

Africa's Developments



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In the current year, we noted important strides and a strong momentum in the development and promotion of factoring in Africa that saw not only the increase in factoring activities but also the emergence of factoring companies as well as heightened interest from regulators and law makers. We also saw a shift in the focus of international factoring organisations from the more established factoring jurisdictions to Africa. The African Export Import Bank (Afreximbank or the Bank) remained a major champion and facilitator of a number of initiatives in this direction placing strong focus on making factoring a strategic priority, building on its activities in the past years and backing it as an alternative instrument to traditional commercial loans in the support and financing of small and medium-sized enterprises (SMEs). The Bank has anchored its support on an approach that exposes African factors to the international factoring market and that influences the creation of a favourable environment for factoring in Africa and in the current year, it is worthy to mention that it made significant strides in this regard through a soon to be launched Factoring Model Law which African countries can directly implement as local law or draw guidance in implementing theirs. The Bank had identified one of the impediments to the roll-out of factoring in Africa as the absence of facilitative legal and regulatory environments.

Current State of Factoring in Africa

Of the 54 African countries, factoring was significant only in 5, namely Egypt, Mauritius, Morocco, South Africa and Tunisia but positively, a number of small sized factoring companies are emerging across the continent, particularly in Cameroon, Ghana, Kenya, Mauritania, Nigeria, Senegal and Zimbabwe. We expect a doubling of Africa's factoring volume over the next decade, with factoring business reaching US\$50 billion by 2025.

Specifically the sectors that will drive projected growth are:

- Light manufactures and semi-manufactures in addition to commodities processing in support of growing intra-African trade earlier mentioned.
- Telecommunication Services as a result of a rapid growth of this sector and the tendency of telecom companies to outsource key services, e.g. cell sites, etc.
- Travels, Tourism and Retail sectors drawing from the rapid growth of the middle class.

- An increase in non-traditional export sector to be driven by a larger share of Southern Africa's trade
- Agribusiness due to Africa's rise as a major centre for contract farming and as most African countries look to fostering exports diversification.

Opportunities for Factoring

- The growth of intra-African Trade and the growing need for Factors to handle cross border trade. For instance, Egypt's factoring business grew by over 20% in 2015 from about \$400 million in 2014. Trade between Egypt and the rest of Africa has also been growing rapidly from deliberate government strategies and some of the requests we have experienced are on the need for import factors to support the trade and provide collection services. By the Bank working with Partners, the goal is to expand intra-African trade by a minimum of 50% from its current level of about US\$170 billion and by so doing ensure that intra-African trade share of Africa's total trade reaches 22% from the current 15% by 2021.
- The current economic difficulties and foreign currency challenges in most African countries and the need to diversify exports and sources of foreign currency revenues including various industrialisation programmes undergoing implementation not only provide opportunities for supply chain financing and factorable transactions but also requires encouraging Open Accounts trade terms which are more relaxed than Letters of Credit especially in the context of limited correspondent banking lines available for Africa.

The Role of Afreximbank

The Bank remains influential and has continued to, among others:

- Pursue its educational activities and factoring promotion campaigns.
- Progress work on creating enabling environments through the development of a model law on factoring and organisation of sensitisation seminars on the law.