Digital Trade Finance: Overcoming Traditional Barriers for SMEs

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In the dynamic landscape of the global marketplace, Small and Medium Enterprises (SMEs) often encounter significant delays arising from traditional barriers to accessing trade finance. To begin with, traditional trade finance processes are typically paper-heavy, time-consuming, and costly. This makes it difficult for SMEs to compete with larger firms that have the resources to navigate these complex challenges.

Nevertheless, the rapid digitisation of trade finance is transforming this landscape by reducing paperwork, accelerating approval processes, and simplifying financing for SMEs. Moreover, this transformation is powered by advancements in targeted use of Artificial Intelligence (AI), big data, and e-invoicing, all of which enable faster and more efficient access to capital for SMEs, thereby ultimately fostering greater financial inclusion.

As ICC Secretary General John W.H. Denton AO noted, '**Digitalisation in the trade finance sector will boost economic growth and sustainable development. Digitalisation will make trade more inclusive.**' This underscores the global drive to modernize trade finance and empower SMEs.[1]

Access to trade finance, which includes financial tools and payment solutions for international transactions, plays a crucial role in empowering small and medium-sized enterprises (SMEs) to expand into global markets and integrate into global value chains (GVCs). This fosters innovation and stimulates job creation, driving revenue, investment and inclusive economic growth.

The OECD's 2023 SME and Entrepreneurship Outlook provides updated insights into the performance (SMEs). According to the report, SMEs with a digital presence that engaged in international trade were more likely to experience sales growth between 2020 and 2021. Specifically, it increased an SME's probability of experiencing an increase in sales by 3 to 10 percentage points. Additionally, the report notes that more than 10% of small firms recorded an increase in sales of above 60% during the same period. For comparison, SME sales in OECD countries grew on average by 3.4% in 2019.[2]

A key benefit of digital trade finance is its ability to minimise reliance on paper-based processes and physical documentation by enabling the use of electronic formats, including digital signatures. For instance, traditional trade finance processes involve numerous steps, from the preparation of physical documents like letters of credit and bills of lading to manual verification by banks and other intermediaries.

As a result, these steps are not only susceptible to potential errors but also slow down the process, increasing the risk of delays and additional costs. However, digitisation has the capability to eliminate much of this paperwork by automating document generation, verification, and storage, making it possible for SMEs to complete trade transactions electronically. Consequently, this shift streamlines

[1] https://itfa.org/icc-2018-global-survey-report/?utm_sourcem
[2] https://www.oecd.org/en/publications/oecd-sme-and-entrepreneurship-outlook-2023_342b8564-en/full-report/component-5.html#chapter-d1e1984-c3d3604ef2

processes, allowing SMEs to access trade finance more quickly and with fewer complications, while also helping them to reduce operating costs and improve efficiency.

A report by the Asian Development Bank (ADB) further highlights that digital trade finance can reduce processing times from weeks to days, thus providing SMEs with the agility they need to compete and thrive in today's global markets. Additionally, SWIFT notes that digitised trade finance not only accelerates transactions but also enhances security through improved transparency and traceability, fostering greater trust among trade partners (SWIFT, 2023).[3]

The digitisation of trade finance has significantly improved the speed of document gathering and approval processes, offering another critical advantage. Traditional trade finance systems are often hindered by lengthy approval times, primarily due to manual document reviews and complex approval hierarchies, which often pose challenges for SMEs in securing timely financing.

By incorporating AI and big data analytics into the approval workflows, financial institutions can streamline the evaluation of trade finance applications. AI-driven systems process large datasets efficiently, assessing SMEs' creditworthiness, analysing risks, and providing real-time decision-making. This not only accelerates approvals but also enhances the accuracy of these decisions. For instance, big data enables financial institutions to assess SMEs' financial stability using diverse data sources, such as payment records, supply chain information, and market trends.

Consequently, SMEs gain access to financing more quickly and reduce the uncertainty associated with prolonged approval times. Notably, research by McKinsey & Company indicates that leveraging AI and big data can cut approval times by up to 50%, empowering SMEs to act swiftly and remain competitive in the marketplace.[4]

Beyond speeding up approvals, digitisation also simplifies financing options and processes for SMEs. Traditional trade finance involves various intermediaries, including banks, insurance companies, and trade partners, each of whom must review and verify documents before financing is approved. This multi-layered approach can lead to inefficiencies and high transaction costs, which disproportionately affect SMEs due to their limited resources.

Digitisation simplifies this process by creating centralised platforms where all participants can access and verify documents in real-time. For instance, platforms like the Trade Finance Distribution Initiative (TFDI) and the Singapore Trade Finance Blockchain network use blockchain technology to create secure, transparent, and efficient systems for managing trade finance transactions.

These platforms eliminate the need for multiple intermediaries, reducing the complexity of the financing process and making it easier for SMEs to access the capital they need. According to a study by the International Chamber of Commerce (ICC), blockchain and other digital technologies could lower trade finance costs by as much as 30%, providing a much-needed boost to SMEs' financial accessibility.

Another critical factor in the digital transformation of trade finance is the integration of e-invoicing, which plays a pivotal role in simplifying the financing process. E-invoicing allows SMEs to issue invoices electronically, which are then processed automatically by financial institutions and trade

[3] https://www.swift.com/swift-resource/251221/download?utm_ =

[4] https://www.mckinsey.com/~/media/mckinsey/industries/financial%20services/our%20insights/ai%20powered%20decision%20making%20for%20the%20bank%20of%20the%20future/ai-powered-decision-making-for-the-bank-of-the-future.pdf?utm_

partners. This eliminates the need for paper invoices, which are often prone to errors and delays in processing. With e-invoicing, SMEs can quickly convert their invoices into trade finance instruments, such as receivables financing or factoring, without waiting for physical documentation to be verified. This significantly accelerates the cash flow cycle, enabling SMEs to access working capital more quickly and reduce the risk of liquidity shortages. The adoption of e-invoicing has been steadily growing worldwide, with the European Union, for instance, pushing for widespread e-invoicing adoption as part of its efforts to streamline cross-border trade and enhance financial transparency.[5]

AI, big data, and e-invoicing not only help simplify and accelerate the process of securing trade finance for SMEs but also enhance transparency and reduce fraud risks. These technologies create secure, transparent digital records that are easily auditable and traceable. Blockchain, for example, provides an immutable ledger that ensures that all parties involved in a trade transaction have access to the same information, reducing the risk of fraudulent activities and disputes.

Furthermore, AI-powered risk models can help financial institutions detect patterns that may indicate fraudulent behavior, further safeguarding SMEs and trade partners. As a result, SMEs are more likely to trust the digital trade finance system, which fosters greater participation in global trade. A report by the World Economic Forum emphasises the role of blockchain and AI in enhancing the security and transparency of trade finance processes, making it easier for SMEs to engage in international trade with confidence.[6]

The integration of AI, big data, and e-invoicing is empowering SMEs to access capital more efficiently, improving their ability to compete in global markets.

Ultimately, advancements in technology, which are now within every institutions reach are not only reducing operational costs but also enhancing the security, transparency, and speed of trade finance transactions. As digital trade finance evolves, SMEs will thrive in more inclusive financial systems, fueling growth and innovation across industries.

[5] https://ec.europa.eu/digital-building-blocks/sites/display/DIGITAL/eInvoicing?utm_source=

[6] https://www3.weforum.org/docs/WEF_White_Paper_Trade_Tech_.pdf?utm_source