Plugging the Trade Finance Gap

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Presentation by:

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What we will cover

- The trade finance ‘gap’
  - What is it?
  - Why does it exist?
  - Why does it matter?
- Impact financing
  - Impact funds
  - Development finance institutions (DFIs)
  - Multilateral finance institutions and development banks (MDBs)
- Export credit finance and export credit agencies

The trade finance ‘gap’

- This can be summarised as the difference between the level of financing requested for trading (import and export) of goods and services and the actual level of financing provided
- Asian Development Bank (ADB) estimates that the global trade finance gap was $2.5 trillion in 2022
  - Compares to $1.4 trillion in 2014 and $1.7 trillion in 2020
- Significant increase in the estimated value of the gap is attributable to a number of factors, including COVID-19 pandemic and war in Ukraine
- The gap impacts all potential trade finance ‘borrowers’ but rejection rates reflect a disproportionate impact on small and medium enterprises (SMEs)

Why is trade finance being rejected?

- ADB’s publication ‘2023 Trade Finance Gaps, Growth, and Jobs Survey’ provides a summary of the reasons given by banks for rejecting trade finance applications in 2022
- 40% of the reasons for rejection covered one or more of the following:
  - Application raised serious KYC concerns
  - Application was poorly presented and had insufficient information
  - Application lacked sufficient collateral
  - Application was from an SME with no collateral / high credit risk / other reason
  - Application was from a country perceived to be risky, and the bank did not have sufficient risk appetite
- Only 6% of respondents rejected an application as it was not profitable enough to process

Impact financing

- The IFC describes impact financing and investing a form of financing that seeks to achieve a “positive social, economic, or environmental impact alongside financial returns”
- There are a number of significant national, regional and global initiatives seeking to implement the United Nations 17 Sustainable Development Goals (SDGs) adopted in 2015
- Who should be driving this form of financing?
  - Public sector
  - Private sector
  - Both?

The role of impact financiers (1)

- Impact financing is currently dominated by DFIs and MDBs but there is a growing industry for private impact financiers
- Most impact financiers have a geographic and often sector focus that will drive their financing activities
- Impact financiers will leverage their knowledge of (and often presence in) local markets and their willingness (or mandate) to take additional commercial risk to invest in businesses that have the ability to have a positive impact on one or more of the SDGs

The role of impact financiers (2)

- Impact financiers can often provide longer-term financing, allowing for a partnership focussed on improving the company’s financial performance and achieving the positive development impact
- Impact financing can also cover a range of financing sizes, from big ticket direct lending to much smaller facilities that are often unviable for corporate banks
- Financings can be unsecured or require less collateral or a willingness to share collateral with other financiers (such as local banks or other impact financiers)

Development finance institutions

- Established to support private sector development in developing countries
- Provide financing for economic development projects – usually low-capital projects or where borrowers are unable to obtain financing from commercial lenders
- Policy based – often looking to promote job creation and sustainable economic growth.
- DFIs looking to plug the development finance gap

Who do we mean by DFIs?

- **Bilateral DFIs**
  - AFD/Proparco (France)
  - KfW/DEG (Germany)
  - FMO (Netherlands)
  - COFIDES (Spain)
  - BII (UK)
- **Multilateral DFIs**
  - AFDB (African Development Bank)
  - ADB (Asian Development Bank)
  - EBRD (European Bank for Reconstruction and Development)
  - EIB (European Investment Bank)
  - IDB (Inter-American Development Bank)
  - IFC (International Finance Corporation)
  - ISDB (Islamic Development Bank)

How do impact financiers finance?

- Direct lending (bilateral or syndicated)
- Indirect lending / investment
- Equity investments
- Participation arrangements
- Guarantees
- Establishment of companies to facilitate financing a particular market or sector (e.g. BII's establishment of MedAccess in 2017)

Working with DFIs

- Guarantees for credit risk mitigation
- Consideration of status and policy considerations :
  - Enforceability against DFI/multilateral or sovereign/preferential lender status
  - Immunity
  - Eligibility Criteria
    - Within the control of the bank
    - Clear and unambiguous terms
    - Processes for monitoring
- Greater monitoring and reporting requirements
- Timely payments

What is ECA Financing?

- Particular form of trade/export finance
- Representatives of individual states lend financial support to the export of eligible capital goods and related services originating from their home jurisdiction
- Benefits to exporters and to foreign buyers
- Risks associated with financing exports to a foreign buyer are alleviated through the obligations assumed by an ECA
- Exclusive focus on each stage of the economic cycle as emphasis is on supporting the export - part of the short and medium to long-term export finance space

What is an Export Credit Agency (ECA)?

- Has the financial and legislative backing of its home state
- Obligations considered direct (or indirect, depending on the legal status of the ECA) sovereign obligations
- Purpose is to support government trade/export policy
  - Increasing the international competitiveness of exports from that state
  - Promoting exporting within the state
  - Offering financial support to existing and potential exporters
- Not multilateral agencies (which are supported by multiple states) nor development finance institutions (which are focused on development rather than exports)

Type of ECAs?

- Part of government
  - UK Export Finance (UKEF) - formerly the Export Credits Guarantee Department (ECG)
  - Export-Import Bank of the United States (USEXIM)
- State-owned corporations
  - China Export & Credit Insurance Corporation (Sinosure)
  - EKF in Denmark
- Privately-owned organisations
  - Hermes Germany
  - Atradius the Netherlands

Changing role for Export Credit Agencies

- ECAs becoming much more active in providing trade finance support from a strategic perspective
- ECA new product support driven by policy priorities – not simply focusing on specific export contracts
- Much more untied support – i.e. not tied to specific export contracts
- A split between new products looking to expand access to trade finance (such as UKEF's General Export Facility "GEF") and products looking to bolster supply chain resilience (particularly in respect of energy security)

ECAs being used to bolster supply chain resilience

- Earlier this year Trafigura secured a US$560mn facility from Japan's export credit agency JIBC and SMBC to fund he delivery of natural gas to Japan
- The transaction comprised a US$390mn loan from JBIC alongside co-financing from SMBC of approximately US$170mn.
- In 2022 Trafigura entered into a USD3 billion four-year loan secured, in part, by the German Export Credit Agency (ECA) Euler Hermes to finance the delivery by Trafigura to deliver of gas into the European gas grid over 4 years

Greater flexibility for SMEs

- Untied support – support which is not directly financing a specific export sale can be a very valuable tool in helping to close the trade finance gap
- UKEF's General Export Facility (GEF) provides partial guarantees to banks to help UK exporters to gain access to trade finance facilities.
- GEF can be support the following trade finance facilities (with maximum repayment terms of up to 5 years):
  - cash facilities such as trade loans
  - bonding and letter of credit lines

Questions?

Daniela Barrdear

Counsel, Trade & Export Finance

Daniela advises on trade and commodity finance structures, acting for banks and non-bank financial institutions, development finance institutions and multilateral organizations as well as borrowers. She has significant knowledge of supply chain finance techniques, blended finance and export financing across the globe with a focus on emerging markets.

Education

- BPP Law School (GDL and LPC)
  - Graduate Diploma in Law
  - Legal Practice Course
- University of Manchester (M.Sc)
  - Trade Policy and Development (M.Sc)
- Emory University
  - Political Science (B.A.)

Sam Fowler-Holmes

Partner, Trade & Export Finance

Sam advises a broad spectrum of traditional and alternative financial institutions and corporate clients on a range of traditional and innovative trade and export finance products, including pre-export and prepayment finance, letter of credit and payment instrument facilities, as well as working capital and borrowing base financings.

Sam advises extensively on receivables and supply chain finance transactions, encompassing both traditional and bespoke structures. His practice also focuses on the digitalisation of trade, acting for both electronic platform providers and platform participants for a range of digital financing solutions.

Education

- College of Law
  - Legal Practice Course
- University College London (Masters in Public Law and Human Rights)
- The Queen's College, Oxford: Law

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Awards & Recognition

Receivables Finance International (RFIx) Annual Awards
Partner Geoffrey Wynne presented with the “Lifetime Achievement Award” at the Receivables Finance International (RFIx) Annual Awards, 2024
Geoffrey Wynne named “Industry Ambassador of the Year” at the RFIx Annual Awards, 2023

***Global Trade Review (GTR)* “Best Export Finance Law Firm”, 2023**
GTR named Sullivan “Best Export Finance Law Firm” at the GTR Leaders in Trade Awards, 2023

***Trade Finance Global* “Legal Innovation in Trade” 2023**
Sullivan recognised for “Legal Innovation in Trade" 2023 by *Trade Finance Global* (in connection with BAFT) at its Trade, Treasury and Payment Awards 2023

The Best Lawyers in the United Kingdom®, 2025
Best Lawyers included five London partners — Marian Boyle, Simon Cook, Sam Fowler-Holmes, Mark Norris and Geoffrey Wynne — in the 2025 edition of *The Best Lawyers in the United Kingdom®*

The Legal 500 UK, 2024
Sullivan ranked in Tier 1 for Trade Finance by *The Legal 500 UK, 2024* for the tenth year running
Partner Geoffrey Wynne is included as a Leading Individual for Trade Finance in the “Hall of Fame”
Partners Simon Cook, Mark Norris and Sam Fowler-Holmes are recognised as Leading Individuals

Chambers UK, 2024
Chambers UK, 2024 ranked Sullivan for Commodities: Trade Finance (UK-wide)
Geoffrey Wynne and Simon Cook are both ranked in Tier 1
Mark Norris and Sam Fowler-Holmes are both ranked in Tier 3

Chambers Global, 2024
Chambers Global, 2024 ranked Sullivan as a Spotlight Firm in its inaugural 2024 Africa-wide Banking & Finance table
Simon Cook and Mark Norris are included as Leading Lawyers

IFLR1000, 2024
Sullivan recognised for Banking Lending - Lender Side in the United Kingdom by the *IFLR1000, 2024*
Partner Geoffrey Wynne is recognised as a Leading Lawyer – Highly Regarded in the United Kingdom

***Trade Finance Global* “Best Trade Finance Law Firm” 2022**
Sullivan named “Best Trade Finance Law Firm” 2022 by *Trade Finance Global* (in connection with BAFT) at its International Trade Awards, 2022

In 2022, 2021, 2020 and 2019, GTR recognised Sullivan
The firm was named “Best Trade or Supply Chain Finance Law Firm” at the 2022 *GTR* Leaders in Trade Awards, “Law Firm of the Year” in the category “Leaders in Trade for Innovation” at the 2021 *GTR* Leaders in Trade Awards and “Best Trade Finance Law Firm” at the GTR Leaders in Trade Awards in 2020 and 2019

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