

UNIDROIT Model Law on Factoring

Background and objectives

Factoring is a rapidly growing global sector and a powerful financing tool which unlocks funds tied up in unpaid invoices. It allows companies, particularly small and medium-sized enterprises (SMEs), to access finance when other more traditional forms of lending are unavailable. This is of great relevance particularly for developing countries, where SMEs form the backbone of the economy yet have limited access to bank loans. However, the national legislation that was enacted in recent times departed from the general standards for secured transactions, while the broader adoption of factoring was stalled due to the absence of a uniform framework. This is why [UNIDROIT](#) - the International Institute for the Unification of Private Law - a forerunner in developing model international frameworks, prepared the [Model Law on Factoring](#) upon the request of, and in collaboration with, the [World Bank](#).

Key features

The Model Law on Factoring is organised into nine chapters, which are as follows:

Chapter I outlines the scope of application of the Model Law, specifying that it applies to transfers of receivables. It also clarifies the types of receivables, transfers and parties to which the Model Law applies.

Chapter II sets out several rules relating to transfers of receivables. For example, it specifies that for a transfer agreement to be effective it must be in writing, identify both parties, describe the receivable in a manner that reasonably allows its identification and be signed by the transferor.

Chapter III deals with third-party effectiveness of transfers of receivables, the transferee's entitlements to proceeds and matters related to the relocation of the transferor.

Chapter IV provides rules relating to the registration of transfers of receivables.

Chapter V sets out provisions governing the determination of priority among competing claims to a receivable.

Chapter VI establishes the rights and obligations of the transferor, the transferee and the debtor.

Chapter VII contains provisions relating to the collection and enforcement of transfer agreements.

Chapter VIII addresses issues concerning conflict of laws.

Chapter IX offers general provisions on the entry into force of the Law and the repeal and amendment of other laws.

Finally, **Annexe A** of the Model Law on Factoring provides the 25 Registry Clauses required for an implementing State to establish a domestic registry for factoring transactions.

Use

The Model Law, adopted by UNIDROIT in May 2024, seeks to establish an effective framework for both domestic and international transactions. By setting international best practice standards that accommodate the legal intricacies of individual countries, the Model Law aims to foster a more inclusive and standardised legal approach to factoring. It serves as an initial step towards broader secured transactions reform and as a vehicle to amplify already enacted secured transactions laws that may only marginally address receivables finance. The Model Law is expected to help unlock additional safe, secure and affordable financing solutions — particularly for SMEs.