berne union

YEARBOOK 2019

About

Berne Union Publications

The Berne Union publishes a regular digital industry newsletter, and print periodicals in the Spring and Autumn, as well as interim reports on industry research and statistics.

'The BUlletin' is a bi-monthly newsletter digest of news, views and statistics providing a window into the industry for business partners across the world of trade and export finance.

Our print periodicals curate thought pieces and high-level commentary from industry leaders, presented alongside the Berne Union's data on new commitments, exposure, claims and recoveries reported by our members across business lines, sectors and geographies.

About the Berne Union

The International Union of Credit and Investment Insurers (Berne Union) is an international not-for-profit trade association, representing the global export credit and investment insurance industry. Our mission is to actively facilitate cross-border trade by supporting international acceptance of sound principles in export credit and foreign investment. This is achieved by providing a forum for professional exchange, sharing of expertise and networking among members, as well as through engagement in collaborative projects with other stakeholders from across the wider trade finance industry.

Collectively, our members provide payment risk protection for approximately 13% of world annual cross-border trade in goods and services (amounting to $2.5 trillion in 2018) and since the start of the global financial crisis in 2008, have paid out more than $50 billion in claims.

berneunion

International Union of Credit & Investment Insurers
1st Floor
Thanet House
231-232 The Strand
London WC2R 1DA
United Kingdom

Tel: +44 (0)20 7841 1110
Fax: +44 (0)20 7430 0375

www.berneunion.org

Production Credits

Project manager and editorial
Paul Heaney, Berne Union

Contributing editor
Oliver O'Connell, TXF

Production editor
John Smith, TXF

Content planning
Vinco David, Berne Union
Aycan Ertugrul, Berne Union
Paul Heaney, Berne Union
Arturs Karlsons, Berne Union
Oliver O'Connell, TXF
Dan Sheriff, TXF
Laszlo Varnai, Berne Union

Cover design
Constantina Christophide, TXF

Contents

1 Introduction

2 Viewpoints and analysis

2 Viewpoints and analysis *continued*

3 Member Directory

1

Introduction

The Berne Union: Who's Who 2019

Berne Union Leadership

The Management Committee consists of:

- President
- Vice President
- 4 Committee Chairs
- 13 Member Organisations

The 13 Member Organisations are institutional positions, held by the two largest volume members from each of the ST, MLT and INV Committees, plus seven additional members drawn from amongst all four Committees on a voluntary, rotating, basis. All positions are held for a term of two years.

President:
Beatriz Reguero (CESCE)

Vice President:
Christina Westholm-Schröder (SOVEREIGN)

Short Term Committee Chair:
Julian Hudson (CHUBB)

Medium/Long Term Committee Chair:
Hendrik Holdefleiss (EULER HERMES)

Investment Committee Chair:
John Lentaigne (ATI)

Prague Club Committee Chair:
Danilo Ćirković (AOFI)

Institutional Members:

- ATRADIUS
- AXA XL
- BPI FRANCE
- COFACE
- ECGC
- EXIMBANKA SR
- HBOR
- KSURE
- NEXI
- PwC
- SACE
- US EXIM
- ZURICH

Elected Officials

President, Beatriz Reguero
CESCE Spain | Chief Operating Officer, State Account

Beatriz Reguero joined CESCE, the Spanish Export Credit Agency (ECA) in 1999 as Deputy Director of the Country Risk and International Relations Department. In 2012, she became the COO (Chief Operating Officer) of the State Account Business at CESCE. Previously, between 1992 and 1999 she held different positions in the Spanish Public Administration, mainly within the Ministry of Economy, related to Trade responsibilities. Within the Berne Union, she was appointed Chair of the Short Term (ST) Committee for the period 2010 – 2012 and later on, Chair of the Medium and Long Term (MLT) Committee in 2015 - 2017. Beatriz graduated in Economics from the University of Madrid in 1989.

Vice President,
Christina Westholm-Schröder
Sovereign Bermuda | Chief Underwriter and SVP

Christina is responsible for all aspects of Sovereign's transactional underwriting, with particular focus on capital markets and financial institution business. Christina is also relationship manager for a number of Sovereign's ECA and Multilateral Agency clients. Christina has worked in the political risk field for more than 30 years. Prior to joining Sovereign, she was with the Multilateral Investment Guarantee Agency (MIGA) for 11 years. She joined MIGA as one of its first employees in 1988 and worked in several capacities, including regional manager for Asia and Latin America and as manager for syndications and business development. In this capacity, she was also responsible for the Agency's re- and coinsurance activities. Prior to MIGA, Christina worked as a political risk insurance broker in the Bank of America's global trade finance department in New York and as manager in the political risk department at AB Max Matthiessen in Stockholm, Sweden. Christina has a degree in international business from Stockholm School of Economics and Business Administration and an MBA in finance from New York University.

Christina has also been active in the Berne Union in various capacities. She has served on the Management Committee for several years, participated in various committees and held various elected positions, including Chair of the Investment Committee and Chair of the Technical Panel.

Short Term Committee

ST Committee Chair, Julian Hudson
CHUBB United Kingdom | Global Head of Trade Credit

Julian has 24 years experience in political risk and credit insurance. He commenced his career as an underwriter with Trade Indemnity (now Euler Group) in London before moving to Asia in 1999 to assume a regional broking role with Jardine Lloyd Thompson in both Singapore and Hong Kong.

Julian relocated to Singapore in January 2007 where he joined ACE (now Chubb) as the Regional Manager for Political Risk & Credit business and established the Asia practice. In July 2014, he moved back to London in the capacity of Chief Development Officer, Political Risk & Credit within Chubb Global Markets where, in addition to day-to-day underwriting responsibilities, he was involved with the promotion of new political risk and credit insurance products, the establishment of new overseas offices and capabilities, and the provision of solutions for multi-national companies. In November 2015, he was made Global Head of Trade Credit.

Julian's experience ranges from short-term trade transactions to medium-term specialty credit through to sovereign and sub-sovereign non-payment risk, and protecting debt and equity flows into a variety of projects.

ST Committee Vice Chair,
JC (Jong-chul) Eun
KSURE Korea | Head of International Relations

Born in 1969 in Seoul, Korea, JC(Jong-chul) Eun studied law at Korea University, specializing in international trade. After his college graduation, he joined the Republic of Korea Air Force, serving at the Suwon Fighter Wing for three and a quarter years and completing his service as a first lieutenant.

Joining the Korea Export Insurance Corporation, the former body of K-SURE, in 1996, Eun has built a variety of career experiences in the field of trade insurance and export credit. Until 2008, he worked for the ST business of K-SURE managing the development of new ST programs and debt recoveries. Also while at the Business Planning Division, Eun managed government affairs, assisting the Korean government to formulate the market and user-centered economic policies.

From 2009, he directed K-SURE's project financing department while managing programs for Korean SMEs. As a notable international relations specialist, Eun has been successfully dealing with the international trade affairs of K-SURE with his keen knowledge and broad experience in the international organizations such as the Berne Union, OECD and WTO, making meaningful contributions to building sound and solid mutual relations with the institutions, and expanding the scope of mutual cooperation and exchange.

For the twenty three years of career experience starting from the same year of Korea joining the OECD in 1996, Eun has successfully built extensive knowledge and network of global export credit insurance which has been instrumental to the Korean export and economic growth. His knowledge and understanding in the short-term export credit, global trade and the rules and norms are expected to create significant synergy for addressing a range of issues faced by the international trade insurance community.

Medium / Long Term Committee

MLT Committee Chair,
Hendrik Holdefleiss
EULER HERMES Germany | Head of Division Underwriting & Risk Management

Dr. Hendrik Holdefleiss studied economics at the Universities of Regensburg, Barcelona, Muenster and holds a PhD in international economics of the University of Kaiserslautern. He started his career at Deutsche Bank AG and joined Euler Hermes in 1999. In the State Export Credit Guarantee Division Hendrik Holdefleiss headed the Economic Research Department carrying out analysis of trade policy and country risk. He has been in charge of international relations and cooperation in international institutions (EU, OECD) for several years. Later he was in charge of Public Relations of the Export Credit Guarantees at Euler Hermes. Since 2011, as Head of Underwriting and Risk Management, he is responsible for the global business of the German ECA.

MLT Committee Vice Chair,
Nikolay Arkhipov
EXIAR Russia | Head of ECA Business Development and Reinsurance

Nikolay is a core employee of International Business Development team of the Russian Agency for Export Credit and Investment Insurance (EXIAR) and has been there from the very beginning of the rapid expansion of EXIAR's activities. He holds a position of Head of ECA business development and reinsurance and has both the hands-on experience of structuring reinsurance transactions with other ECAs and commercial insurers as well as good mastery of ECA product line and business conduct. His scope of work includes concrete business cooperation where reinsurance is required for transaction structuring as well as relationship management with other export support institutions in international fora like Berne Union, BRICS and EAU platforms. Nikolay has been representing EXIAR at Berne Union events since 2016 AGM in Lisbon and oversaw all the various aspects of collaboration including the introduction of EXIAR to MLT and ST committees in 2018.

Investment Insurance Committee

INV Committee Chair, John Lentaigne
ATI Multilateral | Chief Underwriting Officer

John Lentaigne was appointed Chief Underwriting Officer of ATI in late 2016. He has over 14 years of experience in the credit and political risk sphere, as well as prior entrepreneurial experience. During his first year at ATI, the firm underwrote US$2.4 billion of exposure and registered a 52% increase in Gross Written Premium.

Prior to ATI Mr. Lentaigne was the Co-Head of Political & Credit Risks at Brit, one of the largest syndicates at Lloyds. John helped to establish Brit's presence in this area and built out Brit's team to rapidly become one of the most competitively positioned London market participants. Prior to working at Brit, John had established a strong underwriting reputation at both AXIS, Chubb and XL Catlin in both London and Bermuda.

John also has a diverse range of entrepreneurial experience, for example having worked as a film producer, live events organiser and having established a record label. John holds a Master of Modern History degree from Oxford University.

INV Committee Vice Chair, Dominique Meessen
AOFI Serbia | Executive Board Member and Executive Director for Insurance

Dominique spent 25 years in Credendo ECA's Underwriting and Account Management department where he occupied different positions, including management positions.

In September 2018, Dominique joined Credendo's Reinsurance department He is currently Head of Reinsurance and responsible for both Outward and Inward reinsurance activities in Credendo. Dominique has extensive experience in Credit and Political Risk insurance from an ECA perspective but also from a private player perspective thanks to Credendo market activities.

He has attended Berne Union meetings for almost 15 years. He was Chair of the Technical Panel Meeting of the Investment Insurance Committee in 2007 and 2008. Before joining Credendo, Dominique briefly worked in a business law firm in Brussels. Dominique holds a Master's Degree in Law (LL.M.) from the Université Catholique de Louvain (Belgium).

Prague Club Committee

PC Committee Chair, Danilo Ćirković
AOFI Serbia | Executive Board Member and Executive Director for Insurance

Danilo joined Serbian Export Credit Agency (AOFI) in January 2006, just a few months after it was founded. From the beginning Danilo has been engaged in establishing and developing the credit insurance business of the company. During his career in AOFI (2006-present), Danilo has worked in risk and policy underwriting as well as reinsurance. Since November 2013, Danilo has been appointed to the position of Executive Board Member and Executive Director for Insurance.

His previous work experience has been with the National Assembly of the Republic of Serbia, where Danilo worked as an Adviser (2005), and with the UN International Criminal Tribunal for the Former Yugoslavia at The Hague, Netherlands (2001-2004), where he worked as the case manager for defense in three court cases.

An economist by university education, Danilo also holds a Masters degree in Management from the Faculty for Finance, Economics and Administration in Belgrade, Serbia.

PC Committee Vice Chair,
Yerdan Bekkhozhin
KAZAKHEXPORT Kazakhstan | Deputy Chief Executive Officer

Yerdan Bekkhozhin joined KazakhExport as a Deputy Chairman of the Board in October 2014. He is responsible for underwriting, risk management, legal aspects and international relations. Before joining KazakhExport, Yerdan spent more than 6 years in banking sector working for local and international banks in Kazakhstan and in JP Morgan Chase in Australia.

He started his career as a consultant in the investment systems area. Yerdan holds a Bachelor of Banking and Finance and a Bachelor of Computing from Monash University Melbourne, Australia

Berne Union Secretariat

Vinco David
Berne Union | Secretary General

Vinco David was appointed Berne Union Secretary General in March 2017. Prior to this, he has served as a Management Committee Member and as the Chair of the Investment Insurance Committee. A Dutch national, he has over 30 years' experience in various aspects of credit and investment insurance, including more than 20 with leading international credit insurer Atradius, in diverse management roles across strategy, product development, economic research, project finance, marketing, underwriting and claims.

Before joining the Berne Union as Secretary General, Vinco David served as a Management Team Member of Atradius Dutch State Business, the Export Credit Agency of the Netherlands. Prior to this he has held positions at the Berne Union Secretariat and the Netherlands Ministry of Finance. He holds an MA in political science and international relations and a BA in economics and Italian language and literature from the Free Reformed University of Amsterdam.

Laszlo Varnai
Berne Union | Associate Director (Coordination of the MLT Committee)

Laszlo joined the Secretariat in June 2015, to advise it on legal matters and to support the Committees (primarily the ST Committee) and Specialist Meetings. Since April 2017, Laszlo has been supporting the MLT Committee and the data development project.

He gained focused experience in policy analysis as he worked for EXIM Hungary for more than 5 years, leading the ECA's international relations (OECD, EU and Berne Union) and ensuring compliance with WTO, OECD and EU regulations, as well as the international sanctions.

Laszlo graduated in law from Peter Pazmany University, holds a DipHE in Law of England and Wales and the European Union from the University of Cambridge, and a diploma of economic diplomacy from the Károli Gáspár University in Hungary.

Paul Heaney
Berne Union | Associate Director (Strategic Communications and Outreach)

Paul is in charge of strategic communications and outreach at the Secretariat, having joined in July 2016. He manages diverse projects relating to publications, media engagement, software development and knowledge management. Paul coordinates the work of the Outreach Task Force in its mission develop joint-initiatives with the Berne Union's external network of industry partners, through the 'Capacity Sharing Marketplace' platform.

He has 8 years of experience working in business strategy, communications, events and publications relating to the trade finance and export credit insurance industry. Prior to joining the BU, Paul worked as a Conference Producer for Informa, one of the world's largest events and publications companies.

Paul originally studied philosophy and holds an MA from King's College London and a BA from Trinity College Dublin.

INTRODUCTION

Nicole Cherry
Berne Union | Event Logistics & Office Manger (Logistics, Business Administration and Member Support)

Nicole joined the Secretariat in July 2016 and is responsible for all meeting and office logistics. In this role she works closely with Berne Union member hosts and external suppliers, coordinating preparation for General and Specialist Meetings across the world. She also manages office operations, finance and accounts and is the first port of call for all member support and assistance.

Nicole has a degree from Roehampton University and has spent six years working in Tanzania on various charity and non for-profit projects as well as gaining corporate experience working as the assistant to the CEO of East Africa's largest company.

Eve Hall
Berne Union | Associate Director (Coordination of the Prague Club Committee)

Eve joined the Berne Union Secretariat team in October 2017 with primary responsibility for managing the Prague Club Committee, a dedicated forum for credit insurance companies from new and emerging markets.

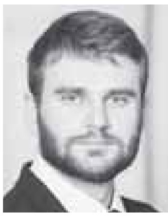
She has over fifteen years of experience in corporate finance, business development and investor relations. Eve held several positions at various GE media businesses in New York, Hong Kong and London. Most recently, she has focused on management consulting projects for both young and mature organisations.

A Londoner of 20 years, she enjoys spending time with her family, travelling, learning Italian, practicing Bikram yoga and skiing. Eve holds an MBA in Finance from Bentley Graduate School of Business in Massachusetts, USA.

Aycan Ertuğrul
Berne Union | INV Committee Manager (Coordination of Investment Insurance Committee)

Aycan joined the Berne Union Secretariat team in January 2019 with primary responsibility for managing the INV Committee.
She has six years of experience in Turk Eximbank in Short Term, Medium Long Term Export Credit Insurance and International Relations. Aycan holds a BA in Economics from Middle East Technical University (Ankara) and an MA in International Trade from Bogazici University (Istanbul).

Artūrs Karlsons
Berne Union | ST Committee Manager (Coordination of the Short Term Committee)



Arturs has over 10 years of experience in the field of export credit insurance, mainly with a focus on short term business.

Originally from Latvia, he previously led the export credit insurance/guarantee division of the Latvian ECA, ALTUM. Prior to this he worked at the Ministry of Economics of Latvia with the WTO and export promotion matters and was a project lead for the launch of the export guarantee programme provided by the Latvian ECA.

He holds a degrees in Finance and Political Science from BA School of Business and Finance and the University of Latvia respectively.

In his spare time Ian is a keen skier, opera goer and traveler.

Introduction from the Berne Union President

Beatriz Reguero, COO State Account Business, CESCE

Uncertainty will continue to be a hallmark of global trade

Browsing through various global trade reports from the past couple of years, one pattern stands out above all others: consistently revised projections. While a cynic might suggest that this only demonstrates the futility of attempting to predict future economic trends, there is a better explanation: extremely high uncertainty.

Over the past several years there has been an accumulation of the types of risks in which the largest impact is felt not directly, but indirectly through uncertainty and its negative effect on the confidence of all sorts of investors, traders, consumers and other stakeholders in our interconnected global economy.

Consider the social and political disruption of Brexit, various geopolitical conflicts in the Middle East, and the escalation of ongoing trade wars between the United States, China, and other major economies. Certainly, these events all have a significant direct impact on trade, but it is their protracted an unpredictable nature which is especially problematic as it serves to amplify and spread the effects well beyond the confines of the primary actors, adding an encumbrance to entire regions and sectors of the global economy. At the same time, our industry faces a number of more isolated political risks in places like Venezuela and Argentina, which by their very nature are uncertain, and disruptive.

Collectively, these risks and uncertainties are shaping the global economic and geopolitical landscape in a manner that produces a significant effect upon both the clients of insurance and the insurance market itself.

Beatriz Reguero

Structural changes, driven by social and environmental factors are progressing at a global level

The world needs trade. Notwithstanding the particular challenges and uncertainties mentioned already, it is clear that understanding, mitigating and managing these risks is the essence of our business as insurers of trade and investment. With our support, trade will find a way.

A more profound question is how our industry relates to those exogenous mega trends which exist beyond the immediate ecosystem of trade, finance, and economics. Asking ourselves how our business is shaped by and how it is capable of shaping the broadest narrative of global social and environmental issues.

An increasing number of voices are expressing concern about the unsustainable level of indebtedness in poor and low-income countries. Support for economic growth through access to sufficient financial resources needs to be carefully balanced against increasing vulnerability to external shocks and unmanageable liquidity fluctuations. These considerations have a huge impact on commercial activities within trade as well as on the terms of cover provided by insurers of trade.

Climate change and environmental issues have become increasingly prominent in mainstream discourse over the past 10-15

In recent years the Berne Union has become ever more proactive in terms of our outreach and cooperation initiatives, and we are now certainly at our maximum level of engagement historically.

years. No longer predominantly the purview of specialist research or niche policy, the very real impact of climate change is now grabbing the attention of almost every strata of society across the globe. From governments and businesses to private investors, consumers and citizen activists, an increasing and significant majority of people now view climate change as a 'major threat'[1].

I believe that an association like the Berne Union is most valuable in an environment of change and uncertainty, when we face challenges that can only be tackled at the industry level.

How is the market managing this change and uncertainty?

These risks, uncertainties and structural shifts have both direct and indirect consequences, not only for society at large but also within our industry.

The impacts on our industry are manifold, affecting every step in the value-chains of global trade, from the industrial strategy of oil-producing countries, through manufacturing, technology risks, currency fluctuations and the cost of finance, to social changes impacting labour supply, consumer demand, and political and environmental activism.

In finance, impact investing has become increasingly popular. Asset managers are shifting focus from simply screening against their ESG policy to proactively seeking sustainable and impactful investments. Speaking with our partners in the banking industry we see that some are adopting quite robust sustainability agendas or targeting carbon-neutrality in a way that has a bearing on their lending and funding strategies.

There is a lot of discussion on how to measure these risks. What is the significance of climate and other environmental risks beyond traditional ESG measurements? Is there a material impact on broader financing risks? There is some evidence to support the theory that sustainable lending presents a lower risk overall and some Ratings Agencies are already collecting and incorporating forward-looking data on 'preparedness' for ESG changes into their credit models.

This is also an area where we are starting to see regulators taking an increasing interest. The market is still ahead in this respect, but there is a feeling that we are on the cusp of change and that in future we may begin to see new regulatory structures arising from these considerations; perhaps even something which would rival the banking regulations we have been adapting to in the wake of the global financial crisis.

The path of these kinds of macro changes is often out of our immediate control, but we have a duty to anticipate and prepare for such risks. With such diversity in the market, in terms of business profile, priorities, mandate, etc., detailed planning is something which must ultimately happen at an organisational level, but we know from experience that the broad trends are best tackled through industry-wide understanding and cooperation.

Associations like the Berne Union are most valuable of in an environment of great change and uncertainty

In recent years the Berne Union has become ever more proactive in terms of our outreach and cooperation initiatives, and we are now certainly at our maximum level of engagement historically. We recognise that the environment we are operating in is changing, and under these circumstances, communication, knowledge-sharing, mutual-understanding, and cooperation are all essential, both within and without our industry.

We continue to regularly engage with our counterparts in the banking industry through a joint working group with the ICC Banking Commission. So far this year we have had some very productive discussions and workshops addressing bank regulation and sustainability.

Our Capacity Sharing Marketplace[2] is an innovative platform created by the Berne Union to promote engagement and cooperation between all organisations involved in cross-border finance and risk-sharing. Here we have been working along with partners from development finance institutions, eximbanks, and the private market, as well as engaging with counterparts at GNEXID, ADFIAP the AEBF and EDFI and the Blended Finance Task Force, to discuss innovation and cooperation across all our respective spheres of finance and insurance.

One of the most valuable aspects of an industry association is the global perspective we can achieve when we look at our business as a whole. The Berne Union holds by far the most accurate and comprehensive database of statistics on risk exposure, new commitments, claims and recoveries for export credit and investment insurance. A multi-year project to improve the detail and quality of this data is now bearing fruit and providing us with a unique perspective on industry trends by business line, sector, geography, and provider type.

These improvements are invaluable in giving us a clearer understanding of the shape of our own business and at the same time provide us with an excellent basis for conducting meaningful dialogue with other parts of the international finance landscape.

Adapting to this new and evolving world

I am a great believer in the value of open dialogue and information sharing. I believe that an association like the Berne Union is most valuable in an environment of change and uncertainty, when we face challenges that can only be tackled at the industry level. At the same time, the Berne Union itself is not immune to change.

While we nurture our data and embrace the technology which brings us ever more interconnected, we also recognise that the real aim of communication is not just 'information transfer' but ultimately it is to influence the way people think, or to adapt our own thinking, through constructive dialogue. This we can do too.

We continue to keep an eye on the long-term objectives laid out in our mission and vision statements, and before the end of this year we will kick off a formal review of our strategy and core activities. In doing this we hope to understand ourselves better, to gain a clearer picture of our position in this changing landscape, and to ask how we can best continue to represent and serve our industry in a time of challenges and opportunity.

We know as well that the future of this industry lies not in the hands of today's leaders, but rather tomorrow's. As such, I am delighted that our project to establish a formal think-tank of Young Professionals within the Berne Union community has, through their diligence and enthusiasm, really taken off and already given birth to an abundance of initiatives which will bring real value to our community under the direction of the next generation of leaders in export credit.

This is a perfect example of how, ultimately, it is not institutions but people who drive change; through their ideas, their energy and most importantly through their spirit of cooperation. Halfway through my 2-year term, I would like to thank the people who have supported our work and helped to advance the vision I laid out for the Berne Union last year in Paris, along-side my Vice-President, HUANG Zhiqiang.

Zhiqiang himself has been an invaluable support and – along with his colleagues at Sinosure – a great asset in promoting the strategic objectives of the Berne Union. Due to his departure from Sinosure, to take up a new position at Chinese investment company, CITIC, Zhiqiang stood down as Vice President in July this year. While this is certainly a loss to the Berne Union, I wish him a fond farewell and every success in his career with CITIC.

At the same time, I am delighted to welcome my newly elected Vice President Christina Westholm-Schroder (of Sovereign Risk Insurance). Christina is a highly knowledgeable and well-respected figure in our industry, and an experienced Berne Union leader, having most recently served as the Chair of our Investment Insurance Committee. She is a true asset and I am very much looking forward to working together over the course of the next year.

As always, I am indebted to my colleagues at CESCE and the Berne Union for their support and counsel in my role as President. To all of my friends, colleagues, and partners in the Management Committee, Secretariat and Membership, I thank you!

I am delighted with the progress we are making together and excited to see how the Berne Union will continue to evolve in the coming years. Uncertainty is challenging, of course, but it is also at the heart of what we do and it is what makes this industry, and our work within the Berne Union so fascinating. ■

Notes

1 The global median for respondents who see climate change as a 'major threat' increased from 54% to 68% between 2015 and 2018 in Pew Research Centre's Global Attitudes Survey [https://www.pewresearch.org/fact-tank/2019/04/18/a-look-at-how-people-around-the-world-view-climate-change/] / [https://www.pewresearch.org/global/2015/11/05/global-concern-about-climate-change-broad-support-for-limiting-emissions/]

2 www.berneunion.org/CSM

Comment from the Vice President

State of the market – cooperation for capital mobilization – we have come a long way!

Christina Westholm-Schröder, Vice President & Chief Underwriting Officer, Sovereign Risk Insurance

Multilaterals, development finance institutions (DFIs) and Export Credit Agencies (ECAs) alone do not have sufficient resources to meet the financing needs of global markets. Multilaterals and DFIs are required by their shareholders to leverage their resources by mobilizing private capital in support of development projects. ECAs across the globe are being asked to supplement their resources to better meet the coverage needs of their exporters. Market participants should cooperate to increase investment and trade flows in order to achieve developmental and ESG goals. "Capital Mobilization" has become a popular new term in today's world of development finance.

The ECA and the private insurance market may well be ahead of the curve when it comes to cooperation. This is not surprising since reinsurance and risk-sharing in different formats has been part of the insurance industry for more than a century. For political and credit insurers, however, this was not always the case. Looking back 20 years, there was little cooperation among ECAs, multilateral insurers, and private insurers. Today cooperation is the norm. The trend started in the late 1990s when MIGA managed to convince a private insurer to provide 20-year reinsurance capacity. MIGA also convinced its shareholders and Board that partnering with the private sector was a sustainable form of risk sharing, and one that enabled MIGA to support more investments in its member countries. This was arguably the start of real cooperation among private sector insurers, ECAs, and multilateral insurers. At that time, the private PRI industry was not yet ready to support the long-tenored guarantee/insurance programs of multilaterals and ECAs, nor did they have the product offerings or capacity to do so. A lot has changed since then.

Christina Westholm-Schröder

Today cooperation among Berne Union

The ECA and the private insurance market may well be ahead of the curve when it comes to cooperation. This is not surprising since reinsurance and risk-sharing in different formats has been part of the insurance industry for more than a century.

members is thriving, and the traditional concept of reinsurance is in vogue. Many ECAs and multilateral insurers are now reinsuring both on a treaty and a facultative basis. The high level of interest in the recent BU reinsurance seminar supports the proposition that those BU members that are not already reinsuring are keen to find out whether it may be a viable solution to their capacity constraints, as well as an effective portfolio management tool. Trade conferences and Berne Union meetings now feature regular discussions on the merits of reinsurance cooperation. There is a realization that cooperation will benefit both exporters and developing countries alike.

While cooperation in the guarantee and insurance sector is not formally referred to as "capital mobilization" or "debt mobilization", what ECAs, multilaterals, and private insurers have achieved together is indeed mobilization of private insurance capital. This capital has enabled ECAs and multilaterals to provide larger lines to their clients, which supports additional financing. The success of this cooperation is also based on the same premise. Both ECAs and Multilaterals face capacity constraints in certain markets, uneven portfolio distribution, as well as demands by shareholders and other stakeholders for risk diversification and risk mitigation. The private insurance market, in turn, is keen to work with ECAs and multilaterals; not only are these institutions a new category of buyers of insurance, but such cooperation is also considered as a risk mitigation tool that enables insurers to participate in more challenging markets and for longer tenors.

As a consequence, the Berne Union has changed dramatically over the last two decades. Private market insurers are now active members of the Berne Union. ECAs and private insurers cooperate on regulatory issues facing the industry and share knowledge and experience about countries across the world. The reporting system has been revamped to capture accurately the business flows of the different members.

While cooperation in the guarantee and insurance sector is not formally referred to as "capital mobilization" or "debt mobilization", what ECAs, multilaterals, and private insurers have achieved together is indeed mobilization of private insurance capital.

The meetings now offer more opportunities for further cooperation and cross-member exchanges, which is well noted in sub-committees and focus groups.

Cooperation in the export credit and investment insurance industry is not new but the results are noteworthy. While the future is impossible to predict, it certainly appears that cooperation among ECAs, multilaterals and private insurers will continue to increase, and BU members will continue to play a vital role in "capital mobilization" in support of global trade and investment. ■

Views expressed are of those of the author and do not reflect the views of the Berne Union or Sovereign Risk Insurance Limited.

The high level of interest in the recent BU reinsurance seminar supports the proposition that those BU members that are not already reinsuring are keen to find out whether it may be a viable solution to their capacity constraints, as well as an effective portfolio management tool.

ECGC: Going from strength to strength

By Mrs. Geetha Muralidhar, Chairman-cum-Managing Director, ECGC Ltd

International trade is disposed to uncertainties and risks, with increased magnitudes of losses manifesting themselves repeatedly, a result of both economic cycles as well as the influence of government policies and geo-political risks. These risks associated with economic cycles are perceived more by nations like India, which are not predominantly export-oriented economies but have a substantial dependence on exports (contributing 13% to the Indian GDP). An economic cycle shock or a geopolitical disturbance causes a concern to the export industry which has a large Micro, Small and Medium (MSMEs) base.

Amidst the global financial slowdown and the ever-looming trade war between the West and the East, the aspirations for growth and development arising from the young demography of India are fuelled by existing opportunities and the determination to overcome challenges. India is already the world's third-largest economy in terms of purchasing power parity. It is the only Asian economy that is growing its exports share since the end of 2017 despite all of the headwinds. Over the next few years, India is expected to continue to grow further, with progress being bolstered by dynamic reforms in the macroeconomic, fiscal, tax and business environment.


Geetha Muralidhar

ECGC is amongst the early pioneer Export Credit Agencies having completed 62 years of successful operation, serving its mandate of export promotion. We provide export credit insurance not only to exporters but also to banks where the latter facilitates in ensuring adequate and timely finance to the exporters. This has enabled the Indian exporters to explore newer markets and experiment with non-traditional products while at the same time reinforcing its existing markets and exports of traditional products.

The total business covered by us at the end of the financial year 2018-19 was $95 billion with a total maximum liability of $14 billion in 2018-19. Our overall support as a percentage of Indian exports stands at around 30%.

Direct insurance to exporters was provided through more than 13,000 covers. Under the Export Credit Insurance for Banks, over 19,000 accounts in almost 3,000 bank-branches across India were extended covers. Effectively, we have, directly and indirectly, catered to more than 20,000 exporters of

Amidst the global financial slowdown and the ever-looming trade war between the West and the East, the aspirations for growth and development arising from the young demography of India are fuelled by existing opportunities and the determination to overcome challenges.

which 85% belong to the MSME sector.

Our commitment to support international trade has received a boost in the form of additional capital infusion of around $290 million by the Government of India. This is a crucial support to facilitate the presence of India and ECGC in emerging markets like Africa, CIS and Latin American countries, and strengthen its underwriting capabilities to support MSMEs. It is pertinent to mention here that the credit insurance operations are run on a commercial basis with actuarial assessments and related pricing structures.

Also, unlike most of the ECAs in the world, we are not exempt from the obligations of tax and dividends. In the past five years, we have received a capital contribution of USD 103 million and returned USD 113 million in the form of taxes and dividends to the Government of India. We are uniquely also subject to the regulations of the Insurance Regulatory and Development Authority of India.

ECGC has been conferred with an award "Uchit Vyavahar Puraskar" (Fair Business Practices Award) for the year 2018-19 by the Council for Fair Business Practices (CFBP) recognizing the company's achievements in customer satisfaction and communication, employee motivation, corporate social responsibility, strict adherence to highest ethical standards, ensuring maximum transparency and adopting fair business practices.

Recently, ECGC, on behalf of the Government of India, has subscribed to Group 'B' shares of the African Trade Insurance Agency (ATIA), a pan-African multilateral export credit agency, thus becoming first non-African State to support ATI in its efforts to bring prosperity to the region. Since the African region has always been the center-point of the investments thereby ushering a wave of opportunities for the ECAs, this will indeed be a step-up support to exports and investments in the African region.

Technology is a great enabler of international trade, but it is also disposed to newer kinds of credit threats. We have initiated state-of-the-art software projects that will provide improved Information Technology platform for customer engagement and enhance intelligence capabilities. Our focus is also on product diversification and customization to suit the ever-changing needs of the exporters while maintaining a prudent underwriting approach. We have established a Chair Professorship at the Indian Institute of Foreign Trade (IIFT) to promote research and studies in the areas related to export trade, specifically export credit insurance.

ECGC has been actively associated with the Berne Union since its inception in 1957 and is contributing in other forums such as the BU Regional Co-operation Group (RCG); Brazil, Russia, India, China, South Africa (BRICS) ECAs forum; G12 Heads of ECAs and the International Working Group among others. The exchange of information on activities, discussions and deliberations among members help in understanding divergent policies and procedures resulting in adoption of best practices among all.

ECGC is one of the few members of BU to have hosted the annual meeting multiple times and is delighted to once again welcome the members of the Berne Union to the Annual General Meeting. In the past we have hosted the meeting in 1980 (Goa; western India) and in 1997 and 2007 (New Delhi; northern India). India is a diverse country with assorted cultures and cuisines representing its varied regions. This year we will host you in the city of Hyderabad (southern India), the capital of the State of Telangana that also boasts fine food, historic monuments and is a growing cyber hub of India. An elite gathering of 250 delegates from member ECAs is expected to participate in the various sessions spanning over five days from October 20-24, 2019. We look forward to receiving the members at the Hyderabad International Convention Centre (HICC). We wish all the delegates fruitful engaging discussions and deliberations at the AGM and also a great time in India. ■

Technology is a great enabler of international trade, but it is also disposed to newer kinds of credit threats. We have initiated state-of-the-art software projects that will provide improved Information Technology platform for customer engagement and enhance intelligence capabilities.

Views from the Berne Union Committees

As we near the end of 2019, Berne Union Committee representatives give a snapshot of the state of the market in their respective areas.

JC (Jong-chul) Eun, ST Committee Vice Chair
KSURE Korea | Head of International Relations

The global export environment is directly linked to the status of global trade, and as the conflict

between the United States and China continues, the growth rate of both has decreased. Even worse, the outlook for the future is not so bright. The IMF has continuously lowered its outlook for the global economic growth rate and global trade growth rate since April last year.

Korean exports are now also facing tough times. So, now is time to closely look at how the global value chain, which has been an important growth system, has changed. Let's take the semiconductor, Korea's No. 1 export product, as an example. To date, its value chain spreads across Korea, China and Japan. First, Japan provides materials and parts. Then, Korea manufactures semiconductors. Lastly, China makes finished products utilizing its cheap labor. However, because of the development of Chinese technologies and the "America first" trade policies such as re-shoring, this free trade-based global value chain is weakening.

Unfortunately, this kind of circumstance has a direct impact on Korea. Korea's exports have been decreasing for nine consecutive months and sluggish export and investment have also slowed economic growth. Exports to China and the United States, in particular, continue to decline and are losing vitality. Since those two countries make up as much as 40% in Korea's export volume, the trade dispute between the two inevitably has a huge and direct impact on Korea. If global uncertainty continues in the future, it will not be easy to break the vicious cycle of sluggish exports and the slowdown of growth.

K-SURE monitored the damage caused by the prolonged trade dispute and discovered that approximately 1,500 out of the 3,800 small and medium-sized companies that are using K-SURE products have been negatively affected. For example, some of their exports plummeted after the dispute began. This downward trend is also taking place in other countries in the Asian market. Goldman Sachs, which had lowered growth rate in Singapore, Taiwan and Hong Kong also cut the rate in Korea from 2.2% to 1.9%. "These countries were remarkably developing and growing in the 1980s and 1990s thanks to their high global exposure, but the very same factor now is a drag on their economies," Goldman Sachs says.

In the U.S. government bond market, a rate reversal occurred between 2yT and 10yT which is considered as a precursor to an economic downturn. Also, the global economy is highly insecure not just due to the U.S.-China trade war, but also the likelihood of a No-deal Brexit for Britain, the prolonged Hong Kong crisis, and Argentina's financial instability.

Eventually, these crises will highlight the role of public export credit agencies and credit insurers. Despite the shrinking trade, individual exporters will start exploring new markets to counteract the crisis. And the movement will definitely increase and diversify their demand for credit insurers.

At the same time, there is growing demand for credit insurance which guarantees better secured collateral for the more dangerous regions of the world. And export companies, who are already enjoying the development of IT technologies such as FinTech, want more sophisticated and faster systems. So, now we can say that we are living in an era where we have to upgrade the quantity and quality of services for exporters while managing the risks from increasing uncertainties.

Laszlo Varnai, MLT Committee Manager
BERNE UNION | Associate Director

2019 so far has been a relatively quiet year in the MLT export credit insurance sphere and most Berne Union members have experienced a decline in new commitments compared to last year. There are a number of factors underlying this trend, but in large part it reflects normalisation following an especially strong 2018, rather than any significant decline in business fundamentals for this year.

Nevertheless, we can attribute some of this decline to the observed general economic slowdown as well as increasing instability in certain emerging markets. Tightening fiscal conditions in some markets has constrained government spending on large projects, such as energy or infrastructure, resulting in delays to transactions in the pipeline. Most significantly however, is that the mega deals of 2018 (USD 1bn +) cannot simply repeat themselves in every year. On balance, the current outlook is promising, and some Members will issue cover for a significant amount of their current pipelines in 2019 H2 and 2020.

Taking a view on sectors, we have seen some impact on construction, and gas and power generation, where "green tariffs" and government spending have affected levels of new cover provided. The manufacturing sector has seen healthy levels of new commitments, but also records by far the highest claims to exposure ratio of any named sector (0.63%).

Total claims paid, in 2019 H1 were lower than those recorded in the previous semester, but still more or less in line with trends in the past few years at around USD 1.5bn in each half year period. The highest claims paid for a sector was in transportation (USD 372 mn), which also seems to have had some decline in new commitments. Reports on the renewable energy sector seems to be confirming the theory that sustainable investments carry lower risks, accounting for 6% of exposure (around USD 40 bn) and just 6 million claims paid (less than 0.5% of the total).

Political claims have risen in recent years and remain higher than usual for 2019. This is mainly due to the situation in Venezuela (where around USD 300 mn were paid). At the same time, commercial claims have eased back since the previous periods, down to around USD 1bn.

In the current environment, Berne Union members continue to monitor developments in regulation, as well as political and economic transitions changing the trade landscape. On the political side, we are keeping an eye on elections and their potential impact on public policy, e.g. government spending, environmental regulations etc. Also significant will be sectoral developments in renewable energy, aircraft and shipping industry transformation, as well as the trend towards large projects and the impact of this on export credit insurance.

John Lentaigne, INV Committee Chair
ATI Multilateral | Chief Underwriting Officer

Dominique Meessen, INV Committee Vice Chair
CREDENDO Belgium | Head of Reinsurance

Strictly speaking, Investment insurance and Political Risk insurance are relatively small niches when compared to the Trade Credit and Export Credit insurance markets. This is true both for private insurers and ECAs (with a few exceptions). This being said, if we exclusively take into consideration political risks (including therein the related sovereign credit risks) one can state that unfortunately the situation has not improved during the last 12 months. Just look at the ongoing rise of protectionism, the temptation in more and more countries (including western democracies) for nationalist and populist policies, the unpredictable consequences of the trade war between the USA and China, the very high volatility and tensions in the Middle-East, the Hong Kong protests, the risk of a disorderly Brexit…

This is not really an encouraging environment for corporates or SME's wanting to invest abroad. Many investors will probably be thinking twice before making the decision to invest in a foreign country. A country or a world region that looks stable and investor-friendly today might look very different tomorrow. Whether this will have an impact upon the demand for PRI or Investment insurance is very hard to say. One could think that this evolution should actually play to the benefit of the PRI market thanks to a higher risk awareness among investors. However, whilst political risk insurance can bring significant comfort to an investor it will very rarely be the decisive argument for an investor to decide to invest or not in a country, and in our experience it is normally purchased once the key investment decision has been made (though the purchase of this insurance may be a condition of the investment decision).

PRI and Investment insurance is usually concentrated upon larger projects in infrastructure, transportation, natural resources and energy and today, this remains the case. This shouldn't be surprising since these sectors are very capital intensive and are often considered as strategic by host governments. Such investments may also be more likely to have key interactions with the governments, thereby making them more prone to breach of contract (in particular if there is a sovereign offtake, i.e. the risk becomes quasi-sovereign credit). It will be interesting to follow closely the extent to which PRI and Investment insurance can over time attract more investors from other sectors, such as the services industry, retail and potentially even the new giants of information technology.

Danilo Ćirković, PC Committee Chair
AOFI Serbia | Executive Board Member and Executive Director for Insurance

Berne Union is a highly diversified international organization – the Prague Club Committee of Berne Union even more so. In the last two years, the Prague Club Committee has grown by five new members from Asia, Africa and the Caribbean, reaching a total of 40 members across the globe. Other than the fact that all members are active in credit insurance, there is no other common attributes for all the ECAs within the Prague Club. Some members are state-owned, some not; some are active on domestic market, while others on domestic and international at the same time. Some members are active only in short-term business, while others are engaged solely in medium and long-term. Certain members are more developed and thus also participate in other Berne Union committees. The list of differences doesn't end there. Some countries have one ECA, others two, some members have to follow OECD rules, others not, and so on.

All of these differences within one organisation can bring benefits to members only if we all comply with the same standards in our business activities. Only if we are fair and loyal to each other, can both the progress and sustainability of our organization be possible. There are other challenges that we need to be aware of, such as cultural differences, political and even armed conflicts among member states, different religious views and business models. All of these, together with a complex and dynamic business environment, make our business lifecycle even more difficult.

However, experience has taught us that there is a thin line between a challenge and an opportunity. I can see the success of the Prague Club by taking advantage of such opportunities, having in mind reached a level of trust and respect among its members. After two years of chairing this Committee, I am convinced that the progress of our organisation on a sustainable manner is certain, as long as we remain fair and loyal to our business standards and to each other's, but also as long as we use our network in good faith.

Experience that we have obtained within the Berne Union would not be possible to get anywhere else. This is evident! Where else can one find so many differences, varieties, experiences, knowledge and opportunities?!

I have found that in the past two years, we managed to acquire new experiences and upgrade our knowledge, but also to expand our network among the wonderful world of credit insurance. All in a constructive and creative atmosphere respecting all our differences. I am grateful for the trust given to me to chair the Prague Club Committee over this period and honored to lead group of professionals and great people gathered in this committee.

Finally, I would like to express my gratitude and appreciation to Vice Chair Mr. Yerdan Bekkhozhin and to the Berne Union Secretariat for their sincere and professional support and cooperation. ■

2

Viewpoints and analysis

What will export credit insurance look like in 2030?

By Shelley Schad, Head of Pricing, VP – Political Risk, Trade Credit, and Bond, AXA XL

In the years approaching 2030, the export credit insurance industry, along with banking sectors and other insurance sectors, will be challenged to meet the demands of an ever-evolving technological world. New technologies such as Block Chain and Artificial Intelligence, along with the emergence of start-up companies, and a shift in policy from multilateralism to regional trade networks, will have an impact on international trade, and thus on the export credit insurance market. The world is going through a technological revolution and private insurers who can stay ahead of the curve will be able to enhance the customer experience and potentially delve into new markets. Adapting to these changes will become increasingly important as higher levels of regulation require more finely tuned data capture and startups challenge the marketplace.

One of the most likely technological changes that one might expect to see by 2030 is the implementation of Block Chain and other transactional recordkeeping technologies (smart ledgers), for use in banking and insurance. Block Chain is an open ledger system – it is a timestamped record of transactions that is captured by a series of computers (as opposed to a single server). All transactions have a specific hash identity and are available for other authorized users to see. Block Chain has many features which would benefit the export credit insurance industry, including increased efficiency and reduction in costs.


Shelley Schad

Trade finance currently has many inefficient processes which have the potential to be digitized. For example, banks need to do a thorough check on their customers for money laundering, terrorist financing, export of restricted goods, etc. This is commonly known as a Know Your Customer (KYC) or Client Due Diligence (CDD). According to

New technologies such as Block Chain and Artificial Intelligence, along with the emergence of start-up companies, and a shift in policy from multilateralism to regional trade networks, will have an impact on international trade, and thus on the export credit insurance market. The world is going through a technological revolution and private insurers who can stay ahead of the curve will be able to enhance the customer experience and potentially delve into new markets.

a survey done by Rabobank, onboarding a new client is so arduous that 30 percent of 722 corporate respondents claim it can take more than two months, while 10 percent answered it exceeds four months.[1] When Block Chain is initiated, banks will be able to check the chain for a KYC done by another bank. The KYC will only have to be done once, which will increase efficiency and lower the costs of trade finance. This reduction in cost and boost in efficiency will bring about an increase in the availability of trade finance. Through the use of smart ledger technology, there are many other opportunities to increase the availability of trade finance, especially for small and medium sized enterprises (SMEs).

Banks, and therefore the credit insurance market, are currently missing out on potential business with (SMEs), and it won't be long until fintech enters the market to get a share of the business.

Large banks are typically conservative when it comes to financing SMEs due to the lack of information and transaction history available for these companies. SMEs may also lack the ability to find trading partners in the global arena. According to an article by Forbes in August 2018, banks reject more than 50% of loan applications from small and medium sized enterprises (SMEs). In developing economies, the picture is even worse: a 2017 report from the World Bank estimates that 70% of small, medium and micro-enterprises are unable to access the credit they need.[2] Even when these companies are able to secure loans, the outdated business practices of the banks take time away from running the business. Creating trade financing opportunities for SMEs could boost the economy and improve poverty levels in emerging markets. There are already start-up companies looking to help solve the credit gap for SMEs.

Fintech companies are focusing on streamlining the KYC and onboarding process and creating efficiencies in paperwork for SMEs. These fintech companies would come with the advantages of smart ledger technology such as efficiency in transaction and data management and lower costs. An example of one of these start-ups is a London based company called Tradeteq. Tradeteq partners with banks to provide them with a platform to connect, interact and transact with Non-Bank Financial Institutions. Tradeteq transforms trade finance in to an investable asset for traditional credit investors such as pension funds and insurance companies. This process creates greater capacity within banks, subsequently generating more financing for SMEs. Tradeteq uses various machine learning and AI specialists to deploy tools for non-standard data. Rather than using outdated statistics methodology to determine risk and credit score, Tradeteq uses network data and real-time payment behaviors to form a more accurate representation of credit scoring and tools to monitor investments. It is these types of start-up companies which will help fill the credit gap for SMEs. The increase in capacity for SMEs that these start-ups will generate will create more demand for export credit insurance. In the future, insurance companies may work directly with these fintech start-ups to provide export credit insurance. The finance industry is already seeing disruption from fintech, and the insurance industry will follow will the rise of specialized insurtech companies.

Insurtech is a rising trend which is disrupting the insurance industry. In 2018, Euler Hermes launched Credable which is a fully digital platform for on demand insurance geared towards SMEs. On this platform, the insured can automatically search a database to explore the creditworthiness of a company that they are interested in doing business with, and they can also get an instant quote for insurance. This is an example of the increased level of service and technology that the export credit insurance industry may see by 2030. The increase in competition from start-ups will force insurers to continue to evaluate the products that they offer and the way these products are offered to ensure that they have an edge in the marketplace.

Banks, and therefore the credit insurance market, are currently missing out on potential business with (SMEs), and it won't be long until fintech enters the market to get a share of the business.

For large banks, the increased transparency of Block Chain would create greater ease in doing business with SMEs. Block Chain would allow all authorized users to see the transaction history of the company in question. When a shipment is recorded or a payment is made or received, this information is available to all participants immediately. This relieves the bank of collecting their own data and increases efficiency since the SMEs would no longer have to submit data to each bank. SMEs have long been known to have a trade finance gap, but these benefits would also extend to all trade financing. Bain estimates that blockchain trade finance, if adopted by all participants in the trade ecosystem, could reduce trade finance operating costs by 50 to 70 percent and cut the turnaround time for trade finance processes three to fourfold.[3] Smart Ledger technology could boost world trade in goods by at least $35 billion dollars per annum and up to as much as $140 billion.[4] By 2030, the boost in world trade along with a shift in trade policy from multilateralism to regional trade deals may change the way export credit insurers evaluate risk and do business.

The transparency of smart ledger technology will become increasingly important over the next decade as the shift in trade policy from multilateralism to regional and bilateral agreements continues. Caused in part by protectionism and the increased need for power in trade agreements, the shift is already seen as trade regions develop, especially within the Western Hemisphere, East Asia possibly expanding into Asia, and Europe plus its "near abroad."[5] Further contributing to the regional shift, technologies such as robotics and 3D printing reduce the costs of production, which may cause companies to bring factories closer to home with a more regional model. Regionalization of trade may reduce complexity of trade deals but may also put emerging markets at a disadvantage as regional and bilateral agreements generally include the strongest economic countries. Smart ledger technologies will help increase the transparency of the evolution of global supply chain networks for export credit insurers and banks and may help reduce the brunt of regionalization on emerging economies due to the cost reduction it will create.

Another challenge in the finance and insurance world today is the increase in regulation on banks and insurance companies. Given the implementation of Basel III requirements and Solvency II, banks and insurance companies benefit from creating their own internal models which calculate their capital requirements. Proper modelling requires detailed data on transaction types, insured types, exposure information, default rates, and loss given default. Smart ledger technology can help with data collection in that all transaction

Another challenge in the finance and insurance world today is the increase in regulation on banks and insurance companies. Given the implementation of Basel III requirements and Solvency II, banks and insurance companies benefit from creating their own internal models which calculate their capital requirements.

details are available to all users of the ledger. Banks and insurers who can efficiently collect this information will stay ahead of the curve by having a competitive capital charge relative to their peers. Insurers will be able to use the increase in available data to price risks more accurately, which will increase profitability and ease of portfolio management. The boost in profitability and more efficient use of capital will cause a lift in world trade. Given the reduction in costs and the boost in world trade that this technology could produce, it seems inevitable that this will get implemented, however, implementation is not without its challenges.

The banking industry may be hesitant to adopt the new technologies as it can be difficult to see the benefits of making the change when considering the challenges posed. The existence of multiple platforms for block chain ledgers could reduce the ability for the different systems to interact, requiring banks to find a solution. In order to fully benefit from implementing smart ledger technologies, all banks would need a cooperative, standardized approach in using the technology in a way that IT professionals deem interoperable. Implementing the technology in certain parts of the value chain would be helpful but would not fully reap the potential benefits. Of course, export credit insurers would also have to be on the same system to interact on a transactional basis. Traditional insurance companies will have to be open to reconfiguring internal systems to work with the new technology or risk being left behind.

Once all inefficiencies and paperwork in the export credit insurance market are eliminated with smart ledger adaptation, business processes will look much different. Transactions will require less manual effort and process more swiftly. Insurers and ECAs will be more focused on relationships and providing value to the customer as more tedious insuring tasks become completely automated. For example, ECAs will be able to hone in on assisting SMEs in developing their export-based businesses. We already see this happening, and the power of better data and processes will further help this along. Likewise, insurance brokers will also be more focused on client needs given the avoidance of paper-based processes. Given the expected increase in trade finance volumes, insurers will have a longer list of clients to service but will work more efficiently due to the new technology.

It's June 2019 and a lot will change in the next decade leading up to 2030. New technologies such as smart ledgers and artificial intelligence are more frequently hitting news headlines, and it is only a matter of time before this is adopted on a widespread basis. The efficiencies in processing time and the reduction in cost that will come along with this will drive up opportunity within the export credit insurance space. Private insurers will need to be agile in the ability to operate digitally, since this will allow them to keep an edge on the competition based on the regulatory environment and service to the customer. Fintech companies are already forming and may create opportunity for credit insurers, while the emergence of insurtech companies may create competition. From an IT perspective, implementation of smart ledgers will be complex and only possible if banks and insurance companies can cooperate to develop an interoperable system. However, the increase in world trade, and therefore demand for export credit insurance, should more than make up for the effort and cost. Leading up to 2030, there is an incredible opportunity in using new technologies and this should be embraced by the industry. ■

Notes

[1] Jesse Groenewegen, Marijn Heijmerikx and Jurriaan Kalf. "The impact of Blockchain on trade finance." RaboResearch – Economic Research. https://economics.rabobank.com/publications/2017/november/the-impact-of-blockchain-on-trade-finance/. Accessed 26th June 2019.

[2] Gina Clarke. "Blockchain Now Has The Potential To Provide SMEs With Access To Borderless Funding." Forbes. https://www.forbes.com/sites/ginaclarke/2018/08/30/blockchain-now-has-the-potential-to-provide-smes-with-access-to-borderless-funding/#771689d2139a. Accessed 26th June 2019.

[3] Mike Faden. "Blockchain Trade Finance: Expanding Global Trade for SMEs?" https://www.americanexpress.com/us/foreign-exchange/articles/block-chain-trade-finance-smes/. Accessed 27th June 2019.

[4] James Pitcher. "The economic impact of smart ledgers on world trade ... and for the export credit and investment insurance industry?" The Bulletin, August 2018. The Berne Union. Accessed 27th June 2019.

[5] Joergen Oerstroem Moeller. "From Globalization to Regionalization." Yale Global Online. https://yaleglobal.yale.edu/content/globalization-regionalization. Accessed 28th June 2019.

New technologies such as smart ledgers and artificial intelligence are more frequently hitting news headlines, and it is only a matter of time before this is adopted on a widespread basis. The efficiencies in processing time and the reduction in cost that will come along with this will drive up opportunity within the export credit insurance space.

Model for digitalization: SACE SIMEST's new digital ecosystem

By Fabio Rescalli, Managing Director, Business Innovation, SACE SIMEST and Mariangela Siciliano, Head of Education to Export, Area Marketing & Innovation, SACE SIMEST

'I am a customer. And I'm always right.'
'I don't have time, and I want a discount.'

Digital users are accustomed to obtain personalized and on-demand services that are easy to use and access. These new forms of consumption are not only driven by their convenience but are also supported by a strong relationship of trust established between the user and service providers. This is even more true in a B2B environment.

Digitalization changed and redefined the trade paradigm, including International Trade. In particular, digital exports is a "not to be missed" opportunity with huge untapped potential. As regards Italy, online export comprises 7% of the total, covering for the most part traditional sectors of Made in Italy (food and fashion above all). At the same time, digitalization is revolutionizing the area of insurance and financial services, and its impact is already evident in private services.

With this in mind, SACE SIMEST, the export and internationalization Hub of the CDP Group, has invested in a deep digital rethink of its offering and service model, paying particular attention to small and medium enterprises (SMEs), the backbone of Italian economy and its core target. Over the past three years, we have supported Italian SMEs with €20 billion, with an annual growth of 10%.


Fabio Rescalli


Mariangela Siciliano

SACE SIMEST's digital transformation dates back to 2009 when we launched ExportPlus, our first digital platform, with the aim of simplifying and speeding up the export credit insurance policy process. Since then, we have been working on boosting our digital presence and offering, while integrating on and offline channels to create a consistent and customer-centric experience for our customers. In 2016, our

Digitalization changed and redefined the trade paradigm, including International Trade. In particular, digital exports is a "not to be missed" opportunity with huge untapped potential. As regards Italy, online export comprises 7% of the total, covering for the most part traditional sectors of Made in Italy (food and fashion above all).

Going digital means to cut distance and virtually work with customers side by side, enabling greater penetration of the export community. It also means to provide more rapid answers, reducing significantly the requests' processing time and keeping clients always up-to-date on opportunities and risks across the world.

first digital agenda was launched, built on three key objectives:

1. Reaching an increasing number of enterprises, especially SMEs
2. Moving at the same speed of markets and economic trends
3. Simplifying our product suite and making it more accessible

Going digital means to cut distance and virtually work with customers side by side, enabling greater penetration of the export community. It also means to provide more rapid answers, reducing significantly the requests' processing time and keeping clients always up-to-date on opportunities and risks across the world. Moreover, it means to provide them with simpler products, designed for small businesses that do not have time and money to waste on paperwork or to follow processes not necessary for them, but for us.

Digital transformation is not only about reorganizing processes through technology or moving services and products online. It is about establishing a relationship of trust with businesses, safeguarding their data and delivering better services in line with their different needs. Therefore, digitizing a product does not mean only selling it through an online platform but, above all, it means putting ourselves in the shoes of those who must understand it and make it more accessible.

This is how sacesimest.it was born, a one-stop-shop where small and medium enterprises can find our products, services and training tools under one roof.

Sacesimest.it is more than a simple website: it is a new digital ecosystem designed to meet SMEs' needs, offering a suite of paperless and digital products available for online purchase, combined with freely available training content and advanced studies, helping enterprises to tackle their international challenges and take decisions about their export and internationalization strategy.

The platform has been built on an advanced and adaptive technological infrastructure, allowing an effective and personalized user experience, with maximum accessibility from mobile devices (mobile first), and a fully responsive functionality, no matter what device (tablet, laptop, smartphone) or operating system is used.

Browsing the platform, businesses have the opportunity to:

Gain access to the top five products most used by SMEs (sacesimest.it/soluzioni).

In this area it is possible to purchase 5 key products, useful to support SMEs at different stages of their international journey: subsidized loans, assessment of customers' reliability, credit insurance, factoring and

Figure 1: Export readiness

credit recovery. Supplier credit is also available for online purchase through a simple and safe process. Customers can get an estimate of the feasibility and costs of the operation in just a few clicks, up to the purchase of the cover. No paperwork is required, application and contract are transferred digitally as well as payment. We called it Export up, to remind us that our mission is to help companies to export more, and be more competitive internationally. Our customers welcomed the innovation, praising its simplicity and clarity. Only in H1 2019, we have received almost as twice as the FY 2018 total applications.

Join Education to Export (E2E) program (sacesimest.it/education).
An innovative training program launched by SACE SIMEST in 2018 with the aim of promoting a broader culture of export, increasing the number of exporting SMEs, and encouraging those already active on foreign markets to increase their operations.

E2E is based on four pillars:

1. Multichannel approach: The program combines online and offline training in order to reach and engage an increasing number of Italian SMEs, offering them a customer-centric experience and providing a first-hand support to their international growth.
2. Tailored on Exporters' needs: Following an initial self-assessment, user gets its profile, based on its export readiness and competencies, and is directed to the most suitable export kit, as shown in Figure 1 below.
3. Easy and free to access: The program aims to offer international development and growth opportunities through specialist free quality content.
4. Valuable partnership: We collaborate with the industry's most trusted organizations institutional counterparts to provide Italian companies with access to the latest trade knowledge and solutions that are complementary to SACE SIMEST's offerings.

Since January 2019, more than a thousand SMEs have been involved in the program.

Digital transformation is not only about reorganizing processes through technology or moving services and products online. It is about establishing a relationship of trust with businesses, safeguarding their data and delivering better services in line with their different needs.

Obtain free access to SACE SIMEST studies (sacesimest.it/studi)
In this section it is possible to access more than 300 reports written by SACE Research Unit, such as the Risk&Export Map, an interactive world map for a real-time assessment of risks to which companies are exposed when operating abroad, covering 200 countries worldwide.

Our digital transformation is part of a complex path we have all embarked on in SACE SIMEST, being fully aware that the adoption of an advanced technological infrastructure and the digitalization of our offer are only part of the equation. To win the digital challenge, a cultural shift is needed among Italian SMEs and more work has to be done on our side to encourage a real "digital mindset" change. ■

Our digital transformation is part of a complex path we have all embarked on in SACE SIMEST, being fully aware that the adoption of an advanced technological infrastructure and the digitalization of our offer are only part of the equation.


enabling development

The challenges of digitalisation are far outweighed by the opportunities it offers

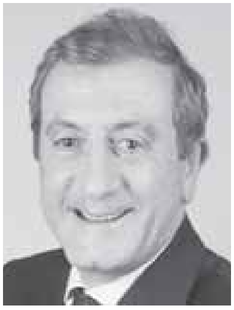
By Jérôme Pezé, CEO and Founder of Tinubu Square

An article in the recent Berne Union newsletter hit upon a very important theme. The article, by Shelley Schad of AXA XL, looked forwards to the next ten years and predicted challenging times ahead for the export credit insurance industry, banking and other insurance sectors, largely due to the evolution of IT. The article identified 'new technologies such as Block Chain and Artificial Intelligence, along with the emergence of start-up companies, and a shift in policy from multilateralism to regional trade networks' as likely to impact on international trade and the export credit insurance market. We at Tinubu agree with this, but also want to stress that it is important to acknowledge the huge opportunities that technology offers to the industry.

Customer satisfaction

Firstly, let's look at customer satisfaction. Insurers are increasingly expected to deliver credit decisions that are properly supported by adequate credit risk knowledge, and ultimately, a seamless, fast response to the people they are doing business with. Trade credit insurance insured, and those looking for surety products, or cover for medium term, and even political risk, want the highest quality service based on real-time analytics and meticulous research. This requires insurers to develop a customer-first strategy aimed at improving customer satisfaction, building loyalty and reducing churn.

As the insurance industry progresses through digitalisation, we will increasingly see the use of tools that enable a fast response to customer needs. These range from customer web portals and the support of social media interaction, through to chatbots driven by artificial intelligence and machine learning that automate the delivery of policies based on current and accurate risk assessments.


Jérôme Pezé

The additional bonus of interacting so closely with customers is that it is then easier to extract and analyse feedback, and act on satisfaction levels to continually improve the service being offered. The insights afforded by a customer-centric approach deliver rich business intelligence that help to shape best practice and provide superior governance, as well as enhancing processes. Where once customers had to be satisfied with ready-made and inflexible policies, insurers and ECAs are increasingly in a position to be able to tailor their products to suit each individual customer's needs.

With these new possibilities that technology is opening up, reinsurance capacity and alternative risk transfer capacity will be almost unlimited to those players that can provide governance, transparency & reliable risk control processes. Credit insurers' future differentiation will be highly dependent on their ability to digitalize their processes in order to deliver excellence in customer satisfaction by providing better service, higher value, seamless processes, transparency, cost efficiency and integration with a larger ecosystem (e.g. banks, new trade platforms, blockchain etc).

It is vital, therefore, that insurers get on board with developments that make it easier for their customers to do business with them. Improving customer satisfaction, with an eye on nurturing their long-term commitment and loyalty, will also provide up-sell and cross-sell opportunities across multiple lines and ultimately drive greater profitability.

Technology also has a huge role to play in improving operational excellence. Automating processes leads to cost efficiencies, primarily by helping to reduce operational outlay whilst simultaneously optimising loss ratio. Not only can private insurers and ECAs rely on the efficiency of automation to improve visibility and reporting capabilities, it also enables them to more profitably utilise the skills of employees to provide value-add services to customers.

This will allow them to be able to deliver fluid, flexible, multi-niche responses to various market segments with appropriate products and solutions. This will reduce the administrative costs for insurers, and also for their customers, and at the same time allow them to get immediate visibility on the status of claims, fluidify recovery activities and be more reactive and improve loss mitigation. This will deliver real and meaningful satisfaction to the customer.

Operational improvements

Integrated platforms designed to support the full insurance eco-system bring the added bonus of reducing operational complexity. They provide compliance with security requirements and they enable integration with complementary systems, such as banking, new trade platforms and technologies, including blockchain.

For many insurers the support of re-insurance partners is vital, and technology enhances this by improving governance and compliance. Dedicated systems enforce disciplined underwriting systems and guidelines, provide transparency, audit trails at all levels and ensure compliance with client data protection requirements.

Intelligence

Access to business intelligence is another crucial advantage that technology brings. Insurers and ECAs cannot expect to make fully-informed decisions about risk if they don't have good aggregation management systems in place that deliver a complete picture. Whether offering trade credit, medium term, surety or political risk products, a single view across a financial and geographic market is hugely powerful.

In the past year we have witnessed several big business closures which help demonstrate the devastating consequences of not managing aggregate exposure through 'joined up intelligence'. The British firm Carillion is just one example. It was liquidated with liabilities standing at almost £7 billion, according to reports. The 27 companies that made up Carillion Construction owed money to banks, pension funds and tens of thousands of subcontractors, many of whom are unlikely to have survived, even if they had trade credit risk insurance in place. Those most likely to withstand the bad debt, or to have mitigated its impact, will have had access to in-depth intelligence which calculated risk in relation to every division, company, sector and country in which Carillion operated.

The only way to mitigate credit risk is by identifying the aggregate exposure of the organisation, ideally in real-time, so that decisions can be made. This is as important for export and credit agencies, trade credit insurers, risk underwriters, banks and surety companies as it is for commercial businesses.

Access to a single, powerful view of the landscape also reduces the risk of different stakeholders using different systems that don't talk to each other. The interoperability of technology is essential if systems are to talk to each other and share vital insights. However, the insurance industry is still moving through its digitalisation process, and continues to rely, in part, on legacy systems, and this means that access to the complete picture is not always available which, in turn, increases risk.

Surety

It is widely acknowledged that of all insurance products, surety is lagging behind in the digitalisation stakes the most. Progress has been hampered by the three-party relationship that sits at the heart of surety – the customer, the carrier and the obligee. Each one expects action to be taken by another, and therefore little happens. It is also a specific area which still requires a bespoke approach to suit the needs of the customers, not all of whom welcome digital interactions. Mike Bond, head of Surety North America at Euler Hermes recently said: 'It is hard to change an industry in which some obligees still want to see raised seals and wet signatures on bonds'.

Progress is being made, however, in the US, where automation is very low compared to the size of the market, and it is important to acknowledge this. One example is the project being led jointly by the Surety and Fidelity Association of America (SFAA) and the National Association of Surety Bond

Producers (NASBP) to develop ACORD standards suitable to the surety industry.

Carriers and their customers could really benefit from these standards, and research indicates that using them will negate the necessity to go through complex internal discussions that fail to result in a better format than the industry standard. Surety carriers are usually part of a larger insurance group, and data collected by surety underwriters could be instrumental in the development of specialised business intelligence to be built on enterprise data lakes.

Technology – in this case blockchain - is creating an environment that will increase efficiency and lower operating costs in securities management. Meanwhile, insurers have strong assets to leverage the project-based surety underwriting approach and play a leading role in private distributed ledger implementations.

The ecosystem is in place, and despite the challenges to this niche area of insurance, all parties should collaborate to initiate and complete the digitalization journey. Instead of complaining about the difficulty of fully digitalizing the end-to-end surety process, carriers could look individually into implementing digital capabilities for each process they fully control. As Azman Noorani, head of surety and trade credit insurance, Swiss re Corporate Solutions, outlined in a recent issue of the ICISA insider: "The industry is on the cusp of a transformation with developments such as blockchain, artificial intelligence and digitalization. All companies need to define what those developments mean for them individually, however, as an industry we should make sure together to be in the pole position to take advantage of this."

Blockchain

Clearly, blockchain, once regarded with deep suspicion by the insurance industry, is now being acknowledged as a game changer. A report on disruption in transactional banking from Bain & Company estimates that distributed ledger technology, if adopted in the right way by participants in the trade ecosystem, has the potential to reduce trade finance operating costs by 50% to 80%, and to realise three to fourfold improvements in turnaround times, depending on the trade finance product involved.

We believe this to be true – to the extent that Tinubu has established its own Innovation LAB starting to focus on blockchain, advanced integration and deep analytics for insurance industry applications. Not only does this allow us to develop new technology that is integral to our existing enterprise best-in-class platform, but also it allows us to innovate collaboratively with our insurance customers so their needs are addressed first and trust is established. Given the difficulties that insurers and ECAs are experiencing in digitalising their operations, it is essential that innovations involving distributed ledger technology can be seamlessly integrated and used productively from the start.

Testament to the success of this approach is our recent positioning in the 'Top 5' of the Global Corda InsurTech Challenge, which invites organisations to share their insurance CorDapps, the applications that work on Corda, the open-source blockchain platform. The app we developed through our LAB enables credit and surety insurers to guarantee a contract and process the transaction using blockchain. It allows the contractor, the owner, the lead insurer, and its risk distribution partner, to manage the issuance, validation and monitoring of the guarantee lifecycle through a common blockchain solution, and therefore create a shared auditable distributed ledger.

To conclude, I would like to echo the point made by Paul Heaney, Associate Director of Berne Union, in a recent newsletter. He urges the industry to remember that underneath the dramatic technological changes which are reshaping so many processes, the fundamental principles of our business, such as trust, reducing risk and promoting confidence remain largely unchanged. Digitalisation can seem like an almost insurmountable challenge, but it is important for insurers to remember that they are doing it to enhance the services that they are already offering, and in the process to improve their own business operations.

Our job at Tinubu, as a technology provider, is to deliver enterprise solutions that support our customers during their digital transformation and provide them with a next-generation unified platform. The foundations of a platform designed specifically to underpin multiple insurance lines, will provide a robust structure to improve risk management, visibility and reporting capabilities and reduce operational complexity and costs. ■

Heureka – Finally a digitised solution for small-ticket ECA finance!

By Sabine Vigneron, Vice President Platform Business & Product Development, AKA

"At times of growing customer demands, digital competitors and an increasingly complex regulatory system, one thing invariably becomes essential for competitive ability and sustainable growth: Digitisation in the banking sector."

Source: "Digitaler Neustart für deutsche Banken" in industrie.de of July 4th 2018. industrie.de/allgemein/7874/

Who we are

AKA Ausfuhrkredit-Gesellschaft mbH (AKA) is a consortium of 17 German banks including the leading banks active in foreign Trade Finance. Founded in 1952 with the aim to promote and support financing and funding of German and European export transactions, AKA's shareholders currently are Bayerische Landesbank, Commerzbank, DekaBank, Deutsche Bank, DZ Bank, Hamburg Commercial Bank, IKB, ING, KfW IPEX, LBBW, Landesbank Berlin, HeLaBa, Norddeutsche Landesbank, ODDO BHF, Oldenburgische Landesbank, SEB and UniCredit.

What we do

AKA grants short-, medium- and long-term financing, mainly under ECA-cover, and supports shareholders, borrowers and exporters through services.

Sabine Vigneron

What we offer

Financing, refinancing, assumption of risk, services connected with short-, medium- and long-term Export Financing and other international and commercial transactions.

In times like these, innovation, digital transformation and strategically laying the path for the future of the financing industry have become the hot topics discussed by everybody active in the export finance sector: financing institutions as well as their clientele – exporters and importers (borrowers) – but also amongst supporting entities like Export Credit Agencies (ECAs).

Last year, for example, Euler Hermes, the German ECA, had launched click&cover, which enables exporters and banks to submit their applications online for transactions with contract values up to EUR or USD 5 million.

How it started

In the past, it has been particularly cumbersome and at times even frustrating for exporters to obtain financing offers for

In the past, it has been particularly cumbersome and at times even frustrating for exporters to obtain financing offers for export projects if they were below a certain contract value. As a fact, larger banking organisations quite understandably need to allocate their staff and lending capacity in an economically sensible manner.

export projects if they were below a certain contract value. As a fact, larger banking organisations quite understandably need to allocate their staff and lending capacity in an economically sensible manner. The administrative overheads being more or less identical for smaller and larger transactions for most banks led to minimum contract values in a double-digit million range which need to be met by a project.

Many small- and medium-sized enterprises (SMEs) – but also blue chip companies with the odd delivery of auxiliary goods or replacement equipment – hence have been facing difficulties in obtaining financing solutions for their buyers. Either they would opt for more or less short-termed Letters of Credit, or would need to resort to balance-sheet burdening supplier's credits, which the exporter is forced to keep on his own book unless he can find acceptable buyers in the forfaiting market.

In order to support its shareholder banks, AKA – as an expert institution for trade and export finance – has taken this to heart. Within a year after having received its shareholders' mandate back in 2017, AKA has launched a digital portal that is the first component of a digital platform.

Enter SmaTiX

SmaTiX is AKA's online solution for small ticket financing and its first foray into the realm of digitisation. As an acronym for Small Ticket Express, SmaTiX might lack an 'r', but may definitely be considered a 'smart and easy way for exporters to place their small ticket financing requests' nonetheless.

By AKA's definition, these small ticket buyer credits are for contract values in the range between EUR or USD 1 and 10 million, and one crucial element is export credit insurance. At the moment, AKA is working with Euler Hermes, who is providing comprehensive cover of 95% over loan principal plus interest. In the wake of AKA's Europeanization strategy, however, a future cooperation with other, mainly European ECAs, is envisaged and currently being discussed.

How it works

The use of AKA's SmaTiX portal is simple and intuitive: in only four steps the exporter gets a financing solution for his importer located outside of Germany.

For a selection of pre-approved countries, and provided that the requested financing meets the 'triple-five requirements', SmaTiX will even generate a real-time financing indication together with a preliminary repayment schedule, ready to be downloaded from the portal by the exporter.

Any financing request which does not match the tightly defined criteria will be handled individually by AKA's SmaTiX team.

Who can use it

SmaTiX can be accessed only by registered users. For the time being, exporters based in Germany may sign up for registration with AKA. Soon, SmaTiX will also be available from selected branches of AKA's shareholder banks.

It has been a noticeable trend over the last couple of years that the decision power over who will provide the financing via buyer credits has more and more shifted towards the borrower's side. AKA has taken this into account for the next development phase of the SmaTiX portal, and it is envisaged that importers will gain direct access to SmaTiX in due course as well.

The AKA onboarding process in itself is quick and easy, and merely requires some basic information on the applicant. The newly registered user will receive an e-mail from the SmaTiX team with a user name. At first sign-in, the users are then asked to create their own password.

In order to support its shareholder banks, AKA – as an expert institution for trade and export finance – has taken this to heart. Within a year after having received its shareholders' mandate back in 2017, AKA has launched a digital portal that is the first component of a digital platform.

Real-time Indication

For a selection of pre-approved countries, and provided that the requested financing meets the '3x5 requirements', SmaTiX will generate a real-time financing indication together with a preliminary repayment schedule, ready to be downloaded from the portal by the exporter.

API with Euler Hermes

A bilateral API to exchange data between SmaTiX and click&cover, the Euler Hermes application portal for supplier credit cover, has gone live on June 11th 2019, marking the first step towards API-readiness.

Multilingual

We have created the technical requirements for an efficient translation of the portal, and the English version of SmaTiX has already been successfully launched.

Four steps from registration to indication – and beyond

Getting a financing indication from the SmaTiX portal is as quick and easy as the on-boarding process itself.

In only four steps from sign-in, the exporter simply provides information about himself, his importer, the details of his export contract as well as the desired financing terms.

Finally, there will be a summary of all the transaction data fed into the system, giving the exporter a chance to correct or add any further information he deems necessary. It also goes without saying that he can save his application during all four stages of the process and access his draft at any given time to continue working on it.

If the importer is satisfied with the financing indication and agrees to the terms and conditions contained therein the transaction will follow the established route of the approval process. After having been mandated for the financing, AKA will start working on the loan agreement.

Speaking of which: the SmaTiX loan agreement has been designed to reflect the agility of the overall process.

A highly standardized, lean model, boiled down to no more than 10 pages – which has nothing to do with the heavy loan documentation known from larger, customized transactions.

Agility in the approval process comes with the bonus that even KYC/AML checks and the identification process have been digitised, thus providing a smooth front-to-end process without media disruption.

AKA's digital readiness can be felt in every step of the process: Thanks to a bi-directional API (Application Programming Interface) between SmaTiX and the click&cover portal of Euler Hermes, the exporter may choose to have his transaction data transmitted via a secured interface directly into the online application form for supplier's credit cover. Or vice versa – if he started with the click&cover application and discovers he also still needs a financing indication.

Either way – the feedback obtained from our users has been positive throughout, and the number of deals signed so far speaks for itself. AKA will be delighted to support many more happy clients by finding the right solution for their specific financing problems – simply contact our SmaTiX team [smatix@akabank.de] and go digital! ■

AKA's digital readiness can be felt in every step of the process: Thanks to a bi-directional API (Application Programming Interface) between SmaTiX and the click&cover portal of Euler Hermes, the exporter may choose to have his transaction data transmitted via a secured interface directly into the online application form for supplier's credit cover.

Can technology eradicate supply chain risks?

By Kelvin Tan, Co-founder and Chief Investment Officer, GTR Ventures

In recent years, supply chains have come under tremendous scrutiny: in the information era, it is all too easy for consumers to find out whether their favourite clothing brands use sustainably sourced cotton, or whether the diamonds they buy are conflict stones. From fake eggs, horse meat passed off as beef, to fraudulent claims on coffee origin, consumer-facing industries face increasing pressure to commit to better practices. As a result, giants like WalMart, Sainsbury's, Tesco, Unilever, Levi's, Zara and many others have made ethical and sustainable supply chains a priority.

In turn, these commitments have led to the emergence of a plethora of traceability tools. For example, track-and-trace software started gathering product data from QR or barcode scanned at different stages of the production process, and sensors were added to factories and warehouses to monitor and adjust conservation conditions. In recent years, the increased focus on environmental concerns has led these systems to add more layers of data input: water and power usage, greenhouse gas emissions and waste disposal, for instance.

Kelvin Tan

In financial supply chains too, a transformation has taken place. Financial institutions have been under pressure from consumers and regulators to know exactly which customers and trades they are supporting. In the UK, the Modern Slavery Act of 2015 forced companies above a turnover threshold of £36mn — including financial services companies — to report on the checks they put in place to ensure their supply chains do not use slavery. Meanwhile, constantly evolving trade sanctions place companies involved in international trade at risk of inadvertently doing business with sanctioned entities. Because of this, transparency has been brought to the forefront of banks and insurers' concerns, who want to know about not only their own customer (KYC), but also their customer's customers (KYCC).

From fake eggs, horse meat passed off as beef, to fraudulent claims on coffee origin, consumer-facing industries face increasing pressure to commit to better practices. As a result, giants like WalMart, Sainsbury's, Tesco, Unilever, Levi's, Zara and many others have made ethical and sustainable supply chains a priority.

Leveraging technology

In the fintech space, more and more companies are facilitating this due diligence. Some, like the Dow Jones and Polestar collaboration, scan sanctions lists and integrate them with maritime and vessel tracking data, to better assess the various counterparty risks associated with a trade transaction. Others collect data automatically from customers' ERP systems and present a picture of a firm's financial health to help financiers make investment decisions, or monitor the deals they are supporting.

AIG has been using one such system — Aronova — for the past 10 years. "The system we use essentially links into the ERP system of the seller to provide full visibility in relation to the invoices between a seller and its buyers. It tracks things like face value, dilutions, payments etc, down to individual invoice level. We believe that all transaction parties are able to better assess the risk profile and create more certainty, because there are all sorts of data checks that go on throughout the life of the deal to find any discrepancies in values, or even via DUNS matching unexpected connections between companies or aggregations. It drives much improved traceability, and helps to tackle the fraud issue," says Marilyn Blattner-Hoyle, AIG's global head of trade finance.

According to her, using such an automated system can make all the difference when it comes to fraud detection. "Using the data up front during due diligence is key too. There are deals where for example using the system we were able to see discrepancies that made us question the deal, and either that allowed us to ask more questions to get the cover right, or even avoid a fraud-type situation altogether. This is the type of thing that could be picked up by the system very quickly up front with great visibility and analysis of the data pools, but might not be picked up by reams of spreadsheets. That's a perfect example of where traceability can have improved the outcome for everyone," she adds.

New data for enhanced risk mitigation

On top of combating fraud and improving transparency, these tools represent a shift in how risk mitigation frameworks can be enhanced, through new data sources. These new digital avenues represent an opportunity for financial institutions and insurers, to consider adjusting their underwriting models, so as to adapt to ever-changing supply chains.

For example, some of the nimbler lenders in the market – both fintechs and conventional banks – are already tapping into customs, shipping and logistics data, to improve risk underwriting as well as to enhance the lending experience for their borrowers. If giants like Maersk now have

For SMEs, lenders are finding ways to mitigate risks, through data gathered directly from small businesses' accounting software. Quickbooks, a popular accounting software, is already partnering with fintech lending platforms such as Ondeck and Funding Circle, to meet SMEs' liquidity needs.

their own trade finance arms to selectively finance their own customers, why not eventually the likes of DHL, Fedex, and other major shipping lines?

For SMEs, lenders are finding ways to mitigate risks, through data gathered directly from small businesses' accounting software. Quickbooks, a popular accounting software, is already partnering with fintech lending platforms such as Ondeck and Funding Circle, to meet SMEs' liquidity needs. To date, over US$1bn has been provided in financing to Quickbooks customers. The digital arm of Euler Hermes, EHDA, has taken this one step further. Its invoice insurance product for SMEs – Tradelock – works not only with over 10 accounting software services, but is also directly integrated with Xero, creating a simplified user experience for Xero's customers.

Complex supply chains in huge domestic markets involving thousands of SME suppliers, however, require different solution sets. How does an insurer adequately cover and monitor the risks in distributor and whoiesaler finance, in more opaque markets such as China, India and Indonesia? Beijing-headquartered Q&X Credit was established to solve this issue. Through trials with large Chinese anchor manufacturers, Q&X has developed a digital underwriting and monitoring system by using transaction data to analyse SMEs' credit needs/risks and monitor their business operations and financial capabilities on a real-time basis. The model does not rely on financials but focuses on trade-related data, and makes SME risks transparent and foreseeable for insurers, financiers and trading partners, so insurers are able to provide coverage against SMEs' payment risks while the banks or non-bank financiers are willing to provide funding to SMEs with the risks covered by insurers. "Our model makes the business-related data, especially trade data and cash flow data, connected and cross-checked to prevent from fraud risks, operational risks, fund misuse risks and financial inability risks. We change the traditional way of financial analysis based on financials, which doesn't work for SMEs," says Hui Wang, Q&X's chief executive.

Stumbling blocks

Opening the door to the financing of the tail end of supply chains is key to making them more transparent and sustainable, and finding ways to fund SME trade is essential in order to reach that tail end. Other technology platforms have tried in the past, with mixed results. In 2015, PrimeRevenue struck a deal with AIG to provide cover to mid-market, non-investment grade sellers in large supply chains. In 2016, Euler Hermes made a similar agreement with URICA in France. But since these initial announcements, no news has come out on the progress of these initiatives. In fact, URICA decided to suspend its operations in France in July 2018 following a significant fraud perpetrated by one of its clients. "Technology can sometimes give a false sense of security. Who's inputting the data? Bad data in is bad data out, it doesn't matter what technology you use," points out Blattner-Hoyle.

Indeed, fraud in the world of trade is a recurrent beast that is hard to tame, despite the most advanced technological tools and a seemingly sophisticated digital environment. In July this year, asset management products backed by falsified transactions and fake JD.com receivables (China's no. 2 e-retailer) are set to incur over US$1bn of losses for close to a dozen financial institutions and factoring houses in China. Arising from this incident which sent shockwaves throughout the supply chain finance industry, the Chinese Banking and Insurance Regulatory Commission (CBIRC) has issued a set of guidelines for financial institutions to validate trade documents and take active steps to combat fraud. Amongst them, CBIRC encourages the use of technology such as Internet of Things (IoT) and blockchain.

Still, innovation is constant, and financial institutions and fintechs shall continue to learn from their and their predecessors' mistakes. Transper, a new kid on the block, is focusing on the traceability of financial flows, making sure the supply chain is transparent but also well-funded. The company came up with a 'Digital Payment Obligation' emitted by the large buyer, which can be transmitted to suppliers, tier after tier, in the supply chain, allowing the release of financing to even the smallest suppliers "at the click of a button", according to co-founder Nisha Singh. Based on the lack of success of SWIFT's Bank Payment Obligation, which aimed to achieve a very similar purpose, Transper will need to bring something radically different to the table: top-notch technology that would make on-boarding fast and secure for all participants. Pilots in the US, Europe and India are set to be concluded in October 2019.

Julian Hudson, global head of credit at Chubb, says he has been approached by a very large number of fintechs hoping to make SME trade financing easier for

Opening the door to the financing of the tail end of supply chains is key to making them more transparent and sustainable, and finding ways to fund SME trade is essential in order to reach that tail end. Other technology platforms have tried in the past, with mixed results.

financing institutions. "One of the issues we found with them is that they've all got good ideas and good technology but it seems that that's not enough. In order to launch their product they need additional funding. It's a Catch 22 situation because people want to see a tried and tested system that underwriters are comfortable with, but in order to get there you need funding, and the funders don't bet on what's not tried and tested. One of the fintechs we're working with should have launched two to three years ago but is still waiting for that big influx of fund," he points out.

Sustainability in financial supply chains

While there are no regulations governing sustainability standards in financial supply chains yet, public pressure has led to voluntary commitments: many financial institutions have stopped funding coal projects, and others have put in place financial products incentivising green practices. In May 2019, MUFG announced the provision of 20 trillion yen (US$189bn) to sustainable finance between FY 2019 and FY 2030 to help attain the UN's Sustainable Development Goals (SDGs). Shue-Heng Yip, the bank's head of digital for Asia and Oceania, explains how MUFG uses technology to ensure its green financing goes to sustainable trade. "We have found that traceability, while it helps, does not equate to sustainability. The main driver of success in sustainable financing is dependent on addressing the participants' pain points across the value chains on priority, with minimal new steps. In this regard, an example of a traceability tool is a well-designed closed looped e-payments and e-loans platform to direct and control funds to the value chain participants for business-related purchases like agricultural inputs," he says, adding that the development of green credit scoring is also key to the bank's efforts.

In this area, the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFDs) should help. The final recommendations published in 2017 advise companies to disclose information such as governance around climate-related risks and opportunities, actual and potential impacts of climate-related risks and opportunities on their businesses, strategy, and financial planning, as well as the metrics and targets used to assess and manage relevant climate-related risks and opportunities. While still voluntary, the TCFDs have been adopted by a number of large multinationals in sectors such as mining, financial services, construction and utilities. The more companies join the scheme, the more data will be available, and the easier it will be to develop green credit scoring for all. Additionally, many expect the TCFDs to inspire mandatory disclose requirements in the near future.

A perfect supply chain?

So when will the traceability goals of large corporates align with the transparency needs of the financial sector? When will track-and-trace software link up to fintech protocols, which are in turn synced with sellers' ERP systems? Broadly, it looks like everything is converging in the direction of fully transparent, traceable and sustainable supply chains, but the reality is much more complex.

For one, international trade has to deal with hundreds of different jurisdictions, each with its own set of regulations. And even within the same jurisdiction, regulations sometimes contradict each other. In Europe, the Open Banking Initiative means to make it easier for individuals to share their financial data (including account transactions, for example) with not just banks, but also insurers and fintechs. But at the same time, GDPR aims to protect consumers' privacy by forbidding the sharing of certain information necessary to the underwriting process.

While there are no regulations governing sustainability standards in financial supply chains yet, public pressure has led to voluntary commitments: many financial institutions have stopped funding coal projects, and others have put in place financial products incentivising green practices.

Secondly, the fintech sector needs to reach a higher level of maturity. Pilot schemes need to result in real commercial use-cases, which, as mentioned earlier, isn't always easy. And when they do commercialise, fintech solutions need to be wary of reproducing the very silos they try to remove. Right now, each and every digital and/or blockchain trade initiative (think we.trade, Voltron, Marco Polo, komgo, Forcefield etc.) runs on its own protocol, and requires major onboarding, which of course has a cost impact. If transparent supply chains are to become a reality, data needs to be easily shareable between the different players in the market.

Finally, addressing fraud and sustainability in supply chains goes well beyond technological solutions. It requires education and financial incentives for small producers. Ensuring financial flows trickle down to the smallest end of supply chains is a first step, but how do you achieve that when suppliers don't even have a bank account? Taking an industry-specific approach may be a smart way to go.

Tackling the issue via industry verticals

Carbon Chain is one fintech looking at digitalising the steel industry, with a view to broaden to other commodities at a later stage. The UK-headquartered firm is blockchain-based and plans to replace paper-heavy contracts and bills of lading with electronic versions, leveraging blockchain's currency of trust. It has the support of a regulatory body for the steel industry, as well as a bank and a small to medium-sized trader, and is now looking for a port or shipping company and an insurer to join the scheme.

"We have got use cases at various stages in the market, but we haven't been able to get an end-to-end trade. We need to try to join up a lot of the loose parts of the process and make it into one big sustainable supply chain. Then that will lead to the commercial solution," CarbonChain CEO and Co-Founder Adam Hearne says. Having worked in the diamond sector, he was inspired by the notion of self-provenance: each diamond has on it over 250 identification points, making it fully traceable. "We unfortunately don't have the same mechanism for steel, but we're taking the approach of enforcing a chain of custody and providing a live or real-time view of the location and transfer of ownership of goods," he adds.

Another promising sector initiative is Singapore-based HeveaConnect, which focuses on sustainably-produced rubber. The company, whose shareholders comprise a leading rubber producer (Halcyon Agri), a top tier APAC bank (DBS) and a global trader (Itochu), works via a three-pronged approach: creating sustainability standards to secure procurement of natural rubbers and ensure farmers' livelihood; digitalising this ancient industry; and modifying behaviours by working with NGOs on training programmes. By having people on the ground to integrate with local communities and mapping the farmers involved in the supply chain, HeveaConnect hopes to incentivise good behaviour. Further in the production process, it has placed Internet of Things (IoT) devices inside factories to automatically monitor greenhouse gas emissions and water recycling. Finally, it offers a sustainable natural rubber trading platform. This is very much a technology-led initiative, but technology is only seen as the enabler for something much bigger.

Yvonne Zhang, the firm's head of products and partnerships, explains: "We're not trying to reinvent the wheel. We have been asked to consider using blockchain and machine learning but AI is a data play, without the right data you can forget about it. We are dealing with a very old industry where mistakes do happen, so we need to solve these issues first, otherwise we're going to be passing along the wrong data."

With the support of DBS and Halcyon as shareholders, HeveaConnect plans to roll out payment schemes with financial institutions, sustainable finance, emissions procurement or bundle services next year, and ultimately hopes that its work will result in sustainability premiums being paid to the various players in the supply chains. To Zhang, fraud and sustainability are one and the same issue: "How do you acquire the right information and pass it along so that the right people see it at the right time?"

At the end of the day, a committed fraudster will always find ways to go around regulations and automated data checks. But the majority of what is considered fraud today is a reflection of a lack of education or lack of financial support for small suppliers. Growing sustainability and transparency concerns are giving us an opportunity to reeducate entire supply chains, but there is no easy way out — not even with technology. ■

Transforming trade finance via digitization

By Lyron Wahrmann, Head of Digitization, Surecomp and Asaf Gavrieli, Market Analyst, Surecomp

More than ten years into the FinTech transformation, all business units within banks, have been impacted. Despite its conservative nature, the trade finance industry has witnessed the emergence of numerous innovative FinTechs, as well as the establishment of ambitious cross-industry initiatives. Disruption is driven by businesses leveraging technology as a change enabler. This article will present several use cases for tech-enabled business transformation.

Business Drivers

Trade finance is both paper and labor-intensive. The benefit of digitizing transactions is clear: faster, cheaper and safer processing. Efforts to digitize transactions started long ago. Banks invested in portals to digitize at inception. Banks and large enterprises on-boarded messaging utilities established by Swift, Bolero and others. Banks have also made significant investments in the scanning of documents to replace manual entry of data.

However, success is limited. Despite promising POCs, initiatives are scaling too slowly. According to the 2018 ICC survey: “only 24% of banks reported using eB/Ls or other electronic documentation, while the same percentage reported using OCR”. As

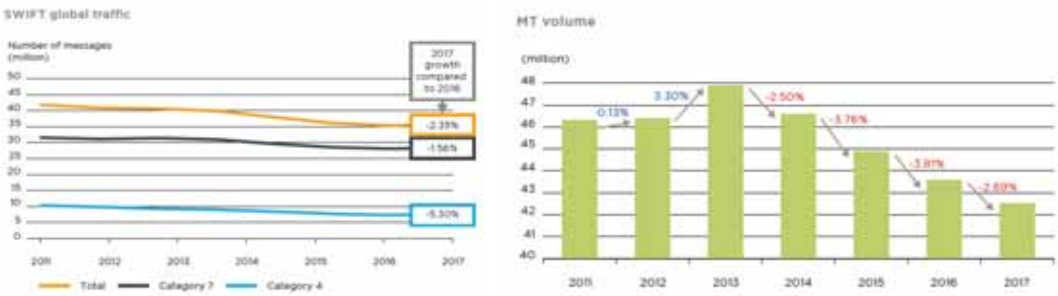
Lyron Wahrmann

we will demonstrate later, progress in technology, empowers addressing some of these scaling challenges.

Decreasing traffic and volumes of documentary trading (see Table 1), shrinking margins, and fewer opportunities to deepen wallet share in large enterprises, are forcing banks to look for new opportunities to increase revenues. Serving SMEs (Small Medium Enterprises) is a natural expansion for banks and hence became a priority. We will show how digital technologies are enabling these opportunities.

In parallel to the shrinking business, regulators keep imposing additional requirements, causing significant increase in processing cost and time. It is estimated that compliance checks caused a reduction of 5% and more in trade finance capacity. Billions of dollars of fines for failing to comply, leave no doubt regarding bank priorities. Bankers see regulations and compliance as their major obstacle for growth (see Table 2). Properly meeting compliance checks such

Table 1: Documentary trading traffic and volumes



Source: Swift

as: counterparty, route, vessel, commodity and goods prices, dual use goods and more, requires sophisticated analytics in place.

The adoption of advanced analytics by banks enables their ability to withstand increased regulatory compliance. At the same time, proper implementation creates new opportunities for growth and efficiency gains.

Enabling Technologies

The internet has witnessed the emergence of thousands of APIs, facilitating the consumption web services in various industries like tourism, advertising, e-commerce etc. API technology has matured. Tech giants like Google, Salesforce and Tibco have acquired API management platforms. FinTechs like Plaid, Yodlee and Stripe have leveraged APIs in consumer banking, asset management and payments respectively, to build successful unicorns. Lastly, the UK and the EU were the first to issue open banking regulations, requiring banks to share customers data upon demand or consent. Regulators across the globe are drafting similar requirements.

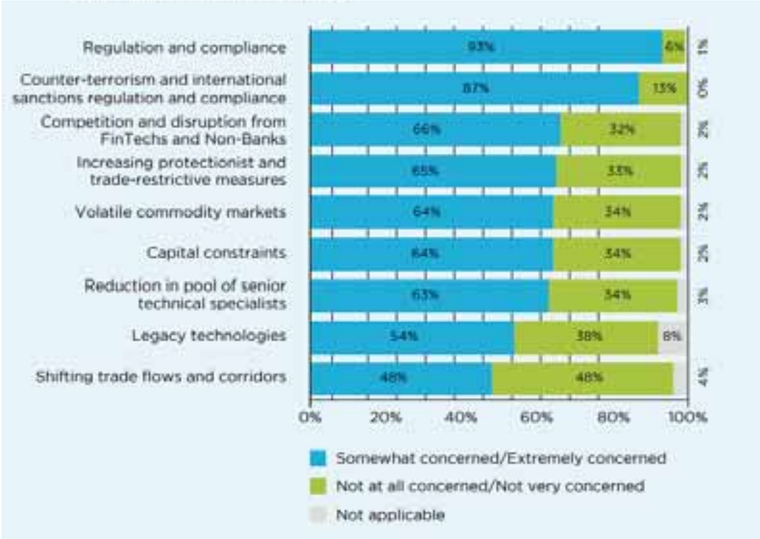
Open banking infrastructure provides developers with easy access to the banks' back end systems, to leverage functionality and data. It opens opportunities for digitization processes to all players, by removing barriers to competition.

A second tech trend, creating a wide range of opportunities, is progress in Artificial Intelligence (AI). The abundance of data resulting from digitization processes is used by advanced algorithms to enhance efficiency by replacing manual tasks, to improve risk analysis, pricing and other decision making.

A third tech trend is Distributed Ledgers (Blockchain). Bitcoin was the first to leverage Blockchain technology to create a distributed payment system. Progress in the field has enabled the implementation of new use cases for creating trust among parties. An example is the creation of digital assets over decentralized ledger. Data and assets are shared in a secured manner among members. Irrevocable change to ledger requires consent by platform members.

Using blockchain also spares the need for paper by creation of digital assets that can be transferred among the pre-configured members. The technology has created a lot of buzz in the banking sector, but in recent surveys we can tell there is skepticism about adoption of the technology and the impact it

Table 2: Obstacles to growth and concerns



Source: ICC 2018 survey.

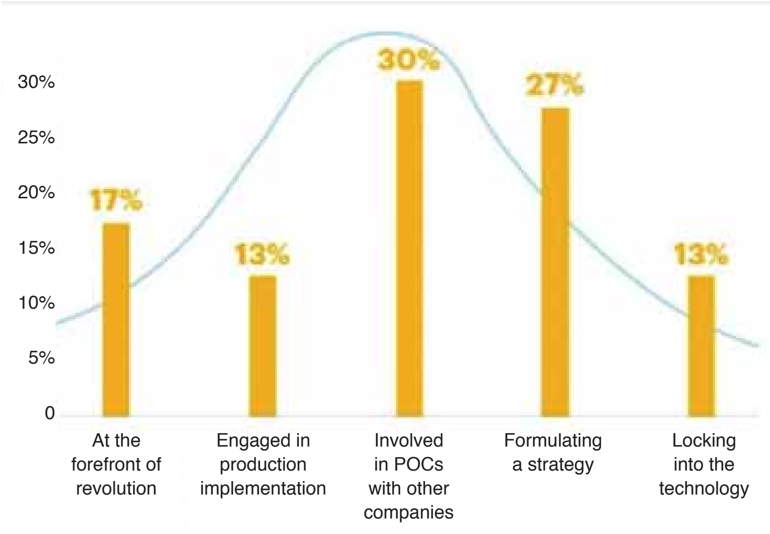
delivers. Creating an ecosystem which saves money and time efficiently, must include all relevant members on-boarded, or at least joining to different platforms which can communicate among each other. Currently, the value of blockchain in the financial sector can be found mainly in Trade Finance and Payments and therefore many fintech startups provides blockchain solutions to these topics.

Use Cases

'Paper-less' Documentary Trading

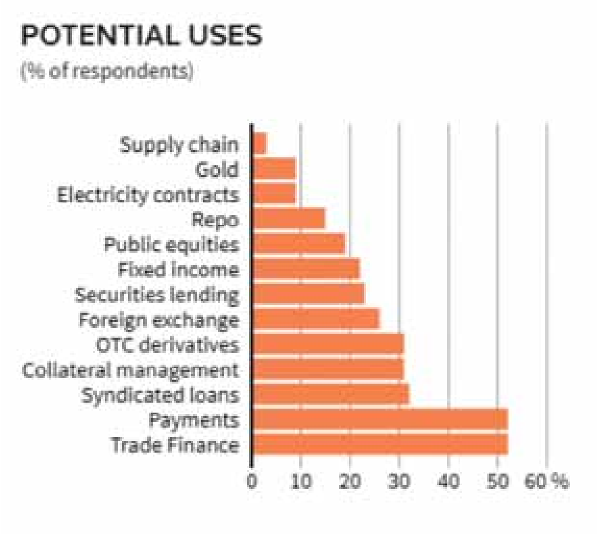
Digitizing transactions is promising faster and safer processing, to the benefit of both, banks and their clients. Voltron is an example

Figure 1: Blockchain adoption by banks



Source: Accenture

Figure 2: Blockchain use cases



Source: A. Irrera, J. McCrank (2019), "Wall Street finds blockchain hard to tame after early euphoria", Reuters

of a cross-industry initiative leveraging Distributed Ledger technology (Corda by R3) to digitize the processing of letter of credit.

The distributed ledger allows the creation and registration of a digital assets in a trustful way, eliminating the need for paper. In addition, the project manages complex workflows of multiple 'stranger' participants. During the workflow, the possession of digital assets is being transferred between network members, to support the stages of the process. Ownership of original e-documents is changed by consent of the needed parties. A major challenge for these cross-industry initiatives, is the on-boarding of many types of participants such as banks, corporates, insurers, shipping companies and more, to the network. Open banking platforms will certainly facilitate the scaling of such network. Lastly, data and analytics could facilitate risk management such as double financing etc. The value of projects like Voltron, once completed, is huge. The issuing of a Letter of Credit that typically takes 5-10 days, will take less than a day. Moreover, the need for dozens of paper documents in each transaction is removed and risk reduced.

Automation of Transaction Processing

Banks continue to invest in automating manual work to meet the regulatory requirements by leveraging Artificial Intelligence. A new class of companies provide Robotics Process Automation (RPA) solutions to digitize various steps in transaction processing. One of these companies is Conpend from the Netherlands. Their platform, Trafinas, extracts data from various types of documents by using OCR (optical character recognition) augmented by Machine Learning. The extracted data is mapped into existing forms allowing in some cases straight through processing (STP), saving a substantial amount of time and errors.

The solution is also leveraging NLP (natural language processing) to screen the different documents for discrepancies, perform compliance checks as well as other processing tasks. The overall processing time of issuing LC is reduced by half, and processing cost is also significantly reduced. Progress in technology is enabling banks to undertake more transactions, at a lower cost and with fewer errors, by using different RPA solutions.

Better serving the SME market

As mentioned above, the SME market is perceived as huge opportunity for banks. Marco Polo and We.Trade, are two leading cross-industry initiatives. Both leverage Distributed ledgers to finance SMEs. Critics will argue that those projects could have been built with different technology. Regardless of technology of choice, digitization and collaboration are enabling the creation of a cost-effective marketplace, benefitting both, banks and SMEs. As in previous use cases, various technologies are pushing this forward. Open banking is enabling scale by facilitating on-boarding of new members as well as provisioning of various services by partners. Some of these services rely on data and advanced analytics like credit scoring of the SMEs, fraud detection, compliance checks etc. ■

Regardless of technology of choice, digitization and collaboration are enabling the creation of a cost-effective marketplace, benefitting both, banks and SMEs. As in previous use cases, various technologies are pushing this forward.

EXPERT ANALYSIS

KYC onboarding: a blockchain reality?

By Damien De Chillaz, Head of Blockchain and B2B platforms, Capgemini Business Services

Addressing KYC challenges at scale requires leadership, both from a technological and business standpoint. We see it as a common good and a shared responsibility. This is the ambitious objective we have with Blue Catalyst, with the leadership of Capgemini and R3, in co-innovation mode with leading financial institutions and corporates.

Businesses are undergoing radical transformations, challenged by the digitization of processes, platformization of business ecosystems, as well as data protection and cybersecurity concerns. In this challenging environment prone to disruption, risks need to be managed efficiently to prevent operational and reputational damages, while complying with increasingly complex regulations and policies. Fundamentally, these challenges point to the need to foster trust within each business ecosystem, and between business partners themselves.

The emergence of this trust is primarily based on the reliable identification and verification of business identity, as a cornerstone of any business relationship. This critical step starts with the collection of data and documents for risk assessment purposes, checked against alternative data sources available publicly or from trusted third-parties. This is referred to as the customer onboarding process or Know Your Customer (KYC) in the banking sector.

Damien De Chillaz

KYC regulations require a financial institution to gather enough knowledge of a customer to be able to determine and mitigate the money laundering or terrorism financing risks associated with that customer.

KYC is a broken process

For both banks and their corporate clients of all size, KYC is perceived as a broken process. KYC onboarding suffers from multiple touchpoints and inefficient back-and-forth – for banks, this consists of a number of manual interactions between their front, middle and back offices. On top of that, banks complain about data quality issues and struggle to source data from the appropriate counterparties.

Responding to an audit request is complex and time-consuming. When regulators ask for a comprehensive and reliable record of transactions, this is often hard for the bank to produce. Each bank will also have its own specific requests due to their specific understanding of regulation. This leads to custom questionnaires, which require constant modification, complicating things even further.

Businesses are undergoing radical transformations, challenged by the digitization of processes, platformization of business ecosystems, as well as data protection and cybersecurity concerns.

For corporates, gathering data and documents is perceived as increasingly time-consuming, and they often need assistance in answering the 300+ questions of a typical bank questionnaire. In turn, this leads to a duplication of efforts on both sides. Corporates have to manually send the same data and documents to their various relationship banks. Sometimes, several entities of the same bank ask for the same information hence compounding the duplication efforts and KYC process inefficiencies.

Pain-point for the corporates

- Customer experience suffers from non-harmonized requests from Banks
- Time-to-business explodes due to time-consuming and manual-intensive processes
- Operational & cybersecurity risks increase due to a lack of control, traceability, and unsecure means of communication

Pain-point for the banks

- Compliance costs explodes due to growing need for highly-skilled persons and time-consuming processes
- Regulatory risks and fines keep pressure on due to a lack of control, transparency and traceability
- Customer experience suffers from multiple communication channels and fast-evolving regulation

Blue Catalyst ambitions to address these challenges at global scale. Blue Catalyst is a next-generation B2B platform leveraging Enterprise Blockchain (Corda by R3) and enabling data sharing in the highly regulated corporate onboarding space. It will allow any legal entity to organize information on its own node and to share data and documents privately and securely with any counterparty, keeping a tamper-proof audit trail of all data exchanges. The solution will facilitate client outreach, while accelerating onboarding workflows across multiple parties.

The Blue Catalyst platform shall enable legal entities to securely share information and orchestrate complex onboarding workflows to foster trust in business ecosystems and uncover new business opportunities.

Blue Catalyst shall not be viewed as a KYC Utility but the underlying technology that could enable direct bank-corporate client outreach and data collection tool. As such, it could be white-labelled to KYC Utilities or business platforms to further enable their own value proposition which essentially relies on mutualization of harmonized questions (baselines) and KYC tasks. We believe that this combined offering would represent the "best of both worlds" to banks and corporates.

Beyond banking KYC, the platform is empowering legal entities to proactively manage their own business ecosystems, including banks, insurance companies, suppliers, clients, partners, and third-party data providers, in order to explore different business use-cases, starting with data collection for onboarding processes but also targeting any other regulated workflows requiring privacy and traceability between two or more legal entities.

In a context where Environmental, Social & Governance (ESG) criteria are becoming strategic concerns, business leaders are challenged to reconsider their approach when dealing with their business ecosystems. By offering a solution which has the potential to significantly improve the way corporate information is managed, we empower them to express their leadership by adding efficiency and transparency in their respective ecosystems for the benefit of more sustainable business relationships and long-term financial performance.

We believe that by enabling the secure sharing of data and documents between properly identified business partners throughout their respective ecosystems, we shall contribute to laying the foundations of a trusted business environment for the benefit of more sustainable business relationships. Our vision is to "Catalyze Trust in Business".

For corporates, gathering data and documents is perceived as increasingly time-consuming, and they often need assistance in answering the 300+ questions of a typical bank questionnaire. In turn, this leads to a duplication of efforts on both sides.

Blue Catalyst features

- Direct Client Outreach with properly identified counterparties and clearly defined roles & permissions.
- Primary Data Sourcing & Continuous Refresh. Each legal entity uploads and controls its data. All data come from the source. Intelligent automation allows continuous data refresh.
- End-to-end & Tamper-proof Audit-trail. Distributed Ledger Technology (Corda – Enterprise Blockchain) enables traceability of all onboarding events.
- Request Builder. A tool to assist banks or corporates in setting-up their own digital questionnaires.
- Vault Pre-filling based on data aggregators, including open data.
- Matching Engine based on a taxonomy-driven model. A common taxonomy enables automatic matching between custom questionnaires and data & documents already stored in corporate vaults.
- Open Platform designed to be interconnected with CLM systems, third-party data providers and KYC utilities through APIs.

Blue Catalyst Benefits

- Streamline KYC process and enhance client experience by leveraging a direct, private and secure communication channel between banks and corporates.
- Single version of truth. Source first-hand data and trusted information, from the right counterparties and parent companies.
- Immutable audit-trail leveraging "proof-of-process" to prove at any time what documents and records have been used, which verifications have been done, when and by whom.
- Create and dynamically update questionnaire template by region, client-base and product type.
- Accelerate first onboarding process. Pre-filled data allows corporate to kick-start first onboarding process with most questions already answered, based on public data.
- Accelerate next onboarding processes. All previous answers are automatically used to complete all next questionnaires.
- Facilitate enhanced due diligence thanks to an API-based and modular architecture optimizing integration with bank CLM systems, 3rd-party data providers and KYC Utilities.

Use Case – Blue Catalyst for Know Your Customer (KYC)

It is probably in the heavily regulated financial services industry, where risks of money laundering and terrorist financing are so high that the need to properly "Know Your Customer" (KYC) and ultimately trust them is the most obvious.

KYC refers to a complex due-diligence process which usually starts with the collection of data and documents from clients. This is followed by an in-depth verification and risk scoring process ultimately leading to the decision of whether or not to onboard the customer. This final onboarding decision belongs to the bank, which is legally, financially and reputationally accountable for inappropriate customer interactions.

The data collection part of this KYC process is generally perceived by banks and

corporates as time-consuming, redundant, costly and a major pain-point of the relationship itself. Also, poor due diligence on corporate clients, starting with uncomplete or bad data collection, may result in important fines for banks failing to properly manage their regulatory duty. In the past years, banks have been fined hundreds of millions of dollars for having failed their due diligence obligations.

A first application of our solution focuses on facilitating the data & document collection part of the KYC process held between banks and corporates globally.

Our solution will integrate currently established KYC data collection workflows, proposing its secure and distributed architecture to enable corporate users to take control back over their data and on the way this data is shared during the onboarding process. Moreover, our solution will make banks as well benefit from directly sourced data, collected through bespoke questionnaires, thus reducing back and forth and accelerating time to business and compliance with policies.

Supply chain disruption have a significant impact on a company's business and financial performance, leading to companies having set up their own risk management policies, starting with verification of supplier's identity and liability.

All things consider, the KYC data collection use case is a very powerful lever of scale, banks being mandated by the regulators to collect data and documents from all their corporate clients to check their compliance with KYC regulations.

Use Case – Blue Catalyst for Know Your Supplier (KYS)

Another area where trust lies at the core of business relationships is supply chain management, where the need for a buyer to assess its suppliers' risk exposure is critical. This need can be extended to suppliers having also themselves suppliers involved in the same process of supply.

Supply chain disruption have a significant impact on a company's business and financial performance, leading to companies having set up their own risk management policies, starting with verification of supplier's identity and liability. Those basic risk management approach is mainly reinforced by ongoing due diligence on supply chain's risk exposure to environmental, geopolitical, business or technological disruption. As of today, this supplier onboarding process looks very similar to the corporate onboarding process for banks, with lighter due diligence requirements thanks to a more flexible regulation.

As for the "Blue Catalyst for KYC" use case, our solution will integrate current supplier sourcing workflows for data collection, enabling buyers to have a direct outreach to their suppliers upon a secure and distributed architecture. On their side, suppliers will be able to share the required data securely and on a consent basis, with the ability to deal with multiple other onboarding processes at the same time.

At the core of the "Blue Catalyst for KYS", the solution will facilitate third-party certifiers to connect to the platform and provide certified information regarding supply chain performance and sustainability. The certificate's origin remaining traceable and secure thanks to the distributed ledger technology.

By opening the solution to data collection for supplier onboarding, we enable corporates to benefit from it not only for their bank onboarding processes but also for their own supplier onboarding processes, and by so increase exponentially the scaling potential of the solution.

Use Case – Blue Catalyst for Supply Chain Finance

Eventually, the solution allows any legal entity involved in the supply chain (bank, corporate, supplier, supplier's supplier or any other actor) to directly reach out another involved legal entity. This echoes to the notion of "Supply Chain Network" defining the network of players involved in the supply chain, from banks to extended suppliers. Ultimately, the opportunity for a legal entity to map out its whole supply chain network within the platform can be particularly relevant in Supply Chain Finance, as this domain requires all the different actors to be connected to each other.

Broadly defined, Supply Chain Finance (SCF) provides financial solutions to bridge the gap between the needs of the suppliers, who wants to be paid as early as possible and the buyers, who generally wants to delay payment to improve cash flow. This issue often leaves suppliers without working capital to meet ongoing expenses.

In the past 15 years, financial service providers as well as large buyers have developed SCF programs to support the suppliers. But in many cases, only large suppliers have access to these programs due to the cost of onboarding suppliers with smaller receivables, especially for the banks which are mandated to perform complex KYC and compliance checks.

Moreover, Supply Chain Finance is currently considered as a fast-growing market for suppliers and buyers looking for new digital and end-to-end solutions to optimize working capital and cash flow, as well as for banks exploring new revenue opportunities through short-term finance.

Our solution could integrate with current Supply Chain Finance workflows and feed them with all the necessary information to support business needs, thanks to the secure sharing of information between properly identified actors and to the traceability and immutability of transaction records in the distributed ledger. This verified information can be used for a number of Supply Chain Finance use cases, such as payable finance, receivables purchases (factoring, reverse factoring), loan or advance against receivables, as well as pre-shipment finance for instance.

Use Case – Blue Catalyst for Sustainable Supply Chain Finance

Sustainable Supply Chain Finance can be defined as financial practices and techniques supporting trade transactions, in a manner that minimizes negative impacts and creates environmental, social, and economic benefits for all stakeholders involved in bringing products and services to markets. Sustainable Supply Chain Finance is reported to cover one third of supply chain finance in the next years, representing an estimated opportunity of $6 billion additional revenue for financial institutions.

In this context, Environmental, Social & Governance (ESG) criteria are more and more thought to be integrated into KYC processes through sustainability performance data standards. By doing so, banks might help mitigate reputational risks and reduce credit risks by providing financing solutions to suppliers with better sustainability and overall management practices. On the buyer side, offering Sustainable Supply Chain Finance solutions empowers them to achieve their own sustainable sourcing goals, as well as reinforcing the security of their supply, two major components of their brand reputation.

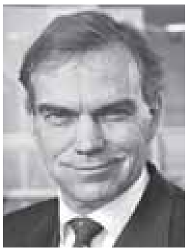
In the long-term, our solution could support such new business opportunities around Sustainable Supply Chain Finance by enabling third-party certifiers to connect to the platform and provide certified information regarding sustainable performance. This information will be secured and traced thanks to the distributed ledger technology. ■

Supply Chain Finance is currently considered as a fast-growing market for suppliers and buyers looking for new digital and end-to-end solutions to optimize working capital and cash flow, as well as for banks exploring new revenue opportunities through short-term finance.

In the long-term, our solution could support such new business opportunities around Sustainable Supply Chain Finance by enabling third-party certifiers to connect to the platform and provide certified information regarding sustainable performance. This information will be secured and traced thanks to the distributed ledger technology.

Risk Outlook 2020

The chief economists of Atradius, Coface and Euler Hermes give their views on the biggest risks to pay attention to as we head into the new decade.



John Lorie, Chief Economist, Atradius Credit Insurance

A bleak picture with abundant risks

Global economic growth has slid more quickly than expected at the beginning of the year. Our forecast now stands at 2.6% and 2.7% for 2019 and 2020 respectively, substantially lower than 3.2% recorded last year. Moreover, risks to the outlook are heavily, albeit it not uniquely, skewed downward.

First and foremost, there is trade war escalation. We have, perhaps unexpectedly, seen the US-China trade war escalate during the year. The most recent tariff announcement by the US administration regarded USD 300 billion Chinese imports, the remainder of the bilateral trade not hit by tariffs yet. The scope for further escalation remains as existing tariffs can simply be raised as is being done. Moreover, Mexico and the EU could be included, triggering further escalation. These countries are highly likely to retaliate.

The economic cost of the trade war has so far been relatively muted. Global economic growth was expected to slow this year, but the extent of trade tensions has aggravated it. Further escalation is a severe risk. Oxford Economics models that a trade war escalation to Mexico and the EU could shave 1% point of global growth, pushing it notably below 2%. Such a figure may even be an underestimation as high levels of private debt in the US and China may not have been sufficiently modelled.

Second, monetary policy misjudgements are not impossible. They are rare but the impact is large, especially from the Federal Reserve. As argued in our May Economic Outlook, the Fed tightened monetary policy too quickly, reversing course after financial market turbulence. Indeed the mild policy easing over the summer was seen as a shrewd tactical manoeuvre (a 'fine pirouette' as The Economist put it) to steer financial markets.

Fed policy decisions have global repercussions. No wonder, two-thirds of the global security issuance is in US dollar, the greenback dominates foreign debt of emerging economies and, moreover acts a monetary anchor for countries that account for 70% of global GDP. Even a very gradual course of well-communicated tightening like the Fed had been on until recently limited global financial flows and depreciated currencies of emerging economies. It restrains finance for firms and puts GDP growth under pressure. A much larger impact can be expected in case of (perceived to be) poorly communicated policy measures by the Fed, let alone disputed policy measures. Financial unrest in such cases can then expand to the US consumer via confidence and even wealth effects, eroding another pillar of current global GDP growth. This will have global repercussions.

Third, there is the -deeper- risk of self-fulfilling fears. As a recent article in The Economist has put it, recession is a state of mind. Credible and effective monetary and fiscal policy measures are anchors for decisions by firms and households. Precisely here the current situation is not encouraging. The US administration takes the damage of the 'America first' trade policy for granted. Monetary policy credibility is under pressure by the White House's relentless Twitter campaign. More importantly, the current extremely loose stance raises questions as to its effectiveness in a recession. Finally, fiscal policy is restrained due to high government debt levels. Uncertainty surrounding these anchors for the US economy is high, eroding confidence. Further slides may trigger firms and households to restrain spending to the extent a recession cannot be avoided.

Fourth, European political woes may

escalate. Italy has been in an economic crisis for about a decade now and in high need reforms. A socialist government hesitantly started these before the country was hit by a populist storm. It stalled reforms and pushed up government spending, spooking financial markets. A sincerely Eurosceptic government was prevented by the formation of a centre left coalition. But populism remains a powerful underlying political force. Brexit gridlock is increasingly paralysing the UK economy and the risk of leaving with no deal is, even after the recent parliamentary interference, substantial. This would likely create a UK recession and put pressure on EU growth especially in neighbouring countries. Financial stability is on the line if cross-border financial flows and relationships are not carefully managed. Moreover, cross-border flows to a number of large emerging economies could be disrupted.

Fifth, to end on a positive note, energy transition investment may be an upside risk to GDP growth. Government-led investment spending is needed in all countries to meet the Paris Agreement goals to reduce CO_2 emissions, and especially low-income countries facing more frequent extreme weather conditions. Ongoing extremely low interest rates support higher spending. It is a clear and powerful bright spot. Still, we have so far seen only limited action, and certainly not sufficient to meet the Paris Agreement objectives. But alas, a glass half full can be filled, and it needs to be.

Julien Marcilly, Chief Economist, Coface

Trade protectionism in 2020: from tariff to non-tariff measures

The fatigue of world trade was confirmed this summer. According to data from the Dutch CPB Institute, it contracted for the third consecutive quarter between April and June 2019. Over the year 2019 as a whole, Coface expects world trade to contract by 0.8% in volume. In 2020, the prospects will depend largely on the political environment: while the emergence of the first visible effects of the Sino-American trade war plead, at first sight, for the search of a trade agreement between the two major global powers, the American President's actions in the context of a campaign for his re-election remain difficult to predict. Even if almost all Chinese exports to the United States will be subject to customs duties at the end of 2019, there will still be room for maneuver for the American President to put pressure on his Chinese counterpart. As for tariff measures, it will still be possible for him to increase existing customs duties (he had stated during the 2016 presidential campaign that he would set customs duties on Chinese imports at 45%!). Above all, it will be possible for him to take non-tariff measures that could have very negative effects on trade. This is what he stated in one of his tweets on August 23: "American companies are asked to immediately start looking for alternatives to China". This announcement, which went almost unnoticed in mid-summer, could refer to a 1977 US International Emergency Economic Powers Act giving the US President the power to ban exports to China, Chinese imports from entering the country, as well as imports not directly from China but including content made in China. Even if this risk scenario does not materialize in 2020, the very fact that it exists should continue to encourage companies in postponing some of their investments in this climate of high uncertainty.

The global economic cycle in 2020: Below consensus growth in the US and China, two-speed Europe

Therefore, some economies of Western Europe that are particularly dependent on industry and world trade (Germany) or penalized by internal political uncertainties (Italy, United Kingdom) suffer more. In these three economies, GDP growth was zero or negative in the 2nd quarter of 2019. On the other hand, there are countries such as France, Spain and the Netherlands, where companies continue to invest and business failures remain on the decline. Despite a slight slowdown, Coface still expects growth to remain above 1% in 2020 (1.2%, 1.9% and 1.5% respectively). Outside of Europe, Coface anticipates that US growth will slow significantly (1.3% after 2.2% in 2019), i.e. below the consensus level (1.8% for 2020). However, the spreading effects of the signs of fatigue, from industry to services, are not very visible at this stage. The world's second economy is also slowing down sharply: Chinese industrial production grew by only 4.4% year-on-year in August, its lowest level since February 2002. There are many reasons for this slowdown: in addition to the still significant overcapacities in sectors such as construction and metallurgy, the automotive and electronics sectors are both affected by the effects of the trade war with the United States and the behavioral changes of Chinese consumers, who are now more equipped with durable consumer goods. Here again, Coface anticipates that GDP growth will be below expectations in 2020 (5.8% "only").

Climate change and transition risks for businesses in 2020: the automotive sector is not the only one at risk
During last year, European businesses in the automotive sector have significantly suffered from the effects of new anti-pollution regulations. Of course, such reforms are good news for the struggle against climate change in the long term, but they bring risks of transition for businesses in the short-term. Large car manufacturers have disrupted their supply chains above expectations and therefore production has been cut massively. Suppliers have had to adapt swiftly to this new norm. What to expect regarding 2020? First, the set of restraining regulations in the European automotive sector is not complete, so a number of suppliers are likely to suffer in the near future. Beyond Europe, such regulations will also come into force in China in July 2020 and will further affect the local car market (already in decline in 2018 and 2019). Last but not least, outside of the automotive sector, the global maritime transport sector will have to face painful changes very soon: the International Maritime Organization has set a 0.5% limit for sulfur emissions onboard ships. This new norm will come into effect on January 1, 2020 and could lead to a 25% increase in business production cost. This is one more source of corporate credit risk in 2020 and an additional expected dent in global trade!

Alexis Garatti, Chief Economist, Euler Hermes

The illiberal cycle has generated 5 new types of risks

In the years following the subprime crisis, the global economy has entered into what we call an "illiberal cycle", characterized by mounting interventionism among states and central banks that are trying to restore growth while answering to growing social demands. In the short-term, the higher weight of fiscal and monetary policies has allowed a stabilization of global growth. However, it has also generated new and more dangerous types of risks.

US-China trade destabilizes the world economy.
The US's protectionist policy represents the first element of the illiberal cycle, rejecting the basis of the Washington Consensus. President Trump further pushed the limits of protectionism during the summer of 2019 by imposing a 10% tariff on the remaining USD 300 bn of Chinese imports that hadn't been hit yet. In our trade monitoring framework, the average US tariff is now close to 7.6%, and is likely to climb to 9% before the year's end, keeping the global economy in what we identify as a "trade feud" scenario. We don't expect a materialization of a "trade war" scenario, where US average tariffs would reach 12%. This would have more devastating consequences for global growth. However, the trade feud scenario has generated a recession in global trade (we have already experienced three consecutive quarters of negative growth since 4Q18), which has rapidly morphed into strong difficulties for manufacturing activities at a global level. The victims of what we interpret as a major disruption in global trade conditions are export-driven models such as trade-hub economies like Hong-Kong, Singapore, Germany, Sweden and Japan. Their activity is decelerating at a rapid pace, requiring supportive fiscal policies in order to absorb the external shock. The second victims are business models that rely on complex and globally integrated supply chains such as the car and electronic industries, which have seen their levels of activity become significantly impaired.

Persistently high political risk comes from higher social demand
A conjunction of political factors has led to a historically high level of global political uncertainty. These include Argentina's primary elections (with the resounding defeat of Mauricio Macri's party); Italy's political instability; the intensification of the South Korea-Japan dispute; increasing US-Iran tensions and their impact on oil prices; the Hong-Kong protests; increasing probability of a no-deal Brexit; President Trump's economic policy, and the Gilet Jaune movement in France. However, all these have in common initiatives taken by increasingly assertive political leaders or civil societies looking for higher social justice. The rise of

inequalities, and the radical change of the US from being a global supplier of world public goods (security and promotion of global trade) to promoting an America First Policy, have all created an environment where political events, associated with populism, now represent the major source of risk globally. This political risk or factor is also visible at the level of norms related to the environment or the protection of data, which put at risk business models (car and technology companies) that are ill-prepared for stricter control by civil society.

The Fed and other central banks are not in the driving seat anymore

At the August 2019 gathering of central bankers at Jackson Hole, prominent members of the Fed and other central bankers confessed a sense of powerlessness when confronted with the consequences of disruptive economic policies or political risk in general. Several stylized facts suggest that the Fed in particular is not in the driving seat of US monetary policy anymore. Firstly, its independence is at risk with President Trump's tweets and threats. Moreover, the Fed has increasingly attached a larger weight to the stabilization of market volatility, to the detriment of its targets on growth and inflation. Finally, the Fed has become a poor guide for the market, which has been characterized by recent moves of high and contradictory gyrations. Recent episodes of stress in the US money market show that the febricity of financial markets is pretty high. History tells us that weaker central banks are associated with a higher risk of recession due to policy mistakes, ranging from prematurely tightening monetary policy, nurturing bubbles, or lacking the authority in circumstances requiring rapid and bold moves of stabilization. Separately, the lack of direction perceived by the market is propitious to the existence of multiple equilibria and self-fulfilling prophecies. This combination of factors is prone to increase the probability of recession, as observed today.

Is a currency war possible?

The trade-weighted Broad Dollar index of the Fed is currently close to a record-high level, which points toward a significant tightening of global monetary and financial conditions for those economies and companies being indebted in US dollars. This represents an element of risk for emerging economies in particular, the most fragile of them being likely to experience currency attacks when perceived as committing policy mistakes by international investors. In a more disruptive manner, the strength of the USD is also likely to nurture the ire of President Trump, who is convinced that the US economy suffers from unfair practices such as the currency manipulation of competing economies. These circumstances are likely to incite him to envisage retaliation against Europe and China, further depressing global trade and growth. As we expected, the threshold of 7 for the CNY against USD has been hit in retaliation against US tariff initiatives. The PBOC has managed a depreciation of the Chinese currency in order to absorb the external shock of US trade policy. The risk of a currency war as a by-product of the trade dispute has significantly increased.

The trade-weighted Broad Dollar index of the Fed is currently close to a record-high level, which points toward a significant tightening of global monetary and financial conditions for those economies and companies being indebted in US dollars.

The excess of public debt will also be a source of risk in the future

President Trump's fiscal policy represents a turning point with regard to fundamentals of debt at a global level. USD-denominated debt, in particular US Treasuries, represent a benchmark for the rest of the world, both at private and public levels. The lax orientation of the US fiscal policy (we can consider today that US public debt is not on a sustainable path) will create a wave of complacency, which is already visible at different levels. Despite a rapid weakening of the world economy, credit spreads of traditionally fragile borrowers (emerging economies, periphery of Europe and high yield segment) continue to tighten. When the US political class will recognize the need to stabilize the public debt, it will be a day of reckoning for those economic actors who have been too lax in their leverage strategy. ■

Trade in flux

By Jean-Francois Lambert, Founder and Managing Partner at Lambert Commodities

The globalised world economy we saw building up over the past 50 years is in a state of flux. New dynamics have emerged, are gathering momentum and the picture gradually shaping up does not look particularly pretty. The World Trade Organisation hitherto undisputed aegis is being weakened; a large web of global supply chains is under duress; long lasting alliances and trade partnerships are being reassessed. The trade scene has become starker and polarised. It is increasingly framed by sanctions, tariffs, and protectionism. Optimists might believe in a transitionary state, and that by democratically electing new leaders, the picture could and will improve. That is far from certain however, as the rationale for the shift may finds its roots deep in societies and be a direct, albeit unexpected, consequence of the great financial crisis of 2008. A new order is probably in the making, unleashing new, complex dynamics and it is wise to heed.

Until a few years ago, there was a vast consensus about how the world should be led. Fukuyama wrote about the 'end of history', whereby post war ideologies were bygone, and liberalism and free markets would eventually spread across the world. Economic dynamics were shaping policies and an unwritten consensus was that globalisation – with trade as its engine – would bring progress and prosperity. With few boundaries, global supply chains helped spreading wealth and development in many parts of the world as products are designed, built, assembled and sold over and across tens of different countries. Globalisation was the norm. But is it still?


Jean-Francois Lambert

In the long aftermath of the great crisis of 2008, the effects of which we are likely to feel for many years to come, the old economic order has been increasingly challenged. If globalisation on a macro level has been an undeniable success, it is not so perceived everywhere on a micro level: Over 50 years, vast populations reached a middle-class status in developing economies. Yet, in the developed world, social progress has not been seen as particularly vigorous in the same period. A view that globalisation left many on the side, grew progressively in developed democracies and has gathered momentum as it became a centrepiece of the political discourse in several countries, from eastern to western Europe and to America.

In these countries, the belief that globalisation has to be ring-fenced is growing. Concerns about unfair competition from distant countries where the environment is discarded and social laws still basic; de-industrialisation and its consequences on employment; uncontrolled immigration; and unacceptable trade deficits are shaping many politicians' manifestos. In short, the global economic agenda is superseded by new priorities, whereby politics should be conducted with country's self-interest at heart, surfing on a wave

With few boundaries, global supply chains helped spreading wealth and development in many parts of the world as products are designed, built, assembled and sold over and across tens of different countries. Globalisation was the norm. But is it still?

of discontentment and worries. Hence sanctions, tariffs, Brexit, a more complicated diplomatic scene. Hence, also an increasingly worrisome economic outlook.

On the face of it, as evidenced by facts and figures, the world economy has been extremely robust. Global GDP has been growing on average at almost 3.5 percent per annum since 1980[1]. In 2019, the IMF forecast 3.2 percent growth[2], which might look somehow tepid. Yet, and even at that pace, the world economy measured by its GDP would double in 24 years!

Or will it, really? Growth over the past 30 years or so has been driven by trade. For most of a period extending from the late 1980's to the mid-2000's, real global trade flows expanded twice as fast as real GDP growth[3]. Between 2008 and 2018, world trade and GDP have grown in tandem[4]. However, trade as monitored by the WTO through the Goods Trade Barometer, has been losing momentum for many months now. According to the WTO, the world merchandise trade, is showing 1.2 percent year-on-year growth on the first quarter of 2019[5], much below world GDP growth. The next two quarters are expected to show a similar trend. As further evidence, economies which are trade-dependent are suffering. Singapore's economy experiences its slowest growth in decades[6] in the first half of the year with an annual growth rate, so far this year, barely above zero. Why is trade faltering? And could the world economy remain as robust if trade, the engine of growth, was to lose significant momentum durably?

To be sure, we have, in the past, witnessed periods where trade has receded. The last significant occurrence was 2009, amid the great financial crisis. Yet trade growth quickly resumed. So why could it be different this time? Precisely because the global trading system is under assault. Trade agreements are being challenged (TPP, Nafta); the US has threatened to leave the WTO and is hampering its ability to rule on trade disputes; economic nationalism has become the centrepiece of the political agenda in the world's largest economy. In reaction, US trading partners are considering or taking countermeasures (through tariffs, currency depreciation or else), the consequence of which likely leads to escalation rather than a truce.

However tense the relations between trading partners may have become, common sense and reason could still prevail and new agreements may eventually be found. After all, it would be in everybody's interest to recreate a stabilised marketplace for business to thrive. An encouraging thought, but one which discard the fact that the trade dispute involves the two largest economy in the world, representing over 37pct. of the word GDP[7]: the US and its immediate challenger, China. Without a prompt settlement, disruption could be pervasive.

Despite the fact that both economies are intertwined – China is the US' third largest destination for exports, and its top supplier – the rivalry between the two juggernauts was bound to deepen.

Despite the fact that both economies are intertwined – China is the US' third largest destination for exports, and its top supplier – the rivalry between the two juggernauts was bound to deepen. Graham Allison described in the Thucydides Trap the inevitable confrontation between a rising power and already dominant one. In these columns one year ago, we ruled out that a fully fledge trade war could occur. The rationale was the sheer interwoven relationship between the two countries and that economic logic would prevail. Well, it has not, and this shows that the economic decoupling between the United States and China, that we are witnessing is probably a pure geopolitical play finding its roots deeper than in the current administration's agenda. Trade has been weaponized as a mean, not as an end by one America, increasingly worried about the growing influence of China, beyond sheer trade imbalances. If so, there is no coming back, at least for several years, and the magnitude of potential disruption would be long-lasting, possibly triggering further tensions between the two countries. The geopolitical environment will thus be increasingly difficult to navigate for corporates, banks and risk takers. To quote

Henry Paulson a former US Secretary of the Treasury, "that is why I see more clearly than ever the prospect of an Economic Iron Curtain—one that throws up new walls on each side and un-makes the global economy, as we have known it[8]".

This tells us volumes about how the world has changed and how political influence has grown over economic rationale since 2008. Bill Clinton, to epitomise what the drivers for his victory over GHW Bush were in the 90's talked about "the economy, stupid". Amid the rise of protectionism and ultra-polarisation, the main drivers have become geopolitical ones. How can trade not be durably disrupted in that context? and if it is, could the world economy continue to grow at the current pace? Those are very stark concerns and answers are not easily found in recent history.

Business is nimble and always adapts. What make the challenge quite formidable this time, lies both in the magnitude of the disruption and with the uncertainty of the outcome. Before stating the obvious, i.e. they cannot be winners in the long run as everybody will be affected eventually, whether directly or indirectly, let's explore a few likely consequences of a more polarized trade scene.

First, and most obviously, the supply chain realignments. How long will it take to large supply chain managers to reconsider their sourcing strategy? Empirical evidence shows this has started already, notably for large US companies. But not only them. Consider British groups sourcing in a hard-Brexit context? Could China remain a priority market for US companies? Would China maintain its reliance on America supply of raw materials?

At a macro level, the decoupling between China and the US might foster tighter relationship between China and Europe. This has been on top of the Chinese leaders' agenda for many years. In hindsight, the Belt and Road Initiative, under way for a few years was quite timely. How Europe will respond though is uncertain as the worries about the rise of the Chinese giant are shared, amongst advanced economies, beyond Washington. Yet and since the European trade corridor has become more critical for China, European companies could have a potentially interesting bargaining stand.

The Middle East in its unique position between Europe and Asia could also take advantage of Asia's thirst for energy and become a large investor in the region. We might also expect China to reinforce its African strategy both to develop cheap manufacturing and to optimise its strategic raw material sourcing.

Existing tensions between Europe and Russia have already triggered the drift of the largest Eurasian country towards the East, a trend that would probably accelerate as China relies more on Russian oil and gas. Last but not least, a closer partnership is likely to be found between South American countries and China to compensate for US food and agri commodities supply, but also for key mining products thus complementing the key supplies coming from Australia.

It remains to be seen whether the curtailing by the US of the relationship with China could generate a recoupling with Europe. So far Washington seems oblivious of its European partners but that might change if the US economy starts to slowdown as trade flows less freely elsewhere. In the meantime, some suppliers to the US and notably Mexico, South Korea, Taiwan and Japan may also witness an additional flow of activity. Large US supply chain managers have most of their supply chains reaching China in a way or another. They are bound to revisit their sourcing strategy. Technology companies will probably shift part of their production out of China into South East Asian countries.

Access to the Chinese market may prove increasingly challenging for American companies, however significant their investment in China may have been. Banks, hotel chains or consumer product companies

Existing tensions between Europe and Russia have already triggered the drift of the largest Eurasian country towards the East, a trend that would probably accelerate as China relies more on Russian oil and gas.

might find a more hostile environment, for instance. Similarly, the ability of US major trading houses to keep feeding the Chinese consumers might be hampered. That might benefit non-US trading companies, enjoying easier access to China. Some form of partnership between Chinese companies and non-US large trading houses from Switzerland and Singapore notably could even formalise. Incidentally, commodity trading houses may find themselves in a long foregone sweet spot yet again as the dislocation for supply and demand may offer an interesting playground to companies whose DNA is precisely built around the ability to react swiftly to market changes and provide key commodities sourcing alternative in whatever circumstances.

If we now take a broader view, let's ponder how trade could develop in a polarized world in the long run. It is likely that large and widespread supply chains find increasingly difficult to navigate in a volatile world where tariffs are more widely raised, one where trade regulations are increasingly set on a bi-lateral basis rather than through a global rule book. A likely consequence therefore could be, where possible, the curtailing of the chains with a closer-to-home strategy.

Amid the polarisation policies of various countries, it is likely that priority will be given to sourcing and selling amongst close partners. This may not be triggered by laws or regulation, but merely through the additional constraints imposed by more difficult country-to-country international relations. This could foster shorter supply chains, when feasible increasingly at a regional scale. Post-Brexit UK may remain an oddity in that respect where the aim is to rebalance the trade flows with the European neighbours with renewed partnership with afar former British empire countries.

Re-onshoring may also be accelerated when possible. Thanks to the help of technology, this prospect has become more plausible. Robotics, allowing 24/7 production, 3D printing made available for an increasing number of products. If energy prices are contained – the new energy mix as the big transition has started should keep price in check, then we might witness the emergence of a new form of industrialisation closer to the consumer centres.

Trade as we know it would therefore be significantly affected as the world gets less global. If supply chains get shorter, this means that the flow of semi-finished products which today constitute a large part of the container freight, following hitherto the global supply chains, might eventually shrink.

Of course, "predictions are difficult, especially when they involve the future[9]" and as such, all of the above may prove totally wrong. However, as geopolitics trump economics, one thing remains likely. Alliances and partnerships will be more than ever dictated through the prism of relative strategic importance and tangible benefits to be obtained as a quid pro quo. In that respect, the weaponization of trade is likely to remain the norm rather than the exception and the availability of commodities, be them food and agri, energy, precious metals or rare earth will remain on top of the world leaders' agenda. The journey towards a new economic order has started and the road is already be bumpy for supply chain managers, their clients, and financiers. ■

Notes

1 Source IMF, real GDP growth from 1980 to 2018
2 Source IMF, World Economic Outlook July 2019
3 The Falling Elasticity of Global Trade to Economic Activity, Marc Auboin and Floriana Borino, CESIFO, Sept 2018
4 Source World Tarde Statistical Review, 2019, World Trade Organisation
5 Source WTO Goods Trade Barometer August 2019
6 Sources FT July 2019
7 Source Pocket World in Figures 2019 – The Economist
8 Paulson Institute, Feb 2019
9 Attributed to Mark Twain

Amid the polarisation policies of various countries, it is likely that priority will be given to sourcing and selling amongst close partners. This may not be triggered by laws or regulation, but merely through the additional constraints imposed by more difficult country-to-country international relations.

Weaponised trade in a world of strategic games

By Dr. Rebecca Harding, CEO Coriolis Technologies

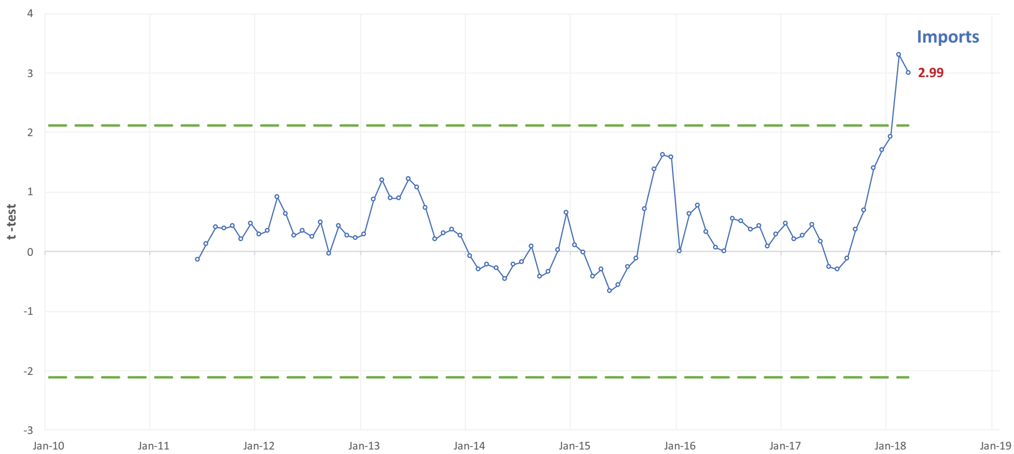
The major economic powers are engaged in a strategic competition to maintain and build their influence in a world that has become interdependent through the processes of globalization. However, power in this era of interdependence is not as straightforward as it used to be, and this is reflected in the strategies that we are seeing. The lines between hard and soft power are starting to blur: one country's semiconductor export is another country's cybersecurity import.

For example, when North Korea's imports of dual-use goods related to nuclear goods trebled between 2007 and 2008, it is perfectly possible that these were associated with improvements in X-ray technology for public purposes. The fact that its nuclear programme started a year later may just be a coincidence. In this fuzzy framework, dual-use goods – or rather, goods that are used for military or civilian purposes – are treated with suspicion, since their end use could be benign but equally could be malignant. The issue is how they are used, not what they are, in and for themselves.

Dr. Rebecca Harding

What is clear is that trade is being used strategically by countries to build their power bases. This is happening through trade weaponization in two ways: rhetorically and literally. The literal use of strategic trade is

Figure 1: Arms trade growth measured in terms of t test significance (above two standard deviations): June 2011–February 2018



Source: Coriolis Technologies, 2019

made explicit by the increase in arms and dual-use goods trading. Figure 1 shows just how important growth in arms trade has become since the United States shifted its foreign policy stance.

This chart shows an annual rolling average of trade growth in arms that is more than two standard deviations above the historical mean between June 2011 and February 2018. The sharp escalation in arms trading from mid-2017 to February 2018 is a function of not only hardening US rhetoric but also growing arms trading in other parts of the world, including the European states bordering Russia and the Baltic states. For example, there were significant increases in arms imports over the same time period in Finland, Norway, Sweden, Turkey and Australia as well as the United States. Meanwhile, China, the United States and, interestingly, Canada significantly increased their arms exports. This shows a marked tightening of strategy over the period studied that can be seen as a direct response to two things:

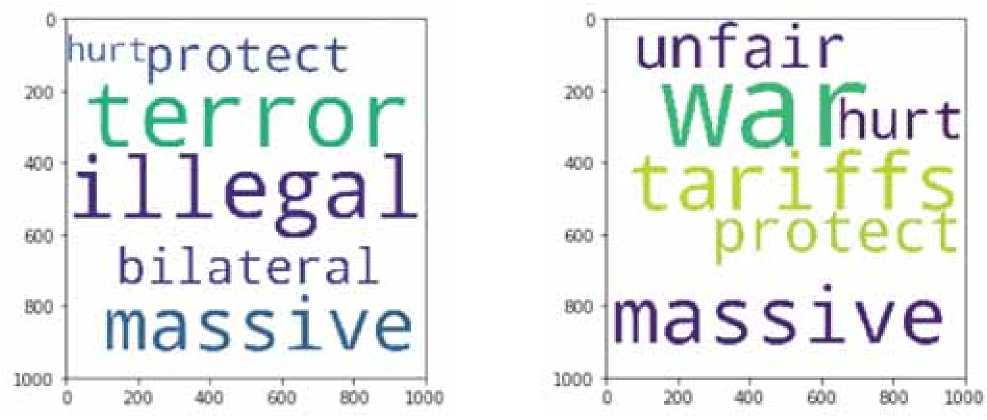
- The build-up of Russian military forces along its border with the Baltic states. Norway, Finland and Sweden all had explicit policies during that period to increase their border security. Canada, under the auspices of the North Atlantic Treaty Organization (NATO), increased its arms exports to Ukraine.

What is clear is that trade is being used strategically by countries to build their power bases. This is happening through trade weaponization in two ways: rhetorically and literally.

- The build-up of a Chinese military presence in the South China Sea. Australia's national strategy, published in 2018, highlighted the importance of defence against the rising threat of China in the region. There was also significant growth in surveillance and security-related ICT.

The rhetorical weaponization of trade is present for all to see in the daily news. However, figure 2 shows the way in which 'trade', associated with military language in the news and on social media, changed immediately following the global shift in foreign policy stance. During 2017, the language associated with tariffs was mild, presenting the United States in particular as a 'victim' through words like 'protect', 'hurt',

Figure 2: The use of weaponized language associated with trade in social media and newsfeeds, January 2017–June 2018



Source: Coriolis Technologies, 2019

Methodology: The method employed here was to look at social media and newsfeeds using web-scraping and contextuality analytics between January 2017 and June 2018. The differential size of the boxes reflects the amount of contextual language used in each time period. Note that 2017 represents a full year of data whereas 2018 does not.

'terror', 'illegal' and 'massive'. By the middle of 2018, we can see that more such language was being used in connection with trade, but the focus had become harder, with words like 'tariffs', 'hurt', 'protect', 'unfair' and 'massive' becoming more dominant. The most dominant word of all, however, is 'war'.

Apart from the fact that the world has become a more nervous place over the past two years, all of this tells us two things. First, there was an escalation in arms trading over the period studied. This was directly connected to the tensions in 2017 and 2018 between Russia and its Baltic neighbours. However, Australia's trade in arms and dual-use goods increased significantly too. China used more belligerent military language and tactics in the region during the early stages of the Trump administration, arguably to test US strategy there – a classic 'know your enemy' approach – and Australia's strategy reflected this.

Second, it tells us that, from a rhetorical perspective, US strategy focused on trade after the publication of its National Security Strategy (NSS), and the language used in association with trade became tighter. This can be explained purely in terms of game theory: the US approach is an individualistic one, centred around the assumption of its capacity to win. Its behaviour is rational, for it sees a conflict to gain power, whether trade, technological, economic, financial or military, as inherently winnable. It can therefore threaten and coerce without needing to take direct military action. The use of sanctions against North Korea, complicit with the UN and China, is evidence of what it was doing at the time. Its lack of military intervention in both North Korea and, in June 2019, Iran, despite provocation, suggests that there is indeed no appetite for military conflict: other weapons are being used, even if the goal to win is the same.

In short, we used to know the rules of the game, but these have become more complex in the multipolar and multidimensional modern world. What we do know is that we are witnessing a power play, and that winning seems non-negotiable at this point. Power is about coercion. Trade is the game, the weapon and the strategy. It is a proxy for a larger conflict, but its reach is big and the consequences of escalation and miscalculation where it is concerned are profound. ■

China used more belligerent military language and tactics in the region during the early stages of the Trump administration, arguably to test US strategy there – a classic 'know your enemy' approach – and Australia's strategy reflected this.

Rebecca Harding is an Independent Trade Economist and CEO of Coriolis Technologies. She is the author of the acclaimed 'Weaponization of Trade: the Great Unbalancing of Politics and Economics'.

This article is based her co-authored book, with Jack Harding, 'Gaming Trade: Win-Win Strategies in the Digital Era' and published on the 18th September by London Publishing Partnership. A launch event and related conference, "Future of Strategic Studies" will take place on the 18th and 19th October.

https://www.eventbrite.co.uk/e/the-future-of-strategic-studies-tickets-64593409627

Note

1 See Strong and Secure: A Strategy for Australia's National Security: https://bit.ly/301qhls.

In short, we used to know the rules of the game, but these have become more complex in the multipolar and multidimensional modern world. What we do know is that we are witnessing a power play, and that winning seems non-negotiable at this point.


AXA
XL Insurance
Think globally
When the world is your oyster, you need a partner to help manage against the risks of a complex and ever-changing global marketplace.
With over 25 years of political risk and credit experience, tailored insurance solutions and an outstanding claims service, our scope and scale can help your business reach further.
Know You Can
axaxl.com
AXA XL is a division of AXA Group providing products and services through four business groups: AXA XL Insurance, AXA XL Reinsurance, AXA XL Art & Lifestyle and AXA XL Risk Consulting.
AXA, the AXA and XL logos are trademarks of AXA SA or its affiliates. © 2019 AXA SA or its affiliates.

Trade uncertainty makes interest rates less effective

By Sarah Fowler, Analyst, International Economy, Oxford Analytica

As fears of a sharper global GDP slowdown rise, bond yields have fallen dramatically, reducing monetary policy efficacy.

In August, at the annual gathering of the world's central bankers in Jackson Hole, Wyoming, policymakers acknowledged that the economic uncertainty that the US-China trade conflict is generating was undermining the effectiveness of monetary policy. James Bullard, the president of the St Louis Federal Reserve (Fed), warned that developed countries are experiencing a "regime shift" in economic conditions, in which trade-war-induced uncertainty – and the unpredictability of US policy more broadly – is becoming a permanent feature of policymaking, sapping the potency of forward guidance and overburdening monetary policy.

What next

Scepticism in financial markets about the ability of the world's leading central banks to boost growth and meet their inflation targets will become more acute amid weaker global growth and difficulties in enacting growth-friendly fiscal policies. Monetary policy will remain important to sentiment, but investors are likely to be more influenced by the actions of US President Donald Trump, whose Twitter feed has become a powerful driver of markets since mid-2018. While his trade offensive will exacerbate growth concerns, positive-sounding tweets from Trump are likely to buoy sentiment, especially nearer the 2020 election.


Sarah Fowler

Impacts

- Since the US tariff increase in May, the global stock of negative-yielding bonds has surged above 16 trillion dollars and will rise further.
- The dollar is at its highest since May 2017 and seems likely to rise further as US growth is far outpacing other major developed markets.
- The renminbi/dollar rate fell the most on record in August, raising capital outflow risks, most likely to the United States or Japan.

Analysis

At the annual Jackson Hole symposium organised by the Kansas City Fed between August 22 and 24, leading central bankers readily admitted that the mounting uncertainty stemming from the escalation

Scepticism in financial markets about the ability of the world's leading central banks to boost growth and meet their inflation targets will become more acute amid weaker global growth and difficulties in enacting growth-friendly fiscal policies.

of the trade conflict is rendering monetary policy increasingly ineffective.

Fed Chair Jerome Powell highlighted that the Fed had little ability to influence international trade negotiations, adding that trade was "the business of Congress and the administration, not that of the Fed".

James Bullard, the head of the St Louis Fed, regards trade uncertainty as a permanent feature of policymaking, forcing a "rethink of central banking and all our cherished notions".

Politics driving markets

Indicating the extent to which politics is becoming the driving force behind financial markets, Philip Lowe, the governor of Australia's central bank, said: "Political shocks are turning into economic shocks." This is making it much more difficult for central banks, which were already "carrying too much of a burden", to "deliver medium-term growth". Lowe admitted that a further loosening of monetary policy would "risk pushing up asset prices". (See Figure 1.)

Since the Fed signalled in early January that it would be patient in raising interest rates further, the yield on the benchmark ten-year US Treasury bond has plummeted a further 120 basis points to 1.5%, down from 3.2% in early November. The benchmark S&P 500 equity index, meanwhile, has shot up by around 20% over the same period, despite the renewed escalation in the trade conflict and a further deterioration in global economic activity, particularly in the euro-area.

Influence of Trump's tweets

While monetary policy remains a key determinant of sentiment, markets are in thrall to the US president's Twitter feed, which is becoming a potent influence on asset prices.

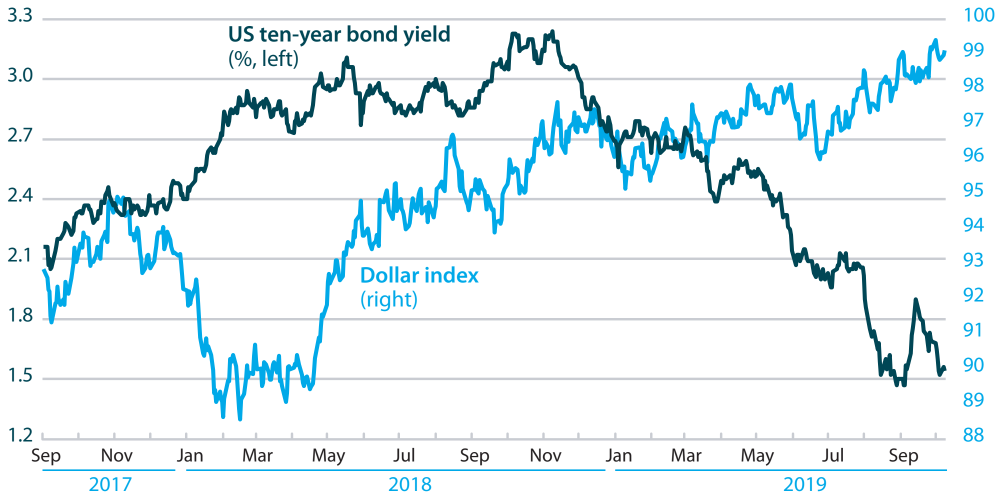
Since Trump announced the latest round of tariffs on Chinese goods on August 1, the S&P 500 has experienced daily swings of 1% or more nine times, making August 2019 the most turbulent month since last December, when the index suffered its steepest drop since 1931.

The latest global fund manager survey published on August 13 by Bank of America Merrill Lynch reveals that the trade war is the single most important source of volatility in markets, with 51% of respondents claiming the conflict is the largest "tail risk" in markets, compared with only 15% citing monetary policy impotence.

The corporate sector shares these concerns. In an upcoming survey examining how leading companies are managing geopolitical risks, Willis Towers Watson and Oxford Analytica found the trade war to be the overwhelming concern of global corporations, followed by the potential regulatory implications of populist and/or nationalist governments.

Even though investors have no idea what and when Trump is going to tweet next, trade policy uncertainty is driving markets, posing an acute dilemma for the Fed, which is under intense pressure to continue cutting interest rates in order to mitigate the economic damage caused by the trade war.

Figure 1: United States: Dollar and US ten-year bond yield comparison (%)



Source: Thomson Reuters Datastream

The pressure on the Fed is made more acute by the fact that Trump's calls for more aggressive rate cuts chime with the views of bond investors, who are pricing in a further 100 basis points of cuts by the end of 2020.

In a sign of the degree to which Trump's trade offensive is influencing the conduct of US monetary policy, Bill Dudley, the former president of the New York Fed, urged the Fed not to "bail out an administration that keeps making bad choices on trade policy" in an opinion piece for Bloomberg published on August 27. Dudley even went as far as to say that the Fed should ensure that its policies do not enable Trump to win re-election next year.

The pressure on the Fed is made more acute by the fact that Trump's calls for more aggressive rate cuts chime with the views of bond investors, who are pricing in a further 100 basis points of cuts by the end of 2020.

Limited fiscal scope

While the recent plunge in bond yields partly reflects expectations of more monetary stimulus, investors are clamouring for more growth-friendly fiscal policies. This is especially the case in the euro-area, where there is scope for fiscal relaxation, particularly in Germany, which is sticking to its balanced-budget policy despite experiencing an industrial recession.

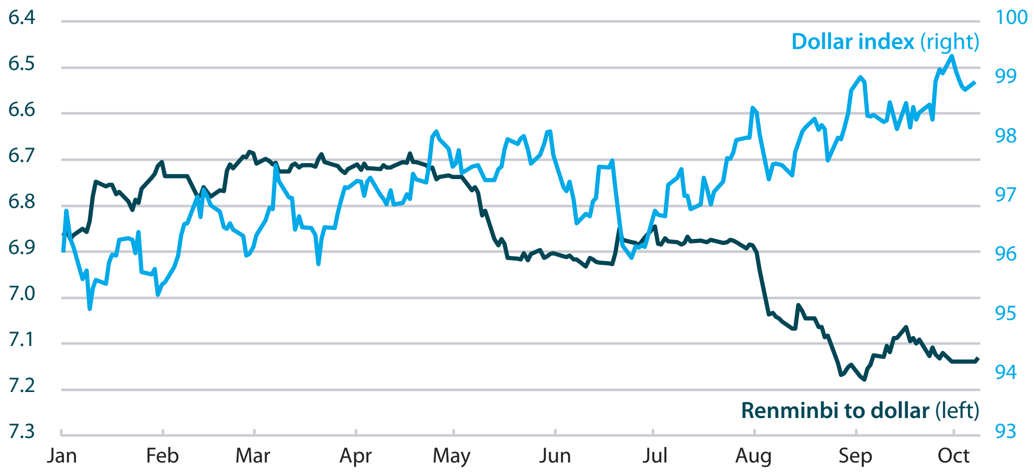
ECB President Mario Draghi has warned that if the slowdown in the euro-area economy intensifies in the coming months, "significant fiscal policy becomes of the essence".

However, the scope for large-scale fiscal stimulus in Europe is limited. Although Berlin is discussing the possibility of increasing spending by 50 billion euros (55.1 billion dollars), the ruling Christian Democrats are extremely reluctant to jettison the country's zero-deficit policy. Even if Germany experiences a technical recession – which looks increasingly likely – the commitment to austerity will persist. (See Figure 2.)

In China, meanwhile, although the government is easing its deleveraging campaign, it is still eschewing heavy-handed stimulus.

There is also limited scope for more forceful stimulus in the US, partly because the economy has stronger momentum, but also because Trump has already loosened fiscal policy significantly. ■

Figure 2: United States/China: Recent exchange rate divergence



Note: Dollar index is a benchmark trade weighted estimate of the dollar against its major trading partners. The renminbi is against the dollar.

Source: Thomson Reuters Datastream

Harnessing the potential of data analytics

By Elizabeth Stephens, Managing Director, Geopolitical Risk Advisory

HKEX's audacious £32 billion bid for the London Stock Exchange earlier this month, is indicative of the power of country risk to move markets. The proposal comes as Hong Kong grapples with a political crisis that has triggered mass protests over the autonomy of the former British colony. In the UK, the country continues to be convulsed by the Brexit impasse that has forced sterling to an all-time low and made the LSE a cheap buy.

Irrespective of whether HKEX improves its offer, the decision by the LSE to accept or reject the proposal is likely to be based on political rather than financial considerations. While the deal presents the opportunity to link two sophisticated financial institutions to facilitate the flow of capital into and out of China, questions over Beijing's commitment to the liberal aspects of 'one country, two systems' creates unease. The rule of law is a central pillar of Hong Kong's financial success.

The confluence of political circumstances that made this offer possible and may lead to its unravelling, would have surprised investors as little as six months ago. It is another example of how globalisation has

Elizabeth Stephens

created greater interconnectedness and by implication, increased vulnerability to events beyond the boundaries of sovereign territories and traditional methods of control.

Whilst the benefits of greater economic rewards and economies of scale presented by globalisation are clear, the concomitant impact of heightened exposure to geopolitical risk can be challenging to forecast and manage. In identifying the causes of political risk events there are those who focus on the steady trends and those who focus on the sudden seismic shocks. Yet a truly 'black swan' event is rare. The trends that give rise to apparent 'sudden seismic shocks' are often evident for those who choose to look.

As global norms recede and trade wars intensify, there is greater demand for innovative tools that more accurately track and forecast geopolitical risk and the impact

Whilst the benefits of greater economic rewards and economies of scale presented by globalisation are clear, the concomitant impact of heightened exposure to geopolitical risk can be challenging to forecast and manage. In identifying the causes of political risk events there are those who focus on the steady trends and those who focus on the sudden seismic shocks.

it will exert on business, investments and international value chains.

In June I had the pleasure of speaking at the Berne Union Country Risk Manager's conference, where I presented our approach to country risk analysis which draws upon data analytics.

Despite the potential obstacles, the advantages of embracing data analytics to predict and optimise outcomes in country risk assessment are clear.

My presentation was greeted with a mixture of enthusiasm and scepticism. The enthusiasm was attributable to my discussion of an approach to country risk analysis that overcomes the deficiencies inherent in quantitative and qualitative risk ratings. The scepticism arising from concerns over how effectively 'big data' can forecast geopolitical risk trends, how the data is collected and processed and the quality of the data.

Let's begin with the basics. Big data is simply a term used to refer to the study and applications of data sets that are too big and complex for traditional data-processing application software, like Excel, to deal with. The coherence of the data and its value, is demonstrated by the patterns and trends revealed in the output.

These factors often act as a deterrent for legacy companies wanting to embrace the opportunities presented by big data because it requires the adoption of new technology architecture and capabilities to build advanced-analytics models.

Despite the potential obstacles, the advantages of embracing data analytics to predict and optimise outcomes in country risk assessment are clear.

Quantitative approaches usually rely on backwards looking data that is several months if not a year old. There is a lack of global datasets and those that are available tend to be country level only, making it difficult to discern differing levels of stability within a country. The weighting of the indices is also highly subjective.

Qualitative approaches generally reply on an expert panel or individual to assess and score specific risk factors, which is highly subjective and may miss crucial information. The ratings are usually at a national level only with the risk categories presented as low, medium, high or extreme, which gives a business relatively limited information on which to base an investment decision.

The Central Intelligence Agency (CIA) moved away from qualitative approaches to country risk analysis in 2004 in favour

HOW THE MIDDLE EAST HAS CHANGED SINCE 2013

of using artificial intelligence to read and process news stories. This enabled their analysts to use data analytics to be consistent and more objective in their country risk assessments.

We use a similar method with millions of news reports analysed from international,

As we divide the world into 1,500 regions, it is possible to track the way fluctuations in the level of stability impacts a company's investments in specific locations, within a country.

national and regional news sources. Data analytics remove the constraints imposed by the linguistic abilities of the analyst by analysing news stories in multiple languages. The approach is also effective in reducing cultural bias our perceptions of the factors that constitute political stability and thereby create a quiescent investment environment, tend to be culturally specific.

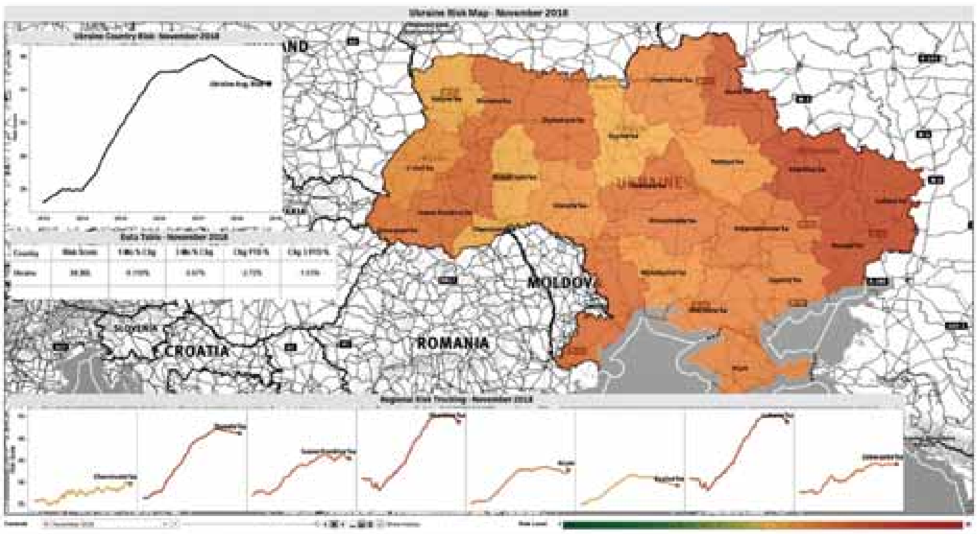
By using data analytics to augment our traditional country risk model, we are able to go beyond country level risk ratings to create risk metrics for 1,500 sub-national regions across the world. This enables us to bring a high level of granularity to monitoring and tracking risk and we have consistently found that our forecasts are six months ahead of those companies that rely solely upon more established approaches.

Our tracking of risk in Ukraine, one example I shared with conference participants, provides a pertinent example of the forecasting potential of data analytics. Our data revealed a clear up turn in political instability across Ukraine, six months ahead of the protests in Maidan Square and has forecast the changing level of conflict across all regions of the country since this time.

One participant asked why our rating for Crimea showed a higher level of stability than for the surrounding regions. The answer is because Russian control of Crimea has stabilised the region. The annexation may be a cause of international controversy, but the US and EU are not taking action to return the territory to Ukraine and as a consequence, the situation within Crimea has stabilised. This provides a pertinent example of the ability of data analytics to consistently map stability and instability, removing a western cultural bias which says Crimea must be unstable because it is controlled by Russia and its sovereignty is in dispute.

As we divide the world into 1,500 regions, it is possible to track the way fluctuations in the level of stability impacts a company's investments in specific locations, within a country. Our analytics effectively highlights

UKRAINE – INTERNAL DIVISIONS



The country and political risk experience of those working in our sector is vast. Data analytics augments this knowledge by offering an effective tool for analysing country risk with a higher degree of precision and granularity than ever before.

variations in the level of stability within in a country, making it possible to track differing levels of risk across a portfolio of assets in the same territory. Even a company with a single overseas investment will be dependent on other key locations such as raw material resources and transportation facilities and we are able to demonstrate how the level of risk is changing around these key locations. Our data often reveal areas of relative stability in countries that are commonly perceived to be ‘high risk’.

As we map the entire world, data shows how instability is contagious across sovereign borders and also provides an effective means of tracking hot spots of instability along international supply chains.

The country and political risk experience of those working in our sector is vast. Data analytics augments this knowledge by offering an effective tool for analysing country risk with a higher degree of precision and granularity than ever before. The data provides an investor or country manager with clear questions to ask about the stability of a region and the factors on the ground that will need to be managed to ensure the viability of a project. Artificial Intelligence is our starting point when working with clients to devise strategies for managing and mitigating country risk, but it is human intelligence that determines the solution.

The momentum towards the wide-scale adoption of data analytics in all facets of business and commerce is undeniable. Much of the market capitalisation of the world’s largest companies, Alphabet, Apple, Amazon and Facebook is attributable to their generation of terabytes of data, our data, which we generally handover unintentionally and for free. Their Chinese counterparts, Alibaba and Tencent, are powerful for the same reasons. Data powers the present and will control the future. Those companies that generate and control data and harness its predictive potential will be the champions of the future. This is as true for country risk analysis as for any other sector of the economy. ■

Political risks in Africa: the temperature is rising

By Ruben Nizard, Economist, Africa, and Eloi Mauratille, Junior Economist, COFACE

Africa has seen a bevy of political events in recent months. After the deterioration of the security situation in the Sahel, as well as the forced departures of historical leaders from Algeria and Sudan via the streets, where will the political risks manifest in the second half of the year? Using its quantitative political risk model (Insert 1), created in March 2017[1], Coface intends to identify – beyond the pace dictated by current events – recent political risk trends and thus the countries to be monitored.

Over the recent decades, regular conflicts of varying intensities and natures have marked Africa, leading notably to a decline in investment and trade flows, delaying the development of some African countries. Recent years have seen a resurgence of conflicts on the continent, mainly as a result of the activities of various Islamist groups, particularly in the Sahel region, mobilizing the armed forces of certain states on the continent and targeting civilian populations. Conflicts of political origin – sometimes mixed with ethnic, religious or even linguistic considerations – also remain present in Africa (Libya, Central African Republic, Democratic Republic of the Congo, Cameroon...).

Our indices of political violence also confirm that violent events (conflicts and/or terrorist acts), although more localised, have become relatively common again, particularly in the Sahel, compared to the beginning of the 21st century: compared to 2008, there were almost twice as many conflicts across the continent in 2018.

Moreover, as events in North Africa and the Middle East in 2011 have shown, as mobilisation instruments develop, the exasperation of populations, fuelled by socio-economic pressures exposes some countries to the risk of future instability. Although large-scale conflicts, as in Libya, or regime changes are not a given, a fragile socio-economic context can, in the long term, cause unrest that can generate, at a minimum, uncertainty in the political environment. Our political and social fragility index indicates that 10 countries – Angola, Cameroon, Chad, Djibouti, Egypt, Ethiopia, Mauritania, Mozambique, Uganda and the DRC – could be or continue to be affected in the foreseeable future.


Ruben Nizard


Eloi Mauratille

The increase in mobilisation instruments is one of the factors behind the increased risk. This dynamic, in force throughout the continent, could potentially lead to a multiplication of destabilizing political events in Africa in the longer-term.

Conflict and terrorism continues in Africa

As Coface reported in 2017, the world is experiencing an upsurge in conflicts[2] that has not abated in recent years: despite a decline in 2018 after the historical record set in 2017, the number of conflicts has increased by 70% since 2008, with 2.2 times more victims (Chart 1). Over the past five years, the number of casualties has exceeded the 70,000 mark[3] each year for the third time in 30 years (after the 1990-1991 periods, at the height of the Gulf War, and 1999-2000, marked by the fratricidal war between

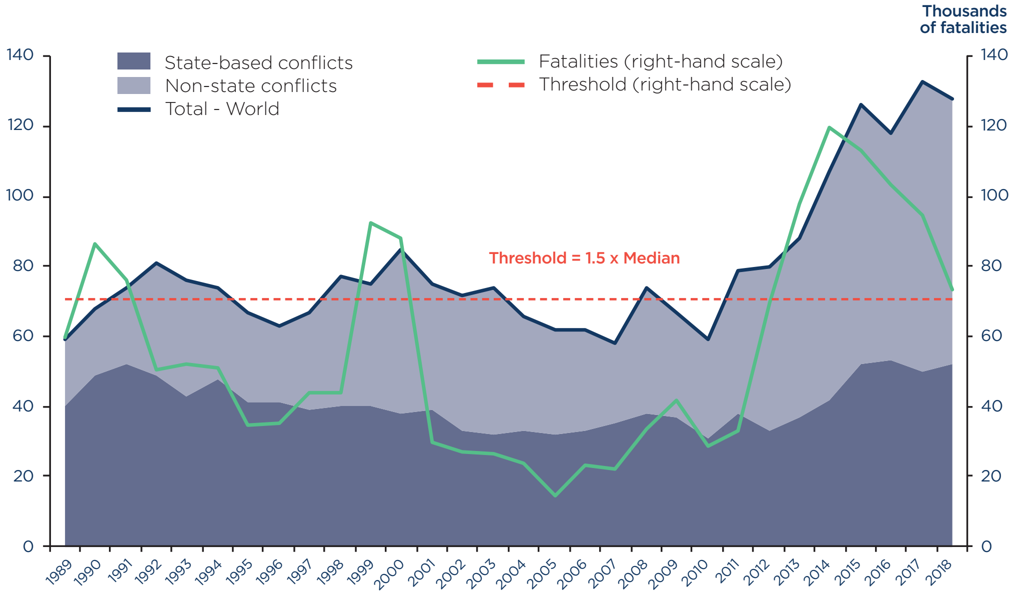
Ethiopia and Eritrea). At the same time, terrorism[4] is spreading as another form of political violence (Chart 2).

Often described as a continent prone to conflict and terrorism, data from the indices compiled by Coface confirms this. In the 2019 version of the Conflict Risk Index, 25 of the 45 African countries evaluated[9] have a non-zero score. In total, only 52 countries in the world are in this situation. African countries therefore contribute to the overall upward trend (Chart 3a) in global conflicts. The increase in conflicts on the continent is driven in particular by those that do not involve a state.

At both global and continental levels, this type of conflict has tripled since the beginning of the decade but is nevertheless increasing more rapidly in Africa. The region is therefore, by far, the region with the largest number of non-state conflicts. The proliferation of clashes between armed militias in Libya, the CAR and the DRC contributes to this trend, as do clashes between Oromo and Somali in Ethiopia, and between Berom farmers, Christians, and Fulani herders, Muslims, in the Plateau State of Nigeria (Insert 2).

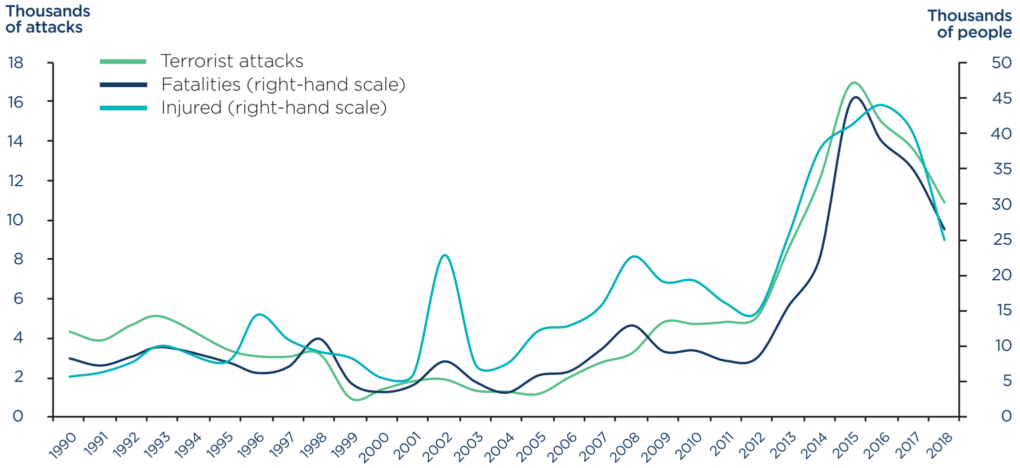
While the increase in the number of non-state conflicts is remarkable, it should

Chart 1:
Number of conflicts and conflict-related deaths in the world, 1989-2018



Source: Uppsala Conflict Data Program (UCDP), Coface

Chart 2:
Evolution of terrorist attacks and associated victims, 1989-2017



Source: Global Terrorism Database, Coface not overshadow those involving a state, which have also surged over the past five years, mainly due to the fight against armed Islamist groups, including those affiliated to the Islamic State (IS). This is particularly the case in the Sahel and around Lake Chad,

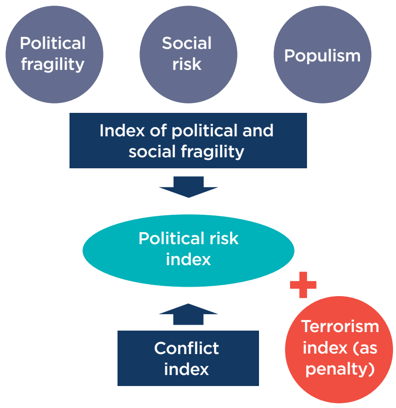
Insert 1 :

The Coface political risk model

Coface's political risk model takes into account two main risk categories:

- security risk, which includes conflicts and terrorism,
- the risk arising from political and social fragility, which also includes populism (Diagram).

Diagram: Coface's Political Risk Model



Security risk assessment is based on the observation of conflicts and terrorist acts around the globe. Both indices measure the risk according to the occurrence of battles and/or terrorist attacks, their intensity and the actors involved, based on third-party databases[5].

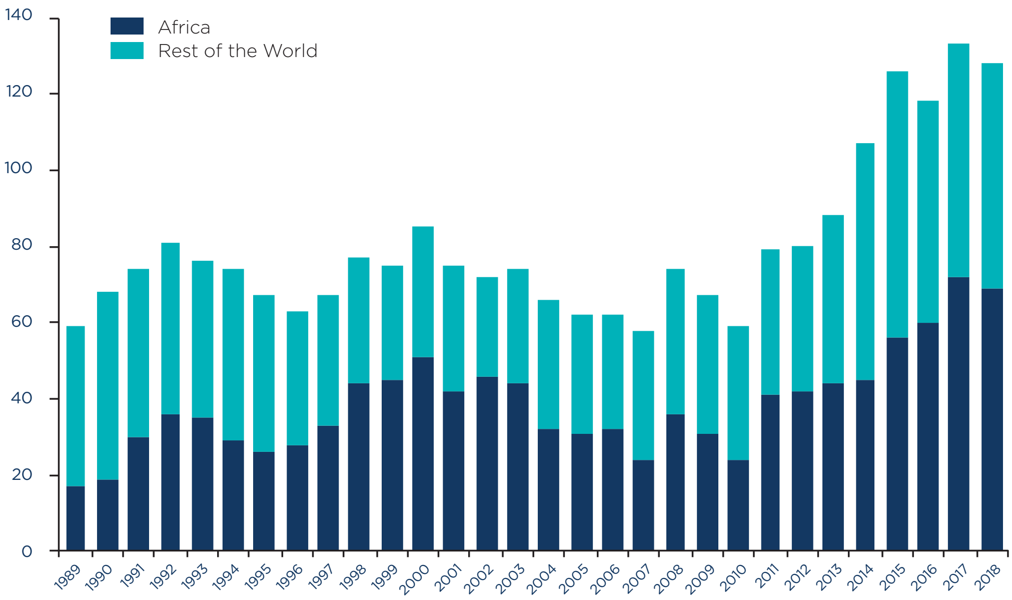
The risk arising from political and social fragility is based on three distinct indices:

1) The social risk index[6], which takes into account 2 pillars. The first is pressures for change, measuring the degree of social frustration taking into account socio-economic factors such as inflation, the unemployment rate, income inequalities as measured by the GINI coefficient, GDP per capita (in level and evolution), the perception of corruption, the population's capacity for expression and the homicide rate. Nevertheless, this frustration only results in effective political change if the population has instruments to express it, with these instruments forming the second pillar. The variables included to measure these instruments are: the rate of higher education, the rate of adult literacy, internet access, youth proportion in the population, fertility rate, urbanization rate and female participation rate.

2) In order to identify cracks in the foundations of the political system, Coface also establishes a fragility index based on the nature of the political system, ethnic, religious and linguistic fractionalization, and the degree of political freedom and civil rights available to the population.

3) Specific variables from the Manifesto Project database[7], based on textual analysis of the content of political parties' electoral platforms, make it possible to establish an index taking into account the rise of populism, in order to better understand the rise of social frustrations in some democracies[8].

Chart 3a:
Number of conflicts: Africa vs. Rest of the World



Source: Uppsala Conflict Data Program (UCDP), Coface

Insert 2 :

Nigeria: political risk in all its forms

On February 23, 2019, nearly 73 million Nigerian voters were called to vote for their new president. Four days later, the Independent National Electoral Commission (INEC) confi rmed the re-election of incumbent President Muhammadu Buhari. Our model highlights that he has begun its second four-year term in a political context precarious in many respects.

Nigeria's conflict index, which was below 30% until 2009, jumped with the advent of Boko Haram, reaching 100% in 2015– a score that did not decline until 2018, when it fell to 85%. The country has also had the highest terrorism index score on the continent since 2012. As a consequence, almost four years after President Buhari's statement that Boko Haram was "technically defeated", indications derived from our terrorism and conflict indices suggest that, although now fragmented into several disparate factions, the Islamist group has maintained a dangerous strike force, killing more than 18,000 civilians between 2009 and 2018. The decline in the Coface indices reflects a relative decrease in the intensity of the Boko Haram group's activity.

However, in Nigeria, although some conflicts do not directly involve the state, they are still located within the country itself. Ethnic and religious divisions, particularly between the Muslim north and the Christian south, is a source of much friction between communities, particularly in the centre of the country, and can lead to the outbreak of deadly conflicts. The resurgence of tensions in the Plateau State between Berom farmers (Christian) and Fulani herders (Muslim) has contributed to the rise in the conflict and terrorism index score. In 2018, clashes between the two ethnic groups resulted in nearly 300 deaths.

Nigeria also has a relatively high political and social fragility index score at 59%, after peaking at 61% in the previous year. In addition to the fragility of the institutional, social, ethnic and religious structure, this score is linked to the economic crisis following the 2014 oil counter-shock, with the country recording its first recession in 25 years (in 2016). As a consequence, gross domestic product (GDP) per capita has not increased for four years, and with Coface's growth forecast for 2019 (2.3%), a fifth consecutive year seems likely. The crisis is refl ected in a record level of unemployment (23.1% at the end of the third quarter of 2018) and infl ation above 10% for more than three years. Therefore, in addition to insecurity, the issue of living standards in Nigeria – which is already one of the countries with the highest number of people living below the poverty line – will therefore be one of the major challenges of President Buhari's second term. At the end of a fi rst mandate with very contrasting results, the patience of Nigerians towards the one who inherited the nickname "Baba Go Slow" by his detractors (who blame him for the slowness of the implementation of reforms) could quickly run out.

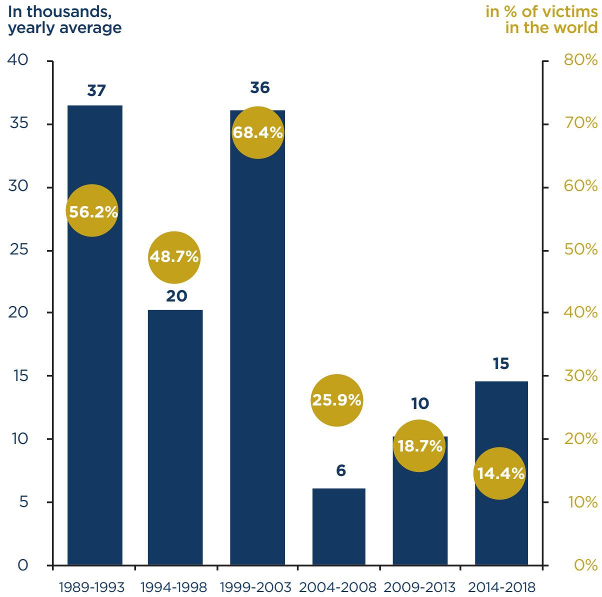
justifying the place of Nigeria, Mali, Chad and Niger as the countries with the highest conflict scores (Table 1).

In 2018, Egypt and Libya were also engaged in conflicts against IS. In addition, among the highest scores on the continent is also Cameroon, where clashes in the English-speaking regions between the army and the defence forces of the self-proclaimed Republic of Ambazonia intensified during an election year that saw President Paul Biya win a seventh term. In Sudan, the struggle between government forces and resistance movements in the conflict areas united within the Sudan Revolutionary Front continued in the country, and notably testifies to the still

Table 1:
Top 10 African countries with the highest conflict index score and their terrorism index scores

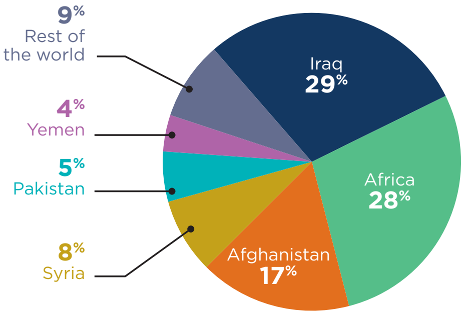
	Conflict index		Terrorism index	
Country	Score	Rank	Score	Rank
Libya	100%	1	74%	2
Central African Republic (CAR)	91%	2	57%	9
Democratic Republic of the Congo (DRC)	87%	3	65%	6
Nigeria	86%	4	84%	1
Mali	74%	5	66%	4
Cameroon	51%	6	58%	8
Sudan	45%	7	65%	5
Egypt	45%	8	73%	3
Ethiopia	45%	9	43%	14
Niger	43%	10	42%	15

Chart 3b:
Conflicts-related deaths in Africa



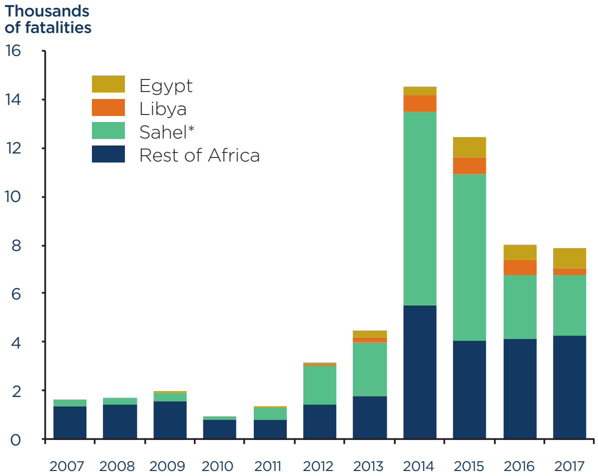
Source: Uppsala Conflict Data Program (UCDP), Coface

Chart 4a:
Terrorism-related deaths in the world



Sources: Global Terrorism Database, Coface

Chart 4b:
Terrorism-related deaths in Africa 2007-2017



*The Sahel countries include the countries involved in the G5 Sahel force (Burkina Faso, Mali, Mauritania, Niger, Chad), as well as Nigeria.

Sources: Global Terrorism Database, Coface

precarious security situation in Darfur.

In addition, with the increase in the number of organized non-governmental armed groups targeting civilian populations, the increase in the number of conflicts is concomitant with the increase in terrorist acts in Africa. It is therefore unsurprising that among the 25 countries with a conflict score above the minimum threshold of 0%, 24 also have a non-zero terrorism score (the exception being Eritrea).

The sharp increase in the number of conflicts on the continent since the beginning of the decade has been accompanied by an increase in the number of victims associated with them: as shown in Chart 3b, there were on average just under 15,000 victims in Africa per year, during the period 2014-2018, almost three times as many as between 2004 and 2008.

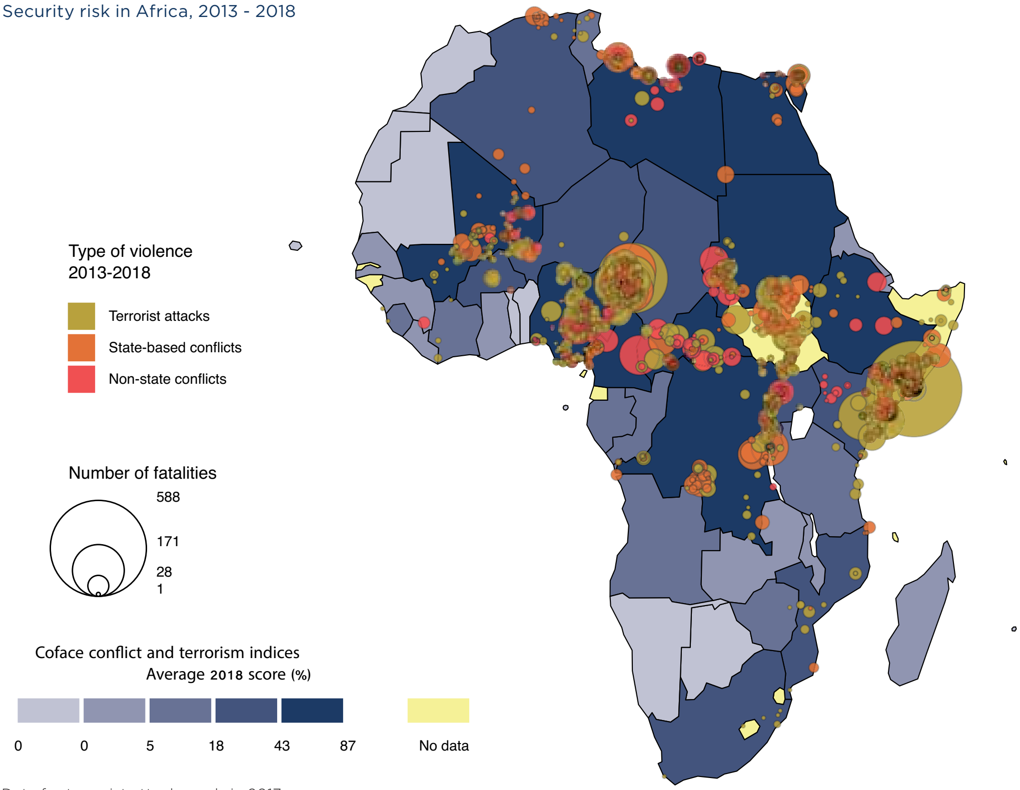
In contrast, the average number of deaths from conflict over the last fi ve years remains half that recorded in the 1990s, when it exceeded 30,000 deaths per year. At the same time, Africa's contribution to the record level of victims in global conflicts is weakening, dwarfed by the conflicts in Syria (23% of the world's conflict victims between 2014 and 2018) and Afghanistan (19%), which have proved more deadly than all conflicts combined in Africa.

In contrast, over the past fi ve years (2013-2017), more than 28% of terrorist victims have been killed on the African continent, an increase of 10 percentage points over the previous period. Nevertheless, again, a handful of countries – mainly in the Middle East (Iraq, Yemen, Syria) and South Asia (Afghanistan and Pakistan) – are far more aff ected by terrorism (Chart 4a).

In Africa, terrorist activity by Islamist groups dominates, particularly in conflict areas: in the Sahel[10], as well as in Libya and Egypt. Nearly 60% of the victims of terrorism in Africa are concentrated in these eight countries (Chart 4b). Kenya and Mozambique, with scores of 62% and 44% respectively, also rank in the first quartile of the riskiest countries in our index, mainly due to the activity of Islamist terrorist groups (al-Shabaab in Kenya and Ansar al-Sunna in Mozambique). Finally, in addition to Cameroon, which is particularly affected by Boko Haram's incursions into the Far North, the presence of CAR and DRC among the ten riskiest countries in our index provides additional examples of how conflict and terrorism regularly go hand in hand on the continent.

Map 1 highlights all these dynamics, and notably the high geographical concentration in a few risk areas. It also displays the insecurity in the Sahel (particularly in the Lake Chad region), the impact of the Somali security challenge on Kenya, and also the tensions in Kivu and the Kamwina Nsapu insurgency in the DRC. The map shows that conflicts on the African continent are generally relatively localised: an increase in conflicts does not necessarily imply an increase in the geographical extent of the conflict.

MAP 1:
Security risk in Africa, 2013 - 2018



Data for terrorist attacks ends in 2017.
Sources: Uppsala Conflict Data Program, Global Terrorism Database, Coface

In addition, the map highlights areas where risk is low. Southern African countries are mostly spared, with the notable exception of South Africa, where political assassination attempts drive up the score. More surprisingly, unlike its peers in the G5 Sahel force, Mauritania's score remains at 0%, having not experienced a terrorist attack on its territory since 2011. With a score of 1%, Morocco justifies its status as a "safe country" in the region[11].

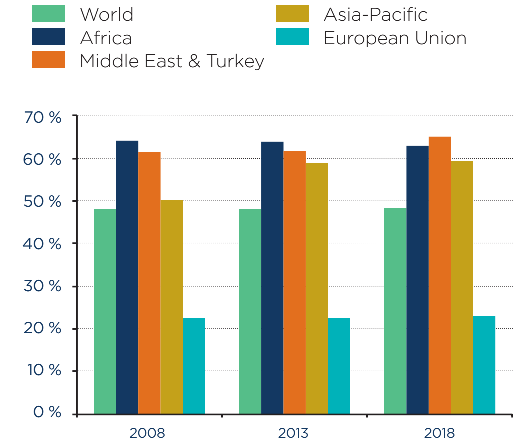
Although instructive, the risk indices of conflict and terrorism, based on past observation, offer only a vision of extreme episodes of violence. However, political risk is also about understanding the moments of disruption that lead to a profound change in a country's political structure.

High social risk, persistent fragilities: after the Algerian and Sudanese Springs, will tensions bloom in sub-Saharan Africa?

The Coface Political Risk model is based on the assumption that cracks in the foundations of the political system – which may be related to the nature of the regime, the design of institutions, the degree of political freedom and the cohesion of the population – expose a country to a risk of popular movement and/or destabilisation of the regime. While democratic practice, at least in its electoral dimension, has become widespread on the African continent since the early 1990s, some recent examples – starting with the DRC, Sudan and Algeria – show that it is not necessarily accompanied

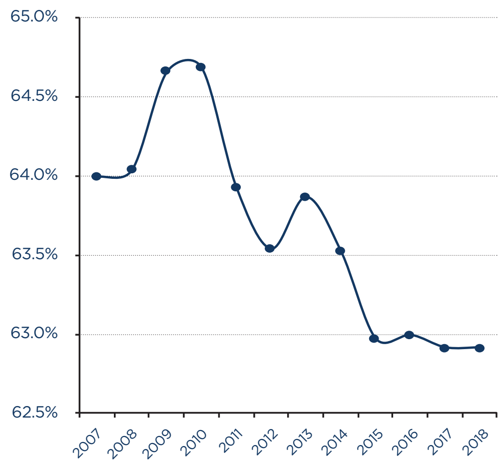
Although instructive, the risk indices of conflict and terrorism, based on past observation, offer only a vision of extreme episodes of violence. However, political risk is also about understanding the moments of disruption that lead to a profound change in a country's political structure.

Chart 5a:
Average score of Coface's fragility index, by selected region



Source: Coface

Chart 5b:
Evolution of the average fragility score in Africa



Source: Coface

by a solid political and institutional framework.

Furthermore, the Coface political fragility index indicates that the average score in Africa was 15 points higher than the world average. The African continent is only two points behind the Middle East (Chart 5a). This substantial difference with the rest of the world is rooted in relatively weak institutional environments in many countries on the continent, a sometimes limited political offer (despite the organisation of de jure multi-party elections), a limited space for expression, and an ethnic, linguistic and/or religious fractionalization of the population that may fuel political tensions. For example, in terms of these indicators, Eritrea stands out at the top of the 2018 ranking (Table 2).

In addition to the signifi cantly higher average, it can be noted that only six countries have a score below the world median (Botswana, Mauritius, Madagascar, Sao Tome and Principe, Cape Verde and Tunisia), indicating widespread fragility in Africa. Despite this relatively high level, it is also worth noting the near two-point improvement in the continent's average score between 2010 and 2018 (Chart 5b). This is the result of the significant improvement in some countries, particularly Côte d'Ivoire post-electoral crisis of 2010-2011 (from 97% to 65%), Tunisia post-revolution (from 45% to 16%) and Burkina Faso post-Compaoré (from 73% to 63%).

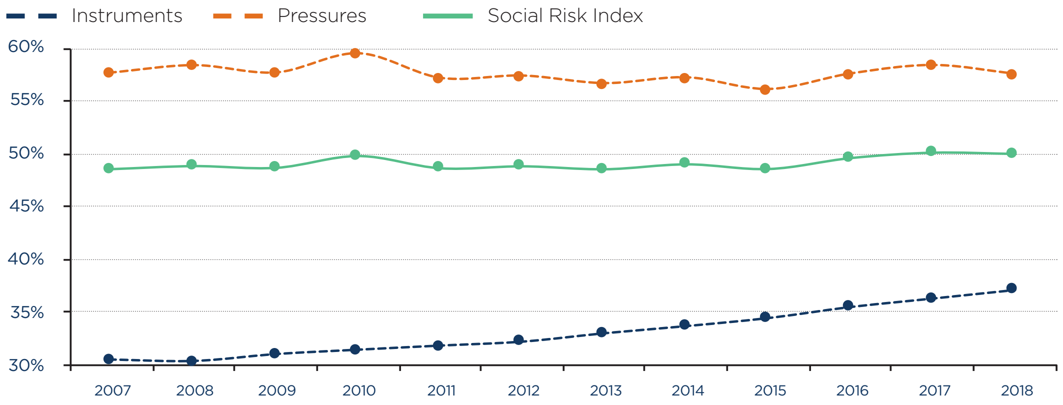
Nevertheless, as our study already indicated in 2017, these political weaknesses alone do not necessarily materialize in risk. The social risk indicator, which makes it possible to understand the emergence of popular movements, by linking pressures for change with instruments facilitating popular mobilisation, can be one of the triggering factors.

The recent Sudanese case illustrated, for instance, how this type of socio-economic pressure, under certain conditions, could turn into political change: the government's decision to triple bread prices in 2018 to cope with the economic crisis (collapse in the value of the currency, continued depletion of foreign exchange reserves and infl ation above 70%) was the trigger for the demonstrations that ended the 30-year rule of Omar al-Bashir. The Coface social risk indicator had, prior to the outbreak of this crisis, pointed out Sudan's vulnerability to this type of popular movement. In addition to having the second highest score, after Libya, the country also recorded an increase of nearly 9 points in this indicator (from 62% to

Table2:
Top 10 African countries with the highest fragility index score

	Fragility index	
Country	**Score**	**Rank**
Eritrea	91 %	1
Democratic Republic of the Congo (DRC)	88 %	2
Cameroon	87 %	3
Republic of the Congo	87 %	4
Chad	86 %	5
Ethiopia	85 %	6
Angola	82 %	7
Uganda	81 %	8
Central African Republic (CAR)	79 %	9
Gabon	78 %	10

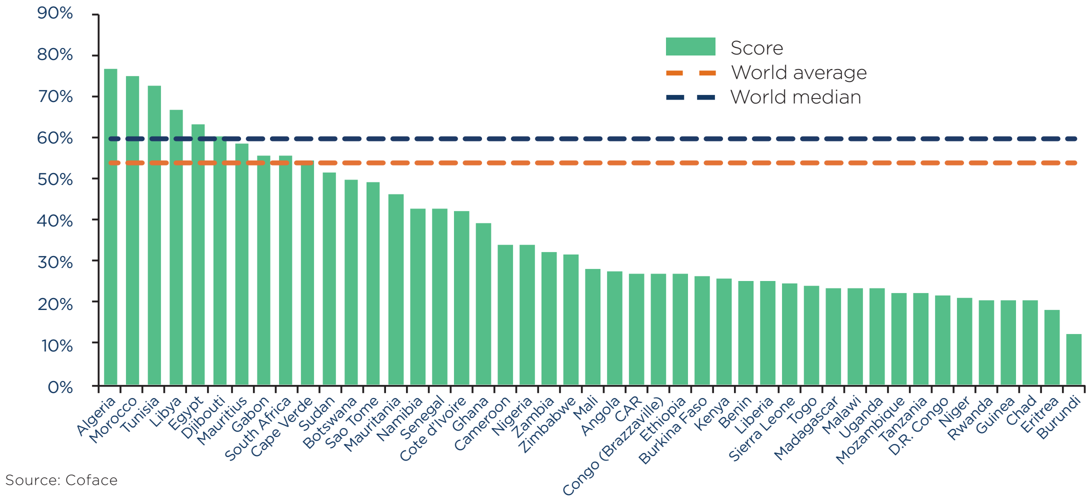
Chart 6:
Evolution of the average social risk index in Africa and its two constituent blocks, 2007-2018



Note: The social risk index is made up of two blocks: "Pressures" and "Instruments". The weight of these two blocks depends on the "Pressures" score. Indeed, it is believed that the greater the pressure of political instability, the more the instruments will promote an increase in political instability.

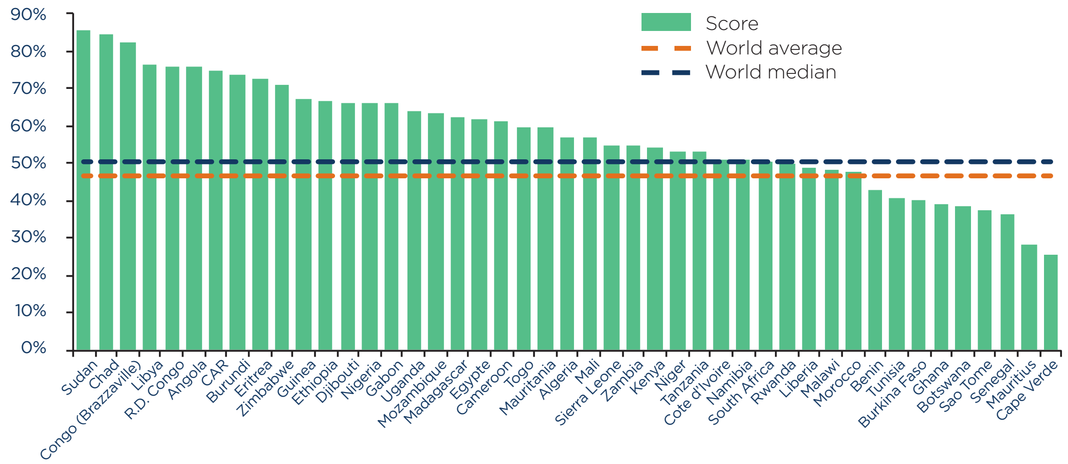
Source: Coface

Chart 7a:
Score of the "instrument" block of the Coface social risk index for African countries (2018)



Source: Coface

Chart 7b:
Score of the "pressures" block of the Coface social risk index for African countries (2018)



Source : Coface

71%) between 2008 and 2018.

More generally, in Africa, the social risk index is, on average, at its highest level since the 2010 peak, which preceded the popular movements of the "Arab Spring". However, unlike in 2010, it is also evident that the instruments of mobilisation, much more than the pressures for change, are experiencing an almost uninterrupted acceleration (Chart 6).

In terms of country-by-country data, almost all countries on the continent, with the exception of Eritrea, Libya and Chad, have seen their mobilisation instrument scores increase. For example, Djibouti experienced an increase of 20 percentage points between 2008 and 2018, Ghana by 15, South Africa by 12, and Cameroon by 11. While most indicators contribute to this increase in the power of mobilisation instruments on the continent, the increase in internet access can be particularly noted. Indeed, recent events in Algeria and Sudan have further highlighted the importance of social networks in mobilising people.

Moreover, as recent examples show (DRC, Gabon, Sudan, Benin...), some governments, arguing the need to preserve public order, decide to cut off the internet when the political climate becomes tense. Urbanisation and the growing proportion of the population with access to tertiary education are also contributing to the overall increase in instrument scores on the continent.

Unsurprisingly, the ranking of the block of mobilisation instruments is dominated over the 11 years of observation by the five North African countries (Algeria, Egypt, Libya, Morocco and Tunisia). In sub-Saharan Africa, despite the progress recorded, only Mauritius, Cape Verde, Gabon and South Africa have "instrument" scores above the world average (Chart 7a) for this indicator. On the other hand, 80% of the 45 countries on the continent have "pressure" scores above the average of global pressures (Chart 7b).

Thus, it would be this lack of mobilization instruments that would essentially be at the root of a social risk that would not systematically materialize in sub-Saharan Africa. Nevertheless, the progress made in this area could be enough to create some unrest. The Top 10 countries in our global social risk indicator already highlight many of the countries where risk has already materialized: in addition to Sudan, mentioned above, the demonstrations calling for a change in the political class in Algeria, those following the rise in fuel prices in Zimbabwe and the attempted coup d'état in Gabon are evidence that the high risk level of our index can transform into destabilisation. It is therefore not surprising that the overall social risk indicator is still largely dominated by these countries (Table 3). Libya remains in first place on the African continent, as it has done since 2007.

More than eight years after Muammar Gaddafi 's fall, socio-economic conditions remain precarious, fuelled by the political and security instability that has plagued the country since then. Despite the overthrows of Hosni Mubarak in 2011 and Mohamed Morsi in 2013, Egypt's score also remains at a high level. The stabilisation of the economic situation since 2016 and the start of the IMF programme have not particularly eased the pressures, which remain at a level similar to that reached in 2009 and 2010. Difficulties of access to the labour market and high inflation are some of the potential elements of exasperation towards an executive power that should be part of the long term, particularly after the constitutional revision, adopted by referendum (last April), which extended President Abdel Fattah al-Sissi's mandate and will allow him to run for a third term in 2024.

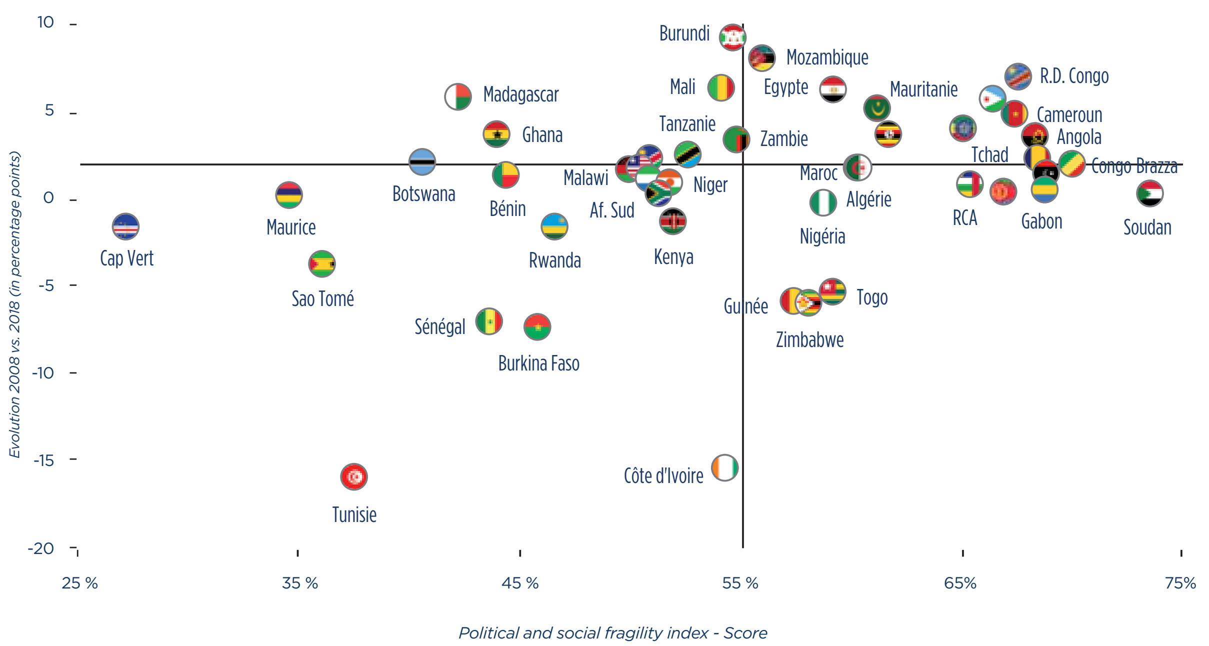
Nevertheless, beyond identifying countries where the risk has already occurred, the political and social fragility index which combines the scores of the two indices described above, can potentially indicate which countries to monitor in the near future. To identify these countries, we used two criteria:

1) an above-average political and social fragility score in Africa in 2018 (55%);

Table 3:
Top 10 African countries with the highest social risk index score with the score of the two constituent blocks "pressures" and "instruments".

	Social risk index		Pressures		Instruments	
Country	**Score**	**Rank**	**Score**	**Rank**	**Score**	**Rank**
Libya	73%	1	76%	4	67%	4
Sudan	71%	2	86%	1	51%	11
Djibouti	64%	3	66%	13	61%	6
Algeria	63%	4	57%	23	77%	1
Gabon	62%	5	66%	15	56%	8
Egypt	62%	6	62%	19	63%	5
Angola	59%	7	82%	4	27%	24
Congo	59%	8	82%	6	27%	26
Zimbabwe	59%	9	76%	10	32%	22
Chad	57%	10	84%	2	20%	43

Chart 8:
Matrix of scores for the social and political fragility index and its evolution (vertical axis) 2008-2018



Source : Coface

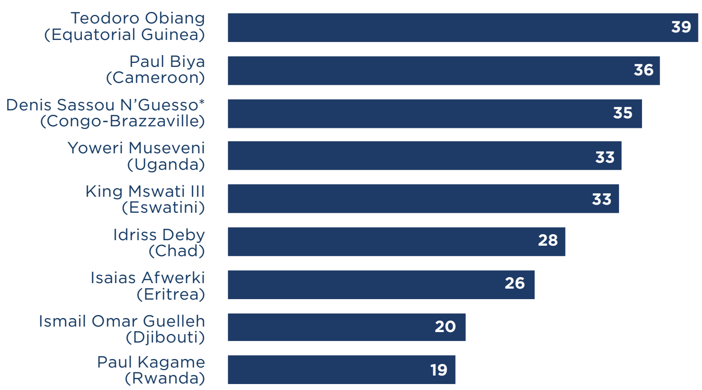
2) a score that increased by at least two percentage points between 2008 and 2018

The ten countries identified, which are in the top right-hand quarter of Chart 8, are: Angola, Cameroon, Chad, Djibouti, Egypt, Ethiopia, Mauritania, Mozambique, Uganda and the DRC. Some of these countries have already experienced major changes. In addition to Egypt, mentioned above, Angola and Ethiopia, which experienced a change of executive in 2017 and 2018 respectively, are still in our category of countries to watch.

Despite the reforms undertaken by President João Lourenço (Angola) and Prime Minister Abiy Ahmed (Ethiopia), the economic crisis following the fall in oil prices in Angola and the persistence of the ethno-socio-political tensions that had already led to Hailemariam Desalegn's departure in Ethiopia maintain a high level of risk. Following chaotic elections, which saw Felix Tshisekedi succeed Joseph Kabila, the DRC also remains in this category. However, accusations of fraud in the elections, as well as the victory of Mr Kabila's party in the parliamentary elections, fuel suspicion that the former president continues to lead one of the world's poorest countries in the shadows.

Cameroon must also be monitored, as Paul Biya's reappointment for a seventh consecutive term in office comes in a context

Chart 9:
Longest rulers on the African continent (in number of years in power, as of 30 June)



* Denis Sassou N'Guesso has been in power without interruption since 1997 after having been head of state between 1979 and 1992

Source: Coface

of increasing fragmentation of the country, linked in particular to the crisis in the English-speaking regions, and socio-economic conditions that remain precarious for a large part of the population. Finally, the presence of Djibouti, Chad and Uganda, which have in common with Cameroon to be governed by leaders whose longevity is the highest on the continent (Chart 9), should also be noted.

Mozambique will need to be followed closely in the coming months, with general elections expected in October. After contentious municipal elections in

2018, tensions remain high between the Mozambique Liberation Front (Frelimo), in power since 1975, and the Mozambique National Resistance (Renamo), an armed guerilla that has become a political party, threatening the peace process launched in 2016. The history of violence in the country, coupled with persistent socioeconomic difficulties (following, in particular, the debt crisis and the passage of two cyclones at the beginning of the year) and the perception of rampant corruption fuel a discontent that could be expressed during these elections. It should be noted that the countries in the lower right-hand corner of Chart 8, i.e. those with high scores but no progress, have experienced episodes of political instability in the recent past.

This is the case for Algeria and Sudan, as discussed above, but also for Gabon and Nigeria. Even countries with a decline over these 10 years but a score above the African average have distinguished themselves in terms of political instability. In Togo, demonstrations challenging a constitutional reform that would allow President Faure Gnassingbé to run for two new terms in 2020 and 2025 have increased in recent years. In this category, Zimbabwe can also be added.

In the upper left corner are the countries whose scores have increased substantially, but remain below average: in Mali, security tensions could put pressure on the local political climate. In Tanzania and Zambia, voices denouncing the authoritarian shifts in the administrations of Presidents John Magufuli and Edgar Lungu testify to this fragility.

Finally, it is worth noting the countries that have slipped in the lower right-hand corner of the matrix in this graph. Tunisia and Côte d'Ivoire recorded the largest decline in their scores over the period. The Tunisian revolution of 2011 and the Ivorian crisis of 2010-2011 made it possible to deflate the fragility scores, contributing greatly to this dynamic. The same is true for Burkina Faso after the attempted coup in 2015.

The elections, to be held in 2019 and 2020 respectively in Tunisia and Côte d'Ivoire, should nevertheless put to the test the consolidation of the legacy of these political crises. ■

Notes

1 DAUDIER, J.-L., NIZARD, R. & TOZY, S., March 2017. "The rise and rise of political risks", Panorama Coface. URL: https://www.coface.com/News-Publications/Publications/The-rise-and-rise-of-political-risks

2 The definition of conflict used in this study is based on the Uppsala Conflict Data Program databases, in order to include armed confrontations between two factions, groups and/or states. Unlike the definition of international law, the Uppsala definition incorporates armed conflicts between two non-governmental groups. Unilateral acts of violence were excluded to avoid double measurement of terrorist acts, which were also measured using another database (Global Terrorism Database).

3 This threshold corresponds approximately to 1.5 times the median number of victims of conflict between 1989 and 2018.

4 The definition of terrorism used is based on that of the Global Terrorism Database project, which is used to calculate the terrorism index. A terrorist act is "the threat or effective use of unlawful force and violence by a non-state actor to achieve a political, economic, religious or social objective through fear, coercion or intimidation."

5 For conflicts, these are the databases compiled by the Uppsala Conflict Data Program (UCDP). For terrorism, the database built by the Global Terrorism Database initiative is used.

6 The measurement of social risk was improved in 2017, but was developed in 2013. See MARCILLY, J., ZLOTOWSKI, Y. March 2013. "Emerging political risk transformations", Panorama Coface. URL: https://www.coface.fr/Actualites-Publications/Publications/Transformations-du-risque-pays-emergent.

7 Le Projet Manifesto, financed by Deutsche Forschungsgemeinschaft, is hosted by Wissenschaftszentrum Berlin für Social research (Volkens, Lehmann, Matthiess, Merz, Regel) (https://manifesto-project.wzb.eu).

8 Only South Africa has an assessment for populism on the African continent.

9 The following nine countries do not have an assessment: Comoros, Eswatini, Gambia, Guinea-Bissau, Equatorial Guinea, Lesotho, Seychelles, Somalia and Southern Sudan.

10 The countries considered as from the Sahel are the countries involved in the G5 Sahel force (Burkina Faso, Niger, Mali, Mauritania and Chad) and Nigeria.

11 Spared by jihadist attacks since 2011, Morocco could nevertheless see its score increase in the next edition of the terrorist risk index after the death of two Scandinavian tourists in the High Atlas in the name of IS last December.

The increase of insolvency proceedings as a result of Argentina's current economic crisis

By Chanan Hertzberger, CEO, International Advisers

"There are four kinds of countries in the world: developed countries, undeveloped countries, Japan and Argentina." [1]

Argentina, Latin America's third-largest economy, is again in the spotlight. An increasingly serious financial crisis and political instability has negatively impacted the country's economy resulting in the increase of delay in payments and bankruptcy.

Another elongated crisis

Argentina is no stranger to financial crises. In fact, Argentina has faced several of them. Some of the most severe financial crashes have taken place in the past 25 years.

Further, the outcome of the Primary Presidential Election,[2] which resulted in a victory of the Peronism party,[3] triggered the deterioration of all economic indicators:

- the Stock Exchange fell 72%;[4]
- the Argentinian Peso depreciated 38%;[5] and
- the country's inflation has been out of control. Although there are no official figures, it is estimated that the annual inflation is at around 60%.[6]

Chanan Hertzberger

Current economic meassures

In an attempt to stabilise the current situation, on August 1, 2019, the Argentinean Government imposed several currency restrictions. These restrictions were of immediate application, from the next day until December 31, 2019.[7]

In general terms, different sources[8] claim that the restriction applies to all exporters who receive payments in dollars of the United States of America. Exporters will have to sell in the local market the currencies resulting from their exports within a maximum period of five business days after receiving the payment or one hundred and eighty days after the boarding permit.

Furthermore, importers expect to be restricted in buying foreign currency and in being able to wire funds abroad.

Argentina, Latin America's third-largest economy, is again in the spotlight. An increasingly serious financial crisis and political instability has negatively impacted the country's economy resulting in the increase of delay in payments and bankruptcy.

Consequently, the country's internal economic activity has been strongly affected. Mainly regarding the repayment possibilities of credits and suppliers within the industrial and commercial sector.

Based on the current situation, for outstanding payments, the local importers must purchase the corresponding foreign currency, for a much higher number of Argentinian Pesos. It is therefore expected that additional restrictions will be implemented soon. This will, most likely, lead to many unpaid international invoices.

Moreover, for payment of new transactions, Argentinian importers do not have a clear understanding on how these measures will impact international trade. Upon the date on which this article was written, the exact terms of the restrictions have not been cleared by the Government or the Central Bank. Therefore, we can expect new guidelines to become available anytime soon.

Insolvency in Argentina

As a consequence of the current economic crisis in Argentina, the number of insolvencies will rise in the upcoming months. Recent statistics have already shown a considerable increase in the number of companies that have filed for insolvency proceedings, namely reorganization or bankruptcy.[9]

Unlike other jurisdictions, Argentinean Bankruptcy Law states that a reorganization or bankruptcy procedure can only commence when a Court renders a judgement declaring that a company is subject to reorganization or to liquidation.

The Argentinean Bankruptcy Law No 24.522 applies to legal entities and physical persons. There are, however, certain exceptions in the case of financial institutions and some differences with respect to public utilities and insurance companies.

The Law sets forth three main insolvency proceedings:

a) Reorganization Proceedings ("*Concurso Preventivo*");
b) Out of Court Agreements or Workouts ("*Acuerdo Preventivo Extrajudicial*");
c) Bankruptcy Proceedings ("*Quiebra*").

Reorganization Proceedings ("*Concurso Preventivo*")

A reorganization proceeding is a remedy by which a company obtains financial relief through a judicially supervised reorganization proposal made to its creditors. The prerequisite for filling the reorganization proceedings is the status of cessation of payments of debts on a general and regular basis. Under Argentinean Law, only the company may seek a reorganization proceeding.

Upon the declaration of commencement of the reorganization proceeding, the Court will (i) appoint a trustee; (ii) determine the due date for submitting creditors' proof of claim; (iii) establish the date in which the trustee must submit an individual report recommending unsecured creditors' claim; (iv) the date to submit a general report as well the date the company must present its reorganization plan.

Essentially, the initiation of the reorganization proceedings results in: (i) the company keeps the administration of the company's assets under the supervision of the trustee; (ii) the company may not dispose of its assets for no valuable consideration or affecting or modifying creditors' condition; (iii) in principle, all existing lawsuits against the company, at the time of the filing for the reorganization petition, will be suspended and, must be forwarded to the Court intervening in the reorganization proceedings; and (iv) no new lawsuits for collection of debts incurred before filling for reorganization may be filed against the company, instead, creditors must issue their claims to the trustee.

Particular importance has to be given to the proof of claim supporting the existence and legitimacy of each credit that creditors must file with the trustee. The trustee is responsible for giving a grounded opinion to the Court regarding each claim received

Unlike other jurisdictions, Argentinean Bankruptcy Law states that a reorganization or bankruptcy procedure can only commence when a Court renders a judgement declaring that a company is subject to reorganization or to liquidation.

While it is always important to ask for a local legal advice, in advance, bear on mind that, in order to file a claim, a foreign creditor is recommended to comply with several formal requirements. Including the issuance of an enforceable power of attorney.

in order to be considered as part of the reorganization liabilities. Subsequently, the Court will determine the admissibility of each claim and the company must submit a proposal to rank the admitted creditors, based upon (i) the value of their claims; (ii) the existence of security interests; and, (iii) the nature and cause of the claims.

The proposal must, at least, set out three categories: (i) unsecured commercial creditors; (ii) unsecured labor creditors; and (iii) secured creditors.

A reorganization proposal may include any variety of all available payment alternatives,[10] provided that the proposal (i) must not discriminate other creditors within the same category; and (ii) it must not be abusive towards other creditors' rights. The same proposal must be made to each and all creditors within the same category. However, different proposals can be made to different categories of creditors.

Upon the submission of the proposal to the admitted creditors, the company shall attain the creditor's approval. The proposal is to be considered approved, once the company has obtained the affirmative vote of the majority of creditors within each and every creditor's category that represents two-thirds of the total outstanding indebtedness in each category.

Out of Court Agreement or Workout ("*Acuerdo Preventivo Extrajudicial*")

The Out of Court Agreement is an instrument that does not require the company's status of cessation of payments as a precondition. This agreement allows the company to restructure its debts at the start of the company's financial difficulties, prior to reaching an insolvency situation and constitutes a preventive and private restructuring instrument.

Additionally, other differences with the Reorganization Proceeding are: (i) the procedure is not entirely judicial as it is negotiated out of Court; (ii) the company is no subject to limitations in the administration of its business; (iii) interest is not automatically stayed; and, (iv) judicial authorization is not required to agree on all aspects of the mentioned Agreement.

To request the Court's approval and make the Out of Court Agreement enforceable this Agreement must be executed by the majority of creditors representing two-thirds of the company's unsecured debts.

Bankruptcy Proceeding ("*Quiebra*")

A bankruptcy proceeding essentially refers to the liquidation of assets to pay off the relevant debts. A bankruptcy proceeding is available after (i) the failure of a reorganization proceeding; (ii) if the company voluntarily seeks bankruptcy: (iii) upon request of at least one creditor providing summary evidence of its claim and the signs of the payment's cessation.

Unlike a reorganization proceeding, the company is removed from the administration of its assets and it is the trustee who assumes such administration.

The initiation of the bankruptcy procedure also has the following effects: (i) all payments that should be made to the company, should be done through the Court; (ii) all claims and proceedings against the company are automatically stayed; (iii)c) the creditors must submit their claims to the trustee with supporting evidence thereof; and, (iv) all pending claims become due as of the bankruptcy award date.

Since the company loses possession of its assets, the trustee is entitled to foreclose the company's assets in order to pay admitted creditors with the sale proceeds. Upon auction of all the company's assets, the trustee must file a report detailing the auction proceeds and a plan for a final distribution among the registered creditors bearing in mind the preferences set forth in the Law.

In Argentina, it is usual that the workers obtain the Court's approval to incorporate a worker's partnership ("*cooperativa de trabajo*"). This, aiming to keep the business running.

The financial tension in Argentina has all its businesses on the edge. It is not clear how would the economic measures, recently ordered by the Government, affect their daily activities. Furthermore, the uncertainty created by the Government's lack of clear guidelines has slowed down all activities.

What to do as a foreign creditor?

Due to the current situation, it is expected that the number of companies filling for reorganization or bankruptcy proceedings will increase.

Therefore, for foreign creditors, it is strongly recommended to closely monitor the financial and legal status of Argentinian companies. This in order to submit properly submit claims during the insolvency procedure, if applicable.

While it is always important to ask for a local legal advice, in advance, bear on mind that, in order to file a claim, a foreign creditor is recommended to comply with several formal requirements. Including the issuance of an enforceable power of attorney. Other relevant documents are those which prove the trade, including but not limited to:11 (i) agreements; (ii) contracts; (iii) invoices; and, (iv) bill of lading.12 Further, it is mandatory to provide the court with a particular legal opinion called Reciprocity Opinion.13

With regards to how long would these proceedings take, it would largely depend on the facts of each case. Nevertheless, in general terms, one can expect to have a repayment schedule within 12 to 18 months after the claim was filled.

Closing remarks

The financial tension in Argentina has all its businesses on the edge. It is not clear how would the economic measures, recently ordered by the Government, affect their daily activities. Furthermore, the uncertainty created by the Government's lack of clear guidelines has slowed down all activities.

We must remain attentive to the changes. We expect regulations and directives to be issued and amended on daily basis.

Notes

1 Simon Smith Kuznets, 1971 Nobel Memorial Prize in Economic Sciences.
2 Held on 12.08.2019
3 Former president Nestor Kirchner and Cristina Fernandez de Kirschner were members of this pollical party.
4 The horrible August of Argentina. Article available online in Spanish at: https://elpais.com/internacional/2019/08/31/argentina/1567274669_871254.html. Visited on 09.09.2019.
5 Idem.
6 Idem.
7 As the government has failed to provide any guidelines, until the date this article was written (9.9.2019), there are many speculations on the terms of these restrictions.
On 01.09.2019 the Central Bank of Argentina has only issued one directive with regards to whom is entitled to purchase any foreign currency.
8 Further information available at:
- https://www.bloomberg.com/news/articles/2019-09-01/argentina-imposes-currency-controls-as-debt-crisis-escalates
- https://www.bbc.com/news/business-49547189
- https://www.batimes.com.ar/news/argentina/argentina-returns-to-capital-controls-as-macri-fights-to-survive.phtml
- https://www.ft.com/content/2387309c-cce9-11e9-99a4-b5ded7a7fe3fhttps://www.latercera.com/pulso/noticia/gobierno-argentina-impone-restricciones-cambiarias-frenar-la-escalada-del-dolar-la-fuga-divisas/805638/
- https://www.france24.com/es/20190902-argentina-controles-compra-divisas-exterior
Visited on 09.09.2019.
9 According to Centro de Economía Política Argentina (CEPA) reorganization proceedings and bankruptcy proceedings increases 16 % during the first quarter of 2019 in comparison with the same period of 2018 in Córdoba, Buenos Aires provinces and Buenos Aires city.
Information available in Spanish at https://centrocepa.com.ar/informes/221-evolucion-de-los-procedimientos-preventivos-concurso-de-acreedores-y-quiebras-cuantificacion-y-analisis-en-la-provincia-de-cordoba-ciudad-de-buenos-aires-y-provincia-de-buenos-aires.html. Visited on 09.09.2019.
10 The proposal for payment may consist of, among others, (i) a discount, (ii) a refinancing of the debts, or (iii) a combination of both; (iv) the transfer of assets or property to the creditors; (v) the incorporation of a company jointly with the unsecured creditors; (v) the restructuring of company's business structure.
11 Hence, it is also important to consider that Argentina has a federal organization in which the provinces and Buenos Aires city have their own local procedural codes and a local justice organization. In most of the cases, creditors can look for information about a reorganization or bankruptcy procedure, but for the moment this is not possible in all the local jurisdictions
12 All these documents must be sworn translated to Spanish by a court certified translator.
13 Law 24.522, Art. 4.

Supporting trade between Central & Eastern Europe and the CIS: realities and prospects

By Denis Ivanov, Chairman, International Bank for Economic Co-operation (IBEC)

Trade finance is one of the most important tools to support and develop foreign trade relations. More than 80% of world trade is financed by various types of loans. However, recent years have proved to be quite difficult for financial institutions specializing in trade finance. The decline in business activity caused by rising costs due to increased trade barriers between the major economies, the lack of certainty about the rules and terms of trade in the future, as well as tightening of sanctions policy of a number of states, led to a slowdown in the growth of international trade. According to the World Bank's forecasts, in 2019 the growth rate of international trade will be limited to 2.6%, the lowest level since the global financial crisis, which will certainly lead to a reduction in cash flows generated by banks in the field of trade finance.

The dynamics of foreign trade in Central and Eastern Europe (CEE), as well as the CIS countries are broadly consistent with global trends (see Figure 2). One of the main factors that has a negative impact on trade (primarily exports) in the region is the prolonged decline in economic activity in the EU, which is the largest importer in the territory. Over the past year and a half, economic conditions have especially deteriorated in the industrial sector, reflecting the downward trend in the business activity index (see Figure 1), which since February 2019 has been consistently below 50, and in July reached the lowest since 2012 value of 46.6. The number of new export orders since the beginning of the year also remains below the level required to overcome the slowdown in the dynamics of foreign trade.


Denis Ivanov

Additionally, no less important a reason for the decline in cross-border trade in the region is the difficult economic situation in Russia, accompanied by a decrease in industrial production and trade, aggravated by sanctions pressure. According to the latest statistics in the first half of 2019, Russia's foreign trade turnover decreased by 3% compared to the same period the previous year. The reduction in foreign trade turnover is mainly due to a decrease in exports, as imports began to decline slightly only in April 2019. Since the main component of Russian exports is traditionally energy resources (about 65% of all exports), its dynamics are largely correlated with changes in world prices for fuel and energy resources.

As Russia is the key trading partner for all other CIS countries, the economic downturn and stagnation in the Russian economy hampered the expansion of trade within the Commonwealth. Thus, the weak consumer demand observed in Russia, especially strongly affects the CIS countries, whose exports are focused on the Russian market.

In this regard, the observed deterioration of the global oil market has led to a reduction in exports. Other countries where commodity exports are dominated by energy resources (Azerbaijan, Kazakhstan) faced a similar problem.

As Russia is the key trading partner for all other CIS countries, the economic downturn and stagnation in the Russian economy hampered the expansion of trade within the Commonwealth. Thus, the weak consumer demand observed in Russia, especially strongly affects the CIS countries, whose exports are focused on the Russian market. First of all, this is true for Belarus. After falling by more than 25% in 2015, the volume of exports in this country, despite positive dynamics in the last two years, did not reach the 'pre-crisis' levels (see Figure 3).

In relation to IBEC member states from the CEE (Bulgaria, Czechia, Poland, Slovakia, Romania), the CIS countries account for a significant share of their foreign trade turnover (see Figure 4). One of the factors reducing the share of CIS countries in the foreign trade of these IBEC member states in 2014-2016 was weakening and a partial destruction of trade relations between European countries and Russia as the result of EU sanction restrictions and retaliatory measures on Russia's part, which directly affected bilateral trade relations. Another factor is the economic downturn in Russia, which began in 2014 against the background of EU sanctions, and in connection with falling prices in the world energy market and aggravation of structural problems in the economy. As a matter of fact, Russia is the most significant partner for these countries in the post-Soviet geography, both in exports and imports (with the exception of Romania in which most of imports from the CIS countries count for Moldova).

However, despite the fact that the volume of trade between the CIS and CEE countries is still below the 'pre-crisis' level, it is worth noting that in the last two years there has been a gradual recovery. By the end of 2018, the CIS countries on average accounted for about 6% (or about $80 billion) of foreign trade of the five CEE countries (a little more than 8% back in 2014).

The commodity structure of IBEC's European member states' exports to the CIS countries is dominated by vehicles, machinery and electrical equipment, as well as products of pharmaceutical industry. Reciprocally, imports from the Commonwealth countries mainly consist of commodities: mineral products (ores, slags, mineral fuels and oil), ferrous metals, timber and articles thereof and, to a lesser extent, engineering products.

In general, it is worth noting that between Europe and the countries on the former Soviet Union's territory there are quite strong

Figure 1: PMI Manufacturing, SA

Figure 2A: Exports of goods, percent change

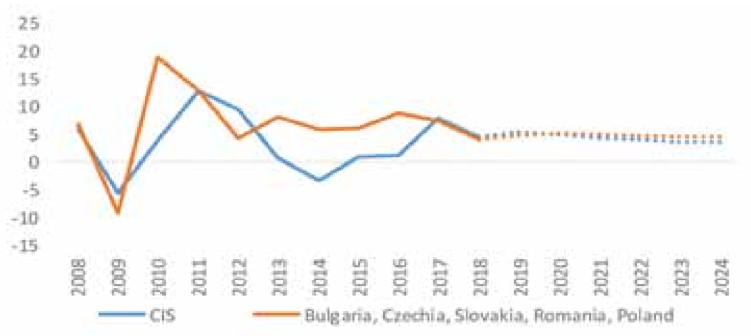
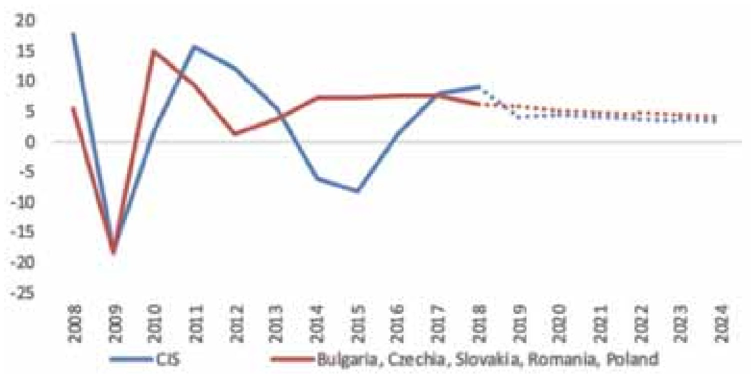


Figure 2B: Imports of goods, percent change



EXPERT ANALYSIS

foreign trade relations based on the objective prerequisites of geographical proximity and sufficiently high trade complementarity. In this regard, a logical and promising solution is the development of a new EU strategy for cooperation with the countries of Central Asia (including the CIS countries – Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan), aimed, among other things, at expanding regional trade. Mutually, Europe is also a region of strategic interest for the post-Soviet countries. In recent years, a number of partnership and cooperation agreements have been signed between the EU and the CIS countries, which also affect creation of conditions for strengthening trade relations (reducing trade barriers, both tariff and non-tariff). The said is a true sign of a new, post-bipolar format in international trade relations.

All this suggests that despite the observed sluggish trade dynamics between CEE and CIS, largely due to the global slowdown of the world economy and a decline in business activity, the prospect for development of trade cooperation between the two regions is quite significant and can be pursued as a mid-term strategy.

The geographical axis of IBEC's operations may be referred to as a 'West-to-East Bridge', including the European Union, the Eurasian Economic Union and the CIS.

This is especially true with respect to Vietnam's signing of a Free Trade Agreement with the Eurasian Economic Union (EAEU) – Vietnam is a longstanding member state of IBEC. As a result, from a base of close to zero, Russian FDI into Vietnam has reached approximately $10 billion in just two years. As Mr. Trinh Dinh Dung, Vietnam's Deputy Prime Minister, recently stated, Vietnam stands ready to work as a bridge to help Russia, as well as the EAEU, expand ties with the Association of Southeast Asian Nations (ASEAN), towards a trade and investment agreement between the two regions, following a memorandum of understanding on economic collaboration between the Association and the Union signed on 14 November, 2018.

Moreover, on 25 October 2019 the Republic of Serbia (which borders with two current IBEC member states from the EU – Romania and Bulgaria) plans to sign a free trade agreement with the EAEU following a recent signing of a Belt & Road MoU with China. In addition, last year China signed an FTA with the EAEU.

All this makes the EAEU (a trade union that includes Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia, a combined market with over 182 million consumers and an annual GDP of more than $1.9 trillion) a new global trade player noticeably forming post-bipolar trade routes.

In this respect, the role of interregional multilateral institutions, such as IBEC, is overwhelming, especially if we consider co-operation between partners with different paces of economic development.

The main strengths of regional multilateral development banks (MDBs) are widely acknowledged, namely:

- supranational status and possession of immunities;
- association of shareholders for the purpose of maintaining existing or establishing new economic relations, including those due to regional and cultural prerequisites;
- ability to accumulate resources and competencies of several member countries;

Figure 3: Exports of Belarus, US$ (billion)

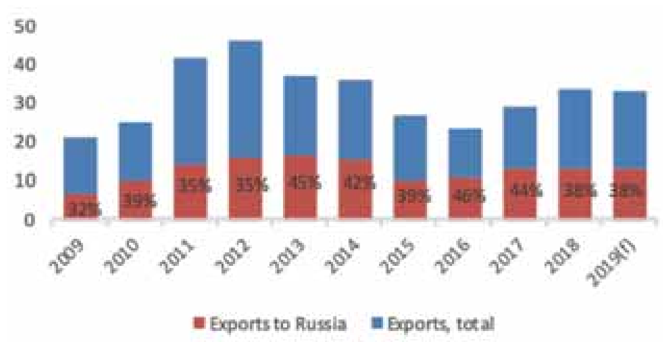
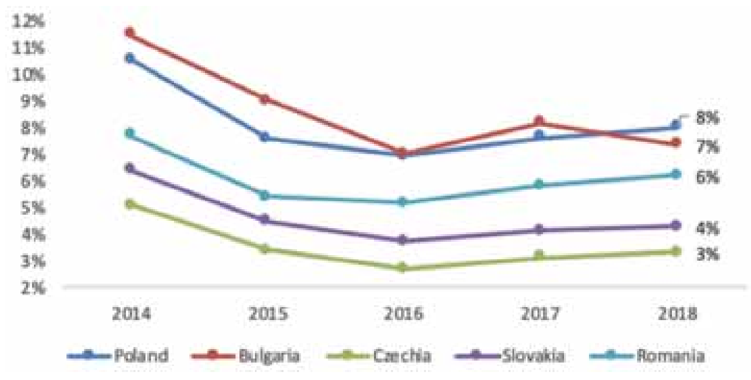


Figure 4: Share of CIS countries (inc. Russia in IBEC members' foreign trade



- tax preferences in its member countries;
- relatively small shareholder structure and efficiency in decision-making.

Interregional MDBs are not only a platform for identifying the intersection of mutual foreign trade interests, but also an effective tool for the subsequent targeted support of multinational export-import projects within their mandate. Particularly when the impetus for development can be obtained by many combinations of trade and integration initiatives involving several countries from among their shareholders: both within the 'membership area' and outside the geography of the institution.

IBEC has a rare mandate for MDBs since the main focus of the business model of the bank is concentrated on the support of trade operations and settlement, as evidenced by the absolute interest of the shareholders as well as by interest on the part of the relevant customer segments. At the same time, the bank can carry out project financing operations, participate in syndicated transactions, and conduct treasury operations with counterparties of all member states of the bank, using the attributes of an international development institution, having an international rating of the investment level and being beyond sovereign economic sanctions.

In the near future, the bank plans to become a support center for trade finance programs and expand the range of operations: factoring, forfaiting, and providing guarantees and letters of credit for corporate clients and financial institutions of the member states and third countries.

The task of stimulating export-import operations is certainly in the focus of the national strategic interests of the IBEC member states. National development strategies allow for the formation of an institutional environment that stimulates export-import operations.

Thus, IBEC actively pursues trade co-operation development and finance between its EU (CEE) member states, EAEU and CIS countries.

In co-operation with Belarusian banks IBEC provides a wide range of trade finance instruments for bilateral transactions between EU member states and Belarusian counterparties, developing non-resource exports (supply of equipment, products for the further production of high-tech products etc.). In 2019, a number of Mongolian-Kazakhstan transactions involving the supply of electronic products have been implemented. In addition, IBEC has already established credit limits for banks in Armenia, Kazakhstan and Uzbekistan.

In the environment of insufficient or non-existing limits of EU banks for CIS banks, IBEC can effectively use risk sharing mechanisms to support exports to the CIS countries utilizing a network of its own counterparty banks' limits.

IBEC also plans participation in syndicated financing of CIS and EAEU financial institutions (to support their foreign economic activity with IBEC CEE member states), as well as the financing of the establishment of joint ventures between member states' trading partners.

It is obvious that international trade of a new, post-bipolar format is in an active phase of development. While 'traditional' trade finance routes experience numerous shocks, multipolar, regional and sub-regional markets are teeming with ideas and infrastructure projects, establishing local, binational and regional contacts, simplifying mechanisms of economic interaction, striving for transparency and unrestrained cross-border trade, and wishing to eliminate unnecessary and often outdated customs and other regulatory barriers.

Sub-regional development banks are actually ready to act as new transparent and comfortable trading platforms for the post-bipolar world economy, of which the CEE-EAEU-CIS link is one of the most promising routes. ■

In co-operation with Belarusian banks IBEC provides a wide range of trade finance instruments for bilateral transactions between EU member states and Belarusian counterparties, developing non-resource exports (supply of equipment, products for the further production of high-tech products etc.).

India's solar industry – preparing for the future

By Mr. M. Senthilnathan, Executive Director, ECGC Ltd

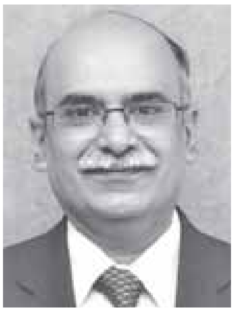
The world has been heavily dependent on fossil fuels for its energy requirements and they have been consumed at an increasing rate over the last few decades. The rising population, growing demand for energy and declining environmental quality contributed mainly by the conventional energy sources has directed the world attention and efforts towards renewable sources of energy, its development, and optimum utilization. Solar energy as a source of dependable energy has been an important area of focus for the developed and the developing world.

Energy consumption – World and India

The International Energy Agency estimated growth of 2.3% in world demand for energy in 2018. In comparison, the rate of growth of India's energy demand was significantly higher at 4% for the given period. Nearly 70% of the total energy demand was from China, the US and India. Total energy consumption in India stood at nearly 30,700 petajoules in 2018 with an improvement of energy intensity by nearly 15% (2011-2018). Unlike developed countries, where the households are the major users of energy (for instance, the energy consumption of households is nearly 50% in the US), the industrial sector in India consumes more than 50% of the total energy. For a country like India, set on an accelerated path of growth, high dependence on energy is unavoidable. The energy demand is further fueled by a large consumer base and increased economic activities. But with rapidly declining levels of conventional energy sources, harnessing the potential of renewable energy becomes essential for sustainable development.

Potential for renewable energy

There are abundant renewable sources available in India for generating clean electricity estimated to the tune of 1096 GW, with solar power potential of nearly 750 GW (68% of the total), followed by wind power (27%), and other sources including small-hydro and biomass power (5%). India has timely recognized the challenges of a growing population and its energy needs and the need to reduce the carbon footprint for sustainable development.



M. Senthilnathan

India's tropical climate and peak solar radiation places it among the few countries with better levels of Direct Normal Irradiance (DNI) creating conducive conditions for generating electricity. India is investing significantly in on-grid and off-grid solar applications, solar thermal collectors and solar lighting system. India has targeted clean energy capacity of 175GW by 2022 of which solar is estimated to contribute 100GW of this capacity (see Table 1).

The Government of India has allocated $416.48 million in the budget 2019-20 for development of Solar Power projects including both grid-interactive and off-grid and decentralized categories. More than $42 billion has been invested in India's renewable energy sector since 2014. It is proposed to develop 60 solar cities in India as part of the Ministry of New and Renewable Energy's Solar Cities program.

In January 2016, Prime Minister Narendra Modi and French President François Hollande laid the foundation of the headquarters of the International Solar Alliance (ISA) in Gurgaon, India. The ISA will focus on promoting and developing solar energy and solar products for countries lying wholly or partially between the Tropic of Cancer and the Tropic of Capricorn. The alliance of over 120 countries was announced at the Paris COP21 climate summit.

India will contribute $27 million to the ISA for creating the corpus, building infrastructure and recurring expenditure over five year duration from 2016-17 to 2020-21.

India has submitted to the United Nations Framework Convention (UNFCC) on Climate Change its target to cut the intensity of its carbon emissions by 33-35% by the year 2030. India's emissions Solar panels are capable of generating power with near zero emission of carbon dioxide. Every kilowatt of green energy produced by Solar panels in India replace carbon footprint by 3,000 pounds annually.

Solar – opportunity and innovation

In addition to helping in reduction of carbon footprint, the quest for solar energy utilization has spawned many innovations in India. Details of the two most notable innovations are given below:

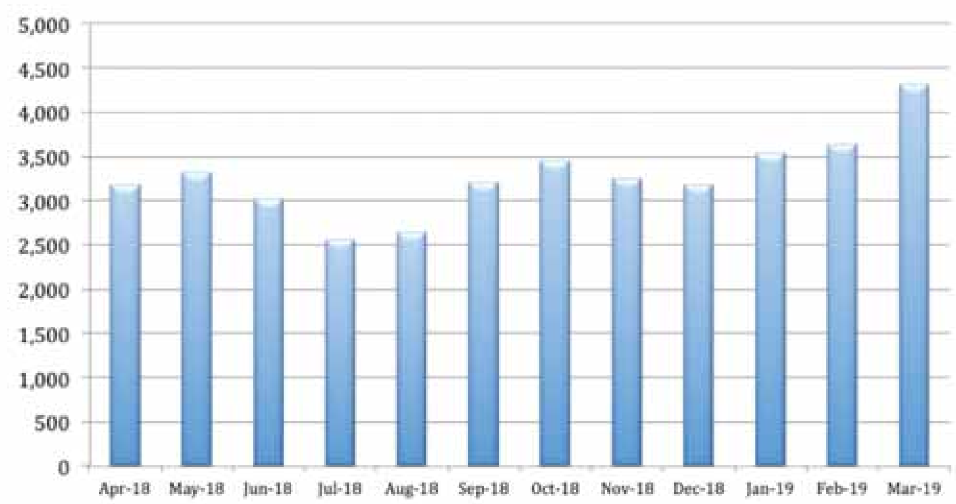
Barefoot Solar Engineers

Solar installations and grids have been instrumental in connecting the remote areas of India where transmission and distribution infrastructure is both a logistical and financial challenge. There are Non-Governmental Organizations (NGOs) focusing on promoting rural electrification through solar installations. 'Barefoot College' is one such NGO in the Indian state of Rajasthan that helps the rural communities to grow with the help of the solar energy. In order for a village to be considered by Barefoot College for solar electrification, it needs to fulfil three categories: be inaccessible, remote and non-electrified. The most important aspect of this barefoot initiative is that it mostly chooses middle-aged women, widows and single mothers who often miss out on the gains of economic growth.

The role of a Barefoot Solar Engineer (BSE) is to establish solar electricity for her village through solar lighting units and then continue to look after the maintenance and repair the equipment for a minimum of five years. A BSE is also mandated to establish a Rural Electronic workshop within their community to impart knowledge to the villagers about the new initiative. The BSE's role is essential in the maintaining of light which is environmentally friendly, economically advantageous and healthy (since solar panels provide an alternative to toxins released by paraffin lamps).

By becoming a BSE, women who previously were unable to secure any employment are now able to secure an income whilst becoming an invaluable source to their community. Furthermore, their role in establishing a Rural Electronic workshop develops them as teachers and leaders in

Table 1: Production of solar power (GW)



In the first half of 2018, India installed one MW of solar capacity every hour. With an installed solar power capacity of 29.40GW at the end of May 2019, India has the fifth-highest solar installed capacity in the world. Over the past five years, its installed solar generation capacity has risen over 10 times including the usage of green technologies and e-vehicles.

promoting environmental values and their own values within their community.

Canal Solar Power Project

The most innovative solar power project lies atop the Sardar Sarovar Dam consisting of almost 34,000 solar photovoltaic panels and stretching over 3.6 kms in length. This is the world's first canal-top power project. This 10 MW Solar Plant on the one hand minimizes evaporation of water and on the other, has the potential to generate 16.2 million units of electricity in the first year itself.

Admiring the innovativeness of the project, UN Secretary-General Ban Ki-moon said, "Looking out at the plant, I saw more than glittering panels—I saw the future of India and the future of our world. I saw India's bright creativity, ingenuity and cutting-edge technology."

The government policies have been supportive of innovation in products and technology to make solar energy an economically viable alternative to conventional sources of energy.

Renewable energy financing – challenges

Finance is critical to the development and adoption of solar energy as a steady and reliable source of energy. The widespread adoption of technology is affected by the scarce land availability for dedicated solar cell installation, the associated high cost, and issues with grid area connectivity. The high economies of scale do not prompt individuals to pursue off-grid installations. Technological maturity is a result of heavy investments in technology, research and development. Sovereign funds alone cannot bring about the desired results. Public Private Partnership models are promoted to ensure viability of projects.

The funding of renewable energy projects in India is faced with the twin problem of availability and cost of finance. The interest rates to the renewable energy sector range between 8-10% with a tenure of 10 to 15 years. The risk perception of the financiers is influenced by the cost of technological know-how and the large-scale adoption of alternative sources of energy that can sustain interest in new plants and refinance the existing plants. The relatively under-developed transmission and distribution system contributes nearly 20% of the total loss in electricity output.

To lend support to the players in this field, the country's Central Bank, the Reserve Bank of India has identified renewable energy under its priority sector lending program with a limit of $2.1 million for electrification through non-conventional energy based public utilities. Local currency loans from public and private sectors banks and Government-backed Non-Banking Finance Companies (NBFCs) are the major source of funding. The Indian Renewable Energy Development Agency is the leading NBFC in debt financing that raises funds by issuing tax-free bonds and through lines of credit from international agencies like the Agence Francaise de Development (France) and Japan International Cooperation Agency (JICA).

Trade in Solar

While India imports solar modules, cells and related articles, it also exports solar cells, photovoltaic cells, solar lanterns and other solar energy equipment. The Indian suppliers are proficient in the photo voltaic (PV) module assembly as compared to the more capital intensive production of silicon and solar grade silicon ingots. The total exports during the financial year April-March 2018-19 stood at $194 million, registering a growth of four percent over previous year.

Future of solar industry in India

India is set to attain a place in the top-five producers of solar energy. Adopting clean energy sources will be key to Indian economic growth. The government policies have been supportive of innovation in products and technology to make solar energy an economically viable alternative to conventional sources of energy. 100% foreign direct investment in renewable energy sector in India offers huge opportunities to partner in research and innovation, and cost-competitive local production of the high-end silicon. Thus, a great but challenging future is in store for the Indian solar industry. ■

ICIEC

25 YEARS PARTNERSHIP FOR DEVELOPMENT

IsDB
مجموعة البنك الإسلامي للتنمية
Islamic Development Bank Group

PARTNERSHIP FOR DEVELOPMENT

The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), a member of the Islamic Development (IsDB) Group, is a multilateral export credit and political risk insurer rated Aa3 by Moody's with a stable outlook. The driving ambition behind the creation of ICIEC was to strengthen the economic relations between member countries of the Organization of Islamic Cooperation (OIC) on the basis of Islamic Shari'ah. ICIEC's vision is to be recognized as the preferred enabler of trade and investment for sustainable economic development in Member Countries. Its mission is to facilitate trade and investment between member countries and the world through Shari'ah-Compliant export credit and investment insurance/reinsurance solutions.

Transportation: The view from France

By Angela Hiridjee, Export Development, International Relations, Bpifrance

Transportation is a key sector in France with many export contracts signed and even more since a former airline pilot and aeronautics expert has just been appointed as Secretary of State in charge of transportation!

In this field, competition is very tough, and the financing aspect is a strong argument in business discussions.

Generally speaking, the transportation sector is a major market for France. In 2018 it represented a turnover of €386 billion, dominated by the road sector, which represents 72% of the total, followed by inland waterways with 10%, 6% in public transportation, 6% in rail and 6% in aeronautics. This represents 17.5% of the national GDP and 1.4 million jobs.

Exports reflect these national figures well since aeronautics and automotive represent respectively €57 billion and €35 billion or nearly 30% of the export market in 2018.

Bpifrance Assurance Export's portfolio shows the significance of this sector, with transportation accounting for 45% of the total outstanding amount in 2018. Aeronautical and shipbuilding being the two areas with the largest outstanding amounts, respectively 19% and 24%.

Bpifrance is well aware of the significance of the sector since it has adapted its offer by creating several products specific to transportation. In the aeronautics sector, there is the Pure Unconditional Guarantee, which unconditionally guarantees the non-repayment of credit granted to a foreign


Angela Hiridjee

airline or operational lessor. This guarantee is granted for all types of civil aircraft weighing more than 10 tonnes at take-off and civil helicopters weighing more than one tonne at take-off. It can be issued to a lending bank or to cover a bond issue. Its unconditional nature and the capacity of the compensation process (20 days) make it a product highly appreciated by the market and airlines. In the context of exports of ATR aircraft, airlines such as Royal Air Maroc, Avianca (a major player on the Colombian market), or Braathens, a Swedish operational lessor, have already benefited from the coverage of their financing by the Pure Unconditional Guarantee created in 2012 for this type of aircraft only.

On the other hand, Bpifrance has 600 Airbus aircraft in its portfolio and it is important to specify that the Pure Unconditional Guarantee is perfectly adapted to the aviation market. It is also a good example of European cooperation since Bpifrance always works with its British (UKEF) and German (Euler Hermes) counterparts according to their respective industrial shares with reinsurance schemes for the guarantee of Airbus financing and with its Italian counterpart (SACE) with

There is also never-ending demand in the railways/ metro sector across the world to tackle the traffic problems of many cities, and through a need to protect the environment.

either reinsurance schemes, or co-insurance, where each bears 50% of the risk, for the financing of ATR aircraft.

In the naval sector, we noticed a keen interest for the cruise sector. Bpifrance supports many players, including shipbuilders Chantiers de l'Atlantique. As the cruise ship sector has been growing at a sustained pace for several years, it results in full order books until 2026. Competition is exclusively European (Germany, Finland and Italy) but it cannot be ruled out that new Asian entrants, particularly from China, could challenge the market balance.

There is also never-ending demand in the railways/metro sector across the world to tackle the traffic problems of many cities, and through a need to protect the environment. Alstom is one of the leading company and has been guaranteed by Bpifrance on many contracts, especially in the Middle East, for example the Dubai Metro system.

Transportation is also a central element of sustainability policies. On the manufacturing side, energy efficiency and gas emissions are more and more under consideration when designing ships or planes. The recycling of materials is also on the rise, with companies such as Airbus, Safran and Alstom making progress in this field.

There still remains a need to develop better environmental assessment tools for movable assets like planes and ships. However, several projects in the urban rail and regional transportations systems sectors have made positive impacts by reducing carbon dioxide emissions and air pollution through the efficient transportation of passengers, removing vehicles from crowded streets. A lot of transportation projects in the metro and regional transport sectors that are backed by Bpifrance qualify as "sustainability friendly projects", and they address some of the 17 UN Sustainable Development Goals.

Discussions about developing incentives for these kinds of projects are ongoing and "green" will be very much one of the major trends in the transportation sector going forward. ■

Sector	Trend	Comments
Rail	↗	• Following the decline in **traffic** due to SNCF strikes (-3% in 2018), there is a **traffic recovery** (+1% in 2019) thanks to the strong tourist attendance and the upward trend in train travel • Rise due to the **"Grand Paris" project** • **Growth in rail freight** boosted by the opening of new lines (4 lines in 2018) for a plan to **renew and modernise the rail network** (€10 million per day for 10 years) • **SNCF reorganisation before its opening to competition scheduled for the end of 2019** (e.g. digital offer, price reduction policy)
Aeronautic & spatial	↗	• **Growth in the airline traffic market (+4.8% in 2018)** thanks to the dynamism of tourism and the diversification of the offer (e.g. low cost) • **Growth in aeronautical and space production** (+3.8% in 2017) with increasing demand (full Airbus order book for 8 years period) • **Innovation race concerning production design methods** (e.g. digital simulation, IoT, robots and cobots)
Road transport	↗	• Slowdown in the goods road transport sector (3% growth in 2019 vs. 2.5% in 2018) because of the decline in the industrial and construction market and other cyclical factors (Yellow vests movement, Brexit) • **De-dielization** actions • **Strong innovation opportunities** in electrification, hybridization and hydrogen
Inland navigation and sea transport	↘	• **Decrease in sea freight transport** (-1% in 2019) due to a sharp slowdown in the world economy but **increase in sea passenger transport** (+2.5% in 2019) **boosted by tourism** • **Decline** in inland navigation competing with road transport • **Increase in orders from French shipyards** (full STX order book until 2026)

Trends in the project finance (re)insurance market

By Julie Martin, Managing Director, Credit Specialties, Marsh JLT Specialty

Background

As most readers will know, non-payment insurance (insurance protection against borrower non-payment) has been developing over the last two decades; expanding into new types of finance and extending coverage for lenders beyond banks. Moreover, with the growing private-public cooperation in recent years, the private (re)insurance market and public agencies have increased cooperation in the project finance area. Our colleagues, Mark van der Does and Abbey Sturrock, provided a thorough overview in their article "Credit insurance for project finance" in the 2018 Berne Union Yearbook. Our goal with this article will be to supplement what was presented last year and highlight some recent developments.

For those new to project finance (PF), it's helpful to start with a basic description of the distinguishing characteristics of project finance transactions. At its foundation, project finance is a non-recourse or limited recourse financial structure involving a bankruptcy remote special purpose vehicle (the "project borrower") that relies primarily on the project borrower's expected, future (and in many cases, contracted) cash flow for repayment. The project's assets, rights, and interests are also held as secondary security or collateral. Project finance is typically used for long term infrastructure, industrial projects, renewables, energy, and public services.

Summary of private (re)insurance market

- Not all (re)insurers cover project finance and the experience ranges considerably with one (re)insurer having supported more than 70 transactions and many others not yet having entered the PF market. According to our estimates, approximately 20 carriers provide cover for project finance transactions.

Julie Martin

- While there are some outliers, the maximum line size is USD 50 million on average per project but (re)insurers often provide less than their maximum line size on a given transaction. The largest theoretical line is in the USD 150 million range.
- Most (re)insurers price their insurance coverage (when covering a financial institution) at 70% of the bank's margin and the tenor varies from a maximum of 7 years to 20+ years. When partnering with a public agency, pricing is generally set by said agency.
- In an informal survey of Underwriters undertaken by our Spanish colleagues, most of the surveyed (re)insurers have provided cover to banks but some expressed a preference for reinsurance of public agencies, including export credit agencies (ECA). One (re)insurer noted their focus on non-financial institution lenders such as institutional investors. Another large carrier noted that they supported more bank transactions, but a higher dollar volume of ECA transactions.
- While the predominant sector for support seems to be energy/power projects, several carriers indicated a preference for other sectors such as oil and gas or mining. One Marsh JLT Specialty office within our global network reports the breakdown by sector of enquiry as: 50% in power and renewable energy, 17% in oil and gas, 15% in

mining, 7% in telecom infrastructure, 7% in transportation infrastructure and the rest in shipping and soft commodities.

- The predominant use of this coverage has been in developed markets such as US LNG (liquefied natural gas) projects during recent years, however some (re)insurers are venturing into emerging markets for well-structured projects or when standing behind public agencies (i.e. reinsurance of the public agency). One (re)insurer's list of supported countries includes Aruba, Colombia, Chile, Brazil, Uganda, Indonesia, Saudi Arabia, Turkey, Mexico, Oman, Qatar, Egypt, Vietnam, Mozambique, India, and Mongolia.
- The volume of (re)insured transactions still remains a relatively small part of the PF market and the insurance market in general. As noted below, the volume is affected by developments in the bank market regarding demand for project finance lending, pricing and structure. For the most part, the (re) insurance market has focused on projects that are investment grade or not less than BB rated.
- Most (re)insurers require at least a 50% uninsured amount but some will provide a higher indemnity level. In most cases, the indemnity level is well below the 50% maximum.

Recent trends

Following the wave of US mega-projects financed in the LNG and power space during 2012-2016, and the corresponding boom in insurance placements to support large ticket sizes of well-established project finance banks, the market has seen a leveling (and indeed dropping off) of non-payment insurance (NPI) use by large, US based project finance banks. The capacity constraints that once hampered project finance banks have largely been solved by successful bond issuances following project construction completion. As the bonds take out the project financing, banks are no longer squeezed on internal limits for sectors, sponsors, and off-takers. This dynamic, however, creates opportunities for the (re) insurers to support large regional or medium sized "tier two" financial institutions which may only use private insurance sporadically. Project finance transactions, with their larger lending requirements, entice these secondary banks to consider alternative methods of managing risk and using new tools to increase their commitment levels.

The purchase of NPI for PF transactions is also very price sensitive. Over the last few years, PF bank margins have been reducing gradually due to excess liquidity, with the result that market pricing has repeatedly been accused of being "thin" (based on numerous bankers' feedback). This, together with the size and frequency of refinancings, has further reduced banks' net earnings, sometimes rendering NPI unattractive when internal revenue metrics have tightened, due to its cost. Equally, the cost of funding for long-dated loans (especially USD denominated), which has remained stubbornly high for certain European banks in particular, has been identified as another contributing factor to the compression of margins available to pay for NPI premiums. All these trends have led to a number of banks reducing their purchase of NPI or deciding to stop altogether, especially in presence of well-structured projects.

Recently however, we have seen more activity with reinsurance of public agencies (being ECAs, multilaterals, or developmental financial institutions). In these cases, a public agency which has issued support to banks financing a project, or has itself extended the financing, may begin to have sector or country concentrations yet still intend to continue to fulfill its mandate. However, while many private market (re)insurers prefer to stand behind (i.e. reinsure) a public agency due to the perceived deterrence effect and assumed enhanced recovery capabilities,

Following the wave of US mega-projects financed in the LNG and power space during 2012-2016, and the corresponding boom in insurance placements to support large ticket sizes of well-established project finance banks, the market has seen a leveling (and indeed dropping off) of non-payment insurance (NPI) use by large, US based project finance banks.

these benefits are likely to be most effective when the off-taker is a government entity, rather than a private sector company. Therefore, there is significant variance in the level of appetite of the private market for reinsuring public agencies in the context of PF transactions: in the former case, we continue to observe that private market (re)insurers are willing to stretch their maximum tenors and lines sizes, and to venture into countries that would not otherwise be on their radar. This may not necessarily be the case in the context of a purely commercial PF.

An increasing number of (re)insurers are investing in resources with expertise in project finance, but many still lack the in-house project finance specialization, analytics, and modelling capabilities that are arguably required to comprehensively underwrite these transactions.

Underwriting

An increasing number of (re)insurers are investing in resources with expertise in project finance, but many still lack the in-house project finance specialization, analytics, and modelling capabilities that are arguably required to comprehensively underwrite these transactions. Therefore, they will often rely on bank or public agency expertise. This is why the lender (underlying insured) is a key factor in their underwriting and some will limit their willingness to provide insurance or reinsurance to lenders or public agencies that have knowledge, experience, and a strategic partnership with a consistent deal flow.

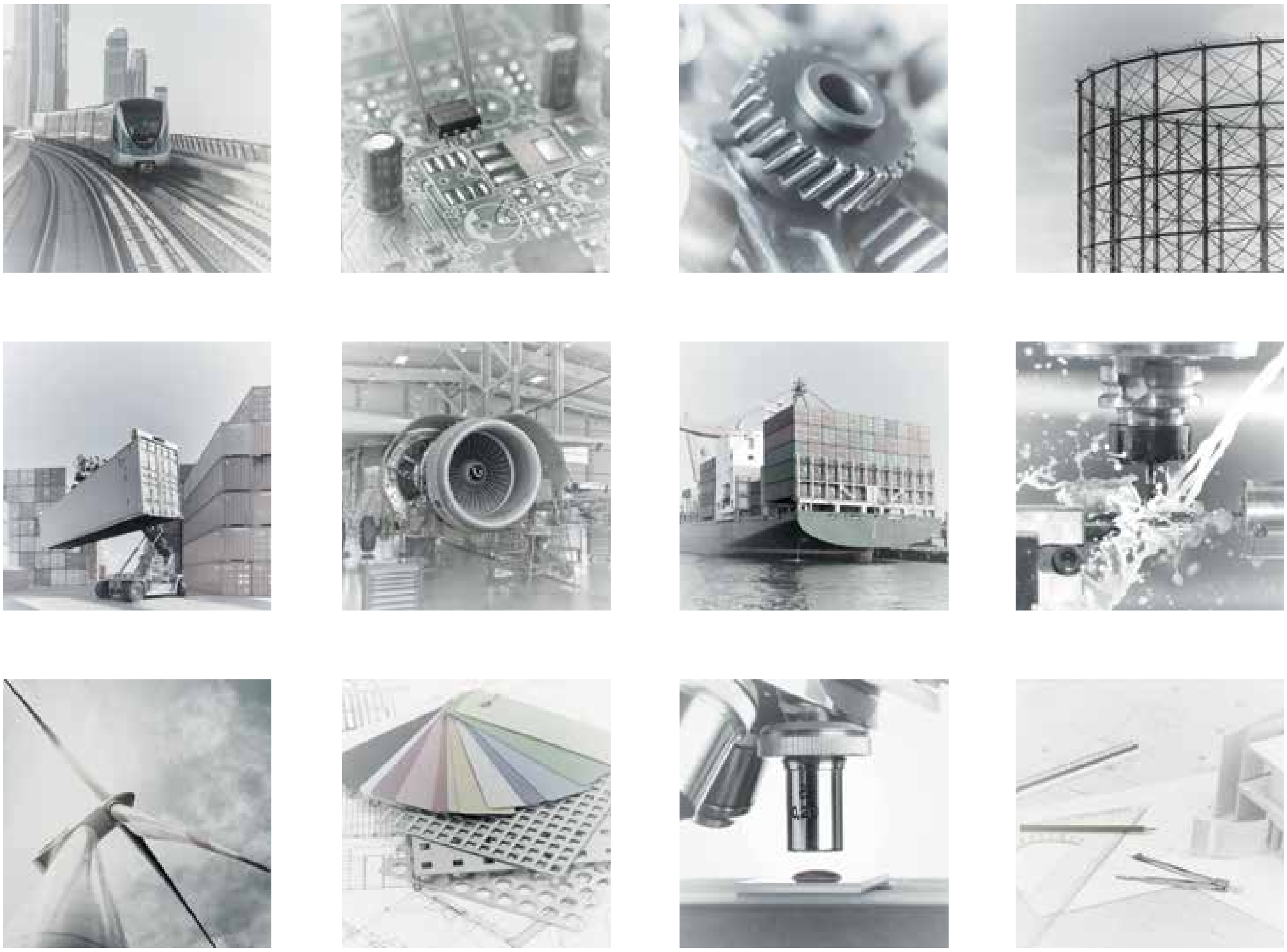
Underwriting project finance is much more complicated than trade and structured finance, not least because the analysis deals entirely with future cash flows, not historical audited financials of a going concern. The key elements which will be considered by credit insurers are essentially the same as would be considered by lenders, including the tenor, structure, project participants, and leverage. Key questions explored include:

- Does the tenor make sense for the underlying project (as most of the time project finance is utilized for large long term projects)? If the structure is shorter term or a "mini perm", is there an appropriate exit or refinancing strategy? For example, if the refinancing strategy is through capital markets and they essentially shut down because of economic issues, will the project be able to find alternatives or restructure?
- Does the debt to equity structure make sense for the transaction? In periods of excess liquidity and competition, structures tend to deteriorate as lenders compete to win deals. This might materialize as higher leverage, reduced collateral, or other key elements of the project. Who are the project participants? Is the engineering procurement construction contractor experienced, with sufficient resources to complete a project, and on time?
- Do the sponsors have a track record in similar projects or countries, and are the off-takers creditworthy?
- Are the contractual agreements well-structured with adequate protections for the lender? In the project finance area, (re) insurers are more likely to require substantial documentation including internal credit memorandums, technical reports, cash flow models, legal due diligence and opinions.

This substantial request for information can sometimes create friction between the (re)insurer and the (re)insured. While most large commercial banks are accustomed to these information sharing requirements, public agencies, given their government status, are more often reluctant to provide internal documentation.

Conclusion

As we have seen over the last few years, (re)insurance for project finance remains a relatively niche area which ebbs and flows with general demand and supply for project finance. As (re)insurers gain more experience, we expect to see more players entering the product line, willing to take risks. There is certainly a demand for project finance given the world's large infrastructure needs but as always, it is a matter of finding bankable/(re)insurable projects. ■



The evolving landscape of commodities and associated project financing

By Jan Fuchter, Director, Corporate, Sovereign & Project Finance at Export Finance Australia (formerly Efic)

There are two evolving developments in the mining sector to which Export Finance Australia has been increasingly applying its focus. These developments are also to some degree interlinked, as is outlined below.

First, an increasing number of the financing opportunities being presented to Export Finance Australia relate to mining projects proposing to produce commodities which have not previously attracted the interest of conventional project finance lenders. Second, global demand for a range of commodities, variously referred to as strategic, critical or exotic, has broadened in recent years. This growing demand now includes minerals used in a range of emerging high-tech applications across a variety of sectors such as renewable energy, aerospace, defence, automotive (particularly electric vehicles) and telecommunications.

These minerals are considered increasingly important for the economic and industrial development of major and emerging economies[1]. They include industrial minerals, inputs for fertilisers and rare earths, as well as what some are forecasting to become increasingly important sources of energy, given the heightened concerns of the continued use of fossil fuels. The latter are referred to as battery minerals, as batteries become more widely used with the adoption of electric vehicles and energy storage systems used in a more diversified electricity grid. Utility-scale wind and solar farms, as well as rooftop solar photovoltaic panels, supply an increasing proportion of our power, which can then be stored using home battery systems or larger scale energy storage systems.


Jan Fuchter

Deutsche Bank forecasts global battery demand to increase fivefold in the next ten years[2], while the International Energy Agency predicts that by 2030 there could be as many as 220 million light duty vehicles on the road[3], up from around six million currently (excluding electric buses, two-

Rare earths, an increasingly important group of metals for defence applications, electric vehicles and wind turbines, are increasingly regarded by some in the Western world as critical, given their vulnerability to supply constraints and shortages. Some countries with specific economic and industrial development requirements are starting to take a more strategic approach to ensure security of supply of these minerals.

wheelers and trucks). This growing shift to electric vehicles and the increased use of energy storage systems is expected to be the principal driver of battery demand growth.

To support the production of electric vehicles, there has been a corresponding increase in demand for batteries, dominated by the lithium-ion battery technology used in most electric vehicles. Wood Mackenzie estimates that battery demand for transportation is set to rise by almost forty times by 2040[4]. Motor vehicle manufacturers are planning a $300 billion in spending on electric vehicle technology over the next five to 10 years[5] with the outlook for electric vehicles sales reaching 12 million by 2025 and 21 million in 2030[6]. Consequently, such demand for battery minerals will put increasing pressure on the raw material supply chain.

The key materials that comprise the lithium-ion battery include lithium, cobalt and graphite. The demand for batteries and their component materials is anticipated to increase significantly as motor vehicle manufacturers increase their electric vehicle offering and energy storage systems become more prevalent in homes and businesses.

Some $12 billion will be required in investment in lithium projects to increase output fivefold by 2025 and keep pace with the world's growing appetite for batteries, according to Australian lithium producer Galaxy Resources. Despite bullish forecasts for demand – albeit tempered by the recent price decline – financing the development of lithium projects may have funding challenges. Banks are wary, citing everything from the industry's poor track record on delivering earlier projects to a lack of insight into a limited and opaque market. Some alternative funding sources for lithium have emerged, including hedge funds offering higher-yield debt and private equity funds.

Rare earths, an increasingly important group of metals for defence applications, electric vehicles and wind turbines, are increasingly regarded by some in the Western world as critical, given their vulnerability to supply constraints and shortages. Some countries with specific economic and industrial development requirements are starting to take a more strategic approach to ensure security of supply of these minerals.

Financing for projects that produce these minerals potentially present a higher risk profile than projects producing more traditional commodities due to higher informational asymmetries. There are inherent challenges in financing strategic commodities without a terminal market. The market for these commodities is generally opaque, with no public exchange on which they can be transparently traded. Product pricing is dependent on a range of product-specific parameters and negotiated bilaterally between customers and suppliers. Price and volume volatility in these markets are therefore considerably higher than traditional resource and energy commodities. This heightens the risks associated with off-take agreements, including the robustness of off-take terms and the creditworthiness of off-take counterparties. Technical risks associated with extraction and processing are also higher in the case of some of the lesser known minerals; demand for which has recently become more apparent.

Commercial lenders have limited, if any, risk appetite for new projects producing strategic or critical commodities. With opaque markets and little to no ability to hedge prices, the previously traditional commercial mining lenders are challenged by an increased diversity of commodities. Project proponents therefore become more reliant on alternative funding sources to develop their projects.

For industrial minerals and other commodities projects, a different mix of lenders have become involved. In Australia

Commercial lenders have limited, if any, risk appetite for new projects producing strategic or critical commodities. With opaque markets and little to no ability to hedge prices, the previously traditional commercial mining lenders are challenged by an increased diversity of commodities.

the Government's Northern Australia Infrastructure Facility (NAIF), KfW and private equity funds provided financing commitments for Sheffield Resources' Thunderbird mineral sands project and Kalium Lakes' Beyondie sulphate of potash project. Separately, several other proponents announced potential NAIF support, while KfW tied and untied indicative financing – with Euler-Hermes and UFK support respectively – has been flagged for a number of projects.

With the restrained activities of commercial banks in mining finance, the increased levels of activities of previously 'alternative' lenders such as private equity funds, metals stream and royalty financiers provide project proponents with alternative funding options across the risk spectrum by being able to offer both equity and as well debt.

With the restrained activities of commercial banks in mining finance, the increased levels of activities of previously 'alternative' lenders such as private equity funds, metals stream and royalty financiers provide project proponents with alternative funding options across the risk spectrum by being able to offer both equity and as well debt.

Financing of base and precious metals projects can be accessed relatively easily from commercial lenders together with export credit agencies but also from private equity funds notably for projects in Latin America and Africa. More recent examples include the financing of Minsur and Alxar's Mina Justa copper project in Peru by export credit agencies and commercial lenders, West African Resources' Sanbrado gold project in Burkina Faso by Taurus Funds Management, and both Teck's Quebrada Blanca copper project in Peru and Antofagasta's expansion at the Los Pelambres copper mine in Chile by export credit agencies and commercial lenders.

However, with increased capital requirements for longer term project financing, fewer banks remain active in traditional project financing. This increases the attraction for banks to work with agencies to achieve a "sweet and sour" outcome whereby banks assume exposures to a combination of both project and government agencies.

Another source of finance that has become more evident is bond or note financing. Bond or note financiers can be sensitive to market sentiment but they can provide borrowers with a relatively quick turnaround and with a higher degree of flexibility around terms. Examples include First Quantum Minerals notes for its Cobre Panama copper project in Panama, Pilbara Minerals senior secured bond for its Pilgangoora lithium project in Australia, and Sirius Minerals' notes for its Woodsmith potash project in the UK.

This suggests that there will be an increasing number of projects that will produce a wider array of commodities with respective uncertainties that will require funding most likely from sources that previously were not regarded as mainstream.

Looking forward, Export Finance Australia anticipates working with a more diversified group of lenders considering the financing of these projects. Understanding the associated market risk will require an enhanced assessment of the commodities, at least initially, until the market for them becomes more standardised and established. ■

Notes

1 Australian Government Department of Industry, Innovation and Science & Australian Trade and Investment Commission *Australia's Critical Minerals Strategy 2019*.
2 Australian Trade and Investment Commission *The Lithium-Ion Battery Value Chain*.
3 International Energy Agency *Global EV Outlook 2018*.
4 Financial Times *Electric Car Makers Step Up Pursuit of Enhanced EV Batteries* 9 April 2018.
5 Reuters *VW, China spearhead $300 billion global drive to electrify cars* 10 January 2019.
6 Deloitte *New market. New entrants. New challenges. Battery Electric Vehicles.*

Shipping related exports from Norway – an update from GIEK

By Solveig Frøland, Director, Shipping, Yards and Offshore Projects
Anders Gerlach Nielsen, Senior Vice President – Head of Team Shipping, Cruise & Maritime Equipment
Cathrine Toset, Senior Legal Adviser / Head of Team Shipping and Offshore

Introduction:
Norway has a proud maritime history. For more than 150 years, its maritime sector has contributed to world trade, economic growth and maritime innovation. The maritime cluster ranging from shipyards, equipment producers and marine service companies to financial institutions and ship-owners are significant links in the value chain.

The guarantee portfolio of the Norwegian Export Credit Agency (GIEK) reflects the nature of Norway's exports. The bulk of exposure remains directed to the offshore industry. However, transition to new markets is supported by way of granting guarantee cover to well reputed ship-owning companies holding leading positions in niches such as hybrid ferries, expedition cruises and well-boats for sea-farming.

Sophisticated shipbuilding is capital intensive and well suited for cross-border transactions. The sector is strategically important to shipbuilding countries and historically cared for by official credit support schemes. Hence, buyers have reason to expect attractive financing to tag along with newbuilding orders. Export Credit Agency ("ECA") finance is a powerful tool in a competitive business climate and represents significant sourcing of capital to global shipping.

GIEK – recent developments

The Norwegian official support scheme offers credit risk cover by GIEK and funding provided by Export Credit Norway or by Norwegian and foreign commercial banks. Following challenging years in the offshore sector and being in the midst of heavy restructuring stories, it is encouraging to see the Norwegian shipyards taking a confident and improved position in markets such as arctic cruise ships, 'green' ferries and advanced fishing boats. Norwegian yards are successfully creating new grounds for future growth. A green shift in the shipping industry is also making room for new suppliers to join the game, such as manufacturers of batteries for electric propulsion and scrubber technology applicable for reducing sulphur oxides emissions.


Solveig Froland


Anders Gerlach Nielsen


Cathrine Toset

Export Credit Agencies as a source of finance for shipping.

GIEK's buyer credit guarantee is a key factor to shipbuilding in Norway but also to the sale of Norwegian equipment placed on foreign-built vessels. Ship finance is a specialised financial category in which a limited group of commercial banks with global customer strategy offer long term and reasonably priced lending. Loan facilities are asset backed, secured with ship mortgages and a parent guarantee. However, financing of new ships has changed in the past ten to fifteen years and ECA finance is now an essential source of finance to global ship finance.

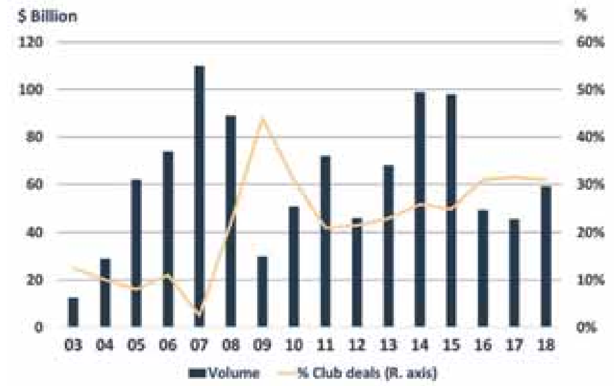
Loan volume for syndicated marine lending was estimated by Dealogic to be about $60 billion in 2018, a significant decrease from similar volume of more than $100 billion in 2007. A number of the ship finance banks that historically dominated the market, particularly the European banks, have gradually exited shipping by selling portfolios or allowing existing loans to amortise without taking on new business. Although the reduced ambitions were triggered by the financial crisis and substantial losses made by these banks in the shipping industry, other factors have affected the desire of the banks to shrink their shipping portfolios. These factors include the increasing regulation faced by the European banks and particularly because of the increased capital adequacy requirements of the Basel III and Basel IV. The banks that remain active in the shipping market are generally selectively lending only to existing customers and large shipping conglomerates.

Following the substantial reduction in financing from traditional banks, ship-owners have increasingly turned to alternative financing sources. This is particularly the case for small to medium-sized ship-owners, as well as high-volume segments like offshore and cruise where capital restrictions make lending particularly expensive for banks. Ship-owners have become increasingly interested in ECA structures and the ECAs are presently providing a stable supplemental source of finance to the shipping industry. According to KPMG, ECA finance accounted for approximately 10 percent of the shipping and offshore-related debt finance before the financial crises; while the share rose to more than 33 percent in 2015 amounting to around $15 billion of annual new business. There is every reason to expect ECA finance to remain an attractive source of capital. The same is the case for other alternative sources of finance such as the Chinese leasing market, a sector of improved significance to global shipping.

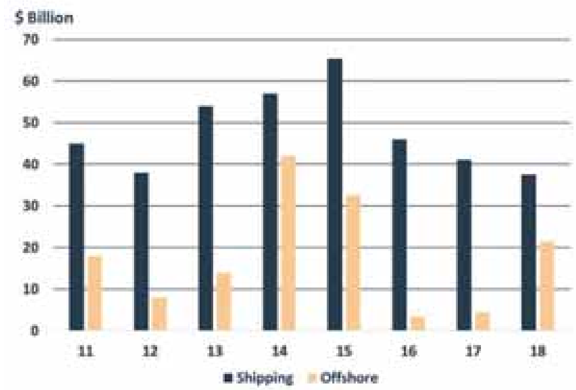
The position of GIEK

Based on existing maritime portfolio and support to the shipping industry for more than two decades, GIEK ranks among the major ECAs in ship finance. In the segment of merchant vessels and offshore, ECAs in the 'top three' shipbuilding countries (Korea, China and Japan) play a major, global role. The same is the case for cruise and ferries where four European countries dominate the market. Norwegian offshore technology enjoys a leading position in the world market and GIEK supplement this high-volume segment with financial capacity. Despite reduced demand for new credit to offshore vessels, GIEK still has a significant portfolio and ranks at par with the largest offshore banks in terms of exposure. Today, GIEK manage a maritime portfolio of approximately $9 billion, which according to Marine Money in size compares to top 15 of the largest commercial ship finance banks set out below (right)

Syndicated Marine Finance Loan Volume



Shipping vs. Offshore Syndicated Loan Volume



Source: Marine Money International January 2018 and GIEK

Major ECAs in ship finance

2018 Marine Finance Loan Portfolio

Source: Marine Money International April/May 2019 and GIEK

Guidelines for GIEK ship finance support

For buyers' credit financing of new ships, the guidelines for GIEK follow the general understanding of OECD (SSU). Main terms include the following:

- Debt financing of up to 80 percent of the sales contract value;
- GIEK can guarantee up to 90 percent of the total credit facility (100 percent in case of pure political risk);
- At least 30 percent of the GIEK guaranteed volume must consist of Norwegian goods, services or value creation;
- Up to 12 years tenor and linear repayment with quarterly or semi-annual payments.

Final terms reflect specific credit risk and market conditions relevant to the case. In assessing credit risk, GIEK emphasises collateral, contract robustness, earnings potential and the experience of the operator. The «classical» model for financing of a vessel built at a Norwegian yard is that GIEK guarantees about 70 percent of the underlying term loan disbursed by either Export Credit Norway or a commercial bank of which the latter covers the remaining risk. Pari passu term implies GIEK to require the same security and covenants as the commercial bank in a transaction. Consequently, the commercial bank shares, on equal and pro rata basis, all proceeds from securities in case of default under a loan. The pricing of the guarantee will be likewise with GIEK sharing risk premium and fees equally with the banks. The lower coverage compared to other ECAs is a test to confirm marketable terms which commercial banks can endorse. In many ways, this type of structure can be characterised as a 'standard' club deal with the ECA adding additional capacity in the commercial transaction.

An alternative model is financing of 'parts of ships' which means that volume eligible for GIEK cover is calculated from contract value of Norwegian equipment delivered to a foreign yard. Instead of guaranteeing for a certain percentage of the vessel contract as in the classic model, GIEK guarantee for up to 80% of the Norwegian exports. To facilitate the process and in order to increase the loan amount and thereby the Norwegian export, GIEK has accepted financing of parts of ships in a series of new buildings in exchange for security in one or two of all the vessels.

This bundling principle improves efficiency and adds attractiveness to the GIEK guarantee. The principle also applies to other forms of transactions. In the retrofit segment, i.e. in relation to installation of scrubbers on a whole fleet, GIEK may provide guarantees for corporate facilities to investment grade debtors or GIEK may step into existing asset backed facilities being granted a pro rata share of the existing ship mortgage value.

Another angle is the concept of guaranteeing for credit lines. Through a framework facility, we accept drawdown of a credit line over a certain period for purchases and services from several exporters. GIEK recently issued a new framework guarantee to Petrobras and we see the interest of this structure elsewhere in the market too.

Risk sharing with commercial banks at this level has served GIEK well through the downturn of the cyclical offshore market. It has secured a common understanding of risk and equality of GIEK's position among creditor peers. The high degree of risk sharing with the commercial banks can also be regarded an alternative to reinsurance in the private market.

Process

As part of our internal due diligence and work process, GIEK will review the loan documents and provide our comments into the bank syndicate. In shipping and offshore transactions, LMA standards usually apply. Often, GIEK's transactions are subject to Norwegian jurisdiction. However, it is also common to see UK law or New York law. Lately GIEK has recently participated in several French tax-lease transactions and been approached with suggestions of Spanish tax lease.

Due diligence of sustainability and social issues in relation to yards has great focus. We have a good process for evaluating conditions for labour, health and safety at several European and Asian yards. In agreement with the ship-owner, the yards commit to the evaluation and to satisfactory follow up any resulting action plan. The procedure is in practice a condition for the GIEK guarantee and is subject to documentation in the loan agreement or by a separate side letter from the yard to the ship owner.

The past years GIEK has gained solid experience from work outs in the offshore sector. We have been part of steering committees in restructurings through US Chapter 11 and in Brazilian debt settlements. Having the Norwegian government in the back and thus allowing GIEK to keep a long term view of a transactions in distress, has

Demand for supplemental financial capacity to the shipping industry has opened up opportunities for GIEK to support maritime export from Norway. The field of ECA finance remain active and GIEK have every ambition in respect of maintaining a significant role as future provider of credit to the shipping industry.

been useful in the process of reducing credit losses and in seeking sustainable solutions for the good of all parties.

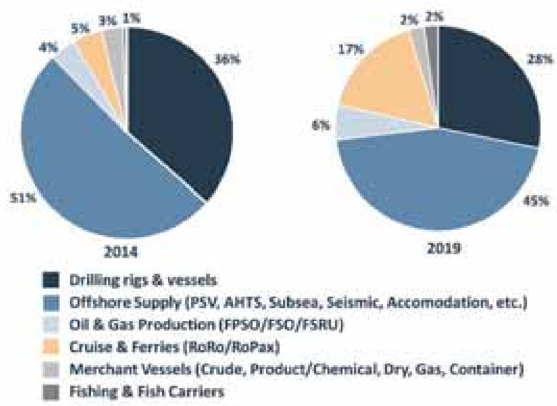
Concluding remarks

ECA finance to new vessels is available from most shipbuilding countries and Norway is no exception. However, the Norwegian official support scheme assumes a higher than usual level of risk and revenue sharing with commercial banks.

Demand for supplemental financial capacity to the shipping industry has opened up opportunities for GIEK to support maritime export from Norway. The field of ECA finance remain active and GIEK have every ambition in respect of maintaining a significant role as future provider of credit to the shipping industry. ■

Resent GIEK Marine Finance Transactions

GIEK Marine Segment Exposure



Source: GIEK

RAMP: Introducing the Risk Assessment and Mitigation Platform for renewable energy development

By Jef Vincent, IRENA's Programme Officer for Renewable Energy Finance

An initiative of the International Renewable Energy Agency (IRENA)

If you have been underwriting power projects, you may be familiar with the following (simplified) scenario:

- An investor / developer identifies an opportunity for an independent power generation project and he makes a first rough assessment of the risks and how to approach them.
- He negotiates terms and conditions with the offtaker and the Government that mitigate some of these risks in an "acceptable" way and the PPA is initialed.
- He then starts the search for additional capital and for loans. New potential shareholders and lenders do their due-diligence independently and set a list of new conditions to their participation in the project.
- The investor will then go back to the offtaker and the Government to adjust the initial contractual documents to make them "bankable"; and at the same time negotiate with potential stakeholders on the conditions that keep his project afloat. When he finds out that the investors and banks don't accept certain risks or over-price them he will scramble for insurance or guarantees that bridge the gap.
- This can involve armies of in-house analysts and external consultants, each one working for one specific party. The longer the consultations take the more chances there are that the host government goes through new elections; elsewhere organizational changes and staff turnover make it difficult to have consistency in the negotiation position. Changes at the national and macro-economic level affect the risk perception and change the interest of the private sector, as well as the willingness of the public sector to make certain commitments.


Jef Vincent

- The iteration can delay financial close by several years compared to the initial timing and many projects collapse because the investor runs out of funds or because the requirements of the potential partners cannot be met.
- For successful projects, the cost of the delays and the imperfection of the solutions increases the cost of the project and thus the tariff that the investor has to ask to attract his funding. Institutional investors who could bring cheaper funding, but are traditionally risk averse, walk away.

Over the years, I have come to the conclusion that few developers, investors and even lenders know and understand all the products available to mitigate credit, political and other risks. As a result, projects stall, and time and money are lost.

A deep and fragmented market

Every energy project faces a range of risks that must be understood, assessed and, as far as possible, mitigated. Banks, development finance institutions, insurers, export credit agencies and guarantors have developed products to do this. But for investors and developers outside the financial industry, such products can be hard to identify, understand, compare or combine.

Yet just as the world needs rapid uptake of sustainable energy options, such projects will require massive inflows of secure finance.

Recognising both sides of this challenge, IRENA has set out to ease risk mitigation for renewable energy projects. The resulting platform aims to:

- Facilitate access to risk mitigation instruments
- Increase the available capacity for risk mitigation
- Reduce project costs and development time

It offers a unique opportunity for providers of risk mitigation – insurers, export credit agencies, intermediaries, guarantors and banks – to present their companies and products to players in the renewable energy sector worldwide.

Positioned to strengthen risk mitigation

The platform is an initiative of the International Renewable Energy Agency (IRENA), an intergovernmental organisation that supports countries in their transition to a sustainable energy future. As countries around the world grapple with decarbonising energy use to reduce climate impact, IRENA fosters international co-operation, technology, resource and financial knowledge on renewables, helps countries build their capacities in renewables and facilitates renewable energy projects throughout their life cycle. For more information please visit us at: www.irena.org

The RAMP project is at the heart of IRENA's mandate to promote the widespread adoption and sustainable use of all forms of renewable energy worldwide.

As a global organisation, IRENA offers:

- A broad combination of perspectives and insights on renewable energy development
- The ability to bring together the private and public sectors
- Worldwide scope
- The capacity to kick-start the initiative
- A neutral perspective with no stake in any given transaction and thus no potential conflict of interest

IRENA is not a lender, a guarantor or an insurer. It can therefore connect investors and developers, in a pragmatic manner, with the widest possible range of risk-mitigation providers.

RAMP does not set out to compete with comparable, existing initiatives but rather will complement those. If other institutions can handle parts of the programme, IRENA will support them and explore the best way to co-operate.

RAMP components

RAMP will function as part of IRENA's Sustainable Energy Marketplace.

The Sustainable Energy Marketplace (www.irena.org/marketplace) connects project owners, financiers/investors, host governments, service providers and technology suppliers to bring projects to fruition. Investment opportunities are made visible and easily identifiable for investors, while project developers can access funding sources and expertise to advance their projects.

The Sustainable Energy Marketplace has been launched without publicity a few years ago, and it has been refined gradually. Meanwhile it has achieved a critical mass and demonstrated its added value. Following the upcoming upgrade, it will be marketed in a more proactive way.

As countries around the world grapple with decarbonising energy use to reduce climate impact, IRENA fosters international co-operation, technology, resource and financial knowledge on renewables, helps countries build their capacities in renewables and facilitates renewable energy projects throughout their life cycle.

Comprehensive and reliable information

Our estimation is that between 100 and 200 companies and institutions worldwide either provide or support some form of mitigation for credit risks, political risks and offtaker risks in the renewable energy sector. The most important ones are Berne Union members. Such providers will be invited to register and complete a profile with their products, eligibility criteria and application process.

Input forms will be available either online or offline. At this stage we used an Excel spreadsheet that will be uploaded once the development of the platform is completed. The input form comes with a help guide and takes on average 50 minutes to complete.

Risk types

The types of risk considered in RAMP's analysis would include:

- Credit risks
  - Offtaker risk on public buyers
  - Offtaker risk on commercial buyers
  - Liquidity risk
- Political risks
  - Expropriation, nationalization, confiscation
  - Currency inconvertibility and transfer restrictions
  - Political Violence, Terrorism and Sabotage
  - War & Civil War
  - Non-honouring of sovereign and sub sovereign obligations
- Currency exchange risk (hedging)
- Resource risk (optional)
- Force majeure, or Acts of God (optional)

RAMP at work

RAMP will help to see through the maze of eligibility criteria and facilitate direct contacts if & when there is a match between a provider and a potential user of a risk mitigation instrument.

Marketplace users will be able to identify their options by combining the platform's various filters – country, capacity, technology, type of risk and other criteria.

Participants (providers of risk mitigation, project owners and other stakeholders) will be automatically informed when information appears on the Marketplace that is potentially of interest to them. They will also be informed how often their profiles has been looked at and when their page must be updated.

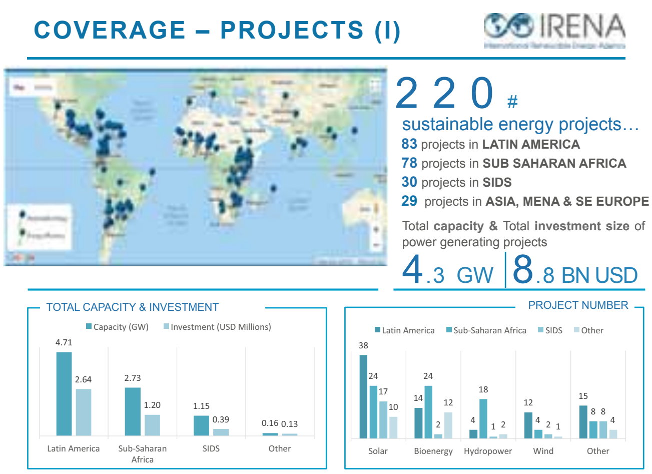
Potential users of risk mitigation instruments will be able to contact providers of risk mitigation, insurance brokers and other intermediaries directly from the Marketplace. Providers of risk mitigation and intermediaries will also be able to contact project owners directly.

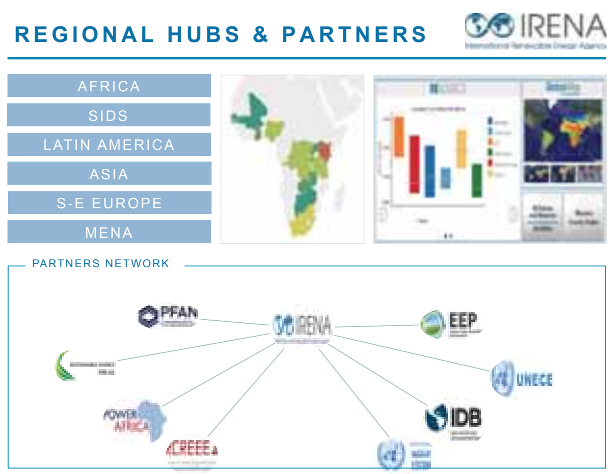
As a neutral facilitator, IRENA will not take the position of an insurance broker or make any representation that could induce liabilities, conflicts of interest or the suspicion of partisanship.

Toolkit

RAMP's expected users include small and medium-sized developers and their potential lenders.

Over the last years a number of new products – both insurance and guarantees – have been launched. The understanding of the potential of different products and the differences between them has become more difficult.





IRENA will take initiatives to clarify the different product features so that project owners can decide which solutions can work for them. IRENA will also engage participating risk-mitigation providers to provide clear positions and documentation.

The platform will compile reference documents to guide less experienced users and to propose template documents (e.g. non-disclosure agreement, enquiry form, non-binding indication format) that over time could help to standardise the interactions between different parties.

The proposed toolkit would include

- Reference materials about risk mitigation.
- Reference documents about project assessment and due diligence
- Template documents that can be used for interactions between different parties
- Discussion papers to introduce initiatives for standardisation and aggregation of projects and risk mitigation

The standardization initiative

Most risk mitigation products have been developed independently from each other. Although they cover the same risks and with comparable conditions, they can very greatly in their structure, their wording and the conditions that potential clients have to meet. In cooperation with international partners and hopefully the Berne Union, IRENA will explore if and how both the products and the related processes (project assessment, commercial process…) can be harmonized so that they become more transparent and compatible.

The status today

- The IT development of the platform is well underway and should be completed in August 2019;

Over the last years a number of new products – both insurance and guarantees – have been launched. The understanding of the potential of different products and the differences between them has become more difficult.

- The input form has been tested by 5 providers of risk mitigation (of which 4 Berne Union members) and was adjusted according to their feedback;
- The form is now being sent out in successive waves to Berne Union members and other potential participants;
- We hope to upload the completed forms in August and to go live immediately after that.
- We started with the development of the toolkit and we welcome all Berne Union who want to participate in the exercise.

We hope that this is of interest.

For further information, please contact
Jef Vincent, IRENA's Programme Officer for Renewable Energy Finance.
E-mail: jvincent@irena.org
Mobile: +971 562 168 256
Skype: jefvincent

Every energy project faces a range of risks that must be understood, assessed and, as far as possible, mitigated. Banks, development finance institutions, insurers, export credit agencies and guarantors have developed products to do this. But for investors and developers outside the financial industry, such products can be hard to identify, understand, compare or combine.

The Swiss chemical and pharmaceutical industry as a leading exporter

By Heribert Knittlmayer, Chief Insurance Officer, and
Andreas Oel, Assistant Vice President, Large Enterprises & Reinsurance, SERV

The chemical and pharmaceutical industry is Switzerland's most important export sec-tor and has achieved consistent growth in recent decades. Nonetheless, it is a sector that is not immune to challenges and structural change.

The first chemical and pharmaceutical factories emerged in the 19th century, tracing their origins to the production of dyes for the textile industry. The industry later went on to concentrate on high value-added products, such as serums, vaccines and drugs. Following a crisis and profound restructuring in the 1990s, the pharmaceutical sector expanded strongly from 2000 onwards, with exports alone rising from CHF 8 billion in 1990 to CHF 85 billion in 2016.

The chemical and pharmaceutical industry is now Switzerland's leading exporter, selling products worth about CHF 104 billion abroad in 2018, some 45% of Switzerland's total exports.

The operators

The industry is dominated by a handful of major chemical and pharmaceutical enterprises, although almost half its workforce is employed by small and medium-sized companies. In total, the sector comprises about a thousand active companies. The chemical and pharmaceutical industry currently employs some 77,000 people in Switzerland and more than 338,000 abroad.

The business association scienceindustries is an important operator in this sector. Founded in 1882 under the name 'Schweizerische Gesellschaft für Chemische Industrie' as an economic interest group for the chemical-pharmaceutical industry, the association's membership now includes around 250 well-known companies in Switzerland from the chemical, pharmaceutical, life sciences and other science-based industries.

Heribert Knittlmayer

Andreas Oel

Its members generate about 98% of their turnover from exports, and – with a share of 45% – the sector therefore makes a very important contribution to Switzerland's total exports. The association's member companies have deep roots in Switzerland, demonstrated by the fact that more than 20% of their global costs are incurred in Switzerland and almost a third of global research investment is made in the country.

Export promotion

scienceindustries operates a global insurance agency on behalf of its members, providing them with administratively simple and inexpensive cover for their exports. These export risks are in turn covered by Swiss Export Risk Insurance (SERV) in the form of global insurance, which bundles several companies' exports to different countries in a single insurance policy.

SERV insures the exports of Swiss companies against economic and political risks, and sets no minimum company or order volume size for its insurance cover. However, the exporter must be headquartered in Switzerland and the export transaction must include an appropriate

From the perspective of export credit insurance, localisation and networking will result in 'export' becoming less important, with attention shifting to vendor finance. In addition to hedging bad debt risk, providers of life science services will also have to consider how customers can finance these services

degree of value added in Switzerland. As a public organisation of the federal government, SERV operates on a subsidiarity basis, i.e. its insurance policies are offered in addition to those available from private credit insurers. This means that it covers mainly exports to countries with political and economic challenges.

The sector is undergoing a structural transformation

The successful growth achieved thus far, and the healthy positioning of the Swiss chemical and pharmaceutical industry cannot obscure the fact that the industry is one of many undergoing major structural change. A gradual privatisation of buyers in the purchasing countries has been observed in recent years. In the past, it tended to be a Ministry of Finance or central bank that acted as the buyer or guarantor, but now that role is generally played by a private company, a development that has increased SERV's audit costs. It also gives exporters new challenges, as they must ask for current annual figures and a special questionnaire from their customers to enable SERV to perform checks on private debtors.

Exporters' distribution structures are also becoming increasingly complex, often involving local subsidiaries or central purchasing companies, and there are no longer any direct traditional export contracts between the exporter and the foreign buyer. SERV adapts its insurance coverage constantly in line with these new business structures in order to continue to meet industry requirements.

According to a study conducted by the consulting firm PwC Strategy&, the challenges include increased pressure on margins due to the continuing commoditisation of product ranges and increasing volatility on the commodity markets. The competitive pressure has also been increased by new competitors in Asian countries, and bioengineering start-ups have accelerated the pace of technological change.

The answer to these challenges might lie in completely rethinking the industry's traditional business models. The focus to date has been on the innovation of new products and processes and raising productivity, but in future the actual customer benefit will play an increasingly important role. Chemical and pharmaceutical suppliers see themselves now less as manufacturers of products and more as service providers for people, with 'life science' the keyword. Value chains are now being reconsidered. The aim is to bring both research and development and production and marketing closer to the customer. The ability to capture, save and evaluate a broad range of customer information will also become an increasingly important success factor.

From the perspective of export credit insurance, localisation and networking will result in 'export' becoming less important, with attention shifting to vendor finance. In addition to hedging bad debt risk, providers of life science services will also have to consider how customers can finance these services if they are to ensure a demand for them. The more added value created by customers, including those in countries with higher political risks, the more the question arises of how companies can protect their assets from expropriation or other political upheavals; for instance, by means of investment risk guarantees. Such issues are nothing new for ECAs, but what is new is that this topic is becoming an issue in life science services. ■

ECA Finance: A promising financing mechanism to scale the delivery of the SDGs

By Hussein Sefian, Founding Partner, Acre Impact Capital

The Sustainable Development Goals represent the ‘blueprint to achieve a better and more sustainable future for all’[1] yet they remain significantly underfunded, with a financing gap of $2.5 trillion a year in emerging markets. Numerous actors, including development banks, private investors, impact investors, charities and philanthropists are looking for solutions to address this challenge but often do so independently of each other. As per SDG17, a more ambitious partnership approach is required to tackle the challenge. In this article, we argue that combining the savoir-faire and expertise of export credit agencies in emerging markets with impact investor’s capital and focus on achieving social and environmental benefits could be an innovative new type of partnership to help address the gap.

What is impact investing?

The Global Impact Investment Network (GIIN) defines impact investments as “investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return”[2]. In order to be considered an impact investment, three key features must be present:

(i) Intentionality. The investor must have the intention to create a positive social or environmental impact through its investment.

(ii) Financial returns. A misconception amongst some investors is that impact investing delivers sub-commercial returns. In fact, the majority of impact investors target

Hussein Sefian

market risk-adjusted returns and most meet or exceed investor expectation in terms of financial returns[3]. The pursuit of financial returns differentiates impact investing from philanthropy and charities which pursue other priorities.

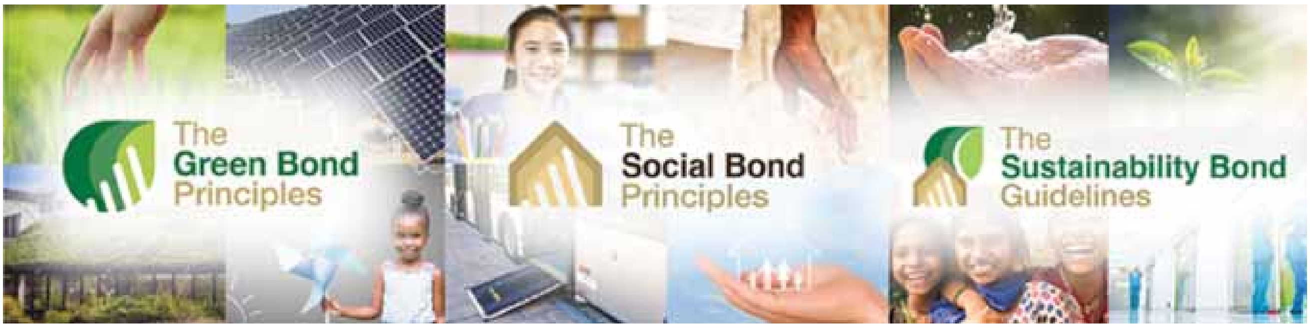
(iii) Measurement. Impact investors are committed to measure and report on the social and environmental performance of their investments.

The impact investment industry is still at an early stage of development. The term ‘impact investing’ was initially coined by the Rockefeller Foundation in 2007[4]. In a short ten years, the industry has grown to $502bn Assets under Management (AuM) by the end of 2018[5], an impressive 122% increase over 2017. The industry has expanded into different asset classes such as real assets and infrastructure, while devising new innovative products such as pay-for-performance social impact bonds.

Why does it matter?

The Sustainable Development Goals (SDGs) are at the core of the 2030 Development Agenda aimed at addressing global developmental challenges such as poverty eradication, climate change, inequality, health and education and infrastructure. Achieving the SDGs will require significant

The Global Impact Investment Network (GIIN) defines impact investments as “investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return”.



increases in investments from current levels. For developing countries, the UN estimates an annual financing shortfall of $2.5 trillion for the period 2015-2030[6]. It is widely recognised that existing development sources of funding (government spending and development institutions) will not be sufficient. Mobilising new sources of both public and private sector capital is needed. Impact investors are well placed to mobilise additional sources of capital and pave the way for new innovative financing mechanisms that could bring us closer to achieving the SDGs.

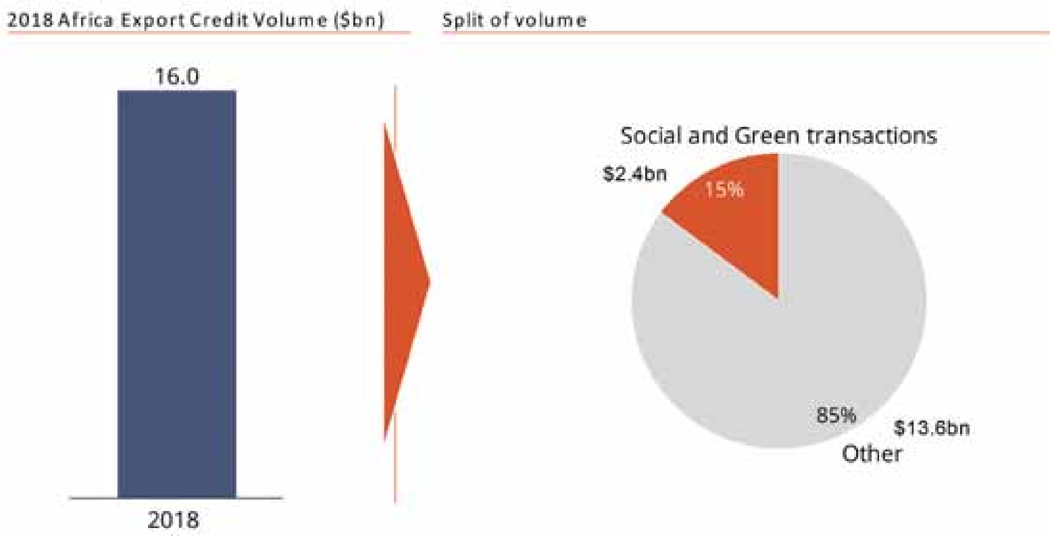
Sustainable financing in the Export Credit market

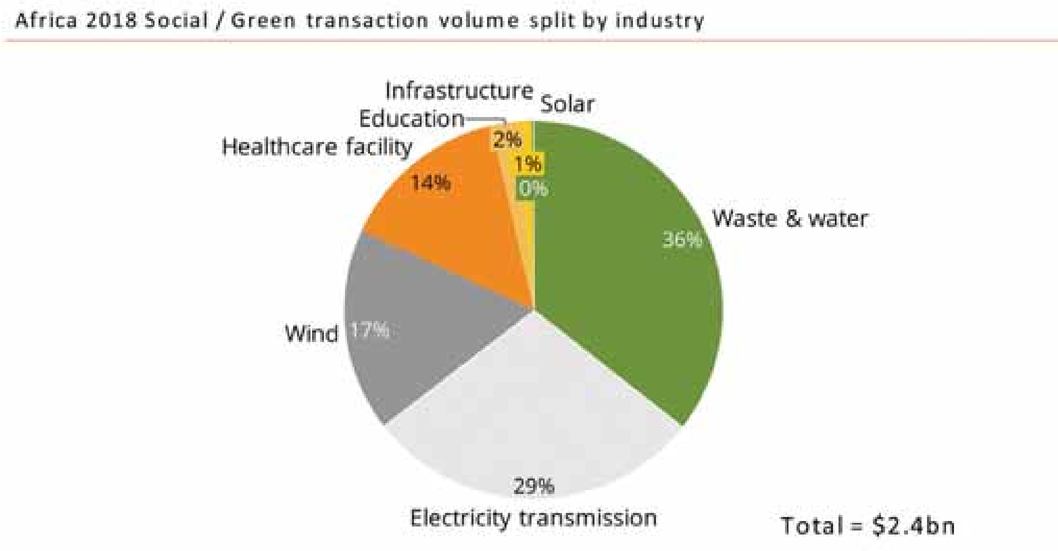
By financing the imports and investment needs of developing countries, the Export Credit market is already active in financing exports and projects that address the SDGs. In order to size the 'sustainable' export finance market, ICMA's (International Capital Markets Association) Green Bonds Principles (GBP) and Social Bonds Principles (SBP) were used as a basis for defining which transactions could be considered as 'sustainable'. These principles – underpinning $456bn[7] of Green and Social bonds outstanding as of 2018 – provide helpful definitions and categorization of types of projects and financings that could be considered as either Green or Social[8].

In addition, many of the arranging banks active in the Export Credit market have issued Green bonds and, in some cases, Social or Sustainable bonds. This implies that they have put in place (i) a Green / Social / Sustainable bond framework which outlines their adherence to the principles (ii) a governance mechanism to select the relevant projects for inclusion in the bond (iii) a mechanism to track the use of proceeds of the bond (iv) a mechanism to report on the performance of the selected projects. It may very well be that these banks have selected Export Credit loans for inclusion in their Green Bonds.

Working closely with TXF to exploit the TagMyDeals data with an initial focus on Africa in 2018, each transaction[9] was classified as either Green or Social for the purposes of sizing the market.

In 2018, only 15% of all Export Credit





volume in Africa could be classified as either Green or Social, representing $2.4bn of financing. Within this, the majority of the financing was in Waste & Water (36%), followed by Electricity Transmission (29%), Wind Power Generation (17%) and Healthcare (14%).

A proportion of sustainable financing of 15% is a relatively low starting point for the industry. It is not difficult to imagine that the share of sustainable export credit financing will grow gradually over time as companies embrace the principles of sustainable and green growth and as governments are held to account on the progress of their COP 21 NDC (Nationally Determined Contributions) commitments.

By financing the imports and investment needs of developing countries, the Export Credit market is already active in financing exports and projects that address the SDGs.

However, more can be done by arranging banks and ECAs both at the policy level and on individual transactions. The efforts of the ICC Global Export Finance Committee to engage into an industry-wide conversation on this topic are a welcome and worthwhile step in this direction. In addition, the EBF in its November 30th 2018 position paper highlights the significant potential for export finance to support sustainable growth.

Impact investing and Export Credit

A number of features of the Export Credit market are potentially very attractive to impact investors:

Additionality. The involvement of an Export Credit Agency often implies that pure commercial financing on market terms is not available or only available at terms that would be too prohibitive for the transaction to close. By supporting impactful transactions in this market, impact investors provide a true incremental contribution to environmental and social outcomes. ECAs also have a key role to play in providing support for innovative companies committed to the export of technology and services that further the SDGs and deliver a sustainable energy transition. Some of these companies may be smaller organisations today, but could very well be the leading industry champions of the future.

Strong environmental / social practices. OECD ECAs adhere to the "OECD Common Approaches" on Environmental, Social and Human Rights due diligence. For riskier projects, an Environmental and Social Impact Assessment (ESIA) must be conducted in line with the World Bank Safeguard Policies and the IFC Performance Standards. While these assessments do not guarantee positive social or environmental outcomes, they do ensure that any negative impacts that could be foreseen are identified and mitigated. In addition, transactions are monitored for any new risks that may arise, at least during the construction period and often during the life of the ECA cover. As such, they allow impact investors to avoid unintended consequences and "do no harm".

Control of the use of proceeds. Arranging banks and ECAs play a critical role around

The financing gap in emerging markets to achieve the SDGs stands at $2.5 trillion a year until 2030. In order to close this vast gap, a concerted effort is required across public funding, private sector solutions, development finance institutions, impact investors and philanthropists.

the compliance functions of KYC and AML and anti-bribery and corruption, providing key safeguards to impact investors. In addition, the disbursement of funds directly to the contractor helps ensure capital is used for the stated purpose of the project.

Debt sustainability. In public sector transactions, where the buyer is a government or a municipality, most OECD ECAs will perform debt sustainability assessments before supporting a transaction. This could include assessing the priority of the project for the social and economic development of the country, ensuring alignment with the debt sustainability analysis of the World Bank / IMF, and applying value for money tests.

Impact investors can be crucial partners to the industry. Indeed, they can play an active role in providing funding in ECA-covered transactions and/or in down-payment financing. Beyond financing, impact investors contribution to sustainable development in Export Finance can be catalytic in two unique ways. First, by providing a readily available source of financing, they can help crowd-in contractors, banks and ECAs, enabling the completion of highly impactful, yet marginal transactions. Secondly, by applying an impact lens on transactions in which they participate, they can help achieve improved social and environmental outcomes by ensuring that these considerations are embedded in the project from the onset.

Conclusion

The financing gap in emerging markets to achieve the SDGs stands at $2.5 trillion a year until 2030. In order to close this vast gap, a concerted effort is required across public funding, private sector solutions, development finance institutions, impact investors and philanthropists. ECAs also have a key role to play. They already operate in emerging markets, where they have the skills, experience and risk capacity to support the sustainable development of these economies. Governments around the world are espousing the principles of sustainable development and are looking to deliver on their NDCs under the Paris Climate Accord. It is only a question of time until this agenda filters through their national ECAs.

About Acre Impact Capital

Acre Impact Capital aims to deliver environmental and social impact through targeted investments in social infrastructure in Africa and the Middle East. Acre is launching an impact credit fund focused on down-payment financing for impactful transactions in the Export Credit market.

Contact: hussein.sefian@acre.capital

Notes:

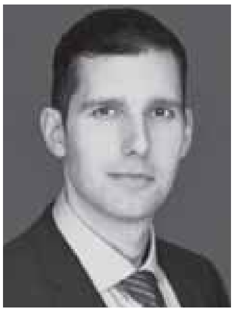
1 https://www.un.org/sustainabledevelopment/sustainable-development-goals/
2 https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing
3 GIIN Annual Impact Investor Survey 2018
4 Rockefeller Foundation Innovative Finance (https://www.rockefellerfoundation.org/our-work/initiatives/innovative-finance/)
5 GIIN Sizing the Impact Investing Market
6 UNCTAD World Investment Report 2014
7 Bloomberg, ThomsonReuters
8 For example, the GBPs provide examples of green projects that fit within the following categories: renewable energy, energy efficiency, pollution & prevention control, environmentally sustainable management of living natural resources and land use, terrestrial and aquatic biodiversity conservation, clean transportation, sustainable water and wastewater management, climate change adaptation, circular economy adapted products and green buildings.
9 Note: The classification was largely done on the basis of the sub-industry classification in TagMyDeals. More information will need to be input by market participants in order to improve the accuracy of the analysis.

De-risking sustainable infrastructure

By David Uzsoki, Senior Advisor, Sustainable Finance and Infrastructure, International Institute for Sustainable Development (IISD)

The world needs about $3.7 trillion investment in infrastructure every year, according to the Global Infrastructure Hub. Despite all the efforts of governments, development finance institutions and the private sector, current spending on infrastructure still falls short by about $600 billion annually. The funding gap is even bigger when the additional costs of reaching the UN Sustainable Development Goals are factored in.

After years of low interest rates, investors are increasingly seeking out alternative investment opportunities in their search for attractive, stable returns. Indeed, this was one of the main drivers behind the recent popularity of the infrastructure asset class. At the same time, the increased demand has underlined the need for more robust project pipelines. The shortage of bankable projects forces investors either to stay on the sidelines or accept high valuations. This is particularly an issue for sustainable infrastructure: projects with low carbon and environmental footprints. Due to the higher upfront costs and perceived technology risks of environmental-friendly solutions, they are often harder to finance than the traditional alternatives. As infrastructure is one of the main sources of global carbon emissions, any infrastructure built today has to be low carbon in order to be in line with commitments made as part of the Paris Agreement.


David Uzsoki

Multilateral development banks (MDBs) and other development finance institutions (DFIs) play an important role in bridging the infrastructure gap by providing financing when private capital is reluctant to participate on its own. However, DFI balance sheets are not large enough to cover the additional $600bn investment needed every year through lending alone. There is a pressing need for innovative solutions to de-risk projects in order to attract private capital at scale. Indeed, that is the purpose of credit enhancement solutions. By providing guarantees or subordinated capital, DFIs can leverage their limited resources to mobilise investments orders of magnitude larger than what would be the case through senior loans alone. Indeed, credit enhancement seems like the obvious solution to the global infrastructure deficit. Yet, there is surprisingly low uptake of these instruments. In order to

After years of low interest rates, investors are increasingly seeking out alternative investment opportunities in their search for attractive, stable returns. Indeed, this was one of the main drivers behind the recent popularity of the infrastructure asset class. At the same time, the increased demand has underlined the need for more robust project pipelines.

understand the reasons for this, one needs to examine both the demand and supply-side barriers that prevent these solutions from gaining more traction in the space.

The role of MDBs in upscaling credit enhancement

There is a wide spectrum of credit enhancement providers, including MDBs and other DFIs, export credit agencies, private guarantors and insurance companies. However, due to their large balance sheets and global presence, MDBs are by far the most dominant players in the space.

Most MDBs offer some form of credit enhancement solution, ranging from partial credit and political risk guarantees to providing risk capital on concessional terms. Yet, their activity in credit enhancement pales compared to the amount of loans they underwrite each year. One of the reasons behind this is employee incentive structures: they tend to favour lending over credit enhancement products. Bankers at MDBs are evaluated at year-end based on the annual business investment (ABI) they generated. While loans are included in the ABI calculations on their scorecard, guarantees are often excluded. Considering that lending is the core business of MDBs, it is not at all that surprising that incentives are aligned accordingly. However, when looking at their overall mandate of promoting development, adjustments to how incentives are set up is justified. One solution, which some MDBs are already considering, is assessing employee performance based on the annual mobilised investment (AMI) instead. AMI-based evaluation would not only enable the inclusion of credit enhancement but would also encourage employees to actively explore opportunities for such transactions.

Another source of hesitation among MDBs to upscale credit enhancement is the potential impact of these instruments on their credit rating. MDBs tend to treat guarantees and loans the same way when deciding how much capital they allocate for it. This conservative approach to risk management can be explained by the fact that the most valuable asset of MDBs is their AAA credit rating. It enables them to borrow cheaply and on-lend to projects at competitive rates. This is especially important for supporting high impact, development projects, which rely on a low cost of financing to be bankable. Having a large number of guarantees outstanding with low capital allocations can raise red flags with credit rating agencies and trigger downgrades.

The global development community is discussing ways to address this issue. One idea, which is getting a lot of traction, is the creation of a 'universal guarantee facility'. This would be a new entity created through a joint collaboration across major MDBs with the sole purpose of credit enhancing infrastructure projects. It would be capitalised by developed country governments, international finance institutions and philanthropic organisations. This facility would enable MDBs to move guarantees and other de-risking instruments off their balance sheet, so they do not have to worry about the credit rating implications of these products.

Low demand for credit enhancement

The underutilisation of credit enhancement instruments for infrastructure is also a result of insufficient demand. While there are enough projects that need to be de-risked to become investable, there is a surprisingly low awareness of the range of credit enhancement solutions available across infrastructure sponsors and investors. Public infrastructure planners are often not aware of the variety of instruments offered and whether projects under preparation are eligible. In addition, institutional investors and financial advisers also have little experience with credit enhancement. While some of them have heard about these instruments,

There is a wide spectrum of credit enhancement providers, including MDBs and other DFIs, export credit agencies, private guarantors and insurance companies. However, due to their large balance sheets and global presence, MDBs are by far the most dominant players in the space.

only very few of them have actually seen them being used. This is a missed opportunity.

Furthermore, some potential users perceive credit enhancement from MDBs to be expensive. They wonder if commercial markets can provide guarantees on better terms. Indeed, MDBs have acknowledged that in some cases it can be cheaper for the borrowing organisation when MDBs resort to buying a loan guarantee from a commercial provider instead of issuing guarantees themselves.

Finally, there is a question around asset recycling. Even though there have been some notable projects with bond financing, banks are still the major source of debt financing for infrastructure. At the same time, they are required to comply with stringent capital adequacy, leverage and liquidity requirements. In practice, this means that banks tend not to keep infrastructure loans on their balance sheet, but instead sell them off their books before these loans come to maturity. This process is also called asset recycling. However, if there is credit enhancement in place, for example in the form of a guarantee, this process becomes administratively much more complicated and, in some cases, practically impossible. That is the reason why some financial institutions have been slow to embrace credit enhanced deals. More standardisation in the design and implementation of these instruments could certainly make banks more comfortable with the additional steps required for asset recycling.

Moving from billions to trillions

As a next step, the development and investor community need to assess what de-risking instruments are still missing and which financial institutions are best placed to provide them. For example, investors are asking for solutions to address currency risk for non-convertible currencies in developing and frontier countries. Current providers still lack the balance sheet to take on currency risk at the scale that would be needed globally. Also, what could be done to strengthen domestic capital markets, so local financial institutions are better placed to provide large, long-term loans that infrastructure projects require?

Similarly, refinancing risk has been a major problem in many of these countries. How can you have a financially viable project for 40 years if the longest loan maturity that local banks can provide is five years? The problem with short-term financing is that benchmark interest rates in these countries can change significantly within this time period. While the well-established, liquid capital markets of developed countries offer instruments to hedge interest rate risk, these long-term de-risking instruments do not exist for the local currencies of many low- and middle-income countries.

In order to close the global infrastructure deficit in a sustainable way, the global development community needs to embrace solutions that can mobilise trillions instead

In order to close the global infrastructure deficit in a sustainable way, the global development community needs to embrace solutions that can mobilise trillions instead of just billions.

of just billions. The good news is that there is no shortage of capital seeking investment opportunities, and through credit enhancement the limited public resources can be leveraged significantly. Nonetheless, to reach the $3.7 trillion investment needed annually, there needs to be a more systemic collaboration among stakeholders. There should be more political and institutional support, both internally and externally, for these solutions. Also, there should be more awareness raising and education about the instruments available, eligibility requirements of providers and showcasing the potential of various de-risking solutions. Only then can the challenges of upscaling credit enhancement for sustainable infrastructure be addressed globally. ■

ECAs and the aid community – two universes in close proximity

By Ferdinand Schipfer, Head of International Relations at the Austrian Export Credit Agency Oesterreichische Kontrollbank AG (OeKB)

There are far more similarities between the MDB/DFI and ECA universes than meet the eye. While I have been striving for many years to bring together the aid community with traditional credit financing institutions, I consider the time for more cooperation more opportune than ever.

Admittedly, the public perception of Export Credit Agencies is not based on in-depth knowledge of them. If ECAs are known at all, their reputation is hovering somewhere between 'sometimes helpful' and 'problematic in one way or the other'.

I do not want to deny that there do exist some ECA portfolios heavy on defense, some others supporting environmentally questionable projects, and others, which might even burden their national budgets.

What all ECAs have in common is some mistrust on the part of MDBs, IFIs, DFIs and the civil society: ECAs are supposed to try to avoid international competitive bidding and to blindly favour their national companies, thus being 'egoistic trade distorters'.

Not deservedly so!

Very much encouraged by the present discussions within the OECD, but also by several personal encounters, many of them in the wake of Andreas Klasen's recent and well-organized IfTI Conference in Offenburg, Germany, I would like to visualize how close the 'two universes' are.

What I have gleaned from the ongoing debates and efforts in any case is the beginning of an increase in cooperation and cofinancing between the aid world and ECAs, (undoubtedly) to the benefit of suppliers or foreign sponsors but even more


Ferdinand Schipfer

to the advantage of countries, institutions and companies investing in infrastructure or industrial projects or attracting foreign direct investors.

True, the broad objective of ECAs is support for their national companies – be they suppliers or be they overseas stakeholders. However, putting aside this motive and looking at the regions or projects supported, it is fair to state that, in fact, ECAs are also a sort of development institution. Many times, the countries, the partners and the projects we are working on are the same as those of aid institutions in a broad sense! This applies both for:

1) export credit activities and
2) overseas investment insurance

1) Export credit activities

Mandated by a European Union Member State Government, OeKB is confined to supporting only so-called non-marketable risks, with the following two consequences:

- All short-term business with trading partners in better-off countries (by and large OECD member states) is catered for by the private insurance market.
- OeKB's activities, in contrast, focus on medium and long-term credits for exports to newly industrialized countries, to transition economies and to emerging markets. Business is basically split into

If ECAs are known at all, their reputation is hovering somewhere between 'sometimes helpful' and 'problematic in one way or the other'.

infrastructure and commercial or industrial transactions:

1 a) Infrastructure

Very much in keeping with Austria's industrial structure and main capabilities, the major portion of OeKB's portfolio is the supply of goods and services for basic infrastructure investments: energy generation and distribution, health, railway infrastructure or environmental projects – all focal points also of MDBs and IFIs!

Tied aid / Soft loans

OeKB's 'development institution' character is all the more pronounced as, like some other ECAs, we manage a special credit program called 'soft loans'.

In essence, soft loans are deliberately subsidized funds to make 'commercially non-viable' infrastructure projects possible in emerging regions.

As opposed to market-based, 'hard' loans, these credit facilities carry 'sweetened' terms. They imply grants and subsidies resulting in, on a net present-value basis, concessional levels of at least 35%, and at least 50% for Less Developed Countries respectively.

According to OECD-Consensus rules, such loans may be made available only to developing countries. The inhabitants' Gross National Income per capita must not be higher than close to USD 4,000 per annum.

The motives for soft loans are:

a) assistance to not-that-well-off countries and projects and, at the same time,

b) promotion of Austrian exports including an Austrian value-added.

The Austrian practice is to extend loans with very long tenors, i.e. 20 or 25 years and without any interest payment obligation. Occasionally, we also extend mixed credits, meaning a combination of a small grant (e.g. 10/20 %) and a concessional loan. In view of such long credit periods, the benefiting borrowers must be the best-rated partners in a given country, i.e. the Ministry of Finance.

The outstanding Austrian volume, as of today, is roughly EUR 2.5 billion, i.e. approx. 10 % of OeKB's overall portfolio. The regional focus is Asia, with sharp increases in African countries during the last decade.

The sector hit list is topped by health and vocational training projects, communication and transportation infrastructure, small renewable energy, water treatment and other environmental infrastructure projects.

Stringent monitoring report requirements over several years after the starting point of a credit, forcing the involved supplier not only to deliver his goods and services properly but also to cater for post-implementation project management incl. reasonable training of local people and the provision of spare parts, if necessary, are part of the game.

1 b) Industrial/Commercial Transactions:

OeKB's non-infrastructure export credit activity supports commercially viable investments in a variety of industrial fields. In MDB and DFI terminology, this is nothing other than 'private sector initiatives', most typically resulting in the strengthening of emerging economies, in an increase in local employment, in enhanced inclusion of companies in global supply chains or in the transfer of technical know-how.

Local cost

Whether supporting infrastructure or straightforward commercial projects, more and more ECAs encounter requests by host country governments to increase participation of local companies. The catchword is 'localization', and it is brought into play not only in Brazil, Russia or Iran. Having tried tirelessly to increase multilayered skills of their workforce, having facilitated the purchase of production facilities in various sectors, and having attracted foreign direct investors (often with preferential tax treatments), many governments understandably insist on a growing involvement of their local capacities in larger investments. The current discussions within the OECD to modify local-cost rules (allowing for an inclusion of high local contributions in ECA-covers) is clear proof of OECD-ECA objectives to strengthen local economies.

Such moves will further increase opportunities for project ventures in evolving economies and, hopefully, more co-operation between aid institutions, private sector initiatives and ECAs.

2) Overseas investment insurance

In this field ECAs most typically provide Political Risk Insurance (PRI). It is evident that we are talking about investments in somewhat difficult parts of the world. By buying companies, by establishing joint ventures or by building new production facilities in emerging countries, investors provide equity and funds, build plants and transfer know-how, thus building a host country's economic capacities.

Do you see similarities with the goals of the World Bank, ADB, AfDB, EBRD, or AIIB?

ECA financing

OeKB is, admittedly, only one of the few (but growing number of) ECAs that not only provide risk insurance but also very attractive financing. In our case, we refinance commercial banks whom we draw in into export and investment projects in remote regions. With our financing scheme, buyers and investors all over the world benefit from the Republic of Austria's excellent credit rating. In a recent meeting, a representative from a landmark MDB termed OeKB's 'normal', non-subsidized long-term financing conditions as 'concessionary' financing by their institution's standards.

Sustainable Development Goals

In their daily work, it has become customary for OECD ECAs to take into account – explicitly or implicitly – several SDGs. Checking a project's environmental impacts is standard. Potentially positive bearings on local living conditions, exceptional humanitarian aspects, potential import substitution effects or an increase of local employment are all factors that favorably influence ECA underwriting decisions.

[By no means do I advocate databased benchmarking ECA contributions against SDG for each and every transaction supported! After all, we are service providers to exporting or investing companies or banks who simply do not dispose of relevant numbers if they, let us say, export or finance spare parts to a hospital in India.]

I could mention many more commonalities and concept similarities between the two worlds (at least in Austria), such as:

- OeKB's general policy not to support (unproductive) defense projects,
- OeKB's 100% share in the Austrian Development Bank,
- our constant exchange of ideas with (the state-owned company) Austrian Development Aid including occasional co-operation or
- regular contact with other aid-community stakeholders.

In the interest of being brief, I want to conclude with some remarks on OeKB's co-operation experience with MDBs/IFIs and other ECAS respectively.

While we see intensive co-financing activities with other ECAs and have a huge multi-sourcing portfolio together with our ECA sister organizations, cooperation cases with MDBs, IFIs or DFIs are comparably rare. As we know from various discussions within the Berne Union, this phenomenon is by no way confined to Austria.

If DFI and ECA collaboration does take place on a given project, it very often is only a rather loose, uncoordinated working side-by-side including the double assessment of environmental, technical or commercial aspects.

This is a pity!

Only every now and then do we witness very close cooperation – not to mention the ideal, old EBRD concept "ECLAT" (Export Credit Leveraged Loan Technique) which managed to combine an International Competitive Bidding process with risk sharing between EBRD and ECAs.

Conclusion

- Charitable assistance in sectors like healthcare or education and
- long-term loans partly on sweetened terms for infrastructure (like energy generation, water supply, transportation or environmental protection)

must be complemented by:

- private sector development to improve self-sufficiency and integration of emerging economies into international supply chains.

In view of global needs, but also in view of the enormous threats posed by a changing climate, we must succeed in overcoming existing cooperation hurdles, we must increase the exchange of information about potential projects, and we must do more cross-acquisition, and must do more joint projects.

Considering the enormous combined capacities of MDBs, IFIS, DFI and ECAs and taking into account the ongoing convergence of our aims, concepts and procedures, I am quite positive that we have a good chance to get ahead fast. While our institutional backgrounds and our motives may differ, the countries, projects and objectives we are working on are very often the same.

Finally, I hope that some readers of my commentary can join me in questioning the legitimacy of speaking about universes in the plural, in rephrasing this article's title and talking about a single universe of project opportunities. ■

Financing infrastructure with private investors in developing countries: is it possible to use bilateral aid?

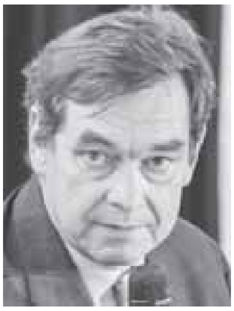
By Henri d'Ambrières, Advisory Services - Export, Trade and Project Finance, HDA Conseil

The 2030 Agenda for Sustainable Development defined 17 Sustainable Development Goals (SDGs) which will require massive new infrastructure projects in the developing world. A substantial part of these investments will have to be accommodated by the private sector. The need for blended financing is also often mentioned as key to support some of these private investments. Could this blending also include public bilateral financings such as export credits and development aid?

The investment gap

In a report published in June 2019, the Asian Development Bank estimated that from 2016 to 2030 the need for investments in infrastructure in developing Asia stood at $1,700 billion per year. Infrastructure encompasses four sectors: transport, power, telecommunications, and water supply and sanitation, in addition to the costs of climate mitigation and adaptation (climate-adjusted estimate). Currently these investments amount to 'only' $880 billion per year. The infrastructure investment gap—the difference between investment needs and current investment levels—equals 2.4% of projected GDP of these countries for the 5-year period from 2016 to 2020 when incorporating climate mitigation and adaptation costs. As public resources are limited, the private sector would have to finance 60% of this gap (or $500 billion per year) in addition to its actual contribution.

In regard to Africa, for the African Development Bank, the investment needs would be in the range of $130 billion to $170 billion per year, and the gap would be in the range of $68 billion to $108 billion per year.


Henri d'Ambrières

In a report prepared for the UK's Department for International Development, the Knowledge, Evidence and Learning for Development programme (K4D) mentions "an annual $1.4 trillion investment gap for Low Middle Income Countries – LMICs – and Low Income Countries – LICs – ($2.5 trillion worldwide). A large part (40%) could be financed through increased private investment (including foreign direct investments). The remaining public investment needs are particularly high and unmanageable for LICs, as it is 27% of GDP, while for LMICs it is 5.5% of GDP".

As efficient infrastructure is required to support growth, the lack of investment might make it difficult to achieve the SDGs.

The associated risks

Financial risks linked to investments in LICs and LMICs are often higher than in other countries.

This is recognized through different methods by the Export Credit Group (ECG) and the DAC (Development Aid Committee) of the OECD.

ECG Approach

The ECG classifies countries in 8 categories, ranging from Category 0 (the less risky one) to Category 7 (the riskiest one), according to political and economic analysis. Most LICs and LMICs are in the OECD categories 6 and 7 (see Table 1).

NB : HICs stand for High Income Countries and UMICs stand for Upper Middle Income Countries.

This classification is used to determine Minimum Premium Rates (MPR) for Sovereign Risks and private borrowers. MPR for a 2+10 year loan are mentioned as an indication. Private borrowers normally pay a higher premium as they are considered as riskier than their sovereign (see Table 2).

DAC Approach

The DAC considers that associated risks can be reflected by different discount rates. In addition to the IMF standard discount rate of 5%, the DAC adds surcharges linked to the income level of the recipient country and for private borrowers. They are two additional factors linked to the duration of the loan and the risk category of the ECG (see Table 3).

Discount rates do not change according to the currency of the loan.

Grant element

Export credits

The WTO acknowledges that Export Credits granted within the framework of the OECD Arrangement do not contravene its policy on the prohibition of subsidies in international trade. As a consequence, an export credit extended at CIRR (plus its risk premium) is considered as a loan which does not include any grant element. In September 2019, CIRR for 10-year loans stood at 0.24% in euros and 2.55% in US dollars.

If a Direct Lender extend a Buyer Credit with a 2+10 year duration at an all-in cost of 2.5% in euros, including CIRR and MPR, to a borrower established in a Category 6 country, there is no grant element in it.

Table 1

Category	Other	1	2	3	4	5	6	7
HICs	37	1	5	4	3	2		1
UMICs			2	7	6	11	10	8
LMICs				4	1	7	16	13
LICs						1	6	26
Total	**37**	**1**	**7**	**15**	**10**	**21**	**32**	**48**

Table 2

Category		1	2	3	4	5	6	7
Sovereign	MPR Flat	1,36%	2,60%	4,32%	6,71%	9,57%	12,21%	15,77%
	MPR p.a.	0,22%	0,42%	0,69%	1,07%	1,53%	1,95%	2,52%
Best Private Rating		AA-	A-	BBB-	BB	BB-	B+	B
	MPR p.a.	0,40%	0,62%	0,87%	1,22%	1,67%	2,09%	2,71%
Private company rated		B-	B-	B-	B-	B-	B-	B-
	MPR p.a.	1,38%	1,69%	2,09%	2,72%	2,81%	2,94%	3,03%

Table 3

Category		LDCs & LICs	LMICs	UMICs
Base rate		5%	5%	5%
Country Risk Premium		4%	2%	1%
Private Sector Surcharge		1%	1%	1%
Intermediate Rate		10%	8%	7%
Factor – D < 10 y		-1%	-1%	-1%
Factor Category 2-5		-1%	-1%	-1%
Discount rate	RC 2-5 / D < 10y	8%	6%	5%
	RC 2-5 / D >= 10y	9%	7%	6%
	RC 6-7 / D < 10y	9%	7%	6%
	RC 6-7 / D >= 10y	10%	8%	7%

Tied Aid

Several decades ago, ECAs were competing on financial terms through risk premiums or small grants in addition to export credits. To prevent this, the Arrangement established the principles of minimum premium rates and minimum grant element.

The chapter III of the Arrangement deals with Tied Aid.

- Tied aid can only be used for borrowers established in LICs or LMICs
- No tied aid should be granted to "projects that normally should be commercially viable if financed on market or Arrangement terms".
- The minimum grant element is 35% or, if the borrower is established in a Least Developed Country, 50%.
- The discount rates (DDR – Differentiated Discount Rates) used to calculate the grant element vary according the currency and the duration of the loan, with a reference to CIRR rates, but do not take into consideration the associated risk of the borrower. The prevailing DDR for 2019 are presented here below (see Table 4).

DDR are below all-in rates (including MPR) of a buyer credit granted at CIRR if the buyer is established in a low-risk country (up to Category 5). This implicitly would recognize a grant element in such a buyer credit, in the absence of any risk consideration for best-rated buyers and a kind of subsidy made by buyers established in Categories 6 and 7.

With DDR in euros close to 2%, concessional loans with a duration of 30 years need to be extended with a 0% interest rate in order to reach a 35% grant element if the borrower is established in a MLIC.

It becomes almost impossible to extend concessional loans to LICs as the requested grant element is 50%, unless interest rates are negative! And as average CIRR rates in 2019 are for the time being below those of previous years, some problems might appear to reach the 35% grant element in 2020.

Untied Aid

If a loan with a 2+10 year duration is extended with a fixed rate of 2.5% for example, its associated grant element varies in relation with the discount rate of reference, which can range between 6% for UMICs and 10% for LICs.

The DAC considers that the grant elements should only be reported if it is higher than

- 45% for LDCs and other LICs,
- 15% for LMICs
- 10% for UMICs

Loans over 2+10 years at 2.5% reach the minimum grant element for UMICs and LMICs.

For LICs, the minimum duration has to be above 18 years to reach this minimum grant element.

Some comments

Evaluation of the grant element

There is no common approach for the evaluation of a grant element attached to a financing.

The IMF is using a flat 5% discount rate and classifies loans in different categories according to their grant element (see Table 5).

For a 2+10 year loan with a fixed interest rate of 2.5%, grant elements vary according

Table 4

Repayment Period	R < 15	15 =< R < 20	20 =< R < 30	R >= 30	Average CIRR
USD	4.7%	4.9%	5.1%	5.2%	3.92%
EUR	1.8%	2.1%	2.2%	2.3%	1.10%

Table 5

Nature	Details	Grant Element
Very concessional	38 years – T 0,75%	> 50%
Concessional with fixed interest rate	22 years – T 1,5%	35% to 50%
Concessional with floating interest rate	27 years – m 1,5%	35% to 50%
Semi concessional with fixed interest rate	20 years – T 2,5%	20% to 35%
Semi concessional with floating interest rate	20 years – m 2,5%	20% to 35%
Commercial	7 years – m : 5%	< 20%

to the scheme of reference (see Table 6).

For a windfarm which might benefit from an 18-year repayment period with a 3% interest rate, the grant elements would be as shown in Table 7.

The discount rate used for Tied Aid induces a penalization as the interest rate is higher!

A donor country which refers to the OECD rules (ECG and DAC) is clearly incentivized to use its DFI (Development Financial Institution) to extend such a loan to a borrower established in an LMIC or an UMIC in order to generate development aid. As minimum grant elements for a borrower established in a LICs are not reached hence the extension of concessional loans (being tied or untied) to LICs might not be considered.

Beneficiary countries

According to the ECG rules, tied aid may only be granted to LICs and LMICs. In practice, with the prevailing rules on Tied Aid (for discounting and minimum grant element), LICs are too poor to receive tied concessional loans and the only recipient of these loans are LMICs. There is might be one solution with the addition of a grant to a concessional loan, but it is seldom used.

For the DAC, LICs and LMICS, but also UMICs can benefit from untied aid. With the present rules, which make it easier to reach minimum grant element of 15% or 10%, untied aid might concentrate on LMICs and UMICs.

Access of private companies to aid

The DAC insists on the need for Development Banks to offer Private Sector Instruments (PSI) to private borrowers and to blend them in order to attract commercial lenders in their projects. It also insists on the need to untie all their financial supports, as a way to allow buyers to better choose their providers and to promote better practices. Untied Aid is clearly is a financial resource offered to private borrowers in the developing world. And the need for aid is limited to the financing provided by the PSI.

At the same stage, the rules of the Arrangement stipulate that a project supported by Tied Aid should not be commercially viable. As a consequence, most

A donor country which refers to the OECD rules (ECG and DAC) is clearly incentivized to use its DFI to extend such a loan to a borrower established in an LMIC or an UMIC in order to generate development aid.

Tied Aid is directed to Sovereign Borrowers and private borrowers do not have access to it. It is also complicated to blend Tied Aid as the grant element will have to be calculated on the whole financial package (and not only on the concessional financing).

Blurring frontiers

The Arrangement makes it clear in Paragraph 33 that there are two different worlds: the support of exports and the support of development: "The Participants have agreed to have complementary policies for export credits and tied aid. Export credit policies should be based on open competition and the free play of market forces. Tied aid

Table 6

2 + 10 y	IMF	LICs - 6	LMICs - 6	UMICs - 6	Export Loan	Tied DDR €
Discount R	5%	10%	8%	7%	-	1.8%
Grant	15%	37%	29%	25%	None	-5%

Table 7

2 + 18 y	IMF	LICs - 6	LMICs - 6	UMICs - 6	Export Loan	Tied DDR €
Discount R	5%	10%	8%	7%	-	2.1%
Grant	16%	43%	34%	29%	None	-9%

policies should provide needed external resources to countries, sectors or projects with little or no access to market financing. Tied aid policies should ensure best value for money, minimise trade distortion, and contribute to developmentally effective use of these resources."

However, as it appears in the US Exim Competitiveness Report, we should not forget that the Arrangement covers a contracting part of the activities of the ECAs as:

1. non-OECD ECAs, which had very limited activities 40 years ago, represent now almost 43% of the activity of the ECAs
2. most OECD ECAs have developed over the last 20 years investment products and untied tools which are not managed by the Arrangement

In addition, DFI are playing an increasing role. The activity of the North American and European DFIs has increased more than three-fold, to more than $ 12 billion in 2018, and it is not always untied. On that point, the policy which will be applied by the new US International Development Finance Corporation will be of interest. Non-OECD DFIs have no reason to apply untying rules.

Conclusion

To reach the SDGs, Multilateral Institutions consider that an important part of infrastructure projects in telecom, power, transport and water in developing countries will have to be managed by the private sector. Most of these projects will require financing for imported equipment in addition to local expenditures.

The recourse to bilateral untied aid is possible and the need for a grant element is limited to the financing of the DFI. Prevailing applicable rules might make it more difficult in LICs than in LMICs or UMICs. DFIs promote the blending of untied aid with commercial financing.

The recourse to bilateral tied aid is complicated as projects should be not commercially viable, while the private sector promotes commercially viable projects! In addition, financial rules on minimum grant elements and the need for a grant element on all the financial package (instead of the concessional loan alone) make it very complicated to blend it with commercial financings for the donor countries (and impossible in practice for LICs).

Strangely enough, export credits can be more easily granted to LICs than Tied Aid and in some cases they appear to be compliant with the grant elements expected from untied aid.

The DAC insists on the need for Development Banks to offer Private Sector Instruments (PSI) to private borrowers and to blend them in order to attract commercial lenders in their projects. It also insists on the need to untie all their financial supports, as a way to allow buyers to better choose their providers and to promote better practices.

Instead of opposing development aid and support for exports, it might be worth thinking about similar rules to apply to all these financings and to check in which cases and under which conditions they might be combined in order to maximize the volumes of financing made available to infrastructure projects in developing countries, especially LICs. ■

To reach the SDGs, Multilateral Institutions consider that an important part of infrastructure projects in telecom, power, transport and water in developing countries will have to be managed by the private sector. Most of these projects will require financing for imported equipment in addition to local expenditures.

The transition from LIBOR to risk-free rates: what the export finance market needs to know

By Kam Mahil, Director – Legal, Loan Market Association

In July 2017, Andrew Bailey, Chief Executive of the UK Financial Conduct Authority ("FCA"), gave a speech in which he warned market participants that they should not rely on LIBOR being available after 2021. After this point, the FCA will no longer encourage or compel panel banks to submit to LIBOR. Work is continuing to progress on alternative near risk-free rates ("RFRs") which have been selected for each of the LIBOR currencies, including in relation to how these can be used in cash products. There has been increased regulatory focus on this in the last 6 months and, in particular, on the pace of transition in the loan market.

RFRs are not the same as LIBOR and it is important not to underestimate the work that is being created by this transition given its fundamental impact on the economics, operations and documentation of transactions (to name only a few of the transition challenges). Given that most export finance deals executed now will mature after 2021, there is extensive work that needs to be done to ensure a timely and successful transition of all such deals.


Kam Mahil

This article provides an overview of key aspects of the transition in respect of the loan market, with a particular focus on term rates and documentation, and what participants in the export finance market need to be thinking about.

RFRs in the LIBOR currencies

The RFRs identified by the various working groups in the LIBOR currency jurisdictions are set out below.

RFRs are very different to LIBOR in a number of respects, which means that the transition to RFRs is more complicated than just a change from one benchmark rate to another. In particular:

Currency	Chosen Risk-Free Rate	Secured rate/ Unsecured rate	Administrator	Working Group
U.S. Dollar	SOFR (Secured Overnight Financing Rate)	Secured	Federal Reserve Bank of New York	Alternative Reference Rates Committee
Euro	€STR (Euro Short-Term Rate)	Unsecured	European Central Bank	Working Group on Euro Risk-Free Rates
Sterling	SONIA (Sterling Overnight Index Average)	Unsecured	Bank of England	Bank of England Working Group on Sterling Risk-Free Reference Rates
Swiss Franc	SARON (Swiss Averaged Rate Overnight)	Secured	SIX Swiss Exchange	Swiss National Working Group
Japanese Yen	TONA (Tokyo Overnight Average Rate)	Unsecured	Bank of Japan	Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks

- LIBOR is a forward-looking term rate published for 7 tenors (e.g. 1, 3, 6 months) across 5 currencies; RFRs are backward-looking overnight rates;
- LIBOR includes term bank credit risk; RFRs are intended to be near risk-free; and
- LIBOR includes the premium paid on longer-dated funds; RFRs do not include a premium for term funding.

RFRs are usually lower than their LIBOR equivalents. They also do not reflect periods of credit stress, unlike LIBOR. This is illustrated by the graph below.

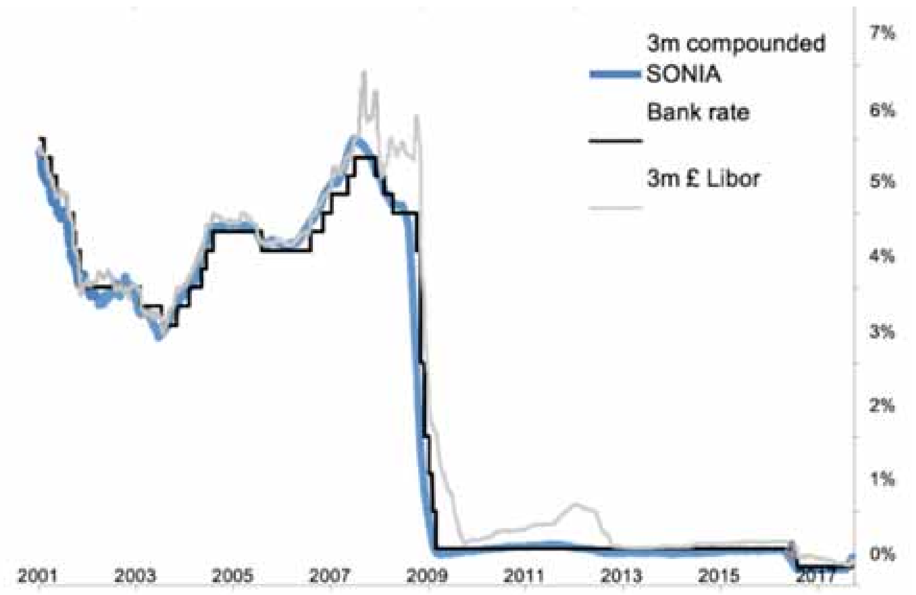
The spread differential between RFRs and LIBOR has varied throughout the business cycle. In periods of credit stress, a bank's cost of funds typically increases and, therefore, LIBOR also increases. However, RFRs would remain flat or may decline. The transition from LIBOR to a lower RFR potentially leaves a pricing gap which needs a reimbursement mechanism or to be built into pricing. As yet, there is no market consensus in the cash markets on how to deal with this differential for existing LIBOR deals (although ISDA have been consulting on this for the derivatives markets in the context of fallbacks from LIBOR to RFRs). Consideration also needs to be given to the impact this may have on the pricing of new deals which reference RFRs and on funding by lenders.

The spread differential between RFRs and LIBOR has varied throughout the business cycle. In periods of credit stress, a bank's cost of funds typically increases and, therefore, LIBOR also increases. However, RFRs would remain flat or may decline.

A note about EURIBOR

It should be noted that the position in respect of EURIBOR is different to LIBOR, as it looks set to continue being published for the foreseeable future (having recently received approval under the EU Benchmarks Regulation). As a result, the focus of the Working Group on Euro Risk-Free Rates is on more robust fallbacks to EURIBOR, rather than replacement; however, the issues being

Bank Rate, 3-month GBP LIBOR, 3-month compounded SONIA time series (source: Bank of England website, Bloomberg, Bank of England calculations)



Source: *The Working Group on Sterling Risk-Free Rates, Preparing for 2022: What you need to know about LIBOR transition*, November 2018 considered are similar to those in the other currency working groups.

Use of RFRs in the export finance market

As noted above, the RFRs selected are all overnight rates which are published daily. In order to be suitable for use in the export finance market, term versions of these overnight rates are required. There are different ways in which this can be achieved, the two main methods being: (i) forward-looking term rates based on overnight index swap ("OIS") or futures markets referencing the RFRs; or (ii) compounding or averaging the overnight rates over a period to provide so-called 'backward-looking term rates'.

Forward-looking term rates

There are currently no forward-looking term rates based on RFRs available. Whilst work is being done in certain jurisdictions (including the U.S., UK and EU) on forward-looking term rates, it is not certain that such rates will either be available at all, or in time for the end of 2021 (for example, in the U.S. a forward-looking term rate is not expected to be produced until the end of 2021). The clear message from the regulators has also been that market participants should not rely on such rates being available when making their transition plans and that they need to look at using overnight RFRs; this leads us to backward-looking term rates.

Backward-looking term rates

Backward-looking term rates are under consideration by each of the currency working groups. Such rates can be constructed mechanically from past realised daily fixings of the overnight RFR over a given period. There are different ways of constructing such rates, which are outlined in the Financial Stability Board's ("FSB") June 2019 "User's Guide to Overnight Risk Free Rates".

One of the methods described in the User's Guide is the convention that is being used in the SONIA-referencing floating rate note ("FRN") market, being a "compounded in arrears" methodology. In order to determine an interest payment obligation of say 3 months, the overnight RFRs are compounded over the same 3-month period. This calculation will only be possible once the full set of overnight RFRs are known, i.e. at the end of the period. In order to provide greater certainty of cash flows ahead of interest payment dates, the SONIA-referencing FRNs have used a 5-day lag period (referred to as "lookback" in the FSB User's Guide) when referencing the SONIA rate, i.e. the period over which the daily SONIA rate is compounded (known as the 'SONIA rate reference period') lags the interest period by 5 London banking days. In this way, the final interest payment is known before it is due to be paid at the end of the interest period.

Another option suggested for certainty of payment at the start of the interest period is the use of a "compounded in advance" methodology (known as "last reset" in the FSB User's Guide). This would involve, for example, using the overnight RFRs compounded over the previous 3-month period on a forward-looking basis for the next 3-month period. The rates used would therefore be historic and not take account of future rate expectations or match the actual interest period. As a result, such a methodology would be harder to hedge.

Where is the loan market heading?

The LMA continues to make the case for forward-looking term rates for the syndicated loan market. However, given the timelines and uncertainty around the creation of forward-looking term rates, and the fact that some corporate borrowers (notably in sectors outside of the export finance market) have said they would prefer to reference backward-looking RFR term rates (for consistency with the derivatives market), the syndicated loan market also needs to consider backward-looking term rates.

Another option suggested for certainty of payment at the start of the interest period is the use of a "compounded in advance" methodology (known as "last reset" in the FSB User's Guide).

In the loan market we have not yet seen any RFR-referencing syndicated loans. However, the SONIA-referencing FRN methodology described above was used in the first SONIA-referencing bilateral loan (which is the only RFR-referencing loan of which we are aware) and is receiving attention as a potential solution in parts of the loan market. There are, however, a number of reasons why we have not seen many loans using this approach to date, including:

(i) the use of compounded rates would currently entail a manual calculation as there are no official compounded screen rates or calculators available;

(ii) loan systems are not currently set up for such rates (and changes to systems will take some time to implement);

(iii) key conventions in respect of the use of such compounded rates in the loan market have yet to be decided (e.g. agreement on the formula to be used across currencies and treatment of floors and non-business days); and

(iv) there are parts of the loan market and particular end-users of LIBOR who require a forward-looking term rate (for example, in developing markets, borrowers need advance certainty for budgeting purposes).

Documentation and considerations for the export finance market

It will be key for all participants in the export finance market (including ECAs, lenders and borrowers) to consider the impact of the transition on documentation for both new and existing deals. Whilst it will be important to consider the impact on loan facility agreements, this is just one piece of the puzzle in export finance transactions. It will also be extremely important to consider, for example, the terms of any ECA cover, which may need to be amended.

Fallbacks in LIBOR-referencing documentation

As export finance deals are typically longer-term in tenor, it is important to deal with the transition in such documentation to the extent possible, noting the current lack of clarity around replacement rates.

In terms of syndicated loan agreements, the LMA produced a revised form of its replacement of screen rate clause in May 2018 to facilitate a transition to a new rate once identified with obligor and majority lender consent on the occurrence of specified trigger events (the previous version of this clause is contained in the LMA recommended form of Export Finance Buyer Credit Facility). The clause also provides for consequential changes to be made, including amendments to preserve economic value. We have not yet seen loans 'hardwiring' fallbacks (i.e. specifying the replacement rate and spread adjustment that will apply on a trigger event). This may change over time when there is more clarity on, and operationalisation of, the replacement rates.

The legacy book

Whilst the LMA revised replacement of screen rate clause is helpful in terms of reducing the threshold for consents to future amendments, there may be practical difficulties with obtaining the necessary consents. The syndicated loan market does not have a protocol system for amendments (such as that operated by ISDA) and therefore each individual loan agreement referencing LIBOR would need to be amended to refer to a replacement benchmark rate. This is no easy task.

If no agreement is reached to change the benchmark rate, in the case of unavailability of the rate the LMA recommended form loan documentation contains fallbacks. However, these fallbacks are unlikely to provide a long-term solution to any discontinuation of LIBOR, as the ultimate fallback is to an individual lender's cost of funds. This will be operationally challenging for both lenders and agents to have to maintain for any significant period of time and is unlikely to be commercially acceptable.

To the extent that ECAs need to consent

Whilst the LMA revised replacement of screen rate clause is helpful in terms of reducing the threshold for consents to future amendments, there may be practical difficulties with obtaining the necessary consents.

to amendments, the administrative burden on them and time to consider amendments will need to be considered. It should also be remembered that the amendment process may not just involve an amendment agreement, but lenders/ECAs may also require conditions precedent, legal opinions, consideration of the impact on existing security and more (including the need in some jurisdictions to provide local language translations). This will all need to be factored into the time and costs for amendments.

It is important that participants in the export finance market keep themselves informed of developments and actively work on finding solutions for the market (including through responding to industry consultations).

In order to help streamline the process for amendments of legacy documentation, the LMA is working on a form of reference rate selection agreement which can be entered into by parties to an LMA-based facility agreement.

New agreements based on RFRs

The LMA is working on documentation for RFR-based facilities which will be released shortly. This documentation will not be published as LMA recommended forms but rather as exposure drafts to facilitate consideration of the issues arising given there are a large number of areas which require market practice to develop (e.g. how to deal with break costs or market disruption).

ECA cover considerations

No ECA is the same, but there are some general issues to be considered.

ECA cover is often relied on not only for principal payments but also for certain interest payments. The terms of any ECA cover, and whether this covers the relevant interest under the facility agreement, will be an issue to consider for both existing and new transactions. The general and specific conditions will need to be reviewed to consider whether any adjustments are required to factor in the change from LIBOR to RFRs.

Many ECAs tend to limit their cover to principal and interest, excluding break costs and other indemnities. Therefore, parties will be need to carefully consider whether an ECA would be willing to cover changes to that interest rate and also any possible increases in the margin or separate additional credit spread that lenders might request as a result of the transition to an RFR-based rate.

It is also important not to forget about fixed rate transactions and to consider any changes needed to documentation (e.g. interest make-up agreements) relating to the provision of a fixed rate, which lenders may sometimes offer on ECA covered loans. Such products are usually offered by a different agency, for example, KfW Ipex in Germany and SIMEST in Italy. Such agencies may have standard forms in place and it could take some time to agree amendments to such forms.

In addition, should there be any change required to the general or specific conditions of the ECA, it will need to be determined whether there is any impact on the ECA's budgeting procedures as a result of the change (for example, due to any move from a forward-looking to a backward-looking rate which takes away advance notice of the rate and impacts on internal measures and accounting treatment). If it does, then this could take some time to be approved (even up to a couple of years, depending on the process). So this is something that ECAs, and those taking ECA cover, need to start looking at now given the impending end of 2021 deadline.

What should you be doing?

It is important that participants in the export finance market keep themselves informed of developments and actively work on finding solutions for the market (including through responding to industry consultations). It is becoming clear that in order to be ready to transition by the end of 2021, market participants need to start making decisions very soon on what rates to move to, review their documentation, engage with counterparties and ensure systems are updated. With so much to do, the end of 2021 no longer seems so far away. ■

Developing business with SMEs

By Karel Vanderputte, Team Coordinator SME & Funded Solutions at Credendo, and Chair of the SME Steering Committee at Berne Union

Approaches to developing business with small and medium-sized enterprises (SMEs) are changing fast. And Export Credit Agencies (ECAs) are desperately trying to transform their images of living in their ivory towers, to one of proactively propagating internationalization.

In many countries, SMEs form the backbone of the economy and they are indispensable in the creation of general welfare.[1] Yet, their appetite to move away from the church tower and enter foreign markets can often be described as marginal. Both internal and external factors play a role: lack of staff, compliance with foreign legislation, coping with foreign languages and cultural differences indeed form real obstacles and could even entail a threat to their survival. So, can we blame small enterprises for focussing on their domestic clients? And when they effectively sell to neighbouring markets, ccan we blame them for requiring upfront payment? Isn't it a proof of good governance to ensure you have received your money before shipping any goods? And why wouldn't SMEs opt for avoiding any third-party interference, notably by Export Credit Agencies (ECAs)?

These all seem to be defendable arguments.

However, in the globalized world we live in today, obstinately holding on to the above "ideal scenario" might in itself form


Karel Vanderputte

a threat to (small) companies. Many opportunities will be lost and turnover might stagnate over time, while (foreign) competitors who are active beyond borders will outperform non-exporting peers.

The graph on the next page clearly shows that export of goods and services were the most important growth factor in the recovery of the European economy after the latest recession.

Still today, only 25% of EU-based SMEs export and even a smaller portion export beyond the EU.[2] Mere ECA "support" in itself will not break the status quo. A vital role to play for ECAs is to effectively promote the enormous potential of export and proactively share their extensive expertise to their national SME-community.

Indeed, it's not enough to promote "tailor made" products via generic marketing campaigns. The first step should be to get in touch with SMEs and make them familiar with all aspects of doing business abroad. We need to find the key to open doors and convince small companies of the many advantages internationalization could bring to their business. And that's not only about growth on a financial level, but also

In many countries, SMEs form the backbone of the economy and they are indispensable in the creation of general welfare.[1] Yet, their appetite to move away from the church tower and enter foreign markets can often be described as marginal.

job creation and innovation to name a few other benefits. Therefore, we need to get them comfortable with the different risks and overthrow the image that ECAs are only there to support national champions.

Out of a survey conducted by the European Commission, available policy support plays a decisive role in an SME's choice to engage or not in international activities.[3]

Now, a crucial question is exactly how to approach SMEs. They do not have a team of specialized people and often just don't have the time to go through all possibilities public support might offer. In any case, the usual jargon must give way to a language everybody understands. Furthermore: what about the channels used to spread the word? Classic, hand-signed letters to prove the sender's serious intentions? Or rather make use of social media because SMEs tend to be more contemporary than "old-fashioned" ECAs? There are no easy answers to that. Reaching and attracting SMEs is causing many business developers and marketing managers a headache.

These questions should be tackled, next to other SME-related issues that continue to exist, such as fragmented support available through an amalgam of public (trade) institutions and lack of financing by commercial banks both for exports as well as on a corporate finance level.

In reaction to this, many ECAs try to fulfil their mission, responding to SME needs by targeted messaging, developing specific products and joining forces with other players that aim at helping SMEs grow their business.

At the Berne Union SME Marketing Workshop held in Stockholm recently, many admirable initiatives were discussed: from one-stop-shops and SME bus tours, over breakfast sessions, and even export schools to educate SMEs. And instead of waiting for SMEs to knock on their doors, several ECAs are opening up local offices, at home and abroad and partnering with local banks or trade institutions. Internal organigrams are being restructured in order to provide SMEs the attention and support they require.

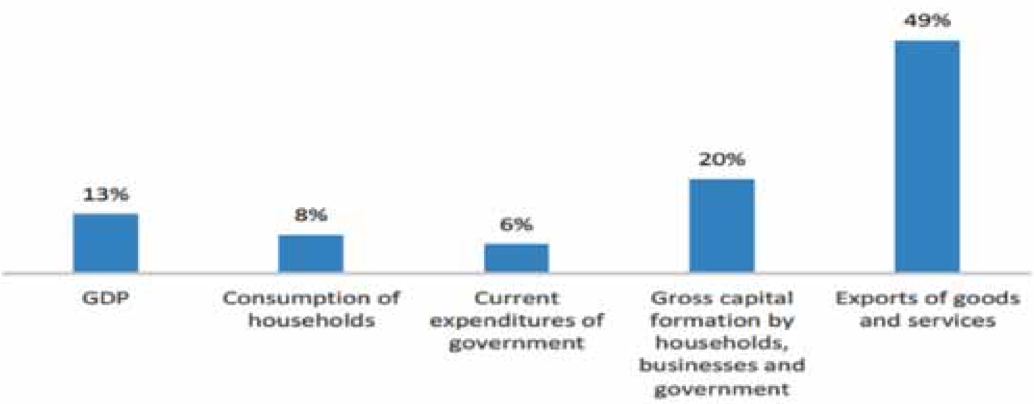
This really shows that ECAs have understood the message and are now trying to act out of a clients' perspective. Many are effectively using their unique position to leverage what's within their power to support exporters. Eventual success created by the current initiatives will hopefully become visible in the near future.

In any case, this particular segment of the business spectrum will continue to ask for special attention. And it's in all our interests that we keep investing in providing adequate support. ■

Notes

1 In the EU, there's a very high association between household consumption and the value added generated by SMEs. *Annual Report on European SMEs 2017/2018*, European Union, November 2018
2 SME's access to markets, https://ec.europa.eu/growth/smes/access-to-markets_en
3 *Annual Report on European SMEs 2017/2018*, European Union, November 2018

Cumulative increase in GDP, consumption of households, current expenditure of government, gross capital formation and exports of goods and services in the EU-28 economy from 2009 to 2017



Source: Eurostat

Business interruption cover in the political risk insurance market

By Dimitri Faÿsse, Group Single Risk Senior Manager, Coface

Business Interruption cover has been offered for many years by both the private single/political risk market and by Export Credit Agencies (ECAs). While this cover has been available for a long time, its scope of cover, demands from clients, and the technical aspects when underwriting it have evolved over time.

Definition

First of all, what is commonly called 'Business Interruption' (BI) cover can be defined as a temporary cessation of activity due to a political violence event. More precisely, BI is the compensation of the partial or total cessation of operations directly caused by damage or destruction of property for a continuous period. For instance if a power plant is partially damaged by a war taking place in its area, causing a long delay in its day-to-day production, the cover will indemnify the plant's owner for the loss of profit and other costs associated to restore the production.

Scope of cover

BI cover has been offered not on a stand-alone basis, but as an optional cover alongside policies covering the overseas investments of international groups, often industrial, on a multi-country basis against political risks. More precisely, both the private political risk market and ECAs have been selling policies indemnifying losses due to political risk events to foreign assets worldwide (including actions from foreign states such as expropriation, nationalization, deprivation and political violence, such as war, civil war, riots). Those policies have come to fill the gaps created by the exclusions on political risks set in the all-contractors risks policies. Almost all insurers request asset damage to trigger compensation under a BI cover, but even this has evolved over time as we will see later on.

Dimitri Faÿsse

Scope of compensation

The computation of loss may vary across the market, even if the three main elements can be singled out; the loss of profit, the continuous expenses and the extraordinary expenses.

Insurers tend to indemnify in general the loss of net profit due to the temporary cessation of operations. Some variation in the compensation may arise when some insurers compensate only the net profits after taxes, others before taxes, and sometimes before amortization. The loss of profit is defined by the comparison with, for example, the pre-events profits over the last three years and the actual ones after events. Business projections can also be included to eventually define what the profits would have been if the events did not occur.

Nevertheless, the common feature remains that the loss is calculated for a given period of time, often one year. Likewise, time deductible, often 30 days, enters into the compensation. Insurers will often hire an expert to determine it.

On top of the loss of profit, insurers also often cover the 'extraordinary expenses', defined as costs incurred to restart the operations, such as relocation costs or workers' overtime. The rational for insurers to accept those costs is to understand to what extent those costs reduce the time to restart the operations and therefore to minimize eventually the loss to indemnify. Some insurers request proof of commercial viability to include those costs in the compensation.

Underwriting aspects of Business Interruption

Over time, insurers have gained experience when underwriting BI cover. Some key elements are usually taken into accounts by underwriters; the spread of risks in terms of countries in which the assets are located, the security measures deployed to secure the industrial sites, the sensitiveness of the sector – a plant producing steel products for industrial uses would be obviously less exposed to riots than consumer luxury goods shops located in a city centre. Likewise, high priority activity for the host country such as a power plant would be more likely to be protected by the local government than a manufacturing plant of clothes for instance.

One of the most difficult elements to underwrite this cover is that the final loss amount is very difficult to assess in advance, on a loss on which there is very little hope of recoveries and where recoveries are an important element of the business model of insurers in this market segment (political risk insurance).

In order to limit the final loss amount, insurers have inserted clauses and parameters in their policy wordings: cover limited to one year of operations, time deductible, sub-limit of liability (e.g. a specific limited limit of liability for this specific cover within a broader policy covering other perils), to limit the perils triggering the loss to political violence events only. Given the uncertainty surrounding the loss amount and the specificity of this cover, it has been usually priced individually in a policy covering other political risks such as expropriation, nationalization etc.

Demand and return of experience

The demand for this cover has been buoyant for decades, especially from the historical buyers of political risk insurance for assets, e.g. industrial groups. Cover has changed from being optional to being more often incorporated in the general template wording of policies protecting overseas investments. While this cover came from the property insurance field, it is now an established product, even if only few cases have been experienced by the insurers.

A minority of insurers have extended the cover for business interruption not only caused by political violence events but also to what is called 'Forced Abandonment', e.g. the fact that the Insured has to quit its local premises upon order of the local government. Others have also extended the cover to losses incurred not only when there are physical damages to the local assets but also when the operations are stopped without any damages (being for example either a Force Abandonment or when riots occurs around a factory blocking de facto its operations).

Business interruption cover has been in the political risk market for many years as an option that is now very often included in policies covering overseas assets against political risks.

There has been some push by clients and brokers to extend this BI cover to a new class called 'contingent BI' whereby not only the physical assets are covered against political risks but also the whole value chain of an organization: key suppliers are identified and included in the cover in order to protect the insured in case a political event may stop the suppliers' operations and in turn block those of the insured. While the idea is an interesting one, it has proved very complex and risky to underwrite for insurers in terms of knowledge of those suppliers, and assessment of a domino effect of one small key supplier on the whole operations of an insured.

Conclusion

Business interruption cover has been in the political risk market for many years as an option that is now very often included in policies covering overseas assets against political risks.

All-in-all claims have not been numerous for the cover coming from the property insurance. It may prove challenging for insurers to underwrite it as it requires a lot of data and the final loss amount to indemnify remains eventually difficult to assess at the time of policy issuance.

One future path for this cover would be a more comprehensive and united approach with property policies in order to offer to clients products that properly fit together with clear comprehensive cover on a very wide range of risks. ■

Alternative finance: how insurance can help mitigate political and trade credit risk

By Mark Houghton, Head of Asia Pacific, Global Political Risk, Credit & Bond team at AXA XL

The economic and geopolitical climate can change fast. Lenders of all types, and their partners, are acutely aware of the need to try to anticipate, mitigate, manage and, where possible, transfer the risks associated with these changes. Mark Houghton, Head of Asia Pacific for AXA XL's Global Political Risk, Credit & Bond team, explains how international insurers can help alternative lenders to get a handle on credit and political risk exposures.

Today's interconnected global economy provides financiers with enormous opportunities to invest in exciting projects across a range of territories. Some of these projects are becoming increasingly large and complex to finance, with capital expenditure requirements stretching into billions of dollars.

And projects that do not quite stretch the financing requirements to such lofty levels can be just as complicated because of various risks, ranging from currency to country or technology, to name but a few.

In either case, conventional lenders such as commercial banks play a critical role in creating liquidity for their customers' financing needs and are working hard to develop alternative sources of financing to meet their growing customer demands.

For many years banks have been working hard to develop alternative lending structures to entice more liquidity from such institutional investors into asset classes that have been slightly outside of their traditional investment mandates, this is especially the case in sectors in which past crises have caused lending appetite to diminish rapidly.

To this end, there is a growing list of institutional investors that are actively pursuing investments in emerging markets and are gaining exposure through direct investment, as well as innovative deal structures in partnership with conventional lenders. The attractiveness of asset classes that boast a spread of exposure maturities, together with favourable yields, are enabling a range of institutional funds, asset managers, private equity and other capital market investors to explore broader roles in traditional loan-market structures.


Mark Houghton

For conventional lenders, the increase in institutional money provides an opportunity to further diversify their liquidity sources, which have historically been concentrated on money markets and retail or corporate deposits.

Since the global financial crisis and the implementation of Basel III, rising liquidity costs have become one of the motivating factors for banks to develop new and innovative ways to involve institutional liquidity into their financing structures. This is, in turn, helping to ease pressure on their economic returns and allowing new distribution channels for ever-increasing risk-portfolio concentrations.

Cooperation between institutional investors and conventional lenders has been evolving across a range of asset classes in recent years, including export finance, project finance, trade finance, asset-based lending, mezzanine finance and distressed debt, among others. The breadth of interest in these traditional lending areas is testament to the commitment the institutional investor universe is making to understand and get comfortable with these risks.

So where does the private insurance market fit in to all this?

The international insurance market has been a long-term provider of credit and political risk insurance products to conventional lenders, notably commercial banks, investment banks, export credit agencies and multilateral development banks, covering many, if not all, of the asset classes mentioned above.

The cooperation among conventional lenders and institutional investors is slowly filtering into the insurance market, with an increased level of requests for considering new distribution structures, involving alternative investors and pushing the traditional boundaries of insurance products to adapt to new demands. Encouragingly, the insurance market has responded well. One of the more recent examples of this trend is the Aircraft Finance Insurance Consortium (AFIC), under which global insurance companies provide non-payment protection for the financing of commercial aircraft purchases to banks and institutional investors, encouraging new participation in aircraft finance.

Other innovative structures are being devised by banks and investors, some which are viable for insurance market participation. A relatively straightforward transaction structure that is beginning to generate interest is a standard risk participation agreement by a commercial lender with an institutional investor, in which the investor sub-participates into a specific transaction on a funded basis. Insurance coverage can be purchased, either by: (i) the commercial lender directly on behalf of itself and the investor, with the lender assuming an "agent" role under the insurance coverage; or (ii) the institutional investor who purchases coverage for their own interest in the transaction by way of the risk participation agreement.

Each of these options highlights a number of challenges that these structures present to the insurance market or guarantee provider. These are gradually encouraging innovation by insurance companies in how they work with alternative investors.

Careful consideration needs to be given to the traditional underwriting process, with far greater attention paid to the intention of the insured (i.e. the institutional investor) and its motivation for being involved in the transaction. It is also important to determine how familiar the insured is with the asset class and what expertise it can bring to support the ongoing performance of a transaction, a potential restructuring or ultimate recoveries should a default occur.

While the ultimate risk being insured or guaranteed would require the same due diligence process, having an intimate understanding of the insured is critical to ensuring these innovative new structures are beneficial for all parties involved.

To that end, strong communication and transparency of information and intention are key. Knowing the insured is the starting point for any challenging transaction, even more so where the insurance market is only just starting to learn how institutional investors operate, and vice versa. Institutional investors are beginning to become aware of what the insurance market is willing to accept as "standard" terms and conditions based on its historical experience with traditional lenders and ECAs.

These expectations include having sound experience and understanding of the relevant sector, experience in emerging markets and government relations, sound technical due diligence and ongoing monitoring capabilities, and a clearly communicated investment strategy – hold to maturity, or a logical exit strategy and timing to do so, if their investment horizon is shorter than the transaction tenor.

At the end of the day, alignment of interest is key in any risk transfer arrangement, be it insurance, guarantee or another form of transfer. Whether a deal is complex or straightforward, large or small, emerging market or developed market-based, the basic rules of engagement for any deal will ultimately come back to partnership.

Encouraging the right behaviour through appropriate controls in legal documentation and demanding strong engagement and transparency from the start will enable all parties to understand each other's motivations, principles and capabilities. If that is the starting point, then there is no reason that continued collaboration between institutional investors, conventional lenders and insurance companies will not continue to develop and foster new and innovative structures well into the future. ■

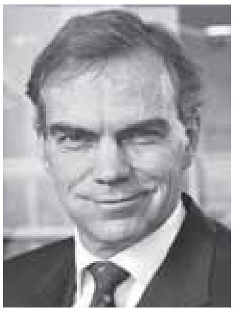
Public credit insurance benefits international trade. But how much?

By John Lorié, chief economist at Atradius and affiliated researcher to the University of Amsterdam.

1. Strong correlation with international trade suggest benefit

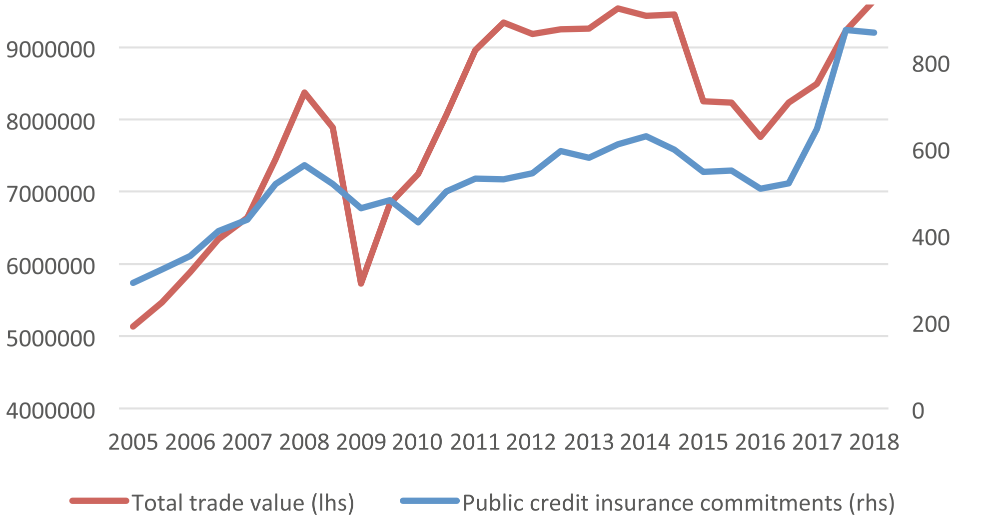
Public credit insurers, or national export credit agencies (ECAs), play an undisputable role in facilitating international trade. Established after the First-World War, they have developed into highly relevant vehicles for addressing market failure related to more complex export transactions with high payment risk. No wonder public trade credit insurance has shown strong correlation with international trade over the years as depicted by Figure 1.

Public trade credit insurance dropped in the aftermath of the Global Financial Crisis, but international trade dropped far more sharply. This suggest ECAs have softened the impact of the crisis. Subsequently, public trade credit insurance moved more in line with international trade until 2016, after which it grew more sharply. That growth is due to the increasing role of Asia, with for example 25% of the commitments in 2017 only and China moving to the top ECA position.


John Lorié

This strong correlation suggests benefits of public trade credit insurance for international trade. In this paper, it is investigated to what extent it actually benefits. More precisely, the focus is on what a dollar spent on public credit insurance yields in terms of extra international trade. A relevant question: governments support

Figure 1. Public credit insurance and international trade (semi-annual figures in USD millon)



Sources: Berne Union, WTO Short-Term Merchandise Trade Statistics, Atradius exports via ECAs. The approach is one of surveying the, still relatively thin, literature. The results suggest a benefit. But more research is needed.

2. Why public export credit insurance benefits

Whereas there is no such thing as a theory on (public) export credit insurance, the literature has developed a few channels of impact on international trade. We discuss three of these.

First, credit insurance reduces uncertainty related to international trade. Reduction of this uncertainty, for example through cross-border information on firms, the foreign legal system, language and doing business more broadly, including political developments, comes at a cost. This cost can be very high for an individual exporter, especially a smaller one. Even then, this uncertainty can only be reduced, not fully eliminated. That means some uncertainty will remain, forcing additional capital and related costs to an exporter. It calls for a credit insurer that can share these costs amongst a number of clients. As a result of this pooling of uncertainty, more exports can take place when the credit insurer steps in. The snag here is that repeated international trade with certain foreign buyers, supported by credit insurers, creates confidence and trust between seller and foreign buyer. In such a situation, the need for credit insurance to cover international trade transactions is reduced.

Second, credit insurance positively affects financial management of both exporter and importer. For the importer, delivery on open account by the insured exporter frees up money for other needs. That potentially triggers demand for further imports. For exporters, a positive impact on liquidity arises as well. Credit insurance protects trade receivables and can serve as collateral, or at least comfort, for a bank loan. Lower risk for the bank means that financing conditions will be more favourable. Exporters with credit insurance then have more financial means at their disposal. That, in turn, may allow financing more exports.

Third, credit market frictions can be overcome. The above analysis assumes a rather frictionless provisioning from banks or financial markets to finance exports, both on the importer and exporter side. Such may not be the case and buyers may not even be able to draw on bank credit or tap financial markets. In such circumstances, the presence of credit insurance may be a condition sine qua non for international trade to take place. This suggests that in countries with restrictive credit or financial market conditions, the impact of credit insurance is higher. We can look at the term ‘restrictive’ in two ways. A country’s financial system may not be sufficiently developed, such as may be the case in emerging or developing economies. Alternatively, there may be temporary frictions in a well-developed financial system as was the case during the financial crisis of 2009. In both cases, credit insurance is more valuable and its impact on international trade is higher.

3. Measuring benefit

I will use a concept developed in the literature to measure the impact of credit insurance. It is called the trade multiplier and measures how much trade a dollar of credit-insured export creates. This multiplier can theoretically be between zero and infinity. A multiplier of zero would mean credit insurance does not provide any stimulus for trade. In such a case, the export transaction might have taken place anyway. That is implausible since no firm would be willing to pay for credit insurance undermining the tool’s existence. Realistically, therefore, the trade multiplier has a value below, at or above one.

Start with the former. In such case, a $ credit insurance coverage provides for less than one $ additional exports. A part of the exports insured by credit insurance would have taken place anyway. This does not seem unrealistic. In the absence of credit insurance a firm exporting to for example Russia will perhaps be careful and limit its exports. If export credit insurance is offered exports to Russia may simply expand. Then one can imagine that a dollar insured has a multiplier equal to one. That implies a situation where there are no longer insured transactions that would have taken place in the absence of insurance. One can even go a step further and imagine a multiplier larger than one. In such case credit insurance is not only indispensable for trade covered by the credit insurance policy, but it also stimulates non-credit insurance covered trade.[1] Such trade takes place not because a credit insurance policy covers it, but just because an ECA is willing to provide cover on it. Consider again a firm A, exporting to Russia with export credit insurance. Another firm, firm B (in another sector), is also considering exporting to Russia. Having gained knowledge that firm A will start exporting there with credit insurance, it can feel comfortable doing the same, but without credit insurance. Credit insurance for firm A can then be said to have a positive external effect on exports from firm B. In other words, uninsured export takes place in the case of the aforementioned firm exporting to Russia simply because of (other) credit insurance covered exports. The question for empirical research is now to determine whether the multiplier is indeed smaller, or larger than one.

4. How much benefit?

The literature on the impact of export credit insurance on international trade is still thin. The lack of availability of public credit insurance data hampers academic research. I discuss the three empirical studies published on the subject in reputed journals. They all point to export credit insurance benefitting international trade, a role reinforced if constraints in finance exist in the importing country. Table 1 below summarizes the results.

The first paper on the subject is Egger and Url (EU, 2006).[2] They consider the effect of public credit insurance on trade, which they consider based on informational barriers and insecurity about the quality of the foreign buyer. They use 3,450 observations on Austrian goods exports per sector to 142 countries for 1996-2002, employing a gravity model of international trade.[3] They find for the short term a trade multiplier of approximately 0.3, whereas for the longer term the effect increases almost tenfold to 2.8. The authors argue that the lag between the export guarantee release and the actual good shipment recorded as export helps explain this difference. This lag may amount to five years or even longer. Moreover, and more fundamentally, exporters learn about creditworthiness of foreign buyers by repeated sales to the same customer. This knowledge triggers exporters pursuing business with credible buyers, and avoid credit insurance cost.

Moser et al (Moser, 2008)[4] use German public export credit transactions. The authors first replicate the method of EU (2006) and even find a much larger long-term multiplier of 6. They argue essentially two factors attribute to this difference: the different period and exporting country (and thus importing countries) the data covers, as well as a difference in timing between Austria and Germany of implementation of the insurance premium agreed within the OECD.[5] Still, even if this is taken into account the figure is very high, suggesting a bias in the estimates. Specifically, the underlying specification is static and may be subject to biased estimates if past exports play a role in determining current ones. Causality of exports and insured export transaction, moreover, may be in the reverse direction, creating an econometric problem known as endogeneity. This can also cause bias in the estimates, but it is tested by the authors and rejected. Using the dynamic model instead leads to a markedly lower multiplier of 1.7, indeed suggesting the EU (2006) approach is leading to biased estimates. That suggestion is enhanced by the inclusion of political risk. It shows a significant effect and lowers the multiplier in Moser et al (2006). Their multiplier, however, critically hinges on the period and the set of countries included. Indeed, for the subsample of non-OECD countries over the full period the multiplier is lower at 0.6 for the full period. Reassuring though is that if one considers the period after the Knaepen Package for calculation of risk-based premiums came into force in 1999 the impact lands at 1.1 (as opposed to 0.6 before 1999).

Moser, therefore, has improved the model specification relative to EU (2006). When applied to the dataset of Germany the multiplier comes out markedly lower. Both studies, however, use aggregate data. This

Table 1: Impact of public credit insurance on trade

Journal article	Dataset	Period	Model	Estimation strategy	Multiplier		
					Short term	Long term	FC effect***
Egger and Url (2006)	Public insurer Austria, 142 importers	1996-2002	Gravity	Random effects, static	0.3	2.8	
Moser et al (2008)	Public insurer Germany, 130 importers	1992-2003	Gravity	Random effects, dynamic		1.7 and 6**	
Felbermayr and Yalcin(2013)	Public insurer Germany, all countries	2000-2009	Gravity	Fixed effects		0.7	plus 20-40%

* For respectively full sample, 1%, 5% and 10% sample reduction
** Replication Egger and Url (2006) method with own (German) data
*** FC effect: multiplier iin case of finance constraint

does not allow controlling for the so-called multilateral resistance terms, which include factors such as language and culture. They are not observed but do affect the estimates.

Precisely this is addressed by Felbermayr and Yelcin (FY, 2013).[6] The authors use a firm-level dataset of German export credit insurance. The data have an additional – sectoral – dimension. This is exploited to control for multilateral resistance terms, using fixed effect estimation. As opposed to Moser (2006) they apply a static, rather than dynamic approach. In addition, they use a more conservative way to account for serial correlation in the errors. The result is a multiplier for their full sample that is markedly lower than the one of Moser (2006) at 0.7. This difference is, as the authors argue, largely attributable to the control for multilateral resistance terms. Still, the effect is heterogeneous and depends on the sector of the exporter, region and income of importing countries.[7]

Whereas this outcome compares to the previous papers, the authors have drafted their paper to find an answer to the question whether or not export credit insurance alleviates financial frictions. In that sense, they seek to find confirmation for public export credit insurance based on market failure. More importantly, the authors include finance constraints in the importing country.[8] The constraints push up the multiplier by 20% to 40%, so 0.84 to 0.98. In line with this, sectors more vulnerable to finance constraints, such as shipping and aviation, are found to have a higher multiplier as well. Finally, there is some support for alleviation by public credit insurance of the pressure on trade during the great financial crisis.

5. The jury is still out

This survey of the existing literature on the impact of public export credit insurance on international trade triggers a few concluding remarks. First, the value of the trade multiplier varies significantly, between 0.3 and 2.8. As expected, these positive estimations point to support from trade credit insurance for international trade. Second, the lower figure of 0.3 regards a short-term estimate, and seems to provide only a limited part of the impact. Public credit insurance predominantly regards longer-term transactions, and the impact should therefore be considered to be longer term. Third, if one then focuses on the longer term, the variance in the outcomes of the calculated multiplier is high as it ranges from 0.7 to 2.8. That range may be even wider, as a larger multiplier of 6 has also been calculated but is likely to be biased. Fourth, support from public credit insurance for international trade is 20% to 40% stronger when there are finance constraints, either in the importing countries or globally due to a crisis such as the one in 2009. Finally, the research is only conducted on data for Austria and Germany as exporting countries. Although especially Germany is a leading ECA, it is a thin body of literature.

Indeed, the limited body of research generates a large variance of results, all of which find a positive impact of public credit insurance on international trade. While the research suggests the support is stronger in case of finance constraints, the jury is still out on whether public credit insurance provides more support to exports than suggested by just the sheer size of the insured transactions. Further research is needed, using broader and in any case different datasets to develop more robust multiplier figures to quantify the impact of public credit insurance. ■

Notes

1 It is noted here that a multiplier larger than one is always the starting point now that the credit insurance policy usually covers only 85% to 98% of the export value.

2 Egger, P. and Url, T. (2006), Public Export Credit Guarantees and Foreign Trade Structure: Evidence from Austria, The World Economy, 29(4): 399-418.

3 The model builds on Newton's Universal Law of Gravitation which says the gravitational force between two objects is the product of their masses and inversely proportional to the square of distance between them. The trade model then predicts international trade (gravitational force) between two countries (objects) is determined by the (economic) size of countries (masses) and inversely by trade frictions (square of distance) between them.

4 Moser, C., Nestmann, T. and Wedow, M. (2008), Political Risk and Export Promotion: Evidence from Germany, The World Economy, 31(6): 781-803.

5 Note this implies the OECD member countries, rather than the market, determines the premium for export credit insurance.

6 Felbermayr, G. and Yalcin, E. (2013), Export Credit Guarantees and Export Performance: An Empirical Analysis for Germany, The World Economy, 36(8): 967-999.

7 Whereas for sectors no multiplier is calculated, the one for New EU countries is higher at 1. For the lower middle and higher middle income countries it stands below average at 0.6 and for the highest income group at 0.8. New EU countries cover Bulgaria, Baltics, Croatia, Cyprus, Czech Republic, Malta, Poland, Romania, Slovakia and Slovenia.

8 Liquid liabilities, private credit, stock market capitalisation, stock market total value added and value trade over capitalisation measure these financial constraints.

Strategic benchmarking – an ECA and Exim-Bank best practice approach

By Professor Dr Andreas Klasen and Professor Dr Mathias Bärtl, Institute for Trade and Innovation (IfTI) at Offenburg University

Excellent organisations require targeted strategies to implement their vision and mission, deploying a stakeholder-focused approach. Strategy is defined, for example, as the process by which organisations deploy their capabilities and resources in order to achieve goals. Strategies guide organisations through paths that should be pursued, and they inform the direction an organisation should take. In a commercial environment, corporate strategy is associated with where a business competes. In a government-related strategic framework, specific policies have to answer the question of "what" is meant to be achieved but also must define procedures, i.e. "how" the policy objectives should be achieved.

Measuring Results

As part of evidence-based policy making, it is common to measure government financing vehicles' results. Evaluations of public policy instruments are widely undertaken at national, regional and global levels. Looking at enablers and results of interventions is required to satisfy the accountability needs of all stakeholders. In addition, performance measurement is a strategic priority for many governments in order to achieve transformational success. This is critical for moving an organisation from its current position to a higher maturity stage.

Andreas Klasen

Mathias Bärtl

Results frameworks are usually set within a broader monitoring and evaluation approach. This covers a precise application of the Theory of Change (ToC) and logframe. As a consequence, state-of-the-art results frameworks follow a process to develop, monitor and evaluate interventions. The ToC defines what impacts are being sought through these interventions. It is described as a results chain which identifies the

In a commercial environment, corporate strategy is associated with where a business competes. In a government-related strategic framework, specific policies have to answer the question of "what" is meant to be achieved but also must define procedures, i.e. "how" the policy objectives should be achieved.

DEA is a state-of-the art benchmarking tool which is capable of considering multiple inputs and outputs simultaneously without the need to make ex-ante assumptions about functional relationships or trade-offs between them.

anticipated "input-output-outcome-impact" with measures for each level of the chain.

The ECA Benchmarking Model

Most Export Credit Agencies (ECAs) and Export-Import Banks (Exim-Banks) measure basic indicators such as new lending or insurance business, exposure, expense ratios and client satisfaction. Traditional benchmarking is then based on comparing these indicators, rating organisations against a set of pre-defined ideals.

In our model, we follow a different procedure applying a modern mixed-method approach: The starting point is Data Envelopment Analysis (DEA). DEA is a state-of-the art benchmarking tool which is capable of considering multiple inputs and outputs simultaneously without the need to make ex-ante assumptions about functional relationships or trade-offs between them. It is particularly useful if the aim is to identify organisations' efficiency vis-à-vis their most productive peers, and to further inform qualitative assessments about potential courses of action for improvement.

DEA considers all in-out ratios to establish a so-called frontier of productivity, or efficient frontier. It is supported by in-out-arrow visuals assessing both efficiency and effects of interventions. Productivity is rated along all levels of transformation from input to output, outcome and impact. In addition, descriptive statistics and qualitative methods are used to complement the DEA and in-out-arrow visuals with an enabler-result model.

The enabler-result model helps putting the different levels into perspective by drawing relevant components from the European Foundation for Quality Management (EFQM) framework. EFQM is a common and widely-used practical framework ensuring that strategic and operational practices applied by an organisation form a coherent system. The enabler-result model provides a holistic view of the assessed ECAs and Exim-Banks. It can be used to determine how different components fit together and complement each other.

Data

We apply a cross-sectional approach to obtain data from governments, ECAs, Exim-Banks, multilateral development banks (MDBs), development finance institutions (DFIs), commercial banks, exporters and industry associations in different national contexts over the same period of time. For our model, we collect primary quantitative data via electronic surveys including, for example, staff number, new export credit insurance, supported transactions or jobs created. In addition, business indicators such as annual gross written premium are requested. Qualitative primary data are collected via open-ended, semi-structured individual, group and telephone interviews. Furthermore, secondary data from publicly available sources such as the OECD, the World Bank as well as ECA and Exim-Banks' annual reports are examined.

Analysis

Our quantitative analysis uses mathematical programming to implicitly estimate trade-

Figure 1

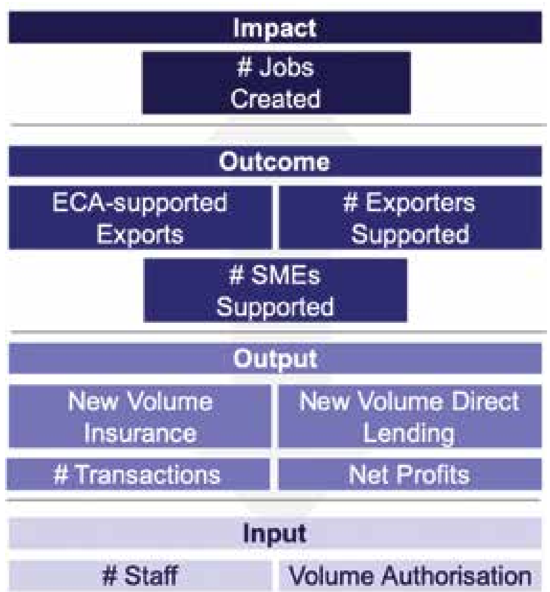
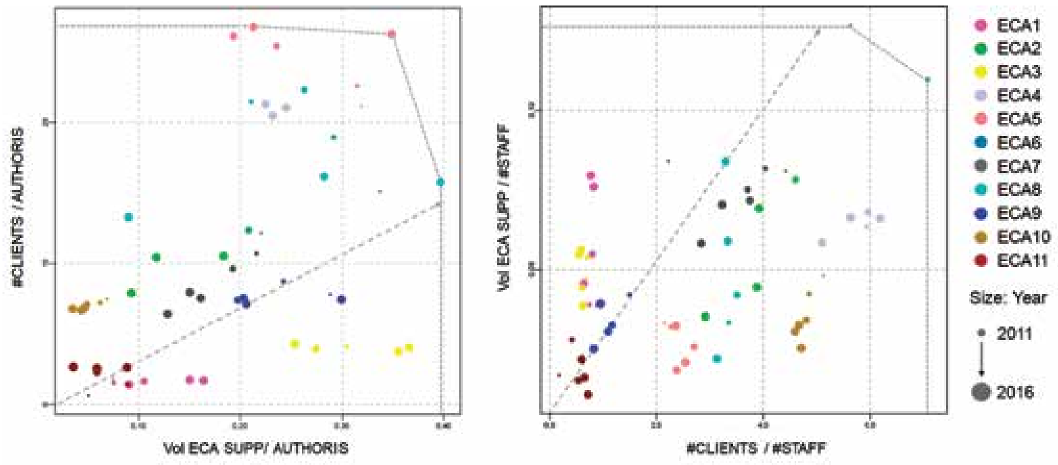


Figure 2



offs inherent in the empirical efficient frontier. DEA identifies top performers from the set of participating organisations by assessing all possible ratios. Top ECAs and Exim-Banks (score: 1) define the efficient frontier. Each agency's efficiency score is calculated based on its relative distance to that frontier (score between 0 (worst) and 1 (best)). Quasi-judicial methods are applied for the qualitative analysis. They are drawn from the legal profession and involve applying arguments to interpret empirical evidence. The analysis focuses on the nature, source and quality of this evidence during the continuous process of interview analysis and secondary data assessments. Data analysis is not left until the end of the benchmarking but is a continuous process during which data from interviews are examined and re-examined to form a robust and consistent view of investigated organisations.

Results

With regard to "Input", our analysis focuses on foundations, mandate and principles of intervention, as well as strategy and policy support. Further input measures are resources and partnerships, products, processes and risk frameworks. Results might include, for instance, that the formation as an independent public enterprise owned by the government substantially increases flexibility and proactivity. Focusing on strategy processes, there can be empirical evidence that an ECA is most successful by following a systematic approach to implement government policies taking into account global megatrends. Other examples are aspects of leveraging domestic and international networks, best practices regarding products covering broad offerings with knowledge, insurance, loan and equity products, or robust risk management frameworks and systems applying economic capital.

Looking at "Output", key assessment criteria are relative efficiency as evidenced by DEA results and in-out-arrow visuals, as well as business and people results with a discussion of descriptive statistics and the application of quasi-judicial methods for the qualitative analysis. Results cover efficiency drivers, which could, for example, be credit insurance volumes in relation to staff and equity, visible trends, such as a reversal of downward trends in new direct lending,

Focusing on strategy processes, there can be empirical evidence that an ECA is most successful by following a systematic approach to implement government policies taking into account global megatrends.

and opportunities or strengths, for instance the continued ability to achieve and sustain outstanding results in staff development and motivation.

Focusing on "Outcome", the first criterion is again the relative efficiency followed by customer results, regional and sectoral results, as well as target group results. These results might show that expanding business with available customers is most promising, or there is a high percentage of supported small and medium-sized exporters. The satisfaction of customers might also be a key topic for ECAs and Exim-Banks. Regional and sectoral results are important measures as well because a crucial element of portfolio management is the management of country and industry sector risks.

Ultimately, DEA scores provide the basis for assessing the organisation's "Impact" efficiency, corroborated by economic, society and leadership results. For example, an ECA's or Exim-Bank's share of covered national exports is an important indication of government support, and their ability to foster economic growth through internationalisation. Furthermore, the "Impact" analysis aims to identify and evaluate strategic trends in public trade finance, such as institutions increasingly taking the initiative to contribute to the UN's Sustainable Development goals.

Conclusions

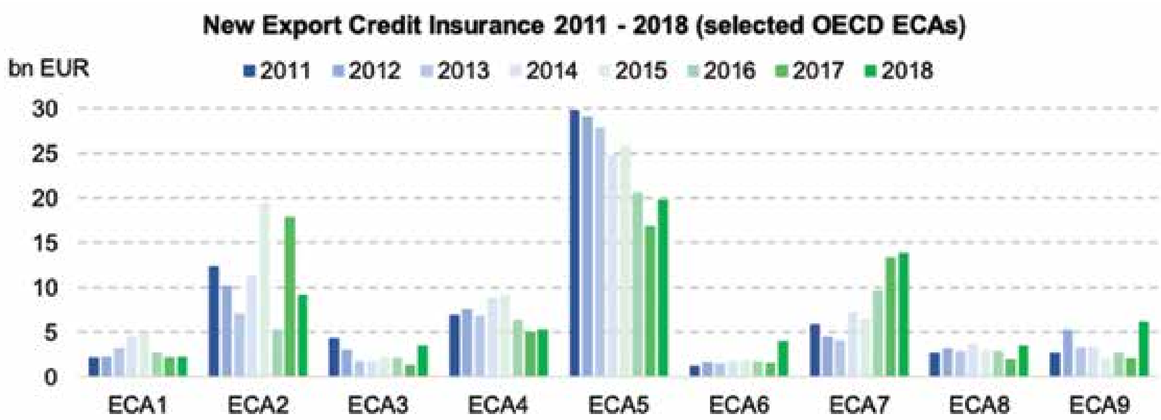
Performance measurement is a strategic priority for many governments in order to achieve transformational success. It has, therefore, become common to critically examine ECA and Exim-Bank results as part of evidence-based policy making. However,

Performance measurement is a strategic priority for many governments in order to achieve transformational success. It has, therefore, become common to critically examine ECA and Exim-Bank results as part of evidence-based policy making.

governmental bodies and agencies are often mandated to deliver a variety of national and global benefits that are not necessarily profit, which is why many of them struggle to objectively meter their overall productivity.

A state-of-the-art method in quantitative benchmarking to overcome the challenge of considering multiple inputs and outputs is DEA. Descriptive statistics and explorative-qualitative approaches are also applied in a modern ECA benchmarking model to substantiate DEA results and put them into perspective. This enabler-result model provides a holistic view and allows to identify top performing ECAs and Exim-Banks, providing the opportunity for inefficient institutions to learn from their most productive peers. This best practice approach for strategic benchmarking enables the senior management to develop and implement a cutting-edge strategy, and increase value for key stakeholders. ■

Figure 3



EXIM: Financing 'Made in the USA' goods and services to the world

By Kimberly A. Reed, President and Chairman, Export-Import Bank of the United States

U.S. exporters and their workers are critical to the economic prosperity and national security of the United States. These businesses bring a wide range of benefits to their local economies, including generally higher manufacturing and services wages and support for their U.S. supply chains, including the local sourcing of goods and services needed to produce exports. And, robust trade with other countries strengthens the economic and diplomatic ties of the United States, helping to build a safer and more prosperous world for many nations.

The Export-Import Bank of the United States (EXIM) is an independent agency with 85 years of experience of supporting American jobs by financing the export of U.S.-made goods and services. America's official export credit agency, EXIM fills export financing gaps through its loan, guarantee, and insurance products when the private sector is unable or unwilling to do so. At the same time, however, private-sector lenders work with EXIM as finance partners.

In the past decade, EXIM has supported more than 1.7 million jobs in total, in all 50 states.


Kimberly Reed

On May 9, 2019, I began my tenure as EXIM president and chairman of the board of directors. With overwhelmingly bipartisan votes in the U.S. Senate, I and two other of President Donald J. Trump's nominees to EXIM's board of directors – Spencer Bachus III and Judith D. Pryor – were confirmed and sworn in to serve America's exporters and their workers.

With a board quorum now restored, EXIM is again fully operational for the first time since the quorum lapsed in July 2015. EXIM is once again able to offer the full range of its financing products – including long-term financing to level the playing field for U.S. exporters in competition for large international projects with competitors being supported by foreign governments.

EXIM is re-engaging in long-term financing needed to meet our mission of supporting American jobs and equipping American businesses with the full range of tools

U.S. exporters and their workers are critical to the economic prosperity and national security of the United States. These businesses bring a wide range of benefits to their local economies, including generally higher manufacturing and services wages and support for their U.S. supply chains, including the local sourcing of goods and services needed to produce exports.

necessary to compete for global sales. For example, in September, the board authorized a $5 billion loan to support the export of U.S. goods and services to an LNG project in Mozambique. These exports – and the estimated 16,400 U.S. jobs across the U.S. the project will support – would not have gone forward without EXIM's support.

With 113 export credit agencies (ECAs) around the world being used by many countries as instruments to achieve strategic

Many governments are increasingly focused on national goals and forging long-term business partnerships to maximize their country's export footprint.

policy objectives, EXIM is now more critical than ever to American businesses. EXIM ensures U.S. companies never lose out on a sale because of attractive financing offered to their competitors by other governments.

In compliance with the agency's charter, EXIM released its June 2019 Report to the U.S. Congress on Global Export Credit Competition for the calendar year 2018. In this annual study, EXIM meets its congressional mandate to report on how well the agency was able to compete with the other major export credit systems of the world in the previous calendar year.

A key finding is that export-led growth is a growing priority of many governments, and export finance is a reliable "tool" of choice because of the effectiveness and profitability of these types of programs. Additionally, EXIM's discussions with many officials of foreign governments have revealed that they find a structural financing gap in medium- and long-term official export credit between a transaction's creditworthiness and its commercial bankability; therefore, they view ECAs as a key strategic tool to fill that gap.

Moreover, the emergence and subsequent effectiveness of more aggressive export credit and trade-related systems over the past decade has triggered other governments, with more traditionally passive approaches to export credit policy, to change their policies and programs or risk their exporters' losing access to large swaths of global markets.

Many governments are increasingly focused on national goals and forging long-term business partnerships to maximize their country's export footprint. A significant number of ECAs have seen their export-support missions evolve from leveling the playing field for their exporters to proactively seeking to create transactions for them and advancing their strategic interests over the long term. In addition, foreign buyers – in particular, the project managers of large international projects – indicate that the availability of government-backed financing is a core component of their evaluation of bids and identification of sourcing. These are only some of the key findings contained in the pages of this year's report.

In order to keep supporting American businesses and jobs – and help them compete on a global scale – EXIM needs to be reauthorized by the U.S. Congress for fiscal year 2020 and beyond. A renewal of EXIM's charter and authority will enable the agency to continue to contribute to President Trump's agenda of supporting U.S. jobs through the sales of American-made goods and services around the world. EXIM's reauthorization is also important to provide private industry with certainty in the marketplace and the timeline needed for planning the allocation of capital.

I am fully engaged with congressional leaders and working to make the agency even better by implementing positive reforms to increase transparency and effectiveness. With every decision, I also am committed to protecting the U.S. taxpayer.

I know there is always room to grow and improve EXIM's products and services, and, therefore, I am interested in hearing from our customers, financial partners, other export credit agencies, and all of our stakeholders as to how we can build an even stronger EXIM.

In conclusion, EXIM's team of seasoned trade professionals remain dedicated to America's exporters, empowering them to enter new markets and expand their sales abroad and grow jobs at home. We are firmly committing to providing a level playing field for the United States in a fiercely competitive global trade environment where governments compete on behalf of their exporters. ■

ICIEC – 25 Years of Partnership for Development

By Oussama Abdul Rahman Kaissi, Chief Executive Officer, ICIEC

This year, the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) celebrates its 25th anniversary. Reflecting on the past quarter-century, ICIEC has witnessed its market, its solutions, its partners, and the world of Export Credit Agencies (ECAs) themselves change dramatically. What is now becoming a part of the lens in which ECAs see the world, is the extent to which ECAs can help achieve the UN's Sustainable Development Goals (SDGs).

As a multilateral ECA and a member of the Islamic Development Bank (IsDB) Group, development impact has always been a part of our core mandate and in our DNA. We have served as a bridge for trade and investment, supporting our Member Countries on both sides of trade and investment transactions and bringing together exporters and importers, foreign investors and projects through our insurance solutions. As such, it comes naturally to us to see the work of ECAs through this development impact perspective.

Since 2017, we have published our Annual Development Effectiveness Report (ADER) which highlights how our activities and insurance solutions have contributed to development within Member Countries. In contrast to other ECAs who have historically measured "national content" or "national interest" in terms of jobs created in their own exporting nation, we have sought to apply a broader perspective and look at national interest from both ends of the transaction.


Oussama Abdul Rahman Kaissi

The role of ECAs in catalyzing private sector funds to fulfill financing gaps in SDGs

ECAs today are playing an increasingly crucial role as contributors to the SDGs. The huge financing gaps for successfully achieving the SDGs requires ECAs to become more active in galvanizing support in funding projects that contribute to

As a multilateral ECA and a member of the Islamic Development Bank (IsDB) Group, development impact has always been a part of our core mandate and in our DNA. We have served as a bridge for trade and investment, supporting our Member Countries on both sides of trade and investment transactions and bringing together exporters and importers, foreign investors and projects through our insurance solutions.

sustainability across a wide range of sectors by covering commercial and political risks of transactions. With increasing pressure on ECAs to focus on their impact, a number of ECAs are adding SDGs to their mandates and strategies.

ICIEC's contribution to the SDGs

ICIEC plays a key role in contributing to six of the SDGs, mainly in the agriculture sector, healthcare sector and sustainable energy sector, through employment and economic growth, investment in infrastructure and lastly, by building partnerships for sustainable development.

SDG 2: Zero Hunger

Since inception, ICIEC has supported USD 1.3 billion in trade and investment in the agricultural sector by providing insurance options to both exporters and buyers. We provide comprehensive protection to exporters of agricultural machinery globally to facilitate their expansion into risky OIC markets. We also provide insurance options to banks in Member Countries that lend to importers of agricultural equipment to increase their access to finance and promote their own agricultural activity. In this way, ICIEC is promoting sustainable agriculture that enhances food security by bridging the gap between small-scale farmers and exporters of agricultural machinery catering to risky markets, through its commercial and political insurance solutions.

SDG 3: Good Health and Well-being

ICIEC has been instrumental in supporting the healthcare industry with investments of up to USD 512.8 million in the construction of hospitals and the expansion of medical facilities. This support extends to exporters wishing to expand their markets globally. The coverage of political and commercial risks allows trade and investment to flourish among OIC countries and beyond.

The huge financing gaps for successfully achieving the SDGs requires ECAs to become more active in galvanizing support in funding projects that contribute to sustainability across a wide range of sectors by covering commercial and political risks of transactions.

SDG 7: Affordable and Clean Energy

Access to affordable, reliable and sustainable energy is an essential ingredient for economic growth and development. ICIEC has made significant contributions of up to USD 15.5 billion in power generating projects. We have introduced numerous renewable energy technologies in Member Countries, including the construction and implementation of large-scale solar energy and wind farm projects.

SDG 8: Decent Work and Economic Growth

Inclusive economic growth is fundamental in spurring sustainable development through increased labor productivity and reduced unemployment. Trade and investment are directly correlated to economic growth by boosting business capacities and adding value to goods and services. Having several least developed countries (LDC) within our membership, ICIEC focuses on improving their economic and social standing through increasing impactful investments. ICIEC has insured over USD 6.5 billion for imports, exports outward and inward investment in LDCs and USD 2.5 billion in labour-intensive

Inclusive economic growth is fundamental in spurring sustainable development through increased labor productivity and reduced unemployment. Trade and investment are directly correlated to economic growth by boosting business capacities and adding value to goods and services.

industries among all its Member Countries.

SDG 9: Industry, Innovation and Infrastructure
Building resilient infrastructure is core to every sustainable development goal. As such, infrastructure has been one of the key focus sectors in ICIEC's strategy. We are uniquely positioned to cover political and commercial risk associated with large-scale infrastructure projects. Our products financing capacities, particularly for SMEs by protecting banks' balance sheets encouraging them to extend their services to SME exporters. Industrialization, trade and innovation are mutually reinforcing. Therefore, we aim to strengthen the value-chain integration of local producers but also promote access and expansion in to new markets. ICIEC has supported USD 3.7 billion in trade and investment related to infrastructure.

SDG 17: Partnerships for the goals
The SDGs cannot be achieved without a globally connected force of cooperation between different levels of government, multilateral institutions, civil society organizations and the private sector. The collaboration can be effective in streamlining functions, leveraging synergies and mobilizing resources to contribute to the achievement of the SDGs. ICIEC continues to unlock and catalyse financial resources that would not have otherwise been flowing into and across OIC countries. As a multilateral organization of 46 countries, we encourage the participation of banks, investors, corporates and national ECAs in export transactions and investments in risky markets, by helping navigate uncertainty and enhancing competitiveness by offering extended credit periods for capital goods.

SDGs as a guiding principle for ICIEC's strategy

Our monitoring and evaluation policy framework shapes our activities in prioritizing development impact in Member Countries. We can now measure and highlight the social, economic and environmental impacts that our products and services have had on the development of Member Countries' export sector and its effects on human development, including access to employment, enhanced infrastructure and basic social services. In this way, the SDGs have become the keystone for our continued development journey, shaping ICIEC's strategy and helping to define the outcomes we seek to achieve going forward.

Our pursuit of the SDGs is threefold. Firstly, it aligns our strategy with that of the IsDB Group. Secondly, it boosts our mandate in supporting the sustainable economic development of our Member Countries through risk mitigation solutions and thereby further advances each Member Countries' agenda with a view to the SDGs. Thirdly, we act as a catalyst in mobilizing private sector funds towards the achievement of the SDGs.

Towards a new approach to SDG financing

Due to the nature of their role in taking on foreign risks in cross-border trade and investment, ECAs are invited to consider the opportunities in assessing the development impact of their transactions. Sustainable development is a high national and global priority and ECAs should endeavor to actively contribute to the achievement of the SDGs by insuring exports and investments in projects that would not have occurred otherwise due to high market risks, particularly in developing countries. To successfully integrate SDG related objectives within the ECAs' mandate, careful consideration and compliance with the reporting of social and environmental standards is required. ECAs can effectively fill the gaps in SDG financing by improving synergies and driving greater focus on mitigating risks in trade and investment, particularly in developing countries. ■

Sustainable development is a high national and global priority and ECAs should endeavor to actively contribute to the achievement of the SDGs by insuring exports and investments in projects that would not have occurred otherwise due to high market risks, particularly in developing countries.

Changing business for good – the EDC experience

By Mairead Lavery, President & CEO, Export Development Canada

In the last weeks of August, there was an item in the *New York Times* that caught my eye.

The Business Roundtable, a collection of almost two hundred executives from some of the most prominent corporations in the United States issued a statement. The subject was "the purpose of the corporation" and what they said was this:

"While each of our individual companies serves its own corporate purpose, we share a fundamental commitment to all of our stakeholders...We commit to deliver value to all of them, for the future success of our companies, our communities and our country."

In the statement, the companies committed to fairer compensation, benefits and training for their employees. And, significantly, there were also promises to "protect the environment by embracing sustainable practices across our businesses" and "foster diversity and inclusion, dignity and respect."

What caught the media's attention (and mine), was that the statement came from an organization that had previously defined its purpose in very different terms. In other words, the leaders of the biggest companies in the United States were signaling an enormous shift in orientation. From the priorities of shareholders only, to the interests of all stakeholders.

Corporations, they were saying, have something more important to do than just maximizing profits.

For those operating in our world – the world of export credit agencies – this is good news. It brings a large and influential portion of the corporate world into closer alignment with an evolution that is already well underway among the world's export credit agencies. The company I lead, Export Development Canada, is just one example of that change.


Mairead Lavery

This fall, EDC celebrates its 75th birthday. Like any institution of that age, EDC has evolved enormously. Some of the biggest changes are happening right now.

ECIC, as we were known in the beginning, grew out of the post-war world. As was the case for the other ECAs that emerged at that time, our purpose was to support the re-emergence of global trade flows.

In the early years after our founding in 1944, our business mirrored the most prominent forces of our nation's economy at the time – particularly natural resources and heavy manufacturing. Our customer base was composed largely of the country's biggest companies in mining, forestry, energy and transportation. That's changed. Today, the vast majority of our customers are small- and medium-sized companies, representing the entirety of our economy – every sector, all sizes – still inclusive of those "traditional" industries, such as mining and oil and gas, but also the "newer" sectors, such as biotech, cleantech, and now, more and more, service industries and digital technologies.

This expansion across sectors, as well as growth in customer types and numbers, has helped EDC sustain itself as a profitable corporation that has contributed to more than a trillion dollars of Canada's gross domestic product.

But, like the members of the Business Roundtable, EDC's thinking on its vision and objectives has grown broader than the bottom line. Opinion on the roles and responsibilities, even duties, of institutions have – here's that word again – evolved. EDC's view of itself, as a member of Berne Union and as an ECA with global reach, has been shaped by the currents of thought and ideas among our international peers and their organizations. The OECD and Equator Principles, as well as the United Nations Sustainable Development Goals (SDGs) – all of these have helped mould the company EDC is today.

About a year and a half ago, in May of 2018, EDC launched an extensive review of our Environmental and Social Risk Management Policy Framework – ESRM for short – an integral pillar for our corporate sustainability and responsibility framework. Working with a wide range of stakeholders, we've used this review to move the needle in a number of key areas as we promote global progress to a more sustainable and responsible business model.

Here is a high-level survey of some of the major initiatives that grew out of the review, along with a few other examples of EDC's evolution as a place of business increasingly guided by human values.

On human rights

ECAs understand now more than ever how our business relationships can be linked to human rights-related risks that can pose significant harm to people. This was a major driver behind the development of our new Human Rights Policy, released in May of this year. Aligned with the UN Guiding Principles on Business and Human Rights, our policy provides clarity to our customers and partners on where we stand on human rights – for all our transactions, in every industry and all markets.

On climate change

In 2018, EDC became the first ECA to sign on as a supporter to the recommendations of the Task Force for Climate-related Financial Disclosures. Our commitment is to work toward the implementation of the Task Force's recommendations, to help advance the availability, consistency, and comparability of climate-related financial risk and opportunity disclosures.

Following that important milestone, in January of this year EDC released its first dedicated Climate Change Policy. As we developed the policy, a key challenge was how to balance our role in promoting Canadian exports, regardless of sector, with the need to start taking a more proactive

Since 2012, EDC made helping to mature and build the Canadian cleantech sector an important corporate priority. We saw the importance of helping develop the economy of tomorrow.

and informed approach in response to the global transition to a low-carbon and climate-resilient economy. The result was a document committing our organization to measuring, monitoring and disclosing climate-related risks and opportunities, integrating climate change considerations into our business decisions and encouraging our partners to do the same. The policy also set targets to reduce the carbon intensity of our lending portfolio. Significantly, this included an immediate prohibition of any new financing for coal-fired power plants, thermal coal mines or any thermal coal-related infrastructure – anywhere. This policy puts EDC among the ECA leadership when it comes to climate-change initiatives.

We are also actively working with Canada's oil and gas industry to support their transition to a low-carbon future. The sector makes up 10 per cent of the exports and international investments that EDC facilitates, and represented almost 20 per cent of Canadian exports in 2017. Supporting the sector's transition – while also investing in new sectors such as cleantech – is part of our balanced approach to performing a national mandate while promoting a low-carbon economy.

On sustainable finance mechanisms

In 2014, EDC did something no other Canadian financial institution had ever done: we issued a Green Bond. That first issue, of US $300 million, has been followed by four more. To date, EDC has issued more than $2 billion in Green Bonds into the market, which have helped finance about thirty transactions (and counting) in support of environmentally responsible companies or projects, including those that reduce or avoid greenhouse gas (GHG) emissions. These efforts have also helped avoid an estimate of more than four million tonnes of GHG emissions.

On cleantech investments

Since 2012, EDC made helping to mature and build the Canadian cleantech sector an important corporate priority. We saw the importance of helping develop the economy of tomorrow. This required taking increased risks in our core products, creating a team dedicated to the sector, and investing in new solutions to help these exporters grow. To support earlier stage cleantech exporters, in 2018 we also launched the Cleantech Co-Investment Program to invest directly in promising companies to energize additional investment. These and other efforts have facilitated more than $7 billion in cleantech exports since 2012, making EDC Canada's single largest investor in the sector.

On finance as a development tool

In early 2018, and after more than two years of planning and preparation, EDC launched Canada's development finance institution — FinDev Canada. Within days of being capitalized, the institute closed its first deal, a US $10 million investment in a Kenya-based off-grid solar energy company. Since then, FinDev Canada has continued to expand its impact worldwide, enabling transactions that promote economic growth and job creation, improving the lives of women, reducing poverty, and promoting positive environmental impacts in developing markets.

On investments in people

In 2019 EDC celebrates another important anniversary: our tenth year of partnership with CARE Canada, one of our nation's most prominent international development agencies. In addition to funding, every year EDC provides a number of our employees with volunteer opportunities, to invest their energy and expertise in projects supporting small business development, women entrepreneurs, and responses to climate change. So far, more than 40 employees, volunteering their time (while receiving their full EDC salaries) have delivered their expertise around the world, then brought their life-changing experiences back to Canada. This partnership, as with so many of our recent initiatives, also aligns with SDG 17 – Partnerships for the Goals; that is, civil society, government and the private sector making a difference by working together.

I have only been with EDC for five of its seventy-five years. Much of its evolution in the realm of corporate sustainability and responsibility predates me, both as an employee, and as President and CEO, the job I was privileged to be offered in February of this year. I am fortunate and grateful to have such a strong platform to build on.

Like executives of the Business Roundtable, EDC is well-aware of the impact its activities can have. Our actions so far are testament to this. But there is more to be done. In 2018 alone we facilitated more than a $104 billion in transactions for more than 13,000 customers who did business in more than 160 countries around the world. We now understand more and better that these numbers measure only one dimension of our impact. We now understand the value of measuring the sustainability of our business, the human, climate and social impacts that extend far beyond our bottom line and far across Canada's borders. Understanding those effects, improving when we can, mitigating when necessary, using finance as leverage where possible, all of these are central to EDC's new vision for sustainability as we work to expand Canadian trade.

In the New York Times article, Harvard Business School historian, Nancy Koehn, was quoted saying the Roundtable executives were "... responding to something in the zeitgeist," and that they "perceive that business as usual is no longer acceptable."

In the storied history of EDC and in our description of how we came to get to this place, you will note some recurring themes: evolution, transition, impact. Why? Because this is part of who we are and what we need to be.

How it is that we have all got to this place (whether by zeitgeist, international pressures or just a common-sense consensus) matters less to me than this: we can work together to redefine what "business as usual" looks like, and that there can be no question about the need for more change to come. The sooner, the better. ■

In 2019 EDC celebrates another important anniversary: our tenth year of partnership with CARE Canada, one of our nation's most prominent international development agencies.

The role of export credit agencies in the changing economic landscape

By Massimo Falcioni, CEO of Etihad Credit Insurance

Over the last three decades, the UAE's surging non-oil exports have made it among the most diversified economy in the GCC. By putting forth the UAE as an example, Massimo Falcioni, CEO of Etihad Credit Insurance, the UAE federal Export Credit Company, gives a global overview on how a national export credit company can be a very important institution. One that can support export diversification and robust economic growth of a country by being a stabiliser and an accelerator.

International trade contributes considerably to the sustainable development of the global economy. The beginning of trade in the many-sided trading system has provided one of the major pillars for economic growth enjoyed by developed countries in the last century. Although emerging countries were late to appear on the scene of international trade, they too have significantly profited from open markets and the increased trade protectionist measures. During and after the financial crisis, international trade has also played a crucial role in boosting global economic recovery as a non-debt creating source of growth. During the crisis, governments around the world reacted quickly by initiating large fiscal stimulus packages and monetary facilitation to restore confidence in financial markets. These funds included various measures for government ECAs to expand the operation, in order to

Massimo Falcioni

help banking systems, provide liquidity and restore lending. Having facilitated international trade for many years, ECAs stepped in to fill the gap left by private export finance markets in supporting international trade flows.

UAE Economic Overview 2015-2019:
According to the UAE Central bank, the UAE's inflation-adjusted GDP is set to expand by 1.7% in 2018 and 2 percent in 2019. The non-oil economy has recorded 3.6% year-on-year growth in Q2 2018 (versus 3.8% in Q1). A resilient growth has been maintained during Q2 of 2018, against the backdrop of stablising oil prices, favorable fiscal policies, steady tourism and related activities. The UAE Central Bank's report, stated non-oil economy is set to grow by 1.8% in 2019. These encouraging statistics are a testament to the fact that one of the key drivers for the UAE economy is diversification. This is further proven by the manufacturing sector's contribution to the UAE's non-oil GDP that grew by 2.5 per cent to Dhs122 billion in real prices in 2018 from Dhs119.7 billion in 2017, according to figures revealed by the Federal Competitiveness and Statistics Authority of the UAE.

International trade contributes considerably to the sustainable development of the global economy. The beginning of trade in the many-sided trading system has provided one of the major pillars for economic growth enjoyed by developed countries in the last century.

The role of diversification in the UAE's economy

The UAE has always played a robust role in the arena of exports and re-exports. This has been evidenced in the recent Ministry of Economy's 2017 report wherein the global non-oil foreign trade of the UAE accounts for $439 billion, out of which $52 billion is exports and $121 billion is re-exports. During the last three decades, UAE has achieved steady economic growth and noteworthy export diversification, thereby making it the most diversified economy in the GCC region.

Etihad Credit Insurance (ECI), the UAE Federal Export Credit Company was established by the UAE Federal Government and its founders, the governments of Abu Dhabi, Dubai, Ras Al Khaimah, Fujairah and Ajman. The company started its operations in February 2018 and plays a catalyst role in supporting the UAE's non-oil exports, trade, investments and strategic sectors development, in line with the UAE Vision 2021 agenda.

It is tasked to accelerate and sustain national economic diversification as well as support the export and re-export of UAE goods, works, services, and the foreign investments of the UAE businesses through a range of export credit, financing and investment insurance products. To provide UAE businesses with solutions that meet their growth objectives locally and internationally, ECI has built a comprehensive platform of strategic partnerships across government, insurers, re-insurers, brokers, banks and lenders, regional and international Export Credit Agencies, governments and trade promotion agencies, in addition to world organisation for economic development.

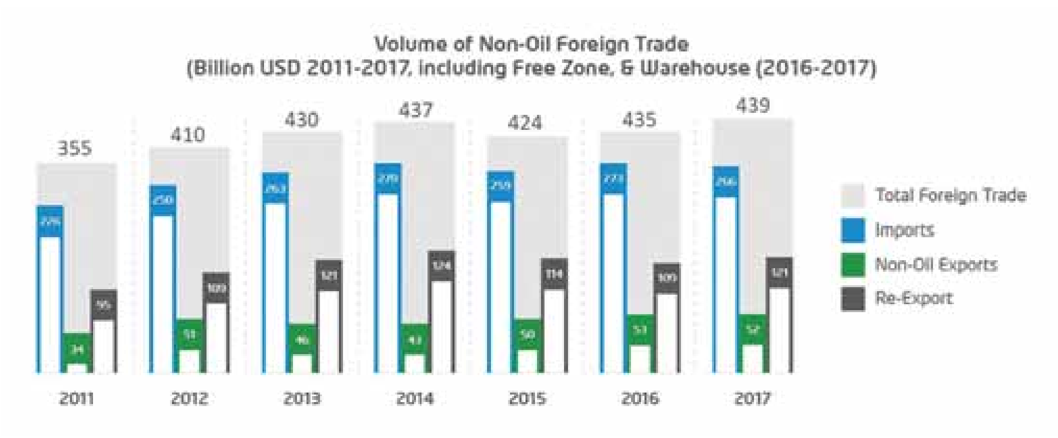
Challenges faced by ECAs globally & Etihad Credit Insurance

Despite the faster-than-expected recovery in global trade, ECAs now face global obstacles in their domestic economies.

Exporters frequently need insurance cover for risks associated with export deals. Typically, these risks result from non-payment for political or commercial reasons. Political risks can be the lack of hard currency in the buyer's country or, for example, wars, civil unrest, or a payment moratorium enforced by the government. Commercial risks comprise payment evasions by the customer or bankruptcy, leading to temporarily uncollectable receivables or full write-offs. Private credit insurers offer identical cover against losses occurring from buyers' insolvencies in their national or export markets and from political risks. However, export credit coverage available from these private insurance companies is regulated. Especially, export transactions with risky and uncertain markets—frequently involving extended credit periods for capital goods, often can be only received with governmental support.

The year 2019 was predicted to be a challenging year for the global economy. In order to manage the risks of the insured UAE businesses, it was crucial to understand the nature of the challenges and risks. ECI's role is to mitigate the risks and stabilise the country's development, especially the non-oil sectors by facilitating trade and investment, access to funding for local businesses thereby reducing the gaps in the marketplace. In short, ECI believes that a strong credit agency corresponds to a strong economy that in turn equates to a strong country.

To address these concerns, the first



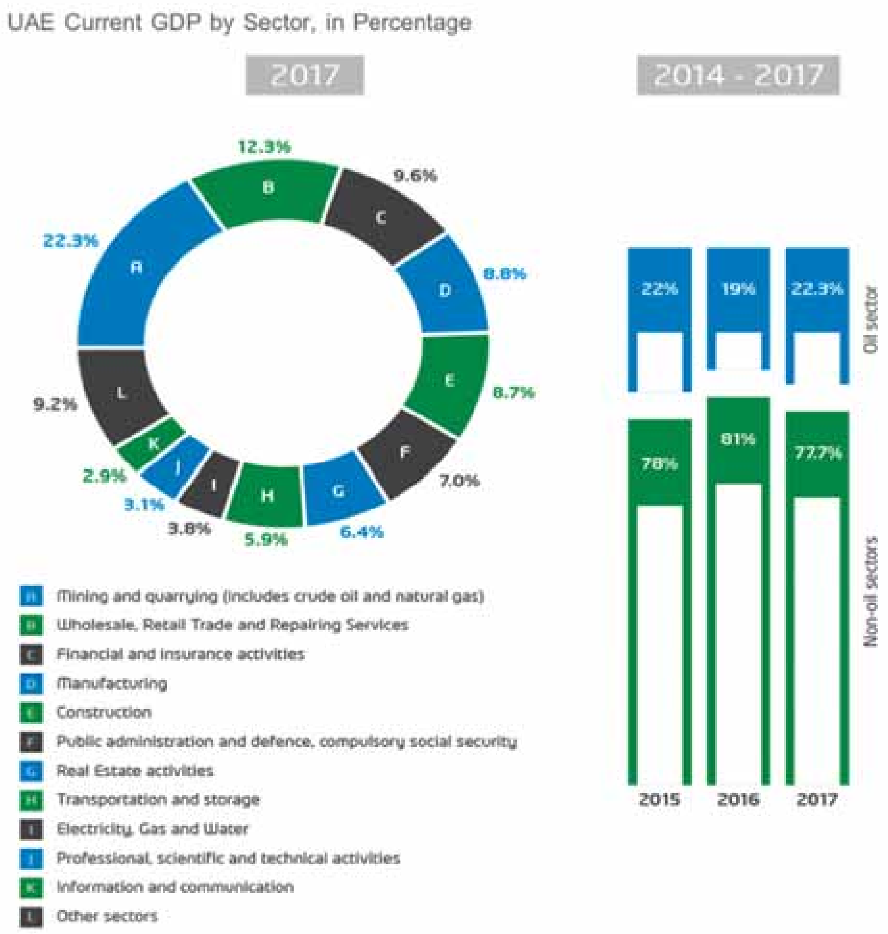
Source: UAE Ministry of Economy

initiative that ECI put in place was the customer voice project. ECI collaborated with Abu Dhabi Chamber of Commerce and Industry, RAK Chamber of Commerce and Industry and Dubai Chamber of Commerce & Industry, where the ECI team interacted with a diverse group consisting of 60 manufacturers, entrepreneurs, and exporters in order to understand their challenges. The recommendations put forth by this group were further analysed and studied to identify the key areas of support. This categorisation put ECI on the right path to generate a suitable sample based on the ECI team's interaction with another set of 80 entrepreneurs globally as well as by comparing the local and global scenarios. These cumulative responses later helped the team to gain a deeper understanding of the challenges faced by the exporters. The company used this information to create customised solutions based on their prevailing requirements that ranged from accessing new markets, investing abroad, protection from existing customers.

ECI's contribution to the export credit insurance industry

According to the recent Global Risks Report, the global economy is set to face several challenges that include regulatory issues, technological challenges, trade tensions, as well as geopolitical risks. This is where an export credit institution like the Etihad Credit Insurance, the UAE Federal Export Credit Company can act as an important stabilising support.

ECI's role is to alleviate the risks and stabilise the country's development, especially the non-oil sectors by facilitating trade and investment, and access to funding for local businesses, thereby reducing the



Source: UAE Ministry of Economy

gaps in the marketplace.

ECI has steadily nurtured significant and mutually beneficial global and local partnerships. The institution has leveraged on the technical knowledge of established ECAs and combined that with our resources, to aid its expansion plans. ECI's strong marketing of its 25 different insurance solutions and financial market know-how and intelligence has certainly helped to increase the confidence of its insured customers.

In conclusion, ECI believes that by tapping the existing gaps in insurance penetration in the marketplace, connecting with various industries in the marketplace through interactive workshops, sessions, and educating the local businesses on the risks associated with trade and exports, an export credit agency can boost the confidence of the insured while fast-tracking the exporters' turnover. This will eventually contribute to a stable economic environment in the country

Supporting the UAE Vision 2021 and knowledge transfer:

ECI announced, the National Accelerator Programme, an extensive 18-week training that has been especially designed for young Emirati nationals to give them a better understanding of government export credit insurance in 2018. Through this programme, ECI commits to an environment of holistic development and continuous learning for the participants, energising them with purpose and passion to support the ECI strategy. Committed to the country's goals, the company invests in the potential of the UAE nationals, and in improving their skill set as well as knowledge transfer.

Launch of an export credit insurance solution to cater to the needs of UAE SMEs:

In August 2019, ECI announced the launch of 'SME Protect', an export trade credit solution, specifically designed for UAE-based SMEs to support their growth plans globally and assist them in entering high-growth markets.

'SME Protect', which was available to exporters and re-exporters from September 1, 2019, is a cost-effective and easy to access and manage solution to move on from the limiting and traditional Letters of Credit or cash payments terms, towards the most updated sales on open credit terms.

'SME Protect' is aimed at easing UAE businesses to broaden their understanding of trade credit solutions and to accelerate their export business in a safe way. By providing guarantees to receivables, SMEs can now provide credit to clients without financial loss. ■

What ECAs ought to do in the recent turmoil of global trade and Türk Eximbank's stance

By Enis Gültekin, CEO, Türk Eximbank

Current situation in the global economy

The global economy has been passing through moderate turmoil for a while, due to developments such as Brexit, the slowdown in major European economies and trade wars between USA and China. These issues resulted in an ambiguous and risky economic environment, inducing protectionist measures by countries and distress in international commercial relations.

The increasing commercial tensions between US and China in the recent period directly effects the direction of trade flows, and the protectionist measures taken by both countries, as well as some other major economies, add to the already high risks regarding global trade. The distress also limits potential financing opportunities and exporters have to face heavier burdens while accessing the finance they need for production and marketing. All these developments require a change of paradigm in the global economy.

In order to overcome these difficulties, countries have accelerated their search for new trade routes. Therefore, the share of developing countries in global trade and global value chains has been increasing, and they are focusing on their competitive strengths. One of the main tools countries use to support their exports is export credit agencies, which have once again started to assume very important roles to overcome this rough era.

Enis Gültekin

The role of ECAs in this era

Exports have once again become the key driver for economic growth. The large amount of infrastructure projects, and the role of ECAs play in financing these projects, has been growing as well. In line with these developments, the importance of ECAs has also risen as they constitute the main means for countries to support their exporters.

Due to constraining international regulations like the Basel Standards, as well as Anti Money Laundering (AML) and Know Your Customer (KYC) practices they have to abide by, commercial banks have become cautious when financing export transactions, and a mismatch between the supply and demand of funds has arisen in the export sector. As a result, ECAs, which are expected to fill this financial gap, have responded to this situation by various means, including:

- opening overseas offices,
- becoming flexible by designing innovative and tailor-made products,
- establishing international partnerships,
- becoming more digitalized.

The increasing commercial tensions between US and China in the recent period directly effects the direction of trade flows, and the protectionist measures taken by both countries, as well as some other major economies, add to the already high risks regarding global trade.

Many ECAs have newly established or raised the number of their overseas offices in their target markets in order to be closer to their buyers and better define their needs. Developing countries in North Africa, CIS region, Middle East and Sub Saharan African have vast potential both as consumer markets and investment, each country having unique characteristics and requirements. These overseas offices are expected to satisfy them.

ECAs are also breaking the limits of their conventional stance by designing and offering new and innovative, even tailor-made products to adopt to this volatile era. Also, they are now acting with greater flexibility by lowering national content levels or changing their approach from "national content" to "national interest", thus financing more local content from project countries.

In addition to these, taking into consideration SMEs' crucial role in the export business, they are one of the main target groups of this flexibility trend observed amongst ECAs. In recognition of their importance, some of the ECAs provide financing for SMEs with very flexible conditions including longer maturities, lower interest rates than market practices as well as technical assistance and advisory tools.

On the other hand, as global risks increase and the number of the projects rises drastically, ECA partnerships have become an important way of completing financial packages of projects. Through co-financing, co-insurance, reinsurance and guarantee/counter-guarantee programmes, large projects are financed by ECAs together with International Financial Institutions, Multilateral Development Banks and commercial lenders, or under ECA insurance / guarantee, in cases of either sovereign transactions, PPPs or project finance. The presence of multiple sound lenders and ECAs in projects realized in volatile countries helps mitigating the risks and enables risk sharing amongst lenders and ECAs.

Lastly, in order to better and rapidly serve their exporters, ECAs become more and more digitalized every day. This includes carrying out the application and monitoring processes of their products via online services. Such facilities lower the cost of transactions of lenders and speed up the credit/insurance operations of ECAs, which started to become a competitive advantage.

Turkey's situation

As a developing country, Turkey has gone through an economic transformation starting from late 1980s, converting to an "export-based growth model" from import-substitution. To illustrate the positive trend, the total exports of Turkey amounted to;

- $10 billion in 1987,
- $107 billion in 2007,
- and with an increase of nearly 60% in 10 years to its peak of $168 billion in 2018.

Turkey's share in global trade has risen from 0.55% in 2002 to 0.86% in 2018. Moreover, it has the potential to further increase its share in the coming years, if necessary measures are taken to adapt to the new era.

Turkey's export markets focus mainly on neighbouring countries and their hinterland. Three quarters of Turkish exports in 2018 were to Europe and MENA countries, while seven of the top ten export destinations of Turkey are in Europe. As a result, Brexit and the slowdown in European economy are to be closely followed by the authorities. On the other hand, the political and economic stability in MENA region has the utmost importance for Turkey as these issues directly affect the export volume of Turkey with the said countries.

ECAs are also breaking the limits of their conventional stance by designing and offering new and innovative, even tailor-made products to adopt to this volatile era. Also, they are now acting with greater flexibility by lowering national content levels or changing their approach from "national content" to "national interest", thus financing more local content from project countries.

Türk Eximbank's stance amid global rising risks

As the only official export credit agency of Turkey, Türk Eximbank provides a wide range of financial solutions to Turkish exporters since 1987, covering export credits, insurance and guarantee programmes. The bank instinctively aims to develop Turkish exports by enabling diversification of goods and services, assists exporters to reach new global markets and supports export-inducing capital goods production.

Türk Eximbank contributed significantly to the increase in Turkish exports. Since Turk Eximbank's inception, the annual growth rate of Turkey's exports has averaged at 11%. This change led Turkey to become one of strongest economies in the World and a member of G20.

The Turkish Government gives utmost importance to boosting exports and therefore issued "2023 Export Strategy and Action Plan" for the enhancement of the country's sustainable exports. In this respect, Türk Eximbank has important responsibilities, thus proactively performs its duties by setting forth innovative products and opening branches to reach more exporters and better meet their needs, focusing on SMEs for sustainable export growth, establishing international partnerships to access new markets by mitigating risks, and apply digital transformation for faster service to exporters.

Opening branches and liasion offices

In the last couple of years, Türk Eximbank opened branches and liaison offices in areas where 94% of Turkey's exports are generated. The main reason of this branch strategy is to reach more exporters and be in closer contact with them to ascertain their needs effectively (Figure 1).

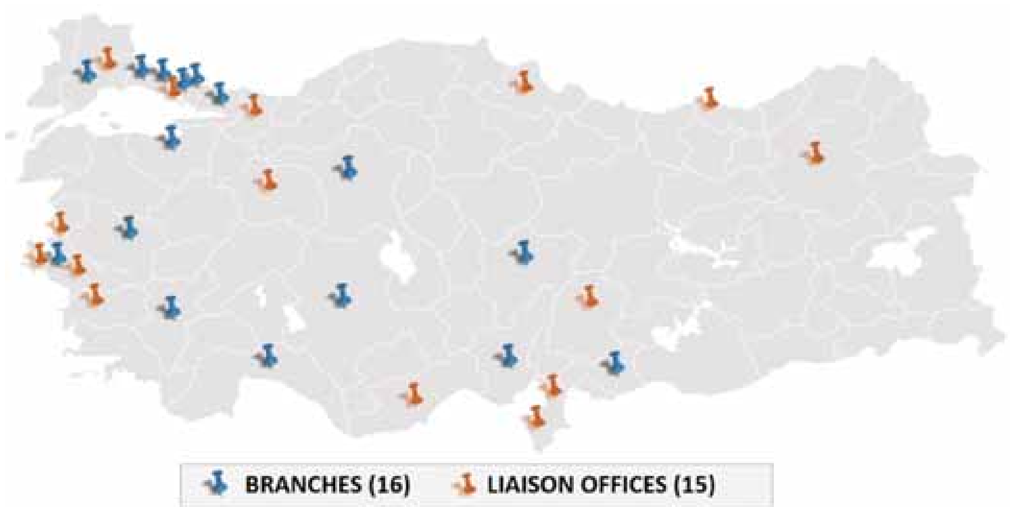
As a result of this strategy, the number of exporters Türk Eximbank supports has quickly increased. In 2016, the bank had transactions with 7,700 exporters while this number exceeded 11,000 in 2018 – a 44% increase in just two years' time. The bank's goal is to reach out even more exporters in 2019.

Focusing on SMEs

Türk Eximbank's marketing perception is based on providing the most suitable, even tailor-made solutions to each exporter. Being aware that SMEs constitute the backbone of the national economy by creating employment, inducing economic growth, ensuring fair income distribution and increasing exports, Türk Eximbank has always given special importance to SMEs and applied specific financial solutions for their needs.

Approximately 55% of Turkey's exports are by SMEs. Accordingly, Türk Eximbank has gradually increased the share of SMEs in its customer base from 53% in 2016 to 70.7% in 2018 and 72% as of August 2019.

Figure 1: Türk Eximbank's branches and liaison offices



The intention is to increase this proportion to 75% before the end of 2019. As a result of the intensive efforts dedicated to them, Türk Eximbank support for SMEs in 2018 exceeded $5.4 billion, which included $3.1 billion of loans and $2.3 billion of export credit insurance.

The buyer limits with regard to export credit insurance have been steadily increasing as the said limits have gone up by 14% in the last two years. In 2018 9%, and 2019 10%, of these limits were allocated to SMEs for their buyers. To breakdown the increase in buyer limits; the limits have risen 18% to Europe, 15% to the Middle East, 11.5% to Africa, 18% to North Africa, and 23% to Latin America. This illustrates how Türk Eximbank pursues a proactive strategy in regions seriously affected by the global risks and safeguards exporters against commercial and political risks through its programmes.

New products

Türk Eximbank has expedited its efforts to offer exporters similar products to what the world's leading ECAs offer to their exporters. In this respect, new products have been developed including surety bonds, investment insurance, financial institution buyer credit insurance, and letter of credit confirmation insurance in order to assist Turkish exporters to enter into new markets, enhance business volumes and improve cash flows. The bank's aim is to establish even more innovative products in 2019 and thereafter.

Digital Transformation

Being aware that the pace of providing a solution is as critical as the solution itself, Türk Eximbank carries out relevant information technology projects within its framework to hasten the financing processes of exporters. The bank also complies with Turkish Government's E-Trade Initiative, which will eliminate red-tape during export transactions.

International Cooperation

Türk Eximbank gives utmost importance to international collaboration with our counterparts via cooperation agreements, aiming to provide financial solutions by jointly financing, insuring or guaranteeing transactions and projects in third countries. The bank has signed many agreements with ECAs from Europe, Asia and the Americas foreseeing co-finance, co-insurance and

Türk Eximbank gives utmost importance to international collaboration with our counterparts via cooperation agreements, aiming to provide financial solutions by jointly financing, insuring or guaranteeing transactions and projects in third countries.

reinsurance schemes, with the intention of financing projects in its target markets such as Sub-Saharan Africa, the CIS countries and the Middle East.

In addition to its bilateral collaborations, Türk Eximbank is represented in the Berne Union as a recognized member and in its transactions are in compliance with the Berne Union Guiding Principles. Also, the bank provides all its financing in accordance with the OECD Arrangement on Officially Supported Export Credits to which Turkey became a "Participant" in 2018, strengthening its position as an observer. Likewise, the bank's transactions are in compliance with World Trade Organization's (WTO) Agreement on Subsidies and Countervailing Measures.

Türk Eximbank participates in the International Working Group (IWG) meetings and discussions, which is expected to succeed the OECD Arrangement in the future. Moreover, Türk Eximbank has become a full member of the Asian Eximbanks Forum in 2017 and assumed the role of General Secretariat of Aman Union which brings together the ECAs and insurance companies in the OIC region.

In conclusion, Türk Eximbank serves Turkish exporters in an era of rapidly rising risks in exports by offering new and innovative products, providing its services more rapidly by digitalisation in work processes, establishing branches and liasion offices in regions where exporters, especially SMEs, are concentrated. Special importance is also given to international cooperation through signing agreements with prominent ECAs to finance projects in third countries, which contributes substantially to global trade. ■

100 Years of UK Export Finance

By Louis Taylor, CEO, UKEF

The world today has a wealth of export credit agencies (ECA). The Berne Union alone has 85 members from every continent, all working to support cross-border trade – but it was not always this way.

It was not until 1919 that the first ECA was established – the organisation that is now known as UK Export Finance (UKEF).

UKEF's story begins in the aftermath of the First World War. This cataclysmic conflict not only cost millions of lives, but it also shattered the international trade system upon which the UK relied and saw millions of tonnes of shipping sunk to the bottom of the ocean.

Recognising that exporting would be key to the UK's economic recovery, the UK government of the day established the world's first ECA, the Export Credits Department.

It only had 13 members of staff when it started, but they helped the founders of the whole system of export credit that we know today.

At the heart of government

When we were founded, we were part of the Department of Overseas Trade – a predecessor of present Department for International Trade.

We were made an independent government department in 1930 and remain so today, making us one of the few ECAs in the world to be so deeply integrated into their government's offer to exporters.


Louis Taylor

Indeed, our offer of finance sits at the heart of the government's Export Strategy which seeks to increase UK exports to 35% of GDP and put the UK at the forefront of global trade.

Those 13 original members of staff have now been succeeded by a team of over 300 based all over the world, working hard to support and promote UK exports. We also work closely with other parts of government, including the departments for International Trade and International Development, as well as CDC Group – the UK's development finance institution.

100 years of firsts

We are very proud of being the world's first export credit agency and we have been innovating since day one. In 1934, we founded the Berne Union alongside three private credit insurers, and remain key and committed members of the organisation to this day. Indeed, Kimberly Wiehl, the former Secretary-General of the Berne Union, now

We are very proud of being the world's first export credit agency and we have been innovating since day one. In 1934, we founded the Berne Union alongside three private credit insurers, and remain key and committed members of the organisation to this day.

sits on our board as a non-executive director.

Our other 'firsts' include: providing first sukuk (sharia-compliant bond) backed by a western ECA; being the first ECA to participate in a hybrid finance structure comprising both project finance and reserve-based lending; and providing the first non-Chinese ECA guarantee for a loan in Chinese Renminbi – now one of more than 60 international currencies in which UKEF can offer financing.

We are supporting economic growth across the world, helping UK exporters make a real and tangible difference to millions of people across the world.

Complementing the private sector

Our core mission has changed little over the last hundred years – to ensure that no viable UK export fails for lack of finance or insurance, and to complement the work of banks and brokerages. We fill in the gaps, supporting UK exporters to sell all over the world.

The best example of the way that we work with banks is through our partnership to deliver support to SMEs. Through this, partner banks are able to issue UKEF-backed support directly to their customers – allowing SMEs to get the financing they need as quickly as possible.

A landmark year

We are marking our centenary in style with a landmark year. We have concluded the largest deal in our history providing £5 billion in support for BAE Systems' sale of Typhoon aircraft to Qatar.

We are supporting economic growth across the world, helping UK exporters make a real and tangible difference to millions of people across the world. This year, we supported projects in Angola for the first time, providing €450 million to help build three new hospitals and upgrade two power stations, improving healthcare and power provision.

We have also bolstered support for smaller exporters, with a new General Export Facility and a Small Deal Initiative designed to make trading with UK SMEs more competitive. More than three quarters of all the exporters we supported last year were SMEs, and these new strings to our bow will enable us to offer them even greater level support.

All of our success this year has been recognised by the cognoscenti of the industry, with *Global Trade Review*, Euromoney's *Trade Finance* and *Trade Finance Global* all naming us as their ECA of the year and the British Exporters Association awarding us a market-leading 9/10 for our product range for the fifth year in a row.

Looking forward

We have a century's worth of experience supporting UK exports, with the ambition and drive to do even more. When we started, we had a maximum exposure of just £26 million (just under £1 billion in today's money). Now, it stands at £50 billion. This reflects the scale of our ambition for UK exports as we enter our second century in operation.

We have been innovators and leaders in the world of export credits ever since our foundation – and will continue to be so as we enter our second century. Here's to the next 100 years! ■

The best example of the way that we work with banks is through our partnership to deliver support to SMEs. Through this, partner banks are able to issue UKEF-backed support directly to their customers – allowing SMEs to get the financing they need as quickly as possible.

A year of anniversaries - Berne Union and UKEF

By Kimberly Wiehl, Non-Executive Director of UK Export Finance and former Secretary-General of the Berne Union

UKEF, the first official government export credit agency was established 100 years ago and the Berne Union, the global association for the credit and investment insurance industry is celebrating its 85th year in 2019 as well. Congratulations to both the Berne Union and UKEF on their respective milestone anniversaries!

These historic landmark events have prompted me to give some thoughts on the history of the export credit insurance industry, highlighting developments in this field, particularly in the last quarter-century.

Growing the Berne Union

The story begins in 1934, when four members founding members, including ECGD (the former name of UKEF), joined together to create the Berne Union. After World War II, nine further members joined – 8 from Europe and the agency from Canada, the predecessor of EDC today.

The following decades saw 42 new members join the association with a much broader geographic representation, including from Asia, the Middle East and Africa, as well as one multilateral organisation – MIGA.

New members were also actively joining the Berne Union's Prague Club for newly established government agencies, initially established in 1993 with a technical assistance grant from EBRD. The original founding agencies were from Eastern Europe, including the Czech Republic, Hungary and Poland, with further agencies joining from across the world over the next decade.

In 2016, the Prague Club became an integral part of the Berne Union meaning that today, in our 85th year, there are 85 members, representing 73 countries.

The role of the export credit agency

As is often noted, there is not one single model for an official ECA. While all have

Kimberly Wiehl

some form of government ownership and/or backing – some operate nearly autonomously, others are fully integrated government departments.

From the perspective of a government, its ECA's mission is to assist in growing national exports by supporting the commercial and political risks that are not covered by the private sector insurers and financiers. While at the same time, ECAs must adhere to the WTO rule that ECAs break even over the long term to avoid providing subsidies which are prohibited.

This balancing act creates a unique challenge for ECAs. In order to complement and not compete with the private market, ECAs can only take on those risks the others are unwilling to support.

While the mandate is to support their clients in these more difficult markets, industries and geographies, the ECAs must be fully diligent carefully assessing each risk and managing the overall portfolio which is typically highly concentrated and unevenly distributed. They must also swiftly identify and remediate problem cases, resolve claims and be prepared to collect on recoveries.

ECAs in difficult times

Over the past 25 years, there have been numerous major political and economic crises with significant impact on world trade which have presented challenges for risk capacity for global trade. Several of the more significant events were the Mexican peso devaluation, the Asian currency collapse, the Argentina debt crisis and various bank collapses and rescues.

ECAs have often been tapped to step into the breach during these moments. In each instance, the industry came together via the Berne Union to have open and intensive discussions on the consequences of the event on trade and the global economy. During the meetings and in special sessions, members were able to: review the issues in depth, exchange meaningful information and develop plans for any collective response and/or advocacy initiatives.

The two that are most vivid in my recollection were the terrorist attacks on September 11 2001 and the global financial crisis of 2008/09.

With the shock of the collapse of the Twin Towers of the World Trade Center in New York felt around the world, there were similar alarm bells ringing for the export credit and investment insurers.

Financing for larger projects dried up and bank appetite for risks in emerging markets was nearly zero. Previously active capital markets financing options were no longer available and reinsurance costs for exposures for certain countries such as Pakistan rose significantly. There was a temporary reduction in reinsurance capacity due to increased catastrophe losses from these events.

The export credit insurers responded flexibly. In some cases, for the bigger ticket deals, it was a question of wait-and-see, and in other cases ECAs extended trade insurance for war and other emergency situations.

The impact of the 2008/9 global financial crisis on the credit and investment industry was swift and severe. Berne Union members paid $2.4 billion in short term business claims in 2009, more than twice as much in 2008 and two and a half times more than in 2007. Claims in 2009 for the medium/long term business rose over three times at $3 billion than in the previous year.

Despite managing record levels of claims, BU members continued to support business in difficult economic conditions as banks and other financial institutions had severely limited risk appetites.

At the same time, there was a huge increase in demand demonstrated by the rise in total exposure from $1.36 trillion in 2009 to $1.43 trillion in 2010. Members reported that the global economy was operating at two speeds, with fast growth in Asia and Latin America versus slower recovery in the US and Europe.

These statistics show that the BU members not only stepped up to the plate with sustained support, but new programs were instituted or re-instituted to cover short term risks that were previously deemed marketable, exposure limits were increased and more direct lending capacity was developed to address the liquidity gap.

It was a very intensive time for the industry, yet it not only weathered the storm, but it also succeeded in its mandate to be available to customers when the commercial market was not.

Interesting times

Despite the impact of these economic and political crises, the overall trend for business growth in insured business has been overwhelmingly positive. The Berne Union data demonstrates that overall growth in business volumes has continued to accelerate – due both to heightened volumes per member and the expansion in the number of members reporting data.

In 1999, Malcolm Stephens, former CEO of UKEF and former President and Secretary-General of the Berne Union stated: “Clearly, these will remain interesting times for export credit agencies, their governments and their customers.”

Today, 20 years later in 2019, I could not agree more. ■

Despite the impact of these economic and political crises, the overall trend for business growth in insured business has been overwhelmingly positive. The Berne Union data demonstrates that overall growth in business volumes has continued to accelerate – due both to heightened volumes per member and the expansion in the number of members reporting data.

3

Directory

Berne Union Members

The Berne Union has 85 members from around the world, including 5 Observers. The membership is diverse and includes private insurance, government-backed ECAs and multilateral organisations, both large and small. Together they represent all aspects of the export credit and investment insurance industry worldwide.

As of October 2019, the Berne Union's 85 members include: 70 ECAs, 13 private insurers and 4 multilateral institutions. (this includes 2 members who manage both ECA account and private insurance)

The Berne Union member directory has moved online – this allows us to ensure that member information and contact details are always current and accessible. For contacts and more detailed information about each member please visit:

https://www.berneunion.org/Members

ABGF Brazil
Agência Brasileira Gestora de Fundos Garantidores e Garantias S.A.

AIG United States of America
American International Group, Inc.

AOFI Serbia
Serbian Export Credit and Insurance Agency

ASEI Indonesia
Asuransi Asei Indonesia (Asuransi Asei)

ASHRA Israel
Israel Export Insurance Corp Ltd

ATI Multilateral
African Trade Insurance Agency

ATRADIUS The Netherlands
Atradius NV / DSB

AXA XL United Kingdom
AXA Group Insurance Company SE

BAEZ Bulgaria
Bulgarian Export Insurance Agency

BANCOMEXT Mexico
Banco Nacional de Comercio Exterior S.N.C.

Bandex Dominican Republic
Banco Nacional de las Exportaciones

BECI Botswana
Export Credit and Guarantee Company

BPRFRANCE France
Bpifrance Assurance Export

CESCE Spain
Compania Espanola de Seguros de Credito a la Exportacion

CHUBB Switzerland
Chubb Insurance Company

COFACE France
Compagnie Française d'Assurance pour le Commerce Exterieur

COSEC Portugal
Companhia de Seguro de Créditos, S.A.

CREDENDO GROUP Belgium

CREDIT OMAN Oman
Export Credit Guarantee Agency of Oman

DHAMAN Multilateral
The Arab Investment & Export Credit Guarantee Corporation

ECGC India
Export Credit Guarantee Corporation of India Ltd

ECGC Z Zimbabwe
Export Credit Guarantee Corporation Of Zimbabwe

ECGE Egypt
Export Credit Guarantee Company of Egypt

ECI UAE
Etihad Credit Insurance

ECIC SA South Africa
Export Credit Insurance Corporation of South Africa Ltd

ECIO Greece
Export Credit Insurance Organization

EDC Canada
Export Development Canada

EGAP Czech Republic
Export Guarantee & Insurance Corporation

EGFI Iran
Export Guarantee Fund of Iran

EH GERMANY Germany
Euler Hermes Aktiengesellschaft

EIAA Armenia
Export Insurance Agency of Armenia

EKF Denmark
Eksport Kredit Fonden

EKN Sweden
Exportkreditnämnden

Enterprise SG Singapore
Enterprise Singapore

EXIAR Russia
Export Insurance Agency of Russia

EXIM HU Hungary
Hungarian Export-Import Bank Plc.

EXIM J Jamaica
National Export-Import Bank of Jamaica Limited

EXIM R Romania
Eximbank of Romania

EXIMBANKA SR Slovak Republic
Export-Import Bank of the Slovak Republic

EXIMGARANT Belarus
Eximgarant of Belarus

EFA Australia
Export Finance Australia

FCIA United States of America
FCIA Management Company, Inc

FINNVERA Finland
Finnvera Plc

GEXIM Ghana
Ghana Export-Import Bank

GIEK Norway
Garanti-Instituttet for Eksportkreditt

HBOR Croatia
Croatian Bank for Reconstruction & Development

HKEC Hong Kong
Hong Kong Export Credit Insurance Corporation

ICIEC Multilateral
Islamic Corp for the Insurance of Investment & Export Credit

Indonesia Eximbank Indonesia
Export-Import Bank of Indonesia

JLGC Jordan
Jordan Loan Guarantee Corporation

KAZAKHEXPORT Kazakhstan
Kazakh Export Credit Insurance Corporation

KREDEX Estonia
KredEx Credit Insurance Ltd.

KSURE Korea
Korea Trade Insurance Corporation

KUKE Poland
Export Credit Insurance Corporation Joint Stock Company

LCI Lebanon
Lebanese Credit Insurer

LIBERTY United Kingdom
Liberty Mutual Insurance Europe Limited

MBDP Macedonia
Macedonian Bank for Development Promotion

MEXIM Malaysia
Export-Import Bank of Malaysia Berhad

MIGA Multilateral
Multilateral Investment Guarantee Agency

NAIFE Sudan
National Agency for Insurance & Finance of Exports of Sudan

NEXI Japan
Nippon Export and Investment Insurance

NZECO New Zealand
The New Zealand Export Credit Office

ODL Luxembourg
Luxembourg Export Credit Agency

OeKB Austria
Oesterreichische Kontrollbank Aktiengesellschaft

OPIC United States of America
Overseas Private Investment Corporation

PICC China
People's Insurance Company of China

PwC Germany
PricewaterhouseCoopers AG

QDB Qatar
Qatar Development Bank

SACE Italy
Servizi Assicurativi e Finanziari

SEP Saudi Arabia
Saudi Export Program

SERV Switzerland
Swiss Export Risk Insurance

SID Slovenia
SID Inc, Ljubljana

SINOSURE China
China Export & Credit Insurance Corporation

SLECIC Sri Lanka
Sri Lanka Export Credit Insurance Corporation

SONAC Senegal
Société Nationale d'Assurances du Crédit et du Cautionnement

SOVEREIGN Bermuda
Sovereign Risk Insurance Ltd

SWISS RE CORPORATE SOLUTIONS Switzerland
Swiss Re Corporate Solutions

TEBC Chinese Taipei
Taipei Export-Import Bank of China

THAI EXIMBANK Thailand
Export-Import Bank of Thailand

TURK EXIMBANK Turkey
Export Credit Bank of Turkey

UK EXPORT FINANCE United Kingdom
Export Credits Gurantee Department

UKREXIMBANK Ukraine
Joint Stock Company the State Export-Import Bank of Ukraine

US EXIMBANK United States of America
Export-Import Bank of the United States

UZBEKINVEST Uzbekistan
Uzbekinvest National Export-Import Insurance Company

ZURICH United States of America
Zurich Surety, Credit & Political Risk

berneunion

1st Floor Thanet House, 231 - 232 Strand, London WC2R 1DA
Tel: +44 (0) 20 7841 1110 | Fax: +44 (0) 20 7430 0375

www.berneunion.org