Access to financing for sustainability 2020

We help small and growing enterprises to expand their businesses sustainably and inclusively – through a pathway to clean trade

Date: Geneva, 15 October 2019
2019 global snapshot of a global challenge

How to get more MSMEs ready for financing of sustainable business growth

**Capital & equity financing**

$3.8Tn: Estimated global SDG SME financing gap (IFC)

$500Bn Assets under management for long term sustainability projects **globally**

< ~1 in 20 capital expenditure applicants get financed

$500Mn Impact funds globally

Invested @ 20% return (2019)

But, since 2015¹:

< 7% allocated to SMEs globally

< 2% for EDE SMES

Only < 1% for Women-led enterprises

**Trade & supply chain financing**

$1.5Tn: Trade finance gap (ADB Brief, 2019)

$95Bn pa EDE Supply chain financing: Leasing, factoring...

Top 10 TF Banks Short-term Trade financing: $159Bn Per Annum with EDEs alone

Banks estimate ~50% of financed Trade to the value ~$120Bn pa can improve sustainability with de-risking incentives, capacity building & regulatory change

Low Default rate: ~1% in EDEs

TSCF Potential for Rapid impact Packaged for investors

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Note: These percentages do not including BMG / GAVI Health allocations or Microfinance. EDE = Emerging & Developing Economies
MSME risk-adjusted premiums are typically >+15% above large company interest rates

**Objective 2:** Reduce the risk differential cost of MSME financing for sustainability by >5%

*OECD Report: Financing SMEs in Latin America, 2014*
ADB-ITC-CBI Trade finance survey & Trade finance Brief 2019 Highlights
Joint ITC, ADB, CBI trade & supply chain financing survey explains MSME needs in 2018 - Initial results:

1,500 MSME respondents:
399 direct, 53% women-led enterprises (USA & Europe excluded)

90% of respondents: 3 to 30 years in business
55% SMEs
37% Micro enterprises

Average: US$ 5.5Mn Annual exports
Priorities for MSME and bank assistance

~86% of rejection reasons may be addressed through technical assistance to MSMEs and financing providers

46% of rejected MSMEs subsequently sought non-bank financing

Average amount of T & SCF applied for by region ($,000) ~10% down on 2017 figures
<20% of MSMEs know and use financial instruments

<table>
<thead>
<tr>
<th>Financial Instrument</th>
<th>% Know the Product</th>
<th>% Applied for Trade Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Letters of credit</td>
<td>19%</td>
<td>18%</td>
</tr>
<tr>
<td>Pre-export finance</td>
<td>13%</td>
<td>16%</td>
</tr>
<tr>
<td>Guarantees</td>
<td>16%</td>
<td>15%</td>
</tr>
<tr>
<td>Export receivables</td>
<td>12%</td>
<td>14%</td>
</tr>
<tr>
<td>Documentary collections</td>
<td>12%</td>
<td>12%</td>
</tr>
<tr>
<td>Supply chain finance</td>
<td>11%</td>
<td>11%</td>
</tr>
<tr>
<td>Others</td>
<td>7%</td>
<td>8%</td>
</tr>
<tr>
<td>Post-import finance</td>
<td>10%</td>
<td>6%</td>
</tr>
</tbody>
</table>

MSMEs need:
Information,
More flexible bank sources or,
More Non-bank financing sources
56% MSMEs are uncomfortable using digital financing platforms

- Insufficient information on digital financing platforms
- Lack of expertise in technology; it is too complicated and fast moving; and too many platforms
- Not applicable
- We were able to be funded by non-digital sources after all
- Unreliable telecommunications infrastructure makes Internet reception unstable
- Still costly to use
- Considerable documentary requirements, same as banks
- Others

Results reinforce the need for impartial information, training and advisory activities to build awareness, trust and standards, gain small business & regulatory confidence in new systems.
The opportunity for financing more sustainability actions:

ITC currently works directly with >2,600 new enterprises per year and claims > 10,000 farmers, community enterprises & single entrepreneurs as indirect beneficiaries.

**Global**

<7% of available global MSME investment funding is being used in ITC target EDE countries and < 1% for women-led enterprises.

**ITC Beneficiaries**

>15% trade financing higher rate risk differential charged to MSMEs compared to LEs even though default rate is only ~1%.

1,000s of MSMEs cut off from trade & supply chain financing due reduction in correspondence banking, lack of normal financing facilities and bank motivation = 80% of future EDE growth potential.

86% of rejections in trade & supply chain finance due to poor knowledge of options, MSME records & financial management.

**ITC results 2018**

From 2017 to 2018 ITCs AFI facilitated capital financing for 56 enterprises for > $28Mn = ~0.3% of total ITC MSME beneficiaries.

2017 to 2018: AFI directly trained and coached > 2,600 MSMEs & > 50 Financial management counsellors in 15 countries.

**Objective 1:** At least 10% of ITC enterprise beneficiaries should be linked to financing by 2020.

1. ITC annual reports 2017/2018
ITC target: clusters of growing enterprises in export value chains

Affordable money, financial advisory support and technical help accelerate early growth rates, positive cash flow and sustainability.

ITC Project focus area:
Providing technical support early to entrepreneurs to design or grow sustainable export oriented businesses, communities, women & young entrepreneurs with turnover of US$20k to US$2Mn.
All financing is needed but Not all financing has the same needs

Different types of financing have a different periodicity and scale of impact

Scale of expected impact

10s of SME’s & Entrepreneurs: Start-up & growth
- Capital financing for sustainable growth
  - Investments equity share, bonds, convertible notes...
  - Decision time: 3 months to 2 years
  - Yearly round: 5 to 10 years for results

100s of Exporting & Importing MSMEs to expand trade
- Medium-term financing for certified sustainable trade
  - Documentary credits, Forfaiting, Mass factoring & Receivables, Cash advances
  - Decision time: 3 hours to 3 weeks
  - Weekly need: 3 months to 3 years for results

1,000s of MSMEs & Communities to expand sustainable business
- Short-term, sustainable supply chain financing and micro-finance
  - Leasing, working capital, factoring, receivables, advance payments...
  - Decision time: 3 minutes to 3 days
  - Weekly need: 3 months to 3 years for results
ITC portfolio of methodologies and tools to meet financing for sustainability objectives, enterprise & entrepreneur needs

Accessible and affordable financing for sustainable growth & clean trade
- Capital Financing for Climate resilience, Sustainability, Social inclusion & Women-led enterprises
- Trade & Supply Chain Financing for growing sustainable value added exports
- Poverty Reduction Financial inclusion Refugee entrepreneurs
- Financing Disaster Resilience & Recovery

SDGs addressed:
1: No Poverty,
2: Zero Hunger,
5: Gender Equality,
7: Affordable & Clean Energy,
8: Decent work & Economic growth,
9: Industry Innovation & Infrastructure,
12: Responsible Consumption & Production,
13: Climate Action,
17: Partnerships for the Goals

Catalyzing financing for enterprises that can really use it for sustainable development

*NDC’s: “Recorded nationally determined contributions” to sustainability and the SDGs submitted to the UN GA as recorded contributions and results
Capital financing preparations can be intensive

**Project-funded: Preparing businesses to attract financing**

- Business design for Sustainability/Productivity
- Technical Ops upgrading
- Vulnerability assessment, Advice on Resilience, Sustainability, Inclusion
- MSME Governance, Financial management
- Markets & Compliance

**ITC Tailored Boot camp processes**

Components of MSME Preparation for financing for sustainability delivered through ITC-trained business development services (BDS)

**Project/Industry-funded: Matching MSMEs to financing providers**

- Proposal reviews & Coaching, Bankable Presentations > $$

- Mentorship & Business Angels
- Pitching & Communications perfection, Islamic Financing
- Top team review & Financing matching advice
- Financing Gateway search
- Investor & financing provider linking / origination support
- Digital identity AML/KYC/CFT compliance advice (WTO, etc)
- Readiness assessment, Prospectus & Short-listing (DLT)
- National Scaling-up Road map
With comprehensive capacity-building

Mainstreaming of design for sustainability across enterprise operational development at the earliest opportunity needs multi-stakeholder engagement

More than just financing ...

**Accessible and affordable financing for sustainability & clean trade**

- Sustainability Support services reinforcement, ITC T4SD information & training HUBS
- Green business Strategy, Market & Product Innovation / development, Branding

**Climate Vulnerability, Sustainability Value-added Assessments & Resilience planning**

- Packaging, Labelling, Traceability, FinTech., E-commerce, Waste & Pollution Reduction

**Sustainable & Inclusive Enterprise & Supply chain development**

- Enterprise Management, Financial compliance Business models & Communications

*ITC, or its in-county partners, can provide a comprehensive range of technical operations support to render more MSME’s eligible for short and long-term financing to improve their business resilience and sustainability*
Trade & supply chain financing includes diverse actors

- Receivables: Enterprise book debts < 120 days
- Factoring: Enterprise invoice debt < 360 days
- Forfaiting & Documentary instruments > 360 days duration
- Leasing: Value-adding equipment & vehicles
- Cash-in-advance, Payables & Vendor financing
- Working capital: People, materials, facilities upgrading

Macro economic factors, regulatory authorities & De-risking facilities

Supply chain finance

Requiring a national integrated approach to development and financing built for export value chains, across support services and financing providers
Capital and Trade financing approaches start differently

Capital financing is enterprise-centric, Trade & supply chain financing (TSCF) needs national macro-economic, financing ecosystem and regulatory factors to be in place.

**Capital financing**

- More well prepared MSMEs get financed
- MSME financing ecosystem diagnosed
  - National Working group & Road map for integrated development & financing set-up to scale support for MSME sustainability actions
- Tailored Boot camps for sustainable & resilient supply chain operations, Financial management & Governance.
- Proposals for financing refined & presented
  - MSMEs linked to mentors, financing, angels
  - Performance reported through BDS
- BDS & sustainability support services informed, trained and strengthened
- Local financing providers upgraded: new financing facilities, fintech. & procedures
  - Financing provider compliance (AML/KYC)
- MSMEs mapped & Ecosystem assessed
  - Financing information platform built
  - Financing & sustainability alliances engaged
  - Financing & investment capital is abundant for sustainability

**Trade & supply chain financing**

- Insufficient affordable TSCF financing facilities, BDS & enterprise know-how
- National
  - Financing providers & Business development eco-systems mapped.
  - Development **leverage points and impediments** identified.
  - Actors engaged & actions planned
- Integrated sustainable development & financing framework created.
  - New facilities defined.
  - Financing providers capacity/compliance built
- International **de-risking support**, new Financing facilities & Information platform operationalised
- BDS, local financing providers sustainability support services and enterprises informed, trained and **strengthened**

**National Eco-system**

- Sustainability & Operations Upgrading components
  - MSMEs
  - Higher capacity & lower cost TSC financing for growth in sustainable trade at scale
Key ITC tools to support scaling-up access to financing for sustainable enterprise growth and trade

- MSME Financing Information Gateway platform
- Trade Pointers National financing ecosystem & value chain impact assessment
- Public-Private Committee & Road map
- Regulatory-Policy-Development-Financing alignment working groups
- De-risking alliances, Mini-grants, Mini loans, Guarantees, Ex-Im Bank support
- New financing facilities, adapted for MSMEs, women and young entrepreneurs
- Expansion of training, advisory & coaching services and efficient MSME upgrading (Tailored 2-stage Boot camps)
- Promotion of an Integrated sustainable development & financing mindset
Sustainable Trade Financing Pointers survey macro-economic components

- Links to international practitioner networks
- Exchange rate, Fiscal, Currency, Debt, BoP, Development and Savings policies
- FinTech & Digital services, Tools, Templates, Coverage
- Banking & foreign trade transaction regulations
- Business development & Sustainability advisory services
- Bank and non bank financing providers, standards & licensing
- MSME Information sources, skills and knowledge development services
- De-risking & Bank funding lines: DFIs, Ex-Im Banks, Insurance providers

Stakeholder-derived project Road map
MSME Financing & Sustainability Information Platforms

ITC impartial assessment reporting on MSME value chain financing conditions, policies & ecosystems

ITC advice, training, tools, coaching, methodologies, facilitation & networks to expand support services

Integrated national MSME development and financing Road map, implementation frameworks, & mechanisms

STFP being produced as a modular survey tool on a global database to permit inter-country analysis and reporting
Integrated national financing and development framework for MSMEs

Implicated Support Services & Beneficiary representatives

- Accelerators & Incubators
- Chambers of Commerce, SheTrades
- Sustainability Technical and vocational training services (T4SD Hubs)
- Education & Academia
- Innovation Centres
- Market, Enterprise, Supply chain, Support services,
- Producer development partners
- Sustainability networks

Financing providers, Government & Enterprise representatives

- Non bank factoring & Leasing companies
- Entrepreneurs communities & education organisations
- Government & Private sector Steering committee
- MSME Business development services
- Central bank, National Bankers Association
- National/Regional Export / Import & Development banks

Coordination, Monitoring, Technical inputs, Advocacy,

External financing & De-risking lines with DFIs, MLBs & Trade finance banks

Source: Business Mauritius / Chile, 2019
Levelling the playing field for MSMEs and Foreign Investment Facilitation

WTO Investment Facilitation Framework “African countries reluctant to engage..”

2017 IFC SME Finance gap report:
Developing markets’ SME Credit Gap: US$ 4.6Tn, 85% of which is between $ 50k to $ 2Mn

2019 ADB-ITC-CBI reports:
US$ 1.5Tn Trade finance gap persists since 2017

“Afreximbank confirms intentions to raise $250m USD on the London Stock Exchange to boost African trade finance offering”**

We need to engage with stakeholders across the economy to improve national enterprises’ attractiveness for financing so they can put available funds to good work improving sustainability & clean trade
ITCs comprehensive access to finance approach can respond to financing for sustainability challenges at scale.

More MSMEs find the financing they need to upgrade, accelerate sustainable business growth & trade at the lowest cost.

- Impartial Advisory Services and knowledge of financing facilities accessible for all
- SME financial management upgraded
- Commercially viable MSME financing, fintech, de-risking & investment facilities introduced
- Road map for policy, regulatory and institutional adaptations to scale sustainable & inclusive SME growth

ITC

TRADE IMPACT FOR GOOD
ITCs comprehensive access to finance approach can respond to financing for sustainability challenges at scale

Thank you

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