

Strategies for Factoring Growth in Africa



Mrs Kanayo Awani
Managing Director
Intra-African Trade Initiative, Afreximbank

The development and promotion of factoring in Africa has gained strong momentum in recent years, thanks to the important work being done by the African Export-Import Bank (Afreximbank). For the past few years, the continental trade finance institution has placed strong focus on making factoring a strategic priority and on turning it into a driving force for African trade. Afreximbank, which was established in 1993, promotes factoring as an alternative instrument to traditional commercial loans in the support and financing of small and medium-sized enterprises (SMEs). As such, it has spared no effort in working to ensure that factoring not only gains root in the continent but that it is able to thrive despite the many challenges. 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.

Most of the Bank's work on factoring is done through a dedicated task force, the Factoring Working Group (FWG). An initial observation by the FWG was that, except for a handful of countries, with South Africa in the lead, factoring is rarely used in Africa. Consequently, the FWG's terms of reference are centred on the implementation of the Bank's strategy for factoring development. This targets initiatives aimed at improving the dismal volume of factoring business in Africa, given that factoring offers a viable alternative that could enable African businesses trade open account and, more importantly, trade competitively. Factoring could also support the participation of SMEs as indirect exporters in supply chains since SMEs are suppliers to larger businesses. In particular, they often supply to mining companies, hotels, exporting manufacturers, agribusinesses and export trading companies. As a supply chain finance solution,

factoring can serve to effectively support intra-African trade, another focus area being urgently promoted by the Bank.

Afreximbank's work in promoting the development of factoring in Africa include:

1. Improving market access and global reach of African Factors

Afreximbank, in connecting African factors with major players in the global factoring market, has created opportunities for business growth and has stimulated and nurtured the emergence of factoring companies across the continent, including in Kenya, Mauritius, Nigeria and Senegal. These have been the result of our efforts:

i. Actively Driving the Expansion and Mobilisation of Membership of the African Chapter of the FCI+IFG Union

The Bank, as of today, has identified and nurtured 20 factoring companies, a good number of which have joined the FCI+IFG Union. With their integration into the global body, they are now looking to fully tap into the benefits of membership. The Bank continues to organize membership mobilisation missions as part of its activities.

ii. Strongly Improving the Visibility of African of the FCI+IFG Union

The Bank has held the positions of Chair and Secretariat of the IFG Africa Chapter and has expanded its membership. Members meet regularly to plan, discuss and implement activities as well as share information and ideas on the latest developments and product offerings in the industry. As a result, African Chapter issues have received more visibility and specific actions have been made to ensure increased collaboration with members from other chapters worldwide. The latest of such events was held on the side-lines of IFG's 53rd Annual Meeting in Vienna on 18 October 2015, which brought together more than 30 African factors and their international counterparts.

iii. Facilitating Trainings and Creating Networking Opportunities

Afreximbank has implemented an on-going training and public awareness campaign plan on factoring. The Bank uses its strong convening power to bring together important players in the factoring business, such as financial institutions, central banks, law makers and

so on, to participate in its seminars, conferences and workshops. As business contacts are established, a much greater awareness of factoring has emerged.

2. Directly supporting and furthering the development of factoring business:

It is important to create a facilitative infrastructure and enabling environment to support the growth of factoring in Africa. Some of the key interventions are:

i. Provision of Technical Assistance

In order to reduce the cost of setting up factoring business platforms and address challenges related to the lack of expertise in back-office and receivables management, the Bank is working on a co-branded factoring development product. Once completed, the product will facilitate the provision of start-up advisory services and back-office and operations systems to African financial institutions desiring to commence or enhance their factoring businesses and operations.

ii. Creation of a Facilitative and Enabling Legal and Regulatory Environment

Afreximbank is coordinating with other stakeholders, including central banks, the Association of African Central Banks (AACB), and the OHADA Secretariat, in the drafting of a model factoring law for Africa. Two law firms, Squire Patton Boggs based in London and Epstein Becker Green, based in Washington D.C., were contracted to draft the model law. The first draft of the model law is out and consultations with stakeholders are underway in three intra-African trade hubs. The final version of the law is expected to be launched in the last quarter of 2016.

The Bank has also organized workshops, trainings and advocacy campaigns targeted at law makers and regulators to educate them and encourage interest in factoring in order to help create enabling legal and regulatory environments in the many African countries where regulations still do not exist.

iii. Provision of Financing and Guarantees

Afreximbank offers guarantees and lines of credit to factors with the aim of providing liquidity to factoring companies in support of SMEs (suppliers) as well as payment assurance to factors, financiers and suppliers, especially under the two-factor system.

iv. Partnering with other Multilateral Financial Institutions

Afreximbank is working with other multilateral entities, such as the African Development Bank's Thematic Fund for Africa Private Sector Assistance (FAPA), to support factoring companies in Africa. Grants received will be used to promote innovative programmes that specifically support factoring businesses in Africa, including the provision of seed money for start-ups, business incubators, etc.

With the support of Afreximbank and other industry bodies, the adoption of factoring has seen tremendous progress across Africa. The Bank, nonetheless, recognises the enormity of the task that still lies ahead. While past and present interventions have taken a variety of forms, the greatest achievement has been reflected in the significant number of factors that have emerged on the continent through its nurturing programme during the past decade. The Bank remains committed to helping Africa reap the full benefits of factoring.



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FACTORING

**FINANCING SOLUTIONS
FOR SMEs —
INTEGRATING AFRICA
INTO THE GLOBAL
VALUE CHAIN**



AFREXIMBANK'S 2015 PERFORMANCE HIGHLIGHTS:

Total Assets: \$7.133 billion; Gross Loans Outstanding: \$6.168 billion; Operating Income: \$231 million; Net Income: \$125.32 million. Winner: Seven deals of the year awards (including Trade Finance Magazine's Best ECA in Africa; GTR's Best Deals of 2015; and EMEA Finance's Best Supranational Syndicated Loan). Ratings: Fitch: BBB-/F3 (stable); Moody's: Baa2/P-2 (stable).

HEADQUARTERS

72 (B) El-Maahad
El-Eshteraky Street,
Heliopolis, Cairo 11341, Egypt
Postal Address: P.O. Box 613
Heliopolis, Cairo 11757, Egypt
Tel. +202-24564100/1/2/3
Fax +202-24564110
Fax +202-24515008
business@afreximbank.com

ABUJA BRANCH OFFICE

No. 2 Gnassingbe Eyadema
Street, Asokoro,
Abuja, Nigeria
Postal Address: PMB 601
Garki, Abuja, Nigeria
Tel. +234 94603160
Fax +234 94603187
abuja@afreximbank.com

HARARE BRANCH OFFICE

Eastgate Building, 3rd Floor,
(North Wing),
2nd Street, Harare, Zimbabwe
Postal Address: P.O. Box 1600
Causeway, Harare, Zimbabwe
Tel. +263 4700904
Tel. +263 4700941
Fax +263 4701006
harare@afreximbank.com

ABIDJAN BRANCH OFFICE

3 eme Etage, Immeuble
CRRAE-UMOA
Angle Boulevard Botreau
Roussel-Rue Privée
CRRAE-UMOA. Abidjan,
Cote d'Ivoire
Tel. +225 2 0307300
Fax +225 2 0307348/49
abidjan@afreximbank.com

NAIROBI BRANCH OFFICE

Eden Square Complex
2nd Floor, Block 3
Chiromo Road
Nairobi, Westlands, Kenya
Tel: +254 20 367 3776
Tel: +254 703 041 776
Tel: +254 730 173 776
nairobi@afreximbank.com