

EZD Global and Hypo Public Finance Bank join forces

EZD Global and Hypo Public Finance Bank have signed a three-year revolving trade credit facility which will enable significant growth of EZD's innovative financial logistics product.

EZD has pioneered the integration of logistics and finance to support global supply chains for over five years and this arrangement will allow them to cement

their position supporting this emerging and dynamic sector of trade finance.

Hypo's participation recognises that EZD's expertise in the use of detailed logistic status information to mitigate execution risk can be used to effectively manage financial exposure. This enables global supply chains to be financed on a controlled basis so that existing financial resources tied up

in transit inventory can be freed to be used to greater benefit.

The partnership allows Hypo to diversify and enter the global trade finance sector and will provide EZD with the ability to expand services to benefit European retailers and manufacturers and their suppliers based in Asia and the eastern Mediterranean.

EZD Global reflects on the above transaction, asking why in this current financial climate both EZD and Hypo Bank have seemingly gone against the grain to create this revolving credit?

This revolving credit facility agreed between EZD and Hypo Bank is interesting especially as the global markets are facing a near blizzard of credit uncertainty. Equally fund providers are reeling from the sub-prime fallout and equity drop of many of the majors servicing the market.

EZD provides supply chain finance but then again so do a whole plethora of innovative companies out there, but to secure a multi million dollar revolving facility required more investigation.

EZD provides a supply chain solution that facilitates the non-recourse funding of inventory in transit as well as several other value add benefits to sellers and buyers alike. More importantly is EZD's potential impact on the debt market which is imploding and is looking for alternative debt cash generators. Ok so, sub-prime, debt, credit squeeze, what's this got to do with supply chain?

All businesses are aware that while the global economy suffers and braces itself for more backlash the economic belts are being tightened, banks are shedding staff, interest rates are either being slashed as in the USA or increased as in China. Exchange



rates are volatile and Chinese inflation is rising, salary increases have outpaced inflation and the cost of land to support the worlds largest migration are all adding to the burden of Western buyers sourcing from Asian suppliers. So the knock on effect of the sub-prime debacle has a direct impact on East – West trade particularly in trade finance. Chinese banks have increased interest rates, are more reluctant to discount letters of credit, are reluctant to provide finance for open account transactions and in general are blowing the whistle on the previous boom years causing many Chinese suppliers to take stock, discern their most valuable customers, demand faster

payments and gain fluid cash-flow. Many forward thinking businesses realise that the supply chain is the key to their survival especially as the boom years are over and real cost considerations have to be employed in order to maintain the equilibrium. Software companies have offered products that align the supply/ demand cycle giving real time visibility allowing stock levels to be better managed and inventory turns reduced. Some banks are climbing aboard to align their own products to supply chain software in order to provide a means of cash release for inventory in the supply chain. Is this why Hypo have signed with EZD?

In short no. EZD is not a technological sales product but does provide a solution which is both a win-win for the fund providers and the global traders whether a vendor or supplier, east to west or visa-versa. EZD's whole approach has been to look at the supply chain granularly and identify the



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disconnects, then deconstruct the whole methodology and reconstruct as an EZD solution which provides Global traders with an alternative means of cash-flow, a risk free procurement process, a means of releasing the value of the supply chain at FOB and an alternative asset class which unlike the sub-primes is guaranteed short term debt.

So let's examine what EZD does for the commercial world and then look at its deliverable to the banking environment. In the commercial world, especially now as businesses become less stable, business leaders will be looking for any means to increase cash-flow and raise equity value and a previously overlooked place is the supply chain. The mistake many financial managers make is they seek to take a cost reductive item from the supply chain or try and add a cost reductive benefit to it, in terms of inventory optimisation, or a leverage loan for finance to their suppliers. If the solution is to take from the supply chain, in most cases you are in danger of weakening your supply chain and as we all know you only need one weak link for total collapse. If the answer is to assist your suppliers with a leveraged loan enabling

you to maintain continuity, supplier support and finished goods to compete but at what cost. The loan will be on the facility of the buyer, which of course carries its own costs.

This is where the EZD deconstruction of the supply chain comes into effect. World trade is about US\$7tn and at any one time about US\$700bn is exposed in the supply chain. The reason for this exposure is due to the fact that whenever goods move in one direction, money has to move in the other and until either the goods arrive or the money arrives, there is a clear and unresolved exposure.

Traditionally this gap has been filled by means of a number of different methods, notably letters of credit, bills of exchange, factored invoices, or just plain open accounts. In every case, someone, either the buyer or the seller, has had to take a risk and collateralise the fund provider in respect of this risk.

For example, in a letter of credit (LC) an undertaking is given by the buyer, or more accurately, the buyer's bank, to the seller indicating a level of security for payment of the debt, provided that the conditions of the LC have been fulfilled

The effect of this is simply to ensure that the seller has some measure of security

It is self-liquidating over a 90 to 120 day period, provides an absolute counter-party security and total collateral security during transit

and the buyer has some level of security of delivery; the bank however takes no risk but simply provides the guarantee, in effect using the balance sheet of the receiver to do so.

In other examples, the factored provider provides funds against the commercial invoice in return for discount but leaving the risk of default with the seller.

The scale of trade is therefore limited to

the size and quality of the balance sheet of the poorest party in the chain. As mentioned earlier, any chain is as strong as its weakest link and the supply chain is no different. The scale of business, however, in the supply chain related to the size of the markets which either produce goods or sell them, and is not related in any direct way to the size and the quality of the balance sheets through which the flow of goods will pass. What this means is that the value of the goods - in limbo as it were - i.e the US\$700bn, is very poorly secured and naturally forms a poor security for any bank. It is, however, quite self evident now that supply chain technology and visibility can very significantly reduce the execution risk hitherto left unresolved.

EZD recognises this gap and uses very accurate supply chain definitions and tracking to provide the underlying mitigation of execution risk that allows funds to flow into the supply chain and be secured against physical and financial mitigation with insurers.

The benefit of this service across the physical supply chain of production to retail sales is extremely valuable, as it releases resources of an equity nature, otherwise tied up in the finance. This release means that these resources can be deployed by either buyer or seller in far more productive ways, releasing not only the resources locked up in the balance sheet, but increasing capacity to align with the volume of trade that can be done.

Properly constructed and priced, this opens up supply chains through liquidity pools hitherto not interested in trade finance and moreover to an asset class of global proportions, which will hold its finance margins irrespective of demand. This is the alternate asset class we discussed earlier which could be the short term debt funding the banks are looking for and is a key reason why Hypo are funding. Consider this, in a world of volatile equities and poorly structured financial products, the resulting product has striking characteristics of some value. It is self-liquidating over a 90 to 120 day period, provides an absolute counter-party security and total collateral security during transit, in addition

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to which the growth of the market means that a continuous supply of new business seeking this methodology is guaranteed.

Liquidity pools currently open to this come from the asset based banks, hedge fund industry and pools of liquidity which would otherwise not be open, for example Islamic Shariah-based funds. In contrast, traditional trade banks, while having the power in the market, deliver their products on a customer relationship base. What this means is that clients dissociate the buying decision from the finance decision and perpetuate the problem addressed earlier in this article.

EZD's solution has the advantage of complementing resources already deployed in the market and enhancing the collateral value to the user, allowing bank products to be more effectively offered by the clearing banks currently in the trade finance market.

The yield can be sustained over a practically infinite level of demand, which means that the asset class - even if it is only marginal in the market - will certainly be of the order of US\$50-100bn.

But the real ongoing value is that there will be a net release of economic value and a net reduction of economic loss which in the current global environment, can only be a valuable thing, as it does not seek to penalise one party for the advantage gained by the other, but seeks to eliminate the inefficiencies to allow the benefits to flow to all.

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Bank of China adopts new J2EE trade solution



The Bank of China (BOC) is in the process of integrating China System's J2EE-based

trade solution Eximills Enterprise into its other business processing systems. BOC's licensing of Eximills Enterprise is intended to meet with the bank's centralised business processing requirements. The new international settlement and trade finance business processing system, known as GTS internally, will aim to improve efficiency, prompt risk control at management level and improve the bank's overall service offering.

It is expected that the Eximills Enterprise system will be fully integrated into BOC's business processes by 2009.

BOC is one of four large state-owned commercial banks in China. It also is the country's oldest bank, established in 1912.

PrimeRevenue releases key performance results

PrimeRevenue, a provider of supply chain finance (SCF) solutions has announced key year-end results, revealing that its PrimeRevenue SCF Platform has processed over US\$30bn in payments from 20 buyer organisations.

More than half of these were made in 12 months ending May 2008. By year-end 2008, existing and new programmes are planned to bring an additional US\$25bn in payments and financings for the year. Since last August, PrimeRevenue has seen an increase of 40% in its supplier-initiated receivables. The company's supplier population doubled in the 12 months ending May 2008.

PrimeRevenue was founded in 2003, and links buyer companies and suppliers in a secure web environment, offering suppliers guaranteed payment visibility and on-demand early payment of receivables. Financial institution partners include

Bank of America, BMO Capital Markets, Macquarie Bank, Morgan Stanley, and National City Bank. A total of 20 financial institutions and non-financial partners promote the PrimeRevenue SCF Platform, principally in North America, Europe and Australasia markets.

"Our solution, compared to other working capital offerings, provides the greatest capability for the supplier to optimise their working capital.

"As risk becomes more traditionally priced and credit availability constrained, organisations find our solution to provide the best of all worlds, on-demand working capital," explains PrimeRevenue CEO, Joe Juliano.

He adds: "Our growth shows that supply chain finance is gaining significant traction with large corporates, their suppliers, and financial institutions focusing on global trade."