How digitized supply chain finance can help small merchants grow

Building the value proposition for an integrated approach for supply chain actors and financial institutions to serve small merchants in emerging markets

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Digitized supply chains open the door to finance small merchants' growth

Small merchants such as grocery shops, corner stores, and other micro retailers employ more than a third of the world's labor force and contribute significantly to global GDP.[1] They are essential actors in communities around the world; they fulfill the needs of households by bringing life's essentials within easy reach of the customer, and often generate an important source of income and employment for lower economic groups and rural populations.

In Accion's more than 50 years working with financial service providers (FSPs) that seek to serve micro and small enterprises, we have seen first-hand the difficulty lenders face in assessing credit risk and sustainably offering products and services that meet the unpredictable working capital needs of small merchants.

From the merchant perspective, financing offered by FSPs is often slow to be disbursed or insufficient to grow their business. Without sufficient financing merchants cannot buy, sell, or run efficiently.

In recent years, a potential new way to provide credit to small merchants has emerged.

Supply chain finance (SCF) is the use of financing mechanisms that can optimize the management of liquidity tied up in supply chain processes.[2] SCF solutions have long been offered by big banks to large corporations, such as fast moving consumer goods (FMCG) companies and manufacturers, to support trade.

However, today SCF techniques are being transformed by technology, expanding the addressable market. Improved connectivity, increasingly available customer data, and new technologies lower the cost and make it possible to extend digital SCF solutions to the small merchants at the end of global supply chains.

We believe that digitally enabled SCF can effectively help small merchants to buy better, sell better, and run better through:

1. The availability of financing and near-instant decisions for credit
Supply chain finance harnesses a merchant's supply chain transaction information generated by inventory management systems operated by FMCGs. Using this data, financial institutions can reduce the time and paperwork required to effectively evaluate the credit worthiness of small merchants. Small merchants will receive the credit they need to when they need it most—when inventory is low and suppliers are present. This will help create a strong value proposition for the merchant and help them grow.

2. Improved business operations and cash flow management
Supply chain finance ties the provision of credit to the flow of goods. This benefits merchants as it contributes to more stable inventory levels and leads to more efficient cash flow. In fact, business operations and cash flow management are improved for all actors in the supply chain including the FMCGs, suppliers, and merchants. This ultimately results in higher sales, faster turnover—and ultimately, increased profitability and growth for all actors.

In order to be most effective, a platform business-model would be ideal to orchestrate the required actors in the SCF ecosystem. The platform model will help satisfy the interdependent needs of multiple stakeholders simultaneously using digital innovations and is well suited to provide SCF solutions. Platform models consolidate digitized data produced by the flows of goods and money throughout the supply chain, building trust and facilitating coordinated decision-making. The net effect is to provide deeper insights into merchant and consumer behavior.

We believe independent third party technology providers are best positioned to mediate between multiple stakeholders and take the lead in operating a flexible and scalable SCF solution. We also see a major opportunity, particularly for FSPs and FMCGs, to lay the groundwork for such a platform approach to succeed. A digitized SCF solution will not only help merchants to grow their business but will drive meaningful financial inclusion for the millions left un- or underserved by the status quo.

Therefore, finding ways to scale SCF solutions has become a core area of focus for Accion's Global Advisory Solutions team, and we're excited to share our insights and experiences through this publication. We hope that you find it a helpful guide to learn more about how SCF can enable inclusive growth – and invite those interested in serving small merchants to join us as thought partners and explore what it takes to get started!

Victoria White
Managing Director, Accion Global Advisory Solutions

[1] IFC. (2019, December). *Micro, Small and Medium Enterprises - Economic Indicators (MSME-EI) Analysis Note.* https://www.smefinanceforum.org/data-sites/msme-country-indicators

Reading guide

What will you find in this report?

This report illustrates the enormous potential that digitized supply chain finance offers to small merchants, and lays out the value proposition for financial service providers, fast moving consumer goods companies, and their suppliers or distribution networks to join together in an integrated approach to creating a more inclusive financial ecosystem in emerging markets.

The report contains the following sections:

Section I The broken supply chain: Outlines pain points in the current supply chain and financial services available to small merchants

Section II The role of SCF: Defines SCF and describes why digitized SCF can be an effective financing tool for inclusive growth

Section III Digital trends are enabling access to SCF: Discusses the ways digital innovations are enabling solutions that can reach small merchants

Section IV The promise of SCF platforms: Presents the value proposition for each actor required in a platform approach to facilitate SCF

Section V Next Steps: Pursuing an SCF model

- Identifies key steps for any stakeholder to champion a platform approach
- Offers a go to market approach for FSPs and FMCGs in the absence of a 3rd party platform

Who should read this report?

Financial service providers (FSP)

Fast moving consumer goods companies (FMCG)

We see a major opportunity for FSPs and FMCGs to rise to the challenge to meet the needs of small merchants through digitized SCF – and in turn drive meaningful financial inclusion for the millions left un- or underserved by the status quo.

This report offers a playbook for how to get started on the critical first steps and key considerations when developing partnerships.

Acknowledgements

List of interviewees

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- Jesus Lopez, Tienda Pago
- Anshum Nandecha, former distributor for large FMCGs
- Jorge Ortega, Visa
- Fernando Perez Jury, Heineken
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Project Team

The “How digitized supply chain finance can help small merchants grow” project team includes the following individuals (in alphabetical order):

- Jason Loughnane
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This paper was written by Accion’s Global Advisory Solutions team, which provides experienced operational and management support to strengthen our partners and maximize their impact. We leverage innovations to increase the quality and lower the cost of financial services, and thus help to build sustainable and scalable institutions focused on serving the financial needs of underserved individuals and small businesses.

Citi Foundation

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Accion would like to thank the Citi Foundation for supporting this report. The Citi Foundation works to promote economic progress and improve the lives of people in low-income communities around the world.

The Citi Foundation invests in efforts that increase financial inclusion, catalyze job opportunities for youth, and reimagine approaches to building economically vibrant cities.

Glossary

Account Receivable A legally enforceable claim for payment held by a business entity against its customer for goods supplied or services rendered in execution of the customer's order, and recorded on the balance sheet.

Account Payable A legally enforceable liability to a creditor recorded on the balance sheet, usually arising from purchases of goods and services on an open account basis and evidenced by a received invoice due to be paid within an agreed timeframe.

Arrears Payments that are overdue or payments that are to be made at the end of a period. An account is said to be in arrears if the debt, liability, or obligation expected is overdue.

Blockchain A distributed digital ledger in which transactions are codified through a consensus mechanism, made irrefutable as future transactions are continually added to the ledger. Blockchains are generally characterized as either public ledgers where data and contribution is open, or private (also permissioned) where access and contribution to the ledger is controlled.

Bullwhip Effect A supply chain phenomenon describing how small fluctuations in demand at the retail level can cause progressively larger fluctuations in demand at the wholesale, distributor, manufacturer and raw material supplier levels.

Cash and Carry Model A business model that virtually excludes all credit transactions, requiring up-front payment for all goods and services. Companies with a cash-and-carry business model eliminate accounts receivable from their books and are able to match all sales with actual cash receipts.

Closed Loop Mechanism A payments transfer system that contains transfers within a single financing entity to avoid interchange fees.

Cloud Managed Services Cloud managed services range from outsourced application management (Software-as-a-Service) where the application and its entire supporting IT infrastructure is owned and operated by the service provider, to more customer controlled models such as Platform-as-a-Service and Infrastructure-as-a-Service models where the customer increasingly owns and controls segments of the technology it considers too sensitive to outsource (e.g. custom applications, data).

Collateral Property or other assets that a borrower or a third party offers a lender to secure a loan or extension of credit. If the borrower stops making the promised repayments and/ or interest and finance charges, the lender can take possession of the collateral to recoup its losses by means of sale.

Default The failure to promptly pay interest or principal when due which occurs when a debtor is unable to meet the legal obligation of debt repayment.

Delinquency When a borrower is late or overdue on a payment.

Discounting When a financier purchases a bill of exchange or an account receivable from a seller for an amount less than face-value (the discount) with the remainder paid to the seller less financing fees once the buyer pays the bill.

Downstream Finance Financing mechanisms utilized in the sales and distribution segment of the supply chain.

E-Invoicing The exchange of the invoice document between a seller and a buyer wholly in an integrated electronic format or dataset.

Enterprise and Resource Planning Systems (ERP) The integrated management of core business processes, often in real-time and mediated by software and technology.

Escrow Agent A person or entity that holds property in trust for third parties while a transaction is finalized or a disagreement is resolved.

Fast-Moving Consumer Goods (FMCG) Products that are sold quickly and at a relatively low cost.

FSP Financial service provider.

The Informal Sector A part of an economy that is neither taxed nor monitored by any form of government.

Interoperability The ability of different information technology systems and software applications to communicate, exchange data, and use the information that has been exchanged.

Know Your Customer (KYC) The process of a business verifying the identity and standing of its clients and the character of the business or transactions they generate. The term is also used to refer to the legal regulations which govern these activities.

Liquidity The amount of cash or cash equivalents that a firm has readily at hand.

Minimum Viable Product A product the offers a core value proposition to satisfy early customers, and to provide feedback for future product development.

Glossary

MSME Micro, small and medium enterprise.

Open APIs A publicly available application programming interface that provides developers with programmatic access to a proprietary software application or web service. APIs are sets of requirements that govern how one application can communicate and interact with another (often referred to as a public API) .

Platform Model A business processing capability embedded in an information technology system and its surrounding management.

Point of Sale (PoS) Systems The terminal device and supporting software to facilitate the acceptance of electronic payments from customers. These systems are sometimes stand-alone components and other times are integrated with business register and accounting systems.

Stock The goods or merchandise kept on the premises of a business or warehouse and available for sale or distribution.

Supplier A party that supplies goods and services to a buyer

Term Loans A loan from a bank for a specific amount that has a specified repayment schedule and a fixed or floating interest rate.

Turnover Accounting term that calculates how fast the company sells its inventory.

UN Sustainable Development Goals Defined by the UNDP as a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity.

Underwriting An individual or an institution undertakes the risk associated with a venture, an investment, or a loan in exchange for a premium.

Upstream Finance Financing instruments employed to facilitate the purchase or movement of materials by a firm near or at the initial stages of producing a good or service.

Working Capital The capital of a business that is used in its day-to-day trading operations, calculated as the current assets minus the current liabilities.

Sources:
Global Supply Chain Finance Forum. (2016). *Standard Definitions for Techniques of Supply Chain Finance.* http://supplychainfinanceforum.org/ICC-Standard-Definitions-for-Techniques-of-Supply-Chain-Finance-Global-SCF-Forum-2016.pdf
Chron. (2020, August 25). *What is a Cash & Carry Business Model?* https://smallbusiness.chron.com/cash-carry-business-model-4759.html
Jabbarzadeh, A. (2017). *Key lessons from the implementation of ERP in Canada*. International Journal of Data and Network Science, 1(1), 23-26

I. The broken supply chain

Supply chains to sell goods in emerging markets are complex systems comprised of a variety of actors

Fast Moving Consumer Goods companies (FMCG)

Such as Unilever, P&G, Coca-Cola, and General Mills

An FMCG company manufactures or organizes production of basic consumer products like packaged foods, drinks or toiletries. May partner with one or multiple networks of 3rd party suppliers in each country, or in some cases may own the entire distribution network that reaches merchants.

Suppliers

Such as wholesalers and transporters. Could be designated to a FMCG or independent

‘Suppliers’ refers to the spectrum of actors necessary to deliver goods from the FMCG to the merchant, and ultimately the consumer. An FMCG may work with a select group of dedicated suppliers who may also behave as wholesalers, serving larger retail chains and fragmented networks of smaller suppliers with varying transport capabilities to reach the ‘last mile’ to deliver goods, or to serve as a depot for merchants to restock goods.

Small Merchants

Alternatively referred to as MSMEs, micro-entrepreneurs, small businesses, shop, etc.

Small merchants sell products to the end customer, and may operate in the formal or informal economy. Small merchants are not a homogenous category but they range along a spectrum of the following characteristics: access to credit, business documentation, number of employees, arrangements with suppliers, standardization of goods sold, and location.

Financial Service Providers (FSPs)

Such as banks, microfinance institutions, specialized lenders, fintechs

FSPs refer to the spectrum of financial institutions that meet the financing needs of the actors in the supply chain (including providing credit to facilitate the transfer of goods). Larger more formal FSPs like multinational banks typically provide credit to FMCGs and large suppliers, whereas small merchants may receive credit from smaller FSPs or microfinance institutions.

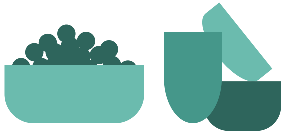
Small merchants are not a homogenous group; they range along a spectrum of the following characteristics

Access to credit: May have regular access to credit from an FSP or may seek credit from family or informal lenders

Business documentation: May have receipts that could establish an underwriting portfolio, or may be ‘thin file’ with no receipts and limited book-keeping

Number of employees: May have no employees beyond family; may employ non-family

Relationship with suppliers: May have standing arrangements with preferred suppliers or may approach suppliers that have the best offer



Goods sold: May have predictable stock or may change what they sell frequently, adjusting to market demand

Location: May have a stable independent location or may operate from the back of the house or change location often

Access to markets: May have access to markets where they can buy and sell goods, or may not have access due to distance or other barriers

Despite their differences, one common thread is that many small merchants face growth challenges due to lack of credit

Small merchants often find it difficult to establish creditworthiness due to:

- Inability to provide high quality collateral
- Weak financial structures and small size
- Little to no business documentation

Common challenges stemming from lack of credit

Frequent restocking because of low inventory

Limited stock and diversity because merchant can only purchase with cash on hand

Opportunistic stocking as it is difficult to build standing relationships with suppliers

Repercussions are ultimately lost revenue

This frequent restocking is time consuming, inefficient, and not cost effective

Limited stock and diversity leads to lost sales, weakens customer loyalty, and missed demand surges

Lack of strong relationships with suppliers forces merchants to buy wholesale at retail prices and make sales by ‘happenstance’

Micro, Small and Medium Enterprises (MSMEs) face a $8.1 trillion dollar credit gap, hindering global progress to promote economic growth[2 3]

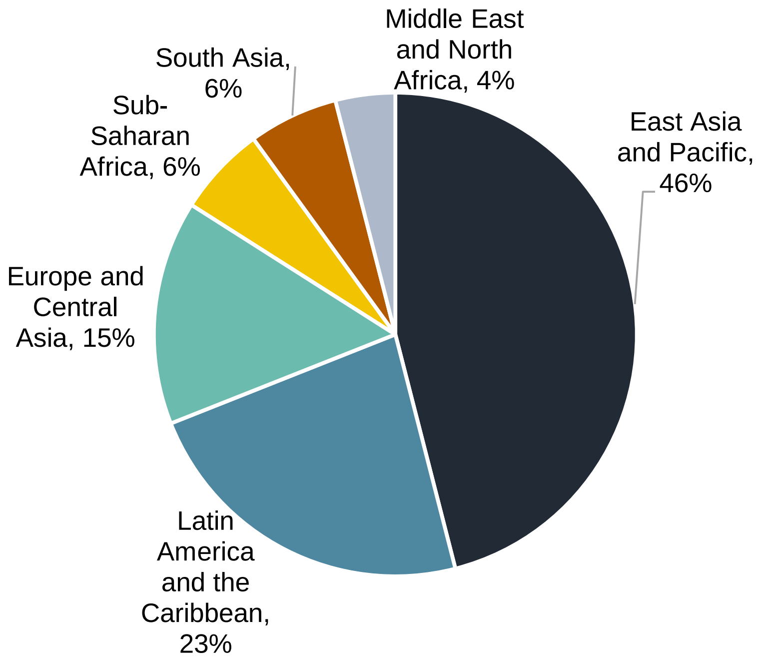
According to IFC, the $8.1 trillion credit gap comprises a $5.2 trillion credit gap for formal enterprises and $2.9 trillion potential demand for credit from the informal sector, which is not adequately served today.

There are close to **162 million** formal micro, small, and medium enterprises in emerging markets, of which 141 million are microenterprises and 21 million are SMEs.
The formal MSME finance gap is estimated at **$5.2 trillion** and the potential demand from informal enterprises is $2.9 trillion.

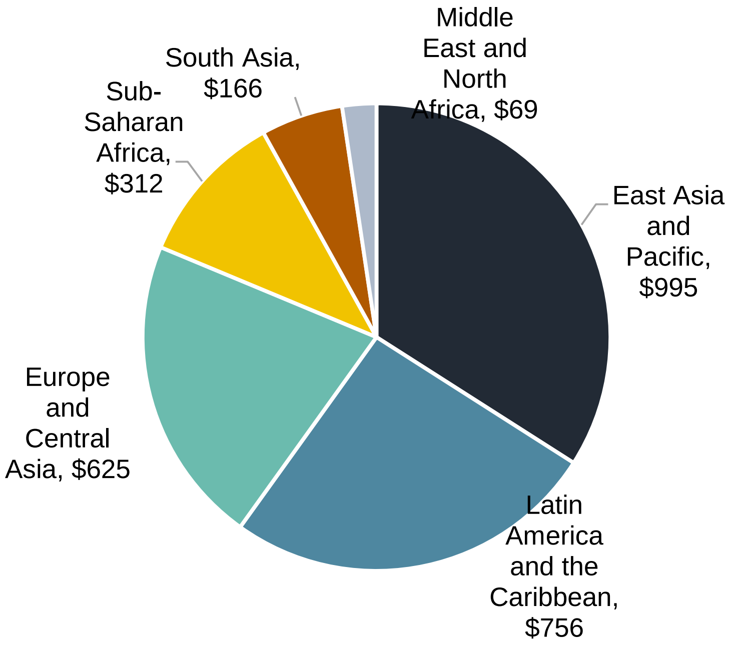
Regional analysis of the formal finance gap demonstrates that it is highest in the East Asia and Pacific region, which represents almost 46 percent of the total global unmet demand. This is mainly driven by the large demand and limited supply in China. The finance gap in Latin America and the Caribbean is the second largest after the East Asia region, and is mainly driven by Brazil.

This global credit gap is almost entirely a supply-side problem, as MSME's demand for financing is significant. Given so much of the world's economic and trade activity is driven by small merchants, solutions that can bring down the cost of financing and meet their needs will help, "promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all" and realize Sustainable Development Goal #8: *"Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all."*

Formal enterprises: Unmet demand for financing, distributed by region



Informal enterprises, potential demand, US$ billion



[2] The small merchants we describe in this report can also be referred to as microenterprises. Given that microenterprises make up 87% of all MSMEs, it can be assumed that the credit gap facing the small merchants described herein is at a very minimum equal to $7.05 trillion.

[3] IFC. (2017). MSME Finance Gap. https://www.smefinanceforum.org/sites/default/files/Data%20Sites%20downloads/MSME%20Report.pdf

Supply chain inefficiencies obstruct the flow of information and perpetuate this credit gap

In emerging markets, supply chains are highly fragmented, resulting in inefficiencies in inventory, warehousing, availability of products, credit and collections.

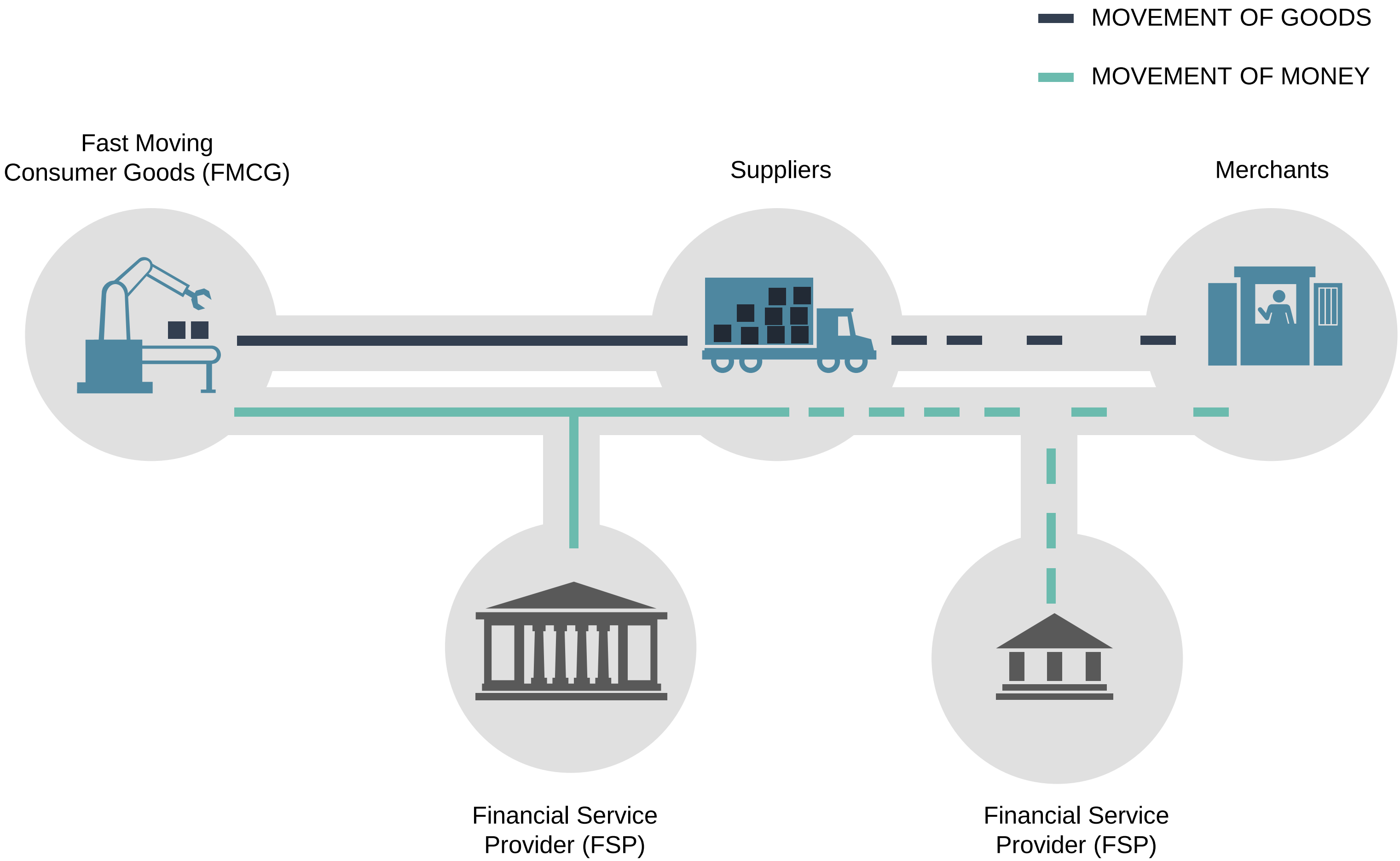
Lack of demand visibility leads to inefficiencies in the manufacturing and movement of goods

Merchants' sales are difficult to predict for FMCGs and suppliers. This leads to an increase in inventory manufacturing, warehouse and delivery costs, slower turnovers and mismatched supply and demand. Also called the "bull whip effect," which has plagued supply chains for decades

Unrecorded financial transactions impede the movement of money

Unrecorded cash transactions between the local supplier and merchants not only creates opportunities for fraud, but also precludes FSPs from extending working capital to merchants.

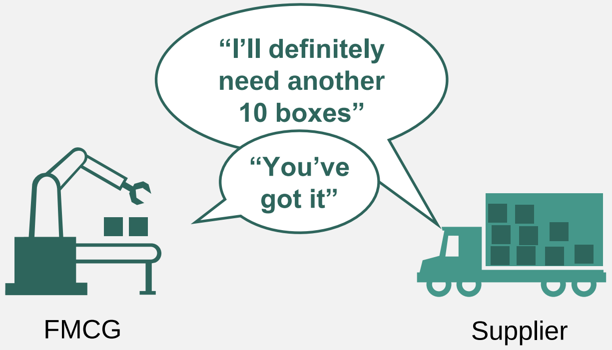
Without adequate credit, merchants do not always have cash on hand to pay the supplier for the inventory they want and instead settle for what they can afford.



If these obstructions are removed, data can unlock greater access to credit, benefiting everyone in the supply chain

More transparent flows of data reveal information about the relationships and movement of goods, reducing risks to inform credit decisions

Greater data transparency allows suppliers to express demand in real-time to FMCGs. This information enables more accurate forecasting and allows suppliers to justify goods on credit from FMCGs



When FMCGs and suppliers can anticipate low-stock or out of stock moments, merchants will experience fewer inventory shortages

Greater data availability that can establish creditworthiness enables FSPs to provide financing to small merchants

More transparent data access and credit flows enables **improved planning, higher profit margins** and **increased turnover** for all actors in the supply chain. Everyone wins.

II. The role of SCF

What is supply chain finance?

Supply chain finance (SCF) is the use of financing and risk mitigation practices to optimize the management of the working capital and liquidity invested in supply chain processes and transactions.[4] SCF is applied to trade between the buyer and seller of goods and is triggered by supply chain events, such as the signing of contractual agreements or the delivery of goods. Visibility of the underlying trade flows by the FSP is a necessary component of SCF arrangements.

Supply chain finance that covers retail sales and distribution of goods and services is sometimes referred to as 'downstream finance', as it involves the last mile distributor and small merchants. Financing depends upon sales agreements between buyers and sellers. A FSP will leverage these agreements, including the knowledge that buyers and sellers have about one another, and at times may use inventory as collateral to advance the capital necessary to release goods. Financing scenarios will vary depending upon factors such as who bears the risk of repayment, who will handle collections, and whether stock is easily traceable.

Supply chain finance ties capital to the expedited flow of goods and services

1 Sales agreements made between merchants and suppliers

2 These agreements are used by FSPs to evaluate risk and generate a credit score to provide upfront capital to expedite the flow of goods and services

3 A majority of funding for cost of goods paid to supplier or the merchant (either directly or indirectly via loan against secured stock to supplier or merchant).

4 Goods provisioned to merchant

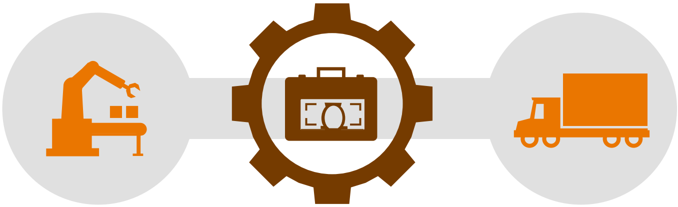
5 Remainder of the cost of goods is paid for upon collection and after merchant sales, less bank fees

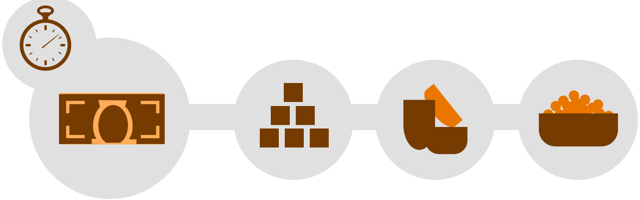
[4] Global Supply Chain Finance Forum. (2016). *Standard Definitions for Techniques of Supply Chain Finance.* http://supplychainfinanceforum.org/ICC-Standard-Definitions-for-Techniques-of-Supply-Chain-Finance-Global-SCF-Forum-2016.pdf

Supply Chain Finance can address problems for all actors that arise from current financing arrangements

Actor	Existing financing methods	How do existing financing methods fall short?	Reasons why SCF is more effective than existing financing methods
FMCG	FMCGs may offer payment terms to large suppliers, but typically prefer to be paid at time when inventory is transferred to supplier	Providing finance is not its core business and requires investing in underwriting and collection capabilities	SCF allows FMCGs to partner with FSPs to allow delayed payment from suppliers. This enables credit (in the form of payment arrears) to flow downstream from suppliers to small merchants
Supplier	Merchants pay delivery drivers for inventory in cash at the time of delivery. From time to time, there may be informal payment terms agreed upon.	Suppliers estimate demand but often return with unsold inventory because small merchants may not have sufficient cash on hand or may not want suppliers' available goods. Informal arrangements create challenges in managing relationships between merchants and suppliers	Digitized data flows facilitate transparency along the supply chain, leading to improved predictability of inventory deliveries. Formalizing arrangements through finance providers helps maintain good working relationships across the supply chain
Small Merchant	Informal finance from friends and family or moneylender, working capital loans, delayed payments to supplier. Use of credit is not restricted to a particular use case.	Mismatch between inventory and funds available at the time of sale (e.g. exceeds working capital limit)	Tying the flow of funds to the flow of goods facilitates efficient business operations and cash flow management
FSP	Merchants may apply for a working capital loan to purchase inventory from their supplier	Difficult to accurately assess volume of sales for underwriting as many small merchants keep only informal business records; likewise impossible to control use of funds hence higher default risk	Usage of supply chain transaction data for underwriting allows FSPs to better assess and meet massive unmet credit demand, cross-sell other relevant products, and monitor risk and repayment performance

Supply chain finance links capital to the flow of goods and thus depends on inventory sales or purchase data





Supply chain finance encompasses a variety of different products that all ultimately seek to achieve the same goal: expediting the flow of goods and services. These products have evolved over the years and can overlap in how they are used. Variables of who will undertake the task of collection and bear the risk and cost from delinquencies or defaults will also vary within the terms of these products. Products fall loosely into two categories:

1. the purchase of receivables or payables and
2. outright loans against stock

Purchase of receivables/payables: In the case of the purchase of receivables (in the case of the seller) or payables (in the case of the buyer), the evidence of the open account between the buyer and seller is effectively purchased by the FSP at discounted terms. Discounted terms means that the FSP pays out a percentage of the value of the receivable or payable, typically 80%, and the remainder is paid out when the terms are met less any fees the FSP is contracted to retain. The FSP may undertake the collecting of the receivable or the borrower may retain that task. This would likely have bearing on the fees charged by the FSP.

For serving the needs of small retail merchants, the applicability of these instruments is indirect as these merchants operate in a 'cash and carry' model without any instrument that could be financed. How they benefit when an FSP acquires the payables of a supplier or receivables of an FMCG to its supplier. In these cases, goods more easily flow to the supplier or give them greater leeway to carry forward those terms to their customers, thereby extending these merchants goods on credit without suffering cash flow consequences. To offset the cost of fees incurred from an FSP, the supplier may forward that cost to the merchant.

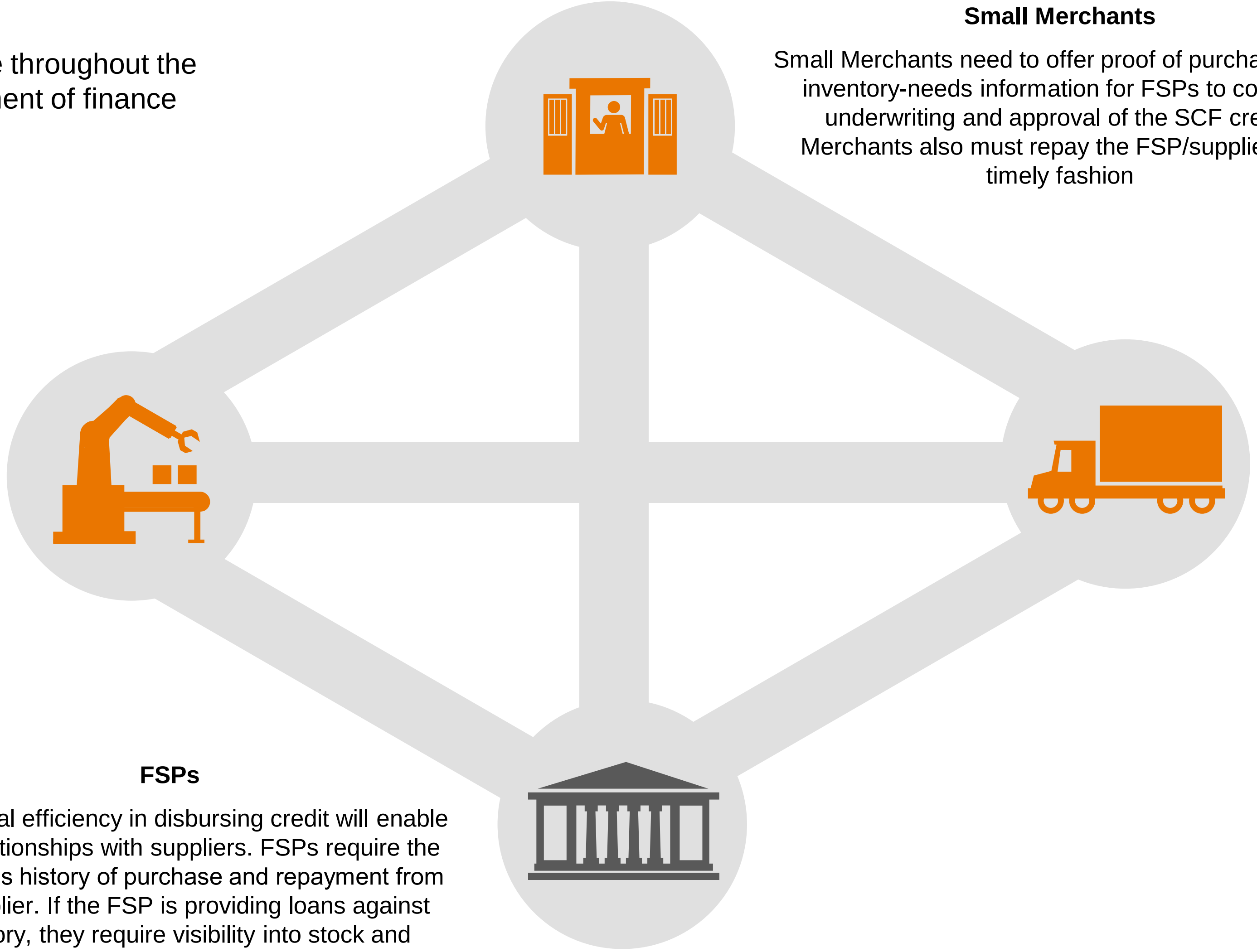
Loans or advances against stock: Loans can be extended using stock as collateral. Though more common for upstream financing (financing provided to the manufacturer) to cover the purchase of material inputs after taking an order, it can apply to retail distribution in cases where stock is readily traceable and can be recovered should the lender need to. In the downstream scenario, it is most likely utilized with suppliers or wholesalers to purchase stock from FMCGs so that unmoved stock is concentrated where it can be more easily monitored. For small merchants, the benefit is that this gives suppliers greater leeway to have more goods in stock and give them greater flexibility to extend goods on credit further down the chain to them.

In both cases (purchase of receivables and advances against stock), serving small merchants directly is quite difficult without greater visibility into their business operations. This is what makes supplier relationships and knowledge so important, especially as a starting point.

Which instrument an FSP chooses to employ will be determined by what path offers the lowest risk. This will be influenced by the knowledge the FSP has of suppliers and their customers, risks in collections, and operational preferences.

Supply Chain Finance therefore requires effective collaboration and data sharing between actors

Delays at any point will cascade throughout the chain, slowing down the movement of finance and goods



Small Merchants

Small Merchants need to offer proof of purchases and inventory-needs information for FSPs to conduct underwriting and approval of the SCF credit. Merchants also must repay the FSP/supplier in a timely fashion

FMCGs

FMCG’s require visibility into merchant sales and inventory data so that they can anticipate low-stock and out-of-stock moments and better target their sales

Suppliers

Suppliers must maintain close relationships with small merchants to understand merchants propensity to sell, merchants are not over-indebted, and delinquency issues are resolved quickly

FSPs

Operational efficiency in disbursing credit will enable good relationships with suppliers. FSPs require the merchant’s history of purchase and repayment from the supplier. If the FSP is providing loans against inventory, they require visibility into stock and knowledge of turnover

Several challenges must be tackled to deliver supply chain finance to small merchants effectively

There are several challenges impeding the use of effective SCF. They fall into two categories:

SCF Challenges: Movement of goods

- Without clear tracking of stock at the merchant level, FMCGs and FSPs are heavily reliant on quality of supplier info
- FSPs lack visibility into the movement of goods to serve as collateral
- Small merchants often only have manual means of managing information and keep sales records in notebooks or spreadsheets causing FSPs and FMCGs to lack visibility into their stock levels

SCF Challenges: Movement of money

- Merchants typically perform transactions using cash which do not create invoices that can be discounted.
- Merchants are unfamiliar with the use of formal bank accounts
- The merchant's identity is difficult to verify for the provision of credit
- FMCGs have minimal understanding of the behavior and credit needs of the last-mile merchants
- FSPs may need to educate themselves about SCF instruments and their management

If these are overcome, digitized supply chain finance will benefit all actors

“There is a huge desire by FMCGs to have greater visibility of who's buying what, where. They need and want to know who they are selling to and what their unique tastes are, but have limited visibility to those people. It is the MSME who knows. So [a supply chain finance solution] is not just about addressing the logistical aspects and productivity gains. It’s also about knowing these new growth markets to tailor the product to its demands."

—Scott Stefanski, Bazaar Strategies

“In India, there is lot of demand for SCF products especially amongst small dealers, distributors, and retailers as its helps them increase their business.”

—Anshum Nandecha, former distributor for large FMCGs

“Customer preferences have evolved over the years and now customers have clear preferences about what product and brand they want. If the retailer is not able to offer the product, the customer moves on to the next retailer to buy the product. Retailers have to maintain a variety of product lines and manage multiple supplier relations. SCF has the opportunity in this emerging trend.”

—Ramkumar Ratnam, FMCG Industry Expert

“I need an account to access working capital credit to run my business.”

—Lorena de Diaz, Self-employed owner of house cleaning business in Chile

“Obtaining formal credit is very challenging. Those who typically offer loans to mom-and-pop shops are consumer products companies, informal loan givers and to a limited extent, microfinance institutions. The interest rates are high and do not meet the needs the merchants have and they often struggle to pay back the loans.”

—Jesús López, TiendaPago

Source: Interviews with industry experts and merchants

III. Digital trends are enabling access to SCF

Digital trends enable greater data availability, visibility, and collaboration between actors, which in turn enables SCF

New innovations being deployed in emerging markets, including e-procurement, to e-invoicing and data-driven decision-making, are enabling actors in the supply chain to work together and exchange information and money in a way that was not previously possible. This is creating an opportunity to deliver finance across the supply chain to sustainably serve small merchants at scale.

Mandated e-invoicing: E-invoicing is gradually being mandated by governments to track and ensure indirect taxes and customs regulation. This mandate is increasing access to digital transactions and heightening visibility into merchant data and compliance. Chile, Mexico, Brazil, India, and Spain are leading this trend.

Internet/mobile reach: Thanks to lower cost mobile phones and infrastructure developments that bring better internet access, internet penetration is increasing. For example, more than half a billion Africans are now subscribed to a mobile network, a quarter of whom have 3G/4G coverage. This is enabling the proliferation of mobile money.

Increased regulatory support for digital financial services: Governments around the world are setting digital and financial inclusion agendas that support the rapid development of innovative financial apps and services.

Cloud-based managed services: Cloud managed services reduce high costs and the need to develop internal IT expertise; these entry barriers prevent many from joining and benefitting from digital supply chain networks.

Data analytics: Greater data availability and transparency along the supply chain opens doors to FSPs to deliver services needing that data to target customers, assess risk and reduce fraud. A greater supply of data has supported the rise of machine learning.

Data standardization, aggregation and sharing among multiple contributors within the supply chain is reducing data task redundancy and translation error, while creating greater transparency. Open APIs infrastructures are emerging and supporting rapid development of innovative financial apps and services.

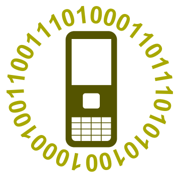
Blockchain enables actors to access information created in the supply chain at any moment, when needed. Blockchain can also enable execution of smart contracts, automating supply chain management and finance.

ACCION

The effects of these trends on supply chains will extend services to small merchants

Better data accessibility

With data more accessible, analytics become more robust and broadly useful for originating and monitoring finance, tracking and predicting demand

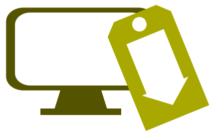


Sales and distribution solutions

End user devices and applications afford development of sales and distribution solutions that benefit small merchants while also revealing data for rest of the chain and FSPs

Regulation that promotes collaboration

Regulatory principles that champion users' control of data and drive digitization support initiatives to remove silos and induce cross-services



Affordable stock management solutions

Affordable and scalable stock management solutions aggregate data from the supply chain

….resulting in unified ways to manage the chain's needs

IV. The promise of SCF platforms

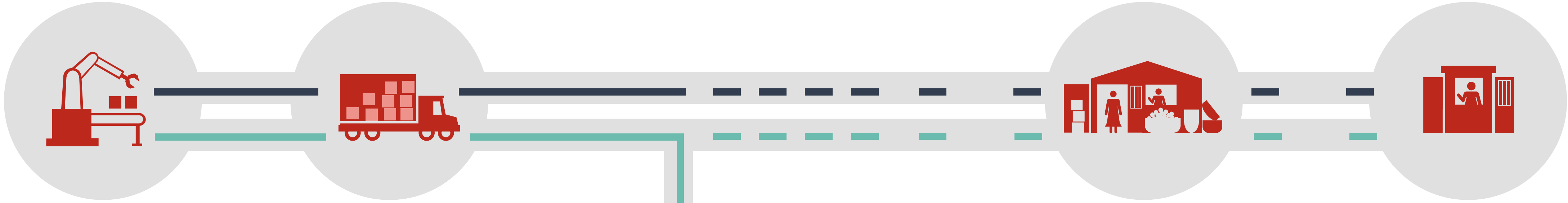
Traditional solutions cater to specific needs of individual (particularly larger) actors in the supply chain, leaving gaps and redundancies

Given siloed operations and data in the supply chain, every actor solves for their own needs.
The result is multiple solutions with overlapping functionality causing task redundancy and work-arounds.

MOVEMENT OF GOODS

MOVEMENT OF MONEY

Inefficiencies in the flow of money and goods resulting from traditional solutions



Enterprise and Resource Planning Systems (ERP)
ERP systems provide inventory management for FMCG and suppliers. Stock data is shared to optimize allocations and feed forecasting

- ✘ Delivery to the primary supplier ends the FMCG tracking of the product. Since FMCGs cannot track product to end customer, merchants can vary pricing at their own discretion.
- ✘ Suppliers lack visibility into market activities downstream hindering optimized logistics, securing financing, and predicting demand.
- ✘ The cost of onboarding merchants to a ERP system would be exorbitantly high.

E-invoicing Solution
E-invoicing solutions enable companies to automate their invoice processing which lowers costs and improves business efficiency. The FSP can use data to underwrite loans for FMCGs and designated suppliers

Point of Sale (PoS) Systems
Point of Sale (PoS) systems collect data that can streamline bookkeeping. Data can be used to assess credit worthiness

- ✘ PoS systems may not track inventory so this data could not be used for SCF
- ✘ FSPs that want to serve small merchants are unable without data to underwrite the merchant. FSPs have to resort to examining paper receipts for general lending.

Stock Management Solutions
Small merchants often patch together a few solutions, ranging from notebooks, to simple spreadsheets, to systems that record sales and register data

- ✘ Small merchants are faced with re-entering stock information upon receipt of goods into their own systems. This is time intensive for the merchant.
- ✘ As a cash and carry business there are no invoices to be discounted that would enable SCF. Without visibility into stock, FSPs cannot provide loans against that stock.

Optimizing the benefits of each solution, for all actors, requires a coordinated effort or platform approach.

ACCION

What is a platform model and why is it conducive for supply chain management and SCF?

Platforms are where all ecosystem members that interact with the small merchant come together to share information. Platform models, which by nature are digital, are well suited to provide SCF services as they accelerate the movement of money and goods to satisfy the interdependent needs of multiple customers simultaneously.

These models consolidate data produced by the movement of money and goods in the supply chain. This allows the platform to share timely information and facilitate coordinated decision-making that ultimately enables merchant financing. At a very minimum, FMCGs, suppliers, FSPs, and merchants must be a part of an effective SCF platform model– however any number of ecosystem enablers could also take part.

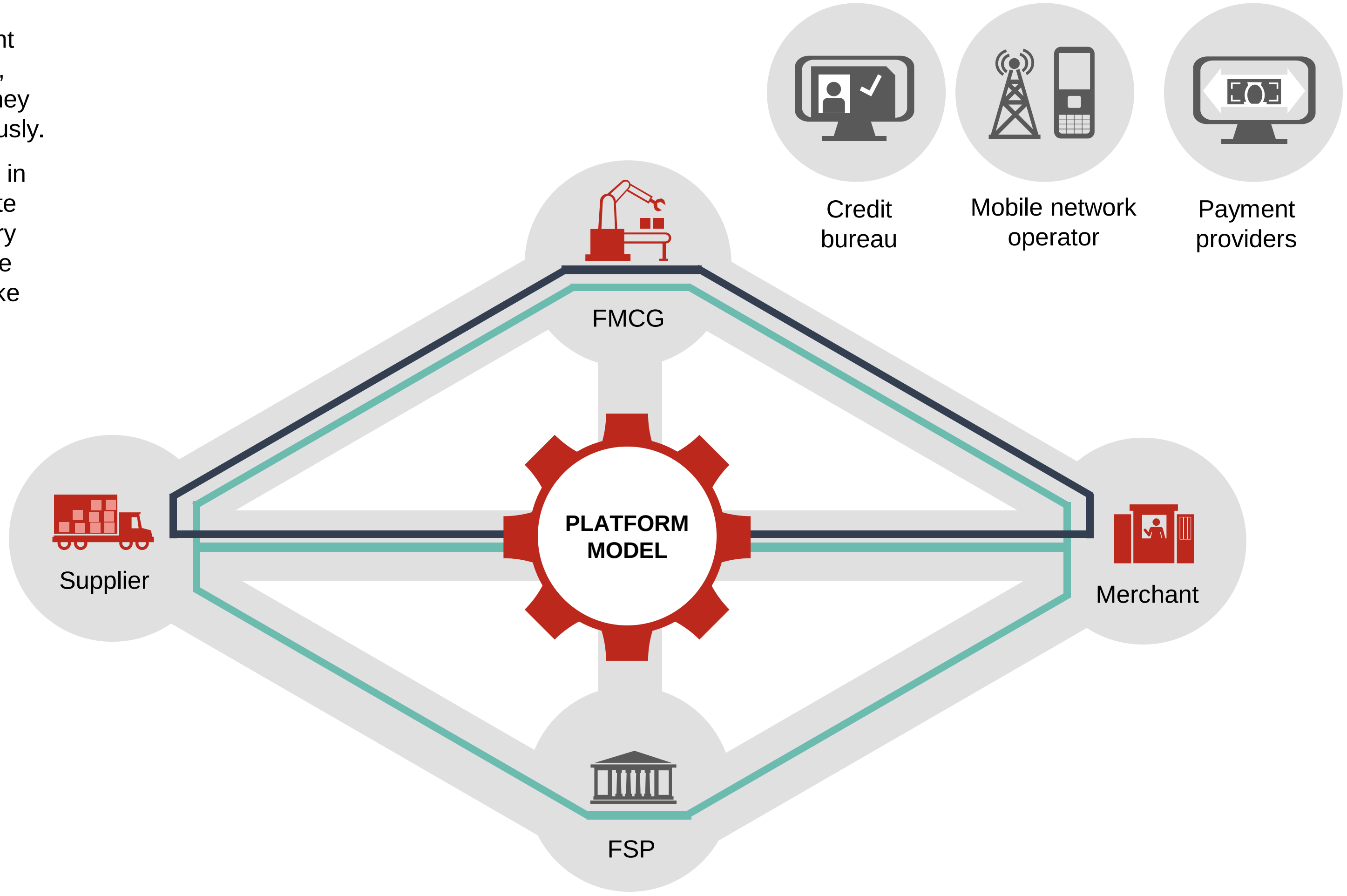
A platform can be introduced to the market and run by any number of actors, including the main actors in the supply chain:

- FMCG
- Supplier
- FSP

Or other ecosystem enablers:

- Technology platform provider
- E-commerce platform
- MNO
- Credit bureau
- Payment providers

However, to be truly interoperable and scalable beyond the initial participants, platform development requires playing an impartial role among participants who may have differing priorities or need to work across multiple competing interests. Fintechs or third party technology providers are best suited to do that.



Platform models can serve both supply chain management and financing needs

A platform could support any number of functions, including:

Stock management and allocation: Can avoid redundant stock entry tasks among participants. Stock originally entered through ERP systems at the FMCG level can be leveraged and simply reassigned along the chain until the final point of sale. Holistic and real-time view of stock throughout the chain can better anticipate outages and where opportunities may exist to expand.

Organization and resource management: Unorganized retail in emerging markets is highly fragmented and does not follow a uniform structure. Platforms can provide an overlay of transparency upon existing relationships and roles that can be readily modified as market dynamics dictate. Traditional systems maintain typically rigid hierarchies that current practices do not neatly adhere to.

Market tracking and planning support: Using data coming in for orders across multiple tiers of the supply chain, participants have the necessary basis to support growth planning. Unlike an ERP system that has no visibility of last mile, these platforms can embrace data from a broader set of actors in the chain and provide field visibility unlike solutions centered on one actor and their operations.

Facilitate payments: When integrated with payment functionality, delays in payments can be largely mitigated, notably when FSPs also participate to introduce SCF. FSPs can also play a broker role as escrow agent through a platform where both parties are made aware of the existence of stock and availability of funds without releasing funds until stock has been received and inspected.

Simplified and multiple interfaces: As a platform serving the needs of multiple stakeholders, platforms are designed to accommodate multiple interfaces and needs, more so than solutions designed for a specific stakeholder. This also affords an opportunity to craft interfaces unique to the needs and understanding of underserved merchants and suppliers.

Logistics management: Combined with GPS capabilities and mobile devices, distributors can use platform analytics to map out optimal delivery routes. Devices assigned to drivers can track truck progress and ensure instructions are followed correctly.

Sales management: Targets and incentives can be designed as high up as the FMCG to influence the behavior of small merchants on the opposite end of the chain when both are engaged on the same platform.

Finance management: Connecting payment triggers to the interlocking steps of a fully managed supply chain affords efficient management of invoices and avoids risks of non-verified invoices as either receivables or payables.

Data analytics: By hosting all of these functions and supporting data, platforms are suited to performing a variety of analytic tasks, either built in or by interfacing with analytic software packages.

Platform models offer both operational and financial benefits for all actors

	FMCG	Supplier	Small Merchant	FSP
Operational benefits	• Improved supply chain stability, liquidity, financial performance, risk management, and balance between assets and liabilities • Improved visibility to inventory level of merchants and end-customer demands for products • Method to drive and monitor new product offerings • Performance management (track and reward high performing suppliers)	• Aggregated real-time understanding of demand • Logistical improvements of plotting demand and delivery • Greater market presence to command better terms with FMCG • Increase product turnover and expand product portfolio	• Extended payment terms • Improved stability of supply chain • Reduced stock-outs • Cost and time-efficient stock management system (e.g. demand-driven rather than cash-flow driven) • Increased reliability in eyes of customer	• Credit exposure with lower risk profile due to the supply chain-related nature of the financed transaction • Entry mechanism to expand financial product portfolio to merchants • Create core market presence to better reach consumers
Financial benefits	• Reduce losses • Reduce accounts in arrears • Increase sales/ turnover	• Reduce cash collection costs • Avoid stock-outs, increasing turnover • Reduce accounts in arrears • Increased sales/turnover	• Platform transparency enables lower cost SCF • Formal digital record of sales for credit scoring • Coordinated tracking of demand reduces stock-out risk • Increased sales/turnover	• Acquire data to provide SCF to new merchant customers in a scalable fashion • Data can be used to identify underserved merchant needs, providing opportunities to develop and cross-sell products

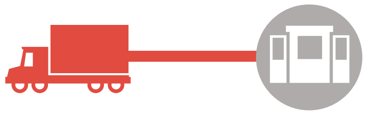
All actors must play a coordinated role to execute SCF effectively using a platform– in sales, activation, services, and maintenance

While many tasks could be performed by more than one actor, the table below shows the most likely scenario.

	Sales	Activation	Services	Maintenance
FMCG	• Provides market guidance, branding and incentive structures	• Influences supplier adoption • May bankroll merchant acquisition	• Provide transparency into its receivables portfolio for underwriting	• Demand forecasting • Maintain inventory, order and shipping info
Supplier	• Sells to and enforces guidelines with merchant • Screens information for bank • Collects aggregated inventory requirements from FMCG	• Introduce FSP to merchants (for KYC activation) • Merchant mapping (potentially with third party or FSP)	• Deliver goods • Manage and optimize logistics	• Maintain inventory, order and shipping info
Small Merchant	• Record sales transactions	• Provide KYC identification and open account	• Signs invoice from supplier to confirm receipt • Pays SCF platform full amount of invoice per credit terms	• Uses order entry system of SCF platform or orders direct from supplier
FSP	• Enters into agreement with FMCG to provide SCF • Assist in sale of the product to merchant • Supports incentives for merchants to accept SCF	• Supplier account activation • Merchant KYC and activation	• Credit analytics • Conducts underwriting of FMCG's receivables portfolio • Offer order discounts based on analytics	• Maintain accounts • May process payments if this function is not done by the platform • Pay invoice to supplier • Collections

Platforms can be brought to market by various actors

Depending on which actor brings the platform to market, the characteristics of the model will differ.

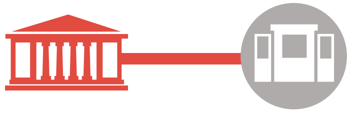


Supplier led

In this model, the supplier controls access to the platform and handles merchant onboarding.

Key steps to getting started:

- The supplier incentivizes merchants with priority stock and delivery, potential for goods discount, advance purchase, and use of mobile app for purchasing goods.
- This aggregation of merchants attracts FMCGs and created better credit terms.
- Suppliers collaborate with FSP to create accounts or act as a possible escrow agent. They leverage the FSP partner to underwrite SCF, extend credit and potentially undertake collection risk and reward.



FSP led

In an FSP led model, the FSP can build a platform through which they offer SCF to supply chain actors. The FSP uses the platform as part of their value proposition, promising access to SCF and the potential for an expanded set of financial services.

Key steps to getting started:

- FSP engages field staff to sign up merchants or enrolls merchants as agents in branchless network. May engage small suppliers to pursue merchant enrollment with the promise of SCF.
- FSPs can engage suppliers by selectively taking on debt owed to suppliers from merchants in exchange for access to merchant information and supplier participation in the platform
- The FSP banks supplier's merchants, offering enrollment in platform in exchange for potential credit provisioning

Third party/ FinTech led

Independent platform maps merchants and suppliers, offers functions for integrating supplier or FMCG stock data streams and payment services.

An alternate model is an e-commerce platform serving as the supplier, whereby merchants are enrolled to distribute to end-consumer. Platform can undertake the financing role or outsource to an FSP.

Key steps to getting started:

- Fintech underwrites the mapping of merchants and suppliers
- Fintech integrates with supplier inventory systems
- Fintech charges suppliers a fee to open merchant access to supplier goods in inventory ordering menu, and charges fee to participating FSPs to access data to acquire and serve merchants.

FMCG Company led

FMCG seeks to proactively address stock management and payment challenges down to last mile as means to drive volume growth, better market awareness, and reduce costs that it ultimately bears with cash management, stock reliability and ultimately improved turnover.

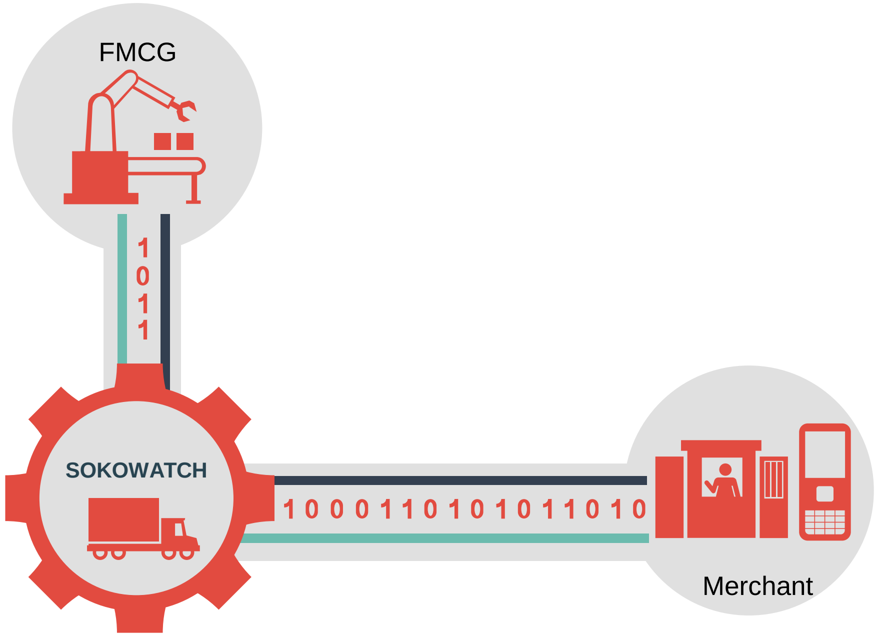
Key steps to getting started:

- FMCG initiates its own effort to enroll merchants. May engage merchants by offering premium or select brands as a loyalty maneuver.
- Merchants order goods digitally and settle accounts via digital channels direct with the FMCG.
- The FMCG instructs supplier where to distribute goods and pays supplier for distribution. The FMCG may override the distributor in payment collection through digital means.

Supplier-led Platform Model

Sokowatch aims to provide informal retailers with the power of e-commerce in Kenya and Tanzania. The company has recently added a credit component to their mobile-based ordering tool for merchants. By leveraging historic purchasing data Sokowatch evaluates retailers to provide them with access to credit.[5]

1. Sokowatch partners with Unilever, Proctor and Gamble, METL Group, and various other FMCGs.
2. Sokowatch receives goods on credit from FMCG companies. They are providing the working capital for Sokowatch’s ‘pay later’ product as the repayment period they offer the merchant is shorter than the credit terms Sokowatch receives from the FMCG.
3. Merchants order goods using their mobile phones and receive same day delivery of goods to their stores.
4. Merchants typically pay Sokowatch drivers in cash at a date later than when the goods arrive, and drivers deposit collections with banking agents in the areas where they work.



Supplier-led platforms have advantages and limitations that influence solution design and go-to-market strategy

Advantages

- Suppliers have a captive audience of merchants for early adoption
- Suppliers have direct benefits to making ordering easier for merchants
- Suppliers can build merchant base and knowledge to attract FSP

Limitations

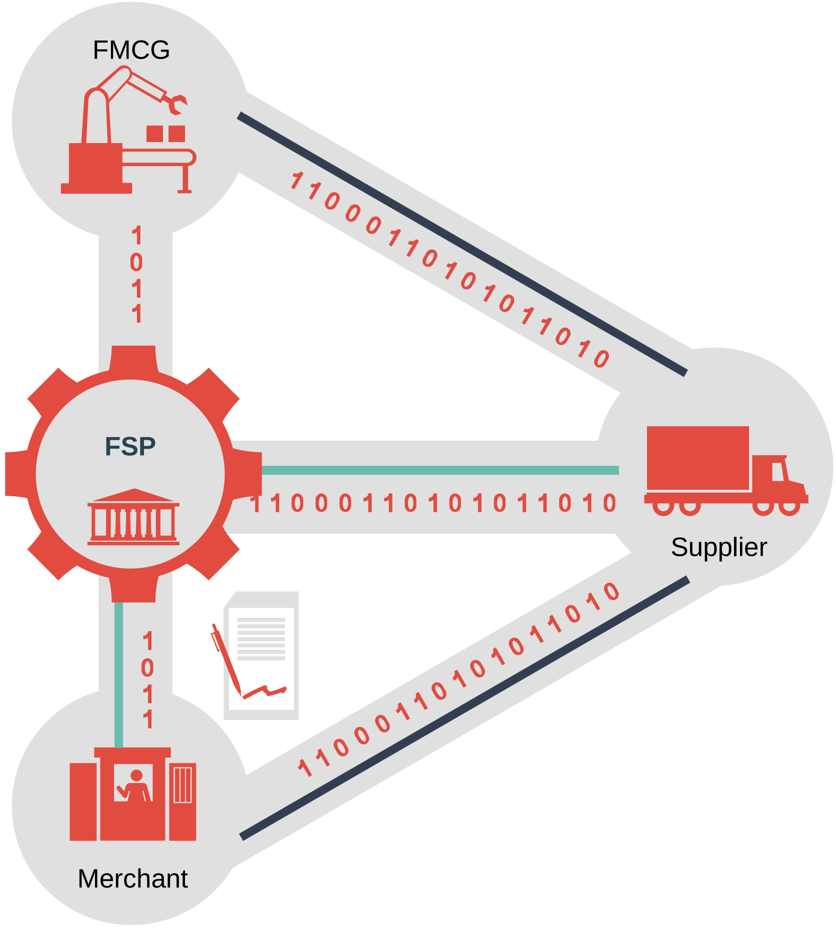
- Unlikely to include other suppliers, limiting market growth
- SCF data from goods supplied by one supplier may be insufficient for credit scoring, if not representative of merchant sales
- Need to engage an FSP to leverage data and provide financing
- Merchant default risk if taking collection responsibility

[5] BFA Global. (2018, October). *The Sweet Spot: Designing Credit Solutions for Small Merchants.*https://bfaglobal.com/fibr/insights/case-study-designing-credit-solutions-for-small-merchants/

FSP-Led Platform Model

Since FSPs are only indirectly linked in supply chains, they are positioned to play the impartial role needed to aggregate competing FMCGs, suppliers and merchants. There are no well-known FSP-led models in the market, Accion sees this gap as an opportunity for FSPs to be a first mover in the space.

1. FSPs form relationships with FMCGs and their designated suppliers
2. Sales agreements are signed between the small merchants and their suppliers
3. Goods order and management information is supported by the FSP sponsored platform. This platform also integrates the FMCG ERP systems to ease operations further downstream and provides FSPs with needed visibility to stock and orders.
4. Supplier inputs orders into the FSP's SCF platform
5. Sales agreements between the supplier and small merchants are used by the FSP as assurances to provide upfront capital to expedite the flow of goods and services
6. FMCGs and designated suppliers have access to the FSP-led platform and can assess demand as orders are entered
7. FSP provides credit for the cost of goods to the supplier (either directly or indirectly via loan against secured stock to merchant)
8. Supplier delivers goods to the merchant
9. After the sale of goods small merchants repay funds to the FSP



FSPs leading platforms have advantages and limitations that influence solution design and go-to-market strategy

Advantages

- FSP can engage with multiple suppliers, opening platform to greater inventory to appeal to merchants
- FSP already acts as source of financing and management
- FSP already has operations in place for merchant acquisition and collections
- May have a portfolio of merchant and supplier clients to leverage as early adopters

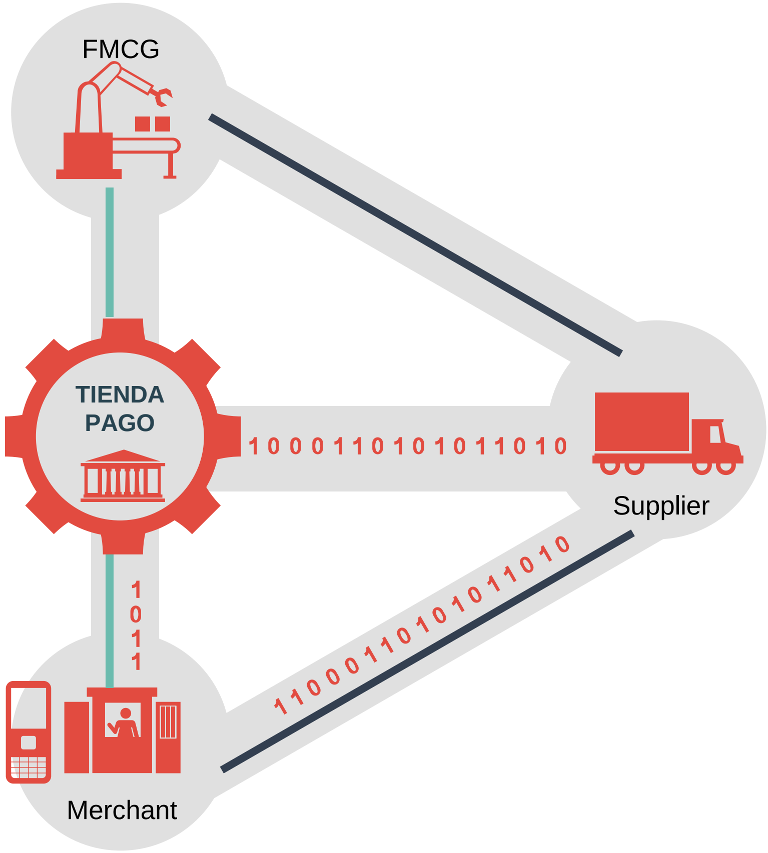
Limitations

- May lack infrastructure for collections
- Likely need to partner with 3rd party fintech with specialization in inventory and invoice management or license software to operate
- Need to leverage supplier or FMCG to drive orders that require financing
- Unlikely that other FSPs will collaborate; the platform will not be interoperable
- All actors in the supply chain will need to open bank accounts/wallets at the FSP that leads the platform
- Will not have influence over other actors in the supply chain
- Platform management not core to operations

Fintech-Led Platform Model

Tienda Pago provides short term working capital to small stores in Peru and Mexico to finance inventory from distributors. The company helps solve the cash flow problem many MSME business owners face by offering them a line of credit and directly paying distributors of fast moving consumer goods (FMCGs). Tienda Pago has developed a closed loop payment mechanism which uses mobile phones and enables distribution companies to collect electronically, thereby reducing inefficiencies and cost. This solution enables store owners to grow their inventory, increase revenue, and build a credit history.

1. Supplier takes the merchant orders
2. Distributors are able to vet the merchant's client performance. Tienda Pago also evaluates the credit worthiness of merchants using prior inventory delivery information
3. Supplier delivers goods
4. Tienda Pago prepares funds and wires money to FMCG office
5. Merchants experience higher sales due to greater access to inventory
6. Merchant pays credit back to Tienda Pago after one week
7. Over time the merchant will develop a formal credit history



Fintechs or third party providers leading platforms have advantages and limitations that influence solution design and go-to-market strategy

Advantages

- Opportunity to undertake collections task that incumbent actors are eager to pass on
- Potential to act more independently from any specific actor, opening door to attracting greater platform participation

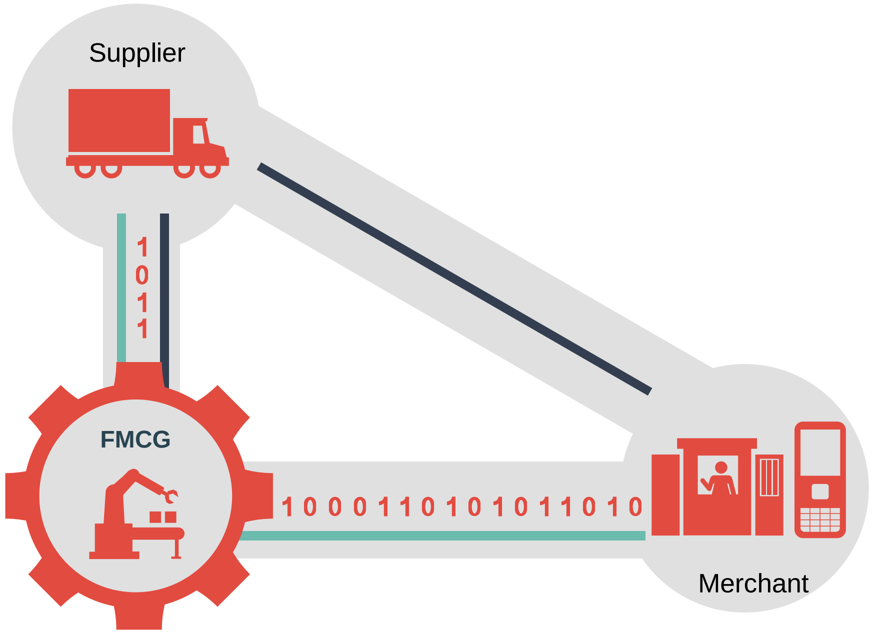
Limitations

- May first need to build physical presence or leverage the on-the-ground presence of suppliers
- SCF data from goods supplied by one supplier may be insufficient for credit scoring, if not representative of merchant sales
- No existing merchant or supplier relationships
- Difficult to source wholesale funding for on-lending, potentially requiring strong FMCG relationship
- Difficult to assess merchant risk without support of suppliers or FSP
- Difficult to ensure continued usage of product

FMCG-Led Platform Model

FMCGs actively seek to address stock management and payment challenges throughout the supply chain as a means to drive volume growth and better market awareness. Many FMCGs seek to reduce the use of cash and enable more digital payments to improve efficiency, increase revenue, enable greater transparency and security, and to build stronger business relationships. There are no well-known FMCG-led models in the market; Accion sees this gap as an opportunity for FMCGs to be a first mover in the space.

1. FMCG enrolls merchants, either through supplier relationships or by offering premium or select brands
2. Merchant submits orders via app directly to the FMCG
3. FMCG conveys instructions to designated suppliers to deliver goods and pays the supplier for the distribution
4. FMCGs provide goods on credit to merchant from their own balance sheet
5. Merchants repay the FMCG through digital means
6. The FMCG increases sales by enabling access to formal credit for retailers, and is able to access merchant and end customer data to refine product promotions and offers
7. This data enables stronger business relationships for actors throughout the supply chain, including suppliers, consumers, and governments. This helps FMCGs increase their visibility and brand value and develop more resilient networks



FMCGs leading platforms have advantages and limitations that influence solution design and go-to-market strategy

Advantages

- Has leverage over suppliers to adopt a platform model
- Can induce supplier and merchant adoption through specialized product lines

Limitations

- Unlikely to allow competing FMCGs to use the same platform
- Need to engage an FSP to leverage data and provide financing if not providing off own balance sheet
- Merchant default risk if taking collection responsibility

An enabling ecosystem includes supportive regulation

- Short-term, instantly disbursed digital credit is available
- Fair, enabling regulation of digital payment providers to facilitate participation in innovative financial products
- Open data sharing between merchants, suppliers, and financial institutions to a third-party credit scoring and analytics platform is allowed
- Data protection standards are designed and built to safeguard business processes that handle personal data.
- Intermediaries are available to aggregate and process invoice collections on behalf of suppliers
- Formal registration of inventory as collateral is possible, including warehouse receipts and centralized collateral registry
- Simplified, centralized, risk-adjusted KYC requirements for merchants
- The environment supports e-invoicing and e-signature

V. Next Steps

Pursuing a SCF model

Where do I start?

Platform models are only beginning to be tested and introduced to serve the needs of small merchants and their suppliers, so simply ‘plugging into’ an existing platform is unlikely.

In all cases, to start becoming a trusted platform provider, the leading actor needs to begin by assessing the market opportunity, designing a platform to meet that opportunity, and developing an evolutionary strategy to introduce a platform to the market.

STEP 1: Assess and Build Readiness

- Does local regulation support or allow:
  - The sale of receivables?
  - e-invoicing initiative?
  - No local data storage requirement?
- Is local market digitally mature?
  - Smartphone penetration and usage in urban, peri-urban markets?
  - Digital payments network is readily available?
- What is the market opportunity?
- What assets can be leveraged?
- What gaps need to be addressed?

STEP 2: Design and Prove Model

- Define value propositions
- Take stock of key activities and responsibilities
- Model financials and establish success metrics
- Engage key partners
- Test assumptions and a minimum viable product

STEP 3: Establish a Market Presence

- Attract the first participants
- Leverage first participants to gather remaining actors
- Integrate financing

STEP 1: Assess and Build Readiness

Any actor that is considering providing a platform should start by asking the following questions of the other actors with whom they hope to partner. Paying attention to the strategic value that your partners will provide to small merchants will ensure greater adoption of the SCF product.

	What is the market opportunity?	What assets can be leveraged?	What gaps need to be addressed?
FMCGs	• What FMCGs are seeking to expand into the market? • What sectors are experiencing greatest growth and intensified competition? • What goods are of high demand and limited quantity that could attract merchants and suppliers to a new system? • Are FMCGs actively seeking to map merchant markets and track sales?	• Can interested FMCG systems support retail ordering in conjunction with your suppliers? • Are there existing systems and digitized data that can be leveraged/built upon?	• FMCG willing to open channel to ERP systems? • How will FMCG be linked to FSP or third party acquiring the merchants?
Supplier	• Who are the larger influential suppliers? Who is aggressively seeking to build market share? • What supplier and merchant networks exist that can be used as a foundation? • What regions are experiencing growth?	• Relationships with influential suppliers? • Historical supplier records/grading of merchants? • If using separate inventory systems from FMCG, do they allow merchant access or easy integration?	• Systems to track orders, logistics and sales to optimize delivery and reward sales performance
Small Merchants	• Who are the promising early adopters? • What are the current practices and pain points of small merchants and their sources of goods • What are their supply chain management priority pains that if addressed, could unlock data for financing?	• Existing merchant base that would benefit from this platform to serve as early adopters?	• Who will acquire the merchants? • What education will they need? • Who will deal with collections?
FSPs	• Which FSPs are seeking to expand their service networks or seeking to expand merchant services?	• Does the FSP have a digital branchless strategy? • What payment networks can be leveraged? • What collections capabilities are present? • Robust KYC and remote account enrollment? • Mandated e-invoicing hub to leverage?	• FSP trained in SCF? • Are backend systems equipped to support platform integration?

STEP 2: Design and Prove Model

Defining value proposition and primary customer

Based on assessment, what's the logical offer to the market addressing needs and capabilities?

Who will be the primary and secondary customers?

What is the ideal customer journey, and what data can be collected from the customer?

Defining key activities and responsibilities

What are the key activities to be undertaken to accomplish:

- merchant and supplier acquisition
- stock ordering and taking
- platform management
- financing origination
- financing management and collections

Who else needs to get involved and how to engage them?

Modeling the business and engaging partners

How will the solution operate, e.g., acquisition, assessment, provisioning, collections?

What are the dependencies?

Who is whose customer and what channels are used to serve each customer?

What is the financial model to engage all?

Testing assumptions and minimum viable product

Who will be the early adopter?

What assumptions need testing to finalize the solution concept?

How will the solution address the risks discussed previously?

What are your metrics of success?

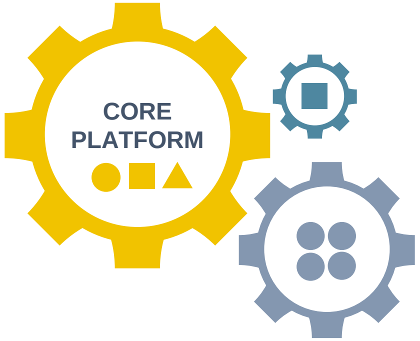
STEP 3: Establish Market Presence

1

Create a core platform serving a minimum viable product to attract initial adopters

2

Use the early adopters to attract other supply chain actors serving or wanting to serve them



3

Expand the product offering to meet the further needs of the actors attracted to serve the initial adopters

4

When a platform hits a critical mass of actors and generates positive feedback, it will drive greater adoption.

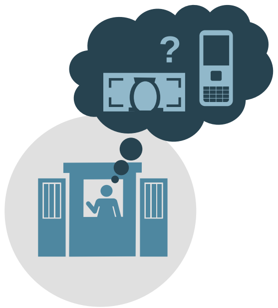
Successful implementation requires incentivizing merchants to take part, this means building a relationship of trust and demonstrating value

Not all merchants want credit, in fact, a recent pilot conducted with Sokowatch found that roughly 50% of eligible merchants declined the credit being offered.[5] **An SCF solution is best targeted at merchants who are looking to stabilize or grow their business**. Those merchants value the timely access to credit and inputs that SCF can provide, and the business advice and additional services that can be tailored to them based on the data generated.

Illustration: Providing data-driven value added services to merchants

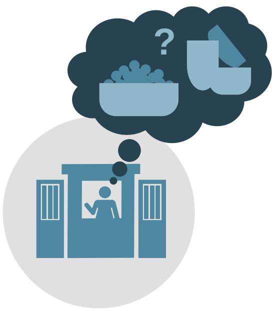
[5] BFA Global. (2018, October). *The Sweet Spot: Designing Credit Solutions for Small Merchants.* https://bfaglobal.com/fibr/insights/case-study-designing-credit-solutions-for-small-merchants/

Successful implementation also requires mitigating key challenges in providing SCF solutions for merchants



Many solutions assume that merchants must go fully digital, including use of inventory management and ordering system, formal bank account, or mobile money to receive loans and pay installments. Yet some merchants may not have or regularly use a formal bank account, or still prefer cash due to familiarity, concerns around data privacy or tax avoidance. How can we build merchants trust and willingness to use digital systems?

Solution At a minimum to start to build traction, a merchant needs to sign the invoice from supplier to digitally confirm receipt of goods – use of digital inventory management systems etc. can be phased in gradually. An appropriate tech and touch strategy must be developed in line with the digital maturity of the target merchants, focusing on early adopters first to drive peer learning and network effects.



Chicken/egg syndrome, will there be enough stock items available to steer merchants into participation and active usage? Will merchants still seek suppliers opportunistically, reducing data captured from participating suppliers and therefore platform utility?

Solution Work with suppliers of high demand goods that are hard to substitute (e.g. top brands). Or offer ‘buyers club’ or other loyalty rewards.

Assessing and overcoming risks related to each actor is also critical

FMCG related risks

- Will FMCG engage if competitors are given platform access?
- Could FMCG replicate platform data to derive its own siloed model with dedicated financing (limiting FSP insight into broader merchant activity)?

Supplier related risks

- Will suppliers be motivated by predictability of demand and ability to acquire greater supply to expand distribution operations?
- Do designated suppliers have enough leverage to induce lower tier suppliers to participate?
- If suppliers are disintermediated, fail to join, or disengage with the platform, will FMCGs support platform directly?
- Will suppliers be able to serve growth in demand?

FSP related risks

- Will data derived be sufficient for FSPs to assess risk, especially if only a fraction of merchant goods are supplied through the platform channel?
- Will the desire for platform participation motivate greater repayment?
- How can FSPs prevent merchant abandonment due to accounts in arrears?
- Will competing suppliers cherry pick credit-worthy merchants, leaving only riskier merchants as finance candidates?
- How to verify whether parties are seeking duplicate or additional financing beyond platform?
- Will FSPs engage if competitors are given platform access?

Systemic risks

- Will parties support costs of platform maintenance or fees of outside party that hosts platform?
- Who will be responsible for collections?

One common denominator of the different actor-led approaches is that the actor leading a model will be disinclined to include competitors.

Nevertheless, there are benefits for competitors to cooperate in a platform by aggregating demand that may be too disbursed and costly for any one actor to undertake themselves (notably FMCGs and suppliers).

Fintech-led models, which act more independently of the supply chain participants are best better suited to bring more participants together and encourage interoperability.

However in the meantime, FSPs and FMCGs should explore avenues to offer SCF.

FSPs can begin offering SCF in the absence of a platform

FSPs should begin by exploring avenues to offer SCF, even in a narrow role if a platform has not emerged yet. Doing so will strengthen internal knowledge and initial relationships for a successful SCF practice that can later be parlayed into future platform possibilities.

Customer Acquisition

- Fill a need in invoice management (digitized invoicing for account holders)
- Survey customer base to understand and target key supplier-merchant relationships, using account data to begin with existing customers
- Build relationships with influential supply chain actors – take on debt owed to suppliers from merchants in exchange of knowledge of the distribution network

Approval and Analytics

- Begin modeling risk assessment using sample of existing customers; use model to archetype target customers
- Leverage relationships developed with influential supply chain actors to vet initial financing candidates; use data to further model archetype of target customer
- Ease initial origination costs with only one or two products

Disbursement, Repayment, Collections

- Consider what payment network options are available for capturing repayments
- Assess value to suppliers of performing collections and escrow services on their behalf
- If maintaining or planning a branchless network, consider first designing financing products for network merchants supply chain needs and strengthening their capacity prior to a broader consumer focus

Customer Engagement

- As initial product offers produce data to improve risk models, expand financing options into larger funds or potentially a revolving payables line for suppliers
- Leverage relational knowledge and initial financing results to extend financing to merchants through credit to suppliers
- Use knowledge gathered about merchants to expand product offering for them to include working capital or potentially term loans

FMCGs can also begin offering supply chain finance in the absence of a platform

Downstream supply chain finance will benefit FMCGs as providing access to credit to small merchants will ultimately enable them to buy a larger volume of goods per order than they would have otherwise. In order to enable this, FMCGs can begin exploring avenues to enable supply chain finance on a project basis with merchants and FSPs, with a view to evolve the service into a platform model.

Customer Understanding

- Survey customer base to understand and target key supplier-merchant relationships, using account data to begin with existing customers
- Implement a mandatory inventory management system that is flexible enough to enable delivery drivers and other last mile service providers to record sales and delivery transactions

Partner with FSP for Credit Product

- Partner with an FSP that can build a risk model based on delivery dockets or invoices using sample of existing customers; use model to archetype target customers
- Develop terms and conditions that protect the supply chain actors interests as well as the FSP
- Link inventory management system with the FSP platform
- Ease initial origination costs with only one or two products

Disbursement, Repayment, Collections

- Consider what payment network options are available for capturing repayments
- Work with FSP to ensure the disbursement of funds is digital and remote.
- Ensure repayment services offered by the FSP are within easy reach of the customer (agent, mobile payment, other)
- Ensure collection process for late payers are proportional and not onerous

Customer Engagement

- As initial product offers produce data at the FSP to improve risk models, expand financing options into larger funds or potentially a revolving payables line for suppliers
- Leverage relational knowledge and initial results to extend financing to merchants through credit to suppliers
- Use knowledge gathered about merchants to expand product offering for them to include working capital or potentially term loans

Looking Ahead

Considering how many different ways a platform-model could scale or fail, how quickly contributing and competing technologies arise, the unforeseen ways that those technologies interact with one another, and broader changes to regulations and economies, predicting what’s next for supply chain finance is a difficult challenge.

We are confident though that supply chain finance can be an effective tool to close the credit gap faced by small merchants. It can help many FSPs create a lower risk entry into relationships with small merchants to extend high-quality financial services. This will enable greater sales growth, transparency, and efficiency throughout the supply chain, providing value to all parties. With nearly 141 million microenterprises in developing countries, digitized supply chain finance represents a scalable solution to drive inclusive growth.

Thank you

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with a pioneering legacy in microfinance and fintech impact investing.
We catalyze financial service providers to deliver high-quality, affordable solutions at scale
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