# MODULE 6 UNIT 4

## Capstone project

**Learning outcomes:**

**LO5:** Recommend a solution to a problem encountered in the FinTech sector, based on what you have learned from the cases.

**LO6:** Present a slide deck that proposes a plan of action for overcoming challenges in the FinTech space.

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| **Plagiarism declaration** |
| **1. I know that plagiarism is wrong. Plagiarism is to use another’s work and pretend that it is one’s own.**  **2. This assignment is my own work.**  **3. I have not allowed, and will not allow, anyone to copy my work with the intention of passing it off as their own work.**  **4. I acknowledge that copying someone else’s assignment (or part of it) is wrong and declare that my assignments are my own work.** |

**Problem 2: BanQu and blockchain technology for shipping**

The European Union has demonstrably contributed to sustainable development goals (SDG), Corporate Social Responsibility (CSR), and Environmental, Social, and Governance (ESG) investing initiatives over the years. The OECD Due Diligence Guidance for Responsible Business Conduct, the EU’s Circular Economy Action Plan, the EU Conflict Minerals Regulation for responsible sourcing, the European Green Deal, the Net-Zero Industry Act, the Environment action program to 2030, the European Pillar of Social Rights Action Plan, and the European Commission initiative on sustainable finance are concrete examples of the Union’s sustainability leadership. The EU Supply Chain Law proposed by the European Commission in February 2022, reinforced by the EU Parliament in June 2023, and awaiting enactment pending agreement between the European Parliament and the Council of Ministers, is a recent demonstration of the Union’s commitment to sustainability.

Unicredit, a pan-European Commercial Bank, has reached out to my consulting firm to evaluate the services of BanQu, a blockchain-based supply chain traceability platform, and to advise on the strategic opportunity of either acquiring or partnering with the FinTech company to boost the bank’s supply chain financing offerings, with emphasis on compliance and ESG, and on anticipating the enactment of the EU Supply Chain Law. After careful analysis of Banqu’s platform and experience and Unicredit’s compliance commitment, technological capability, and business situation, we concluded that a partnership with BanQu would be in line and apprised our client, Unicredit, accordingly.

Just before we discuss Unicredit’s ESG and innovation posture, let’s have a glimpse at the company’s profile: Unicredit is a network of 13 banks, present in 4 European regions, and has over 15 million clients worldwide, a revenue of over $21 B in 2022, and 81 K employees. The company’s assets include one leader Corporate Center embedding Digital and Data, and two product factories serving all regions.

Unicredit has issued 6 Green bonds worth $3.56 B, one Social Bond worth $100 M, and an elaborate Governance Plan focused on ESG policies including Gender Equity and Inclusion. It won both “Global Finance's Trade Finance” and “Supply Chain Finance CEE” Awards in December 2022 thanks to assessment of several of its supply chain and trade finance parameters by industry analysts, corporate executives, and technology experts. In September 2020, it was granted the prestigious award “Best Bank for Supply Chain Finance” in recognition of its contribution to streamlined supply chain finance innovation and agile management of supply chain during the COVID-19 pandemic with a robust plethora of digital tools. The bank adopted a multidimensional approach to supply chain management with focus on working capital efficiency, reverse factoring, and dynamic discounting. It has also actively engaged in enriching its offering by partnering with FinTech companies such as Taulia and FinDynamic. Earlier on in July of the same year, during the Euromoney Awards for Excellence, it collected six accolades, including “Best Bank for Transaction Services in Central and Eastern Europe.”

The track record of Unicredit’s innovation leadership extends as far back as 2017 and, perhaps, earlier. In March 2019, the bank reported a successful trial launch of blockchain-enabled trade via the we.trade platform whose efficiency was acclaimed by two of Unicredit’s clients: Gruppo ASA and Steelforce Group. The project, whose main objective was to simplify international trade for SMEs, was initiated in 2017 by Unicredit and six other banks, and later on joined by four more banks. By 2019, the consortium consisted of 13 banks and was present in 14 European countries.

IBM’s we.trade platform, described by the Hyperledger Foundation as “the world’s first enterprise-grade, blockchain-enabled trade finance platform,” had a similar fate as Tradelens, another IBM blockchain project: It failed. Meanwhile the former’s plight was purportedly due to dwindling cashflow, Tradelens suffered from lack of commercial viability because Maersk, IBM’s logistics and funding partner for the project, was unwilling to continue funding the project, visibly more interested in maintaining a competitive edge than facilitating collaboration between shipping trade partners, and because IBM clearly could not pursue the project otherwise. These failures illustrate the challenges associated with a cutting-edge innovation such as applying the blockchain to supply chain management and, specifically, supply chain financing. We determined, after an extensive assessment of the different facets of the problem submitted to us by Unicredit, including the above-discussed failures, that their best bet would be to negotiate a good partnership with an experienced and successful player in the nascent field.

BanQu was borne of a need to help global brands track and control their whole supply chain from “farm to fork,” inspired by BanQu’s co-founder and CEO, Ashish Gadnis’ experience with a farmer in Congo who had trouble opening a bank account because she couldn’t prove her contribution to the supply chain. The company is present in 58 countries, has integrated 13 languages and connected 2.5 M people, and has the ambitious mission of lifting 100 million people out of extreme poverty by 2028. The platform has a user-friendly design, provides real-time source data, and ensures compliance via a patented-blockchain solution.

The European Supply Chain Law requires target companies to identify actual and potential human rights and environmental problems within their supply chains and to take appropriate measures to prevent, mitigate, and remedy the problems. These objectives are largely catered for by the BanQu platform. The platform proffers source-level data, is completely accessible and device agnostic, creates real-time reports, improves raw material predictability, and ensures compliance with relevant regulations and standards. BanQu’s success stories include tracking donor funding for COVID-19 relief, supporting Coca-Cola’s contribution to the Circular Economy by tracking and tracing recycled material across the value chain, helping JTI (Japan Tobacco International) fight child labor by implementing transparent communication and collaboration among subcontractors in the tobacco community, and eliminating supply chain blindspots in Zimbabwe’s Brewery industry by helping farmers build a permanent history of their harvest, streamlining the buying process, facilitating the audit of the supply chain, and creating long-term farmer development plans. Unicredit’s determination to continuous innovation leadership in supply chain financing and commitment to sustainability and compliance as demonstrated by the company’s Sustainability Strategy and ESG goals, Sustainability Governance, Stakeholder Engagement in Sustainable Development Goals, ESG Sustainability Policies and Ratings, Value Creation Over Time, and Path towards Net Zero, will undoubtedly fit in with the unique offerings of BanQu.

The BanQu platform provides sophisticated information tracking and smart contracts for automatic transaction management based on pre-established rules. However, the platform will need to be upgraded to integrate specifics of the EU Supply Chain Law such as verifying that company policies and management systems include appropriate due diligence and assessing a company’s commitment to emission reduction targets as spelled out in the Paris Climate Agreement. We suggested that Unicredit include these considerations in the negotiation with BanQu discussed below.

We proposed a revenue-sharing partnership between Unicredit and BanQu. Unicredit will provide BanQu access to its extensive network (13 subsidiary banks in 4 core European regions, 15 million clients across Europe, and several strategic partners and their clients). BanQu, in turn, will provide experience and expertise on effective blockchain-based finance applied to supply chain management. The parties will then agree on the percentage split of ensuing profits as well as operational and administrative specifics related to the proposed partnership.

In this paper, we discussed Unicredit’s ambition to maintain leadership in innovation within supply chain financing and, specifically, the request to assess and advise about partnering with or acquiring BanQu submitted to my consulting firm. We presented the respective strengths, shortcomings, and experiences of Unicredit and BanQu relative to the project. From our assessment, we determined that it would be most appropriate for the two companies to negotiate a partnership, owing, in part, to lessons learned from previous unsuccessful ventures in a similar context, and to BanQu’s comparable success. We then moved on to propose a revenue-sharing model, suggesting, that specifics of the EU Supply Chain Law be discussed during the negotiation.

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