



Marrakech, October 30, 2023.

Thank you so much for the opportunity to present at this illustrious forum. It is a pleasure for IFC to be **launching “KNOWLEDGE GUIDE ON FACTORING REGULATION AND SUPERVISION”** at this forum. *I am pleased to be representing our Financial Infrastructure team who mainly worked on this.*

The business case for factoring and supply chain finance is more important than it has ever been – it unlocks working capital finance for SMEs, is risk mitigated mechanism as it relies on underlying trade for financiers, strengthens value chain relationships for companies, and enhances transparency and efficiencies in the financial systems.

Especially from IFC standpoint, unlocking SME finance is a key priority as it creates livelihoods and provides the economic stimulus. We estimate that of the \$5.7 trillion plus SME finance gap, upto 20% is locked in factoring and supply chain instruments. And on average, receivables account for 40% of the total assets of SMEs, and deferred credit payment terms are usually the largest cause of SMEs’ financial challenges. Hence Work Bank and IFC are committed to solution building for scaling factoring and supply chain finance.

We have been involved in integrated investment, upstream and advisory programs supporting factoring, e-invoicing, and supply chain finance globally. This entails our **asset-based lending and secured transaction regimes set-up**, supporting regulators in enacting **factoring laws**, building, and investing in **e-invoicing, SCF and warehouse receipts programs**, advising **financial sector players** in building SCF solutions. We also have **multi billion dollars supply chain investment programs** targeting our real sector and financial sector clients. Hence, we are heavily vested in this because of the promise it holds and the impact it can create.

As a context to the knowledge guide please note that the **model law is a work product of UNIDROIT** which focuses on international private law, e.g., factoring, leasing, WHR and other secured lending instruments. **IFC requested UNIDROIT to include in their work program the need for a model law on factoring as most jurisdictions in which we work did not have anything to use as a reference guide.** It is important secured transactions law and factoring laws are harmonized on certain legal principles. **Murat Sultanov and John Wilson were members of the working group** and provided technical content based on our country experiences in the field. I am pleased to represent them here today. UNIDROIT took on the work and have translated into several languages, we translated the model law in Arabic.

The **model law fully caters to private/commercial law framework for receivables finance** however **what was missing is the regulatory part** – the part about **licensing/supervision and regulation (prudential and non-prudential) of factors and factoring activities**, therefore we have initiated the **Regulatory Knowledge Guide so that IFC Knowledge Guide can complement the UNIDROIT Model Law.** The development of the Guide was peer reviewed and substantially contributed by both UNIDROIT and FCI.

The main objective of this **Knowledge Guide is to provide guidance on law reforms seeking to support receivables finance** and thereby promote sound and inclusive access to credit in emerging markets. It indicates options and advances recommendations to establish a **cohesive regulatory framework for non-banking financial institutions** (factoring companies) to extend funds upon the **transfer of receivables** (factoring activities). The primary audience of this document **includes policymakers and decisionmakers involved in the law reform process, such as officials at central banks, supervisory**

authorities, and governmental departments, including the staff of the World Bank and donor institutions. This Knowledge Guide represents a point of reference for reforms and present and future harmonization projects pertaining to an area that is of critical importance for the attainment of inclusive economic growth and sustainable development. **Knowledge Guide is divided into six sections and one annex:**

- **Section I:** Examines the increasingly **important role of factoring**, including within supply chains, in facilitating access to credit for MSMEs.
- **Section II:** Main **regulatory trends** that are driving the demand for the establishment of a comprehensive regulatory regime for factoring.
- **Section III:** **Guidance for policymakers and law reformers** to establish a comprehensive legal and regulatory framework for factoring activities.
- **Section IV:** **How factoring activities can be supervised** under different governance models and indicates the authorization requirements for financial institutions to undertake factoring activities.
- **Section V:** **Prudential regulation** and indicates the key components of a prudential framework for factoring companies.
- **Section VI:** **Conduct of business regulation** applicable to factoring companies.
- **Annex I:** **Template structure for a legislative instrument** that combines within the same statutory instrument both private law and regulatory elements.

The publication will be ready for public dissemination once it is officially cleared, which is in progress. For anyone who wants a copy they can reach out to the **Elain**, her email is displayed on the slide.

Thank you and look forward to providing further impetus to the factoring industry through our collaborative efforts. We would like to **thank UNIDROIT and FCI and our donor partner SECO** and hope the industry benefits from this knowledge work.