MED MSMEs
Policies for inclusive growth
THIS PROGRAMME IS FUNDED BY THE EUROPEAN UNION

Discussion Paper - Mexico

National Online Platform for Reverse Factoring

Key Facts

SBA 6 Sub-dimension:
6.1.5. 6.1.6

Country:
Mexico

Results & Impact:

- NAFIN's Factoring market share increased from 2% in 2001 to 60% in 2004
- Private sector operations increased by 2% in 2018 (EUR 0.13 billion "2.784 billion pesos")
- Private sector balance increased by 11% in 2018 (EUR 0.23 billion "4.855 billion pesos")
- Federal Government balance grew by 48% (EUR 0.22 billion "4.71 billion pesos")
- The number of First-Order Companies increased by 30% benefiting over 20K suppliers in 2018
- **Direct Actions**
- 455 big buyers (51% private sector) - mid 2009
- More than 80,000 SMEs – mid 2009
- EUR 54.46 billion (USD 60 billion) in financing – mid 2009
- 20 domestic lenders – mid 2009

A. Policy Level

The government of Mexico developed a good practice legislative framework for factoring (supply chain finance – reverse factoring) to facilitate the sale, or assignment, of receivables and be less dependent on the business environment than traditional lending products.

In designing this policy, the government took into account that in the case of bankruptcy, factored receivables are removed from the bankruptcy estate of the seller and become the property of the factor. In this case, the quality and efficacy of bankruptcy laws are less important.

BACKGROUND

- Nacional Financiera (NAFIN) – Mexican Development Bank was established in 1980.
- In 2001 NAFIN developed a "Productive Chains" program that works by leveraging the links between large corporate buyers and small suppliers.

B. Programme Level

In general, NAFIN's main objectives is to: 1. Contribute to the economic development of Mexico 2. Facilitate the access of MSMEs, entrepreneurs and priority investment projects to finance and business development services 3. Contribute to the formation of financial markets and serving as fiduciary and financial agent of the Federal Government.

NAFIN's supports and interventions are expected to: 1. Boost innovation 2. Improve productivity, competitiveness and job creation 3. Enhance regional growth.

In 2001, NAFIN created an Internet-based infrastructure to facilitate factoring transactions. The program works by creating chains between "large buyers" and their suppliers. The main feature of the program is that it links small, risky suppliers with large, creditworthy, often foreign-owned firms that buy from them. Small firms can then use the receivables from their larger clients to secure loans.

C. Action Level

NAFIN's factoring programme provides "reverse factoring" services to SMEs through its "cadenas productivas" (productive chains) programme. Participating SMEs must be registered with NAFIN and have an account with a bank that has a relationship with the buyer. Following the registration on the system of a valid invoice that is purchased by NAFIN, funds are transferred by NAFIN directly to the supplier's bank account and the factor becomes the creditor (i.e. the buyer repays the bank directly). The factor collects the loan amount directly from the buyer after a period of 30 to 90 days. Large buyers are requested to post their invoices on NAFIN's website.

A more global version of NAFIN's Cadenas Productivas is provided by the International Finance Corporation (IFC) through its Global Trade Supplier Finance (GTSF) programme, a USD 500 million (EUR 454 million) initiative that started in 2010 and is specifically designed to advance working capital finance to SME suppliers based in the developing world that are selling to end-customers in developed markets. As above, the intention is to enable small and poorly collateralized borrowers in the emerging markets to access finance at prices that reflect the credit risk of their much larger end-customers.

NAFIN's main success factors are: 1. It requires that all factoring services are offered without additional collateral or service fees 2. a maximum interest rate of seven percentage points (0.07%) above the bank rate (five percentage points 0.05%, on average), which is about eight percentage (0.08%) points below commercial bank rates. 3. All factoring is conducted without recourse, which allows SMEs to increase their cash holdings and improve their balance sheets.

Innovative and Revolutionary Step Change

- **Automated services:** The sale of receivables from the supplier to the factor and the transfer of funds from the factor to the supplier are done electronically. NAFIN's electronic platform provides 98 percent of its factoring services online, reducing both time and labor costs and improving security.
- **Outreach and diversity of services:** The electronic platform allows all commercial banks to participate in the program, giving national reach to regional banks.
- **Fraud Control and Prevention:** NAFIN's platform also reduces fraud as only large buyers can enter new receivables, sellers cannot submit fraudulent receivables. Moreover, since the bank is paid directly by the buyer, suppliers cannot embezzle the proceeds.

D. Key Success Factors

- **Legal and regulatory support** – Mexico's electronic signature and security laws have proven critical to NAFIN's success. In addition to the **Consistency between strategy and resource deployment.**
- **Cost effectiveness and diversity of services** – electronic channels reduce costs and provide a large portfolio of financial services to SMEs.
- NAFIN has entered into agreements with other national development banks to implement similar schemes in several Latin American countries.