DETAILED MINUTES OF THE

U.S. DEPARTMENT OF COMMERCE

TRADE FINANCE ADVISORY COUNCIL

MEETING ON March 27, 2019

I certify that I was present at the above reported meeting and that the summary of the meeting is accurate.

Kevin Klowden

Chairman, Kevin Klowden

May 18, 2019

Date

If applicable: (Please note that each paragraph must be marked.)

CLASSIFIED BY: N/A

REASON: N/A

DECLASSIFY ON: N/A

Attachments below include Meeting Minutes and List of Attendees

TRADE FINANCE ADVISORY COUNCIL
Public Meeting - Minutes
Wednesday, March 27, 2019 ǁ 1:15 – 4:15pm (EDT)
U.S. Department of Commerce Building

WELCOME REMARKS AND INTRODUCTIONS

The Director of International Trade Administration (ITA)'s Office of Finance and Insurance Industries, Paul Thanos, opened the meeting by welcoming attendees, government speakers, and recently appointed TFAC members. TFAC members then introduced themselves and their company affiliation.[1]

In his remarks, Director Thanos emphasized that TFAC members were chosen for their unique business experience and demonstrated abilities to lead change within their industry, both critical to helping the Department of Commerce (Commerce)'s ITA achieve its primary objective of expanding American exports. He stressed the exceptional opportunity of a second charter term to build upon TFAC's previous work and identify new ideas and activities. He noted TFAC member's role in helping shape the conversation on how government can enable collaboration and innovation in the industry, with Commerce as the facilitator.

Director Thanos also took a moment to recognize TFAC's accomplishments under former Chair Kevin Klowden, who has led TFAC's successful adoption of 8 out of 10 recommendations the first charter term. He recommended that Mr. Klowden continue to lead the group to encourage consistency developing and implementing a more ambitious and aggressive workplan. Finally, he encouraged the group to define key priorities at the meeting and a roadmap that would help ensuring that recommendations are transmitted to the Secretary of Commerce expeditiously.

US GOVERNMENT BRIEFINGS

Patrick Kirwan, Director of Trade Promotion Coordinating Committee (TPCC), Department of Commerce

- TPCC focuses on coordinating the priorities among 24 agencies involved in trade programs designed for exporters as well as some at the oversight level.
- Key current activities within TPCC include:
    - USMCA/Trade Agreement with Mexico and Canada: The goal is to inform U.S. companies and promote further understanding of the updates and how to take advantage of new opportunities. Some of the challenges include increasing engagement of local and small business communities.
    - Education: (1) offer a training program for all agencies at Federal level, but also State and local governments; mostly provided by the private sector. About half of a day is designated to discuss basics of trade finance; (2) work with the Small Business Administration (SBA)'s Small Businesses Development Centers, which are about 900 located around the country but only 60 of them have international engagement, to educate about exporting opportunities.

[1] *See* Attachment#1 for the list of TFAC members and attendees.

    - Re-authorization of the Export Import Bank of the United States (EXIM): Working with relevant agencies on a type of authorization that would get through Congress.
    - Infrastructure: Supporting U.S. companies compete with China and other countries' aggressive bidding on infrastructure projects overseas.
    - Startup Global: Program for companies that are on their second or third tranche of funding, to help them identify the tools needed to start exporting (e.g., intellectual property rights, export controls, etc.).

In closing, Mr. Kirwan noted that throughout their various interactions with U.S. companies, access to finance is always brought up as a key element. He expressed his eagerness to support the implementation of TFAC recommendations through the agencies.

Katya Delak, Computer Security Division at the National Institute of Standards and Technology (NIST), Department of Commerce

- NIST's Information Technology Laboratory has a division that focuses on cybersecurity issues. This division created in 2017 a research driven program on blockchain to study various pilots and evaluate the feasibility of blockchain technology applications.
- She noted that NIST's focus is on blockchain's open source landscape rather than proprietary solutions such as distributed ledger technologies (DLT) used by enterprises.
- In 2018, NIST published an internal report that provides a general background on blockchain. Currently, NITS' projects are largely related to identity management. A pilot on an Ethereum platform showed that it is not yet mature enough for full on deployment. There is still a lot of development going on in the space in terms of the platforms, to make it user friendly and constant updating of the source code used. However, NIST is looking at hybrid methods (not centralized, and not completely user-based but that have some level of control) which may be a useful area to further analyze as the technology matures.
- NIST also investigated a virtual currency that involved a sort of hybrid system including central banking and legal controls. The pilot is not quite mature, depending on the type of blockchain system is implemented. NIST tried on a bitcoin system where there is room for improvement.
- NIST has also been heavily involved on the ISO standards development space. In 2018, they looked to the various standards development bodies that would be involved in blockchain. ISO is in the process of writing a few very technical reports on security and privacy, identity management, which are looking at the state of technology in the areas to be used more as a foundational for future standards in blockchain.
- Other areas NIST is considering as general research projects include trust systems, it is developing a white paper that looks at identity management using different blockchain platforms.
- In the engineering laboratory, a community project that includes private entity, NIST is looking at DLT for the supply chain management, to identify the sourcing of material and provenance.

Skip Jones, Deputy Assistant Secretary (DAS) for Middle East and Africa on Prosper Africa, Department of Commerce

- Prosper Africa is the economic and commercial component for the Administration’s new Africa strategy, announced in late 2018 by the National Security Council.
- It recognizes that American companies face competition from foreign companies that have an advantage due to their home government tactics (China brings complete solutions: financing, manpower, questionable compensation transactions, Europeans bring heads of states with dozens of CEOs). Prosper Africa is focused on providing a level playing field for American businesses in this dynamic and virtually unsaturated market.
- Financing is an extremely important element in Prosper Africa’s approach. He stressed that TFAC’s recommendations in this area would be valuable.
- DAS Jones provided an overview of recent recommendations[2] made by the President’s Advisory Council on Doing Business in Africa (PAC-DBIA), housed in Commerce, which are based on four key competitive strengths:
    - dominant role of the U.S. dollar in commercial transactions
    - U.S. characteristics of large, liquid, and very sophisticated capital markets to address African issues
    - U.S. has a different model for development, one that not only includes high quality goods, services and technology, but also corporate responsibility, training, and expert technology support.
    - U.S. companies that have broken into the market can provide services and technologies to embed into African value chains
- The recommendations are:
    - making EXIM fully functional
    - that Commerce establishes “deal teams” for concessional and commercial financing
    - creating African sovereign access to dollar liquidity (i.e., some sort of baskets of reserve currency, transferable commodities or some sort of swap that increases dollar liquidity)
    - passing the BUILD Act, and standing up the new Development Finance Corporation
    - creating a US Government risk transformation mechanism that allows for the sale of aggregated risk exposure from U.S. agencies to private investors
    - regular consultations between government agencies providing technical assistance and the private sector on capacity building, an element underscored by private sector in the PAC-DBIA’s 2018 fact-finding trip to Africa, noting:
        - Ethiopian companies biggest challenge was reliable access to foreign exchange. How to leverage U.S. sophisticated capital markets to find a long-term solution to this, specifically, e.g., in Ghana.
        - many African countries have a sovereign debt problem that needs to be addressed to free up capital.
    - leverage the resources, relationships, and expertise of the African Development Bank
- <u>DAS Jones encouraged TFAC members for feedback on these recommendations and for additional advice</u>.

Alison J. Germak, Director, Corporate Development, Overseas Private Investment Corporation (OPIC)/International Development Finance Corporation

[2] *See* Attachment #2 for the PAC-DBIA recommendations.

- OPIC's overview: Since 1971, their mission is to mobilize U.S. private capital for investment into emerging markets in developing countries by offering U.S. investors a suite of financial products including (1) political risk insurance that covers political violence, currency inconvertibility and government expropriation/nationalization; (2) debt loans and loan guarantees for American companies investing overseas; and (3) the fund-to-funds program, providing debt to privately-owned privately-managed investment funds that utilize OPIC's capital to pool third-party capital into a vehicle for investment into emerging market companies.
- The BUILD Act: Passed into law by the U.S. Congress last October, with the goal of modernizing and reforming U.S. development finance for the 21st century. Four key takeaways:
    - consolidation of existing authorities and responsibilities of OPIC and the USAID office called Development Credit Authority, which provides local currency guarantees, into a new agency called U.S. International Development Finance Corporation (DFC)
    - gives the DFC new authorities: to invest equity into overseas investment projects, and grant authority for technical assistance and feasibility studies
    - increases the portfolio cap of the agency from $29 billion presently (current portfolio stands at $23 billion) to $60 billion.
    - greater emphasis of DFC support on low- and middle-income countries
- Expected to formally open the DFC for business in October 2019. However, still open for business during the transition to work with clients.

Anthony Ieronimo, Director for Trade Finance at Department of Treasury

- Treasury's role is to help establish the appropriate balance between private and public sector activity from the perspective of U.S. export finance as well as other agencies around the world. Treasury's main goals in this regard:
    - Ensuring that U.S. exporters are given a level playing field with competitors
    - Minimize market distortions
    - Encourage private sector participation and risk taking
- Heads the U.S. delegation that negotiates with other countries that also provide export financing to agree on reasonable terms and conditions. Under the WTO, export credits are considered a subsidy unless they abide by a set of guidelines. Treasury along with Commerce, State, EXIM and Transportation agencies take part on these negotiations. There are two channels of negotiation:
    - OECD countries: a highly detailed developed set of rules called "the arrangement," including a very sophisticated transparency provision. Recently negotiating on interest rate reform to try to modernize the system if interest rates the export credit agencies provide.
    - Non-OECD countries: which are providing a large share of growing export financing support (e.g., China, Russia, and Brazil) outside of the OECD terms. Negotiating on this broader forum to seek agreement on certain disciplines that would curtail the excessive financing provided.
- Working with U.S. Government and Congress regarding the re-establishment of EXIM.
- Treasury also has an important role with the multilateral development banks, including the African Development Bank, where the Board member is a Treasury employee. Treasury can assist in the Prosper Africa discussions as well.

- <u>Director Ieronimo's question for TFAC's consideration: What is the space that private financing can fill in trade finance with or without the participation of EXIM</u>. <u>He asked for recommendations in terms of the full range of options, and what are appropriate places where there is government-backed financing and financing without government backing</u>.

David M. Glaccum, Director for the Small Business Administration (SBA)'s Office of International Trade (OIT)

- He noted that the SBA Administrator has pivoted toward a bigger focus on SBA's international portfolio programs. Also, a renewed focus of SBA's Senate oversight committee. Thus, the TFAC's previous recommendations are being considered.
- SBA's mission is to increase the volume and value of small business exports. OIT has three divisions:
    - The international affairs trade team, which under the leadership of USTR seats in trade negotiations to advocate small businesses' interests on both a bilateral and multilateral level. Other market access activities not necessarily related to FTAs include e.g., their contribution to an MOU signed with Bahrein to create a more transparent ecosystem for small businesses and increase the relationship and ease for businesses to export to that country.
    - The trade promotion and development team, that focuses on interagency coordination and the State Trade Export Promotion Program (STEP). STEP provides grants (authorized this year for up to $18 million) to States and US territories for congressionally approved export activities such as trade shows, translation services, marketing material for international audiences, etc. The current ROI for total dollars appropriated and awarded is over 30 to 1.
    - Trade finance teams that work with lenders in the field to provide training, counseling, and in some instances even underwriting loans. SBA has three main loan guarantee programs: international trade loan, export express, and export working capital (EWCP up to $5 million), offering up to 90% guarantees.
- Director Glaccum noted they are working to address some issues with their programs. The EWCP ($120 billion total portfolio) is their biggest program, doing 470 loans in 2018 for approximately $735 million. The program is still largely run by the office of Capital Access, which runs domestic programs as well. TFAC had recommendations in this area are being considering. He mentioned OIT is currently looking at how to structure the interest payment, standard operating procedures and authorizations with lenders, and how to make it user friendly since their clients are different that the regular SBA 7A lenders.

Q&A with US GOVERNMENT AGENCIES

- Director Thanos asked DAS Jones to expand on Prosper Africa relevant to TFAC:
    - Prosper Africa seeks to provide a level playing field for U.S. companies. There seems to be a disconnect in U.S. business community about the risks in African markets -which may not be as attractive as other markets like Canada, UK, Japan, or European markets- and the benefits. African markets are under-saturated, thus there are greater opportunities for US companies to capture larger market share. Prosper Africa seeks to advocate investing in Africa as a more attractive opportunity.

    - The initiative seeks to evaluate the real risks and propose risk mitigation solutions, areas importantly under the purview of the TFAC.
    - Prosper Africa also looks to increase visibility among US companies about African project opportunities, by:
        - developing a mechanism to gather spending plan opportunities from other countries' ministries; which present commercial opportunities for US companies and evaluate how US government agencies can collectively contribute to increasing visibility, access to information, and bidding power for US companies.
        - leveraging the African Development Bank, or greater awareness of MCC or USAID projects as another source of information for the US business community
        - Negotiating a number of Memoranda of Understanding with African governments (some already signed), in order to obtain these countries' spend plans, attain US companies' interest, and work with these African governments and the companies to receive input on the constraints in the country's business environment that may prevent US companies taking advantage of those opportunities (e.g., related to customs issues, intellectual property, standards, etc.).

DAS for Services Sullivan joined the meeting, introduced the work of the Services unit within ITA, which oversees the Office of Finance and Insurance Industries (OFII), the Office of Digital Services Industries (ODSI), and the Office of Supply Chain, Professional and Business Services (OSCBS). He also congratulated the appointees and recognized former members' work as well as former Chair Klowden's leadership.

- Question from TFAC Member DiCaprio: Technology companies struggle to connect with the right point of contact when it comes to policies on digitalization. Within the Federal Government, who leads digital policy?
    - Various units within agencies bureaus deal with digitalization and new technologies, both in terms of free trade agreements, or on a bilateral and multilateral basis.
    - Commerce's ITA and specifically OFII covers Fintech broadly, working closely with Treasury. ODSI works ensuring free data flows e.g., by administering the Privacy Shield Program to make sure that data can flow from Europe to the U.S., encouraging the APEC Cross-Border Privacy Rule System, supporting negotiations for the new digital trade chapter in USMCA. In Africa, OFII is monitoring the adoption of digital technologies skipping traditional banking solutions.
    - DAS Jones noted that ITA's US Foreign Commercial Service has regional "Digital Attaches" who work closely with the Services unit on related issues.

DAS Sullivan introduced Commerce Under Secretary for International Trade Administration, Gil Kaplan.

KEYNOTE REMARKS BY UNDER SECRETARY GIL KAPLAN

U/S Kaplan congratulated recently appointed TFAC members. He expressed his great concern about trade finance and EXIM's current situation. He shared his experience during his trip to

Africa with Secretary Ross and PAC-DBIA members in the summer of 2018, noting that without strong export financing U.S. businesses' competitiveness in the region is extremely impacted. On behalf of Secretary Ross, he thanked members for their willingness to serve and share their expertise to find ways to enhance the financing environment for US exporters. He recognized the significant contribution of former TFAC appointees, including former TFAC Chair Kevin Klowden.

Citing to an increase by 6.3 percent in 2018 to $2.5 trillion goods and services exports, he emphasized that Commerce and the Administration are dedicated to improving export opportunities for American businesses. U/S Kaplan underscored the importance of trade finance in supporting those objectives and encouraged the group to identify strategies that would warrant access to effective and affordable financing that can empower US businesses' expansion internationally.

U/S Kaplan discussed how the Administration has made progress in addressing a multilateral trading system that fails to prevent unfair and market-distorting trade practices, by negotiating improved and rebalanced trade agreements. He also expressed his concerns about the $1.5 trillion global trade gap that disproportionately affects small businesses. <u>He asked members to identify education strategies that would increase these companies' likelihood to access financing and ultimately participate successfully in foreign markets</u>.

At a time when EXIM is only partially operational, and export credit competition is growing and shifting to a more strategic role in supporting national exporters, he emphasized the need for private sector active engagement. U/S Kaplan alluded to China as the world's largest provider of short and mid-long-term export financing provided in 2017. <u>He tasked the TFAC with designing innovative solutions that can increase credit capacity and mitigate risk, as well as alleviate the unintended impact of tightened financial regulations that have reduced trade finance capacity</u>. He expressed Commerce's commitment to working with the private sector in collaboration with government agencies to guarantee US exporters are able to compete effectively and fairly in foreign markets.

U/S Kaplan also mentioned his optimism about digital technologies' potential to transform the finance industry, including trade finance. <u>He asked the group to determine key obstacles for the adoption of these technologies in trade finance and ways in which Commerce can engage to help accelerate the process where impactful</u>.

Finally, <u>he stressed the importance of identifying areas where greater public-private sector collaboration can effectively enhance financing opportunities for exporters</u>.

TFAC members briefly introduced themselves and their companies/industry sub-sector representation. In closing, <u>U/S Kaplan posed two questions to the group for further consideration</u> as priority areas are identified:

1) What can the private sector do to fill the gap that EXIM is leaving open, possibly in collaboration with U.S. financing agencies, but more importantly, offering solely private sector alternatives.
2) Looking at new technologies, what business models and solutions Commerce should focus his efforts on which can prove to be impactful in the trade finance space and facilitate increased access to credit.

TFAC LEADERSHIP STRUCTURE & NEXT STEPS

Paul Thanos reiterated U/S Kaplan and DAS Sullivan's recommendations that Kevin Klowden continue to lead the group and asked for members comments. Members voted affirmatively, and Mr. Klowden was elected Chair for the second charter term.

Chair Klowden summarized key areas from recommendations adopted by the TFAC in its first charter term, including data standardization, increasing capacity for SBA and EXIM, education strategies, data collection on trade finance through the Federal Reserve, and export credit insurance.[3]

Chair Klowden suggested the structure of the TFAC to include up to four subcommittees with each of the leaders to be designated as TFAC Vice-Chairs. He then reiterated priority areas mentioned by U/S Kaplan to be considered for subcommittees: public-private sector collaboration (how to get the private sector to lend more, to what extent States can be involved), education strategies for SMEs, digital technologies utilization and adoption, and potentially including issues regarding legal framework and global standards in digitalization. Finally, he recommended to consider Prosper Africa discussions and facilitation of international markets to increase US businesses exporting to the region. Chair Klowden opened it up for members to provide comments:

- TFAC Member Mendell: Asked about the format to be used for recommendations. Chair Klowden suggested a liberal format. Although broader research to support the idea is expected, he explained that the recommendations should be direct and to the point. He also stressed the importance in looking at any actions that Commerce can take, compare to other agencies, which will help with the implementation piece.
- TFAC Member DiCaprio: Proposed establishing a subcommittee to look at digital standards and discuss about building the infrastructure for new technologies for trade finance, consider everything that is being done in the digital space and what can be done to enable that to grow. Chair Klowden added that the Asian Development Bank had suggested to look at legal entity identifiers and its adoption at an international level.
- TFAC Member Finkelstein: Suggested to look at how to use data to advance the various applications of financial technology.
- TFAC Member David Shogren: Offered to support efforts in the education space.
- TFAC Member Zhang: Suggested to identify ways or a toolbox to better access country specific, buyer-specific information.
- TFAC Member Pische: Observed that educational resources exist but there is lack of coordination among agencies, even duplicative efforts and programs offered. Chair Klowden commented that TFAC looked at this in the past, the most common export finance advise is providing point of contact information for official resources but not private sector. Connecting these networks would be helpful, he added.

There were no public comments submitted in advance of the meeting or at the meeting. The meeting was adjourned. TFAC members then attended an administrative session with Commerce Attorneys to learn about the Federal Advisory Committee Act (FACA) and their role and responsibilities under FACA.[4]

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[3] *See* Attachment#3 for a summary TFAC recommendations. The complete documents can be found on the TFAC website.

[4] *See* Attachment#4 for key takeaways from the session.

ATTENDESS TFAC PUBLIC MEETING MARCH 27, 2019

<u>TFAC Members</u>

- Alan Beard, Managing Director, Interlink Capital Strategies, Arlington, VA
- Alisa DiCaprio, Head, Trade and Supply Chain, R3, New York, NY
- Anurag Bajaj, Regional Head Transaction Banking and Global Head Correspondent Banking, Standard Chartered, New York, NY
- Chapin Flynn, Vice President, Enterprise Partnerships, Mastercard, Wayne, PA
- Craig Moore, Founder of Mooring Tech, Inc., Co-Owner/Founder of Old Fourth Distillery, Founder Pruf, Inc., Atlanta, GA
- Craig Weeks, Independent Consultant, Weaverville, NC
- Daniel Pische, Senior Vice President, Trade Finance, First American Bank, Chicago, IL
- David Herer, Chief Executive Officer, ABC-Amega Inc., Buffalo, NY
- David Shogren, President, U.S. International Foods LLC., St. Louis, MO
- Dominic Capolongo, Executive Vice President, Global Head of Funding, PrimeRevenue, Inc., Atlanta, GA
- Gary Mendell, President, Meridian Finance Group, Santa Monica, CA
- Ken Rosenberg, Senior Vice President and Manager for International Banking, Bridge Bank, San Jose, CA
- Kenneth Wengrod, Co-Founder/President, FTC Commercial Corporation, Los Angeles, CA
- Kevin Klowden, Executive Director, Center for Regional Economics, Milken Institute, Santa Monica, CA
- Madison Spach, Jr., Partner, Spach, Capaldi and Waggaman, LLP, Newport Beach, CA
- Michael Finkelstein, Chief Executive Officer and Founder, The Credit Junction, New York, NY
- Qingyuan Zhang, Director, Global Trade Finance, John Deere Financial Services, Johnston, IA
- Richard Brent, Chief Executive Officer, Louroe Electronics, Van Nuys, CA
- Robert Woody *on behalf of Steven Simchak*, Vice President and Chief International Counsel, American Property Casualty Insurance Association, Washington, D.C.
- William Glassford, Senior Vice President, Zions Bancorporation, Salt Lake City, UT

<u>Agencies Officials</u>

Speakers

- David Glaccum, Associate Administrator, Office of International Trade, U.S. Small Business Administration
- U.S. Department of the Treasury, Anthony Ieronimo, Director - Trade Finance, U.S. Department of the Treasury
- Overseas Private Investment Corporation/International Development Finance Corporation, Alison J. Germak, Director, Corporate Development.
- U.S. Department of Commerce
    - Gil Kaplan, Under Secretary for International Trade Administration
    - Patrick Kirwan, Director, Trade Promotion Coordinating Committee
    - Skip Jones, Deputy Assistant Secretary for Middle East and Africa
    - James Sullivan, Deputy Assistant Secretary for Services, Industry & Analysis

- Katya Delak, Computer Security Division, National Institute of Standards and Technology
- Paul Thanos, Director, Office of Finance and Insurance Industries, Industry & Analysis
- Jennifer E. Chung, Senior Counsel for Advisory Committees, Information Law Division, Office of General Counsel
- Dana Jacobs, Senior Attorney, Ethics Law and Programs Division, Office of the General Counsel

Office of Finance and Insurance Industries, Industry & Analysis

- Michael Fuchs, Team Lead, Trade and Project Finance
- Ericka Ukrow, Senior International Trade Specialist, TFAC Designated Federal Officer
- Mike Corbin, Senior International Trade Specialist
- Erik Lenz, Senior International Trade Specialist
- Scott Schmith, Senior International Trade Specialist
- Yuki Fujiyama, Senior International Trade Specialist

Press/Public

- Max Moncaster, Associate Director, National Cattlemen’s Beef Association

THE PRESIDENT'S ADVISORY COUNCIL ON DOING BUSINESS IN AFRICA

Fact-Finding Trip Report and Recommendations
September 26, 2018

Members of the President's Advisory Council on Doing Business in Africa (PAC-DBIA)

Jay Ireland (Chair) – President and Chief Executive Officer, GE Africa

Laura Lane (Vice Chair) – President of Global Public Affairs, UPS

Mimi Alemayehou – Managing Director, Executive Advisor and Chair, Black Rhino

Jason Andringa – President and Chief Executive Officer, Vermeer Corporation

Craig Arnold – President, Dow Sub-Saharan Africa

Kimberly Brown – Chief Executive Officer, Amethyst Technologies

Takreem El-Tohamy – General Manager, Middle East and Africa, IBM

Andrew Inglis – Chairman and Chief Executive Officer, Kosmos Energy

Denise Johnson – Group President, Caterpillar Resources Industries

Kevin Kacere – President and Chief Executive Officer, Insta-Pro International

Kusum Kavia – President, Combustion Associates, Inc.

Barbara Keating – President, Computer Frontiers, Inc.

Bill Killeen – Chief Executive Officer and Chairman, Acrow Bridge

Jack Leslie – Chairman, Weber Shandwick

Edward Mathias – Managing Director, The Carlyle Group

Andrew Patterson – President for Africa, Bechtel Overseas Corporation

Fred Sisson – Chief Executive Officer, Synnove Energy

Peter Sullivan – Managing Director and Head of Public Sector Group for Africa, Citi

Andrew Torre – Regional President for Central & Eastern Europe, Middle East & Africa, Visa Inc.

Bob Wetta – President and Chief Executive Officer, DSC Dredge LLC

Sean Wilcock – Chief Commercial Officer, APR Energy

Dow Wilson – President and Chief Executive Officer, Varian Medical Systems

Rahama Wright – Founder and Chief Executive Director, Shea Yeleen

The President's Advisory Council on Doing Business in Africa advises the President, through the Secretary of Commerce, on ways to strengthen commercial engagement between the United States and Africa. Members receive no compensation for their efforts on the Council. This report was prepared by the private-sector members of the Council. The views expressed in this report do not necessarily reflect those of the Administration or individual members of the Council.

This report and other PAC-DBIA recommendations are available on the Internet.

To access the PAC-DBIA's work, please visit www.trade.gov/pac-dbia/ or call the PAC-DBIA Executive Secretariat at 202-482-2091 or 202-482-5205.

FINANCING

Throughout the trip, the need to secure financing and to mitigate risk in support of trade and investment flows was a recurring theme. This challenge is largely attributed to difficulties addressing high-risk premiums, accessing liquidity, mobilizing capital, and competing on a level playing field. The Council offers both short- and long-term solutions that leverage the U.S. Government's competitive strengths to formulate a sustainable strategy that promotes U.S.-Africa commercial and investment flows and supports the U.S.'s role as the natural business partner for African states to realize their economic potential. The key competitive strengths to leverage:

- The U.S. dollar remains the pre-eminent trade reference and foreign reserve currency globally (comprising over 60% of total reserves). The dominant role of the U.S. dollar in commercial transactions provides a competitive advantage against both the euro (20%) and the yuan (5%) in the intermediation of African financial flows.

- The U.S. capital and credit markets represent the largest, most liquid, and most sophisticated in the world. Developing focused strategies and market-friendly instruments to mobilize these markets in support of mutual U.S. and African economic and commercial objectives would be sound strategies.

- Traditional U.S. foreign direct investment (FDI) not only entails the provision of capital, but also technical, managerial, and technological transfers to recipient countries. This added value differentiates the U.S. model from other FDI providers, particularly China.

- U.S. companies have the products, skills, and experience to become embedded in and earn significant returns from critical African value chains that will not only reach over a billion Africans but also support reverse trade flows under AGOA.

SHORT-TERM

Recommendation #1: Prioritize making the Export-Import Bank of the United States (ExIm) fully functional.

Background: The Administration should continue to encourage the U.S. Senate to confirm the pending nominees to ExIm before the beginning of the 116th Congress. Absent that, the Administration should seek alternative ways to render ExIm fully functional. As the export credit agency of the United States, ExIm's governing statute makes its mission clear: to facilitate exports. This mandate aligns with a key goal of the President's National Security Strategy, namely to promote and increase exports, particularly with respect to Africa. ExIm helps level the playing field by providing financing when U.S. exporters are competing with foreign companies that enjoy the support of their national export credit agencies.

To execute its full suite of programs, the Bank requires a quorum of at least three Board members, which it has not had in over three years. Without a quorum, the Bank is generally unable to authorize transactions of more than $10 million, or with a term longer than seven years. These limitations have been devastating to U.S. companies, including manufacturers seeking to export their goods to Africa. An empowered ExIm could be immediately impactful in Ethiopia, Kenya, and Ghana to operationalize the MOUs signed during the fact-finding trip. For example, commercial loans guaranteed by ExIm or the ExIm-insured receivables program for U.S. businesses can be one of the solutions to overcome Ethiopia's foreign exchange challenges. The Council also recommends that ExIm add the Ethiopian birr, Kenyan shilling, and Ghanaian cedi as approved currencies in line with the investment objectives memorialized in the new MOUs.

If, in the short term, reauthorizing ExIm does not occur, its tools could still be used in a shared risk model for target countries under the $10 million limit. In Ethiopia and similar opening markets, more aggressive ExIm loan guarantees funded in part with higher fees from American firms for the additional risk would support a "risk pool" to absorb bad debts. In tandem, local banks and the Ethiopian Government also back the loans, ensuring access to foreign exchange. This type of structure would work well for loans to the private sector in industries such as agriculture, agro-processing, light manufacturing, or infrastructure to build domestic manufacturing sectors and establish critical value chains using American inputs to ultimately drive foreign exchange into the country.

Recommendation #2: Start deal teams that pair concessional and commercial financing for target development projects.

Background: The U.S. has myriad tools at its disposal that, if combined and directed to key projects, would start to mitigate competition from China and European countries on financing. To compete more effectively in this context, the U.S. Government should selectively blend aid funds with export finance when the two goals converge. This would be particularly relevant in cases where U.S. companies initiate projects that directly align with U.S. Government development objectives and with nations that are deemed strategic partners on the continent. Hence, financing becomes "concessional" and is highly attractive to African governments because it is not counted under International Monetary Fund (IMF) limits for non-concessional borrowing. Given the increasingly tight fiscal context of many African governments, availability of concessional funds is often a crucial differentiating factor for an African government in awarding project tenders.

Combining MCC grants, in compact countries and under its new regional authority, with Overseas Private Investment Corporation (OPIC) tools and private financing would greatly increase the scale of funded projects. This is an opportunity to use MCC's funding as an initial tranche to crowd-in private capital. MCC grants could stimulate blended finance solutions including instruments such as credit enhancements and guarantees to reduce risk and increase the pool of investors for projects. Similarly, OPIC can be deployed to work with U.S. commercial banks to structure and implement U.S. dollar on-lending programs to both African central and commercial banks through various risk-sharing arrangements.

U.S. Government agencies such as OPIC, ExIm, or USAID could facilitate the creation of diaspora bonds to capitalize on the U.S.-based African diaspora to provide the last step in financing projects. Ghana has previously considered diaspora bonds and might be a willing test case for this mechanism. These bonds, which would be in hard currency, could be used for co-investing with U.S. corporates to offer security for the foreign currency reflows due to the U.S. investor.

Recommendation #3: Promote African sovereign access to U.S. dollar liquidity via official agencies' support programs and instruments.

Background: African sovereigns are beginning to suffer from lower levels of U.S. dollar reserves as demand grows due to higher dollar-denominated debt servicing, low and non-diversified export bases and large capital expenditure-related imports. Shortages of U.S. dollars hamper private sector business activity as public sector requirements take priority, hindering access to dollar liquidity. If the private sector cannot access dollars, it will turn to other reserve currencies such as the euro and yuan and their associated “home” counterparties to engage in cross-border trade business, pushing out American firms. For example, the recent $2.5 billion bilateral currency swap between the Central Bank of Nigeria and the People’s Bank of China was to incentivize importers and traders to tender their invoices in reminbi. The U.S. Government should explore how official U.S. agencies can prudently engage with African Central Banks in swapping dollar liquidity for local currencies, baskets of reserve currencies, and/or transferable and liquid commodities. Official risk-sharing programs should also be made available to private sector capital providers that can provide the critical U.S. dollars to support the key strategic trade and investment flows. Further, enablers for increased dollar liquidity are working with development financial institutions to develop deeper and more liquid local capital markets to support effective hedging instruments for local currency and make available specialized hedging programs to U.S. exporters and investors in conjunction with the recipient countries.

Recommendation #4: Continue to push passage of the BUILD Act of 2018.

Background: The PAC-DBIA supports the Administration’s aim for quick passage and enactment of the *Better Utilization of Investments Leading to Development (BUILD) Act of 2018*. Transforming OPIC and components of USAID into the U.S. International Development Finance Corporation (IDFC) is consistent with the goals of driving business in all four of the countries on the fact-finding mission and across Africa. The BUILD Act’s increased flexibility on US connection requirements combined with more modernized tools and a higher maximum contingent liability for the IDFC will allow more financing options for American firms. For example, the bill explicitly allows for USG equity stakes in projects and widens the use of foreign currencies. The collective impact of the IDFC’s new authorities under the BUILD Act will make social, human capital and other investment projects critical to Africa’s long-term development more attractive to private investors.

Furthermore, the bill’s transfer of some of USAID’s financial tools such as the Development Credit Authority (DCA), to the IDFC could provide an opportunity to increase the size and/or flexibility in providing credit guarantees. Taking it a step further, the new IDFC could deploy these new tools with the African Development Bank and other development banks, leveraging partnerships with these institutions. A targeted collaboration on lowering the cost of financing risk would vastly improve American firms’ ability to compete with foreign firms on the continent.

LONG-TERM

Recommendation #5: Consider a U.S. Government risk transfer mechanism that allows for the sale of aggregated risk exposure from U.S. agencies to private investors.

Background: The reality of finite resources available to the U.S. Government to support U.S. trade and investment flows to and from Africa is self-evident. Combined with the heightened risk profile of doing business in Africa, it is imperative that the U.S. Government engage in the active and dynamic management of its risk exposure to the continent. Presuming this could be allowed in the current regulatory environment, selling risk exposure to private investors would vastly expand the official risk capacity of the U.S. Government to support more and larger American projects and improve U.S. competitiveness in African markets. There exists strong precedents of risk transfers structures and solutions in the market that have been deployed by commercial banks, insurance companies, and, lately, multilateral development institutions. There is also proven appetite by investors for African risk as evident by the successful and active Eurobond issuances by African sovereigns over the past ten years. Tapping the largest and most liquid capital market in the world through sophisticated and tested financial structures will allow the U.S. Government to take advantage of one of its national strengths to be highly competitive and constructive in the economic growth and development of Africa. It also frees up funding for African governments to meet other immediate budgetary needs, manage their future spending, and maintain sustainable debt levels.

Recommendation #6: Hold regular consultations at the headquarters level between U.S. Government technical assistance providers and the private sector on capacity-building in Africa.

Background: On the continent, the U.S. Department of the Treasury, USAID, and a number of other U.S. Government agencies provide training to African governments, including on public finance management, capital market development, and financial sector oversight. The MOUs with Ethiopia, Kenya, and Ghana provide positive momentum for the U.S. Government to incorporate private sector expertise into these programs. The U.S. Government should look for opportunities for American companies to share market insights and tools, particularly using technology solutions for implementing proposed reforms. Areas to target for collaboration based on the fact-finding mission include a long-term solution to Ethiopia's foreign exchange constraints, assisting Kenya with optimizing its debt profile, and fostering development of Ghana's local capital markets.

Recommendation #7: Leverage the resources, relationships, and expertise of the African Development Bank (AfDB).

Background: The U.S. Department of the Treasury's Office of Multilateral Development Banks, in conjunction with the U.S. Department of Commerce's Foreign Commercial Service (FCS), should work with private-sector trade and business organizations to raise the profile of the AfDB within the U.S. business community. Considering the United States is the second-largest shareholder in the AfDB overall and the largest non-African shareholder, the AfDB should be a natural partner for U.S. firms financing projects on the continent. American firms should be aware of the available loans, hedging instruments, guarantees, and other financial instruments. Given the overlapping priorities of AfDB and OPIC, USAID, and other U.S. Government agencies, there should be natural opportunities to both identify American firms to participate in more AfDB projects and collaborate on their financing. This can be achieved by Government outreach to make the business community aware of AfDB resources.

TFAC RECOMMENDATIONS SUMMARY
FIRST CHARTER TERM (2016 – 2018)

TFAC Recommendation 1: Tax Repatriation Waiver Program

This recommendation calls on the Treasury Department to consider a tax repatriation waiver program for offshore earnings, provided that the tax waiver beneficiary agrees to lend the repatriated amount over a period of time to SMEs, particularly those that export, as short-term loans.

Given the limited finance options currently available to SMEs from banks and private capital, the recommendation's objective is to develop sizable pools of private capital (to bridge the identified gap) to be allocated in the real economy, while minimizing government resources. There is, reportedly, a pool of some $2.4 trillion in earnings presently held offshore by the top 75 U.S. corporations.

The TFAC's recommendation also suggests limitations on any such repatriation program, specifically limits on stock and debt repurchases, to prevent the type of unintended outcomes experienced during the 2004 tax holiday (in that instance, rather than use the money for hiring and capital purchases, companies plowed the cash into share buybacks and dividends, and many of the biggest beneficiaries actually cut American jobs in the years after the repatriation).

- ➢ Secretary Ross elected not to transmit those recommendations to the Treasury Secretary for consideration in the tax reform discussions, as requested by the TFAC, to avoid introducing additional complexity into those negotiations (that could have contributed to further budget deficits).

- ➢ Secretary Ross also communicated to DAS Sullivan that the TFAC's tax repatriation waiver proposal could be resubmitted for consideration if it were to include greater detail regarding amounts, structure, and detailed effects on the economy.

TFAC Recommendation 2: Lending Incentives to Investment Management Firms

The recommendation calls for the establishment of a government program to provide one-time financial incentives to investment management firms for the development of credit investment products for exporting SMEs.[1] In addition to creating new products, the incentives would fund firms' efforts to arrange investors and establish the necessary infrastructure to originate and support loans to SMEs. The incentives would be limited to investment management firms, rather than alternative lenders or other new entrants to the market, because such firms are regulated.

TFAC Recommendation 3: Incentivize Private Sector Lending to Stimulate Exports (expanded)

[1] Note that this recommendation can be considered independently or as a subsequent step of the first recommendation.

The TFAC recommends the establishment of a USG program to provide one-time financial incentives to investment management firms for the development of credit investment products for exporting SMEs. In addition to encouraging the creation of new products, the incentives would fund firms' efforts to coordinate investors and establish the necessary infrastructure for originating and supporting loans to SMEs.

TFAC Recommendation 4: Standardize Data to Facilitate Export Credit

The TFAC recommends that the Department lead the development and implementation of a USG-wide standardized data repository (GDR) and reporting regime for corporate identities and their financial and business information. Both SMEs and finance providers encounter administrative and financial burdens in collecting and reporting such data, which is critical to risk analysis in SME lending. The proposed GDR would facilitate access to this information, with the aim of increasing the appetite for lending to SME exporters.

The TFAC further recommends identifying a Commerce unit with significant SME engagement to pilot the design of the data repository framework. The Council regards USG leadership as essential to ensuring the project's adoption and commercial viability. Among other things, the TFAC believes that privacy and national security concerns about aggregating financial data would be mitigated by USG engagement since the federal government already requires such disclosures in other contexts.

TFAC Recommendation 5: Improve Education about Trade Finance

The TFAC recommends a strategy to better educate U.S. Export Assistance Center (USEAC) specialists about trade finance. USEACs are ITA Commercial Service offices located in more than 100 U.S. cities that provide counselling and products and services to assist U.S. SMEs in exporting their goods and services. Specifically, the strategy highlights the need for USEACs to: (a) identify and address proactively (and as soon as possible) their clients' specific financing needs, and (b) connect these clients to prospective local financial service providers.

In support of the proposed strategy, the TFAC developed a "decision tree" tool to better understand the different USG-backed trade credit programs and commercially available alternatives. The tool could be implemented via the *International Blueprint Program*, a client engagement tool used by Commercial Service field offices.
In addition, the TFAC recommends greater USEAC collaboration with private sector organizations to develop better referral networks at the local level. Over the longer term, such collaboration could focus on developing a digital version of the decision tree tool, with web and/or mobile applications capable of matching clients with various sources of support.

TFAC Recommendation 6: Develop Data on the Utilization of Trade Credit Insurance

The TFAC recommends that the Department examine the current uses of credit insurance by SME exporters to help guide its programmatic actions in this area. The TFAC has advised that credit insurance plays an important role in facilitating trade finance (and, by extension, export growth). The acute lack of understanding of credit insurance products (and factors like political and country risk) is limiting SMEs from exploiting this tool to expand to foreign markets.

To help obtain greater insights into the use of credit insurance, the TFAC proposes that the U.S. Census Bureau and the U.S. Bureau of Economic Analysis expand their existing surveys to capture such information.

TFAC Recommendation 7: Reforms at the Small Business Administration to Enhance Export Financing Programs and Capacity

The recommendation advocates for Commerce to support implementation of key changes to the operations of the SBA Office of International Trade (OIT), whose mandate is to expand export training, promote international sales opportunities abroad, and increase trade finance support for small businesses. Specifically, the Council suggests that OIT obtains full authority to originate and provide capital for export financing as opposed to the current structure in which its trade finance products are managed under its domestic loan product department and, therefore, international market conditions and risk mitigation techniques may not be properly managed. The TFAC also supports a reform of SBA export finance lending rules for exporting to (which currently inhibit export financing offerings for firms that are inherently riskier, such as firms in industries characterized by greater technical or market uncertainty). This would facilitate the extension of credit for technology-based firms, considered exports of high demand.

TFAC Recommendation 8: Public-Private Sector Reinsurance Programs to Increase Credit
To help increase public-sector risk capacity and encourage use of private sector capital, the TFAC recommends that Commerce and other relevant agencies (a) evaluate existing public-sector export finance and insurance programs (such as those offered by EXIM and SBA), and (b) assess the feasibility and cost of transferring the risk from such programs to private-sector third party reinsurers.

TFAC Recommendation 9: Integrate Trade Finance into the Annual Small Business Credit Survey by the Federal Reserve Board to Promote Data-Driven Policy Decisions

To provide more effective and targeted statistical support for policy decisions, the TFAC recommends that Commerce collaborate with the Federal Reserve Board to include in future iterations of its Annual Small Business Credit Survey a specific module regarding access to credit for small business exporters. The Survey is one of the main USG resources for understanding the credit and capital access for small businesses throughout the United States.

The Council further recommends that Commerce coordinate directly with the TFAC on (a) developing the Survey questions, and (b) leveraging its USEAC network to increase the number of Survey participants.

TFAC Recommendation 10: EXIM Board and Effective Utilization of its Programs to Support U.S. Exporters' Competitiveness

To help shape EXIM's future policies, the TFAC recommends that the Secretary, in his role as an *ex-officio* member of EXIM's board, work alongside Acting EXIM Chair, Jeffrey Gerrish. In addition, the Council suggests that Commerce take an active role in coordinating the export and trade related activities of USG agencies.

Finally, in view of the continuing lack of a quorum on EXIM's board of directors, the TFAC recommends that the Secretary and EXIM evaluate forming a board quorum that would consist of Secretary Ross, USTR Robert Lighthizer, and Deputy USTR Jeffrey Gerrish. The Council contends that, together, they could review and approve significant export transactions until a permanent board quorum is restored.

The Federal Advisory Committee Act

An Overview for Advisory Committee Members

"Government ought to be all outside and no inside."

U.S. President Woodrow Wilson

The Federal Advisory Committee Act (FACA) governs the activities of Federal agencies. Because the advisory committee you are serving on is subject to the FACA, some of the FACA requirements will impact you in your role as a member of this advisory committee.

Purpose

The FACA governs the organization and operations of any committee (or similar group) of private citizens that the Government either establishes or manages and controls, to obtain consensus advice regarding Government activities.

- It limits their number.
- It limits their powers.
- It requires that committees last no longer than two years unless grounds for renewal are provided (or unless a statute provides for a different termination date).
- It promotes openness and public participation by requiring agencies to provide information about committees and to allow the public to participate in the work of committees.

Brief History

Congress enacted the FACA in 1972 during an era that saw several open government statutes passed (including the Freedom of Information Act, the Privacy Act, and the Government in the Sunshine Act). The FACA reflects an attempt by Congress to curtail the type of "back room" discussions with favored members of the public that had become prevalent in Government decision-making.

The U.S. Government currently has about 1,000 committees to obtain consensus advice and recommendations on every area in which the Government is involved. The Department of Commerce currently has about 65 committees.

Substance

- Advisory committees do not implement Government programs, and their advice is not binding on the Government. But advisory committees provide an invaluable service to the Government by advising an agency (or the President) on matters delineated in the respective committee's charter.

- Agencies must develop a charter that outlines the committee's duties and objectives. The charter must be filed with Congress and is made available to the public through the Library of Congress. It also is available via the Internet through a central Government website.

- Agencies must designate a Federal officer or employee to be the Designated Federal Officer (DFO) for each committee. The DFO approves or calls all of the advisory committee's meetings, approves all meeting agendas, attends all meetings, adjourns any meeting when the

DFO determines adjournment to be in the public interest, and chairs meetings when directed to do so by the official to whom the advisory committee reports.

- The committee may not meet unless the DFO is present.
- The composition of a committee's membership must be fairly balanced, and agencies are expected to appoint individuals from a balance of perspectives.
- Agencies must announce committee meetings in the Federal Register not less than 15 calendar days in advance.
- The agency must keep detailed minutes of each committee meeting and make them available to the public.
- All committee meetings must be open to the public. Closed meetings occur only in exceptional circumstances.
- Agencies are encouraged to allow the public a reasonable period of time to speak at meetings.
- The public may submit written comments to a committee at any time.
- Agencies can form subcommittees within a committee so that the subcommittee can focus on a specific issue. Meetings of a subcommittee are not required to be open to the public as long as the subcommittee's work is submitted to the full committee for deliberation at an open meeting. A subcommittee cannot directly give its advice to the Government; if it does, it must be separately chartered and all of the FACA requirements would apply to the subcommittee.
- All materials (records, reports, transcripts, minutes, appendixes, working papers, drafts, studies, agenda, and other documents) provided to, for, or by a committee must be maintained by the agency and made available to the public upon request, subject only to the limitations under the Freedom of Information Act.
- Emails and other material from a committee member to a Federal official, such as the DFO, are potentially subject to the Federal Records Act (or Presidential Records Act, if applicable) and potentially subject to disclosure under the Freedom of Information Act.
- Charters, the names of the committee's members, and final reports are made available to the public through a central Government website. In addition, many agencies maintain websites specifically for their committees and upload committee records for public viewing.
- Agencies are required to file annual reports about the work of their committees. These reports are available to the public through a central Government database.

Results of Failure to Comply with the FACA

Failure to follow the FACA's procedural requirements can result in a judicial order barring the agency from convening meetings or from using the results of the advice the committee provided. It also can diminish the public's trust in Government actions taken in reliance on the committee's advice.

During your service, if you have any questions, you should ask your DFO.