APPLICATIONS OF SUPPLY CHAIN FINANCE SCHEMES IN SRI LANKAN BANKING SECTOR

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INTRODUCTION

Small and Medium Enterprises (SMEs) are the engine of economic growth in Sri Lanka, as they own and operate 80% of the business. However, SMEs in Sri Lanka confront considerable difficulties in accessing bank finance. Most financial providers are reluctant to lend to potential clients, considering that financing for SMEs is risky due to high transaction costs and low returns on investment (Gamage, 2015). Most SMEs operate the business on credit terms and face difficulties with limited sales revenues. The amount of cash in hand may be strained, leading to constraints on working capital to pay wages, bills, and other operating costs (Wijesinha & Perera, 2015).

Supply Chain Finance Scheme (SCFS)/ Reverse Factoring (RF) provides a bundle of solutions for Small and Medium Enterprises (SMEs), such as financing working capital, providing collateral, and reducing interest costs and processing fees of their borrowings. Moreover, with SCFSs, corporate buyers can outsource their receivable management and negotiate better terms with their suppliers. License Commercial Banks (LCBs) also receive specific benefits from SCFSs by converting high-risk SME lending into low-risk corporate lending. LCBs experience low information costs due to one or few credit appraisals on credit facilities involved with many customers (Gelsomino et al., 2016; Klapper, 2005; Liebl et al., 2016; Silvestro & Lustrato, 2014). Despite the benefits from SCFSs by SMEs, banks, and the overall economy, the penetration of SCFSs in Sri Lanka is deficient. Motivated by the significance of SCFSs for SMEs and the banking sector in Sri Lanka, the study at hand examines the root causes of non-penetration of the SCFS in Licensed Commercial Banks (LCBs) and study measures that LCBs to be established to develop their internal capabilities to reach the execution level of SCFS. This is the first study investigating the SCFSs in the Sri Lankan context.

METHODOLOGY

Empirical evidence found in literature in Supply Chain Finance revealed that researchers had used qualitative research design to resolve their research problems in different contexts. Further, In-depth interviews have been used to gather the primary data, and thematic analysis is used to analyze the data (Silvestro & Lustrato, 2014; Gelsomino et al., 2016; Liebl et al., 2016). The research is designed as qualitative research within the research paradigm of interpretivism/ Constructivism (Creswell, 2014). The study applies a qualitative purposive sampling method and collects data using the interview technique (Sekaran, 2003; Sapsford & Jupp, 2006; Creswell, 2014). The primary data is analyzed using thematic analysis. 'Thematic analysis is a method for identifying, analyzing, and reporting patterns (themes) within data'

(Boyatzis, 1998). The primary data collection comprises Fourteen (14) interviews from senior banking professionals representing Fourteen (14) LCBs, who have good exposure to credit facilities and lending. The primary data collection/ sample size adequacy is decided upon meeting the saturation point. In qualitative research studies, the primary data collected through the interviews are converted into interview transcripts and analyzed using Thematic Analysis Technique which qualitative researchers heavily apply to analyze the bulk interview data (Maguir & Delahunt, 2017; Jugder, 2006; Braun & Clarke, 2006, p.78).

Braun and Clarke (2006) and Maguir and Delahunt (2007) provide a six-phase guide, a valuable framework for conducting thematic analysis. The framework described above consisted of becoming familiar with the data, generating initial codes, searching for themes, reviewing themes, and writing up. Hence, this study used thematic analysis to analyze the primary data collected from interviews.

RESULTS AND DISCUSSION

The researcher uses a survey strategy to collect the primary data. Qualitative interviews are taken from the senior bankers and transcribed. The thematic analysis technique is used to analyze the bulk interview data. Firstly, interview transcripts are thoroughly read several times to become familiar with the content of the answers. Secondly, with the familiarization with the content, initial codes are assigned. Thirdly, patterns of the codes are identified and based on the patterns described above; codes are grouped into eight (08) significant categories. Finally, three broad themes emerged Knowledge and Expertise, Risk Appetite, and Facilitative Approach (Infrastructure, Internal Design, and Product Promotional Approaches).
According to the similarities and patterns of codes, LCBs are grouped into three categories in the concept and the bank's role in the SCFS. These groups are LCBs which accurately explain the concept and bank's role in the SCFS; LCBs, which explain factoring or postdated cheques discounting instead of the SCFS; and LCBs, which explain unrelated products instead of SCFS. Finally, based on the classification described above, a broad theme emerged as Knowledge and Expertise. According to the analysis of fourteen (14) qualitative interviews, it is found that out of fourteen (14) studied LCBs, only one LCB (Bank B) operates the SCFS currently in the context.

Furthermore, only two (02) LCBs (Bank B and E) accurately explain the concept and bank's role in the SCFS, representing 14 per cent of the sample. Moreover, the balance of twelve (12) LCBs do not explain the concept and bank's role in the SCFS correctly, and out of which six (06) LCBs (Bank A, C, D, F, G, and J) explain factoring or postdated cheques discounting instead of the SCFS representing 43 per cent of studied LCBs and balance six banks H, I, K, L, M, and N do not possess related knowledge in the concept and bank's role in SCFS which represent 43 per cent of the sample. According to the analysis, it is revealed that deficiencies in knowledge and expertise in SCFS have significantly impacted on non-penetration of SCFS in the Sri Lankan Context.

The credit proposal risk assessment is the only important element in the credit evaluation process. The researcher collects the opinion of senior bankers about the risk assessment to ascertain the applicability of the SCFS. Based on the similarities and patterns of the codes that emerged, five groups are formed as preconditions, buyer prescreening, special focuses on specific industries/ markets, supplier prescreening, and flexibilities in collaterals. Also, based on the groups mentioned above, a broad theme emerged as Risk Appetite. According to the analysis, it is found that eight LCBs ((08), Bank A, B, E, F, H, K, M, and N) evaluate preconditions in lending, representing 57 percent of the sample. Further, five LCBs ((05), Bank B, C, G, M, and N) perform buyer prescreening, a favorable risk approach in penetrating SCFS in the future, representing 36 percent of the sample.

Moreover, five LCBs ((05), Bank A, B, E, H, and M) have decided to limit their presence in specific Industries or Markets, representing 36 percent of the sample. Furthermore, two LCBs ((02), Bank B and M) perform supplier prescreening before the credit decision representing 14 percent of the sample. Eight LCBs ((08), Bank B, C, D, F, G, J, K, and M) have flexibility in obtaining collaterals in cushioning the risk, representing 57 percent of the sample.

According to the analysis, it is evident that certain LCBs are in a favourable risk approach in penetrating SCFS though they do not operate the product currently. Further, it is revealed that one of the business priorities of LCBs is engaging in the lending business, which exposes the inherent risk of default. LCBs expect to obtain collaterals/securities to secure credit facilities or to mitigate the default risk. Due to the adverse competition between LCBs and the credibility and trustworthiness of the client's profile, LCBs attempt to extend credit with flexible conditions in collaterals which is a positive sign for future penetration of SCFS in Sri Lanka. According to the analysis, it is revealed that the risk appetite level of LCBs has moderately impacted the non-penetration of SCFS in the Sri Lankan Context.

In addition to that, according to the codes that emerged, three groups were developed Infrastructure (System Platforms), Internal Design (Product Management Team and Product Program Guidelines (PPG) or Operations Manual), and Promotional Approach. Also, based on these groups, a broad theme emerged as the Facilitative Approach. According to the analysis, it is found that LCB E and I believe that they do not need a separate platform to handle SCFS since having the capability with their existing core banking system to handle the same in the future, which represents 14 percent of the sample. However, LCB E, G, H, and J have different thinking of facilitating the promotional approach (DTFPA), representing 29 percent of the sample. As they believe, there is no need for unique promotion campaigns in product promotion since bank staff has the entire responsibility of educating their clients about the new products or services available at the bank.

Moreover, we observe that, except for a few, most LCBs do not have a facilitative approach, such as the required IT platform, Product Program Guidelines (PPG) and Product Management Team, and Product promotional approach to penetrate the SCFS in the Sri Lankan context. It is also found that only one LCB has a manual workaround to perform transactions, product management team, PPG, and Product promotional approach to operate SCFS, which represents 7 percent of the sample. According to the analysis, it is revealed that the lack of a facilitative approach such as the required IT platform, PGG or Operations Manual, and Product Management Team and Product promotional approaches has significantly impacted on non-penetration of SCFS in the Sri Lankan Context.

CONCLUSIONS AND IMPLICATIONS

Deficiencies in Knowledge and Expertise and Facilitative Approaches such as Infrastructure, Internal Design, and Product Promotional Approaches significantly affect the non-penetration of SCFSs in the studied LCBs in the Sri Lankan context. We also observed that the risk appetite level of LCBs moderately influences the non-penetration of such schemes in Sri Lanka. Our study has several implications for policymakers and practitioners. Penetrating the SCFSs in Sri Lanka would increase the confidence of the Banking system to lend to SMEs. SMEs would be able to reduce their finance gap by accessing the SCFSs through Corporate Buyers. Policymakers may encourage the SCFSs by developing the required capabilities and incentives in the banking system.

Further research may identify the internal capabilities required by LCBs to penetrate the SCFSs. Such capabilities include improving the knowledge and expertise in the concept and bank's role in the integration of physical, financial, and information flows of the Supply Chain, introducing or implementing the necessary expansions in IT Platforms enabling to handle the SCFSs, establishing internal design through the product program guidelines or operations manuals and forming the product management and coordination team, application of relevant product promotional materials and campaigns to promote the product and transforming into the cash flow based lending instead of conventional collateral-based lending.

Keywords: Banking sector, SMEs, supply chain finance, supply chain finance scheme

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