Supply Chain Finance in Central Asia and Caucasus

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INTRODUCTION

Supply chain finance (SCF), with various techniques under that umbrella term, has grown rapidly in recent years, providing access to working capital finance to small and medium-sized enterprises (SMEs) involved in global supply chains. Certain SCF techniques simultaneously helped large buyers enhance their cash position, supporting the overall health and robustness of supply chain ecosystems, and had the additional positive consequence of ensuring that strategically important suppliers were put on solid financial and commercial footing.

Although various forms of SCF are now commonly used in developed markets, with a notable contribution in certain emerging markets, adoption and acceptability of SCF tools took years, and even decades, to develop.

SMEs are the main economic drivers in many countries in developing Asia, but they often struggle to obtain adequate financing, including trade-related financing. As per trade finance gap study of the Asian Development Bank (ADB) in 2021, the global trade finance gap is estimated at $1.7 trillion.1 This estimate for the gap likely increased to at least $2.0 trillion in the following years because of heightened economic and financial uncertainties.2 The study also highlights that 40% of the trade applications rejected by banks are from SMEs. SCF could help bridge this gap, but it is still nascent in many economies in the region.

This publication examines the current state of SCF in nine Central Asian and Caucasian countries: Armenia, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan. It concludes that there is a combined potential medium-term market for SCF of around $18 billion, should these countries see the same level of penetration for SCF products as their more active neighbors in Europe.

However, getting to that result will need consistent and coordinated efforts to increase awareness and build capabilities for the financing institutions and corporates who are the potential players in the market, and the governments and regulators who will set the stage through laws and regulations.

Many products are often categorized under the umbrella term of “supply chain finance.” In this publication, the use of this term is limited to factoring and payables finance (also referred to as reverse factoring), which are explained in Figure 1. In many countries, in the local legal terminology, the term “factoring” is used to describe factoring and reverse factoring.

The factoring market has grown by more than 8% annually over the last 20 years with a global volume of more than €3 trillion, according to FCI.3 Reverse factoring (another common term for payables finance) has only gained traction globally over the last 10 years. However, recent annual growth rates have exceeded 30%, according to estimates from BCR Publishing.4

As SCF is linked to the suppliers’ sales to the buyers, it enables SMEs to access finance that follows their sales growth. Traditional forms of bank finance are often constrained for SMEs by the lack of available collateral.

SCF has thrived in several markets around the world, such as the Czech Republic, France, Italy, Poland, Spain, United Kingdom, and United States. In the Central Asia region covered by this publication, the markets examined are either at a very early stage of development of SCF or SCF as a product is not present at all.

Key challenges across the region include the following:

- absence of enabling regulations, especially around assignment of receivables and requirement of hard collateral for all kinds of finance arrangements (including SCF);
- low level of awareness of SCF among bankers, corporates, and suppliers;
- limited access to enabling technologies, including financing platforms; and
- limited or nascent engagement by nonbanks and financial technology (fintech) firms.

With the challenges highlighted above, it should be noted that each of these markets is unique in terms of the evolution of banking and the use of sophisticated products. Adoption of SCF products depends on the maturity of each market; and regulators, governments, and banks need to take steps that are suitable for their respective countries.

For example, in Georgia, the government is in the process of implementing reverse factoring as a payment mechanism for procurement for its large projects. Such initiatives not only provide incentives to banks to adopt reverse factoring, but also benefit SMEs by eliminating the risk of delayed government payments.

This publication examines the challenges, along with current market structure, potential, solutions, and action points, for SCF in Armenia, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan. Table 1 summarizes the key SCF facts by studied countries, while Figure 2 compares the level of readiness within the country as against current activity levels.

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### Table 1: Supply Chain Finance in Central Asia: Key Facts – Country by Country

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP 2022 ($ billion)</th>
<th>Year</th>
<th>Products Offered</th>
<th>Legal Context</th>
<th>Potential Market Size, 3–5 Years’ Time ($ billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pakistan</td>
<td>376.5</td>
<td>2017</td>
<td>Factoring and reverse factoring</td>
<td>No specific law, but the State Bank of Pakistan has developed a framework for factoring</td>
<td>9.0</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>80.4</td>
<td>2018*</td>
<td>Factoring</td>
<td>Rules of assignment are found in the Civil Law</td>
<td>1.9</td>
</tr>
<tr>
<td>Georgia</td>
<td>24.6</td>
<td>2019</td>
<td>Factoring and reverse factoring</td>
<td>Rules of assignment are found in the Civil Law</td>
<td>0.6</td>
</tr>
<tr>
<td>Armenia</td>
<td>19.5</td>
<td>2017</td>
<td>Factoring</td>
<td>Factoring is covered by the Civil Law</td>
<td>0.5</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>69.9</td>
<td>2015</td>
<td>Factoring and reverse factoring</td>
<td>Factoring is covered by the Civil Law</td>
<td>1.7</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>225.8</td>
<td>2009</td>
<td>Factoring</td>
<td>Factoring is covered by the Civil Law</td>
<td>5.4</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>11.0</td>
<td>Not yet offered</td>
<td>None</td>
<td>No legal framework</td>
<td>0.3</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>10.4</td>
<td>Not yet offered</td>
<td>None</td>
<td>No legal framework</td>
<td>0.2</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>78.0</td>
<td>No data available</td>
<td>No data available</td>
<td>Law on Lending Institutions and Banking</td>
<td>1.9</td>
</tr>
</tbody>
</table>

GDP = gross domestic product.

Note: Countries are arranged according to the current activity level of supply chain finance in the respective countries starting with Pakistan being most active country in the region.

* Although launched in 2018, the product structures have been only offered by banks since 2022.

Source: Authors’ elaboration from IMF’s GDP data.

### Figure 2: Summary of the Current State of Supply Chain Finance in Central Asia Region

SCF = supply chain finance.

Source: Authors’ elaboration based on this report.
Note: Countries are arranged according to the current activity level of SCF in the respective countries starting with Pakistan being most active country in the region.

**PAKISTAN**

As per the estimates of the Small and Medium Enterprise Development Authority, there are more than 5 million SMEs in Pakistan. SMEs contribute 40% of the gross domestic product (GDP) of Pakistan and 25% to its overall exports. Therefore, the National Financial Inclusion Strategy in 2017 set out a plan for SME finance, which included SCF.

The market for SCF in Pakistan is relatively new, but has been growing gradually, largely because of strong government initiatives since 2017.

Banks and regulators have benefited from knowledge sessions and webinars on SCF done by multilateral development banks such as ADB. A few banks have started offering factoring and/or reverse factoring products, which were developed with the support of the International Finance Corporation (IFC).

The main SCF products currently offered in Pakistan are domestic factoring, known locally as “invoice discounting”; and reverse factoring, often referred to as “supply chain finance.”

Market volumes, especially for reverse factoring, are small but growing. There is high suppliers’ interest in these products mitigating challenges of supplier education. Notwithstanding that, significant challenges to accessing technology and enabling platforms, as well as fulfilling various compliance and know-your-customer requirements, persist in the market.

**Legal and Regulatory Framework**

While there is no specific law covering SCF in Pakistan, the State Bank of Pakistan is developing a framework to cover SCF. The current regulations have few limitations on the adoption of factoring or reverse factoring, e.g., lack of legal structures around nonrecourse factoring and inability to use e-invoicing, and others.

Factoring provided by companies or individuals is primarily unregulated and falls under the aegis of the Contract Act 1872 and the articles in the Civil Code. The proposed factoring framework will enable banks to approach the Banking Court for speedier resolution.

The State Bank of Pakistan’s electronic Credit Information Bureau has been established to provide credit information.

**Market Potential**

Pakistan is the market with the highest potential in the region. Pakistan’s GDP in 2022 was $376.5 billion. If factoring volume reached a penetration rate of 2.4% (the average in similar markets), the potential factoring volume could be as high as $9 billion.

**Gaps in Market Development**

Several factors restrict the full development of SCF in this market. First, the legal framework needs to adapt to accelerate the use of e-invoicing and facilitate the various products of SCF. Second, the current tax law requires payment to be made directly to the seller to obtain tax credits, which renders SCF product operations untenable. Finally, the growing demand for Islamic banking products is also creating hurdles for the development of SCF.

Despite encouragement by the government and the State Bank of Pakistan, the country’s banks are still cautious about offering SCF because of a lack of clarity in the regulations and low awareness of the nuances of SCF.

SCF platforms play a vital role in the adoption and scalability of SCF products. However, the market has seen very limited technology adoption.

**Action Points**

- Continue engagement with development banks and obtain support for training and education, and sharing of international best practices.
- Adopt factoring regulation, providing clear guidelines on the various products so that more banks can design and offer the products.
- Update and implement a legal framework for a Sharia-compliant factoring product.
- Utilize technology to scale up and minimize operational risks.

**UZBEKISTAN**

SMEs accounted for 51.8% of Uzbekistan’s GDP in 2022. Despite this, SMEs struggle to obtain financing.

Recognizing this challenge, the Government of Uzbekistan established Mikrocreditbank for SMEs in 2006. By 2017, the bank had 110 branches and over 300,000 customers, but it still had not included factoring as a product offering. In 2020, the government started supporting the development of SCF, but only in the past year have banks started offering SCF products. However, in Uzbekistan, factoring is considered riskier by bankers than

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6 BCR Publishing projections based on average volumes compared with GDP penetration of established markets in the region.
traditional trade finance and requires collateral from borrowers, which most SMEs do not possess, resulting in factoring losing its differentiation from other working capital products.

**Legal and Regulatory Framework**

Factoring in Uzbekistan is covered by the Civil Code, and this can form the basis for the initial development of the market. However, legislation needs substantial improvement to reflect international practices. The European Bank for Reconstruction and Development (EBRD) and IFC are working with the Government of Uzbekistan to develop a suitable enabling framework. ADB has provided training sessions to banks on SCF to fill the knowledge gap.

A new financial sector policy and reforms in April 2022 permit both banks and nonbank credit institutions, as well as microfinance entities, to offer factoring services.

The 2011 law on credit information sharing has also led to the establishment of the first local private credit bureau.

**Market Potential**

Uzbekistan’s GDP in 2022 was $80.4 billion. If factoring volume reached the penetration rate of 2.4%, which is the average for nearby countries, the potential factoring volume could be $1.9 billion (footnote 6).

**Gaps in Market Development**

The following factors inhibit the growth of SCF in the market:

- low awareness of SCF products and benefits,
- requirement of hard collateral as it is considered akin to lending,
- limited adoption of SCF technology platforms to facilitate growth.

**Action Points**

- Establish framework for SCF products to enable banks to recognize receivables as the main form of security.
- Increase awareness among banks about the difference between SCF products and regular lending.
- Avail of the support of development banks and associations like FCI to understand and adopt international best practices.

**GEORGIA**

In Georgia, SMEs are the backbone of the business landscape, making up 99% of the country’s business enterprises. However, they frequently encounter difficulties securing finance. Applications for loans or credit lines by SMEs are frequently denied or come with stringent collateral requirements, highlighting the need for alternative financing solutions such as SCF.

Some commercial banks in Georgia currently offer SCF products, and while demand for these services remains low, there has been interest from larger retailers in utilizing reverse factoring.

It is noteworthy that Georgia holds a unique distinction within the Central Asia and Caucasus region as the only country with banks investing in dedicated SCF technology.

**Legal and Regulatory Framework**

There is currently no factoring law in Georgia, so banks that provide factoring and reverse factoring do so under the Civil Code. However, a draft law, which defines factoring and provides a framework for the product, is under deliberation. This law will open the market to new entrants and new services.

**Market Potential**

Georgia’s GDP in 2022 was $24.6 billion, and its factoring volume penetration was less than 1%. If this could increase to 2.4%, which is the average for its East European neighbors, the market would be worth $590 million (footnote 6).

**Gaps in Market Development**

In common with other markets, there is a limited understanding of factoring and even less familiarity with other SCF products.

From the perspective of corporate buyers, there is a lack of interest and motivation to utilize reverse factoring, as suppliers have historically absorbed long credit periods and accepted late payments.

In the absence of a dedicated legal framework for SCF, banks are compelled to apply secured lending laws, which pose substantial compliance challenges for banks to meet regulatory standards.

**Action Points**

- Adopt the draft factoring law to encourage market development.
- Educate and encourage large corporate buyers to adopt reverse factoring to achieve a critical mass for market awareness.
- Increase awareness among the banks and financing institutions.
- Examine cases in mature markets of usage where hard assets are not required as collateral in factoring arrangements.

**ARMENIA**

In Armenia, SMEs occupy a pivotal position in the nation’s economy, with over 74,500 entities generating 69.7% of total employment. Despite this, SMEs face challenges in obtaining financing, primarily because of credit history requirements and a lack of collateral. To address these challenges, reverse factoring could support the working capital requirements of SMEs in the supply chain of corporations.
The banking sector in Armenia consists of 17 banks, but only a few offer factoring services. The market for factoring services in the country is small, largely unregulated, and with a limited range of offerings.

**Legal and Regulatory Framework**

Armenia’s Civil Code provides the legal infrastructure for factoring. Under this code, receivables can be assigned by a supplier to a financing agent.

**Market Potential**

The potential for growth and development of factoring in Armenia is limited in the short term. Armenia’s 2022 GDP was $19.5 billion. If its factoring business reached a penetration rate of 2.38% of GDP (the average in its neighboring countries and markets), the factoring volume would be $468 million (footnote 6).

**Gaps in Market Development**

Armenia has a lower concentration of small businesses compared to other countries. While SMEs are aware of the existence of SCF products, they lack in-depth understanding and face restricted access to these products. The cost of SCF products is also perceived as being high.

Corporates exhibit low demand for reverse factoring because of a lack of comprehensive awareness about the product. They prefer to retain their existing loan arrangements.

AZERBAIJAN

In 2015–2016, Azerbaijan experienced a severe economic recession. As a result, the Government of Azerbaijan initiated a plan to diversify the economy and improve the business sector, including SMEs. In 2018, SMEs contributed 13.4% of value added and 42.9% of total employment. These shares are lower compared to the contribution made by SMEs in member countries of the Organisation for Economic Co-operation and Development (OECD), where SMEs generate 60% of value added and 60%–70% of employment. To support SMEs, the Small and Medium-Sized Business Development Agency was established in 2017 with the goal of facilitating SME financing.

As of 2021, the factoring volume in Azerbaijan was €110 million. The market for factoring services in the country is limited, with only a few banks and nonbank financing companies offering these services.

**Legal and Regulatory Framework**

The Civil Code of the Azerbaijan Republic provides recognition to factoring and acknowledges the assignment of receivables to the factor.

IFC-supported Azerbaijan Financial Advisory Services program includes the establishment of an electronic movable collateral registry to track assets pledged as collateral by small businesses, thereby enhancing lenders’ confidence in lending to these businesses. Furthermore, the Law on Encumbrance of Movable Assets prioritizes those who have registered their rights in the collateral registry operated by the central bank.

In 2018, the government also authorized the creation of Azerbaijan’s first private credit bureau.

Banks view these developments positively and these developments are seen as steps to facilitate the growth of SCF.

**Market Potential**

Factoring volume could reach $1.7 billion within 3 years based on current GDP penetration rates of similar markets in the region.

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Supply Chain Finance in Central Asia and Caucasus

Gaps in Market Development

SCF adoption has been constrained in Azerbaijan and plays a limited role in financing SMEs. Consequently, the present level of SCF in Azerbaijan is significantly lower than in other Asian and European markets. Despite this, the government recognizes the value of SCF in supporting the growth of SMEs, and the creation of the Small and Medium-Sized Business Development Agency reflects this.

There are no dedicated SCF platforms being used by banks.

Action Points

- Create a central security registry to help transferees enforce their rights more effectively.
- Accelerate usage of credit bureau to develop transparency and data availability.
- Increase awareness about the product, with support of development banks and industry organizations like FCI.

Legal and Regulatory Framework

The Kazakhstan Civil Code recognizes the assignment of receivables. While the law stipulates that the debtor only needs to be notified of the assignment, it is common practice to sign an assignment letter that obliges the buyer to pay the bank, while the supplier consents to assign their receivables to the bank, forming a tripartite arrangement.

However, there is a lack of clarity with respect to asset classification. Assignment of receivables is not considered a form of security under Kazakhstan law. Consequently, if a debtor declares bankruptcy, the creditor’s claims are classified as unsecured.14 As a result of this, banks are compelled to classify factoring assets as unsecured loans, resulting in a higher capital provisioning requirement.

Market Potential

Kazakhstan’s 2022 GDP was $225.8 billion. If its factoring business reached a penetration rate of 2.4% of GDP (the average in its nearby countries and markets), the potential factoring volume could be $5.4 billion (footnote 6).

Gaps in Market Development

The factoring industry in Kazakhstan is underdeveloped. Despite the Government of Kazakhstan’s prior interest in factoring and previous discussions with the World Bank, progress has been sluggish.

The understanding of factoring and SCF products among investors, banks, SMEs, and corporations is limited. Additionally, the use of dedicated SCF platforms is lacking, which could aid in the adoption and growth of these products.

Action Points

- Develop factoring with the support of the National Bank and supervisory agencies. A new regulation is required to allow banks to classify factoring as a financial service, recognizing receivables as a usable asset class.
- Create market awareness among bankers and business owners on the merits of SCF.

KAZAKHSTAN

As per an OECD report, SMEs comprise 96.4% of all entities, with more than 1.6 million registered SMEs. SMEs generate 38.6% of the total employment in the country, contributing 31.6% to the country’s GDP.13 Due to various government schemes (e.g., setting up of funds to finance SMEs, interest rate subsidies, and loan guarantees), SMEs have relatively better access to finance. The share of SME loans out of total business loans is around 32.5%.

However, although SCF was first started in 2009, it is not offered by many banks. Factoring is generally provided on a recourse basis by banks and there is no reverse factoring offered.

There are also a small number of nonbanks offering recourse and nonrecourse factoring. For factoring of receivables of state-owned businesses, non-notification factoring is provided, relying on an arrangement with the supplier and personal guarantees from shareholders.

Action Points

- Develop factoring with the support of the National Bank and supervisory agencies. A new regulation is required to allow banks to classify factoring as a financial service, recognizing receivables as a usable asset class.
- Create market awareness among bankers and business owners on the merits of SCF.

13 OECD Library: Financing SMEs and Entrepreneurs 2022: An OECD Scoreboard. https://www.oecd-ilibrary.org/sites/10a940b8-en/index.html?itemId=/content/component/10a940b8-en#-text=The%20major%20sectors%20of%20work%2C%20and%20retail%20services%20and%20agriculture.&text=As%20of%20the%20end%20of%20employment%20population%20in%20the%20country.

KYRGYZ REPUBLIC

The Kyrgyz Republic has a small economy with 17,000 SMEs contributing 46.4% of the country’s GDP, thus limiting the potential for SCF. Currently, factoring and SCF products have not been introduced in the country.

Although there is potential demand for SCF from SMEs, banks do not offer financing without hard collateral, making few SMEs eligible.

Legal and Regulatory Framework
The legal infrastructure to support SCF is nonexistent, and receivables cannot be assigned in traditional SCF arrangements.

Market Potential
The Kyrgyz Republic’s 2022 GDP was $11 billion. If factoring reached a penetration rate of 2.4% of its GDP (the average in nearby countries and markets), the potential volume could exceed $264 million.

Gaps in Market Development
The absence of a supportive legal infrastructure and the limited knowledge of SCF products and their benefits have hindered its development in the country.

TAJIKISTAN

SMEs in Tajikistan account for over 95% of private companies and play a significant role in rural employment. However, their contribution to GDP remains low, at approximately 30%.

Banks do not offer SCF, and commercial transactions are settled directly or with letters of credit. The only forms of finance available are loans or credit period from suppliers.

Legal and Regulatory Framework
There is no legal framework for factoring and SCF.

Market Potential
The potential market for SCF in the short to medium term is thought to be minimal. However, if the country’s factoring market reached a penetration rate of 2.4% of its GDP (the average among neighboring countries), the potential factoring volume could be $250 million. The country’s 2022 GDP was $10.4 billion (footnote 6).

Gaps in Market Development
Factoring is not offered by any bank in the country, with the absence of a legal infrastructure to support it. Awareness of this service is very limited among banks, SMEs, and corporates.

Action Point
- The National Bank of Tajikistan could support the introduction of SCF in the medium to long term, with the support of development banks.

TURKMENISTAN

The banking sector in Turkmenistan is dominated by state-owned banks. Rysgal Bank has implemented factoring training under the EBRD’s Trade Finance e-Learning Programme and offers factoring services. Meanwhile, the Turkmen–Turkish Joint-Stock Commercial Bank, in its financial statement published in 2018, refers to its “factoring operations.”

Legal and Regulatory Framework
Despite factoring being recognized in the legal framework, there is limited development of factoring operations in Turkmenistan.

Nonbank financial institutions are not regulated; therefore, any SCF activities carried out by them would fall under the supervision of the Ministry of Finance and they would not be recognized as factoring defined under the legal framework for banks.

Market Potential
According to the World Bank, Turkmenistan’s 2022 GDP was $78 billion. This suggests a 3- to 5-year medium-term potential of about $1.9 billion in factoring volume (footnote 6).

Gaps in Market Development
The limited adoption and use of factoring by banks and nonbank financial institutions highlight the need for increased awareness and education on SCF products.

It is also important that similar legal recognition of factoring is offered to nonbank financial institutions as available to banks.

**Action Point**

- Turkmenistan established the State Commission for Support of Small and Medium-Sized Enterprises in 2021 to support the development of SMEs. It would be a step forward if the Central Bank of Turkmenistan can work together with the commission toward development of products, and raise awareness of the benefits of SCF.

**SUPPLY CHAIN FINANCE: ROLE OF TECHNOLOGY**

An essential aspect of a successful SCF operation lies in the deployment of an efficient software platform. Both bank and nonbank providers of SCF must employ a system that is reliable and suitable for their respective businesses. The pace of technological advancement in recent years has significantly increased the sophistication of SCF technology, elevating its importance as a critical consideration for both financiers and corporates.

Technology is making SCF more efficient and accessible for all parties involved. It addresses challenges such as the following:

- **Risk of fraud.** By using secure digital platforms and implementing robust authentication protocols, technology minimizes the risk of fraudulent activities and enhances the overall security of the financial transactions.

- **Operational risk.** With the use of technology, all parties involved can access real-time information and track transactions, reducing the chance of any errors or miscommunication and minimizing operational risk.

- **Efficiency.** Technology saves time by automating manual processes involved in SCF, such as e-invoicing, which reduces time and effort for manual invoicing processes. This is especially beneficial in scaling up SCF, where a large number of daily transactions needs to be handled.

- **Language barrier.** Technology helps eliminate language barriers, making it easier for parties from different countries to communicate and transact, especially in the global SCF industry.

- **Integration.** Technology can connect financier or banker, supplier, and buyer through a common platform, making it easier to share invoices, verify and approve, finance, and monitor transactions. It is also getting easier to access and process transactions through various interfaces, such as laptops and mobile phones, with data available at the fingertips of each party.

The cost of implementing technology solutions depends on the nature of customization required. Fintech companies provide a large number of options for banks based on budget, such as white-labeled versus third-party platforms, custom platforms with higher upfront investment and low per-transaction cost, or platforms with Application Programming Interface (API) integration resulting in lower upfront investment.

Different types of technology are being adopted globally based on the user requirements. Banks use technology for ease of financing, scalability, and cost-effectiveness. Buyers and suppliers adopt technology for convenience, cost savings, and time-saving. Governments and regulators use technology for transparency and trust-building through systems like invoice registers. Regulators can also encourage development of SCF marketplace platforms that bring together buyers, suppliers, and financiers on a common platform within the country.

Moreover, fintech platforms offer innovative financing options through technology-based solutions, further revolutionizing the SCF industry.

**CONCLUSION AND RECOMMENDATIONS**

The significance of financing for SMEs, especially in developing countries, has been widely acknowledged. Similarly, the advantages of SCF in enhancing this funding have also been extensively documented.

It is imperative to continue examining the potential of SCF in Central Asian countries and providing aid and support for SME growth in the region.

The implementation of SCF in Central Asia is in its infancy and, in some countries such as Turkmenistan and the Kyrgyz Republic, it has yet to take root.

In established markets worldwide, including Chile, France, the People’s Republic of China, Spain, the United Kingdom, and the United States, the growth of SCF took many years and has not yet reached its full potential. Despite this, SCF has been instrumental in supporting SMEs and has increased in popularity and usage in mature markets.

This publication highlights the need for continued support from development banks and global institutions such as FCI, sharing international best practices and collaborating with financing institutions, regulatory bodies, and governments to further develop SCF in Central Asia.
Call to Action

- Design and execute an awareness-raising program focused on SCF, in particular, reverse factoring and factoring.
- Convene stakeholders at regional and/or national levels to assess path to development and deployment.
- Engage legal and regulatory experts to chart a path to an enabling environment and/or to identify opportunities for capacity building or technical assistance.
- Convene a roundtable of multilateral development banks (MDBs) to assess market appetite, product and solution fit, and options for developing suitable offerings.
- Implement technology-driven solutions to offer low-cost, customized SCF solutions and consider creating a receivables financing marketplace.
- Engage regional and local banks to identify and address training needs in SCF.

Figure 3: Annual Factoring Volume ($ million)

Source: Authors’ elaboration from World Bank’s Gross Domestic Product data.
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Note:
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