

Beyond efforts to leverage the potential of the technology to enhance existing traditional trade finance processes, such as letters of credit, the disruptive nature of the technology is leading some companies to develop new supply chain finance products and models.

While letters of credit remain important, an increasing number of trade transactions take place on open account terms using supply chain financing.<sup>3</sup> In the European Union, for example, letters of credit are, in fact, little used for intra-regional trade. Not without a reason: the cumbersome process involved with letters of credit usually takes longer than the time needed for the goods to arrive at destination. Open account transactions, however, are the highest risk option for the exporter: in an open account transaction, the goods are shipped and delivered before payment is due.<sup>4</sup>

Making open account financing less risky using blockchain technology was the bet made by seven banks in December 2016, with the launch of the Digital Trade Chain Consortium, since then renamed We.trade (Groenfeldt, 2017). We.trade is a blockchain-based “bank-centric platform”, built on the Hyperledger Fabric, that counts nine banks and covers 11 EU countries (July 2018 data).<sup>5</sup> Traders register to the platform via their banks. Importers and exporters can then record their transactions on the platform after having agreed the terms of their contract (goods concerned, price, payment term, settlement conditions). A smart contract provides guarantee of payment and automatic settlement when the conditions determined between the parties are met. Payments can either proceed on open account terms or via a Bank Payment Undertaking (BPU), i.e. a bank guarantee of payment. The platform completed its first live operations in July 2018, involving twenty companies and five major banks (Suberg, 2018).

The We.trade initiative is only one among many projects that are blossoming in various corners of the globe. For example, IBM recently partnered with Indian company Mahindra<sup>6</sup> and Chinese conglomerate Sichuan Hejia<sup>7</sup> to develop new permissioned blockchain-based solutions for supply chain financing; and China-based Dianrong, a leader in online marketplace lending, and FnConn (a Foxconn subsidiary) united to launch ChainedFinance in March 2017.<sup>8</sup> Other examples include the partnership between Mizuho Financial Group and Hitachi, the Eximchain project supported by the MIT (Huertas, Liu and Robinson, 2018), and the Marco Polo platform released in September 2018.

All of these platforms leverage blockchain technology and smart contracts to streamline financial flows between buyers, sellers and financiers, and enhance the security, speed, transparency and reliability of supply chain financing. Recent studies demonstrate that Blockchain can, indeed, deliver substantial benefits for all parties