

Trade for Prosperity



The ICC's Definitive Guide to Boosting International Trade

DIGITALISATION MAKING TRADE CHEAPER, FASTER, SIMPLER AND MORE SUSTAINABLE



TRADE SPOTLIGHT

UK's trade in goods and services



FUTURE FOCUS

The implementation of digital trade



DIGITAL ROADMAP

Bringing trade digitalisation to life



GOING DIGITAL

The challenges and opportunities

Liquidity for SMEs with the Digital Bill of Exchange

Markus Wohlgeschaffen, Traxpay

According to the International Chamber of Shipping, the shipping industry carries around 90% of global trade. According to a study by McKinsey in October 2022, it takes up to 50 sheets of paper to document a single shipment, which is exchanged with up to 30 different parties. The bill of lading accounts for 10 to 30 per cent of the total cost of trade documents. In this context, the International Chamber of Commerce (ICC) notes that the use of paper-based processes places an extraordinary burden on small and medium-sized enterprises (SMEs) seeking to trade internationally. According to the World Economic Forum, the current trade finance gap, i.e. the amount of requested trade finance that is rejected, is estimated at US\$1.5 trillion globally.

The trade finance gap is estimated to increase to US\$2.5 trillion by 2025. SMEs also suffer the most from this trade finance gap. These figures impressively demonstrate the importance of the Electronic Trade Documents Bill. What concrete advantages it brings for SMEs in terms of liquidity generation will be shown in the following.

In any trade transaction, a buyer seeks to obtain the longest possible payment terms, i.e. supplier credits. From the seller's point of view, these have to be bridged. Very often, working capital credit lines provided by banks are used for this purpose. However, the range of instruments for generating and securing liquidity along the supply chain has expanded over time to include so-called supply chain finance (SCF) instruments, mainly due to technological progress.



PRACTICE NOTE 1

Over a period of more than ten years, the University of St. Gallen, Switzerland, has found that companies using SCF instruments in their supply chain can significantly improve key financial ratios. For example, return on investment increased by 40% and cash conversion ratio by 64%. The more companies or suppliers use SCF instruments, the greater the impact. Companies should therefore use as many SCF instruments as possible in their value chain.

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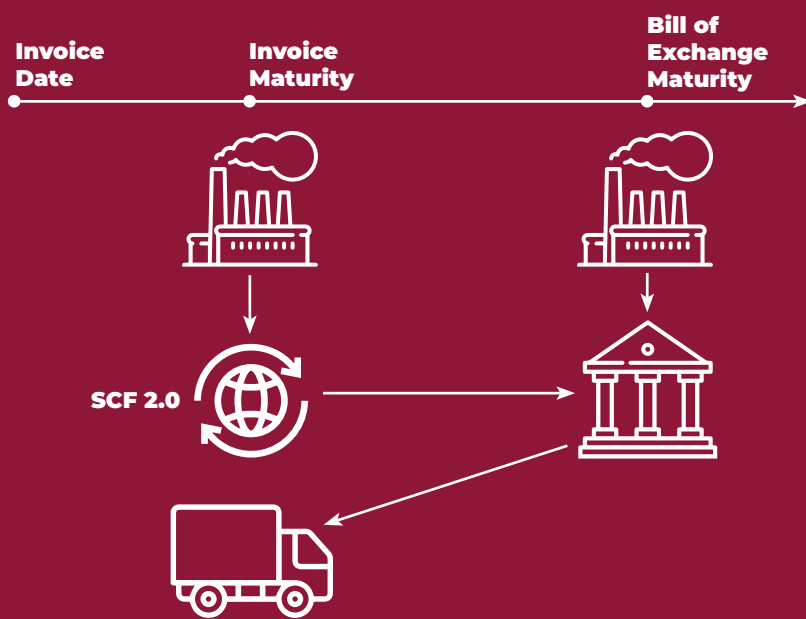


other negotiable commercial documents, however, bills of exchange are labour-intensive

to handle. The answer to offset this challenge is the digital bill of exchange (DBoE).

PRACTICE NOTE 2

The use of digital bills of exchange removes the above restrictions. Thus, a new and very effective financing tool can be used: Post Maturity Finance. Here, the buyer uses a digital bill of exchange payable in favour of the supplier as a payment instrument to pay one or more invoices. The supplier sells the bill of exchange, which can show any maturity date, to a bank, which pays the purchase price to the supplier. When the bill becomes due, the buyer pays the amount of the bill to the bank. The special feature of the digital bill of exchange is that the details of the invoice that is paid with the bill are transferred. Thus, an earmarked use of liquidity generation and thus an operational cash flow is provable.



A robust implementation of the DBoE will be based on Distributed Ledger Technology (DLT) in combination with quantum safe encryption technology to meet the criteria for the acceptance of digital documents. The main criteria relate to the reliability and integrity of an electronic trade documents system. Moreover, the concept of exclusive control as well as the identification of the document and the persons who could exercise control of an electronic document, hence the appropriate registration process, is essential. Finally, any digital document should be printable and provide notary services for authentication and verification. Initially, settlement between the parties will still be done using standard bank payment rails. But there is potential to move to atomic

settlement if/when it can be done via digital currencies.

Despite the undeniable advantages of digital trade documents in general and digital bills of exchange in particular, some challenges to the widespread use of DBoE still need to be solved. These are mainly:

- **Overcoming banks being slow/ sometimes reluctant to engage with DBoE, despite their existence in paper form for centuries, and the challenge to the status quo of their SCF business.**
- **The need for education to the whole of the trading community, from multi-nationals to SMEs, and banks. This is where bodies like the ICC play a vital role.**
- **The adoption of DBoE into law must also be carried out in other jurisdictions.** ●

The sale of receivables in particular is an effective means of releasing the liquidity tied up in receivables and eliminating the associated payment risk. There are essentially two types of receivables: those that are transferable ("negotiable instruments", e.g. bills of exchange) and those that are not (e.g. invoices).

Of particular importance for the creation of liquidity is the bill of exchange, which represents the perfect synthesis of payment and financing instrument and intrinsically contains the concept of a "smart contract". Like