TFAC RECOMMENDATIONS SUMMARY
THIRD CHARTER TERM (2020-2022)

<u>December 2, 2021, Public Meeting</u>

1. **Digitalizing trade documentation**

   We recommend that the U.S. Department of Commerce (perhaps aligned to other U.S. agencies) form a committee to explore the path towards the digital standardization of trade finance documentation. We further recommend that the committee begin its work by identifying 1-2 specific documents to digitalize and design a process by which the necessary fintech providers can be discovered, selected, and managed to advance this necessary analog-to-digital conversion.

2. **Developing a trade-based KYC information sharing platform**

   In response to the acute financing needs of SMBs conducting trade, we recommend that the U.S. Department of Commerce form a consortium of relevant parties interested and/or economically incentivized to develop an innovative digital solution. This consortium would initially include the few, necessary, parties to develop a working proof-of-concept to conduct a limited scope pilot the solution. The consortium may include government representatives, fintech expertise, a relevant trade association or NGO, and representative SMEs. We refer to such a consortium as a 'minimum viable consortium,' or MVC.

   Such a solution would serve as a singular, trusted, digital portal (marketplace) that allows SMEs to register, validate, and regularly update their financial data, resulting in lower KYC costs for larger suppliers. This portal / marketplace could also facilitate more open and efficient securitization or factoring of trade receivables, creating new capital mediums for SMBs. The MVC developing this digital platform would harness new technological capabilities provided by fintech startups, university technology labs, or other fintech providers coupled with appropriate regulation and program sponsorship provided by the U.S. Department of Commerce. Further, this new digital platform could serve as a single-source-of-truth for the multitude of trade financing options available to SMEs, thereby strengthening U.S. commerce, increasing U.S. exports, and promoting / advancing U.S. innovation.

3. **Measuring minority and women owned business participation in trade finance**

   The U.S. Department of Commerce should work with the public, private, and social sectors to create a standardized, broadly accepted, trusted, and fundamentally sound measurement of minority and women owned business participation in the trade finance space. This will allow for the assessment of impact as future inclusive growth efforts take root in trade finance. We believe that timely, accurate, and comprehensive data in this arena will reveal fundamental inequities and be the first step in creating meaningful change.

We aspire to gather this data and make it broadly available to other agencies as they consider the inclusivity of this and other programs.

4. **Establishing an executive level joint agency export deployment committee**

   The TFAC recommends the establishment of the "Joint Agency Export Deployment Committee", an executive level strategic collaboration of the US Dept of Commerce, SBA, and EXIM with the purpose of creating a combined C-suite strategy playbook using each's best techniques at developing trusted C-suite advisor status to unlock DEI SME action.

   Members of this working group committee will consist of stakeholders ranging from ITA U.S. Department of Commerce, SBA's Export Finance Managers, EXIM Office of Small Business, ExporTech top-performing facilitators, ExporTech expert panelists, ExporTech CEO graduates, DEI SME C-suites, Regional Directors, and trade experts with the specific purpose of outlining a collaborative go-to-market export education strategy. In order to develop this strategy, members should examine regions and markets in which ExporTech has been most effective in order to determine best practices and scalability for different markets.

5. **Facilitating inclusive SMEs' increased participation through ESG and corporate responsibility**

   The DOC should actively participate in the engagement and implementation of ESG criteria to create industry standards for participation of Small Minority Business Enterprises and the recruitment of private sector venture capitalist firms and those owned and operated by minorities. This specifically includes open topic supply chain request for proposals and funding sources with oversight by the DOC and various departments such as the Department of Energy, Export-Import Bank of the United States, the Economic Development Administration, the Minority Business Development Agency, the U.S. International Development Finance Corporation, the United States Trade and Development Agency, the U.S. Agency for International Development, the Millennium Challenge Corporation, U.S Global Leadership Coalition, the U.S. Small Business Administration, Prosper Africa, and the Commercial Law Development Program. The DOC should prepare small minority businesses for the upcoming infrastructure development climate to ensure equitable investment and access to trade finance capital.

6. **Engaging in international negotiations to de-risk supply chains and expand trade finance access**

   The Department of Commerce should engage in international negotiations at the bilateral, regional, plurilateral, and multilateral levels with the specific goal of de-risking supply chains and reducing supply chain disruptions. Reducing the aggregate risk in supply chains for SMEs will make trade finance more available to them. It will also de-risk government balance sheets by expanding access to private-sector trade finance and utilization of public-private partnership investments.

There are several types of commitments that could be pursued in various forms of international agreements that would serve to de-risk supply chains and expand access to trade finance as a result. By making the rules that govern international trade and investment more predictable, international agreements in themselves reduce the risks inherent in international trade. However, specific commitments could be included in international agreements that will target and reduce export risks and increase supply chain resilience. Such commitments could (i) limit trade and investment restrictions on essential goods; (ii) enhance trade facilitation practices and regulatory cooperation; (iii) improve transparency; (iv) create consultation mechanisms and cooperation in crisis situations; and (v) encourage the utilization of public-private partnerships in international infrastructure development projects. Finally, the TFAC reiterates its recommendation from the Second Charter Term on negotiating new cross-border insurance commitments that would expand access to trade finance by exporters.

Such commitments could be negotiated in a range of types of international agreements. Those types of agreements could include (but are not limited to):

- International regulatory cooperation agreements
- Trade facilitation agreements
- Free trade agreements (FTAs)
- Agreements related to infrastructure development projects that encourage the use of public-private partnerships

7. Leveraging trade for capacity building in Africa

We recommend that the Department of Commerce work with the Prosper Africa Secretariat to identify opportunities for capacity development that are currently funded by existing programs. Funding for capacity building in Africa may be sourced from U.S.-based programs, programs originating from other countries, as well as international NGOs. Collecting these resources will help match capacity building with export growth for small businesses. Among the entities that may be interested in participating are the Economic Development Administration, the Development Financing Corporation, the United States Trade and Development Agency, the Prosper Africa Executive Secretariat, and the Commercial Law Development Program.

It is recommended that known grant/funding resources be identified and listed on existing U.S. Government websites, including those managed by the Department of Commerce and or the Prosper Africa initiative. This might also be accomplished by identifying existing resources and matchmaking with small businesses with expertise within targeted sectors. Businesses wishing to leverage capacity building funding can augment trade finance while participating in the growth of developing nations. The investment in local talent increases local goodwill, creates further capacity for growth in emerging markets and creates closer relationships for U.S. small businesses operating in foreign markets. This also creates incentives for small businesses that might not otherwise be inclined to export to emerging markets.

The goal of this recommendation is to connect existing funding resources in developing countries with small businesses to create opportunities for U.S. companies to expand their global footprint while creating growth/experience opportunities in local communities to build capacity (subject matter experts) in developing markets.

8. **Conducting an SME survey to identify gaps in export resources**

   The TFAC Supply Chain Finance Subcommittee recommends conducting a survey of SME exporters to identify the resources and the support needed to expand their exports. We propose that the survey would be distributed through U.S. executive agencies and minority-focused industry associations that focus on the SME sector.

April 12, 2022, Public Meeting

9. **Trade Finance Training for Startup Accelerators**

   We recommend that the U.S. Department of Commerce enable U.S. businesses to better penetrate foreign markets by pairing those businesses with prominent and successful accelerators and regional trade representatives. We recommend that the U.S. Department of Commerce identify the most prominent, inclusive, and successful accelerators, and initiate a process by which those accelerator program coordinators could be identified and paired with regional trade representatives to provide businesses with trade finance training during their program. This could consist of a one-hour session attended by the full cohort of participants in the accelerator program(s), or individual one-hour sessions for each company. Because these programs are often national, follow-up referrals can be made to the appropriate regional trade representatives.

   The proposed pairing of businesses with top accelerator programs and regional trade representatives would provide training opportunities to assist businesses in learning about the types of services offered by the U.S. Department of Commerce including trade finance and compliance resources. We further recommend that local trade representatives and the Small Business Administration be invited to participate as they could also provide additional helpful tools and resources for small and medium sized businesses (SMBs) participating in accelerator programs.

10. **Trade Finance Guide Update**

    The U.S. Department of Commerce should update its Trade Finance Guide by using empathetical language, including new to export information, adding short-form videos in each chapter, and translating to additional languages to promote diversity as well as transforming its traditional paper-based form into a flexible online friendly platform, to help expand access to trade finance information and resources to underrepresented, underserved, women, and people of color-owned small and medium sized enterprises (SMEs).

11. Trade Finance Outreach Through Strategic Partnerships

Identifying and encouraging Strategic Partnerships (ITA) with associations who represent businesses that owned by women and people of color as well non-traditional stakeholders who have these entities part of their supply chain.

12. Indo-Pacific Economic Framework Agreement

The Department of Commerce and other trade-negotiating agencies should engage in international negotiations with governments in the Indo-Pacific region at the bilateral, regional, and multilateral levels with the goals of:

- Ensuring level playing field for U.S. companies competing for business in the region
- Developing market access and investment rules in the region that encourage U.S. exports, which will in turn encourage uptake of trade finance.
- Offering equitable trade finance terms and conditions for U.S. companies relative to other players in the region, including state-owned enterprises.
- Increasing access to trade finance for SMEs (especially women- and minority-owned business) active in the Indo-Pacific region or trying to enter the region
- Prohibiting data localization rules and restrictions on cross-border data flows, noting that such data restrictions make it more difficult for U.S. trade finance firms to operate in the region
- Increasing access to trade finance for SME's targeting specific industries that will bolster the Administration's Indo-Pacific strategy including:
    - Green & renewable energy
    - Decarbonization projects and technology
    - Communication technologies such as 5G and ONAN
    - Fintech
    - Cyber Security
    - Blockchain
- Leveraging Gold Key and other services to assist targeted sectors in gaining traction in the region.
- Building local capacity within these vital areas
- Gaining commitments from our trading partners to allow the cross-border provision of insurance services for marine, aviation, transportation, and difference-in-conditions and difference-in-limits (DIC/DIL) insurance.

13. EXIM Capital Investment Financing Guarantee Program

The Trade Finance Advisory Council recommends that the Secretary of Commerce formally advance the creation of the Capital Investment Financing Guarantee Program (CIF), a pilot loan guarantee program designed to help U.S. SMEs make domestic capital investments necessary to expand their export capacity. Given its mission as the U.S. Export Credit

Agency, EXIM has the necessary network of lenders and SMEs to administer and execute such a program.

The CIF program is intended to provide support for capital investments that would enable small and medium sized enterprises to bolster their export capacity and the attendant growth in jobs. In this respect, the CIF serves as a complement to the Export Working Capital Guarantee program and matches the SBA's International Trade Loan program.

August 4, 2022, Public Meeting

14. Trade Finance Digital Standards Pilot Program

In response to the growing need for SME exporters, importers, financial institutions, and fintechs to keep up with the increase in trade digitalization, we recommend that the US Department of Commerce launch a Trade Finance Digital Standards Pilot Program (TFDS) to improve its understanding of the constraints of digitalizing trade finance – such as a reliance on analog and paper-based processes, a lack of recognition of the legal status of electronic documentation, uncertainty over digital standards, and a general lack of clear legal or regulatory frameworks – and to help US SME exporters gain access to global business identifiers necessary for export finance. The TFDS would also help enable the US Government to use a "common language" employed by the global trade community and to better position US SME exporters to benefit from digital solutions in trade finance that include cloud computing, Internet of Things, big data analytics, artificial intelligence, quantum, distributed ledger technology, and application programming interfaces.

The TFDS pilot program could provide a forum for the exchange of information to enhance both government understanding of industry and industry understanding of government in both the acceleration of trade digitalization and the use of global business identifiers. The US Department of Commerce's International Trade Administration (ITA) could create a trusted trade-facing portal, or leverage an existing portal, that could allow SME exporters to register their businesses, upload their business credentials, utilize identifiers that they already possess, obtain both the DUNS and the LEI global business identifiers, and empower them to manage, validate, and share their own data.

US SME exporters could be invited to participate in this pilot program and only those members who are based in the United States and who export abroad within certain parameters could be eligible to participate. The US Department of Commerce could work with the global business identifier companies to potentially offer the identifiers at a reduced price to TFDS participants and provide other potential benefits accordingly.

15. Increase US Exports Through better Collaboration with African Diaspora SMEs

The Department of Commerce should make efforts to improve US-based African Diaspora SMEs' access to export capital that would increase overall US exports and trade.

To help mitigate these challenges, the Prosper Africa initiative empowers US businesses to export to African markets by offering financing, loan guarantees, market intelligence, and more. The initiative brings together the full suite of US Government services to guide businesses as they identify partners, advance opportunities, and close deals.

Lastly, we recommend that the Department of Commerce research and approve a set of baseline measures against which the progress of this initiative will be measured. We recommend the inclusion of the following as key measures of success: number of jobs created, number of jobs retained, number of businesses expanded, number of transactions, number of export related events (trade mission, conferences, etc.), and number of MBEs engaged annually in African Diaspora communities. Possible sources of this information include the World Bank, MBDA (Minority Business Development Agency), SBA, the International Chamber of Commerce, etc.

16. "America's Partnership for Economic Prosperity" and Trade Finance in the Western Hemisphere

Noting the focus of the APEP on resilient supply chains, which is a special focus of trade finance providers, and ensuring sustainable and inclusive trade, the Department of Commerce should provide input to those agencies that participate in the Trade Policy Staff Committee (TPSC) to achieve the goals of:

- Ensuring that multilateral development banks such as the Inter-American Development Bank (IDB) engage private sector trade finance firms in all efforts to deepen commercial ties throughout the region.
- Encouraging multilateral development banks such as the Inter-American Development Bank (IDB) to work with private sector trade finance firms to develop "best practices" for financial and economic regulation in the Western Hemisphere that spur economic trade and growth.
- Developing market access and investment rules in the region that encourage US exports, which will in turn encourage the uptake of trade finance.
- Offering equitable trade finance terms and conditions for US companies relative to other players in the Western Hemisphere, including state-owned enterprises.
- Increasing access to trade finance for Small and Medium Size Enterprises (SMEs) (especially women- and minority-owned businesses) active in the Western Hemisphere or trying to enter the market.
- Prohibiting data localization rules and restrictions on cross-border data flows, noting that such data restrictions make it more difficult for US trade finance firms to operate in foreign markets.
- Building local capacity within these vital areas.
- Gaining commitments from our trading partners to allow the cross-border provision of insurance services for marine, aviation, transportation, and difference-in-conditions and difference-in-limits (DIC/DIL) insurance.

17. Business Best Practices to Prevent Fraud

We recommend that the Department of Commerce provide educational material to small businesses engaged with trade finance to protect those businesses as well as Department of Commerce partners providing them with trade finance. This can be done by leveraging existing sources for fraud information. This information can then be shared with participating businesses through Department of Commerce publications, as well as embedded training, videos, or links on existing Department of Commerce resource webpages.

Rather than creating new resources, the Department of Commerce can quickly deploy this information to small businesses by partnering with existing NGOs who regularly share and update fraud information. Among the potential partners for this type of engagement are the National Cyber Forensics and Training Alliance (NCFTA), the International Association of Financial Crimes Investigators (IAFCI), the National White Collar Crime Center (NW3C), and the Federal Trade Commission (FTC). These organizations all provide a variety of resources that are regularly updated as new trends emerge.

Additionally, cyber threats are often targeted toward small to micro sized businesses (i.e., mom and pop shops) looking to expand in global markets via online opportunities. Many of these small businesses have developed over the past two to three years due to the pandemic. Stay-at-home moms make up a large percentage of these small business owners looking to grow by offering online products and services. For the purposes of bringing awareness and reaching vulnerable populations or underserved communities with this information, these trainings to small businesses should be included in local business chambers and small business centers as a part of the curriculums and certifications on offer. This will help to increase security for women-owned and HUBZone businesses that are unable to afford costly fraud protection software.

For a more robust solution, formal training on essential cyber risks could be constructed and recommended or required as part of the requirement for obtaining trade finance. This could be done in partnership between the lending institutions and the Department of Commerce to create a standardized and updated set of essential training modules (based on current trends, and greatest vulnerabilities in this space).