WORLD TRADE ORGANIZATION

BRIDGING THE GLOBAL TRADE FINANCE GAP: EMPOWERING SMES AND DRIVING SUSTAINABLE GROWTH

Key messages

- **Significant Trade Finance Gaps:** The global trade finance gap is estimated at $2.5 trillion annually in developing countries. SMEs face the greatest difficulties, with over 50% of trade finance requests being rejected.
- **Key Barriers for SMEs:** SMEs are disproportionately affected by limited access to trade finance, facing high rejection rates, high collateral requirements, and limited access to correspondent banking services, particularly in low-income regions.
- **Policy Solutions to Bridge the Gap:** Solutions supporting risk-sharing frameworks, develop supply chain finance for development, strengthening local capacity, and supporting climate-friendly trade finance initiatives.
- **Multilateral Cooperation at FFD4:** FFD4 should prioritize expanding risk-sharing mechanisms, supporting capacity building, integrating trade finance into climate action, and enhancing international regulatory cooperation through a Global Trade Finance Regulatory Forum.

Problem statement

Trade finance plays a vital role in global commerce, facilitating up at least 60% of international trade through credit and insurance mechanisms. However, significant gaps in trade finance provision create substantial barriers to trade, particularly for businesses in developing economies and small and medium-sized enterprises (SMEs). The global trade finance gap is estimated at $2.5 trillion annually In West Africa and the Mekong region, trade finance supports only 20% of trade, against 60% at global level.

SMEs, which constitute the backbone of economic activity in both developed and developing countries, face the greatest hurdles in accessing affordable

RELEVANT ACTION AREAS

Domestic and International Private Business and Finance

International Development Cooperation

ABOUT THIS SERIES

The Financing Policy Brief Series has been prepared by the Inter-agency Task Force on Financing for Development to inform the substantive preparations for the Fourth International Conference on Financing for Development (FfD4), to be held in Sevilla, Spain, from 30 June to 3 July 2025.

The Inter-agency Task Force on Financing for Development is comprised of more than 60 United Nations Agencies and international organizations. The policy briefs in this series were not subject to review by Task Force Members, and represent the views of the authoring organizations.

The full series is available at: https://financing.desa.un.org/iatf/report/financing-policy-brief-series

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https://www.wto.org/english/news_e/news24_e/trfin_25oct24_e.htm trade finance. About 45% of all trade finance requests by SMEs are rejected, compared to 20% for multinational corporations. In many developing regions, these gaps are exacerbated by a variety of local supply and demand factors, including low risk assessment capacity, low financial literacy of firms, limited capacity to offer products at affordable cost, lack of digitization. Domestic causes are compounded by international factors, in some cases, such as limited correspondent banking relations, and high perceptions of country risk.

Beyond inhibiting trade, these gaps also affect broader development objectives. The inability to access trade finance prevents SMEs from capitalizing on new international market opportunities, limiting export diversification, socioeconomic inclusion, and growth potential. For local firms involved into global supply chains, securing supply chain finance is a significant challenge due to weak legal frameworks, inadequate technological infrastructure, and prohibitively high costs. This exclusion limits their ability to grow and thrive and prevents these countries from fully reaping the benefits of global trade.

Additionally, financing for climate-related goods and technologies could support efforts to transition to a low-carbon economy, with trade finance playing an important role in enabling climate mitigation and adaptation projects.

Addressing the global trade finance gap requires a coordinated response across the international financial architecture. Multilateral development banks and policymakers must work together to strengthen local financial institutions, enhance data availability, and develop risk-sharing frameworks. Without targeted interventions, the trade finance gap will continue to stifle trade potential, economic growth, and sustainable development in some of the world's most vulnerable regions.

Policy solutions

To bridge the global trade finance gap, particularly for small and medium-sized enterprises (SMEs) in developing economies, a multi-faceted approach involving policy reforms, institutional capacity building, and financial innovation is required. Below are key policy solutions that can address the challenges and gaps identified:

1. Expand Risk-Sharing Mechanisms

Multilateral agencies, including the WTO and development banks (MDBs) should work together with a view to supporting programs mitigating risk to allow for a greater access to traditional trade finance instruments and supply chain finance in developing countries. Programs aimed at reducing the gap between perceived and actual risks of trade and supply chain finance in low-income regions are particularly valuable.

- **Proposed Action:** Expand support for the trade and supply chain finance frameworks of multilateral agencies, including enhancing access to finance and risk mitigation tools.

2. Strengthen Supply Chain Finance

Supply chain finance plays a vital role in enabling SMEs to participate in global trade. Expanding access to supply chain finance can help SMEs manage cash flow and reduce financial pressure by providing short-term credit against unpaid invoices.

- **Proposed Action:** MDBs and governments should work together to strengthen legal frameworks, promote digitalization, and provide technical assistance to local financial institutions to expand supply chain finance offerings.

3. Build Local Capacity

Governments as well as development finance institutions could play a role in supporting local financial institutions and SMEs via increased capacity-building and boosting market intelligence on new opportunities across sectors, segments, products and structures.

- **Proposed Action:** Multilateral institutions to cooperate on providing demand-based, impactful technical assistance in areas of particular interest, in particular trade and supply chain finance, and for target groups such as SMEs.

4. Develop Climate-Friendly criteria for Trade Finance

As global economies transition to low-carbon models, there is a growing need for developing criteria for trade finance in supporting climate-related goods and technologies. Trade finance already plays a key role in enabling the diffusion of renewable energy systems, energy-efficient technologies, and climate adaptation infrastructure.

- **Proposed Action:** Defining and diffusing Paris-aligned criteria for trade finance, allowing the mobilization of trade finance for climate mitigation and adaptation.

Specific recommendations for FFD4

The Fourth Conference on Financing for Development (FFD4) presents a critical opportunity to address the global trade finance gap, especially in developing economies and for SMEs. To ensure that the outcome document of FFD4 advances this agenda, the following recommendations are proposed:

1. **Commit to Expanding Risk-Sharing Mechanisms:** FFD4 should call for an expansion of risk-sharing frameworks by multilateral development banks (MDBs) and export credit agencies (ECAs). These frameworks can de-risk trade finance transactions for private sector banks, making it easier for them to engage in higher-risk markets. The outcome document should include specific targets for MDBs to increase guarantee programs, particularly for SMEs and developing regions like Africa and Southeast Asia.

2. **Expand Supply Chain Finance:** FFD4 should emphasize the importance of expanding supply chain finance, particularly in developing countries. Strengthening legal frameworks, improving technological infrastructure, and providing financial incentives for local institutions can help SMEs gain better access to supply chain finance and fully participate in global trade.

3. **Promote Digitalization:** FFD4 should recognize the role of digitalization in closing the trade finance gap. The outcome document should support the adoption of digital tools that enhance efficiency, reduce costs, and increase accessibility for SMEs. Establishing a global digital trade finance platform and investing in digital infrastructure could help achieve these goals.

4. **Promote Capacity Building for Local Financial Institutions:** FFD4 must emphasize the importance of strengthening local financial institutions' capacity to provide trade finance. The outcome document should mandate the creation of a global technical assistance fund to train financial professionals in emerging markets. This will help reduce the knowledge and compliance gaps that local banks face in offering trade finance products.

5. **Integrate Trade Finance into Climate Action:** Trade finance should be recognized as a tool for supporting climate-related projects. The FFD4 outcome document should call for the development of "green" trade finance initiatives that incentivize the financing of climate mitigation and adaptation technologies. This could include extending credit terms for renewable energy projects and reducing costs for trade finance tied to low-carbon goods.

By incorporating these recommendations, the FFD4 outcome document can play a pivotal role in closing the global trade finance gap, promoting inclusive growth, and supporting the transition to a sustainable, low-carbon global economy.