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The Enabling Environment for SCF in the Asia-Pacific Region: Recent Progress and Challenges

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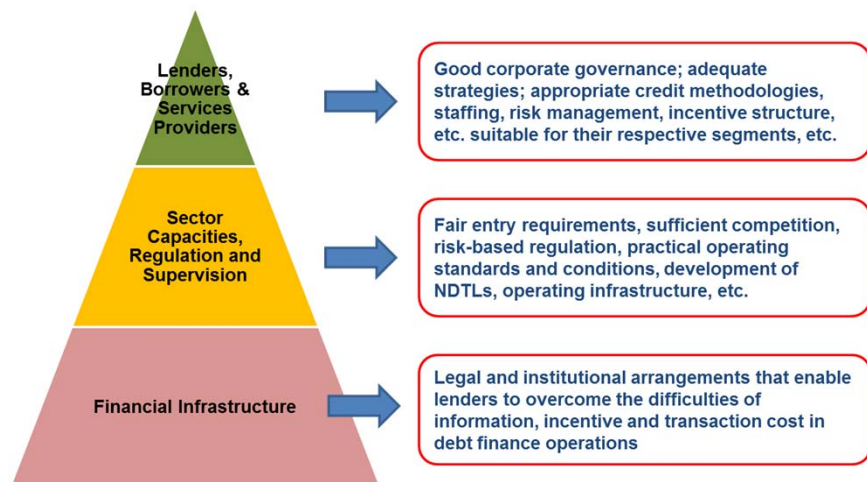


The Enabling Environment for SCF in the Asia-Pacific Region: Recent Progress and Challenges

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What Enables a Credit Market?



Key Features of Supply Chain Finance

- Supply chain finance (*SCF, or value chain finance/VCF*): *financial services provided to the value chain (VC) actors in an optimized way by leveraging the commercial relationship and social capital on a chain*
- Important features of modern SCF relevant for the discussion:
 - ✓ Financial institutions (FIs) look at not only a client but also the entire chain and the client's position in the chain
 - ✓ FIs leverage the linkages on the chain to obtain **information**, structure **incentives** and reduce **transaction cost**
 - ✓ Financial services provided can include financing, risk mitigation, non-credit products, and information



Key Features of Supply Chain Finance

- Important features (Cont'd):
 - ✓ Financing and risk mitigation products are typically based on accounts receivables and inventory
 - ✓ SCF is essentially **a way to organize receivables and inventory finance**
 - ✓ However, financial services are not only provided by FIs
 - ✓ SCF is now increasingly done through electronic platforms
 - ✓ Financial services providers are obliged to incorporate KYC, E&S and AML/ATF risk management
 - ✓ Important for MSMEs as they do not need to rely on their own credit standing alone to borrow, and do not have to get all financial services from the formal FIs
 - ✓ To be sustainable, finance players (just like other actors on a chain) need to be value-adding, not just sucking profits out of chain
 - ✓ Without a good domestic SCF market, it is unlikely that cross-border SCF will flourish



Key Enabling Elements Specific to SCF

- A dynamic and substantive SCF **market** requires the existence of enabling elements in all three levels (see *Slide 1*) in an Economy. For example:
 - ✓ **Financial infrastructure:** Secured transactions framework, credit reporting system, insolvency regime, payment systems, etc.
 - ✓ **Sector capacities:** Understanding and business-oriented regulator(s), low entry barriers, friendly regulations, clear industry standards, effective business associations, judicial capacities, etc.
 - ✓ **FI level:** Diversified, driven and competent players, existence of non-deposit-taking lenders (NDTLs), a competitive market, availability of relevant services (*e.g., trainers, e-platform providers, collateral management companies, credit enhancers*), etc.
- Next few slides will use **financial infrastructure reform** as an example to show where the emerging economies in Asia Pacific stand



Where are the Emerging Economies in the Region?

- **Mongolia:**
 - ✓ Pledge Law (*secured transactions law*) approved in 2015; collateral registry development well advanced; movables finance market development just started
 - ✓ Credit registry has improved; but, private credit bureau has not yet been operational after more than 11 years
 - ✓ Bankruptcy Law under revision
- **China:**
 - ✓ Property Law in force since Oct. 2007; a new version will be developed as part of the Civil Code; annual volume of movables finance over USD 3 trillion
 - ✓ Credit Reporting Regulation in place since Jan. 2013. CRC has been the largest CRSP in the world. Private sector players have emerged.
 - ✓ Enterprise Bankruptcy Law approved in 2006. A new effort to set up a personal insolvency framework being launched
- **Vietnam:**
 - ✓ A revised Civil Code approved including a much better secured transactions chapter; movables finance now accounts for about 30% of business lending
 - ✓ Two credit reporting services providers (CRSPs) operating
 - ✓ A new Bankruptcy Law approved in June 2014



Where are the Emerging Economies in the Region?

- **The Philippines:**

- ✓ A Secured Transactions (ST) Law being made; a central and single registry planned
- ✓ Four private credit bureaus accredited in 2016; but the wholesaling CIC itself not yet operational
- ✓ Insolvency reform needed

- **Cambodia:**

- ✓ ST Law being revised; an upgraded collateral registry system operational
- ✓ Private credit bureau is doing well and expanding to commercial reporting
- ✓ Insolvency system does not work; reforms needed

- **Laos:**

- ✓ ST Law, Decree and Registry have been done; but, movables finance market not yet developed
- ✓ No major progress yet on the development of a new generation of credit reporting system
- ✓ Efforts to reform the existing Bankruptcy Law being tried



Where are the Emerging Economies in the Region?

- **Myanmar:**

- ✓ The Regulation on Credit Reporting will be issued soon
- ✓ First draft of the Secured Transactions Law completed
- ✓ Preparation for a Bankruptcy Law has been launched

- **Indonesia:**

- ✓ A central collateral registry is operational; no real ST legal reform yet; movables finance market remains under-developed
- ✓ Some progress with private sector credit bureaus
- ✓ Insolvency system is said to be needing reforms

- **PNG:**

- ✓ ST Law approved in Dec. 2011; an online collateral registry operational in May 2016
- ✓ A private credit bureau is running reasonably well with good market up-takes
- ✓ Insolvency regime weaker than average for the Region



Where are the Emerging Economies in the Region?

- Overall, APEC Economies have slowly but steadily improved their financial infrastructure in recent years, as measured by the Doing Business (DB) indexes
- However, financial Infrastructure Reforms remain difficult in most emerging markets
- Why so? Ultimately, it is a governance issue.

Case of Economy X: A Tale of Different Assistance Teams and An Ignorant Recipient

- ST Law approved in Year A under loan conditioning of donor R. Legislation was prepared by veteran international ST experts; and the Law was good.
- A collateral registry operational in Year B, with operating cost paid by donor R.
- Movable finance market did not really develop at the time as few understood what the matter was about.
- A new team financed by donor S from Year C does not really know modern ST system, and created a new legislation which has no modern ST features and defeated some key elements of the good ST Law.
- This created an uproar. A third legislation was then passed to allow parties to select which of the two Laws to use.
- An initiative supported by donor T has been on-going since Year D to revise the ST Law so that it does not need to operate under the shadow of the later inappropriate legislation. This effort is stalled.
- Donor R finished its funding for the registry operations. The government has not paid the private hosting company for several years. There has been zero staff in the government registry office.
- The government launched a big drive to promote exports in Year E, but does not want to understand that finance is an element. One can be sure that the export drive will not go very far without progress on the finance front.
- Key legal professionals believe that bankers are greedy and thus modern ST system can only be for the rich economies.

Where are the Emerging Economies in the Region?

Financial Infrastructure Development in APEC Economies

(Doing Business Aggregated Scores for 20 Economies Only)

	Number of Indicators	Full Score Potential	Current Score
Secured Transactions Framework	10	200	124
Credit Reporting System	8	160	140
Insolvency System	2	40	17

Source: Doing Business 2017, World Bank Group.

Note: The above scores include those for the most developed Economies.

Use of International Instruments

- Since SCF is based on real economy value chain relationships/transactions, the scope of relevant international instruments can be rather broad:
 - ✓ Apart from the core finance area instruments (*international payments, secured transactions and creditor rights, factoring, leasing, potentially warehouse finance, credit reporting, etc.*), can include those in contracting, sales of goods, transport of goods, e-commerce, insolvency, arbitration, etc.
 - ✓ Apart from conventions and model laws, can include guides, standards, general principles, etc.
 - ✓ From several international public and private organizations (*UNCITRAL, World Bank Group, APEC, UNIDROIT, ICC, FCI, etc.*)
 - ✓ For both domestic and cross-border transactions
 - ✓ For legislation, policy/regulation making, industry standards development, best practice promotion, research, knowledge dissemination, actual SCF transactions, etc.



Use of International Instruments

- How have these instruments been used in the Region?
 - ✓ As a knowledge/education tool
 - ✓ As a reference document for advocacy, legislation, regulation-making, etc.
 - ✓ As a basis for transaction contracting
 - ✓ For cross-border transactions, as a tool for **common** understanding, interpretations, remedies, etc.
 - ✓ Any other uses?
- What new international instruments may be needed?
 - ✓ Warehouse finance?
 - ✓ AML/KYC standard?
 - ✓ Digital SCF platforms?



Thank You !

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