TXF RESEARCH

Export Finance Industry Report

2020

Contents

Foreword

Of the many “Vision 2020” thought pieces that went out over the past 12 months, very few will have predicted the situation we find ourselves in now. The Covid-19 pandemic has brought about unprecedented disruption and pain to businesses, families and societies alike.

Navigating the path into a post-Covid-19 environment and getting economies moving again is a monumental task that will challenge us all. A particularly heavy load will be borne by export credit agencies, and all those who work across export finance.

As a notoriously counter cyclical product, now is the time for export finance to step up. Governments will channel liquidity via their ECAs, and borrowers in developed and emerging economies will find that export finance solutions work for them where other financial products no longer can.

Against this backdrop, TXF is proud to introduce our 7th annual Export Finance Industry Report - our most ambitious and timely to date.

Using a combination of surveys and interviews, TXF has sought the views of over 300 importers, exporters, banks, law firms, ECAs, brokers and underwriters. The report takes the pulse of the industry during this most challenging time and provides unique insight into who is driving this business forward, what is working, what is not working, and who is going to be best placed to lead the charge for the industry over this critical next 12 months.

I would like to thank our head of research, Dr Tom Parkman, and the rest of the TXF team for all their hard work in putting this together. I would also like to thank Valentino Gallo, Topi Vesteri, and John Dewar for taking the time to review the report before it went to publication. Your time and expertise have been invaluable in making the report even more insightful and thought-provoking.

Finally, I’d also like to extend my enormous gratitude to all across the industry that have inputted into this report. I have always felt very proud that we get to cover this complex, engaging and crucial industry. In 2020, that pride is stronger than ever.

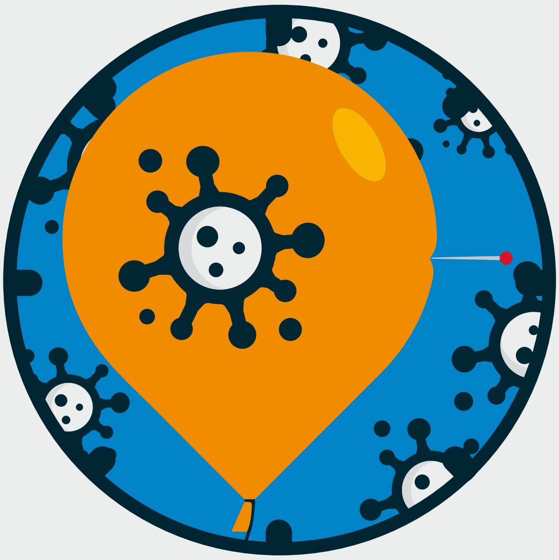
I hope you enjoy the report and wishing you the very best for year ahead. You will all do fine work; I have no doubt.

Dan Sheriff
CEO,
TXF

Executive summary

Prior to Covid-19, there was a positive outlook on the next 12 months of the export finance industry.

After a relatively flat 2019, banks in this report expressed appetite to increase their export finance lending activity in the Middle East, North America and Central and South America, with exporters and importers keen to do more in North America, Asia Pacific and Europe. Looking at the sectors, banks surveyed in this report are set to increase their activity in telecommunications, metals and mining, and petrochemicals, with exporters and importers looking to do more in manufacturing, oil and gas and infrastructure. However, the Covid-19 pandemic has dampened this outlook, causing many to shift their relative optimism to a downbeat outlook for the next 12 months of the industry.



Sanctions continue to frustrate many in the industry.

Following the 2019 edition, sanctions, coupled with ongoing geopolitical tensions in key regions, the US-China trade war and the oil price collapse deriving from the commercial tensions between Russia and Saudi Arabia, continue to bubble under the surface. Compounded by issues with the banks' credit appetite and an extreme uncertainty about key export markets, there are numerous challenges that the industry continues to face. While these were present prior to Covid-19, and might be considered independent of the pandemic, the viral outbreak will only serve to amplify these challenges.

A growing support for all things green.

This report found that 70% of banks, 69% of ECAs and 63% of exporters and importers were prepared to accept lower economic returns if it ensured their ESG goals are met. To add to this, there is a growing optimism that sustainability and ESG-linked practices are becoming a key determinant in decision making, with more than 50% of the respondents stating that sustainability should be at the centre of decision making. With this outlook, the future of the export finance industry is looking green.

Coal, nuclear and defence are the top three sectors where respondents will no longer operate in the future.

These sectors were reported as being the main areas where banks, exporters and importers and ECAs will no longer look to operate in, but it is important to caveat the findings with a more a nuanced overview. While these sectors now carry with them a stigma, they have not always done so and as this report shows, simply no longer working in stigmatised sectors is not such a binary choice.

Exporters and importers should look to gain further clarity on the material adverse changes (MAC) and event of default (EOD) clauses in their lending facility agreements.

The prevailing opinion is that force majeure is the main factor that should be explored by active members of the export finance industry and while that is true, it is vitally important that exporters and importers understand the MAC and EOD clauses of the lending facility agreements. These clauses are often are often very fact-specific and therefore, should be reviewed carefully. Understanding what is covered by the clauses will help exporters and importers recognise how the value of their businesses will be impacted and if they may be subject to lenders cancelling the lending agreement.

Overall, the banks, ECAs and law firms are rated positively by their own exporter and importer clients.

With a total average of 3.5, 3.6 and 3.9 across the banks, ECAs and law firms, respectively, this report found that the most valued attributes by exporters and importers (banks: product offering; ECAs: risk appetite and; law firms: legal expertise) were also the highest scoring attributes across the institution types.

In uncertain times such as these, it is vitally important that banks, ECAs and law firms effectively engage and communicate with their clients. It is reassuring then, that the exporters and importers in this report feel supported and are being guided through the Covid-19 pandemic as best as possible.

Introduction

'After a relatively flat year in 2019, TXF Data predicts a strong 2020 for export finance activity, a forecast supported by the market sentiment and optimism of respondents in this report', is how I anticipated the introduction of this report to begin. Current circumstances, however, dictate that a different, and unfortunately more pessimistic introduction, is required.

Severe acute respiratory syndrome coronavirus-2 (SARS-Cov-2), more commonly known as Covid-19 or coronavirus[1], has impacted the world in a way that almost no one predicted. First and foremost, the global Covid-19 pandemic is a humanitarian crisis, presenting almost impossible challenges for national healthcare systems and the healthcare professionals and scientists working in them to battle the virus. For all their best efforts, this has not been enough to save hundreds of thousands of people. At the time of this report being finalised for publication (May 25th, 2020), Covid-19 has infected 5,304,722 people anclaimed the lives of 342,049 people worldwide (World Health Organisation, 2020).

The impact of Covid-19 on the global economy makes for no lighter reading. Here is a summary of the latest forecasts from some of the world's leading economic commentators:

European Commission

A 9.7% decrease in global trade by the end of 2020.

Covid-19 is expected to cause a contraction of 9.2% in EU exports and services. This amounts to approximately €285 billion.

Covid-19 is expected to cause a contraction of 8.8% in EU importers, equating to approximately €240 billion. Manufacturing, transport and electrical machinery are expected to be the most severely affected with a predicted contraction of more than 10% in these industries.

Financial Times

The Chinese, European and US economies are forecast to contract by as much as 20% in H1 2020, more than triple that of the 2008 financial crisis.

By the end of 2020, the US economy is forecast to have contracted by between 11% and 12%.

International Monetary Fund

The global economy is expected to shrink by 3%, equating to approximately $2.7 trillion[2].

Major advanced economies (the G7 nations) are predicted to be the worst hit, with an average contraction of 6.2% ($5.9 trillion).

Western Europe is predicted to shrink by 7.5%, or $6.8 trillion.

United Nations

The global economy could shrink by 0.9%. Prior to Covid-19, the economy in 2020 was forecast to grow by 2.5%. This represents a minus 3.4% swing.

If it shrinks by 0.9%, that equates to approximately $814 billion[2].

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[1] For the purpose of this report, 'Covid-19' will be used throughout when referring to the virus.

[2] Based on a global GDP of $90.5 trillion (https://www.statista.com/statistics/268750/global-gross-domestic-product-gdp/)

World Trade Organisation

Global trade is set to plummet by between 13% and 32% by the end of 2020.

Nearly all regions will suffer double-digit declines in trade volume, with exports from North America and Asia Pacific hit the hardest.

Trade will fall much more steeply in sectors with complex value and supple chains (export finance included).

Looking at which sectors are most likely to be impacted by Covid-19, a report conducted by McKinsey & Company found that market capitalisation has, and will continue to decline, across more than 30 industry sectors including, air and travel; oil and gas; the banking and insurance sectors; transport and infrastructure; petrochemicals; healthcare facilities and services; telecommunications, and; power (both conventional and renewable energy) (McKinsey and Company, 2020); all of which are core export finance sectors.

The United Nations (UN) also posit that Covid-19 could cause the equivalent of 195 million job losses, with food and accommodation, retail and wholesale, business services and administration and manufacturing the worst affected industries (UN, 2020b). While a potential recovery is predicted in 2021, a second wave of the virus or a longer than predicted outbreak could lay waste to this rehabilitation.

Unfortunately, due to the global reach of export finance activity across all regions and most sectors, the industry is going to be hit hard by Covid-19. Several questions remain, such as which regions and sectors will be hit the hardest? And what will the industry look like in a world post Covid-19?

Understandably, Covid-19 is the single most discussed topic of the moment, but it is important to remember, albeit that it feels like some time ago, that export finance did exist prior to Covid-19, and it will continue to exist after Covid-19. Consequently, this report also delves into the latest trends that continue to dominate the industry, such as the ever-present topic of sustainability and what the exporters and importers think of the banks, ECAs and law firms they readily engage with.

Aim

There are two primary aims to the Export Finance Industry Report:

1. To present data on the past 12 months of export finance activity, its current state, and what lies ahead for the industry.

2. To present heatmaps that enable the export finance banks, ECAs and law firms to be compared across a range of industry-specific attributes. The data that make up these heatmaps come from the exporter and importer clients of the banks, ECAs and law firms.

In response to the ongoing Covid-19 pandemic, there is an additional secondary aim of this report:

3. To present data collected from an addendum survey that explored the current and future impact of the Covid-19 crisis on the export finance industry.

The data in this report will present the most comprehensive and detailed picture of what the export finance industry looked like *prior* to the Covid-19 crisis, how it is *currently* being affected by the crisis and how the industry has reacted, and what the industry might look like *after* the pandemic.

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[3] TXF Research is aware that Covid-19 had emerged prior to the 26th January 2020 but at this point, it was limited to parts of China, with few in the export finance industry concerned about its global impact.

Methodology

This report is based on data collected using a mixed methods design that involved a quantitative and a qualitative component. The quantitative data was collected using an online survey platform (SurveyMonkey) while telephone interviews were used to collect the qualitative data.

The survey

The quantitative findings in this report are based on data collected from two surveys:

- **The Export Finance Industry Survey.** This was launched on 26th January 2020, prior the Covid-19 pandemic[3], and closed on 2nd April, 2020. To ensure the survey maintained high reliability (specifically, its internal consistency over time and across items[4]), the survey was kept the same throughout the data collection period.

This meant that all respondents had the opportunity to respond to the same questions. This survey covered: **i)** background and demographics; **ii)** an overview of the export finance industry; **iii)** the growth of sustainability; **iv)** what lies ahead for the industry, and; **v)** industry-specific data, including the heatmaps.

- **The Export Finance Industry Survey: a detailed look at the impact of Covid-19.** This addendum survey was launched on 8th April, 2020 and closed on 22nd April 2020. The 21 questions in this survey explored: **i)** the impact of Covid-19 on the current and future state of the industry; **ii)** consequences of Covid-19; **iii)** material adverse change, event of default and force majeure, and; **iv)** its impact on ECA pricing.

For the benefit of the report, the findings for each survey were analysed and integrated to produce one complete data set. No duplicate data from the same institution was included. If we received more than one survey response from the same institution, we took the average across the responses. This approach ensured that every individual institution was weighted the same.

To provide additional context, closed deal data from TXF Data is included.

Telephone interviews

To explain the quantitative trends, in-depth, semi-structured telephone interviews were conducted with 15 respondents to understand ***why*** and ***how*** the the quantitative trends occurred.

The topic guide for the interview was based on each individual's survey responses to ensure that the conversation remained focussed. Interviews were conducted between January and April 2020, lasted between 15 minutes and 33 minutes, and were audio recorded for accuracy and further analysis. Any qualitative data used throughout this report has been anonymised with all identifying information removed to protect the anonymity of the interviewee.

The TXF view

Throughout the report, TXF provides its interpretation on some of the key findings. These comments are designed to be thought provoking and offer a more holistic view on the implication of the data for the industry. As one of the leading voices in the export finance space, this will give readers greater insight and understanding of the perpetually changing landscape of export finance.

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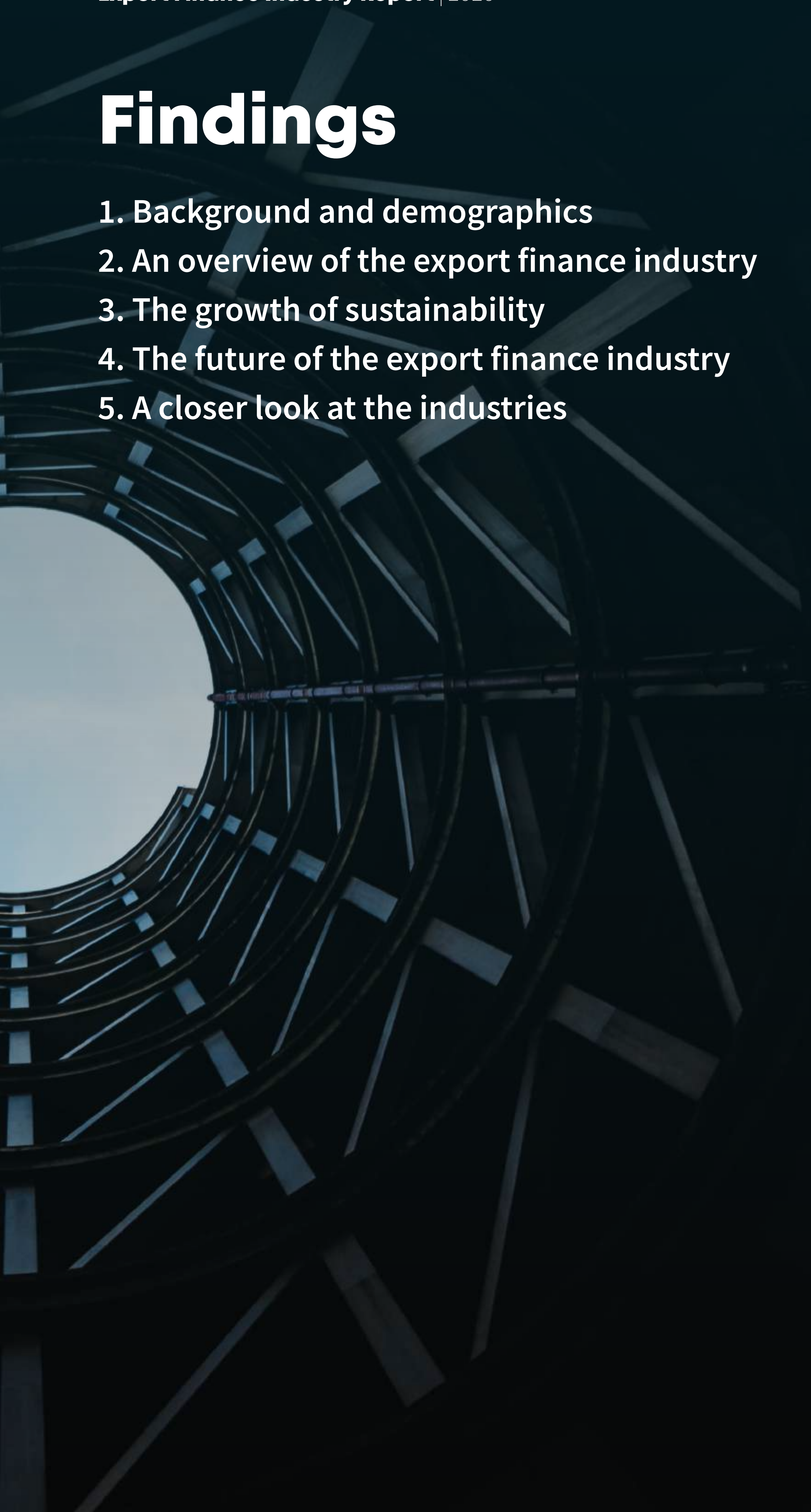
[4] In quantitative research, there are three types of reliability: **i)** consistency over time; **ii)** consistency across items, and; **iii)** consistency across researchers. If the Export Finance Industry Survey had been augmented to include Covid-19 questions, the survey's consistency over time and across items would have been affected. To circumnavigate this issue, the addendum survey was published separately.

Findings

1. Background and demographics
2. An overview of the export finance industry
3. The growth of sustainability
4. The future of the export finance industry
5. A closer look at the industries



Background and demographics

In total, 313 respondents from banks, ECAs, exporters, importers, law firms and private insurers completed the survey (figure 1). Given that the purpose of this report is to explore the export finance approach of each institution at a strategic level, it is encouraging that nearly three-quarters of the respondents were in senior roles (46%) or were operating as a global head or director (26%) (figure 2). On average, export finance teams had 10 full time staff and two additional part time staff members operating in them (figure 3).

Perhaps unsurprisingly, Europe was the most represented region for company headquarters (71%), followed by Asia Pacific (27%) (figure 4). Given the European centric nature of export finance, with many exporters located in western Europe, combined with Europe housing a large number of countries that have their own ECA, this is understandable.

Encouragingly, this year's edition has also captured data from more importers compared to the 2019 *Export Finance Industry* Report (2020: 17%; 2019: 12%). Considering that this year's sample is larger than in 2019 (259 respondents), this equates to a real term increase of 22 importers (2019: 31 importers; 2020: 53 importers). Capturing the views of more importers, who tend to be more difficult to access than banks and exporters, was a conscious effort for this report, as they provide a different perspective which is extremely critical for the export finance industry.

Figure 1: *Type of respondent*

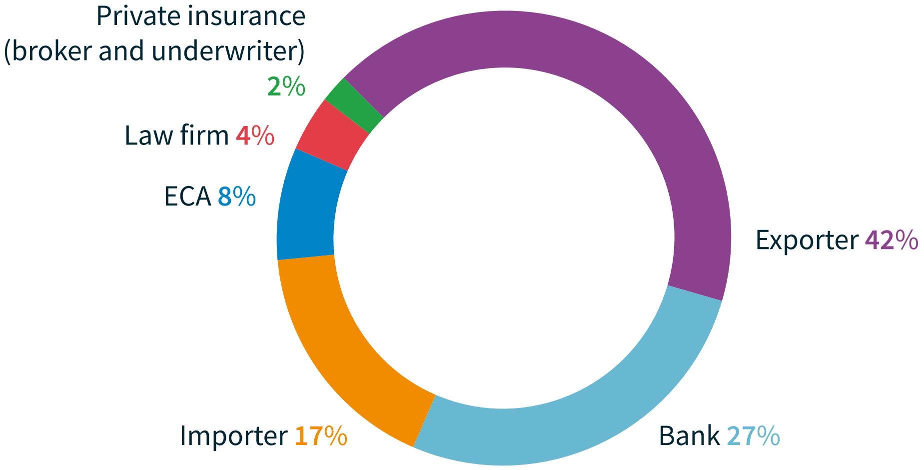


Figure 2: *Seniority of the respondents*

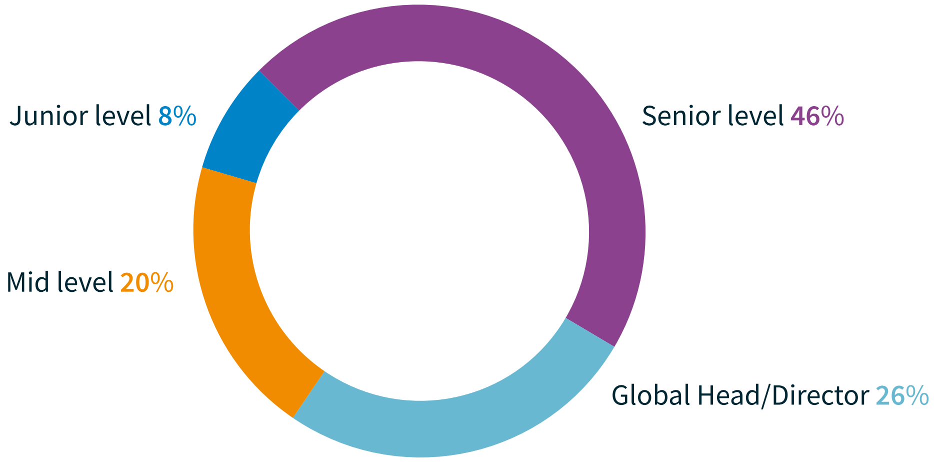
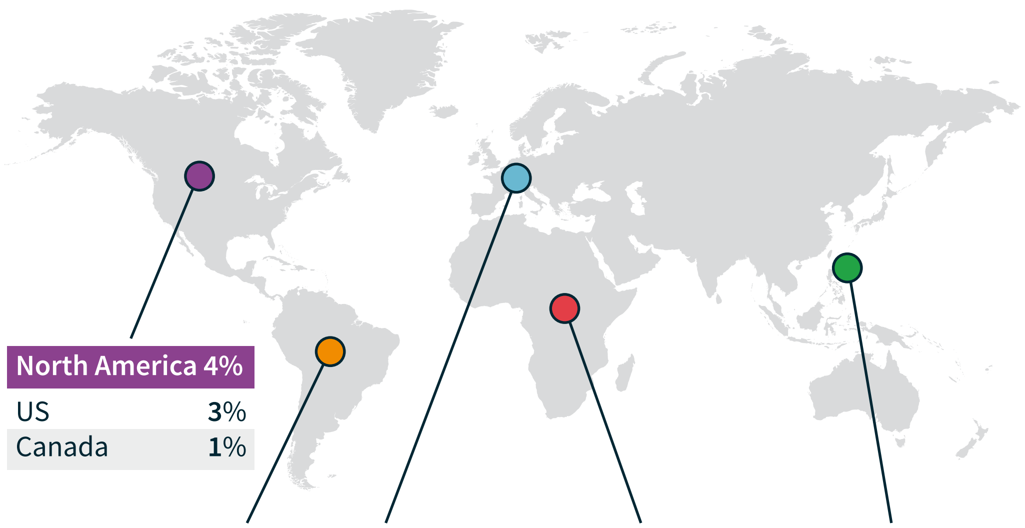


Figure 3: *Number of staff in the export finance teams*

Figure 4: *Country location of the company headquarters*



North America 4%	
US	3%
Canada	1%

Central and South America 2%	
Mexico	2%

Europe 71%	
Germany	13%
France	11%
Spain	9%
UK	8%
Switzerland	5%
Netherlands	4%
Italy	4%
Denmark	2%
Austria	2%
Turkey	2%
Belgium	2%
Finland	2%
Sweden	1%
Portugal	1%
Estonia	1%
Ireland	1%
Czech Republic	1%
Norway	1%
Cyprus	1%

Africa 3%	
South Africa	1%
Nigeria	1%
Côte d'Ivore	1%

Asia Pacific 27%	
Indonesia	7%
South Korea	5%
Singapore	3%
Japan	3%
Australia	2%
Hong Kong	1%
India	1%
China	1%
Bangladesh	1%
Vietnam	1%
Pakistan	1%
Sri Lanka	1%

An overview of the export finance industry

- Outlook
- Regional activity and investment
- Sector activity and investment
- Challenges in the export finance industry

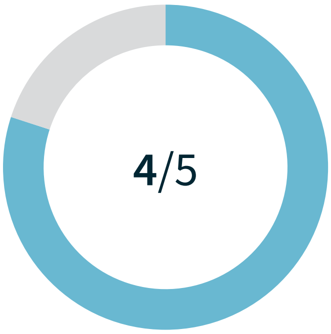
Outlook

Before the Covid-19 pandemic, the respondents were collectively optimistic about the export finance industry, with an average score of four out of five. However, since the outbreak, the addendum Covid-19 survey respondents are less optimistic about the industry's outlook, with the average score dropping to two out of five (figure 5).

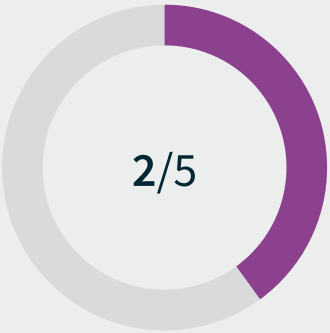
Arguably the greatest strength of export finance is its diversification across many industry sectors and geographical regions. However, in a crisis such as this, where a global pandemic is not industry specific, the export finance industry's exposure to so many industry types turns its greatest strength, into its greatest weakness.

This is likely why when compared to the financial crash of 2008, 85% of the sample said that Covid-19 is more damaging to the global economy (figure 6). While in both cases, the global economy felt a sharp contraction, in the case of Covid-19, widespread social distancing measures put in place by governments to stem the spread of the disease, has led to a global disruption in supply chains not seen in 2008 (Economic Times, 2020).

Figure 5: *Outlook on the export finance industry prior to, and after, covid-19*



Before covid-19



After covid-19

Figure 6: *Is the covid-19 global pandemic more damaging than the 2008 financial crash?*

Regional activity and investment

Over the past 12 months, banks in this report have been very active in the Middle East (37%), Europe (32%) and Africa (30%), and not active in North America (31%), Central and South America (27%) (figure 7).

According to ‘closed deal’ data on TXF Data, the Middle East was the most active region by financial institutions over the past 12 months, with a total of $14.2 billion across 95 deals (mostly in the oil and gas sector). Comparatively, North America ($7.8 billion) and Central and South America ($7.2 billion) combined came to $15 billion across 151 deals. This suggests that not only did the Middle East receive more financing from financial institutions over the past 12 months, but the deal volumes were larger too.

Interestingly, the opposite is true for exporters and importers. They have been most active in Central and South America (76%), North America (74%) and Asia Pacific (62%) and not as active in Europe (71%), the Middle East (68%) and Africa (66%). Comparatively, the ECAs look to be involved in a much reduced capacity compared to the banks and exporters and importers (figure 7).

In terms of lending activity, banks in this survey have lent, on average, most in the Middle East ($657 million), followed by Europe ($511 million) and Asia-Pacific closely behind ($510 million). Looking at the exporters and importers, they have the highest total average revenue streams allocated in Europe ($280 million), Central and South America ($276 million) and Asia Pacific ($263 million) (figure 8).

Figure 7: *Regional export activity over the past 12 months, by respondent type*

		Bank	Exporter and Importer	ECA
Very active	Africa	30%	52%	11%
	Asia-Pacific	28%	62%	9%
	Central and South America	15%	76%	9%
	Europe (including Russia and Turkey)	32%	57%	7%
	Middle East	37%	49%	10%
	North America	21%	74%	5%
Somewhat active	Africa	34%	52%	10%
	Asia-Pacific	37%	49%	10%
	Central and South America	40%	45%	13%
	Europe (including Russia and Turkey)	26%	50%	15%
	Middle East	27%	57%	12%
	North America	41%	41%	19%
Not active	Africa	25%	66%	9%
	Asia-Pacific	15%	65%	10%
	Central and South America	27%	57%	8%
	Europe (including Russia and Turkey)	19%	71%	10%
	Middle East	21%	68%	7%
	North America	31%	52%	10%

Figure 8: *Average total for regional export finance volume over the past 12 months, by respondent type*

	Bank	Exporter and Importer
Africa	**$217,000,000**	**$130,000,000**
Asia-Pacific	**$510,000,000**	**$263,000,000**
Central and South America	**$281,000,000**	**$276,000,000**
Europe (including Russia and Turkey)	**$511,000,000**	**$280,000,000**
Middle East	**$657,000,000**	**$113,000,000**
North America	**$488,000,000**	**$139,000,000**

Prior to Covid-19, banks' regional export activity over the *next* 12 months is focussed on doing more activity in the Middle East and North America (both 35%) and Central and South America (30%) (figure 9); activity that will see an average lending from banks of $652 million, $397 million and $322 million extended to these regions, respectively (figure 10). Importantly, one respondent explained that while the Middle East might be a potential hotspot for future export finance activity, caution is required:

"I think MENA [the Middle East and North America] is going to see [export] activity increase over the next few years… But the same challenges still exist… for example… culturally, the language barrier… and especially financing in Islamic cultures are all key areas that need to be understood." **[Bank; Europe]**

Exporters and importers are expected to do more activity in North America (65%), Asia Pacific (61%) and Europe (59%) (figure 9), with average revenues of $241 million, $229 million and $288 million, respectively, which ties in with these three regions being the most active regions by this cohort (figure 10).

Figure 9: *Expected regional activity over the next 12 months, by respondent type*[5]

		Bank	Exporter and Importer	ECA
More active	Africa	28%	47%	11%
	Asia-Pacific	27%	61%	9%
	Central and South America	30%	55%	9%
	Europe (including Russia and Turkey)	27%	59%	5%
	Middle East	35%	50%	9%
	North America	35%	65%	0%
About the same	Africa	30%	50%	9%
	Asia-Pacific	29%	55%	10%
	Central and South America	28%	62%	7%
	Europe (including Russia and Turkey)	30%	56%	10%
	Middle East	28%	59%	10%
	North America	32%	56%	8%
Less active	Africa	25%	61%	10%
	Asia-Pacific	45%	55%	0%
	Central and South America	27%	53%	20%
	Europe (including Russia and Turkey)	30%	60%	10%
	Middle East	36%	57%	7%
	North America	13%	56%	31%

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[5] Values may not equal 100% as private insurer data has been removed due to small sample sizes.

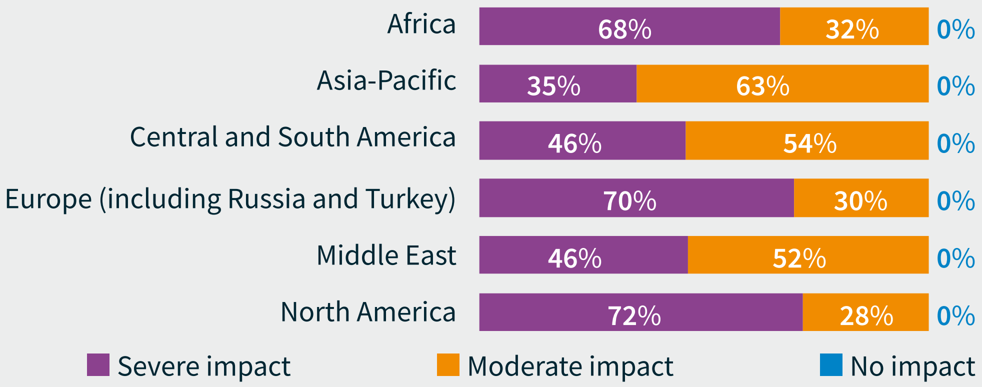
Figure 10: *Average total for regional export finance volume over the next 12 months, by respondent type*

	Bank	Exporter and Importer
Africa	**$312,000,000**	**$164,000,000**
Asia-Pacific	**$488,000,000**	**$229,000,000**
Central and South America	**$322,000,000**	**$113,000,000**
Europe (including Russia and Turkey)	**$564,000,000**	**$288,000,000**
Middle East	**$652,000,000**	**$113,000,000**
North America	**$397,000,000**	**$241,000,000**

Unsurprisingly, however, the addendum Covid-19 survey respondents noted that every region will experience at least a moderately negative impact on its export finance activity, with North America (72%), Europe (70%), and Africa (68%) the regions where most respondents feel a severe impact is likely to occur (figure 11).

Until there is clarity on how the Covid-19 pandemic might resolve itself, systemic problems in business operation will persist. Based on the widely varying opinion on how long a Covid-19 vaccine will take, the export finance industry is likely to experience uncertainty well into 2021 and, quite possibly, beyond.

Figure 11: *Regional impact of covid-19 over the next 12 months*



Sector activity and investment

Over the past 12 months, on average, banks in this report were very active in petrochemicals (52%), telecommunications (50%) and power (46%) (non-renewable), with no activity in defence (34%), metals and mining (25%) and transport (22%). Conversely, exporters and importers were most active in metals and mining (69%), transport (55%) and manufacturing (54%), but on average, were not active at all in infrastructure (71%), telecommunications (70%) and transport (69%) (figure 12).

ECAs were most active in defence (20%), power and renewable energy (both 14%), and not active in oil and gas (23%) infrastructure and petrochemicals (both 21%) (figure 12). One respondent explained that over the past 12 months, there has been a concerted effort by European ECAs to move towards sustainable deals, led primarily by the Nordic ECAs:

"The likes of GIEK [Norwegian ECA], SERV [Swiss ECA], EKF [Danish ECA] and EKN [Swedish ECA] are really pushing hard from a policy angle to be known for sustainable and green deals… they are actively moving away from traditional source of power like oil and gas." **[ECA; Europe]**

Figure 12: *Export finance sector activity over the past 12 months, by respondent type*[6]

		Bank	Exporter and Importer	ECA
Very active	Defence	30%	50%	20%
	Infrastructure	34%	52%	8%
	Manufacturing	26%	54%	15%
	Metals and mining	13%	69%	13%
	Oil & gas	42%	42%	5%
	Petrochemicals	52%	35%	4%
	Power	46%	32%	14%
	Renewable energy	40%	42%	14%
	Telecommunications	50%	31%	13%
	Transport	31%	55%	10%
Somewhat active	Defence	50%	36%	9%
	Infrastructure	49%	40%	9%
	Manufacturing	56%	38%	6%
	Metals and mining	55%	26%	11%
	Oil & gas	52%	39%	10%
	Petrochemicals	56%	37%	7%
	Power	47%	41%	9%
	Renewable energy	50%	37%	10%
	Telecommunications	68%	13%	19%
	Transport	57%	25%	14%
Not active	Defence	34%	49%	12%
	Infrastructure	7%	71%	21%
	Manufacturing	21%	66%	10%
	Metals and mining	25%	60%	13%
	Oil & gas	17%	57%	23%
	Petrochemicals	19%	56%	21%
	Power	14%	69%	17%
	Renewable energy	18%	68%	12%
	Telecommunications	18%	70%	9%
	Transport	22%	69%	9%

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[6] Values may not equal 100% as private insurer data has been removed due to small sample sizes.

Looking at bank lending over the past 12 months, banks in this report lent, on average, most in telecommunications ($529 million), transport ($389 million) and infrastructure ($375 million). Exporters and importers had the highest revenues in manufacturing ($379 million), infrastructure ($309 million) and power ($288 million) (figure 13).

Given the massive Amur gas processing plant that closed at $12.8 billion in December 2019, a deal where multiple banks were involved, it raises the question, why is oil and gas not more prominent in figure 13? The reason is because the top three banks involved in this deal were the Bank of China, China Construction Development Bank, and the China development Bank, all of whom did not take part in this survey.

Figure 13: *Average total for regional export finance volume over the past 12 months, by respondent type*

	Bank	Exporter and Importer
Defence	$315,000,000	$50,000,000
Infrastructure	$375,000,000	$309,000,000
Manufacturing	$153,000,000	$379,000,000
Metals and mining	$125,000,000	$179,000,000
Oil & gas	$305,000,000	$240,000,000
Petrochemicals	$307,000,000	$225,000,000
Power	$360,000,000	$288,000,000
Renewable energy	$296,000,000	$215,000,000
Telecommunications	$529,000,000	$267,000,000
Transport	$389,000,000	$242,000,000

Over the next 12 months, trends in this report suggest that banks are looking to greater levels of activity in telecommunications (74%) and metals and mining (54%) with survey data suggesting that lending is set to be $620 million and $140 million, respectively. Exporters and importers anticipate doing more activity in manufacturing (61%) with an average total revenue of $275 million; a sector they are already very active in (figures 14 and 15).

The qualitative interviews paint a slightly different picture. One European exporter explained that over the next few years, they anticipate strong investment in renewable energy:

"I think you will see a big push in renewable energy sources over the next few years. Of course, sectors like oil and gas will continue as it is engrained in the economy…, but I think you will see portfolio's being increasingly filled by renewable [energy] investments… it ties in closely with the general push towards sustainability." **[Exporter; Europe]**

Trends in TXF Data over the past three years suggest that renewable energy activity is on the rise. In 2017, just 32% of export finance activity in the power sector[7] was in renewable energy sources, a figure which jumped to 54% in 2018 and 59% in 2019. These data are encouraging but it is important to remember that oil and gas is still king. The massive $12.8 billion Amur gas processing power plant is a stark reminder that while renewable energy is gaining traction, it has some way to go before it matches more traditional energy sources.

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[7] TXF Data includes both renewable and non-renewable energy sources within *power*.

Figure 14: *Expected sector activity over the next 12 months, by respondent type*[8]

		Bank	Exporter and Importer
More active	Defence	44%	44%
	Infrastructure	36%	55%
	Manufacturing	28%	61%
	Metals and mining	54%	46%
	Oil & gas	30%	57%
	Petrochemicals	50%	50%
	Power	48%	43%
	Renewable energy	46%	40%
	Telecommunications	74%	16%
	Transport	42%	45%
About the same	Defence	37%	48%
	Infrastructure	38%	48%
	Manufacturing	37%	48%
	Metals and mining	34%	48%
	Oil & gas	42%	42%
	Petrochemicals	37%	46%
	Power	35%	48%
	Renewable energy	26%	57%
	Telecommunications	33%	51%
	Transport	30%	55%
Less active	Defence	56%	44%
	Infrastructure	20%	80%
	Manufacturing	33%	67%
	Metals and mining	38%	54%
	Oil & gas	35%	55%
	Petrochemicals	38%	54%
	Power	25%	50%
	Renewable energy	0%	100%
	Telecommunications	20%	80%
	Transport	57%	43%

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[8] Values may not equal 100% as private insurer data has been removed due to small sample sizes.

Figure 15: *Average total for regional export finance volume over the next 12 months, by respondent type*

	Bank	Exporter and Importer
Defence	$270,000,000	$50,000,000
Infrastructure	$358,000,000	$178,000,000
Manufacturing	$215,000,000	$275,000,000
Metals and mining	$140,000,000	$100,000,000
Oil & gas	$371,000,000	$81,000,000
Petrochemicals	$233,000,000	$50,000,000
Power	$512,000,000	$75,000,000
Renewable energy	$495,000,000	$304,000,000
Telecommunications	$620,000,000	$462,000,000
Transport	$535,000,000	$166,000,000

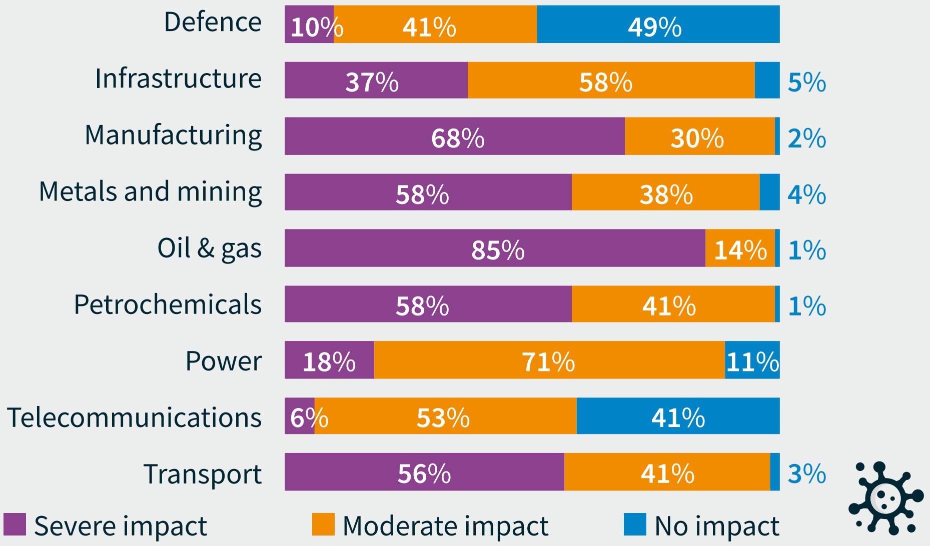
When the respondents who took part in the addendum Covid-19 survey were asked about its impact on the different sectors over the next 12 months, a considerable 85% of the sample said that oil and gas will be the most severely impacted (figure 16). Given the recent news on oil and gas, this is unsurprising.

Precipitated by a sharp drop in oil consumption at the start of 2020 due to Covid-19 causing a reduction in factory output and transportation (particularly in aviation), Saudi Arabia and Russia entered into an arms race to the bottom to see which country could cut oil prices the most. In March 2020, this price war facilitated a 65% quarterly drop in oil prices (Jacobs, 2020), resulting in US oil prices to plummet further (Perper & Bostock, 2020). In April, with the ongoing tussle between Russia and Saudi Arabia being superseded by the Covid-19 pandemic, the price of US oil crashed from a paltry $18 a barrel, to an historic minus $37.63 a barrel on Wednesday 22nd April 2020, the first time on record that US oil prices turned negative (Ambrose, 2020).

With producers now having to pay a buyer to store their oil, driven by the expiration of futures derivatives contracts that mandate buyers to take possession of the oil at the price the contract closes (Reed and Krauss, 2020), the oil industry has been further rocked by the collapse of one of Singapore's biggest oil traders, Hin Leong Trading (Financial Times, 2020).

With the Organisation of the Petroleum Exporting Countries (OPEC) describing 'oil and gas as the engine of the world economy', volatility and uncertainty, driven by price wars, a lack of demand, and a lack of storage options, will only continue. Consequently, it is unsurprising that survey respondents predict a torrid few months for oil and gas.

Figure 16: *Impact of covid-19 on the different sectors over the next 12 months*



Challenges in the export finance industry

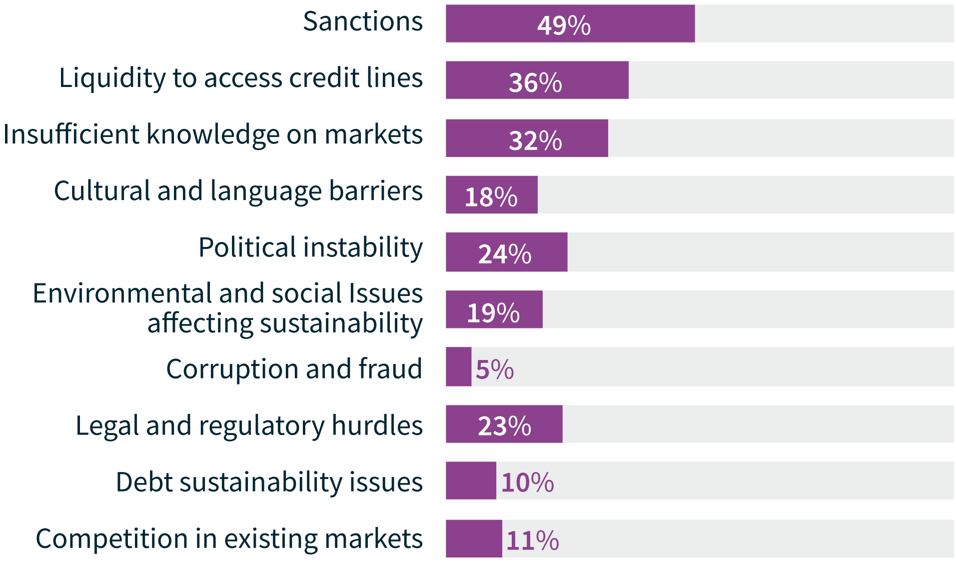
Nearly half of the total sample cited sanctions as the greatest challenge to closing export finance deals (figure 17). One lawyer explained why sanctions continue to frustrate the industry:

Interviewer: *Do you think you'll be doing more work on sanctions over the next 12 to 24 months?*

Lawyer: *Whether it is more, or just chugging along the same high volume, it's a tough call. There is so much to know and the work differs from client to client, so it is very time intensive."*

In a world where geopolitical tensions are rising in key regions (for example, the Middle East and South America), the ongoing US-China trade war (which is only not being discussed because of the worst global pandemic for a generation), and a US president who is vociferously using sanctions to punish corruption and human rights abuses (The Economist, 2019), it is unsurprising that sanctions continue to plague the export finance industry.

Figure 17: *Greatest challenges to closing export finance deals*



The growth of sustainability

- The ESG focus in export finance
- Hydrocarbons still have a pivotal role to play
- A growing influence on decision making
- Challenges still remain

The TXF view:

Growing global ESG awareness and the economic and political reality in many emerging markets throw up a host of inconsistencies of approach in the export finance business.

At the simplest level there is no universal acceptance of what does and does not qualify as ESG-compliant – for example, is a solar PV project designed to power a coal mine ESG compliant? Second, application of existing OECD guidelines on ECA support for fossil fuels is sporadic at best. And third, of the few financings done to date that include margin cuts for hitting certain ESG targets, the vast majority are not independently audited for their ongoing ESG-compliance.

The ESG focus in export finance

Unsurprisingly, 99% of the sample stated that sustainability is either very important (80%) or somewhat important (19%) (figure 18), with the majority of the sample (81%) concerned with how their export activity impacts both the physical environment and the societies within which they operate (figure 19).

Interestingly, and encouragingly for the export industry, banks (70%), ECAs (69%) and exporters and importers (63%) are all prepared to accept lower economic returns if it ensures that their ESG goals are met (figure 20).

It is important here to look past the argument that some may make; that the respondents answered in a socially desirable way through fear of reputational damage. This argument can be rejected for two reasons: **i)** the survey was anonymous, and **ii)** there were still many banks, ECAs and exporters and importers who said they would not accept lower economic returns. The question remains, therefore, why might this be the case? One banker gives a possible explanation:

"When it comes to project financing, banks have two options: to fund it or not. If they choose to fund a project, and the client wants to focus on ESG, the bank has very little choice, even if that means they don't see as high a return… this is becoming even more apparent as ESG-linked facilities are gaining a footing in portfolios… For me, ESG-linked facilities are the future of export finance." **[Bank; Europe]**

It is true that oil and gas remains king, but the export finance industry is no longer run based purely on profitability. Morality now plays a role. Indeed, while this question was intended as a hypothetical scenario that was designed to test the moral position of the respondents, ESG-linked deals have actually been strong investments over the past year.

This is largely being driven by consumer demand, continued social pressure for ESG investing and governments unleashing more favourable incentives for clean energy and green assets (Tett, Nauman, Temple-West and Edgecliffe-Johnson, 2020).

Figure 18: *Importance of sustainability to current operational functioning*

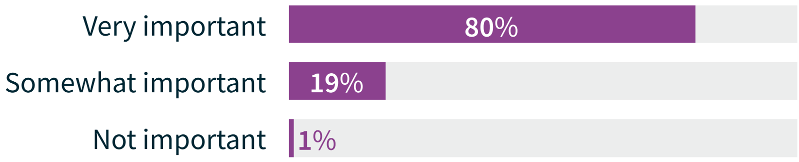


Figure 19: *Most important sustainability concerns for the respondents' export-related activities*

Figure 20: *Willingness to accept lower economic returns to ensure ESG goals are met*

Hydrocarbons still have a pivotal role to play

Figure 21 shows which sectors the respondents are reconsidering their involvement in and which sectors the respondents will no longer operate in. There is a clear divide between the three top sectors where respondents will no longer operate (nuclear (71%), coal (both thermal and metallurgical: 70% and 69%, respectively) and defence (68%)) and the remaining sectors where the main goal is to reconsider their activity.

TXF Data largely support these survey findings. For instance, in 2016, coal-fired deals accounted for 11.78% of total deal volume within the power sector, a figure which rose dramatically to 47.7% in 2017, before falling sharply to 13.27% in 2018 and 8.86% in 2019. Given the relative obscurity of nuclear deals in export finance, TXF Data has not recorded any nuclear activity since 2016.

Understanding and explaining defence is more difficult as deals tend to be bilateral and, consequently, TXF Data does not have access to these. However, the prevailing opinion contradicts our survey data. A recent article in the Financial Times suggest that certain

The TXF view:

Never forget ECAs are government-owned and their policies on defence (which is big business for some ECAs) and hydrocarbon export support are led by national interests.

Despite the growth of global ESG awareness, governments still need hydrocarbon security, so no surprise that for two years in a row the oil and gas sector has garnered most ECA support globally according to TXF Data. And that is unlikely to change in 2020-21 given the Mozambique LNG and Mozambique Rovuma deals are likely to close and NLNG Train 7 just has.

The TXF view:

There are many regulatory caveats designed to ensure support for emerging markets, where hydrocarbons are often the cheapest feedstock for the power sector and the biggest stimulus to broader economic development. The approach is understandable and laudable in many ways, but it does leave a huge environmental hole in the effectiveness of any global ESG strategy.

As a recent report by Oil Change International, a US-based research organisation, noted, despite the introduction of OECD restrictions on coal financing in 2017 (from which emerging markets projects are exempt if using super-critical technology), the annual average support for coal by G20 ECAs from 2016 to 2018 increased by $1.4 billion annually compared to 2013-2015.

governments, namely, those in the US, China and Poland are spending more on defence and state security each year.

In terms of ECAs, Bpifrance and UKEF continue to be active in the defence sector, and, as traditionally more liberal countries begin to focus on defence, it will bring other ECAs into play. For instance, Euler Hermes is likely to become more involved as Germany pledges to invest 2% of its GDP in defence in the near future (Stevenson, 2020). How this will unfold in the future remains to be seen, but in a world where geopolitical tensions are rising, defence could actually become a central sector to invest in.

It is important to point out that only 24% and 32% of respondents will no longer work in oil and gas and petrochemicals, respectively; two sectors that are often heavily criticised for their role in climate change. However, as one lawyer noted, reducing oil and gas activity could have damaging effects on other areas:

"You can do oil and gas deals and still focus on sustainability. Fossil fuels are not sustainable, but you can drive business towards the best-in-class. For example, if you've got an ESG linked margin ratchet on an oil and gas deal, you can be reducing spillage, clean-up and so on. You can be increasing local economic participation. You can be reducing flaring.

Of course, oil and gas is a messy business but we fundamentally need hydrocarbons. What can we do to get them out the ground and process them and use them as cleanly and efficiently as we can?... And despite Greta's [Greta Thunberg] best efforts, we're not going to go into a hydrocarbon free world anytime soon. Billions of people in Africa and Asia Pacific would be consigned to poverty if we denied them access to hydrocarbons… that is morally wrong… so there is much more to consider than just focussing on green energy and demonising non-renewables." **[Lawyer, Europe]**

TXF Data support this. In Africa, while infrastructure was the biggest sector in 2019 with a total deal volume of $12.6 billion across 65 deals, oil and gas related activities drove the decisions to invest on transportation infrastructure projects. In Asia-Pacific, oil and gas was the leading export finance sector over 2019, with a total deal volume of $17.6 billion across 54 deals.

These data, therefore, suggest a much more nuanced picture whereby it is not possible to just 'go green'. On the one hand, reduced reliance on oil and gas use would benefit the environment, but on the other, if oil and gas is 'demonised', as the lawyer suggests, leading to global exporters and producers to shift their focus away from oil and gas, it would take away the lifeblood of many economies in developing countries.

Figure 21: *The sectors that respondents are reconsidering, or will no longer, operate in*

		Total	Bank	Exporter and Importer	ECA
Reconsidering	Capital equipment	83%	18%	66%	9%
	Coal (thermal e.g. power stations)	30%	19%	61%	10%
	Coal (metallurgical e.g. met coal or coking coal)	31%	30%	50%	10%
	Defence	32%	30%	52%	17%
	Infrastructure	88%	21%	65%	10%
	Manufacturing	75%	22%	61%	12%
	Metals and mining	72%	33%	51%	9%
	Nuclear	29%	45%	50%	-
	Oil & gas	76%	34%	54%	6%
	Petrochemicals	68%	34%	50%	5%
	Power	86%	22%	63%	10%
	Telecommunications	65%	26%	55%	10%
	Transport	75%	21%	63%	9%
We will no longer work in this sector	Capital equipment	17%	11%	89%	0%
	Coal (thermal e.g. power stations)	70%	43%	41%	12%
	Coal (metallurgical e.g. met coal or coking coal)	69%	37%	48%	11%
	Defence	68%	30%	60%	2%
	Infrastructure	12%	-	86%	0%
	Manufacturing	25%	14%	79%	0%
	Metals and mining	28%	18%	76%	6%
	Nuclear	71%	28%	60%	8%
	Oil & gas	24%	6%	75%	19%
	Petrochemicals	32%	11%	78%	11%
	Power	14%	0%	88%	13%
	Telecommunications	35%	6%	94%	0%
	Transport	35%	14%	86%	0%

The TXF view:

ESG is nothing new in the project and export finance space – the Equator Principles have been in place for over a decade. And because ESG was not the subject of major PR campaigns, much of that work got done behind the scenes; so, measuring how much more ESG is being done today than previously is a difficult calculation to make.

ESG awareness and PR is clearly on the rise in export finance – whether that equates to more action or merely more highlighting of something that was already happening is anyone's guess. What is certain is there was still far more ECA-backed debt going into oil and gas than renewables – $35.7 billion compared with $10.5 billion in 2019 – and that is an imbalance that needs to become more equitable.

Accepted, demonising oil and gas is impractical and unfair to emerging markets, but the degree of imbalance in support towards hydrocarbons (not to mention petrochemicals) is short-sighted at best. Perhaps, at the very least, export support agencies and banks should adopt a policy whereby for every dollar lent to hydrocarbons, another dollar is lent to borrowers involved in offsetting the environmental damage caused by those industries.

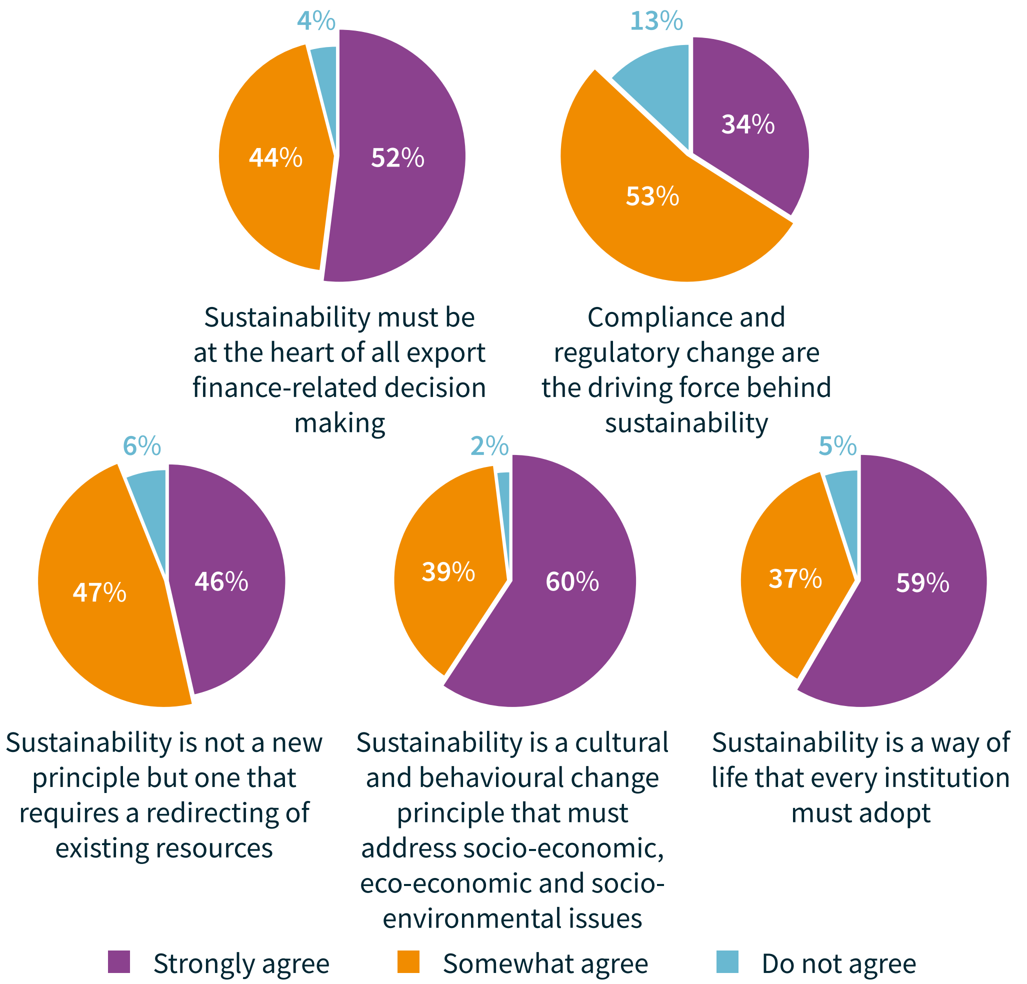
A growing influence on decision making

Across the sample, it is evident that sustainability, at the very least, is a growing consideration for banks, ECAs, exporters, importers, law firms and private insurers. Not only does it have an increasing influence on decision making (figure 22), but there now seems to be a recognition that sustainability is a multifaceted concept that should be incorporated in every aspect of a business (figure 23).

For instance, nearly two-thirds of the sample strongly agree that sustainability is a cultural and behavioural principle that must address socio-economic, eco-economic and socio-environmental issues, with more than half strongly agreeing that sustainability is a way of life (59%) and should be at the heart of all export finance-related decision making (52%) (figure 23).

Figure 22: *Influence of sustainability on decision making, by respondent type*

Figure 23: *Views on sustainability*



Sustainability must be at the heart of all export finance-related decision making

Compliance and regulatory change are the driving force behind sustainability

Sustainability is not a new principle but one that requires a redirecting of existing resources

Sustainability is a cultural and behavioural change principle that must address socio-economic, eco-economic and socio-environmental issues

Sustainability is a way of life that every institution must adopt

Encouragingly, these views on sustainability are being translated into practice too. Data in this report found that there are multiple different sustainable practices being enacted across the different export finance institutions (figure 24), a finding supported by wider ESG-related literature.

In export and trade finance, growing consumer demand for ethically and sustainably sourced products is driving corporate social responsibility (CSR) commitments, which is translating into businesses incorporating ESG factors into their decision making (Condon and Cavalletto, 2019).

This social pressure is also driving ESG investing. For instance, the UN-backed Principles of Responsible Investment (PRI) are now endorsed by the majority of the largest global investors, with $83 trillion in assets under management (AUM) (Channell, 2019), and a recent piece of research found that 80% of investors now consider ESG as a defining factor when taking investment decisions (McPherson, 2019). This is evidenced by the $22.9 trillion in assets being professionally managed under responsible investment strategies (McPherson, 2019).

Figure 24: *Current sustainable practices*

Challenges still remain

This report paints a positive picture for the growing relationship between sustainability and export finance. However, as figure 25 demonstrates, challenges still remain, namely, concerns over scalability (68%), a lack of support on implementing sustainable practices (57%) and increased risk levels (47%). One respondent noted why, in particular, scalability and a lack of support are particularly challenging:

"We are only small. We have been operating in a similar way for a long time… we want to do more on ESG, but we just don't know where to start… one thing is very important – it can't negatively impact our current operations. We need to build on what we have, not replace it." **[Importer; Asia pacific]**

Scalability is not just an issue for importers. Banks, and exporters also noted the difficulties in scalability, in particular, branching into unfamiliar sectors and regions. This paves the way for sustainability consultants to step in and offer expertise on how to overcome these issues.

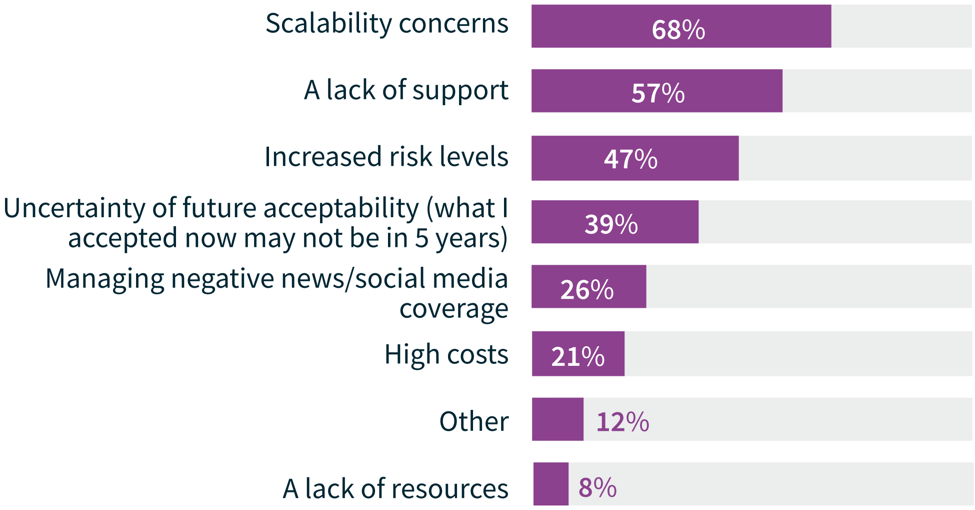


Figure 25: *Greatest challenges to operating sustainably*

The TXF view:

One of the key unspoken issues in ESG and sustainability is who foots the bill? Many borrowers in markets that are self-evidently sustainable, and even those in markets that are not, see no cost-of-debt benefit in going down the green accreditation route – just more fees. And if margin-grid linked ESG deals are going to become more common, and are to be credible, they will need independent auditing, which again comes with additional cost.

While only 21% of respondents in the survey claimed high costs are the biggest challenge to operating sustainably, 68% had concerns over scalability of ESG practice due to lack of support and increased risk – both of which come with increased cost to resolve. In short, transparency, independent on-the-ground auditing, longer and more forensic due diligence processes could be a cost too far for borrowers and banks that are already working to very tight margins.

Consequences of Covid-19 and understanding MAC and EOD

- A closer look at ECA-backed debt
- MAC and EOD: Implications for importers and exporters

A closer look at ECA-backed debt

This section is based solely on data collected from respondents who took the addendum Covid-19 survey. A total of 87 respondents from banks, ECAs, exporters, importers, law firms and private insurance took part.

Nearly two-thirds of the exporters and importers noted that the banks they engage with are operating as normal (figure 26). Encouragingly, more than three-quarters of the exporters and importers also cited that they are receiving suitable communication from the banks, ECAs and law firms they are engaged with (figure 27).

Figure 26: *Banks' current operational ability*

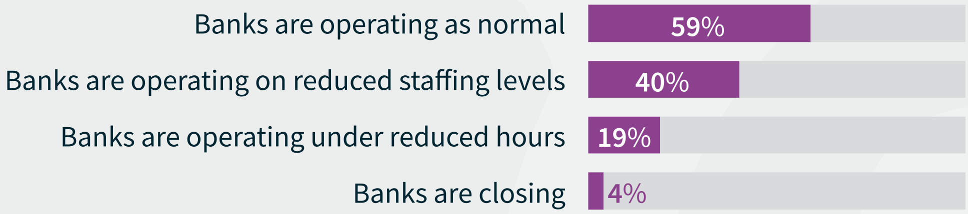


Figure 27: *Exporter and importers perception on appropriate communication from the banks, ECAs and law firms*

Looking into the impact of the Covid-19 crisis on ECA debt, just over half of the sample said that the pandemic will increase the cost of ECA-backed loans (figure 28), with nearly two-thirds of those stating that lower bank liquidity will be the driver behind an increase in cost of financing (figure 29), while a quarter of respondents cited credit rating downgrades.

Of the 49% who believe the crisis will lower the cost of ECA finance, an overwhelming 81% said this would result from excess liquidity in the market (figure 30), with only 12% and 7% of respondents pointing to emergency government budgets and ECA support and a higher cost of funding for banks, respectively.

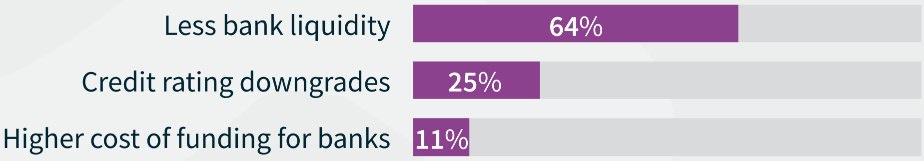
With project borrowers and importers currently drawing down on pre-arranged and pre-Covid-19 priced overdraft facilities (revolving credits, debt service reserve accounts etc) that would normally remain undrawn, banks are already feeling liquidity strain.

But with ECAs looking to increase exposures and the percentage of cover for guarantees, as governments and central banks allocate more funds to mitigate the economic fallout, and the private market well placed to pick up any residual risk, the liquidity landscape for ECA-backed assets going forward becomes ambivalent.

Whether or not there will be an uptick or drop in pricing for export credits amid the Covid-19 crisis is not clear, according to respondents, although one thing is for sure – the majority of respondents believe liquidity and pricing are inextricably linked.

Figure 28: *Will covid-19 increase the cost of ECA-backed debt?*

Figure 29: *Reasons for an increase in the cost of ECA-backed debt*



The TXF view:

With borrowers globally having drawn down on various forms of overdraft facility – revolvers, borrowing bases etc – that might normally go undrawn, bank liquidity is going to tighten. Strong credits, even the oil majors, will see a minimal uptick in cost of borrowing, much of which will be offset by very low benchmark rates, possibly even lower than the 2008 aftermath.

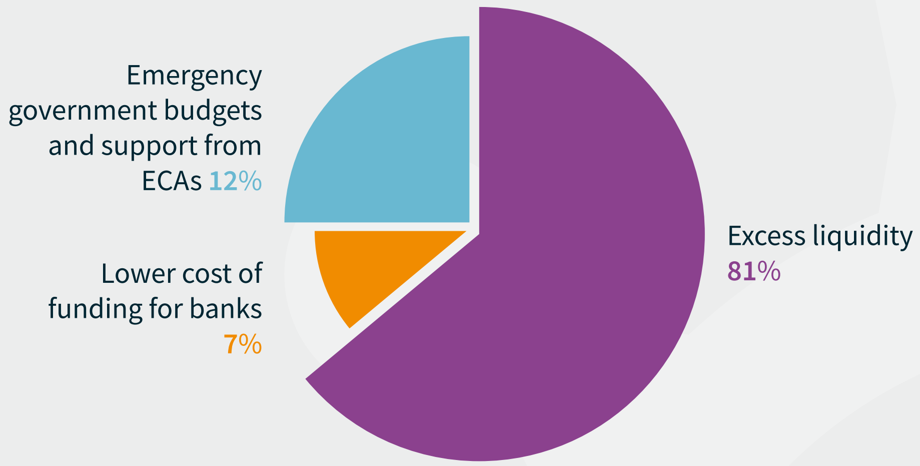
Weaker credits are already suffering and will struggle to find liquidity or competitively priced borrowing dependent on the health, or perceived speed of comeback, of the sectors they function in – data centre operators are going to find a warmer bank welcome than oil and gas independents for example.

The TXF view:

With the CIRR rates expected to remain at record low levels, and possibly go even lower, exporters with access to ECAs offering CIRR debt are going to look very competitive to buyers. However, CIRR rates, even pre-pandemic, have become increasingly unpalatable to commercial banks, many of which claim the rate is so low it does not adequately reflect the risk, particularly in emerging markets, and therefore will not offer it.

That is not an issue for ECAs with big enough budgets to meet demand for CIRR with direct lending – but in the wake of Covid-19 very few ECAs are likely to be in that position given stretched government budgets. Consequently, how much CIRR rate finance will be available is very unclear, although commercial banks will certainly not be attempting to match it or even offer CIRR-plus if the overall margin still does not adequately reflect the risk.

Figure 30: *Reasons for a decrease in the cost of ECA-backed debt*

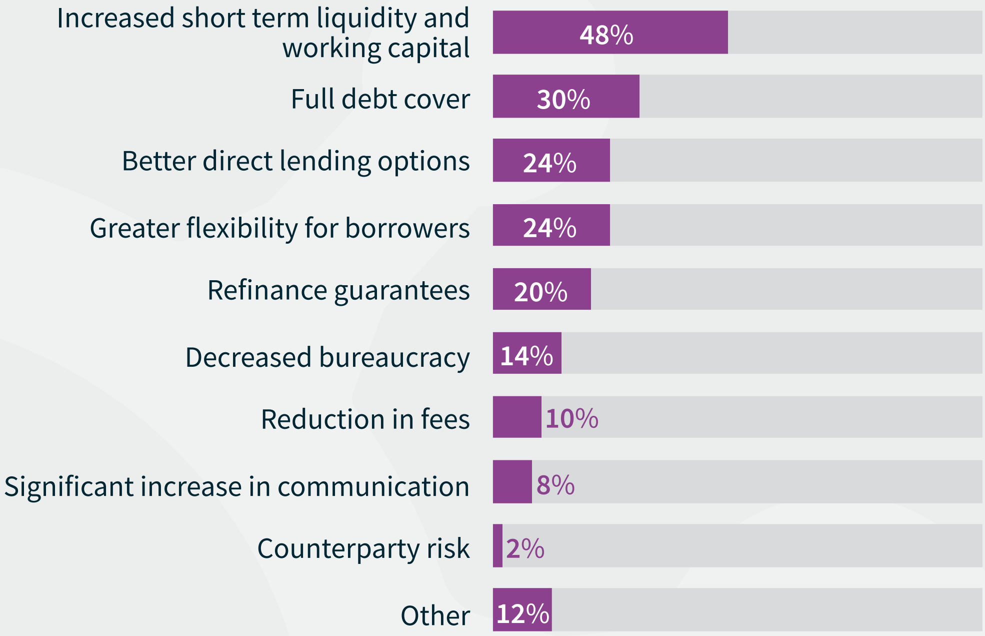


Regardless of whether or not ECA-backed debt will increase or decrease in price, the sample of exporters and importers were clear that increased short-term liquidity from ECAs (48%) would be the most beneficial form of ECA support (figure 31).

Given that Covid-19 has resulted in widespread operational disruption, coupled with staff quarantines, supply chain failures, inventory shortages, and a reduction in demand from customers (Deloitte, 2020), it is unsurprising that an increase in short-term working capital tops the list.

Full ECA debt cover (30%) and better direct lending terms (24%) can also have positive implications for working capital. In terms of full ECA cover and direct lending, both are typically priced much more favourably than the private insurance (for additional debt cover) and banking (for access to additional capital) markets. Consequently, if ECAs were to cover the full portion (as opposed to the current maximum of 85% (within OECD countries)) and provide improved direct lending facilities, it would protect exporters and importers from exposure to higher premiums and fees, thus helping to save working capital.

Figure 31: *Exporter and importers perception on the most beneficial forms of ECA support*



MAC and EOD: Implications for exporters and importers

Material adverse change (MAC) and event of default (EOD) are basic provisions in lending facility agreements. A MAC clause is defined as:

> *"A "catch all" provision that aims to allow the lender to call a default if there is an adverse change in the borrower's position or circumstances (for example, a large negative variation shown in the successive financial statements of the borrower)."*
> **[Thomson Reuters, 2020a]**

An EOD is defined as:

> *"An event specific in a commercial agreement where a non-defaulting party can terminate an agreement. Events of default are common in loan agreements or debt instruments, the happening of which entitles the lender to cancel the facility and/or declare all amounts owing by the borrower to be immediately due and payable on demand."*
> **[Thomson Reuters, 2020b]**

Consequently, material adverse change in circumstances preface an EOD clause being invoked and/or an ability to prevent further drawdowns from the facility. It gives the lender or creditor the legal power to demand immediate and full repayment of a debt or obligation if they are concerned that their client may default on payment (Thomson Reuters, 2020a; 2020b).

MAC and EOD clauses are often tailored to support the needs of the borrower and it is vitally important that borrowers understand the exact terms and conditions of the MAC and EOD clauses in case of an unexpected event. Needless to say, Covid-19 is an unexpected event and it will bring MAC and EOD clauses to the centre of every borrower's attention.

This report found that of the exporters and importers who took part in the Covid-19 addendum survey, a combined 33% either did not have, or did not know,

The TXF view:

Short term trade credit insurers have been hit hard by Covid-19. The International Trade and Forfaiting Association (ITFA), the Bankers Association for Finance and Trade (BAFT), the Berne Union, the International Association of Credit Portfolio Managers (IACPM), the International Underwriting Association (IUA) and Lloyd's Market Association (LMA) – which have all written to EU policymakers about extending support under the State Aid Temporary Framework to private credit insurers in a bid to a shore up the vast amount of short term trade credit provided by banks that is facilitated by private insurers. And Morgan Stanley has just issued a forecast that puts predicted trade credit insurance market losses due to Covid-19 at up to $46 billion.

But brokers and insurers are remarkably bullish about the future for private credit risk insurance (CRI) in the project finance space and related big-ticket export business. Project CRI is only a very small exposure within insurers wider product suite and the absolute default rate in project finance (the very few deals that never make it through restructuring), as has been demonstrated by S&P many times to the Basel regulators, is very small – this is not the short term trade credit market but a very long term market that supports economic essentials like power, transport and social infrastructure.

if a MAC and/or EOD clause was part of their facility agreement (figure 32). Further, when those with MAC and/or EOD clauses were asked if it covered a global pandemic such as Covid-19, a combined 77% did not, or were unaware if it did (figure 33). Finally, of those who believe they have cover for a global pandemic, just 12% have taken steps to enact its policy (34%) (figure 34).

From the perspective of the exporters and importers, these findings are concerning for several reasons. First, adverse changes are material only to the extent they 'substantially threaten' the borrower's agreement 'in a durationally-significant manner'. Consequently, short term losses, for example, experienced by borrowers in the context of Covid-19, may not constitute an enforceable MAC. The terms of MAC clauses differ from loan to loan, meaning that there may be certain deals where less, or no protection is provided for material adverse changes (Walsh & Suzuki, 2020). Finally, according to the law firm Bryan, Cave, Leighton & Paisner, other than the 9/11 tragedy, there is no precedent for global pandemic MAC clauses (Walsh & Suzuki, 2020).

Given the incredibly fact-specific language that accompanies MAC clauses, it is vitally important that borrowers familiarise themselves with their lending facility agreements.

Figure 32: *Do your lending facility agreements have a material adverse change (MAC) and/or an event of default (EOD) clause inbuilt?*

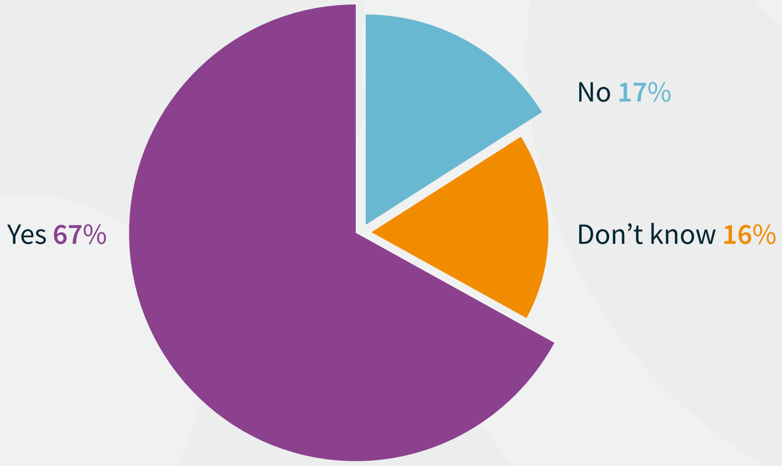


Figure 33: *If yes, do the MAC and EOC clauses cover a global pandemic such as covid-19?*

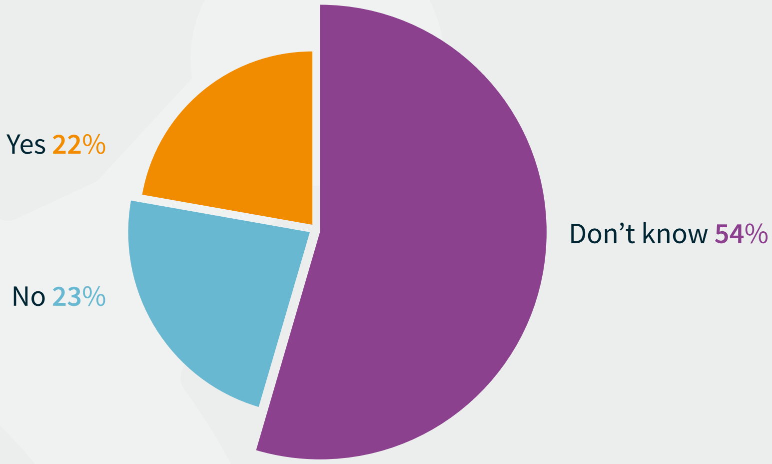
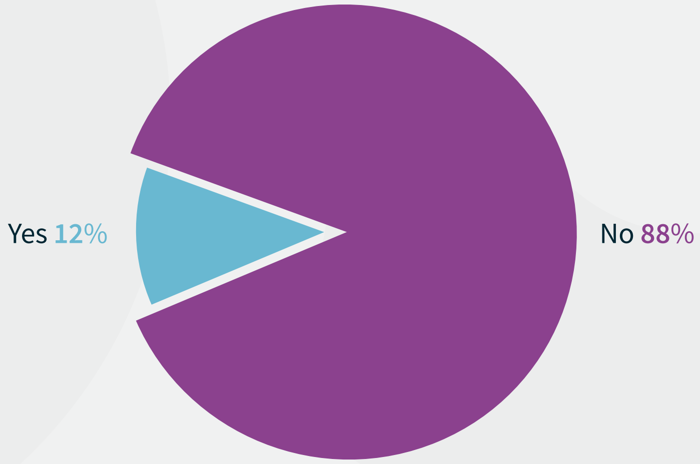
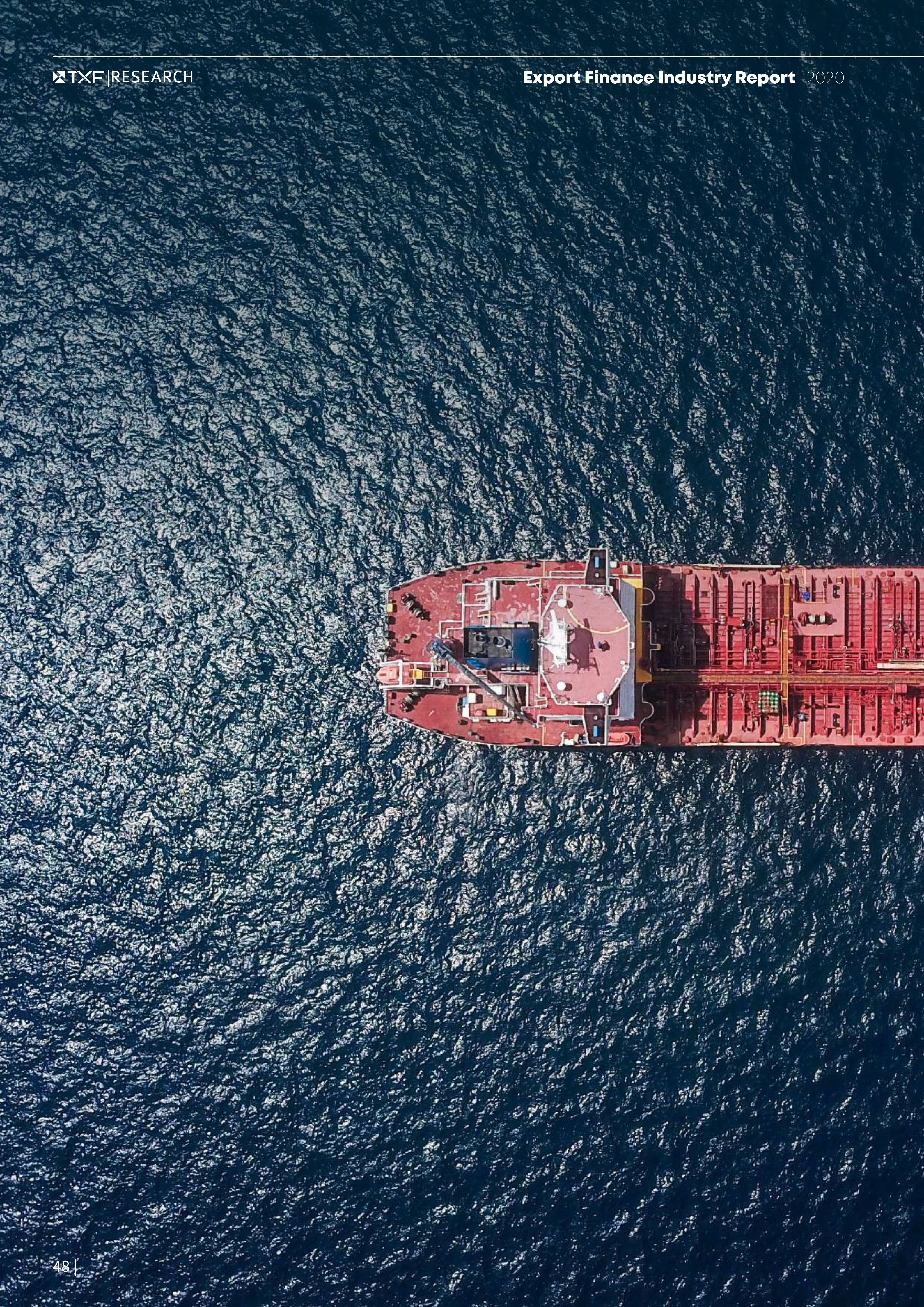


Figure 34: *If yes, have you invoked the MAC/EOD clauses?*

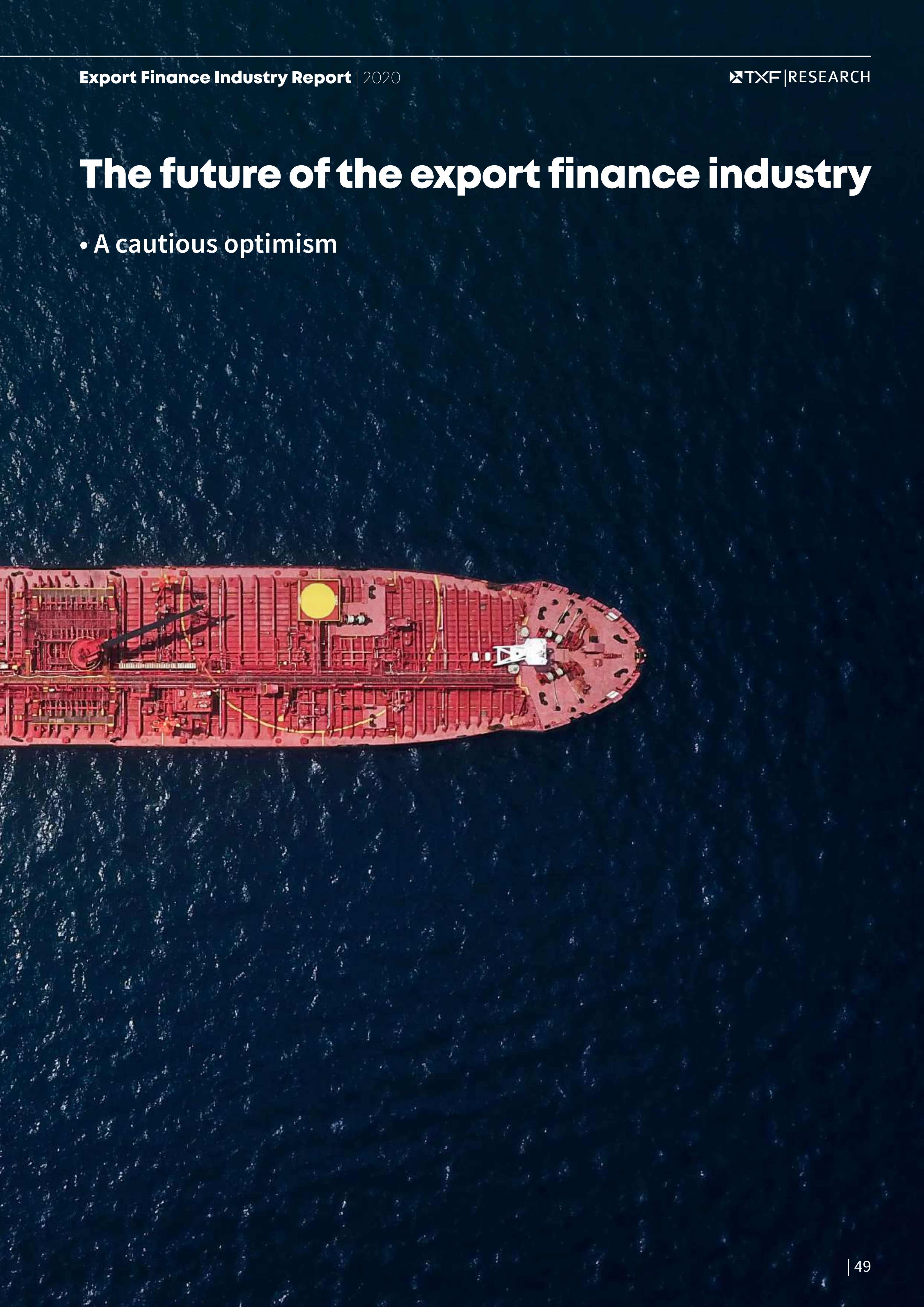


So, given some project finance equity and debt providers will be considering their future appetite for the market – CRI could well be a positive clincher going forward and a sector that grows significantly in a post-Covid-19 project and export finance market.



The future of the export finance industry

- A cautious optimism



A cautious optimism

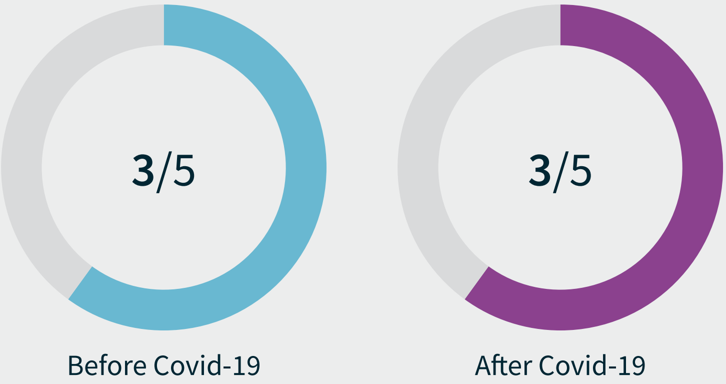
Before Covid-19, the respondents were moderately optimistic about the future of the export finance industry, rating it three out of five. Perhaps surprisingly, this outlook did not change amongst the respondents who took part in the addendum Covid-19 survey (figure 35).

The reason for this, one fairly buoyant exporter explained, is because they believe it will only have a short-term impact:

"It [Covid-19] will be a short-term impact but we [the export finance industry] will recover. The industry has gone through many black swan events and has always re-emerged." **[Exporter; Europe]**

While some interviewees from different sectors of the export finance industry did share this cautious optimism, it is important to place this outlook into the wider landscape of the humanitarian crisis it has left in its wake, spiralling unemployment, and a severely bruised global economy, even if it is just short term.

Figure 35: *Optimism about the future of the export finance industry before and after, Covid-19*



Interestingly, two-thirds of the sample who took the Covid-19 addendum survey, stated that the pandemic has not caused them to reassess their strategic and operational priorities (figure 36). While, on average, there was a moderate likelihood amongst the Covid-19 survey respondents to become more involved in health-related projects, in particular building hospitals and scientific laboratories (figure 37), several of the interviewees suggested that they will not reassess their outlook because the pandemic, at its heart, *"is a health-related issue, and not an economic one."* **[Bank; North America]**

Unlike the 2008 financial crash, the most recent black swan event that brought the global economy to its knees, that precipitated a typhoon of legal, compliance and regulatory changes across the financial world to ensure it never happens again, such a response is not needed here. Instead, when a vaccine is identified and manufactured, the world, it is thought, will go back to relative normality.

It remains to be seen how Covid-19 will unfold over the coming years, and just how damaging it will end up being to the export finance industry, but it is vitally important that banks, ECAs, exporters, importers, law firms and private insurers take measures to ensure they are better protected in the event a global viral outbreak occurs again.

Figure 36: *Has Covid-19 caused you to reassess your strategic and operational priorities going forward?*

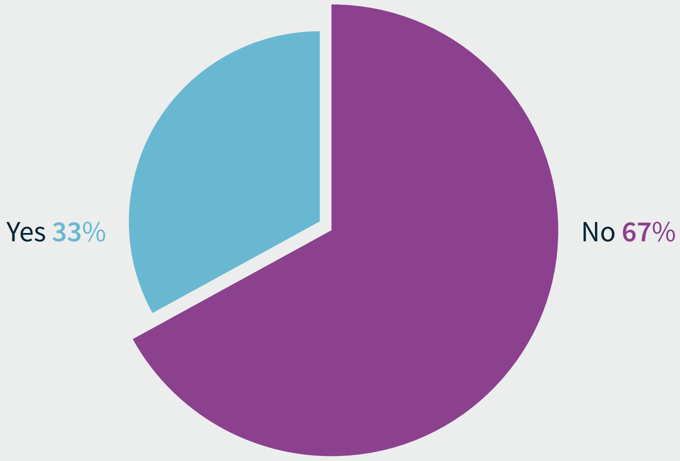
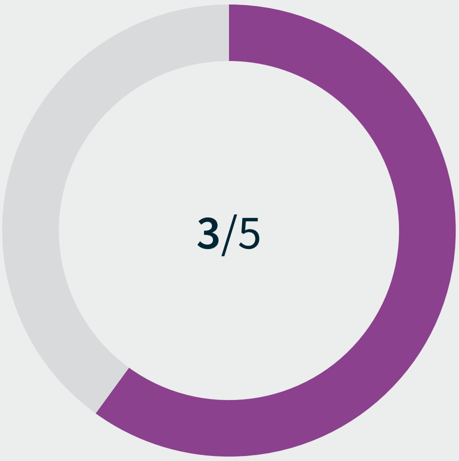


Figure 37: *Likelihood of future investment in health-related projects*



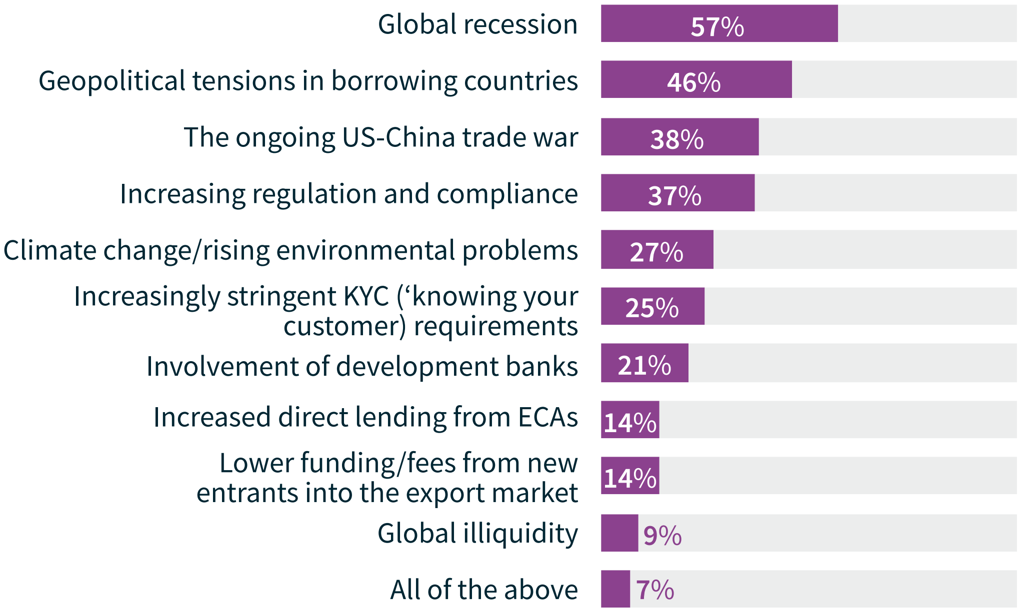
Given the current circumstances, it would be easy to forget that there are a number of other potential challenges to the export finance industry that predate Covid-19. Figure 38 shows that prior to Covid-19, a global recession was the biggest concern, a challenge which has only been amplified by the pandemic.

Geopolitical tensions in key borrowing countries, such Russia, China and the Arabian Peninsula, compounded by the ongoing US-China trade war which, for now, has taken a back seat to Covid-19, should not be underestimated how damaging they continue to be to the global economy. One lawyer was fairly certain that both the US-China trade war, combined with Covid-19 will lead to a global recession:

> *"Look at the China-America trade war. Then you have coronavirus just making everything more extreme. The pain is building. It has been for quite some time and as the more pain builds up there, the worse it gets. I absolutely think this will lead to an economic [global] recession."* **[Lawyer, Europe]**

At present, economic forecasts on the impact of Covid-19 are varied, but the one theme that ties all of the projections together, is the fact that the future of the global economy is uncertain.

Figure 38: *Greatest concern to the export finance industry*



A closer look at the industries

- **The banking industry**
    - Rating the banks
- **The export credit agency industry**
    - Rating the ECAs
- **The law firm industry**
    - Rating the law firms

The banking industry

This section is made up of two parts. The first part is designed to explore the export finance banking sector more thoroughly. To do this, we asked a series of questions to respondents who identified themselves as working in an export finance banking team. In total, staff from 44 different banks took part in the survey[9].

The second section draws on exporter and importer data only, in order to explore what they think of the banks they do business with. The banks were rated across a number of different criteria with a final heatmap produced to show how they rank against one another. In total, 133 exporters and importers rated the banks[10].

The average number of export finance deals to be closed by each bank by the end of 2020 is 13, with an average volume size of $261 million per deal (figure 39). In 2019, closed deal data reported by TXF Data found that the average number of deals per bank was 20, with an average deal size of $123 million. This report's data suggests, therefore, that while 2020 may see the average number of export finance deals down compared to 2019, the average deal size is nearly $130 million higher.

Figure 39: *Average number of deals and the average value of the deals expected to close in 2020*

13

$261,000,000

On average, the banks feel that the new Basel IV regulatory changes that will be introduced in January 2022 (2027 for the output floor) will be a challenging hurdle to overcome (figure 40). In sum, Basel IV will see:

i. A revised credit risk standardised floor so the capital requirement must be at least 72.5%.

ii. Higher leverage ratio for Global Systemically Important Banks (G-SIBs) with the increase equal to 50% of the risk adjusted capital ratio

iii. Removal of the internal ratings based (IRB) approach for low default portfolios.

iv. An IRB floor for risk weighted assets (RWA) of 75%

v. Revised operational risk (for example, the implementation of the standardised measurement approach (SMA) for all banks)

vi. Implementation of the 9th edition of the International Financial Report Standards (IFRS) (McKinsey & Company, 2017).

While challenging, one banker explained that the industry is used to the continually changing regulatory landscape:

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[9] All of the data in this section are based on the Export Finance Industry Survey (see methodology).

[10] A total of 146 exporters and importers took part. Thirteen chose not to take part in rating the banks.

"We will adjust – we have no choice. Of course, this always brings turbulence but since the implementation of Basel 3, and the CRR [capital requirements regulation] and CRD (capital requirements directive], the [banking] sector is used to it." **[Bank; Europe]**

Importantly, new international rules governing banks' capital requirements and disclosures will be deferred by one year to help lenders respond to Covid-19 (Vincent, 2020).

One area that continues to be particularly challenging for banks, is 'knowing your client' and 'knowing your client's client', also known as KYC and KYCC, respectively (figure 41).

"We have to do KYC on everyone. And being an international bank, all of our clients are from across the globe where different regulators operate. At the moment, we are facing more and more regulation on KYC. We are spending a huge amount of time basically just checking everything about our clients and their customers. And we are always onboarding new clients, so it is a massive issue for us." **[Bank; Europe]**

Over the last few years, banks have invested billions of dollars collectively in order to adhere to KYC regulations, but many are still falling short (Dunkley, 2016). Driven by a desire to stamp out financial crime (for example, money laundering or the financing of terrorism), KYC checks need doing on a periodic basis, which not only costs time and money, but is also fraught with risk if improper information is supplied or no disclosed (KPMG, 2020). Consequently, it is not just the export finance departments of banks that find KYC a challenge, but the banking industry as whole.

Figure 40: *Banks' perception of how challenging the Basel IV regulations will be to implement*

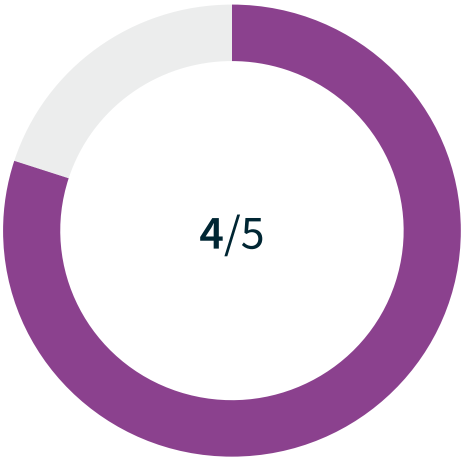
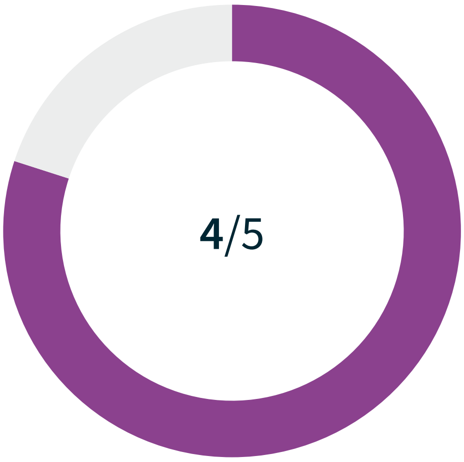


Figure 41: *Banks' perception of how challenging KYC and KYCC regulations are to implement*



Nearly two-thirds of the banks in this survey stated that they have offered loans with sustainability-linked criteria attached (figure 42). On average, the banks are actively involved in four sustainability-linked deals, with no new sustainability-linked deals planned before the end of 2021[11] (figure 43). Almost all of the banks plan to do more sustainable deals in the future (figure 44).

These findings suggest a growing involvement of export finance banks in sustainable deals than TXF Data. In 2018, the average number of closed sustainability-linked deals by banks was just over one (1.08 with an average volume of $227 million), which declined to less than one in 2019 (0.9 with an average volume of $222 million).

Perhaps unsurprisingly, power (which includes renewable energy), was the dominant sector, with a total of $16.1 billion and $13.5 billion invested in 2018 and 2019, respectively. In both 2018 and 2019, Europe was the top region for the banks' sustainability-linked deals with $9.1 billion and $4.6 billion invested, respectively.

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[11] There may be some banks that have deals scheduled but on average across all the banks, no new sustainability deals are expected to close.

Figure 42: *Bank financing with sustainability-linked criteria attached*

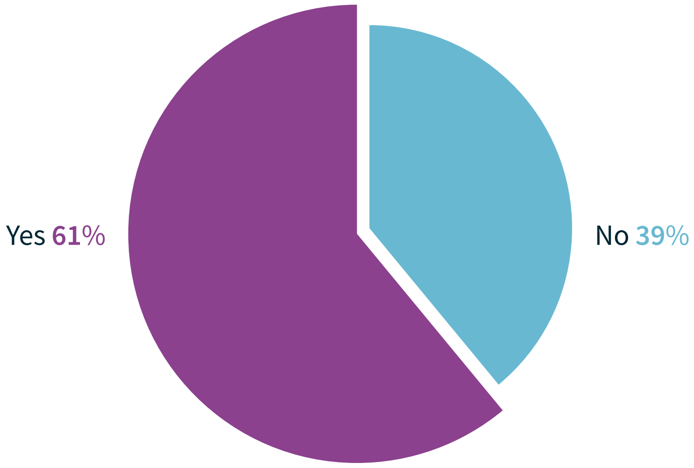


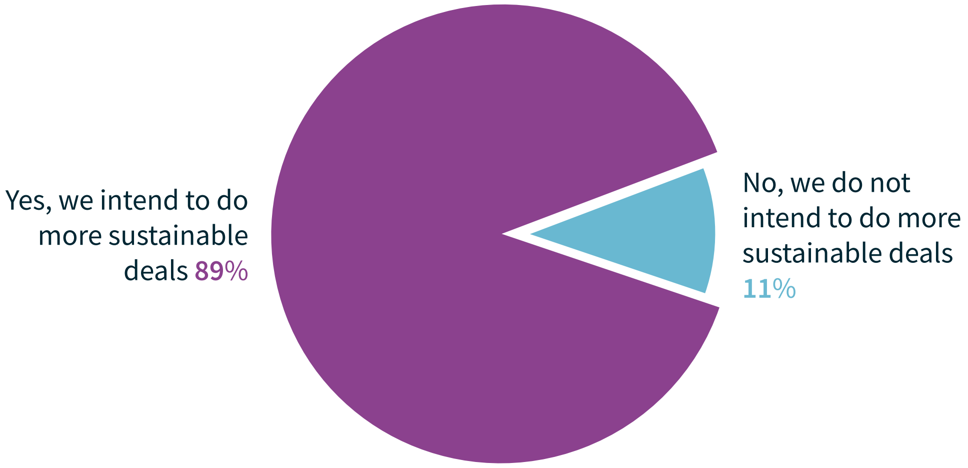
Figure 43: *Number of existing bank deals with sustainability-criteria attached*

4

Anticipated number of new sustainable deals by the end of 2021

0

Figure 44: *Banks' plans to get involved in more sustainable deals*



Rating the banks

Credit Agricole (50%), followed by BNP Paribas (46%) and KfW-IPEX Bank and ING Bank (both 45%) were the top three most used banks by exporters and importers in this survey over the past 12 months (figure 45). This finding is supported by TXF Data. After Santander which did the greatest number of export finance deals (50), with the highest amount of lender involvement ($7.4 billion), BNP Paribas (43 deals with a total volume of $5.8 billion) and Credit Agricole (35 deals and $4.4 billion) were second and third, respectively.

Compared to 2019's Export Finance Industry Report where BNP Paribas and Credit Agricole were also the top two most export finance, the French banks continue to be strong supporters of export finance activity.

Figure 45: *Most used banks by exporters and importers*

CRÉDIT AGRICOLE CORPORATE & INVESTMENT BANK	50%	BNP PARIBAS	46%
KFW IPEX-Bank	45%	ING BANK	45%
SOCIETE GENERALE	44%	Standard Chartered	38%
COMMERZBANK	35%	Deutsche Bank	34%
HSBC	33%	Santander	31%
LBBW	31%	SMBC	29%
UniCredit Bank	28%	MIZUHO	23%
MUFG	22%	CREDIT SUISSE	18%
citi	17%	BBVA	17%
ABN·AMRO	13%	Rabobank	12%
J.P.Morgan	11%	NATIXIS	10%
INTESA SANPAOLO	8%	中国银行 BANK OF CHINA	7%
SBERBANK	5%	Reserve Bank Of India	3%
Other	22%		

The top three attributes that exporters and importers valued most in banks is product offering (75%) followed by industry expertise (50%) and how well the banks understand their clients' business (45%) in a distant second and third, respectively (figure 46). Speaking to a banker to find out why product offering might have been so highly rated by the exporters and importers, they suggested it is because of the increasing competition from other funding streams:

"More and more alternative sources [of funds] are coming in now… funds, private equity and the like… even ECAs can offer direct lending now that is often more favourable than bank capital." [**Bank; Asia Pacific**]

On a general banking level, economic commentators suggest an inversely proportional relationship between bank and non-bank financing: as compliance and regulation makes accessing bank finance less appealing and more difficult to access, non-bank finance (for example, from insurance firms, pension funds, private equity and hedge funds), characterised by less red tape and faster access, goes up (Hale, 2019). Some may argue that this is not necessarily the case in export finance, principally, because non-banking finance is still present behind the scenes, but increasing red tape and bureaucracy is likely only going to make bank export financing more laborious to access.

Given the current climate that the export finance industry finds itself in, it is encouraging that the three attributes with the highest average rating, industry expertise, how well the banks understand their clients' business (both score 3.7 and rank 1st) and product offering (joint third with a score of 3.4) (figure 47) are the top three perceived most important attributes for exporters and importers (figures 46). The reason this is important, is because it suggests a synergy between what the banks are best at, and what their clients value the most.

In 2019s Export Finance Industry Report, this was not the case. For instance, the three attributes that exporters and importers valued most last year were deal execution, risk appetite, and flexibility, which each placed fifth, eighth and joint sixth on the heatmap.

Figure 47 shows that across the attributes, there is not much variation between them (an average of 1.4 across the attributes), which suggests that the banks are operating fairly consistently with one another. Risk appetite has the smallest variation between the best and worst performing banks (LBBW, 3.8; BBVA, 2.8), and customer service has the widest variation between the top rated bank (LBBW: 4.3 and the only one to score above 4.0) and the lowest (Bank of China: 2.6 and the only bank to score below 3.0 for customer service). As one interviewee noted:

"Do not underestimate good customer service. In times like this [referring to Covid-19], it is so important." [**Exporter; Europe**]

Looking in depth at which banks score most highly across all the attributes, figure 48 shows that other than product offering where LBBW and Credit Agricole are the joint best performing banks (3.8), LBBW outscores its competitors in every other category. It is the only bank to have an average overall score above four out of five (4.1) and for a bank that did not even feature in 2019s Export Finance Industry Report, it is an impressive performance by the German bank.

It is important to contextualise this heatmap data with TXF Data's league table, which shows that LBBW is the 48th best bank. Whereas, Santander, BNP Paribas and Credit Agricole, which place 7th, 15th and 2nd, respectively in the heatmap below, are the top three banks in TXF Data's league table. The reason for this comes down to the data sources.

The banking heatmap is based on data that asks the clients of the banks to rate them across a number of market sentiment attributes that have no direct relationship to deal volume and export finance activity. In this report, where there was a large representation of European exporters and importers, in particular German exporters, it is understandable why LBBW scores well. Conversely, TXF Data is based on closed deal data submitted by the banks on the level of their activity and their deal volumes, with no relationship to how the clients of these banks felt during these deals. Importantly, the two different data sources compliment one another.

Without an understanding of how the banks are engaging and supporting their clients, it would be logical to conclude that the banks with the highest deal volumes, and that do the most activity, might also be the best in areas such as customer service and creative thinking – which is not the case. Equally, if we only used market sentiment data, it might be logical to conclude that smaller, more niche banks are the best performing in terms of deal volume and activity levels – again, this is incorrect.

Consequently, depending on what someone wants to understand, either market sentiment data or closed deal data, will depend on which data source one accesses. In either case, the Export Finance Industry Report and the annual TXF Data Report provide the most nuanced views of the global export finance banking landscape in the industry.

Figure 46: *Exporter and importers perceptions on the most important banking attributes*

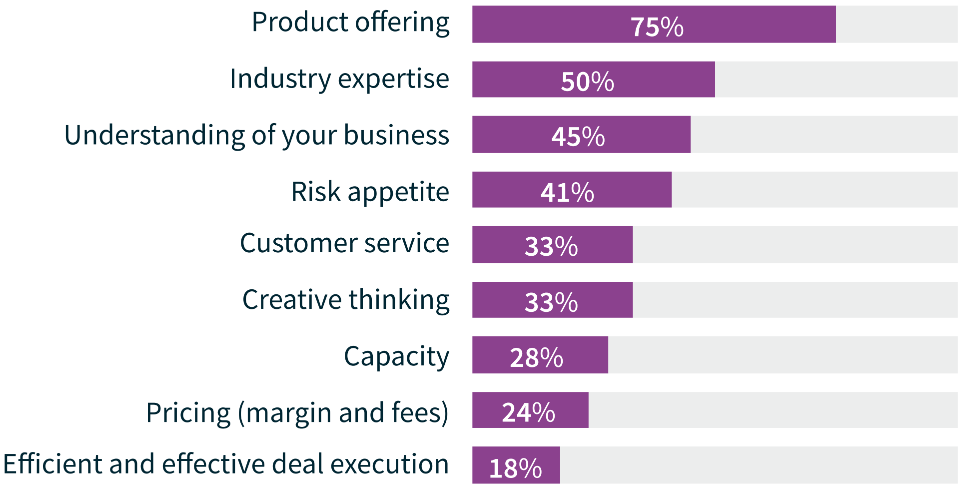


Figure 47: *The banking heatmap*

	Capacity	Creative thinking	Customer service	Efficient and effective deal execution	Industry expertise	Pricing	Product offering	Risk appetite	Understanding of clients' businesses	**Total average**	TXF Data league table position[12]
LBBW	4.1	4.0	4.3	4.1	4.2	3.9	3.8	3.8	4.3	**4.1**	48th
Credit Agricole CIB	4.0	3.6	3.9	4.0	4.0	3.6	3.8	3.4	4.1	**3.8**	3rd
KfW-IPEX Bank	4.0	3.6	3.8	3.8	4.0	3.8	3.5	3.4	4.1	**3.8**	8th
Standard Chartered	3.8	3.8	3.7	3.7	4.0	3.5	3.7	3.6	3.9	**3.7**	6th
ING Bank	3.7	3.5	3.8	3.8	3.9	3.7	3.5	3.5	3.7	**3.7**	10th
Mizuho	3.7	3.3	3.7	3.8	3.8	3.6	3.5	3.2	3.8	**3.6**	13th
Santander	3.8	3.5	3.6	3.6	4.0	3.4	3.4	3.3	3.9	**3.6**	1st
SMBC	3.8	3.3	3.6	3.7	3.8	3.4	3.6	3.1	3.9	**3.6**	7th
UniCredit	3.3	3.3	3.7	3.8	3.7	3.3	3.6	3.1	3.9	**3.5**	31st
ABN AMRO	3.6	3.1	3.6	3.8	4.0	3.1	3.6	3.1	3.7	**3.5**	64th
HSBC	3.5	3.5	3.4	3.6	3.8	3.5	3.4	3.0	3.7	**3.5**	4th
Societe Generale	3.5	3.2	3.5	3.7	3.8	3.5	3.4	3.2	3.7	**3.5**	5th

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[12] As positioned at the end of 2019

	Capacity	Creative thinking	Customer service	Efficient and effective deal execution	Industry expertise	Pricing	Product offering	Risk appetite	Understanding of clients' businesses	**Total average**	TXF Data league table position[12]
MUFG	3.5	3.2	3.5	3.5	3.7	3.5	3.5	3.1	3.8	**3.5**	12th
Rabobank†	3.3	3.2	3.5	4.0	3.7	3.4	3.3	3.2	3.8	**3.5**	54th
BNP Paribas	3.5	3.2	3.5	3.6	3.7	3.3	3.5	3.2	3.8	**3.5**	2nd
Natixis	3.2	3.4	3.5	3.8	3.6	3.4	3.3	3.4	3.7	**3.5**	17th
Deutsche Bank	3.5	3.4	3.5	3.5	3.6	3.2	3.5	3.0	3.7	**3.4**	20th
Credit Suisse	3.5	3.2	3.5	3.5	3.4	3.3	3.2	3.3	3.7	**3.4**	29th
Citi	3.5	2.9	3.4	3.3	3.7	2.9	3.8	2.7	3.9	**3.3**	19th
Commerzbank	3.3	3.1	3.3	3.2	3.5	3.4	3.3	3.2	3.6	**3.3**	21st
Intesa Sanpaolo†	3.0	2.9	3.3	3.6	3.4	3.3	3.4	2.9	3.4	**3.2**	41st
Sberbank†	3.0	2.3	2.8	3.0	3.8	3.4	2.6	3.0	3.4	**3.0**	23rd
JP Morgan	3.0	2.9	3.1	2.8	3.2	3.2	3.1	2.9	2.8	**3.0**	26th
BBVA	2.9	2.6	3.0	2.9	2.9	2.9	2.7	2.8	2.9	**2.8**	14th
Bank of China†	2.6	2.4	2.6	2.8	2.8	2.6	2.4	2.9	3.0	**2.7**	9th
Total average	**3.5**	**3.2**	**3.5**	**3.5**	**3.7**	**3.4**	**3.4**	**3.2**	**3.7**	**3.5**	-
Attribute ranking	= 2nd	= 4th	= 2nd	= 2nd	= 1st	= 3rd	= 3rd	= 4th	= 1st	-	
Difference between highest and lowest	1.5	1.6	1.7	1.3	1.4	1.3	1.4	1.0	1.3	1.4	
Top performing bank	LBBW	LBBW	LBBW	LBBW	LBBW	LBBW	LBBW and Credit Agricole	LBBW	LBBW	LBBW	

* made up of multiple banks with a sample of less than 5 respondents each
† sample size between 5 and 10

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[12] As positioned at the end of 2019

The export credit agency industry

This section is made up of two parts. The first part is designed to explore the ECA sector more thoroughly. To do this, we asked a series of questions to respondents who identified as working in an ECA. In total, 17 ECAs took part in this part of the survey[13].

The second part of this section draws on exporter and importer data only, in order to explore what they think of the ECAs they readily engage with in export finance activity. The ECAs were rated across a number of different criteria with a final heatmap produced to show how they rank against one another. In total, 106 exporters and importers rated the ECAs.

Figure 48 shows that the most common ECA product on offer was buyer credit financing, followed by insurance cover to lenders on payment risk and supplier credit (both 62%).

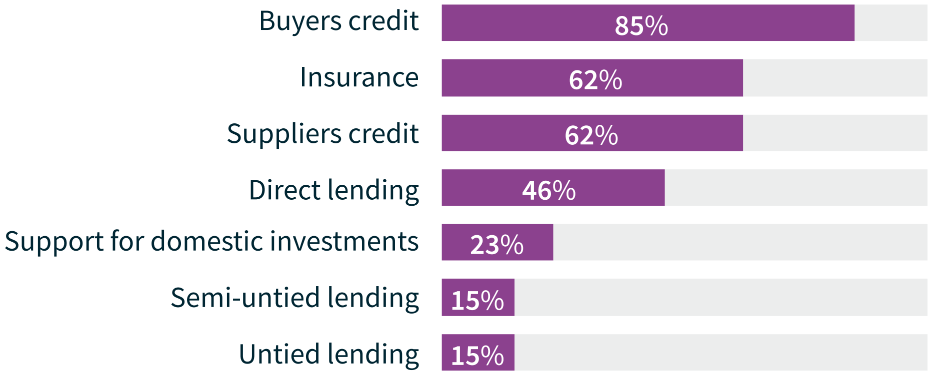
Direct lending was provided by 46% of the ECAs, with an average of $190 million lent per deal (figure 49).

Information from some of the leading ECAs support this finding. For instance, UKEF has an overall direct lending limit of £3 billion to overseas buyers, which can be made in up to eight currencies and with a value limit of £200 million per loan (UKEF, 2018). Other ECAs such as US EXIM, EDC, SACE, JBIC, NEXI and Korea Eximbank also offer comparable direct lending facilities too (Romano, 2018).

It is important to note that figure 49 includes ECAs from OECD countries only. The reason this is important, is because OECD participating countries that have voluntarily signed up to the OECD Arrangement, agree to not compete with one another by further subsidising exports (either through cheaper fees and/or longer tenors) (Salcic, 2014).

For non-OECD ECAs like the Export-Import Bank of China (Chexim) (both China) and Indian EXIM who can undercut OECD ECAs with more attractive pricing, longer tenors, and are not constrained by the OECD Agreement (Thompson, 2019), the average value of direct lending could be much higher as they can offer greater direct lending facilities.

Figure 48: *ECA products on offer to exporters*



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[13] All of the data in this section are based on the Export Finance Industry Survey (see methodology).

Figure 49: *Average size of ECA direct lending*

$190,000,000

The ECAs that took part in this section of the survey stated that on average, they were involved in 13 untied lending deals (figure 50). Based on this report's data, it is difficult to determine what proportion of the deals are untied compared to tied but the implications can be explored. Untied loans are not conditional on country-related investments or the procurement of equipment or materials, meaning they tend to avoid unnecessary costs and provide greater flexibility to the recipient. Tied lending on the other hand, is linked specifically to an investment project, within a specific country and often tied to a specific commodity or service (OECD, 2020).

Figure 50: *Average number of untied lending deals offered to exporters*

13

Rating the ECAs

Following on from 2019s Export Finance Industry Report, Euler Hermes (47%), UKEF (25%) and SACE (25%) were the top three most used ECAs by exporters and importers in this year's report (figure 51). TXF Data broadly supports this finding, albeit in a slightly different order.

Closed deal data reported by TXF Data found that SACE was the most active ECA with $9.8 billion of ECA activity across 36 deals, with Euler Hermes the third most active ECA with $8.5 billion worth of investment across 50 deals. UKEF were the sixth most active ECA with $4.3 billion of export finance investment across 22 deals.

Figure 51: *Most used ECAs by exporters and importers*

EULER HERMES	47%	UK Export Finance	25%
sace simest	25%	Atradius	24%
CESCE	22%	bpifrance	20%
serv	19%	Ksure	18%
Korea Eximbank	15%	EKF	15%
SINOSURE	14%	OeKB	14%
FINNVERA	13%	ekn	13%
EDC	12%	CREDENDO	12%
MIGA	8%	EXIM	8%
SEK	3%	GIEK	3%
Other	8%		

When exporters and importers in this survey were asked about the most valuable ECA attributes, nearly two-thirds noted risk appetite (64%) as the most valuable characteristic, followed by how well the ECAs understand their clients' business (54%) and deal gestation (48%) (figure 52). Encouragingly, risk appetite was rated as the joint second highest rated attribute (3.6), along with industry expertise, product offering and how well they understand their clients' business (figure 53).

Like the banks, therefore, it suggests a synergy between what the ECAs are best at, and what their clients value the most. This was not the case in last year's report where risk appetite was also rated as the most valued ECA attribute but ranked 6th overall (out of nine) across all of the ECAs.

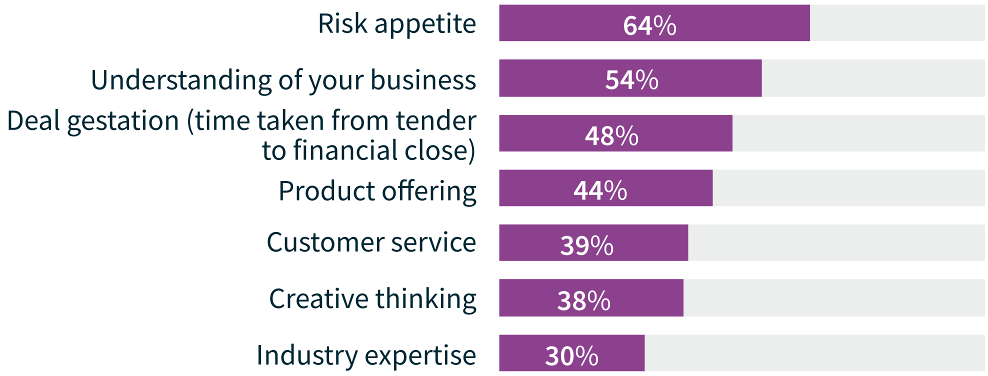
Across the attributes in figure 53, customer service has the overall highest average score (3.7) with deal gestation and whether or not the ECA is commercially or politically driven scoring the joint lowest (3.4). In the case of the latter, this report suggests that ECAs, on average, are more politically driven and are designed to support national economies in a fiscally responsible fashion. In a time where businesses are suffering very badly at the hands of Covid-19, it is encouraging that ECAs are supporting their exporters.

Looking in more depth at ECA performance, it has been another strong year for the Swedish ECA, EKN, with it topping the heatmap with an overall score of 4.2, the only ECA to score above 4.0 across all the attributes. SERV, the Swiss ECA, have also improved on last year's performance, moving up from sixth to second, with the third place going to the Norwegian ECA, GIEK, a move up from 10th last year[14].

Interestingly, EKN, SERV and GIEK only did a combined $3.3 billion worth of export finance activity across 18 deals in 2019; figures that pale in comparison to the $26.9 billion worth of deals closed across 104 deals by the top three performing ECAs in terms of activity (SACE, KSURE and Euler Hermes). This strong performance by the Italian, South Korean and German ECAs is why they were the top three ECAs in TXF Data's league table.

As it was explained in the section above, different rating metrics will yield different results. Consequently, while this report concludes that EKN has been the best ECA at supporting and engaging with its clients, it is not the bets ECA in terms of deal volume and activity.

Figure 52: *Exporter and importers perceptions on the most important ECA attributes*



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[14] Caution: small sample size. Interpret with caution.

Figure 53: *The ECA heatmap*

	Creative thinking	Customer service	Deal gestation	Industry expertise	Product offering	Risk appetite	Understanding of clients' businesses	Commercially or politically driven[15]	**Total average**	TXF Data league table position
EKN	3.7	4.3	4.3	4.3	4.3	4.0	4.3	4.0	**4.2**	15th
SERV	3.9	4.3	3.6	3.8	4.0	3.9	3.7	4.2	**3.9**	22nd
GIEK†	4.1	4.2	3.9	3.7	3.8	3.9	4.0	3.7	**3.9**	21st
KSURE	4.0	3.8	3.9	4.0	3.8	3.9	3.9	3.8	**3.9**	2nd
UK Export Finance	3.8	4.1	3.6	3.7	4.0	3.9	3.9	3.6	**3.8**	6th
Credendo	3.9	4.0	3.8	3.5	3.9	3.8	3.8	3.6	**3.8**	28th
KEXIM	3.7	3.7	3.5	3.7	4.1	3.8	3.9	3.6	**3.8**	8th
OeBK	3.7	4.0	3.6	3.7	3.5	3.7	3.9	3.2	**3.7**	32nd
SEK†	3.5	4.0	3.5	3.0	4.0	4.0	3.0	4.0	**3.6**	36th
EKF	3.5	3.7	3.3	3.9	3.6	3.4	3.7	3.9	**3.6**	14th
NEXI	3.8	3.6	3.8	3.8	3.6	3.3	3.9	3.0	**3.6**	11th
EDC	3.5	3.7	3.5	3.5	3.7	3.3	3.5	3.5	**3.5**	19th
Finnvera	3.7	3.7	3.3	3.4	3.6	3.2	3.5	3.2	**3.4**	10th
Euler Hermes	3.2	3.5	3.1	3.7	3.5	3.3	3.7	3.3	**3.4**	3rd
MIGA	3.5	3.5	3.0	3.9	3.0	3.8	3.5	3.0	**3.4**	16th
US EXIM†	3.4	3.6	3.0	3.5	3.8	3.4	3.5	2.9	**3.4**	12th
Atradius	3.2	3.5	3.3	3.4	3.5	3.2	3.3	3.6	**3.4**	20th
Bpifrance	3.0	3.3	3.2	3.5	3.2	3.3	3.5	3.1	**3.3**	7th
Sinosure	3.1	3.1	3.3	3.1	3.1	3.3	3.4	2.8	**3.1**	9th
SACE	3.0	2.8	2.6	3.3	3.2	3.1	3.2	3.3	**3.1**	1st
CESCE	2.9	3.1	2.7	2.8	3.0	2.8	3.0	3.2	**2.9**	13th
Total average	**3.5**	**3.7**	**3.4**	**3.6**	**3.6**	**3.6**	**3.6**	**3.4**	**3.6**	-
Attribute ranking	3rd	= 1st	= 4th	= 2nd	= 2nd	= 2nd	= 2nd	= 4th	-	
Difference between highest and lowest	1.3	1.5	1.7	1.5	1.3	1.2	1.3	1	1.3	
Top performing ECA	GIEK	EKN and SERV	EKN	EKN	EKN	EKN and SEK	EKN	EKN	EKN	

† sample size between 5 and 10

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[15] A score lower to one means they are more commercially driven. A score closer to five means they more politically driven.

The legal landscape

This section is made up of two parts. The first part is designed to explore the export finance legal landscape more thoroughly. To do this, we asked a series of questions to respondents who identified as working in an export finance legal team. In total, 18 law firms took part in this part of the survey[16].

The second part of this chapter draws on exporter and importer data only, in order to explore what they think of the law firms they readily engage with in export finance activity. The law firms were rated across a number of different law firm-specific criteria with a final heatmap produced to show how the law firms rank against one another. In total, 70 exporters and importers rated the law firms.

Nearly three-quarters of the law firms in this section stated that the continually changing political landscape in borrowing countries (70%), export trade restrictions (50%) and changes in how deals are financed in exporting goods/services (50%) were the top three rated challenges in the industry (figure 54). The lawyers interviewed for this report generally agreed that political tensions, manifesting primarily in the form of sanctions and trade wars, was the biggest headache for them:

Interviewer: *Compared to the other types of work that you do, how much work goes on understanding sanctions compared to the other types of what you have to do?*

Lawyer: *It's probably the key element of what we do. And sanctions and trade wars are two sides of the same coin. It might not be a big one in terms of number of words on the page, but it's so important to bank clients in particular. The repercussions of getting it wrong are so big and each deal requires you to almost start again as all companies differ."*

While the US-China trade war is not in the news at the moment, collateral damage is still being experienced by vast swathes of the global economy, including export finance. With mounting tariffs on American and Chinese imports growing, a reduction in US-China trade, and a US trade deficit with China (Lee, 2019), it has led to a contraction in global exports by more than 2% since the start of 2019 (Romei, 2019).

It remains to be seen what the true fallout of the US-China trade war is, but with President Trump ceasing all funding to the World Health Organisation, a direct response to the administration's perception that China has serious questions to answer for over Covid-19, tensions are only likely to rise (Fedor & Manson, 2020).

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[16] All of the data in this section are based on the Export Finance Industry Survey (see methodology).

Figure 54: *Greatest challenges for law firms in the export finance industry over the next 12-24 months (responses given prior to Covid-19)*

Rating the law firms

Allen & Overy (34%), Clifford Chance (31%) and Baker McKenzie (31%) were the top three most used law firms by exporters and importers in this report (figure 55). This data follows on from 2019s Export Finance Industry Report where Allen & Overy and Clifford Chance placed first and second, respectively. Baker McKenzie moved from fifth in 2019 to third in 2020.

Figure 55: *Most used law firms by exporters and importers*

ALLEN & OVERY	34%	CLIFFORD CHANCE	31%
Baker McKenzie.	31%	NORTON ROSE FULBRIGHT	27%
Linklaters	23%	DLA PIPER	17%
WHITE & CASE one law firm around the world	16%	大成 DENTONS	14%
WATSON FARLEY & WILLIAMS	11%	MAYER | BROWN	11%
Shearman SHEARMAN & STERLING	10%	Milbank	10%
LATHAM & WATKINS LLP	9%	Hogan Lovells	9%
FRESHFIELDS BRUCKHAUS DERINGER	6%	Other	14%

Perhaps unsurprisingly, legal expertise was the most valued trait for a law firm to possess (72%) (figure 56). It has been discussed throughout this report the difficulties that sanctions, trade wars increasing geopolitical tensions, and Covid-19, continue to cause for the export finance industry, so having an expert legal team on hand to navigate these issues, is key for the success of many exporters and importers.

It is reassuring then, that across the law firms rated in this report, exporters and importers scored legal expertise as the highest attribute, with an overall average score of 4.1, one of only two attributes to score 4.0 or above (the other being industry expertise) (figure 57).

Looking in more depth at the legal heatmap, overall, when compared to the banking and ECA heatmap, the law firms had the overall highest average score, 3.9 (banks; 3.5, and ECAs; 3.6) and the smallest overall average difference between the highest and lowest scoring law firms (0.9). This data suggest that the law firms are both more comparable with one another and also more positively viewed than the banks and ECAs.

Linklaters was the top-rated law firm with an average overall score of 4.3, followed closely by Latham & Watkins and Mayer Brown (both 4.2). However, impressively, there were seven law firms that scored at least 4.0 which reinforces the conjecture that they are well regarded amongst the exporters and importers who rated them.

In terms of the attributes, after legal expertise, industry expertise was the second highest rated attribute across the law firms (4.0), which, incidentally, had the smallest gap between the highest and lowest performing law firms (Mayer Brown, 4.5; Milbank and Allen & Overy, 3.6). Generally, the exporters and importers agreed that they tend to use law firms based on their expertise in certain sectors, as one explained:

"We tend to choose based on sectors. For example, oil and gas, I don't think in London you will find many better than HSF [Herbert Smith Freehills]. Mayer Brown also have a strong reputation on mining too." **[Exporter; Europe]**

The lowest scoring attribute across the law firms was value for money (3.7), a finding that follows on from 2019s Export Finance Industry Report. One exporter explained:

"They [legal fees] have always been high, and over the last few years, have been getting higher… it feels as though we are paying 40%, 50% more than what we used to for the same service." **[Exporter; Europe]**

This is not an isolated view. Corporate clients have suggested that billable hours (how law firms charge) is an opaque and an inefficient way of charging clients, yet it continues to be common practice in the legal world (Croft, 2019). As many of the exporters agreed, the lawyers provide a unique service that no other industry can fulfil. Consequently, it is likely that law firms will continue to be regarded as expensive.

Figure 56: *Exporter and importers perceptions on the most important law firm attributes*

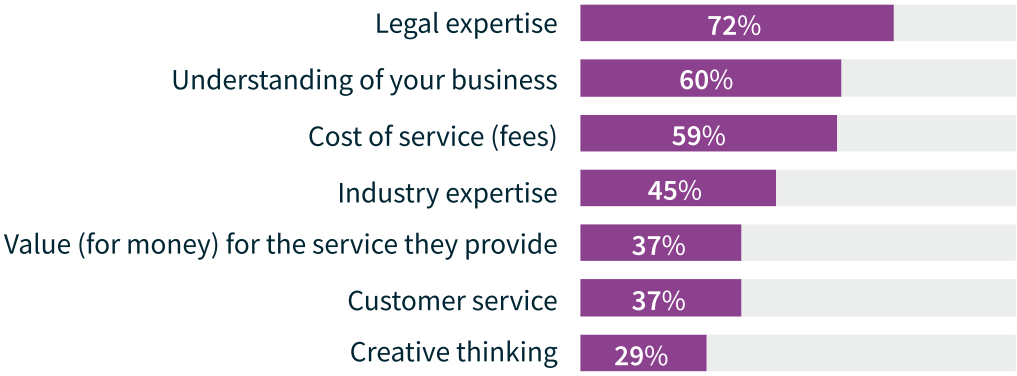

Figure 57: *The law firm heatmap*

	Creative thinking	Customer service	Industry expertise	Legal expertise	Understanding of clients' businesses	Value for money	**Total average**
Linklaters	4.1	4.3	4.4	4.6	4.3	4.2	**4.3**
Latham & Watkins[†]	4.4	4.2	4.4	4.6	4.0	4.2	**4.3**
Mayer Brown[†]	4.1	4.0	4.5	4.3	4.2	4.2	**4.2**
Shearman & Sterling[†]	4.1	3.9	4.3	4.3	4.0	4.0	**4.1**
Freshfields Bruckhaus Deringer[†]	4.0	4.5	4.3	4.0	3.8	3.5	**4.0**
Watson, Farley & Williams[†]	3.6	3.9	4.3	4.4	4.4	3.4	**4.0**
Norton Rose Fulbright	3.7	3.8	4.1	4.2	4.1	3.9	**4.0**
Baker & McKenzie	3.7	3.9	3.9	4.3	3.9	3.8	**3.9**
Dentons	3.5	3.9	4.0	4.1	3.8	3.4	**3.8**
Allen & Overy	3.8	3.6	3.6	3.9	3.6	3.5	**3.7**
Hogan Lovells[†]	3.6	3.6	3.8	3.8	3.6	3.6	**3.7**
Clifford Chance	3.5	3.4	3.8	4.1	3.6	3.4	**3.6**
White & Case[†]	3.5	3.3	3.8	4.0	3.6	3.4	**3.6**
Milbank	3.7	3.7	3.6	3.7	3.3	3.5	**3.6**
DLA Piper	3.3	3.4	3.7	3.8	3.3	3.1	**3.4**
Total average	**3.8**	**3.8**	**4.0**	**4.1**	**3.8**	**3.7**	**3.9**
Attribute ranking	= 3rd	= 3rd	2nd	1st	= 3rd	4th	-
Difference between highest and lowest	1.1	1.2	0.9	1.2	1.0	1.1	0.9
Top performing Law firm	Latham & Watkins	Freshfields Bruckhaus Deringer	Mayer Brown	Linklaters and Latham & Watkins	Watson, Farley & Williams	Linklaters, Latham & Watkins and Mayer Brown	Linklaters

[†] sample size between 5 and 10

Where does the export finance industry go from here?

The three aims of this research were to provide a detailed overview of the state of the export finance industry, to provide ranking heatmaps for the active banks, ECAs and law firms involved in export finance over the past 12 months and to present a detailed look at how Covid-19 has impacted, and will continue to impact the industry. Drawing a combined total over 313 respondents from banks, ECAs, exporters, importers, law firms and private insurers, this report proposes the following take-aways for the industry:

Covid-19 is having a damaging effect on export finance. A disrupted global supply chain and a contracting global economy are creating significant stress for many exporters and importers. ECAs can play a crucial role in supporting their clients by increasing short term liquidity and working capital, providing full insurance cover and by providing better direct lending options. The ongoing turbulence that continues to rock the oil and gas industry is going to compound matters further as almost every industry is reliant on a healthy oil and gas sector. However, it is important to be cognisant of the ongoing challenges that frustrate the industry, most of which can be traced back to sanctions, trade wars and geopolitical tensions. Seeking the right help and support to tackle these challenges will be vital to ensure the ongoing success of each institution in the industry.

It is imperative for exporters and importers to fully understand the MAC and EOD clauses they have in place in their lending facility agreements. The very specific language and details that accompany MAC and EOD clauses have to be fully understood if companies are to understand what compensation they may or may not be entitled to. Worryingly, this report found that too many exporters and importers were not aware of the terms and conditions of the lending facility agreements; a situation that could have unexpected and potentially very damaging consequences. This report strongly urges all parties, in particular the borrowers of bank funding, to better understand the legal frameworks that make up each of their deals.

Sustainability is fast becoming a defining principle of the industry. Arguably the fastest growing set of principles and practices across many different industry sectors, sustainability is no longer just an idea or a 'nicety' for companies to occasionally incorporate into their strategic and operational decision making. Driven in large part by a sense of moral duty, corporate clients are becoming increasingly interested in ensuring their practices are as sustainable and environmentally and socially friendly as possible. Coupled with banks and ECAs offering more and more green-related products, the industry is well positioned to start moving away from sectors like coal, and towards more renewable energy sources. However, this can only happen if the right expertise and guidance is in place. Operating sustainably is still fraught with scalability issues, economic challenges and a lack of expertise on how to transition. This report encourages expert advice and information to be sought out by any company looking to operate more sustainably, because without this guidance, costly traps lie in wait for those that underestimate the challenge.

There is a synergy between what the exporters and importers value in their banks, ECAs and law firms, and how these institutions are supporting their clients. This synergy can only help the exporters and importers to feel a moderate sense of calm in the currently uncertain world of export finance. With export finance being a truly global industry, exporters and importers across the world are intimately linked by the supply chain, and disruption to any part of it can be felt throughout. Covid-19 has disrupted almost every part of the export finance supply chain so is imperative that effective communication between parties is present if companies and institutions are to survive. This report encourages an open dialogue between all relevant parties to ensure that as challenges arise, and they will likely continue to rise for many months, maybe even years across the industry, they can be suitably addressed.

In a land of uncertainty, information is king. While there are many predictions and forecasts about how the export finance industry might look after the Covid-19 pandemic, few, if any, have any credence. TXF is at the vanguard of information and intelligence on the export finance industry. Through its data, events, news and research, we continue to provide the industry with the most up-to-date information on the latest events, allowing businesses and institutions to better navigate the continually changing export finance landscape.

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TXF Research makes up one third of TXF Intelligence along with TXF Data and TXF Essentials. TXF Research supplies the most detailed market insights into the export, commodity and trade finance industries. Using an in-depth and robust methodology that combines quantitative trends with thought provoking qualitative insights, TXF Research provides unique and proprietary data and analysis based on primary sources. In addition, TXF Research offers a bespoke research service to paying clients. Working in collaboration, TXF Research collect, collate, analyse and write reports to the focus and scope of the research, with the final product being a thought leadership piece to be used by the client as they choose.

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