

SME GUIDE - UNLOCKING CASH FLOW FOR SMES

Factoring as a Finance Solution



POLICY BRIEF | OCTOBER 2025

KEY TAKEAWAYS

Factoring gives SMEs a practical way to turn their unpaid invoices into cash, easing cash flow pressures and reducing dependence on costly loans. In Africa, factoring is concentrated in a few markets like South Africa, Morocco, Egypt, Tunisia and Mauritius, but interest is spreading as new laws, fintechs, and AfCFTA initiatives take hold. This SME Guide introduces SMEs to factoring as a financing tool and explains, in simple terms, how it works and provides practical steps SMEs can take to unlock factoring as a new source of working capital.

1. INTRODUCTION

Small and medium enterprises (SMEs) are the backbone of Africa's economies, making up the vast majority of businesses and providing most jobs. Yet access to finance remains one of their biggest obstacles. Traditional bank loans are often hard to obtain, requiring collateral and long credit histories that many SMEs do not have.

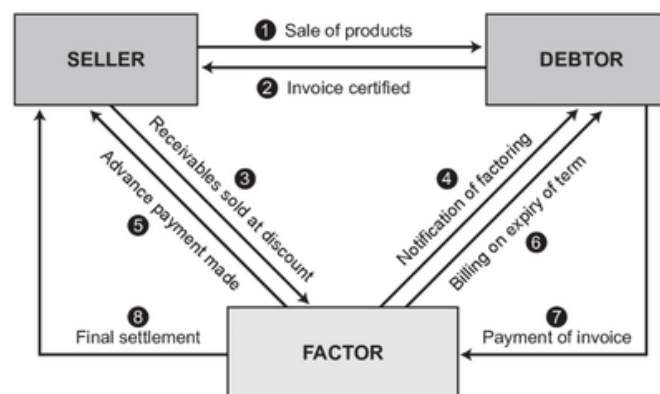
Factoring offers a practical solution. By converting unpaid invoices into immediate cash, SMEs can improve their cash flow, pay suppliers and staff on time, and take on new orders. This makes factoring especially valuable for businesses that sell to larger companies or across borders, where payment delays are common.

Although factoring is widely used around the world, many African SMEs are still unaware of this financing tool. This SME Guide introduces factoring in simple terms, highlights its benefits for SMEs, and explains how it is developing across the continent, including within the framework of the African Continental Free Trade Area (AfCFTA). It also provides practical steps SMEs can take to explore factoring in their own countries and advocate for its growth where it is not yet available.

2. WHAT IS FACTORING?

Factoring is a financial transaction where a business (**the 'SME' or 'seller'**) sells its accounts receivable (i.e. the invoices due from customers) to a third-party financial institution (**the 'factor'**). The factor pays the business immediate cash, but at a discount to the full value of the invoices. The factor then collects payment from the client's customer (**the "debtor"**) when the invoice matures, typically within a 30 – 90 day period (see Figure 1).^[1] Factoring helps businesses improve their cash flow, meet working capital needs, and reduce the administrative burden of collections.

FIGURE 1 - OVERVIEW OF FACTORING PROCESS



Source: Jones, L. 2010. Back Matter - Agricultural Value Chain Finance

2.1 TYPES OF FACTORING

Factoring can take various forms depending on who initiates the transaction, where the parties are located, and how credit risk is allocated.

• FACTORING AND REVERSE FACTORING

Traditional factoring is described above and represented in Figure 1. Essentially the seller (**typically an SME**) initiates the transaction by selling its receivables to a factor in exchange for immediate liquidity. The factor assumes responsibility for collecting the invoice from the buyer and may advance between 70–90% of the invoice value upfront, depending on the creditworthiness of the buyer.

By contrast, reverse factoring (also known as supply chain finance) is initiated by a large, creditworthy buyer (i.e. anchor firm in a value chain) rather than the seller (i.e. SME). In this model, the buyer confirms approved invoices from its SME suppliers, and a financial institution (the factor) advances payment to the suppliers at a discount. This approach allows SMEs to access lower-cost finance based on the buyer's stronger credit profile and improves liquidity across the supply chain. Reverse factoring is increasingly being piloted in Africa, especially in procurement-heavy sectors such as manufacturing, retail, and agriculture.

BOX 1 - ILLUSTRATIVE COST EXAMPLE

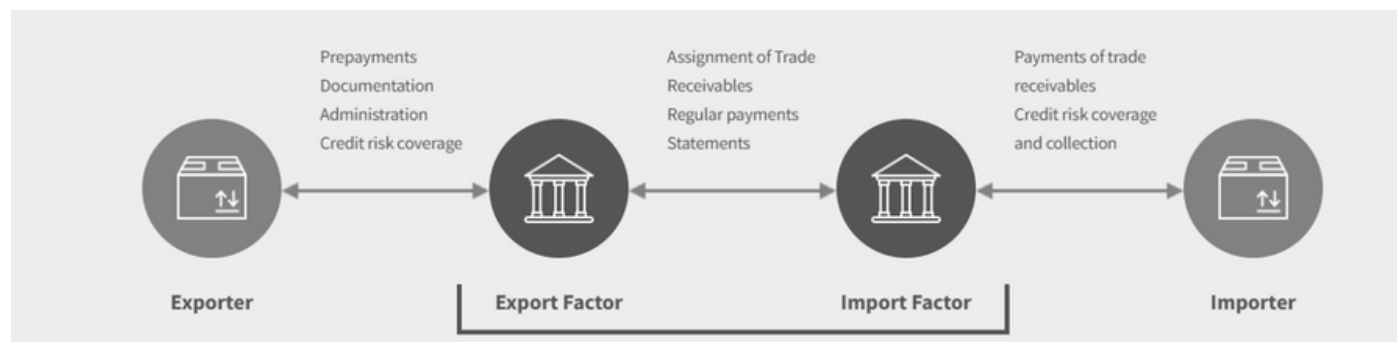
- Invoice value – \$100,000 due in 60 days.
- Advance rate – 80%. The factor wires \$80,000 now against this invoice.
- Discount fee – 2.0% per 30 days on the invoice face value. Over 60 days that's ~4.0% = \$4,000. (If the buyer pays later, this fee keeps accruing.)
- Other fees – e.g. verification/onboarding \$500.
- Settlement at payment – When the buyer pays the full \$100,000, the factor deducts \$4,500 (discount + fees) and releases the remaining \$15,500 to you.
- Total received – \$80,000 now + \$15,500 later = \$95,500 in total.

Source: Author's own illustrative example

DOMESTIC AND INTERNATIONAL FACTORING

Domestic factoring occurs when all parties (the seller, buyer, and factor) are located in the same country. This is the most common form of factoring in Africa today, due to limited cross-border legal harmonisation and infrastructure constraints.

International or regional factoring, on the other hand, supports cross-border trade, with the seller (exporter) and buyer (importer) located in different countries. It typically involves two factors: An export factor in the seller's country, who purchases the receivable and advances funds; and an import factor in the buyer's country, who assumes responsibility for collections and often credit risk (Figure 2).^[2] This two-factor model helps mitigate the risks of cross-border transactions, especially in unfamiliar legal or commercial environments.



Source: FCI (2025). <https://fci.nl/en/international-factoring>

RECOURSE AND NON-RECOURSE FACTORING

An important distinction in factoring is whether the factor or the seller carries the risk of non-payment by the debtor. This determines whether the arrangement is classified as recourse or non-recourse factoring. In recourse factoring, the SME is responsible if the buyer does not pay. It is usually cheaper but riskier for the SME. In non-recourse factoring, the factor takes on the risk of buyer default, but charges higher fees and applies stricter checks.

2.2 BENEFITS AND DRAWBACKS OF FACTORING

Factoring offers a number of practical benefits to both SMEs and financial institutions (factors), particularly in environments where access to traditional finance is limited. However, it also carries certain risks and limitations that must be considered. Below are the main benefits and drawbacks for both SMEs and the financial institutions that provide the service:

SMES

Benefits	Drawbacks
- Immediate access to working capital (cash) - No need to pledge fixed assets as collateral - In non-recourse factoring, the factor takes on the risk if the buyer does not pay - The factor can handle collections and credit management on behalf of the SME - Financing grows as sales grow (linked to receivables)	- Can be costly, especially for non-recourse factoring - Not all invoices or buyers will qualify - Some buyers may be uncomfortable with a third party involved - The process can involve paperwork and checks before approval

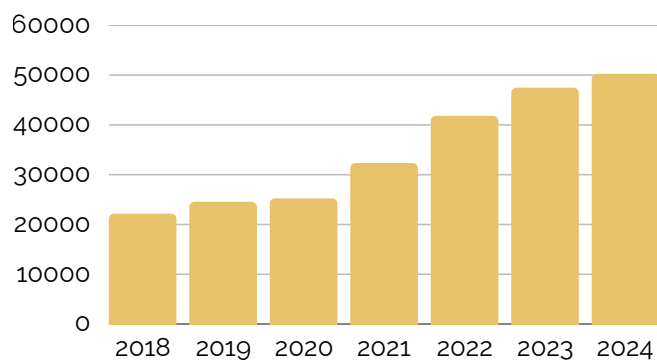
FACTORS

Benefits	Drawbacks
- Ability to finance SMEs that may not qualify for traditional loans - Lower credit risk, since repayment depends on the buyer's strength - Opportunities to cross-sell other financial services	- Time and resources needed to check invoices and buyers - Exposure to fraud or disputes over invoices - Hard to enforce contracts in countries with weak legal systems - Limited credit information on buyers, especially in informal sectors

Overall, factoring can help SMEs improve cash flow, reduce reliance on collateral, and grow in line with their sales. At the same time, businesses should be aware of the costs, eligibility checks, and potential challenges so they can decide whether factoring is the right tool for their needs.

2. THE AFRICAN FACTORING LANDSCAPE: MARKET TRENDS AND CURRENT STATUS

Factoring in Africa has grown significantly in recent years, albeit from a very low base. This trajectory has been driven by a combination of regulatory reform, rising institutional involvement, the entry of fintech players, and growing awareness of receivables-based finance as a viable alternative to traditional credit. The volume of factoring transactions in Africa roughly doubled between 2018 and 2024, rising from EUR 22.2 billion in 2018 to EUR 50.2 billion in 2024 (Figure 3).^[3] Despite these gains, Africa remains a small player in the global factoring market. Even after recent growth, the continent's share of worldwide factoring volumes stands at only about 1.3%, highlighting the growth potential on the continent.^[4]

FIGURE 1 - FACTORING IN AFRICA, 2018 – 2025 (EUR MILLIONS)

Source: FCI Annual Review 2025.

• CONCENTRATION IN SELECT MARKETS

Factoring in Africa is highly concentrated. South Africa dominates, accounting for 80–90% of the continent's turnover, thanks to its strong financial sector and large corporate base (Table 1).^[5] A second tier of markets, namely Morocco, Egypt, Tunisia and Mauritius, have established factoring companies, often linked to major banks. Beyond these, most African countries have little or no factoring activity, though momentum is building. West Africa (WAEMU, Nigeria, Ghana) is putting legal frameworks in place, while East Africa is seeing fintech-led pilots in Kenya, Tanzania and Rwanda. In Central Africa, the Republic of Congo introduced factoring legislation in 2024.

TABLE 1 - FACTORING VOLUMES IN AFRICA, 2018 - 2024 (EUR MILLIONS)

Country	2018	2019	2020	2021	2022	2023	2024	% of Total 2024
Botswana			180	180	180	37	37	7%
Cameroon						300	300	60%
Congo						30	32	6%
Egypt	517	589	604	1153	1181	1287	1410	280%
Kenya				6	6	6	6	1%
Mauritius	227	230	203	250	144	325	400	80%
Morocco	2532	2532	2532	2532	2532	2350	5000	995%
Senegal						119	119	24%
South Africa	18582	20873	21465	27905	37393	42628	42628	8,480%
Tunisia	316	338	258	311	378	392	331	66%
Uganda				8	8	8	8	2%
Africa Total	22174	24562	25242	32345	41822	47482	50271	10,000%

Source: FCI Annual Review 2025.

DOMESTIC VS CROSS-BORDER FACTORING

In Africa, the vast majority of factoring business to date has been domestic. For example, in 2024, out of EUR50.3 billion total African factoring volume, EUR49.6 billion was domestic factoring, while only about EUR714 million (roughly 1.4%) was cross-border export factoring.^[6] The implication is that as the AfCFTA boosts intra-African trade, there is significant room to grow cross-border factoring if legal and regulatory barriers are addressed.

AFRICAN CONTINENTAL FREE TRADE AREA (AfCFTA) AND INTRA-AFRICAN TRADE

The AfCFTA means more trade between African countries. Many of these deals will be on open account where goods are delivered before payment.^[7] This creates cash flow gaps for SMEs. Factoring can help by turning invoices into quick cash so SMEs can take on more cross-border orders. New systems like the Pan-African Payment and Settlement System (PAPSS) make it easier to and more cost-effective to settle payments across borders in local currencies ^[8], and banks are starting to offer regional factoring.



LEGAL AND REGULATORY GAPS

Perhaps the most fundamental challenge is the lack of appropriate legal and regulatory frameworks for factoring in many African countries.^[9] Factoring relies on the ability to assign receivables and enforce those assignments in a clear and predictable way. In the absence of specific laws, factors may face uncertainty regarding their rights to collect from debtors, priority of claims in case of debtor default or bankruptcy, and the validity of assignments, especially across borders.

BOX 1 - OVERVIEW OF THE AFRICAN CONTINENTAL FREE TRADE AREA (AfCFTA)

The African Continental Free Trade Area (AfCFTA) is the largest free trade area in the world by membership, bringing together 54 of Africa's 55 countries into a single market of 1.4 billion people with a combined GDP of around US\$3.4 trillion. It aims to significantly boost intra-African trade by progressively eliminating tariffs on 97% of goods, reducing non-tariff barriers, and fostering a more predictable and transparent trade environment.

As of August 2024, 54 countries have signed the Agreement and 48 have ratified it, signalling strong political will for implementation. To fast-track practical uptake, the Guided Trade Initiative (GTI) was launched in 2022, enabling willing countries to trade goods under AfCFTA preferences while testing operational procedures. Over time, the AfCFTA is expected to reduce Africa's dependence on external markets, diversify its export base, and create significant opportunities for SMEs, traders, and investors across the continent.

Source: Market Access Map, 2025 <https://www.macmap.org/en/learn/afcfta>

4. CHALLENGES FACING FACTORING IN AFRICA

While the growth trends are encouraging, it is important to acknowledge that factoring in Africa still faces significant challenges. These barriers have thus far prevented factoring from reaching mainstream scale in most African countries, and overcoming them will be crucial to unlock the industry's full potential. Key constraints include:



LIMITED AWARENESS

Another barrier is the relatively low level of awareness and understanding of factoring among businesses, financiers, and regulators. Factoring is a specialised product, and in markets where it is new, SMEs may simply not know that their unpaid invoices can be turned into cash through a factor. On the supply side, some financial institutions are hesitant to offer factoring because they are not familiar with the product, or because there is no clear legal and regulatory framework to guide them. Policymakers and regulators are also often unfamiliar with factoring, which can delay the creation of clear legal frameworks and supportive policies needed for the industry to grow.



MACROECONOMIC ISSUES

Broader macroeconomic conditions also play a role. High inflation or volatile exchange rates can complicate factoring. For example, if a factor provides an advance on an invoice that will be paid in dollars 90 days later, currency swings could erode the value. Similarly, currency convertibility is an additional structural barrier, with 41 different currencies used across 54 African jurisdictions. This fragmentation complicates cross-border settlements and increases transaction costs, a challenge that the PAPSS is specifically designed to address.

5 PRACTICAL STEPS FOR SMES

Once an SME understands what factoring is and how it works, the next step is knowing how to get started. Getting started with factoring requires some preparation and depends on whether the service is already available in your country. This section guides SMEs through three practical steps: first, how to get your business 'factor-ready'; second, what to do if factoring providers are available locally; and third, options to consider if your country does not yet have factoring providers.

5.1 GET YOUR BUSINESS "FACTOR-READY"

Although factoring is less complex than applying for a bank loan, and does not require long credit histories or fixed collateral, SMEs will still need to provide some basic documents. Typically, these would include:

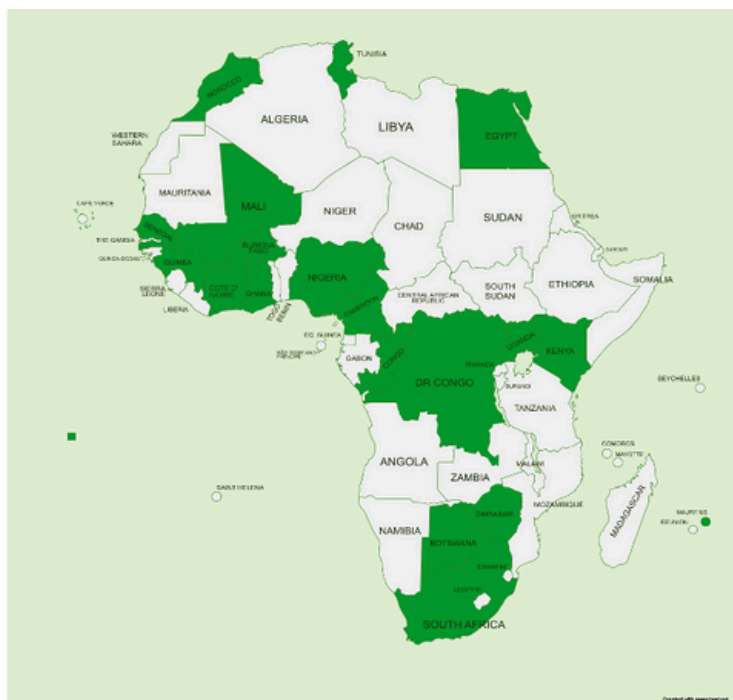
- **Register & Tax-Compliant** – Make sure your business is formally registered and has all tax/VAT obligations up to date. Factors will usually ask for proof of registration and may need to check that your business has a valid bank account in its own name.
- **Invoice Principles** – Every invoice should include a purchase order or contract reference, delivery notes or goods received notes (to prove the buyer accepted the goods or services), the buyer's contact details, agreed payment terms, and a unique invoice number.
- **Receivables Pack** – Before applying, gather the documents that show your financial history and receivables. This normally includes a list of your customers with their contact details, an aged debtors report showing invoices due in 30/60/90 days, your last 6–12 months of bank statements, financial statements (or management accounts) for the past 2 years, and sample invoices or contracts with buyers. Identify which buyers are the most reliable at paying on time, as factors are most likely to accept those invoices.

5.2 IF YOUR COUNTRY HAS FACTORING PROVIDERS

FIND A SUITABLE FACTO

- **FCI Members** – Use the FCI country list to identify local factors and bank factoring units.^[10] A quick indication of available factors can be seen in Figure 4. below
- **Your Bank** – Ask if it offers debtor finance/invoice discounting/reverse factoring.
- **Chamber/SME Desks** – Request a shortlist of active factors in your sector.

FIGURE 4 - AFRICAN COUNTRIES WITH FCI MEMBERS (AS OF AUGUST 2025)



Source: Author's own elaboration based on FCI membership data (2025)

Shortlist 2–3 Factors – Choose factors that know your sector and your anchor buyers.

CONTACT & APPLY

- **Send your receivables pack** – Aged debtors, top buyers, average terms, disputes history.
- Ask for a term sheet

LEVERAGE REVERSE FACTORING

- **Talk to your anchor buyers** – Ask procurement/finance to enrol suppliers in their (or their bank's) early-payment programme if available.
- **Negotiate** – Early-payment discount vs factoring cost; confirm that invoice approval times are reliable.

5.3 IF YOUR COUNTRY DOES NOT YET HAVE FACTORING PROVIDERS START WITH YOUR APEX BODIES

- **Chamber/Business Unity/SME Agency** – Table factoring as a priority SME finance tool; ask them to compile market interest and convene an info session.
- **Bankers' Association** – Encourage banks to explore debtor finance units or partnerships with regional factors.

USE EXISTING CONSULTATIVE PLATFORMS

- **National Trade Facilitation Committee (NTFC)** – Put receivables finance/factoring on the agenda; request a working group with private sector, central bank, treasury, and customs.
- **Sector Councils/Value-chain Platforms** – Identify 1–2 anchor buyers willing to pilot reverse factoring with a regional bank/factor.

ENGAGE CONTINENTAL RESOURCES

- **ACBF / FCI / Afreximbank** – Ask your apex body to contact these institutions for: awareness sessions, template policies/Model Law briefings, and introductions to regional factors.
- **Training & Demos** – Request short executive workshops for SMEs, banks, and regulators on how factoring works in practice.

By taking these steps, SMEs can position themselves to benefit from factoring whether or not local providers are already established. Preparing the right documents, reaching out to banks or recognised factors, and engaging through chambers or national platforms all help build visibility and trust. Even in countries where factoring is still emerging, SMEs can start the conversation and link with regional initiatives.

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6. CONCLUSION

Factoring is a powerful yet underused tool that can help African SMEs overcome one of their biggest challenges, namely access to affordable and timely finance. By turning unpaid invoices into immediate cash, SMEs can improve cash flow, pay suppliers and workers on time, reduce reliance on expensive short-term loans, and take on new business opportunities.

Across the continent, factoring markets are still developing, but momentum is building. South Africa and a handful of other countries already have active providers, while new initiatives under the AfCFTA, including regional payment systems, are creating the foundation for wider uptake. At the same time, awareness remains low, and many SMEs simply do not know this option exists.

This guide is intended to bridge that gap by showing SMEs what factoring is, how it works, and what steps they can take to access it or advocate for it in their own countries. Whether by contacting local factoring firms, engaging apex business bodies, or raising the issue in trade and finance forums, SMEs have an important role to play in unlocking this financing channel.

[1] Jones, L. (2010). Back Matter – Agricultural Value Chain Finance. Rome: Food and Agriculture Organization of the United Nations (FAO).

[2] FCI. (2025). International Factoring. Available at: <https://fci.nl/en/international-factoring> [Accessed 17 Aug. 2025]

[3] FCI. (2025) Annual Review 2025. Amsterdam: FCI.

[4] FCI (2025) Annual Review 2025. Amsterdam: FCI.

[5] FCI (2025) Annual Review 2025. Amsterdam: FCI.

[6] FCI (2025) Annual Review 2025. Amsterdam: FCI.

[7] FCI (2021) The urgent need for the establishment of a uniform law on factoring in Africa?. FCI Insights, 25 June 2021.

[8] Afreximbank (2025) Consultation on factoring with ACBF (multi-department working group). Interview by C. Prinsloo, online, 11 August 2025.

[9] EdgePlus Capital. (2025) Managing Director, EdgePlus Capital Limited. Interview by C. Prinsloo, online, 4 August 2025.; FCI. (2025) Secretary General, FCI. Interview by C. Prinsloo, online, 31 July 2025.

[10] Available on the FCI website - <https://fci.nl/en/members/index>



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