

INVOICE FINANCING

Fintech' opportunities to finance
SMEs working capital

INTRODUCTION

This report is dedicated to invoice financing, one of the largest niches of supply-chain finance (SCF), which fulfils banking's basic promise of financing the working capital necessary for any business to operate.

When successfully delivered, SCF benefits the entire ecosystem: it enables corporate buyers to secure inventory by extending payment terms and improves certainty on suppliers' forward orders. Banks and nonbank supply-chain finance providers generate stable, short-duration, lower-risk, often recurring transaction volumes while creating an avenue for broader offerings.

However, smaller and less financed enterprises face barriers to accessing SCF, particularly invoice financing. Digital adoption, fintech innovation, blockchain, and tech acceleration are forecasted to stimulate the market.



Read more to explore invoice financing over various markets and learn about major suppliers

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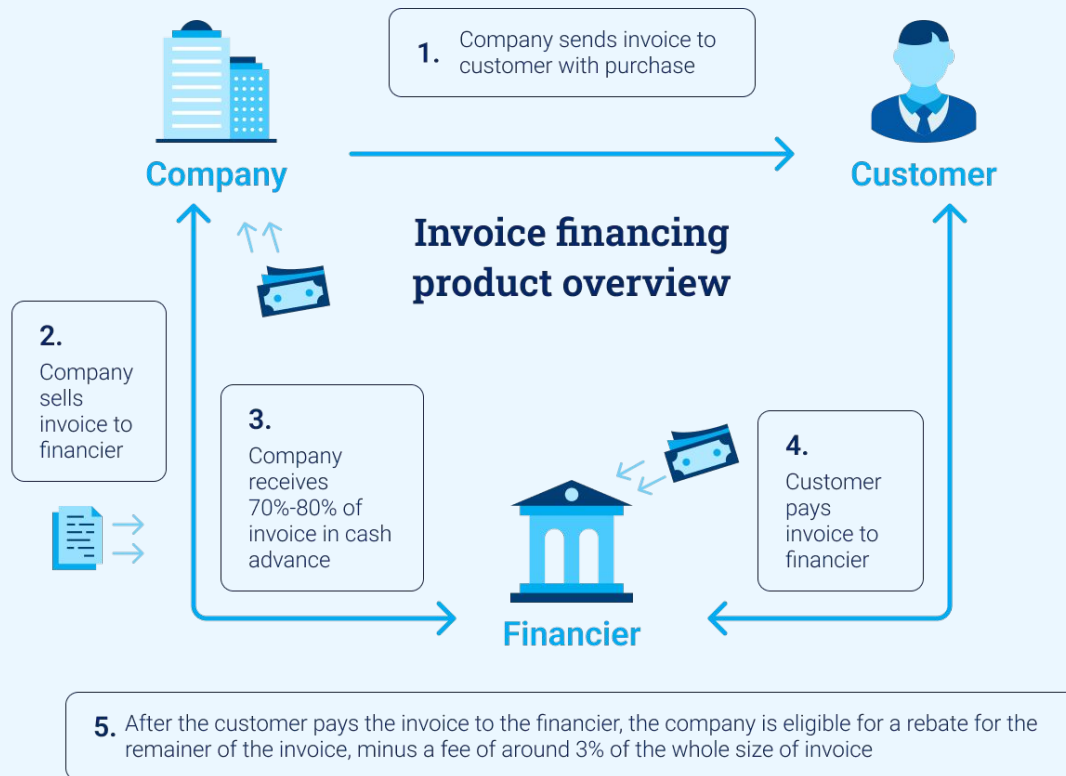
**KEY
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HOW INVOICE FINANCING WORKS

Cash flow issues are one of the major causes for small to medium enterprises (SMEs) to close down due to prolonged payment terms of 30-120 days.

Invoice financing enables businesses to get money from lenders against the amounts due from customers. Then, businesses can pay employees and suppliers and reinvest in operations and growth earlier than they could if they had to wait until their customers paid their balances in full.

Businesses pay the lender a percentage of the invoice amount as a fee. Lenders can receive their amount in full when customers settle the invoice.



INVOICE FINANCING PRODUCT OVERVIEW

Invoice financing provides more advantages to SMEs, accelerating their growth.

Firms have many invoice financing methods, such as invoice factoring, invoice discounting, selective invoice discounting, spot factoring, and online auctioning.

Advantages

- Typically, it does not require collaterals as security guarantees, as the value of the invoice itself is security guarantee, unlike traditional loans.
- While traditional loans often examine the firm's business history, making it possibly difficult for new SMEs to get loan approval, invoice financing is concerned with the value of the outstanding invoices instead.
- Provides fast access to working capital since the process of invoice financing tends to be faster than that of traditional loans.

Disadvantages

- Risk of fraud: The financier bears the risk that the pledged invoice could be false and have zero value.

EXAMPLES OF COMPANIES OPERATING IN EUROPE AND APAC REGION

Company Name	HQ	Year Launched	Employees	Geo Coverage	Size of financing	Interest rate	KPIs
<u>Factris</u>	Netherlands	2017	59	Netherlands, Belgium, Latvia, Poland	up to €1.5M	3%	- €1B financed invoices in 6 years - Average invoice size in their EU market of €3.8K, with a maximum invoice size of €1.5M - 3K invoices per month
<u>Voldaan voor geld</u>	Netherlands	2014	16	Netherlands	€100 - €500K	4% Amount of invoice: \$40K Payment term of invoice: 30 days Interest: \$1600	N/A
<u>SME Finance</u>	Lithuania	2016	113	Lithuania, Netherlands, Latvia, Estonia, Finland	€5K - €5M	from 0.75% / month	> €1.4B financed invoices since 2016 > 3000 Financed businesses in Europe since 2016
<u>Novicap</u>	Spain	2022	82	Spain	up to €10M	from 0.15% / month	- €1.8B - 8100 companies - 140K invoices
<u>eDebex</u>	Belgium	2014	30	Belgium, France, Luxembourg, the Netherlands, Spain and Portugal.	from €5K	1 – 4% / invoice	€1B+ of financed invoices since launch 150 broker work with company
<u>Octet Finance</u>	Australia	2008	70	Global (72 countries)	up to \$15M	N/A	- \$4B / year - 200K across Agribusiness, eCommerce, Wholesale, Manufacturing, IT Hardware & Equipment, Construction & Engineering, Retail, Materials, Pharmaceutical, Transport, Labour Hire, Food & Beverage, Healthcare.
<u>Validus</u>	Singapore	2015	213	Singapore, Indonesia (<u>Batumbu</u>), <u>Vietnam</u> , and <u>Thailand</u>	up to ~\$700K	2.8% per month	65K small businesses since 2015
<u>Funding Societies</u>	Singapore	2015	55	Singapore, <u>Malaysia</u> , <u>Thailand</u> , Vietnam, Indonesia (<u>Modalku</u>)	up to ~\$700K	0.67-1.5% per month	As of 2023: - \$3B in 5M transactions financed; - 100K SMEs across the region.
<u>Zetl</u>	Hong Kong	2018	12	Hong Kong, Singapore, Australia	up to \$300K	from 1.5% per month	N/A

CASE STUDY: BIBBY FINANCIAL, ONE OF THE FIRST PLAYERS ON THE MARKET

Formed in 1982, Bibby Financial is one of the UK's largest invoice financing funders.

The company manages more than £6B in turnover each year on behalf of their clients.

Expansion timeline:

1982 - Company establishes.

2002 - Bibby Financial Services opens in Warsaw, Poland, and Florida, US.

2006 - Offices open in Lyon, Dublin and Toronto.

2007 - The Czech Republic and Slovakia offices open.

2008 - A new office is opened in Dusseldorf, Germany, while the business completes several company acquisitions

2015 - Bibby Financial Services opens its door to business in Singapore.

Company Name	Bibby Financial
HQ	UK
Year Founded	1982
Employees	1000
Geo Coverage	England Ireland France Germany Netherlands Sweden Poland Czech Republic Slovakia Singapore India Malaysia Hong Kong
Customers	9,000+ businesses in 300 industry sectors worldwide
Interest rate	1.5-3% of invoice value, with an additional service charge of 0.5-3% of the annual turnover.

Financial highlights of the UK's legal entity	
Revenue 2023, \$	\$232.0M
Revenue 2022, \$	\$195.3M
Net Profit 2023, \$	\$13.2M
Net Profit 2022, \$	\$12.4M
Source	Group of companies' accounts made up to 31 December 2023

CASE STUDY: THE SUCCESS AND FAILURE OF STENN TECHNOLOGIES

Name	Stenn Technologies
Founded	2015
Country	UK
Interest rate	0.7% - 2.6%

Success

- The Stenn company purchased invoices from smaller suppliers and secured payments from larger corporations, using advanced technology to assess credit risks and speed up payments.
- Stenn attracted significant investments from Citigroup, Barclays, HSBC, and Centerbridge Partners.
- The company was valued at \$900M in 2022 and even considered an IPO.

Fail

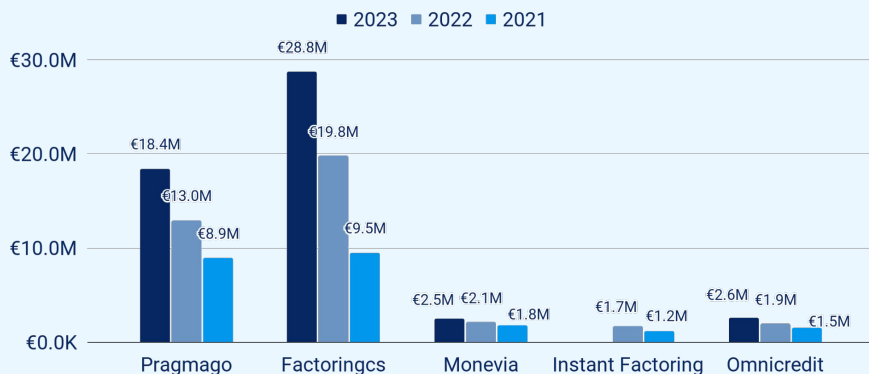
- Stenn's business model had significant flaws, particularly its reliance on a group of suspicious clients based in Asia, which accounted for a significant portion of its revenue. Many of these companies were hard to trace, and some invoices Stenn claimed were being paid through them later appeared fraudulent.
- HSBC, one of Stenn's creditors, uncovered suspicious transactions, resulting in a money laundering investigation.
- In December 2023, the company collapsed when HSBC filed a court application and described how payments that were supposed to be coming from well-known customers were instead linked to entities set up to impersonate them.
- This case questioned the viability of the invoice finance model without proper regulation and caused companies to be scrutinized more closely.

EXAMPLES OF PROFITABLE ONLINE INVOICE FINANCING PLATFORMS IN EUROPE

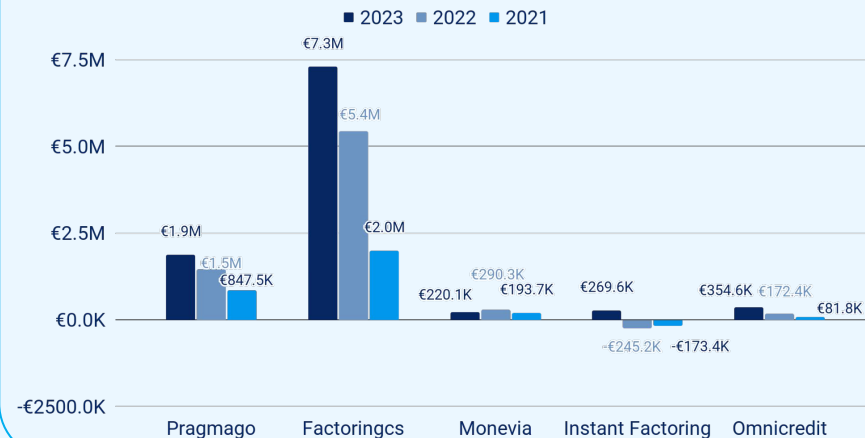
Company	HQ	Year launched	Employees	Geo	Size of financing	Interest rate	Invoices due date	KPIs
Pragmago	Poland	2016	75	Poland	€12K - €3.5M	1.1% - 2.1%	N/A	In 2024: €572M funding provided 395K financed invoices 21518 clients
Factoringcs (part of Česká spořitelna Bank)	Czech Republic	2002	40	Czech Republic	N/A	0.3 - 1.5%	14 - 90	N/A
Monevia (acquired by Pragmago)	Poland	2017	N/A	Poland	€0.2 - €12K	N/A	7 - 90	N/A
Instant Factoring	Romania	2020	34	Romania Spain Serbia	€1K - €250K	3% - 12%	15 - 120	51K Financed invoices 10K Active companies on our platform €130M transferred to client accounts 5 years Presence on the Romanian market
Omnicredit (acquired by Pragmago)	Romania	2020	N/A	Romania	€100 - €50K	0.77% - 13.2%	7 - 120	N/A

EXAMPLES OF PROFITABLE ONLINE INVOICE FINANCING PLATFORMS IN EUROPE











Revenue, €













Net profit, €



INVOICE FINANCING MARKETS

	Top-10 biggest invoice financing markets in terms of value of invoices financed in 2023 according to FCI									
	China	France	Germany	United Kingdom	Italy	Spain	Netherlands	Belgium	Poland	USA
										
Regulation	Regulated	Regulated	Regulated	Regulated	Regulated	Unregulated	Regulated	Regulated	Regulated	Regulated
Revenue (2023)	€634.6B	€426.6B	€384.4B	€363.2B	€298.7B	€270.4B	€168.5B	€135.7B	€103.5B	€89.7B

	Selected unregulated invoice financing markets and their value of invoices financed in 2023 according to FCI									
	Singapore	Hong Kong	Mexico	Brazil	Peru	Colombia	Bulgaria	Ukraine	Kazakhstan	Armenia
										
Regulation	Unregulated	Unregulated	Unregulated	Unregulated	Unregulated	Unregulated	Unregulated	Pending regulations	Unregulated	Unregulated
Revenue (2023)	€60.0B	€35.9B	€35.5B	€30.9B	€23.2B	€8.3B	€6.9B	€592.0M	€106.0M	€95.0M

MARKET SIZE

Over the past 6 years, the compounded annual growth rate has increased to **almost 7%**, which is an incredible feat.

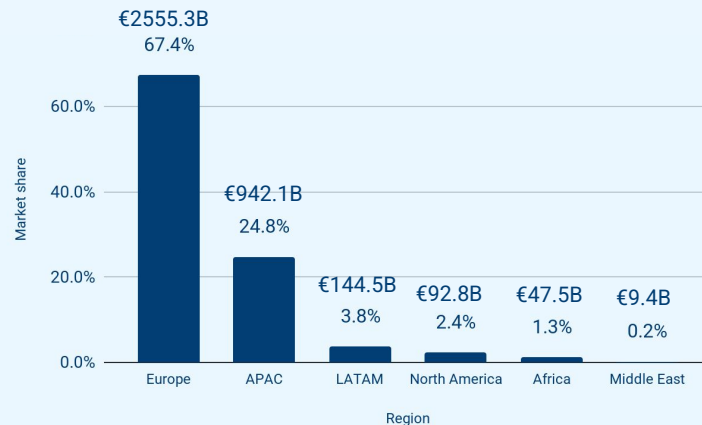
The European region dominates the invoice financing niche due to several factors. First, there is a higher density of SMEs that rely on invoice financing as an alternative financing solution.

Additionally, there are extensive cross-border trade dynamics between numerous countries in close proximity. Finally, there is robust growth in Central and Eastern European markets, where invoice financing has become a core funding tool for businesses.

Dynamics of invoice finance and factoring market size with CAGR 6.57%

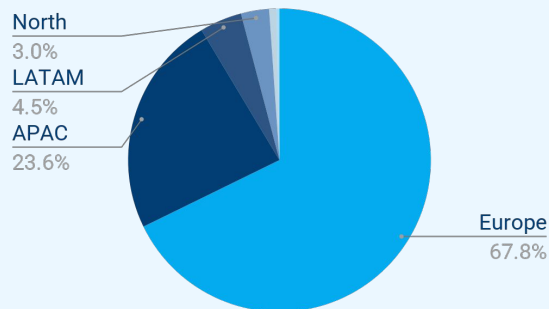


Share of global factoring and receivables finance volume by region in 2023

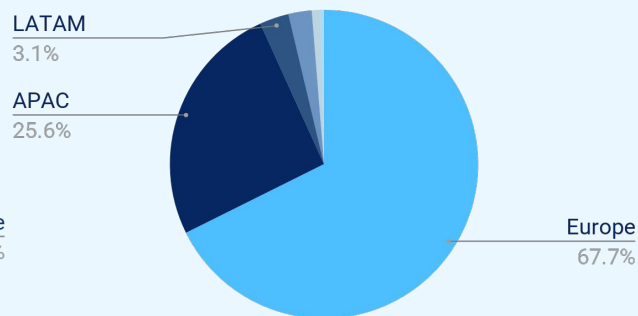


FACTORING MARKET DYNAMICS (2019-2023)

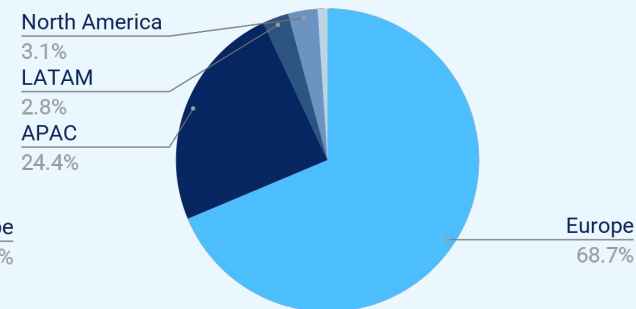
2019, €2,917.1B in total



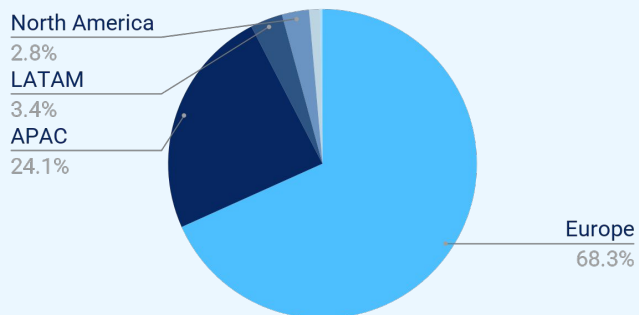
2020, €2,726.7B in total



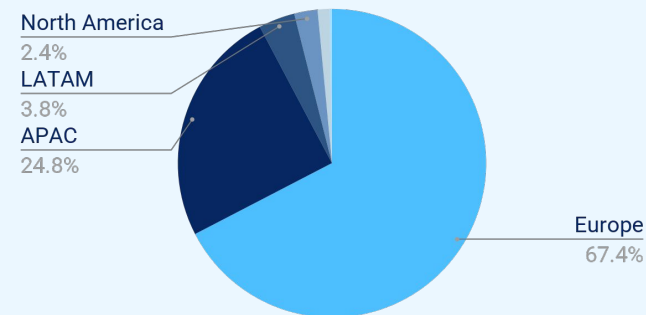
2021, €3,093.7B in total



2022, €3,659.2B in total



2023, €3,791.5B in total



SPECIALIZED FACTORING LAWS AND REGULATIONS*

Jurisdiction	Reformed STL	Specialized Factoring Law	Specialized Factoring Regulation
Asia Pacific			
China (mainland)	Yes	Yes	Yes
Hong Kong SAR	No	No	No
India	Yes	Yes	Yes
Singapore	No	No	No
Central Asia & Eastern Europe			
Armenia	Yes	No	No
Georgia	Yes	Pending	Pending
Kazakhstan	Yes	Yes	No
Tajikistan	Yes	No	No
Belarus	Yes	No	Pending
Bulgaria	Yes	No	No
Ukraine	Yes	Pending	Pending
Uzbekistan	No	No	No

*The table shows which jurisdictions have implemented a reformed secured transactions law ("STL") and/or have implemented specialized factoring law (Yes) and which don't (No).

Jurisdiction	Reformed STL	Specialized Factoring Law	Specialized Factoring Regulation
Latin America & the Caribbean			
Brazil	Yes	No	No
Chile	No	Yes	Yes
Colombia	Yes	No	No
Mexico	Yes	No	No
Peru	Yes	Yes	No
Middle East & North Africa			
Egypt	Yes	Yes	Yes
Greece	No	Yes	Yes
Jordan	Yes	Pending	Yes/Pending
Saudi Arabia	Yes	No	No
Turkey	Yes	Yes	Yes
UAE	Yes	Yes	Pending
Sub-Saharan Africa			
Malawi	Yes	No	No
Nigeria	Yes	Pending	Pending
Uganda	Yes	No	No
Zimbabwe	Yes	No	No

MODELS OF FACTORING REGULATION

THE INTEGRATED MODEL

Brings within a single authority the supervisory responsibilities towards all segments of financial markets, both from a prudential and conduct of business perspective. The integrated model can differ from country to country.

Countries: Colombia, Germany, Japan, Singapore.

MULTIPLE AUTHORITY MODELS

In jurisdictions where several authorities coexist, a key determination is whether invoice financing activities should be the responsibility of the authority (or authorities) entrusted with regulating banking institutions and activities.

Whether invoice financing falls under the jurisdiction of the banking authority reflects domestic choices.

Countries: Hong Kong, China, UK, Egypt

The institutional (or entity-based)

Different sector-specific authorities supervise regulated entities based on their type of license, e.g., banking and non-banking.

The twin peaks model

Two administrative authorities are responsible for prudential regulation and the conduct of business supervision.

The functional model

Different authorities are responsible for prudential and conduct of business supervision depending on the economic function of the activity or product offered by a given financial institution.

TRENDS IN FACTORING REGULATION

Many countries lack a specialized regulatory framework for factoring, whether enacted as a standalone law or as a complement to a general secured transactions law. For instance, general secured transaction and specialized factoring laws coexist in Armenia, Kazakhstan, and Tajikistan. Nonetheless, the regulatory treatment for non-banking financial institutions (NBFIs) undertaking factoring activities is not subject to any specific rule.

However, in jurisdictions where companies may offer receivables finance products without a license, such as Kazakhstan and the UAE, implementing a specific factoring regulatory regime with licensing requirements for NBFIs is under consideration.

There is a rising demand trend for a regulatory framework establishing a factoring license for NBFIs and a set of simplified prudential and conduct of business rules.

First, factoring laws — like other product-specific laws — are primarily implemented by financial regulators. As regulators' mandate is to maintain the financial system's stability and protect its integrity, introducing a new financial product within the domestic market should respect these core policy objectives.

Second, financial institutions are the primary beneficiaries of a clear, transparent, efficient legal and regulatory framework for factoring. Clear rules advance confidence in the market and promote its development. For instance, there is no specific regulatory framework for factoring in Hong Kong. However, new digital platforms such as Velotrade offering trade finance, have demanded regulation.

TECHNOLOGIES ACCELERATE INVOICE FACTORING SPREAD

New products and technologies emerge globally in the invoice financing sector with receivables platforms that allow SMEs to sell their receivables directly to a wide range of investors and e-invoicing systems. New platforms act as intermediaries that evaluate the receivables using technologies.

New-age platform examples:

- The Receivables Exchange of India maintains a receivables platform called the Trade Receivables Discounting System (TReDS) under guidelines issued by the Reserve Bank of India. The TReDS accommodates both traditional factoring as well as reverse factoring. The transactions processed under TReDS are 'without recourse' to small businesses. It was established in 2015 as part of a joint venture between the Small Industries Development Bank of India and the National Stock Exchange of India Limited.
- In 2020, the Emirates Development Bank introduced the National Supply Chain Finance platform – a buyer-led receivables platform to provide advance payment based on confirmed invoices. The supplier delivers the goods and invoice to the buyer, who uploads the invoice onto the platform. The Emirates Development Bank provides the supplier with early payment and collects payment from the buyer on the invoice's due date.

The deployment of new tech solutions is not limited to receivables platforms. Many governments, especially in Latin America, have implemented electronic invoicing (e-invoicing) systems to facilitate the collection of taxes, which are separate from receivables platforms and exchanges. These systems enable establishing receivables platforms and exchanges for negotiable “electronic assets”.

GROWTH IN FUNDING IN RECENT YEARS

In recent years, there were 11 prominent funding rounds across the industry, totalling around \$760M.

Funding rounds				
Company	Region	Funding Round Type	Year	Amount (Millions)
<u>FundThrough</u>	North America (Canada)	Growth Equity	2023	\$50.0M
<u>BlueVine</u>	North America (USA)	Line of Credit - IV	2022	\$75.0M
<u>Kapitus</u>	North America (USA)	Debt - II	2024	\$45.0M
<u>Credijusto/Covalto</u>	LATAM (Mexico)	Debt Financing	2020	\$100.0M
<u>Rapidoo</u>	LATAM (Brazil)	Seed round	2021	\$700.0K
<u>KredX</u>	APAC (India)	Series B	2019	\$26.0M
<u>CredAble</u>	APAC (India)	Conventional Debt	2024	\$3.6M
<u>Zetl</u>	APAC (Hong Kong)	Seed round	2021	\$700.0K
<u>Kriya</u>	Europe (UK)	Debt Financing	2024	\$63.4M
<u>Sonovate</u>	Europe (UK)	Debt - V	2022	\$196.6M
<u>Funding Circle</u>	Europe (UK)	Post-IPO Equity	2021	\$200.0M

INVOICE FINANCING COMPANIES FROM THE INC5000 LIST* IN 2024 (USA)

Company	Founded in	3-Year revenue growth in 2024	Notes
<u>4 Pillar Funding</u>	2019	1620%	600 + Fico 1 + years in business Annual Revenue of \$130,000 + Application 3 most recent business bank statements Outstanding Invoices
<u>Rainstone Capital</u>	2017	1028%	-
<u>Capfront</u>	2017	820%	Was in inc5000 list in 2023
<u>Sbg funding</u>	2017	443%	600+ FICO Score Most recent business bank statements 1+ Invoices to finance \$350K+ in annual revenue

*Companies are privately held, for profit, and independent (not a subsidiary or a division of another company):

- have been founded and generating revenue as of March 31, 2020
- have generated a minimum of \$100K in revenue in 2020
- have generated a minimum of \$2M in revenue in 2023

CASE STUDY: FUNDTHROUGH PRODUCT FLOW

1. Account creation

Business register on account and connect it to accounting software.

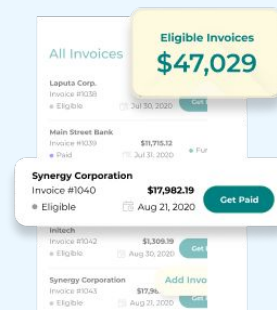
Fundthrough **analyzes if a business meets their requirement**, e.g. a company has no explicit liens on receivables that you aren't willing to have removed

Business should **provide a list of documents** to finish the registration



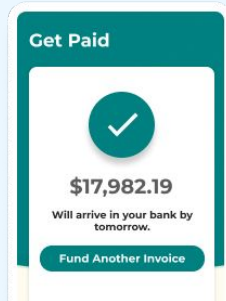
2. Business select invoices to fund

Uploads invoices or connects to accounting software to sync them automatically.



3. Invoice checking

Fundthrough communicates and works with customers of the business to verify invoices. Once the invoice is approved, the business obtains financing.



4. Get back to business

Once your customer pays the invoice to FundThrough based on the net terms, there's no more commitment. Business fully focuses on its business.



KEY TAKEAWAYS

Invoice financing market looks promising for fintech companies because of the growing number of SMEs. There were estimated to be approximately 358M small and medium-sized enterprises (SMEs) worldwide in 2023 according to Statista. Also according to McKinsey, nearly 80% of eligible assets do not benefit from better working-capital financing. Many catalysts – including digital delivery, fintech innovation, industry utilities, and API technologies – could stimulate cheaper and more accessible supply-chain financing as well as invoice financing.

Technology enables new methods of financing receivables. One example is receivables platforms that allow SMEs to sell their receivables directly to a wide range of investors. These platforms act as an intermediary that evaluates the receivables using technology. Some examples of such platforms we saw in India and UAE

Europe remains the biggest, matured, but the most regulated market. Despite being huge market, we saw a bunch of loss-making companies in Europe. The fastest growing markets LATAM, APAC, and Africa look more attractive for fintech players to enter because they are less regulated and easier to enter.

Demand for a regulatory framework has been increasing due to the aim of financial regulators to maintain the stability and transparency of the financial system and to protect its integrity as well as desire of the primary beneficiaries to have clear rules advances confidence in the market and promotes its development.

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