International Trade
and Forfaiting Association

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ITFA ARC EDUCATIONAL WEBINARS 3&4

Written by Tedd George, Kleos Advisory UK, May 2023

On May 10th ITFA's Africa Regional Committee (ARC) hosted the next two educational webinars in its series aimed at financial professionals working in Africa. These webinars explore topical issues in African trade, as well as the basics of trade finance, with insights and learnings drawn from ITFA's network of experts. The first two webinars in the series explored the topical issue of sustainable trade finance and how to structure commodity and trade finance deals.

The third webinar, hosted by Dr Tedd George (Kleos Advisory), looked at a key question facing all trade financiers: What makes a good deal? This intriguing question was answered by three seasoned experts of trade finance: Laurent Hepner, Business Development Executive at Miller Insurance, and ARC members Duarte Pedreira, Head of International Development Organisations at Crown Agents Bank, and Louis du Plessis, Head of Trade Finance at Rand Merchant Bank. Laurent led the session with a presentation on the practical dynamics of trade finance, considering the contrasting perspectives and interests of banks and borrowers. Laurent went point-to-point through a trade finance deal, exploring the sequencing and risks of trade finance, the 'Holy Grail' of collateral (what do we mean by 'good' and 'bad' collateral?) and how to carry out effective DD of a trade finance deal.

Considering the wide range of risks, Duarte urged financiers to take the time to understand the businesses and sectors they finance; after all, if a deal goes sour you can end up owning a ship full of rice! Louis highlighted the three elements that need to be secured to make a trade finance deal 'good to go': documents, cashflow and products (DCP). This was an interesting counterpoint to Duarte's rule of thumb from the first webinar in the series – goods, receivables and cash (GRC) – and underlined the importance of understanding what truly constitutes 'collateral' in a trade finance deal.

The webinar ended with a discussion of one of the worst trade finance frauds in recent year: the Qingdao Case. Laurent explained how this did not start out as a fraud but degenerated into a Ponzi scheme, resulting in USD 1bn of international losses and USD 3 billion of domestic losses. The key learning here was: 'Get your boots dirty!' Don't think you can manage the risks of a trade finance deal from the comfort of your office – you need to see the operations on the ground if you are to manage your exposure to fraud.

In the fourth webinar, Sam Fowler-Holmes, partner at Sullivan & Worcester, went back to the basics trade finance, taking us through the main trade finance instruments available on the market, their uses, pros and cons, and some recent innovations. There was a strong focus on what Sam described as the 'lifeblood of trade finance': Letters of Credit (LCs), which are more widely used in African trade than in any other region, with consideration of the 3-corner and 4-corner models (the former excluding the importer's bank) and innovations with Structured LCs. In the lively Q&A, Sam explored the differences between Promissory Notes and Bills of Exchange and why English law is used as the governing law in an estimated 60% of trade finance contracts (Quick answer: English courts are independent, transparent, relatively fast and make enforceable rulings).

ITFA members can access recordings of all the webinars in this series on the members area of the ITFA website: https://itfa.org/member-area/itfa-webinars/

The next two webinars in this series will take place in July. Registration details will be sent out soon.