

FINANCING BY FACTORING IN ROMANIA

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Abstract: *Financing by factoring involves the sale of due bills to a specialized company called factor, for a percentage of the amount to be cashed, while the factor is in charge with administrating bills and collecting the maturity of their value. As a result of the lowering of interest rates and the current economic crisis, the factoring became more and more attractive to several Romanian companies. Its flexibility and adjustability allows the perspective of establishing of an even better satisfaction on the financial needs of Romanian companies.*
Key words: *factoring, companies, interest, flexibility*

1. THE FACTORING CONCEPT

Factoring represents a complex financial product which combines crediting, assuming the risk of non-cashing debts, the services of searching and recovering of debts, as well as the accounting of the debts. The mechanism for implementing the complex operations of factoring involves 3 Parties (Roventa, 2002):

- A. The Adherent (a manufacturer-seller of goods, service provider or works experimenter, which transmits to the factor all its debts as bills, according to an agreement and notifying their submission, while the factor undertakes to carry out their payment);
- B. The Factor (a financial establishment: Commercial Bank, insurance or reinsurance company, the cooperative credit, which in return for the commissions pays the Adherent all the accepted claims and by taking over the rights of the Adherent, cashes at the maturity the claims from the Adherent's debtors);
- C. The Debtors (The Adherent's customers, the buyers of goods, services or work, which are notified over the subrogation factor in the Adherent's rights, as well as over its obligation to pay the invoice directly and only to factor).

According to the participants in the operation of factoring, we can distinguish:

- a) Domestic factoring – this operation is not based on an international commercial contract; it takes place on the territory of the same country and, there is only factor involved;
- (b) International factoring – this operation is based on an international trade contract; there are involved two factors (the export and the import factor). The export factor buys the exporter's debts (also called the Adherent) over the importer, in order to later yield them to the factor for import; the international factoring (Caraiani, 2004) must meet one of the following conditions:
 - (1) the export contract should stipulate the credit or the banking letter of guarantee;
 - (2) the risk of default from external borrowers outside should be covered by an international factoring company;
 - (3) there has to be an insurance against the risk of the country and against the risk of default, from any other insurance reinsurance company. According to the right of regression that the bank can exercise on the Adherent, there may be: (a) factoring without regression – the Factor pays the Adherent the price accepted of the invoice or invoices, usually 80 percent

immediately after delivery and 20 percent within 180 days of the due date invoice, even if it does not totally or partially cash one or more of invoices; (b) factoring with regression - in case of default the Factor will recover those amounts from the Adherent, by exercising its right to regress, by cutting up the current account of the Adherent or by selling the guarantee; all types of factoring presume: 1) the financing for claims, 2) the control of the credit and the acceptance of the credit risk, 3) the maintenance of the book sales, 4) the collecting of the bills, 5) the acceptance criteria. Factoring involves paying of a commission representing a certain percentage applied to the nominal value of the bills, to which the financing interest is added (Tatge et al., 2009).

2. THE ADVANTAGES OF THE FACTORING

In this respect, firstly, there is the advantage of obtaining financing in a very short term. Thus, after signing the factoring agreement, the banks or the factoring companies grant the financing on the day the bills are being presented.

Another advantage is the improvement of the cash - flow due to the period for obtaining liquidity considerably shorter than in the case of a credit.

In addition, unlike credit funds, the obtained credits shall not be bound to respect a specified destination as they may be invested considering the immediate needs of the client. For the traders who seek factoring, the facilities are completed by the fact that the number of documents to be presented to the bank or factoring company is much smaller than in the request of credit. After analyzing the documentation, the factor may refuse to provide the services only in case of the existence of shareholders ties between the Adherent and the Debtor or in the case when the selling payments are conditioned, advance payment or payment at delivery.

By factoring, the companies engaged in commercial transactions also benefit by the fact that they can concentrate on developing the business by expanding production and sales, while the Factor is in charge with monitoring the cashing of bills and recording the collection of the factoring bills (Vartolomei, 2006).

3. TRENDS ON FACTORING

Ever since its creation, when it was strictly limited to financing textile and clothing industry, the factoring has extended its coverage on some areas such as construction materials, information technology. The rapid and numerous changes in business environment create opportunities to sell products world-wide. Thus, with the growth of commercial operations worldwide, the number of internal factoring operations grows. One of the factoring's features is the fact that the largest segment of the developed operations belong to the internal factoring, but it is believed that in the next years the international sector will enlarge. Also, the largest share within the factoring operations is hold by those without appeal.

4. FEATURES OF FACTORING IN ROMANIA

In Romania, the financing of businesses by factoring has occurred relatively recently, in the middle 1990s, and it is still in a primary stage of implementation, both at the level of the banking companies, as well as under the appearance of its usage by enterprises. At first, the work of domestic factoring in Romania registered a very low volume, regarding both the amounts and the companies supplying such services; this was due mainly to the lack of experience and tradition of the banking companies, the lack of legal regulations in this field, the restrictive conditions regarding the access to this form of financing for small and medium enterprises and, in particular, the lack of competitiveness for the products made in our country. In Romania the market of factoring is characterized by a special potential (Grecu, 2007). A growth rate significantly exceeding the annual growth registered worldwide (which is only of 10-12%) is registered annually. This clearly shows that the market of factoring is in a continuous change and dynamic. The greatest share continues to be held by the factoring operations which finance the exports of the companies in our country (about 86 percent), reflecting a position contrary to the trends showed worldwide.

The activity departments considered suitable for operations of factoring are as follows: wood industry, silicates, light industry, information technology. In the countries accepted by the banking companies for operations of export factoring there are banking companies or companies specialized in corresponding factoring services, affiliated to the international organizations of factoring through which this kind of operations are carried out (Roventa, 2002).

The internal factoring means the combination between a solution of financing through short-term credit and the discharge of the effort of managing the debts of a company (Tatge et al., 2009). In this way, the operator will provide the funding, monitoring of cashing debts, as well as protection against default risks, yielding the bank, under the title of sale or pledge, the debts arising from the sale of goods or services for others. If, from various reasons, the access to the classic funding sources is difficult, or if they have been exhausted, the financing of bills through the service of factoring may be the answer to rapidly obtain the capital the companies need.

Due to the fact that the interest is deducted from the amount the trader must collect, in the last years, the decrease of interest to lei credits has led to acceleration in the development of factoring services on the Romanian market. In the context of the current economic crisis, the companies are often faced with shortage of liquidity, because revenues do not always meet the deadlines established with partners. The crisis has brought to foreground the version of financing by factoring in terms of a significant reduction of flows of cash from economy. The main purpose of the factoring services is to supply liquidity on the basis of future revenues. Until last year, the number of days of billing admitted was 150 days. But now they go up to 360 days, however, exceptionally, there are also received invoices to be cashed over more than 1 year. The percentage the customers receive falls normally at 80 percent of the bill, including VAT, but it may also go to 100 percent.

The cost perceived for the factoring operations is divided into the fee for managing the transaction and a separate fee for financing the operation itself (Tatge et al., 2009).

Field of activity	Recovering of debts (days)	Deadlines for payment of debts(days)
Industrial Goods	71	183
Transports	90	204
Telecommunications	96	208
Pharmaceutics	110	208

Tab. 1. Debts recovery period versus debts payment deadlines

Factoring Division	Market share (%)
UniCredit Țiriac Bank	32
BRD	28
BCR Erste Bank	11
Transilvania Bank	10

Tab. 2. Main competitors in the market factoring in Romania

Usually, the commissions for factoring are set both according to the financial situation, as well as to the payment deadlines offered to the customers of the company using factoring. These commissions apply to the nominal value of the paid bills and represent 0.5-1 percent for the services of internal factoring (lei) and 1-2 percent for the services of international factoring (it is established by the quotation of the bank or external company of factoring and largely depends on the volumes to be run by factoring, on the number of debtors, as well as on the number of bills traded).

Presently, the market of the factoring in Romania is dominated by subsidiaries of big foreign or local banks (Grecu, 2007). In the current period of economical uncertainty, the factoring is a solution to which more and more companies have joined, from the Romanian SMEs to multinational corporations. The companies that have appealed to the services of factoring were able to increase their potential without material guarantees and without increasing the degree of debt.

According to the structure of the portfolio of clients of the leader of the quota, 2009 was a year of changes in strategy. If a year ago, more than a quarter of customers who have appealed the factoring were represented by companies in the field of recyclable materials, now predominate customers in the construction sector and the sport; they sell both their due bills, as well as the rights of televising.

5. CONCLUSIONS

The factoring is a product that is addressed to companies interested in a flexible and speedy solution to improve the level of liquidity and in obtaining the working capital. The factoring provides the customer, apart from financing the benefit to externalize towards the bank the process of collecting bills and, therefore, it cuts the time allotted to the monitoring of the receipts from customers.

The factoring has permanently adapted the changes that took place, developing new techniques, methods and efficient instruments for businesses.

The market of the factoring has a high growing potential, taking into consideration that most small and medium enterprises are facing problems in financing.

6. REFERENCES

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