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"GVC Passport" on financial compliance, a pragmatic concept to strengthen Inclusive and Sustainable Growth

A Contribution to the 2020 G20 Process

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FOREWORD

Sustainable and inclusive economic growth has been at the core of the joint work between the B20 and *Business at OECD* (BIAC) since 2015, culminating in a series of B20-*Business at OECD* annual events on Finance and Sustainable Growth and related publications lead by Gianluca Riccio, Vice Chair of *Business at OECDs* Finance Committee. Each year, the conclusions of the roundtables have helped pave the way for action by G20 leaders. Contributions for our publications came from representatives of business and employers' federations, SME associations, large corporates, and financial institutions, part of the respective *Business at OECD* and B20 policy bodies.

This year, the COVID-19 pandemic and its economic and social impacts have inevitably dominated the G20 agenda. In a globalised world, policy incoherence generates dispersion of efforts, which may end up magnifying adverse consequences; unfortunately, the pandemic has made such weaknesses very evident. Policies are more effective if they are complementary to each other and effectively coordinated. For example, under the 2018 Argentinian Presidency, our work focused on **productivity**, underlining the critical importance of harmonising policies aimed at combining economic growth with those aimed at stability and productivity.

As a result, our annual contributions to the G20 process aimed at **"joining the dots" across policy areas**, have focused on offering a pragmatic solution **that can make easier to invest the resources** required to underpin growth for productive firms, and particularly Small and Medium-Sized Enterprises (SMEs), usually the most vulnerable. As part of G20 Saudi Arabia, we propose to investigate the conceptual feasibility of a Passport that allows firms to be accredited throughout the relevant Global Value Chain (GVC) as a credible partner and proves compliance to relevant financial regulations and requirements, thereby avoiding the burden of having to re-apply multiple times across borders – a **GVC Passport**. The objective of this initiative is to **envision a solution where a balanced approach is possible** in significantly reducing bureaucracy, while increasing transparency and traceability, as well as facilitate firms' access to wider markets.

The vision outlined in this paper is **aimed at all firms**, but may particularly benefit SMEs who face a proportionately higher cumulative regulatory and administrative burden relative to their resources. SMEs are a cross-cutting theme for the **B20 Saudi Arabia** and thereby constitute an important part of policy recommendations *across* all seven taskforces and action council. Our recommendation strengthens the case for SME-focussed policymaking in new economic areas such as the digital economy, green economy, and circular economy. As SMEs are the largest job creators and backbone of the economy, their strength is key to economic revival and ensuring that it is inclusive.

We encourage the G20 Leaders to support proposals and policies as part of their priorities, which would make a concept like the **GVC Passport** vision more realistic, and encourage them to explore intergovernmental agreements to enhance its long-term feasibility; i.e. proposals that target a better cross-border coordination of policies. The COVID-19 pandemic poses challenges that require **G20 leaders to lend their support to breakthrough proposals and policies** that fast-track growth, job creation and inclusion, by preserving international partnerships, by building trust and helping to legitimize companies in accessing external markets, resulting in more stable income and faster recovery for the economy.

EXECUTIVE SUMMARY

The COVID-19 pandemic has highlighted the world's considerable interconnectedness and dependence on Global Value Chains (GVCs). Disruptions in GVCs not only knock-on an immediate negative economic impact, but can also inflict severe long-term damage to the economic fabric of societies. Better economic and social performance has always gone hand-in-hand with trade and market openness – creating new opportunities for employees, consumers and firms around the globe and helping to lift millions out of poverty.

It is widely recognised that supporting firms' ability to operate within GVCs is an essential pre-requisite for economic well-being and recovery as well as, over the longer-term, sustainable growth and innovation. Unfortunately, businesses continue to suffer from unnecessary red tape and paper intensive processes, which hold back competitiveness. **Fragmentation and friction continue to impede the free flow of people, capital, goods and services**, as the global economy remains divided into separate jurisdictions; a fact that became particularly visible during the COVID-19 pandemic. In many countries, excessive and overly complex regulation creates legal uncertainty, and the variety of rules imposes cumulative burden on firms, exacerbated by inconsistent cross-border implementation of policies, regulation and compliance regimes; generating, at best, the dispersion of effort and, at its worst, negative unintended consequences.

This **paper is about reduction of barriers that firms**, with Small and Medium-Sized Enterprises (SMEs) facing the higher proportional cost relative to their resources, encounter in their quest to participate in global value chains. **To illustrate the merits of such reductions, we envisage a concept, a long-term vision,** aimed at facilitating the reduction of unnecessary red tape when doing business abroad for all firms, by ensuring that requirements for operating in the GVC **<u>are met only once</u>** and recognized throughout, eliminating the need for multiple re-certifications for requirements already met in one participating country.

The paper builds-up on a *Business-at-OECD* paper published earlier this year [*Business at OECD*, 2020] in contribution to the 2020 G20, which focused on **Trade Finance** as an all-round example of the inclusive sustainable growth agenda and the need to find a balance between the necessary rules and regulations, and the cumulative costs faced by firms. **It, therefore, focuses on financial aspects**, highlighting examples such as Trade Finance, Know Your Client (KYC) compliance rules, and verification of credit requirements.

More specifically, this paper proposes to envision a "**GVC Passport**", which could, via mutual recognition formally sanctioned by dedicated authorities or appointed delegates, provide **accreditation across the value chain of the relevant financial requirements;** indeed, in the paper "GVC Passport" is intended on Financial compliance purposes. A firm, incorporated in one participating country, would thereby be reciprocally acknowledged as a legitimate business entity in other participating countries; henceforth, facilitating its financial capability across the GVC by recognizing all those financial compliance and regulatory requirements already fulfilled. Hence, eliminating the need for multiple re-certifications of the same financial requirement. "**Verifying entities**" are naturally those public authorities managing the relevant regulation, but can also possibly be private entities, e.g. banks verifying information like KYC and credit records. In short, a GVC Passport could provide 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, nor undergoing duplicative verifications. Critical is the fact that such a Passport would not be a new obligation to fulfil, but rather that **it would compile and recognize all financial certifications already received**, thus avoiding firms having to obtain them again in the next country or for the next transaction where those requirements are already met.

While the GVC Passport is **envisaged for all firms operating across the GVC**, this paper considers it particularly valuable for SMEs who arguably have the least resources to comply with (cross-border) administrative burdens. In line with the "think small first" principle, proposals impacting on business should be viewed from the SMEs' perspective in order to increase the likelihood to ultimately work for companies across all sizes.

Next, digital technology such as data verification and Blockchain may greatly facilitate trusted cross-border recognition required for such a Passport to work. In today's world, the use of data analytics is no longer just an opportunity, but a "requirement for business success". The GVC Passport concept is envisioned as **a set of Finance related verifiable credentials to be cryptographically verified** between peers at the edges of the GVC network; hence, it represents such an opportunity by maximising the use of existing data, its transparency and traceability, while protecting customer data and avoiding unauthorised sharing of underlying data and confidential information.

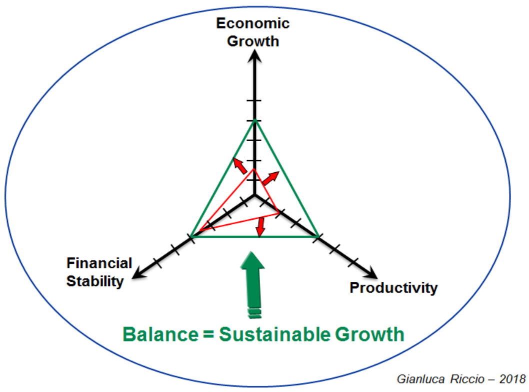
This concept also builds-up upon the long-term strategic vision delineated in previous B20 – *Business at OECD* recommendations to G20 Leaders, stressing the need for policies and regulations that support investments towards sustainable growth and that suffer less from cross-border fragmentation in their implementation. For instance, under the 2018 Argentinian Presidency, our work focused on Productivity, and first identified the idea of a GVC Passport [B20-*Business at OECD* 2018].

This reflected the broader efficiency and efficacy needed for longer-term investments in infrastructure, digital, health, climate and energy, supporting the wider economy.

Notably, we highlighted the critical importance of policy consistency aimed at balancing **(i)** Economic Growth, **(ii)** Financial Stability, and **(iii)** Productivity to generate **Sustainable and Inclusive Growth**.

Such harmonisation is achieved by integrating (a) strategic growth activities, owned by governments and the business community alike, which should have a longer-term strategic vision; and (b) the implementation of such policies, as the failure of consistent implementation generates a cumulative burden to the ultimate receiver.

The Sustainable Growth Triangle



Source: [B20 – Business-at OECD, 2018]

This paper **outlines the "GVC Passport" as an <u>aspirational concept, a long-term vision,</u>** as part of the above mentioned strategic vision towards growth activities and highlights its potential benefits. It links to the B20 Saudi Arabia recommendations of different Taskforces by illustrating how these recommendations "interconnect" in practice towards the common goal of achieving sustainable growth, and how recommendations can be implemented through concrete actions and solutions.

RECOMMENDATIONS AND NEXT STEPS

We recommend the **G20 to support suitable proposals and policies that sustain greater cross-border policy coordination in the field of financial compliance**. We ask **the G20 to consider merit of the "GVC Passport" concept as a pragmatic aspirational long-term vision** of enabling firms of all sizes, to participate in and take full advantage of GVCs, minimising the burdensome, and too often duplicative processes. Indeed, the very creation of something along the lines of a GVC Passport concept could never become a realistic option without a very clear **enabling framework,** outlining well-defined **principles and minimum financial compliance requirements**, which in turn can never occur without greater cross-border policy harmonisation in the first place. More specifically, what is needed is that governments work together to improve the regulatory environment consistency and administrative efficiency.

This concept supports the G20 leaders' goal reaffirmed at the Hangzhou Summit in 2016 to strengthen their engagement in supporting SMEs and linkages to GVCs. In practice, turning the GVC Passport from being a long-term aspirational concept towards a more realistic and practically feasible objective requires a process that envisages a pilot (or pilots) to better assess its merits with specific and achievable initiatives.

In specific, we recommend that in the upcoming Presidency in 2021, the G20 and the B20, with the support of the OECD and *Business at OECD*, further investigate such a concept by more closely assessing the existing obstacles towards it. This would likely include identifying which common principles and minimum requirements would be needed in order to make such a Passport a more feasible option in practice. The definition of such principles and requirements would have to be guided by a full **Risk analysis** (including a review of those rules where the lack of harmonisation proves most burdensome for firms). In the case of data verification, such a risk assessment should not only look at **"what" needs to be verified**, but also "**who" has the authority and legitimacy to verify**. The latter also requires distinguishing the safeguarding of the requirements and its day-to-day usage, in order to ensure a coordinated management, and needs to comply with data privacy agreements already signed at bilateral and multilateral levels across G20, at all times.

The Passport's framework should **target all firms**, but it is paramount that it is fit for SMEs as outlined above. Indeed, it is key to reiterate that the **core idea behind this proposal is to materially reduce costs, bureaucracy and regulatory burden for firms across their Value Chains**; any increase in cost or bureaucracy would defeat its purpose. A concept like the Passport is **envisaged as an incentive scheme and hence needs to be thought on voluntary basis**, with the objective to make its benefits so evident that firms will have a strong incentive to join the scheme.

CHAPTER 1 – GVCs: CHALLENGES AND OPPORTUNITIES FOR SME INTEGRATION

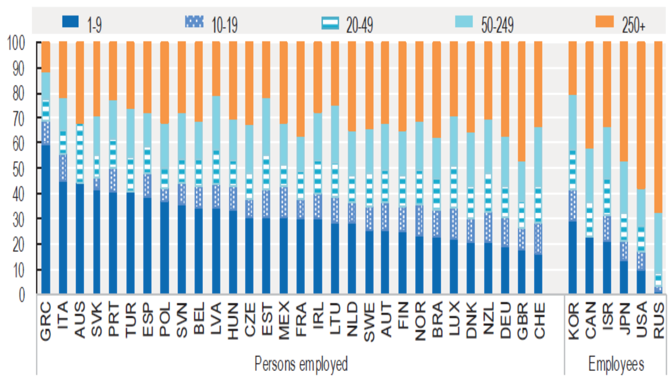
Today, **the COVID-19 pandemic** highlights the world's considerable interconnectedness and dependence on Global Value Chains (GVCs). Clearly, any disruption in GVCs does not only have immediate negative economic impact, but also entails severe long-term damage to the economic fabric of our societies.

In the context of **economic recovery**, many firms will be facing the shrinkage of their own market and there will be a tendency to shorten GVCs. In such scenarios, it is crucial to preserve international partnerships by building trust and support cross-border operation of companies. Against this background, supporting policies and measures which could ultimately pave the ground for a GVC Passport could give companies an extra boost to access new markets, resulting in additional business opportunities and the prospect of a faster economic recovery.

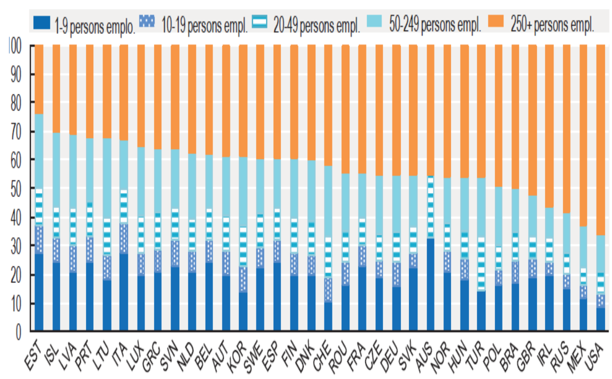
Small and Medium Enterprises (SMEs), highly integrated in and dependent on the value chains, are especially vulnerable to suffer the economic consequences of the COVID-19 epidemic. This is particularly problematic as GVCs not only allow for the transfer of goods and related payments and financing, but also for a transfer of technology, know-how and skills. Most importantly, thanks to their agility, SMEs can be the first to react and help jump-start the economic recovery. Yet, under current circumstances this is extremely difficult as the requirements to merely participate in trade are typically too onerous for most SMEs to trade safely and/or efficiently.

SMEs make important contributions to economic growth, innovation, job creation and social cohesion. Globally, SMEs make up over 95% of all firms; accounting for two-thirds of employment, and generating between 50% and 60% of value-added on average [OECD, 2018b]. In emerging economies, SMEs deliver on average more than 33% of GDP and 45% of employment [OECD, 2017b].

Employment by enterprise size class



Value added by enterprise size class



Source: [OECD, 2019a]

Considering their important role, it is imperative to ensure that SMEs are not burdened by red tape and excessive regulatory burden, but rather enjoy a supportive business environment with the necessary access to finance for business expansion. Given that the COVID-19 pandemic is expected to have lasting negative implications, this means that any policy support, both immediate and long-term, which boosts SMEs' abilities to operate throughout GVCs, is a pre-requisite for a sustainable economic recovery.

Regulatory and compliance burdens – need for a balanced approach

Unfortunately, **firms still face many regulatory burdens** and obstacles, and the resulting costs (not just financially, but also in terms of time and human resources required to deliver such tasks), which hamper their ability to fully benefit and integrate into GVCs and thus unnecessarily limit their ability to contribute to sustainable economic growth.

The sudden halt to productions across many areas of the world due to COVID-19 has dramatically shown how GVCs are the very blood vessels of the world economies, from multiple perspectives:

- Stopping activities in one country has shown dramatic domino effects in other countries;
- Similarly, credit stress has turned out to be higher for firms concentrated in single production chains, rather than diversified across many GVCs, both from a supply and demand perspective;
- Countries have limited production to "essential" activities (e.g. food or pharmaceuticals), which have been defined as production-to-delivery only, rather than taking an end-to-end view of the chain.

Productivity cannot be improved, or at least cannot deliver on its full potential, if unintended regulatory obstacles are not overcome. Ultimately, business success needs a stable, consistent, and competitive environment. This requires consistent regulation and compliance requirements structured in a way that does not entail reiterating processes more than once.

In many countries, excessive and overly complex regulation creates legal uncertainty and a lack of transparency. **Challenges with unintended consequences of financial regulation have been highlighted by *Business at OECD* and the B20 for several years**; a work that started in 2015 with a series of *Business at OECD*-B20 publications resulting from annual events, part of the B20 cycle, focusing on Finance and Sustainable Growth with particular attention to SMEs and GVCs [B20-*Business at OECD*, 2015; B20-*Business at OECD*, 2016; B20-*Business at OECD*, 2017; B20-*Business at OECD*, 2018; *Business at OECD*, 2020], aiming **to illustrate how finance links to other policy areas to overcome fragmented policy-making**.

Since the global 2008 crisis, the financial regulatory environment has led to a critical strengthening of the global financial system. It has, however, also led in some cases to increased complexity in terms of compliance with new regulations. OECD member countries collectively adopted a set of principles for effective regulatory management in 2005 [OECD, 2005]. Nearly all OECD member countries (as well as several non-OECD countries) have established programmes to reduce administrative burdens on businesses. However, adoption is different from full implementation and such programmes are at different stages of progress.

Excessive burdens from a firm's perspective are typically related to:

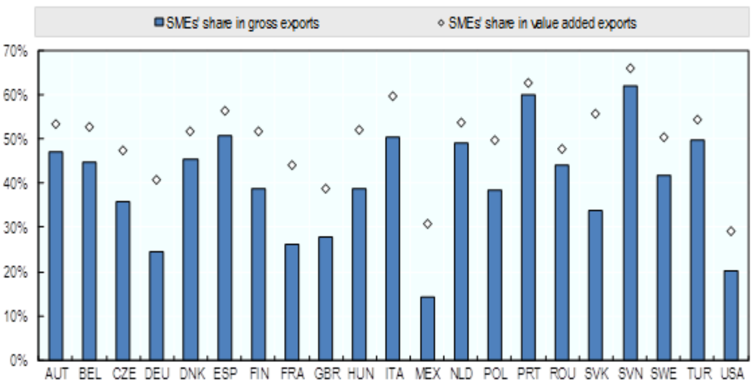
- The **cumulative burden** of rules and regulations legislating the different phases of financing, production and trade, often with **inconsistencies among policies** which result in voluminous paper-based requirements.
- From a **finance perspective**, while banks have implemented robust and effective regimes to ensure strict compliance with agreed reforms, this has in certain circumstances brought about a **considered review of lending activity** where the complexity has warranted reassessment.
- This is compounded when operating internationally, where consistency in standards is vital. **Inconsistent implementation across countries** hampers firms' integration in GVCs, particularly affecting SMEs. For example, it is significant that while the compliance costs for banks of all sizes have increased post-crisis, this effect is magnified when operating across multiple jurisdictions in cases where there are inconsistent standards.

Trade Finance, a case in point

In this context, **Trade Finance** is an all-round example of how cumulative regulatory burdens hamper GVCs' growth opportunities, as outlined in the ***Business at OECD*** **contribution to the G20 Saudi Presidency** [*Business-at-OECD,* 2020]. Ensuring financing throughout the GVCs with secure and timely payments across borders, facilitated by more harmonised policies, supports optimizing working capital on the buyer side and generates additional operating cash flow on the supplier side. This enables international trade even in the most challenging conditions and markets, and allows for the provision of working capital to firms domestically.

SMEs' share in gross exports and value added exports

(As a percentage of gross exports, 2014)



Source: [OECD, 2020b]

In terms of SMEs, it is important to note [OECD, 2020b] that analysis of the SME contribution to total trade value, including both direct exports and imports, may underestimate the actual exposure of SMEs to international trade. Beyond direct exports, SMEs play a significant role in indirect exports as suppliers to internationally operating larger firms. Access to trade finance instruments is widely understood as a driver of internationalization[1].

Yet, trade and its financing are withheld by unintended barriers to operate efficiently and effectively. The typical cost-to-income ratio in traditional trade finance is 50-60%, meaning that more than half of the price charged to clients for trade is used to cover operational expenses, even before covering the costs of risk, liquidity and capital. Key challenges include:

- The trade arena and the rules that govern it are geared towards paper-based manual processing.
- Inefficient documentation processes including manual contracts, multiple checks or duplicate bills lead to complexities and delays, frequently with the physical goods in the supply chain moving more efficiently than the paperwork.
- Multiple platforms used by numerous players may lead to increased risk of miscommunication and fraud.
- Trade finance may not be sufficiently visible nor understood to users, especially to SMEs, which are frequently disadvantaged due to skills gaps in communicating their financing needs.
- Trade finance has been negatively affected as a result of rise in cost of capital under the key ratios segment of the Basel III measures, leading banks to shrink their balance sheets. As banks are shrinking their balance sheets, the overall financing of firms are worsened, which hampers their trade financing abilities.

[1] As e.g. highlighted at the 2018 SME Ministerial Conference in a plenary session on `Fostering greater SME participation in a globally integrated economy'

CHAPTER 2 – GVC PASSPORT: A PRAGMATIC SOLUTION TO SUPPORT THE INCLUSIVE SUSTAINABLE GROWTH AGENDA OF THE G20

As the previous chapter shows, **governments can improve the regulatory environment** by designing rules that are fair, predictable, consistent, enforceable and administratively efficient. Here, innovation has to be at the heart of regulatory policy making, as it drives improvements in productivity and sustainable economic growth.

Policy-making has thereby a key role to play in setting the right framework conditions for trade and investment in general, and to support firms' integration in GVCs. **However, it is not just a question of public policy and regulation, commercial decisions also affect the evolution of the global trading landscape**. For instance, many businesses have opted to simplify transaction processing with stakeholder and government bodies (e.g. Open Account trade), and many banks have been incentivising corporates to adopt digital solutions, though these still remain scarce at this point.

There are a number of options, leveraging best practices, to reduce financial regulatory obstacles to GVC integration and strengthening trade finance.[2] This paper proposes to investigate the feasibility of a Passport allowing firms to be accredited throughout the relevant GVC as a credible partner, and proving compliant to relevant financial regulations and requirements, thereby avoiding the burden of having to re-apply multiple times across borders: **a GVC Passport**.

Core to this concept is to materially reduce costs, bureaucracy and regulatory burden for firms across their Value Chains; any increase in cost or bureaucracy would defeat its purpose. Indeed, the Passport is **envisaged as an incentive scheme on voluntary basis**, with the intention to make its benefits very evident to firms. Such a scheme is envisioned for all players in the value chain, but expected to benefit particularly SMEs, the most vulnerable in the chains.

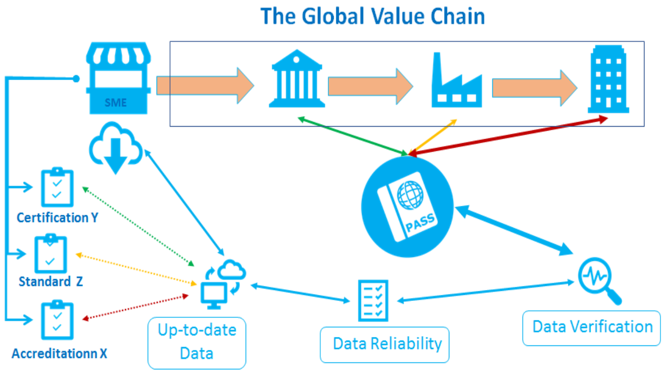
As such, a scheme would only become feasible in practice with a better degree of cross-border regulatory coordination. We encourage governments, as a first step, to look into **improving international consistency in the area of Finance**. The GVC Passport concept thus serves as a **longer-term directional framework** to this end.

Concept and purpose of the GVC Passport

The GVC Passport is envisioned as **an official (digital) document** recognised within the whole GVC, across all participating countries' borders that provides secure, verifiable and traceable financial information relating to a firm. It captures **all basic information,** such as a single customer view, **relating to the firm as well as confirmation of a series of financial regulatory and compliance requirements by the firm in its home country – and comes with an authoritative, trusted authenticated "stamp of approval"**. The wider the list of financial requirements being fulfilled and information being recognised, the greater the passport's value. Importantly, it is **not a static certificate**, but rather resembles a real-time application programme interface (API); **a set of information and protocols always up to date**.

The GVC Passport would allow a firm to be recognized as a legitimate business partner, compliant with the credit and financial regulations relevant to the GVC it operates in. This does not avoid the firm having to comply with the rules, but

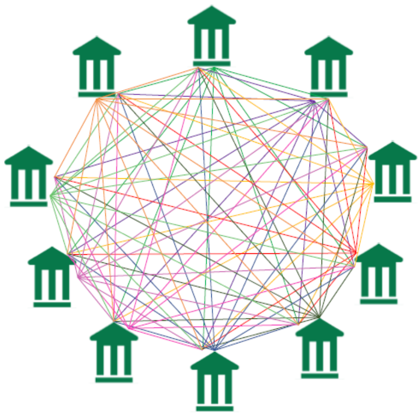
[2] It is also worth noting the **United Nations** efforts [UN, 2019], via the UN Centre for Trade Facilitation & Electronic Business, to motivate closer linkage between techniques and practices of trade financing and trade facilitation. The premise is that it is critical to directly integrate the financing element into the ability of businesses to conduct trade and that efforts are aimed at trade facilitation (such as enhanced customs and logistics and others), else it will fail to maximize benefits into facilitation practices [Malaket, 2015].



it would ensure that it meets them **<u>only once</u>** and proves meeting them with a single authentication that **<u>can be verified</u>** throughout the chain. Critical is the fact that the Passport is <u>not a new document to fulfil</u>, but rather **it compiles and recognizes <u>certifications already received</u>**, to avoid the need to fulfil them again in the next country or next transaction. Such certifications are kept up-to-date to the latest validation or relevant regulation, and can be verified real-time by the authorized parties, hence avoiding firms to reapply, update or run additional bureaucratic steps.

The **information relevant** to each firm's passport can be **tailored to each GVC** capturing only the information and permissions relevant to that very GVC. For example, all firms have to meet common financial institution requirements like those related to Know Your Client (KYC), which can be verified and confirmed through the relevant chain.

The efficiency gains generated by a 'Passport' are clear, yet may not be easily quantifiable. In order to offer a sense of measure, using the above mentioned KYC example, if we consider a universe of only 10 banks. Today, in order to operate with each other, each of the 10 banks is required to independently assess any other, annually: meaning that this universe of 10 banks creates 99 assessment reports, updated annually.



Ref: Gwynne Master, MD Head of Trade, Lloyds Banking Group

In a more digitally advanced world, an individual or legal entity will be able to 'travel' through the financial system with an authoritative, trusted Passport. In our example of a universe of 10 legal entities, it would produce 10 "passports" (i.e. one for each bank) rather than 99. Obviously, the number of players within the financial system is far greater than 10. The point here is that one single identifier for each legal entity using the financial system, will deliver considerable productivity and security gains across the global financial system.

Advantages of such an approach can accrue to all players, and may go well beyond overcoming bureaucratic obstacles and burdens in operating through the chains. The passport can help break silos by systematically gathering data and thus supporting both lending and public administration, for example for tax purposes, making compliance more consistent, simpler, and less costly, as well as **increasing transparency** and very importantly their "**traceability**". In the Trade finance space, it can support firms, suppliers and public administrations to raise efficiencies such as **netting payments**, hence improving timeliness of payments, a long-standing low hanging fruit. This, in turn, would also support firms, suppliers and public administrations to make trade more efficient alongside existing measures such as Export Finance Guarantees. Such an approach follows the principle that a concerted effort to look at ways to improve the overall global compliance regime would also aid in improving the domestic appetite for lending, in particular, those related to financial crime risk in Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT).

In order to visualise tangible similarities, one can be found in for example the ISO certification. ISO became an internationally recognized and required minimum standard, with both public and private players understanding its role worldwide, as well as they commonly using it as a requirement.

From a wider macroeconomic perspective, it can **support informal firms to move into the formal economy**[3]. By offering small informal firms the ability to access wider, properly structured networks, it creates an incentive to simplify a firm's capability in managing payments (in particular netting payments across the GVC) and administrative duties. The passport helps to gather data systematically, previously missed or not effectively utilized. When, properly structured, verified and channelled, it can support the beforehand informal firms from lending to admin duties and taxes, making **compliance "automatic"**, hence, making the relationship with the administration transparent and traceable.

On a systemic scale, following successful examples experienced in creating a digital payment ecosystem, e.g. in China, the same approach is increasingly being used to support trade (data is well protected, though kept within the borders of China), *de facto* creating the GVCs global payment ecosystems[4]. We stress that the **development of "GVC ecosystems", with a GVC Passport at its heart, will benefit all players, including paving the road to enhancing SME participation with local and national authorities, banks, etc., thereby creating new jobs**. **Its traceability can also contribute to financial crime prevention, such as money laundering or terrorist financing**, which are ever growing risks in trade whereby criminals use a legitimate trade to disguise criminal proceeds.[5]
Ultimately, improving connections across the GVC, the Passport can support firms to **access wider markets**, thus supporting trade activities. In summary:

Firms	Local & National Authorities	Banks	GVCs	Governments at systemic level

• Greater access to services and visibility across the chain.
• Simplification of administrative activities as well as access to Finance.
• Easy 24/7 finance access, but better tailored to the actual business (or seasonal) needs.
• Support multiple delivery channels and thereby improve documentation management.
• E-invoicing:
  • Timely payments from public and private players.
  • Collateral for Banks.
	• Ability to support firms in their administrative obligations.
	• Improve meeting local regulation.
	• Reduce tax evasion.
	• Appreciation of the genuine business volume in each area.
	• Ability to net credit and debit from firms, minimising bureaucracy.
		• Access to financial and actual business volumes.
		• Cross-border data access to the authorities to allow better credit assessment of firms with improved risk parameters and hence, better pricing.
		• Digital on-boarding.
		• Offering diverse range of finance 24/7 to SMEs.
		• Digital invoices offer collateral, hence better credit and lower pricing.
			• Facilitate firms' participation in GVCs.
			• Share data, information and knowledge across the GVC.
			• Invoice financing and trade credit facilitation.
				• Overcome cultural, educational, and bureaucratic barriers.
				• Significantly higher transparency and traceability.
				• Allow informal firms to emerge.

[3] SMEs make up an estimated 400 million in developing markets. Most (93%) are formal or informal micro firms. Importantly, informal firms outnumber formal firms by a ratio of 3.4 to 1 [**B20-*Business at OECD*, 2018**].

[4] Also Saudi Arabia has a great example with the **Saudi Riyal Digital payment system**, which however remains a local one. It is governed and managed by the local authorities.

[5] Trade based money laundering, or the deliberate falsification of the value or volume of an international commercial transaction, is the largest component of illicit financial flows, measuring up to US$1 trillion for developing countries, according to Global Financial Integrity (GFI). It estimates that on average over 80% of such illicit financial flows were due to fraudulent mis-invoicing of trade. See: GFI, GF Trade,*"Trade Misinvoicing Risk Assessment"*.

In a nutshell, the **GVC passport aspires to envision a solution where a balanced approach is possible** between strengthening the importance of fight against money laundering and financial crime, by fostering transparency and traceability, and at the same time supporting legitimate commerce/economic value creation, reducing "unintended consequences" in the form of undue regulatory burdens for the firms.

Digital: from Blockchains to GVC ecosystems

Today, online e-commerce platforms support millions of firms by enabling them to deliver goods and services to international markets with unprecedented ease. In particular, smaller enterprises have never before been able to access infrastructure and global logistics networks with so little capital expenditure.

Distributed Ledger Technology (DLT), including **blockchain** or equally Robotic Process Automation and Artificial Intelligence, are cornerstones of efficiency gains. Blockchain made a major contribution to trade facilitations by speeding up customs procedures and trade financing and thereby taking forward the Bali Fintech agenda.[6] Certainly, Blockchain technology is much more than a distributed storage system, built on a series of innovations in organising data and eliminating data silos, with the objective **of creating trusted sources of standardised information**, used by all GVC participants. Containing a much richer dataset than that exists in any one system today, it can be used as an infrastructure **for identity attestations**. The result is delivering a range of benefits for participants, offering faster, cheaper and safer alternatives by operating on secure databases, versus loosely connected participants of traditional processes.

Such infrastructure is the **base for the Passport** to operate effectively. Primarily, distributed ledger (DL) may provide efficiencies in reconciling records both within organizations and across firms, while wider benefits of DLs may also be leveraged through developing applications that interface with DLTs such as smart contracts or certifications. For example, through dynamically capturing and validating the big data exchanged among all GVCs' participants, which was also highlighted by the World Economic Forum [WEF, 2016].

More systematic and globally consistent use of such technology may help to overcome some of the above mentioned obstacles, support payments and enable trade financing, accessible to both SMEs and large corporates, leveraging both the existing data from traditional sources and new data arising from digital platforms and blockchain. For example, Bain & Company estimates that trade finance operating costs (e.g. documents' wait times) could be reduced by 50-70% and improve turnaround times three to four fold, depending on the trade finance product involved [Bain&Co, 2018b].

Also, the World Customs Organization (WCO) has initiated work [WCO, 2018] to identify possible case studies and uses of blockchain for Customs and other border agencies with a view to improving compliance, trade facilitation, and fraud detection, while touching on associated adjustments in legal and regulatory frameworks.

Data "verification" rather than data sharing

Digital technologies related to **data** management and utilization (cloud, blockchain and artificial intelligence, etc.) must be at the heart of this proposed concept. Key for a "GVC Passport" to function is **data verification**, rather than data sharing. Data is the key asset of the digital economy, and its sharing is required in various activities, but in this case, the very purpose of the Passport is to confirm, i.e. verify, that the information reported is correct.[7]

[6] The International Monetary Fund (IMF) and the World Bank Group launched the Bali Fintech Agenda in October 2018. It is a set of 12 policy elements aimed at supporting member countries to harness the benefits and opportunities of rapid advances in financial technology, while managing the inherent risks. For further information see: IMF, *"Policy Paper the Bali Fintech Agenda"*, October 2018.

[7] Over 80 countries and independent territories, including nearly every country in Europe and many in Latin

Data storage and usage relate to a number of technologies on how data is captured, stored and mined (e.g. profiling, big data analytics). A **verifiable credential** is cryptographically shared between peers at the edges of the GVC network to ensure underlying data is protected and not shared itself. For the purpose of the Passport, and its data verification capability, technologies are vital in infrastructure and application:

- **Infrastructure** (cloud, blockchain[8], sensors in the internet of things, etc.) – Leveraging existing and new technologies, **verification can be provided directly by the authorising entities[9]**. Alternatively, an option may also be to build-up "Data Hubs" at local, regional or sectorial level, possibly dedicated to SMEs: **"SME Hubs"** to facilitate access of smaller players to more advanced technologies, without having to bear the relevant costs. Data Hubs can be the base for a service platform bringing firms together with local and national authorities, banks, etc., bringing benefits to all players, as far as **a level playing field** is guaranteed.

  Importantly, in order to avoid any misunderstanding, it is not that information is expected to flow into a single international "hub", but rather that information can be verified directly to the authorising entities, so each of them are "hubs" for their relevant data, so maximising Data privacy on one hand and minimising the need of firms to reapply for the same requirements.

  Critical is rather the data quality and its granularity, and hence its reliability. Data needs to be up-to-date, possibly in real time, and offer a degree of granularity, which allows it to meet the widest possible set of requirements. Granular data allows achieving multiple goals, from the firm's perspective; granular data ensures reducing future requests of additional data.

- **Application** (big data analytics, artificial intelligence, robotics, etc.) – digital tools today allow to combine data and crosscheck it across a large variety of databases, enabling real time verification. In the context of the GVC Passport, data does not need to be shared, but needs to be **verified**. The ultimate objective of the information relating to the firm is the "final outcome", i.e. the confirmation of the firm's compliance, not the full data history. The recipient of a **verifiable credential**, known as a **verifier**, in a peer to peer connection would use the associated globally unique decentralized identifiers as a resource locator for the sender's public verification key so that the data in the verifiable credentials can be decoded and validated [IBM, 2018].

Today, application and infrastructure can be combined into systemic solutions serving a wide population. The GVC Passport is intended to create[10] a platform that **incentivizes firms to engage and keep their information up to date**, in real time, through continuous mutually beneficial usage.

The key ingredient is having cooperation between private and public. This is true also in terms of **"who"** can formally "verify" and manage the data hubs, and therefore ensure that the requirements are met by all participants. Indeed, "verifying entities" are naturally those public authorities managing the relevant regulation, but they can also be private

America and the Caribbean, Asia, and Africa, have now adopted comprehensive data protection laws. The European Union has the General Data Protection Regulation (**GDPR**), in force since May 2018.

[8] Utilization of blockchain technology is nowadays a reality: many players explore its implementation across different sectors e.g. IBM / CAC pilot.

[9] **Simple concrete Example**: Firm X has been a client of Bank A (in country A) and fulfilled all KYC requirements, hence X is authorized by Bank A to operate with them; relationship has been 20 years long with all required KYC validations done. Today, X grows its business in country B, and goes to Bank B who ask them to do KYC again in order to be authorized to operate with Bank B, all information well known to Bank A. Bank **A could simply "verify" firm X to Bank B for KYC purposes**, avoiding to X all the costs of doing a new KYC with Bank B. Bank A is the authorizing entity in country A for KYC, and can be the "verifying" entity to Bank B for country B's KYC.

[10] "Create" is intended not necessarily as building something from scratch, but rather investigating how existing global systems can be leveraged upon as building blocks.

entities, e.g. Banks verifying information like KYC and credit records, or private buyer firms, which are better positioned, in some cases of their competence, to ensure such verification. It will therefore be **key to define the verification rules** and **minimum requirements** not only in terms of "what" needs to be verified, but also in terms of "who", distinguishing the safeguarding of the requirements versus its usage in the daily activities, which has to benefit from its efficiency. A **trusted server(s), or certificate authority(ies)**, uses digital certificates to provide a mechanism whereby trust can be established through a chain of known or associated endorsements, having to comply with **data privacy agreements already signed on bilateral and multilateral levels across G20, at all times**.

GVC Passport: an evolution, not a revolution

The Passport concept is founded on the possibility to mutually verify and receive confirmation via a "common view platform". This is not a new concept *per se*; over time several programmes aimed at such simplification and standardisation of information were developed, but often created yet another data source adding further complexity, requiring additional resources and hence resulting in higher costs and limited time savings.

In fact, several of the components needed for the GVC Passport already exist today both from an infrastructure and application standpoint. Selected examples include:

- **Complying only once concept[11] –** in the **UK**, the **Money Laundering Regulation** [MLR 2017] recognizes the necessity to remove the need for multiple institutions requesting the same information to carry out similar or identical checks on the same firm. It also draws the attention to the firm's ultimate responsibility of data, equally applicable in the context of the GVC passport.
- **Data –** an excellent example relates to the **Banque de France**, which currently maintains a large and thorough database across various economic sectors. It counts over 600 million data series (2017).[12] Data is made accessible to researchers, once they have been identified.

  On a larger scale, INEXDA[13] offers an example of a Data Hub for international data and metadata. This infrastructure was created in 2009, in response to the G20's recommendations to close data gaps in the wake of the financial crisis.
- **Application –** in Italy **SOSE** [14] introduced the SIR (Synthetic Index of Reliability), as part of the 2016 tax reform [outlined in detail in B20-*Business at OECD*, 2018], which is a concrete example of how data combined with a collaborative process between authorities and business representatives can operate as an incentive to promote compliance and efficiency. SIR gathers data from firms and uses digital tools to crosscheck data across a large variety of databases, enabling taxpayers to carry out **real time verifications** when making the necessary adjustments to their tax submissions. It also allows the most reliable taxpayers to access a reward system, consisting of advantages in terms of deadlines and reduced tax controls.
- **Network –** the M-Pesa platform in Kenya[15] offers an example of a platform that manages

[11] Another valuable example of "complying once" is the ATA Carnet, commonly known as "Merchandise Passport". This is an international customs document which allows tax and duty free temporary import/export of specific nonperishable products in multiple trips across 87 countries for up to one year. By paying a single yearly fee, it acts as a guarantee for Customs duty and taxed and replaces security deposits required on each occasion by different Customs authorities.

[12] "The Open Data Room of Banque de France"; www.banque-france.fr/en/open-data-room-banque-de-france.

[13] "International Network for Exchanging Experience on Statistical Handling of Granular Data", www.inexda.org

[14] SOSE is the "Soluzioni per il Sistema Economico Spa" in Italy.

[15] Launched by Vodafone's Safaricom in 2007, offering a simple texting for small payments among users. However, in order to properly support domestic value chains, the approach currently needs additional building on top by other participants, at Safaricom's discretion.

to offer a range of financial transactions to a large population, which is largely disconnected and frequently analphabetic. Its innovativeness, rapid adoption, and ability to connect show how **once the ability to verify data is available on a network platform** it may be used exponentially.

In Canada, the Board of Trade of Metropolitan Montreal and Québec International created a programme, called indeed "SME Passport",[16] aimed at spring boarding local businesses into international markets by offering financial, trade and management guidance and support to speed up their business development. It would lead in the right direction if it was part of a multilateral single view platform, mutually recognised across countries.

Public endorsement and private engagement

Intergovernmental recognition would be key for the GVC Passport to gain both legitimacy and operating efficacy. The GVC Passport as an official document could gain legitimacy only with **Governmental formal endorsement**, through the appropriate authorities or those appointed / delegated by them, including Banks for example.

Nonetheless, **all actors should take action**, rather than only focus, or wait, on the measures to be taken by governments and public entities; in fact, progress in the right direction can also be made by the private sector autonomously. For instance, many corporate participants have already opted to simplify trade administration procedures, integrating aspects of transaction processing with freight forwarders, government bodies and document preparers, and many banks have been incentivising corporate adoption of digital solutions.

There are high-potential digital solutions and opportunities currently not fully exploited, which can also benefit from contributions of investors and equity finance. For example, chains where cash flow moves steadily (with timely paid invoices, including public sector settlement practices), attract financing, with banks and other financing institutions connected to support the chain end-to-end.

The growing willingness of private and public stakeholders to undertake their own distinct voluntary initiatives should be encouraged and undertaken in a coordinated manner. Success hinges on G20 policy approaches that enable, not hinder, private sector-led contributions towards the G20 strategy.

Risks and minimum requirements

Although several of the parts contributing to the creation of a "GVC Passport" exist and could be leveraged upon, it must be acknowledged that certain **risks and obstacles need to be carefully addressed before this concept may be ever considered as a realistic project, rather than an aspirational concept**.

The very first step is to **improve cross-border policy coordination**, a *conditio sine qua non*; hence our recommendation to the G20 is to support all policies and activities aimed in that direction. Additionally, **risks may arise from cyber security in collecting, storing and sharing such information or from firms trying to arbitrage or abuse the system**. Clearly, for example, thanks to transparency and traceability, the GVC Passport could potentially contribute to corruption prevention and fighting financial crime (money laundering, terrorist financing, etc.). However, to be effective, this would need to be sustained by adequate legislation aligning it to the relevant regulatory frameworks.

An assessment of obstacles and risks needs to be the basis on which the **G20 and the OECD need to define minimum standard requirements** to be met by firms as well as by designated "verifying entity" in order to ensure the coherent use of the Passport, consistency of data quality and security of the necessary storage mechanisms. It is, however, important to ensure the Passport's flexibility so that new "attained accreditations

[16] SME Passport Program by the Board of Trade of Metropolitan Montreal & Quèbec at www.smepassport.com

and requirements" can be added to the verification over time (e.g. development of further ISO standards, etc.), expanding the passport's realm of potential application.

Equally, it needs to be acknowledged that the very concept of the GVC Passport will need to comply with **regulation** at a national level across all participating countries. Legislative discrepancies are numerous, especially in the fields of data privacy, data storage, or even more blockchain and DLTs in relation to which some countries have produced little to no regulation. Regulatory coordination and those above mentioned minimum requirements are thus key to be addressed and assessed as a first step.

From a **cost perspective**, at its core, the Passport aims to cut through red tape to enable businesses, especially smaller ones, to access finance and take full advantage of GVCs more efficiently. As such, while standards and minimum requirements would ultimately have to be devised, this shall never lead to increase costs or develop further bureaucracy, which would defeat its very purpose. Core to this concept is to recognise and collate approvals already acquired into a single Passport, which can be verified as required, and not a new "visa" recreated on each use, or an additional requirement to fulfil. Moreover, a system of incentives would need to be devised and considered to ensure that bigger players such as banks and large corporates are equally drawn towards the Passport for transactions across business of all sizes.

Finally, further development is needed to scale across multiple networks and entities around the globe; and as outlined by DiCaprio-Malaket [2018], centralized solutions in a decentralized ecosystem do not scale: trade and GVC are about collaboration within and between networks.

CHAPTER 3 – CONNECTING TO THE B20 TASKFORCES' RECOMENDATIONS

Firms face multiple challenges in terms of digital transformation, access to finance, regulation and informality, skills shortages and globalization.

While benefiting all firms, the GVC Passport is an independent pragmatic conceptual framework that if ultimately realised could contribute to enabling several of the B20 Taskforces' recommendations, assisting policy-makers and business representatives alike, across different areas, to facilitate operative capabilities of SMEs across GVCs. In light of their very cross-topical nature and relevance, SMEs have been identified as a cross-cutting theme for the B20 Saudi Arabia.

B20 Taskforce	Recommendation	Policy Action	GVC Passport contribution
Finance and Infrastructure	The G20 should promote acceleration of the role of technology, including the role of data, in enhancing the environment for financial services innovation, while implementing regulations that increase trust and transparency in the financial sector.	The G20 should call on policy makers to foster an environment that boosts innovation in financial services by implementing frameworks and sharing best practices around data management and the development of technologies in collaborative regulated environments, which could support in creating new ways to provide financial services and promote their continuity in times of distress.	The GVC Passport is a pragmatic example aimed at creating a **cross-border system enhancing transparency and trust**, leveraging on what technology can offer today, increasing security and legitimacy of financial transactions.
	The G20 should strengthen cooperative efforts between the G20 countries to reduce market fragmentation and promote a level playing field, while ensuring a synchronized implementation of prudential reforms, and minimizing unintended consequences, to build a more resilient and effective financial system that supports the economy.	The G20 should call on the FSB, in coordination with the Basel Committee on Banking Supervision (BCBS) and other relevant international standard-setting bodies and financial sector regulators, to take stock of jurisdiction-specific prudential requirements to identify and monitor market fragmentation, while developing internationally-coordinated action plans to mitigate challenges posed by fragmentation.	One of the foundations of the GVC Passport is the concept of mutual recognition in order to **reduce the regulatory burden** on firms and banks (reducing the cost of financing). This requires consistent implementation of regulations, and therefore consistent rollout of measures, in order to avoid any arbitrage.
Trade and Investment	The G20 should foster the growth of e-commerce by striving to conclude a comprehensive, balanced, and high-standard WTO agreement that is attentive to the needs of MSMEs, start-ups, and developing economies.	The G20 should request that the WTO facilitate cooperation and sharing of best practices with UNCTAD on cross-cutting issues for enabling e-commerce in order to foster the inclusion of MSMEs, start-ups, and companies in emerging economies in e-commerce networks.	The GVC Passport is particularly aimed at SMEs in order to **foster their inclusion** and strengthen their ability to operate effectively within the GVC, thus facilitating finance and ultimately trade flows across developed and emerging economies.
		The G20 members should aim to create a policy environment that facilitates business engagement in e-commerce and advance towards a comprehensive, balanced, and high-standard agreement by the next MC.	Adopting a "GVC ecosystem" helps to **support payments and enables trade financing for all firms**, leveraging both the existing data from traditional sources and new data arising from digital platforms and blockchain. In order to operate effectively, it will inevitably **require reducing trade-restricting** measures towards a level playing field.

B20 Taskforce	Recommendation	Policy Action	GVC Passport contribution
Integrity & Compliance	G20 should leverage Emerging Technologies to Manage Risks Relating to Corruption and Fraud.	G20 should adopt consistent digital identity standards and systems to enhance transparency in beneficial ownership and improve third-party risk management in the private sector.	By reducing intermediary steps and formality duplications, the GVC Passport has the potential to help reduce corruption. Thanks to **transparency and traceability**, the GVC Passport can support corruption prevention and fight financial crime (money laundering, terrorist financing, etc.).
		G20 should develop digital public national registers to increase transparency around beneficial ownership information and to improve third-party risk management.	
		G20 should launch a public-private partnership project to support the development of new technologies to further improve data quality and data sharing among national registers.	
Future of Work & Education	Proactively enable SMEs and entrepreneurs.	Facilitate access to international markets and finance for SMEs and entrepreneurs.	The fundamental principle of the Passport is to offer firms a platform that enables them to deliver goods and services to international markets with unprecedented ease by improving their access to finance. **Success is to have firms be able to access infrastructure and global logistics** networks with as little capital expenditure as never before. This **strengthens the inclusion** of both firms and their workforce across the GVC, creating an incentive for informal firms to emerge.
	Implement reforms to ensure a safe employment recovery within a more resilient labor market.	• Strengthen inclusiveness, dynamism and diversity of formal labor markets. • Incentivize the informal sector to formalize.	
	Boost employability at scale through transformed education and lifelong learning	Upgrade education systems to align with future labor market needs. Build lifelong learning systems that are adapted to adult needs.	The key ingredient of the GVC Passport is to have **public-private cooperation**. It creates a platform that incentivizes firms to engage and keep their information up to date, real-time, via continuous mutually beneficial usage.
Energy, Sustainability & Climate	Provide predictable, effective policy frameworks to achieve carbon neutrality.	Introduce effective national public programs to ensure a just transition for hard to abate sectors, SMEs, workers and vulnerable groups.	In **reducing costs, resources can be devoted to** skill mismatches, building a skills' base for the next generation and hence investing in Research and Development that can be leveraged by all firms. Monies invested in future skills rather than spent on red tape. In addition, requirements shall include parameters to join such as sustainability and respect for human rights (e.g. include adherence to SDGs).

B20 Taskforce	Recommendation	Policy Action	GVC Passport contribution
Women in Business	Promote female business ownership and create an enabling environment for female-founded start-ups and businesses.	The G20 must eliminate barriers to access to expertise and finance for women-owned/led micro, small and medium enterprises as well as informal entrepreneurs and women-founded start-ups through affordable legal support, increased financial literacy and a range of financial instruments.	Facilitating firms' ability to participate efficiently to a GVC fosters their ability to grow and succeed, making the GVC ecosystem an inclusive and enabling environment.
Digitalization	Enable and Support Resilient Digital Infrastructure	• The G20 should enable and support resilient digital infrastructure by setting the regulatory foundations, boosting investment to reduce connectivity gaps, ensuring robust global value chains for technology and incentivizing affordable digital access via services, networks and devices. • G20 members should develop robust, resilient and joint cyber strategies against cyberattacks for individuals, MSMEs, businesses, and governments by adopting principles that foster an ecosystem of trust, promoting recommended minimum common international cybersecurity standards in collaboration with industry best practices, and providing incentives for businesses demonstrating cybersecurity readiness.	The objective is to **create trusted sources of standard information**, used by all GVC participants, containing a dataset far richer than that existing in any one system today. This potentially eliminates data silos and enables existing innovations to scale. Cyber risks inevitably need to be managed with a coordinated strategy.
	Drive digital inclusion and grow digital skills.	• Overcoming the digital connectivity gap. • Introducing and advancing innovative methods for digital education. • Providing more digital job opportunities to women.	Foster innovation across firms to **facilitate the access to and diffusion of digital skills** and spread new technologies, which helps in particular SMEs and start-ups to develop and use their internal resources effectively.

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LIST OF ACRONYMS

AML	Anti-Money Laundering
BAFT	Bankers' Association for Finance and Trade
CCF	Credit Conversion Factor
CFT	Combating the Financing of Terrorism
DLs	Distributed ledgers
DLT	Distributed Ledger Technology
EBIDA	Earnings Before Interest, Depreciation and Amortization
EU	European Union
FSB	Financial Stability Board
GDP	Gross Domestic Product
GDPR	General Data Protection Regulation
GVCs	Global Value Chains
IFC	International Finance Corporation
IFSA	International Financial Services Association
IRB	Internal ratings-based
ISO	International Organisation for Standardisation
KYC	Know Your Customer
MDBs	Multilateral development banks
MPIA	Multi-Party Implementation Agreement
OECD	Organisation for Economic Co-operation and Development
SDGs	Sustainable Development Goals
SME	Small and medium-sized enterprise
WEF	World Economic Forum
WTO	World Trade Organization

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