The Financial Side of Global Value Chains —Financial Supply Chains —

(Chapter 6 of the UN *Handbook on Accounting for GVCs*)

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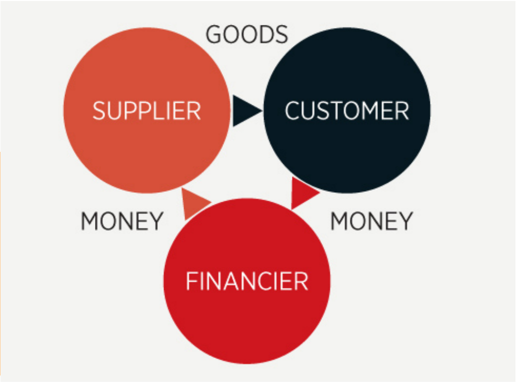


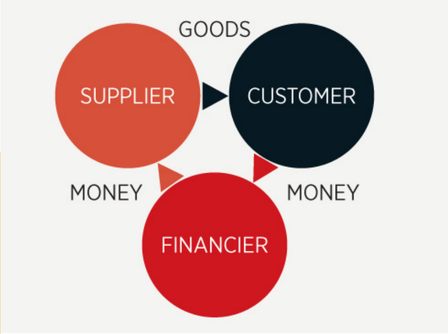
Trade finance developments

- International trade in goods and services is vital for the global economy – and *Global Value Chains are now dominant features of world trade*
- About 80-90 percent of trade relies on 'trade finance' (WTO 2016)
- Recent periods of stress and disruptions of trade finance posed systemic risks to world trade.
- G-20 (2010): "…the lack of a comprehensive international dataset for trade finance during the crisis has been a significant and avoidable hurdle for policy-makers to make informed, timely decisions. […] It is recommended that multilateral agencies coordinate and establish a comprehensive and regular collection of trade credit in a systematic fashion."

Call for comprehensive statistics

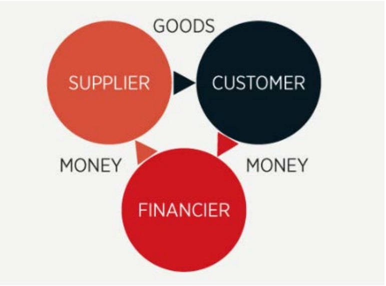
- Trade financing instruments are included in different functional categories of the BOP/IIP, recorded as part of other instruments, or not covered at all as they are not the focus of source data questionnaires.
- *Existing datasets need to be updated to reflect new instruments and Supply Chain Finance (SCF) providers*
- *A stand-alone comprehensive (satellite) trade finance dataset to support informed and timely decisions is recommended to respond to the call by policy makers. The data should cover the instruments, and institutional units, and should eventually be extended to a from-whom-to-whom basis*
- Big data (accessing SWIFT, BPO (Bank Payment Obligation), and digital Fintech's technology platforms) for timely, precise, and relevant data right at the source of trade financing

Trade finance developments (1)



- Part of the collapse of world trade in the 2008-2009 financial crisis was *due to problems with trade credit financing and related disruptions of global supply chains (ripple effects)*
- The crisis affected the cost, volumes, and modalities of trade finance and led to adverse feedback loops between the financial system and the real economy (IMF 2009)
- The March 2009 G-20 summit committed $250 billion to support trade financing for a period of 2 years to help address these problems
- To fill the information gap, the IMF, the International Chamber of Commerce and others conducted fairly costly global but partial ad-hoc market surveys

Trade finance developments (2)



Related structural changes to the trade financing market:

- trade financing has shifted from bank-intermediated to open account trading (inter-firm trade credits)
- new market participants - referred to as FinTechs - emerged aiming to provide bank-alternative funding to Small and Medium Sized Enterprises (SMEs) (95 percent of businesses are SMEs (World Bank))
- New Supply Chain Financing solutions combine new trade financing instruments with digitalized invoicing
- Secondary markets with securities asset-backed by trade receivables regained popularity to reach broader investment base

Traditional Financial Supply Chain instruments

Traditional bank-intermediated financing

- L/Cs Letters of Credit (w/guarantee)
- D/Cs Documentary Collection (w/o guarantee)
- Credit lines

Asset-based financing

- Factoring: The factor purchases ‘receivables’ from a supplier at a discount against immediate cash payment; mostly for large companies

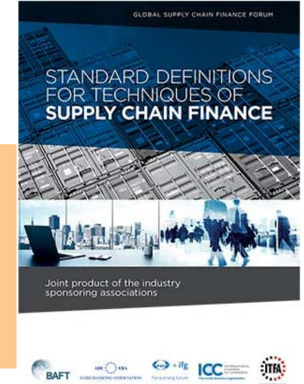
Open account trading

- Inter-firm financing, includes pre-shipment or post-shipment finance; one of the parties has to bear the risk until the transaction is completed

BOP / Financial Statistics:

- L/Cs, D/Cs are included under bank loans; undifferentiated
- Open account trading included in trade credits/advances, but source data is often poor
- Factoring is included in accounts receivables/payables
- Trade finance between affiliated enterprises is included under DI, undistinguished

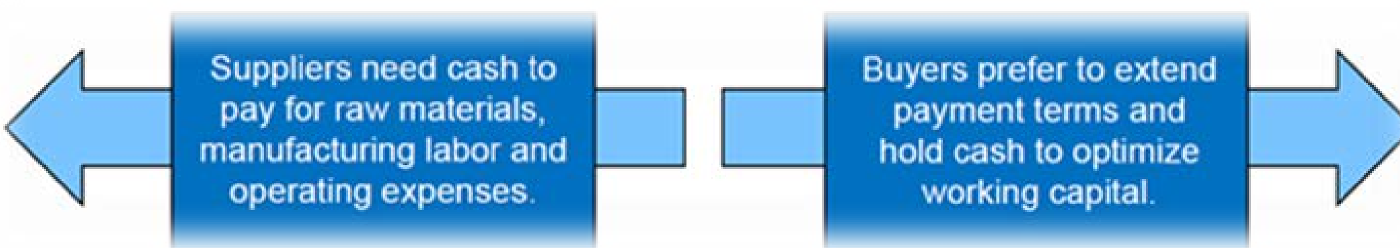
New Supply Chain Financing (SCF) instruments (1)

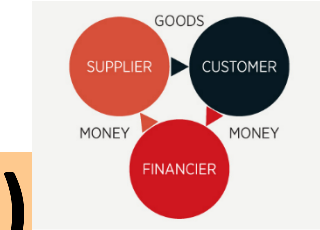


- "SCF Supply Chain Finance is defined as the use of financing and risk mitigation practices and techniques to optimize the *management of the working capital* and liquidity invested in supply chain processes and transactions.

- SCF is typically applied to *open account trade* and is triggered by supply chain events. 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*." (SCF Forum, 2016)

- In other words, SCF allows buyers to lengthen their payment terms, while providing the option for their large and SME suppliers to get paid early. Suppliers profit from the creditworthiness of the buyers. Aim is to optimize working capital and operational cash flow.





New Supply Chain Financing (SCF) instruments (2)

Key distinction between two broad instrument groups:

- Accounts Receivable Category: Accounts or trade receivables refer to the outstanding invoices that a supplier has vis-à-vis the buyer of its goods and services (short-term claims)
- the *supplier sells all or parts of these outstanding claims to a financial intermediary or SCF service provider which takes full legal and economic ownership* (and not just a security interest in the collateral); in return, *it provides the supplier with working capital* in form of advance payments less the financial service charge
- Instruments: (supplier-led) Receivables Discounting, Forfaiting, Factoring, (buyer-led) Payables Finance;

New Supply Chain Financing (SCF) instruments (3)

Key distinction between two broad instrument groups:

- Loan /Advance- Based Category: where financing is usually provided in return for rights to a collateral, and the loan is recorded as a liability in the beneficiaries’ balance sheet
- Instruments: Distributor Financing, Loan/Advance against Receivables, Loan/Advance against Inventory (incl. Inventory repo agreements), Pre-Shipment Financing

- Included in current statistical frameworks? Not distinguished, maybe not covered (data collection is not yet focused on these instruments)

FinTechs – 'financial technology' companies

- Fintechs are non-bank institutions that have become active and successful in segments *traditionally occupied by financial institutions*
- highly innovative, digitalized, agile
- using big data and leading-edge cloud-based technology
- offer old products in a new appearance, and new services, such as cross-border peer-to-peer (P2P) payments, micro-lending, "robo-investment platforms", and Supply Chain Financing
- *most of these startups are not subject to the same regulatory scrutiny and constraints as conventional banks; regulators are in early stages to catch up with these developments*
- The 2008–2009 crisis is credited in large part with the surge in Fintechs

Conclusions

- Trade finance shortages posed macroeconomic risk during recent crisis
- Current statistics do not break out trade financing and may not cover innovations – this presents a data gap recognized by G-20 policy makers, and others
- New instruments emerged with and without change of ownership
- Fintechs emerged as new suppliers of financing/related services
- Consideration should be given to implement a stand-alone trade finance statistics as a useful tool for policy analysis