PROCEEDINGS

SME Supply Chain Financing: Creating Markets for SMEs

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Executive Summary

Supply chain finance is an effective method of offering short-term credit to both the buyer and seller, thereby smoothing and enabling the financing of trade. With the advances in technology and the rise of FinTech, supply chain finance options available to SMEs are increasing.

Furthermore, growing trade flows and the increased availability and sophistication of technology platforms have combined to make supply chain finance more efficient and transparent. In Africa, SMEs not only lack access to finance, but professionalism and qualified skillsets. Improving SME abilities can make them more competitive in the supply chain sector.

Basics of Supply Chain Finance

- Supply chain finance necessitates short-term, multi-faceted information to entrepreneurs both on the supply and the buyer side. It implies a whole network of suppliers and buyers, connecting the buyer, the seller and the financier.
- The ability to understand supply chain finance through all its phases is very important. The supply chain starts with a physical business, followed by the planning and execution of financial institutions. The ability to identify qualified participants is a priority. Therefore, the ultimate goal is to examine the needs and performances of supply chains, utilizing institutions to offer and anchor the right products.
- The traditional players in the market have failed to sufficiently engage in SME financing. Financing in global markets is predominantly provided by global banks, regional banks and factoring companies, that together account for 80-85 percent of the total turnover in global supply chain finance. However, these major financial players tend to only finance corporates, especially large corporates on a receivables basis. Thus, a big shortage exists in terms of the working capital for SME suppliers. Alternative financing providers need to enter the market.

The Role of Technology

- Technology plays an increasingly important role in supply chain finance. For example, by specifically looking at bank software, a group of ex-bankers started FACTS in Africa to expand supply chain finance opportunities.
- Emerging financial technologies, such as blockchain and artificial intelligence, are playing an increasing role in the SME supply chain finance, as are FinTech companies. Technology now enables financial institutions to operate more efficiently. For example, ecosystems in Singapore have been adapted to link various players, such as logistics companies and banks, to streamline financial processes. This greatly helps SMEs to trade in the most efficient way.
- Digitization can expand the ecosystem of supply chain finance, providing a platform for participants. The emergence of digitization expands SME access to finance opportunities. By bringing all sorts of entities, including the traditional participants, to the table, the ecosystem provides some capabilities that SMEs often have difficulty accessing on their own. For example, some global logistics providers have decided to use the SAS platform to coach SMEs and match their commercial terms with suppliers.
- Inbound supply chains can now be forecast with the help of technology platforms.

Requirements and Challenges of Supply Chain Finance

- Government execution and interference is one of the key factors influencing SME supply chain finance. At the same time, governmental institutions not only act as regulators, but also serve as big buyers. Government companies conduct large procurements worldwide and have launched into big supply chain client programs.
- The ability to address the late payment problem is very important to SMEs. To avoid this problem, a third-party data provider is needed, one that does not require the involved actors to rely on information provided by either SMEs or the government.
- By cutting bureaucracy and operational restrictions inherent in traditional financial solutions, new supply chain finance tools extend beyond the largest importers. New and innovative financial technologies have opened the doors to an entirely new set of financial players, giving them a broader reach and allowing SMEs to take advantage of opportunities formerly only available to large enterprises.
- To avert operational risks — such as supplier, transit and end payment risks — SMEs can build a technology platform to make retail transactions appear more institutionalized.
- SMEs can be volatile, unpredictable and opportunistic, making supply chain finance more difficult.
- Know your customer (KYC) is another important factor in supply chain finance, and can include authorization of signatures, and legal, tax and regulatory checks—all in line with the respective markets.
- The issue of cross-border supply chain financing arises. Some foreign financiers are not licensed to provide financing in a given country and may have to team up with a local bank or company.

Supply Chain Finance in Africa

- One groundbreaking accomplishment by an African company entailed the building of an identity and the creation of data around co-production, linking production and forward costs to the intermediate growers. They were then able to successfully sell their

products to the trading companies.
- In Africa, the problem for SMEs is the absence of quality, professionalism, and skill sets of the entrepreneurs which contributes directly to a lack of access to finance. Thus, an initiative called “Ignite my SME” was established across Kenya, Tanzania and Uganda. Its main objective is to provide a platform through which SMEs can gain knowledge that will help them to grow into better and more successful businesses. Specifically, it helps them to more effectively present themselves to potential financiers. Improving SME capabilities can translate into more competitiveness in the supply chain field.
- Supply chain finance is in its infancy stages in East Africa.
- Africa is characterized by very imperfect markets, with implications for supply chain finance.

The Way Forward

- Many SMEs lack an understanding of the basic requirements of obtaining financing. It is suggested that IFC could send groups of consultants to help train the banks to enhance their trade and supply chain finance capabilities. Meanwhile, SMEs can be advised in how to deal with banks on this issue.
- It is necessary to bring together various funding players and fund managers who can really understand the risks in the local supply chain. Moreover, the ability to connect with the large trading companies is very important, as they often maintain good relationships and excess to capital funding from foreign banks.
- Sufficient space exists in adding new and innovative products to supply chains. To help companies grow and expand their access to finance, SMEs need to focus on their budget balances. It is important to understand the motivations of each participant and communicate with each other, to reduce the existing friction.