TXF GLOBAL TRADE REPORT 2020

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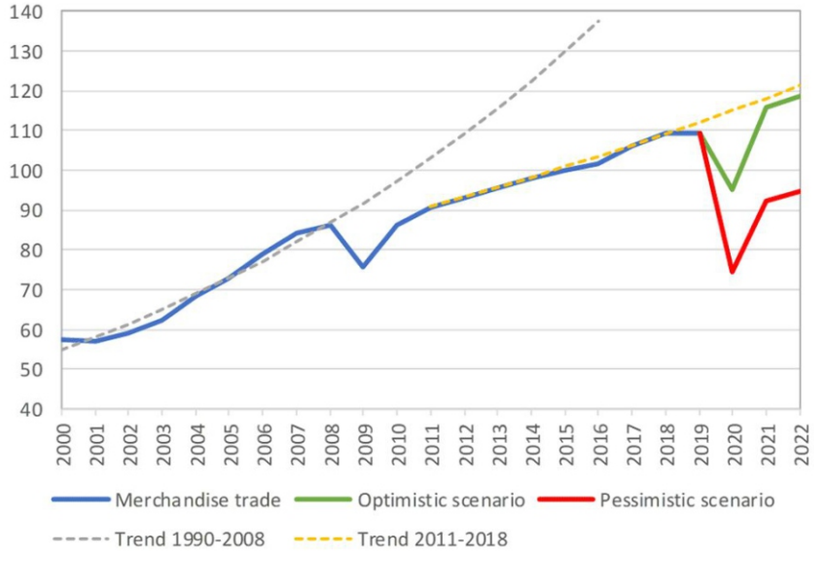
After the storm

Although Covid-19 sent trade backwards in 2020, there is light at the end of the pandemic tunnel and 2021 forecasts have been revised upwards in the light of recent vaccine breakthroughs. What does this mean for trade and how it is financed? Deutsche Bank's Daniel Schmand shares his insights

As we draw to the close of a year like no other, trade has reached a watershed. A 9.2% contraction in the volume of world merchandise trade for 2020 is forecast by the World Trade Organization, and although a 7.2% rebound is assumed for 2021, the overall trajectory is "well below the pre-crisis trend".

However the WTO figures were published in October 2020 and before the positive news on the coronavirus vaccine front. "The global outlook has improved since September. We now see global GDP contracting -3.7% this year, with activity returning to pre-virus levels around the middle of next year," note Deutsche Bank Research analysts in their 26 November House View. Given the broad correlation of global trade and GDP growth, this is very encouraging.

Figure 1:
World merchandise trade volume, 2000-2021



Source: wto.org

However, we are still left with three distinct trade inhibitors in the short term:

- Covid-19 fall-out. Containment responses have closed borders and hit tourism industries, dislocated supply chains and kept consumers at home
- Trade wars and tariffs. Rising protectionism and nationalism as economies nurture domestic industries and protect jobs have hurt trade – but hope is on the horizon with the recent signing of the Regional Comprehensive Economic Partnership (RCEP) Agreement after an eight-year gestation and a likely change of administration in the US.
- Commodity market disruption. This was one of the impacts of the pandemic demand for oil and other transport-related commodities fell.

Rearranged supply chains

The shift from 'just-in-time' supply chains that are exposed to such external shocks demonstrated by the Covid-19 pandemic to 'just-in-case' supply chains will inevitably lead to higher inventory levels than seen in the past. Nobody wants to find their business grinds to a halt because they can no longer source key components of their output. As Deutsche Bank's global head of supply chain finance Joao Galvao puts it, "Over the next six to 12 months, once companies have addressed their short term liquidity needs and shored up their supply chains, we expect to see more strategic decision-making around inventory levels, cash buffers and sourcing diversification."

We are anticipating an uptick in demand for efficient inventory finance solutions. This is where a producer's inventory becomes the collateral for lending needed to cover business expenses, but the inventory has

to be marketable and robust inventory management systems need to be in place.

Another consequence of the pandemic is the retrenchment to near-sourcing, combined with a pull back from an over-dependence on China in current supply chains. Increased levels of foreign direct investment by multinational companies would indicate a certain amount of supply chain regionalisation is going on – particularly in Mexico (Americas), ASEAN (Asia) and Central and Eastern Europe (CEE) and Turkey (Europe). In addition, sovereign subsidy programmes could accelerate this trend to mitigate the negative impact of Covid-19 related economic disruption.

Rebuilding trade

How can we rebuild trade? Assuming that uncertainty is here to stay for some time, what we do know is that trade finance has to support the real economy and be part of the solution – just as it did after the Global Financial Crisis in 2008.
Deutsche Bank Research notes the extent of the virus' impact with regard to the current infection process is different across regions:

- Countries that have so far managed to bring down the infection rate sustainably and contain the first wave (for example, China and Canada)
- Those that continue to register a high growth rate of new daily infections and are still going through the first wave (for example, Latin America, India, Russia and Africa)
- Countries now experiencing a second wave with a rise of new infections after bringing down daily infection rates for a longer time (for example, Iran, Israel, US, South Korea and Western Europe).

Trade finance and lending providers have been working around the clock with governments to keep trade flowing and administer business support loans, with Germany being just one example from the advanced economies. A number of partner banks worked with the government and Germany's development bank – KfW Bank – to roll out a range of loans and guarantees. The sheer volume of applications and disbursements meant that all the work done in recent years by the banks and KfW on digitalising the application channels came into their own.

Overall, the sheer scale of fiscal support around the world – a bail-out equivalent to US$10 trillion when you add it all up – changes the dynamics of how businesses source trade finance. More often than not, government support is the first port of call. Trade needs all the help it can get, and in this new recovery environment, banks, governments and fintechs are working together to get liquidity out to those that need it rather than competing with each other.

Finance 4.0

Banks have been modifying their business and operating models for some time, but the pandemic has moved what was a broad aim that everyone agreed was important to a 'here and now' demand. Digital solutions to document checking were needed today rather than tomorrow and waiting for a new game-changing technology was not an option. But the bigger picture comprising a trade equivalent of SWIFT gpi (where you can track a payment from start to finish) continues to elude us. However, this is being addressed through the ongoing work of the ICC Banking Commission's progress with its Working Group on the Digitalisation of Trade Finance to tackle inhibitors such as uncertainty over the legal and regulatory framework and the recognition of electronic documents.
While progress has been incremental, it is far enough forward for counterparties to feel comfortable with using existing server and mainframe architecture in tandem with open API technology.
To build Finance 4.0 we have to get Industry 4.0 fully off the ground. We are working hard to find ways that robust and reliable digital technology can help us with the wider role of managing the non-financial risk more efficiently. This means embedding the technology for anti-financial crime checks and sanctions screening. In addition, as Environmental, Social and Governance (ESG) reporting requirements place trade – and those financing it – under greater scrutiny, stakeholders need a straightforward way of identifying any ESG risks associated with 'commodities or other goods and services produced by a bank customer or within its supply chain, and available mitigants,' as the ICC Banking Commission notes.

Other innovations

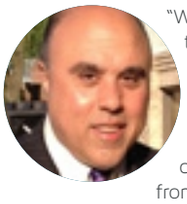
One of the reasons why we need to overcome hurdles to full trade digitalisation is that the pandemic has accelerated the use of robotics and automation in factories and production lines to lower manual work dependency.
This creates a new set of opportunities to deploy widespread Internet of Things (IoT) technology – and provides the underpinning to implement asset-as-a-service business models in traditional manufacturing industries. On top of the Covid-19 driven supply chain regionalisation momentum, this will add impetus – because the cost differential of manual labour will become less of a driver for the location strategy of supply chains.
We also believe that the liquidity crunch caused by the crisis will change client buying behaviour away from classical ownership of assets towards pay-as-you-use models, requiring a change in seller business models and the way the trade finance industry finances buyers. In other words, moving capital expenditure off the balance sheet to operational expenditure (variable costs). What does this mean for the original equipment manufacturers (OEMs)? They have the potential to obtain stable revenue from a service, rather than a sale – which introduces a whole new set of financing requirements.

Re-evaluating technology to embrace the new trade agenda

Operating in a pandemic environment has accelerated the digitisation of banks, highlighting the need to review core processes and interoperability.

TXF talks to CGI's Rory Kaplan, Senior Offering Manager for Trade and Supply Chain Solutions, Patrick DeVilbiss, Director of Consulting, Trade and Supply Chain Solutions and Colin Zeglen, Product Manager for Trade and Supply Chain Solutions for a reality check on digitisation in challenging times.

A time of technology acceleration



"Where are we now in terms of technology and trade and has the Covid-19 pandemic led to significant changes? The biggest consequence emerging from the current situation, says Rory Kaplan, Senior Offering Manager for Trade and Supply Chain solutions at CGI, is how quickly it has reshaped agendas. "Banks have had to face up to their need to advance technology at a more rapid pace than before. At CGI, we have seen a lot of proofs of concept (POCs), some limited blockchain-targeted solutions, and intelligent data capture under the umbrella of intelligent process automation (IPA)." The attempts to digitize trade documents has required a longer-term commitment from banks, and while it has been a slow process, there is certainly more urgency for banks to make it work, Kaplan says.

Where have Fintechs been in this? Various solutions have been promoted by Fintech companies – and certainly some interesting ones have been moving ahead at pace. Actually, gauging the progress of Fintechs, and how satisfied banks are interacting with them, led to a survey by CGI in association with the Bankers Association of Finance and Trade (BAFT). The initial results of the survey show a balanced reaction to interaction between banks and Fintechs.

Impact study: Sudden digitisation

"What has come to light in the current situation is the need and importance of a true global solution that provides flexibility to leverage the power of a global workforce. The IT industry has been working remotely for years," Kaplan notes, and a lot of IT professionals are very used to it. "But it's been a significant, and sudden, impact on the banks which have had to quickly set up people for remote working, retraining teams and instituting new processes such as viewing documents on their PCs." With that has come the realisation that certain core banking systems are not conducive to remote working. "A system like CGI Trade360 allows secure remote access, so our bank clients haven't missed a beat while pivoting to working remotely." Kaplan asserts.

It's certainly been an interesting time, adds Patrick DeVilbiss, CGI's Director of Consulting, Trade and Supply Chain Solutions. "With the technology landscape changing as rapidly as it did, combined with the Covid-19 pandemic, which nobody could have prepared for, it has necessitated solutions that are much more oriented to straight through processing," he says. "The more manual interventions you have in your operations, the more it's going to slow you down, especially when you don't have people on the ground."

There are 'bells and whistle' technologies that can be added and banks can work with proliferating new networks or platforms, but core operations need to be capable of interoperability to interact and be able to take full advantage of them. "You really need a platform that at its core is fundamentally interoperable with a variety of different elements whether that be blockchain-backed platforms where companies are putting some or all of their supply chain business or using electronic bills of lading (eBls) or interesting technologies like e-signatures," DeVilbiss says.

More pressing issues at the core

The need to combine those elements to create a seamless workflow is becoming more urgent. "Banks need to look at their core platforms and ask whether they have a system built for the next generation. If core banking systems are not capable of streamlined automated workflow process-

es, the bank runs the risk of falling behind," DeVilbiss says.

Does that mean, in the current crisis, that some of the more hyped technologies have been put on the backburner or moved down the agenda? Not necessarily. Indeed, DeVilbiss adds that the foundational technologies enable banks to take advantage of the newer technologies. "When I talk about bells and whistles not being a focus, they aren't fading away and they aren't unimportant. You can connect to new blockchains and drive a certain amount of business through that, and hopefully in the future that will pick up. However, when a bank is spending millions getting those projects off the ground and something like Covid-19 hits and the organization doesn't have the physical capacity to handle documents digitally or a good process to deal with them, it has exposed those immediate challenges in the industry."

DeVilbiss issues a call to action to banks, even if their service level agreements (SLAs) are getting hurt by Covid-19. "Banks should not panic and should be realistic rather than waiting to build some perfect platform in 10 years' time. They should look at their core foundation today to prepare for a future state," he says.

Feasible objectives and cutting through hype

One of the more practical things that is being done now is implementation of e-signatures for trade instruments. Kaplan points out that in the current crisis a significant part of the focus has been on automation, straight through processing and a driver to cut costs. Return on investment (ROI) is a very real focus for banks whose loan books are under pressure and banks are finding that if they can automate and digitise, it has been a plus.

The CGI-BAFT survey also looked at actual bank cooperation with Fintechs and how much is hype versus actual progress. Kaplan points to what's happening regarding interoperability. "The architecture of interoperable APIs is a key component of CGI Trade360 integration with every Fintech we've partnered with."

Nonetheless, some blockchain-driven trade initiatives have received less focus amid Covid-19-driven desire to improve ROI and improve credit. "Banks' investment decisions are driven by ROI and unless they have specific corporates with guaranteed volumes [of receivables] they may not be looking at new business via Fintechs as opposed to shoring up existing business," adds Colin Zeglen, Product Manager for Trade and Supply Chain Solutions at CGI. Zeglen points out that the CGI-BAFT survey shows that banks tend to be more comfortable with longer established Fintechs rather than the proliferation of newer ones born in the boom that have not been through a down cycle before. He underlines that Fintechs with interoperability and longevity are the ones that have more of a stronghold.

The survey also revealed that one of the biggest hindrances to growth and change for banks has been the proliferation of regulation and compliance. "It fascinates me that the challenge is still out there. Regulation and compliance need to be resolved – for instance through intelligent process automation – and it cannot be glossed over," Zeglen says. It is a balancing act with ROI as compliance needs are pressing too. Indeed, the challenging commodity finance situation which has emerged amid, for instance, the costly oil trader frauds such as Hin Leong in Singapore, means that compliance and networks are getting more attention. "Increased interest in these issues has resulted in a push towards centralized platforms," says Kaplan. At the same time, banks are under pressure to reduce headcount in compliance departments which means automated compliance processes are getting more attention. Basel regulation also continues to complicate bank financing of trade as the capital allocation requirement distorts the relative low risk that trade finance actually has. Trade is a steady business and is critical for the real economy.

The bigger picture for corporate credit

Some of the fundamentals of what is happening to bank lending in the pandemic are worth noting. Corporates, particularly larger multi-nationals with strong track records and creditworthiness, have reached out to banks as the pandemic rolled in and have drawn down credit lines. As DeVilbiss says: "Getting additional credit is a difficult proposition. For banks, the ROI of supply chain finance versus other products is an interesting scenario and we at CGI have heard mixed feedback. Getting capital allocation for certain trade products can be a challenge when other lines of credit are being drawn down rapidly." There are differences between banks themselves. Some have more emphasis on SCF as suppliers need it to extend payment terms and get access, others have different ROIs and may find themselves fighting internally for capital. "Banks making sure they have as efficient as possible technology for SCF behind the business is important, and it's what CGI is good at," DeVilbiss asserts.

Driving a brighter future while addressing long-time challenges in trade

Are banks willing to adapt? That's one of the big questions still outstanding, Kaplan says. Certain banks are increasing their volumes and others are seeing them fall. One of the interesting aspects emerging from the disruptions of Covid-19 has been the acceleration of bank digitisation against the negatives of supply chain dislocation and the potential for corporate defaults amid tight liquidity.

Global acceptance of standards for digitisation of trade instruments, such as e-bills of lading, remains important for digitising trade and many players, such as the ICC, are advocating for that. Progress is being made digitising documents out of ERP systems, improving IoT capabilities, but it is a slow process and standards still remain an issue.

"One thing that jumped out from the CGI-BAFT survey is the strength of traditional trade, and how strong it will continue to be," says Kaplan. "We shouldn't be surprised that in troubled times, trade platforms remain an important tool in running a bank's global trade business."

Time to double down on trade digitisation? On counting virtual beans

TXF's Katharine Morton looks at distinctions between virtual and real in trade digitisation. How much is the current crisis helping drive change? The challenges are more than simply counting metaphorical beans.

How many beans make five? A bean a bean, a bean and a half, half a bean and a bean. Forgive me, I have been growing runner beans for the first time, and this children's game leads me to think about reality, digitisation and trade finance in the current crisis. Digitisation is an awfully big adventure, a very big beanstalk to climb, and at TXF we will be exploring branches of it more in articles and virtual discussions in the coming months.

Talking about digitisation of trade, both in terms of logistics and finance, has been something the industry has been good at, for years. Talking, that is. Covid-19 increases the finan-ciers, borrowers, exporters/importers, insurers and lawyers and others desire to make sure documents are prepared, sent/received, verified and signed electronically. The pandemic appears to have gingered the pace up, and discussion of trade digitisation has been more animated of late. How much is talk really becoming action? There are great hopes for the ICC Digital Trade Standards Initiative (DSI), the rebadged UTN launched again in March under the ICC's wing, supported by ADB funding, but things seem to have gone publicly quiet since then.

Distinguishing the 'virtual' from 'not real'

One of the elevator pitches for digitisation is that it provides, hopefully, a more transparent approach than paper, and traceability is there to highlight and eliminate human error and discrepancies. Distinguishing the virtual from the not real, the non-existent, the double invoiced, the fraudulent is a problem for paper, as recent expensive high profile frauds in trade and commodity finance have shown. A problem also of counting real beans versus virtual ones.

The continued use of paper-based transactions, cumbersome due diligence requirements for banks, and lack of adequate business information on borrower firms, especially SMEs, are key challenges in trade finance provision. Rapid developments in digitisation and automation should offer promise in addressing these challenges.

A trade distribution head at a major trade bank told TXF off the record, "I'm very optimistic on digital trade from a trade finance perspective. I think it's accelerating, regulations are changing and there will be focus on the business and it will be driving the industry and there will be efficiency gains." Nonetheless, he says while he is 'gung ho' about the prospects for trade, "The question is how do we accelerate digitisation, and not just in trade distribution but end to end. There are positive signs, especially with e-bills of lading (eBL), but there needs to be scale."

Positive signs on cargo, piecemeal elsewhere?

E-bills of lading are certainly getting a lot more discussion amid the crisis – the Digital Container Shipping Association (DCSA) has been pushing for eBL standardisation for cargo, MLETR and UN/CEFACT are all pursuing initiatives. Most recently, EssDocs announced its partnership in India with Portall to deliver eBL in July and Bolero also notes a spike of interest in moving away from paper for trade. "The impact of Covid-19 on carriers, corporates and banks has shown that paper processes and business continuity planning scenarios can fail and Covid-19 is not going away soon. Thus meaning that traditional and contemporary trade is embracing the use of e-documents for anything from open account trade up to DLT Marco Polo transactions," a spokesperson from Bolero tells TXF.

The need to step up actual digitisation as a way of facilitating and financing trade is pressing. Financing cross border trade and working capital via supply chain finance (SCF) is also underpinned by digitisation (specifically of invoices, and electronic developments in a/r and a/p and integration with ERP systems help facilitate working capital management digitally). Some lessons from this space can be applied in other areas of trade digitisation.

Acceleration of digitisation on blockchain platforms is proceeding amid the crisis, but it is sectoral and a bit stop/start. Says one trade blockchain provider, off the record, "On blockchain we've not had many new projects into 2021 since the start of the crisis, and some, such as in aviation have been dead in the water, and auto has been tough. But we have had fulfilment on project commitments to year-end. Another interesting trend has been in agriculture blockchain where a lot of companies that spent a lot digitising quickly and badly are now having to unpick what they did."

Standards are stumbling blocks

Regulation, collaboration and scalability will continue to be important to underpin progress. But standardisation is key. As Joel Schrevens, global solutions director at China Systems asks: "Considering that trade is a business that is heavily driven by the exchange of documents is it realistic to expect that trade DLT platforms are able to get global cross-industry traction without fundamentally solving the requirement or having

at least a clear roadmap to enable portability of digital original documents between existing trade processing infrastructure and their own platform? While APIs can resolve specific integration challenges, considering the number of parties involved, a more fundamental approach is required to solve the challenge for trade documents."

The key to mass adoption, and not just some efficiency gains from 'one by one partner integration' is fundamental digitisation of standardised documentation, or at the least a clear plan to achieve that. Schrevens, for one, is excited that the technology for standardisation and secure exchange of digital original documents exists today, that there has been progress with the cargo industry and that lessons can be learned from the e-invoicing space. But, he cautions. "At this point, I do not see a coordinated cross-industry initiative to create standards for a core trade dataset with a customer-centric mindset, with the customer being the originator of trade transactions and managing their OTC/P2P processes mainly on the basis of purchase order (PO)/invoice related activities."

He argues that a holistic approach should be taken to standardise trade data (starting with the source data stored in POs and invoices, which subsequently flows into other documents, such as BL, CMR, AWB, CIM, CO, B/E, P/N, insurance documents etc. as a result of a logistical, insurance or financial service), bridging physical and financial supply chain services. That requires the involvement of financial institutions, the transport industry and representation from trade originators. It's a big ask, but surely not insurmountable. Shouldn't a body such as SWIFT be at the heart of the integration?

"Today banks look at SWIFT for financial messaging, but the reality is that SWIFT Trade messaging, while definitely automating parts of the trade process, has been and today still is disconnected from standardisation activities in the logistical and trade origination world. The added value of moving current trade processes to a different technology platform, without achieving interoperability and portability of trade documents and data between systems used for trade origination, logistics and settlement, will be relatively low. Whether it is SWIFT or another organisation, without a holistic approach or at least a roadmap with clear milestones for this challenging journey, to convince those standing on the side lines, any progress is likely to be based on piecemeal developments, only serving the few, further increasing the digital divide and putting a block on adoption," Schrevens says.

Are banks picking up the pace on paper?

What about the banks financing trade? In the ICC Global Survey on Trade Finance 2020 released at the end of July, 54% of the 346 bank respondents said emerging technology, digital trade and online trade platforms were an immediate priority over the next year. Some 70% also said traditional trade finance was a priority in the same period. The report went further into digitisation. Although there's been progress, the results weren't stellar and documentary transactions are rarely wholly digitised.

In the three areas looked at, issuance/advising, settlement/financing and document verification, the latter remained the most paper-dominated area. That's discouraging.

It's important to remember that, according to the ICC survey, 90% of trade finance is provided by just 13 banks. The estimated global value of trade finance transactions processed by respondents is $9 trillion. The top three to five trade finance banks likely account for a very high proportion of that figure.

Anecdotally speaking, it is players in those top trade finance banks (let's call them HSBC, Citi, StanChart, DBS for starters) are the most positive about digitisation. Nonetheless, the survey says while 83% of global banks supposedly have a digital strategy, only 46% of local banks report having one. This highlights a growing gap between players of different scale and reach.

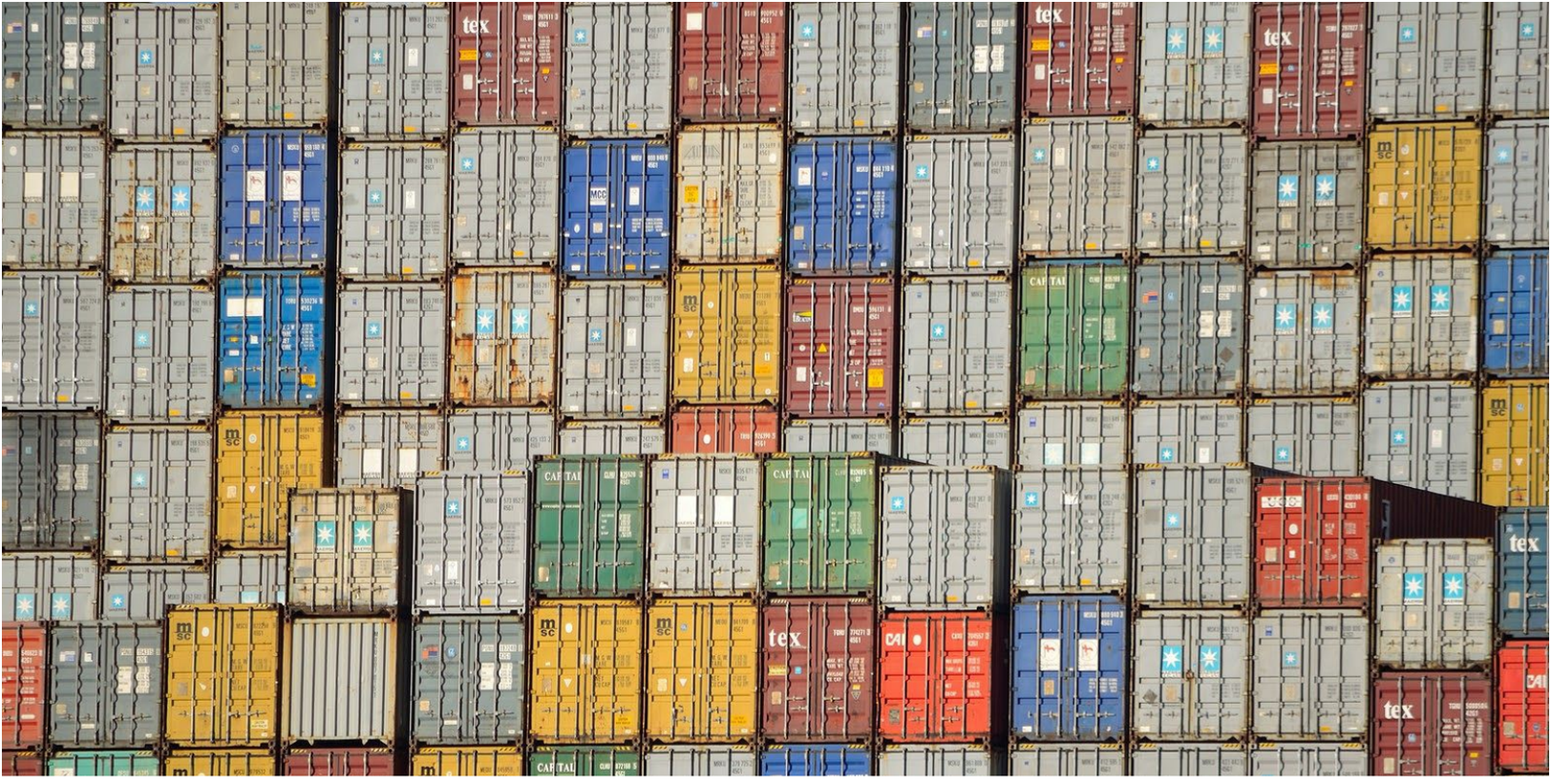
Compliance was seen as the biggest obstacle for banks' growth in financing international trade (AML/ KYC requirements 63% and counter-terrorism and international sanctions regulation and compliance 61%). Compliance may be a major headache, but it is also stopping the bad hats. Nonetheless, for smaller players, compliance is an onerous burden.

One development last week that flew under the wire was encouraging, the ability to embed Legal Entity Identifiers (LEIs) in digital certificates under ISO standards. LEIs should help with identifying legitimate players digitally.

Digitising the horse: Back to the magic beans

Fundamental questions remain as to whether digitisation is changing the game, or just transposing Henry Ford's proverbial faster horse onto outdated instruments – new ways of doing the same old thing. Should LCs become embedded into the logistics process, so the financing is included in the purchase and bundled into the transportation process? That's a discussion for another day. But in the meantime, the transition to digital trade remains an imperative that is still in search of coherent and consistent standards. I'm optimistic there's a way to get through – but complicated approaches are not helpful. Who knew a year ago that Zoom would 'win'?

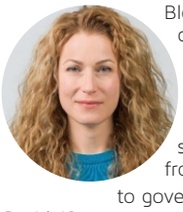
Economist John Maynard Keynes speculated in the commodities futures market. There is an old story: he took delivery of actual real beans and had to store them in King's College Cambridge. My undergraduate memory doesn't serve well, as when I checked it was Argentinian wheat in 1936, which he didn't actually store in the chapel crypt as it was too small, so he used the ruse to object to its quality so he didn't actually receive it, but I'll stick with the apocryphal beans as it suits my imaginings better. Arguably Keynes's reflationary policies helped move the global economy out of the slump of the great depression (but not directly by buying wheat or beans), and yes, I know it's a big argument that's kept post war economists in business. Here's hoping the ICC's DSI can help with an answer to standards to support effective digitisation.



Trends in blockchain: Where are we now?

There are pertinent lessons to be learned about the development of blockchain technologies in 2020. Look no further than the history of containerisation. By Alisa DiCaprio, head of trade and supply chain, R3

Blockchain as a digital innovation



Blockchain is the key component of a future where digitalisation is the default. The groundswell of support for digital trade solutions has grown from solution providers to governments and now, with Covid-19, to consumers. Blockchain isn't the answer to every digital need, but because of its unique architecture, it will contribute to the revision of global trade.

But first, we need the rest of the ecosystem to catch up. Good thing we have a roadmap.

For sure, 2020 isn't the first time international trade has been faced with the challenge of reorganising around a new technology. The last time that there was a truly global change in international trade was in the 1950s with the spread of container shipping. The spread of the container from a few shippers to a global revision of how we transport traded goods gives us insight into the three hurdles where blockchain is making progress but has not yet overcome.

The history of the container

Container shipping changed the global economy. Eventually. But when the first container voyage set sail from Newark to Houston in 1956, it was a technology without a global infrastructure. Ships weren't designed to carry them, ports didn't have enough space to transfer them, regulations didn't allow trains to transport them. There wouldn't even be a standard size for the container until more than a decade later.

The container would eventually go on to make trade cheaper, remap the economic geography of trade, adjust the logistics labour force, and change the scale of production. The magnitude of impact (and the hurdles) is in line with what we expect from blockchain. Using this as context, let's look at some of the progress blockchain has made in 2020 and how far we have yet to go.

Infrastructure

Digital transformation cannot happen on a global scale without a comprehensive infrastructure upgrade. Over the past three years, blockchain has begun to corral interest groups in this direction. It's the first time that the full universe of stakeholders have been on the same page about the need to adjust for digitalisation. The big change in 2020 was an acceleration of infrastructure upgrading as pandemic-related digitalisation requirements brought the last remaining holdouts into the fold.

This is the good news.

The challenge that remains is that until the global physical and legal infrastructure is updated, blockchain will continue to patch holes using rulebooks, private networks, and a default to printed documents. The law has not yet caught up to technology, though there are many groups, the ICC and regulators everywhere that are identifying exactly which regulations need updating and forming committees to do this.

The lesson from container shipping is that infrastructure upgrades happen slowly at first and then rapidly once a critical threshold is crossed. For the first five years, shipping containers were jammed onto decommissioned Second World War ships designed for breakbulk carriage. As standards for containers sizing and weight were agreed on, first in the US and then internationally, new ships were built specifically to carry containers. A global partnership was needed to promote trade facilitation on both sides of the trade transaction.

Collaboration

A second major development we've seen in 2020 is a change in how businesses collaborate. In an example that is close to home, R3 and IBM announced a partnership to expand blockchain and services across hybrid cloud. In the blockchain space, we're continuing to see competitors link up to explore new ways of collaborating.

These new forms of collaborations underscore the novelty of blockchain as a digital solution. To capture the full benefit of using a distributed system, it helps to have all or most of an industry's main players contributing.

One example of the striking rise of alliances is in banking. Traditionally, banks collaborate for two reasons – either to service different parts of a deal structure or to diversify and syndicate risk. With blockchain, banks are innovating on an industry level.

The challenge that remains is governance. While blockchain consortia have taken many novel forms, how to govern these new entities remains a challenge. There is also the decision about whether the group should be horizontal or vertical. In trade, vertical appears to make more sense, but horizontal is where more gains have been made.

In the container shipping example, the container changed both horizontal and vertical interactions. Vertically, different parts of the logistics process had to learn to interact with each other to move the container. In order to ensure a container would fit on a truck or a train to get it its local destination from the port meant that all the industries needed to be on board. Horizontally, shippers

had to agree on how to price containers in an industry that had previously priced by the ton. This is in part why TEUs are used.

Collaboration in the adoption and facilitation of a new technology also had geographic impact. Ports in particular rose and fell with their willingness to adjust to container ships. Felixstowe was a tiny port northeast of London with 90 workers and no union in 1959. After installing a container crane to allow containers to pass through, by 1969 it was handling two million tons of containerised cargo. Today, it's the UK's busiest container port and at the centre of fears about Brexit logjams.

This reminds us that blockchain is likely to change the geography of trade as different regions and sectors move more or less quickly.

Standards

A final major development in 2020 has been a widespread assumption that standards are needed for digitalisation to move forward. This is not exactly true. Both container shipping and blockchain moved forward in the absence of any standards.

Digital transformation can certainly continue in the absence of industry or global standards. But a lack of standards during digital transformation is what resulted in digital islands in the first place. Crossing jurisdictions and entity types is one of the biggest challenges for digitalisation. Each sector is reacting to different regulators as well as different cost drivers.

Despite this, in 2020 we've seen a real growth in the outputs from standards groups like the MOBI, BiTA and DCSA. All of them have made contributions to the logistics sector that will be necessary to open blockchain solutions to the entire industry. Many of these standards are not novel, rather they're improved versions of existing standards. Take MOBI's Vehicle Identity standard (VID). You can already track vehicles today using the VIN number. But that number isn't detailed enough to track the full vehicle over its lifetime as its parts are swapped out and upgraded.

There are two lessons here from container shipping's own standardisation experience. The first is that the standardisation of container sizing allowed the shipping industry to introduce changes that perambulated through the entire trade transaction. It affected not only shipping, but also railroads and trucking. The second is that the standards themselves changed over time. This happened both domestically – when in the US the US Maritime Administration first decided on 8.5 foot tall containers, and a year later adjusted this to eight foot containers – and internationally when the ISO go involved.

While digital transformation and blockchain are fundamentally different from the physicality of the shipping container, the lessons are pertinent. They also suggest that the changes being introduced by blockchain will have fundamental impacts on trade in ways that we may not yet comprehend.

Financing international trade sustainability: 10 Steps

How can trade be financed sustainably? Alexander R Malaket, Founding Partner at ESG Validation LLP outlines the methodology to approach a 10 step programme that helps enables sustainable trade to be at the core of any post-Covid-19 recovery

Global consciousness, and the discourse that flows from, and shapes it, has evolved significantly in the last decade, relative to themes like climate change, Corporate Social Responsibility, Environmental, Social and Governance (ESG) issues and sustainability broadly defined. The UN Sustainable Development Goals (SDGs) arguably provide a global reference point that cuts across a range of commonly shared challenges, and with this backdrop, business has 'come to the table' much faster in this phase of evolution than was the case when 'environmentalism' and 'conservation' were considered fringe topics largely irrelevant, even antithetical, to the board room.

Today, considerations of sustainability and ESG are squarely on the agenda of senior business leaders in investment management, corporate boards, financial services and other providers engaging with clients, and increasingly, those looking at international trade with a supply chain lens. The work of the Banking Environment Initiative under the auspices of the Cambridge Institute for Sustainability Leadership is well known, as are, among practitioners of a certain vintage, efforts to explore the deployment of a 'sustainable shipment letter of credit' as one way to link favourable financing terms to demonstrably sustainable sourcing behaviour.

This evolution, taken together, is significant and transformational, but still very much nascent in character.

Considering these issues on the basis of a '10 steps' framework requires that we start very much at the beginning. In contrast to investment management, for example, where individual investors and institutional investors have driven the ESG and sustainability agenda forward, the trade community is beginning its journey, with numerous promising initiatives in evidence and already in the public domain.

Ten steps to financing sustainable trade can usefully be organised into three categories:

- Definitions and Questions
- Data and Education
- Policy and Practice

Category 1: Definitions and questions

This step includes agreeing the most basic terminology to be used. It can be helpful for example, to refer to 'Financing Sustainable Trade' for the sake of clarity. This language makes it clear what the objective is, and avoids the debates that can arise with other turns of phrase occasionally in use. Advancing and supporting the work of the EU and other jurisdictions in defining ESG and related concepts (and behaviours) will be critical to bringing sustainability to the centre of the discourse on trade.

While it may appear that sustainability and ESG are separate and distinct, this brings us to the second element of the category: questions.

More precisely, the imperative to ask thoughtful questions that challenge assumptions and optics, because real impact, this time around, requires genuine progress. Questions to be asked might include:

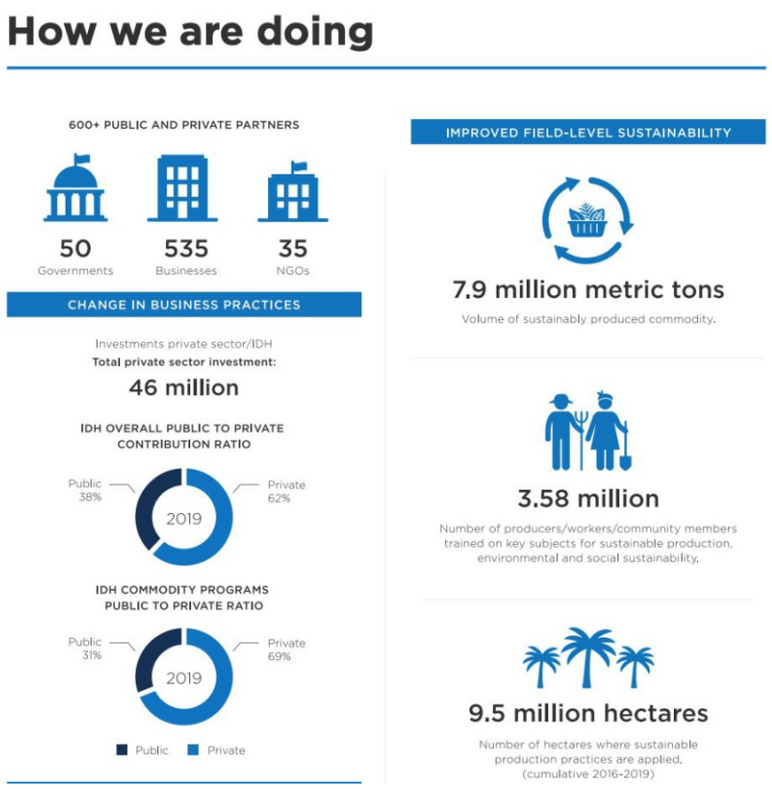
- Can trade be truly sustainable if it is conducted in a way or through a channel like a supply chain, that is not aligned with ESG considerations?
- Should financing and risk mitigation solutions be required to account for sustainability and ESG characteristics in the trade flows and transactions being financed?
- How do we ensure that measures taken to advance sustainable trade do not become versions of 'green washing' and other tick-box public relations exercises?
- How do we demonstrate, convincingly, that sustainability aligns with, rather than runs contrary to, investment and commercial objectives?

Category 2: Data and more data

Objective data is both a challenge and an opportunity in the ESG and sustainability space. On one hand, there is a flood of data and numbers in this space. Some suggest that there are between 400 and 600 different ESG ratings systems and scales in the market today. On the investment management side, you can find data that supports any view you lean toward: ESG portfolios outperform traditional portfolios and indices; or no, actually, traditional asset mixes, including so-called 'sin' portfolios and those that include brown economy activity do better. The sources of such data include investment management firms, ratings agencies, central banks and a plethora of consultancies active in the space.

On sustainable trade and the financing of sustainable trade, the data must be as much about the problem – the adverse impacts of not trading sustainably – as it is about the positive effects of doing so. The narrative must evolve beyond the cost of products that are sourced and produced sustainably versus those that are not. Perhaps more

critically at this stage, the data must be disseminated and must become part of the dialogue, but not as raw numbers which tend to lack resonance: rather, as objective support for the stories that must be told. Pre-Covid, and in the midst of myopic policy and discourse linked to trade wars, and the illusions of independent and disconnected prosperity, the focus was on recasting the story of trade. Today, with the inequities of the global system laid painfully bare, it must be about connecting trade and its potential to help global recovery, to a better story around sustainability.



Source: IDH – The Sustainable Trade Initiative, Annual Report 2019 (Extract of Graphic)
https://www.idhsustainabletrade.com/

As much as finance is often portrayed as a social ill lurking under the surface, and as true as this can sometimes be, the reality is that finance is a measure of value – and it will flow where value is created, perceived and acknowledged. The more we collectively value sustainable behaviour and sustainable trade, and the more we actively insist on that value, the more finance will flow in support: and thus, the more finance will become part of the sustainability solution.

Much of this depends on access to, and dissemination of, quality and trusted data at the heart of a better story around sustainable trade.

Category 3: Policy and practice

Some conservationists and environmentalists will acknowledge today, that efforts to highlight the urgency of climate change, the dangerous state of global biodiversity loss and related issues have yielded limited results at best, even with the significant focus on the climate crisis. The third category of steps to financing sustainable trade must be related to concrete progress at the transaction level and on the ground in markets where trade will either continue on its present course, or take a decisive turn in the direction of sustainability.

Political and policy postures that attempt to justify unsustainable commercial and trade behaviour on the basis that other nations prospered several hundred years ago through such practice simply cannot stand: our reality has changed since then, as has our collective understanding of the impact of such actions, and our ability to design solutions – and alternatives – that are sustainable and viable. Just as we now understand that having a 'smoking section' on an aeroplane makes no sense, in that smoke will inevitably impact everyone on the aircraft, we must come to realise that having 'sections' of non-sustainable policy and activity on the planet is senseless, given how interconnected the ecosystem is.

The finance of international trade, like the management of investment funds, must and will be increasingly influenced by this realisation. At policy level, it is increasingly important to recognise a transition phase in moving to sustainability and ESG-alignment. All of which must be complemented by the actions of practitioners to help create the necessary confluence of forces that will advance sustainable trade. The Sustainable Trade Working Group of the International Chamber of Commerce Banking Commission is an example of just such an effort to link a range of elements – from education and awareness-raising to data collection and analysis through enabling technologies, to policy advocacy to exploration of practical steps that can be taken to advance sustainable trade through targeted and purpose-driven financing.

Our recovery from the Covid-19 crisis must be more than a recovery of global public health and an economic 'recovery' that brings us back to the brink. It must be a recovery that heals humanity, and heals our collective home. Trade, and trade financing, have their part to play but it is critical that sustainability finds its place at the heart of our efforts.

Trade finance: Oiling the wheels of global trade

Trade finance has many challenges to overcome and the sector knows where it needs to target with this overhaul. Tackling these areas to improve the trade climate will not only bring huge opportunities in trade but also help boost global GDP considerably, says Jonathan Bell, TXF's editor-in-chief

Trade and trade finance has been through turbulent times in recent years, and this year it has had the added massive shock of the Covid-19 pandemic. This has come on the back of a raft of recent sanctions, tariff tit-for-tats, non-tariff barriers, increased protectionism, geopolitical spats/hegemony and of course the US-China trade wars which has grotesquely spilled out across global supply chains. Consequently, growth in global trade has suffered considerably.

Moreover, one recent report declares that the global economy will lose up to $10 trillion in GDP in 2025 unless governments repeal or reduce tariffs and non-tariff barriers that currently obstruct global merchandise trade. (See more on this HSBC and BCG report below.)

Coupled with all the baggage above there are of course both challenges and opportunities. The trade industry has remarkable resilience. Trade will always go on and it needs financing – and like any big vehicle it also needs regular oil on the wheels, good maintenance and structural repairs where necessary. And the nature of this pandemic has helped push the trade sector to look at itself quite closely and try to speed up some long-running repairs and reforms.

Perhaps most noticeable from an operational point of view has been the need for greater digitisation and the speeding up of the entire process in order to improve standardisation, harmonisation and transparency across the breadth of trade finance.

Protectionism damaging global growth

There is much that needs to be done globally to improve the climate for improved trade conditions and better access to finance. As noted above, according to a recent report for G20 governments entitled 'The $10 Trillion Case for Open Trade' undertaken by Boston Consulting Group (BCG) and HSBC, global trade stands to lose out massively unless protectionism measures currently in place are reduced or withdrawn.

Under the research carried out one scenario assumes a high level of open and rules-based trade, and the other assumes the maximum plausible level of trade restrictions, including a rise in average global tariffs, the continuation of tariffs associated with US-China trade tensions, and the implementation of few new trade-facilitating measures.

In the first year, the two scenarios have similar economic impacts, but then they diverge. Under the protectionist scenario, the value of traded goods levels off, and so does GDP. Under the open trade scenario, trade value grows by 2% to 2.6% per year, with GDP following at a growth rate of 1.8% to 2.3% per year. The research takes into account only merchandise trade. If services trade were included, the value of easing trade restrictions would be even more material.

"In a global economy that is already struggling with the impacts of the Covid-19 pandemic, our analysis shows that open trade delivers benefits to every country, as well as to the overall global economy.," says Sukand Ramachandran, a BCG MD and senior partner. "The additional growth we calculate from open trade translates into jobs around the world."

According to the WTO, import-restrictive measures implemented since 2009 and still in force affect about 10.3% of G20 imports, worth about $1.6 trillion.

As part of a roadmap for action, the report lays out five steps that world leaders must take to maximise the health of the global economy over the next five years and beyond:

- Strengthen international institutions, including the WTO, so they can keep pace with the new challenges businesses face globally.
- Rethink the rules of trade to create a better, more enforceable rulebook that rolls back protectionism, supports open markets, and ensures a level playing field globally
- Ensure that technology fosters the growth of e-commerce and digital trade, by developing infrastructure, skills, and universally accepted legal frameworks and standards for digital trade.
- Promote the export of services and non-physical goods, by reducing services trade restrictions, encouraging a common understanding on intellectual property regulation, adopting shared standards for data localization, and abolishing customs duties on electronic transmissions.
- Promote the positive effects of trade in society, by aligning trade and investment rules to spur innovation, inclusive growth, and technologies that minimize harmful environmental impacts.

Natalie Blyth, HSBC's global head of trade and receivables finance, comments: "It's critical that trade play its part in securing the post-Covid-19 economic recovery – and more open policies would give the global economy a head start measured in the trillions of dollars."

Solutions to the trade finance gap

Coupled with the above is the urgent case to help close the widening global trade gap. In figures released in July this year, the ICC and the WTO conservatively estimate that financing capacity ranging from a lower end estimate of $2 trillion to an upper end estimate of $5 trillion will be needed to fill the trade finance gap. Developing countries and

MSMEs are the most affected by this shortfall.

Following the Business 20 (B20) Saudi Arabia meeting in early July, the parties there together with the ICC and the WTO released a paper entitled 'Mind the Trade Finance Gap' where they called for solutions to reduce the trade finance gap with the private and public sector actors to work together to reduce it.

They noted: "The restoration of cross-border trade will undoubtedly be vital in driving a global economic recovery in the wake of the Covid-19 pandemic. A return to trade-led growth will hinge on creating enabling conditions for businesses to import, export and service international markets."

In terms of filling the gap, and given the scale of the shortfall in global trade finance, it was suggested that the public and private sectors should work together to:

- Enable a rapid transition to paperless trading by: (a) making progress in removing legal requirements for trade documents to be in hard-copy paper format; and (b) fast-tracking the adoption of the Uncitral Model Law on Electronic Transferable Records to provide a sound legal basis for the use of e-documents in the processing of trade finance transactions.
- Exchange views on how regulatory authorities could help mitigate constraints hindering the deployment of essential trade finance - particularly to MSMEs.
- Share risk to support trade finance during this period, especially among export credit agencies, multilateral development banks, and private sector banks, including in the short-term segment of the market.
- Further scale development bank schemes, if possible, to provide risk mitigation and liquidity for trade finance transactions, especially in countries that need it the most.

In concluding the communique, the parties noted: "Given the scale of financing required to support a rapid rebound in global trade flows - which may potentially reach the upper end of the ICC estimate of $5 trillion - we encourage all actors to take proactive steps to prime the trade finance market to ensure it can play a central role in driving a post Covid-19 recovery. Timely interventions will be especially vital to ensure that MSMEs have continued access to reliable, adequate and cost-effective sources of trade financing - not only to weather the crisis, but hopefully to emerge from it stronger than ever."

Digital trade registry in Singapore moves forward

As noted above there is a major requirement within the trade and commodity finance sectors for the move to paperless trade and further digitisation. Commodity trade fraud has been very much in the limelight with several high-profile cases in Singapore earlier this year leaving several international banks nursing some big hits. Because of this, 12 banks led by DBS and Standard Chartered, are developing a digital trade finance registry (TFR) in Singapore to reduce the risk of fraud and boost transparency.

The project is in the proof of concept (PoC) stage and is supported by Enterprise Singapore and endorsed by The Association Banks of Singapore (ABS). The registry is intended to serve as a secure central database for the banking industry to access records of trade transactions financed across banks in Singapore. This mitigates against duplicate financings from different bank lenders for the same trade inventory, leading to greater trust and confidence among banks and traders alike.

Sriram Muthukrishnan, global head of trade product management, DBS Bank, says that the successful development of the PoC exemplifies the immense potential of an industry coming together to co-create solutions that enhances the transparency and security of lending practices, and mitigates against the risk of trade fraud.

"Building greater resilience in the industry ecosystem is even more important today as businesses and economies continue to deal with the impact of prolonged trade disruptions. The Trade Finance Registry marks an important step towards fostering greater transparency through collaboration and strengthening lending practices in Singapore's banking sector while ensuring a secure operating environment for the industry as we progress towards an increasingly digital trade future," comments Muthukrishnan

The TFR is developed on a blockchain network supported by technology provider dltledgers. DBS and Standard Chartered scoped and developed the PoC in the span of three months, with the support of ABN Amro, ANZ, CIMB, Deutsche Bank, ICICI, Lloyds Bank, Maybank, Natixis, OCBC, Rabobank, SMBC and UOB.

Satvinder Singh, assistant chief executive officer, Enterprise Singapore, states: "The collaboration will strengthen banks' risk management capabilities and enhance confidence in the finance and trade sectors. We welcome more industry participants to be part of this collaborative effort in developing innovative solutions for the industry to reaffirm Singapore's status as a trade and finance hub."

Following the completion of the PoC, DBS and Standard Chartered will work with ABS to implement the TFR as an industry utility to enhance trade financing practices within Singapore, before expanding it globally to cover major trade corridors at a later stage. Going forward, ABS will manage the TFR, supported by a standing committee represented by the ABS council member banks. Three working groups of banks will be set up to jointly lead the governance, technical development and business scope of the project. ABS will be inviting all banks to join the TFR as members.

For the Monetary Authority of Singapore, Ho Hern Shin, assistant managing director (banking and insurance), remarks: "A digital trade registry strengthens trade financing banks' ability to avoid duplicate financing and facilitates more sustained credit flow in trade financing. MAS is glad to see the banking industry coming together, collaborating with government agencies and technology partners, on this important initiative."

Trade finance funds: Confidence grows as banks retreat

Alternative lenders cannot solely pick up the funding gap left by European commercial banks retreating from the commodity finance space in the Covid-19 epoch. But can bank-fund collaboration based on the different stages of the transportation of goods provide a viable deal template going forward?

With two of the most active European commodity trade finance banks - ABN Amro and BNP Paribas - scaling back from the sector as fraud scandals continue to mar trading houses, it has become increasingly tough for small to mid-sized traders to secure finance given their shrinking pool of funds.

Trade finance funds alone cannot provide the debt volumes, or low-level pricing, needed to plug the burgeoning commodity finance funding gap left by commercial banks retreating from the space. And the role of larger producers/traders acting as lenders (on-lending RCFs to secure offtakes with smaller traders) will undoubtedly grow over the coming years.

Although the asset class remains relatively small, trade funds have been around for about 15 years and have grown significantly in size. There are around 20 viable funds/asset managers for institutional investors to consider with a collective AUM of $5-$8 billion – although the figure is likely to be closer to the bottom end of this scale given recent developments (some funds also left the space in 2019).

What is certain is that there is ample demand for trade finance. The global trade finance gap was estimated between $2 trillion to $3.5 trillion by the ICC and WTO. And given commercial banks' waning appetite has also been borne out of tightening Basel capital requirements and associated balance sheet constraints, more corporate borrowers are turning to funds for financing.

Kristofer Tremaine, founder of Kimura Capital, who having experienced first-hand the drying up of commodity-linked corporate funding from banks during the Global Financial Crisis (GFC) was spurred on to establish Kimura in 2016, tells TXF: "During the last financial crisis [GFC], when banks pulled the shutters down on issuing new lines of credit, many trading companies who were not government-backed or investment grade (including the one I was working for at the time) fell victim to not being able to access any new capital".

Although there was serious uncertainty back in March this year, Kimura has come out of lockdown in a healthy state. After a restructuring of its portfolio, which ironed out some of the creases that were exacerbated by Covid-related supply chain issues, the company managed to raise $100 million during this time. "Despite the challenges of running an asset management business in turbulent market conditions, Kimura remains open for business for financing commodities that fulfil the criteria of being transparent, liquid and in high demand", Tremaine says.

Kimura is not the only fund to share this sentiment either. "Our portfolio health, which was already good, has improved", a director at another leading commodity trade finance fund tells TXF. "We're attracting a lot of different clients who are coming to us from banks and are happy to pay more." The fund manager puts some of this success down to its portfolio being heavily weighted towards the agricultural sector: "There will always be demand for products like cocoa and flour, and margins tend to be higher - so there's less risk of being impacted by volatility than oil, for example", the source adds.

Covid ramifications

The alternative lending space has certainly not been left unscathed by the Covid crisis, with the recent flurry of high-profile fraud cases in the commodity finance world resulting in several funds, as well as banks, absorbing significant losses.

"Barak, Inoks and TCF, amongst others, were hit pretty hard from lending to Agritrade, Phoenix and a bunch of smaller corporates", says a source familiar with the matter. As a result of these tough market circumstances, any new issuances and redemptions are currently suspended from Barak's structured trade finance fund.

Giles Headly, investor relations at Barak, tells TXF: "We still have some redemptions that we need to monitor, especially now, during the suspension period. It is important that we are liquid enough to meet these obligations when we feel the environment on the ground in Africa is conducive to lifting the suspension".

This troublesome year follows a difficult year for many funds in 2019. For example, major investor Shinhan Capital called in a number of large redemptions, cutting its exposure of around $1.3 billion to approximately $500 million. As well as the redemptions, it was speculated that Shinhan's retreat from the sector last year contributed to the recent closure of one of BAF Capital's trade financing funds, BLTFF.

As well as this, over the past couple of years, a number of Japanese and Korean investors had also decided to retreat from the commodity trade finance sector for

various reasons - one such reason being rising local benchmark rates. "When the Asian investors pulled a lot of money out of the asset class in 2019, it had a knock-on effect and a number of fund managers were hit, ourselves included," Hedley explains. "But we showcased resilience and had a good January and February this year, although progress was put on the back-burner again because of Covid".

Bank-fund collaboration

In such a harsh climate, amplified only further by key sources of liquidity drying up and the funding gap widening, the commodity trade finance market - and respective deal templates - are in need of some sort of restructuring. Although demand will always fluctuate, there will always be demand, and therefore there will always be a need for effective, accessible financing.

Many funds are interested in the potential of bank-fund collaborations taking off. Barak, for example, operating predominantly in Africa, could be suited to collaborating with DFIs such as the Africa Development Bank (AfDB).

Hedley explains: "They're [AfDB] obviously huge in Africa and have access to longer term capital. We're not looking to deploy into longer term deals, but it gives comfort around liquidity issues". As well as this, working with a bank like AfDB acts as a 'stamp of approval'.

"We're well known to our investors, but in the grand scheme of things, there are thousands of limited partners (LPs) out there who don't know Barak well. Partnering up with a big institution really creates a lot of interest that could have mutual benefits in terms of global synergies, as well as on the ground in Africa," says Hedley.

However, while collaborating with DFIs provides comfort to funds, it's a lengthy process that has yet to be put into motion. Kimura Capital, for instance, have begun looking into bank collaborations by working with some of the names that are retreating from commodity finance to transition some of the large portfolios and exposure across to their fund platform. Tremaine says: "This will allow the banks to keep their client relationships in providing trade related banking services, such as issuing letters of credit, foreign exchange, and debt capital markets while the credit exposure causing the internal capital issues with banks is passed on and managed by an asset manager like ourselves".

Compromise is key

For bank-fund collaboration to be a success, it is hugely important that all deal participants are willing to compromise. One leading trade finance fund is in talks with some of the smaller banks in regards to the potential of partnering to take on different stages of the same transaction.

A source close to the matter tells TXF: "We're suggesting the banks should keep certain legs of the deal with a borrower, for example, when the product is on the ship. They can be comfortable with this as they will have their bill of lading and can offer a lower interest rate". But the fund still needs to charge a higher cost of debt (a 14% interest rate is not uncommon for funds at the moment) in order to get the biggest returns for its investors, and therefore fund managers are willinging to take on the leg of the journey before shipping, which is classified as a riskier stage of transportation.

While such a bank-fund deal structure has not yet been launched, the fund is feeling positive about the possibility of this becoming a viable deal template. "We've seen a huge increase in bank willingness to discuss this type of deal, whereas a year ago, there wouldn't have been any interest", according to the source.

At the moment, the unnamed fund is exploring bank portfolios and talking to borrowers about the possibility of structuring such a deal. This bank-fund collaboration is a compromise for every deal participant — the bank and fund share the volume of the deal, with the bank able to lock in a lower pricing at a lower risk, and the fund able to get a higher return for its investors at the cost of lending to a higher risk part of the transaction.

The borrower is also compromising within this structure by paying higher pricing, but this is necessary as they would likely strug gle to finance both legs of the journey using either a bank or a fund exclusively. After all, alternative financing is usually put up in tandem with bank financing. While this is not the sole solution to filling the commodity trade finance gap, it is a step in the right direction. And the structure could even serve as a viable financing template in the very near future, at least, according to one fund manager.

How much of the $2trn-plus trade finance gap can tech bridge?

The $2 trillion trade finance gap is a heavy burden for SMEs in emerging markets, one which financial institutions have long sought to ease. TXF's editor Max Thompson considers the extent to which technology can bridge this gap.

The $2 trillion trade finance gap has long cast a shadow over the market. This shadow looms not least because of its vast scale, but because of its disproportionate impact on emerging markets, SMEs, and women and minority-owned businesses.

Over the years, banks have developed a toolkit of solutions to help plug this gap, including a growing range of tech-based tools. However, while the industry has dipped its toe into digitisation, we are yet to see a full tech transformation.

The trade finance gap has consistently bounced around the $1.5 trillion mark over the past years, but amid the fallout from Covid-19 this figure has skyrocketed. The global trade finance gap was most recently estimated between $2 trillion to $3.5 trillion by the ICC and WTO, and others even claim it is up to $5 billion. This represents not just a threat to SME clients, but a huge missed opportunity that banks often overlook. But where does this gap come from, and how can banks support clients hit the hardest by this funding shortfall?

Joined by an audience of market professionals, TXF hosted a webinar in partnership with Comarch to consider the extent to which technology can bridge the trade finance gap and, crucially, the steps needed to take this further.

Hesham Zakai, managing director at TXF, moderated a discussion between Alex Fadani, business development manager for financial services at Comarch alongside Johanna Wissing, director of global transaction banking at Lloyds Bank. They took on the barriers and hesitations around a tech transformation and much more importantly, the opportunities.

A burden for emerging market SMEs

Surveys conducted around the time of the global financial crisis (GFC) suggest that the trade finance gap existed, at that time, due to a lack of credit. However, as we emerged from the crisis and liquidity was more readily available, the gap remained: a lack of liquidity could not be the only cause.

When the same surveys are taken today, market sentiment is clear: stringent regulation, compliance, AML and KYC play a pivotal role in preventing access to finance. In today's market, Wissing says, 'the dominant factor seems to be the regulatory frameworks and requirements and the cost of compliance rather than the cost and availability of credit.'

Of course, as the GFC taught us, regulation is necessary. The prevention of illegal financing of terrorism, human trafficking, and the like, should be in everyone's interest. However, this means that banks must widen their toolbox to help make finance accessible to SMEs, those who are most heavily penalised.

If being an SME is a barrier to finance, then operating in emerging markets makes it even harder. This is due in part to the fact that local banking markets in smaller countries don't have access to the same global networks as developed market counterparts.

Lloyds Bank, a UK institution, relies on its correspondent banking relations to promote UK business and ensure that credit lines are made available as much as possible.

Although these relationships are the result of diligent work, they are very much within the realms of possibility for a market like the UK.

These global relationships are not as easily built in smaller markets like the Caribbean and some small countries in Asia Pacific. It is therefore not just the bank's own internal regulatory procedures that inhibit SME access to trade finance, but the footprint of local banks and their global networks.

Further, local bank markets may not have access to reliable, resilient systems which are necessary to facilitate SME trade.

We can't know precisely how many credit applications from SMEs are rejected, but we can be sure that the figure is high. Banks have a growing toolbox of solutions for SME customers, including support from government agencies, supra-national bodies like the ICC, and technology should be used to add more tools to the box. Since the GFC we have seen a much larger array of banks using these types of tool to mitigate credit risk – but what, we asked, makes for a viable tech-based trade finance solution?

The perfect balance for trade tech

There are many ways that technology can be embedded into banks' existing architecture to improve access for SME and EM clients. The website interface that they use to interact with clients is the first port of call for many, and it therefore represents an excellent opportunity to engage with clients' needs.

According to Comarch, banking websites

should make communication as streamlined as possible. They should be enabled with instant messaging, video chats, and 24-hour access. These measures reduce the number of meetings and phone calls, which optimises costs for banks as well as eases access for customers. Further, a fully supportive website can encourage clients to seek out banks in the first instance, rather than business origination having to rely on banking outreach.

It may seem surprising, but a shocking number of institutions still rely on paper-based applications at some point during the onboarding process. This, says Fadani, is just not efficient enough. 'Even the most digitally enabled banks still use paper-based system at some point. You can end up with a double or even triple entry from different people – we just can't continue like this.' We must transition, Fadani says, to a one-stop-shop marketplace model that is fully digitised from end-to-end – with no room for paper.

New technology will create growth. Big Data could help us to analyse trade patterns on a broader scale, allowing us to see risks much earlier on. Artificial intelligence can also be used to create more efficient and sustainable trade finance channels. The question now, Fadani says, should be 'following a year of trade wars, barriers, and the great lockdown – can banks really avoid tech any longer?'

Assessing the reluctance

There remains a lingering reluctance to make the tech transition amongst some market practitioners. We polled our audience to find out the main obstacles for IT change in their business. The overwhelming consensus, at 43% of voters, was that the high cost of technology implementation is their biggest barrier. 32% cited the length of implementation, 21% were concerned by the lack of international standards, and only 4% cited low digital responsiveness from customers.

It's clear, then, that tech transition is in clients' interests – it's the timely and costly implementation that causes the problem. 'Many institutions see the implementation of technology as an obstacle rather than a tool to ignite growth,' says Fadani. Indeed, a lot of institutions still use legacy technology that can be difficult when it comes to integrating new solutions. 'Implementation requires an initial investment of time, people, money, resources – but new technology must be seen as a solution', Fadani continues.

The long-term benefits, he says, far outweigh the initial cost. It is hard to embrace change from the outset, but more effective solutions will come to save time, money, and resources.

Trade, as we know, can be subject to fraud – this is another factor that elicits some hesitation when it comes to relying on tech. In fact, if done the right way, tech can help prevent money laundering and speed up the process in the meantime.

For example, some AI based tools can optimise online onboarding as they are linked to the global identification database and can verify clients' identities in a streamlined, efficient manner. AI can provide deeper analyses of existing cases of fraud and reduce the number of false positives we can come across in manual AML processes. Overall, by streamlining AML and KYC procedures, tech- based solutions can mitigate the very barriers that make access to finance so difficult for SMEs.

A case of competition?

For the past few years, some institutions have expressed concern that emerging Fin-Tech space will overcrowd the banking market. However, as Wissing says, 'today the potential for collaboration outweighs the threat of competition.'

Despite some reluctance caused by initial investment, the majority of banks understand the benefits of new technology. However, their priority is and should remain providing the best service to customers, rather than delving into the technicalities of digital solutions. This, our panellists agree, is where partnership is key.

In the initial stages, banks should be clear with tech partners as to their aims. Are they investing in tech to reduce manual work? To streamline processes? To implement new procedures? To reduce operational costs? To access new clients? Once these goals are established, technology partners can help to develop the optimal solutions. Even Lloyds, whose recently upgraded digital platform is state of the art, is keen to collaborate with external providers.

Promissory notes and Letters of Credit (LCs), says Wissing, are fantastic candidates for digitisation via collaborative effort. They are some of the oldest and most trusted tools in the trade finance kit, and for good reason. Collaboration between bank and tech providers would work incredibly well to 'supercharge' these already robust trade finance tools, making them more streamlined.

The difference lies not with the tech capacity, but with industry standards. Traditional trade finance instruments like the LC have very clear rules, such as the uniform customs code, which make it easy to process LCs in most countries. The lack of standardisation in other instruments is the reason that industry bodies get involved, and colla boration between the industry and tech is vital to make this work.

Tech in a post-Covid world?

'You must remain agile', Wissing says in closing, 'You must not only have a plan B, but plans C, D, and E – and then be willing to follow them.'

'We have to be flexible,' Fadani concurs, 'We don't know what will happen over the next months, to our personal lives or in the trade finance world. But we must accept the change, and it might just help us grow.'

'The trend is pretty clear', says Zakai, 'the gap remains around the same amount, the number of rejected applications for finance remains about the same. It's that stagnation and lack of progress that we want to tackle.'

So much has changed in the last few months. The great lockdown has made more institutions comfortable with working from home, changed personal choices around travel, and generally promoted flexible working patterns. The trade world has been pushing a tech transformation for years now, maybe this time we will see a long-lasting transition to digital.

Trade credit insurance: When the short term turns long (and possibly nasty)

Are we going to be looking at a whole different playing field for trade credit insurance across borders as the pandemic works itself through the financial system? Katharine Morton, head of trade, treasury & risk at TXF, investigates the potential lumps and bumps along the way

Credit insurance is based upon a failure to pay. That is the failure of the buyer to pay the seller. This can be known as default. That is to say, payment is not made, but that default could be the result of temporary problems in the case of the buyer or of problems outside the buyer's control. Most obviously a buyer's failure to pay will be the result of their own insolvency, and that results in straightforward insolvency proceedings. And, in the normal course of events, there then follows a process of recovery.

In certain circumstances, however, there is a process of arrangement. This can be done in certain countries with various arrangements they call CVAs in the UK, Chapter 11 in the US and so on. The details are not important here, but what is important is that the buyer is not in a position to pay, at least not exactly under contractual terms. These things can be sorted out bilaterally. Under normal circumstances, the buyer will either go bust now or will go bust later. As Valerio Ranciaro, director general at SACE SRV points out, "And then it becomes a question of recovery (or restructuring) process, depending on the amount at stake and the nature of the financial distress of the debtor. According to the selected process (restructuring or recovery), the time before the first repayments will vary significantly."

Not only this, the nature of restructuring also is changing. It was something limited, until recently, to insolvency specialists. Ranciaro says, "In the EU alone, the Covid-19 crisis will increase the business failure rate (starting Q4 2020/Q1 2021, depending on the individual country and on the relevant government interventions) by an average of nearly eight percentage points." This statement is backed, among other things, by a recent estimate by the IMF (see table).

Country-Level SME Bankruptcy Rates

	Non-COVID	COVID-19	Δ
Belgium	7.75	14.18	6.42
Czech Republic	8.24	13.59	5.35
Finland	8.35	16.91	8.56
Greece	10.43	16.37	5.94
Hungary	8.22	14.01	5.79
Italy	9.91	22.68	12.77
Poland	11.68	20.45	8.77
Portugal	12.21	19.65	7.44
Romania	15.77	23.18	7.41
Slovak Republic	10.41	16.05	5.64
Slovenia	7.25	15.95	8.71
Spain	8.98	15.50	6.52

Source: IMF Working Paper 20/207

"Many governments introduced a moratorium on insolvency proceedings (including court-supervised restructurings and schemes of arrangement) and execution-related proceedings (including seizures). In some countries these measures have been, or will be, extended as a second wave of the pandemic is now striking," Ranciaro adds. "Once these measures are lifted, many corporates won't be a going concern anymore as they will face a) reimbursements that were suspended (but accumulated) for some months, and b) the lifting of the moratoriums that were introduced by governments."

The provision of liquidity in various forms (money, credit and whatever a banking system can provide, most often through the support of a sovereign government) will hopefully help limit some corporate failures. A sovereign government doing this internally through its banking system is one thing. A sovereign government providing support to international trade insurance is different in concept, simply because any internal domestic arrangement, most straightforwardly is on the balance sheet of that government, its Treasury, central bank and government departments.

However, in the case of international trade insurance, the insurance is extended to a foreign buyer and this is where trade credit insurance excels. And that is perhaps a euro-based supplier to a dollar-based buyer, or indeed between currencies less liquid in the international markets. But there is a difference.

What we have at the moment, therefore, is that a foreign buyer will perhaps have access to their own country's internal Covid-19 amelioration measures. That is to say, help for their own employees, working capital structures and so on, which are completely different from those in their international trade arrangements. But their international trade arrangements will typically make up anywhere from zero to, say, 50% of their buying or selling turnover.

Time matters

To come back to the abbreviated version, credit insurance protects against non-payment. That's simple enough, but that non-payment on a due date could be the result of straightforward insolvency, which is the bankruptcy of the buyer, or it could be due to a temporary situation of financial stress.

It could be a temporary situation of illiquidity, which in itself could be due to a temporary difficulty on the part of the buyer, namely the buyer has no money or a temporary difficulty beyond the control of the buyer. That could be their sovereign country does not allow them the foreign currency or even domestic currency to enable them to fulfil their obligations. This is therefore technically a default, but does not represent bankruptcy. In the case of a technical bankruptcy, the case is straightforward. The creditors of the bankrupt must pursue in the normal way, usually through a court-administrated process, to obtain collections and recovery. However, in the case of a default which might be temporary and beyond the ability or the power of the buyer, this might be resolved in a period of, say, three months or six months or 12 months. And in the case of trade credit, where we are dealing for the most part with 30, 60, 90, 180 or perhaps 360 day credit, there really is very little difference, especially in this period of low interest rates, if we call them 60, 180 even 720 (two year) credit.

The various measures which have been adopted by governments, therefore, should be regarded on a case by case basis. That raises a challenge. It is very difficult to work out what, say, the US government might be doing through its banking system to support its industries as distinct from what, say, the UK or Germany, or any government might be doing through direct government assistance to support different sorts of industries.

And as Jonny Carruthers, director at BPL Global says, "Policyholders are potentially being 'penalised' for being located in countries without state support (for example Switzerland) in comparison with Germany, France or the UK. Essentially it's the luck of the draw as to how your government has responded to the crisis. Also, nobody really knows what will happen to cover in early 2021, when the various state support schemes are due to end."

It's therefore difficult to know and impossible to analyse the different measures which different governments have put in place to support their industries. It's even more difficult to work out when these will expire. And a normal insurance market, it might be that a policy is issued on a certain date x and expires on a certain day x plus 365 days and is reinstated on day 366.

Robert Nijhout, executive director of the International Credit Insurance & Surety Association (ICISA) says: "It is important to emphasise that schemes have not been introduced due to concerns about the financial stability of the private market. Indeed, the schemes do not benefit insurers, per se, nor are they required to address some form of disfunction in the market."

Nijhout adds, "By linking renewals to credit insurance support schemes one should note that the schemes are aimed at whole-turnover policies, which are by far the largest trade credit insurance segment. These policies cover average credit terms of three to six months and up to 12 months so the risk tail is limited."

The objective of these [government support] schemes is to enhance the credit quality of a buyer so that a credit limit can be maintained. Nijhout points out: "Policies have hundreds and sometimes thousands of credit limits on a revolving basis which can be cancelled by the underwriter for new deliveries if the information on that buyer is negative or worse. This is what these schemes aim to avoid during the pandemic."

It's important to note, as Nijhout says, that buyers may or may not be subject to state support. Some are not affected by the pandemic while others even benefit from it. And many buyers are in countries without a support scheme so the risk outlook is not dependent on these. "So on a policy level the outlook differs widely. Schemes neither address the single situation market nor non-cancellable limits. Most schemes were negotiated by the private trade credit insurers and the government and therefore focus on the majority of their business, namely, the whole-turnover segment."

All of this does not apply to other government support measures, of course, which can also affect risks, such as the suspension of insolvency legislation in some countries.

Governments have no understanding of time as it is normally understood in the financial world, and therefore can institute emergency measures at any time through 365 days, as they wish. And because they are instituting crisis measures according to domestic lobbying, there may be x number of different measures over that period. When these measures expire is irrelevant to international credit insurance, but it will have an impact upon the claims record thereafter so that when the government measure to support credit insurance expires, there could still be a long tail. Most insurance policies in many developed markets run in a calendar year and renew in January. That's going to be interesting to see both from buyers' and sellers' perspectives.

When we speak of long tails, when we speak of long and large exposures, we have traditionally been thinking in terms of the export credit sector that is not just long, but very long and not just large, but very large. The long and large that was such a problem in the reinsurance sector will now find itself to be a problem in the short term credit insurance sector that there will be, instead of short and small little, big bumps, there will now be long, big, huge, large. Not bumps, but summits.

Overcoming Catch-22 and Covid-19: A treasury perspective on trade

Henrik Welch, vice president and group treasurer at Alfa Laval discusses treasury perspectives on navigating international trade and cross border working capital management with TXF, and the need for banks and ECAs to step up further

TXF: You have a background that spans working in export credit agencies, large exporters and banks so you are ideally placed to give a broad perspective. To what extent has Alfa Laval been using trade finance products during the current crisis? And how has it changed your own perspectives on financing trade?

Henrik Welch (HW): We're using trade finance instruments on an almost daily basis. We do a lot of commercial contracts where we have the usual guarantees issued on behalf of us, but we also look to letters of credit and some customer financing tools as well. So we are absolutely following it on a daily basis with our trade finance team.

TXF: Alfa Laval extended the maturity and size of its revolving credit facilities back in April, and like many companies, has got a good liquidity buffer. Where does trade sit within your capital structure and treasury and how is that changing?

HW: It's quite an interesting question, because often CFOs or boards don't take trade finance into the capital structure as such. So they look more to what the equity position is, the capital markets issues and what medium/long term debt is. But I have had [the significance of trade finance] put into the different companies that I've worked in, [emphasised] that it's extremely important that we have significant guarantee lines with the banks, that we have bank lines to be able to confirm letters of credit, or do bank transactions without confirming letters of credit because we have counterparty limits on the banks. So it basically it sits under my responsibility. And it is one element that we have a good look at to ensure that we have adequate lines, and so on.

TXF: Do you think that companies small and large are getting the support on short term trade that they need to thrive? Specifically, looking at the bank perspective, are you getting what you want from banks?

HW: No. That's a very short answer, and I will elaborate. It's to our advantage that we are triple B plus rated with a stable outlook from Standard and Poor's [announced mid-November]. So in that sense, we have a very strong balance sheet. We have very strong bank line support from our banks when it comes to the things that go on the 'Alfa Laval credit', so to speak. But when you talk about trade finance in the more normal fashion, you would look at it in the way of 'how can you actually have banks supporting you, taking some risks on your customers', for example. And there, there is a clear 'no' from our side. We do not see as strong a support there as I would have wanted.

When I started in export finance many years ago, I was working in one of the global banks. Banks then had the whole world as their playground. They were very eager to support local transactions in emerging markets, and the more the merrier. They were very active then. A lot of things have happened since. The banks have retrained themselves to their home markets, we've had a financial crisis that has fuelled that debate as well. Covid-19 is furthering that, and the banks are withdrawing more and more to their home markets and are lacking the appetite to finance transactions in, for example, emerging markets. Add to that lot of the things that have been put onto the banks in terms of KYC, which they then push to their customers, such as sanctions and cybercrime activities. All of those things are absolutely trade finance killers in its normal form. That is one of the things that that we face, and we would like to see more bank support.

TXF: What about the sustainability agenda?

HW: Of course, in addition, a lot of export transactions in the past have been financing globalisation. You saw more and more power [was needed], and hence financing for larger power plants. You saw exploration of mines to support the needs of world development. And there's no doubt that in the recent past, sustainability issues have been factored into investment decisions in the financial markets, which then meant that both banks, and also export credit agencies, were much more focused on a particular sector than maybe being focused on products that actually improve the environment.

If you look at it from that perspective, either is it because involves a fossil fuel, or in our [industry's] case, all palm oil, etc, that [banks/ECAs] just say, 'no, we don't want to touch that industry at all.' And I think there is a very unnuanced view from banks, from ECAs on that.

And that hits a large number of exporters. And even us. We consider ourselves to be very much a green tech company, a company that overall fulfils a lot of the sustainability criteria that have come from the UN. Basically, everything we do is either touching on solving water shortages, improving energy efficiency, solving some of those problems. We can tick a lot of the 'good' boxes. But a lot of the players take a very firm stance. They say 'no, we don't want to be in fossil fuel' or 'we don't want to be in palm oil'. And then add to that when you then come to emerging markets, they may say, 'Oh, it's not a client of ours. We will need to do KYC, it doesn't really make sense as it takes a lot of time and the transaction is too small. So we'd rather pass on that.' Those are the comments we have actually seen more and more of.

TXF: And that's actually been worsening during the crisis, this type of checkbox approach?

HW: The crisis has not helped. For example, the KYC and sanctions element certainly hasn't become easier during the crisis. It was bad before, and it has definitely not become better. What the Covid-19 situation, for example, has meant is that a lot of industries are suffering, a lot of companies are suffering. And that, of course, means that there's also a lack of insurance support to many customers.

And again, that just fuels the fact that the banks are not interested because it would be an even worse nightmare for them if they should have to take extra risk. It's a very difficult situation for trade finance support. We also see some ECAs that actually do the same things. We often use EKN and can also use EKF in some of our transactions, and the banks would typically look to us to take residual risks from time to time. We also see the ECAs being, first and foremost, restrictive on some of the fossil fuels, therefore not necessarily supporting [deals] to the extent that we see competitors doing.

But at the same time, it's a sort of a Catch-22 when the banks are withdrawing their enthusiasm in emerging markets, for example, even though the ECAs could maybe be able to play that role, they don't because they are still afraid of overstepping what would be the banks' territories.

ECAs say, 'we should not compete with the banks, etc,' in their rules of engagement with the transaction. But I also think that often they are afraid of taking a front lead in a transaction, first and foremost, because they are not banks. They maybe don't have the local competence and they don't feel really comfortable in that in that role.

So [ECAs] are not moving a lot either. And this comes back to one of the earlier points. We have a very strong balance sheet, but then it's a matter of whether our board and management will allow us to take more risks in transactions, maybe finance them ourselves without involving the banks. Those are some of the considerations we need to make right now.

TXF: That fits in with the next question, which is to what extent are you actually having to rely more on your supply chain finance (SCF) programmes and self-financing for international trade?

HW: We are definitely considering whether SCF should be part of it when it comes to us wanting to improve our working capital. Of course, our suppliers want to improve that as well, which we can achieve with SCF programmes. When it's our programme it comes back to my point before, that we have a very strong balance sheet, and that part is being supported by our banks and therefore we don't face any problems. Of course, that will be a limit at a certain point, but we don't face any upper limits to how much the banks would like to support those programmes for us.

When we look at it the other way around, if it's our customers that ask the question, we often see that it's not necessarily attractive compared to what our funding rate would normally be. So, either we try to find another solution or we don't engage in discussing it. But I do see that some of these elements are coming up. I'm also talking about suppliers' credits as becoming part of our game. And we are considering how to structure those so that they are efficient. And we could [consider] doing it in an easy way and maybe selling it off afterwards to a bank where we take a lot, or maybe even all, of the risk that is not covered by an ECA. Then the bank will often do a little lighter version of KYC because it's a client of ours and they don't have any risk.

TXF: You've raised some really interesting points about bank reluctance with trade finance generally. But do you think the actual trade finance products themselves need to change for corporates to be able to use them more effectively? Or is it really largely a question of them being fine as they are, they just aren't being used?

HW: If we go many years back, you had a number of global banks that were heavily competing in being the number one trade finance or export finance bank. You hardly see that anymore. It's like they're not really interested in the product because there's a lot of KYC to it and there's also a lot of liquidity in the market, so if they have large customers, they would typically do it without the normal ECA cover.

But there is a need to redevelop the product. I think the [OECD] Consensus rule set up is old fashioned in the world we have today. The fact that ECAs cannot touch short term transactions because they violate the OECD Agreement, etc, where the private market is there. But the private market isn't there all the time. There is a need for some reconstruction of the whole set up. One thing would also be, of course, to our advantage is if the ECAs were even more willing to play the role that they should and support trade and maybe take 100% cover, which would then facilitate many of the transactions falling through without needing to discuss the residual risk portion.

Accelerating the digital trade dynamic for development banks amid Covid-19

How can development banks help with companies moving into digital trade and wanting to use technology as a value add to finance trade amid the Covid-19 crisis? Dr Maria Mogilnaya, principal banker, and Yuka Masumizu, analyst at the EBRD's Trade Facilitation Programme look at how the programme is responding to digitalisation

EBRD's Trade Facilitation Programme and digital solutions for trade

The global Covid-19 pandemic has put a spotlight on the urgent need to move away from paper documents in trade transactions. Trade finance operations across the EBRD regions are still very much paper-based, and letters of credit issued by the issuing banks within the EBRD's Trade facilitation Programme still require submission of documents in hard copy.

Following an invitation by the ICC, the EBRD (through its Trade facilitation Programme and Legal Transition Programme) is examining how the EBRD could, within its mandate, support governments across the EBRD regions to void domestic legal requirements for trade documentation to be in hard copy and adopt the UNCITRAL Model Law on Electronic Transferable Records.

Furthermore, the Trade Facilitation Programme has joined ITFA's Technology Experts for Regulatory Action (TERA) task force and will conduct a short survey in terms of the readiness by the EBRD regions (from the legal and regulatory point of view) to embrace digitalisation in trade finance and this will result in a mapping of key areas for policy dialogue activities in 2021.

On the business side, the EBRD's Trade Facilitation Programme is in discussions with several blockchain consortiums in trade finance to explore how the risk mitigation offered by the EBRD can be incorporated into their workflows. It is important for the EBRD and other development banks to work closely with these consortiums, so that banks across developing countries are not left behind when global commercial banks make the shift to digital processing of trade finance transactions.

This work – both through policy dialogue and digital solutions – will allow local banks across the EBRD regions to speed up the processing time for their trade finance business and reduce the related cost of operations.

The ongoing work of the EBRD's Trade Facilitation Programme in the area of digitalisation in trade finance is an essential element of the EBRD's crisis response to the Covid-19 pandemic.

The EBRD recognises that technology can be a key enabler of transition, so accelerating the digital transition across the EBRD regions will be one of the strategic priorities for the EBRD in the coming years.