



The International Trade & Forfaiting Association 'ITFA' Middle East Regional Committee Annual Trade Finance Distribution Webinar 'Understanding the blueprint for Regional Trade Finance Distribution'

On 18th October 2021 the International Trade & Forfaiting Association 'ITFA' Middle East Regional Committee held its 3rd Annual Trade Finance Distribution Webinar titled "Understanding the blueprint for Regional Trade Finance Distribution".

Ersoy Erkazanci, Bloomberg's Dubai Correspondent moderated the discussion with 6 participating panelists, which included

- **Adam Worrall**, Executive Director, Trade Distribution – First Abu Dhabi Bank
- **Mattia Tomba**, Founding Investor, Head of Asia – Tradetec
- **Vipin Vashishtha**, Global Head, Trade Asset Sales & Syndications, Financing Risk – Standard Chartered Bank
- **Staney Pullolickel**, Regional Treasurer (Commercial) - MENAT, SSA & Asia – GE
- **Saurabh Sharma**, Business Manager, Transaction Banking Sales, Wholesale Banking Group - Abu Dhabi Commercial Bank
- **Khilola Turaeva**, Director, Global Trade Risk Distribution - Bank of America

The discussion opened with **Ms. Fatenah El Danab of the ITFA MERC** emphasizing the panel's overarching message on insights gained from the post-pandemic environment, impact of the latter on the trade community at large, the different drivers for the 'new normal' in the region and risk distribution's role in the trade ecosystem.

Mr. Erkazanci started by wanting to address if covid-19's impact on global supply chains ultimately delivered more resilience to trade flows in the region, and what key trends emerged in the Middle East and even globally during and post pandemic.

Mr. Vashishtha touched on the positive trends that have come out of this challenging year, highlighting how the ME region has been perseverant in dealing with the pandemic, emphasizing that there are rising interest levels in Supply Chain Finance and Receivables Finance space, as corporates needed to adapt and think significantly differently during this tumultuous time. This has also led to the increased need for collaboration between corporates, financial institutions and Governments to ensure the viability of the overall financial health of their businesses and economy. Covid also led to sectoral diversification, with increased volumes namely seen in Pharma, medical supplies, food, and technology. Another trend visible is multi-bank solutions as corporates are looking for certainty, avoiding dependence on just a few banks and even the banks are looking for diversification of risk vs. holding all exposures themselves. This is driving up the need for syndicated solutions.

Mr. Sharma spoke of the other side of the coin, with lessened investment in Supply chain infrastructures for some segments, the regional geo-political tensions, protectionist approach to economies, and the lead-up to high inflationary environment. However, the global political and economic environment has helped the region open up corridors for newer Investments and cooperation, such as with Israel. Higher inflation may help balance budget and improve MENA GDP, upward move in GDP outlook for 2022 on account of increased oil output and non-oil trade activities.

Mr. Pullolickel presented a different perspective for the region, in that it was not immune from global supply chain shocks. The need of the hour was to look at diversification of supply chain footprints to enable meeting



demand. Corporates now evaluate digitization as an important and long term tool for shaping the market going forward.

Mr. Worrall concluded this first segment by agreeing to most of the views and went on to talk about the policy responses & a changing macro-economic environment, wherein the variable global economic challenges to meet supply continue to apply especially for SMEs which have fared worse post Covid as compared to medium & larger corporates. Mr. Worrall pointed out that it was a bit early to evaluate supply chain resilience at this juncture and that there are vast variations within regions on their short and long term policy responses to Covid and to other macro-economic developments and hence their pace of recovery. However it was made clear that there few dominant trends including that of variable disruption inter regionally and globally; and tick-up in government support for closing the trade finance gap and for digitization.

Mr. Erkazanci guided the discussion towards the liquidity side and quantitative easing on trade balances, coupled with the increased hunger for assets within the region.

Mr. Tomba mentioned that the latter two are separate issues with liquidity historically being invested in major global markets. Traditionally liquidity is either invested in stocks or bonds, but increasingly there is more demand for asset classes that are difficult to access in a liquid format, such as trade finance and illiquid credit. Technology played a key role in bridging the gap between banks and capital market participants/alternate investors via syndication solutions.

Mz. Turaeva reconfirmed the view that there is an increased hunger for good quality assets in the market, as evidenced by more and more banks wanting to join Supply chain finance programs. The challenges remain with Corporates preferring non-relationship banks for syndicated solutions, and that excess liquidity continues to push pricing downwards.

Mr. Pullolickel added his views that banks are managing liquidity with a tight risk lens, resulting albeit rightly with higher pricing for riskier assets in SME/MME space. Pent up demand/financing gaps in trade finance will require banks to continue playing a role in trying to bridge those in the long run, with the right mix of risk versus reward.

Mr. Sharma highlighted that high liquidity combined with persistent high risk perception is driving this liquidity to better rated large clients and financial institutions thereby pushing the margin down for such segments. He concluded his thoughts by stating that Banks have to work out the ideal mix of deal origination and liquidity deployment.

Mr. Erkazanci posed the question on whether the dynamics of trade finance in the region have changed or not, and if there was a gradual return to pre-Covid norms.

Mr. Worall's views were mixed. He highlighted that the pandemic's impact was not as hard felt as previously, as lessons learned from the 2008-'09 financial crash taught regulators, governments and all players within the economy to quickly makes adjustments to address the macroeconomic environment and come up with new initiatives such as ESG, digitization etc.

Mr. Vashishtha agreed with Mr. Worall's inputs, in that banks and corporates are now trying to think differently, while leveraging technology and digitization. The on-going hunger for quality assets will continue with excess liquidity, but banks will be assessing the risks better. Overall, banks remain very relevant within the trade finance space given their expertise and years of experience. DFIs shall also have a bigger & significant role to play to reduce the trade finance gap especially in the SME space. He re-emphasized Mr.. Tomba's views on the role of institutional investors becoming more significant in the long run, and there is a clear need to advocate for their inclusion in the trade finance community and on spreading know-how through channels such as ICC, ITFA



& the like, to create an environment of mutual trust and confidence in harnessing this collaboration between banks and capital market players.

Ms. Turaeva agreed with Mr. Worall and further added that the new norm is still being defined, however COVID did precipitate initiatives to get back quickly on the road to recovery. The focus continues to be on optimizing working capital and digitization.

Mr. Erkazanci then turned the attention to technology, by asking if the pandemic has been catalyst for adaption of digitization within the trade finance space and if trade has been a bit slower than its Transaction Product counterparts to implement true changes despite the on-going initiatives.

Mr. Pullolickel highlighted that trade has yet to follow the path that transaction banking has taken, primarily due to the large number of counterparties involved and various cross border aspects associated with going digital. He stressed that there is a need for a common playbook from which all counterparties can work off of, to standardize the rules of the game for all involved. Moreover, the fact that trade ecosystem has always been reliant on paper across the transaction chain complicates digitization. He further added that despite these challenges, many initiatives has been precipitated in this space due to the pandemic. With the emergence of Fintechs, banks and corporates are also being pushed on that front in order to keep up with the shifting landscape.

Mr. Tomba shared his view that trade does not truly require cutting-edge technology for stakeholders to shift to digitization, but ultimately rests on the former agreeing to a common ecosystem and set of practices from which they can work from.

Mr. Sharma presented a slightly differing opinion, wherein he believes that banks are more focused on their own internal efficiencies and promoting their own platforms to meet with evolving client needs. COVID forced banks to make processes more customer friendly by partnering with various other third parties to make the journey more efficient, and improve the overall customer experience.

Mr. Erkazanci closed out the panel discussion by asking all participants on what they believe to be the hot topics going forward in MENA trade finance.

Mr. Worall shared his thoughts on SME financing, structuring and financing solutions for smaller corporates as hot trends to come in the next year

Mr. Vashishtha's take was that collaboration between Banks, Fintechs, DFIs and Institutional Investors will be a key trend in the next year as well as sustainable trade financing where a common understanding is slowly emerging, with technology continuing to remain an important evolving space.

Ms. Turaeva highlighted that a very important point was addressed which is recognizing trade finance not just as one asset classes but different asset classes with a wide diversity of products and participants in the market. Traditional trade finance market is most in need to be digitised and establish a legal framework for digitisation as SCF is relatively well digitised product already given that banks are using a technology advanced and easy to use platforms.

Mr. Tomba addressed an audience question regarding appetite on trade finance and doesn't think that there will be reversal in liquidity trends.

Mr. Ozkan of the ITFA MERC concluded the discussion by adding how Covid-19 challenged and changed everything in business regardless of size and sector, and trade finance and distribution were no exception. However, from this emerged new corridors of opportunities along with new dynamics in the post pandemic



period, leaving all players with many lessons learnt to leverage upon in the years to come. Collaboration continues to be the key for the trade finance community to enable the trade flows for corporates, public sector, multinationals and financial institutions to work together via increased distribution activities. Digitization is another key highlight in trade finance trends: corporates are a lot more engaged in the process and pushing the move away from a paper based trade finance distribution. On ESG: the taxonomy is still being built but this is definitely a core focus for all players, likely with more asset growth and distribution to come in that area.

Ultimately, the Webinar provided a valuable platform for insights from industry experts from varied backgrounds within the trade finance ecosystem sharing their insights and experiences post-pandemic. The panelists addressed the different drivers laying the foundation for the 'new normal' under which MENA trade finance is operating, stressing the critical need for on-going collaboration within all counterparts in the ecosystem, as well as touching on the legacy issues that persist despite the precipitated adoption of new initiatives on both the regulatory and technological fronts; all the while highlighting the need for continued growth and development in the trade world and consequently, on the distribution strategies and capabilities as well.