National Supply Chain Finance Initiatives and Platforms

Presentation at the WTO Member Meeting
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MAY 4TH, 2021
1 | CONTEXT OF SUPPLY CHAIN FINANCE
Supply Chain Finance (SCF) is defined as the use of financing and risk mitigation practices and techniques to optimize the management of the working capital and liquidity invested in supply chain processes and transactions. Visibility of underlying trade flows by the finance provider(s) is a necessary component of such financing arrangements which can be enabled by a technology platform.

Source: Global Supply Chain Finance Forum (GSCFF)
A SUPPLY CHAIN IS A NETWORK OF RELATIONSHIPS BETWEEN SUPPLYING AND BUYING ENTITIES

Supply Chain Finance can capture supply side and/or buy side needs

**Supplier Finance**
- **Sub-Suppliers**
  - Tier N
  - Tier N
  - Tier N
  - Tier N

**Suppliers**
- Tier 2
- Tier 2
- Tier 2
- Tier 2

**Anchor**
- Tier 1

**Buyer Finance**
- **Distributors**
  - Dealer 1
  - Dealer 2
  - Dealer 3

- **Retail**
  - Retailer
  - Retailer
  - Retailer

**Retail**
- **Consumer**

Financing the **procurement** side of the corporate

Financing the **sales** and **distribution** side of the corporate
SUPPLY CHAIN FINANCE CONSIDERS A WHOLE ECO-SYSTEM AROUND DIRECT TRADE PARTNERS

Stakeholders provide finance, insurance, technology, regulation and advice

Source: “Supply Chain Finance Knowledge Guide,” IFC 2020
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<th>SCF PRODUCTS ALONG THE VALUE CHAIN</th>
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<td>Inventory finance</td>
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<td>Warehouse finance</td>
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<td>Production finance</td>
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<td>PO finance</td>
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<td>Finished goods finance</td>
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<td>Warehouse finance</td>
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<td><strong>In-transit</strong></td>
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<td>In-transit finance</td>
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<td>LSP finance</td>
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<td><strong>Post-shipment</strong></td>
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<td>Receivables finance</td>
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<td>Factoring</td>
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<td>Distributor finance</td>
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<td>Loan/Advance against receivable</td>
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</table>

**Loan-based**

**Receivable purchase-based**

FINANCIAL INSTITUTIONS GROUP

Creating Markets, Creating Opportunities
SME Supplier / Distributor

- Improved working capital efficiency
- Less expensive source of financing
- Payment security / reduction of late-payment
- Mitigation of default risk
- Improved relationships with the anchors
- Expanded sales, enabling growth
- Off-balance sheet financing

ANCHOR

- Improved working capital efficiency
- Stable supply chain
- Positive impact on the EBIT and other KPIs
- Reduced admin costs and improved efficiency of payment processes
- Stronger links with supply chain partners
- Business growth opportunities on buy- or sell-side

FINANCIAL INSTITUTIONS

- Long-term relationships with larger anchors
- Broader customer base and low acquisition cost
- Enhanced product portfolio
- Stable and low-risk revenue stream, based on high-quality, transaction-based short-term finance
- Better risk management and improved risk-profiles by risk transfer opportunities / assets as security
- Cross-sell potential

REGULATOR

- Financial inclusion through wider access to finance for MSME
- Decreased credit risks in the system
- Financial sector competition
- Improved sustainability of the value chains due to the full transparency of physical and financial processes
- Expedited regulatory changes
RECEIVABLES FINANCE SOLUTIONS ARE AN IMPORTANT PILLAR FOR FINANCING THE REAL ECONOMY IN EUROPE

Penetration rate in % of GDP (2019)

Ca. 12% of GDP in member states of EU is financed by Factoring or Reverse Factoring

Source: EUIF, 2019
PAYABLES FINANCE SHOWED CONTINUED GROWTH IN RECENT YEARS IN VOLUMES AND FUNDS IN USE

Estimated Global Payables Finance Volumes in USD bn

In 2020 volumes increased by 35%

2 | THE ROLE OF PUBLIC ENTITIES IN PROMOTING SCF
PUBLIC INSTITUTIONS AND INDUSTRY ASSOCIATIONS HAVE A CONSIDERABLE POTENTIAL TO BE THE PRECURSORS FOR SCF INITIATIVES

→ **Unique position** to collaborate with private commercial FIs.
→ **Kick start the dialogue with regulators and policymakers** for effective development of enabling frameworks.
→ **Advisory and support to commercial banks** in the development of new products not being offered in the market.
→ **Establishing multi-funder platforms** to engage other lenders/funders in SCF.

Development Banks, Central Banks and Industry associations can leverage SCF solutions as an **important vehicle to channel financing to SMEs** as they perform a mandate given by the state or their members.

**Closing market gaps**

**Strengthen Financial sector´s propositions**

**Financial inclusion and access to finance**
SCF IN THE CONTEXT OF DEVELOPMENT BANKS, CENTRAL BANKS AND OTHER PUBLIC ENTITIES

To successfully close market gaps and help SCF initiatives realize their full potential in underserved markets, public entities may address key functions:

- Legal & regulatory enabling framework and infrastructure
- Technological capacity and infrastructure building to manage SCF programs
- Knowledge and awareness creation of the banking sector and clients about SCF products
- Risk taking or funding to boost the local banking appetite to venture into SCF

Source: Guidebook on Supply Chain Finance by Development Banks and public entities, IFC/WBG, 2021
SCF ADVOCACY & ADVISORY APPROACH

Description:
Taking a role as pure SCF advocates and/or advisors includes:
- Support the **transfer of innovative solutions and know-how to their countries of operations.**
- Advocating at government agencies and regulators **to establish an appropriate regulatory and legal environment for SCF**
- Offering of **SCF advisory services** to governments, legislators and regulators, central banks, private and public financial institutions and to corporates

Functions can be multifold, e.g.:
- **SCF conferences**
- **Cooperation** with Industry Stakeholders
- **Trainings and knowledge** transfer to target groups
- Supporting and facilitating the elaboration of **model laws**
- Advocacy for implementation of **secured transaction laws**
- Issuing **guidelines** for the use of SCF products and the respective technology
- Offering **Advisory services** for the structuring of SCF initiatives and products, technology and vendor selection
- **Facilitating encounters** of the right partners (e.g. FIs and IT vendors)

Benefits:
- Creates awareness for SCF products
- Educates local banks on financing alternatives for SMEs can boost finance
- Provides technical assistance to financial institutions for building their SCF internal capacities
## ENABLING FRAMEWORK PROVIDER APPROACH

### Description:
The enabling framework essentially covers the “rules of the game” that are laid out to achieve a successful SCF program for all parties. Focus is the establishment of **suitable and solid legislative and regulatory environment** as basis for the contractual agreements and operational conditions of SCF programs.

<table>
<thead>
<tr>
<th>Component</th>
<th>Requirement</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal Reforms</td>
<td>Desirable</td>
<td>Legal reforms based on international best practices and supply chain finance project experiences, e.g. with regards to specific Factoring laws and commercial code.</td>
</tr>
<tr>
<td>Enforcement System</td>
<td>Required</td>
<td>Legal framework must allow creditors to directly collect and apply proceeds from intangible assets (e.g. accounts receivables) without court intervention. Specific laws ruling the maximum payment terms in contracts need enforcement.</td>
</tr>
<tr>
<td>STL &amp; Collateral Registry</td>
<td>Desirable</td>
<td>Collateral registries are desirable for most supply chain finance products. Reverse factoring does not require a collateral registry when the payor of an account receivable approves the invoice and gives a payment undertaking.</td>
</tr>
<tr>
<td>Bank Regulation</td>
<td>Required</td>
<td>Recognition that SCF products based on the purchase/assignment of receivables get different treatment with regards to capital requirements and loan loss provisioning than traditional lending products.</td>
</tr>
<tr>
<td>E-invoicing</td>
<td>Desirable</td>
<td>Electronic invoicing increases efficiency for SCF based on receivables as it can leverage on invoice data which is already available in a digital format.</td>
</tr>
<tr>
<td>E-signature</td>
<td>Desirable</td>
<td>Legal basis and technical infrastructure for e-signatures is not a must for onboarding the parties to an SCF Platform but could make it more efficient and secure.</td>
</tr>
</tbody>
</table>

Source: “Guidebook on Supply Chain Finance by Development Banks and public entities”, IFC/WBG, 2021
ENABLING FRAMEWORK PROVIDER APPROACH

Benefits:

- Relatively low investment required
- Creation of a secure and transparent transaction environment for SCF players and users
- Establishing compliance with by ruling and controlling of SCF program operation
- Enabling the development of innovative SCF products

Considerations:

- Involvement of relevant stakeholders (legislation, regulation)
- Setting of eligibility criteria for participants
- Technology investment (e.g. registry or e-invoicing platform)
- Organization of monitoring the compliance
- Operational cost (in case of running e.g. a registry)
FINANCING APPROACHES

Definition:
Public Institutions can play an important role as a provider of financing at preferred rates. It is about the **provision of funding** for the SCF programs this approach is used by Development banks, whereby they may assume variable roles resulting in a direct or indirect funding participation. Depending on the business model, the financing can either be provided **directly or indirectly** via Financial Institutions.

**Sole-funder approach:**
- **Buyer**
- **Suppliers**
- **DB SCF Program**
- **DB sole funder**
- **DB SCF platform**

**Co-funder approach:**
- **Buyer**
- **Suppliers**
- **DB Co-funder**
- **Other Fis Co-funder**
- **DB SCF platform or FI SCF platform**

**Benefits:**
- Boosting SME financing
- Multiple funders ➔ higher financing volumes and market reach
- Competition ➔ better conditions
- Creating a demonstration effect
- Funding and risk distribution
- Promote credit culture on a national/regional level
- Fee income for platform usage and the service provision (own platform)
- Interest income

**Re-financing approach:**
- **Buyer**
- **Suppliers**
- **SCF Program**
- **Other FI**
- **DB Refinancing**

- Suitable for Development Banks with a **second-tier model** providing low-cost second-tier financing to commercial banks
- FIs may use funds on a revolving basis form a pre-approved SCF program
- Contracts must be established with FIs and eligibility criteria for FIs and SCF programs

Source: IFC, Corporate Finance, 2020

Creating Markets, Creating Opportunities
**RISK-SHARING APPROACH**

**Definition:**
Finance providers use various techniques to **distribute or share risk** or to distribute assets to other finance providers or investors. One of these techniques is by means of guarantees, taking a previously established percentage of the risk per transaction.

**Guarantee approach:**
- Buyer
- Suppliers
- SCF Program
- Other FI
- SCF platform
- DB Guarantor

**Scope:**
- Suitable for Institutions with a **second-tier business model**.
- Can provide the **incentive for banks** to underwrite weaker credits.
- **Providing guarantees** also gives commercial banks **capital relief**, as they can lower their credit reserves.
- Guarantees can be provided on both an **own SCF technology** infrastructure or by **leveraging the SCF platform of another Financial institution**.

**Requirements/Considerations:**
- **Contracts** must be arranged with the participating funders and the counterparts
- **Limit set-up** for FI’s
- Conduct **risk assessment** based on the information provided by FIs
- **Risk monitoring** for guarantees needed

**Benefits:**
- Volume of the SCF program can be increased
- Risk is lower since clients are the FI’s
- FI’s can offer cheaper funding conditions due to capital relief
- KYC process conducted by the FI
- Leverage the SCF programs and technology platforms of other FI’s
- Fee income for providing guarantees
SCF INFRASTRUCTURE PROVIDER APPROACH

Definition:
Public Institutions can play an important role by providing the digital infrastructure where parties seeking financing and parties providing financing can meet.

Focus of this approach is the provision of the technology platform necessary for the successful operation of SCF programs for market participants, namely Financial Institutions.

Basic options: developing an internal IT infrastructure, contracting an existing SCF solution offered by specialized IT vendors (Make- or Buy-decision) or via third party platform operator.

Scope:
- Single or multiple SCF product
- Operating model for Multi-Funder or Marketplace structure
- Development and implementation of the SCF Platform
- Onboarding of multiple funders
- Conclusion of legal documentation

Ongoing Services:
- Marketing and sales processes
- Onboarding of buyers and suppliers
- Product support and client analysis
- IT support
- Reporting and other administrative tasks
Modern SCF propositions are enabled by IT solutions which are specifically designed for such purpose. There are many ways for setting up the Technology platform.

The **two main platform principles** are:

**SCF Multi-Funder Platform:**
- Buyer
- Supplier 1
- Supplier 2
- Funder 1
- Funder 2
- Funder 3

- Platform usage agreements
- Buyer – Funder Back to back agreements via platform
- Supplier – Funder agreements

**SCF Marketplace Platform:**
- Buyer 1
- Buyer 2
- Supplier 1
- Supplier 2
- Investor 1
- Investor 2
- Investor 3

- Platform usage agreements
- Buyer – Investor / Funder Back to back agreements via Marketplace platform
- Supplier – Investor / Funder Back to back agreements via Marketplace platform

**Note:** These simplified illustrations are only examples, in practice a variety of structures can be found. SCF platform types have in common that they cater for multiple funding sources.

They vary in terms of:
- Participants
- Legal relationships between the users, funders, platform provider, asset managers
- Information flows

- Responsibility for the payment flow execution
- Services of the platform provider
3 | EXAMPLE CASES FOR SCF INITIATIVES FROM DIFFERENT COUNTRIES AND ENTITIES
SHOWCASING “Cadenas Productivas”

**Background:**

MSMEs play a significant role in Mexico’s economy but their access to finance is usually very limited and/or provided at high rates due to lack of adequate collaterals and poor credit history information.

In 2001 NAFIN launched “Cadenas Productivas” to facilitate reverse factoring services to SMEs through an online platform with multiple participating FI’s. Later on Distributor Finance and Purchase Order Finance were added.

**NAFIN’s role:**

- **Development** production, and marketing of the electronic SCF Multi-funder platform
- **Enabling framework provider** of suitable and solid legislative and regulatory environment as basis for the contractual agreements and operational conditions
- **SCF platform Infrastructure provider and operation**
- **Funding** (rediscunt) and/or guarantees to participating FI’s - NAFIN takes up to 50% of the risk per transaction
- **Fee-based platform infrastructure** provider for top-leading FI’s
- **Legal framework** and handling of legal document compilations, preparation and signing of documents
- **Anchor client origination**
- **Onboarding** processes of all participants
- **Call-center** support for all participants

**Reverse Factoring process:**

1. Anchor uploads approved invoices
2. Suppliers select invoices for early payment and chooses Financier
3. Selected Financier accepts early payment request on the platform and pays suppliers same day.
4. Anchor receives notification.
5. On due date Anchor pays the Financier for the invoice.

**Distributor’s Finance process:**

1. Anchor uploads receivables
2. Distributor selects invoice and draws the financing facility
3. Financier pays the Anchor either on the agreed due date or before due date (early payment)
4. At the agreed due date, the Distributor repays 100% of the invoice nominal plus interest to the Financier.
# KEY SUCCESS FACTORS OF NAFIN’S SCF PROGRAM AND RESULTS

<table>
<thead>
<tr>
<th>Multi-funder</th>
<th>The platform allows healthy competition among multiple Financiers, which translates into an improvement in financing conditions for SMEs.</th>
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</thead>
<tbody>
<tr>
<td>SCF Products development</td>
<td>By having full control of the platform, different products were developed and included over time in addition to the Reverse Factoring, such as Distributor’s Financing, and Purchase Order Financing.</td>
</tr>
<tr>
<td>Resources</td>
<td>Deploying the required resources to establish the program was one of the main drivers for SCF program’s success.</td>
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<tr>
<td>Education</td>
<td>In addition to operating and promoting the platform, NAFIN educates SMEs by offering on-line and attendance courses on accounting standards, how to apply for credit, business ethics, marketing, and strategy.</td>
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<tr>
<td>Public Anchors</td>
<td>A key element for the growth of the “Cadenas Productivas” program, was the mandatory onboarding of federal government agencies and entities in 2006. This allowed total transparency in the handling of government payments, while providing liquidity and timely information to suppliers and contractors, as well as administrative simplification for entities and agencies.</td>
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**Facts & Figures:**

During 2018, the program encompassed around **460 anchor buyers** benefitting more than **20,000 SMEs**. In that year, around **8.9 billion USD** were granted to SMEs through the SCF Program. The SCF program contributes with around 11% of the total balance of the private sector loan portfolio (including guaranteed loans) of NAFIN.
SHOWCASING RECEIVABLES FINANCING SERVICE PLATFORM (RFSP) BY CRC OF PBOC (CHINA)

Background:
- The RFSP platform is led by PBOC-CRC with the ultimate goal to foster development of SME financing. It is an information service platform built and operated to promote the financing of accounts receivables and went online for trial operation on December 31, 2013.

RFSP in a nutshell:
- **Three types of users**: Account Debtor or Buyer (core enterprise), Borrower (supplier) and Lender (banks mostly).
- Online platform operates as a *marketplace with multiple funders* for Account Receivables finance transactions.
- Serves to unite *relevant government departments* to promote SCF to support SMEs and promote credit culture from the national level.
- The system is *linked to the Collateral Registry* operated by PBOC-CRC and provides convenient registration through the platform for receivables financing.
- Linked to *Government procurement system*

CRC’s role:
- Platform developer and infrastructure provider
- Set the regulatory framework for RFSP
- Operation of the collateral registry
- Promotes credit culture
- Create awareness on SCF products

The process:
The platform involves the following steps:
(i) Supplier uploads invoices
(ii) Buyer confirms the invoice authenticity with its digital signature
(iii) Supplier fills a financing request and pushes it to one, several, or even all the Financiers registered on the platform.
(iv) Interested Financier negotiates the credit terms and performs the due diligence.
(v) Financier issues the financing to the Supplier.
(vi) Financier sends notice of pledge/transfer through the platform to the Buyer.
(vii) Financier completes the registration of its security interests in the Collateral Registry directly through the RFSP platform.
STAGES, KEY SUCCESS FACTORS AND RESULTS (RFSP)

The RFSP platform has gone through three development stages:

**2013**
**v1.0 Basic Model:**
- In the first version, the platform allowed the supplier to upload A/R information to the platform (amount, payment term, and scanned invoices mainly) and the Buyer manually confirmed the authenticity of A/R.
- Financier’s manually updated the status of the financed invoices on the platform.

**2016**
**v2.0 System to System:**
- Interfaces of ERP systems of Buyers and Financier’s systems for confirming the authenticity of invoices.
- Transmission of additional data on A/R and underlying transactions directly to the bank’s system
- Historical transactions data

**2018**
**v3.0 Online Government Procurement Order Finance:**
- Finance based on Government Procurement Order
- Financiers get access to the Government procurement systems of provinces/cities to check the authenticity of the order and to place information about the financing transaction to ensure repayment

**Key success factors:**
- **CRC-PBOC leveraged on the Property Law** promulgated in 2007 for boosting AR finance through a platform.
- The **IT system was developed by the CRC team from scratch.**
- On September 1, 2017, the newly revised Law on the Promotion of Small and Medium-sized Enterprises was promulgated, stipulating for the first time that **debtor should confirm AR** to support SMEs get financed using AR, and encouraging the use of the platform for AR finance.
- Also in 2017, a special action was initiated jointly by 7 Ministries including Ministry of Industry and Information Technology, PBoC, etc. aiming to promote the development of AR Financing for SMEs.

**Some Facts and figures:**
As of May 2020, the RFSP has **202,007 member entities** (including 39,455 lenders and 162,552 accounts receivable creditors/debtors), facilitating a **cumulative amount of RMB 10.99 trillion (approximately USD 1.57 trillion)** of receivables financing.
SHOWCASING TRADE RECEIVABLES DISCOUNTING SYSTEM (“TREDS”) BY RBI

Background:

Micro, Small and Medium Enterprises (MSMEs) in India face constraints in receiving payments for the goods or services they supply. This translates to an overall inability to convert their trade receivables into liquid funds. The Reserve Bank of India (RBI) decided to set up an institutional mechanism for financing these trade receivables.

TReDS in a nutshell:

TReDS is a digital marketplace type of platform for MSMEs to auction their trade receivables at competitive rates through an online bidding process by participating Financial Institutions.

RBI’s role:

- RBI has set the regulatory framework for TReDS and established clear guidelines for the set up and operation of TReDS.

- RBI acts as the authority to grant the necessary licenses to the Providers of technology platforms and to monitor their compliance with the established rules. RBI also issues a license for the payments settlement.

- RBI provided licenses to three TReDS platform providers for this initiative: M1 exchange, Invoice Mart and Receivable Exchange of India.

**Cumulative Volumes** in each exchange are now around of US$265 mn per annum with a monthly run rate likely to hit US$133 mn in March 2019.

TReDS Platform

enables fully automated sale of receivables by connecting the parties of trade and Financiers

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**The process:**

(i) The invoice is uploaded by either the Buyer or the Supplier depending on the method of discounting and is approved by the other party.

(ii) Once the invoice is approved the Financiers on the platform start to bid on the invoice.

(iii) The Supplier accepts the bid and the discounted amount is credited in its account within a day.
KEY SUCCESS FACTORS OF “TReDS” AND BENEFITS FOR THE PARTIES

Key success factors:

- **Strong / transparent guidelines** and framework for operating TReDs
- TReDs allow for both Supplier initiated Receivables Purchase and for Reverse Factoring solutions
- **Settlement of funds** works per regulated mechanism via National Payments Corporation of India (NPCI)
- Government e-Marketplace (GeM) is collaborating with TReDS platforms
- India has imposed also **priority sector lending requirements** for banks, TReDs support these goals
- **Digital signature** is well used in India
- **Mandatory registration** to a TReDS platform for all companies under India’s Companies Act and having a turnover of more than INR 500 crores (approx. USD 66 Million) and all Central Public Sector Enterprises.

Benefits for the parties involved:

<table>
<thead>
<tr>
<th>RBI (Central Bank)</th>
<th>Supplier</th>
<th>Buyer</th>
<th>Financier</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishing an enabling framework for the financing of MSME</td>
<td>Access to financing their trade receivables without recourse and without need for collateral</td>
<td>Optimize the working capital by maintaining or extending days payable</td>
<td>Build-up of quality asset portfolio with MSME client</td>
</tr>
<tr>
<td>Compliance of participants by ruling and controlling the program operation</td>
<td>Reduced pricing due to auction principle on platform</td>
<td>Headroom for negotiating better COGS, lower administrative costs</td>
<td>Source of investment grade financing assets/ Financing eligible for Priority Sector Lending</td>
</tr>
<tr>
<td>Increase in the financing volume for MSME</td>
<td>Access to multiple funding partners</td>
<td>Option to extend the financing period with the lender when using reverse factoring</td>
<td>Easy client adoption by inheriting TReDS’ platform KYC</td>
</tr>
<tr>
<td>Creation of a secure and transparent transaction environment for users</td>
<td>Off balance sheet treatment of the sold receivables as transactions are without recourse</td>
<td>Alternate and efficient funding method for making vendor payments</td>
<td>Reduce operational and credit risk due to Buyer online acceptance of invoices</td>
</tr>
</tbody>
</table>
SHOWCASING "eTradeConnect" PLATFORM BY HKMA

Background:
HKMA’s research identified that the existing trade and trade finance processes have hindered the growth of trade finance due to:
- untrusted participating parties
- document-intensive manual process
- issues with transparency, efficiency, accuracy, double financing, fraud, error
HKMA announced on 31 October 2018 the official launch of eTradeConnect.

HKMA’s role:
- HKMA’s Fintech Facilitation office drives the initiative “e-TradeConnect”.
- Managing the consortium via the Hong Kong Trade Finance Platform Company Limited (HKTFPCL), a single purpose company indirectly owned by HKMA
- Orchestrating the stakeholders and partnerships
  - The consortium members behind the e-TradeConnect platform were initially seven banks* and has now twelve participating banks in Asia-Pacific.
  - Participating banks are invited to innovate on trade finance products
  - The network is working toward digitizing the connections with logistics service providers, different trade finance platforms from other jurisdictions, and integrations with ERP systems.

Connection to the platform for clients works via the participating banks. Platform functionalities and features for clients include:
- execution and conclusion of open account contracts
- access to trade financing and
- reconciliation of information.

*eAustralia and New Zealand Banking Group Limited, Bank of China (Hong Kong) Limited, The Bank of East Asia Limited, Development Bank (Hong Kong) Limited, Hang Seng Bank Limited, HSBC and Standard Chartered Bank (Hong Kong) Limited

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eTradeConnect aims to improve trade efficiency, build better trust among trade participants, reduce risks and facilitate trade counterparties to obtain financing by:

- digitizing trade documents
- automating trade finance processes
- leveraging the features of blockchain technology

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SPV (HKTFPCL)
eTradeConnect platform

Consortium
Banks 1
Banks ...
Banks 12

Buyers
Suppliers
### Technology
Technically the solution is built on **Hyperledger Fabric**

### Digitization of data + documents
So far, eTradeConnect has digitized **purchase order and invoice creation, pre- and post-shipment trade finance on open account trade, duplicated financing check, and payment status** updates.

### Smart Contracts
eTradeConnect enables facilitation of **3rd party confirmation** and the use of smart contract to **reduce the response time** for transaction enquiries, **provide financing** to customers in a faster and more efficient manner and to **automate the reconciliation** between the purchase orders and invoices.

### Envisaged Advantages
- **Sharing of trade finance documents** among participants on a **real-time and "need-to-know" basis** for protection of data privacy and security
- **Enhancement of transparency of transactions** which operates on an open account basis so that trading terms of a purchase order become more visible to all relevant participants
- **Lowering of the risk of fraudulent financing** as trade data stored in the platform can be verified and cross-checked
- Reduction of the risk of duplicate financing and subsequently **encouraging banks to provide trade loans**
- **Standardization and digitization of trade documents** help **reduce reconciliation efforts and human errors.**
SHOWCASING TRADE CHAIN FINANCE PLATFORM BY ASSOCIATION OF FINANCIAL INSTITUTIONS – AFI

Background:

Association of Financial Institutions (AFI) in Turkey is the umbrella organization of the sectors’ union of Financial Leasing, Factoring and Financing Companies. AFI established the Trade Chain Finance Platform (TZFP) to ensure cooperation among joint members projects, one of its duties. The main purpose of TZFS is to keep costs “closer to zero” and provide especially SMEs with access to cheap financing.

AFI also established the Receivables Recording Center (MKFS), where Factors and Banks must control and record the assigned receivables to prevent multiple assignments.

AFI’s role:

- Creates link between all trade partners, financiers and other related stakeholders
- Connects multiple sellers, buyers, factors and banks
- Combines e-signature, e-invoice and e-assignment
- Verifies e-invoices with the integration to the related governmental organizations
- Establishes confidence among the sellers and buyers to the finance industry
KEY ASPECTS OF "TZFP" PLATFORM BY AFI

<table>
<thead>
<tr>
<th>Inclusive</th>
<th>Allows different types of Financial Institutions to provide financing on the same platform.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unified</td>
<td>Integrated with Receivables Recording Center to prevent multiple assignments of the same receivable, Turkish Revenue Administration to use different type of e-documents and e-signature.</td>
</tr>
<tr>
<td>Value Added</td>
<td>AFI can provide e-invoice, e-archive, and e-ledger services (integrations incl.) to the platform's customers as an authorized one-stop-shop for all e-services.</td>
</tr>
<tr>
<td>Value Added</td>
<td>Technology</td>
</tr>
<tr>
<td></td>
<td>Private Cloud based web application. Highly scalable and available. Microservice architecture. Responsive design. The technology provider of the platform is the same name behind the complete e-services management infrastructure in Turkey on behalf of the Turkish Ministry of Finance and Trade.</td>
</tr>
<tr>
<td>Advantages for FIs</td>
<td>Reaching more customers without having to bear the cost of branching and creating alternative financial products without incurring investment costs.</td>
</tr>
<tr>
<td>Advantages for Suppliers</td>
<td>To be able to include non-financed SMEs in the financing system. Access to reasonable financing. Early collection opportunity. Chance to insure receivables.</td>
</tr>
<tr>
<td>Advantages for Buyers</td>
<td>Providing reasonable financing to suppliers. Ability to extend supplier payment terms. Creating a solid and sustainable supplier ecosystem. Receiving discounts on supplier payments. Having a regulated cash flow.</td>
</tr>
</tbody>
</table>
CONCLUSIONS

- The **provision of liquidity and working capital** are the core focus of SCF solutions, making them an effective tool for public entities to **channel financing to SMEs** and creating win-win for all participants in the ecosystem.

- There are **various SCF approaches** that public institutions and industry associations can take based on their underlying business models and mandates.

- **There is no one-size-fits-all approach**, there are several ways to tackle similar problems while respecting different environments.

- The **SCF approaches and models** differ amongst other factors remarkably in terms of **financial investment and risk taking**, as well as with regards to the **reach of SMEs**.

- In practice, **variations and/or hybrid versions** of these approaches appear, various models are applied in parallel.

- **Technology** is a key enabler for SCF to scale, due care and expertise is needed to find and implement the best fit SCF technology solution.

- The **examples** cases of SCF initiatives show the **beneficial effects** of national SCF initiatives.

- In most of the described example cases the **establishment of the underlying legal and regulatory environment** was a significant **pre-requisite for the SCF initiative**.

- Onboarding and orchestration of the contributions of the **relevant stakeholders** is a key aspect for successful development and implementation of national SCF initiatives.
Q&A
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