an increase in trade finance defaults due to COVID-19?

- ☐ Yes
- ☐ No
- ☐ Don't know

12. Has your bank reduced limits available to support trade as a result of the pandemic?

- ☐ Yes
- ☐ No
- ☐ Don't know

13. Has your bank reduced capital availability to support trade as a result of the pandemic?

- ☐ Yes
- ☐ No
- ☐ Don't know

14. Since the pandemic, has your bank introduced measures to support SME clients affected by COVID-19?

- ☐ Increased capital availability and increased limits to support SME transactions
- ☐ Developed new COVID-19-related products for SME exporters and importers
- ☐ Facilitated easier, cheaper, quicker KYC, AML, and compliance checks on SMEs
- ☐ Reduced the rejection rate of proposals coming from SMEs
- ☐ Debt moratorium on repayments
- ☐ We did not introduce measures to support SME clients affected by COVID-19
- ☐ Others (please specify): _____
- ☐ Don't know/Not applicable

15. Since the pandemic, has your bank enhanced digitalization or enhanced plans to digitize operations?

- ☐ Digital (or paperless) documents for filing/transmission
- ☐ Electronic/digital signature platforms
- ☐ Fintech platforms offering digital trade finance solutions
- ☐ We neither enhanced digitalization nor digitized operations
- ☐ Others (please specify)
- ☐ Don't know/Not applicable

16. To what extent do you **agree/disagree** that **the COVID-19 pandemic did**:

	Strongly agree			Strongly Disagree		Don't know/ Not sure
	5	4	3	2	1	
Encourage your bank to dedicate fewer resources/capital to support cross-border trade and more to domestic transactions						
Reduce the amount of trade finance credit made available by your bank to new clients						
Reduce the amount of trade finance credit made available by your bank to current clients						
Reduce trade finance funds available for SMEs and not take on new SME clients involved in cross-border trade						

PROSPECT OF TRADE FINANCE MARKET

17. Do you believe the pandemic worsened the shortage of trade finance support to companies and banks in the market?

(Please select one only).

- ☐ Yes
- ☐ No
- ☐ Don't know

18. Do you agree that providing more trade finance is required to boost trade and trade-led growth toward global economic recovery?

Strongly agree			Strongly Disagree		Don't know/Not sure
5	4	3	2	1	

DIGITALIZATION AND TRADE FINANCE

19. Do you agree that the COVID-19 pandemic has accelerated/will accelerate the availability of digital channels for trade finance?

- ☐ Yes
- ☐ No
- ☐ Don't know

20. To what extent do you **agree/disagree** that **technology such as fintech and digitalization will enhance** your bank's **engagement with SMEs** in the following ways?

Technology will enable:	Strongly agree 5	4	3	2	Strongly Disagree 1	Don't know/ Not sure
Evolution of new products for SME exporters and importers						
Facilitate easier, cheaper, quicker KYC, AML and compliance checks on SMEs						
Deepen the data mapping of SMEs for better client profiling and risk assessment						
Reduce the rejection rate of proposals coming from SMEs						
Others (please specify)						

21. Is your bank gearing up to service more SMEs through technology?

- ☐ Yes
- ☐ No
- ☐ Don't know

22. If "No", please rank from strongest (1) to weakest (7) reason why your bank is not positioning to maximize potential to service more SMEs through technology:

____ High cost of technology adoption
____ Lack of expertise in technology because it is too complicated and fast moving; and too many platforms
____ Lack of global, established standards, laws, and rules for digital finance
____ Insufficient connection/interoperability of different financing platforms
____ No clear evidence of digitalization benefits given current operations
____ Returns to technology adoption for SMEs are low due to high costs of credit and capital
____ Technology solutions are not in our agenda currently
Other reasons: please specify _____

23. Please provide any other feedback/insights below that you believe may assist with this survey:

COMPANY, 2021

1. **Where is your company headquarters located?** (please choose country)

2. **What is your company's primary sector of activity?**

[ ] Agriculture, forestry, and fisheries
[ ] Manufacturing
[ ] Transportation and warehousing
[ ] Power and energy (e.g., electricity and gas)
[ ] Construction
[ ] Wholesale and retail trade
[ ] Finance, insurance, and real estate
[ ] Information and communications technology
[ ] Accommodation and food services
[ ] Other services, please specify _____

3. **How long has your company been doing business?**

[ ] 0–5 years
[ ] 6–10 years
[ ] 11–15 years
[ ] 16–30 years
[ ] more than 30 years

4. **Approximately how many full-time employees did your company have?**

Number of full-time employees	In 2020	In 2019
1–9		
10–99		
100–199		
200–300		
More than 300		

5. **Is the founder/owner or any of the founders/owners of your company a woman/women?**

[ ] Yes
[ ] No
[ ] Not sure/Don't know

6. **Approximately what percentage of total full-time employees were women?**

Percentage of full-time women employees	In 2020	In 2019
1%–10%		
11%–30%		
31%–50%		
51%–80%		
More than 80%		

7. **Is your company foreign-owned? Choose only one.**

[ ] No
[ ] Yes (less than 25%)
[ ] Yes (25%–50%)
[ ] Yes (greater than 50%)

8. **What is (was) your company's operational status?**

	Current status	At the end of 2020	At the end of 2019
Fully operational			
Partly operational			
Temporarily closed			
Permanently closed			

9. **Are you a direct exporter?***

____ Yes
____ No, but our company supplies/sells goods/services to a direct exporter.
____ No

* A direct exporter is a firm that sells its products directly to the international market, either through intermediaries, such as foreign distributors or foreign sales representatives, or directly to the end-user.

10. **How much were the annual sales of your company in 2019 and 2020?**

In 2020: US$_____ In 2019: US$_____

11. Please identify your company's three main export markets in 2019 and 2020.

Region	In 2020	In 2019
Central Asia		
East Asia		
South Asia		
Southeast Asia		
Oceania		
The Pacific		
Africa		
Europe		
Latin America and the Caribbean		
Middle East		
North America		
Other (please specify)		

Note: Your inputs to the following questions are critical for this survey. To the best of your ability, please provide estimates if exact figures are not available.

Trade Finance

Trade finance refers to loans, guarantees, insurance, factoring, forfaiting, receivables finance, or supply chain finance, and other forms of finance and risk mitigation provided by financial institutions for import and export transactions. This includes all forms of pre-shipment, post-shipment, letters of credit, and any other trade-related financing provided by financial institutions.

12. How much trade financing did your company apply for to support your import/export activities?

In 2020: US$_____ In 2019: US$_____

13. Approximately what percentage of the trade finance amount your company applied for was rejected?

Percentage of rejection	In 2020	In 2019
1%–10%		
11%–20%		
21%–30%		
31%–40%		
41%–50%		
More than 50%		

14. Why were the applications for trade finance rejected? (Pick the top three reasons.)

Reason for rejection	In 2020	In 2019
Insufficient collateral or guarantee		
Inability to fulfill documentation requirements		
No previous transactions or lack of business relationship with financial institution		
Insufficient credit and/or performance history to make credible risk assessment		
My country has a "high risk" rating		
Bank's anti-money laundering/know-your-client requirements		
The bank's interest rate and fees were too high		
Others, please specify _____		

15. When your company's trade financing applications were rejected, what alternative funding sources did you seek and what was generally the outcome of your efforts?

Outcome of efforts to seek alternative financing sources	In 2020	In 2019
We used own funds or retained profits (go to Q17)		
We used formal alternative financing* successfully (go to Q17)		
We used informal financing** successfully (go to Q16)		
We used digital finance successfully (go to Q17)		
We found formal alternative financing* but opted not to use it (go to Q17)		
We found informal financing** but opted not to use it (go to Q17)		
We found digital finance*** but opted not to use it (go to Q17)		
We were unable to find appropriate alternative financing (go to Q17)		
We did not seek alternative funding sources (go to Q17)		

* Formal financing or formal alternative financing refers to formal financial services provided by other financial institutions chartered by the government and subject to banking regulations and supervision.

** Informal financing refers to financial services provided outside the legal/formal system and usually involves exchanging cash in the present for the promise of cash in the future, such as financing from informal savings and credit groups and moneylenders.

*** Digital finance refers to financial services enabled and driven by technology (i.e., artificial intelligence, social networks, machine learning, mobile applications, distributed ledger technology, cloud computing, and big data analytics) such as online banking, online payments, online transfers, and mobile lending.

16. If you had sought informal financial sources, which of the following sources of informal finance did you seek out?

Sources of informal financing sought	In 2020	In 2019
Informal savings and credit groups		
Moneylenders		
Business partners		
Family members and relatives		
Diaspora associations, friends and neighbors		
Others, please specify		

17. How do you think the global pandemic impacted your company's demand for trade finance in 2020 relative to 2019?

[ ] It increased our demand for trade finance
[ ] It decreased our demand for trade finance
[ ] It didn't change our demand for trade finance
[ ] Not sure/Do not know

18. In which area of your business operations do you use any digital process? Select all that apply.

[ ] Intermediation with trade-related financing providers like banks
[ ] Digital business records and financial accounting
[ ] Digitization of key business documents for filing/transmission
[ ] Identity verification and product traceability/tracking
[ ] E-commerce platform for multichannel sales
[ ] Mobile applications for enhanced client experience
[ ] Cloud computing applications
[ ] Analytics for business intelligence
[ ] We do not use any digital process
[ ] Others, please specify _____

19. Do you agree that the COVID-19 pandemic has accelerated/will accelerate the use of digital processes?

Strongly agree			Strongly Disagree		Don't know/Not sure
5	4	3	2	1	

20. Have you used or considered any of the following financing instruments typically available on digital or web-based platforms as a way of obtaining trade finance?

	Used	Considered but not used	Not aware of this financing option
Crowdfunding[a]	[ ]	[ ]	[ ]
Peer-to-peer lending[b]	[ ]	[ ]	[ ]
Invoice financing[c]	[ ]	[ ]	[ ]
Purchase order advance[d]	[ ]	[ ]	[ ]
Debt-based securities[e]	[ ]	[ ]	[ ]

[a] Crowdfunding is a method of raising capital by tapping a collective network of friends, family members, acquaintances, and investors—often by using social media or crowdfunding platforms.

[b] Peer-to-peer lending is a method of lending to individuals or businesses through an online platform that matches lenders with borrowers.

[c] Invoice financing: firms sell their invoices at a discount to a pool of individual or institutional investors in order to receive funds immediately rather than waiting for invoices to be paid.

[d] Purchase order advances are short-term loans (less than 12 months) against orders and contracts from foreign buyers

[e] Debt-based securities: Lenders receive a non–collateralized debt obligation, typically paid back over an extended period. This is similar in structure to purchasing a bond, but with different rights and obligations.

21. Why did you decide to use or consider digital financing platforms for trade finance (as specified in the previous question)? Choose all that apply.

[ ] The available platforms are easier and quicker to access
[ ] The available platforms are cheaper to use
[ ] The service is just the same (if not better) as non-digital platforms
[ ] The COVID-19 pandemic made it more practical to use digital finance channels
[ ] Others, please specify _____

22. If you have not used any digital or web-based financing platforms, what were the main reasons? Select all that apply.

[ ] Insufficient information on digital financing platforms
[ ] Lack of expertise in technology; it is too complicated and fast moving; and too many platforms
[ ] Unreliable telecommunications infrastructure makes Internet reception unstable
[ ] Considerable documentary requirements, same as banks
[ ] Still costly to use
[ ] We were able to be funded by non-digital sources after all
[ ] Not applicable
[ ] Others, please specify _____

23. In 2020, what kind of COVID-19-related support did you receive from government/bank to keep your business operational? Select all that apply.

[ ] Funding to pay business fixed costs and avoid redundancies for most employees
[ ] Moratoriums on debt repayment or interest payment most of the time
[ ] Government funding and/or guarantees to our banks kept open channels for trade financing and working capital at affordable rates
[ ] Grants or low cost subsidized loans to re-start business or to pivot to new markets
[ ] We were ineligible for government support
[ ] We did not seek government support because we didn't need it
[ ] There was no support available or we do not know about available support.

24. Which of the following factors do you think will be major barriers to your business over the next one year? Select all that apply.

[ ] Disruption of production/supply chain
[ ] Lack of government support or insufficient stimulus measures
[ ] Decline in revenue due to weak demand
[ ] Lack of access to finance
[ ] Lack of knowledge and skilled staff
[ ] Others, please specify _____

25. When do you think your company revenues will return to pre-pandemic level?

[ ] Revenues are already at or above the pre-pandemic level
[ ] Second half of 2021
[ ] First half of 2022
[ ] Second half of 2022
[ ] 2023 or later
[ ] Don't know/Hard to predict/Never

26. In what areas do you think regional/international organizations can contribute to making financing affordable and accessible for SMEs?

____ SME finance education drives and related knowledge-sharing campaigns
____ Provision of guidelines/business packs for companies seeking to digitalize
____ Collaborate with national/regional/multilateral institutions to expand access to technology-based financing platforms, especially for SMEs and female-owned business
____ Assist banks in designing, refining, and updating risk matrix for international trade transactions of SMEs
____ Intermediating between banks and development finance institutions to organize SME trade-financing guarantee schemes to overcome regulatory constraints on bank SME lending
____ Others, please specify _____

27. From which of these channels did your company receive this survey?

[ ] Industry associations
[ ] International Trade Centre (ITC)
[ ] Centre for the Promotion of Imports from developing countries (CBI)
[ ] Pacific Trade Invest (PTI)
[ ] Banks
[ ] Others, please specify _____

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Toward Inclusive Access to Trade Finance

Lessons from the Trade Finance Gaps, Growth, and Jobs Survey

A persistently large trade finance gap is an ongoing global challenge, particularly for small and medium-sized enterprises, which continue to face significant barriers to access financing. This report reflects on the *Trade Finance Gaps, Growth, and Jobs Survey* conducted by the Asian Development Bank since 2012. It provides insights on trade finance trends, analysis, and lessons from the past 10 years and identifies what needs to happen to make access to trade finance more inclusive. The report discusses the rapid digitalization in trade and trade finance markets and advocates for increased international cooperation to enable the full benefits of digitization to be realized.

About the Asian Development Bank

ADB is committed to achieving a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. Established in 1966, it is owned by 68 members —49 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

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