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SUPPLY CHAIN FINANCE ON

BLOCKCHAIN

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# Fundamentals of supply chain finance

Supply chain finance is a financial component to connect buyer, seller and funding institutions to come on to the same platform to optimize the working capital trapped in the supply chain. It gives the participant an opportunity to increase their short term credit without changing the figures in their balance sheet.

Commonly referred as reverse factoring and supplier finance.

## Supply chain finance (SCF) eco system

Sellers sell their invoices to the banks or financial institutions at a discount price often called as factors.

* Thus raise their working capital.
* Getting paid early, before time.

Buyer in turn can ask to increase his payback time to the funding agency.

Instead of dealing with the credit worthiness of the supplier the bank or financial institutions involved in the loop deal with the buyer who has a better credit score and a less risky prospect.

SCF transactions and traditional supply chain

It can be listed as follows:

* Extension of buyers account payable.
* Inventory finance
* Payables discounting

As compared to traditional supply chain to enhance working capital through factoring and payment discounts SCF offers the following thing.

* As the cash flows in supply chain it can be valued by financial institutions.
* The competition between buyers and sellers is replaced by collaboration.
* Organizational sustainability is achieved as cash flow is traceable.

For an example buyer might delay the payment as long as possible and the seller can expect it as soon as possible. The buyer who has better credit score can negotiate better norms with the seller by utilizing his credit score to delay the payments. Whereas the seller can expect cheaper capital by selling his receivables.

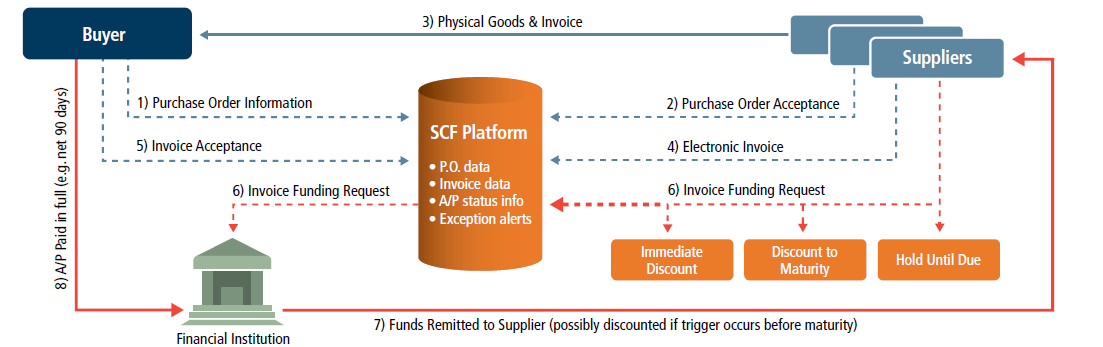
## Work flow of SFC

A typical extended payables transaction works as follows.

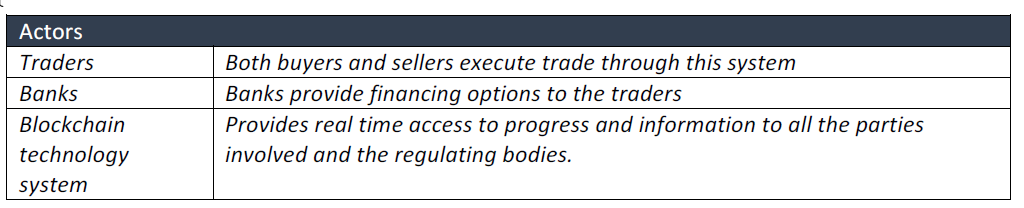
1. Let’s say Company B buys goods from a supplier S.
2. S supplies the goods and submits an invoice to B, which B approves for payment on standard credit terms of 30 days.
3. If supplier S requires payment before the 30-day credit period, the supplier may request immediate payment (at a discount) for the approved invoice from Company B’s financial institution.
4. The financial institution will remit the invoiced amount (less a discount for early payment) to supplier S.
5. In view of the relationship between Company B and its financial institution, the latter may extend the payment period for a further 30 days.
6. Company B therefore has obtained credit terms for 60 days, rather than the 30 days provided by supplier S,
7. B has received payment faster and at a lower cost than if it had used a traditional factoring agency.

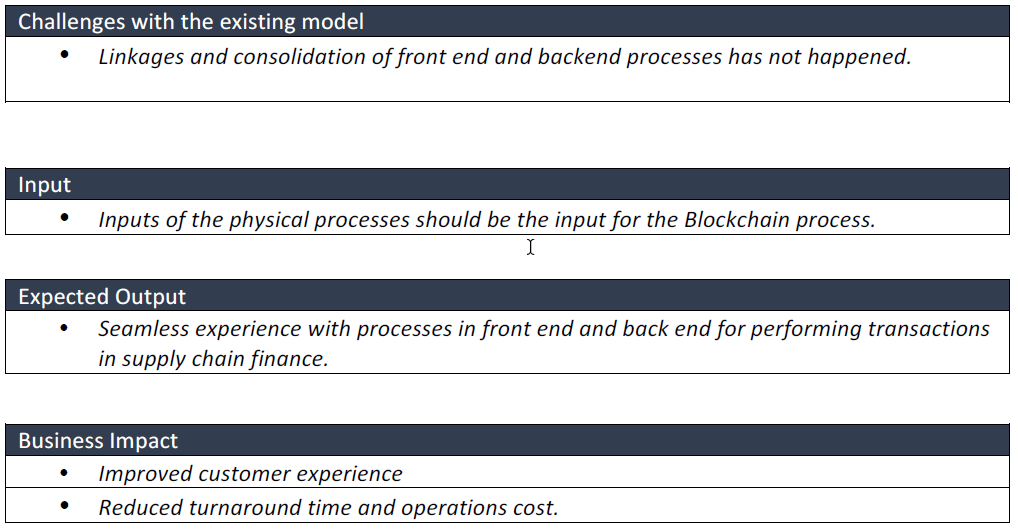
# The cloud based traditional SFC and Blockchain SFC

The traditional cloud based Supply chain finance systems works as follows



## What can be improved through Blockchain with the following actors





# References

**There are no sources in the current document.**

# Glossary

|  |  |
| --- | --- |
| AP | Accounts Payable AP is money owed by a business to its suppliers and shown on its balance sheet as a liability. |
| AR | Accounts Receivable AR is money owed by suppliers to a business and shown on its balance sheet as an asset. |
| COGS | Cost Of Goods Sold COGS represent the direct costs attributable to the production of the goods sold by a company. This amount includes the cost of the materials used in creating the good along with the direct labour costs used to produce the good. It excludes indirect expenses such as distribution costs and sales force costs. |
| DPO | Days Payable Outstanding DPO= (Accounts payable/COGS) x 365 |
| DSO | Days Sales Outstanding DPO= (Accounts Receivables/Net sales) x 365 |
| Full-time equivalents | The number of employees equivalent to one full-time employee. 1FTE = one employee working full time |
| KYC | Know Your Customer Refers to relevant information obtained from a bank’s clients for the purpose of doing business with them. The objective of KYC guidelines is to prevent banks from being used, intentionally or unintentionally, by criminal elements for money laundering activities. Related procedures also enable banks to know or understand their customers, and their financial dealings better. This helps them to manage their risks prudently. |
| Receivable Finance | Receivable Finance allows suppliers to finance their receivables relating to one or many buyers and to receive early payment, usually at a discount on the value. |
| Recourse (with/without) | ‘With recourse’ is a legal agreement that provides protection to lenders, as they are assured of having some sort of repayment – either cash or liquid assets – in the event that the borrower is unable to satisfy the debt obligation. |
| ‘Without recourse’ | In a ‘Without recourse’ agreement, If the borrower defaults, the issuer can seize the collateral (usually property), but cannot seek out the borrower for any further compensation, even if the collateral does not cover the full value of the defaulted amount. |
| SCF | Supply Chain Finance The use of financial instruments, practices and technologies to optimize the management of the working capital and liquidity tied up in supply chain processes for collaborating business partners. SCF is largely ‘event-driven’. Each intervention (finance, risk mitigation or payment) in the financial supply chain is driven by an event in the physical supply chain. The development of advanced technologies to track and control events in the physical supply chain creates opportunities to automate the initiation of SCF interventions. |
| Spread | An amount that each bank decides to add to the base rate as its revenue. The bank buys the money at a price (exchange interbank rate) and resells it to its customers recharged with a profit margin (spread). |
| WACC | Weighted Average Cost of Capital As a company’s assets are financed by either debt or equity, WACC is the average of the costs of these sources of financing, each of which is weighted by its respective use in the given situation. By taking a weighted average, we can see how much interest the company has to pay for every dollar it finances. |
| Working Capital | The amount of day-by-day operating liquidity available to a business. In mathematical terms, working capital is calculated as WC=(AR)+(Inventory) – (AP) + (Cash) |