Supply chain finance: Solution for SMEs' financing

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He has worked as Shenzhen Yuanwang Software Project Manager, Deputy General Manager of Logistics E-Commerce Department, Deputy General Manager of Supply Chain System Division of Penghai Electronic Data Exchange Co., Ltd., Mr Cai founded Shenzhen Wanlink Technology Co., Ltd in 2007. In addition, in 2008, he promoted 1000link.com.

He is the editor-in-chief of [China Supply Chain Finance], [Internet Supply Chain Finance], [China Logistics Finance], [B2B Supply Chain Finance], [Shenzhen Supply Chain], and [Supply Chain Financial Ecology].
About 10000Link

Supply Chain Finance Smart Service Platform
Sharing wisdom • Creating value

10000-LINK Media
being the first media of SCF in China
Link to the latest information on SCF, the frontiers of SCF knowledge and connections.

10000-LINK Academy
building a Whampoa Military Academy of SCF
Establishing the system of SCF talented reserves training.

10000-LINK Thinktank
the first thinktank of SCF in China
Extending SCF industry-wide, exploiting potentials of enterprises.

10000-LINK Broker
sets “SCF connector” as standard
Provides 5000+ enterprises in SCF with Matchmaking services.
Why China should develop supply chain finance?
Current status of SMEs 1: Operating in large scale, contributes to Chinese economy very much.

At present the number of SMEs in China more than broad regional distribution, industry distribution of large span. In addition, SMEs are an inseparable part in its economy due to their economic contributions. SMEs helped drive economic evolution, economic advance, increasing of taxes, employment, and people’s livelihood.

Typical characteristics Of SMEs: “Five-Six-Seven-Eight-Nine” theory.

- Tax revenues: 50%
- GDP: 60%
- Tech innovation: 70%
- Nationwide employment: 80%
- Market entities: 90%

However, access to financial services is a key constraint to SME growth, it is one of the important obstacle facing China’s economy and social mobility.

※ data source: June, 2018 a meeting of China’s State Council proposed expanding financial support to SMEs
In financing channels:
SMEs are less likely to use external funding and direct financing. However, endogenous financing and indirect financing are their priority financing ways.

In financing cost:
There is serious information asymmetry that exists between SMEs and financial institutions, coupled with their heavily occupied capital, lack of valuable assets and low-cost credit evaluation and credit enhancement; therefore, SMEs are facing high financing cost and few financing channels.

<table>
<thead>
<tr>
<th>Sources of funds</th>
<th>Nature of capital</th>
<th>Common financing channels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endogenous financing</td>
<td>Own capital</td>
<td>Capital</td>
</tr>
<tr>
<td></td>
<td></td>
<td>R/E</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Depreciation or Disposal of Assets</td>
</tr>
<tr>
<td>External funding</td>
<td>Borrowed fund</td>
<td>Direct financing</td>
</tr>
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<td></td>
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<tr>
<td></td>
<td></td>
<td>Indirect financing</td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>Subsidy policy</td>
<td>Policy loans, guarantees, interest subsidies, special support funds</td>
<td></td>
</tr>
</tbody>
</table>

### China social financing

<table>
<thead>
<tr>
<th>Financing Method</th>
<th>Avg. financing cost</th>
<th>Proportion</th>
<th>financing entities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank loan</td>
<td>6.60%</td>
<td>54.84%</td>
<td>Central enterprise</td>
</tr>
<tr>
<td>acceptance bill</td>
<td>5.19%</td>
<td>11.26%</td>
<td>Government platform</td>
</tr>
<tr>
<td>Corporate bond</td>
<td>6.68%</td>
<td>16.50%</td>
<td>Public companies</td>
</tr>
<tr>
<td>Equity Pledge</td>
<td>7.24%</td>
<td>3.39%</td>
<td></td>
</tr>
<tr>
<td>Financing trust</td>
<td>9.25%</td>
<td>7.66%</td>
<td></td>
</tr>
<tr>
<td>Financial leasing</td>
<td>10.70%</td>
<td>3.95%</td>
<td></td>
</tr>
<tr>
<td>Factoring</td>
<td>12.10%</td>
<td>0.44%</td>
<td></td>
</tr>
<tr>
<td>Small-loan companies</td>
<td>21.90%</td>
<td>0.87%</td>
<td>SMEs</td>
</tr>
<tr>
<td>Online Loans</td>
<td>21.00%</td>
<td>1.10%</td>
<td></td>
</tr>
</tbody>
</table>

※ Data Source: China Center for Financial Research, Tsinghua University
2. Financing situation of different companies

Large companies
- B
- Bank loan, credit enhancement

SMEs
- B- b+
- Fraud detection, Microlending,
  Online business loan, Credit loan
  1-500 (in thousand Yuan)

Small companies
- b
- Consumer loan, Small and scattered,
  Big data risk control, Microlending
  1- 200 (in thousand Yuan)

Personal, Consumption, Life
- consumer-side (Small or Large)
- There are no definite credit products

LGD(%) (Loss Given Default)

EAD($) (Exposure at Default)

PD(%) (Probability of Default)

a new way of financing
--Supply Chain Finance
Summary:
Developing SCF meets all parties concerned of needs and expectations.

- **SMEs**
  - Solving the financing problems, have further development.

- **Core Enterprises**
  - SCF can expand sales and build a more stable supply chain, And may generate financial additional income

- **Financial Institutions**
  - Innovation of financial products and services, new profit points.

**Information Sharing · Resource Sharing · coexisting**
2017-2019 Supply Chain Finance Related Policy Evolution

- General Office of the State Council
  - [Guiding Opinions on Actively Promoting Innovation and Application of SCF]

- 8 departments including the Ministry of Commerce
  - Announced national supply chain innovation and application pilot cities and pilot enterprises.

- Shenzhen Municipal Financial Service Office
  - Issued the [Notice on Promoting the Development of Supply Chain Finance in Shenzhen]

- General Office of the State Council
  - [Several Opinions on Strengthening Financial Services Private Enterprises]

- The China Banking and Insurance Regulatory Commission
  - [CBIRC No.155] [Guiding Opinions on Promoting the Real Economy of SCF Services]

- Guangzhou local financial supervision and Administration Bureau
  - [Guangzhou Implementation Opinions on Promoting SCF Development]

8 departments including the Ministry of Commerce
- [Notice on Piloting Supply Chain Innovation and Application]

Ministry of Industry and Information Technology
- [Three-Year Action Plan for Promoting the Integration and Development of Large and Medium-sized Enterprises]

The China Banking and Insurance Regulatory Commission
- [Notice on Further Strengthening the Work Related to Financial Services Private Enterprises]
What is SCF?
1. The concept of SCF

**SCF** can be explained as commercial banks, insurance companies, commercial factoring companies, financing guarantee institutions, microfinance companies and other financial institutions through the cooperation with core companies, third-party institutions, etc. What’s more, from the overall structure of the supply chain and financing credit, SCF is a system of self-paying financing, using fintech for control risks, which providing financial services for SMEs in the supply chain.
2. The trading unit of SCF and SCF products

- **Prepaid**
  - First payment mode
  - First payment guarantee mode
  - Letter of credit model

- **Inventory**
  - Dynamic spot
    - Approve actual inventory
    - Quota control
  - Static spot
    - Standard warehouse

- **Receivable**
  - Domestic factoring
  - Accounts receivable pool
  - Reverse factoring
  - Multi-level receivable split

**Strategic relationship financing**

**Order financing**

- Production procurement
- Semi-finished inventory
- Producing
- Product warehouse
- Sales purchasing

**Prepaid or receivable**

**Proactive type**

**Reactive type**
3. The ecosystem of the Chinese Supply Chain Finance market

Source: 10000Link Institute of Supply Chain Finance
SCF cases from the China’s Market: JDH Platform

JDH Platform

core enterprises

level-1 supplier

level-2 supplier

level-3 supplier

due accounts receivable

transfer

financing

fund side

no fund demand

issue “Jindan”

confirm accounts payable

no fund demand

fair negotiation skills

fair negotiation skills

fund demand

fund demand

ABS, refactoring, etc.
SCF cases from the China’s Market: LINO Fintech
SCF cases from the China’s Market: China Merchant Bank

China Merchants Bank

Blockchain application process

- Bank-enterprise direct connection system
- Information records
  - Successful bidding information
  - Contract information
  - Order information
  - Fingerprints uploaded to the chain
- Accounts receivable financing
  - Applications for financing
  - Getting financing from banks
  - Information uploading
  - Verification for fingerprints
  - Payment at maturity
- China Construction Industry and Internet Collaboration Platform
Some experiences of developing supply chain finance in China

1. **Government support**, The central and local governments and financial regulatory departments have issued a series of policies to encourage the development of supply chain finance.

2. **Strengthen supervision**, In particular, it emphasizes that the service subject of supply chain finance is licensed financial institutions.

3. **Ecological construction**, We need to build a good ecosystem, including the government, licensed financial institutions, third-party service institutions and financial technology companies. Only when we cooperate with each other can we do a good job in supply chain financial services.
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THANKS