# FROM REFORM TO IMPACT: THE PAST, PRESENT AND FUTURE OF LEGAL AND REGULATORY REFORMS AIMED AT IMPROVING ACCESS TO FINANCE FOR SMEs AND STARTUPS

"Through its work on factoring, crowdfunding and secured transactions, the EBRD's Legal Transition Programme helps businesses unlock capital, encourages entrepreneurship and creates more resilient economies."

1

2

1
**MILOT AHMA**
PRINCIPAL COUNSEL, EBRD
ahmam@ebrd.com

2
**LIUBOV SKORYK**
COUNSEL, EBRD
skorykl@ebrd.com

With contributions from

**OUNS LEMSEFFER**
PARTNER, CLIFFORD CHANCE

**LIZAVETA TRAKHALINA**
PRINCIPAL COUNSELLOR, INSTITUTIONAL CAPACITY AND DELIVERY, EBRD

For decades, the EBRD's Legal Transition Programme (LTP) has been instrumental in shaping the legal and regulatory frameworks that support factoring, crowdfunding and secured transactions in economies where the EBRD invests. With transaction volumes for these products at an all-time high, now is a good time to assess what has been accomplished and identify areas where successes can be built on.

## THE GLOBAL REACH OF LTP PROJECTS

Access to finance is a cornerstone of economic development, yet many businesses – especially small and medium-sized enterprises (SMEs) – struggle to secure the funding they need to grow. The LTP, by focusing on access to finance (among other areas), aims to address this by developing legal and regulatory frameworks that enable modern, efficient and inclusive financial systems. Through its work on factoring, crowdfunding and secured transactions, the LTP helps businesses unlock capital, encourages entrepreneurship and creates more resilient economies.

Work under the Programme spans diverse regions, comprising unique economic landscapes, but sharing common financial challenges. The economies in which the EBRD invests are typically in transition – rich in potential but facing structural barriers to growth. Many of these economies have large SME sectors, but these businesses struggle with limited access to finance, owing to underdeveloped banking systems, rigid collateral requirements and risk aversion on the part of investors.

The transformative power of financial reforms – such as factoring, crowdfunding and secured transactions – has been crucial in unlocking financing opportunities for businesses across the EBRD regions. While drawing a direct causal link between legal reforms and market impacts can be challenging, there is a strong argument that well-designed laws act as catalysts for market dynamism and growth, especially when coupled with capacity building and outreach activities, advisory work and, ultimately, transactions.

## FACTORING: UNLOCKING LIQUIDITY FOR SMALL BUSINESSES

Most companies in the EBRD regions typically possess limited immovable assets, which traditionally serve as collateral for banking loans – still a major form of financing. At the same time, businesses of any size often own receivables that are eligible to be factored. Factoring is a financial service based on the transfer of accounts receivable (short-term assets) in exchange for financing, which unlocks access to working capital. Given the inclusivity and flexibility of the service, the factoring and receivables finance industry has been growing exponentially. However, legislative, institutional, capacity, market and technological bottlenecks often limit its growth.

The LTP's experience in several countries highlights the transformative impact of factoring reforms. In **Croatia**, the adoption of factoring laws in 2014 set the stage for rapid market growth. The laws came into effect in

2017, by which time factoring penetration in Croatia had already surpassed the global average,[1] proving its effectiveness as a valuable financing tool for local businesses. Between 2014 and 2016 Croatia's factoring market experienced substantial growth, with total annual factoring volumes of between €2.5 billion and €2.9 billion.[2] In 2017, however, there was a decline in the annual factoring volume, attributed to – among other things – market externalities and the collapse of a major retailer in the country.[3] Despite this dip, the market regained ground from 2018 to 2023, with annual factoring volumes consistently ranging from €1.1 billion to €1.4 billion.[4]

In **Montenegro**, following technical assistance from the LTP to the Ministry of Finance, the country's parliament passed the Act on Financial Leasing, Factoring, Purchase of Receivables, Microcredit and Credit-Guarantee Operations on 25 October 2017. This legislation, which came into effect on 11 May 2018, sparked a gradual increase in the use of factoring. Although the market started slowly, with no factoring licences issued that year,[5] by the end of 2019 one factoring company had started operating. Overall, factoring receivables rose by 6 per cent in 2019, with that single company reporting receivables of €1.1 million.[6] By 2021 the central bank had licensed a second factoring company[7] and factoring had gained significant traction, with 12 per cent of businesses recognising it as a relevant financing option.[8] The two factoring companies in Montenegro began to see a substantial increase in their receivables, recording a combined figure of €7.8 million in 2022 – up 71 per cent on the previous year.[9] In 2023 the volume of factored receivables in the market stood at €8.1 million, continuing the trend of steady growth.[10]

In 2022, the two Montenegrin factoring companies' receivables increased by
**71%**
year on year

Between 2018 and 2023 **Kosovo**'s factoring sector underwent significant transformation, driven by regulatory reforms supported by the EBRD. A landmark development occurred in 2018, when the Board of the Central Bank of Kosovo adopted the Regulation on Factoring, which entered into force in November 2019. Between 2020 and 2023 the total annual factoring volume remained steady at around €30 million, with no international factoring activity recorded during this period.[11] Following the reform, the first Kosovan bank joined the FCI network (FCI being the global representative body for factoring and financing of open account domestic and international trade receivables).[12] As a result, local businesses were able to tap into international and reverse factoring, expanding opportunities for cross-border trade finance.

1 See FCI (2017), p. 10.
2 See FCI (2017), p. 24.
3 The Croatian Financial Services Supervisory Agency primarily attributed the decrease in the annual factoring volume to developments connected with business relations with the Agrokor Group companies during 2017 and 2018 for factoring transactions involving the discounting of bills of exchange. Specifically, the business relations of factoring companies with Agrokor Group companies resulted in significant value adjustments and write-offs of receivables. For more information, see CFSSA (2017), p. 16.
4 See FCI (2024), p. 31.
5 See CBCG (2018), p. 54.
6 See CBCG (2019), p. 51.
7 See CBCG (2021), p. 61.
8 See EBRD (2022), p. 11.
9 See CBCG (2022), p. 63.
10 See CBCG (2023), p. 71.
11 See FCI (2021-24).
12 See FCI (2022), p. 16.

Factoring in **North Macedonia** has seen significant growth over the past few years, driven by both market demand and crucial regulatory support. Back in 2017 the market was limited, with only two financial institutions offering factoring services. However, from 2020 to 2022, factoring in North Macedonia steadily expanded, with combined domestic and international turnover standing at between €23 million and €25 million annually. A key turning point for the industry came in 2023, when legislative amendments supported by the EBRD were introduced. In July of that year, the Assembly of the Republic of North Macedonia adopted amendments to Law No. 08 – 3790/1 on Financial Companies. These amendments provided more clarity around factoring transactions in the country by (i) providing a definition of different types of factoring, including recourse, non-recourse and reverse factoring; (ii) explicitly allowing for factoring agreements to be signed electronically; and (iii) clarifying insolvency procedures for factoring companies and ensuring that factored invoices did not form part of the insolvency estate of the assignor. As a result, there was a jump in factoring activity in 2023, with total factoring turnover reaching €38 million.[13]

## CROWDFUNDING: EMPOWERING ENTREPRENEURS

Crowdfunding platforms provide smaller businesses with opportunities to access financing that might otherwise be unavailable through traditional financial institutions or capital markets. Following successful crowdfunding initiatives in Armenia, Kazakhstan, Morocco and Türkiye, significant legislative progress has been made in these countries. Four key laws have been enacted, facilitating the establishment of 30 licensed crowdfunding platforms: one in Armenia, eight in Kazakhstan, three in Morocco and eighteen in Türkiye.

Between 2019 and 2024, **18** equity-based crowdfunding platforms were licensed in Türkiye

In February 2022 the Central Bank of **Armenia**'s board approved a package of regulations developed with assistance from the LTP. This framework enables Armenian SMEs to access new financial products, such as equity crowdfunding, and reach a wider pool of investors. The first Armenian crowdfunding platform to be licensed on the basis of this regulatory framework – ARFI – obtained its licence in 2022 and, by March 2024, it had hosted four projects, raising more than US$ 3 million. Although this initial crowdfunding platform is no longer active, a new platform – Eqwefy – was licensed in 2024 and began operations with two campaigns worth €40,000 in total.[14]

In **Türkiye**, the LTP provided the Capital Markets Board with drafting advice and other guidance on secondary legislation for equity crowdfunding. The EBRD's guidance extended to donation- and reward-based crowdfunding, as well as best practices for regulating debt-based crowdfunding. This resulted in the approval and publication of new legislation in 2019, which allowed equity-based

13 See FCI (2021-24).
14 See https://eqwefy.com/en (last accessed 28 May 2025).

crowdfunding platforms to enter the market. Between 2019 and 2024, 18 such platforms were licensed, and they have raised more than €30 million in equity for startups and early-stage businesses (based on publicly available information in April 2025).[15]

In **Kazakhstan**, amendments to the Astana International Financial Centre (AIFC) Financial Services Framework Regulations, supported by the LTP, were approved in 2019 to regulate both debt- and equity-based crowdfunding. Prior to these reforms, no crowdfunding platforms existed in the AIFC. By 2023 there were eight active platforms, raising more than €1 million, mostly through loan-based crowdfunding.

Between 2018 and 2021 the LTP provided assistance to the Ministry of Finance of **Morocco**, the Central Bank of Morocco and the Moroccan Capital Markets Authority with a view to establishing a legal and regulatory framework for crowdfunding. In February 2021 the Moroccan House of Representatives unanimously adopted Bill No. 15-18 on crowdfunding. Since then, the LTP has assisted the authorities with issuing the relevant implementing regulations and guidelines, with the licensing process officially starting in 2024. At the time of writing, two lending-based crowdfunding platforms have officially been licensed in the country and are due to commence operations soon.

15 See Capital Markets Board of Türkiye (n.d.).

## SECURED TRANSACTIONS: STRENGTHENING FINANCIAL INFRASTRUCTURE

A secured transaction regime provides businesses, especially SMEs, with the ability to access financing by using their movable assets – such as inventory, receivables or equipment – as collateral. This system is particularly important in regions where traditional forms of collateral, such as real estate, are limited or unavailable, as it bridges the financing gap and allows a wider range of businesses to secure the capital they need for growth. A robust secured transactions framework is vital for creating a resilient, inclusive market economy and serves as an attractive factor for foreign investors.

In 1992 none of the economies in which the EBRD operated had practical, up-to-date laws allowing non-possessory security over movable assets. Moreover, using immovable property as collateral was often complicated by ineffective rules or, in some cases, non-existent land registers.

To address this gap, the EBRD introduced its Model Law on Secured Transactions in 1994. This aimed to harmonise security rights legislation in the EBRD regions and set clear expectations for international investors and lenders. The framework outlined core principles for secured transactions and has since guided reforms across these regions. Several countries subsequently adapted their national laws based on the EBRD's Model Law, including Hungary (1996), Romania (1999), Serbia (2003) and the Slovak Republic (2003). These reforms have made it easier for businesses to access credit by enabling them to pledge movable assets as security for loans.

A more recent success story can be found in **Morocco**, where, in 2018, EBRD-supported reform culminated in the introduction of Law No. 21-18 on security over movable assets. This law aimed to streamline access to credit and enhance the efficiency of investment protection. For instance, under the former security law, subject to some exceptions, public auction was the principal way to enforce security over movable assets. The new law introduced major innovations, including three new methods of enforcing security over movable assets and a single registration regime for pledges. These changes have made the process more coherent, efficient and transparent, further supporting business growth and economic development in the country.

> “Digitalisation – along with other critical building blocks – has the potential to make financial products safer, cheaper and more efficient to deploy.”

## LOOKING AHEAD: SCALING UP IMPACT

“The farther back you can look, the farther forward you are likely to see.” In these challenging times, when “doing more with less” is the ultimate aim, Winston Churchill’s words resonate more than ever.

Taking stock of accomplishments, together with continuous dialogue with public and private stakeholders across EBRD regions, provides the benefit of hindsight and the ability to apply lessons learned to further refine our approach to reforms.

Passing a law is not the end of the road; it is the beginning of a new cycle – a cycle of assessment and reflection, involving meaningful engagement with financial institutions, corporates and SMEs through both transactional and advisory work to promote the effective implementation of new laws and regulations.

While the Bank’s reform efforts have been successful, it is constantly striving to improve. Today, its approach is more comprehensive than ever. Alongside legal reforms, the EBRD promotes the use of digital tools as a key component for unlocking both scale and value in financial services. Digitalisation – along with other critical building blocks – has the potential

“

In my work advising numerous banks in Morocco, I have witnessed a remarkable difference in their approach to lending since the entry into force in 2018 of Law No. 21-18 on security over movable assets.

A key area is the introduction of the **national electronic registry for movable assets**. This simple platform, to which everyone has access, serves two functions: it informs third parties of the existence of non-possessory pledges and it establishes the priority status of such pledges.

Another significant development is in relation to the **enforcement of movable collateral**. Before, the only enforcement route was judicial, through a court process, which was unpredictable, lengthy and costly. The new law now provides a clear pathway for out-of-court enforcement. Upon default, the title of the pledged assets goes directly to the creditor, who can then sell it privately or via public auction, bypassing the need for protracted court-led auctions. This clarity has been a major driver in prompting banks to accept movable assets as collateral and approve deals that might not have been considered previously.

An additional notable advance that I have noticed is the **increased bankability of project finance**. The fact that future receivables generated under a project can now be effectively secured has clearly boosted creditors’ appetite.

Furthermore, the legal framework for **pledging shares** now works very well, adding another layer of viable collateral options. The introduction of the **security agent** has also streamlined the process of creating, handling and enforcing securities in syndicated deals, leading to greater efficiencies.

While quantifying the overall impact might be challenging, the shift in behaviour among market participants is undeniable.

**Ouns Lemseffer**
Partner, Clifford Chance, Casablanca

to make financial products safer, cheaper and more efficient to deploy. This, in turn, should stimulate both demand for and supply of alternative financial services, leading to broader and more affordable access to finance.

The Bank's longstanding work in Georgia provides a good example. In addition to supporting the drafting of the new Law on Factoring (currently pending before the country's parliament), the EBRD, through its Investment Council, has helped design the upgrading of public digital infrastructure – including invoice registries – which will reduce some of the risks associated with factoring, such as double invoicing, and enable faster and more effective market adoption once the law enters into force.

Looking ahead, scaling up impact will be a key focus. Expanding the reach of EBRD reforms to more countries will require political will, sustained collaboration and continued commitment to strengthening the regulatory frameworks that underpin these vital financial services.

Continued efforts to enhance both the legal and financial infrastructure can be expected to result in greater innovation, improved access to finance and long-term economic growth across the EBRD regions.

> To operationalise the forthcoming Law on Factoring, the EBRD helped the Georgian government with the design of a centralised electronic platform for the registration of factoring invoices. The aim of this platform is to facilitate inclusive, freely accessible, transparent and reliable B2B/B2G factoring operations throughout Georgia. The design ensures protection against the use of invalid or unsuitable invoices; fraud on the part of sellers, such as increases in the value of a transaction; risks of double financing (submission of the same invoices by different factors); and general operational risks. The e-factoring platform is expected to provide SMEs with an additional mechanism for accessing funds more quickly by matching them with factoring companies.
>
> **Lizaveta Trakhalina**
> Principal Counsellor, Institutional Capacity and Delivery, EBRD

## References

Capital Markets Board of Türkiye (n.d.), "Listed platforms" [in Turkish]. Available at: https://spk.gov.tr/sirketler/kitle-fonlama-platformlari/listeye-alinan-platformlar (last accessed 28 May 2025).

CBCG (2018-23), *Annual Reports*, Central Bank of Montenegro. Available at: https://www.cbcg.me/en/publications/regular-publications/central-bank-of-montenegro-annual-report (last accessed 28 May 2025).

CFSSA (2016-23), *Annual Reviews*, Croatian Financial Services Supervisory Agency. Available at: https://www.hanfa.hr/publications/annual-report/ (last accessed 28 May 2025).

EBRD (2022), *Montenegro Country Diagnostic: Private Investment Challenges and Opportunities 2022*. Available at: https://www.ebrd.com/content/dam/ebrd_dxp/assets/pdfs/country-strategies/montenegro/Montenegro-Private-Sector-Diagnostic.pdf (last accessed 2 June 2025).

FCI (2017-24), *Annual Reviews*. Available at: https://fci.nl/en/annual-review (last accessed 28 May 2025).