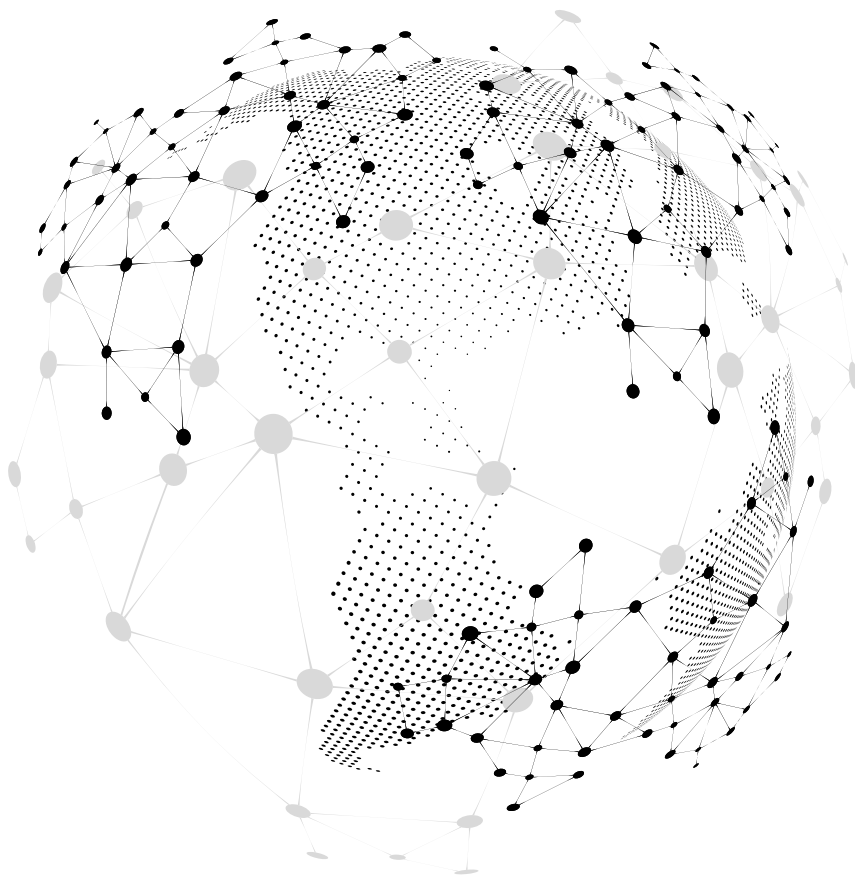


THE FUTURE OF FACTORING IN AFRICA

TRENDS AND INNOVATIONS





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FOREWORD



The development of vibrant and inclusive financial systems remains a cornerstone for Africa's structural transformation and sustainable growth. As the continent advances its industrialization agenda and deepens regional integration through the African Continental Free Trade Area (AfCFTA), the need for innovative and accessible financing instruments has never been greater. Factoring — a proven tool for unlocking working capital and improving liquidity for small and medium-sized enterprises (SMEs) — stands out as a key enabler for trade expansion, value chain participation, and economic resilience.

This publication, ***The Future of Factoring in Africa: Trends and Innovations***, is the product of a fruitful collaboration between the African Export-Import Bank (Afreximbank) and the African Capacity Building Foundation (ACBF). It provides a comprehensive assessment of the evolution of factoring across the continent, highlighting regulatory trends, technological innovations, and institutional experiences that are shaping this growing industry. Drawing from case studies, stakeholder consultations, and comparative analysis, the study underscores how factoring can drive financial inclusion, support formalization of SMEs, and strengthen domestic resource mobilization — all central to Africa's development aspirations under Agenda 2063.

Beyond mapping the current landscape, the paper offers forward-looking insights into how Africa can harness digital platforms, legal harmonization, and capacity building to expand factoring markets sustainably. It also emphasizes the role of partnerships among regulators, financial institutions, development banks, and capacity development organizations in creating an enabling ecosystem for factoring to flourish.

The collaboration between Afreximbank and ACBF reflects a shared commitment to advancing Africa's financial innovation frontier. Afreximbank's pioneering work in promoting factoring and supporting legislative reforms across member states, coupled with ACBF's mandate in building institutional and human capacities for policy and financial governance, demonstrates the power of strategic partnerships in turning research into action.

We hope that the findings and recommendations of this study will serve as a valuable resource for policymakers, regulators, financial institutions, and entrepreneurs seeking to unlock Africa's factoring potential. By aligning innovation with sound policy and capacity development, Africa can position factoring not just as a financial instrument, but as a catalyst for inclusive and transformative growth.

Mamadou Biteye,

A handwritten signature in black ink, appearing to read 'Mamadou Biteye'.

**Executive Secretary
African Capacity Building Foundation (ACBF)**

ACKNOWLEDGEMENT

This publication, **The Future of Factoring in Africa: Trends and Innovations**, was produced for the African Capacity Building Foundation (ACBF) under the overall leadership and strategic guidance of Mr. Mamadou Biteye, Executive Secretary of ACBF.

The work was carried out under the overall direction of Mr. Abdrahamane Dicko, Director of Programs and Impact, with Dr. Barassou Diawara, Senior Knowledge Management Expert at ACBF, providing technical oversight and coordination throughout the research and publication process. Analytical and drafting support was provided by Imani Development, under the technical leadership of Mr. Cyril Prinsloo as lead consultant.

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CONTENTS

Executive Summary	1
Introduction	5
Key Dynamics of factoring	9
The African Factoring Landscape: Market Trends and Current status	16
Key Drivers and Opportunities for Factoring Growth	22
Challenges and Constrains facing factoring in Africa	28
Regulatory and Policy Development Developments : Building an enabling Environment	34
Technological and Business Innovations in African Factoring	40
Regional Insights and Case Studies	46
Recommendations for scaling up factoring in Africa	53
Conclusion	57
Annexes	60

ABBREVIATIONS AND ACRONYMS

ACBF	African Capacity Building Foundation
AfCFTA	African Continental Free Trade Area
AfDB	African Development Bank
AML	Anti-Money Laundering
API	Application Programming Interface
AUDA-NEPAD	African Union Development Agency – New Partnership for Africa's Development
B2B	Business-to-Business
B2G	Business-to-Government
CFA	Communauté Financière Africaine
DFI	Development Finance Institution
DRC	Democratic Republic of Congo
EAC	East African Community
EIB	European Investment Bank
ERP	Enterprise Resource Planning
EU	European Union
FAPA	Fund for African Private Sector Assistance
FCI	Factors Chain International
FRA	Financial Regulatory Authority (Egypt)
FSDAi	FSD Africa Investments
GDP	Gross Domestic Product
GRIF	General Rules for International Factoring
GTI	Guided Trade Initiative
IFC	International Finance Corporation
IT	Information Technology
KYC	Know Your Customer
MFW4A	Making Finance Work for Africa
MLF	Model Law on Factoring
NEXIM	Nigeria Export-Import Bank
OHADA	Organisation for the Harmonization of Business Law in Africa
PwC	PricewaterhouseCoopers
PAPPS	Pan-African Payment and Settlement System
SADC	Southern African Development Community
SME	Small and Medium Enterprise
UNIDROIT	International Institute for the Unification of Private Law
VAT	Value-Added Tax
WAEMU	West African Economic and Monetary Union
WTO	World Trade Organization

EXECUTIVE SUMMARY

BACKGROUND AND PURPOSE

Small and medium-sized enterprises (SMEs) are the backbone of African economies, accounting for an estimated 90% of businesses and over half of employment. Despite their importance, African SMEs are challenged by a range of constraints, including inadequate infrastructure, complex regulatory environments, insufficient technical and managerial capacity, and restricted access to regional and international markets. In addition, SMEs also face severe financing constraints, with a documented credit gap exceeding US\$330 billion annually. This financial exclusion curtails their ability to expand, invest, and integrate into domestic and regional value chains, especially under the African Continental Free Trade Area (AfCFTA), which hinges on the effective participation of SMEs in intra-African trade, especially with regard to the AfCFTA's Services Trade Protocol.

Factoring, a financial transaction where receivables (considered an asset) are sold to a third party (**a 'factor'**) for immediate liquidity, has emerged as a viable and inclusive solution to reduce the financing gap facing African SMEs. It enables businesses to access working capital without taking on debt or relying on fixed collateral, by leveraging the creditworthiness of their buyers. Globally, factoring has grown into a €3.9 trillion industry, but Africa accounts for just 1.3% of this volume, highlighting a significant opportunity for growth.

This report, aims to provide an overview of the current state of factoring in Africa, assess recent developments and innovations, identify persistent barriers, and offer recommendations to scale factoring as a strategic tool for inclusive finance and trade development across the continent.

METHODOLOGY

The report combines both quantitative and qualitative research methods to provide a comprehensive analysis of the factoring landscape in Africa. It includes a review of international and African factoring data. Case studies and regional analyses were developed using both primary (e.g., key informant interviews with factoring firms, bank and non-bank institutions, and international and regional organisations) and secondary sources (e.g., academic literature, policy reports, and industry publications) to illustrate how factoring is evolving in specific African contexts. The study also incorporates a detailed policy and legal analysis, examining the Afreximbank Model Law on Factoring, UNIDROIT Model Law on Factoring, and national legislation (including Egypt, Ghana and Nigeria, among others) to assess progress and remaining gaps. In addition, the report maps key technology trends, such as fintech, blockchain, artificial intelligence, and e-invoicing, that are influencing the development of factoring. These insights are complemented by input from stakeholder consultations and key informant interviews. The report is structured around key thematic areas: market dynamics, legal frameworks, technology trends, regional profiles, and practical recommendations for policymakers and industry actors.

MAIN OBSERVATIONS



1) Growth from a Low Base, but with Strong Momentum

Africa's factoring industry has expanded rapidly in recent years, with total volumes rising from EUR 22.1 billion in 2018 to over EUR 50 billion in 2024. However, factoring remains heavily concentrated in a few markets, particularly South Africa (85% of the continental total), Morocco, Egypt, Tunisia, and Mauritius, while the vast majority of African countries report negligible or no factoring activity. Despite its infancy, the trend is positive. More African countries (including Nigeria, Zimbabwe, Botswana, among others) are adopting enabling legislation, awareness is spreading, and technology is reducing operational costs, creating space for innovation and new market entrants.



2) Clear Value Proposition for African SMEs

Factoring addresses three critical barriers to SME finance in Africa: lack of collateral; long payment cycles; and limited access to credit history or financial documentation. By advancing funds against the strength of buyer invoices, factoring enables even informally structured SMEs to access finance. It is especially relevant for sectors such as agribusiness, retail, and services that operate on open-account trade and need flexible cash flow solutions.



3) AfCFTA is a Major Opportunity Driver

The rollout of AfCFTA provides both the context and the incentive to scale factoring. As more African firms engage in cross-border trade on open-account terms, the need for reliable working capital and trade finance tools becomes urgent. Factoring (and its reverse variant) is well suited to this new trade landscape. However, the current legal fragmentation across jurisdictions limits the growth of cross-border factoring. Harmonisation, either through Afreximbank or UNIDROIT's Model Laws is essential. In addition, institutional initiatives, such as the AfCFTA Secretariat's Guided Trade Initiative (GTI) and SME Facility or the Afreximbank's Pan-African Payment and Settlement System (PAPSS), can provide the operational frameworks, liquidity support, and payment infrastructure required to help SMEs access factoring services and participate more effectively in regional value chains.



4) Legal and Regulatory Reform is Accelerating

Progress on legislative reform has been substantial. Collaboration is under way with OHADA to use the Afreximbank Model Law to develop a Uniform Act on Factoring that will be implemented across its 17 member states. In parallel, countries such as Egypt, Ghana, and Nigeria (pending) have developed or drafted national legislation, and over 30 factors and hundreds of factoring professionals have received technical assistance to support legal and institutional reforms from development partners such as Afreximbank or industry associations such as Factors Chain International (FCI). However, many African markets still lack legal clarity or consistency, with tax treatment, insolvency regimes, and financial sector regulations often remaining ambiguous. To build confidence in the system, reforms must comprehensively address the assignment of receivables, registration of interests, debtor notification, and the enforceability of factoring agreements.



5) Technology is Transforming the Industry

Digital platforms, e-invoicing, mobile money, and blockchain are revolutionising how factoring is and will be delivered. Fintech companies such as ImFact (Kenya), BeneFactors (Rwanda), and Payable (Nigeria) are using pooled receivables models, embedded credit scoring, and real-time verification tools to extend factoring to underserved SMEs (e.g., informal SMEs). Artificial intelligence is further enabling real-time credit risk assessment and fraud detection, while blockchain-based tokenisation of invoices offers a potential breakthrough for secure, transparent, and cross-border receivables trading.



6) Persistent Challenges Remain

Despite the growth trajectory, factoring faces several systemic constraints:

- **Legal and regulatory uncertainty** – Particularly around receivables assignment, taxation, and debtor obligations
- **Limited awareness and trust** – Among SMEs, buyers, and even financial institutions
- **Operational bottlenecks** – Including poor invoice quality, limited credit information, and high fraud risk
- **Funding constraints** – Many factors lack access to affordable capital or risk mitigation tools such as credit insurance
- **Macro-structural barriers** – Including currency volatility, high interest rates, and widespread informality in SME sectors



7) Country Experiences Vary Widely

Country experiences with factoring vary widely across Africa. Southern Africa represents a mature and diversified market, with South Africa leading through strong bank involvement and the availability of credit insurance. In North Africa, countries like Egypt and Morocco demonstrate legal innovation and active public-private partnerships that are driving market growth. West Africa shows slow but promising development, particularly under the OHADA legal framework, with Nigeria on the cusp of market activation as legal reforms progress. East Africa is witnessing the emergence of fintech-led models such as ImFact in Kenya, alongside early interest in reverse factoring solutions. Meanwhile, Central Africa remains at a very early stage, with limited activity observed, but featuring ongoing policy discussions to support future development.

KEY RECOMMENDATIONS

To unlock factoring's full potential as a driver of SME finance and intra-African trade, targeted actions are needed across legal, institutional, technical, and market development fronts. The following strategic priorities identify what should be done and by whom to ensure a practical, implementable agenda.

Complete the Legal and Regulatory Frameworks – National parliaments and ministries of finance/justice, supported by Afreximbank, UNIDROIT, and regional economic communities (RECs), should accelerate adoption of factoring laws aligned with model frameworks; financial regulators should establish proportionate licensing and supervision regimes; central banks, credit bureaus, and tax authorities should integrate factoring into credit reporting systems and clarify tax treatment.

Build Market Awareness and Capacity – Ministries of trade/SME, investment promotion agencies, chambers of commerce, factoring associations, and DFIs should run coordinated campaigns to raise SME, buyer, and policymaker understanding; central banks, judicial training institutes, and professional bodies should strengthen institutional capacity in product design, underwriting, supervision, and dispute resolution.

Leverage Technology and Digital Infrastructure – Tax authorities, ministries of finance, RECs, and the AfCFTA Secretariat should roll out e-invoicing and connect to invoice registries; financial regulators and innovation hubs should enable licensed digital invoice marketplaces with legal recognition of e-signatures; credit bureaus, central banks, and industry bodies should expand trade-credit information systems to capture buyer payment performance.

Improve Access to Funding and Risk Mitigation – Central banks and ministries of finance should create rediscount/refinancing windows for factored receivables; DFIs (Afreximbank, AfDB, IFC) and donor programmes should scale blended finance and guarantee schemes; investment funds, PE/VC, and commercial banks should mobilise private capital to support factor liquidity and cross-border transactions.

Link Factoring to Government and Anchor Programmes – Procurement authorities, SME development agencies, and ministries of trade/industry should integrate factoring provisions into procurement regulations and SME programmes; large corporates, state-owned enterprises (SOEs), and sector associations should leverage their supplier networks for reverse-factoring and supply-chain finance arrangements.

Promote Formalisation and Invoice Standardisation – Ministries of trade/industry and tax authorities should encourage SME formalisation through simplified registration and incentives; standards bodies, tax authorities, and RECs should develop national invoice standards aligned with AfCFTA frameworks; SME agencies, chambers of commerce, and fintech providers should promote adoption of compliant invoicing tools.

Conclusion

Factoring represents a transformational tool for addressing Africa's SME finance gap and unlocking the promise of AfCFTA. While it remains underutilised, the foundations for growth are strengthening rapidly. With sustained effort factoring can become a mainstream financing solution across Africa, helping businesses grow, trade, and generate employment.



1

INTRODUCTION

Small and medium-sized enterprises (SMEs) are the backbone of African economies, accounting for the vast majority of businesses and a large share of employment. Yet across the continent, SMEs are challenged by a range of constraints, including inadequate infrastructure, complex regulatory environments, insufficient technical and managerial capacity, and restricted access to regional and international markets. In addition, SMEs also face chronic hurdles in accessing finance, cited consistently as the single most important constraint on their growth.^[1] Even in Africa's more developed markets, formal credit reaches only a fraction of businesses (for example, in South Africa only about one-third of firms have access to bank credit)^[2]. This financing gap is both widespread and acute: the International Finance Corporation (IFC) estimates Africa's annual SME financing shortfall at over US\$330 billion.^[3] Such capital constraints limit SMEs' ability to invest, expand, and integrate into value chains, thereby stifling broader economic development and employment growth.

This report focuses on one specific financing instrument, namely factoring, which allows SMEs to leverage their receivables as an asset to unlock immediate financing. It examines the current state of factoring in Africa, key trends in its adoption, persistent challenges, and the opportunities it presents to support SME growth and intra-African trade. By integrating diverse evidence and perspectives, this report aims to provide policymakers, development finance practitioners, SMEs and financial sector stakeholders with a clear and informative overview of how factoring can help transform SME finance in Africa in the coming years, and what actions are needed to realise this potential.

Closing this SME credit gap is a development priority, and it has taken on new urgency with the advent of the African Continental Free Trade Area (AfCFTA). The AfCFTA promises to catalyse intra-African commerce and industrialisation, but its benefits will only be fully realized if SMEs, which constitute the industrial fabric of Africa, can access the working capital needed to participate effectively in regional trade.^[4] Traditional bank lending alone has proved insufficient to meet this need, prompting policymakers and development finance institutions (DFIs) to explore alternative financing mechanisms. The AfCFTA has various specific interventions to support SMEs, including the Guided Trade Initiative (GTI) to facilitate real trade under the Agreement, the Adjustment Fund to help firms manage short-term liberalisation impacts, and the Pan-African Payment and Settlement System (PAPSS) to enable efficient cross-border transactions in local currencies.

In this context, factoring, the sale of invoices or accounts receivable to a financier (a 'factor') for immediate cash, has emerged as a compelling solution to bolster SME finance and trade. Factoring allows SMEs to convert their unpaid invoices into liquid funds within days, without incurring new debt or needing fixed collateral, thus directly addressing the cash-flow and collateral challenges that hinder many African businesses. By advancing funds against the value of creditworthy receivables, factoring shifts the credit risk from the SME (seller) to its stronger buyers, enabling even high-risk or informally structured SMEs to obtain working capital based on their buyers' payment capacity. This makes factoring especially relevant in African markets where many SMEs lack credit history or hard assets for collateral.

Global experience underscores the potential of factoring to fill the SME financing gap. Factoring has grown into a multi-trillion-dollar industry worldwide, providing vital liquidity to businesses in both developed and emerging economies. In 2024, global factoring volume reached approximately €3.9 trillion, reflecting its mainstream role as an alternative financing tool.^[5] The mechanism's appeal lies in its ability to offer fast, flexible finance, typically providing cash within 48 hours of invoice submission, while outsourcing credit control and collections to the factor.



Africa's SME financing shortfall exceeds **US\$330 billion** annually — a gap that constrains innovation, trade, and job creation.

[1] (ACBF, 2023)

[2] (UNDP, 2024)

[3] (Ranjan, A., 2024)

[4] (ACBF, 2023)

[5] (FCI, 2025)

For SMEs, this means improved cash flow to sustain operations and growth without taking on loans or dilution of ownership. For African economies, expanding access to factoring could significantly ease the liquidity crunch holding back SME development and intra-African trade. Indeed, the World Trade Organization (WTO) estimates a global trade finance gap of around \$2.5 trillion (much of it affecting SMEs in emerging markets), and notes that leveraging receivables through factoring is a key avenue to close this gap.^[6] In short, factoring has the potential to be a key financial tool for Africa, bridging the “missing middle”^[7] of SME finance, mitigating the risks for SMEs of open-account trade under AfCFTA (e.g., non-payment, late payment, currency risk, etc.), and ultimately unlocking growth and employment.

This report provides an overview of the future of factoring in Africa, examining current trends, innovations, and the outlook for scaling up this financing tool across the continent. It synthesises insights from recent research, industry data, and policy developments, including quantitative indicators of market growth, qualitative case studies, regulatory reforms, and technological advances shaping the factoring landscape. The report is organised into the following key thematic areas:



Throughout, the analysis emphasises a consistent narrative: while factoring in Africa remains nascent, accounting for little over 1% of global factoring volume, it is on a strong upward trajectory, supported by concerted efforts of African institutions and new technology-driven entrants.^[8] The report concludes with forward-looking strategies to harness factoring as a driver of inclusive finance and trade, in line with the African Capacity Building Foundation's (ACBF) mandate to strengthen institutional capacity and disseminate knowledge in support of Africa's economic development.

[6] (Ranjan, A., 2024)

[7] The “missing middle” refers to the segment of SMEs that are too large to be served by microfinance institutions but too small, informal, or high-risk to qualify for traditional bank loans. These businesses often require financing in the range of USD 10,000 to USD 500,000, which falls outside the risk appetite or operational model of most lenders in African financial markets.

[8] (Ranjan, A., 2024)

1.1 STRATEGIC OBJECTIVES AND METHODOLOGY

This report seeks to enhance understanding of factoring as a strategic financial instrument for addressing SME credit gaps in Africa, and to support its broader uptake across the continent. Factoring – the sale of accounts receivable to a third party for immediate liquidity – has the potential to transform how African SMEs access working capital, particularly in the context of growing intra-African trade under the AfCFTA. Despite this potential, uptake remains limited due to regulatory, institutional, and operational constraints.

The report has four core strategic objectives:

- **To assess the current state of factoring in Africa**, including market size, legal and regulatory frameworks, key actors, and regional trends.
- **To identify key barriers and enabling factors**, such as legal fragmentation, limited awareness, low trust, and underdeveloped credit and digital infrastructure – that impact factoring's uptake and effectiveness.
- **To highlight innovations and emerging opportunities** in the sector, especially those aligned with AfCFTA implementation, fintech integration, and supply chain finance models.
- **To support awareness-raising, knowledge dissemination, and capacity building** among SMEs, financial institutions, regulators, and policymakers, thereby promoting broader understanding and uptake of factoring across the continent.

This research report forms the foundation for a broader suite of knowledge products to be produced under this assignment – including two succinct policy briefs (targeted at SMEs and policymakers, respectively) and a practical step-by-step toolkit. These products will be designed to translate research findings into actionable, user-friendly formats to enable widespread dissemination and application.

This report builds on ACBF's previous work on factoring^[9] and aims to deepen and update the evidence base through a structured and multi-layered research approach. The methodology combines quantitative and qualitative research methods, and draws on both primary and secondary data sources. The research process comprised the following components:

- **Desk Review of Secondary Sources** – This included an extensive review of academic publications, market reports, legal frameworks, and policy documents related to factoring and trade finance. Sources included Afreximbank, FCI, MFW4A, World Bank, IMF, and national regulatory bodies, as well as regional frameworks such as OHADA and BCEAO. The review helped map current market trends, regulatory developments, and institutional actors shaping factoring in Africa.
- **Quantitative Data Analysis** – Publicly available datasets were reviewed to assess market trends, factoring volumes, regional distribution, and financing gaps. Data from FCI, Afreximbank, MFW4A, and World Bank Enterprise Surveys were used to track the growth of factoring volumes in Africa over the past decade, map the concentration of factoring activity across countries and regions, compare the share of factoring relative to global volumes, and illustrate gaps in SME access to credit and financial services. These quantitative indicators are used throughout the report to benchmark progress, highlight disparities, and frame the scale of opportunity for factoring in Africa.
- **Primary Data Collection through Key Informant Interviews (KIs)** – A set of semi-structured interviews were conducted with senior representatives of factoring firms, fintechs, commercial banks, central banks, regulators, SME associations, and regional organisations. Interviews were conducted under conditions of anonymity to facilitate honest and open reflection. KIs provided ground-truth on operations, law, and adoption barriers across the continent. Insights are integrated throughout Sections 3 - 8.

This mixed-methods approach ensures that the report is grounded in a solid empirical base, informed by practical experience, and responsive to the needs of its diverse audience. The resulting analysis forms the basis for a set of targeted knowledge products, including this research paper, two policy briefs, and a practical toolkit, aimed at enabling broader awareness, knowledge sharing, and application of factoring in Africa.

[9] View the ACBF's Virtual Library to view a body of work on Factoring - <https://elibrary.acbfact.org/>

2

KEY DYNAMICS OF FACTORING



Access to affordable and reliable finance remains one of the most persistent challenges for SMEs globally. Traditional lending models, often reliant on collateral, long credit histories, and rigid procedures, have failed to meet the dynamic needs of SMEs.

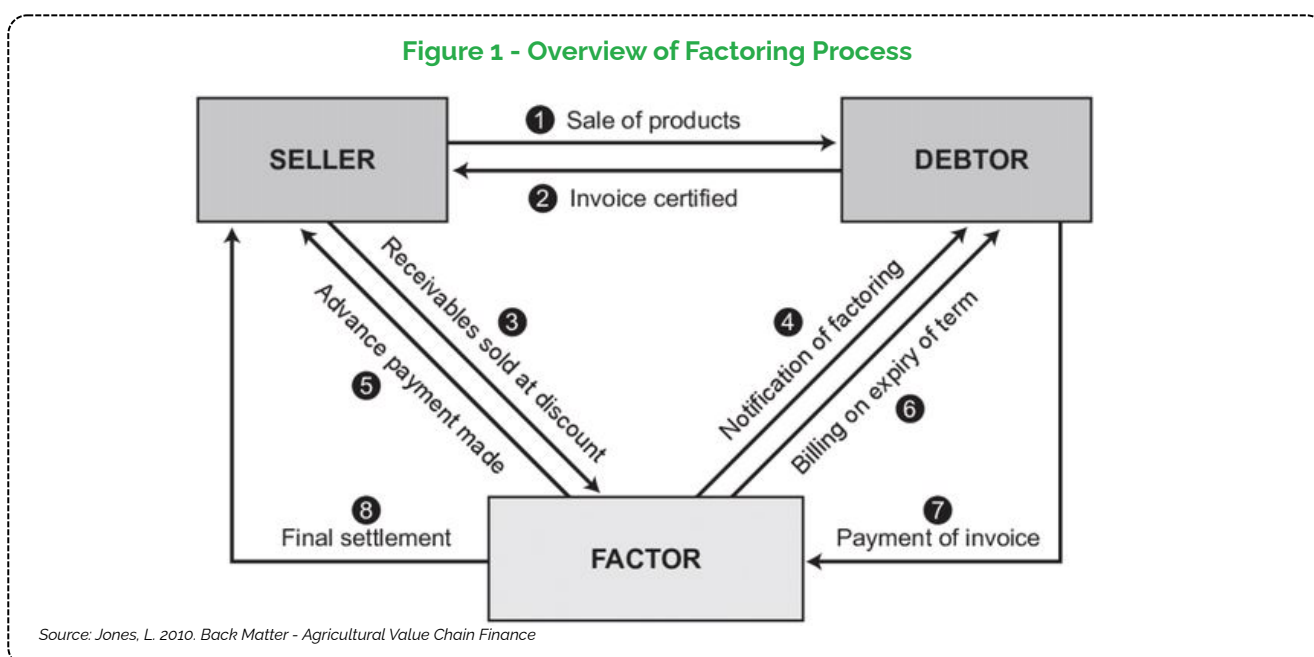
Factoring is not a novel concept. Its origins can be traced back several centuries, with early forms of factoring used in ancient Mesopotamia and later formalised in medieval Europe, where trade agents advanced funds to merchants in exchange for future payments on goods sold. Over time, these practices evolved into more structured financial arrangements, particularly in the context of Atlantic trade during the 17th and 18th centuries. By the 20th century, factoring became more institutionalised, particularly in the United States, where it gained traction as a commercial finance tool in the textile and manufacturing sectors. The modern form of factoring (using practices such as formal contracts, credit risk assessment, and regulated intermediaries) began to expand globally from the 1960s onwards, supported by the emergence of specialist factoring companies and growing interest in trade finance solutions tailored to SMEs.^[10]

In the modern era, factoring has emerged as a flexible, transaction-based financing solution that can help bridge the SME financing gap. This section provides a foundational overview of what factoring is, how it works, its various forms, and the potential advantages and risks it presents for both SMEs and financial institutions. It sets the stage for a deeper analysis of how factoring is evolving in Africa in the subsequent sections of the report.

While much work has already been done on factoring, this report deliberately revisits certain foundational aspects, such as definitions, transaction dynamics, and types of factoring. This approach ensures that the report remains accessible to a broader audience, particularly policymakers, SME support institutions, and stakeholders new to trade finance. These introductory sections are essential for building a shared understanding, especially as this report forms the basis for future knowledge dissemination tools such as policy briefs and toolkits targeted at different user groups.

2.1 WHAT IS FACTORING?

Factoring is a financial transaction in which a business (**the “client” or “seller”**) sells its accounts receivable (outstanding invoices due from customers) to a third-party financial institution (the “factor”) at a discount, in exchange for immediate cash. The factor then collects payment from the client’s customer (the “debtor”) when the invoice matures (Figure 1). Factoring helps businesses improve their cash flow, meet working capital needs, and reduce the administrative burden of collections.



[10] (ACBF, 2021)

As highlighted in the Figure 1, a typical factoring arrangement involves the following steps:



This process provides liquidity (i.e. working capital) to sellers without increasing their debt burden, while transferring credit risk and collections responsibility to the factor.

BOX 1 - COMMON TERMINOLOGY AND RELATED CONCEPTS IN FACTORING



Factoring is sometimes referred to using different terminology across markets and institutions. While these terms are related, they are not always interchangeable. Understanding the distinctions is important, particularly for policymakers and financial institutions designing trade finance instruments.

- **Invoice Discounting** – Often used interchangeably with factoring, but typically refers to a loan secured by invoices rather than the sale of the receivables themselves. It is usually confidential, meaning the buyer is not notified.
- **Receivables Finance** – A broader category that includes factoring, invoice discounting, and other forms of supply chain finance. It refers generally to any financing solution that leverages outstanding invoices or receivables.
- **Trade Finance** – Factoring is considered a non-traditional form of trade finance, particularly relevant for open-account transactions, which are increasingly common in both domestic and cross-border trade.

2.2 KEY 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. This section outlines the main distinctions, grouped into three key dimensions.

2.2.1 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 (known as supply chain finance)^[11] is initiated by a large, creditworthy buyer (i.e. lead 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.

2.2.2 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. In 2024, roughly 1.4% of factoring in Africa was cross-border export factoring, with the balance being domestic factoring.^[12]

International 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). This two-factor model helps mitigate the risks of cross-border transactions, especially in unfamiliar legal or commercial environments.

BOX 2 - PRACTITIONER VIEW – WHERE PRODUCT-MARKET FIT IS STRONGEST



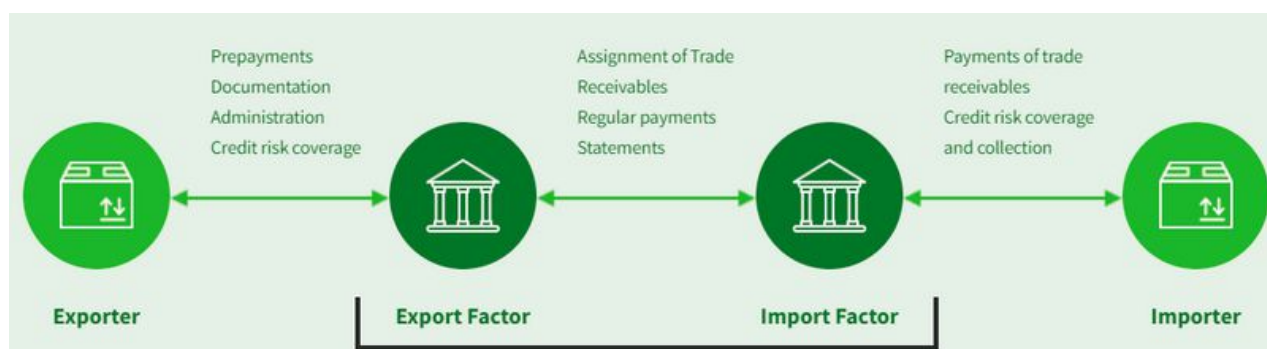
Reverse factoring anchored in large retailers/manufacturers is viewed as the quickest route to scale and risk mitigation, given the buyer-centric underwriting and payment data access; direct SME factoring remains viable but costlier to operate without digital validation rails.

Source: FCI, 2025a; Finvex, 2025.

[11] While supply chain finance is sometimes used interchangeably with reverse factoring, it in fact refers to a broader set of financing solutions, including reverse factoring as well as instruments such as purchase order financing.

[12] (FCI, 2025)

FIGURE 2 - OVERVIEW OF INTERNATIONAL FACTORING



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

As intra-African trade increases under the AfCFTA, international (cross border) factoring is expected to play a growing role in unlocking working capital across borders.

2.2.3 RECOURSE AND NON-RECOURSE FACTORING

Another key distinction lies in who bears the credit risk if the buyer fails to pay. In recourse factoring, the SME remains ultimately responsible for payment. If the buyer defaults, the factor has the right to recover the advance from the seller. This model is generally less expensive, but riskier for the SME, and may not improve its balance sheet position.

In non-recourse factoring, the factor assumes the credit risk and absorbs the loss in the event of buyer default. Because of this, non-recourse factoring typically comes with higher fees and more stringent credit assessments of the buyer.

The distinctions outlined above - between factoring and reverse factoring, domestic and international arrangements, and recourse versus non-recourse models - represent the most common configurations of factoring in practice. Table 1 below provides a quick comparative overview of these key types, summarising their core characteristics, risk allocation, and typical use cases.



"In recourse factoring, the SME ultimately bears the risk if the buyer fails to pay. While this model is more affordable and accessible, it offers limited protection and keeps credit exposure on the SME's balance sheet."

TABLE 1 - COMPARISON OF FACTORING TYPES

Type	Description	Credit Risk	Who Collects Payment	Typical Use
Factoring	A financial transaction where a business sells its receivables to a third party (factor) for immediate cash.	Depends on contract (recourse or non-recourse)	Factor	Used by SMEs to improve cash flow and manage working capital
Reverse Factoring	A large buyer initiates the arrangement to allow its SME suppliers to get early payment.	Buyer-initiated	Factor (pays seller early)	Anchored by large buyer; improves supply chain liquidity
Domestic Factoring	All parties (SME, buyer, factor) are located in the same country.	Depends on contract	Factor	Buyer and seller are in the same country
International Factoring	The SME (exporter) and buyer (importer) are in different countries, often with two factoring agents.	Often shared between export and import factor	Import factor (in buyer's country)	Cross-border trade transactions
Recourse Factoring	The SME sells invoices, but must repay the factor if the buyer fails to pay.	Seller (SME) bears risk	Factor (but seller repays if buyer defaults)	Cheaper, but riskier for SMEs
Non-recourse Factoring	The factor absorbs the loss if the buyer defaults.	Factor bears risk	Factor	Preferred when buyer credit is uncertain

While all forms of factoring have potential in Africa, their suitability varies depending on market maturity, institutional capacity, and the structure of buyer-supplier relationships. Traditional factoring is more common in relatively mature markets such as South Africa, where legal frameworks, credit information systems, and financial institutions are more developed.^[13] It gives SMEs direct access to liquidity based on their receivables but requires strong documentation and a reasonable degree of buyer reliability, which can be challenging in less formal markets.

Reverse factoring, by contrast, is gaining traction in less developed or risk-averse environments across the continent.^[14] Its key advantage lies in the fact that credit risk is assessed based on the buyer's creditworthiness, often a large and reputable company. This lowers the risk for financial institutions and enables SMEs to access financing on more favourable terms. However, reverse factoring depends heavily on the participation of anchor buyers, which limits its scalability to sectors or value chains where such buyers are present (e.g., agro-processing, manufacturing, retail).

^[13] (Finvex, 2025)

^[14] (Finvex, 2025)

Domestic factoring remains the dominant model across Africa, largely due to regulatory fragmentation and limited cross-border enforcement mechanisms. However, with increasing regional trade under the AfCFTA, international factoring is expected to grow, especially if legal harmonisation improves (discussed further in Section 3.2).

2.3 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. Table 2 below summarises the key advantages and disadvantages for each party

Table 2 - Overview of Advantages and Disadvantages of Factoring

Stakeholder	Advantages	Disadvantages
SMEs	• Immediate access to working capital • No need for fixed collateral • Transfers credit risk to factor (in non-recourse) • Outsourced collections and credit management • Financing grows with sales (receivables-based)	• High cost, especially for non-recourse models • Not all invoices or buyers may qualify • Risk of overdependence on factoring • Buyers may be uncomfortable with third-party involvement • Complex onboarding and documentation requirement.
Factor (Financial Institution)	• Expands lending to underserved SMEs • Lower credit risk – tied to buyer's performance • Self-liquidating short-term exposure • Opportunities to cross-sell other financial products	• Due diligence on invoices and buyers is resource-intensive • Risk of fraud or invoice disputes • Weak legal frameworks hinder enforcement in some markets • Limited credit information on buyers, especially in informal sectors

Factoring is particularly well-suited to industries where businesses operate on thin margins, have large receivables, and need regular liquidity to sustain operations. Common examples include agriculture (e.g., aggregators supplying processors or retailers), manufacturing (e.g., SMEs producing components for larger firms), construction (e.g., subcontractors awaiting milestone payments), and wholesale/retail trade. It is also increasingly used in transport and logistics, where firms invoice clients after service delivery but face working capital constraints in the interim. These sectors often feature clear buyer–supplier relationships and invoiced transactions, making them good candidates for factoring solutions.

CONCLUDING OBSERVATIONS

Factoring presents a flexible and increasingly relevant financing option for African SMEs, offering liquidity without the need for fixed collateral, and shifting risk away from smaller suppliers to larger buyers or financial intermediaries. As this section has shown, multiple variants of factoring exist –each with its own benefits, limitations, and applicability depending on market maturity, transaction structure, and institutional capacity. While traditional factoring remains dominant in mature markets, models such as reverse factoring are emerging as more viable options in risk-averse or less formalised environments. However, the choice and viability of these instruments are deeply shaped by the broader market context. Section 3 turns to that context, providing an overview of Africa's current factoring landscape –including market size, geographic distribution, key actors, and trends shaping the evolution of factoring across the continent.

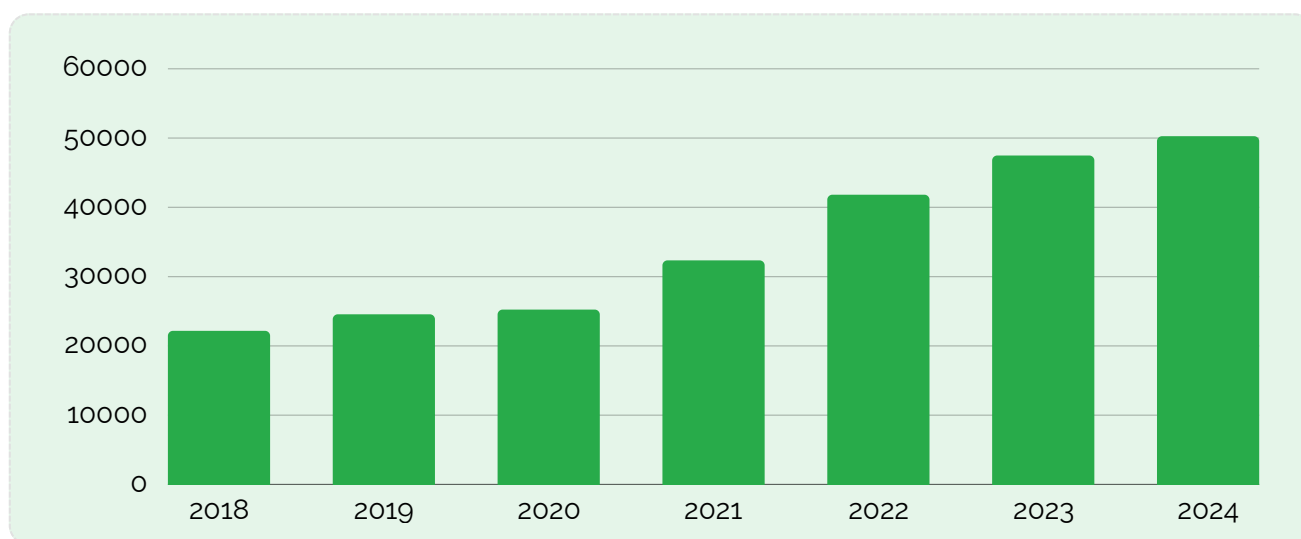
A person's hands are shown typing on a laptop keyboard. The image is overlaid with a semi-transparent green filter. The background shows a desk with some papers and a pen.

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. A decade ago, the concept was virtually unknown in many African markets. As of the early 2010s, only a handful of countries had active factoring firms, and total African factoring volumes were modest. However, the past few years have witnessed a strong upward trajectory. This trajectory has been driven by a combination of regulatory reform, rising institutional involvement (notably from Afreximbank and FCI), 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).^[15] This sustained double-digit growth underscores a burgeoning recognition of factoring's utility on the continent. Indeed, experts note that Africa's factoring industry, though still nascent, is **"steadily growing"** and attracting new market entrants.^[16]

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



Source: FCI Annual Review 2025.

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% (Figure 4).^[17] In other words, out of the €3.9 trillion in invoices factored globally each year, only a few tens of billions originate from Africa. This imbalance highlights both the challenge and the opportunity ahead. On one hand, it reflects how underdeveloped the African factoring market still is, especially given that Africa accounts for roughly 17% of the world's population and around 3% of global GDP, but barely beyond 1% of factoring turnover.^[18] On the other hand, it also signals immense untapped potential: if factoring can be scaled up, even to middle-income country levels, it could inject hundreds of billions of dollars of financing to African SMEs. Afreximbank officials emphasise this point, noting that the very low current usage of factoring means the upside is enormous if appropriate measures (e.g., regulatory reforms, awareness raising, capacity building, etc.) are taken. For instance, a recent Afreximbank study found that only about 3% of surveyed African SMEs (from a sample of 2895) had ever used factoring as a financing tool.^[19] This suggests that factoring has not yet 'taken off' in Africa to the extent it could, and that the market is far from saturated. Put simply, more than 95% of African SMEs are still relying on other financing means (or foregoing finance entirely), so the runway for growth in factoring is very long. Industry observers thus view Africa as one of the last frontiers for major factoring expansion, a region where the product is underutilised relative to need, and where supportive interventions could yield dramatic increases in uptake.^[20]

[15] (FCI, 2025)

[16] (FCI, 2021)

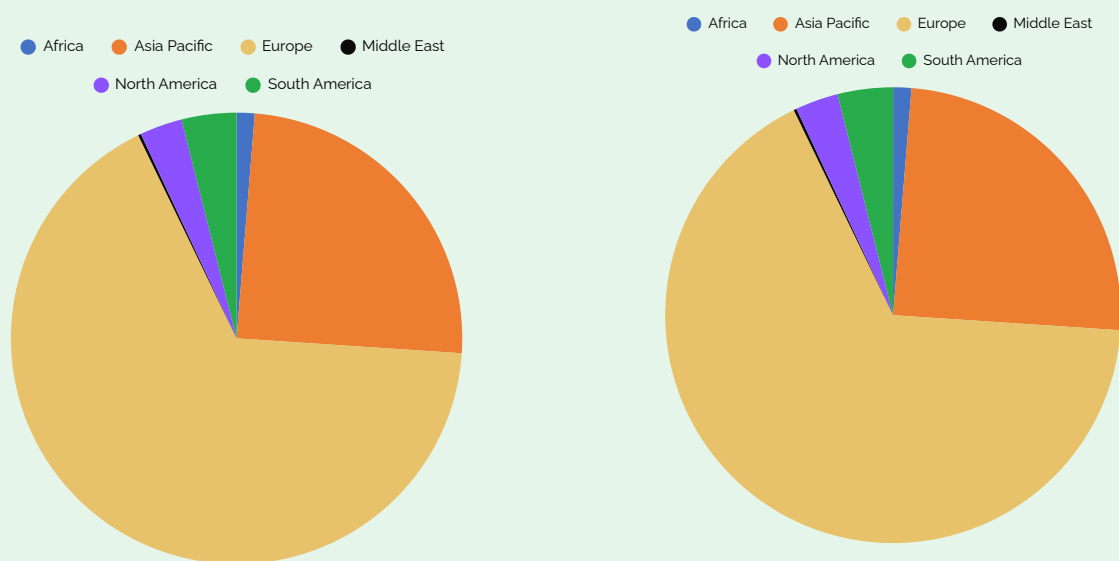
[17] (FCI, 2025)

[18] (United Nations, 2022; IMF, 2023)

[19] (Ranjan, A., 2024)

[20] (FCI, 2021)

FIGURE 4 - GLOBAL FACTORING VOLUMES BY REGION IN 2024 (EUR MILLIONS AND %)



Source: FCI Annual Review 2025.

3.1 CONCENTRATION IN SELECT MARKETS

A striking feature of Africa's factoring landscape is its geographic concentration. The industry's growth to date has been heavily skewed toward a few pioneer markets, with South Africa being singularly dominant. South Africa is by far the largest factoring market in Africa, accounting for between 80–90% of the continent's factoring turnover in recent years (Table 3).^[21] For example, in 2024 South Africa's factoring volumes were around €42.6 billion, approximately 85% of the Africa total of €50.3 billion that year.^[22] South Africa's long-established financial sector, relatively developed credit infrastructure, and large corporate sector (generating substantial receivables) have enabled it to cultivate a sizable factoring industry primarily through bank-owned factoring units.

Following South Africa, the next tier of African factoring markets includes a few North African and island economies: Morocco, Egypt, Tunisia and Mauritius. Morocco and Egypt, for instance, each have several factoring companies (often subsidiaries of major banks or financial groups) and record annual factoring volumes in the low single-digit billions of euros. In Morocco, factoring is well-established among large corporates and their supply chains, while Egypt passed a dedicated factoring law in 2018 which spurred the entry of numerous factoring and leasing companies into the market. Tunisia was one of the early adopters, with its factoring industry dating back to the 1990s/2000s. However, it remains smaller in absolute volume (a few hundred million euros per year in recent times).^[23]

Outside of these continental leaders, most other African countries still have negligible or no factoring activity, though interest is emerging. Notably, West and Central Africa are now starting to move: the eight countries of the West African Economic and Monetary Union (WAEMU),^[24] plus Nigeria and Ghana, have in the past couple of years begun laying the legal and institutional groundwork for factoring (this will be discussed in later sections).^[25] East Africa has also seen initial progress, with Kenya launching its first factoring fintech and some pilot programs in Uganda and Rwanda. Overall, however, the top five markets (South Africa, Morocco, Egypt, Tunisia, Mauritius) still represent the bulk of Africa's factoring by value, underscoring that the African market's growth so far has been driven by a few pockets of factoring activity.

[21] (FCI, 2025)

[22] (FCI, 2025)

[23] Tunisie Leasing & Factoring, founded in 1984, was one of Africa's earliest factoring institutions. Tunisia's annual factoring volumes in recent years have ranged between €315 million and €331 million (FCI Annual Review 2025). Despite this early start, its market remains relatively small in absolute terms

[24] Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo

[25] (FCI, 2021)

TABLE 3 - 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	0,07%
Cameroon						300	300	0,60%
Congo						30	32	0,06%
Egypt	517	589	604	1153	1181	1287	1410	2,80%
Kenya				6	6	6	6	0,01%
Mauritius	227	230	203	250	144	325	400	0,80%
Morocco	2532	2532	2532	2532	2532	2350	5000	9,95%
Senegal						119	119	0,24%
South Africa	18582	20873	21465	27905	37393	42628	42628	84,80%
Tunisia	316	338	258	311	378	392	331	0,66%
Uganda				8	8	8	8	0,02%
								0,00%
Africa Total	22174	24562	25242	32345	41822	47482	50271	100,00%

Source: FCI Annual Review 2025.

This concentration has implications for regional balance. It means that outside of South Africa and a few others, most African SMEs today have little or no access to factoring. Various stakeholders concur that establishing a clear and functional legal and regulatory framework is often the critical first step in enabling the development and growth of factoring in any market.^[26] As such, African factoring volumes can grow by spreading the model to new countries. For instance, Nigeria, one of Africa's largest economies, currently does not contribute to the continent's factoring turnover. However, it is estimated that factoring in Nigeria can unlock between EUR900 million and EUR 1.8 billion annually, substantially raising the continental total.^[27] The same is true of populous markets like Ethiopia or the Democratic Republic of Congo (DRC), which have effectively zero factoring at present. Recognising this, pan-African institutions (e.g., Afreximbank, AfDB, ACBF, MFW4A, AUDA-NEPAD, etc.)^[28] are focusing efforts on replicating factoring success across more countries, rather than just relying on growth in the established markets, by supporting legal and regulatory reforms, promoting awareness and capacity-building, facilitating access to credit information, and investing in digital platforms to expand market reach. The expectation is that as more countries put in place the necessary legal frameworks and market infrastructure, the regional concentration will gradually diminish and overall volumes will surge. In the meantime, however, Africa's factoring scene remains uneven with South Africa serving as a proof of concept of what is possible, and many other countries just beginning their factoring journey.

Stakeholders underscored the concentration risk in Africa's market: South Africa accounts for around 85% of volumes; Egypt has a strong domestic framework but currency controls limit cross-border factoring; most activity elsewhere remains domestic rather than cross-border. Priority countries repeatedly flagged for activation were Nigeria and Zimbabwe.^[29]

3.2 DOMESTIC VS CROSS-BORDER FACTORING

Another notable aspect of the current landscape is the predominance of domestic factoring over international (cross-border) factoring in Africa. Factoring can be used for both domestic transactions (financing sales by a local supplier to local buyers) and for export transactions (financing an exporter's receivables on foreign buyers). 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 (Table 4.). This contrasts with some other regions (like Europe) where international factoring is more common. The low share of export factoring in Africa reflects a few features: limited awareness of cross-border factoring solutions, fewer African firms exporting on open account terms (many still use letters of credit or advance payment for trade), and importantly, the lack of harmonised legal frameworks between countries which makes cross-border assignment of receivables more complex. 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.



"South Africa accounts for around **85% of Africa's factoring volumes** — a clear sign of both potential and imbalance across the continent."

[26] (Afreximbank, 2025a; EdgePlus Capital, 2025; FCI, 2025a)

[27] (PwC Nigeria, 2020)

[28] African Export-Import Bank (Afreximbank), African Development Bank (AfDB), African Capacity Building Foundation (ACBF), Making Finance Work for Africa (MFW4A), African Union Development Agency (AUDA-NEPAD)

[29] (FCI, 2025a; ADITI 2025)

TABLE 4 - DOMESTIC VS INTERNATIONAL FACTORING VOLUMES, 2024 (EUR MILLIONS)

Country/Territory	Domestic (EUR millions)	International (EUR millions)	Total (EUR millions)	Companies
Botswana	28	9	37	19
Cameroon	300		300	2
DRC	32		32	2
Egypt	1270	140	1410	32
Kenya	5	1	6	4
Mauritius	300	100	400	7
Morocco	4681	319	5000	9
Senegal	119		119	3
South Africa	42490	138	42628	110
Tunisia	324	7	331	5
Uganda	8		8	1
Total Africa	49557	714	50271	192

Source: FCI Annual Review 2025.

Stakeholders see the expansion of international factoring in Africa as a key opportunity area, enabling an African supplier in Country A to easily factor an invoice owed by a customer in Country B, thereby facilitating cross-border SME trade.^[30] We will later discuss how the advent of a pan-African factoring legal framework and digital platforms could help unlock more cross-border factoring. For now, it suffices to note that Africa's factoring industry is still largely a domestic finance story, focused on internal supply chains. The future likely holds a greater regional and global integration of factoring services - provided that enabling legal frameworks are harmonised, cross-border payment systems are strengthened, and awareness among SMEs, buyers, and financial institutions, among others, is significantly increased.

CONCLUDING OBSERVATIONS

Africa's factoring market has grown steadily over the past decade, supported by targeted reforms, the entry of new market players, and increasing institutional support. Yet, factoring activity remains concentrated in a handful of established markets, with large parts of the continent still underserved. The predominance of domestic factoring reflects both the opportunities in local supply chains and the challenges of cross-border operations, particularly in the absence of harmonised legal frameworks and interoperable financial systems. At the same time, regional integration under the AfCFTA, coupled with innovations such as digital platforms and e-invoicing, offers significant scope to expand factoring's reach. Harnessing these opportunities will require coordinated action by governments, regulators, development partners, and the private sector to replicate successes across more countries and create the enabling conditions for factoring to become a mainstream SME finance tool in Africa.

[30] (HRE, 2025; EdgePlus Capital, 2025; FINVEX, 2025; EABC, 2025)



4

**KEY DRIVERS AND
OPPORTUNITIES FOR
FACTORING GROWTH**

Several converging factors are driving the recent growth of factoring in Africa and creating an enabling environment for its future expansion. These include structural financing needs (and the limitations of traditional lending), supportive institutional initiatives, the evolution of trade patterns under AfCFTA, and broader global trends in open-account trade and technology. Taken together, these drivers underscore why factoring is gaining traction now and how it can be strategically leveraged to fill critical financing gaps

4.1 SME FINANCING NEEDS AND THE LIMITATIONS OF TRADITIONAL CREDIT

The most fundamental driver is the persistent unmet demand for working capital finance among African SMEs. As discussed, conventional bank finance has not adequately served many smaller and informal businesses due to strict collateral requirements, high perceived credit risk, and the high transaction costs of lending to dispersed small clients.^[31] SMEs often face long payment cycles, for instance, having to wait 30, 60, or 90 days for customers to pay invoices, which can constrain their cash flow in the absence of credit. Factoring directly addresses this problem by converting accounts receivable into immediate cash, thus bridging the working capital gap that SMEs encounter in their day-to-day operations.^[32]

Unlike a bank loan, which might be hard to obtain due to collateral or credit history issues, factoring relies on the strength of the SME's buyer and the quality of the invoice. This makes it uniquely suited to Africa's context, where many SMEs are high-growth but lack fixed assets or credit records. By offloading credit risk to higher-rated buyers and offering finance without requiring land, buildings, or equipment as collateral, factoring provides a form of asset-based financing tailored to SME realities.

The uptake of factoring in Africa is being driven in large part by SMEs (and their financiers) recognising this fit, that receivables can be leveraged as a reliable asset even when traditional collateral is unavailable^[33] As more success stories emerge of SMEs using factoring to stabilise and grow their businesses, awareness is spreading, which in turn fuels demand.^[34] Furthermore, banks themselves are increasingly interested in factoring as they realise it can be a profitable product that diversifies their SME lending portfolios while mitigating risks (since the exposure is backed by invoice payments).^[35] In short, Africa's enormous SME finance gap is forcing innovation, and factoring has proven to be one of the most promising solutions to finance the missing middle. This intrinsic demand-pull is a powerful driver behind the industry's growth.

4.2 INSTITUTIONAL SUPPORT AND ADVOCACY

A second key driver is the concerted push by African and international institutions to promote factoring. Over the past decade, organisations such as Afreximbank, the AfDB, the MFW4A partnership, and industry bodies like Factors Chain International (FCI) have actively championed factoring as a tool for development. Afreximbank in particular has taken a lead role: Afreximbank spearheaded the drafting of a Model Law on Factoring in 2016 (in collaboration with FCI and UNIDROIT^[36] experts) to encourage a harmonised legal framework across Africa.^[37] It also set up an annual Africa Chapter of FCI and convenes regional conferences that bring together banks, regulators, and potential factoring companies to raise awareness. By 2023, several African countries, including Egypt, Benin, Nigeria (pending), and the 17 OHADA members, had adopted, drafted or are considering factoring legislation aligned with the Afreximbank Model Law or the UNIDROIT Model Law on Factoring.^[38] Meanwhile, African membership in FCI has expanded significantly over the past decade, reflecting a growing number of institutions actively engaging in factoring.^[39]



"Factoring bridges the working capital gap that constrains many African SMEs — converting unpaid invoices into immediate cash without the need for collateral."

[31] (UNDP, 2024)

[32] (MFW4A, 2021)

[33] (Ranjan, A., 2024)

[34] (FCI, 2024)

[35] (Carvajal, A.F. and Didier, T., 2024)

[36] (Ranjan, A., 2024)

[37] (FCI, 2021)

[38] (MFW4A, 2021)

[39] (FCI, 2024)

Afreximbank reports that its initiatives have provided technical assistance to over 30 factors and reached thousands of stakeholders through workshops, contributing to doubling Africa's factoring volumes between 2018 and 2024.^[40] Likewise, the AfDB via its Fund for African Private Sector Assistance (FAPA) provided grant funding to support factoring development, for example, in 2018 it approved a US\$500,000 project to build capacity for factoring in Central, Eastern, Southern and Western Africa; and in 2021 it co-launched a new FAPA program with Afreximbank and FCI to train banks and regulators across eight African regions.^[41]

These institutional advocacy and capacity-building efforts are a major opportunity-driver: they have put factoring on the policy agenda in many countries and lowered the entry barriers for new market players. In Nigeria, for instance, a multi-year engagement by Afreximbank, FCI, and the Nigeria Export-Import Bank (NEXIM) convinced the central bank and legislature to draft specific factoring guidelines and laws, with the expectation that this will unlock an estimated EUR900 million to EUR 1.8 billion in annual SME financing once operational.^[42] The political will generated by such initiatives cannot be understated. Factoring is now explicitly referenced in numerous national financial sector strategies and SME development plans, whereas a decade ago it was rarely mentioned.

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

The advent of the AfCFTA is another strong tailwind for factoring. As Africa strives to boost intra-continental commerce, more transactions are shifting to open account trade (where goods are shipped and delivered before payment, as opposed to using letters of credit or cash-in-advance).

Open account terms are generally more favourable for buyers and increasingly prevalent in global trade, but they create financing needs for sellers who must wait for payment. Factoring and its counterpart, reverse factoring (supply chain finance), become crucial in this scenario by providing liquidity against those receivables. The AfCFTA is expected to increase the volume of trade conducted on open account between African SMEs and buyers in other African countries.^[43]

BOX 3 - 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.

The AfCFTA's scope extends beyond tariff liberalisation. It encompasses protocols on trade in goods and services, investment, competition policy, intellectual property rights, and digital trade, forming a comprehensive framework for deepening continental economic integration. It also includes operational instruments such as the Pan-African Payment and Settlement System (PAPSS), which facilitates cross-border transactions in local currencies, and the African Trade Observatory, which provides real-time trade data to businesses and policymakers.

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>

[40] (Ranjan, A., 2024)

[41] (FCI, 2021)

[42] (PwC Nigeria, 2020)

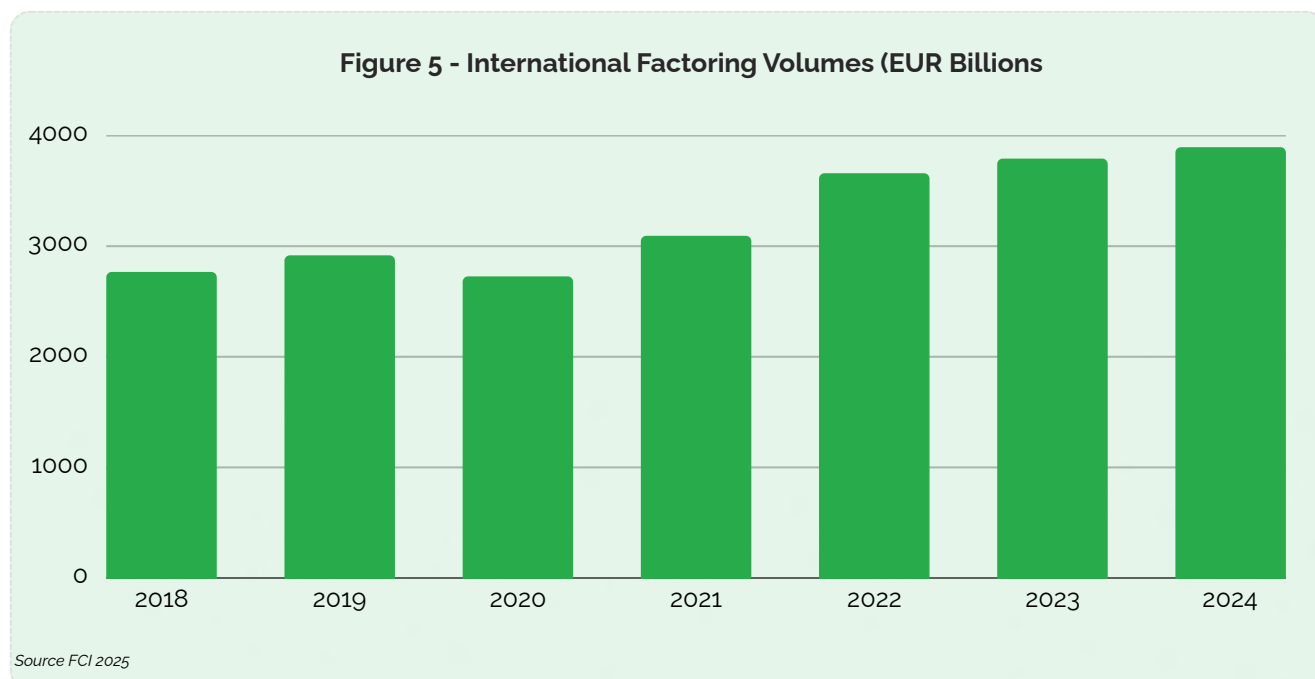
[43] (FCI, 2021)

In anticipation, factoring is being positioned as a key trade finance instrument to support the AfCFTA's implementation^[44] through, for example, exploiting synergies with the Pan-African Payment and Settlement System (PAPSS) to enable faster, low-cost cross-border settlements in local currencies.^[45] Policymakers recognise that if SMEs cannot get working capital for cross-border orders, the promise of the AfCFTA, which aims to integrate millions of small producers into regional value chains, would be undermined. Fortunately, receivables from intra-African sales can be just as financeable as domestic ones, provided legal regimes allow their assignment. Thus, the AfCFTA creates both a necessity and an opportunity: it necessitates the development of continent-wide factoring norms (hence the push for a uniform law), and it offers an enlarged market for factors to operate in. Early signs of this are evident. For example, pan-African banks are exploring regional factoring solutions to finance suppliers in one country who sell to buyers in another AfCFTA country, using the Afreximbank model law as a basis for cross-border enforceability.^[46]

During the 2024 Africa Factoring Conference in Harare, stakeholders, including Afreximbank and FCI, emphasised the role of factoring in bridging the continent's intra-African trade finance gap for SMEs and supporting AfCFTA implementation^[47]. Ultimately, the AfCFTA can act as a catalyst for factoring growth by expanding the scale of potential transactions and by motivating harmonised frameworks so that an invoice in any African country can be factored and enforced across borders. Realising this potential will depend on appropriate mechanisms being in place, most notably the PAPSS, which can facilitate fast, secure, and low-cost cross-border settlements in local currencies, alongside aligned legal frameworks, interoperable credit information systems, and robust digital infrastructure. This continental market integration is a key opportunity for the factoring industry's future expansion.

4.4 GLOBAL TRENDS IN TRADE FINANCE AND DIGITALISATION

Finally, broader global trends are also driving factoring's rise in Africa. Worldwide, there has been a post-COVID surge in demand for working capital solutions as companies rebuild supply chains and inventories in spite of other geo-political stressors such as rising military tensions, disruptive trade and commercial relations and increasing protectionism. Recent statistics show robust global growth in the factoring and receivables finance industry, driven by post-pandemic recovery, government stimulus measures, and resurgent consumer demand (Figure 5).^[48] Africa is benefiting from this general upswing as well, for instance, 2020 and 2021 saw double-digit growth in factoring volumes in many markets as economies rebounded (see Table 3).



[44] (FCI, 2021)

[45] (Afreximbank, 2025a)

[46] (FCI, 2021)

[47] (Ranjan, A., 2024)

[48] (Merchant Factors, 2024)

BOX 4 - IMFACT – TECHNOLOGY-ENABLED WHOLESALE RECEIVABLES FINANCING FOR SMES



ImFact is a Kenyan fintech offering pooled receivables financing to SMEs. Backed by £3.04 million in early-stage capital from FSD Africa Investments, ImFact's model uses technology to buy invoice portfolios, giving SMEs quicker access to cash without relying on traditional collateral.

By 2024, ImFact aims to:

- Purchase \$600 million in receivables
- Support over 400 SMEs
- Enable/retain 5,600 jobs
- Expand to five African countries

ImFact illustrates how fintech-enabled factoring can bridge SME liquidity gaps at scale.

Additionally, the digitalisation of finance is lowering operational barriers and costs for offering factoring services, making it easier for new entrants (including fintech startups) to serve SMEs at scale. Advances in financial technology mean that factors can leverage cloud-based platforms, e-invoicing systems, and data analytics to onboard clients and process invoices far more efficiently than in the past.^[49] This technology infusion greatly expands the addressable market of SMEs, even in remote areas, since invoices can be submitted and verified electronically.

In Africa, mobile connectivity and fintech adoption have grown enormously, setting the stage for digital factoring models to take hold. We are seeing early evidence, for example, in Kenya a fintech called IMFact (Box 4) launched a tech-driven factoring service focusing on micro and small enterprises, using a digital **"pooled receivables"** model to purchase batches of SME invoices and provide upfront cash via a platform.^[50] Such innovators often tap into alternate data and integrate with e-commerce or accounting software to reach clients that banks never served.

Likewise, global financiers and investors (Venture Capital Firms, Investment Management & Private Equity, Impact Investor, etc.) are increasingly interested in African receivables as an asset class, especially when technology can provide transparency and risk mitigation.^[51] The rise of supply chain finance globally, including techniques like reverse factoring where large buyers sponsor early payments to their suppliers, is filtering into Africa as multinational corporations extend their supplier finance programs to African suppliers. For example, Unilever, in partnership with Equity Bank in Kenya, launched a distributor financing solution effectively providing early payment (i.e receivables finance) to its distributor network.^[52] These global shifts create a more favourable environment, and more demand pull for factoring in Africa than ever before.

Ultimately, the confluence of SME needs, institutional support, trade integration, and technological progress is propelling factoring forward. Africa's factoring industry is not growing in isolation but following the trends of a worldwide movement towards open-account trade finance and digital financial services.^[53] This alignment of factors represents a timely opportunity for Africa to leapfrog by adopting innovative factoring models that have been proven elsewhere, while tailoring them to local conditions.

[49] (Merchant Factors, 2024)

[50] (FSD Africa, 2021)

[51] (World Bank, 2025)

[52] (Equity Group Holdings, 2024)

[53] (World Bank, 2025)

CONCLUDING OBSERVATIONS

The drivers outlined in this section, namely structural SME financing needs, targeted institutional support, the opportunities arising from the AfCFTA, and alignment with global trade finance and digitalisation trends, together create a unique window for scaling factoring in Africa. These forces are mutually reinforcing: as policy and institutional initiatives strengthen the enabling environment, demand from SMEs and large buyers will rise, while technological innovation reduces costs and expands market reach. Importantly, mechanisms such as PAPSS, harmonised legal frameworks, interoperable credit information systems, and robust digital infrastructure will be essential to realise these opportunities, particularly for cross-border factoring under AfCFTA.

The background of the page features a photograph of two hands holding a smartphone. The image is heavily overlaid with a semi-transparent green filter. The hands are positioned at the bottom of the frame, with the phone held horizontally. The green overlay is a solid, medium-green color that covers the entire page, creating a monochromatic effect. The texture of the phone's screen and the skin of the hands are visible through the semi-transparency.

5

**CHALLENGES AND
CONSTRAINTS 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 gaps in legal and regulatory frameworks, limited awareness and trust, operational and funding hurdles, and broader market infrastructure issues.

5.1 LEGAL AND REGULATORY GAPS

Perhaps the most fundamental challenge is the lack of appropriate legal and regulatory frameworks for factoring in many African countries.^[54] 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.

Until recently, very few African countries had dedicated factoring laws or explicit receivables finance provisions. Factoring was rarely prioritised in policymaking or legislated due to limited market demand and understanding.^[55] The practice remains largely confined to a small number of countries such as South Africa, Egypt, Mauritius, Morocco, and Tunisia, with others like Cameroon, Zambia, Nigeria, and Zimbabwe showing emerging interest. In addition, the Republic of Congo and several countries within the BCEAO zone have adopted the law, signalling broader regional uptake. However, efforts are under way in several countries to establish or reform legal and regulatory frameworks, particularly through the adoption or adaptation of Afreximbank's 2016 Model Law on Factoring.^[56] This paucity of legal clarity has been a major impediment, often cited as the number one reason for the slow development of the industry.^[57] Without a supportive legal framework, potential factors (be they banks or independent firms) are hesitant to offer the product, and foreign investors are unwilling to fund it.

The lack of uniformity also creates fragmentation: each country has its own rules (if any), making cross-border factoring and the expansion of regional players difficult. Moreover, uncertainty about taxation of factoring (for instance, whether factoring fees are subject to VAT, stamp duty on assignments, etc.) can further deter activity.^[58] Legal inertia and inconsistencies have left factoring in a grey zone in much of Africa's financial sector.

Encouragingly, work is underway to close these gaps (as detailed in the next section on regulatory developments), but as of today, many markets are still in the process of adopting or implementing the needed laws. Until those frameworks are fully in place and tested, the growth of factoring will likely be slower than its potential. Establishing clear rules of the game through either national laws or a regional uniform law remains an urgent priority to give factors and SMEs confidence in the enforceability of factoring contracts.

5.2 LIMITED AWARENESS AND TRUST

Another barrier is the relatively low level of awareness and understanding of factoring among businesses, financiers, and even some 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. Many African entrepreneurs are more familiar with traditional bank loans or overdrafts (even if they are unable to obtain them) and may not realise that an alternate option exists (Figure 6). **"Low", "Medium" and "High"** awareness levels are based on survey respondents' perceptions of how well factoring is understood in their respective markets).

[54] (FCI, 2025; Afreximbank, 2025; EdgePlus Capital, 2025)

[55] (Clynn, H. 2024)

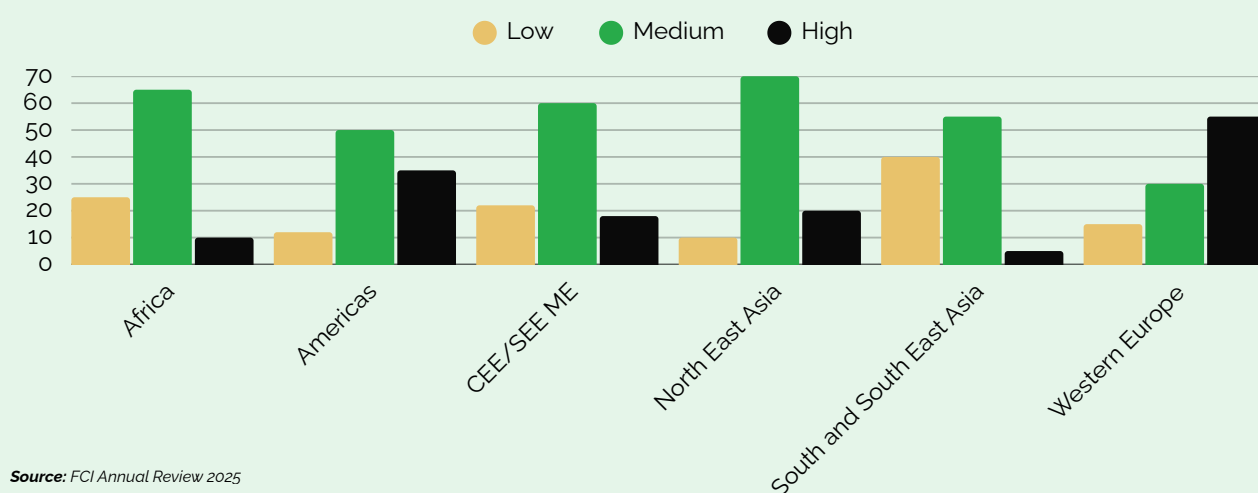
[56] (ACBF, 2023)

[57] (FCI, 2021)

[58] (FCI, 2021)

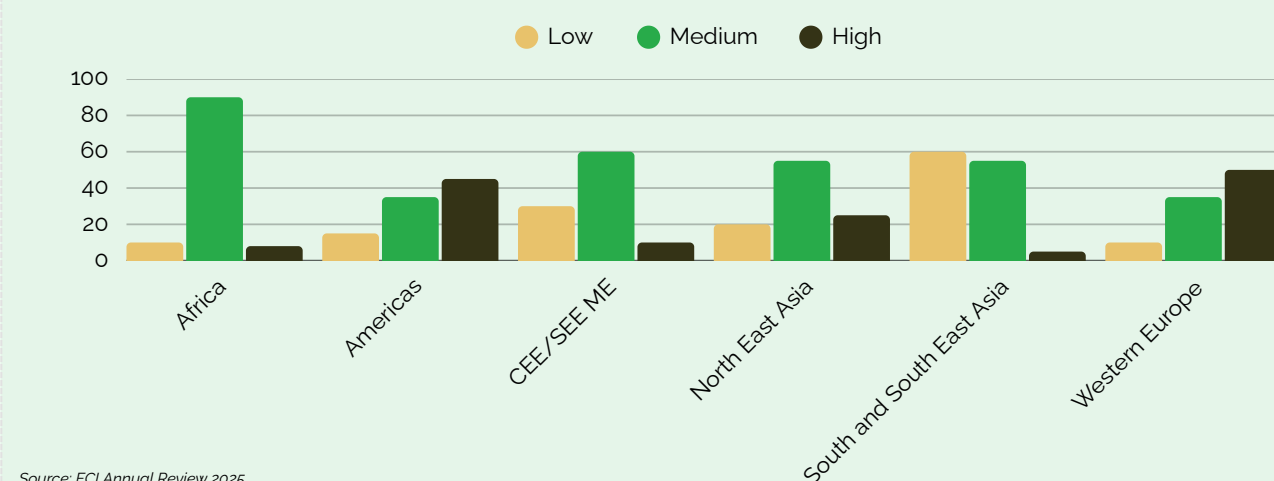
Another barrier is the relatively low level of awareness and understanding of factoring among businesses, financiers, and even some regulators. Factoring is a specialised product, and in markets where it is new, SMEs may simply not know that their unpaid invoices can be turned into cash through a factor. Many African entrepreneurs are more familiar with traditional bank loans or overdrafts (even if they are unable to obtain them) and may not realise that an alternate option exists (Figure 6). “Low”, “Medium” and “High” awareness levels are based on survey respondents’ perceptions of how well factoring is understood in their respective markets). Similarly, banks and investors historically saw SME lending through the prism of collateralised loans, and it has taken time to educate credit committees and policymakers about the factoring model. Regulators, banks and SMEs often conflate factoring with lending, depressing demand and supply; targeted training and short executive briefs were frequently requested during stakeholder consultations.^[59]

Figure 6 - Factor Awareness Level by Region (2025)



This lack of familiarity can breed scepticism or misconceptions. Some SMEs are wary of factoring because they misconstrue it as overly complex or fear it might signal their own financial weakness to their customers. There can be a reluctance to ‘sell one’s invoices’ due to emotional attachment to control over one’s receivables and data. In many African contexts, businesses are cautious about sharing financial information; the idea of exposing their sales ledgers to a third party (the factor) may raise trust issues.^[60] As seen in Figure 7 below, there remains a low level of acceptance of Factoring across African counties.

Figure 7 - Factor Acceptance Level by Region (2025)



[59] (Afreximbank, 2025a; ADITI, 2025; ZRE, 2025; EABC, 2025)

[60] (Mulroy, P., Shonhard, N. and Diop, I., 2024)

This trust deficit is compounded by the fact that factoring requires a level of transparency (invoices must be verifiable and debtors notified) that informality in business practices can hinder. As Peter Mulroy, Secretary General of FCI, observed, there is often an 'emotional relationship' which businesses have with their data and receivables, a fear that sharing these with financiers could make them vulnerable.^[61] Overcoming these mindset and knowledge barriers is a challenge. It requires concerted outreach and education to demonstrate the benefits of factoring and to assure SMEs that data can be handled securely and to their advantage.

Another dimension of the trust and awareness challenge is contractual. In some countries, buyers include clauses in supplier contracts that prohibit the assignment of receivables to third parties. While such clauses are often intended to prevent outsourcing of supply obligations, in practice they can also restrict suppliers from selling their invoices to a factor. This misinterpretation has created hurdles in markets such as South Africa and Zimbabwe, where legal uncertainty around the enforceability of these clauses constrains factoring.

The lack of awareness also extends to secondary stakeholders. For example, judicial systems in some countries are not well-versed in handling factoring disputes, and insolvency regimes may not explicitly carve out sold receivables, which can lead to courts treating factored invoices as part of the bankrupt estate of an SME if they are unaware of the nuances.^[62] Building understanding and trust in the factoring process is a necessary part of market development. Progress is being made via training programs and demonstration projects, but it remains a work in progress in many regions.

5.3 OPERATIONAL AND FUNDING CONSTRAINTS

Operating a successful factoring business requires certain supporting elements that are underdeveloped in many African markets. One is access to reliable credit information on debtors. Factors need to assess the creditworthiness of the buyers who will ultimately pay the invoices.^[63] In countries with weak credit bureaus or limited information on corporate payment behaviour, this due diligence becomes difficult or expensive. In Nigeria it was reported that interest rates can exceed 27%.^[64]

Another requirement is an efficient method for verifying invoices and confirming with buyers that the goods or services were delivered satisfactorily.^[65] In markets where electronic invoicing is not the norm and paper processes dominate, verification can be slow and prone to fraud (e.g., fake or duplicate invoices). Fraud risk, such as an SME attempting to factor the same invoice with multiple financiers or fabricating invoices, is a non-negligible concern, especially without robust registries or information-sharing among factors. This makes some financiers cautious.

Additionally, factors themselves need capital (or funding lines) to advance to SMEs. Most independent factoring companies rely on bank lines of credit or investor funding to provide the liquidity for advances.^[66] In Africa, securing such funding can be a bottleneck. Local banks may be reluctant to lend to a new factoring startup, and international investors may be deterred by legal uncertainties. Even bank-owned factoring divisions must allocate capital and comply with banking regulations; in some cases, regulators treat factoring exposures similarly to loans for capital requirement purposes, which can constrain how much factoring a bank will do.^[67] The cost of funds in local currency is also an issue. High-interest rate environments make factoring more expensive for SMEs or squeeze the factor's margins, limiting growth.

[61] (Mulroy, P., Shonhard, N. and Diop, I., 2024)

[62] (Klapper, L., 2005)

[63] (ACBF, 2023)

[64] (Edgeplus Capital, 2025)

[65] (ACBF, 2023)

[66] (MFW4A, 2021)

[67] (IFC, 2023)

Furthermore, the absence of credit insurance markets in many countries means factors cannot easily insure their receivables portfolios against buyer defaults, which is a tool factors in more developed markets often use to manage risk (non-recourse factoring typically relies on credit insurance to protect the factor).^[68] Without insurance or guarantees, African factors must either operate on a recourse basis (which limits the value proposition to SMEs) or carry significant risk on their balance sheets.

Finally, factors must have efficient collection and legal enforcement capabilities for when buyers do not pay. Slow court systems and difficulties in debt recovery in some jurisdictions raise the cost of doing business.^[69] All these operational challenges, from information asymmetry to funding to enforcement, combine to make factoring a more challenging proposition in the African context than in, say, Europe where infrastructure and markets are more mature. This does not mean factoring cannot be done; indeed, the successes to date show it can overcome these obstacles. But the challenges are higher, and until they are alleviated (through things like credit bureaus, electronic invoice registries, insurance solutions, etc.), factoring volumes may remain below their theoretical potential.

5.4 MACROECONOMIC AND ECOSYSTEM ISSUES

Broader macroeconomic conditions and financial ecosystem factors also play a role. High inflation or volatile exchange rates can complicate factoring. For example, if a factor provides a shilling advance on an invoice that will be paid in dollars 90 days later, currency swings could erode the value. African economies have experienced significant volatility (e.g., currency depreciation in Nigeria, Zimbabwe or Zambia), which can deter cross-border factoring in particular.^[70] 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. Moreover, a stable macroeconomic environment is generally needed for receivables finance to thrive; as one central banker noted, factoring will only truly take off in a context of reasonable price stability and trust in the financial system.^[71] In countries with banking sector distress or very high interest rates, introducing a new finance product can be a significant hurdle.

Additionally, many African economies have a large informal sector (Error! Reference source not found.). If SMEs are not formally registered or do not issue formal invoices, they are effectively outside the reach of conventional factoring. The informality of SME operations (e.g., cash transactions, no paper trail) is a structural barrier, one that is being addressed gradually through initiatives to formalise and digitise SMEs, but still significant challenges remain. A related point is that factoring relies on the **“open account”** trade culture, which in some sectors is not yet prevalent. In certain African trade segments, buyers still pay cash on delivery or use cash prepayments due to lack of trust, which means there is no receivable to factor. As supply chains modernise and move to post-delivery payment terms, the scope for factoring increases.

BOX 5 - INFORMALITY AND THE LIMITS OF FACTORING IN AFRICA



Africa's SME landscape is dominated by informality. It is estimated that there are over 50 million SMEs across the continent, with nearly 70% operating in the informal sector. These enterprises contribute around 33% of Africa's GDP and employ about 60% of the labour force across sectors such as trade, agriculture, construction, manufacturing, transport, and services.

While informal SMEs play a vital role in income generation and local resilience, their lack of registration, invoicing practices, and financial records makes it extremely difficult for them to access factoring services, which depend on formal receivables and verifiable trade transactions.

[68] (MFW4A, 2021)

[69] (Clynn, H., 2024)

[70] (ZRE, 2025; EdgePlus Capital, 2025)

[71] (Ranjan, A., 2024)

Finally, competition (or lack thereof) in the financial sector can be an issue.^[72] In some countries a few large banks dominate lending and may not feel competitive pressure to introduce factoring, especially if it could cannibalise their loan products. Until alternative finance providers (fintechs, non-bank financial institutions) emerge to challenge the status quo, innovation like factoring might progress slowly.

Africa's factoring industry faces a multifaceted set of challenges - legal, cultural, operational, and economic. These challenges help explain why, despite evident demand and high-level support, factoring has not yet achieved widespread adoption across the continent. The good news is that none of these obstacles are insurmountable. Many other regions have tackled similar issues during their factoring market development. Latin America, for instance, had to reform laws and implement e-invoicing to curb fraud and boost factoring, steps that led to significant growth in countries like Chile and Peru.^[73] Africa is now embarking on a similar journey. The next sections discuss what is being done to address these challenges: the regulatory reforms to establish supportive laws, and the technological and business innovations that are mitigating operational hurdles.

CONCLUDING OBSERVATIONS

Factoring in Africa faces a multi-layered set of challenges that span legal/regulatory gaps, low awareness and trust, operational and funding constraints, and broader macroeconomic and ecosystem issues. These barriers are interlinked: weak legal frameworks discourage investment in factoring operations; limited digital infrastructure hampers efficiency and fraud prevention; and macroeconomic volatility and currency convertibility constraints deter cross-border activity. Addressing these issues requires a coordinated approach, combining legal harmonisation, targeted awareness campaigns, operational capacity-building, and macro-level financial stability, which the following section examines in detail through current regulatory and policy developments.

^[72] (ACBF, 2021)

^[73] (Carvajal, A.F. and Didier, T., 2024)



6

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.

6.1 INTRODUCTION OF FACTORING LAWS AND UNIFORM RULES

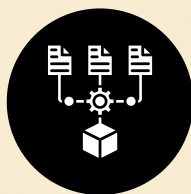
In the past ten years, there has been a wave of legislative activity to formally recognise and regulate factoring in Africa. A milestone in this regard was the development of the Model Law on Factoring by Afreximbank and the African chapter of FCI in 2016^[74]. This model law, created in collaboration with international bodies (UNIDROIT (the International Institute for the Unification of Private Law based in Rome) and the African Legal Support Facility), provides a template that African countries can adapt and adopt, thereby streamlining the process of enacting local factoring legislation. The model law defines key concepts (such as what constitutes an assignable receivable, the rights and obligations of factors, clients, and debtors, etc.) and sets out standardised rules to govern factoring transactions. Importantly, it covers areas like the legal effect of assigning an invoice, priority conflicts, debtor notification, and cross-border recognition, all crucial issues for a functional factoring market. The objective is to eliminate legal ambiguities and divergent practices by aligning countries on a common set of principles, irrespective of their legal traditions.

BOX 6 - FROM MODEL LAW TO MARKET USE



Stakeholders repeatedly cited Egypt's 2018 reforms as a tipping point for industry growth, while DRC's 2024 adoption is seen as the next test case. In Nigeria, interviewees stressed passage of an enabling factoring law as the immediate priority, along with standardised documentation to reduce admin burden. (Afreximbank, 2025a; FCI, 2025a; ATIDI, 2025, EdgePlus Capital, 2025)

BOX 7 - COMPONENTS OF THE AFREXIMBANK MODEL LAW ON FACTORING



The Afreximbank Model Law on Factoring provides a harmonised legal framework to support the development of factoring across Africa. Its structure is modular and designed for legislative adaptation. Key parts include:

- **Part 1: Definitions and Interpretation** – Clarifies key terms such as client, factor, receivable, and assignment, and standardises interpretation of concepts across jurisdictions.
- **Part 2: Scope and Limitations** – Specifies that the law applies to both domestic and international assignments of receivables under factoring contracts, and outlines key exclusions, for example, personal receivables, financial securities, wages, etc.
- **Part 3: Party Autonomy** – Permits contractual freedom among the client, factor, and debtor, with some restrictions (for example, on overriding prohibitions against assignment).
- **Part 4: Effects of Assignment** – Establishes that assignments remain valid despite restrictions and allows assignment of future or partial receivables without new contracts.
- **Part 5: Rights, Obligations and Defences** – Details the obligations of clients and debtors, including how notice of assignment affects payment, and the extent to which debtors may raise defences or set-offs.
- **Part 6: International Factoring** – Provides for cross-border transactions and clarifies applicable law where factors are located in different countries.
- **Part 7: Implementation** – Offers guidance for national legislators on bringing the law into force and repealing conflicting statutes.

[74] (FCI, 2021)

Following on the development of the Afreximbank's Model Law, the UNIDROIT Model Law on Factoring (MLF), adopted in 2023, offers a complementary international legal framework aimed at facilitating both domestic and cross-border factoring transactions. Developed through extensive global consultations, the UNIDROIT MLF provides clarity on the legal assignment of receivables, including the rights and obligations of assignors, assignees (**factors**), and debtors. It covers key elements such as the effectiveness of assignments, priority among competing claims, notification requirements, and debtor protections. The model law is intentionally flexible, allowing parties to opt out of many of its provisions, while still promoting legal certainty and enforceability. It is also technology-neutral and adaptable to evolving digital finance practices, making it suitable for modern factoring arrangements. As such, it offers African policymakers an internationally harmonised legal template that complements regional efforts like the Afreximbank Model Law, and can be particularly valuable for aligning national frameworks with global best practices to support cross-border trade and finance.

Since 2018, a number of countries have used these model laws as the basis for their own legislation. Egypt was an early mover, passing a Financial Leasing and Factoring Law in 2018 that created a regulatory framework for non-bank factors under the Financial Regulatory Authority. Ghana updated its Borrowers and Lenders Act in 2020 to explicitly facilitate receivables financing. Nigeria in 2022 drafted a Factoring Assignments Bill (with input from the model law) that is in advanced stages of legislative approval. And notably, the Organisation for the Harmonization of Business Law in Africa (OHADA), a bloc of 17 Francophone African countries,^[75] is on course to develop a Uniform Act on factoring based on the UNIDROIT MLF, potentially providing a legal framework across all its member states.^[76] This OHADA uniform law essentially mirrors many provisions of the Afreximbank model and stands as a major achievement in legal harmonisation. It means that across all 17 countries, factors will operate under the same set of rules, which is immensely helpful for cross-border transactions within that zone. By 2021, it was reported that around eight African countries^[77] had implemented new factoring laws or regulations aligned with the model laws, and several others had laws **"in the pipeline."**^[78]

While progress is uneven (some large markets like Ethiopia or the DRC have yet to introduce any laws specific to factoring), the general trend is clear: the longstanding legal void is starting to be filled. Each new law boosts confidence for operators in that market and often spurs the entry of additional players who were waiting on legal certainty. The push for a uniform law for all of Africa remains a longer-term goal. Proponents argue that ultimately a pan-African or at least regionally harmonised regime will greatly facilitate cross-border factoring under the AfCFTA.^[79] Until then, the pragmatic approach is country-by-country reform, with the model law ensuring those reforms are consistent and high-quality.

6.2 SECURED TRANSACTIONS REFORM AND REGISTRIES

Factoring law reform in Africa has also been part of a broader agenda of modernising secured transactions frameworks. Many African countries, often with World Bank/IFC assistance, have reformed their collateral laws in recent years to allow businesses to use movable assets (like receivables, inventory, and equipment) as collateral and to establish collateral registries. While factoring is technically the sale of receivables (not a secured loan), strong secured transactions laws complement factoring by clarifying the treatment of receivables and establishing priority rules. For example, a modern collateral registry system can record the assignment of receivables, helping to prevent multiple sales or pledges of the same invoice (**a key fraud risk**).

[75] 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.

[76] (MFW4A, 2021)

[77] Ivory Coast, Benin, Senegal, Niger, Togo, Burkina Faso, Mali and Guinea Bissau had adopted and domesticated relevant laws as part of the BCEAO, while the process is still underway in Nigeria and Kenya.

[78] (MFW4A, 2021)

[79] (FCI, 2021)

Countries such as Kenya, Ghana, Zambia, and Malawi have introduced collateral registries for security interests in movables, which also accommodate notice of factoring transactions. In Botswana, the Personal Property Security Act (2022) and its registry make it easier for factors to perfect their interest in accounts receivable, even though Botswana's specific factoring law is pending.^[80] Nigeria created a National Collateral Registry in 2016 that has since been used to register hundreds of thousands of security interests including assignments of receivables, setting the stage for more confidence in receivables financing. Additionally, some jurisdictions are aligning their factoring laws with the UN Commission on International Trade Law (UNCITRAL) Model Law on Secured Transactions (MLST) to ensure coherence (UNCITRAL's standards treat receivables assignments in a similar fashion whether they secure a loan or are out-and-out sales).

The creation of electronic invoicing platforms and registries is another regulatory innovation. Learning from Latin America, and Mexico in particular, where 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.^[81]

These kinds of digital infrastructure, often implemented via regulatory measures, directly tackle operational challenges and improve trust in the system by reducing the risk of fraudulent or duplicate invoices.^[82] In Chile and Peru, it was observed that making e-invoicing mandatory and then enacting targeted reforms (like setting a maximum period for buyers to object to an invoice and thereafter treating it as an unequivocal payment obligation) led to an average annual growth in factoring volumes.^[83] Some African regulators are studying these examples, with an eye to similar reforms that could supercharge local factoring markets.

6.3 REGULATION AND SUPERVISION OF FACTORING COMPANIES

Beyond pure commercial law, there is the question of how to regulate the providers of factoring themselves. African countries have adopted different approaches. Some, like South Africa, have left factoring largely unregulated as a banking activity. Factors operate either as bank departments or as finance companies under general commerce laws. Others, like Egypt and Morocco, license and supervise factoring companies via their financial regulatory authorities (often the same agency that oversees non-bank financial services such as leasing or microfinance).

With the growth of the factoring industry, regulators are paying more attention to factors' activities to ensure financial stability and consumer protection.^[84] The trend is towards a proportionate regulatory framework that recognises the unique nature of factoring (for instance, that factors take credit risk on debtors and provide financing, but also that they do not take deposits from the public in most cases). In Egypt's new regime, factoring companies must meet minimum capital requirements and reporting standards, and are subject to conduct rules (e.g., disclosure to clients, fair practices) set by the Financial Regulatory Authority.

Nigeria's draft regulations likewise propose that factoring firms (apart from banks engaging in factoring) would register with the central bank or Securities and Exchange Commission and adhere to guidelines on risk management and anti-fraud measures. A balance is sought: regulators want to foster the growth of factoring by allowing new entrants (fintech startups, etc.) with reasonable entry requirements, while also ensuring these entities are sound and not facilitating financial crime. One area of focus is anti-money laundering (AML) and Know-Your-Customer (KYC) rules. Factors, like other financiers, must implement KYC on their SME clients and sometimes on debtors, which is being clarified through guidelines so that compliance is manageable for factors.^[85]

[80] (IFC, 2023)

[81] (VAT IT, 2025)

[82] (Carvajal, A.F. and Didier, T., 2024)

[83] (Carvajal, A.F. and Didier, T., 2024)

[84] (IFC, 2023)

[85] (IFC, 2023)

Another area is setting clear accounting and tax treatment for factoring.^[86] Some countries (e.g., South Africa, Egypt) have issued guidance on how factored receivables should be treated in accounting (e.g., derecognised from the seller's balance sheet if sold without recourse) and confirming that factoring fees are deductible business expenses, etc., to avoid any adverse tax ambiguity. Central banks in a few countries (such as Kenya) have included factoring in their credit information-sharing frameworks, meaning that if a factor experiences a default by a debtor or client, that information can be reported to credit bureaus. This integration helps in managing overall credit exposure and ensuring factors can make use of available credit data.

Crucially, regulatory reforms are also trying to facilitate the financing of factors themselves. For example, the Central Bank of Nigeria has discussed allowing factoring companies to access its SME refinancing facilities or guaranteeing some factoring transactions through schemes like a credit guarantee company. Afreximbank has offered to provide rediscount lines to local factors, essentially acting as a second-tier financier to refinance factored receivables, but this works best if local regulations allow for cross-border lending and currency convertibility. Policymakers are thus examining ways to ensure factors have adequate liquidity support, perhaps treating factored receivables as eligible collateral for central bank liquidity in times of stress. While such mechanisms are still nascent, they indicate a recognition that as the factoring sector grows, it becomes part of the broader financial system and may need access to lender-of-last-resort facilities or similar support, albeit on a limited scale.

6.4 CAPACITY BUILDING AND INDUSTRY GUIDELINES

In addition to hard law, softer interventions have been key. The ACBF, Afreximbank, FCI, and others have developed extensive training and certification programs for African factors, factoring professionals, regulators, and even judges. The goal is to build local expertise to implement the new laws effectively.

FCI's Africa Chapter runs an annual **"Factoring school"** and has rolled out the Certificate of Finance in International Trade (COFIT) training to over 200 African bankers and financiers, as noted under the FAPA program.^[87] These efforts ensure that once a law is in place, there are knowledgeable practitioners to use it and skilled regulators to supervise the activity. The AfDB's FAPA program (2021–2023) alone planned 8 regional workshops and numerous technical assistance missions to coach banks on starting factoring units.^[88]

Moreover, industry players have formulated standard guidelines for operations. For instance, FCI and the Afreximbank Factoring Working Group have developed standard documentation for domestic and international factoring transactions tailored to African legal contexts. They have also promoted the use of FCI's General Rules for International Factoring (GRIF) among African factors to govern cross-border deals, which many new factors are adopting to give comfort to foreign counterparts. All this amounts to an emerging ecosystem of best practices and professional networks that buttress the regulatory frameworks.

CONCLUDING OBSERVATIONS

Section 6 shows steady (though uneven) progress toward an enabling environment for factoring in Africa. Model frameworks are now in place (Afreximbank's 2016 Model Law and the 2023 UNIDROIT MLF), with several countries domesticating provisions and OHADA advancing a Uniform Act that would bring much-needed cross-border consistency across its 17 members. Complementary reforms are widening the practical foundations: modern secured-transactions laws and movable-collateral registries (including notice of receivables assignments), the roll-out of e-invoicing systems that help authenticate invoices, and clearer, proportionate approaches to licensing, supervision, AML/KYC, and accounting and tax treatment. Capacity-building by ACBF, AfDB, Afreximbank, FCI and partners, plus the uptake of standard documentation such as GRIF, are improving execution quality. The trajectory is positive: legal ambiguity is narrowing, operational risks are being addressed, and institutional capacity is rising. The near-term priority is implementation. This includes completing domestic regulations, embedding digital and registry infrastructure, and operationalising supervision and funding tools, so that laws on the books translate into reliable, scalable access to receivables finance.

[86] (IFC, 2023)

[87] (FCI, 2021)

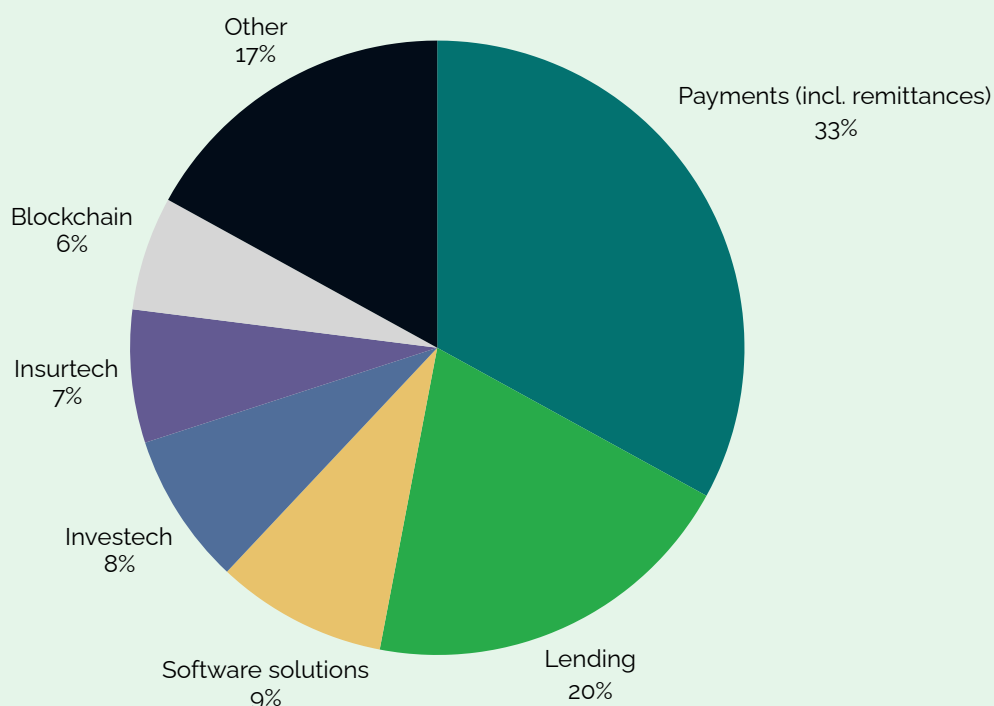
[88] (FCI, 2021)

A hand is shown pointing at a document, with a green overlay covering the entire image. The hand is positioned in the upper left quadrant, with the index finger pointing towards the center. The document is visible in the lower right quadrant, showing some text and a table. The green overlay is a gradient, darker at the top and lighter at the bottom.

7

**TECHNOLOGICAL AND BUSINESS
INNOVATIONS IN AFRICAN
FACTORING**

Figure 8 - Africa's Digital Financial Services by Product Area



The factoring industry is being reshaped globally by technological innovation, and Africa is no exception (Figure 8) ^[89]. In fact, Africa's financial landscape, characterised by leapfrogging in mobile finance and fintech, presents fertile ground for innovative factoring models that can overcome traditional barriers. This section examines the key technological and business innovations that are poised to drive the future of factoring in Africa, from digital platforms and blockchain to novel product variations tailored for SMEs. These innovations are transforming how factoring is delivered, making it more accessible, efficient, and secure.

While Section 7 showcases digital innovations with strong potential to expand factoring in Africa, uptake will hinge on basic digital readiness. Several constraints can inhibit traction- the box below presents some of these risks. Practical mitigations should accompany any rollout to mitigate for these risks.

BOX 8 - DIGITAL READINESS CONSTRAINTS THAT CAN HAMSTRING SME-FACING INNOVATIONS



- **Connectivity & Power** – Patchy internet, high data costs, and load-shedding disrupt access to portals, e-invoicing and real-time checks.
- **Devices & Software** – Limited access to up-to-date smartphones/PCs; compatibility and licensing issues raise adoption barriers.
- **Skills & Change Management** – Low digital literacy, limited time for onboarding/training, and language barriers reduce effective use.
- **Onboarding & ID** – Inconsistent KYC/e-KYC rules and gaps in national ID/address systems complicate remote sign-up.
- **Security & Trust** – Phishing/invoice-redirection risks and unclear data-protection compliance undermine confidence.
- **Interoperability & Legal Recognition** – Fragmented e-invoicing formats and uneven acceptance of e-signatures/e-records impede enforceability.
- **Cost & Inclusion** – Subscription, data and integration costs are high for micro firms; rural, gender and youth digital divides persist.

[89] (EIB, 2022)

7.1 DIGITAL FACTORING PLATFORMS AND FINTECH ENTRANTS

One of the most significant developments is the rise of fintech-driven factoring platforms. Rather than the conventional model of a factor manually handling paper invoices, new digital platforms allow SMEs to submit invoices online, get real-time quotations, and receive financing seamlessly, often within hours.

Several pioneering fintech companies in Africa have identified invoice finance as a gap in the market and are deploying technology to fill it. For example, IMFact (Kenya), launched in 2021, is a fintech that provides a platform for SMEs to sell their receivables. IMFact uses a **"pooled receivables"** model: it purchases a portfolio of invoices from an SME (rather than cherry-picking only the best invoices) and advances cash on the pool, which diversifies risk and extends financing to a wider range of invoices.^[90] The entire process, from application to funding, is managed through a cloud-based system that connects the SME, the factor, and the debtors for verification. By leveraging automation and data analytics, such platforms significantly reduce the turnaround time and costs of factoring, making it viable to serve smaller businesses that would have been unprofitable under a high-touch manual process.

Another example is CashMe (Tanzania), an online invoice-discounting marketplace that connects SMEs with accredited investors who purchase their unpaid invoices and advance funds, typically within about 48 hours, providing a fast working-capital alternative to bank lending. The platform supports syndicated financing (multiple investors funding a single invoice) and is accessible via web and mobile apps, positioning itself to ease SMEs' cash-flow gaps in Tanzania's market. In West Africa, startups like Payable (Nigeria) are integrating with corporate procurement systems so that when a large company approves an SME supplier's invoice, that invoice data can automatically be shared (with permission) to a network of financiers who bid to provide early payment. This is akin to creating an invoice exchange that brings competition and transparency, benefiting SMEs with better rates and speed.

Digital platforms also allow for easier scale-up across borders. A fintech platform can onboard clients from multiple countries (assuming legal compliance) without needing a physical branch network, thereby serving as a regional or pan-African factor. This is particularly useful in smaller markets where stand-alone factoring operations might not achieve scale. Instead, a single platform can aggregate SMEs across countries, lowering unit costs.

Fintech innovations are democratising access to factoring, pushing it down-market to micro and small enterprises and outward to regions where traditional factoring was absent. Regulators, for their part, are increasingly supportive of these models, often providing sandbox environments or special licenses for such fintech-based financial services.

7.2 INTEGRATION WITH E-COMMERCE AND SUPPLY CHAIN SYSTEMS

A related innovation is the integration of factoring solutions into e-commerce and supply chain platforms. As Africa's e-commerce sector grows, there is a unique opportunity to embed financing at the point of online sales. Forward-looking factors are exploring partnerships with major e-commerce marketplaces and B2B platforms to offer instant factoring to sellers. For instance, one can imagine a scenario (already used by some global firms such as Storfund for Amazon and Payoneer for Walmart and eBay) where a merchant on an online marketplace like Jumia or a regional B2B portal can click a button to get paid immediately for an order instead of waiting for the buyer's payment (that behind the scenes is a factoring transaction).

Merchant Factors, a South African factoring firm, notes that e-commerce integration is a key trend. Plugins for platforms like Shopify or WooCommerce could allow invoices generated from online sales to be automatically submitted for financing.^[91] This kind of seamless integration means SMEs don't even have to leave the platform or deal with separate paperwork; factoring becomes a built-in feature of the digital marketplace. The benefit is twofold: it gives immediate liquidity to online sellers, boosting their ability to restock and grow, and it provides factors with a steady pipeline of authenticated receivables (since the platform can confirm the sale and shipment). While this model is still nascent in Africa, it is likely to grow as more trade moves online.

[90] (Klapper, L., 2005)

[91] (Merchant Factors, 2024)

Furthermore, integration with enterprise resource planning (ERP) and accounting software used by SMEs can streamline factoring. Companies like Sage and QuickBooks have many SME users in Africa. Fintech factors are developing APIs to connect with these systems so that an SME using, say, Sage Accounting can see which invoices are eligible for financing and submit them directly through their accounting interface. This reduces the friction for SMEs to use factoring and helps factors access reliable accounting data for underwriting.

7.3 BLOCKCHAIN AND TOKENISATION OF INVOICES

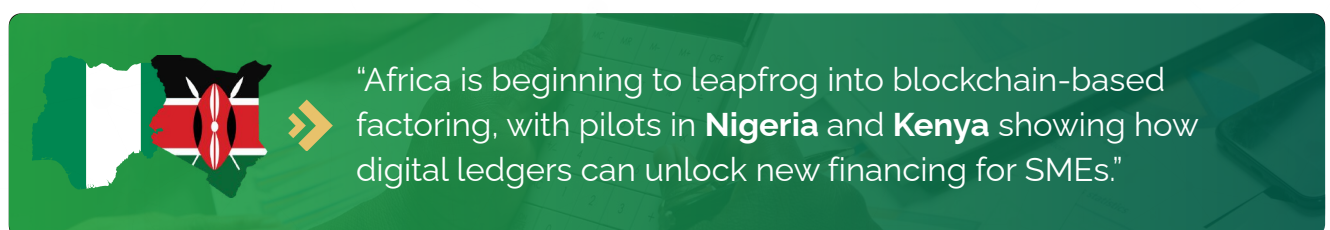
Perhaps the most cutting-edge innovation in factoring is the application of blockchain technology to create more secure and efficient invoice trading. Blockchain's attributes, a decentralised ledger that is transparent, tamper-evident, and can facilitate smart contracts, align well with some of the trust and information problems in factoring.

A notable concept is the tokenisation of receivables. Tokenisation turns an invoice into a digital token on a blockchain, which can then be bought or financed by investors globally. This ensures uniqueness (an invoice token can't be duplicated without detection, reducing double-financing fraud) and can carry smart contract logic (for instance, automatically releasing payment to the token holder when the due date arrives and the buyer pays, or automatically splitting payments if needed).

In practice, companies in Europe and Asia have started platforms (like Hiveterminal in Slovenia, or VoloFin in India/Singapore) that use blockchain for invoice financing.^[92] Africa is beginning to tap into this as well. In Nigeria, Interswitch, a major Nigerian fintech company, has partnered with Microsoft Azure to launch the Interswitch Blockchain Service. Together, they launched a blockchain-based trade finance pilot where SMEs could upload invoices to a distributed ledger; once an invoice is on the ledger, financiers are confident that the invoice has not been financed elsewhere, and a smart contract governs the payment flows. Likewise, Kenya's fintech scene is experimenting with blockchain for agricultural supply chain finance, tokenising farmers' receivables from large agribusinesses, so that cooperatives or impact investors can finance them.

Blockchain can also facilitate cross-border factoring by providing a common record accessible to parties in different countries, removing the need for a trusted central registry across jurisdictions. However, there are challenges: blockchain solutions must comply with local laws (especially around data and virtual assets), and regulators in Africa are still catching up with these innovations. Issues like KYC and AML need to be built into such platforms to prevent misuse, since a completely open global marketplace for invoices could be abused if not properly vetted.^[93] Regulators like central banks have also pointed out that many African countries currently lack a comprehensive legal framework for digital assets and distributed ledger technology.^[94] That said, the potential of blockchain in factoring remains significant. It can reduce fraud, enable fractional investment in receivables (for example, multiple investors each buying a portion of a large invoice token), and allow for programmable finance (such as automatically splitting an invoice payment between the factor and the seller's bank account in predefined proportions).

The consensus in industry trend reports is that while blockchain adoption in factoring is at an early stage, it is a trend to watch and one that Africa could leapfrog into as the regulatory environment matures.^[95]



[92] (Merchant Factors, 2024)

[93] (Merchant Factors, 2024)

[94] (Merchant Factors, 2024)

[95] (Merchant Factors, 2024)

7.4 ARTIFICIAL INTELLIGENCE AND DATA ANALYTICS

Another innovation shaping the future of factoring is the use of advanced analytics and Artificial Intelligence (AI) for credit risk assessment and process automation. Traditional factoring decisions rely on evaluating the credit risk of the debtor (buyer). AI can enhance this by ingesting a wide array of data, not only financial statements or credit bureau scores of the debtor, but also alternative data such as the debtor's payment history on the platform, its reputation (even things like online reviews or news mentions), and macroeconomic indicators. For SME clients, AI models can help in predicting their future invoice volumes and potential defaults, allowing factors to optimise their credit limits and pricing.

Some African fintech factors are already using machine learning algorithms to determine which invoices to finance and at what advance rate, dynamically adjusting as new information comes in. For instance, if an SME's debtor starts delaying payments more frequently, the system might automatically tighten advance rates or flag the account for review. AI is also used in fraud detection. Algorithms can detect anomalies in invoices submitted (e.g., if invoice numbers or patterns don't match historical norms for that SME, or if an invoice's details appear copied from another, etc.) and thus prevent fraudulent invoices from being financed.

Additionally, automation is streamlining factoring operations. Tasks like verifying an invoice against purchase orders, checking a debtor's payment status, sending payment reminders, and reconciling payments can be largely automated, reducing overhead and human error. This is particularly helpful in high-volume, low-value invoice scenarios (common when factoring smaller SMEs) where manual processing would be cost-prohibitive. One emerging innovation globally is the concept of a 'virtual factoring assistant', an AI-powered chatbot or system that interfaces with SME clients to guide them, answer questions, and even initiate financing requests, making the customer experience smoother and less labour-intensive on the factor's side.

7.5 PRODUCT INNOVATION – TAILORING FACTORING TO SPECIFIC NEEDS

Technology aside, innovation in Africa also involves adapting the factoring product to different contexts. For example, to accommodate the seasonal nature of certain African industries (agriculture, tourism, etc.), some factors offer seasonal factoring programs where they provide higher credit lines during peak season and scale back during off-season, aligning with SMEs' cash flow cycles.^[96] This helps SMEs in seasonal sectors get through lean periods.

There is also growth in reverse factoring programs. In reverse factoring a large buyer (say a supermarket chain or a manufacturing conglomerate) partners with a financier to offer early payments to its small suppliers. The financier (factor) pays the suppliers as soon as invoices are approved, and the large buyer then pays the factor on normal credit terms. This model, often facilitated by online platforms, has taken root for instance in South Africa's retail sector and in some Nigerian manufacturing supply chains, as big companies seek to strengthen their supplier base, it effectively outsources the credit to a factor but at a lower risk since the buyer is usually high-credit. For SMEs, it's a lifeline because they get paid almost immediately after delivery.

Africa is also seeing experimentation with micro-factoring. Micro-factoring involves financing very small invoice amounts, even a few hundred dollars, which traditionally would be too costly to handle. Fintech and mobile money integration are enabling micro-factoring - for example in East Africa where an SME can factor a \$500 invoice and receive funds via mobile money instantly, something that would not have been feasible a few years ago.



"AI is transforming factoring from a manual, document-heavy process into a data-driven system that predicts risk, detects fraud, and automates decisions in real time."

[96] (Merchant Factors, 2024)

7.6 SCALING THROUGH PARTNERSHIPS AND ECOSYSTEMS

Finally, innovation in Africa often comes through collaboration. Banks, fintechs, mobile network operators, and development finance institutions are increasingly partnering to reach more clients with factoring. For instance, a bank might provide the funding while a fintech provides the platform and client interface, combining strengths to broaden reach.

Public-private partnerships are evident in programs like the South Africa SME Fund working with fintechs to extend supply chain finance to SMEs, or the Kenyan government's interest in digital lending platforms (where invoice finance is one component) to support SMEs recovering from COVID-19. Afreximbank and other DFIs are investing in or lending through fintech factors (like FSD Africa's investment in IMFact, Kenya)^[97] which not only provides capital but also validation of these innovative models. All of these efforts create an ecosystem of innovation that bodes well for factoring's future.

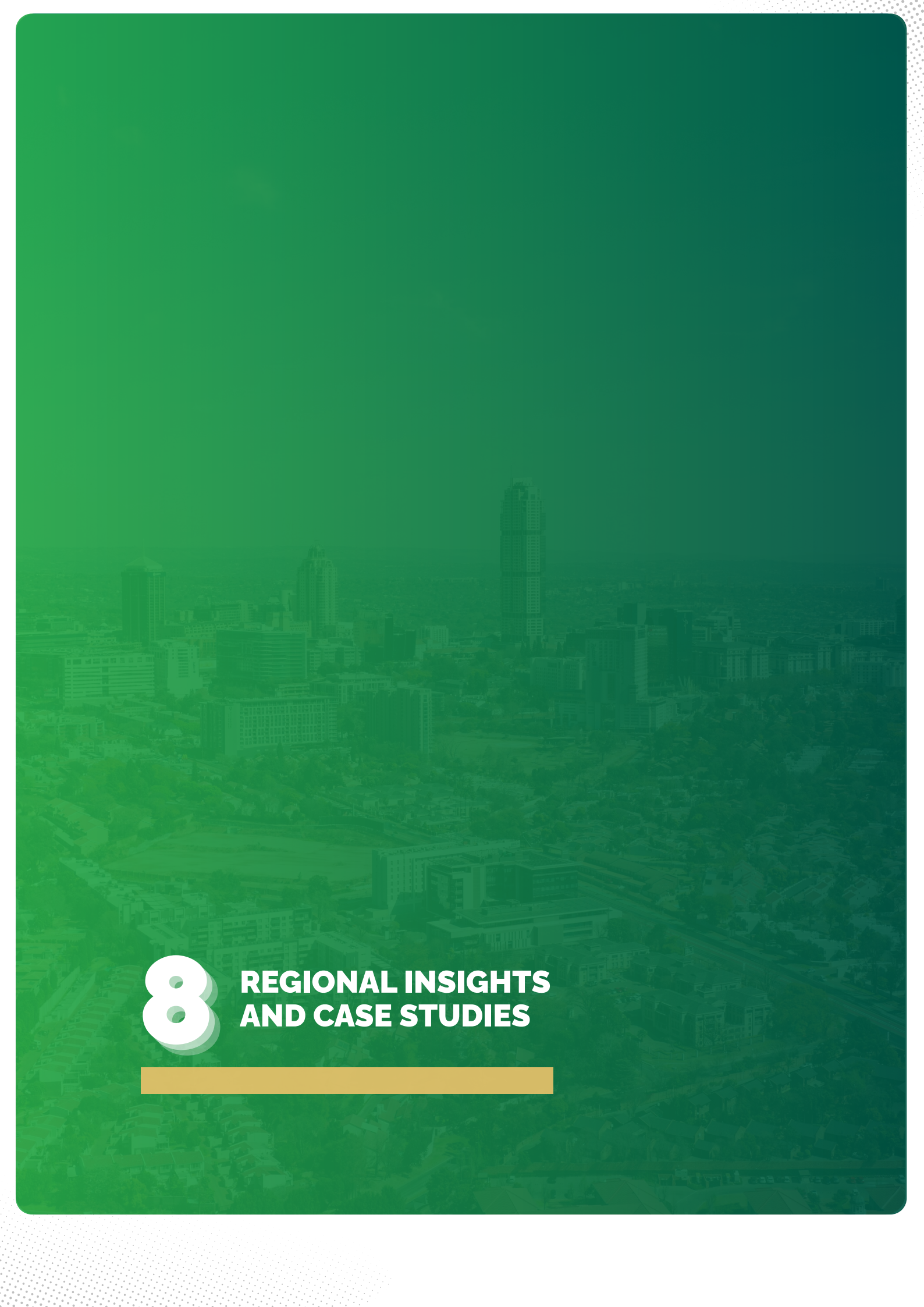
CONCLUDING OBSERVATIONS

The innovations profiled in Section 7 (see summary in Error! Reference source not found. below) point to a step-change in how receivables can be originated, verified, financed, and serviced in Africa. Their value lies in reducing fraud and friction (e-invoicing and digital validation), meeting SMEs where they already trade (marketplaces/ERP networks with **"click-to-get-paid"**), lowering onboarding costs (e-KYC/e-signatures), and sharpening risk assessment (data-driven underwriting). Yet uptake will only materialise where digital readiness is in place (see Error! Reference source not found.). The near-term priority is therefore **"smart implementation"**: pair every digital tool with low-tech access channels, invest in interoperability with public rails (IDs, payments, e-invoicing), embed clear data-protection and fraud controls, and provide targeted SME and FI capacity-building. Done this way, digitalisation becomes an inclusion tool rather than a new barrier, translating innovation into reliable, scalable working-capital access.

Table 5 - Key features of the digital innovations in Section 7 (at a glance)

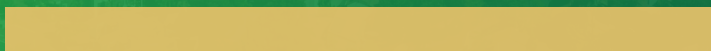
Sub-section	What it is (key features)	Value for factoring
7.2 E-invoicing & digital validation	Government/industry e-invoicing, real-time invoice verification, duplicate-check registries	Cuts fraud, speeds eligibility checks, supports true-sale confidence
7.3 Embedded finance on marketplaces/ERP networks	"Click-to-get-paid"/early-pay buttons inside B2B portals and ERPs; automated data feeds	Meets SMEs where they trade; low friction; predictable turn-times
7.4 Digital onboarding, e-KYC & e-signatures	Remote sign-up, ID verification, electronic contracts and notices	Lowers acquisition cost; faster time-to-cash; audit trails
7.5 Data-driven underwriting & risk tools	Use of accounting, payments, MNO/PSP and platform data; scorecards; fraud analytics	Better pricing/limits; earlier risk flags; portfolio quality

[97] (FSD Africa, 2021)

An aerial photograph of a city skyline, likely San Francisco, with the Transamerica Pyramid as a prominent feature. The image is covered with a semi-transparent green gradient. In the bottom left corner, there is a white number '8' with a subtle drop shadow.

8

REGIONAL INSIGHTS AND CASE STUDIES



Africa is a diverse continent, and the development of factoring reflects regional economic dynamics and varying local conditions. In this section, we provide a few regional highlights and country case studies to illustrate how factoring is evolving in different parts of Africa. Each sub-region faces distinct opportunities and challenges in adopting factoring, influenced by factors such as the structure of its economy, legal traditions, and level of financial sector maturity. By examining these nuances, we gain a richer understanding of the continent-wide picture discussed so far. We also examine the role that RECs can play in promoting factoring across their regions.

8.1 SOUTHERN AFRICA – A MATURE MARKET LED BY SOUTH AFRICA

Southern Africa (notably South Africa, and to a lesser extent Namibia, Botswana, Zambia, and Zimbabwe) has the most mature factoring presence on the continent. South Africa stands out as the original incubator of African factoring, the country has had factoring and debtor finance products for decades, offered mainly by large commercial banks and a few specialist firms, with an estimated 110 companies active in the business. South Africa's success can be attributed to its relatively advanced financial infrastructure and corporate sector. The factoring market there, often termed 'debtor financing' or 'invoice discounting', is well-integrated into banking services. All major South African banks (for example, Nedbank, Standard Bank, FirstRand, ABSA, all of which are members of the Africa Chapter of FCI) have divisions that purchase receivables or provide revolving facilities secured by invoices.^[98]

The legal environment (based on common law and the purview of relevant legislation such as the Banks Act, the Consumer Protection Law, and the National Credit Act) has long recognised the assignment of receivables, making it straightforward for factors to enforce their rights. As noted earlier, South Africa accounts for the lion's share of African factoring (over 80% in most years). In practical terms, this means thousands of South African SMEs and mid-sized companies use invoice finance to manage cash flow although the vast majority of the country's 2.6 million SMEs exist in the informal sector. It spans various sectors, including manufacturing, wholesale trade, transportation, services, wherever trade credit is extended. The market is competitive, with bank and non-bank factors vying for clients, which helps keep pricing (discount rates) relatively lower than elsewhere in Africa. Additionally, South Africa benefits from domestic credit insurance availability (for example, Credit Guarantee Insurance Corporation of Africa Limited, Coface South Africa etc.), which enables non-recourse factoring to flourish (factors can insure the debtor default risk, allowing them to assume that risk from the SME for a fee).

A noteworthy case within Southern Africa is Namibia and Botswana, where factoring is still new but being modelled after South African practices. Some South African factoring companies have started servicing clients in neighbouring countries, effectively exporting the model. Meanwhile, Zimbabwe has shown interest in factoring, especially given its liquidity-strapped economy. In 2024, Harare hosted a regional factoring conference to strategize how to introduce factoring to Zimbabwe's SME sector as part of post-hyperinflation recovery.^[99]

One insight from Southern Africa is the importance of macroeconomic stability. South Africa's relatively stable inflation and interest rates (at least compared to some peers) make factoring viable, whereas Zimbabwe's past volatility hindered any receivables finance. Now, with reforms, Zimbabwe sees factoring as a way to support SMEs in an economy where two-thirds of GDP comes from SMEs and many are seeking capital.^[100]



"South Africa accounts for more than 80% of Africa's factoring volumes, supported by strong financial infrastructure and enabling legislation."

[98] (MFW4A, 2021)

[99] (Ranjan, A., 2024)

[100] (Ranjan, A., 2024)

BOX 9 - SADC ACTIONS TO CATALYSE FACTORING



SADC already has practical cooperation levers that can be applied to factoring without creating new institutions. Some of these existing mechanisms can include:

- **Use the e-Certificate of Origin (e-CoO)** – Integrate e-CoO data into due diligence for export receivables to verify buyer, origin and shipment timelines; accelerate roll-out across Member States.
- **Legal convergence via the Protocol on Finance & Investment (FIP)** – Publish a SADC Factoring Guidance Note aligned with Afreximbank/UNIDROIT models to standardise assignment, priority, notice and insolvency treatment.
- **Measurement & transparency** – Publish an annual “SADC Receivables-Finance Scorecard” (time-to-cash, dispute-resolution times, cross-border settlement lags) to spotlight corridor bottlenecks.
- **Targeted capacity building** – Joint training for regulators, judiciary, factors and SMEs on supervision, documentation, fraud controls and cross-border operations.
- **Pilot priority corridors** – Run cross-border pilots with anchor buyers in high-volume sectors to prove processes end-to-end before scaling region-wide.

8.2 NORTH AFRICA – GROWING ON SOLID FOUNDATIONS

North African countries, particularly Morocco, Egypt, Tunisia, and Algeria, have relatively diversified economies and stronger banking sectors, which have facilitated the uptake of factoring.

Factoring in Morocco accelerated in the 2000s through bank subsidiaries; today multiple Moroccan banks offer factoring and even Islamic compliant variants (to cater to certain client preferences). Morocco's factoring volumes have grown steadily, making it the second or third largest market in Africa. To date, there is an estimated 7 firms providing factoring services.^[101] The Moroccan experience underscores the role of large corporate buyers: many Moroccan SMEs supply to big companies (including multinationals in automotive, aeronautics, etc.), and those receivables are ideal for factoring. Moreover, Morocco has modernised its business laws (notably insolvency via Law 73-17 and payment-term enforcement via Law 49-15^[102]) and implemented credit bureaus, all of which help factoring.

Tunisia was an early adopter. Tunisie Leasing & Factoring (founded in 1984) was one of Africa's first factoring companies. Despite Tunisia's smaller economy, it has a functioning factoring market with a few players (estimated 5 factoring firms)^[103], though growth stalled somewhat after 2011 due to economic challenges. Even so, Tunisian factors have been innovative, exploring cross-border Mediterranean factoring (financing exports to Europe) and working with programs by the European Investment Bank (EIB) to fund SME receivables.^[104]

Egypt is a particularly notable case: historically, factoring in Egypt was minimal until legal reforms were enacted. In 2018, Egypt passed a law bringing factoring (and leasing) under the purview of the Financial Regulatory Authority (FRA), setting licensing and operational rules. This sparked a surge. Within a couple of years, the number of registered factoring companies in Egypt jumped (currently estimated at 32 firms)^[105], and by 2021, Egypt's factoring volume more than doubled, albeit from a low base.^[106] Egyptian firms are now using factoring both for domestic transactions and for exports (especially given Egypt's large textile and chemicals exports that often involve open account terms). A specific growth area has been reverse factoring for supply chains of major Egyptian corporations, improving cash flow for local suppliers. Additionally, Egypt's government has been pushing electronic invoicing for VAT, which will further ease factoring operations by providing authenticated digital invoices.^[107]

[101] (FCI, 2025)

[102] (OECD, 2024)

[103] (FCI, 2025)

[104] (EIB, 2024)

[105] (FCI, 2025)

[106] (MFW4A, 2021)

[107] (OECD, 2024a)

One of the challenges North Africa faces is the overall economic context e.g., if government payment delays occur (a known issue in Tunisia or Egypt where government entities pay suppliers slowly), factoring can help those suppliers, but the factors then carry significant exposure to government credit. Ensuring the public sector honours receivables on time is crucial. On the positive side, North African markets are more regionally integrated with European trade, which has led to knowledge transfer (European parent banks in Morocco and Tunisia introduced factoring products similar to their home markets).

Looking ahead, North Africa could see factoring become a mainstream SME finance tool, especially as these countries emphasise SME development in their economic plans. The regulatory frameworks here are largely in place; the focus is now on scaling up usage and possibly developing sharia-compliant factoring to tap segments of the market that prefer Islamic finance, an innovation that particularly Tunisia and Morocco have been exploring.

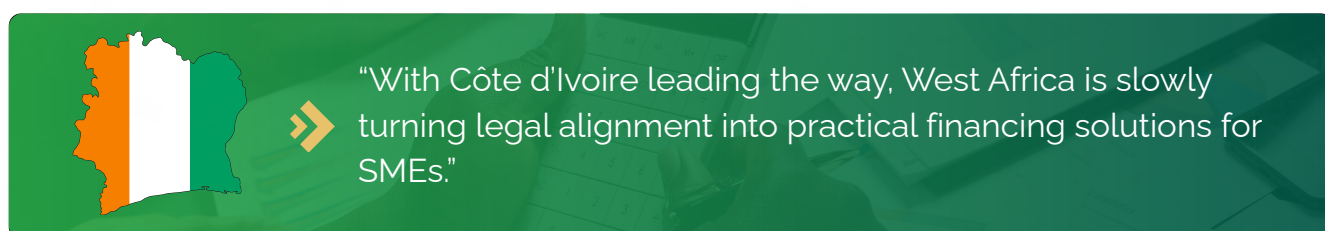
8.3 WEST AFRICA – EMERGING INTEREST UNDER OHADA AND BEYOND

West Africa presents a mixed picture. The WAEMU countries (eight Francophone countries sharing the CFA franc and under OHADA law) are on track to benefit of alignment with the UNIDROIT MLF under consideration. This means the legal basis for factoring will be harmonised across these countries, including Côte d'Ivoire, Senegal, Mali, Benin, etc. Once the law comes into effect, it will take some time for local financial institutions to set up factoring services.

Côte d'Ivoire has taken a lead, with a couple of Ivorian banks and a standalone financier beginning to offer factoring to SMEs (particularly in sectors like agribusiness and fast-moving consumer goods distribution). Having the OHADA law helps in marketing factoring to businesses, because the concept is now legally recognised and publicised. Anecdotal evidence suggests that some large buyers in the WAEMU region (like telecom companies or FMCG companies) are partnering with factors to get their supplier invoices paid early.^[108]

Senegal and Burkina Faso have also hosted awareness seminars on factoring with support from Afreximbank, translating into pilot transactions. One constraint might be that the financial sectors there are relatively conservative and heavily bank-centric; banks may prioritise traditional lending unless they see a clear profit motive and risk mitigation for factoring. That said, the situation is poised to improve as more banks join FCI and receive technical assistance to launch factoring products.

Nigeria is a crucial case. Nigeria has a huge SME sector and a well-developed banking system, but until recently no formal factoring industry. High interest rates and the absence of specific legal provisions made banks prefer collateralised lending. In 2017, NEXIM and FCI began advocating factoring in Nigeria. By 2020, PwC Nigeria estimated that factoring could unlock between EUR900 million and EUR 1.8 billion in SME financing annually.^[109] The efforts bore fruit: the Central Bank of Nigeria included factoring in its financial inclusion plans, and a draft Factoring Bill (to legally allow assignment of receivables and protect factors) was introduced. In the interim, some Nigerian companies have started quasi-factoring operations, such as invoice discounting services within fintech lending platforms, but scaling was limited without a law. As of 2025, Nigeria's law was still pending, but progress has been made and awareness has been higher. Even the Bankers' Committee (a body of bank CEOs) discussed factoring as a tool to improve SME credit, and some banks signalled readiness to launch as soon as the law passes.



^[108] (EdgePlus Capital, 2025)

^[109] (PwC Nigeria, 2020)

Another interesting development in West Africa is Ghana, which, with World Bank support, reformed its secured transactions law in 2020 to explicitly permit assignment of receivables and created a collateral registry. Ghana's statute treats an outright assignment (like factoring) similarly to a security interest for perfection and priority purposes, meaning factors can register their interest in an invoice, which helps prevent disputes. Following this, a few Ghanaian finance companies and banks began offering invoice discounting to local firms, particularly those contracting with government or large corporates. Still, factoring in Ghana is at early stages, partly because macroeconomic strains in recent years diverted banks' attention elsewhere.

West Africa is an emerging frontier for factoring. The legal frameworks are aligning (OHADA, Ghana's reforms, Nigeria's impending law), and now the task is market activation: training banks, educating SMEs, and building investor confidence. Initiatives like the AfDB/Afreximbank FAPA program targets West Africa for training hundreds of bank staff in factoring, which should accelerate progress. The potential in the region is huge given the volume of trade and the number of SMEs, but unlocking it will depend on continued capacity building and perhaps the entry of some international factoring groups to jump-start activity.

BOX 10 - ECOWAS ACTIONS TO CATALYSE FACTORING



ECOWAS has established regional tools and cooperation forums that can be leveraged to advance factoring in the region. The measures below focus on practical, near-term steps that build on existing systems and networks.

- **Use the ECOWAS e-Certificate of Origin (e-CoO)** – Integrate e-CoO data into due diligence for export receivables to verify buyer, origin and shipment timelines; accelerate roll-out across all Member States.
- **Capacity building and awareness raising** – Coordinate regional training for regulators, judiciary, financial institutions and SMEs on factoring operations, documentation, fraud controls and cross-border processes.
- **Inclusion in relevant ECOWAS working groups** – Add factoring to the agenda of existing ECOWAS trade, finance and SME development working groups to promote policy alignment and cross-sector cooperation.
- **Pilot priority trade corridors** – Launch cross-border factoring pilots along high-volume trade routes (e.g., Ghana-Nigeria, Senegal-Côte d'Ivoire) to test processes end-to-end before wider adoption.

8.4 EAST AFRICA – INNOVATION AMIDST NASCENT DEVELOPMENT

East Africa's factoring market is nascent, but showing sparks of innovation. Kenya is the standout, as it often is in African fintech. Traditionally, Kenyan banks did not focus on factoring (they preferred asset-based lending and overdrafts), and there was no specific factoring law. However, Kenya's vibrant tech ecosystem identified the working capital gap. The result was the launch of fintech solutions like IMFact which, as discussed, is Kenya's first dedicated factoring fintech focusing on SMEs. By utilising a tech platform and a pooled receivables approach, IMFact can finance smaller businesses that banks might overlook, including family-owned distributors in sectors like medical supplies and fast-moving goods. Early results have been promising, and the model is drawing interest for replication in Uganda and Tanzania.

Tanzania and Uganda are at an even earlier stage. Factoring is mostly theoretical there, with a few companies expressing interest. Both countries are part of the British Common Law tradition, which does allow receivables assignment, so technically factoring can occur; it's more a matter of someone taking the initiative. Notably, Uganda through its 2019 Security Interest in Movable Property Act made it easier to assign receivables, which could form a basis for future factoring.

In Ethiopia, a significant economy in East Africa, factoring is still virtually non-existent due to a historically closed financial system. But, as Ethiopia reforms (for example, looking to liberalise banking and modernise commercial laws), factoring is expected to come onto the agenda, especially for agricultural value chains where farmers often wait for payments.

A cross-cutting East African innovation is the use of mobile money rails for disbursing and collecting factoring payments. Since mobile money (like M-Pesa in Kenya, MTN Mobile Money in Uganda, etc.) is widely used, some factors allow SME clients to receive advances directly into their mobile wallets and likewise allow debtors to repay via mobile money.

BOX 11 - EAC ACTIONS TO CATALYSE FACTORING



The EAC is arguably the most advanced of all the continental RECs in terms of regional integrations. The EAC Secretariat has established trade, customs, and SME cooperation platforms that can be leveraged to promote factoring in the region. The measures below build on existing instruments to enable practical, near-term support for cross-border receivables finance.

- **Leverage the EAC Buyer-Seller Platform** – Integrate factoring and invoice-finance options directly into the EAC Buyer-Seller e-commerce portal, enabling SMEs to “click-to-get-paid” for verified orders and linking to approved financial institutions.
- **Harness the EAC Customs Union framework** – Use the existing EAC e-Certificate of Origin and customs data to strengthen due diligence for export receivables, verifying buyer, origin, and shipment timelines across Partner States.
- **Integrate factoring into the EAC Model Commercial Laws programme** – Use the Secretariat’s legal harmonisation track to add factoring provisions alongside other commercial, secured transactions, and insolvency reforms.
- **Embed factoring into trade and finance policy frameworks** – Include factoring explicitly in EAC trade facilitation, SME finance, and private sector development strategies, signalling political support for legislative reform.
- **Capacity building and awareness raising** – Coordinate training through the EAC SME Development Programme and trade facilitation workshops for regulators, judiciary, financial institutions, and SMEs on factoring operations, legal requirements, fraud prevention, and cross-border processes.
- **Inclusion in relevant EAC working groups** – Add factoring as a discussion point in the EAC Sectoral Council on Trade, Industry, Finance and Investment to ensure alignment with customs, payments, and SME development policies.

This reduces dependence on bank accounts and can reach more informal enterprises. Another development in the region is regional cooperation. The East African Community (EAC) has been examining ways to boost intra-EAC trade finance. Platforms such as the EAC Buyer-Seller Platform would be an ideal place to grow factoring.

8.5 CENTRAL AFRICA – THE VERY EARLY STAGES

Central Africa (e.g., Cameroon, Gabon, DRC, Republic of Congo, etc.) is generally the least developed in terms of factoring. However, there are signs of change. The Republic of Congo adopted factoring laws in 2022. Cameroon, being an OHADA member, will potentially have a legal framework in the near future. A couple of Cameroonian financial institutions have explored offering factoring, especially for companies involved in oil, timber, and construction sectors where payment delays from big clients or government are problematic. Some cross-border French finance firms (e.g., Société Générale) have also shown interest in Cameroon and Côte d’Ivoire as entry points for regional factoring (these two being among the larger Francophone economies)^[110]

The DRC does not yet have specific provisions, but given its vast size and the need for SME finance (especially in mining supply chains), there’s potential if stability and financial reforms continue.

The Central African CFA franc zone (CEMAC) countries have the OHADA law as well; so legally they will in the near future be able to implement factoring. The main hurdle is the limited financial sector capacity and lack of experience. Afreximbank’s strategy has included outreach to CEMAC regulators and banks. For example, a 2020 regional conference in the Republic of Congo focused on factoring for Central Africa led to several banks expressing intent to pilot the product. Overcoming the extreme concentration of banks on government lending (common in CEMAC) is tough, but if even one or two institutions in each country start, for example, with a supplier finance program for key industries, it could gradually open up the market.

[110] (Société Générale Cameroun, n.d.)

CONCLUDING OBSERVATIONS

Across all these regional stories, a common thread is emerging: factoring is taking root where the ecosystem is prepared legally, institutionally, and technologically. South and North Africa had a head start due to better infrastructure and earlier reforms; West and East Africa are catching up through concerted policy and fintech activity; Central Africa remains a frontier to cultivate.

The case studies also reveal that the drivers and challenges which we discussed earlier manifest differently by region. For instance, in South Africa the issue is less about having a dedicated factoring legal framework (which is fine) and more about how to extend factoring's benefits to smaller firms (the majority of which exist in conditions of informality) and maintain growth; whereas in West Africa the immediate task was getting laws in place and convincing banks to participate. In East Africa, innovation is filling the gap that banks left, showcasing a different path (fintech-first) to factoring growth. All regions, however, share the fundamental challenge of SME awareness and education, a factor in Tunisia is as likely as one in Ghana to mention that many potential clients still don't know about factoring or are initially hesitant to use it.



9

RECOMMENDATIONS FOR SCALING UP FACTORING IN AFRICA

Given the analysis of trends, challenges, and regional experiences, this section outlines key strategies and policy recommendations to unlock the full potential of factoring as a driver of SME finance and trade in Africa. These recommendations are aimed at policymakers, regulators, financial institutions, and development partners- emphasising a holistic approach to market development. By addressing legal, financial, technical, and awareness-related aspects in tandem, African countries can create the conditions for factoring to thrive. The strategies below synthesise best practices and expert recommendations into a coherent roadmap.

9.1 COMPLETE THE LEGAL AND REGULATORY FRAMEWORKS

Many African countries still lack dedicated factoring legislation or have fragmented rules that create uncertainty around receivables assignment, enforceability, debtor obligations, and tax treatment. This legal gap is the single largest barrier to market entry, deterring banks, non-bank financial institutions, and investors from launching or scaling factoring services.

Recommended Action	Actor / Stakeholder	How / Platform
Adopt or align national legislation with the Afreximbank and/or UNIDROIT Model Laws.	National parliaments; ministries of finance/justice; Afreximbank; UNIDROIT; RECs.	Use AfCFTA trade/finance committees or REC legal harmonisation processes (e.g., OHADA Uniform Act, SADC Protocol on Finance & Investment) to ensure consistency and facilitate cross-border enforceability.
Create proportionate licensing and supervision regimes for factoring providers.	National financial regulators; central banks.	Incorporate into existing non-bank financial institution frameworks; set proportionate capital requirements, AML/KYC obligations, and conduct standards.
Integrate factoring into credit reporting and clarify tax treatment.	Credit bureaus; central banks; tax authorities.	Allow factors to report debtor payment performance; exempt receivables sales from VAT; align factoring fee deductibility with loan interest rules.

9.2 BUILD MARKET AWARENESS AND CAPACITY

Low awareness and understanding of factoring among SMEs, buyers, policymakers and even some regulators lead to mistrust and low uptake. Capacity gaps within financial institutions (product design, underwriting of receivables, collections) and within public institutions (supervision, dispute resolution) further constrain market growth.

Recommended Action	Actor / Stakeholder	How / Platform
Facilitate coordinated awareness and buyer-education campaigns on factoring benefits and processes.	Ministries of Trade/SME; investment promotion agencies; chambers of commerce; SME associations; banks/factors; DFIs and industry bodies (e.g., FCI).	Webinars; embed content into existing BDS programmes; publish simple guides/case studies; buyer-outreach via sector associations to normalise confirmations/acknowledgements of assignment.
Build institutional capacity for product design, underwriting and supervision.	Central banks/financial regulators; commercial banks and NBFIs; judicial training institutes; bar/accountancy bodies; DFIs/TA providers.	Targeted training for supervisors on proportionate oversight; practical clinics for credit/risk teams (portfolio analytics, debtor due diligence, collections); judicial/ADR modules on receivables assignment and enforcement; twinning/secondments with experienced factors.

9.3 LEVERAGE TECHNOLOGY AND DIGITAL INFRASTRUCTURE

Digital gaps and fragmentation (limited e-invoicing, weak interoperability, uneven acceptance of e-signatures, and sparse trade credit data) raise fraud risk, slow verification, and keep costs high- constraining scale, especially for cross-border factoring.

Recommended Action	Actor / Stakeholder	How / Platform
Roll out e-invoicing for B2B/B2G and connect to invoice registries.	Tax authorities; ministries of finance; regional bodies/RECs; AfCFTA Secretariat.	Mandate/encourage digital invoice issuance; stand-up registries where assignments can be recorded; explore an AfCFTA-level e-invoicing standard to enable trusted cross-border verification.
Enable licensed digital invoice marketplaces and clarify legal recognition of e-signatures / e-records.	Financial regulators/central banks; innovation sandboxes; fintechs; factors.	Issue sandbox approvals or licences for invoice platforms; align digital-signature and electronic-records law with online assignment and trading; provide guidance on tokenised invoices and compliance (KYC/AML).
Expand trade-credit information systems that capture buyer payment performance.	Credit bureaus; central banks; large buyers; industry bodies.	Build positive trade-payment registries/databases that factors can query; require/encourage large buyers to report payment times and behaviours.

9.4 IMPROVE ACCESS TO FUNDING AND RISK MITIGATION FOR FACTORS

Factoring providers face constrained, costly, and short-term funding; risk coverage tools are thin. This limits liquidity for SME receivables, suppresses scale, and deters new entrants.

Recommended Action	Actor / Stakeholder	How / Platform
Establish rediscount / refinancing windows for eligible factored receivables.	Central banks; Ministries of Finance; banking associations.	Issue prudential circulars enabling receivables as eligible collateral; create rediscount facilities or standing liquidity lines, optionally with preferential terms for priority sectors (e.g., agri, manufacturing).
Scale dedicated DFI/blended finance for factoring and crowd in PE/VC where relevant.	Afreximbank, AfDB, IFC, EIB; donor programmes; PE/VC funds; commercial banks; factors.	Expand revolving/credit-line facilities (e.g., Afreximbank's programme) and co-lending; use guarantees/subordinated tranches to blend concessional with commercial capital; enable PE/VC co-investment in factors/fintechs; link cross-border flows to PAPSS for lower FX/settlement risk.

9.5 LINK FACTORING TO GOVERNMENT AND ANCHOR PROGRAMS

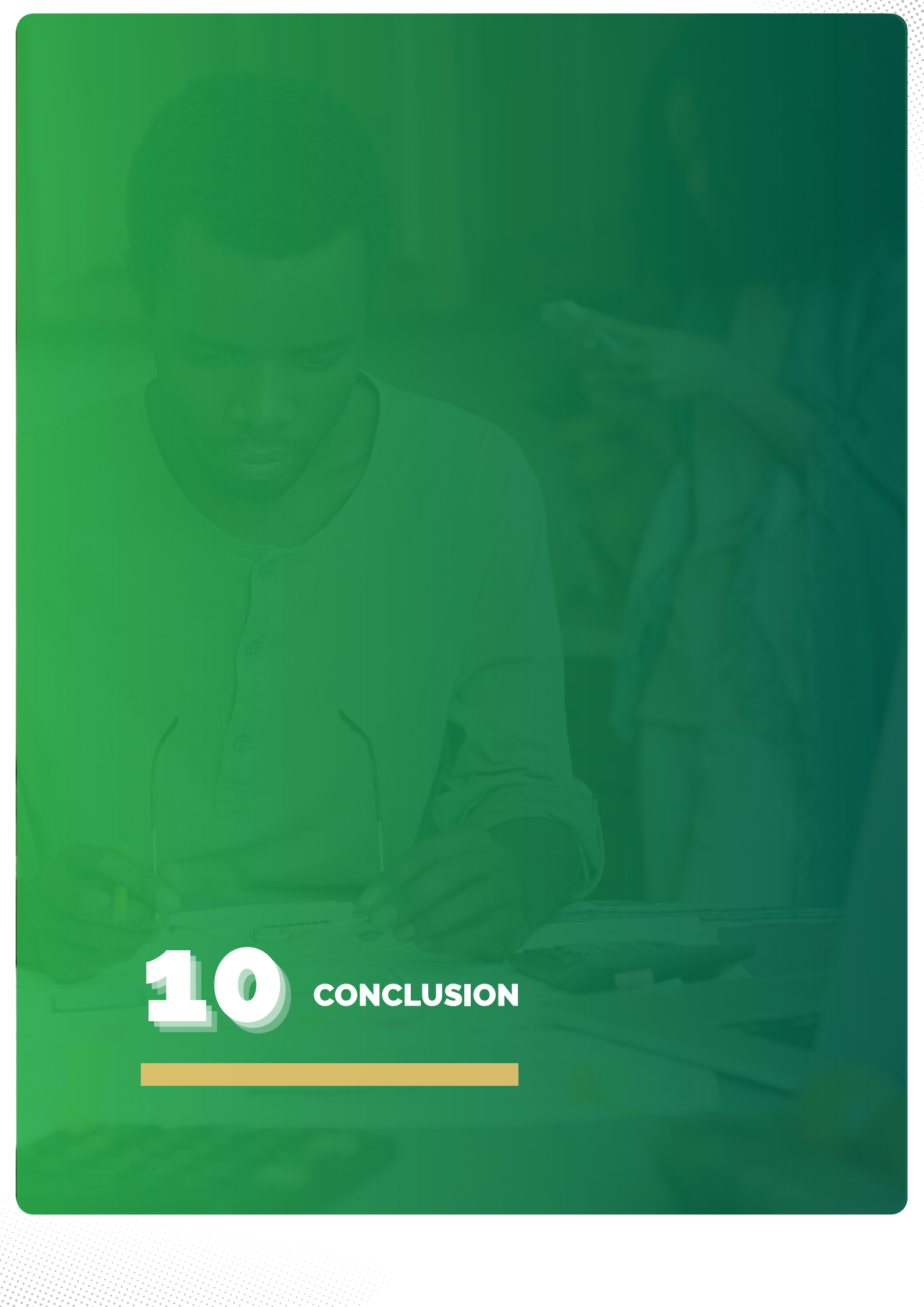
Factoring remains largely disconnected from public procurement systems, government SME support initiatives, and large anchor-buyer supply chain programmes. This disconnect means SMEs supplying to government and major corporates cannot easily leverage receivables for financing. Without formal integration into these programmes, opportunities for scaling factoring uptake and improving SME cash flow are missed.

Recommended Action	Actor / Stakeholder	How / Platform
Integrate factoring provisions into public procurement regulations.	National treasuries; public procurement authorities; ministries of finance/trade.	Amend procurement rules to permit and encourage assignment of receivables to licensed factors; ensure buyer confirmation processes are standardised and enforceable.
Leverage large corporates and SOEs as anchor buyers for supplier factoring schemes.	Large corporates; state-owned enterprises; sector associations.	Establish reverse-factoring/supply-chain finance arrangements with confirmed early payment to SME suppliers via licensed factors; integrate into existing supplier portals and e-invoicing systems.

9.6 PROMOTE FORMALISATION AND INVOICE STANDARDISATION

A large proportion of SMEs in Africa operate informally, often without proper registration, tax compliance, or standard invoicing practices. This limits their eligibility for factoring, as factors require verifiable, enforceable receivables supported by compliant documentation. The absence of standardised invoice formats and numbering systems also increases the risk of fraud, duplication, and disputes.

Recommended Action	Actor / Stakeholder	How / Platform
Encourage SME formalisation through targeted incentives and simplified registration.	Ministries of trade/industry; SME development agencies; tax authorities.	Reduce registration costs; offer tax incentives or priority procurement access for formalised SMEs; link registration with access to finance programmes including factoring.
Develop and adopt national invoice standards aligned with regional and AfCFTA frameworks.	Tax authorities; standards bodies; RECs; AfCFTA Secretariat.	Implement uniform invoice numbering and data fields; align with e-invoicing regulations where applicable; integrate into trade and procurement platforms.



10 CONCLUSION

Factoring is steadily emerging from the margins to the mainstream of African finance, offering a timely solution to one of the continent's most persistent development challenges: the financing of SMEs and their participation in intra-regional trade. This report has provided an overview of the trajectory of factoring in Africa and examined the interplay of trends and innovations shaping its future. The evidence is clear that factoring holds promise for Africa's small businesses, which form the backbone of economies yet have been constrained by lack of working capital. By converting invoices into instant cash, factoring directly tackles the liquidity shortages that hamper SME operations; and it does so in a way that aligns with African realities by leveraging transaction-based assets rather than fixed collateral.

The current state of the industry, however, reflects both significant progress and significant underdevelopment. On one hand, African factoring volumes have roughly doubled over the past five to ten years and new markets are coming online, driven by supportive policies, greater awareness, and the push of AfCFTA. On the other hand, Africa's share of global factoring remains under 2%, and many countries have yet to realise meaningful activity. The concentration of factoring in a few economies such as South Africa, Morocco and Tunisia mean that vast regions of the continent have yet to benefit. This underscores that there is substantial work ahead to replicate and scale success across all of Africa's regions. The challenges such as legal gaps, limited awareness, and operational hurdles are real, but as this report has detailed, they are being actively addressed through a combination of policy reform and market innovation.

One of the standout themes of this report is the crucial role of policy and regulatory frameworks. Where clear laws and regulations have been put in place such as in Egypt, factoring has either taken off or is poised to do so, whereas in legal vacuums it has languished. The ongoing efforts by Afreximbank, FCI, and African governments to establish a uniform enabling environment for factoring are both necessary and commendable. These efforts need to continue until every major African economy has a robust framework that gives confidence to factors and protection to all parties involved.

Equally, the importance of capacity building and stakeholder education cannot be overstated. Many potential beneficiaries of factoring simply do not know about it or trust it yet. Thus, sustained awareness campaigns, training of financial professionals, and demonstration projects must persist in order to change mindsets and build a culture that embraces receivables finance.

Another clear message is that technology will be a game-changer for the reach and efficiency of factoring in Africa. We have seen how fintech platforms, mobile technology, and blockchain-based solutions are already redefining how factoring can be done; thereby making it faster, cheaper, and accessible to the smallest of enterprises. As Africa has in the past been a champion of fintech adoption, the continent is well positioned to leapfrog in the factoring arena by deploying cutting-edge solutions perhaps even before some advanced markets do. Policymakers should harness this by supporting innovation-friendly regulations and public-private partnerships that integrate technology into trade finance. For instance, a pan-African electronic invoicing initiative under AfCFTA, coupled with a blockchain registry for assignments, could put Africa at the forefront of secure and efficient cross-border factoring. Such bold initiatives, while challenging, are within reach given the collaborative spirit emerging around AfCFTA's implementation.

Regionally, the picture that emerges is one of uneven but accelerating progress. Southern Africa's experience demonstrates the tangible benefits factoring can bring when it is part of the fabric of the financial system. Many South African SMEs routinely rely on it to manage cash flow, contributing to their stability and growth. North Africa shows that with reforms and integration into global trade, factoring can grow quickly and support export competitiveness. West and Central Africa highlight the lack of legal frameworks and how harmonisation could be a powerful tool; indeed, these regions are on the cusp of wider adoption now that legal barriers are coming down imminently. East Africa illustrates the potential of innovation-driven approaches, with fintechs stepping in to address market gaps. Each region's story reinforces the others in an overall continental narrative: when the right conditions are established, factoring flourishes and delivers real economic impact.

The potential impacts of scaling up factoring in Africa are significant. By providing reliable working capital to SMEs, factoring can help firms increase production, hire more employees, and take on larger orders, including cross-border orders under the AfCFTA, knowing that cash flow can be smoothed. This directly contributes to economic growth and job creation. Factoring also incentivises better business practices - SMEs formalise and improve record-keeping to qualify for it, and buyers may pay more promptly to maintain good relationships, thus improving overall payment culture.

In the trade context, factoring and supply chain finance can narrow the trade finance gap that has left many African trade opportunities unrealised. If African SMEs can confidently sell on open account and get financing, they can integrate into regional and global value chains far more effectively. There is also a financial inclusion dimension: factoring provides finance to some firms that would otherwise be left out by traditional banking, thereby broadening the reach of the formal financial sector. Moreover, by being an alternative to expensive informal credit or onerous supplier credit terms, factoring can reduce the cost of capital for SMEs, improving their competitiveness.

It is worth emphasising a recommendation echoed by many experts and by the findings of this report: a coordinated approach is needed to fully realise the future of factoring in Africa. No single stakeholder can do it alone. Governments must provide the legal canvas, regulators the oversight and flexibility, financial institutions the entrepreneurship to launch and expand services, international partners the technical and financial backing, and SMEs themselves the openness to embrace new financing methods. Encouragingly, such coordination is increasingly evident, for instance, the formation of multi-stakeholder forums, joint public-private training initiatives, and the integration of factoring into continental development strategies all signal a collective will. This collaborative momentum should be maintained and strengthened in the coming years.

ANNEX 1

KEY INFORMANT INTERVIEWS

Organisation	Position	Date
FINVEX	CEO	Tuesday, 29 July 2025
FCI (Association)	Secretary General	Thursday, 31 July 2025
FCI (Association)	Regional Manager - Africa	Thursday, 31 July 2025
EdgePlus Capital Ltd. (Nigeria)	Managing Director	Monday, 04 August 2025
Harare Receivables Exchange	CEO	Monday, 04 August 2025
African Trade and Investment Development Insurance	Principal Political & Credit Risk Underwriter	Tuesday, 05 August 2025
Afreximbank	Senior Manager, Legal	Monday, 11 August 2025
Afreximbank	Manager - Trade Finance	Monday, 11 August 2025
Afreximbank	Manager - Banking Operations	Monday, 11 August 2025
Afreximbank	Team Support – Trade, Investment and Corporate Finance	Monday, 11 August 2025
East Africa Business Council (EABC)	Expert, Policy, Standards, SPS and NTBs	Wednesday, 13 August 2025

ANNEX 2

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