SPRING 2021

TRADE FINANCE TALKS

A PATHWAY TOWARDS SUSTAINABLE TRADE FINANCE

FEATURED

WOMEN IN TRADE 2021

PRESENTED BY AIG

IN THIS ISSUE

FROM REVERSING DEFORESTATION TO CLEANTECH: BUILDING BACK GREENER IN THE AFTERMATH OF COVID-19

WHY TRADE FINANCE MATTERS – ESPECIALLY NOW

HOW DISRUPTION IS ACCELERATING INNOVATION AND PROMOTING DIVERSITY IN THE GLOBAL SUPPLY CHAIN

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1

INTRODUCTION

1.1

Editor's Note

DEEPESH PATEL

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Trade Finance Global

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"Here is Edward Bear, coming downstairs now,
Bump, bump, bump, on the back of his head, behind Christopher Robin.
It is, as far as he knows, the only way of coming downstairs,
but sometimes he feels that there really is another way,
if only he could stop bumping for a moment and think of it."

*- A. A. Milne**

Like Edward Bear being dragged down the stairs by Christopher Robin, the trade finance industry has spent the last year trying to stop 'bumping', and think about other paths forward for international trade.

A year ago, the world was a very different place. The US economy was booming, unemployment hit a record low, and Donald Trump was confident of a second term in office. Meanwhile, across the pond, the UK's departure from the European Union felt like the biggest challenge Britons would have to face. The pandemic has dwarfed these challenges, and unveiled many more, affecting lives and livelihoods in every corner of the world.

In the world of international trade and trade finance, the past 12 months have focused on ensuring goods continue to move cross border. And many players, from SMEs to multinationals, continue to face hurdle after hurdle. Bump, bump, bump.

We can, however, move away from this calamity as we take a look towards the horizon. A new administration in the US offers hope that America can bring stability on the international stage. AfCFTA, which came into effect in January, also has the potential to lift 30 million people out of poverty. A new era of better connected, digital trade is no longer the 'want', but rather, the 'need'. And despite initial fears over vaccine nationalism, global rollouts appear to be having the desired effect, as countries plan their roadmaps out of the pandemic.

But as we begin to chart our paths into the fourth industrial revolution for trade, we must not forget the vital role that SMEs play in the global economy, and the substantial impact of the pandemic on the SME trade finance gap. We must work harder to ensure SMEs are not left out of global value chains, and consider ways of using the gains from 'digital' to help them both survive and prosper.

Recent events have also unveiled the fragility and intricate links between trade and environmental, social, and governance challenges. While many of us marvelled at empty highways and cleaner air in the worlds' megacities, it's so easy to fall back into the rut of complacency and inaction that dominated the previous decade. We need to make sure we are talking about ESG for the right reasons, and not simply "greenwashing".

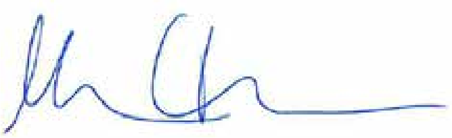
In this issue of Trade Finance Talks, we also spotlight the rockstar women in global trade, as we celebrate International Women's Day. We are recognising over 30 women in trade, sharing their professional views and personal challenges around diversity and inclusivity.

This issue is about change. Choosing to change, and choosing to do things differently. As A. A. Milne would put it; if Winnie The Pooh can, why can't you? Please stop bumping for a moment and think about it. ■

**My heartfelt thanks to Peter Hopkins at Drum Risk for bringing this reference to my attention.*

1.2

Women in Trade 2021



MARILYN BLATTNER-HOYLE

Global Head of Trade Finance

AIG

#ChooseToChallenge. A catchy tagline, but what does it actually mean? Last weekend, I got first hand evidence. In yet another Zoom social with friends, I asked a toddler on the call "what do you want to be when you grow up?" and rather confidently, she answered with: "an astronaut".

This year's call to action for International Women's Day is all about this. The power of becoming alert. By slowly changing who we see in the media, the toys our children play with, and other small aspects of everyday lives, we are challenging the status quo. Little by little we are breaking down those unconscious biases that start with our children drawing girls as nurses and boys as astronauts.

How, then, do we "choose to challenge" in trade finance? Take the garment industry, for instance, a huge sector globally, where women are disproportionately represented in both jobs and purchasing, when compared with other manufactured goods. Yet global tariffs on garments are amongst some of the highest in the world, in what has been dubbed a "pink tariff" in the way it directly impacts women consumers and stunts export and employment opportunities.

Have you ever thought about tariffs or garment order cancellations having gender impacts? And how resilience in supply chains such as in the garment sector could lead to gender wins and losses? With the disruption in the world today, there is a renewed focus on the importance of resilience in supply chains for profitability. We can make this drive for innovation in supply chains and recovery from uncertainty about an innovation in the human space, about the gender equality space.

The reality is that businesses involved in international trade employ more women. In developing countries, women make up 33 percent of the workforce in firms that engage in trade, compared with just 24 percent in non-exporting firms.

Trade also creates better jobs for women. Workers in both developed and emerging economies are almost 50 percent more likely to be employed in formal jobs if they work in sectors that trade more or that are more integrated into global value chains.

Countries that are more open to trade have higher levels of gender equality, as measured by the ratio of trade to gross domestic product.

Becoming alert to where and how examples of female empowerment exist, allows us to challenge our companies to build on and replicate those successes.

The importance of role models cannot be understated.

Powerhouse, Ngozi Okonjo-Iweala, former World Bank vice-president and finance minister of Nigeria, has just taken over as head of the World Trade Organization, and yes, she also happens to be a woman. We can only hope that 2021 brings with it other such aspirational figures. In this issue, we also celebrate some of the many women forging the way in the industry. We feature some of the female heroes of trade, including leaders and visionaries, as well as the trade professionals and emerging leaders of the future.

The ideas from the trade world of harnessing gender equality wins, being alert to situations where no gender-dimension is perceived, and celebrating our female role models and pipeline, are just small steps to addressing a gender equal world. Choosing to challenge requires all of our innovative might, thinking to the stars and beyond. Those aspiring toddler astronauts are watching.

2

WOMEN IN TRADE 2021

In this issue we are celebrating International Women's Day, which calls for all of us to challenge stereotypes, fight bias, broaden perceptions, improve situations, and celebrate women's achievements.

This year's theme is 'Choose to Challenge'. TFG celebrates the economic, cultural, political and social achievements of women, because an equal world is an enabled world.

The conversation about gender equality at work needs to continue, and Trade Finance Global continues to discuss the lack of progress across the trade and financial services sector and looks to ensure improvements continue to be made across the board.

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2.1

Celebrating Women in Trade 2021

Do you find that there is a gender gap at the top in trade?

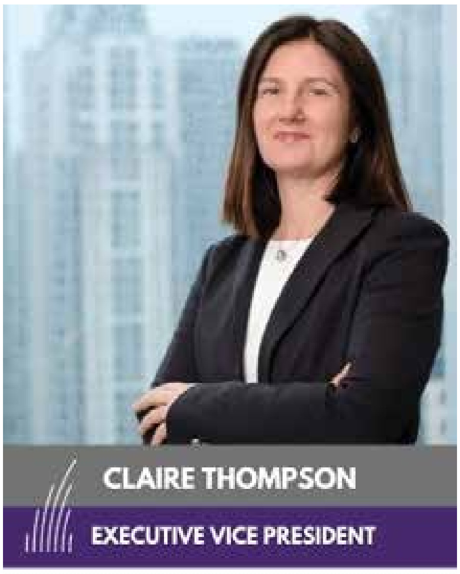
Yes, change does not happen overnight. There are uneven situations in various countries across the world in the trade industry, but I believe that now is our time: the current focus and impetus on ESG is one driver that may lead change in our industries/economies and we must all participate positively and actively in it.

How do we attract more women into careers within the trade?

The last year has showed most managers and team leaders globally that people can be efficient and productive even in a virtual structure and that, even in industries where physical presence and long working hours were the norm to be considered a high performer, we should be in a position to attract a wider range of talent including those who are seeking flexibility in both time and location to cater for their personal life/ balance choices.

Why did you choose a career in this sector?

I started out in general insurance but was drawn to the Trade Finance insurance specialism as a more focussed product. My background in Economics meant I have always been interested in factors that have worldwide influences such as trade. Trade Finance is an enabler of trade across borders – it is incredibly diverse in terms of the people involved, products, operations, financing, etc. Even now I still learn something new each day and I am constantly finding new challenges to enhance my development. Trade Finance is such a broad industry, it is an ideal career choice for me as there will always be a place to enhance my skills and find opportunities to grow.



mastercard

What does your role entail and what aspects do you like most?

As the Head of Global Trade for Mastercard's Enterprise Partnerships division, I lead our work with major financial players, logistics providers and technology companies to build digital, sustainable supply chains. I am truly passionate about what we do to enable SMEs to trade globally and access affordable funding. It's proven that companies who trade internationally are twice as successful. Today SMEs are largely excluded from international trade, only 13 percent of SMEs trade cross-border from developing economies and in developed economies, such as Europe, it still only reaches up to 30 percent.

The trade finance gap has also been significantly exacerbated by the pandemic and is now estimated at a striking $4-$5 trillion dollars. By combining our assets and network with global funding and technology capabilities of our partners, we create new digital solutions and platforms that address these funding challenges and help create more inclusive, resilient, and sustainable supply chains. Leveraging our technological advancements, through blockchain and open banking to data insights mean that now more than ever we have tools and resource available to help companies to trade and prosper.

skuchain

What specific tasks and responsibilities does your job require? What things do you like most about your job?

I run the business side at Skuchain, which includes everything from sales and marketing to partnerships, legal, finance, HR and operations. The most fulfilling part of my job is building a revolutionary company from the ground up. I would have to say, though, that the part I like most is the people I meet. The beauty of international trade is that you interact with people from all over the world on a daily basis, and you are constantly reminded of how we're all really the same at the end of the day with very rich and wonderful differences based on where we're from and where we live.

In your opinion, why is it important that more women take up trade as a career in the near future?

Let me start with a simple answer: more women in business means more growth for economies. The evidence is overwhelming. Whether they're launching small businesses in emerging economies, or chairing multi-nationals, women are making an impact. So this isn't just about making life better and fairer for an underrepresented segment of our society (though that is a huge!). It's about having a tangible economic benefit. We know that in Canada, women-owned businesses represent only 16 percent of our country's small- and medium-sized enterprises (SMEs), with about one-in-ten of these being exporters. Studies tell us that increasing that number by just ten percent would increase our nation's GDP by more than $150 billion dollars. Globally, if women entrepreneurs participated at equal levels to men in the economy, world-wide GDP could expand by as much as $5 trillion dollars. That is a tangible economic benefit.

Have you encountered any related challenges in your career along the way to becoming who you are today?

Sometimes I wonder whether I am treated differently as a young woman, for example when receiving comments about my appearance, or when someone explains something to me that is very obvious. On the latter, it's hard to work out what is because they do not recognise my byline, or because other journalists they have interacted with are not as familiar with the topic. I now use various tricks to show people that I know my stuff, mostly by throwing in a lot of acronyms at the beginning of a conversation - they normally catch on pretty quickly!

AFREXIMBANK

Is now an exciting time to be in trade finance? Why?

Now is definitely a very exciting time to be in trade finance. There is so much going on globally and that means more activity and more opportunities to finance trade.

If I look at what is going on in Africa for instance, the African Continental Free Trade Area (AfCFTA) coming into force will create a single market in Africa, which will aid the movement of people and goods across the continent and simulate intra African trade. This opens up so many opportunities for Trade Financiers to support clients who are taking advantage of the opportunity to enter new markets. My employer the African Export-Import Bank is launching a Pan-African Payment & Settlement System to help facilitate intra African trade. In the digital space globally, there are quite a few developments, which are all geared to support trade. Blockchain is being used in trade, we have seen Fintechs developing digital market places which some banks have already adopted, innovation in the world of artificial intelligence which is changing the way documents are checked in the trade operations area. There's a buzz and excitement, so why not be part of this exciting journey?

ITFA

Do you find that there is a gender gap at the top in trade?

Yes and no. There certainly is a gender gap at the top in trade if simply looking at how many commercial banks have got a female head of trade or how many commodity house have got women in senior structuring positions, or how many women run large trade credit insurance businesses etc.. That being said this current imbalance is not just true for trade, but is a matter of fact across the financial services and other industries, and it is something we see shift ever more to a more balanced outlook. There is a rising number of women in senior positions in trade, and I am therefore optimistic that we will see many more women at the top in trade over the coming years, and in fact not just at the top in trade, but across all industries.

Have you encountered any related challenges in your career along the way to becoming who you are today?

I have experienced some challenges. Often being one of the few women at the boardroom table or in meetings. However, I do not think that has held me back as I have learnt how to use this to my advantage.

I have had setbacks in terms of external forces trying to hold me back and that did lead to a challenging couple of years until I put my foot down.

Probably my most exciting move was a couple of years ago when I moved to establish my own business. It was scary and I was not 100 percent sure I had made the right decision. You have to make personal and financial sacrifices, so your typical safety net is out of the window. However, I always wanted to have the opportunity to set up by own business. I especially wanted to drive something at a global level that would impact other women businesses owners as well as to address ongoing challenges impacting SMEs in both developed and developing markets to engage in a more inclusive trading economy.

On International Women's Day, what is the most important message you want to send out to young women thinking about their careers?

First and foremost, do what excites you. Have a career, not a job. You will be spending hours, days, weeks and years working, so find an area that will drive you forward. There are plenty of exciting opportunities around, so you really don't need to feel stuck. Also, a lot has been said about the power of connections. Expanding your network will not only help you if you want to change jobs, but it will provide you with a wealth of advisors, mentors, teachers and friends that will assist you daily. When facing a challenge, make sure you do not hesitate to reach out to people you are surrounded by. There are so many of them who have done it before and will be happy to tell you all about their experience and to guide you. ■

TRADE FINANCE GLOBAL
INTERNATIONAL TRADE AWARDS 2021
IN COOPERATION WITH BAFT

November 2021

Awards opening in August 2021
Held at BAFT's 31st Annual Conference on International Trade

Steering panel to be announced

CATEGORIES

GLOBAL

Best Trade Financier
Best Receivables Financier
Best Supply Chain Financier
Best Export Credit Agency
Best Multilateral Development Bank

REGIONAL

Best Trade Financier in Europe
Best Trade Financier in Asia
Best Trade Financier in the Middle East and North Africa
Best Trade Financier in Africa
Best Trade Financier in Australia Pacific
Best Trade Financier in North America
Best Trade Financier in Latin America

SPECIALIST

Best Trade Finance Law Firm
Best Trade Credit Insurance Provider
Best Logistics Provider
Sustainable Finance Award
Best Tradetech Company
Innovator in Global Trade
Best Islamic Financier

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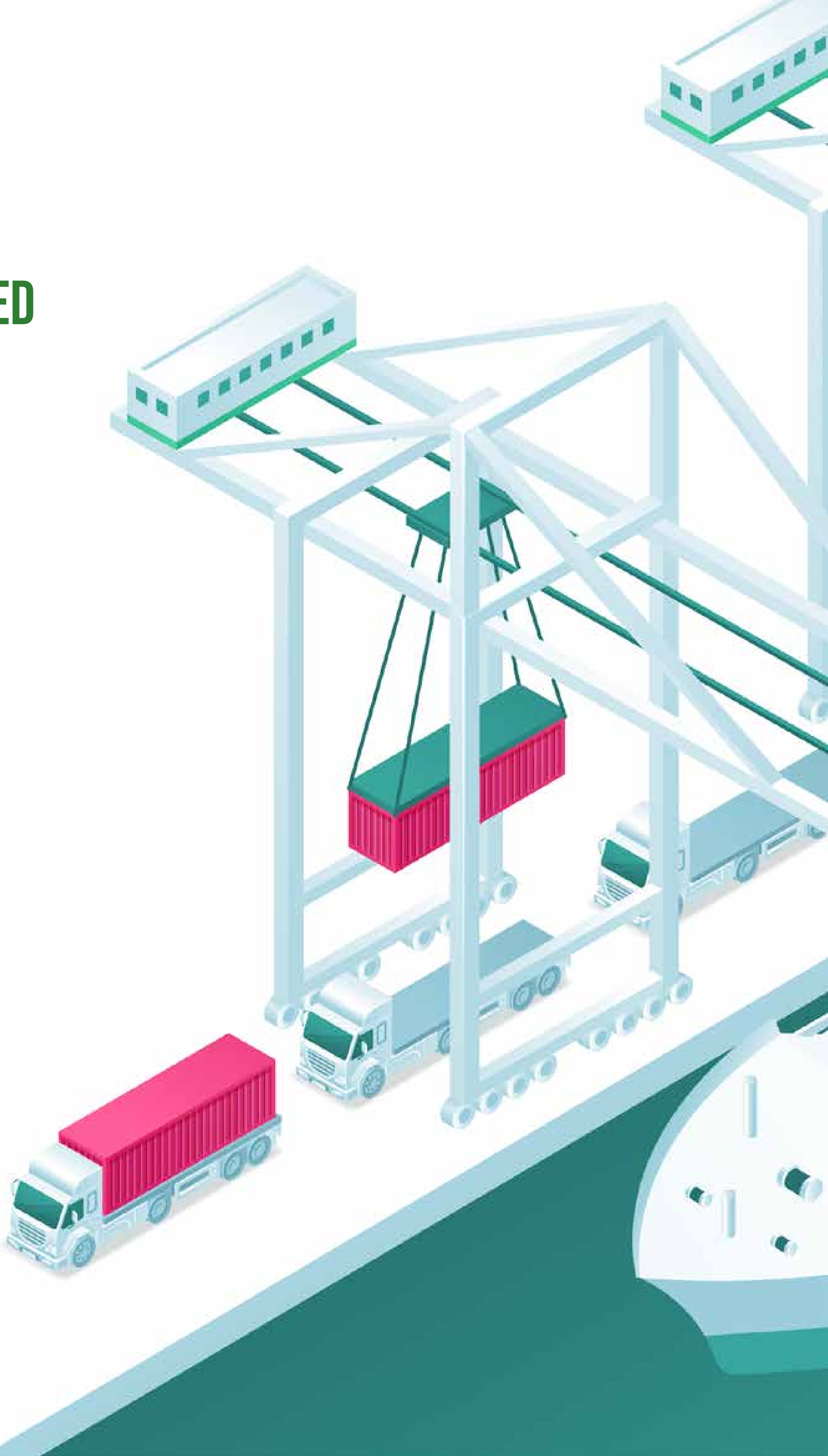

4.1

Why trade finance matters – especially now

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Lead Global Trade and Commodity Finance Strategist
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Ignore pressures to retrench. Trade finance infrastructure needs to grow now more than ever.

The first known letter of credit dates to Ancient Egypt. It was a clay note that recorded a debt to be paid upon the delivery of wheat, with the noteholder's right of execution in the event of default. While trade finance borrowers no longer risk death for nonpayment, global trade finance has a near-zero loss record, suggesting, in part, its importance to borrowers.
In some cases, trade finance may ultimately support life. How? Letters of credit make imports of life-sustaining goods possible in many poor countries. In many cases, the movement of goods across borders does not occur without trade finance. The unique set of complexities and risks involved in trade are, in part, taken on by cross-border banks. Trade finance, a subset of working capital, has been fundamental to trade, and thus to growth, for emerging markets and developing economies.
Yet despite its importance, developing countries face a large and notoriously persistent trade finance gap, which the current crisis may only exacerbate.
The COVID-19 pandemic has affected both international trade and trade finance, as further detailed by IFC's three recent notes, "When Trade Falls—Effects of COVID-19 and Outlook," "Why Trade Finance Matters— Especially Now" and "Taking Action on Trade: From Concern to Support." In early stages, the COVID-19 shock synchronised across sectors and countries. Both buyers and suppliers found themselves unable to do business. In many cases, demands on financial systems' capital and liquidity rose as short term liquidity, generated by operations, froze across millions of companies. While governments and other institutions across the globe rushed to put temporary financial crisis-response measures in place, the recovery trajectory for this rare and historic event remains ambiguous.

The complexities of COVID-19's economic impact on individual countries, bilateral trade pairs, and global value chains creates differences in trade finance trends and timing. Demand for trade finance faces two opposing forces: increased risk and liquidity to push up demand, while reductions in trade drive it down. While their transmission and effects on economies are different, the situation may quickly change in favour of either of these forces as the crisis evolves. While demand has broadly followed typical crisis patterns, the pandemic has created some new challenges.

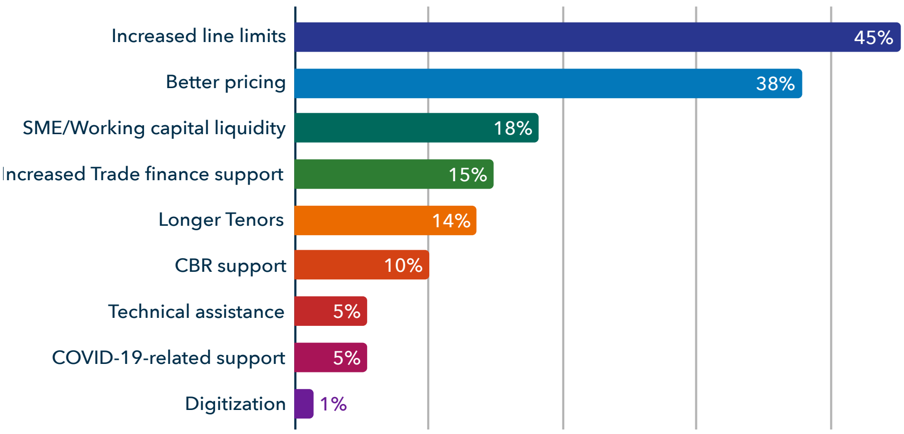
As economic effects of the crisis continue to ricochet across countries, the timing of acute liquidity needs and related trade finance demand varies from country to country, in some cases amplified by second and third wave knock-on effects.
Adequate supplies of trade finance can help to "raise the floor" of a crisis-driven cash flow crash. They can expedite recovery when businesses require additional finance to resume both operations and trade. However, when actual, potential, or perceived financial risk increases sharply in countries on either side of a trade border, the supply of trade finance tends to fall. Nearly all—98 percent—of the respondents to IFC's forthcoming Global Trade Finance Program's (GTFP) 2020 Annual Emerging Market Issuing Bank Survey indicated that COVID-19 is affecting their customers in many forms. The pandemic is further exacerbating cross-border bank relationship stress. Over 90 percent of survey respondents indicated that more help is urgently needed.

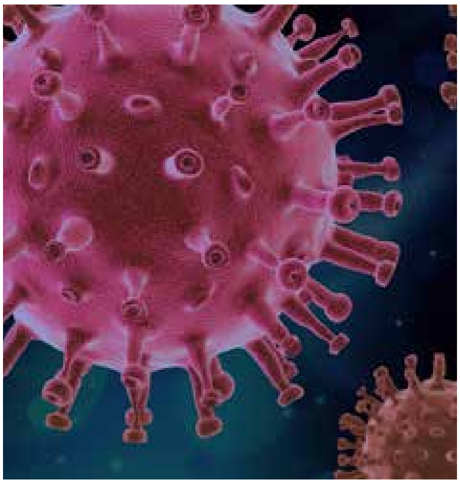
"Adequate supplies of trade finance can help to 'raise the floor' of a crisis-driven cash flow crash."

Looking ahead, the impacts of COVID-19 will either be amplified or mitigated by the relative strengths and weaknesses of each bilateral trading partner pair; this, in turn, affects both trade and access to trade finance. The complete recovery of global trade is largely dependent on global vaccine rollouts and their efficacy against emerging strains of the virus. Meanwhile, financial systems facing increased stress will continue to need additional working capital and trade finance infusions to weather the crisis, adapt to the current environment, and help businesses survive.
When remaining shuttered businesses begin to restart and relaunch trade, the immediate demand for trade finance will spike. However, historic patterns suggest that the supply of trade finance will not recover as fast as demand. We expect that demand will increase globally across emerging markets sooner than supply does, as the COVID-19 risk hangover will remain, even as widespread economic recovery is underway. As a consequence, the trade finance gap will only continue to expand.
As the world emerges from the current crisis, trade and trade finance corridors will reflect post-crisis caution in taking risks,

IFC GTFP 2020 Emerging Market Survey

Frequency of mentions





and there will be a movement towards the most deeply trusted counterparties. The social distance-led acceleration of digitalised trade and trade finance will, through reduced cost and risk, pave the way for future trade growth. These dynamics are likely to produce a hybrid of traditional mechanisms (e.g., letters of credit) and more recent innovations (e.g., digitalised open accounts), at least in the medium term.

While trade finance assets are short-term, the infrastructure required is decidedly long-term. Even as trade finance evolves, it will still require the deep and complex network of cross-border finance, unique to this asset class and economic activity. This infrastructure needs to continue to deepen, grow, and evolve in order to reduce the trade finance gap, despite the present pressure to retrench. Just as trade is a critical component of economic recovery, trade finance is a critical component of trade, perhaps even more so going forward.

4.2

How the banking industry can help tackle deforestation

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A five step action plan for stopping the destruction of our most valuable ecosystems.

Despite longstanding and widespread awareness of alarming rates of deforestation, there remains considerable debate as to who should do what, where, when, and how. The debate is understandable – the challenge of halting and reversing deforestation is not simple. Amongst other things, it requires an alignment of political, business, and financial agendas, alongside enhanced traceability, supply chain digitisation, and experts with local knowledge of the landscapes and communities affected.

While the debate is understandable, inaction is not – the consequences are severe and systemic. There is an urgency and importance to making progress with meaningful impact. Trade finance, being the lifeblood of most cross-border transactions, has a powerful part to contribute to halting and reversing deforestation. The benefits are considerable – contributing to decarbonisation targets, protecting and restoring nature, and building more inclusive and resilient societies.

Who should do what?

Supply chain complexity means that a system change is required to tackle embedded deforestation, and for system change a wide range of stakeholders are needed. Leadership and deliberate action is required at all levels: in policy, business, and finance at the macro, organisational, and transaction level. This means that any action must be collaborative, with stakeholders along the value chain contributing their unique expertise.

> “Any action must be collaborative, with stakeholders along the value chain contributing their unique expertise.”

The University of Cambridge Institute for Sustainability Leadership (CISL), through the Banking Environment Initiative (BEI), has led a programme to better map and understand deforestation risk and financial links along supply chains. This has complemented other initiatives focused on the role of policy and business.

The unique role banks can play in combating deforestation – both in terms of allocating capital for a forest restorative future and enhancing due diligence along supply chains – requires the support of business, experts, and investors. What is more, to make meaningful progress, banks from along the supply chain need to act together. Local and global banks together can play a valuable intermediary role, connecting capital with businesses on-the-ground to incentivise compliance with anti-deforestation standards. Banks, and trade finance in particular, can seek to:

- Support traceability efforts, in partnership with data providers
- Raise standards in anti-deforestation policies, through engagement with clients
- Mobilise funds that channel finance and incentives to deforestation-free suppliers

What can be done?

Aimed at catalysing action amongst a broad range of banks, including those closest to on-the-ground practices, Banking Beyond Deforestation (CISL, 2020), proposes a five-step action plan. These actions are (1) alignment of anti-deforestation standards in support of traceability efforts that can (2) facilitate structuring of financial solutions to scale deforestation-free and forest restorative soft commodity supply.

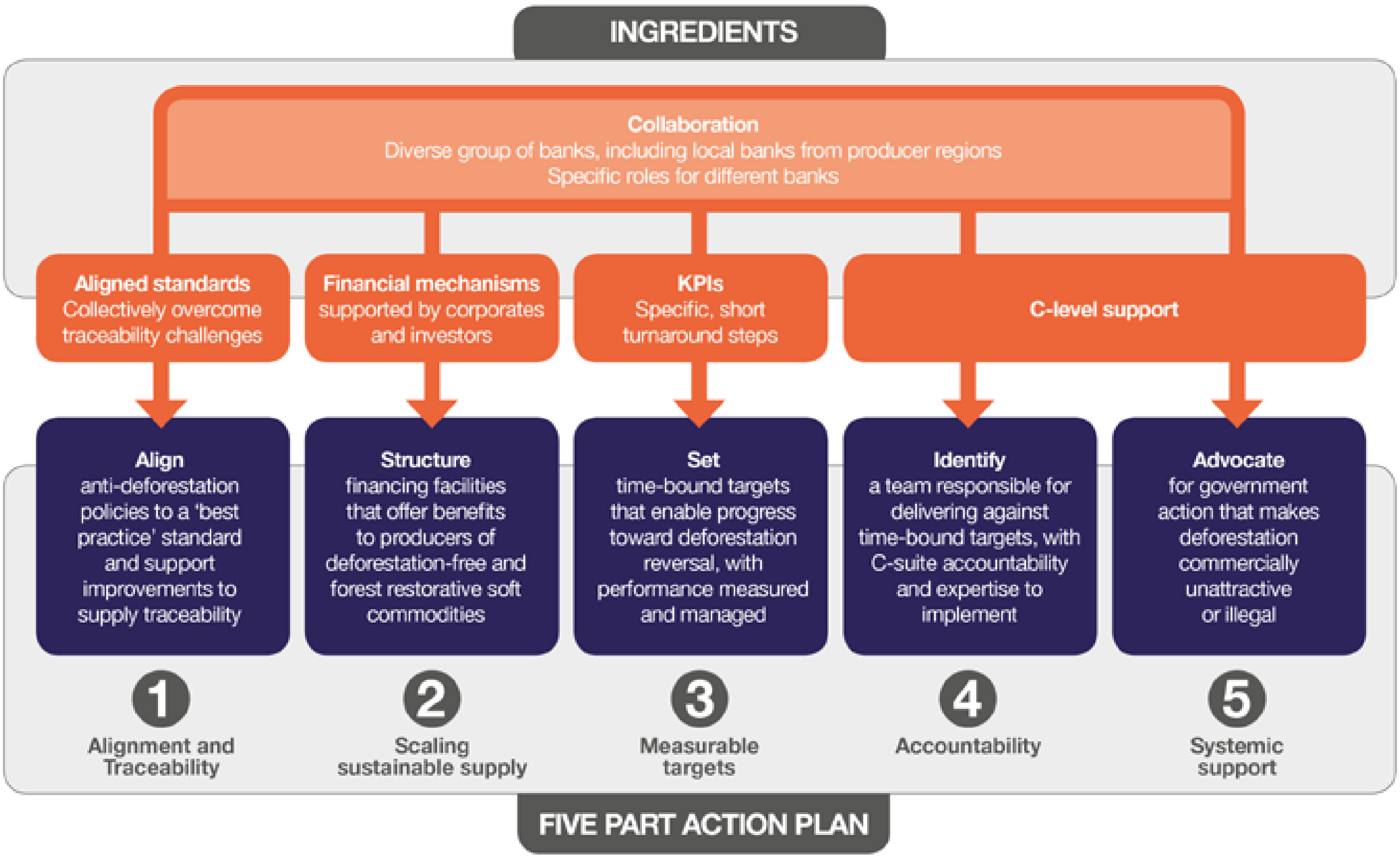
At an organisation level, progress can be enabled by banks (3) setting measurable time-bound targets, (4) identifying a team to implement and be accountable for actions linked to anti-deforestation targets and lastly, (5) advocating for systemic support to remove barriers to progress.

This diagram from Banking Beyond Deforestation maps the ingredients for focused action towards halting and reversing deforestation.

Where to focus?

Soft commodities such as palm oil, soy, beef, and timber products are responsible for the majority of deforestation caused by commercial agriculture. The Trase Yearbook 2020 shows that there are 'hotspots of deforestation and risk exposure linked to traded agricultural commodities', suggesting that traceability and engagement efforts can be targeted.

Banks can play a role in enhancing traceability, and digital transformation is gathering momentum. CISL's Project Trado demonstrated that technological enhancements are capable of enabling existing financial flows to carry more information about soft commodity supply origins. Banks are central to this innovation. Those banks that lead the way will be able to create commercial opportunities with their client



base, incentivise deforestation-free business practices and help both their institution and clients achieve sustainability objectives.

For examples of structures that are already driving sustainable finance into this area, look to the Tropical Landscape Finance Facility, Agri3 Fund and the WWF Landscape Finance Lab. These are multi-stakeholder structures that bring together banks, development finance and sustainability experts.

When?

The urgency and importance of halting and reversing deforestation is important to reiterate. Every six seconds, a football pitch of 'primary forest' is lost, threatening the provision of freshwater, healthy soils, and climate stability. More than 50 percent of global GDP relies on the services that nature provides, such as these, so the issue warrants our immediate attention.

How to structure deliberate action that leads to meaningful impact?

As represented in the earlier diagram, ingredients include:

- Collaboration within your organisation, and externally with financial institutions, corporates and technical experts, for scale and expertise
- Ambition, alongside pragmatism, is needed to set bold but achievable targets with an action plan, to generate meaningful impact
- Measure progress towards time-bound targets, in order to to focus efforts
- Clear delineation of roles and responsibilities, to empower as well as to hold accountable
- Registering barriers to progress and advocating for systemic support in overcoming them

What can you start doing today as trade practitioners to contribute to halting and reversing deforestation?

1. Ask questions of your trade finance facilities, e.g. Where do the supply chains you finance interact with areas of high deforestation risk? And how can you support restoration efforts?
2. Champion best practice anti-deforestation standards and data collection for your organisation and stakeholders
3. Educate yourself and others
4. Seek partnerships to drive commercial opportunities that support sustainable supply chain solutions

4.3

Charting a sustainable path forward in trade finance

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An introduction to the International Chamber of Commerce (ICC) Sustainable Trade Finance working group

The International Chamber of Commerce (ICC) Sustainable Trade Finance working group was established in 2016 to develop tools and best practice standards to promote sustainability across the trade finance industry. The members of the working group represent commercial banks, multilateral development banks and other trade and sustainability experts, which liaise with key regulatory and industry initiatives, including within ICC.

Established in 2018, the "Successors in Trade" (SIT) Programme aims at identifying and supporting an emerging generation of international trade finance experts. The SITs are aligned for one year to selected ICC initiatives, to provide new perspectives and ideas to the working groups and, at the same time, developing a network of contacts to help their engagement with the ICC

As 2020 demonstrated all too clearly, the world was unprepared to respond to the health and economic consequences associated with the COVID-19 pandemic. The past year has revealed how quickly threats can escalate from local incidents to worldwide crises and how borders are no defence against the most serious of issues facing our international system.

With the recovery now underway, policymakers and business leaders must not lose sight of the enormous threats posed by social inequality, climate change, and biodiversity to global prosperity and resilience. Faced with these challenges, the International Chamber of Commerce recognises that business practices must preserve the social and environmental wellbeing of the planet and its people. Now more than ever before, businesses need to transition their operations to protect against future destabilising crises.

> "Trade can be a catalyst of sustainable business practices, but challenges still exist"

Trade finance can play a key role in supporting this transition, while helping clients achieve long-term viability. By reducing the uncertainty between sellers and buyers, trade finance can help them to conduct their business in a sustainable and responsible manner.

To date, many banks have adopted a sustainability strategy for their trade finance products, and are incorporating environmental, social, and governance (ESG) criteria into their risk management processes. In addition, an increasing number of clients are requesting banks' assistance in achieving sustainability goals.

Banks are tailoring products to meet these objectives, these include financing of "green" projects related to renewable energy or waste reduction. Others have started offering contingent guarantee facilities or supply chain finance programmes that incentivise the borrower to meet sustainable performance objectives, by linking pricing to attainment of specific ESG targets.

However, substantial challenges remain before sustainability requirements can be fully integrated into practice. Among other barriers, insufficient data is available from clients on performance of their operations and supply chains against ESG criteria, and there is a lack of standards for reporting such data as well as a knowledge gap in ESG-related topics.

The International Chamber of Commerce's 2020 Global Trade Survey reports that member banks would welcome the establishment of standards and guidelines to help them embed sustainability considerations into their processes. These standards and guidelines can help identify and promote best practices, improve access to reliable data across the market and define with greater certainty which trade assets are "sustainable."

ICC focuses on sustainability in trade

To address these challenges, the working group has been developing tools and best practice standards to promote sustainability across the trade finance industry. The group is focusing its efforts in four work streams: process and principles, training, capital and incentives, and definitions, all of them working in coordination with other ICC Working Groups.

The process and principles work stream has helped to promote financial institutions' use of the GMAP tool as part of their ESG due diligence process. GMAP is an online database that identifies high environmental or social risks associated with agricultural commodities, and integrates a database of available certifications. The workstream also collaborated with SWIFT to incorporate the ICC's Sustainability Questionnaire for corporate clients into SWIFT's KYC Registry, limiting the reporting burden on clients, who can now provide ESG-related data in a standard format to a central repository. Development of a comparable questionnaire for correspondent banks is underway.

The capital and incentives stream is exploring the connection between sustainable trade finance and potential incentives to scale up that asset class. It is currently developing a white paper that will examine the case for incentives such as capital relief and propose a framework for data collection through the ICC's Trade Registry to enable assessment of the credit performance of trade transactions tagged as sustainable.

The definitions work stream is working to define the principles for and characteristics of sustainable trade finance, to provide greater guidance to the industry in structuring and identifying such transactions. It will also consider regulatory initiatives such as the EU Taxonomy as part of this effort.

Finally, the training work stream contributes to educating the industry by sourcing relevant online courses and participating in webinars on sustainability topics. The stream also distributes training materials and organises podcasts for stakeholders to learn about regulatory and industry developments and hear from subject matter experts.

ICC fosters the industry's future sustainability champions

Financial institutions, corporates, investors, and governments must attract the right talent to envision and implement the long-term sustainable development the world needs. Social and environmental considerations are a key criteria for millennials and Gen-Z in choosing where they want to work, invest, and spend. Companies that embed these core values into their mission and how they do business will benefit in recruiting, as well as employee satisfaction. Best ESG practices are a competitive advantage.

Understanding this trend, and the need to attract and cultivate future leaders for trade, the ICC Banking Commission created the ICC Successors in Trade (SIT) Programme in 2018. Several SIT candidates are part of the Sustainable Trade Finance Working Group, bringing their unique perspective and skills to advance each work stream's objectives. This experience can equip these bankers to share knowledge within their own institutions and thereby enhance the industry's ability to support companies on their sustainability journey. The programme also grants emerging talent the opportunity to be part of this movement, by enabling them to contribute to industry initiatives and creating a forum for knowledge transfer and building professional networks. ICC's SIT Programme thus prepares them to become the future leaders, and champions for sustainability, in the trade finance industry.

4.4

The role of data in the new year of trade

NATASHA CONDON
Global Head of Core Trade
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J.P. Morgan

Data will be at the centre of a brave new world in trade finance As a term, data is often used nowadays to specifically describe information captured electronically, but the whole history of trade finance is an attempt to solve one simple data problem; the information asymmetry two trading counterparties have about each other.

'Can they/will they pay?', 'can they/will they deliver the goods?' 2,500 years ago in ancient Sumeria, people were carving promissory notes on clay tablets to try to answer these questions. If these data points were truly and freely available, the global trade industry would be transformed overnight.

Collecting the data: making sense of the paperwork

Technology has created a revolution in our ability to collect, process, and use the information that we have; but we still don't have a solution to that first most basic problem.

The original and biggest pain point in the quest to collect trade data efficiently is the physical reliance on paper.

This led to the rise of optical character recognition (OCR) solutions; the ICC Global Survey 2020 suggested that 28 percent of banks are using some form of OCR solution today, and this is often the first step trade banks take towards digitalisation – a relatively 'quick win' from an efficiency perspective.

Back in the early 2000s, it was normal for document checkers looking at letters of credit to receive presentations on very fine rice paper of varying sizes for the Indian subcontinent. In seeking solutions to the paper problem, the first challenge was how to capture a digital image of the document – Western scanners were not able to accommodate these very thin sheets of paper.

This challenge requires flexible software that can handle unstructured documents, poor copies, variable paper types and sizes, multiple languages on the same piece of paper, and of course, reliable noun extraction and recognition to spot the names of counterparties and the goods description. The technology is getting better, but it is far from 100 percent accurate.

Next comes the Internet of Things (IoT). While IoT is revolutionising industrial production through a global network of physical devices that can collect and send data, the result is a gigantic output of new data which could be valuable to all aspects of trade – once we identify how to process and use it.

The most obvious benefits for trade come in the form of real-time, increasingly detailed levels of information that can be collected throughout the supply chain – not just the location of the goods, but regular reporting of the temperature of a shipment of frozen fish, or where exactly in the port a container might be stuck, for example.

And any item of data that can be collected can be linked to a financial transaction. Movement of goods can trigger a Distributed Ledger Technology (DLT) smart contract to transfer ownership and/or money. We have already seen innovative uses of IoT for environmental, social, and governance (ESG) monitoring purposes: remote cameras in factories providing monitoring to ensure labour standards are met, for example. Pioneering corporates are already linking ESG data to incentives built into supply chain finance structures.

Processing the data: finding the needle in the haystack

It's clear that this influx of unstructured data is going to require a new approach to take advantage of its huge potential. There are already those seeking to develop rule-based engines and machine learning algorithms that will process the incoming data and transform it into rapid document checking and instant compliance checking.

Interoperability of systems is also going to be critical to allow this data to move from the source device to where it needs to go. A trade platform in future may need to be able to accept Application Programme Interface (API) connections from parties including insurance companies, freight forwarders, and environmental auditors. What's more, DLT solutions which hope to transform world trade into a truly paperless environment will also need to be able to communicate if they are to reach global critical mass.

Using the data: the brave new world

Once we have all this data in a form we can use, what are we going to do with it? Within trade finance, some obvious gains will be in strategic analytics, increased efficiency from data sharing across market participants, and the potential for the true digitalisation of the trade flows of the world.

Efficiency

The more we digitise the transport of data, and remove the need for manual data capture, the more we can expedite the process to improve transaction processing speed. This isn't just an improvement in service

quality from the corporate's perspective; every hour saved on average across millions of trade transactions impacts its risk management, working capital, and overall financial health. As the share of e-commerce increases, turnaround time becomes ever more critical.

Integration of systems allows for 'data once' concepts to be implemented and ends the perennial trade problem of duplicate data entry. Initiatives such as SWIFT's LEI (legal entity identifier), and networks such as JP Morgan's LIINK – which allow market participants to share information supporting KYC and compliance checks – have an enormous impact on time to market, as well as saving the corporate client from having to produce a similar document pack for each of their bank relationships.

Strategic analytics

Many multinationals spend time and resources trying to gain visibility and control over a complex global portfolio of cash movements and trade instruments. Banks should be able to offer deep and practical insights into working capital management, capital structure benchmarking, new opportunities to drive efficiency, and even early-warning systems for when a counterparty's behaviour is starting to change. The trade bank of the future will be a value-added advisory partner to its clients, not just a utility provider of a service.

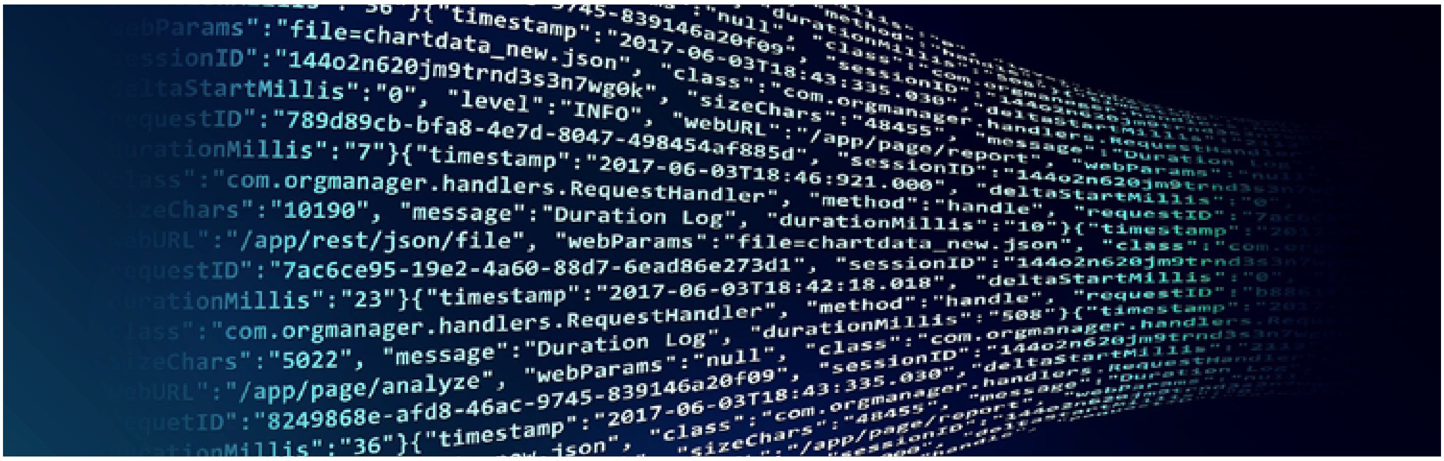
True digitalisation of trade

As data capture improves, numerous front-end solutions have arisen, including multi-bank ecosystems, and fintechs leveraging advances in blockchain and smart contracting. Shipping companies and logistics providers are increasingly looking to join this club, and even governments and regulators are sponsoring their own solutions, such as the bill of lading registry piloting in Singapore. As interoperability improves, these will hopefully move from being niche solutions for specific groups of counterparties into a flexible network capable of critical mass. Artificial intelligence adds a new dimension to this, with the possibility of data-driven credit scoring and instant financial decision-making, which is already being used in the e-commerce space.

Privacy and protectionism: the remaining challenges

We cannot forget data privacy. Regulators are increasingly firm in approach and the advent of laws such as the European GDPR place significant restrictions on use of data. Clearly there is a balance to be struck between the strict respect for data privacy and information security that is required of any company or bank, and the use of 'big data' in an appropriately anonymised way to generate deep insights into global trends. Likewise, the more we depend on electronic forms of data, the greater the associated security risks – and the stronger the fraud controls that will be needed.

And many countries still have laws on the books that force trade documents to be presented on paper; there is a lot of work being done by industry groups lobbying for change in this space but there is a long way to go. The e-BADD market in China shows what is possible when as traditional an instrument as a promissory note or bill of exchange is digitised by law; it transforms the trade market and creates the potential for trade finance that is more broadly accessible, more digital, and more sustainable.



4.5

Libor Transition: the priorities for trade finance

DIANA RODRIGUEZ
Vice President, International Policy
BAFT

Everything you need to know about how the transition away from Libor will impact your business

Despite the disruption of the COVID-19 pandemic, progress towards the demise of the London Interbank Offered Rate (LIBOR) has continued, and the cessation endgame has been established. At the end of 2020, Intercontinental Exchange (ICE), which administers Libor, proposed a plan to cease publication. Under the plan, which was confirmed on March 5, ICE would stop publishing the one-week and two-month settings of USD LIBOR immediately after December 31, 2021 and would cease publishing the remaining USD LIBOR settings on June 30, 2023.

The deferral of the more commonly used USD tenors will provide time for more legacy contracts to mature. While this is a welcome development, all other Libor currencies remain on the original 2021 cessation timeline and U.S. regulators have clearly stated that U.S. banks should cease writing new Libor contracts as soon as practicably possible, and that there should be no new USD LIBOR activity after the end of 2021.

With the timeline set to transition away from LIBOR to Risk Free Rates (RFRs), several issues remain. Among the most significant of these facing the trade finance industry is the potential lack of availability of forward-looking term rates. Libor has long been the default benchmark interest rate for trade finance, with USD LIBOR serving as the most widely used benchmark across the industry globally.

> "Trade finance professionals need to coordinate internally with bank-wide transition teams to assess the scale of the impact on their portfolios and to plan for the transition."

Trade finance products broadly reference Libor term rates due to their transparency of pricing and certainty of funding costs. This element is critical, especially for financing offered at a discount, where the value of the discount needs to be determined at the start of the transaction. Additionally, since the transition impacts the banking industry as a whole, it applies changes to a number of products, systems, and processes. Trade finance professionals need to coordinate internally with bank-wide transition teams to assess the scale of the impact on their portfolios and to plan for the transition. The industry also needs to continue, or begin in earnest, to discuss the expected impact of the transition with their customers.

Term-rates in focus

Since the transition away from Libor was announced, national working groups have proposed RFRs to succeed LIBOR. For USD, the preferred rate is SOFR, while for GBP the recommended rate is SONIA. It is important to note that RFRs are overnight rates and a term structure is not guaranteed. Establishment of a term rate and timing of its launch are critical for the trade market to finalise conventions and support the transition away from Libor – a case that BAFT and member institutions have made to U.S. authorities on several occasions, when accounting for the volume of transactions that currently reference USD LIBOR.

The new RFRs in their current overnight form can not be applied appropriately to the discount context. The main affected areas of concern include how prices are established in commercial contracts between buyers and sellers and the legal aspect surrounding the agreements. A forward-looking term rate is required to replace Libor in order to enable these discounted products to maintain the characteristics that differentiate them from other loan-like trade finance products, and to ensure minimal disruption to capital flows that are facilitated by discounting.

Progress toward producing a forward-looking term rate has been made in some currencies. On January 11, 2021 the ICE Benchmark Administration Limited and Refinitiv began live production of forward-looking term SONIA (TSRR). The Sterling Risk Free Rate Working Group has limited the use of TSRR, but use is permitted for trade finance. Meanwhile, for USD, a SOFR forward-looking term rate remains under development.

The Alternative Reference Rate Committee (ARRC) has suggested that a rate could be available by the middle of 2021. Potential benchmark providers have already been identified and are making progress, but ARRC officials have cautioned that insufficient liquidity in the underlying SOFR swaps market could limit their ability to recommend a term rate. The market will have to monitor this development closely and plan for possible alternatives should a SOFR forward-looking term rate not be available before the end of the year. In other Libor currencies, no term rate is expected (CHF) or remains to be determined (JPY). The divergent timelines and approaches across jurisdictions are a challenge we will have to live with.

A path forward

While the path to transition away from Libor is complex, the "wait and see strategy" practiced by many in 2020 is no longer advisable. The industry must now prepare to transition away from Libor by working towards resolving replacement rate issues while communicating with affected customers and third parties throughout the process.

"The 'wait and see strategy' practiced by many in 2020 is no longer advisable"

Trade finance practitioners are encouraged to work internally with Libor transitions teams to review documentation carefully to determine what elements of the portfolio and services reference Libor and what fallbacks would apply if Libor becomes unavailable. Banks should review documentation closely to determine the position for each contract in their portfolio, in relation to existing or legacy products, as well as for any new products they are considering entering into. For standard documents produced by BAFT, such as the MPA and the MTLA, we are actively working to provide market guidance.

There will be many new developments over the next nine months as we prepare for the cessation of Libor. It is important to track currency-specific transition deadlines and progress toward the establishment of a SOFR forward-looking term rate. While things come into focus over the coming months, internal preparation and clear communication with clients will help to ease some of the uncertainty and pave a more solid path toward transition.

Libor: A Brief History

- **1970s**
  London Interbank Offer Rate come into widespread use
- **2008**
  Onset of the 'Libor' scandal, following the publication of a Wall Street Journal article stating banks may have understated borrowing costs they reported for Libor.
- **2012**
  Barclays fined £290mn for attempts to manipulate Libor, other banks remain under investigation.
- **2020**
  ICE proposes cessation of Libor publication
- **January 2022**
  ICE will cease publishing one-week and two-month settings of USD LIBOR
- **July 2023**
  Remaining USD LIBOR settings to be wrapped up

5

THE PANDEMIC AND SUPPLY CHAINS

5.1

Mapping supply chains amid a global crisis

STEVEN BECK
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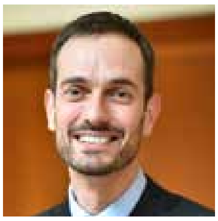
Asian Development Bank (ADB)

Additional material by



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How interactive tools can empower firms to trace vital supplies

Staff at the Asian Development Bank's (ADB) Trade and Supply Chain Finance Program came across a serious knowledge gap in the early days of the COVID-19 pandemic, when supply chain problems were hindering global procurement of key medical products needed in the fight.

When we heard about the issues with the supply chains, we started asking our bank partners which companies in their portfolios were involved in the supply chains for these products. The idea was that we could help shine a spotlight and get help to where it was needed.

But as it turned out, that information was not available. Even the banks did not have a clear picture of whether the companies they worked with were involved in the supply lines.

That kind of information was not available in a way that would make it easy for someone to address problems that might arise. We decided to see if that was something we could do.

The solution was the creation of an interactive mapping tool for the supply chains of products vital to those on the frontlines of the battle. These would allow governments, banks, investors, healthcare professionals, and companies to trace the firms that make every component in products such as masks or portable ventilators, down to the metal and rubber that goes into each part.

The information on who makes which part and for which product was available in piecemeal fashion before the ADB effort. But it was information that had never been brought together into one database that would allow for such a quick search.

The TSCFP was in a prime position, firstly to understand the problem, and then to act on it.

ADB and the Trade and Supply Chain Finance Program were already heavily involved in efforts to fight the pandemic. In April 2020, ADB approved a \$20 billion package to support its developing members in addressing the impacts of the pandemic and streamlined some procedures to deliver quicker and more flexible assistance.

Part of those efforts included more flexibility and targeted support for trade and supply chains. Since April, the Trade and Supply Chain Finance Program has supported about 7,000 transactions worth around \$5 billion, including about \$240 million in medical and pharmaceutical goods.

By the end of May, the mapping tool was up and running for anyone to use free of charge on the ADB website, where it has been used 13,000 times. There, anyone can search a database of around 20,000 companies involved in supply chains around the world.

Big international banks found they could use the ADB tool to help their clients cut through the noise surrounding efforts to increase production or shipments of pandemic-related products. Companies, academics, and other international organisations also began using the tool.
As the number of those using the tool has expanded, so has the mapping tool. From the initial seven products mapped, the tool now maps about 33, including the supply chains of vaccines and related goods such as the equipment that keeps vaccines cold en route to where they are needed.

But the uses for the mapping tool don't stop there. It also incorporates a visual representation of the data in the form of a heat map. A quick glance will illustrate the number of companies involved in the supply chain flows in the market by value, and risks to those flows via factors like trade restrictions or blockages. The distribution flow of the vaccine and cold chain storage will also be represented visually.

The tool may be useful beyond the pandemic, tracking other supply chains vital to development, such as food and agricultural supplies.

ADB's efforts to offset the effects of the pandemic have also continued to ramp up. In December 2020, it announced a $9 billion vaccine initiative, the Asia Pacific Vaccine Access Facility, to provide funding for vaccine procurement and logistics costs, as well as for successful distribution, delivery, and administration of vaccines. It will also support important investments to build capacity in vaccine delivery, community outreach, and surveillance.

Included in that effort is a $500-million Vaccine Import Facility from the Trade and Supply Chain Finance Program to support its developing members in securing safe and effective vaccines, as well as the goods that support distribution and inoculation. AAA-guarantees available through the programme's vaccine import facility will mitigate payment risks and facilitate import of these goods.

5.2

How TradeTech can build resilience in global value chains

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World Economic Forum

From transparency to flexibility, the opportunities offered by TradeTech are limitless

Almost a year after the COVID-19 pandemic started, the world is still feeling the shock (and after-shock) of disruptions in the global value chain. Many have argued that the pandemic could be a turning point to improve GVC complexity and fragility; and many have turned to technologies for help.

According to a recent World Economic Forum report on TradeTech, which includes a global survey in 2020 with hundreds of respondents who engage in international trade operations, organisations all over the world have had to quickly adjust and adopt digitalisation and emerging technologies to keep the supply chain flowing. As the figure above shows, the vast majority of survey respondents have opted for some kind of TradeTech adoption: 65 percent have implemented or considered new technologies to reconfigure the value chain, 59 percent have increased the visibility of value chain data, and 48 percent have automated or digitised previously manual or paper-based processes. Only 20 percent did not incorporate any new technologies in their operations.

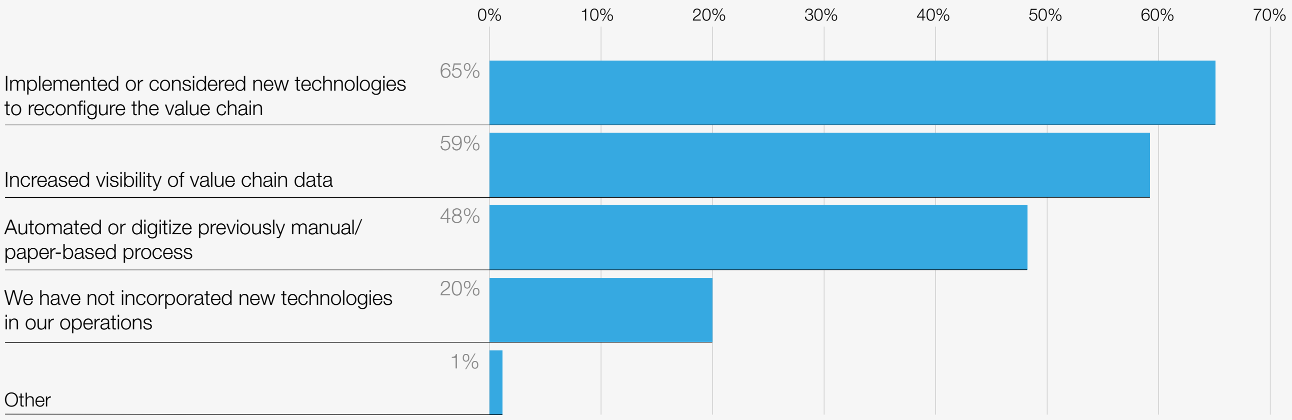
So what types of technologies are organisations turning to help them improve trade operations? In the same survey, the respondents identified the following technologies to be most transformative for trade.

Before we dive into the specific technologies and their benefits for GVC, it is important to note there are two layers of TradeTech: a first layer that transforms internal systems and processes from analogue to digital; and a second layer that relies on the data generated from the first layer to optimise trade processes or generate a new class of service. For example, using a blockchain network to ensure data sharing among suppliers would not be possible if the data are still stored on physical documents. As we know, the global trade is still notoriously reliant on paper-based processes. Protective measures for COVID-19 have made clear that operations dependent on physical assets, such as paper, can face serious disruption when physical presence is not a possibility. Digitising is the core component of providing visibility and managing supply chain risk, and the first step towards building a resilient GVC.

Once we pass the first layer of digitisation in TradeTech, here are some examples of how different technologies could help build a shock-proof GVC:

Transparency and visibility:

Internet of Things data, which is collected using large-scale deployment of sensors real-time, such as location, temperature, humidity, and speed, could be leveraged to mitigate supply



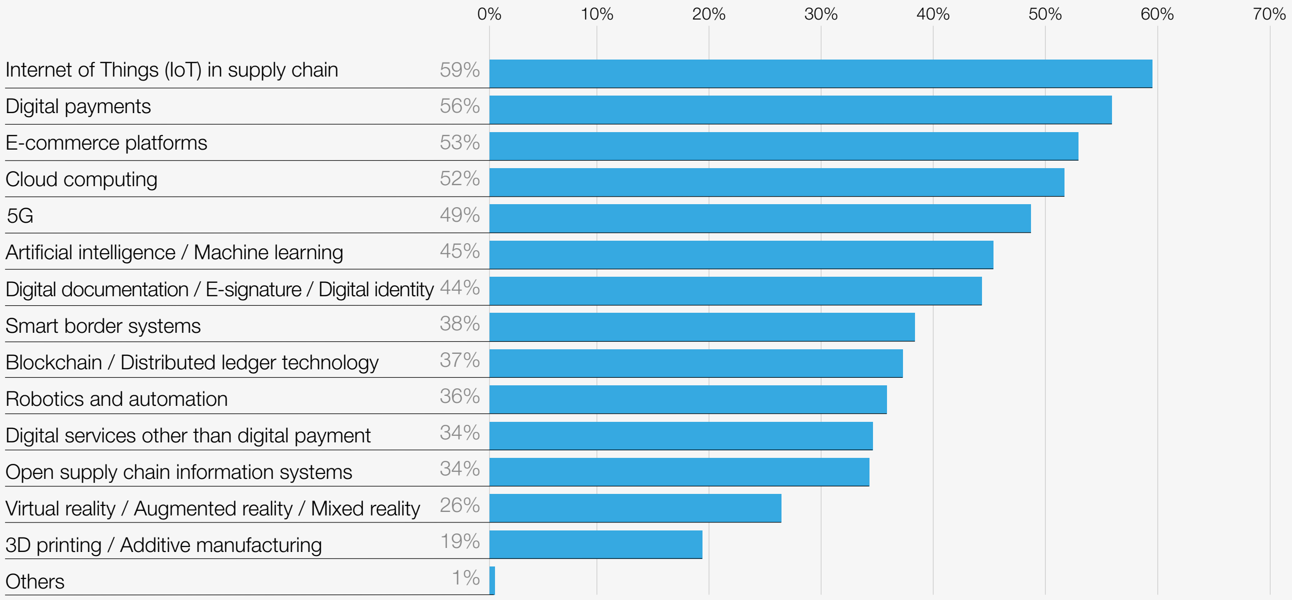
Source: World Economic Forum 2020 global survey on TradeTech

chain disruption by:
i) tracking assets in real-time from departure to final destination, and tracking inventory levels at the point of consumption to help firms to reduce stock-outs;
ii) monitoring the conditions of goods, for example perishable goods; historical data can also be used for preventative supply chain management. When combined with 5G networks, the power of IoT could further expand with extensive deployment and low latency.

Visibility across the supply chain is critical to optimise efficiency and agility, especially during major disruptions. Yet obtaining visibility is difficult, many players in the ecosystem are hesitant to share information, either to protect commercially sensitive data, or to gain a competitive advantage. A decentralised technology, such as blockchain, with either private or public permissions, could enable data to be securely distributed to others in the blockchain network without requiring the point-to-point integration as in a centralised system; at the same time, players can manage and audit their data-sharing permissions directly on their own blockchain node. It's a great solution to provide visibility in the supply chain while protecting privacy.

Flexibility and Agility

As contactless trade has become the new norm of the COVID-19 pandemic, the use of autonomous robotics and vehicles, including drones, for warehouse stock counting and goods delivery is gaining



Source: World Economic Forum 2020 global survey on TradeTech traction. Autonomous robotics have the potential to optimise logistics and work processes with predictability and planning to create a more stable, simple and transparent supply chain system for global trade enterprises. For example, warehouse robots have been shown to scan pallets in under 30 minutes with 99.7% accuracy for a task that usually takes 100 minutes. Often relying on artificial intelligence and machine learning, the robots are also equipped to continuously improve from their experiences.

The on-demand agile nature of 3D printing has proved especially helpful to address supply chain shocks during the COVID-19 pandemic, when 3D printing production has surged in personal protective equipment, medical and testing devices, personal accessories, visualisation aids, and even emergency facilities.
However many non-technical barriers exist for these technologies to reach their full potential – from fragmented national regulations, lack of interoperability and data standards, cybersecurity threats, high capital requirements, future of work issues, to digital oligopolies, among others. In particular, the pandemic has highlighted the digital divide between the urban and rural areas, developed and developing countries, one ethic group from another, and large firms and SMEs. We need to take actions to tackle these challenges to unlock the true power of TradeTech.

The global value chain has gone, and still is going, through an unusual and massive shock. TradeTech could provide many benefits to help build and strengthen a resilient system. Yet to fully deliver on the promise, we need to build effective public and private partnerships to establish trust, promote regulatory cooperation, close the digital divide, provide skills training, and drive a forward-looking digital agenda to make global trade more efficient, inclusive, and equitable.

5.3

Impossible tasks: inspecting collateral during a pandemic

PETER HOPKINS
Managing Director
Drum Risk

"Here is Edward Bear, coming downstairs now,
Bump, bump, bump, on the back of his head, behind Christopher Robin.
It is, as far as he knows, the only way of coming downstairs,
but sometimes he feels that there really is another way,
if only he could stop bumping for a moment and think of it."

- A. A. Milne

Operations everywhere have been impacted by the pandemic, though the obstacles faced in collateral management remain particularly challenging.

In the past 25 years we have witnessed the Russia melt-down, the 2008 financial crisis, commodity frauds, earthquakes, and coups, but throughout operational effectiveness, personal safety, logistics, and cross border movement continued, albeit slightly disrupted; however, with the pandemic this has not been the case.

The last twelve months has been a challenge for all concerned, with the situation still remaining incredibly fluid. Operations managers and human resources departments have had a torrid year, and have valiantly kept all the chess pieces on the multiple boards across all projects, which in the current storm has been quite an achievement.

Global governments rightly responded with 'stay at home' orders to protect their citizens; however, for global companies who have to move personnel in and out of projects continuously, these sudden events and changes in the law, were and remain a constant headache.

The purpose of CMA & SMA providers is of course to ensure that the lender knows that their inventory is secure, that there are no surprises, and certainly no unauthorised movements or releases. The frauds of 2020 additionally and justifiably put this under a greater spotlight, yet simultaneously COVID-disrupted operations. Companies have therefore had to adopt a military-style "phased" approach to everything, flippantly referred to in the army as the '7xPs' or Prior, Planning & Preparation, Prevents a Piss, Poor Performance. This focuses on getting the right people into the right project, at the right time to allow for the now standard quarantining to be completed prior to full engagement. We, and as far as I am concerned, other companies have achieved this, albeit on occasions by the skin of our teeth.

"The focus is getting the right people into the right project, at the right time"

Auditing has and continues to be one of the great challenges. When deploying teams one can factor in quarantining, accommodation, and repeat testing, however with audits, whether internal audits or operational managers, this is not always a viable option, as teams would be deployed for weeks to audit a single storage facility. As borders closed, lockdowns came into effect and logistic options dwindled, companies have had to be creative in using new 'checks and balances' to undertake an audit. This has included the use of drones, desktop analysis, 'live link' remote audits, and limited due diligence on borrowers and storage facilities to identify any developing or potential issues. These measures have in particular had to be brought in where countries such as Australia, Italy, or Spain 'closed' and no PCR test, Letter of Authority, Contractual instruction and or other documentation would allow access.

As we come close the pandemic's global anniversary the commodities market is now reawakening and developing in certain areas. This includes the classic CMA operations inserted as part of inventory financing, yet increasingly the CMA is being inserted to 'instruct' and establish forward controls in borrowing base facilities and other forms of commodity financing. I hope these positive developments continue.

In conclusion the past twelve months have been operationally fraught, to ensure the CMA company can fulfil their obligations. Yet after 12 months, companies have had time to reflect, plan, and adapt their services 'unlike Edward the bear' and I am unaware of any major issues or claims hitting the market in the coming weeks, so operations must be working!

5.4

What the pandemic means for future access to trade finance

ALEXANDER R. MALAKET
Founding Partner
Prism Global Partners

DR. MIA MILKIC
Advisory Group Member
Prism Global Partners

From a data revolution to fairer access to finance. COVID-19 has changed everything

Trade financing – whether in its traditional, mature form or in the nascent but fast-growing supply chain finance space, has a history of relative resilience and robustness in times of crisis. It is designed with a view to facilitate trade under the most challenging of conditions, whether in terms of commercial complexity, political risk, macro-level shocks, and even in extreme cases of civil unrest.

The early days of the COVID-19 pandemic demonstrated this resilience. Long-established, broadly accepted, and respected rule sets such as the various International Chamber of Commerce (ICC) rules governing trade finance proved to be well-functioning, with negligible levels of pandemic-induced abuse of process. Banks, insurers, and trading parties have continued to respect their obligations, honour their commitments and have generally "stayed in lane" as far as accepted industry practice.

The evolution of the COVID-19 crisis, unprecedented in its dual public health and global economic character, has created an urgent imperative to digitalise trade financing as well as trade itself, and in this respect, the trade finance industry has responded decisively, quickly, and effectively in enabling the critical flow of trade.

Trade financiers have clearly been part of the solution in enabling trade, as we all work our way through the crisis.

The COVID-19 pandemic has, alongside its devastating human cost, forced a shift in the spectrum of social, economic, and environmental priorities around the world. This shift includes a heightened awareness of the critical importance and vulnerability of small businesses – including ecommerce ventures and digital channels – as a clear result of the COVID-19 pandemic and its ancillary consequences.

Additionally, the evolving linkages between trade, environment, social, and governance issues as well as sustainability, are brought sharply into focus by the crisis, not least because of supply disruptions in a range of the critical products.

Trade finance is rightly increasing its engagement in, and alignment with, these issues, partly through the work of the ICC but also at the level of individual market players, and in the context of the increased visibility among senior leaders in business, government, academic, and international institutions.

Access to finance (A2F) remains a perennial challenge for SMEs in particular, with indications of widening gaps in SME finance, finance of women-led enterprises, and trade finance to some degree. Thus far, with the critical support of international organisations, multilateral development banks, development finance institutions, and export credit entities, we have not experienced anything remotely resembling the complete engine seize-up in trade, we saw in the 2008 crisis when trade finance all but evaporated due to the interbank lending freeze linked to concerns about exposures to toxic mortgage assets.

"We have not experienced anything remotely resembling the complete engine seize-up in trade we saw in the 2008"

The significantly higher level of visibility of trade finance in gatherings and working groups such as the B20/G20, OECD, and elsewhere, including through a new C-level advisory group initiated under the auspices of the ICC, combine to help maintain senior-level policy visibility for trade finance, and to ensure access to adequate levels of trade-enabling liquidity.

The unprecedented attention around supply chain resilience, sourcing concentration risk, and related considerations that first surfaced in the context of US/China trade tensions continue to grow as we consider these issues through the lens of the COVID crisis. Financing will be linked to supply chain resilience, and will be critical to enabling any meaningful diversification of concentration risk.

These issues are particularly urgent in the context of vaccines, PPE, and other medical and security products and their related supply chains. The work of the Asian Development Bank and others around PPE supply chain mapping, as well as assuring access to adequate levels of liquidity in critical supply chains, is illustrative of how quickly energy and resources have been deployed to address COVID-19 related challenges. Public/private partnerships on the logistics side are equally illustrative.

It must be noted, however, that there is broad expectation of a wave of general business defaults, especially but not exclusively among SMEs off the back of the COVID-19 lockdowns. The degree to which this default wave flows into trade finance, or is somehow offset through government support programmes and/or temporary changes in the way debt is managed across the globe, remains to be seen. The default wave, coupled with supply chain reconfigurations motivated by the need to offset concentration risk, may complicate the commercial and competitive landscape for SME suppliers. With some evidence of interest in near-shoring, emerging market-based SMEs may find their already difficult circumstances amplified by the COVID-19 crisis.

The search among investment and asset managers for attractive alternative investments has been amplified and made significantly more urgent by the persistent crisis. As banks consider how best to create additional balance sheet and risk capacity in order to underwrite more trade finance business, the notion of distribution of assets to non-bank players shows signs of gaining, or regaining, traction, with a growing community of investors looking to trade finance as a compelling and uncorrelated asset class.

This development, coupled with work by the ITFA, ICC and past work by BAFT on widely-used enabling documentation, promises to create significant additional trade financing capacity "in the system" by bringing net new capital to the financing of trade. This development may require some time to achieve scale and critical mass, but with the right combination of initiatives it has the potential to be a significant, positive reshaping of the trade financing landscape.

The positive potential includes increased deployment of capital to underserved markets and client segments. Trade finance involving SMEs and emerging markets tends to be different in risk/return profile for example, when compared to financing intra-OECD trade flows. These variations will attract different investors and different types of capital, some of which are significantly more risk-tolerant than banks. COVID-19 can potentially lead to an increase in capacity for trade financing, as policymakers and business leaders recognise the critical role that robust trade will play in the global recovery. It is one of very few truly global levers available to enable far-reaching economic recovery, and trade financing must be available for trade to play its role. Any significant and sustained ambition to build back better requires a solid foundation of recovery, including the reinvigoration of multilateral, rules-based sustainable trade. Access to timely and affordable trade financing is vital to the equation of global economic recovery.

5.5

The tradition versus technology debate in letters of credit

BRIAN EDMUNDSON
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Finastra

Digitalising these documents may seem like a bridge too far for some banks, but the risks of not investing in these technologies are comparatively greater.

The pandemic only accelerated digitalisation, which had already been creeping forward in our industry over recent years. Some see the move to digital trade finance as opening Pandora's Box, and ask: will this change lead to inefficiencies, and will there be unexpected risks to deal with? Others see the process as letting the genie out of the bottle, and believe the advantages will quickly become apparent.

Letters of credit are an important instrument of traditional trade finance. They are characterised by a heavily manual and paper-based process, which can be an expensive outlay for corporates.

In a recent survey conducted by Finastra, 83 percent of banks that we asked said that letters of credit were ready for change. This is because, while they provide supreme confidence and low levels of failure for banks and businesses, they are expensive and cumbersome instruments.

Adapting to change

Initially, the key issue that banks faced during the pandemic, was that corporate clients and bank operations staff had to work remotely. Familiar practices of moving paper around, and customers walking into branches were met with barriers. Banks had to adapt and move some importance away from paper-based documents, and digitalise these processes.

The other adaptation was the drive for corporates to move towards using digital channels as a way of communicating with banks. We have seen the growth of multi-bank platforms such as Marco Polo and Contour – the latter of which has seen a 60 percent increase in business.

Lastly, out of necessity, banks have acted like couriers where there was an absolute need to move physical paper. They have been helping customers to understand where to send physical paper documents, how to do this quickly, and how to move paper between institutions as well.

There is potential to evolve letters of credit and reap the benefits

In the past, the manual intervention and physical movement of paper has led to letters of credit remaining relatively expensive. Trade finance suffers from an inertia which has blocked a digital revolution. But the recent necessity to alter these manual processes has lifted the curtain on some of the mysteries of trade finance; paving the way for change.

The benefits of digitising trade revolve not only around reducing cost, but also increasing efficiencies, reducing time taken to implement trade and, crucially, increasing the availability of trade finance.

“Trade finance suffers from an inertia which has blocked a digital revolution.”

For example, if letters of credit are implemented digitally, we would see these instruments becoming accessible to more SMEs. We will also see the distinctions between letters of credit and open account become more blurred, where letters of credit will become a much quicker process, while using open account in trade finance will require more guarantees that payment will be made.

Regional banks will be able to utilise letters of credit more easily, too, and expand upon their own business due to the increased availability of technology which can help with their operational efficiencies.

Stumbling blocks to digitalising letters of credit

In our recent survey, banks told us that they were waiting to see what the industry did before investing in these changes. There were also some concerns from banks about their expertise surrounding the digitalisation of letters of credit. Of course, this is rapidly changing in response to the recent pandemic.

However, the technology is mature enough and there are a number of secure solutions in the market already. The main bloc is an inertia in the banking world to adopt this new technology.

There are always some risks involved when you implement a new tool, process, or piece of technology. Whether that investment will prove to be effective is always the question.

But what are the risks of not investing and continuing to move paper manually? Comparatively, they are huge.

These manual processes hold opportunities for human errors at multiple steps when implementing letters of credit. On balance, it is difficult to compare the digital process with the manual process and say that the risk of sticking with traditional letters of credit is no greater than the risk of going digital. If anything, the risk of using digital letters of credit will decline over time.

What needs to happen to implement digital letters of credit?

Digitising the documents that make up trade finance is, of course, crucial. 80 percent of people looking into digitalising trade would put the bill of lading as the most important instrument to digitise. There are other important documents as well; promissory notes and bills of exchange, to name a couple.

As documents are digitised and standards are built up, the compliance assuredness will follow in line with the build up of best practices. DSI is one of the front-runners in terms of standardising the data between parties and jurisdictions which are involved in the letters of credit process.

Across different countries, different governments are working at varying speeds to help with the regulation and digitisation of documents for trade finance. However, the trend shows an increase in the support for digital trade from governments and steps being taken towards regulatory change.

6

TRADE AROUND THE WORLD

6.1

Optimism for global trade in 2021

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Director General
SACE SRV

From vaccine roll outs to growth in emerging markets, there are plenty of reasons to stay positive this year.

In 2020, the global macroeconomic picture was disrupted by the COVID-19 pandemic. In just a few months, the economic status quo changed dramatically worldwide, leading to an unprecedented global recession. One year later, the economic picture is still dominated by the pandemic, with a succession of waves fuelled in part by the premature relaxing of restrictions and the emergence of new variants of the virus. Despite this, vaccines have provided hope of an exit strategy, with a number now rolled out across the globe, and many more in the advanced phases of testing and development.

2021 promises to be a year of transition out of the public health crisis, driven by radical scientific advancements. While the first months of the year are likely to see the same restrictive measures we grew accustomed to in 2020, these should be gradually eased in the second quarter, with the further advancement of vaccination programmes.

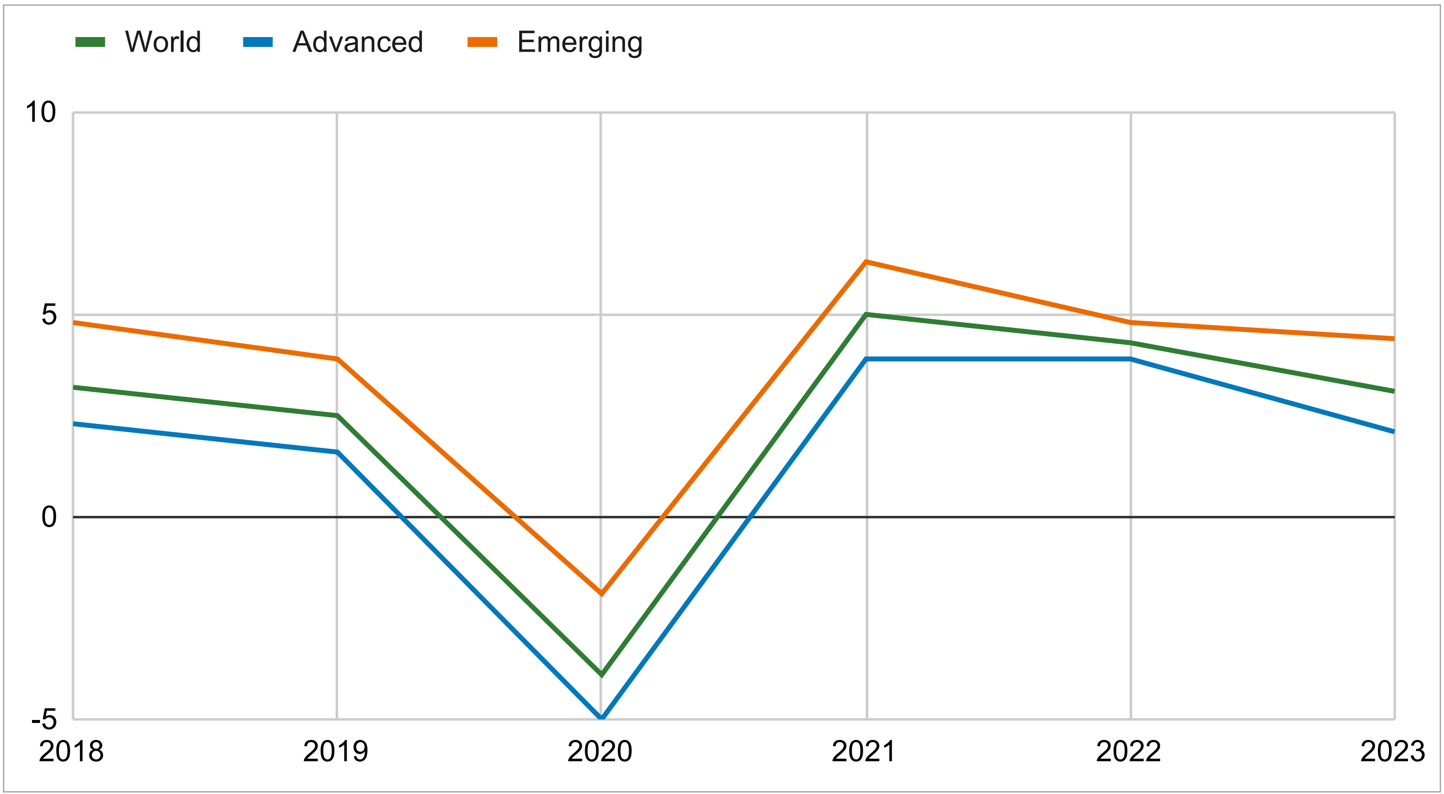
Although the exact timeframe is still uncertain, the majority of projections suggest a full recovery of world GDP. According to the recent forecasts of Oxford Economics (OE), in the base scenario, global economic activity is estimated to grow by 5 percent in 2021 (see Table 1 below), a rate higher than the one indicated in the latest OECD forecasts (+ 4.2%).

The recovery will be widespread, although in developed economies, it seems unlikely that the rebound will be sufficient to recover from the contraction in 2020. This is partly due to a greater spread of the virus and the more restrictive measures that followed, as well as the structural weakening that was already underway before the COVID-19 shock. In contrast, there is expected to be a full recovery in many emerging markets, attributed both to greater efficiency in containing the health crisis in East Asian economies like South Korea and Vietnam, and to the strong influence of China. Many of these have managed to achieve GDP growth already in 2020.

In this base scenario, the volume of international trade is expected to return to growth in 2021, supported by a V-shaped recovery for goods that will sufficiently offset the slow recovery in services.

In particular, trade in goods is expected to advance by 8.7 percent after last year's contraction (estimated at -6.8% according to Oxford Economics,

Change in Real GDP (%)



Source: Oxford Economics, January 2021

in line with the available CPB data for the first ten months and equal to -6.6%). Meanwhile, the services sector appears to be most affected by the pandemic with trade collapsing by 21.8 percent in 2020 and growth estimated at a meagre 3.4 percent for this year. Tourism, transport and other hospitality sectors will be penalised in particular.

The risks to the global macroeconomic outlook remain significant, and evolve around an uncertainty about the future evolution of the pandemic. The recovery timescale is still highly variable, which makes any forecasts about the world economy constantly susceptible to revisions, both upwards and downwards.

"The recovery timescale is still highly variable"

There are, however, two broad scenarios, based on opposing hypotheses: (i) any significant and timely advancements in the availability and distribution of vaccines and therapies against COVID-19 represent an upward risk factor, which would allow the easing of restrictions in advance of the assumptions of the base scenario and would restart the world economy quicker, recovering the pre-shock trend; (ii) any worsening in the spread of the contagion would further strengthen the containment measures on a global scale, delaying the recovery of global economic activity. At the moment, the first alternative scenario is associated with a fair probability of occurrence (30%), while the second seems to be less likely (15%).

To add to an already complex picture of risks, non-viral factors, both old and new, are still likely to affect global economic scenarios. The resolution of the uncertainty about the outcome of the presidential elections in the United States represents a positive step forward. The new administration is expected to facilitate the return of a constructive dialogue with the USA's central allies, including those of the European Union, alongside a broader commitment to multilateralism.

However, high levels of public and private debt could lead to a new financial instability; while political violence also remains high in some African countries, such as Ethiopia, and in South America.

Low interest rates will be maintained in 2021, as no major Western central bank is expected to hike them up, while others may in fact cut benchmarks even further (see Image 1 below).

China, India, Russia and Mexico are among those expected to do so, while only Argentina and Nigeria are forecast to raise rates. The assumption is central bankers will want to guarantee the recovery is safe before they even start to consider tightening policy. This means that both companies and governments worldwide will be able to refinance their debts, which is of paramount importance in order to really pave a way for the much needed recovery.

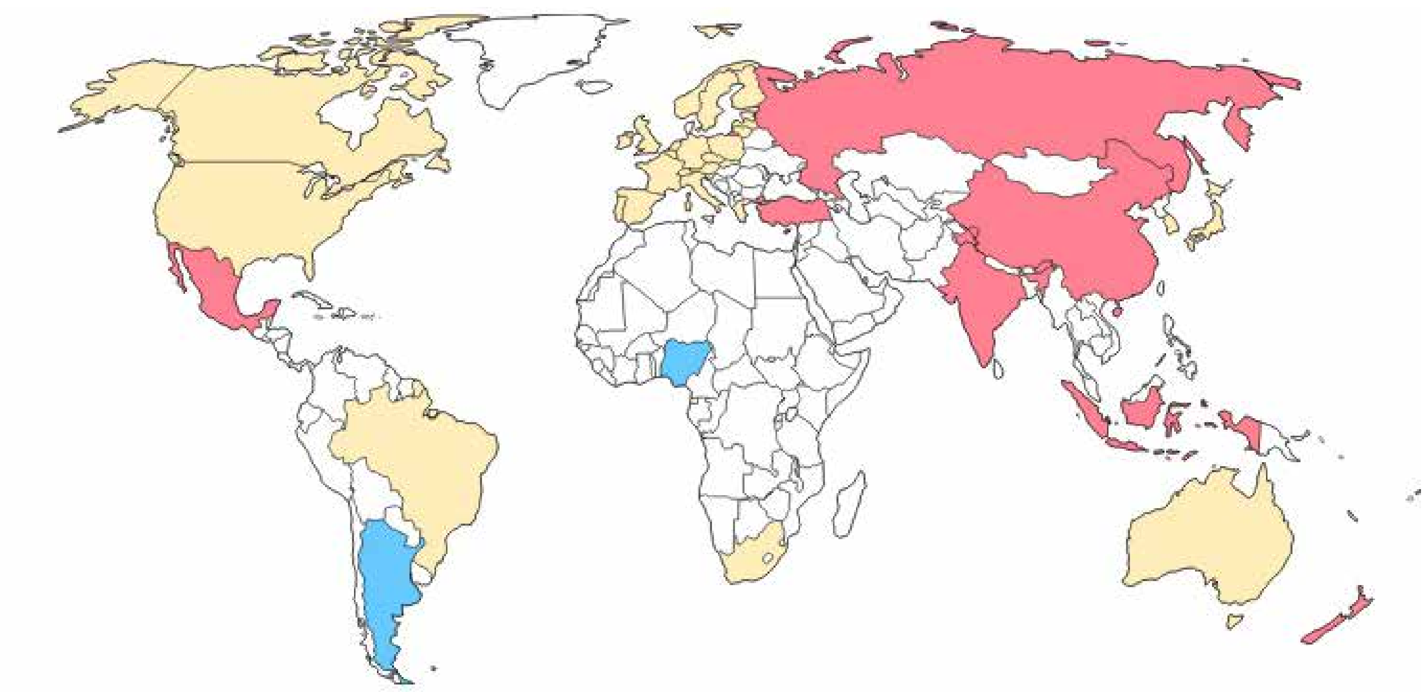
Last but not least, global crises linked to climate change have become increasingly frequent and devastating, making it urgent to intervene with structural reforms based on technological innovation and renewable energy, as seen in the recovery and resilience plans that various governments are formalizing.

In short, there are plenty of reasons to be optimistic for trade in 2021, even though there will be an all-new set of challenges to look at. These could be a further stimulus for credit insurance, as CEOs and CFOs will be increasingly concerned about their trade receivables. ECAs will be there to help, fulfilling their mission to mitigate risks and thereby facilitate the pursuit of opportunities in international commerce.

How major central banks will change interest rates by the end of 2021

Hike Cut No change

Image Credits: Bloomberg



6.2

The UK's independent trade strategy: US, Asia, or the EU?

L. ALAN WINTERS CB
Professor of Economics
UK Trade Policy Observatory

We should be careful not to underestimate the importance of geography in any plan for post-Brexit trade

The 'what happens after Brexit' question has never been answered. It was studiously avoided during the referendum campaign, not least because the 'leave' vote needed support from both those who wanted freer trade and those who wanted more restrictions. And since the referendum the government has talked about 'Global Britain' without properly defining it.

The Department of International Trade has done a sterling job negotiating 30 new trade agreements, but by their own admission, these are just 'to reproduce the effects of trading agreements that previously applied to [the UK]'. That continuity agenda is now complete, and we need to decide what is next.

Trade policy has many dimensions; here I want to focus just on geography. Classical trade theory says 'don't ask' – buy from the cheapest source and sell to any market that is profitable. But it is more complicated than that because governments can support traders, influence what firms produce, and sign trade agreements. And the last can have wide-reaching ramifications because they involve agreeing to norms and constraints on policies. Hence it makes sense to ask where the UK should trade as well as where it will.

Figure 1 summarises UK trade patterns. For exports or imports of either goods or services, Europe is the dominant partner, with 50–60 percent shares in each case. Of these high numbers, the vast bulk is trade with the European Union. The Americas, largely the USA, take around 20 percent of UK exports of goods and, by 2019, 30 percent of exports of services, but provide smaller shares of imports. In Asia, there are several important, but no dominant, partners; together they have growing shares with the exception of exports of services, which has remained mired at around 15 percent for two decades.

> "The 'leave' vote needed support from both those who wanted freer trade and those who wanted more restrictions."

The declining trade shares with the EU and booming shares with Asia, especially in exports of goods, lead some to say: 'thank goodness we're free of the EU'. But the story is more nuanced than that. First, why is Europe so dominant? UK membership of the EU has clearly helped. With its zero tariffs and substantial alignment in regulations and standards, the EU has done a

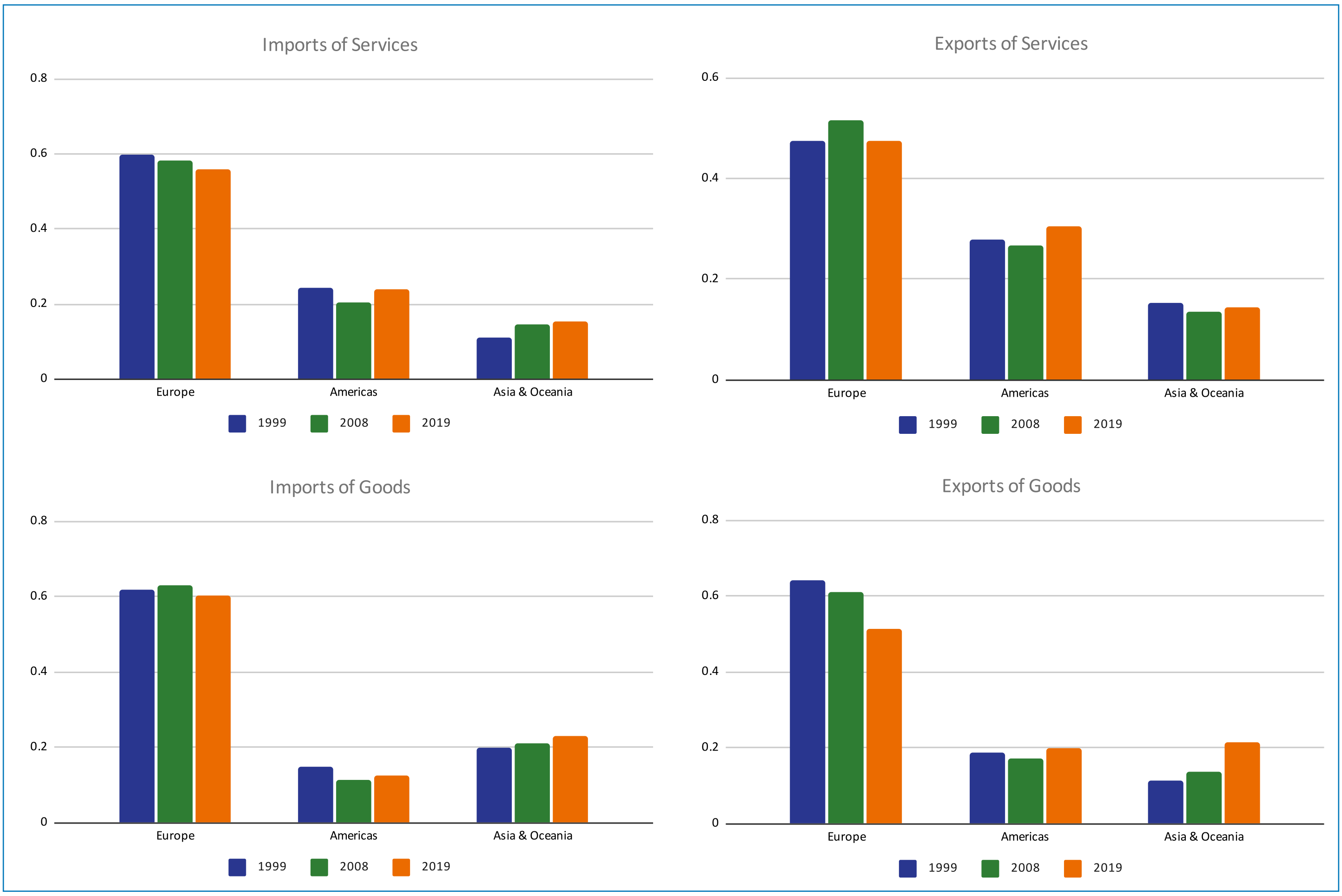


Figure 1 - Imports and Exports of Services and Goods, 1999-2019

great deal more to stimulate intra-EU trade than trade with the rest of the world – think agriculture and motor vehicles or professional and audio-visual services. But, in fact, Europe is large, rich, similar in outlook and, above all, close to the UK, so it will always be the UK's main partner. Distance still matters: recent research suggests that if one partner is twice as far away as another, it will have, on average, 50 percent less trade with you in agriculture, 45 percent less in manufactures and 40 percent less in services. An average UK export or import with the Americas travels an average seven times further than one with Europe. With Asia, this is nine times further. If everything else were the same, trade with the Americas would be only 13%, 20% and 25% of the level with Europe in agriculture, manufactures, and services respectively; and with Asia 10%, 14% and 21%.

As it is, both are larger economically than Europe, and growing faster. In fact, those differences in growth rates almost fully explain the changes in goods shares in figure 1. Between 1999 and 2019, UK exports to the three regions grew at about the same rate as those regions' total imports, while UK imports from them grew at about the same rate as their total exports.

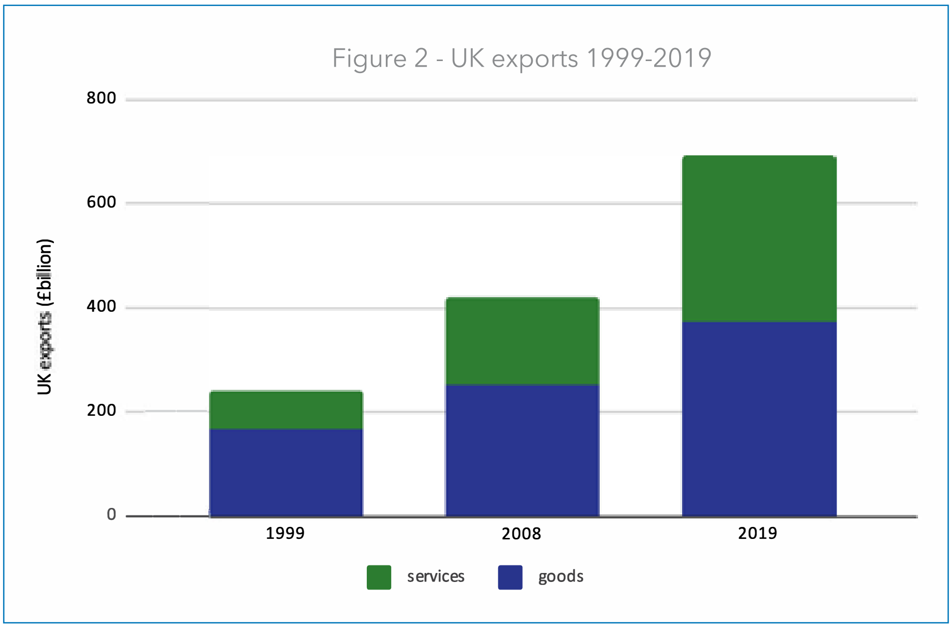


Figure 2 - UK exports 1999-2019

It certainly is sensible to try to increase the UK share of the dynamic Asian markets. Unfortunately, however, that is easier said than done. First, recent evidence shows that distance not only cuts the level of trade, but also significantly reduces the effectiveness of trade agreements in increasing it.

Second, unlike Europe and the Americas, Asia does not have a predominant individual partner. China is the largest, accounting for a bit less than half of Asia's trade with the UK, followed by Japan, which is perhaps a quarter of the size. Liberalising Asia's trade effectively will therefore require quite a few trade agreements, and when you think of who will have to sign them, things look daunting. India cannot bring itself to sign any effectively liberalising agreement; China can, but on its own terms (which means good access for its manufactures in the UK) but comes with a full gamut of geopolitical headaches.

Third, UK trade is pivoting rapidly towards services, see figure 2. Services now account for 46 percent of UK total exports, by far the highest proportion among major economies. If you refer back to Figure 1; however, you will see that in services Asia's share of UK exports has been static for 20 years. Doubtless Asian economies will increase demand for services as they grow in future. This is what the UK government must target, although their woeful treatment of services in the Trade and Cooperation Agreement with the EU is not a good omen.

The data suggest two priorities for UK trade policy over the next decade. The first, limiting the damage of the withdrawal from Europe, by seeking to ease trade frictions and extend the recent trade agreement; Europe will always be our main market and the returns to agreements with closer countries are higher. The second: the Asian services market.

6.3

Payments: the missing piece of the financing puzzle

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With all eyes on financing, we should be careful not to disregard the role of payments in helping MSMEs plug into the global economy.

COVID-19 and the associated lockdowns have widely disrupted global trade. The impact has been felt on both the supply and demand sides for most firms. While larger companies have more resources to survive continued turmoil, MSMEs are struggling to pivot and adapt to the new trading environment.

Smaller firms have been urged to speed up digitalisation, including moving whole business operations online, and looking outside domestic markets for new sources of growth and opportunity. These processes are difficult to achieve given one critically important gap: firms struggle to be paid across borders quickly, efficiently, and at reasonable costs.

Much of the focus on economic recovery for smaller firms has been aimed at addressing one aspect of financing – the ability of MSMEs to find and access trade financing to allow firms to continue to plug into global value chains and deliver goods to customers or suppliers overseas. While important, this is not the only missing financial service that plagues most MSMEs trying to do business in Asia.

Companies that are moving businesses online need to have access to digital payment methods.

Firms will not provide goods or services if they cannot be paid. Cross-border digital payments are instrumental for the development of the regional economy and the growth and resilience of MSMEs looking to thrive in a post-pandemic environment.

New innovations within the e-payments space, like e-wallets, blockchain, and initiatives by governments aimed at fostering increased use of digital payments, will likely improve access and lower the costs of cross-border transactions, especially for MSMEs. However, most of this innovation has taken place in the domestic space, where payments are experiencing improvements in terms of speed and convenience. Conversely, cross-border e-payments remain slow, costly, opaque, and difficult to manage. A lack of access as well as regulatory and payment network interoperability issues, mean that payments remain a key problem for MSMEs hoping to engage in cross-border e-commerce in the region.

As governments in the region continue to promote initiatives that improve access and use of digital payments, the challenges of managing

cross-border transactions are often underappreciated by policymakers. MSME merchants and financial service providers continue to struggle to develop and sell their products and services across borders.
It is not simply that Asia is remarkably diverse with stark differences between economies in technological maturity, regulations, standards, cost, digital access, and security considerations. The lack of a regional ecosystem and supportive policy framework to encourage regional payments continues to hamper large and small firms and slow economic growth and development.

Cross-border digital payments open-up opportunities for MSMEs to enter markets abroad. Within the cross-border payments market, MSME usage has been growing at two or even three times the rate of large corporates. By lowering the barriers of entry to global markets, digitalisation has allowed MSMEs to internationalise at a lower cost by making it easier for them to find new customers by accessing new regional and global markets and managing their payments. The MSME segment, in particular, stands to benefit the most from cross-border payments' convergence, accessibility, and simplification.

There are multiple methods MSMEs can employ when managing cross-border transactions. Bank transfers remain the most common way of settling cross-border retail transactions for merchants in the region. According to available business surveys and the testimonies from MSMEs in New Zealand, Cambodia, Myanmar, Indonesia, and the Philippines, bank and wire transfers remain the most common method for making B2B and C2B retail e-payments transactions.
For instance, according to interviewees, in countries like Myanmar and Cambodia having a US dollar denominated bank account remains one of the only available methods to complete a cross-border transaction.

Firms that can only accept bank transfers struggle or are simply unable to participate in selling directly to consumers as the costs and hassle of managing such transactions deter purchases. Even companies that use bank transfers to manage payment relationships with other firms, as vendors or suppliers, end up doing so at often significant cost and delays in processing. For smaller firms, especially, time is also money.

Beyond direct bank transfers, credit and debit cards are one of the most common payment instruments used to execute cross-border retail payments. Even though card payments provide a more seamless payment experience for consumers, in a cross-border context they remain a challenge as many card types charge significant transaction fees. Credit card payments often rely on a card network comprising an interbank payment processing platform connecting various payment card issuers and acquirers (typically banks). Traditional credit card transactions can be often subject to the same, or similarly complex, back-end arrangement and transaction costs associated with direct bank transfers.

Bank transfers and card payments also require parties to have a bank account. For many MSMEs and potential customers of MSMEs, this assumption does not hold. Without a bank account, they are simply locked out of the digital economy.

"Without a bank account, MSMEs are simply locked out of the digital economy."

There are many regulations and standards affecting the delivery of cross-border payments. Three key challenges include inconsistent application of practices on anti-money laundering (AML), combating the financing of terrorism (CFT), and know-your-customer (KYC) requirements; messaging challenges; and inconsistent implementation of international standards.

Sorting out challenges like these are critically important when it comes to unleashing greater growth in the cross-border retail payments space, which is a key pain point for smaller firms across Asia. Despite the growth of financial technologies like digital wallets and digital currencies, many MSMEs lack the access to those technologies and, as a result, have to endure the costs and difficulties of using traditional bank transfers for cross-border transactions.

Facilitating e-payments in a safe and effective manner would help unlock the ability of smaller firms, especially, to view the region as their own marketplace. Without a sustained focus to continuously update existing commitments and focus on practical steps that domestic governments should take, it will be difficult to create a more safe, innovative, open and inclusive regional e-payments ecosystem.

6.4

Two key finance trends in the Asia Pacific region

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Societe Generale

In early 2021, we are still emerging from the economic wreckage caused by the outbreak of the COVID-19 pandemic, which caused the worst economic performance and biggest decline in international trade since the Great Depression. Against this backdrop, merchandise trade in Asia Pacific held up better than in the rest of the world.

The impact varied across the region's diverse economies, though with a greater contraction in trade for South and Southeast Asian. At the same time, North Asian economies such as Greater China, South Korea, and Japan were more resilient. In fact, China is even emerging stronger from this episode than was forecast before the pandemic, when analysts expected the trade war with the US to slow its foreign trade. If evidence of the resilience of international trade in Asia was needed, 15 countries in the region, with China as the pivot, signed the Regional Comprehensive Economic Partnership (RCEP) last December. RCEP is the world's largest trade deal, covering one third of its population and 29 percent of its gross domestic product.

The pandemic has already had a profound influence on international trade – but this is only just beginning. I believe it will also accelerate existing trends in trade finance, especially in connection with sustainability and digitalisation.

Moving towards more sustainable trade finance

Protecting the environment and limiting climate change is no longer a topic for specialists or activists alone. Across global societies, and economic and financial institutions, there is a clear and strong call for the financial system to support the transition to a more sustainable growth model. The development of green finance began in the mid-2010s, notably with the establishment of the Green Bond Principles by the International Capital Market Association. The greening of financial markets continued with the emergence of green and sustainability-linked loans as well as transition finance. Green trade solutions are the next frontier in the exploration of a more sustainable financial system.

> "Green trade solutions are the next frontier in the exploration of a more sustainable financial system."

Asia requires enormous investment to build infrastructure for the transition to a more sustainable economy, especially through renewable energy projects. Indeed, we believe the region will offer some the most globally promising opportunities to invest in the energy transition over the coming decades. The energy transition in APAC is driven by the impact of demographic and economic growth on energy demand as well as government policies to accelerate decarbonisation in each country. According to ENEA Consulting, in 2019, APAC accounted for 45 percent of global investment in energy transition, and it should be 54 percent in the period between 2019 and 2040.

Moreover, green finance has strong policy support in the region: the Hong Kong Monetary Authority (HKMA) and the city's Securities and Futures Commission (SFC) established a green and sustainable finance steering group in 2020, while the Monetary Authority of Singapore (MAS) also announced the launch of its Green and Sustainability-Linked Loan Grant Scheme (GSLS) late last year.

We believe that companies need additional financial tools to tackle this transition challenge, particularly in the trade finance field. That is why our structured trade teams built a trade finance framework inspired by existing standards for bonds and loans and based on traditional products: letters of credit and guarantees. The framework covers underlying projects in four categories: renewable energy, waste management, clean transportation, and sustainable water. This innovation was very positively received by our Asian clients. For example, it was used for China Goldwind's first green guarantees last year, which were among the first batch of green trade finance instruments in Asia and supported the development of a wind turbine facility in Vietnam. Also, CGNPC Huasheng's green guarantees facility this year to support its wind farm project was a positive step forward.

Greater standardisation required

For green trade finance deals to become established in the market, the industry as a whole needs to move more quickly to define the standards that will govern these solutions. For our part, Societe Generale has been involved for many months in working groups organised by the International Chamber of Commerce (ICC) and the Asian Development Bank (ADB). But progress across the industry is slow and we regret the difficulties in developing common nomenclature and standards.

This is all the more necessary as regulatory authorities in markets including Hong Kong and Singapore are already focused on this topic and we believe it is important that the industry should have a consistent voice in response. If this does not happen, the risk is that we will see different jurisdictions taking quite different approaches.

Moreover, through a coordinated approach, our professional associations or multilateral bodies will be able to demonstrate that green trade finance products are not riskier than traditional ones. This will be vital in making the case that they deserve favourable regulatory treatment, including under the Basel Framework, in order to support the transition of our customers and economies towards net-zero emissions.

Sustainability and innovation in trade

Creating a more sustainable approach for our industry also means supporting economic growth in less developed parts of the world and promoting social inclusion. We believe that Asian trade finance players have a key role to play in this process. This is done through:

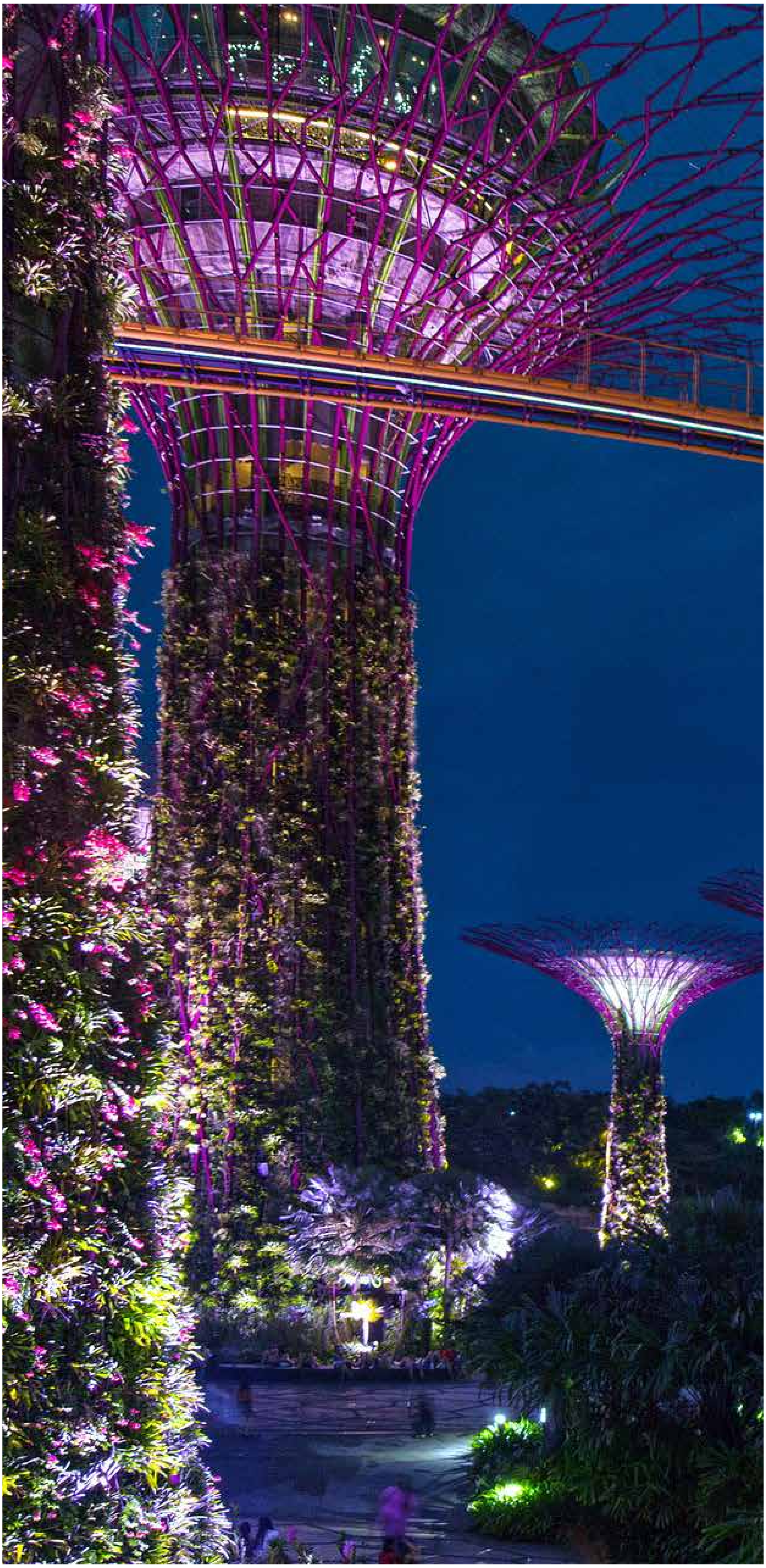
Promoting new trade finance solutions that embrace these challenges in their design, such as sustainability-linked trade guarantees and letters of credit. For instance, our teams worked along with our sustainability specialists in 2020 to develop a framework in which we integrate social and environmental objectives with trade finance instruments. With these instruments, the client can reduce their fees if they meet certain sustainability criteria.

Enabling African growth and development. Trade finance by nature builds bridges between continents and promotes exchanges. Today, almost half of Africa's imports come from Asia, with China being Africa's leading trade partner. As Asian trade finance players, we should facilitate financing for key infrastructure projects between Asia and Africa, as well as opening doors for African small and medium sized enterprises working with Asian companies.

The path towards digitalisation

Everyone in trade finance is keenly aware how paper-intensive our industry is. As we strive for more sustainable trade finance, we must also commit to further digitising our services, which should help to facilitate the faster settlement of cross border trade. In 2019, Societe Generale chose Asia to experiment with the execution of its first electronic presentation (based on eUCP) for a letter of credit with Reliance Industries in India.

In 2020, we also deployed a proprietary document checking tool powered by artificial intelligence and optical character recognition modules. This was rolled out across all our back-offices in Asia with the objective of achieving faster and more secure compliance checks for our trade finance transactions. But there is no escaping the hard fact that these technologies are very heavy consumers of energy and it is crucial to find ways to become more frugal. In this respect, Societe Generale published a charter for responsible energy use in information technology and called on our partners to join us in this journey.



6.5

What will post-pandemic commodities look like in Africa?

ROBERT BESSELING
CEO & Founder
PANGEA RISK

There are several indicators to suggest that commodity markets, especially oil, gas, and metals, will continue to boom over 2021, which will have important implications for Africa's extractive sectors and trade. An anticipated economic recovery in China will drive demand for hard commodities, while COVID-19 vaccine rollouts in North America, Europe, and other developed markets are fuelling investor confidence. Most importantly, expansive global monetary and fiscal policies have created a flow of 'hot money' that is again being directed to developing markets, such as Africa, in an apparent repeat of the aftermath of the 2008 financial crisis. This trend has led some to anticipate another commodity supercycle and raised concerns over the implications for an African sustainable economic recovery after the pandemic.

While oil prices dropped by 20 percent over the course of last year and remain below pre-pandemic levels, crude has recovered by 293 percent since its 21year low in April 2020. Similarly, liquefied natural gas (LNG) prices have recovered by over 727 percent since the troughs of the pandemic. Metals even outperformed these rates – copper prices reached an eight-year high after increasing by 26 percent in 2020. Other top-performing metals include palladium, gold, platinum, iron ore, and bauxite (for aluminium).

All these commodities are important foreign exchange earners for African markets with significant growth potential for trade after the pandemic. However, there remain several questions over the extent of the next commodity supercycle – if that is an accurate term, as well as the potential to increase intra-regional trade under the new continental free trade agreement, and the impact on loan servicing for many debt-distressed African countries.

The African commodity bonanza – who will benefit?

PANGEA-RISK assesses that a recovery in African commodity markets will alleviate sovereign credit risks for some countries that remain dependent on their extractive sectors, but that a sustained economic recovery from the pandemic can only be achieved through economic diversification and sound fiscal and monetary policy. This means that several African markets will remain vulnerable to more external shocks even after the pandemic and that these countries will remain highly reliant on credit support for the next few years.

Africa's largest oil producers are sizable exporters of crude, yet for many marginal exporters, such as Tunisia or Côte d'Ivoire, higher global oil prices will provide little additional balance of payment support. Moreover, some of

Africa's largest oil producers like Angola and Algeria are facing field depletion and falling investment in new fields due to high operational costs. Nigeria's oil sector, which has the second largest reserves estimated at 36.97 billion barrels, is far better positioned than Angola's following its government's firm intention to pass the petroleum industry reform bill early this year.

Chinese demand for base metals is also boosting the price of copper and iron ore, although supply constraints in Chile, Peru, and Brazil are also driving factors for price hikes. Iron ore, which is produced in sizable quantities by countries such as South Africa, Mauritania, and soon also Guinea, has seen its prices skyrocket by 121 percent in the past eight months. Copper prices were at a three-year low in April 2020 and then increased by 67 percent to an eight-year high by the end of 2020. However, unlike iron ore, copper prices are set for a sustained price growth trajectory in 2021. This will have major implications for Africa's two largest copper producers, namely the Democratic Republic of Congo (DRC) and Zambia.

INSIGHT

The world's most important commodities have surged from lows in 2020 to eight- or nine-year highs in recent months. Less than half of Africa's 54 countries are major exporters of commodities with prices that are currently boosted by increased global demand. There will therefore be several speed tracks for Africa, with some countries growing at much faster rates than others, while a few countries are likely to remain in recession this year. Some of the fastest growing markets in Africa this year according to the IMF will be those with diversified economies, such as Mauritius, Djibouti, Rwanda, and Côte d'Ivoire. The World Bank expects Kenya's GDP to expand by seven percent, which would make it one of the fastest growing economies this year, despite little reliance in its nascent oil production or small mining sector.

The current commodity price trend may not be an actual super-cycle, since most of the price rises over the past eight months are due to supply constraints rather than a protracted global uptick in demand, which would define a super-cycle. Nevertheless, some metals could be entering their own super-cycle. Demand for metals needed to build renewable energy infrastructure, batteries, and electric vehicles, would be boosted by the fight against climate change. This scenario would be good news for major platinum producers such as South Africa and Zimbabwe, as well as South Africa's palladium sector.

African free trade rolls out

On 1 January 2021, the African Continental Free Trade Area (AfCFTA) came into force and African countries began officially trading under the new continent-wide free trade area after months of delays due to the pandemic. The free trade area is expected to boost economic recoveries for Africa from this year, and the World Bank estimates it could lift tens of millions out of poverty by 2035. Despite entrenched protectionism in some states and other obstacles such as poor infrastructure, the AfCFTA has been given a new impetus by the pandemic. Full implementation of the deal may take several years, but initial steps towards its implementation may allow member states to double intra-African trade by 2025.

Intra-regional trade in Africa represented less than 20 percent of total trade in 2016. Such intra-African trade primarily consists of manufactured and agricultural products, which are sectors that are widely considered as scalable, in terms of volume and value. Moreover, the AfCFTA is expected to boost intra-African trade of extractables as well, which currently only account for 31 percent of intra-Africa trade compared with 66 percent of extra-African trade. In addition to an increase in trade, the AfCFTA will provide opportunities for value addition for extractives sectors such as mining and oil production, with the production of final or intermediate goods, for innovation and increased productivity through responses to the new competition offered by the open market, and for joint ventures with foreign companies looking for reliable partners in Africa. Combined, the AfCFTA is expected to contribute significantly to GDP and employment opportunities across the continent.

6.6

AfCFTA: the next chapter for African trade

NASSOUROU AMINOU
Africa Regional Manager
FCI

As Africa enters a revolutionary period of intra-continental trade, factoring will be crucial to the growth of MSMEs.

The Africa Continental Free Trade Area Agreement is a 50-year vision of the African Union to support exclusive development across the continent. The objective is to boost intra-Africa trade by providing comprehensive and mutually beneficial trade agreement among the member states. African countries only conduct 16 percent of their trade between each other as opposed to the 65% intra-European and 58 percent intra-Asian trade figures. In 2018, intra-African trade was US$159.1 billion, representing 16.1 percent of total African trade.

AfCFTA targets areas across investment, trade in goods and services, intellectual property rights, and competition policy.

Africa covers a wealth of natural resources which are unevenly distributed, hence the need for trade among countries. Based on some studies, the African population is expected to grow in excess of 2.5 billion by the year 2050. AfCFTA brings together 55 member states of the African union, covering a market of more than 1.2 billion people and a gross domestic product of more than US$3.4 trillion.

With the signing of the agreement, African countries can now trade freely between themselves. They can freely import goods they cannot produce or where demand is high, they can also export goods that are in excess. The barriers may be broken and borders open for trade, but companies need accessible financing to meet demands and boost trade. Factoring appears at this level as a financial instrument to boost intra-African trade.

Factoring is an important tool for expanding and facilitating African trade and particularly for the extension of support to SMEs. Many SMEs waste time waiting for their buyers to pay their invoices. Factoring steps in as a vehicle to facilitate companies who are struggling with limited cash flow to perform or stay in business, increasing efficiency and turnover. Factoring is a popular way to grow a business and generate cash-flow, but this function remains underutilised in Africa for several reasons, the most frustrating being unawareness.

Factoring will allow African businesses to trade more competitively through the use of open account, such as import-export factoring, confirming, or cross-border factoring rather than Letters of Credit and other traditional financing options. Afreximbank is actively promoting intra-African trade and has identified factoring as one of the instruments supporting SMEs who are integral to the supply chains and who require supply chain financing.

There can be no question that the COVID-19 pandemic has been both a public health and economic tragedy. Wide ranging predictions have been made as to when the economy will get back to normal. We can barely determine what is normal. This new way of life has reduced physical contact and we cannot determine for how long such restrictions will last. With the massive impact the pandemic is having on African economies, maximising continental trade will be very helpful to African countries. This economic crash has been driven by a mandatory cessation of business in Africa, which has fundamentally shrunk national economies. SMEs are the most affected by this crisis, in a pattern mirrored across the globe.

AfCFTA has appeared when such an agreement is most needed. It is essential for Africa to adopt a continental and regional collaborative trade policy and mechanism. With the signing of AfCFTA, African states will be able to sustain and assist each other to grow and get back on track.

Due to AfCFTA's implementation, the need for receivables finance will greatly increase as trade barriers will be reduced and firms will have access to a wider market. Africa will be strategically placed to grow its factoring volumes by simply leveraging the existing extra-territorial trade networks. With AfCFTA, Africa seems to be able to benefit not just from trade diversion but also trade creation. The removal of barriers and reduction in rates will lead to increased imports from other African countries, thereby creating alternatives to products commonly sourced or imported from the rest of the world. Factoring will provide a great rebound to the economy and will favour companies that are bold enough to capitalise on this emerging trend and new business opportunities. Factoring institutions should see this economic situation as an opportunity to finance SMEs through the collateralisation of their receivables. SMEs were hardest hit by the pandemic, with huge numbers going out of business. The resilient ones and those returning to business need financing to meet their greater demand for liquidity. This pinpoints why factoring and supply chain finance is more important than ever.

2012

African Union leaders agree to create an African FTA by 2017 at a summit in Addis Ababa

2018

First 44 countries sign AfCFTA

July 2019

Nigeria signs up to the FTA, after pulling out the previous year in a fatal blow to negotiations

January 2021

AfCFTA comes into place with 54 of the 55 African Union nations agreeing to the terms.

> "SMEs were hardest hit by the pandemic, the resilient need financing to meet their greater demand for liquidity."

Factoring serves as a cost-effective way for companies to outsource their ledger while freeing up time to better manage their businesses and be more competitive. Companies striving to improve their business via post-pandemic engagement investment must implement strong control measures and try to avoid fraud of any sort. We can rightly say that AfCFTA will be a gamechanger for member states.

Intra-Africa trade deals need technology for moving money on mobile and digital platforms to support traders in the African continent. AfCFTA comes with a series of challenges, one of which is payment methods for the transactions carried out by member countries. For example, the MANSA project, a pan-African customer due diligence repository for financial institutions, corporate entities, and SMEs, was developed to address the perceived risk of doing business in Africa. It hopes to avoid the long transaction process converting to a third currency, such as US dollars, before effecting a trade deal.

There is also a need for a fast, reliable, and secured payment systems – this is where the Pan African Payment Settlement System (PAPSS) comes in. Led by Afreximbank, PAPSS is the first digital payment system to facilitate trade in the continent. African traders face challenges such as inadequate payment infrastructure and payment platforms, which sometimes delay trade transactions. PAPSS connects SMEs to a larger market and accelerates payments while addressing market challenges. This system will save the continent more than US$5bn in payment transaction costs per annum, usually lost in the conversion of trade currencies between African countries to dollars before sealing a deal.

The PAPSS will make it possible for African companies to clear and settle intra-African trade transactions in their local currencies, increase liquidity, and facilitate instant payment.

To conclude, I believe AfCFTA is a great opportunity for Africa to create and integrate a market of more than one billion people, bring about development and reduce the continent's dependence. Afreximbank leads this project by providing support towards intra-Africa trade using factoring as a pillar and solution to accelerate trade, while providing working capital to SMEs, which constitutes the majority of the economic ecosystem of these countries and our future. ■

6.7

Supporting Canadian exporters in demanding times

MAIREAD LAVERY
CEO
Export Development Canada

From multinationals to micro-enterprises, how EDC is helping Canadian businesses meet the sustainability expectations of their consumers.

Cast your mind back to a little over a year ago, before COVID-19 even had a name. The number of wildfires in the Amazon rainforest had doubled from the previous year to 70,000. In November, Venice was under two meters of water. Australia's fire season started in June and went until March of the following year. Millions took to the streets to protest climate inaction. Greta Thunberg sailed to New York and spoke to world leaders at the United Nations. She said: "How dare you."

It feels like a lifetime has passed, but just one year ago climate change was the number one issue on our minds.

Today, the pandemic may be top of mind, but in terms of climate science, nothing has changed. The earth still faces a fatal tipping point. Without fast action to reduce carbon emissions, our planet will begin the inevitable transition into an ecosystem with unthinkable consequences. It won't be a question of if the planet changes – but how fast it does.

> "It won't be a question of if the planet changes – but how fast it does."

All of us in international finance, are confronting a similar tipping point. Global investment recognises the role it plays in this looming environmental catastrophe. We see the momentum building. So much so, that I believe the global financial system faces a similar ultimatum:

It is no longer if finance will help us make the transition to a more sustainable future, but how fast.

The evidence is everywhere. One dramatic exhibit was presented just this January, when the world's largest private investor, BlackRock Inc., doubled down on its growing commitment to shift its $7.8 trillion-dollar portfolio away from investments in fossil fuels and pressed its clients to do likewise. BlackRock is not alone. Major pension funds, banks, and other investors around the world are signaling their departure from carbon intensive sectors; many of them transitioning to newer, greener opportunities.

Export Development Canada, the company I lead, has a role to play in this transition. As a Crown corporation of the Government of Canada, we have a hybrid role – a commercial bank and insurance company, operating under a national mandate to promote Canadian exporters. That mandate demands we work across a wide range of businesses, from the micro to the multi-national, and across the vast spectrum of Canadian industrial sectors, from agriculture, natural resources, and the extractive industries, to telecoms, digital services and cleantech.

Today, EDC is one of the world's largest and most active export credit agencies, in an average year helping to facilitate over $100 billion in Canadian trade and investment in markets around the world. In 2019, that year before COVID, we recommitted ourselves to responsible and sustainable business practices, initiating new policies governing our conduct in the areas of climate, human rights, and business transparency. We may not have the capital of a BlackRock; but we do have the mandate, and the will, to influence.

A range of companies

EDC's mandate is national – we provide financial and advisory solutions that support businesses of all sizes, and in all sectors, and we take on an important role of equipping Canadian companies to be ready for the high expectations of responsible business conduct. Among the smaller companies we work with, our greatest leverage most frequently comes in the form of our advisory services.

"We may not have the capital of a BlackRock; but we do have the mandate, and the will, to influence."

These emerging exporters, many of them start-ups, are eager to understand the climate and human rights risks that may exist in their own supply chains. EDC can use its influence to prevent and address these risks. Then there are the large-sized exporters, giants in international business. These companies are likely to be more advanced in their progressive business practices – having the resources and experience to be aware of sustainability goals, human rights, and business integrity standards. EDC's engagement with these companies, in the form of either project or corporate finance, can help them continue to adapt and evolve their responsible business practices.

Where it can get tricky for export credit agencies like ours, is working with the mid-sized companies. These businesses may be aware of sustainability standards, but may not have the resources to respond. Again, EDC's engagement can prove not just worthwhile, but essential. Our efforts can – and do – help them manage both human rights and climate risks, advancing goals of sustainable trade and contributing to our customers' international value proposition.

A spectrum of sectors

Providing solutions to all sectors of an economy as diverse as Canada's invites a common critique from civil society: if Canada supports the Paris Agreement, how does its export credit agency support oil and gas? Of course, saying no is an option. But with a national mandate that leans toward participation, EDC is more likely to use a more active form of leverage in these industries to help their transition to more sustainable approaches. In 2020, for the first time our support to O&G customers was conditional on companies signing onto the Taskforce on Climate-related Financial Disclosures (TCFD), an important first step toward mitigating their impact on the climate – and an example of how engagement can produce tangible outcomes.

Of course, the Canadian spectrum of industries includes more than the carbon intensive. Since 2012, cleantech has been an EDC priority, and an area of steady growth. We are, in fact, among the largest Canadian financiers of cleantech companies, facilitating $4.5 billion in business for this sector in 2020.

A community of ECAs

Among the world's export credit agencies, there's another important factor that promotes progress: international agreement. I mentioned the TCFD, to which EDC was an early signatory. There is also the matrix of international standards, represented by the International Financial Corporation (IFC), the Equator Principles, the OECD and the United Nations Sustainable Development Goals, all of which offer important approaches against which we can all measure our efforts. As economies recover and competition grows for post-pandemic success, solidarity among all ECAs in support of these international standards will be essential, if we are to maintain our momentum toward a just and sustainable transition.

I, for one, have confidence. The signs continue to accumulate. EDC's lone shareholder, the Government of Canada, remains committed to the Paris Agreement and the United Nations SDGs. In the United States, the Biden administration has rejoined Paris, and made ambitious commitments to cutting emissions. Corporate America seems to be clearly onside: in January, General Motors announced the goal of making almost all of its vehicles electric by 2035.

Clearly, there is a transition happening in our economy, and people are leading it. We in business, finance and government have the critical role of enabling it. We know what's happening and we know what must be done. We just need to keep doing it. And fast.

7

BLOCKCHAIN AND DISTRIBUTED LEDGER TECHNOLOGY (DLT) IN TRADE: WHERE DO WE STAND?

DEEPESH PATEL
Editorial Director
Trade Finance Global

EMMANUELLE GANE
Senior Analyst, Economic Research and Statistics Division
World Trade Organization

A year is an eternity in the world of technological development, especially for a technology that has only been in existence for ten. The past year has taken this to a wildly new extreme. At the end of 2019, Trade Finance Global (TFG) and the World Trade Organization (WTO) teamed up to produce DLT in Trade: A Reality Check, where we unveiled a Periodic Table of DLT projects. From the outset, the Periodic Table was never designed to be static. The compounding forces of rapid technological innovation and a global pandemic have made seismic shifts in the world of DLT in Trade. It's now time for an update. TFG and WTO teamed up again to produce an updated version, DLT in Trade: Where Do We Stand?. Here's a summary of the research paper, which was published in November 2020 (correct as of 1st October 2020).

This new publication provides an update to the original periodic table and introduces a new section on the standardisation initiatives that work towards creating the standardized framework the industry craves.

Periodic Table

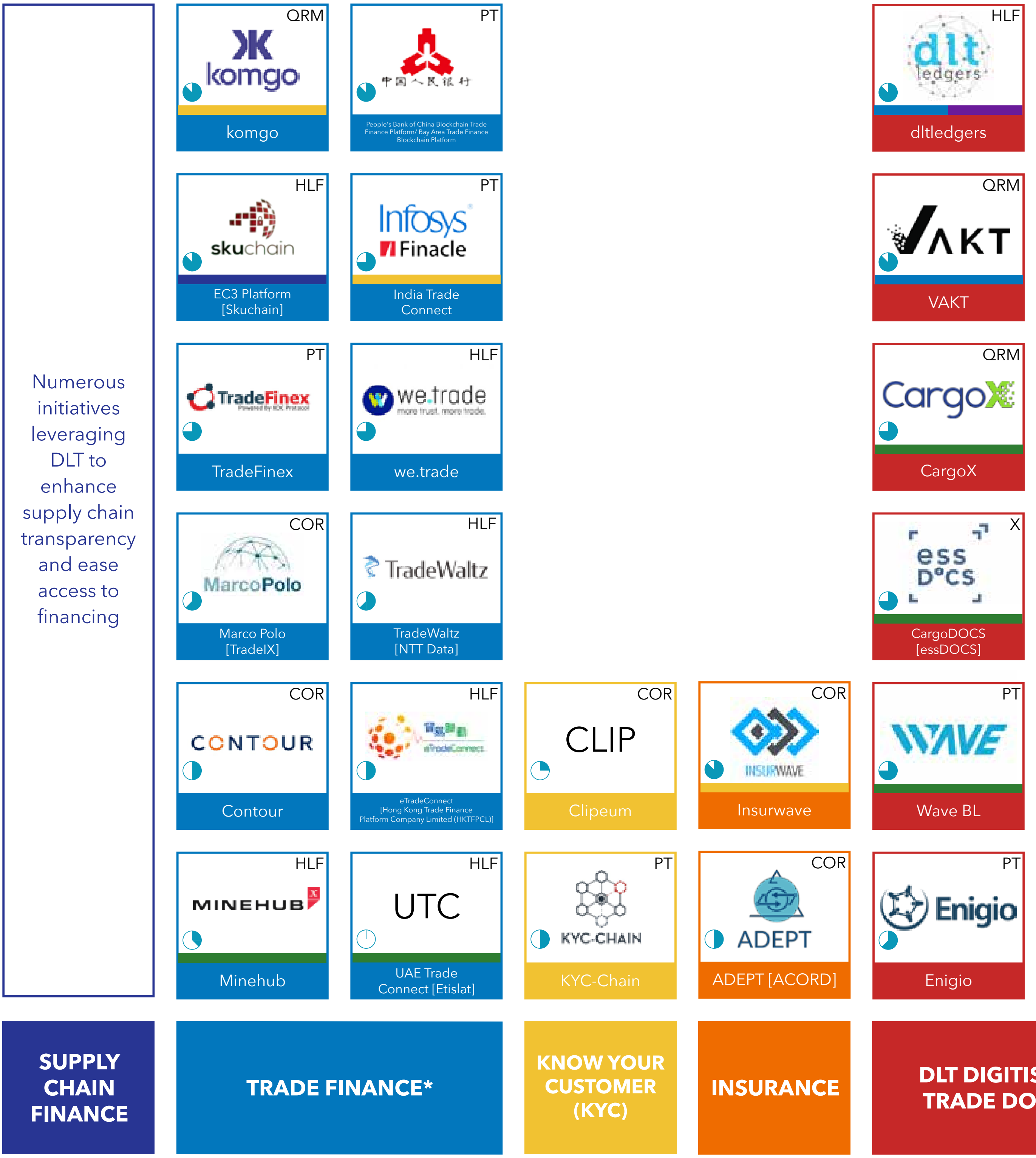
Since the original rendition, a lot has changed in the DLT in Trade landscape. Some of the projects that were profiled in the original version have fallen aside while others have risen from the ashes to take their place. A few, like Contour (previously, Voltron), have progressed from a consortium to an incorporated legal entity, enabling them to provide the full commercial services that they were previously unable to. Most of the projects, however, have made steady progressions towards their goals of a digitalised industry.

This updated version, focusing again on the digitalisation side of DLT in Trade, has sectioned to projects into seven categories: Supply Chain Finance, Trade Finance, Know Your Customer (KYC), Insurance, DLT Digitization of Trade Documents, Shipping and Logistics / Supply Chain, and a miscellaneous category for projects that do not neatly fit into any of the other sections. Similar to the previous edition, each project is presented with its underlying technology as well as an evaluation of its current stage of maturity.

At the time of the initial publication, in November 2019, the average stage of maturity across all of the projects was profiled to be 2.3 out of 5, with 1 representing the proof of concept (POC) stage and 5 representing live and running (well established). Today, nearly a year later, the average maturity has risen to 3.3, placing the average project between the early stages of production and being live and running.

This rise in the overall maturity indicator indicates that, despite some turmoil amongst individual initiatives, the industry as a whole has been steadily progressing in a forward direction.

To learn more about each of the initiatives listed in the periodic table, including insights into their operating models and current participants, have a look at the full publication, DLT in Trade: Where do we Stand?



Periodic table of DLT projects split by grouping and across various categories, also highlighting the state of development and underlying technology. Correct as at 1st October 2020.

HLF
Calista

ETH
edoxOnline

HLF
Tradelens

ETH/HLF
CamelOne [VCargoCloud]

?
CH
China-Europe e-Single

OTH
Fast Track Trade

OTH
eCOM Asia Ltd

HLF
GSBN
Global Shipping Business Network [Cargo Smart]

COR
TradeCloud

ETH
Crowdz

HLF
TradeWindow

ETH
DELIVER

ETF/HLF
GUUD

COR
RE
ReChainMe

X
Galileo [Bolero]

OTH
DP World [Avanza]

COR
x-DeFraud

HLF
DTR
Digital Trade Registry

PT
Trusple

OTH
Aero Blockchain

ETH
TradeTrust

OTH
ICC TradeFlow

SATION OF CUMENTS

SHIPPING & LOGISTICS / SUPPLY CHAIN

OTHER INITIATIVES (INCLUDING MARKETPLACES)

COLOUR LEGEND

- SUPPLY CHAIN FINANCE
- TRADE FINANCE*
- KNOW YOUR CUSTOMER (KYC)
- INSURANCE
- DLT DIGITISATION OF TRADE DOCUMENTS
- SHIPPING AND LOGISTICS / SUPPLY CHAIN
- OTHER INITIATIVES
- MARKETPLACES

*Note: Most 'Trade Finance' DLT Initiatives comprise some form KYC element and capability, we have just highlighted the projects which explicitly have blockchain powered KYC modules as a secondary function on the table.

UNDERLYING TECH LEGEND

HLF	IBM Hyperledger Fabric
QRM	Quorum
PT	Proprietary Technology
COR	R3 Corda
ETH	Ethereum
OTH	Other Technology
X	Non DLT - integrated with DLT projects
?	Information unavailable

Note: Square brackets indicate the associated technology provider

MATURITY INDICATOR

- Proof of Concept phase (1)
- Pilot phase (2)
- Entering into production/early stages of production (3)
- Live and running - gaining momentum (4)
- Live and running - well established (5)

3.3 - Average Stage of DLT Projects

WORLD TRADE ORGANIZATION

TRADE FINANCE GLOBAL

Standardisation initiatives

In conjunction with the publication, DLT in Trade: Where do we Stand?, TFG and WTO also produced a supplemental survey on the impact of COVID-19 on DLT in Trade. According to this survey, a lack of standards is viewed as one of the largest challenges facing DLT in Trade initiatives in their quests to scale up. Not only this, but it also plays a role in exacerbating some of other challenges that have been identified by the survey, such as legal and regulatory.

To help address the challenges created by a lack of standards, developing, and implementing globally accepted digital standards for trade is a necessary step. To help shed light on the state of the initiatives working towards standardization in the space, this updated and revised publication identifies and examines several such projects.

Some standardisation projects are focused on particular sectors or geographies while others are more general. Some are being spearheaded by large international organizations, others by private companies. The following table provides an at-a-glance look at some key initiatives in the space. To learn more about each of these Standardisations Initiatives, have a look at the full publication.

Any discussion of standardisation in a digitalised trade world would not be complete without mentioning the importance of regulatory work and of building a harmonized regulatory framework. A key actor in this respect is the United Nations Commission on International Trade Law (UNCITRAL). While this is not a standardization body, it plays a key role in working to build a harmonized international trade law framework to drive further progress.

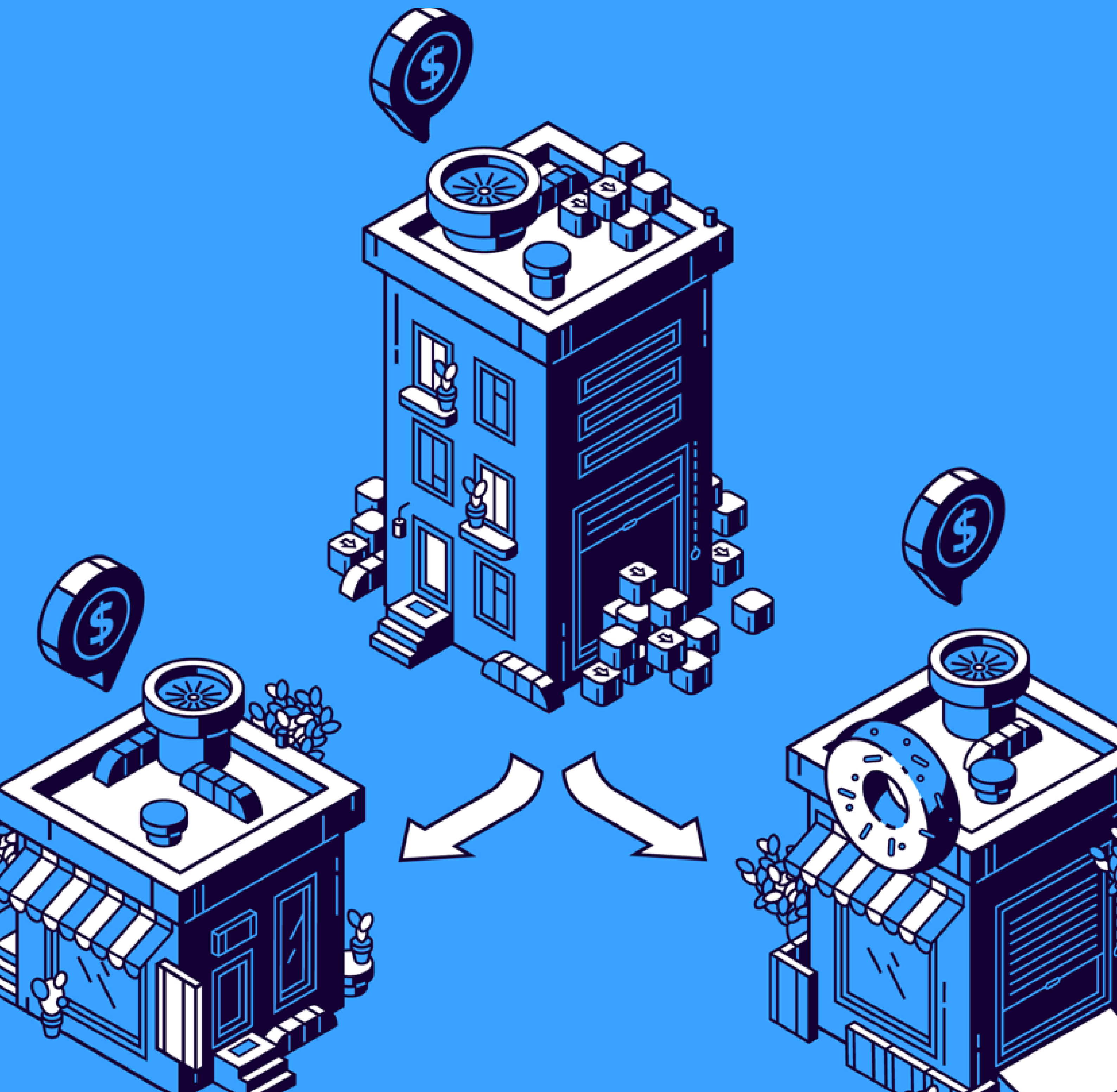
The role of this commission, operating in conjunction with the standardization initiatives detailed in the full publication, provide a necessary foundation for the DLT in trade projects to thrive. Without this crucial groundwork, the industry would not be where it is today.

Conclusion

It's crazy to think just ten short years ago distributed ledger technology was little more than an idea. Over the past five years it has revealed its hand, demonstrating the potential power it brings to naturally leery industries like international trade. Today, we are beginning to see the pieces fall into place and its industrious powers come to fruition. The past year has brought many changes to the space. The next year is on pace to do the same. With the continued dedication of thought leaders and innovative thinkers operating at the digital intersection of trade and DLT, progress will be made. We hope that 365 days from today, the snapshot provided in DLT in Trade: Where do we Stand? is also outdated and due for an update. That will mean the industry is making strides towards its digitised vision.

8

MSME FINANCIAL INCLUSION



8.1

How disruption is accelerating inclusive innovation across the global supply chain

CLAIRE THOMPSON
Claire Thompson, Executive Vice President, Global Head of Trade, Enterprise Partnerships
Mastercard

A three pillar approach to achieving a more sustainable and inclusive future for global trade

The new normal for SMEs

Now, just over 12 months since the outbreak of COVID-19, the profound health, societal, and economic impact of the global pandemic has caused disruption across almost all sectors and fundamentally changed the way we go about our daily lives. Organisations of all sizes continue to adapt to containment measures in order to keep people safe, stay connected with customers and suppliers, and ultimately stay in business.

The impact on the global supply chain has been especially profound for small- and medium-sized enterprises (SMEs). SMEs are the backbone of the global economy, representing 90 percent of all businesses and accounting for 50 percent of the global workforce, yet within the first three months of the pandemic one-in-five small businesses were forced to close their doors. The lives and livelihoods of entrepreneurs, family businesses, and small firms have been plunged into uncertainty.

As financial services were forced to scale back funding due to unprecedented economic uncertainty and risk, SMEs faced significant liquidity challenges exacerbating the existing $1.5 trillion funding gap. The International Finance Corporation now estimates a trade financing shortfall of between $4 trillion and $5 trillion.

This trade financing gap will inevitably be felt the most in emerging and developing markets. Women-owned businesses, which already only access less than 10 percent of commercial financing globally, will suffer as well. These factors, if not addressed, could drive us further away from achieving the United Nations Sustainable Development Goals than ever before.

An accelerator for change

There is a silver lining; now more than ever we are experiencing a collaborative awakening where organisations are coming together to address the vulnerabilities and inequalities exacerbated through the global pandemic. In furtherance to its commitment to sustainable and inclusive growth, last year Mastercard announced that it was doubling down on its goal to include another 500 million people in the digital economy by 2025, by expanding that commitment to one billion. This comes with a direct focus on providing 25 million female entrepreneurs with solutions that will help them to grow their business. In addition, our recent pledge to reach net zero emissions by 2050 by focusing on the decarbonisation of operations will be bolstered by efforts through our supply chains.

Over recent months we have seen digital acceleration, from a regulatory, technological, and political perspective. Our opportunity now is to collectively move forward with a commitment to making the digital economy work for everyone, everywhere – ensuring that organisations of all sizes not only survive the crisis, but emerge stronger than before.

Investing in partnerships and tools that support the following three pillars will accelerate a more sustainable new normal for participants across the global trade ecosystem and help us move away from siloed systems, paper-based transactions, and finance gaps.

1. Digitisation

With necessitated remote working and social distancing measures becoming the norm, we have witnessed accelerated efforts to eliminate legacy paper-based resources. Together with DP World Mastercard recently launched a Trade Card in the Dominican Republic aimed at enabling cargo owners and small businesses to pay for their freight-related costs more efficiently, enhancing their ability to participate in global trade. Such initiatives help accelerate digital transformation and provide cargo owners and SMEs with better access to responsible credit, while digitisation of operations removes paper-work burden and keeps port staff safer in adherence to virus containment efforts.

Mastercard has also invested in blockchain capabilities to facilitate greater trust across the global supply chain. Working with fresh produce providers, including Australia-based Fresh Supply Co, we can now track the flow of goods and link to payment. By providing greater transparency over shipment and delivery, early payment of goods and earlier access to financing in the supply chain life cycle is facilitated.

Technology can help realise efficiencies and enhance confidence for global trade, but it must be inclusive and remove barriers rather than inadvertently create more. We need tools and insights such as Mastercard's Digital Doors that support entrepreneurs and small businesses, helping them to get online while offering protection from digital threats and relevant insights to make informed choices.

2. Financing

SMEs consistently find it the hardest to secure funding, while tier-one firms have far greater access to capital. It's a situation highlighted over the last 12 months, where SME suppliers with working capital constraints have struggled to keep the lights on. Moving forward, there needs to be collaborative effort to create innovative new lending pathways that ensure fairer access to finance throughout the whole global value chain. This means going beyond the first tier and allowing even the smallest of businesses to diversify and grow. Technological advancements, from blockchain, open banking to data insights mean that now more than ever we have tools and resources available to increase lending access for SMEs and reduce risk for financers. Open-banking advancements, such as Mastercard's capabilities with Finicity, can facilitate creation of a "digital credit passport" for SMEs, and as a result, safeguard a greater choice of affordable financial services and ultimately enable enhanced operational models to better support the whole supply chain.

3. Data insights

COVID-19 emphasised the importance of having comprehensive real-time data, along with the latest technology and analytic tools to leverage it – which takes a collaborative effort.

According to the Asia Development Bank (ADB), insufficient information in credit applications results in 17 percent of rejections for credit applications by SMEs. A historic reliance on audited financial statements as the basis for credit decisioning excludes SMEs and is no longer enough at a time when we realise that creditworthiness can change drastically in a short time frame.

Recently Mastercard formed a multi-stakeholder alliance with ADB to create technology solutions to drive greater digital efficiency across the retail supply chain in Asia and increase wholesalers' access to credit. By leveraging supply chain data from N-Frnds, SGeBIZ's digital procure-2-pay platform and partnering with Finastra and its Trade Bank customers, Mastercard is automating access to working capital finance by increasing the digital data available to assess and evaluate creditworthiness for SMEs.

Better access to data allows us to shift away from antiquated scoring models and dynamic data at a wider variety of data points is changing the way we assess risk for the better. Solutions like open banking provide access to real-time supply chain data, while AI tools provide better insights into the state of a business.

Collective Responsibility

History will remember 2020 as the year that international trade fundamentally changed. It's our collective opportunity to ensure that the next 12 months are marked as a period of inclusive and sustainable innovation. Using technology, insights, and partnerships to accelerate digitisation and address legacy inequalities and vulnerabilities for SMEs will build a more resilient future for trade. The responsibility to enact this transformation does not lie with any one player, it will take collective and collaborative action from lenders and financial institutions, alongside sound policy and regulation. The public and private sectors must come together to enable a faster and more efficient shift towards digitisation for SMEs across the global supply chain and by doing so make the digital economy work for everyone, everywhere in the new normal we have the responsibility to curate.

8.2

Using education to make factoring more inclusive

AYSEN CETINTAS
Director, Education
FCI

Teaching businesses to unlock working capital and grow their operations

The importance of small, and medium-sized enterprises (SMEs) in national economies is well known, as well as in their global impact, since, by number, they dominate the world business stage. But notwithstanding the wide acknowledgment of SMEs' importance to national economies, they still face difficulties that need to be addressed; one of these is limited access to finance.

In this context, it is important to highlight two main aspects that are frequently interlinked. The first one is access to finance and financial inclusion. The second one is financial inclusion and financial education, also known as financial literacy.

Since SMEs are often the most vulnerable link in national economies, financial inclusion should be at the centre of any SMEs policy. While traditional bank lending is the most common source of external financing for SMEs, other forms of funding should be considered, like public–private investment, crowdfunding, or alternative tools such as factoring, which can optimise the access to working capital finance. One of the main barriers that SMEs face in gaining access to financial services is the requirement of collateral.

It's time that governments and financial institutions start to work in promoting and developing a differentiated approach to focus on SMEs. To do this, financial institutions should start to think outside the box. Customised offerings for SMEs will require a deep understanding of the market, research, and

documentation of their needs for financial and support services.

The links between financial education, access to factoring, and sustainability

Across the world, companies use factoring as a flexible source of financing as it facilitates the much-needed access to finance by corporates and SMEs. Factoring companies or factoring divisions in banks can provide a greater level of financing than traditional lenders to SMEs, whilst limiting their credit risk to acceptable levels. Factoring continues to grow successfully both in mature and in emerging markets.

What is unique about factoring is that the credit provided by a lender is explicitly linked to the value of a supplier's accounts receivable and not the supplier's overall creditworthiness. Factoring can accelerate the flow of cash to companies that supply goods and services to corporate and public-sector customers by advancing short-term funding backed by these suppliers' outstanding invoices. This enables companies with weak credit ratings to access funding based on the value of their receivables and the credit rating of their buyers, rather than on basis of their own balance sheet strength.

"Financial inclusion should be at the centre of any SMEs policy"

Financial education has been identified as a vital knowledge resource for financial decision making, but insufficient attention has been given to how SMEs' financial literacy affects their access to finance and sustainability.

FCI is the global representative body for factoring and financing of open account domestic and international trade receivables. FCI was set up in 1968 as a non-profit global association. With close to 400 member companies toda in more than 90 countries, FCI offers a unique network for cooperation in cross-border factoring. Member transactions represent nearly 60 percent of the world's international correspondent factoring volume.

Education is one of the strongest pillars of FCI. Factoring is generally not yet covered in the curricula of universities and higher education institutions. Education is a key element for the future development and professionalisation of the factoring & receivables finance industry.

FCI Academy has an education programme on Factoring & Receivables Finance, providing a wide range of globally recognised and accredited educational offerings that aim to support personal, corporate and market development globally. So to ensure high professional standards, FCI Academy has developed its own specialised series of learning programmes.

In this way, knowledge from seasoned factoring professionals can be shared with new or less experienced colleagues. FCI provides a variety of learning opportunities: from the much-respected e-learning diploma courses to regular seminars, webinars and tailor-made programmes for new and experienced members. The aim is always to give FCI members the expertise they need to offer their clients top quality professional factoring services.

Five decades of knowledge and experience have culminated in a key USP, which has already supported the development of thousands of factoring professionals within our membership and of prospective members, providing everything from knowledge of basic factoring skills to technical disciplines, supporting new products and creating opportunities for FCI member organisations and other financial institutions to foster learning within their own business environment. Every year, about 1,000 students participate in different distance learning courses and more than 700 delegates attend various FCI seminars, workshops, and training events online and onsite.

In that context, FCI developed a new education course "Introduction to Factoring and Receivables Finance". The course is designed for anyone who wants to learn about the basics of Factoring & Receivables Finance, especially for exporters, importers, sellers and buyers, regardless of their size. The course targets all parties in the physical supply chain as well as university students and the professionals working for accounting & law firms. FCI aims to disseminate the factoring knowledge to all parties in the supply chain ecosystem and assist SMEs in achieving financial inclusion through financial education.

8.3

The post pandemic evolution of supply chain finance

JOHN BUJEGA
Managing Director
Trade Advisory Network

LIONEL TAYLOR
Managing Director
Trade Advisory Network

As MSMEs are weaned off fiscal support, a radical new attitude to how they access working capital will be needed more than ever.

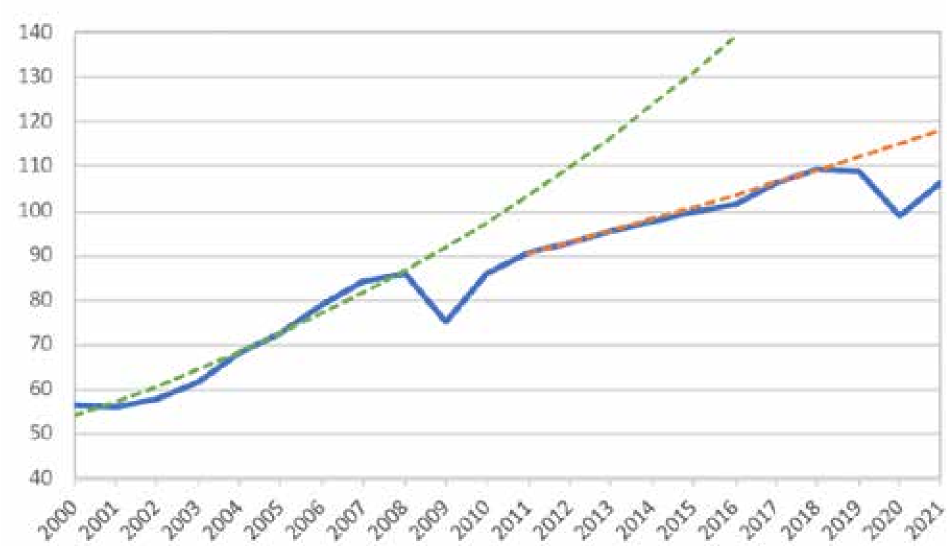
COVID-19 has had a severe overall effect on global trade, with disruptions to supply chains and government enforced lockdowns damaging business across the globe. According to OECD reports, global GDP was projected to fall by 4.5 percent in 2020 with a pick-up of 5 percent in 2021. However, as countries are being hit by new waves of the virus, the expected 2021 recovery will be slower than forecast. MSMEs, who by their nature have limited capital and personnel resources, are overrepresented in sectors such as wholesale distribution, which have been heavily hit by this downturn in business activity.

Monetary and fiscal measures provided by governments across the globe to ease the burden on MSMEs have provided some relief, but this is not sustainable and as support is reduced, it is expected that the level of insolvencies will increase. This will shake business confidence at a time when any increase in economic activity translates for the surviving, but financially weakened, MSMEs into a more immediate need for working capital finance, as they look to take advantage of a recovering order book.

Therefore, the demand for finance, which in 2020 was primarily provided to enable MSMEs to survive, will switch later in 2021 to a requirement for working capital finance to support growth and recovery. Experience has shown that banks and other mainstream lenders with heightened concerns

Chart 1 - World merchandise trade volume, 2000-2021

Indices, 2015=100



regarding credit quality will, in a post-pandemic environment, be more cautious as the recovery takes hold. This will provide opportunities for independent lenders and fintechs to step in as they did post the financial crash of 2008/9.

Some areas of manufacture and distribution have prospered during the pandemic. The market for personal protection equipment (PPE), for example, has grown by over 30 per cent in 2020 with buyers forced to make large deposits and pay inflated prices, to secure supply. Online shopping has also increased in the sale of home-related products as many more people have been forced to isolate or work remotely.

In the developing world, the financing of MSMEs has always been cited as challenging. The World Bank, for example, estimates a finance gap of $5.2 trillion centred mostly in emerging markets, where the availability of such working capital finance has been limited. One reason for this is that in many jurisdictions, lenders have not had the legal cover to perfect their security in current assets such as debtors or inventory. 2020 saw some progress in this regard in Asia where countries such as China, the Philippines, Thailand, and Vietnam have taken steps to strengthen their legal infrastructures to support the recording of receivables as security.

Legal and regulatory reform to support receivables financing are welcomed by many banks in the region. They have previously resisted the call to provide supply chain financing, and are used to relying on property and other fixed assets as their security. Not only will mindsets need to change, but also there will need to be increased training and education to make the banks more comfortable when operating such current asset finance solutions.

> “Not only will mindsets need to change but also there will need to be increased training and education to make the banks more comfortable when operating such current asset finance solutions.”

Supply chain finance for many translates into the payables finance programmes, where major corporates team up with banks and specialist third party platforms to provide earlier

settlement with their suppliers. In today's COVID-19 environment, these programmes are proving their worth as a means for major corporates protecting key suppliers during this economic turbulence. Yet the challenge and cost of onboarding, alongside KYC and AML, has resulted in many MSMEs being excluded from these programmes.

For many years, we have been advocating for banks and others working in partnership to support each other when onboarding suppliers on SCF programmes and to cover off KYC and AML requirements. FCIreverse is a factoring association approach to this and, with the digitisation of data, there will be increased opportunity to extend the reach of payables finance programmes to include the "long tail" of suppliers who miss out on the benefits today.

The pandemic has highlighted the need for trade and supply chain finance to become less paper intensive and for the industry to embrace a more digitised approach. Great strides are being made as the banks and others progress various initiatives to digitise the current paper dominated world of trade finance. Enigio, a Swedish based Fintech, has developed the concept of a digital original document expressed through an electronic record that has all the same properties of paper. This is an approach that ITFA has embraced with the development of its Electronic Payment Undertaking which can be adapted to support receivables financing where the taking of an assignment is difficult or prohibited.

Data driven lending is another developing approach where technology providers such as Trade Ledger are promoting the mining of transactional data with real-time monitoring capability, to enable the more innovative banks and non-bank financers to provide end-to-end financing of supply chains through a seamless delivery, with business receiving finance and risk mitigation at the point of need. Any adoption of this approach to lending will be of great benefit to MSMEs, who as the weakest party in a supply chain, often require financing on a pre-shipment basis to support their business activity.

8.4

Trade as an asset class

JEREMY LEVY
Partner, Structured Capital Markets
Baker McKenzie

Businesses will need to become securitisation savvy if we are to plug the trade finance gap

Receivables resulting from the business activities of operating companies have traditionally been monetised through various techniques, including factoring and supply chain finance solutions.

However, these traditional techniques are not the only tools available to companies wishing to turn receivables arising from trade into immediate liquidity. Over the years, many different solutions to monetise trade receivables have emerged, the majority of these making use of securitisation technology. As companies navigate the uncertainty of the post-pandemic world, securitisation techniques should become an attractive option to companies seeking to maximise their balance sheets.

What is a trade receivables securitisation?

Securitisation is a technique designed to monetise income-generating assets, usually involving financing arrangements secured on the cash flows arising from those assets. This basic concept is then deployed in a manner tailored to the specific features of the assets and requirements of transaction parties.

Over the years, the securitisation market has developed certain types of structures which are seen to be particularly appropriate for financing trade receivable assets. These structures include asset backed commercial paper (ABCP), term securitisation and receivables financing in the context of warehouse transactions with revolving note or loan structures:

- ABCP involves the issuance of short term money market securities (with a maturity typically under 364 days) which are backed by trade receivables. This type of transaction is usually structured as a programme established and managed by a financial entity acting as sponsor that purchases trade receivables from various third-party entities. Some ABCP transactions are structured as "simple, transparent and standardised securitisations" in order to allow institutional investors to benefit from preferential

Securitisation

A type of structured finance that has been overcomplicated in the market. The most important element is receivables flowing from pools of economic assets. An example of these underlying products may be bonds or mortgages.

capital treatment when holding ABCP positions, and have, for that reason, become extremely attractive investments.

- Term securitisation (which tends to be more public than the other structures mentioned) will typically involve the issuance of debt securities with maturities in excess of 364 days and which are backed by a revolving pool of trade receivables.

- Warehouse financing usually entails a lender granting loan finance to a special purpose vehicle borrower secured on a revolving pool of trade receivables, usually structured as a private transaction similar to a bank financing but with more attractive pricing.

Different structures will attract different types of investors and funders, often resulting in pricing implications for the businesses who wish to finance their trade receivables through securitisation. Whether or not a particular structure is appropriate for a business will depend on the nature of the underlying trade receivables.

How can trade receivables securitisation help?

Trade receivables securitisation may help businesses with trade receivables currently on their balance sheets by providing enhanced liquidity, mitigating the accounting impact of overdue receivables and improving debt ratios (as securitisations generally do not classify as "debt" on a corporates balance sheet).

In addition to the liquidity upsides of monetising future receivables, transferring the economic ownership of certain trade receivables (and therefore the risk associated therewith) may enable businesses to limit the impact of exposure to credit risk relating to their counterparties and assist in managing their accounting and cash flow position, all of which can prove useful in context of the COVID-19 pandemic.

From a business relationship standpoint, securitisation of trade receivables may also allow businesses to keep their relationship with their own clients unchanged, as it is possible that the transfer of economic ownership of the trade receivables may remain undisclosed to the clients (subject to certain considerations and, in particular, the laws governing those trade receivables) and the seller is often allowed to remain responsible for the receivables collection process.

Securitisation may well be available to corporates even when other financing sources are not active (e.g. if banks are unwilling to provide traditional bank debt). There may well be pricing advantages too as securitisation is priced on the expected performance of receivables rather than the corporate's general rating.

How does it work?

In order to benefit from securitisation of trade receivables, businesses will need to sell their trade receivables portfolio to a third party, usually at a discount, to reflect the net present value of the relevant cash flow. The amount of this discount is, as is also the case with factoring and confirming, a matter for commercial discussion with the entities structuring or sponsoring the transaction. It should be noted that certain features may be implemented in transactions in order to mitigate risks and improve pricing, such as taking credit insurance over the pool of trade receivables from a specialised credit insurer or maintaining reserves for certain risks.

Securitisation is a type of non-recourse financing (similar to some types of factoring arrangements), meaning that investors in the debt securities or lenders, as applicable, will typically bear the risk of non-payment and will have no recourse to the seller if there is a non-payment by the obligor under the trade receivables. This non-recourse element is central to securitisation, given the transaction will typically be structured as a sale from the seller to a special purpose vehicle which should be designed to survive any challenges triggered by a potential insolvency of the seller (often called a "true sale").

Depending on the type of structure adopted, the associated legal, regulatory, and compliance burden may be more appropriate for the mid-size or large corporate than to smaller entities. However, it should be noted that the recent trend of increased digitalisation in the trade finance sector has prompted the emergence of platforms offering streamlined receivables securitisation solutions which enable smaller entities to participate.

What does it take to get started?

Performing comprehensive due diligence on the assets is key to engaging in this type of transaction, since the structural features of the transaction will largely depend on the characteristics of the asset pool.

To the extent that there is a substantial pool of relatively homogeneous income producing assets, a suitable sponsor or structuring entity should be identified and approached.

When determining which structure to adopt, various considerations will be driven by investors and by the sponsor or structuring entity. However, the seller will usually be able to input on a number of aspects, ranging from eligibility criteria for the securitised trade receivables to the existence of credit insurance protection and to the servicing and collection of the trade receivables.

The demand for securitised products has shown resilience during the height of the pandemic and this market is expected to remain buoyant. It is anticipated that trade receivables securitisation will become a key tool for plugging the funding gap between the financial markets and the real economy. It is therefore essential for businesses to become securitisation savvy in order to make the most of this thriving market. ■

8.5

Derisking in Africa

MATHIEU SAADATI
Managing Partner
FITRACOR

African trade finance literature is often trusted by SMEs and usually omits domestic financial institutional challenges, especially in the Francophone markets. Lucas Franck, CEO of Ascent Capital, said last year: "the main barrier to investing in SMEs is the lack of reliable data, whether it's company financial indicators or market data" in other words: low ticket size, informal practice and insufficient governance.

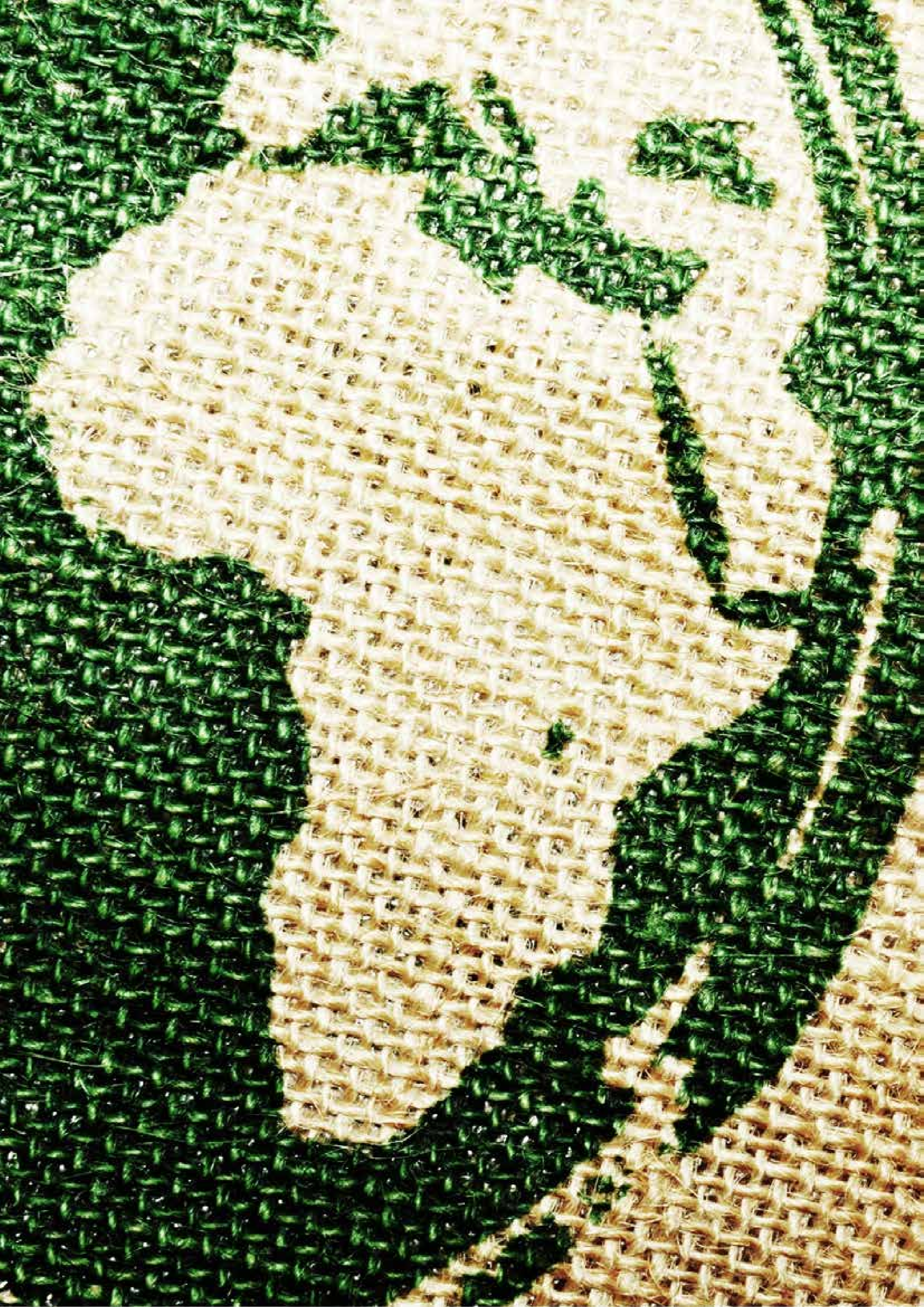
These conclusions often apply to financial institutions, which leads to reduced access to trade finance products, particularly "vanilla" trade value settlements (letters of credit and open account). Putting large banks aside, domestic players face even more constraints (i) a lack of in-depth knowledge from their existing financing partners (ii) reduced recourse to external advisory and bespoke tailor-made financing for their client base, which in turn, would increase their trade assets and optimise their consumption of fixed capital.

The increasing role of intermediaries, funds and DFIs partially aims to fulfill the gap left by sub-Saharan African financial institutions. In recent years, and perhaps more than ever, the digitalisation and move towards outsourcing for debt, hase become a significant part of the African financing ecosystem. Lack of financial capacity, long-term resources, adequate client data and letter of credit confirmation, are among the top reasons why regional financial institutions only focus on their largest importer/exporter clients. How much value could be achieved if trade loans, and risk mitigation solutions were extended market practices? Indeed, the run-of-the-mill products in commodity and trade finance still remain scarce resources for francophone financial institutions regardless of the size of the bank. In other words: we should stop focusing on big ticket wins, and look at the longer tail transactions which can help SMEs.

Deficit of industry know-how capacity

Generally speaking, trade financing in West African financial institutions focuses on LC confirmation, with international service providers few and far between. Many of those finance their trade related assets through traditional trade lending schemes without having considered and/or been granted alternatives. Hence, the domestic risk approach does not always take into consideration the full trade cycle and all the benefits designated financing would provide.

One of the consequences is the increased use of balance-sheet lending. As an example/case study, a Tier 2 bank in the UMOA zone, is partially financing a commodity exporter on an open account basis. A bespoke trade advance facility structure for the purposes of onlending to export-related commodities was



not considered, despite volumes being eligible for such a structure. On top of new money, this would have allowed the bank to benefit from a 20 percent risk weighted assets vs a range between 50-100 percent through direct lending. Increased RWA consumption leads to less credit capacity leading to a steady trade finance gap.

On the other hand, some tier 1 pan-African groups enjoy significant limits – sometimes not fully utilised. However, whenever international support is provided, it relates to the set-up of an Irrevocable Reimbursement Undertaking (IRU) issued by the HQ serving their smaller subsidiaries. Obviously, some country and credit risk remains high while such a structure helps address some of the on-the-ground trade requirements. The drawback, however, is to leave the financier sticking to the headquarter balance-sheet and losing some opportunities through missing some of the trade finance market knowledge.

ITFA recently highlighted a plausible alternative: the structured LC. This remains an unexplored territory and could bring tremendous value for banks.

Such conclusions also apply to vanilla products such as trade loans and LC refinancing. Based on our experience, many tier 2 banks in west Africa do not benefit from post-financing while their clients' trade cycle often require several months of funding post-delivery. The FC stress does not fully explain such a shortage. Indeed, several international players put in the same risk approach the LC confirmation and the refinancing as long as the full trade cycle does not exceed the 1Y basket. On the other hand, some DFIs may provide longer resources but often lack the trade finance knowledge which makes such cash use more expensive and eventually dealbreaker. Still a lack of quality information rather than a credit-risk concern.

Macro and micro governance requirements

FCI, along with Afreximbank, claims that one of the key elements to succeed in factoring in Africa are the expertise and promotion. Mauritius, Tunisia, Morocco, Egypt and South Africa put aside, Senegal remains an exception in the French-speaking region through the likes of BNDE or SENFAC, paving the way to make the product widely eligible for funds and banks. We believe such a requirement also applies to trade finance overall and must occur both at a regulatory and bank levels: (i) governance rules improvement (compliance, internal procedures, IT, reports) and perhaps more importantly the promotion of adequate structuring, such as the Afrexim Trade Finance Intermediaries (TFIs) programme. The set-up of further innovative solutions shall be backed by joint efforts of international banks, DFIs, boutiques, insurers, and brokers.

Among those, the risk mitigation just like factoring sadly almost does not exist today. For example, the Central Bank of West African Countries has set for commercial banks a RWA minimum threshold of 20% whenever an "insurance" cover is demonstrated. This, however, does not take into account the insurer's credit rating, nor does it promote the secondary market recourse by imposing a heavy 50 percent RWA on banking partners rated from A+ to A-. From a culture perspective, there might be a reluctance to let a client eventually slip through their hands and the prospect of making less money should they pursue risk-sharing agreements with peers. It's a glass half-empty rather than half-full approach; however, remains a positive first step to be fine-tuned.

We are regularly being asked whether the concern about derisking in Africa relates to the balance-sheet size of banks. In such a case, size does not matter. There would be reduced bottlenecks should some small and mid-sized banks merge but that would not address the mandatory governance improvement to reassure their correspondent banks and financiers and the need-to-know requirements. As recently heard by a reputable Head of financial investment of an African-active banking player, the solution comes from the quality information and sharing (ndlr between international lenders, domestic FIs and regulators). Still a work-in-progress.

9

DATA, STANDARDS AND TECHNOLOGY

9.1 Celebrating the TradeTech heroes of 2020

DAVID LEUNG
Visiting Adviser
BIS Innovation Hub, Hong Kong

In a year that shook the foundations of trade, these innovators rose to the challenge and helped the industry to digitalise

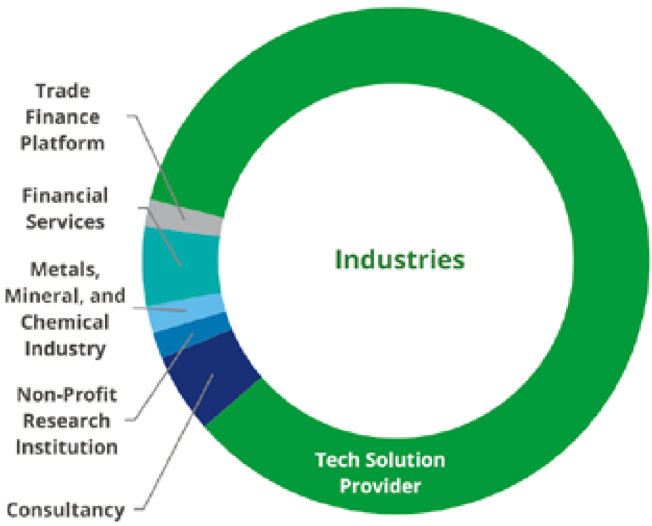
2020 might be described as both the worst of times and the best of times for trade finance. COVID-19 dealt an unprecedented blow to the global economy, with international trade and consequently trade finance bearing the brunt of the shock. However, with the pandemic making it difficult to go about our business in a traditional and established manner, we did see corporates rapidly speed up the digitalisation of trade finance.

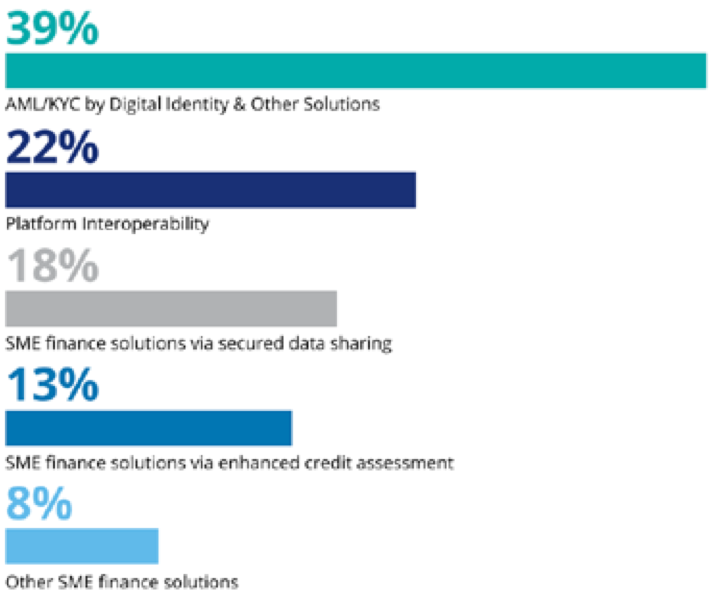
During this difficult year the Bank for International Settlement Innovation Hub (BISIH) Hong Kong Centre and the Hong Kong Monetary Authority (HKMA) joint hands to launch the TechChallenge. This initiative was intended to showcase the potential for new technologies to resolve the pain points in trade finance, we named it TradeTech. It was supported by the Asian Development Bank (ADB), the International Chamber of Commerce (ICC), the International Institute of Finance (IIF), the People's Bank of China (PBOC), and the Wolfsberg Group.

Prior to the launch of the TechChallenge, the HKMA conducted a survey, which over 120 banks responded to. More than 70% of the respondents agreed that global trade finance needs are not adequately addressed. This is consistent with the ADB findings that the global trade finance gap persistently remains at around US $1.5 trillion. The research also identified pain points (e.g., KYC/AML/CTF compliance complexity, credit risk assessments for SMEs) where technology can help. Against this backdrop, the TechChallenge participants were invited to propose tech solutions to three problem statements:

- Connecting digital islands and increasing network size and effects
- Trade finance inclusion for SMEs
- TradeTech for emerging markets

The response to the TechChallenge was impressive. We received a total of 103 solutions from 24 cities across 16 countries. These solutions came from a wide spectrum of participants, from start-ups in beta-testing stages to well-established companies with 160 years of history. In order to appraise these solutions, we invited a panel of judges who are trade finance experts from our partnering organisations, as well as leading practitioners and scholars in trade finance. Their judgment was based on six publicly announced criteria: (1) relevance, clarity, and depth (2) functionality and feasibility (3) market potential and viability (4) public good (5) impact and (6) innovation and creativity. The 17 awardees were announced in November, with their solutions showcased during the annual





Total 103 solutions to address 3 problem statements
From start-ups in beta-testing stage to companies with 160 years of history
Submissions and enquiries from total 24 cities across 16 countries

Hong Kong Fintech Week. Essentially, the solutions proposed by the TechChallenge awardees can be grouped into two broad categories. The first category deals with pain points in specific segments of the trade finance process such as credit risk profiling, KYC/AML, and metadata. For example, Business Big Data and WeBank proposed using alternative data to assess credit risks of corporates. This data, such as logistics and related party data, are relevant indicators to the creditworthiness of corporates alongside more traditional financial statements. Furthermore, they run federated learning models to analyse distributed data. The beauty of these models is that data owners do not need to share their data with a third party, thereby allaying concerns about data confidentiality. In addition, Standard Chartered Bank and HKU-SCF Fintech Academy proposed a TradePro machine-learning model based on performance track records. As such, financing can be offered to smaller suppliers with low credit grades but high-performance track records.

Another pain point in trade finance is the costly process of onboarding for banks or other financial institutions, which discourage these institutions from extending credits to SMEs. In order to relieve this, a number of companies, such as KYC-Chain, EMALI.CO and Sedicci, proposed corporate digital identity solutions. These solutions could improve the efficiency of the KYC process by reducing paper-heavy operations and streamlining duplicated procedures. This would therefore enhance the corporate onboarding process. In regards to the related issue of metadata, essDOCs proposed a platform that would digitise and automate paper-heavy trade operations, financing, and logistics processes. Besides, HashKey Digital Asset Group proposed an open-source code toolkit to improve the usability of open data standards for digital trade documentation.

The second broad category of solutions take a macro view and deal with ecosystem connectivity instead of specific pain points within a single ecosystem. The central aim is to increase interoperability amongst trade finance platforms so that network size and effects can be maximised. In fact, the failure of many platforms to attract traffic flows and accomplish a critical mass of users is often attributable to incomplete digitalisation. Without end-to-end digitalisation, it is hard to incentivise companies to join the platform. To this effect, PwC proposed a solution to address the last mile connectivity gap between corporate ERP systems and other trade finance platforms.

Refinitiv, which since has become part of the London Stock Exchange Group, seeks to build an ecosystem that

103 solutions | **3 problem statements** | **160 years of history** | **24 cities** | **16 countries**

29%
answered to
Problem Statement 1:
Connecting Digital Islands and Increasing Network Size and Effects

49%
answered to
Problem Statement 2:
Trade Finance Inclusion for SMEs

22%
answered to
Problem Statement 3:
TradeTech for Emerging Markets

enables corporate receivables to become more liquid and funding to become more accessible for MSMEs across Asia. FreightAmigo proposes a one-stop supply chain finance platform that connects global shippers and logistics suppliers with financial institutions. The platform Velotrade seeks to match Asian exporters with institutional investors that have excess liquidity.

In summary, these solutions illustrate that TradeTech has boundless potential to eliminate the inefficiencies prevalent in today's trade finance sphere. The momentum of digitalising trade finance will definitely not stop with 2020 drawing to a close. Looking ahead, we believe the TechChallenge awardees will carry forward their creativity, aspirations, and efforts into 2021. Further development of their proposals and new prototypes are expected in the months ahead.

9.2

Smoother sailing: connecting the dots between shipping and trade finance

SIMON RING
Global Head of Financial Markets Compliance
Pole Star

How effective technology and financing can bring international shipping into the twenty-first century

With the shipping industry operating on razor-thin profit margins and tight schedules, sound working capital management is essential for businesses to survive, but also thrive. Since March 2020, the COVID-19 pandemic has shone a light not only on the critical nature of the industry in delivering essential goods globally, but also on the multitude of issues facing those involved in maritime trade. Most pressing of these is the substantial lack of trade finance and working capital programmes tailored to meet the industry's needs. This leaves even the world's strongest performing companies without readily available and easily manageable financing options.

Unfortunately for the shipping industry, the shift to working remotely has had a major impact on many banks' documentary trade at a time when access to capital is more important than ever. This has only served to highlight the need for digitised trade and compliance processes that allow banks and their clients to operate in a paperless world.

Troubled waters for the global supply chain

For years, the shipping industry's reliance on paper-based documentation and processes has been the cause of inefficiency. Each and every manual data entry site presents a point of failure, causing shipment delays which can last for days. The use of physical documentation has also resulted in a slew of human errors, duplications, and the enablement of fraud, feeding the vicious cycle of high costs and high risks for all involved.

Moreover, supply chains are now feeling the economic impact of the pandemic, with banks reducing risk exposure within shipping and becoming less willing to extend credit. Consequently, there is now an immediate and compelling need for the financial services industry to support shipping companies through trade and working capital finance programmes, allowing participants to access and manage the necessary liquidity to keep supply chains moving.

Shining a spotlight on maritime-specific financing issues

In the current climate, we are seeing a lot of treasury departments looking at how to optimise cash flows by working with suppliers to extend payment terms. The challenge is that without feasible costing and highly accessible credit solutions that work for both finance and operations teams, many in the industry have few options available to them.

Responsible for moving 90 percent of world trade, shipping has always been plagued with high associated costs and a complex chain of documentation. Added to the mix is the global pandemic wreaking havoc on supply chains, from production bottlenecks, to an extreme strain on global ports due to staff illness and quarantining.

"Responsible for moving 90% of world trade, shipping has always been plagued with high associated costs and a complex chain of documentation"

In the current fiscal climate, we are seeing a reduction in credit facilities and an increase in terms, including payment on delivery, spurred on by rising risk aversion, causing a domino effect within the maritime industry and its associated supply chains. The subsequent reduced trade volumes and activities are in turn reinforcing the existing liquidity challenges, with key players facing short repayment terms, upfront payments between ship operators and service providers, and the risk of non-payment for service provision.

Industry initiatives

In January 2020, Pole Star partnered with global trade finance technology provider TradeIX, to bring its multi-award winning PurpleTRAC regulatory technologies to the Marco Polo Network.

By providing PurpleTRAC as part of an 'off-the-shelf' solution for canal transit, high value port call, and bunker fuel financing programmes, Marco Polo provides all parties with a best in class compliance tool-kit, enabling the incorporation of compliance and reporting requirements into programme workflows, and the easy management and reporting of activities moving forwards.

By leveraging their vessel tracking service as a dedicated component in these workflows, we now have a solution offering operational visibility for financial institutions. This provides enormous efficiency gains for shipping companies' operations teams, saving them 4-6 hours per port call by using automated location confirmation.

The partnership provides the Marco Polo Network's member banks, their corporate clients, and the extended trade ecosystem with a fully automated vessel sanctions screening solution, allowing organisations to increase the capacity and velocity of their transactions, whilst facilitating rapid decision-making.

Marine fuel financing

With up to 70 percent of their outgoings going to marine fuels, bunker fuel purchases constitute the largest operating expense for any ship owner or operator. Marco Polo Payment Commitment provides organisations with a new transaction management platform and trade settlement instrument that simplifies operational processes.

By leveraging Payment Commitment to manage bunker fuel transactions, all parties are able to input and match required data across all key events in a transaction, based on predefined rules, automated event triggers, and made visible in real-time. Moreover, as a settlement instrument, this allows fuel suppliers to create programmes where risk can be transferred from buyers to buyers' banks, allowing them to extend much needed credit to current and new buyers, and in turn gaining competitive advantage.

With few financing options currently working well for both buyers and suppliers, this allows both to access new working capital programmes tailored to their unique transaction requirements; providing buyers with the ability to extend payment terms and suppliers with early payments from buyers' banks. Additionally, banks can more easily and cost-effectively operationalise these programmes due to the efficiencies afforded them. The payment commitment programme also affects other areas within the maritime domain, including port services disbursement account financing, and canal toll fee financing.

The next digital wave

This year has the potential to mark the end for paper-based processes within the maritime and trade financing industries. Undoubtedly, at some point we will face a global crisis similar to the one currently unravelling and, as such, we require more than just a temporary fix. By moving to digitised processes, with access to faster, cheaper, and more efficient payment solutions, the industry will be future-proofed to better withstand shocks down the line. ■

9.3

Model Law: finding solutions to forward thinking legislation

GUNNAR COLLIN
Head of Sales and Marketing
ENIGIO

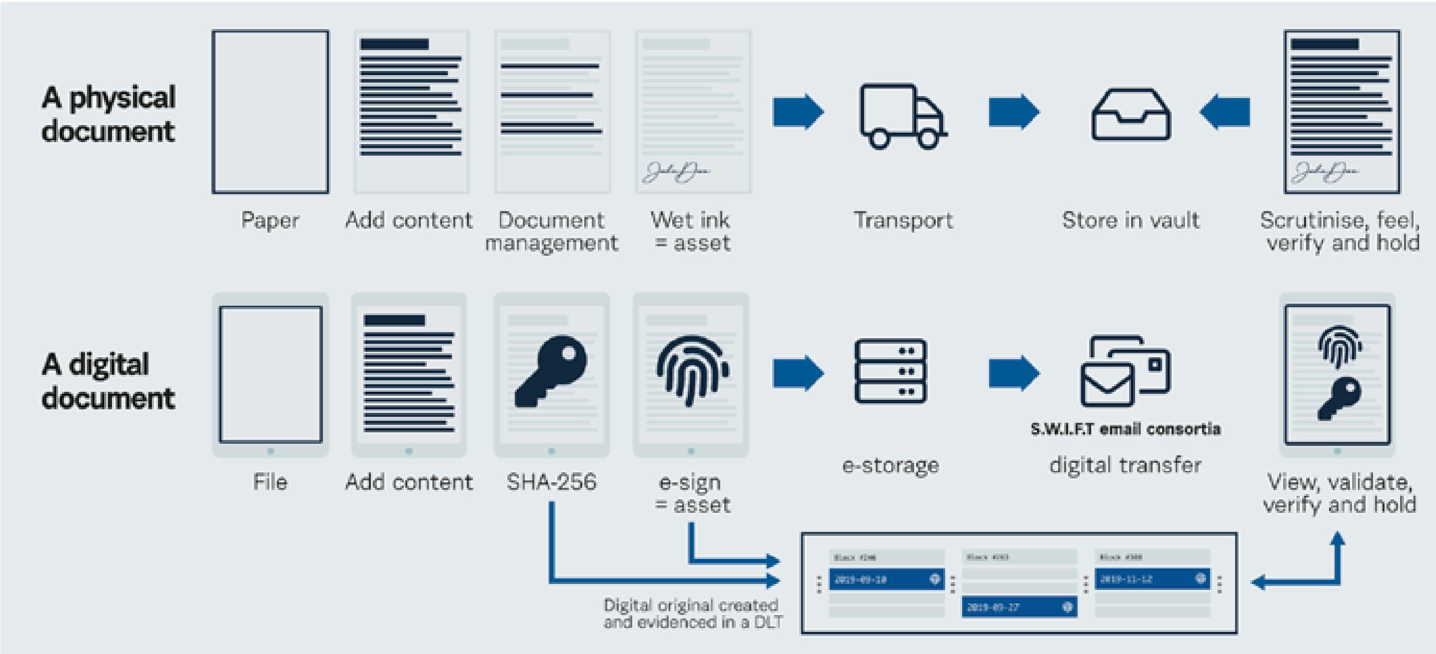
MLETER demands both verification and data privacy, trace:original may offer the answer.

Legislators across the globe have long debated how to create and implement a sustainable framework to facilitate the use of digital original documents as negotiable instruments in international trade. The UNCITRAL Model Law on Electronic Transferable Records (MLETR) provides a workable framework for such legislation, but there's still a long road ahead.

Enigio is at the forefront of digital document technology. It is now clear that with the trace:original, a technical and practical solution exists to create true digital original documents.

If a technical solution meets the requirements laid out in MLETR, commonly called Model Law, it can call itself a legitimate instrument. The Model Law sets out the criteria to determine what exactly constitutes a functional equivalent to a physical document. In short, where Enigio provides a practical solution, the Model Law provides a framework which has the potential to achieve international acceptance.

The MLETR framework aims to reduce friction in international trade by promoting digitalisation, and at the same time making clear the rights, responsibilities and obligations of all parties associated with the negotiable instrument. This goal is emphatically shared by Enigio.



Key MLETR requirements

The guiding principle for the MLETR is a functional equivalence. Let's first start by highlighting some key provisions regarding which instruments achieve functional equivalence reliably:

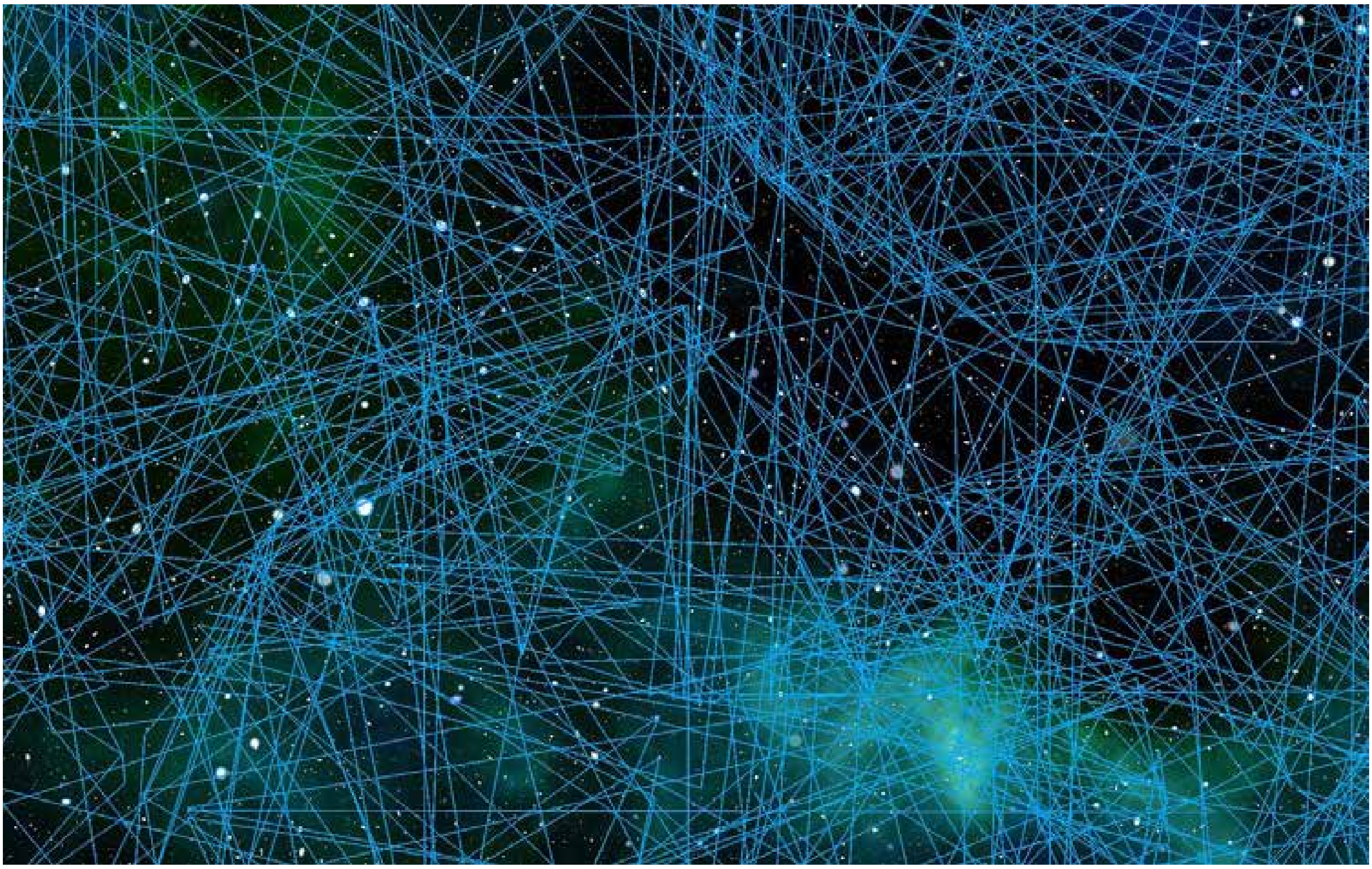
Model Law equates 'accessible information data' to 'writing' and a 'reliable means of electronically identifying a person's identity and intentions' to 'wet-ink' signatures. Although many jurisdictions around the world already accept electronic data in place of information and signatures on paper documents, this would effectively guarantee it with respect to negotiable payment instruments and documents of title. It also leaves the precise method up to the designer, making signatures and information accessibility technology agnostic.

It sets out the requirements for transferable documents or instruments to be recognised as an Electronic Transferable Record (ETR). Three key elements must be present on a reliable basis: (1) a method of identifying the record as the ETR, (2) a method of rendering the record under exclusive control until it ceases to have an effect, and (3) retention of integrity of the information (and signatures) within. In other words, any technical solution must reliably achieve exclusive control over a singular document and maintain its integrity throughout the instrument's full life cycle.

The Model Law also provides specifics relating to the requirement of possession by way of exclusive control of an ETR. If a reliable method is used to establish control and to identify who has control, the ETR is as much in 'possession' as the physical document would have been. This, in tandem with the singularity requirement, makes the ETR a digital 'original', although the use of the term 'original' is deliberately bypassed.

Finally, in Article 12, the Model Law provides a reliable standard by which any solution would be judged. The list of aspects provided is non-exhaustive and provides guidelines both for courts/arbiters and for designers of any solution aiming to comply.

While the remaining provisions are also important, these sufficiently illustrate the regulatory framework provided, focusing on functional equivalence while leaving substantive national legislation for the relevant instruments intact.



trace:original as a Model Law compliant solution

Returning to trace:original, the technology is perfectly aligned with the guiding requirements laid out in the Model Law:

It is signature and information agnostic, allowing the user to create instruments in accordance with national legislation and use acceptable electronic signatures. It is also uniquely identified by cryptographic hashes, published on a blockchain, which also guarantees that the document remains unaltered. This also means the integrity is maintained, without the need of publishing personal data or business information on a blockchain.

The person in sole control of a trace:original document is the holder of the corresponding private key, with the public key published on a blockchain to allow ownership to be securely verified. Not only is ownership exclusive, it provides confidence to any transferee. This exclusive control is also freely transferable, with no requirements besides access to a computer and connection to the internet. Full document portability is a key feature of negotiable instruments and documents of title in international trade.

In essence, the required aspects of an ETR are achieved while maintaining a reliable standard for each component, leaving trace:original as the perfect document technology for the creation and maintenance of digital negotiable payment instruments and documents of title.

trace:original and other important aspects

There are many other important aspects to consider when dealing with electronic transferable original documents:

- **Verifiability:** Third parties may need to be confident of the integrity of the document or of the identity of its holder, trace:original meets all of these needs. Furthermore, the ability to verify that any copy of the original that is presented as evidence throughout the course of a transaction is identical to the current legally valid digital original, as well as being able to produce such a copy, is also easily done with trace:original. If the verification is done while also being the owner of and presenting a private key, with evidence of corresponding public key published as the owner key on the blockchain, the returning result would be that the ETR is the original and the owner is then able to manage the record according to allowed operations.

- **Data privacy:** Certain contracts such as those between banks and their customers, will often contain duties of confidentiality. In some jurisdictions these duties are implied by law even if the contract itself is silent. In addition, the holding and processing of personal data in electronic form is subject to regulation in many jurisdictions, like the GDPR in the European Union. This protection may include a "right to be forgotten", i.e., a right to have one's data purged from an electronic system where it is stored. Thus, there may be data included in the digital document which an entity may not be permitted to disclose publicly. These obligations are fully catered for with trace:original, as any business or personal information is only stored in the digital original document and nowhere else.

- **Procedural formalities:** These are important for any negotiable instrument or document of title, as the documents may come to be challenged by the stated obligor or performer. A trace:original document can be presented in accordance with procedural formalities at any enforcement agency or court. For the rare cases where digital evidence is not accepted, trace:original can also fulfil those requirements by transferring the trace:original on to a tangible object (e.g. USB devices) containing the enforceable record. In doing so the original digital document is housed in a technological device which is compatible with all computer systems and can be delivered physically.

The Model Law was very forward-thinking when it was introduced, leaving the designers of technology that supports functionally equivalent records the freedom to achieve legitimacy in different ways. The key guiding principles of functional equivalence are visible in the framework, as well as in the construction of trace:original, which is able to function within existing infrastructures and without disrupting substantive law – the perfect fit for which the time has come. ■

9.4

Leveraging credible data to monitor sustainable trade and finance

MATHIEU LAMOLLE
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International Trade Centre

Comprehensive and accessible data can empower stakeholders when it comes to going green

International trade and finance has become increasingly complex, with production of goods and services scattered over continents, with regulations interwoven across regions. While globalisation may lead to economic growth and job creation, it can also be linked to issues of environmental degradation and social inequality. Adding to this intricacy is the fact that multiple stakeholders whether businesses, governments, consumers, civil society, or financial institutions all influence international trade and finance. Access to credible data is an essential asset, more so now than ever, for those private and public parties that want to support and monitor sustainable trade and investments.

Traditional and conventional business models build return on investment projections, cost-benefit analyses, profit maximisation, and cost reductions. Sustainable business models bring additional dimensions into the picture. Multiple tools and initiatives have emerged in the context of sustainable trade and investments: voluntary sustainability standards and certifications, international conventions and due diligence frameworks, corporate social responsibility codes of conduct, audit protocols, and corporate reporting to name a few.

Each sustainability initiative offers a certain means of monitoring social and environmental impacts and risks, while providing some level of assurance within its scope and focus, from raw production, processing and manufacturing to retailing, consumption, reuse, and recycling.

The United Nations International Trade Centre (ITC) has developed an online global platform that centralises such credible data and comparable information on the most relevant sustainability initiatives, standards, codes of conduct, and audit protocols. This platform is called Sustainability Map. It offers customised filters to navigate the landscape of standards, identify relevant ones per country, sector or sustainability focus, and perform analyses and comparisons.

As global trade and finance sectors have evolved over the past 20 years, so have the expectations of stakeholders, which brings back the question on credible data on which decisions can be made that support sustainable trade and investments. Nowadays, we expect supply chains to be efficient, traceable, and sustainable. Capabilities to satisfy these expectations have also evolved over time, and the most recent trends indicate an emergence of new technological tools to monitor the sustainability of supply chains. Supply chains are being digitalised more and more through mobile and internet technologies. Artificial intelligence (AI), internet of things (IoT) and block-chain technologies are increasingly used by procurement professionals and investors to track sustainability at each stage of the supply chain.

> "As global trade and finance sectors have evolved over the past 20 years, so have the expectations of stakeholders"

Building on the transformation of global value chains, the financial sector has been increasingly looking into the field of sustainability. Today there are more financiers providing what are called "sustainable finance products". Sustainable finance refers to any form of financial service integrating environmental, social and governance (ESG) criteria into the business or investment decisions for the benefits of both clients and society. The power of sustainable finance is, firstly, that it places a price on risks related to sustainability issues; secondly, that investors can influence corporations in which they invest to apply more sustainable business practices. Therefore, sustainable finance has become a strong incentive for companies to implement more sustainable business practices.

In some countries, central banks also take an active role in enhancing sustainable finance. For example, in 2019 the Bank of Ghana published the Sustainable Banking Principles and urged banks to implement environmental and social risk management policies on projects financed by banks. Commercial banks are also beginning to adjust their lending policies in order to stimulate sustainable companies by giving discounts on loans for sustainable projects.

In view of these recent trends and needs, the Sustainability Map facilitates both traders and investors' journeys in making sense of sustainability initiatives at their own levels. From SMEs to large multinational trading corporations or investment groups, there is the relevant information and features in the Sustainability Map to enable users to track their sustainability journey and to discover new business or investment opportunities.

International trade and finance impacts millions of people and businesses around the world, both in developed countries and emerging markets. However, with rising issues around environmental degradation, climate change, devastating working conditions and income inequality, concerns have emerged, namely whether businesses and investors respect ethical, labour, and environmental norms – and how these can be monitored and guaranteed. Practical tools such as the Sustainability Map, developed and housed at the United Nations ITC can make a big difference and enhance the level of assurance of sustainability for international trade and finance. ■

9.5

Trialling digital letters of credit

HARRI RANTANEN
Business Developer
SEB

PIRKKA FROSTI
CEO
Digital Living International

How to make a millennia-old concept suitable for our ever more digital society

"To share or not to share?" A question those in our industry are all too familiar with when it comes to corporate data exchange in an environment where private individuals are covered by extensive data protection regulation. Business incentives for corporate data sharing are obvious in the new digital platform-based ecosystems, yet technology, methodology, standards, market practices, and rules for it have not so far been able to tackle the corporate doubts to commit to data sharing. The data is already in the corporate enterprise systems, yet is stuck in silos where it cannot be put to use in real time without human intervention and a tonne of manual work. Instead global trade still uses billions of paper documents, which circulate the globe every year.

The experiment

In response to this, we have built a Proof of Concept (PoC) for secure and digitally consensual data sharing around one of the most traditional transaction banking use cases: Export Letters of Credit (LC). Risk mitigation is a centuries old practice, with these financial instruments dating back to the early origins of global trade. They ensure payment from buyer (importer) to seller (exporter) when all the goods or services with their respective business and delivery documentation have been passed over. Banks are involved to cover business, country, and counterparty risks by issuing the LC for the buyer and advising the seller, and taking on the risk. Depending on the business transaction, the LC process can be also very complex, though it remains largely paper-based, and is manually processed by all parties in the Value Network, or Nexus, as we call it.

An LC is a use where the introduction of the tools of secure corporate data exchange would be beneficial. The structured data even has meaning, when it is described in W3C Web Semantics Ontologies, where each data set and its component is available with its usage purpose, giving meaning to the data and ensuring its interoperability with modern information management tools for both humans and machines alike.

The goals of the experiment

In upcoming years, global trade is expected to digitalise so that the various resources in supply chains and ready-made products and services sales will be based on electronic and standardised data sets exchanged securely within the stakeholder ecosystem on various platforms. This will enable each global trade party to choose the most fitting (functionally, geographically, economically) way of trading their goods and services globally.

Also, market practice rules, regulations, and jurisdictions will allow the use of digitally exchanged data instead of, or in parallel, with paper documents as legally binding trade attributes. When ecosystem parties will be digitally identified together with the traded goods and services and the data exchange security is ensured with human or system given automated consents, the risks mitigation tools needed now (delivery, financing, and payment) will no longer be relevant. Payments will be automated with the electronic data set triggering smart contracts for delivered goods and services and need for human interruptions being minimised.

In this experiment with the Export LC use case we aimed to show with limited scope of the process at the advising bank, SEB, and exporter, Wärtsilä, how the critical first baby steps are taken in a functional way using existing Sitra IHAN testbed contextual data sharing and consent features with standardised data products provided by Digital Living International and Nixu. With the PoC results we will pave the way for further developments where each of the PoC participants will be able to expand the use case portfolio into their own needs, and digitalise the exchange of information within their value networks.

Achievements

After a successful experiment we were able to promote a technical, functional, and open standard toolset, supported by a template for data exchange, for common use to solve the worst corporate data sharing pain points. It can be applied to any scope expansion of the trade finance domain, or even on any other corporate structured information data exchange from two to indefinite number of corporate counterparties or platforms securely, using digitally assigned consent. We were able to showcase with two real-life export LCs between Wärtsilä and SEB that the current paper/PDF document exchange can be replaced by standardised and productised web semantics ontology application programming interfaces (APIs). The APIs enable the use of structured trade finance instruments and processed datasets with clearly and securely assigned access rights from the data owner for the data user alone. No data is stored at the Testbed's API registration platform but it also acts as the link repository and access right controller for the data access. No copies of the data sets will be left on the platform minimising any misuse capabilities as the data resides in the same system. All the data exchange is done promoting open web standards and the existing TCP/IP-based decentralised architectures.

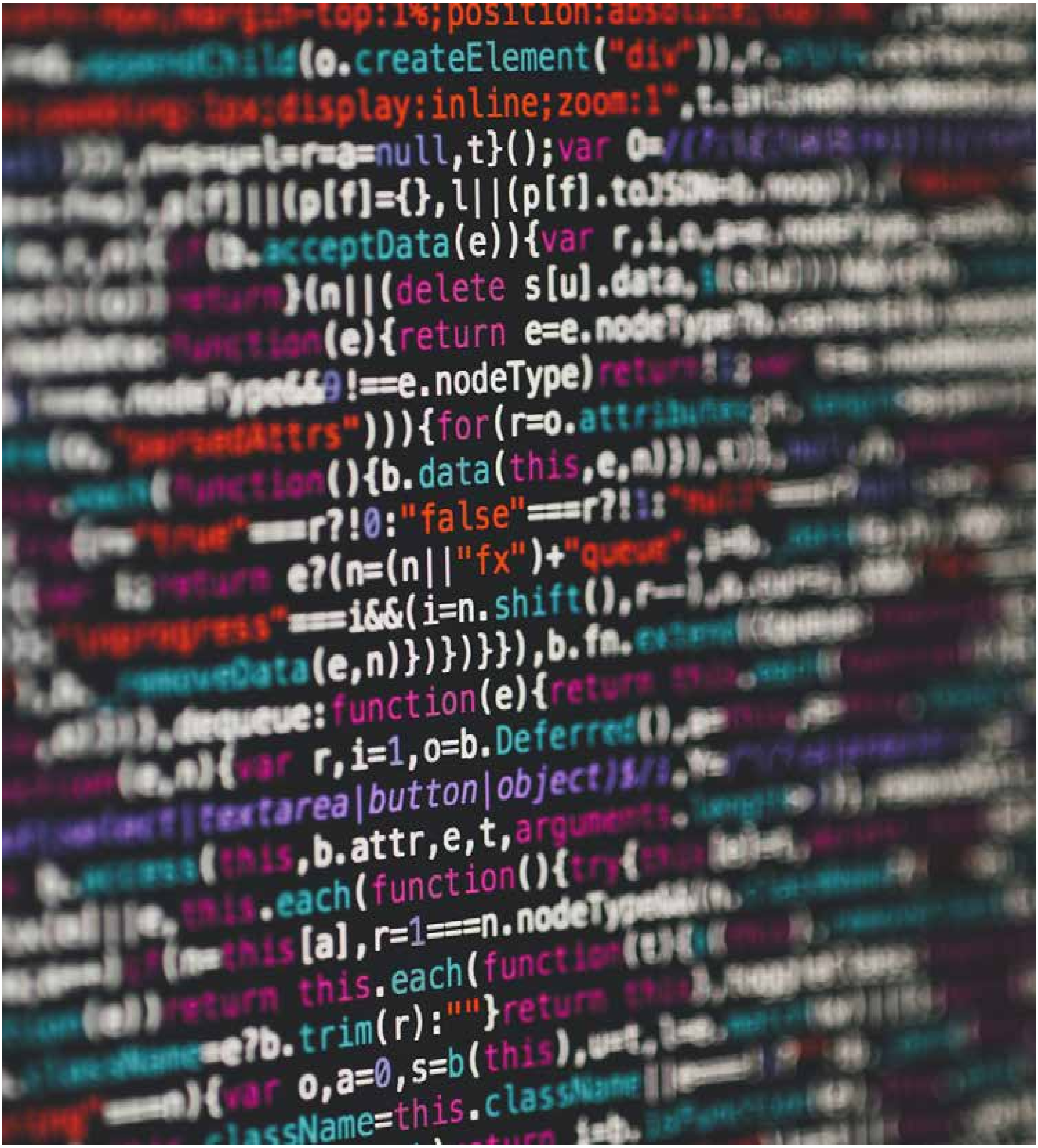
Dataset descriptions were designed as JavaScript Object Notation (JSON) payloads having also standard semantics descriptions in JSON-LD (Linked Data) to link the datasets to any of the many available trade finance data standards. Expansion to supply chains and logistics increase the challenge of chosen standards and data object artefacts, but the proof of concept enables this expansion of the datasets easily for various global trade domain needs.

Standardised data sets were productised on the data sharing network, based on the initial data modelling work made to extract the generic data from the original paper documents. The advising bank SWIFT instruction data towards the exporter, and the actual presented L/C documents from insurance certificates to forwarder's cargo receipts, were made available using a component called a productiser. Capable of turning any existing online API into a productised data source on the network, the productisers also make sure that any data provider, such as the exporter, can remain in full control of their specific L/C case data and the individual data products, they choose to share.

The otherwise decentralised network created on the Testbed consisted of the necessary interoperable central component, called a product gateway, capable of providing the data discovery and linking between the data sources and applications on the network. In order to secure the data exchange with a real-world trust, a multi tier digital authentication solution called SisuID was used to enrol and authenticate the people behind the companies. HTML5 based interoperable user interfaces were created both for SEB and Wärtsilä, capable of demonstrating the real time consented data exchange between the APIs, that in the target state would not need any human intervention provided that everything followed the preset rules between the machines.

Moving forward

As the trade finance domain is now pushing a global digital transformation by its stakeholders, the toolset created and tested in this experiment is an open invitation for its use. There will be plenty of opportunities from interested parties to use it in other experimentations. For example, the Digital Trade Standards Initiative (DSI) by International Chamber of Commerce (ICC) could use the toolset to test in practice how the new harmonised standards within trade finance could work. Various new trade finance platforms like Contour, Marco Polo, and we.trade will also need to connect their end-users into the platforms as well to migrate platforms together for extended instrument use cases to meet end user needs. The participants of the PoC are currently considering their own possible use cases for the toolset as commercial Minimum Viable Products. All good use ideas by interested parties are welcome.



9.6

Enabling automated processes in credit risk

ROBERT METERS
Head of Financial Services and Global Business
SCHUMANN

The most important IT investments of companies, banks, and financial institutions are in collaboration with business partners, digital transformation, big data, and analytics, as well as artificial intelligence and machine learning. This places their joint digital processes in focus.

So let us take a look at the core processes in global trade finance. Players in supply chains want to use modern digital networks to transform traditional processes and integrate financing and risk hedging into digital, fast, and transparent processes. Credit granting is part of such processes.

Credit granting is found with corporates, banks, and financial institutions and requires sufficient up-to-date data in credit risk assessment and credit limit decisions. Data inventories that provide indications of default risks are therefore of paramount importance. Nevertheless, collaboration of the best data service providers are the foundation for a successful credit risk based automated straight through process for credit limit decisions and risk monitoring. Claims to use big data and modern methods of artificial intelligence and machine learning as well as data analytics often cannot be met adequately with only their own data and methods.

A digital transformation is therefore not only relevant to internal technical solutions for the improvement of in-house processes, but also in cooperation with business partners like credit rating agencies, trade credit insurances and ECAs. Sophisticated measurements of default risks and risk hedging with trade credit insurances and ECAs reduce potential defaults. The procedure of cooperation with these business partners can lead to a higher benefit than the generation of results from the respective developments of non-experts.

Digital and automated processes relieve people in credit risk management of tedious and time-consuming routine work, which a machine can do very well. This relief gives our specialists in risk analysis and decision-making processes more time to make better use of their skills. The IT support leads to a modern implementation of management by exception in risk analysis and credit limit decisions.

Integrated processes

IT solutions for credit risk management and credit limit decisions should enable process integration with data providers.

The need to implement fast and integrated processes requires a modern implementation of enterprise integration layer connections to internal administration systems as well as application programming interfaces (APIs) to business partners. Process chains are controlled and interlinked on the basis of triggers and parameters. A deep understanding of the processes by all business partners is a crucial prerequisite for superior processes with excellent results.

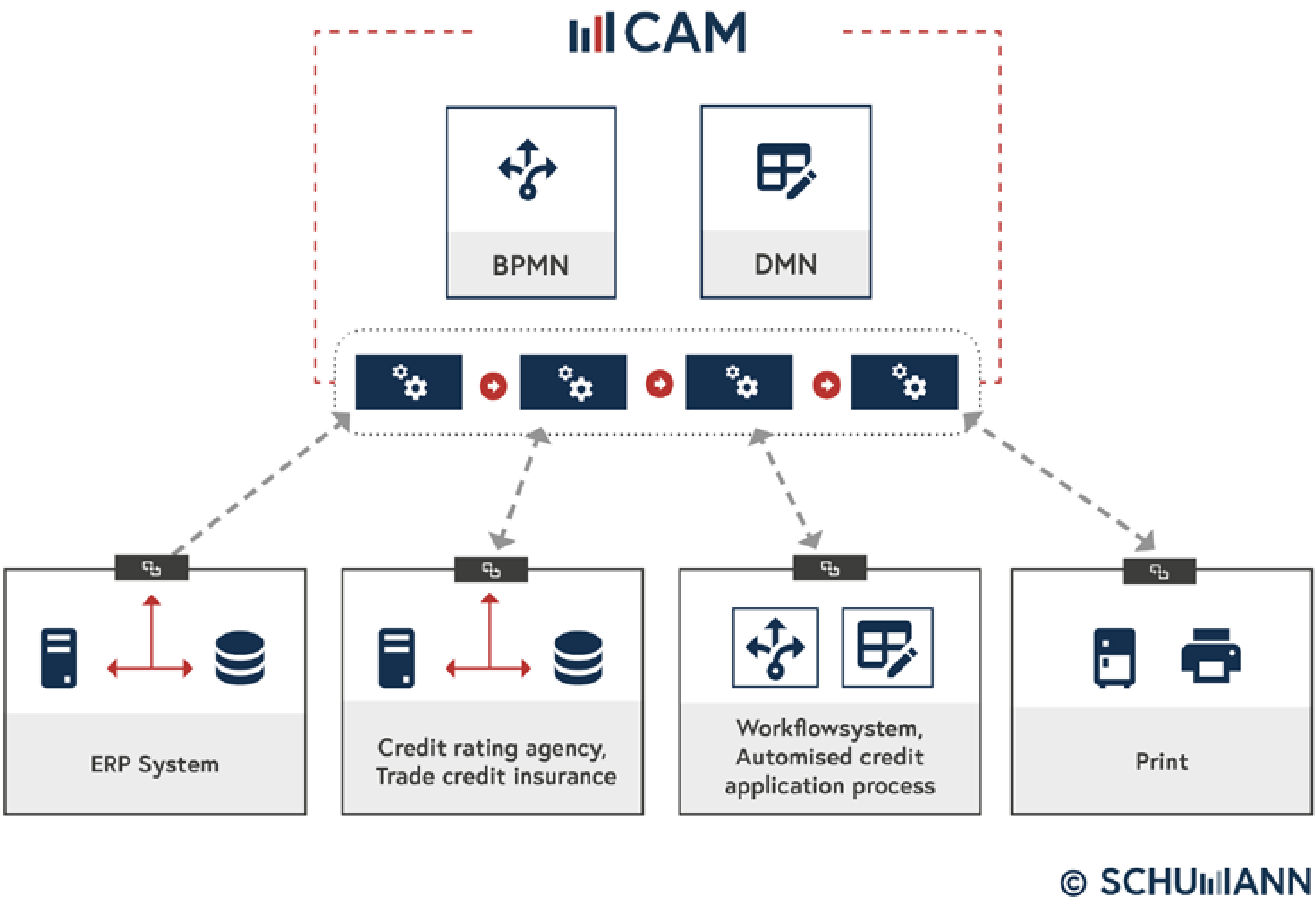
A technically supported straight-through process in banks and financial institutions begins with the customer e.g. in an online portal. This is where access to credit granting processes is initiated. Onboarding procedures can be streamlined by technically integrating master data checks, KYC (AML/CTF) and fraud protection processes as well as by automatically evaluating credit application data.

Experience shows that standard software solutions with the capability to easily configure and adjust processes according to the credit policy and regulations meet business requirements best. Modern workflow management and flexible decision-making machines (Business Process Model Notation BPMN and Decision Model and Notation DMN engines) support superior systems of market leaders. Especially in times of crisis, it is important to adjust own credit risk policy and immediately set up the processes accordingly. Example: SCHUMANN CAM Software

Data analytics

Data analytics require sufficient data sources for specific workflows and decisions. Own databases, such as results of the financial data analysis or payment experiences related to credit customers, as well as data from credit rating agencies and trade credit insurances must be made available automatically at the time of the required use. API gateway technologies can allocate access to the best data source.

Artificial Intelligence is used by data providers such as credit rating agencies and trade credit insurances but also by other sources for KYC (AML/CTF) or fraud detection. The users of credit risk management



solutions and credit limit decision machines can directly use the valuable information from these partners. In addition, scientific scoring methods can be applied for data analysis on own databases related to customers, such as payment experiences, balance sheet analysis, liquidity forecasts, and portfolio risk analysis to complete comprehensive analytics.

Best possible technical process integration of credit risk analysis and hedging through insurance requires a deep knowledge of scoring and AI methods for determining rating values and default probabilities of data suppliers. Credit rating agencies and credit insurers/ECA in particular have a large amount of relevant data at their disposal, which is a necessary prerequisite for the scientifically correct methods used. The combination of the analysis results with the data analyses of corporates, banks, and financial institutions allows clear distinctions to be made between buyers with strong credit ratings and those at risk of default or insolvency.

“Business partners will become closer through digital connections and process chain integration with partner systems”

In export financing, SCHUMANN has unique financial data analysis procedures recognised by credit insurers/ECAs such as Euler Hermes, which are used to support financing decisions. These are particularly advantageous in portal solutions for export credit financing, as processes can be handled digitally, faster and with their quality assured.

Scalability of Global Trade Finance

The potential of the straight-through processes in supply chains is evident from a scalability of the business perspective. IT-supported processes and automation allows fast limit decisions which are both compliant with rules, and reliable. Therefore, workflow and decision engines and IT-supported approval processes can be used to gain market leadership. Entering new market segments, such as SME, require particularly automated and efficient processes to ensure best customer experiences with low costs for each risk and limit decision.

Consequently, business partners will become closer through digital connections and process chain integration with partner systems. Business volumes can be controlled much better in digital and automated business partner networks, independent of time and personnel restrictions. In the international export business digital platforms support the transparency of process steps for each partner in the supply chain, financing, and risk hedging, e.g. through ECA.

The future assessment is that technological business partner networks with digital connectivity and portal technology are the key driver of growth in global trade. Standardisation initiatives such as the ICC Digital Trade Standards Initiative (DSI) will facilitate technical interoperability in business partner networks and portals and therefore lead in the same direction of supporting innovative digitalisation for global business. ■

10

EXPORT, INSURANCE AND LONG TERM FINANCE

10.1

The role of export credit agencies in post-pandemic recovery

DIANA SMALLRIDGE
President & CEO
International Financial Consulting Ltd.

As we begin to imagine what a "new normal" may look like, ECAs will need to remember their role as catalysts for global recovery

Established by national governments, Export Credit Agencies (ECAs) have broad mandates to serve their countries' trade agenda. There have been two periods in the world of ECAs: those established before the 1990s, and those established after. The pre-1990s ECAs were mostly found in industrialised, set up post World War Two, with the mandates to support their countries' exports into new markets. The newer ECAs which have come into being in more recent times, have had broader mandates to support both exports and imports. Many, especially in Asia, also have both insurance and lending operations.

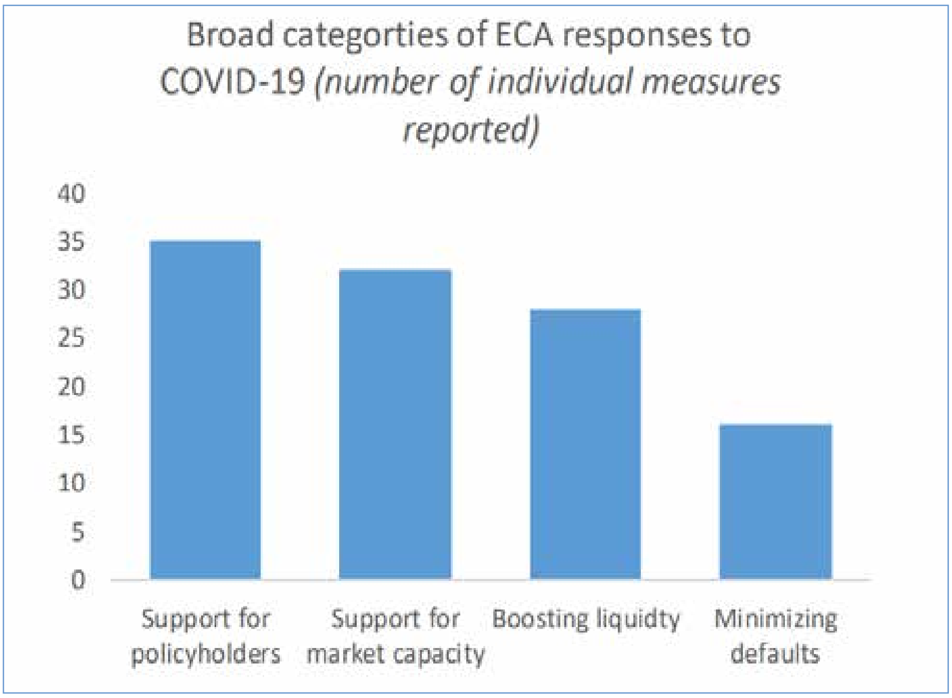
Even under normal economic circumstances, ECAs have an important and active role in the economy. The International Association of Credit and Investment Insurers (known as the 'Berne Union') reports that their members provide cover for USD $2.5 trillion in exports annually, which is nearly 3 percent of the USD $87.77 trillion global GDP reported in 2019.

During economic crises, as countercyclical actors, ECAs are tapped by their governments as critical policy instruments to bring support and facilitate recovery.

This global pandemic is not ECAs' first time being exposed to this kind of economic environment where they have been specifically mandated to play a supporting role. What has been the nature of their interventions in economic crises and then recovery? There are several patterns to discern over the past three decades:

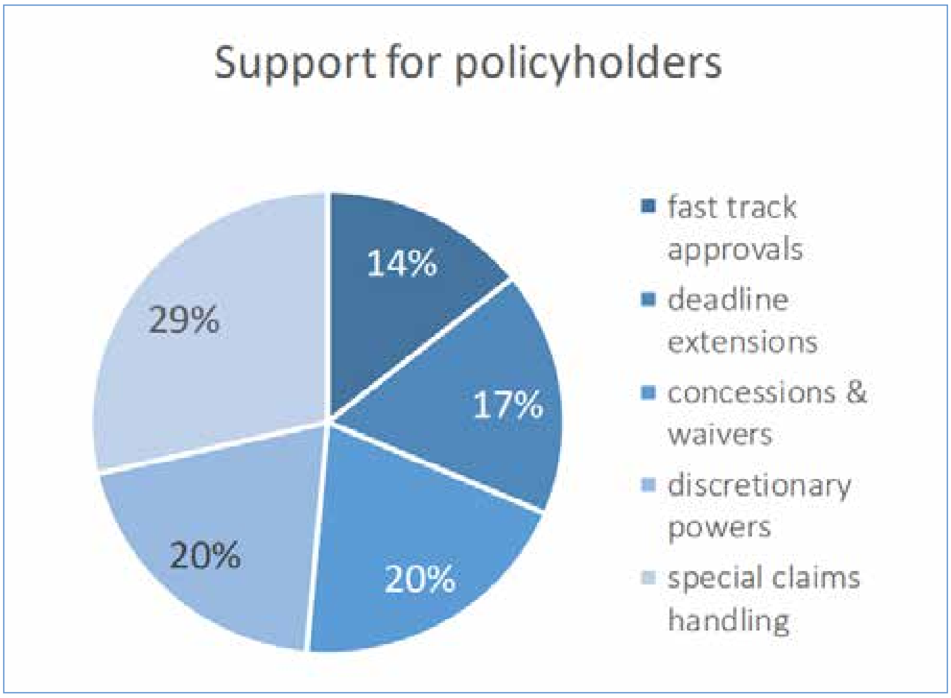
- As a capital provider: during this current global pandemic, some ECAs have been tasked to provide a readily available channel for firms to access capital.
- As a market gap filler: during the Global Financial Crisis of 2008-09, ECAs stepped in as the private sector sources of risk capacity and financing retrenched
- As a market signaller: during the Asian crisis of the late 1990s, ECAs extended lines of credit to Asia governments, offering important signals to the market as a demonstration effect

Since appearing in March last year, the COVID-19 pandemic has had significant economic



Credits: Berne Union

implications to both international trade and domestic commerce, affecting nearly all economic actors. In response to the COVID-19 pandemic, ECAs around the world have not been hesitant to adapt their products and introduce new tools to help mitigate the economic fallout caused by COVID-19. Most ECAs have increased their flexibility and relaxed terms for policyholders, increased the timeliness on approvals and claims processing, expanded their risk appetite, and made concessions through waivers or flexibility on fees and premium payments. To avoid a liquidity crisis becoming a solvency crisis, many ECAs also have a focus on support for finance indirectly related to exports, including providing cover for working capital, pre-shipment



Credit: Berne Union

finance, import guarantees, and bonds. By maintaining and expanding the availability of ECAs' products and tools, many governments are able to provide some support for mitigating the economic effects on ECAs' exporter clients and collectively on the global economy.

During the Global Financial Crisis of 2008, when liquidity and access to credit were hard hit, ECAs stepped in to fill the large and crucial gap left by the retracting private market of insurers and lenders.

During the Asian crisis, as a signal to the market to stem capital flight, ECAs were the first to extend credit into these markets facing temporary uncertainty, thus giving confidence that the underlying risks had (yet) not changed significantly and that these markets were still open for business.

These three roles – capital provider, gap filler, signal giver – have been critical in the midst of current and past economic crises and in helping to lead into recovery.

Where the world sits today, as vaccines are beginning to roll-out, hope for the start of economic recovery is growing. But what happens when markets have returned to "normalcy"? As we begin to imagine what a "new normal" may look like, ECAs will need to remember – as they must after each crisis – that private sector capacity and appetite will recover and it will be important that they remember to play in their lane, acting foremost as a catalyst role in global recovery and not getting too attached to a "hero" role.

"ECAs will need to remember to play in their lane, acting foremost as a catalyst role in global recovery and not getting too attached to a "hero" role."

However, the need for ECAs to support clients through more flexible terms is likely to continue into the initial post-pandemic recovery period as businesses seek to reopen and/or restructure. In the short-term post-pandemic recovery, ECAs will likely continue to focus on maintaining support for their clients and national supply chains. In efforts to mitigate defaults, many ECAs are facilitating favourable restructuring either directly, or in conjunction with the private banking system. This restructuring can include deferred payment schedules or extended repayment periods, and waivers of some interest and fees. It's again likely that ECAs will continue restructuring to support clients throughout post-pandemic recovery.

Looking toward the more medium and long-term stages of recovery, ECAs should turn their focus to facilitating a more resilient economy. ECAs should continue their focus to grow sustainability in strategic sectors where gaps have been exposed, such as healthcare infrastructure. ECAs should also stay aware of activity in private market, taking steps to crowd-in as risk appetite and capacity undoubtedly resurges. From a development perspective, ECAs should also take this unprecedented crisis as an opportunity to adopt a "build back better" mindset for the long-term recovery, integrating the United Nations Sustainable Development Goals (SDGs) and the climate agenda into their strategies. ■

10.2

Geopolitical predictions for 2021

SHAILESH KUMAR
Head of Country, Credit and Economic Research
The Hartford

2021 is likely to witness an acceleration of ongoing geopolitical shifts, while some emerging markets may experience significant growth tailwinds

As we all look towards the year ahead and try and put the global recession of 2020 behind us, I wanted to outline The Hartford's perspective for the year ahead. In respect to geopolitics we anticipate that the shift towards the regionalisation of power centers will continue, and potentially accelerate. Meanwhile, on the economic front, many industry experts expect emerging markets to witness a strong year.

Geopolitics – Regionalisation to accelerate

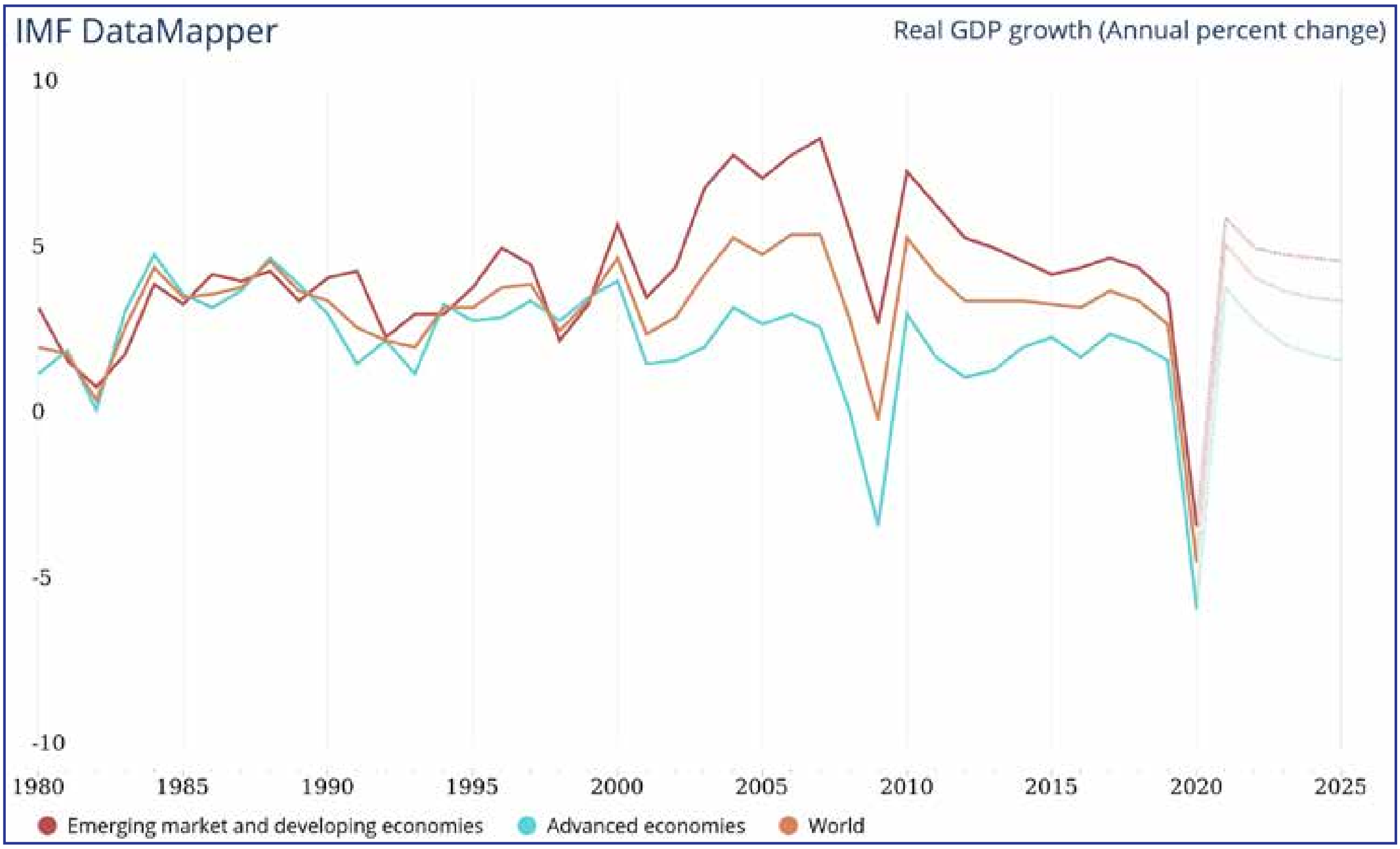
One of the key forces driving geopolitics in 2021 will likely stem from a change in US leadership as this could yield significant shifts on the foreign policy front. Specifically, it is anticipated that the year ahead, and thereafter, will be hallmarked by an increased US emphasis on multilateralism. This means less solo proclamations on the US's intentions, fewer surprises and quick decisions, advanced telegraphing of major policy changes, and working with traditional allies to promote foreign policy goals, all while attempting to bridge divides with emerging partners. An emphasis on multilateralism, coupled with rising military and economic powers that feel the need to bolster their own defense capabilities in light of rising emerging security challenges, could ultimately lead to the regionalisation of power of centres, or least continue the evolution towards that end.

Political experts anticipate the US refocusing on traditional alliances, reposition troops in South Korea and Germany, and reaffirming its commitment to NATO. However, this reversion to a "robust" US engagement strategy is unlikely to result in a hardline approach towards China, at least not initially. Many believe that the US will not want a confrontational or contentious relationship with Beijing at the start of a new administration. This does not imply an outright reversal of the past administration's policies with respect to China, as prior policies affecting tariffs and restrictions on investments and China's tech sector are likely to stay. But it does mean a potentially less bellicose approach (at least publically), and instead one with more dialogue at the sub-executive level (there are indications that members of the new US cabinet may function as backdoor diplomats with China). The shift in tone alone could also be interpreted by some as the US opting to be "softer" on China than what was seen in recent years.

However, over time expect any "softer" US approach towards China to give way to a more aggressive posture. This is particularly true since China is largely a bipartisan issue in the US, with concerns ranging from security, to intellectual property, business, trade, investments, and labour standards. But while the US shifts from a hard line, to soft line, and back to a medium line approach with China, there will of course be other nations that choose to court Chinese engagement and proximity to Beijing. These include Pakistan, Iran, and Venezuela. Then there are countries that might not be allies or partners of China, but will continue to seek areas of cooperation, including the European Union, Turkey, Russia, and some nations in Africa.

An initial soft approach towards China in the US (which gives way to an eventual harder line), coupled with more willingness in Europe to work with China on select issues, could then mean that sections of Asia including Vietnam, India, Taiwan, Australia, and to a lesser extent Philippines and Japan, question the world's commitment to "containing" Beijing, given that China is a preeminent geopolitical and security concern for these nations. As a consequence, these countries may be incentivised to deepen their regional cooperation, while concurrently bolstering their own defence capabilities. Amongst these, India and Australia are best positioned to present a credible military deterrence (given their existing capabilities), whereas Japan could continue down the path of revising its constitutional commitment to pacifism as the nation strives to build robust military offensive capabilities down the road. What this framework represents, in short, is a regionalisation of power structures as countries build their own capabilities, recognising that the world's "approach" towards China is not binary.

Further examples of this regionalisation could be seen in the MENA region. Turkey has recently shifted its foreign policy seeking closer defense ties with Russia, despite Ankara being a member of NATO. This is partly driven by Turkey's desire for strategic dominance in the region, which would otherwise come at the expense of Saudi Arabia. Both nations are US allies, but ties with each could well slide in the coming years. This in turn could embolden Turkey and Saudi Arabia to further bolster their own military capacity as they seek to be the power centres of the region. The bottom line is that in each region, the potential for power centres to emerge could accelerate in the coming year.



Credit - IMF: World Economic Outlook 2021

A big year for emerging markets

On the economic front, economic advisers no longer anticipate a V-Shaped economic recovery in the first part of 2021 and have a slightly more sanguine outlook than others. Of course, experts hope to be wrong, and although growth could pick up in the second half of the year resulting in strong annualised data due to base effects, we are not assuming it to be a given. But we could see a division between large emerging markets and the developed world. There are a few reasons for this:

First, in the developed world, the era of COVID-19 shutdowns will not necessarily cease at the start of this year, especially outside the US, due to possible delays in vaccine distribution and rising case levels. Second, shutdown related headwinds place even more pressure on policy support, which gives rise to policy misstep related risks. If countries are slow to approve fiscal stimulus, or the distribution of it, it could present an additional drag on growth. Third, policy missteps could also manifest in the form of asset bubbles – ongoing monetary stimulus has forced investors into risk assets, which have already inflated prices. This in turn could result in increased asset price volatility when/if prices come down and the bubbles burst. Fourth, when/if economic growth begins, fiscal stimulus support may be eased and we could start to see a wave of bankruptcies for entities that no longer have fiscal support. Accordingly, it is possible that the economic recovery remains choppy with a few fits and starts, which could take us all the way through 2021.

In the emerging markets, by comparison, it seems that shutdowns are less of an issue going forward. There is not time to go into all the numbers here, but generally the rate of death per 100,000 in many emerging markets is significantly lower than the developed world. This, amongst other factors, leads to less support for future shutdowns in these markets, and in turn implies that emerging markets could see an economic recovery sooner than other areas.

The differing economic outlooks could also result in differing policy responses. If the developed world fails to see a V-shape recovery materialise, or even some derivation of it, then we can anticipate US fiscal and monetary policy to remain accommodative for longer. We already know that the Fed will be on hold and keep rates at 0 percent for the next two or three years, per their comments in September. However, there is plenty they can do on the quantitative easing front, and could potentially continue or even ramp up purchases and security maturities over the next year. This could be particularly true as Treasury security supply increases given the rise in aggregate US debt from the 2020 stimulus packages. This in turn could suppress yields, at least in the front end (we could see steeper yield curves). Higher government spending, loose fiscal and monetary policy, low front end yields, and increased central bank balance sheet expansion could naturally be dollar negative, providing support to select emerging currencies and assets.

In emerging markets, especially those where/if the recovery takes hold sooner, fiscal spending may be curtailed sooner. Meanwhile, we are already seeing indications and hearing about the potential for inflation to pick up amongst these nations. Part of this may be attributed to supply dislocations, coupled with demand surging faster than anticipated, coupled with rising commodity prices. In response, it's possible that some emerging market central banks start to tighten rates in 2021, adding upward pressure on their yields while strengthening their local currencies. These trends, coupled with a weaker dollar, could result in increased capital flow to emerging markets as investors seek yield, thereby strengthening emerging market currencies and assets.

Essentially, emerging markets could be poised to outperform in 2021, particularly those that are large, have diverse sources contributing towards growth and revenue, and have favorable debt metrics. In fact, our team has a set of models that create scores for countries on a host of perils, and our macroeconomic scores for select emerging markets are showing the largest numerical improvements when using 2021 economic forecasts. This indicates the potential for macroeconomic stability in these names. The risk to this though is if there is a bursting of asset prices in the developed world, for the reasons noted above. Inevitably, this would affect emerging markets too.

With that said, many expect, and hope, that investors do not paint all emerging markets with the same brush. The larger, diversified, and fiscally strong emerging markets with ample funding sources will likely witness greater capital flow and thus asset appreciation, even in cases where they have high nominal debt levels (i.e. Brazil). However, smaller markets that have their economies concentrated in one or two sectors, and are highly indebted, may risk having investors pass them over. The latter group of nations could see their refinancing costs increase, and further expose them to sovereign headwinds. Accordingly, we anticipate investors to likely be more discerning of actual fundamentals, at least more so than what we saw in the summer of 2020 when just about every asset class in every emerging market saw demand.

Increasing indebtedness is a growing issue, which could continue into 2021, and we expect investors to recognise it as such, thereby investing mainly in the stronger emerging markets that exhibit strong fundamentals.

This then means that we could see a division between emerging markets too, with some significantly outperforming others. In other words, while we are positive on emerging markets, fundamentals matter, and some will potentially perform better than the rest.

10.3

Supporting exporters through the pandemic

VINCO DAVID
Secretary General
Berne Union

Cooperation between credit insurers, export credit agencies and governments prove how far we have come since 2008.

March 2020: The COVID-19 pandemic hit Europe, the US and other regions hard. What started in Wuhan, China at the end of 2019, had spread across the globe a few months later. On top of a health crisis, an economic crisis was looming.

With unprecedented government restrictions hindering manufacturing and cross-border transport, there was a drop in both supply and demand in several economic sectors, with widespread uncertainty. Tourism, aviation and oil and gas were among those worst impacted.

Credit insurers were anticipating losses and there was a serious question whether underwriting capacity could be maintained.

That was then. The market responded fast and robustly to the challenge. Insurers, through cooperation between the private sector, ECAs, and governments, have largely maintained capacity for trade credit insurance. This happened first in China (primarily driven by the Chinese ECA) and the European Union, followed soon after in other developed markets as well.

In the EU, public-private cooperation was facilitated by the European Commission's decision to suspend the restrictions for government involvement in so-called marketable risk. As a consequence, ECAs and their governments could take on risk that before was the exclusive domain of the private insurance market. In particular, this referred to short-term credit risk on buyers in high-income countries. The cooperation arrangements introduced vary significantly in scale and applicability from country to country, but most have been structured as an arrangement with the state or the ECA reinsuring a certain percentage of the risk of the private insurer, in return for a percentage of the premium.

One of the advantages of keeping the private insurers in place has been that there was no disruption in the policies of the insured companies. They largely kept the same cover while the new reinsurance was arranged 'at the backdoor' of their insurer. Governments and private insurers outside the EU, such as the UK (which was last year still in its transition period out of the European Union) and Canada have set up similar arrangements.

The response of governments in spring 2020 was very different from the response in the previous crisis, the global financial crisis of 2008-2009. Back then, the arrangements came much later during the cycle of the crisis, sometimes to the extent that they were hardly needed as the market circumstances had already partly improved. They were also more complex in nature, such as top-up cover instead of reinsurance, and, therefore, more difficult to arrange and administer.

"Trade credit insurers and governments alike have learned from the crisis in 2008-2009. This time around, the response has been much more effective."

One can, therefore, conclude that trade credit insurers and EU and other governments alike have learned from the crisis in 2008-2009. This time around, the response has been much more effective.

Many of these new reinsurance arrangements are scheduled to end in the course of 2021, as it is expected that the private market can soon again fully play its role in short-term credit insurance. But much will depend on how governments will phase out their national fiscal support schemes for businesses. Governments have spent large sums to keep companies affected by the pandemic afloat. The winding up of such schemes needs to be carefully managed, to avoid a wave of insolvencies of companies heavily indebted by the current crisis. A sudden end could send a shock through the market, in a worst-case scenario making the prudent underwriting of new credit risk for some classes of business very difficult.

But most members of the Berne Union – ECAs, multilaterals and private insurers – are mildly optimistic about the near future. Many business sectors have withstood the COVID-19 crisis remarkably well so far. As a matter of fact, credit losses have only slightly increased, of course also thanks to the government support schemes for business in general, but thanks to the recent rebound of trade as well.

In addition to the reinsurance arrangements, many insurers have taken measures to support their exporting customers. They have, for instance, been able to avoid losses for exporters by allowing payment extensions and debt restructuring of their buyers. The pandemic has also been a driver for product innovation for some insurers, such as for working capital cover and bond cover. As a trade association, the Berne Union plays a unique role in bringing together both public and private credit insurers. The exchange of information between members on market trends, products, and specialised areas such as reinsurance is enabling the industry to develop, innovate, and cooperate.

Trade credit insurance is an important tool to keep trade flowing within and between economies. This is more important during times of crisis when companies are strapped for working capital and liquidity. Credit insurance can lighten this financial burden.

In April 2020, we co-signed a letter to the European Commission and other European authorities. The objective was to raise awareness among policy makers of the complementary and comparable role of private credit insurance to public credit insurance. At that time the authorities were reconsidering the provisioning requirements for bank lending in the context of the European policy response to the COVID-19 pandemic. It is encouraging to note that European, Chinese, and other governments have realised what value credit insurance brings to trade and, therefore, to the economy at large.

10.4

Technology trends in credit insurance and surety

THOMAS FROSSARD
Head of Innovation & Surety Products
Tinubu Square

Collaboration with the scientific community stands to fast track technology in insurance and surety. We should be doing more to build these bridges.

The $1.5 trillion trade finance gap is a well-known figure, one which unfortunately seems to be growing. This is all the more problematic as it impacts mainly emerging markets and in particular SMEs. Over the years, financial institutions have developed a toolkit of solutions, including a growing range of tech-based tools.

Despite these efforts to plug the gap, little progress has been made over the years. To make matters worse, the World Economic Forum estimates the gap could widen to as much as $2.25 trillion by 2025. Contemplating this trend, we may ask ourselves if we have the means to reverse it in the future and if we are taking the right approach when it comes to finding solutions.

When I started my career in finance 20 years ago, I was told to only underwrite businesses established for at least three years and able to provide a minimum of two years of financial statements. Back then, automated decisions were based on a minimal set of features used to generate the Altman Z-score to assess credit risk.

Twenty years later, not much has changed. Despite all the information available today, financial institutions still make decisions based on expert judgment for too many applications, which are considered unsuitable for automated underwriting due to a lack of information.

> "When I started my career in finance 20 years ago, I was told to only underwrite businesses established for at least three years and able to provide a minimum of two years of financial statements. Twenty years later, not much has changed."

Professional brokers and carriers can potentially agree on solutions for every deal, but such sophistication comes at a high price that is often only affordable for large deals. New technologies are providing opportunities for advanced risk assessment techniques at a much more granular level and transaction-based underwriting for retail businesses. As a global industry, we can certainly do more to adapt our underwriting models to local environments, while also setting global standards for identity management and cross-

industry reporting.
Technology can achieve a lot, but tackling the trade finance and infrastructure finance gaps will also require us to revisit risk assessment practices and underwriting policies. In the mid-nineteenth century, railroads posed a challenge that led to a giant leap in credit risk assessment and to the birth of credit rating agencies. The ESG challenge could lead to similar change, but only if the industry allows itself to think differently.

Bringing in the scientific community

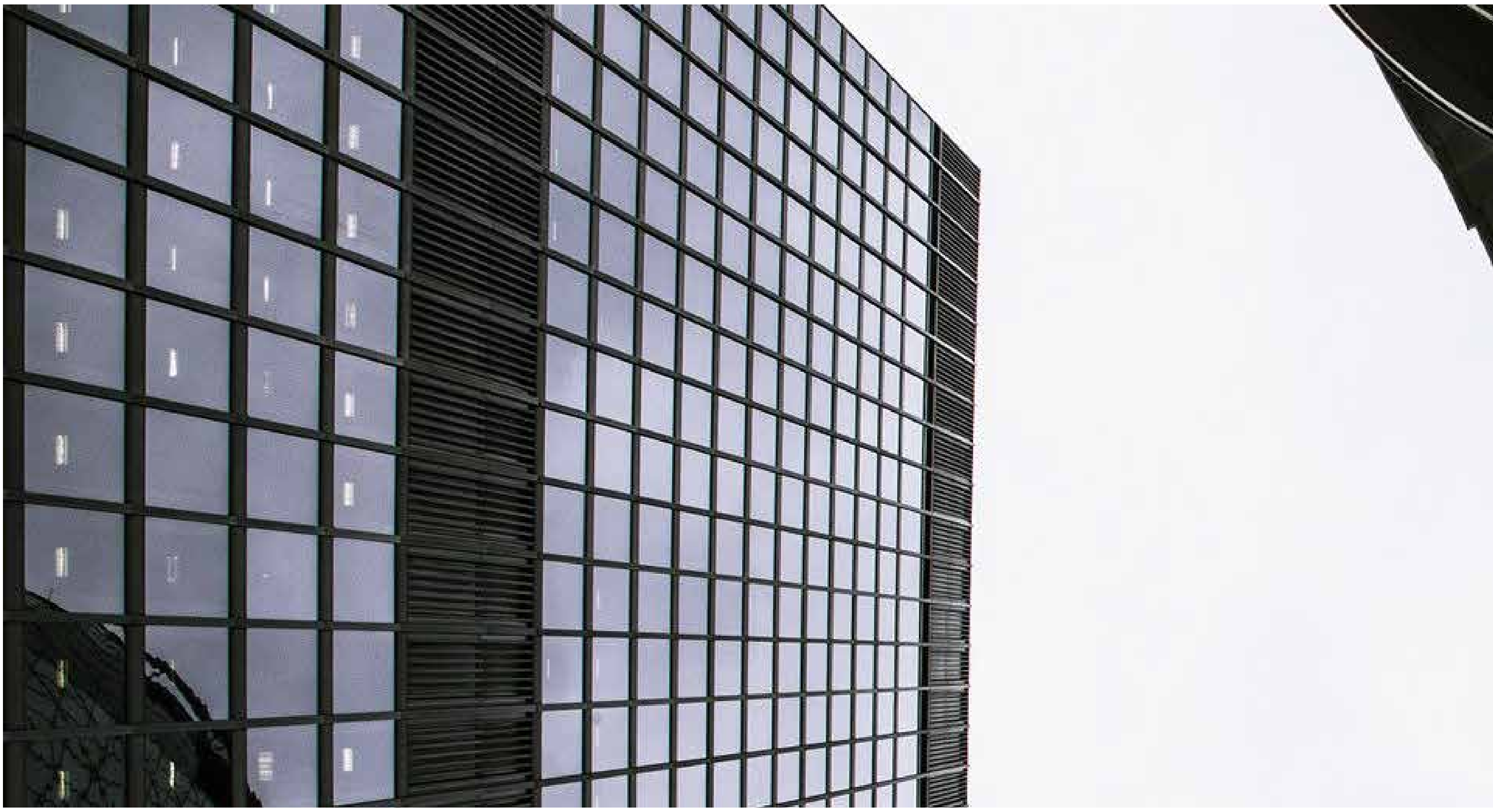
In 2019, I had the chance to attend two blockchain conferences which outlined the value of engaging with the scientific community. Highly skilled engineers were tackling scaling and confidentiality issues using two competing approaches: permissioned and public blockchains. This strategy made it possible to overcome many of the problems stated. Both approaches managed to make huge steps forward and somehow converged to form hybrid blockchain architectures and confidential computing concepts. The contribution of the scientific community can be invaluable, but we need to bring our use cases to their attention.

When looking at the efforts to improve derivatives pricing with machine learning and quantum computing, it would be interesting to see the results of such an investment to revisit credit scoring for SMEs.

We talk a lot lately about "coopetition", specific uncertainties and investment magnitude. Indeed, many innovations would require forming consortia or developing projects at an industry level. The reinsurance industry and the ECAs have both a long and successful experience of efficient coopetition on capacity sharing and collaboration on large deals. The same cannot be said for tech. Universities and researchers have been working on a coopetition model at a global level for decades. Our industry could benefit from this experience and leverage the established ecosystems to accelerate industry initiatives.

Let us do more KYC and KYS, but not for compliance reasons

KYC and KYS are often considered excessive compliance burdens that slow down business. Most would agree it is a pity the financial services industry has been unable to recognise a common set of data which would allow for standardised procedures and facilitate compliance; however, the very origin of these regulations should trigger many more questions. Regulations must be set in place so that financial institutions can get to truly know their customers.



There is no trade finance gap for large corporations whose credit worthiness is assessed through the analysis of audited and publicly disclosed financial statements. Bridging the gaps will require the development of new approaches to assess SME customers by establishing a far better understanding of their business models, their payment habits and their interactions with their customers and suppliers.

Technology offers us the opportunity to build models that better reflect real-world economy dynamics. Credit risk assessment predates the availability of financial statements and real estate assets as collaterals. Thus exploring alternative data to determine the PDs and other forms of collateral to minimise LGDs is by no means a radical idea.

The credit insurance and surety industry will be instrumental in bridging the trade finance and infrastructure gaps. However, on top of the challenge to reinvent its practices, the industry is confronted with a talent gap which must be filled to allow it to deliver its full value. We could potentially solve both problems in one fell swoop by bringing in new talent from our customers' respective business sectors, as well as from the scientific community to create more diverse teams. Having worked outside the industry for the last 30 years, these recruits could help us think outside the box. We should recall that William Beaver, Edward Altman and Robert Merton were under 30 when they made critical breakthroughs in credit risk assessment between 1965 and 1975.

The pandemic has forced us to react quickly to changes in the trade environment, which occurred much faster during the one-year period for which financial statements are established. Investments have been made to provide short-term solutions, and most investment budgets established for 2021 focus on short-term improvements. Developing new models and keeping up with advanced technologies such as quantum computing require budgets for medium-term returns, and it is paramount that these budget lines remain. Over the next few years, they will probably be smaller than those prior to 2020. However, by collaborating more extensively with industry players and our customers, chances are that we can do more with less.

10.5

What does 2021 hold in store for credit insurance?

ROBERT NIJHOUT
Executive Director
ICISA

Trade credit insurance remains critical in the economic recovery from the COVID-19 pandemic. Here's why.

Even more so than in previous years, one can only consider the market outlook for 2021 by looking at what happened in 2020. We tend to look forward when assessing future risks, but the long shadow cast by the pandemic and its related unpredictability makes forecasting more challenging than usual.

Like all other industries, the trade credit insurance and surety sectors were hugely impacted by the effects of the COVID-19 pandemic. This was not so much an impact on the insurance companies themselves, as these stayed financially sound and adapted to the new reality just like everyone else, but rather on their clients, and the nature and context of the risks underwritten.

The new year has not changed this. Vaccines and control measures are slowly starting to have an effect in some parts, but overall the outlook remains unclear and the effects of the pandemic still need to fully materialise. Not knowing if and when the pandemic ends, and related to this, when and how governments carefully wean their economies off life-support, are probably the biggest questions influencing the outlook for our sectors this year. Not all sectors suffered equally. Indeed, some saw an unexpected boom in business. But for companies vulnerable to the effects of a lockdown, these government support measures are a necessary life-line.

However, suspension of insolvency legislation, tax- and rent holidays, furlough schemes and similar measures make any risk outlook dependent on when and what governments will do. The traditional tools for forecasting are now determined by political decisions, making predictions almost impossible to make. Nevertheless, we should forecast utilising all the available information, and members of ICISA have a good idea of where things are going.

The outlook for trade credit insurance

As part of a forthcoming survey we recently conducted, a majority of ICISA trade credit members anticipate an increase in demand for credit insurance cover in 2021. For single and political risk underwriters, growth is anticipated in particular in OECD countries and Brazil. For short-term whole-turnover underwriters growth is expected across the board and especially in countries that have recovered more quickly from the pandemic, such as China. This is also the case for countries in Europe, Africa, and Asia with a high GDP growth potential. Increased risk perception in countries such as Spain and Portugal is also expected to lead to higher demand for cover.

An even larger majority of underwriters expects an increase in claims paid. This is not surprising in view of the pandemic fall-out. For many OECD countries, government support measures have supported vulnerable companies. Once this support disappears, it remains to be seen how many of these companies will be able to meet their payment obligations.

Discounting the effects of these support measures, opinions are equally divided on whether or not the pandemic has had an effect on insured volumes. However, a large majority has seen a dampening effect on claims as a result of COVID-19 related measures.

Almost all trade credit members of ICISA expect payment defaults to sharply increase this year. For the coming year they see risks increase in Europe, Latin-America, and the U.S. Political decisions will have a big impact on risk. An orderly and controlled wind-down of support measures may ease this concern.

For 2022 the outlook is more benign with only 40 percent expecting a rise in payment defaults. Members of ICISA are well capitalised and equipped for this.

Pricing is also expected to be affected by the COVID fall-out. Trade credit markets were hardening prior to the pandemic and that trend is likely to continue. In countries without government support schemes or where these are wound down, players expect a harder market to match the increase in risk in these markets.

The outlook for surety

The pandemic has had a unique effect on construction compared with other sectors. Where travel and retail sectors were particularly hit, construction experienced growth in many countries. Given the fact that most surety bonds cover longer tenors, it is not surprising that the lockdowns have had a much smaller effect on the claim volumes of sureties than on credit insurers. As we are entering 2021, the sureties' outlook for the coming year is therefore of particular interest.

A large majority of sureties expect an increase in demand for cover. Growth is expected across the board and especially in Latin-America, Europe (thanks to EU funds), South Africa, China, and the US. The latter two largely due to expected investments in infrastructure.

Almost all sureties expect a sharp increase in claims paid for 2021, and some 40 percent expect this to continue in 2022. Surety members of ICISA are well capitalised and prepared for this. Increased claims are expected in all countries. A wind-down of government support measures is expected to exacerbate this, making it all the more important that governments act prudently and in coordination with other countries. Overall the market is expected to be dominated by strong competition and ample capacity.

The outlook for government support schemes

The way in which governments stepped in in many countries to limit the negative fall-out from lockdowns was unprecedented. The effects of these measures are far reaching.

Trade credit risks and sureties also benefited from government support. It should be stressed that this was not support aimed at insurance companies. In line with Solvency II requirements and those of similar regimes in other jurisdictions, insurers are solvent and remain so.

Rather they were aimed at vulnerable risks in support of jobs and the wider economy. To allow companies with a high-risk due to lockdowns, to continue trading or as a minimum to survive. Back-stop government reinsurance schemes were put in place in several countries to give adequate assurance for underwriters to maintain cover on these companies. It should be noted that these schemes are not a free ride for insurers; governments are paid for this facility and administration of schemes is both resource-intense and expensive.

Most ICISA TCI members participate in one or more government support schemes. An equal number of members see these schemes as either beneficial to their financial results, as negative, or are neutral. The effect of these schemes on risk appetite is mixed. In general exposures were reduced selectively or not at all and this applies to countries with and without a credit risk support scheme.

During the past year there was wide agreement that what was most important was that risks continue to be insured allowing vulnerable, but otherwise healthy companies to stay in business. However, an adjustment is inevitable further down the line as the next phase of the pandemic approaches and economies open up.

A sudden or disorderly cancellation of economic support measures risks creating an unintended shock and exacerbating a situation that these measures aimed to avoid. An orderly and coordinated wind-down, and in particular the speed and manner in which this is done, will determine the ultimate success of governments' approaches. ICISA members will do their part by continuing to support their policyholders and facilitating trade throughout these changes.

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February 2021	BAFT 2021 Virtual Trade Finance Workshop	BAFT	Virtual
March 2021	BAFT Virtual Global Payments Conference	BAFT	Virtual
March 2021	GTR India 2021 Virtual	GTR Global Trade Review	Virtual
March 2021	TXF APAC Trade & Commodity Finance 2021	TXF TRADE AND EXPORT FINANCE	Virtual
March 2021	Regional Networking Event Africa & Middle East	FCI Facilitating Open Account – Receivables Finance	Virtual
March 2021	ExCred Digital	ExCred	Virtual
March 2021	ICC, TFG and WTO Blockchain and Trade Forum	World Trade Organization	Virtual
March 2021	ICC Banking Commission Annual Meeting	ICC International Chamber of Commerce	Virtual
April 2021	Webinar: Update on SCF Markets and Practices	woa world of open account	Virtual

DATE	CONFERENCE	PROVIDER	LOCATION
April 2021	Sustainable Trade Finance	ITFA International Trade and Forfaiting Association	Virtual
April 2021	Regional Networking Event for Americas	FCI Facilitating Open Account – Receivables Finance	Virtual
May 2021	ComRisk	COMMODITY TRADING WEEK online	Virtual
May 2021	Supply Chain and Logistics	COMMODITY TRADING WEEK online	Virtual
May 2021	Webinar: New Trends in International Receivables Finance	woa world of open account	Virtual
May 2021	RFIx - Receivables Finance International Convention 2021	BCR	Virtual
May 2021	TXF Global Commodity Finance Virtual 2021	TXF TRADE AND EXPORT FINANCE	Virtual
June 2021	Trade Finance Week	ICC AUSTRIA INTERNATIONAL CHAMBER OF COMMERCE	Virtual
June 2021	BAFT 2021 Global Annual Meeting	BAFT	Virtual

DATE	CONFERENCE	PROVIDER	LOCATION
June 2021	TXF Global Trade Virtual 2021	TXF TRADE AND EXPORT FINANCE	Virtual
June 2021	GTR UK 2021 Virtual	GTR Global Trade Review	Virtual
September 2021	SCHUMANN Annual Trade Credit Insurance Conference	SCHUMANN	Virtual
September 2021	GTR Asia 2021	GTR Global Trade Review	Singapore
September 2021	GTR Commodities 2021	GTR Global Trade Review	Geneva
September 2021	GTR MENA 2021 Dubai	GTR Global Trade Review	Dubai
September 2021	FCI Annual Meeting	FCI Facilitating Open Account – Receivables Finance	Virtual
October 2021	Sibos	sibos	Singapore
October 2021	Berne Union Annual General Meeting	berneunion	Virtual
October 2021	ICC International Trade & Prosperity Week	ICC UNITED KINGDOM INTERNATIONAL CHAMBER OF COMMERCE	Virtual
October 2021	GTR India 2021 Mumbai	GTR Global Trade Review	Mumbai

DATE	CONFERENCE	PROVIDER	LOCATION
October 2021	GTR UK 2021 London	GTR Global Trade Review	London
October 2021	ExCred Americas	ExCred	New York
November 2021	Saudi Trade Finance Summit	Saudi 4th Annual TRADE FINANCE summit	Virtual
November 2021	ExCred International	ExCred	London
November 2021	31st Annual Conference on International Trade	BAFT	TBD
November 2021	2021 Supply Chain Finance Forum	BAFT	TBD

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