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Supply Chain Finance Challenges and Solutions: Bangladesh Perspective

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Key Words

SCF, Reverse Factoring, Internal Control, Digital system, NBFI, Finance, Risks

Abstract

The financial sector of all over the world is changing so rapidly that it is adding so many new things with it. But SCF or which is broadly known as Supply Chain finance is nothing new in the global financial sector. In the case of our country, Bangladesh, we observe a different scenario. Supply Chain Finance is not so familiar in our country as the sector has not been flourished in the economy yet. In a developing country like Bangladesh, it can be considered a big thing that can bring in massive changes and create a mammoth amount of opportunity for the SME sector. In reality, it is considered or termed as a win or win situation for both the suppliers and institutional traders. But there are so many problems in this sector in our country that this sector has almost remained untapped. The absence of digitization in this sector has also created a big problem. Here we have tried to analyze those factors and come up with some of the solutions from our side

Introduction

A Bangladesh Institute of Bank Management (BIBM) study found that 84 percent (as far as the number of cases) and 88 percent (as far as volume of imports) of import installments from the nation were made through LC in 2014. LC is in this manner the most well-known exchange installment strategy in Bangladesh. South Korea, Bangladesh, China, India, and Hong Kong communicate LCs through the SWIFT system for their imports. As a well-known strategy, LC makes traffic in exchange for money over the world.

This is exactly where Supply Chain Financing (SCF) forays into play, a monetary item that has low failure rates, mitigates the danger of misappropriation of assets and guarantees cash got by borrowers. It is a set of technology-based business and financing processes that link the various parties in a transaction: the buyer, seller, and financing institution - to lower financing costs and improve business efficiency. Ultimately, expanding the receivables turnover of the provider, and expanding the borrower turnover of the purchaser. Other than the fiscal advantages, be that as it may, it likewise guarantees more noteworthy cooperative energy inside gracefully chains as different partners in the biological system profit by its utilization.

However, notwithstanding the flipside of SCF, an absence of assets to alleviate operational dangers of the cycle has deteriorated its development previously, however now numerous budgetary organizations are getting a handle on the rediscovered open door in the market with NBFIs at the bleeding edge. Although minimal guidelines are encompassing the item, as of late activities have been taken to feature its significance and the main Digital Supply Chain Platform is before long set to dispatch. Right now, there is an expected all-out of $71.3 million (600 crores) of provider fund items in the arrangement of significant market players.

Literature Review

Considering the Historical foundations and current research with the hope of future developments, (Zsidisin at el., 2019) it has been denoted that supply chain finance needs to be incorporated with digital technologies with novelty and bulk data analyses. In their analyses, they mainly focused on the Commodity Price Volatility (CPV) and the supply chain risks management and it has also been depicted how the supply chain managers can make decisions considering the optimal dynamic credit term decisions. In terms of sustainable supply chain finance, supply chain barriers have been invigorated with the supply chain performances (Chen et al., 2020). Besides here, how social, environmental and the economic factors pay impact that has been detailed with proper scrutiny. Regarding the relevant barriers, Alora, A., and Barua (2019) have detailed that following the supply chain finance, financial and information technology barriers are interconnected with the supply chain financing barriers and to make the analyses robust there have been the inclusions of stakeholder concern and cost issues with proper projection. Drivers and outcomes of supply chain finance adoption in line with China's empirical implications, the impact of categorized supply chain finance e.g. perceived capital pressure, order fulfillment cycle, and inventory turnover cycle have been synchronized (Liang et al., 2019).

According to Omran et alz (2017), proactive collaboration is the key to digitalize supply chain finance rather than just relying solely on the technology side. Furthermore, they suggested the use of Blockchain Technology to fully integrate all parties in the financial supply chain.

Huertes (2018) identified some challenges for the adoption of SCF programs on a global scale. At first, the challenge is that the supply chain strategy cannot be determined in isolation because of the dynamic nature of the market for SCF programs. Secondly, the adoption of SCF programs is limited by the complexity of implementing SC. This mainly because of the difficulty in onboarding suppliers and integrating the process with the existing operational flow. The third challenge is to incentives among different participants since all of them involve independent profit maximization.

As of late, because of the credit crunch and the expanded expenses of financing, new answers for supporting the monetary administration of graceful chains, known as flexibly chain money

(SCF), have been created. They misuse the qualities of graceful anchor connects to improve working capital. The reason for this paper is to give a reference structure that joins together the goals prompting the appropriation of SCF arrangements and a few directing factors (Caniato, Gelsomino, Perego, and Ronchi, 2016).

A flexible supply chain account offers providers an approach to relieve the impact of installment term augmentations and to quicken their income. Providers who partake in a program have the choice to get paid early – commonly when a receipt has been affirmed by a purchaser (Bloomberg - Are you a robot? 2020).

Research Methodology

The study that we are going to implicate will indicate the qualitative analysis but besides the qualitative analysis, we will try to invigorate the quantitative data as much as possible and relevant regarding this study. But as this study relevancies are not prevalent in the existing market; we doubt that we will have enough information. Above all, we will have an effort to retrieve the insights by equipping a questionnaire considering the relevant questionnaire in the form of Google form. Regarding this, we have a plan to conduct two analyses under two questionnaires. The survey will be conducted on two categorized people and here first will be the mass people and we will use this just to make sure whether they are well aware of the supply chain finance or not and on the other side we will have a survey on the top-level managers or well-cognized people who have deep knowledge regarding the mentioned topic and in this survey, we will try to have some concise questions and those questions will be adapted based on the read relevant articles. Regarding this, we will place our reminders by sending them an email with regards.

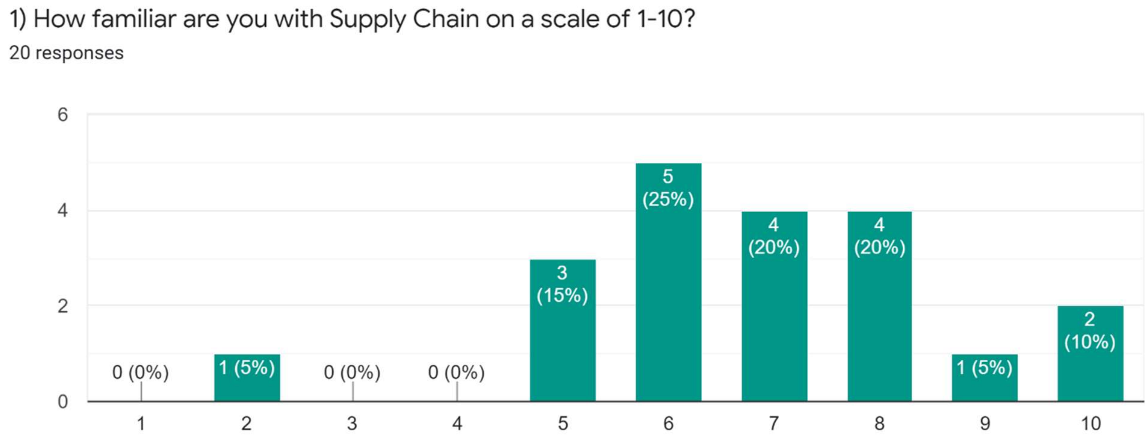
Survey Findings

A holistic questionnaire with 18 questions was surveyed among professional supply chain experts, prospective academicians, and peer students. It encapsulates every possible consideration that pertains to our study. Be it a preliminary industry scenario or as complex insights as shedding some light on the recommendations.

Throughout a 10-day survey, 35 responses were received. Although some respondents skipped a few questions, it brought necessary information to study and interpret.

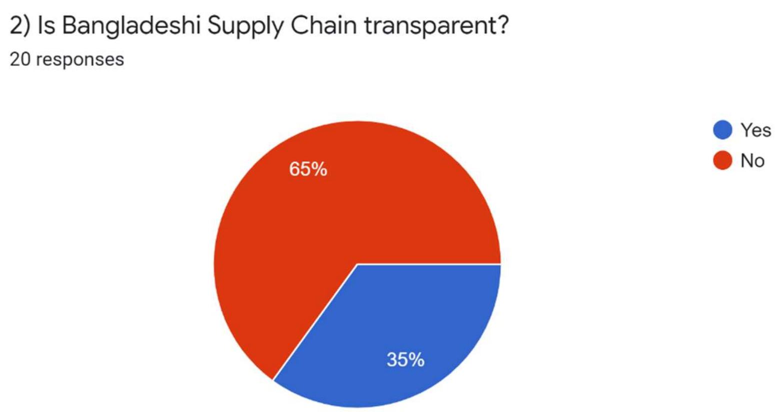
In this part, the questionnaire queries and their responses are interpreted sequentially.

How familiar are you with SC on a scale of 1-10?



Well, it is no secret that we are not habituated with the supply chain yet. Somehow, we still have most people who are getting started with this concept. On a scale of 100, we have most people in the 50%-80% range. Which means mass awareness is still a prerequisite.

Is Bangladeshi SC transparent?



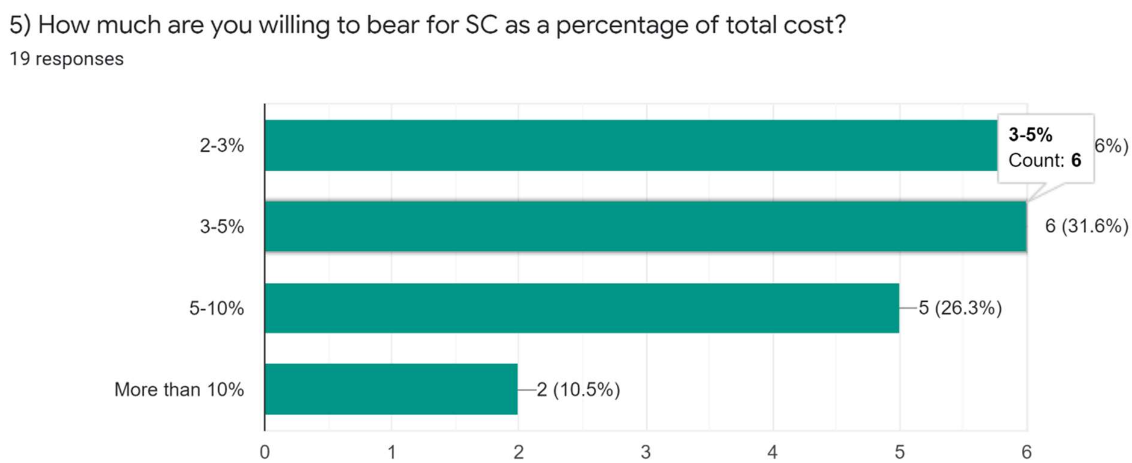
This was a no-brainer, so obvious. Bangladeshi Supply chain's major hindrance is crystal clear. It lacks transparency. At least 65% of our surveyed persons think so. So, there is a lot of learning to unlearn, to re-learn, a lot of stereotypes to break.

What do you think of SCF?

Supply Chain Finance is still foraying into play, a new concept in Bangladesh, and since the e-commerce industry has high growth, this will get good attention within a few years. At this point, we tried to sought what people think of supply chain finance specifically. To some, it is a supply chain finance is a financing solution initiated by the buyer where the buyer agrees to pay an invoice early for a discount. To some, it is the connection between buyers and sellers with financial institutions to improve payments. And to some others, Supply Chain Finance is the movement of funds and information in a financial organization in fulfilling customers' urges. And also, we have got responses such as:

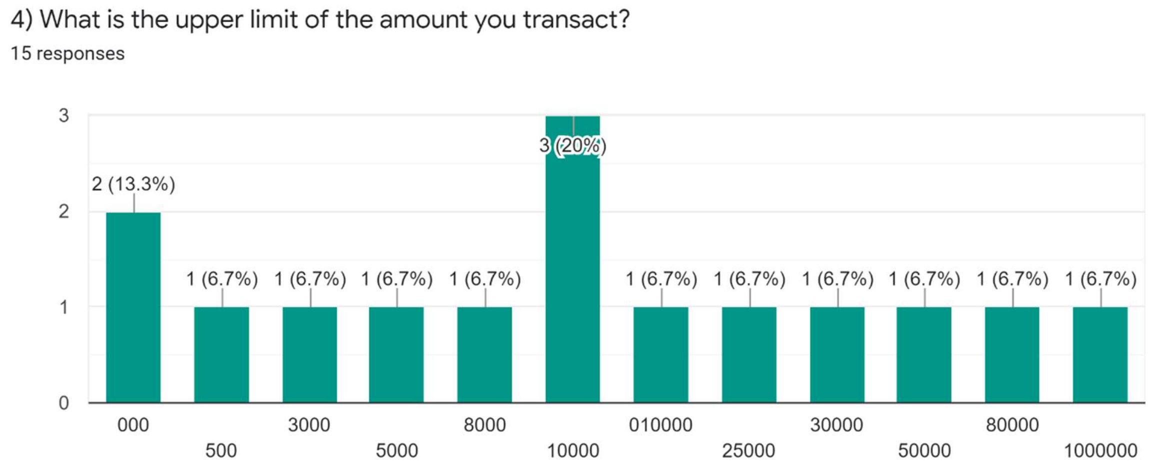
- Supply chain finance is the process of buyer accepting third party financing for the payment to the supplier
- Somewhat alike fintech
- It is an effective way to reduce the financial cost of a business by using sellers & buyers in a transaction.
- A process that involves both buyers and suppliers to make a transaction more efficient.
- financing from suppliers
- And yet, some respondents are not quite acquainted with this term.

How much are you willing to bear for SC as a percentage of total cost?



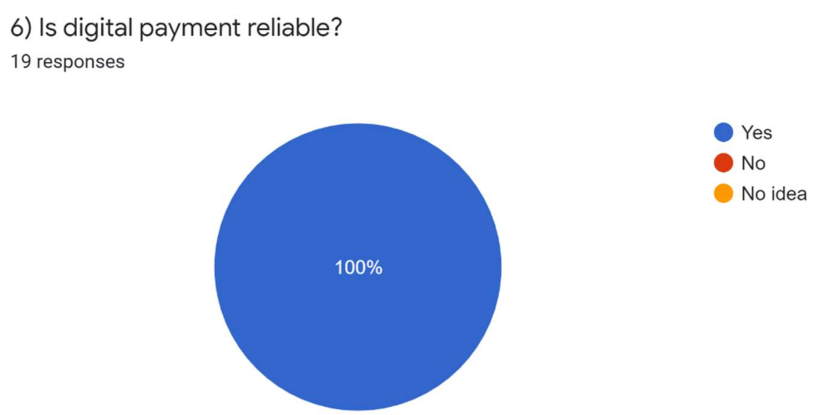
This was the most important part of our survey. As we delve deep into prospective customers' perspective of cost bearing, it is a tie between 2-3% and 3-5% range at 31.6% respondents preference for each category. Hence, it is quite obvious how much revenue the supply chain can generate. Most people are not willing to go for more than a 5% cost. So, it is a benchmark to consider.

What is the upper limit of the amount you transact?



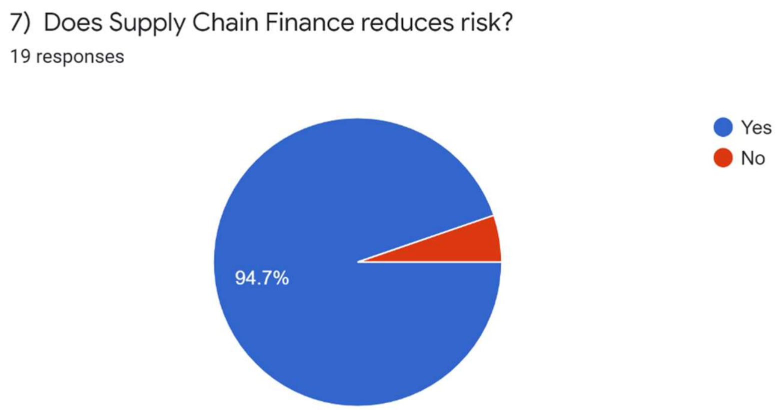
Now, most people are willing to bear less than 5% cost for what amount of transaction. The visual presented above gauges it all. Most people (20% of respondents) said they transact around BDT 10,000. This is the highest possible amount they go for once they go for the online transaction. However, this amount does not cease at BDT 10,000. People transact as high as 10,00,000 ranging from 50,000, 80,000 and so on. Also, as low as BDT 500, 100, and lower.

Is digital payment reliable?



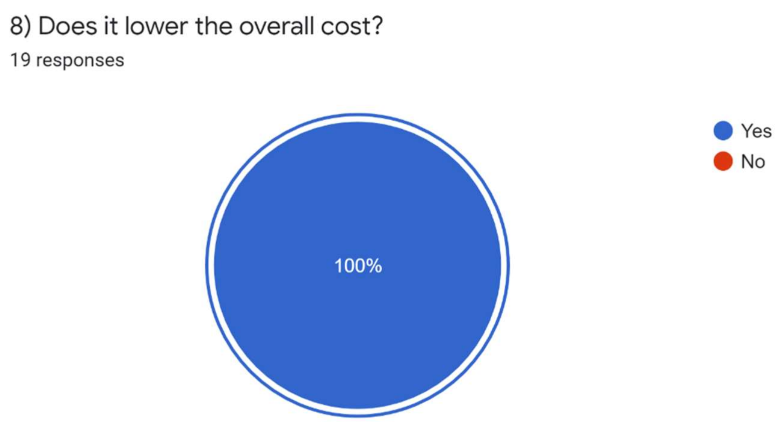
We have seen people transacting as low as BDT 100 to as high as BDT 10,00,000. Now, the question is, do they trust this digital payment system? They do. This is a unanimous answer to be precise. At least all the respondents think so. This tells so much about supply chain finance's scope and future.

Does Supply Chain Finance reduce risk?



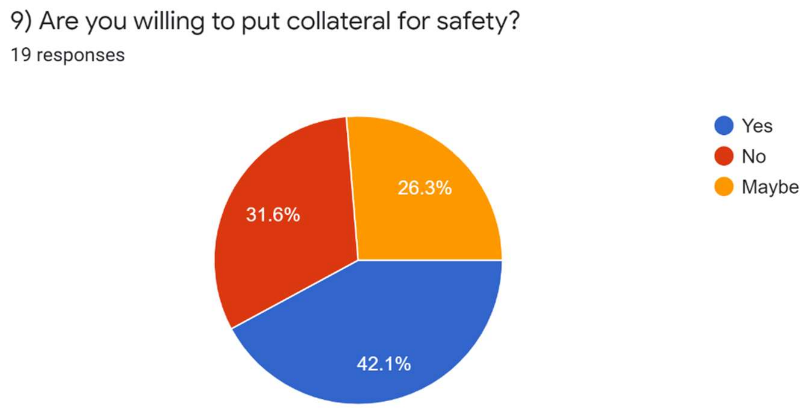
This is so obvious to be fair as expected. Supply Chain Finance reduces the overall financial, security, management, relationship risks. Of all the respondents, 95% of them voted so.

Does it lower the overall cost?



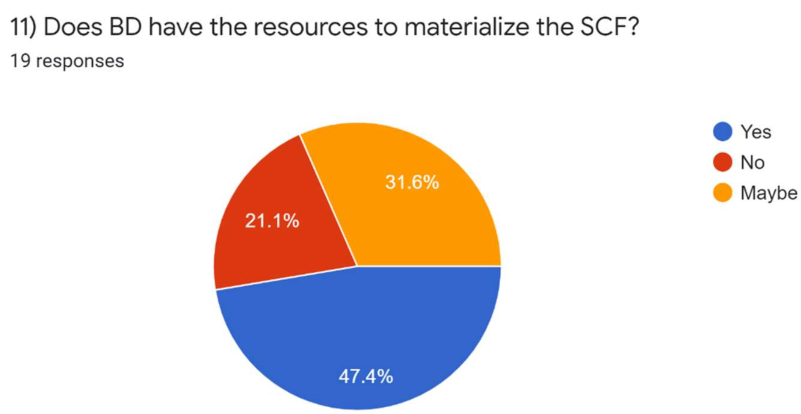
This part is well self-explanatory to some extent. Supply chain finance's main perk is that it reduces the overall cost of transactions. And all of the respondents think alike and agree.

Are you willing to put collateral as safety?



Collateral is the safest measure to ensure the safety of transactions. As it leaves both suppliers and customers at ease without much to lose. Rightly so, 42% of the respondents are willing to put collateral to suppliers as a precaution of their financial risk. However, 32% of respondents think otherwise. They do not feel like putting collateral as safety. And yet, the interesting part is that 26% of respondents are contemplating whether to put collateral or not.

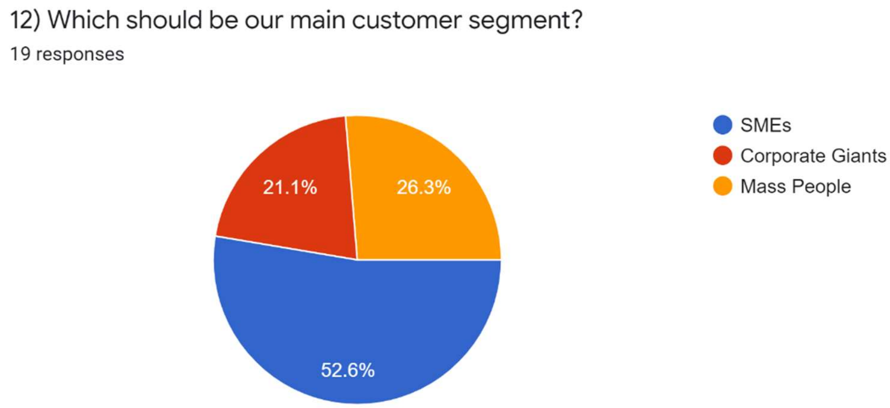
Does BD have the resources to materialize the SCF?



All these fusses about making supply chain finance the face of transactions in Bangladesh but can do Bangladesh have enough resources to materialize supply chain finance?

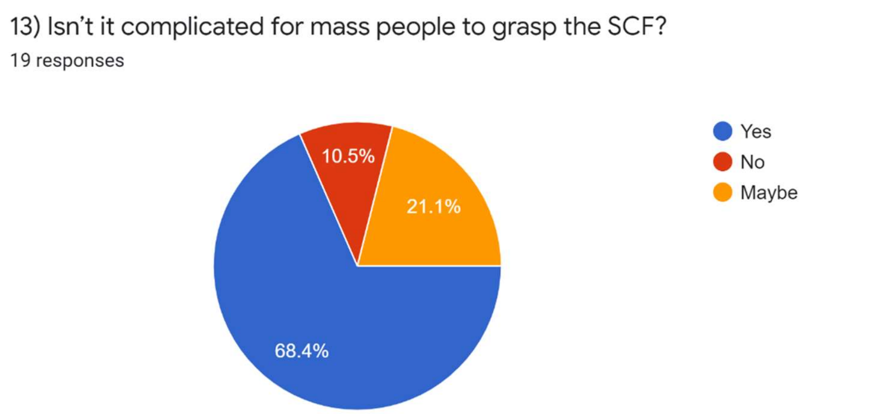
The majority of the respondents think Bangladesh has enough resources. While 21% does not affirm this belief other 32% are perplexed or not so sure about it. To infer, Bangladesh could be the perfect venue to explore.

Which should be our main customer segment?



As Bangladesh has the resources and people are willing to trust supply chain finance what customer segment should supply chain finance caters to? Is it SMEs, or corporates, or mass people? More than half of respondents (53% approximately) suggests targeting SMEs. It is understandable. Because Bangladesh's economy is built on SMEs. They contribute a significant portion of our economy. However, it has some notable business conglomerate operating all across the country. And rightly so, 21% suggests catering to these corporates. And the other 26% suggest catering to mass people.

Isn't it complicated for mass people to grasp the SCF?

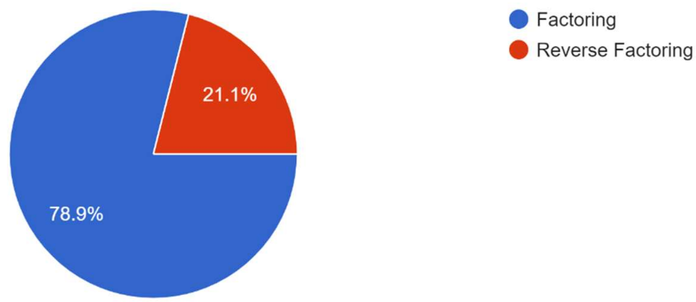


But, is not the concept of supply chain finance is way complex for people to grasp? The answer is yes. Of the respondents, 68% find it as perplex and cumbersome to digest. And 11% is familiar with it.

So, it requires proper financial literacy among people, perfect marketing, and mass awareness.

Factoring (supplier financing) or Reverse Factoring (buyer financing)

14) Factoring (debtor financing) or Reverse Factoring (supply chain financing)
19 responses

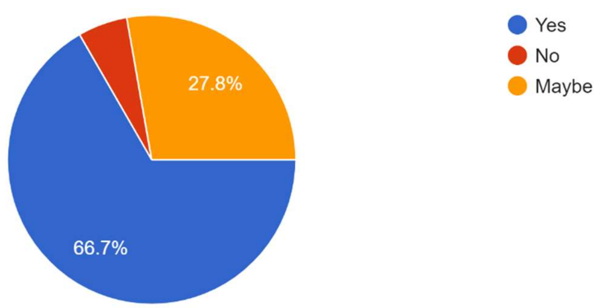


Factoring is short-term, non-bank financing of accounts-receivable. In finance factoring, the factor (called the financing factor) advances funds to a producer or a manufacturing firm, on the security of products or goods that will be produced or manufactured utilizing those funds. Whereas, reverse factoring or Supply Chain Financing is when a bank or finance company commits to pay a company's invoices to the suppliers at an accelerated rate in exchange for a discount. It is unlike traditional invoice factoring, where a supplier wants to finance his receivables. Reverse factoring is a funding solution started by the ordering party to help his supplier finance their receivables easily. Typically, at a lower interest cost than what factors normally offer.

However, as it is a complex thing, most of the respondents are yet to choose reverse factoring. Only 21% chose reverse factoring.

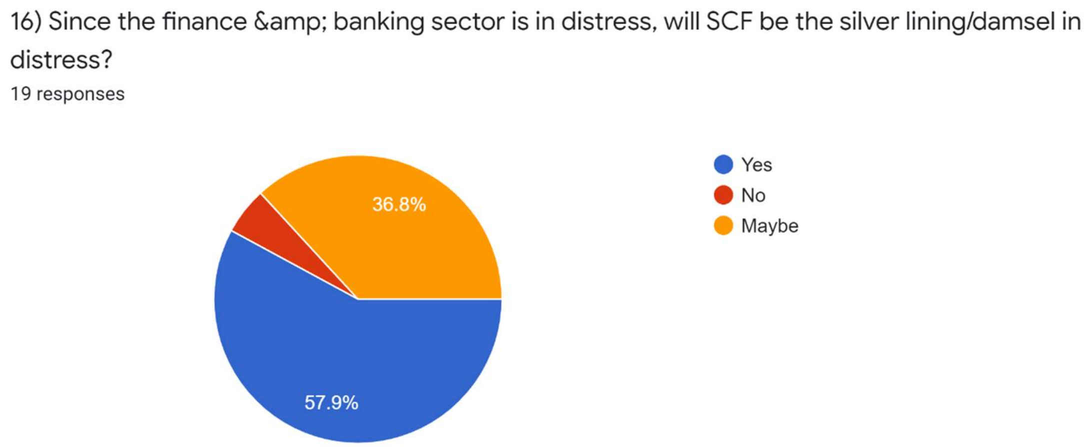
Is there a lack of policy & support from corporate entities to materialize SCF in BD?

15) Is there a lack of policy & support from corporate entities to materialize SCF in BD?
18 responses



Like everything in Bangladesh, there is a plethora of lacking in policy and support from responsible organizations which is a major obstacle to win and thrive. Almost 67% of respondents think so.

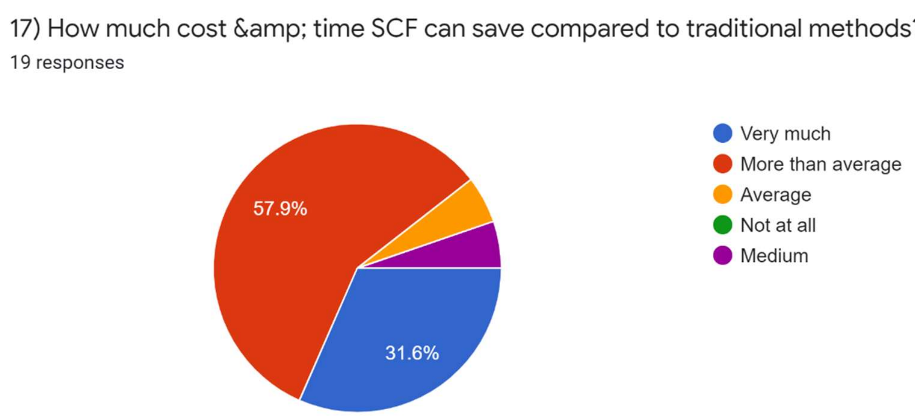
Since the finance & banking sector is in distress, will SCF be the silver lining/damsel in distress?



Life as we knew before has altered forever owing to the pandemic. Businesses have reduced. Income is uncertain. Lives are jeopardized.

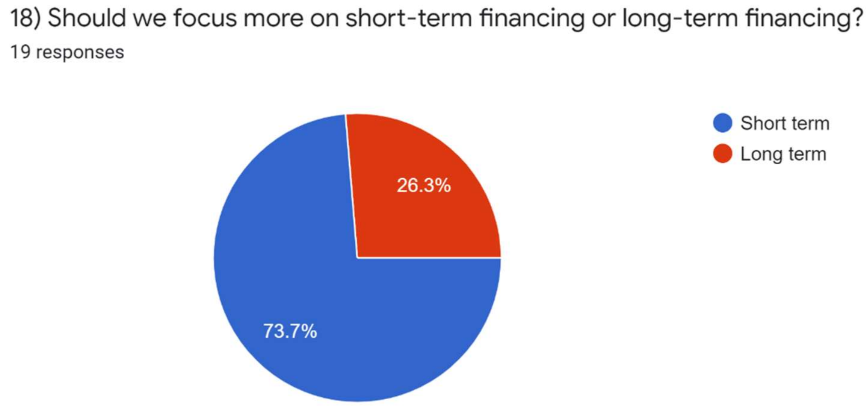
However yet, there is scope for innovation to ease the ways we live and transact. Rightly so, proliferating supply chain finance extensively could be a silver lining. Approximately 58% of the respondents termed it as a damsel in distress.

How much cost & time SCF can save compared to traditional methods?



Now, when the time saving and cost reduction conveniences are compared, 58% of respondents termed supply chain finances benefits as above average. And another 32% termed it as the sole winner. These numbers speak volumes and inspire about the prospects of such initiatives.

Should we focus more on short-term financing or long-term financing?



As supply chain finance is focused mainly on short-term financing, it better if sticks to short-term financing.

Few cents on how to make things more lucrative/interesting?

Respondents suggest their certain insights to make the whole supply chain finance process interesting in the form such as:

- Providing better terms and reducing hassles that may attract SMEs as they have fewer options for financing.
- Customizing options for different businesses can be a good USP.
- Increasing the efficiency of technology and simpler financing terms can make it more lucrative.
- Making the process easier

Every day we are seeing new variations or a completely new product or services are rising to make our lives smoother and easier. With more options, our choices are changing rapidly. In this consumer chain, consumers are an important part. These findings will help to know customers' preferences to have a fresh perspective through their eyes.

Onwards & upwards from here on.

What are the main hassles of traditional SC?

On the flip side, the traditional supply chain has its fair share of perils. Rightly so, respondents were asked about the main hassles they face while transacting in traditional methods. They remarked the following points:

- Lack of transparency
- Lead time
- Irresponsible behavior
- Less technological aspects
- Cost and delivery time
- Security issues
- Proper communication
- Complex procedure and lack of information
- Inventory management and reliance risks.
- Proper documentation.

- Ambiguity and uncertainty

Rightly so, Supply Chain Finance has an edge over traditional method in the above- mentioned issues. And the future is not so bleak after all.

Risks of SCF

Internal Risks	Existence of fraudulent activities
	Protection of data
	Problems of managing treasury
	Lack of proper human resource
	Lack of executive support
External Risks	Absence of an electronic system in transaction
	Breaching of contract
	External problems regarding the environment

Recommendations

Here, in terms of implications of supply chain finance, there are several prevalent barriers in our country and for those barriers, we are not becoming accustomed to this mechanism or process. Of those barriers, the technological barrier is the most impactful barrier one for which the companies of our country are not thriving and becoming failure to maintain and sustain.

Use of PWA

The companies can use the Progressive Web Apps which is popularly known as the PWA. It is an app that helps the users of the companies to have the user-friendly experiences in comparison with other native apps that the companies naturally use. The companies use this app because it has several advantages like it has low development costs, fast installation benefits, better performance, etc.

Standard management of treasury

For the proper type of management of treasury, there must be the use of up to date manual of all types of procedures that are used in treasury activities. The requirement of funds for this activity should find out regularly the position of all the stakeholders must be made clear.

Standard monitoring of suppliers

Under this kind of monitoring of the suppliers, there will be the existence of adequate provisions where the suppliers will be monitored regularly to know in which way they are using the money.

Commitment with OEM

In this way, MoU can be signed with OEMs by identifying and defining the proper necessary clauses of exit.

Protection of Data

Whatever we do, we need data to provide them as information to the proper stakeholders. Therefore, there must be the use of big data and a special security system to protect the data of all stakeholders.

Use of digital payment method

Under the current situation, the necessity of the inauguration of digital payment methods has increased to a large extent. The financial organization must inaugurate a separate payment system for the transactions of SCF. To make way easier they can collaborate with organizations like bKash, Nagad, etc.

Internal Audit

This step must include a peer view of the audit plan and a prioritization mechanism.

Conclusion

After analyzing the current situation and the data that we have collected through the questionnaire we have found the problems that are related to the Supply Chain Finance. The risks that are related to SCF are mainly of two types: internal and external. In the case of providing solutions, it was tried hard to focus on every problem that we have found. It cannot be said that these recommendations will vanish all types of problems related to SCF. But it can be said with firm faith that those will bring in a massive change for sure.

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