

Unlocking Growth: Trade Finance for SMEs in Emerging Markets

Graham Bright, Compliance Director, Euro Exim Bank

(graham.bright@euroeximbank.com)

In today's fast-paced global economy, Small and Medium Enterprises (SMEs) in emerging markets are contributing significantly to employment, GDP, and social development. Yet, a \$5.7 trillion financing gap persists, limiting their potential. This article explores how trade finance solutions, such as supply chain finance, factoring, and trade credit insurance, are bridging this gap. Through real-world examples and innovative financial tools, we demonstrate how SMEs in India, Africa, and beyond are overcoming financial barriers to thrive in competitive markets. Discover how Euro Exim Bank (EEB) supports these enterprises with tailored trade finance solutions.

Bridging the Funding Gap for SMEs in India, Africa, and Beyond

SMEs are vital to global economies, representing over 90% of firms, 70% of employment, and 50% of GDP worldwide. Despite their importance, SMEs face an annual financing gap of \$5.7 trillion, which increases to \$8 trillion when informal enterprises are included. In emerging markets, 70% of MSMEs lack adequate financing, and 1.7 billion adults remain unbanked, predominantly in Asia and Sub-Saharan Africa, disproportionately affecting women.

Trade finance emerges as a lifeline, enabling SMEs to manage cash flows, mitigate risks, and unlock growth opportunities that would otherwise remain out of reach. Innovative financing solutions such as supply chain finance, factoring, and trade credit insurance are transforming the landscape, allowing SMEs to participate in global trade more confidently and efficiently.

Supply Chain Finance: Enhancing Liquidity and Trust

In India, where SMEs contribute nearly 30% of the GDP and 45% manufacturing output, supply chain finance has proven to be a game-changer. Take the example of a mid-sized textile manufacturer in Tamil Nadu that struggled with extended payment cycles from overseas buyers. By leveraging supply chain finance, the company was able to secure early payments against its invoices, reducing cash flow strain and reinvesting in production capacity. This financial flexibility not only stabilized operations but also allowed the business to accept larger orders, driving growth.

In sub-Saharan Africa, SMEs contribute nearly 50% to the total GDP. In Kenya, an agro-processing SME faced delays in receiving payments from international buyers, threatening its operational continuity. Through a trade finance program facilitated by a regional financial institution, the SME accessed supply chain financing, enabling it to purchase raw materials and meet export deadlines without disruption.

Factoring: Turning Receivables into Immediate Cash

Factoring has become a game-changing financial solution for SMEs, unlocking the value of their receivables and transforming them into immediate cash flow. In India, a pharmaceutical SME exporting generic medicines faced significant delays in payment from global distributors. By partnering with a factoring firm, the SME converted its receivables into immediate cash, ensuring operational continuity and enabling further investment in research and development.

Another Indian textile manufacturer was struggled to secure \$ 6m bank facility over working capital gap due to limited collateral and rising raw material costs. By leveraging a \$ 3m export factoring facility, they enhanced credit protection, secured larger orders, attracted new customers, and improved cash flow, enabling better alignment of their bank finance usage.

In Africa, factoring is still in its growing stages, but its potential is undeniable. A small-scale cocoa exporter in Ghana leveraged factoring services to secure funds upfront, improving their cash flow and enabling timely purchase of high-quality produce from local farmers.

Trade Credit Insurance: Reducing Risk, Increasing Confidence

For SMEs, the risk of buyer defaults can hinder market expansion. Trade credit insurance provides a vital safety net, enabling them to confidently explore new markets. A technology hardware SME in India expanded its export operations to Southeast Asia after securing trade credit insurance, mitigating the risks associated with potential buyer defaults.

In South Africa, a machinery SME leveraged trade credit insurance to secure contracts with international buyers. This assurance not only protected the SME from financial loss but also enhanced its credibility, attracting more overseas clients.

The Role of EEB

Euro Exim Bank (EEB) plays a pivotal role in bridging the funding gap for SMEs across 200 countries, with a strong presence in emerging markets such as Asia and Africa. By offering tailored trade finance solutions ranging from Letters of Credit and Bank Guarantees to supply chain finance. EEB empowers businesses to confidently navigate cross-border trade. Through strategic partnerships with global financial institutions and fintech platforms, EEB ensures seamless transactions, reduced bottlenecks, and enhanced transparency.

Unlocking growth for SMEs requires the collaborative efforts of governments, financial institutions, and international bodies. At Euro Exim Bank, we are committed to driving this transformation by providing innovative trade finance solutions that address the \$5.7 trillion financing gap. Our goal is to empower SMEs to expand globally, contribute significantly to their economies, and overcome key challenges such as delayed payments and transaction risks.

Discover how Euro Exim Bank can support your SME's growth journey by visiting our website www.eeb.com to learn more.

Data Sources:

- *International Finance Corporation (IFC),*
- *World Bank SME Finance Forum,*
- *Global Trade Review (GTR).*
- msme.gov.in
- *The world economic forum 2023/7*
- sriyaent.com/case-study/textile-industry