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FACTORING: ALTERNATIVE MODEL OF FINANCING

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Abstract:
This paper aims to present factoring as an alternative funding model. This paper also tries to scientifically explore and emphasize its economic role thorough advantages and disadvantages of such financing model, and show condition in world and Croatia. Good corporate governance and professional financial management can contribute to the establishment of such business strategy (in terms of: strategy in relation to potential risks, the systems for managing risks and monitoring, investment strategies, interventions, etc.) that will make the company resistant to unexpected and unpredictable changes in both their environment and the global marketplace and timely actions to contribute to faster recover from the effects of the crisis and business damages reduced to a minimum recovery.

Key words: factoring, receivables, liquidity, solvency, financing.

INTRODUCTION

Global financial crisis points out the importance of a strong corporate governance and financial management for a company that has to deal with effects of unexpected crises and uncertainties that bear future business events.

Effective strategic and tactical financial decisions based on principle politics effective financial management in the field horizontal and vertical structure of capital, insurance of short-term and long-term capital, maintaining liquidity and solvency, represents a key function in the creation of competitive advantages.

The subject of this paper is factoring, as well as advanced and alternative model which is offered as one possible solution for overcoming the current lack of liquidity in the company and to improve the competitiveness, although factoring has been well known in the world in Croatia it haven't fully developed to its full potential.

This work besides introduction and conclusion is divided into four main sections. In *first* part, entitled "Factoring: an alternative funding model" is defined and shown factoring as an alternative funding model which, by selling the receivables that make up a form of liquid assets, the entity can be financed. In the second part, entitled

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"Modalities of factoring" are shown of the modalities that are commonly applied in practice of the factoring business and operation phases of domestic and international factoring. In the third part entitled "The economic role of factoring" and the importance of the economic role of factoring in the use of short-term financing of a business entity through the strong benefits of its application, and compared with short-term financing. In the fourth part, entitled "Factoring in the world and in Croatia" was analyzed and described the situation and the development of factoring in the world. It is shown turnover in 2010 year by continents tabular and graphic, and made comparison with the situation in Croatia and its trends.

FACTORING

Factoring is a contemporary and specific form of short-term financing based on the selling short–term unsecured assets of the company to a specialized financial organization or company that specializes in factoring (factor) to pay certain fees or charges.

In other words factoring is the purchase of others' claims (debts) that is a financial instrument that factor (factor-house, factor-company, factor-organization, a bank that has a separate department) financed by the business entity on the basis of future (outstanding) claims arising from the sale of goods or services on the domestic or foreign market for a fee.

The factor buys the receivables for a fee before the expiry date of payment, takes over the activities of collection, warnings, account transactions and the risk of collection of receivables (Markovic 2000, 58). At a time when it charge more than the discounted price which he paid for the purchased receivables, the factor profits (Ivanovic, 1997, 261).

Receivables—liquid form of asset

Liquidity can be defined as financial solvency of the company it can be expressed as the liquidity of asset as well as corporate liquidity or solvency (Kallberg and Parkinson 1993, quoted in Ivanovic 1997, 125). On Stock market liquidity can be measured by observing the gap between the buying and selling price (Bogdan, Baresa, and Ivanovic, 2010, 45). Some authors (Uyemura; Van Deventer) define liquidity as ability to collect funds at no extra costs within a reasonable time (1993, 234).

For continuous and normal business activities (lifetime) of each business entity most important is ability to timely settle obligations when they come for final payment. Receivable is liquid if it can be sold in short time without significant loss. In assessment of liquidity of individual receivable it is very important probability that it can be converted into cash, probability that it can be matched price and assumption that these two probabilities will not change at the market.

Most liquid form of asset of a business entity represents funds which are ready for use in different purposes, after money—most liquid form of asset owned by company are receivables non-cash assets, of which degree of liquidity depends upon: a time necessary for the transformation, degree of risk, a price for that financial asset, the quality of the debtor, the return that such a financial instrument carries, solvency of debtor etc.

Businesses that are growing and increasing business volume, they are increasing also receivables from customers. As receivables increasing, business entity can sale such receivables to increase additional funds, for example to increase short-term financing needs for current assets.

Most of business entities provide or increase placement of its products and services to market by providing more favorable financing terms to customers, such as grace period or repayment by installments (example: commodity credit) thus, a business entity that sells a particular commodity or service, if has agreed some financing facility (what is practice and a necessity in business) in the form of grace period for example 180 days, has receivables against the purchaser or his debtor on which must wait until the deadline his settlement.

Certain cash supplies should always be to maintain optimum liquidity of business entity. In achieving better liquidity as well as ensuring cash assets business entity can use factoring as an alternative to credit, in order to obtain the funds without additional borrowing.

Selling receivables

Company can take advantage of its short-term receivables to sell them to factor. Factor can be the apecialized financial organization or company or a bank which has a separate department, or specialized factoring subsidiary or classic institutions of factors, factoring company, factoring–factor–house. Factors are purchasing short–term receivables with a certain maturity, factor is paying to client for example 70–90% of the invoice value, less the factoring fee. The remaining unpaid amount of the invoice is paid after the borrower solved the obligations, minus a certain percentage of fees (for services, credit risk and interest from the moment off repurchase until the time of charging the receivables).

Usual deadlines of short-term financing through factoring in business practice between 30 and 120 days, depending on the quality of receivables also it is possible repurchase maturities of 180 days or more. The size of commission and size the amount that will be paid immediately to clients depends on the receivables, its quality, business reputation of the debtor etc. Except payment of receivables factor can charge receivables, credit control, and administrative tasks of monitoring invoices for client, provide protection against the risk of non-payment and monitor the solvency and credit worthiness of business partners. For risk overtaking, factor from vendor receivables receives a fee which is generally a percentage of the value of receivables. However, the factors usually, check the recoverability of receivables before it is accepted (Mishkin and Eakins 2005, 556).

This funding model whereby a company sells receivables, for company it means increase in current assets because factor repurchasing the receivables allows inflow of funds before the maturity of receivables. Thereby by company has the ability to achieve higher productivity of current assets by using certain facilities (which are used in business activity–rebate, discount etc.) or the possibility of financing current operations, thereby contributing to improved business results. Moreover company doesn't take care of financial discipline and control debtor.

Such form of financing is especially suitable for companies whose activities have a long production cycle, and the products are made according to the order agreed with known end-customer.

From an economic and financial point of view, factoring means continuous business activity, improvements in cash flows, greater competitiveness. Repayment or payment of receivables and risk of receivables as well as currency risk becomes the biggest problem of factor. Thanks to the factoring many smaller business can get involved in international trade while factor is taking care about payment of exported and unpaid goods.

Factoring is not a credit and there are no additional liabilities on the balance sheet of business entity although it provides financing of current capital (Klapper 2005).

It is fact that factoring as an alternative financial instrument should be used more often which is also approved by the data shown in annual report of Croatian financial services supervisory agency (June 2010) which suggests that the despite the global crisis of capital markets in 2008. has marked the events that followed in subsequent years by non-banking financial sector in Croatia, such as drop in total turnover on the stock exchange, the decline in total assets, loss of investment (brokerage) companies, and the leasing industry decrease of contracts and the decline of total assets of leasing companies, than a slightly recovery on the capital market, in all those years assets of factoring company is not reduced, on the contrary it has increased (10%), factoring with recourse were dominant.

Factoring is a relatively new financial product that is applied on the domestic or domestic and international markets, according to some authors, it represents "a passport to financial freedom" (Perman 1984). Because of its benefits, factoring in the developed market economies is used as the dominant form of financing based on assets and business and it is very important source of external financing (Rovcanin and Omerbegovic 2005, 2).

The Croatian economy in which the payment or debt recovery and repayment of credits is very questionable and a major problem, this funding model as an alternative has a great potential and bright future in terms of its use and application in business.

FACTORING MODLELS

Factoring in the modern sense of the word can be traced in lang syne. First evidences of existing factoring appear 4.000 years ago in the acient civilization of Mesopotamia, during the region of king Hammurabi (Papadimitiou, Phillips, and Wray 1994), some of its tracks are located in the Roman empire (Rutberg 1994).

First terminology for agents and factors appears in the 15th century in trade settlements organized by European traders in the colonial countries where they were buying goods. It was a primitive type of factoring, which initially had the form of commission sales because factors, guaranteeing their clients that buyers will pay goods or that they will pay in advance before the ultimate buyer pays to them. As a special form of financing, factoring is being developed in the late 19th century, on the Anglo-American territory, and especially in the textile industry, where 95% of turnover was done was done by factoring.

Through history, factoring evolved and took different forms and adapted for the needs of participant in the factoring business—*first*, business entity–client, *second*, factor, *third*, buyer–debtor, on the international level *fourth*, correspondingly factoring company in the country of the debtor, special activities, general economic and political situation and circumstances, that resulted with various forms and types of factoring, which is applied today in business practice.

Considering that factor can purchase receivables in the home country or abroad, to the domicile or spatial definition, basic division of factoring is on domestic and foreign (imported and exported) factoring. International factoring—although it is more complex (legal, political, currency risk, interest rate risk, etc.). International factoring is to exporters particularly suitable because they are exempted from the creditworthiness of the buyer, risk of non-payment, political risk etc. As clients in work in domestic factoring will involve three participants in the same country: the client–assignor, the factor and the buyer–debtor, factor has a role of mediator between the seller and buyer in the same country. In the international factoring business there are four participants: the client-assignor, the factor, the buyer-debtor international and correspondent factors domestic .

According to a number of factors involved in business, factoring is divided into direct and indirect. In direct factoring there is only one factor which is in direct relationship with buyer-debtor, in indirect factoring there are two factors, first in the country (exporter) or from the land of client-assignor of receivables, and other from the country (importer) buyer-debtor.

According to the right of recourse arising from the contractual relationship between participants in the process or work or to take responsibility for no payable receivables faction can be divided into factoring with recourse (incomplete) and factoring without recourse (full). Full factoring or factoring without recourse is a business in which the factor takes on funding, receivables management, and payment risk (guarantees—del credere—for the timely and proper performance of contractual obligations of third) while the incomplete factoring is not considering payable risk.

Factoring can be divided into published, open or discovered and unpublished, secret or undiscovered it depends if buyer-debtor is informed from the seller-creditor about the transfer of their receivables or not.

The way it works in the case of domestic factoring, real or full (published) is shown in Figure 1.

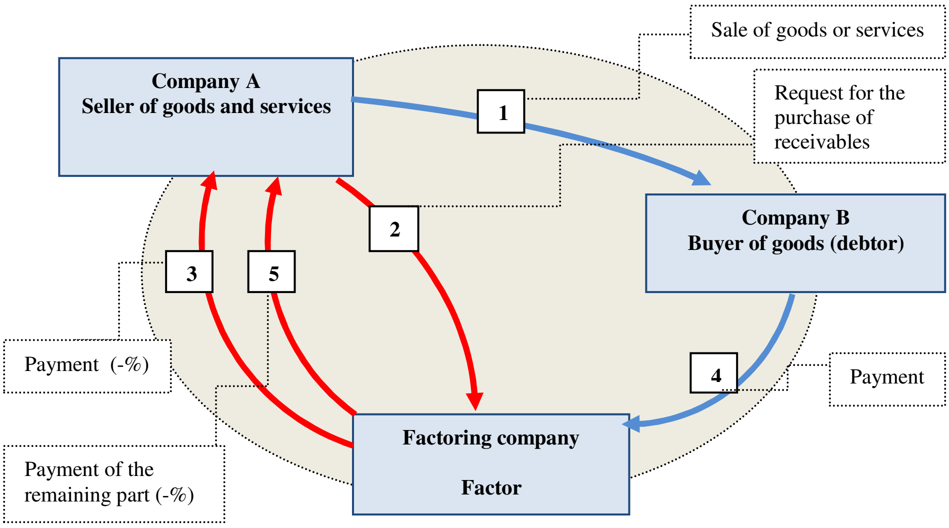


Figure 1. Stages of operation of factoring in the domicile country (full-non-recourse)

From the above examples of domestic factoring without recourse, shown in figure number 1. and the resulting specific processes in which it takes place:

1. Company A sells goods or services to the company B—the payment delay is 180 days;
2. Company A submits a request to factor for purchase a receivables due to "immediately" needs funds (before the expiration of 180 days).
   a) The factor checks the creditworthiness of the buyer and if the information obtained is positive, he approves the transaction. Analyzing financial statements production, financial and market potentional of the company and creditworthiness can be examined more about financial analysis Karanovic, Bogdan, and Baresa (2010).
   b) The seller sends the goods, together with the original invoice to the customer which includes instructions for paying customer (with complete details and payment information straight to factor which was given the job of charging receivables) and original copy of the invoice to factor.
   c) In accordance with the signed factoring contract by all participants in business receivables are transferred to the factor.
3. The factor pays company A (who became her client) immediately upon receipt of the invoice value of the receivables (advance payment for example 80–95% of the nominal value of the invoice) in line with factoring contract. The factor takes a commission on the total amount (e.g. 0.2–4.0% of the invoice amount);
4. Due at maturity (after 180 days), the company B-debtor is paying on account of factor;
5. After settling the receivables of B to factor, factor pays the rest part on account A–client—minus the amount of commissions, interest, costs, etc.

Factor in the country has a role of intermediary between the seller and buyer in the same country. In international factoring, besides the already mentioned three participants involved is another factor, so that business has four parties: the seller-assignor (exporter), the factor, the buyer borrower from abroad (importer) and the correspondent factors in the buyer's country-debtor (factor of the importer) as shown in the following Figure 2.

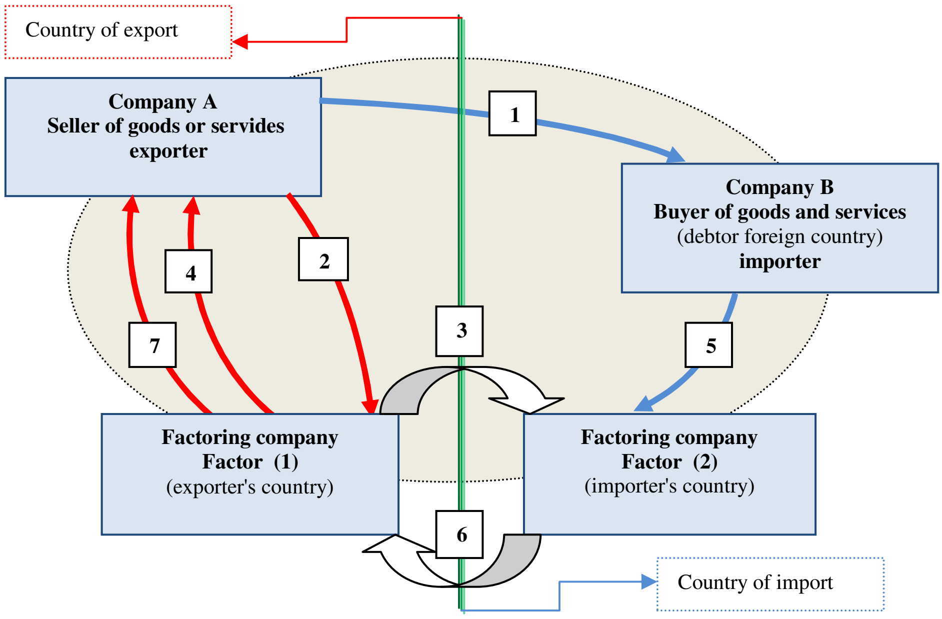


Figure 2. Phases of the functioning foreign factoring (complete non-recourse)

Considering that the business of factoring two factors involved, such a system is called two-factor system. Another factor (correspondent) who has been involved in business knows the economic system of the country buyer-debtor and importer, opportunities, language, business culture and have the necessary information and data on the creditworthiness of the foreign companies that can readily supply factor. It is very important when it's a word about international trading business with developing countries where credit information are often unavailable. The problem could also make: a fraud, false receivables, lack of customers etc. and underdeveloped legal framework, lack of business registries and credit bureaus that can provide valid informations about business entity–debtor.

From the above examples of external factoring without recourse, shown in figure 2, certain process are resulting in which it takes place.

1. Company A—seller of goods or services or exporter sells and delivers goods or services to company B—the buyer or importer, and gives the invoice;
2. Company A—seller of goods or services or exporter assign to factor receivable (1) in country of seller–exporter with a copy of the invoice and other documents proving the existence of claims;

3. Factor (1) of exporting country–vendor assignement factor (2) in country of buyer–debtor based on the previously obtained limits for specific customer;
4. Factor (1) pays to company A—seller–exporter value of receivables (e.g. 80% of the invoice value) minus fee;
5. Upon maturity of receivables company B—debtor–importer executes payment on account of factor (2);
6. Factor transfer funds to the account of factor (1);
7. Factor (1) pays a company A—seller–exporter difference (e.g. 20%) funds minus the factoring interest rate used to finance the amount payable on the advance.

ECONOMIC ROLE OF FATORING

Factoring as advanced financial instrument provides simple and efficient financing and successful business activities with domestic and foreign companies. It represents effective and efficient short-term financing facility of private sector, small and medium sized enterprises, fast-growing firms which expand their operations, but are unwilling or unable to get a credit from a bank. In this way they can ensure an ease access and obtain funds, especially in time of crisis when it's difficult to get the credit, and in general global environment of illiquidity and insolvency of other companies.

Factoring as financial instrument has many advantages:

- Availability of funds—as opposed to short-term bank credits factors consider sales invoices as safe asset, while banks consider fixed asset as safety;
- Less time in the realization of factoring—application process and fund insurance through factoring is much more faster, than it takes time to establish a line of credit through short-term bank credit lines;
- Better cash flow and faster access to liquid capital;
- Better liquidity for timely obtaining cash (advances from the factor)—no waiting payment of receivables, and thus improves the financing of operations (the timely payment of obligations to vendors, to obtain better terms—discounts and rebates—from suppliers…);
- Better financial position, credit worthiness and solvency;
- Improving the reputation—the growth of credit standing because of liquidity improve and timely execution of liabilities, the company has a reputation as a reliable-increases sales and competitiveness;
- Greater volume of sales—the company can offer it's customers better credit terms and it can accept more work;
- Better conditions for new customers (it is important for the export companies);
- Reducing the risk (bad debts are eliminated in the non-recourse factoring)
- Avoiding exchange risk—due to early funding;
- Reducing the credit risk in dealing with customers and increased profitability;
- Growth of the company is financed with no new debts—and no monthly payments or paying in once on the date of maturity;
- No credit debt—credit does not reduce the ability and don't worry about credit limits with banks, also factoring can be used in firms that are not creditworthy, but have quality receivables;
- Without additional securities issue;

- Unnecessary mortgage insurance and other guarantees—creditworthiness of the buyer is examined primarily—there are no personal guarantee, unlike most loan programs and there is no substantive insurance;
- Factoring is kept off-balance sheet and may not be disclosed to potential credit institutions;
- It is easier to finance the seasonal production;
- "Fresh" working capital means that suppliers can be paid in advance, with an additional discount;
- Reduced administrative and operating costs—less time and effort for paying receivables, because the factor is specialized for these tasks), saving time and money- book keeping, reminders and payment are transferred to the factor;
- A company that has just started the business can quickly get funding;
- Informativeness and greater business management—company has better control over the accuracy of paying customers and business partners);
- it allows also in time purchase.

Some of the most important advantages which factoring has for the company shown in the Figure 3. below.

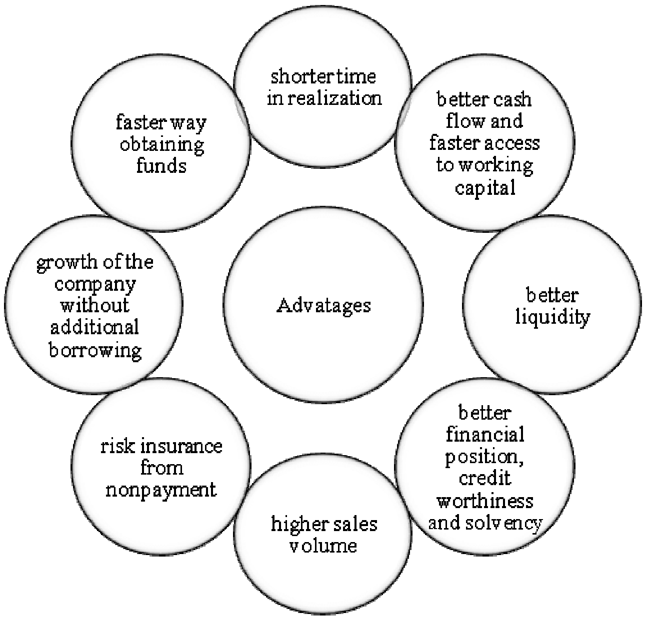


Figure 3. Advantages of factoring

In well developed countries factoring is increasingly common as a source of external financing because of its uniqueness and the unique role of getting funds to company which are directly related to the value of its receivables and not related to credit rating of the company. Factoring provides that financial resources circulate faster and provides liquidity and solvency of the real economy. Turnover of financial resources can be accelerated, primarily by introducing factoring as a new product for financing.

This is supported by the fact that factoring as an alternative funding model for the companies has a very important role it is obvious in the world of factoring because factoring has not faced a financial crisis that has recorded a constant growth in contrast to the financial sector.

The difference between the traditional short-term credit lines in view of the conditions, procedures and related contracts is as follows: *first*, the approval of the short-term loans based on financial statements of an entity seeking credit—revised financial statements, fianancial indicators calculated on the basis of given financial statements must demonstrate strong financial position of the business entity; credit contract may contain a number of other elements including collateral in the form of immovable property, personal guarantees or other commitments; *second*, given that the business entity must have audited financial statements—which usually doesn't have and it is very problematic for small business, for such statements are increased costs; *third*, when taking credit economic sustainability and credit worthiness of a business entity is at primary importance, at factoring it is all irrelevant-secondary, though basis for approval of asset value or short-term debts and creditworthiness of the buyer–debtor; and *fourth*, by loan it is very important that the size of asset is bigger than a amount of credit—what can at small and medium companies create a barrier due relatively high level of risk, because of lack of liquidation. Factoring is a financial instrument in addition to the numerous and obvious advantages, has some disadvantages such as:

– excessive use of factoring and the reliance on a factor (it can result in excessive trading and wrong management, and the loss of direct communication and relationships with business partners),
– factoring costs are usually higher than the costs of the bank loans,
– exporters must ensure themselves from disagreement with the customer in terms of product quality,
– some customers do not want the involment of third parties
– it can't satisfy all business needs as a form of short-term financing
– factoring is contracted only when a certain factor knows that client is solvent
– except factoring without recourse, in all other forms customer remain responsible for the obligations failure (even for discount receivables),
– client may suffer a substantial loss of income, taking into account all fees and risk of loss which is involved.

Costs of factoring are moving in different proportions and they are structured by most of the factors in the same way: *first* the factoring fee (0.2–4.0% assigned claims), *second* annual interest (7–11% funded amount), and *third*, administrative fees. Final costs of factoring depend upon the type of services, creditworthiness of customers, volumes and average amount of the invoice, etc.

The company management in making decisions about whether to sell non-mature receivables at a discount or credit for realizing the commercial banks with perhaps a favorable contractual interest, it needs to see what are the risks in the event of delayed payment, and how does it increase the cost of financing (penalty interest rates and higher bank fees) if a bank requires mortgage guarantee, there is a danger that, in order to possibly irregular payments, bank collect a debt from mortgage at public auction. In the case of a mortgage on the entire property of the company, this kind of loan in case of problem repaying a loan will constitute a threat for a whole company.

The economic purpose of factoring results that arises from advantages: *first*, financing that currently provides liquidity (cash) funds to business entity—the company transforms its own short-term assets from receivables to cash, *second*, collateral from the factor (*del kredere*) where a factor takes the responsibility for receivables payment and disclaims any right to claim a refund to the client in case of non-paying debtor, and *third*, management of receivables of client, where factor takes responsibility for all other jobs related with payment of receivables—contact final debtor, solvency test and debtor credit ability, testing debtor creditworthiness, reminders, claims analysis, e-factoring information etc.

FACTORING IN THE WORLD AND CROATIA

Factoring is present one approximately one decade in Croatia (since 2003), even though the world has long existed as a system is well developed, and in many business entities makes work easier. Today almost all banks offer factoring service as one of its products. Many business entities in Croatia are not yet familiar enough with the financing through factoring

International Association of factors (Factors Chain International—FCI) established in 1968, is the largest global network o leading factoring companies around the world which aims to facilitate international trade and foreign trade, related financial services and encourage the growth of the international trade. Members of the FCI and provide domestic and international factoring in all 5 continents, and the number of 250 members from 67 countries—35 from Europe, 11 from America, 4 from Africa, 16 from Asia, Australia and New Zealand 2, as shown graphically in Figure 4.

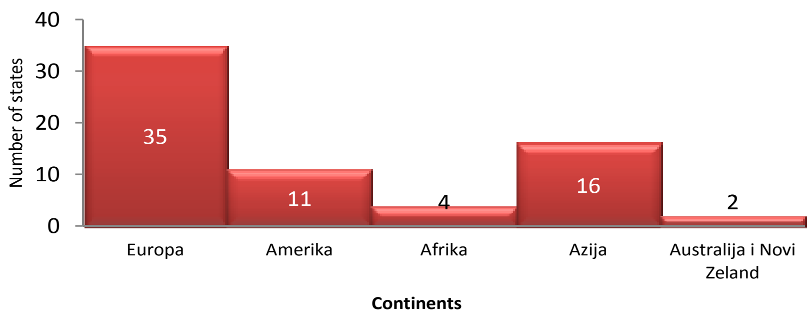
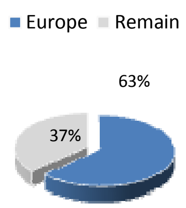


Figure 4. Representation of members of FCI in 2010 year by continent

The basis for acceptance of new members of the International Association of factors in the financial strength and reputation as a basis for quality and service, and must satisfy other high standards. Transactions FCI member is comprised almost 80% of the world od international factoring volume and turnover. According to annual report of FCI (2011) total achieved volume of factoring in 2010. amounted to 1,648.229 million, of which domestic factoring volume amounted to 1,402.231 million, and international factoring 245.898 EUR as shown by individual countries, tables and graphics in table 1

Table 1. Total volume of factoring traffic by country in 2010 year (in millions of Euros)

	Nr. Of Com-panies	Domestic	Inter-national	Total	Total factoring volume
EUROPE					
Austria	5	6,646	1,661	8,307	
Belgium	6	24,203	8,000	32,203	
Bosnia & Herzegovina	1	30	15	45	
Bulgaria	7	400	150	550	
Croatia	19	2,736	57	2,793	
Cyprus	3	3,400	50	3,450	
Czech Republic	8	3,425	985	4,410	
Denmark	6	5,000	3,000	8,000	
Estonia	4	992	235	1,227	
Finland	5	10,800	1,600	12,400	
France	11	127,193	26,059	153,252	
Germany	100	99,411	30,125	129,536	
Greece	12	13,465	1,250	14,715	
Hungary	22	3,024	315	3,339	
Ireland	8	18,947	1,250	20,197	
Italy	45	125,777	17,968	143,745	
Latvia	8	235	93	328	
Lithuania	8	590	950	1,540	
Luxembourg	1	177	144	321	
Malta	2	105	31	136	
Netherlands	5	25,000	10,000	35,000	
Norway	7	13,150	1,925	15,075	
Poland	14	12,823	3,387	16,210	
Portugal	14	18,800	1,956	20,756	
Romania	13	1,300	500	1,800	
Russia	28	12,083	80	12,163	
Serbia	12	430	70	500	
Slovakia	6	701	280	981	
Slovenia	5	550	100	650	
Spain	23	101,796	11,113	112,909	
Sweden	40	17,760	1,000	18,760	
Switzerland	5	3,500	500	4,000	
Turkey	70	34,931	4,057	38,988	
Ukraine	25	530	10	540	
United Kingdom	44	210,745	15,498	226,243	
Total Europe	592	900,655	144,415	1,045,069	
Australasia					
Australia	19	44,830	85	44,915	
New Zealand	7	600	0	600	
Total Australasia	26	45,430	85	45,515	



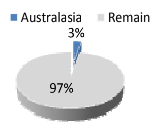
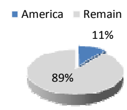
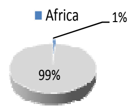
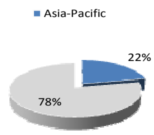


Table 1. (*continued*)

AMERICA				
Argentina	5	330	20	350
Bolivia	1	18	0	18
Brazil	1,120	49,000	50	49,050
Canada	53	3,158	565	3,723
Chile	130	15,108	1,314	16,422
Columbia	30	2,726	58	2,784
Honduras	3	5	155	160
Mexico	11	14,507	31	14,538
Panama	12	600	0	600
Peru	9	2,613	99	2,712
United States	300	85,000	10,000	95,000
Total America	1674	173,065	12,292	185,357
AFRICA				
Egypt	5	50	150	200
Morocco	4	905	166	1,071
South Africa	5	14,895	225	15,120
Tunisia	4	260	35	295
Total Africa	18	16,110	576	16,686
ASIA				
Armenia	4	10	4	14
China	23	119,960	34,590	154,550
Hong Kong	15	6,000	8,400	14,400
India	11	2,600	150	2,750
Israel	6	1,300	350	1,650
Japan	7	97,700	800	98,500
Jordan	1	35	8	43
Korea	2	0	5,079	5,079
Lebanon	1	354	96	450
Malaysia	6	1,030	28	1,058
Mauritius	2	122	3	125
Qatar	1	20	3	23
Singapore	9	3,800	2,000	5,800
Taiwan	18	30,300	36,700	67,000
Thailand	10	2,000	95	2,095
United Arab Emirates	4	1,800	200	2,000
Vietnam	7	40	25	65
Total Asia	127	267,071	88,531	355,602
TOTAL WORLD	2437	1,402,331	245,898	1,648,229







Source: FCI. 2011. *Annual Revie: Factoring-Exploring new horizons*. Amsterdam: FCI, 21.

Total volume of factoring (domestic and international), observed since 2004. till 2010. period is described by individual countries in Table 2 slight decrease in factoring volume is in crisis years 2008. and 2009. and 2010. year became a record year in the period and achieved 20% growth of the domestic factoring and 34% growth of international factoring.

Table 2. Total Factoring Volume by Country in the last 7 years (in millions of Euros)

	2004	2005	2006	2007	2008	2009	2010
EUROPE							
Austria	3,692	4,273	4,733	5,219	6,350	6,630	8,307
Belgium	13,500	14,000	16,700	19,200	22,500	23,921	32,203
Bosnia & Herzegovina	0	0	0	0	0	35	45
Bulgaria	0	0	35	300	450	340	550
Croatia	28	175	340	1,100	2,100	2,450	2,793
Cyprus	2,140	2,425	2,546	2,985	3,255	3,350	3,450
Czech Republic	2,620	2,885	4,025	4,780	5,000	3,760	4,410
Denmark	6,780	7,775	7,685	8,474	5,500	7,100	8,000
Estonia	3,920	2,400	2,900	1,300	1,427	1,000	1,227
Finland	9,167	10,470	11,100	12,650	12,650	10,752	12,400
France	81,600	89,020	100,009	121,660	135,000	128,182	153,252
Germany	45,000	55,110	72,000	89,000	106,000	96,200	129,536
Greece	4,430	4,510	5,230	7,420	10,200	12,300	14,715
Hungary	1,375	1,820	2,880	3,100	3,200	2,520	3,339
Ireland	13,150	23,180	29,693	22,919	24,000	19,364	20,197
Italy	121,000	111,175	120,435	122,800	128,200	124,250	143,745
Latvia	155	20	276	1,160	1,520	900	328
Lithuania	1,040	1,640	1,896	2,690	3,350	1,755	1,540
Luxembourg	285	280	306	490	600	349	321
Malta	0	0	1	25	52	105	136
Netherlands	19,600	23,300	25,500	31,820	30,000	30,000	35,000
Norway	8,620	9,615	11,465	17,000	15,000	15,100	15,075
Poland	3,540	3,700	4,425	7,900	7,800	12,000	16,210
Portugal	14,700	16,965	16,886	16,888	18,000	17,711	20,756
Romania	420	550	750	1,300	1,650	1,400	1,800
Russia	1,130	2,540	8,555	13,100	16,150	8,580	12,163
Serbia	0	0	150	226	370	410	500
Slovakia	665	830	1,311	1,380	1,600	1,130	981
Slovenia	185	230	340	455	650	650	650
Spain	45,376	55,515	66,772	83,699	100,000	104,222	112,909
Sweden	14,500	19,800	21,700	21,700	16,000	18,760	18,760
Switzerland	1,400	1,900	2,000	2,513	2,590	5,000	4,000
Turkey	7,950	11,830	14,925	19,625	18,050	20,280	38,988
Ukraine	0	333	620	890	1,314	530	540
United Kingdom	184,520	237,205	248,769	286,496	188,000	195,613	226,243
Total Europe	612,488	715,471	806,958	932,264	888,528	876,649	1,045,069
AUSTRALASIA							
Australia	18,181	23,130	27,573	33,080	32,546	39,410	44,915
New Zealand	236	250	280	700	700	700	600
Total Australasia	18,417	23,380	27,853	33,780	33,246	40,110	45,515
AMERICA							
Argentina	101	275	333	362	355	335	350
Bolivia						18	18
Brazil	15,500	20,050	20,054	21,060	22,055	29,640	49,050
Canada	3,157	3,820	3,386	4,270	3,000	3,250	3,723
Chile	4,200	9,500	11,300	14,620	15,800	14,500	16,422
Columbia	0	0	100	2,030	2,100	2,392	2,784
Honduras	0	0	0	0	0	0	160
Mexico	4,600	7,100	8,150	9,200	9,550	2,120	14,538
Panama	201	240	607	483	460	500	600
Peru	0	95	563	648	875	758	2,712
United States	81,860	94,160	96,000	97,000	100,000	88,500	95,000
Total America	109,619	135,240	140,493	149,673	154,195	142,013	185,357

Table 2. (*continued*)

AFRICA							
Egypt	1	1	3	20	50	110	200
Morocco	300	430	440	660	850	910	1,071
South Africa	7,100	5,580	7,800	9,780	12,110	13,500	15,120
Tunisia	185	226	270	245	253	276	295
Total Africa	7,586	6,237	8,513	10,705	13,263	14,796	16,686
ASIA							
Armenia	0	1	50	50	7	7	14
China	4,315	5,830	14,300	32,976	55,000	67,300	154,550
Hong Kong	4,800	7,700	9,710	7,700	8,500	8,079	14,400
India	1,625	1,990	3,560	5,055	5,200	2,650	2,750
Israel	155	325	375	800	1,400	1,400	1,650
Japan	72,535	77,220	74,530	77,721	106,500	83,700	98,500
Jordan						43	43
Korea	32	850	850	955	900	2,937	5,079
Lebanon	41	61	95	176	306	420	450
Malaysia	730	532	480	468	550	700	1,058
Mauritius						121	125
Qatar						23	23
Singapore	2,600	2,880	2,955	3,270	4,000	4,700	5,800
Taiwan	23,000	36,000	40,000	42,500	48,750	33,800	67,000
Thailand	1,500	1,640	1,925	2,240	2,367	2,107	2,095
United Arab Emirates	145	440	810	340	1,860	1,910	2,000
Vietnam	0	2	16	43	85	95	65
Total Asia	111,478	135,470	149,606	174,244	235,418	209,991	355,602
TOTAL WORLD	859,588	1,015,798	1,133,423	1,300,666	1,283,559	1,283,559	1,648,229

Source: FCI. 2011. *Annual Revie: Factoring – Exploring new horizons.* Amsterdam: FCI, 23.

Factoring has become well established in developing countries, it has the support of government offices and central banks, around the world, and it is accepted as a vital financial need of small and medium-sized companies, and shows the trend of seeking factoring services by large corporations. Almost all large banks have specialized departments of factoring subsidiary, which promote service of factoring for all business entities. Because of the similarity function of domestic and international factoring, many exporters have realized that their international factoring, and FCI can help them to become more competitive in a changing and complex international market. FCI members report that is increasingly the subject of business service that have become their clients (FCI Annual Review 2011).

The development of recent economy such as China, Taiwan, Japan, Canada and Egypt regarding the use of international factoring talk about the fact that international factoring as a global program and the concept covers more transactions in the current (market) environment where the commercial letter of credit replaces the open account in business. Furthermore business entities (importers and exporters) that use international factoring no longer have problems with local customs, language, distance and cultural differences because each business entity uses the services of factors from their country. Factor can provide 100% protection exporter from the inability to pay liabilities of the debtor or the importer.

Factoring in the Republic of Croatia is carried out by credit institutions and companies registered to conduct factoring operations. Supervision of companies registered to conduct factoring operations. Supervision of companies registered factoring operations in the jurisdiction of the Croatian Agency for Supervision of Financial Services, while credit institutions engaged in factoring operations within its registered business in the jurisdiction of the Croatian National Bank.

According to the annual report of FCI Annual Revie (2011) for the total volume that Croatia has made in the factoring business, it is shown that Croatia has a rising trend in observed period from 2004 till 2010, trend has steadily increasing, even in the years that the world was characterized as the years of the financial crisis.

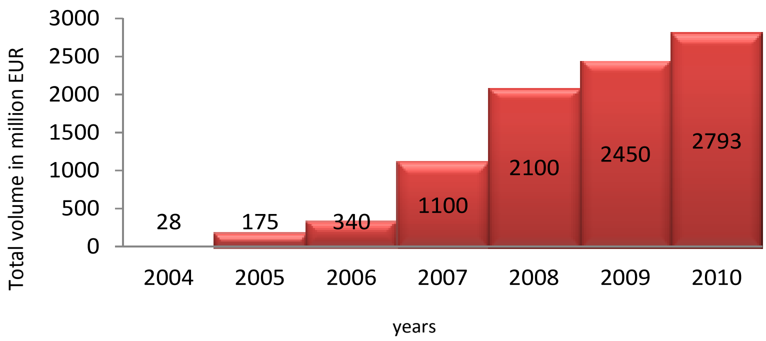


Figure 5. Total factoring volume in Croatia—2004–2010

Statistical reports for companies registered to conduct factoring, collected from the companies for which the Croatian Agency for Supervision of Financial Services has the knowledge, indicating that the factoring operations, on day 30.06.2010.—was using 18 companies while on 30.06.2011.—seventheen companies conducted factoring operations of which are in direct majority ownership by non-residents are 3 companies, while 14 of them owned by residents.

Total revenues of the factoring industry in the period from January 1 to June 30, 2011. amounted to 346.05 million kuna, and decreased by 10.2% over the same period last year, while total expenses amounted 286,97 million and decreased by 8.18% over the same period last year.

The structure of total revenues in the period from January 1.01.–30.06.2011, two most important types of revenues are interest income and other operating income. Furthermore, according to a report HANFA (Quarterly Bulletin. 13) the volume of transactions, which represents the cumulative amount of purchased invoices for factoring operations, the cumulative amount of discounted bills and loans in a period from 01.01 till 30.06.2011.—in total volume of transactions most important is fatoring with a part of 65.03% and discounted bills with part of 34.23%. In structure of factoring, domicile factoring dominate with a part of 95.97%.

Considering the concentration, the factoring market can be regarded as highly concentrated as the biggest company in the amount of assets (Erste factoring company) refers 43.85% of the total assets of companies engaged in factoring business, while the share of the top three companies with the highest assets (Erste factoring, First factor and Raiffeisen) makes 83.71% of total assets.

Establishment and operation of companies engaged in factoring operations in Croatia is regulated by special regulations, but the legal framework for the control of such companies as defined by the Croatian Agency for Supervision of Financial Services.

CONSLUSION

In conditions of general financial crisis, when many companies fall into insolvency, it's very important that management's strategic behavior focuses on finding alternative sources of funding. One of these alternative sources is a model of financing and payment and financial liabilities through factoring, which allows companies to achieve liquidity and solvency.

Croatian financial system is dominated by the credits as financing instruments. According to the Croatian National Bank, total value of credits in Croatia amounted to 275 billion in late 2010th, of which is 11.2% problematic part of credit portfolio (30 billion). A year earlier (2009) it was difficult to charge a little less than 8% of approved credit. This data show us how reduced is the ability of firms and households to pay their obligations. Percentage of bad credits increased from 12.9 to 18 percent in 2010, which means that one of five was payable. Such over reliance on credits could lead to greater instability in financial system, and Croatian companies should start turning to other alternative forms of financing, such as factoring.

Factoring enables companies to finance without additional borrowing, and it's not considered as form of credit but alternative funding model. Therefore it is suitable as a form of financing for many companies because it enables more competitive market operations.

Business entity provides funding through its own short term asset; sale of its outstanding claims arising from rendered goods and services without additional borrowing, which is good and efficient solution for problem of liquidity and insolvency which represent real threat, especially for small business subjects. They have to wait for payment longer than year, or some companies are forced to take credit for paying workers wages.

Using this alternative funding instrument, business subjects are enabled to continue business cycle, and enhance liquidity, performances and business growth in simple and relatively quickly way. Taking into account all the advantages showed by this funding model it can be considered that factoring is, in the conditions of today's economic and financial stagnation, one of powerful financial instruments which should be used by companies in effectively managing finance.

Various modalities of factoring provides to companies a flexible attitude towards our business partners in terms of financing. One of the major advantages of factoring is possibility of hundred percent assurance of inability to collection.

In relation to credit factoring improves the liquidity and solvency, allowing faster turnover by shortening the time of collection of receivables and also reduces the need for additional liquid asset—cash (because required amount of funds is lower the turnover of receivable faster is). Lending, in general, is weakening credit worthiness company because of additional borrowing (it's considered that the company is indebted when total liabilities—credits and liabilities to suppliers and other creditors exceed ½ of equity in reported balance of payment). The advantage of factoring compared to financing through short-term credits is that factoring primarily examines the credit worthiness of the client, while during the application for credit bank examines the solvency of the company but requires certain collateral also.

The reason that factoring has not fulfilled its full potential in Croatia is that business subjects are not sufficiently familiar with this type of financing—they don't know enough and that is the reason of insufficient use.

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