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Policy Brief 1

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Building Capacity for the Development of Factoring in Africa to accelerate trade development and to support the AfCFTA

Executive Summary

Factoring provides a solution to address the financing gap for Small and Medium Enterprises (SMEs) to support Africa's structural transformation particularly in trade development as part of the African Continental Free Trade Agreement (AfCFTA). However, the development and use of factoring as an alternative trade financing tool to support Africa's SMEs is at its infancy stage compared to other regions.

The aim of the policy brief is to examine the capacity imperatives for the development and use of factoring as an innovative trade financing tool to advance the AfCFTA. The study found that factoring provides a sustainable solution to address the financing gap of SMEs to facilitate trade development and to advance the implementation of AfCFTA. However, Africa's performance in the factoring market need to improve significantly based on number of key indicators- share in global factoring, including international factoring, innovation such as reverse factoring, number of factoring companies, turnover per factoring companies, and factoring GDP penetration. Africa's factoring volume of about US$27 billion representing a share of 0.84% in the global factoring market of approximately US$3,300 billion a year in 2019 is extremely low. Europe is leading with a market share of 67.7%, Asia Pacific (23.5%), South America (4.5%) and North America (2.9%).

The factoring landscape in Africa is dominated by Egypt, Mauritius, Morocco, and Tunisia with South Africa significantly ahead with 85% market share, followed by Morocco (10%) and Egypt (3%). Factoring activities are projected to reach US$50 billion by 2025 in Africa and there are number of small-sized factoring companies emerging in other African countries. Key drivers for factoring are the demand for funding for SMEs as engines of economic growth, innovation, and scope for expansion of factoring products but there are significant barriers to overcome such as lack of familiarity with the concept, challenging domestic environment, including competition from banks, limited number of factoring companies, inadequate legal and regulatory framework, problems with taxation and high transaction costs, limited credit insurance, policy environment characterised by policy inconsistencies and lack of data on factoring activities. African countries need a coordinated approach to capacity development to successfully develop and use factoring. Some of the key actions required include:

- strengthening institutional capacity for developing legal and regulatory framework to adopt the model factoring law, improving the policy environment, building credit information systems, and modernizing factoring companies through digitalization and fostering partnerships with stakeholders;
- strengthening human capacity focusing on critical technical skills including trade economists, trade lawyers, digital specialists, supply chain specialist, credit risks and insurance experts and transformative leadership skills such as the appointment of 'Factoring Champions' to promote factoring in African countries and
- setting a research agenda to facilitate data collection for evidence-based policy-making and tracking progress, knowledge sharing, policy dialogues and advocacy to support the strengthening of institutions and skills building of key actors and increase awareness of the benefits to stakeholders.

1. Introduction

1.1 Background and Key issues.

This policy brief is developed based on insights from a recent research paper entitled "Factoring in Africa to Support Trade Development: Challenges and Opportunities for Growth through Capacity Development" produced by the African Capacity Building Foundation (ACBF). The brief responds to the need to promote the use of factoring as a trade finance instrument particularly for Small and Medium Enterprises (SMEs) in Africa for accelerating the implementation of the African Continental Free Trade Agreement (AfCFTA). The AfCFTA is a flagship program of Agenda 2063 aimed at overcoming trade constraints and boosting intra-Africa trade. Signed by 54 African countries and ratified by 34, the operational phase of the AfCFTA was officially launched on 7 July 2019 with trading initially slated for 1st July 2020 but was delayed by COVID-19 pandemic. Trading under the AfCFTA started from 1 January 2021 but measures are needed to put the AfCFTA back on track. With the elimination of up to 90% of tariffs on African goods, the AfCFTA implementation will boost intra-African trade through industrial development, economic productivity facilitated by technology, diversification of economies and value-addition to create jobs.

The AfCFTA will require financing to ensure that Africa's 1.2 billion people and its US$2.5 trillion market benefit from its operationalization. SMEs are expected to play a catalytic role in the implementation of AfCFTA as the growth in African economies is largely driven by them, but they face greater financing obstacles with banks often considering SMEs as unattractive due to higher risks and transactions costs. Factoring offers an alternative source of trade financing for African SMEs and can contribute significantly to the long-standing challenge of financing Africa's development agenda and priorities (Oramah, 2014) particularly the AfCFTA.

Factoring is increasingly recognized as a viable tool for trade finance (Oramah, 2014; Tomusange, 2017) that can boost the export potential of SMEs to increase intra-African trade. However, factoring as a funding option remains largely underutilized in Africa given its potential to boost the export capacity of African SMEs and support their participation as indirect exporters in supply chains or suppliers to larger businesses. The African continent is a relatively small player in the global factoring market (Oramah, 2014; Tomusange, 2017). There is therefore a need for a better understanding of the capacity constraints affecting its development in the African continent.

1.2 Objectives and Target Audience.

The aim of the policy brief is to examine the capacity imperatives for the development and use of factoring as an innovative trade financing tool to advance the AfCFTA. The findings will be useful to a wide range of stakeholders - international organizations, continental and regional organisations interested in trade development and advancing the AfCFTA agenda, legislators, regulators, government agencies responsible for creating an enabling regulatory and policy environment to support trade and the implementation of the AfCFTA and frontline actors involved in factoring operations - factoring companies, SMEs, banks, non-bank financial institutions, and other firms offering legal, insurance services and digital solutions on factoring.

1.3 Organization of the Policy Brief.

Following this introduction, the Policy Brief outlines the study approach and presents the key findings relating to factoring and its benefits, potential of factoring as an alternative trade financing tool to support the AfCFTA, and key trends of factoring in Africa including barriers affecting the development of factoring in Africa. The key barriers identified are framed using the ACBF capacity development framework to discuss how to address them. Conclusion and recommendations are provided for the development of factoring as an innovative trade financing tool to advance Africa's development agenda, particularly the AfCFTA.

2. The Approach and Results

2.1 The Approach

The policy brief draws from the key findings of a research study based on a desktop review of literature and an analysis of data collected from Factors Chain International (FCI platforms) and secondary materials on factoring to determine the evolution of factoring in Africa, the trend and progress made, key drivers and barriers in African countries. The study relies heavily on certain countries where data is readily available from the FCI database. The capacity development framework of the African Capacity Building Foundation (ACBF) provided the basis to analyze capacity issues, gaps and the capacity implications for the development and use of factoring in the continent.

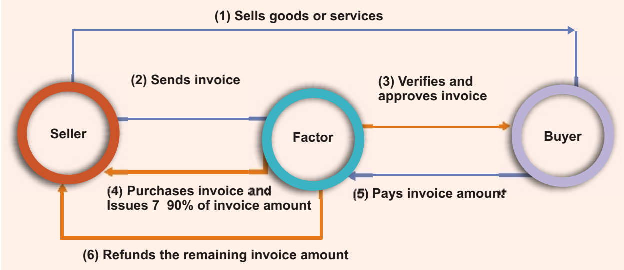
2.2 Key Findings of Factoring in Africa

Application of factoring and its benefits

Principles of factoring. Factoring is popularly used to mean a transaction in which a supplier sells its invoices to a factor (agent) at a discount in order to receive cash immediately for goods or services whose payment the supplier, ordinarily, would have had to wait for a certain period to receive (Tomusange, 2017). By so doing, the supplier receives working capital immediately and transfers the ownership of the debt on the invoices to the factor (factoring company) and the responsibility for collection of payment (Obara, 2011). Factoring is conducted through the selling of invoices using a process known as assignment which involves an arrangement between a business concern or seller (sometimes known as client), a buyer (debtor) and financial institution (factor).

Key parties and institutions involved in the process of domestic and international factoring. There are three parties involved in domestic factoring as shown in Figure 1. However, in international factoring (cross border factoring), the factor is split into two namely, export factor responsible for all factoring operation and selecting the counterparty (import factor) and the import factor in the country where the goods will be shipped. Having an export factor and import factor reduces the risks in international, cross border transactions or trade. The import factor ensures that the local context is properly understood and facilitates communication in dealing with unfamiliar culture, foreign customs, and the local language (Factoringkb, 2020). Figure 1 shows the process of factoring and the key actors involved.

Figure 1. Factoring Process



Note: Suppliers (of good/services) are factoring users who sell to their customers known as buyers or debtors

Source: Adapted from FCI (2020b)

Different types of factoring exist - factoring with recourse, non-recourse factoring and invoice discounting relating to the way a transaction is made. Factoring with recourse is where the client (i.e., seller) is not protected against the risk of bad debt i.e., in the case of uncollectable debt, the client (seller) bears the loss (Alayemi, Oyeleye and Adeoye, 2015). In factoring without recourse (known as non-recourse factoring), the factor bears the loss of a non-collectible payment (Tomusange, 2017). Non-recourse factoring effectively means that if there is an issue with payment, an insurance claim is made against the buyer, and the client (seller) need not pay. Invoice discounting differs from the other types of factoring, as the buyer is not notified of the reassignment of an invoice to the factor.

Factoring offers significant benefits compared to other means of financing. Unlike alternative means of financing, factoring has significant benefits for SMEs (see in Table 1) clearly outweighing the associated risks. There are other sources of financing such as peer-to-peer lending (where funding is sourced from crowdfunding sites, friends, families, etc. with low capacity to mobilize large amounts); revenue-based finance loan system (where the borrower will repay a certain percentage of sales every month until the loan is fully repaid or settled with low probability of mobilizing required resources); and pension-led funding (where businesses can have the opportunities to leverage the value of their assets, which can be purchased or leased by the pension fund, with low coverage in Africa).

Table 1. Key Benefits of Factoring

Quick turnaround for cash and overcome rigid requirements associated with a bank loan. Ability to access finances faster, with up to 90% of invoice value paid within 8 business hours (e.g., BNP Paribas Factor) or within 24 hours (e.g. MCB Factors in Mauritius). Factoring does not require the stringent review associated with bank loan applications with list of terms and conditions.
Opportunities for maintaining market share and rapid growth. Without factoring, a business will be out of stock and other companies will take their market share. Can take on new orders which would not have happened without the quick cash raised against unpaid invoices to have access to working capital and responding quicker to customers' needs and market opportunities for growth by boosting sales rapidly.
Flexible and scalable to meet changing or evolving business needs. Factor agreements can be adapted to fit the changing/evolving needs of an organization (e.g. a business can decide to factor all invoices or choose to factor no invoices. Quick cash required for a new opportunity/other business needs can be secured easily).
Credit screening for company's customers to make better business decisions. The funding is based on the creditworthiness of a company's customers rather than the borrower's own financials. The factor conducts the assessment for creditworthiness and once customers are approved, the factor purchases invoices, advances cash to the company and collect the debt from the customers later.
Saving time and facilitating the collection procedures. Without factoring businesses wait for a considerable period (e.g., up to 90 days to receive payments) or longer if the time from ordering, customs clearance etc. is considered. (e.g., Morocco has a law to limit payment periods to 60 days, but it is difficult to enforce and penalties are not defined for late payers. Factoring simplifies the collection of invoices by transferring it to the factoring company working with clients in a way that is not detrimental to customer relationship.
Building loyalty from suppliers with potential discounts and responding to customer needs. Raising cash against unpaid invoices ensures that suppliers are paid earlier to build loyalty/trust and to secure generous discounts. It addresses the needs of customers requesting for long term payments and those who pay late.
Keeps balance sheet clean and retaining equity in company. Unlike bank loans, factoring does not show up on a company's balance sheet as debt which will improve leverage with room to grow. Factoring provides control on company's finances by retaining equity rather than seeking investors for portions of equity.
Debtor protection through the credit insurance cover. Help companies to create more predictable cash flow; and allows for the conduct of business with approved credit for customers.
No collaterals required. Provides financing without securities which is good for SMES with smaller balance sheets. Many SMEs do not have access to bank borrowings, as banks are generally reluctant to provide funding to companies with smaller balance sheets.

Source: Author's compilation from different sources

Reverse factoring (or supply chain financing) is a financing method initiated by the buyer, usually a medium-sized to large company, to help its suppliers in its supply chain. Suppliers benefit from better pricing of credit risks due to the creditworthiness of the buyer (i.e., medium-sized to large company) and are paid earlier by the factor at an accelerated rate in exchange for a discount.

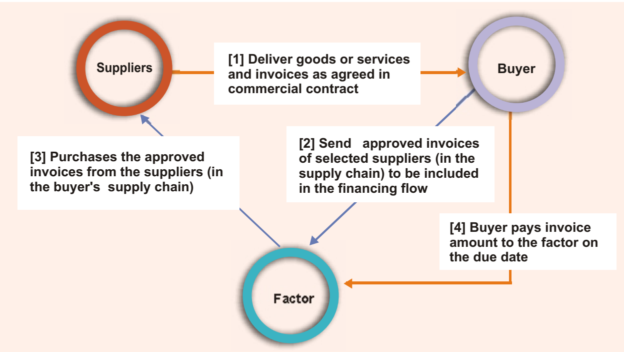
Factoring to address Africa's financing gap

Potential for supporting Africa's AfCFTA program. One of the flagship programs of Agenda 2063 is the African Continental Free Trade Area agreement (AfCFTA) signed by 54 African countries and ratified by 34 in December 2020. Trading under the AfCFTA started from 1 January 2021 with a market of 1.2 billion people and a Gross Domestic Product (GDP) of US$2.5 trillion, making it the world's largest free trade area in terms of number of participating countries since the formation of the World Trade Organization (WTO). The AfCFTA aims to consolidate Africa into one major trading bloc and factoring can be a catalyst for unlocking working capital and an avenue for efficient and secure payments across the continent.

Factoring as alternative financing for SMEs to implement the AfCFTA. SMEs face greater financing obstacles than larger firms due to higher transactions costs and risk premiums (Awani, 2020) with banks often unwilling/unable to consider the sector as an attractive and profitable market. The factoring product is recognized by governments and central banks as a safe and secure means to finance trade (FCI, 2016) and has become a growing source of external finance worldwide for SMEs (Alayemi, Oyeleye and Adeoye, 2015). Factoring offers an alternative source of financing for African businesses to increase trade under the AfCFTA.

Reverse factoring is critical in supply chain/value chain development to support the AfCFTA. Reverse factoring (see Figure 2) as a relatively new product in Africa has the potential to revolutionize value chain development in Africa in key sectors to accelerate the implementation of the AfCFTA. Reverse factoring ensures that there are no hold-ups in supply chain including SMEs involved in production or manufacturing process by creating liquidity across the whole supply chain with or without a facilitating technology which can be supplier-based finance and/or buyer-based finance (Marchi, Zanoni, and Jaber, 2020).

Figure 2: Reverse factoring process



Source: Adapted from Danske Bank (2020)

Trends in Factoring in Africa

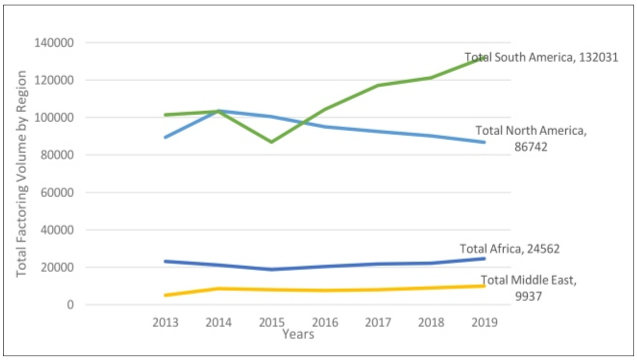
Factoring services are mainly offered by banks and bank subsidiaries, with inadequate independent factoring companies in Africa. Independent factoring companies are gradually emerging but are inadequate (Oramah, 2014). For instance, the market in South Africa is mainly led by Nedbank, Standard Bank, ABSA, FNB, Merchant Factors, Grindrod, Reichmans and Sasfin. Factoring in Egypt is dominated by QNB Factoring with more than 47% share, followed by Egypt Factors (28.4%) who was the first to enter the market and jointly owned by FIMBank Plc and the International Commercial Bank. In Zimbabwe both traditional banks and specialized financial institutions are involved, with the traditional banks having approximately 55% of the market, and specialist financial institutions 45%.

Other bodies including the World Bank, the European Bank for Reconstruction and Development (EBRD), Afreximbank, IDB Invest for the Americas, Asia Development Bank (ADB), the ICC Banking Commission, and several other national factoring associations are instrumental in promoting financing services including factoring across the world (Grand View Research, 2020).

Africa accounts for a small volume of global factoring compared to other regions of the world. Africa's share is 0.84% of the global factoring market of EUR 3,000 billion a year compared to Europe with a market share of 67.7%, Asia Pacific (23.5%), South America (4.5%) and North America (2.9%) (FCI, 2020a).

Africa experienced the lowest growth in factoring volume compared to other regions. The global industry experienced a compound growth rate of more than 10% for the last 20 years (FCI, 2020a). Figure 3 shows the evolution of factoring volume in Africa against other regions (excluding Europe and Asia). From 2013 to 2019, Africa's growth of total factoring volume was 5.9% compared to 49.7% (Middle East); 31.5% (Europe); 23.2% (South America) and 7.7% (Asia). North America is declining.

Figure 3. Evolution of Factoring Volume by in Africa against other Regions (excluding Europe and Asia) in the Last 7 Years (in Millions of EUR)



Source: FCI (2020a)

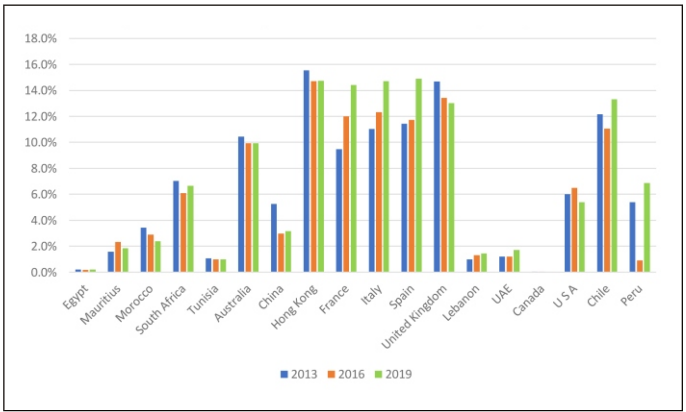
The growth of global factoring volume was affected by COVID-19. Factoring volumes are largely impacted from the second quarter of 2020 as new invoices/ contracts slowed down due to declining global economic activities triggered by the pandemic (Mulroy, 2020). A significant drop in global factoring volumes in 2020 is predicted, more than the 3% drop during the credit crunch in 2009 (Mulroy, 2020).

Number of companies in Africa compared to other regions. There are significant variations in the number of companies involved ranging from over 2,200 in Asia Pacific to 23 (Middle East), 847 (South America), 688 (Europe), 323 (North America) and 154 companies in Africa. Within Africa, South Africa dominates with 110 companies, 25 (Morocco), 11 (Egypt), 5 (Tunisia) and 3 (Mauritius).

Factoring volume/turnover per company in Africa compared to other regions. Except for South America with a factoring volume/turnover of 155 million euros per company, Africa with 159 million euros per company lags well behind other regions with Europe significantly ahead at 2,872.4 million euros per company, Middle East (432 million euros), Asia (312.4 million euros) and North America (268.6 million euros). Within Africa there is a significant disparity with average factoring volume/turnover per company of 190 million euros (South Africa), to 53.4 million euros (Egypt).

Factoring market GDP penetration rates in leading African countries are considerably lower than leading countries in Asia Pacific and Europe. While the best country by a huge margin in Africa (South Africa) has a 6 % penetration-rate in 2019 compared to 2.37% in Morocco, Mauritius (1.83%), Tunisia (0.98%) and Egypt (0.22%), South Africa's performance is significantly below that of leading countries such as Spain with a GDP penetration of about 15%, Hong Kong (14%), United Kingdom (13%) Australia (9%), and Chile (12%). Figure 4 compares the factoring market GDP penetration rates in leading African countries against selected leading countries in other regions.

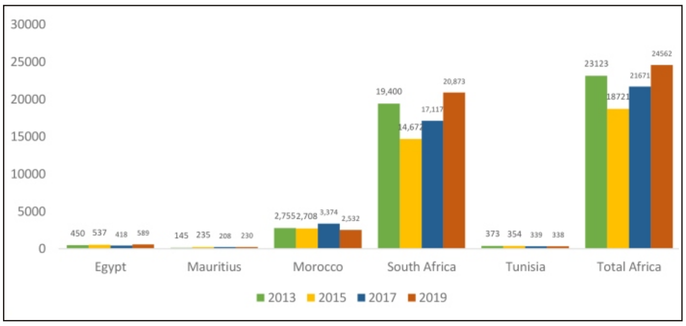
Figure 4. Factoring Penetration in Leading African and non-African countries (% GDP)



Source: Analyzed from FCI data (2020a)

Africa's factoring landscape is dominated by Egypt, Mauritius, Morocco, and Tunisia with South Africa significantly ahead with 85% share, followed by Morocco (10%) and Egypt (3%). Mauritius and Tunisia each had a share of 1% in 2019 (See Figure 5).

Figure 5. Total Factoring Volume by leading African countries in the Last 7 Years (in Millions of EUR)



Source: FCI (2020a)

Domestic factoring volume surpassed the international factoring volume in Africa with Egypt's domestic factoring accounting for 79% of the country's total factoring business, Mauritius (99%), Morocco (96%), Tunisia (83%) and South African (96%) (see Table 2).

Table 2. Factoring turnover by leading African countries in 2019 (in euro millions)

Region	Domestic EUR	International EUR	Total EUR	# Companies
Total Africa	20,702	3,860	24,562	154
Egypt	*464*	*125*	*589*	*11*
Mauritius	*227*	*3*	*230*	*3*
Morocco	*2,424*	*108*	*2,532*	*25*
South Africa	*17,262*	*3,611*	*20,873*	*110*
Tunisia	*325*	*13*	*338*	*5*

Source: FCI (2020a)

There are opportunities to expand international factoring to boost intra-African trade through the AfCFTA. The share of international factoring for African countries is very low with Egypt at 21.22%, South Africa (17.3%), Morocco (4.27%), Tunisia (3.85%), and Mauritius (1.3%).

Small sized factoring companies are emerging in Sub-Saharan Africa in Cameroon, Gabon, Ghana, Côte d'Ivoire, Kenya, Mauritania, Mozambique, Nigeria, Senegal, Tanzania, Tunisia, Zambia, and Zimbabwe. Small sized factoring companies are receiving support from their governments and the central banks (Ivanovic, Baresa, and Bogdan, 2011). As of 2019, only 14 African countries have businesses offering factoring services as members of the FCI, a global body with members from around 75 countries and serves more than 80% of the world's international factoring volume (Grand View Research, 2020) but data on factoring is not available on the countries.

Factoring is projected to reach US$50 billion by 2025. There was a steady increase from EUR 22 billion in 2018 to over EUR 24 billion in 2019 representing a 10% growth. Countries that led this growth included Egypt, South Africa, Tunisia, and Mauritius with 13.9%, 12.3%, 7%, and 1.3% growth, respectively between 2018 and 2019.

Understanding the key drivers can help to stimulate the growth of factoring.

Demand and funding for SMEs as drivers of growth. The preponderance of SMEs necessitates the growing need for domestic and international factoring as a tool for providing new trade finance solutions (Hamanyati, 2017). African countries are heavily dependent on SMEs as engines of economic growth. For example, majority of businesses in South Africa are made up of SMEs (98.5%) and SMEs in Egypt account for 80% of GDP and about 75% of the nation's labor force. SMEs also represent 95% of all businesses in Morocco and there are over 80,000 SMEs in Tunisia employing more than half the population with 40 per cent contribution to GDP.

Innovation and scope for expanding domestic, international, and reverse factoring can be enhanced through automation, simplification of functions/processes and involvement of fintech companies. New forms of factoring products are emerging particularly reverse factoring (supply chain finance) in South Africa, more suitable for medium to large strong creditworthy companies as it allows them to manage payables to thousands of suppliers. Given the increasing use of technology new factoring products such as reverse factoring can be delivered 100% online through a secure portal or a Mobile App to manage and track all transactions, including viewing of approved invoices.

Digital solutions. Digital solutions to automate and simplify functions including customer interfaces, documentation processes and analytics is a key driver due to the availability and easy accessibility of internet (Medias24, 2015; World Bank, 2019). Although technology is recognized as a key driver, significant investment in digital capacity building is required in Africa to address constraints in ICT infrastructure, internet access, computer insecurity, and logistical inefficiencies.

Building on the drivers and addressing barriers are critical in accelerating the growth of factoring. To accelerate the growth of factoring in Africa and to reach the projected volume of US$50 billion by 2025 or to exceed that, there is a need to tackle significant barriers identified from case studies of leading African countries South Africa, Morocco, Egypt, Mauritius, and Tunisia, including Zimbabwe and Senegal (summarized in Table 3).

Table 3. Drivers (+) and Barriers (-) of factoring in Africa

Environmental context	(-) inadequate legal and regulatory framework such as the absence of factoring law and non-assignment clauses in Government, provincial, municipality and mining company contracts. (-) the policy environment characterised by policy inconsistencies, lack of data on factoring activities for evidence-based policy-making and to track progress (-) problems with various taxes levied on factoring companies but not on banks and high cost of transactions relating to interest rates and factoring commissions (+) demand and source of funding for SMEs as drivers of growth
Organisational context	(-) lack of familiarity with the concept and visibility, limited understanding of product range (-) challenging domestic environment in certain regions due to competition from banks with limited factoring companies impacting negatively on factoring volume and GDP penetration (-) inadequate coverage of insurance schemes to support factoring due to lack of adequate credit information systems and limited number of credit insurers
Technological context	(+) innovation and scope for expanding domestic, international, and reverse factoring can be enhanced through automation, simplification of functions/processes and involvement of fintech companies (+) digital solutions required to automate and simplify functions including customer interfaces, documentation processes and analytics

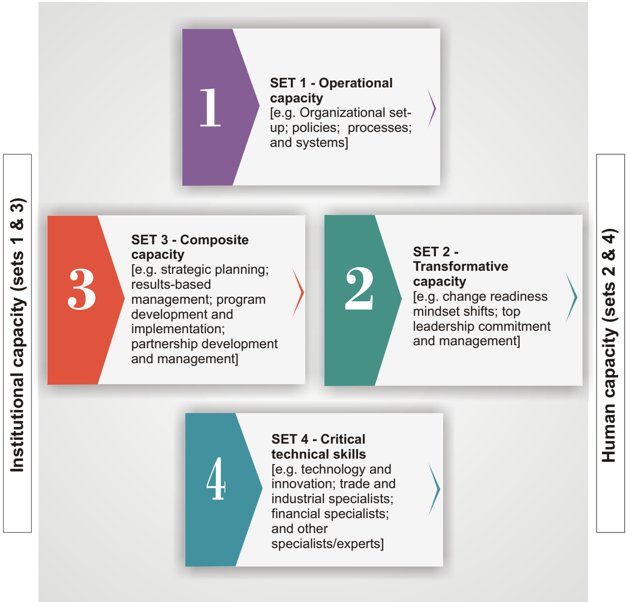
Source: Authors' compilation based on literature

3. Key Capacity Challenges in the Development of Factoring in Africa

3.1. Framework for analyzing capacity issues and gaps

The ACBF framework (ACBF and AUC, 2016) in Figure 6 clustered capacity issues into two dimensions - institutional (relating to operational and composite capacities) and human capital (relating to critical technical skills and transformative capacity). Each barrier identified in Table 3 has institutional and/or human capital dimensions.

Figure 6. Capacity framework for the development of factoring in Africa



Source: Adapted from ACBF and AUC (2016)

For example, **inadequate legal and regulatory framework in the environmental context** means that there is a need for institutional capacity development, whether they are organisational set-up, policies, processes, strategic planning, and partnerships to support factoring. Addressing the barrier **limited factoring companies impacting negatively on factoring volume and GDP penetration at organisational level** will require human capacity development focusing on business development, entrepreneurship, and innovation to support factoring companies.

3.2 Addressing Institutional and human capacity challenges

Institutional dimension

Many African countries have weak public institutions which continues to hamper development (Nnadozie, 2016). The institutional dimension focuses on operational and composite capacities.

Building operational capacity

There are significant barriers related to organizational set-up, policies, processes, and systems. Building operational capacity includes, for example, putting in place legal and regulatory framework such as adopting specific factoring law, modernizing factoring companies to ensure adequate rules, regulations, and standards, digital policies, and infrastructure to facilitate cross-border trade. Building operational capacity is critical for improving the policy environment, domestic operating environment, and credit information systems through effective coordination of all actors - legislators, regulators, including Ministries of Finance and Central Banks, Commercial Banks, Non-Bank-Financial-Institutions (NBFIs), Fintech companies, factoring associations, buyers including large companies and multinationals. Engaging regulators and other stakeholders is essential in developing appropriate policies, streamlining compliance regimes, and ensuring that uniform processes are in place to deal with tax issues and high transactions costs disproportionately affecting factoring companies.

Building composite capacity

Strategic planning, program development and partnerships are critical in building composite capacity. African Export-Import Bank (Afreximbank) continues to promote factoring as a strategic priority by developing and supporting various initiatives (Awani, 2020). For example, Afreximbank is working with FCI to support legal and regulatory reforms to enable the promotion and effective use of factoring across Africa. The adoption of the Model Factoring Law in Egypt increased awareness and led to a rapid growth from two (2) to twelve (12) factoring companies in the last three years. There is a need to build partnerships particularly for the growth of international factoring (import factors, export factors), and reverse factoring through cooperation rather than competition from banks to support SMEs. Building networks for business development through FCI and local factoring associations to engage larger companies and multinationals is also important as well as reverse factoring to expand the export capacity of SMEs through the availability of trade finance.

Human capacity dimension

The human capacity dimension of the ACBF framework comprises the critical technical and transformative leadership skills.

Building critical technical skills

Training and skills development is required to build the capacity of factoring companies in exploiting innovations, strengthening entrepreneurship to boost the export capacity of SMEs to increase intra-African trade. Equally important is the need to build capacity in credit risks and insurance for the development of credit information systems and to expand insurance schemes. The capacity needs of other stakeholders - regulatory bodies, legislators, buyers, private sector to support factoring should also be addressed to increase the number of supply chain specialists, trade economists, trade law specialists, financial experts, and logistics/freight experts. Building skills in digital technology as a key driver for the growth of factoring companies, SMEs, fintech companies will speed up innovation and digital solutions to boost trade finance.

Building transformative leadership skills

African countries need to address the leadership capacity gaps to promote factoring. While Afreximbank with support from FCI/ FCI Africa Chapter, is playing a key leadership role in promoting factoring, there is need for top level commitment from the African Union Commission (AUC), Regional Economic Communities (RECs), African countries across all sectors (political, businesses, civil society, traditional, community groups, etc.) to act as champions to promote factoring. Transformative leadership is required to promote the factoring concept, its benefits, product range to transform the mindsets of larger companies and multinationals through 'buyer education' to support SMEs to expand intra-African trade in the implementation of AfCFTA.

Addressing data issues, research, knowledge sharing and policy advocacy

Data availability, a research agenda, knowledge sharing, policy dialogues and advocacy are critical building blocks to support institution building and skills development, to engage policy-makers and other stakeholders on the benefits of factoring as an alternative trade finance solution to accelerate the implementation of AfCFTA.

Addressing data issues

Data remains a major challenge for evidence-based policy making and in tracking progress on the growth of factoring. Encouraging countries to share data with the international factoring bodies that regularly publish factoring volume data will be an important step to address the lack of data in Africa. There is a need for coordinated efforts by African Governments to engage stakeholders including regulators such as central banks, commercial banks, NBFIs, statistical agencies, factoring associations so that adequate data is captured and published.

Setting a research agenda

Factoring is an under-researched subject in the African context which is reflected in the limited data and studies available in the continent. Research evidence is needed to inform policy makers, legislators, and other stakeholders on the current state of factoring in various countries and the potential benefits that will accrue from the widespread application as a tool for trade finance to support the AfCFTA.

Knowledge sharing, policy dialogues and advocacy

The knowledge sharing themes should focus on interventions to raise awareness of the benefits of factoring to all stakeholders, addressing gaps in institutional and human capacity to support the development of factoring in Africa through properly funded scholarships, research grant and strengthening of policy dialogue platforms such as the Africa Think Tank Network.

4. Conclusion

Factoring provides a solution to address the financing gap, particularly for SMEs as it would help innovative enterprises to grow through trade development, and advance the implementation of AfCFTA for Africa's structural transformation. However, Africa's share of 0.84% of the global factoring market of EUR 3,000 billion a year is extremely low. The practice of factoring is still dominated by a few countries although it is slowly being adopted in other countries in Africa. Africa's factoring activities are projected to reach US$50 billion in 2025 but to realize this projection, or a faster growth in factoring volume, institution building, and human capital development is needed in African countries.

5. Recommendations

The following measures are recommended for the development of factoring critical in supporting the AfCFTA to increase intra-African trade.

Building strong institutions to promote the wider use of factoring to support African countries to regulate the practice and application of factoring. Priority actions include:

- *Conducting comprehensive needs assessment* with mapping of existing initiatives and identifying gaps with specific measures focusing on institution building and coordination to support the development and promotion of factoring.
- *Addressing capacity gaps of key institutions* (regulatory bodies, and frontline organizations) dealing with factoring to ensure adequate standards, and modernization of systems including digital technology to promote factoring.

Building critical technical and leadership skills by scaling-up development programs and establishing 'Factoring Champions' to promote factoring in Africa. Priority actions include:

- *Conducting comprehensive needs assessment* with mapping of existing initiatives and identifying gaps with specific measures focusing on critical technical and transformative leadership skills to support the development and promotion of factoring.
- *Addressing capacity gaps of key actors* factoring companies, regulatory bodies, legislators, buyers, private sector, and civil society etc. - to ensure that core technical and leadership skills are developed on priority areas to promote factoring.
- *Setting up a system led by Afreximbank and its partners for key stakeholders to act as champions to promote factoring at* the African Union Commission (AUC), and Regional Economic Communities (RECs). On a rotating basis, African governments, businesspeople, and civil society representatives should act as champions to promote factoring.

Strengthening data collection systems, developing a research and knowledge sharing agenda to support institution building and skills building to inform evidence-based policy-making, to demonstrate the benefits of factoring and to sensitize all stakeholders. Priority actions include:

- *Reviewing and strengthening existing data collection systems* and reporting by institutions/countries to support the development of all aspects of the factoring market.
- *Allocating funding* to support research institutions, think tanks, communities of practices, to develop a critical mass of researchers with buy-in from continental and national leadership.
- *Strengthening knowledge networks* to promote knowledge sharing, policy dialogues and advocacy focusing on addressing gaps in institutional and human capacity, to raise awareness and to demonstrate the benefits of factoring to stakeholders.

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