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DISTRIBUTOR FINANCE

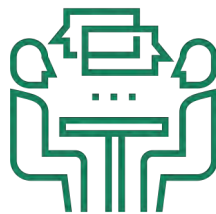
WEBINAR OF SUPPLY CHAIN FINANCE IN PAKISTAN



COGENCE LABS

Background & Vintage

- Cogence Labs is a coming together of highly experienced global management consultants who are focused exclusively on advising SCF and SME banking clients for over 10 years.
- We are responsible for the implementation of our advice and cover the entire spectrum of services required to deliver 'Access to Finance' as a business service to our Clients



CONTOURS OF DISTRIBUTOR FINANCE



Distributor Finance - Combination of factoring and payment term extension to Anchors' customers



GLOBAL SCF FORUM – DEFINITION*

Distributor Finance is the provision of financing for a distributor of a large manufacturer to cover the holding of goods for re-sale and to bridge the liquidity gap until the receipt of funds from receivables following the sale of goods to a retailer or end-customer

Synonyms

Buyer Finance, Dealer Finance, Channel Finance, Floor Plan Finance (latter not always strictly comparable)

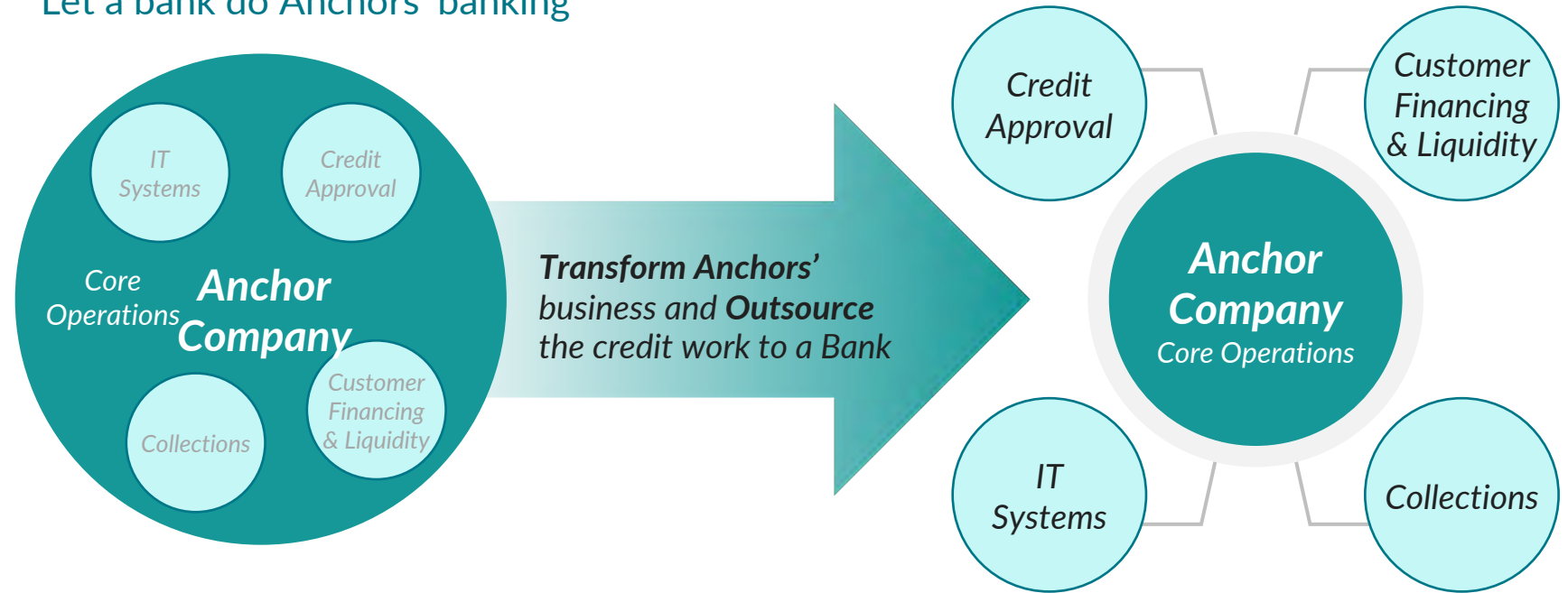
The Financing facility is offered to the distributor or buyer of a large manufacturer/corporate, the program arrangements are based on the strength of the supply chain linkage between Anchor and the distributors, especially their dependency to conduct business. The facilities are typically used for funding distributor's inventory and receivables on a short-term basis

Various risk structuring options with Anchor, such as:

1. Nil recourse to Anchor with **assignment of distributor / dealer's bank guarantee**
2. Nil recourse to Anchor with **recovery assistance and stop supply agreements**
3. Full recourse to Anchor - **corporate guarantee for entire program**
4. Partial recourse to Anchor
 - a. **Loss make up Guarantee**, usually based on percentage of portfolio.
 - b. **First Loss Default Guarantee**, anchor agrees to bear initial defaults as a certain percentage of program, bank bears any subsequent losses

Distributor Finance Lets Anchors Focus on Revenue Generation

Let a bank do Anchors' banking



Distributor Finance Lets Anchors Focus on Sales



Distributor Finance lets Anchors focus on their core mission of selling product whilst outsourcing all the banking work to their bank

This allows them to run their operations more efficiently and increase profits and customer service

This is a classic win-win!

Distributor Finance – a less risky way for Lenders to provide financing to SMEs



CHALLENGES

Small Distributors are regarded as high-risk borrowers due to insufficient assets, low capitalization, vulnerability to business

Inadequate financial information and /or business plans makes it difficult to assess their creditworthiness.

Vulnerable to fund diversion.

Unbanked, due to small size, cash-centric nature of the business, fear of taxation on banking transactions and lack of awareness of financial products.

ANCHOR LED PROGRAMS

1

Tie up with the Supply Chain Anchor to gain support and traction under the program

2

SCF Anchor shares information with the banks and reduces information asymmetry.

3

Special support and agreements with Anchor using covenants over and above the loan agreement. It can help in closing the loop on the possibility of diversion of funds.

4

The DF product is developed with Anchor's involvement and stake in order to have strong repercussions for the distributors in case of performance issues.



DF Platform Technology Benefits Anchors and their Distributors

Proven technology in wide usage

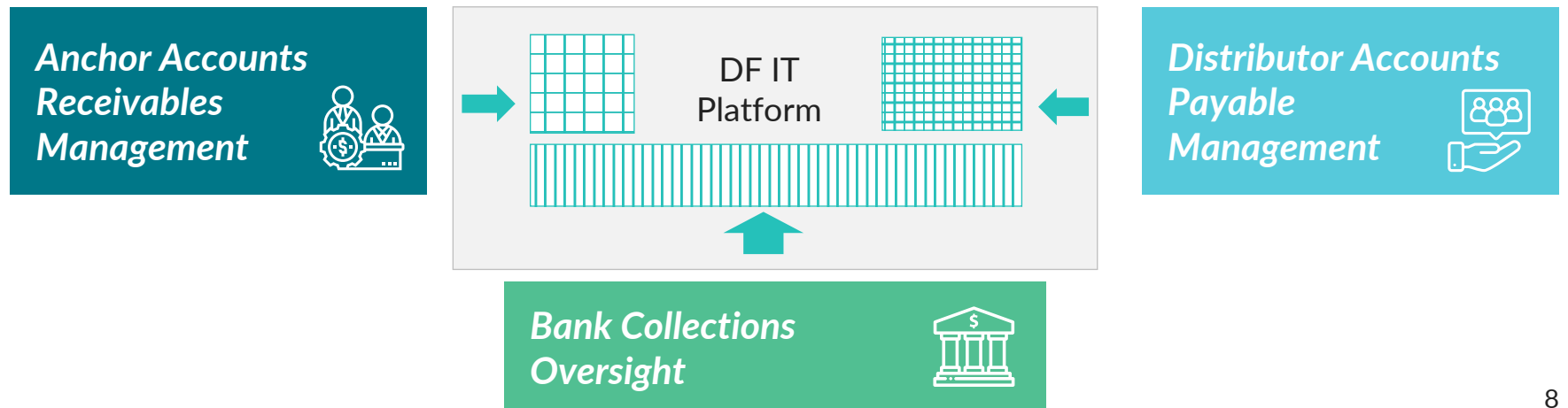
Platform helps manage end to end credit process

- Platform provides trade transparency to Anchor and their Distributors
- Platform encourages payment discipline with Bank monitoring Distributors
- Platform has rich data collection which can be used to systematically adjust credit limits and reassess Distributors
- Platform reduces the complexity with assigning limits and managing collections for a large amounts of Distributors

The DF Platform does more than automate payments

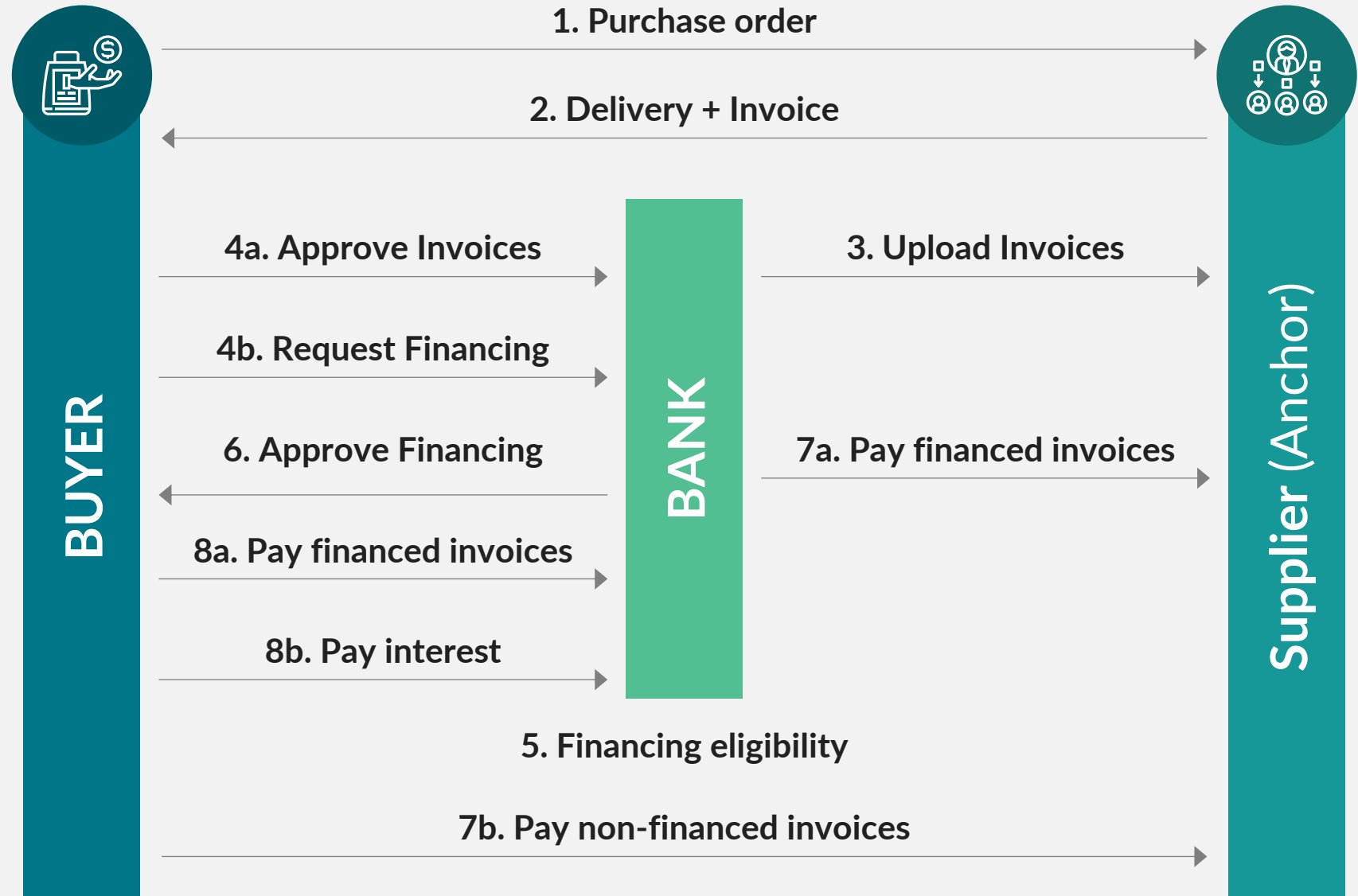
The platform is a tool to automate payments and enables the Bank to extend payment terms Distributors in a scalable manner. Additional benefits include:

- ✓ The platform tracks all payment flow data and identifies trends from your Distributors
- ✓ Platform improves visibility on trades to all participants, minimizing disputes
- ✓ As program scales, the platform can provide alerts as a Distributors' credit changes
- ✓ The structured nature of the program incentivizes Distributors' treasury to ensure timely and prompt payments due to the oversight by Bank and the potential to increase credit limits for good payment practices
- ✓ Platform provides an assured avenue to communicate with Distributors as this is the mechanism through which they can obtain credit and pay their invoices



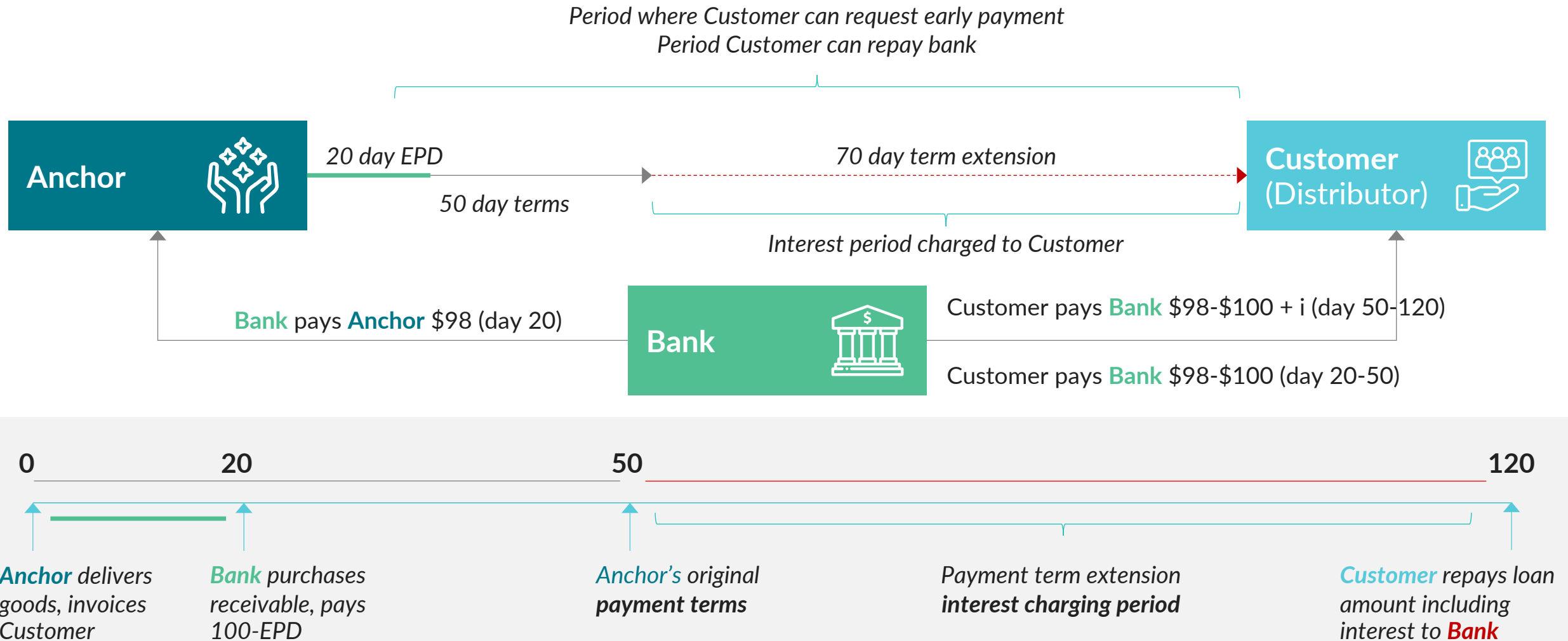
Detailed Invoicing Operations

Steps carried out via the SCF platform



Payment Term Modification

Visualization of possible implementation



Building Blocks – Risks & Controls



APPROACH



- Anchor Led program based

RISKS



- Commercial Risk
- Credit Risk
- Structuring Risk
- Documentation Risk
- Operational Risk
- Legal Risk
- Diversion of Funds

CONTROL MEASURES



- Program parameter
- Anchor Criteria
- Distributor Criteria
- Transaction Criteria
- Legal framework
- Process Control
- Direct Payment
- Dependency
- Monitoring frequency

MITIGATION



- Assignment of Rights
- Stop/Restrict supply
- Buy-back
- Recovery Assistance
- Distributor Cancellation
- Risk Sharing
- Security
- Insurance Coverage

Risk evaluation

Selecting control measures

Implementing measures

Performance reviews

Distributor Finance Legal Agreements

Platform Enables Scale Across Multiple Customers

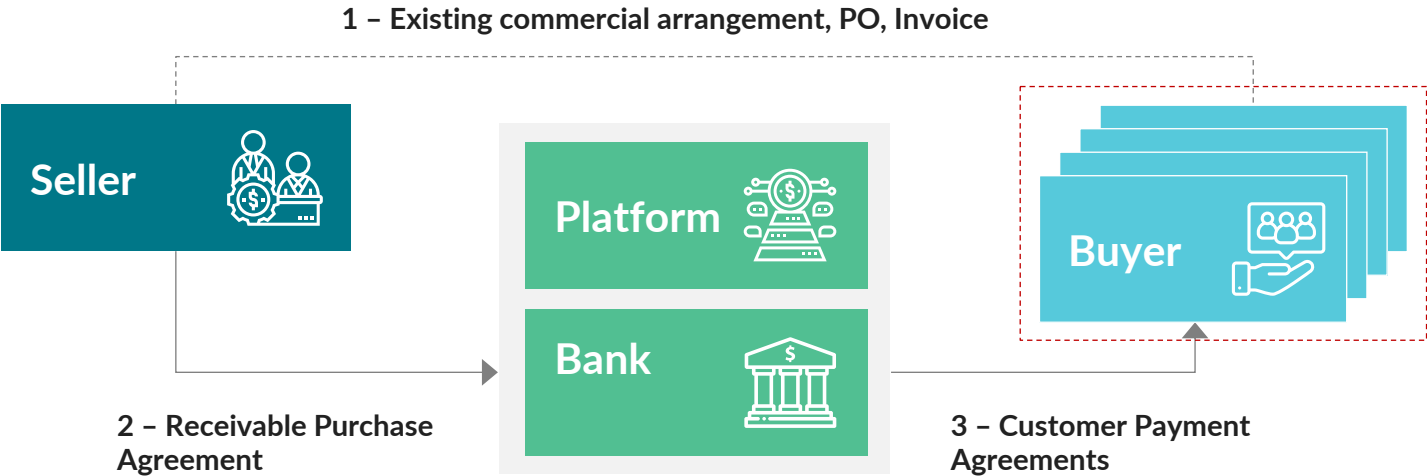
There are two key legal agreements: a Receivable Purchase Agreement and a Payment Agreement

These agreements allow the Bank to pay the Seller early and for the Bank to collect payment at maturity from their Distributors

Bank will constantly monitor payment data to ensure timely response to credit limit increase requests

** This will be tailored per Bank's lending practices. Recourse is typical in these structures to help cover non-credit related adjustments and to align interests between the bank and seller of assets.*

Distributor Finance Legal Documents



1

Anchors and their Customers maintain their existing commercial arrangements

2

A **Receivable Purchase Agreement (RPA)** is signed between Anchor and the Bank (by way of the platform)

- This agreement shifts all or part of the credit risk of collection to Bank
- This arrangement could also be structured as recourse or non-recourse
- Recourse is usually between 5-10% of overall limit*

3

Customers individually sign a **Customer Payment Agreement** with Bank via platform)

- This agreement gives the Bank the authority to collect payments from Distributors and pursue a legal course of action if payment is not made



Distributor Finance Accounting Effects

Off Balance Sheet Treatment and Improvements to Key Performance Indicators (KPIs)

Accounting Effects and Impact on KPIs

Distributor Finance involves a true sale of receivables from Anchor to Bank. This helps to reduce Anchors' and their Customers' required working capital.

Net working capital requirement = Inventory + Accounts receivable – Accounts Payable

Off Balance Sheet treatment

- Off balance sheet treatment has varying importance for businesses
- As DF involves a true sale of receivables to the Bank, properly structured, this removes A/R from Anchor's balance sheet and replaces them with cash
- For Customers, an extension of payment terms is the equivalent to a revolving credit facility without the debt which could negatively impact existing covenants and can be costly

FOR ANCHOR



- DF converts Accounts receivable to cash
- Days Sales Outstanding (DSO) = Accounts Receivable / (credit sales/number of days)

DSO decreases for the Seller in a DF program. They collect cash sooner, have greater certainty on collections and enable extended terms to their Customers in the process.

FOR DISTRIBUTORS



- DF delays when Distributors need to pay their outstanding invoices, saving cash
- Days Payable Outstanding (DPO) = Accounts Payable / (cost of sales/number of days)

DPO increases for the Customer in a DF program. Increased DPO means improved working capital position and free cash flow.

Net working capital required decreases for both you and your Customers

Mini Case Study

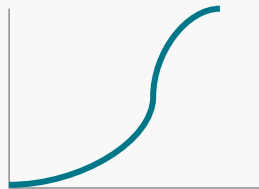
Short term financing is crucial in lower margin industries



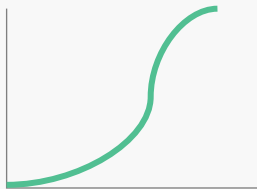
Distributor Finance can help win business and ensure required working capital exists

When Sellers and Customers are dealing with sales growth, DF is often an elegant solution to many problem

Seller



Sales are growing rapidly



But so are working capital requirements!

Customer



And their Customers can sell as much product as they can order, but due to their small size, are having trouble obtaining affordable finance

Bank



Bank suggests DF to help both the Seller and their downstream supply chain



Increase Customer terms from 50 to 100 days



Pay Seller on day 20

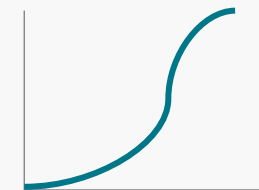


Use EPD already provided but not used to subsidise cost to Customers

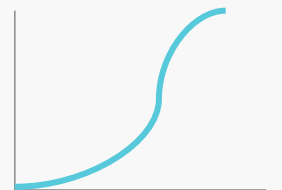


Implement technology system to improve data collection and planning

Now as sales grow, so does cash in a virtuous cycle for Customer and Seller



Sales



Cash

Overall payment and collection discipline has improved across the supply chain and now Seller is strongly positioned against its competitors to grow even further.

Seller

Customer

Bank



DISTRIBUTOR FINANCE PIONEER IN BANGLADESH



The City Bank

From 1983 till date, City Bank has been a case study in evolution, having transformed over time from a traditional organization to a critically acclaimed multi-faceted institution that embraces global best practices and chooses to be at the forefront of technological initiatives. Unlike many, the Bank's criteria for success are not only the bottom-line numbers but also the milestones set towards becoming the most complete bank in the country.

Recent awards and recognitions:

➤ **2018 Finance Asia Country Awards:**
Best Bank in Bangladesh

➤ **2018 Finance Asia Country Awards:**
Best Investment Bank in Bangladesh

➤ **Asiamoney Best Bank Awards 2018:**
Best Premium Banking Services

➤ **Global Finance Consumer Banking:**
Best Digital Bank In Bangladesh

132
Branches



3,500+
Employees



369
ATM+CDM



1,700K
Customers



1,068K+
Cards Issued



2
Airport
Lounges



24K
POS Machines



13K
Merchants



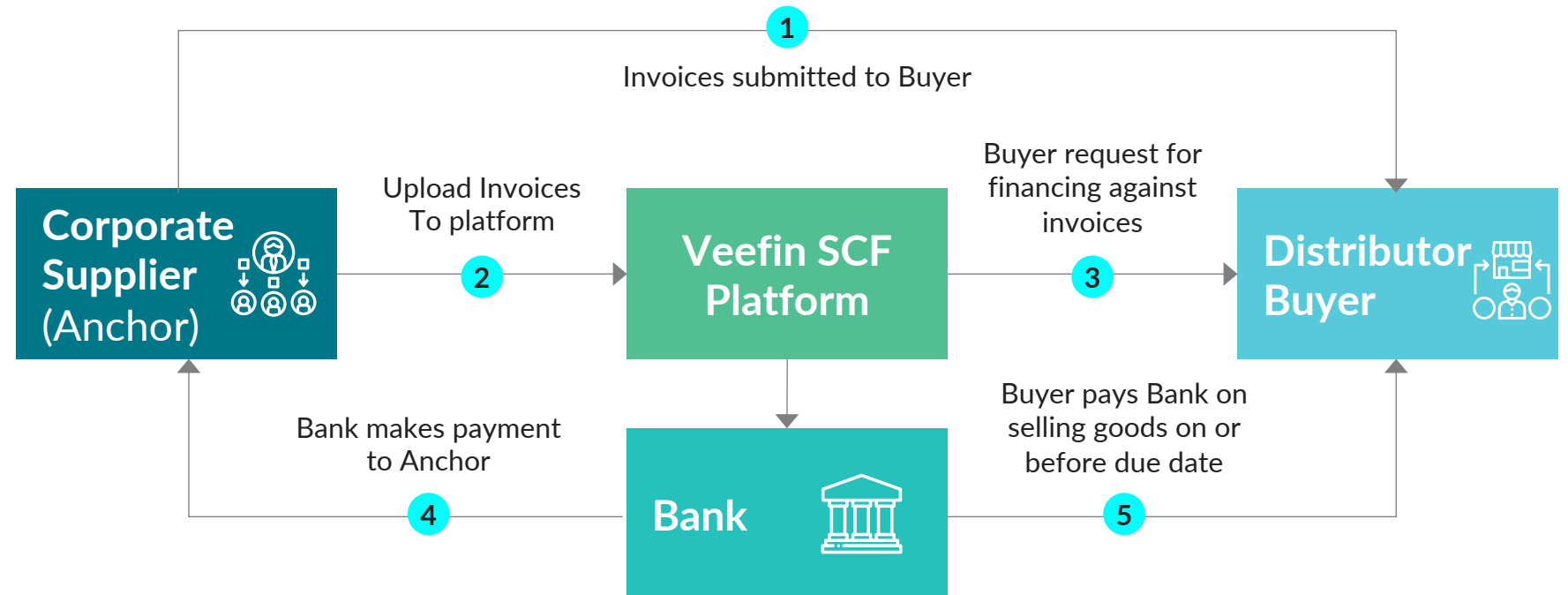


The Citybank Product Highlights

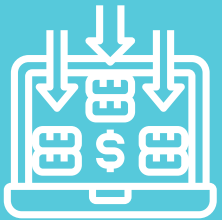
Distributor Finance (DF) helps a large Corporate Supplier sell more inventory and assist their Buyers with financing

The bank pays directly to the Anchor based on established trading relationships between Anchor and distributor

1. Increased sales volumes for Anchors, reduced receivables
2. Bank protection includes First loss and Stop supply agreements with Anchor



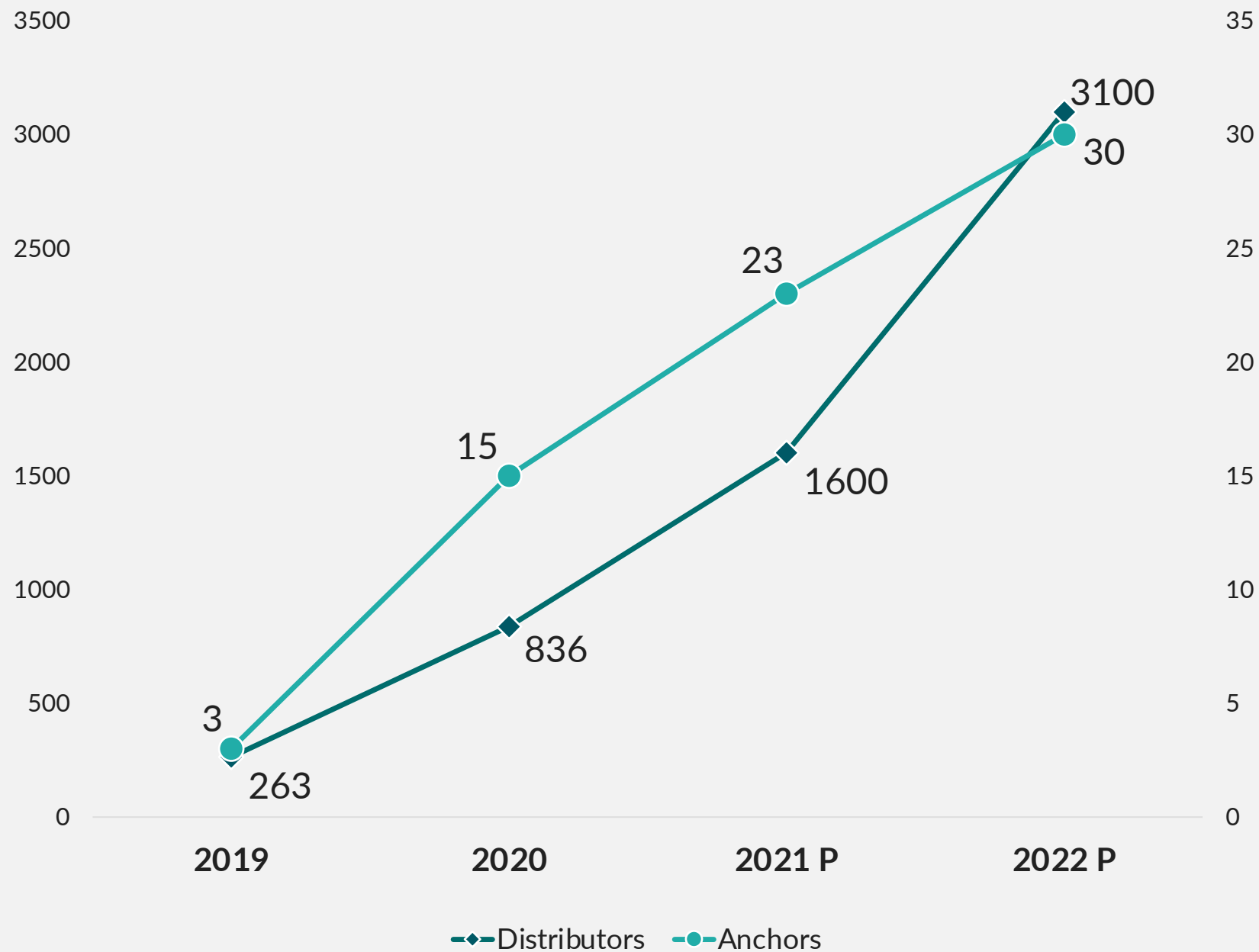
Organogram



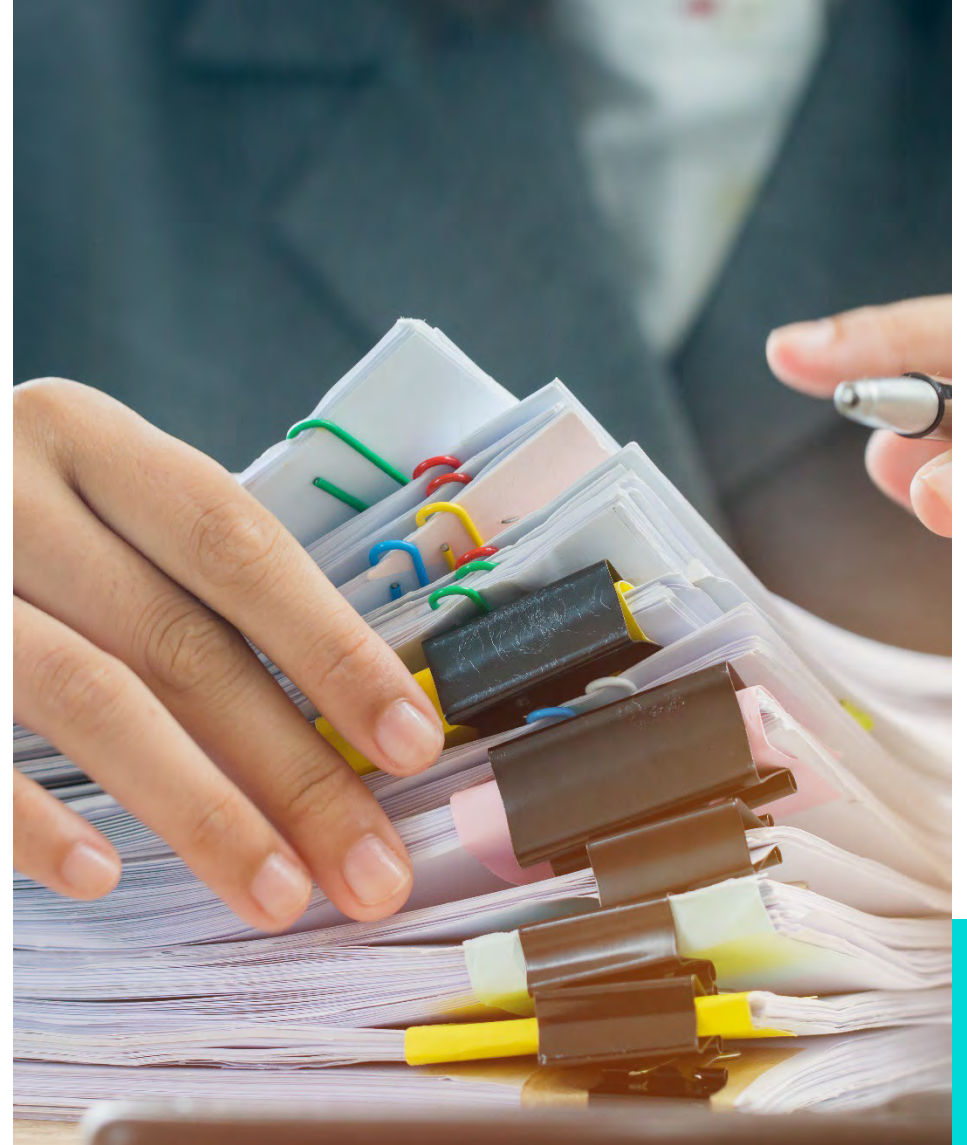
Credit is
managed by
Small Business
Credit team



The bank has disbursed 48,000 invoices worth USD 1,120 million over the last three years



APPENDIX





‘ACCESS TO FINANCE’ IN A BOX

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