From Emerging Trend to Developed Solution: the Global Rise of Alternative Financing

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Emerging market corporates have long been aware of alternative financing as a means of overcoming the reduction in global bank lending. Given this, the funding landscape in these regions is diverse as both regional banks and alternative financiers step in to fill the breach. With Basel III set to further jolt the trade finance market, developed market corporates are now mirroring the actions of their emerging counterparts. This article describes the growing trend towards alternative financing globally.

With rapidly growing economies, increasingly sophisticated technology and growing political and business power in areas such as Asia, the Middle East and Africa, the lines between 'emerging' and 'developed' regions are becoming increasingly blurred. This applies especially to the corporate funding landscape, where the so-called 'emerging markets' are at the forefront of innovative new trends.

The emerging markets were undoubtedly hit harder by the post-2008 constraints on global bank lending. The attack was two-fold; with global banks not only prioritising core business - which largely does not include smaller emerging market corporates - but also prioritising domestic market companies.

As a result corporates have been forced to find a viable alternative to global bank funding, turning instead towards both regional banks and alternative financiers. The current financial landscape in the emerging markets is more diverse, and offers corporates a wide range of solutions that can often be more suited to their precise needs. Despite turbulent times, these companies have found liquidity and expertise and have continued to grow despite the banking environment. The developed markets are now following suit.

Constrained Lending

The global financial crisis was undoubtedly a wake-up call in highlighting the need for tighter regulatory control and also the pitfalls of being overly reliant on global banks as funders and solutions providers.

Of course, some would argue that the reaction - particularly with respect to the regulation of banks - has been too extreme. The restrictions imposed by regulatory proposals on global bank lending now mean that even reliable corporates have limited access to funding. Basel III, in particular, requires banks to keep a certain amount of capital on their balance sheets. Consequently, the more capital there is on their balance sheets, the less there is to lend to corporates. What's more, Basel III also makes trade finance instruments more expensive for banks – a proposal that has been relaxed in Europe but, notably, not worldwide.

The constraints to global bank lending have had an impact in all markets, but it could be said that the emerging markets have been most severely hit. The fact that banks have been forced to choose more carefully which corporates to fund has resulted in them favouring core business; little of which comes from smaller emerging market corporates. What's more, the pressure to prioritise domestic markets - particularly on European banks bailed out by the taxpayer - meant that even larger emerging market corporates were, and still are, often overlooked.

Diversifying Funding

Certainly, the emerging markets have faced a conundrum: funding has diminished just as opportunities for growth have increased. With rapid economic growth - particularly in China (albeit slowing) and India -

and an expanding consumer market as incentives, corporates in these regions have been eager to develop and are hungry for funding.

Despite being dominated by global banks, the financial landscape has had other players since long before the global financial crisis. These have chiefly been regional banks and alternative financiers, who are increasingly stepping up to bridge the gap. Regional banks have a historic domestic presence and in-depth local knowledge, which means they have a full understanding of the regulatory, economic and political environment in which a company might operate. They also have an understanding of the cultural and religious practices of a region, which can significantly impact business procedures.

Alternative financiers offer flexibility and speed, while being less restricted than banks with respect to where and how they operate. Combined with sophisticated resources and expertise, it means that they are able to provide bespoke funding solutions that are suited precisely to the needs of the corporate.

What's more, the new financial landscape is not competitive, but rather 'collaborative'. Banks and alternative financiers are entirely different financiers, each offering distinct solutions. Rather than compete, they often collaborate to combine their strengths to originate and structure business. As such, corporates not only benefit from increased choice in the new financial landscape, but are also able to access solutions that reflect the diversity of players.

Learning from the Emerging Markets

Increasingly, developed market corporates have started looking towards the financial landscape of the emerging markets, and have decided that they too want access to in-depth local knowledge, speed and flexibility. Regional banks have been fairly slow at expanding internationally, often held back by regulation and a lack of resources or infrastructure. Alternative financiers, on the other hand, have recognised this growing appetite for diversified funding solutions and are flocking towards the developed markets. As an example, Falcon Group has recognised the opportunities available in these regions and expanded operations to North America, Europe and the UK.

The increased appetite for alternative financing and regional bank lending in the developed markets marks the next stage in the recovery from the global financial crisis. Not only does a diversified financial landscape offer corporates benefits they cannot gain solely from a global bank but it also, importantly, offers them security. Increasing funding sources and combining expertise not only prevents companies from placing all their faith in one counterparty, but also helps create stronger solutions and ultimately a stronger company- imperative when operating against a turbulent economic background.