FCI

Facilitating Open Account – Receivables Finance

Annual Review 2019

FCI is the Global Representative Body for Factoring and Financing of Open Account Domestic and International Trade Receivables. With close to 400 member companies in approximately 90 countries FCI offers a unique network for cooperation in cross-border factoring.

FCI is building bridges:
- To global business opportunities
- To new markets
- To new partnerships
- To innovative products and services
- To know-how and leading expertise

Annual Review 2019

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Facilitating Open Account – Receivables Finance

FCI Chairman's welcome

Letter by Çagatay Baydar, FCI Chairman

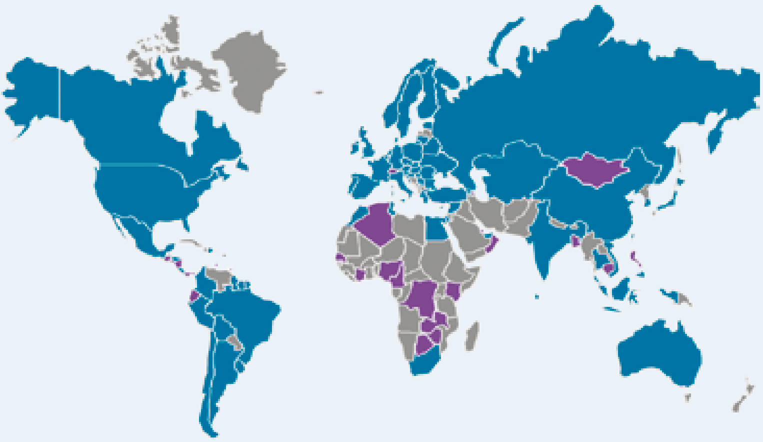
2019 is the 51st year of existence of FCI. Last year FCI celebrated its 50th anniversary, an unforgettable event held in our home city of Amsterdam this past June, with a record attendance of nearly 400 executives from over 70 countries present. After the celebrations, we continued to launch numerous projects, participated and organised numerous conferences, and continued to strengthen our major stakeholder relationships with other like-minded organisations.

In September 2018, FCI organised a very successful promotion conference in Egypt together with Afreximbank and Egyptian Factoring Association. In October, we organised together with the European Bank for Reconstruction and Development (EBRD) and the Turkish Financial Institutions Association a conference on Turkey Bridging Continent: International Regional Factoring Conference for the CEE, SEE and Middle East. It was followed by a joint Legal Conference with the China Banking Association and our member, Postal Savings Bank, attended by members of the China Supreme Court to clarify legal aspects on factoring. Numerous judges, lawyers and industry experts from China had also attended the event. In November, we organised with the International Finance Cooperation (IFC) a joint Promotion Conference on Factoring and Receivables Finance in Manilla, the Philippines, followed by a Supply Chain Finance (SCF) Workshop together with Asia Development Bank. This year in March 2019 we organised with Afreximbank, a Regional Conference on Factoring and Receivables Finance in Southern Africa in Gaborone, Botswana and the week after the annual joint event with the EU Federation, very successful EU Factoring and Commercial Finance Summit. In addition to all the jointly organised promotional and regional events, FCI organised educational events: last year in Beijing, China, Training on Risk Management and Legal Considerations in Factoring & Receivables Finance and in April this year in Bucharest, Romania, Seminar on Risk Management & Legal Considerations in Receivables Finance. We also organised several webinars for the first time, which allows our existing and prospective members to learn without having to leave their office and avoid travel costs.

The world factoring statistics indicate that the Factoring and Receivables Finance Industry volume shows solid growth, representing a 6.49% increase, and indicating positive trends in all regions of the world. Europe accounts for 66% of the total, followed by Asia with 25% and the Americas with 8%.
FCI members last year accounted for nearly 60% of global factoring volume, and nearly 90% in international cross border volume. Progress seems to indicate that the flat growth experienced in 2015–2016 period is behind us.

However, if you look at the past 20 years, the industry has grown on a CAGR basis of nearly 10% p.a. The true growth spurt in volume was also accelerated after the Millennium. In 1998, twenty years ago, the Industry was generating approximately EUR 500 billion in annual volume. By the end of 2018, it grew to over EUR 2.76 trillion in volume, a five-fold increase. This was due to four major influences 1) the fast increase in growth in open account trade 2) the rapid expansion of business in Asia, led by China; 3) the resurgence in cross-border factoring, both direct and indirect via correspondent factoring; 4) and the rapid expansion of factoring in Europe.

Other contributing factors will impact the growth of factoring in the future, especially in the emerging markets, where rather archaic regulations stymie the growth of receivables purchase programs, like the continued use of stamp duty tax, foreign currency restrictions, or laws limiting the rights of assignment. The good news is that the development of receivables registries to protect factors from fraud or factoring laws that can protect the industry from unfair regulations are on the rise. The development of the UNCITRAL model law on Secured Transactions (ratified end 2018) will also have a significant hand in the elevation of factoring and receivables finance. The seeds of change are sprouting in these markets as well, as more and more central banks come to the conclusion that factoring has a direct correlation to the ability to access capital for SMEs, the engines of growth for jobs around the world.



The areas in grey are countries that have yet to adopt factoring, however FCI is aggressively planting seeds in these markets as well, mainly in South East Asia, Middle East and Africa.

The launch of FCIreverse, FCI's answer to the formation of the very first SCF global community, allows members of FCI to be on-boarded onto a state of the art global operating supply chain finance platform, that brings together all onto one operating system, including the anchor buyers, anchor buyer's financial institution, their domestic and international suppliers, and potentially the foreign supplier's financial institution from the +90 countries FCI serves, to support the foreign supplier on-boarding process.

FCIreverse will create numerous benefits that many members have not been able to access on their own:

1) A robust global legal framework to handle domestic and international buyer and supplier on-boarding
2) Reduced upfront investment costs in order to integrate into the FCIreverse global platform
3) State of the art technology
4) A global network solution
5) New and increase greenfield revenues
6) And first mover advantage, due to the unique one of a kind opportunity

FCI also launched a new Islamic Factoring initiative, the creation of FCI's proprietary Rules on Islamic Factoring, which were approved by the FCI council during the Amsterdam annual meeting last year. We intend to have members globally use these rules, which will help develop the growth of factoring, expecially in the Muslim countries. We are excited about this initiative, and anticipate seeing many new countries join FCI's initiative and develop factoring in their markets.

FCI has begun the process of the hiring of a larger regional front office. FCI recently announced the hiring of 3 new regional directors, one representing North East Asia, Mr Lin Hui based in Shanghai, who is one of the early pioneers of factoring in China. This region, comprised of six countries, accounts for 22% of FCI membership and 20% of global volume.

The second appointment, Mrs. Betül Kurtulus, previous GM of Strateji Faktoring, based in Istanbul. Betül has tremendous experience in factoring in Turkey, and has worked on technical committees inside FCI. She will oversee a new region, which combines Central, Eastern, South Eastern Europe and the Middle East. The region comprises 25% of the membership but only 5% of global volume, but it has significant growth opportunities.

We expect to appoint shortly the new Regional Director Africa. Africa, which accounts for less than 10% of membership but only less than 1% of global volume, is still a very immature market and requires tremendous hand holding and special attention to promote factoring to banks, financial institutions, and entrepreneurs but also government and central bank officials. Our partner, the Afreximbank agreed to cover half of the costs; the new Director will be housed in their head office based in Cairo.

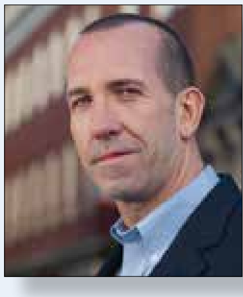
The appointments complement our two existing regional directors that cover respectively the Americas via Mr Alberto Wyderka and the South and South East Asia region via Mr Lee Kheng Leong. South East Asia market represents 10% of the membership but has significant growth opportunities with the passage of new factoring laws in India, Vietnam and Philippines even if they have important barriers to growth. FCI will focus on educating the governments and their lawmakers on the benefits of factoring and receivables finance, especially for SMEs!

The strategy behind the appointments is to further support our members by a decentralisation of the organisation into six separate regions. The interest in RF in emerging markets is growing. Hence, we believe decentralisation of the organisation is a must and will answer the unique needs that each region represent. We brought on very seasoned executives in open account trade finance, with strong market knowledge and look forward to you meeting them soon.

In most emerging countries, factoring has yet to catch on. But in fact, over two thirds of FCI's new members over the past three years are coming from the emerging countries. They are truly the pioneers, in countries like Philippines, Bangladesh, Cambodia, Mongolia, Botswana, Senegal, Zimbabwe, Dominican Republic, and El Salvador, and it's a fact that many of these countries ten years from now will witness a renaissance in receivables finance. It will take time, but we believe the seeds FCI is planting in these markets will bear fruit and pay dividends to the global industry. It won't happen overnight, but if you look back thirty years ago, factoring didn't exist in such markets like my own in Turkey, China, India and many others. It was these seeds FCI planted and the fertiliser FCI spread over the years that created the green shoots we see today, and in some cases trees and forests that have developed in these markets over time.

For those who are reading this Annual Review for the first time, we hope that this important annual publication will give you an in-depth view of the magnitude and importance that our industry holds today, and the opportunities for you to help spread the seeds of factoring to all corners of the world.

Introduction



By Peter Mulroy, FCI Secretary General

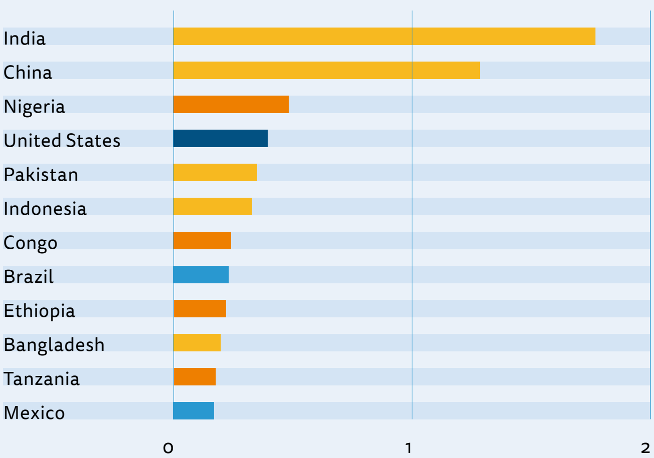
After the celebration of its golden anniversary, 50 years of existence, it's time to look closely at the trajectory of where the organisation is heading. This article highlights the major challenges and opportunities facing FCI and the industry and lays out a roadmap for success for FCI to follow for the next years to come.

Membership

FCI has evolved as an association, from having less than 100 members 20 years ago, to today nearly 400 members. Back then, nearly half of our membership was in Western Europe. Today, that figure stands at less than 25%. Asia accounted for 3% of membership, today nearly 25%. And in the emerging countries, FCI had no members in Tier 1 countries and just a handful from Tier 2 Countries (countries with income per capita of less than US$ 5,000). Today, FCI has over 50 members in emerging countries, accounting for nearly 13% of total membership. We know the reasons for this growth. Since joining FCI in 2013, I set an objective to achieve 500 members by 2022. We believe this is achievable, based on the significant interest in the growth in receivables finance, especially in the emerging countries. We believe that this growth will come from markets like Bangladesh, Indonesia, India, Philippines, Pakistan and Nigeria. These countries represent nearly 2.3 billion inhabitants, representing nearly one third of the world's population.

In most of these markets, factoring is in its infancy stage. This represents our industry's future, and FCI is making numerous inroads to help develop factoring in all corners of the world.

Most populous countries | 2060 forecast **in billions**



Sources: UN; The Economist

(*) Historic estimates made using modern borders

Technology

FCI is also about to launch a new IT project, to develop a state of the art global receivables platform, potentially based on a decentralised database platform using new Blockchain/ Distributed Ledger Technology (DLT). This system will replace the current EDI based platform that members use today to conduct cross border international factoring using our system and proprietary rules. FCI is also about to hire a new IT Director, to support the launch of a replacement for Edifactoring, our unique trading platform. However, the system is over a decade old. This is an opportunity to replace the system using the newest technologies available.

Migrating edifactoring to a blockchain environment is from a technology and cost perspective quite challenging and the same goes for many of the national banks/non-banks representing most of our members today. But this is already starting to change, as these platforms are being built and subsidised by the global banks. And it is possible to integrate blockchain in small incremental steps, together with edifactoring, and expand it over time. Having members on DLT would create efficiencies in conducting correspondent factoring business. And the big advantage here is the financial impact would be less burdensome in the short term and it would certainly demonstrate FCI's intention to innovate and prepare the membership for this new capability. Also, if FCI does not move forward, these new communities that have been created like R3, We.trade and others could create their own global networks that could potentially make the FCI trading network redundant.

Partnerships/Stakeholders

Credit Insurers: FCI recently launched its fourth joint working group meeting with the leading executives from the credit insurance industry, focusing on how to work more closely together to bring capital to SMEs in Africa and other emerging markets. Credit insurance and factoring are symbiotic, as they rely on one another to provide capital solutions for SMEs. Most credit insurance activity in the emerging markets is conducted via the public sector: multilateral institutions and ECAs. There is clear recognition that more needs to be done to combat the inability to underwrite the client's customers, especially in emerging markets due to:

- Lack of buyer/debtor data
- Political instability
- Transparency – quality of data

Together with the African Export-Import Bank, an agreement was reached to build a new pan-African repository of payment data on SMEs. This will allow the industry to grow in markets where credible trade and payment data is sorely lacking.

Islamic Factoring: FCI will launch at the upcoming FCI annual meeting in HCMC, Vietnam (9–14 June 2019) a new Islamic Factoring Chapter, which will be led by our new member, the Islamic Development Bank/ITFC based in Saudi Arabia. This is spearheaded from the launch of FCI's proprietary rules on Islamic Factoring. We are excited about this initiative and anticipate seeing many new Islamic countries join FCI and develop factoring in these new markets.

Fintechs: Opportunities for the industry include the rise of technologies to enable the accumulation of data from ERP systems direct to factoring platforms. The development of e-invoicing is also having an important impact on the evolution of our industry. In fact, digitisation will bring many new players into the industry, and result in a much larger playing field globally.

Advocacy

In terms of advocacy, FCI supports the development of factoring legislation and the implementation of central bank policy. Very recently we were informed by the central bank of Bangladesh that they have prepared a policy document to launch factoring formally there. A hearing will be held shortly and will be attended by FCI staff. We are close to formalising new legal frameworks in Nigeria. And Egypt, India, Cameroon are all examples where successful factoring laws have been implemented. FCI is taking numerous measures to raise awareness by organising workshops to explain to government officials and important stakeholders the importance of factoring. We also want to support the creation of sound policy and good regulatory framework for the healthy development of factoring. But we also want to ensure that the increase in regulations impacting the industry do not have unintended consequences.

Unfortunately, most emerging countries do not yet have proper assignment laws and central bank policies in place to instil confidence for the banking and investor community, to invest in factoring and receivables finance as an asset class. However, FCI continues to support the development of proper assignment laws, protections of rights of third parties, and the promotion of good governance, compliance, and proper central bank policies that create a sensible regulatory framework to support the healthy growth of our industry. Recently, the US Senate approved the Convention on the Assignment of Receivables, a document that was to a great extent developed by the late Freddy Salinger, a past member of the FCI legal committee together with Spiros Bazinas, recently retired leader from UNCTITRAL. The convention will soon become a proper treaty and globally recognised as the standard for assignment language and rights of ownership in receivables, once it has been ratified by five countries and becomes a formal treaty. Much more work needs to be done to make this a reality, as 90% of all global trade is estimated to be conducted on open account terms by 2020.

Tomorrow

Our future is tied to the growth in factoring in the Emerging Markets. And that's because a local exporter in an emerging country is unlikely to ship on pre-payment terms of via letters of credit or documentary collections to importers in developed markets in the next decade. On the contrary, most of trade in the emerging countries over the next decade will be on open account and will join the rest of the world in this trend. This is why FCI has invested in a global regional platform, where we now have resources on the ground in the emerging markets, helping lead the development of factoring in these markets.

But what you see today you will not see tomorrow... Gone are the days when loans will be relationship based solely on fixed assets or hard collateral which a banker can touch and feel. No, in fact tomorrow with technologies like blockchain and decentralised database platforms, companies will be issuing electronic invoices on credit terms, and FIs will be financing these intangible assets, pulled directly from a company's ERP system, from new types of FINTECH, who will launch electronic factoring exchanges, factoring funds, Artificial Intelligence (AI) led platforms, etc... We see this already happening in some of the developed countries today. So not only do these emerging countries need to prepare for this evolution of trade on open account, they also need to prepare for the shift in how companies will be financed in the future!

FCI is prepared for this future. We continue to make enhancements to our already successful and proven model, in ultimately helping finance SMEs around the world. With FCI's 50 successful years behind it, leading education via the FCI Academy, coupled with the strength of our rules via the General Rules of International Factoring (GRIF), Rules of Arbitration, Rules of FCIreverse and Rules for Islamic Factoring, FCI has the confidence of its members to lead in technology, advocacy and innovation. Tomorrow, in part from the fruits of our and our members labour, the world will witness factoring and receivables finance as the dominant form of financing trade and working capital solutions for SMEs and corporates alike.

FCI Vision Statement & Mission Statement

FCI Vision Statement

FCI's Vision is to be the Global Association for the Open Account Receivables Finance Industry.

FCI Mission Statement

Receivables Finance is the core focus of the association and includes Factoring, Invoice Discounting and other Supply Chain Finance solutions.

FCI is the Global Voice for Open Account Receivables Finance:

- FCI facilitates and promotes International Factoring through a Correspondent Factoring platform.
- FCI actively supports the growth of the Industry and works jointly with policy makers and stakeholders worldwide
- FCI promotes best Industry practices through education
- FCI publishes Information & Statistics about the Industry
- FCI endorses financial stability, the prevention of financial crime and respect for regulatory compliance and conduct

Ho Chi Minh City, Vietnam.

Roundtable: Fraud in the changing Receivables Finance World

It's probably true to say that the world of Factoring and Receivables Finance is developing and changing now at a faster rate than at any stage since its inception in modern times. This transition is being driven by and reflects the rapidly evolving digital environment in which our Industry – and our everyday lives – operate. The opportunities and challenges that are arising from these fast-emerging technology-driven changes are also constantly changing. With the internet everywhere, the rise of mobile and social technology, fintech developments are all creating a tsunami of change.

But on the other hand, some long-standing issues continue to challenge us, whether the methodology is digital or analogue.

John Brehcist, FCI Advocacy Director (JB) has been speaking with a globally based panel of Industry experts and asking them to share their incisive views for the FCI Annual Review.

They are:

- **Mandy Chien** (MC)
  Senior Vice President, Taipei Fubon Commercial Bank, Taiwan
- **David Cory** (DC)
  Head of Nedbank Debtor Management, Nedbank Corporate, South Africa
- **Aaron Hughes** (AH)
  General Manager, Equiniti Riskfactor, UK
- **Rui Matsuda** (RM)
  CEO, Fondo de Inversion Comex SRM, Peru

Are our panellists seeing these technology-driven changes as evolution or revolution? Will they fundamentally alter our solutions, our interactions and our clients' experiences? What do they mean for FCI's members? Let's see what they all had to say...

JB: Fraud is not new in our Industry; in my operational management, director and consultancy roles I've seen it affect us over thirty something years! So, with all this combined experience, why do people continue to get caught out?

DC: I think we tend to get caught because we all have sales targets, and we can easily disregard our valuable institutional memory in factoring companies. We override tested systems and controls, as we chose to believe our clients to our detriment.

AH: There are a number of reasons, but they often focus around insufficient due diligence on the people / management team (not fully appreciating their track record), making same day decisions for prospects without necessarily having sufficient information on which to base a good judgment. And not forgetting inter-factor transfers; in a competitive market why would lenders release a good deal?

RM: I think also that the range and complexity of deals creates challenges and based on the nature of different documents to check, it is possible to miss key issues.

JB: Is there such a thing as a typical fraudster?

AH: I don't believe there is a typical fraudster, but I do believe there are two main types/categories.
The owner/manager with a family dependent upon the business for livelihood, who has cashflow problems which result in them 'flexing' the rules to fix a short-term problem which then becomes self-perpetuating; they could be described as "accidental fraudsters".

And then the "serial offenders" who, either as a function of the industry they operate in or deficiencies in their own capabilities i.e. lack of financial acumen or under-capitalised balance sheets, often deliberately break the rules and in doing so gain a market wide reputation for being categorised as 'fraudsters'.

MC: In my experience, commonly observed issues that lead to fraud are a business whose performance is deteriorating, and the involvement of non-core business elements in their activities.

DC: I think they are all different, and if they were easily identified our ability to combat fraudsters would be so much simpler! They are often persuasive, confident, personable, and can be the most pleasant clients. This they do to lower our defences. They may test us with small deviations to see our reaction and if no consequences are encountered – they are often encouraged to act.

RM: Yes, it's not always a new customer that starts a fraud, in general, they will test us with good documents at the beginning of the relationship and then start the fraud later.

From left to right:
Mandy Chien
David Cory
Aaron Hughes
Rui Matsuda

JB: I certainly see the two types of fraudster, the accidental and the professional; and indeed, the professional can adopt very different approaches; some aggressive and demanding, some gentle, friendly and persuasive! But when fraud happens, it seems to me that the attitude towards it and the sanctions against it can vary significantly from country to country; why is there such a disparity in response?

DC: In our country, civil and criminal procedures have long lead times. Success rates are low. Civil process is often subject to delays by lawyers, securing court dates can be problematic and the defendant has time to move assets while the passage of time also creates difficulties with witness memories. Criminal procedure is dependent upon the police investigating properly, and white-collar crime is not always taken seriously especially when it impacts so called rich banks. Investigators and prosecutors are overworked, and this leads to drop outs and delays.

RM: Unfortunately, whilst it's the case that the law can give you rights in a fraudulent situation, it is often difficult to pursue a fraudster, especially if the situation is a cross border one. For example, it's very hard to take action and get a fine in the USA.

AH: I think for more serious offences it is difficult to get the authorities (police etc.) to engage in investigation because whilst the fraud may be high value, it is in itself not material relative to other types of fraud they are investigating. Also, trying to compile a case and present it in such a way that a jury could understand is difficult given the lack of knowledge many people would have in relation to receivable financing. Given the recent dent to banks' reputations post the GFC, I have heard that many people are less than sympathetic to losses that banks incur.

JB: This combination of anti-bank sentiment, the idea of victimless crime and a lack of resources to pursue is certainly a challenge I hear in many countries; it's for sure something for the Industry's advocacy effort to consider. Moving on, do you think the general move to digitalisation is making fraud easier, harder – or just different?

DC: It certainly makes fraud different, but that said we still get fictitious invoices, we still find that beneficiary accounts are being intercepted. Some things remain the same!

AH: Overall, I would say easier. Whilst there are no new types of fraud, what has changed is the speed with which it occurs. Lenders are offering same day sanctions/approvals in competitive situations. Technology is driving this quicker decisioning and in turn fraudsters are recognising that not all necessary due diligence may be undertaken. There is a blind/soft spot that exposes lenders. What compounds this is that many users are experienced and may understand the product dynamics better than lenders believe.

RM: I think digitalisation in general can help protect you, for example in the use of a Blockchain where the individual steps of a transaction are recorded in an independent tamper proof sequence.

JB: Taking up RM's point do you believe Blockchain is a solution to fraud? If so, why? If not, why not?

MC: Blockchain certainly ensures that the data in the chain is secure and immutable and that's a positive. Unfortunately, what it doesn't and can't do is to ensure that the data is correct and true in the first place.

AH: I don't believe that Blockchain is a solution to fraud. The reason being that collusion is a key way in which some of the largest frauds have been perpetrated and as such collusion remains a key risk even with blockchain delivery/solution. That said, I imagine that evidence arising from a blockchain based fraud would be much easier to gather and much more damning on the individual parties than current paper-based evidence trails, precisely because it cannot be changed.

JB: It does appear that there remains a garbage in garbage out problem – but that said, anything which makes it harder to defraud has got to be part of the solution; just as long as people don't believe the hype that Blockchain is a panacea! So, recognising there's no such thing as an absolute safety net, what's your single best piece of advice to avoid fraud?

RM: If you buy the product as a trader, and handle all the process, you have the conditions to be able check the quality, delivery etc and then finance. But if you only finance, your risk is higher. So, for example, a blockchain approach does in some ways improve control of the process.

MC: For me the key issues are getting KYC right and ensuring that your on-going monitoring is done properly and effectively.

DC: I agree; it's very important that you know your client, and however tempting it might be, don't ever override your controls unnecessarily.

AH: Yes – and that means having complete, suitable and adequate due diligence when commencing/offering a facility, ensure adequate monitoring and control for in life facilities, have appropriate division of responsibilities internally and critically examine client motivations and strategies. Ensure contractual requirements are fulfilled – obtain regular financial information, reporting reconciliations etc. And whilst all of the above will help safeguard against fraud – all lenders need that additional element – luck!

JB: Thank you to you all for sharing these thoughts. There's never going to be a complete safeguard against fraud, but KYC, DD, verification, monitoring, trend analysis, mathematical and statistical tools can all help.

But for me what is key to have trained staff who know and understand the issues, can spot the signs and can outsmart the fraudsters.

Because fraud is never just about the immediate loss; it can make organisations and people fearful, risk averse, distrustful and it is bad for business. It's essential to minimise that risk. And as AH says: Good luck!

Developments in Africa

Author: Kanayo Awani, FCI Africa Chapter Chair, Managing Director, Intra-African Trade Initiative, African Export-Import Bank

Africa witnessed growth of 2% in 2018 at EUR 22.1 billion. South Africa remained the continent's dominant player with volume share of 80% followed by Morocco (15%) and Egypt (2%). Mauritius and Tunisia each accounted for 1%.

Notwithstanding the fact that Africa accounts for only 1% of global volume, the continent witnessed significant developments in many areas that portend significant potential especially relating to the legal and regulatory environment, and other government interventions which have been key for the emergence of new factoring businesses in Africa.

Legal and Regulatory Developments

Egypt recorded the highest level of activity attributed largely to the passing of a revised Factoring and Leasing Law by Parliament in August 2018. Furthermore, the Egyptian Collateral Registry (ECR) was activated to the benefit of smaller and less-established SMEs, whose movable assets most often constitute their main or only available collateral to lenders. The Egyptian factoring market volume grew by 24% y.o.y., which was reflected in the number of new entrants such as EFG Hermes Factoring and Commercial International Bank (CIB).

In Nigeria, a Public Hearing of the Factoring Bill happened in July 2018 at the House of Representatives under the auspices of the African Export-Import Bank (Afreximbank), Nigerian Export-Import Bank (NEXIM) and FCI. The House of Representatives subsequently passed the Bill and awaiting approval from the Senate. Furthermore, Afreximbank and NEXIM continued to engage the Central Bank of Nigeria (CBN) advocating for a favourable regulatory environment including putting in place regulatory guidelines for factors as well as foreign exchange guidelines that allowed for open account mode of payment. Noteworthy is the fact that the CBN issued an operating license to Factoring and Supply Chain Finance Limited with exclusive focus on Receivables Financing.

The Organisation for the Harmonisation of Corporate Law in Africa (OHADA), a treaty involving 17 countries in Central and West Africa, taking inspiration from Afreximbank Model Law, has also made progress towards developing a uniform act of factoring to be adopted by its member states. In 2018, a working group was formed which developed a draft uniform act on factoring. After its review by member states, the Council of Ministers also requested inputs from the two regional central banks in October. Consultative meetings are being held with the central banks with the expectation that the uniform act will come into force and be adopted by October 2019.

In Kenya and Zimbabwe, bills on Movable Property Security interests that were enacted in 2017 impacted factoring business positively during 2018.

In Mauritius, the Government launched the SME Factoring Scheme with the objective to provide financing to SMEs. The implementation of the Scheme is through Non-Bank-Financial-Institutions (NBFIs) that provide factoring services. Cim Finance is the sole NBFI participating in this scheme.

Promotion and Awareness

During 2018 Afreximbank and FCI continued to play a leading role in promoting awareness about factoring in Africa. They organised factoring promotional conferences and workshops in Senegal in February and with the Egyptian Factoring Association (EFA), jointly organised another event in September in Cairo on the sidelines of FCI third quarter Executive Committee meeting.

Furthermore, NEXIM (collaborating with Afreximbank and FCI as Facilitators) organised a targeted seminar for regulators, law makers, commercial banks, central banks and factors in Nigeria on the sidelines of Afreximbank Annual General Meeting in Abuja in July 2018.

Membership Mobilisation

The foregoing developments translated into 9 new members, drawn from Egypt, Morocco, Nigeria, Mauritius, Cameroon, Zimbabwe, Botswana and the Republic of Congo, joining FCI during 2018.

Education

Afreximbank continued its partnership with FCI and the University of Malta and successfully organised the 3rd edition of the Certificate of Finance in International Trade (COFIT) program. In addition, Afreximbank sponsored 100 free e-foundation course licenses to African regulators from Egypt and Nigeria.

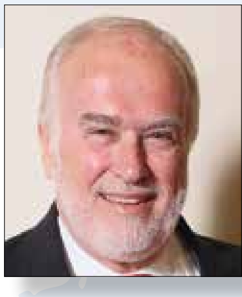
Regional Director Africa

Afreximbank and FCI are finalising the process of hiring a Regional Director Africa to assist in implementing the Africa Chapter's activities.

References:

- The Egyptian Factoring Association
- Unifactor (Tunisia)
- CIM Group (Mauritius)
- Olympia Factors (Botswana)
- Harare Receivables Exchange (Zimbabwe)

Americas: stable and growing market



Author: Alberto Wyderka, FCI Regional Director Americas

As part of the strategic plan developed together with the FCI Executive Committee in June 2018, FCI's presence globally has been expanded. The Latin American and Caribbean Chapter was officially enlarged in January 2019, renamed as FCI`s Americas Chapter by also including the US and Canada.

In the 2018 Annual Review I wrote that: "SME finance has started to become a priority focus on the policy agenda in most Latin American and Caribbean countries, and many Governments as well as Financial Institutions are trying to find different sources of financing other than traditional lending" and that: "Young and innovative SMEs generally have high financing needs, especially those that decide to tackle international markets"; and certainly such comments still remain.

As an exaggerate abridged comment on the economic features of the region, let me say that Latin America is heading for its second year of recovery in 2019, with a more generalised improvement at country level. However, some risks remain and could affect the economic trend of the region. So, this is the environment where the SME´s and also Corporates will play their domestic and trade games.

What is interesting as well as incredible, is that banks, and I´m referring to banks and not to factoring companies, have realised that their foreign trade business only holds on transfers, which in general represents 90 % of their trade business. So, what has happened to them that just by now they are seeing a reality that has been happening for a very good number of years?

Could it be that owing to the very low fees they apply on transfers, they need to generate very high volumes? Could it be that out of transfers their revenues come from traditional lending, whose risk is not always easy to control, and in some countries due to the limited information, banks avoid to offer financing to smaller companies? Or banks finally decided to leave ¨the comfort zone¨.

Whatever it may be, banks and financial institutions are exploring solutions to support their clients and enlarge their portfolio, providing financing with a more mitigated lending risk. And here international factoring and SCF start playing their roles, and start being considered as new products to be developed when having to support the international business developed by SMEs.

Most probably in some of those arguments we can find the reason why after years of seeding, plenty of meetings, conversations to support them in starting offering full service international factoring as the most efficient way to service their SME´s clients performing trade, with mitigated risk, as well as other options of account receivables financing, very important banks decided to join FCI. As well as some others, suddenly requesting presentations and information about international factoring. This is good news.

Surely for that reason, we are seeing that in several countries in Latin America the number of factoring companies is growing at a slow pace, but hopefully this trend will stay. This positive development will contribute to the expansion of the knowledge of international factoring and the maturing of markets.

This is the case of Perú (5 members), Chile (7 members), Brazil (3 members), Dominican Republic (3 members), and hopefully this trend will be followed in other countries.

Based on FCI statistics, Latin America and the Caribbean now occupy the 3th position in the total world factoring volume with EUR 121 billion, a 4% share of the total world factoring volume, where Argentina (+34%) and Chile (+16%) lead the way, while Brazil and Colombia show negative figures (-6% and -7% respectively).

North America fell 2% reaching a volume of EUR 90.1 billion, where US remains stable with a 1% growth although Canada reports a -58%.

2019 will be a challenging year for the Americas Chapter. Actions will be focused on three main targets:

- Support current members with low or null volume in two-factor business in order to consolidate its continuity in FCI instead of abandoning us due to frustration in the business. Such aim can only be achieved by staying close to them, making periodic visits and providing support with training and education.
- Identify new potential members in the US willing to offer international factoring outside their shareholding group. FCI would like to see that they can support with service to other members from the rest of the world. We will be also working in order to increase the number of members in Canada.
- Continue the marketing actions to attract new members in LA & Caribbean, with the hope of achieving new affiliations coming as a result of the efforts made and the budget invested in recent years.

The North East Asia region is growing

Author: Lin Hui, FCI Regional Director North East Asia

In the midst of global uncertainly, the North East Asia region ended 2018 with moderate growth and the appearance of calm. FCI data indicates that the entire North East Asia region grew by 5% to EUR 581 billion in 2018. This represented 21% of the total world factoring volume – a level similar to 2017.

China remained the world's largest single factoring and receivable financing market. Solid domestic demand continued to drive robust growth even as the market faced challenge from overseas. The government's efforts to rebalance the economy fueled private consumption. Rising labor demand and wage increases also helped lift consumer spending. These shifts reflected China's progressive transformation from an export-driven to a consumer-led economy. Data from the China Banking Association shows that China's factoring sector mirrors this change. Over the past year, China's international factoring volume dropped by half while domestic factoring has continued to grow. The Bank of China, once a leader in international factoring, recently combined its factoring and supply chain finance teams. The bank has refocused their factoring team on rising supply chain finance demand and is likely to pursue reverse factoring that favors domestic suppliers.

Japan remained the region's most mature market, reaching EUR 49 billion in 2018. This marks a rebound to Japan's 2016 level after a 30% drop in volume during 2017.

Beneath the veneer of stable, moderate growth, the North East Asia region was marred by several disruptions. Hit by some large fraud cases, we saw 17% drop in Taiwan's total factoring volume. However, its two-factor export volume jumped by more than 94%, reflecting more banks support for the transparency of FCI's two-factor scheme. Similarly, several Hong Kong-based regional banks also were involved in a large receivable financing fraud case.

Compared with other regions, North East Asia has the most banking members in FCI. In Taiwan, for example, all factors are banks and over half of the market's banks are members of FCI. But good banks are not automatically strong factors. During the past 30 years, banks in the region have been studying the traditional factoring industry and applying their lessons to strengthen the credit and operation side of their factoring and receivable financing business. Meanwhile, the region's banks have also extended factoring upmarket to serve larger-scale clients, expanding the industry that was once stereotyped as a purely SME service.

Big data, Fintech, and Blockchain have become buzzwords that are spreading across the region. During the last quarter of 2018, two multi-bank blockchain trade finance platforms landed in Hong Kong and China. In Hong Kong, Etradeconnect is sponsored by the Hong Kong Monetary Authority. In China, the China Banking Association has backed the China Trade and Finance Interbank Trading Blockchain Platform. These developments are just two examples of the way that technology is changing our industry landscape in the North East Asia region. FCI is working closely with its regional members to share and support their interests and concerns in this fast-changing digital era. In this role, FCI will continue to facilitate and promote the sustainable growth of the industry.

Shanghai, China. (Hit 1912/shutterstock.com)

South and South East Asia – the emerging region

Author: Lee Kheng Leong, FCI Regional Director South and South East Asia

South and South East Asia (SSEA) is made up of two dynamic economic groups, the South-Asian Association for Regional Cooperation (SAARC) and the Association of South-East Asian Nations (ASEAN). There are 18 countries in these two groups, 8 for SAARC and 10 for ASEAN.

SSEA is an emerging region with a combined GDP of USD 6.07 trillion. Many countries in this region are transforming from agrarian economy to manufacturing and export-oriented economy, exporting primarily to US, Europe and North Asia. FCI is present in 10 of these countries with 27 members. As many of the countries are untapped or under-tapped, there is great opportunity to extend our wing in this region both in numbers of countries and in members.
This is a region with great diversity in languages and laws. However, many of these countries are proficient in English. As such, it would be much easier to embrace them into the FCI community.

While some countries such as Singapore, Malaysia, India and Sri Lanka have established a law on assignment, this is found wanting in many of them. Nonetheless, there is a silver lining, as the IFC has been promoting the secured transaction law which among other things enable assignment of receivables. The Philippines and Thailand for example have passed the law last year which paved the way for growth in factoring. With concerted effort by IFC many of them will enact such a law in future, thereby creating a conducive environment for both domestic and international factoring.

There are two centers of excellence in SSEA

- India is the center of excellence for the SAARC as shown by its two-factor volume which has grown substantially, to become one of the top 11 of two-factor countries in FCI. It will be a good showcase for countries such as Sri Lanka, Bangladesh, Pakistan, Bhutan, and the Maldives.

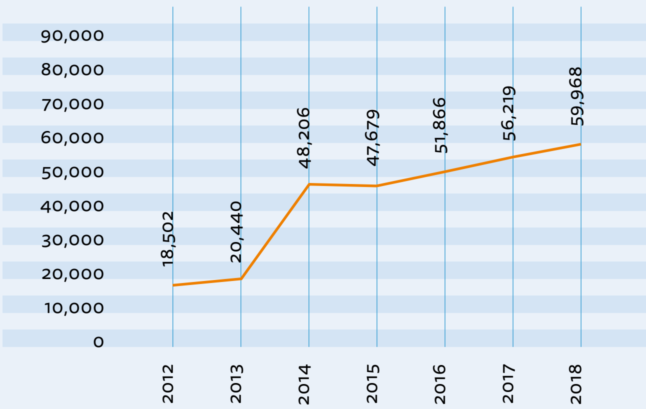
Mumbai, India.

- Singapore on the other hand is the center of excellence in ASEAN, its FCI two-factor volume of USD 1.273 billion is in the top 3 in FCI. However, whilst it is a good showcase for ASEAN, the component of the Singapore economy is different from many of the ASEAN countries.

Many of the countries in SSEA region are benefiting from the moving of higher manufacturing cost in China to low-cost countries in SSEA. As the manufacturing costs in China are increasing, low-cost manufacturing companies are moving to SSEA countries. Such manufacturing companies exports primarily to the US and Europe which will result in excellent opportunities for export factoring in this direction. SSEA is therefore a high growth area for export factoring. The factoring volume in SSEA has been increasing as shown by the CAGR of 18.29% over the last 7 years.

The evolution of factoring volume in South and South East Asia

in millions of Euros



However, more work needs to be done by FCI in SSEA. For those countries where factoring is possible, we need more promotional conferences and training to get them to be effective in international factoring. In this connection, FCI together with IFC has conducted export promotion conferences in many of these countries such as Thailand, India, Cambodia, Vietnam and the Philippines. Greater advocacy work will need to be done with the central banks in countries such as Bangladesh, Pakistan, Bhutan, Maldives, Myanmar and Laos where factoring is still not approved by the respective central banks. We will be conducting a workshop with the Central Bank of Bangladesh and banks in Sri Lanka this year and will be reaching out to the other central banks in this region as well. We will continue to work with like-minded organisations like IFC and ICC to promote export factoring in this region.

CEE, SEE and the Middle East – A region with promising future

Author: Betül Kurtulus, FCI Regional Director Central, Eastern and South-Eastern Europe and the Middle East

Central & East Europe (CEE), South East Europe (SEE), and the Middle East (ME) region represent approximately 30% of total FCI volume in 21 countries and 90 members. This area consists of countries with different political and economic structures, different economic challenges, infrastructures, commercial and legal rules, and opportunities. CEE is the region where most countries are in the European Union. Although this region is affected by European Union decisions, it draws attention to its performance above the average growth rate when countries' own economies are considered only. The SEE region consists of the Balkan countries, Turkey and Russia and its neighbours. The rapid growth in the Balkan countries, will unfortunately not be observed in Turkey this year. The Middle East region, on the other hand, gives hope for the use of new products and the economic development of the region, which has completely different dynamics within FCI.

Looking at the data for 2018, Slovakia recorded an increase of over 50% in the CEE region. Hungary, Lithuania, and Poland are countries with a growth rate of over 20% compared to the previous year. Russia is among the countries with high growth rates of 30%. Turkey, one of the largest export factoring countries in the region, closed the year with a contraction of 22%, contrary to previous years' performance due to the economic crisis in 2018. Exchange rate fluctuation in the country in 2018 has a significant influence in this shrinkage.

Turkey is one of the biggest economic countries in the region. Although a growth rate of 1% was targeted in 2019, the decline in domestic market demand affected the export orientation of almost all companies. This trend has been interpreted as positive for the increase in export transactions in 2019. The 2020 growth rate is targeted as 4%. Turkey, which is the most successful export factoring country in the region with 18 active members and holder of the title of the best export factoring company for the last ten years, is expected to make up for the loss it suffered in 2018 in the near future. This is confirmed by the structural reform decisions implemented by the Central Bank of Turkey.

We do not see an increase in transaction volume as of the end of 2018 from the Middle East region. However, it should be noted that FCI has implemented two important products for the region. We see this both in the way the transactions are made, as well as volumes in large amounts. After the approval of the Supplemental Agreement for Islamic factoring by the FCI Council, FCI will be able to have new active members from countries in the region where Sharia's Law is partly or entirely applicable.

Without a doubt, FCIreverse also will be fully Sharia compliant with minor modifications in the agreements. This will mean to FCI, a new "horizon" with new members, new suppliers, new debtors and new business from both the ME region and Turkey. This transaction increase will lead to transaction increases in CEE and SEE regions.

For FCI's new product, FCIreverse, our pilot members are continuing their studies in this region. The members are supported in their studies by FCI with their consultants, Demica with infrastructure, software information and structuring. In 2019, we expect to see the new products to increase turnover throughout the region. All FCI members in the entire region of CEE, SEE and ME countries will help reaching the goals.
As FCI, our goal is to move our trading volume, which has turned the charts up in 2018, to further increase in 2019.

Bratislava, Slovakia.

Factoring in the EU – A success story in an uncertain context

Author: Françoise Palle-Guillabert, Chair EUF

2018 figures for EU Factoring: 10 years of growth

Data collected by the EU Federation for 2018 shows that factoring is developing much faster than the EU economy. This performance confirms the growing popularity of this form of funding. Factoring turnover in 2018 for EU countries exceeded EUR 1.7 trillion, with a year-on-year increase of 8%. Factoring volume has increased for a 10th year in a row, confirming its role as a key financial resource supporting companies' growth: today factoring is clearly identified as secured short-term financing product committed to the real economy and employment in Europe. The dominant type of factoring was domestic, representing 80% of total turnover. The total number of active clients in 2018 was 208,351 (an increase of 8%).

The high level of concentration shown by the EU factoring market remains unchanged, with the top five countries in 2018 representing 75% of the total EU market: United Kingdom (18.5%), France (18.5%), Italy (14.3%), Germany (14.1%), and Spain (9.6%).

Thanks to these good results the European factoring and commercial finance market represents 2/3 of the world market.

The challenge for EU Factoring: continue to progress in an uncertain context

In 2018, the factoring and commercial finance industry had to deal with major prudential and legal issues (Anacredit, NPL, Basel III, Rome 1, SMEs definition).

The EUF has lobbied the European institutions on all the issues. The most remarkable success is that we have obtained a better calibration of NSFR for factoring with assimilation to trade finance for the needs of liquidity calculation. This real success will allow EU factoring companies and their mother bank to save a lot of money.

For the year to come, the European factoring and commercial finance industry has many files to deal with: upcoming report on supply chain finance, law applicable to the third-party effects on assignments of claims, finalisation of Basel III, digitisation of the economy, assessment of the late payment directive.

In larger economic and political perspectives, the environment of the factoring and commercial finance industry is currently impacted by significant disruptions – digitisation with the emergence of new client relationships, new processes, new players, increasing awareness of corporate and social responsibility, the evolution of international trade – that challenges the European governance framework.

In political viewpoints, we are in an uncertain context with the Brexit. To date, sketching the characteristics of the European market after Brexit is a very complex exercise.

Also, we are on the eve of the European elections. EUF will take the opportunity of these elections to raise awareness about factoring and to promote its benefits for the economy. In this objective the EUF White Paper has been updated. It demonstrates that the European factoring and commercial finance is a real success story, with very low loss levels. From a regulator's perspective this implies that this form of funding should be associated with a lower risk weighting and a lower cost of capital.

In the coming months, the European factoring and commercial finance has to transform these disruptions and uncertain context into opportunities: renewed offers, enhanced risk awareness, set-up of a new factoring model. And constraints can be overcome: a European status for factoring companies could lead to lower solvency requirements and comfort the recognition of short-term specificity.

Paris, France.

Global Economic Prospects

John Brehcist FCIs Advocacy Director, takes a look at the future for the global economy

Last year when I reported on the global economic environment, there had been a generally positive sentiment about the likely performance of the global economy in 2018, given that 2017 had resulted in a stronger than anticipated results. There was a sense that an upturn in investment was going to lead to productivity improvements, higher manufacturing volumes and greater international trade.

Although continued growth was experienced in 2018, it did not reach the levels anticipated; there has being a growing sense that the rate of recovery has peaked and that growth over the coming year will be rather more muted.

For example, the IMF expects global growth this year of 3.5%, down from 3.7% in 2018 and from the 3.7% it had forecast for 2019 back in October.

When it delivered these forecasts at the World Economic Forum in Davos, Switzerland, the fund left unchanged its prediction of 2.5%. for U.S. growth this year, but it lowered the growth outlook for the combined eurozone countries from 1.8% to 1.6%.

It's their belief that growth in emerging-market countries will slow to around 4.5%, marginally down from 4.6% in 2018. The IMF forecasts that the Chinese economy, which is now the second largest behind the USA, to grow at 6.2% this year, down from 6.6% in 2018 and in fact the slowest projected rate since its predictions in 1990.

The IMF are not alone; there is a growing consensus regarding a material softening of growth with both The World Bank and the Organisation for Economic Cooperation and Development also downgrading their world growth forecasts.

The general perception is that rising trade tensions pose a major risk to the world economy. This is exemplified by the United States which has levied import tariffs on steel, aluminium and a broad range of Chinese products, an approach which has led to immediate retaliatory responses.

As the IMF Chief Economist Gita Gopinath puts it, somewhat understatedly, "Higher trade uncertainty will further dampen investment and disrupt global supply chains."

And of course, it's not just about trade sanctions; interest rates in the U.S. and elsewhere are rising and these are affecting developing market economies that extensively borrowed when rates were ultra-low following the 2007–2009 recession. Now that many of these debts are at roll over stage, they are being refinanced at more expensive rates. Combine this with a rising dollar, then the environment becomes immediately more difficult.

Downward revisions in developed economies are also being driven by concerns in the Eurozone, with German manufacturing weakness and Italy where concerns about both sovereign and financial risks have affected domestic demand, in wider Europe with a weakening financial market sentiment caused by Brexit fears and a contraction in Turkey now thought likely to be more severe and protracted than anticipated.

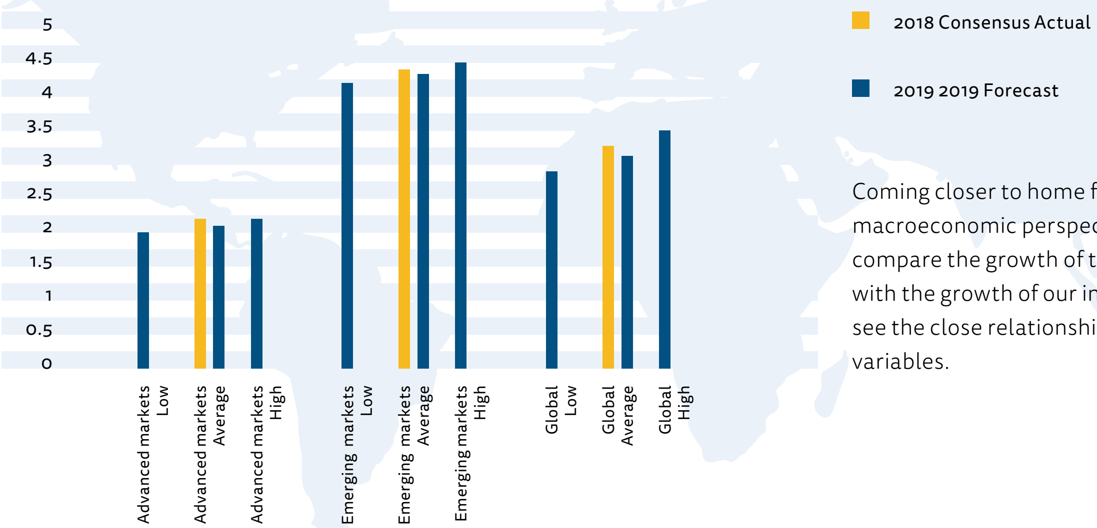
The World Bank shares the IMF's concerns and anticipates a reduction in overall global growth rates. It cites as evidence the fact that "International trade and investment are moderating, trade tensions remain at elevated levels, and financing conditions are tightening. Amid recent episodes of financial stress, growth in emerging market and developing economies has lost momentum."

It believes that downside risks have become more acute, and that both financial market pressures and trade tensions could continue to grow, negatively affecting overall global activity levels.

The United Nations is only modestly more sanguine about the global position, and that perhaps because they tend to take a longer view than the IMF and World Bank. As António Guterres, their Secretary-General states: "While global economic indicators remain largely favourable, they do not tell the whole story. Our World Economic Situation and Prospects 2019 Report underscores that behind these numbers, one can discern a build-up in short-term risks that are threatening global growth prospects. More fundamentally, there are concerns over the sustainability of global economic growth in the face of rising financial, social and environmental challenges."

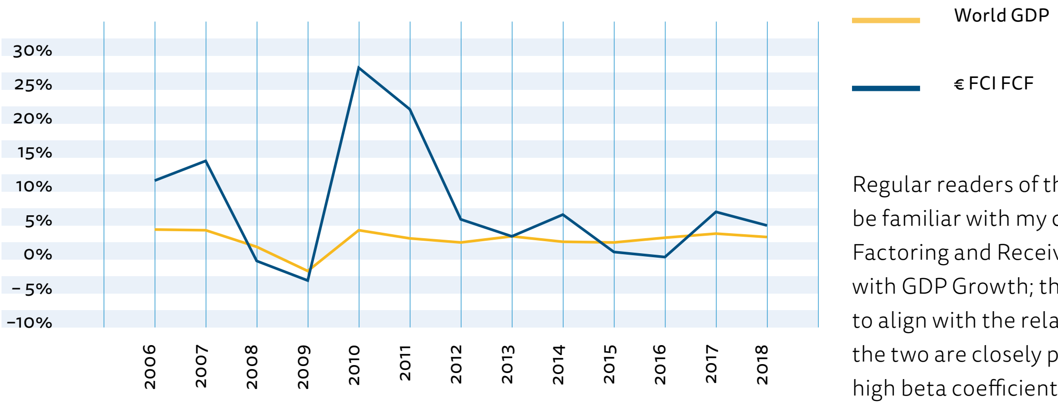
So how does all this translate to numbers? As I usually do for this article, I have taken a look at the major economic forecast sources and compared their figures to come to a combined picture of the overall position.

Consensus Actual 2018 vs Expected 2019 GDP Growth rate predictions



Coming closer to home from this macroeconomic perspective, when we compare the growth of the global economy with the growth of our industry, we again can see the close relationship that links the two variables.

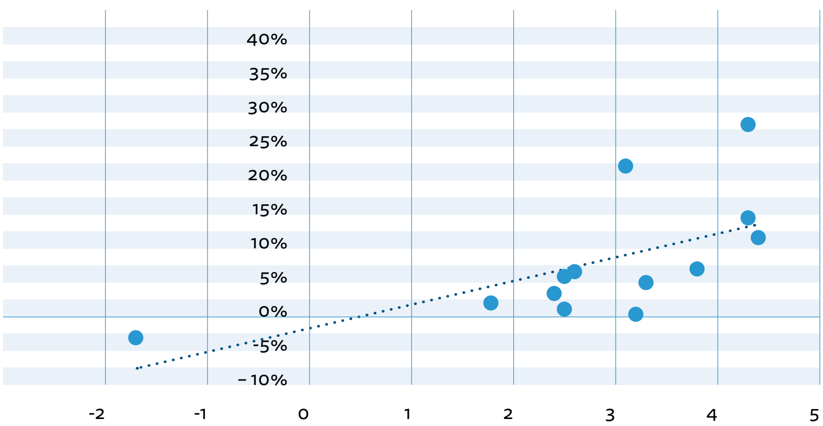
Global GDP growth % vs Factoring growth %



Source: Roundwindow Consultancy

Regular readers of the Annual Review will now be familiar with my comparative analysis of Factoring and Receivables Finance Growth with GDP Growth; this year's figures continue to align with the relationship which shows that the two are closely positively correlated, with a high beta coefficient (that is when the economy grows, factoring grows rapidly, if it contracts, our volumes will fall).

GDP growth % vs Factoring growth %



Source: Roundwindow Consultancy

The high level of correlation between GDP growth and Receivables Finance growth is perhaps not such a great surprise; we finance the real economy and we support real businesses. It's nonetheless refreshing to see that even at the global level, this very basic relationship is clearly demonstrated. I wish all FCI members every success in 2019 and beyond.

Global Industry Activity Report for 2018

By John Brehcist, FCI Advocacy Director

The Global Industry Annual Report GIAR for 2018 continues to follow the path of a programme that was initially set up in 2009; again, this iteration of the survey builds on the results of the annual effort undertaken earlier in the year to collect data on country turnovers. Accordingly, the GIAR project seeks organically to develop this work with a wider set of data, providing us the opportunity to look at the evolution of the Global Receivables Finance Industry through time.

GIAR tries to provide a unique analysis of our Industry; as well as investigating the quantitative and numeric aspects of the global business, in this project we also consider a wide range of the qualitative elements which give the opportunity to assess the general sentiments and opinions of its key participants.

Quantitative Analysis

At the time of writing, unfortunately not all the data I would wish to analyse for GIAR is currently available. Accordingly, it has not been possible for me to use all of the statistical tools usually employed to process the information that has been received, so the outcomes which are quoted may be subject to further revision through time. However, I am confident that the overall picture will be close to the final outcomes and that the information given conveys a realistic and credible picture of the global receivables finance environment.

With that caveat, I will follow the same pattern of review as last year and explain what assumptions are being made in the circumstances and will first look at some of the numeric information and consider the deductions, we can make.

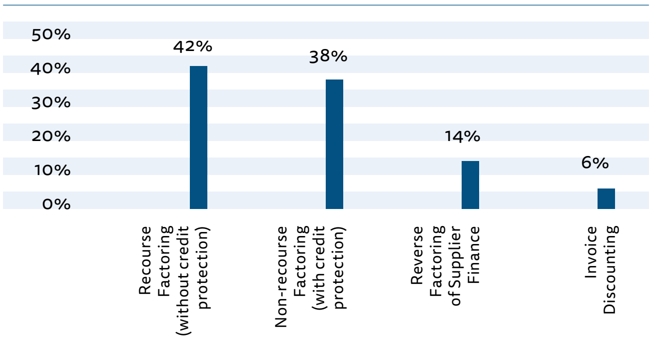
As ever, the principal challenge for the survey continues to be that in many countries the infrastructure and capability to collect and analyse data varies dramatically – and so the levels of detail that individual markets are able to provide remains highly variable. One of the real challenges for the RF Industry is to help people everywhere to understand the importance, value and power of information in our advocacy discussions and the key requirement therefore of collating accurate information.

So, here we are; the initial findings of the 2018 GIAR Report…

Product analysis

Information received indicates that the main product solutions have not changed in ranking and these continue to be recourse factoring, non-recourse factoring, invoice discounting and reverse factoring. Using available data and trend analysis we can be reasonably confident that the split will be very close to the figures shown:

Product distribution – Market average



Over the year, there appears to have been an increase in non-recourse and supply chain finance business at the proportionate expense of recourse and Invoice discounting.

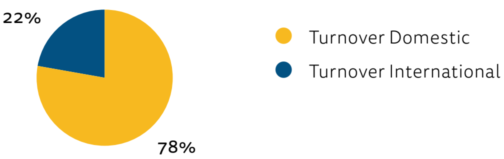
Of course, the relative proportions in individual countries continue to vary and the individual figures will reflect the local market conditions, as well as the legal and regulatory environments; this chart shows what a "typical" country distribution looks like.

It appears that the position of Reverse Factoring or Supplier Finance may have grown this last year to a typical 14% from 12% the year before thus providing a market entry opportunity for FCI's new solution FCIreverse.

Domestic and International Business

The survey continues to track the balance between domestic and international business. Where reported, the proportion of International Factoring by country was around 22%, domestic 78% – so, as discussed above, a typical country would present these levels. These proportions again are virtually unchanged from those reported in the last three years, again within the tolerances of uncertainty of the (as yet) incomplete reporting.

Domestic and International Business



Industry dynamics

2018 GDP figures from the IMF are only yet at first estimate levels and are not finalised, but using the initial available figures allows us to look at the GDP penetration of the Industry; we again appear to be operating close to the 4% mark on a global basis (which compares to around 11% for Europe where the Industry is still most established).

Using actual reported advances where they are available, imputed average days outstanding calculations and trend analysis indicates that the first estimate for total Industry advances against outstanding invoices is in the order of EUR 410 billion at the end of the year, up around 5%.

Client numbers are estimated to have reached around 730,000; again, this figure is currently derived from actual reported numbers and trend analysis. This figure has a relatively high level of uncertainty because it combines both whole turnover and spot level types of relationships – which are of course not exactly immediately comparable numbers!

The estimated number of debtors has grown to an estimated 17.6 million; as with other figures, this figure is derived from trend analysis, the actual numbers reported and imputation from actual debtor number to turnover ratios. Of the estimates, this too has a higher degree of uncertainty, as debtor numbers are highly sensitive to market structure and conditions.

Direct employee numbers are also estimated to have grown in similar proportion to around 76,000. To get to this figure, we applied trend analysis to the actual client to staff ratios in both emerging and developed markets where known and applied these on a mean basis to the countries where staff data is not currently available. It's likely that growth in China will prove to be a driving force in this ongoing expansion, but growth is globally apparent as Factoring generally remains a relatively labour-intensive service.

The total number of substantial scale companies active in the Industry is estimated at around 3,250, with the total number of businesses being in order of 7,000. Again, this figure is a challenging data point to estimate as operations vary from large scale bank owned operations down literally to so-called "Mom and Pop" operations.

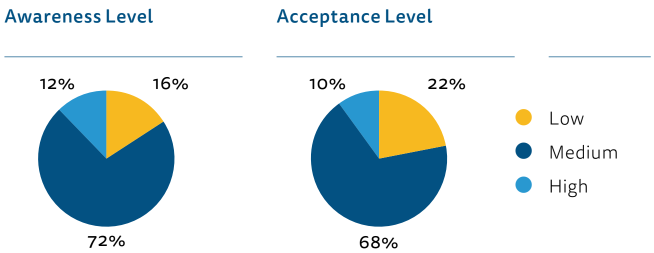
Average turnover per client is considered to have remained unchanged in scale and to be in the order of EUR 4 million; so, in the Industry we continue to be mainly dealing by number with SME businesses at the smaller end of the spectrum.
Asset Based Lending data is not yet generally available to draw firm conclusions, but anecdotal evidence suggests that it is still generally showing limited growth outside the USA which is still far and away the largest market. Accepting there may be some underreporting (because some key providers may be bank lenders which operate outside the direct Receivables Industry environment), it still appears that there is currently only relatively marginal growth and increased penetration in ABL within the Industry.

The Industry continues to demonstrate a very high level of supplier concentration. Where the figures are available, the top five concentration ratio (CR5) was reported as 82.5% of the market (82% in 2017, 84% in 2016). Bank divisions represent 44.8 % (45%, 46%), bank owned subsidiaries 32.4% (25%, 27%) whilst Independents have lost ground 6% (from 13% and 11%) respectively. Again, whilst these interim figures may yet be adapted by final reports, the domination of banks at the expense of independents is quite clear.

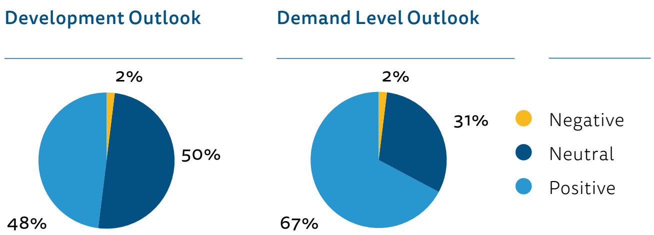
Qualitative Analysis

One of the things that makes the GIAR survey unique is in it providing an ongoing record and analysis of the perceptions within the Industry on a wide range of topics and trends and their potential effects on the Industry and its development.

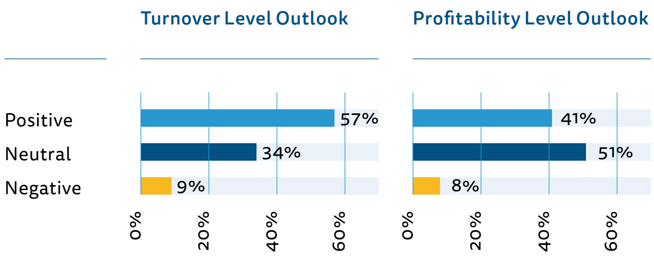
Perhaps the first and key elements to consider are Awareness and Acceptance: The responses show that in general there continues to be considerable opportunity to build and develop the impact of the Industry although (based on the statistically significant sample to date of 50 countries that have responded) the position is marginally improved from the last survey.



At the same time respondents continue to demonstrate a high level of confidence and optimism that the Industry has the capacity to continue to grow its role in supporting the real economy on a global scale. Similarly, with the demand outlook, the overall picture is strong.



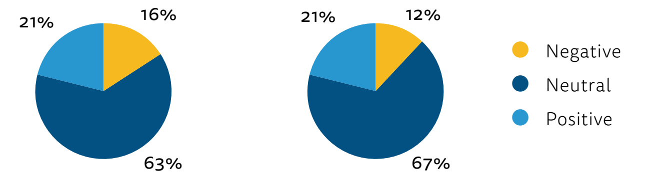
However, in both of these categories there has nonetheless been a very slight overall reduction in confidence, and this caution is also demonstrated both in expectations of turnover and in Industry profitability.



These responses suggest that respondents remain overall sanguine about prospects but recognise that there are potential issues facing their operations in the current global climate. And, risk management continues to be a key focus for providers, so the participants responses to questions on their outlook for client and debtor risk in their markets are important.

Again, the majority of respondents appear to believe the situation is relatively benign and neutral, but in each case the negative outlook responses have grown over the last year.

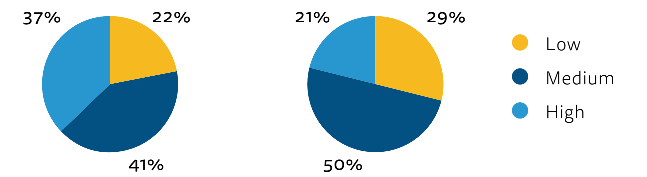
Client Risk Outlook | **Debtor Risk Outlook**



For the last couple of years, we have extended the range of questions for respondents in co-operation with the Asian Development Bank. The two organisations have a common interest in looking at the impact of regulation, credit and capital issues and the role of technology in developing the Industry.

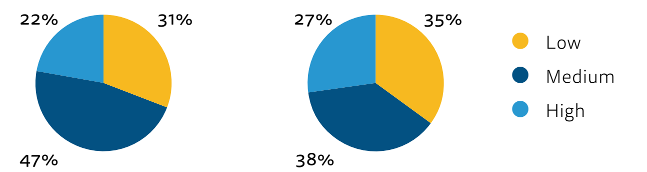
The responses this year suggest that participants have generally again been feeling an increasing effect of AML/KYC regulations compared to previous years, with a clear increase in the overall level of impact reported. On the other hand, the responses for Basel impact on development were more muted, perhaps again reflecting a rather narrower overall global influence of these regulations on the industry.

Impact on Development: AML/KYC Requirements | **Impact on Development: Basel Regulations**



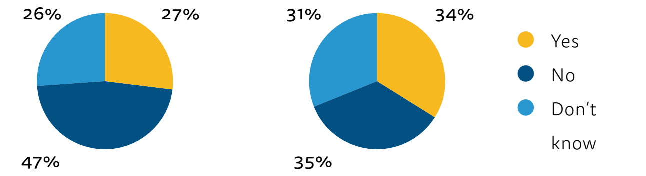
Similarly, we again asked respondents to consider the impact of capital constraints and access to liquidity. In 2017 we had seen a small but significant improvement in sentiment and last year worries regarding capital and liquidity have continued generally to reduce, although in the case of liquidity the perception has been more polarised.

Impact on Development: Capital Constraints | **Impact on Development: Lack of Liquidity**



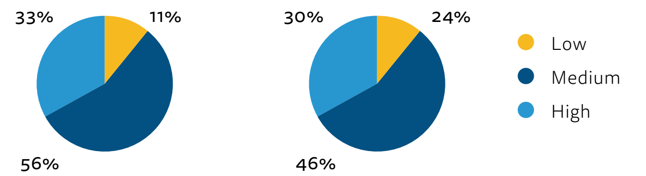
Two issues considered in the survey again appear to have some significant implications for FCI and its members in respect of the current international trading environment. There was a marked improvement in the overall confidence in the capacity to provide factoring to fund international business. Whilst they are still generally concerned, respondents are generally more relaxed this year about the negative potential that protectionism might have. Perhaps again the fact that the dire predictions regarding US and Chinese protectionism that were feared in the press and forecast by raconteurs last year have (at least not yet) not created a real world degrading impact for most.

Is there a Shortfall of Factoring to fund International Business? | **Could Protectionism widen any Trade Finance Gap even more?**



Finally, we also asked for respondents' perceptions regarding the potential impact of fintech on industry processes. It's a challenge to the fintech industry that overall the RF industry has noticeably lost confidence in the value of fintech in its potential ability to improve KYC operations with high potential responses dropped from 46% to 30%. However, its potential use for client risk assessment, remained more or less unchanged. This continued apparent lack of progress is a matter for some discussion, and clearly indicates there is still work to be done to actually operationalise the potential benefits.

Fintech: Potential to improve Small Client Risk Assessment | **Fintech: Potential to facilitate KYC?**



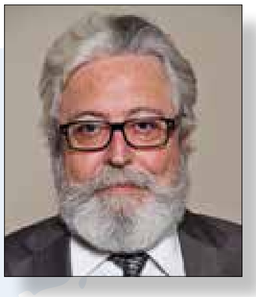
Summary

This year's GIAR again provides an overview of the global factoring industry which demonstrates considerable global similarities in the structure and delivery of the products but also gives insight as to how parameters such as awareness and acceptance, product application and prospects are certainly not homogenous.

From the responses, we can gain a compelling and broad picture of the Industry. But it's also the case that we still have to make sensible estimates and derive information as the infrastructures in many countries are not yet sufficiently developed, robust or co-ordinated to fully address the questions.

In putting together this review, we collect, consider and manage a very large number of data items, and its collation is a very significant task. I'd like to thank all the country respondents for their hard work in gathering data for their countries.

FCI Expressed in Figures



By Harry Biletta, FCI Planning and Development Director

The number of members who did contribute was similar to the previous year representing almost 70% in number and their total volume added up to EUR 1,286 billion and hence all data hereafter relates exclusively to these real figures.

Domestic factoring share of the total volume was 78%, 22% being recourse factoring, 47% without recourse, 17% invoice discounting, 9% reverse and 6% collection only.

Export factoring accounted for 15% of the total, 9% of the volume relating two-factor business.

The share of Direct export invoice discounting dropped to 4% whilst Import factoring accounted for 2%, 58% representing two factor business. Reverse accounted for the remaining 1%.

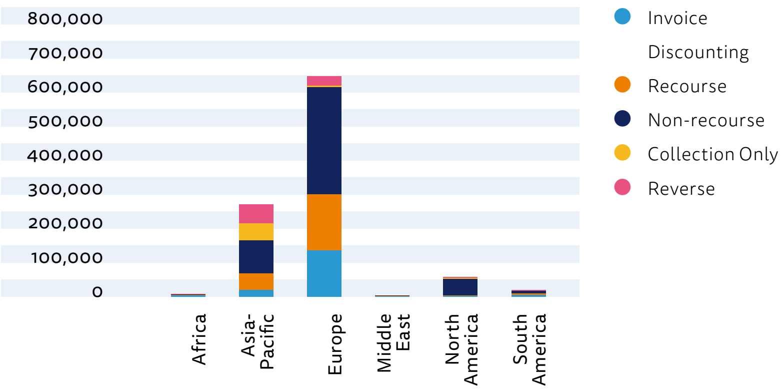
The following chart is the result of the actual contributions received from the Members together with the estimates for 2018.

Accumulative Turnover Figures for All FCI Members Compared to Worldwide Factoring Turnover | **in millions of Euros**

	2011	2012	2013	2014	2015	2016	2017	2018	Variation 2017/2018
Invoice Discounting	279,113	302,030	330,518	299,930	310,313	333,544	**303,272**	**266,606**	-12%
Recourse Factoring	267,523	306,187	339,644	356,058	301,948	236,613	**231,270**	**245,583**	6%
Non-Recourse Factoring	331,257	352,353	344,863	372,115	434,456	481,172	**478,640**	**482,885**	1%
Collections	26,018	27,786	31,399	40,123	57,725	47,472	**40,866**	**57,185**	40%
Reverse							**50,010**	**89,482**	79%
Total Domestic Factoring FCI	**903,912**	**988,529**	**1,046,425**	**1,068,226**	**1,104,441**	**1,098,800**	**1,104,058**	**1,141,741**	3%
Export Factoring	162,972	192,573	219,285	242,472	261,214	256.551	**292,408**	**211,195**	-28%
Import Factoring	30,943	36,707	50,481	54,081	66,612	63,446	**55,460**	**31,719**	-43%
Export Invoice Discounting	51.069	85,163	87,447	89,025	96,871	108,038	**106,104**	**59,569**	-44%
Reverse							**4,497**	**7,638**	70%
Total International Factoring FCI	**244,983**	**314,442**	**357,213**	**385,579**	**424,697**	**428,035**	**458,469**	**310,120**	-32%
Grand Total FCI	**1,148,895**	**1,302,971**	**1,403,638**	**1,453,804**	**1,529,138**	**1,526,836**	**1,562,527**	**1,451,861**	-7%
World Domestic Factoring	1,750,899	1,779,785	1,827,680	1,857,410	1,838,366	1,868,855	**2,078,758**	**2,244,214**	8%
World International Factoring	264,108	352,446	402,798	490,114	529,379	507,112	**519,540**	**522,852**	1%
World Total	**2,015,007**	**2,132,231**	**2,230,477**	**2,347,524**	**2,367,745**	**2,375,967**	**2,598,298**	**2,767,067**	6%

FCI Members Domestic Volume 2018

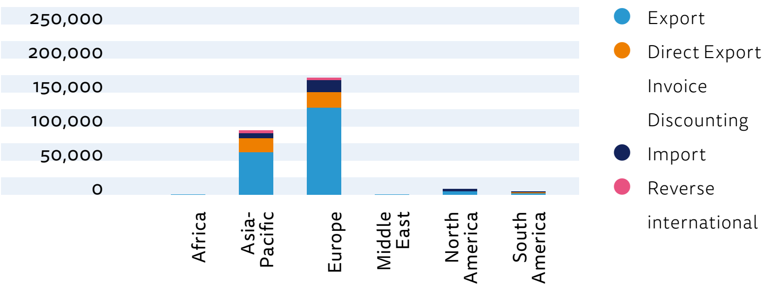
in millions of Euros



All Continents contribution to the FCI Members' Domestic volume shows Europe at the top by far. Here the Non-Recourse volume has grown to 40%, Recourse to 23% whilst Invoice Discounting shows a small decrease to 22%.

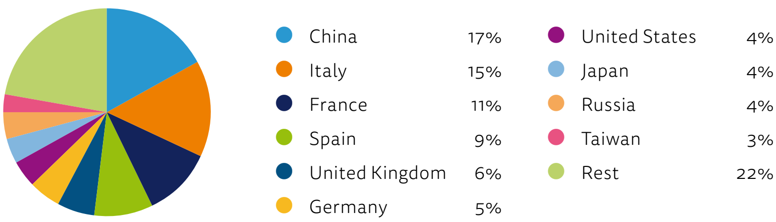
FCI Members International Volume 2018

in millions of Euros



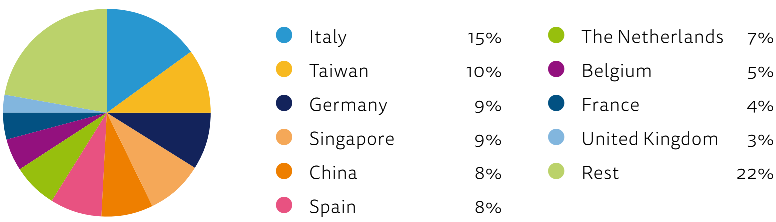
When breaking down the FCI Members International volumes by continent, Europe, reaching 61% gained the leading position, replacing Asia Pacific (34%). The Americas together accounted for over 5% whilst Afrca and Middle East together represented less than 1%.

Share of 2018 FCI Factoring Volume



The volume of the "Top Ten" FCI Members' countries/Territories accounts for to 78% of the total, China leading the way with 17% followed by Italy (15%) France (11%), Spain (9%), UK with 6%, Germany 5%, US, Japan and Russia (4%) and Taiwan (3%).

Share of 2018 FCI International Factoring Volume



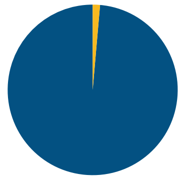
When breaking down the volumes of FCI Members' Countries/Territories International Factoring volume, we find the "Top Ten" adding up to 78% and find Italy in first position with 15%, followed by Taiwan (10%), Germany and Singapore (9%) China and Spain (8%), The Netherlands (7%) Belgium (5%), France (4%) and UK (3%).

Factoring Turnover by Country in 2018

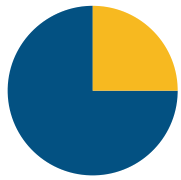
in millions of Euros

Country	Domestic	International	Total	Companies
Egypt	428	89	517	9
Mauritius	224	3	227	3
Morocco	2,424	108	2,532	6
South Africa	18,532	50	18,582	13
Tunisia	299	17	316	5
Africa Total	**21,907**	**267**	**22,174**	**36**
Australia	54,319	11	54,330	6
China	371,784	39,789	411,573	31
Hong Kong	13,500	40,000	53,500	17
India	4,000	532	4,532	10
Japan	42,135	7,213	49,348	3
Korea	16,413	9,232	25,645	166
Malaysia	4,387	72	4,459	25
Singapore	25,300	18,700	44,000	18
Taiwan	13,384	27,814	41,198	19
Thailand	5,877		5,877	6
Vietnam	–	1,100	1,100	15
Asia-Pacific Total	**551,098**	**144,463**	**695,562**	**166**
Armenia	55	80	135	7
Austria	17,357	6,750	24,107	4
Belarus	266	114	380	15
Belgium	76,310	30	76,340	5
Bulgaria	2,143	1,068	3,211	9
Croatia	1,036	58	1,094	9
Cyprus	3,540	45	3,585	3
Czech Republic	4,399	2,379	6,778	6
Denmark	10,186	8,451	18,637	9
Estonia	2,988	612	3,600	6
Finland	23,500	2,300	25,800	5
France	223,752	96,657	320,409	13
Georgia	26	2	28	3
Germany	167,000	77,300	244,300	183
Greece	12,483	2,152	14,635	7
Hungary	6,514	397	6,911	15
Ireland	24,716	1,578	26,294	5
Italy	188,764	58,666	247,430	30
Latvia	390	394	784	6
Lithuania	1,500	2,160	3,660	9
Luxembourg	339	–	339	1
Malta	358	196	554	3
Moldova	–	4	4	1
Netherlands	78,694	19,674	98,368	5
Norway	23,167	2,756	25,923	4
Poland	46,645	9,829	56,474	24
Portugal	24,295	7,462	31,757	13
Romania	4,078	929	5,007	19
Russia	43,543	297	43,840	68
Serbia	585	65	650	21
Slovakia	1,601	920	2,521	8
Slovenia	930	470	1,400	15
Spain	146,963	19,428	166,391	20
Sweden	19,227	595	19,822	15
Switzerland	495	98	593	5
Turkey	22,411	4,483	26,894	82
Ukraine	244	1	245	19
UK	292,222	27,971	320,193	95
Europe Total	**1,472,772**	**356,370**	**1,829,142**	**767**
Israel	2,413	252	2,665	10
Lebanon	554	121	675	3
UAE	4,000	1,500	5,500	6
Middle East Total	**6,967**	**1,873**	**8,840**	**19**
Canada	1,801	479	2,280	78
USA	72,100	15,721	87,821	700
North America Total	**73,901**	**16,200**	**90,101**	**778**
Argentina	3,052	12	3,064	5
Brazil	47,208	73	47,281	600
Chile	23,900	2,600	26,500	150
Colombia	7,142		7,142	19
Dominican Rep	272	30	302	17
Guatemala	174	108	282	10
Honduras	51	16	67	2
Mexico	23,938	539	24,477	19
Peru	11,737	286	12,023	10
Uruguay	95	15	110	2
South America Total	**117,569**	**3,679**	**121,248**	**834**
Grand Total	**2,244,214**	**522,852**	**2,767,067**	**2,600**

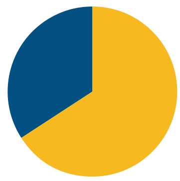
Total Factoring Volume



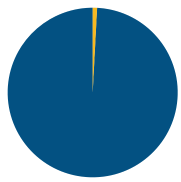
Africa 0.80%



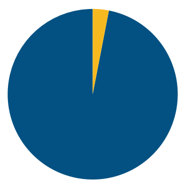
Asia-Pacific 25.14%



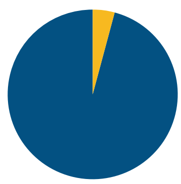
Europe 66.10%



Middle East 0.32%



North America 3.26%



South America 4.38%

Total Factoring Volume by Country in the Last 7 Years

in millions of Euros

	2012	2013	2014	2015	2016	2017	2018	Var
Egypt	220	450	435	537	550	418	517	24%
Mauritius	128	145	206	235	256	208	227	9%
Morocco	1,844	2,755	4,200	2,708	2,708	3,374	2,532	-25%
South Africa	21,378	19,400	15,898	14,672	16,291	17,117	18,582	9%
Tunisia	357	373	355	354	373	339	316	-7%
Total Africa	**23,928**	**23,123**	**21,094**	**18,721**	**20,393**	**21,671**	**22,174**	**2%**
Australia	49,606	40,206	42,290	41,761	47,658	47,658	54,330	14%
China	343,759	378,128	406,102	352,879	301,635	405,537	411,573	1%
Hong Kong	29,344	32,250	30,800	33,425	42,676	46,945	53,500	14%
India	3,650	5,240	4,340	3,700	3,881	4,269	4,532	6%
Japan	97,210	77,255	51,072	54,184	49,466	37,284	49,348	32%
Korea	8,000	12,343	12,713	13,094	14,142	13,094	25,645	96%
Malaysia	1,782	1,782	1,782	330	1,527	1,650	4,459	170%
Singapore	8,670	9,970	37,840	38,900	40,500	44,000	44,000	0%
Taiwan	70,000	73,000	56,680	52,693	47,189	49,548	41,198	-17%
Thailand	4,339	3,348	4,144	4,414	5,300	5,600	5,877	5%
Vietnam	61	100	100	335	658	700	1,100	57%
Total Asia Pacific	**616,424**	**634,441**	**648,716**	**596,633**	**555,550**	**657,189**	**695,562**	**6%**
Armenia	0	62	70	75	100	120	135	13%
Austria	10,969	14,110	16,400	18,264	19,621	21,091	24,107	14%
Belarus				320	330	250	380	52%
Belgium	42,352	47,684	55,374	61,169	62,846	69,641	76,340	10%
Bulgaria	1,500	1,600	1,728	1,820	1,947	2,919	3,211	10%
Croatia	2,269	3,146	2,498	2,885	2,825	1,340	1,094	-18%
Cyprus	3,350	2,823	2,671	2,414	2,925	2,830	3,585	27%
Czech Republic	5,196	5,302	5,912	5,064	4,848	6,121	6,778	11%
Denmark	8,800	8,932	10,463	12,606	13,237	14,948	18,637	25%
Estonia	1,877	1,899	2,010	2,010	2,495	2,495	3,600	44%
Finland	17,000	17,699	20,554	23,095	22,000	24,000	25,800	8%
France	186,494	200,459	226,598	248,193	268,160	290,803	320,409	10%
Georgia		0	5	14	14	25	28	10%
Germany	157,420	171,290	189,880	209,001	216,878	232,431	244,300	5%
Greece	12,761	12,094	13,017	12,869	12,782	13,151	14,635	11%
Hungary	2,676	2,661	2,827	3,779	3,635	5,730	6,911	21%
Ireland	19,956	21,206	25,476	25,978	23,952	26,294	26,294	0%
Italy	181,878	178,002	183,004	190,488	208,642	228,421	247,430	8%
Latvia	542	592	680	867	867	720	784	9%
Lithuania	2,488	2,763	5,550	3,150	3,100	3,000	3,660	22%
Luxembourg	299	407	339	339	339	339	339	0%
Malta	240	178	296	275	275	350	554	58%
Moldova			13	17	17	3	4	33%
Netherlands	50,000	52,000	53,378	65,698	82,848	89,713	98,368	10%
Norway	18,115	16,296	17,182	18,476	21,867	22,682	25,923	14%
Poland	24,510	31,588	33,497	35,020	39,396	44,300	56,474	27%
Portugal	22,948	22,303	21,404	22,921	24,517	27,008	31,757	18%
Romania	2,920	2,713	2,700	3,651	4,037	4,560	5,007	10%
Russia	35,176	41,960	29,170	23,332	28,004	33,792	43,840	30%
Serbia	950	679	306	445	555	603	650	8%
Slovakia	1,024	1,068	1,036	1,036	1,646	1,646	2,521	53%
Slovenia	650	626	563	329	1,000	1,200	1,400	17%
Spain	124,036	116,546	112,976	115,220	130,656	146,292	166,391	14%
Sweden	33,149	30,544	28,290	26,078	20,481	20,094	19,822	-1%
Switzerland	3,000	3,100	3,832	3,832	3,832	3,832	593	-85%
Turkey	31,702	32,036	41,229	39,310	35,085	34,575	26,894	-22%
Ukraine	1,233	1,340	1,035	442	295	295	295	0%
United Kingdom	291,200	308,096	350,622	376,571	326,878	324,260	320,193	-1%
Total Europe	**1,298,680**	**1,353,742**	**1,462,510**	**1,556,977**	**1,592,988**	**1,701,939**	**1,829,142**	**7%**
Israel	1,422	1,060	3,000	2,108	3,080	3,295	2,665	-19%
Lebanon	301	352	416	508	610	662	675	2%
UAE	2,900	3,500	5,020	5,350	3,831	4,000	5,500	38%
Total Middle East	**4,698**	**5,000**	**8,498**	**8,028**	**7,583**	**8,019**	**8,840**	**10%**
Canada	7,100	5,680	5,831	5,530	5,609	5,392	2,280	-58%
USA	77,543	83,739	97,670	95,000	89,463	87,000	87,821	1%
Total North America	**84,643**	**89,419**	**103,501**	**100,530**	**95,072**	**92,392**	**90,101**	**-2%**
Argentina	614	856	1,299	1,551	1,891	2,282	3,064	34%
Brazil	43,627	31,552	31,782	28,965	45,379	50,432	47,281	-6%
Chile	24,000	25,500	24,850	22,300	25,050	22,756	26,500	16%
Colombia	4,562	7,076	8,985	10,333	7,630	7,655	7,142	-7%
Dominican Republic						144	302	110%
Guatemala							282	
Honduras				22	27	27	67	148%
Mexico	26,130	28,061	25,486	19,291	22,510	23,314	24,477	5%
Peru	2,310	8,163	8,293	1,475	1,550	10,105	12,023	19%
Uruguay	61	58	70	90	84	98	110	12%
Total South America	**101,519**	**101,412**	**103,124**	**86,826**	**104,396**	**117,088**	**121,248**	**4%**
Total World	**2,132,186**	**2,208,372**	**2,347,513**	**2,367,790**	**2,375,967**	**2,598,298**	**2,767,067**	**6.50%**

Photography

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