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Main trends of factoring market development at present economic conditions

Abstract. The authors analyze main development trends at global, European and Russian factoring market. The analysis results have demonstrated that the market of factoring services was developing very dynamically up to 2014, but its development is restricted by certain economic conditions. The research results have shown that factoring services cover only a small fraction of accounts receivable (for example, in Russia only 1.9 % of undue receivables were covered by factoring in 2015). The authors propose some ways to increase factoring efficiency including the consideration of specific business features of clients and factoring institutional structure development.

JEL Classification: G14; G23

Keywords: Factoring; Factoring Market Tendencies; Factoring Advantages; Restraining Forces; Development Ways

DOI: <http://dx.doi.org/10.21003/ea.V157-0020>

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Тенденції розвитку ринку факторингу в сучасних економічних умовах

Анотація. У статті проведено аналіз тенденцій розвитку факторингу на світовому, європейському й національному ринках. За результатами проведеного дослідження зроблені висновки про те, що факторингом охоплена лише мала частина дебіторської заборгованості покупців. Для підвищення ефективності використання факторингу варто враховувати галузеві особливості клієнтів, розвивати інституціональну структуру ринку факторингових послуг.

Ключові слова: факторинг; тенденції ринку факторингових послуг; переваги факторингу; розвиток факторингу.

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Тенденции развития рынка факторинга в современных экономических условиях

Аннотация. В статье проведен анализ тенденций развития факторинга на мировом, европейском и национальном рынках. По результатам проведенного исследования сделаны выводы о том, что факторингом охвачена лишь малая часть дебиторской задолженности покупателей. Для повышения эффективности использования факторинга следует учитывать отраслевые особенности клиентов, развивать институциональную структуру рынка факторинговых услуг.

Ключевые слова: факторинг, тенденции рынка факторинговых услуг, достоинства факторинга; развитие факторинга.

1. Introduction. Modern economic environment with its increasing competition for commodity markets is rather tough for successful business development. Consequently, it requires more flexible business organization forms and methods combined with the establishment of mutually beneficial relationships between business partners and counterparts.

Any commodity supplier has several goals and one of them is to retain its consumers. In order to meet this goal, the supplier is ready to use all available tools and methods including payment deferrals.

In practice, the development of commercial credits is often retained by the fact that the supplier has cash deficit which prevents from investing into accounts receivable. There are also other aspects that hinder commercial crediting (it is necessary to have clearly set plans whom to sell, how to track payments, how to treat defaults, etc). In order to meet these challenges in the uncertainty situation, the market of financial services offers an alternative way to increase liquidity, and that is factoring. Certainly, today the factoring market is undergoing some changes related to the general market transformations. However, in recession conditions it might be specifically useful to investigate the prospects of factoring development as an effective liquidity boosting tool.

2. Brief literature review. The theory of factoring has been developed by such leading economists as L. Klapper (2005) [3], J. Ruin (2006) [4], F. Salinger (1999) [5], E. Reed (2006) [12], D. Kidwell (2000) [9] and others.

In Russia factoring is studied, for example, by Maslukova T. D. (2008) [11], Hlevinsky E. D. (2007) [16], Lednev M. V. (2011) [10], Gamirov G. M. (2009) [8], Kalinova E. G. (2000) [17], Beloglazova G. N. (2014) [6] and others.

It is well-known that a sustainable development of business and its competitive ability are predetermined by its access to financial resources in due time. Factoring is one of the most important financing forms for business. Yet the issues related with the definition of factoring are rather disputable.

For example, English economists D. Kidwell (2000), L. Klapper (2005), J. Ruin (2006) think that factoring should be defined as any transaction with outstanding accounts receivable [3; 4; 9]. At the same time, F. Salinger (1999) views factoring as a deal between the client and the financial agent [5]. The US economist E. Reed (2006) emphasizes at the complex character of this financial service [12].

Russian economists M. V. Lednev and I. E. Pokamestov (2011) give a broader definition of factoring and focus on the parties of such transactions [10]. E. G. Kalinova (2000)

discloses multi-component structure of factoring and defines it as an assignment to a factoring company of accounts receivable that have aroused due to commercial credit conditions agreed between the counterparts and thinks that this assignment is supported by accounting, information, sales, insurance and legal servicing [17].

3. Objectives. The objectives of the present research are to identify general tendencies in the factoring market development under present-day economic conditions and to outline the most efficient practices.

4. Results. Let us review major factoring market development trends at the world, European and Russian economy's levels.

In 2014, the total world factoring service market amounted EUR 2.231 bln with annual growth of 5.8%. The biggest factoring market is in China (EUR 378.1 bln) [19].

The analysis of the European situation has shown that Russia is among ten top European countries in factoring turnover. In 2014, the share of Russian factors' turnover in international factoring transactions increased up to 2.2%. However, this figure is much lower than European average, which was 16.4% in 2014 [19].

In 2014, considering the effect of the USA and European sanctions imposed on Russia, capital outflow increased, and that had a negative effect on GDP growth rates. In 2014, the growth of real GDP was 0.6% [20]. If the GDP growth rates slow down with small and medium businesses having difficulties in refinancing their debts, the growth of factoring market will hardly exceed 5%, and the market volume may be below USD 2 bln in 2016.

The receivable is the factor's asset. Smetanko O. (2013) seems to be right to emphasize the significance of actual tools for the development of commodity markets and prevention of slowing down the turnover of receivables. A manager should keep the track of the counterparts in order to respond promptly to any change in the receivables ratio by adjusting the credit policy [14]. That is why a factor should assess the financial status of the buyer. The process of decision making in a factor company is based on the concept of «high-quality liquid debt» that will be paid in due time and in due amount. Thus, the financed party is the seller, while the assessed party is the buyer.

According to the data of the Russian Federation Federal State Statistics Service, in 2014 the total amount of the buyers' and customers' debt in Russia was USD 243.5 bln, with USD 24.7 bln of outstanding receivables [20]. The aggregate factoring portfolio was worth USD 4.7 bln [18]. The analysis results are presented in Figure 1.

Based at the analysis outcomes, we have found out that in Russia only 1.9% of undue receivables were covered by factoring in 2015.

It is evident that the potential of factoring as of a special loaning product is not used in Russian business practice to the full.

Factoring is mostly used in food, pharmaceutical, chemical and instrument-making industries. Thus, the coverage of Russian industries by factoring services can be seriously exten-

ded, provided that market situation is favourable enough. For example, factoring can be used in such business areas as the supplies of expensive equipment with long-term payback period or to finance sales.

The analysis of the Russian factoring market development in 2008-2015 reveals a restraining and decelerating tendency (Figure 2).

Analysis results show that after a decrease in factoring services development rate during the 2009 crisis, the turnover of Russian factoring companies was growing steadily up to 2011. In 2011-2014 the development rates were slowing down gradually. Thus, the rates of factoring market development dropped down to 5% compared with 2013. In 2014, the total amount of factoring transactions was USD 30 bln, while its growth amounted only USD 1.4 bln in absolute terms.

By the end of 2015, the factoring turnover in Russia was USD 27.3 bln, which is by 9.3% less than in 2014. Moreover, in traditional factoring industries, such as computer engineering and electronics production, automobile market and jewellery business, there was a 30% drop due to decrease in demand [15].

Today, Russia is experiencing one of the deepest and longest crises in modern history. Consequently, the situation in the factoring sector will be determined by the following forces:

- macroeconomics and geopolitics (oil process, sanctions);
- situation in the Russian economy (inflation rate, consumption drop, loan accessibility and factoring legal restrictions);
- Russian factors' policy (strategies of factoring business development and risk management in factoring transactions).

We observe negative correlation between the growth of the key interest rate (a 17% spike in December 2014) and the factoring market development. Hence, we believe that there is a need to develop governmental factoring encouragement measures including the decrease of the Central Bank key interest rate, promotion of factoring services by making them less expensive and thus more accessible and attractive for the business. It is known that suppliers can use factoring as a good alternative to short-term loans, because then they are able to cope with the scarcity of working capital without increasing liabilities. The analysis of factoring practice has demonstrated that there are some changes in the factoring traditional advantages and disadvantages compared with bank loans.

The most suitable way to make a factoring decision is SWOT-analysis.

Factoring strengths are no need in security, reduced supplier's risks and the possibility to manage accounts receivable.

Factoring weaknesses are its high cost which is quite often higher than the credit price. The cost of factoring is factoring fee.

Factoring opportunities are:

- increase of liquid assets;
- relations with reliable counterparts; and
- better profit taxation pattern.

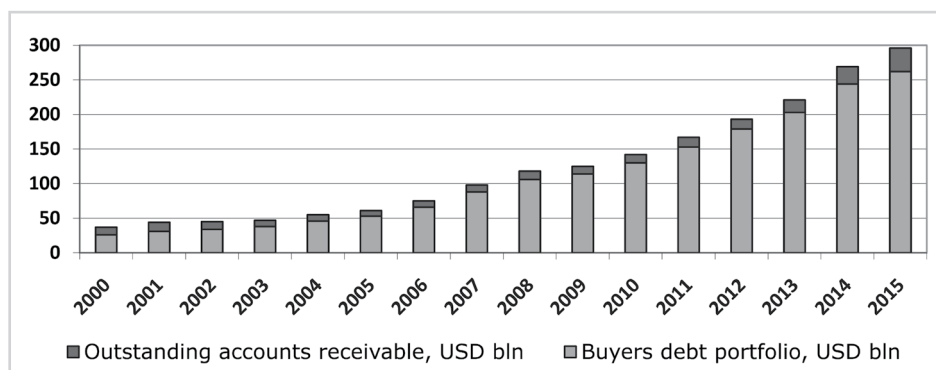


Fig. 1: Receivables development trend in Russia, USD bln

Source: Authors' elaboration based at the Russian Federation Federal State Statistics Service data

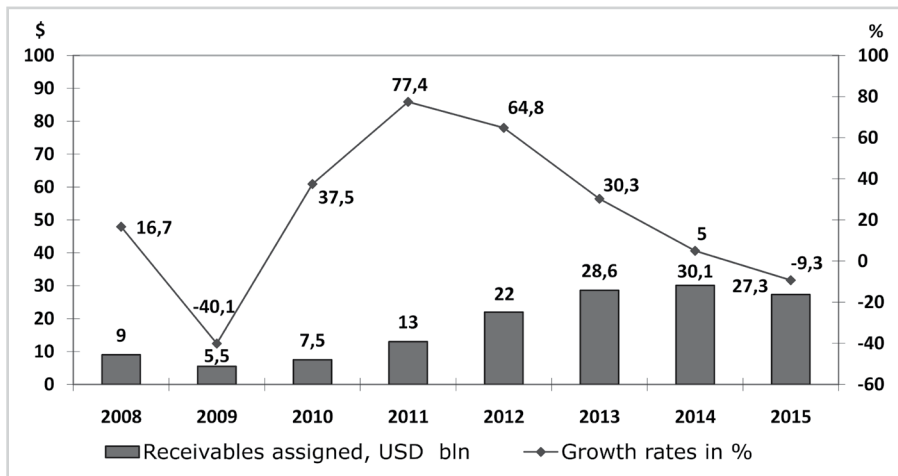


Fig. 2: Factoring market development trend in 2008-2015
Source: Authors' elaboration based at the data from [21]

In accordance with Taxation Code of the Russian Federation factoring fee shall be included either into the composition of other expenses related with the production and sales (Article 264) or in the composition of overhead costs (Article 265) [1].

Factoring threat is connected with the risk to lose existing or potential clients [7]. Accumulated debt refinancing problems resulted in increased demand for factoring. However, since 2011, factoring companies and banks have been tightening their requirements to clients trying to curb the assignment of nonperforming assets and to prevent the degradation of short-term credit portfolio quality.

The development of factoring services is restrained by several factors, and first of all their cost. The price of credit products, including factoring, sometimes does not meet business needs. Thus, the average interest rate for small businesses increased from 15% in 2011 to 17-21% in 2015.

However, the profitability in the majority of industries is half as high, according to the Russian Federation Federal State Statistics Service data. Moreover, the majority of credit products take no account of specific cash flow patterns in different industries. In this situation small- and medium-size enterprises that would successfully operate on condition of evergreen credits, factoring or equipment leasing, will go bankrupt [13].

The research has shown that in modern economic situation factoring market growth is restricted by the following

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factors: increased Russian Bank key interest rate and capital outflow.

We would also like to note that the embargo placed on many kinds of imported food products will cause further decrease in the factoring market growth.

Development and extension of factoring transactions pre-determines the need to improve institutional environment of this market.

In particular, there is a need to unify the norms that regulate legal relations between factoring parties.

These issues could hardly have been resolved without the Convention on international factoring made by the International Institute for the Unification of Private

Law in 1988. Russia became the party to this Convention in March 2015, obtaining better opportunities for the development of national and international factoring.

5. Conclusions. In the crisis situation, factoring is a modern financial means to reduce the enterprises' risks related to the probable loss of the clients' paying capacity, which is a significant advantage that outbalances high factoring costs.

In today's situation factoring prospects cannot be assessed unambiguously in terms of its further development. However, in our opinion the most promising ways to increase factoring efficiency are as follows:

- improved day-to-day management of accounts receivable by developing the market of factoring services on the basis of methods that take account of specific features of factoring transaction parties and clients' business, financial and operation cycles;
- development of the institutional structure of the market of factoring services by implementing a structural priority policy of financial market formation through the development of big factoring companies as affiliates of big private and state-owned banks;
- commitment to long-term close partnership relations between financial factoring companies and enterprises;
- expansion of factoring service market by developing small and medium businesses, including the businesses aimed at exporting to extend their client base.

Received 16.02.2016