



# UNNEXT workshop on Paperless trade facilitation for Small and Medium-sized Enterprises

2-4 February 2015  
United Nations Conference Center (UNCC)  
Bangkok, Thailand





# Innovative financing and ITC solutions

## *Inventory financing, value chain financing, crowd funding*

UNNExT workshop on paperless trade facilitation for SME Enterprises  
2-4 February 2015

Dr Mohammad Saeed  
Senior Trade Facilitation Adviser



# Access to Finance vs Trade Finance

## Trade Finance

It refers to a wide range of tools that determine how cash, credit, investments and other assets can be used for trade<sup>1</sup>

## Access to Finance

It is defined as an absence of price and non-price barriers in the use of financial services<sup>2</sup>

# SMEs have limited access to finance



Most SMEs are **start-up businesses** with **inadequate collateral**;



**Lack of key financial management competencies**;



Poor quality of business plans;



No clear understanding of **banking lending requirements**;



Lack of **time and the required resources** from Financial Services Providers (FSPs) to effectively address SMEs financial needs.

**63% of the SMEs do not have access to finance**

# Some SME Financing Solutions

**Besides equity/debt based financing, grants, government aid, and common trade finance instruments, the key financing solutions for SMEs are:**

- Inventory financing**
  - Purchase Order Finance
  - Warehouse receipt
- Value Chain Financing***
- Crowdfunding***

# Inventory Financing: Purchase Order Finance

## What is purchase order finance (POF) about ?

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- Purchase Order Finance (POF) is a transaction-specific form of working capital/trade financing.
- It is an advance against the value of a purchase order or contract to enable the borrower/supplier to pay for inputs, raw materials, packaging, goods for resale, shipping, insurance, etc.



## POF Case study: Moroccan hand bag firm

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- In the framework of the ITC's EnACT Programme, a Moroccan hand bag firm was helped to sell to Lancel Paris
- Lancel-Paris issued a Euro 125,000 purchase order
- This purchase order was taken by the Moroccan firm to Attijari Bank and got a Euro 50,000 credit line to start making the handbags

# Inventory Financing: Warehouse receipt

## What is a warehouse receipt?

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**Document certifying the quality and quantity of a specified commodity placed into a secure storage environment**

- It is issued by a licensed warehouse operator
- It should specify: location of warehouse, name of depositor, commodity type, quality and quantity, date of delivery, storage charges

**Most warehouse receipts are issued in negotiable form**



## What is its key use ?

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**Warehouse receipts can be used as secure collateral for inventory financing**

- When backed by a suitable legal framework, warehouse

**Farmers, traders and millers can raise finance against them**

- Thus increasing liquidity in agricultural markets

**Finally, it allows transfer of ownership without physical delivery**

# Value Chain Finance (VCF)

## Case VCF

Financial services and  
high value chain  
and alleviate

to three main

credit, savings,  
insurance to or among

agricultural alliances  
supported by a  
chain actors and

services to manage  
marketing risks.

## Case study: Santo Cristo de Bagazán Credit Union (SCBCU)

*SCBCU provides VCF to coffee growers and growers' associations<sup>2</sup>*

- *Production loans provide growers with finance to cover costs of production, resulting in increased quality and yield*
- *Short-term commercialization loans provide growers' associations with capital to buy more coffee from producers, which in turn, increases association's bargaining power with the buyer on behalf of the growers*

*Under this arrangement coffee grower earnings have increased on average by 53%*

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