

## **PROJECT SUMMARY**

### **MERCOFACT: AN INNOVATIVE PLATFORM FOR TRADING SMALL BUSINESS INVOICES**

**(DR-L1119)**

In the Dominican Republic, 23.8% of businesses' working capital comes from supplier credit (payment for products and services is issued at some point after delivery), compared with 18.2% in Latin America and the Caribbean, and 10.9% globally. This established pattern of a large proportion of sales being made on credit subjects smaller businesses, in particular, to liquidity restrictions while they await payment, due to a lack of short-term financing to make payroll and cover the cost of other production inputs. For small and medium-sized enterprises (SMEs), this can undermine their ability to purchase the supplies they need to continue producing at full capacity and prevent them from taking full advantage of business opportunities.

Factoring can be a way to increase working capital financing for SMEs, enabling them to optimize their liquidity management. However, factoring services currently available in the Dominican Republic are too costly for SMEs (a high-percentage discount is applied to invoices or accounts receivable factored by SMEs), due to the high transaction costs involved in collecting payment on their invoices. Many financial intermediaries simply set a minimum amount per invoice that is higher than the typical invoice amount for SMEs. Some financial intermediaries even require SMEs to be or have operations of a certain size and only accept invoices whose payers are in the "prime" category.

Given this situation, changes must be made to existing practices in the factoring market to facilitate and boost the productive activities of SMEs. This builds upon promising developments in the country, which include the implementation of electronic signatures and invoices and the law on personal property security. These and other developments can be combined with innovative technologies to offer better financial products and services. In response to the opportunity presented, the Multilateral Investment Fund (MIF) will support Mercofact, a fintech company with an electronic factoring business model that seeks to expand locally and regionally. The expansion of this business model will generate more liquidity, so that SMEs can grow their working capital and be more productive, thereby creating new jobs.

This project—the first of its kind—proposes a new loan modality called revenue-based loans for companies like Mercofact that are still in the acceleration phase, with unstable (but positive) cash flow, and cannot offer collateral but are backed by enthusiastic entrepreneurs and technology-based business models that show growth potential.

The project is aligned with the Inter-American Development Bank's country strategy with the Dominican Republic for 2013-2016 and the country strategy for 2017-2020, currently in process. It will increase access to financing for businesses while directly reinforcing their productive development and competitiveness. The proposed project is also consistent with the Inter-American Investment Corporation's strategy, given that it fits into the approach with micro, small, and medium-sized enterprises to identify alternative channels of financing. Consequently, it has the potential to become an important source of financing for working capital in this business segment.