TRADE FINANCE TALKS

SPRING 2020

Will ESG Fix it? | Afreximbank - Accelerating the Growth of African Trade | EBRD - "Green": The New Transition Concept

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1.1

Editor's Note

DEEPESH PATEL

Editorial Director
Trade Finance Global (TFG)

Board Member, Emerging Leaders Committee
ITFA

When we decided on the theme of "Challenging Business" for this issue back in November 2019, we didn't realise quite how on topic it would be.

At the time, predictions focussed on a slightly calmer 2020, with an ease of geopolitical tensions, a slowdown in trade disputes and fewer clouds on the horizon. Then the storm clouds began to gather. Brexit happened, and coronavirus.

China is the world's largest exporter by a significant margin, and sits at the centre of global value chains. There's the old saying "when China sneezes, the world catches a cold". The supply disruptions caused by coronavirus have cascaded through the market in 2020, as nearly 300 million migrant workers struggled to return to factories after Chinese New Year. The trade finance industry is coming to terms with just how nuanced, siloed and complicated supply chains have become.

On the technology side, the WTO Blockchain Forum has shown us that one or two consortia sadly cannot solve all challenges in global trade. There are now more parties involved than ever before and more complications. Meanwhile, in the background and despite all the challenges, emerging and developing markets (EDEs) are doing great things - and that's what we wanted to highlight in this issue - the progress, the unspoken voices and the real impact of increased regulation on MSMEs in EDEs. Our other features include:

Gwen Mwaba, Afreximbank, who highlights the challenges in MENA, where only five countries have regulatory systems permitting the assignment of assets, payables and receivables financing. It is refreshing to see the bank's new portfolio of tools and information sources supporting innovative financing for SMEs (MANSA).

Sean Edwards, ITFA, and Olena Grynuk, SME Banking Club, show that innovative financing and distributed ledger technologies (DLT) can unlock solutions by reducing transaction costs that offset lower financing margins.

At the same time Susie Aliker, BACB, explains where new opportunities are opening up for smaller, more agile, specialist banks with access to low cost capital, where deep knowledge of markets can be used to mitigate risks.

As always, thank you to our contributors, partners and sponsors, as well as you, our readers, and we hope you enjoy this issue of Trade Finance Talks.

FOREWORD, INTERNATIONAL TRADE CENTER

IAN SAYERS

Head, Access to Finance and
Enterprise Sustainability
International Trade Centre

It is a pleasure to introduce this edition of TFG in which we look at the challenges of serving the growing opportunities in emerging and developing economies (EDEs) and how trade and supplying financing should play a role in financing sustainable development.

Sustainable growth will not happen automatically. In the countries slated to lead the world out of economic stagnation, SMEs make up more than 70% of the productive force. They face immense challenges in finding the financing they need to grow. Working capital lending rates remain above 20% pa, with asset collateral regulatory requirements of >100%. Despite operational default rates < 1%, few EDE banks take on short-term financing. Higher operating costs and a string of intermediaries keep EDE SMEs permanently in survival mode, leaving them vulnerable and unable to afford the sustainability standards they want, and we expect them to adhere to.

Trade practices in EDEs have changed little in the last thirty years, locking in suppliers to sell to international buyers, some of whom oblige regular suppliers with advance payments. Given that there are few alternative sources of financing, this is not necessarily a bad thing, but it does limit EDE exporter-processors' ability to add value sustainably or diversify markets. Making available affordable trade and supply chain financing facilities would rapidly expand fair employment, use of renewables, reduction of pollution and waste. In this edition, TFG publishes news from contributors about their efforts to address these issues.

Multi-national trade financing institutions also need to realize how trade patterns are changing as EDE countries develop new East-West and intra-regional trading routes. This means adjusting risk parameters, considering new alliances and mechanisms to lower transaction costs whilst maintaining regulatory integrity. Stronger banking measures will inevitably let in non-bank financing providers to take a larger slice of the business.

ITC sees a new generation of highly creative and energetic young entrepreneurs taking over the reins of enterprises. They are amazingly keen to grow good quality, sustainable enterprises. We need to match their creativity by adapting trade and supply chain financing to level the competitive playing field, as they will be your producers and clients of the future. The insights provided in this edition should stimulate your thoughts in that direction.

1.2

What I talk About When I Talk About "Trade Finance"

MARK ABRAMS
Director, Trade Finance
Trade Finance Global

Member
UK Strategic Trade Advisory Group (STAG)

We established Trade Finance Global (TFG) with the aim of bringing trade and receivables financing structures into mid-market companies.

We had experienced how effectively trade finance could be used by businesses to expand overseas, and how access was limited to the largest corporates and trading houses. TFG set out to address two issues in relation to mid-market companies: a) poor understanding of trade finance products and b) lack of access to appropriate trade and receivables finance by businesses.

That was 7 years ago, and the intervening time period has given us a unique insight into the global trade finance market. We now publish and provide ungated information and educational resources to 120k+ monthly readers and we have mapped the risk appetite of 270+ lenders globally, making TFG the largest trade finance platform.
Since we started, the market has changed. Participants now talk openly about the $1.5tn/yr trade finance gap - between the market demand and provided supply for trade finance. The WTO estimates between 80% and 90% of global trade relies on trade finance, and demand will continue to grow.

Meanwhile, the issue is not supply. The market is flooded with liquidity, interest rates are low and trade finance. as an asset class, represents an excellent risk profile for funders and asset managers.

So the problem lies in:

a) transparency - the market is fragmented
b) structuring - the capital is not deployed in appropriate ways, and
c) knowledge - the lack of understanding of what financiers want and what companies can access

It has become clear to many that traditional banks, in isolation, will never be able to fill the trade finance gap. This is usually attributed to regulatory burdens and stricter internal risk criteria (the "KYC Excuse"). It's hard to say to what extent this is true. In reality, banks have always struggled to service smaller clients effectively. Now, some of the largest institutions are refusing to on-board new clients, and are focussed on maintaining and growing existing client relationships (share-of-wallet) as team sizes shrink. Some of the world's largest trade banks only have hundreds of trade finance clients in certain sectors - typically large corporates and trading houses. The net result is compressed yields to

these clients, and therefore a competitive advantage versus the rest of the market.

Other trading businesses - including mid-market corporates and smaller companies - are typically offered more vanilla debt facilities, with lower lending limits and fewer services. This stifles competition with larger competitors, and limits a companies ability to expand its trading operations.

In order to bridge this structural divide, financial institutions (including funds) and fintech/ tradetech companies, are working in collaboration. By recognising specific market needs, and channeling liquidity through innovative financing structures, capital can be deployed at scale.
There has also been some progress in other areas.

Governments are starting to recognise the issue, in the light of geopolitics and trade wars, and reconsidering state support through ECAs and incentives, as well as signposting businesses to relevant services.

The knowledge gap has also attracted more discussion.
It's hard to assess how many companies are being refused access to trade finance, when the products are so poorly understood and the lending criteria are ever changing - especially in response to recent trade route disruptions.

TFG aims to map borrower requirements and lender criteria, to reduce friction and increase transparency. By facilitating access to hundreds of specialist liquidity providers, we focus on bridging the trade finance gap. By publishing data and views from thought leaders and trade bodies, we hope to make trade more accessible and encourage discussion.

We have the aim of democratising the trade and receivables finance market. Whether you are a trade expert or liquidity provider, we hope that you will join us on this journey.

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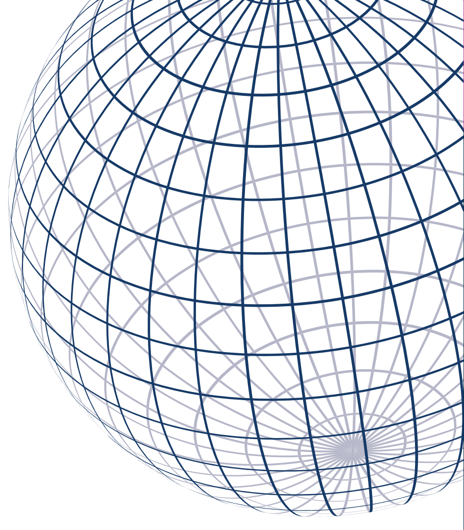


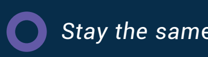
20 trade and supply chain finance predictions, by 20 experts in trade

MACROECONOMIC AND GEOPOLITICAL

INCREASED PROTECTIONISM AND MOVING FROM A RULES TO A POWER BASED SYSTEM

DO YOU EXPECT TRADE TENSIONS TO CONTINUE IN 2020?

Stay the same



G7 INTEREST RATES WILL REMAIN LOW

"If G7 interest rates remain close to zero we would expect to see a rise in receivables, payables and other forms of supply chain financing."

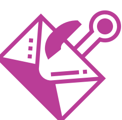
0%

A RENAISSANCE IN AFRICA AND SOUTH ASIA

REGULATORY AND COMPLIANCE

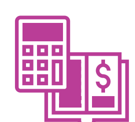
PREDICTED INCREASE IN COMPLIANCE COSTS FOR BANKS

ON THE AGENDA



INCREASED SCAMS / FRAUD

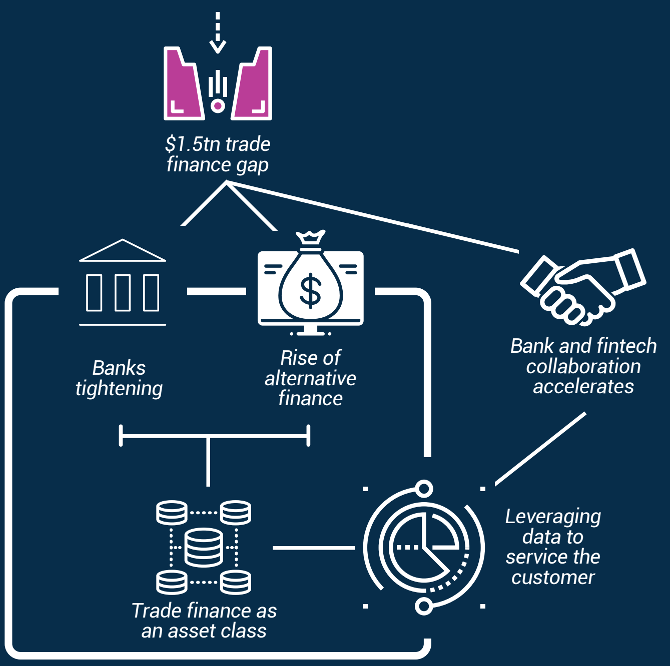
DIGITAL TRADE POLICY



BALANCE SHEET TREATMENT OF TRADE FINANCE

INCREASED COMPLIANCE COSTS

TRADE AND SUPPLY CHAIN FINANCE



"The industry as a whole recognises the opportunity for alternative financiers – namely institutional investors – to help close the SME financing gap."

"All parts of the trade finance ecosystem will continue to make investments in improvements in data accuracy and exchange to support much needed efficiencies and growth."

ESG AND SUSTAINABLE TRADE IS ALSO A KEY FOCUS

- GREEN BONDS
- ADDRESSING THE SUSTAINABLE DEVELOPMENT GOALS (SDGS)
- ENVIRONMENTAL, SOCIETAL AND GOVERNANCE (ESG) REPORTING

FINTECH AND BANK COLLABORATION WILL ACCELERATE IN 2020.
TOP TRADE TECHNOLOGIES TO WIN IN 2020:

RUNNERS UP:

WINNER:

CREATION OF A NETWORK OF NETWORKS

"As business networks in the different trade participating industries mature and become operational, the need for standardization will become more obvious to many."

READ NOW

OUR EXPERTS

SIMON PARIS
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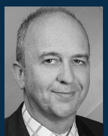
SUKAND RAMACHANDRAN
BCG

VINCO DAVID
BERNE UNION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2

Top Trade Technology Predictions for 2020

CARTER HOFFMAN
Journalist
Trade Finance Global

As we enter into a new decade, Finastra and TFG's Carter Hoffman spoke to trade experts to give their bets and views for 2020 in terms of trade and supply chain finance. OCR or ML? AI or DLT? Buzzwords and hype or reality?

To this end, TFG has sat down with 3 key leaders in the trade finance space to uncover the biggest predictions for technology in trade finance for the coming year.

IAIN MACLENNAN, Head of Trade & Supply Chain Finance, Finastra

DAVID BISCHOF, Deputy Director, Finance for Development at the ICC

DANI COTTI, Managing Director, Centre of Excellence, Banking & Trade at TradeIX & Marco Polo

CARTER HOFFMAN, Journalist, Trade Finance Global

CH: Over the last few years we have seen tremendous innovation across many technologies including DLT and AI. When it comes to technology and innovation, what are your top predictions for trade, supply chain, and receivables in 2020?

IM: We will see much more collaboration with regards to open APIs and selecting services from an end-to-end trade servicing perspective. In addition, we will see new applications of services already available in other sectors within the trade space. To this end I think we'll see significant adoption of networks that are currently in play, but perhaps not in line with their expected interaction models. There will also be greater integration of multiple technologies to meet the "customer need" whether that is OCR, AI and ML in compliance-checking (i.e. Conpend, Traydstream or others) or another combination of technologies around network of networks and combining multiple previous isolated flows; it's going to be exciting.

DB: We expect major changes throughout 2020 as the digitalisation of the trade finance industry continues to develop exponentially. The evolution of blockchain will especially be something to look out for as projects and initiatives move beyond the pilot phase. ICC is currently developing a Digital Trade Standards Initiative (DSI) to promote cross-industry digital trade standards to drive technical interoperability among the numerous blockchain-based networks and technology platforms that have entered the trade and trade finance space over the past two years.

The presence of fintechs in the trade finance industry is also shaping client preferences, and collaboration with traditional trade finance providers is expected to continue growing. We have recognised this trend with the first ever Fintech

IAIN MACLENNAN
Head of Trade & Supply Chain Finance,
Finastra

DAVID BISCHOF
Deputy Director, Finance for Development
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Managing Director, Centre of Excellence,
Banking & Trade
TradeIX & the Marco Polo Network

Showcase set to take place at the Banking Commission Annual Meeting in April.

DC: 2020 will offer exciting new tech solutions for Supply Chain and Receivables Finance Program users as a lot of providers will master and leverage the new technologies that will deal with and address the limitations of current programs and solutions. The distributed networks built on blockchain technology will undoubtedly have a big impact as they are radically changing the engagement, onboarding of participants and the deployment of trade finance solutions. AI technology will also have a big impact with new solutions being introduced as a result of intensive data management, with data being the new oil for all supply chains.

CH: You have all mentioned several different technologies that will play a role in the year ahead. If you had to pick one technology that you think will truly kick off or have the most success in 2020 which would it be?

IM: Yes it is hard to predict but I like the "Network of Networks" concept, and I think it truly has a chance to "kick off" or "kick on" in 2020. This could give customers a user experience that they have never had previously, incorporating multiple levels of information into a seamless view, irrespective of its documentation, logistical or another form of information. Talking to a number of banks, there is a belief that the networks will be selected by the corporates and banks will integrate into these. This is a great opportunity for Finastra that we are actively pursuing with a number of our clients.

One other technology which actually links quite strongly into the network of networks is the Internet of Things, again providing a level of information that we have never had to date.

DB: Distributed ledger technology (DLT) does have vast potential – and we can expect further progress next year. Indeed, in the ICC 2018 Global Survey, DLT was highlighted as a priority area of development over the following three to five years for banks.

And in November 2019, ICC partnered with Perlin, DBS Bank, Trafigura, Infocomm Media Development Authority and Enterprise Singapore to pilot ICC TradeFlow, a blockchain platform aimed at simplifying the trade documentation process for all parties, enabling them to visually map out trade flows, issue instructions to partners, and analyse trade actions in real time.

Automation through DLT will help enable wider market access to SMEs, often locked out of the trade finance market due to the high-cost, paper-heavy processes and requirements. DLT could also help improve sustainability tracing in trade finance transactions.

DC: It'll have to be DLT, which is also the foundation of the Marco Polo Network and powers the distributed network enabling real-time, peer-to-peer exchange of data and value. With more than 30 banks and some of their corporates on board, we are excited about the continual growth both in the number of members and the innovative trade solutions that will be available in 2020.

ALEXA, GET ME TRADE FINANCE

CH: Trade finance is changing and technology is making it happen. 2020 will be a year of continued technological innovation and advancement. AI, DLT, OCR, IoT, NLP, API, and other assorted acronyms will slowly etch away at the old face of trade finance unveiling a fresh new digital look. Increased levels of digitization in trade are fundamentally changing the customer journey. In the coming months and years we may see this disrupted even further as large brands like Amazon seek to expand their portfolio and offerings to include trade finance. Amidst an uncertain environment there is one thing that can be said for sure: the trade landscape is changing and technology will play a role in determining in which direction the industry will go. ■

3 Challenging Business

Clearcut the WTO
SEGURIDAD
Defend Our Forests

3.1

"Green": The EBRD's New Transition Concept

RUDOLF PUTZ
Head Trade Facilitation Programme (TFP)
EBRD

The European Bank for Reconstruction and Development (EBRD) was established to help build a new, post-Cold War era in Central and Eastern Europe. It has since played a historic role and gained unique expertise in fostering change in the region - and beyond -, investing more than €130 billion in a total of over 5,200 projects. Such experience has stood the EBRD in good stead when it has expanded its original region of operations into new countries such as Mongolia (2006), Turkey (2009), Jordan, Tunisia, Morocco, Egypt and Kosovo (in 2012), Cyprus (2014), Greece (2015) and Lebanon (2017). It is currently active in nearly 40 countries from central Europe to central Asia and the southern and eastern Mediterranean, plus the West Bank and Gaza.

At its foundation, the EBRD integrated the environmental dimension into its core constitutive document. The Agreement Establishing the EBRD stipulated that "the Bank is committed to promoting environmentally sound and sustainable development in the full range of its investment and technical cooperation activities."

The 2016 review of the transition concept finally explicitly recognises the "green" dimension of environmental sustainability as an integral quality of transition within a sustainable market economy, making plain that economic decisions should reflect the full value of resources to present and future generations.

This recognition is in line with the aspirations of the international community, expressed last year in the seminal United Nations Sustainable Development Goals and the Paris Accord on climate change.

It is also very timely as 170 countries agreed to phase out hydrofluorocarbons (HFC gases are thousands of times more destructive to the climate than carbon dioxide).

The "green" quality of transition provides an enhanced context within which the EBRD can pursue the ambitious objectives set out in its Green Economy Transition (GET) approach, including that GET financing account for 40 per cent of total EBRD financing by 2020.

This will be achieved by scaling up existing activities (from industrial and municipal infrastructure energy efficiency to renewable energy and Green Economy Financing Facilities, or GEFFs) and through innovation in environmental financing and policy products.

The EBRD has a strong base from which to pursue these objectives, with cumulative environmental financing since the launch of the Sustainable Energy Initiative in 2006 reaching close to €21 billion in over 1,170 projects.

The formal recognition of a "green" transition quality provides a still stronger basis for achieving our Green Economy Transition objectives, with benefits to the countries where we work and beyond.

EBRD'S GREEN TRADE FACILITATION PROGRAMME (GREEN TFP)

The EBRD's Trade Facilitation Programme (TFP) was developed to promote and facilitate international trade to, from and within central and Eastern Europe, the Commonwealth of Independent States (CIS) and the southern and eastern Mediterranean region. Under the TFP, guarantees are provided to international commercial banks (confirming banks) thereby covering the political and commercial payment risk of transactions undertaken by issuing banks in the EBRD's countries of operations. At present there are over 100 issuing banks in 26 countries participating in the TFP, working with over 800 confirming banks and their subsidiaries throughout the world. Issuing banks in the region participate in the TFP with total limits in excess of €1.5 billion.

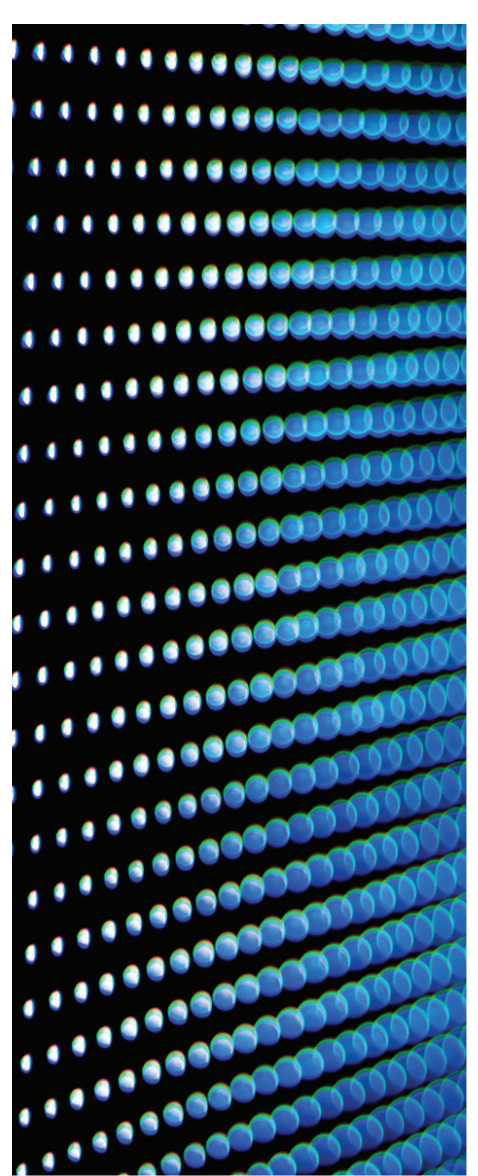
The Green Trade Facilitation Programme (Green TFP) stimulates the supply of high performance technologies and services. By combining short-term trade finance instruments supported by the TFP with medium- to long-term investment finance through GEFFs, the partner banks can finance exports, imports and local distribution of imported energy efficiency, renewable energy and climate technologies and services. Under the Green TFP, guarantees are provided to international commercial banks covering risks of transactions undertaken by participating banks in EBRD's countries of operations. The Green TFP provides a range of facilities to participant banks:

- Cover for a broad range of trade finance instruments
- Irrevocable guarantees for up to 100 per cent of the face value, payable on first written demand
- Uncommitted trade finance lines and transaction approval on a case-by-case basis
- Fast and simple approval procedure to issue guarantees
- Short-term loans to selected local banks for on-lending to local exporters and importers.

CASE STUDY: GREEK BANK SUPPORTS RENEWABLE ENERGY GENERATION WITH GERMAN TECHNOLOGY

A Greek bank provided its financial support for importing solar modules from a German manufacturer to Greece. The high wattage makes the modules the ideal solution for industrial scale equipment from the open-field facilities, through the tracking system, to the roof-mounted installation. The usage of such highly efficient solar modules could not only lower electricity bills, but also reduce greenhouse gas emissions.

At the request of the importer, the Greek bank requested a German bank to issue a guarantee in favour of the German manufacturer against its counter-guarantee. The bank from Germany needed additional security from the Greek bank. The Greek bank requested the EBRD to issue a guarantee in favour of the German bank within the TFP. Such guarantee enabled the German bank to accept the payment risk. As a result, the exporter minimised risks of non-payment for the solar modules, and the importer did not need to make an advance payment to receive the ordered goods.



CASE STUDY: SERBIAN ENGINEERING COMPANY IMPORTS LED LIGHTING SOLUTIONS

A Serbian company dealing with design and execution of electrical works in the construction industry decided to import LED lighting, due to the efficiency of LEDs (they use about 85% less electricity than incandescent bulbs and 50% less than fluorescents, hence, save energy and costs).

In order to pay for the delivery of the LED lighting, the buyer needed a short-term loan from its local bank. The bank of the buyer applied to the EBRD with a request to receive a short-term cash advance within the framework of its TFP. After receiving the funds from the EBRD, the Serbian bank granted a loan to the buyer by paying for the delivered goods to the foreign supplier.

The foreign supplier received timely payment for the delivery and the Serbian buyer received the goods and the needed short-term financing. The end-users of the imported technologies (the clients of the Serbian company) could also save costs, contribute to the positive environmental impact and reduce the amount of waste in landfills.

Such investment projects could be also combined with medium- to long-term loan financing from the EBRD's GEFFs. GEFFs support energy efficiency and renewable energy projects with free advisory services and investment incentives. The receivers of GEFF loans benefit from the improved financial indicators of their investment projects.

GREEN TFP - ACHIEVEMENTS SO FAR

Since its start in 2016 the Green TFP has supported more than 900 foreign trade transactions with a total value of more than €675 million, resulting in energy savings of 1,513,200 MWh, water savings of 1,681,399 m3 and emission savings of 605,376 tonnes CO_2. ■

3.2

Breaking Down Sustainability Barriers in Global Supply Chains

MICHAEL VRONTAMITIS
Head of Trade, Europe and Americas
Standard Chartered Bank

Sustainability is no longer an adjunct to good business, but pivotal to it. In August 2019, the United States Business Roundtable, an association comprising CEOs of leading US corporations that together employ 15 million people and generate $7 trillion in annual revenues, globally committed to placing sustainability and fair, ethical engagement with suppliers at the heart of business practice. The difficulty for many multinational corporations (MNCs), is how to deliver on this objective in practice.

Large multinational corporations (MNCs) play a vital role in achieving the 2030 United Nations Sustainable Development Goals, a key theme of this year's World Economic Forum. Global supply chains extend into many of the regions and communities that are most vulnerable to negative environmental and social impacts that can result from every stage of the supply chain (figure 1) so reducing these effects is critical to building sustainable and secure environments, communities and supply chains. Stakeholder scrutiny is also growing amongst investors, employees and customers, increasing the pressure on businesses globally to demonstrate sustainable business practices.

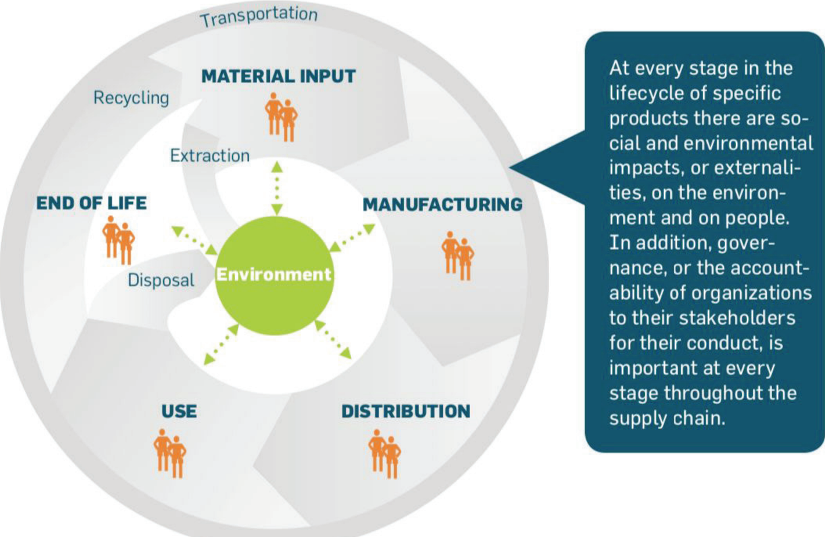


Figure 1. Environmental, social and economic impacts exist through every stage of supply chains

One challenge for MNCs in developing sustainable supply chains is how to define 'sustainable'. Complying with the United Nations' seventeen Sustainable Development Goals, together with the UN Global Compact's ten principles for sustainable supply chains, means that corporations need to measure a large number of metrics. Realistically, they need to prioritise, at least initially, and are most likely to focus on measures where regulations exist, such as anti-slavery rules, and issues on which their stakeholders are most engaged.

RESPONDING TO THE CLIMATE CHALLENGE

Climate change, for example, has become one of the biggest investor and consumer concerns, and is at the heart of sustainability ambitions at a global, national and local level. Eighty five percent of Britons are concerned about climate change, with the majority (52 percent) very concerned. In Singapore, this figure is over 90 percent. Almost half of Europeans identified climate change as a greater threat to their lives above unemployment, large scale migration and terrorism.

Despite growing public awareness and concern, and the EU declaring a climate emergency in November 2019, businesses are not yet doing enough. Mark Carney, outgoing governor of the Bank of England and newly appointed UN Special Envoy for Climate Action and Finance described the situation as "the catastrophic business as usual scenario". He warned, "Those that fail to adapt will cease to exist. The longer that meaningful adjustment is delayed, the greater the disruption will be."

There are 'green shoots' with large corporations making bold commitments to reducing or removing their environmental footprint. In January 2020, Microsoft's President Brad Smith commits,

"By 2030 Microsoft will be carbon negative, and by 2050 Microsoft will remove from the environment all the carbon the company has emitted either directly or by electrical consumption since it was founded in 1975."

This commitment relies not only on Microsoft's internal efforts, but also wider initiatives across its supply chain. The company is launching initiatives to help customers and suppliers reduce their carbon footprints, and a new $1 billion carbon innovation fund. From 2021, carbon reduction will be an explicit aspect of its supplier procurement processes.

A SUSTAINABILITY STALEMATE?

Building sustainable supply chains is not easy in practice, however, and arguably, some current initiatives may have the opposite effect. For example, some leading MNCs and their banking partners are incentivising suppliers to adhere to sustainable principles by offering preferential supplier financing rates. This approach is unsustainable, however, as the cost of financing a sustainable vs. unsustainable supplier is the same, ultimately eroding margins which will reduce the incentive for banks to offer financing. The onus on banks to validate a supplier's credentials creates further cost. Although unintended, the result is that it ultimately becomes more profitable to work with unsustainable suppliers.

There has been a number of early experiments and partnerships, such as Project Trado, to increase transparency and sustainability across supply chains. Although encouraging, a more extensive and far-reaching approach will be required to build the sustainable supply chains of the future. The incentives for doing so are significant. As Standard Chartered's recent Opportunity 2030 report illustrates, there are investment opportunities of almost USD10 trillion (USD9.668 trillion) across emerging markets to help achieve the UN's Sustainable Development Goals (SDGs).These markets are increasingly important to global supply chains but have the least ability to invest in tackling climate change and other sustainability objectives. In the coming months, we see a growing demand and opportunity for innovative solutions that deliver sustainable finance at a lower cost with better returns, therefore incentivising all supply chain participants, including financiers, to help break through the sustainability obstacles that we all face. ■

Source: BSR, cited in UN Global Compact's Supply Chain Sustainability: A Practical Guide to Continuous Improvement, second edition https://www.unglobalcompact.org/docs/issues_doc/supply_chain/SupplyChainRep_spread.pdf

3.3

Why the Simple Language of Incoterms® 2020 Rules will Grow Trade in Emerging Markets

BOB RONAI
Member of the Drafting Committee of Incoterms® 2020
Import-Export Services Pty Ltd

The new Incoterms® 2020 rules are now written in plain English so that readers do not need a law degree to understand them, and to facilitate translation into other languages.

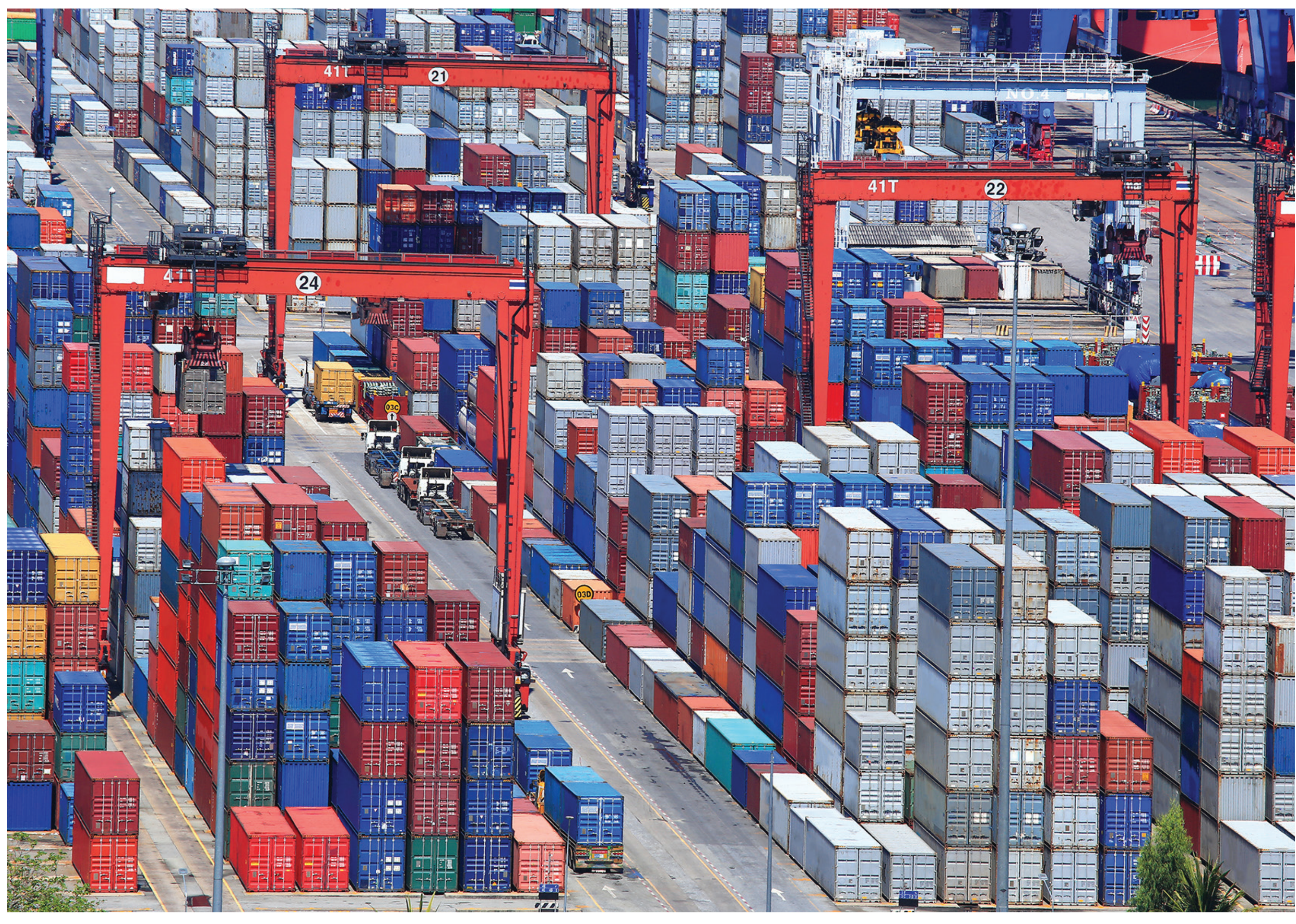
Trade in much of the emerging and developing world, notably to, from and within Asia, has increased dramatically in the past two decades to the point where the volume carried on container ships far exceeds that transported by truck in the Europe-Central Asia landmass. Therefore the need for Incoterms rules when the seller and buyer are not related and do not have a history of trading together has never been more important.

There are eleven rules but two of them, the bookends to the collection, EXW and DDP, carry strong warnings about their use and appropriateness. Four of the rules, FAS, FOB, CFR and CIF are strongly flagged as not being appropriate for container shipments, only being appropriate when the seller can itself put the goods on board the ship such as in break-bulk (loose cargo) or bulk shipments often involving chartered vessels. That leaves the seller and buyer with five rules to suit almost all possibilities for containerised (FCL and LCL) sea shipments and air shipments, plus in large landmasses road and rail shipments. These are FCA (Free Carrier), CPT (Carriage Paid To), CIP (Carriage and Insurance Paid To), DAP (Delivered at Place) and DPU (Delivered at Place Unloaded).

HOW TO USE THE RULES

HOW TO USE THE RULES
The way to correctly use any of these rules in a contract is to work out what terms and conditions the seller and buyer agree on, then find the most appropriate rule that best reflects the agreement. The matters that need to be dealt with are:

- Who will pay the freight? If the buyer then FCA, if the seller then the C or D rules.
- Who will bear the transit risk? If the buyer then FCA, CPT or CIP. If the seller then DAP or DPU.
- If the buyer bears the risk but the seller agrees to insure for it, then CIP.
- In FCA, CPT and CIP the seller delivers when it hands the goods to the carrier at origin, in DAP and DPU the seller delivers at the named destination place.
- In all these cases the seller must carry out export formalities and the buyer must carry out import



formalities.

- DAP requires the buyer to unload the delivering vehicle, DPU is complicated as the seller has to unload the goods into the buyer's premises, meaning arranging labour and equipment on the other side of the world. The destination place could be a container terminal or air terminal so delivery occurs before the buyer import clears. If the destination is the buyer's premises then that adds another layer of complexity as the seller needs to have his carrier take hold of the goods again once they are import cleared by the buyer and deliver them.
- DPU is similar to DAP with the added complication as the seller must arrange for the goods to be unloaded (typically from the container) at the destination.
- There is an increasing level of obligation and risk for the seller as we move from FCA through to DPU.
- On the other hand, there is a decreasing level of control by the buyer.
- It sometimes seems easier for a buyer in a smaller country to let the seller in a larger country arrange everything, but in doing so the seller is highly likely to add a profit margin to everything it pays for, with the end result that the buyer might be paying more than if it arranged things itself.
- A good freight forwarder is vital in international trade.

The Incoterms® 2020 rules do not deal with a number of matters including, among others, payment terms and method, transfer of title to the goods, governing law of the contract and dispute resolution, remedies for breach of contract.

It is vital for anyone engaged in international trade to have a copy of the Incoterms® 2020 book on their desk for quick reference. ■

4 Innovation and Trade Finance in the Developing Markets

WI-FI

4.1

Can the Blockchain Revolution Address Port Congestion in Africa?

LOUISE WIGGETT
Founder
Global Trade Solutions

South Africa is situated on one of the busiest international sea routes, critical to international maritime transportation. More importantly it is the lifeline of the South African import and export industries, with the numerous industries that are totally dependent on the combination of road and sea transportation to get their goods into and out of South Africa and the broader African continent.

Port accessibility and the last mile delivery is however not only critical to South Africa, but the whole of the African continent, where logistical costs and timeframes are some of the highest in the world.

Port congestion is one of the "elephants in the room" frustrating traders, logistical service providers, shipping lines as well as the road transport industry alike. From the road industry perspective, it affects productivity, has major financial implications as well as health and safety concerns for the road industry participants. Delays of hours and even days have been reported when collecting or delivering containers into and out of the ports in South Africa and Africa in general. Despite years of promises things just do not seem to be getting better and in fact the congestion experienced during 2019 were some of the worst in recent history.
What makes matters worse is that everyone is blaming everyone else: there is no reliable information available and the current centralised port community systems and approach are not functioning optimally.

This poses a serious challenge to a variety of industry role players and Global Trade Solution (GTS) decided to look into the problem to see if there is not a simplified way to make information more readily available and to ensure that this information is reliable and accurate. The approach taken was to keep it simple and come up with a technology based solution that could address the information problem. Once the information can be trusted and are consistently available, the focus could move to addressing the real problems instead of guessing where the problem exists and who is responsible.

GTS have found a way to alleviate and potentially solve the information problem through the use of Mobile and Blockchain technology and to create a digitized data flow that will benefit all industry role players involved in the movement of goods in and out of the ports and

to create last mile transparency.

According to Louise Wiggett, MD of Global Trade Solutions, the company's eDriver application timely and accurate records critical information and creates the ability to identify problems or delays in advance and makes this information available to the relevant authorised parties in real time. This is a huge step towards solving port congestion problems and creating visibility of where the actual problems exists.

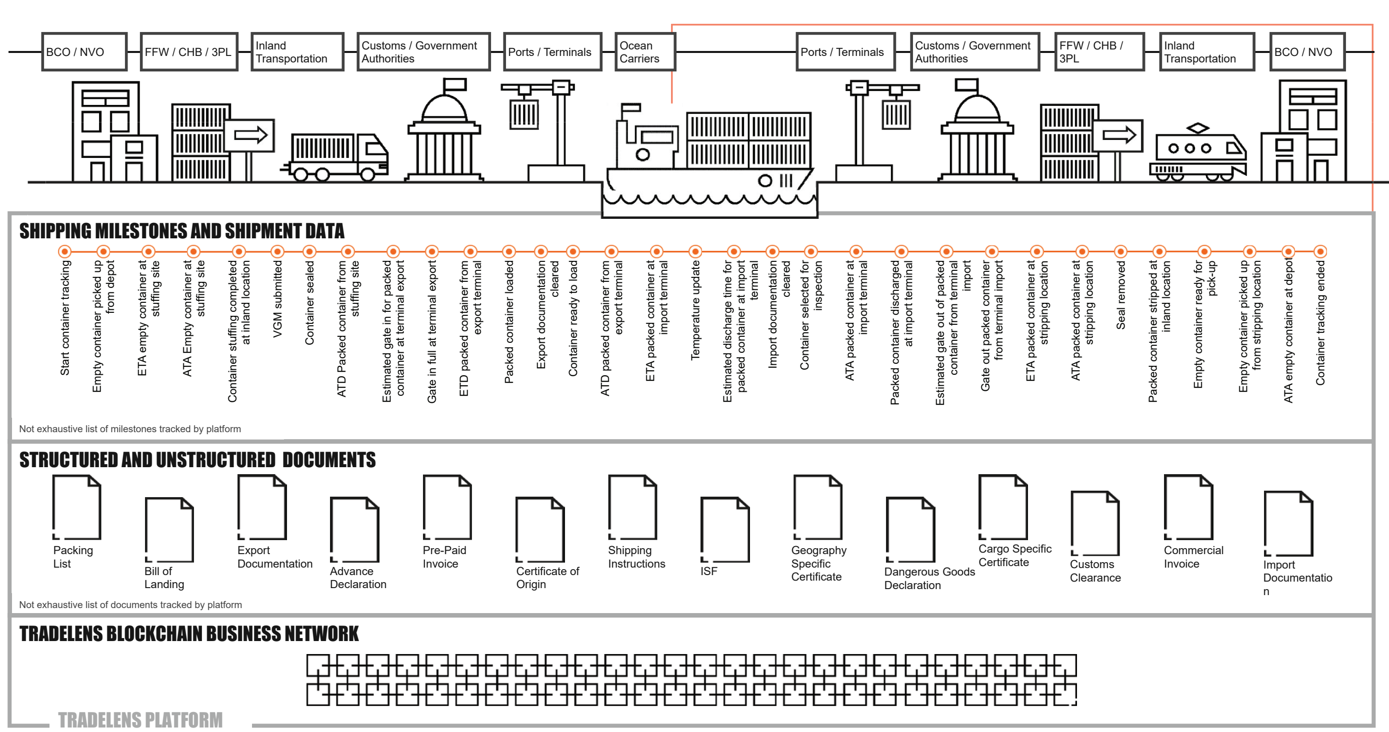
Working in partnership with IBM TradeLens, an open industry standard Blockchain technology platform that promotes the exchange of information across the global shipping industry, the combination of the blockchain technology and the digitization of the last mile activities will become an industry leader in the future.

Wiggett says the eDriver digitised solution is very simple and easy to use. The application can be loaded onto each truck driver's smartphone (routinely issued by companies anyhow) and the driver logs into the app.
The driver receives the information of which container to collect and it's location and the geo tracking process starts once the driver departs from the depot. The eDriver application geo-tags when the driver arrives at the port gate, when the container is hooked up and loaded and when the truck exits the port gate. This enables the depot manager to track and manage the process in real time.

In addition, the driver takes photographs as proof of evidence when uploading and off-loading the container, as well as any supporting documentation that might be required. When taking an empty container back, the reverse process takes place.
This information is then made available to the Tradelens Blockchain solution where it is disseminated to the wider community that forms part of the approved parties in the process flow.

"Apart from the low cost and ease of adoption, eDriver makes the driver feel more in control and removes the burden from the driver to provide updates to all the parties", comments Wiggett. The bottom line is that through the combination of the blockchain and mobile applications all the information becomes available to all parties in near real time.

A pilot project was successfully completed during the November and December 2019 period with a group of interested road hauliers in Cape Town, South Africa and eDriver is now ready to be deployed throughout the African continent. ■



4.2

Innovative Trade Financing and Risk Mitigation to Accelerate Sustainable Development

IAN SAYERS
Head, Access to Finance & Enterprise Stability
International Trade Centre

Enterprises in emerging and developing economies (EDEs) face enormous financing challenges to respond to new export market opportunities and grow their businesses sustainably. Medium and long-term investment financing for capital equipment and projects is constrained by poor fundamentals and lengthy due diligence for SMEs.

Innovative trade financing trials combining de-risking products, technology and in-country support have tested risk mitigation measures and yielded positive results for business expansion and supply chain sustainability. In this article, we examine the challenges and how financing opportunities could be scaled for widespread application.

THE BUSINESS OPPORTUNITY

Whilst European countries economies are in the doldrums, other parts of the world see growth opportunities. The African Continental Free Trade Agreement, or AfCFTA, will be formally launched on 30 May 2020. As cross border friction recedes, AfCFTA is expected to generate $4Tn in new trade between its 54 member countries over the next ten years. By 2030, according to the Brookings Institution, 2/3 of the global middle-class population will be in Asia. Most of their needs will be supplied from Africa and other low or middle-income Asian countries. The World Bank forecasts growth in trade around the greater Caribbean region to top 5.6% in 2020. Increasing income from value-added trade is a priority to reduce economic vulnerability for highly indebted producer countries. In each of these regions, SMEs provide >70% of productive capacity yet have limited access to affordable financing for expansion.

Supply chains are already vulnerable to climate events and poor labour conditions so, if we are to learn from past mistakes, this new expansion of trade must have a lower environmental impact and be more inclusive. Responsible international buyers and consumers are demanding that the Banks involved also demonstrate their contribution to sustainability.

Two key questions need answering:

- What role short-term trade financing can play alongside investment financing in this scenario?
- How can trade financing improve sustainability and be commercially viable?

WHAT IS HOLDING BACK SUSTAINABLE DEVELOPMENT FINANCING?

At the September 26th meeting of the UN High-level Dialogue on Financing for Development, participants noted that "despite massive pledges of funds for achieving the sustainable Development Goals, capital was not yet getting to where it was needed" and "... progress, particularly on environmental impact and climate change, is a long way behind schedule".

Realising that overseas development aid capacity would be inadequate to meet the 2030 SDGs, many leading aid donors and development finance institutions (DFIs) in 2016 turned to "Blended financing arrangements". These provide de-risking guarantees through fund managers to attract private sector investment. Whilst de-risking guarantees can shore-up bank returns and reduce retained capital, financial structuring on its own cannot compensate for the shortcomings in country business development support, weak enterprise management skills, poor governance and unsustainable business models.

Climate change is accelerating and time is not on our side. Initial investment due diligence in EDEs takes more than 9 months for medium and long-term capital allocations. Investment financing is essential, but alone cannot drive progress towards the SDGs quickly enough. Trade and supply chain financing involving international buyers and fewer short-term risks is approved much more quickly and releases additional cash to suppliers immediately. Could this financing mechanism that thousands of buyers and suppliers use every day play a role in improving sustainability? If the higher perceived risks associated with advance payments in EDEs could be offset, then low interest rate international money advances from buyers could open access to lower cost financing for SME suppliers. This financing would liberate cash flows, which, when guided by local advice and monitoring, would allow even the smallest enterprise or community to use for more sustainable growth.

TRADITIONAL TRADE FINANCING STRUCTURES WILL NEED TO BE RE-THOUGHT

The majority of all international trade financing is now concluded through "Open Account" under various forms of payables and factoring arrangements with international buyers rather than through bank-arranged documentary credits. Traditionally, payments to producers in low and middle-income producer countries pass through exporters' national Tier 1 banks, "international" local agents and financing providers before getting to recipients. Whilst buyers and importers in their own countries may access rates at <3%, recipient country financing actors in the chain each take some risk and add some cost. Buyers' local agents are paid to ensure that products packed into containers match specifications and transportation requirements.

Default rates are historically <1%, but buyers rarely advance more than 30% of a shipments value. Even where payables and receivables financing exist, exporting SMEs and producer communities in their supply chains generally face short-term working-capital financing rates well beyond 20%, limiting their ability to increase factors of production to expand sales. A different set up will be required if lower cost trade financing is to be fully extended to producers and suppliers to accelerate improvements in sustainability and inclusiveness.

NEW APPROACHES TEST MULTI-LEVEL COLLABORATIONS, RISK MITIGATION AND SUSTAINABILITY IMPROVEMENTS

Trials of potential new structures and implementation partnerships between 2018 and 2019 involved multi-national retail importers, major trade finance banks, academic institutions, financial technology providers, in-country NGOs and de-risking collateral guarantee providers. Distributed ledger technologies (DLT) where used to reduce the time and cost of digital identity on-boarding, monitoring and outcome verifications. The trials applied reduced trade financing rates and advances to improve supplier cash flows and incentivise sustainability. Participants have been quick to point out that these multiple collaborations required discretionary funding to ensure success, particularly for the supervision of recipients' use of transaction cost savings, sustainability and quality claims verifications and for the preparation of smaller producer beneficiaries.

Banks are constantly balancing financing risks against interest rates, liquidity ratio regulations and returns on assets. In the models tested, costs to MSMEs

were reduced by up to 50% and advances increased. Bank collateral guarantees allowed RoA to be preserved, despite reduced interest rate income and higher risks from moving the locus of concessionary rates up the supply chain closer to producers.

Practical technical advice was provided by local services, whilst monitoring and validation using DLT was prepared by NGOs or development agencies. The results showed that short-term cash advances in frequent, smaller amounts were more easily assimilated and applied by MSMEs than large cash injections from investors. This led to continuous incremental upgrading of supply chain sustainability practices. Reports from the 2018-2019 trials show four key elements need to be brought together:

- Responsible trade buyers, trade financing banks and development finance institutions: To provide concessionary trade financing linked to time & purpose-specific collateral de-risking guarantees and sustainability actions;
- Donors: To fund parallel projects with development agencies for recipient country preparation and reinforcement of sustainable business development services;
- Technology providers and in-country financing institutions: To build applications for recipient country enterprise payment tracking, transaction records and sustainability verifications;
- Experienced development agencies: To advise financing providers and regulators, strengthen in-country MSME development and sustainability support capabilities, outcomes verification, supply, processer and shipment risks mitigation

Globally, such approaches have the potential to stimulate sustainability practices across a massive volume of traded goods if supply-side enterprise operational and delivery risks can be managed. Implementation challenges may be country specific, but strong collaborations with experienced development agencies like the International Trade Centre (ITC) can help to move pilot trials to scale.

ITC’s own projects prepare support services and 1,000s of exporting enterprises and producer communities each year to expand their businesses, reduce risk ratings, meet international standards, upgrade production and financial management. By forming closer alliances with organisations like ITC in donor-funded projects, responsible trade buyers and trade financing banks can internalise development agency experience and move from pilot to commercial viability more rapidly. Examples of ITCs experience can be found in its Annual Reports.

WHAT DO POTENTIAL TARGET IMPROVEMENTS IN SUSTAINABILITY LOOK LIKE?

Examples of where concessionary trade finance could stimulate a true multiplier impact on sustainability, inclusion and employment in large and small scale exporting enterprises:

Saffron and dried foods: Herat, Afghanistan

1,000s of saffron farmers and 20 dried foods processers follow organic methods that are being upgraded and certified with support from a 4-year EU-funded project. They require Shari'a compliant trade financing to cover the cost of sustainable inputs, market compliance, community welfare, health and education with an estimated increase in exports by 2021 of US$ 4 Mn pa.

Smallholder tea producers: Malawi

Under the TradO pilot project hundreds of smallholder tea farmers in Malawi benefited from savings in trade financing costs that, with the help of local NGOS, were used to improve working practices, reduce environmental footprints and pollution. New technologies supported traceability and transparency along supply chains. Shared data from smallholders improved performance and lead to earlier, pre-shipment financing, long-term benefits for suppliers and buyers, with net zero impact on production costs.

HOW TO MOVE AHEAD AT SCALE

The donor community is recognising the necessity to support projects that combine traditional capability building and access to innovative financing. Both are vital to address structural deficiencies and establish the eco-systems and frameworks required to effectively support sustainable trade development. In this way, affordable advisory services, changes to regulations and financing incentives will be integrated to provide clear business advantages that motivate MSMEs and producer communities to change practices, reduce inequalities and find new, sustainable higher-value markets for their products.

Building mechanisms at a global scale that fill the gaps in trade and capital financing will enable them both to play a role in improving sustainability that will dramatically accelerate attainment of the SDGS. In the words of Mr Mark Carney, The UN Special Envoy for Climate Change and Finance for CoP26, "financing will go a long way to bringing climate change resilience into the heart of every trading decision".

The views expressed here are those of the author and do not necessarily reflect the position of the International Trade Centre

5 Blockchain & Trade Finance

ICC, TFG, WTO | The Role of DLT on MSME Firms in the International Trade Industry

Holy Guacamole, avocado consumption has skyrocketed in the last decade. Health conscious consumers and trendy millennial hipsters across the world have contributed to a striking 150-fold influx in the fruit's consumption compared to ten years ago. Many of the nations contributing to this, such as the Netherlands, the world's second largest avocado consumer, lack the necessary climate to produce the fickle crop. To meet this growing demand without an ability to produce within their own borders, turning to the international market is a must. While popular to eat, many consumers don't fully understand the arduous journey that an avocado makes from the farm to the brunch boutique that doles out their favourite avocado toast. In 2014, Maersk followed a shipping container of roses and avocados on its way from Kenya to its final destination in the Netherlands to try and see exactly what a shipment must go through. What they found is that the 34 day process involved around 30 actors, over 100 people, and more than 200 interactions. That's a lot of work for a little bit of healthy fat. More importantly though, Maersk found that of those 34 days, ten were spent simply waiting for the plethora of documents to be processed. This is a considerable amount of idle time that could be saved by rethinking and digitizing the entire trade process. Distributed Ledger Technology (DLT), colloquially termed 'blockchain', is making the bold promise to help bring the trade industry into the digital age. All aspects of the industry, from the financing of transactions, right through to the actual physical movement of goods seem set to be disrupted by innovative thinkers designing new products and revamping processes.

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The World Trade Organization (WTO), Trade Finance Global (TFG), and the International Chamber of Commerce (ICC) have teamed up to produce a white paper exploring the broader impact that DLT is having on the trade industry. Read the full whitepaper on www.tradefinanceglobal.com/blockchain.

HOW DLT WILL IMPACT MSMES

The generally cited benefits for the trade industry adopting DLT, seem to apply particularly to MSMEs. For firms in this category, there are two distinct benefits that emerge.

First, is its ability to instill a bi-directional sense of trust. The first direction is from the MSME to their bank. By recording business data on a DLT network, MSMEs will become more transparent to potential financiers, opening new financing options that they may currently be locked out of.

The other direction is from the MSME to their counterparty to a transaction. In a lot of cases, MSME customers feel inclined to turn down a transaction either because they do not feel comfortable with it or they are obliged to a pre-payment of 100% before they have proof that the goods are ready, a particular obstacle for often liquidity-strapped MSMEs. Utilizing DLT platforms, and their enhanced transparency, will ensconce MSMEs with the confidence to follow through on more transactions that they are currently nudged to shy away from.

The second argument in favour of MSMEs benefiting from DLT is that it opens financiers to providing financing on smaller transactions, which often come from smaller firms. This stems from the idea that, while trade is a very paper cumbersome industry, the amount of paperwork required remains relatively stagnant even as the ticket size of a transaction increases. From the financier's perspective, the answer of where to allocate limited resources, like due diligence researchers, is easy to determine when costs are equivalent throughout all allocative possibilities. One can simply devote resources to the highest ticket items available, until there are no more resources left to allocate. Often, without DLT, the limited resources leave MSMEs underserved. However, DLT promises to drastically increase speeds, reducing what used to take hours or even days, into mere seconds. This means that the amount of work required to finance each transaction goes down, freeing up more time and resources to apply to more transactions. This will inherently allow financiers to lower their threshold for accepting tickets and serve smaller firms. This means that MSMEs will benefit from receiving financing where previously they would have none.

5.2

Periodic Table of DLT Projects

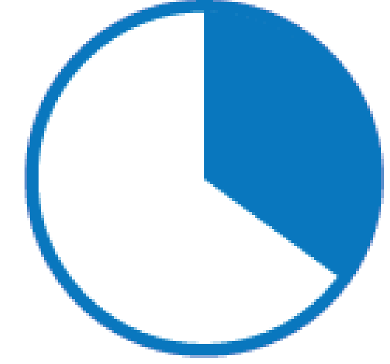
The Periodic Table of DLT Projects provides a means of beginning to conceptualize and differentiate between the countless initiatives, projects, consortia, and companies operating in the broad space that can be described by the phrase: DLT in trade. While no simplified diagram of the landscape can ever be able to fully encapsulate the minutiae and nuances of each and every project, this table provides a starting point for understanding and analyzing the industry.

To categorize the initiatives, we began by generating four broad groupings: trade finance, network of networks, insurance, and supply chain digitization. To further nuance each group, a subsequent eight categories were developed. These categories, represented by the different colourings in the table, are: trade finance initiatives, supply chain DLT initiatives, Shipping and Freight, DLT digitization of trade documents, non-DLT networks in trade finance, other initiatives in trade and supply chain finance, network of networks, and insurance. Assigning each initiative to a group and a category, and then loosely arranging them based on their current state of development, has left us with an improvised snapshot of the ecosystem.

The periodic table was selected to represent this for several symbolic reasons. Firstly, the Periodic table's natural inclination is to simultaneously represent striking similarities and distinct differences. On the actual periodic table, hydrogen may be most similar to helium in terms of mass, but the two remain radically different when it comes to features like reactivity. On the trade finance periodic table, similar comparisons and contradictions can be made between the projects. Simply because two projects are positioned close to one another, does not mean that these projects can be considered similar across every dimension.

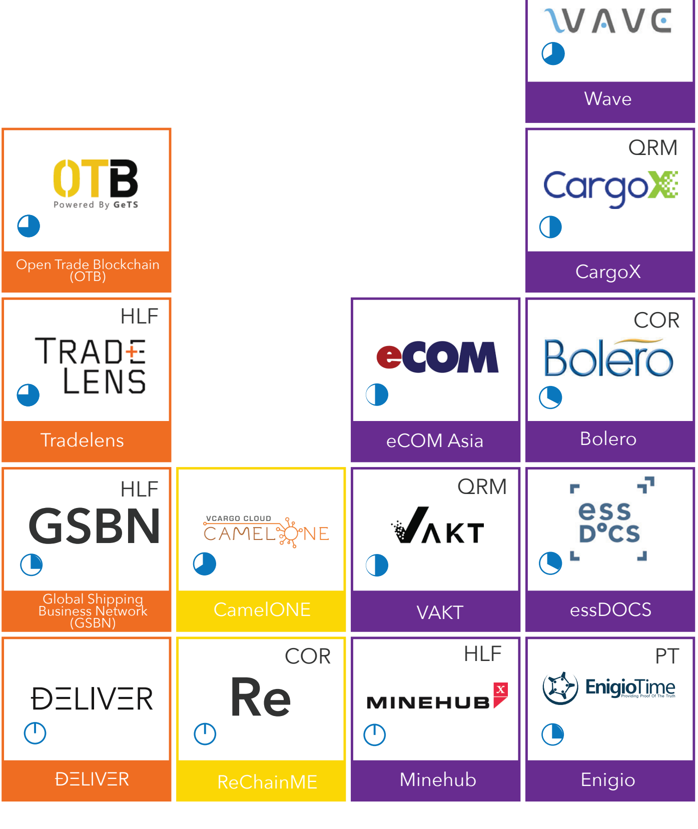
Another reason for selecting this design is its pre-supposed intention to grow and morph over time. The first periodic table of elements, developed in the 1860's, was made with intentional blank spaces, intended to one day be filled with elements that were predicted to exist, but not yet known. This design represents an inherent understanding that the landscape existing at any given time is not expected to last forever, but will see changes emerge over time. That is how the periodic table of DLT products has been envisioned as well: merely as a momentary snapshot of the industry as it exists today, with plenty of space to grow and change as the forces of Adam Smith's invisible hand continue to play.

The circles shown in the bottom right elements indicate what we believe is the current stage



of maturity of the various DLT projects that we cover in this white paper. If 1 represents the conceptual / proof of concept (POC) stage and 5 represents live and running (across all products and to all customers), the average stage of the projects under consideration is around 2.3, indicating that most projects are between the pilot and early stages of production.

Periodic Table of Blockchain and DLT Projects in Trade, including a 'stage' that the projects and companies are at. Correct as at 1 November 2019.
Source: Research by ICC, TFG, WTO



SUPPLY CHAIN DIGITIZATION

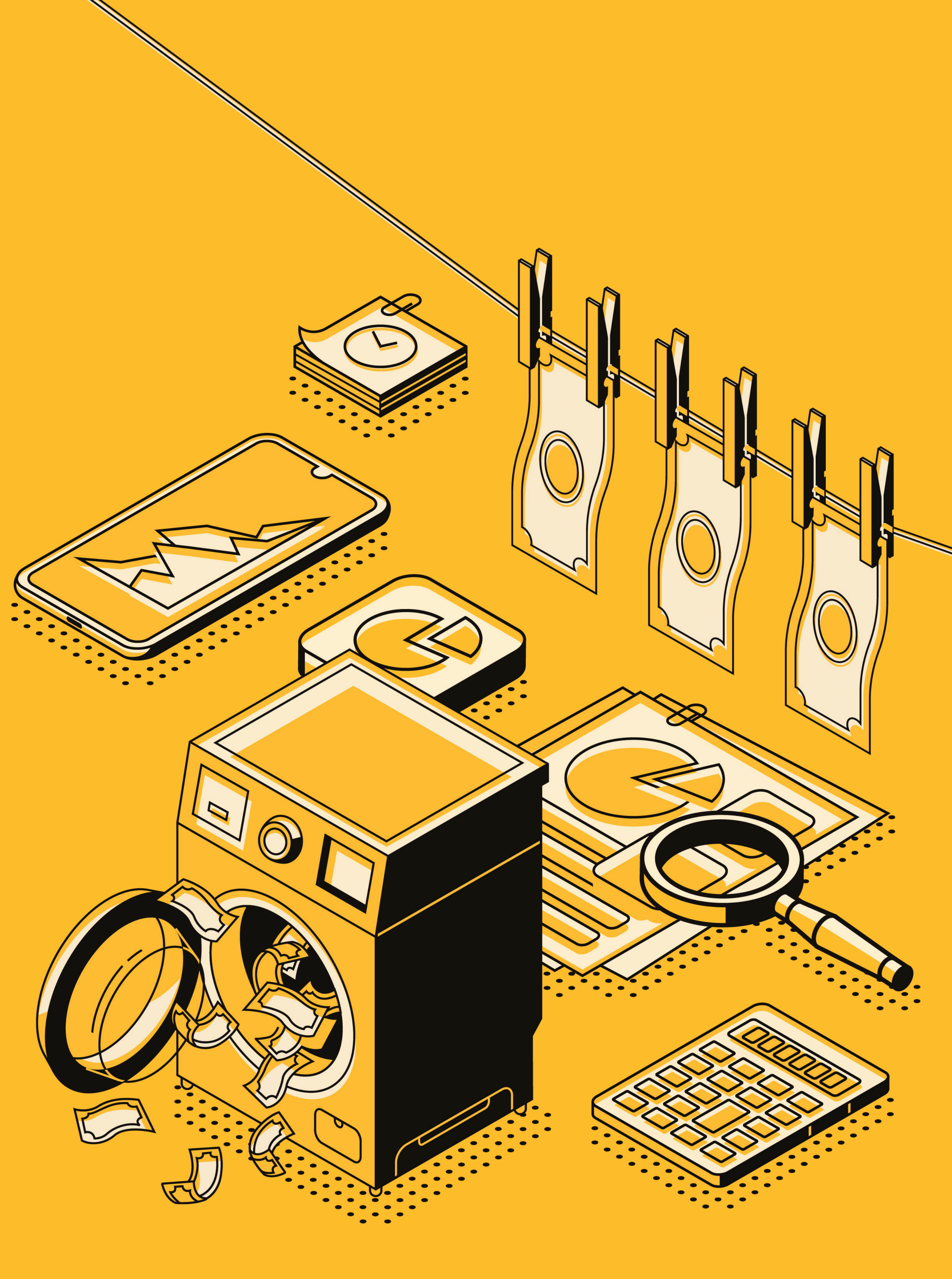
COLOUR LEGEND
TRADE FINANCE INITIATIVES
SUPPLY CHAIN DLT INITIATIVES
SHIPPING AND FREIGHT
DLT DIGITIZATION OF TRADE DOCUMENTS
NON-DLT NETWORKS IN TRADE FINANCE
OTHER INITIATIVES IN TRADE & SUPPLY CHAIN FINANCE
NETWORK OF NETWORKS
INSURANCE

UNDERLYING TECH LEGEND	
HLF	HyperLedger Fabric
COR	Corda
QRM	Quorum
PT	Proprietary Technology

STAGE LEGEND
Conceptual phase (0)
Proof of Concept phase (1)
Pilot phase (2)
Entering into production/early stages of production (3)
Live and running but rolling out complementary products (4)
Live and running - well established (5)

2.3 - Average Stage of DLT Projects

6 The Unintended Consequences of Regulation on Access to Trade Finance



6.1

Overcoming Challenges to Trade Finance Provision

OLIVIER PAUL
Director, Finance for Development
International Chamber of Commerce
Banking Commission

Since the turn of the millennium, global trade flows have trebled from US$6.2 trillion to a new peak of US$18.5 trillion in 2018. This would not have been possible without the use of trade finance products, which offer liquidity for both importers and exporters to transact with confidence on a global scale.

But many challenges to the adoption of trade finance products remain – such as the unintended impact of regulation and the growing cost of compliance – and, as such, market participants must work together to help minimise any adverse risk to industry growth.

UNINTENDED IMPACTS

The regulation and compliance requirements that have come into force since the 2007 financial crisis, while well-intentioned, have unexpectedly led to the exacerbation of the trade finance gap. Indeed, there is a deficit between the demand and supply of trade finance globally – the figure currently stands at US$1.5 trillion according to the latest numbers from the Asian Development Bank (ADB).
One example of such regulations is Basel III – or the third instalment of the Basel Accords – a set of international banking regulation recommendations developed by the Basel Committee on Banking Supervision (BCBS). Scheduled for gradual implementation, it was up to national, or supranational institutions to write these recommendations into legislation, as the BCBS does not have the authority to enforce its recommendations.

When these international standards are implemented at the national or even subnational level, each jurisdiction therefore has the right to adapt the recommendations, as the Basel III framework also allows for significant room for interpretation. This inevitably leads to a certain amount of variability and inconsistency in regulatory requirements across jurisdictions.

The implementation of Basel III's Net Stable Funding Ratio (NSFR), for example, was a cause for concern for many in the trade finance industry. The BCBS had determined that the Required Stable Funding Ratio for letters of credit and technical guarantees should be decided by national legislators. In the European Union (EU), this led to variable NSFR of between 5% and 15% dependent on the maturity of the transaction. In many jurisdictions outside the EU, however, the NSFR is either non-existent, flat or at a maximum level of 5%.

Despite a seemingly European issue, the impact of such regulations is global – affecting not only European banks, but

also those non-European banks dealing with European corporates via subsidiaries based in the region. As such, the potential negative effect of such inconsistency is widespread. Spearheaded by the International Chamber of Commerce (ICC), the industry successfully lobbied for a fairer treatment of trade finance instruments. This led to a significant reduction in the spectrum of rates applied at European level, down to 5% for a maturity of less than six months, 7.5% for less than 12 months and 10% for over 12 months.

DE-RISKING CONCERNS

Capital requirements, while vital to the resilience of the financial system, have also impacted the amount of capital banks have to invest in cross-border banking relationships. In the face of mounting – and increasingly costly – compliance requirements, financial institutions are actively reducing their number of correspondent banking relationships; a process also known as de-risking. By terminating or restricting business relationships with certain clients or categories of clients, banks can avoid, rather than face the need to manage, any potential risks. This phenomenon is a serious concern for the trade finance industry, with almost 90% of respondents to the ICC Banking Commission Global Survey on Trade Finance citing regulatory and compliance concerns as a major obstacle to growth. In turn, this heavily impacts banks in emerging markets – thereby affecting the clients in these regions that typically need trade financing most. Certainly, this lack of funding provision further fuels the trade finance gap.

ALTERNATIVE FINANCING SOLUTIONS

So what can the industry do to promote the continued provision of trade finance in markets which are considered to be higher risk? One solution is the growing use of export credit agencies (ECA) and private insurers as finance providers – supporting companies with the necessary protection and risk mitigation they need in challenging or volatile markets. Credit insurance-backed trade finance, where the insured can draw on their credit insurance policy to obtain funding from their financing banks, has been gaining popularity. And when the private market is less willing or unable to step in, ECAs can also provide adequate protection and funding support for exporters.

This will be beneficial not only to large corporates but to companies of all sizes, and crucially to SMEs. The growing capability of private insurers and ECAs to fund international trade represents another step towards alleviating the trade finance gap, and one that should be welcomed and encouraged across the industry.

WORKING TOGETHER

Tackling the trade finance gap has been a priority for the industry for many years, and while barriers remain to the provision of trade finance – especially for smaller business and those in emerging markets – market participants are working together to help alleviate any unintended obstacles to its provision. From a regulatory perspective, dialogue with standard setters and legislators is key from the earliest stages of the decision-making process if such regulations are to enable conditions for the industry to continue to grow in a viable manner.

Embracing new sources of finance, meanwhile, whether from private insurers, ECAs, or other respected sources, will help to improve the supply of trade finance available to companies of all sizes. ICC, as a leading voice in the trade finance industry, is helping and will continue to foster the fair regulatory treatment of trade finance, and the expansion of its provision to all market segments worldwide.

6.2

Originating and Distributing Trade Assets in the Emerging Markets

SEAN EDWARDS
Chairman
ITFA

"For where two or three are gathered together, there shall be performed the Parrot Sketch" instructs Monty Python. If the same rule of inevitability applied to trade finance conferences, the role of the parrot would be played by the perennial figure of the $ 1.5 trillion trade gap as measured by the Asian Development Bank. A considerable part of the gap, which translates to unmet demand for trade finance, resides within MSMEs in the emerging markets. Given the search for higher-yielding trade assets to entice the fabled NBFIs (Non-Bank Financial Investors) into financing trade, are emerging markets an El Dorado for these investors or are there structural and other factors preventing liquidity from soaking up these assets and solving the MSME's dilemma?

No investor can make a decision without information: leaps of faith only cover so much ground. In the emerging markets, marketable information can be hard to find particularly at scale and with ease. Some multilaterals and international utilities have tried to plug this gap by creating registries. Afreximbank has created a KYC/AML registry called Mansa covering corporates in all its members countries whilst a similar, but more global, registry has been created by SWIFT. The latter now contains information not just on banks but also on corporates. Governments have also made some efforts to create transparency by building financial information databases. In Senegal, a government agency, ADEPME, has created a rating system for local MSMEs to which these companies are encouraged, by carrot or stick, to contribute with several local banks requiring certification as a pre-condition of lending. And so we could go on, but comprehensive coverage is still elusive. Some private sector providers such as Coriolis Technologies with its Multilateral platform, Conpend and Quantexa are able to provide macro- and micro-level data drawn from a variety of sources including customs, ports and some credit reference agency data. Such data can be both descriptive and predictive. Banks themselves often possess more data than they are aware of. "Data-scrapers" such as Intix can often open the key to these hidden treasures and organise the revealed data rationally and usefully.

But if some progress is being made here, understanding the

form and underlying structure of the intended financing can be challenging when obligors are unfamiliar with the language of investors. This is partly an issue of description and taxonomy, attaching familiar labels, such as pre- or post-shipment, buyer- and supplier-centric, to potential deals which are nevertheless meaningful creating recognisable form and substance, and thereby marketable deals. In the emerging markets, bringing light to what sometimes seems like unfathomable chaos is one of the most important responsibilities of any originating bank. Producing bankable paper is not the preserve of Western financial institutions, however.

At the recent ITFA annual conference in Budapest, Banka për Biznes (BPB), a Kosovan bank, explained how, when dealing with micro segment clients, data analytics overcame one of the main barriers for growth being an inability to create scale in their supply. BPB created the “Supplier’s Club”. In essence, BPB has “married” suppliers and buyers in specific industries using its understanding of trade flows and credit profiles in a way which would have been unachievable for such small firms and cementing these relationships by providing finance through a technology light platform easily useable by all the parties. The platform empowers BPB to link suppliers with the buyers. Invoices are settled by BPB acting as an intermediary in financing working capital in a fast and efficient process flow. The platform works using SMS messages. The platform is free in terms of service and transaction fees, and has an in-built waiting period of time without interest for settlement. BPB has already introduced targeted Suppliers Clubs for industries where it has the greatest critical mass of suppliers and buyers. One such recent club will be underpinning supplies for more than 100 clients where the bank has approved limits. So was born a transparent and data-rich payable (considered safer than receivables in general terms) asset in an emerging market. Any takers?

Many originators and investors also consider the economics of a credit enhancement when looking at the emerging markets. Credit risk insurance (CRI) has been the star kid on the block here. With its genesis in political risk insurance, CRI is not a stranger to the emerging markets and is able to understand and price risk effectively. Specialist insurers, such as ATI in Africa, have perfected this know-how and expanded capacity. CRI capacity between 2008 and 2019 grew by around 150% according to Willis Towers Watson. Much of this is in the emerging markets. CRI comes at a cost however, sometimes as much as 80% of

the margin. Whilst many banks have used CRI to increase final take and hold participations, for investors this can represent excessive dilution of their profit. One solution is finer pricing from insurers. Another may be use of trade facilitation and trade enhancement offered by certain multilaterals and ECAs normally tied to trade in real goods and services as opposed to the provision of corporate debt. Banks make widespread use of these but the possibility of making these guarantees available to third-party investors is not a subject that has not yet been broached – most documentation requires the consent of the multilateral or ECA to an assignment. There may be a fear that proliferating such guarantees into broader credit markets less interested in the social purposes and ethics of trade facilitation may be undesirable. The delicate argument revolves around the way in which these credit enhancements could increase liquidity and capacity so achieving beneficial medium to long-term benefits not possible without private markets. These chickens and egg scenarios are always difficult to kick-start; it is surely worth making a stab at it.

Some investors are more hands-on than others. A number of these have been described as alternative financiers or altfins. One such is Channel Capital Advisors which, whilst also using CRI, also does its own clever structuring to derive the safest possible position for itself without sacrificing profit. To finance commodities in Asia, volatile products in volatile markets, for example, it will match payables and receivables as well as taking transactional security. Such involvement requires experienced and savvy staff.

NBFIs, especially those less able to get up close and personal to the underlying trade, have been used to slick and standardised processing, settlement and documentation. The plumbing for emerging market investments is not currently as well developed. Can the market put the necessary rails in place? Fintechs such as Tradeteq have established slimmed-down securitisation vehicles to enable the repackaging of trade debt into more recognisable debt obligations. This allows messy payment obligations to be transformed and, using cutting-edge AI technology, rated and scored. Settlement and clearing uses the same infrastructure as for bonds e.g. Euroclear, DTC etc. Presentation and packaging are critical to ensure that operational costs do not kick this asset class out of touch. Of course, the box, however shiny, can't be empty and these NBFIs still need to understand structures and counterparties. A harmonised taxonomy and better data can help tremendously here. The Trade Finance Distribution Initiative (TFDI), supported by ITFA, is striving to do just this as well as educate investors.

This short article merely touches on the possibilities of this new asset class. Enormous efforts and progress have been made only equalled by the effort that still needs to be put in before we can talk of a revolution in trade finance. The future seems tantalisingly near though...

6.3

BAFT Overview of Trade Finance Compliance Issues & Challenges

STACEY FACTER
SVP, Trade Products
BAFT

TFG's Editor Deepesh Patel spoke to Stacey Facter, BAFT's Senior Vice President for Trade Products, during BAFT's Global Annual Meeting, held in Frankfurt from January 13-15, 2020. Anti-money laundering (AML) and sanctions were key compliance themes at the meeting, so TFG caught up to discuss how these could be tackled moving forward, and what's in stock for 2020.

Deepesh Patel: Stacey, thank you very much for joining us. Could you give me a quick introduction on what you do at BAFT?

Stacey Facter: Absolutely. I work for BAFT as the Senior Vice President, specializing in trade finance products to help our membership tackle trade related challenges globally. I see myself as an ambassador for trade, and my background is actually in banking.

DP: Trade finance compliance and regulatory themes were extremely pertinent in 2019. Could you give a rundown of the top trends that you saw in 2019?

SF: I think the most significant and important compliance-related issue for banks and other industry players is to clearly understand what is expected of them by regulators around the world. Every single day, for anybody who's sitting in trade finance, there could be a surprise. I'd say the number one issue is that the bar is raised daily in terms of the expectations of a financial institution. In many cases, it's identifying issues that aren't even in the purview of a financial institution. We spend a lot of time talking to regulators globally, about financial crime compliance related to KYC (know your customer) and AML (anti-money laundering), articulating the importance of developing a consistent global approach. I would say that is the number one theme. There are many sub-issues in there, but I would say that's the most important one.

DP: So, has this uncertainty had an impact on trade finance compliance, whether it be sanctions or tariffs, and so on?

SF: The answer is absolutely yes, regarding uncertainty. I was referring to it before because it really is what is expected of a financial institution, even in the sanctions space. What is the responsibility of a financial institution to identify the bad guys or to make sure we're not doing business with sanctioned entities or sanctioned countries?

If for example OFAC issues a notice regarding ship-to-ship transfers of certain types of products, that may circumvent

identification of their movement from or to a sanctioned country, what is the bank's responsibility?

That has happened regarding North Korea; where OFAC issued an advisory alert that the banks were very concerned about, because of a lack of clarity of what was expected of them in order to identify sanctions abuses. Given that banks deal in documents, it is about whether they can track the ships? Certain people are pushing the envelope and answering yes; however, our role at BAFT is to contact OFAC to find out exactly what is expected of the FIs vs. other stakeholders in the supply chain. In this case, the advisory was mostly directed to the corporates.

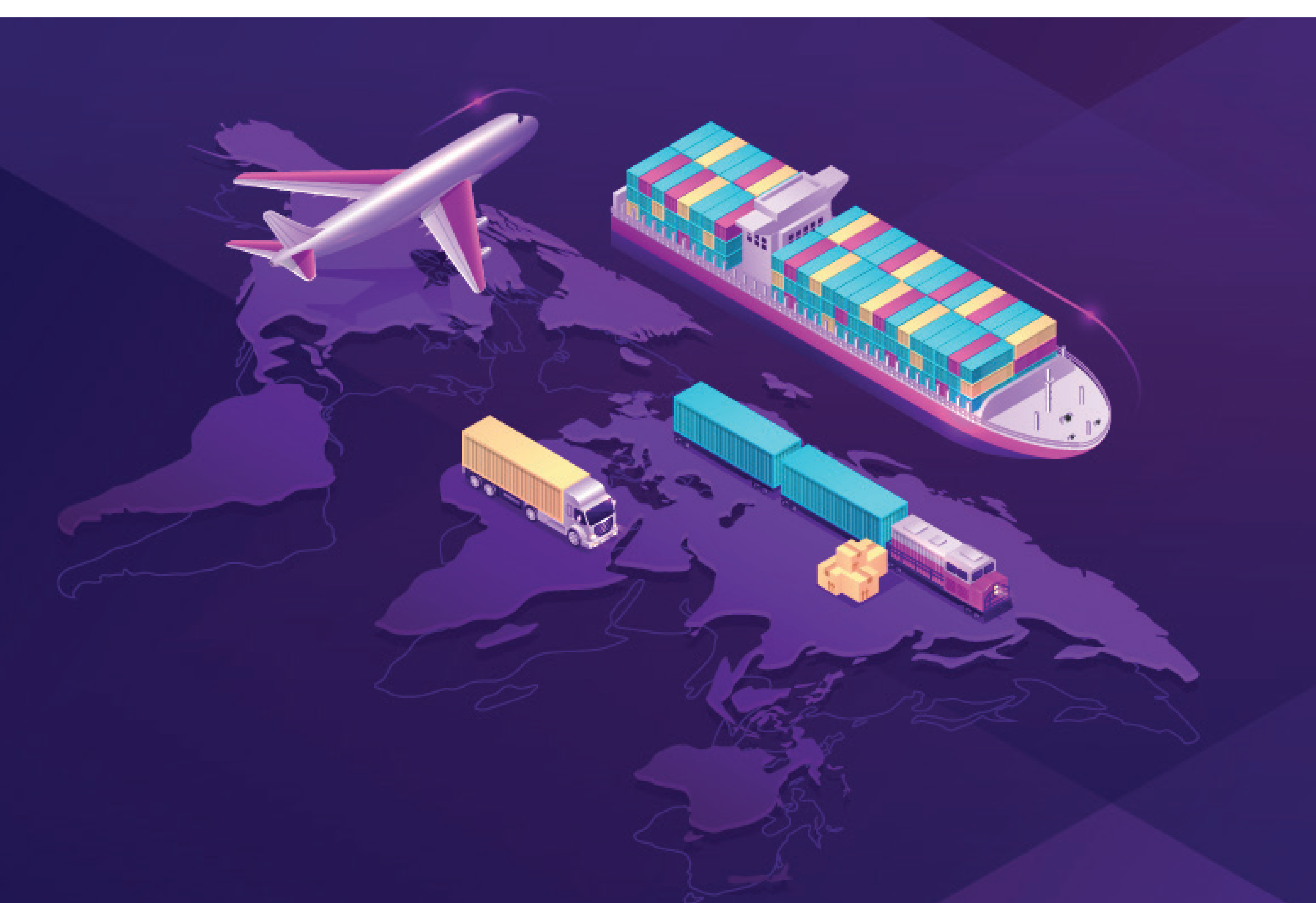
NAVIGATING UNCERTAINTY THROUGH THE TRADE FINANCE COMPLIANCE

DP: Thank you, Stacey. I think that just goes to show the importance of BAFT when it comes to representing the industry, from the banks and FIs, to large bodies such as OFAC. I think, and I recall, Steven Beck, at the Asian Development Bank, held an excellent round table last year, can you explain what happened?

SF: Last April, Steven Beck brought together multiple stakeholders involved in the oversight of financial crime and compliance issues. He invited the regulators, banks, corporates and trade associations like BAFT – Tod Burwell, our president and CEO, was there. The idea was to bring everyone together with a goal to develop a global methodology related to regulatory compliance especially around AML. The participants identified multiple themes, and I can remember some significant ones that became actionable items for the industry to focus on in the latter part of 2019.

For starters, banks must file SARs (Suspicious Activity Reports). Right now, if you file one for a trade transaction, it's very difficult to provide useful information that will really help law enforcement identify the abusers, as the form does not contain enough detail related to trade. One of the roundtable initiatives was to rewrite the SARs form for trade. And that is underway!

Another focus was the legal entity identifier (LEI), because of the challenges with inconsistent data across organizations and how sharing data may trigger privacy and confidentiality issues. As a result, there is a group promoting the usage of LEI. Then another group looked at



global trade finance compliance requirements. We updated our Trade Finance Principles paper written a few years ago - I say we, as it was Wolfsberg, the ICC and BAFT, that developed it to provide clarification for practitioners. For example, what level of due diligence do you need to perform on your customers at onboarding and at the transaction level? What level of due diligence is needed for non-customers? Is it required? And how best to identify who the customer is. We looked at traditional trade products and subsequently, this past year, we looked at open account supply chain products, which were then added to the paper. It is publicly available for the benefit of all industry players. As a follow up from the round table, this year, we sent it to regulators globally. We are hoping to have some interesting conversations with them, once they receive and digest it!

THE DIGITIZATION OF FINANCIAL COMPLIANCE

DP: In your opinion, what are the most pressing issues that banks will be focusing on when it comes to trade finance compliance?

SF: I personally think that the most significant challenge today is addressing the compliance challenges posed by massive amounts of data and paper in the most impactful way. FIs are realizing the tremendous benefit of technology and specifically using artificial intelligence and machine learning. We're all calling it digitization. There is a lot going on in this space!

The banks are challenged today. When banks analyse data looking for a sanction or an AML issue, it's generally done on paper – and that paper becomes extremely cumbersome. It is challenging because there are so many false positives generated by the paper-based processes. Certain banks have identified fintechs to partner with, to develop programs using OCR (optical character recognition) or other technology solutions. The whole idea is to reduce the false positives, as millions of transactions are processed through banks' systems every day. Many of the large global banks are already making significant investments, and I think there will be a point in time where the regionals will start looking at this as well.

THE UNINTENDED CONSEQUENCES OF COMPLIANCE FOR THE END CONSUMER

DP: So let's take a look now at 2020: what are the most important objectives for you?

SF: One of my most important objectives is to encourage global consistency in financial crime compliance. The conversation on trade-based money laundering is highly relevant for national and international security. We must encourage the support of all the stakeholders through a public private sector partnership. One place to start is in the U.S., where we are working to bring together all of the regulatory bodies to focus them even further on the importance of the issue. BAFT has the private sector relationships with the FIs and the suppliers supporting them, the regulators have government and agency relationships. So together we can build a public-private sector partnership that I like to call a village!

7 Will ESG Fix It?

7.1

Applying ESG to Trade Finance Assets

CHARLOTTE PRIOR
Trade Finance Analyst
GIB Asset Management UK

Board Member
ITFA Emerging Leaders

TFG's Persiana Ignatova spoke to Charlotte Prior at Gulf International Bank about the implementation of Environmental Social and Governance (ESG), following on from the launch of GIB's white paper: The incorporation of Environmental, Social and Governance (ESG) in the Trade Finance asset class.

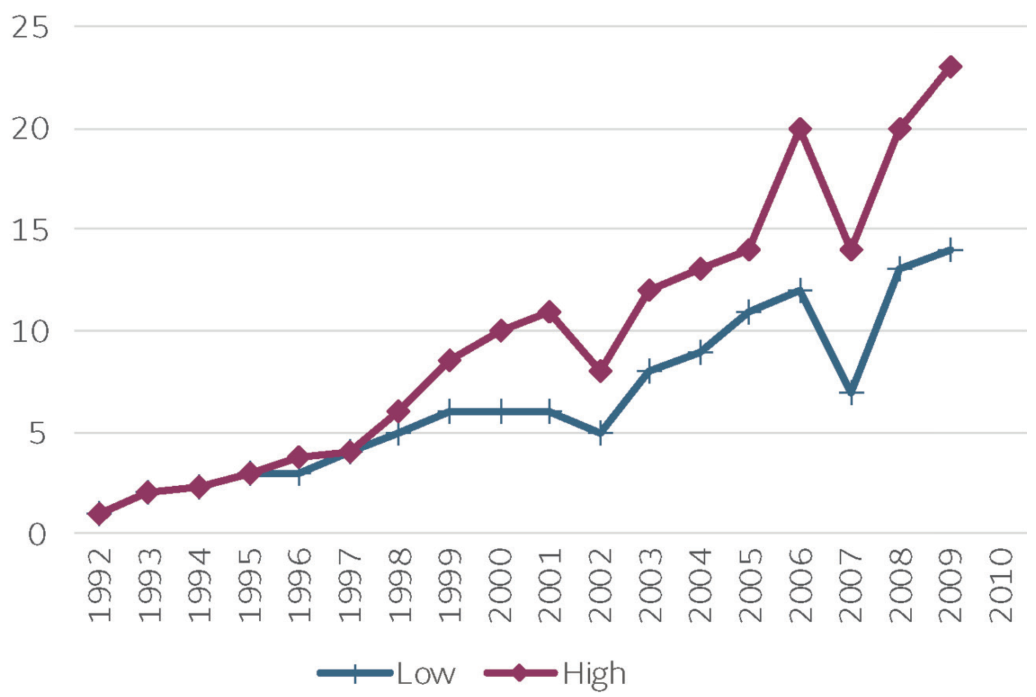
One of the biggest challenges to the implementation of Environmental Social and Governance (ESG) is the myth that ESG investment is a drag on returns. Typical investors' lack of knowledge of ESG has slowed its implementation. Compared to five years ago, 83% of advanced investors in Hong Kong said sustainable investing has become more important. 64% of them have increased their investments in sustainable investment funds as a result. In contrast, only 77% of less advanced investors had the same view with 53% of them increasing their sustainable investment. This suggests that experienced investors better understand the benefit of integrating sustainability into their investment portfolio.

"Trade Finance has an undeniable role to play in the development of a more sustainable world. Focusing on ESG factors also strengthens the Trade Finance sector. However, many challenges lie ahead due to the widespread and concurrent intricacies of the scarcity of data, existing limitations to the Trade Finance asset class and the need to overcome technical hurdles. Nevertheless, there is significant scope for Trade Finance to help achieve sustainability targets and to provide impactful results where most needed and problematic."

Charlotte Prior, Gulf International Bank

However, dispelling a key myth regarding ESG will support its validation by all investors. Some investors and investment managers still view ESG investment with deep scepticism. That view, follows the narrative that ESG incorporation will limit the universe of investments and therefore the potential performance opportunities. Better transparency and reporting would help close the investor knowledge gap around ESG and create a virtuous circle encouraging investors to integrate sustainability into their investment portfolio.
Historically, ESG investing has mostly focused on managing portfolio risks. One delegate at a UNPRI workshop stated that ESG professionals and investors alike tend to speak only about risk, and not opportunities. Changing this focus to ESG as a source

of sustainable competitive advantage which can stimulate market outperformance is gaining momentum with investors.
The Eccles et al (2012) study "The Impact of Corporate Sustainability on Organizational Processes" identified companies that had long-standing good practice in terms of sustainability (closely relevant to ESG). It underlined that, "High sustainability companies significantly outperform their counterparts over the long-term, both in terms of stock market as well as accounting performance".
The below graph shows how stocks of sustainable companies tend to significantly outperform their less sustainable counterparts. It shows the evolution of $1 invested in the stock market in value-weighted portfolios. There are numerous studies documenting the long-term performance benefits of investing consistent with ESG principles.



"There is still a big part of the investment community concerned that ESG will jeopardise returns. That concern is based on old information.

– Jane Ambachtsheer, Global Head of Sustainability BNP"

The lack of indices measuring trade finance transactions causes a particular challenge for the trade finance Asset Class. The creation of trade finance indices will require some lateral thinking but is not insurmountable. Better reporting, transparency, and the development of indices will lead to improved access to information, meaning investor attitudes, values and beliefs will change. The rapid development of tradetech and fintech solutions will also make reporting of ESG factors a lot easier for the trade finance industry.

The growth potential of the asset class may accelerate as banks securitise pools of trade finance assets to provide a more liquid debt instrument to institutional investors. Within this context and the growing consideration of ESG factors for Asset Owners, there is an avenue for them to demand the incorporation of ESG considerations or clearly defined ESG outcomes into those securities. Sustainability is relevant to all companies as it helps to ensure their long-term viability. It establishes a triple bottom line that seeks to improve social and environmental value along with financial return.
We believe that sustainability does not inhibit—in fact, it improves— a company's ability to create value.
As ESG gains further momentum in trade finance, sector and country indices will be developed, allowing benchmarks to be created. ESG in trade finance will then become more transparent, with participants reporting more. These advances will change the attitude, values and beliefs of smaller investors when considering ESG linked trade finance.

7.2

Private Firms in Emerging Markets Need to Respond to Climate Change as well

BEATA JAVORCIK
Professor of Economics
University of Oxford

Chief Economist
EBRD

PRIVATE FIRMS IN EMERGING MARKETS NEED TO RESPOND TO CLIMATE CHANGE AS WELL

The Davos 2020 World Economic Forum and the year preceding it may give the impression of a global corporate sector fully aware of, and internalising, its corporate social responsibilities (CSRs). This is particularly apparent when it comes to the role of private firms in addressing perhaps the biggest challenge facing the world: the climate change. Rather than treating CSR as a branch of corporate PR, many companies are now making clear steps in incorporating climate change considerations into their core operational and financial thinking. The phrase: "moving out of CSR and into P&L" captures well the trend.

At the Davos 2020 Forum in January many of the world's largest companies signed up to the most comprehensive effort yet to account for businesses' social and environmental impact. This was a new framework, launched at the Forum, which will enable them to report their corporate metrics on subjects such as employment standards and the environment in line with the UN's Sustainable Development Goals. These metrics, created by the WEF's International Business Council, are intended to be deployed in corporate accounts from the start of 2021.

No doubt, such international initiatives can boost the private sector efforts to fight the climate change. Their effectiveness will be limited, however, if firms from emerging markets, which are ever growing climate change contributors, do not sign up. Research in EBRD recipient countries on green governance point to existing problems and potential solutions in this respect. The latest EBRD Transition Report finds that greenhouse gas emissions in the EBRD regions have fallen substantially since the 1990s, but if the regions' economies are to fulfil their commitments under the Paris Agreement, those improvements will need to continue. This, in turn, will require further improvements to the green credentials of the regions' firms. While some firms in the EBRD regions have excellent green management practices, most continue to perform poorly in this regard. Firms with weaker green management practices may be aware of the importance of monitoring their impact on the environment, but lack the organisational structures necessary to set and achieve targets in this area.

Despite the potential

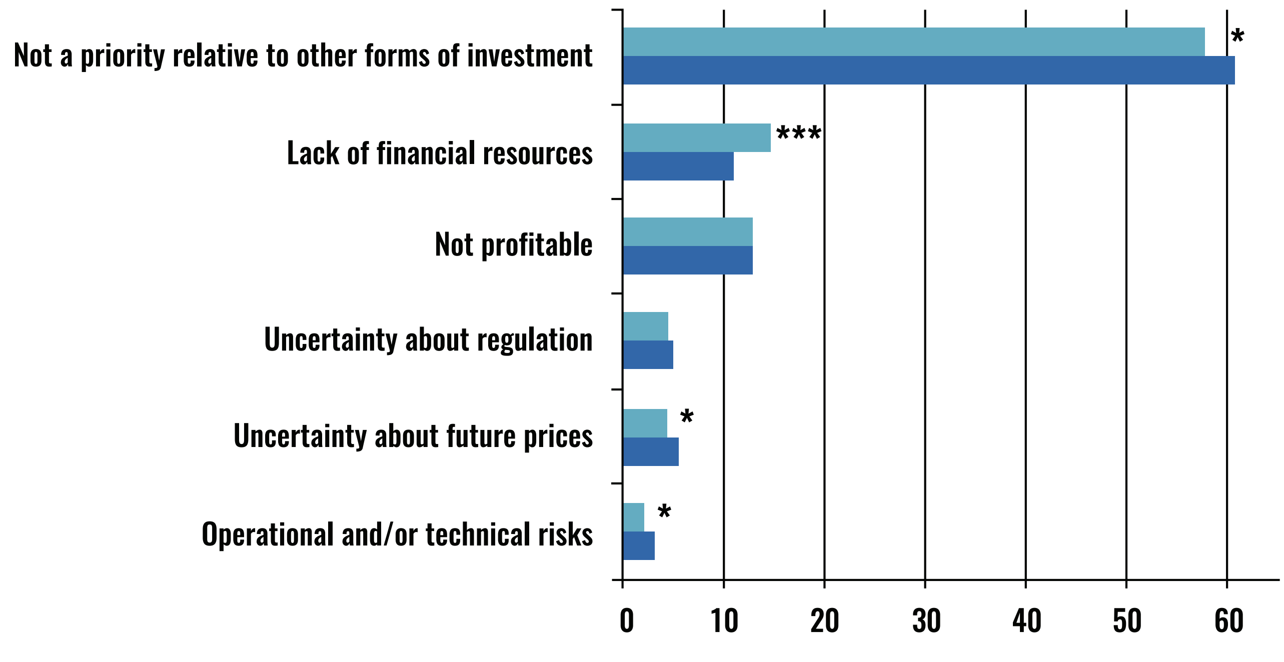


***Chart 1.* Reasons for not investing in energy efficiency measures**
***Source*: EBRD Enterprise Surveys and calculations.**
***Note*: * and *** denote statistical significance at the 10 and 1 per cent levels respectively. SMEs have fewer than 100 employees; large firms have 100 or more.**

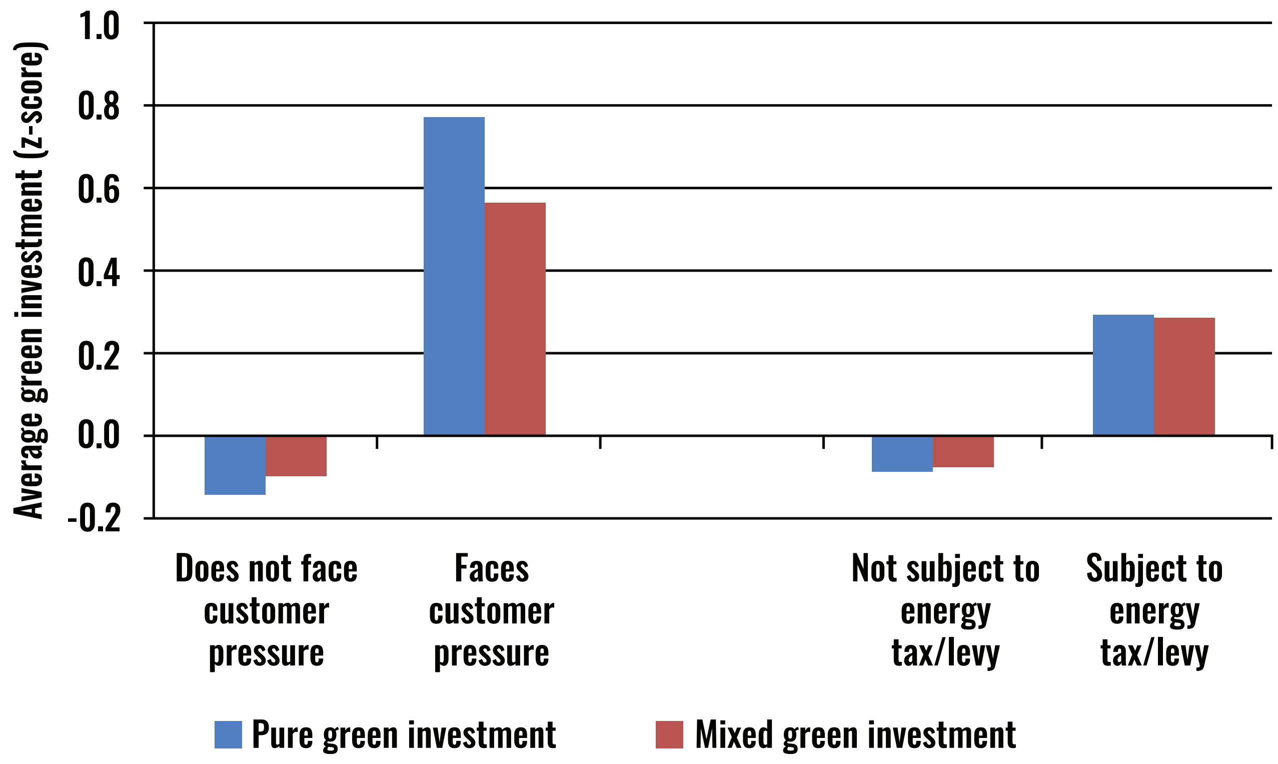


***Chart 2.* Customer pressure and energy taxes/levies both boost green investment**
***Source*: EBRD Enterprise Surveys and calculations.**

environmental and efficiency benefits of investment aimed at reducing firms' impact on the environment, there are many firms that refrain from implementing such measures. According to enterprise surveys, more than 60 per cent of respondent firms that have not implemented energy efficiency measures report that this is not a priority relative to other types of investment (see Chart 1). This dwarfs the second and third most cited reasons, which are the lack of financial resources (14 per cent) and the unprofitability of such investment (13 per cent). Interestingly, there is relatively little difference between firms of different sizes.

If firms refrain from undertaking pure green investment for the simple reason that managers face more pressing matters in the short term, they may need a nudge to prioritise green investment, particularly if green investment have a positive, but small, net present value. Enterprise surveys suggest that customer pressure and regulations can play such a role. As illustrated in Chart 2, firms are much more likely to undertake investments aimed at improving energy management, generation of green energy and control of air pollution in response to customer expectations and when subject to energy taxes.

In conclusion, credit constraints hamper all investment by firms, including investment with environmental benefits. However, when it comes to pure green investment, access to finance is not the main constraint in emerging markets. Thus improving the availability of credit is just one element of the broad policy mix that is necessary to stimulate green investment and improve firms' green management practices. Governments may also have to compel firms to produce in a more energy efficient manner using environmental standards or other regulations or via subsidies that are contingent on the use of specific green technologies. Targeted green credit lines can also encourage firms to prioritise green investment. However, an important precondition for the success of such interventions is effective enforcement of regulations in a corruption-free environment. Lastly, firms are also known to improve their green credentials in response to pressure from their customers. With this in mind, voluntary environmental standards may help leverage the power of peer pressure and consumer awareness in order to further reduce firms' environmental footprints.

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8 Markets Focus

8.1 South America

8.1.1 Renewable Energy as an Economic Development Strategy: The Chilean Case

IDRIS NUR
Student Writer
TFG & FCI Academy

Chile has intelligently pursued development in solar energy technology, a technology that has some of the greatest knowledge spillovers towards external fields outside of power generation. Such a move, aids Chile in efficiently transitioning away from being heavily dependent upon commodity exports, and towards developing its technological capabilities to participate in more sophisticated activities.

CHILE'S PUSH TO BE A RENEWABLE LEADER

Recent years have seen Chile rapidly scale up its investment in renewable technologies, particularly so in solar, enabling it to become one of the region's renewable leaders. The nation's motivations behind the move are diverse. Having experienced threats to its energy security first-hand in the early 2000s when Argentina abruptly cut off natural gas supplies during the Argentine energy crisis, domestic production of energy has been high on the agenda for some time. Since then, the nation has rapidly ramped up development, ending 2018 with 20.8% of its power sourced from renewable energy. What's been the most interesting with Chile's renewable investments, however, is the manner that the nation has aggressively pursued renewable investment primarily as a development strategy to help advance the productive capabilities of the nation.

The strategy has seen the country consistently beat previously set energy targets such as the 2013 target of having renewables account for 20% of the energy mix by 2024, a target that was beat six years early in 2018. Similarly, Chile's "National Energy Policy 2050" in 2015 set a target for renewables to account for 60% of electricity by 2035, and 70% by 2050. Last year, the Chilean government announced a dramatic change in plans with the 70% goal now being for 2030. A major portion of this growth in renewables will continue to come from wind and solar, with Bloomberg NEF in its joint report with energy operator Acciona predicting that the current 13% combined share in the power mix will surge to 40% by 2030. The country's growth in the two areas has been massive, with wind generation growing by 153%, and solar growing by an astounding 1016% between 2014 and 2018.

THE MIDDLE-INCOME TRAP: THE CURRENT PLIGHT

Though Chile is typically classed as a high-income country based on its high GDP per capita, it suffers from the issues of having a primarily resource-

based economy with low levels of innovation and thus suffers from the "middle-income trap". The middle-income trap is characterised by the situation where countries have developed enough so that wages within the country are too high to compete in non-advanced labour-intensive businesses. At the same time, such countries do not have high enough productive capabilities to compete on higher value-added activities such as the production of technological goods. It's a common situation to find oneself in as countries like Chile can attribute much of their current development to their fast growth in previous years from commodity booms. However, such growth can only be sustained for so long as in order to develop further, production must shift towards more sophisticated activities. It's only through reorienting the economy towards a greater percentage of technologically advanced and productive activities that a country can escape the trap as the Four Asian Tigers did.

SOLAR AS A SAVIOUR

Chile's natural advantages in the production of solar energy make it the perfect policy choice for advancing development. Northern Chile is home to the Atacama Desert which boasts the highest solar irradiance of any place on Earth thereby giving the country the opportunity to benefit from cheap solar electricity. But what makes solar energy production truly valuable for the Chilean economy is that it involves high value-added activities which are in direct contrast to the nation's commodity-based activities. The value chain for solar energy production runs much further than Chile's extractive industries as primary materials must be put towards producing components such as steam generators and solar cells, followed by the actual development of plants. Overall, the solar value chain involves an immense amount of operations, ranging from the primary materials, to the manufacturing of components, to system installation and maintenance. This presents opportunities for learning amongst the working population through participating in a value chain consisting of sophisticated activities that can all be done locally. This is especially important as a common misconception about Chile is that there's a lack of qualified workers, believing that low innovation stems primarily from an undereducated population. The reality is that countries such as Chile that have rapidly increased rates of tertiary education have been shown to suffer more from skill underutilisation than skill gaps as the creation of skilled jobs hasn't been as rapid.

Solar energy is further fantastic in this regard as it has a widespread benefit upon the general technological capabilities of a nation. Knowledge created in the development of solar technologies has been found to benefit even technologies unrelated to power-generation. A study by Joëlle Noailly and Victoria Shestalova showed that solar technologies were frequently cited in patent applications from across multiple external industries, particularly in the spheres of semiconductors, thermal processes, and apparatus and civil engineering, sectors key to the advancement of a nation's productive capabilities.

SECTORS THAT SPILLOVER MAKE FUNDS STRETCH

Overall, Chile's choice of renewable energy as a vehicle to propel economic development was an ideal choice. It combines the natural competitive advantage that the nation has, with a sector choice that has been shown to have significant technological spill over to multiple industries. The concept of technological spillover is key in the development discourse, as naturally it isn't possible to have enough funds to advance every single industry simultaneously. It's for this reason that governments attempting to upgrade their economy ought to direct focus towards areas that have a knock-on effect on other sectors, allowing for widespread development for a fraction of the price.

The Student Writer Programme, an initiative from TFG, aims at bridging the well-known educational gap in international trade, shipping, and finance. Now in its second year running, TFG has partnered with FCI Academy to help provide an enriching educational opportunity to some of the student writers. The FCI Academy offers the Fundamentals on Domestic and International Factoring Course, which provides a comprehensive on-line introduction and overview of factoring including a brief history of the industry, FCI, the different types of factoring, the benefits, the methods and the mechanism of domestic and international factoring products.

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8.2 Central and Eastern Europe and Commonwealth of Independent States

8.2.1 SME Banking Club: Digitalization of Trade Finance Services for SMEs in the CEE Region

OLENA GRYNIUK
CEE Regional Director
SME Banking Club

In the digitalization of trade finance services, it is essential to focus on both short-term improvements in processes and long-term innovations such as blockchain.

Still, most documents connected with trade (invoices, bills of lading or inspection certificates, etc.), remain in paper form. For companies involved in trade, this volume of paperwork is challenging, especially for small businesses that have neither the time nor the resources for bureaucratic procedures, which is why they try to avoid such complex paper-based documentation processes in banks. For banks, such manual processes only pay off with corporate customers. As a result, SMEs remain underserved in this area.

The only way for banks to increase the portfolio of LCs or guarantees issued to SME customers is to simplify and speed up processes and make interaction with the bank seamless for customers. And that means automatization and digitalization.

Automation and digitalization not only make it possible to streamline bank processes for customers but also to process documents more efficiently, as well as eliminate and auto-correct errors.

To take a look at what is happening in this area in the CEE region these days, I'm turning to a study devoted to **online banking solutions for SME customers,** which we launched last year at SME Banking Club.

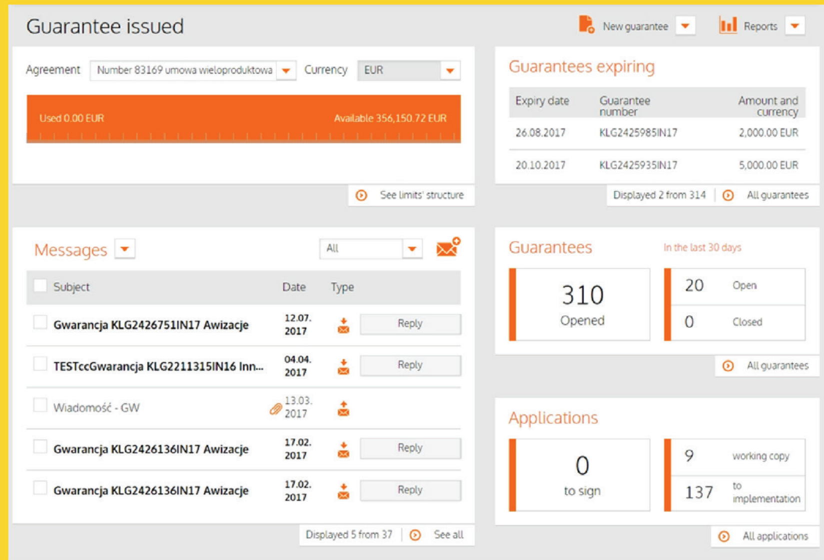
The scope of the study involved an analysis of 100 parameters of online banking solutions from 25 banks that work with SMEs in the CEE region (covering Poland, Romania, Bulgaria, Hungary, Serbia, Slovakia and Czech Republic). With this set of 100 parameters, we are setting a kind of benchmark for the main functionalities that banks should have for the SME segment.

And what we see in the region as a result of this analysis is that in the area of trade finance products **30% of analyzed banks implemented an online Trade Finance module,** which includes the following functionalities:

- List of Guarantees
- Guarantee details
- Templates
- Reports
- Letter of Credits list
- Export/Import of LCs
- Templates

Trade Finance

- Guarantees,
- Import Documentary Credit,
- Export Documentary Credit,
- Discount products with Receivable Purchase Application,
- Order for collection payment.



Online Banking for SMEs - CEE 2019

In ING Bank Śląski, a customer can apply for a Guarantee or LC via online banking, see the list of existing products, their expiry date, etc. Also, the bank implemented e-Guarantee, which is an electronic version of the standard bank guarantee securing a company's transactions. A customer can verify the compliance of signatures placed on the e-guarantee through the bank's application and receive confirmation in the form of a pdf file.

In Ceska Sporitelna in Czech Republic, the main functionalities are also available for the customer online.

The transactional module in online banking solutions includes an overview of account balances, transfers in a local currency, and international and domestic transfers in foreign currencies and this is implemented at most analyzed banks. So, this has become a must-have. Implementing the Trade Finance module gives a competitive advantage to banks. This definitely provides added value to customers and empowers them with self-service banking, which will generate new revenue streams.

With respect to the topic of long-term innovations and applying blockchain in trade finance, a separate article is needed to cover this. Some individual companies and consortia are working on trade finance-related blockchain solutions. A number of banks have invested $107 million into R3, a consortium developing distributed ledger technology for financial companies. So, we'll see more cases of its application very soon. In recent news from the CEE region, this past January ING Bank Śląski (Poland) announced the issue of an electronic Letter of Credit using blockchain technology, by which it secured the delivery of goods to the Polish company Granulat Sp.j. from a counterparty in Asia. I'm also sure we'll see more and more partnerships with FinTechs in this area as well.

To find out more details and read the full study, please contact SME Banking Club on:
cee@smebanking.club

8.2.2 The role of Correspondent and Multilateral Development Banks in Facilitating Trade in CEE

PERSIANA IGNATOVA
Journalist
Trade Finance Global

ELITZA KAVRAKOVA
Head of Institutional Clients East
Raiffeisen International Bank AG

MARTINA ZIMMERL
Head of Trade Finance
Raiffeisen International Bank AG

The CEE/CIS region continues to offer plenty of both opportunities and challenges for banks. TFG's Persiana Ignatova spoke to Elitza Kavrakova, Head of Institutional Clients East, and Martina Zimmerl, Head of Trade Finance, at Vienna-based Raiffeisen Bank International AG International about the region and why RBI remains successful there.

Persiana Ignatova: Can you give us a brief overview of the economic and geopolitical situation in the CEE/CIS region?

Elitza Kavrakova: For the Central and Southeastern European countries closer to the EU, the last few years have been rather successful, with average GDP growth in most cases above 3%. Therefore, the region consistently beats the euro area growth rate, i.e. the real convergence process is well on track there. Going forward we see economic growth well anchored in the 2-3% range there. Currently, the economic momentum in the CE/SEE region is largely driven by solid domestic economic conditions, based on a healthy private and public sector balance sheet. Nevertheless, we expect a certain growth moderation based on structural factors (e.g. tight labour markets, lower EU funding). However, this should be healthy given the increasingly tight labour markets as well as some signs of overheating in certain sector (e.g. real estate). In the CIS region, the last few years have been more disappointing economically, given sanctions and the oil price shock as well as regional tensions and conflicts. However, we currently see a good recovery potential: Ukraine is one of the most promising turn-around stories in CEE. Here we see a strong change momentum, mostly driven by fresh and reform-oriented elites. A somewhat similar development we see also in Uzbekistan. Moreover, we see a turn to more growth-friendly policies in Russia. One should not forget that the latter remains one of the most

solid Emerging Market economies globally from a macro-financial perspective. We also see a broader turn to prudent macro-economic policies in many other CIS countries in recent years (e.g. Belarus, Kazakhstan, Azerbaijan, Uzbekistan, Turkmenistan). And we expect higher chances for certain progress in the conflict Ukraine/Russia rather than another round of escalation. Therefore, we do not see that relations between the West and Russia will further deteriorate, and there is even some potential for rapprochement between the EU and Russia in case the situation in Ukraine should further stabilize.

PI: How do correspondent banks work with multilateral development banks such as EBRD/ADB in this region and how does this affect access to trade finance in CEE?

EK: RBI, as one of the few remaining EU banks keeping a larger correspondent network in the CEE/CIS region, works closely with multilateral development banks and IFIs like EBRD, IFC and ADB. On the one hand, we are delighted to act as a confirming bank under their trade facilitation programmes, which allows us to support local banks and their importing clients better. On the other hand, we keep a regular dialogue with these institutions, which are also shareholders in CEE/CIS banks, as this is an important factor for improving risk and compliance governance locally. While in all CEE/CIS countries banks are aware of the increased AML/CTF requirements of Western correspondents, the same cannot be said for the local regulators, who of course may have a specific view stemming from the current needs of the local economy (for example granting easy access to a bank account to everybody). Establishing a regular dialogue with the local regulators and supporting them as well as the local banks in building up expertise and necessary governance and compliance capacity is essential and something RBI started doing particularly in the CIS a while ago, thereby supporting the efforts of the multilateral development banks.

PI: What is the size of the trade finance market in the CEE and CIS region, and do you believe that this is a risky market?

MZ: The size of the trade finance market is difficult to assess due to lack of data. The latest ICC trade finance survey estimates the total volume of traditional trade finance instruments issued and received in the region at nearly USD 300 bn. This region is home to the RBI Group – we know the players and the market very well and feel comfortable with the risk. This comfort is supported by the fact that we've had no major losses in trade finance in this region since 2010. So, counterparty risk is not an issue for us.

EK: The main challenges currently are rather driven by geopolitical events and the danger of any type of new sanctions. That means that the unpredictability of events often leads to reduced risk-taking appetite also on the Trade Finance side, e.g. to restrictions in terms of counterparty or country limits, tenors or client segments.

PI: As a result of increasing costs from regulation, are trade finance margins becoming smaller for the bank?

MZ: The juicy days are definitely over. Following the Russian and Ukrainian sanctions, the trade finance market has contracted and hasn't fully recovered to its original levels. At the same time, only few Western banks active in trade finance have left the region because of sanctions. So, the overall cake has become smaller whereas the appetite for CIS risk has not decreased considerably. At the same time, the cost of compliance for Western banks increased over the last five years. Trade finance margins have therefore certainly decreased.

PI: What are the challenges and where do you see opportunities in for the trade, treasury and payments sector?

EK: As mentioned before – the biggest challenges for these sectors are:

GLOBAL GEOPOLITICAL DEVELOPMENTS:

It has become inevitable for us to follow the daily news, to try to understand the next big moves that may influence political developments and – as a consequence – the economic situation in the emerging markets. In this context it is of utmost importance that we are quick and good at assessing objectively what is really going on in order to react properly in terms of credit risks and compliance (non-financial) risks

COMPLIANCE:

This topic continues to be one of our main challenges. First of all, because of regulatory requirements, which can be only partially supported by joint KYC platforms available already. Most of the CEE/CIS banks keeping correspondent relationships with Western and US banks are well aware of the level of scrutiny applied regarding AML/CTF. However, in many countries the local legislation is de facto lagging behind the Western requirements, that means the local banks are put in a situation in which they are required by Western banks to do more than their local law/regulator requires from them. The same is true in certain cases for shareholders / beneficial owners of local banks - not always their understanding for the necessity to provide KYC documents in required quality on time is given. What also needs to be mentioned is the necessity to build up an understanding of material compliance checks versus the fulfillment of formal legal requirements. This requires the support from IFIs and major correspondent banks such as RBI for building up local expertise.

CROSS-SELLING:

What we mean by that is the possibility for smaller emerging market players to deliver ancillary business. Due to increased risk and compliance costs Western banks have much higher profitability requirements on the client/counterparty level. For many players in smaller economies these are hard to fulfill today, or to assure sufficient cross-selling to their Western correspondents.

MZ: Despite all these challenges, we continue to see plenty of opportunities in the region: The global economy cannot function without trade and related payments, this means that these sectors will continue to exist, and they need to be serviced. Payments and trade finance will remain our sustainable bread-and-butter business with very low loss rates. We see system enhancements and process automatization in all three sectors. On the one hand, we create customer experience and additional value for our clients by digitizing the way they interact with us. On the other hand, automation and big data analytics support us in early detection and reduction of both counterparty and compliance risks. Change of trade flows, for example driven by geopolitical events, still offer plenty of opportunities for exploring new markets and counterparties. So, the challenges mentioned by Elitza above at the same time are our opportunities on the trade finance side because – if you understand how to navigate stormy waters – you are also able to take risks others are not ready to take.

PI: With increasing tenors in the market, particularly around discounted Letter of Credit transactions, do you see an evolution of short tenor trade finance towards project and export finance?

MZ: In some of the CIS markets we see a tendency towards very long L/C discounting tenors, particularly when heavy machinery or equipment is imported. In such cases, the issuing banks should question whether a deferred payment letter of credit is indeed the right financing instrument or whether it wouldn't be more prudent, both from the regulatory and the counterparty risk point of view, to structure the transaction as a loan or even as a project finance deal. I see the risk that letters of credit that should primarily serve as risk mitigation in international trade are misused for financing purposes where probably other types of financings would be more appropriate.

8.2.3 Sberbank | Market Overview Trade Finance in Russia

EVGENY KRAVCHENKO
Head of Trade Finance
Sberbank

DEEPESH PATEL
Editorial Director
Trade Finance Global

TFG's Editor Deepesh Patel (DP) interviewed Evgeny Kravchenko (EK), Head of Trade Finance in Sberbank. Russia faces continued turbulence and unrest amongst the international community, yet being the largest country in the world by territory, holding the 4th largest FX reserves in the world, we wanted to get under the skin of what running a trade finance business is like in Russia. We spoke to Evgeny Kravchenko, Head of Trade Finance in Sberbank and Chairman of the Board of Directors of Sberbank Switzerland.

DP: Hi, Evgeny, please tell us what the trade finance market looks like in Russia?

EK: Russia is clearly an export-oriented country, for instance Russian total exports exceeded US$420 bln, meanwhile goods and services imported to Russia amounted to US$250 bln in 2019. Both import and export finance serve strongly to the needs of Russian clients, though the share of export finance prevails. We shall not also ignore domestic, ruble-denominated trade finance business, which accounts for trillions of rubles in terms of turnover.

Worth mentioning that trade finance and documentary instruments by far are not currently used in each and every commercial transaction between buyers and sellers, and however huge is the Russian trade finance market, there still remains much room for its growth. We see a great potential for market expansion as more corporates and even individuals take up using trade finance products or do so more and more frequently. In terms of market dynamics, we face an increasing demand for long term finance for capital goods and equipment imports and, even more notably, for non-commodity goods exported from Russia, given that Russia is strongly focused on increasing the share of high value-added goods.

DP: Evgeny, tell us about the trade finance business you are running in Sberbank.

EK: I am delighted to lead the Sberbank Group's trade finance business which encompasses a vast range of products, like LCs, LGs, IRUs, escrow accounts related to international and domestic transactions, ECA and EXIAR covered financing, Commodity Trade Finance and other. To give you some flavor, Sberbank Group's total volume of trade finance deals and documentary operations amounted to USD39.6 bln in 2019. This figure is split among Russian and international business 60/40 approximately.

Cross-border trade finance deals with companies and contractors representing all key industries from over 80 countries have been signed. Trade finance services are available across 12 countries of Group's presence, incl. Switzerland where Sberbank AG actively develops Commodity Trade Finance.

DP: What are the recent developments you see in the Russian market and what are the client's needs?

EK: Traditional trade business is going just fine. There are some supporting news to appear soon and some have already been released, actually. Certainly, there will remain some focus of Russian banks in terms of trade finance on large export-oriented domestic project for Russian companies planning to renovate or upscale their existing production or developing greenfield projects. For instance, you can hardly find such projects in the world like Gazprom's Amur Gas Processing Plant which is expected to become one of the largest in the world. Total financing amount reached EUR 11.4 bln, 22 banks participated in the financial closure and Sberbank was not an exception, Exiar-covered part included. We anticipate this kind of deals to proliferate in the coming years. Commodity trade finance products like prepays for Russian exporters is also a hot topic for many industries: chemicals, oil and gas, agriculture and others. Switzerland is the main hub for these transitions at Sberbank where we arranged our dedicated team to meet the growing demand from clients. For instance, almost each second ship with grain which sailed in 2018 through Bosporus strait was financed by us. However, Switzerland has an expertise in financing the deliveries of all types of commodity goods supplied all over the world, not necessarily to Switzerland directly.

What is more, it's hard to miss the uprising trend on universal digitalization and customized IT services in banking.

DP: Could you please tell us more about digital products in trade finance that Russian banks are focusing on now?

EK: Many of our clients see the benefits associated with digitalization and emergence of e-services, namely, greater speed in execution of transactions and cost reduction. All market players look forward to eliminating the entire need to physically visit banks, submit paperwork, rely on human processing and verification, and other similar inefficiencies. For instance, almost all of our clients already joined online bank "Sberbank Business Online", all-in solution available for corporate clients, and transact with LCs without any need to physically attend the bank office. LC application can be drafted electronically there, signed with e-signature and be automatically submitted for issue within minutes. Once LC application is issued, a beneficiary may submit the required documents to receive payments online. The whole process turns faster and simpler which helps our clients to manage its liquidity better and without additional costs.

More and more clients and banks are testing Blockchain technology in trade finance. Typically, all similar transactions required arduous manual handling of multiple documents by supplier and the bank. But it's obvious, that the clients are keen to get rid of it. We also recently arranged a pilot deal with Trafigura in purchase of receivables based on the distributed ledger solution. This allowed to track every step of the transaction online (i.e., request for purchase of receivables, bank approval, issuance of the bank's offer, confirmation of transaction terms, and settlement of the transaction). Blockchain solution optimised the whole business process and dramatically improved the efficiency of document flow. As a result, time to deal was reduced from one day to one hour. But there's still a long way ahead to build the IT infrastructure and agree on standards universally acceptable along international supply chains. We see that different blockchain trade platforms like Komgo, We.Trade, Marco Polo and others are tapping into international markets, but they haven't been actively used in Russia yet. Also, we observe fintech platforms not using distributed ledgers that provide banking services, including trade finance solutions, which might in some situations be convenient for clients.

API services (Application Programming Interface) are also on the rise to allow financial institutions and clients to integrate their IT systems and enable direct virtual access to various trade finance services. Sberbank is proud to pioneer in this field. For instance, our LCs in real estate transactions may already be drafted automatically based merely on information supplied by a real estate developer's internal CRM IT-solution and instantly issued by a buyer using Sberbank's mobile app. To receive the payment under LC, the seller may submit required transaction documents using online channels without their physical delivery. Similarly, we are building on API solution for escrow accounts in real estate deals. As a result, not only risks of the parties become greatly reduced but also time to secure the deal diminishes from several days to several clicks. Such unparalleled speed has been welcomed by the market.

DP: Evgeny, what's your view on the future of trade finance business in Russia?

EK: I strongly believe that everybody will continue to invest in technology and will be switching from paper-based transactions to 100% digital. New fintech companies or already mentioned Blockchain trade platforms will pose competition to banks, especially, in trade finance. More and more global IT companies start to provide financial services, like Chinese WeChat. Russian IT giants like Yandex are also moving to this direction. We also see it globally when banks are building up joint blockchain platforms, for example, trying to share the costs of new solutions development. While large-volume deals like project finance still remain one of the key drivers for trade finance business in the near future, we believe that there is huge potential for the development of trade finance services for SMEs which require quick and easy solutions from the banks to cover their financing and secure payment needs. ■

8.3 Africa

8.3.1 Accelerating the Growth of African Trade

GWEN MWABA
Director and Global Head
Trade Finance
African Export-Import Bank

Africa has a long history of trade. As early as the seventh century, trans-Saharan trade routes enabled the supply of gold from sub-Saharan Africa to the Mediterranean economies of North Africa in exchange for salt. By the 14th century the fabled emperor Mansa Musa, of the Malian empire, was one of the wealthiest men in the world, controlling the flow of gold between Africa and the Mediterranean.

In the contemporary world, however, Africa's share of world trade, which declined from 5.5% in 1960 to 2.6 % in 2018, has been marginal. Also, while intra-African trade has increased from 5 % of Africa's total trade in 1980 to 16 % in 2018, it continues to remain low relative to intra-regional trade in other regions including Europe and Asia.

Trade is widely recognized as critical to economic growth and prosperity and Africa's low share of world trade has been the subject of various studies over the years. These have generally focused on the composition of the physical economy to identify constraining factors and recommend appropriate growth strategies. These factors include the continued reliance of African economies on primary commodities in a global trading system dominated by manufactured goods, and tariff and non-tariff barriers within the continent. More recent studies have started paying attention to the role of trade finance in the growth of trade, and it is increasingly acknowledged that trade finance or supply chain finance (SCF) are critical to trade flows. The World Trade Organization and others suggest that as much as 80 % of annual global merchandise trade is enabled through some form of trade financing, including both traditional trade finance and SCF, and encompassing both financing and a range of risk mitigation solutions. "A sizeable trade finance gap is a drag on trade, growth, and job creation," says Steven Beck, Head of Trade Finance at ADB.

For Africa, the trade finance gap has been estimated at USD 110-120 billion by the African Development Bank. The adverse impact of this is most acutely felt by the small and medium enterprises (SMEs), which face a higher rejection rate of trade finance applications relative to large corporates. The high rejection rates are not solely attributable to poor credit quality, with compliance constraints and the inability of clients to provide high quality KYC being cited by banks as a major factor. SMEs account for 70% of the number of firms on the continent and employ 80 % of its workforce. Bridging the trade finance gap,

especially for the SME segment, is thus a key challenge for financial institutions in the African market.

Globally, trade growth has been facilitated by open account trading which reduces reliance on traditional trade finance instruments such as letters of credit, guarantees, SBLCs, and collections, and shortens the transaction cycle. Open account trading is typically supported by SCF products including Factoring, Receivables Finance and Payables Finance, and BCG estimates that open account trade now accounts for 45 % of trade finance revenues globally. Banks in Africa responding to ICC's Global Survey in Trade Finance 2018, however, reported that traditional trade finance still comprises 88% of their trade finance portfolios with 72 % of respondents citing letters of credit as their preferred instrument. Africa accounts for only 1 % of global factoring transactions, and the limited availability of payables finance programs across the continent has resulted in low penetration levels.

While supply chain finance volumes in Africa are currently modest, there have been encouraging developments which augur well for the future. Between 2015 and 2018, factoring volumes have grown from EUR 18 billion to EUR 22 billion, a growth of 18 %. Significantly, while factoring activity has thus far been concentrated in only 5 of Africa's 55 countries, a number of factoring companies are now emerging across the continent and volumes are projected to exceed USD 50 billion by 2025. Similarly, a number of banks are actively pursuing commencement or scaling up of

payables finance offerings across various geographies. This product is expected to grow rapidly as banks' marketing efforts lead to increased awareness and adoption.

As a trade finance focused development institution, Afreximbank is pursuing various initiatives to address the trade finance gap in Africa. The bank has led the way in introducing factoring and forfaiting and has done pioneering work in awareness and capacity building for these products across Africa in partnership with other institutions. Afreximbank has also developed and proposed a model factoring law for adoption by individual countries.

As the next step on the journey to increase availability of supply chain finance, the bank plans to introduce payables finance in various geographies in partnership with local and regional banks, accompanied by awareness and capacity building programs. Payables Finance opens up an additional source of bank finance for suppliers, who are often SMEs, and provides comfort to banks as credit risk is transferred to better rated corporate buyers. It is expected that these features will lead to increased adoption of payables finance on the continent in line with the rapid growth witnessed in other regions.

In order to facilitate the KYC process and reduce transaction rejection rates, Afreximbank has developed MANSA, an Africa focused KYC repository. The relevance of this initiative is borne out by the BNY Mellon Global Survey 2019 which identified centralised KYC databases as the most effective technology solution for addressing compliance issues.

Afreximbank's trade promotion initiatives also include the Pan African Payments and Settlement System (PAPSS) which is being developed to facilitate net settlements between African countries for intra-African trade, and which will complement implementation of the African Continental Free Trade Area (AfCFTA) in 2020. In addition, the second biennial Intra African Trade Fair is being organised by the bank in 2020 to bring together sellers and buyers from across the continent with a target of facilitating trade and investment deals aggregating USD 40 billion.

The African continent, which is home to 1.2 billion people across 55 countries, and whose landmass exceeds the combined landmass of China, India, Europe and the U.S.A., is poised to see internal trade barriers coming down as AfCFTA is implemented. The simultaneous growth of trade and supply chain finance and bridging of the trade finance gap will further boost both intra and extra African trade, and Africa's trade routes are set to get busier. Mansa Musa would have been pleased.

8.3.2 Relationship Banking Remains the Key to Expanding African Trade

SUSIE ALIKER
CEO
BACB

Africa presents unparalleled opportunities. The continent is home to 1.3 billion people spread across 54 countries, 20 of which have economies set to expand by an average of 5% or higher over the next five years. There's also a burgeoning middle class, and a growing trend towards African integration.

Of course, many exporters are aware of the continent's rise and are eager to explore the opportunities presented by its stellar growth. Yet many also struggle to obtain the trade finance required to mitigate the risks – hindering their expansion into those potentially-lucrative African markets.

Entry into any new market brings with it both opportunities and risks. Yet the risks can be dealt with through developing an understanding of local business customs, which requires a banking partner that brings such intimate knowledge while also understanding the exporters' needs. Local knowledge and understanding is most certainly important with respect to any new market. When it comes to Africa, however, it is nothing short of critical.

A hands-on and personal approach can only come from having people on the ground and a decades-long track-record. That said, more than a simple presence is required: African markets are highly diverse – so much so that cookie-cutter solutions won't work. Transactions must be structured to fit individual circumstances – and can often involve sums too small to meet the lending thresholds of the larger lenders.

Lending smaller amounts against bespoke structures in challenging markets: in recent years this has not been a recipe likely to attract the global lending banks. But it's one well suited to smaller, specialist banks with local knowledge and strong, niche structuring skills. In this respect, banks such as the London-based but African (and Middle East) focused BACB plc – a UK regulated specialist bank – can offer trading companies the comfort of a fully-compliant and well-regulated banking partner.

BRIDGING THE TRADE FINANCE GAP

BACB's local presence is not only critical, it's timely – thanks to the growing "trade finance gap". This concept was first publicised by the Asian Development Bank when measuring the growing gap between demand and supply for trade finance in the wake of tougher post-Crisis regulatory treatment for emerging market trade instruments (as well as perceived heightened risks). As the key region for documentary trade finance, Asia was the hardest hit by what was estimated to be a US$1.5 trillion global deficit. Yet, as Africa grows and trade to the region expands,

the continent is in danger of becoming "the new Asia" in this respect – with global banks shying away from offering trade finance for African deals because of the regulatory costs imposed by Basel III and other regulations.

Technological advancements can, of course, go some way in tackling this. Using automation and artificial intelligence – with deals presented on digital platforms – risk appetite can be provided from a wider group of investors. However, the trend in Africa is unfortunately mostly in the other direction – with major banks stepping back from African trade thanks to increased regulatory costs and a perception of increasing risk. The continent is losing not gaining liquidity.

At BACB, we think this is short-sighted. Africa is currently the world's second-fastest growing region, with GDP growth forecast to reach 4.1% this year. And, indeed, the most significant threat to trade in Africa is one of perceived rather than actual risks. The approach to trade should, therefore, be one of managing risks, which requires expertise and understanding – as well as the conviction that comes from being constituted as a specialist trade bank focused on bridging the knowledge gap between understandably-wary exporters and potentially-fruitful African markets.

AFRICA PERFORMS WELL

Despite perceptions, and taken as a whole, financing African trade is a relatively safe bet. Analysis from the ICC's 10th Annual Trade Register reveals a significant decrease in African default rates between 2016 and 2017 for letters of credit (LCs) and loans for

cross-border trade. Weighted by obligor, Africa witnessed an absolute decline in default rates from 1.47% to 0.13% for loans for import/export, 0.59% to 0.05% for export LCs, and 0.48% to 0.14% for import LCs. Yet the risk appetite of international banks has deteriorated dramatically in recent years – partly because banks have to satisfy not only their own regulators (as mentioned above), but – under "know your clients' clients" stipulations – the regulators governing each of their correspondent banks.

Given this – as well as the potentially punitive fines imposed on banks for non-compliance – it's unsurprising that overall market capacity for African trade finance has been in decline. Indeed, the ICC Banking Commission's 10th Global Survey on Trade Finance found that 50% of respondents from African banks expect the trade finance gap to widen over the next three years.
Add to this the fact the region has one of the highest trade finance rejection rates, at 17% of all African trade finance requests, and it is easy to paint a pessimistic picture. But it would also be a false one, perhaps based on the negative outlook of the global lenders that have, in all but name, pulled out of the region. For those with deep roots, on-the-ground capacity and in-country knowledge, the opportunities represented by African trade far outstrip the challenges. But it's that local knowledge that's the key differentiator with respect to this more optimistic view. Without such expertise, compliance with the due diligence protocols required for African trade becomes almost insurmountable.

And while there are promising initiatives to help tackle the problem, from centralised registries to fintech applications and mobile-phone-based client on-boarding – indeed the trade space in Africa is a hotbed of innovation – it's the very old-fashioned value of relationship banking that remains critical for Africa. So while African trade is becoming increasingly sophisticated, and although transaction-based lending techniques can enable banks to serve the needs of large corporates in well-known markets, it is the relationship approach that still succeeds in Africa, based on local knowledge and boots on the ground: something BACB is rather good at.

8.4 Middle East & North Africa

8.4.1 How Asia Can Lead a New Era of Trade Growth for Saudi Arabia

DAVID DEW
Managing Director
SABB

With Vision 2030, Saudi Arabia has embarked on the boldest model of economic and social reform anywhere in the world. Underpinning this transformation is the goal of raising the Kingdom's non-oil trade, setting a bold target of increasing the share of non-oil exports in non-oil GDP from 16% to 50%. Maximising the benefits of the Kingdom's close proximity to Asia will be critical to achieving this level of trade growth.

While only a few years into the Vision 2030 plan, we are already starting to see signs of Asia's potential to power a new era of trade growth for the Kingdom. China is now Saudi Arabia's largest trade partner, overtaking the USA, with bilateral trade between the countries growing at a 10-year compound annual growth of around 12%. Asia is also now the largest trading region for Saudi Arabia, powered by the export of Saudi Oil to Asia's energy hungry industrial powerhouses.

Asia is also a natural partner to feed Saudi's growing demand for manufactured goods, technology and automobiles. In the first 9 months of 2019 imports to Saudi Arabia from Asian countries, backed by Import Letters of Credit (LC), increased by 25%, compared to the same period in 2018. While all eyes naturally turn to China, there are encouraging signs right across the region, at SABB we have seen strong double-digit growth in letter of credit based imports with South Korea and Japan.

As Vision 2030's social reforms made headlines around the world, they have also generated good news for trade between the Kingdom and Asia. The lifting of the ban on women driving has helped Japanese and South Korean vehicles imports buck global industry decline, increasing 19% year on year to October 2019, compared to a global decline of around 3%. Similarly, the development of tourism presents multi-layered opportunities, with China already topping the list of visitors as tourist visas for the Kingdom were made available for the first time. In-turn, the Red Sea developments and Neom will see further opportunities present themselves for Asian companies specializing in Infrastructure and transportation.

Now the course for strengthening trade with Asia has been set by Saudi's reforms, it's down to the private sector, and companies like ours, to play their part turning ambition into opportunity. Together we must build Saudi trade capability through continuous innovation,

build relations and cultural understanding - and most importantly confidence.

We need look no further than Asia to see how innovation is shaping the trade of tomorrow. Beyond the physical infrastructure, Asia has been leading the way in shaping the new digital model for trade. Many of the first Blockchain based trade transactions have taken place in the region, with several Governments also pushing hard to develop the ecosystems to support the digitisation of trade finance.

Saudi Arabia is also now proving its appetite to join the front runners of trade innovation. In 2019, Saudi Customs announced it had integrated with IBM/Maersk's Blockchain based logistics platform. Late last year, we also facilitated Saudi's first Blockchain based Letter of Credit (LC) transaction, piloting the r3 consortium's LC platform. This mutual commitment to digitization will open doors for significant increases in trade flows between the regions.

Building relationships and cultural understanding will be key to expanding trade. Attracting Asian talent and expertise to the Kingdom will also be essential for local trade service providers. Access to professionals who not only speak the language but understand the cultural intricacies of both markets adds an extra layer of confidence – especially for those tapping into new opportunities for the first time. Being able to offer this has made a big difference to our clients.

Now more than ever, it's important banks like ours are committed to bringing a world of opportunities to Saudi corporates – and there are few greater opportunities to be had than with our partners in Asia.

8.5 Central Asia

8.5.1 Drum Risk | Inspection Company Perspective: Trade Finance in Emerging and Developing Markets

VALERIYA OVDIENKO
Project Manager
Drum Risk

Inspection and collateral management companies "look after" the commodities on behalf of traders and financing banks. Unlike most of the businesses, they do not choose to enter a particular region but go wherever these commodities are located.

From this point, risks occur in many different forms and depend on specific commodities and countries. This article describes some of the most common challenges that inspection companies face in emerging markets.

Fraud and corruption are perceived by all companies to be among the greatest threats to their business when entering emerging markets. Inspection companies are no exception, and the risk of physical misappropriation of commodities is indeed higher in certain regions. This risk extends beyond the fraudulent actions of local parties, such as storage facility, borrower and suppliers, to the inspection company's own employees' activities. Before entering an emerging market, the inspection company should develop adequate risk identification, assessment, and managing procedures, specific to each type of facility – from warehouses to production plants. These to include audits by managers, regular checks of warehouses for unauthorized infrastructure (hidden pipes, inbuilt tanks, unauthorized vacuum, and pumping equipment), as well as necessary document verification. Regular rotations of personnel help to minimize the risk of local connections and bribery.

Mitigating described operational risks requires from the inspection company much more than a general grasp of local legislation and standards. Most of the developing countries have overly complicated regulations and longer lists of licensed activities as compared to European and North American countries. It is, therefore, imperative for the inspection company to verify that both the facility and the borrower have legal right to operate and handle commodities.

In many respects, exposure to risks by the inspection company lies heavily on the financiers when selecting their local partners and conducting pre-deal due diligence. An increasingly important factor that international banks should be addressing is that their KYC standards might not be applicable to developing markets and specific legal environments. It is often the case that such risks

as opaqueness to the ownership structure, offshore connections, as well as close ties to local authorities and, although less frequently than before, political risks are omitted.

Furthermore, some financiers, being attracted to high margins, ignore certain red flags. They accept higher risks themselves, in turn, transferring them to an inspection company. On the other hand, they might be too reluctant to understand the regional specifics and withdraw from the market, which results in short-term planning, a sudden stop of financing, and increased associated costs for the inspection company.

For the most part, storage facilities in developing countries can rarely afford the luxury of modern machinery and high-tech production lines. Ramshackle buildings, outdated equipment, and missing fire safety procedures pose a real threat to the integrity and quality of the financed commodities. For this reason, inspection companies perform a more thorough technical survey to confirm that a potential storage or production facility is suitable.

Potential pitfalls, including unplanned overheads, await when complying with local requirements. Managers of warehouses and terminals like to set their own rules and often ask for various medical certificates, professional licenses, or a particular type of personal protective equipment, all of which may be difficult and costly to obtain.

There is one more factor to consider. Establishing physical control over financed commodities can be challenging to target without prior knowledge of local culture, etiquette and language. With this in mind, most of the inspection companies prefer to employ local surveyors. Financiers and borrowers might also opt for local inspection companies with reduced service fees. In both cases, the risk of local connections increases. The inspection company should ideally use "mixed" teams, where some of the inspectors are local, and the others come from a foreign country.

Operating in emerging markets can be tricky. Yet there are more than a few opportunities to benefit from in the process.

Developing countries are highly ambitious and keen to attract international financing. They have been recently actively investing in building new plants, ports, power systems, and purchasing high-tech machinery. Most importantly, local companies become more cooperative and innovative when it comes to implementing control over the financed commodities. Inspection companies will always have valuable takeaways, such as new stock measurement techniques and means to segregate and secure the goods, to build up a successful strategy.

Bureaucracy may be something that people naturally associate with emerging markets, but local companies tend to be more proactive and make decisions quickly. Sometimes it would depend on one person only – General Manager or CEO.

Finally, setting up operations in the developing markets is usually cheaper and allows to reduce operational costs. Cost optimization is the key to success, especially when facing competition from the local inspection companies. ■

8.6 Asia Pacific

8.6.1 Bridging the Gap with Technology: South-East Asian Trade Finance

SHIRLEY LIU
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TFG & FCI Academy

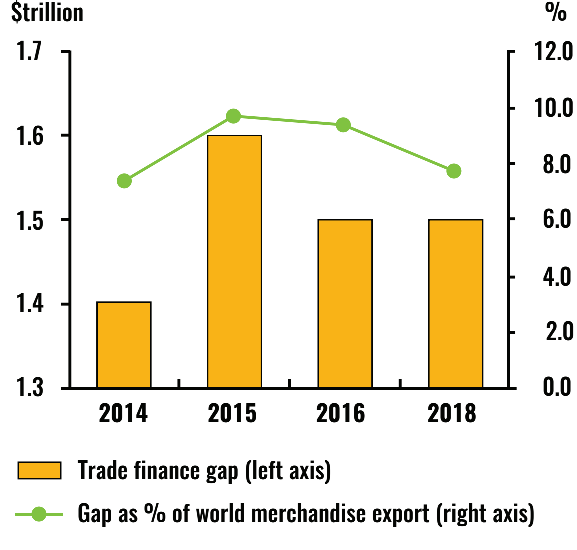
Recent trade developments with the US and China had accelerated a trend of companies in the South-East Asian region taking the seat a global, cost-efficient, manufacturing hub from China, who is slowly moving towards more sophisticated production lines.

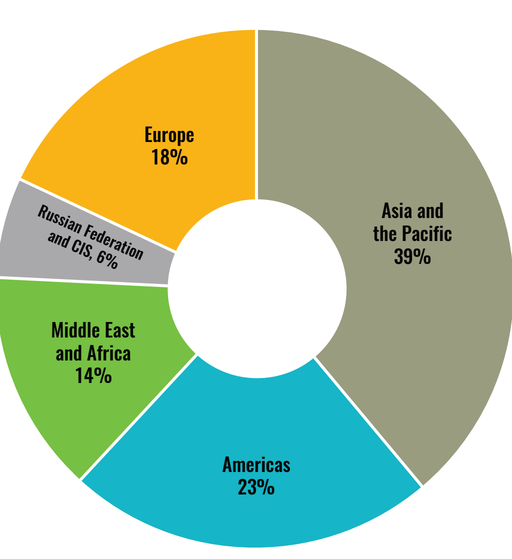
However, what we find is a previously importer-focused economy engaging in more and more international trading, with a majorly underserved trade finance market. Prospective traders within the South-East Asia region, particularly SMEs, find themselves held back by critical financing barriers due to a system not optimized for the ever globalizing world.

THE TRADE GAP

The gap between unmet demand and inaccessible supply of trade finance in the South-East Asia region has been estimated to be the largest (39%) and most persistent, when compared to global performances.

A 2019 trade facilitation report from the Asian Development Bank (ADB) and United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) measured the region's finance gap through quantitative analysis of trade finance proposal rejection rates, indicating an unmet demand gap measuring



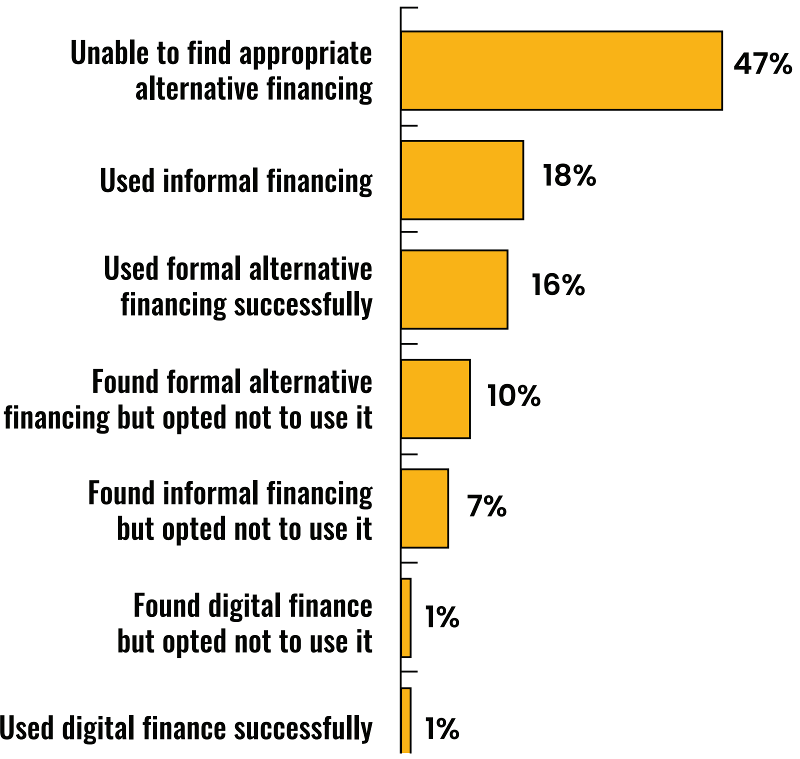


Global Trade Finance Gap 2014-2018, Measured by Rejection Frequency & Region | SOURCE : Asian Development Bank (ADB), 2019

up to $1.6 trillion USD (£1.24 trillion GBP).

The report found that approximately 50% of international trade finance applications are initiated from the Asia and Pacific region, 40% of global rejections originate from the region.
SMEs in particular are facing the effect of inaccessible trade finance--their higher transaction, information, and risk costs for banks contribute heavily to SMEs' particularly high trade finance rejection rate. The lack of appropriate trade financing for the SME market in South-East Asia blocks inclusivity of a very significant portion of the region's revenue generation.

Survey data from ADB's 2019 report estimated that around half of firms with rejected trade finance proposals were unable to find appropriate alternative financing, and found that access to finance is significant to SME growth and international participation.



Probability of Finding Alternate Sources of Trade Finance for SMEs in the South-East Asia Region | SOURCE : Asian Development Bank (ADB), 2019

ADAPTING FOR THE FUTURE

Although the large number of trade finance proposals coming from the South-East Asia indicates the region's populated participation in the international value chain, the disproportionate high number of rejections implies the need for more inclusive trade.

One of the most significant contributing factors to the trade imbalance is process inefficiency--especially as the region is still developing, local banking institutions, more often than not, still rely on paper-based procedures. The very sluggish process often creates a chain effect that increases the occurrence of financial fraud. Other barrier concerns include banks' complicated procedures, high bank commissions, the region's tariff-related uncertainties.

Regulatory requirements (i.e. AML/KYC compliance) form the most significant concerns trade finance candidates face, according to a 2019 survey by ADB; SMEs bear a disproportionate burden from bank regulation. Due to a lack of a case-by-case consideration basis for regulation, the already high costs of compliance procedures is exaggerated for SMEs because of their much lower assets and collateral, and higher risk consideration. Banks tend to avoid risk altogether in such scenarios, creating the large rejection rate of trade finance proposals we see in South-East Asia.

TECHNOLOGY LEADS THE WAY

With recent, visible growth of Foreign Direct Investment in South-East Asia, the move towards digitalising trade finance access observes its demand more than ever.

"There is an enormous untapped potential in the rapidly evolving digital technologies. Emerging new technologies can help address long-standing issues of high transaction and processing costs, while mitigating the huge trade finance gap,"

-- Bambang Susantono; ADB Vice-President for Knowledge Management and Sustainable Development

Data pulled from Singapore's Department of Statistics in October last year showed that their national trade volume was valued at more than S$89 billion (£49.67 billion GBP), of which up to 40% was facilitated by trade finance banks. What Singapore had done to refine their trade finance market was to adopt extensive digitalisation of their processes, notably through the use of blockchain in Singapore's Networked Trade Platform (NTP). Singapore's trade finance environment enables the application of finance proposals through standardized and secured forms, as well as the receival of real-time status updates on their proposals, all pushing towards facilitating a seamless, international value chain.

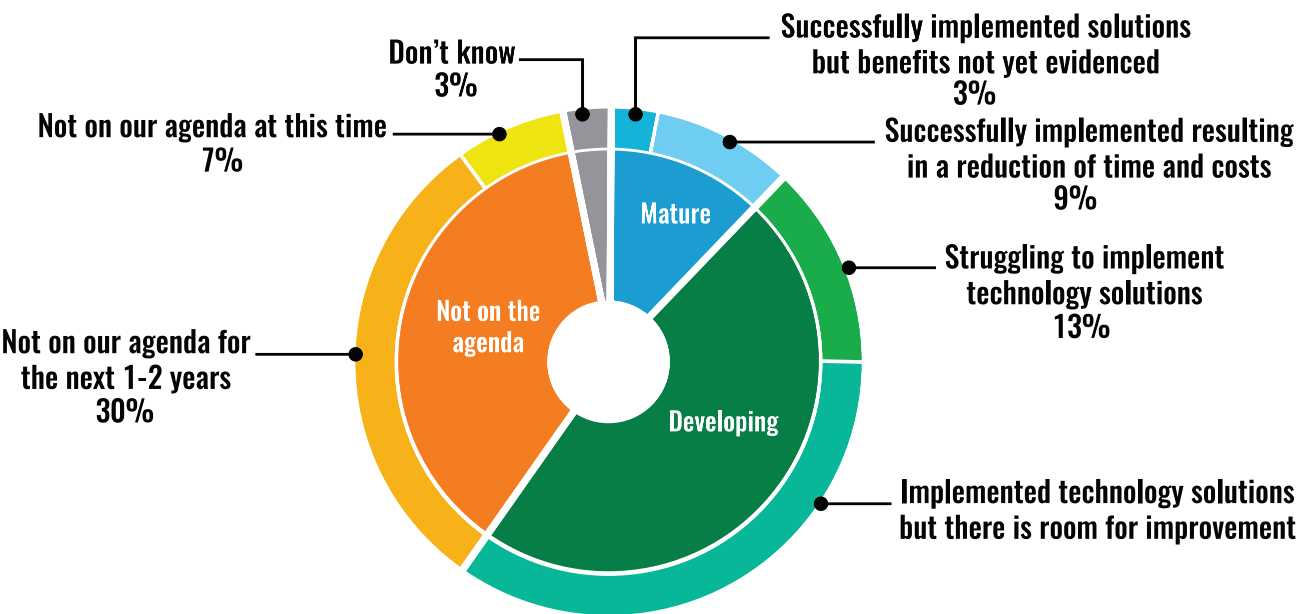
Digitalisation for the rest of the South-East Asia region would mean more readily available, traceable, and transmittable information, creating a more accessible and optimized trade ecosystem and putting countries on the same path as Singapore.

Digitalisation has also introduced efficiency the supply chain financing time cycle around the world, showing reductions such as from 90 days to 24 hours.

From a report by ADB and ESCAP, technological trade finance access does not only mean blockchain, but also the application of Artificial Intelligence and optical character recognition (OCR) solutions to streamline documentation verification processes.

GETTING ONBOARD

While digitalisation of the region's banking processes seems to be the right way forward, one of the major factors to the persistent nature of South-East Asia's trade imbalance is the burden of widespread onboarding.

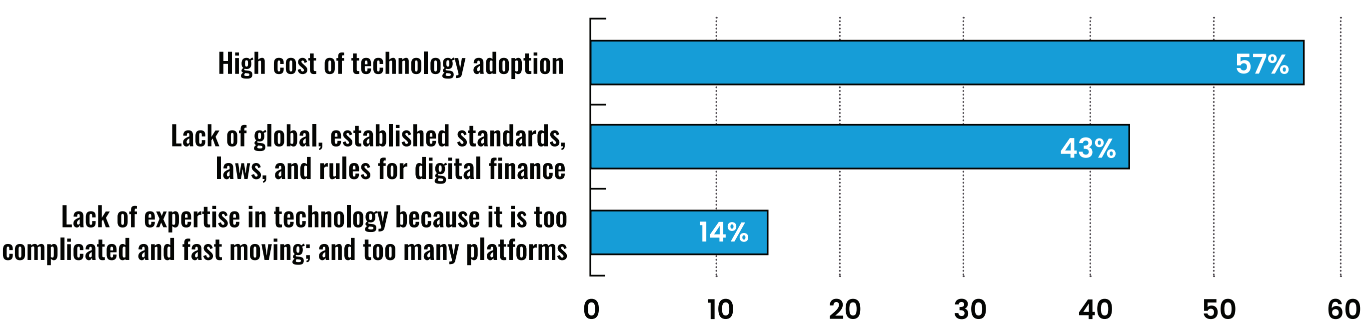


Note: Based on responses to maturity in using technology solutions to achieve benefits such as reduced time and costs as well as improved precision associated with trade-related due diligence.

State of Digitalisation in the South-East Asia Region as of 2018 | SOURCE: International Chamber of Commerce 2018

According to the ADB, the chance of new technologies being successfully implemented becomes higher as more parties get involved in the process, and an emphasis on platform interoperability and widespread participation is required to realize the benefits of digitalisation.

To facilitate holistic digitalisation in the industry, being backed by established global standards and laws such as current initiatives by the World Trade Organization's Trade Facilitation Agreement and ESCAP's treaty on enabling digital trade in Asia and the Pacific can also help push banking institutions into adopting new technological processes.



Survey Data of Trade-Finance Banks; Reasons to Not Use Technology | SOURCE: Asian Development Bank (ADB), 2019

ROAD TOWARDS SEAMLESS TRADE FINANCE

It is clear to see that the path to growth and accessibility in Trade Finance within the South-East Asia region, is the turn to digitalisation.

In order to create a more inclusive and productive trade environment for the region, digitalisation of certain trade processes will create connectivity that provides SMEs increased participation in global value chains.

Progress has already been taking off in the region: the Malaysian multi-bank supply chain finance platform, CapitalBay, has recently received approval from regulatory bodies to operate peer-to-peer (P2P) financing processes; Deutsche Bank recently begun more intensive participation in driving transaction banking in Southeast Asia.

Digitalising processes is key for Southeast Asia to close the trade finance facilitation gap, and reach its true economic powerhouse potential on the global stage. ■

8.6.2 2020 - A Challenging Year for Global Trade, an APAC Perspective

PETER JAMESON
Head of Trade & Supply Chain Finance, Asia Pacific
Bank of America

The pace of change in 2019 is not showing signs of slowing down in 2020. Already, it is shaping up to be another challenging year for trade finance and the overall business environment for Asia Pacific. We will see five key themes that are likely to continue to pose challenges this year, moving us towards some specific outcomes.

MACRO ENVIRONMENT

Macro uncertainty continues to be a key factor impacting growth as we continue to see a slowdown in trade flows, in part due to the US/China trade negotiation, layered on top of a broad based slowdown across developing and advanced economies. This will be further compounded by the impact of Covid-19 outbreak globally. These among other factors will continue to influence corporates to re-evaluate their supply chain strategy – with a bias towards greater diversification of their supplier base and locations, and manufacturing locations. Although we saw no significant shift of existing capacity out of China in 2019, I anticipate we will see this accelerate this year. In Asia Pacific, South East Asia – particularly Vietnam – continues to grow in prominence.

BANKING INDUSTRY

De-risking amongst transaction banks - while not new - has in part played a role in maintaining the trade finance gap, whereby smaller organizations are unable to gain access to financing. As banks rationalized their client populations and correspondent relationships, coupled with an increasing burden of KYC and compliance requirements, it is no surprise the gap (now estimated to be $1.5trillion according to ADB) has not been narrowing.

REGULATORY CHANGE

The evolving regulatory environment continues to influence how banks and companies do business across the region. Alongside increasing complexity – India being a good example – we are seeing an increase in 'regulatory nationalism'. For example, the increase in data on-shoring requirements, the development of local standards, rules and practices (instead of adopting global ones) all add complexity to a trade finance business that inherently involves cross border flows. Keeping up and complying with these regulations requires investment thus diverting resources from other growth initiatives.

SUSTAINABILITY

2020 will be the year of sustainable finance. Increasingly, businesses have started focusing on ESG and it will come into further prominence this year especially for emerging markets in the region. In trade finance, this goes beyond environmental considerations, but includes building sustainable supply chains, ethical business practices, and how banks and companies seek to use financing to drive the right behaviour and outcomes. We will see more focus on developing tools that enable and encourage sustainable and responsible supply chain management.

TECHNOLOGY

The final challenge and arguably the most important. Why? Because while technology evolution presents challenges and investment requirements, it can also act as a solution or catalyst for the other themes discussed above.
Real-time payments is a dominant trend in Asia and will help increase the velocity of capital and ultimately support greater trade activity.
Digitalization will drive improved efficiency within trade business, converting physical paper into a digitized environment and using improved technology like OCR (optical character recognition) and robotics to reduce cycle times and improve accuracy.
Data and how to manage it will present challenges, but the opportunities will be immense. Richer data not only gives banks and clients insight into their business, it can improve risk management, facilitate credit decisions, help with compliance and AML monitoring, and deliver greater transparency into supply chains and whether they meet ESG objectives.

New technology such as distributed ledger technology (DLT) will have its place, and it is heartening to see the trade finance industry collaborating around these new technologies more than ever before, to help define a common way of deploying it across the industry. DLT and the emergence of interoperable industry consortia may be key to unlocking financing for smaller companies and less-developed markets, helping to close the trade finance gap.
The challenge for these new technologies in 2020 will be around defining common standards, creating inter-connectivity that avoids digital islands, all underpinned by sound legal and regulatory standards that allow the trade finance industry to safely adopt these new innovations.

In conclusion, 2020 presents many challenges and uncertainty, particularly for emerging economies and Asia Pacific in particular. However, these same markets are often best-positioned as early adopters of new technology and innovation. For them, the business case is often greater, it is an opportunity to leap frog their advanced economy cousins, and position their economies to be ready to leverage shifting supply chains and trade flows. As a by-product, this technology will deliver greater agility in addressing some of the other industry challenges that will emerge.

Perhaps it is this latest digital-industrial revolution that will finally propel the highly manual and paper-based trade finance industry into the 21st century.

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DATE	CONFERENCE	PROVIDER	LOCATION
13th January	BAFT Global Annual Meeting Europe	BAFT	Frankfurt, Germany
20th January	Annual Blockchain Congress	GENEVA ANNUAL BLOCKCHAIN CONGRESS	Geneva, Switzerland
29th January	Blockchain for Supply Chain Finance Masterclass	BCR	Amsterdam, Netherlands
30th January	Supply Chain Finance Summit	BCR	Amsterdam, Netherlands
27th February	Regional Conference on Factoring and Receivables Finance in East Africa	FCI Facilitating Open Account – Receivables Finance	Nairobi, Kenya
3rd March	Excred International	ExCred Commodities	London, UK
10th - 11th March	Receivables Finance International Convention (RFiX)	BCR	London, UK
18th - 19th March	BAFT MENA Bank to Bank Forum	BAFT; TRADE FINANCE GLOBAL INTERNATIONAL TRADE AWARDS 2020 IN COOPERATION WITH BAFT	Dubai, United Arab Emirates
19th March	Trade Finance Global Awards 2020 in collaboration with BAFT	TRADE FINANCE GLOBAL INTERNATIONAL TRADE AWARDS 2020 IN COOPERATION WITH BAFT	Dubai, United Arab Emirates
20th April	Innovate Finance Global Summit (IFGS)	INNOVATE FINANCE	London, UK
23rd April	ICC Banking Commission Annual Meeting	ICC UNITED KINGDOM INTERNATIONAL CHAMBER OF COMMERCE The world business organization	Dubai, United Arab Emirates
24th April	UK Fintech Week	INNOVATE FINANCE	London, UK
6th May	GTR UK 2020	GTR Global Trade Review	London, UK
13-14th May	EBRD Annual Meeting & Business Forum	LONDON 2020; European Bank for Reconstruction and Development	London, UK

DATE	CONFERENCE	PROVIDER	LOCATION
28th - 29th May	TXF Global Commodity Finance 2020	TXF TRADE AND EXPORT FINANCE	Amsterdam, Netherlands
4th - 5th June	Consortia 2020	BCR	London, UK
21st - 25th June	FCI 52nd Annual Meeting	FCI Facilitating Open Account – Receivables Finance	Washington DC, USA
1st September	Islamic Finance Week London	IFN Islamic Finance news The World's Leading Islamic Finance News Provider	London, UK
8th - 9th September	GTR Asia	GTR Global Trade Review	Singapore
9th - 11th September	The 47th Annual International Trade And Forfaiting Conference	ITFA 20 YEARS	Singapore *TO BE CONFIRMED
17th September	Trade Finance Innovation and Regulation Summit	City & Financial Global	London, UK
September	Excred Commodities	ExCred Commodities	London, UK
September	GTR Commodities	GTR Global Trade Review	Geneva, Switzerland
5th - 6th October	WOA Community Convention	woa world of open account	Vienna, Austria
5th - 9th October	Sibos 2020	sibos	Boston, USA
20th October	World Trade Symposium	FINASTRA	London, UK
21st October	World Trade Summit	INSTITUTE OF EXPORT & INTERNATIONAL TRADE	London, UK
4th - 6th November	BAFT 30th Annual Conference on International Trade	BAFT	Chicago, USA

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