Scholar Publishing Group
International Journal of Business Management and Economics and Trade
https://doi.org/10.38007/IJBMET.2024.050116
ISSN 2790-0959 Vol. 5, Issue 1: 139-143

The Impact of Supply Chain Finance on the Financing Constraints of Small and Medium-sized Enterprises

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Keywords: Supply chain finance, financing, small and medium-sized enterprises

Abstract: With the large contraction of the consumer market under the epidemic, the liquidity of high-end production factors such as capital, technology, and talents has slowed down, and many small enterprises are facing the problem of bankruptcy under the premise that they do not have competitive advantages. The traditional banker financing model is no longer suitable for development needs, and how to use the rapidly developing supply chain financial system to alleviate financing constraints is the focus of this paper.

1. Introduction

Small and medium-sized enterprises (SMEs) are supported by national policies for growth and play an irreplaceable role in promoting employment, stabilizing prices, and driving economic growth to maintain internal balance. However, due to the economic downturn faced in recent years, combined with various limitations inherent to SMEs, those that already lack competitive advantages find it even harder to survive, with financing difficulties being the most significant challenge [1].

With the convenience of information technology and distribution methods, traditional one-to-one and one-to-many merchant models can no longer meet competitive demands. The resulting supply chain connects various aspects of product development, production, and sales, forming a structure that integrates manufacturers and consumers while effectively controlling the flow of funds, logistics, and information.

In the supply chain, large-scale core enterprises with stronger competitive capabilities often have advantages in pricing, delivery, and accounts receivable collection, imposing stringent conditions that limit the operations of upstream and downstream SMEs, thereby exerting pressure on their financing. Moreover, traditional credit financing has certain drawbacks; any disruption in one link can cause delays in the subsequent chain.

As a result, supply chain finance has emerged to address the financing challenges faced by SMEs and reduce risks. Exploring this financing model, based on practices in Western countries, is significant for alleviating the financing constraints of SMEs in our country and understanding its impact mechanism and future development direction.

As clarified the definition of supply chain finance, which optimizes and integrates the flow of funds among various links in the supply chain to enhance overall efficiency and reduce financing costs [3]. Supply chain finance primarily relies on core enterprises and third-party logistics to reduce information asymmetry [4].

2. Channels of Impact

2.1 Reduce the Information Asymmetry between Banks and Enterprises

Well-capitalized and reputable core enterprises play a leading role. They manage key information such as funds and logistics, as well as the interaction information among members. This provides banks with effective references for making credit decisions, forming an information screening system. Instead of focusing solely on the credit risk of individual enterprises, the review scope is expanded to the entire supply chain. The flow of funds, based on cooperation, becomes more stable and secure. The introduction of third-party logistics companies for supervision helps to mitigate the impacts of adverse selection and moral hazard.

2.2 Reduce Transaction Costs in Financing

Relying on the cooperative win-win relationship of supply chain finance, all parties in the chain collaborate closely and stably, and financing methods are not limited to banks alone. When these enterprises apply for loans from banks using inventory and documents, the reduction in information asymmetry can effectively decrease their credit verification costs. Through the 'credit symbiosis' mechanism formed by cooperation, enterprises within the chain respond quickly to information to maximize benefits, thereby enhancing competitiveness and efficiency. Risk assessments based on historical transaction data can, to some extent, mitigate opportunism, streamline the credit approval process, and reduce credit risk.

2.3 Reduce Credit Risk in Loans

In supply chain finance, core enterprises provide joint guarantee responsibilities for the loan applications of relevant small and medium-sized enterprises. Considering this responsibility, core enterprises must first conduct preliminary assessments and selections of their partners' creditworthiness and profitability. When default occurs, the core enterprise is responsible for repaying the loans for the guaranteed enterprises, which significantly reduces the bank's risk.

3. Issues of Supply Chain Finance

3.1 Core Enterprises Have Low Levels of Participation and Urgently Need to Enhance Their Awareness of Collaborative Development

The participation of core enterprises is crucial for advancing supply chain finance. However, the reality is that many core enterprises lack effective management and constraints over the supply chain, leading to difficulties in integrating and combining resources. As a result, there are numerous instances of core enterprises being uncooperative during business advancement. In accounts receivable financing services, concerns about losing their previous advantages in debt collection and contract performance lead them to refuse to provide banks with upstream supplier lists under the pretext of confidentiality. They are also reluctant to fulfill payment responsibilities or offer guarantees to suppliers, lacking the concept of mutual prosperity and joint development with suppliers. Financial management departments within enterprises worry that increasing transparency of financial data may harm their social image and reputation if leaked. Based on principles of protection, they set higher access thresholds, which effectively excludes many small and medium-sized enterprises from being served.

3.2 Group Enterprises Have Insufficient Awareness of Supply Chain Financing and Their Credit Status Does Not Meet the Financing Requirements

Currently, in our country, among the two types of supply chain financial products and service models, the development of the supply chain financing model is relatively slow, and its market potential has yet to be fully realized. Small and medium-sized enterprises primarily rely on traditional collateral and guarantee models to secure financing from banks, lacking innovative talent for management and learning. In recent years, although the central bank has promoted various channels and methods, the number of registered enterprise users remains low, and many of these enterprises face issues such as low credit ratings. They are not standardized in areas such as contract signing, invoice issuance, and payment processing, leading to significant challenges in accounts receivable management and an inability to meet platform financing requirements. In reality, the credibility of core enterprises is difficult to transmit vertically, and insufficient levels of informatization prevent upstream and downstream enterprises from connecting with core enterprises. Many small and medium-sized enterprises view the development of supply chain finance as the responsibility of core enterprises, resulting in a lack of proactive cooperation.

3.3 The Financing Platform Lacks Stable Legal Constraints for Confirming Accounts Receivable

In recent years, the People's Bank of China has promoted the establishment of a pledge registration and public announcement platform for accounts receivable, as well as an effective service platform for accounts receivable financing. However, to date, these platforms have only served as information exchange mechanisms and lack enforceability. Additionally, there are still uncertainties regarding the completeness and accuracy of the enterprise information entered, raising doubts about the preservation of pledged assets' value. This undermines the safety of banks conducting financing activities. If risks arise in these transactions, it remains undetermined whether courts will accept this information as a basis for case filings. Furthermore, after accounts receivable are due, the relevant punitive measures for enterprises failing to fulfill their repayment obligations are not timely or sufficient, resulting in the erosion of creditors' rights.

4. Suggestions

4.1 Relevant Government and Financial Institutions Should Improve and Advance the Mechanisms

Local government departments at all levels should earnestly fulfill their responsibilities and play a leading exemplary role. They should leverage the radiating and driving effect of demonstration areas in major cities like Tianjin and Shanghai. By formulating detailed regulations, they can urge core enterprises to fulfill their duties and enhance participation enthusiasm. Additionally, moderate incentive measures should be introduced. This can be achieved through the central bank's current easing monetary policy of lowering the reserve requirement ratio, as well as implementing a relatively loose fiscal policy. Tax reductions and other incentives should be provided to core enterprises in proportion, promoting the flow of funds to small and medium-sized enterprises [2].

4.2 Further Promote the Accounts Receivable Financing Plus Integrated Service Model

Currently, the primary financing model is still accounts receivable financing. Given the diverse classification of departments involved in various links of the supply chain and the increasingly varied customer demands, it is essential to actively promote the "lead bank system." This system requires banks to provide differentiated and heterogeneous financial services based on different informational needs, leveraging technologies such as big data and facial recognition [5]. Additionally, it is crucial to avoid the long tail effect caused by information asymmetry, which places higher demands on banks' capabilities. By facilitating online business transactions, banks can manage and assess information for remote clients, while artificial intelligence devices can enhance service attitude and quality. This approach plays a significant role in reducing complex project processes, saving labour costs, improving business processing efficiency, and enhancing user experience [6].

4.3 Promote and Improve the Legal Constraint System for Supply Chain Finance

Organize relevant professionals from the legal, financial, and logistics industries to develop relatively comprehensive and universally applicable legal constraints. Improve the information disclosure mechanism and strengthen the review of investor qualifications. By implementing online full-process supervision of fund flows, we can draw on practices from Tianjin, integrating the credit of main entities, the credit of the assets involved, and transaction data credit. This approach effectively reduces operational and credit risks, ensuring that there are reasonable and clear legal bases in the event of disputes.

4.4 Based on the International Financial Market

Supply chain finance often involves international trade, where transactions can be affected by exchange rate fluctuations. Therefore, banks should proactively manage and address issues related to exchange rate changes and insurance to avoid losses due to volatile foreign exchange markets. In our country, interest rates are not fully market-oriented, and there is a significant gap compared to traditional banking profitability, which results in a lack of innovative motivation for financial institutions in the area of supply chain finance [7].

5. Conclusion

From the perspective of the internet, the information advantages and conveniences of this financing model are not available in traditional bank financing models. With the application of new innovative tools, we anticipate greater development potential in the future.

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