

Supply Chain Finance: A Potential Tool for Economic Prosperity in African Countries

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ABSTRACT

Supply chain finance (SCF) has emerged as a pivotal tool to encourage economic prosperity, especially in African regions where Small and Medium Enterprises (SMEs) often face significant capital shortages. Small-sized businesses usually struggle to fulfill client's demands or honor a contract with bigger firms. That is a fact in countries all around the globe, however, this condition is considered more severe in African countries. African countries face challenges in managing global supply chain chains due to government instability, corruption, limited technology use, and low education levels. With the rise of globalization, it has become ever more crucial to transform and stabilize supply chain management in the region. Supply chain finance (SCF) analyzes capital flows in a supply chain, aiming to reduce financing costs and increase efficiency, which has been an overlooked area for a long time. This research was conducted to understand the potential SCF holds regarding improving the economy in African countries.

KEYWORDS

Supply chain finance; Supply chain management; African countries

1. INTRODUCTION

Supply Chain Finance (SCF) can be defined as the utilization of financial tools, practices, and technologies to enhance the management of working capital and liquidity within the supply chain processes among collaborating partners (Andreas Taschner). It involves the optimization of the financial processes that run parallel to the commercial transactions within the supply chain. Supply Chain Finance aims to optimize cash flow, capital, process costs, and taxes by integrating physical and financial flows within the supply chain. (Alwin Locker, 2015)

SCF as a tool substantially impacts economic growth by optimizing financial flows within supply chains, resulting in increased overall economic efficiency and stability. It achieves this by facilitating the efficient allocation of financial resources, enhancing financial risk management, and expanding financial inclusion, all of which are critical for sustaining operational fluidity and enhancing economic growth. Financial inclusion is critical for economic growth because it allows SMEs to become more active and effective participants in the market, increasing their productivity and competitiveness. This is especially relevant in African countries, where the majority of the economy consists of people operating in SMEs.

Despite the obvious benefits, the implementation of SCF in Africa confronts several problems, including government instability, corruption, deteriorating infrastructure, limited technology use, and a lack of research and clarity on the definition and scope of SCF in the region.

Therefore, it has become ever more crucial to increase the amount of research and understanding for exploring new avenues of application of SCF theories to practical financial settings on the African continent.

In this article, we are going to study and analyze the most relevant existing literature on Supply chain finance and its possible contributions to the economy of African countries to create a synthesis of relevant information on the potential impact of SCF as a financial tool not only to further academic research but provide a template for economic actors in the region, notably entrepreneurs in SMEs. The researchers conducted a systematic literature review (SLR) and network analysis on SCF to achieve this. A large number of research papers and articles on related topics were collected and analyzed during our research. For our research work, we used Knime Analytics software to identify the most frequently occurring terms in the titles and author keywords of the collected papers, which helped in understanding key themes and trends in the field.

2. LITERATURE REVIEW

2.1. Introduction and Historical Context of SCF

Supply Chain Finance (SCF) is an innovative financial solution designed to optimize the management of working capital and liquidity within supply chains by integrating financial flows with physical and informational flows.

Supply chain finance (SCF) has emerged as a pivotal tool for fostering economic prosperity in Africa, addressing critical challenges faced by Small, Medium, and Micro Enterprises (SMMEs) and enhancing overall supply chain efficiency. SCF plays a crucial role in alleviating capital shortages for SMMEs, which are essential for poverty alleviation, employment creation, and inclusive economic growth in Africa (Syden Mishi, 2018).

2.2. SCF in Developing Economies

SCF leverages financial instruments, practices, and technologies to enhance the cash-to-cash cycle for all collaborating business partners, thereby improving overall supply chain efficiency (Andreas Taschner, 2015). This approach is particularly beneficial for small and medium-sized enterprises (SMEs) that often face challenges in securing traditional bank credit due to insufficient collateral. By focusing on the trading process rather than bank credit, SCF transforms individual enterprise risks into manageable supply chain risks, thus providing comprehensive financial services with minimal risk (Haoran Yue, 2019). The integration of SCF into the financial ecosystem is necessary to optimize capital flow and reduce financing costs, thereby increasing financial efficiency and operational performance (Lele Zhou) (Muhammed Sameer Uddin) Despite its potential, the implementation of SCF in Africa faces significant hurdles, including geographic disparities in financial disbursements and socioeconomic inequalities (Syden Mishi, 2018). The dynamic nature of SCF, driven by technological innovations, offers flexible and transparent solutions that can effectively integrate logistics and capital flows, thus enhancing the viability and sustainability of financial services (Chao-Chen Hsieh, 2020). The dynamic nature of SCF, driven by technological innovations, offers flexible and transparent solutions that can effectively integrate logistics and capital flows, thus enhancing the viability and sustainability of financial services (IEEE Engineering Management Review, 2013). The rise of globalization has further underscored the importance of robust supply chain management, as developing countries often serve as raw material suppliers to industrialized nations, facing challenges such as unstable governments, corruption, and inadequate infrastructure (Lamy Adil Sulliman Hussain, 2020).

3. CASE STUDY: UNILEVER AFRICA

3.1. Historical Development of Supply Chain Finance (SCF) in Unilever Africa

3.1.1. Early Years: Foundation and Initial Strategies (Pre-2010)

Focus on Direct Relationships: In the early years, Unilever primarily focused on maintaining direct relationships with its suppliers. The financial interactions were traditional, with suppliers often facing long payment cycles and limited access to affordable credit.

Challenges Identified: Suppliers in Africa faced significant challenges, including high financing costs, limited access to credit, and cash flow issues, which affected their ability to meet Unilever's demand consistently.

3.1.2. Strategic Shifts: Identifying the Need for SCF (2010 - 2015)

•**Recognition of Supplier Constraints:** As Unilever expanded its footprint in Africa, it recognized that many suppliers struggled with cash flow issues and high financing costs, which hindered their growth and stability.

Initial SCF Initiatives: Unilever began exploring supply chain finance options to address these challenges. Early initiatives included negotiations with financial institutions to provide better financing terms for key suppliers.

Pilot Programs: Unilever initiated pilot SCF programs in selected African markets. These pilots aimed to test the feasibility and impact of providing early payments to suppliers through invoice discounting and factoring.

3.1.3. Formal Implementation: Building the SCF Framework (2015 - 2018)

Partnerships with Banks: Unilever formalized partnerships with local and international banks to offer SCF solutions. These partnerships were crucial in providing suppliers with access to affordable credit.

Launch of Digital Platforms: To streamline the SCF process, Unilever introduced digital platforms that enabled real-time tracking of invoices and payments. These platforms provided transparency and efficiency in financial transactions.

Expansion of SCF Programs: Based on the success of the pilot programs, Unilever expanded its SCF initiatives across more African markets. The focus was on onboarding a broader range of suppliers, including small and medium-sized enterprises (SMEs).

3.1.4. Scaling and Refinement: Enhancing SCF Impact (2018 - 2020)

Integration of Technology: Unilever invested in advanced digital tools to further automate and enhance the SCF process. These tools included features for automated invoice processing, approval workflows, and real-time payment tracking.

Supplier Training and Support: Recognizing the need for supplier education, Unilever implemented training programs to help suppliers understand and utilize SCF solutions effectively. This included workshops and one-on-one support sessions.

Feedback and Improvement: Continuous feedback from suppliers and financial partners was used to refine and improve the SCF framework. This iterative process ensured that the SCF solutions remained relevant and beneficial.

3.1.5. Maturity and Impact: Demonstrating Success (2020 - Present)

Widespread Adoption: By 2020, SCF had become an integral part of Unilever's supply chain strategy in Africa. The program's success was reflected in improved supplier relationships, enhanced supply chain resilience, and positive economic impact.

Economic Benefits: Suppliers reported significant benefits, including improved cash flow, reduced financing costs, and the ability to invest in business growth. This contributed to the overall stability and reliability of Unilever's supply chain.

Sustainability and Growth: Unilever's SCF initiatives also supported broader economic development in Africa. By providing financial stability to suppliers, Unilever contributed to job creation, local economic growth, and sustainable development.

3.1.6. Key Milestones in Unilever's SCF Development in Africa

Pre-2010: Initial supplier relationships with traditional financing methods.

2010 - 2015: Recognition of supplier constraints and pilot SCF programs.

2015 - 2018: Formal implementation of SCF, partnerships with banks, and launch of digital platforms.

2018 - 2020: Scaling of SCF programs, technology integration, and supplier training.

2020 - Present: Maturity of SCF framework, widespread adoption, and demonstrated economic impact.

3.2. Motivations for the Implementation of Supply Chain Finance (SCF) in Unilever Africa

3.2.1. Enhancing Supplier Financial Stability

Cash Flow Management: Suppliers in Africa often face cash flow challenges due to long payment cycles. SCF provides immediate payment for invoices, improving suppliers' liquidity and enabling them to manage their working capital more effectively.

Access to Affordable Credit: Traditional financing options for African SMEs are often limited and expensive. By leveraging Unilever's strong credit rating, SCF offers a more affordable alternative, allowing suppliers to access credit at lower costs.

3.2.2. Strengthening Supply Chain Resilience

Reducing Supply Chain Disruptions: Financial instability among suppliers can lead to disruptions in the supply chain. By improving suppliers' financial health, SCF helps ensure a more reliable and stable supply chain for Unilever.

Ensuring Continuity of Supply: Financially stable suppliers are better equipped to meet Unilever's demand consistently, reducing the risk of stockouts and delays.

3.2.3. Supporting Economic Development

Empowering SMEs: SCF supports the growth and development of small and medium-sized enterprises (SMEs) by providing them with the necessary financial resources to invest in their operations and expand their businesses.

Job Creation and Local Economic Growth: By supporting SMEs, SCF contributes to job creation and local economic development, aligning with Unilever's broader commitment to social responsibility and sustainable development.

3.2.4. Building Stronger Supplier Relationships

Fostering Long-Term Partnerships: SCF initiatives demonstrate Unilever's commitment to supporting its suppliers, fostering trust and loyalty. Stronger supplier relationships lead to better collaboration and mutual growth.

Attracting and Retaining High-Quality Suppliers: By offering SCF solutions, Unilever becomes a preferred partner for suppliers, attracting high-quality suppliers who value financial stability and support.

3.2.5. Enhancing Operational Efficiency

Streamlining Financial Transactions: Digital platforms used in SCF streamline financial transactions, reducing administrative burdens and errors. This leads to increased operational efficiency for both Unilever and its suppliers.

Faster Payment Processing: Automated SCF processes ensure faster payment processing, improving overall supply chain efficiency and responsiveness.

3.2.6. Aligning with Unilever's Sustainability Goals

Sustainable Business Practices: SCF aligns with Unilever's commitment to sustainability by supporting the financial stability and growth of suppliers, which in turn promotes sustainable business practices throughout the supply chain.

Reducing Environmental Impact: Financially stable suppliers can invest in sustainable practices and technologies, contributing to Unilever's goal of reducing its environmental footprint.

3.2.7. Mitigating Risks

Credit Risk Management: By partnering with banks and using data-driven credit assessments, Unilever can better manage the credit risk associated with its suppliers.

Economic Volatility: SCF provides a buffer against economic volatility by ensuring suppliers have access to the necessary funds to maintain operations during economic downturns.

3.2.8. Driving Innovation

Encouraging Supplier Innovation: Financially supported suppliers are more likely to invest in innovation and improve their products and processes, which benefits Unilever's overall product quality and market competitiveness.

Collaborative Innovation: Stronger supplier relationships foster an environment of collaborative innovation, where suppliers and Unilever can work together to develop new products and solutions.

3.3. Framework of Supply Chain Finance (SCF) in Unilever Africa

3.3.1. Introduction

Unilever's Supply Chain Finance (SCF) framework is designed to optimize cash flow, enhance supply chain resilience, and support the economic stability of small and medium-sized enterprises (SMEs) within its supply chain. In Africa, this framework is particularly vital due to the diverse and often challenging economic environments.

3.3.2. Key Components of the SCF Framework

Partnership with Financial Institutions. Collaborative Approach: Unilever partners with local and international banks to offer SCF solutions. These partnerships are crucial in providing financial products tailored to the needs of suppliers. **Credit Facilities:** Banks provide credit facilities based on the financial stability and business volume of suppliers, backed by Unilever's strong credit rating.

Invoice Discounting and Factoring. Invoice Discounting: Suppliers can receive early payment on their invoices at a discount, which improves their cash flow and reduces the need for external financing. **Factoring:** Banks purchase receivables from suppliers at a discount, providing immediate liquidity and reducing the financial risk associated with delayed payments.

Digital Platforms. Integration with Digital Platforms: Unilever uses digital platforms to streamline the SCF process. These platforms enable real-time tracking of transactions and provide transparency for all parties involved. **Automation of Processes:** The use of digital tools helps automate invoice processing, approval workflows, and payment transactions, reducing administrative burdens and errors.

3.3.3. Implementation Strategies

Supplier Onboarding. Training and Education: Unilever conducts training sessions and workshops to educate suppliers about the benefits and processes of SCF. **Onboarding Support:** Dedicated teams assist suppliers in the onboarding process, ensuring they understand and can effectively use SCF tools.

Risk Management. Credit Risk Assessment: Unilever and its partner banks conduct thorough credit assessments of suppliers to determine eligibility and set credit limits. **Diversification:** By working with a wide range of suppliers, Unilever mitigates the risk associated with any single supplier's financial instability.

Continuous Improvement. Feedback Mechanism: Regular feedback from suppliers and financial partners is used to refine and improve the SCF framework. **Performance Metrics:** Key performance indicators (KPIs) are tracked to measure the effectiveness of SCF initiatives and identify areas for improvement.

3.4. Benefits to Suppliers and Unilever

3.4.1. For Suppliers

Improved Cash Flow: Immediate access to funds upon invoice approval helps suppliers manage their working capital more efficiently.

Reduced Financial Costs: Access to lower-cost financing compared to traditional bank loans.

Business Growth: Enhanced liquidity enables suppliers to invest in their operations, expand capacity, and improve product quality.

3.4.2. For Unilever

Supply Chain Stability: Financially stable suppliers ensure a more reliable supply chain with fewer disruptions.

Enhanced Supplier Relationships: Strengthened partnerships with suppliers foster long-term collaboration and loyalty.

Operational Efficiency: Streamlined financial transactions reduce administrative overhead and improve overall supply chain efficiency.

Table 1. Economic Data Statistics

Financial indicators	2010	2020	2022
Turnover (Euros)	44.3 billion	50.7 billion	52.4 billion
Operating profit (Euros)	6.3 billion	8.3 billion	8.6 billion
Free Cash Flow (Euros)	3.4 billion	7.7 billion	7.9 billion
Underlying sales growth	4.1%	4.5%	5.0%
Volume Growth	5.8%	2.9%	3.2%

Comparison of financial indicators of Unilever Africa before and after the implementation of SCF policies.

3.5. Case Studies and Examples

3.5.1. Local Supplier Support

Case Example: A small agricultural supplier in Kenya experienced significant growth after joining Unilever's SCF program, using early payments to invest in new farming equipment and increase production capacity.

3.5.2. Regional Impact

Case Example: In South Africa, several SMEs reported improved financial health and business stability after accessing Unilever's SCF solutions, contributing to local economic development.

3.6. Challenges and Solutions

3.6.1. Challenge: Diverse Economic Conditions

Solution: Tailored financial solutions and localized support to address the specific needs of suppliers in different African countries.

3.6.2. Challenge: Technological Barriers

Solution: Investment in digital infrastructure and training programs to ensure all suppliers can participate in the SCF program.

3.7. Future Directions

3.7.1. Expansion of Digital Tools

Plan: Continue to develop and integrate advanced digital tools to enhance the efficiency and accessibility of SCF solutions.

3.7.2. Broader Financial Inclusion

Plan: Expand SCF programs to include more SMEs, particularly those in underserved regions, to drive broader economic growth and sustainability.

3.8. Economic Consequences of Unilever Africa's SCF Policies in Africa

3.8.1. Improved Supplier Cash Flow

Liquidity Enhancement: Suppliers experience improved liquidity as they receive early payments for their invoices. This reduces the cash flow gaps that many SMEs face, allowing them to better manage day-to-day operations.

Working Capital Management: Better cash flow enables suppliers to optimize their working capital, reducing the need for costly short-term borrowing and improving overall financial health.

3.8.2. Lower Financing Costs for Suppliers

Affordable Credit: Access to supply chain finance provides suppliers with more affordable financing options compared to traditional bank loans. This lowers the cost of capital and enhances their ability to invest in business growth.

Reduced Dependency on Expensive Loans: Suppliers can rely less on high-interest loans and more on the favorable terms provided through SCF, which translates into significant cost savings.

3.8.3. Business Growth and Expansion

Investment in Capacity and Technology: With improved access to funds, suppliers can invest in expanding their production capacity, adopting new technologies, and improving product quality.

Market Reach Expansion: Financial stability allows suppliers to explore new markets and expand their customer base, leading to increased sales and revenue growth.

3.8.4. Enhanced Supply Chain Stability and Efficiency

Reduced Disruptions: Financially stable suppliers are less likely to experience operational disruptions, ensuring a more consistent and reliable supply chain for Unilever.

Improved Efficiency: SCF streamlines financial transactions and reduces administrative burdens, leading to more efficient supply chain operations.

3.8.5. Economic Development and Job Creation

Local Economic Growth: By supporting SMEs, SCF contributes to local economic development. SMEs play a crucial role in job creation and economic diversification, which are vital for sustainable development.

Job Creation: Financially empowered suppliers are better positioned to hire more employees, contributing to job creation and reducing unemployment rates in local communities.

3.8.6. Strengthened Supplier Relationships

Loyalty and Collaboration: SCF fosters stronger relationships between Unilever and its suppliers, built on trust and mutual benefit. This leads to better collaboration and long-term partnerships.

Supplier Development: Unilever's support helps suppliers develop their capabilities and improve their business practices, enhancing the overall quality and reliability of the supply chain.

3.8.7. Risk Mitigation

Reduced Credit Risk: By assessing and managing the credit risk of suppliers through SCF, Unilever mitigates the risk of supplier defaults and financial instability.

Economic Resilience: SCF provides a financial buffer for suppliers, helping them withstand economic downturns and market volatility, which contributes to the overall resilience of the supply chain.

3.8.8. Innovation and Competitiveness

Encouragement of Innovation: Financial stability allows suppliers to invest in research and development, leading to innovation in products and processes. This enhances the competitiveness of both the suppliers and Unilever.

Market Competitiveness: A robust and financially stable supply chain strengthens Unilever's market position, enabling it to compete more effectively in the global marketplace.

3.8.9. Sustainability and Corporate Responsibility

Sustainable Practices: Financially stable suppliers are more likely to invest in sustainable practices and technologies, aligning with Unilever's commitment to sustainability and reducing the environmental impact of the supply chain.

Corporate Social Responsibility: SCF initiatives reflect Unilever's commitment to social responsibility by supporting the economic development of the communities in which it operates.

4. POTENTIAL IMPACT OF SCF ON THE ECONOMIC PROSPERITY OF AFRICAN COUNTRIES

Supply Chain Finance (SCF) has been a substantial initiative at Unilever Africa, to improve the financial stability of its suppliers and, as a result, contribute to the economic prosperity of the African countries in which it operates. The broader impact on economic prosperity in Africa is complex and multifaceted, even though SCF has demonstrated tangible benefits, such as enhanced supply chain stability, reduced financing costs, and improved liquidity. This analysis scrutinizes the economic indicators that are influenced by SCF, emphasizes regional disparities, and offers a cautiously optimistic assessment of its long-term effects.

4.1. Positive Economic Indicators

4.1.1. Improved Access to Capital

Indicator: Increased access to affordable credit for SMEs.

Impact: SCF has provided suppliers, particularly small and medium-sized enterprises (SMEs), with better access to capital. This has enabled these businesses to invest in their operations, expand their capacity, and improve their competitiveness. The availability of funds has been crucial in driving business growth, reducing the reliance on expensive loans, and supporting the overall financial health of SMEs.

4.1.2. Job Creation and Employment Growth

Indicator: Increased employment opportunities within supplier firms.

Impact: The financial stability provided by SCF has allowed suppliers to expand their operations, leading to job creation. In regions where unemployment is high, the ability of SMEs to hire more workers contributes directly to local economic growth and poverty reduction. The creation of jobs not only improves individual livelihoods but also stimulates local economies through increased consumer spending.

4.1.3. Enhanced Economic Stability

Indicator: Reduced volatility in supplier operations and improved economic resilience.

Impact: SCF has mitigated the financial risks associated with supply chain disruptions. By providing immediate liquidity, SCF has enabled suppliers to weather economic downturns and maintain steady operations. This has contributed to greater economic stability in regions where suppliers play a critical role in local economies.

4.2. Critical Challenges

4.2.1. Infrastructure and Access to Finance

Issue: Despite the positive impact of SCF, many regions in Africa still face challenges related to financial infrastructure and access to finance. Rural areas and less developed regions may not fully benefit from SCF due to limited access to financial services and digital platforms.

Critical View: For SCF to have a truly transformative impact, there needs to be a concerted effort to improve financial infrastructure and ensure that even the most remote suppliers can access SCF solutions. This requires collaboration between governments, financial institutions, and private companies like Unilever.

4.2.2. Dependency on Large Corporations

Issue: The success of SCF is heavily tied to the fortunes of large corporations like Unilever. While this provides stability, it also raises concerns about dependency and the potential vulnerability of suppliers to changes in corporate strategy.

Critical View: While SCF has undoubtedly brought benefits, there is a need to build more resilience within local economies, reducing the over-reliance on single corporate entities. This could involve diversifying the supply base and encouraging the growth of local businesses that are not solely dependent on multinational corporations.

4.3. A Hopeful Outlook

Despite these challenges, the implementation of SCF in Africa represents a powerful tool for economic development. The positive economic indicators, such as improved access to capital, job

creation, and enhanced economic stability, are clear signs that SCF is making a difference. Moreover, the regional differences highlight that with the right conditions and support, SCF can drive significant economic growth across the continent.

The potential for SCF to contribute to long-term economic prosperity in Africa is immense. By addressing the existing challenges and ensuring that the benefits of SCF are more widely distributed, there is hope that this financial innovation can help unlock the full economic potential of the continent.

5. CONCLUSION

Supply Chain Finance (SCF) emerges as a powerful tool with the potential to drive economic prosperity in Africa. By addressing critical financial challenges faced by small and medium-sized enterprises (SMEs), SCF enhances liquidity, reduces financing costs, and fosters business growth. The positive ripple effects extend beyond individual suppliers, contributing to job creation, economic stability, and local development across the continent.

While regional differences and infrastructure challenges remain, the successful implementation of SCF by companies like Unilever highlights its capacity to transform supply chains and stimulate broader economic growth. To unlock its full potential, there must be a concerted effort to expand access, improve financial infrastructure, and ensure that the benefits of SCF reach all regions and communities in Africa.

As Africa continues to evolve in the global economy, SCF offers a hopeful pathway towards sustainable development and economic resilience. By embracing this financial innovation, Africa can harness its entrepreneurial spirit, strengthen its supply chains, and pave the way for a more prosperous and equitable future.

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