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Mode of Operation and Risk Prevention of Supply Chain Financing for SMEs

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Abstract –At present, financing problem of SMEs is a matter of concern for academics and the industry. Supply chain finance is a new financial business developed by commercial banks to meet the enterprise supply chain management needs. The purpose is to achieve win-win situation of the main core enterprise in supply chain, upstream and downstream enterprises, third-party logistics enterprise and banks participating. This paper analyzes the emergence motivation of supply chain financial, mode of operation and its risks, and makes risk prevention measures on this basis.

Keywords –SMEs; Supply chain financing; Mode of operation; Risk prevention

1. Emergence Motivation of Supply Chain Finance

As a special kind of enterprise groups, SMEs' contribution to economic growth has a huge role, but due to the limitations of their own size, difficulty in financing has become a common predicament for the development of small and medium-sized enterprises.

SME is disadvantageous in the credit markets, has its roots in the SME credit congenital defects and congenital small scale, lack credit facilities necessary for information superiority compared with the large enterprises, structural adjustment in financial institutions can not raise the overall level of credit for SME as well as overcome the disadvantage of SMEs in the credit market fundamentally.

Christopher, the famous economist, pointed out that only supply chains but enterprises exist in the market, the real competition is not between the enterprises but between the supply chain and supply chain, core businesses and many small and medium enterprises in the supply chain are willing to cooperate and collaborate in order to achieve supply chain system cost minimization and the maximization of value added.

Therefore, SME credit defects cannot simply start from the internal governance structure but should also be on the system of division of labor between SME and large enterprises in the supply chain, to make up for the absence of SME credit from the information advantage of the large enterprises in the credit markets, to enhance the level of SME credit and credit capacity. Supply chain finance came into being based on objective requirements to resolve this contradiction between enterprises and banks.

"Supply Chain Finance" means the Bank by means of the core business credit in cooperation with SME in the supply chain or business contract between the secured, at the same time, rely on the participation of third-party logistics enterprises shared loans risk to help banks to control the SME loans whereabouts, to guarantee the security of the loan funds, effectively control the risk of bank loans. While solving the financing problems of SMEs, the bank strengthened its relations of cooperation with enterprises, with corresponding enterprise customers, decrease operational risks, improve the operating efficiency through financial support.

Therefore, supply chain finance is an innovation in the logistics and financial infrastructure, it extend financing from merchandise sales to the procurement and production stage on the basis of financing in the logistics. Supply chain financing models help to alleviate financing problem of SMEs in dealing with the core enterprise to a certain extent. This financing model allows the core enterprises to further reduce costs, improve efficiency, enhance market competitiveness and can solve the cash flow problems of upstream and downstream of SMEs, allows third-party logistics enterprises to secure customer resources, to expand the range of services ultimately improve service quality and efficiency of logistics enterprises, at the same time, it also allows commercial banks to expand the intermediate business income source, stable settlement deposits. Visibly, it allows multiple parties to maximize the benefits, and the formation of the credibility of the chain.

2. Mode of Operation of Supply Chain Finance

Combined with the characteristics of the cycle of SME operations management, supply chain finance of commercial banks has the corresponding three models: the Chattel Mortgage modes, accounts receivable financing mode, confirmation warehouse financing model.

(A) Chattel Mortgage mode

Commercial banks take the borrower's own goods as pledge to issue credit loans to the borrower in the mode. SMEs have their chattels such as inventory, warehouse receipts, merchandise certificate and etc. pledged to banks to obtain loans. Chattel mortgage mode change "dead" certificate of goods or rights to the "live" assets, accelerate the flow of real estate, ease the pressure of cash flow shortage of SMEs, address the lack of SME liquidity, improve the operational capability of SMEs.

(B) Accounts receivable financing model

In the accounts receivable financing mode, documentary evidence of the receivables of SMEs to the core large enterprises in the supply chain will be taken as pledge, the SMEs apply for short-term loans from commercial banks with a period not exceeding the aging of accounts receivable, then the banks will provide financing for small and medium enterprises in the supply chain. Simply put, it is a behavior apply for loans from financial institutions with unexpired receivables. In this mode, the core large enterprises debt enterprises play a role in counter-guarantee for SMEs financing as for its good credit strength as well as long-term stability of the credit relationship between banks. Once SMEs cannot repay the loan, it must bear the corresponding repayment obligations.

(C) Confirmation warehouse financing model

Confirmation warehouse financing model, a supply chain finance business based on the downstream and Right of taking delivery of goods is based on a supply chain finance business on
upstream and downstream and merchandise delivery rights. The business is mainly carried out by the cooperation agreement signed by the manufacturers, distributors, warehouses and banks for particular business, bankers' acceptances is the main product and financial instrument in this mode. This business model realize the leverage procurement and supplier of bulk sales of financing corporate provide financing for small and medium enterprises in the supply chain, solute the financial predicament of its full purchases, so that the risk of bank loans greatly reduced effectively.

Financing model is different from the traditional mode of financing is a notable feature of the financial supply chain. Supply chain finance is not isolated to assess the financial condition and credit risk of individual enterprises, but focus on the research of its importance to the entire supply chain and its status, as well as past transactions with the core enterprise. It also different from the traditional supply chain finance mortgage of fixed assets, it take full advantage of the chattel property or rights generated in the production process of the supply chain as a guarantee, that is financing of inventories, prepayments, accounts receivable and other assets based on commodity trading, and extend the good credit capacity of core enterprise to the upstream and downstream SMEs in the supply chain. In addition, it emphasizes on self-liquidating credit repayment sources that are using the sales revenue directly for repayment of the credit. Supply chain finance financing model not only introduces the core enterprise of credit to have credit bundled, but also introduce the co-operation of the logistics enterprise, to assume regulatory responsibility of goods. The differences between the specific and traditional financing are shown in the table.

Table 1. Differences between the specific and traditional financing

Projects	**Supply Chain Finance**	**Traditional financing methods**
CREDIT ENTITY	Single or multiple business groups	Single enterprise
RATING WAY	Entity rating or debt rating	Entity rating
RATING RANGE	Enterprise and the Entire supply chain	Enterprise only
CREDIT CONDITIONS	Chattel mortgage/ Goods right mortgage	Fixed assets pledged third party guarantee
ROLE OF BANK	Dynamic tracking business process	Static concern on enterprise only
RISKS	small	large
SPECIES	more	fewer
EFFICIENCY	Promptly resolve short-term liquidity needs	Cumbersome, inefficient
SERVICE CONTENT	Provide continuing credit support for a single enterprise or supply chain	solve temporary financing needs for singe enterprise
SERVICE ROLE	Improve continued competitiveness of the enterprises and the whole supply chain	only solve temporary financial difficulties of single enterprise

3. Existing Risk of Supply Chain Finance

At present, supply chain finance largely reduce the moral hazard in the SME fiduciary. However, due to the small and medium enterprises' own weak anti-market risk ability, and the large number of participants in supply chain finance as well as it may be involved in different industries and technologies fields, some potential risk in its operation cannot be ignored.

(A) The supply chain for their own risks. Including two aspects: (a) One is due to the large number of participant's endogenous confusion and uncertainty. (b) The other one is the spontaneous proliferation of supply chain risk.

(B) The operational risk. Expansion of supply chain finance operational range, provide a variety of services process naturally enlarge the variety of potential risks.

(C) The corporate credit risk. There are two aspects on credit risk for banks and corporate integrity: (a) The risk of inaccurate information caused by the behavior of SMEs; (b) Supply chain finance organizers or the banks may not be able to independently complete the investigation and analysis of the data of all enterprises in the supply chain，so they cannot adjust credit loans or services according to the decision-making and management of the supply chain members or adjust the corresponding credit or service program.

4. Risk Prevention

Therefore, attention as followings should be payed to risk prevention work while great efforts to develop the financial business of the supply chain:

(A) To strengthen the financial risk management of the supply chain. Hosting banks organized supply chain finance should always pay attention to the operation of the supply chain, to grasp the weak point of the enterprise's internal supply chain, observing the trends of the external environment. Establish a set of early warning evaluation index system. Besides, the banks can establish credit model and database change the static assessment for dynamic assessment according to their management needs.

(B) Select corporate chain group with good basic conditions. Continuously select good supply chain enterprises, mainly focus on the relatively complete industry chain in the steel, automobile, petrochemical, power, telecommunications industries with With relatively complete industrial chain, good order, and the higher the level of cooperation with banks.To guide core enterprise to take the evaluation of the credit as an important criterion for the process of selecting the members of the enterprise，rigorous screen all franchisee enterprises.

(C) Provide quality services mainly through core enterprises. Start with the core enterprises radiate outward, throughout the supply chain upstream and downstream enterprises in the design of products and services. To combine product innovation to provide personalized service, start from the customer needs, providing a range of innovative services such as management, marketing, and cash management, restructuring enterprise supply chain, supply chain financing, to the maximum extent possible to meet the individual needs of customers.

(D) Construct supply chain security mechanisms. Closed operate among logistics, information flow and capital flow. Supply chain finance should choose a powerful logistics company and cooperate with it to achieve the purpose of controlling the goods rights with information for the supply chain, warehousing and logistics services provided by the logistics company. Banks can master operating information of the entire supply chain enterprises while financing and servicing the entire supply chain, this will reduce the asymmetry of information between enterprises and banks. In addition, by making various contracts to maintain cooperation relationship between equal stakeholders, mandatory implementation of the rules can be provide for supply chain operation. Besides, this measure can avoid friction as much as possible and improve the operational efficiency of the supply chain.

5. Conclusion

Financing difficulty of SMEs has become a common predicament for the development of small and medium-sized enterprises. In one of the industry supply chain, SMEs always operate and cooperate around the core business, its cash flow gap is mainly produced in the accounts receivable, pay prepayments and inventory warehousing period, most of which are the liquidity and intangible assets. Supply chain finance is the new financial instruments designed for the SMEs lacking of fixed assets and possessing more current assets, which is very relevant in the context of the characteristics of SMEs’ financing, this enhances the ability of SME credit and helps to resolve its financing difficulties. But supply chain finance is still in its infancy domestically, heoretical and practical research should be strengthened on its product development, organizational structure, risk control and other respects. For China's commercial banks and enterprises, supply chain finance brings a new business growth point for the former, while the latter can take full advantage of the financial innovation to better achieve their own financing needs.

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