

# SME Financing via Programmable Money and Tokenisation



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This Roundtable was held during the 2023 Point Zero Forum and was hosted by the Bank of Thailand. This note summarises the themes that emerged from the conversation, and calls to action. The discussion was held under Chatham House rules and comments are not attributed. The opinions expressed herein are the personal views of the Roundtable participants and do not necessarily reflect the official views of the hosts or participants' respective organisations.

The Bank of Thailand has observed that smaller SMEs, despite their importance, have difficulty to obtain financing and

liquidity. Often, SMEs are only paid about 60 to 90 days after delivering their products to corporate buyers, which means they need to advance significant funds. For lenders, however, the amounts involved are often too small to provide financing at attractive rates. In particular, mitigating the associated risks would be too costly. Corporate buyers are in a position to help lenders mitigate the associated risks by validating the SMEs claims, but have no incentive to do so. The goal of the roundtable was to identify the relevant factors to consider when trying to solve the above dilemma with programmable money and tokenisation.



These key takeaways came from valuable insights shared in the round table, which are discussed in more detail below, grouped in three main considerations.

### Fostering participation in SME Financing

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- **Government involvement:** Governments can ascertain proper incentives or rules for platform providers, e.g. to foster collaboration and interoperability. Government involvement may also help to generate clarity in regards to data privacy. Finally, governments may provide direct support for invoice financing platforms by making the use of a platform mandatory or support in a more subtle way e.g. by only accepting invoices to the government if they are issued via such a platform.
- **Business case:** Tokenised invoice financing helps companies and banks to digitalise their invoicing and invoice financing processes, resulting in significant cost savings.
- **Data sharing:** Only the availability of data will make the financing providers give more credit and better rates to SMEs. Additionally, the platform must also incentivise financing providers to share data amongst themselves. This is especially true for KYC and onboarding data. As such a process is quite costly and burdensome for SMEs, only one onboarding should be required to access the services of all providers.
- **Openness:** It is key that the platform is open on the end of both the borrowers and the lenders. Openness towards borrowers should

enable businesses that relied so far on informal payment rails to access financing, too. Openness towards different lenders should avoid creating new monopolies or siloed platforms. Such two-sided openness will help to address the diverse business models and financing needs of SMEs: Some might have large invoices every other month, while others have a steady revenue stream. Last but not least, open models also tend to provide better prices.

### Technology, design and governance considerations for programmable money

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- **Technology is ready:** Open-source software is widely available and functional. This means that instead of building a platform from scratch, one can benefit from the work and experience of others. Furthermore, the limitations that applied to blockchain technology in its early stages have now been overcome. All of this means that the focus is shifting away from technology issues to design and governance issues, which in turn dictate the use of technology.
- **Settlement:** Different possibilities exist to settle claims on such a platform. The choice of this has large repercussions. The use of CBDC helps to reduce the settlement risk. However, CBDC gives the central bank the final decision on SME financing. It seems questionable whether the central bank wants to take this responsibility. Furthermore, CBDC may be challenging for international transactions. A deposit token may circumvent this issue and keep the advantages (but also the

disadvantages) of the established two-tier banking system. Stablecoins might be a middle ground between the two.

- **Embed governance in technology:** The technology should itself support the governance of the platform. Especially when it comes to data sharing, a well-thought out design is essential. Some possibilities include smart contracts that incentivise the sharing of KYC data or the use of zero-knowledge proof technology to ensure privacy.
- **Interoperability:** Interoperability should address both the network as well as the application level. The interoperability of the platform should allow it to address the needs of different users, but also to interact with other platforms, for example in an international context. APIs should enable add ons of other functionality like digital identity or ESG aspects. Finally, interoperability will also allow recalibration of the value chain of invoice financing and new providers to emerge.



### Law & Regulation Considerations for SME Invoice Financing

With regard to the law and regulation of SME invoice financing, the participants identified the following four layers of analysis and possible associated problems. Only if all of these layers are adequately adjusted, legal certainty can emerge:

- **Tokenisation of the invoice:** The legal system has to provide the basis for the tokenisation of the invoice. The legal system might also regulate and restrict tokenised invoices in certain circumstances. In particular, major regulatory duties may be triggered if the tokenised invoice qualifies as a security in a jurisdiction.
- **Lender-borrower relationship:** The lending activity might be regulated and require a licence. Additionally, procedures will be required for reconciliation between the parties if conflicts arise.

- **Underlying contract:** Not all contracts are fungible and eligible to tokenization. Special rules may apply on different underlying claims, e.g. with regard to consumer protection. Likely, a robust due diligence process of the underlying invoices is required, but needs to also be simple enough for SMEs.
- **International perspective:** Even if such a platform is a national project only, some international aspects need consideration. Especially US legislation might apply extraterritorially. Conflicts of law may arise if foreign claims are subject to financing.

### **How Programmable Money and Tokenisation can foster SME Financing**

Programmable money and tokenisation provides for solutions to many of the issues addressed at the roundtable. Although legal and regulatory considerations are a considerable

hurdle, advantages outweigh. It will be key that the platform will balance the interests of all stakeholders. Programmable money and tokenisation gives the possibility to embed governance mechanisms that will support participation from all relevant groups in invoice financing.

The insights from the roundtable will help the Bank of Thailand in extending and refining its work on programmable money and tokenisation for SME financing. The Bank of Thailand will use the insights to further engage with key stakeholders, public and private, in order to together explore possible solutions that are supportive of SME financing and also viable from business, technology, and legal & regulatory perspectives.





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