

# SUPPLY CHAIN FINANCE

A GROWTH DRIVER FOR SME DEVELOPMENT



*Creating Markets, Creating Opportunities*

Aksinya Sorokina

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# MSME ARE ENGINE OF ECONOMIC GROWTH AND JOB CREATION, BUT LACK ACCESS TO FINANCE

**162+**  
MILLION

Formal MSMEs in  
developing  
countries

**9/10**

New jobs globally  
are created by  
small businesses

**39**  
MILLION

Annual formal SME  
jobs are required in  
EM by 2030 to  
absorb the growing  
workforce

**40%**

Of MSMEs' in  
developing countries  
are financially  
constrained



“With co-operation and action by governments and the private sector, we believe that closing this gap for small businesses is achievable.”

IFC MSME Finance Gap Report 2017

# THE GLOBAL MSME FINANCE GAP IS \$5.2 TRILLION; AT LEAST 20% TIED UP IN SUPPLY CHAINS... \$1 TRILLION OPPORTUNITY



## MSME FINANCE GAP

### Market Failure

Banks are reluctant to serve SMEs. Only

**19.7%** of total banks' lending was extended to SMEs

**US\$ 5.2 Trillion**

Estimated unmet credit demand for MSMEs in developing countries

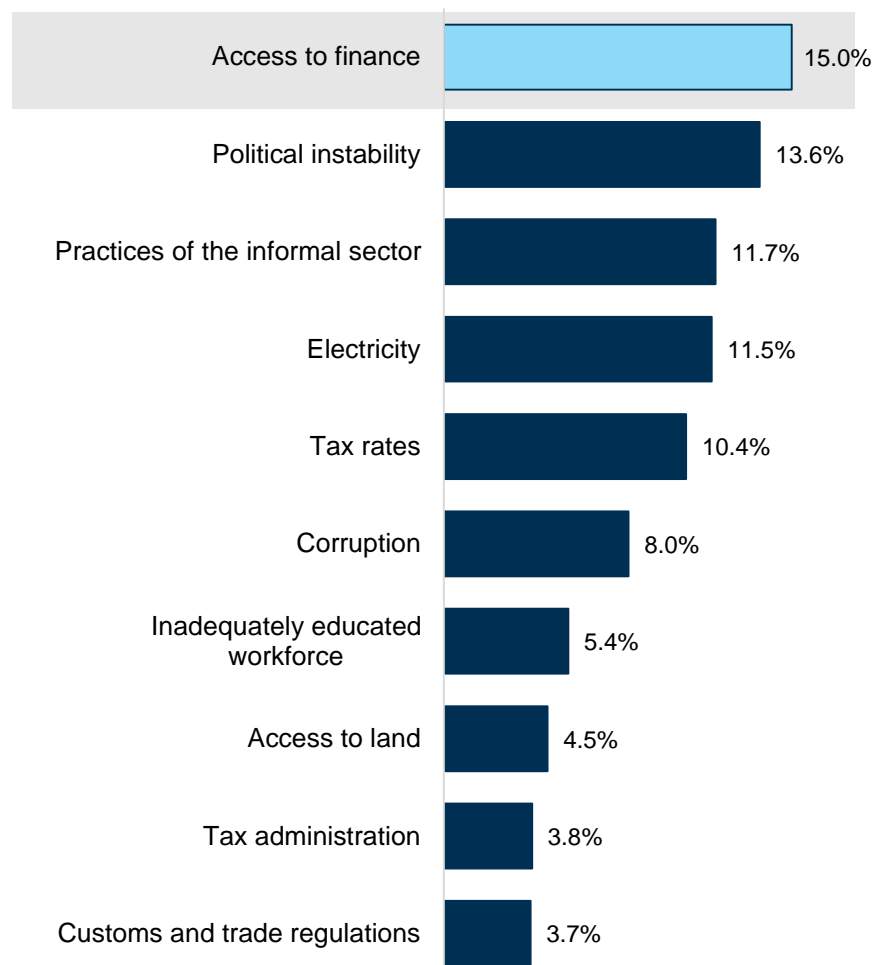
**...and US\$ 2.9 Trillion**

Estimated potential demand for finance in informal sector

There is an extensive **opportunity** for banks and governments to tap into the SME market

# SMES' ACCESS TO FINANCE IS CONSTRAINED BY BOTH SUPPLY- AND DEMAND-SIDE FACTORS

**SMEs identify “Access to Finance” as the most significant obstacle that their enterprise faces<sup>1</sup>**



## SME Demand for Finance

- Lack of fixed collateral / weak property rights
- Lack of track record (poor financial records, unpredictable cash flows)
- High cost of doing business (lack of scale, weak infrastructure, formalization costs)
- Poor financial and management skills

## Bank Supply of Finance

- High cost of lending (acquisition, costly distribution networks, small size of transaction, high capital/provisioning costs)
- Risk appetite (poor credit information, risk modeling, solvency & enforcement regimes)
- Undeveloped product offering (complexity of cross-selling, loan officer capabilities)
- Pricing constraints and distortions (interest rate caps/ subsidies)

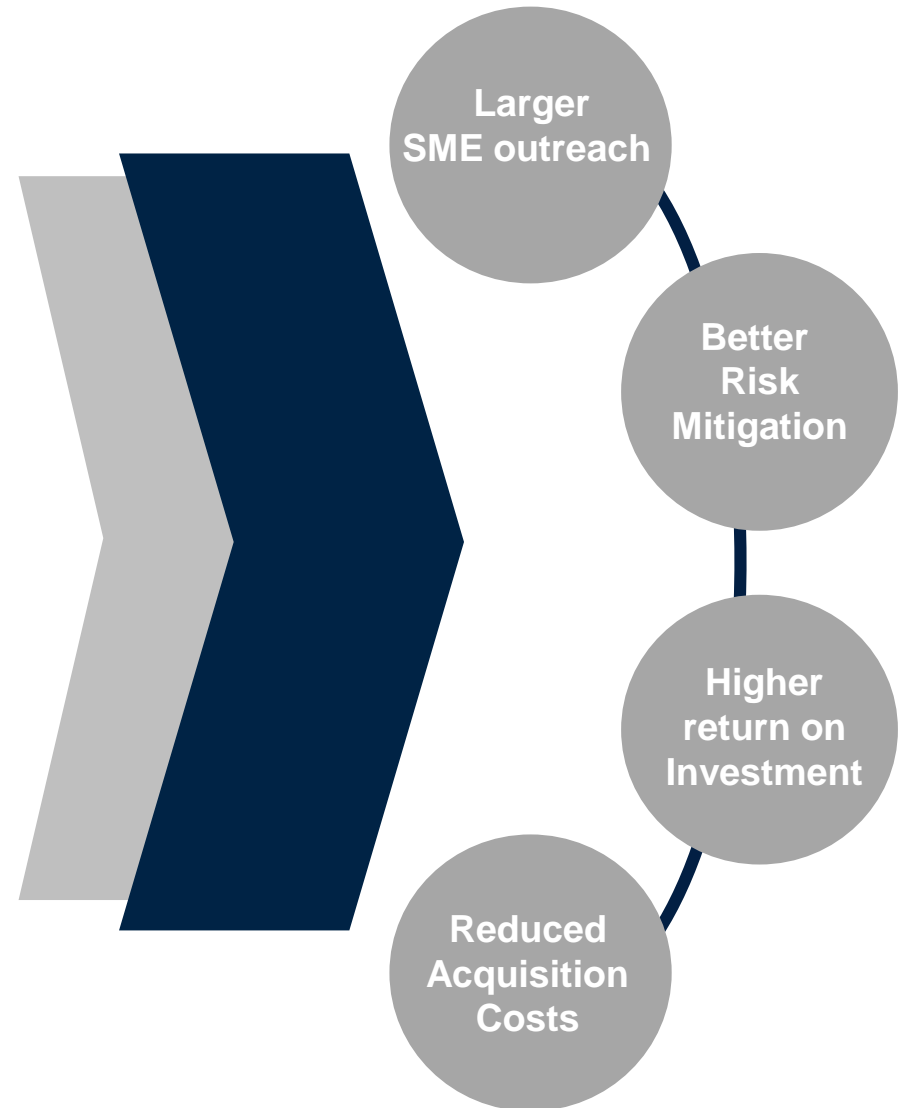
# CHANNELING FINANCE THROUGH SUPPLY CHAINS CAN SUPPORT SME TRADE AND COMPETITIVENESS

- 1 Technology-driven solution**

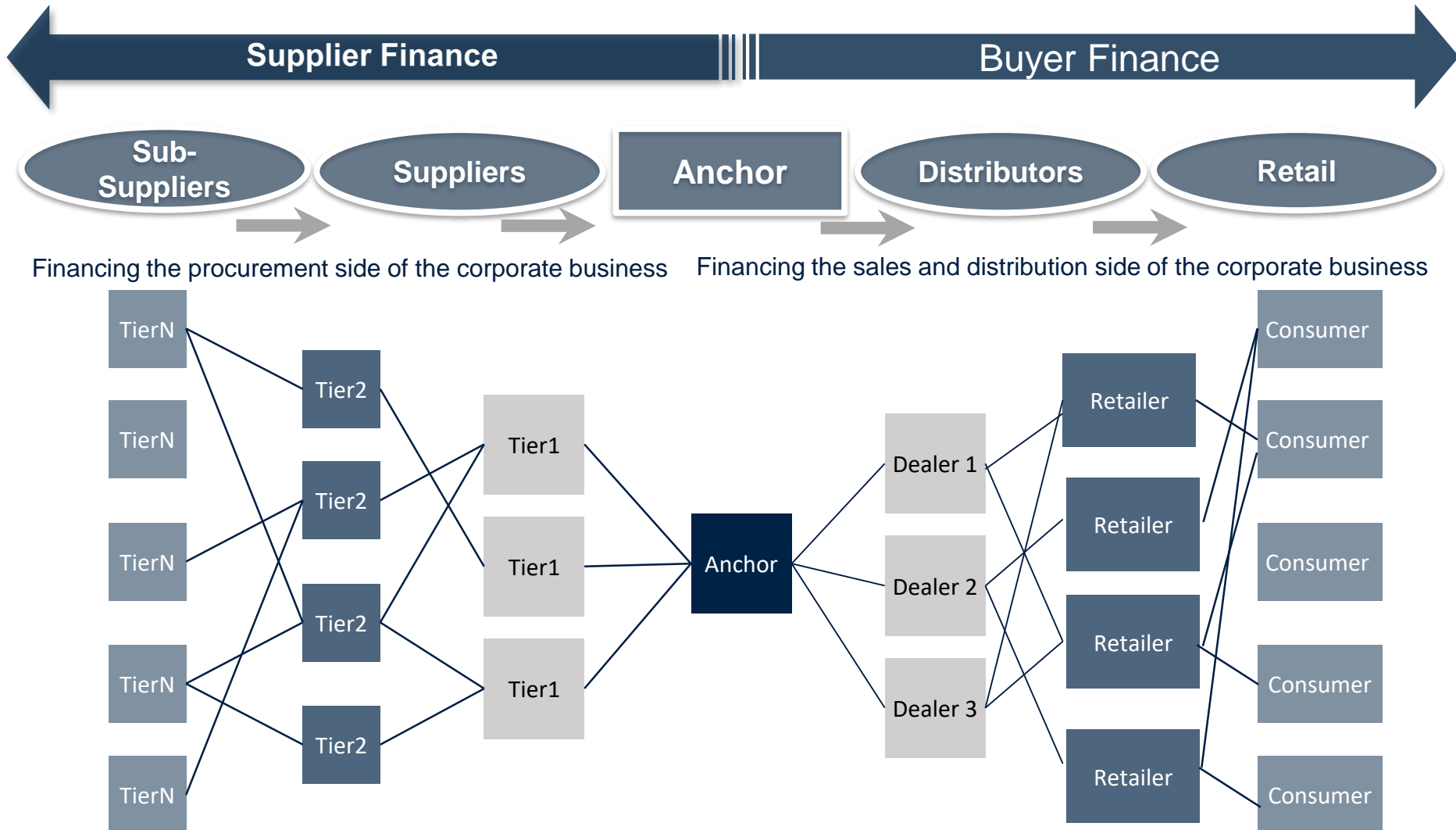
Through the automation SCF programs allow reach scale in SME finance, improve corporate's working capital and ensure sustainable supply chains
- 2 Alternative risk assessment**

SCF allows for alternative ways to assess riskiness of SMEs: conduct underwriting using alternative trade / commercial data and monitor risks in real time
- 3 Leveraging the strength of the supply chain**

The strength of the corporate's supply chain is key for providing finance to their SME suppliers and buyers



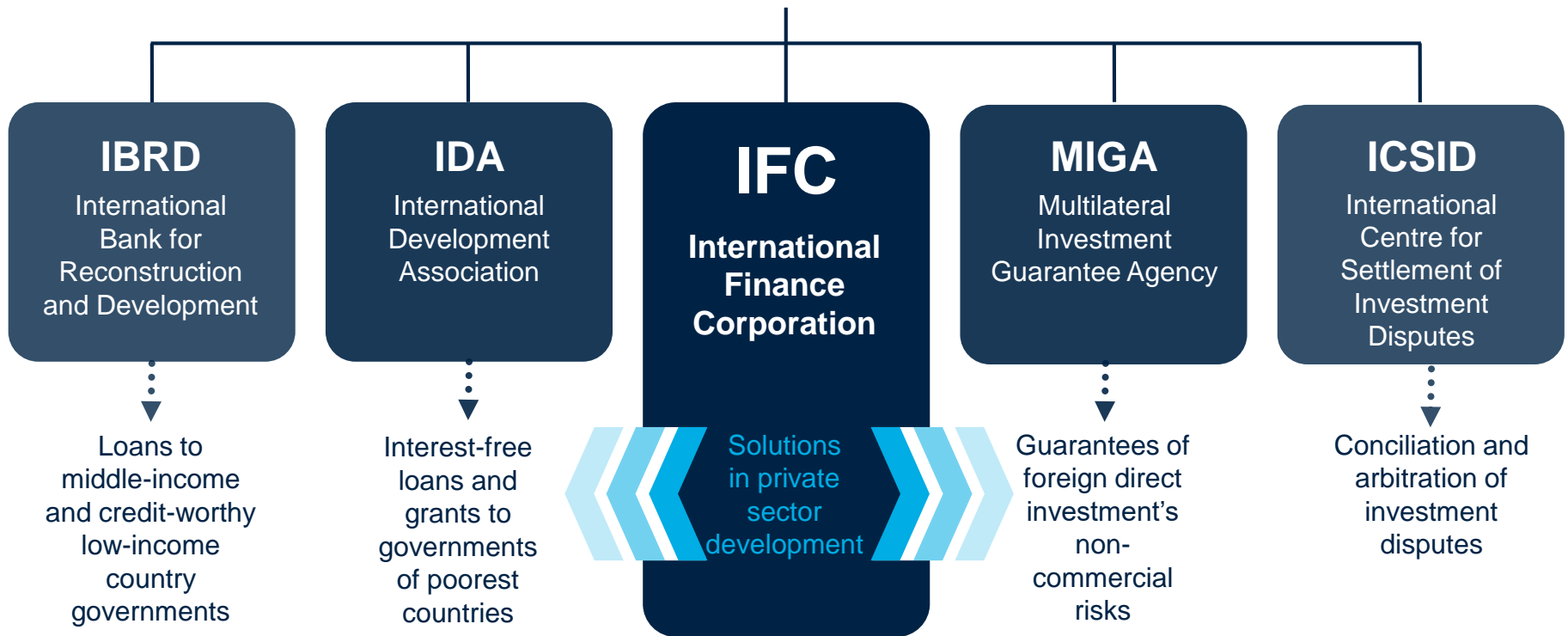
# SUPPLY CHAIN FINANCE PROVIDES COMPLETE TRANSPARENCY OF THE FINANCIAL, PHYSICAL AND INFORMATION FLOWS



# THROUGH DOMESTIC AND INTERNATIONAL SUPPLY CHAINS, IFC SUPPORTS SME DEVELOPMENT GLOBALLY



## WORLD BANK GROUP



# IFC WORKS WITH FINANCIAL INSTITUTIONS TO SUPPORT THEIR SUPPLY CHAIN FINANCE PROGRAMS

## 1. IFC Investment Services

**Debt Financing:** Senior Debt, Subordinated Debt, and Tier II Capital

**Equity Financing:** Direct Equity & Private Equity Funds

**Balance Sheet Risk Management:** Risk-Sharing Facilities and Derivative Products to Hedge Exposure

**Mobilization and Syndications:** Over 60 co-financiers (banks, funds and DFIs)

## 3. IFC Market

## 2. IFC Advisory Services



IFC works with the World Bank and regulators to strengthen the regulatory framework to promote SMEs financing through SCF (factoring law; commercial law, collateral registry, electronic signature, e-invoicing, electronic contracts, etc.)



# EXAMPLE OF RECEIVABLE FINANCE PROGRAM WITH FINANCIAL INSTITUTION IN THE MIDDLE EAST

SCF Program designed for a large bank in MENA, largest bank in its country with 40% market share:

- Key counterparty was corporate banking team
- Market sizing and portfolio assessment revealed a bigger supply side opportunity
- Joint client visits conducted and internal workshops held
- Purchase Order finance and Receivables finance solution designed
- Credit policy, process, EWS, sales mechanism and pilot design delivered
- A bank achieved robust SME portfolio growth

## Loans

+ \$ 452M

**3x**

growth in 2 years

## Deposits

+ \$ 553M

**2x**

growth in 2 years

## Net profit

+ \$ 26M

**5x**

growth in 2 years

## Key Insights

1. Value chain finance is the key driver
2. Bank became the first mover and innovator

1. Liability generation through increased client base
2. Transactional flows in the SME space

1. 3 phase growth and cost optimization / coverage model
2. Modelling/ Collections/ Early Warning framework

# IFC IS ALSO A FUNDER OF INTERNATIONAL TRADE THROUGH GTSF [GLOBAL TRADE SUPPLY FINANCE] PROGRAM

GTSF is a multicurrency finance program launched in 2012. It provides EM suppliers short-term financing for their sales to large established buyers, by discounting their receivables.

## Financing

- Financing against uncommitted, revolving credit approved for buyers
- At post-shipment stage; for accepted invoices; max 1 year
- Pricing determined based on buyer credit risk
- Financing without-recourse and unsecured
- Funded or unfunded support directly to suppliers or through partner banks
- Implemented through independent or bank-owned electronic SCF platforms

**E&S compliance:** buyer due diligence includes assessment of buyer's Code of Conduct for suppliers and the relevant monitoring and audits to implement its requirements to ensure supplier sustainability compliance

## Creating Opportunity Where It's Needed Most



\*IFC can be more flexible in bank participations and can cover other jurisdictions as well.

# IFC GLOBAL TRADE SUPPLIER FINANCE (GTSF) PROGRAM

## RESULTS

- Since the Program launch in 2012, cumulative commitments of over US\$ 3 billion
- Sectors supported: Apparel retail (cross-border), food retail (domestic), automotive components (cross-border & domestic)
  - Key countries: India, Bangladesh, SriLanka, Pakistan and Vietnam represented ~65% of the total Program volume. Overall volumes were well spread, supporting suppliers from 12 countries
  - Supported over 900 SMEs, with average value of invoices financed ~\$13K
- Impact is achieved through:
  - (i) Access to finance to SMEs
  - (ii) Transaction cost reduction
  - (iii) Market development
  - (iv) SMEs capacity building

## EXAMPLES



*Supplier finance credit line of US\$15 million approved for the provision of short term financing via Bank partner to the suppliers of Goodyear in Indonesia.*



*Supplier finance credit line of US\$40 million approved for the provision of short term financing via a global Bank partner to the suppliers of Pirelli in multiple Asian countries.*



*Supplier finance credit line of US\$10 million approved for the provision of short term financing through the PrimeRevenue Platform to the suppliers of Tiendas Comercial Mexicana in Mexico.*

### Regional LAC Bank

*IFC to do a Risk Participation for \$100 million with a regional bank to cover existing portfolio of Buyers under their existing SF programs benefiting >4000 SME suppliers.*

# IFC WORKS WITH THE REGULATORS TO IMPROVE SCF ENABLING ENVIRONMENT

**Goal:** introducing changes to the factoring laws and insolvency regimes, creating the appropriate frameworks to institute moveable collateral registries, promoting SCF standards, guidelines and establishing SCF specific targets, as well as changing the laws to accept electronic signatures.

**Countries:** Mexico, Colombia, Peru, Pakistan, Bangladesh, China, Vietnam, Indonesia, Myanmar, Morocco, among others.

## PAKISTAN

In Pakistan, IFC worked with the State Bank of Pakistan (SBP) on developing a Policy for promotion of SME Finance. As part of this, IFC advised on the assignment of Supply Chain Financing targets and the promotion of SCF guidelines for banks. IFC conducted workshops for the regulators and banks to introduce the benefits of supply chain finance and to encourage all industry players to utilize standard definitions for SCF as stated by the ICC. IFC also has advisory projects with three commercial banks, helping them develop and scale up their SCF programs.

## COLOMBIA

In Colombia, IFC and the World Bank have been working with the government for the past 6 years to change the factoring laws and to implement the new regulatory framework to establish a registry for moveable assets including receivables. IFC educated market participants (bankers, lawyers) about the reforms and the functional aspects of the moveable asset registry. The teams have also conducted strategic dialogues with large systemic banks to showcase best practice examples from developed markets.

# LEVERAGING OUR NETWORK TO CREATE IMPACT

**14%** (\$6.7 trillion) of total Emerging Market banking assets\* are held by FIG banking clients, which gives us the capacity to increase development impact

**\$ 25 billion** total IFC portfolio exposure to FIs in emerging markets

**1000+** network of FIs that IFC leverages to reach the un(der)served segments

**\$437 billion** – our FI clients' loan portfolio to ~60mln MSMEs

## 11% Middle East & North Africa

59 clients, 80 projects,  
\$2.2 billion portfolio  
**1.2m MSMEs reached\*\***  
**28.3m people reached**

## 40% Latin America & Caribbean

175 clients, 254 projects  
\$4.9 billion portfolio  
**13.6m MSMEs reached\*\***  
**9.6m people reached**

## 47% Sub-Saharan Africa\*\*\*

180 clients, 259 projects,  
\$2.5 billion portfolio  
**2.9m MSMEs reached\*\***  
**70.3m people reached**

## 26% E. Europe & Central Asia

129 clients, 218 projects,  
\$4.8 billion portfolio  
**3.6m MSMEs reached\*\***  
**6.5m people reached**

## 8% East Asia & Pacific

87 clients, 172 projects,  
\$3.5 billion portfolio  
**16.3m MSMEs reached\*\***  
**153.1m people reached**

## 20% South Asia

122 clients, 211 projects,  
\$4.4 billion portfolio  
**25.2m MSMEs reached\*\***  
**161.7m people reached**

\*FIG banking clients hold at least 26% of total non-BRIC EM banking assets; Estimated using 2016 banking assets data of 121 countries; Due to data inavailability the following countries were not included - Angola, Cabo Verde, Dem. Rep. Congo, Egypt, El Salvador, Eritrea, Ethiopia, Guinea-Bissau, Guyana, Haiti, Iraq, Islamic Republic of Iran, Kiribati, Lesotho, Liberia, Marshall Islands, Mauritania, Morocco, Mozambique, Palau, São Tomé and Príncipe, Sierra Leone, Somalia, South Sudan, Sudan, Suriname, Syrian Arab Republic, Turkmenistan & Yemen

\*\*Actual reach based on UFA data

\*\*\* Calculation for percentage of total banking assets does not include South Africa

\*\*\*\* Calculated as Total Assets held by IFC's Banking Clients in 2016/ Total Assets held by Banks in the region

# IFC'S GLOBAL THOUGHT LEADERSHIP IN SUPPLY CHAIN FINANCE

## AWARDS



Development Bank of the Year Award – 2019

BCR – RFI Awards

## PUBLICATIONS



- Technology-Enabled Supply Chain Finance for SMEs, June 2017
- Beyond Fintech: Leveraging Blockchain for More Sustainable Supply Chains, September 2017



Raise the Anchor,  
Opportunity for Banks in  
Supply Chain Finance, 2015



SCF: Program Structure  
and Client Solution

## CONFERENCES



Supply Chain Finance  
Summits: 9-10 May 2018,  
Dubai [UAE]  
2017, Paris [France]



BCR Supply Chain  
Finance Summit,  
February 2017,  
Frankfurt [Germany]



SME Finance  
Forum, 2018,  
Nairobi [Kenya]



Trade & Export  
Finance Conference, November 2018,  
Cairo [Egypt]



Boosting SME  
Finance through SCF,  
May 2018,  
Tbilisi [Georgia]



# IFC'S GLOBAL THOUGHT LEADERSHIP IN SME FINANCE



**SME FINANCE**  
FORUM

IFC hosts the SME Finance Forum a G20 global initiative for inclusive knowledge sharing on SME finance data, research and best practices and facilitation among public/private actors in SME finance

[www.smefinanceforum.org](http://www.smefinanceforum.org)