Platform-Enabled Alternative Supply-Chain Finance:

The Case for Factoring and Reverse Factoring

Stears

fiducia

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Abbreviations and Acronyms

AfDB	African Development Bank
Afreximbank	African Export- Import Bank
BOI	Bank of Industry
BVN	Bank Verification Number
CBN	Central Bank of Nigeria
DBN	Development Bank of Nigeria
DFIs	Development Financial Institutions
FCI	Factors Chain International
FI	Financial Institutions
Fintechs	Financial Technology Company
GSI	Global Standing Instruction
IFRS	International Financial Reporting Standards
IASB	International Accounting Standards Board
IFC	International Financial Corporation
ILO	International Labour Organisations
LDR	Loan to Deposit Ratio
MEs	Medium Enterprises
MFBs	Micro Finance Banks
MSMEs	Micro, Small and Medium Enterprises
NAFIN	Nacional Financiera
NBFC	Non-Bank Financial Companies
NBS	National Bureau of Statistics
RBI	Reserve Bank of India
ROSCAS	Rotating Savings and Credit Associations
SARFESI	Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest
SCF	Supply Chain Financing
SMEDAN	Small and Medium Enterprise Development Agency
SMEs	Small and Medium Enterprises
SSA	Sub Saharan Africa
TReDs	Trade Receivables e-Discounting System
UNDP	United Nations Development Programme

Executive Summary

Access to finance is a crucial driver of economic growth, empowering individuals and businesses to invest, expand, and fuel economic activities. Micro Small and Medium Enterprises (MSMEs) play a pivotal role in global economies, constituting about 90% of businesses and more than 50% of employment worldwide; formal MSMEs contribute to 40% of GDP in emerging economies. However, MSMEs face challenges in accessing the financing they need, resulting in a substantial finance gap of $5.2 trillion in developing economies, according to the International Finance Corporation (IFC).

In Nigeria, nearly 40 million MSMEs account for 62 million jobs and approximately 46% of the nation's GDP. Despite their economic impact, MSMEs encounter difficulties in accessing credit, with an unmet finance gap of over $158 billion, nearly half of the Sub-Saharan region's total. Stringent requirements, limited collateral, high-interest rates, and macroeconomic regulations hinder their access to finance.

To bridge the supply chain funding gap, disruptive financing options have emerged, driven by technology and offering benefits such as eliminating credit barriers and leveraging alternative data to expand MSME access to finance. Platform-enabled factoring and reverse factoring offer a lifeline here, providing efficient methods of managing accounts receivables and payables, ensuring financial stability and enabling businesses to focus on service delivery. These solutions foster seamless and low-cost transactions, strengthening relationships in the supply chain finance ecosystem.

Although challenges remain, the evolution of these newer supply chain finance models and enhanced collaboration among stakeholders and enablers like platform-providers and regulators offer the potential for growth and impact. Through risk mitigation and increased access to financing, MSMEs can play a more significant role in Nigeria's dynamic business landscape and contribute further to economic growth and development.

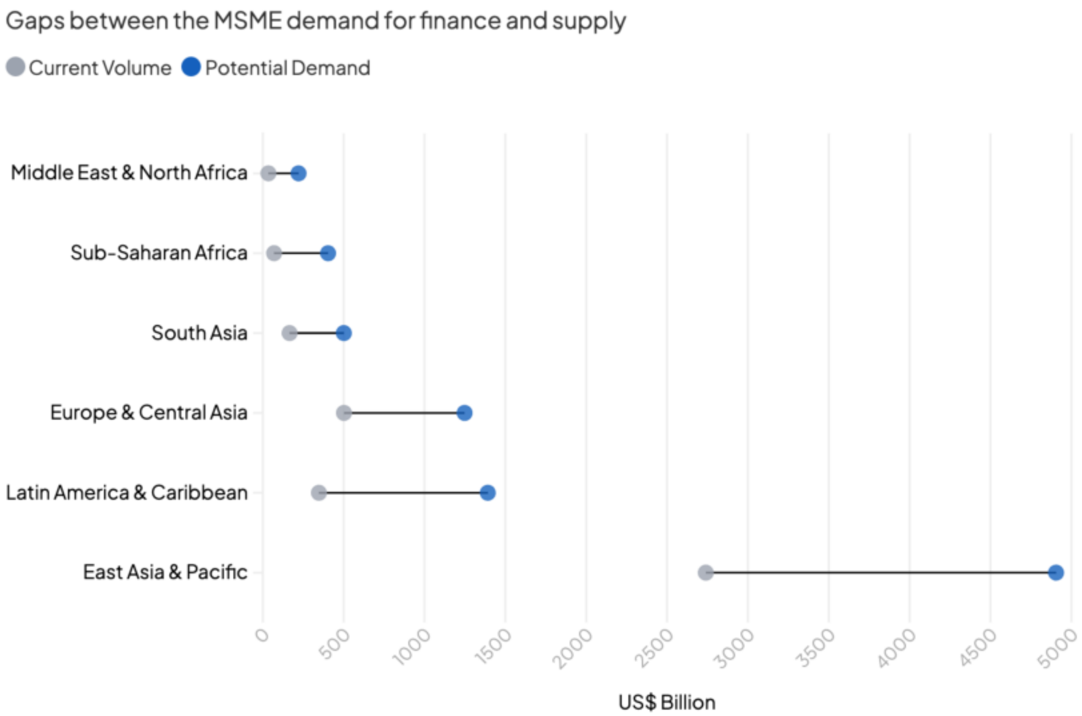
Introduction

Understanding the challenge of access to finance for Nigerian businesses

Access to credit is a widely studied and popular topic in economic and financial discourse globally. It is a significant driver of economic growth and enables individuals and businesses to purchase goods and services, make financial investments, pursue entrepreneurial ventures and expand operations. These activities stimulate demand, fueling economic activities. More so access to credit is instrumental in supporting and fostering the growth of smaller businesses whose activities are integral drivers of a country's economic growth and development.

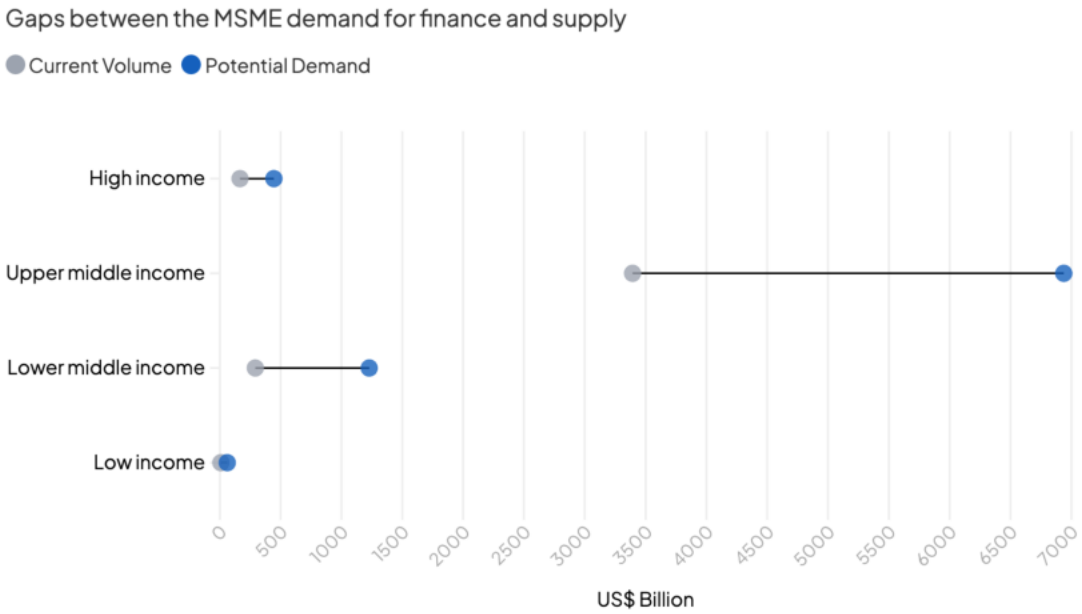
Micro Small and Medium Enterprises (MSMEs) constitute about 90% of businesses and more than 50% of employment worldwide[1]; formal MSMEs contribute to 40% of GDP in emerging economies. Even in more advanced economies, MSMEs are significant employers, with businesses employing fewer than 50 individuals contributing 66% of total employment in G20 economies[2]. Despite their significance to the global economy, MSMEs globally face significant challenges in accessing the financing that they need, constraining their survival and growth prospects. According to the International Finance Corporation, the finance gap in developing economies is $5.2 trillion[3].

Figure 1a - Finance Gap by Region



Source: IFC, SME Finance Forum

Figure 1b -Finance Gap by Income Group



Source: IFC, SME Finance Forum

The case is no different in Nigeria, where credit is instrumental in supporting and fostering the growth of businesses. First, MSMEs are a mainstay of Nigeria's macro and microeconomic activities. They play a pivotal role contributing to employment, innovation and all-round economic growth and development. The Small and Medium Enterprises Development Agency (SMEDAN) further breaks down MSMEs to include Nano enterprises[4]. They define these businesses by two factors - employment and turnover[5]. The SMEDAN states that Nano and micro enterprises make up the informal sector while small and medium enterprises constitute the formal sector.

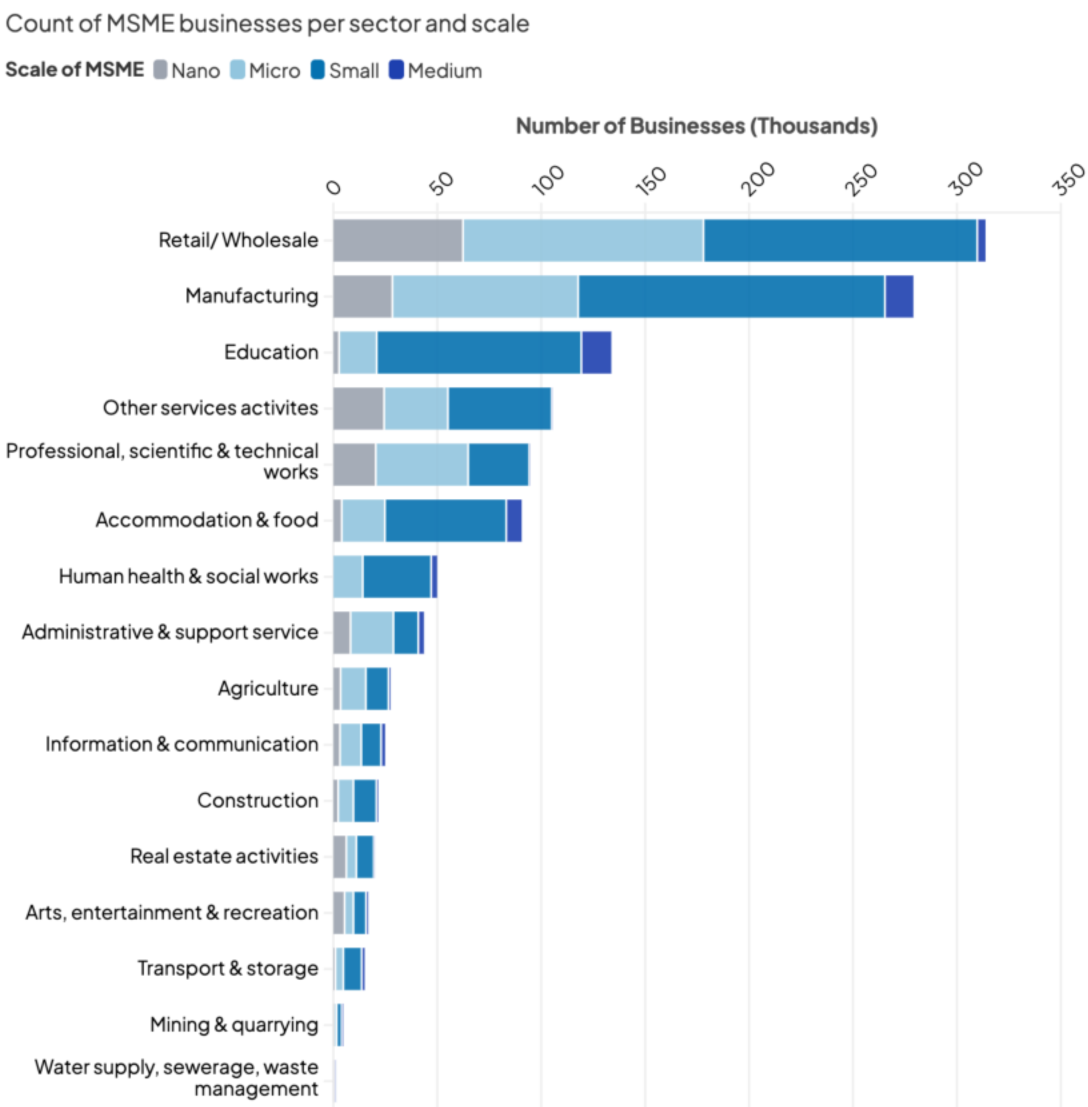
Table 1 - Definition of MSMEs

	Size category	Employment	Turnover (NGN)
1	Nano/Homestead Enterprises	1-2 persons	Less than 3 Million
2	Micro enterprises	3-9 persons	3 < 25 Million
3	Small enterprises	10 - 49 persons	25 < 100 Million
4	Medium enterprises	50 - 199 persons	100 Million < 1 Billion

Source: SMEDAN NBS 2021 MSME Survey Report

In Nigeria, there are nearly 40 million MSMEs accounting for 62 million jobs, 6.2% of gross exports and about 46% of the nation's GDP[6]. These statistics highlight the significant economic impact of MSMEs in Nigeria and underscore the importance of facilitating access to credit for their sustained growth and contribution to the country's economic prosperity. They dominate Nigeria's economy across most sectors particularly in the wholesale/ retail trade, manufacturing, education and other service sectors[7]. Despite the number of businesses across the economy and their importance, they face various growth challenges detrimental to their survival and growth. Some of these challenges include a lack of an enabling environment in the country, exogenous shocks to the economy such as the COVID-19 pandemic and access to timely and adequate financing. According to the 2021 SMEDAN and NBS MSME survey, most businesses reported that high taxes and increasing electricity tariffs are government policies negatively affecting their operations. Also, most MSMEs reported being temporarily closed during the pandemic citing an increase in the cost of transportation as the second most significant negative impact of COVID-19 after a restriction on freedom of movement. According to the same survey, most micro enterprises (MEs), 56.8%, reported that personal savings was the most common source of capital for most enterprises.

Figure 2 - Sectoral Distribution of Nigerian MSMEs

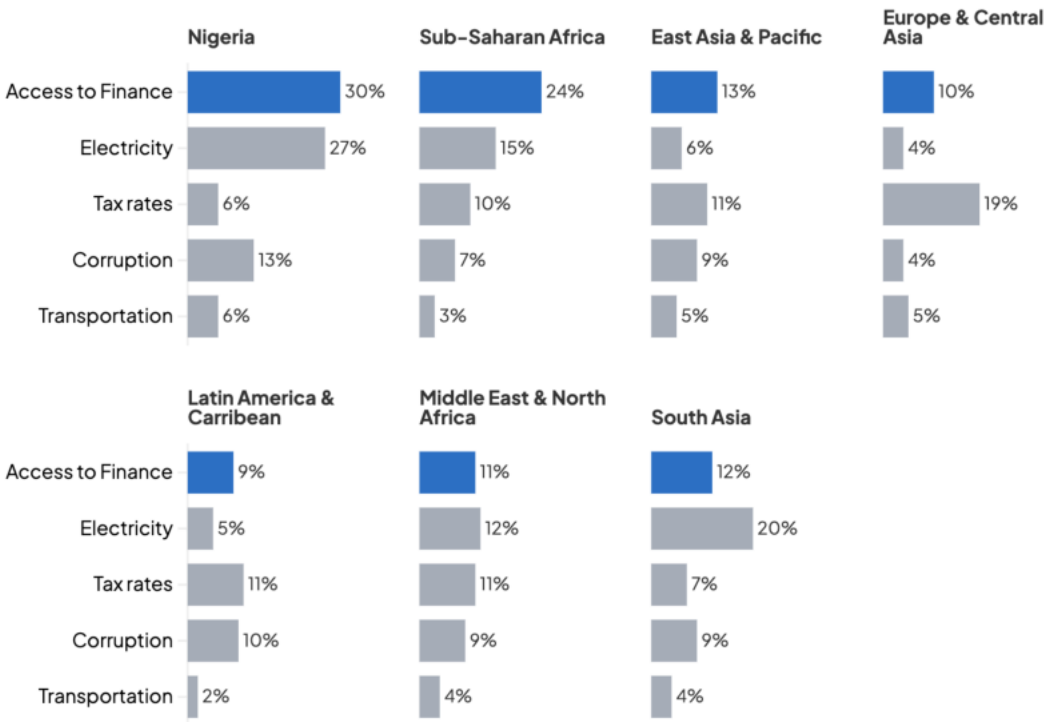


Source: SMEDAN, NBS[8]

This trend was similarly observed in Small and Medium Enterprises (SMEs) where 59% of owners reported personal savings as a source of capital and 15.4% cited loans as a source of capital. The 2020 EFInA survey reported that 32% of Nigerians saved or had a savings product at a regulated financial institution. While there is some traction in the use of personal savings products at financial institutions, there is still a low access to credit to businesses from formal financial institutions.

The most pressing challenge is undoubtedly access to financing which has significant consequences. Access to credit empowers Nigerian businesses to meet customer demands, enhance their capacity, adopt new technologies, drive innovation, boost productivity, and increase output. With an unmet MSME finance gap of over $158 billion which is nearly half of the MSME finance gap in the Sub-Saharan region[9], accessing finance is more difficult for Nigerian businesses than their counterparts in other regions and is detrimental to their empowerment[10].

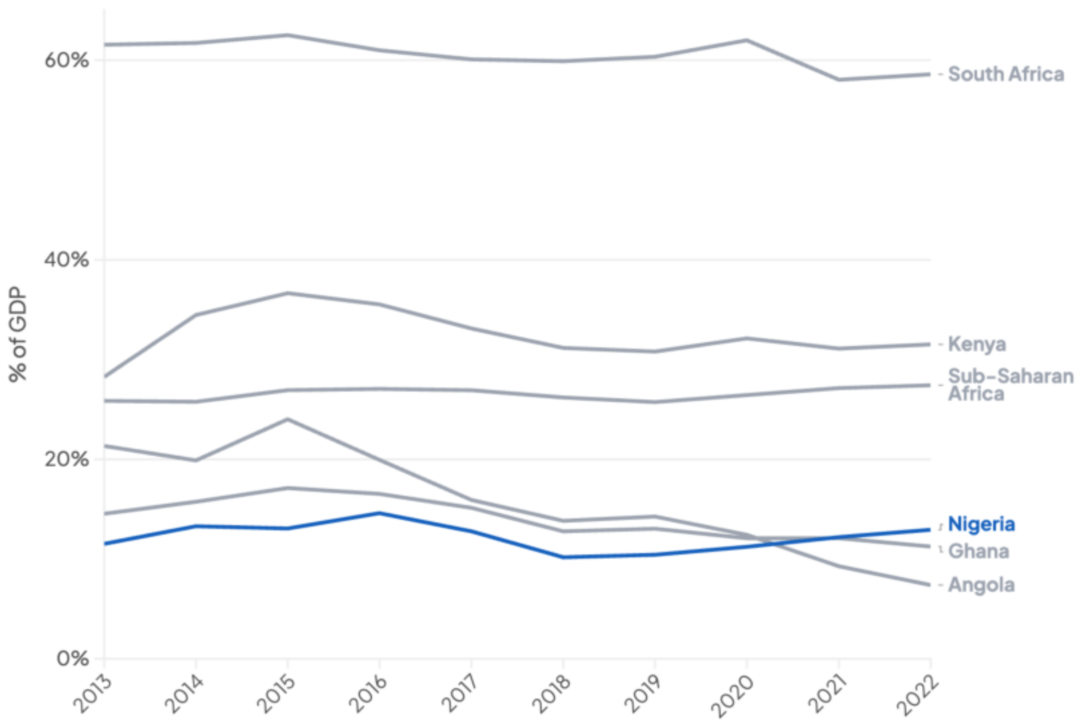
Figure 3 - Biggest Challenges to Businesses Globally



Source: EFInA [11]

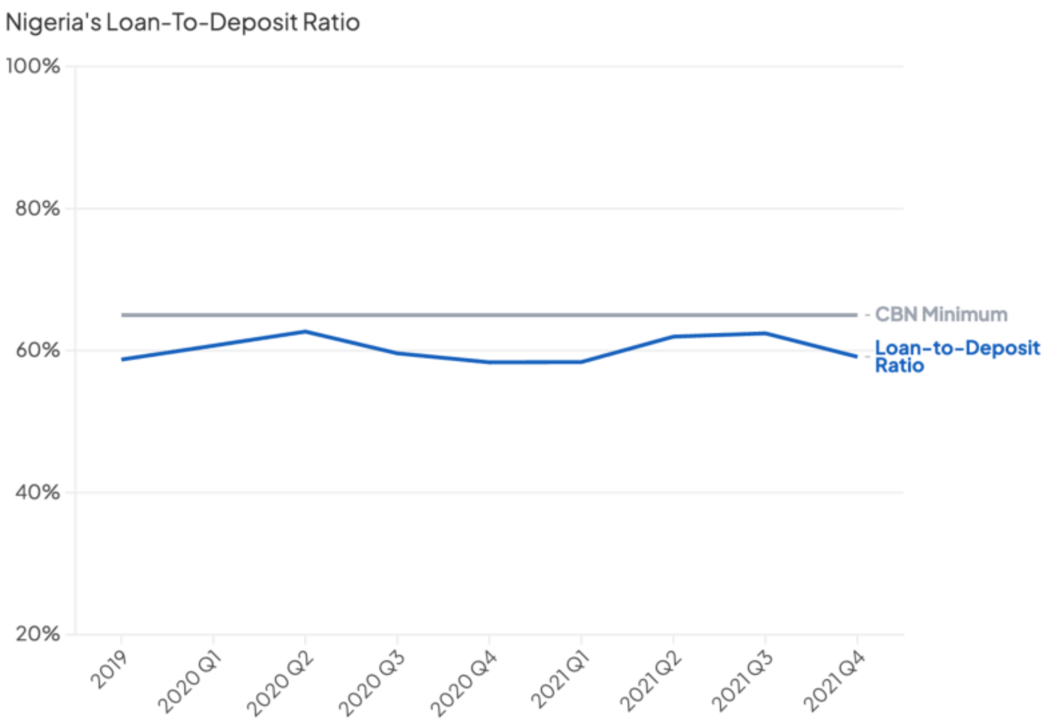
The foremost providers of business financing are usually traditional financial institutions such as commercial banks and microfinance banks. However, trends show that they have yet to meet the credit needs of these enterprises. Nigeria's credit to the private sector remains weak and ranking among the lowest in Sub-Saharan Africa (SSA)[12], with a credit to the private sector of 18.67%[13] as a percentage of GDP. Of the total credit to the private sector, commercial banks loan significantly less than 1% to small-scale enterprises[14]. Furthermore, Nigeria's Loan to Deposit ratio (LDR) in 2019 was low when compared to its international counterparts such as South Africa (91%), Brazil (70%), India (75%), and Kenya (76%)[15]. As of the fourth quarter of 2021, the LDR was 59.12%[16], which was still lower than the 65% minimum for banks mandated by the CBN to boost lending[17].

Figure 4 - Domestic Credit to the Private Sector by Banks (% of GDP)



Source: World Bank[18]

Figure 5 - Loan to Deposit Ratio (%)

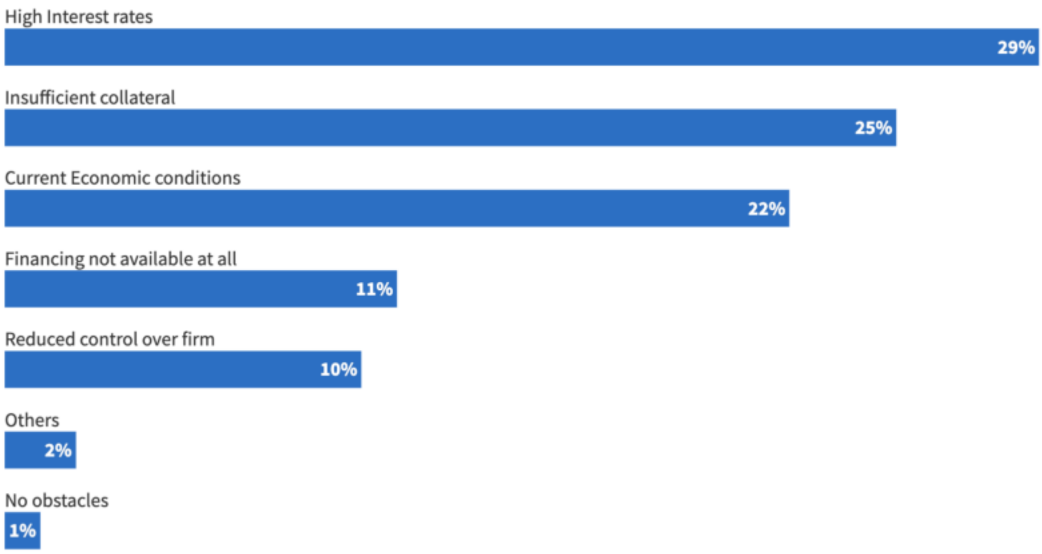


Source: CBN[19]

Furthermore, the 2021 global Findex survey reports that while the share of adults who borrowed from financial institutions in developing countries has increased over the last decade, it is still low on average[20]. According to the same survey, approximately 7% of financially included people in Nigeria borrowed any money from a formal financial institution or used a mobile money account. This trend is also reflective in the business landscape; SMEDAN reports that only 9.5% of MEs and 15.4% SMEs used loans as a source of capital in a survey that revealed personal savings as the most common source of capital among businesses. Overall, banks have the opportunity to capitalise on this trend by developing products that merge the prevalent savings pattern, which serves as the primary source of capital for businesses and the most frequently utilised financial service, with the financing needs of MSMEs. This approach can lead to the creation of innovative solutions that address the challenges of business financing effectively.

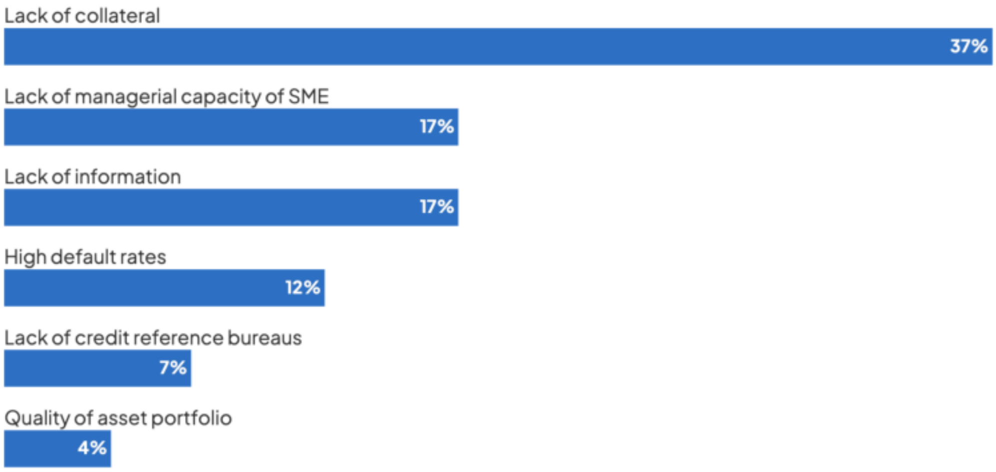
Not only does access to finance remain a primary challenge for MSMEs, factors like affordability and flexibility remain crucial pain points. Despite the availability of financing options, MSMEs face numerous issues that impede continuous access to funding for delivering products and services to customers, mainly as most of these channels are primarily focused on these enterprises' financial capability. These issues span from stringent requirements imposed by formal financial institutions and lenders to macroeconomic regulations. Complex application processes, limited collateral, high-interest rates, poor credit history or lack thereof, and the inherent risks associated with MSMEs due to their size, all contribute to credit access difficulties. Consequently, these challenges further widen the existing funding gaps. On the demand side, businesses often find interest rates discouraging, leading them to forgo bank loans[21]. On the supply side, financial service providers suggest that the lack of collateral is the most common reason for loan denials to businesses[22]. Most Nigerian small businesses are too 'micro' to own assets that can be used as collateral. Usually financial institutions require immovable assets such as land and building as collateral which MSMEs lack but have only moveable assets such as machinery and inventory. Additionally, challenges are exacerbated by our current national identity system. Only around 28% of the Nigerian population is estimated to have a Bank Verification Number (BVN)[23] and roughly half of the population has a National Identification Number (NIN)[24].

Figure 6 - Reasons Businesses Forgo Loans



Source: PwC[25]

Figure 7 - Reasons Businesses Get Denied Loans



Source: EFInA[26]

These factors all add to the complexities and constraints faced by SMEs in accessing the necessary financial resources for their growth and development. As a result, it is critical that Nigerian MSMEs have access to dependable and timely financing choices that provide the much needed funds that allow them to thrive. Personal savings, friends and family are unsustainable and rarely sufficient. Traditional financial institutions may be too costly and their unfavourable credit requirements further financially exclude businesses.

2.0 The Role of MSMEs in the Interdependence of Key Stakeholders in the Supply Chain Ecosystem.

2.1 MSMEs access to finance and the prosperity of the supply chain ecosystem

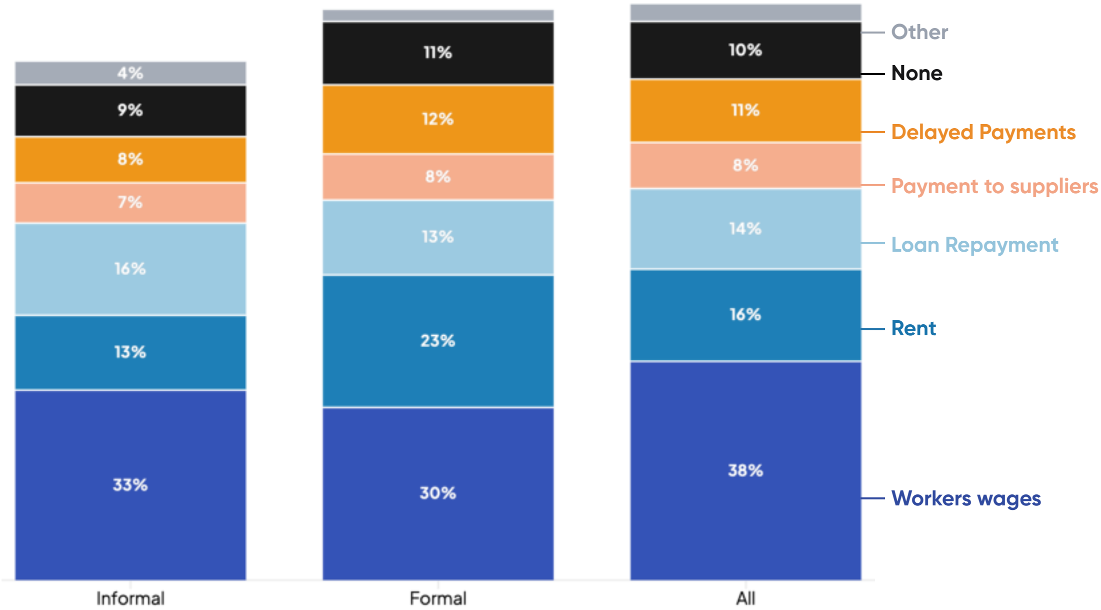
The lack of access to finance is not only detrimental to the survival of MSMEs but it also has dire consequences on other key stakeholders within the supply chain ecosystem. By driving microeconomic activities at different levels of the supply chain ecosystem from production to distribution, MSMEs are key to business activities across all Nigerian sectors and industries. The wholesale/retail trade sector accounted for 38.5% of export value among the Micro Enterprises (MEs) assessed in the 2021 SMEDAN study, while agriculture accounted for 32.1%[27]. Similarly, the wholesale/retail trade sector accounted for 25% of SMEs' export value while the manufacturing sector accounted for 18% of the export value. Without these businesses, supply chains fail to grow on a local, regional and global scale, production and distribution are disrupted, and even the nation's exports can suffer. Their size, flexibility, ability to adapt to changes in demand, adjust capacity and their niche expertise make them best suited to provide supply chain services. Their knowledge and experience with key players in each segment of the supply chain as well as their proximity to them, make MSMEs valuable partners to stakeholders and end users, in most cases, consumers, larger corporations and even financiers looking to invest in these sectors. In the absence of their prosperity, supply chain breakages occur with long term detrimental impacts on export trade. The 2020 global supply chain crisis, although of a multifaceted nature, serves as a reminder of the magnitude of impact possible when there are supply chain disruptions.

Considering Nigeria's dynamic business environment, it is paramount that MSMEs access funding required to address their numerous needs and play their essential role in the supply chain ecosystem. These needs include resource costs, inventory procurement, service delivery, capacity building, technology adoption to boost efficiency, integrating innovation into operational models and overcoming funding gaps. When MSMEs are able to address these needs, it benefits all parties, particularly large corporations and financiers in the supply chain ecosystem. When MSMEs are able to meet their needs, they may better serve their customers including larger corporations more efficiently and provide products and services in a timely manner. Enhanced service delivery and increased innovation boosts competition among MSMEs resulting in a thriving and more dynamic supply chain ecosystem. Moreover, when MSMEs thrive as a result of such cycles, the incidence of non-performing loans may potentially decrease and traditional financial institutions may become more confident in providing loans to MSMEs, further diversifying their portfolios. Additionally the trends in savings indicate that MSMEs and business owners could be the primary customers of formal financial institutions. Thus, banks that provide accessible funding options for businesses could experience direct and indirect benefits from the increased engagement with MSMEs and their owners.

The ability to address these needs not only helps boost regional and global competitiveness, but also protects them from shocks to the economy. The impact of the COVID-19 pandemic serves as a stark reminder of the importance of funding for MSMEs. According to a survey conducted by the United Nations Development Programme (UNDP) and National Bureau of Statistics' (NBS) on the impact of COVID-19 on Nigerian business enterprises, 81% of businesses reported a decrease in revenue, 60% of businesses surveyed reported personal finances as a source of finance during the pandemic, and 38% cited worker's salary and social security payments as the most significant financial challenges they faced during the pandemic[28].

So, without adequate funding, MSMEs will struggle to stay afloat and serve the supply chain economy.

Figure 8 - Most Significant Financial Problem Faced During the COVID-19 Pandemic



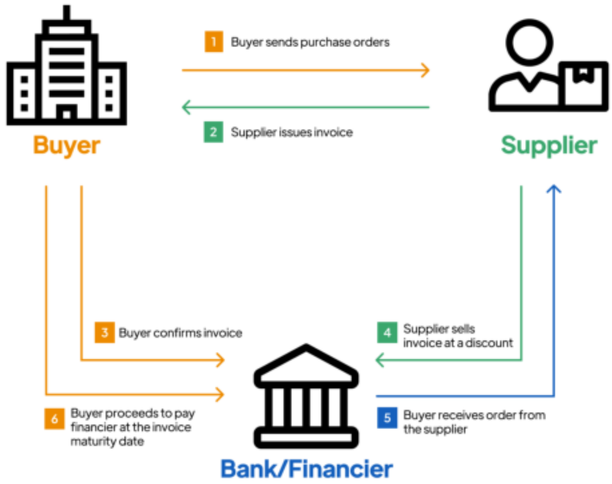
Source: UNDP, NBS[29]

2.2 Supply chain finance in Nigeria

Supply chain finance (SCF) holds the potential to address the financing challenges encountered by businesses in developing markets. Supply chain finance refers to a set of financial solutions and practices aimed at improving cash flow and working capital management across the supply chain. It comprises a range of financing products designed to improve prompt access to cash for supply chain delivery operations, lower transaction costs for transacting parties, and aid in the preservation of working capital for both the supplier and the buyer of the service. This solution offers a unique approach in that it relies on the interdependence of the three supply chain parties: the supplier (seller/vendor), buyer (medium to large corporates) and the financiers (bank and non bank financial institutions). Suppliers are MSMEs that provide products and services that are essential to the operations of buyers which are usually larger corporations. Sometimes these products include raw materials for production, and services may include distribution of their products to end users. Financiers are financial institutions that provide financing to MSMEs to enable them meet their operational needs. Traditional financial institutions include commercial banks, non-bank financial institutions like microfinance banks and credit unions, factoring companies, specialised supply chain finance providers, and other entities that offer financing solutions tailored to the specific needs of suppliers, buyers, and other participants in the supply chain. These solutions typically leverage technology, data analytics, and automation to streamline processes, improve transparency, and lower transaction costs.

Traditional Financing Model

1. Buyer places an order from the supplier
↓
2. Supplier sends an invoice to the buyer
↓
3. Buyer approves the invoiced amount and provides confirmation to the Financier to make payment
↓
4. Supplier receives funds from the financier and fulfils buyer's order
↓
5. Buyer receives order from the supplier
↓
6. Buyer proceeds to pay financier at the invoice maturity date



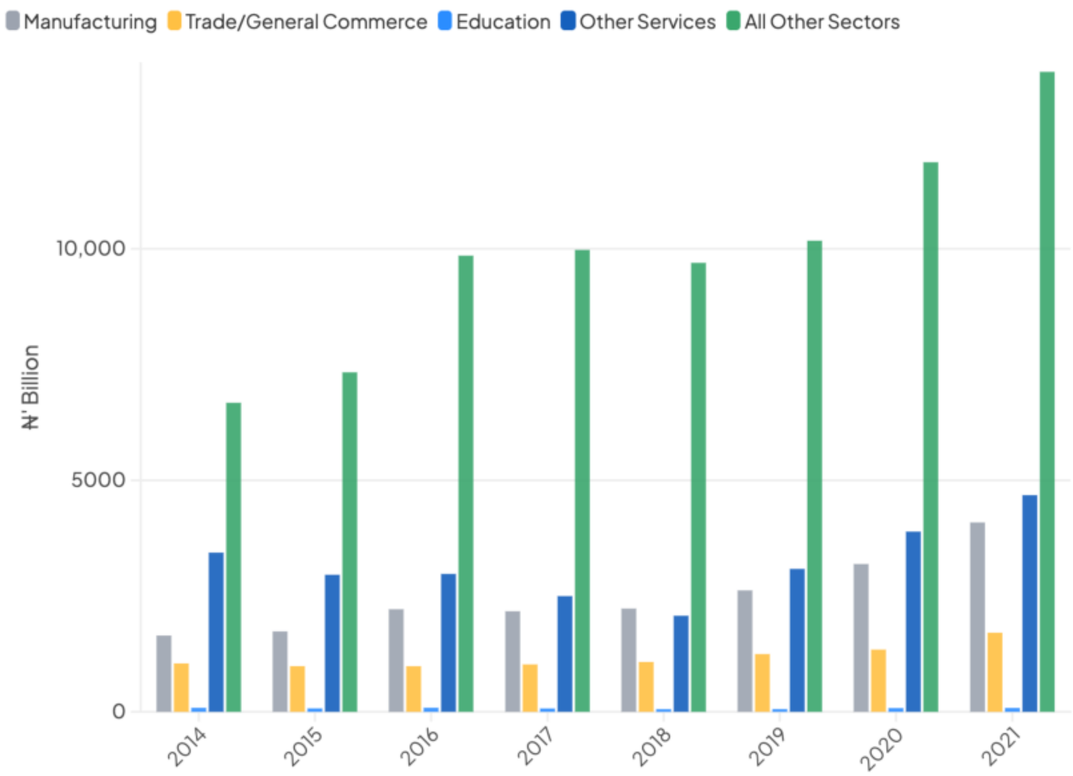
Source: Stears, IMF

Supply chain financing provides numerous advantages to all parties involved. It provides suppliers with protection against cash flow limitations, less expensive short-term financing options, ability to maintain working capital, enabling profitability, growth and expansion, and a resource that encourages suppliers to be generally efficient and competitive in their space. This model also enables suppliers to build and maintain a reputable record essential for credit assessments and allows them to access more financing options.

SCF provides buyers with working capital preservation, ease of doing business and finalising contracts with their suppliers, fostering collaboration and strengthening relationships with their vendors. In financing options where the buyer can secure funding for their suppliers, they are able to receive delivery of their services quicker.

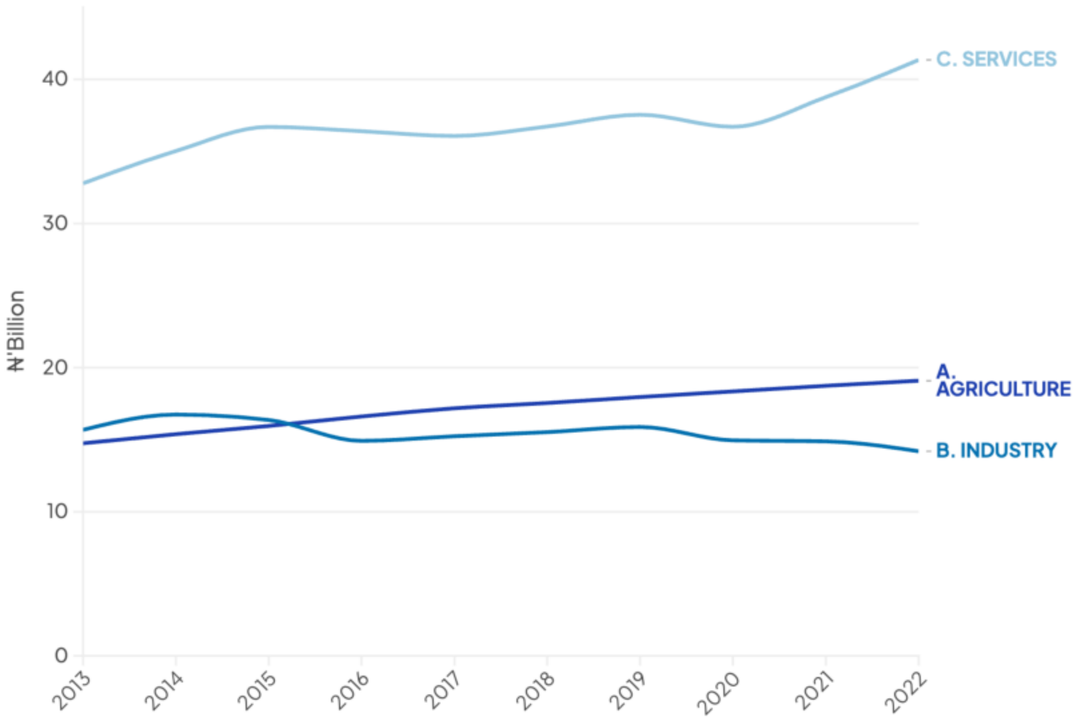
For financiers, supply chain finance enables them to accrue cash collection and generate returns quicker by offering more loans to suppliers. This way, there's an opportunity to diversify their portfolio and enable them to form stronger partnerships with businesses operating in the supply chain across sectors. The need for this is evident in the loan concentration risk among Nigerian banks. Data from the CBN and NBS show that loans to sectors that make up the bulk of MSMEs are lower than loans to other sectors. Approximately 67% of MSMEs in Nigeria are engaged in wholesale/retail trade, manufacturing, education, and other services[30]. However, nearly half (47%) of commercial bank loans and advances are directed to other sectors[31]. Meanwhile, a little over a quarter of these loans are directed towards trade/general commerce, other services and education[32]. It is worth noting that within Nigeria's real sector, comprising manufacturing, industry, and services, the services segment has exhibited steady growth, boasting a 26% increase since 2013[33], resulting in an average annual real GDP growth rate of 3.2% over the past decade and outpacing the growth rates of other sectors[34]. This transformation in the structure of the real sector, emphasises the vital role MSMEs play in driving economic success and fostering a resilient economy. Moreover, extending loans to MSMEs in various sectors will foster plans to diversify Nigeria's economy away from oil.

Figure 9 - Sectoral Distribution of Commercial Bank Loans and Advances



Source: CBN[35]

Figure 10 - Evolution of the Real Sector



Source: NBS[36]

2.3 Existing business and supply chain finance solutions in Nigeria

In Nigeria, the supply chain financing landscape is rapidly evolving, driven by the growing need for business finance and its importance in supporting business growth and economic development. According to the IFC, the current SCF market is worth $6.6 billion, with a total potential market size of $27.1 billion[37].

There are a variety of formal and informal sources of supply chain finance available in Nigeria including, peer-to-peer lending, government backed initiatives, funding from development finance institutions, digital solutions and loans from traditional financial institutions (FIs).

Informal financing

Buying on credit is a long-standing and often used strategy within the Nigerian business landscape, the presence of informality is notable, particularly within the MSME sector where Nano and Micro businesses account for 96% of MSMEs[38]. Many businesses rely on buying goods and services from MSMEs on credit allowing them to defer payment and preserve working capital. However, this model may be detrimental to the suppliers particularly when the buyer does not pay-up for an extended period of time. An EFInA survey reports that a third of Nigerians use informal financial services with savings groups accounting for a majority of these services. It is more common with micro and small business owners that rely on the strength of their close communities. There are also rotating savings and credit associations (ROSCAs) that operate by participants contributing money regularly and taking turns collecting lump sums accumulated at intervals. While all of these informal solutions may be beneficial in the short term, they present risks that may be damaging to the operations of these businesses. They are not a sustainable means of funding and do not provide security to MSMEs.

Government initiatives and programs

The Nigerian government has made funding accessible for Nigerian MSMEs through various government agencies and programmes. These programmes provide low interest rates and flexible repayment terms to support businesses in different sectors. Bank of Industry (BOI), Small and Medium Enterprise Development Agency of Nigeria (SMEDAN), Development Bank of Nigeria (DBN), and Nigerian Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL) are some of the notable government initiatives and agencies working to address the funding gaps and provide financial resources to promote the growth and development of MSMEs. Moreso, programs such as BOI's CBN backward integration fund for small holder farmers, aims to create linkages within supply chains by providing inputs in cash (loans) or kind. While business financing from this source has helped to bridge the finance gap, it also has limitations such as limited funding, bureaucracy and delays, limited adoption of technology, a lack of specialised solutions.

Development banks financing

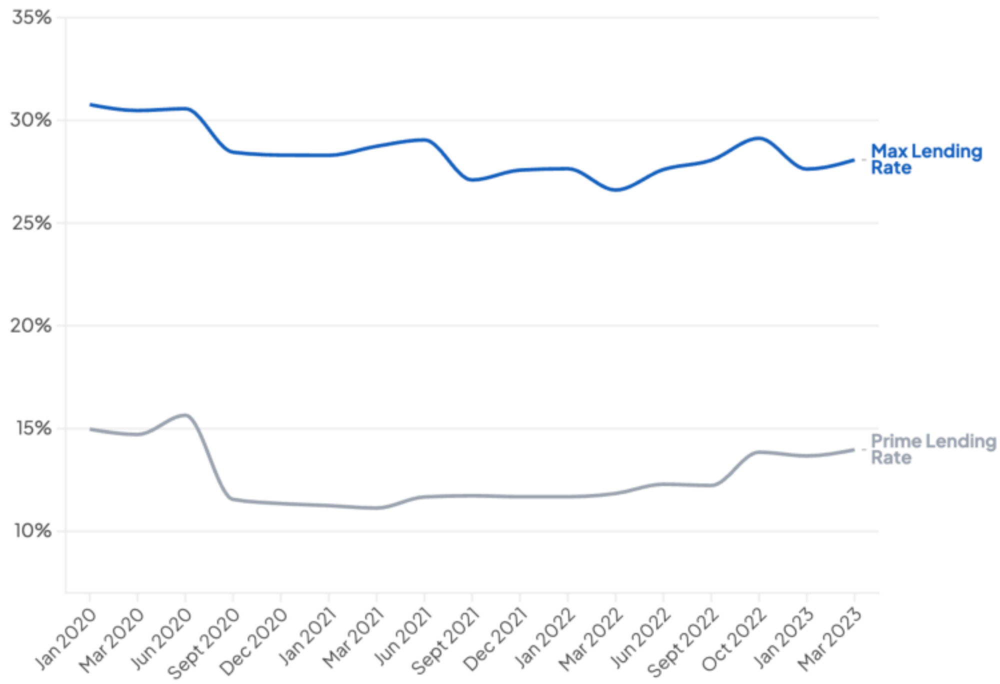
Local, regional and multilateral development finance institutions (DFIs) such as Africa Export-Import Banks (Afreximbank), Development Bank of Nigeria (DBN), the International

Finance Corporation (IFC), the World Bank, and the African Development Bank (AfDB) are examples of DFIs that help to advance development policies and close market gaps in areas such as financial inclusion and supply chain financing[39].

Traditional banks and non bank financial institutions

Bank and non bank financial institutions are the traditional means of getting supply chain finance. They are progressively providing SCF solutions tailored to the evolving Nigeria supply chain landscape particularly addressing the challenges and complexities associated with reducing supply chain financing gaps. Microfinance banks (MFBs), private equity and venture capital, and commercial bank sources provided $658 million, $640 million and $340 million in MSME financing in 2019 respectively[40]. These financing options could be loan-based, payable-based or receivables-based. Terms, conditions, requirements and interest rates may vary depending on the financial institution, credit worthiness of the supplier or buyer and the sector or industry's risk assessment. While these options are available, there are still limitations even for buyers. In most banks, a buyer has to be on the bank's approved list of buyers for their suppliers to access financing[41]. In addition, the buyer must have an active bank account with the bank to serve as security for the bank. This requirement may pose a restriction for larger corporations[42].

Figure 11 - Prime and Maximum Lending Rates



Source: CBN[43]

A common type of facility offered by FIs is Supply chain loans. Banks and non-bank financial institutions such as Microfinance Banks (MFBs), offer supply chain loans to MSMEs. These loans are usually designed to meet procurement, inventory and operational expenses. Some examples include, purchase order finance (PO), contract finance, inventory finance, etc. They are usually offered at an interest rate determined by the bank based on the CBN's monetary policy rates (MPR). While this option is available at most of these financial institutions, this report previously showed that it has not effectively provided financing to businesses due to complex application processes, credit requirements and interest rates that stifle the chances of businesses getting funding. Due to the high level of risks associated with these MSMEs because of their size, banks may lend to them at maximum rates rather than prime rates which are usually reserved for their most creditworthy customers, mostly larger enterprises. The difference between the prime and maximum lending rates is about ten percentage points[44].

More innovative approaches that aim to solve some of the shortfalls in existing financing options like the loan-based financing solutions, have emerged globally and are gaining traction in Nigeria with the introduction of digital solutions. Banks and non bank financial institutions today provide solutions that are either receivables-based also known as seller-driven or payables-based otherwise known as buyer-led solutions[45]. These alternatives often rely on the reputation of the buyer of the supplier's services to make financing decisions.

Table 2 - Categories of Supply Chain Financing

Loan-based	Receivables-based	Payables-based
Supply chain loans	Invoice financing	Reverse factoring
Purchase Order (PO) financing	Forfaiting	Dynamic discounting
Contract financing	Factoring	

According to the 2020 McKinsey Global Payments Report, buyer-led solutions are the fastest growing part of the SCF landscape globally with a Compound Annual Growth Rate (CAGR) of 15%-20% predicted for 2019-2024[46]. The report also highlights a significant shift in the structure of the trade finance solutions sector, where more non-traditional players are entering the market with technology-driven value propositions. Some of these models include bank-led, bank-led partnerships, platform-led and diverse options. This evolution in the global market indicates a growing interest and participation from a wider range of stakeholders, as the industry embraces innovative approaches and digital transformation.

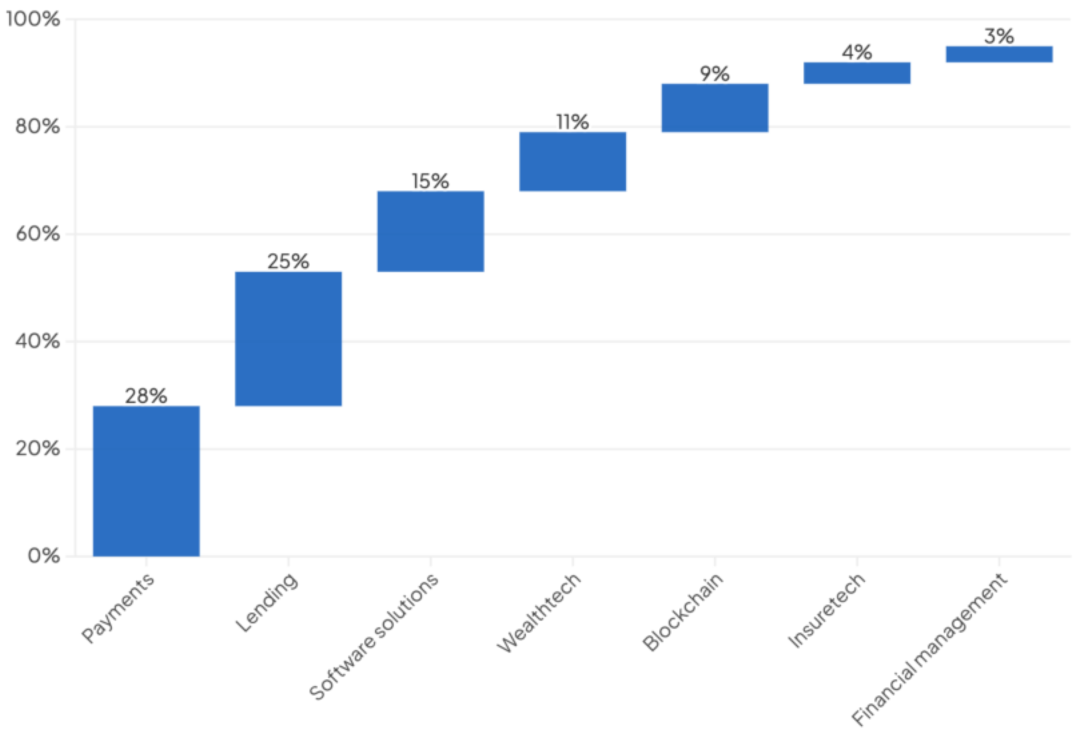
3.0 Platform-Based Supply Chain Financing Alternatives

3.1 Evolution of technology in financial services

In developing markets, technology has fueled economic growth and development. Its impact is evident in the recorded success of the financial services sector in Nigeria. This achievement can be mostly attributed to the spread of financial technology firms (Fintechs) operating in the country. They are firms which apply innovative digital technology to provide financial services usually with the goal of serving financially excluded or underserved populations and addressing unmet demands of financial inclusion. In Nigeria, more than one in every three adults is financially excluded[47]. Fintechs have penetrated the country's financial sector and have significantly contributed to the progress made to Nigeria's financial inclusion agenda, with about 250 fintechs companies and an expected revenue of $543.3 million in 2022[48]. Nigeria has demonstrated one of the strongest fintech ecosystems in the African continent. In January 2021 the CBN implemented the regulatory sandbox that allows fintechs to freely test their innovative financial solutions[49] making them an important element of Africa and Nigeria's innovation ecosystem.

The impact of fintechs on the Nigerian economy involves transforming how people access, use, save and grow their money. With the large proportion of Nigerians that are unbanked and without access to traditional banks and financial institutions, fintechs have played a crucial role in bridging the gap by leveraging technology and innovation to make digital financial solutions accessible to more people. By facilitating financial inclusion through digital banking, mobile payment, lending platforms among others, fintechs enable people to send and receive money locally and internationally, make purchases and payments online, and conduct more cashless transactions. Businesses can also benefit and thrive by utilising e-commerce platforms to expand their customer base and using lending and

Figure 12 - Nigeria's Fintech Sub-Sectors



Source: The Fintech Times[50]

loans platforms to access much-needed capital for business operations. Overall, the emergence and evident impact of fintechs in Nigeria has boosted financial inclusion in the country, generated usable data and accelerated economic growth and development.

Due to increasing digitisation and entrants of non-traditional financial institutions and stakeholders into the business financing space, MSMEs are being introduced to alternative financing sources outside of traditional finance. According to the 2020 EY Nigeria fintech census, 13% of financial technology firms operate in the SME & corporates lending sub-sector specifically[51]. These alternative options are enabled by technological platforms.

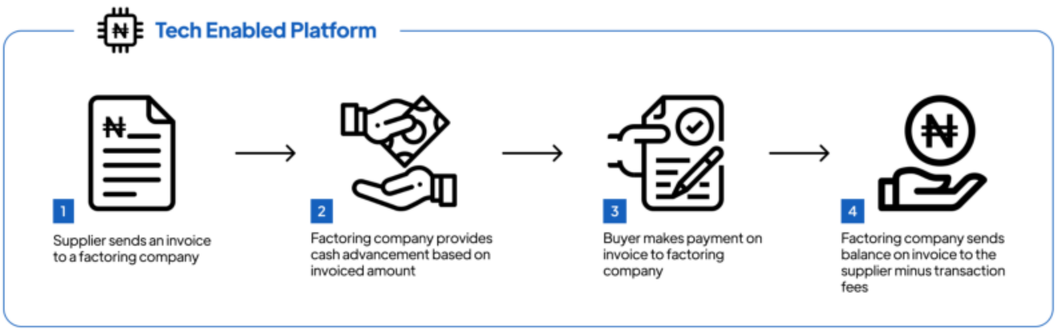
3.2 The role of technology-driven platforms in supply chain finance

As the race to bridge the supply chain funding gap continues, alternative and more disruptive financing options continue to emerge. In these alternatives, the financial strength or credit worthiness of the larger party, usually the buyer of the service, is considered when providing finances to the other party, usually the supplier. Not only do these solutions eliminate credit worthiness of the supplier as a barrier to a small business's access to funding, it is driven by technology to provide supply chain finance platforms that offer additional benefits including generating and using alternative data to expand MSME access to finance[52]. There is an emergence of platform-based models[53] that have the potential to address the existing SCF barriers. Platform providers use technology to create online platforms that enable supply chain financing. This model facilitates a streamlined and more efficient process, making the interdependence of each supply chain stakeholder - buyer, supplier and financier. Recently, an increasing number of platform-providers have created alternative SCF models. Whether it's inventory financing for retailers, invoice financing for suppliers, or working capital support for manufacturers, these platforms play a vital role in enabling smoother and more efficient supply chain financing processes. SMEs and businesses in Nigeria and across Africa benefit from these solutions as they tackle funding challenges and foster growth opportunities. Platform-enabled factoring and reverse factoring offer a lifeline here, particularly for reverse factoring, where the buyer initiates the process.

3.3 Factoring

Factoring is a supply chain finance option where suppliers sell their account receivables (invoices) to a type of financial institution, known as a factor, at a discounted price in exchange for immediate cash that enables them to deliver their services. This option provides suppliers with the needed capital to fund their operations and meet their obligations, especially when funding is reliant on the reputation of the buyer of the service. It is a flexible option that provides more funding to both businesses with cash-flow shortages and businesses that would otherwise be unable to access loans and other traditional financing options from financial institutions due to a lack of sufficient collateral or limited credit history. Factoring can either be applied with recourse to the supplier or recourse to the factor firm. In the former, the supplier bears the risk of non-payment and in the latter, the factor bears this risk. In their 2023 annual review report, The Factors Chain International (FCI) reports that non-recourse factoring had the highest volume in 2022 among all types of factoring services as seen in its member countries, with a proportion of 56%[54].

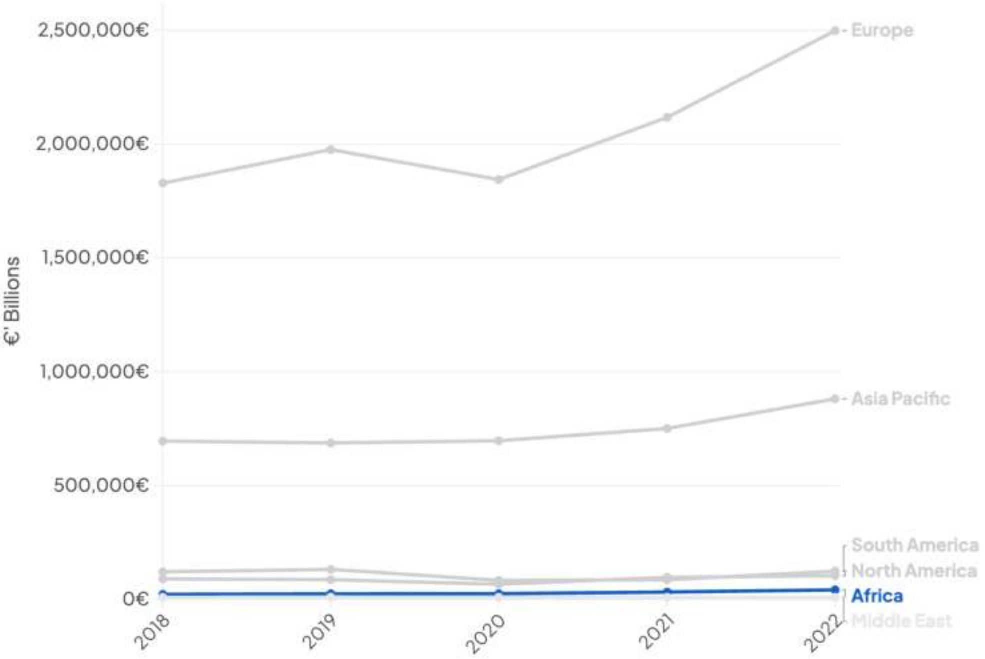
Factoring model - how it works



Source: Stears, The Southern Bank Company

FCI reports that The global factoring market value reached €3.7 billion in 2022[55], an 18.3% growth rate from the previous year. In Europe where it is more established, factoring makes up 10% of the region's GDP[56]. While factoring volumes increased significantly across regions post - COVID-19 (2020 - 2022), Africa had the highest two-year growth rate of 65.7%[57]. South Africa and Morocco accounted for the bulk of Africa's factoring volume. Analysis by the World Bank on 48 countries including 23 middle-income countries found that factoring may be a substitute for lending in countries where it is more difficult to enforce collateral and collect in the case of default, even where those countries have good credit information availability[58]. According to a PwC report, the market value for factoring in Africa is €22.1 billion and this alternative financing model can unlock between €899 million ($1 billion) to €1.b billion ($2 billion) annually in funding for MSMEs[59]. With an estimated factoring market of $6.6 billion[60], not only is there an opportunity for Nigerian MSMEs to unlock more funding through this model, banks and non bank financiers have an opportunity to increase their credit provision and investment portfolio to more businesses across economic sectors because they no longer have to rely solely on the credit worthiness of the MSMEs.

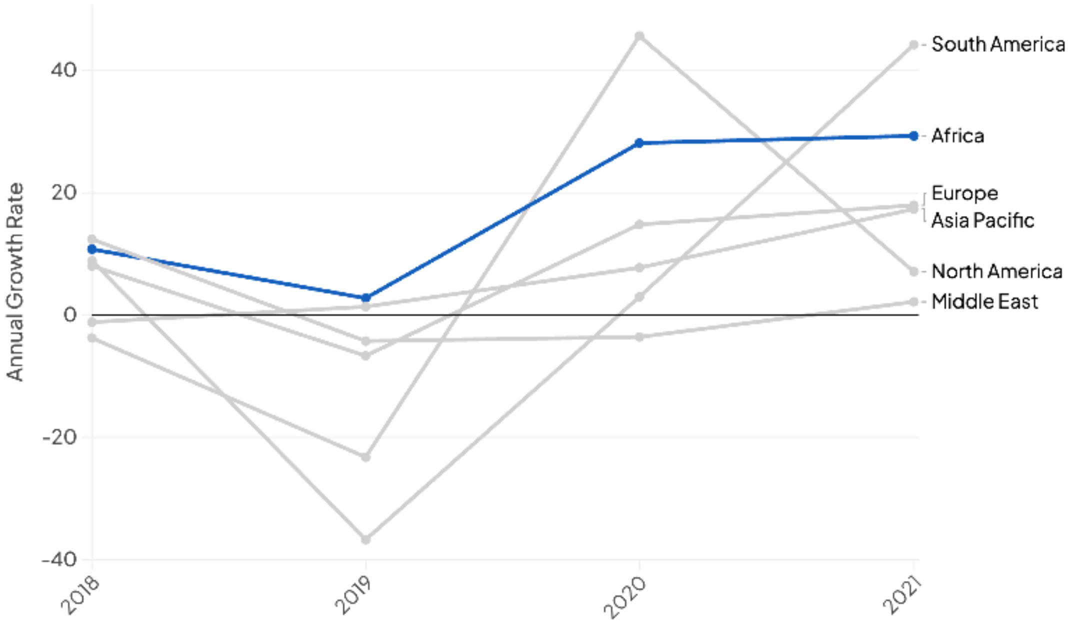
Figure 13a - Factoring Volume by Region (Euro Billions)



Source: FCI[61]

Figure 13b - Factoring Annual Growth Rate by Region (%)

Although Africa's factoring volume is low compared to other regions, its growth has been consistently high compared to other regions



Source: FCI See Appendix B

On a global scale, the adoption of this model is still relatively new but steadily increasing. This trend is also observed in Africa, where efforts are being made by international and regional development organisations to standardise and facilitate the growth of factoring in African countries. FCI have collaborated with the AfDB to offer capacity building grants to support the establishment of new factor firms in Africa's burgeoning factoring market. In addition, the African Export-Import Bank (Afreximbank) is collaborating with FCI to advocate for regulatory reforms and the implementation of model factoring laws across the continent. Notably, countries such as Nigeria and Kenya are currently working to develop legislation in this regard, signalling their commitment to advancing the development of factoring in their respective jurisdictions. In Nigeria, Afreximbank and a technology driven supply chain financing company, Fiducia, signed a Memorandum of Understanding (MoU) to promote factoring across Africa as a solution to SCF challenges for businesses[62].

Mexico: The case of National Financiera (NAFIN)

In 2001, the state-owned development bank in Mexico initiated a program to empower small suppliers in receiving their working capital from larger buyers. This initiative gave rise to the reverse factoring scheme, which enabled SMEs to attain affordable and flexible financing from financiers while shifting the credit risk to more established buyers[63]. Notably, the factoring and reverse factoring model streamlined this process through an electronic platform, offering a cost-effective solution that mitigates typical risk concerns associated with SMEs.

Within 3 years of the inception of the Nafin programme, the following benefits were noticed:

- $9 billion in distributed financing
- 150,000 participating suppliers
- Over 190 big corporates (about 45% of the private sector)
- Over 1.2 million transactions—98% by SMEs

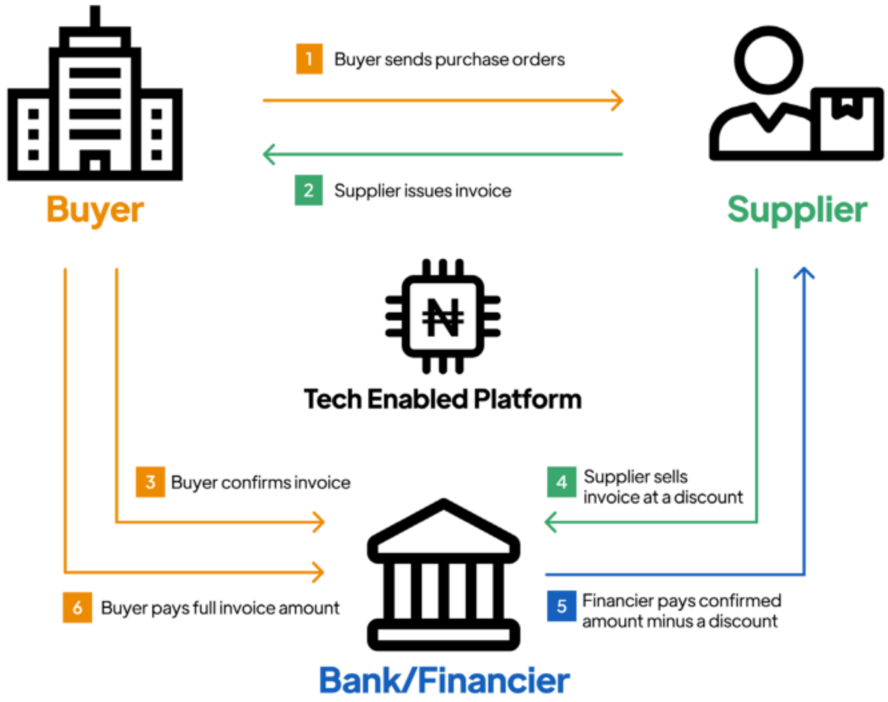
The Nafin program succeeded because of supporting electronic security laws enacted given electronic messages and signatures the same validity as written documents and signatures. This reverse factoring model has become a compelling case study for numerous developing countries due to its tailored approach catering to SMEs' unique needs. The presence of multiple lenders on the platform has expanded the financing options available to suppliers, aligning with their specific requirements. The Nafin model operates beyond providing an accessible platform for SMEs but takes a developmental approach that offers financial training to improve performance and increase awareness of financial responsibility.

Though the model's success can be attributed to the government support and partnerships with external institutions focused on providing alternative sources for SMEs, challenges remain in streamlining the regulatory process and ensuring a robust regulatory framework for factoring.

3.4 Reverse factoring

Factoring and reverse factoring serve the same purpose and function similarly in that it is the buyer's reputation and/or credit worthiness that is considered by the factor. However the core difference between both models is, in reverse factoring, the buyer initiates the financing process and also bears the risks. While reverse factoring is not a common form of formal financing in Nigeria, there are established benefits for the businesses involved. Financiers are able to invest idle funds with more predictable returns, as funding is offered based on the creditworthiness of the large corporations receiving and paying for these services. Through reverse factoring, crucial funding can be provided to these smaller businesses without increased risk to the financiers. Financing is provided at cheaper rates to the service suppliers, since it is based on the creditworthiness of the larger organisations, or on their perceived ability to pay supplier invoices. Finally, buyers of services are able to optimise payment terms, which preserves their working capital.

Reverse Factoring Model



Source: Stears

Reverse factoring offers its unique benefits. In the absence of good historical credit information reverse factoring reduces risk even further because the factor only needs to collect credit information and estimate the credit risk for high-quality buyers. It also eliminates fraud because the buyer is the party that initiates the process so the factors need to conduct little or no invoice verification. This is especially significant for countries with higher likelihood of default or non-performance from borrowers.

Platform-providers are gradually entering the SCF market to digitalise SCF processes and enable alternative options that are designed to expand access to finance to MSMEs such as factoring and reverse factoring. They achieve this by creating platform-enabled marketplaces that bring together suppliers, buyers and financiers in order to make supply chain finance more convenient and effective.

3.5 Benefits of platform-enabled marketplaces for factoring and reverse factoring

Factoring and reverse factoring are alternative SCF options that have been around for a while and offer unique advantages.

Eliminating barriers to access to financing for MSMEs

Both financing options aim to eliminate the risk of MSMEs being rejected for funding by financiers and expand access to finance for businesses. Factoring and reverse factoring offer credit to businesses relying largely on the reputation of the buyer of their service rather than the supplier.

Cash flow predictability and quicker access to finance

In traditional loans and other financing options, there is usually a time lag of up to 90 days between invoicing and receipt of funds from financiers or payment from the buyer which can affect continuity in delivery of services. However, the factoring and reverse factoring approach enables quicker access to funds and cash flow predictability for both supplier and buyer

Streamlined Operations

Additionally, these factor firms have the data, credit information and expertise to provide these services to both suppliers and buyers and so MSMEs are able to transfer the burden of tasks such as administrative tasks, credit assessments and general paperwork to the factoring company and have the time to focus on delivering their services to their customers.

Benefits to financial statements

Additionally, this model allows for better balance sheet accounting in that the borrower or the party who bears the associated costs in these models would record this as accounts payable rather than as a debt, making for improved balance sheet statements[64].

The platform model fosters the interdependence and interconnectedness of stakeholders in the SCF ecosystem, improving trust among them, strengthening relationships and encouraging partnerships. In the following ways, the platform model amplifies the benefits that factoring and reverse factoring offer to suppliers, buyers and financiers.

Enhanced Efficiency

This model offers a platform for the three main stakeholders in the ecosystem to connect. The digitalised processes offer convenience, efficiency and reduce the wait time for businesses to access finance to as little as 12 hours. This increased speed improves the performance of suppliers by enabling them to provide services to buyers quicker and protect them from the volatility in the prices of goods. This model may be more beneficial to businesses serving the FMCG and agriculture sectors where prices of goods and raw materials may be volatile and increase more rapidly[65]. It also offers enhanced efficiency for financiers because these platforms have functionalities that can automate verification and repayment processes.

Automation, flexibility and affordability

Platform enablers offer cost effectiveness. Usually, when funding is offered by traditional financial institutions, interest rates and other transaction costs may be determined by the riskiness of the business, taking into account factors such as size of the businesses, credit history, locations supplying goods to or from, travel distance, sector or industry the supplier operates in, and types of goods or service supplied[66]. Also, the complexity of the processes and paperwork contribute to increasing transaction costs. With the automation and technology the platform models offer, it becomes easier to process finance requests, saving time and resources for suppliers, buyers, and financiers while lowering costs and fees to all parties. Furthermore, once these costs and terms are determined, they are usually fixed and sometimes can only be changed through manual interventions eventually causing delays to the financing process and disruptions to the supplier's and buyer's operations[67]. The platform model with the automation and flexibility it offers, eliminates such issues making the process more convenient for financiers processing funding for suppliers, suppliers looking for funding to deliver services to their customers (buyers) on time, and buyers looking for funding for MSMEs in their supply chain and waiting to take delivery of services. This, in turn cuts down transaction fees for the supplier or buyer.

Facilitation of data generation and improved risk assessment and management

The technology driven model facilitates data generation necessary for credit risk assessment purposes and also essential for building credit history for both suppliers and buyers as well as capturing data on supply chain financing. With the amount of data such platforms can generate and the analytics operations they are designed to do, financiers have access to information useful in strengthening credit risk assessments and making informed financing decisions. Where a credit score or history is unavailable for MSMEs, platform providers may access and utilise alternative data such as business cash flow data in analysing credit risks[68]. Furthermore, by providing real-time visibility into the process and transactions, there is enhanced transparency, which improves trust and accountability among all participants in the supply chain. Suppliers and buyers can easily monitor the progress of their invoices and financiers can track the performance of their investments.

On the other hand, digitalised processes like these can contribute to generating industry data essential in measuring the progress made towards closing the supply chain funding gap and building a credit history culture in Nigeria. Additionally, disaggregated data by sector and industries can help all parties, particularly financiers, to have visibility into risks levels and rates per sector, industry and supply chain levels and can inform transaction costs and decision making.

Access to a wider pool of financiers at a time.

The platform gives MSMEs access to a wider pool of financiers including, factor firms, traditional banks and non-bank FIs, lenders, investors and other types of financiers. It boosts competitiveness among the supply chain financiers, which provides businesses a wider selection of financing options with possibly more favourable rates and financing terms. For platforms enabling reverse factoring, buyers have access to a wide array of financiers who can offer better financing terms rates for their dedicated and trusted suppliers.

Diversification of financier investment portfolio

There is an expanded market opportunity for financiers looking to diversify their investment portfolio. The platform-enabled marketplace allows them exposure to a broader range of MSMEs across various sectors presenting an opportunity to reduce any existing loan concentration risk. The ability to tap into more sectoral and industry segments along with the access to useful data generated by these platforms contributes to a resilient and better performing investment portfolio.

An expanded network of verified suppliers for buyers

The platform-enabled marketplace provides buyers access to a broader pool of suppliers offering products and services that they need. This promotes competition among suppliers, boosts innovation and fosters the productivity of Nigeria's supply chain ecosystem.

3.6 Limitations and risks

While many benefits exist, each stakeholder must carefully assess the limitations and risks this model presents.

It is still in the infancy stage

Factoring and reverse factoring are still in the early stages of adoption in Nigeria. Moreso, the uptake of technology enablers in this space is still in its early stages. Many supply chain businesses are unaware of this alternative financing option, and it is not fully understood by all parties. Financiers willing to partner with platform-providers may be hesitant about providing funding to suppliers in the micro to small business size range. Similarly, larger corporations may be hesitant to utilise such platforms due to a limited understanding of the mechanism. In Nigeria, numerous large corporations might have established conventional funding mechanisms tailored to their operational and procurement strategies. As a result, the adoption of new platform-based solutions for supplier financing could face resistance within such organisations. Moreover, many of the large corporations do not see the need to participate in these types of early payment programs for their Suppliers. This tendency often negatively impacts the SMEs that they work with.

Unclear regulatory policies

As these alternative financing models are still in their early stages, the laws and policies governing these practices are undergoing refinements and are yet to be standardised. Moreover, the incorporation of platform enablers introduces vulnerability to regulatory changes. There are currently no clear regulatory policies that platform-providers operating in this space follow, leaving room for uncertainty. When new regulations are designed and implemented, they may be unfavourable to the innovative nature of these firms, disrupting operations and destabilising the users of these platforms. Typically, a few traditional banks and non-bank financial institutions offer these and other financial services to MSMEs but their operations are regulated by the Central Bank of Nigeria (CBN) and other regulatory agencies.

Accounting related risks and unclear financial statement principles

Due to the infancy of the model and how it works, the accounting principles behind factoring and reverse factoring may be a bit unclear and may pose a risk to the parties involved such as financial investors[69]. Misrepresentation of financial statements may become a blind spot to funders and investors. Determining the appropriate recognition, classification, measurement, and disclosure of these financial instruments in accordance with accounting standards is crucial but can be challenging. Suppliers and sellers are more likely to record these in different forms rather than under short or long term debt , improving the appearance of the buyer's or supplier's balance sheet. Undisclosure or inaccurate reporting may lead to an under reported debt in financial statements which could also serve as risks to investors. The International Financial Reporting Standards (IFRS) has clearly documented accounting principles for such financial transactions. Even more recently, the International Accounting Standards Board (IASB) issued disclosure requirements for representing supply-chain financing arrangements[70]. However, existing regulations for financiers in Nigeria pose challenges to the accurate and streamlined recording of such transactions.

Consumer protection risks

Lack of a strong data, privacy and cybersecurity infrastructure for information shared and generated on the platform may leave it vulnerable to breaches and attacks compromising sensitive financial information and interrupting operations.

Exclusion of micro businesses

The reliance on technology may exclude micro businesses with limited technology capacity and infrastructure further widening existing inequalities considering micro businesses make up 96% of MSMEs in Nigeria. Where they have access to these platforms, financiers willing to provide SCF to businesses on the platform may be wary about providing funding to suppliers in the micro to small business size category.

Documentation Processes

Because of the way traditional banks and non-bank financial institutions (FIs) are regulated, they rely heavily on documentation of their processes and transactions[71]. Insights from stakeholder interviews suggest that these platforms may be unsuitable for traditional financiers in such a way that it may prevent them from conducting and recording transactions as they are regulated to[72]. This misalignment may pose a barrier, hindering platform-providers from effectively collaborating with financiers in offering factoring and reverse factoring to suppliers and buyers. Failure to address this may see the same challenges from traditional finance solutions reoccurring further compounding existing barriers to financing and threatening the viability of this model. Platform providers can work with these financiers to optimise the platforms so that they can generate and document their transactions in compliance with regulatory standards while maintaining the efficiency and convenience the platforms offer.

In summary, while there are risks and limitations to the platform-enabled factoring and reverse factoring model in the supply chain financing ecosystem, there are apparent opportunities to mitigate them.

Overall, factoring and reverse factoring, provides many benefits to businesses, financiers and buyers by offering a more efficient method of managing their accounts receivables and account payables thereby ensuring financial stability. Additionally by leveraging the resources and expertise of factor firms, businesses are able to focus on delivery of service. Finally, the technology-driven nature makes for seamless and low-cost transactions and strengthened relationships in the supply chain finance ecosystem. While these newer SCF models are gaining traction in Nigeria, there are still challenges to address. However, with its evolution and enhanced collaboration among stakeholders and new key enablers such as platform-providers and regulators, there is potential for growth and impact and for risk mitigation.

4.0 Outlook of Platform-Enabled Alternative Supply Chain Finance Solutions in Nigeria

4.1 Opportunities

There are significant partnership opportunities for firms providing technology-enabled platforms for SCF and the major ecosystem stakeholders.

Partnerships between buyers and platforms

Medium to large corporations that typically rely on MSMEs in their supply chains can leverage the innovation, technology, flexibility and efficiency that these platforms provide for reverse factoring. It enables corporations to secure timely and affordable funding to their loyal and trusted suppliers. Also, buyers can leverage the technology these platforms offer to manage the end-to-end supply chain process with their suppliers, from contracting and invoicing to payment. The streamlined process facilitates strengthened relationships among stakeholders and enhances the efficiency and productivity of the entire ecosystem. It is essential to educate and build awareness among large corporations regarding the advantages of utilising these platforms. This can be achieved through workshops, seminars, and industry conferences that showcase successful case studies and emphasise the positive impact on SMEs' access to finance.

Collaboration between platform-providers and financiers

Traditional banks and nonbank FIs have been around far longer and have clearer and more established regulations that guide their operations. These traditional FIs are also regulated in such a way that allows them to handle far more larger transactions at a time than other non-traditional financial service providers. Potential medium to large corporations who are buyers in the supply chain ecosystem may not understand or trust the viability of platform providers operating in this space[73]. Therefore, with the combination of the stability and reputation of traditional financial institutions and the efficiency and technology these technology firms offer, the opportunity for an impact in shortening the supply chain funding gap is significant in this partnership. Additionally, platform-providers have the opportunity to collaborate with financiers to enhance their platforms with credit insurance/guarantee features, providing reassurance to financiers and ultimately lowering the expenses associated with factoring and reverse factoring. Furthermore, traditional financial institutions, especially banks, could establish specialised factoring funds within these SCF models. This approach would streamline investments in this category, enable more efficient risk monitoring, and extend support to a greater number of SMEs.

Partnerships with credit bureaus and collateral registries

Platform providers have the opportunity to collaborate with credit bureaus to create user Know Your Customer (KYC) records and to facilitate the generation of relevant verification information useful to financiers. In turn, data generated by these platforms can be shared with credit bureaus to strengthen credit history data and the credit scoring system in Nigeria which is currently not fully developed. Recognising that financiers may have reservations about extending funding to micro businesses, platform providers could partner with the Nigerian national collateral registry to provide valuable information for financiers in making informed risk assessment decisions. This approach may help prevent the exclusion of micro businesses or businesses lacking digitised processes from benefiting from this model.

4.2 Recommendations and key considerations

Improving the Regulatory Environment

Regulations and guidelines that allow for more flexibility and clarity will improve SCF options. The government and regulatory bodies could work closely with these firms providing the technology platforms, to develop clear and adaptable guidelines for financial reporting and guidelines that will allow for an enabling environment for continued innovation while protecting its users. Such regulations will support the ongoing evolution of the technology sector's role in enabling SCF services.

Improving data verification systems for MSMEs

Unlike in many developed countries, digital footprints remain a significant issue. For SCF solutions to remain viable long term, the government must take steps to harmonise and standardise existing data verification modes for businesses and individuals. Collaboration among governmental bodies, banks, non-bank financial institutions (FIs), and platform-providers is essential to establish credit and Customer Due Diligence (CDD) data verification systems tailored to these emerging technology-driven SCF systems. Platform-providers must prioritise the development of verification processes that are not only automated but thorough. This ensures the accuracy and reliability of the information being utilised. As the technology evolves and new data requirements emerge, platform-providers should remain adaptable, consistently enhancing their verification protocols while preserving the efficiency that makes their platforms appealing. By aligning these efforts, stakeholders can foster an environment where SCF solutions thrive, minimising risks associated with inadequate digital footprints and optimising the effectiveness of these innovative financing options.

Ensuring effective risk management through robust Customer Due Diligence (CDD) and KYC procedures

Long term effective risk management will be a big challenge for both banks, non-bank financial institutions and technology enablers offering SCF solutions. It is critical to take advantage of data sharing automation systems. It is important to note that governance and government policy issues play a role in shaping the risk profile of businesses seeking supply chain financing[74]. For example, changes in government policies or regulations can impact the financial stability of businesses and affect their ability to repay loans. Evaluating these risks is important for both platform-providers and traditional financiers to mitigate potential losses and ensure the sustainability of supply chain financing models.

Facilitating repayment on platform-enabled SCF transactions by regulation

To ensure repayment of factoring and reverse factoring transactions on platforms, regulatory policies similar to the CBN's Global Standing Instruction (GSI) for individual customers to banks[75] can be introduced. Leveraging the robust automated verification processes and advanced data analytics tools available on these platforms, a comparable system like the GSI could be established for SCF transactions, thereby reducing loan default risks and further improving SCF outcomes for all key stakeholders.

Building continuous awareness is crucial

MSMEs have a need for new financing sources but are not aware that a solution exists. Fundamentally, improving awareness on alternative options and SCF platforms will in turn, increase interest within the space and encourage new investment opportunities. Platform providers may also conduct MSMEs-focused awareness campaigns.

By seizing these opportunities and implementing these recommendations, Nigeria can harness the potential of SCF enablers, boost financial inclusion, continue to close the business funding gap particularly in the supply chain ecosystem, and boost economic growth and development.

India: The Power of Regulations in Improving the factoring ecosystem

In India, factoring has thrived due to the important emphasis on regulation to provide a foundational framework. Factoring in the country is linked to the Banking Regulation Act of 1949, which encouraged banks to conduct factoring services. To allow for a more detailed regulatory approach, the country enacted the Factoring Act 2011 to provide the required legal framework for providing and structuring factoring services. The Act currently governs the factoring industry in India since it took effect in February 2012.

Since the Act's enactment in 2012, factoring volumes in India have significantly improved due to the improved regulation. In 2013, volumes showed an increase of around 130 million rupees from the preceding year, and since 2020, there has been a steady increase in factoring volume in India year on year. The reason is linked to the prevalence of well-detailed regulation that is aimed at addressing issues related to fraud and risk, which have remained key constraints to unlocking factoring potential in many developing economies.

To clarify, the Act provides that Non-Financial Banking Companies (NBFCs) engaged in the factoring business must be registered with the Reserve Bank of India (RBI) before they can proceed to engage in factoring activities. In addition, Section 19 of the Act stipulates that factors are required to register and file particulars of transactions with the Central Registry set up under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFESI).

In accounting for more digitalised approaches, the RBI also encouraged the facilitation of the Trade Receivables e-Discounting System (TReDs) in 2014 primarily to provide MSMEs with more opportunities to access more affordable financing options electronically. This process has allowed for better integration of smaller supplier businesses which, over time, have had a positive impact on the factoring volumes in the country

Essentially, the SCF landscape in India has benefited from an improved regulatory oversight, and the enactment of the Factoring Act has provided a framework for protecting the interests of all parties involved in SCF transactions. In addition, incorporating a digitalised process has improved efficiency by streamlining operations and reducing associated costs with traditional transactions such as paperwork. As such, there is improved access to working capital for individuals in rural India, providing key access to the mainstream economy.

4.3 Conclusion

In conclusion, the report highlights the pressing challenges faced by MSMEs in accessing financing in Nigeria, and the limitations of traditional supply chain financing solutions. However, amidst these challenges, technological advancements and the emergence of platform-based alternative models have created new possibilities for MSMEs to bridge the finance gap. The advent of platform-based factoring and reverse factoring solutions presents a promising opportunity for businesses to secure timely and flexible funding, unlocking their potential for growth and resilience in Nigeria's dynamic economy.

By leveraging the power of technology and innovation, these platform-based solutions have the potential to revolutionise the supply chain financing landscape, facilitating seamless transactions, reducing risks, generating alternative forms of data essential for credit risk assessments and promoting financial inclusion for MSMEs. The integration of data-driven assessments and efficient matching processes can considerably improve the financing experience for suppliers, buyers and financiers, hence driving greater engagement in the supply chain financing ecosystem.

Therefore, it is imperative for stakeholders, including policymakers, to collaborate and create an enabling environment for the sustainable growth of platform-based supply chain financing in Nigeria. By fostering a supportive ecosystem and embracing these transformative models, Nigeria can unlock the full potential of its MSMEs, fortify its supply chains, and advance the nation towards a more resilient and prosperous economic future.

Appendix

Appendix A

While factoring volumes increased significantly across regions post - COVID-19 (2020 - 2022), Africa had the highest two-year average growth rate of 65.7%[76]. South Africa and Morocco accounted for the bulk of Africa's factoring volume.

Region	2018	2019	2020	2021	2022	2- year growth rate post Covid - 19
Europe	1,829,143	1,976,23	1,844,721	2,118,041	2,498,69	35.5%
North America	1,844,721	86,742	66,598	97,000	103,900	56%
South America	121,248	132,031	83,559	86,048	124097	48.5%
Africa	22,1774	24,562	25,242	32,345	41,822	65.7%
Asia Pacific	695,52	687,594	697,093	751,096	881,312	26.4%
Middle East	8.840	9,937	9,516	9,176	9,376	-1.5%
Total	**2,767,068**	**2,917,105**	**2,726,729**	**3,093,70**	**3,659,20**	**34.2%**

Source: FCI

Appendix B

Annual growth rate of factoring volumes by region. Growth rate was calculated from the factoring volumes in Euro billions published by FCI.

Region	2018	2019	2020	2021	2022
Europe	7.47%	8.04%	-6.65%	14.82%	17.97%
North America	-2.48%	-3.73%	-23.22%	45.65%	7.11%
South America	3.55%	8.89%	-36.71%	2.98%	44.22%
Africa	2.32%	10.77%	2.77%	28.14%	29.30%
Asia Pacific	5.84%	-1.15%	1.38%	7.75%	17.34%
Middle East	10.24%	12.41%	-4.24%	-3.57%	2.18%

Source: (for actual factoring volumes from which growth rates were derived): FCI

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