SUPPLY CHAIN FINANCING FOR INFORMAL MSMEs

Enable direct access to working capital within the FMCG value chain
Nomanini - which means ‘anytime’ in siSwati was established to provide informal retailers with tools to improve their businesses by combining new digital financial services with existing distribution networks. IMF data shows that the informal economy in sub-Saharan Africa accounts for 38% of the region's GDP. ILO statistics show that retail and wholesale is the second biggest employer across the region after agriculture. However, informal retail MSMEs (Micro, Small, Medium-sized Enterprises) are currently underserved and underbanked.

In Nomanini’s target markets, 4-6 million informal retailers account for 86% of retail transactions within those markets. These retailers are typically sole proprietors who operate from a single, fixed location, and may employ one or two casual staff — usually a spouse or family member — and generate 80-85% of their revenue through the sale of fast moving consumer goods (FMCG). The remainder of their revenue is made up by over-the-counter (OTC) electronic payment transactions such as prepaid mobile airtime top-ups and mobile money deposits and withdrawals. Nomanini’s data shows that each retailer serves between 50 and 100 consumers per day.

Informal retailers face distinct challenges: their scarce working capital has to be balanced between a range of products that need to be stocked, as they lose customers when specific products are out of stock. As sole proprietors, retailers also need to be present in their shops to operate. Leaving the shop for extended periods of time, for example, to go to a bank branch, results in lost revenue.

Banks need to provide business-focused financial services to MSMEs, including informal retailers. But banks in developing markets find it difficult to access the mass market represented by informal trade.
Firstly, while informal retail merchants operate as businesses, they lack the documentation and processes that banks traditionally require to provide business banking services. Secondly, cash still dominates the informal market, with MasterCard estimating that 95% of retail transactions in Africa are still cash-based. Despite widespread adoption of mobile money services for P2P remittances in several African markets, informal retailers see little value in the processes and fees associated with traditional business banking accounts. Thirdly, Banks’ internal business banking systems are also not designed to onboard large numbers of MSMEs at low cost - the economics of customer acquisition through traditional bank channels is not viable.

Reaching this underserved market can be difficult, but with the right processes, partnerships and systems, banks can effectively deploy a retail MSME loan book at scale. In doing so banks can also create new channels and gain data for long term strategic advantage.

Reaching the informal market at scale

In 2019, Nomanini partnered with Standard Bank, Africa’s largest bank by assets, to implement an open-loop platform to provide business banking services to informal retailers in a format that is suitable to the reality of their businesses. The partnership followed a successful pilot project conducted in Ghana in 2017 during which Nomanini found that 1) providing access to working capital is valuable to retailers, 2) retailers who access working capital credit have a ±30% higher activity rate than those who do not, and 3) that, by providing credit in the form of stock instead of cash, Non-Performing Loans (NPLs) can be well managed.

Standard Bank conducted research to validate the outcome of the Ghana pilot project across other markets. The partnership enables Standard Bank to onboard informal retail merchants as SME clients without requiring the bank to modify its existing SME processes or requiring informal retailers to open a traditional bank account, or even visit a bank branch.

Nomanini’s platform enables banks to offer financial services to informal retail merchants via an interoperable wallet that caters for multiple financial products. These include a current account and Lines of Credit (LOCs). The current account is used for OTC electronic transactions with consumers such as mobile airtime, bill payments and cash in/cash out. LOCs provide access to safe credit which retail merchants can use as working capital to maintain products that they stock and sell to consumers.

Using Nomanini’s SaaS platform, banks are able to partner with third-party distribution channels to serve informal retail merchants at scale. Existing relationships between informal retailers and the FMCG value chain can be leveraged to provide an end-to-end service to onboard and manage merchants as bank SME clients. FMCG value-chain partners benefit from secure last-mile supply chain financing or credit which increases sales.
A fully-electronic know-your-customer (KYC) module further enables merchants to be onboarded electronically without ever having to visit a bank branch. The project needed to address the perceived risk to the accuracy of KYC data used to maintain compliance with the bank’s regulatory framework. An electronic KYC module was implemented to capture images of all the required documents together with a geo-tagged image of the retailer’s physical premises. The KYC data was then integrated with the bank’s automated sanctions screening and customer risk assessment back-end systems to ensure regulatory compliance prior to the onboarding of merchants.

Informal retail merchants that have been onboarded can supplement their income with OTC electronic transactions, from which they earn transaction commission. Retailers trade based on a cash-first model for 30 days, which generates sufficient transactional data that is applied to the automated credit scoring process.

The credit scoring module then creates personalised credit offers for each merchant, which are presented to the merchant via their Android app. The loan is originated by the retailer accepting an offer, which triggers a loan disbursal that is routed internally within Nomanini’s platform. Loans can be used as a means of paying for stock — either in the form of credit to their current account for OTC electronic transactions or as supplier credit for the purchase of physical goods.

At scale, this base of customers allows banks to grow their points of presence into the informal market without the costly capital expenditure associated with branches and ATM networks.
Following the initial partnership with Standard Bank, data shows banks are able to onboard more than 20 merchants per week per branch with minimal back-office staff through partnering with FMCG companies.

More than 70% of retailers that were onboarded were eligible for credit after the initial 30 day period, and over 80% of those retail merchants who use credit once went on to become repeat borrowers. Significantly, this credit funded between 60% and 80% of retailers trading volume.

Through close alignment of the credit offer, the business of the retailer, the stock financed and the FMCG value-chain, after six months fewer than 1% of loans are classified as non-performing.

Nomanini is continuing to expand the capabilities of its platform to further enable retailers to access more lines of credit for electronic and physical goods financing in addition to their current account. Plans are in place to expand the range of financial services that these MSMEs can access through the platform, including business-focused insurance, goal-based savings, funds disbursals and foreign remittances for immigrant retailers back to their home countries.

An additional avenue that is being explored is leveraging the FMCG partnerships to provide a channel for cash handling. Retailers in the cash-based informal trade tend to accumulate cash. FMCG distribution chains have well-established cash handling processes for the payment of physical goods. Nomanini believes these cash handling capabilities can be leveraged to support the digitisation of cash deposited by retailers into their wallets. These cash channels are more convenient for the retailer at a lower cost.

**Key SCF insights**

*Focus on the customer need* - once a bank starts serving informal retailers, they are able to move faster to improve and introduce new services based on real customer insights. In an underserved market, this requires an iterative and inclusive approach. There is a distinct need for customer-centricity and the openness to interoperable solutions if banks are to succeed in this space.

*Ensure alignment between partners* - a partnership between a bank and FMCG distributors is complex to set up but once all parties are aligned, both the bank and the FMCG distributors benefit. It is essential to spend time upfront to ensure that all stakeholders are aligned on 1) how the implementation unlocks value for each stakeholder and 2) the specific roles and responsibilities of each and how they interact.
ABOUT THIS CASE STUDY

This case study was included in the ICF Handbook titled *Technology and Digitization in Supply-Chain Finance*. The handbook was prepared by the Digital Financial Services team of IFC’s Financial Institutions Group for the benefit of further progress in the development of supply chain finance and as a resource guide specifically for financial institutions in emerging markets looking to implement digital supply chain finance solutions. The full Handbook is available for download from the [IFC website](http://www.ifc.org).

ABOUT NOMANININI

As the pioneering fintech platform for the informal retail ecosystem, Nomanini connects merchants and distributors to each other and to global service providers, integrating payments, working capital, and data analytics to unlock the latent potential of Africa’s economy.

Nomanini turns any mobile device into a retail point-of-sale solution for informal merchants that is connected to an interoperable merchant wallet. The interoperable merchant wallet allows merchants to offer a broad range of digital banking (including cash-in/cash-out), mobile, utility and entertainment services to their customers, boosting competitiveness. In turn, digital service providers rapidly increase the scale and reach of their offerings.

By generating real-time insights based on transaction data, distributors using the platform gain a single view of their merchant network, ensuring inventory is where it is needed most to improve sales. Distributors can also begin to accept payments for goods electronically, eliminating the risk and inefficiency of collecting cash. With data analytics, Nomanini helps extend working capital loans to merchants via distributors allowing them to invest in inventory to grow their businesses. The increased volume of goods and services set against reduced operational friction, increases the profits for all platform participants.

Nomanini was founded in 2011 and is headquartered in South Africa.

For more information, please visit [www.nomanini.com](http://www.nomanini.com)