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## World Supply Chain Finance Report 2020



Expert views and opinions on today's global supply chain finance market

Edited by Michael Bickers

Introduction by Kevin Day

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# Preface

**Michael  
Bickers**

Editor

This 2020 edition of the *World Supply Chain Finance Report* is on first release at BCR's annual *Supply Chain Finance Summit*, which will be held in Amsterdam on 30-31 January. The Report provides a review of recent developments in the global supply chain finance market on a regional basis and through specialised articles. For the purposes of the Report, the term 'supply chain finance' has been mainly used to mean an arrangement whereby a supplier's invoices are approved by the buyer for financing by a bank or other financier.

In this edition, the regions of focus are Europe, Africa, APAC, and the Americas. In all regions the demand for SCF is reported to be increasing although the reasons for the attractiveness of SCF can differ from region to region as can understanding of how to implement SCF programmes. The European and American markets continue to demonstrate good growth and with greater interest in the mid-cap market as blue chip buyer market becomes saturated. And whilst the market for supply chain finance may only be emerging in Africa, there seems to be great potential for it to thrive in the coming years.

This year's report demonstrates that in each region, the supply chain finance market continues to rapidly evolve with risk management and technology upper-most to further development.

BCR Publishing has produced the *World Supply Chain Finance Report 2020* with market expert contributors from across the globe, and I am very grateful to each of them for their valuable support. My thanks also go to our sponsors and in particular to HPD Landscape for their cover support and HPD Landscape CEO, Kevin Day for the lead article.

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# Addressing the risk of fraud for banks and financial institutions in supply chain financing

Kevin Day

CEO

HPD  
Lendscape

**Fraud remains a significant blight for banks, costing the industry several billions of dollars a year globally, despite increasingly sophisticated systems and procedures to protect financial institutions.**

Indeed, according to the Crowe and the University of Portsmouth's 2019 Financial Cost of Fraud1 report, fraud is costing the global economy GBP 3.89tn (USD 5.127tn), with losses rising by 56 per cent in the past decade. Leaders in banks and financial institutions are fully aware of fraud and its serious repercussions, but is there enough being done to offer the protection needed?

When it comes to supply chain finance (SCF), although the product has been around for a number of decades, there is a massive increase in its popularity globally. This undoubtedly introduces a greater likelihood that this type of lending will be a target for fraudsters, but also the fact that there are many new entrants to the market who may not be skilled or sufficiently experienced to be aware of the dangers.

The SCF offering represents an important industry for suppliers, buyers, and of course the banks and financial institutions that support this type of finance, making up a growing part of the USD 9tn trade finance space and providing an important lifeline for improving cash flow for SMEs for whom financing is more expensive and traditional bank lending less accessible. It is therefore an area that banks and other financial institutions cannot afford to overlook.

Traditionally, SCF was anchored upon a blue-chip buying corporation, with a low credit-risk profile. Such corporations would be unlikely to act fraudulently. Stringent KYC checks for all suppliers in an SCF programme mean that all parties within are well known and trusted. In fact, many would believe that SCF was fraud-proof. After all, the supplier's invoices would normally only be funded if the buyer has approved them for payment. The buyer would only approve bone-fide invoices. What could possibly go wrong?

As SCF has developed, the available market at the top tier has been steadily conquered, either by banks and financial institutions offering their platforms and financing, or corporates setting up and funding their own in-house SCF programmes. This has meant that there has been a shrinking of the available target market, pushing the banks and financial institutions into smaller corporates or larger SMEs. Does this direction of travel, naturally make the product more vulnerable to attack?

Banks and financial institutions understand that with any financial services there must be an inherent risk of fraud, with ever-evolving financial crime-prevention frameworks in place to protect themselves. However, there are steps that these institutions can take to keep the residual risk of fraud in their SCF deals to a minimum. The first must be ensuring a comprehensive understanding of the risks they face, so the methods and motives of fraudsters are less likely to escape their notice. Beyond this, financial institutions are now benefitting from the incorporation of modern technology to deliver their SCF services, to streamline processes and minimise the risk of human error, robust data capture to gather a clear understanding of risk profiles, and clear cultural and procedural frameworks so that the entire

staff body is equipped to protect an institution from fraud.

### Understanding the risks

We can begin by considering the more generic forms of fraud and criminality that exists in the financial sector:

- Falsification
- Corporate fraud
- Money laundering
- Collusion
- Cybercrime

### How could these exist in the world of SCF?

When it comes to falsification, experts in receivables finance have experienced criminals creating elaborate eco-systems of interconnected fake, yet convincing businesses, with trade flows that portray the legitimate flow of transactions, invoices, payment etc. When the buyer organisation is investment grade, the legitimacy of the supply chain is beyond doubt. However, as SCF becomes orientated to the lower end of the market, one could imagine faking all or part of supply chain to generate cash flows from fresh air.

The process KYC plays will ensure all involved parties are legitimate, but this is costly and time consuming, especially if the margins and returns for the programme are slim. Systemisation and automation can assist in this respect, but systems are only as good as the data available to them and it may be all too easy to have too much trust. Field audits and surveys can still have a part to play to establish the level of certainty around an SCF deal. Old-school credit management is still an important component of the banks' and financial institutions tool kit.

Directors and executives of corporations are legally and morally responsible for good governance, ethical conduct and corporate affairs of the business. However, there have been numerous situations where even the very largest corporations, where businesses are leading brands and household names, have enacted corporate fraud that has ultimately destroyed

the business. Falsification of accounts, dishonest representation as to the financial wellbeing of the business, and exaggerated financial performance. A SCF programme linked to a corporate buyer that is misrepresented as to its financial strength means the programme is on thin ice, with no legitimate security to underpin the finance being provided.

Banks are well versed in anti-money laundering measures ALM, but criminals could well target SCF providers to enable money to be washed through an SCF programme, unbeknown to the financial institution. The mechanisms are there to replace ill-gotten gains with legitimate cash, unless the provider is completely on top of the businesses it deals with to be absolutely sure of the legitimacy of what is occurring. This could be particularly difficult to uncover in cross-border situations, where the money flows may be more difficult to track and pin down.

Fraud by employees, on the buyer-side, suppliers or even working for the financial institution is always the most difficult to combat. Background checks on who is employed can go some way to protect the business, but external pressures can turn a loyal member of staff into a determined thief. Processes and procedures such as four-eyes principles can go some way to adding layers of protection. Audit trails and exception management can also provide traps to catch abnormal behaviour. Tampering with bank details can easily redirect funds so this sensitive information needs to be locked down and only changed under the tightest of controls. Collusion between staff in one company with staff in another can allow people to "game the system" for ulterior motives. A person in the buyer's finance team can wave bogus invoices through the payment approval process, aiding a supplier to generate cash via the SCF program. They could even manipulate the settlement of the invoice, delayed due-dates or employ other strategies to avoid detection.

When it comes to cybercrime, the criminals are clever, bold, and can be extremely patient. The biggest weakness is human beings who unintentionally leave the virtual doors and windows unlocked or wide open. Easy passwords, re-use of passwords between work and social websites, sharing of passwords and not keeping passwords secure can all contribute to giving the criminals the keys to your network and your SCF programme. Once the 'bad guys' are in, there are plenty of ways to syphon off funds and

defraud any of the parties involved. Good tooling can offer protection, such as virus scanning, detecting false emails (phishing scams) and generally providing security, but education of all employees involved is essential, those people working for the suppliers, the buyers or the bank, so that they are cybercrime aware and follow best practice to ensure that they are not the weak link that lets the criminals break in. Of course, knowing the importance of the cash flows generated by an SCF platform, the other ploy a criminal might use is a distributed denial of service (DDOS) attack. This is where the SCF platform is brought to its digital knees by a bombardment of messages over the internet. The perpetrators then use blackmail to extort money in exchange for stopping the attacks. Again, good cyber security and technology can offer protection from this kind of attack, but it requires constant investment to stay ahead of the ever-increasing sophistication of the criminals.

### Technology presents a means of protection

So, the risks associated with SCF are manifold, but there are steps that financial institutions can take to protect themselves.

Many in the SCF sector are aware that new technology can make businesses' operations easier by simplifying and digitising processes. Examples of this might be digital invoicing and unified ledger integration. What people may be less aware of, however, is that new software can play a central role in reducing risk and actually preventing fraud.

Indeed, technology is increasingly recognised as a keyholder to more secure and reliable SCF, streamlining and digitalising otherwise complex financial processes that leave room for human error. In the case of SCF, technology can support a multi-dimensional process by improving the cost and time efficiencies of providing and receiving SCF. Meanwhile, the added benefit of improving transparency across the supply chain can help the buyers and suppliers of SCF stay one step ahead of fraudsters. Through automation and AI, for example, banks can optimise SCF so they are more secure.

The role of predictive analytics to help reduce supply chain risk is inherently beneficial here. Blockchain technology is being used to provide supply chain transparency in certain sectors, and more generally,

many banks are recognising blockchain as a technology for preventing fraud. This technology can enable more sophisticated SCF by introducing a controlled environment that uses analytics to verify the authenticity and provenance of orders, invoices, and payments. Moreover, a blockchain-based solution can enable all parties across the supply chain to act on a single ledger, a single version of the truth. In creating a fixed ledger record, the level of trust and transparency, from supplier to buyer to the bank, may be significantly improved. Such technology is still nascent and only wider adoption and standardisation will ensure it meets the aspirations of its advocates.

Indeed, following the allegations of fraud involving Chinese e-commerce conglomerates Suning and JD in 2019, regulators are encouraging firms to adopt automated technologies such as blockchain and IoT to reinforce document verification processes.

Businesses that adopt e-invoicing for their commercial activity are operating in a controlled and highly auditable environment. Regulatory bodies and governments are recognising the benefits of this facility in dealing with frauds relating to VAT and tax, for example. As blockchain-enabled trade becomes adopted across supply chains, we can expect to see a greater reliance on the digital footprint of commercial transactions to reduce the risk of fraud.

### Data capture provides insight into risk profiles

As we know, fraudulent activity can go undetected in complex processes. Estimates suggest that frauds last an average of 18 months before being detected in classic asset-based finance; why should SCF be any different at concealing fraud?

However, access to data enabled by technology can make transaction histories and lending activity visible across the process. As data is collected at a granular level, it can be analysed to detect risk-inherent processes or bottlenecks, in the supply chain, that may have gone unnoticed.

When data is used correctly, innovative platforms can connect suppliers and buyers with finance providers while assessing risk in real-time, using predictive analytics. Although there are risks associated with data sharing, it is being recognised as an important step within banks and potentially with peers. Indeed,

Standard Chartered, Citigroup, ANZ and four additional lenders are piloting a new initiative to combat trade finance fraud by promoting data sharing on small companies that seek trade finance.

### **Cultural and procedural change can equip all staff**

While investing in technology and data analysis is critical, there are also basic procedural and cultural changes that can make a significant difference to a bank or financial institution's protection against fraud within its SCF services – steps that must be a priority. While banks recognise that there will always be residual risk to SCF deals, the most important protection must be to reduce that residual risk to an absolute minimum.

Robust fraud and corruption controls have become increasingly standard within the industry, with due-diligence procedures evolving to adapt to the new technologies in place and the changing threats posed by fraudsters who are ever more sophisticated. However, as mentioned previously, we often overlook the human factor, which can be the easiest way in for fraudsters.

So, we must go beyond changes to due-diligence systems and the SCF on boarding process and ensure a fundamental change in the culture of a company, so that all staff members are equipped to protect their institution from fraud and understand the risks. Staff training is a fundamental component of achieving this and staff should be fully educated on cyber security and data protection risks.

There will always be inherent risks present for banks and financial institutions offering SCF; by its nature, the service has the potential to expose an institution to entities outside its due-diligence process. However, there are steps that banks are taking to mitigate the risk of fraud. New technological systems and data analysis represent a major opportunity to introduce greater transparency and security into SCF deals, but investment in technology and data capture to enhance these processes must be matched with cultural and procedural training for staff. Technology represents the future of security in SCF, but without addressing the human element, banks could find themselves at risk.



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# Specialist Articles

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Garrote  
Pazos

Business  
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Alvantia



## Confirming: forging a path with experience and innovation

**Sitting on the edge of the Pereda Gardens and looking out over the Santander Bay, the Botin Centre designed by Pritzker Prize-winner architect Renzo Piano is an impressive sight. It manages to stand out from the historic city, yet seamlessly blends in with its surroundings, mixing present and past in a modern design which embraces the future.**

From the building you can see across the estuary to the Cantabrian mountains which appear to rise out of the water to meet the sky. A spectacular seemingly impenetrable barrier, separating the city from the world beyond. It seems apt that the bank that was founded in the city that gives its name to the bay should see an opportunity to go a step beyond, break down barriers and establish connections by facilitating the management of collections and payments with suppliers. Santander bank had this future vision at the end of the 80s and as a result, confirming was created in Spain. This original solution proved very beneficial to businesses as new possibilities emerged and an exciting path was forged through a hitherto unexplored area. Continuous updates, enhancements and additions have been necessary as confirming has grown and moved upward and onward. Today, three decades after its launch, the product is very mature with a volume of assignments over EUR 80bn per year, equal to around 10 per cent of GDP and approximately a third of commercial financing. It has not always been the easiest of paths to navigate, but the combination of experience, new

technology, and vision has ensured that the journey has been rewarding as confirming has overcome challenges, reached ever higher peaks, and revealed new opportunities.

From the outset, the banks were clear that the lynchpin to success, in this business, would be technological support and, in this sense, the most innovative technologies have been made available. One early example of this innovation was from 1990 when the client server model and relational databases were the development paradigms of first versions of confirming. The product was such a huge success that it was soon adopted by many other banks and grew further, with Spain leading the way.

The solution was designed for corporate customers, those who require continuously adapting working methods, from both a technological and operational point of view. An example of this is the buyback whereby corporate customers need to place their treasury excesses and confirming adapts to that through buyback, which then allows them to reduce the cost of financing for suppliers.

To avoid continuous modifications and additions, complex parameterisation systems were developed, which allowed confirming solutions to adapt to customer needs without costly developments each time a customer requested an adjustment.

Confirming is a product of enormous capillarity so it not only spread rapidly and widely, but touched other layers of the economy and soon reached companies that were not so large. Corporate customer suppliers were interested in the product and included it as another source of financing. They soon started confirming with their own suppliers and these, in turn, with their suppliers and so on. The path had initially been an uphill struggle, but once it had carried confirming to a new

peak there was no stopping it. Confirming rolled like a snowball on the slopes of a mountain gathering speed and momentum and growing in size until it became unstoppable. Confirming was here to stay and the market was discovering its advantages:

- Cost reduction from outsourcing payment management.
- Improved supplier relationships due to shortened payment terms.
- An additional source of financing for suppliers.
- Working capital optimisation.
- Help in managing treasury excesses. The exponential growth in the market had a knock-on effect on the growth of entities' systems which needed to be scalable and expand to serve a growing number of customers.

New players entered the growing market, which in turn increased competition. To differentiate themselves in a highly competitive market, financial institutions developed confirming further, introducing increased functionalities for customers and suppliers. This made the product more modular and efficient so that, based on a strong product core, layers with new, more advanced functionalities could be included.

In many cases, these functionalities were aimed at greater integration with customers (formats for sending remittances as well as sending information to customers electronically), all of which tended to make confirming a paperless business. This improvement in communication not only affected customers, but also affected interaction with suppliers. Gradually, mail and fax disappeared and were replaced by an emerging, at the time, channel: the internet. This new channel provided customers and suppliers with continuous and real-time access to the information held by the financial institution, as well as enabling them to make advance requests 24 hours a day, seven days a week. The internet introduced new challenges and brought up innovations to information management and payment schedules.

In Spain at that time, the construction sector was experiencing high and rapid growth. To expand their borrowing capacity, and thanks to the low price of money, mid-cap companies began using

financing systems that had, until then, been reserved for companies in the market's highest segments. These mid-cap companies had suppliers from lower segments and those suppliers began to learn about the advantages of confirming and other financial solutions.

At the end of 2008, the real-estate bubble burst and caused some confirming customers to go bankrupt or become insolvent. Those customers had been reliable, safe and good payers until then. The fast-growing snowball had turned into an avalanche, consuming everything on its way, and the path that had been forged was destroyed.

### Lessons learnt, resetting, rebuilding, and improving the path

An in-depth reform of the product and the systems that supported it followed and confirming resurged stronger and more resilient than before.

On one hand, stricter risk control systems were employed when contracting the product, integrating it in financial institutions' risk acquisition systems. Confirming solutions also began to participate in managing financial institutions' non-payment cycles and delinquency management as well as reporting to the central banks. Due to the high levels of delinquency, the central bank formalised the means of information, reporting and allocation according to the term of the debts. This resulted in greater integration with the financial institutions' risk-control applications.

On the other hand, the customers affected became a systemic risk for the entities, which forced them, in some cases, to join together and prepare joint rescue plans with innovative tools for the solution, such as syndication. Different entities' confirming systems had to be integrated with each other through swift messaging to make requests for funds and be equipped with urgent payment systems. Information systems for the syndication components were developed to communicate details of the assigned invoices and the risks assumed by each participant.

At the same time, many customers chose to look for suppliers in foreign markets. Likewise, the reduction in volumes processed encouraged financial institutions to open up to international markets. Therefore, confirming applications had to start issuing international payments through swift messaging and implementing stricter measures to prevent money laundering. The

systems had to adapt to multiple currencies and their exchange valued accounting, as well as handling multiple languages and jurisdictions in the offers made to suppliers and on web portals. Thus, confirming had not only recovered from the construction crisis, but had become a global solution.

The path that had originally been forged for a relatively small solution, had been widened to include new markets, new players, and greater possibilities and had been rebuilt and improved with the lessons learnt from the challenges and experiences encountered along the way. Today it is an international highway and the result of this long road has allowed the market to acquire an expertise that is capitalised on in fully prepared applications to market the product to all segments of the economy, including SMEs. Of course, the product has to adapt to the different needs of companies based on their size, and the technological platforms that support it must have the ability to adjust to different types of customers.

### **SMEs: the path widens and heads to a new frontier**

Despite the success with larger companies, confirming still, on the whole, bypasses SMEs. The reasons for this are varied, but in many cases we find that SMEs have little or no knowledge of confirming or see it as something designed for larger companies, not for them.

To market confirming to these companies, we need to offer a packaged solution with a few available options and based on the client's limited knowledge and needs. As this knowledge increases, the platform should become more adaptable and flexible and allow the customer to open new options. This not only helps the solution to adapt to the customer, but also allows financial institutions to make the most of an advantageous negotiating position. SMEs usually have little bargaining power, so financial institutions can impose more demanding conditions.

Furthermore, SMEs have fewer resources, so they struggle to manage the information they have. They often have very standardised systems or systems which require a high degree of manual work and are not very adaptable to the requirements of integrating into the supply chain. For this reason, platforms must offer tools to SMEs which allow them to integrate into the supply chain. These tools may support SMEs at both an operational level for sending invoices and requests for advances, and a strategic level, to use the information they send and receive. This way, SMEs will have tools such as machine learning to manage their risks and to choose the best way to finance their working capital. An example of working capital optimisation could be advising the company the most suitable SCF program to get finance.

SMEs also pose a greater risk to financial institutions. Platforms must be prepared to manage these risks and detect them early. They should be able to discover situations of risk and act accordingly, reducing limits or preventing new risk acquisition.

Opening up confirming solutions to these segments means a massive and exacting use of applications, developed with the most advanced technologies. These technologies should facilitate process industrialisation through highly productive tools, based on web technologies for the front-end. Digitisation also becomes a key success factor where web portals and apps are used intensively for both consultation and for interaction with the financial entity and for KYC processes.

Extensive use of the portals makes them targets for online fraud. As such the portals must be secured by means of reliable development techniques to protect against hacking, phishing, spoofing, etc. using ethical hacking tests. Given that there are a multitude of participants in the processing of invoices, all events are recorded and are therefore auditable.

## The future: where will the path go and what will it look like?

From the Botín Centre, I see boats power across the estuary, planes in the sky above soaring over the mountains and the constant flow of east-west traffic on the highway. As I am watching this, I receive a video call which transports me overseas to another continent. The Cantabrian mountains no longer seem such an impenetrable barrier.

We live in a completely globalised world. Although there are currently growing trends in establishing barriers, as with Brexit or the Tariffs imposed by China and the US, these barriers are unlikely to last and, to a large extent, this is due to technologies. Social networks allow us to establish contact and do business with people and companies on the other side of the world. Communication is increasingly cheaper and of a higher quality. This facilitates the internationalisation of smaller companies. This internationalisation not only occurs in opening new markets, but also in finding more competitive suppliers both in terms of price and quality. As a result, a multitude of companies from different geographical areas, from different cultures and of very different sizes end up in supply chains.

Communication channels have improved, and people and goods move ever more quickly from one place to another. Technology such as The Internet of Things allows us to determine exact geographical location. Likewise, information regarding people and goods can be available securely and in real time, protected against malicious access through technologies such as distributed databases, among which blockchain is one of the most promising, but not the only one. This ease of access will allow supply chains with companies of very different sizes to integrate using technologies such as APIs, and open software architectures, including corporate, mid-cap companies, and SMEs.

In the regulatory field, there are significant initiatives that may change the landscape substantially. Legislation is currently very different across the world, but it is tending to converge on increasingly demanding requirements.

Lastly, it is clear that digitisation is changing our world at great speed. There is a rise in companies that are solely digital, in all sectors of the economy, and the financial sector is no exception. Moreover, due to low interest rates in more advanced economies, these entities easily obtain financing and achieve better results through high-risk operations. They provide financing to supply chains that would otherwise be deprived of the oxygen they need to continue operations.

Supply chains face a future with new challenges: increasing internationalisation, an exponential increase in the number of players, reduction in the average size of participants, increasingly demanding legislation, specialised technology funders, etc. As we have seen over the last 30 years, this business has faced continuous challenges and its response has always been the same: innovation and new technology. Yesterday, it was client-server or relational databases; today, there is a range of promising technologies to combat the new challenges, such as machine learning, blockchain, IoT, API and others that will appear in the future. Confirming has managed to stand out from other finance solutions and yet seamlessly combines with other services, mixing present needs and past experience in a modern design which is embracing the future. Confirming may indeed face challenges, but in its essence it has not changed; with the help of innovation, experience and new technology it is still forging ahead, pushing back horizons and making space for huge opportunities.



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## Reverse factoring – risk management considerations as our industry grows

**Enrique Jimenez**

Head of Supply Chain Finance

Demica

**As we enter more uncertain economic times, there has been much debate within our industry as to how the reverse factoring product (also known as confirming, supply chain finance or payables finance) impacts corporate liquidity in times of crisis. Reference has been made to the well-known examples of Abengoa, Carillion and DIA as examples of where these programmes have accelerated liquidity issues for corporates and, in turn, contributed to their demise.**

There are many comparable examples of new products within the financial services industry which have driven significant benefit to corporates and investors over time, such as interest rate and exchange rate products in the 1980s, which provided treasurers with new ways to manage liquidity and risk. As with open account trade products, these required careful disclosure to all stakeholders to ensure all were aware of the risks involved. In some European countries, receivables finance represents more than 10 per cent of GDP and a recent report suggests that outstanding's are now USD 21bn for large banks representing 18 per cent of trade finance deals. This product is popular as it allows hundreds of thousands of SMEs to access cheap liquidity when it is most needed with limited costs and complexity.

We do not believe it is productive to point out examples where poor management, weak disclosure and overleveraged balance sheets have caused companies to collapse, while highlighting reverse factoring arrangements that were in place at the time. It is more important to consider the benefits that the product offers and the rules that responsible market practitioners need to follow in order to keep all stakeholders aware of the risks they are taking.

We have therefore set out our views on some of the questions levelled at our industry.

### Is traditional factoring a more 'risk-friendly' product than reverse factoring?

Reverse factoring is a solution that is buyer-centric because it is originated by the buyer instead of by suppliers, who may alternatively use factoring to access liquidity by discounting their invoices. It has been argued that factoring is a more risk-friendly product because the credit exposure is against a diversified portfolio of buyers, instead of one single risk.

This ignores the reality of risk management within the industry. In practice, factoring firms will typically accrue huge claims to individual debtors in industries where the practice of factoring is widespread, such as retail or automotive. Often highly dependent on credit insurance, the underwriter of the risk outsources its analysis on the debtors to the credit insurer, with no direct access to the debtor. This contrasts with reverse factoring, where funders often have a broader banking relationship with the corporate which can be leveraged to manage risk.

Both products have an important place when it comes to financing open account trade. They have distinct risk characteristics which need to be measured and monitored by credit professionals who take into

account the needs of the customer. Reverse factoring provides systematic access to capital at reduced cost and complexity through robust tripartite relationships between the buyer, supplier, and funder. Factoring arrangements will enable bilateral deals to be struck quickly with funders and corporates, with protections against dilutions built into the deal structure.

### Is this a way to force suppliers to channel new spend through programmes or accept an extension of payment terms in exchange of participation?

Critical to the continued treatment of reverse financing programmes as trade credit obligations on the part of the buyer is **Rule 1**: any commercial negotiation with a supplier to extend payment terms must be completely separated and detached from the implementation of any reverse factoring programme. Suppliers must have the option to accept or decline an offer of entry to a programme to get early payments.

A corporate will always have the right to negotiate with its suppliers, the commercial terms of their relationship, and the right to ask for a term extension – independent of whether or not the corporate has implemented a reverse factoring solution.

A further protection for suppliers comes from **Rule 2**: with respect to a terms extension, the ask for the extension must be moderated and in line with market and industry standards for payment terms.

When we conduct our supplier analyses (the analyses of corporates' spend data), we always recommend staying within industry and market (mainly country) standards. If, after having implemented a reverse factoring solution, a corporate increases payment terms to its suppliers significantly beyond industry and those market standards, the link between the working capital benefits and an unfair treatment of supplier payments can also be sufficient to risk reclassification of the receivable on the balance sheet.

A corporate, whether it is a buyer or a supplier, will typically have the internal objective of improving its own working capital. Professionals like banks, advisors or platform providers should, therefore, identify the point at which the corporate, as a buyer, improves its working capital position. The supplier also benefits by accessing early payments at an attractive cost, whether they be cheaper or not very different to the cost they would

have to pay to do factoring of those invoices or to get a working capital loan. When subject to these very clear rules, the result is that suppliers will access new forms of liquidity – and unlike with factoring, they will have access to a 100 per cent advance rate, without using their banking lines, and typically at lower costs.

A final **Rule 3**, which should be adhered to by market participants in order to avoid reclassification, is that the buyer must be blind to and separated from any reverse factoring solution offered to suppliers from a financial perspective. The buyer can invite suppliers to participate voluntarily and can explain the potential benefits suppliers may obtain – but the buyer must not participate in any financial discussions the funder may have with the suppliers to offer early payments.

Taken together, these three rules afford significant protection to suppliers from the risk of commercial exploitation from buyers, as the key element is that suppliers must be treated fairly, and that they must not be in an overall worse position after the implementation of a reverse factoring solution than before. As with any product, we can never be sure that rules are followed and not overlooked from a governance perspective. However, we do know that market participants, notably banks and corporates, typically adhere to them – especially given that this is an audit point.

### At times of stress, will reverse factoring make a bad situation worse?

It is a truism that at times of financial stress, credit limits and insurance policies become vulnerable when their providers believe there is a risk of financial impairment. This applies to reverse factoring in the same way that it does to a revolving credit facility and other forms of short-term liquidity. Whilst it is true that a funder pulling lines from a corporate may well trigger a renegotiation of trade terms in favour of the supplier, this is equally true when insurance limits are withdrawn in a stressed credit position. The advantage to a supplier is that risk is transferred to a professional that is able to evaluate counterparty risk fully, and that has the capital to absorb the loss in the event of a corporate failure. This is in stark contrast to participants in the supply chain who have less sophisticated credit tools available to them with which to evaluate risk and for whom financial loss will compound the issues created by customer loss, following a corporate failure.

## Should reverse factoring only be reserved for highly rated customers?

For lower rated customers, supply chain finance (SCF) programmes provide considerable benefits for suppliers by offering an alternative source of liquidity, as well as transferring collection risk to the funder. The cost of the programme will clearly differ relative to that of an investment grade offering, which means that the value to the supplier must justify the price on offer.

We are seeing an increase in demand for reverse factoring amongst lower rated corporates. Our duty of care is to ensure that we structure these programmes with investors who truly understand the risks associated with the programme. Mitigants, including credit insurance, can be explored. Where credit support is provided by the corporate (such as pledging cash against reverse factoring lines), reclassification from trade to financial assets is sometimes required.

## Can more be done to improve disclosure of reverse factoring programmes?

Our view is that much can be done to improve disclosure of reverse factoring programmes so that investors and stakeholders that rely on credit or equity valuation, are informed as to the risks and benefits that they generate.

This could be achieved by disclosing the SCF facility as a note on accounts payable – not as a liquidity risk, but to show full transparency on the potential utilisation of that line by a funder to make early payments to suppliers, through a factoring operation backed by an irrevocable payment undertaking (IPU). In any case, this note should not reflect the outstanding amounts of the facility, in line with the second rule which says buyers should be blind and separated from the financing activity.

## What other best practices should be followed to keep the industry safe?

Aside from our three rules, some other examples of best practice include the following:

- Any renegotiation of the commercial terms between a buyer and its suppliers should only affect future transactions and invoices, and not novate existing ones.
- A reverse factoring programme with a committed facility, if incurred, should be reclassified as a loan.
- Sufficient cash should be maintained on hand to protect the corporate against the scenario where lines are pulled. This practice can be applied to all forms of uncommitted short-term credit and is associated with prudent risk management.

In summary, we believe it is prudent to derive lessons learned from corporate failures where reverse factoring was one source of liquidity, and to take measure as the industry evolves, just like with any other financial product, to keep companies and their investors informed of the risks. In an environment where the acceleration of cash to SMEs is required to fuel growth in an increasingly uncertain environment, we expect the use of reverse factoring to increase and keep playing an important role in the economy going forward.



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## The evolution of supply chain finance collaboration

**Cliff Entekin**

Managing Director

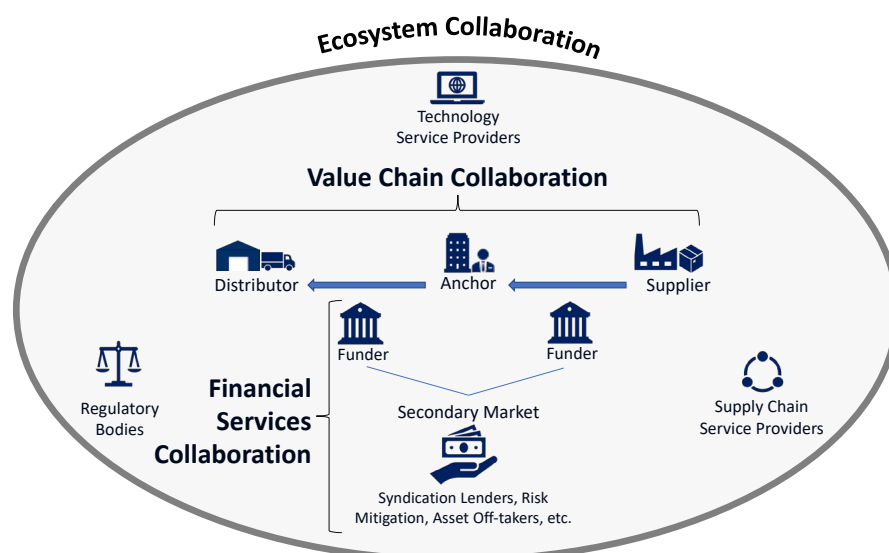
Convergence Capital Group, Hong Kong

**The same drivers that initially fostered collaboration in the physical supply chain are now pushing barriers among participants in the financial supply chain.**

Long before Apple and Amazon became trillion dollar companies, many businesses realised that there was a competitive advantage in having the most efficient and effective supply chain. This understanding soon gave birth to omni-channel value chains, sales and operations planning, as well as drop ship fulfillment, which were highly dependent on the real-time sharing of data and collaboration among multiple actors in the physical supply chain (PSC).

Over the past decade, there has been a significant increase of those same values being applied to the financial supply chain (FSC), where historically the sharing of risk, quality, cost and lead-time across participants did not exist. This delay of attention to the FSC was primarily due to the added layers of complexity it brought to the already growing web of PSC collaboration, specifically the introduction of funders, risk mitigation providers, and other ancillary services that formed the foundation of the FSC.

More recently however, companies have realised substantial gains by focusing on more efficiency in the FSC. Financial institutions and service providers which support these efforts, have quickly followed suit with their own modernisation. Innovation among these supporting parties has led to a paradigm shift in the way collaboration is taking shape in the FSC. Generally, we see increasing collaboration in three primary areas, which look to shape the supply chain



finance landscape in 2020 and beyond. These are value chain collaboration, financial services collaboration and ecosystem collaboration.

### Value Chain Collaboration

#### **Current State:**

***Value chain partners, such as buyers, suppliers and distributors, must work together to provide a favorable environment for external funding sources to engage in SCF.***

The emergence of SCF began over 20 years ago, when buying organisations started collaborating with their suppliers to make factoring more accessible to them. This soon evolved into large buying organisations, or 'anchors', providing a corporate guarantee against approved supplier invoices. This effectively led to the development of payables finance, which provides smaller suppliers with access to the available, cheaper credit of their larger, buyer counterparties.

In emerging markets, as well as in certain industries of the developed world, this collaboration is also taking place between large anchor suppliers and their smaller, less credit worthy customers or distributors. Similar agreements with these suppliers allow distributors to have access to additional lines of credit by extending their payment terms from what is normally short-term or on-sight payments, as required by the anchor supplier. However, rather than providing a 100 per cent corporate guarantee on their distributors' ability to pay, the anchor suppliers are allowing for stop-supply, first-loss or inventory buy-back agreements with the funder, coupled with access to historical and ongoing transactional data.

#### **Future Potential:**

We are already seeing this collaboration extend deeper into the supply chain, as well as further up in the demand chain, with the support of non-bank funders in local markets. Often this may be a finished goods supplier in an emerging market, acting as the anchor to raw material supplier, or perhaps even a large local distributor acting as anchor to the next level of wholesalers.

In Thailand, for example, a local factoring company is now targeting tier two buyers and their local suppliers for payables finance. Their overall revenue target for the anchor is minimum one billion Thai Baht in sales, or the rough equivalent of USD 33m. In Indonesia, a local fintech has gone a step further in the value chain by using years of data collected from wholesalers to provide financing for local warungs (small individual shops) which is completely reliant on machine learning algorithms and their constant analysis of historical and ongoing transactions. As value chains become more integrated and the collection of data improves across these interconnected organisations, advancements in artificial intelligence will drive a new wave of alternative lending for SMEs.

### Financial Services Collaboration

#### **Current State:**

***Significant cooperation between actors in the financial services industry is allowing funders to service SCF programs in new and innovative ways through the sharing or transfer of both risk and capital.***

In the world of globalisation, many funders have found themselves unable to completely service their clients due to limitations in jurisdictional coverage, risk appetite, credit capacity or operational abilities. Collaboration between financial service providers has allowed a primary lender to overcome these hurdles.

We see many funders in emerging markets lacking the capital needed to expand their portfolio. They are now collaborating with more established institutional lenders overseas to provide them with necessary capital and support. We have worked on multiple programs where a non-bank lender in an emerging market (e.g., local factoring company), has received an inflow of capital from an overseas institutional lender in a developed market, allowing this local lender to expand their portfolio. Development institutions, such as the International Finance Corporation (IFC) and Asian Development Bank (ADB), also provide this type of support on a greater level to emerging market banks, not only providing them with the necessary liquidity and risk mitigation tools to expand their portfolio, but also delivering advisory services to empower these banking partners with the appropriate operational capabilities to service these programs. There is a natural transition for development institutions to first provide advisory services to an emerging market lender and implement

effective operational processes, so they may later service those lenders with liquidity and risk mitigation products to support their expansion.

Established networks, allowing for further collaboration among financial institutions to support cross border trade, are also increasing in importance. Often a funder may have the inability to support a local exporter because either they lack the capacity to:

1. Effectively assess credit on the overseas buyer
2. Ensure payment is received from overseas buyer
3. Support overseas transactions due to regulatory requirements

FCI, a global network of roughly 400 financial institutions, maintains a legal structure and data transfer linkage allowing for cross border collaboration between two financial institutions. This allows one financial institution, the export factor, to maintain the relationship with the exporting supplier and provide funding to them, while an import factor, in the same legal jurisdiction as the buyer, provides a guarantee on the buyer's maturity payment to the export factor. This allows domestic funders to quickly ramp up an export-factoring program, without the need to take credit risk directly on the overseas buyer, which may be beyond their internal capabilities or in contradiction of local market regulations. However, a risk participation agreement with an overseas lender may be fully in line with their own mandate, capabilities and local market regulations.

Another area of evolution is the 'originate and distribute' model where receivables are treated as an investment asset among financial institutions. This model has vast potential as technology allows for consistent credit reporting and standardisation of data for transmission into third party systems of the collaborating originators and funders.

#### ***Future Potential:***

We certainly see an increased role for development institutions, as well as non-bank lenders with financial inclusion mandates, in the provision of capital and advisory expertise to local funders in emerging markets. The major roadblock to expanding these programs with development institutions is creating a formalised link between the advisory side of the house, and the investment side. For non-bank lenders with financial inclusion or emerging market mandates, providing the up-front advisory role is in its nascent stages, but some have outsourced these activities to third party advisors and technology providers who also provide ongoing, in-country audits on these emerging market lenders.

The ability of FCI to support cross border collaboration among financial institutions will continue to expand, especially as their membership grows. The rollout of their new product, FCIreverse, which enables cross border payables finance collaboration among two financial institutions, will be an immediate enhancement for many funders who have always been discouraged by their inability to onboard suppliers in unsupported jurisdictions. This may, however, diminish the value of conventional multi-funder platforms that have traditionally pushed large anchor buyers to onboard multiple funders on a single program for full jurisdictional coverage of suppliers.

Receivables as an asset class, and the ability to distribute these assets in a seamless manner, has extraordinary potential due to advancements in machine learning and blockchain, coupled with the standardisation of trade data. The trade finance distribution initiative (TFD) is a global collaboration across major banks and technology providers to produce common data standards and definitions to address operational inefficiencies, transparency issues, and risks inherent in the 'originate and distribute' model. As these networks grow and standardise, driven by initiatives such as TFD, originators and sources of capital may seamlessly be matched and allocated according to defined rules and preferences.

### Ecosystem Collaboration:

#### **Current State:**

***Technology providers, physical supply chain services and regulatory bodies all play a significant role in the future expansion of these programs as participants in the SCF ecosystem.***

For example, physical shipments and access to logistics data would not be possible without the interaction of third party logistics providers and carriers. Technology solutions play their part by enabling a consistent view of standardised data across multiple participants in the trade flows. Regulatory bodies also play a distinct role, however, they must choose whether or not to be a catalyst for growth, which is dependent on their willingness to innovate, and the efficiency in which they may do so.

Technology will be the key driver here in the coming decade. The ability to connect all parties in the physical and financial supply chain through blockchain networks and open APIs, will allow for funding of multiple layers in the value chain from trusted data sources while also supporting the automation of risk mitigation activities, triggered by machine learning algorithms. Banks and shipping companies are continually opening up their own APIs and making these interconnected networks more feasible. There are now technology companies, such as TradelX, dedicated to providing the underlying blockchain infrastructure to connect various participants within the ecosystem.

One of the greatest barriers to further expansion of SCF is local regulatory environments and their suitability to these types of transactions, especially in emerging markets. We do, however, see various efforts underway in Asia to improve these regulatory environments. For example, the Philippines just recently enacted their own Personal Property Security Act (PPSA), allowing movable assets, including receivables, to be registered as collateral and assigned to lenders. In another instance, a State Bank of a major South Asian economy just gave ad-hoc approval for the first 'true sale' domestic payables finance transaction. In each of these cases, outside participants and development institutions played a key role in moving this regulation forward.

#### **Future Potential:**

The evolution of SCF, especially beyond traditional developed economies, will be directly linked to the ability to automate the transfer of data across multiple parties through standardisation and connectivity. There are efforts underway to create standards among trade digitisation, which will play a key role in this growth. The major hindrance, however, will be the inability of regulation to keep up with innovation. This is where it is key for development institutions and cross competency organisations to play a defined, yet more mutually structured, role in combating this inefficiency.

#### **Conclusion:**

As there is still much value to be extracted through collaboration from the physical and financial supply chains, market forces will push technology, ancillary services and regulators to support the value chain participants with new, innovative funding and risk mitigation techniques driven by an abundance of standardised, trusted data to drive critical decision making. Non-bank lenders and emerging market banks will become more active in the space, with support from offshore institutions, bringing additional financial support to the far ends of the spectrum in the value chain. The emergence of fintech as its own funding source will continue to grow and evolve in niche markets, however without support or the necessary regulation guiding them, they could quickly become a blight on the SCF community if the selling of assets directly to inexperienced HNWI is coupled with high levels of NPLs.



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## What are the benefits of using FCireverse?



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## Dr. Praphul Chandra

Founder  
KoineArth



# Blockchain and SCF: a good partnership?

## Supply Chain finance is recognised as a high value, low risk asset class.

The average default rate per transaction across trade finance products is between 0.03 per cent - 0.25 per cent.<sup>1</sup> However, as with other commercial loans, the risk of SCF varies by entity type. In China, for example, the non-performing loan ratio of China's large enterprises is only 1.19 per cent, in contrast to the SMEs' ratio, which can reach 5.94 per cent.<sup>2</sup>

Due to the larger risk in supply chain financing for SMEs – part real and part over estimated – trade financiers tend to stay away from this segment. Yet, more than half (52 per cent) of SME proposals to finance trade transactions are rejected by financiers against just 7 per cent for multinational companies.<sup>3</sup> This has far reaching impacts. The International

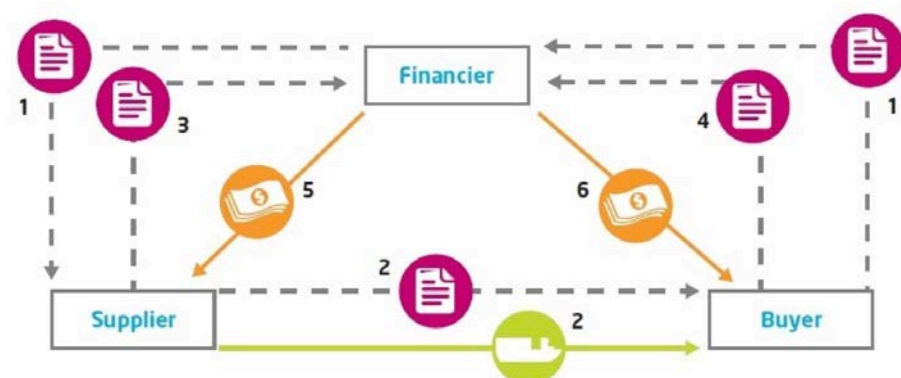
Finance Corporation (IFC) estimates that 65 million firms, or 40 per cent of formal micro, small and medium enterprises (SMEs) in developing countries, have an unmet financing need of USD 5.2tn every year.<sup>4</sup>

At the heart of the issue is what economists call transaction costs. In SCF, transaction costs show up in the processes that each involved party in the supply chain has to follow to enable SCF.

Qualifying a supply finance application is an extremely cumbersome process. It requires on-boarding all parties involved in the trade, verifying their identities (KYC), verifying the validity of the copies of documents submitted and evaluating the credit-worthiness of the loan. Figure 1 shows this process in more detail.

The process requires significant sharing of information among multiple entities. This requires manual intervention and access to a wide variety of trade documents. Copies of these documents must be

Figure 1:  
Supply Chain  
Finance  
process<sup>5</sup>



- 1 SCF facility entered into between buyer and financier (and supplier)
- 2 Good shipped and sales invoice raised on the buyer by the supplier
- 3 Supplier submits invoice to financier's SCF platform
- 4 Buyer approved invoice on financier's SCF platform
- 5 Financier pays the supplier (less interest and fees)
- 6 Financier debits the bank account of the buyer at invoice maturity



*Figure 2: Supply Chain Finance with transaction visibility (Centralized vs. Decentralized) [Credits: www.marketsn.com]*

shared between organisations, their financiers and government bodies. This drives up both the cost of qualifying a SCF application and the time involved. Given the growing speed of trade and the short-term nature of SCF loans, this approach creates significant bottlenecks.

The problem is that today's global economic environment is highly dynamic. With fast changing customer preferences, organisations need to be able to rely on and trade with a wide variety of suppliers and partners around the world – and they need to do this quickly.

But SCF still relies on cumbersome processes involving the exchange of paper documents between multiple parties. This increases the overall operational cost and introduces delays. To be sure, the objectives that this process is aimed at achieving are non-negotiable – both due to regulatory (KYC, AML) reasons and for minimising risk; the issue is that the process enforcement relies on significant paper-work and manual effort.

## Technology and SCF

Technology can help. By using digital documents, automating validations and algorithmic risk evaluation, both the cost and time taken in supply chain financing can be drastically reduced.

The challenge is that in order to make a real impact, technology solutions should be adopted by all parties in the supply chain. In the absence of such a comprehensive approach, piecemeal solutions adopted by an organisation or a financier will not work well.

Take for example, e-invoicing: many companies have adopted this solution. But e-invoicing does not automatically enable smooth invoice financing. Financiers may want to examine not only the invoice but the complete order details before deciding to offer SCF. Financiers may want to ensure that payment has not already been made against this invoice, that it has not been used elsewhere as collateral. A comprehensive solution thus requires all parties involved in transactions to use a shared digital infrastructure.

Figure 3:  
Blockchains &  
Smart Contracts  
[Source: [www.marketsn.com](http://www.marketsn.com)]



One example of the potential impact of comprehensive technology adoption comes from B2B marketplaces (e.g. Alibaba). These marketplaces rely on their central position to build an exhaustive ecosystem for synchronised data flow in SCF. Access to this data makes several parts of the supply chain financing process shorter and cheaper, allowing these marketplace operators to offer finance at much lower costs and to a traditionally under-served segment (SMEs).

One option for finance providers is to rely on such central marketplace operators to offer SCF to businesses transacting in these marketplaces. Another option for finance providers is to incentivise organisations to digitise their B2B transactions without a centralised market-operator, like ([www.marketsn.com](http://www.marketsn.com)), that enables businesses to form business-groups inside which they can transact with each other in a secure, trusted fashion. A finance provider with access to group transactions can achieve substantial reductions in cost and time involved in SCF using underlying blockchain technology.

## Blockchains & SCF

At its heart, a blockchain is a ledger (database); with four unique features:

1. **Shared:** A blockchain is a shared ledger. It is not really owned or controlled by any one organisation. A public (permissionless) blockchain is accessible and open to everyone. A private (permissioned) blockchain is a members-only consortium.
2. **Non-deniable:** A participant who makes a transaction on a blockchain cannot deny that they made the transaction.
3. **Immutable:** A transaction once recorded on a blockchain can neither be deleted nor modified.
4. **Smart Contracts:** The blockchain ledger can record not only transactions but also enforce terms and conditions of the contract under which transactions are undertaken. These contracts are shared, non-deniable, immutable, and will execute as encoded without manual intervention.

Each one of these features of blockchains has implications for SCF. Consider, for example, a blockchain consisting of an exporter in India, her financier, an importer in USA, and his financier.

When the exporter creates a blockchain-invoice for the importer, this invoice is visible to all four entities – the importer, the exporter and their respective financiers. When the importer accepts the invoice, this information too is visible to all four organisations. The underlying blockchain technology ensures that any change in the invoice becomes part of the permanent audit trail of the invoice and no organisation can deny their actions as recorded in the audit. When the importer financier issues a letter of credit (loc), this becomes visible to all four organisations too, in real time – saving time and reducing the need for the receiving financier to validate the authenticity of the loc.

Within this context, consider the process of Figure-1 that a financier follows to qualify SCF applications. Since the financiers have access to the same shared ledger where the importer and exporter record their transactions, they have visibility into the validity of the transaction: the underlying features of immutability

and non-deniability further enhance trust in the validity of the transaction. Smart contracts deployed on the blockchain can further be used to make supply chain financing faster and cheaper e.g by automatically enforcing the terms and fees associated with trade financing.

The de-facto transparency in a shared trusted environment among multiple entities involved in SCF is one of the key value propositions of blockchains. It is this transparency that can reduce the exposure in SCF and will, in the near future, make SCF available to SMEs.

### Peeking into the future for SCF

There must be a fundamental shift in how we interpret 'trade finance'. The traditional interpretation of provisioning of funds needed for a trade transaction is valid but not comprehensive. Probably a more comprehensive view of bank-intermediated trade finance is that "it effectively achieves the formation of a secure means of trade, thus enabling the exchange of goods/services for money in a risk-free environment." With blockchain, financiers have an opportunity to do this faster and cheaper.

To put things in perspective, the vast majority of trade is based on inter-firm credit. These are B2B transactions among long standing business partners and for whom access to working capital is not a major challenge.

Financier-intermediate SCF is used more heavily for trade covering longer distances and newly formed trade relationships. "It enables firms which would otherwise be considered too risky, to link into expanding global value chains and thus contribute to employment and productivity growth".<sup>3</sup> There are real financing needs in emerging markets where SMEs are struggling to gain access to affordable working capital. According to ADB, the trade finance gap in Asia is around USD 700bn<sup>3</sup> and SMEs often cite a lack of access to finance as a major barrier to their capacity to expand or intensify their international trade activities.

This means that the cumbersome processes of SCF are biased against SMEs who need access to it the most. With the advent of blockchain, this challenge looks imminently solvable. The transparency that blockchain enables allows all information regarding long standing B2B transactions to be shared with the financier in a trusted automated way. This significantly reduces the cost and the turn-around time in the SCF process. Smart contracts go one further, enforcing the terms of payments. Together these features of blockchain, will reduce the cost of supply finance and increase its reach – and it will happen sooner than you think...

<sup>1</sup> Sanne Wass (2019), *Trade finance funds grow as investors seek 'recession-proof' asset class*, In S&P Global Market Intelligence, Available at <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/55001061>

<sup>2</sup> Zhu, Y., Zhou, L., Xie, C., Wang, G. J., & Nguyen, T. V. (2019). *Forecasting SMEs' credit risk in supply chain finance with an enhanced hybrid ensemble machine learning approach*. *International Journal of Production Economics*, 211, 22-33.

<sup>3</sup> Marc Auboin and Alisa DiCaprio, *Asian Development Bank Institute (2017), Why trade finance gaps persist: does it matter for trade and development?*, available at <https://www.adb.org/sites/default/files/publication/236486/adb-1702.pdf>

<sup>4</sup> World Bank (2019), *Improving SMEs' access to finance and finding innovative solutions to unlock sources of capital*, Available at <https://www.worldbank.org/en/topic/sme/finance>

<sup>5</sup> [www.tradefinanceanalytics.com \(2019\), What is supply chain finance?](https://www.tradefinanceanalytics.com/what-is-supply-chain-finance) Available at <https://tradefinanceanalytics.com/what-is-supply-chain-finance>

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## Sustainable supply chain financing

**The current trend for ESG and green bonds cannot be overstated, and especially for sustainable finance. However, a lack of credible sustainable investment opportunities means the level of demand far exceeds the level of supply.**

This gap in the sustainable finance market, along with a disparity in supply and demand for supply chain finance (SCF), presents an opportunity for the development of sustainable SCF solutions. Global supply chains can be monetised through sustainable trade loans, payable finance programs, and the repackaging of sustainable receivables into notes issued on the global capital markets. The development of such solutions would incentivise further development of sustainable trade and the monitoring of supply chain sustainability, while providing much-needed working capital to suppliers.

While there remain barriers to scaling up these solutions, as new technologies are harnessed to improve the efficiency of processes and ensure the accuracy of sustainability data, the sustainable SCF market is expected to develop significantly.

Sustainable SCF has the potential to shift the thinking of current green and sustainable finance from general proceeds-led investments, for the few, to SCF models that incentivise real behavioural changes towards sustainable goals to any supply chain or trading relationship.

### The Problem

#### **Growth of sustainable financing**

The past few years have seen a global surge in demand for sustainable investments. Recent estimates suggest that by next year, half of all investment assets will be run with an environmental, social and corporate governance (ESG) mandate, up from a quarter in 2015.<sup>1</sup>

This inevitable path towards sustainable financing presents a number of advantages for investors, such as competitive returns, portfolio diversification, and a means of appealing to more sustainability-conscious consumers. It is also becoming well proven that lending to companies for ESG purposes does not have to result in or be a substitute of lower returns.

Legal and regulatory changes are also forcing companies to review their ESG practices. For example, the UK *Criminal Finances Act 2017* introduced the new criminal offence of profiting from gross human rights abuses. There is also pressure from institutions such as the European Commission, which established the EU High-Level Group on sustainable finance, to develop an EU roadmap on sustainable finance.

To address the shift towards sustainable investing, investors are continually seeking innovative strategies. In October 2019, for example, ING introduced the world's first sustainability improvement fund financing for Quadria Capital, where the facility interest rate is pegged to the sustainability performance of the fund. This kind of ESG-oriented innovation is a clear symptom of the demand for sustainable investments, which will undoubtedly continue to grow.

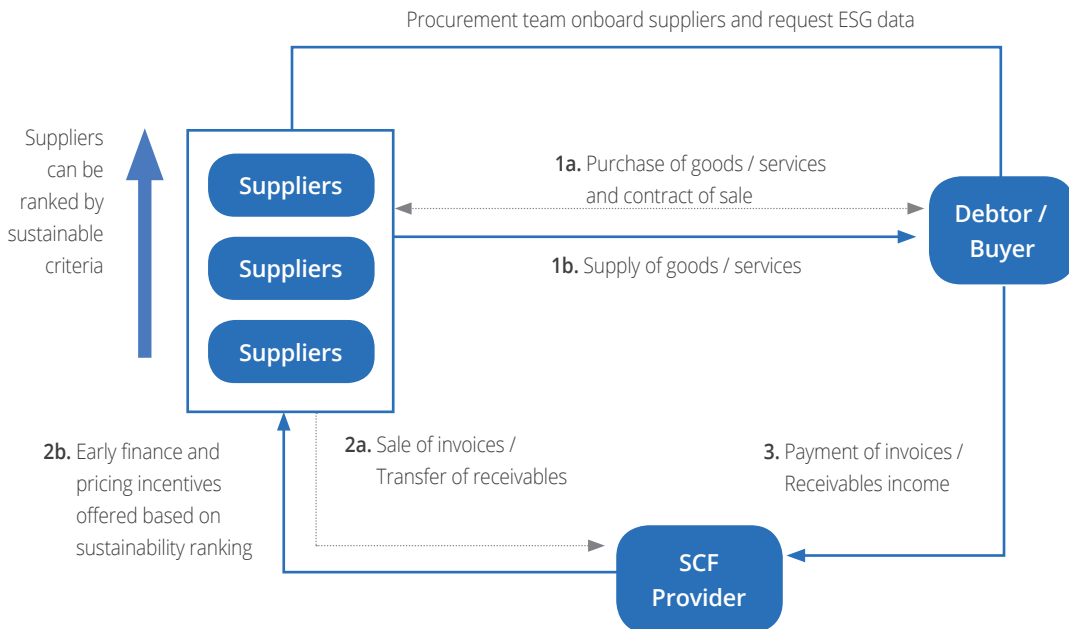


Figure 1: A typical buyer-led payable finance programme

Source: Structures & solutions in trade finance, Simmons & Simmons (<https://www.simmons-simmons.com/publications/ck0afw1ndnb720b368wqsztvc/15-structures-and-solutions-in-trade-finance-microsite>)

### Lack of credible investments

The sustainable financing market is currently dominated by green bond issuance, which reached an all-time high in the second quarter of 2019.<sup>2</sup> The market for sustainable bonds and other forms of sustainable finance, on the other hand, has been limited by a lack of sustainable projects, common standards, and analysis on the sustainability of assets.

However, given the gap that currently exists in supply and demand for supply chain financing, one way in which sustainable investing is developing is through embedding ESG factors in SCF structures.

### Untapped potential

SCF has developed as a means of closing the financing gap between a supplier delivering goods or services and receiving payment from the buyer. As most trade relationships depend on open account trade and buyer credit whereby invoices are not due for 90 days, suppliers are left with the risk of non-payment by the buyer and often need to bridge their working capital needs.

Supply chain financing can take various forms.

Typically, under a buyer-led programme (for example, one led by Walmart), the supplier will obtain early financing from a finance provider, usually by selling its invoices to the bank based on the strong credit of the buyer. The buyer will then pay its invoices on the due date directly to the finance provider. The finance provider will usually charge a fee and/or provide the financing at a discount.

There is, however, a significant disparity in supply and demand for SCF. Recent estimates suggest that the SCF market represents a potential revenue pool of USD 20bn, with only 10 per cent of this being tapped.<sup>3</sup> It is inevitable, therefore, that the market will develop rapidly in the coming years, with growth per annum projected at 15 per cent.<sup>4</sup>

## The Solution

As investors begin to recognise the extent of the gap in SCF and its viability as an alternative investment, there is a real opportunity to connect investors with sustainable projects in need of funding, or, more importantly, for investors or SCF providers to incentivise producers and traders in a behavioural shift towards sustainable production, shipping, and performance.

### Monetising sustainable supply chains

Sustainable SCF involves the supply of working capital in a way that embeds ESG factors and benefits all stakeholders in the supply chain.

Sustainable SCF has the potential to change the sustainable finance market for debt from proceeds-driven objectives to behavioural change to sustainable performance.

The sustainability of the supply chain is monitored and verified by the parties providing sustainability performance data to the finance provider. As the market becomes increasingly digitised and more efficient, sustainability performance data in the supply chain is gradually becoming more easily measurable and available, thus reliable.

### SCF mechanisms

There are three key mechanisms by which sustainable supply chains may be financed: sustainable trade loans; payable finance programs; and repackagings. As with ordinary supply chain financings, the funds would be secured by the receivables and used to bridge payment gaps in open account trades. The key difference is that discounted financing (and thus the behavioural change incentive) would be provided only where the buyer and/or supplier comply with certain sustainability standards that represent this sustainable behavioural change.

#### (1) Sustainable trade loans

Sustainable trade loans are loans provided to suppliers for the sourcing or manufacturing of sustainable goods, services or activities. The lender specifies what types of goods, services or projects qualify as having sustainability attributes, and provides preferential rates to sustainable borrowers.

Sustainable trade loans fall within the broader category of sustainability-linked loans, which aim to facilitate sustainable economic activity by incentivising borrowers to achieve prescribed sustainability performance objectives.

#### (2) Payable finance program

ESG factors can be integrated into SCF through buyer-led payable finance programs. Under a sustainable program, suppliers would sell their receivables at a discount to the finance provider and receive preferential terms, such as favourable lending rates or fast-tracked invoice processing, for demonstrating strong sustainability performance. These programs would allow buyers to integrate ESG considerations into their supply chain and achieve their own sustainability targets. For example, suppliers could be ranked according to the extent to which they shift their behaviour to new cleaner energy in logistics and how they deliver or package their goods to the buyer.

#### (3) Repackaging

Sustainable SCF and sustainable trade loans can be further repackaged into sustainable asset-backed securities for investors, in the capital markets, seeking to invest in ESG-related assets.

Although still in its infancy, there is a growing market for green collateral securitisations, i.e. securitisations where the securitised assets are 'green'. As this market develops, demand for sustainable securitisations is also likely to develop, and in particular for securitised notes backed by sustainable supply chain receivables. In fact, the OECD estimate that sustainable asset-backed securities issuance could be USD 380bn per year in the 2031-2035 period.<sup>5</sup>

## Key Benefits

### Incentivising sustainable trade

Sustainable SCF allows suppliers and buyers to obtain better lending rates and achieve cash optimisation, thus providing financial incentives to engage with the demand for sustainable supply chains. Sustainable payable finance programs encourage buyers to achieve their own sustainable targets, and bolster their security of supply by attracting suppliers with good management practices. For suppliers, such solutions would provide them with working capital and an opportunity to fund ESG improvements and to improve their reputation as a sustainable business.

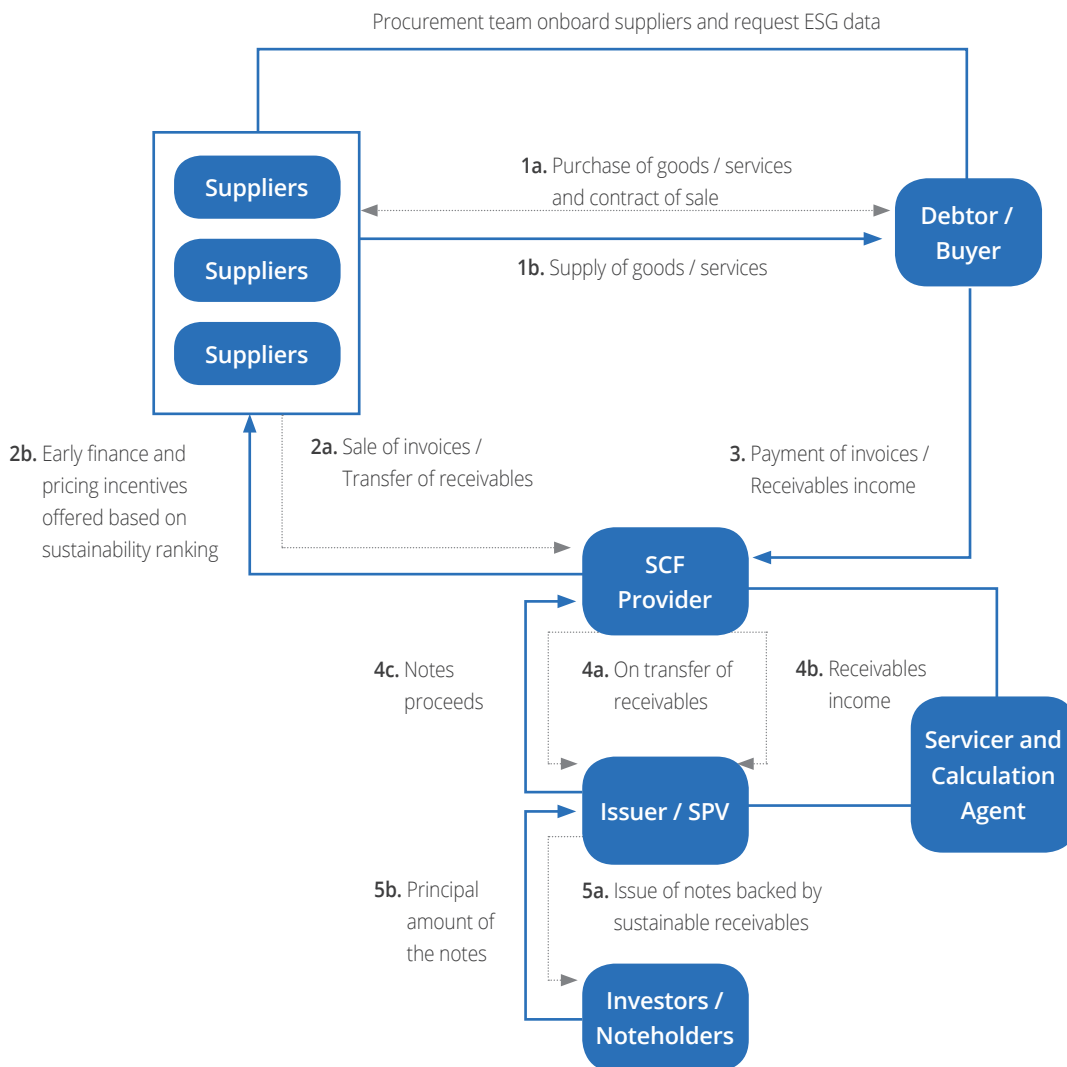


Figure 2:  
Sustainable SCF  
repackaging

Source: *Structures & solutions in trade finance*, Simmons & Simmons (<https://www.simmons-simmons.com/publications/ck0afw1ndnb720b368wqsztcv/15-structures-and-solutions-in-trade-finance-microsite>)

One example of a business which has engaged with the sustainable SCF market is Olam, a leading agri-business which in 2018 secured a three-year sustainability-linked revolving credit facility, under which Olam is required to meet specified improvement targets for a range of ESG metrics.

### Quality

Trade receivables are generally considered a high-quality security, and credit enhancement opportunities such as insurance taken out by suppliers against buyers and government guarantees may also be available. Research has shown that there is a proven correlation between higher ESG scores and lower credit risks<sup>6</sup>, meaning sustainable trade and SCF solutions can potentially improve buyers' security of supply and the quality of receivables over the long term.

### **Penetrating tiers of the supply chain**

Sustainable SCF also provides an opportunity to integrate ESG considerations throughout the whole of a supply chain. As supply chain participants become increasingly concerned with costs and reputational risks associated with non-sustainable practices, embedding sustainability considerations can add value and benefit participants throughout the supply chain.

### **Accessible financing**

Sustainable trade financing can provide access to finance for SMEs in emerging markets that have limited access to green finance. Sustainable trade loans and SCF in particular are accessible to a wide range of suppliers seeking to fund the sourcing or manufacturing of sustainable goods, services or activities, and can carry clear financial incentives, such as interest rates linked to the borrower's sustainability performance.

### **Profitability**

It is increasingly being recognised that embedding sustainability in finance can be profitable for both companies and investors. As consumers become more sustainability-conscious, companies and investors need to promote their brand as one that is also conscious of ESG principles. Although the complexity of global supply chains makes reviewing supply chain sustainability difficult, companies are now aware of the need to monitor such factors and meet the sustainability objectives of consumers and investors.

## **Key Barriers**

### **Barriers to scale**

One of the barriers to scaling up sustainable SCF solutions is the lack of buyer awareness of the existence of such solutions, and the fact that buyer engagement requires cooperation between various stakeholders. To address these and other barriers to scale, the solutions need to build in sufficient economic incentives such as preferential rates to encourage market uptake.

### **Measuring the impact**

A further barrier is the risk of green washing; that is, presenting receivables or notes backed by receivables as 'green' or sustainable, even though there is no sustainability benefit associated with the receivables. Green washing represents a significant reputational risk for all parties involved in the financing.

Also, the lack of any standardised definition of 'sustainability' means it is difficult to choose a metric to compare sustainability performance. The availability of consistent and comparable supplier sustainability data is key, and the market needs to develop a definition to ensure that the reliability and transparency of data is improved.

## **Technical Solutions**

### **Technology to the rescue**

New technologies have vastly improved the accuracy and availability of sustainability performance data in recent years and are beginning to address the barriers to market development. The use of artificial intelligence and smart contract solutions, for example, has meant that sustainability data is becoming ever more transparent and traceable. Given the amount of data that businesses are able to access in respect of their supply chains, it seems inevitable that technology will increasingly be used to analyse that data and encourage the integration of sustainability targets and assessments.

A smart contract is a self-executing contract, where the terms of the agreement are written into lines of code. These codes and agreements then exist across decentralised networks using distributed ledger technology (DLT) such as blockchain. The main advantage is that transactions can be carried out without the need for a central ledger, meaning they can be recorded and verified more efficiently, and the sustainability risks and performance of supplier data can be monitored more accurately.

The use of DLT has been tested through a pilot in the Malawi tea supply chain, where tea farmers in Malawi were offered a financial incentive in return for providing social or ecological data into a blockchain. The intention was that suppliers would be incentivised to provide sustainability data on attributes such as source, working conditions and packaging information by the provision of finance in return for such data.

New technologies are also allowing SCF processes to be carried out more efficiently, as finance providers can use technology-based platforms to streamline processes such as onboarding suppliers and processing invoices. Turnkey Group is a prime example of a fintech providing this kind of technology. The company has developed an advanced sustainability software to help companies monitor key sustainability performance indicators. As the number of businesses providing software targeted at supply chain reporting increases, the reliability and transparency of supplier data will continue to improve, allowing the sustainable SCF market to thrive.

## Conclusion

As the inevitable sustainable financing revolution gets underway, monetisation of the supply chain in a sustainable way presents a significant opportunity for investors to address the demand for credible sustainable investments and the gap between supply and demand for SCF.

Sustainable SCF allows suppliers to obtain much-needed working capital and encourages greater scrutiny over the sustainability of supply chains. While there are various barriers to scaling up these solutions, new technologies are beginning to address these issues, meaning sustainable SCF is rapidly becoming a viable and profitable financing opportunity.

<sup>1</sup> <https://www.ft.com/content/fca9efd0-fa3a-39a1-b618-213f9a568d12>

<sup>2</sup> *Ibid*

<sup>3</sup> [https://www.mckinsey.com/~/\\_media/McKinsey/Industries/Financial per cent20Services/Our per cent20Insights/Supply per cent20chain per cent20finance per cent20The per cent20emergence per cent20of per cent20a per cent20new per cent20competitive per cent20landscape/MoP22\\_Supply\\_chain\\_finance\\_Emergence\\_of\\_a\\_new\\_competitive\\_landscape\\_2015.ashx](https://www.mckinsey.com/~/_media/McKinsey/Industries/Financial%20Services/Our%20Insights/Supply%20chain%20finance%20The%20emergence%20of%20a%20new%20competitive%20landscape/MoP22_Supply_chain_finance_Emergence_of_a_new_competitive_landscape_2015.ashx)

<sup>4</sup> *Ibid*

<sup>5</sup> <https://www.oecd.org/cgfi/quantitative-framework-bond-contributions-in-a-low-carbon-transition.pdf>

<sup>6</sup> <https://www.hermes-investment.com/ukw/wp-content/uploads/sites/80/2017/04/Credit-ESG-Paper-April-2017.pdf>



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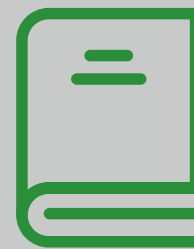
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# Regional Articles

**Gwen Mwaba**

Director and  
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## Africa

**Africa's trade finance credit gap is estimated at USD 110 – 120bn by the African Development Bank<sup>1</sup>. In addition, the proportion of trade finance credit applications of small and medium enterprises (SMEs) that are declined is estimated to be much higher than the corresponding proportion for large corporates.**

The trade finance gap is thus an issue of greater concern for SMEs, which account for about 70 per cent of firms in Africa, employ around 80 per cent of the continent's workforce, and play a significant role in the region's economic development.

The above would seem to provide fertile ground for growth of buyer-led supply chain finance (SCF) programs under which a bank offers early payment to suppliers for buyer-approved invoices. Banks transfer credit risk to the more acceptable buyers, suppliers gain access to bank financing at a lower pricing than they would get on their own, and buyers gain a more robust, loyal, and sustainable supplier base. This winning formula superimposed upon a region with a GDP of USD 2.5tn growing at the second fastest rate behind only Asia, should have resulted in a large base and growing numbers of SCF programs.

The picture on the ground is somewhat different with penetration levels of the SCF product being low across the continent. Two global banks active in Africa have multi-country offerings in their presence

countries. From a geographic perspective, South Africa has seen the highest level of activity with large South African banks also offering this product using externally sourced technology platforms. Across the rest of the continent there are a limited number of comparatively recent offerings from local banks and NBFIs and volumes are still modest. Reliable statistics on volumes processed and funds in use are not available and it is likely that the estimated USD 5bn of funds in use, in Africa, includes some funds deployed towards high value bespoke transactions, in addition to funds in use in programmatic offerings.

The early stage of the product life cycle and the limited number of banks with programmatic offerings results in low market awareness of the product. Awareness and capacity building efforts are, therefore, critical and their importance cannot be over-emphasised. As has been seen in the more developed markets, entry of more banks and other financing institutions is expected to raise awareness levels with a corresponding increase in market size.

Where awareness does exist among buyers, motivation to introduce the product does not necessarily follow. A common sentiment expressed by corporates is that their primary motivator would be financial benefits for themselves through improved commercial terms, rather than the desire to develop a more robust supply chain. This highlights the need for existing financiers and new entrants to conduct a detailed analysis of the buyer's procurement spend and build a compelling business case for the buyer.

Another potential motivator is local content regulations and programs such as South Africa's Black Economic Empowerment act, which provide an incentive for buyers to support these categories of suppliers.

Provision of finance in local currency is seen by corporates as the initial driver of the program. The factors behind this are a preponderance of local currency invoicing, the greater need of domestic suppliers for access to lower cost bank financing, and the ability of large international suppliers to access foreign currency financing in their home markets at pricing which is unviable for African banks, due to the banks' own cost of foreign currency funding.

Among current users of SCF, the involvement of finance providers in selling the concept to stakeholders within the buyer's organisation, and in supplier education and on-boarding jointly with buyer procurement teams are seen as key factors in rolling out a successful program.

Although the number of SCF providers in Africa is limited at present, a number of banks across various geographies have plans to introduce this product. This is an encouraging sign for the development of the market which may be on the threshold of accelerated growth as banks' marketing efforts result in increased awareness and adoption. The banks entering earlier will have the early mover advantage and can leverage this product to generate revenues as well as initiate relationships with targeted corporates whose existing bankers do not have this offering.

To see how far this market can grow we can look at the experience of SCF in Spain which was the innovator in introducing this product under the name 'confirming'. As per Spanish Factoring Association estimates, confirming volumes now comprise 6.7 per cent of Spanish GDP. Applying this percentage to Africa's GDP, potential SCF volumes in Africa are around USD 170bn, translating into funds in use of USD 28bn to USD 42bn based on a credit period of 60 to 90 days. This highlights the undoubted upside potential for African banks entering this space even if we assume that the estimate of USD 5bn funds currently in use is not skewed by bespoke one-off transactions. It took over 25 years for the Spanish market to reach this level, but African banks have the opportunity to

leapfrog the early development stage of the product life cycle by learning from the experience in other regions and adopting best in class technology and best practices in marketing, documentation, KYC, supplier on-boarding etc.

As a trade finance focused development bank, Afreximbank has a strategic objective of reducing the trade finance gap in Africa, especially for SMEs. Afreximbank has an existing factoring offering and has done pioneering work in awareness and capacity building across Africa in this space in partnership with other institutions, and has developed and proposed a model factoring law for adoption across Africa.

Given the potential of SCF as a tool to narrow the trade finance gap, Afreximbank now proposes to introduce this product in a phased manner across the continent as the next step on this journey. The plan is to roll out this offering in partnership with local and regional banks and conduct awareness and capacity building programs to maximise the market impact.

In conclusion, SCF in Africa is in its infancy and there is a clear and present opportunity for banks to seize the initiative on a product which has become a mainstream and fast-growing trade offering in other regions.

<sup>1</sup> ICC Global Trade and Finance Survey 2016



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## Asia

**Against a volatile economic backdrop characterised by extended trade negotiations between regions, efficient working capital processes and supply chain stability have become firmly etched into the agendas of corporate treasurers in APAC. As a major player in global trade, expected to account for 40 per cent of global flows by 2027, Asia-Pacific (APAC) is at once one of the largest and most exposed markets to macroeconomic volatility.**

Little wonder, then, that the market for supply chain finance (SCF) products such as buyer-led payables finance – which affords buyers extra breathing space when it comes to days payables outstanding, while simultaneously extending favourable credit lines to key suppliers – is predominantly a bullish one in Asia. Demand for trade finance in general is on the rise in the region, with 64 per cent of respondent banks to a recent Asian Development Bank (ADB) survey expecting demand to grow further in the next two years. Meanwhile, as the continued rise of open-account trade diminishes demand for traditional trade finance instruments, SCF is well positioned to step in.

However, this growth will not be altogether straightforward in APAC. To many of the APAC headquartered corporates, SCF can be a brand new

concept. The demand for SCF in APAC does exist, but this has yet to reach maturity. A wider understanding of how to implement a SCF programme is critical for SCF to thrive in the region.

As we move forward into 2020, SCF providers in the region will be looking to reinforce the benefits of SCF solutions to businesses, their suppliers, and the means by which they can be realised. We are certainly at an opportune moment for this work to be done – and when we look back on this period in several years' time, we may well see it as one in which SCF came of age in APAC.

### Sharing the wealth

The benefits of SCF are plentiful and they extend well beyond the localised benefits for corporates and their suppliers. Taking a broader view, SCF has the potential to increase access to trade finance for small and medium-sized enterprises (SMEs) across APAC.

As the ADB recently confirmed in its latest report, the trade finance gap remains large but stable at US 1.5trn. This deficit in the supply of trade finance particularly affects SMEs, which may lack the necessary collateral or credit profile to otherwise access the market. In APAC, 51 per cent of financing requests received by banks are from SMEs. Worryingly, some 40 per cent of requests from this client segment in the region are rejected, according to the International Chamber of Commerce's 2018 global survey.

SCF, and payables finance in particular, could help bridge this gap. Payables finance provides sellers, in a buyer's supply chain, with access to finance by means of receivables purchase and is one of the most popular SCF techniques in use. This has the potential to improve access to trade finance for SME suppliers that might otherwise be turned down for financing, due to their low credit rating. Under a payables programme, suppliers'

## Zandy Ip

Head of Supply Chain Finance  
– Payables

Asia Pacific at Deutsche Bank

debt is tied to the confirmed receivables of a highly rated company, meaning the bank's exposure is to a familiar and trusted counterparty.

In APAC generally, the ADB's Trade Finance Program (TFP) supports the use of trade finance products by providing necessary guarantees and loans to banks, to provide companies – and especially SMES – with the financial support they need. What's more, SCF has seen significant expansion, in the region, as a result of substantial support from countries such as South Korea and India.

As has already been alluded to, of course, working capital optimisation is one of the primary benefits that corporates in APAC can realise through SCF. In the wake of the global financial crisis of 2008, with many companies at risk of insolvency, and growing risk of supply chain disruption, demand for payables programmes surged; thus, security was offered for corporates wishing to extend or maintain payment terms, without threatening SCF stability. This occurred whilst simultaneously providing suppliers with access to financing at a favourable rate. An analogous scenario could well play out in APAC, as ongoing macroeconomic volatility throws up similar headwinds.

The arbitrage opportunity of SCF for suppliers is particularly notable in APAC. Interest rates in the region are typically much higher than in others, making discounted financing rates all the more attractive. As such, SCF techniques, which tie the financing rate to the buyer's strong credit rating, can shave a considerable amount off of the cost of borrowing.

This kind of benefit would make huge strides in terms of securing global supply chains and is adding to demand, alongside the more traditional driver of working capital optimisation for buyers. At Deutsche Bank, we are even seeing suppliers coming to us and asking if we have a facility with one of their buyers that they can join.

### Digital dimension

Along with much of the rest of banking, SCF is also undergoing a digital revamp – a process that has seen both bank and non-bank financiers come forward with new offerings, neatly parcelled in sleek digital platforms. This is a promising development, reducing the cost of providing finance and thereby potentially opening up new funds for liquidity-hungry SMEs and reducing bureaucratic barriers to trade finance.

Nonetheless, it is important not to get carried away with the potential efficiencies of digital platforms. While these new offerings promise speed and convenience, security and sustainability of supply chain programmes must remain finance providers and anchor buyer's foremost concern.

### Understanding the risks

The need to account for the numerous regulatory regimes applicable to an international SCF programme is just one element that cannot easily be circumvented by digitalisation and must be monitored carefully. This is especially true across APAC, as the region lacks the same standardisation of regulation and compliance requirements that is present across the European Union or the United States, for example. As a result, corporates and their banks must remain vigilant. For instance, in a payables finance programme where the buyer, supplier, and SCF provider are based in three different countries, each transaction must be checked to ensure it is valid and lawful under the rules of all three jurisdictions.

In addition, to accurately understand the risks associated with the deployment of individual programmes, it is important for finance providers to have local expertise across the different geographies of a buyer's supplier base and be able to step in with on-the-ground support to ensure the programme is successfully established and sustainable in the long-run.

In an effort to tackle fraud risk and to verify the transactions all the way along the supply chain, the China Banking and Insurance Regulatory Commission (CBIRC) has issued guidelines – entitled the CBIRC Office guidance opinions concerning driving supply chain financing to service the real economy to China – to the country's policy banks, large-scale banks, joint-stock banks and foreign-invested banks, as well as members of China's insurance sector. These called for “upholding the veracity of transaction conditions and strengthening regulation of supply chain finance” and stress that banks should ensure they acquire first-hand, original transaction data from the borrower and its partner, that helps enhance its credit.

In July 2019, the China Daily noted that “in the guidelines, the regulator also encouraged banking and insurance institutions to embed new technologies, such as blockchain and the Internet of Things (IoT), into business transactions and use technologies, including electronic fence and satellite positioning, to remotely monitor the logistics and inventory of the borrowers.”

### Codify and standardise

There is also work to be done by the wider collective of industry participants in order to pave the way for greater adoption of SCF. It is important, for instance, that standards and regulations remain relevant and fit for purpose.

Meanwhile, compliance requirements – including know your customer, anti-money laundering and counter-terrorism measures – continue to generate considerable workloads for banks and clients alike as they strive to conform with exacting, but essential, regulations. The industry as a whole needs to work towards standardising these rules and streamlining the processes necessary to fulfil compliance requirements. As compliance processes become more streamlined, greater participation in SCF programmes will naturally follow.

As such, it is important for finance providers to engage in dialogue with regulators to ensure that regulation and compliance requirements are best adapted to the market environment and credit risk of the products. Various industry-led initiatives have already been put in place to help promote the standardisation of e-rules and SCF-related regulations on a global scale. These include the Global Supply Chain Finance Forum’s standard definitions for techniques of SCF, amendments to the Wolfsberg, ICC, BAFT trade finance principles, and the Digital Standards Initiative (previously known as the Universal Trade Network), which aims to develop standards and protocols for digital trade finance. Efforts to standardise regulations at a regional level also need to gather momentum.

### Looking ahead

What is required for the implementation of successful SCF programmes? Every time, the answer is a sustainable and secure environment. The current geopolitical outlook, and particularly the United States-China trade conflict, leave plenty of scope for uncertainty in the market, prompting anxieties for corporates and finance providers alike. Should there be a shift in production from China toward other countries in APAC, for example, SCF programmes may need to be reassessed and new suppliers onboarded – leading to a host of new questions and challenges. Would the adjusted programmes comply with the new local regulations? Is the country risk still at an acceptable level? These are considerations which will differ from one finance provider to another, according to their own risk perception and due diligence processes.

As always, then, challenge and opportunity come hand in hand. SCF’s potential to help broaden access to the trade finance market is clear, but the question of how the trade finance market will evolve over the coming years and decades remains to be seen. In APAC, a growing number of corporates are looking at SCF to support their supply chains and optimise their working capital and as such, in the coming years, there will be strong demand for SCF in the region. However, much work remains to be done in educating corporates and raising awareness of SCF’s benefits and risks and how they can be balanced in a strong programme. This will require an industry-wide effort as well as, on the part of individual providers, bringing together all market participants and regulators to help create a sustainable and successful SCF market, both in APAC and on a global scale.



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## Europe

### Eugenio Cavenaghi

Managing Director

Head of Trade, Export & Supply Chain Finance – Germany, Austria, Switzerland

Banco Santander S.A.

#### Michael Bickers talks to Eugenio Cavenaghi, Head of Trade, Export, Supply Chain Finance for the DACH region at Santander.

**MB: What kind of changes in the SCF, if any, have taken place in the market in Europe in the last year? What kind of developments have you seen? Has the market grown or declined? How has the makeup of the market changed in terms of new entrances, new players, and new sectors that the market is focusing on?**

**EC:** So, the market is still growing. I would say we are still having decent growth. It is always hard to judge from within Santander because we know we grow faster than the overall market. We do have a growth trajectory for supply chain finance (SCF), specifically. We just went through a business review, so I have fresh data from my area. I would say we have grown in the range of 25-30 per cent, year on year.

**MB: In general, for Europe, are there new entrants in the market or have any players dropped out?**

**EC:** Well, in terms of banks, there are hardly any large banks that do not have a SCF offering and the ones that did not have [such an offering], now have at least a partnership with a fintech as they did not go through the process of building their own product. I think there has been a bunch of banks that have done this.

**MB: Are these large banks or are these smaller banks as well?**

**EC:** I would say more like mid-tier banks because the large ones have had an offering [of SCF] for the last

few years. The mid-tier ones have thought a bit more about it or they have waited for the market to pull the offer from their side, but now they see that this is a must-have product as it is commonly used.

**MB: So, if the fintech's are providing the platform, what is the usual kind of relationship with the banks?**

**EC:** For the mid-tier banks that do not want to build their own product, what they normally do is use the platform of a fintech and then they have different forms of partnerships. So, it is not common for them to have an exclusive partnership, but it could be one-sided exclusivity that they use in the sense that the fintech's would not bind themselves to single institutions. But a bank would decide to link itself to a specific platform and say that all the deals that they will do for the next number of years, in certain countries, they will do through [a fintech's] platform. Then they can maybe get interesting usage conditions because of that.

**MB: Are the fintech's purchasing the receivables and selling them on to the bank, so the bank does not have direct contact with the buyer or suppliers?**

**EC:** Well there are different models. There is the model where an SPV, organised by the fintech, purchases the receivables and then the SPV finances itself through the issuance of notes and the bank is only buying the notes. Then there is the model where the bank is buying the receivables directly from the suppliers, although normally the fintech in between is acting as a broker. It is not one size fits all. There are different ways and I think the point is that, once the need of a client is detected, there is always a solution to address it.

**MB: Have you seen many of these partnerships happening in the past twelve months or so?**

**EC:** Yes, I would say the banks that have not developed an in-house system, so far, are probably too late to do so anyway. So, they are better off partnering with a fintech or even with another bank because there is also the option that a big bank leases their own platform to other banks and they provide an inter-bank kind of service.

**MB: Are there any names that stand out in terms of fintechs?**

**EC:** There is a few. I do not want to mention names, but I would say there's a crowded playing field with at least five or six of them that claim to be strong international players. What I do see is that none of them have really shown the capacity to emerge as a clear non-bank dominant player of SCF because that is the point where we, as banks, would start really being afraid. There is many of them, the number is growing rather than consolidating, but that does not make me scared at all because then we can be the consolidator, we do not fear the competition too much. There is a space for everyone to play.

**MB: Let's move on a little bit to multi-bank deals. Would you say most deals, now, are multi-bank deals? Are there fewer and fewer single bank deals? Is there any perception on what the mix is?**

**EC:** Yes, I would not say that they are the majority, but there is a good portion of them that are born as multi-bank.

**MB: It just depends on the deals size does it?**

**EC:** It depends on the size, but there are also different parameters that play a role. Some programs are born as single-bank and then when they expand, for example into new regions, a new bank is added; but each bank would be responsible to cover a different region of the world. There are deals that are born as single-bank and remain like that forever because there is enough capacity and enough geographical coverage for a single-bank to do it and it is also easier for everyone to manage. Finally, there are also deals that are born as multi-bank to manage at the inception the distribution of credit capacity and / or ancillary business across relationship banks.

**MB: Are you seeing any trends developing?**

**EC:** Hard to tell, but it is true that this is always one of the main points considered by those companies that start SCF from scratch. This is one of the questions they ask themselves from the beginning - whether they should start single or multi-bank. So, they may start by having multiple banks, or they may select just one or even start with one and leave the door open to add others in the future. So, whether multi-banks are the majority? I'm not so sure.

**MB: So really it depends on how things develop in the relationship, the business and, the circumstances as to whether it will be mono-bank, multi-bank or whether it will develop into a multi-bank, or what the discussions were in terms of the outlook and future plans. When a buyer is looking at taking up a SCF program, or looking for one, do they tend to go to the bank they already have a relationship with, or will they look more widely and consider many banks?**

**EC:** Yes, I would say for sure they ask the banks they have existing relationships with. They rarely ask banks outside of their core banking pool, but perhaps they might if they recognise a specific skill-set that others in the pool do not have. On some occasions, Santander entered a relationship [with a corporate] because of SCF as we could show that we had strength in the product that others did not have. So, in this instance, the banking pool got larger to include us because of that. This does not happen very often, but it is possible. The normal way would be that you are somehow already in the circle of house banks and then you get asked to pitch for the business or to take part in an official RFP process.

**MB: What about technology? Have you seen any developments there? Are there any new aspects of that coming in, in the last twelve months or so? Does blockchain, DLT or machine-learning come into this space?**

**EC:** There are interesting things that you can do now with new technology with SCF. So, if you have a large database or if you have a large scale of operations then you can start applying machine learning algorithms or artificial intelligence to do things like calculate what is the best price-point to onboard

suppliers in different markets, regions, countries, etc based on statistical data. So, because, as a bank, we only make money from the discounts and we want to make sure the usage of the program is optimised, there is a price point at which the volume of discounts and the margin you make is the ideal one. You can now try to optimise with this new generation of big-data algorithms. That is something we try to do now thanks to all the transactional data. We can also start to learn enough about the supplier and do something more for them. So, perhaps we can start to finance them before the invoice is confirmed. Or maybe we can start to finance them even at the stage of the purchase order.

In order to do that we need to know that once the order is received, what is the probability that the order gets fulfilled from the supplier and, therefore, becomes a receivable that you can discount later on. Then the more data you have, the more accurate your forecast from that will be and the more comfort you can get, as a financing bank, to start earlier in the supply chain.

**MB: What about on-boarding? Is technology making that easier now? Are we seeing more SME's being on-boarded or is it now typical for all suppliers to be on-boarded who require financing?**

**EC:** Technology is making it easier to penetrate the lower segments on the suppliers and SME's. I would say if you have a proper SCF proposition you also have somewhat digitalised the on-boarding process, whereby you tend to have a less heavy touch or high intensity interaction process with the supplier, but you still have personal contact because without that it would not get started. So, you do have several things that can get things done rather efficiently online, directly from the supplier. That is what we call the digital on-boarding procedure. I would say this should be something that a big SCF provider in the market should have, so there is more and more of that.

**MB: So, in most cases, most of the supply chain, including the smaller suppliers are getting onboarded?**

**EC:** Yes, well I know these questions can get answered differently from different SCF players. Many of them would still focus on the quick wins, on the low-hanging fruit, the large volume suppliers, but

I know we at Santander and a few others know that there is a big value for our programs within the SME's. So, we need to find a way to reach out to them, otherwise you lose out on a lot of opportunities. I would say it is a matter of scale. If you have the scale, the technology it is not so cost-intensive to go down to the SME level. Another factor is the legal documentation, as you must have something that is very easy to manage, both for the bank and for the suppliers. So, if you have that you can free up a lot of the value of the programs that is trapped in the lower segments, but I know that many SCF players prefer to focus on the top suppliers because they are still working on getting it efficient for the small ones.

**MB: Can the legal processes be done digitally or online?**

If you are using a model where the receivables get assigned, so get bought by a bank or even by an SPV, that must be done with an agreement that is eventually signed on paper. You also need to verify the signatures; this part cannot be fully digitalised. It is the part which, at the end, also saves you as a funder in case things go wrong. If you have many programs you will always have situations, a couple of times a year, where there is a need to prove to an insolvency administrator, or in other distressed situations, the fact that you are the legal owner of certain receivables.

**MB: And that cannot be done through digital signatures?**

**EC:** Only in a very small number of countries. It is still in an experimental mode.

**MB: Moving on, I'm assuming that the market is fairly saturated now, in terms of BlueChip companies having programs in place? If that is the case, can you see a move towards targeting smaller buyers mid-caps, is that happening?**

**EC:** Yes, that is true. There are not many more billion-size programs out there to get started. There is now a lot of growth by smaller programs as well.

**MB: But, then again, I guess the risk-profile is changing those kinds of situations? And then presumably, as a result, the pricing is changing? Are you looking at credit insurance wraps as well, in these situations?**

**EC:** Well, let's say the credit quality is not a factor that always stays in direct proportion to turnover size. So, a smaller program does not mean a riskier one, but it is true that the more you do, the wider the spectrum of the credit profile that you look at. Regarding credit insurance, I would say it is a valid instrument that can be used by banks, but it depends a bit on the risk guidance you have as a bank. Normally, SCF is seen as a long-term anchor product, so it becomes part of your relationship defining exposure for the client, and whether you mitigate the risk with insurance or with other risk enhancing instruments are more related to the way the bank wants to manage its overall portfolio of risk-weighted assets. That is also an important point.

**MB: Is there a trend for more use or less use?**

**EC:** Well, I would say SCF programs are now raising more and more interest of investors which could be insurers or other kinds of financial institutions that are hungry for assets.

**MB: So, there is more interest from secondary markets?**

**EC:** Yes, that is right. There are more outlets available for SCF assets. It really depends on the situation, but as an asset class it is very much appreciated, by more and more institutions. The assets generated by SCF programs are more than just a receivable, they are confirmed. The obligor risk is very easy to identify. You do have an assignment of a self-liquidating asset that the debtor has acknowledged, that is a very fungible asset and many like it.

**MB: Are banks keen to off-load these assets from their balance sheets? Are they very interested in secondary markets, generally?**

**EC:** I would say keen to offload is probably an over-statement, but what we can say is anything that makes the assets easier to distribute makes the asset themselves more interesting. So, indeed that is something many other banks are interested in investing on.

**MB: So, I take it margins are still quite tight with SCF programs?**

**EC:** Yes, for good credit they are tight.

**MB: Are banks, to some extent, accepting these very low margins? Are they hoping that there will be cross-selling opportunities and, therefore, looking at it as a loss-leader with large corporates?**

**EC:** Right, I would say that large programs should never be a loss-leader because once you put a SCF programme in place this must run, ideally, forever. So, it can never be a forever loss-leader. It must stabilise at a level that makes sense for all the players, including the bank that is running with it. Having said that, the natural evolution of SCF programs is to look at further aspects of cash management. This is a typical cross-sale that a bank, who runs SCF, would look at because things complement and reinforce each other very well. So, that will be something that, also from the corporate side, should be considered and other products like FX for international programs should be another natural area of cross-sale.

**MB: Is pricing still fairly stable?**

**EC:** Pricing is very much a function of underlying credit. So, to the extent that the credits are stable and that the price also remains stable. Now, it is very interesting that if we go into a recession, worldwide, then I think what you probably will see is similar to what happened in 2009 and 2010, but hopefully we do not get to that level. But what we saw there is that you start to see a bifurcation, a flight to quality where big, well-rated, companies get even better conditions and the ones that are not so well-rated get higher margins. So, this means it is harder for them to get liquidity.

**MB: So, no one's trying to pull the wool over people's eyes. There should be transparency and openness.**

**EC:** Yes, so that is the point. I would say that when regarding other aspects we, as an experienced player in the SCF area, are pulling ideas and data together, with other players, to generate a better environment of information, case studies, and statistically relevant observations that can help, not just Moody's, but all credit agencies in their understanding of how SCF works and how it is actually used in real life.



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## Americas

### Sustainability in supply chain finance.

In November 2017, HSBC Holdings Plc announced five commitments in support of, and commitment to, sustainable finance as part of our environmental, social and governance (ESG) policy. These included a USD 100bn commitment to sustainable investment and financing by 2025; a commitment to reduce our exposure to thermal coal and engage with clients to actively manage the transition path for other high carbon sectors; a commitment to source 100 per cent of our electricity from renewable sources by 2030; a commitment to adopt the recommendations of the task force on climate-related financial disclosures (TCFD) to identify and disclose climate-related risks and opportunities across our businesses; and a commitment to create a centre of sustainable finance that will aim to provide the thought leadership needed to unlock the capital flows required to address the world's major sustainability challenges.<sup>1</sup>

As of EOY 2018, HSBC has committed USD 28.5bn in sustainable finance funding; started to obtain 29 per cent of its energy from renewable sources; distributed USD 105m to charities and non-profit organisations running community projects around the world; and provided sustainability training for over 2,300 employees.

In July 2019, HSBC was awarded 'World's Best Bank for Sustainable Finance' by Euromoney in recognition of its work to support the global transition to a low-carbon economy. Euromoney stated that "with sustainability integrated in every business line, across geographies,

with a commitment to innovation and standard setting, HSBC is central to the evolution of sustainable finance". Furthermore, "if there is one bank that realises the urgency of getting capital working for the planet, it is HSBC".<sup>2</sup>

HSBC is leading the way across the gamut of green financing solutions. A sampling of our work in sustainable finance are as follows:

- HSBC has participated in more than 279 green, social and sustainability (GSS) bonds and was the green / social structuring advisor in 34 per cent of them.
- In 2017, HSBC launched the first sustainable development goals (SDG) bond with proceeds used to support projects that offer broad social, economic, and environmental benefits as aligned to seven selected SDGs.
- HSBC Bank USA, N.A. launched a certificate of deposit product that is linked to the S&P 500 ESG Index proceeds raised are directed into projects that align with the SDG.
- HSBC Bank USA, N.A. team has financed more than 3,156 MW of renewable energy since 2015.
- HSBC Mexico, S.A. signed in 2016 a PPA to be able to source 80 per cent of their energy from renewable sources; as of September 2019, 56 per cent has been implemented.
- First green bond for protected agriculture issued by FEFA (Mexico, MXN2.5bn 3yr tranche).

- HSBC Canada launched, in November 2019, green loans for small and medium-sized businesses to help them achieve their sustainability goals.

### **Sustainable supply chain finance**

HSBC recognised early on that bringing meaningful change and scaling sustainability financing necessitated working both with our clients and our clients' suppliers. We are collaborating with buyer-clients to link the incentive of greater access to trade financing and liquidity for suppliers to sustainability improvements in their respective businesses. These can deliver cumulative improvements that also help our buyer-clients meet their ESG objectives.

We have partnered with both Walmart and Puma separately to establish a program that links the pricing on the supply chain finance (SCF) program to their ESG goals and / ratings and metrics. Under the Walmart program, suppliers commit to making energy improvements towards Walmart's initiative to remove one billion metric tons (a gigaton) of greenhouse gases from their global supply chain by 2030 (e.g. Project Gigaton). Suppliers need access to capital to make these energy improvements within their operations. The capital can be obtained via Walmart's SCF program with HSBC linked to the suppliers' sustainability ratings defined by Walmart and based on Walmart's credit relationship with HSBC.

What differentiated HSBC in offering sustainability financing solution was, (a) our willingness and capability to provide support, and collaborate on a new initiative to ultimately deliver a sustainability linked SCF program for Walmart, (b) our robust and industry leading supplier onboarding capabilities, and (c) our strategic SCF banking partnership with Walmart, with the potential of offering pre-shipment financing as part of a holistic supply chain solution. HSBC is also the only financial institution member of The Sustainability Consortium (TSC), which is the largest non-profit focused on measuring supplier performance across the consumer goods industry and collaborating on sustainability improvement. Walmart is a founding member of TSC, and uses their ratings methodology to evaluate their suppliers' performance.

### **Pre-Shipment Financing**

The majority of the conversation on SCF seems to be focused on post-shipment post-invoice-approval supplier payments. A key capital requirement for suppliers is during the manufacturing phase where they need to source the raw-material and deploy the resources to manufacture the products for which they received purchase orders. This is where the strength of the HSBC network and global footprint comes to life. Our strong on-the-ground presence and deep client relationships helps us provide buyers and suppliers a comprehensive approach to financing, starting from pre-shipment purchase order based financing, that can be linked to the buyer-supplier relationship, to post-shipment financing that can then help close the loop. Suppliers are able to raise capital based on their credit relationship with HSBC, but within the broader framework of the buyer relationship. Buyers are able to ensure the financial stability of their supply chains by providing financing options to their suppliers via a leading financial provider such as HSBC. This can also help suppliers get further access to capital to fund their sustainability linked improvements.

HSBC's leadership in global trade finance, our strong on the ground presence in over 60 markets, and our deep relationships with companies in those markets allows us to provide end- to-end solutions to our clients and their supply chains.

## North America

Even through times of uncertainty, with several interest rate cuts by the Federal Reserve to bolster global growth and mitigate the impact of the U.S. China trade tensions, one thing that remains constant is that countries continue to interact and trade in current and new corridors. Within North America, the passage of the NAFTA agreement, 25 years ago, produced competitive employment opportunities that will continue to evolve under the United States Mexico Canada Agreement (USMCA). As USMCA undergoes ratification by the U.S. Congress and Canadian Parliament – while Mexico's Congress has already approved it – the trade policy uncertainty that has weighed on business investment will be reduced, especially in sectors such as automotive that are highly integrated.

Businesses have increased their level of focus on working capital over the past decade. These evolving market and corporate themes have also driven a change in the banking sector's emphasis on helping clients with optimising their working capital through financing solutions including supply chain finance (SCF).

North America has experienced growth in SCF year after year. The US market continues to be the most developed with banks, non-bank financial institutions (NBFIs), third-party platforms, insurance companies, private equity companies, pension funds, and hedge funds, all participating in primary or secondary funding of domestic and global SCF programs. Additionally, SCF providers have increasingly started to focus on addressing the gamut of a buyer's spend via hybrid solutions that offer dynamic discounting for maximizing returns on invested capital, SCF for strategic suppliers, and procurement cards for the tail of suppliers. Dynamic discounting allows suppliers to discount their approved invoices at a rate which is based on a sliding scale, depending on the available tenor to maturity of the invoice. The buyers offering dynamic discounting typically leverage their own capital to make early payments to suppliers at a discount, and typically define a minimum rate of return on that capital as a requirement for offering the program. Procurement card's on the other hand allow for more small spend / high volume purchasing to be done which also allows for a rebate on the PC's spend to be credited back to the buyer. The

suppliers get paid quickly by accepting the cards payment, albeit at a higher interest rate. The advent of fintech platforms has made these solutions more commonplace in the market with banks and NBFIs providing the liquidity to support them. HSBC is an active participant in this space with key partnerships with industry-leading platforms to provide complementary offerings to its clients.

While SCF is being used today by select Canadian-headquartered companies, overall usage of this solution is relatively low compared to the U.S. and Mexico. The lack of uptake of SCF in the market is driven by several factors:

1. The Canadian economy is heavily reliant on extractive industries and agriculture, sectors which do not have a long track record of traditional SCF, due to lack of efficient internal processes and/or a sustained focus within these industries on working capital.
2. Unlike other markets, Canada has lacked a historic SCF industry champion company (buyer) to pioneer SCF and help drive overall acceptance, market knowledge, and ultimately, the network effect of buyers and suppliers joining SCF programs or launching their own.
3. For a population of less than 40 million people, Canada is a very well-banked market. Six large, nationwide banks, several regional/provincially-focussed banks, and numerous foreign financial institutions all offer traditional working capital loans to businesses. This makes access to financing relatively easy and relatively cheap compared to other developed markets.
4. Lastly, Canadian financial institutions are very focussed on retail and business banking and have preferred to offer traditional lending methods vs. investing in trade finance alternatives, such as SCF or accounts receivables finance. These solutions simply have not been available in the market on a major scale - Canadian banks offer receivables finance only on a limited basis and when SCF is made available, it has typically been offered by Canadian banks through partnerships with third party technology providers, thus limiting scalability.

Historically, the majority of SCF activity is driven by large multinationals offering SCF to Canadian suppliers as part of a global or regional program. Due to this activity, knowledge in the market for SCF is slowly increasing. Further, for various reasons, working capital management is gaining acceptance as a sustained focal point for companies. HSBC sees considerable opportunity in the Canadian market for structured trade solutions that promote working capital efficiency, integrate sustainability-linked financing solutions, support businesses with cross-border sales and/or sales seasonality and provide other benefits to both suppliers and buyers.

In Mexico, according to AMEFAC, the Mexican SCF market grew by 23 per cent in terms of volume during 1H19 versus 1H18. Even though this market is still dominated by the largest Mexican banks, non-bank finance providers (NBFIs) are growing rapidly as they bring technical innovations through multi-bank platforms. Another important development in the Mexican market is that small and medium companies (SMEs) that initially participated in SCF programs as suppliers, are now launching their own supplier programs to help improve their working capital position and strengthen their global supplier relationships.

Within the Mexican market, the majority of SCF is between domestic companies and their suppliers mainly in the retail and industrial sectors. Although the retail sector is the largest sector for banks, some large retailers have established NBFIs for their financing needs and are disintermediating banks in the process. State and municipalities are also important participants through Nafin's SCF 'open' platform. Nafin is the largest Mexican development

bank and has the mandate to support financing to SMEs. Its 'open' platform also allows smaller banks /NBFIs to participate in this growing business. Multilateral organisations expect SCF to be an increasingly effective mitigant of the approximately USD 5tn SME global financing gap.<sup>3</sup> This participation is key to foster further development of sustainability linked SCF.

Mexico is currently the most developed country in Latin America for SCF. It is also one of the first markets in the region to fully adapt electronic invoices, which further supports the development of SCF solutions. Technology-fueled scale efficiencies have accelerated the growth rate of the Mexican SCF market, but as barriers to entry have fallen, it is necessary for banks to provide value on an end-to-end process to remain competitive. SCF not only provides financing, but also establishes relationships that promote strategic partnerships incorporating the clients need of sustainable sourcing by providing incentives through tiered margin/payment terms linked to suppliers' sustainability credentials.

The North America market is a key area of focus and growth for HSBC. With our strong footprint in many of the markets that form the foundation of global supply chains, we offer a unique combination of global presence, leadership and expertise in global trade, a very strong balance sheet, and innovative solutions that meet our clients' needs from risk mitigation, to working capital improvement and addressing their ESG objectives.

<sup>1</sup> <https://www.hsbc.com/our-approach/building-a-sustainable-future/sustainable-finance>

<sup>2</sup> *Euromoney* ([https://www.euromoney.com/article/b1fmn2yljqs0v2/world39s-best-bank-for-sustainable-finance-2019-hsbc\\_](https://www.euromoney.com/article/b1fmn2yljqs0v2/world39s-best-bank-for-sustainable-finance-2019-hsbc_))

<sup>3</sup> *IMF 2019 SME Forum*

# Supply Chain Finance Directory of Suppliers

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#### Deutsche Bank AG

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### **Bibby Factor France SA**

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### **Export Enterprises SA**

**Address:** 240 Rue de Rivoli, F-75001, Paris, France.

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### **GE Capital- Factofrance**

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### **GE Capital- Factobail**

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**HSBC**

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**Natixis**

**Address:** 30 Avenue Pierre, Mendes , 75013 Paris, France.

**Website:** [www.natixis.com](http://www.natixis.com) | **Email:** [marketing@factor.natixis.fr](mailto:marketing@factor.natixis.fr) | **Tel:** +33 01583280 00

**Societe Generale Factoring**

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**Website:** [www.factoring.societegenerale.com](http://www.factoring.societegenerale.com) | **Tel:** +33 1 71 89 99 99

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**Bibby Financial Services GmbH**

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**Website:** [www.bibbyfinancialservices.de](http://www.bibbyfinancialservices.de) | **Email:** [info@bibbyfinancialservices.de](mailto:info@bibbyfinancialservices.de) | **Tel:** +49 211 5206 53 0

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**Website:** [www.db.com](http://www.db.com) | **Email:** [corporate.bank@db.com](mailto:corporate.bank@db.com) | **Tel:** +49 69 910-00

**HSBC**

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**Website:** [www.hsbc.de](http://www.hsbc.de) | **Tel:** +49 211 9100

**Santander**

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**Website:** [www.santanderbank.de](http://www.santanderbank.de) | **Tel:** +49 69 59760

**SEB**

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**UniCredit Bank AG (HypoVereinsbank)**

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**GREECE****Eurobank EFG Factors S.A.**

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**Piraeus Bank**

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**National Bank of Greece SA**

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HONG KONG

**Bibby Financial Services (Asia) Ltd.**

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**Commonwealth Bank of Australia**

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Website: [www.commbank.com.au](http://www.commbank.com.au) | Tel: +852 2844 7500

**HSBC**

Address: Level 6, HSBC Main Building, 1 Queen's Road Central, Hong Kong.

Website: [www.hsbc.com.hk](http://www.hsbc.com.hk) | Tel: +852 2748 8288

**NatWest Markets**

Address: NatWest Markets, Unit 702, LHT Tower, 31 Queen's Road, Central, Hong Kong.

Website: [www.natwestmarkets.com](http://www.natwestmarkets.com) | Tel: +852 2327 5345

**Simmons & Simmons**

Address: 30th Floor, One Taikoo Place, 979 King's Road, Hong Kong.

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**Standard Chartered Bank**

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**Wells Fargo Capital Finance**

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Website: [www.wellsfargo.com](http://www.wellsfargo.com) | Email: [internationalconnections@wellsfargo.com](mailto:internationalconnections@wellsfargo.com) | Tel: +852 3650 8000

HUNGARY

**UniCredit Hungary Zrt.**

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**Commonwealth Bank of Australia**

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Website: [www.commbank.com.au](http://www.commbank.com.au) | Email: [enquiries@commbank.co.in](mailto:enquiries@commbank.co.in) | Tel: +91 2261390100

**HSBC**

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**Standard Chartered Bank**

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#### **HSBC**

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#### **Garanti bank International NV**

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#### **ING Commercial Banking**

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**Website:** [www.ingwb.com/network-offices/western-europe/Netherlands](http://www.ingwb.com/network-offices/western-europe/Netherlands) | **Tel:** + 312 0563 9111

### NEW ZEALAND

#### **ASB Bank Limited**

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### SAUDI ARABIA

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### SERBIA

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#### **UniCredit Bank**

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**HSBC**

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**Mizuho Bank, Ltd.**

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Website: [www.mizuhobank.com/singapore](http://www.mizuhobank.com/singapore) | Tel: +65 6805 2000

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Website: [www.natwestmarkets.com](http://www.natwestmarkets.com) | Tel: +65 6518 8888

**Standard Chartered Bank**

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## SLOVAKIA

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**UniCredit Bank Czech Republic and Slovakia a.s.**

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## SLOVENIA

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## SOUTH AFRICA

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**Standard Chartered Bank**

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#### **BBVA Factoring**

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#### **Caixabank SA**

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#### **HSBC A.S.**

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### UNITED ARAB EMIRATES

#### **Habib Bank AG Zurich**

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**HSBC**

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**Tawreeq Holdings**

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**Website:** [www.tawreeqholdings.com](http://www.tawreeqholdings.com) | **Tel:** +971 4 34 37 022

**UNITED KINGDOM****Bank of America Merrill Lynch**

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**Website:** [www.bofaml.com](http://www.bofaml.com) | **Tel:** +44(0) 20 7628 1000

**Banif- Banco Internacional do Funchal**

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**Barclays Bank plc**

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**Website:** [www.barclays.co.uk](http://www.barclays.co.uk) | **Tel:** +44 845 755 5555

**BBVA SCF and Receivables Finance**

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**Website:** [www.bbva.com](http://www.bbva.com) | **Email:** [businessuk.group@bbva.com](mailto:businessuk.group@bbva.com) | **Tel:** +44 207 623 3060

**Bibby Financial Services**

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**Carr-Lyons Search & Selection**

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**Citi**

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IT

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2. **Our present activity.** Definition and development of products with optimum operational and management processes based on market understanding, a global vision and a deep functional knowledge.
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