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Report of the APFF Workshop
The Real Economy, Supply Chain and Finance: The
Challenges in Working Together and the Way Forward,
28 July 2015, Singapore

ABAC Singapore

PURPOSE	For information.
ISSUE	Report of the APFF Workshop on The Real Economy, Supply Chain and Finance: The Challenges in Working Together and the Way Forward, 28 July 2015, Singapore
BACKGROUND	This APFF workshop had linked key areas related to Trade, Supply Chain & Logistics and Finance to paint a picture of changing strategic trade patterns that will require considered approaches to support the growth from supply chains and to foster the internationalization of SMEs and businesses. It was divided into 4 parts.
PROPOSAL	N.A.
DECISION POINT	Note the report.

The Real Economy, Supply Chain and Finance: The Challenges in Working Together and the Way Forward. Organised by ABAC-APFF, hosted by SBF in partnership with APSU. Supported by ABS.

Overview:

The workshop had linked key areas related to Trade, Supply Chain & Logistics and Finance to paint a picture of changing strategic trade patterns that will require considered approaches to support the growth from supply chains and to foster the internationalization of SMEs and businesses. It was divided into 4 parts. As an overview:

With Asia Pacific as the one of the most globally active supply chain region after the EU, the workshop started with a **strategic overview of the state of Trade** that conveyed a multi-period of structural changes that can gradually disrupt cross-border supply chains thru reduced exports. Trade flows that are anchored with China can be disrupted the most, if Chinese participants continue to "internalize" supply chain activities that are currently provided outside of China into inland China. Free Trade Agreements, covering services as well, will be key to create new potentials and opportunities for businesses.

The 2nd part of the workshop discussed key **regulatory environment related to accessing trade & supply chain finance**; focused on Basel 3, KYC/AML/Transaction Monitoring information requirements and collaterals. These are important yet often non-visible matters to the borrowers where if there is higher information symmetry, access to finance – identified by studies as being an important catalyst for business' growth – can be better facilitated while aiding banks' compliance with regulations.

The 3rd part of the workshop directly addressed **Access To Finance** options, and presenters raised awareness in supply chain financing choices, hurdles in accessing finance from a lender's and borrower's view, policy initiatives to globalise MSMEs including the promotion of innovative and diversified financing options, and the importance of more understanding across the links of SME, Trade and Finance. Such a holistic platform that brings together different but related views to this big ecosystem is needed to enable internationalisation and supply chain participation.

The 4th and final session of the workshop highlighted "**Access to Technology**" (AoT) and "**Financing Accelerators**" (FiA) that the real economy practices can offer to participants; via e-commerce logistics, customs/cross-border procedures, information, digitalisation of trade ecosystem including documentary flows, and digital cash. Access to Technology is a partner to Access to Finance; information supply chain is needed for participants to better manage inventory and demand that will enable their better cashflow management. Financing Accelerators are drawn from customs and logistics practices, for example, simplified customs and efficient logistics practices can reduce the barriers for resource-tight SMEs to participate in cross-border trade and internationalise (in particular take part in global value chains), leading to more diversified growth sources. This is amplified by digital cash and mobile solutions.

Although the speakers and participants were from different industries, the workshop resonated on an emphasized note and call for closer cooperation; between Trade and Finance policy makers, between borrowers, lenders and credit enhancers, and between "access to finance", "access to technology" and "financing accelerator" factors. A conducive regulatory environment, harmonised/standardized approaches and similar connectivity between at least 2 economies were the other main themes.

The following are key points:

1. The welcome address highlighted the changing economic and monetary policy situation, and emphasized the integrated roles of supply chain finance in trade. It had framed the workshop's goals

to explore issues related to enhanced cooperation amongst the many different stakeholders, identify hurdles to growth and the ideas needed to ensure sustainability into the future.

2. The key note speaker from Singapore's Ministry of Trade & Industry highlighted the support by policy makers to expand access to finance, financial market interconnectivity and keen interests by APEC Trade Ministers to enable MSMEs to grow internationally. He had also emphasized the importance of private sector ideas as feedback to policy makers, the inter linkages between trade and finance and for partnership in "pushing the envelope" to continue to make the region attractive.
3. Today, trade growth is slowing, compounded by a mix of drivers like rising cost of labour, low cost of capital, low cost of energy, structural changes from exports to consumption and the rise of the middle-income in Asia that will drive significant changes. Protectionism has also re-emerged.
4. Overall, exports have declined but not due to a loss of competitiveness. In trade corridors with China, China's imports are getting more integrated onshore. Together with the decline in trade elasticity, supply chains can be disrupted. New drivers of growth are needed.
5. Free Trade Agreements, supply chain-related services that are traditionally "low" in Asia as an export industry, policy and regulations like VAT on services and competitive issues can act as "new" drivers but will need to be clearly addressed to lead to greater business and economic dynamism.
6. Regulations related to trade and supply chain finance like Basel 3 and KYC/AML continue to evolve. Harmonised implementation of the Basel standards remains important, alongside review of further changes for trade finance under the Basel III Net Stable Funding Ratio and Liquidity Coverage Ratio, coupled with revisions to the Basel Standardised Approach for Credit Risk.
7. World Bank, FSB, G20 and FATF are undertaking a review of de-risking trends and impacts. A global survey of this issue is underway. Continued dialogue between the private and public sector on these areas continue to be critical to better coordinate on KYC/AML/Client Due Diligence (CDD) compliance standards as well as to identify tools that can enhance CDD capabilities.
8. Financing to individual and micros enterprises can be challenging in risks management and cost effective ways. An idea proposed was to use Cooperatives to aggregate borrowing and risks management requirements. Cooperatives can in turn also mitigate challenges in enforcements.
9. Having collaterals and registration of collaterals can help mitigate balance sheet costs related to financing, even though it does not remove the time and process challenges in enforcement and judicial frameworks.
10. Supply chain financing is also influenced by the physical supply chain's delivery model, FX, regulatory reporting, languages and technology. Bank agnostic financing, digitalisation, "FinTech" and e-financing solutions to meet business requirements can enable greater participation in the e-commerce sphere with financing. However, in these new fields that can provide new momentum and enablers to finance, there can be differentiated regulatory and compliance requirements to note, better understand and comply.
11. Overcoming the hurdles to access to finance need to reflect (a) borrower's strength of balance sheet (b) borrower's cashflow and assets especially if laws and regulations allow these assets to be ring-

fenced to satisfy creditors' risk management and (c) the availability of 3rd party credit enhancement like Insurance, which is a facilitator to access to finance when balance sheet strength is insufficient to secure borrowing. Credit institutions/lenders, SMEs/borrowers and credit enhancers like Insurance should discuss to better understand each others' requirements to facilitate financing requests.

12. "Access to Finance" is a top priority of SME and Trade policies in Asia Pacific. Plans include ASEAN SME Strategic Plan, ASEAN Business Advisory Council Report to ASEAN Leaders, Boracay Action Agenda to Globalise MSMEs, APFF interim report to the APEC Finance Ministers, bilateral cooperations, IFC, ADB, World Bank, G20 initiatives, etc.
13. To improve businesses and SMEs access to finance, SMEs need to understand financial issues as part of its own agenda. There are needs to "fill the gap" – raise higher understanding – between SME/Trade Ministers and Finance Ministers within an economy, as well as in SME/Trade and Financial forums regionally and internationally.
14. Trade ecosystem requires the connectivity between at least 2 economies. Some suggestions on how government / industry bodies can help facilitate supply chain financing include: promoting standardized documents, grow the adoption of electronic documents, enable regional platforms to act as a "clearing house" of trade documents, review regulations and legal changes to allow the legality of electronic trade documents including e-bill of lading, plan for the dematerialisation of trade documents to support increased digitalisation for higher productivity gains, better risks control and for higher overall savings. Skills set are also improved, leading to enhanced regional employability.
15. For the internationalization of businesses and SMEs, improvement of competitiveness and capabilities, participants' Access to Finance needs to be complemented by Access to Technology. Technology is the strategic leverage of capabilities for SMEs and businesses to enable growth and participation in international arenas, for example, supporting companies in the redesign from country-centric to regionalized supply chains, and in the exchange of trade information via digital facilitation platforms supporting commercial, transport, and regulatory information flows. However, there will be cross-border process and regulatory challenges to identify and solve for. Conducive policy support and regulations will be important.
16. Simple and clear customs and logistics rules are important to enable these resource-tight SMEs and businesses to internationalise and take advantage of global value chains, "Quick wins" can include a lower threshold for import licensing requirements and the implementation of a "De Minimis" baseline across the APEC region. Other important aspects for nurturing e-Commerce and SME internationalisation include efficient and modern customs procedures, simplified procedures for low-value shipments, automated customs clearance procedures, including electronic payments, and harmonised rules on cross-border VAT. These can occur within "pilot" programmes between 2 or more participating economies.
17. Digital and technology enablement was richly emphasized. Bank Payment Obligations (BPO) is an electronic quasi "Letter of Credit" that can enable the shortening of a payment cycle from 8 working days to 3; improving cash flow, risks mitigation and increasing payment assurance.
18. Mobile "digital cash" solutions contribute to an "efficient economy" by leveraging on the ubiquitous mobile phones as payment instruction gateways. This extends financial inclusion and trading activities to the furthest reaches of an economy, even as it enables a more secured financing safe

Workshop Notes [DRAFT], An APFF Workgroup on Trade & Supply Chain Finance's initiative.
28th Jul 2015, Singapore. Chatham House Rule. Closed-door workshop. No media. Audience: ~80-90.

from robbery, theft & fraud, counterfeits. However, it will require technology/telecommunications interoperability, considered regulatory approaches, consumer protection and level playing fields.