



MILITARY SUPPLY CHAINS AND SUPPLY CHAIN FINANCE

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I. INTRODUCTION

A distinction can be made between the physical and the financial supply chains. The purpose of supply chain finance (SCF) is to bridge the two. In broad terms, it ensures that suppliers are able to have access to sustainable and competitively-priced financing ensuring financial robustness and continued survival. In other words, it is more supply-side than demand-side focussed which is essentially a credit risk taken by banks. In the military context, however, it is also necessary, and possible, to consider the demand side. This is largely dependent on policy-led decisions and resources. In the military context, the supply side also needs additional attention and measures beyond the purely financial. These entail (1) proper information and intelligence to identify the participants and (2) strategic investment (both beyond the scope of this short paper). The role of SCF, especially to underpin peace-time resilience and survivability, is however not understood or properly appreciated. This is the main purpose of this paper.



II. DEMAND-SIDE MEASURES

These focus on areas such as standardisation, demand aggregation, industrial consolidation and investment, especially in R&D. In the words of the Draghi Report on European competitiveness:

The defence industry is too fragmented, hindering its ability to produce at scale, and it suffers from a lack of standardisation and interoperability of equipment, weakening Europe's ability to act as a cohesive power. For example, twelve different types of battle tanks are operated in Europe, whereas the US produces only one.

Military procurement is a multi-player and cross-border business and whilst we can only influence a much smaller part of the overall network, this is nevertheless vital especially in view of the sophistication of the armaments industry in the UK and continuing deployment of UK troops and resources in Europe.¹

The Draghi Report identifies the following concerns:

- Inefficient public spending
- Limited access to financing
- Fragmented industrial footprint
- Lack of coordination and standardisation
- Limited investment
- Weak governance

Of these concerns, the second falls most easily into the area of SCF.

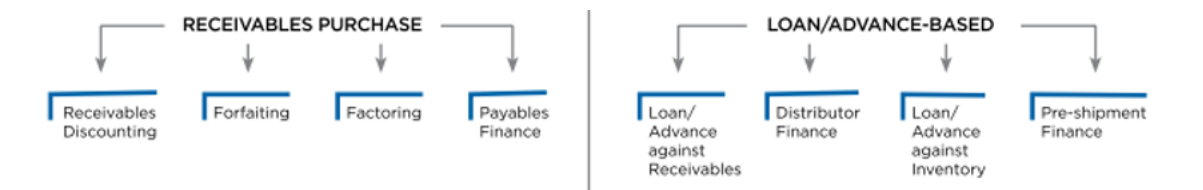
The Draghi Report talks of: "New EU financial resources [which] could be leveraged on financial markets and channelled through the creation of an ad hoc instrument". Whilst this arises in the European context, the stated need for finance is universal across a supply chain which includes the UK when considering NATO concerns.

III. SUPPLY-SIDE MEASURES: WHAT IS SUPPLY CHAIN FINANCE?

The Global Supply Chain Finance Forum (GSCFF)² defines Supply Chain Finance as:

‘the use of financing and risk mitigation practices and techniques to optimize the management of the working capital and liquidity invested in supply chain processes and transactions. SCF is typically applied to open account trade and is triggered by supply chain events. Visibility of underlying trade flows by the finance provider(s) is a necessary component of such financing arrangements which can be enabled by a technology platform’.

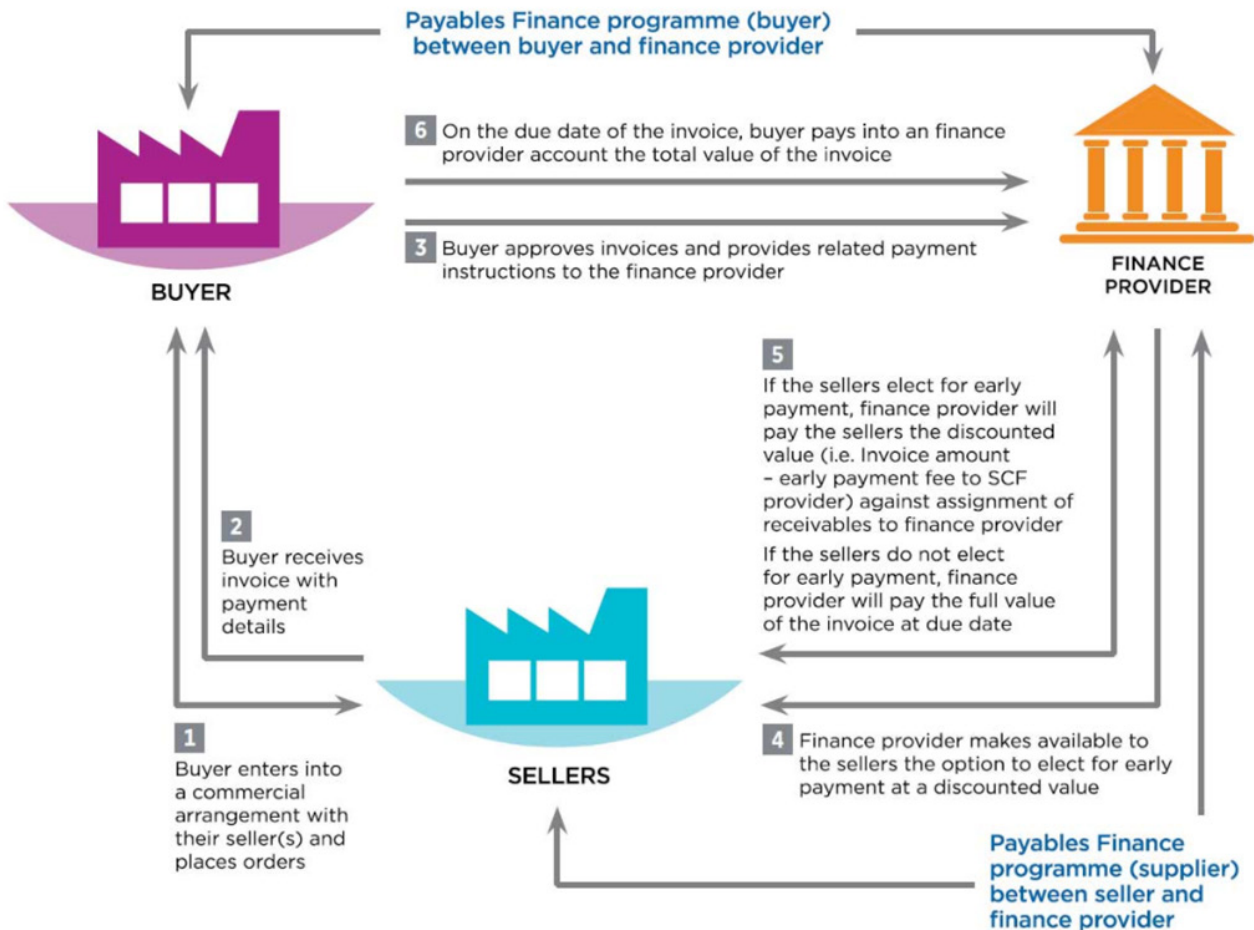
A number of different techniques exist as set out below:



Of these, the best known and the most relevant in the military context, are factoring and payables finance. The latter technique is often known as supply chain finance and is the focus of what follows. It is submitted that a modified payables finance structure could be powerful in adding liquidity and security to the military supply chain.

In a Payables Finance programme, the seller will sell its invoices or receivables to a bank. These invoices are confirmed by the buyer before purchase removing performance risk and allowing the bank to discount the receivable at a rate pegged to the buyer’s credit risk. As typically the sellers are SMEs and the buyers are large corporates, the discount rate will be much finer than the rate otherwise available to the SME seller. The programme is normally set up by the buyer and made available as a utility to the SME sellers. This makes the supply chain more durable and robust ensuring continuity of critical supplies. Such programmes exist at scale in the food, automotive and retail sectors (for the size of the EU SCF market see [Study on supply chain finance - Publications Office of the EU \(europa.eu\)](#))

A Payables programme typically looks like this:



As is evident from the foregoing description, the creditworthiness of the buyer is central to achieving a successful programme. An anchor buyer such as the MoD, could of, course, play such a role and already does in many cases. What is different in our proposal is that the Government, through ministries or agencies such as the MoD, consider:

1. extending guarantees through the supply chain for the account of key buyers which are then offered to its suppliers in return for the procurement and with recourse back to the buyer;
2. forcing transparency of the supply chain through better use of data and technology (of which much exists in commercial SCF); and
3. pushing finance normally available only to the first-tier supplier to suppliers in lower tiers. This can be achieved by using deep-tier supply chain finance techniques.

REFERENCES

1 [EU competitiveness: Looking ahead - European Commission \(europa.eu\)](#)

2 [Global Supply Chain Finance Forum – Home of Supply Chain Finance Terminology](#)
[This forum was set up by the major trade finance associations, ITFA, ICC, BAFT, FCI and the EBA.](#)

CONTACT

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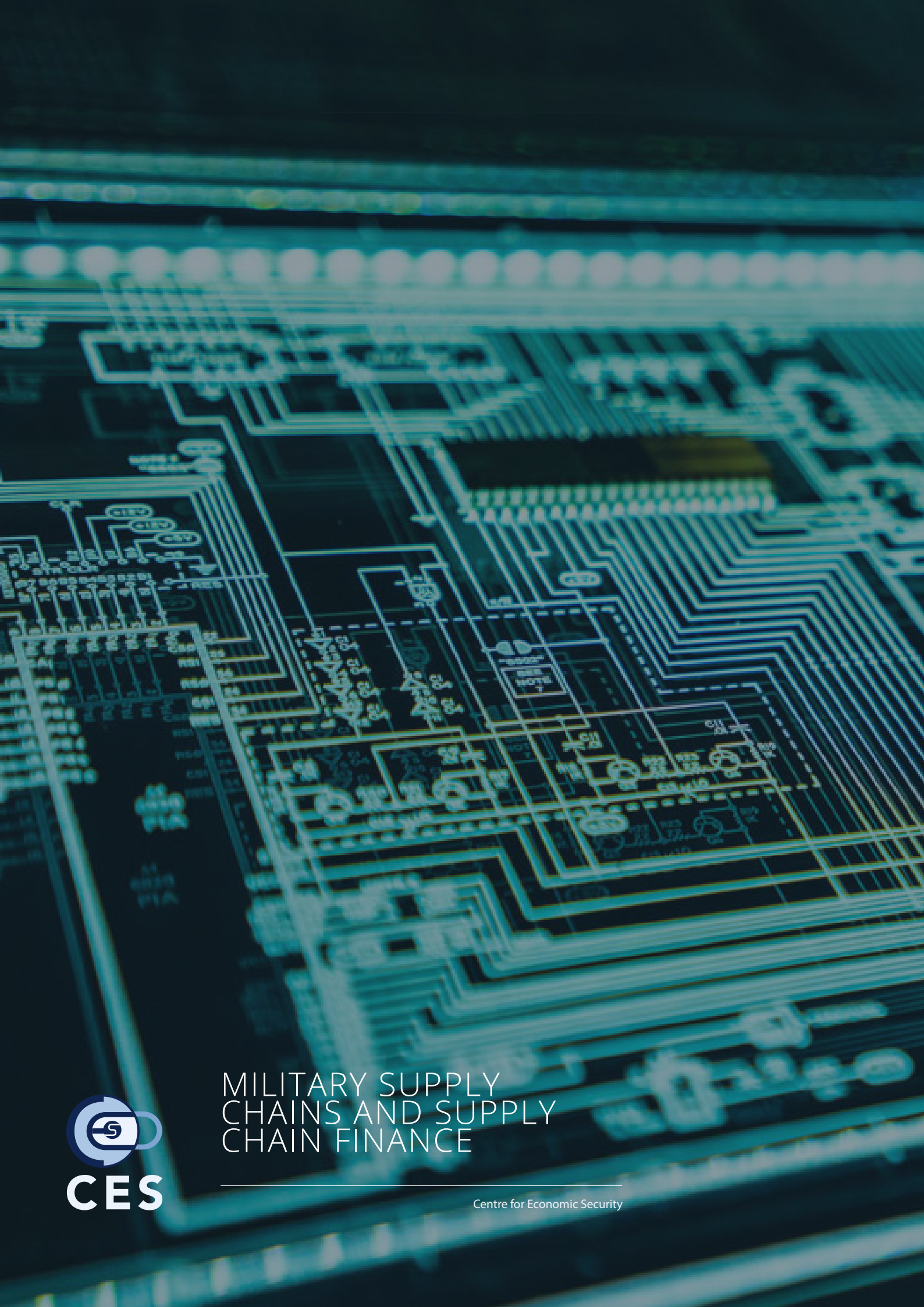
The Centre for Economic Security is a research and convening organisation that dedicates itself to three goals: first, raising awareness and understanding of economic threat, second, to establishing the operational tools to manage that threat and third to enabling policy makers, financial institutions and corporates to anticipate and deal strategically with those threats.

Our vision is to promote strategic economic readiness in a fragmented world. We do this by working with governments, financial institutions and corporates to formulate resilient and effective tools.

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