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ESG, DIGITALIZATION, AND TRADE FINANCE

BASED ON THE FINDINGS FROM THE 2023 TRADE FINANCE GAPS, GROWTH AND JOBS SURVEY

Emerging Development and Opportunities in Green Trade Facilitation
3 - 4 October 2023, Bangkok

Highlights of ADB's 2013 Trade Finance Gap Survey

- **Global Trade Finance Gap: $2.5 trillion in 2022**
- **Rejected Trade Finance: SMEs Disproportionately Affected**
- **Barriers to Trade Financing : Macroeconomic and Geopolitical risks**
- **Supply Chains and Digitalization: Financing and Digitalization Costs**
- **ESG and Sustainable Financing: Priority with Potential Barriers**
- **ESG and Sustainable Financing: Recognizing Benefits and Challenges**

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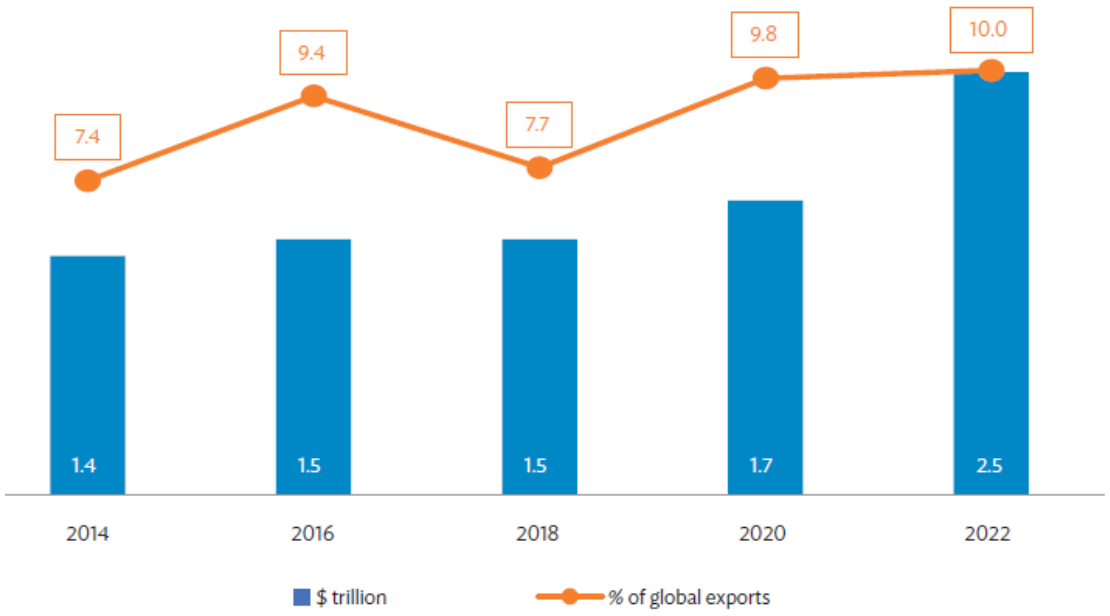
Global Trade Finance Gap: $2.5 trillion in 2022

- Up from $1.7 trillion in 2020
- Widened by COVID-19 and the related increase in rejection rate of trade financing requests
- Also influenced by macroeconomic factors, geopolitical tensions, and the Russian invasion of Ukraine

Global Trade Finance Gap

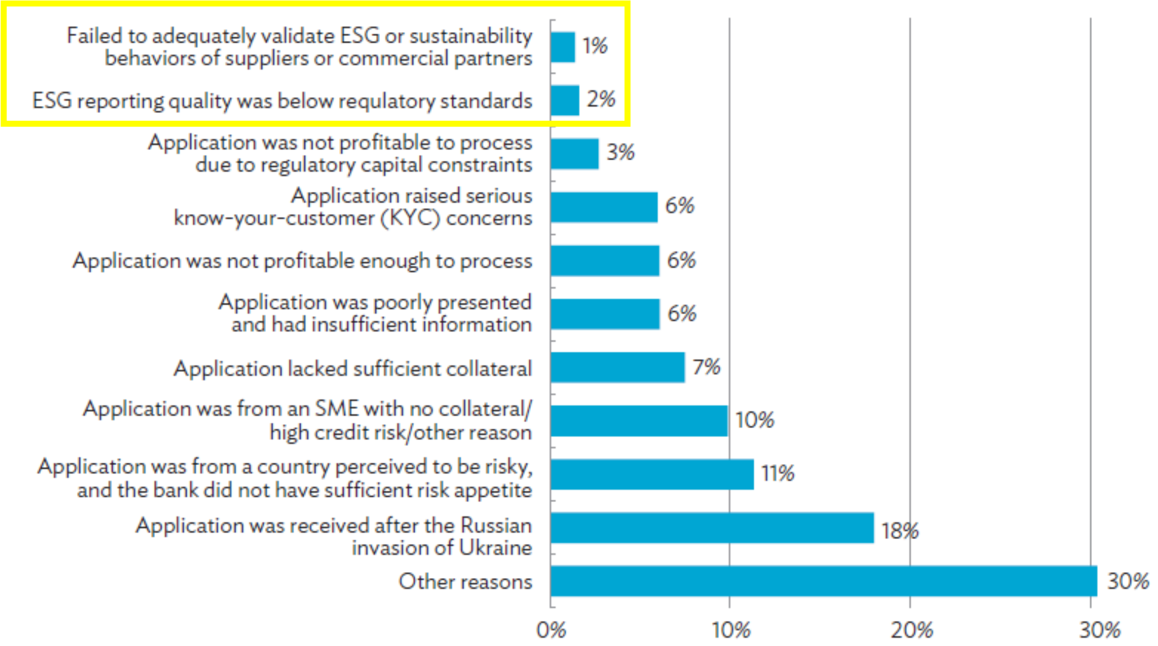


Source: ADB. 2023 Trade Finance Gaps, Growth and Jobs Survey—Banks, and World Trade Organization. WTO Data. https://data.wto.org/ (accessed 19 July 2023).

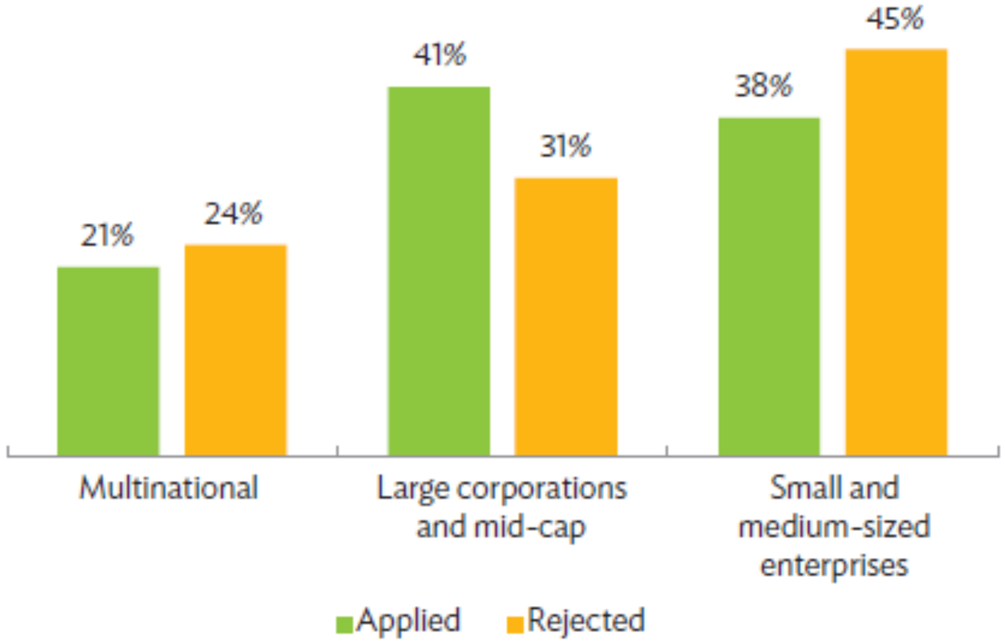
Rejected Trade Finance: SMEs Disproportionately Affected

- After the Russian invasion of Ukraine: 20% of banks rejected trade finance applications
- Other major reasons: high-country risk, lack of collateral, poorly presented documentation, and KYC compliance
- SMEs: 38% of total applications, 45% of rejections

Reasons for rejecting trade finance applications in 2022 (% of bank responses)



Trade finance application and rejection by firm size in 2022 (%)

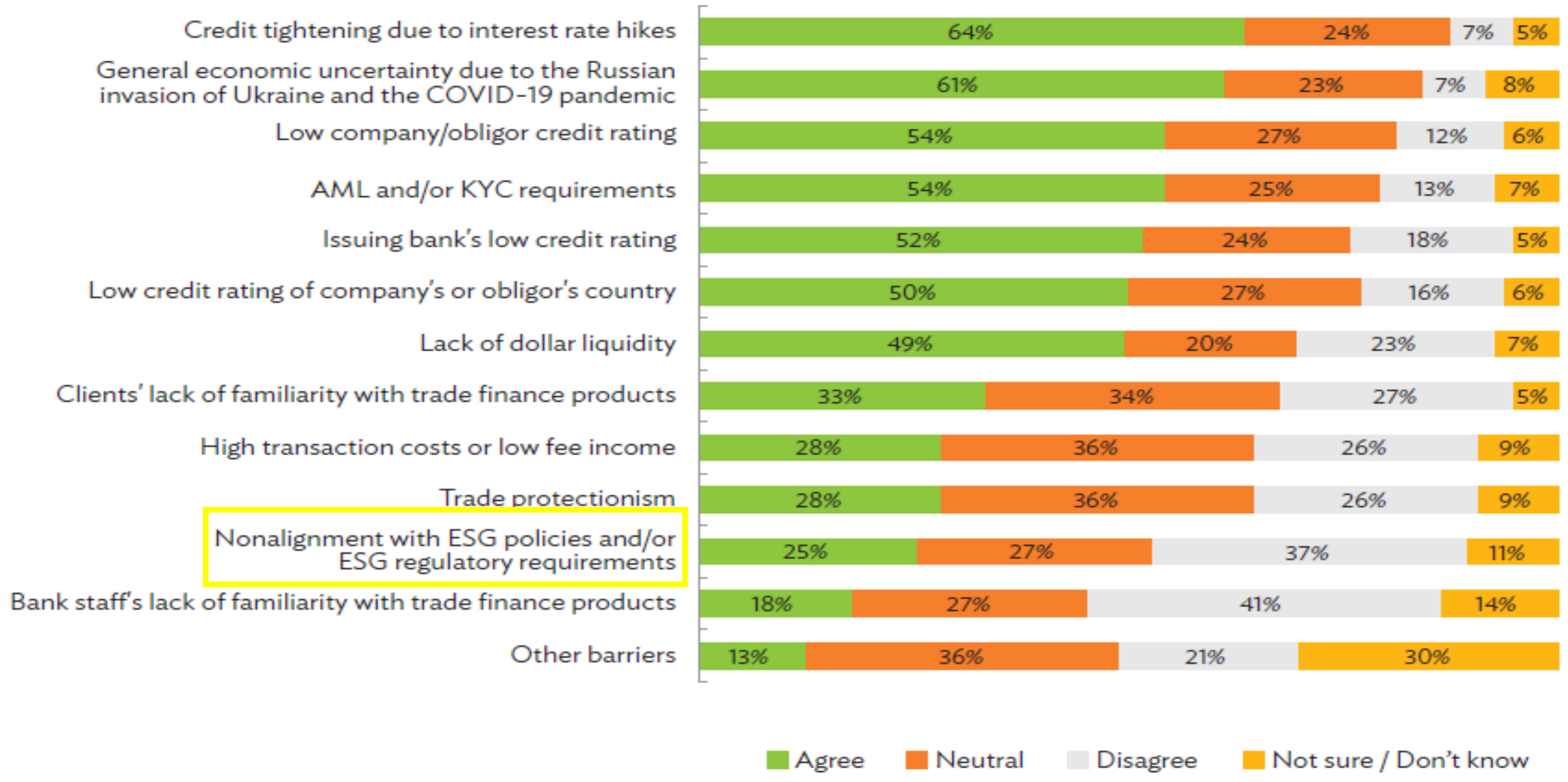


Source: ADB. 2023 Trade Finance Gaps, Growth and Jobs Survey—Banks.

Barriers to Trade Financing : Macroeconomic and Geopolitical risks

- Over 60% of banks: credit tightening due to geopolitical tensions and post-pandemic stress
- Around 50% of banks: AML/KYC, credit quality, lack of US Dollar liquidity
- Emerging concerns about ESG and sustainability

Barriers to servicing trade finance (% of bank responses)

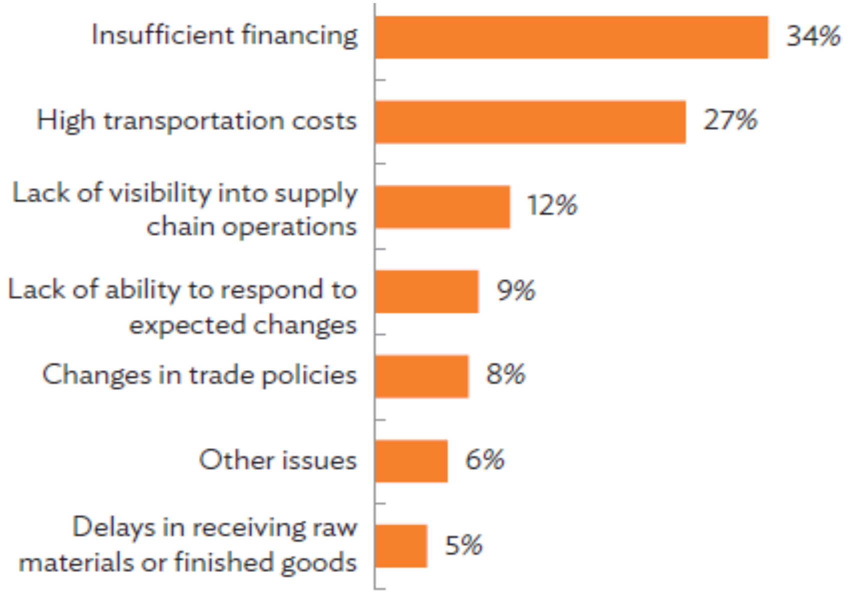


Source: ADB. 2023 Trade Finance Gaps, Growth and Jobs Survey—Banks.

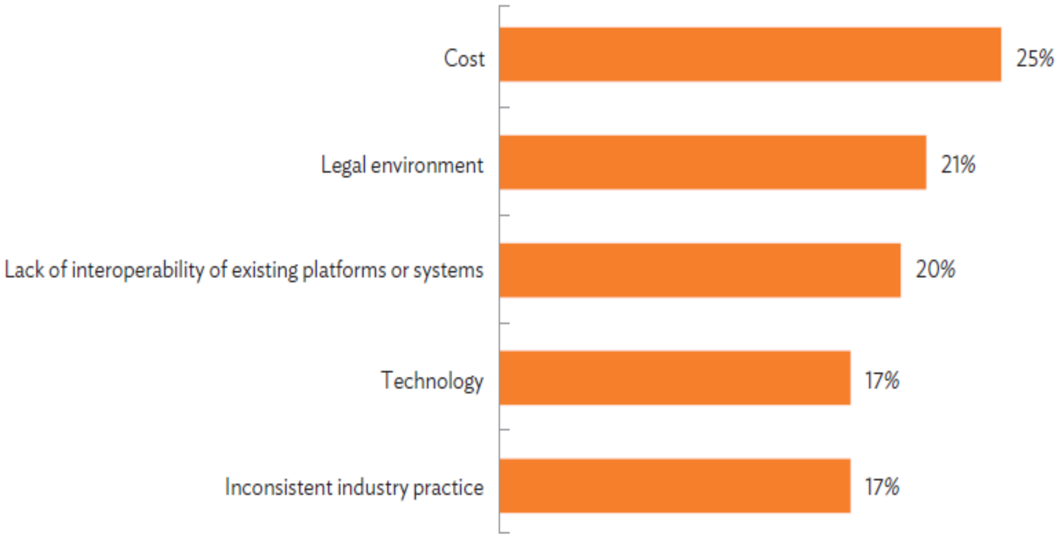
Supply Chains and Digitalization: Financing and Digitalization Costs

- Top two supply chain challenges: insufficient financing and transportation costs
- Firms recognize digital benefits: productivity and efficiency; Banks see digitalization aiding SME trade financing
- Primary obstacle: high digitalization costs

Supply chain issues in 2022 (% of firm responses)



Barriers to digitalizing business and trade portfolio (% of bank responses)



Source: ADB. 2023 Trade Finance Gaps, Growth and Jobs Survey

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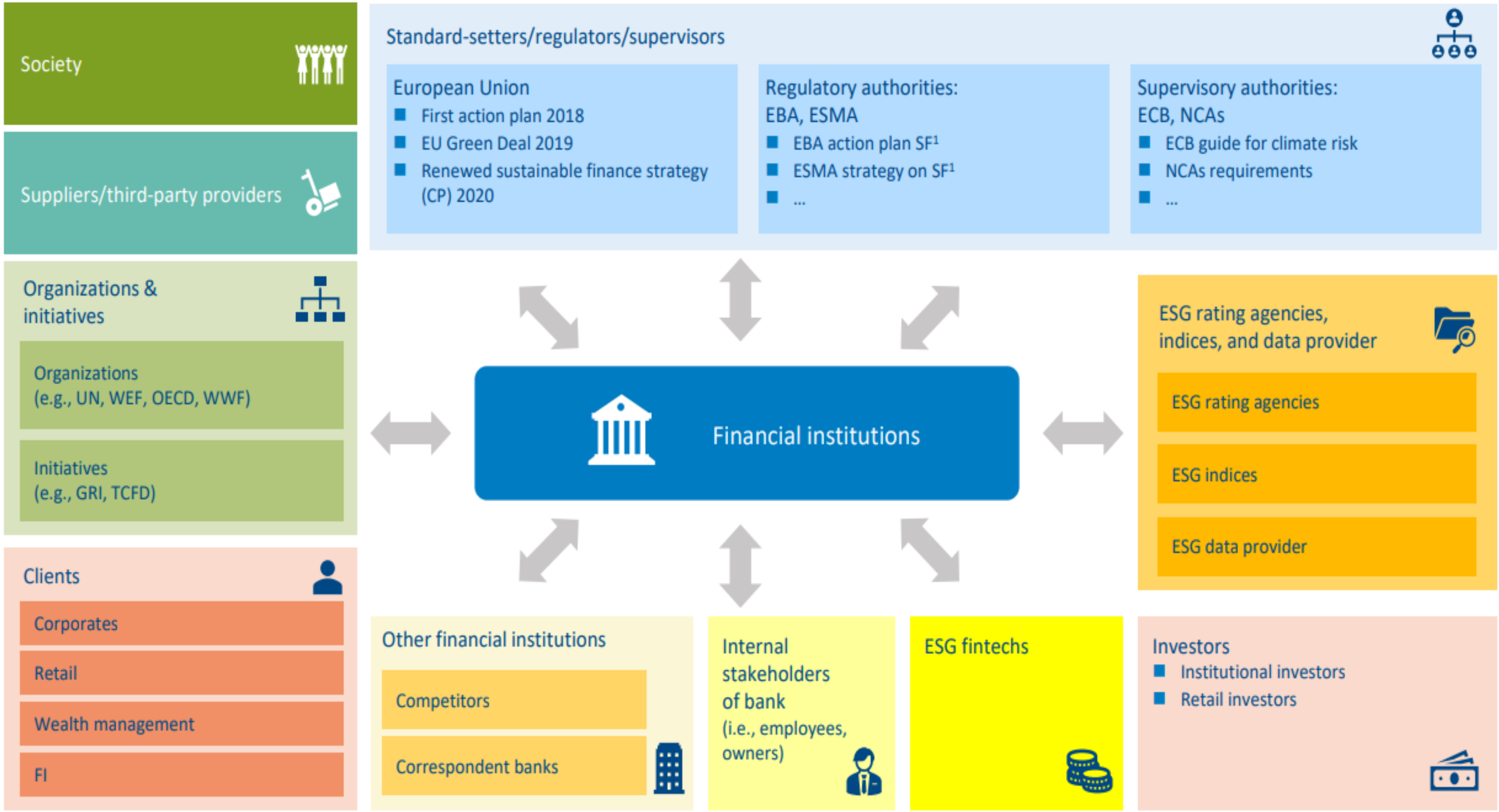
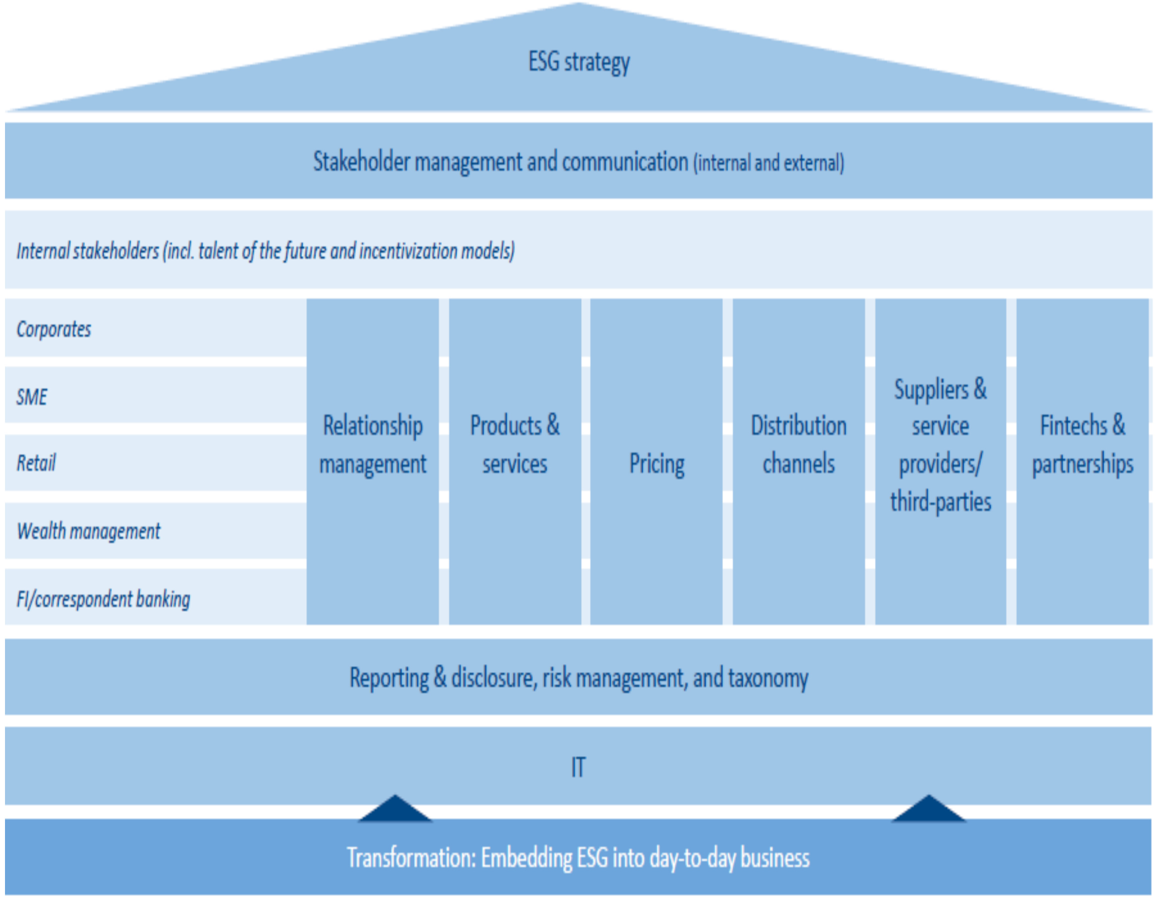
Background: ESG Ecosystem for Banks



Source: Arthur D Little (2021) ESG – The irreversible mega- trend.
https://www.adlittle.com/sites/default/files/viewpoints/ADL_Sustainable_finance.pdf

Background: ESG Strategy and Sustainable Finance Framework



Source: Arthur D Littl (2021) ESG – The irreversible mega- trend.
https://www.adlittle.com/sites/default/files/viewpoints/ADL_Sustainable_finance.pdf

CASE: HSBC's ESG Report

Environmental – Transition to net zero

– Since 2020, we have provided and facilitated $210.7bn of sustainable finance and investment towards our ambition of $750bn to $1tn by 2030. We monitor developments in taxonomies and changing market guidelines in this space.

– In December, we updated our energy policy as an important mechanism to help deliver our financed emissions targets and phase down fossil fuel financing in line with our net zero ambition, and introduced further restrictions for thermal and metallurgical coal.

– We have introduced on-balance sheet financed emissions targets for eight sectors, noting the limitations of evolving methodologies and data quality.

Targets and progress

We have set out in the table below our defined targets for the on-balance sheet financed emissions for the following sectors: oil and gas; power and utilities; cement; iron, steel and aluminium; aviation; and automotive. On the following pages, we provide more granular details on our financed emissions within these sectors.

Sector	2019 baseline	2020 progress	2030 target	Unit[1]	Target type	Target scenario
Oil and gas	33.0	30.1	(34)%	Mt CO_2e	Absolute	IEA NZE 2050
Power and utilities[2]	589.9	509.6	138	tCO_2/GWh	Intensity	IEA NZE 2050
Cement	0.64	0.64	0.46	tCO_2/t cement	Intensity	IEA NZE 2050
Iron, steel and aluminium[3]	1.8	2.0	1.05 (1.43)	tCO_2/t metal	Intensity	IEA NZE 2050
Aviation	84.0	103.9	63	tCO_2/million rpk	Intensity	IEA NZE 2050
Automotive	191.5	176.2	66	tCO_2/million vkm	Intensity	IEA NZE 2050

Source: HSBC (2022) ESG Review

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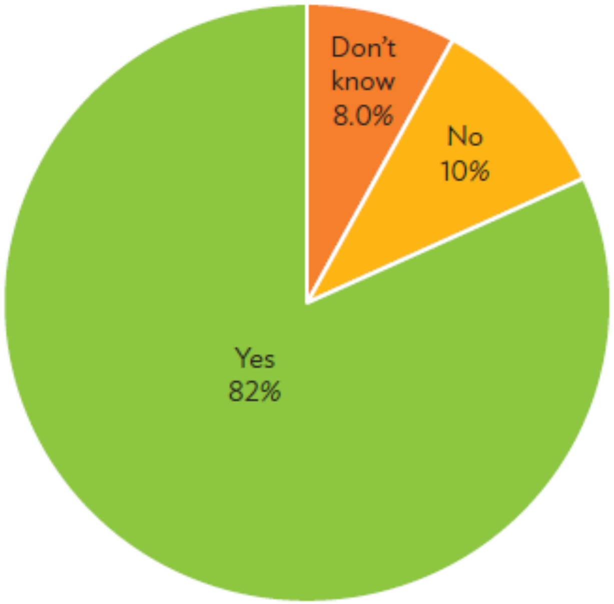
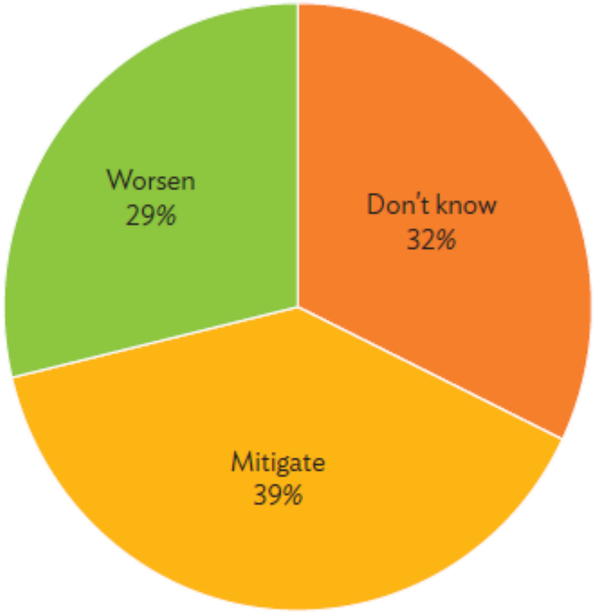
ESG and Sustainable Financing: Priority with Potential Barriers

- 82% of banks strategically prioritize ESG
- 75% foresee a rise in demand for sustainable trade and supply chain finance
- Mixed views on ESG's effect on the TF Gap; opportunity for awareness and advocacy

Do you consider sustainable trade or trade finance and ESG factors as strategic priorities? (% of bank responses)



Do you believe that stricter ESG requirements will either worsen or mitigate the trade finance gap? (% of bank responses)

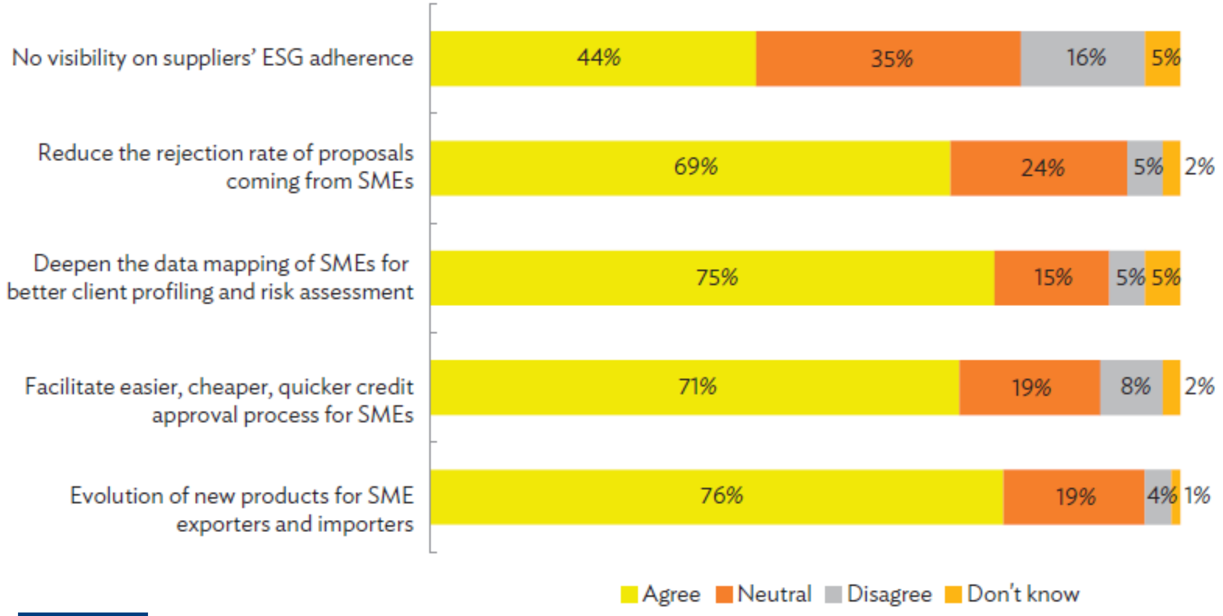


Source: ADB. 2023 Trade Finance Gaps, Growth and Jobs Survey

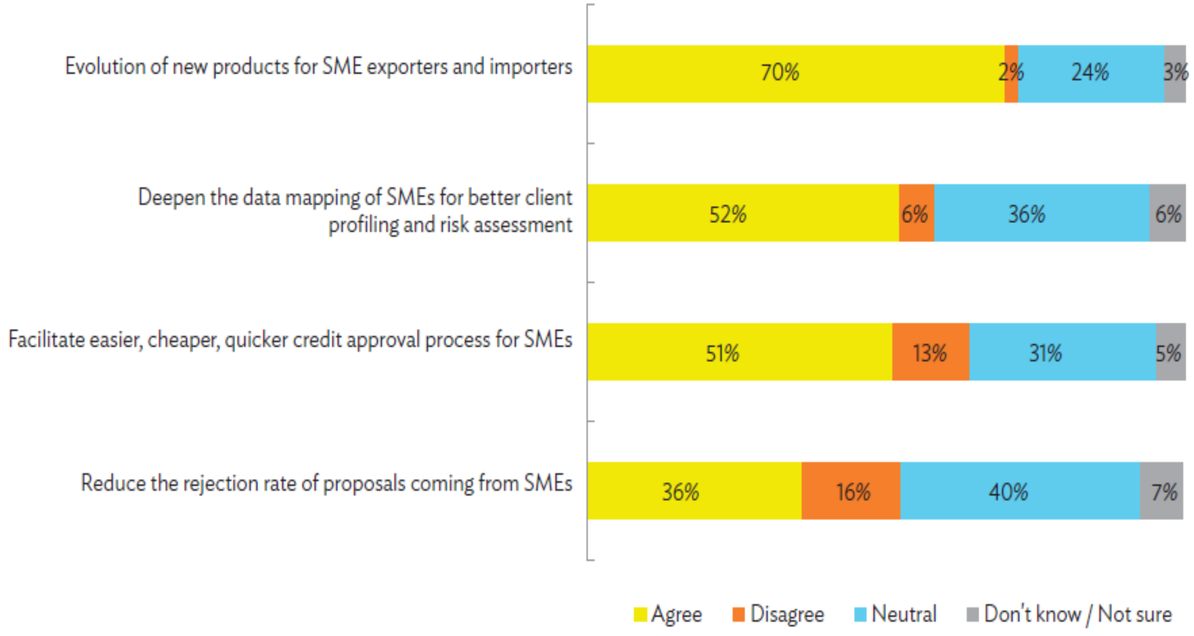
ESG and Sustainable Financing: Recognizing Benefits and Challenges

- Over 70% of firms: ESG alignment can improve access to trade financing
- Banks optimistic about ESG's influence on SMEs engagement
- 44% of firms: unclear about suppliers' ESG compliance
- Challenges: ESG integration costs, capacity/resource constraints, reporting and regulatory requirements

ESG alignment and potential impact on firms (% of firm responses)



Will ESG-alignment enhance your bank's engagement with SMEs? (% of bank responses)



Source: ADB. 2023 Trade Finance Gaps, Growth and Jobs Survey

Recommendations

Narrowing the Gap

Create additional capacity for trade financing

ENGAGE MULTILATERALS IN ADVANCING TRADE FINANCE AS AN ASSET CLASS

Support sustainability and ESG aligned financing

ADVANCE CLIMATE-FRIENDLY AND ESG-ALIGNED FINANCING STANDARDS AND PRACTICES

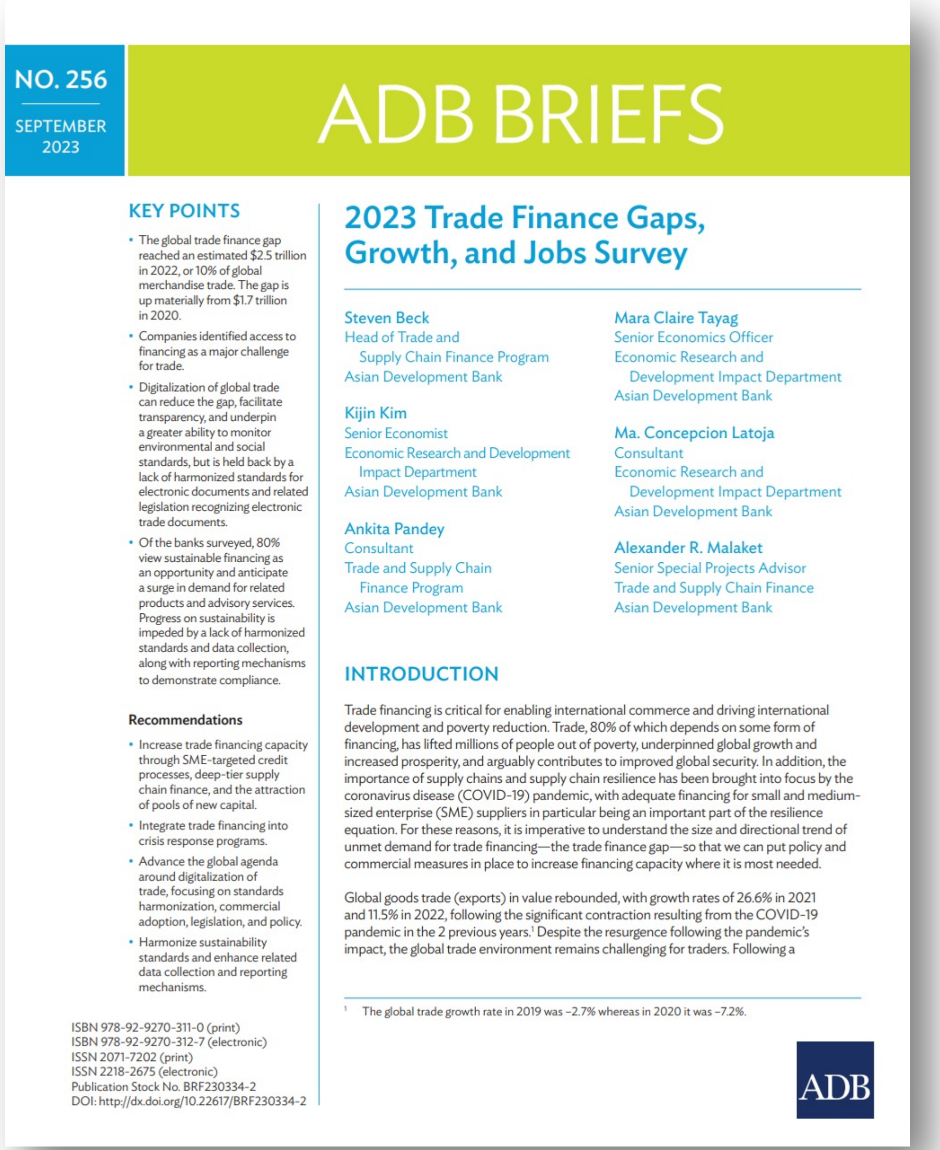
Support innovative financing targeting those most in need

PROMOTE DTSCF AND CHANGES TO SME CREDIT AND RISK ANALYSIS

Advance the global agenda of digitalization

DRIVE DIGITALIZATION OF TRADE TO ENABLE INCLUSION

[Available for download](#)



NO. 256

SEPTEMBER 2023

ADB BRIEFS

KEY POINTS

- The global trade finance gap reached an estimated $2.5 trillion in 2022, or 10% of global merchandise trade. The gap is up materially from $1.7 trillion in 2020.
- Companies identified access to financing as a major challenge for trade.
- Digitalization of global trade can reduce the gap, facilitate transparency, and underpin a greater ability to monitor environmental and social standards, but is held back by a lack of harmonized standards for electronic documents and related legislation recognizing electronic trade documents.
- Of the banks surveyed, 80% view sustainable financing as an opportunity and anticipate a surge in demand for related products and advisory services. Progress on sustainability is impeded by a lack of harmonized standards and data collection, along with reporting mechanisms to demonstrate compliance.

Recommendations

- Increase trade financing capacity through SME-targeted credit processes, deep-tier supply chain finance, and the attraction of pools of new capital.
- Integrate trade financing into crisis response programs.
- Advance the global agenda around digitalization of trade, focusing on standards harmonization, commercial adoption, legislation, and policy.
- Harmonize sustainability standards and enhance related data collection and reporting mechanisms.

ISBN 978-92-9270-311-0 (print)
ISBN 978-92-9270-312-7 (electronic)
ISSN 2071-7202 (print)
ISSN 2218-2675 (electronic)
Publication Stock No. BRF230334-2
DOI: http://dx.doi.org/10.22617/BRF230334-2

2023 Trade Finance Gaps, Growth, and Jobs Survey

Steven Beck
Head of Trade and Supply Chain Finance Program
Asian Development Bank

Kijin Kim
Senior Economist
Economic Research and Development Impact Department
Asian Development Bank

Ankita Pandey
Consultant
Trade and Supply Chain Finance Program
Asian Development Bank

Mara Claire Tayag
Senior Economics Officer
Economic Research and Development Impact Department
Asian Development Bank

Ma. Concepcion Latoja
Consultant
Economic Research and Development Impact Department
Asian Development Bank

Alexander R. Malaket
Senior Special Projects Advisor
Trade and Supply Chain Finance
Asian Development Bank

INTRODUCTION

Trade financing is critical for enabling international commerce and driving international development and poverty reduction. Trade, 80% of which depends on some form of financing, has lifted millions of people out of poverty, underpinned global growth and increased prosperity, and arguably contributes to improved global security. In addition, the importance of supply chains and supply chain resilience has been brought into focus by the coronavirus disease (COVID-19) pandemic, with adequate financing for small and medium-sized enterprise (SME) suppliers in particular being an important part of the resilience equation. For these reasons, it is imperative to understand the size and directional trend of unmet demand for trade financing—the trade finance gap—so that we can put policy and commercial measures in place to increase financing capacity where it is most needed.

Global goods trade (exports) in value rebounded, with growth rates of 26.6% in 2021 and 11.5% in 2022, following the significant contraction resulting from the COVID-19 pandemic in the 2 previous years.[1] Despite the resurgence following the pandemic's impact, the global trade environment remains challenging for traders. Following a

[1] The global trade growth rate in 2019 was –2.7% whereas in 2020 it was –7.2%.

Thank you