Profit, purpose and collateral
The market opportunity for movable property lending in Colombia

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PROFIT, PURPOSE AND COLLATERAL
THE MARKET OPPORTUNITY FOR MOVABLE PROPERTY LENDING IN COLOMBIA

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1.0 INTRODUCTION

Colombia has invested heavily in modernizing its legal system and establishing a digital registry to enable movable property lending (MPL). How big are the market opportunities that this has created?

This paper seeks to answer this question for banks, financial institutions and other investors considering opportunities in MPL. The first section describes the scale of the market opportunity, based on market data and qualitative evidence from early entrants. The second and third sections define priority market opportunities where perceived and actual barriers to entry may be more easily overcome. The final section considers different categories of institutions positioned to capture market share, and which MPL products and services are likely to provide a greater competitive advantage to market entrants.

The main goal of this paper is to highlight the business potential for MPL in Colombia and help catalyze supply-side investment. In doing so, this paper also provides a framework for evaluating factors that shape the market opportunity for MPL in other countries at similar stages in development.

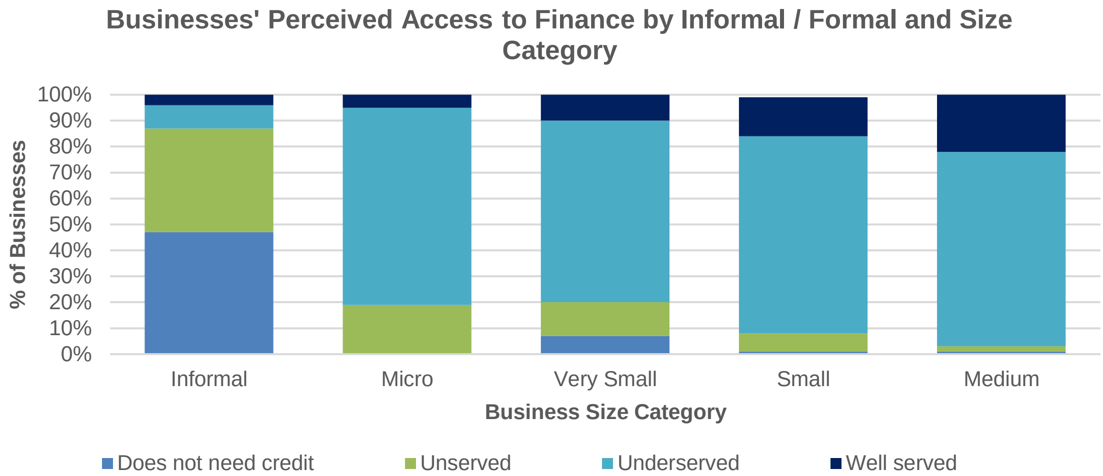
What is movable property lending (MPL)?

Movable property lending (MPL) is the use of movable assets – such as equipment, inventory, receivables, motor vehicles, agricultural products, livestock, etc. – as collateral for loans. MPL offers the market opportunity to extend the borrower base beyond those able to provide real estate or immovable property (i.e. land and buildings) as collateral. Further, the availability of this collateral reduces the risk of default (compared to the alternative of unsecured lending) and thus is likely to have beneficial impacts on the availability and cost of credit.

2.0 THE MARKET

Micro, small and medium enterprises (MSMEs) are a vital segment of the Colombian economy, responsible for nearly 95% of employment and over 40% of GDP.[i] Across the country, it is estimated that there are over 4 million MSMEs, including nearly 250,000 formalized small and medium enterprises (SMEs)[ii].

Yet today, SMEs are dramatically underserved by the country's formal financial system. According to the Colombian National Association of Financial Institutions (ANIF), less than 35% of SMEs are formally accessing credit[iii]; the IFC estimates over 70% of SMEs are underserved[iv] in relation to their financial services needs. While statistics may vary, all tell the same story – financial institutions are leaving a large customer segment untouched.[v]



Source: IFC, 2010

SMEs present a challenge for traditional lending models, as many SMEs lack the financial statements, credit histories and traditional collateral to qualify for credit. Yet over the past five years, the Colombian government has been investing heavily in creating a new channel to reach customers in this segment: movable property lending. [1]

Movable property lending represents an opportunity to tap a $6.2 billion credit market among formal SMEs alone; including micro and informal enterprises, the market is estimated at over $23 billion

In 2013, Colombia passed Law 1676 enabling financial entities to offer movable asset-backed lending products, with the goal of supporting small business owners to increase their access to finance. Several decrees and resolutions were subsequently incorporated to bolster the sustainability and feasibility of the legal framework. Major resolutions included the implementation of the movable guarantees registry in 2014, the establishment of movable assets as suitable collateral and the definition of Chamber of Commerce tariffs for contract execution procedures. These efforts continue, with work underway to codify approaches to valuation of collateral and introduce electronic invoicing to facilitate invoice-based MPL lending.

According to global estimates, movable assets – any asset that is not fixed to the ground, such as vehicles, equipment, or receivables – comprise on average 78% of total business assets[vi]. For growth stage, women or minority-owned SMEs that are less likely to own real property, the share may be even higher. While not all movable assets can effectively serve as collateral, conservative

[1] “Credit market” (see text box) refers to the total estimated face value of the loans required to fill the outstanding demand for credit represented by SMEs in Colombia that have accounts receivable, equipment or inventory that could be used to secure a loan (estimated 86%), and either report being unserved or underserved by the Colombian financial system (estimated 53%). The total is based on an estimated average credit gap per business, according to the business’s size category. It is assumed that MPL could address part of this market. Insufficient data is available to assess what share. It does not represent the potential revenue or profit to the lenders, which would be a fraction of this value.

estimates posit over 85% of Colombia's SMEs have suitable assets in the form of either accounts receivable, equipment or inventory[vii]. Based on an average financing need[viii] per enterprise by business size category, that represents an opportunity to reach a $6.2 billion credit market among formal SMEs alone based on conservative estimates; including micro and informal enterprises, the market is valued over $23 billion[ix], creating an opportunity to significantly increase the total value of commercial MSME lending in Colombia today, which is $15.9 billion[x]. Both estimates exclude the market for MPL among large enterprises, making the expected opportunity even greater. (See Appendix A for a detailed explanation of how these estimates were derived.)

In Colombia, businesses providing finance to SMEs are demonstrating the potential of this market. Companies such as Mesfix.com, a financing company focused on factoring through a Crowdfunding Marketplace (the sale of invoices in exchange for a discounted sum of cash to a community of people) have seen rapid growth (see box below). A survey of over 200 Colombian SMEs by independent investment banking firm Heritage Capital found broad agreement among participants over the need for tools to finance technology equipment upgrades. The market remains wide open and far from saturated.

Case study: Technology to penetrate the factoring market

Factoring is a financial transaction in which a business sells its invoices, or receivables, to a third-party financial company known as a "factor." The factor then collects payment on those invoices from the business's customers. Mesfix (www.mesfix.com) leverages private investor funds to provide factoring services for SMEs in Colombia. They provide a web platform that connects companies needing cash flow to a community of people interested in investing. They help MSMEs in Colombia to grow, by allowing them to sell their receivables at a discount in order to improve their cash flow, and at the same time create a unique, short-term and high-yield investment product.

In their early years of operation, Mesfix has experienced rapid growth, having enabled some $5m in lending to SMEs, validating a market need for agile SME financing.

These businesses are showing that MPL can be profitable today, and ongoing initiatives by the government will only continue to drive entry barriers and transaction costs down[xi]. Businesses in financial services and other sectors face a critical window of opportunity to establish themselves in the MPL market and capture customers ahead of these changes.

Who are MPL customers?		
MPL has applications for businesses of all sizes. However, its greatest potential to expand access to finance is among SMEs, particularly those in early growth stages, or those that may not own real estate or land. The following illustrative profiles offer a few snapshots[xii]:		
Clara Clara owns a confectionary manufacturing company based on the outskirts of Bogota. She holds a steady stream of debtor invoices, and leases her property and equipment. She is looking to expand her business, but without a bank offering invoice-backed MPL lending, cannot use her accounts receivable as collateral for credit.	**Miguel & Juan** Miguel and Juan are co-owners of a professional services company based in Medellin, looking to upgrade their IT infrastructure to enhance productivity and service offering. Their business performs well, but without a lender offering IT-infrastructure-backed MPL lending they cannot get credit to upgrade their systems and expand.	**Maria** Maria owns a mid-sized dairy farm supplying a major dairy manufacturer. She is seeking additional credit beyond her current loans to scale her enterprise but has already taken loans secured with her business's real estate or land. If a bank or other lender could accept her cattle or even milk production as moveable property collateral, she would be able to secure the financing she needs to grow her business and employment.

3.0 ENTRY OPPORTUNITIES

Colombia's MPL reforms thus created a legally viable opportunity for banks, financial institutions and other lenders to access the MPL market. What will it take for lenders to enter and fully benefit from this recently opened market opportunity?

While in theory a bank could enter the MPL market by offering movable property-backed loans across a range of SME sectors and asset/collateral catergories, our interviews and research suggest that the best strategy for financial institutions to enter the MPL market is to specialize. By becoming familiar with the valuation, maintenance requirements, and resale markets for specific classes of assets held as collateral (e.g., accounts receivable vs. inventory vs. equipment) and the particular characteristics of SMEs in specific industries (e.g., retail vs. agriculture), lenders are able to develop appropriate products, reduce transaction costs, mitigate risk, and ensure capabilities to enforce collection in the case of default. Different industries and asset classes create different risks and opportunities, and initially focusing on a small set of these will make it easier to overcome initial barriers to entry. We discuss the challenges of collateral valuation, maintenance and resale in more detail later in this document.

Asset categories range in complexity in terms of maintenance, valuation, enforcement and liquidation, and may depend on different supporting legislation and industries. Colombia's legal system enables any movable asset to be pledged as collateral – ranging from a car to a patent[xiii]. Based on the capabilities present in Colombia's financial system and the structure of the country's economy, three main opportunities emerge as the most opportune entry points for both borrowers and lenders: accounts receivable, equipment financing and inventory-based financing.

3.1 ACCOUNTS RECEIVABLE

Of all types of movable collateral, accounts receivable (often combined with inventory) are perhaps the most broadly applicable and easily accessible in the Colombian financial system today.[xiv] More than 55% of SMEs across all sectors are believed to have accounts receivable among their assets[xv]. Based on conservative estimates of the share of SMEs in need of finance, this suggests that there are more than 67,000 SMEs in need of finance with invoices that can be used as collateral, representing a $2.7 billion financing opportunity[xvi].

Because it is based on invoices with a clear cash value, accounts receivable financing eliminates many of the challenges of entering the market for lending against other asset categories. For example, the cost and uncertainty of valuing the asset pledged as collateral is largely eliminated by the clear cash value of the invoices pledged, although a discount may be appropriate to account for the possibility of some invoices not being paid. Similarly, resale costs and resale market uncertainties are largely eliminated as pledged invoices readily turn into cash when the invoice is paid. Invoice financing is also relatively industry agnostic, creating a pathway to a broader potential market. By using a large number of types of accounts receivable (e.g., supplier invoices or credit card receivables) as the borrowing base in a credit transaction, the risk of default is spread and thus reduced.

Different forms of accounts receivable financing are already happening in Colombia today, the most common being factoring. Even with factoring activity today, the market is far below potential and remains an attractive entry point for institutions new to MPL. The factoring market in Colombia today is $9.6 billion or 3% of GDP, much smaller than in some peer countries, such as Chile (12% GDP) and the UK (15% GDP)[xvii]. Given the pervasiveness of accounts receivable in the economy, there is plenty of room for growth.[xviii]

"Over 70% of our loan activities leverage accounts receivable. We coordinate with our client's client, utilizing their invoices to facilitate repayment." – José Ibarra, Aktiva

An alternative yet equally attainable form of accounts receivable-backed lending that can be enabled by MPL is supply chain finance. Rather than financing companies by buying their invoices, financial institutions can offer loans secured by accounts receivable that they would have title to in the case of default.

One industry where the opportunity for MPL to successfully support invoice-based financing may be in suppliers of food and other retail goods. These industries have robust supply chains in Colombia that present attractive opportunities to provide credit to suppliers secured with accounts receivables backed by highly reputable local and national food retail companies. Food retailing continues to represent one of the largest domestic markets in Colombia, estimated at $57 billion in industry annual revenue[xix].

Over 20% of SMEs are already engaged in producing retail food today, and SMEs account for an estimated 95% of suppliers of Colombia's largest retailers such as Éxito or Nutresa[xx]. Within retail food, dried fruit products, coffee, chocolate and dairy present potential sub-categories of focus. Other high potential retail sectors include household appliances and furniture.

In Colombia, MPL lenders can reduce risk further by taking advantage of other local infrastructure, including the *cuenta control* mechanism (this mechanism serves as a "lock box" enabling lenders to ensure they receive first payment from their clients' buyers before issuing remaining funds to borrowers). An electronic invoicing system due to be launched in 2019 by the Ministry of Commerce will require more SMEs to issue invoices electronically, helping to make invoicing more transparent, reducing risks and significantly expanding the market.

Case study: Accounts receivable financing in the dairy supply chain

Alpina is a multinational Colombian dairy company. The company sources from Colombian producers, as well as producer-associations that provide trainings and facilitate payments from Alpina to producers. Alpina requires electronic invoicing and makes use of digital banking to pay their producers. With the credibility that Alpina has as a multinational company, electronic invoices in Alpina's name can become both credible and suitable collateral for the associations and/or the producers seeking financing opportunities. Currently, associations often provide credit to the producers, a practice that they can find challenging. With accounts receivable financing, financial entities can step in and support producers when suitable and credible collateral is available, backed by Alpina, a large reputable company with a long history of credit.

3.2 EQUIPMENT FINANCING

Equipment-dependent business makes up a significant share of the Colombian economy. An estimated over 45% of MSMEs in Colombia use some form of machinery or equipment to operate their business, mostly in the industrial and technology sectors[xxi].

Opportunities for equipment financing come in two main forms that build on existing vehicle financing arrangements commonly used across Colombia today: (1) leasing & service agreements (where the asset being purchased remains "owned" by the lessor), and (2) working capital or longer term loans secured with equipment as collateral. Both exist in Colombia today, more commonly leasing. The leasing industry is around $13.1 billion, among the largest in the region, and grew by 5% last year[xxii]. There is still significant market growth opportunity, particularly into new categories of equipment. Service agreements – based on the successful performance of the equipment according to set terms – could provide an alternative to the leasing model. Colombia's new MPL law and registry enables greater transparency on the status and associated liens of leased collateral, providing all parties with the added security to expand leasing activity.

Equipment-backed financing – using machinery or equipment as collateral to secure a working capital line of credit – is a complementary market opportunity to leasing, building on similar industry knowledge and capabilities. Few enterprises have successfully penetrated this market, presenting significant opportunities for growth.

Two key opportunities for investment are technology and industrial equipment. Unlike accounts receivable financing, equipment financing depends more on lenders specializing in a specific OEM[xxiii] sector and set of asset-types, so that they develop the knowledge required to accurately understand and value the maintenance requirements and resale markets for their collateral.

The Colombian information technology (IT) sector has an estimated market demand of over $30 billion, growing at 3% in 2016 despite the country's economic slowdown that year[xxiv]. Start-up ventures have seen early traction providing lease-to-own models to finance SME technology upgrades to cloud infrastructure, with plans to offer working capital loans secured by that equipment in the future. This is particularly relevant to SMEs in urban areas with more IT infrastructure and in service and IT industries. Over 65% of Colombia's MSMEs are located in departments classified as urban, indicating that tech equipment financing is an opportunity to reach a majority of Colombian SMEs.[xxv]

Industrial equipment similarly offers a lucrative market. Industrial activity accounts for a third of the Colombian GDP and while some segments have seen lower growth rates in recent years, it remains a critical part of the economy and a key source of demand for corporate financing. Construction will be a significant driver of industrial growth with significant equipment financing options, fueled by the government's $6.2 billion Plan for Production and Employment (PIPE 2)[xxvi].Healthcare and pharmaceuticals also present growing and attractive industries for equipment financing, and a focus of investment promotion activities. Colombia is the third largest medical devices market in Latin America, with a market valued at nearly $1.4 billion[xxvii].

Early discussions are underway among development institutions and the Colombian government for the development of an electronic auction platform for resale of repossessed moveable collateral, to help overcome liquidation hurdles associated with this category of lending. This would reduce the costs of providing collateral resale services to the sector, boost the overall market and provide MPL lenders an easier pathway into different categories of equipment.

Relevance of collateral by industry			
The market assessments for each category of collateral are based on an analysis of the relevance of collateral by sector – namely what share of SMEs are likely to have each type of collateral in each sector. See Appendix B for further details on the approach and calculations			
SECTOR	Accounts Receivable	Machinery & Equipment	Inventory - Finished
Administrative and Support Services			
Agriculture			
Arts, Entertainment, and Recreation			
Construction			
Education			
Financial Services and Insurance			
Healthcare			
Hospitality and Restaurants			
IT and Communications			
Manufacturing			
Mining			
Other Services			
Power and Gas			
Prof., Scientific, and Technical Services			
Public Administration and Defense			
Real Estate			
Retail, Wholesale, and Auto Garages			
Transport and Warehousing			
Water and Sanitation			

LEGEND (% of SMEs in sector likely to have asset-type) None (0%) → 100%

3.3 INVENTORY-BASED FINANCING

Inventory can account for a large share of an SME's assets depending on the business, making it one of the most important and potentially lucrative sources of collateral. In Colombia, industries that depend heavily on inventory – including agriculture, manufacturing, and retail – account for an estimated 45% of SMEs by number[xxviii]. Keeping transaction costs equal, including inventory-backed lending to formal and informal MSMEs could help financiers reach an $8.7 billion financing market.[xxix]

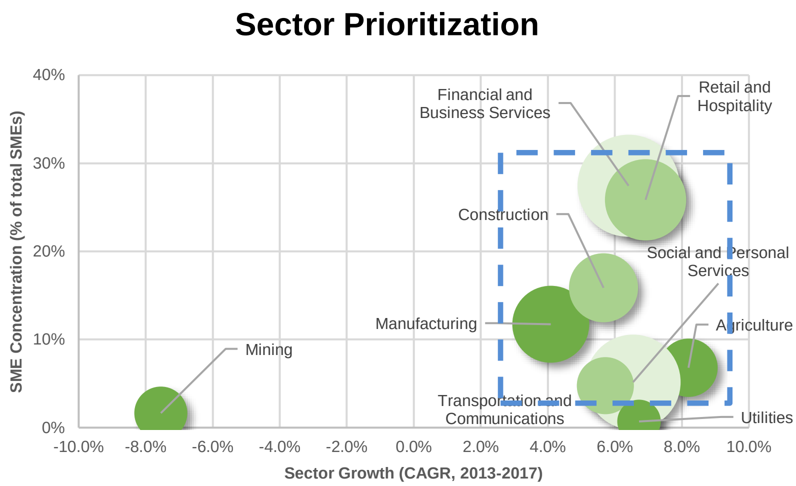
"In agriculture, the sectors that farm long-term crops may benefit from inventory-backed financing, given Colombia's economic activity in the agricultural sector and proven market demand." – Rafael Mejia, Bolsa Mercantil

Inventory-backed lending depends heavily on specialization. Relative to other forms of collateral, inventory can pose technical challenges as it changes form or composition over the term of the loan, making it perhaps the most difficult entry point of those prioritized in this assessment. Developing capabilities in this category of MPL presents a unique opportunity for lenders to establish differentiated, defensible market positions in key industries driving Colombia's economy. Colombia's market structure points to two main opportunities for inventory financing:

Food retail: Colombia food retail supply chain offers similar opportunities for inventory financing as accounts receivable. Supply chains feed into distribution and retail outlets, as well as restaurants and hospitality, fueled by cultivation of the tourism industry. Heavy government investment in agriculture will continue to drive growth in the industry. Food sells at retail rapidly, and usually for cash payments – thus funds lent against retail food inventory rapidly converts into the funds needed for repayment – suggesting that MPL lending would be highly suitable for working capital financing for food retailers.

Agriculture: Agriculture is one of the more complex forms of inventory, because crop cycles cause inventory to shift continually. However, financing based on agricultural inventory represents a significant growth opportunity for specialized players in Colombia, especially if combined with crop insurance. Growth in agriculture has been receiving significant government support, and is outpacing the overall economy, accounting for an increasing share of GDP[xxx]. The presence of robust supply chains and specialized services makes it amenable for inventory financing relative to other industries. Inventory financing could also be an alternative to reach informal/semi-formal businesses (which are dominant in the agricultural sector) as opposed to accounts receivable.

Sector/Industry attractiveness



LEGEND

Size = Contribution to total Colombia national GDP

= 10% total GDP

Color = collateral prevalence

Color	% SMEs with collateral
	Above 60%
	Between 30%-60%
	Below 30%

Sources: Banco de la Republica, Supersociedades, Deloitte Analysis

4.0 OVERCOMING MARKET BARRIERS

In our interviews with Colombian institutions (see Appendix C for a list of interviewees), those considering investment in MPL commonly refer to three key barriers: valuation, repossession, and resale of moveable assets pledged as collateral. While these point to areas of the Colombian economy that are less developed than in some mature markets, our research suggests that these challenges can be overcome through strategic focus, partnerships and investment. Success, moreover, can create a pathway to market leadership for early pioneers.

4.1 VALUATION

When interviewed, most financial institutions cite valuation of collateral as a key obstacle to MPL, pointing to the lack of valuation standards; the payment of fees for valuation services; and the cost and technical challenge of monitoring an asset's value over the term of the loan.

While Colombia's valuation industry is less developed than others in more mature MPL markets, there are clear paths to overcoming this barrier. A market entry decision to focus on a specific asset class or industry sector will enable a lender to develop the knowledge, capacity and relationships to effectively judge the value and condition of assets pledged. Similarly, strategic partnerships between banks and other actors that know a sector well (for example, asset manufacturers, distributors, retailers, and servicing / maintenance companies) can overcome near-term gaps in valuation skills, and in turn stimulate demand that will ultimately encourage market maturity.

A focus on accounts receivable and invoice financing similarly presents a clear path around valuation barriers. These assets come with assigned dollar values, thereby negating the need for valuation beyond discounting for attrition/non-payment rates.

4.2 REPOSSESSION

Repossession represents a second variable in MPL, one that is commonly faced with fixed asset-backed lending. Lenders fear the potential for movable assets to be relocated or “disappear” before they can take control of the asset. Many, particularly microfinance institutions (MFIs) and banks, also perceive potential impact on brand value and reputation among customers in the event of asset repossession as another risk.

Mitigating the possibility of asset flight comes down to relationships, monitoring and asset selection, and in some cases, proper use of insurance. Building close, collaborative relationships with borrowers and lending based on trust, risk profile and cash flow is one of the most effective preventative actions lenders can take to avoid borrowers disappearing with assets. Monitoring for early warning signs of financial distress can also help manage the relationship and avoid escalating circumstances that can lead to flight. Finally, selecting “less movable” assets can be a third mechanism, whether using Colombia’s *cuenta control* (lockbox) mechanism to secure invoice payments or focusing on machinery and equipment with links to technologies that can be shut off remotely.

Interviewees agreed that the experience of financial institutions in Colombia has demonstrated that by investing in community relations, they can earn sufficient community trust to seize collateral when justified without severely threatening their brand and customer base. Long-term investment and presence in communities, and commitment to working with borrowers in distress can deconstruct perceptions that lenders are focused on extracting value from customers and create a sense of justification when assets previously pledged as collateral are seized.

There is evidence, further, that perceptions of this risk may be over-emphasized. Banks’ current loan books show almost 4% of credit in arrears[xxxi]. This suggests a degree of experience with dealing with clients in default, and the range of remedial options up to and including potentially repossessing and reselling assets if needed.

4.3 RESALE

Asset resale presents a third commonly cited barrier – how can a lender convert seized assets into cash? For fixed property-backed lending, the real estate market presents a clear (if illiquid) channel. The same is true for other specific types of movable assets, such as motor vehicles. For other types of collateral, it can be less clear.

As with other entry barriers, specialization and partnerships are key to success. Focusing on accounts receivable and invoices is the most direct route, which avoid the possibility of getting left with a physical asset that to sell, must be stored, maintained and resold.

For physical assets, concentrating on a specific asset class or industry sector will enable a lender to develop the market knowledge and relationships to store and dispose of seized assets appropriately. Similarly, when accepting equipment and inventory as collateral, partnering with a retailer, distributor or manufacturer with existing customer networks, sales channels and product maintenance capabilities can be a similarly effective tactic.

The Colombian government and development institutions are currently evaluating the potential benefits of setting up an electronic resale platform to facilitate the liquidation of repossessed assets. Although in early stages of conceptualization, such a platform would help consolidate and expand channels for product resale, helping to minimize risk associated with asset resale.

Recognizing the importance of resale, it is likely that lenders may realize significant losses when repossessing and liquidating assets based on the experience of mature MPL markets given resale costs and asset depreciation. In the U.S., for example, automobile financiers obtain only about ten percent of the amount due in any given repossession. Rather, the true value of MPL enforcement is in deterring other borrowers from default by signaling commitment to take action if debts are not repaid. Credible pursuit and seizure should be the main focus of MPL enforcement.

Managing investment risk profiles: An opportunity for blended finance?

What is "blended finance?"

Blended finance uses development finance and philanthropic funds to reduce risk, improve returns and thus attract profit-seeking private investment to a sector where it may not otherwise invest. It works to shift the risk-return profile of investments in emerging or frontier markets with high potential for social impact, serving to overcome risk, cost, and capacity barriers that would otherwise inhibit private investment.

Business and government have been practicing various forms of blended finance for decades. However, only since it was officially defined by the World Economic Forum (WEF) in coincidence with the launch of the 2030 Sustainable Development Goals (SDGs) has it become recognized as a standard investment approach and gained market traction. Unlike the transactional nature of bonds and other impact investments, blended financing deals are unique in that they often entail an active partnership among investors. These deals generally include flexible capital and deal structures that favor corporate investors, but may also include other forms of collaboration among investors that can lead to efficiency, productivity or other impact gains. Private sector investment funds active in blended capital include Encourage Capital (which includes an inclusive finance fund); Alphamundi (active in Latin America) and CrossBoundary. Foundations and public sector development institutions, such as USAID, are also increasingly pursuing blended finance approaches – for example, in the case of USAID, using the Development Credit Authority (DCA) guarantee mechanism to reduce risks and thus enable private sector investment.

How can blended financing apply to MPL in Colombia?

With the potential to bridge a significant gap in financing and improve overall inclusivity of the Colombian lending system, MPL presents a clear opportunity for private sector and development dollars to work together for social and economic gains. Development funding can play a key role in shifting the risk profile of (especially initial) investments to develop MPL products and services to catalyze private sector capital, and MPL market entry and development.

Blended financing opportunities could take a number of forms, built on a variety of partnerships. One option for collaboration could be in the form of a partial guarantee, applied to a specific bank, or a consortium. This would function similarly to current Fondo Nacional de Garantías (Colombian Guarantee Fund, or FNG) or USAID DCA guarantees in that development dollars would be used to partially guarantee MPL products issued by lenders in the case of default, thereby limiting cost and risk to the lending institutions. While the terms of a guarantee could vary, a second-loss guarantee or guarantee funding for a determined period during which the lender builds MPL capabilities sufficient to "move off" the guarantee could help ensure that guarantees work to overcome perceived asset valuation, seizure and liquidation barriers, thereby catalyzing market development and strengthening the overall MPL system.

Alternative partnerships could include joint investments into the development of an enterprise that would offer MPL products and services. Depending on the nature of the development funder, both could assume equity stakes in the enterprise and shared ownership. Other models could include the development institution as a grant donor or subordinate debt financier, with the private donors maintaining ownership over the enterprise and responsibility for repayment. Still other partnerships could leverage development funding and resources to finance technical assistance and capability development.

Advantage for private investors: The key benefit for private investors (i.e. prospective MPL lenders) is the opportunity to reduce initial risks or costs to penetrate the MPL market. While support may not be

Managing investment risk profiles: An opportunity for blended finance?
sustainable long-term, this can improve the business case for overcoming initial investment and learning hurdles and ultimately position lenders to secure a first mover advantage in the market. ***Key considerations:*** Given development funders' focus on social and economic impact, investors will likely need to commit to focusing on certain customer segments and evaluating impact. While this may entail the development of some added capabilities in the short term, meeting these requirements can have significant positive benefits for lenders in the long term. Focusing on women borrowers shown to have lower default rates can improve lenders' overall portfolio performance, in addition to winning a large, underserved customer segment. Capturing different forms of data can not only help inform better corporate decision making, but also position investors to serve government and the development donor community, creating opportunities for new lines of business. Building a more diverse customer base can also help improve lenders' institutional resilience over time.

5.0 WHO WILL DRIVE THE MPL MARKET?

When people think of MPL suppliers, they commonly think of banks. Yet, while banks are important to the MPL market, they are not the only candidates. Early forms of MPL are already emerging within a range of institutions across the Colombian financial sector, indicating the breadth of players that have the opportunity to capture market share.

5.1 TRADITIONAL RETAIL BANKS

As the primary source of credit to personal and commercial borrowers, banks are critical to a robust MPL system. Banks offer a range of capabilities, networks and business synergy advantages that make them natural players in the MPL market.

Advantages: Banks' existing internal infrastructure, systems and data provide the foundation for MPL capabilities. The ability to manage borrowers' full spectrum of banking services in-house provides extra assurances against risk of default. Established relationships with large businesses can support the execution of MPL, either as second guarantors, or as partners in valuation/resale.

For banks that offer products focusing on micro, small, medium and large enterprises, these enterprises provide a ready pipeline of customers. In turn, MPL provides a means to support client enterprise growth, enhance customer retention and potentially convert microfinance customers into larger, higher value customers over the long term.

Disadvantages: Despite these advantages, banks face regulatory and incentive barriers that can curb innovation and new product development. Coupled with a general comfort with existing margins and the natural challenges of driving change in large institutions, this can significantly detract from the business case to invest. Some of the largest barriers to banks will be their own market ambitions and agility. This may put smaller banks more eager for market share at an advantage.

Many banks may also be serving potential MPL customers through profitable personal loan products; while shifting these customers to more appropriate financing products would likely have long-term benefits, banks may witness a reduction of this business at the margin in the short term.

Likely products: Weighing advantages and disadvantages, banks still have a comparative opportunity to succeed in a large number of target product categories:

- **Factoring:** Many banks are already doing factoring and have the opportunity to expand that existing business into invoice-backed MPL lending.
- **Accounts receivable / Supply chain:** Leveraging relationships with large corporations, banks are uniquely positioned to engage in supply chain finance, and particularly invoice-backed lending.
- **Equipment:** Banks can expand existing leasing business in select sectors and use this as a platform to move into equipment-backed lending. Partnerships with equipment manufacturers and vendors can further enable this.
- **Inventory:** While the farthest step from existing capabilities, inventory-backed financing in strategic sectors is also an opportunity, especially for sector-focused and development-oriented banks..

In the case of equipment and inventory products, collaboration with a retailer, distributor or equipment manufacturer could present an attractive entry strategy to reduce costs and risk associated with valuation, collateral management, resale and liquidation.

5.2 MICROFINANCE INSTITUTIONS

Microfinance institutions (MFIs), including those classified as traditional regulated lenders and those classified as SEDPEs (Specialized Society in Deposits and Electronic Payments, a type of alternative financing institution defined in Colombian law)[xxxii], also represent viable early entrants into the MPL market

Advantages: Customer networks and relationships are the foundation of MFIs' comparative advantage in an early MPL market. MFIs have extensive networks among smaller MSMEs, giving them direct access to a category of the most likely MPL customers. In many cases, they already have the standing relationships and history of lending that can help customers shift to new MPL products.

Due to operating models that commonly depend on community engagement, MFIs are also more likely to have a positive relationship in the communities where they work, providing them borrower intelligence to help manage risk, and moreover the ability to manage community relations in the event they must seize collateral in the case of default.

Disadvantages: However, the same community relationships that could offer comparative advantage may also be a deterrent to market entry. Most MFIs that currently depend on unsecured lending and brands grounded in creating a supportive and secure path to growth for entrepreneurs worry that shifting to secured lending with the risk of seizure could undermine the trust-based business model that underlies their brand and license to operate.

MFIs also have significantly larger capability development gaps relative to banks. Many lack the formal data collection, monitoring and customer management systems that give banks a starting advantage, as well as relationships with large businesses that could help enable supply chain and equipment financing.

Likely Products: Given MFIs' relative institutional capabilities, and the financing needs of its existing clients, key entry opportunities are in MPL products with fewer technical requirements and lower transaction costs that can augment unsecured lending products:

- **Factoring:** Although levels of informality may limit applications for factoring, factoring presents the opportunity to facilitate relatively small-scale transactions appropriate for MSMEs unable to access or just moving on from microfinance.

- **Point of sale cash advance products**: Cash advances at points of sale – where a merchant company buys customer invoices from an SME in exchange for cash, providing the business with access to short term working capital – could also present opportunities for SMEs to access different forms of working capital to finance their business.

5.3 FINTECHS

Fintechs (the term for start-ups and other companies that use technology to make financial services more efficient) are also clear contenders for the MPL market. A number are already engaging different MPL models and using the registry.

Advantages: Of all financial institutions, fintechs have the potential to be most agile and innovative in testing new products. Many are on the forefront of re-thinking how to evaluate risks, giving them the ability to incorporate MPL into lending models that allow them to tap new SME customer segments. Fintechs are also adept in using technology to reduce transaction costs associated with MPL, such as the sale of invoices, collection of loan payments, or shutting off cloud-based equipment in the case of default.

Many fintechs in Colombia, such as Mesfix, Sempli, or Aktiva, are already focusing on the SME sector, in some cases putting them ahead of the traditional banking sector in terms of understanding of this customer segment and their financing needs. Some are already doing different forms of MPL, proving the case for this market.

Disadvantages: Among the key disadvantages of fintechs is the evolving and still uncertain future of the fintech industry, which presents risks to the potential long-term sustainability of their business models. It may also preclude them from entering certain MPL segments that depend on relationships with large reputable buyers.

As generally young companies, fintechs may also lack the existing customer depth and scale relative to large banks. Dependence on technology may limit potential market penetration in areas where banking begins with direct personal relationships.

Likely products: Fintech opportunities are concentrated in assets integrated with technology-based web or cloud platforms, and primarily in urban areas where the use of technology in business is more common-place.

- **Factoring and invoice financing**: A number of fintechs have made forays into factoring and invoice financing and have witnessed rapid growth. The introduction of the electronic invoicing platform in 2019 sponsored by the Ministry of Commerce will further open the opportunity for this segment.

- **Equipment financing:** Platforms that use investor funds to finance SME technology and equipment upgrades through lease-to-own models are already emerging in Colombia. These models present the opportunity to use equipment as collateral for working capital loans.

"Fintechs often have the capabilities to be more nimble than banks and therefore evaluate risk differently. We saw a significant need for basic loans among SMEs to execute on short and mid-term plans. We have the capacity to keep it simple, and the agility to guarantee loans in a manner adequate to the SME's financing needs." – Esteban Velasco, Sempli

5.4 LEASING AND FACTORING COMPANIES

Companies engaged in equipment leasing and other "rent-to-own" business models, as well as existing invoice-discounting and factoring companies, may be well placed to expand into the asset- and receivables-based MPL market respectively. While many such businesses sit within banks (e.g., Leasing Corficolombiana, which sits within the Corficolombiana bank), those operating as SEDPE financing companies have opportunities to move into a broader range of MPL services as well.

Advantages: Equipment leasing companies already possess the brand and market access, and asset-management and financing processes and capabilities. Colombia's new MPL legal framework and asset registry offers an efficient pathway to scale their business, and to apply their capacities to additional asset classes. For factoring companies, Colombian law conforms to international standards and allows the assignment of individual receivables and groups of receivables (i.e., an interest in a group of receivables assigned under a single registration) even if the contract contains an anti-assignment clause. The new MPL law and registry can similarly offer an efficient framework to scale these business models.

Companies that build relationships with borrowers through lower-risk leasing relationships have a pipeline of customers with a credit history and collateral that can be used to secure loans for working capital. Leveraging this pipeline can decrease overall costs of customer acquisition and approval.

Disadvantages: For factoring companies, Colombia's MPL framework holds few if any disadvantages. However, such companies would require investments to adapt their business models needed to expand into physical asset classes. Equipment leasing companies are also likely to encounter few, if any, disadvantages within the revised MPL legal framework. However, their expertise and relationships are usually limited to a small set of asset classes (e.g. automobiles and construction equipment). Thus, it is likely that a clear market opportunity would need to be apparent to motivate investment in building a market presence and capability in financing other asset types.

Likely products:

- **Factoring and invoice financing**: Those companies which have made forays into factoring have witnessed rapid growth. The introduction of the electronic invoicing platform in 2019 will further open the opportunity for this segment.
- **Equipment financing:** platforms that use investor funds to finance SME technology and equipment upgrades through lease-to-own models are already emerging in Colombia. These models present the opportunity to use equipment as collateral for equipment and working capital loans.

By innovating in new ways to assess manufacturers' risk and cash flow, and by partnering with a machinery distributor, we were able to lend - through our branch Financiamos su Maquina S.A.S. - over US$1M in machinery to MSMEs in the past couple of years…The ability to repossess the machinery and resell it through our machinery partner reduces our risk and opens up a new market" - Andres Zúñiga and Mauricio Buenaventura, Heritage Capital

5.5 EQUIPMENT MANUFACTURERS AND RETAILERS

Equipment manufacturers, distributors, and retailers offer potential to overcome some of the key valuation and liquidation barriers that have deterred banks from entering the MPL market. Vehicle retailers and manufacturers already provide MPL offerings, and there is opportunity for similar models covering a wider range of equipment.

Advantages: Manufacturers and retailers have deep product knowledge to enable some of the most critical and challenging aspects of MPL. Many are equipped to offer reliable in-house valuation, and may also have technologies to allow for continuous monitoring of use and maintenance depending on the product. Existing customer networks and sales capabilities also prepares these companies to manage resale in the case of default.

These capabilities have clear applications for equipment-backed financing, as well as inventory-backed products. Companies are also equipped with production capabilities that can enable them to intervene and manage inventory production to the point of liquidation if borrowers show signs of potential default.

Disadvantages: While manufacturers and retailers may have deep knowledge of the assets used as collateral, they likely have less experience in finance and may need to develop a financing capability. For certain manufacturers, this may require developing a new business unit or function, which depending on the company may stray beyond their core business. Partnering with a suitable lender/financial institution is an obvious approach to overcoming this limitation.

Likely products: Key opportunities for manufacturers and retailers are in equipment and inventory focused products, given the nature of their core business:

- **Leasing & service agreements**: Some manufacturers already engage in financial leasing. However, there is significant opportunity for this market to grow. Service agreements – ultimately leasing agreements with a built-in guarantee of equipment functionality – could be an alternative model to consider.
- **Inventory financing:** Manufacturers, and particularly retailers, are well-positioned to move into inventory financing for companies in their supply chains and others in similar or adjacent industries.

As with banks, manufacturing companies and retailers have the opportunity to develop financing capabilities in-house, or to pursue them through a partnership with a financial institution (e.g., bank or fintech), which can help alleviate some of the up-front costs of developing an in-house capability.

5.6 TRUST COMPANIES & FUNDS

Yet another alternative first mover are trust companies, entities which perform a combination of asset management, trust/fiduciary activities, and some custodial activities. In Colombia, they are particularly active in business areas including management of properties and administration of companies in liquidation or reorganization[xxxiii]. Trusts and other fiduciaries have enjoyed notable success in Colombia relative to other Latin American countries[xxxiv]. In recent years, trusts have served up vehicles to buy-up and bundle different forms of financial contracts or IOUs, offering borrowers short-term cash that they can pay back over time with a deductible margin. This affords businesses access to short-term funding, while also filling a market gap for private investors seeking conservative investment opportunities, and also the chance to invest at smaller amounts.

Advantages: As non-banks, trusts have the flexibility to sample and test new business ideas with greater ease than formal financial institutions facing close regulation. They are also already familiar to the Colombian public: similar types of “bundled” investment funds have taken off in Colombia for taxi financing and payroll financing.

Disadvantages: Trust applications focus on accounts receivable, and thus are relatively limited compared to the broader applicability of MPL. From the customer perspective, they can also be less transparent and less subject to regulation, potentially implying higher risk. Trusts may also need to develop in-house risk assessment capabilities in order to move into this category of finance.

Likely products: Target opportunities for trusts focus on factoring, a form of invoice financing. Using investor funds, trusts could purchase and bundle invoices, providing cash or other financing to suppliers offering the invoice at a discount. Payment may come from either the buyers directly, or be repaid by the suppliers over time.

Industry partnership: a key entry opportunity?
Specialization – both in type of financing provided, and also in the types of assets used as collateral – is essential to the successful application of MPL. For many financial institutions, acquiring the asset and borrower-industry understanding may represent a critical barrier to entering the MPL market, yet may also make it more defensible against competitive challenge. Given the criticality of these two categories of knowledge, a joint venture (in the traditional meaning or more broadly as a partnership) between a financial institution such as a bank, and an industry player, such as an equipment manufacturer, presents an opportunity to penetrate the MPL market. While joint ventures can take a variety of forms, the core benefit of this approach is to combine financial institutions’ expertise in lending, with a manufacturer or retailer’s expertise in asset valuation, management, storage and resale. This type of collaboration is uniquely suited for inventory or equipment financing given they both deal with physical assets that need to be assigned a value and potentially resold in the case of default. However, it can also be beneficial for accounts receivable financing by engaging the industry player’s knowledge of business cycles that can help better predict when a borrower may be showing signs of strength or distress. While partnerships naturally have some drawbacks (e.g., revenue sharing, added institutional complexity and potential bureaucracy, effort required to source the partnership, etc.), they can be the most efficient way for investors seeking to tap the MPL market to rapidly acquire and scale the capabilities to do so, with strong potential to generate returns that far outweigh costs.

6.0 CONCLUSION

Access to affordable finance remains a critical challenge for many of Colombia’s businesses today. This represents a sizeable untapped market for the financial sector, potentially of as much as $6.2m among formal SMEs and up to $23m if informal SMEs and micro-enterprises are served. Not addressing the financing needs of these businesses ultimately constrains the country’s growth potential. Yet that challenge also represents an opportunity for potential lenders and intermediaries. Not only banks, but emerging and non-traditional lenders have the chance to capture profits by developing new and innovative ways to serve this latent demand for credit.

Movable property lending offers one important route to tap this market. Actions already taken by the Colombian government to modernize its legal infrastructure and establish a movable collateral registry equips lenders with the legal and institutional tools to take advantage of this means of offering credit.

For institutions that have traditionally depended on lending secured by real estate and other fixed collateral, movable property lending can appear daunting. Indeed some dimensions of the Colombian financing ecosystem, such as valuation, are under-developed compared to countries where MPL is common practice. Lenders raise concerns that weak standards around valuation, challenges seizing assets and liquidating them increase risk and investment costs.

In this environment, specialization, which is inherently necessary for MPL, is even more critical. Focusing on certain industries and relevant types of collateral, such as accounts receivables, machinery and equipment or inventory, can enable lenders to capitalize on existing strengths in the Colombian economy and financial system, and develop their own defensible specialties. As described in previous sections of this paper, key opportunities lie in the following MPL segments:

- **Invoices & accounts receivable:** Factoring, invoice financing, and supply-chain finance focused on retail.
- **Machinery & equipment**: Leasing and other forms of equipment-backed financing – especially those which focus on technology equipment upgrades and industrial equipment.
- **Inventory**: Inventory-backed financing in retail, manufacturing, and agriculture.

While banks are naturally positioned to develop MPL products, they are not the only institutions with the potential to compete for this market. Already emerging fintechs, SEDPEs, equipment manufacturers and others are making initial headway into different segments of the MPL market and demonstrating its potential. The rapid growth experienced by enterprises providing non-traditional forms of financing, such as Mesfix, Aktiva, and Sempli is testament to the market potential.

For traditional financial institutions seeking to enter the market, strategic partnerships can play a critical role in rapidly acquiring key capabilities and offsetting investment costs. Working with equipment manufacturers and retailers can overcome valuation, product management and liquidation challenges, while development financing institutions can shift investment risk profiles through strategic deployment of capital.

The Colombian market is ripe for MPL today. Pending institutional advancements and ongoing reforms stand to further enhance the market opportunity, but in doing that they also likely to draw new forms of competition. The introduction of the electronic invoice registry in 2019 is likely to dramatically widen the market for accounts receivable financing. Further down the line, increasingly uniform international legal standards may invite cross-border competition from foreign lending institutions.

MPL also provides improved access to commercial finance for women entrepreneurs and business owners. Few women own and are able to use real property to meet traditional collateral requirements, leaving them with even less access than men. Offering loans secured with movable and intangible assets enhances women's access to affordable finance, with the potential to produce broader economic benefits by catalyzing business growth and expanding the buying power of this segment.

SME customers resoundingly affirm they are willing to shift lenders for products that best serve the needs of their business, both in cost and structure. Those institutions that move to seize on the present opportunity for MPL can not only capture these customers today, but also will be best positioned to capitalize on new innovations and remain resilient as the market evolves.

APPENDIX A: MPL MARKET SIZE

Limited data on the SME sector in Colombia presents one of the largest barriers to estimating the market size for MPL. For the purpose of this study, we have leveraged findings from a number of prior studies and integrated them with our internal industry analysis to produce conservative estimates of market potential.

The data for the market sizing relied primarily on two main data sets:

- IFC Finance Enterprise Database (2010): Used to estimate the total number of SMEs in need of financing, and the estimated total value of the financing gap they represent.
- Superintendencia de Sociedades - SIREM (2017): Used to estimate SMEs with specific collateral, based on data including distribution of SMEs by industry.

A commonly cited source not used for this study is the annual SME report produced by AFIN, which presents data similar to the IFC SME report, but collected through banks. While this data provides valuable market insight, the dependence on banks for survey content limits results to SMEs within banks' networks. Given the nature of the MPL market and potential to bring new consumers into the credit market, the IFC study which estimates the total SME market and financing needs, including the informal sector, was considered a more fitting source for this analysis.

The estimates included in this report are conservative estimates of the market potential, using the following parameters:

- **Estimates focus on SMEs and exclude large enterprises**: Large enterprises are common MPL customers, as MPL can offer ways for such enterprises to access new, lower cost, or more appropriate financing tools. However, large enterprises likely have smaller financing gaps and face fewer challenges accessing traditional forms of credit than SMEs. As this study focuses on the role of MPL in removing barriers to finance faced by SMEs, the market estimates within this study exclude the large enterprise segment.
- **Estimates exclude latent customers:** While the market does include businesses not currently able to access credit, our model and estimates are limited to those businesses that either self-identify as underserved, or can identify the type of collateral as a barrier to accessing credit. The market sizing thus does not include those SMEs that would be activated to seek credit if MPL products and services were available.
- **Estimates are conservative:** In our analysis, assumptions, and estimates, we broadly applied a conservative approach, opting for values assessed to be on the lower end of the possible spectrum in relevant cases.

Size of target market

Baseline market:

As pictured in Figure 1.1, our estimation of the market for MPL focuses on those MSMEs that have access to movable property.

These are identified as the percentage of total MSMEs likely to have either accounts receivables, equipment / machinery, finished inventory or unfinished inventory based on analysis by industry segment presented in Figure 1.2. Based on our estimations, they account for approximately 85% of total MSMEs.

Of these MSMEs that hold movable property, we identified two primary segments of MPL customers:

1) MSMEs currently accessing credit but who report being "underserved" or unable to access the total credit they desire
2) MSMEs currently not accessing credit or "unserved"

The sum of these segments, calculated based on IFC survey data, represents the total "Active market for MPL," presented in terms of number of SMEs. This number represents the total number of SMEs that desire a loan, and who have availability of collateral that would make them a candidate for MPL.

To estimate the value of the market for formal SMEs only, we adjusted market penetration assumptions, to assume 0% penetration for informal and micro business segments

Figure 1.1: Size Calculations Framework

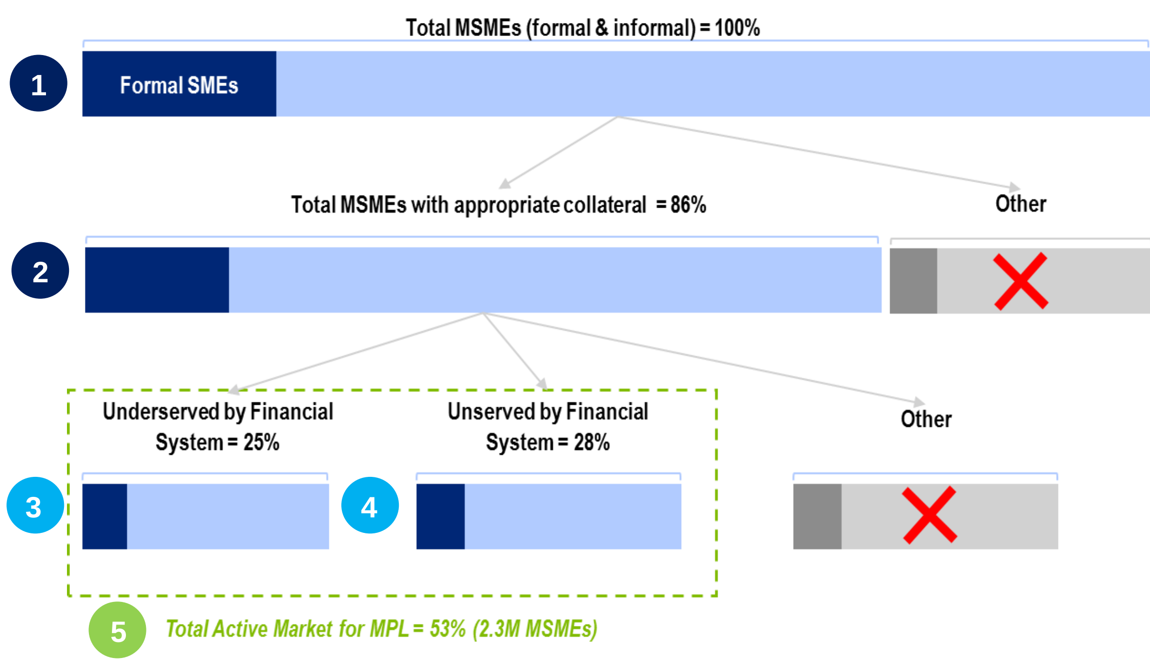


Figure 1.2: Market Size Calculations Framework

SME Data					Collateral		Existing Customer Market		New Customer Market		Formal SME Market			Total MSME Market		
Type of MSME	Women owned	Men owned	Total	Financing Gap per capita	% with movable asset	# MSMEs with movable collateral	Underserved	Existing Customer Market #	Unserved	New Customer Market #	Penetration	Target Market	Value of Financing Gap in Target Market (USD)	Penetration	Target Market	Value of Financing in Target Market (USD)
Informal	1,329,355	1,620,816	2,950,171	$4,296	86%	2,537,147	9%	228,343	40%	1,014,859	0%	0		100%	1,243,202	$5,340,796,047
Micro	521,569	573,726	1,095,295	$12,881	86%	941,954	76%	715,885	19%	178,971	0%	0		100%	894,856	$11,526,640,329
Very Small	101,671	91,616	193,287	$16,761	86%	166,227	70%	116,359	13%	21,609	100%	137,968	$2,312,486,016	100%	137,968	$2,312,486,016
Small	20,680	23,265	43,945	$65,044	86%	37,793	76%	28,722	7%	2,645	100%	31,368	$2,040,296,354	100%	31,368	$2,040,296,354
Medium	2,340	4,752	7,092	$392,644	86%	6,099	75%	4,574	2%	122	100%	4,696	$1,843,982,812	100%	4,696	$1,843,982,812
Total	**1,975,615**	**2,314,175**	**4,289,790**					**1,093,884**		**1,218,207**		**174,032**	**$6,196,765,182**		**2,312,091**	**$23,064,201,559**

APPENDIX B: MARKET SIZE BY COLLATERAL SEGMENTS

The market size for different types of collateral lending, specifically accounts receivable, machinery and equipment, and inventory takes the total SME market and combines it with an assessment of what share of total SMEs are likely to have a given type of collateral based on their industry.

The table below represents the estimated likeliness of an SME to have a given type of collateral, based on our analysis. The values represent the average of values assigned to sub-categories within each industry (either 0%, 25%, 50%, 75%, or 100%). For each industry, we assigned a percentage indicating the likelihood that an SME in that segment would have a certain type of collateral. Possible values were either 0%, 25%, 50%, 75% or 100%. Estimates were based on industry analysis, in collaboration with industry experts. These values were then used to produce an aggregate total estimate of the share of total SMEs likely to have a given type of collateral.

To calculate the market size, we applied the estimated shares of SMEs with collateral to the total SME market for MPL, as described in the prior section. Market figures include:

- The total number of SMEs with a given type of collateral
- The estimated financing gap represented by the SMEs in that group

Note these figures specifically do not represent the value of the lending opportunity, which would necessarily be based on the value of the assets themselves.

Figure 1.3: Collateral by industry

Relevance of collateral by industry

The market assessments for each category of collateral are based on an analysis of the relevance of collateral by sector – namely what share of SMEs are likely to have each type of collateral in each sector. See the appendix for further details on the approach and calculations

SECTOR	Accounts Receivable	Machinery & Equipment	Inventory
Administrative and Support Services			
Agriculture			
Arts, Entertainment, and Recreation			
Construction			
Education			
Financial Services and Insurance			
Healthcare			
Hospitality and Restaurants			
IT and Communications			
Manufacturing			
Mining			
Other Services			
Power and Gas			
Prof., Scientific, and Technical Services			
Public Administration and Defense			
Real Estate			
Retail, Wholesale, and Auto Garages			
Transport and Warehousing			
Water and Sanitation			

LEGEND (% of SMEs in sector likely to have each type of asset) None (0%) → 100%

Data notes:

The estimate of the share of businesses with a given type of collateral is based on a data set supplied by the Superintendencia de Sociedades de Colombia (the Colombian business regulation agency) that captures a sample of over 26,000 formal SMEs by industry, among other factors. This sample has natural limitations that ultimately influence our assessment of whether the calculated market size is likely conservative:

- **No informal business:** given the data set does not include informal businesses that could seek MPL, we expect that markets for inventory-backed or equipment-backed lending are likely larger than our estimates
- **Data sample:** While the data set does not capture statistics for all SMEs, the sample covers all geographies, a comprehensive range of business sizes and industries and is generally in line with Colombia's overall economic profile. Moreover, based on IFC estimates, the sample sizes represents more than 10% of total formal SMEs. Thus, in the absence of a complete data set, we accept this sample to be generally reflective of the formal SME market in Colombia.

APPENDIX C: INTERVIEWS & CONTRIBUTORS

This paper draws on interviews and other contributions from the following individuals and institutions in Colombia:

Traditional Financial Institutions

Bancamia

Banco Agrario

Banco Mundo Mujer

Banco W

Bancolombia

BBVA

Davivienda

Fundacion de la Mujer

Procredit

Alternative Financial Institutions

Aflore

Aktiva

COMFAMA

Heritage Capital

Interactuar

Mesfix

Sempli

Government Agencies

ACOPI Bogotá

Asobancaria

Asomicrofinanzas

Banca de las Opportunidades

Confecámaras

Fondo Nacional de Garantías

iNNPULSA

Ministry of Commerce

National Registry of Valuation Experts (RNA)

PTP – Programa de Transformación Productiva

Superintendencia Financiera de Colombia

URF – Unidad de Regulación Financiera

Industry and Businesses

Alpina

Bolsa Mercantil de Colombia

Café de la Huerta – Guasca

Carmen Ceraje

Dosakin

Fede Cacao

La Miguería

Obleas Michelle

Pelanas

Termiexpress

Development Stakeholders

Endeavor

Fundación Capital

IFC

Impact Hub

Marulanda & Consultores

Mastercard CIG

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[iii] National Association of Financial Institutions (ANIF), "La Gran Encuesta PYME (2017-II)", 2017, http://www.anif.co/sites/default/files/publicaciones/gepnacional_ii-17.pdf

[iv] International Finance Corporation (IFC), "IFC Finance Enterprise Database", 2010, https://www.smefinanceforum.org/data-sites/msme-finance-gap

[v] Ibid

[vi] A. Alvarez de la Campa (IFC), "Possible impact of the new system of movable guarantees in Colombia", 2013, https://www.supersociedades.gov.co/prensa/Garantias%20Mobiliarias/Impacto%20Garantias%20mobiliarias.pdf

[vii] Estimation of businesses having "suitable assets" is based on an assessment of whether MSMEs have some amount of either accounts receivable, equipment, inventory or a combination of these, based on the nature of their business. It does not take into consideration the volume and associated value of these assets and whether the value would meet a minimum viable threshold for MPL based on current industry standards and transaction costs. It also does not take into consideration whether MPL would be the best financing tool for these businesses, which would need to be based on a more comprehensive understanding of each business's financial needs and standing.

[viii] "Financing need" defined as financing requirements that are current unmet; it does not include financing requirements already being serviced through existing credit

[ix] See appendix for calculations and methodology

[x] Financial Superintendence of Colombia, "Outstanding loans by product", 2017, https://www.superfinanciera.gov.co/jsp/61036

[xi] Interview with Directorate of Regulation, Colombian Ministry of Commerce, 2017

[xii] Profiles are illustrative

[xiii] Congress of the Republic of Colombia, Law 1676 (Law of Movable Guarantees), 2013, http://www.secretariasenado.gov.co/senado/basedoc/ley_1676_2013.html

[xiv] Note that in certain cases, inventory financing also involves accounts receivable financing as, when inventory is sold, the security interest extends to both new inventory and the receivables generated from the sale of the first-generation inventory. This means that security is increased with the increase of the value of the collateral. This is also true when encumbered equipment is leased, in which case the security interest extends to the equipment but also to the rents.

[xv] Superintendence of Societies and Deloitte Consulting, Deloitte Analysis on SIREM Income Statement Database, 2017, https://www.supersociedades.gov.co/Servicio_Ciudadano/tramitesyservicios/Paginas/SIREM.aspx

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[xvii] Factoring turnover statistics (includes domestic and foreign factoring): FCI, Annual Report 2017, 2017, https://fci.nl/downloads/Annual%20Review%20%202017.pdf

GDP statistics: World Bank, World Bank Data Bank, 2017

[xviii] Aktiva is a financial services company in Colombia

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[xxiii] Original Equipment Manufacturer

[xxiv] Economist Intelligence Unit

[xxv] Confecámaras, "Unified Social and Enterprise Registry (RUES)", 2016

[xxvi] Oxford Business Group, "Construction remains a tool for growth in Colombia", 2016 https://oxfordbusinessgroup.com/overview/built-last-sector-remains-strategic-tool-growth

[xxvii] Invest in Bogota, "Where to Invest in Bogota: Life Sciences in Bogota", 2016 http://en.investinbogota.org/invest-bogota/where-invest-bogota/life-sciences-and-biotechnology/life-sciences-bogota

[xxviii] Superintendence of Societies and Deloitte Consulting, Deloitte Analysis on SIREM Income Statement Database, 2017, https://www.supersociedades.gov.co/Servicio_Ciudadano/tramitesyservicios/Paginas/SIREM.aspx

[xxix] International Finance Corporation (IFC) and Deloitte Consulting, Analysis of IFC Finance Enterprise Database, 2010, https://www.smefinanceforum.org/data-sites/msme-finance-gap

[xxx] Economist Intelligence Unit; Bank of the Republic of Colombia (Central Bank)

[xxxi] Financial Superintendence, "Quality of Credit Portfolio as of 2017", 2017, https://www.superfinanciera.gov.co/jsp/60950

[xxxii] SEDPE stands for Specialized Society in Deposits and Electronic Payments, which is a figure in Colombian legislation to account for Fintech and other types of alternative financing institutions as per Law 1735 (2014) of the Congress of the Republic of Colombia

[xxxiii] IMF, "Colombia: Review of the Financial System," 2016, https://www.oecd.org/finance/Colombia-financial-markets-2016.pdf

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