TRADE FINANCE ADVISORY COUNCIL

May 25, 2018

The Honorable Wilbur Ross
Secretary Of Commerce
1401 Constitution Avenue NW
Washington, DC 20230

Dear Secretary Ross,

On behalf of the Trade Finance Advisory Council, I would like to formally express our continued commitment to work with the Department of Commerce and the Administration as important advocates for promoting increased exports by U.S. companies, especially small and midsized enterprises, through greater access to export finance and capital. We are pleased to work as a key conduit for stakeholder input for addressing challenges and opportunities in developing and fostering stronger access to trade finance for exporting businesses, primarily from a private sector perspective.

The Trade Finance Advisory Council has been established with the explicit aim of increasing funding for exports in order to facilitate further job and economic growth throughout the United States. In order to achieve this, the TFAC is focused on the following objectives:

- Providing a forum to facilitate the discussion between a diverse group of stakeholders such as banks, non-bank financial institutions, other trade finance related organizations, exporters, and relevant U.S. government agencies to gain a better understanding regarding challenges facing U.S. exporters in accessing finance;
- Drawing upon the experience of its members in order to identify innovative solutions to these challenges; and
- Developing recommendations on programs or activities that the Department could incorporate as part of its export promotion and trade finance education efforts.

During our April public meeting, we brought forth for consideration and ultimately approved four different recommendations intended to address the priority areas you identified in our meeting on February 22. A number of key challenges identified in these areas by council members as well as by interactions with other key stakeholders in both the public and private sector include: a need to expand the pool of available capital for private financing for exporting; an understanding of the availability of private sector resources, an effective mechanism for referrals by U.S. Export Assistance Center staff; a stronger understanding of the role trade credit insurance could play in the decision making process by small businesses on whether or not to export, and finally a need for standardized data categories to allow both public and private sector stakeholders to better understand and communicate both the needs and the trends of exporting firms and lenders.

The TFAC held a public meeting by conference call on April 26th during which the Council approved the following four recommendations that could help address these challenges:

- **Incentives for Private Sector Lending to Stimulate Exports –** To develop an incentive program for one-time support to investment managers to motivate them to raise private capital for facilitating small and midsized enterprises in order to stimulate increased exports.
- **Data Standardization for Facilitation of Export Credit –** To develop and implement a government wide standardized data repository and reporting regime for corporate identities including their financial and business information by focusing on and developing a pilot project to be led by the Department of Commerce.
- **Trade Finance Education Strategies –** To develop a decision tree mechanism to educate and assist the field officers in the Department of Commerce U.S. Export Assistance Centers (USEACs) to better qualify and direct SMEs to the most appropriate financing resources to support their export business.
- **Trade Credit Insurance Utilization** - To develop a Department of Commerce project to examine the level of utilization of trade credit insurance by SMEs and to further explore whether broader use of credit insurance could stimulate greater private sector export financing.

The ultimate goal of the recommendations is to address the growing gap in financing for U.S. companies, especially small and medium sized enterprises, to boost exports and U.S. economic growth. We request that you share these recommendations with your administration and agency colleagues as you deem appropriate. More detailed information on these recommendations is provided in the attachment.

We remain at your disposal to review and discuss these recommendations in greater depth directly with you and your team. We look forward to hearing from you.

Respectfully submitted,

Kevin Klowden, Chair
On behalf of the Trade Finance Advisory Council

Attachments
Incentives for Private Sector Lending to Stimulate Exports
Data Standardization for Facilitation of Export Credit
Trade Finance Education Strategies and Flowchart
Trade Credit Insurance Utilization

TRADE FINANCE ADVISORY COUNCIL

Incentives for Private Sector Lending to Stimulate Exports

U.S. small businesses, exporters and their financial services suppliers employ over 46% of workers and trade financing enables their economic growth and competitiveness. We have investigated access to finance for U.S. small businesses and determined that a significant deficit exists, specifically for non-bond market accessed corporate lending, and have further determined that the already significant deficit had increased to almost $1.7 Trillion at the end of 2017 up an additional $200 Billion since year end 2016. This deficit predominantly impacts small businesses (SMEs) limiting opportunities for additional output and employment. We are proposing creating a short term Federal program to last no more than 5 years that will address this gap by creating one-time incentives for private capital to be raised and utilized for lending to small businesses particularly exporters.

Analysis suggests the issues associated with the trade financing deficit have resulted:

1. From bank regulation, particularly the Basel Capital Accords and the Financial Modernization Act, which have raised the cost to bring on board and sustain a corporate customer particularly those with lower revenue potential to the bank as well as have incentivized banks to prioritize trading business over lending business
2. From monetary policy which have decreased the incentives for banks to lend particularly in a low interest rate and low GDP growth environment
3. From tax policy that incentivize stock buy-backs particularly in a low GDP growth environment
4. From limited access by borrowers to lenders beyond bank "channels" to access finance

We have focused on private sector solutions that could reduce the $1.7 Trillion credit deficit and would broaden credit access and availability which is the basis of our recommendation as we do not foresee significant changes that will mitigate these impacts and believe that we are in a "new normal" environment of credit constraints with limited alternatives to bank financing.

<u>Issues to address</u>

We determined that there is significant benefit in understanding:

1. How to address the high origination and high variable servicing cost to provide credit to low revenue potential customers through banks
    a. Given that banks lack incentive to lend to low revenue and profit potential SMEs
2. How to address the issue of banks originating loans to, in turn, sell to an investor who can hold them for a profit, particularly as bank regulation has increased this cost for banks
    a. Banks typically use securitization to address this issue – that is by originating the loan and packaging them into a security
        i. SME loans do not lend themselves to this model as securitization requires the underlying credit to be homogenous versus heterogeneous
    b. Addressing this issue is complex and there are two key approaches to resolve:

   i. increasing the homogeneity of loans by standardizing them from both a documentation and a rating perspective so the loans can be more readily "packaged" into a security and/or
   ii. increasing the universe of investors that are capable of assessing the heterogeneous risks and that have capital that can invest in these risks

3. ***How to address the costs associated for non-bank financial private sector intermediaries and their channels, to provide capital to SME borrowers either directly and/or through banks that originate these loans.***

The focus of this recommendation is on how to address the costs for private sector non-bank financial intermediaries and the channels for those intermediaries to provide capital to SMEs.

Overcoming challenges

Given the constraints of banks to provide SME credit we believe it is necessary to develop non-bank credit funding channels to offer SME financing and that these channels require incentives to be sustainable. The non-bank private sector also has constraints that limit its willingness to undertake raising capital and allocating that capital to SME borrowers. In the case of investors, the issues to address include:

1. Raising investment capital to allocate
2. Hiring the resources to deploy and administer that capital
   a. If investors need to develop a channel to SMEs there is additional cost to overcome to be able to originate, deploy and fund SME lending.

We note that this channel cost could remain with banks if they can profitably originate SME credit to in turn sell to investors, as importantly, banks are where borrowers typically go to borrow. We also note that investors have significant incentive to manage 3rd party funds as fixed income investments on an ongoing basis typically compensate investment managers more than 30 basis points per dollar of managed funds.

Recommendation

We believe that the private sector can develop additional financing sources for SMEs, through one-time non-recurring incentives, which differs from existing Federal insurance and education programs that require ongoing government support. As such, we are recommending the following:

- Establishing "The SME Investment Management Office" in the Department of Commerce that provides one-time grants to private sector investment managers to set up new product offerings as SME lending capital or receivables purchase capital that are term funded with that capital committed to be lent to SMEs over a period of several years
- The incentives are to compensate the investor or investment manager for the cost of undertaking raising capital and hiring resources that can successfully deploy that capital
- Incentive provision would be provided for investment managers to focus credit provision that is prioritized for companies that export goods or services
- The program can be designed to focus on collaboration with the existing bank channels that originate that credit to be sold to investors thus speeding up the process of getting capital moving which would also have the benefit of enabling faster capital deployment while not altering SME behavior of principally facing the bank channel
- The incentive will increase the universe of investors that can either make such unrated credit investments or is willing to originate these credit investments or products
- The incentives would be offered to regulated investment managers
- If investment managers are able to continue to offer investors ongoing risk reward benefits, the investment funding would become a sustainable source of lending and importantly

without need for additional and ongoing Federal support
- Controls and compliance can be implemented for assurance including validating that investment managers attempted launch such investment funds.

Funding for this program we would suggest be capped at $500Million for one-time funding and $15 Million for medium term operations to supervise the one-time grants. The goal is to address the gap in SME finance and stimulate U.S. economic growth, particularly for exports, by expanding private sector financing. It is requested that you share these recommendations with your colleagues in President Trump's cabinet, particularly with the Secretary of the Treasury.

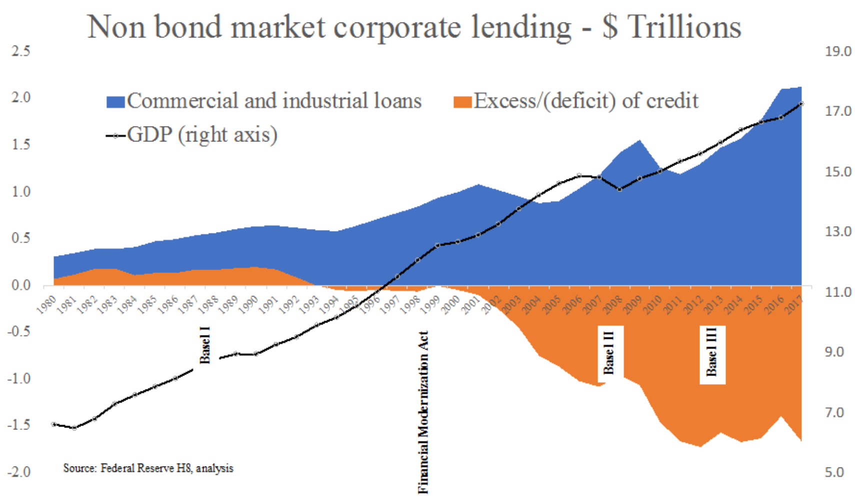
Trade Finance Advisory Council

Attachment	Appendix
	Impacts from Bank Regulation
	Impacts from Monetary Policy
	Impacts from Tax Policy
	Channel Access to SMEs

Appendix

Impacts from bank regulation

The global rules generally referred to as the Basel Capital Accord as well as the Financial Services Modernization Act of 1999 (Gramm Leach Biley) have altered bank activities shifting their earnings potential leading them to focus on trading activities as opposed to lending. These rules as well as compliance regimes like the Patriot Act have resulted in raising the cost to originate and hold loans by banks for business customers. These cost increases particularly and disproportionately impact SMEs as:

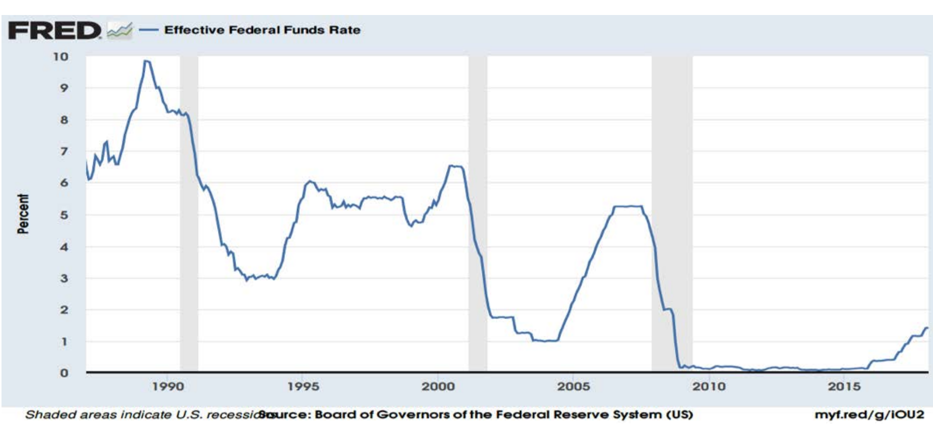


1. There is higher fixed cost to originate a new customer
2. This higher cost is coupled with the ongoing fixed and variable costs of serving that SME
3. These higher costs are coupled with the higher capital requirements of banks for SME customers
4. Revenue potential for any customer is finite and thus these higher costs have reduced the relative attractiveness of certain customers particularly SMEs

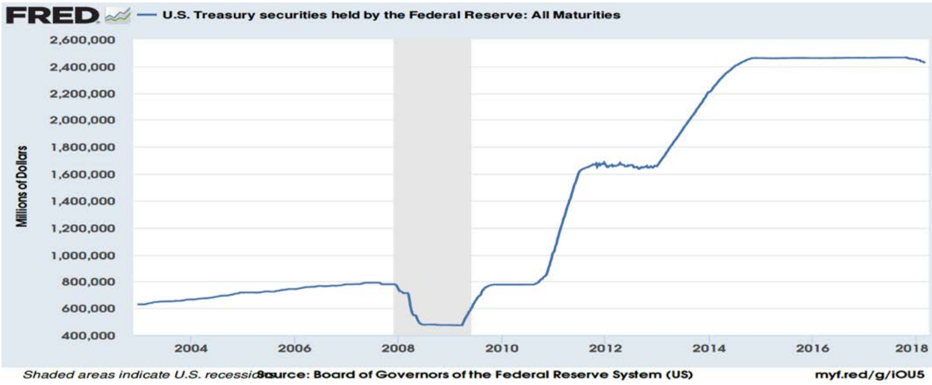
The result is bank willingness to serve that customer particularly relative to other business opportunities is permanently reduced and this is a significant structural challenge.

Impacts from Monetary policy

Low interest rates and Federal Reserve quantitative easing has further reduced the bank appetite for lending. As rates are low and costs high the ability to generate spread over a relatively funding base is harder.



While the Fed has begun raising interest rates they are far from their historical averages. The Fed have also noted that these increases will happen gradually.

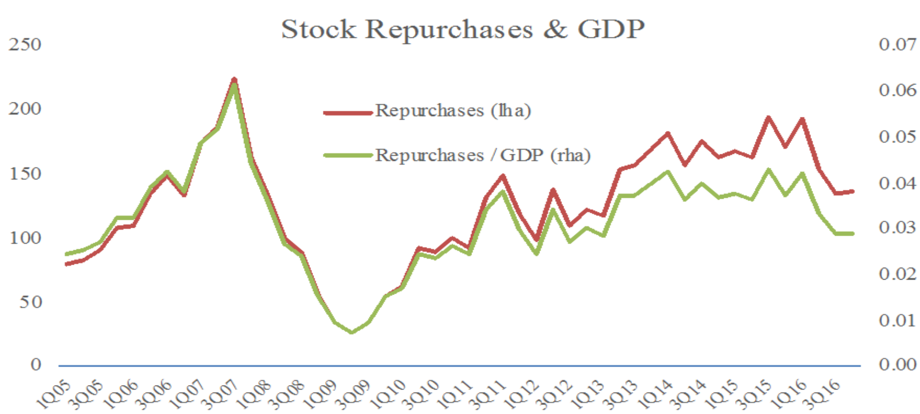


While the Fed has committed to reduce its bond holdings they have also noted that these reductions will happen gradually.

Monetary policy is a drag and will remain a drag on ongoing bank incentives to lend.

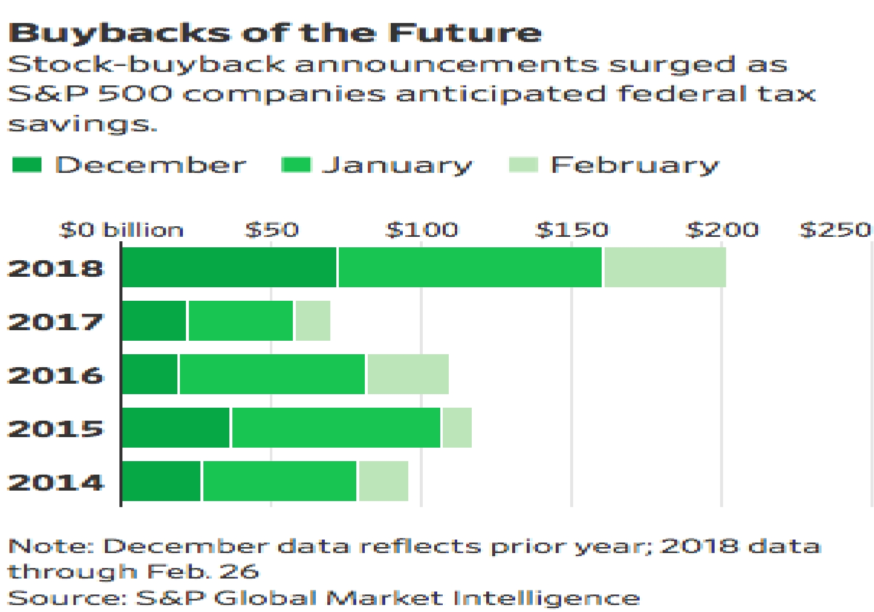
Impacts from Tax policy

As we have noted overall GDP growth is low and given this the incentive for non-financial corporations, large and small, to invest in their businesses is low.



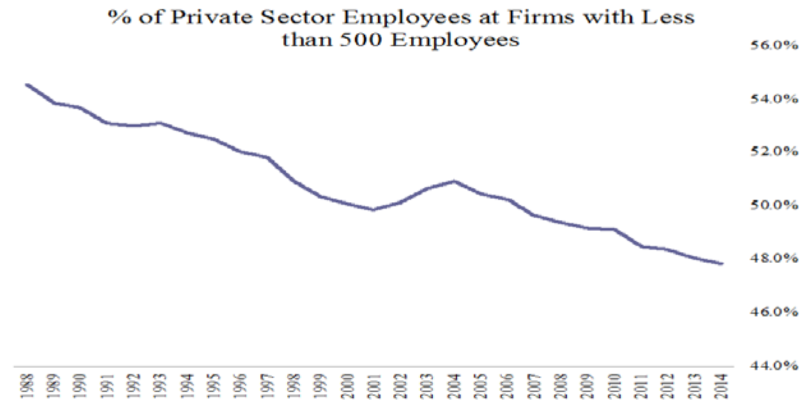
This is further exacerbated in that tax policy incentives exist for companies to repurchase their stock and maintain high financial asset investments

Source: Federal Reserve, Goldman Sachs



Recent announcements on stock buybacks suggest that this incentive challenge remains.

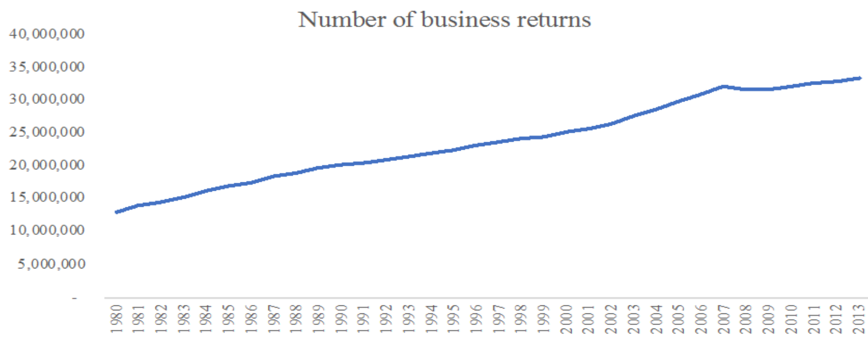
We further note that the Tax Cuts and Jobs Act



of 2017 provides no specific incentives that alter this constraint.

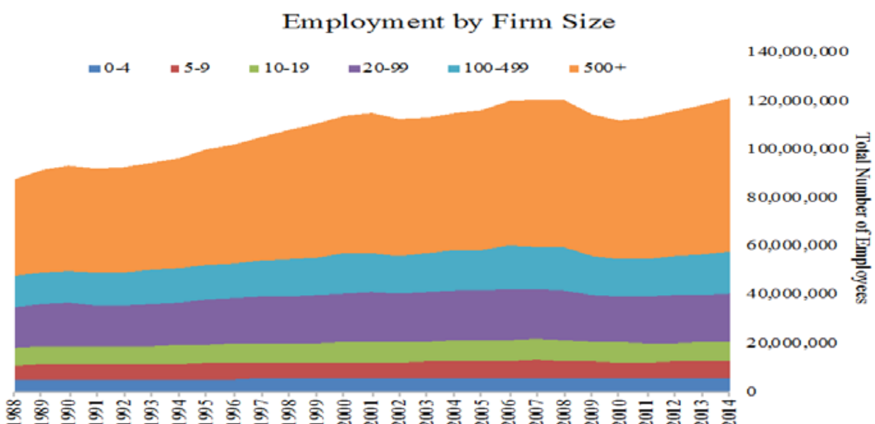
<u>Channels to Small Businesses</u>

We have explored the issue of channels accessing small businesses. The census universe of corporations in the U.S. exceeds 6 Million according to the SBA.



Business tax return growth rate has slowed.

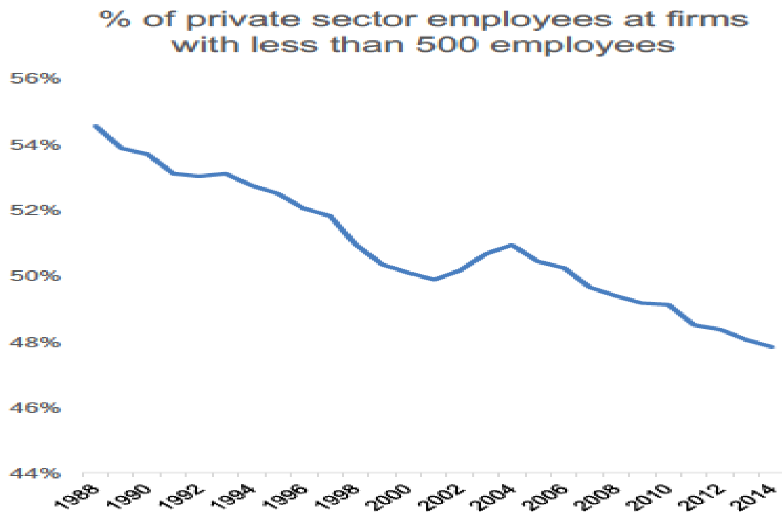
Source: Internal Revenue Service



The growth rate of these companies has slowed given regulation, tax and monetary policy with the result that the number of SMEs has grown at a slower pace, particularly post global financial crisis.

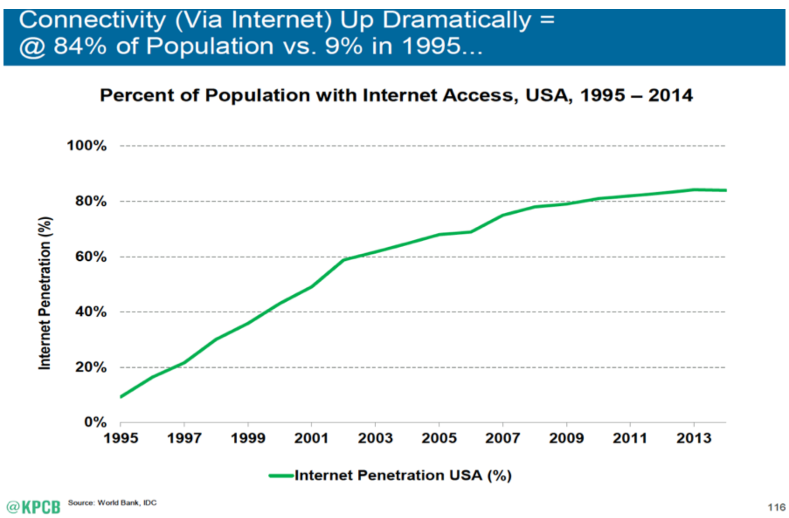
Source: Department of Commerce

These changes have resulted in a significant relative reduction in the numbers of people employed by small businesses.

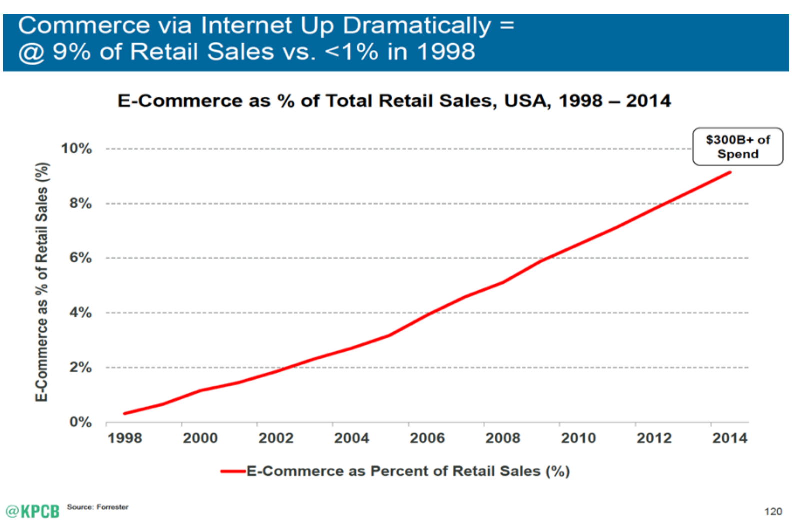


Reductions in number of people employed at small businesses.

Source: Department of Commerce



While the internet and eCommerce reach large numbers of users, they are far from comprehensive in their reach.



Private sector reach is far from comprehensive.

We have examined issues related to how to reach corporations and believe the largest private sector channel to them is banks.

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Data Standardization for Facilitation of Export Credit

CONTEXT

Access to aggregated data is key to making credit decisions. Credit decisions to businesses including small businesses (SMEs) are predicated on access to data including identity, ownership, relationships with other businesses, relationships with owners and inter-relationships with other businesses, and financial statements including income statements, balance sheets and cash flow statements, and tax returns. This information is sensitive and guarded by the various owners of the information but nevertheless it is disclosed as part of the ongoing business activities of corporations in accessing credit from financial institutions and from and among customers and suppliers engaging in commercial activities. There is no central database of this information in the U.S. though in some countries there is both mandatory Government data requirements for such sensitive information which is in turn used by both the government and private sector including for credit decisions. Simplifying and classifying data under one system provides multiple benefits including saving time, resources, aggregating and sharing costs but also increasing the volume of appetite from the financing community for providing credit as the cost of data aggregation and analysis is a significant hurdle to credit provision.

Separately, and importantly, the National Security divisions of the U.S. government rely on disclosures by financial institutions to ensure National Security compliance in a myriad of ways including to attempt to minimize criminal activity such as money laundering and terrorist financing. Foreign governments utilize their mandatory aggregated data systems as part of their sovereign security infrastructures. A consolidated data repository is critical to U.S. business ability to gain broader access to finance as well as to assure greater National Security assurance. Given privacy and confidentiality issues the Federal government is uniquely placed to obtain, house and eventually analyze such aggregated data and the Department of Commerce is an appropriate agency to oversee such activity.

Currently much of this activity is ceded to the private sector bi-laterally in their activities among one another as well as to state and local governments in multiple jurisdictions throughout the country each of which is using its own data and systems which obviously results in a highly inefficient and costly approach.

RECOMMENDATION

The Federal Government should develop and implement a government-wide data repository (“GDR”) and standard reporting regime for corporate identities and their financial and business information. The GDR should be initiated by the Department of Commerce (DoC) and implemented initially within the DoC in a pilot program which should identify an operating department with significant activity with the private sector, that is engaged in business and services with small businesses particularly exporters, develop and implement a program to aggregate data with those companies to begin data aggregation of those companies. As part of that pilot the DoC should coordinate with National Security agencies on the design of the pilot and system as a means of developing an appropriate mandatory infrastructure.

The Trade Finance Advisory Council (TFAC) was created to advise your office in identifying effective ways to help expand access to finance for U.S. exporters, especially small-and-medium sized enterprises (SMEs). SME exporters, like large multinational corporations (MNCs), are burdened with administrative costs due to paperwork, reporting and regulatory compliance. SMEs bear a larger relative administrative cost burden. Since these costs are relatively fixed and spread over a smaller overall cost base and because SMEs lack the scope of operational and technology capabilities that a MNC has further increasing their cost burden. The World Trade Organization recognized these costs as limiting trade facilitation hurting economic growth. They saw the problem of “minimizing the incidence and complexity of import, export, and transit formalities and to decreasing and simplifying import, export, and transit documentation requirements”.[1] At the core of this problem is assessing fraud which is a function of identity management and the ability to share information with stakeholders efficiently and securely.

Banks are required by the government to provide assurance and support for corporate identity functionally through Federal and state laws including the Bank Secrecy Act and the Patriot Act. The banking industry also is burdened with administrative costs due to paperwork, reporting and regulatory compliance as it relates to corporate identity activities imposed by the government, and like SMEs, smaller banks bear a larger relative administrative cost burden since these costs are relatively fixed and are spread over a smaller overall cost base. Smaller banks lack the depth. of operational and technological capabilities that larger banks have.

The GDR can be utilized by Federal and state governments, corporations and banks to leverage and reduce their respective administrative burdens and to share and reduce costs. It can also be utilized by the National Security services to appropriately monitor commercial activities. Further, the GDR can be used by other private sector financial intermediaries as it can offer opportunity to increase capital access through non-bank credit providers. Like banks, non-bank credit providers have administrative costs and regulatory requirements. Alternative sources of capital for U.S. SME exporters and expanding trade finance to bolster SME economic growth and global competitiveness are mandates of the TFAC.

There are numerous private sector attempts to develop identity data repositories a number of which are focused on aggregating identify data specifically for banks like SWIFT and GLEI. To date none of these has developed significant adoption and thus their respective commercial viability is questionable. In shared networks such as an aggregated data repository, the comprehensiveness and network scope of the aggregator are critical drivers to adoption. Users in the early stages of these aggregators need maintain two forms of identity services – their existing service and the aggregator until the aggregator is capable of replacing their existing service (“legacy”). Meanwhile, adoption of the aggregator is the principal driver that will determine whether or not commercial clients can effectively embrace it, the speed of which they can adopt it and in turn eliminate their legacy services thus reducing the cost of identity service utilization.

[1] World Trade Organization (2013), Article 10, 1.1.

The Federal government is uniquely positioned to mandate adoption and it can begin GDR creation and adoption through utilizing the service itself and for any and all commercial entities doing business with the Federal government. As the Federal government is a significant component part of private sector consumption, and already has numerous legal requirements to prioritize domestic consumption, its role in the utilization of the GDR can accelerate adoption as well as shrink the commercial adoption timeframe by reducing the need for legacy services in the private sector.

It is worth noting that this information collection activity is sensitive - identity, control, ownership and financial statements are some of the most private information for the numerous parties involved – not just the private sector but in the public sector as well. All parties, particularly the private sector rightly want to restrict access to this information. The use of such information by the public sector raises fundamental questions about both privacy and property rights. Nevertheless, the private sector annually provides disclosure to the Federal government (such as Treasury when filing tax returns) as well as to the banking sector for compliance. It is also worth noting that the Federal government, through banking sector regulation, require banks to monitor and provide notifications to the Federal government of private sector activities including about payments, deposits and loans through activities such as Suspicious Activity Reports.

TFAC investigated access to finance for SMEs and determined that a significant deficit exists, approximately $1.7 Trillion in credit[2], the causes of which include the lack of access to traditional sources of capital and increased banking regulatory requirements following the financial crisis of 2009. Unfortunately, given the limits of Federal Reserve data reporting we are unable to determine what percentage of that total is specifically for export credit. Nevertheless, the gap for export credit is obviously substantive. Increased capital and liquidity requirements imposed by banking regulators curtailed lending by financial institutions. Stronger capital requirements increase bank costs, and some of those costs are passed along to bank customers.[3] Additionally, in order for banks to comply with the Bank Secrecy Act and anti-money laundering regulations to deter financial crime, they have had to invest more in human capital and technology software, thereby increasing the cost to "onboard" new customers and maintain existing ones. Without a mandated solution this problem will continue to grow.

Third party financiers also have costs to originate and underwrite credit to the commercial private sector. To do so requires knowledge of beneficial ownership - who or what something is, who owns and or controls it and the relationships the owner has with other entities and who owns those. Incorporation, ownership documents, financial statements, including balance sheets, income statements and asset registration are key to establishing corporate identity and assessing and granting credit. In the present legal and regulatory frameworks both identity and financial ownership are state and local activities. At the federal level there is no central repository for this information nor any requirement for it to exist.

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[2] Federal Reserve Bank, Z1 data through 3Q 2016, estimates based on Fed data for either nonfinancial corporates or total bank loans.

[3] United States. Congr. Senate. Committee on Banking, Housing and Urban Affairs. *Hearing on Relationship Between Regulation and Economic Growth. June 22, 2017*. 115th Cong. Washington: GPO, 2017 (statement of Jerome H. Powell, Governor, Federal Reserve Bank).

The federal government must make it a priority to better collect, analyze and share financial data to determine identity and, thus, make it easier for other agencies and private sector stakeholders to facilitate additional banking transactions to extend traditional and non-traditional credit. An additional rationale for requiring it is that the federal government incurs costs in collecting, sharing, utilizing and protecting business information. For example, the DoC collects and shares a vast amount of information on U.S. businesses through its many bureaus and agencies, including the Bureau of Economic Analysis, U.S. Census Bureau, International Trade Administration, and National Oceanic and Atmospheric Administration to name a few. It is costly to maintain this voluminous amount of data. The Census Bureau's most expensive program, aside from the five-and-ten year economic and population censuses themselves, was the one charged with maintaining its Business Register, with information on over 31 million U.S. business establishments.[4] The difficulty of the Department of Commerce to share information within its bureaus and agencies is costly as well. Additionally, the overlap and duplicative nature of the information creates inefficiencies. A 2011 study found that a large U.S. company was obliged to report substantially the same information, packaged differently, to the Securities and Exchange commission, Federal Reserve, Census Bureau, and Bureau of Economic Analysis.[5]

Congress is aware of the problem of data standardization. The use of the internet and the role of the Government to better meet the needs of the private sector, are activities supported by the Department of Commerce leadership, as referenced at the February 2018 TFAC meeting. Thus far, however, the measures implemented have been to address federal spending to make executive agencies and their federal expenditures be more accessible and transparent. In 2014, the DATA Act was passed to "provide consistent, reliable, and searchable Government-wide spending data that is displayed accurately for tax-payers and policymakers on USASpending.gov (or a successor system that displays the data)".[6] Lack of data standards creates significant of duplicative document preparation and regulatory filing. Research estimates annual regulatory compliance costs U.S. businesses $1.9 trillion a year in direct costs.[7]

Finally, modern technology can better process data in a more-timely fashion. However, the federal government is reliant on outdated and legacy systems that do not integrate data from different sources within their own or outside agencies. "The Census Bureau uses IRS administrative data whenever possible. However, the IRS data does not provide the level of detail needed in most Census Bureau surveys, nor does not have certain data items available".[8] Decision making in federal government relies on public trust. Greater transparency, lower costs, and enhanced decision making would be welcomed governance attributes. Therefore, government is well positioned to take a lead role in mandating that the information it collects, maintains, reports, utilizes, shares, encrypts and protects is in a standard format to streamline efforts.

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[4] U.S. Census Bureau, FY 2016 Budget Estimates, available at www.osec.doc.gov/bmi/budget/FY16CJ/Census_2016_CJ.pdf, at 24 ($65 million for "General economic statistics").
[5] XBRL US, Better Data for Better Decisions: Standards to Improve Corporate Government Reporting, October 2011, available at xbrl.us/wp-content/uploads/2011/12/BetterReporting.pdf, at 10 (reporting that a majority of data fields reported to the Bureau of Economic Analysis by a large public company were already reported to the Securities and Exchange Commission; the same was true for a substantial proportion.
[6] United States. Cong. Senate. *Digital Accountability and Transparency Act of 2014.* 113th Congress. S. 994. Washington: GPO, 2014.
[7] *The Regulatory Impact on Small Business*. U.S. Chamber of Commerce Foundation Final Report. P. 4. March 2017
[8] *Business Help Site*. Annual Capital Expenditures Survey. U.S. Census Bureau, April 25, 2017.

To address these issues, our Council makes the following recommendations:

1. The DoC develop a suitable pilot project that mandates data standardization in all digital forms, documents, files, and reporting requirements to streamline the collecting, sharing, utilizing, and protecting of financial data of an existing operating department in DoC.
2. Allocate resources to design the pilot project and to develop a scalable enterprise system capability with the ultimate goal of mandated use by all Federal agencies incorporating both public and private sector input from those familiar with the utilization of such data sources.
3. Share this recommendation with the National Security Services and the Department of Defense and liaise with them on both the intent and design of such pilot with to gain their input into development and adoption.
4. Prepare and distribute a national statement that recognizes a data standardization mandate that will help all SMEs, businesses as well as National Security interests.

Implementing a stronger data policy addressing identity, governance and security it will instill more trust in government. Allowing for better processing and sharing of information within the DoC agencies and bureaus will reduce duplication and improve information sharing and analytic capabilities to address violations of trade policy and other national security risks. We have attached a high-level example of both the project and the type of data that would be gathered for your reference.

This recommendation is the result of the active work of the TFAC for consideration of the DoC.

ILLUSTRATIVE EXAMPLE – PROGRAM TO BE DESIGNED

Central repository

Registrar of key validated documents

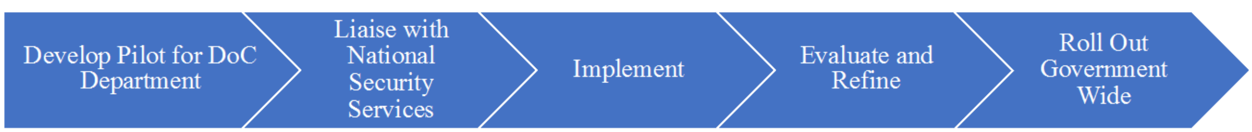
Identity/Unique company identifiers

Ownership/Beneficial ownership relationships

Customer and supplier relationships

Corporate financial statements including:
- Income Statements
- Balance Sheets
- Cash Flow Statements
- Assets and liabilities

Project Process:



TRADE FINANCE ADVISORY COUNCIL

TRADE FINANCE EDUCATION STRATEGIES

CONTEXT

U.S. exporters have goods and services that overseas markets need and want. Unfortunately, many of these companies have difficulty in penetrating export markets, particularly small to medium sized enterprises (SMEs), because they lack access to financing. Public and private resources for trade finance exist; however, the information is fragmented and dispersed over many different entities (e.g., banks, consulting firms, government agencies, universities, etc.) and typically requires some insightful Q&A to determine the best solutions.

One source that SMEs use to find out about international trade is the Department of Commerce (DOC) U.S. Export Assistance Center (USEAC) network of field offices. Employees in USEACs, as well as many of the other international trade resources, have a wide span of knowledge, but considering the complex nature of trade finance products and networks, specific related knowledge may be absent. (there are approximately 100 USEACs across the U.S. territory, from which only 10 to 20 are co-located with SBA and/or ExIm Bank offices). Often the immediate recommendation given by the USEAC is to seek further advice from ExIm Bank, OPIC, SBA or similar institution, unaware of whether the SME even qualifies for the resources provided by these institutions. While these government agencies have an important role to play, they are but a small subset of trade finance tools that are most likely to be needed. Because these front-line government workers may have a limited knowledge of trade finance, we want to arm them with specific, targeted information to get the SME to the appropriate financing resource(s) as quickly and efficiently as possible. (The same solution could also be provided to other international trade resources beyond the government.)

RECOMMENDATION STATEMENT

The ideal solution would be to provide some sort of decision tree mechanism (for example, a basic script on a computer screen that asks a series of questions to get to the right outcome) that the front-line USEAC employee may use to qualify the type of financing SME is seeking (e.g., Do they need working capital? Does their distributor need terms? The end user needs financing? All three?). What are the appropriate institutions most likely to provide them with this type of support. It is important to understand that the Department of Commerce already has lots of basic trade finance material. TFAC recommends that the Department ensure that USEACs address financing early in the process to design appropriate export strategies. We also recommend that the Department explore public-private partnerships as an avenue for bringing the needed resources for implementation of such an approach. **<u>In order for the USEAC staff and</u>**

<u>Department of Commerce employees to be able to effectively direct both current and potential clients to all available export financing resources it is essential to both educate them about those resources and to develop a decision tree tool that can efficiently provide those referrals.</u>

SUMMARY & NEXT STEPS

The USEACs operated nationwide by the Department of Commerce represent an enormous opportunity for improved trade finance education, promotion, and connection with the right resources for SMEs. Specifically, the Department's training program should facilitate connections between local USEACs and local banks, other non-traditional lenders and export credit providers, as well as risk mitigation products such as credit insurance.

The training program should help certified Trade Specialists to 1) broadly understand the different U.S. government-backed trade credit programs and commercially available options and 2) guide the exporter or client to ask the right questions to arrive at the applicable service provider(s). While some training may be required, in order to accomplish this in an efficient manner the TFAC is recommending: (a) the use of a decisioning tree tool (example attached) that would help USEAC specialists identify the clients' specific financing needs, not as a replacement to the role of a financial institution, but as a preliminary pre-qualifying to determine which institution would be the most likely source of support, and (b) potential collaboration with private sector organizations to develop the knowledge/referral networks that could help in transitioning the client to explore a recommended solution with finance providers.

The training program should build on previous efforts by the Commerce Department and SBA, particularly the recently launched International Expansion Blueprint (IEB). However, while the IEB has been rolled out nationally, it currently only focuses on gold key and more in-depth clients. To be more effective in the area of trade finance, the IEB will have to be applied at an earlier stage and more broadly.

TFAC recommends that the Department ensure that USEACs address financing early in the process to design appropriate export strategies. The addition of a digital automated "decision tree" would help companies identify their particular needs and the finance partner(s) that might be best suited for them. Initially, due to technical limitations on the Department's website, it may need to be shared as files with the various offices. However, such a module should be made available to all USEACs equally, and should also address their clients' local needs and local trade finance sources. It is crucial that such a tool include as many viable financing options as possible, whether in the public or private sector. The launch could include ExIm Bank and SBA's list of lenders and insurance brokers with delegated authority.

We also recommend that the Department explore public-private partnerships as an avenue for bringing the needed resources for implementation of such an approach. There already exist a number of "matching" applications and services that may be interested in supporting this type of initiative. For example, Fintech companies already provide matching and funding on-line.

Banking associations may also be able to collect/provide directory resources. Much like a previously successful public-private partnerships (PPP) the Department of Commerce had with *The Export Yellow Pages*, advertising may support the expansion of this relatively straightforward decision tree into a resource guide and more robust matching service. Effective implementation of this system would not only promote increased efficiency for the USEACs-increasing the number of clients able to be seen, but also significantly increase partnerships and access to private sources of credit.

EXPECTED EFFECT OR IMPACT

Substantially improved information flows that permit the SME to implement export strategies that are more likely to succeed given the critical role financing frequently plays. It also puts the SME's in touch with the financing resources earlier thereby ensuring sufficient time to react and provide as many options as possible. A by product would be coordinating public and private sector resources better.

METRICS TO DETERMINE PROGRAM EFFECTIVENESS

Review existing Department of Commerce resources in the area of trade finance and determine how they can be modified to specifically address the SMEs financing needs. Survey the USEACs to determine the most efficient way to train them on coaching SMEs to identify what type of financing is needed and which resources are most appropriate. Using Salesforce to track the number of trade finance consultations and any success in obtaining financing solutions as a result of the use of this tool.

ANNEX

Similar to other public-private partnerships various government agencies have tried in the past (e.g., The United States-Asian Environmental Partnership and the Department of Energy https://oig.usaid.gov/content/us-asia-environmental-partnership-program), an automated resource tool and/or booklet can be provided to USEACs, financial institutions, chambers of commerce, universities, etc.

Department of Commerce Trade Guide Book and Decision Tree

In addition to an interactive decision tree, DOC could produce a resource guide, much of it a compendium of what is already available in different places within the agency. This can be used in training sessions, seminars and for marketing purposes – nobody ever throws away a book! As with the on line version, this could also be funded by a PPP.

- Outlines the basic financial risks of exporting.
- Describes the basics of finance, from short-term transactions to long-term project finance.
- Showcases with case studies where government agencies have provided support.
- Serves as a valuable informational resource for any SME seeking to expand worldwide.

- A showcase governmental agencies and how they help facilitate exports worldwide.
- A resource service, which reports on private sector service providers

The website or APP would serve as a one-stop location where SME's engaging in international transactions could locate valuable information. It could initially be through the USEACs, or ultimately even as a stand-alone. Beyond the targeted questions that lead the SME to the right resources, it can become an ongoing resource as opportunities arise. For example, ExIm Bank's Country Limitation Schedule is primarily for financiers. However, an SME can gain a great understanding of the financial risks encountered in various potential markets just by scanning it and tailor business development resources accordingly. If ExIm Bank is completely closed in a given country, how much time should the exporter be spending marketing to that country if the potential buyers aren't willing to pay in advance? While some of this information exists throughout the government and within the Department of Commerce, the goal would be to provide

Advocacy/Constituent Service

Based on future plans and funding, the website could provide quarterly newsletters providing up-to-date, export finance and market information that would include various articles highlighting successes. The updating of this information is critical to make sure the usefulness of the resource is maintained. Given this requirement, it lends itself to a PPP.

Decision Tree

A decision tree script that government employees can use in prequalifying exporters, as suggested in the attachment, could be used by government officials, quasi-government organizations and private companies to pinpoint the financing needs of exporters and then direct them to the specific public and private service providers. (This would obviously require updating, which is why a PPP would make sense.) Attributes of the decision tree include:

- Key questions whose answers would be used to guide conversations between U.S. exporters and government employees to the specific information that would be of the greatest use.
- The decision tree would include comprehensive information on government programs as well as much private sector information possible tailored regionally that offer support for overseas transactions.
- Conversation would result in the dissemination of the current contact information for the organization and/or official that is best suited to meet the SME's specific needs. This information will include but not limited to name, phone number, e-mail, and a description of the services provided.
- The decision tree would provide comparative information about competitors worldwide and information on websites with comprehensive transactional information from trade finance sources, including ExIm Bank and other U.S. government agencies.
- The decision tree would use plain language to describe methods and programs with contact information, including electronic links, on the relevant sources of support.

Activities required to finish a decision tree and/or resource guide

A. Collect Data – This is done through the Internet, agency visits, phone calls and existing materials.

B. Compile Data -- This consists of a systematic approach to formatting and placing the material in a user-friendly fashion.

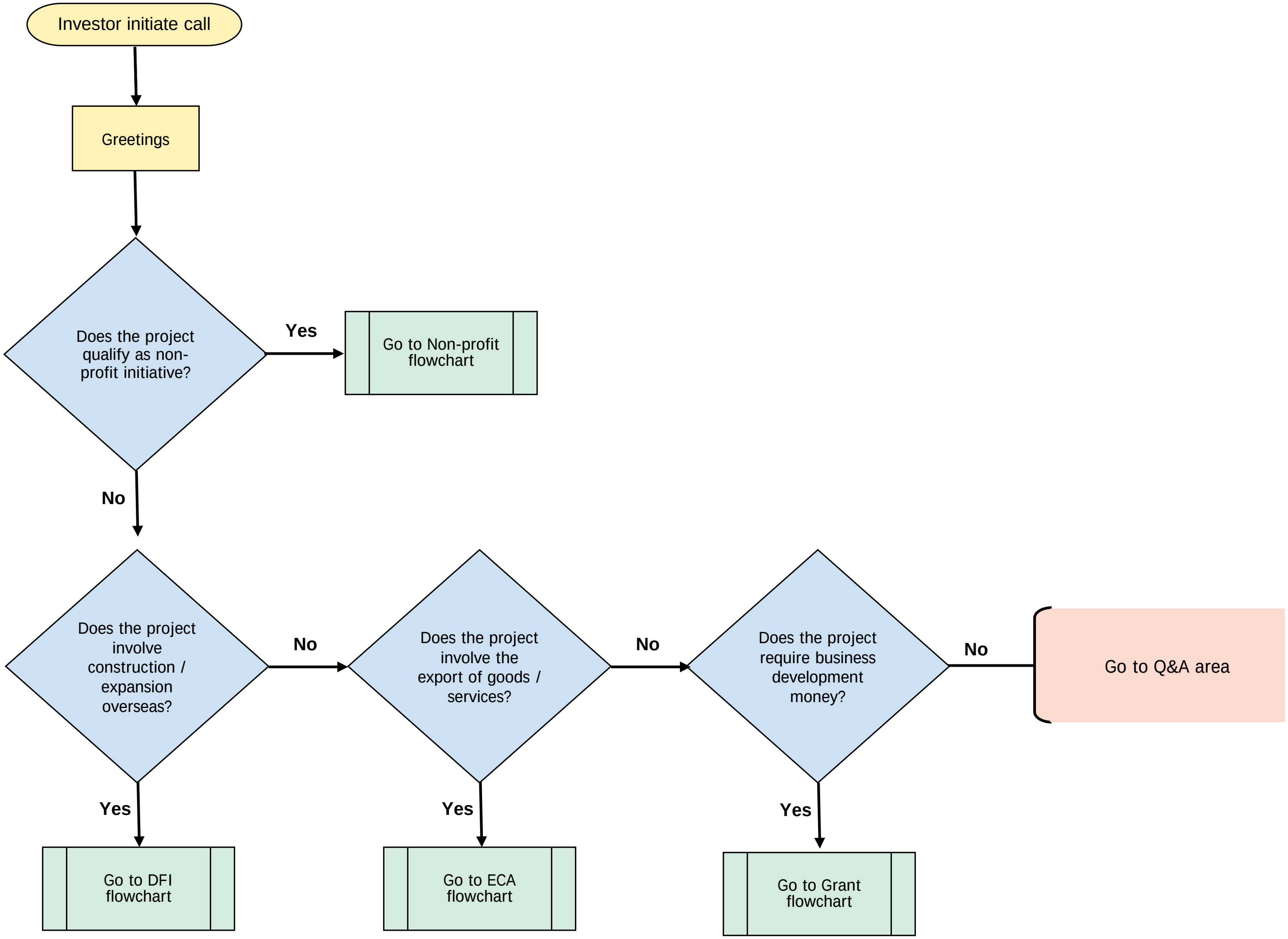
C. Verify the Correctness of Data – programs constantly change, to ensure accuracy employees will be contacted to verify the information included in decision tree.

D. Writing & Editing – This will convert lengthy technical program information into an easy to follow scrip.

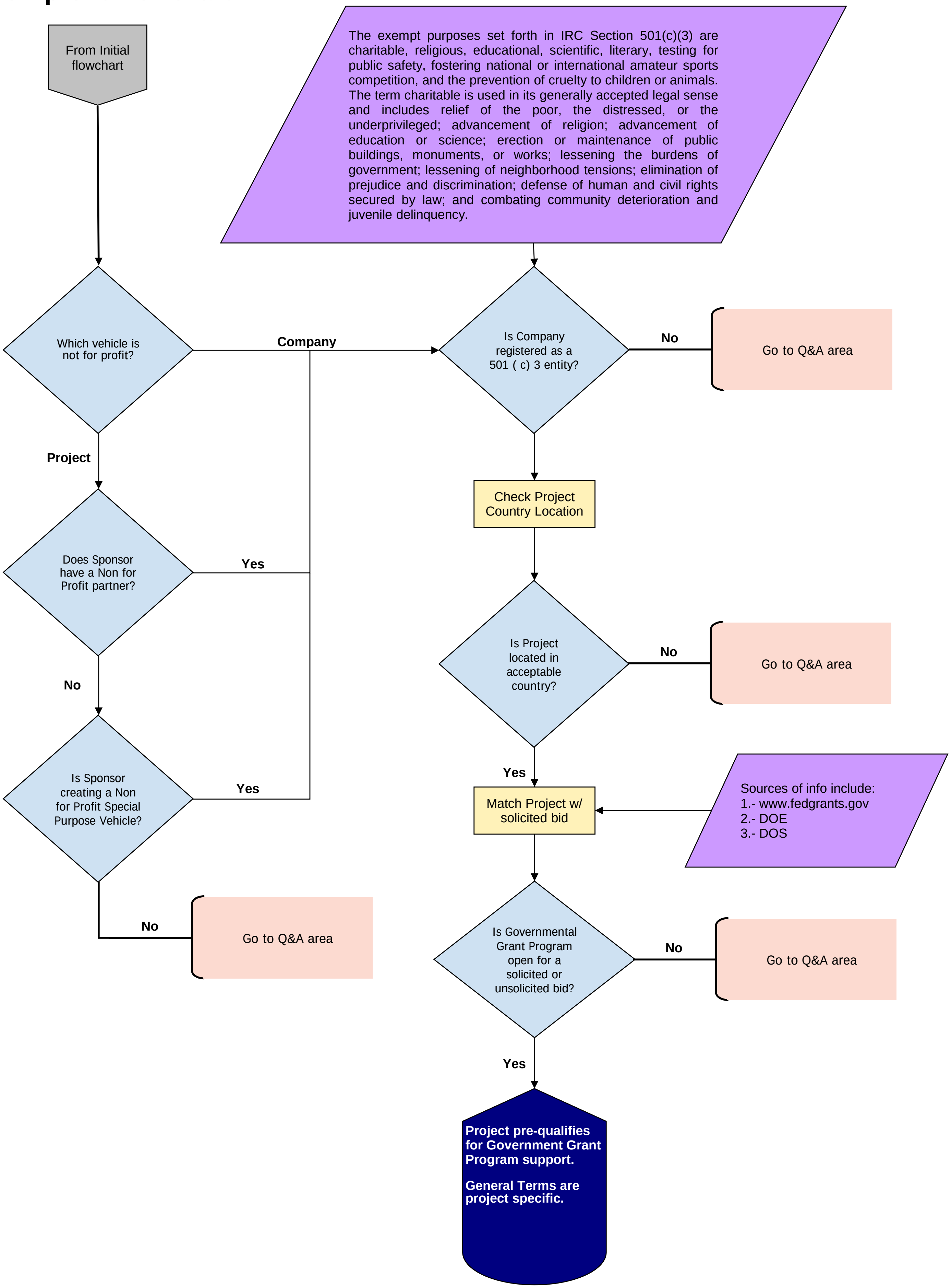
E. Running through the most frequent scenarios SMEs are likely to face and assuring results end in targeted and effective outcomes.

F. Production – a final manuscript will be produced ready for production.

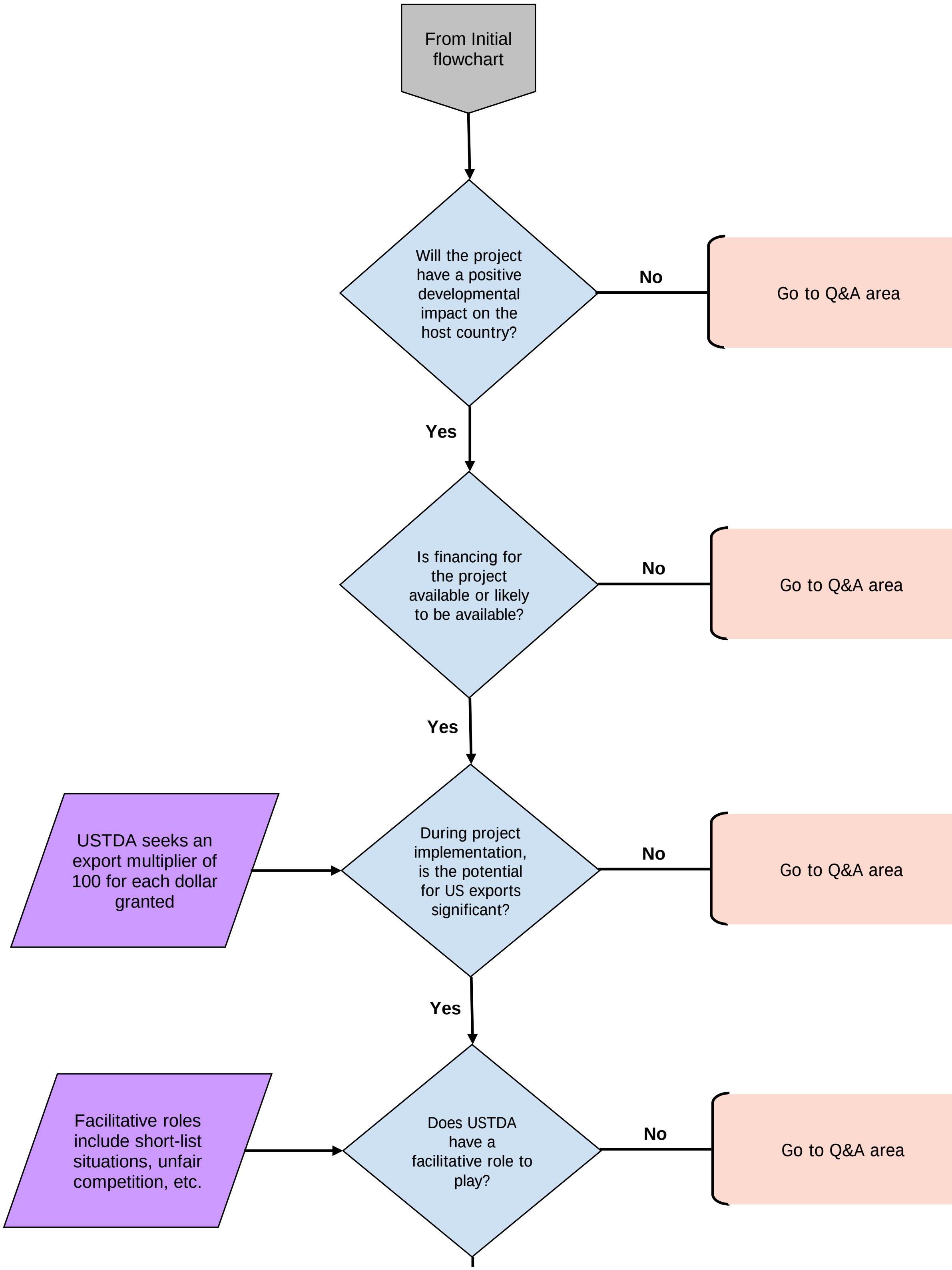
Initial Flowchart

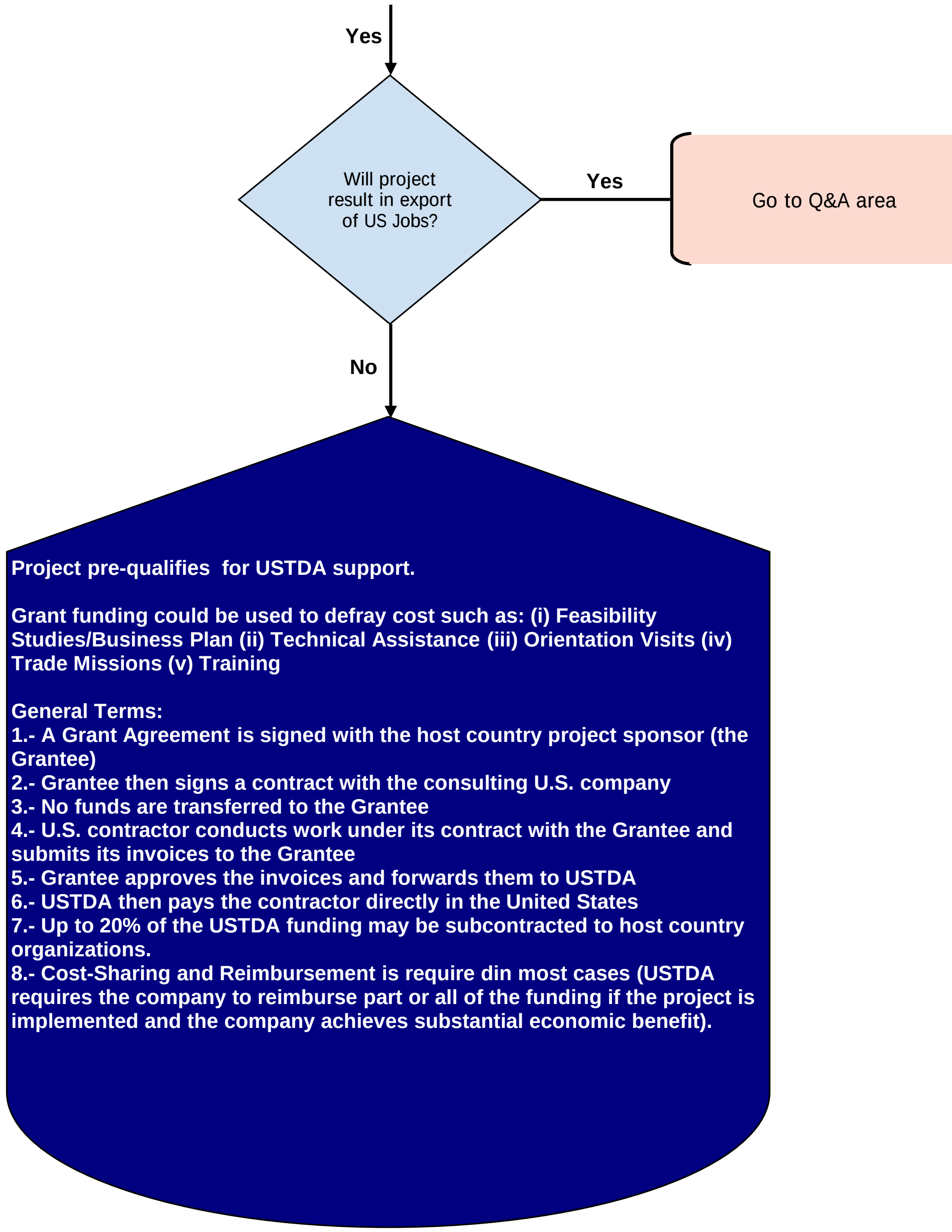


Non-profit Flowchart

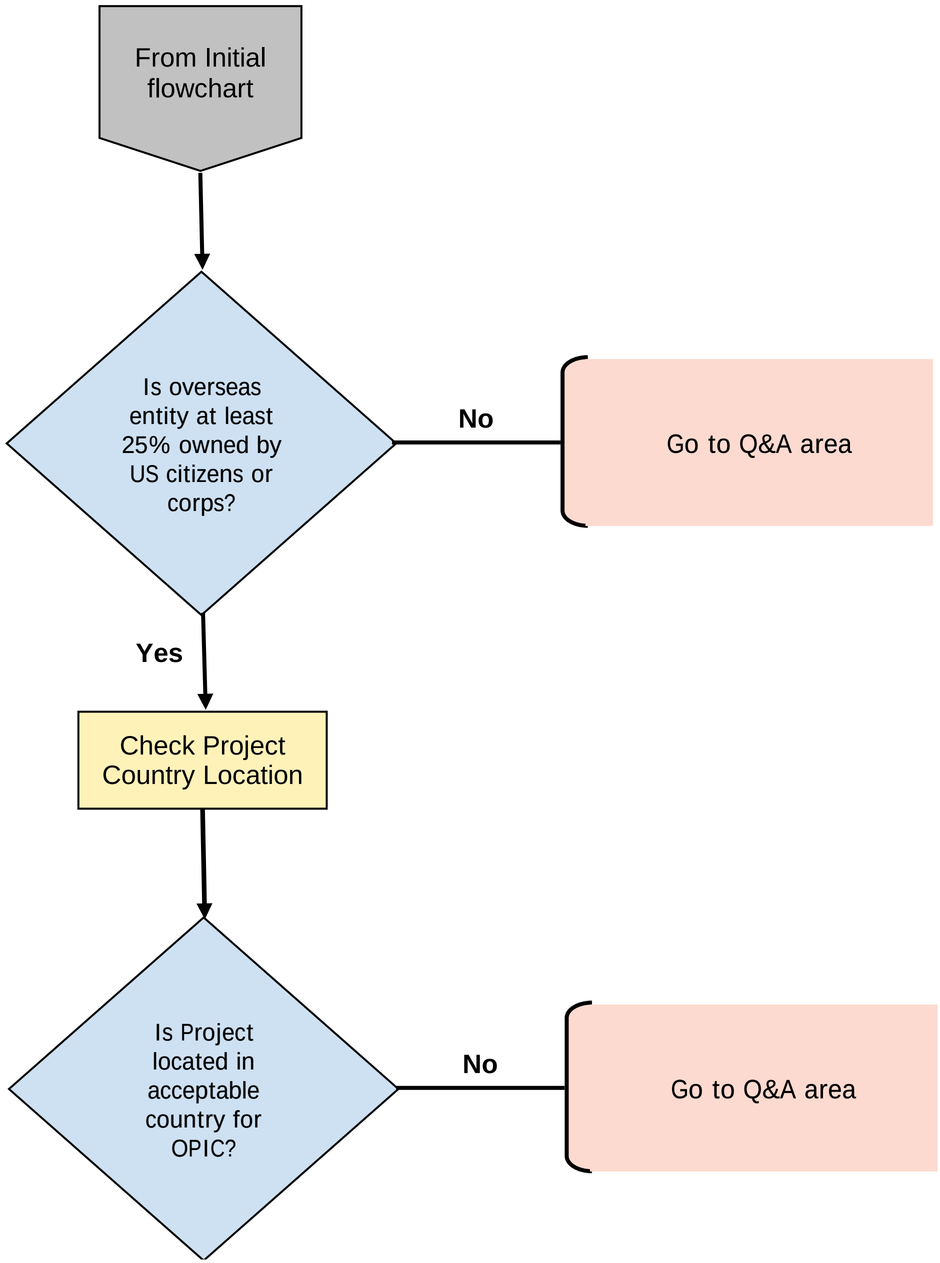


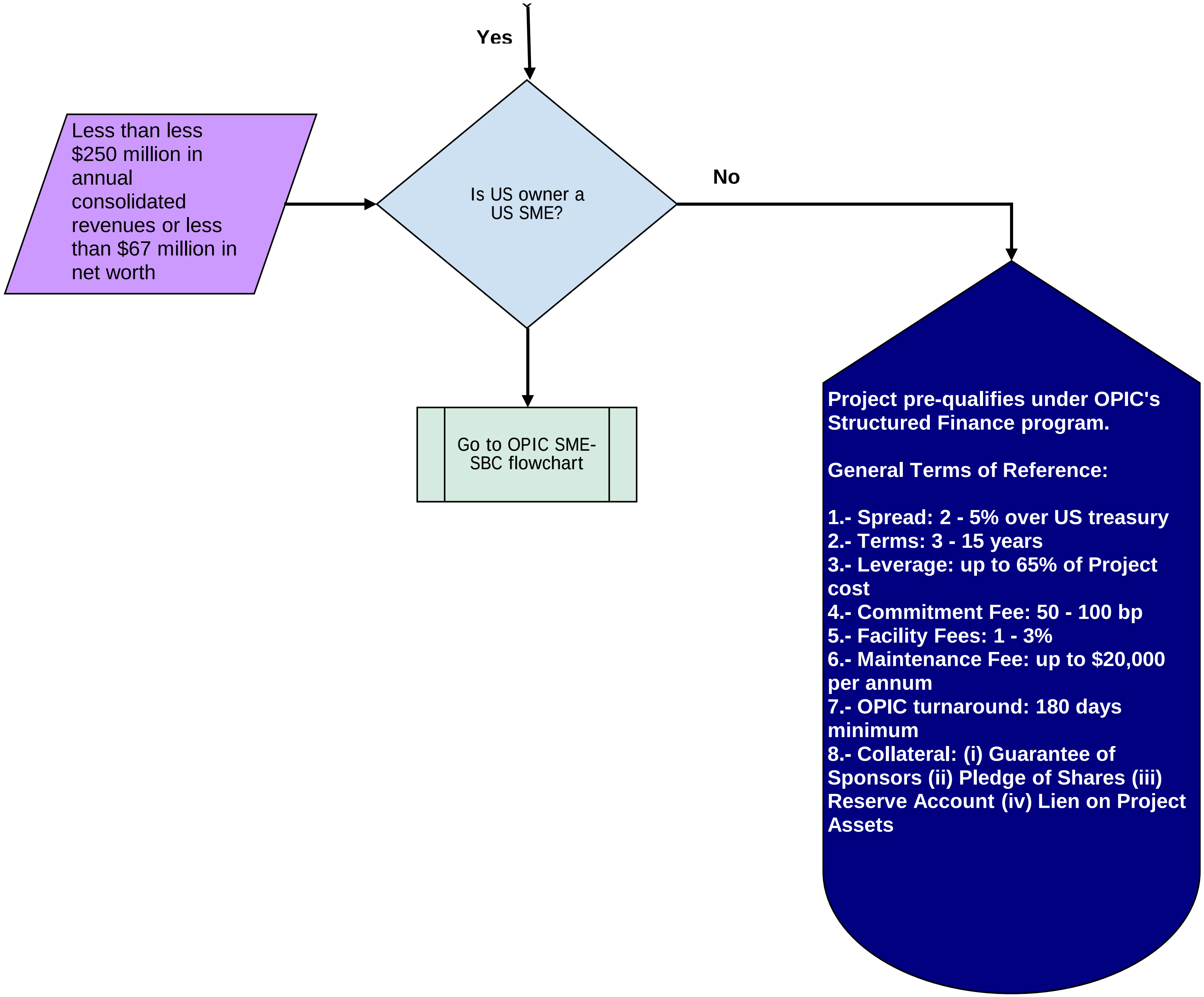
Grant Flowchart




Yes
Will project result in export of US Jobs?
Yes
Go to Q&A area
No
Project pre-qualifies for USTDA support.
Grant funding could be used to defray cost such as: (i) Feasibility Studies/Business Plan (ii) Technical Assistance (iii) Orientation Visits (iv) Trade Missions (v) Training
General Terms:
1.- A Grant Agreement is signed with the host country project sponsor (the Grantee)
2.- Grantee then signs a contract with the consulting U.S. company
3.- No funds are transferred to the Grantee
4.- U.S. contractor conducts work under its contract with the Grantee and submits its invoices to the Grantee
5.- Grantee approves the invoices and forwards them to USTDA
6.- USTDA then pays the contractor directly in the United States
7.- Up to 20% of the USTDA funding may be subcontracted to host country organizations.
8.- Cost-Sharing and Reimbursement is require din most cases (USTDA requires the company to reimburse part or all of the funding if the project is implemented and the company achieves substantial economic benefit).

DFI Flowchart



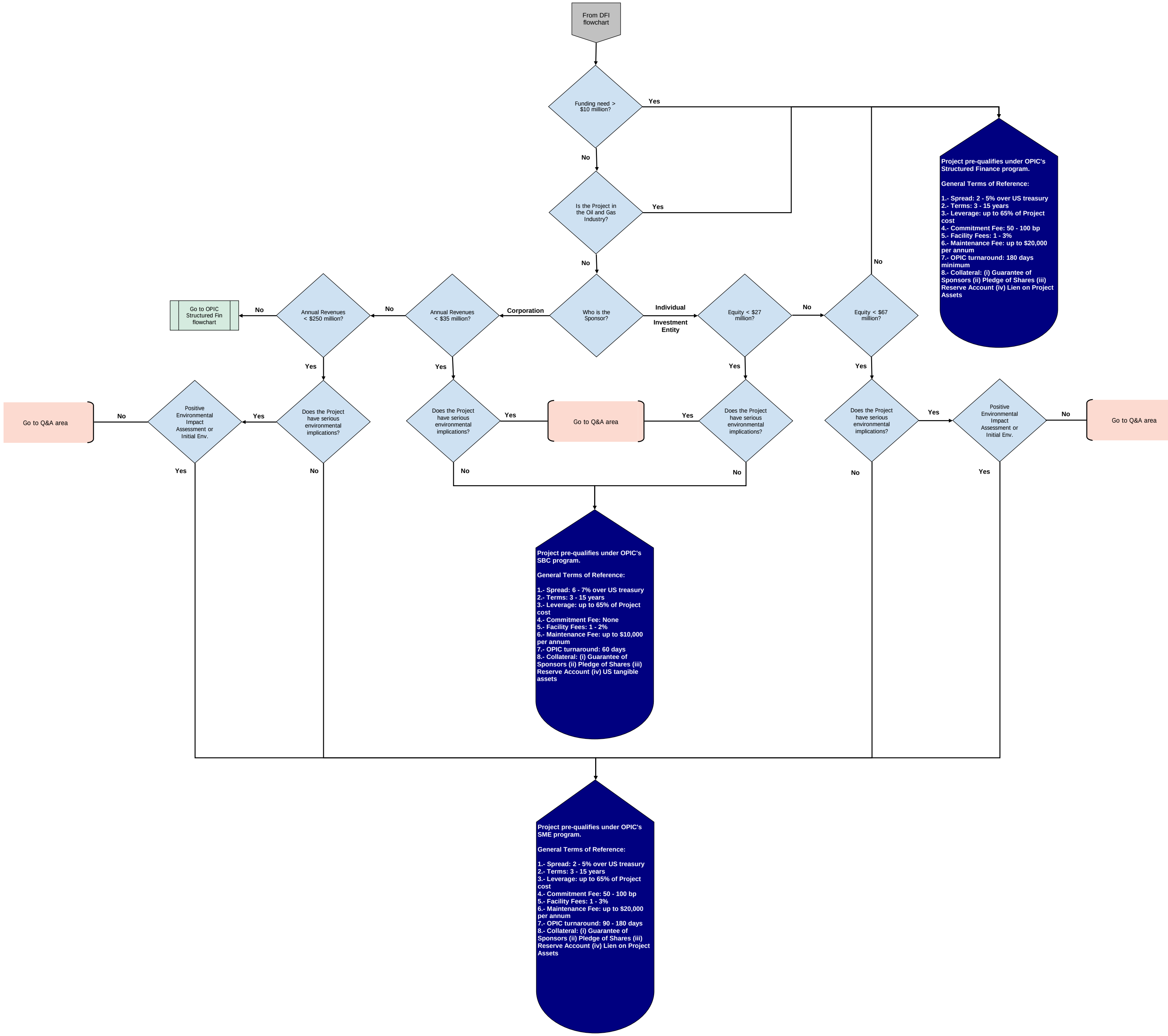


Yes
Less than less $250 million in annual consolidated revenues or less than $67 million in net worth
Is US owner a US SME?
No
Go to OPIC SME-SBC flowchart
Project pre-qualifies under OPIC's Structured Finance program.

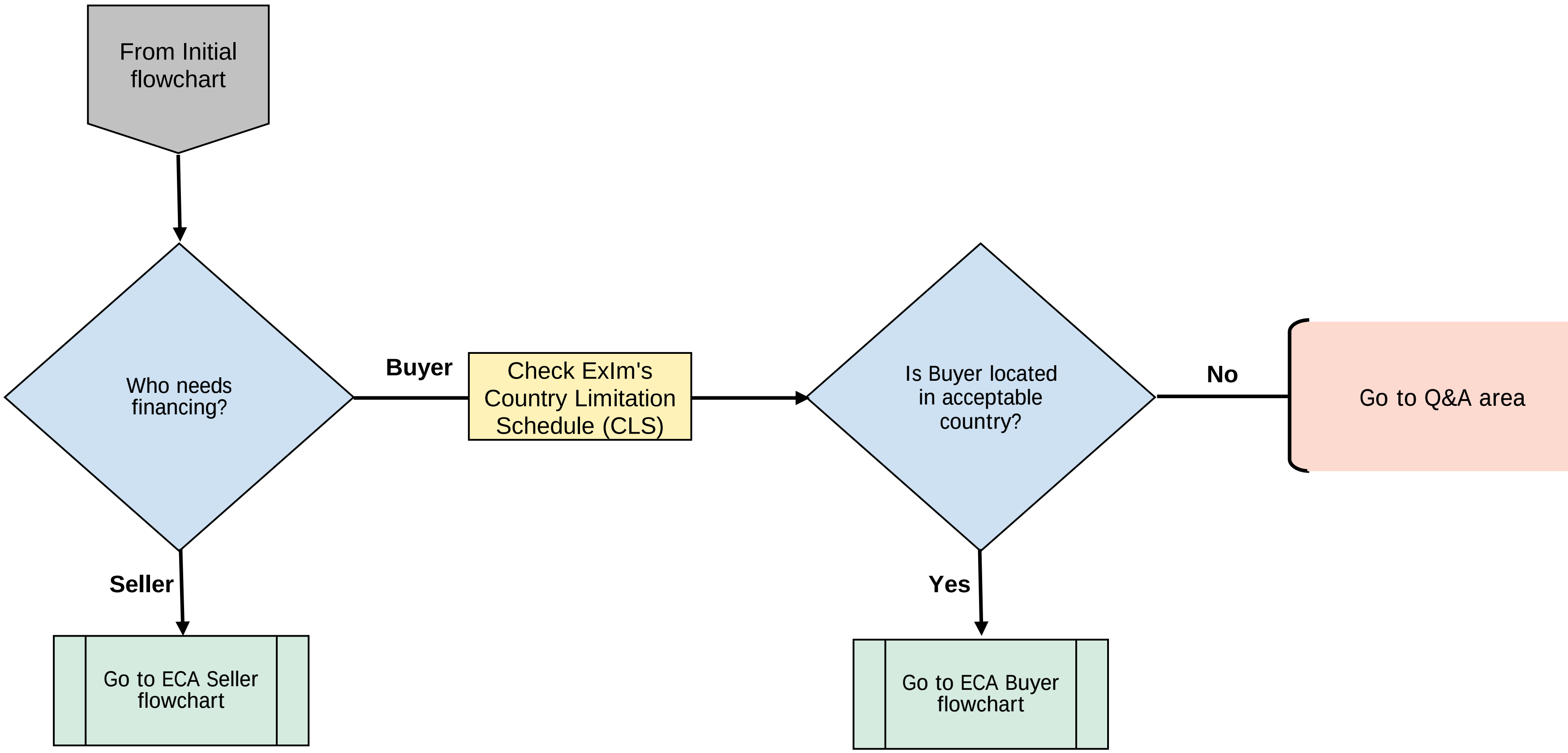
General Terms of Reference:

1.- Spread: 2 - 5% over US treasury
2.- Terms: 3 - 15 years
3.- Leverage: up to 65% of Project cost
4.- Commitment Fee: 50 - 100 bp
5.- Facility Fees: 1 - 3%
6.- Maintenance Fee: up to $20,000 per annum
7.- OPIC turnaround: 180 days minimum
8.- Collateral: (i) Guarantee of Sponsors (ii) Pledge of Shares (iii) Reserve Account (iv) Lien on Project Assets

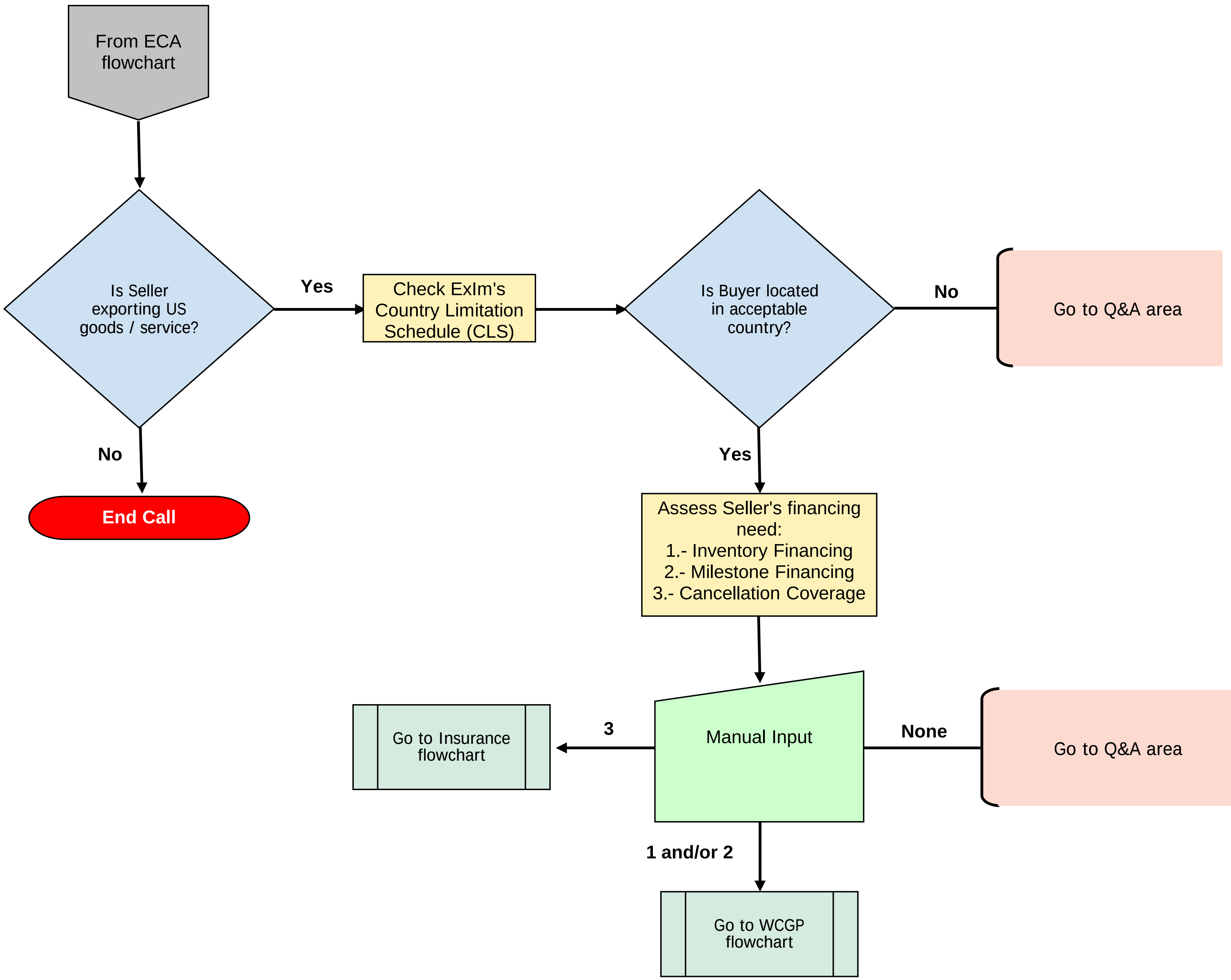
OPIC SME-SBC Flowchart



ECA Flowchart

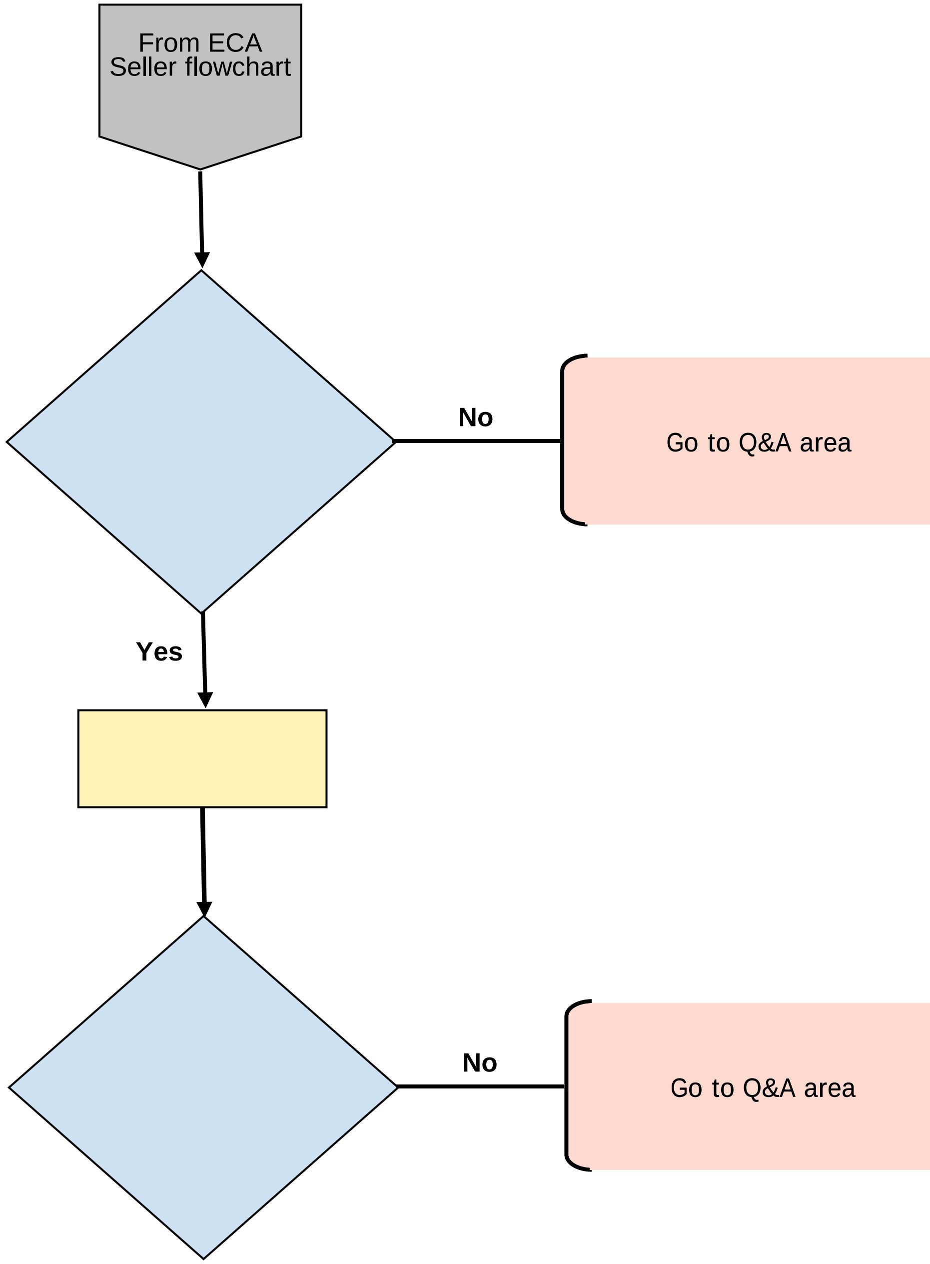


ECA Seller Flowchart



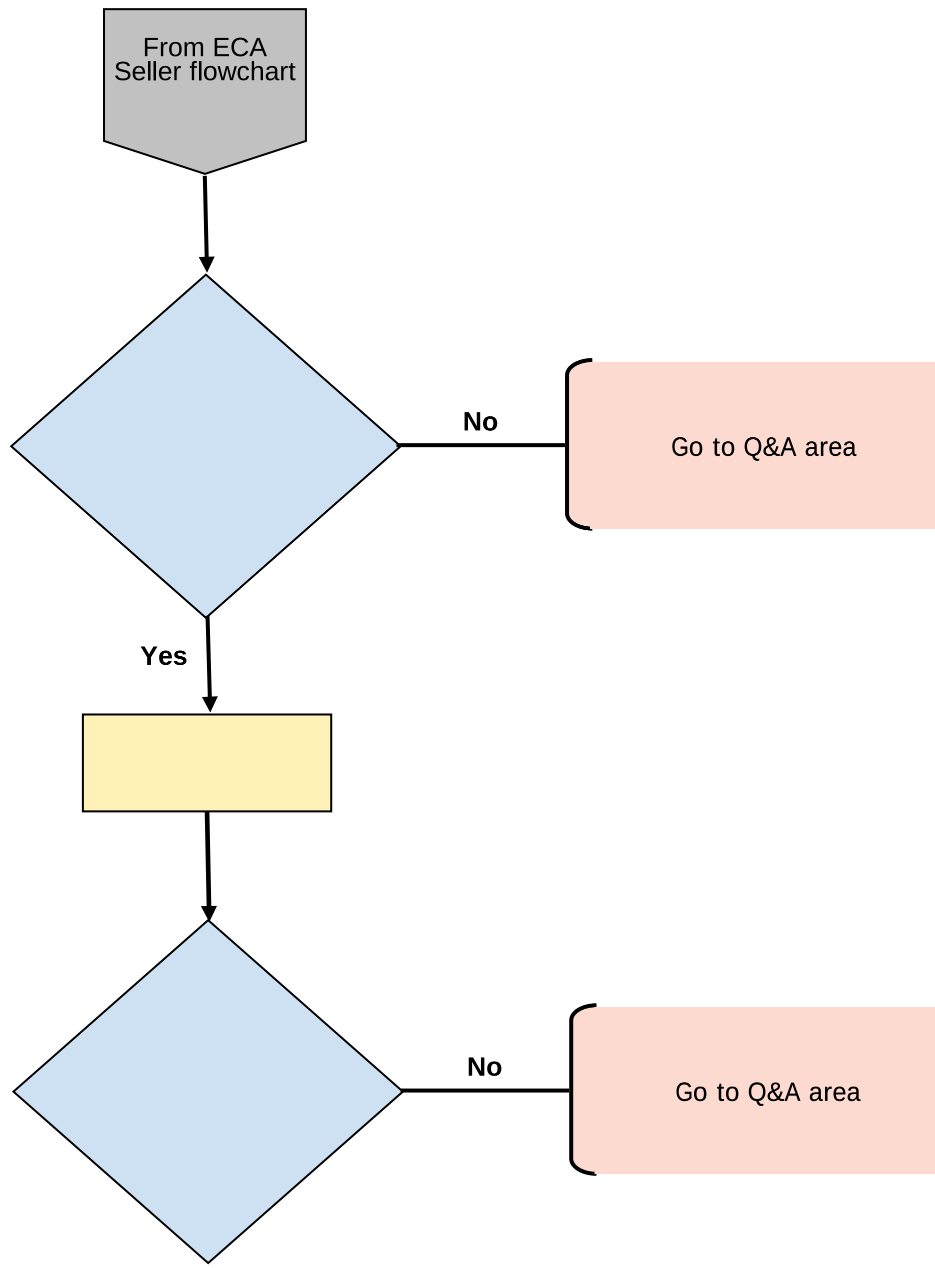
Insurance Flowchart

--> under design

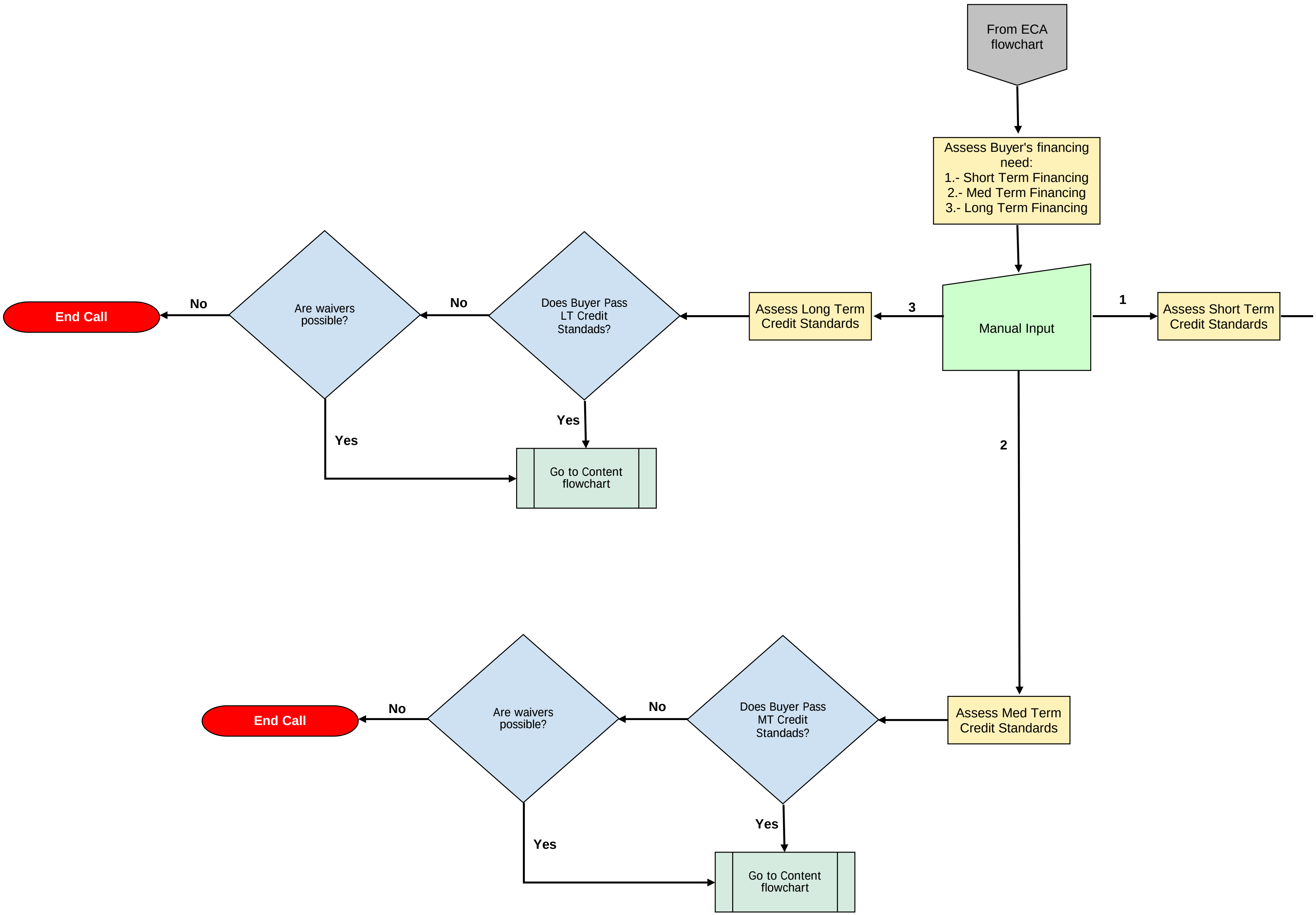


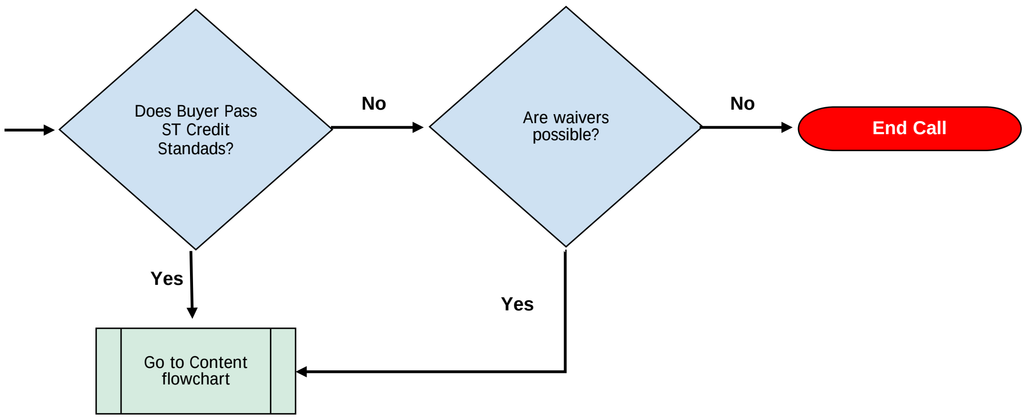
WCGP Flowchart

--> under design



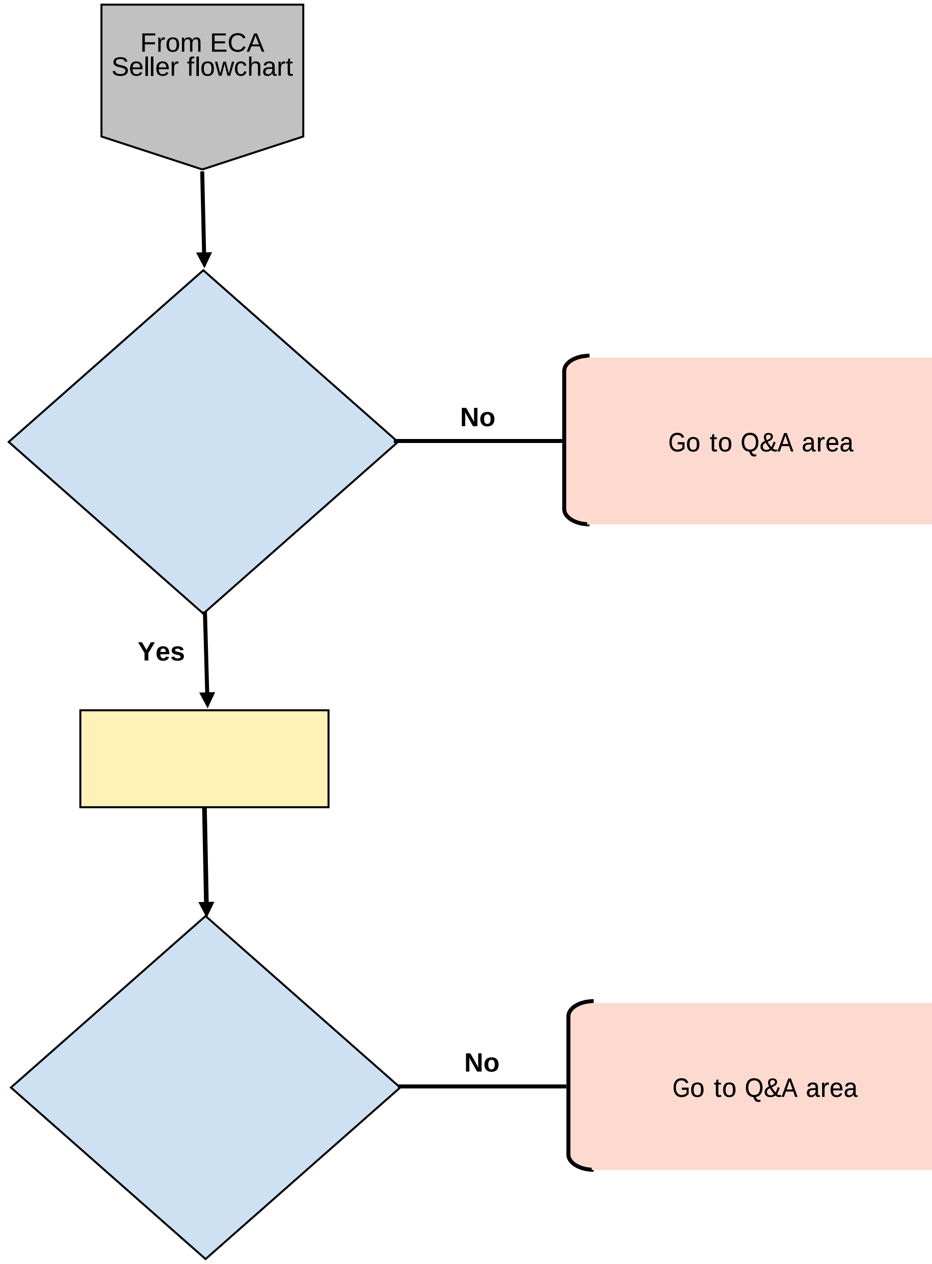
ECA Buyer Flowchart



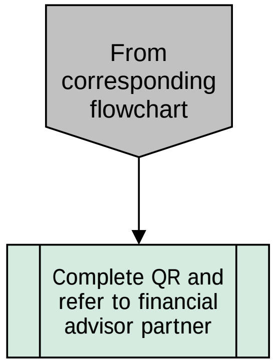

Does Buyer Pass
ST Credit
Standads?
No
Are waivers
possible?
No
End Call
Yes
Yes
Go to Content
flowchart

Content Flowchart

--> under design



Q&A Area



Quality Report (QR) – Trade / Project Finance

Contact Name: ______________________________ Title: __________________
Company Name: ____
Street Address: ____
City: ___________________________ State: ________ Zip Code: ____________
Tel:__________________________ Fax:____________________________
Webpage: _________________________ Email: __________________________
DUNS # _______________________________

Industry/Product/Service: ____
How many years has your company been exporting: _____________________
Approximate annual revenues: _______________________________________
Approximate export sales: ____
Net income for last year: ____
What country are you planning to export to: ___________________________
Other Financial Information: ____
____

Trade Finance
Provide a short description of your transaction:
Contract Price: $_______________
Type of Product(s) to be exported: ___________________________________
Country to which your are exporting: _________________________________
Country in which buyer is located: ___________________________________
Other Financial Information:____
____

Project Finance:
Amount of Finance Required: $_____________________
Total amount of Project: $_________________________
Date Finance is Required:____/____/_____
Investment provided by Applicant: _________%
Investment provided by 3rd parties: _________%
Guarantees/Collateral Offered: ______________________________________
Other Financial Information: ____
____

MATERIALS RECEIVED __________

CONFERENCE CALL SCHEDULED FOR: ____/_____/_____

TRADE FINANCE ADVISORY COUNCIL

Utilization of Credit Insurance
Among U.S. SME Exporters

Overview

The Trade Finance Advisory Council (TFAC) recommends that the Department of Commerce conduct research examining both the current and potential role of credit insurance in facilitating SME trade finance and exports. Based on the experience and anecdotal evidence observed from both the more established credit insurance markets of Europe and the export finance markets in the United States, there is a clear role for credit insurance in export facilitation that is in clear need of examination and quantification.

In order to take action in the public and/or private sector to expand U.S. exporters' utilization of credit insurance, TFAC and industry experts need data about the current level of utilization and its impact on trade. Such data do not exist, either in Europe or the United States however, and appear unlikely to be developed by other government agencies or within the private sector without the effective direction of the United States Department of Commerce (USDOC). Anecdotal evidence suggests that utilization of credit insurance by U.S. exporters and financial institutions appears to be lower than in other international markets, particularly those in Europe, where the practice first developed in the late 1800s offered by both governments and commercial insurance companies to serve risk management needs of both exporters and banks. The relationship of risk management offered by credit insurance to the decision making process to exporting is not well documented, including the role played by various government agencies in providing the service, and how significant a role the government's position is in stimulating export activity by SMEs through the credit insurance products offered.

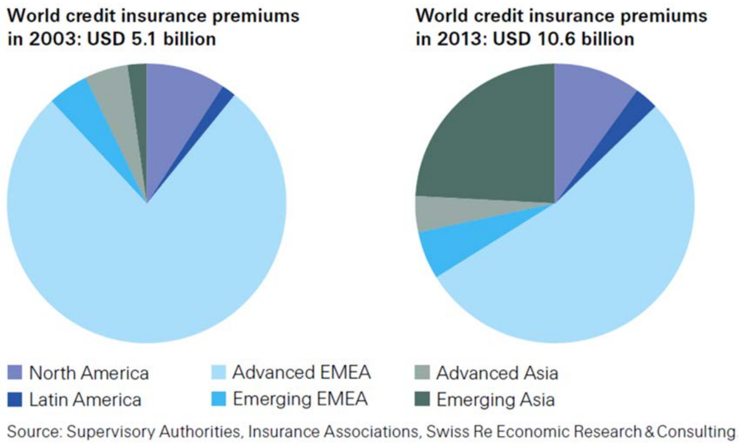
The TFAC therefore recommends that the Secretary of Commerce activate a USDOC project to develop and examine data with respect to the level of utilization of credit insurance by U.S. SME exporters and its impact on trade, and more importantly, to examine and determine the specific role played by credit insurance in the decision-making process by potential or actual SME exporters as to whether or not to make the decision to export outside their home country.

The data so developed will guide USDOC, SBA, Ex-Im Bank, other agencies—and above all the private sector—with the aim of determining what role credit insurance can play in expanding SME export activity and how to most effectively expand access to credit insurance for SMEs if it is determined that this product is a key component in promoting SME export activity.

Challenge: Dearth of Statistics on Trade Credit Insurance

Armed with data, the TFAC seeks to recommend that the federal government, the private sector, and/or one or more public/private partnerships take action to expand U.S. SME exporters' utilization of trade credit insurance.

But data on the utilization of credit insurance among U.S. exporters is extremely limited and does not currently exist in sufficient volume or quality for the TFAC to make a more definitive assessment of the opportunities for credit insurance to benefit U.S. exporting as described above. (See below from among the only statistics the TFAC has been able to uncover up to this point.)



(The most significant change illustrated above is the expansion of credit insurance utilization in emerging Asia, over the same period of time as that region's growth has outpaced that of the USA and other exporting economies.)

Neither does it appear that data will be forthcoming come from the private-sector market on its own because the high degree of competition between credit insurance underwriters makes it unlikely they would work together to compile data (even though doing so might ultimately be to their mutual benefit).

Nor does the TFAC believe developing industrywide data is a job for Ex-Im Bank. The agency can and must figure in any credit insurance research, but (a) the vast majority of credit insurance is written in the private sector and not by Ex-Im Bank, (b) the agency has a vested interest in the outcome of such research, and (c) USDOC possesses a depth and breadth of research tools not available at Ex-Im Bank.

Recommendation: Develop Data on Export Credit Insurance

Given the unique position of USDOC as an impartial advocate for U.S. exporters, and USDOC's resources (International Trade Administration, Bureau of Economic Analysis, Economics and

Statistics Administration, Census, et al.), the TFAC recommends that the Secretary of Commerce activate a USDOC project to develop and examine data with respect to the level of utilization of credit insurance by U.S. SME exporters and its impact on trade.

The absence of credible data, limited research and lack of understanding about the relationship between credit insurance and both the ability and decision to export is a significant gap in the understanding of SME access to export finance. In order to address this lack of understanding and broader awareness of the utilization of a significant tool in analysis, we intend that the U.S. Department of Commerce undertake a significant analysis of available broader data on credit insurance as it applies to SMEs. This analysis should involve accessing existing data and surveys of SME utilization of credit insurance- total levels of usage relative to SME exports in the U.S. versus Europe, and total levels of credit insurance available in the U.S. versus Europe. In order to effectively answer key questions on utilization, the Department of Commerce should conduct a survey and analysis of the utilization of credit insurance by surveying clients and potential clients of the Export-Import Bank, Small Business Administration, and public and private sector issuers and clients of credit insurance both in the United States and Europe. This survey and analysis should intend to address the key broad questions: Does the availability of credit insurance impact the decision of SMEs to export? How and why? Does a lack of availability of credit insurance impact SMEs ability to receive export financing? Do current regulations and pricing impact the decision of private sector firms to offer credit insurance more broadly?

This analysis is intended to utilize existing government survey resources such as the U.S. Census business survey as well as analyzing and incorporating existing survey tools within the Department of Commerce. In addition, private sector partners such as the National Federation of Independent Business Small Business Survey to provide further input and reach. Analysis of European data and firms will require partnering with the European Union or government and private sector organizations in countries such as Germany and Italy which actively utilize credit insurance.

The goal of the Trade Finance Advisory Council is to produce recommendations that can address the gap in SME finance and stimulate U.S. economic growth particularly for exports by expanding private sector financing. We strongly believe that further understanding of the possible role of credit insurance in supporting exports is a key part of that mandate and recommend you share this recommendation with other U.S. government agencies directly involved in export promotion and finance.

Appendix

Background: Credit Insurance is a Sales & Financing Tool for Exporters

Based on the analysis of the TFAC and the anecdotal evidence collected by its members:

(a) trade credit insurance is coverage which protects exporters' (and their banks') foreign receivables against nonpayment risks;
(b) first appearing in Western Europe in the late 1800s, credit insurance gained traction there between the world wars;
(c) credit insurance can serve as a risk management, sales growth, and trade finance tool for exporters and financial institutions that support exporting;
(d) in the USA there may be material opportunities for credit insurance (from both private-sector insurers and Ex-Im Bank) to play a greater role in supporting SME exporters and by extension to play a greater role in expanding the U.S. exporting economy; and
(e) the utilization of credit insurance by U.S. exporters and financial institutions appears to be much lower than among their competitors abroad, particularly in Europe.

Investigation: Information Gathered in the Absence of Data

In an effort to substantiate these observations, members of the TFAC have conducted informal research including conversations with:

- U.S. exporters and foreign buyers of U.S. exports;
- credit insurance underwriters, brokers, and users;
- banks, non-bank lenders, and other financial institutions;
- Ex-Im Bank, SBA, OPIC, USDOC, and other agencies;
- trade practitioners in both the public and private sectors and;
- other senior thought leaders in the USA and in Europe.

Andreas Klasen, Professor of International Business at Offenburg University, who has studied credit insurance extensively, agrees that utilization of the coverage in the USA is nowhere close to that in Europe but says to his knowledge nobody has ever developed statistics nor data to explain why this is the case.

This message was repeated in many of our conversations abroad. If researching credit insurance utilization is seen as beneficial in Europe, where the coverage is utilized much more broadly, then for the reason cited above we in the USA should be even more motivated to undertake such research.

Findings: Relevance & Utilization of Credit Insurance

Our research has led us to the following observations with regard to credit insurance and the credit insurance industry:

1. TFAC members' general experience appears to be supported by these initial findings from the wider market.

2. For many exporters, large and small, credit insurance can and does provide enhancement to their international trade finance transactions, whether used by an exporter for internal risk mitigation, as a tool for extending competitive payment terms, to facilitate bank/lender financing of foreign receivables, or a combination of these benefits.

3. Notwithstanding the above-mentioned ways in which credit insurance can be positively leveraged by SME exporters to grow their international sales, the coverage remains a relatively unknown product in the USA. A number of factors may potentially explain this situation: ranging from a lack of awareness of credit insurance among SME exporters, different bank regulations between the USA and Europe, and concomitant differences in the value attributed to credit insurance as a risk management tool.

4. Expanded utilization of credit insurance would have positive impacts on the growth of U.S. SME exports into established and new markets abroad by increasing these companies' global competitiveness.

5. The existence of a multinational credit insurance association headquartered in Europe has served to increase availability of delivery channels of insurance and capital to provide these services to exporters in that region. No such association currently exists in the USA. It appears that, given the highly competitive nature of the market, private-sector credit insurance providers have not themselves worked together to compile data with respect to the above . . . even though it might ultimately be for their mutual benefit.

These findings are supported from the top down by senior practitioners and thought leaders including:

--- Robert Nijhout, Executive Director of the International Credit Insurance & Surety Association (ICISA)
--- Vinco David, Secretary General of the Berne Union
--- Louis Habib-Deloncle, Association Internationale du Droit de l'Assurance (AIDA)
--- Thomas Baum, Head of Underwriting & Risk Management, Euler Hermes
--- David Anderson, former Head of Political Risk and Credit at Zurich Insurance

. . . and from the bottom up by exporters like TFAC members Caterpillar Inc, HanesBrands, Ellicott Dredges, and FirmGreen Inc.

(These decades-experienced world traders are the exceptions. Our findings indicate most newer-to-exporting SMEs do not utilize—and in many cases may not even be aware of—trade credit insurance.)