



Digital trends in Trade and Supply Chain in the Middle East region

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The ITFA Middle East regional committee gathered in February for a webinar concentrating on the recent - and upcoming - developments in digital trade solutions. For this purpose, Emirates NBD invited and joined a panel of experts representing DEWA, Microsoft, Traxpay and SMBC.

The panel concluded that "Trade digitisation is progressing at a rapid pace in the Middle East driven by the need to reduce delays and operational costs and to extend financing faster. There is more to be expected from the Middle East in the foreseeable future as regulators upgrade laws around electronic signature and electronic negotiable instruments."

Digital solutions have become an important tool to manage and mitigate the outstanding inefficiencies of established trade finance practices. Digitisation is now widely recognised as the most relevant way to innovate and to solve real-world problems. Organisations have used available digital tools to face trade disruptions and fragility around their supply chains during the painful and continuing COVID crisis.

Which solutions are being embraced by corporates, government entities and banks in the Middle East? What is expected from policy makers to further enhance trust in digital solutions? What do corporate customers expect from new technologies and policies?

Panelists included **Rahul Daswani**, Group Finance Manager, New Solutions International, Microsoft; **Subramanian Gopal Iyer**, Senior Manager- Finance, DEWA; **Ramakrishnan Ramaswamy**, Senior Specialist- Finance, DEWA; **Vikas Jha**, Group Head Trade & Supply Chain Finance, Emirates NBD; **Markus Wohlgeschaffen**, Product Management, Traxpay; **Sean Edwards**, Head of Legal EMEA, SMBC & Chairman, ITFA.

Take-aways on adoption of digital solutions for guarantees by DEWA

- Host-to-host connectivity has become more widespread in the region
- Streamlining high-volume guarantee processes is a priority; the end-to-end processes around guarantees have to be fully digitised; this has been achieved by DEWA with its banking partner Emirates NBD; as a consequence, the hand-delivery of guarantees also stopped
- The same objective applies to the shipping documents and insurance policies which are being administered on paper basis now and which need to move to a digital process as well.

Take-aways on adoption of additional solutions by corporates in the Middle East region

- Differences between guarantees and negotiable instruments are related to credit risk inherent in the latter and the country-specific regulatory frameworks applicable to the same
- Whereas Western countries would use assignment of receivables, in the Middle East, the use of bill of exchange would apply; digitising negotiable instruments is therefore very relevant to banks and corporates present in the Middle East.



Poll 1 Q. Is your organization already using or adopting a technology solution for digitizing trade flows? Three options were offered: (1) Yes we are using one solution since some time; (2) Yes we are in the process of selecting one; (3) No we are not digitizing trade finance flows. The outcome of the poll showed a majority of respondents have adopted or in the process of adopting a digital solution for trade flows.

Take-aways about the new tools requested by corporate clients in the Middle East

- Besides guarantees, large corporates also want to digitise the trade application process using f.i. bank proprietary portals or multi-bank trade solutions based on SWIFT's MT 798 standards
- The priority for large corporations is risk mitigation and process efficiency (given the volumes) whereas for the mid-market players and SMEs, liquidity is key
- The challenge remains to digitise "trust" such as electronic signing. Recent regulatory developments such as in Bahrain and in Abu Dhabi demonstrate how policy makers are facilitating the adoption of digital solutions for electronic signatures and electronic negotiable instruments. ITFA has released the "electronic payment undertaking" (ePU) as part of its DNI Initiative which implements functionally equivalent bills of exchange and promissory notes under contract law.

Take-aways on the visibility and liquidity requirements

- Academic research has shown that "extending payment terms to suppliers" is key; Supply Chain Finance (SCF) techniques and platforms can be used for that purpose which has been done much in Western countries
- The "open account" financing products such as dynamic discounting and approved payables (SCF) introduce new challenges such as onboarding the majority of suppliers. There is a strong potential in the Middle East to adopt dynamic discounting solutions
- Cash visibility has always been a priority for treasurers, and visibility of trade flows and exposures is key as well as the collection challenges are increasing.

Poll 2 Q. What are the drivers for corporates to adopt digital solutions for their trade finance requirements? (1) improving user experience; (2) offering faster financing to suppliers; (3) increasing sales by funding clients. The outcome of this second poll showed that "offering faster financing to suppliers" is what drive adoption of digital solutions.

Take-aways on corporate expectations for the future

- The highest priority is to digitise the insurance documentation as well as trade flows (e.g., document clearance, consignment, endorsement of bill of lading). Corporates want to move to a fully digital process.
- Quick onboarding of suppliers is key as this is often the most important obstacle faced in dynamic discounting and supply chain finance solutions.

Take-aways on on-going regulatory developments

- Major developments are underway in the Middle East as policy makers are introducing support for the "electronic transferrable records" which aim to help banks digitise negotiable instruments. Post-event note: ADGM released the new "Electronic Transactions Act" on 28 February 2021.

Poll 3 Q. Do you anticipate regulators within the Middle East either facilitating or enforcing the delivery of digital services in trade finance by adapting the laws or providing a common platform? (1) Yes the



law will evolve soon or later; (2) Yes a common platform will be offered; (3) Nothing is to be expected from the regulators. The outcome of the poll showed that the market is indeed expecting the law to evolve soon.

Conclusion - digitisation in trade is increasing steadily

- Trade is starting to follow the same route as payments and treasury in terms of increased digitisation and use of advanced technologies;
- Corporates and governments are facilitating eco-systems which financial institutions such as banks and insurers can join;
- Embedding finance into digital corporate processes should be the ultimate goal;
- The legal infrastructure is being adapted to new technological capabilities which is a major catalyst.