on the higher credit rating of the purchasers— a specific example of such a practice is "reverse factoring"[10].

ETF provides tangible benefits to both buyers and sellers within a supply network: For buyers, the major advantages of ETF include: reduced working capital requirements by extending days payable outstanding, reduced accounts payable administration costs due to fewer manual transactions, and even a reduced cost of goods—many buyers report being able to negotiate better discounts from suppliers (up to 10% in some cases). For suppliers, the major advantages of ETF include a lower cost of capital through the discounting of receivables at preferred rates based on the better credit risk profile of the buyers[11], but also increased certainty of cash flow based on defined payment terms and visibility of payment status, reduced accounts receivable due to the availability of early payment opportunities to the buyers, and acceleration of cash flow using pre-shipment, work-in-process financing based on data triggers.

Importantly, the more efficient intermediation of capital into the supply chain network fundamentally lowers the risk profile of the network—in areas ranging from payment risk to

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[10] Factoring refers to the practice whereby an intermediary, usually a finance company or a specialized factoring company, buys at a discounted value the debts owing to a business. The factoring intermediary typically advances funds covering a substantial portion of the debts owing to the business (with the percentage depending on the age of the receivable), while also providing accounting and debt-collection services. For the business, this accelerates cash flow. In "reverse factoring", the intermediary buys only those accounts receivable that are from highly creditworthy buyers such as large multinationals (Kappler, 2004). In this case the credit risk incurred by the factoring company is based on the default risk of the buyer and not on that of the SME, effectively lowering the cost of credit to the SME. ETF financing practices are evolving: the emerging trend away from letters of credit towards open account as a means of settling international trade transactions is accelerating the adoption of such financing strategies by large buyers and global financial institutions. A far more comprehensive discussion of ETF can be found at source websites such as www.aberdeen.com and www.tradecard.com.

[11] Up to 280 basis points in some cases; see Sadlovska and Enslow (2006).