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For discussion

Towards a Framework for Reporting Trade Finance: Pilot Survey Results and How to Move Forward

Prepared by the Statistics Department (IMF), Banco Central do Brasil,
State Administration of Foreign Exchange (China), and Deutsche Bundesbank
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Towards a Framework for Reporting Trade Finance: Pilot Results and How to Move Forward[1]

During the 2017 and 2018 meetings of the Committee on Balance of Payments Statistics (Committee), a paper was presented on measuring trade finance.[2] The 2018 meeting recommended that a pilot survey be conducted to measure trade finance in a selected sample of member countries. Using a pilot table prepared by the IMF, the pilot survey was launched in March 2019 in Brazil, China, and Germany. The pilot was designed to collect data on the size of traditional trade financing vis-a-vis supply chain financing in the sample countries and to establish whether a separate framework to collect the data is required. The results of the pilot indicated that the pilot table provides a valuable framework for measuring trade finance. It includes the collection of data on domestic and external trade finance, and contingent instruments, including letters of credit, which remains one of the most widely used instruments of trade finance. However, the results also reveal some challenges in collecting data on the pilot table and show that with some supplementation, the BPM6 *and* 2008 SNA *frameworks can capture data on cross-border trade finance. Therefore, based on the responses to the pilot exercise, to ensure efficiency, standardization, and to mitigate against duplication of survey response, the paper proposes modifying the pilot table (see Table 1), to better align it to the* BPM6 *framework and to provide compilers with a consistent framework to measure cross-border trade finance. For domestic trade finance, it is proposed that this would be better captured in a supplementary table to the financial accounts within national accounts.*

I. Introduction

1. **During the 2018 Committee meeting, a paper was presented on the measurement of trade finance in macroeconomic statistics.** The paper noted that despite the global expansion of the trade finance market, there is currently no single comprehensive dataset that measures the magnitude, composition, and dynamics of the trade finance market. Furthermore, the paper noted that "*trade finance encompasses a wide range of financial instruments that spans more than one of the standard financial account classifications in the existing macroeconomic statistics*". Therefore, a single comprehensive satellite framework to capture traditional and supply chain finance in the macroeconomic statistics was proposed.

2. **The meeting recommended that the work on measuring trade finance be advanced through a pilot survey.** The pilot was launched using a pilot table developed

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[1] Prepared by Francien Berry, Real Sector Division, STA with gratefully acknowledged comments from Paul Austin, Robert Dippelsman, and James Tebrake (STA), and Committee members from Brazil, China, and Germany. We would like to express sincere gratitude to the members from Brazil, China, and Germany for participating in the pilot and providing valuable comments that were incorporated in the paper.

[2] See BOPCOM paper 18/05: Towards a Framework for Measuring Trade Finance, prepared by Cornelia van Wersch.

based on the satellite table discussed at the 2018 Committee meeting and collected data on trade finance—via traditional bank intermediation and new supply chain financing techniques—from three countries; Brazil, China, and Germany. The pilot table is shown below (for definitions of trade finance categories see Annex). The benefits of the pilot table include (i) a single framework to measure both domestic and cross-border trade finance in a to-whom-from-whom framework; (ii) inclusion of contingent instruments to capture data on letters of credit which are not usually collected in macroeconomic statistics; and (iii) separate identification of traditional and supply chain trade finance techniques.

3. The pilot table was designed to address the specific challenges related to measuring trade finance that currently exist in the macroeconomic statistics. These include (i) providing a measure of trade finance in a single, internationally comparable framework; and (ii) providing an efficient, user friendly framework that aligns with user needs.

Table 1. Trade Finance Pilot Table[3]

Acquisition of Assets						Instrument	Incurrence of Liabilities					
Finance Providers (FCs or Fintechs)		Nonfinancial Corporations (NFCs)					Finance Providers (FCs or Fintechs)		Nonfinancial Corporations (NFCs)			
Domestic	Cross-border	Domestic		Cross-border			Domestic	Cross-border	Domestic		Cross-border	
		Affiliated	Non-Affiliated	Affiliated	Non-Affiliated				Affiliated	Non-Affiliated	Affiliated	Non-Affiliated
						1. Open account inter/intra-firm trade financing						
						Trade Credit						
						Short-Term						
						Long-Term						
						Trade Advances						
						2. Supply Chain Financing (SCF) or other working capital related financing						
						A. Receivables Purchasing *(includes receivables discounting, forfaiting, factoring, payables finance)*						
						Currency & Deposits						
						Debt Securities						
						Loans (trade finance credit)						
						Other Accounts Receivable/Payable						
						o/w Trade Credit						
						o/w Other accounts receivable/payable						
						B. Loan or Advanced Based Financing *(includes loan against receivables, loan against inventory, distributor finance, pre-shipment finance)*						
						Currency & Deposits						
						Loans						
						Loans collateralized by inventories						
						Loans collateralized by receivables						
						Unsecured loans to finance trade						
						3. Traditional Bank-Intermediate Financing *(including financing provided by export credit agencies)*						
						Loans						
						Short term						
						Long term						
						Off-balance sheet items						
						Contingent Accounts Payable *(including letters of credit, credit lines, stand-by letters of credit, and guarantees)*						
						Contingent Accounts Receivable *(including letters of credit, credit lines, stand-by letters of credit, and guarantees)*						
						Other						
						4. Memo items						
						Credit Lines						
						Credit Guarantees						
						Short Term Lending of Working Capital						
						Others						

[3] The components in this table may be classified as an extension to the existing standard balance of payments framework. Blue cells indicate information provided by at least one of the countries participating in the pilot exercise as shown in the tables in Box 1 and Box 2.

4. **Generally, global trade is supported in some form by trade finance.** Inter-firm credit (trade credit and advances between importers and exporters) remains the main vehicle through which trade is financed and bank-intermediated finance (loans to finance trade) is the primary alternative, supporting about one-third of global trade. Contingent instruments such as letters of credit are used in about one-sixth of global trade.[4] While there have been significant developments in supply chain finance techniques, supply chain finance is typically applied to open account (inter-firm) transactions.[5] These are transactions between seller and buyer where transactions are not supported by any banking or documentary trade instrument[6]. In these cases, the transactions are facilitated with the traditional financial instruments but via more technologically efficient and seamless support platforms.

II. PILOT SURVEY RESULTS

5. **In March 2019, the satellite table proposed in 2018 Committee paper, was modified and the pilot table was sent to the three countries—Brazil, China, and Germany—to collect data on trade finance.** The pilot table was designed to establish the following in the three participating countries:

- The size of traditional trade finance—including those provided by Fintechs and financing provided by traditional intermediation, including via contingent instruments such as letters of credit;
- The size of supply chain financing in participating economies;
- Total domestic and cross-border trade finance.

6. **The pilot survey results show that while the current macroeconomic statistics frameworks cover the majority of trade finance activity, there is scope for further modifications to be able to explicitly derive the total cross-border trade finance from the external sector statistics (Figure 1).** Traditionally, cross-border trade finance is provided using ***inter-firm trade credit*** from both affiliated and unaffiliated companies, ***loans to finance trade***, ***and letters of credit***. When supply chain financing techniques are employed, the instruments used in financing trade can be extended to include ***debt securities*** (for example, in the case of forfaiting when the accounts receivable are converted to a

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[4] Estimated by the Bank for International Settlements, Trade Finance Study Group, 2014; https://www.bis.org/publ/cgfs50.pdf

[5] 2018 ICC Trade Register Report, *Global Risks in Trade Finance*

[6] Supply chain finance is defined by the Global Supply Chain Finance Forum as the use of financing and risk mitigation practices to optimize the management of working capital.

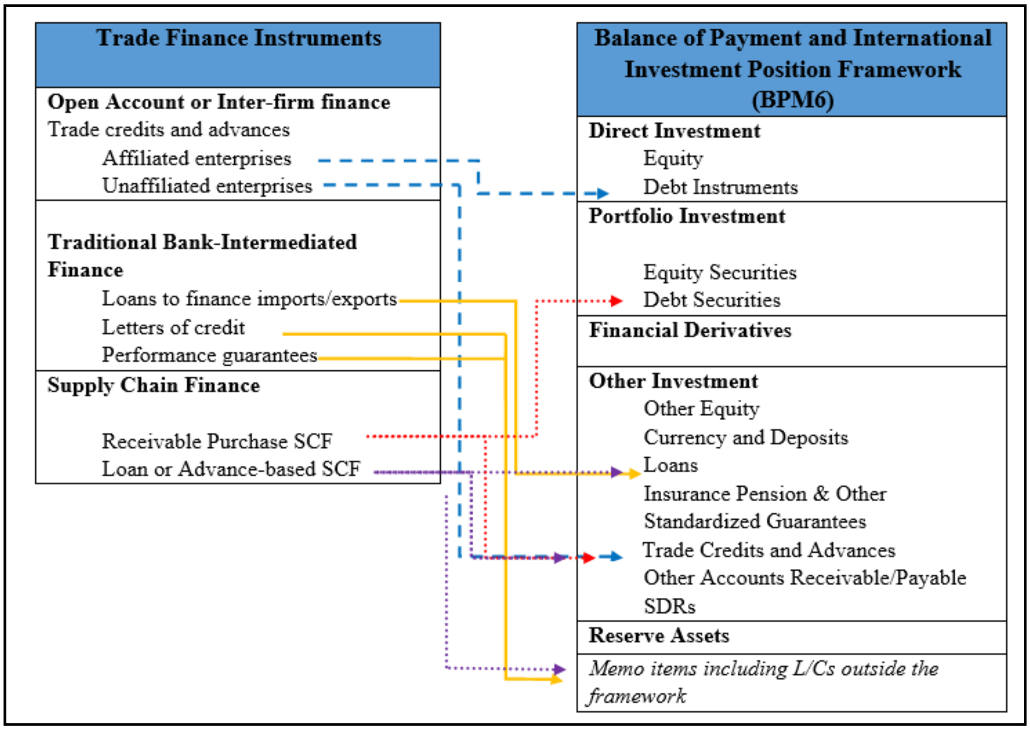
tradeable debt instrument) (see Figure 1).[7] These data can be extracted from the balance of payments and international investment positions' (IIP)—*Direct investment*, *Portfolio investment*, and *Other investment* functional categories. However, some supplementary breakdowns of these categories are necessary to adequately capture cross-border trade finance activities.

7. **Despite the emergence of new supply chain financing techniques, the underlying instruments used to finance trade have been consistent and are well aligned with the instruments in the macroeconomic statistics.** The pilot survey results show that inter-firm and bank-intermediated trade finance remain the primary sources of finance for cross-border trade in the pilot countries (Box 1). Traditional bank intermediated finance is the primary alternative to inter-firm trade credit. The pilot survey results did not directly provide more information on the methods of financing—particularly for supply chain financing as respondents noted that the details are generally not recorded by the financial and nonfinancial corporations.

8. Supply chain finance techniques can be divided into two categories—receivables purchase and loan/advanced based finance—each with different techniques to increase liquidity or the cash flow management of the buyer (importer in the case of cross border transactions) while reducing the risk for the seller (exporter).

[7] "Forfaiting enables an exporter to sell accounts receivable from an importer at a discount to a financial institution (the forfaiter). This SCF instrument can transfer an exporting firm's accounts receivable as a debt instrument that is tradable on a secondary market." Global Supply Chain Finance Forum

Figure 1. Trade Finance Instruments and Macroeconomic Framework[8, 9]



[8] Receivable purchasing includes techniques in which sellers of goods and services obtain financing by selling all or a part of their receivables to a finance provider. The techniques include receivables discounting, forfaiting, factoring, and payables finance.

[9] Loan and advance based supply chain finance includes loans and advances made against receivables, rather than by means of purchase. Techniques that are also based on loans and advances are: distributor finance, loans or advances against inventory, loans or advances against receivables, and pre-shipment finance.

Box 1. Pilot Survey Results: Trade Financing (Assets) – 2018 [10]

For Brazil and Germany, trade credit between affiliated enterprises and traditional bank intermediated loans are the main instruments used to finance trade. For China, the main sources are trade credits between non-affiliated enterprises and traditional bank intermediated loans. Contingent instruments such as letters of credit and credit lines are also important sources of trade finance for Brazil and China (no data were available for Germany on letters of credit).

Assets (USD Millions)	Brazil	China	Germany
1. Open account inter/intra-firm trade financing	**41,585**	**597,200**	**341,479**
Nonfinancial corporations (NFCs)	41,585	597,200	341,479
Cross-border	41,585	597,200	341,479
Affiliated: Trade Credit & Advances	**27,569**	--	**190,604**
Trade Credit	**27,569**	--	**184,846**
Short-term	19,822	--	183,182
Long-term	7,747	--	1,664
Trade Advances	--	--	**5,759**
Non-Affiliated: Trade Credit & Advances	**14,015**	**597,200**	**150,875**
Trade Credit	**14,015**	**597,200**	**135,070**
Short-term	13,133	597,200	130,885
Long-term	882	--	4,185
Trade Advances	--	--	**15,805**
2. Supply Chain Financing	--	**41,410**	--
Loan or Advanced Based Financing	--	41,410	--
Nonfinancial corporations (NFCs)	--	--	--
Non-Affiliated - Loans	--	41,410	--
Loans	--	41,410	--
3. Traditional Bank-Intermediated finance	**58,902**	**10,192**	**54,136**
Finance Providers	58,902	10,192	54,136
Domestic	**58,902**	**10,192**	--
Loans, Short-term	18,490	--	--
Loans, Long-term	40,411	--	--
Contingent accounts receivable	--	10,192	
Cross-Border	--	--	**54,136**
Loans	--	--	54,136
4. Memo Items	**27,261**	**47,991**	--
Finance Providers	27,261	46,076	--
Domestic	--	46,076	--
Credit Lines	--	--	--
Letters of Credit	--	46,076	--
Cross-Border	**27,261**	**1,915**	--
Credit Lines	27,261	--	--
Letters of Credit	--	1,915	--

[10] The tables only show rows from the pilot table for which data are available. Refer to table 1 to see the full template used in the pilot exercise and the items for which no data could be collected for participating countries.

Box 2. Pilot Survey Results: Trade Finance (Liabilities) – 2018

The pilot survey shows that one of the main data gaps is the recording of supply chain finance data.

Liabilities (USD Millions)	Brazil	China	Germany
1. Open account inter/intra-firm trade financing	**185,186**	**393,100**	**302,261**
Nonfinancial corporations (NFCs)	185,186	393,100	302,261
Cross-border	185,186	393,100	302,261
Affiliated: Trade Credit & Advances	**166,172**	**-**	**136,786**
Trade Credit	**166,172**	**-**	**122,998**
Short-term	33,960	--	121,829
Long-term	132,212	--	1,169
Trade Advances	**--**	**--**	**13,789**
Non-Affiliated: Trade Credit & Advances	**19,014**	**393,100**	**165,476**
Trade Credit	**19,014**	**393,100**	**74,793**
Short-term	10,636	393,100	73,833
Long-term	8,378	--	960
Trade Advances	**--**	**--**	**90,681**
2. Supply Chain Financing	**25,087**	**--**	**--**
Loan or Advanced Based Financing	25,087	--	--
Nonfinancial corporations (NFCs)	25,087	--	--
Non-Affiliated	25,087	--	--
Loans	25,087	--	--
Unsecured loans to finance trade	25,087	--	--
3. Traditional Bank-Intermediate	**58,902**	**10,192**	**--**
Nonfinancial corporations (NFCs)	58,902	--	--
Domestic	**58,902**	**--**	**--**
Loans, Short-term	18,490	--	--
Loans, Long-term	40,411	--	--
Finance Providers	**--**	**10.192**	**--**
Cross-Border		**10,192**	
Contingent accounts payable	**--**	10,192	**--**
4. Memo Items	**27,261**	**--**	**--**
Finance Providers	27,261	--	--
Domestic	27,261	--	--
Credit Lines	27,261	--	--
Letters of credit	--	--	--

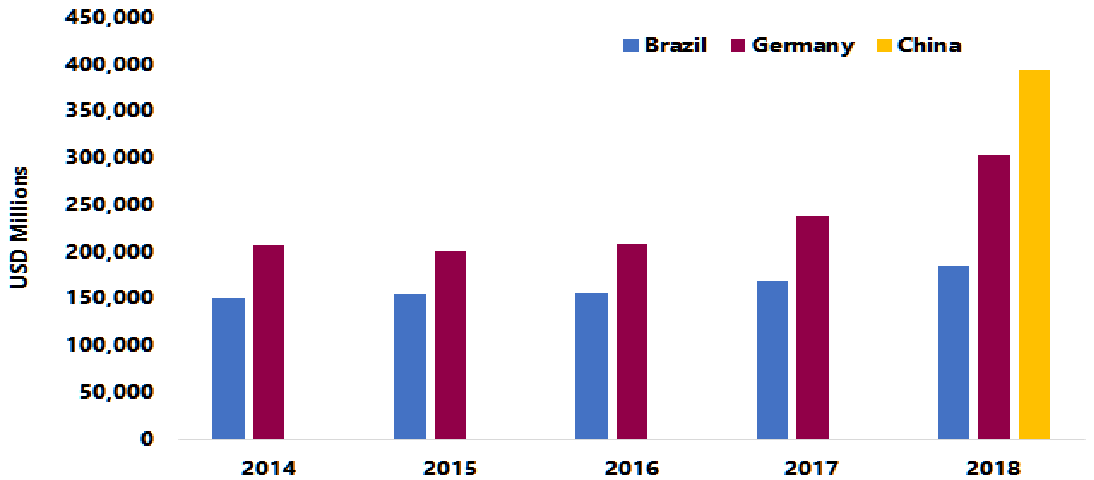
1. Data provided for China include inter-firm trade finance, traditional bank-intermediated loans, letters of credit and partial coverage of supply chain finance. Data were received from both financial and nonfinancial corporations surveyed by SAFE. Data for financial corporations were based on sample survey results.

2. Data provided for Germany exclude supply chain finance as well as any off-balance sheet finance. Data were collected from the monetary and financial and external sector statistics. Claims on resident banks or resident corporations are not included.

3. Data provided for Brazil include inter-firm trade finance (cross-border, both affiliated and non-affiliated), traditional bank-intermediated loans (domestic), credit lines (cross-border), and has a partial coverage for supply chain finance. Data were collected from the monetary and financial and external sector statistics.

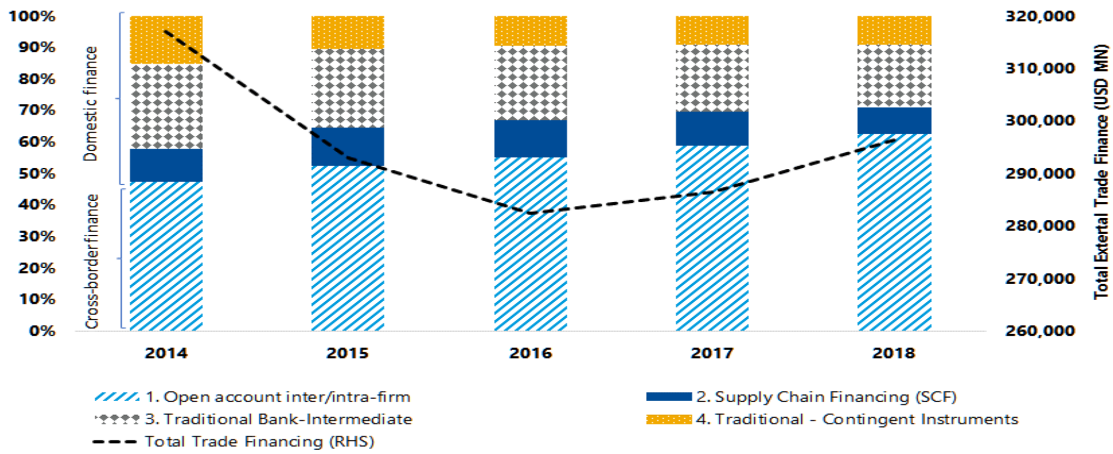
Figure 2. Trends in Trade Financing – Pilot Survey Results

Open account/Inter-firm financing (cross-border trade credits and advances): (2014 – 2018): Liabilities



Source: trade finance data provided by the survey respondents (2019)

Brazil (trade finance liabilities): Open account trading remains the most significant form of financing for external trade finance.



Source: trade finance liabilities provided by the Central Bank of Brazil (2019)

III. Challenges in Collecting the Data

9. **Respondents reported several challenges with completing the pilot table.** Firstly, the pilot table requires data from different sources—national accounts, external sector, monetary and financial statistics, and/or sectoral financial accounts. Data not previously collected, such as letters of credit and other contingent instruments were also required. In the absence of a comprehensive set of integrated macroeconomic statistics, such data collection would impose inherent challenges to avoid omissions and/or double counting while also duplicating most of the data that are already separately collected in the current

macroeconomic statistics. While extensive explanations were provided on the pilot table, some respondents also reported that more guidance on the purpose of the survey and the structure of the pilot table are required to better extract credible data.[11]

10. **Secondly, respondents reported challenges with providing information specifically on supply chain financing.** As noted above, supply chain finance techniques are applied to open account trade and therefore the financial accounts of the intermediaries or nonfinancial corporations do not generally make a distinction between supply chain finance categories/techniques and traditional bank-intermediated financing for trade purposes. Germany reported that a new dataset "AnaCredit"[12] may provide some additional insights on bank-intermediated financing for trade purposes including receivables purchasing once it is fully operational. China reported that the respondents requested more guidance on how to categorize the variety of trade finance products available in the market to fit the proposed pilot table.

11. **On the way forward, respondents suggested condensing the pilot table to reflect only data that are critical to measure the magnitude and composition of trade finance in a single framework.** Respondents reported that the complexity of the current proposal makes it difficult for compilers to provide comprehensive quantitative responses to the data fields. Separation of the pilot table to measure domestic and cross-border trade finance would reduce respondent burden and yield better responses from compilers. Even if the pilot table is separated, strong cooperation between the national accounts and external statistics compilers is required to ensure comprehensive coverage of trade finance.

IV. Conclusions and Way Forward

12. **Based on the results of the pilot survey it is proposed to modify** the pilot table to conform with the *BPM6* framework, thus increasing the efficiency of collecting the data and reducing respondents' burden. The benefit of this includes deriving the data on external trade finance from the existing *Balance of Payments and International Investment Position* instead of a separate collection mechanism. The supplementary table presented in Table 2 below provides the relevant breakdown of the IIP data such that the magnitude, composition, and dynamics of trade finance can be more explicitly measured in a single comprehensive framework.

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[11] Background information is provided in BOPCOM paper 18/05 and BOPCOM paper 17/21.

[12] Analytical Credit Database (AnaCredit) is a dataset containing detailed information on individual bank loans in the euro area, harmonized across all Member States. The database was established by ECB regulation in 2016 and collects credit and credit risk data at single borrower (borrower-by-borrower) and loan (loan-by-loan) level in euro area Member States. In this context, "credit" encompasses loans and advances as well as bills of exchange. Data collection began in September 2018.

Table 2. Proposed *BPM6* Supplementary Table
Trade Finance Claims and Obligations to Nonresidents[13]

	2018Q1	2018Q2	2018Q3	2018Q4
Direct Investment				
Debt Instruments o/w: Loans to finance trade o/w: Trade credit **Portfolio Investment**[14]				
Debt Securities o/w securities created via securitization of trade receivables *(incl. forfaiting)* Long-term Short-term **Other Investment**				
Loans o/w loans to finance trade Long-term Short-term **Trade Credit** Long-term Short-term **Memo Items:**				
o/w: Letters of credit				
o/w: Credit lines o/w: Performance guarantees				

[13] A significant portion of this information could be gathered from the trade finance departments of banks. In the case of direct investment—loans to finance trade, while these are not customary, when they are incurred—it is usually in the case where one member of the direct investment network is a finance provider and should be able to provide this data. Some countries have been able to directly identify loans to finance trade either through direct investment or by non-affiliated finance providers (other investment).

[14] Portfolio investment, debt securities can be disaggregated, where possible to show securities created through the process of forfaiting.

13. **The proposed supplementary table will contain additional information on the following functional categories in the *BPM6* framework:**

- **Direct Investment – Based on the results of the pilot exercise, trade credit and advances between affiliated enterprises comprise between 58 and 79 percent of total trade finance liabilities for Brazil.** Estimates of trade credit and advances as a percentage of total trade finance liabilities are not available for China and Germany due to data limitations with the pilot survey results. To support the measurement of trade finance in a standardized framework, the supplementary collection instrument will need to disaggregate the direct investment category to include trade credit as a subcomponent of debt instruments (as shown above). This is where related enterprises record financing from direct investment affiliates in the ordinary course of business by suppliers/buyers of goods and services.[15] Although done in limited circumstances (such as when one member of the direct investment network is a finance provider), it is assumed that loans between affiliated enterprises to finance trade are not customarily incurred. Nevertheless, for comprehensive measurement, the supplementary table also includes this breakdown.

- **Other Investment – Traditional bank intermediated loans are also an important source of trade finance.** This method remains the primary alternative to inter-firm trade finance (Figure 2). Other investment instruments include loans (liabilities incurred via banks and other financial corporations to finance trade) and trade credit between non-affiliated companies. The results of the pilot in respect to these instruments were not compared to the estimates from the IIP because in general, bank-intermediated loans reported were for domestic trade finance. For these instruments, loans to finance trade either via traditional method or supply chain finance techniques, is required in the supplementary table (as shown in Table 2).

- **Memo Item – One of the main instruments to finance trade—letters of credit (L/Cs)—is not currently captured in the macroeconomic statistics.** The pilot and the supplementary tables offer significant benefits in this regard. Currently, L/Cs and contingent instruments are not recorded in the macroeconomic statistics because, similar to other guarantees, no financial assets and liabilities are created upon issuance. However, the 2014 BIS Trade Finance Group, estimates that while the estimates vary at the country level, about one-sixth of total trade is supported by L/Cs. In this context and based on the results of the pilot exercise, these off-balance sheet instruments, should be included in the supplementary table—as much as the data can be collected—to ensure comprehensive measurement of trade finance.

[15] OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition 2008.

14. **Finally, the proposed supplementary table does not capture domestic trade finance.** Based on the challenges expressed by the respondents, extending the measurement to domestic trade finance would be better captured in supplementary sectoral financial accounts tables. Overall, compiling the data on both domestic and international trade finance will require a close collaboration between the various statistical agencies in the country and should be done in accordance with international standards.

Questions for the Committee:

1. *Does the Committee agree with the proposal to separate the collection of domestic and cross-border trade finance?*

2. *What are the views of the Committee on whether the proposed supplementary table is sufficient to collect data on cross-border trade finance?*

3. *Does the Committee consider it feasible for a critical mass of countries?*

Annex. Main Definitions of Trade Finance Categories for the Pilot Table

1. Open account trade: method of payment in international trade where transaction is not directly supported by any bank intermediation or documentary trade instrument. The buyer is responsible for differed payment usually within 30–90 days.

2.A. Receivables Purchasing: receivables are recorded separately on the balance sheet as short-term claims. Using the receivables purchase program, the supplier sells all or parts of these outstanding claims to a financial intermediary or SCF service provider which takes full legal and economic ownership (and not just a security interest in the collateral); in return, it provides the supplier with working capital in form of advance payments less the financial service charge (called discount), reducing the days sales outstanding (DSO) and providing much needed liquidity the company can work with. Receivables purchasing includes:

2.A.1. Receivables Discounting: allows suppliers with outstanding short-term invoices mostly vis-à-vis multiple buyers to sell their receivables to a financial provider at a discount. This instrument is usually reserved to "investment-grade" suppliers that have a minimum credit rating. Because of this, the finance provider can offer this program on a full or partly "without recourse" basis (i.e., the supplier can remove the accounts receivables completely or partly from its balance sheet, and the finance provider bears the risk in case the buyers fail to perform their payments). A trade credit insurance can limit the risk exposure of the finance provider. This financing transaction between the supplier and a finance provider can be made with or without the knowledge of the buyers; and depending on the situation in some cases, the buyers may be asked to validate their accounts payables.

Instruments

- Trade credit: established between seller and buyer.
- Currency and deposit: received in exchange for the sale of the receivables. At maturity the buyer will either make a deposit in the account of the seller (which is pledged to the finance provider) or pay directly to the supplier who then has the obligation to turn over the funds to the finance provider.

2.A.2. Forfaiting: is an export-oriented form of SCF where a forfaiter (finance provider) purchases from the supplier, without recourse, future payment obligations and trades these as negotiable debt instruments in the form of bills of exchange, promissory notes, or L/Cs on the secondary forfaiting market. These payment instruments are legally independent from the underlying trade and require a guarantee by a third party (normally the buyer's bank).

Instruments

- Debt securities: the transaction gives rise to a claim by the exporter on the importer via a negotiable instrument. Which is then sold by the supplier to a forfaiter (with knowledge of importer).

- Currency and deposit: the counterpart to the sale of the claims to the forfaiter is the payment of cash to the supplier at the time of the sale extinguishing the claim of the exporter on the importer. At maturity, the importer pays forfeiter the value of the instruments.

2.A.3. Factoring: SCF technique in which suppliers sell their receivables (represented by outstanding invoices) at a discount to a finance provider. A key differentiator of factoring is that typically the finance provider becomes responsible for managing the debtor portfolio and collecting the payment of the underlying receivables. In factoring, ownership of the receivable lies with the finance provider and the buyer settles the invoice with the finance provider, not with the seller. Factoring targets the domestic as well as the international market, whereby the latter often includes two “factors”, one in each country. The suppliers, often SMEs, receive around 80 percent of the invoice value from the factor as advance payment, and a remaining, but discounted, value when payment is due by the buyer. The fees and discounts are borne by the supplier in return for the factor’s services of advancing funds and managing the collecting of the receivables from the buyer. Because factoring is available with and without recourse, depending on the circumstances in the market, the factoring institution may add a credit insurance. Factoring provides suppliers with working capital, albeit discounted, allowing them to continue trading, while the factor receives margins from rendering the service.

Instruments

- Trade credit: in factoring, the seller raises an invoice upon delivery of the goods/services rendered and sends a copy of the invoice or the invoice data set to the finance provider. The seller’s claim on the buyer is extinguished when the invoices are sold to the factoring company.

- Currency and deposit: from the sale by the seller of the invoices to finance company at a discount. On due date, the buyer pays the outstanding invoice to the finance provider who in turn pays the remaining value of the invoice to the seller, less agreed fees and discount as applicable.

- Accounts receivable/payable: the sale of the invoices to the factoring company leads to the creation of a receivable asset claim for the finance provider on the buyer. This is extinguished on the due date when the buyer pays the value of the invoice to the finance provider.

2.A.4. Payables Finance: is provided through a buyer-led program within which sellers in the buyer's supply chain are able to access finance by means of receivables purchase. The technique provides a seller of goods or services with the option of receiving the discounted value of receivables (represented by outstanding invoices) prior to their actual due date and typically at a financing cost aligned with the credit risk of the buyer. The payable continues to be due by the buyer until its due date. Payables Finance may be otherwise termed Approved Payables Finance, Reverse Factoring, Confirming, Confirmed Payables, Supplier Payments, Vendor Pre-Pay, Trade Payables Management, and Buyer-Led Supply Chain Finance.

Instruments

- Trade credit: established between the seller and the buyer for the provision of goods and services. The seller has the option of keeping the receivables claim until maturity and receive the full amount or opt in for early payment at the discounted value.

- Loans (trade credit financing): the key 'trigger' for the provision of finance by the finance provider is the unconditional approval of the invoice or account payable for payment by the buyer; this may be initiated through the creation of an approved payment instruction, which is unconditional and irrevocable, from the buyer to the finance provider, or evidence of approval of the invoice. Upon acceptance of financing by the supplier, the finance provider makes payment to the seller either at the discounted value (early payment) or at the full value at the due date. When this happens a loan asset (trade credit financing) is created by the finance provider on the buyer. On the due date the buyer makes a deposit in the account of the finance provider in the amount of the total value of the invoice. This extinguishes the loan liability.

2.B. Loan/Advance based SCF category: is a category in which financing is provided in return for rights to a collateral, and the loan is recorded as a liability in the beneficiaries' balance sheet. The category includes financing by:

2.B.1. Loan or Advance against receivables: is financing made available to a party involved in a supply chain on the expectation of repayment from funds generated from current or future trade receivables and is usually made against the security of such receivables but may be unsecured. This type of financing may be otherwise termed Receivables Lending, Receivables Finance, Invoice Financing, Trade Receivable Loans, or Trade Loans.

Instruments

- Loans (may be collateralized by receivables or unsecured) and Currency and deposit: Finance provider provides finance to the seller. At maturity, the loan is settled by the seller using funds received from buyers (of goods and services). The finance provider may also receive funds directly from the buyers or by debiting the seller's deposit accounts held at the finance providing institution.

2.B.2. Loan or Advance against inventory: financing provided to a buyer or seller involved in a supply chain for the holding or warehousing of goods (either pre-sold, un-sold, or hedged) and over which the finance provider usually takes a security interest.

Instruments

- Loans (may be collateralized by inventory or unsecured) and Currency and deposit (depending on repayment method): the buyer and seller enters a commercial relationship. The finance provider provides financing in form of a credit line for suppliers and buyers along the physical supply chain to raise funds to purchase inventory "instead of locking unused value inside a warehouse." The finance providers obtain title over the goods as collateral. For finished goods or work-in-progress, finance providers may also require purchase orders (on behalf of the buyers) or purchase contracts (on behalf of an end-customer). The transactions are settled regularly at the time inventory is used for production or sold off to customers. The loan is repaid by the seller from the proceeds of the sale.

2.B.3. Distributor Financing: is the provision of financing for a distributor of a large manufacturer to cover the holding of goods for re-sale and to bridge the liquidity gap until the receipt of funds from receivables following the sale of goods to a retailer or end-customer. This type of financing may be otherwise termed Buyer Finance, Dealer Finance, or Channel Finance.

Instruments

- Loans (collateralized by inventory or unsecured) and Currency and deposit: Distributor (buyer) enters a finance agreement with finance provider. The seller provides goods to the buyer (trade credit). The seller then provides financing to the seller in the amount of the invoice. On the due date, the buyer repays the loan amount.

2.B.4. Loan or Advance against Inventory: is financing provided to a buyer or seller involved in a supply chain for the holding or warehousing of goods (either pre-sold, un-sold, or hedged) and over which the finance provider usually takes a security interest or assignment of rights and exercises a measure of control. Otherwise termed Inventory Finance, Warehouse Finance, Financing against Warehouse Receipts, and Floor Plan Finance.

2.B.5. Pre-shipment Finance: is a loan provided by a finance provider to a seller of goods and/or services for the sourcing, manufacture or conversion of raw materials or semi-finished goods into finished goods and/or services, which are then delivered to a buyer. A purchase order from an acceptable buyer, or a documentary or standby letter of credit or Bank Payment Obligation, issued on behalf of the buyer, in favour of the seller is often a key ingredient in motivating the finance in addition to the ability of the seller to perform under the contract with the buyer. Otherwise termed Purchase Order finance, Packing credit/finance, and Contract monetization financing.

Instruments

- **Loans and currency and deposit** *(depending on repayment method):* After receiving a purchase order from the buyer, the seller submits a loan drawdown request to the finance provider. The finance provider provides financing to the manufacturer for purchasing raw materials, processing, and packing the finished goods for exporting. This creates a loan asset claim by the finance provider on the seller. The finance provider makes a deposit in the account of the seller. Upon maturity, the finance provider will debit the suppliers account at the institution with the amount of the loan (plus interest).

4. Memo Items: Memo item provide useful information on existing programs that are in place by private and public export credit agencies, for instance, to provide short-term lending of working capital, credit lines or credit guarantees for specific market segments, as well as to support regional trade or supply chain operations.