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FACTORING PERSPECTIVE: CROATIA VS EUROPEAN UNION

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Abstract:
This paper points out the problems of liquidity, disposal and obtaining funds, inability to collect receivables, delayed payments in times of economic and financial instability and dynamic business upheavals and uncertainty. As a contribution to resolve these issues new alternative methods of financing for business are imposing, one of them is factoring. Although most countries don't have adequate legal framework, factoring has emerged as the dominant form of financing, whose current status and development points to the prospects of development in the future. In terms of measures and actions which are taken to combat these issues, as well as legislation, many efforts are made at international level in European Union and in Croatia. Overview and description of the factoring development, and indications for further development are presented in relation to the world, the European Union and the Republic of Croatia. This paper also describes factoring comparison among European countries.

Key words: factoring, liquidity, delayed payments, Republic Croatia, European Union, receivables.

Jel Classification: G32, G33, G35, O52

INTRODUCTION

The Republic of Croatia is in the process of accession to the European Union, that process, despite all kinds of problems, requires significant changes to the system-wide. The change has occurred in the whole system of the economy, especially in the financial system. Changes to legislation that had to be coordinated with the European Union have led to significant changes in the area of financial services. Republic of Croatia in the opening negotiations in the 2007 year in Chapter 9 — Financial Services, adopted a series of new laws and amendments to existing ones, for the purpose of transferring the acquis such as: the Law on Amendments to the Law on Mandatory and Voluntary Pension Funds, Financial Collateral Law, Takeover Law, Accounting Act, Companies act, Law of Obligations, The Law on the Croatian National Bank, Insurance Amendment Act, Capital Market Act, Electronic Money Act, Credit Institution Law,

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Act on Settlement Finality in Payment and Financial Instruments Settlement, Law on Deposit Insurance, Act on Financial Conglomerates, The Act on Criminal Offences Against the Capital Market.

Elapsed, and the current situation in Croatia indicates a problem of illiquidity resulting in stagnation of development, operations, and even the whole economic system. Subject of this paper is directed towards factoring, as progressive and alternative model which is offered as one possible solution to overcome the current lack of liquidity of certain businesses and to improve their competitiveness especially because of its development in the world, which has not developed its full potential in Croatia yet.

Such a funding model allows inflow of funds before maturity claims, and thus facilitates the increase in current assets, continuous operations, improves cash flow, ensures the smooth functioning, improves competitiveness and collection of receivables and collectability risk as well as exchange rate risk becomes problem assigned to factoring. Thanks factoring many smaller businesses can engage in international trade, while taking care about exported but unpaid goods is left to factor.

The aim of this paper is to present the European Union as a business environment in which Croatia will operate in the near future. Aims of this paper presents the research and development of the state and factoring in the world, the European Union and the Republic of Croatia, with hints of its development, as authors contribution to popularization of this financial model which exist in the world for a longer time, but it is not sufficiently used as an opportunity to overcome insolvency of businesses.

Based on collected data about factoring in the world, the European Union and the Republic of Croatia, current status, previous development, and indications of development in the future are described and analyzed with comparison between the situation and development in relation to neighboring countries.

REPUBLIC CROATIA IN EUROPEAN UNION

In order: to establish a dialogue, regional cooperation, to improve economic relations, of the developments of free trade zone, the harmonization of legislation, to improve cooperation in many other areas, the European Commission in 1999. proposed creation of the *Stabilization and Association process* for countries of South Eastern Europe (Albania, Bosnia and Herzegovina, Croatia, Macedonia and Serbia).

Based on the adopted proposals, Stability Pact was adopted, which was a political document of European Union, whose strategic goal was stabilization in Southeast Europe through the countries of the region closer to Euro-Atlantic structures and the strengthening of mutual cooperation. The signing of the Stabilization and Association Agreement October 29th, 2001. The Republic of Croatia for the first time entered into contractual relations with the EU. That was the most important formal step in the process of the Croatian joining EU before applying for full membership (February 2003). Is obtaining a positive opinion of the European Commission accompanied by the recommendation to open negotiations with the Republic of Croatia membership (April 2004), acquiring candidate status (June 2004), accession negotiations (October 2005) and the signing of the Treaty of Accession to the European Union (December 2011).

According to the provision of the Croatian accession to the EU, as the date of entry July 01, 2013 year was set, under condition that all Member States of the European Union and the Republic of Croatia has ratified, and the instruments of ratification deposited by June 30, 2013 year (Ministry of Foreign and European Affairs 2011, 5).

Republic of Croatia: part of European financial regulation

One of the most important tasks, goals and achievements of the European Union, as well as all regulations is progress on the establishment of a single, open, common internal market. Unique internal market in the European Union on the territory of all member states allow free movement of people, goods, services and capital, which means that there are no restrictions to the free provision of services, including financial services.

Full liberalization of capital transactions in Croatia occurred since January 01st, 2011, respectively it is possible to open an account abroad, granting of loans to non-residents as well as the movement of cash out of the country without restrictions, and Croatian citizens and entrepreneurs can do business with financial institutions from member countries of the European Union.

The benefits of such unique and integrated European financial market is a better protection for investors and reduction of unnecessary bureaucracy, greater asset liquidity, the interdependence of individual national financial markets and its components, and the companies will easier find sources of funding on liquid European market, where the competition will reduce the cost of capital.

Many developed European countries in recent years, significant attention devote to the role of law in financial system of the country, which contributes to better functioning markets. In front of legal economic systems of the member states of the European Union, there is the challenge of creating an efficient and effective legislation. Legislation deletes links to national territory and national legal regulations, regardless of the diversity of the member states in terms of its cultural, political and other views, or differences in legal positions, in application and enforcement of the legislation. So Croatia pays special attention to financial regulation, in accordance with the development of new institutional infrastructure of their own financial markets and with redefining role of existing institutions (Bozina and Stajfer 2009, 51).

Strategic Development Framework till 2013 as a program document which the Croatian Government on August 4th, 2006 brought, describes how to ensure progress in a competitive market economy within the framework of the welfare state adjusted for conditions of 21st century. The general starting points of openness and membership in the European Union are, competitiveness and adequate level of social security. The basic starting point, but also the message of this strategy is that growth, development, employment, social inclusion and justice can only be achieved by simultaneous and coordinated action in a number of strategic areas such as: human resources, knowledge and education, infrastructure, information and social cohesion, macroeconomic stability and efficient financial market, sustainable and balanced regional development, accompanied by the new role of the state is transformed into an effective and efficient service to citizens and businesses.

The smooth and efficient functioning of the market mechanism is only possible in the institutional and legal framework that ensures financial discipline, protection of creditor and property rights, and respect of contracts, and rapid exit of inefficient firms from the market. This requires an independent, impartial and above all, an effective judiciary. On the structure of each market and the economy as a whole, then on the dynamics of growth, business environment and ethics itself directly affects the stability, predictability, and above all the quality of the legal system.

Besides the already transferred the acquits of the European Union, which Croatia has transposed into its legislation, it will be transferred, as was indicated in the report on the fulfillment of obligations under Chapter 9 Financial Services (2009, 2–3) and, following the new directive and decision: The decision on the Commission (2009/79/EZ) establishing the Committee of European Insurance Supervisors and Pensions, Commission Decision (2009/78/EZ), establishing the Committee of European Banking Supervisors, Commission Decision (2009/77/EZ), establishing the Committee of European Securities Regulators, 2009/27/EZ Commission Directive amending certain Annexes to Directive 2006/49/EZ of the European Parliament and of the Council as regards technical provisions concerning risk, 2009/14/EZ and Directive of the European Parliament and of the Council amending Directive 94/19/EZ on deposit insurance schemes, in terms of the degree of coverage and delay payment. Institutions that are responsible for the implementation of the acquits in this chapter are the Croatian National Bank (HNB), the Croatian Agency for Supervision of Financial Services (HANFA), Ministry of Finance (MFIN), the State Agency for Deposit Insurance and Bank Rehabilitation (DAB) and the Central Depository & Clearing Company Inc. (SKDD).

Regulation of suppression of delayed payments

European regulation of delay in payments was made in 2000th year — Directive 2000/35/EC (about suppression in late payments in commercial transactions). The measures that have been introduced by Directive are related to: the obligatory payment penalties in case of late payment, even if the mentioned is not agreed, introduction of the concept of “unfair practices” in payments should be abolished; and establishing the obligation of Member States to ensure the implementation of the procedures enforced collection (if the same is not disputed) for a period of 90 days after the date of initiation. In 2009 proposed are amendments to the directive which are based on the key role of public sector and also propose the introduction of the obligation to pay within 30 days for public sector. It is proposing enlargement of penalties for nonpayment (next to obligations to pay interest on arrears) reimbursement of expenses and one-time penalty of 5% of the amount of delay proceedings (Croatian Banking Association 2010, 18).

The new Directive of the European Parliament and Council on combating late payment- in commercial transactions — Directive 2011/7/EU, issued on February 16th 2011 year. Maximum allowable payment period in the contracts is 60 days, except for those who are willing to extend loans to customers for an extended period of time. Lender may, without prior notification, charge interest the debtor in case of delay in payment and in countries that have adopted the Euro — interest rate is at least 8% higher than the reference rate of the European Central Bank, and in countries which have their own national currency reference rate is paying and it is set by the National Central Bank. Minimum interest amount is 40 euros, and gives the lender the right to collect costs if they exceed this amount. Member states of the European Union must ensure creditors payment of arrears in court for a maximum of up to 90 days. The application of this Directive is mandatory for all member states that it must implement in its legislation till 16. March 2013 year, and its comes into force Directive 2000/35/EC will expire.

In the Republic of Croatia very big problem is charging receivables which proves condition of 73.358 businesses that are in the blockade because of debts. State is better charging their claims thanks to new authorities of the Tax Administration, and contrary entrepreneurs find very difficult to charge what they build and deliver. Therefore, in the Republic of Croatia with the aim of introducing better financial discipline from the first January 2012, enters into force law on deadlines and fulfillment of financial obligations (NN 125/11), on which are regulating the terms of fulfillment of financial obligations and legal consequences of delay.

The Republic of Croatia was among first countries who began to apply the European Directive on payment in commercial transactions (Directive 2011/7/EU) which worked out the legal framework for the prevention of delayed payments. The Act implements the provisions article 3., 4. and 7. new Directives on suppressing late payments and introducing criminal responsibility of the debtor to late payments as an “authentic Croatian contribution to the combat against delayed payments” (Safranko 2012, 457).

According to the Croatian Law on deadlines, fulfilling financial obligations, maturity in all types of transactions (public and private sector) is limited to 30 days, and only in exceptional cases, if it is expressly stated in the contract and objectively justified, for 60 days. Monitoring the implementation of this law among the entrepreneurs and persons of public law conducted by the Financial Police. Statues of limitations for criminal proceedings amount to three years (relative limitation period) or six years (absolute limitation period) from committing offenses. In preparation is a law on financial transactions and bankruptcy settlement that should define strict rules and bankruptcy, and shorten payment deadlines.

The Republic of Croatia is in the process of reform of the financial system and compliance of financial regulation with the European Union, and has introduced and implemented a series of measures that will contribute to the development of the financial system and the overall economic development of the country.

ILLIQUIDITY IN THE REPUBLIC OF CROATIA

Illiquidity is one of the most difficult problems of our time, which in larger or smaller extent affected all economic systems, equally relates to natural and legal persons, and causes most grief to those who make business decisions. In a significant extent illiquidity is present in the countries in transition and less in countries with developed market economy. A problem of illiquidity and insolvency is in relationship with performance of business entity, as one of its most important indicators. Insolvency is condition when business entity is unable to settle its obligations. Thus, liquidity, financial management, competitiveness and profitability of the business entity is in direct interdependence with charging claims, which is particularly evident in periods of crisis, i.e. in conditions in which economic growth come to the fore when the difficulties in obtaining additional liquid funds, or because of reduced supply or because of high interest rates.

The importance of maintaining the liquidity and solvency in the economic crisis is reflected in the fact that every financial crisis begins at the time of termination payment obligations (Zelenika and Srdoc 2011, 173).

The problem of inability to pay the maturity in the Republic of Croatia is a continuing problem which can be seen by data written by financial agencies — FINA about pending payment orders to business entities (legal and natural persons who have registered economic activity) in July 2012[th] year amounting to 43,85 billion. Because of uncommitted basis for payment (July 31, 2012) blocked the 231.492 citizens (total debt of 43.85 billion kunas) of which legal persons constitute 52,5% and cover the largest part of the total amount of uncommitted basis for payment (82,4%).

Certainly it should point on the structure problem of business entities that have been blocked for more than 360 days that make up 77,4% (56.778) compared to businesses that have been blocked to a year to make up 22,6% (16.580) which means that most of the outstanding liabilities relating to the payment to which it is waiting for more than a year. This also is a concerning data which is related to the amount of blocked business entities, who are in long-term blockade (more than 360 days) which make 82,2% of the total debt (36.06 billion) and the fact that within this group is dominated by those which have been blocked for 5 or more years.

Table 1. Blocked business entities and reported unpaid obligations: 31.07.2011.–31.07.2012.

(000 kn)

Maturity	Blocked businesses			Structure	The amount reported uncommitted basis for payment			Structure
Balance at: 30.07.2011.								
< 360 days			20.466	29,1%			6.932.703	17,4%
> 360 days			52.265	71,9%			32.920.500	82,6%
1-2 years	12.966	24,8%			9.069.757	27,6%		
2-3 years	9.489	18,2%			7.566.161	23,0%		
3-4 years	6.217	11,9%			4.225.839	12,8%		
4-5 years	5.063	9,7%			2.676.038	8,1%		
> 5 years	18.530	35,4%			9.382.705	28,5%		
In total			**72.731**	100,0%			**39.853.203**	100,0%
Balance at: 30.07.2012.								
< 360 days			16.580	22,6%			7.787.827	17,8%
> 360 days			56.778	77,4%			36.062.626	82,2%
1-2 years	12.216	21,5%			7.982.719	22,1%		
2-3 years	10.509	18,5%			8.086.112	22,4%		
3-4 years	8.047	14,2%			6.728.074	18,7%		
4-5 years	5.348	9,4%			3.211.049	8,9%		
> 5 years	20.658	36,4%			10.054.672	27,9%		
In total			**73.358**	100,0%			**43.850.453**	100,0%

Number of blocked businesses (Table 1) compared to the same period last year increased nominally by 0,9%, while the annual growth of uncommitted basis for payement in relation to the same period last year, nominaly by 3.9 billion (10%). If it is observed occurrence of the insolvency by duration of the blockade, it can be noticed that the number of blocked businesses up to 360 days compared to the same period last year, is down from 29,1% to 22,6% while the number of businesses that are in long-term blockade increased from 71,9% to 77,4%. It is evident that 82,2% of total amount unpaid warrant make nonpayement longer than 360 days, and according to this debt structure 27,9% is related to business entities that have been blocked for 5 years or longer. According to duration of the blockade and the type of business entities (natural and legal persons) businesses in a long term blockade are dominated. Such long-term blockade of businesses create and generate an internal bad debt in the country from which arises negative consequences for the functioning the economic system.

As we can Croatian economy problem of illiquidity illustrate, in Table 2 and Figure 1 is presented tabulation of the number of insolvent businesses, and tabular and graphical representation of the amount of overdue payment orders in the last 15 years, according to data collected by financial agencies FINA and the Croatian National Bank.

Table 2. Illiquid/insolvent businesses and the amount outstanding commitments in the Republic Croatia: 1998–2012.

(000 kn)

Month/Year	Number of illiquid/insolvent business entities	Amount reported Outstanding commitments
XII/1998	48.894	15.703.456
XII/1999	59.736	28.653.558
XII/2000	64.951	22.634.338
XII/2001	64.742	19.807.964
XII/2002	58.193	16.764.652
XII/2003	45.568	15.088.724
XII/2004	48.887	14.281.128
XII/2005	55.340	14.953.579
XII/2006	60.946	16.624.848
XII/2007	66.849	19.320.171
XII/2008	52.386	18.492.246
XII/2009	64.028	27.111.583
XII/2010	75.660	35.819.134
XII/2011	71.028	41.689.207
I/2012	71.874	41.693.620
II /2012	72.588	42.771.104
III/2012	72.959	42.430.185
IV/2012	72.401	43.471.768
V/2012	74.196	44.556.695
VI/2012	74.087	43.952.220
VII/2012	73.358	43.850.453

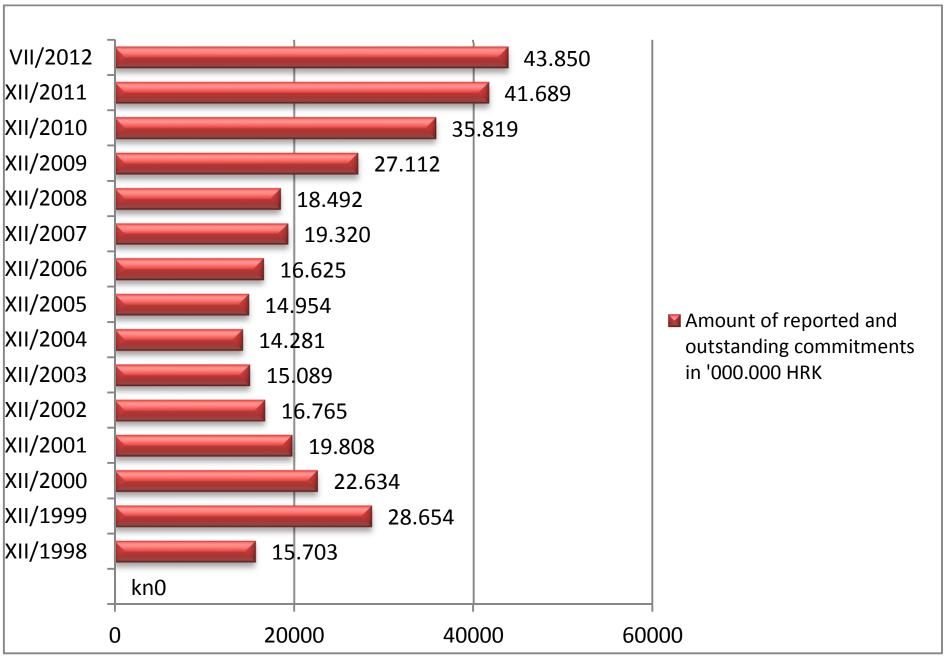

Figure 1. Outstanding commitments in the Republic of Croatia: 1998–2012.

State of illiquidity in the country and business entities was due to market disruptions and the impact of the global economic crisis. In order to restore liquidity and solvency of the debtor, Croatia is taking measures which represent balance between the need to resolve the financial difficulties of the debtor and allow relatively settlement of all creditors as the need of urgency and efficiency of the procedure. Specifically in cases where regular collection is not possible it leads to forcible collection or payment by execution. Thus from the January 01st, 2011 the application of the new system began implementation of the funds foreclosure (Law enforcement on compliance with the financial resources and the Ordinance on the manner and procedure of implementation of the funds foreclosure), by which was introduced a unique procedure, unique calculation of default interest and unique system of reporting. Conduction of enforcement at all kuna and foreign currency debtor, in all banks is possible without the consent of a business entity, which makes the system more efficient and facilitate the quick checkout, and reducing the costs of the proceedings funds foreclosure.

Bankruptcy cases, according to the High Commercial Court of the Republic of Croatia solving them also point to the need for more efficient and faster methods to solve because it is very worrying that there are currently 89 bankruptcy cases taking longer to 10 years, 166 procedures lasting more than five years, and more than 287 more than three years. A World Bank study, "*Doing Business 2012"* in its annual report ranks countries on the basis of regulations that enhance business activity or restrains them, and a regulatory environment that is more conductive to the starting and operation of a business entity, and includes 183 economies. In the category of speed and ease of implementation of the bankruptcy proceedings *(Resolving Insolvency)*

Republic of Croatia ranks 94^{th} (out of 183 countries), and it is worse than the average countries in Eastern Europe and Central Asia. In this category is far worse than some of the neighboring countries such as Austria, which was ranked on 21^{st} place, Italy 30, Czech Republic 32, Slovenia 39, Montenegro 52, Macedonia 55^{th}, 64^{th} Albania, Bosnia and Herzegovina 80, Poland 87, and only slightly better than Serbia's 113^{th}. Furthermore, in the Report of the World Bank (*Doing Business 2012*) in the category of ease doing business the Republic of Croatia ranks 80^{th} place which is better than some of the neighboring countries such as Albania, which is on the 82^{nd} place, Italy 87, 92 Serbia, Bosnia and Herzegovina 125, but up in regards to Macedonia 22, Austria 32, Slovenia 37, Hungary 51, Montenegro 56, 64 Czech and Poland 62.

The adoption and entry into force of the new Act on financial operations and bankruptcy settlement in the Republic of Croatia, with a certain reform of bankruptcy law, the enforcement of laws and regulations, will significantly contribute to solving the crisis of illiquidity and insolvency in the economic sector. In its content, the Law on financial transactions and composition regulate financial operations, deadlines for meeting financial obligations and legal consequences of default of financial obligations, business subjects in terms of illiquidity and bankruptcy settlement process. In addition, the Croatian Government adopted the Regulation on the criteria, standards and procedures to delay payments, installment payments and the sale of debt, write-off or partial write-off receivables (Narodne novine No. 76/12) which entered into force on July 9^{th}, 2012 which applies to non-public benefits (except for the concession fee), thus attempting to significantly ease the position on entrepreneurs. With the possibility of delays and installment payment, this Regulation allows sales, remission or partial write-off receivables in particular individuals who must meet its requirements.

PURCHASE OR SALE OF RECEIVABLES: FACTORING

Difficulties in the economic environment which is characterized by inadequate economic growth, great uncertainty and risk, illiquidity and insolvency of many businesses and in connection therewith, major problems in the area of financing and lending to the national as well as international level, are trying to get through by new specific models, techniques and contractual instruments.

Factoring business has imposed in modern business practice as a very successful way of funding and lending businesses (Spasic 2009, 129).

Simplified, factoring is the purchase of others receivables (debts) or financial instrument by which factor (factor–house, factoring–company, factoring–organization or bank that has a special department) finances business entity on the basis of the future (outstanding) receivables that have arised from sales of goods and services in the domestic or international market for a fee (Ivanovic, Baresa, and Bogdan 2011, 190).

The factor buys receivables for a fee before the deadline of payment, takes over billing jobs, dunning, accounting affairs and risk on receivables (Markovic 2000, 58). In the moment when factor charge more than discounted price paid for purchased receivables, factor makes profit (Ivanovic 1997, 261). Factoring is not a loan and there is no further liability on the balance sheet of a business entity, although it allows financing of the current capital (Klapper 2005).

The emergence of factoring operations reaches back far into history. Some of its tracks are located in the Roman Empire (Rutberg 1994), and some traces are from ancient civilization of Mesopotamia, during the region of King Hammurabi (Papadimitiou, Phillips, and Wray 1994, 11). A first name for the buyer of goods in contracts (*agents and factors*) appears in the 15th century in trade settlements organized by European traders in the colonial countries where merchandise is bought up. It was a primitive type of factoring, which initially took the form of commission sales because buyers-factors, guarantee their customers that goods will pay ultimate customer or would pay merchandise in advance. As a special form of financing factoring is developed in the late 19th century in Anglo-American history, particularly in the textile industry where through factoring 95% of turnover was traded. Specifically, he was developed from commission jobs that U.S. agents had imported textiles from Europe (mostly from England) ensuring manufacturers of textile storage and sale of their goods. In this form, factoring allowed trading between distant parts of the world and between unfamiliar partners (due to underdeveloped and developing communications technology transportation) and represented a mix of shipping operations and purchase of receivables through the storage and guarantee of payment, as well as a mix of classic shopping agents (dealership) for finding customers for the imported goods, or commission sales where the commission agent is selling goods (in his name) for his client (for somebody else) and for their work he received certain commission.

Through its historical development factoring took on different forms and adapting to global changes, the needs of participants in the factoring business, generally economic and political situations and circumstances, thus resulting in different kinds and types of factoring applied in business practice. According to the spatial attributes it can be differed — domestic and international, according to a number of factors — direct and indirect, to the right of recourse which arises from the contractual relationship between the participants with recourse and non-recourse, according to notice of the creditors claim cession — published and unpublished, and according to the maturity of the client’s receivables that factor redeems — past due and outstanding. International factoring – although it is more complex (legal, political, foreign exchange, interest rate risks etc.) for exporters is especially convenient because it frees them from the risk of checking the creditworthiness of customers, default risk, political risk etc., and at work it occur unless client- cedent, buyer-debtor, two factors – one from the country of cedent (exporter) and one from country of debtor (importer). Considering that in the factoring business are two factors involved, such a system is called a two-factor system. Second factor that is correspondent who is involved in the business, knows the country’s economic system buyer-debtor, or importer, opportunities, language, business culture, and have the necessary information and data on the solvency of the foreign companies that can in a short time deliver to the factor of the sellers or exporters land. In international trade transactions with developing countries where credit information’s are often not available, and additional problems may present frauds, false receivables, non-existent customers, etc. and underdeveloped legal framework, lack of business records and credit bureaus that can provide valid information about business entity debtor, the role of factors correspondent has a very important role.

Economic purpose of factoring stems from its advantages: *first*, funding, and one that currently allows an entity to assess liquidity (cash) resources – transforming the company’s own current asset from receivables to cash, *second*, insurance billing, by the factor (*del kredere*) where factor is responsible for the collection of claims and waives the right to claim refund in the case of debtor default (eg. due to insolvency), and *third*, receivables management client, where the factor assumes responsibility for all other activities related to debt collection — contacting debtors, examination of creditworthiness, warnings, receivables analysis, e-factoring information, etc. (Ivanovic, Baresa, and Bogdan 2011, 199).

Factoring in the legal theory

Factoring in the legal theory (*Factoring contract, deu. Factoringvertrag*) implies a contract in which one party (the factor) agrees to take over (outstanding, short-term) receivables of the (client), on the way it collects them, in his own name and for its own account, and to client immediately or before deadline pays equivalent value of receivables and under certain conditions ensures payment, and the customer agrees to pay factor for this appropriate compensation.

Although factoring contract is a widespread practice in the business, legally he is not sufficiently processed, nor are the grades of its content unique (Gorenc 2007a, 3). Relations between factor and the client are regulated by the factoring contract in which the "client obliges to offer for sale all his short-term receivables to factor from the contract for the delivery of goods or services prior to maturity and to pay the factoring fee, and the factor undertakes to take the offers, in principle of underwriting risk of billing from client's debtors, by which generally he manages the clients receivables" (Gorenc 2007b, 129).

In all formal contracts factoring client (old lender-cedent) agrees that its receivables against the debtors transfers to the factor (new lender-assignee). This transfer of some forms of factoring contract is explicitly called assignment (cession), while in others simply states that the client "cedes" to factor in case he buys them. From the form of the contract and from a unique perspective in legal science, considers Gorenc (2007b, 129), follows that the factoring contract still contained a legal institute of contractual cession.

In legal theory and laws of some countries there is no unified stance in view of terminological, conceptual and legal determination of a factoring contract (Brkic 2011, 177).

In the structure of relations in factoring there is *precontract* (factoring) that binds factor and his client on the assignment of receivables, or the client binds that its receivables will offer to factor for the purchase, and factor agrees to accept the offer if it meets the creditworthiness of client (acceptance of the offer is not unconditional), and a precontract is basis for concluding a number of other special agreements, then the *cession* — an effective transfer of receivables from client to factor, and the *main contract* or basic contract which factor client and his debtor are concluding.

In this relationship between creditor and debtor in factoring business is coming to the change on the side of the lender. In the case of a valid transfer of receivables to another person, the transferor or former lender will cease to be a creditor, and the receiver will become the lender of certain receivable, and that receivable and debtor will stay the same (Slakoper, Kacer, and Luttenberger 2009, 183).

In legal theory and in the different legal systems of the countries there are certain differences in terms of understanding legal nature of factoring and its regulation which created difficulties in business practices, particularly during the realization of the international factoring business. A great contribution to the unification of some of the most important issues in the field of international law, including factoring, there is the International Institute for the Unification of Private Law — UNIDROIT (*International Institute for the Unification of Private Law*) that counts (at 31 December 2011) 63 states: Argentina, Australia, Austria, Belgium, Bolivia, Brazil, Bulgaria, Canada, Chile, China, Colombia, Croatia, Cuba, Cyprus, Czech Republic, Denmark, Egypt, Estonia, Germany, Finland, France, Greece, Vatican, Hungary, India, Indonesia, Iran, Iraq, Ireland, Israel, Italy, Japan, Latvia, Lithuania, Luxembourg, Malta, Mexico, Netherlands, Nicaragua, Nigeria, Norway, Pakistan, Paraguay, Poland, Portugal, Republic of Korea, Republic of Serbia, Romania, Russian Federation, San Marino, Saudi Arabia, Slovakia, Slovenia, South Africa, Spain, Sweden, Switzerland, Tunisia, Turkey, United Kingdom, United States, Uruguay and Venezuela. Due to significant role played by factoring in the development of international trade, and recognizing the importance of the adoption of uniform rules and standards in order to establish a legal framework that will facilitate international factoring, 1988th in Ottawa has been created and adopted UNIDROIT *(Convention on International Factoring).* In this Convention word was about main characteristics that must be included in factoring, and that are: *first,* there must be a clause on the transfer of the assignments of receivables that arises from commercial contract about purchase of goods or services, and the subject of factoring cannot be purchase agreement in which one or both sides, are physical persons, *second*, there must be a regulation for informing the debtor of the assigned receivable, and *third,* factor must provide at least two of the following four services (financing through advance payments, protection against the risk of default, debt collection and receivables management). Among the signatory countries in which the Convention entered into force in national legislations are (UNIDROIT 2012, 39): France (1995), Italy (1995), Nigeria (1995), Hungary (1996), Germany (1998), Latvia (1998), Ukraine (2007). In a further effort to improve legal regulation in this area, few years later, the United Nations Commission on International Trade Law — UNICITRAL (*United Nations Commission on International Trade Law*) has in 2001. adopted the Convention on the Transfer of Receivables in International Trade.

PERSPECTIVE OF FACTORING DEVELOPMENT: WORLD TRENDS

Many countries have faced in times of financial crisis with great difficulties that threatened the economic and financial systems, and finally the overall economic development of countries and the global economy. Many businesses, faced with limited credit expansion, with difficult access to resources necessary for smooth execution business turned to a new alternative system of financing — factoring. Factoring as one of many financing possibilities was accepted by many world countries, which are currently developing it.

International Association of factors — FCI (*Factors Chain International*) was established in 1968. and represents the largest global network of leading factoring companies around the world which aims to facilitate international trade, associate financial services, and encourage the growth of international trade.

Members of FCI provide services of domestic and international factoring in all the continents, and include a group of 257 members from 71 countries, namely: 33 from Europe (124 members), 13 from North and South America (36 states), 6 from Africa (9 states), 19 from Asia and the Pacific (88 states). It is shown graphically in Figure 2.

Transactions of FCI members that make up nearly 80% of the global volume of international factoring.

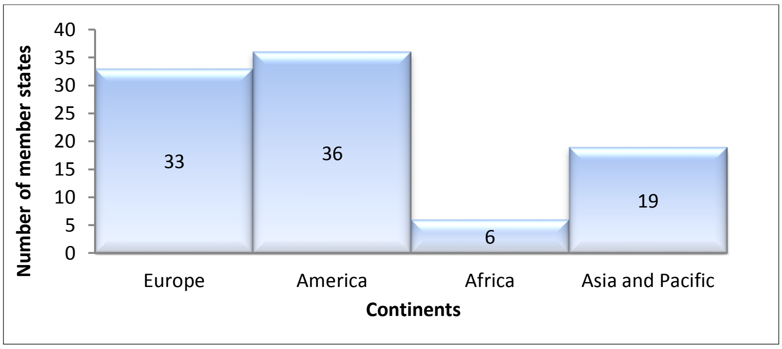

Figure 2. Representation of member states FCI by continents in 2011.

According to the report of FCI in 2011. the total factoring volume achieved for the that year amounted 2,015,413 million euros, or more than 2 trillion euros, an increase of 22% compared to the previous year (2010. – 1,648,229 million euros). Achieved volume of domestic factoring in 2011. amounted 1,741,137 million euros (in 2010. – 1,402,231 million euros), which presents an increase of 24% compared to previous year, and international factoring amounted 274,276 million euros (2010. – 245,898 million euros), which presents an increase of 11% compared to previous year.

Total factoring turnover (in the domestic and international factoring) in 2010. and 2011. By individual countries according to the annual report of FCI (FCI 2011, 21; 2012, 23) is shown in Table 3.

Table 3. Factoring turnover by country (domestic and international): 2010–2011

(in million EUR)

	Number of companies		Domestic factoring		International factoring		In total		Index
Countries	2010	2011	2010	2011	2010	2011	2010	2011	
EUROPE									
Austria	5	4	6,646	7,009	1,661	1,977	8,307	8,986	108,2
Belgium	6	6	24,203	28,704	8,000	9,500	32,203	38,204	118,6
Bosnia and Herzegovina	1	1	30	30	15	15	45	45	100,0
Bulgaria	7	7	400	800	150	210	550	1,010	183,6
Croatia	19	20	2,736	2,153	57	116	2,793	2,269	81,2
Cyprus	3	3	3,400	3,700	50	58	3,450	3,758	108,9
Czech	8	8	3,425	3,865	985	1,250	4,410	5,115	116,0
Denmark	6	6	5,000	5,510	3,000	3,650	8,000	9,160	114,5
Estonia	4	4	992	972	235	192	1,227	1,164	94,9
Finland	5	5	10,800	11,050	1,600	1,950	12,400	13,000	104,8
France	11	12	127,193	141,410	26,059	33,170	153,252	174,580	113,9
Germany	100	100	99,411	119,120	30,125	38,140	129,536	157,260	121,4
Greece	12	12	13,465	12,685	1,250	2,046	14,715	14,731	100,1
Hungary	22	22	3,024	2,455	315	362	3,339	2,817	84,4
Ireland	8	8	18,947	17,047	1,250	1,283	20,197	18,330	90,8
Italy	45	45	125,777	142,686	17,968	32,496	143,745	175,182	121,9
Latvia	8	9	235	200	93	171	328	371	113,1
Lithuania	8	8	590	795	950	1,339	1,540	2,134	138,6
Luxembourg	1	1	177	177	144	3	321	180	56,1
Malta	2	2	105	150	31	50	136	200	147,1
Netherlands	5	4	25,000	30,000	10,000	16,000	35,000	46,000	131,4

Table 3. (*continued*)

(in million EUR)

Countries	Number of companies 2010	2011	Domestic factoring 2010	2011	International factoring 2010	2011	In total 2010	2011	Index
Norway	7	7	13,150	14,334	1,925	2,061	15,075	16,395	108,8
Poland	14	18	12,823	14,200	3,387	3,700	16,210	17,900	110,4
Portugal	14	15	18,800	24,812	1,956	3,067	20,756	27,879	134,3
Romania	13	13	1,300	1,922	500	660	1,800	2,582	143,4
Russia	28	33	12,083	20,944	80	230	12,163	21,174	174,1
Serbia	12	13	430	726	70	200	500	926	185,2
Slovakia	6	7	701	810	280	361	981	1,171	119,3
Slovenia	5	4	550	410	100	140	650	550	84,6
Spain	23	24	101,796	109,083	11,113	13,042	112,909	122,125	108,2
Sweden	40	40	17,760	28,259	1,000	1,000	18,760	29,259	156,0
Switzerland	5	8	3,500	3,352	500	98	4,000	3,450	86,2
Turkey	70	74	34,931	25,591	4,057	5,278	38,988	30,869	79,2
Ukraine	25	25	530	933	10	22	540	955	176,9
United Kingdom	44	42	210,745	249,664	15,498	18,416	226,243	268,080	118,5
Total in Europe	**592**	**610**	**900,655**	**1,025,558**	**144,415**	**192,253**	**1,045,069**	**1,217,811**	**116,5**
AMERICA									
Argentina	5	5	330	455	20	20	350	475	135,7
Bolivia	1	1	18	32	0	3	18	35	194,4
Brazil	1,120	1,112	49,000	45,580	50	43	49,050	45,623	93
Canada	53	51	3,158	4,981	565	303	3,723	5,284	141,9
Chile	130	148	15,108	20,000	1,314	1,500	16,422	21,500	130,9
Columbia	30	30	2,726	4,790	58	200	2,784	4,990	179,2
Honduras	3	1	5	0	155	30	160	30	19,7
Mexico	11	11	14,507	21,058	31	16	14,538	21,074	145,0
Panama	12	17	600	700	0	0	600	700	116,7
Peru	9	9	2,613	2,267	99	194	2,712	2,461	90,7
United States	300	300	85,000	90,000	10,000	15,000	95,000	105,000	110,5
Total in America	**1674**	**1,685**	**173,065**	**189,863**	**12,292**	**17,309**	**185,357**	**207,172**	**111,8**
AFRICA									
Egypt	5	4	50	100	150	100	200	200	100,0
Mauritius	2	1	122	127	3	0	125	127	101,6
Morocco	4	4	905	1,226	166	180	1,071	1,406	131,3
South Africa	5	5	14,895	21,238	225	140	15,120	21,378	141,4
Tunis	4	4	260	297	35	43	295	340	115,3
Total in Africa	**20**	**18**	**16,232**	**22,988**	**579**	**463**	**16,811**	**23,451**	**139,5**
ASIA									
Armenia	4	4	10	10	4	4	14	14	100,0
Kina	23	30	119,960	229,952	34,590	44,918	154,550	274,870	177,9
Hong Kong	15	12	6,000	15,044	8,400	2,344	14,400	17,388	120,8
India	11	12	2,600	2,650	150	150	2,750	2,800	101,8
Indonesia	-	1	-	0	-	3	-	3	-
Israel	6	6	1,300	1,300	350	350	1,650	1,650	100,0
Japan	7	4	97,700	110,195	800	1,050	98,500	111,245	112,9
Jordan	1	1	35	0	8	12	43	12	27,9
Korea	2	10	0	0	5,079	8,087	5,079	8,087	159,2
Lebanon	1	1	354	310	96	17	450	327	72,7
Malaysia	6	30	1,030	840	28	210	1,058	1,050	99,2
Qatar	1	1	20	45	3	30	23	75	326,1
Singapore	9	8	3,800	4,370	2,000	2,300	5,800	6,670	115,0
Taiwan	18	20	30,300	76,000	36,700	3,800	67,000	79,800	119,1
Thailand	10	13	2,000	3,070	95	10	2,095	3,080	147,0
United Arab.Emirates	4	4	1,800	1,000	200	750	2,000	1,750	87,5
Vietnam	7	7	40	42	25	25	65	67	103,1
Total in Asia	**125**	**164**	**266,949**	**444,828**	**88,528**	**64,060**	**355,477**	**508,888**	**143,2**
AUSTRALASIA									
Australia	19	19	44,830	57,300	85	191	44,915	57,491	128,0
New Zealand	7	7	600	600	0	0	600	600	100,0
Total in Australasija	**26**	**26**	**45,430**	**57,900**	**85**	**191**	**45,515**	**58,091**	127,6
TOTAL	**2,437**	**2,503**	**1,402,331**	**1,741,137**	**245,898**	**274,276**	**1,648,229**	**2,015,413**	**122,3**

Markets that have shown fascinating growth related to the previous year are: *a)* on the European continent — Serbia (85%), Bulgaria (84%), Russia (74%), Ukraine (76%), Sweden (56%), Malta (47%), Latvia (39%), Portugal (34%), Netherland (31%), *b)* on American continent — Bolivia (94%), Colombia (79%), Mexico (45%), Canada (32%) and Chile (31%), *c)* on the African continent — South Africa (41%), Morocco (31%), *d)* on Asian continent — Qatar (326%), China (77%), Korea (59%), Thailand (47%), *e)* Australia (28%). Largest index increased volume was achieved Qatar (326,1) compared to the previous year.

Some markets in 2011 have achieved worse total volume compared to 2010. Among which are: *a)* on the European continent — Luxembourg (-44%), Turkey (-31%), *b)* on American continent — Honduras (-81%), and *c)* on the Asian continent — Jordan (-72%) and Lebanon (-27%).

The development of new markets, address the fact that international factoring covers more transactions in today's market environment, and business entities (importers and exporters) no longer have problems with the local customs, language, distance and cultural differences as each business entity uses the services of the factors of its own country.

Factoring volume in the most countries of the world (according to report of FCI), in observed period of 8 years (2004–2011), expresses his rise (table 4) which indicates the fact that the economy is more and more recognizing the advantages of this alternative way of financing, with the prospect of holding a dominant or alternative role in financing the economy.

Table 4. Total factoring volume by country: 2004–2011. (in million EUR)

Country	2004	2005	2006	2007	2008	2009	2010	2011
EUROPE								
Austria	3,692	4,273	4,733	5,219	6,350	6,630	8,307	8,986
Belgium	13,500	14,000	16,700	19,200	22,500	23,921	32,203	38,204
Bosnia and Herzegovina	0	0	0	0	0	35	45	45
Bulgaria	0	0	35	300	450	340	550	1,010
Croatia	28	175	340	1,100	2,100	2,450	2,793	2,269
Cyprus	2,140	2,425	2,546	2,985	3,255	3,350	3,450	3,758
Czech	2,620	2,885	4,025	4,780	5,000	3,760	4,410	5,115
Denmark	6,780	7,775	7,685	8,474	5,500	7,100	8,000	9,160
Estonia	3,920	2,400	2,900	1,300	1,427	1,000	1,227	1,164
Finland	9,167	10,470	11,100	12,650	12,650	10,752	12,400	13,000
France	81,600	89,020	100,009	121,660	135,000	128,182	153,252	174,580
Germany	45,000	55,110	72,000	89,000	106,000	96,200	129,536	157,260
Greece	4,430	4,510	5,230	7,420	10,200	12,300	14,715	14,731
Hungary	1,375	1,820	2,880	3,100	3,200	2,520	3,339	2,817
Ireland	13,150	23,180	29,693	22,919	24,000	19,364	20,197	18,330
Italy	121,000	111,175	120,435	122,800	128,200	124,250	143,745	175,182
Latvia	155	20	276	1,160	1,520	900	328	371
Lithuania	1,040	1,640	1,896	2,690	3,350	1,755	1,540	2,134
Luxembourg	285	280	306	490	600	349	321	180
Malta	0	0	1	25	52	105	136	200
Netherland	19,600	23,300	25,500	31,820	30,000	30,000	35,000	46,000
Norway	8,620	9,615	11,465	17,000	15,000	15,100	15,075	16,395
Poland	3,540	3,700	4,425	7,900	7,800	12,000	16,210	17,900
Portugal	14,700	16,965	16,886	16,888	18,000	17,711	20,756	27,879
Romania	420	550	750	1,300	1,650	1,400	1,800	2,582
Russia	1,130	2,540	8,555	13,100	16,150	8,580	12,163	21,174
Serbia	0	0	150	226	370	410	500	926
Slovakia	665	830	1,311	1,380	1,600	1,130	981	1,171
Slovenia	185	230	340	455	650	650	650	550

Table 4. (*continued*) (in million EUR)

Country	2004	2005	2006	2007	2008	2009	2010	2011
Spain	45,376	55,515	66,772	83,699	100,000	104,222	112,909	122,125
Sweden	14,500	19,800	21,700	21,700	16,000	18,760	18,760	29,259
Switzerland	1,400	1,900	2,000	2,513	2,590	5,000	4,000	3,450
Turkey	7,950	11,830	14,925	19,625	18,050	20,280	38,988	30,869
Ukraine	0	333	620	890	1,314	530	540	955
United Kingdom	184,520	237,205	248,769	286,496	188,000	195,613	226,243	268,080
Total in Europe	**612,488**	**715,471**	**806,958**	**932,264**	**888,528**	**876,649**	**1,045,069**	**1,217,811**
AMERICA								
Argentina	101	275	333	362	355	335	350	475
Bolivia						18	18	35
Brazil	15,500	20,050	20,054	21,060	22,055	29,640	49,050	45,623
Canada	3,157	3,820	3,386	4,270	3,000	3,250	3,723	5,284
Chile	4,200	9,500	11,300	14,620	15,800	14,500	16,422	21,500
Columbia	0	0	100	2,030	2,100	2,392	2,784	4,990
Honduras	0	0	0	0	0	0	160	30
Mexico	4,600	7,100	8,150	9,200	9,550	2,120	14,538	21,074
Panama	201	240	607	483	460	500	600	700
Peru	0	95	563	648	875	758	2,712	2,461
United States	81,860	94,160	96,000	97,000	100,000	88,500	95,000	105,000
Total in America	**109,619**	**135,240**	**140,493**	**149,673**	**154,195**	**142,013**	**185,357**	**207,172**
AFRICA								
Egypt	1	1	3	20	50	110	200	200
Mauritius						121	125	127
Morocco	300	430	440	660	850	910	1,071	1,406
South Africa	7,100	5,580	7,800	9,780	12,110	13,500	15,120	21,378
Tunis	185	226	270	245	253	276	295	340
Total in Africa	**7,586**	**6,237**	**8,513**	**10,705**	**13,263**	**14,917**	**16,686**	**23,451**
ASIA								
Armenia	0	1	50	50	7	7	14	14
China	4,315	5,830	14,300	32,976	55,000	67,300	154,550	274,870
Hong Kong	4,800	7,700	9,710	7,700	8,500	8,079	14,400	17,388
India	1,625	1,990	3,560	5,055	5,200	2,650	2,750	2,800
Indonesia								3
Israel	155	325	375	800	1,400	1,400	1,650	1,650
Japan	72,535	77,220	74,530	77,721	106,500	83,700	98,500	111,245
Jordan						43	43	12
Korea	32	850	850	955	900	2,937	5,079	8,087
Lebanon	41	61	95	176	306	420	450	327
Malaysia	730	532	480	468	550	700	1,058	1,050
Qatar						23	23	75
Singapore	2,600	2,880	2,955	3,270	4,000	4,700	5,800	6,670
Taiwan	23,000	36,000	40,000	42,500	48,750	33,800	67,000	79,800
Thailand	1,500	1,640	1,925	2,240	2,367	2,107	2,095	3,080
United Arab Emirates	145	440	810	340	1,860	1,910	2,000	1,750
Vietnam	0	2	16	43	85	95	65	67
Total in Asia	**111,478**	**135,470**	**149,606**	**174,244**	**235,418**	**209,991**	**355,602**	**508,888**
AUSTRALASIA								
Australia	18,181	23,130	27,573	33,080	32,546	39,410	44,915	57,491
New Zealand	236	600	0	700	700	700	600	600
Total in Australasia	**18,417**	**23,730**	**27,573**	**33,780**	**33,246**	**40,110**	**45,515**	**58,091**
TOTAL	**859,588**	**1,016,148**	**1,133,143**	**1,300,666**	**1,324,650**	**1,283,559**	**1,648,229**	**2,015,413**

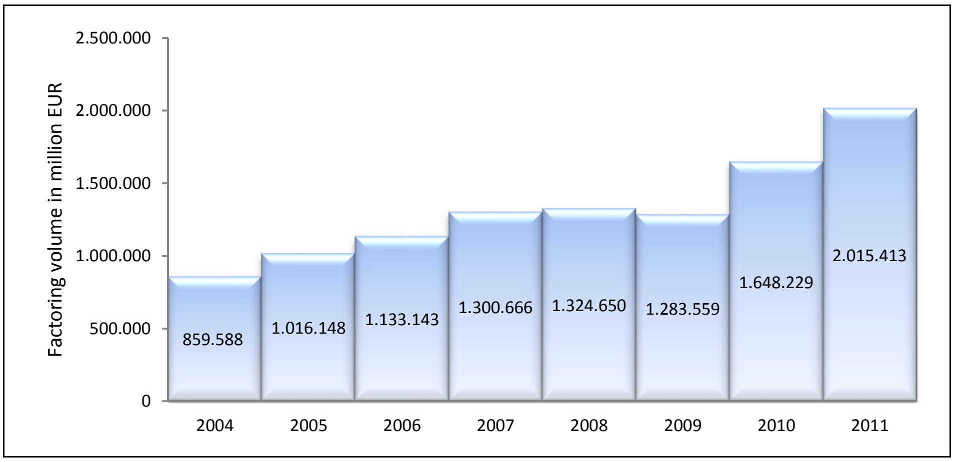

Figure 3. Factoring volume FCI: 2004–2011.

Differences in the development and realization of factoring volume is probably due to the different business environment, different institutional framework, legal framework and its effectiveness, efficiency of the judiciary as well as various information infrastructure in some countries.

FCI market share compared to the world factoring volume in the last 36 years according to the annual report presented the significant increase compared to the world factoring volume is illustrated in Figure 4.

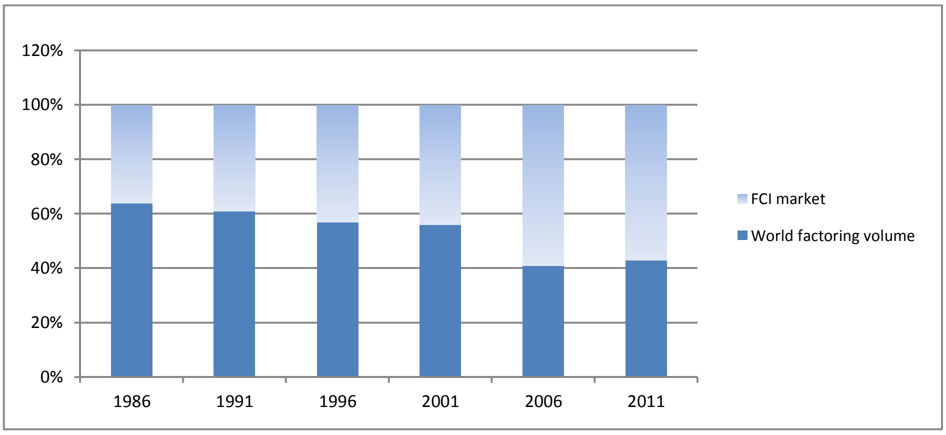

Figure 4. FCI market share (compared to the world factoring volume): 1986–2011.

Factoring has become well established in developing countries, and has the support of government offices and central banks around the world. Factoring has been accepted as a vital financial need of small and medium-sized companies, and shows a trend of seeking factoring services by large companies. Almost all large banks have specialized departments of factoring subsidiary, which promote factoring service for businesses of all sizes. Due to the similarity of functioning of domestic and international factoring, many exporters realize that international factoring and FCI can help them become more competitive in a changing and complex international market (FCI 2011).

Based on the analyzed situation and current development of the factoring market in the world, it is expected that he will continue to develop especially due to of its positive features and advantages, particularly in an international environment, then because of spreading factoring business in emerging markets, because of tendency of its development and regulation, and its further promotion, due to the dynamic changes in the economy and ever-presented problem of liquidity, that can override this method of funding, or at least help fund business.

PERSPECTIVES OF FACTORING DEVELOPMENT: REPUBLIC OF CROATIA

Factoring is present only ten years (since 2003) in Croatia, though in the world has long existed and as a system is well developed. Many businesses in Croatia are not yet familiar enough with the financing through factoring and therefore they are insufficiently using it, whereby only larger businesses are better informed.

Factoring business in Republic of Croatia perform credit institutions and companies registered to carry out factoring operations. Establishment and operations of companies that perform factoring business in Croatia are not regulated by law, but the legal framework for the supervision of such companies is defined by the Croatian Agency for Supervision of Financial Services, and the way of doing business is regulated by the Accounting Act and anti-money laundering and terrorism financing, as in other laws and regulations which regulate business enterprises in the Republic of Croatia. Credit institutions which carry out factoring operations within their registered business activity are in the responsibility of the Croatian National Bank.

Croatian Agency for Supervision of Financial Services (HANFA) is authorized, pursuant HANFA's law (Narodne Novine br. 140/05 i 12/12) perform supervision over legal persons who are engaged in the business of factoring. Statistical reports for companies registered to conduct factoring, collected from companies that HANFA knows, indicate that the factoring business on June 30th, 2012 — were performing about fifteen companies.

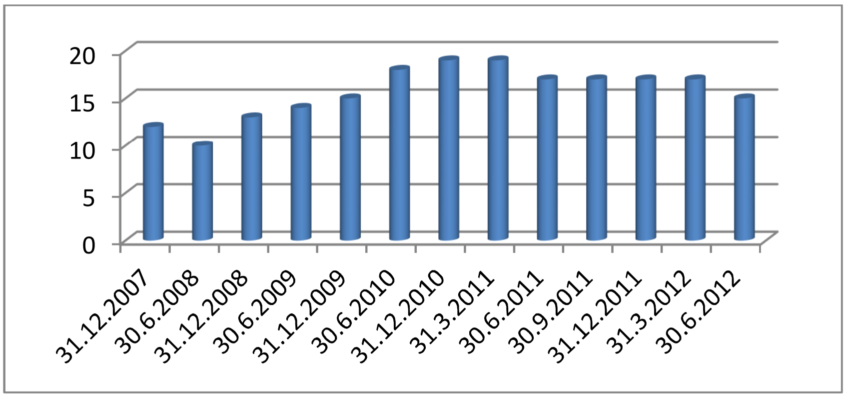

Figure 5. Number of factoring companies in Croatia: 2007–2012.

Based on data from the annual reports of FCI, volume of domestic factoring in Croatia in the last two years has decreased from 2,736 million euros in 2011 to 2,153 million euros in 2010, that is fall for 18,8%, unlike the volume of international factoring, which increased from 57 million euros in 2010 to 116 million euros in 2011, or increased by 103,5% (Table 5).

Table 5. Volume Turnover by type of factoring in Croatia: 2010–2011. (in million EUR)

Year	Domestic factoring	International factoring	Total
2010	2,736	57	2,793
2011	2,153	116	2,269

According to the processed data from the annual reports of FCI and the total volume achieved by Croatia in the factoring business shows that the factoring volume in Croatia had rising trend, while in observed period 2004–2010 was constantly growing, and in 2011 had a slight decrease (Figure 6).

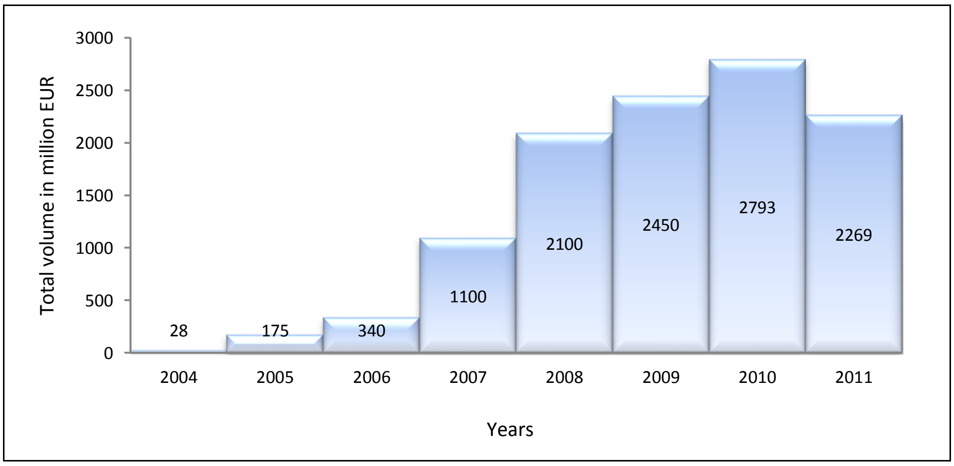

Figure 6. Total factoring volume in the Republic of Croatia: 2004–2011.

Croatian market largely followed global events such as the deepening debt crisis in the Eurozone and slowing economic growth, uncertain financial market, a large illiquidity and insolvency, particularly in Croatia, which affected the results achieved in factoring transactions. However, factoring must continue with developing and improving its products and services in order to expedite the process of manufacturing, in order to ensure and facilitate the operations of enterprises, their competitiveness, continuity and growth of the businesses, above all to facilitate businesses obtaining new jobs have stimulated the development of competitiveness in the European environment.

In this endeavor the Croatian Chamber of economy in June 19th, 2012 established the association of factoring companies Croatian Chamber of Commerce in order to promote and protect the common interest, and the development of factoring business in Croatia. As one of the priorities of this society is education about factoring, considering on the insufficient education of the Croatian market for this financial instrument. In an effort to improve the development and transparency, and regularization, in preparation is creation of factoring law, whose legal and regulatory framework would surely contribute to the development of the factoring business

Increased illiquidity on the market, and recognizing uses which factoring provide, especially as fast and flexible way of financing where no additional insurance is needed (for example mortgage), has prompted demand for this alternative way of financing and revenue growth of factoring companies. Although many efforts have been made in the Republic of Croatia, in terms of legislation that will contribute to improving financial discipline businesses, and solving the crisis in the economy, it remains an open question of the efficiency and effectiveness of its implementation and process that take some time to test and adjustment. Therefore, the predictions for the future development of factoring business in the Republic of Croatia are optimistic and positive.

PERSPECTIVES OF FACTORING DEVELOPMENT: EU COUNTRIES

In the mid of 20th century many advantages of factoring influenced the process of its spread from America to Europe, so it can be later adopted even in the Member States of the European Union. Factoring in the European Union has a fifty year history. First Factoring businesses in Europe (Germany and Finland) dated from 1959 year. Today, in 16 EU countries exist national associations of factoring organizations, which are sometimes part of national leasing associations (Brkic 2011, 179).

According to the analyzed data FCI in 2010 and 2011 total factoring volume achieved in 2011 year for the 27 member countries amounted to 1,141,728 million euros (in 2010 – 970,964 million euros), and compared to the previous year, has made an increase of 17,6%.

Total factoring turnover (in the domestic and international factoring) in 2010 and in 2011 by member countries of the European Union, using data from annual reports of FCI (FCI 2011, 21; 2012, 23) is shown in Table 6.

Table 6. Factoring turnover by member countries of the European Union (domestic and international): 2010–2011. (in million EUR)

	Number of companies		Domestic factoring		International factoring		Total	
Country	2010	2011	2010	2011	2010	2011	2010	2011
European Union								
1. Austria	5	4	6,646	7,009	1,661	1,977	8,307	8,986
2. Belgium	6	6	24,203	28,704	8,000	9,500	32,203	38,204
3. Bulgaria	7	7	400	800	150	210	550	1,010
4. Cipar	3	3	3,400	3,700	50	58	3,450	3,758
5. Czech	8	8	3,425	3,865	985	1,250	4,410	5,115
6. Denmark	6	6	5,000	5,510	3,000	3,650	8,000	9,160
7. Estonia	4	4	992	972	235	192	1,227	1,164
8. Finland	5	5	10,800	11,050	1,600	1,950	12,400	13,000
9. France	11	12	127,193	141,410	26,059	33,170	153,252	174,580
10.Germany	100	100	99,411	119,120	30,125	38,140	129,536	157,260
11.Greece	12	12	13,465	12,685	1,250	2,046	14,715	14,731
12.Hungary	22	22	3,024	2,455	315	362	3,339	2,817
13.Ireland	8	8	18,947	17,047	1,250	1,283	20,197	18,330
14.Italy	45	45	125,777	142,686	17,968	32,496	143,745	175,182
15.Latvia	8	9	235	200	93	171	328	371
16.Lithuania	8	8	590	795	950	1,339	1,540	2,134
17.Luxembourg	1	1	177	177	144	3	321	180
18.Malta	2	2	105	150	31	50	136	200
19.Netherland	5	4	25,000	30,000	10,000	16,000	35,000	46,000

Table 6. (*continued*) (in million EUR)

Country	Number of companies		Domestic factoring		International factoring		Total	
	2010	2011	2010	2011	2010	2011	2010	2011
20.Poland	14	18	12,823	14,200	3,387	3,700	16,210	17,900
21.Portugal	14	15	18,800	24,812	1,956	3,067	20,756	27,879
22.Romania	13	13	1,300	1,922	500	660	1,800	2,582
23.Slovakia	6	7	701	810	280	361	981	1,171
24.Slovenia	5	4	550	410	100	140	650	550
25.Spain	23	24	101,796	109,083	11,113	13,042	112,909	122,125
26.Sweden	40	40	17,760	28,259	1,000	1,000	18,760	29,259
27.United Kingdom	44	42	210,745	249,664	15,498	18,416	226,243	268,080
Total European Union	425	429	833,265	957,445	137,701	184,233	970,964	1,141,728

Realized total volume of domestic factoring 27 member countries of the European Union in 2011 was 957,445 million euros (in 2010. – 833,265 million euros), which is 124.180 million more than the previous year. Realized total volume of international factoring member countries in 2011 amounted to 184,233 million euros (in 2010. – 137,701 million euros), which is 46,532 million euros more than the previous year. The highest total volume of factoring operations have United Kingdom (268,080 million euros), Italy (175,182 million euros), France (174,580 million euros), and Germany (157,260 million euros), Spain (122,125 million euros), and smallest are Luxembourg (180 million euros), Malta (200 million euros), Latvia (371 million euros). In comparison to the 2010^{th} it is noticeable increasing of international factoring for 33,8%, and increasing of domestic factoring for 14,9% in the member states of the European Union, from which it can be concluded that the larger is tendency of international factoring growth, although in the total factoring activities of European Union member states dominate domestic factoring in relation to international factoring (84% share of domestic factoring versus 16% share of international factoring). Some member states of the European Union in 2011 compared to the previous year achieved significant growth: Bulgaria (84%), Sweden (56%), Malta (47%), Lithuania (39%), Portugal (34%) and the Netherland (31%). Total number of factoring companies in 27 member countries of the European Union in 2011. amounted 429, and compared to the previous year, only increased number of companies was recorded in Poland (from 14 to 18 companies).

In total realized factoring market volume in the amount of 2,015,413 million euros in 2011., European Union member states achieved 1.141,728 million euros, which represents 56% volume share of the total volume. Also, in the previous 2010^{th} in total realized factoring volume of 1,648,229 million euros, member states achieved 970,964 million euros, which makes a share of 59% of total volume. With respect to the proportion that achieved in the total factoring volume, the member states of the European Union in relation to the world represent a very important and dominant market.

Factoring volume in most member states of the European Union in the observed period of eight years (2004–2011) is generally on rise (Table 7 and Figure 7), while milder drop was only reached in 2008 and 2009 when most of the countries was affected by the global economic crisis, so it can be assumed that the factoring Volume of EU member states in the future will keep increasing.

Table 7. Total factoring volume per EU member states: 2004–2011.

(in million EUR)

Member-states EU	2004	2005	2006	2007	2008	2009	2010	2011
1. Austria	3,692	4,273	4,733	5,219	6,350	6,630	8,307	8,986
2. Belgium	13,500	14,000	16,700	19,200	22,500	23,921	32,203	38,204
3. Bulgaria	0	0	35	300	450	340	550	1,010
4. Czech	2,620	2,885	4,025	4,780	5,000	3,760	4,410	5,115
5. Denmark	6,780	7,775	7,685	8,474	5,500	7,100	8,000	9,160
6. Estonia	3,920	2,400	2,900	1,300	1,427	1,000	1,227	1,164
7. Cyprus	2,140	2,425	2,546	2,985	3,255	3,350	3,450	3,758
8. Finland	9,167	10,470	11,100	12,650	12,650	10,752	12,400	13,000
9. France	81,600	89,020	100,009	121,660	135,000	128,182	153,252	174,580
10. Germany	45,000	55,110	72,000	89,000	106,000	96,200	129,536	157,260
11. Greece	4,430	4,510	5,230	7,420	10,200	12,300	14,715	14,731
12. Hungary	1,375	1,820	2,880	3,100	3,200	2,520	3,339	2,817
13. Ireland	13,150	23,180	29,693	22,919	24,000	19,364	20,197	18,330
14. Italy	121,000	111,175	120,435	122,800	128,200	124,250	143,745	175,182
15. Latvia	155	20	276	1,160	1,520	900	328	371
16. Lithuania	1,040	1,640	1,896	2,690	3,350	1,755	1,540	2,134
17. Luxembourg	285	280	306	490	600	349	321	180
18. Malta	0	0	1	25	52	105	136	200
19. Netherland	19,600	23,300	25,500	31,820	30,000	30,000	35,000	46,000
20. Poland	3,540	3,700	4,425	7,900	7,800	12,000	16,210	17,900
21. Portugal	14,700	16,965	16,886	16,888	18,000	17,711	20,756	27,879
22. Romania	420	550	750	1,300	1,650	1,400	1,800	2,582
23. Slovakia	665	830	1,311	1,380	1,600	1,130	981	1,171
24. Slovenia	185	230	340	455	650	650	650	550
25. Spain	45,376	55,515	66,772	83,699	100,000	104,222	112,909	122,125
26. Sweden	14,500	19,800	21,700	21,700	16,000	18,760	18,760	29,259
27. United Kingdom	184,520	237,205	248,769	286,496	188,000	195,613	226,243	268,080
Total	**593,360**	**689,253**	**769,026**	**877,810**	**832,954**	**824,264**	**982,365**	**1,141,728**

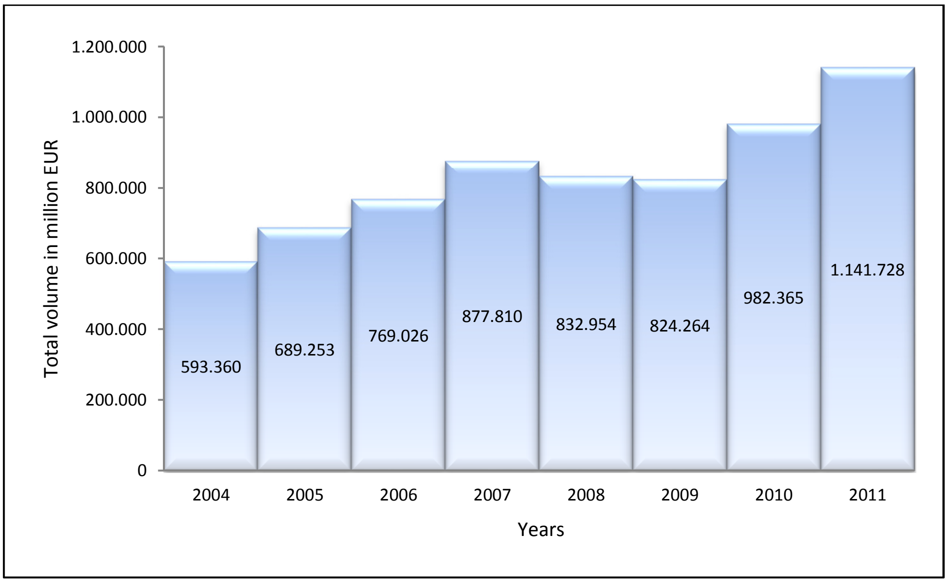

Figure 7. Total factoring volume of the member states of the European Union: 2004–2011.

Observing and comparing annual growth of factoring volume in Republic of Croatia in period 2004-2011. (According to reports FCI) in relation to Slovenia as a Member State of the European Union, but also to the neighboring countries — Serbia and Bosnia and Herzegovina as a future member of the European Union, we can conclude that Croatia achieves growth of factoring volume till 2010. and then in 2011. has smaller decline, and in relation to other countries considered, Croatia has achieved far greater overall volume. Slovenia achieves volume growth as Croatia till 2010. and also recorded a smaller decline, but the total volume achieved is far less than Croatian, but larger than Serbia and Bosnia and Herzegovina till 2010, and in 2011. has smaller volume than Serbia (Table 8 and Figure 8). Line of annual growth factoring volume for all countries ranged upwards till 2010. then in 2011. it has registered a downward trend (except Serbia).

Table 8. Factoring volume: Croatia, Slovenia, Serbia and Bosnia and Herzegovina: 2004–2011. (in million EUR)

Countries	2004	2005	2006	2007	2008	2009	2010	2011
Croatia	28	175	340	1,100	2,100	2,450	2,793	2,269
Slovenia	185	230	340	455	650	650	650	550
Serbia	0	0	150	226	370	410	500	926
Bosnia and Herzegovina	0	0	0	0	0	35	45	45

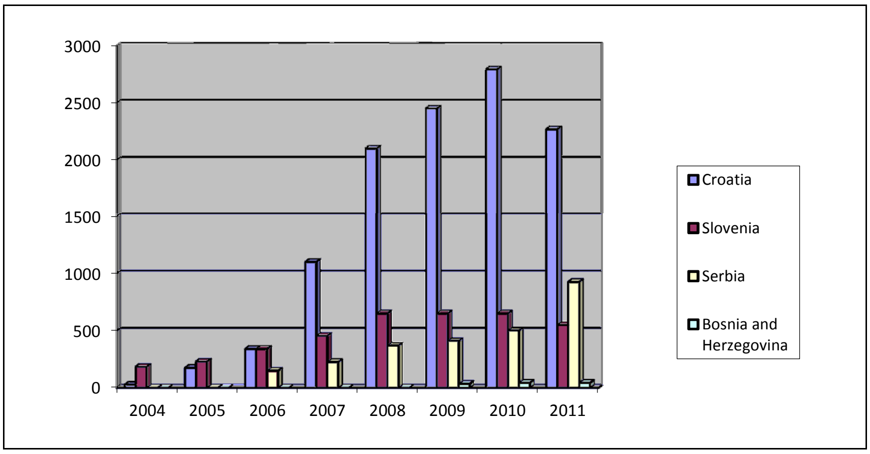

Figure 8. Factoring volume: Croatia, Slovenia, Serbia and Bosnia and Herzegovina; 2004–2011.

Factoring volume in Republic of Croatia compared with the member countries of the European Union in the observed period of 8 years (2004–2011) generally follows the trend of development. In the research area of factoring activities, Republic of Croatia doesn't lag behind other member states of European Union that can be economically and territorially compare to it, and also are in the process of transition. Since the liberalization process started later in some member states such as the Republic of Croatia, it follows that the level of the financial system, legal system, and regulation of business conditions is worse than in the developed countries, so development of factoring market is conditioned by business environment in which it operates.

In a smaller number of member states of the European Union, there is direct legislation about factoring business, the purpose is contribution to further development in factoring especially international. The Croatian economy in which the payment or collection of debts and the repayment of the loan is very questionable and poses a major problem, this model of financing as an alternative has a great potential and a bright future in terms of its use and application in the business.

CONCLUSION

As a future member of the European Union, Croatia is included in the stable political and economic environment that will provide better social and economic development, and in environment that offers a range of development opportunities; Croatian interests will be represented in decision-making in the European Union that have an impact on domestic and foreign policy, on the development of policies that affect the future of Europe and the long-term development of Republic of Croatia, and will be part of the EU's internal market and thus will have better access to capital, equipment, knowledge, and technologies, access to funds dedicated to environmental protection, subsidies for agriculture and reduction disparities between regions and member states, and will open a variety of educational and employment opportunities, in other member-states for Croatian citizens, and will be better to cope with the processes and consequences of globalization, and will influence the development of Croatian society and society as a whole. Joining and with membership in the European Union, and exercising its functions, the Republic of Croatia is implementing strong reforms in all areas of economic and legal system, and is in the process of adjusting its legislation with European Union regulations. The smooth and effective functioning of the economic and financial system is only possible in the institutional and legal framework that ensures financial discipline, the creditor and property rights, and respect for contracts, and therefore the impact and role of law is invaluable. In January 2012, in the Republic of Croatia new act on deadlines to fulfill financial obligations came into force, and in preparation is a law on financial transactions and bankruptcy settlement, which will certainly contribute to the introduction of better financial discipline and at least partially solve the problems of late payments and illiquidity in Croatia.

The consequences of the financial crisis on the entire economic system, financial instability, difficulty in obtaining funding, illiquidity and insolvency, inability to perform and untimeliness of collections, are just some of the problems that are many businesses facing. In such circumstances, the crucial is role of management which must keep adequate business policies, efficiently track finances and make strategic decisions.

As one of the possible contributions to solve the problems of liquidity and solvency, become part of everyday life and entered into every pore of society and now is offering alternative way of financing through fees and financing liabilities through factoring. Using this model, a company doesn't have to take credit and go further into debt, what is a good solution to the problem of liquidity and solvency, and allows continuous business cycle and contributes to the improvement in liquidity and business growth and competitiveness in the market.

Global trends in research suggest factoring prospect of further development and increase the volume of what was accomplished in 2011. (compared to 2010. increase of 22%), and it is expected that factoring will continue to develop. In support of this conclusion is the fact that the importance of factoring is notable to market, which means that the economy is increasingly recognizes the benefits and positive effects of such alternative financing.

Global trends in the development of factoring monitors Croatia, and on this point Croatia is not behind any of trends in member states of the European Union. Member states of the European Union showed increase total factoring volume for 17,6% in comparison to previous (2010) year greater tendency to increase international factoring (33,8%), although the share of domestic factoring is (84%) of the total volume is greater than international.

Factoring market in Croatia has generally followed global events, and in the first half of 2012 recorded an increase in revenues and transaction volumes in the domestic, export and import factoring. Increased liquidity in the market, and businesses recognizing the benefits that factoring provide, particularly as a fast and flexible financing method, by which is not important additional insurance. However, factoring has not yet met its full potential, it must continue to develop and improve, and its regulation is needed, transparency and education of business entities is needed to accelerate the manufacturing or service process, ensure and facilitate business competitiveness, continuity and growth, and ultimately to facilitate businesses getting new jobs and encourage the development of competition in the European environment. In an effort to improve the development and transparency, and regularization, in the preparation and development of the factoring, whose legal and regulatory framework would surely contribute to the development of the factoring business. Finally, future development of factoring will depend upon financial crisis, which will return confidence in the market, and Croatian accession to the European Union will have a psychological impact on businesses and their potential partners, and to growth in confidence in the Croatian economy, and that will certainly open up new prospects for the development of factoring.

Considering the recent Croatian history in its economic and social development on the global trends, the Republic of Croatia as a future member of European Union, regardless of the great difficulties with which it currently carries, it can be considered, as a worthy participant in the market of European and international environment, especially in the field of international factoring business.

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