



## Article for ITFA newsletter on ARC panel at GTR Africa, December 2023

Written by **Tedd George**, Kleos Advisory UK, December 2023

On November 8<sup>th</sup> ITFA's Africa Regional Committee (ARC) appeared on a panel at GTR Africa in London to discuss sustainability and African trade. The panel was moderated by ARC Secretary, Dr Tedd George, and included the ARC chair, George Wilson (Investec), ITFA board member, Duarte Pedreira (Crown Agents Bank), and fellow ARC member Anne-Marie Woolley (Africa Global Trade Finance).

The panel was an opportunity to reflect on the ARC's work in 2024, and in particular how we have built on the [White Paper](#) published in November 2022 which warned of the negative impact that the ICC's Sustainable Trade Finance Principles could have on African trade. The discussion covered a lot of ground, from the pitfalls of ESG data to what 'just trade' really means in an African context, and has been cut into a podcast which can be accessed [here](#).

Here are my key takeaways from our rich and impassioned discussion:

- 1) The ITFA White Paper has changed the debate and made the trade finance community realise that ESG/sustainability standards designed for debt and ECAs simply won't work in trade finance, and especially not in Africa. As George noted: "There is an increasing recognition that ESG and sustainability are not synonymous, and that ESG is designed for debt and global investors, whereas sustainability and things like the SDGs are more suited to trade and trade finance."
- 2) Tedd gave an update on the Wave 2 consultations for the ICC's Sustainable Trade Finance Principles, which have been adapted since their first iteration in 2021. Responding to feedback, the ICC has reduced the components of trade from five to four, removing the sustainability of the good/service (which is covered by the sustainability of the seller) and changing the 'sustainability of the purpose of the trade' to the 'use of proceeds'. However, the model for measuring these components of trade always produces 'ungraded' results for African deals (owing to lack of ESG data). This opens an opportunity to develop regionally-agreed definitions and data sources to be fed into model, which could benefit Africa given the many positive socioeconomic impacts that trade brings.
- 3) Finding accurate and reliable ESG data in Africa is extremely difficult, undercutting the ICC's approach. As Duarte noted: "If we're going to make standardisation dependent on hard data alone, we will fail. We need to follow a much more qualitative approach, especially with developing economies, otherwise we will just contribute to the trade finance gap." George added: "The problem with data on sustainability, whether on climate or socioeconomic issues, is that it fundamentally boils down to subjective interpretations", making it like 'KYC 2.0' where everyone interprets the rules and definitions in their own way.
- 4) Duarte raised a perennial issue that has still not been addressed: the trade finance gap, which the ADB estimated has risen from USD1.4 trillion in 2019 to USD2.5 trillion in 2022. In Duarte's view, the key blockage to trade finance is the risk of non-payment and he called for the public sector to intervene decisively to address this. His radical suggestion is to create a WB/MIGA/UN guarantee against non-repayment for any banks lending into a pool of funds that finances receivables from Emerging Market SMEs.



- 5) Anne-Marie countered: “The real challenge with African trade, notwithstanding KYC and sustainability issues, is the general perception of risk. Everyone has a horror story of something that went wrong in the past. There are guarantee schemes out there, but banks are petrified of lending any of this money to SME traders.”
- 6) We finished with a discussion of ‘just trade’, which each panellist interpreted differently. For George, just trade is about Western policymakers recognising that the transition needs to be different in Africa: “Africa needs to be able to use its vast reserves of oil and gas to drive economic development and industrialisation, but it is being prevented from doing this by the global focus on emissions and decarbonisation.” For Duarte, just trade is about value addition, not ESG: “The days of non-African entities coming to Africa to extract all the commodities, process them abroad and then re-export the products back to Africa, need to come to an end. Just trade is about finished goods, not raw commodities. This creates a huge opportunity, as Africa has very little industry so we can create a green landscape for the next wave of African industry.” Anne-Marie helpfully added that the industry needs a ‘Just Trade for Dummies’ guide, and she pointed out that the ARC’s work with educational seminars and webinars is helping address this gap.
- 7) George finished the panel by pointing out that the ARC’s work is about “building a bridge between African trade finance and global trade and policymakers around trade finance. That is a two-way street. What the ARC allows for is a seat at the table. And if you’re not at the table, you’re on the menu!”

If you would like to listen to the podcast based on this panel discussion, ITFA members can access it, along with recordings of all the webinars in the education webinar series, on the members area of the ITFA website: <https://itfa.org/member-area/itfa-webinars/>

Look out for future ARC webinars/podcasts and please contact the ITFA Secretariat with suggestions for topics we could cover in 2024.