FACTORING – METHOD OF FINANCING OF ECONOMIC AGENTS

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Abstract. *In the developed countries, formidable conditions have been created to encourage the factoring business, as the use of this investment and financing instrument has increased the economic and financial stability of the company and has led to a more efficient management of the accounts receivable through the debt recovery policy. Factoring can also be considered as both commercial and financial activity. The essential role of factoring companies is to take the place of the company in activities that do not relate exclusively to the commercial field. Considering the importance of this financing operation, this paper presents different ways of defining, the importance, advantages and disadvantages of the company, the efficiency of the factoring of the accounting receivables and the real cost of the factoring.*

Keywords*: accounting for factoring agreements, cash flow, Romania,*
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Introduction

Being in a precarious economic context, firms tend to face a lack of liquidity often because they fail to collect their receivables issued by other business partners within the set deadline. In order not to have to resort to a bank loan, factoring can help with that, it assumes the sale of the receivable to a bank or other factoring service provider, helps the company to ensure the necessary liquidity, and then the bank will recover the invoice value. After this, we can finally talk about guaranteed financing with an invoice.

The most important advantage of such a contract is that the bank will earn a profit when collecting the invoice because it has bought it at a discount and the customer will benefit because it eliminates the assumption of the risk of not collecting the invoices. Also, another important factor that encourages companies to increasingly resort to factoring is that they choose to cash in on invoices in less than 30 or 60 days.

Factoring allows companies to increase their cash flow much faster, which helps them pay their employees, meet customer demands or expand their business.

Before resorting to a factoring contract, the economic agent must know which factoring is more advantageous to him depending on the invoice held.

Internationally, the conventions containing references to factoring are as follows:

- The UNIDROIT[5] Convention on the International Factoring Agreement, concluded in Ottawa in 1988;
- Rome Convention 1980 on the Law Applicable to Contractual Obligations (www.eur-lex.europa.eu);
- United Nations (UNCITRAL[6]) Convention of New York 2001 on the Assignment of Receivables in International Trade.

The phenomenon of factoring is constantly developing and manages to show great importance both: at national and global level. This is because, as the economy grows, economic agents tend to keep up with it, but the market is lacking in liquidity, and access to credit or other sources of finance is increasingly difficult. Responding to this phenomenon also emerged specialized financial institutions such as Factoring Companies.

[5] UNIDROIT - International Institute for the Unification of Private Law, www.unidroit.org (accessed on 05.12.2017)
[6] UNCITRAL – United Nations Commission on International Trade Law

Factoring - the optimal solution for the cashing of invoices up to the deadline

According to Ruddy (2006, p.12), in Europe, factoring has witnessed a strong development over the last four decades on the provision of domestic finance and international trade as a money-supply and protection against bad debts

In Romania, a legislative act that refers to the factoring contract is Law 469/2002 on some measures to strengthen the contractual discipline where factoring is correctly considered as a debt mobilization mechanism, and the factoring contract is defined as "a contract concluded between a party, named adherent, a supplier of goods or a service provider, and a banking corporation or a specialized financial institution, referred as a factor, by which it secures the financing of claims and the preservation against credit risks, and the adhering gives up the factor through sale, claims arising from the sale of goods or the provision of services to third parties".

Factoring is therefore a contract whereby a specialized agent - denominated - acquires for consideration the unpaid claims of a company (which is called a transferor, as it transfers all present and future receivables from its commercial activity). The need for factoring is manifested when there is an imbalance between the company's commercial credit needs and the resources it can provide.

Allocation of credits is the instrument through which it is possible to provide services through the factor. It is a standard practice that the factor gives the client companies advances on the amount of the receivables managed.

Companies that resort to factoring to increase their cash flow can be both single-employee and large corporations that exceed thousands of employees. Factoring covers all industrial sectors, including transport, production, government contracting, textiles, petroleum services, health services and staffing agencies. Businesses use cash generated by factoring to pay for inventory, buy new equipment, make new hires, and expand its operations - basically any business-related expenses. Factoring allows a company to make faster decisions and expand at a faster pace.

How does a company know how much money needs from the factor? This depends on the unique business's needs of the company. Some of them bill all their bills, while others bill only bills for customers who need more time to pay. The amount of claims a company can choose can range from a few thousand dollars to millions of dollars a month.

Factoring loans provides funding, pursuing receivables and credit-risk protection by the factor, based on disposal by the beneficiary, by way of sale or pledge, of accounts receivables arising from the sale of goods or provision of services to third parties. Usually, the service of funding requires immediate funding to a maximum of 80% of the value of each invoice for supply of goods or services provided, from which are subtracted the factor commissions; the rest of 20% is issued upon receipt, in the case of mixed factoring. There are also factoring with immediate payment and factoring with payment at some future date. The deadline for receipt of invoices presented to the factor must not exceed 180 days from the issuance. (Barbuta – Misu N., 2013, p. 167)

Is or not factoring favorable?

The factor can meet three customer needs (Fig 1):

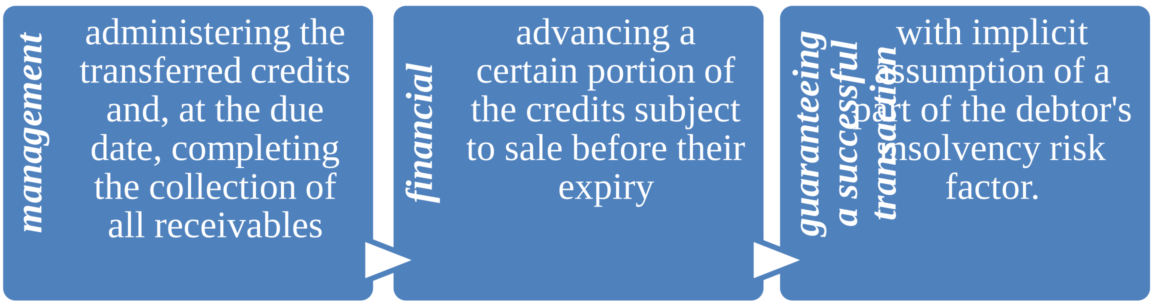

Figure 1. Customer needs satisfied with factoring

Source: Carretta, 2009, p. 6

The various types of factoring operations that combine the functions of using this instrument can contribute to meeting more or less specific requirements. In this perspective, the use of factoring can be considered in the light of the needs expressed by companies, which in turn depend on their specific characteristics and those of the reference environment (Carretta, 2009, p. 6).

2.1. Factoring's advantages

One of the most important benefits is getting the cash flow needed to make payments in a short time. But besides, factoring also provides many other benefits (www.rtsfinancial.com).

Factors provide, free of charge, back-office support, including managing collections from company customers. This also provides more time and resources to focus on business growth. Factoring is based on the credit quality of the company's clients, not on their own credit or business history. It can be personalized and managed to provide the necessary capital when the company needs resources. Factoring does not involve the provision of material guarantees but covers the risk of non-payment of ceded borrowers.

According to Orheian (2012, p.2) "the benefits of the factoring contract come from the inner advantages of this credit procedure, but also from the promising result obtained after comparing the positive aspects with disadvantages, the latter existing in a small proportion".

An important aspect of factoring is that it is not a loan, so you do not have to be in debt when you are a factor. Factoring is also scalable, that is, the amount of funding can increase with the increase in receivables.

2.2. Factoring's disadvantages

Turcu, in her paper "Financing through Factoring: Mechanisms, Costs and Risks", (2010, p. 19), states that apart from the positive aspects involved, these factoring operations are subject to fairly significant risks throughout their development. Their knowledge and treatment have a great importance and is a component of intensive management on the part of all contracting parties. Also, knowing the contractual factoring relationships is of a paramount importance in assessing risk factors and practice a managing risk management and risk exclusion

The main risks that may arise in connection with the factoring client are: Factoring client's faulty dispersion; the quality of inappropriate products or services delivered by the factoring client; breach of contract terms or abuse of trust by the factoring client.

Regardless of the variant of the factoring contract, the debtor's creditworthiness must be verified by the factor, because it has a great importance in the development of the factoring contract. In this way, the main risks that may appear are: the insolvency of the debtor; bad debtor diversification; cumulative risks; abuse of trust by the debtor as a result of common misconduct with the factoring client; unexpected weights for foreign debtors (differences between legal regulations); the different behaviors of borrowers regarding compliance with contractual clauses (Turcu, 2010, p. 20).

Identifying these risks requires thorough control and analysis precisely because of their complexity and complicated situations, and they will have to be at the center of stake-makings that want to be protected from as many risks as possible.

Factoring in Europe and in Romania

According to Factors Chain International (www.fci.nl), worldwide factoring reached 2.375 million euros in 2016, an increase compared to 2014 when the world total is 2.347 million. In some countries, factoring is a major source of funding concentrated in some industries, while in others it is particularly important in all sectors of the economy.

Among the main sources of business financing, both in developing countries and in developed countries, there are two forms of factoring:

- **domestic factoring** - underlying this operation is not an international commercial contract because it takes place in the same country and only one factor occurs;
- **international factoring** - involves the existence of an international commercial contract, two factors are involved in the operation: export and import. The export

factor buys the exporter's claims (called adherent) to the importer, then gives it to the import factor.

Table no. 1. Annual volume of factoring in Europe by country in 2014-2016

▪ *(million euros)*

No.	COUNTRY	2014	2015	2016
1	Armenia	70	75	100
2	Austria	16.400	18.264	19.621
3	Azerbaijan	-	13	56
4	Belarus	-	320	330
5	Belgium	55.374	61.169	62.846
6	Bulgaria	1.728	1.280	1.947
7	Croatia	2.498	2.885	2.825
8	Cyprus	2.671	2.414	2.925
9	Czech Republic	5.912	5.064	4.848
10	Denmark	10.463	12.606	13.237
11	Estonia	2.010	2.010	2.495
13	Finland	20.554	23.095	22.000
14	France	226.598	248.193	268.160
15	Germany	189.880	209.001	216.878
16	Greece	13.017	12.869	12.782
17	Hungary	2.827	3.779	3.635
18	Ireland	25.476	25.978	23.952
19	Italy	183.004	190.488	208.642
20	Latvia	680	867	867
21	Lithuania	5.550	3.150	3.100
22	Luxembourg	339	339	339
23	Malta	296	275	275
24	Moldova	13	17	17
25	Netherlands	53.378	65.698	82.848
26	Norway	17.182	18.476	21.867
27	Poland	33.497	35.020	39.396
28	Portugal	21.404	22.921	24.517
29	**Romania**	**2.700**	**3.651**	**4.037**
30	Russia	29.170	23.332	28.004
31	Serbia	306	445	555
32	Slovakia	1.036	1.036	1.646
33	Slovenia	563	329	1.000
34	Spain	112.976	115.220	130.656
35	Sweden	28.290	26.078	20.481
36	Switzerland	3.832	3.832	3.832
37	Turkey	41.229	39.310	35.085
38	Ukraine	1.035	442	295
39	UK	350.622	376.571	326.878
	TOTAL	**1.462.580**	**1.557.052**	**1.592.974**

Source: Factors Chain International, www.fci.nl accessed on 10.12.2017

As can be seen from the table, Britain is the European leader in factoring operations with 326.878 million euros, representing 20.52% of the total factoring operations in Europe. But, there is a decrease of 23.744 million in 2016 compared to 2014. However, this decline does not threaten its leadership position.

The second place is occupied by France with 268.160 million euros in 2016 and, unlike the United Kingdom, it registers a great increase 41.562 million euro compared to 2014.

Germany ranks third with 216.878 million euros, and as well as France, increases its factoring operations by 26.998 million euros compared to 2014. This is followed by Italy, which during the three years develops factor operations, from 183.004 million euros in 2014 to 208.642 million euros in 2016.

It can be noted that Switzerland maintains the same volume of operations over the three analyzed years of 3.832 million euros, the same as in Luxembourg of 339 million euros.

Moldova, being a country that has recently started factoring operations, is only 13 million euros in 2014, and in 2015 and 2016 it rises by 4 million euros, reaching 17 million euros for both 2015 and 2016.

Slovenia's spectacular leap in the factoring industry should also be noted, from 329 million in 2015 to 1.000 million in 2016.

The factoring market in Romania is in a continuous development, in present being rather small, both in terms of volume and in terms of companies providing such services, the main factor being the lack of experience of the banking companies, the legal regulations in the field, and because of the restrictive conditions for access to this form of financing for small and medium-sized enterprises.

We can remark an increase in 2015 compared to 2014 about 35% and in 2016 compared to 2015 approximately 10%. This clearly proves that the factoring market is dynamic and continually changing. This also indicates that Romanian economic agents are beginning to become more familiar with this factoring sector and to use it as a form of financing.

Factoring operations can be found at banks like Raiffeisen Bank, Banc Post, Romanian Commercial Bank and BRD - Groupe Societe Generale, as well as other banks.

Conclusions

Funding, capital need is one of the most important issues faced by economic agents, from the smallest companies to multinational corporations, and even states as distinct entities, represented either by governments, municipalities or central banks. The financing possibilities vary depending on the company's activity and its size. The first thing the economic agent does when he realizes the lack of liquidity and the need for financing is the recourse to the local market, that is to say, bank loans or modern financing techniques such as leasing or factoring. This is the optimal solution because it is much more difficult to access the international market due to financial, negotiating power or specialized management. Only when the firm reaches a certain level of development it will be able to benefit of more complex financing solutions.

The benefits of such a source of funding are that they have a flexible, personalized approach, eliminating risks but also claims that they have, improve the financial situation by rapidly obtaining working capital and there are not new debts accumulate. Due to factoring, the economic agent can focus on business development, production and sales growth, leaving risk management at the expense of factoring companies. At the same time, the number of documents to be presented to the factoring firm is much lower than when a credit is requested.

Minuses of factoring are represented by the presence of different risks. These can be avoided or prevented by analyzing the debtor's creditworthiness very carefully, but also by applying a rigorous control.

In conclusion, factoring is a source of modern asset-based financing, which is being developed in Romania, and also in other European countries. It comes to help businesses that do not have immediate liquidity to make payments, offering additional services such as professional credit management services or their insurance. Regarding the progress of these operations in Romania, I believe that it is necessary to impose measures by both economic agents and commercial banks, as well as by the National Bank of Romania (NBR) and other state institutions to stimulate the use of this type of funding. For Romania's current situation, factoring should be promoted and supported by the NBR through the financial resources needed for economic development and economic growth. Factoring also raises growth but still remains an underused sector in relation to the real financing needs of the national economy.

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