

Reverse Factoring and Firm Growth: Evidence from MSMEs in Mexico

SUPPLY CHAINS, LIQUIDITY, AND MSME GROWTH CONSTRAINTS

From the COVID-19 pandemic to ongoing geopolitical conflicts, recent events have revealed how external shocks can spread throughout supply chains. As firms shift focus from efficiency toward resilience, strengthening smaller links in the chain becomes critical.

A key constraint for many supplier firms, especially micro, small, and medium-sized enterprises (MSMEs), is liquidity. Suppliers often face long delays of 90 days or more before being paid for delivered goods and services. These prolonged cash conversion cycles would be less binding if smaller firms had greater access to affordable working capital.

However, in Latin America and the Caribbean (LAC)—the region with the second largest MSME financing gap in the world at an estimated US\$1 trillion—many MSMEs are excluded from formal short-term finance, limiting their ability to bridge liquidity gaps. Such constraints can undermine operational capacity, investment decisions, and growth.¹

In this context, supply chain finance (SCF) has gained prominence as firms seek to improve liquidity and alleviate financing constraints within value chains. Despite its potential, SCF remains underused in LAC, representing only about 25% of bank trade finance portfolios, with significant room for growth.²

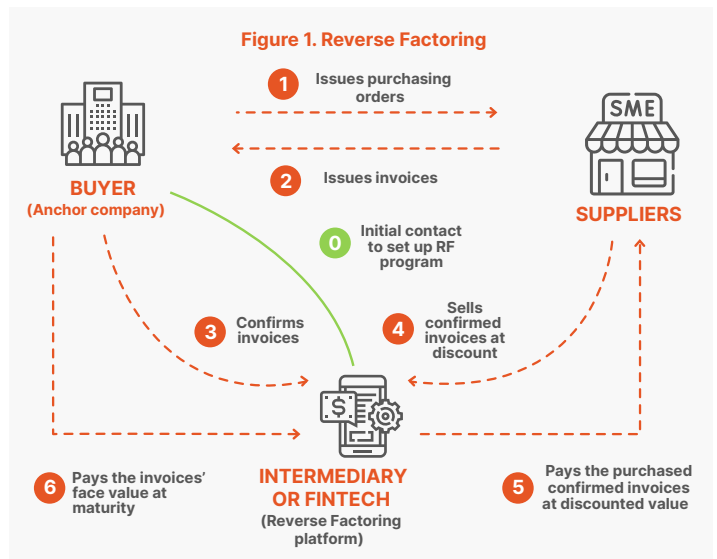
WHAT IS REVERSE FACTORING?

Reverse factoring (RF), a buyer-led form of receivables discounting, has emerged as a particularly relevant SCF instrument for MSMEs. In traditional factoring, a supplier sells accounts receivable to a financial intermediary, which must verify invoices and assess credit risk—often a costly and difficult process for MSMEs.

Under RF, a large, creditworthy buyer (the anchor company) partners with a financial intermediary and confirms eligible invoices (Figure 1), providing an explicit payment guarantee. This confirmation reduces verification and credit risks, allowing intermediaries to offer suppliers faster liquidity at lower financing costs.

Because RF leverages the anchor buyer's creditworthiness and invoice confirmation, it can expand access to short-term liquidity for MSMEs without requiring collateral or extensive credit history. In principle, this liquidity can support firm growth, client acquisition, and resilience to shocks.

IDB Invest has supported several RF programs in LAC, mainly in Mexico, with focus on MSME suppliers. However, rigorous empirical evidence on the effects of these programs – especially on business outcomes for MSMEs– is limited, particularly in LAC.



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- Recent global shocks have exposed supply chain vulnerabilities and driven a shift towards resilience, including by addressing persistent financing gaps for MSME suppliers.
- Reverse factoring is a buyer-led supply chain finance instrument that can ease working capital constraints for MSME suppliers by leveraging the creditworthiness of large anchor buyers.
- Using firm-level data from Mexico, an IDB Invest study estimates that by using reverse factoring, MSMEs increased sales by about 27%, approximately US\$191,000.
- Sales growth is mainly due to reaching more customers, especially among firms that regularly use reverse factoring.
- While the analysis focuses on Mexico, the findings are relevant for Latin America and the Caribbean more broadly, where MSMEs face similar liquidity constraints.



¹ Aparicio et al. (2021). *Liquidity or Capital? The Impacts of Easing Credit Constraints in Rural Mexico*.
² Aparicio et al. (2022). *Reverse Factoring for MSMEs: A Financial Tool for Supply Chain Development?*

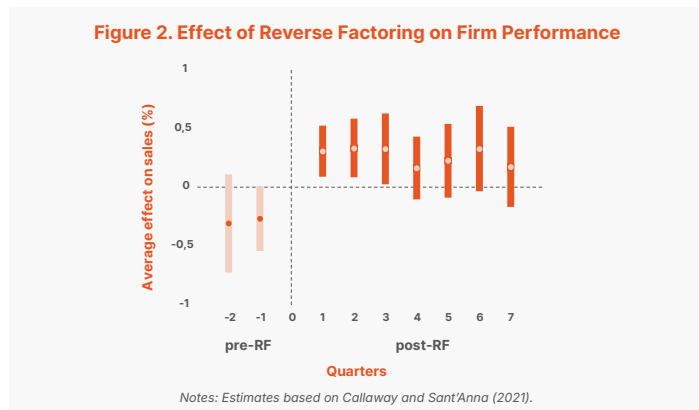
ASSESSING THE IMPACT OF REVERSE FACTORING ON MSMEs

To build this evidence base, IDB Invest analyzed data from a reverse factoring platform in Mexico covering 11,400 MSMEs observed between 2021 and 2024. This data combines detailed information on firms' use of RF and other financial products with fiscal records that allow consistent measurement of sales and client relationships over time, providing the first estimates of the impact of RF on MSME supplier performance in LAC.

The study compares changes in firm sales and client relationships before and after they start using RF with similar firms that have not yet adopted the instrument. It accounts for differences in firm characteristics (such as age and sector) and broader economic trends, as well as the timing of the adoption of RF among firms.³ The analysis uses additional matching techniques to ensure that RF users and non users are comparable.

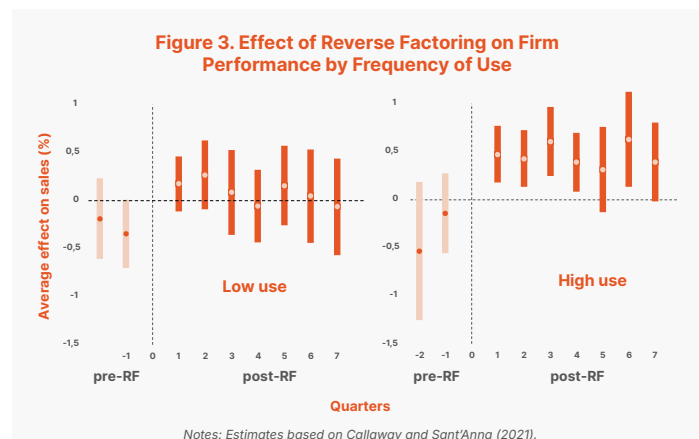
MAIN FINDINGS

The results indicate that RF adoption leads to a statistically significant increase in firm sales of 27% relative to comparable firms that have not adopted RF. This corresponds to an average increase of approximately US\$191,000 in sales during the first year after adoption. These gains in sales are concentrated in the first three quarters after adoption, with smaller and less precisely estimated effects beyond that horizon (Figure 2).



Moreover, three additional key findings emerge:

- The increase in sales is primarily driven by firms expanding their customer base following RF adoption by about 43% (an average increase of 3.9 clients), rather than selling more to existing clients. These patterns are consistent with RF relaxing short-term working capital constraints and enabling MSMEs to acquire new customers, who may initially transact at smaller volumes.
- There is no statistically significant sales concentration among top clients or corporate buyers, suggesting that RF does not increase supplier dependency on a narrow set of customers.
- Sales gains depend on sustained usage: firms that use RF regularly see lasting improvements in sales, while occasional users show no measurable impact (Figure 3).



The study complements these estimates with responses from a survey of 700 MSMEs in Mexico, finding that most firms using RF perceive improved access to liquidity and, in many cases, lower interest rates relative to alternative market options. Regarding potential trade-offs, most firms that actively use the instrument report no change in payment terms imposed by anchor firms after joining RF programs, and while some did report renegotiations of payment terms, these changes are not widespread.

LOOKING FORWARD

The evidence suggests that RF can support MSME growth by easing short-term liquidity constraints and enabling client diversification within supply chains, both of which are increasingly relevant for strengthening resilience. The results also highlight that sustained use of RF matters: firms that use the instrument more consistently experience larger and more durable increases in sales.

There is still a lot to learn towards increasing uptake of RF in the region. Future work can deepen understanding of how firms allocate RF-linked liquidity (working capital smoothing versus longer-term investments) and what drives some firms to continue using RF while others stop. It can also explore why adoption remains limited among eligible suppliers and how the incentives offered by anchor firms affect uptake of RF programs among MSME suppliers. These questions are central for designing interventions that scale RF responsibly and maximize benefits for suppliers and supply chain resilience.



Additional Information

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This DEBrief highlights the findings of the study by Lucas Figal Garone, Victoria Luca, Rodolfo Stucchi, and José Tessada (2026), [The Impact of Reverse Factoring on MSMEs: Firm-level Evidence from Mexico](#), which is part of IDB Invest's Development Through the Private Sector Series.

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³ The main estimates use recent methods specifically designed for settings with staggered treatment adoption, as in Callaway and Sant'Anna (2021). [Difference-in-Differences with multiple time periods](#).