



**Asia-Pacific  
Economic Cooperation**

---

**2015/SMEWG40/008**

Agenda Item: 9.1.3b

## **Regulatory Issues Affecting Trade and Supply Chain Finance and SME Access**

Purpose: Information

Submitted by: Policy Support Unit, APEC Secretariat



**APEC**  
PHILIPPINES  
2 0 1 5

**40<sup>th</sup> Small and Medium Enterprises Working Group  
Meeting  
Atlanta, United States  
10-11 June 2015**



Asia-Pacific Economic Cooperation

Advancing Firm Trade for Asia-Pacific Prosperity

# Regulatory Issues Affecting Trade and Supply Chain Finance and SME Access


SME Working Group Meeting, Atlanta, 8-11 June 2015



Presented by:  
Gloria O. Pasadilla, Senior Analyst  
APEC Policy Support Unit

Copyright © 2013 APEC Secretariat

## Lack of access to finance is biggest obstacle to business

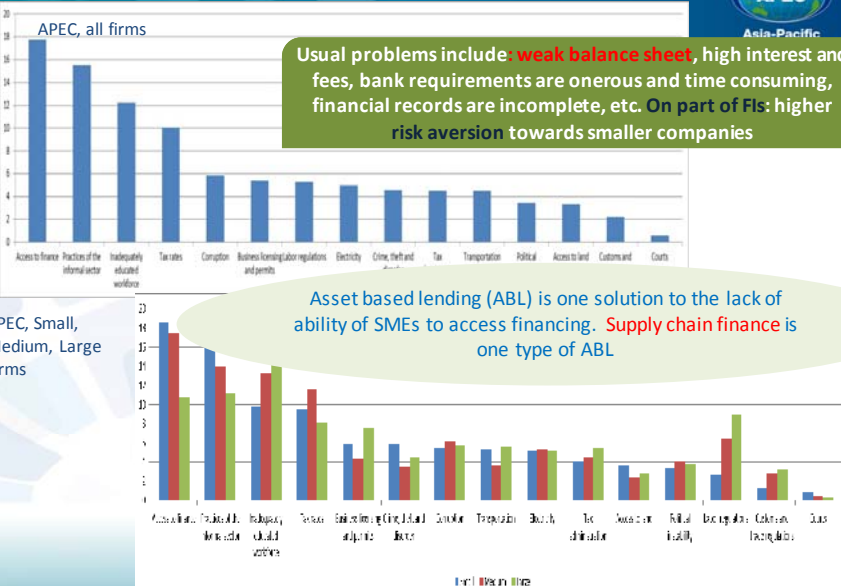


Asia-Pacific Economic Cooperation

Usual problems include **weak balance sheet**, high interest and fees, bank requirements are onerous and time consuming, financial records are incomplete, etc. On part of FIs: higher risk aversion towards smaller companies

Asset based lending (ABL) is one solution to the lack of ability of SMEs to access financing. **Supply chain finance** is one type of ABL

APEC, Small, Medium, Large Firms



Issue	APEC, all firms (%)	APEC, Small, Medium, Large Firms (%)
Access to finance	18	18
Practices of the informal sector	15	15
Indequally adjusted workforce	12	12
Tariffs	10	10
Corruption	6	6
Business licensing and permits	5	5
Labour regulations	5	5
Electricity	5	5
Climate related	4	4
Tax	4	4
Transportation	4	4
Political	3	3
Access to land	3	3
Customs	2	2
Courts	1	1

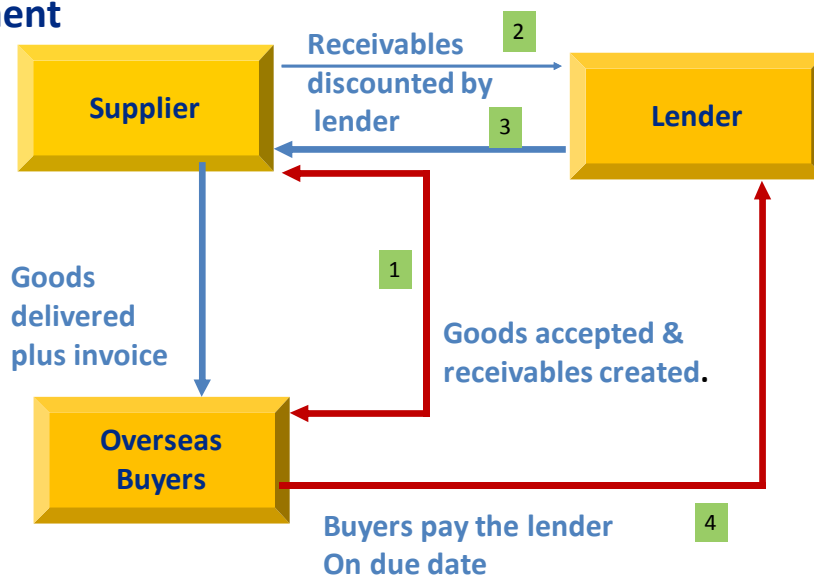
## What is supply chain finance



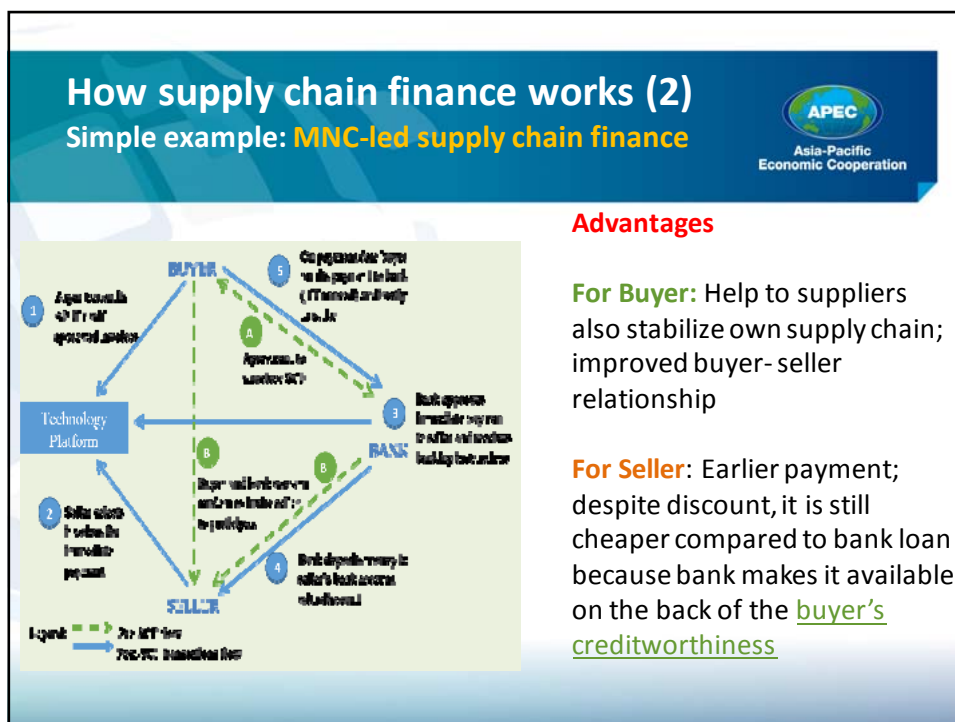
### 1. How supply chain finance works?

- a. As a specific banking vehicle to finance buyer-seller supply chain (a kind of 'factoring' transaction)
- b. As structured trade finance i.e. financing the supply chain
  - Regulatory issues

### Receivables Financing/ Factoring - about timing of payment



4



### Advantages


**For Buyer:** Help to suppliers also stabilize own supply chain; improved buyer-seller relationship

**For Seller:** Earlier payment; despite discount, it is still cheaper compared to bank loan because bank makes it available on the back of the buyer's creditworthiness

## PART 2 SCF AS FINANCING THE SUPPLY CHAIN

SUPPLY CHAIN FINANCE IS A FORM OF STRUCTURED TRADE FINANCE FOCUSING ON THE STRUCTURE AND THE LENDER'S RISK THROUGHOUT THE SUPPLY CHAIN FROM THE PROCUREMENT OF RAW MATERIALS TO TRANSPORT TO FACTORY TO WAREHOUSE TO SHIPPING ALL THE WAY TO FINAL BUYER

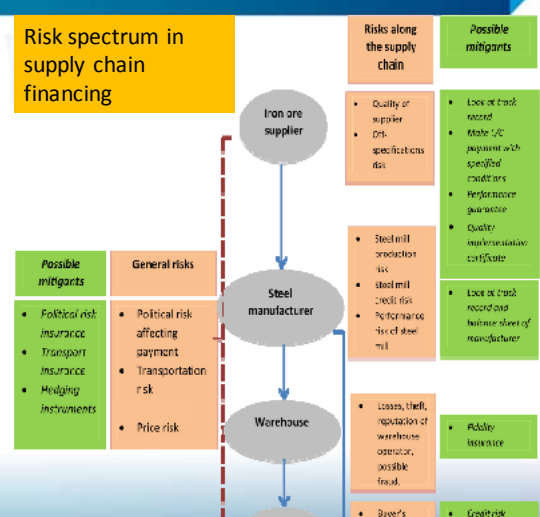
## How supply chain finance works (1)



Asia-Pacific Economic Cooperation

- It is really about financing the supply chain; understanding the different risks along the chain; and ensuring that risks are mitigated
- CRITICAL for FI: capacity to get access to securities (collateral are usually traded goods or moveable asset) in case things go wrong**
  - Asset based lending vs. B/S lending
  - Important role of legal and regulatory framework**

### Risk spectrum in supply chain financing




Possible mitigants	General risks
<ul style="list-style-type: none"> <li>Political risk insurance</li> <li>Transport insurance</li> <li> Hedging instruments</li> </ul>	<ul style="list-style-type: none"> <li>Political risk affecting payment</li> <li>Transportation risk</li> <li>Price risk</li> </ul>


  

Risks along the supply chain	Possible mitigants
<ul style="list-style-type: none"> <li>Quality of supplier</li> <li>Dis. specifications risk</li> </ul>	<ul style="list-style-type: none"> <li>Loss of track record</li> <li>Make L/C payment with specific conditions</li> <li>Performance guarantee</li> <li>Quality certificate</li> </ul>
<ul style="list-style-type: none"> <li>Steel mill production risk</li> <li>Steel mill credit risk</li> <li>Performance risk of steel mill</li> </ul>	<ul style="list-style-type: none"> <li>Loss of track record and business sheet of manufacturer</li> </ul>
<ul style="list-style-type: none"> <li>Losses, theft, reputation of warehouse operator, possible fraud.</li> </ul>	<ul style="list-style-type: none"> <li>Warranty insurance</li> </ul>
<ul style="list-style-type: none"> <li>Buyer's credit risk</li> </ul>	<ul style="list-style-type: none"> <li>Credit risk insurance</li> </ul>

## PSU-APFF-ASEAN Bankers Survey of FIs: Difficulties faced in supply chain financing



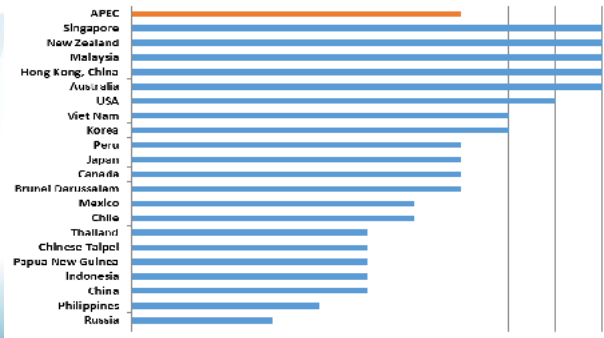
Asia-Pacific Economic Cooperation



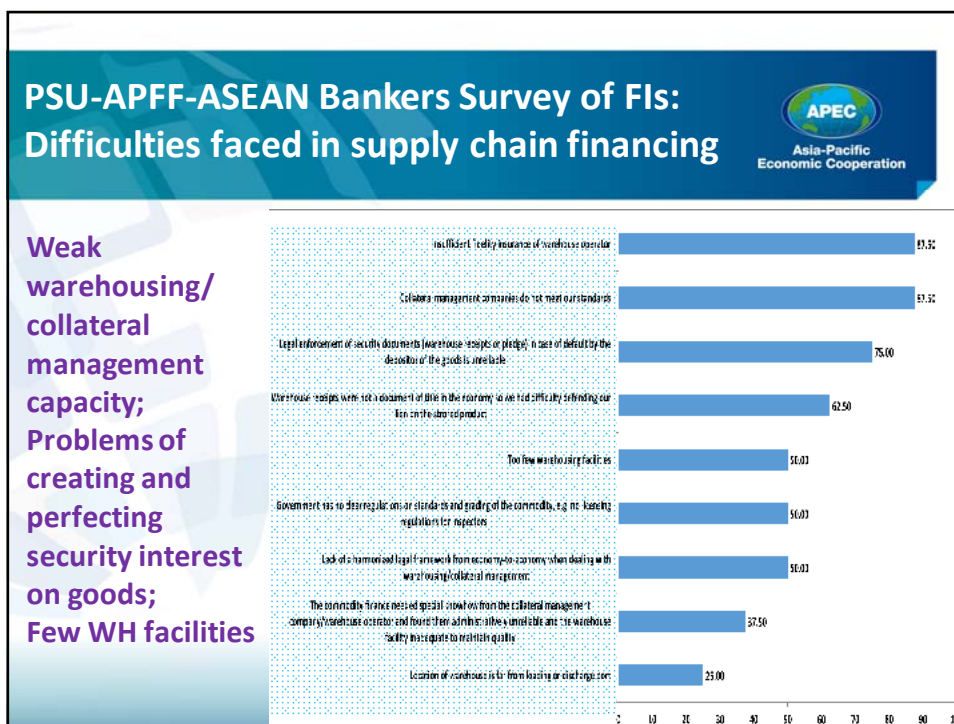
Difficulty	Percentage
No laws on warehouse receipts	66.67
No central registry so our priority interest is uncertain	66.67
Accounts receivable are not considered as collateral	50.00
Courts are not reliable	33.33

Survey identified other weaknesses: absence of centralized collateral registry; legal regimes- still not conducive for asset based lending, etc

...similar problems reflected in Doing Business survey: varied legal and regulatory framework and secured transactions environment



Country/Region	Score (0-10)
APEC	7.5
Singapore	10.0
New Zealand	10.0
Malaysia	10.0
Hong Kong, China	10.0
Australia	10.0
USA	10.0
Viet Nam	10.0
Korea	10.0
Peru	10.0
Japan	10.0
Canada	10.0
Brunei Darussalam	10.0
Mexico	10.0
Chile	10.0
Thailand	10.0
Chinese Taipei	10.0
Papua New Guinea	10.0
Indonesia	10.0
China	10.0
Philippines	10.0
Russia	10.0




### Warehousing problem: 3M – ‘Mystery of Missing Metals’ in Qingdao

- Bank finance is collateralized by warehouse receipts (i.e., metal deposits in warehouse) – a valid financing option everywhere
- News reports of missing metals deposited in Qingdao Port warehouse
- Possible existence of **fraud** by one company: Decheng Mining
  - multiple use of warehouse receipts (fraudulent issuance) to obtain credit, i.e. same stockpile of metals used to secure multiple loans.
- **Result:** shattered confidence on warehousing capacity. Gives London Metals Exchange (LME)-licensed warehouses an advantage. Banks moved some metals to LME-licensed warehouses for greater security.

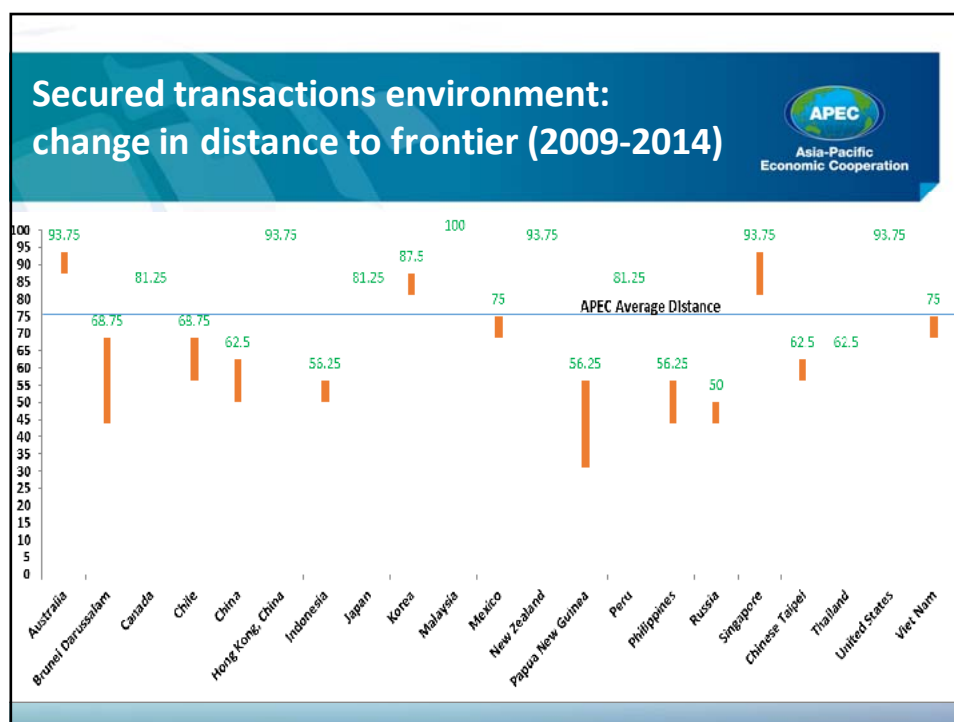
**Some casualties:**

Standard Chartered PLC	US\$ 250 million
Standard Bank Group Ltd.	US\$ 170 million
Citic Resources	US\$ 50 million
<b>Total from various FIs</b>	<b>US\$ 1 billion</b>


### Reforms on collateral registry, improving legal and regulatory framework, etc are ongoing

  
 Asia-Pacific Economic Cooperation

Economy	Credit bureau	Collateral registry	Legal reforms
Australia	✓	✓	✓
Brunei Darussalam		✓	
Chile		✓	
China		✓	✓
Indonesia		✓	✓
Korea			✓
Mexico		✓	
New Zealand	✓		
Papua New Guinea	✓		
Philippines	✓		
Russia	✓		
Singapore	✓		
Chinese Taipei			✓
Viet Nam	✓	✓	✓



## Other Needed Reforms



Asia-Pacific  
Economic Cooperation

- **Dispute resolution and enforcement**
  - Possible role of intl conventions such as 'Choice of Court' convention
- **Improve capacity of collateral management companies**
  - Standards, supervision and licensing can improve credibility
  - Growth of fidelity insurance industry

Country	Time (years)	Cost (% of estate)	Recovery rate (cents on the dollar)
Viet Nam	5	15	16.2
Indonesia	4.5	18	17.9
Papua New Guinea	3	23	23.5
Peru	3.1	7	27.7
Chile	3.2	15	29.1
Philippines	2.7	22	29.9
Singapore	0.8	3	89.4
Japan	0.6	4	92.8

## Key Takeaways



Asia-Pacific  
Economic Cooperation

- Legal and regulatory reform: scope of law, collateral registry, enforcement; potential role of international conventions
- Warehousing and collateral management companies: standards, licensing;
- KYC: help banks overcome overcautiousness; establish KYC registry in each economy
- Watch out: crossborder data flows regulations and Basel 3 implementation



## Related on-going work in other APEC fora



- ❖ Economic Committee – SELI (Strengthening Economic Legal Infrastructure) revived
  - ❖ workshops on UNCITRAL – legal framework;
  - ❖ Ease of Doing Business (includes monitoring of access to finance)
  - ❖ Regulatory reforms, governance
- ❖ Senior Finance Officials Meeting (SFOM)
  - ❖ Cebu Action Plan to include access to finance through improved regulatory framework, including those supporting asset based lending (e.g. warehouse/ collateral management, collateral registries, etc. )

## APEC Policy Support Unit (PSU)



### APEC Policy Support Unit (PSU)

APEC Secretariat  
35 Heng Mui Keng Terrace  
Singapore 119616

Telephone: (65) 6891 9600

Fax: (65) 6891 9419

Email: [psugroup@apec.org](mailto:psugroup@apec.org)

Website: <http://www.apec.org/About-Us/Policy-Support-Unit.aspx>