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*Connecting the trade world.
Shaping the future.*

GLOBAL TRADE FACILITATION SUMMIT DUBAI 2022

Wednesday 16th March 2022 to Thursday 17th March 2022



Connecting the trade world - Shaping the future

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2021 Trade Finance Gaps, Growth, and Jobs Survey

Steven Beck
Head, Trade and Supply Chain Finance
Asian Development Bank

Background

History of the Trade Finance Gaps, Growth and Jobs Survey

- Global financial crisis

Why is trade finance important?

- UN Addis Ababa Declaration: Trade finance is important to achieving the SDGs

**Trade finance fuels trade
which delivers the growth and jobs that reduce poverty**

NO. 192
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2021

ADB BRIEFS

KEY POINTS

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

2021 Trade Finance Gaps, Growth, and Jobs Survey

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INTRODUCTION

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

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

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

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

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ADB

Overview of the Survey

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

Partners



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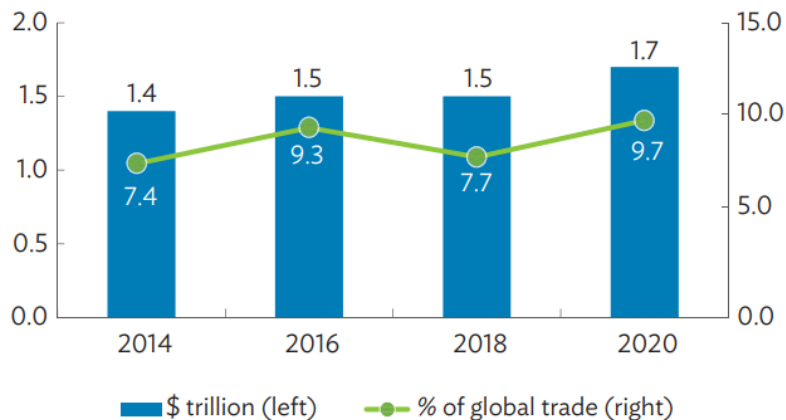
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Main Findings

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

Global Trade Finance Gap

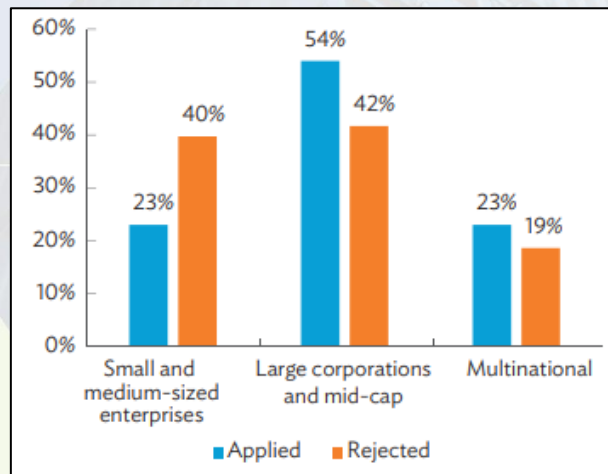


- ✓ This is about 10% of global goods trade in 2020, up from 8% in 2018
- ✓ Increased economic and financial raised the likelihood of rejections in trade finance applications

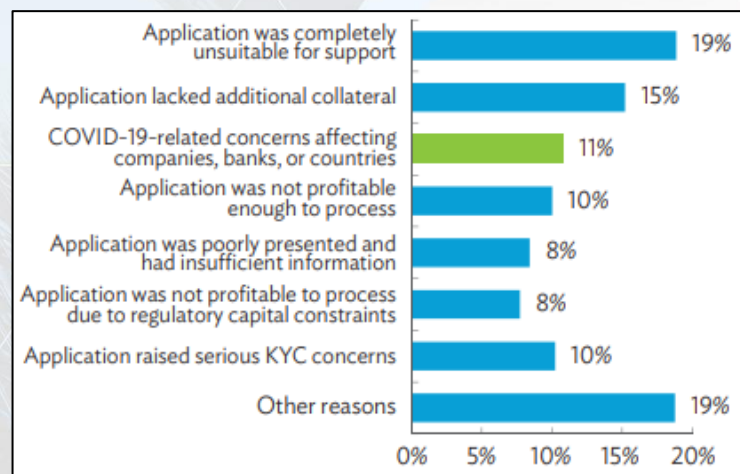
Access to trade finance continued to be favorable toward large firms

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

Trade Finance Rejections by Firm Size

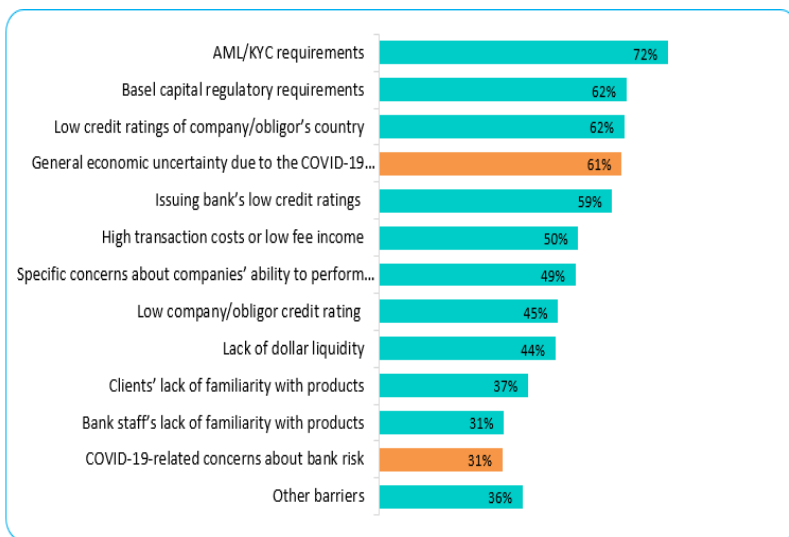


Why Proposals were Rejected



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

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



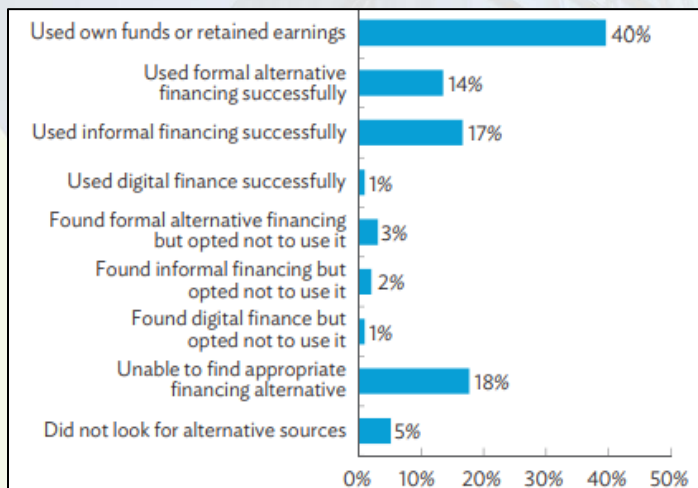
AML = anti-money laundering, KYC = know your customer.

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

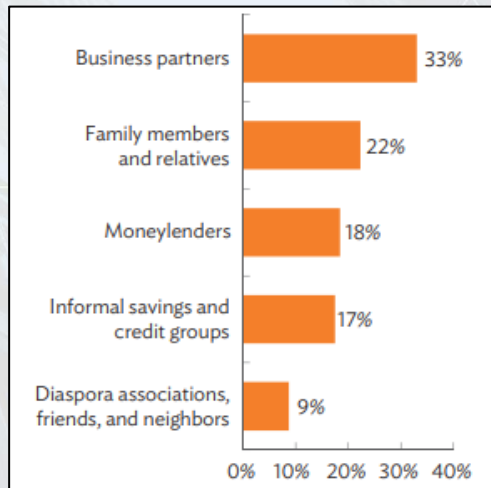
- ✓ Heightened economic uncertainties due to the pandemic also constitutes one of the top barriers.
- ✓ Other barriers include Basel capital regulatory requirements; low credit ratings of applying firms and bank's low credit ratings.

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

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



Informal Financing Sources Sought (% of responses)



✓ SMEs who were initially rejected used alternative financing through their own funds (40%) and informal channels (17%)

✓ Business partners and families are major sources of informal financing

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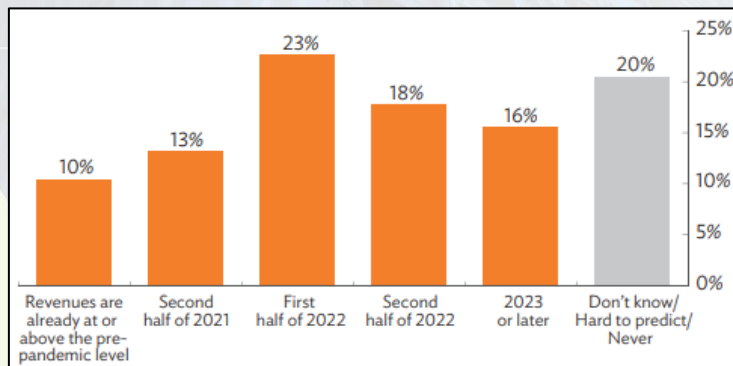
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Policy Implications

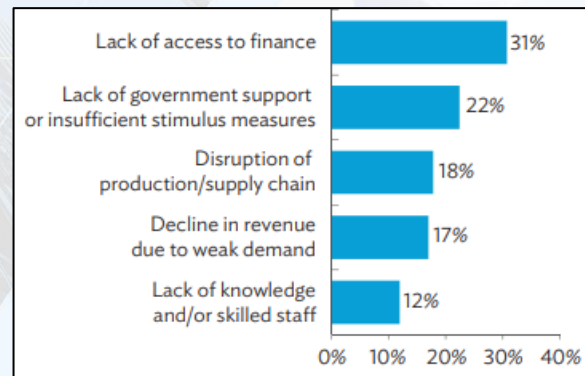
Greater access to finance and public sector support are key to post-pandemic recovery for firms

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

Return of Firms' Revenues to Pre-Pandemic Level



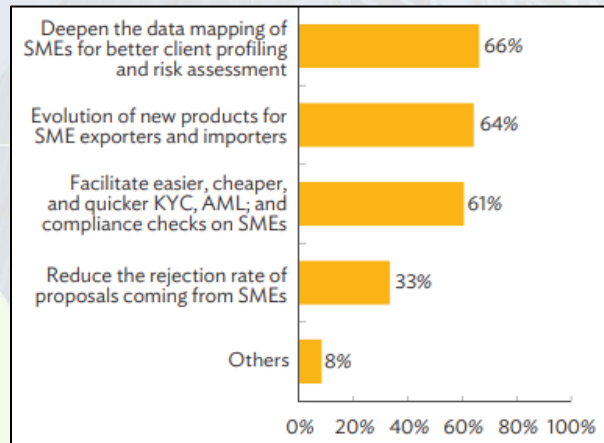
Major Types of Barriers to Firms over the Next Year



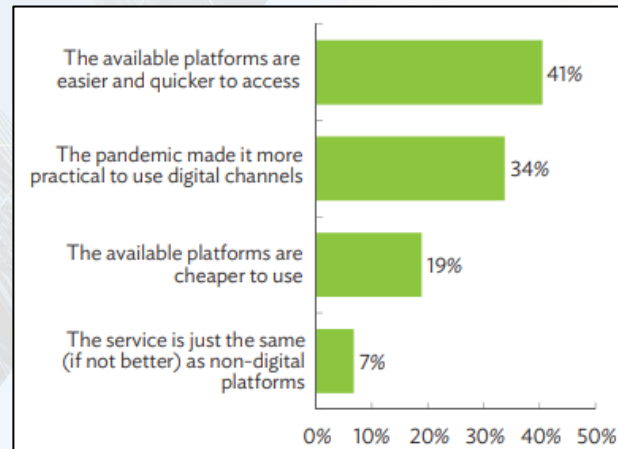
Digitalization in trade finance can help close the gap

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

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



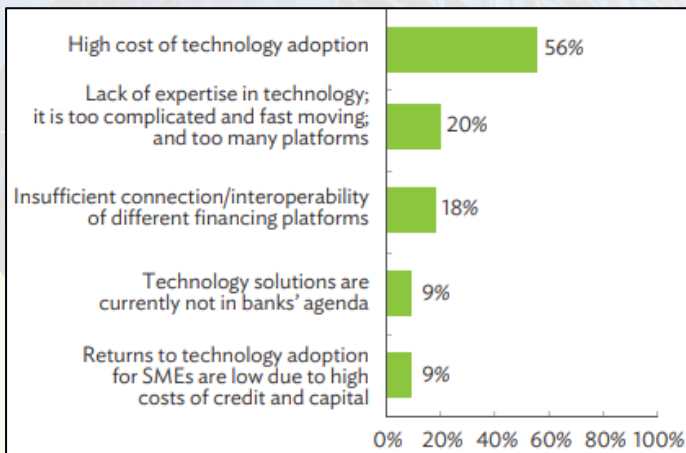
Why Firms Use Digital or Web-based Platforms (% of responses)



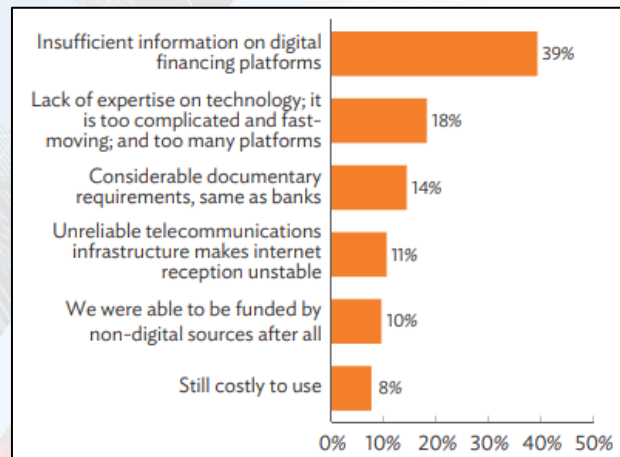
Banks and firms see different kinds of constraints to digitalization

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

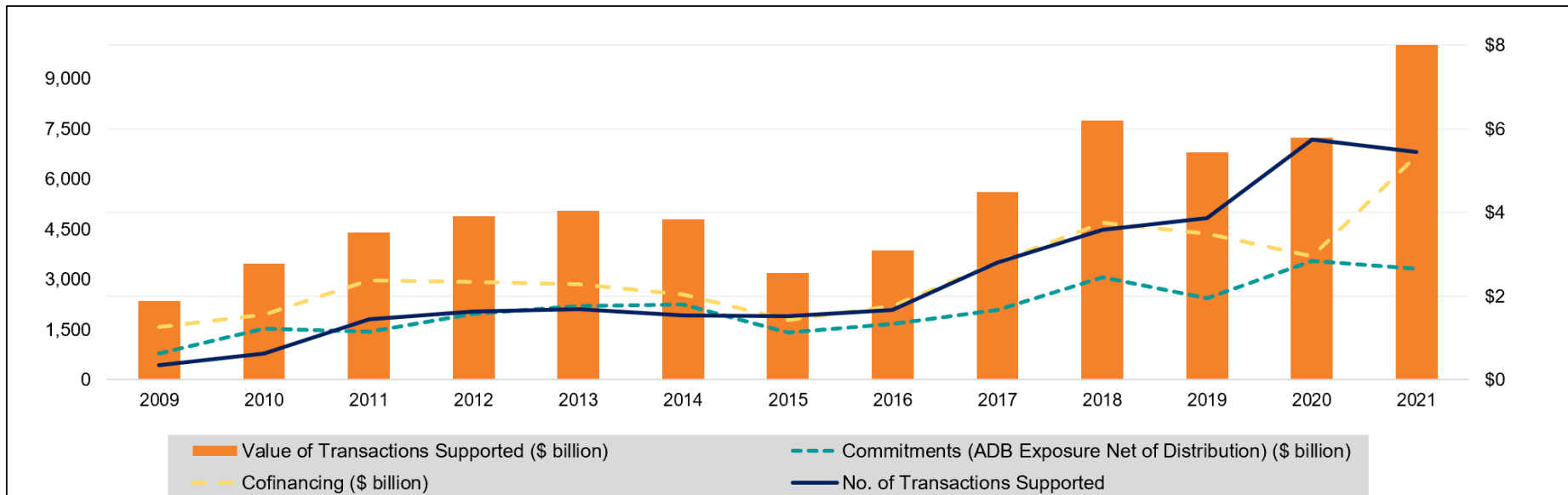
Major Reasons for Banks Not to Use Technology to Maximize Potential to Service SMEs (% of responses)



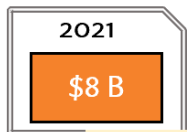
Why Firms Do Not Use Digital or Web-based Platforms (% of responses)



TFP Portfolio Overview from 2009 - 2021

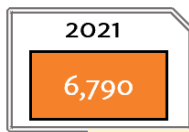


Value of Transactions



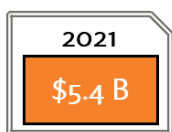
2009-2021
\$55.5 B

No. of Transactions



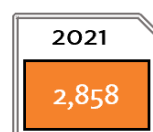
2009-2021
39,876

Cofinancing



2009-2021
\$33.4 B

SMEs supported



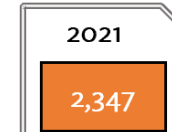
2009-2021
24,571

Intra-regional Trade



2009-2021
30,888

DMC to DMC Trade



2009-2021
10,776

Trade and Supply Chain Finance Program Initiatives

TRADE FINANCE GAPS, GROWTH and JOB SURVEY

- Barometer for global trade finance market gaps

GENDER

- [Enhancing human resource policies to attract, retain and promote more women in banks](#). View [publication](#)
- E-training partnership with SheTrades (gender lens financing and women clientele customer service)

DISABILITY

- Disability initiative in 2022 onwards starting via Global Disability Innovation Hub (GDIH) partnership

TRADE DIGITALIZATION

- [Digital Standard Initiative \(DSI\)](#).
 - Standards and protocols to drive interoperability
- [Promote legislation on electronic documents](#).
- Deep Tier Financing: Legal Framework development

SME DEVELOPMENT

- Supply Chain Finance(SCF) capacity development for banks
- Closing regulatory/legislative gaps for SCF

ENVIRONMENTAL and SOCIAL SAFEGUARDS (E & S)

- E & S due diligence Industry Standard
- Implementing E and S Management System in banks
- Global Map of Environmental and Social Risk in [Agro-Commodity Production](#) (GMAP) enhancement (IFC/WWF)
- [E & S online training](#)

SUPPLY CHAINS TRANSPARENCY

- Supply Chain Mapping
 - [COVID-19 Mapping Tool](#)
- Innovation to verify and monitor E & S
 - Project Aasha (linking financing with supplier labor standards)

KNOW-YOUR-CLIENT/ANTH-MONEY LAUNDERING

- AML Training
 - [ACAMS partnership for online](#)
 - [Webinar Series for Pacific Islands](#)
- Pilot: Trade-Based Money Laundering (TBML) Suspicious Transaction Reports
- [Financial Action Task Force TBML Working Group](#)
- Promoting Legal Entity Identifier (LEI)
 - [LEI Accessibility](#)
 - [Trade and LEI](#)
 - [Biometrics study](#)



Thank you!



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