

Supply Chain Finance: Addressing PENJANA's initiative for GLCs and large corporates



Supply Chain Finance (“SCF”) could be a ‘win-win’ solution for Buyers, such as government-linked companies (“GLCs”), to optimise their payment terms and improve their supply chain stability whilst allowing their suppliers to receive faster payment. SCF also allows GLCs and large corporates to support the Government’s PENJANA initiative in a sustainable way.

On 5 June 2020, the Prime Minister announced PENJANA, Malaysia’s RM35 billion Short-Term Economic Recovery Plan. There are three main thrusts in PENJANA to support the Malaysian economy in the new normal, namely:

- i) Empower the People,
- ii) Propel Business, and
- iii) Stimulate the Economy

Under the Propel Business initiative, the Government is encouraging GLCs and large corporates to accelerate their vendors’ payment terms. This is aimed at providing relief for their small and medium-sized enterprise (“SME”) vendors’ cash flows. However, by doing so, this will put pressure on the GLCs and large corporates’ own cash flows.

SCF could be a ‘win-win’ solution that is sustainable for both GLCs/large corporates and their SME vendors. SCF is not a new concept, and has been commonly used by large multinational companies in countries such as the US, the UK and China for many years now.

Accelerated Payment Terms for GLC and Large Corporates' Supply Chain

BENEFICIARIES
Companies in supply chains of selected GLC and large corporates

TIMELINE
Beginning July 2020

OBJECTIVE
To provide relief cashflow to SMEs who are part of the supply chain of GLCs and large corporates by accelerating payment terms

To provide relief to **SMEs' cash flows**, the Government is encouraging GLCs and large corporations to **accelerate their vendors' payment terms**.

Selected GLCs and large companies have already committed to accelerate payment terms to their vendors:

- ▶ Axialta and TM have reduced payment terms for selected vendors from 45 days to 14 days
- ▶ TNB has a 7-days payment process
- ▶ PETRONAS launched the Vendor Financing Programme in collaboration with nine banks, to facilitate vendor verification and reduce approval time. In the past few months in particular, PETRONAS has accommodated payment arrangements that have enabled vendors to stay afloat

For more information: www.penjana.treasury.gov.my

Lead agency:



Source: Penjana. Building The Economy Together. Short-Term Economic Recovery Plan. June - December 2020.

Given the Government's current PENJANA initiative, it is timely for GLCs and large corporates to consider SCF programmes now.




What is Supply Chain Finance (SCF)?

Supply Chain Finance (SCF) is an innovative way for large companies (e.g. GLCs) to help their suppliers, especially those that are SMEs, obtain access to affordable finance without collateral.

This is possible through SCF, as the SME supplier would be able to leverage the large buyer's balance sheet or credit rating to obtain their working capital financing.

SCF also helps large buyers optimise their payment terms and improve supply chain stability, whilst their suppliers are able to enjoy the benefit of faster payments.

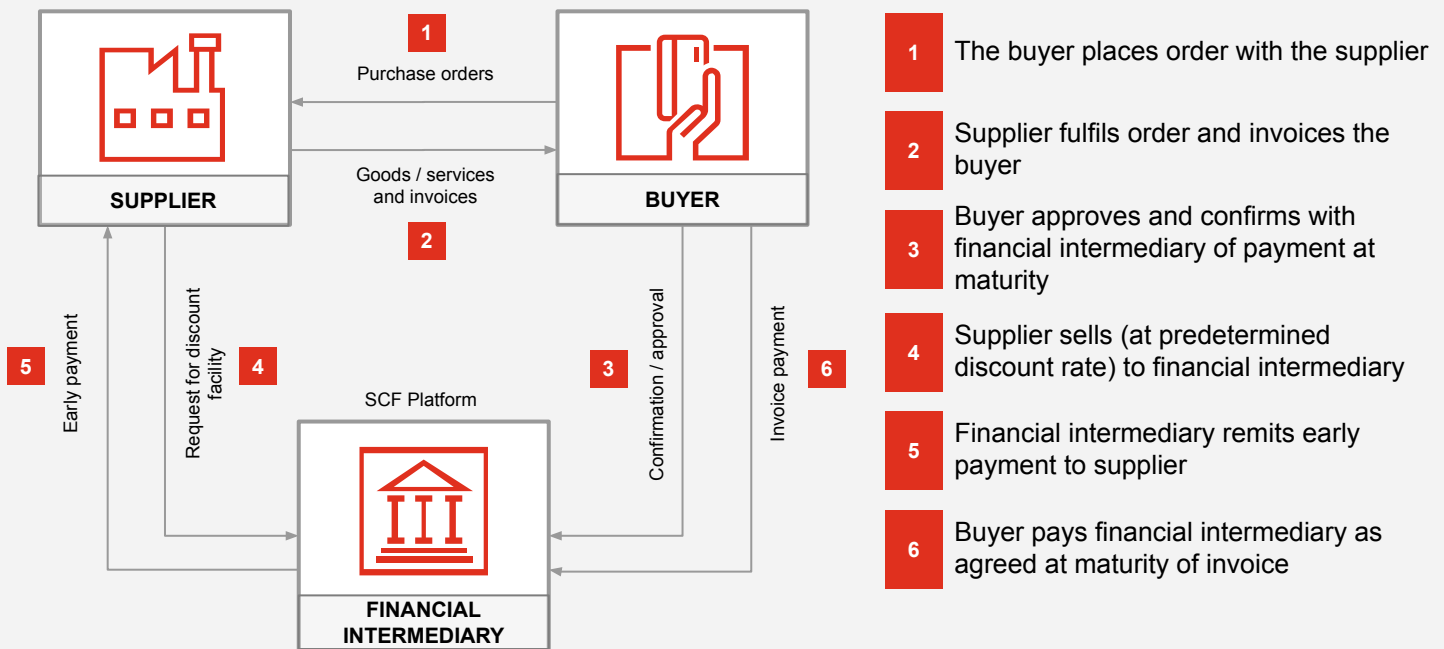
SCF benefits to stakeholders

Stakeholder	Benefits
 BUYERS (i.e. GLCs and large corporates)	<ul style="list-style-type: none">• Reduce cost and increase cash• Better supplier relationships
 SUPPLIERS (i.e. SME vendors)	<ul style="list-style-type: none">• Receive cash faster• No collateral required
 FINANCIAL INTERMEDIARY (i.e. Banks)	<ul style="list-style-type: none">• Additional revenue• Larger client portfolio



How does it work?

SCF allows the buyer to optimise their payment terms and improve working capital. It also provides their suppliers with the option to receive early payments based on an attractive financing rate.



A globally accepted financing alternative for SMEs

Supply chain finance is a 'win-win' value proposition for all. Several countries such as the UK, the US and China are already facilitating such programmes.

By working together using innovative financing solutions that promote supply chain visibility, buyers and suppliers alike will both secure short-term gains in the form of cash flow benefits and long-term advantages through supply chain resilience.

Contact Us



PwC is the only firm providing business consulting and advisory services in Malaysia with a dedicated Working Capital team that focuses on end-to-end SCF advisory. Globally, we have helped companies design and implement their SCF programmes.

Speak to us to find out how we can help you.

Ganesh Gunaratnam
*Working Capital Management Leader,
PwC Malaysia*

+6012 2056 880
ganesh.gunaratnam@pwc.com

Krishna Chaitanya
*Senior Manager, Working Capital Management,
PwC Malaysia*

+6011 2407 5114
krishna.chaitanya@pwc.com