

FACTORING FOR INCLUSIVE **GROWTH**

POLICY PATHWAYS TO SUPPORT SME FINANCE IN AFRICA

KEY TAKEAWAYS

Factoring is a proven financial instrument that allows SMEs to unlock working capital by converting receivables into immediate cash. While the global factoring industry has expanded rapidly, Africa still accounts for less than 2% of global volumes, with activity concentrated in only a handful of countries^[1]. The lack of clear legal and regulatory frameworks remains the biggest constraint, but ready-made model laws provide strong templates for reform. Policymakers have a critical role in championing these reforms by passing modern factoring legislation, ensuring coherence with broader financial sector policies, and allocating resources for implementation. Regulators, in turn, are pivotal in establishing proportionate oversight, clarifying accounting and tax rules, and integrating factoring into collateral registries and credit reporting systems. Yet, awareness and capacity remain limited: SMEs, policymakers, and regulators, often misunderstand or mistrust factoring, underscoring the need for targeted campaigns and training. With AfCFTA implementation underway, now is an opportune time for policymakers and regulators to address key enabling environment constraints and help scale factoring as a mainstream financing solution to drive SME growth, financial inclusion, and intra-African trade.

1. INTRODUCTION

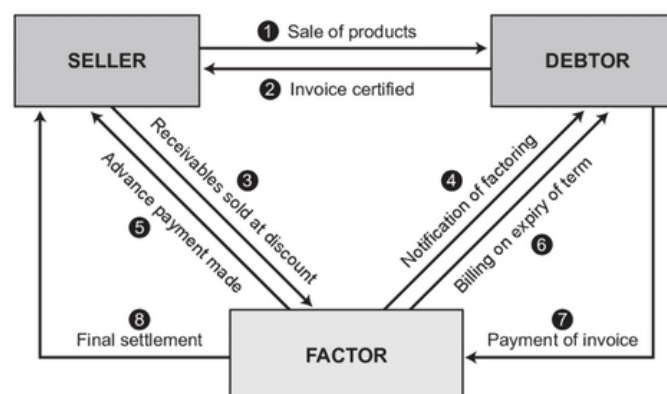
Access to affordable finance remains one of the most persistent barriers for African SMEs, constraining their ability to grow, create jobs, and participate fully in regional and global trade. Factoring, the sale of receivables for immediate cash, offers a practical solution by unlocking working capital tied up in unpaid invoices. Globally, factoring has become a mainstream financing tool, but in Africa it is still at an early stage of development.

This policy brief highlights why factoring matters for Africa's economic transformation, reviews the current state of the industry across the continent, and identifies the policy and regulatory steps needed to scale it. It is intended to guide policymakers and regulators in creating an enabling environment for factoring to thrive as a driver of inclusive growth and intra-African trade under the AfCFTA.

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 (Figure 1).^[2] 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

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

[2] FCI (Factor Chain International) (2025) Annual Review 2025. Amsterdam: FCI.

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.

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:

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. (Ask the factor to list all fees upfront.)
- **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

TABLE 1: BENEFITS AND DRAWBACKS OF FACTORING FOR 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

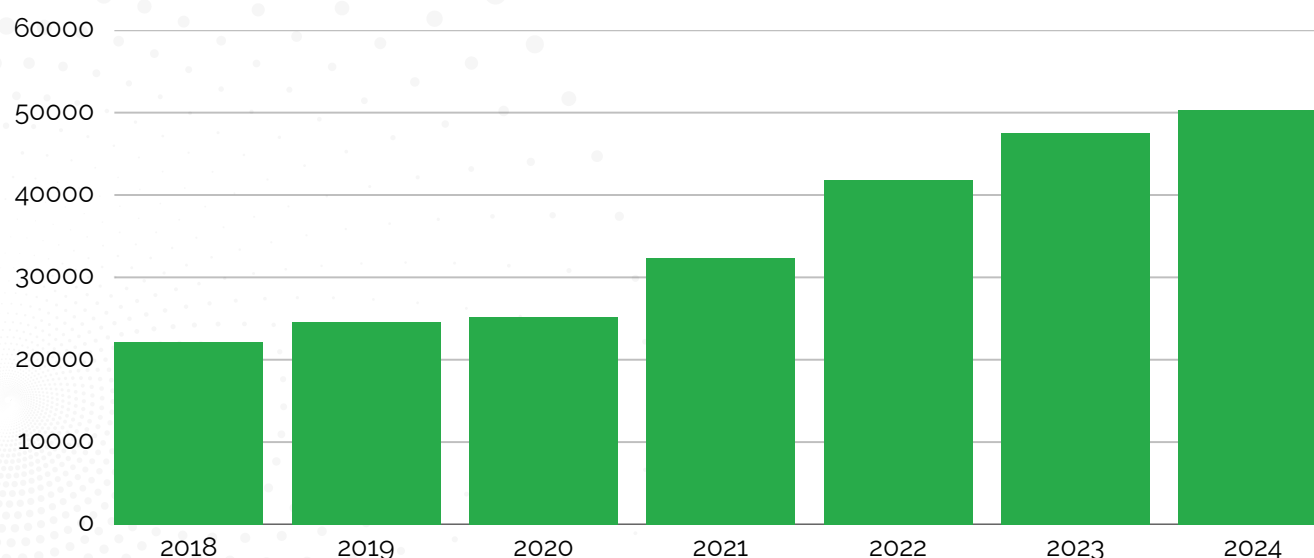
TABLE 2: BENEFITS AND DRAWBACKS OF FACTORING FOR FACTORS

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.

3. 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 3 - FACTORING IN AFRICA, 2018 – 2025 (EUR MILLIONS)

Source: FCI Annual Review 2025.

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

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

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 2.).^[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 2 - 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

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

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 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 settle payments across borders in local currencies^[8], and banks are starting to offer regional factoring.

BOX 2 - 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. [Domestic vs Cross-border Factoring](#)

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:

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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.
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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.

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

[7] FCI (Factor Chain International) (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.

5. REGULATORY AND POLICY DEVELOPMENTS: BUILDING AN ENABLING ENVIRONMENT

Recognising the challenges outlined above, policymakers and industry stakeholders across Africa have initiated a range of regulatory and policy reforms to create a more enabling environment for factoring. Central to these efforts are the establishment of clear legal frameworks, the harmonisation of laws across jurisdictions, and the implementation of appropriate oversight and support mechanisms. This section highlights the major developments on this front, which collectively aim to lay the legal groundwork and encourage the safe expansion of factoring services.

5.1 INTRODUCTION OF FACTORING LAWS AND UNIFORM RULES

Over the past decade, Africa has seen growing legislative efforts to regulate factoring. A key milestone was Afreximbank 2016 Model Law on Factoring, which provides a template for countries to adapt.^[10] It defines core concepts, standardises rules on receivables assignment, debtor notification, priority conflicts, and cross-border recognition, and aims to eliminate legal ambiguities by aligning national laws on common principles. Egypt's 2018 reforms and Congo's 2024 adoption illustrate progress, while Ghana and Nigeria are advancing their own frameworks, and OHADA^[11] is drafting a Uniform Act to harmonise rules across 17 member states.

BOX 3 - FROM MODEL LAW TO MARKET USE

Industry stakeholders repeatedly cited Egypt's 2018 reforms as a tipping point for industry growth, while Congo's 2024 adoption is seen as the next test case. In Nigeria, interviewees of this study stressed passage of an enabling factoring law as the immediate priority, along with standardised documentation to reduce admin burden.

5.2 SECURED TRANSACTIONS REFORM AND REGISTRIES

Factoring reform in Africa is linked to broader secured transactions reforms. With World Bank/IFC support, many countries (e.g. Kenya, Ghana, Zambia and Malawi) have updated collateral laws and set up registries to allow movable assets like receivables to be used as collateral. While factoring is a sale, not a loan, these frameworks complement it by clarifying receivables treatment and preventing fraud such as double-selling invoices.

The creation of electronic invoicing platforms and registries is another regulatory innovation. Government-mandated e-invoicing has dramatically boosted factoring by providing a reliable record of invoices. African countries are exploring similar paths. For instance, Tunisia and Morocco have been working on e-invoicing requirements for B2B transactions, which would help factoring firms authenticate invoices quickly. Egypt launched an electronic invoice system in 2020 for VAT purposes, which factoring companies can also utilise to verify claims.^[12]

5.3 REGULATION AND SUPERVISION OF FACTORING COMPANIES

Approaches to regulating factoring vary across the continent. South Africa largely treats it as a banking activity with limited oversight, while Egypt and Morocco license and supervise providers. Nigeria is considering draft regulations that balance oversight with flexibility, requiring registration, AML/KYC compliance, and proportionate capital requirements. Emerging trends such as accounting guidance, credit reporting integration, and liquidity support schemes demonstrate a gradual shift towards frameworks that safeguard stability without stifling market growth.^[13]

5.4 Capacity Building and Industry Guidelines

Alongside legal reforms, soft measures are helping the industry mature. Afreximbank, ACBF, FCI, and AfDB have invested heavily in training regulators, judges, and practitioners, with FCI's "Factoring School" and certification already reaching hundreds of African professionals. At the same time, industry players are introducing standardised contracts and operational guidelines, such as FCI's General Rules for International Factoring (GRIF), creating a stronger ecosystem of skills, rules, and networks to support sustainable market growth.

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

[11] Organisation for the Harmonization of Business Law in Africa (OHADA), a bloc of 17 Francophone African countries, namely Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Côte d'Ivoire, Democratic Republic of Congo, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Mali, Niger, Republic of the Congo, Senegal, and Togo.

[12] VAT IT (2025) E-Invoicing in Egypt: A New Chapter in Digital Taxation. Blog post. (Accessed: 15 August 2025).

[13] International Finance Corporation (IFC) (2023) Knowledge Guide on Factoring Regulation and Supervision. Washington, DC: IFC.

6. RECOMMENDATIONS - A POLICY AGENDA FOR SCALING FACTORING IN AFRICA

For factoring to reach its potential as a mainstream financing tool for African SMEs, policymakers and regulators must create the right enabling environment. This involves not only passing clear, modern laws that give certainty to market participants, but also ensuring that SMEs, corporates, regulators, and financial institutions understand and trust the mechanism. Two priorities stand out: completing legal and regulatory frameworks, and building market awareness and capacity.

6.1 COMPLETE LEGAL AND REGULATORY FRAMEWORKS

A coherent and predictable legal environment is the foundation of a healthy factoring market. Many African countries still lack dedicated laws governing factoring, or rely on outdated commercial codes that do not adequately recognise receivables as financial assets. This legal void creates uncertainty for factors, SMEs, and debtors alike, limiting uptake. Policy priorities include:

- **Adopt and Adapt Model Laws** – Countries should draw on existing frameworks such as the Afreximbank Model Law (2016) to establish clear, modern legal regimes for factoring. These instruments clarify the rights and obligations of factors, SMEs, and debtors, as well as rules on receivables assignment, priority of claims, and cross-border recognition.
- **Clarify Accounting and Tax Treatment** – Ministries of Finance and revenue authorities should issue explicit guidance on how factored receivables and fees are treated, ensuring consistency and avoiding adverse tax ambiguity.
- **Proportionate Regulation of Providers** – Regulators should supervise factors in a manner that reflects their business model: they extend credit risk but do not take public deposits. Proportionate frameworks can combine minimum capital and reporting requirements with rules on fair conduct, AML, and KYC compliance

6.2 BUILD MARKET AWARENESS AND CAPACITY

Even with strong laws in place, factoring will not scale unless market actors understand how it works and have the capacity to implement it. Across Africa, there is still limited awareness among SMEs, buyers, financial institutions, and even regulators themselves. Misconceptions persist, with factoring often confused with debt collection or perceived as a “last resort” for distressed firms. Policy priorities include:

- **Awareness Campaigns for SMEs** – Governments, SME agencies, and chambers of commerce should promote factoring as a mainstream finance option, including through workshops, online resources, and integration into SME support programmes.
- **Training for Regulators and Judiciary** – Central banks, financial regulatory authorities, and courts need specialised training to interpret and enforce factoring transactions effectively. Development partners and pan-African institutions (e.g. Afreximbank, ACBF, FCI, AfDB) can support capacity building in this area.
- **Support for Professional Development** – Factoring professionals (risk managers, compliance officers, accountants) should be included in financial sector training initiatives, ensuring the skills base matches the needs of a growing industry.

Policymakers and regulators seeking to develop or strengthen factoring frameworks can draw on the following resources:

KEY REFERENCE DOCUMENTS

- Afreximbank & FCI Model Law on Factoring (2016) – <https://media.afreximbank.com/afrexim/Model-Law-on-Factoring.pdf>
- IFC Knowledge Guide on Factoring Regulation and Supervision (2024) – <https://www.ifc.org/content/dam/ifc/doc/2024/knowledge-guide-on-factoring-regulation-and-supervision-ifc-2024.pdf>
- ACBF E-Library – <https://elibrary.acbfact.org/>
- Institutions Offering Support
- Afreximbank – technical assistance on legal reforms, capacity building, and refinancing facilities. Email: feedback@afreximbank.com. Phone: (+20) 224 546 100
- Factoring Chain International – training, standard contracts, and global best practices in factoring. Email: fcf@fci.nl. Phone: (+31) 206 270 306
- ACBF – policy research, advisory, and capacity building for African governments.

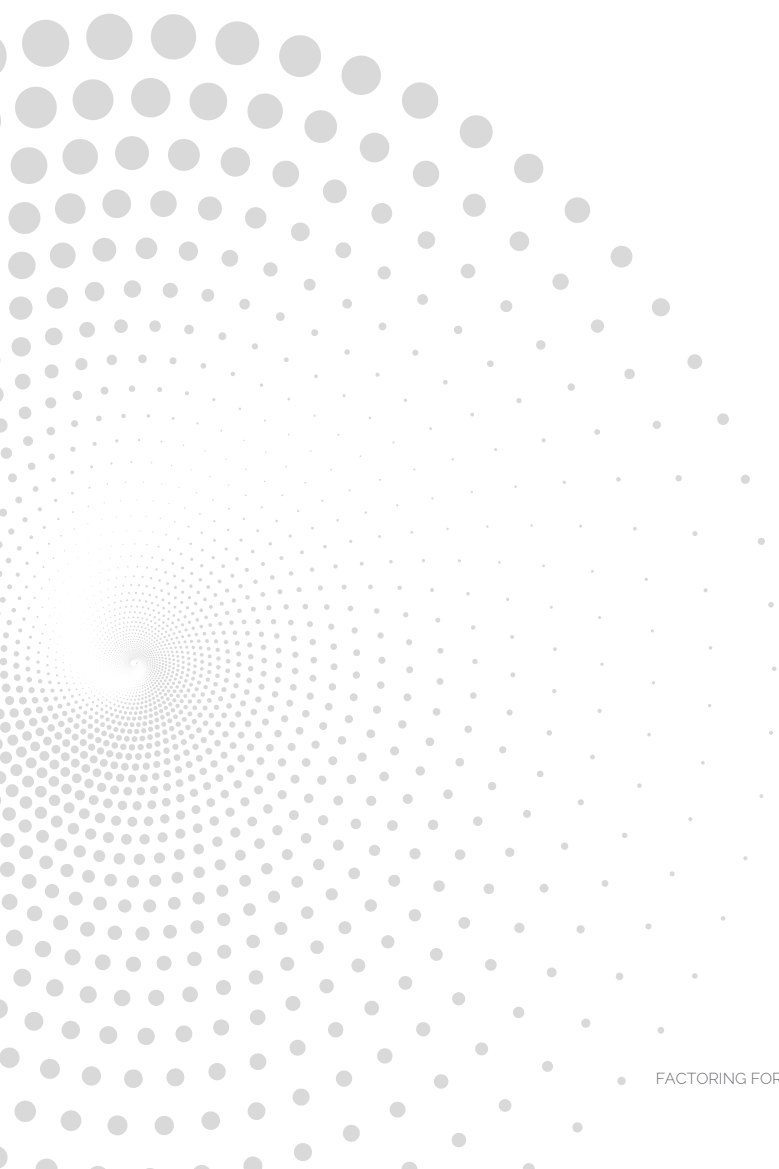
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7. CONCLUSION

Factoring has the potential to unlock much-needed finance for African SMEs, strengthen supply chains, and support intra-African trade under the AfCFTA. Progress has been made, but without clear legal frameworks, regulatory certainty, and greater market awareness, factoring will remain under-utilised. Policymakers and regulators have a decisive role to play in setting the rules, building institutional capacity, and promoting trust in the system. With the right reforms and support, factoring can move from a niche product to a mainstream tool for SME finance, driving inclusive growth and regional integration.

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