Export credit and role of the IFSC

Foreword

The dynamic power of global trade is transforming relations between economies and nations. The face of international trade has changed drastically with the continuous evolving technological developments and unprecedented accessibility, presenting both opportunities and challenges. Global exchange of goods, services and ideas accelerates global economic growth backed upon cultural exchanges, sharing of knowledge and strengthened diplomatic ties.

Export credit plays a crucial role in a world which is more connected than ever due to rapid technological advancements. It's not just about financing but also provides a safety net that helps in better risk management and opens the door to global trade even for smaller businesses.

The COVID-19 pandemic accelerated the adoption of digital technologies in the trade finance sector, as well as collaboration and coordination among various ecosystem players, such as financial institutions, FinTech firms, trade associations and multilateral agencies.

Digitisation and digitalisation are reshaping the very foundations of how nations and businesses engage in commerce, and it's therefore crucial to understand their profound impact on the complex landscape of global trade.

This report aims to provide a comprehensive and insightful overview of the current trends, opportunities, and challenges in providing export credit and bridging the finance gap. We hope that it will serve as a valuable resource and reference for various stakeholders, and will inspire and encourage further dialogue and action on this vital topic.

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Partner and Leader – Financial Services, PwC India

Preface

International trade and development greatly rely on export credit, which plays a crucial role in enabling exporters to fund their global transactions, mitigate risks, and foster expansion and competitiveness. However, export credit has its own set of challenges. Small and medium-sized enterprises (SMEs) in developing nations, in particular, are the most impacted category as they get very limited access to export credit. With the growing participation of developing economies in global trade, limited access to export credit for SME exporters is one of the most critical factors from the global trade finance gap perspective. Further, the COVID-19 pandemic contributed to widening the trade finance gap due to interrupted supply chains, reduced trade volumes and unstable markets .

As per the Asian Development Bank's (ADB's) survey report,[1] the estimated global trade finance gap reached USD 2.5 trillion in 2022, marking a 47% increase from the previous year.

India has demonstrated resilience amidst a tough global environment. Recognised as one of the fastest-growing developing economies, India crossed a new milestone of exports worth USD 776 billion[2] in FY23. The country's export portfolio encompasses a wide array of high-value, technology-driven products and services. Notably, the micro, small and medium enterprises (MSME) sector plays a pivotal role, contributing nearly 45% to India's export revenue while simultaneously generating employment and income. However, the MSME sector faces hardships in accessing export credit due to narrow

profit margins, insufficient collateral, increased interest rates, regulatory issues and geopolitical factors.

India has implemented a range of measures and policies to reduce the export credit shortfall and strengthen the MSME sector, such as recognising export credit under priority sector lending, introducing revised trade credit insurance guidelines, promoting digitalisation to overcome traditional trade documentation issues and developing the insurance market. India aims to become the third largest economy by 2047 as part of its 'Amrit Kaal' vision, which aims to build a technology-driven and knowledge-based economy with strong public finances.

This paper highlights the role of International Financial Services Centre (IFSC) in narrowing the export credit gap of India by offering various financial services and products through innovative means, along with a host of incentives and benefits. The paper also offers some recommendations and suggestions for making the IFSC more effective and attractive as a trade finance hub.

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1 https://www.adb.org/sites/default/files/publication/906596/adb-brief-256-2023-trade-finance-gaps-growth-jobs-survey.pdf

2 https://static.pib.gov.in/WriteReadData/specificdocs/documents/2023/jun/doc202362208201.pdf

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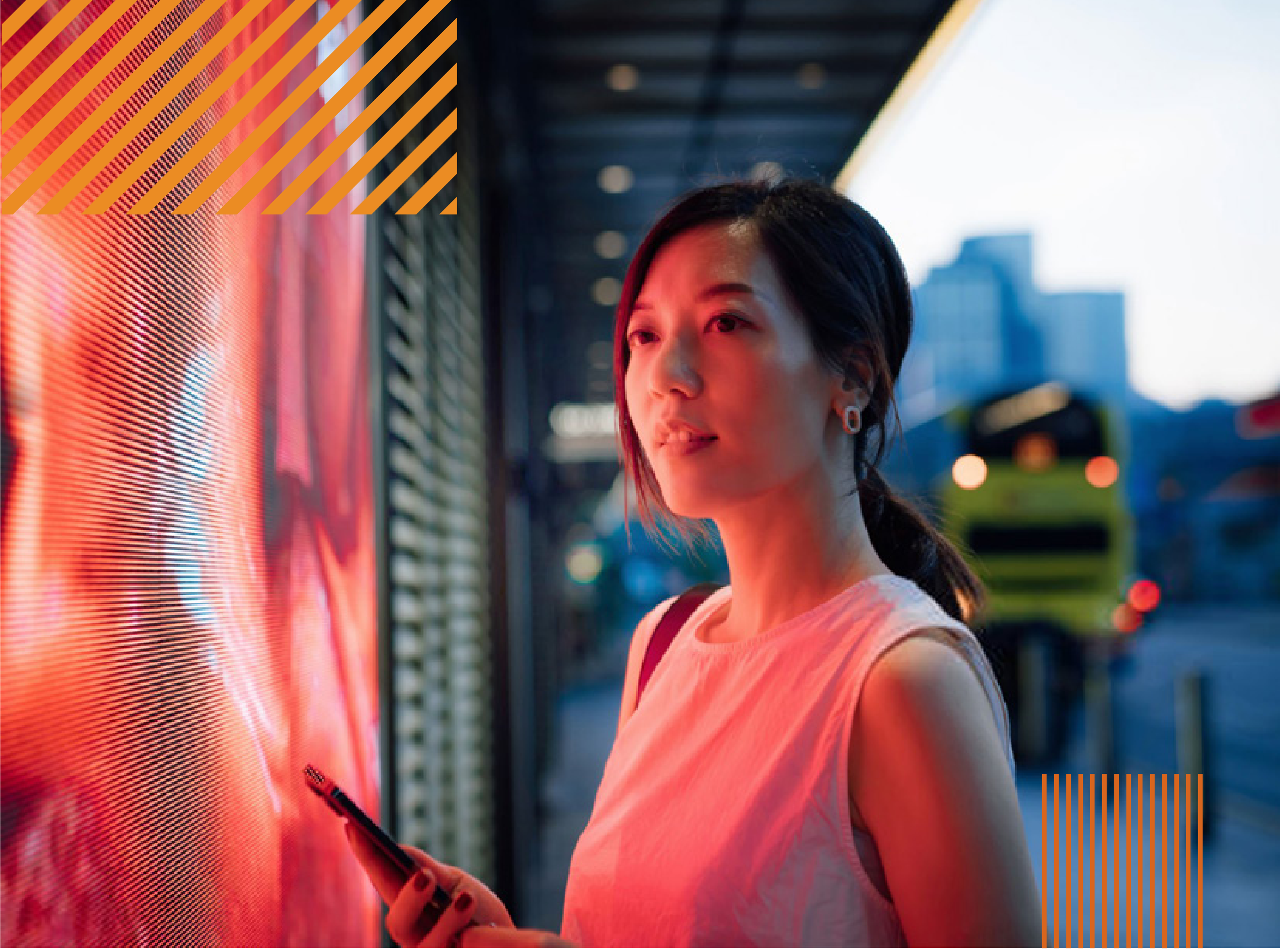
Setting the context



Global trade finance - Export credit

In 2022, global trade hit a record high of approximately USD 31 trillion.[3] This includes world merchandise (goods) trade of USD 24.2 trillion and commercial services of USD 6.8 trillion, recording growth of approximately 12% and 15% respectively compared to the previous year.

The value of global merchandise trade (exports) experienced a recovery after the pandemic, registering growth rates of 26.6% in 2021 and 11.5% in 2022.[4]

However, despite this post-pandemic resurgence, the global trade environment remains challenging for traders. Various factors such as global economic slowdowns, re-orientation of supply chain, geo-political conflicts such as that in Ukraine, increasing interest rates, protectionist trade policies, and rising inflationary pressure have collectively contributed to these challenges.

Trade financing, especially export credit, is crucial for international trade and development. It plays a significant role in ensuring that supply chains are robust, global growth is fostered and business continuity is sustained.

The pandemic highlighted the importance of resilient supply chains. Small and medium-sized enterprises (SMEs) had faced the maximum brunt due to the pandemic. The issue of the need for sufficient financing came to the fore. To address this issue, it is vital to grasp the extent of the unmet demand for trade financing (the trade finance gap), which will help in fine-tuning policies and business strategies to boost financing where it is most required.

At USD 28 trillion[5], the export credit industry is hugely influential globally, indicating that 80–90% of international trade for FY 2022 relies on export financing.

3 https://www.wto.org/english/res_e/booksp_e/wtsr_2023_e.pdf.
4 https://www.adb.org/sites/default/files/publication/906596/adb-brief-256-2023-trade-finance-gaps-growth-jobs-survey.pdf
5 United Nations (Environment Program) Press Release dated 04 December 2023

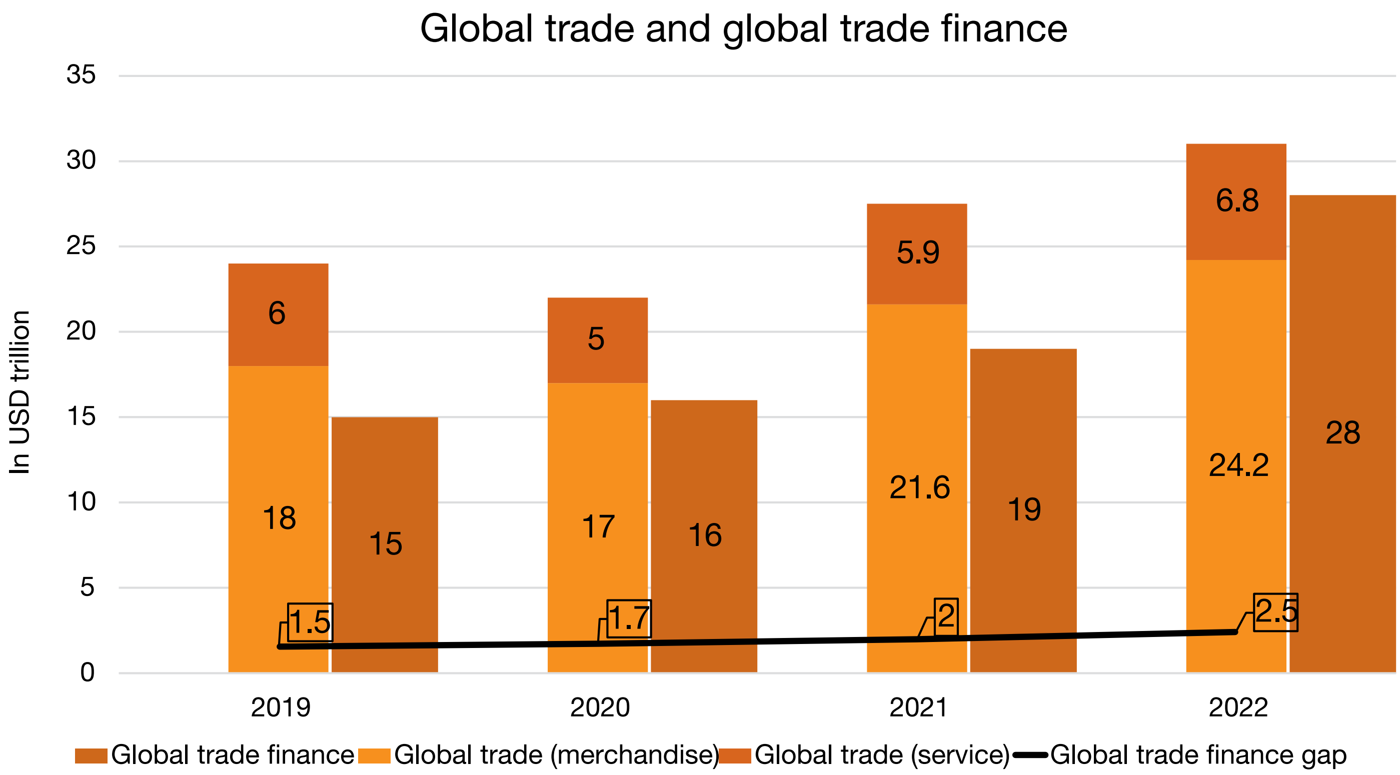
Much of it is provided by governments via export credit agencies and export-import banks.

As the data shows, the major share of global exports is in the form of merchandise exports. This is the segment which primarily requires trade finance. As per the ADB's survey report 2023,[6] the global trade finance gap was approximately USD 2.5 trillion in 2022.

This gap has only widened. There has been an increase of around 47% (i.e. USD 0.8 trillion)[7] in the trade finance gap in the last two years.

Given the complexities and uncertainties of the current global landscape, trade credit insurance plays a crucial role in navigating the risks and promoting global trade as well as export credit.

This paper also deals with the importance of trade credit insurance, covering it in the next page.



Source: ICC Register Report 2020, ICC Register Report 2021 and WTO - World Trade Statistical Review 2023

6 https://www.adb.org/sites/default/files/publication/906596/adb-brief-256-2023-trade-finance-gaps-growth-jobs-survey.pdf
7 https://www.adb.org/sites/default/files/publication/906596/adb-brief-256-2023-trade-finance-gaps-growth-jobs-survey.pdf

Knowledge capsule:

Export credit insurance (ECI) significantly reduces the payment risks associated with doing business internationally by giving the exporter conditional assurance that payment will be made if the foreign buyer is unable to pay. ECI can cover single-buyer as well as multi-buyer portfolio based on the respective requirement. Such ECI can be offered for short-term, medium-term and long term repayment periods.

ECI generally covers the following commercial and political risks:

- Insolvency Of The Buyer
- Bankruptcy
- Protracted Defaults/Slow Payment
- War
- Terrorism
- Riots
- Revolution

that could result in payment failure. ECI also covers currency inconvertibility, expropriation and regulatory changes.

Exporters equipped with export credit insurance receive protection against losses in case their customers default on payments.

As per International Credit Insurance & Surety Association (ICISA), the global trade credit insurance market in 2020 consisted of insured shipments worth USD 6.35 trillion[8] for total global credit insurance premium of USD 12.07 billion[9]. In 2022, the global trade credit insurance market covered insured shipments worth USD 7 trillion[10] for credit insurance premium of USD 13.89 billion.[11]

A credit insurance policy can also be used as security by the policyholder that helps in availing financing at better terms to safeguard the cash flows of a policyholder. The Banks can also avail credit insurance on their clients for managing their credit risk in case of such export credit exposures.

Regrettably, smaller businesses in developing nations encounter difficulties in obtaining trade credit insurance for various reasons such as size of operations, cost of insurance and record-keeping practices. During challenging periods, insurers tend to minimise their exposure due to potential losses, which makes it more difficult for businesses to secure insurance precisely when they need it the most.

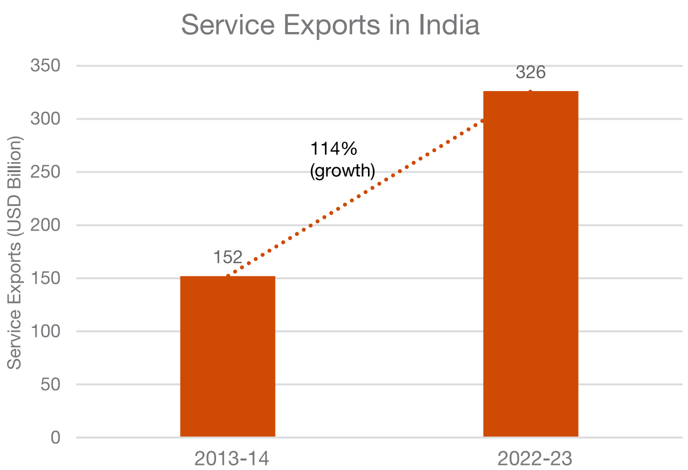
8, 9. ICISA: https://icisa.org/wp-content/uploads/2022/08/ICISA-Estimate-of-TCI-role-in-world-trade-June22.pdf
10, 11. ICISA: https://icisa.org/wp-content/uploads/2023/11/Impact-of-TCI-on-World-Trade-1.pdf

India trade

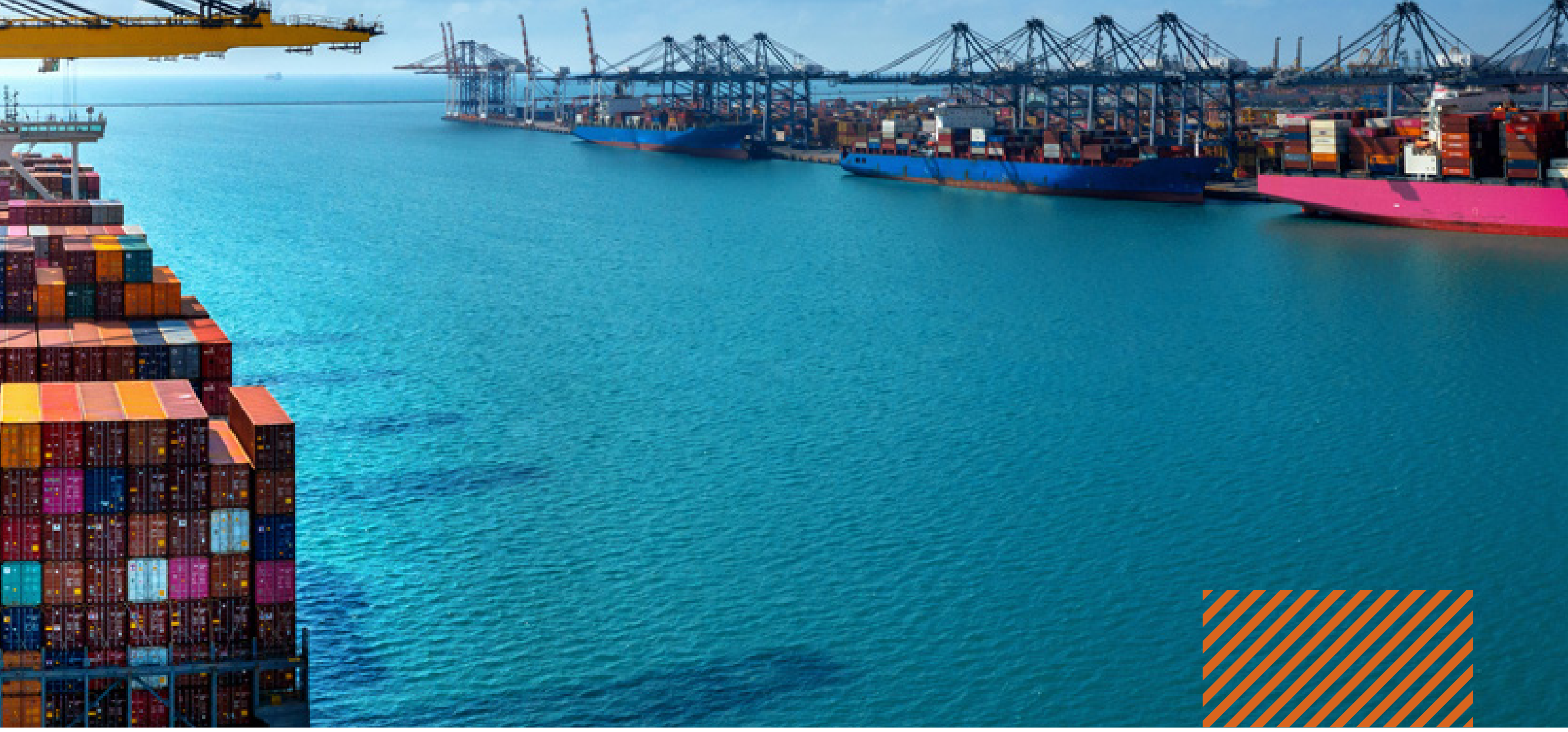
India's overall exports have performed remarkably well, reaching all-time high levels of USD 776 billion[12] in 2022–23, making India the tenth largest exporter.

India also clocked its all-time highest figures in both categories of exports – merchandise and services. Indian exports in 2022–23 were nearly double its export levels in 2013–14. Merchandise exports accounted for a larger share of almost USD 450 billion,[13] while services contributed around USD 326 billion.[14]

A technology powerhouse, India is now exporting more and more value-added and high-end exports. Additionally, the Indian Space Research Organisation is providing space-related services to various international organisations. During FY23, electronic exports emerged as the sixth largest export commodity group, surpassing readymade garments. Electronic goods exports were valued at USD 23.57 billion[15] in FY23, registering 50.52%[16] growth compared to FY 2021–22.



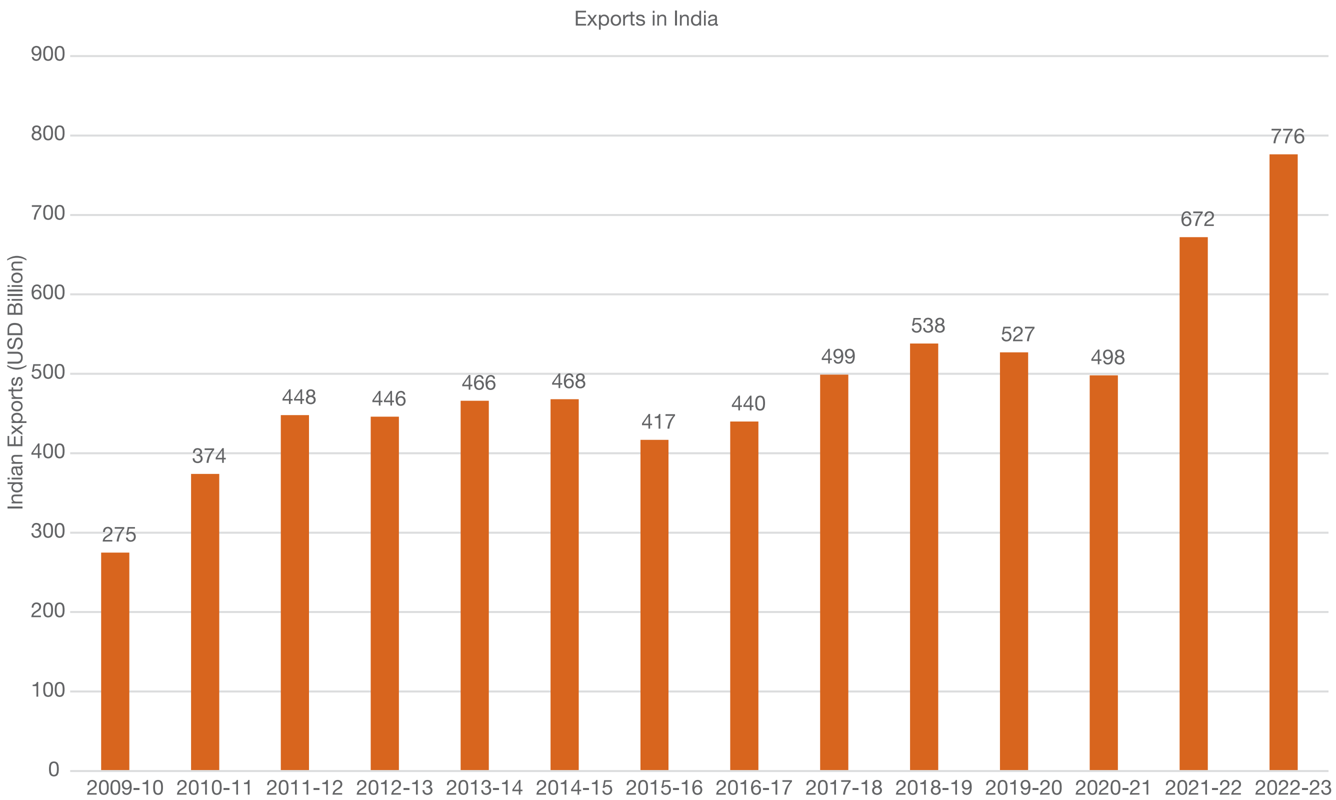
12, 13, 14, 15, 16. https://static.pib.gov.in/WriteReadData/specificdocs/documents/2023/jun/doc202362208201pf



Amrit Kaal: Vision 2047 Roadmap for India@100

The Union Budget for 2023–2024 has envisioned India as a technology-driven and knowledge-based economy with strong public finances and a robust financial sector. Aligned with the Amrit Kaal vision to become the third largest economy by 2047, the long-term vision of the Department of Commerce under the Ministry of Trade and Commerce is to make India a major player in world trade and assume leadership roles in

international trade organisations commensurate with India's growing importance. The medium-term vision is to achieve USD 2 trillion[17] in exports of goods and services by 2027–28 with a long-term objective of doubling India's share in global trade.



17 https://commerce.gov.in/about-us/department-of-commerce/department-setup-and-function/

Export credit in India

Considering MSMEs contribute 45.56%[18] (April–September 2023) of India's total exports, banks should be encouraged to provide affordable and adequate export credit to MSME exporters so that they are able to explore new markets and diversify existing products competitively.

Additionally, to promote exports, ECI services should be made available to Indian exporters and financiers for short, medium and long-term exports.

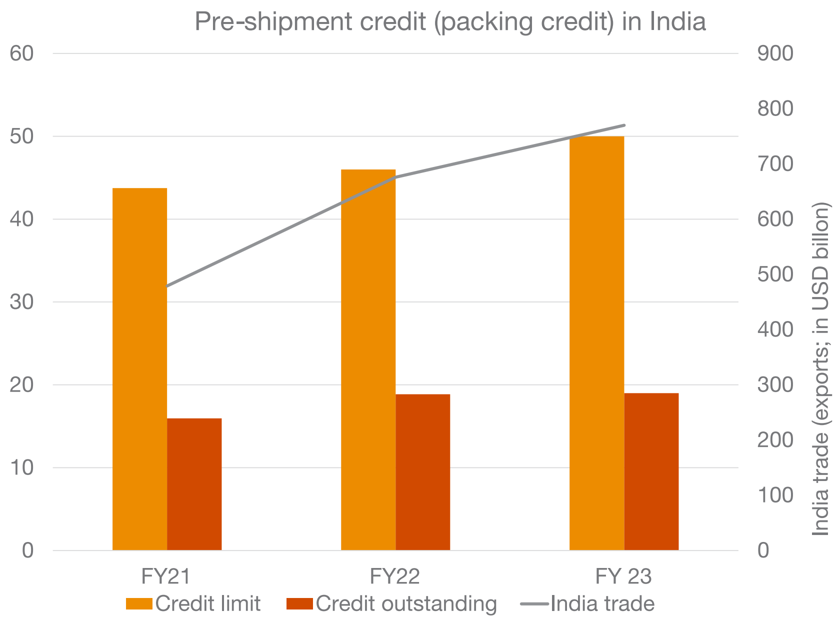
There is a lack of reliable and adequate data on export credit availability in India. Moreover, relevant and complete data relating to post shipment are not available.

Pre-shipment export credit (i.e. packing credit) data are available on the RBI website.

As mentioned earlier, as per the Ministry of Commerce and Industry's data, India's total exports for FY23 amounted to approximately USD 776 billion.[19] As per data[20] available from the RBI, the packing credit limit for FY23 stands at approximately USD 50 billion (disbursed) and approximately USD 19 billion (outstanding as on 31 March 2023). Thus, India's packing credit numbers appear to be a very small portion of the overall exports.

Even if we presume an equal amount for post-shipment credit, the total export credit would not comprise a significant share of India's exports.

Globally, however, trade finance (export credit) accounts for almost 85% of global exports/trade.

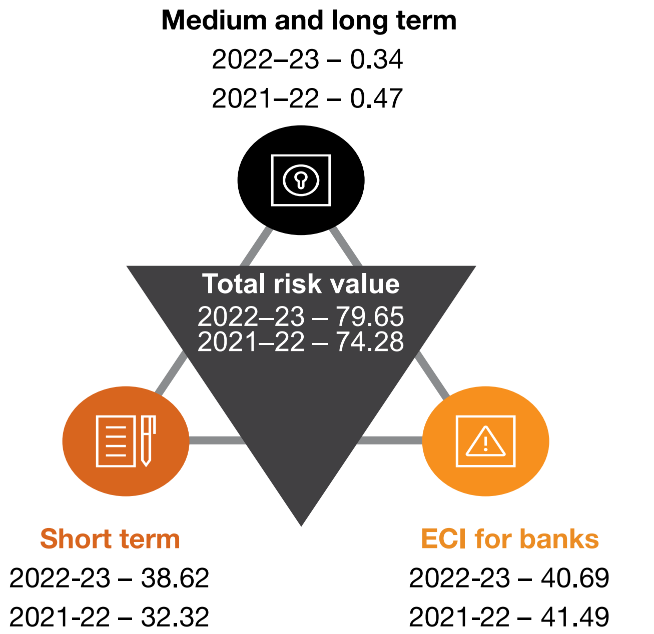


Packing credit limit and packing credit limit outstanding (in USD billion)

Source: https://dbie.rbi.org.in/#/dbie/hom
https://pib.gov.in/PressReleasePage.aspx?PRID=1916220
https://pib.gov.in/PressReleasePage.aspx?PRID=1789882

18 https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1985020
19 https://static.pib.gov.in/WriteReadData/specificdocs/documents/2023/jun/doc202362208201.pdf
20 https://dbie.rbi.org.in/#/dbie/hom

It is also very important to understand the situation of ECI in India in order to understand the future prospects and required policy interventions for promoting export credit in India and meeting India's export targets. India's trade credit insurance market has grown by more than 16%[21] on average over the past five years, with the country's economy expected to outpace that of regional peers, including China, emerging Asia and the Association of Southeast Asian Nations (ASEAN) members. ECI in India is provided by ECGC Ltd., which is the Government of India's premier export credit agency (ECA). During FY23, ECGC Ltd. supported more than 16,000 exporters with an aggregate business value of USD 80 billion,[22] earning a premium income of around USD 144 million.[23]



Value of business covered through insurance

(Amount in USD billion)

Source: ECGC Limited Annual Report FY 2022-23

Knowledge capsule:

- As per the revised the Trade Credit Insurance Guidelines, trade credit insurance protects businesses against the risk of non-payment for goods and services by buyers.
- A trade credit insurance policy may be issued to the following:
- A seller or supplier of goods or services
- A factoring company as defined in the Factoring Regulation Act, 2011, and amendments thereof
- A bank or financial Institution engaged in trade finance, licensed and regulated by the respective statutory bodies.

Trade credit insurance – risks covered

Commercial risk	Political risk
• Buyer insolvency • Bank insolvency in letter of credit payments • Stock-holding agent default	• Payment failure due to circumstances beyond the control of the insured or buyer • Occurrence of war or other disturbances in the buyer's country or with India
• Rejection by buyer after delivery or before shipment	• Import of goods prevented or cancelled in the buyer's country due to law
• Non-receipt of payment due to collecting bank's failure	• Additional charges incurred due to diversion of voyage

India has also witnessed a major developments in the field of credit insurance with the newly introduced Guidelines on Trade Credit Insurance dated 1 November 2021. These guidelines cover financiers under the umbrella of trade credit insurance. There has been considerable growth in ECI for banks (ECIB) as compared to short and medium-/long-term policy insurance since the introduction of the revised guidelines.

ECIB accounts for USD 40.69 billion as compared to the aggregate figures for medium, long-term (0.34) and short-term policies (38.62) – i.e. USD 38.96 billion – in 2022–23. This shows that the demand for insurance to financiers has increased as compared to that for insurance provided to suppliers.

There is huge potential for insurance in the export credit area considering the total ECI value of USD 79.65 billion in FY23 vis-à-vis the total value of merchandise exports at USD 450 billion.[24]

21 https://www.theinsurer.com/news/allianz-trade-forecasts-20-growth-in-trade-credit-insurance-in-india-amid-covid-recovery/
22 https://www.pib.gov.in/PressReleasePage.aspx?PRID=1934835
23 https://main.ecgc.in/wp-content/themes/pcwebecgc/images/pcECGPagePDF/FinancialResult/ECGC%20Annual%20Report%202022-23%20(3).pdf
24 https://static.pib.gov.in/WriteReadData/specificdocs/documents/2023/jun/doc202362208201.pdf

The gap – issues in export credit

Traditional documentation practices

Globally, MSMEs serve as a backbone of societies worldwide. In India, MSMEs contribute a considerable share to Indian exports. Lower accessibility of export credit by MSMEs is one of the major reasons for the export credit gap in India.

The primary problem faced by MSMEs willing to avail export credit is the collation, verification and authentication of the large amount of physical trade documents (such as bills of lading and shipping bill) for submission to the financier as per credit sanction conditions.

Low margins of exporters

The majority of MSME exporters operate on low margins as overseas buyers try to push prices down to the maximum extent possible, which leaves a very small window for the exporters to sustain their business. These margins are not enough to bear the additional interest cost required for availing export credit.

Due to the traditional practices followed for trade (i.e. export) documentation, verification and authentication of trade documents becomes difficult on the part of the financer. The procedure for the trade documentation may differ by jurisdiction, which is also a factor making trade finance (export credit) products unattractive.

Due to complex and traditional collation and submission requirements related to export documentation and lack of reliability and authenticity, export credit products remain a relatively less preferable option for customers and financers. The issue is more concerning for MSMEs as they do not have sufficient capital for adopting technology and innovation to overcome traditional methods of submission of trade documents for financing.

Preference for large borrowers (corporates)

As per the RBI database[25], around USD 50.71 billion of packing credit limit was sanctioned and disbursed to approximately 61,000 accounts for FY 2022–23, out of which around USD 19 billion was outstanding as on March 2023.

Considering the disbursement of USD 50 billion to only 61,000 accounts, it appears that such loans were mostly high-value loans availed by large corporates and so a major portion of packing credit may have been distributed to large corporates. The reason for such allocation may be due to higher credit risk involved in lending to MSMEs compared to large corporates.

25 DBIE (rbi.org.in)

Lack of awareness and low credit rating

Globally as well as in India, MSME entities are not fully aware or educated about export credit products available in the market. This is because MSMEs have small setups, unlike large corporates which have specialised finance departments.

Low credit rating and absence of credit history

A very common problem among MSMEs is the lack of credit history due to small setups and limited capital, which leaves them with few opportunities to expand their business and request for credit facilities for such expansion.

Additionally, MSMEs as a sector have a higher incidence of delay or default in repayments, which impacts their credit rating negatively. This credit track record does not meet the sanction criteria of financial institutions providing export credit facilities.

High interest rates

Globally, interest rates have been increasing for some time and a similar scenario is seen in India. As interest rates directly impact the demand for credit facilities, the demand for export credit is also affected negatively.

Geopolitical reasons

Geopolitical conflict may also impact the trade finance business. As per ADB's 2023 survey report,[26] around 60% of responding banks reported that the conflict in Ukraine had impacted their trade finance portfolios due to increased geopolitical uncertainty and subsequent currency fluctuations, along with ensuing sanctions risks and increased commodity prices.

Priority sector lending (PSL) norms in India

As per the Master Directions on Priority Sector Lending (PSL) – Targets and Classification, export credit under the agriculture and MSME sectors is allowed to be classified as PSL.

Export credit lending under PSL norms requires incremental export credit over the corresponding date of the preceding year to up to 2% of adjusted net bank credit (ANBC) or credit equivalent of off-balance sheet exposures (CEOBE) whichever is higher, subject to a sanctioned limit of up to INR 40 crore per borrower.

The export credit outstanding under PSL as on March 2023 was USD 1.8 billion[28], which is very low compared to the contribution of MSME exporters to the overall exports of the country.

Regulatory compliances – KYC and AML

Banks need to comply with regulatory requirements such as the Know Your Customer (KYC) process, including updated anti-money laundering (AML) practices. According to the ADB's 2023 survey report 2023,[27] 54% of surveyed global banks highlighted compliance requirements around customer and counterparty due diligence (KYC) coupled with AML as one of the major concerns. The complexity and costs involved in the conduct of AML/KYC due diligence alongside measures for combating the financing of terrorism (CFT) often override correspondent relationships that are essential for various businesses and clients in developing economies to continue to access finance to support their trade transactions.

26, 27. https://www.adb.org/sites/default/files/publication/906596/adb-brief-256-2023-trade-finance-gaps-growth-jobs-survey.pdf
28 https://cimsdbie.rbi.org.in/DBIE/#/dbie/home

Addressing the gap – the considerations

Promoting trade credit finance to the MSME sector

Transformation of trade documentation – digitisation

Digitalisation

Collaboration rather than competition

Global acceptance of trade documents

Lack of authentic export credit data

Development of competition in the insurance market

Promoting post-shipment financing

FinTech platforms

Innovative financing

Promoting trade credit finance to the MSME sector

The MSME sector contributes to nearly 45%[29] of India's exports, and so it is very important that trade credit finance is adequately available to the sector. Trade finance instruments such as letters of credit and bank guarantees provide MSMEs with the means to manage risks associated with trade, ensure timely payment, and maintain cash flow stability. However, access to trade finance is often a challenge for MSMEs due to stringent credit requirements, lack of collateral and limited financial history. To address this issue, many financial institutions and governments are implementing measures such as credit guarantee schemes, digital lending platforms, and regulatory reforms.

The Government of India has classified export credit to the MSME sector under PSL. However, there is still a huge gap in terms of actual export credit that flows to the MSME sector. The concerned regulator should take more MSME-focused regulatory initiatives to drive export credit flow towards the sector.

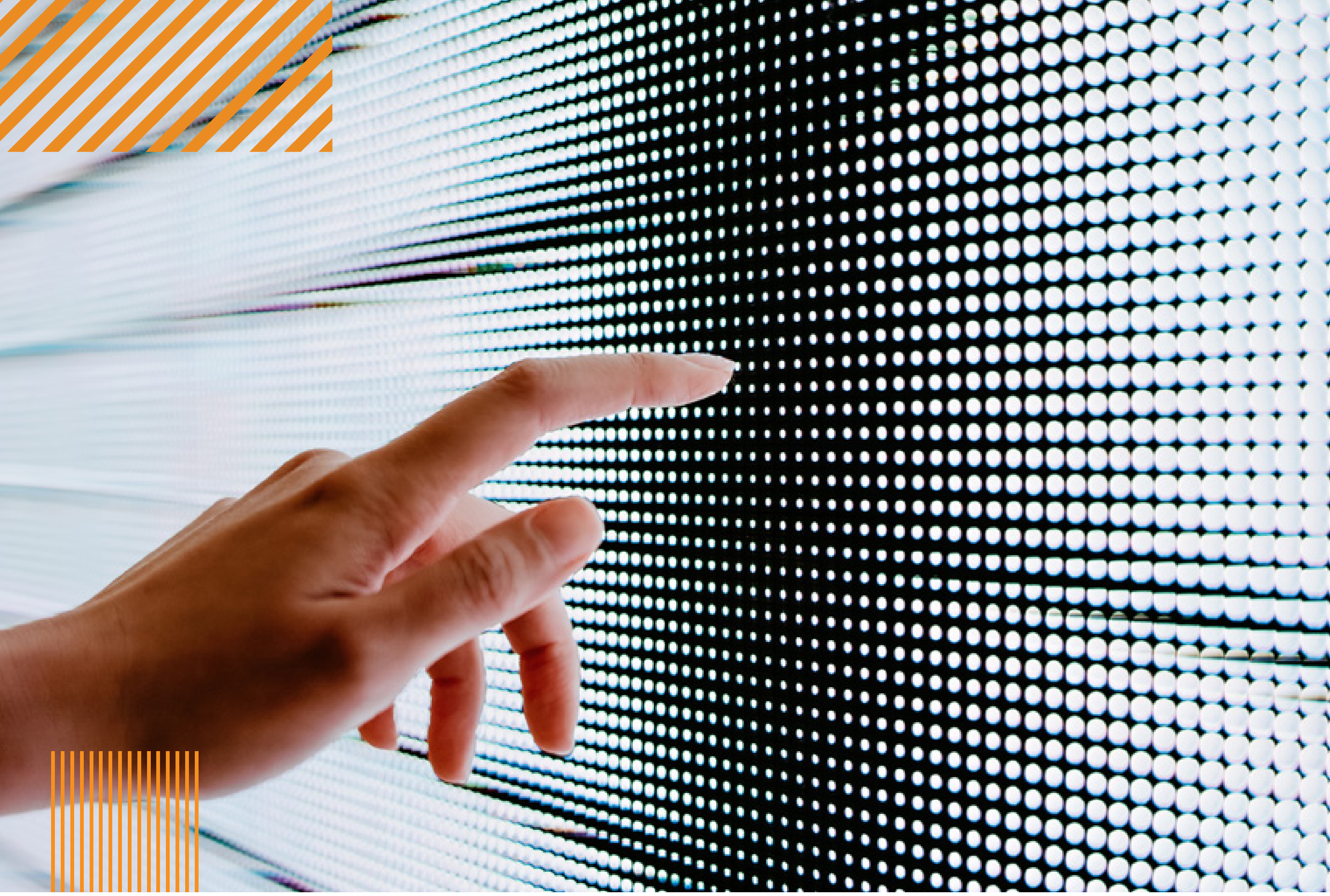
Transformation in trade documentation – digitisation

The existing era of digitalisation requires major transformation of the traditional methods of trade documentation. The need for efficiency, precision and speed in the arena of global trade requires digitisation of trade documents to advance towards the complete digitalisation of supply chain finance. The likelihood of errors, loss, fraud and delays in traditional paper-based documentation results in increased costs, higher processing time and reduced competitiveness. To overcome these limitations, digitisation needs to accelerate, facilitated by technologies such as blockchain and cloud computing, ensuring real-time tracking, enhanced data security, and improved speed and efficiency. This will help in achieving well-organised and efficient processes, transparency and traceability in international trade. The flip side of digitisation is the need to counter challenges related to data privacy, cybersecurity and regulatory compliance. Despite these challenges, digitisation is essential for the evolution of global trade.

Knowledge capsule

Digitisation is the conversion of analogue information into a digital format, while digitalisation involves the broader use and integration of digital technologies to transform processes, operations and overall functions. Digitisation is a foundational step for digitalisation, as it provides the digital data that can be leveraged for more advanced digital processes and innovations.

29 https://indbiz.gov.in/msmes-contribute-45-56-of-total-exports-in-april-september-23/



Digitalisation

The integration of blockchain technology in the digitisation of supply chain finance can create a robust digital ecosystem that enhances transparency, efficiency and security. The blockchain is a distributed ledger technology which enables secure recording and sharing of information across multiple entities in a supply chain ecosystem. Here, each transaction is recorded as a block and linked to the previous one. This will create a chain of events which is identifiable and cannot be tampered. Blockchain offers the advantage of synchronisation of data on a real-time basis that enables access to authentic data.

Elimination of manual intervention speeds up the supply chain process and also limits the possibility of data forgeries and errors. Automated processes for settlement of dues become possible as a result of smart contracts, where the terms are directly written into code, facilitating accuracy. However, the use of blockchain technology in supply chain finance requires adoption of standardisation, policy co-ordination and integration at multiple levels and jurisdictions. Despite these challenges, blockchain holds significant potential in transforming supply chain finance and creating a more efficient and transparent digital ecosystem.

The automation imperative

The presence of multi-level user authorisation in trade finance operations leads to a higher number of manual workflows and processes, causing extended turnaround times. To enhance efficiency, financial institutions should optimise their trade finance procedures by incorporating technologies like rule-based workflow engines and analytics. This optimisation would not only enhance accuracy in processes but also result in reduced operational costs.

Collaboration rather than competition

While automation is essential for streamlining internal processes within a financial institution, it is equally crucial for these institutions to engage in collaboration with ecosystem players to establish a digital customer experience. Financial entities have initiated collaboration by forming partnerships with FinTech firms specialising in various trade technologies that span the entire lifecycle – including KYC, onboarding, leveraging alternative data sources during credit processing, creating analytical models for early warning signals, and assessing the likelihood of default. For example, several prominent Indian banks have joined forces with FinTechs to provide tailored solutions for MSMEs, facilitating easier access to financing.

Global acceptance of trade documents

The global acceptance of digitisation for supply chain finance, including the standardisation across various customs authorities of different countries, is crucial for reasons, such as:

Efficiency and speed: Digital processes are typically faster and more efficient than traditional, paper-based processes. Custom clearance of goods would be quicker as a result of adoption of digital processes, which would boost the entire supply chain

Transparency and traceability: Digitalisation allows for real-time tracking of goods and transactions. This will enhance transparency and traceability in the supply chain. Possibility of fraud and smuggling can be reduced at the time of custom clearance.

Reduced costs: Automation of the various processes of supply chain will reduce the cost connected with cross border trade thereby making it more affordable for the SMEs.

However, there are various issues in achieving global acceptance and standardisation of digitalisation in supply chain finance like harmonisation of laws and regulations, interoperability, data confidentiality, etc.

Digitalisation of supply chain finance still remains worth endeavoring for despite the challenges involved as the whole world is shifting towards digitilisation due to the benefits involved.

Lack of authentic export credit data

Getting access to authentic export credit data is a common issue globally and even from India perspective. There are limited authentic data available on the total value of export credit available in India. This makes it difficult to analyse the real ground problems and to understand the level of distribution among various credit products (pre-shipment and post-shipment) within India. In dearth of such information, it will be difficult for the government to assess the actual situation and accordingly take the required policy decisions. So, it is critical to undertake significant efforts to gather reliable data from the financial institutions.

Development of competition in the insurance market

This space is dominated by ECGC Ltd. in India and so the development of competition in the ECI market in India is essential for the following reasons:

Huge untapped market: In FY23, ECGC supported more than 16,000 exporters with an aggregate business value of INR 6.68 lakh crore[30] (around USD 80 billion). The business covered value is expected to increase to more than INR 10 lakh crore[31] (around USD 120 billion) in the current fiscal. However, considering India's export value of USD 776 bn[32] for FY23, it would not be practically possible for ECGC to serve such a huge market.

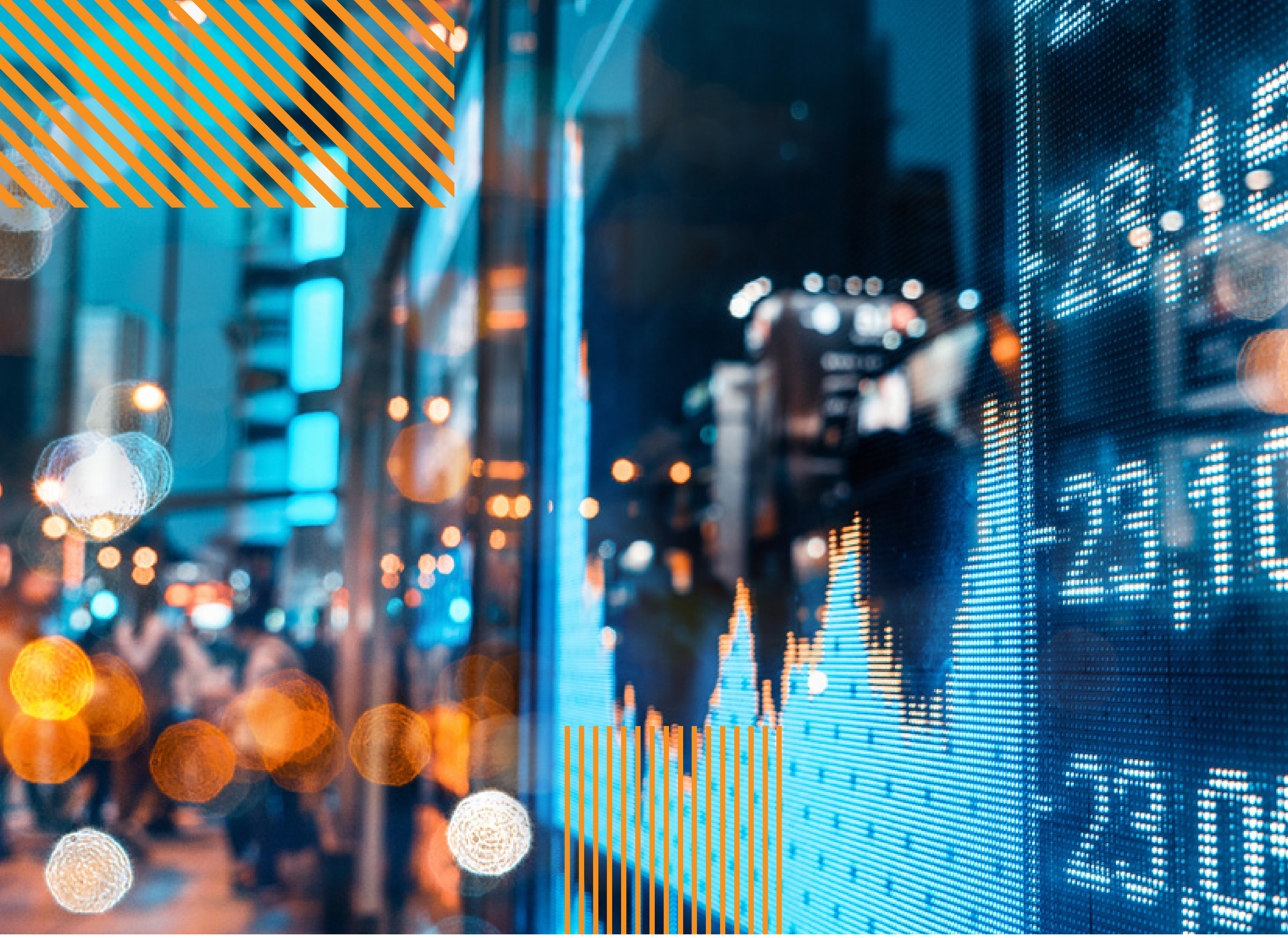
Affordability: Increased competition can lead to more affordable premiums as companies compete for customers. This can make ECI more accessible to a larger number of exporters, including SMEs.

Financial inclusion: A competitive market can promote financial inclusion by encouraging insurance companies to reach out to underserved segments of exporters.

Diversification of risk: With more players in the market, the risk associated with export credit can be spread out more evenly. This can lead to more stable and sustainable market conditions.

Innovation: A competitive market encourages innovation. Insurance companies might develop new products and solutions to meet the unique needs of exporters.

30, 31. https://www.pib.gov.in/PressReleasePage.aspx?PRID=1934835
32 https://static.pib.gov.in/WriteReadData/specificdocs/documents/2023/jun/doc202362208201.pdf



FinTech platforms

The evolving FinTech ecosystem in India continues to contribute to the growth of the export sector by fostering financial inclusion and resilience among businesses engaged in global trade. The majority of the FinTech platforms in supply chain finance are unregulated, and this space can further be developed to meet the huge export credit gap by promoting foreign players such as Taulia, Finverity and WaveBL. At present, a small part of this supply chain finance FinTech platform space is regulated in India through concepts such as Trade Receivables Discounting System (TreDS) for the MSME sector and International Trade Finance Services (ITFS) platforms in the International Financial Services Centre (IFSC). More regulations in this space would help in addressing the issues and ensuring credit flows towards the MSME sector.

Innovative financing

In India, innovative export credit financing has emerged as a crucial driver for fostering international trade and economic growth. The country has recognised the significance of supporting its businesses in the global marketplace, and as a result, has implemented innovative export credit financing mechanisms. These mechanisms include tailored financial instruments such as ECI, pre-shipment and post-shipment financing and various export credit guarantee schemes. Moreover, the FinTech industry has started innovating this space by integrating multiple elements of cross-border supply chain finance with investors in the form of an alternative investment asset class. In addition, various other innovations are in the incubation stage. The relevant stakeholders should acknowledge and invest further in such innovations to meet the huge trade finance gap.

Role of the IFSCA in addressing the gap

Gujarat International Finance Tec (GIFT)-City

GIFT International Financial Services Centres (IFSC) is India's first IFSC developed on the lines of Dubai International Financial Centre (DIFC), Abu Dhabi Global Market (ADGM), etc. The IFSC Authority (IFSCA) is a unified authority for the development and regulation of financial products, financial services and financial institutions in the IFSC in India. Established on 27 April 2020, the IFSCA is headquartered at GIFT City, Gandhinagar, in Gujarat. To establish a strong global connect, with a focus on the needs of the Indian economy and serving as an international financial platform for the Indian and global economy is the main aim of IFSCA.

GIFT City aims to be a global financial and technology hub by providing an excellent ecosystem to various businesses. It will not only cater to the needs of Indian entities but also have a reach across the world due to various incentives available for for the establishment and operation of businesses. GIFT City is a project of national importance and has become an integral part of India’s growth story as the country marches towards realising the dream of becoming a developed nation. GIFT IFSC is a free trade zone with various tax incentives enabling the flow of finance, financial products and services across borders. It is fully integrated with the best-in-class infrastructure, connectivity, people, technology and legal framework.

“IFSC offers great opportunity to undertake financial services and facilitate smoother access to credit for exporters. With focused efforts, IFSC can indeed emerge as a pivotal hub for trade finance.

Bhavin Shah
Partner and Deals Tax Leader,
PwC India

Trade finance ecosystem in the IFSC

ITFS platform

FinTech and TechFin

Banks and finance companies

Insurance – insurers and intermediaries

Knowledge capsule:

FinTechs are entities that provide financial technology solutions which result in new business models, applications, process or products in financial services regulated by the IFSCA.

TechFins are those entities that provide an advanced/emerging technology solution(s) which aids and assists activities in relation to financial products, financial services and financial institutions.

ITFS platform

The ITFS framework introduced in IFSC will enable exporters and importers to avail various type of export credit solutions such as factoring, at very competitive terms in an efficient manner. ITFS is an electronic platform that operates as a marketplace for meeting the trade finance requirements of exporters and importers through multiple financiers.

FinTech and TechFin

FinTech platforms are playing an increasingly important role in the trade finance industry across the world. These platforms provide a digital infrastructure for the entire supply chain ecosystem, which involves multiple parties thereby connecting them for facilitating ease of trade, finance and efficient monitoring of supply chain. FinTech platforms can help exporters in streamlining their entire supply chain model and thereby reducing costs. The framework for the FinTech entity in the IFSC also includes technology solutions aiding trade finance such as promoting the development of innovative supply chain finance solutions based on blockchain under the FinTech sandbox.

Banks and finance companies

IFSC banking units (IBUs) and finance companies are permitted to offer various trade finance products from the IFSC to exporters and importers which are designed to meet a range of short- to medium-term trade financing requirements. Trade credit, bill discounting, export factoring and forfaiting are some products that can be offered from the IFSC at attractive interest rates due to the cheaper cost of finance and lower hedging cost due to dealings in multiple foreign currencies.

Insurance – insurers and intermediaries

ECI protects an exporter of products and services against the risk of non-payment by a foreign buyer. ECGC Ltd., a premier ECA of the Government of India, was set up in 1957 to promote exports from India by providing ECI services to exporters and banks. ECGC and some other players in the insurance business have established their presence in the IFSC and offer credit insurance services in the region.

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GIFT IFSC can bridge the export credit gap of India by harnessing the collective strength of numerous global banking entities within its jurisdiction. Through strategic innovation, IFSC can aim to optimise processes, mitigate risks, and fortify transparency and traceability across the trade finance ecosystem.

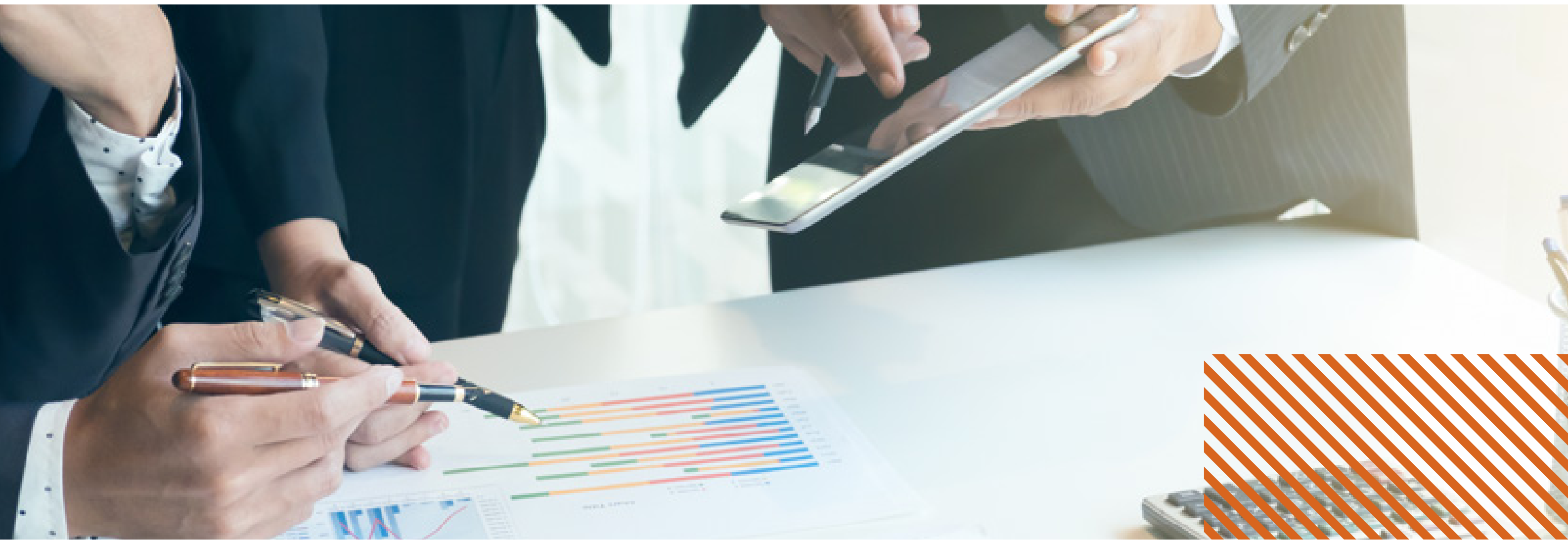
Balaji Balasubramanian
Partner
PwC India

Way forward to promote export credit from the IFSC

Pre-shipment credit from the IFSC

Based on an examination of the trade finance scenario of India and the limited data available from the RBI on export credit, it seems that a majority of the export credit facility extended to borrowers is in the form of pre-shipment financing (packing credit). Given the rising demand for pre-shipment finance and to support Indian exporters by providing better interest rates, allowing pre-shipment credit from the IFSC may be considered to bridge the gap in trade financing.

Central bank digital currencies (CBDCs) can bring in the next wave of innovation by reimagining existing service offerings and enabling next-generation trade and supply chain finance. Driven by the configuration of the CBDCs and the data captured in CBDC infrastructure, the supply chains can avail the credit or liquidity of anchor enterprises in a better way. This could help SMEs with their working capital requirements and thereby developing a self-sufficient supply chain ecosystem.



Attracting global factoring companies

Factoring has not picked up much in India considering the limited number of players (8 registered NBFC-Factors) in India. The IFSC can become the gateway for India to attract these global factoring companies to develop this space in India.

Encourage technology innovation in trade finance

FinTech partnerships with banks have helped mitigate the complexities of providing SME financing. There are emerging decentralised finance (DeFi) platforms that leverage cryptocurrencies and smart contracts to fulfil the financing needs of SMEs.

Banks can leverage the programmability of CBDCs to provide a trusted, transparent and efficient supply chain solution to participants. By combining trade and payment information, the CBDC can be programmed according to payment conditions to become a new form of trade finance instrument. Anchor enterprises can pass the programmed CBDC to their suppliers, who can subsequently use it to pay deep-tier suppliers. Conditions in the smart contracts can be removed upon fulfilment by suppliers. This can be demonstrated by, for example, submitting a bill of lading as proof of shipment.

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Export credit is a vital tool for enhancing the competitiveness and resilience of exporters, especially SMEs, in the global market. However, many exporters face challenges in accessing sufficient and affordable trade finance, resulting in a large and persistent trade finance gap. The IFSC has a unique opportunity to step into this space and ease the burden.”

Suresh Swamy
Chartered Accountant

Option of availing trade credit insurance from foreign insurers for financial Institutions operating from the IFSC

At present, financiers intending to offer factoring and forfaiting from the IFSC can avail credit insurance only from insurers operating in the IFSC. This may impact insurance cost in the IFSC as a premium may be charged by the limited number of insurers operating in the IFSC.

Thus, regulators may consider allowing financiers to avail insurance from foreign insurers directly till the time the IFSC has an adequate number of insurance players operating in the region, thereby promoting multiple product ranges and competitive pricing.

Promoting FinTech incentive schemes for innovative supply chain finance and InsurTech solutions

Supply chain finance is undergoing a technology-based transformation all around the world. As an international financial centre, GIFT City offers a regulatory framework that allows multiple technology and innovations to develop under the IFSCA FinTech Sandbox.

Some tech giants are already developing and testing blockchain-based supply chain solutions under the IFSCA FinTech Sandbox.

The IFSCA FinTech Framework also allows tech companies developing supply chain finance solutions and platforms for global financial institutions to operate from the IFSC.

Moreover, FinTech incentive schemes with a specific focus on supply chain finance can be introduced to promote this FinTech space in the IFSC.

Glossary

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Abbreviation	Definition
ADB	Asian Development Bank
ADGM	Abu Dhabi Global Market
AML	Anti - Money Laundering
ANBC	Adjusted Net Bank Credit
ASEAN	Association of Southeast Asian Nations
CBDCs	Central bank digital currencies
CEOBE	Credit Equivalent of Off-Balance sheet Exposures
CFT	Combating the Financing of Terrorism
DeFi	Decentralised Finance
DIFC	Dubai International Financial Centre
ECA	Export Credit Agency
ECGC	Export Credit Guarantee Corporation
ECI	Export Credit Insurance
ECIB	Export Credit Insurance for Banks
FY	Financial Year
GIFT City	Gujarat International Finance Tec-City
IBUs	IFSC Banking Units
ICISA	International Credit Insurance & Surety Association
IFSC	International Financial Services Centres
IFSCA	International Financial Services Centres Authority
INR	Indian Rupees
ITFS	International Trade Finance Services
KYC	Know Your Customer
MSME	Micro, Small and Medium-sized Enterprises
NBFC	Non-Banking Financial Corporation
PSL	Priority Sector Lending
RBI	Reserve Bank of India
SME	Small and Medium-sized Enterprises
TReDS	Trade Receivables Discounting System
USD	United States Dollar

Notes

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