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THE SUPPLY CHAIN FINANCE: AN UNEXPLOITED OPORTUNITY TO IMPROVE LIQUIDITY OF REAL ECONOMY COMPANIES*

Finansiranje lanca snabdevanja: neiskorišćena prilika za ublažavanje problema nelikvidnosti u realnom sektoru

Abstract

Managing working capital and shortening cash conversion cycles have become in times of crisis a key strategic priority of companies wanting to reduce their reliance on expensive external funding. However, it turns out that these options are available only to dominant companies, and weaker companies, especially SMEs, unfortunately have to agree with payment terms dictated by their dominant suppliers and/or buyers. Dominant companies forget that neglecting the problems of illiquidity, insolvency and, ultimately, collapse of weak links in their supply chains can seriously undermine their own perspective. By accepting the supply chain finance program financially solid, responsible and conscious companies recognize the need to support suppliers who may want working capital relief to survive. In this paper, we have presented practice of the supply chain finance, highlighting the benefits, prerequisites for the successful implementation, potential problems in the development and implementation, and activities to be undertaken, including expectations from economic policy makers. Multiple benefits for all participants translates also in benefits at the macroeconomic level, which if not improve, at least may contribute to prevent further fall of the competitiveness of the real sector. The banking sector also could benefit from initiation of supply chain finance at least to activate immobilized liquid assets and to reduce overall credit risk.

Key words: *supply chain finance, liquidity, supplier financing program, working capital management, banks*

Sažetak

U vremenu krize bolje upravljanje obrtnim sredstvima i skraćivanje gotovinskog ciklusa postali su strategijski prioritet kompanija koje žele da smanje svoju zavisnost od skupih eksternih izvora finansiranja. Ipak, kako se ispostavlja u realnosti, na ovom prioritetu mogu insistirati samo dominantna preduzeća dok, nažalost, ona slabija, posebno mala i srednja preduzeća, mogu samo da prihvate uslove plaćanja koje im diktiraju njihovi dominantni dobavljači i/ili kupci. Dominantne kompanije pri tom zaboravljaju da zanemarivanjem problema nelikvidnosti, nesolventnosti i, konačno, propadanja slabijih karika u njihovim lancima snabdevanja mogu ozbiljno podriti i sopstvenu perspektivu. Prihvatanjem programa finansiranja lanca snabdevanja finansijski solidne, odgovorne i dovoljno svesne kompanije priznaju potrebu pružanja pomoći dobavljačima kojima je smanjenje pritiska na strani finansiranja njihovih obrtnih sredstava neophodno da bi preživeli. U radu smo predstavili program finansiranja lanca snabdevanja, ističući njegove koristi, preduslove za uspešnu implementaciju, potencijalne probleme pri razvoju i primeni, i aktivnosti koje je potrebno preduzeti,uključujući i one koje se očekuju od kreatora ekonomske politike. Zbog višestrukih koristi koje programi donose za sve učesnike, ne bi izostale ni koristi na makroekonomskom nivou, što bi moglo da rezultira ako ne unapređenjem, ono bar sprečavanjem daljeg propadanja konkurentnosti realnog sektora. I bankarski sektor mogao bi imati koristi od uvođenja ovih programa, u najmanju ruku u pogledu aktiviranja imobilisane likvidnosti i smanjenja ukupnog kreditnog rizika.

Ključne reči: *finansiranje lanca snabdevanja, likvidnost, program finansiranja dobavljača, upravljanje obrtnim sredstvima, banke*

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Introduction

Many local companies are facing serious liquidity problems. Every year since the start of the financial crisis, these problems have been more pronounced. To our knowledge, the NBS data show that by the end of November 2013, 26,688 companies have had their bank accounts frozen. A large number of companies filed for bankruptcy. According to the Bankruptcy Supervision Agency, as of beginning of November 2013, there have been 2,171 active bankruptcy proceedings (from the beginning of the year 119 new cases have been opened), 2,387 bankruptcy proceedings have been completed and 454 have been terminated, totalling 5,012 bankruptcy cases [2]. Illiquidity and insolvency are particularly pronounced in small and medium-sized enterprises (SMEs), which are critical to the economic recovery.

Competitiveness in many industries today is increasingly manifesting at a supply chains (SC) level than at an individual company level. The leading company in the supply chain – SC anchor – is either a producer (e.g. company that assemble cars in the automobile industry) which acts in the chain as the main buyer and the major seller, or a retailer, which acts only in the role of the major buyer. There are noticeably growing efforts of SC anchors, together with partners in the supply chain, to reduce costs, shorten delivery time, better manage supply risk and automate the flow of information. On the other hand, unlike the flow of goods and information, importance of proper management of financial flows has been neglected, making it a blind spot in the supply chain literature [10]. As goods, information and financial flows in network are inevitably linked, with the outbreak of the crisis it becomes clear to SC anchors that they also need to worry about the way their chains are financed. To be competitive supply chain must optimize all flows.

Illiquidity and, ultimately, the problem of insolvency of any single link in the chain, can become a problem for other links in the chain. Many supply chains are facing supply risks due to the deteriorating financial health of their suppliers. Following a supplier's bankruptcy, the probability of supply disruptions for the next link in the chain increases. Bankrupt suppliers lose key personnel, forgo investment in production process, face labour strikes, decrease product quality [for other examples of costs of financial distress, see: 15, pp. 403-405] thus making fulfilment of buyer's orders very uncertain. Recent examples of a supplier's financial troubles affecting operational performance of buyers are, for example, Chrysler/Plastech, Delphi/General Motors and Visteon/Ford Motor cases. Visteon's bankruptcy has been averted after Ford (which is the largest of Visteon's buyers, accounting for 65% of Visteon's sales) agreed to pay between $1.6 billion and $1.8 billion to help with Visteon's restructuring. Similar to Ford, General Motors subsidized its ailing supplier, Delphi [1]. An option to subsidize the supplier could add significant value to the SC buyer.

At the end of the introductory discussion we emphasize that in Serbia, due to deteriorated creditworthiness of companies (or increased credit risk for banks) and the obligation to set aside large amounts of provisions, banks became reluctant to provide new credits to real sector companies, especially to SMEs. According to the NBS data, since early 2013 corporate lending in banks have decreased by 7,1%. Loan repayments have exceeded new loan disbursements; compared to 2012 Q3 in 2013 Q3 new loans disbursements have been lower by 1/3. Banks are hyper-liquid. The liquidity is in an extremely safe level, according to all criteria; at the end of June the average broader liquidity ratio for banking sector has stayed at 2.51 (regulatory minimum are 1.00) and narrower liquidity ratio at 1.96 (minimum are 0.70) [13].

Problem background

A source of liquidity problems for a large number of local companies is in the rigor application of traditional working capital management strategies by their stronger buyers and/or suppliers. Due to credit gaps, i.e. unavailability or high cost of loans, liquidity problem cannot be easily resolved.

The traditional approach to short the cash conversion cycle (CCC) and to achieve related working capital reductions has full meaning if it's observed at the level of individual company. CCC is actually "cash gap", thus shortening CCC eases the company's financial strain: reduces the amount of funding from other contracted sources (often expensive short-term loans), reduces borrowing costs and improves cash position. Working capital management strategies which, applied individually or together, can bring shortening of the CCC are (see in Figure 1): 1) postponement of purchase orders to the last moment; 2) earlier deliveries of goods to buyers; 3) reducing the time to collect receivables and 4) extending the period of payment to suppliers.

However, things look different if observation is done at the supply chain level. Let us consider only the upper stream of the supply chain and the first-tier suppliers. Dominant SC buyer realizes working capital management strategies by pressing suppliers to long term of payment (often over 120 days) and by holding low inventories (small order quantities and delay of orders until the last moment). Suppliers must keep inventories that do not hold SC buyer – each day of delay of order (strategy 1) extends DIH (and CCC) for one day and raises the level of inventories at the supplier. The suppliers' need to hold high level of inventories and to have quick response on SC buyer orders is especially emphasized in the case of lean forms of production as is Just-in-time. Every day of extension of payments to suppliers (strategy 4) prolongs supplier's DSO and CCC for the same number of days, increasing working capital and need for external financing. These tendencies are amplified at time of crisis – as revenues and profits are falling, a SC buyer is seeking compensation in the field of working capital management.

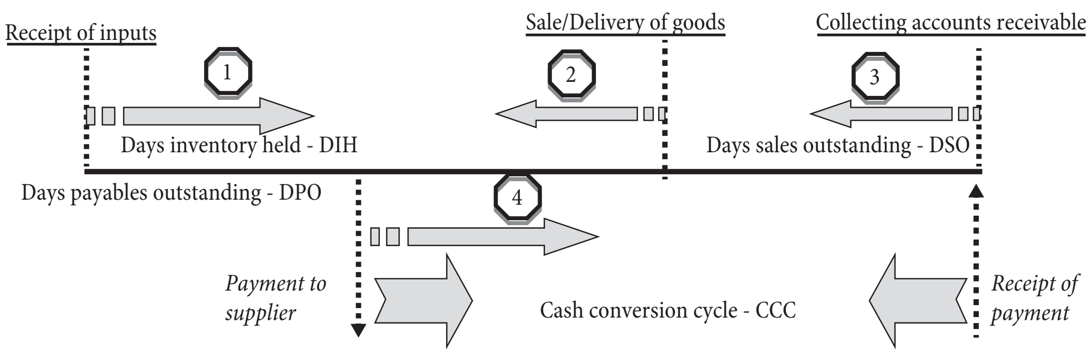
Suppliers, especially SMEs, can hardly bear this burden and they are forced to borrow more and for longer periods. Bearing in mind the gaps in the credit market, where SMEs can obtain loans only at high interest rates or cannot get them at all, many suppliers are pushed in a very unenviable position. In 2010, one research has shown that 50% of European buyers had sought to extend payment terms to suppliers and 63% suppliers had reported as unable to sustain this [5]. Constrained by internal finance SMEs will forgo positive net present value projects, and this underinvestment problem can have negative repercussions further along a supply chain [4].

The above-considered problems are present whenever we have relationship between a dominant buyer and less powerful suppliers, regardless of whether they really are the participants of formal supply chain. Guided by this logic in this article we recommend supply chain finance (SCF) as a universal for all large solid financial buyers (and their suppliers). Therefore, in the following text the term SC buyer can easily be read as a large, financially solid buyer.

The supply chain finance

Many facts indicate the importance of supply chain finance. In 2011, the European Commission adopted an action plan to address the mounting difficulties in accessing funding to survive and to grow faced by SMEs in many Member States. Given their reliance on bank financing, these difficulties are reinforced given bank deleveraging and the fact that local banks have, to a large extent, lost or lessened links to their local SMEs. Certain initiatives have already been agreed, including supply chain finance [9]. UK minister for Business and Enterprise Mark Prisk in one of his interviews assessed that SCF is clearly an option that all large companies should consider providing:

Figure 1: Operating cycle and strategies of shortening CCC



Source: [modified 11, p. 122]

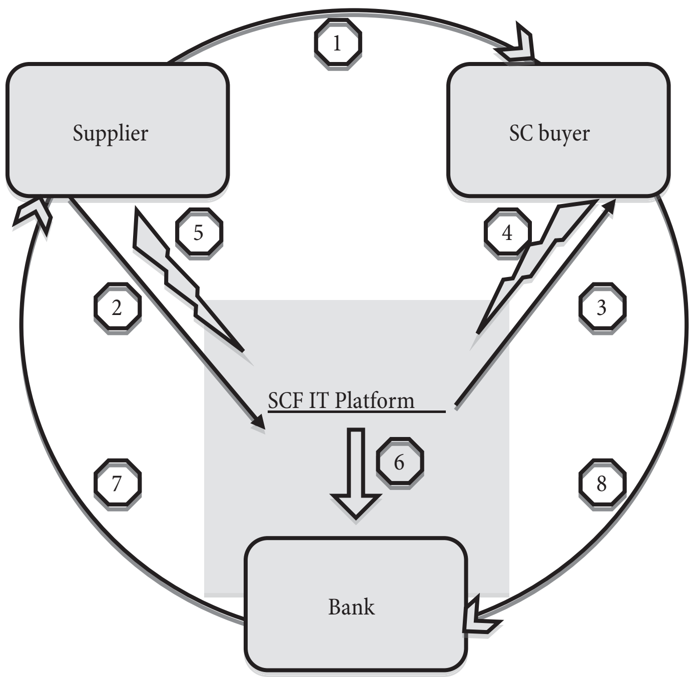
"It is one option that could help plug the funding gap of their suppliers while looking to cover working capital as they await payments" [7].

In this article will be considered primarily supplier financing program, supplier payment program or approved payables financing, which is the major and most common form of financing within SCF and which usually uses as a synonym with the term supply chain finance. Supply chain finance has gained attentions since the financial crisis – it is in the early stages of development, but it's developing rapidly. One recent report [6] shows that major international banks had reported 30-40% annual growth rates in SCF programmes over the last two years, with growth rates expecting to settle down to 20-30% by 2015, and 10% per annum to the end of the decade. The report argues that Eastern Europe, along with China and India, are considered to be the top three regions providing the greatest SCF market potential in the future. One reason for the recent neglect of SCF is that related disciplines – namely Supply Chain Management – paid little or no attention to management of financial flows in supply chains, although some studies [12] even show that information flow and material flow do not have significant impacts on the performance of supply chain, while financial flow has a significant impact on the performance of supply chain management. In addition, the low cost of capital and certain technical problems, such as e-invoicing, difficult and costly development of IT platform, made unattractive of some SCF initiatives that have existed since the beginning of the 2000s and prevent their significant development. Supply chain finance is financial management that erases the boundaries of an individual company and can increase competitiveness and reduce the vulnerability of the supply chains, i.e. increase the capacity of supply chains to cope with external shocks.

Supplier financing program is strategically oriented program (see Figure 2). Program is initiated by the SC buyer, which opens access to financing at lower interest rates and enables faster collection of receivables to its suppliers. There are three participants in this SCF program, the SC buyer, suppliers and the bank, and after meeting the technical requirements related to the development of an appropriate automated IT B2B platform that processes the orders of the three sides and provides settlement, the logical structure and functionality of the program is relatively simple.

After delivery of goods (and services) by the supplier to the buyer SC (step 1), all other procedures are routinely

Figure 2: The SCF mechanism



Source: Author's illustration

performed on automated and highly transparent IT platform. The supplier sends an e-invoice to the platform (2), SC buyer “takes” the e-invoice in his accounting IT system (3) and approves invoice to the IT platform (4). After making sure that the invoice has been approved supplier launches an order for payment (5), the bank receives order (6) and disburses the supplier cash within a maximum of 24 hours (7). Finally, at the end of the trade credit period SC buyer makes payment of the entire invoice amount (8).[1]

If he wants, supplier can launch order for payment on the same day when the invoice is approved. Bank is discounting receivable, for the number of days the payment date preceding the date of expiry of the credit period, at an interest rate that applies to the SC buyer plus a service fee. Since they do not assume any additional credit risk related to suppliers, banks do not consider the credit risk of the suppliers, but only of SC buyer. Thus, the bank makes the payment to the supplier without recourse. SC buyer pays the invoice at maturity date to the amount that would otherwise be paid i.e. invoice value, with no additional interest costs or fees.

The possibilities for application of SCF in Serbia

A lot of companies in Serbia face severe problems with their liquidity and solvency. This is illustrated by the number of companies that have frozen the bank accounts and the number of companies in bankruptcy proceedings, which are presented in the introduction to this paper. Illiquidity not only undermines the ongoing competitiveness of companies and of the real economy, but also may threaten the survival of many companies and long-term perspective of the economy. Since failure of one company almost necessarily affects its buyers and suppliers, it means that rare financially solid companies cannot sit idly by. Option to financially help the weak supplier may add significant value to the dominant buyer. Policymakers should encourage this cooperation of buyers and suppliers, but also help banks to increase their loans to the real economy. We have recognized the SCF as a good mechanism for achieving these goals.

In the rest of the paper, we have dealt with the analysis of the prerequisites for the successful implementation of SCF in Serbia and the perception of the expected benefits, but also potential problems in its implementation. Our research has included analysis of companies’ financial statements and interviews with managers of banks and supplier companies.

Prerequisites for the successful implementation of the SCF

As prerequisites for the success of the program we have identified following factors: 1) a relatively long DSO at suppliers i.e. a relatively long DPO at SC buyer level; 2) the desire of SC buyers to develop strategic cooperation and long-term stable relationships with suppliers; 3) large volume of purchases; 4) SC buyer has in comparison to its suppliers better credit rating i.e. enjoys sufficiently lower interest rates.

To test the fulfilment of first prerequisite, for the illustrative purposes, we have examined the practice of working capital management in Serbia. On the one hand, we have calculated the average days payables outstanding with chains of retail store as buyer, and on the other side the average time to collect receivables in the food industry, specifically with companies in the confectionery industry, fruits and vegetables processing industry and meat processing industry. Seven examined retailers take huge share in the Serbian retail market, with total sales of over 2.1 billion EUR. The sample of companies in the food industry includes 32 companies, 5 large and 27 medium-sized companies, with total sales of about 550 million EUR[2]. The analysis used publicly available data for year ended December 31, 2012 on the website of the Serbian Business Registers Agency.

1 In presented case “the trigger” for payment is approval of invoice. The other forms of SCF in which the trigger point is the receipt of the purchase order or the start of customs clearance etc. are in the early stages of development and implementation. These have been featured with significantly higher risk and it is reserved for use in extremely solid relationship between SC buyer and suppliers. The other forms of event-triggered financial services along the supply chain will not be discussed in this paper.

2 Classification of enterprises by size is based on local regulations. The sample did not include small companies, as their data were not publicly available.

Table 1: Retailers' days payables outstanding, DPO and suppliers' days sales outstanding, DSO at the end of 2012

	Chains of retail store as buyer	Food industry suppliers
N	7	32
Total sales (mil EUR)	2,133.78	549.60
	DPO	*DSO*
Mean	***53.96***	***118.53***
Std. dev.	29.19	197.63
Min.	20.52	38.48
Max.	91.91	809.03
Mean (2011)	61.81	113.41

Source: [14, derived data]

As we can see in Table 1, the average buyers' DPO is about 54 days, which is about 8 days shorter than in 2011. The longest time for payment of liabilities to suppliers is with one of the chain with the largest market share and the DPO is around 92 days. On the other hand, the average collection period of receivables for suppliers in the food industry is as much as 119 days, and for about 6 days longer than in the previous year. The big difference between the DPO and DSO can be partially explained by the fact that buyers' trade payables include liabilities to importers, for electricity, fuel and utility services where payment periods are typically significantly shorter. On the other hand, suppliers' DSO includes also the average time to collect receivables from other buyers, which is probably longer than DSO with the big chains of retail store.

We have not been in position to directly examine the willingness of SC buyers to offer SCF to their suppliers. However, in our discussions with banks' executives as potentially initiators of SCF we have identified following companies: chains of retail stores, energy and telecommunications companies, some state-owned enterprises, the tax administration (for a VAT refund), strategically important exporters (with state guarantees for those with low credit rating) and other large first class client companies. Each of these initiators has a large annual volume of purchases from their suppliers. To illustrate this we calculated the total volume of purchases from suppliers in seven chains of retail stores. Total yearly purchases are slightly less than EUR 3.5 bn.

Suppliers must finance their working capital. Trade credit is an important source of funds, but after exhausting the possibilities of further funding from this source, companies have turn to short-term bank loans. Reasonably, banks require a risk premium and charge higher interest rates for the riskier loans. As a rule, the cost of debt for large SC buyers with high credit ratings is significantly lower than the cost of debt for the largest number of their suppliers, particularly for SMEs. Of course, this interest rate difference varies from case to case and from bank to bank. In the absence of reliable publicly available data and academic research on this topic, our insight into available data showed that the approximate difference between the interest rate for first class large borrower (category A, according to NBS classification) and interest rates for medium-sized enterprise with medium credit rating (category C) for the loans in RDS is in the range from 6% to as much as 11%.

To highlight specific financial benefits of SCF for a typical medium-sized local company we have compared SCF with discount loan paying mean interest rate of the previously indicated range of 18.5% (see Table 2). In this example, we assume invoice value of 1 mil RSD and the credit period of 90 days. We suppose that bank administrative costs for the SCF are at the same level with the administrative costs of processing the application for discount loan, which allow us to omit them from the analysis.

Table 2: Illustration of financial benefits for suppliers: case of first class SC buyer and typical medium-sized company in Serbia

	Cash flow to supplier		
Day of the inflow	SCF (SC buyer's interest rate 10%)	Discount loan (supplier's interest rate 18.5%)	Difference
0	976,440	956,414	20,026
30	984,293	970,942	13,351
60	992,147	985,471	6,676
90	1,000,000	1,000,000	0

Source: Author's calculations

The column "Discount loan" reflects the amount of cash that would be obtained with the assumption that the company returned the bank face value of RSD 1 mil on the 90th day. Assuming continuous yearly sales in same amount and requesting payment of the 0th day, annual interest costs for supplier would be lower (and net income higher) by RSD 80.104 (4 x 20.026) compared to the bank loan alternative. Suppliers who do not have liquidity problems and do not want discounted cash inflow can wait for the end of the trade credit period (90th day) when they will receive the full amount. Finally, some suppliers may decide to require payment on any other day between the date of approval of invoice and the end of the trade credit period.

Apart from the evident decrease in financial costs and consequent increase in profitability, for a number of suppliers with liquidity problems a major benefit of the program is earlier and certain cash inflows. For some SMEs suppliers this may be the only way left to finance operating cycle and to maintain production. To realize the full benefit of the lower cost of capital, suppliers need to request earlier payment as soon as it is possible.

Benefits and accomplishments of SCF

In addition to above calculated financial benefits to suppliers we have identified a number of other benefits of SCF to suppliers, buyers and banks, and at the level of the national economy as a whole. It is reasonable to expect that the materialization of just some of them may, to some extent, increase liquidity and preserve competitiveness of companies in the real economy. To examine the perceived benefits of the SCF by banks and suppliers, we have conducted a series of interviews with executives of local banks and companies. The answers are summarized below.

Banks are already offering early collection of receivables to companies in the form of factoring and promissory note discounting, and also a secured short-term loan with pledge of receivables. In this sense, the SCF could be viewed as product that could compete with these existing bank products and produce effects of revenue cannibalization. Despite this, banks have responded that SCF makes to them very interesting product and would be very interested to offer it to SC buyers. Among the benefits perceived by banks the following could be pointed out:

Increasing revenues. In addition to the realized interest and fees from SCF, by tying of large SC buyers and their suppliers bank opens up the possibility of cross selling of other banking products.

Reduction of credit risk. Due to increased exposure to high quality clients, there are expected reduction of the related credit risk provisions and allowances for loan impairment. Because of high transparency and visibility of IT platform, it is very easy to monitor bank exposure and to have early warning signal of potential problem with repayment.

Low administrative cost and simple execution. In comparison to promissory note discounting or factoring transactions, SCF transactions go through automated IT processes with very low manipulation. The costs are lower and execution is easier even if compare SCF with the processing of applications for conventional short-term loans.

Does not compete with existing banking products. Products that could potentially compete to SCF, such as note discounting, factoring and providing payment guarantees to large buyers for making payments to their suppliers, are poorly developed. The reason is that SC buyers usually do not give supply chain suppliers notes or guarantees for payment and often do not want to give their approval that the suppliers can make the factoring of receivables from SC buyer.

Bearing in mind the above-illustrated financial benefits for suppliers, it is not surprising that all the managers we interviewed (in the position of the suppliers) expressed their interest to participate in the SCF. Choosing between financial costs savings and benefits of earlier cash inflows, respondents emphasize second mentioned benefit. Interestingly, unlike the managers of banks, managers of suppliers believe that SC buyers will be interested to offer the SCF. They expect also that banks should be interested in SCF. Other identified significant benefits that cannot easily be "financially quantified" can be summarized as follows:

Benefits of developing long-term strategic relationship with the SC buyers. As the benefits of stronger linkages respondents emphasized the reduction of marketing costs, logistics costs and costs of holding excessive inventories. In the case of companies that also produce private label products for chains of retail stores, managers highlighted the benefit of reducing the risk of losing the contracts; since the retailers' requirements in terms of delivery time and product quality are so very rigorous there is a constant fear of breaching the contract due to liquidity problems. Some see SCF as a way of "formalization" of their position in supply chain, expecting a better position in annual negotiations with buyers. Finally, since respondents do not expect that financially weak SC buyers can get SCF from the banks, they see the SCF as a means to identify the quality buyers with whom they need stronger attachment.

Benefits of the side of the relationship with their suppliers, due to the ability to pay their liabilities on time. Some suppliers offer cash discounts for early payment in the range of 1% for discount period of 15 days to 3% for payment in advance or cash on delivery and some suppliers have clauses on minimum order quantity, which due to illiquidity cannot often be met. Sometimes it is possible to achieve a lower cost of inputs in the case of payment obligations in a short timeframe. At the end, they could reorient to the suppliers of quality inputs that do not allow open account sale. This is especially true when purchasing inputs from abroad.

Substitution of expensive sources of financing. They will gladly get rid of factoring. They point out that in comparison with factoring, SCF is cheaper, non-recourse, source of financing and also looks easier and simpler.

Improved cash flow management. Responders expect that the IT platform is transparent enough so that they can see how much money they can get at any day, which, also, eases cash flow forecasting processes. If they are not short of cash, they will wait until the end of credit period to get more cash.

In reviewing the available literature on the topic, we have found a number of benefits for SC buyers, which are: 1) primarily, stabilization of the financial health of the upstream links of the supply chain in order to reduce the uncertainty of supply for SC buyers; 2) strengthening of connections and interdependencies among links in the supply chain and developing long-term strategic relationships with SC suppliers; 3) bearing in mind the benefits that are provided to suppliers, buyer can negotiate to lower the price of inputs or extend payment deadlines; 4) freer use of its working capital management strategies without the risk that those moves will threaten suppliers; 5) no additional cost, either towards the bank, because the bank charges are borne by suppliers, or towards suppliers, since the payment is made in the amounts and time periods in which buyer normally pay obligations; 6) user-friendly payment platform with high transparency which can reduce administrative cost in finance department related to monitoring and payment of liabilities to suppliers; 7) possibility of attracting suppliers of quality inputs that didn't want to sell to SC buyer due to long terms of payment.

At the level of the national economy, we envisage the following benefits: 1) reducing liquidity problem in important and large supply chains, therefore, to a large extent, reducing the overall illiquidity in the real economy (even though the SCF is offered only for the first tier of the supplier, this supplier can pass the "fresh money" to further links in the chain); 2) closing gaps in the credit market, i.e. improving access to cheaper capital for SMEs; 3) increasing the competitiveness of SMEs based on the reduction of financial costs, the consolidation of their position within the supply chains, and reducing the risk that they will be squeezed out by foreign suppliers; 4) preventing of bankruptcies, that is, increasing survival rates of SMEs; 5) in the case that the SC buyer is exporter, strengthening of export chains and increasing volume of export; 6) activation of immobilized liquid assets in banks, increasing banks' exposure to healthier clients, which, to some extent, means reduction of overall risk i.e. increase in capital adequacy in the banking system.

Problems, the necessary activities and the potential role of government in the development of SCF

The managers of banks as a major problem for the implementation of SCF perceived potential lack of understanding and unwillingness to accept SCF by SC buyers. Another problem is the relatively high initial costs for the development of IT platforms. Law on the Terms for the Settlement of Monetary Obligations in Commercial Transactions [16], which came into force this year, restricts the freedom of contracting credit period between the two parties. Due to the length of operating cycle in certain industries adapting SC buyers to the prescribed payments deadlines is not possible to achieve in "natural" way. For this reason, some of uniformed SC buyers can see SCF as an additional pressure in regard to the abolition of freedom in setting terms of payment. Although SCF is not in conflict with the Law, the Law may interfere with SCF in terms of setting out long payment periods voluntary negotiated between the buyer and the SC suppliers that agree with them. Additional banks' concerns are the worry that sustainability of program could be jeopardized due to improper behaviour of some participants and the need to adapt bank's internal procedures. Potential challenge is meeting the requirements of Anti-money Laundering Law and related Know Your Client procedure because SC buyer's suppliers are not necessarily clients of the bank.

Necessary activities to be taken in the development of the SCF in the banks are: intense affirmation of the program with a clear emphasis on potential gains for all parties in the program; the in-house development or purchasing of software for the IT platform; developing the technical setup, workflow diagrams, and legal documentation; preparation of some type of code of conduct for future participants in the SCF; defining bank procedures to make Know Your Client process effective. The availability of bank credit to support businesses has become a political issue and the techniques of supply chain finance have been mentioned in that connection [3]. In our case, we propose active involvement of the government, which should include following: 1) setting incentives for the banks for the development of IT platforms in the form of tax breaks or subsidies; 2) promoting e-invoicing[3]; 3) reconsideration of the content, the consistency in the implementation and sustainability of the Law on the Terms for the Settlement of Monetary Obligations in Commercial Transactions; 4) encouraging the involvement of large state-owned enterprises, as well as companies with majority state ownership and tax administration, in the role of the SC buyers in SCF; 5) in order to encourage export, offering state guarantees to banks for SCF programs of low credit rating exporters in strategically important sectors i.e. in sectors with comparative or competitive advantage (for list of the sectors, see: [8]).

3 Electronic and automated invoice processes can result in savings of 60-80% compared to traditional paper-based processing [3].

Conclusion

It seems that today the possibilities of passing "fresh money" into the real economy in order to extinguish fire of illiquidity are pretty exhausted. This is indicated clearly by depletion of possibilities to continue granting subsidies for bank loans for liquidity and working capital, problems in the work of some state institutions that have been main providers of state subsidies, and stopping the idea of forming a development bank. It did not happen either the reduction of debt on the books, since the idea of implementing multilateral compensation had not been implemented and the effects of the implementation of the Law on Negotiated Financial Restructuring of Companies are quite small (or even non-existent). Serbia failed to initiate, to a significantly extent, private equity or venture capital funds, which would certainly be helpful for not such a small number of SMEs. Due to costs or due to complexity, recorded volume in the factoring and note discounting transactions, as alternative ways for earlier receivables collection, are more than modest. Because of the large accumulated NPLs and high credit risk, banks constantly reduce lending to all but first-class companies. In this bleak situation SCF seems as a very promising solution. It should be borne in mind that due to the many benefits, in the last 2-3 years this way of financing recorded the enormous growth even in developed economies.

In a SCF a SC buyer and its suppliers work together with a bank, in order to optimize the financial flows resulting from trade. Supply chain finance helps ensure that suppliers of financially solid companies have access to liquidity and cheaper source of financing to guarantee the smooth flow of goods throughout the supply chain. Participating in SCF allow to reduce working capital, both to buyers and to suppliers. Supply chain finance helps improving supplier-buyer relations and development of their strategic partnership. For many local SMEs supply chain finance could be the key to survival and to future competiveness. Supply chain finance increases banks' revenues, reduces risk exposure and decreases provisions for credit losses. It appears to us that, in choosing between banks, suppliers, customers and the government, is most realistic to appeal to banks to consider the SCF and, hopefully, to approach to its development.

At the end, we should point out the most attractive feature of SCF in our opinion – it is there but not there. The suppliers can get, if they wish, a full payment by waiting for the invoice maturity date; SC buyer pays when they usually pays and as much as they would normally pay – invoice value with no additional interest costs or fees.

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