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Trade Financing in Emerging Markets

By

Jamie Morris

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of the Requirements for
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Trade Financing in Emerging Markets

Abstract

Businesses need capital to initiate trades, drive growth, and produce profit, but unfortunately, not all companies can access to capital easily. Small and medium-sized enterprises (SMEs), although critical to the global economy, typically have trouble funding trades because of a lack of creditworthiness. This problem worsens for SMEs in emerging markets in volatile economies with political instability ("Trade finance and SMEs" 2016, p.11-21). In this study, we analyze how third-party trade finance companies can help finance trades more easily for SMEs in eight (8) emerging markets: Kenya, Rwanda, Ethiopia, Chile, Peru, Thailand, Cambodia, and Indonesia. We use a unique source referred to as ABC Company which operates in Kenya and Rwanda currently to examine the success of this model. Then, we make recommendations for new and existing companies in the third-party trade financing market.

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Introduction

"It takes money to make money" is a common phrase in business. In commerce, it means that businesses need capital to initiate trades, drive growth, and produce profit.

However, not all companies can access to capital easily. Small and medium-sized enterprises (further referred to as SMEs) typically have trouble funding projects and trades with other SMEs, large companies, or government agencies for a multitude of reasons. Most often, especially in emerging markets, banks reject SMEs' request for a loan because of a lack of creditworthiness ("Trade finance and SMEs" 2016, p. 21). SMEs in emerging markets can find themselves stuck with no funding because a loan in a volatile economy with political instability generally creates a potentially high interest rate from banks ("Trade finance and SMEs" 2016, p.11).

Importance

Improving the lives of people in emerging markets is the primary goal within business, and financing is the tool to reach this objective. Without financing, businesses cannot innovate, expand, or spread ideas and products.

It is important to keep these SMEs alive because they are change-makers in the global economy. They contribute to local economic growth, specialize in specific industries, and are essential to international trade (Ahn 2014, p. 3). SMEs in emerging market economies represent an increasing share of global trade, but face challenges in accessing trade finance with unmet demand ("Trade finance and SMEs" 6-9). In 2016, "The estimated value of unmet demand for

trade finance in Africa [was] US$ 120 billion (one-third of the continent's trade finance market) and US$ 700 billion in developing Asia" ("Trade finance and SMEs" 6).

SMEs in developing countries currently do not get enough financing. The financial system's lack of understanding comes from a lack of data (Ahn 2014, p. 2). SMEs in lower income countries face greater challenges than higher income countries because they have "relatively small banking sectors and [a] lack of appetite among global financial institutions to do business in those countries – a problem which has increased significantly since the financial crisis" ("Trade finance and SMEs" 2016, p. 4). In general, SMEs in developing countries have difficulty getting the amount of credit they need as reasonable rates.

Trade Finance

Trade finance exists when one business extends some form of credit to a business partner during a trade which is determined by the payment schedule. This partnership permits businesses to have access to capital without having to get a loan through a bank. This approach may provide a sustainable solution to a company which lies within a country with economic distress because trade may continue internationally when importers and exporters develop new payment terms. This approach may also provide a sustainable solution to SMEs who lack creditworthiness and who are limited in the size of their trades by banks who do not grant large enough loans at all or who charge high interest rates (Fisman, R & Love, I 2003, p. 354).

The solution to financing does not solely lie in trade financing. It is important to note that most business ventures, especially at larger firms who have established creditworthiness and a stable reputation, continue to rely on banks for loans (Fisman, R & Love, I 2003, p. 354). When these businesses with favorable interest rates extend favorable payment terms to their buyers or

suppliers, this creates a domino effect. Buyers and suppliers who rely on trade finance benefit greatly when they can utilize the creditworthiness of their partner. In particular, SMEs benefit from trade finance because they “face the greatest hurdles in accessing financing on affordable terms” (“Trade finance and SMEs” 2016, p. 4). Although trade finance is a source of credit for some businesses, others trust banks to lend at favorable rates.

Trade finance is generally considered to be “a particularly safe form of finance since it is underwritten by strong collateral and documented credit operations” (“Trade finance and SMEs” 13). Collateral, however, must be liquid for the lender to be safe from borrower default. The strongest forms of collateral are nonperishable and highly demanded items. The value of goods can quickly drop when an expiration date approaches, or the items are highly personalized. For example, a strong form of collateral is a batch of fabric, while a weak form would be an order of uniforms with a company’s logo on them. The collateral must also have documentation. In emerging markets, it is important to work with companies who always follow documentation procedures. Trade finance works best when it is backed by strong collateral.

Trade finance facilitates trust between companies. The World Trade Organization published a report called Trade finance and SMEs: Bridging the gaps in provision which outlines the two major styles of trade finance: inter-company credit and bank-intermediated finance (2016, p. 11).

Inter-company credit, the first trade finance style, is credit issued between buyers and sellers (importers and exporters); this is the result of negotiated payment terms between parties. We will refer to two main payment terms: post-shipment and pre-shipment (Ahn 2014, p. 2). Although there are only two here, it is important to note many trade deals involve multiple

payments (where importers pay a down payment before shipment and pay the full amount after delivery) or discounts for on time payment.

Post-shipment payment gives the exporter risk of non-payment if the importer defaults and allows the importer to benefit from trade credit by postponing the time they are required to pay cash. This is also called an open account transaction because the importer has an open balance due while the exporter finances the goods, shipment, and delivery until payment is completed. Many times, this will occur between businesses who have well established relationships. Post-shipment payment terms introduce the “factoring” market (Ahn 2014, p. 11). If an exporter with post-shipment terms has immediate cash needs, they can sell their accounts receivable as an asset to a third-party factor for a discount. This transfers the risk of payment default to the factor. The same protection against default can be found in trade credit insurance, which is an approach to cover risk of non-payment from the importer provided by private and public credit insurers (Lorié 2019, p. 232).

Pre-shipment payment gives the importer the risk of non-delivery if the exporter fails to deliver and allows the exporter to benefit from trade credit by providing cash up front (Eun and Resnick 2018, p. 488).

Bank-intermediated finance, the second trade finance style, involves letters of credit. Commonly used in commodity trading, letters of credit transfer the risk of default or non-delivery to banks in the importer’s and exporter’s respective countries (Ahn 2014, p. 18). The importer’s bank issues the letter of credit on the importer’s behalf to the exporter’s bank. This means that the importer’s bank will pay the exporter for the goods and act as a loan for the importer (Eun and Resnick 2018, p. 490). The letter of credit also acts as a loan for the exporter

because the exporter borrows the total working capital during pre-shipment at a specified discount rate from the bank using the proceeds as collateral" (Ahn 2014, p. 18). Although letters of credit remove the risk of payment default from importers and exporters, they also prove to be the most expensive form of trade financing because letters of credit require both the importer and exporter to bear the financing costs" (Ahn 2014, p. 21).

Trade finance could be a solution to SMEs accessing credit, but importers and exporters still need to do some background checks on their business partners. Instead of solely using credit scores, businesses are required to conduct Know Your Client (KYC) and Customer Due Diligence (CDD) checks as international banking community members ("KYC Exchange Net launches bank platform" 2014). KYC processes involve "a highly time and cost-intensive process which comprises the collection, validation, analysis and constant updates of client data" ("KYC Exchange Net launches bank platform" 2014). Trade finance does not ignore background checks such as credit scores. Partner companies continue to have the responsibility of conducting ethical business practices because they are involved in KYC and CDD checks.

Purpose and Research Question

Third party trade financing companies may have the solution to SMEs' financing needs. Instead of relying on banks to provide credit for trades, SMEs could look to a third-party trade financing company for financing and trading expertise.

The ideal third-party trade financing company uses its resources to acquire a reliable large line of credit from a bank with a low interest rate. They would create a contract with both a supplier and a buyer to finance the trade with a collateralized loan. The company would also have the knowledge to manage trades effectively worldwide.

For the purposes of this study, we will analyze an anonymous third-party trade financing company referred to as ABC Company. Because of a Non-disclosure agreement (NDA), this source will not be cited. They are based in the United States of America but work with SMEs in Kenya and Rwanda. ABC Company has a $150 million-dollar credit line with an annual interest rate within 10 to 20 percent in the United States. They partner with single SMEs to finance trades. Most often, the partner SME (usually a distributor) will have a tender or contract with an end customer and use a supplier to source their goods. ABC Company has engaged in over 200 trade deals from 2015 to the present and has a project management team dedicated to overseeing the movement of goods and payments. ABC Company is unique in the sense that there are not many competitors in this industry using credit lines to provide collateralized loans.

This study aims to analyze the success of ABC Company and explore the effectiveness of third-party trade financing companies in general. If ABC Company is effective, should more third-party trade financing companies enter the market? Which emerging markets would benefit from third-party trade financing?

Furthermore, how can third-party trade financing companies provide SMEs “credit scores” so they can prove their creditworthiness and expand their business? It is important to emphasize that trade financing is not only a quick solution to financing challenges for SMEs, but also a sustainable one.

Global Economic Landscape

The world is continuously becoming more interconnected through trade and technology. There are many countries to qualify as emerging markets, but we will analyze a total of eight countries in three continents. The global economic landscape will consist of a study of Kenya,

Rwanda, and Ethiopia in Africa, Thailand, Cambodia, and Indonesia in Asia, and Chile and Peru in South America (see Figure 1). The United States will play as a control country when we analyze economic indicators because it represents a free and healthy capital market and we will use it as our baseline.

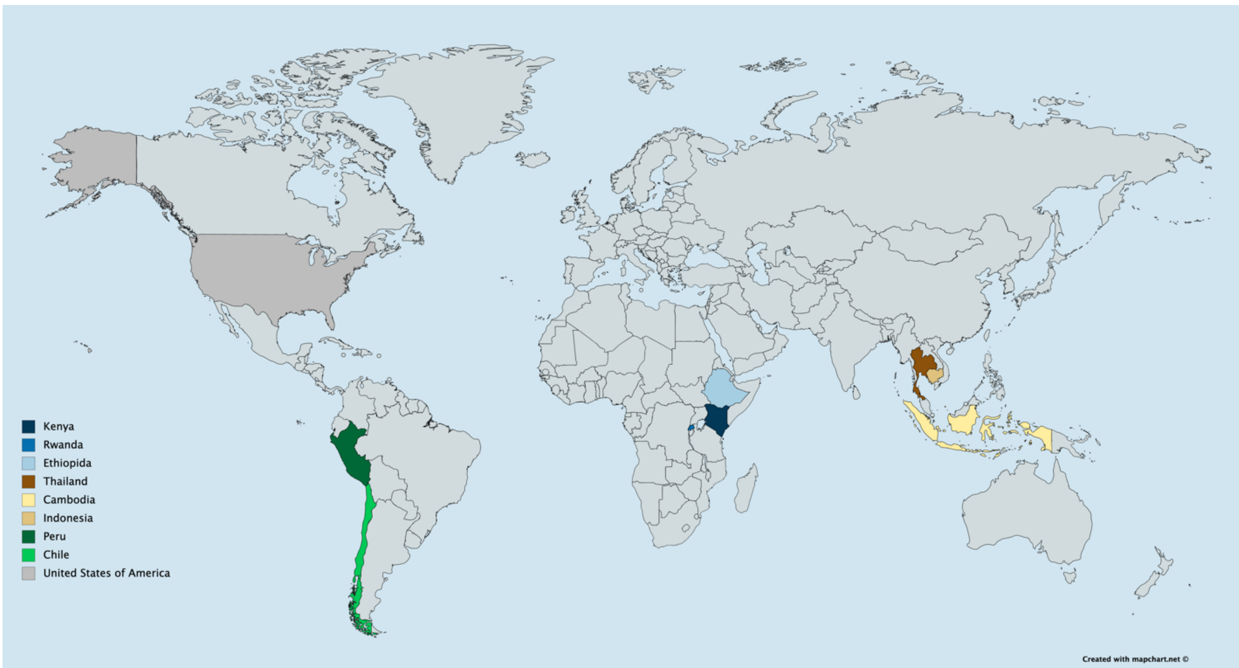

Figure 1: World Map with the eight emerging markets of interest and the United States (Voorrips 2002).

Kenya, Rwanda, and the United States

To analyze whether ABC Company is an effective third-party trade financing company, we will explore the economic landscape of both Kenya and Rwanda (the two countries ABC Company operates in) and compare this to the United States as a base country. Furthermore, we

will analyze the economic landscape of the remaining six countries of interest to gauge a comparison. We use both economic indicators from databases and reports from international banks to draw conclusions.

Kenya is a country with 51 million people bordered by Tanzania, Uganda, South Sudan, Ethiopia, and Somalia (“Kenya Overview” 2019). Kenya, along with Rwanda, is a part of both the East Africa Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA) which encourages international trade within East Africa. With the capital city in Nairobi and the large seaport Mombasa, Kenya has experienced “sustained economic growth, social development, and political gains over the past decade” (“Kenya Overview” 2019). A new constitution in 2010 introduced a bicameral legislative house, created local counties, and brought a tenured judiciary and electoral body. Creating local counties led to devolution where lower levels of government receive more power. Under President Uhuru Kenyatta, Kenya has adopted Vision 2030 which has the “Big Four” development priorities: manufacturing, universal healthcare, affordable housing, and food security. Although Kenya faces challenges such as poverty, inequality, child mortality, universal primary school enrollment, climate change, and a vulnerable economy to internal and external shocks, it has a strong youthful population with a highly skilled workforce. Kenya, with improved infrastructure and prominent technology usage, is an emerging market with a strong growth potential (“Kenya Overview” 2019).

Rwanda, with its capital city of Kigali, is a small, landlocked country bordered by the Democratic Republic of Congo, Tanzania, Uganda, and Burundi. It has a dense population of 12.5 million people (“Rwanda Overview” 2019). Rwanda is known for its recent genocide in 1994 but has been economically and politically stable ever since. The World Bank and the

International Monetary Fund (IMF) have financially supported Rwanda in reforms which lead to economic growth. Rwanda is led by President Paul Kagame and has a parliament where women fill 64% of the seats as of September 2018. The government envisions becoming a Middle-Income Country (MIC) by 2035 and a High-Income Country (HIC) by 2050 and details its plan in its seven-year program called National Strategies for Transformation 2017-2024 (NST1). The World Bank states that, "Measured by the national poverty line, poverty declined from 59 to 39%" ("Rwanda Overview" 2019). As the economy improves in Rwanda, the living standards also improve. For an emerging market, Rwanda is a stable country with a lot of promise for financial growth.

The United States, with an estimated population of 329 million people, is used as the base country in our comparison with economic indicators ("U.S. and World Population Clock" 2010). The United States represents a free, highly developed, stable economy. See Table 1 for further discussion about economic indicators. Table 1 includes data from the year that ABC Company first started operating (2015) and continues until the most recent year that the World Bank published (2018).

Economic Indicators
The World Bank

Economy	GDP (current US$)	GDP growth (annual %)	Current account balance (% of GDP)	Consumer price index (2010 = 100)	Inflation, GDP deflator (annual %)	Bank nonperforming loans to total gross loans (%)	Lending interest rate (%)	Real interest rate (%)	Exports of goods and services (% of GDP)	Imports of goods and services (% of GDP)
Cambodia										
2018	$ 24,542,474,061	7.50%	-12.19%	127.63	3.08%	1.99%	N/A	N/A	61.60%	63.30%
2017	$ 22,180,376,506	7.02%	-8.10%	124.57	3.32%	2.07%	N/A	N/A	60.68%	64.11%
2016	$ 20,159,271,965	7.03%	-8.60%	121.07	3.38%	2.13%	N/A	N/A	61.28%	65.67%
2015	$ 18,049,954,289	7.04%	-8.68%	117.49	1.72%	1.59%	N/A	N/A	61.72%	66.15%
Chile										
2018	$ 298,231,133,533	4.02%	-3.07%	128.62	2.02%	1.87%	4.18%	2.12%	28.81%	28.72%
2017	$ 277,746,461,078	1.28%	-2.15%	125.57	5.00%	1.92%	4.55%	-0.42%	28.53%	27.14%
2016	$ 250,339,863,131	1.67%	-1.58%	122.88	4.47%	1.83%	5.59%	1.07%	28.16%	27.55%
2015	$ 243,919,085,309	2.30%	-2.32%	118.40	4.95%	1.87%	5.51%	0.53%	29.38%	29.60%
Ethiopia										
2018	$ 84,355,604,753	6.81%	-5.47%	N/A	12.52%	N/A	N/A	N/A	8.37%	22.80%
2017	$ 81,760,441,159	9.50%	-7.25%	249.09	6.72%	N/A	N/A	N/A	7.63%	23.48%
2016	$ 74,296,618,481	9.43%	-10.64%	226.76	10.40%	N/A	N/A	N/A	7.81%	27.09%
2015	$ 64,589,334,979	10.39%	-11.71%	211.40	10.84%	N/A	N/A	N/A	9.36%	30.29%
Indonesia										
2018	$ 1,042,173,300,626	5.17%	-2.98%	146.73	3.83%	2.29%	10.54%	6.46%	20.97%	22.06%
2017	$ 1,015,423,455,783	5.07%	-1.59%	142.18	4.27%	2.56%	11.07%	6.52%	20.19%	19.17%
2016	$ 931,877,364,178	5.03%	-1.82%	136.97	2.44%	2.90%	11.89%	9.22%	19.09%	18.33%
2015	$ 860,854,235,065	4.88%	-2.04%	132.30	3.98%	2.43%	12.66%	8.35%	21.16%	20.78%
Kenya										
2018	$ 87,908,262,520	6.32%	N/A	180.51	2.84%	11.69%	13.06%	9.94%	13.18%	23.01%
2017	$ 78,757,391,333	4.86%	-6.37%	172.43	10.59%	9.95%	13.67%	2.78%	13.26%	24.23%
2016	$ 69,188,755,511	5.88%	-5.34%	159.65	5.55%	8.59%	16.56%	10.43%	14.31%	23.34%
2015	$ 64,007,750,179	5.72%	-6.70%	150.19	10.02%	5.99%	16.09%	5.51%	16.59%	27.62%
Peru										
2018	$ 222,044,970,486	3.98%	-1.62%	127.07	2.02%	3.27%	N/A	N/A	25.38%	23.54%
2017	$ 211,007,207,484	2.52%	-1.26%	125.42	3.62%	4.70%	N/A	N/A	24.72%	22.79%
2016	$ 191,895,943,824	3.95%	-2.64%	122.00	3.08%	4.29%	16.47%	12.99%	22.60%	22.79%
2015	$ 189,805,300,842	3.25%	-5.02%	117.77	2.69%	3.93%	16.11%	13.06%	21.29%	23.88%
Rwanda										
2018	$ 9,508,715,596	8.61%	-7.85%	146.19	-0.79%	6.43%	16.95%	17.88%	17.37%	34.13%
2017	$ 9,140,429,058	6.12%	-7.76%	146.64	7.34%	7.65%	17.17%	9.15%	18.23%	32.75%
2016	$ 8,475,622,319	5.98%	-15.96%	135.43	5.50%	7.62%	17.29%	11.18%	14.92%	33.10%
2015	$ 8,277,614,581	8.87%	-15.31%	126.36	0.29%	5.91%	17.33%	17.00%	14.24%	38.31%
Thailand										
2018	$ 504,992,757,705	4.13%	6.41%	112.47	1.41%	3.08%	4.15%	2.70%	66.82%	56.49%
2017	$ 455,275,517,239	4.02%	9.68%	111.29	2.06%	3.07%	4.42%	2.31%	68.18%	54.35%
2016	$ 412,352,789,520	3.36%	10.53%	110.55	2.46%	2.99%	4.47%	1.96%	68.39%	53.64%
2015	$ 401,295,970,240	3.13%	6.92%	110.34	0.72%	2.68%	4.73%	3.98%	68.72%	57.20%
United States										
2018	$ 20,544,343,456,937	2.93%	-2.39%	115.16	2.44%	0.91%	4.90%	2.41%	12.22%	15.33%
2017	$ 19,485,393,853,000	2.22%	-2.26%	112.41	1.90%	1.13%	4.10%	2.15%	12.09%	15.05%
2016	$ 18,707,188,235,000	1.57%	-2.29%	110.07	1.09%	1.32%	3.51%	2.39%	11.87%	14.64%
2015	$ 18,219,297,584,000	2.88%	-2.24%	108.70	1.07%	1.47%	3.26%	2.17%	12.44%	15.30%

Table 1: Economic Indicators from the World Bank dataset for the eight emerging markets of interest and the United States from 2015 - 2018 (“World Development Indicators” 2020).

Using the most recent data from the World Bank, the 2018 Gross Domestic Product (GDP) in current United States Dollars for Kenya, Rwanda, and the United States is $88 billion, $10 billion, and $21 trillion respectively. Kenya's economy is 0.43% of the United States, while Rwanda is even lower at 0.05% of the United States. In terms of GDP, the United states, a stable economy, has averaged a 2.4% annual growth rate over the past four years from 2015 until 2018. 2018 was the highest growth rate at 2.93%. In the same time period, Kenya has averaged a 5.69% annual GDP growth rate with 2018 being the highest at 6.32%. Equivalently, Rwanda has averaged a 7.39% annual GDP growth rate with 2015 being the highest at 8.87%. It is clear that the emerging markets, in a positive macroeconomic environment, are able to achieve higher annual GDP growth rates than a stable economy such as the United States.

The current account balance (as a percent of GDP) shows a country's key activities and whether the country is in a surplus or deficit. It is made up of four components: goods, services, income, and current transfers. As a highly developed country, the United states incurred a 2.39% current account deficit in 2018. This means that the United States imported more than it exported, resulting in more money exiting the country. Although the 2018 current account balance was not listed for Kenya, the 2017 current account balance stands at a 6.37% deficit. Rwanda also had a deficit in 2018 at 7.85%. Although a current account deficit is common in highly developed or highly underdeveloped countries, not emerging markets, it is important to remember that the deficit could signify an increase in foreign investment or could mean that the country is importing more in the short term in order to produce more exports and lessen the deficit.

The Consumer Price Index (CPI) is a measure of inflation that is calculated by taking a weighted average of varying consumer goods and services over time. The World Bank uses the year 2010 as the base year of index 100. The United States has a CPI of 115.16 in 2018 which means that prices are on average 15.16% higher than they were eight years earlier. In the same regard, Kenya has a CPI of 180.51 in 2018 and Rwanda has a CPI of 146.19 in 2018. Although Rwanda had significantly less inflation than Kenya, prices were clearly not as stable as the United states.

The GDP deflator in terms of annual percentage is another way of measuring stability with inflation. It is calculated by dividing nominal GDP by real GDP and multiplying by 100 (Chappelow 2019). In 2018, the prices in the United States increased 2.44% from the year before. Over the past four years (2015-2018), the United States had an average GDP deflator of 1.62% and a range of 1.37%. Kenya had the highest average inflation rate from 2015 to 2018 with 7.25% compared to Rwanda with an average inflation rate of 3.08%. However, both countries, Kenya and Rwanda, were similar with very wide ranges with 7.75% and 8.13% respectively. Kenya and Rwanda have higher variability with annual inflation rates which signals less stability in their economic landscapes. In emerging markets with less stable monetary policy and governmental institutions, this can be expected.

Bank nonperforming loans to total gross loans show the percentage of loans where the borrower defaults on the payment to the total amount the bank lent. A lower percentage shows a stronger economy where borrowers have the ability to pay back loans. However, it is important to consider that in a weak economy, banks may slow down with the number of loans they grant. Nonetheless, it is interesting to note that the United States has a low bank nonperforming loan to

total gross loans rate at 0.91% while Kenya and Rwanda show 11.69% and 6.43% respectively. It is apparent that businesses and other borrowers in Kenya and Rwanda have a higher difficulty paying back banks loans. This presents the opportunity for a different form of credit for the businesses involved with default payments. Third party trade financing, if performed effectively, could solve the issue of obtaining credit and could act as a business partner to help SMEs complete trades.

The lending interest rate and the real interest rate data show more information about lending to the private sector. The lending interest rate is the nominal rate which banks charge borrowers as the cost of capital. The real interest rate is the lending interest rate adjusted for inflation. The United States has a low lending rate at 4.90% and a real interest rate of 2.41% for 2018. Kenya is has a higher lending rate at 13.06% and real interest rate at 9.94% in 2018. Even higher than that, Rwanda has a lending interest rate of 16.95% and a real interest rate of 17.88%. The cost of capital for Kenya and Rwanda are very high compared to the United States and this may explain some of the difficulty for SMEs to grow and sustain their businesses. Therefore, it may be essential for SMEs to have access to a trade financing company who utilizes its low bank interest rate to pass along to the SME through a collateralized loan.

Finally, we can analyze international trade. Exports and imports of goods and services are represented as a percent of GDP. The value of all exports of goods and services in the United States were equivalent to 12.22% of the GDP in 2018 and the value of all imports were equivalent to 15.33%. Kenya had a similar value of all exports at 13.18% of the GDP in 2018 but had a larger value of all imports at 23.01%. The value of all exports in Rwanda were equivalent to 17.37% of the GDP in 2018 and the value of all imports was equivalent to 34.13%. Kenya and

Rwanda show a larger ratio of imports to exports which signify that they are both more reliant on purchasing goods and services from other countries. However, all three countries show that they import more than they export, creating the current account deficit mentioned previously.

Next, we can analyze rankings from the World Bank in Table 2 ("Ease of Doing Business Rankings" 2020). The rankings range from 1 to 190 (based on the number of countries that are currently in the world) where 1 is the best score and 190 is the worst ranking. The rankings are based on the "ease of doing business scores" measured by the World Bank. The score is a measure of the economy in respect to best practices for 41 indicators for 10 topics. Only the five most important topics are presented below along with our eight emerging markets of interest plus the United States. Refer to Table 3 in the appendix for the full list of "Ease of Doing Business Rankings."

Ease of Doing Business Rankings
The World Bank

Economy	Getting Credit	globalRank	Starting a Business	Trading across Borders	Enforcing Contracts
United States	4	6	55	39	17
Rwanda	4	38	35	88	32
Kenya	4	56	129	117	89
Cambodia	25	144	187	118	182
Peru	37	76	133	102	83
Thailand	48	21	47	62	37
Indonesia	48	73	140	116	139
Chile	94	59	57	73	54
Ethiopia	176	159	168	156	67

Table 2: Ease of Doing Business Rankings from the World Bank for the eight emerging markets of interest and the United States ("Ease of Doing Business Rankings" 2020).

It is no surprise that the United States, the baseline economy, has the highest rank at number six in the world for “globalRank” which shows the overall easiest countries to do business with in general. In the absence of financial frictions, supply and demand should determine the equilibrium lending quantity to start and maintain a business. Assuming a stable government without any corruption present, doing business should be determined by clearly defined rules that are identical across individuals and groups. Rwanda is within the top 50 in the world ranking at number 38 and Kenya is ranking at number 56. However, the three countries are most similar in “Getting Credit”; the United States, Kenya, and Rwanda are tied for spot number 4 in the list. This is measured with an index for both the legal rights of borrowers and lenders and the strength of those legal rights. It is important to remember that “Small and medium-sized enterprises (SMEs) are the most credit-constrained: estimates project that half of their trade finance requests are rejected, compared to only 7 percent for multinational corporations” (“Trade finance and SMEs” 2016, p. 23). Although these countries exemplify great scores for the ability for individuals to obtain credit, we have to take a deeper look in order to understand how SMEs obtain credit.

For SMEs, the “Starting a Business” ranking is very important. Rwanda has the best rank of our countries of interest at number 35. Most likely because of regulatory restrictions, the United States ranks at number 55. Lastly, Kenya ranks at number 129 out of 190. It is important for governments to promote SME growth in order to encourage entrepreneurship and innovation. Access to credit and cost of credit are important factors for entrepreneurs of SMEs to consider and provide a great opportunity for third-party trade financing companies.

The United States ranks number 39 in “Trading Across Borders” which is the best score compared to our countries of interest. Rwanda is number 88 and Kenya is number 117. International trade, especially in a growing global economy, is important for governments to manage well.

“Enforcing Contracts” is essential when overseeing commerce. SMEs are more significantly affected by faulty contracts than large companies, so they rely on trust. This trust is supported by the legal systems of the countries involved. The United States is number 17, while Rwanda and Kenya are numbers 32 and 89 respectively.

This is the current landscape that ABC Company is operating in as a third-party trade financing company. We will further analyze the remaining six countries of interest to see how they compare to the United States, Kenya, and Rwanda.

Ethiopia, Chile, Peru, Thailand, Cambodia, and Indonesia

Ethiopia, similar to Kenya and Rwanda, lies in the Eastern African region and belongs to COMESA (“Ethiopia Overview” 2019). It is landlocked and bordered by Eritrea, Dijouti, Somalia, Kenya, South Sudan, and Sudan. Ethiopia is home to 109 million people as of 2018 and is second to Nigeria for the highest population in Africa. Even though the economy has experienced strong growth, the population remains one of the poorest in the region. However, the World Bank states the “share of the population living below the national poverty line decreased from 30% in 2011 to 24% in 2016” (“Ethiopia Overview” 2019). To face challenges such as poverty reduction and sustained economic growth, the government is contributing its budget to

"pro-poor" programs and investments. There is a need to finance programs to increase competitiveness, develop the private sector, and decrease political disruption.

Chile is a country in southern South America bordered by Argentina, Bolivia, and Peru ("Chile Overview" 2019). As one of Latin America's recent fastest-growing economies, Chile was able to "reduce the population living in poverty… from 30% in 2000 to 6.4% in 2017" ("Chile Overview" 2019). Through a volatile international framework and a recent slowdown, the government wants to encourage growth by enacting public investment and a lower monetary policy interest rate. There is a need to stabilize the country's debt in the short term, so the government aims to "rationalize the tax system, facilitate employment mobility, reduce bureaucracy, improve the pension system, and strengthen the financial system" ("Chile Overview" 2019). Overall, Chile can strengthen the middle class by encouraging innovation and improving health and education services.

Peru is the second country in South America of interest in this study and is bordered by Chile, Bolivia, Brazil, Colombia, and Ecuador ("Peru Overview" 2019). Peru's economy experienced rapid GDP growth and low inflation between 2002 and 2013 where poverty rates were reduced from "52.2% in 2005 to 26.1% in 2013" ("Peru Overview" 2019). Between 2014 and 2018, there was slower growth in the GDP due to lower international commodity prices, hurting Peru's main export commodity copper. Private investment, fiscal income, and consumption all declined in this period. However, fiscal, monetary, and exchange policies were managed well by the government and helped avoid a GDP shrinkage. Mining production also increased during this time causing exports to offset the slowing domestic demand. The World Bank states that Peru's exports, and therefore the health of its GDP, are vulnerable to

international financial conditions and natural disasters (“Peru Overview” 2019). To combat these, Peru has established “monetary, exchange-rate and fiscal cushions to mitigate their impact” (“Peru Overview” 2019).

Thailand lies near Cambodia, Laos, and Mynmar and is part of Southeastern Asia. The World Bank states, “Thailand has made remarkable progress in social and economic development, moving from a low-income to an upper-income country in less than a generation” (“Thailand Overview” 2019). Education is increasing and health insurance coverage is expanding. However, in recent years from 2015 to 2017, agricultural prices fell and created negative impacts on farmers; this contributed to declined employment levels and low wage growth in manufacturing. In terms of personal health, Thailand has a strong prevalence of diabetes and hypertension and has high rates of road injuries (“Thailand Overview” 2019). To the world, Thailand is known for its tropical beaches and ancient ruins that make it a beautiful tourist destination.

Cambodia, next to Vietnam, Laos, and Thailand, is our second country of interest which is part of Southeastern Asia. Cambodia is one of the quickest growing economies in the world because of a combination of its garment exportations and tourism (“Cambodia Overview” 2019). The World Bank states, “poverty rate in 2014 was 13.5% compared to 47.8% in 2007” (“Cambodia Overview” 2019). However, a large portion of the population remains susceptible to going back into poverty when external shocks to the economy hit. The Cambodian government currently focuses on health and universal education as key challenges. Other areas for improvement or reform include improved infrastructure in rural and urban areas, public institutions, and human capital in order for Cambodia to foster competitiveness and

entrepreneurship, manage natural resources, provide public services, and sustain economic growth.

Indonesia, as the largest economy in Southeast Asia, is a collection of islands surrounded by Malaysia, the Philippines, Timor-Leste, and Papua New Guinea ("Indonesia Overview" 2019). Indonesia is home to hundreds of ethnic groups and the "the world's fourth most populous nation of 264 million, the world's 10th largest economy in terms of purchasing power parity, and a member of the G-20" ("Indonesia Overview" 2019). The country has stable inflation and a strong job market. Indonesia follows a long-term development plan from 2005 – 2025 called RPJMN (Rencana Pembangunan Jangka Menengah Nasional) and is currently focusing on infrastructure and social assistance for education and healthcare ("Indonesia Overview" 2019). Poverty is a main concern for Indonesia with many people vulnerable to falling below the line of poverty. However, Indonesia remains to have a positive economic outlook for the future.

Referring back to Table 1, we will examine the economic indicators for Ethiopia, Chile, Peru, Thailand, Cambodia, and Indonesia. The country with the largest GDP in current USD is Indonesia with over $1 trillion in 2018. The country with the smallest GDP in current USD is Cambodia with $25 billion.

Cambodia shows a high and stable GDP growth ranging from 7.02% to 7.50% from 2015 – 2018 with 7.50% occurring most recently in 2018. Ethiopia has the next highest recent annual growth at 6.81% in 2018, but this is slowing from its 2015 GDP growth of 10.39%. Indonesia, Thailand, Chile, and Peru are all fairly stable and had recent growths of 5.17%, 4.13%, 4.02%,

and 3.98% in 2018 respectively. All emerging market annual GDP growths are larger than the stable economy of the United States.

All emerging markets have a current account deficit except for Thailand. Thailand has experienced a current account surplus during all four years listed (2015 – 2019) ranging from 6.41% to 10.53%. Thailand exported more than it imported, resulting in more money coming into the country from foreign entities. A current account surplus is common in emerging markets.

To examine inflation, we look at both the Consumer Price Index (CPI) and the GDP deflator. As of 2018, Thailand proves to have the lowest CPI in 2018 at 112.47, which is even lower than the United States at 115.16. Peru, Cambodia, Chile, and Indonesia all have similar CPIs at 127.07, 127.63, 128.62, and 146.73 respectively in 2018. However, Ethiopia is by far the most affected by inflation with a CPI in 2017 of 249.09. The GDP deflator shows similar results to the CPI. The country least affected by inflation is Thailand with a GDP deflator in 2018 at 1.41%. Peru, Cambodia, Chile, and Indonesia have similar deflators at 2.02%, 3.08%, 2.02%, and 3.83% respectively. Ethiopia incurred a staggering 12.52% GDP deflator in 2018. High inflation can be a sign of instability, but some is needed for a healthy, growing economy.

The bank nonperforming loans to total gross loans do not stand out as large issues in terms of difficulty for borrowers to pay back loans. Ethiopia has missing data, but in 2018, Chile, Cambodia, and Indonesia have the lowest bank nonperforming loan rate at 1.87%, 1.99%, and 2.29%. In 2018, Thailand and Peru were higher at 3.08% and 3.27%.

In the private sector, the lending interest rate (nominal rate) and the real interest rate (adjusted for inflation) show the burden of borrowing money. Cambodia and Ethiopia have

missing data for both of these indicators, but Chile and Thailand prove to have relatively low interest rates. Chile has a lending interest rate of 4.18% and a real interest rate of 2.12% in 2018. Thailand has a lending interest rate of 4.15% and a real interest rate of 2.70% in 2018. Indonesia proves to be more expensive with a lending interest rate of 10.54% and a real interest rate of 6.46% in 2018. Although data is missing for 2017 and 2018 for Peru, 2016 shows a high lending interest rate of 16.47% and a real interest rate of 12.99%. With higher costs of capital, the higher difficulty for SMEs to access financing and grow their businesses.

The exports and imports of goods and services as a percent of GDP show how dependent a country is on international trade. Ethiopia has the lowest exports at 8.37% and imports at 22.80% in 2018. Its export-import ratio shows that it relies on imports more than it relies on exports which may mean it is dependent on other countries. Similarly, Indonesia has exports and imports at 20.97% and 22.06% in 2018 respectively and Peru at 25.38% and 23.54%. Chile is slightly higher at 28.81% and 28.72%. Cambodia and Thailand both have much larger exports and imports of goods and services as a percent of GDP; Cambodia shows percentages at 61.60% and 63.30% in 2018 and Thailand shows 66.82% and 56.49% respectively. Cambodia and Thailand engage more heavily in international trade than all other countries.

In terms of the trade accessibility, we will refer back to Table 2 with the "Ease of Doing Business Rankings." Out of the eight emerging markets of interest (excluding Rwanda and Kenya), people in Cambodia have the easiest time getting credit and people from Ethiopia have the hardest time getting credit. Overall rankings in the "globalRank" column show that Thailand is the easiest country to do business with in general, and that Ethiopia proves to be the most difficult. For entrepreneurs, people in Thailand experience the most convenience when starting a

business, but entrepreneurs in Cambodia experience the most trouble. If a business wanted to start trading across borders, they would find Thailand to be the easiest to work with while Ethiopia would be the hardest. Lastly, enforcing contracts is best in Thailand, but worst in Cambodia.

Development

Many large banks devoted to development in emerging markets set goals to stimulate trade in commonly overlooked areas such as within SME groups and follow Sustainable Development goals originating from the United Nations. For example, the Inter-American Development Bank (IADB) stated, "…it is critical that we continue to help countries implement their national development plans—which are linked to the SDGs—and that we continue to generate and share knowledge on effective development solutions" (DEO 2019, p. X). SDGs are goals that united development banks and companies alike to tackle large social issues around the globe.

In order for development to occur in the finance world in emerging markets, countries need to have strong and stable governments. The IADB states, "In Chile, a series of corruption cases in late 2014 undermined public confidence in the country's institutions and highlighted the need to further strengthen its legislation to adequately prevent conflicts of interest, influence peddling and other types of corruption within and between business, politics, and public service" (DEO 2019, p. 19). Chile has since implemented an Integrity and Transparency Agenda in 2015 which shows how emerging markets can bounce back from political difficulties.

Regarding private sector development, the Asia Development Bank considers this to be "most powerful and dynamic vehicle for generating growth, creating employment, and delivering

innovative solutions for development" (Dawson et. al 2019, p. 40). The ADB supports SMEs in vulnerable communities to access opportunities in sectors such as services, manufacturing, and agriculture. Trade financing from third parties could provide the same opportunities in the private sector to deliver financing solutions for SMEs and achieve the same important goals.

Technology and growing urban areas present opportunities for financing. The Asia Development Bank reports that Cambodia, Indonesia, and Thailand experienced strong economic growth because of exports and upward domestic demand (Dawson et. al 2019, p. 36). The ADB also states that the governments of Indonesia and Thailand both invested heavily in infrastructure which leads to positive economic activity (Dawson et. al 2019, p. 36). In contrast to this, the IADB explained that Latin America, which includes Chile and Peru, is "characterized by low levels of productivity and innovation" (DEO 2019, p. 10). There is a large gap in financing and investing in this region and provides a great opportunity for third-party trade financing companies.

Stable growth, which trade financing aims to provide, is important because SMEs may benefit from economies of scale and specialization which allows goods and services to be available at a lower cost to consumers (DEO 2019, p. 12). In order to reach this goal, flexible financing is key to counteract volatility in the macroeconomy.

Aside from access to credit, it is interesting to note that there is a "widespread demand among [SMEs] for financial literacy, management skills, strategic planning to scale operations, and compliance with legal and regulatory requirements" (Shared Value Report 2019, p. 15). We recommend that third-party trade financing companies not only provide access to financing, but also contribute to the practice of better business.

Methodology

To assess the effectiveness of third-party trade financing companies, we used information from ABC Company's accounting books. We then compared this to macroeconomic data about GDP by sector found online in a database called Trading Economics (2020). Trading Economics only offered public information for the years 2017 – 2019, so we will focus on this time period. Because ABC Company is a start-up company and did not perform most efficiently in its early stages, we will ignore trade deals originating before 2017.

ABC Company creates trade deals with SMEs by estimating an "amount advanced" and an "amount due." The amount advanced is the sum of money that ABC Company estimates they will pay out to suppliers on behalf of the SME who acts as an intermediary. The amount due is the sum of money that the end customer will pay ABC Company who then keeps a portion of the payment (as the cost of capital) and transfers the rest to the SME intermediary. Most of the trade deals involve contracts and tenders to facilitate and enforce commerce.

We used a document from ABC Company's accounting books detailing a total of 168 past trade deals from 2017 until 2019. This included data on the SMEs' country of origin, the trade sector, the amount advanced to suppliers, and the year the trade was initiated. We use the year the trade was initiated rather than the year completed because the amount advanced is counted in the GDP for the respective country.

To obtain consistency between ABC Company's data and Trading Economics data, we used the naming conventions from Trading Economics. The sectors include Agriculture, Construction, Manufacturing, Mining, Public Administration, Services, Transport, and Utilities

("Kenya GDP" 2020). For example, if ABC Company defined trade deal number 100 to be "Government," it was renamed to fit under "Public Administration."

All "amounts advanced" from ABC Company were recorded in United States Dollars (USD). The data from Trading Economics was posted in the local currency. In order to convert Kenyan Shillings (KES) and Rwandan Francs (RWF) to USD, we used yearly average exchange rates for each country shown in Table 4 ("Exchange Rates UK" 2020). However, to calculate relative GDP in percentages, we used local currency to maintain accuracy. For example, to find out how much the sector "agriculture" contributes to the total GDP in Kenya, we took the GDP for "agriculture" in KES and divided this by the sum of all the sectors of the GDP in KES to get the relative GDP in a percentage.

Exchange Rates

Country	Year	Exchange Rate	Currency	Base	Currency
Kenya	2017	103.3896	KES	1	USD
Kenya	2018	101.2881	KES	1	USD
Kenya	2019	101.9938	KES	1	USD
Rwanda	2017	838.6623	RWF	1	USD
Rwanda	2018	868.7951	RWF	1	USD
Rwanda	2019	911.5004	RWF	1	USD

Table 4: Average exchange rates for Kenyan Shillings (KES) and Rwandan Francs (RWF) for the years 2017 – 2019 compared to 1 United States Dollar (USD) ("Exchange Rates UK" 2020).

It is important to note that there was data missing from the Trading Economics database detailing Rwanda's Utilities sector. With an assumption that Rwanda's Utilities sector would be very similar to Kenya's Utilities sector, we used the percentage of Utilities to Total GDP from Kenya and applied this to Rwanda. Based on Rwanda's Total GDP, its Utilities data is predicted with Kenya's ratio.

We will use macroeconomic data from Trading Economics and compare this to ABC Company's experience with SMEs in Kenya and Rwanda to analyze if this third-party trade financing company is significant in the economy and effective in their business.

Results

First, we examine the GDP sectors for Kenya, Rwanda, and the United States. In terms of change over time, the percentages for relative GDP do not change significantly annually from 2017 until 2019. Figures 2, 3, and 4 in the appendix show the relative GDP as a percent for Kenya, Rwanda, and the United States respectively for 2017, 2018, and 2019. No large changes occurred during stable global economic conditions. Because there is little change annually, we will focus on the relative GDP by country in the most current year (2019) in Figure 6 below.

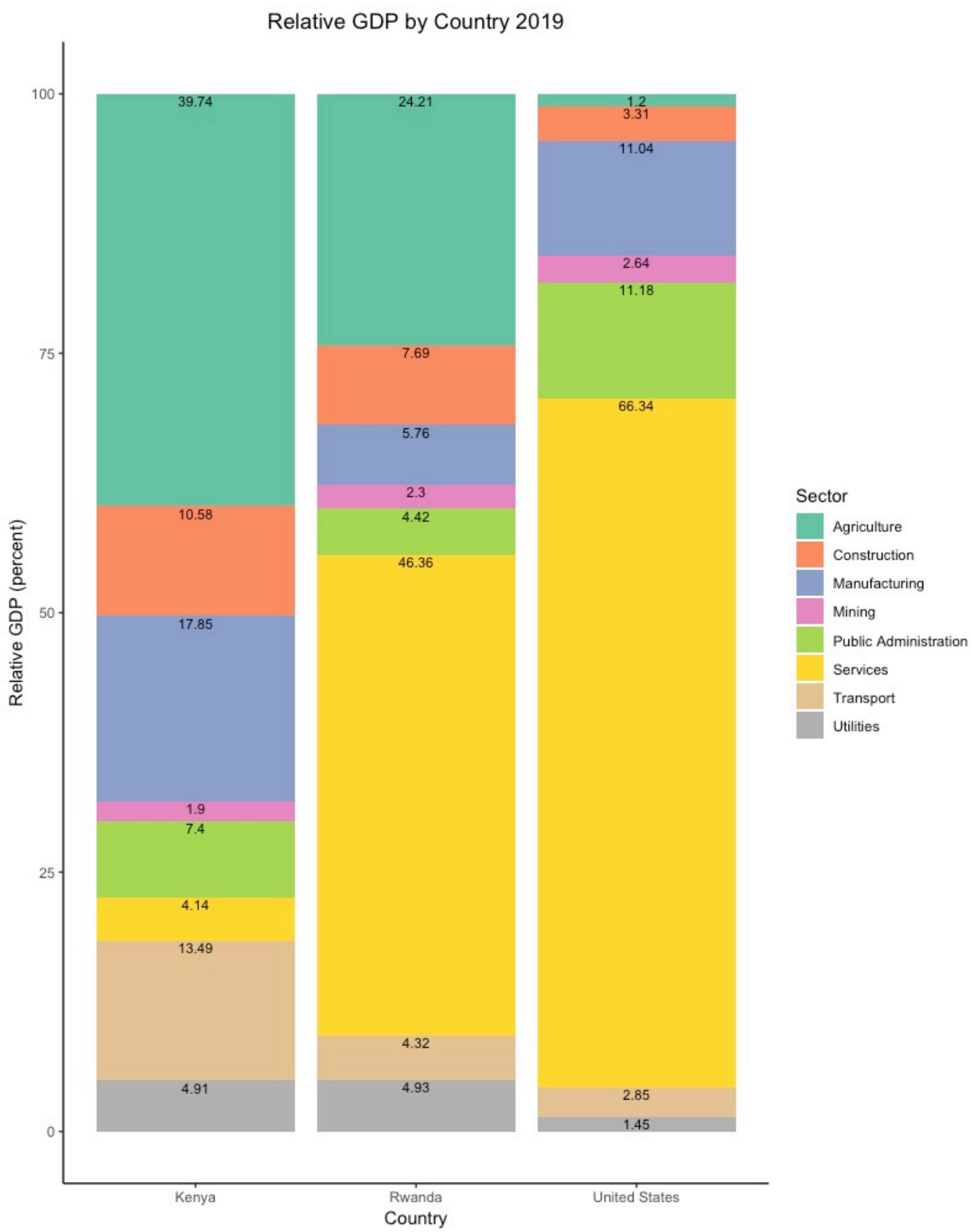

Figure 5: The Relative GDP by Country 2019 shows the Relative GDP as a percent of the total local GDP in the year 2019 for agriculture, construction, manufacturing, mining, public administration, services, transport, and utilities in a stacked bar chart (Trading Economics 2020).

For Kenya, agriculture is the largest portion of its economy because it consumes 39.74% of its total relative GDP. Rwanda's largest sector of its GDP is services at 46.36%. Similarly, the United States' largest sector of its GDP is services as well at 66.34%.

Both Kenya and Rwanda rely on the agriculture industry heavily at 39.74% and 24.21% respectively, compared to 1.2% for the United States. However, Rwanda seems to be more developed than Kenya based on its higher percentage of the services sector (46.36% compared to Kenya's 4.14%) and its lower percentage of transport (4.32% compared to Kenya's 13.49%). Services show that a country has developed skillsets and businesses that accommodate to the citizens as opposed to relying on natural resources. Even with a substantial reliance on agriculture and low reliance on services, Kenya does excel in manufacturing at 17.85% compared to Rwanda at 5.76%. This shows that Kenya is producing goods for its own consumption or for export and is industrialized.

Next, we use the Trading Economics data to compare GDP outputs to ABC Company trade deals with SMEs in Kenya and Rwanda to determine if ABC Company made a significant impact. Table 5 in the appendix shows the impact of ABC Company for both Kenya and Rwanda in 2017, 2018, and 2019 for each sector of the economy. Any percentage above 0.01% is bolded because this is our threshold for significance.

Table 6 is very similar to Table 5 but is condensed to show all years (2017 – 2019) combined. ABC company has 168 trade deals from 2017-2019. As there is no significant change in ABC's contribution to each sector in each year, we analyze the contribution of all 3 years as a whole. Table 6 shows that ABC Company contributed a significant amount for manufacturing for Rwanda, for public administration in Kenya and Rwanda, for services in Kenya, for transport

in Rwanda, and for utilities in Kenya and Rwanda. The highest contribution is towards transportation in Rwanda at 0.5689% which is greater than half a percent of the sector.

ABC's Contribution to GDP by Sector and Country from 2017-2019

Country	Year	Agriculture	Construction	Manufacturing	Mining	Public.Administration	Services	Transport	Utilities
Kenya	2017-2019	0.0023	0.0073	0.0010	0.0012	**0.1077**	**0.1614**	0.0000	**0.0548**
Rwanda	2017-2019	0.0040	0.0005	**0.0983**	0.0000	**0.1621**	0.0000	**0.5689**	**0.0255**

Table 6: ABC's Contribution to GDP by Sector and Country represents the percent of GDP ABC Company contributed to the economy for each country and each sector.

Relative to both Kenya's and Rwanda's annual GDP, ABC Company's project scale can be considered economically significant. We can see that when credit becomes available at reasonable rates, SMEs may be able to do more business and handle larger projects. However, to be able to identify a causal link between industrial growth and ABC Company's project funding, we would need to analyze Company specific data on the value added. This data is currently unavailable but might become available in the future.

It is important to note that the most consistent and largest contributions were made in sectors that rarely have perishable goods. Public Administration, transportation, and utilities most often do not require trade deals with perishable goods. This makes it easier for a third-party trade finance company to create contracts with SMEs because there is less risk involved. Trade finance from a third-party company inherently creates collateralized loans because they are buying the goods from a supplier in their own name. If the SME or end customer defaults on

payment, the third-party trade financing company can liquidate the goods. This insinuates a much larger risk when dealing with perishable goods. ABC Company most likely wanted to work in public administration, transportation, and utilities because they avoid perishable collateralized loans. The significant contributions for the manufacturing and services sectors were mainly within the pharma industry including the distribution of medical supplies and testing kits. Other businesses include a honey production company (which has a long shelf-life) and a company which installs heavy machinery in the hospitality industry.

Government partnerships are necessary, as shown by the public administration contribution, because governments of emerging market countries want to encourage SME development in their own country. A technical report called “Policies that Promote SME Participation in Public Procurement” conducted by the World Bank Group on behalf of the Business Environment Working Group (BEWG) of the Donor Committee for Enterprise Development (DCED) stated, “many countries have begun to use public procurement to achieve certain policy objectives, directing their spending towards businesses they wish to strategically support through preferential policies” (2017). This means that third-party trade financing companies, if they focus on SMEs, have the opportunity to create partnerships and establish reputations with government agencies to open doors in new markets in order to finance procurement tenders that involve SMEs.

Table 7 below combines all years (2017 – 2019) and all sectors to show the total GDP contribution ABC Company provided through 168 trade deals. Overall, ABC Company contributed to 0.0191% of the Kenyan GDP and 0.0384% of the Rwandan GDP through SMEs. Both of these percentages, according to our 0.01% threshold, are significant.

ABC's Contribution to GDP by Country from 2017-2019

Country	Year	Percentage
Kenya	2017-2019	**0.0191**
Rwanda	2017-2019	**0.0384**

Table 7: ABC's Contribution to GDP by Country from 2017 – 2019 represents the percent of GDP ABC Company contributed to the economy for each country over three years.

Discussion

A successful third-party trade financing company would connect SMEs in emerging markets to the worldwide economy and help them financially grow their businesses in order to provide benefits for both stakeholders community members. It would provide access to finance, deliver high financial and social returns, and drive economic growth. The SMEs that the trade financing company would interact with would create jobs, deliver goods and services to underserved communities, and create a positive impact and financial return.

One of ABC Company's SME entrepreneurs, referred to as "Entrepreneur A," has completed seven trade deals with ABC Company. According to the anonymous business, Entrepreneur A is a "supplier of high-end medical devices from around the world, including neo-natal ICUs, ambulances, and malaria diagnostic kits for all of Rwanda. [Entrepreneur A]'s business has grown more than 10 [times] since working with [ABC Company]" (2019). This is one example of a successful story for ABC Company. Although not all clients may experience such a large amount of growth, many experience reasonable growth or even a higher profit because of the better cost of capital.

Other times, trade deals fail. Failures can occur when the end customer defaults on payment and the third-party trade financing party is stuck with the collateralized goods. They can also occur when contracts are not enforced in a timely manner and the cost of capital becomes too large for the third-party company and therefore does not pay off for the SME. It is highly important to vet suppliers, intermediary SMEs, and end customers to make sure they are ethical and responsible businesses who will pay on time and in full. Long-term partnerships and strong relationships are very important instruments in this case because "… trade credit, particularly in the absence of effective legal enforcement, requires trust and reputation…" (Fisman, R & Love, I 2003, p. 354). Because established relationships play a large role in commerce, third-party trade financing companies may find this to be a barrier to entry. However, once established companies, long-term relationships can become an asset. Relationships between companies are able to promote transparency through trade.

Based on the information provided in the "Global Economic Landscape" section about Ethiopia, Chile, Peru, Thailand, Cambodia, and Indonesia and the results from ABC Company's efforts in Kenya and Rwanda, we predict third-party trade finance would work best in the following order: Thailand, Rwanda, Kenya, Chile, Indonesia, Peru, Cambodia, and Ethiopia. However, success with trade financing depends on execution of the company, timing, acceptance from borrowers, macroeconomic conditions, and many other factors.

Lastly, we predict third-party trade financing to work best in nonperishable markets, industries with high barriers to entry, and in countries which governments encourage SME involvement by requiring tenders to be filled by SMEs.

Conclusion and Recommendations

ABC Company proved to provide significant contributions to the GDP in Kenya and Rwanda in the manufacturing, public administration, services, transport, and utilities sectors from 2017 to 2019. They also proved to be a solution for SMEs who struggled with accessing capital.

We believe trade deals with Kenya and Rwanda can be imitated very closely in Ethiopia, Chile, Peru, Thailand, Cambodia, and Indonesia. Of course, each country will provide its own set of limitations and challenges, but based on the analysis conducted, all emerging markets of interest show a need for access to capital which may be solved by a third-party trade financing company. To someone considering where to start and which country to invest in first, we would recommend looking back at the "Ease of Doing Business Rankings" and decide which value is most important to himself or herself. Is the "globalRank" most important because it shows which country will be easiest to conduct business in? Or does the "Getting Credit" aspect show the biggest need for an alternative financing company?

For ABC Company and other players in the third-party trade financing industry, we recommend they expand their businesses to Ethiopia, Chile, Peru, Thailand, Cambodia, and Indonesia and work in the manufacturing, public administration, services, transport, and utilities sectors. Current third-party trade financing companies have the most experience in these sectors and should continue to improve their trade management skills while learning how to operate in the new emerging markets. It may be prudent to start expanding by doing trade deals in different continents in order to diversify business. For example, if a company chooses to expand into two more countries at the moment, we recommend they try Thailand and Chile. Losses are reduced

this way if Southeast Asia proves to not embrace third-party trade financing while South America does find success. Expanding for these companies also requires access to a large credit line from a bank with a low borrowing rate in order to be profitable, so it is important to make sure this is available.

We can only learn if third-party trade financing is as important as we predict if this trend grows. We believe it has unlimited potential in emerging markets. Future research could include assessing the financial statements of SMEs in emerging markets who accessed capital from both traditional sources such as banks and from third-party trade financing companies to determine if trade financing is effective. It would also be interesting to research if trade financing is a viable option for SMEs in highly developed countries.

If third-party trade financing companies are successful for SMEs, it may be sensible to develop ways in which the entrepreneurs of the SMEs can earn credit scores. It is important to avoid hindering entrepreneurs who cannot access traditional credit from building a strong key to the success of the trade finance development. Credit scores, after all, allow businesses to develop trust and conduct trades with one another.

Finally, we want to highlight the benefits of this nontraditional way of financing as an increasing number of investors look towards investing globally. We expect to see SMEs who have previously not been able to find funding because of a lack of creditworthiness to flourish in this market. We expect to see the benefits of trade financing outweigh the cost. We also expect to see that the practice is sustainable, meaning SMEs return to the same financer multiple times to grow their business. We are excited to see the future of third-party trade financing as emerging market economies continue to embrace global trade.

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Appendix

Ease of doing business ranking

Rank	Economy	DB score	Rank	Economy	DB score	Rank	Economy	DB score
1	New Zealand	86.8	65	Puerto Rico (U.S.)	70.1	128	Barbados	57.9
2	Singapore	86.2	66	Brunei Darussalam	70.1	129	Ecuador	57.7
3	Hong Kong SAR, China	85.3	67	Colombia	70.1	130	St. Vincent and the Grenadines	57.1
4	Denmark	85.3	68	Oman	70.0	131	Nigeria	56.9
5	Korea, Rep.	84.0	69	Uzbekistan	69.9	132	Niger	56.8
6	United States	84.0	70	Vietnam	69.8	133	Honduras	56.3
7	Georgia	83.7	71	Jamaica	69.7	134	Guyana	55.5
8	United Kingdom	83.5	72	Luxembourg	69.6	135	Belize	55.5
9	Norway	82.6	73	Indonesia	69.6	136	Solomon Islands	55.3
10	Sweden	82.0	74	Costa Rica	69.2	137	Cabo Verde	55.0
11	Lithuania	81.6	75	Jordan	69.0	138	Mozambique	55.0
12	Malaysia	81.5	76	Peru	68.7	139	St. Kitts and Nevis	54.6
13	Mauritius	81.5	77	Qatar	68.7	140	Zimbabwe	54.5
14	Australia	81.2	78	Tunisia	68.7	141	Tanzania	54.5
15	Taiwan, China	80.9	79	Greece	68.4	142	Nicaragua	54.4
16	United Arab Emirates	80.9	80	Kyrgyz Republic	67.8	143	Lebanon	54.3
17	North Macedonia	80.7	81	Mongolia	67.8	144	Cambodia	53.8
18	Estonia	80.6	82	Albania	67.7	145	Palau	53.7
19	Latvia	80.3	83	Kuwait	67.4	146	Grenada	53.4
20	Finland	80.2	84	South Africa	67.0	147	Maldives	53.3
21	Thailand	80.1	85	Zambia	66.9	148	Mali	52.9
22	Germany	79.7	86	Panama	66.6	149	Benin	52.4
23	Canada	79.6	87	Botswana	66.2	150	Bolivia	51.7
24	Ireland	79.6	88	Malta	66.1	151	Burkina Faso	51.4
25	Kazakhstan	79.6	89	Bhutan	66.0	152	Mauritania	51.1
26	Iceland	79.0	90	Bosnia and Herzegovina	65.4	153	Marshall Islands	50.9
27	Austria	78.7	91	El Salvador	65.3	154	Lao PDR	50.8
28	Russian Federation	78.2	92	San Marino	64.2	155	Gambia, The	50.3
29	Japan	78.0	93	St. Lucia	63.7	156	Guinea	49.4
30	Spain	77.9	94	Nepal	63.2	157	Algeria	48.6
31	China	77.9	95	Philippines	62.8	158	Micronesia, Fed. Sts.	48.1
32	France	76.8	96	Guatemala	62.6	159	Ethiopia	48.0
33	Turkey	76.8	97	Togo	62.3	160	Comoros	47.9
34	Azerbaijan	76.7	98	Samoa	62.1	161	Madagascar	47.7
35	Israel	76.7	99	Sri Lanka	61.8	162	Suriname	47.5
36	Switzerland	76.6	100	Seychelles	61.7	163	Sierra Leone	47.5
37	Slovenia	76.5	101	Uruguay	61.5	164	Kiribati	46.9
38	Rwanda	76.5	102	Fiji	61.5	165	Myanmar	46.8
39	Portugal	76.5	103	Tonga	61.4	166	Burundi	46.8
40	Poland	76.4	104	Namibia	61.4	167	Cameroon	46.1
41	Czech Republic	76.3	105	Trinidad and Tobago	61.3	168	Bangladesh	45.0
42	Netherlands	76.1	106	Tajikistan	61.3	169	Gabon	45.0
43	Bahrain	76.0	107	Vanuatu	61.1	170	São Tomé and Príncipe	45.0
44	Serbia	75.7	108	Pakistan	61.0	171	Sudan	44.8
45	Slovak Republic	75.6	109	Malawi	60.9	172	Iraq	44.7
46	Belgium	75.0	110	Côte d'Ivoire	60.7	173	Afghanistan	44.1
47	Armenia	74.5	111	Dominica	60.5	174	Guinea-Bissau	43.2
48	Moldova	74.4	112	Djibouti	60.5	175	Liberia	43.2
49	Belarus	74.3	113	Antigua and Barbuda	60.3	176	Syrian Arab Republic	42.0
50	Montenegro	73.8	114	Egypt, Arab Rep.	60.1	177	Angola	41.3
51	Croatia	73.6	115	Dominican Republic	60.0	178	Equatorial Guinea	41.1
52	Hungary	73.4	116	Uganda	60.0	179	Haiti	40.7
53	Morocco	73.4	117	West Bank and Gaza	60.0	180	Congo, Rep.	39.5
54	Cyprus	73.4	118	Ghana	60.0	181	Timor-Leste	39.4
55	Romania	73.3	119	Bahamas, The	59.9	182	Chad	36.9
56	Kenya	73.2	120	Papua New Guinea	59.8	183	Congo, Dem. Rep.	36.2
57	Kosovo	73.2	121	Eswatini	59.5	184	Central African Republic	35.6
58	Italy	72.9	122	Lesotho	59.4	185	South Sudan	34.6
59	Chile	72.6	123	Senegal	59.3	186	Libya	32.7
60	Mexico	72.4	124	Brazil	59.1	187	Yemen, Rep.	31.8
61	Bulgaria	72.0	125	Paraguay	59.1	188	Venezuela, RB	30.2
62	Saudi Arabia	71.6	126	Argentina	59.0	189	Eritrea	21.6
63	India	71.0	127	Iran, Islamic Rep.	58.5	190	Somalia	20.0
64	Ukraine	70.2						

Source: Doing Business database.

Note: The rankings are benchmarked to May 1, 2019, and based on the average of each economy's ease of doing business scores for the 10 topics included in the aggregate ranking. For the economies for which the data cover two cities, scores are a population-weighted average for the two cities. Rankings are calculated on the basis of the unrounded scores, while scores with only one digit are displayed in the table.

Table 3: Ease of Doing Business Rankings from the World Bank ("Ease of Doing Business Rankings" 2020).

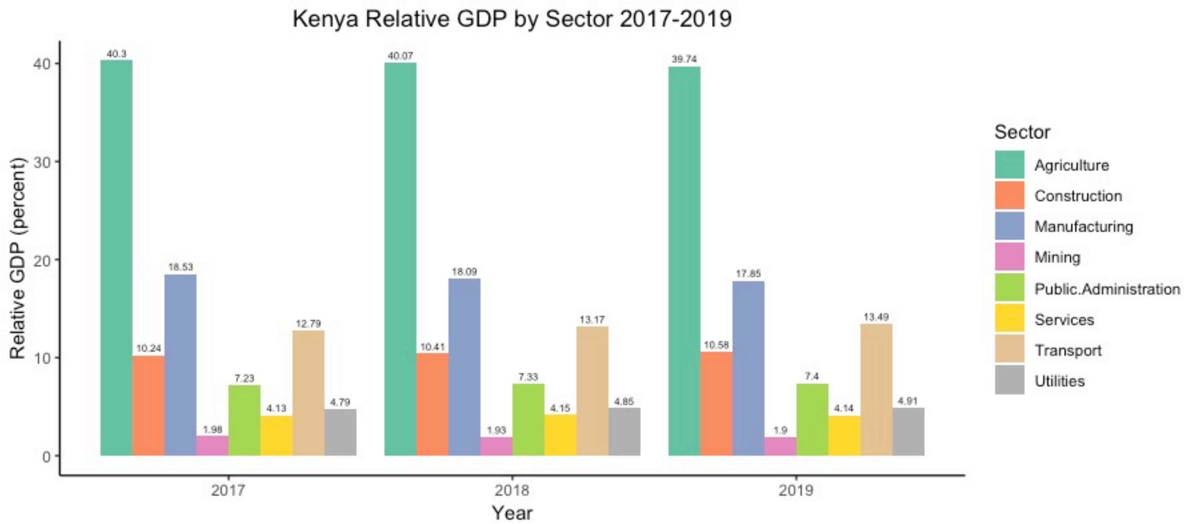

Figure 2: The Kenya Relative GDP by Sector 2017 - 2019 shows the Relative GDP as a percent of the total Kenya GDP in the years 2017 - 2019 for agriculture, construction, manufacturing, mining, public administration, services, transport, and utilities (Trading Economics 2020).

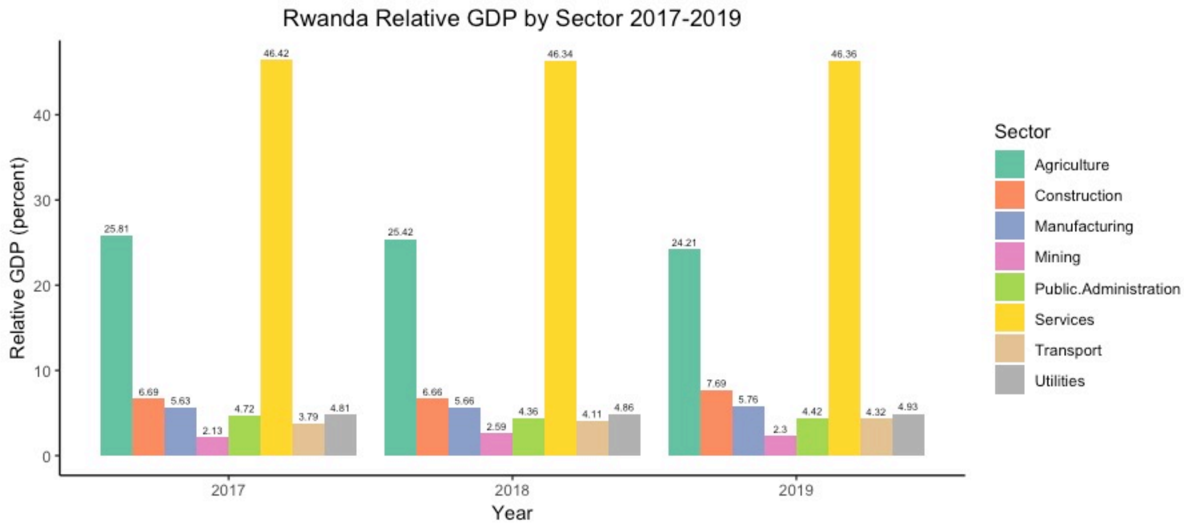

Figure 3: The Rwanda Relative GDP by Sector 2017 - 2019 shows the Relative GDP as a percent of the total Rwanda GDP in the years 2017 - 2019 for agriculture, construction, manufacturing, mining, public administration, services, transport, and utilities (Trading Economics 2020).

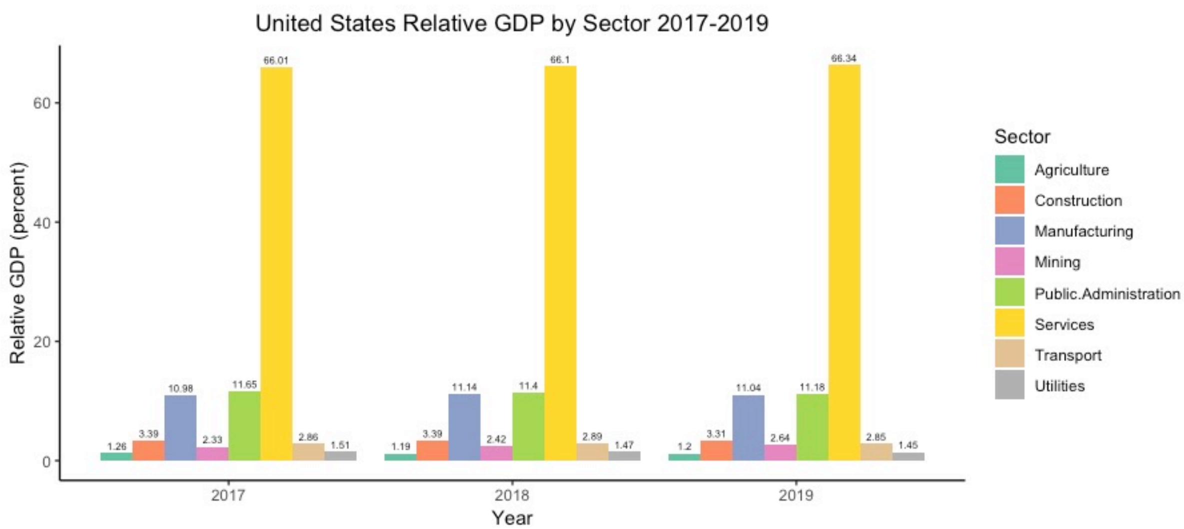

Figure 4: The United States Relative GDP by Sector 2017 - 2019 shows the Relative GDP as a percent of the total United States GDP in the years 2017 - 2019 for agriculture, construction, manufacturing, mining, public administration, services, transport, and utilities (Trading Economics 2020).

ABC's Contribution to GDP by Sector, Country, and Year

Country	Year	Agriculture	Construction	Manufacturing	Mining	Public.Administration	Services	Transport	Utilities
Kenya	2019	0.0000	0.0000	0.0000	0.0000	0.0056	**0.0107**	0.0000	**0.0137**
Kenya	2018	0.0025	**0.0215**	0.0031	0.0036	**0.2003**	**0.3957**	0.0000	**0.1483**
Kenya	2017	0.0048	0.0000	0.0000	0.0000	**0.1241**	**0.0777**	0.0000	0.0000
Rwanda	2019	0.0000	0.0000	**0.0124**	0.0000	**0.0169**	0.0000	0.0054	0.0000
Rwanda	2018	**0.0118**	0.0016	**0.0715**	0.0000	**0.2185**	0.0000	**1.5311**	**0.0572**
Rwanda	2017	0.0000	0.0000	**0.2241**	0.0000	**0.2581**	0.0000	**0.1822**	**0.0208**

Table 5: ABC's Contribution to GDP by Sector, Country, and Year represents the percent of GDP ABC Company contributed to the economy for each country and each sector.

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