Chapter 1
A General Introduction and Overview of Supply Chain Finance

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ABSTRACT

Supply chain finance (SCF) is a new finance service mode surrounding the core enterprises in the supply chain. Different from the traditional finance service, SCF focuses on the trading process rather than the bank credit. Depending on the large trading data and process gathered by core enterprises, SCF is able to effectively integrate the flows of information, logistics, and funds, which transforms the numerous risks of many single enterprises into the controllable risks of the entire supply chain. Therefore, SCF is capable of providing comprehensive finance service regardless of companies' size with the minimum risk level, especially for the small and medium-sized enterprises which have difficulties in receiving finance service from traditional finance institutions. The emergence of SCF has established an accessible channel to help small and medium-sized enterprises obtain effective finance service. In this chapter, the authors introduce the definition, features, structures, and other basic information of SCF. The authors then examine the different types of SCF.

DOI: 10.4018/978-1-5225-7808-6.ch001

INTRODUCTION

In October 2017, the General Office of the State Council issued the *Guiding Opinions on Actively Promoting Innovation and Application of Supply Chains*, encouraging core enterprises to establish supply chain financial service platforms, develop online account receivable financing and other supply chain financial models, emphasizing SCF to serve the real economy. SCF relies on real estate industry and trading process to develop credit services for small and medium-sized enterprises (SMEs), which transforms asset mortgage control into trade operation monitoring. Since its naissance, SCF has become an important tool to promote the healthy development of China's real estate industry and eased the financing difficulties of the real economy.

According to the data from the National Bureau of Statistics, by the end of July 2018, the balance of account receivable of China's industrial enterprises was 13.9 trillion yuan, an increase of 11.5% compared to the same period in 2017. Meanwhile, the proportion of account receivable in current assets also increased to 25.2%. Correspondingly, in the first half of 2018, the increment of aggregate financing was 9.1 trillion yuan. Among them, RMB loans to the real economy accounted for 96.3% of the social financing scale in the same period, an increase of 22.5% year-on-year. According to another set of data, overdue payments continued to increase. The proportion of companies who experienced overdue payments over 120 days increased from 19% in 2016 to 26% in 2017, and those who experienced excessive long-term overdue payments (over 180 days) increased from 35% in 2016 to 47% in 2017. The large amount of account receivable that cannot be put into production operations have brought heavy pressure for the survival of SMEs.

In February 2018, China's first *Social Financing Cost Index* was released, showing that the average costs of China's social financing were 7.6% (not including various types of handling charge, etc.). While SMEs' financing costs were generally higher than 10%. Judging from the situation in China, SMEs are generally lack of self-owned funds (Chen and Hu, 2011), moreover, their business volume is far lower than the threshold of the securities market in China. To satisfy the daily business turnover, SMEs have to turn to commercial bank loans and other traditional financial services for raising funds. Nevertheless, traditional financial services are reluctant to lend because SMEs are usually lack of assets, guarantees and mortgages. The inherent contradictions between the asset and the fund side make it difficult for the SMEs to obtain finance service through traditional financial channels.

SMEs in the industrial chain not only face large quantities of account receivable that cannot be put into production and operation, but also encounter long-term difficulties in financing. Traditional financial services regard companies and businesses as isolated entities, resulting in inefficient and expensive financial services. Chen and Hu (2011) consider SCF as an innovative financing solution. In contrast to traditional

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