Webinar - Value Chain Finance: How Banks can Leverage Growth Opportunities for SME Banking Customers

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Why we should focus on value chain finance for SMEs....

1. 27 million + formal SMEs in Developing countries, 39% and 22% unserved and underserved respectively

2. Formal SME finance gap of $1 trillion in developing countries, nearly 1/3rd linked to value chains

3. Better Risk lending, higher cross Sell

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IFC Enterprise Finance Gap definition of MSMEs: Micro - 1-4 employees, Very Small - 5-9 employees, Small - 10-49 employees, Medium - 50-250 employees

Source: IFC Enterprise Finance Gap Database
VCF opportunity typically falls under “supplier finance” & “buyer finance” categories but both linked to large reputable corporate entities (Anchor)

Supplier Finance
Financing the procurement side of the corporate business

Buyer Finance
Financing the sales and distribution side of the corporate business
Multiple opportunities exist for Banks grow Value Chain Finance business

Supplier Finance

Pre Shipment

Financing the procurement side of the corporate business

Post Shipment

Anchor

Buyer Finance

Post Delivery

Financing the sales and distribution side of the corporate business

Purchase Order Finance

- Purchase order key instrument
- Performance Track record
- Relationship criticality
- Covers production/procurement
- Typically 50-60% of PO
- Assignment of receivables
- No/Partial Collateral

Reverse Factoring

- The Anchor initiates the program
- Bank deals through the Anchor
- Assignment/acceptance of Anchor
- Upto 100% of Invoice financed

Receivable Finance /Factoring

- Bank deals multiple supplier
- Receivables audit
- Assignment of receivables
- 70%-90% of invoice financed

Buyer / Distributor Finance

- Authenticated delivery note/invoice
- First loss/limit allocating
- Stop supply arrangements
- No/Partial collateral

Retailer/Consumer Finance

- Dealer treated as Anchor
- Retailer POS finance
- Consumer Credit cards, designated merchants
VCF proposition would render significant gains to Bank’s SME clients

Suppliers to the Anchor are financed

**Key Benefits for small supplier:**

- Better financing terms
- Improved trade terms and instruments
- Improved liquidity
- Minimized cost of collections
- Timely payments receipt
- Match funding based on orders

Buyer/Distributors to the Anchor are financed

**Key Benefits for small buyer:**

- Access to bank finance
- Strengthening of relationship with Anchors
- Better financing and trade terms
- Assured funding linked to business
- Strengthened bank relationship
- Streamlined transaction management
## VCF proposition distinct advantages for Corporate Anchors

<table>
<thead>
<tr>
<th>Supplier Finance</th>
<th>Buyer Finance</th>
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<tbody>
<tr>
<td>Suppliers to Anchor companies are financed</td>
<td>Distributors to Anchor companies are financed</td>
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### Key Benefits for Anchor:
- Reduce hassle of multiple payments
- Lower administrative costs
- Reduce the cost of purchase
- Extended credit terms to the suppliers
- Ability to integrate with ERP systems
- Minimized advanced payments

### Key Benefits for Anchor:
- Balance sheet de-risking
- Reduce transaction costs
- Increased sales push
- Reduced cash discounts
- Minimized collection hassles
- Enhanced channel loyalty
A win-win for **SME & Corporate Banking** with business growth and risk mitigation

<table>
<thead>
<tr>
<th>Benefits for SME Banking</th>
<th>Benefits for Corporate Banking</th>
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<tr>
<td>▪ New segment opportunities</td>
<td>▪ Competitive differentiation</td>
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<tr>
<td>▪ Market distinction</td>
<td>▪ Key corporates access</td>
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<td>▪ Faster scalability</td>
<td>▪ Increased revenue share</td>
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<td>▪ Sales effectiveness</td>
<td>▪ More business opportunities</td>
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<td>▪ Better portfolio risk profile</td>
<td>▪ Better risk management</td>
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<td>▪ Access to data and information</td>
<td>▪ Cash management mandate</td>
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<td>▪ Stronger relationships</td>
<td>▪ Increased Retention</td>
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<td>▪ Enhance transactional business</td>
<td>▪ Increased limit utilization</td>
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While VCF offers an attractive opportunity, banks are typically confronted with challenges across 4 main areas to launch and scale up revenues.
Below competency framework highlights the strategic pillars and needed enablers for a successful VCF program

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<th>IFC Value Chain Finance Competency Framework</th>
<th>Operating Model</th>
<th>Products &amp; Services</th>
<th>Sales &amp; Delivery Channels</th>
<th>HR &amp; Systems</th>
<th>Credit &amp; Risk Management</th>
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<td>Segmentation</td>
<td>PO/Contract Financing</td>
<td>VCF technical team</td>
<td>Training</td>
<td>Application Scoring</td>
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<td>Coverage Model</td>
<td>Research &amp; Analytics</td>
<td>Receivable Finance</td>
<td>Industry Focus</td>
<td>RM skills</td>
<td>Underwriting</td>
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<td>Transfer Pricing</td>
<td>Reverse Factoring</td>
<td>Anchor Onboarding</td>
<td>Stakeholders Commitment</td>
<td>Delegations</td>
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<td>Synergy</td>
<td>Transaction banking</td>
<td>Alliances</td>
<td>Reward &amp; Recognition</td>
<td>Behavior Scoring</td>
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<td>Relationship mapping</td>
<td>Proximity</td>
<td>SLAs</td>
<td>Early Warnings</td>
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<td>IT Interfacing</td>
<td>Risk based pricing</td>
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<td>System Mgt</td>
<td>Portfolio Mgt</td>
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<td>Data Warehousing</td>
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1. Operating Model
   - Segmentation
   - Research & Analytics
   - Transfer Pricing
   - Financial Plan

2. Products & Services
   - PO/Contract Financing
   - Receivable Finance
   - Reverse Factoring
   - Advisory Services

3. Sales & Delivery Channels
   - VCF technical team
   - Industry Focus
   - Anchor Onboarding
   - Alliances
   - Proximity
   - Procurement Buy-in
   - Alternate Channels
   - Prospecting ranking

4. HR & Systems
   - Training
   - Incentives
   - Stakeholders Commitment
   - RM skills
   - Reward & Recognition
   - SLAs
   - CRM
   - VCF platform
   - IT Interfacing
   - System Mgt
   - Data Warehousing

5. Credit & Risk Management
   - Application Scoring
   - Underwriting
   - Delegations
   - Behavior Scoring
   - Portfolio Mgt
   - Anchor Data Analytics
   - Industry Benchmarks
   - Collections Framework
   - Early Warnings
   - Risk based pricing
IFC VCF Advisory offers distinct value chain finance services to address key challenges.

Revenue
- Market Opportunity sizing
- Portfolio opportunity sizing
- Supplier/Buyer onboarding
- Sales management
- Product structure

Cost
- Customer Management
- Alternate Channels
- Productivity KPIs
- Process Automation
- Processes flow design

Risk
- Credit underwriting
- Legal due diligence
- VCF Credit Scoring
- EWS, Collections

Anchor
- Selection metric
- Technology platforms
- Non Financial Services
- Engagement & pilot plan
IFC provided its VCF AS solution to largest bank in one of the MENA. Strong results illustrated below.

**Loans**: + $452M

**Deposits**: + $553M

**Net profit**: + $26M

**Key Insights**

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

**Key Insights**

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

**Key Insights**

1. 3 phase growth and cost optimization/coverage model
2. Modelling/Collections/Portfolio Management
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