What's happening in Ukraine's supply chain finance market?

Supply chain finance has the potential to boost the growth of Ukrainian businesses as companies struggle with the impact of war. The market was showing early signs of growth before the war, with both international and local banks actively developing products such as factoring and buyer-led payables finance.

Ukraine's finance minister Serhiy Marchenko has said in recent interviews that the country's economy could be half the size it was before Vladimir Putin's forces invaded. This latest assessment is broadly in line with the World Bank's forecast from April 10, which projected a 45% contraction to Ukraine's GDP this year, citing displacement of people, damage to infrastructure, and disruption to trade.

Promising signs

According to the EBDR, receivables finance represented only 0.1 per cent of Ukraine’s GDP in 2020, compared to 8 per cent in neighbouring Poland, where the factoring market remains the fastest-growing financial sector, worth €66.1 billion and serving more than 18,000 businesses. Since then, however, the Ukrainian factoring industry has been showing dynamic growth.

Before the war, there were promising signs on the market already, with both international and local banks actively developing their payables finance products.

In addition, notable deals were announced, such as Taskombank financing Onur Group, a Turkish infrastructure construction group operating in Ukraine, and the First Ukrainian International Bank financing non-recourse factoring deals.

SupplierPlus had limits open with several banks and others in far stages of DD, financing half a dozen buyers with a couple of suppliers each. Uptake of its digital buyer-led supply chain finance platform was notable in grocery retail, food and beverages, as well as manufacturing. These limits have been closed for now, but a locally owned bank has recently confirmed a new limit against a retail chain operating in Western Ukraine. Financing is slated to restart in May.

Factoring and buyer-led payables finance is recovering

In short, payables finance has effectively come to a halt, but is already recovering and it seems safe to assume that some factoring activities continue. Several local banks as well as the Ukrainian Export Credit Agency are looking to work with the FCI to develop export factoring.

The EBRD's resilience package provides trade finance support for local banks and exporters, while the Ukrainian state offers guarantees to finance agriculture companies as well as retail chains. Neither instrument, however, covers supply chain finance solutions such as factoring or buyer-led payables finance.

Consequently, retail chains are taking working capital loans, which are mostly used for immediate needs such as rebuilding warehouse and logistics capacities. Suppliers that are typically smaller or less bankable—but need funding nonetheless—are therefore left without coverage where that does not need to be the case.

It would be essential for the EBRD and the government to change course, providing SME suppliers with critically needed access to finance at the risk of their buyers.