



Eurostat/UNSD Seminar on Accounting for Global Value Chains

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UN Handbook on Accounting for GVCs,

Chapter 6 : The Financial Side of Global Value Chains – Financial Supply Chains

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General remarks about the chapter

- Supply chain financing – or the “operational” financing of supply chains – is separate from other **finance functions** of a company
 - **Investment decision** – particular to multinationals (*profit repatriation, arbitrage, exploitation of tax differences, source proximity*) whether to set up a global supply chain – **where to allocate capital**
 - **Financial decision** – where to acquire funds to maintain a correct ratio of equity/debt referred to as a firms’ **capital** structure
 - **Dividend decisions** – optimum dividend policy for shareholders, payout/retained earnings decision
 - **The financing of supply-chains, between affiliates or not, has its own dynamic, challenges, risks and a world of instruments**
 - ❖ It’s about: Operational cash flow; working capital efficiency; accounts payable/receivable; current assets and liabilities

General remarks about the chapter

- **Information on trade finance would be timely** because:
 - **trade financing market has shifted** from bank-intermediated to open account trading (inter-firm trade credits)
 - **stress and disruptions of trade finance** posed systemic risks to world trade during the 2008-2009 financial crisis leading to disruptions of global supply chains (*ripple effects*)
 - **new market participants** - referred to as FinTechs - emerged aiming to provide bank-alternative funding to Small and Medium Sized Enterprises (SMEs) (95 percent of businesses are SMEs (World Bank))
 - **new “Supply Chain Financing” solutions** combine old and new trade financing instruments with digitalized invoicing
 - **Secondary markets** with securities asset-backed by trade receivables regained popularity to reach broader investment base
 - **Surveillance relevant:** gaps - FinTechs –secondary markets

General remarks about the chapter

- Current statistics (BOP, MFS, NA) do not break out trade financing and may not cover innovations and new players – this presents a **data gap** recognized by G-20 policy makers, and others
 - G-20 (2010): “...the lack of a comprehensive international dataset for trade finance during the crisis has been a significant and avoidable hurdle for policy-makers to make informed, timely decisions”
 - ❖ Trade finance shortages posed macroeconomic risk during recent crisis
- **Proposal:**
 - Bring data gap to the attention of AEG and BOPCOM
 - Consider a stand-alone comprehensive (satellite) trade finance dataset to cover instruments, institutional units, eventually extended to a from-whom-to-whom basis; WTO would cooperate
 - Big data could be a data source (accessing SWIFT, BPO (Bank Payment Obligation), and digital Fintech’s technology platforms) for timely, precise, and relevant data right at the source of trade financing

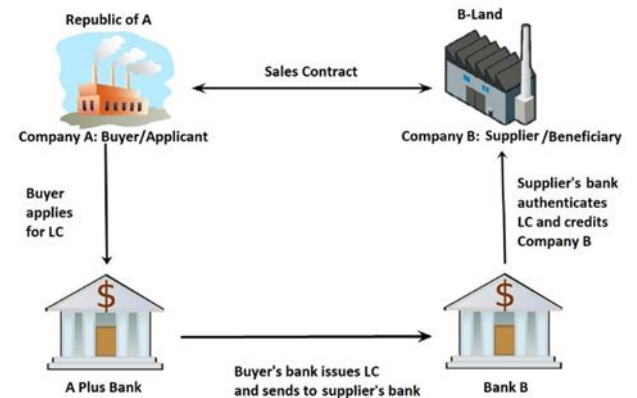


Structure of the chapter:

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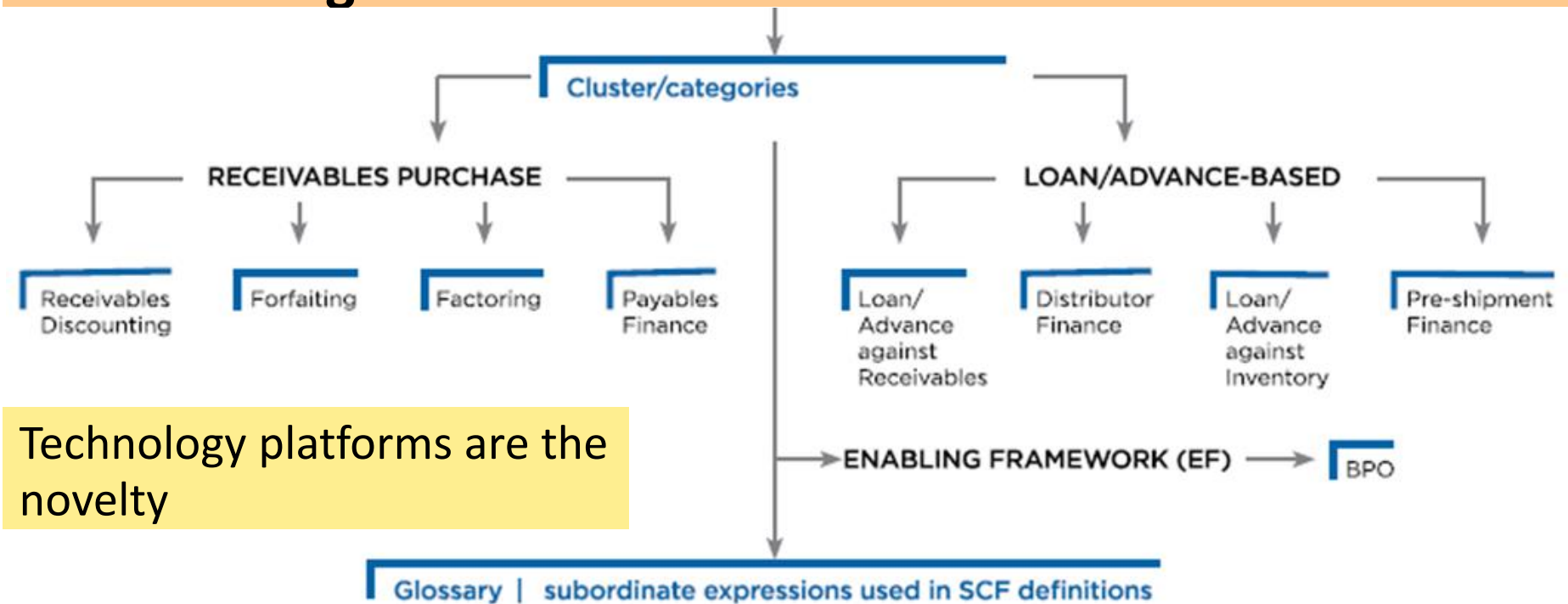
trade financing has shifted



- **Traditional bank-intermediated financing:** L/Cs Letters of Credit (w/guarantee); D/Cs Documentary Collection (w/o guarantee); Credit lines
- **Asset-based financing:** Factoring: The factor purchases 'receivables' from a supplier at a discount against immediate cash payment; mostly for large companies
- **Open account trading:** Inter-firm financing ("buy now – pay later")



New supply chain financing solutions have emerged



Technology platforms are the novelty

Source: Global SCF Forum

- **FinTechs** as new players; becoming established in the market
- Targeting mainly SMEs; but Apple, Dell, and P&G etc. use FinTechs as well to gain access to funds within their supply chains
- Either competition with banks or “Fintegration”



Left to be done

- Proposal for Template on Trade Financing as Satellite dataset / looking for data sources
- Anything on government-supported trade financing?
- Insurance?
- Methodology: fit instruments in current frameworks; classify different Fintechs
- Anything else?