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MENA'S TRADE TAPESTRY: WEAVING GLOBAL INTEGRATION

FEATURED

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MLETR: The snowball effect of digital trade

The passing of the UK trade bill, expected in June 2023, would create momentum that would hopefully encourage a host of countries to adopt their own versions. Given the volume of cross-border trade already conducted based on English Law, this will likely accelerate the digitisation of trade instruments.

The MLETR (Model Law on Electronic Transferable Records) is a revolutionary solution that aims to transform the trade finance industry by providing an open framework for digitising trade documentation.

MLETR enables a seamless exchange of digital originals through existing mediums. This is unlike other blockchain-based trade digitisation solutions, which operate within a 'closed user group' concept. This allows MLETR-compliant solutions to work alongside other platforms and systems with or without integration, creating an interoperable framework that can streamline trade finance processes. Once a digital original is created, it can be shared easily with other parties involved in the transaction.

Here is what a simple trade transaction would look like with MLETR-compliant solutions:

- Shipping companies can digitally share the original 'Bill of Lading' with the shipper via email
- Suppliers can generate their own documents (invoice, etc.) and submit the same, along with the 'Bill of Lading' to their Bank via internet Banking
- Supplier's Bank can relay the document to the Buyer's Bank via SWIFT file act
- Buyer's Bank can further share the documents with their client using their own Internet Banking platform
- Lastly, the buyer can submit the 'Bill of Lading' to the shipping company via email or any other channel.

MLETR-compliant solutions also ensure that only one party (i.e. the possessor in the physical instance) is in control of the document and only this party can electronically transfer possession to another (for example – from shipper to Bank to buyer to the shipping company).

A closed user group blockchain-based solution, on the other hand, would require all parties involved in the transaction to be part of the same closed group with the same blockchain platform, limiting the interoperability and flexibility of the solution.

Under MLETR, no party is required to use a mandated technology. In fact, closed user group solutions could operate as communication platforms, where MLETR digital originals can be exchanged. The only requirement is the adoption of a legal framework enabling electronic transferrable records by the relevant jurisdiction.

MLETR use cases

Some countries, including Bahrain, Singapore and Abu Dhabi Global Market, have adopted MLETR. The Financial Services Regulatory Authority (FSRA) of Abu Dhabi Global Market (ADGM), in collaboration with commercial partners Emirates NBD, DBS Bank and Standard Chartered, successfully completed the world's first cross-border POC digital trade financing transaction. This action proved that interoperability, with the right legal framework, can be achieved.

We are also witnessing major developments in the G7 countries. In fact, the UK is on the cusp of passing the Electronic Trade Documents Bill, which will serve as an important stepping-stone to the widespread adoption of MLETR.

Notably, English common law is the most widespread legal system in the world, with 30% of the world's jurisdictions using it and an even greater percentage having reciprocal agreements.

The passing of the UK trade bill, expected in June 2023, would create momentum that would hopefully encourage a host of countries to adopt their own versions. Given the volume of cross-border trade already conducted based on English Law, this will likely accelerate the digitisation of trade instruments. Financial instruments such as Bills of Exchange (BoE) and Promissory Notes or Irrevocable Payment Undertakings could benefit the most. For example, a BoE auto-embedded within a supply chain payable workflow could potentially replace proprietary payment service agreements.

Germany and France are also making progress in adopting a law that would enable electronic transferable records. As they are home to two of the four largest containerised shipping companies in the world, their adoption of an electronic trade law would be key to the acceleration of trade digitisation.

While these are welcome developments and will likely have a cascading effect; the need for countries to create their own laws around electronic transferrable records is imminent.

Not all parties in a trade finance transaction, especially domestic ones, would benefit from foreign laws and the respective reciprocal arrangements.

Understandably, the decision for policymakers to prioritise the adoption of MLETR can be a challenging one, especially given the number of stakeholders involved in a trade finance-related transaction. To fast-track the work on this front, institutions and governments could focus on other local or regional applications.

For example, in 2021, the Bahrainian Central Bank introduced e-cheques. Bahrain's own adoption of MLETR, in the form of the Electronic Transferable Records Law and the Electronic Communications and Transactions Law, came into force in 2018 and gave the required legal basis for this initiative.

The adoption of MLETR by governments in the MENA region could replace post-dated cheques – which underpins most of the rental market in the region – with a combination of an electronic promissory note and direct debit.

This would reduce paperwork while still allowing landlords to act against tardy tenants under the negotiable instruments' legal framework. Such initiatives could provide immediate benefits and develop the ecosystem for digitising cross-border trade as it progresses.

As legal adoption progress, it is pertinent that technology solutions evolve for mass adoption. For trade digitisation to have a meaningful impact on narrowing the working capital trade gap of about $1.8 trillion globally, tech solutions must address the problem of 'identity' and 'authorisation'.

Trusted Digital Identities: Final building block

A final block in the MLETR ecosystem would be 'Trusted Digital Identities'. These are crucial for the transformation of trade. They enable a smoother user journey on the path to adoption, as well as provide the much-needed confidence for Banks when lending to SMEs.

It is well-known that the longest journey in any corporate transaction is the completion of KYC checks, sometimes even more arduous than finding a lending facility. An open network where corporates can create their own identities, which can then be verified by their respective Bank(s) who act as 'verifiers' by leveraging on the corporate KYC that already exists, can offer a ready solution.

Digital Identities can further act as extended wallets, where documents in possession of the owner can be held safely, and support extensions for eSignatures of various geographies in which they operate. It can also enable corporates to be 'verified issuers' of authorisation tokens for their own personnel that can be exchanged with Banks and/or are embedded into digital documents instead of the traditional account operating mandates.

The potential of electronic transferrable records is extremely promising. Governments, financial institutions, and fintechs around the world must intensify efforts to accelerate adoption. This is especially the case at a time when economic headwinds around the world are mounting, and measures to support growth are urgently needed.

The good news is that we are pulling in the right direction.


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