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Addressing efficiency in payments and working capital to deliver Sustainability and Growth

Leveraging the "Sustainable Growth Propeller" framework and tackling asymmetries that hamper meeting net-zero targets: pragmatic recommendations to tackle existing obstacles.

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Foreword

This paper recommends to G20 leaders a simple, though powerful and effective, concrete policy action aimed at jointly delivering Sustainability targets and inclusive long-term economic growth without committing more scarce public finances. The paper suggests to G20 Leaders that there needs to be more focus on increasing productivity of firms by efficiently addressing their working capital needs.

While the focus of G20 financial policy towards the Sustainability Agenda has been towards financing long-term investments, firms have been facing significant liquidity and funding challenges in running their operations, exacerbated by the pandemic and the economic unrest in recent years. Working capital represents a large part of firms' financial needs, as it finances stocks and client business. This paper shows how by supporting trustworthy interoperable early payment platforms structured on safe principles and requirements, such as the LEI, can remove barriers to critical working capital, and by facilitating cross-border payments, can generate a "propeller" effect in job creation and economic growth. By enabling such "GVC ecosystems" for example, by initially focusing on investments targeting the Sustainability Agenda, governments can make a tangible difference towards delivering inclusive long-term employment and economic growth, in addition to making such sustainability investments most effective in delivering their intended targets.

This paper "joins the dots" across recommendations of several B20 taskforces, with the current work of the *OECD "Recommendation on SME Financing"* and the GPFI priority of *"Leveraging Digital Public Infrastructure for Financial Inclusion and Productivity Gains"*, showing how policies can be most effective if they are complementary to each other and effectively coordinated both domestically and internationally.

These actionable recommendations advance the work of previous presidencies by providing a concrete example of supporting working capital of firms; thereby showing how the "Sustainable Growth Propeller" (SGP) framework, initiated under the B20 Indonesia, can operate in practice. The SGP **envisions** a balanced approach aimed at raising efficiencies by reducing bureaucracy while increasing transparency and traceability, as well as facilitating firms' access to these wider markets. These objectives have been at the core of the joint work between the B20, *Business at OECD* (BIAC) and the IOE, since 2015 across G20 presidencies, culminating in a series of B20-BIAC-OECD annual events on Finance and Sustainable Growth and related publications led by Gianluca Riccio, Vice Chair of the *Business at OECD* Finance Committee. Each year, the conclusions have helped pave the way for action by G20 leaders. Contributions to these publications came from diverse business and employers' federations, business associations, large corporates and financial institutions.

The vision is aimed at all firms, but may particularly benefit MSMEs, who face a proportionately higher cumulative regulatory and administrative burden relative to their resources. As MSMEs are the largest job creators and constitute the backbone of our economies, they have a key role in the green transition without which the Sustainability Agenda cannot be delivered.

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Executive Summary

The objective of this paper is to make a tangible contribution towards delivering both sustainability targets and inclusive long-term economic growth. It proposes concrete steps towards enhancing firms' productivity by addressing the challenges they face in terms of working capital and payment efficiencies: a perfect example of actionable policy intervention targeting productivity and offering win-win opportunities.

Productivity is one of the three pillars, together with Stability, and Economic Growth, of the "Sustainable Growth Propeller" conceptual framework introduced in the 2022 G20 cycle. It offers a powerful enabler for enacting the G20 Sustainability agenda, while also fast-tracking inclusive economic growth and job creation.

Before the pandemic, the world was already dealing with a climate crisis and slow progress on the sustainable development goals (SDGs). At the 2022 G20 in Bali, it was evident that the challenge was "how" to achieve the SDGs. The 2023 G20 India presidency embraced this objective calling for actionable policy recommendations.

This paper shows that enhancing firms' ability to effectively manage their working capital can boost productivity, which in turn can positively result in sustainable and inclusive economic growth. This paper shows the impact that creating trustworthy and interoperable national payment platforms can offer. These are platforms that would be leveraging already existing technology and standards, based on two key components:

- Enabling counterparty identification by making wide use of the Legal Entity Identifier (LEI), while including digital documentation as a key factor in the process.
- Offering trusted and interoperable early payment platforms that match account payables and account receivables, leveraging technology with clear security and data protection requirements.

The resulting "GVC ecosystems" offer multiple benefits across both private and public grounds, and also aligns to this year's GPFI priority towards *"Financial Inclusion and Productivity Gains"*:

- Timely payments ensure effective working capital and cash flow management by firms.
- Effective and timely payments allow firms to enhance their liquidity and creditworthiness, reducing their relevant risk profile and the cost of their borrowing, given their improved payments track record.
- It strengthens financial stability as firms raise their credit standing and can borrow at lower costs.
- By ensuring that working capital is funded when, needed through early payments, the significant investments towards the G20 Sustainability Agenda will fund longer-term CapEx, as intended.
- Aligning account receivables and account payables will foster efficient Global Value Chains (GVC).
- Facilitating early payments can generate several millions of additional permanent jobs at a minimal cost for all parties, including governments, with consequent positive impact on economic growth.
- Platforms based on reliable certification increase transparency and traceability, contributing to financial crime prevention, such as money laundering or terrorist financing, and efficient sharing of ESG data.

India offers an excellent example of this approach, as it has been investing in this direction with positive results.

Recommendations to the G20

G20 Leaders should support trustworthy interoperable national early payment platforms structured on safe principles and requirements, such as the LEI, removing barriers to critical working capital and facilitating cross-border payments. By enabling such "GVC ecosystems" and contributing to properly improving working capital management, governments can make a tangible difference towards delivering on both sustainability targets and inclusive long-term economic growth across firms of all sizes, markets and regions. Focus is on raising productive firms' efficiency, rather than committing more, scarce, public finances.

Enhancing working capital availability will also enable SMEs, which continue to face financing gaps deepened by recent global health and energy crises, to participate in GVCs. This will allow them to access new markets and better engage in international activities, which is vital to enabling and expanding the critical role SMEs play in our economy and our communities, including important contributions to economic growth.

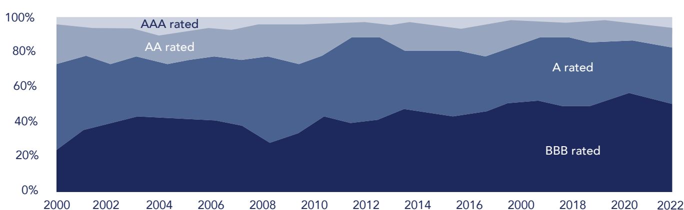
Following the example set by India in recent years, this framework can be implemented in stages, starting from limited dedicated environments (sandboxes) such as the very investments aimed at sustainability.

Chapter 1: Addressing working capital needs and payment efficiency to deliver both economic growth and sustainability

Context – firms face growing financing constraints from operating in an increasingly challenging economic environment, while needing to deliver on sustainability targets.

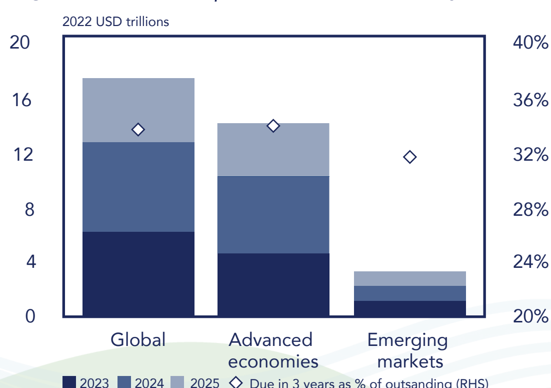
The combination of rapidly increasing input costs paired with consecutive interest rate raises has put pressure on firms' funding needs and costs, restricting financing options, especially for small and medium-sized enterprises (SMEs), which appear to have been left behind in the agenda despite being the largest employers globally. In conjunction with the highest interest rates seen in 15 years, a lending survey for small business run by the US Federal Reserve in April 2023 showed that credit availability has seen its largest drop in 20 years. The OECD also noticed a structural decrease in the credit quality of corporate bonds (Figure 1), a trend observed over the last 10 years and exacerbated by the recent health crisis, as well as the energy and food crises posed by the geopolitical unrest caused by the war in Ukraine.

Figure 1 - Investment grade corporate bonds issuance



Source: OECD Capital Market Series Dataset, Refinitiv

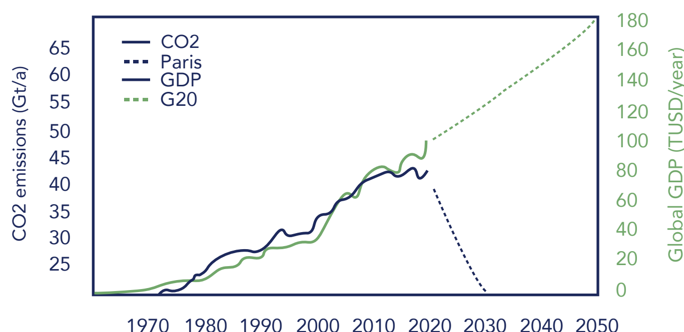
Figure 2 - Redemptions in the next 3 years



Source: Refinitiv, OECD calculations.

To deliver the ambitions set by the G20 Sustainability Agenda, significant longer-term investments are needed, estimated in over USD 9 trillions per year, globally [McKinsey, 2022]. This will not be easy at a time when governments face significant funding challenges as debt levels balloon worldwide, especially in developing countries, and sovereign issuers have to refinance 35% of the total outstanding marketable debt within the next 3 years (Figure 2), at higher interest rates.

Figure 3 - Growth vs, Net-zero commitments



The challenge faced globally is evident, and eloquently outlined in Figure 3 by H. Nordborg ["COP is a Planned Failure", 2022], showing the net-zero objectives vs. the G20 nations global growth target of at least 2%. **To address this discrepancy, funding resources alone will not be sufficient, it is critical to focus on firms' productivity and efficiency of their processes.** Policymakers need to strive for comprehensive and complementary policies and mechanisms that aim at targeting inclusive economic growth, productivity and stability as core objectives.

The **OECD** in its 2022 "SME Scoreboard" has called for governments to consider mechanisms to foster diversification of SMEs' finance instruments [OECD, 2022]. The Indian **G20** presidency in April 2023[1] raised the need to create ***"mechanisms** for mobilisation of timely and adequate resources for climate finance*" as a priority, underscoring the need for developing an **ecosystem** for green finance as a catalyst for private investment, which "*needs to be scaled up significantly to enable countries to follow their low-emissions development pathways*" and the role that consistent taxonomy and financial disclosures requirements would play.

[1] 2nd G20 Finance Ministers and Central Bank Governors Meeting 12-13 April 2023, Washington DC. Session 2: Sustainable Finance, Financial Sector & Financial inclusion.

An example of such mechanisms would be to deploy policies to **bolster the working capital of firms across their Global Value Chains (GVCs).** Efficient GVCs [B20-BIAC, 2020] can ensure timely payment flows and support the optimisation of working capital on the buyer side, while generating operating cash flow on the supplier side. In turn, they enable domestic commercial activity providing working capital to local businesses, that are critical especially for middle-income economies facing proportionally higher financing gaps.

The Sustainable Growth Propeller, a framework to deliver sustainability and economic growth

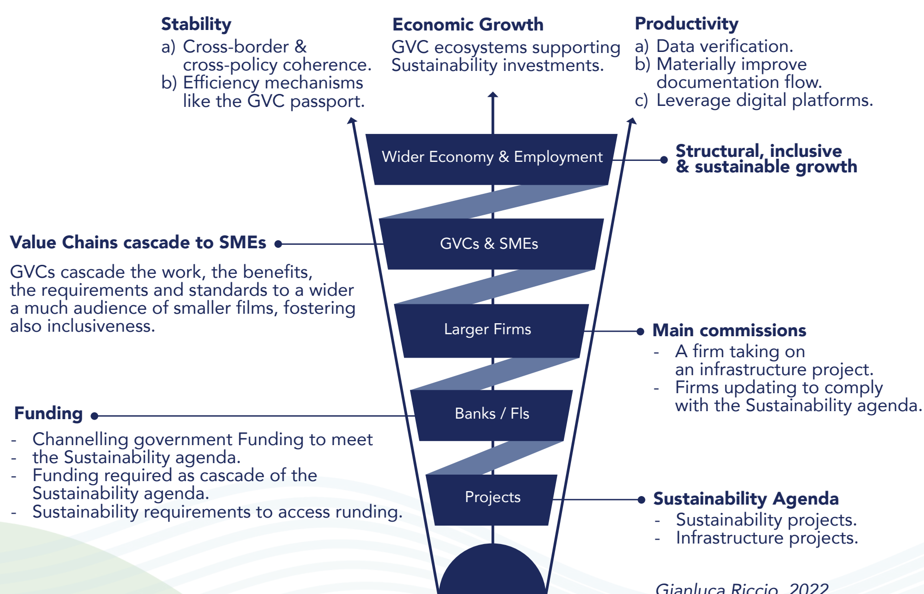
At the G20 Indonesia, the B20, the *Business at OECD* (BIAC) and the International Organisation of Employers (IOE), published a joint paper [B20-BIAC-IOE, 2022] that proposed a dynamic conceptual framework of concrete actions in support of sustainability, advancing the work of previous presidencies. This framework, named **"Sustainable Growth Propeller"** (figure 4), envisions a balanced approach aimed at raising efficiencies by reducing bureaucracy while increasing transparency and traceability, and facilitating firms' access to wider markets.

The paper proposed an inclusive framework that could deliver environmental objectives as well as economic growth within environmental and social boundaries, and therefore maximising social sustainability and generating a lasting virtuous circle. Environmentally led investments underline the need to test innovative ideas and to facilitate payments and working capital, making them more efficient throughout GVCs, across both borders and sectors, which in turn can act as a durable flywheel that sparks employment and know-how, aiding social sustainability. The "Sustainable Growth Propeller" concept offers a powerful enabler towards delivering on the Sustainability Agenda, and simultaneously fast-tracking inclusive economic growth and job creation. It focuses on the need to coordinate and integrate three aspects: Stability, Productivity, and Economic Growth.

This paper focuses on the Productivity aspect of the framework – specifically, the challenges faced by firms in terms of **working capital and payment efficiencies. It outlines how removing obstacles and cumulative burdens to firms by effectively managing their working capital can boost productivity, which in turn can positively induce economically sustainable and inclusive growth.** Improving firms' productivity in delivering on the Sustainability Agenda is a perfect example of concrete policy intervention to aid economic recovery while fostering progress towards environmental targets: a win-win opportunity.

The G20 has made enhancing cross-border payments a priority, since the Saudi Arabian presidency in 2020. This paper builds on this by addressing the four key G20 challenges of **cost, speed, access and transparency,** and thereby suggesting concrete actions to create a safe, secure and transparent payments ecosystem: a must-have to unlock much-needed working capital. It shows that by addressing just one aspect of productivity, a significant positive multiplier effect can be achieved in respect of both economic growth (and employment) and net-zero targets. Therefore, the gap highlighted in figure 3 can be partially addressed: improved productivity coupled with cross-border and cross-policy **harmonisation,** to reduce firms' cumulative regulatory burdens throughout GVCs, will offer a more stable, coherent, and inclusive operating environment, a "must" to achieve sustainability objectives.

Figure 4 - Sustainable Growth Propeller

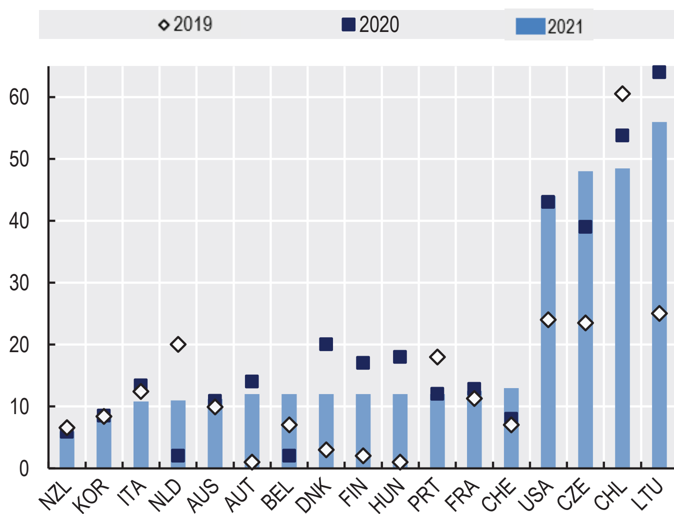


Working capital and payments across GVCs: addressing a long-standing low hanging fruit that can offer a multiplicative virtuous effect in productivity

Payment and settlement systems are the backbone of any economy. Globally, the overall value of account receivables is huge, in the order of USD 30 trillions on any given day[2] . Moreover, the average lag in account payments is very long (in the US, 62 days on average, according to a survey by Hackett Group Working Capital). These are accounts payable of someone else. Firms manage cash flows and working capital, trying to plan so that those receivables are paid at the "right time", minimising both their liquidity and credit needs and risks.

"Right time" does not only mean the time when the payments are legally due, a frequent challenge in itself, but rather **when the firms actually need liquidity** to fund predictable and unpredictable needs, with cascade impacts on the overall economy [ECB, 2015]. It is at the core of any firm management to have sufficient funds at the time of need, minimising both liquidity and credit risk. The two main levers are cash and financing (debt, or even equity). However, there is an additional source that should be efficiently operated: accounts receivable.

Figure 5 - Payment delays by country



Source: OECD, Data compiled from individual country Scoreboards.

The OECD Scoreboard [OECD, 2023] shows that in 2022 **inflation negatively affected payments,** with consequences in firm growth, following a positive trend in 2021 (figure 5). In fact, four in ten companies in Europe reported that late payments diminished their growth, and 26% indicated this is threatening their survival [EC, 2023]. Looking at **France** for example, **inter-company credit** totals Euro 700 billions [MES, 2021], pointing to the fact that the cash flow of SMEs was deprived of around 20 billion Euro in France alone in 2018, due to the surge of late payments.

France averages 11 days delay in meeting payments. By a similar token, in 2022, the **UK** government estimated that SMEs had GBP 23.4 billion outstanding with an average 8.2 days' delay in the UK 6.5 in **Australia** and 6.2 in **New Zealand**. Delays increase considerably in less efficient economies. The ICAEW notes that SMEs routinely struggle to receive payments on time from their creditors, leading to their working capital problems, jeopardising their future. As a result of late payments 37% of UK SMEs have applied for credit to manage their cash flow[3]. According to a survey, **1 in 10 invoices are paid late,** costing SMEs to the tune of $3 trillion globally [Bloomberg, 2017].

The vicious circle that curtails growth and investments towards sustainability

The International Finance Corporation (IFC) estimated that 70% of SMEs' credit needs are towards financing working capital requirements [IFC, 2018]. The **liquidity deficit** caused by delays in invoice payments forces many SMEs to find alternative funding sources, at a higher cost given the urgency of their needs, or even the default in extreme cases. Such deficit poses a risk across the wider economy, curtailing growth opportunities.

Additionally, the recent crises (either health, food or energy related), and the successive measures to address them, have further evidenced strong tensions around the issue of payment deadlines, and the poor behaviour of some economic actors across their respective **GVCs.** The COVID-19 pandemic has also highlighted the world's considerable interconnectedness and dependence on **GVCs.** Disruption in GVCs does not only have an immediate negative economic impact, but also creates severe long-term damage to the economic fabric of our societies with many firms facing shrinkages of their own markets.

Larger firms worldwide have been increasing cash on their balance sheets, resulting in further extensions of payment terms, mostly affecting SMEs, the weakest link of the chain. Lending and supporting programs launched by governments globally were effective at the time of crisis, but are extraordinary in nature and if prolonged, will only mask the underlying structural issues. Such programs have often shown core limitations: too little, too late. Public funds will be insufficient to cover firms' full needs, and accessing them has proven difficult for SMEs.

[2] With USD 7.5Tr in receivables in the USA [Fed, 2023], and the US share of GWP at 25%, the global estimate would be USD 30 tr.
[3] https://www.credit-connect.co.uk/news/52-of-small-businesses-experience-late-payment-delays/ .

Chapter 2 – Concrete steps to achieve efficient and effective working capital and payments

To turn a vicious circle into a virtuous one, it is critical that **G20 Leaders support firms' working capital needs by backing mechanisms** that remove obstacles and cumulative burdens preventing firms from accessing payment in a timely manner. Both governments and private players need to enhance access to and use of payment platforms, with more efficient interoperable information and data networks. Innovation must be at the heart of regulatory policy-making as it drives improvements in productivity and sustainable economic growth. Aptly, technological transformation through digital public infrastructure (DPI) is a key priority of the G20 Indian presidency.

In 2018, under the G20 Argentinian presidency the B20-BIAC joint paper [BIAC-B20, 2018], called on the G20 to *"establish coordinated strategies"* aimed at *"fostering timely payments"*. We reiterate that ask, which is now gaining momentum driven by improvements in payment technologies across countries in the last decade.

Indeed, ***the OECD "Recommendation of the Council on SME Financing",*** published in June 2023 [OECD, 2023c], points to the need to *"encourage timely payments in commercial transactions and public procurement"* and recommends towards *"digital payment systems that support SMEs through safer and timelier payments"* as an opportunity to *"enable SMEs to access diverse non-traditional financing instruments and channels"*.

Following the "Sustainable Growth Propeller" framework, by strengthening firms' access to working capital while maintaining regulatory compliance, the **Sustainability Agenda can generate a flywheel effect** that starts with individual projects and delivers economic growth and employment, which is structural and inclusive.

Data is a key asset in today's economy. **Data fragmentation** causes delays in processing payment transactions [FSB, 2019a]. Fragmented use of data fields within payment messaging standards, lack of a single understanding on data fields, lack of interoperability and thereby the need for translation to convert data into the same understanding perpetuate inconsistent data usage along the end-to-end payment chain.

Therefore, consistent and standardised **data and relevant technologies play a crucial role** in creating trusted sources of **standardised payment information across GVCs. ISO 20022** is an open global standard for financial information: it provides consistent, rich and structured data that can be used for every kind of financial business transaction. **ISO 20022 payment messages** hold much richer data compared to current equivalent message types, they can be used as baseline to enable safer, seamless and more efficient flow of goods between digitally interconnected trading partners (vs. loosely connected in traditional processes). They require agreed upon encryption standards and mechanisms and data protection rules in line with national jurisdictions to ensure they can be trusted on a long-term enduring basis, while also ensuring transparency and payment "traceability".

To **foster innovation and interoperability,** governments can enhance the regulatory environment by adapting existing rules to new technologies to ensure that they are fair, predictable, consistent, easy to enforce and administratively efficient throughout the process. Compliance can be achieved by creating a more harmonised and interoperable ecosystem, less costly and less complex, thus improving **transparency and traceability.**

It is, however, not just a question of public policy and regulation. Commercial decisions also affect the evolution of the global payments landscape. The "Sustainable Growth Propeller" is a concept intended to be an aspirational long-term vision to enable firms to participate in and take full advantage of GVCs, minimising burdensome and too often duplicative processes. **This paper takes a concrete step forward** by proposing actions, which, if consistently adopted, can bring significant benefits in timely payments and efficient working capital, while also strengthening compliance and traceability **across the GVC.** The action items outlined in this paper are aimed at all firms, but may particularly benefit SMEs who face disproportionately higher cumulative regulatory and administrative burdens relative to their resources, as well as a tougher borrowing environment.

We propose actions across two core steps relating to payment processes:

a) Enabling **counterparty identification** by making wide use of the Legal Entity Identifier (LEI), while including **digital documentation** as a key factor in the process.

b) Offer **trusted and reliable payment platforms** leveraging on technology with clear safety and data protection requirements to facilitate timely payments.

a) Leveraging the LEI for reliable counterparty identification

It is frequently thought that to access funds, data need to be shared across parties and jurisdictions. Particularly on the compliance front, most often what is needed is a confirmation or better verification that the information provided is correct. Therefore, the effective enabler is in promoting **data verification** as a worldwide standard. A verifiable credential is cryptographically shared between peers at the edges of the GVC network to ensure the underlying data is protected and not itself shared. Businesses and governments have a shared interest in identifying who controls corporate entities, i.e. knowing who is the ultimate business owner or controller. Investors must be able to quickly and reliably identify the entity and the entity's subsidiaries in which they are investing, as increasingly required by legislations, e.g. all UK entities on the public register since 2016.

This paper **recommends that the G20 makes the LEI**[4], a globally recognized, open, legal entity identification standard without data privacy concerns, **as the global identification standard for financial transactions, including within payments initiation and processing orders across GVCs,** to remove the Know-Your-Customer/Supplier (KYC/KYS) and further identification costs to firms and enable supervisors, financial institutions and businesses to fight financial crime more effectively. Corporate treasurers highlight that the LEI helps to eliminate data duplications for both clients and financial institutions. Broader use of LEIs would also reduce the time spent on data correction and reconciliation, which are both time-intensive processes for treasury managers. This paper progresses the work started in 2020 by the B20 and BIAC proposing the **"GVC Passport"** concept [B20-BIAC, 2020], aimed at providing an authenticated, authoritative, **verifiable financial fingerprint** of a given entity, enabling it to operate within GVCs without the need to reproduce the same documentation on multiple occasions, allowing it not to undergo duplicative verifications.

Indeed, making the LEI a mandatory unique global identifier for all relevant parties in the **ISO 20022** message, where there is a legal entity (B2B/B2C/C2B), enables a digitally interoperable secure, transparent and traceable payment chain for all parties, regardless of jurisdiction, **greatly aiding KYC and AML processes.** An almost **real time data verification and validation** of transacting parties enables the objectives of the G20 cross border payments initiative: lower cost, higher speed, and more transparency within payment messages, while also reducing operating costs and risks for Banks. The LEI connects a greater range of data sets and captures different relationships, also addressing the challenges faced in monitoring systems from inconsistencies in how entities are identified, and therefore supporting Anti-Money-laundering efforts[5].

The **LEI is a worldwide unique identifier** intended for identifying parties in any financial transaction by equipping legal entities with a global digital identity. It enhances interoperability and faster tracking in digital finance applications and payments, ensuring unique identification and rigorous verification of parties involved, with greater precision and transparency[6]. High data quality, speed and transparency, are **all aspects** that the **G20 enumerated.** This means unlocking **interoperability** across different payment platforms, hence reinforcing competition and innovation in the payments' landscape, and ultimately unlocking working capital for firms, as well as advance efforts to fight financial crime.

We have reviewed the LEI in detail in the B20-BIAC-IOE paper [B20-BIAC-IOE, 2021], under the G20 Italian Presidency. Currently, there are over **200 jurisdictions where is it registered and this makes the LEI as a truly global solution.** The LEI is embraced by regulators in G20 jurisdictions under the *Regulatory Oversight Committee* as a solution to identify counterparties in capital markets.

Some jurisdictions already require LEIs within their cross-border payments designs.

- **India** requires all entities to provide it for large value transactions (above USD 6 mm), undertaken through the National Electronic Funds Transfer (NEFT) and Real Time Gross Settlement (RTGS payment systems for domestic payments. There is a separate mandate for cross-border payments where banks are advised to capture and validate LEI for large transactions (above USD 6 millions).

- **The Bank of England** requires it for all financial institutions using CHAPS, as a start, from 2024 with transition to ISO 20022.

[4] Created and managed by the GLEIF (Global Legal Entity Identifier Foundation), https://www.gleif.org/en/about/this-is-gleif.
[5] Project Aurora – the power of data, technology and collaboration to combat money laundering across institutions and borders, June 2023.
[6] Some examples include identification of large corporate borrowers in India, parties in payment messages in India and UK, import/export firms for customs in China and the United States, and funds in asset management and insurance in the EU.

• In the **EU,** the European Systemic Risk Boardhas called on the European Commission [ESRB, 2020] to create an EU legal framework for broader adoption of the LEI for non-financial corporations and to consider it in any new or amended legislation. Within the proposed **instant payments framework** within the EU, the European Central Bank highlighted the beneficial role LEI could play in the context of screening checks regarding Union sanctions and as a global identification standard for counterparts in respect of the discrepancy checking service [ECB, 2023].

• In **China,** Cross-border Interbank Payments System (CIPS) designed the "CIPS Connector", which provides an integrated "one-step" service for a variety of cross-border RMB transactions between banks and enterprises. Every CIPS Connector user is assigned a LEI, which is used for activating the tool as well as a mandatory business element in their business transaction. By incorporating financial data exchange standards such as LEI CIPS Connector addresses challenges such as lengthy path, extended cycle, and low efficiency, when making overseas RMB remittances [CIPS, 2022].

• Both the Asian Development Bank and the African Development Bank confirmed the usefulness of the LEI for creating a standardized, reliable, global identity to:

i) Mitigate the risk for the correspondent bank - customer relationships being de-risked;
ii) Increase SMEs' access to finance by easing the flow of reliable information; and
iii) Reduce costs by promoting financial technologies, blockchains and similar platforms.

The LEI complies with **ISO 20022** standard[7]. This new payment messaging standard creates a structured and consistent way of enabling straight-through processing with less need for manual intervention and promoting international harmonisation for cross-border payments. This will result in **greater interoperability** across systems of different jurisdictions. **However,** its success depends on the agreed **structured data fields** within the message. As highlighted in previous B20-BIAC-IOE papers, the industry needs a truly **reliable global counterparty identification** scheme, versus accepting multiple domestic ones, in order to operate effectively throughout the GVC and more easily comply with AML and KYC processes.

The FSB's focus onto cross-border payments in order to meet the G20 objectives led it to **recommend enhancing the use of the LEI** [FSB, 2023] as a priority. It can also aid in assisting entities with KYC due diligence (consistent with FATF recommendations [FATF, 2021]). The FSB recognises the benefits that users gain with a single identifier in speeding up due diligence activities and enhancing payments' safety, as outlined by a 2022 survey. In the survey users went even a step further, suggesting it to be used globally as an accepted credit scoring profile, so creating a more level playing field [FSB, 2022].

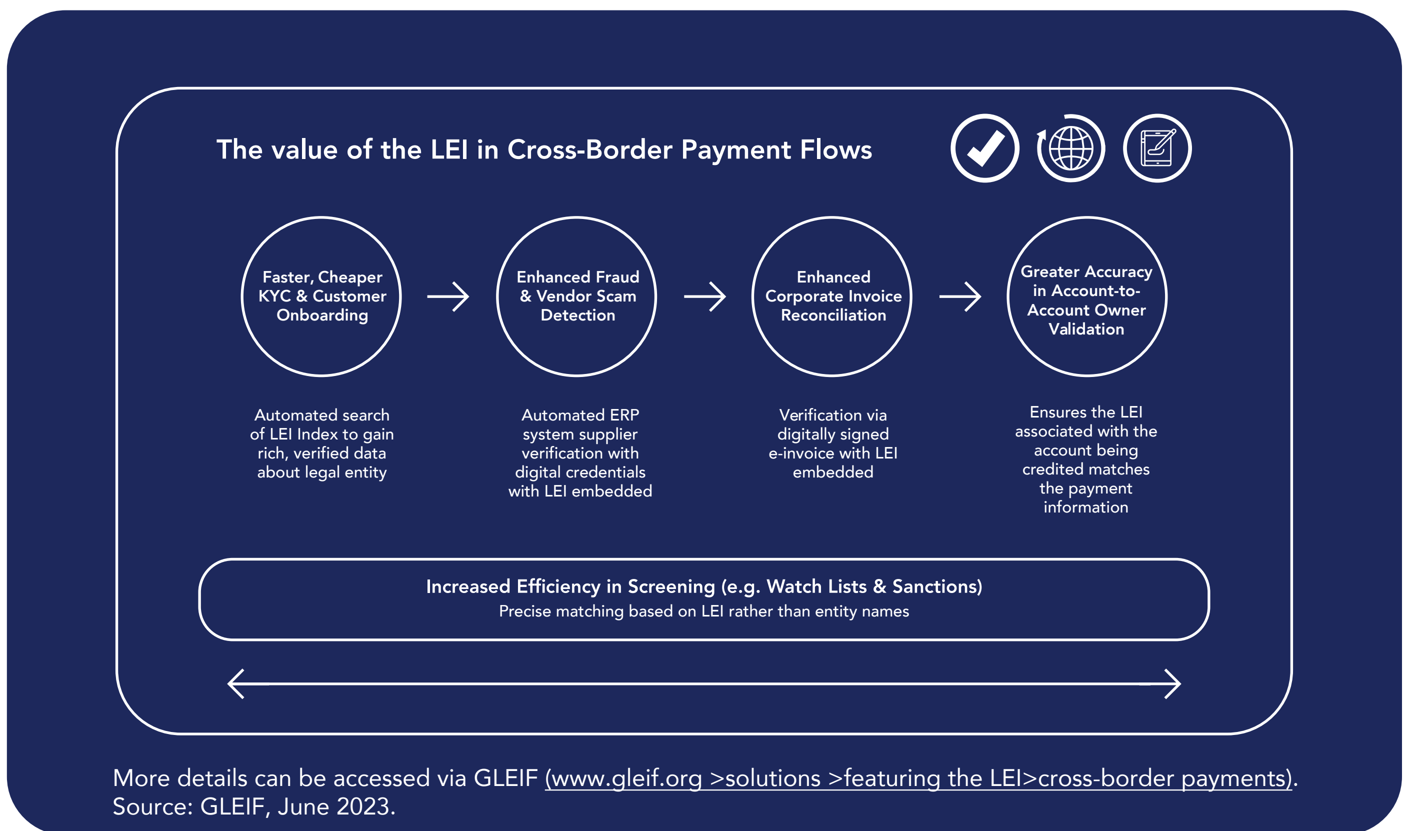
Box 1 - Financial Stability Board, GLEIF and Payment Industry Leaders illustrate the value of the LEI in Cross-Border Payment Flows

In support of the goals of the G20 roadmap, the FSB deemed that the LEI could help make cross-border payment transactions faster, cheaper, more transparent, and more inclusive, while maintaining their safety and security. Subsequently, in 2023 the FSB asked GLEIF [FSB, 2023] to collaborate with leading payments industry stakeholders to provide clarity, through examples, on how the LEI can deliver value within cross-border payment flows.

GLEIF has been working with multiple partners to demonstrate the value the LEI brings to both non-financial corporates and financial institutions when transmitted in cross-border payment flows. As a result, **five key use cases** have been defined: (1) screening (watch lists and sanctions); (2) KYC and client onboarding; (3) fraud detection and fight against vendor scams; (4) e-invoice reconciliation; and (5) account-to-account validation.

Outcomes – All payment industry **participants agreed** that by embracing an LEI-based system where legal entity identification can be unequivocally assured, in an open, interoperable, and instant digital format, all stakeholders would be able to transact with far greater confidence and efficiency. Most importantly, the opportunities for financial criminals to cheat the system will be **dramatically reduced on a global scale.**

[7] **Eurosystem** in March 2023 switched its real-time gross settlement to T2, aligned to ISO 20022.



More details can be accessed via GLEIF (www.gleif.org >solutions >featuring the LEI>cross-border payments).
Source: GLEIF, June 2023.

b) Early payments' platforms – matching account payables and account receivables

Such a framework offers an efficiency opportunity to **maximise the use of existing data,** while protecting participants' data and avoiding the unauthorised sharing of underlying confidential information. When **applied to payments,** a permissioned ledger can **improve operational efficiency** enabling a safer, cheaper and more seamless flow of funds between digitally interconnected partners, compared to loosely connected participants of traditional processes. This will ultimately align, and ideally match accounts receivable and **accounts payable across firms throughout the GVC.** This ensures "timely" payments, i.e. those that arrive when firms need the cash flows, therefore improving **their working capital.**

Innovation in payment processing and fund transfers has seen the rise of intermediaries that facilitate payments between payers and recipients. **Digital payment platforms** do not simply have to encompass wide storage systems, but help to structure data, eliminating data silos, creating trusted sources of standardised information to be used by all GVC participants. They eliminate friction and provide value-added services to participants, therefore favouring inclusion, but they **require uniformity** in the implementation of user onboarding processes and transparency in operations of such intermediaries. If they are properly structured to satisfy regulatory and compliance requirements, they **can facilitate both the access to financing** set for example to meet both the Sustainability Agenda, and the transparency required by governments and investors, by providing a **transparent, traceable, immutable, reliable and auditable infrastructure** to seamlessly and securely exchange cryptographic keys.

Structured with the required access permissions, a digital payment platform can be used as **infrastructure to identity attestations,** providing participants with proof of authenticity and origin for the required documents. To ensure data protection and safeguard business confidentiality, it is important to design platforms where the underlying data itself does not need to be shared, but where the digital infrastructure allows for data to be nonetheless **verified,** to ensure that the reported information is correct and compliant with the relevant requirements – such as the use of zero-knowledge-proof technology. This is why it is critical to ensure compliant onboarding before transactions happen on the infrastructure, assuring unique and unambiguous identification of the legal entities, leveraging the above-mentioned and globally standardised LEI. It is therefore of **paramount importance that adequate requirements and encryption mechanisms** are set and implemented consistently across jurisdictions to help ensure that payment platforms can be properly

trusted and cybercrime prevented; thereby also taking forward the Bali Fintech agenda[8].

Such platforms do exist today. C2FO, Taulia and Tradeshift PrimeRevenue, are examples of global platforms where technology supports collaboration across GVCs and increases the available supply of working capital. For example, the C2FO platform has over 2 million suppliers in its network and has provided more than USD 280 billion in funding to users around the world, by ensuring that companies' invoices are paid at the "right time".

Firms can maximise their financial efficiency: a win-win "price" across the GVC

How does it work: Large enterprises provide their unpaid invoices – that is, their accounts payable – and available liquidity via the platform. Their suppliers (i.e., the firms that are owed money) can use the platform to accelerate payment of their invoices in exchange for a small discount, the **"price".** Doing so allows them to access working capital faster and, more importantly, at the time they need it; in the needed currency (either the invoice's currency or anyway a currency issued by a central bank).

Suppliers, which tend to be SMEs, but may also be larger firms, are able to receive payment in a matter of days instead of weeks and months (in recent quarters, C2FO for example has been able to accelerate payment by an average of 31 days). The discount (price) is beneficial to all players:

- **Creditor perspective** - Accepting a discount on unpaid invoices that would **cost less** than what suppliers would pay to borrow money; If the discount "price" happens to be higher to those of borrowing, which will still be available, making firms never worse off. Also, the creditor doesn't have to complete any cumbersome loan paperwork, KYC or other challenging regulatory burdens, further reducing costs.

- **Debtor perspective** – The discount "price" applied **is more** than they would receive in interests while holding such funds in a current account. Debtor firms on their end can minimize superfluous liquidity retained to meet upcoming invoices due, reducing the opportunity cost of holding such funds, and receiving a "return" for early payments, higher than any short-term deposit Interest may be earned.

- **The GVC amplifier effect** - Each company has multiple creditors, and therefore releasing those payments efficiently would generate a one-to-many amplifier effect, getting even greater for large corporates vs. SMEs, releasing funds and productivity through the GVC and system overall. Cash flow needs deep inside a GVC would be solved for the bigger firms at the top of the chain and those in between. Then those would push liquidity through their suppliers to lower-tiers suppliers, and so on.

Thanks to the efficient time alignment between accounts payable and accounts receivable, **advantages to firms' productivity** are considerable, maximising the financial efficiency of both creditor and debtor, in terms of borrowing and liquidity costs respectively.

Firms' risk management: reducing both liquidity and credit risk, as well strengthening compliance, efficiently and effectively

It is important to appreciate that being able to align working capital needs of firms with their outstanding account receivables being paid reduces the risk of firms facing liquidity shortages, and reduces the credit risk of their creditors. This can create immediate relief for the world's SMEs to the tune of trillions, without causing them to have to borrow, reducing liquidity and credit risks for them and the overall economic system. Companies with a stronger payments' track record can improve their access to credit lines based on transaction frequency and volumes[9]. As a result, these firms' **creditworthiness** increases, reducing credit risk across the GVC and across the economic system, benefiting participating firms' **access to finance for longer-term investments.**

In short, it generates a virtuous circle: the more reliable data brought by the payment platform contributes to improved quality of **credit risk assessments** [ICC, 2019], further benefiting the firms' access to finance.

Payment platforms combined with LEI standardisation raise traceability, therefore **facilitating compliance** with relevant regulations, and offering tax administrations an opportunity to streamline their processes, and also contributing to emerge **informal firms.**

Reduction of liquidity risk, strengthening of creditworthiness and streamlined compliance processes are massively important for MSMEs, new firms or minority-owned and female-owned firms, rapidly growing firms, and those struggling, who face the most difficulty securing loans and credit.

[8] International Monetary Fund (IMF) and World Bank launched the Bali Fintech Agenda [IMF, 2018]: 12 policy factors aimed at supporting countries to harness benefits and opportunities in financial technology, while managing risks.
[9] Embedded finance is emerging as huge potential to reach and provide financing to MSMEs leveraging e-commerce platforms which rely heavily on payments data collected from their platforms and partnering with banks to extend credit to MSMEs.

activities and enhancing payments' safety, as outlined by a 2022 survey. In the survey users went even a step further, suggesting the LEI to be used globally as an accepted credit scoring profile, so creating a more level playing field [FSB, 2022].

No lending: difference between payment platforms and shadow banking

Importantly, ensuring timely (or early) payments **extinguishes the credit need**, rather than shifting it to other economic players (factoring) or into other securities (securitisations), and shadow banks that may be also offering products to fund firms' working capital needs.

Shadow banks raise short-term funds in the money markets and use those funds to buy assets with longer-term maturities, but they are not subject to traditional bank regulation, hence they are in the "shadows." Since 2011, the FSB, under the G20 mandate, has conducted a monitoring exercise to examine all non-bank credit intermediation. The original results were rough because they used a catch-all category of "other financial institutions", but now the FSB also examines shadow banks by "function" rather than by entity.

Payment platforms are not shadow banks, as the objective is to "close" the invoice, not to fund its payment. This difference is of critical importance, as the objective is to ensure that firms get paid efficiently by their debtors, not third financing parties, so use their credit capacity wisely for their investments towards growth, typically longer-term, rather than to lock credit into their working capital needs. **Payment platforms are complimentary** to the banking system, rather than alternative, which is not the case for shadow banks.

c) A "propeller effect" towards Employment, Growth and the Sustainability Agenda

The ECB in 2015 reviewed the impact of public payments on growth, concluding that increased delays do affect liquidity and hence ultimately economic growth [ECB, 2015]. Working capital can amount to as much as several months' worth of revenues, which is not trivial. Improving its management can be an effective way to free-up needed cash [McKinsey, 2019]. The ECB concluded that effective and timely payments allow firms to enhance their liquidity and creditworthiness, which also benefits banks having raised the credit standing of their clients, and shifting their lending towards proper CapEx investments, with longer maturities. Such a shift from short-term to longer-term credit offers higher net profit ratios towards more solid customers. Therefore, payment platforms accelerating invoice payments are **complementary to Banks, not competitors.**

Taking a step further, **benefits expand** from the banking system **towards the Economy as a whole:** besides greater resilience, managing cash properly allows firms to finance growth, invest for holistic transformation efforts, and improve capital-return ratios. Both large and small firms, that are more solid in meeting their obligations and also able to invest towards growth contribute to job creation and economic growth.

Employment - Studies have shown that a fall in the need to finance working capital has material effects on job creation [Barrot-Nanda 2018] and is progressively stronger for small, labour-intensive firms [IMF, 2017]. Analyses run by the IFC in developing countries indicate that every million dollars loaned to SMEs is associated with the creation of an average **16.3 new permanent jobs** [IFC, 2021]. Since 70% of funding needed by SMEs is used to meet working capital needs, it is not surprising that other research indicates that nearly **20% of every new dollar of working capital for SMEs leads to improved salaries and job creation** [Barrot-Nanda 2018].

Given the SME funding gap of over USD 5 trillion (over USD 8 trillion adding informal MSMEs)[10] [IFC, 2021b] or the outstanding accounts receivables of USD 30 trillion, the ability of facilitating early payments can generate several **millions of additional permanent jobs** at a minimal cost for all parties, including Governments.

Economic Growth – taking a step further, the "rule of thumb" of Okun's Law states that when unemployment falls by 1%, gross domestic product (GDP) rises by 3% [Furhmann, 2022]. In 2013, the Bank of Italy estimated a positive impact on economic growth between 0.5% and 0.7% of additional resources targeting working capital [BoI, 2013]. A study started in 2022, conducted by the McKinsey Global Institute together with C2FO, on the improvements of working capital on GDP. Results so far have been compelling and consistent: in each national economy McKinsey analysed, an effective national platform for working capital built along the lines of described in this paper would **increase both GDP and employment**. In a large country like Mexico, the research shows that a working capital platform with national scale can contribute to unlocking up to 1.1% of GDP and up to 1.3% employment growth. In a small country like United Arab Emirates, these can go up to 3% and 5%, respectively.

[10] This is limited to developing countries. The finance gap attributed to formal MSMEs is equivalent to 19% of the of the 128 countries developing countries, and compares to the current credit supply of $3.7 trillion.

To summarise, developing **"GVC ecosystems" built on trustworthy interoperable National Early Payment Platforms** structured on the basis of safe principles and requirements **will benefit all players,** including paving the road to enhance SME participation in GVCs. Ultimately, at scale, it could produce a few trillion US dollars of new annual economic benefit globally, all while simultaneously creating a base of data network benefiting all participants, e.g. increasing inclusion and access to new markets. Additionally, reliable platforms based on reliable certification can contribute to financial crime prevention, such as money laundering or terrorist financing, which are ever growing risks in trade where criminals use a legitimate trade to disguise criminal processes.

It is important to note that this paper is not intended to unequivocally establish the direction of causality from "access to finance" to "job creation". This is a big issue in the literature, and it is something that is not easily overcome [Ayyagari et al., 2016]. This paper highlights the presence of a **significant low hanging fruit,** that can be addressed today thanks to existing technologies and frameworks, if brought together through **interoperable national payment platforms.** Given that countries face fiscal limitations, a focus on high growth, more productive, firms is recommended. Companies in productive sectors e.g. agriculture, manufacturing and those leveraging technology can ensure a wider multiplier effect through their suppliers [Goswami et al, 2019].

To this extend interoperable early payments' platforms can prove very valuable to the work of Multilateral Development Banks (MDBs), as they can offer a multiplier effect for their investments: supporting the development of a much wider range of firms to those initially targeted. A good example is provided by a EBRD investment in Turkey: in 2022 Arçelik, a global manufacturer, launched an early payment platform with C2FO to respond to the working capital needs of its suppliers. In the first 15 months, Arçelik allowed its suppliers to access cash earlier for more than USD 170 million, averaging 70 days. The fresh cash flow contributed to a long chain multiplier effect throughout the GVC; and it also helped to improve the financial literacy and working capital management of SME suppliers, through a training and advisory program designed by the EBRD.

Skills – The strong need for **capacity and infrastructure building** to boost paperless use across countries and across firms should, however, not be underestimated. MSMEs may lack access to the platforms or have to pay high usage rates. Even with proper infrastructure and access, MSMEs may not have **the digital skills** (and might lack the capacity to allocate time or budget to invest in training) to use new IT systems or services or be able to maximise the advantage of going paperless. Indeed, a joint IOE-ILO-KAS research [IOE, 2021] shows that after considering external factors, the major impediments for SMEs to tap into the possibilities of digitalisation are the lack of digital infrastructure and digital capabilities.

d) India, a successful real-life example[11]

India offers an excellent case in point. MSMEs in India experience material difficulties in accessing formal finance (the IFC in 2018 estimated that 70% is attributable to the working capital needs) despite contributing about 30% to India's GDP and creating opportunities for the 90 million workers looking for jobs by 2030.

To tackle these challenges, India has invested significantly in tackling payment delays over the last decade and now offers tangible results of the potential that can be achieved by a framework akin to the one outlined in this paper. As part of this effort, the **Reserve Bank of India (RBI)**, under the Payment & Settlement Systems Act, 2007, has endeavoured to ensure that India has **'state-of-the-art' payment** and settlement systems that are not just safe and secure, but are also **efficient, fast and affordable.** The payment systems' development has been guided by RBI's vision since 2002 and updated regularly. The latest vision document outlines the road map for the three-year towards 2025 [RBI, 2022]. The vision is to "provide every user with *Safe, Secure, Fast, Convenient, Accessible, and Affordable* e-payment options", building up on the successful journey to date.

RBI has issued instructions for regulating the activities through **payment aggregating platforms,** while providing baseline technology-related recommendations such as increasing LEI usage for large value cross-border and domestic payments. RBI envisions to broaden scope, usage and relevance of LEI in all payment exploring usage in areas like sanctions screening, KYC, corporate invoice reconciliation, fraud detection, etc.

RBI assesses the vision achievements regularly. These reveal positive outcomes such as an **accelerated use in payment systems,** ushering introduction of new and innovative systems, distinctive shift from paper to electronic payment modes, sizeable increases in transaction turnover, customer centric initiatives, international recognition, etc. When quantitatively measured, digital payment transaction turnover to GDP in India increased from 7.14 in 2016 to 8.42

[11] The Economist: "How India is using digital technology to project power", 4th June 2023.

in 2018 [RBI, 2019]. From a **platform perspective,** based on research from the National Bureau of Economic Research [GAME-C2FO, 2023] it has been estimated that a global platform for working capital dispensing credit underwriting altogether, can help create over 50,000 jobs in the United States alone over a period of eight years, assuming that 10% of every dollar accelerated would be directed toward a small business's payroll.

This real-life example shows that putting in practice a framework with the characteristics highlighted in this paper delivers benefits to all parties, making it a true win-win. India is an excellent example also from an **international perspective** as it is the world's largest recipient of in-bound remittances. Enhancing other countries' payment platforms, across the globe along the same line of creating **working capital payment platforms** at national level could accelerate growth in international trade with partnering countries while reducing speed and cost of remittances, with benefits domestically in terms of growth and employment.

Chapter 3 – Recommendations and next steps

To solve firms' need for working capital, G20 Leaders should support **"GVC ecosystems" built on trustworthy interoperable National Payment Platforms structured on safe principles and requirements alongside an interoperable, efficient and standardised payment ecosystem based on unique identification of parties with the LEI.** Doing so would allow firms, suppliers, and public administrations (too frequently among the least efficient payers) to increase efficiencies, while ensuring that committed Sustainability Agenda funding goes towards the investments it is intended for, rather than finance short-term needs. This could propel benefits, such as higher levels of employment, across the global economy.

Additionally, this recommendation fully aligns with this year's **GPFI** priority[12] under the India Presidency of *"Leveraging Digital Public Infrastructure for Financial Inclusion and Productivity Gains"*[13], defined as interoperable, open and inclusive systems supported by technology and designed to provide benefits in terms of innovation, competition, productivity and resilience of MSMEs, highlighting the importance of payment systems and beyond to the entire ecosystem.

If it feels excessive to immediately apply the concept to the whole economy, the RBI's Working Group Report on FinTech & Digital Banking (RBI, 2017] recommends developing **a framework for regulatory sandboxes,** which would serve as a **controlled environment** for experimenting with new payment system products from traditional and non-traditional players.

The **Sustainability Agenda** offers the ideal sandbox environment to put into practice the framework outlined in this paper for sustainability-linked investments. This would help guarantee firms' smooth access to funds and ensure the process is equally efficient throughout the supply chain. Since firms' working capital would be funded by the timely payment of their outstanding invoices, this could simultaneously accelerate the implementation of the agenda, support job creation and economic growth, and ultimately become a concrete example of how the framework can work in practice, and possibly becoming a blueprint for other sectors.

An alternative sandbox environment could be the **Minerals Security Partnership** (MSP), which is supported by the G7 countries and part of the 2022 G7 German presidency agenda.

The MSP addresses the complexities relating to supply chains of critical minerals that are essential for developing semiconductors, batteries and other technology, which is a critical piece of the world's net-zero trajectory. The MSP – together with the OECD, IEA and IRENA – aims to create policies and standards related to the production, trade and recycling of strategic minerals throughout their relevant GVCs.

Interconnected National Early Payment Platforms (matching accounts receivable and accounts payable) integrated with a single identifier like the LEI, as outlined in this paper, can offer simultaneously efficiency, traceability and a blueprint for other sectors and the wider economy.

[12] Progressing the path of the 2022 Indonesian presidency: https://www.gpfi.org/news/g20-yogyakarta-financial-inclusion-framework, and the relevant database sui servizi finanziari innovativi per le MSMEs

[13] On 6-7 March 2023, the Global Partnership for Financial Inclusion (GPFI) met in Hyderabad for the second in-person Plenary Meeting under Indian G20 Presidency.

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Acronyms

AES Advanced Electronic Signature

AML Anti-Money Laundering

BAFT Bankers' Association for Finance and Trade

CapEx Capital Expenditure

CCF Credit Conversion Factor

CFT Combating the Financing of Terrorism

DLs Distributed ledgers

DLT Distributed Ledger Technology

EBIDA Earnings Before Interest, Depreciation and Amortization

ESG Environment, Social and Governance

EU European Union

FATF The Financial Action Task Force

FSB Financial Stability Board

GAME Global Alliance for Mass Entrepreneurship

GLEIF Global Legal Entity Identifier Foundation

GDP Gross Domestic Product

GDPR General Data Protection Regulation

GPFI G20 Global Partnership for Financial Inclusion

GVCs Global Value Chains

ICAEW Institute of Chartered Accountants in England and Wales

ICC International Chamber of Commerce

IFC International Finance Corporation

IFSA International Financial Services Association

ILO International Labour Organisation

IRB Internal Ratings-Based

ISO International Organisation for Standardisation

KYC Know Your Customer

LEI Legal Entity Identifier

MDBs Multilateral Development Banks

MPIA Multi-Party Implementation Agreement

MSME Micro, Small and Medium-Sized Enterprise

OECD Organisation for Economic Co-operation and Development

QES Qualified Electronic Signature

SDGs Sustainable Development Goals

SME Small and Medium-Sized Enterprise

UN United Nations

UNCITRAL UN Commission on International Trade Law

WCO World Customs Organization

WEF World Economic Forum

WTO World Trade Organization

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