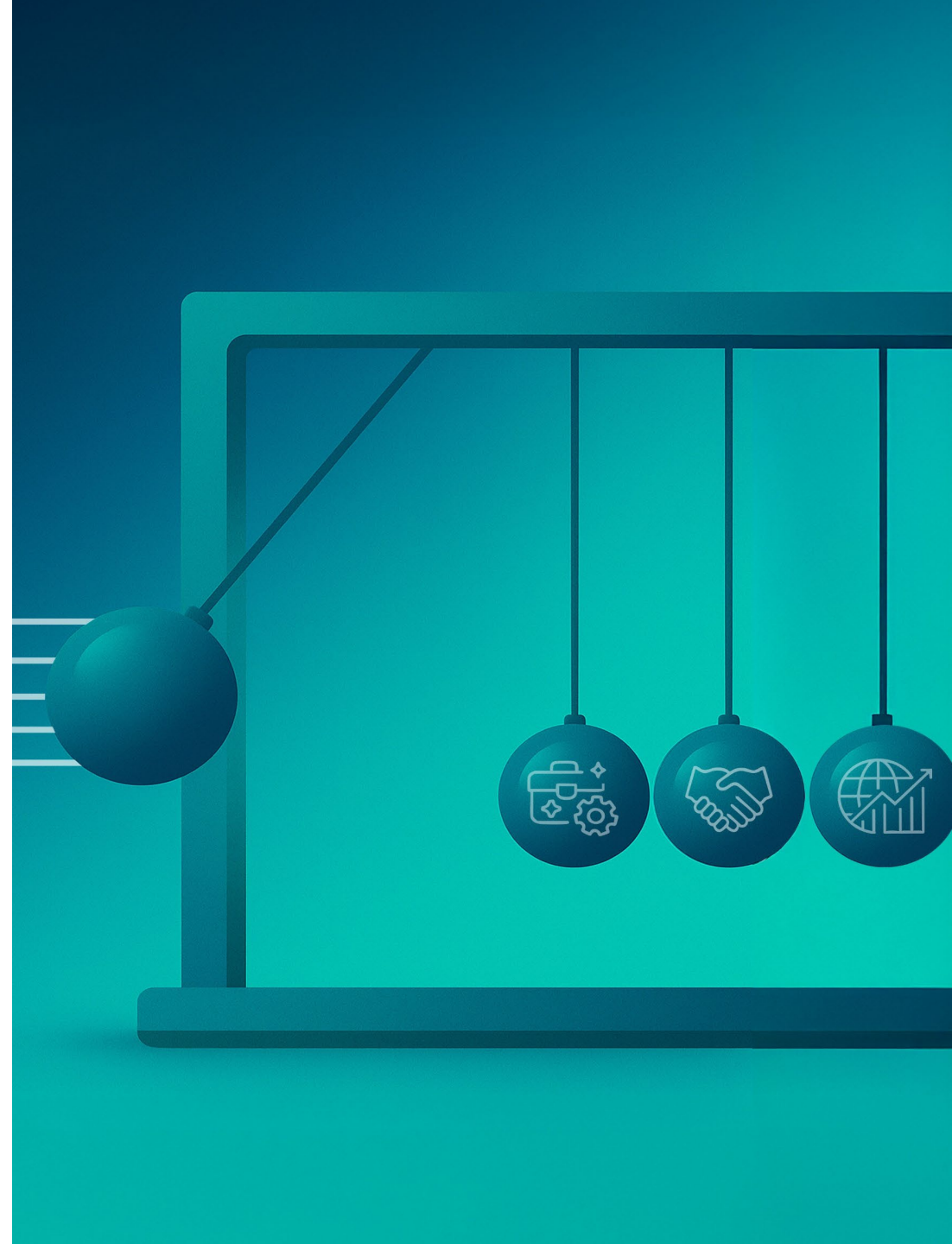
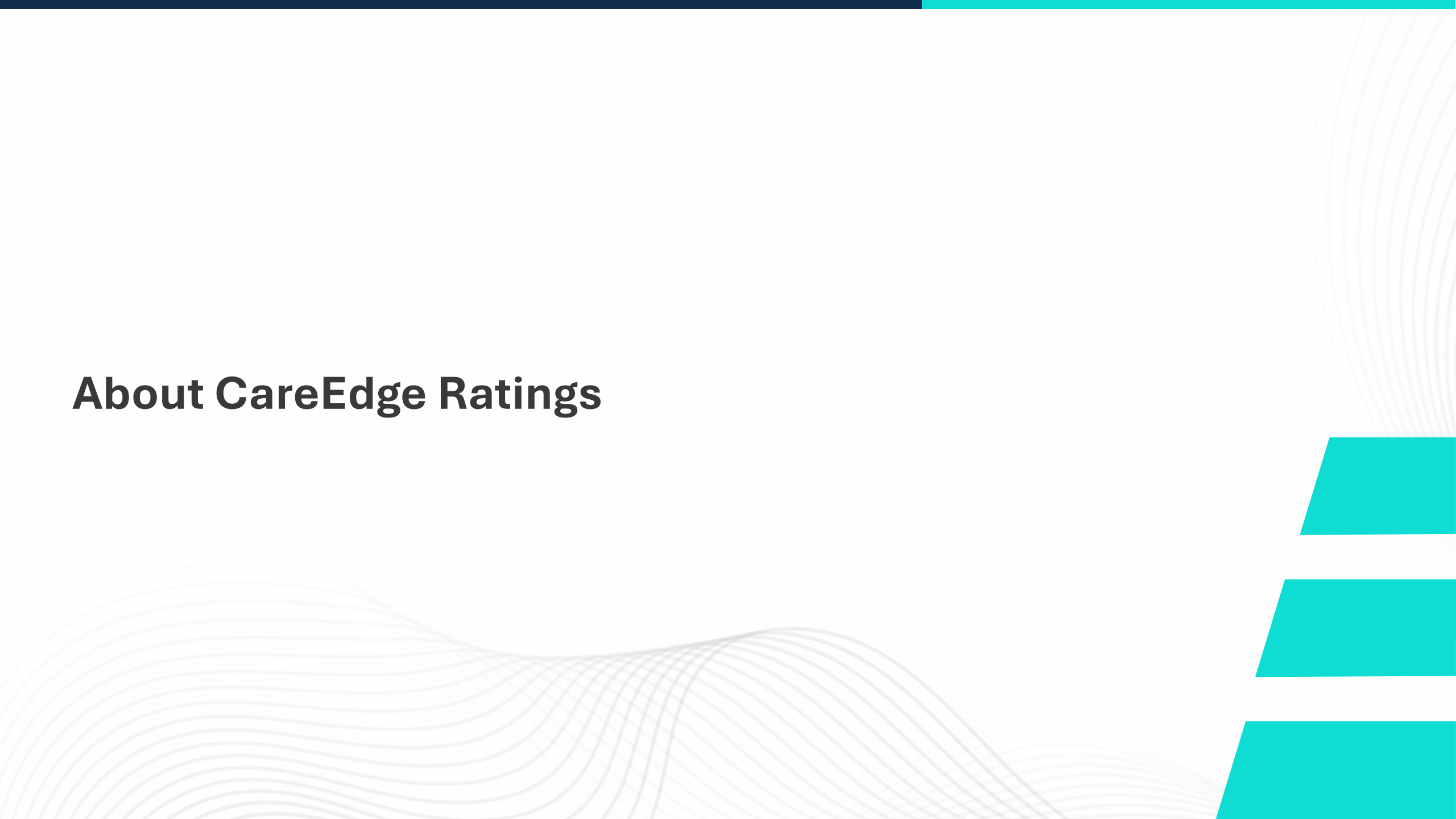


# Impact of Geopolitical Tensions on Trade Finance & Cross-Border Payments

*Implications for Emerging Markets incl. Africa*



# About CareEdge Ratings



# About CareEdge Ratings

## Who Are We



### Track Record and Market Position

Established in 1993, CareEdge is India's second largest credit rating agency. Rated over ~\$ 2.5 trillion of debt since inception.



### Shareholding

Professionally managed company with diverse shareholding.



### Diverse Offerings

With an established presence in the credit ratings industry, CareEdge is now leveraging and diversifying into knowledge-based analytical businesses like Research and Advisory, Sustainability and Analytics.

## What We Offer



### Ratings

Apart from India, CareEdge has presence in Africa and other Asian countries. **Launched First global credit rating agency from India -** Authorized to do Global Scale Ratings by IFSCA (Regulator of Gift City). In July 2025, CGIL received accreditation from RBI



### ESG offerings

Specialized in ESG Scoring, ESG Data & Analytics and KPI monitoring.

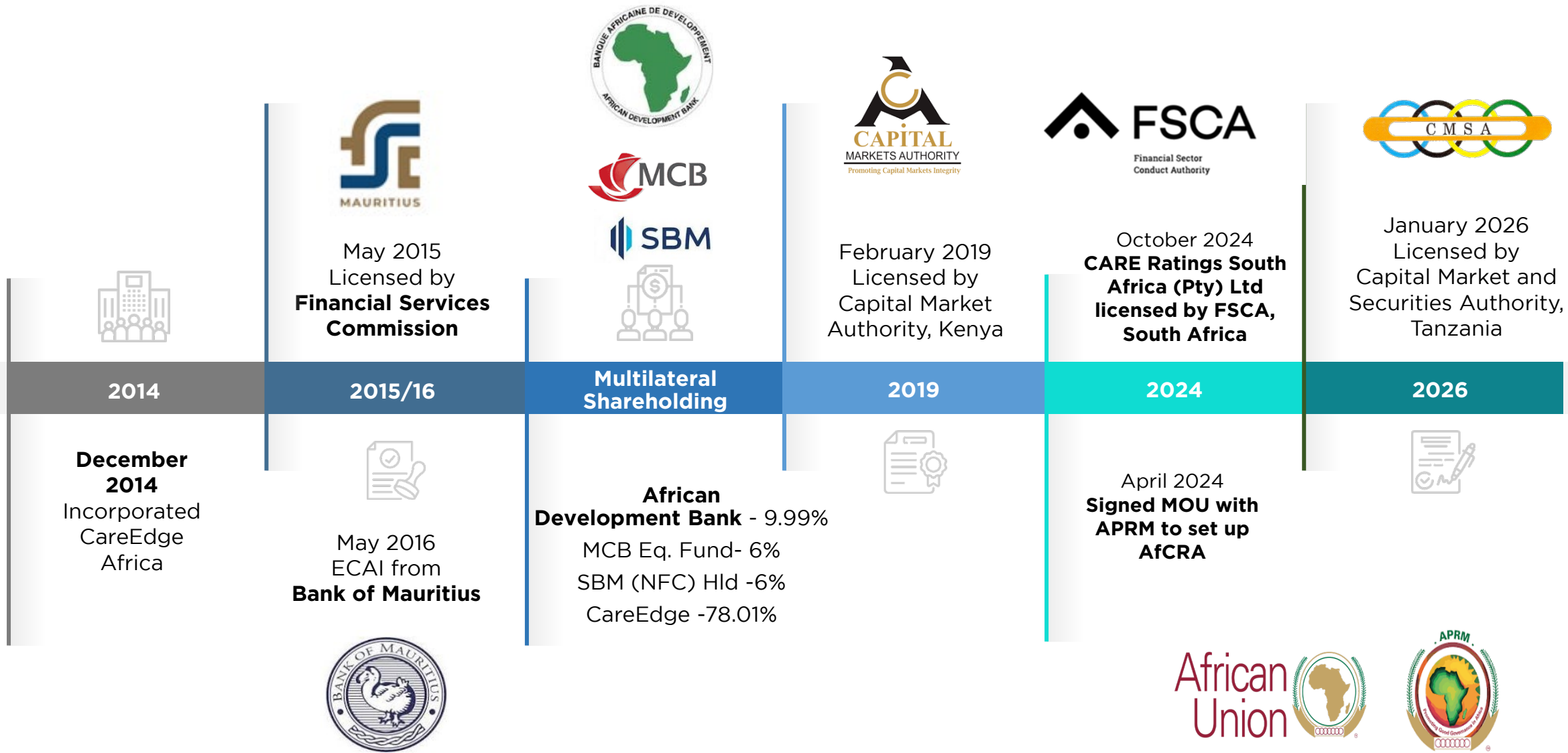


### Analytics & Advisory

Over 15 years of experience in undertaking advisory assignments & valuation services.



# About CARE Ratings Africa



# Mauritius

## Journey

### Rated USD 4 billion



Market share

**98%**

of the total rated universe of Mauritius

Zero Transition to default in







**AAA, AA, A**

categories in last **5 years**



**USD 1 billion**

of Bank facilities benefiting from Capital Relief of **USD 85 million**

Factors	
	<ul style="list-style-type: none"> <li>Development of Local Currency Bond market leading to <b>Price Discovery</b></li> </ul>
	<ul style="list-style-type: none"> <li><b>Diversification of Investors base - ONLY Banks in CY15</b>, to Insurance companies, Pension Funds, Fund managers and HNIs participating in local bond issuances – <b>30% from Non Banks in CY24</b></li> </ul>
	<ul style="list-style-type: none"> <li>Investors <b>seeking</b> Rating Rationale for informed investment decision</li> </ul>
	<ul style="list-style-type: none"> <li><b>Yield curve</b> for local currency bond market</li> </ul>
	<ul style="list-style-type: none"> <li>ECAI Recognition helped banks <b>benefit</b> from capital relief under Basel II/III</li> </ul>
	<ul style="list-style-type: none"> <li><b>Rated</b> <ul style="list-style-type: none"> <li>✓ Top 3 Insurance companies</li> <li>✓ Largest Bank in Mauritius</li> <li>✓ Fund set up by Multilateral Institution – TDB</li> <li>✓ Largest NBFC</li> <li>✓ Major Conglomerates</li> </ul> </li> </ul>

# Trade Finance

The background features a series of light gray, wavy lines that create a sense of movement and depth. On the right side, there are three teal-colored trapezoidal shapes stacked vertically, resembling a staircase or a series of steps. The overall design is clean and modern.

## Trade Finance- Why does it Matter?

### **Risk Transfer**

LCs and guarantees shift counterparty risk from traders to banks – enabling trade between parties with no prior credit relationship.

### **Liquidity Bridge**

Bridges the cash-flow gap between shipment and payment, allowing exporters to produce and importers to receive goods before payment.

### **Development Lever**

WTO-IFC modelling: easing trade finance constraints raises merchandise trade volumes by an average of 5% per country.

# Trade Finance Instruments

## TRADE FINANCE

Financing and banking services that support international trade by reducing payment and delivery risks between exporters and importers.

Helps facilitate global trade by providing credit, payment guarantees, and risk mitigation.

Improves liquidity, reduces trade risk, and enables firms—especially SMEs—to participate in international trade.



## LETTERS OF CREDIT

Bank guarantees payment to exporter if contract terms are met, reducing payment risk.

## TRADE LOANS

Short-term bank credit to finance imports or exports and bridge cash flow gaps.

## DOCUMENTARY COLLECTIONS

Banks exchange trade documents for payment but do not guarantee payment.

## SUPPLY CHAIN FINANCE

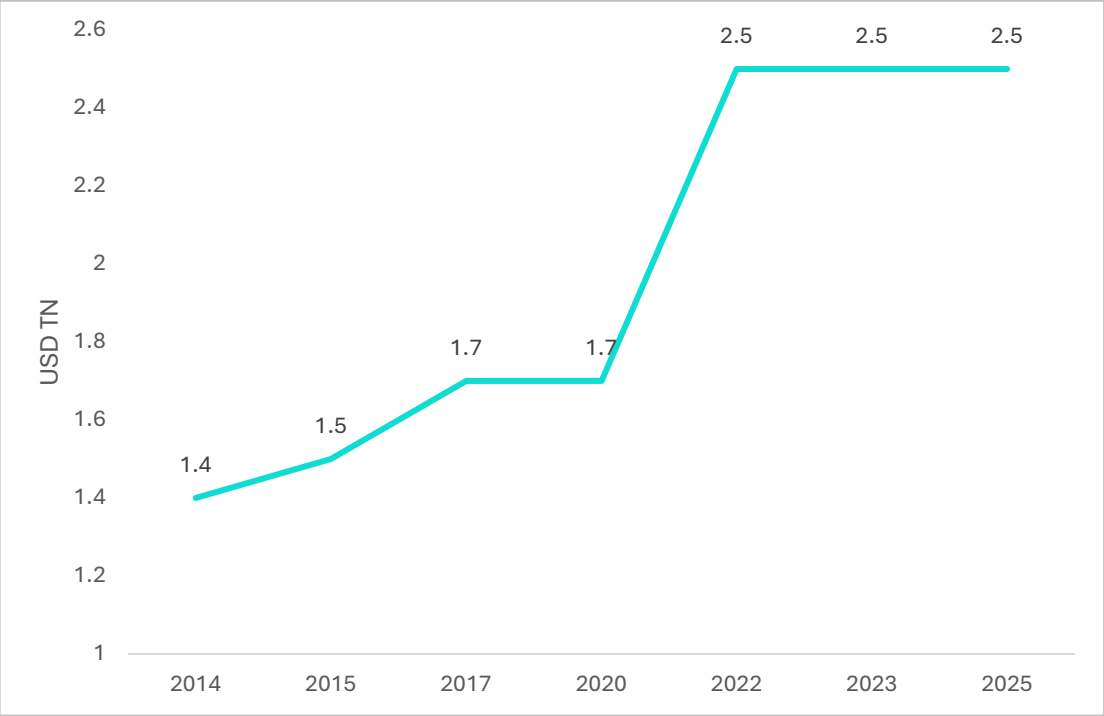
Financing that allows suppliers to receive early payment based on buyer creditworthiness.

## GUARANTEES AND EXPORT CREDIT FACILITIES

Bank or agency-backed protection against non-payment and political risk in trade transactions.

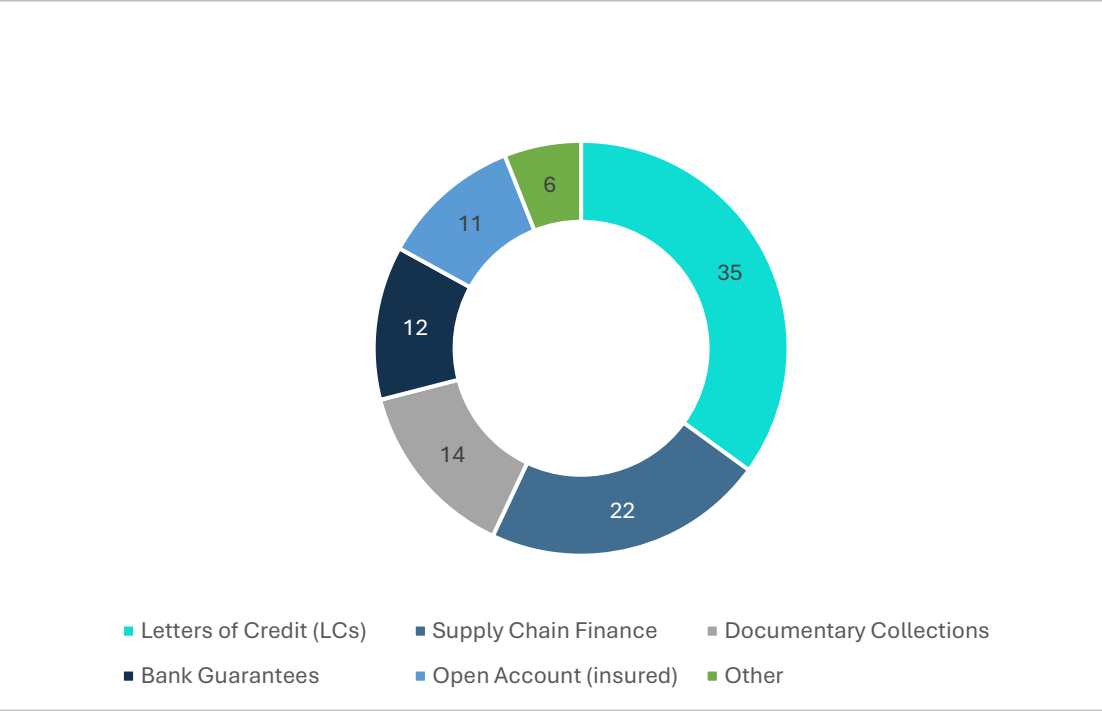
# Global State of Trade Finance

**Global Trade Finance Gap**



ADB Global Trade Finance Gap Survey 2025

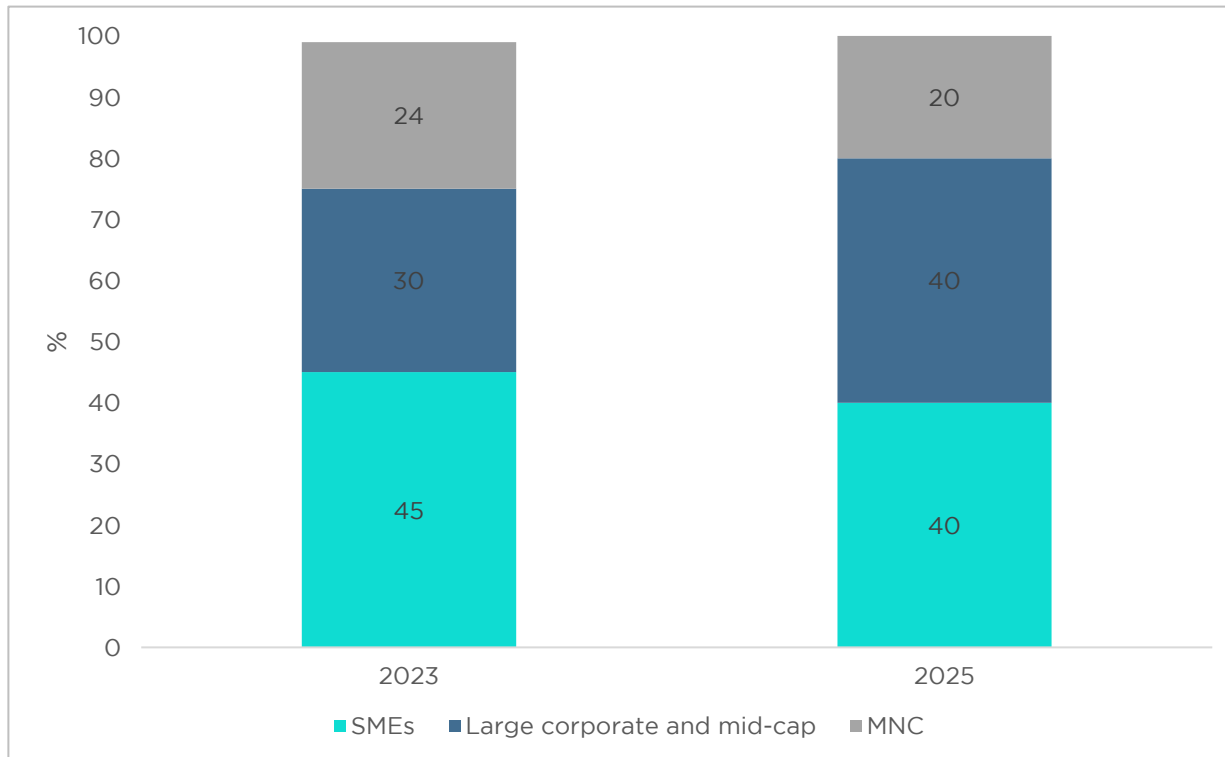
**Share of global volume by type of instrument (%)**



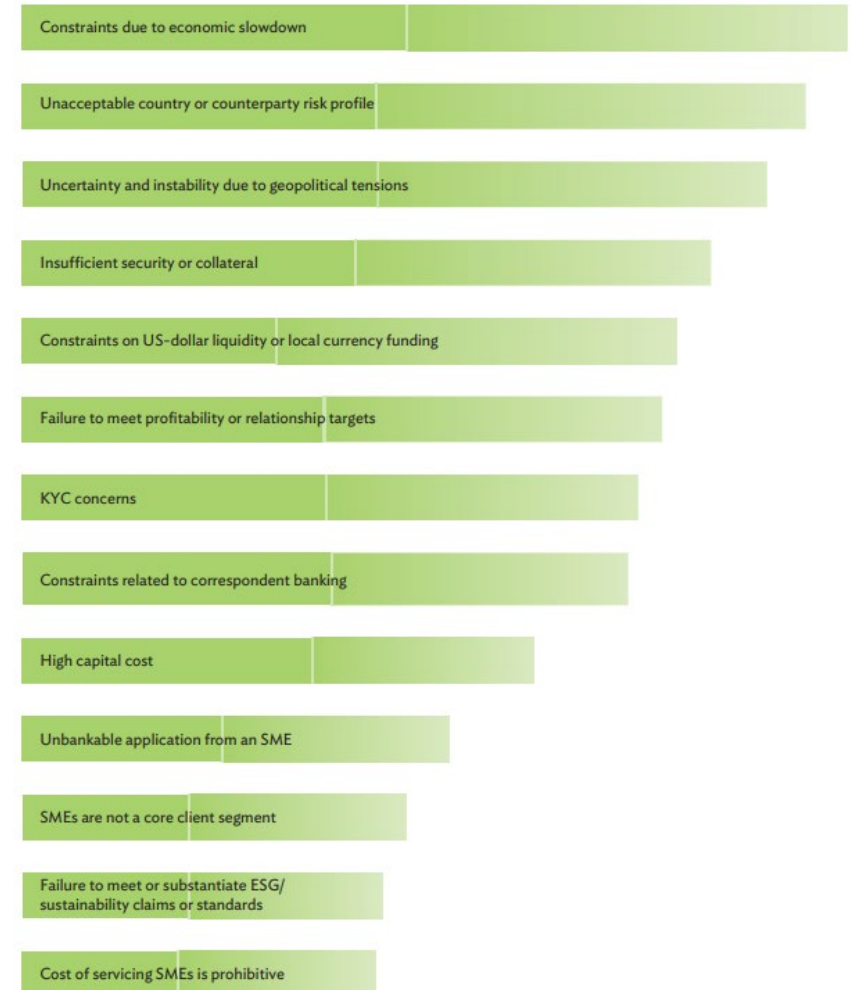
ICC Global Survey 2023

# Rejection rate across the world

## Global rejection rates



## Reasons for rejection



# Global Drivers Affecting Trade Finance

## **Middle East Crisis**

Significantly impacting trade finance by tightening credit conditions, increasing risk premiums, and causing operational delays.

## **US Tariff Shock (2025)**

US tariff escalation is driving supply chain reconfiguration. 80% of ADB-surveyed banks expect trade finance demand to rise as trade re-routes

## **Interest Rate Plateau**

Post-2022 rate cycle raised cost of trade credit globally. Falling commodity prices since 2023 partially reduced working capital demand – masking the structural gap.

## **Supply Chain Realignment**

Friend-shoring and near-shoring redirect trade flows. Africa-Asia corridors gaining momentum as China and India become key counterparties.

## **Basel III/IV Capital Rules**

Higher risk-weighting for trade finance reduces bank appetite for EM trade lines. Disproportionate impact on developing-country borrowers.

## **De-dollarisation Trend**

ADB 2025: 57% of banks see growing need for local currencies. USD still >82% of trade finance – but yuan and regional currencies gaining ground.

## **Climate & ESG Screening**

ESG due diligence raises costs and is excluding fossil-fuel linked trade from European trade finance – creating new non-tariff barriers for African commodity exporters.

# Geopolitical Fragmentation & Financial Sanctions

## Russia Sanctions (2022)

- SWIFT exclusion created ~\$400bn annual trade finance disruption.
- African states dependent on Russian wheat and fertiliser forced into emergency alternative sourcing.
- Confirmed SWIFT as a geopolitical instrument — accelerating non-Western payment system development.
- Secondary sanction risk now a live concern for African banks with dual bloc exposure.

## US-China Strategic Decoupling

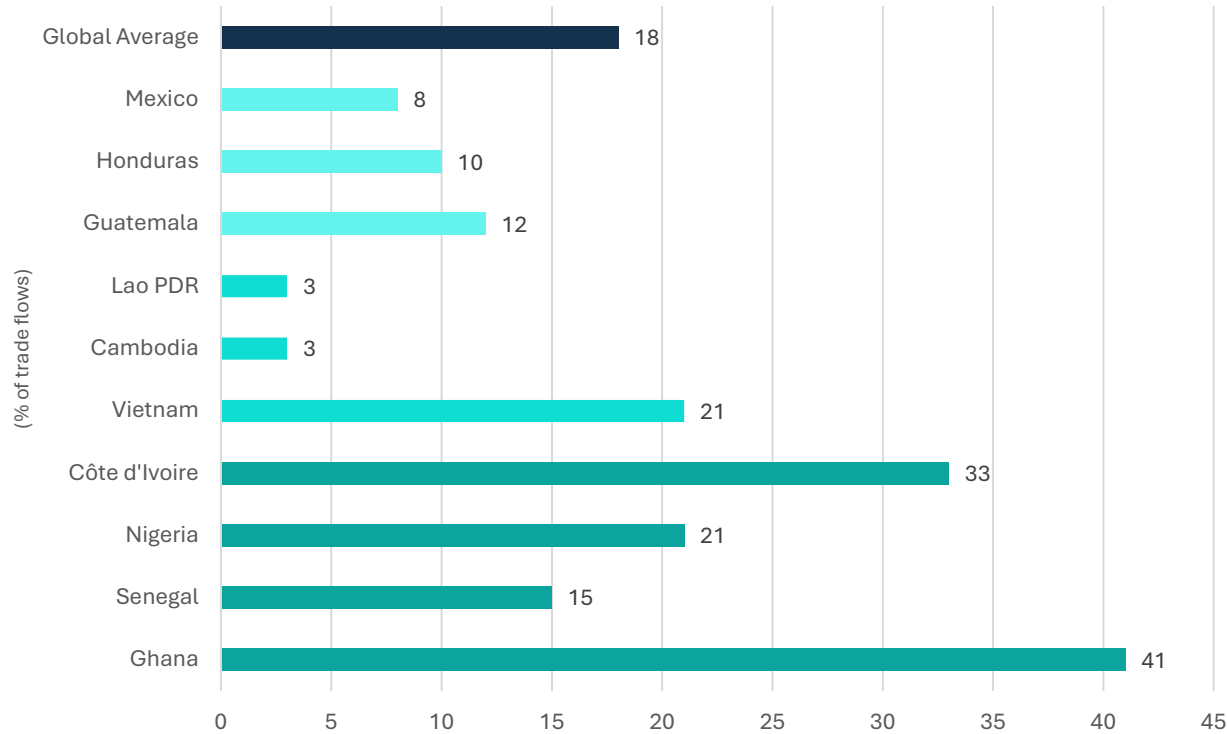
- US export controls on semiconductors and dual-use technology forcing supply chain bifurcation.
- China's CIPS processed \$96 trillion in 2023 (+27% YoY) — credible alternative to SWIFT rails is emerging.
- ADB 2025: yuan and regional currencies gaining share, though USD still dominates at >82%.
- Africa caught between competing financial architectures — SWIFT/USD vs CIPS/RMB.

## Africa: Caught Between Blocs

- IMF: financial fragmentation could reduce global GDP by up to 2.5% in a tail-risk scenario.
- Africa's 3.3% export share and \$100bn financing gap make it structurally vulnerable to any CBR reduction.
- Commodity exporters (oil, minerals) face de-risking as Western banks screen ESG and sanctions exposure.
- PAPSS provides partial insulation for intra-Africa trade — but international trade still requires USD rails.

# Trade Finance in Emerging Markets

## Bank-Intermediated TF Coverage



WTO-IFC various issues

### Coverage concentrated in commodities

Even at >20% (Nigeria, Côte d'Ivoire), financing is skewed toward established commodity sectors. SMEs largely excluded regardless of headline coverage.

### Market concentration is severe

Top 3 institutions account for >75% of trade finance in most EM markets surveyed. Oligopoly restricts the SME supply chain finance ecosystem.

### Compliance costs drive de-risking

90% of West African banks cite insufficient CBR lines as a key rejection driver. AML/KYC costs are prohibitive for smaller institutions.

### Basel III dampens EM supply

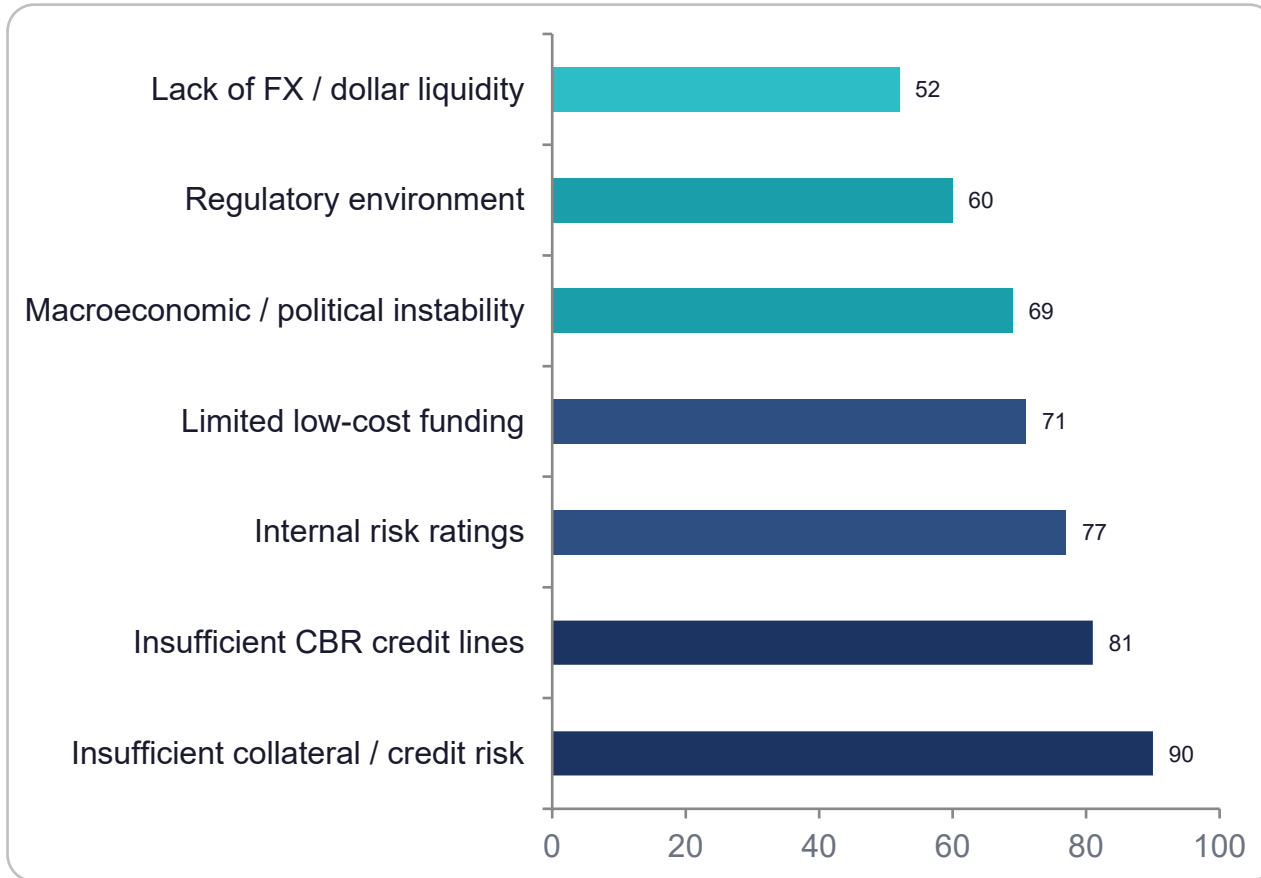
Higher capital requirements under Basel III reduce appetite for EM trade lines — a regulatory spillover that disproportionately affects developing-country borrowers.

# State of trade finance in Africa



# Africa's Structural Constraints in Trade Finance

## Top Rejection Drivers — Africa



WTO-IFC West Africa 2022

### Trade Finance Gap in Africa

According to the African Development Bank, the continent faces a trade finance gap of over \$120 billion annually.

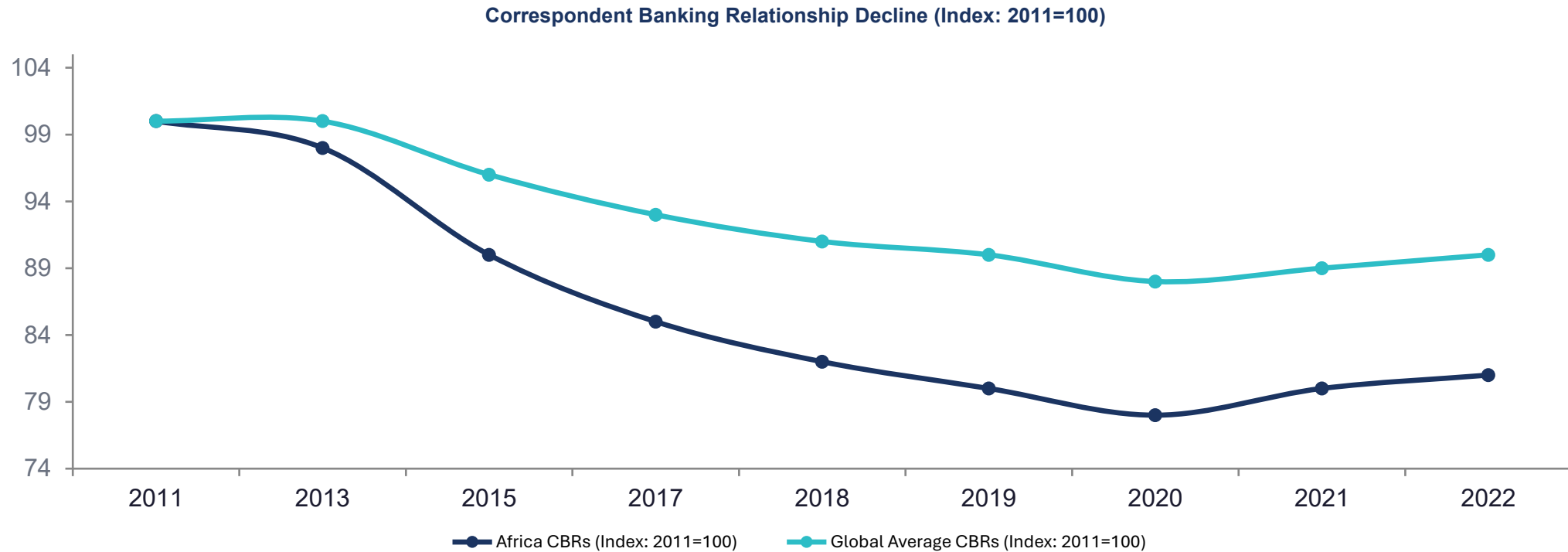
### FX Scarcity & Rate Divergence

USD/EUR shortages in Nigeria, Egypt, and Ethiopia create queues for FX allocation. Official vs parallel rate divergence inflates effective transaction costs substantially.

### Documentation & Credit History

>70% of African SMEs rely on cash-in-advance or open account — due to inability to produce collateral or documentation required for formal trade finance instruments.

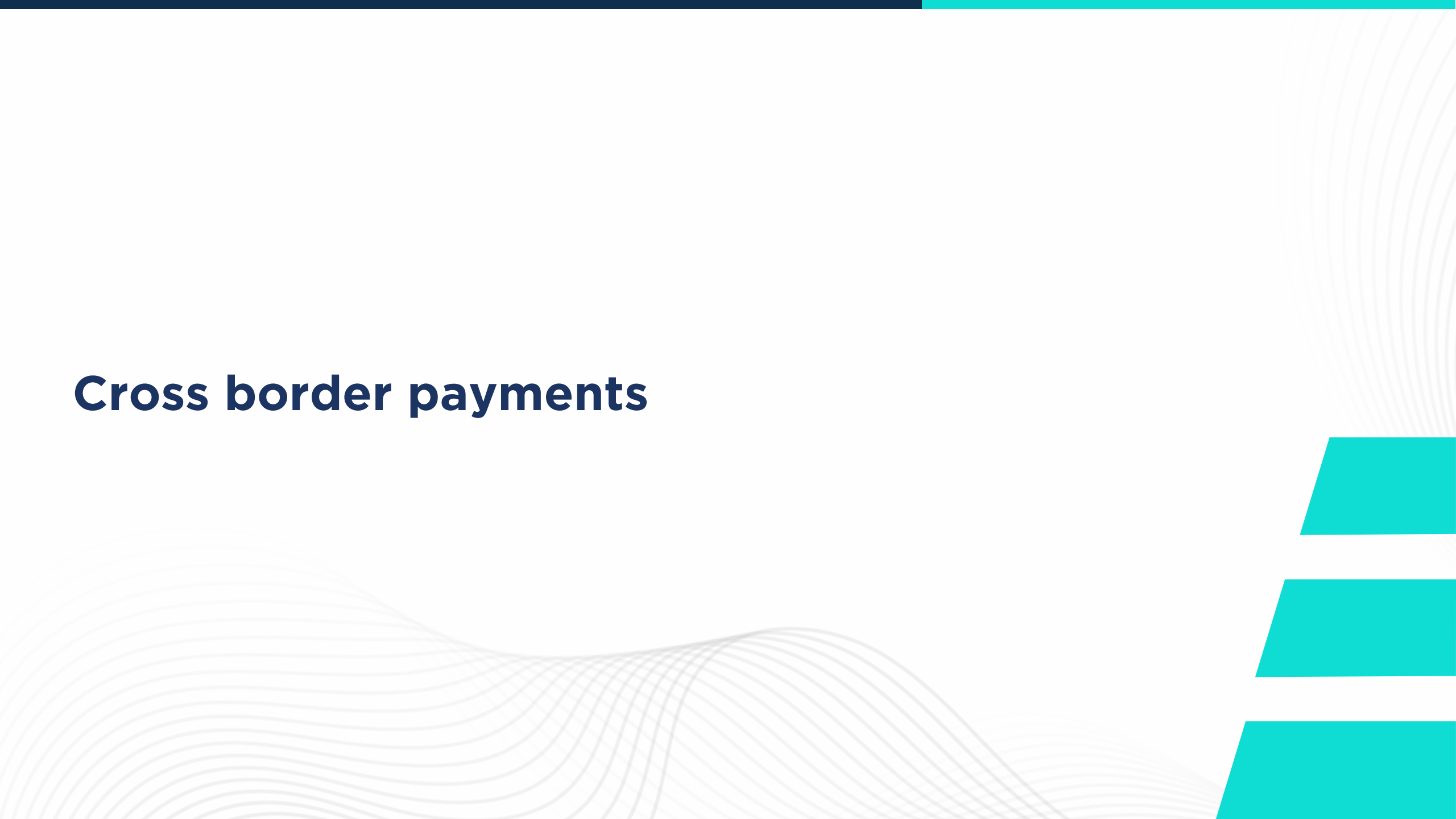
# Decline in Correspondent Banking in Africa



BIS CPI 2023

- Active correspondent banking relationships in Africa fell roughly 20% between 2011-2022 (BIS), outpacing the global decline of ~10%.
- Loss of direct CBRs forces multi-hop routing. Payments that cleared in 24-48 hrs now take 4-7 business days in markets such as Nigeria and Ethiopia.
- Smaller African banks lose access entirely; importers shift to informal channels – reducing fiscal traceability and central bank oversight of trade flows.

# Cross border payments



# Traditional cross border payments architecture



## USD Dependency

>82% of global trade finance is USD-denominated (ADB 2025). African central banks must hold large FX reserves – amplifying vulnerability.

## Multi-Hop Routing

Average African cross-border payment traverses 3-5 intermediaries. Each adds cost, latency (2-5 days average), and FX conversion drag.

## SWIFT Geopolitics

Russia 2022 exclusion precedent confirmed SWIFT as a geopolitical instrument. African states face secondary sanction risk in a bifurcated financial system.

## KYC/AML Cost

AML/CFT compliance costs drive de-risking. Insufficient CBR lines cited by 90% of West African banks surveyed (WTO-IFC West Africa 2022).

# Emerging Trends: Trade Finance & Payments Innovation

01

## PAPSS & Local Currency Rails

18 countries live (Aug 2025), 150+ banks, 14 payment switches. AU-endorsed as AfCFTA's official payment platform. Network-of-networks model for continental settlement.

02

## Digital Trade Finance (e-LCs)

ICC eUCP/URDTT standards. Blockchain platforms (Contour, Komgo) cut LC processing from 7-10 days to 24 hrs. Adoption limited in Africa due to legal and infrastructure gaps.

03

## CBDCs & Local Settlement

57% of ADB-surveyed banks see growing need for local currencies. mBridge (BIS/PBoC) advancing. Nigeria eNaira, Ghana eCedi, ECOWAS CBDC in progress.

04

## SCF Fintechs in Africa

B2B platforms (Lipa Later, MarketForce, Pezesha) extending SCF to informal SMEs using alternative credit data — closing the gap from the demand side.

05

## BRICS+ Finance Architecture

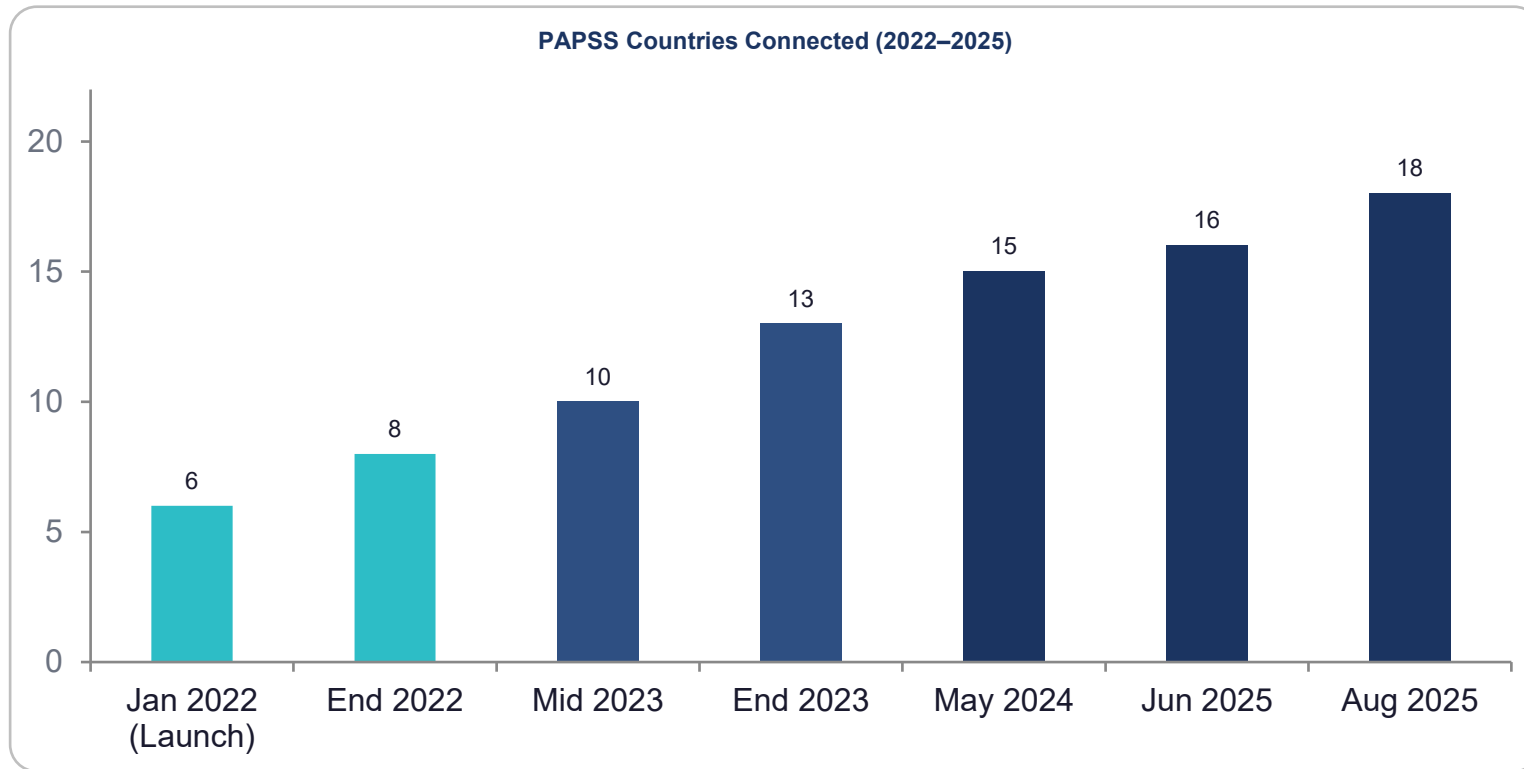
NDB, AIIB and BRICS payment system discussions signal intent to build USD/SWIFT alternatives. Practical Africa deployment remains early-stage but geopolitically significant.

## AfCFTA & PAPSS: Building Africa's Financial Architecture



- Launched officially in January 2022 and developed by African Export-Import Bank (Afreximbank) in collaboration with the African Union and African central banks
- Pan-African cross-border payment and settlement platform for intra-African trade
- Enables transactions in local currencies without relying on third-party currencies such as the US dollar and expands access to formal payment systems for SMEs and smaller traders

## PAPSS: Scale & Growth (2022–2025)



<b>18</b> Countries on PAPSS (Aug 2025)
<b>150+</b> Commercial banks connected
<b>14</b> National payment switches live

AU

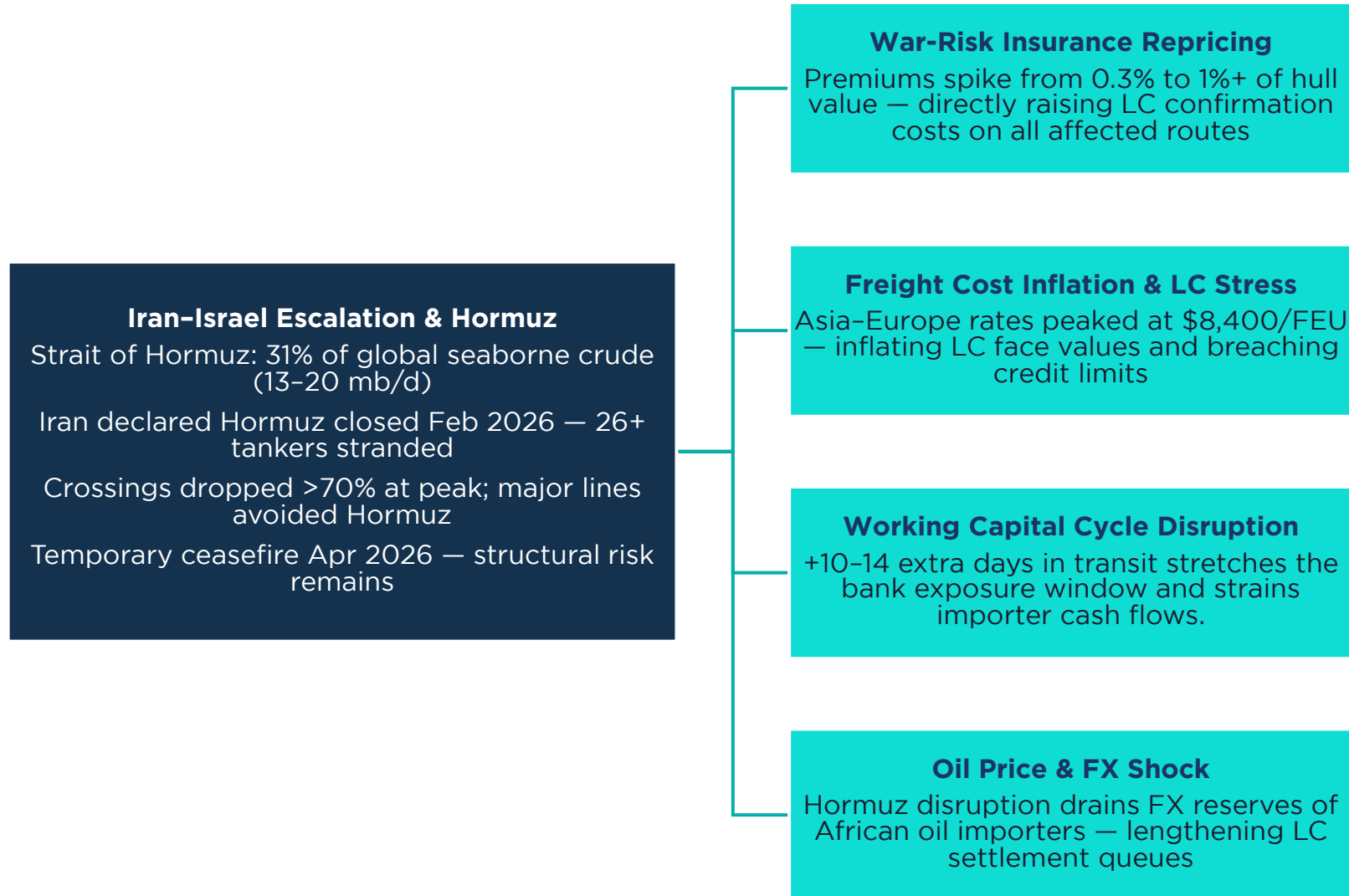
# Evolution of trade finance and cross-border payments in Africa

<b>Scenario A</b> <b>Managed Fragmentation</b> <span style="float: right;">MODERATE</span>	<b>Scenario B</b> <b>Accelerated Multipolarism</b> <span style="float: right;">MODERATE-HIGH</span>	<b>Scenario C</b> <b>Systemic Disruption</b> <span style="float: right;">HIGH</span>
<p><i>USD correspondent banking persists but supplemented by PAPSS and regional rails. Africa operates a dual system for intra- and international trade.</i></p>	<p><i>BRICS+ architecture and CBDC corridors erode USD hegemony faster. China-Africa trade finance via CIPS/NDB becomes a viable alternative to Western rails.</i></p>	<p><i>Major geopolitical shock triggers structural fracture of the trade finance system with severe impact on commodity-dependent African economies.</i></p>
<ul style="list-style-type: none"> <li>• PAPSS scales to 35+ countries by 2027</li> <li>• Transaction costs fall from ~8-9% to 5-7%</li> <li>• Digital trade finance adopted in top 5 markets</li> <li>• \$100bn gap narrows to ~\$80bn by 2030</li> </ul>	<ul style="list-style-type: none"> <li>• mBridge-type Africa corridor by 2028</li> <li>• NDB/AIIB trade finance facilities doubled</li> <li>• USD share drops to &lt;70% of Africa trade finance</li> <li>• New compliance complexity for African banks</li> </ul>	<ul style="list-style-type: none"> <li>• Hard bifurcation: East vs West finance blocs</li> <li>• Africa forced to choose alignment — sanction risk</li> <li>• Trade finance gap widens to \$120-150bn</li> <li>• Afreximbank/AfDB as lenders of last resort</li> </ul>

# **Impact of geopolitical tensions on trade finance**

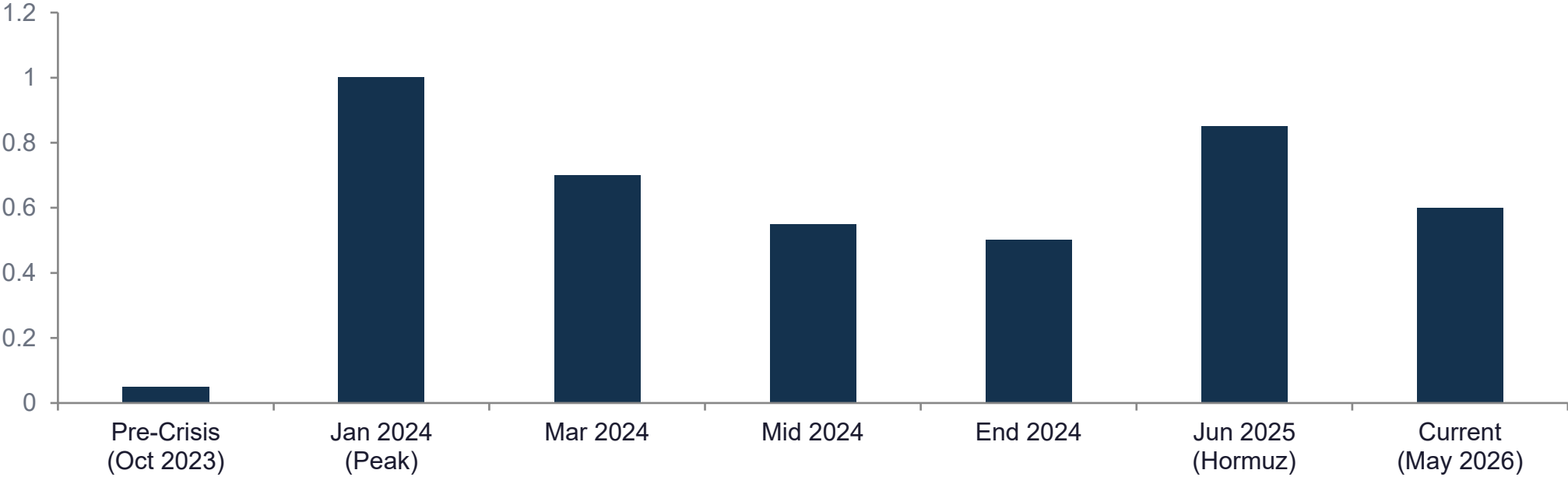


# Middle East Crisis: Impact on Trade Finance



# Channel 1: War-Risk Insurance Repricing

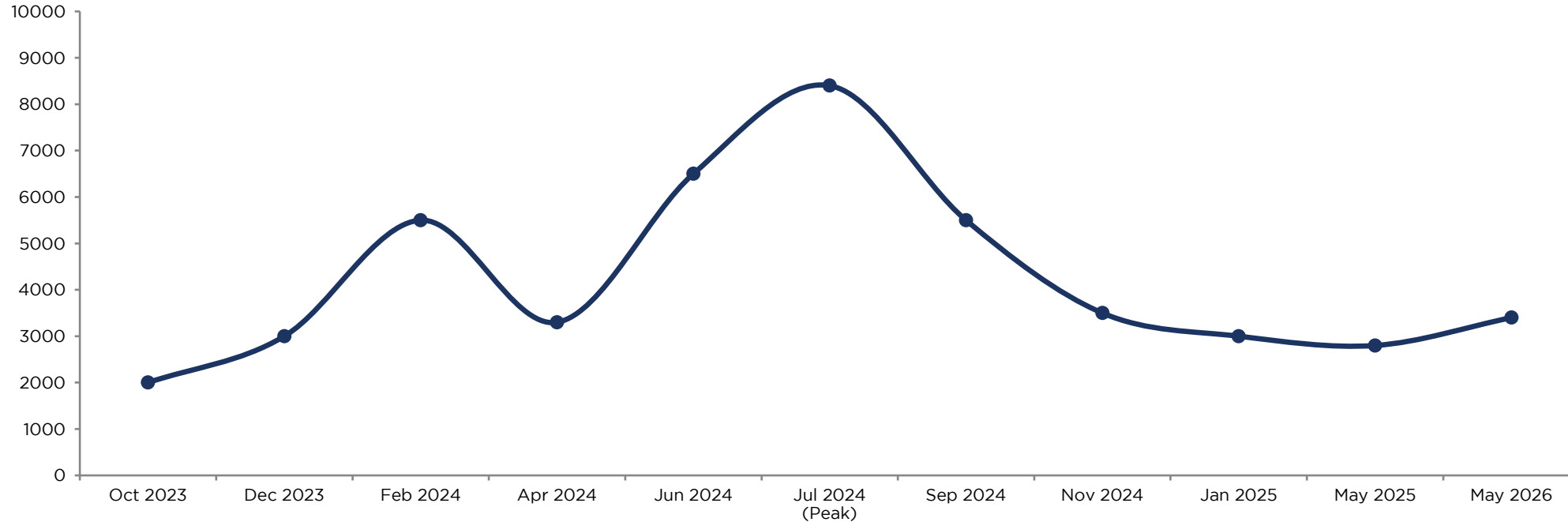
**War-Risk Insurance Premium (% of Hull Value per Voyage), 2023–2026**



- When war-risk premiums spike, LC confirmation fees, guarantee charges, and SCF facility pricing all rise in lock-step — because the confirming/issuing bank’s own insurance cost base has changed.
- A 20x increase in war-risk premium from Oct 2023 to Jan 2024 peak (0.05% → 1% of hull value)
- \$1.3m Additional cost per voyage on a single very large crude carrier (VLCC) at peak premium
- 15–25% Rise in industry-wide hull insurance across all vessel categories since crisis onset

## Channel 2: Freight Cost Inflation & LC Stress

**Asia-Europe Container Freight Rate (USD/FEU), Oct 2023–May 2026**



LCs structured on Cost-Insurance-Freight terms automatically expand when freight costs rise. A \$10m LC for a commodity shipment becomes \$12-15m when freight triples – hitting credit limits.

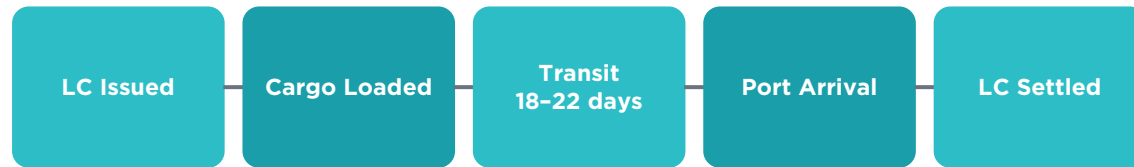
Importers sized their revolving trade credit lines to pre-crisis freight. Sudden rate spikes cause facilities to cap mid-shipment – forcing renegotiation or cancellation of orders.

Canal traffic fell 60-90% at peak. The 90% container traffic collapse redirected capacity to the Cape route, absorbing global vessel supply and driving rates higher.

Even at May 2026 levels (~\$3,400/FEU), Asia-Europe rates remain roughly 70% above pre-crisis norms. Banks have not reset LC pricing assumptions – widening the gap for African importers.

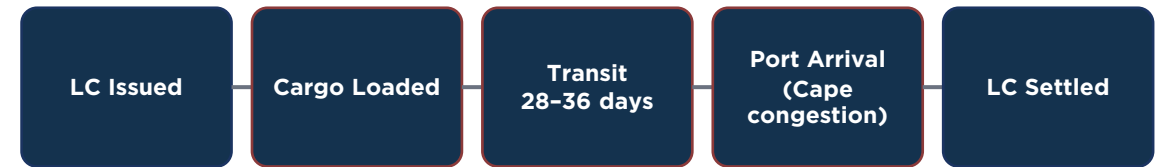
## Channel 3: Working Capital Cycle Disruption

### Normal Route (Suez Canal)



*Bank exposure window: 18-22 days*

### Crisis Route (Cape of Good Hope)



*Bank exposure window: 28-36 days (+10-14 days)*

## Cascading Impacts on Trade Finance Instruments

### Longer Bank Exposure

Each extra transit day extends the period the confirming bank holds the LC obligation — increasing capital cost and pricing.

### Cash Flow Shortfall

Importers face extended periods between payment and goods receipt. Firms with thin working capital buffers — most African SMEs — cannot absorb the gap.

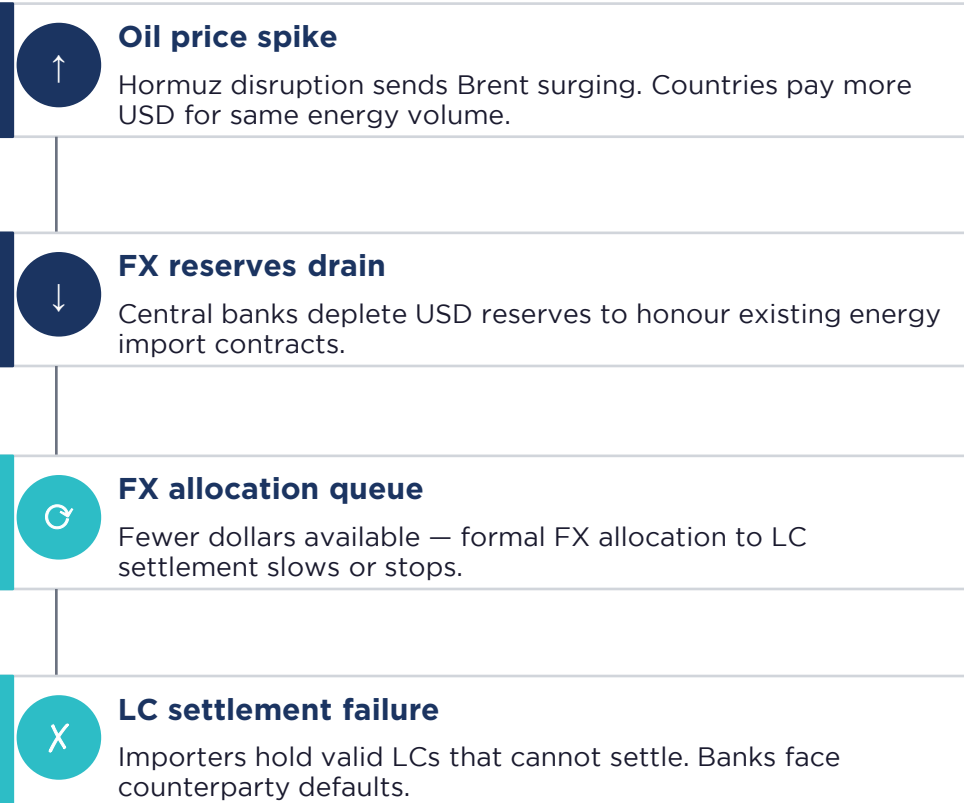
### Inventory Strain

African importers of food, pharma, and manufacturing inputs face stock-outs. UNCTAD: +10 days of delay puts pressure on firms with limited inventories.

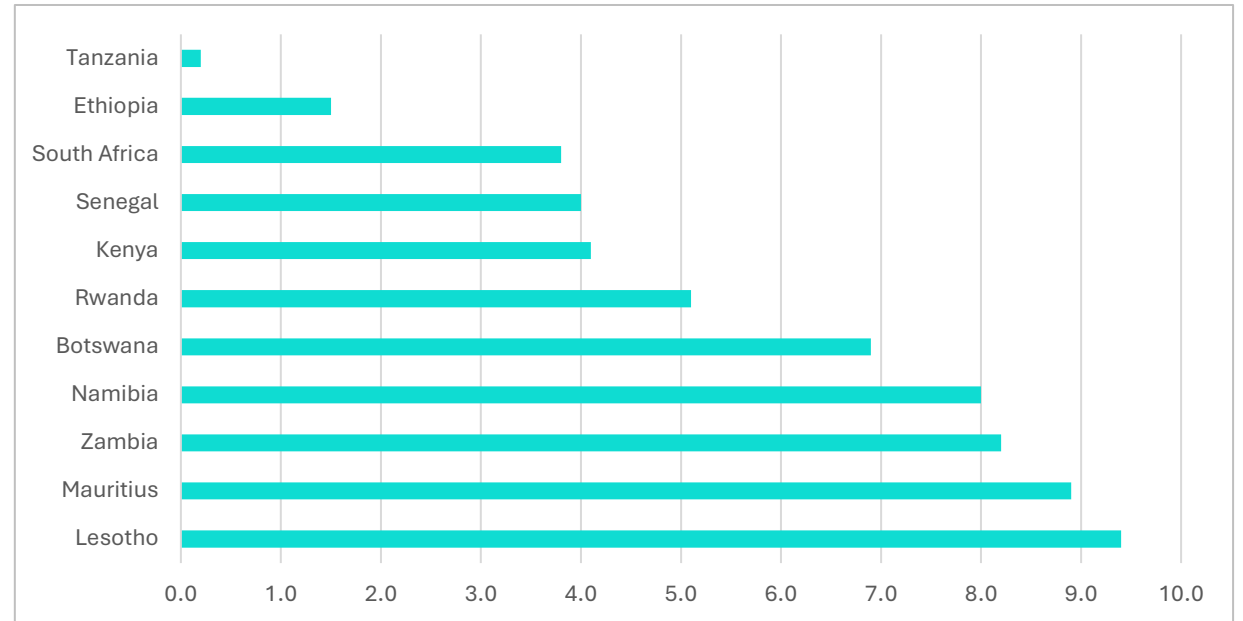
### Cape Port Congestion

130% rise in Cape rerouting creates congestion at Durban, Cape Town, and Mombasa — adding further delay beyond the sea transit time itself.

## Channel 4: Oil Price & FX Shock



**Net oil & gas imports (% of GDP)**



# How to close the gap structurally, not cyclically

## Governments & Finance Ministries

- Mandate PAPSS integration for import LCs above a threshold — creating scale and liquidity on the continental payment rail.
- Establish FX priority allocation frameworks: productive trade over speculative flows.
- Harmonise trade finance documentation under AfCFTA protocols to reduce per-transaction compliance burden

## Central Banks & Regulators

- Develop proportionate AML/CFT frameworks — reducing compliance burden without compromising integrity.
- Accelerate CBDC and local currency settlement pilots coordinated with PAPSS infrastructure.
- Create a continental e-guarantee framework and trade finance registry to combat documentation fraud risk.

## Development Finance Institutions

- Scale Afreximbank's Trade Finance Distribution (TFD) initiative — building on MIGA-TDB €708mn precedent.
- AfDB/IFC: expand first-loss guarantee structures to crowd in commercial banks for SME trade finance
- Use DFI balance sheets to backstop correspondent banking exits via risk-sharing agreements.

## Regional Bodies (AU, RECs)

- Accelerate AfCFTA Phase II financial services negotiations to enable cross-border bank branching.
- Establish a continental trade finance intelligence platform to track gaps, pricing, and de-risking by market.
- Develop mutual recognition of trade credit agencies across RECs to reduce duplicative risk assessment costs.



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# THANK YOU

## Reach out to us on:

[saurav.chatterjee@careratingsafrica.com](mailto:saurav.chatterjee@careratingsafrica.com)  
+230 5862 6551

[vidhya.sagar@careratingsafrica.com](mailto:vidhya.sagar@careratingsafrica.com)  
+230 5273 1406

[annielle.davidpaul@careratingsafrica.com](mailto:annielle.davidpaul@careratingsafrica.com)  
+230 5745 7196

## CARE Ratings (Africa) Private Limited

5<sup>th</sup> Floor, MTML Square, 63, Cyber City, Ebene, Mauritius  
Phone: +230 - 59553060

## CARE Ratings South Africa (Pty) Limited

Spaces Atrium on 5th, 9th Floor, 5th Street, Sandton, 2196, Johannesburg, South Africa

## About Us

CareEdge is a knowledge-based analytical group offering services in Credit Ratings, Analytics, Consulting and Sustainability. Established in 1993, the parent company CARE Ratings Ltd (CareEdge Ratings) is India's second-largest rating agency, with a credible track record of rating companies across diverse sectors and holding leadership positions in high-growth sectors such as BFSI and Infra. The wholly-owned subsidiaries of CareEdge Ratings are (I) CARE Analytics & Advisory Private Ltd (previously known as CARE Risk Solutions Pvt Ltd), (II) CARE ESG Ratings Ltd, (previously known as CARE Advisory Research and Training Ltd) and (III) CareEdge Global IFSC Ltd. CareEdge Ratings' other international subsidiary entities include CARE Ratings (Africa) Private Ltd in Mauritius, CARE Ratings South Africa (Pty) Ltd, and CARE Ratings Nepal Ltd.

## CARE Ratings Limited

Corporate Office: 4<sup>th</sup> Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022  
Phone : +91-22-6754 3456 | CIN: L67190MH1993PLC071691  
For queries / feedback write to us at: [corp.comm@careedge.in](mailto:corp.comm@careedge.in)

Connect



## CARE Analytics and Advisory Private Limited

### Analytics Division:

Office No. 602, 6th Floor, Rustomjee Aspiree, Off Eastern Express Highway, Sion East, Mumbai - 400 022 | Phone: +91 - 22 - 6174 8900

### Advisory Division:

303B, B wing Times Square' Building Andheri - Kurla Rd, Gamdevi, Marol, Andheri (East), Mumbai - 400059 | Phone: +91-22- 6517 6900

## CareEdge Global IFSC Limited

Unit No. 06, 11 T-2, Block-11, GIFT SEZ, GIFT City, Gandhinagar, Gujarat - 382355 | Phone:

## CARE ESG Ratings Limited

A Wing - 1102 / 1103, Kanakia Wall Street, Andheri - Kurla Road, Chakala, Andheri (E), Mumbai - 400093 | Phone: +91-22-6837 4400

## CARE Ratings Nepal Limited

Star Mall, 5th Floor, Putalisadak, Kathmandu, Nepal  
Phone: +977-1-4012628/29/30