



# News and Views

Issued by: KS-TF AG / May 2024

## Mastering Supply Chain Finance: Vendor-Sponsored SCF Solutions

Widely recognized in the realm of trade finance, Supply Chain Finance (SCF) refers to a set of solutions that enables companies to finance their supply chain and improve working capital cycles. These solutions emerged as an alternative to traditional loans, providing an additional avenue to bridge the trade finance gap, which currently exceeds USD 2 trillion<sup>1</sup>.

Originally conceived in the 1980s, SCF has evolved significantly. It now extends beyond mere payment term management to encompass a comprehensive approach to working capital optimization. Technological progress has played a crucial role in driving this evolution. While some market players continue to operate with limited technology, advanced tech is essential in today's landscape. It enables superior solutions while meeting rising market expectations.

SCF products distinguish themselves based on various factors, including the involved counterparties, legal framework, compliance and credit monitoring procedures, and programme sponsorship. Programmes can be sponsored either by buyers (Accounts Payable programmes) or vendors (Accounts Receivable programmes).

Accounts Receivable or Receivables-based programmes allow vendors to anticipate their receivables, unlocking working capital and decreasing Days Sales Outstanding (DSO). Usually, these programmes reduce the vendor's financial debt and enhance their balance sheet, especially if they achieve true sale of the receivables. However, the recent increased scrutiny from auditors and rating agencies, now demanding greater disclosure of SCF programmes in financial statements<sup>2</sup>, may appear as a significant challenge. Nevertheless, this challenge can be overcome through careful programme structuring and the engagement of independent and technologically advanced third-party servicing.

In **Factoring**, for example, the factor advances payment for receivables to the vendor at a discount. These programmes usually have limited engagement with the portfolio of buyers, who are often unaware of the programmes. In these cases, a significant portion of programme servicing falls on the vendor, including the reconciliation of buyer repayments. This increases performance risk and endangers the considerations for true sale by not externalizing the receivables management.

**Distribution Financing**, on the other hand, is the most comprehensive programme type in SCF, combining the anticipation of receivables with payment term extension. Thanks to the tailored legal structure and continuous credit and compliance risk monitoring, the risk associated with these programmes is substantially reduced. This solution enhances the vendor's competitiveness and drives more sales from the enrolled buyers, whose working capital improves by the extended terms obtained.

---

<sup>1</sup> As reported by the Asian Development Bank [link: <https://www.adb.org/publications/2023-trade-finance-gaps-growth-jobs-survey>]

<sup>2</sup> As reported in [link: <https://www.gtreview.com/news/americas/supply-chain-finance-disclosure-reforms-inch-closer-in-us/>] and [link: <https://www.gtreview.com/news/americas/why-trade-finance-banks-and-insurers-arent-happy-with-us-basel-proposals/>]



Due to the typically large number of buyers involved, servicing these programmes is a key function. Currently, many service providers still rely on simpler technologies that are not sufficient to operate complex, multi-jurisdictional programmes. More advanced platforms improve the programme's performance and reduce risk through automated monitoring processes, alerts, and notifications.

Additionally, they include the capability for in-system dispute and dilution management, allowing buyers to promptly utilise their credits against the vendor.

Moreover, third-party servicing of the programmes increases transparency for all parties involved, which positively impacts the rating and fiscal treatment of the programmes. However, only very few providers offer the necessary flexibility and fully automated end-to-end processing for smooth administration, and currently, only a few are financially and operationally stable.

Our team at KS-TF developed a formula to navigate the complexities of these programmes and stands ready to assist organizations aiming to establish or elevate their presence in the SCF industry.

If you enjoyed this piece about Accounts Receivable products, we invite you to stay tuned for our upcoming article on buyer-sponsored products.

*Kendall Stevens, President & CEO of KS-TF AG*

*After having built reputable and sustainable operations which became market leading, KS-TF AG, Switzerland based, was created as a consulting company and consists today of professionals with expertise in the trade processing and financing space, covering the disciplines of legal, credit, operations, strategy, structuring and software development. The latter in cooperation with suppliers of software dedicated to our services.*