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Centre tightens norms for foreign contributions -The amendments introduce a category-based regulatory framework, tighten monitoring of foreign fund utilisation, enhance transparency and accountability requirements.

P3. SCIENCE

The strange link between AI hallucination and creativity - India's dependence on foreign-controlled digital infrastructure has emerged as a strategic vulnerability affecting economic security, defence preparedness and technological autonomy.

P6. INTERNATIONAL

IMO plans to evacuate ships in Persian Gulf- The IMO has launched a phased evacuation and transit plan to move ships stranded after disruptions caused by the Iran–US conflict in the Strait of Hormuz.

Editor's Note

In today's edition of the Pala Civil Times, we turn our attention to some of the most significant developments shaping India and the world. At the national level, the focus is on the latest amendments to the Foreign Contribution (Regulation) framework, which introduce a more structured and transparent regime for NGOs receiving foreign funds. The revised rules clearly define permissible activities, strengthen disclosure requirements, tighten oversight of fund utilisation, and place greater restrictions on conversion-oriented activities and organisational control structures.

On the international front, attention remains fixed on the Strait of Hormuz following the Iran–US understanding. While hostilities have eased, maritime traffic continues to face disruptions. The International Maritime Organisation (IMO) has proposed a phased transit and evacuation plan through temporary corridors, though its effectiveness in restoring normal shipping flows remains to be seen.

The economy section brings encouraging news for MSMEs through the strengthening of the Trade Receivables Discounting System (TReDS), a mechanism designed to improve access to working capital by enabling faster conversion of invoices into cash. Meanwhile, the decoded editorials examine India's economic vulnerabilities exposed by the West Asian crisis, particularly in energy and trade logistics. The edition also highlights recurring urban fire incidents and safety failures, drawing attention to deeper structural and governance challenges. We encourage readers to engage with each article carefully and build a holistic understanding of the issues shaping contemporary affairs. Happy reading.

P8. ECONOMICS

RBI tweaks process to onboard MSMES on TReDS platform - The RBI has issued revised directions for the Trade Receivables Discounting System (TReDS) to strengthen invoice financing and improve MSMEs' access to working capital.

Editorials Decoded

The Indian EXPRESS

A recurring, preventable tragedy in Lucknow

The gap between India's robust fire-safety regulations and their weak enforcement make recurring urban fire disasters largely preventable governance failures.

THE HINDU

Evident distress

West Asia crisis has exposed India's underlying economic vulnerabilities, including weak domestic demand, declining energy self-sufficiency, sluggish industrial growth, and inflation-induced pressure on household consumption.

Centre tightens norms for foreign contributions

The Foreign Contribution Regulation Act (FCRA) was originally enacted during the Emergency in 1976 amid concerns that foreign powers were attempting to influence India's political and social processes through funding of domestic organisations. These concerns had been raised in Parliament as early as 1969. The Act, subsequently replaced by the FCRA 2010, regulates the receipt and utilisation of foreign contributions by individuals, associations and NGOs. The latest amendments seek to strengthen transparency, standardisation, accountability and monitoring of foreign-funded activities while ensuring that foreign contributions do not adversely affect national interests.

Regulation of Religious and Sensitive Activities

- The amended schedule provides detailed lists of permissible activities under the religious, educational, social, economic and cultural categories.
- A key change is the explicit exclusion of proselytisation from activities such as religious education, theological studies and preservation of indigenous or tribal faith traditions.
- Foreign funding remains permissible for religious instruction, preservation of scriptures, maintenance of places of worship and documentation of religious traditions.
- The amendment reflects the Supreme Court judgment in Rev. Stainislaus v. State of Madhya Pradesh (1977), which held that propagation does not include a right to convert others.
- Educational programmes relating to constitutional rights, fundamental duties and civic responsibilities must remain strictly non-political.

Stricter Regulation of Foreign Contribution Utilisation

- Organisations seeking renewal must have utilised at least ₹10 lakh of foreign contribution during the previous two financial years to demonstrate reasonable activity.
- Entities operating under prior permission can receive subsequent instalments only after utilising at least 75% of the previous tranche.
- Release of future instalments will also be subject to field verification of actual fund utilisation.
- The amendments aim to prevent fund accumulation and improve efficiency in deployment of foreign contributions.
- The framework shifts regulatory focus from registration-based oversight to continuous monitoring of activities and expenditure.

Standardisation, Transparency and Accountability Framework

- NGOs must register under one or more recognised categories—social, economic, educational, cultural or religious—with each category linked to specified permissible activities.
- Organisations must disclose activities, geographical area of operation, websites, social media accounts and publications, expanding transparency requirements.
- Existing FCRA registrations must comply with the revised framework within one year, while new applicants must immediately follow the updated norms.
- Registration fees will vary according to activity categories and geographical scope instead of a uniform fee structure.
- The definition of key functionary has been expanded, and organisations with foreign nationals in such positions will ordinarily require Central Government approval.

Regulation of Religious and Sensitive Activities

- The government has revised the compounding framework under Section 41(1) of the FCRA and increased penalties for non-compliance.
- Exceeding the 20% ceiling on administrative expenditure will attract a penalty of ₹1 lakh or 5% of the excess amount, whichever is higher.
- Speculative investment of foreign contributions will attract a penalty of ₹1 lakh or 30% of the amount invested, whichever is higher, along with recovery of all returns earned.
- Diversion of foreign contribution from approved purposes or utilisation in unauthorised activities or locations will attract similar penalties.
- The revised regime raises the financial cost of violations while continuing to permit resolution through compounding instead of full criminal prosecution.

PYQ Compass

UPSC questions previously asked from the themes discussed on this page.

Q. Public charitable trusts have the potential to make India's development more inclusive as they relate to certain vital public issues. Comment. (GS II – Social Justice – 2024)

RELEVANCE ***GS II - Indian Polity; GS II - Role of NGOs; GS III - Indian Economy***

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The strange link between AI hallucination and creativity

Generative AI systems are capable of producing human-like text, code and analysis, but they can also generate plausible yet factually incorrect information, a phenomenon known as AI hallucination. While hallucinations pose serious risks in fields such as healthcare, law, finance and journalism, they are closely linked to the probabilistic nature of how Large Language Models (LLMs) generate responses.

Why Hallucinations Occur

An AI hallucination refers to a situation where an Artificial Intelligence system generates information that appears convincing and coherent but is factually incorrect, fabricated or unsupported by evidence. Such hallucinations may include invented citations, incorrect facts, fictitious legal cases or quotations wrongly attributed to individuals. While these errors can be harmless in creative writing, they pose serious risks in fields such as healthcare, law, finance and scientific research. Unlike a search engine or a conventional database that retrieves stored information, Large Language Models (LLMs) generate responses by predicting the most probable sequence of words based on patterns learned during training. They do not inherently distinguish between truth and falsehood; instead, they estimate what is statistically most likely to come next. When the model is encouraged to explore less probable word combinations, it can produce more original and unexpected outputs, but this also increases the likelihood of generating inaccurate or fabricated information. Thus, the same probabilistic mechanisms that enable AI to produce novel outputs can also give rise to hallucinations.

Computation, Intelligence and their Limits

Research on AI hallucinations has revived broader questions about the limits of computation. Building upon ideas associated with Alan Turing, Kurt Gödel and Roger Penrose, scholars argue that no computational system can be universally correct on every possible problem. This suggests that certain errors may arise not merely from imperfect engineering but from fundamental constraints inherent in computable systems.

Human Imagination and the Limits of AI

Human progress has often emerged through imagination, experimentation and hypothesis formation. Scientific discoveries, technological innovations and artistic creations frequently begin as speculative ideas, many of which are initially incorrect before being refined through observation, experimentation and critical reasoning. Generative AI can also produce novel and unexpected outputs by exploring patterns beyond the most probable responses. However, unlike humans, AI has no inherent understanding of truth and no independent mechanism to verify the accuracy of what it generates. Consequently, the same processes that enable AI to produce useful and original outputs can also result in hallucinations.

Towards Trustworthy AI

The challenge is not only to reduce hallucinations but also to build mechanisms that verify AI-generated outputs. Just as science relies on experimentation and peer review, and journalism relies on fact-checking, AI systems require institutional safeguards that balance reliability with innovation. The long-term goal is to develop AI that remains creative and useful while operating within robust ethical, regulatory and verification frameworks.

PYQ Compass

UPSC questions previously asked from the themes discussed on this page.

Q. Introduce the concept of Artificial Intelligence (AI). How does AI help clinical diagnosis? Do you perceive any threat to privacy of the individual in the use of AI in healthcare? (GS III - Science and technology - 2023)

RELEVANCE ***GS III : Science and Technology***

A recurring, preventable tragedy in Lucknow (Indian Express : 24-06-2026)

The Lucknow fire, which claimed at least 15 lives, exposed serious structural deficiencies in urban buildings, including a single narrow staircase serving as the only exit, absence of emergency exits, poor ventilation, and building designs that hinder evacuation and rescue operations. Such shortcomings are not unique to this incident but reflect broader weaknesses in urban safety governance, where commercial considerations often outweigh safety requirements, turning many buildings into potential fire traps and increasing the risk of large-scale loss of life.

Recurring and Preventable Tragedies

Recent fire incidents across hostels, hospitals, coaching centres, hotels, and commercial establishments demonstrate a recurring pattern of safety violations and poor emergency preparedness. ***The repeated nature of these tragedies suggests that the problem is structural rather than isolated.*** Many deaths occur not because of the fire itself but because evacuation routes, emergency exits, and rescue access are inadequate or absent.

Presence of a Comprehensive Regulatory Framework

India already possesses an extensive legal and regulatory framework for fire safety. **Fire services are included in the Twelfth Schedule under Article 243W**, making them a municipal responsibility, while **fire and emergency response functions are also managed by states under the State List.** The **Bureau of Indian Standards' National Building Code** contains detailed fire-safety provisions, including fire zoning, occupancy-based building classification, fire-resistant construction standards, evacuation requirements, means of egress, and both portable and fixed firefighting systems aimed at protecting life and property.

PRACTICE QUESTION

Q. With reference to fire safety regulations in India, consider the following statements:

1. The National Building Code (NBC) provides model fire and life safety standards, but their enforcement rests primarily with State governments and local authorities.
2. A Fire No Objection Certificate (Fire NOC) is generally issued after verifying compliance with prescribed fire safety norms for a building.
3. The National Disaster Management Authority (NDMA) is the statutory authority responsible for granting Fire NOCs to commercial and residential buildings.

Which of the statements given above are correct?
(a) 1 and 2 only
(b) 2 and 3 only
(c) 1 and 3 only
(d) 1, 2 and 3

Failure of Implementation and Enforcement

The principal weakness lies in implementation. Administrative laxity, irregular inspections, weak compliance mechanisms, and fragmented institutional responsibilities often allow violations to persist. Multiple agencies may share oversight responsibilities, resulting in blurred accountability and delayed action. Consequently, regulatory frameworks that are adequate on paper frequently fail to ensure safety in practice.

Strengthening Urban Governance and Accountability

Reducing fire-related disasters requires stronger enforcement, periodic safety audits, clear institutional accountability, and stricter compliance monitoring. As rapid urbanisation increases pressure on infrastructure and housing, public safety must be prioritised over commercial gains. Effective fire safety is not only a disaster-management concern but also an essential component of good urban governance, public trust, and sustainable urban development.

PYQ Compass

UPSC questions previously asked from the themes discussed on this page.

Q. With a brief background of quality of urban life in India, introduce the objectives and strategy of the 'Smart City Programme.' (GS I - 2016)

Q. Bring out the causes for the formation of heat islands in the urban habitat of the world. (GS I - 2013)

RELEVANCE *GS III : Disaster Management*

Evident distress (The Hindu : 24-06-2026)

The ongoing West Asia crisis has brought renewed attention to several underlying weaknesses in the Indian economy that existed even before the conflict began. Recent economic indicators suggest that growth momentum has weakened considerably, with the performance of key industrial sectors remaining subdued throughout the previous financial year. The crisis has therefore acted more as a stress test that has exposed pre-existing vulnerabilities rather than being the sole cause of the slowdown.

Energy Security Concerns

One of the most significant concerns is India's continued dependence on imported energy. Domestic production of crude oil and natural gas has been declining for several years, forcing greater reliance on imports to meet growing demand. While imports help address immediate shortages, inadequate domestic production limits India's ability to build strategic reserves and reduces resilience against global supply disruptions. Weakness in the natural gas sector has also affected related industries such as fertilizer manufacturing.

Industrial and Infrastructure Challenges

Several core sectors that support economic activity are showing signs of weakness. Fertilizer production remains in contraction despite some improvement, while coal output has fallen sharply, raising concerns about energy availability during periods of high electricity demand. Lower production across these sectors indicates broader challenges in industrial activity and infrastructure support, which could become more pronounced if adverse weather conditions such as a deficient monsoon or a strong El Niño event materialize.

PYQ Compass

UPSC questions previously asked from the themes discussed on this page.

Q. "Access to affordable, reliable, sustainable and modern energy is the sine qua non to achieve Sustainable Development Goals (SDGs)." Comment on the progress made in India in this regard. (GS III - 2018)

Q. "Industrial growth rate has lagged behind in the overall growth of Gross-Domestic-Product (GDP) in the post-reform period" Give reasons. How far the recent changes in Industrial Policy are capable of increasing the industrial growth rate? (GS III - 2017)

RELEVANCE

GS III : Indian Economy

Weak Domestic Demand

Perhaps the most worrying signal comes from slowing domestic demand. GST collections from domestic transactions have weakened, suggesting reduced economic activity within the country. This slowdown is not driven by a lack of production capacity or export opportunities, as merchandise exports have reached record levels. Instead, rising inflation combined with sluggish real wage growth is eroding household purchasing power, limiting consumer spending and weakening overall demand in the economy.

The Need for Structural Reforms

Taken together, these indicators point to a broader challenge facing the Indian economy: weak domestic demand, energy insecurity, and sluggish industrial growth occurring simultaneously. Additional risks such as a deficient monsoon could further strain rural incomes and inflation. The article argues that while trade agreements and export growth are beneficial, they cannot substitute for deeper structural reforms aimed at boosting productivity, strengthening domestic production, improving energy security, and raising incomes to sustain long-term economic growth.

IMO plans to evacuate ships in Persian Gulf

The Strait of Hormuz, located between Iran and Oman, is the world's most important oil transit chokepoint, carrying nearly one-fifth of globally traded oil. Following the outbreak of hostilities between Iran and the United States in 2026, Iran effectively closed the strait, leaving hundreds of vessels and around 11,000 seafarers stranded inside the Persian Gulf. Although the June 17 Iran–US Memorandum of Understanding (MoU) enabled a limited reopening, navigation remained highly risky. In response, the International Maritime Organisation (IMO) announced a coordinated evacuation and transit plan to facilitate the safe movement of stranded vessels.

IMO's Phased Evacuation and Transit Framework

The evacuation plan was developed by the IMO in coordination with Iran, Oman, the maritime industry and other stakeholders. Since the traditional routes are considered unsafe due to the presence of mines, vessels are being routed through two temporary maritime corridors—**a northern route along the Iranian coast** and a **southern route along the Omani coast.** Ships are allocated specific transit dates and must remain in designated waiting areas until instructed to proceed. To ensure navigational safety and tracking, vessels are required to keep their Automatic Identification System (AIS) transponders operational throughout the transit process.

Operational Challenges and Strategic Disputes

The temporary corridors have significantly lower capacity than the pre-war route, accommodating only about **20–30 ships per day** compared to the normal traffic of **100–130 ships daily.** At present, hundreds of vessels remain stranded west of the Strait of Hormuz. As part of the interim understanding with the United States, ***Iran has committed to complete demining operations within 30 days***. However, fresh tensions have emerged over Iran's decision to establish a Persian Gulf Strait Authority to collect transit fees, a move opposed by the United States and likely to generate further disputes over maritime access and governance.

PYQ Compass

UPSC questions previously asked from the themes discussed on this page.

Q. Sea is an important Component of the Cosmos' Discuss in the light of the above statement the role of the IMO (International Maritime Organisation) in protecting environment and enhancing maritime safety and security. (2023)

Legal Dimensions: UNCLOS and Freedom of Transit

The developments have renewed attention on international maritime law, particularly the provisions of the United Nations Convention on the Law of the Sea (UNCLOS), 1994. UNCLOS guarantees the right of transit passage through international straits used for global navigation and generally prohibits unilateral tolls except for specific services requested by vessels. Although neither Iran nor the United States has ratified UNCLOS, both are members of the IMO and parties to the International Convention for the Safety of Life at Sea (SOLAS). The crisis also highlights the importance of AIS systems and IMO-designated Traffic Separation Schemes in ensuring maritime safety in congested waterways.

INTERNATIONAL MARITIME ORGANIZATION

Implications for India

The Strait of Hormuz is critical for India's energy and trade security, as a substantial share of its crude oil, LPG and fertilizer imports passes through the waterway. Following the June 17 MoU, several India-bound vessels, including crude oil tankers, LPG carriers and fertilizer bulk carriers, have successfully transited the strait, though some Indian-flagged ships remain stranded. The crisis has exposed India's vulnerability to disruptions in Hormuz through higher freight, insurance and supply risks. While the immediate priority remains the IMO-led evacuation and Iran's demining operations, the long-term response requires diversification of energy sources, expansion of strategic petroleum reserves and development of alternative connectivity corridors such as the Chabahar route and the International North-South Transport Corridor (INSTC).

RELEVANCE ***GS II : International Relations***

RBI tweaks process to onboard MSMES on TReDS platform

The Trade Receivables Discounting System (TReDS) is an RBI-regulated online platform that enables Micro, Small and Medium Enterprises (MSMEs) to convert their unpaid invoices (trade receivables) into immediate cash, thereby improving working capital availability. It addresses a major challenge faced by MSMEs—delayed payments and limited access to formal credit despite contributing significantly to economic activity. Recognising the large credit gap in the MSME sector, the RBI has recently strengthened the TReDS framework by prescribing a minimum net worth of ₹25 crore for platform operators and requiring compliance by March 31, 2028, with the objective of improving reliability and expanding access to invoice financing.

सत्यमेव जयते
MSME
MICRO, SMALL & MEDIUM ENTERPRISES
सूक्ष्म, लघु एवं मध्यम उद्यम

How TReDS Functions

TReDS operates through three participants—MSME sellers, buyers (including corporates, government departments and PSUs) and financiers such as banks, NBFC-Factors and other RBI-permitted institutions. An invoice or bill, known as a Factoring Unit (FU), is uploaded by either the MSME (factoring) or the buyer (reverse factoring), following which financiers compete through bidding to discount the receivable. Once the best bid is selected, the financier pays the MSME immediately and subsequently collects the amount from the buyer on the due date.

PYQ Compass
UPSC questions previously asked from the themes discussed on this page.

Q. Faster economic growth requires increased share of the manufacturing sector in GDP, particularly of MSMEs. Comment on the present policies of the government in this regard. (2023)

RELEVANCE
GS III : Indian Economy

LRS remittances fall 11.9% in Apr as overseas investments slow

Data released by the RBI showed that outward remittances under the Liberalised Remittance Scheme (LRS) declined to $2.29 billion in April 2026 from $2.59 billion in March 2026. The decline was primarily driven by a sharp fall in overseas deposits and investments in foreign equity and debt instruments, indicating a more cautious approach by resident Indians towards international financial assets. Despite the overall slowdown, overseas travel remained the largest component of remittances, accounting for about half of total outflows, while spending on holiday travel and international credit card transactions increased during the month, reflecting continued strength in outbound tourism and overseas spending.

Implications for India: Resilience Amid Emerging Inflationary Pressures

Introduced by the RBI in 2004 with a limit of USD 25,000 and subsequently expanded to USD 2,50,000 per financial year, the LRS allows resident individuals, including minors, to remit funds abroad for permissible current and capital account transactions. Current account transactions include travel, education, medical treatment, gifts, donations and maintenance of relatives abroad, while capital account transactions include overseas deposits, purchase of property and investments in foreign securities. The scheme is available only to resident individuals and not to corporates, partnership firms, HUFs or trusts; in the case of minors, remittance declarations must be countersigned by a natural guardian.

Practice Questions and answers

Q. With reference to the recent amendments to the Foreign Contribution (Regulation) Rules, consider the following statements:

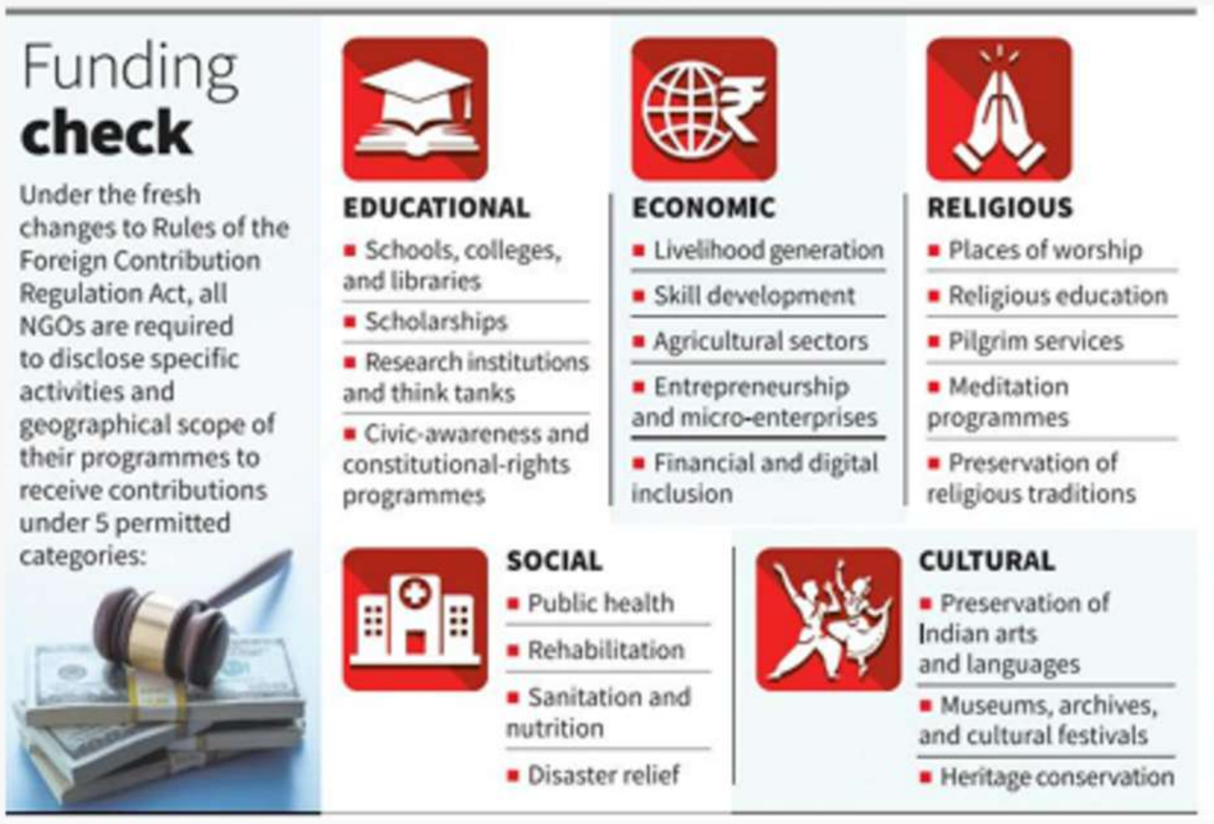
1. NGOs receiving foreign contributions must register under specified activity categories, each having a defined list of permissible activities.
2. The amended framework explicitly excludes proselytisation from certain religious activities that may receive foreign funding.
3. Organisations operating under prior permission can receive subsequent instalments of foreign contribution only after fully utilising the previous tranche.

Which of the statements given above are correct?

(a) 1 and 2 only
(b) 2 and 3 only
(c) 1 and 3 only
(d) 1, 2 and 3

Answer: (a) 1 and 2 only

The Ministry of Home Affairs has amended the Foreign Contribution (Regulation) Rules to introduce a category-based activity framework for NGOs, strengthen monitoring of foreign fund utilisation, and explicitly exclude proselytisation from certain religious activities eligible for foreign funding.



Statement 1 – Correct: NGOs must now register under specified categories such as social, economic, educational, cultural and religious, with each category having a defined list of permissible activities.
Statement 2 – Correct : The amended schedule explicitly excludes proselytisation from several religious activities, including religious education and theological studies.
Statement 3 – Incorrect : Subsequent instalments under prior permission require utilisation of at least 75% of the previous tranche, not complete utilisation of the entire amount.

Q. With reference to the recent IMO-coordinated evacuation plan for vessels stranded in the Strait of Hormuz, consider the following statements:

1. The evacuation framework provides for a northern route along the Iranian coast and a southern route along the Omani coast.
2. The temporary transit routes can collectively handle about 20–30 ships per day, significantly lower than the pre-war traffic levels.
3. Vessels participating in the evacuation have been directed to switch off their Automatic Identification System (AIS) transponders to reduce security risks.

Which of the statements given above are correct?

(a) 1 and 2 only
(b) 2 and 3 only
(c) 1 and 3 only
(d) 1, 2 and 3

Answer: (a) 1 and 2 only

Statement 1 – Correct: The evacuation framework uses two temporary routes—a northern corridor along the Iranian coast and a southern corridor along the Omani coast.
Statement 2 – Correct: The new corridors can accommodate only about 20–30 ships daily compared to the pre-war traffic of roughly 100–130 ships per day.
Statement 3 – Incorrect: Ships have been instructed to keep their Automatic Identification System (AIS) transponders switched on throughout the transit for safety and tracking purposes.

Practice Questions and answers

Q. With reference to fire safety regulations in India, consider the following statements:

1. The National Building Code (NBC) provides model fire and life safety standards, but their enforcement rests primarily with State governments and local authorities.
2. A Fire No Objection Certificate (Fire NOC) is generally issued after verifying compliance with prescribed fire safety norms for a building.
3. The National Disaster Management Authority (NDMA) is the statutory authority responsible for granting Fire NOCs to commercial and residential buildings.

Which of the statements given above are correct?
(a) 1 and 2 only
(b) 2 and 3 only
(c) 1 and 3 only
(d) 1, 2 and 3

Answer: (a) 1 and 2 only
Recurring urban fire incidents have highlighted gaps in fire safety compliance, enforcement of building regulations and preparedness of urban infrastructure across India.
Statement 1 – Correct: The National Building Code lays down model standards for fire and life safety, while implementation and enforcement are carried out by States, Urban Local Bodies and other competent authorities.
Statement 2 – Correct : A Fire No Objection Certificate (Fire NOC) is issued after ensuring that a building complies with prescribed fire prevention and life safety requirements.
Statement 3 – Incorrect: Fire NOCs are issued by the State Fire and Rescue Services or designated local authorities, not by the NDMA. The NDMA formulates policies and guidelines for disaster management but does not function as a building approval authority.

Q. With reference to the Trade Receivables Discounting System (TReDS), consider the following statements:

1. It is an RBI-regulated online platform that enables MSMEs to convert their trade receivables into immediate cash through financing by eligible financial institutions.
2. Both the MSME seller and the buyer can create a Factoring Unit (FU) on the platform, enabling factoring and reverse factoring, respectively.

Which of the statements given above are correct?
(a) 1 only
(b) 2 only
(c) Both 1 and 2
(d) Neither 1 nor 2
Answer: (c) Both 1 and 2

The RBI has issued revised directions for the Trade Receivables Discounting System (TReDS), including enhanced eligibility norms for platform operators, to strengthen invoice financing and improve MSMEs' access to working capital.
Statement 1 is Correct: TReDS is an RBI-regulated online platform that allows MSMEs to obtain early payment against invoices by discounting their receivables through banks, NBFC-Factors and other eligible financiers.
Statement 2 is Correct: A Factoring Unit (FU) may be created either by the MSME seller (factoring) or by the buyer (reverse factoring), after which financiers bid to provide funding.