FACTORING IN WORLD AND TURKEY

T.C. Marmara Üniversitesi
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Doç. Dr. Gülden ÜLGEN

Abstract

As recent changes in the glabal economy provide an easier circulation of funds among different countres, variety of the financial mediums applied in the intenational trade have incresed significantly. Thus, in addition to banks, financial companies have gained power in the fiscal sector. Factoring is one of these mediums chosen by firms that maintain well-planned growth processes, to help fulfill their financial needs. This work contains the description of facroring management, its main principles and the analysis of the factoring product types. Information is given on international organizations referring to global volume of factoring based on different conunties. Then, the situation in Turkey is examined in regard to corporations, volume, legal perspectives and possible problems, and its possible contributions to Turkey's small and medium scale firms were evaluated.

Today, Turkey is making every effort to swiftly integrate to the West, to become a full member of the EU and to follow the rules of the market economy. In this study, it was pointed out that despite Turkey's increasing forein trade capacity, due to both present economical and legal conditions there is insufficiency in imlementation in comparison to other countries. The fact that, the successful completion of the required legal arrangements will expand export capacities of the firms and will contribute greatly to the country's export was also underlined.

DEFINITION of FACTORING

Factoring is a concept which has arised to provide firms with facilitation in domestic and international product sales or service supply.

The word factor technically stands for intermediary, middleman or bill broker. In this case, factor is someone who decides or mediates for another person, and factoring is the term which describes this activity.

In other words, factoring is the operation of companies that make sales on account in large quantities, taking over the receivable rights resulting from these sales by the factor or factoring company before the due date and carrying out the keeping and collecting duties in other words administrating the receivables. In this way, the salesman gets his/her financing before the due date of the receivable, and the factor is responsible from collecting the money and covering the possible risks. In the light of these explanations, factoring can also be defined as the activity of financing a firm in the time between the products is sold and the revenue is paid.

DEVELOPMENT of FACTORING

Global Development: According to some historians, the history of factoring begins with the Phoenicians, but in real means the first applications of factoring was done by the English. In those times, English who exported woolen products sole their receivables to factor foundations by guaranteeing that their customers' payments will be made.

After the Industrial Evolution, factoring has become more important and the first application of modern factoring was done for textile imports of North America from England in 19^{th} century. American factoring firms sole the products of English textile companies and paid them the equivalent price in cash. While the actual development and prevalence of factoring in the USA was seen after World War II, and in Europe it was in 1960s.

Banks had done the first applications of factoring in 1950s and even established separate divisions for it. Today, widespread service of factoring is given especially in the USA, England, Italy, Germany, all the north European countries and in the far-east; Japan, Korea, Singapore, Malaysia and Hong Kong. In this sense, except Africa and the Middle-east where risk is relatively high, factoring service is given domestically and internationally in most countries. Furthermore, the establishment of new factoring companies in Europe by the American enterprises have boosted factoring to a great extent. According to current data, 60% of the total factoring endorsement in the world is done by the European factoring companies.

FUNCTIONS of FACTORING

Factoring is a process taking place between a financial institution (factor), debtors (customers) and a company selling merchandise or supplying service (seller). In factoring, receivable rights of the seller is turned over to the factor usually without the right of recourse. Keeping track of and collecting the receivables, keeping the records and covering losses when the receivables are not collected are all factors' duties. Factor's other duties are gathering information about present and potential clients, conducting market research to increase the sales, financing the clients for the receivables that are bought.

Factoring has three functions: Service function, guarantee function and credit (financing) function.

a) Service function: Factoring is an activity of service. The main purpose of this application is the collection of the receivables. In this sense, credibility research about the debtors, keeping track of and collecting the receivables are included in this function. In addition, according to the agreement with the client, the factor is responsible for taking the necessary legal action for the uncollected receivables. Furthermore, doing market research and finding new clients are in the concept of this function. The service function is a mandatory function of factoring, thus it is impossible to conduct a factoring application which does not have this function.

b) Guarantee function: Guaranteeing the collection of the receivables, in other words, the credit insurance is the aim of this function. The factor deals with the risk of the buyer firms which are unable to pay and guarantees the receivables from the open account sales of the seller company. Usually the collection guarantee that is given in the situation of dealing with the buyer's commercial risk is not an unconditional guarantee. Because in the procedures where the seller has the right of recourse, guarantee function does not exist. For example, if the reason why the purchaser does not pay the debt is the flaw of the client, then the collecting guarantee provided will be invalid. Actually, receivables of guarantee in these types of operations are the firms that are taken over. Therefore, guarantee function is not a mandatory function of factoring.

The guarantee function is an agreement on the fact that the factor will cover all the risks in situations where the receivables cannot be collected because of the weakness of the debtor. The sides can decide on the size of risk's content.

c) Credit (financing) function: The most essential function of the factor is finding the financing for the receivables. With this method, the factor pays the customer in advance. In this way, the customer obtains financial resource by collecting the receivables before the due date. In other words, a portion of the purchased receivables' cost is paid to the seller before the due date and financial aid is provided.

In factoring, intelligence information is gathered in order to determine the credibility of the purchasers and the customer is given an offer. In order to agree on the pre-financing percentage, commission, provisions and interest rate, a factoring agreement is signed. The pre-financing percentage is usually near 80%. By the help of this function, receivables are converted into money faster and the need for cash is obtained from receivables instead of foreign resources.

TYPES of FACTORING

Factoring is examined under two major topics: Factoring according to the location it is taking place and according to the services provided.

a) According to the location it is taking place (geographically)

- Domestic Factoring
- International Factoring
    - Direct export factoring
    - Direct import factoring
- The two factor system
    - Single factoring
    - Back to back factoring

b) According to the services provided

- Full service/non-recourse factoring
- Recourse factoring
- Agency factoring
- Bulk factoring
- Invoice discounting
- Disclosed factoring
- Undisclosed factoring
- Maturity factoring

Domestically or internationally, the types of factoring form by one or more elements coming together, these elements are having recourse, the debtor being informed, the collecting being done by the factor itself. In short, functions of factoring determine the type of factoring.

A) FACTORING ACCORDING to the LOCATION IT IS TAKING PLACE

Domestic factoring: This type of factoring takes place between the client, debtor and factor company. Between these three sides, the sales that are subject to commercial receivables are done inland.

International Factoring: If the purchaser and seller are in different countries, we can talk about international factoring. While in domestic factoring there are 3 sides, in international factoring there are 4 sides. The reason is that since the purchaser and seller are in different countries, the correspondents of the factor companies get involved in the process. These sides are the seller (exporter), purchaser (importer), export factoring company (company in the seller's country) and import factoring company (company in the purchaser's country). In international factoring, factor in the importer's country covers the risks and factor in exporter's country acts as the intermediary company.

Direct export factoring: Direct export factoring makes factoring possible in countries where the factoring system is not used or the export factor does not have any correspondents. In this system, by signing a factoring agreement with the EF (export factor), the exporter transfers the invoices to the EF after sending the merchandise. The EF makes a payment in advance according to a pre-fixed percentage, contacts the purchaser and seller and keeps track of the accounting records. The importer pays the cost of the merchandise to the EF before the due date. By working with a factor company in the same country, the exporter takes advantage of lower costs and faster collection. The disadvantage of this system is that the importer is unable to benefit from the experience of the factor in the same country.

Direct Import Factoring: In a situation in which the exporter company has to trade with several countries and there is no need for financing, the exporter prefers working with a factoring company which is in a country where there are only importers. In this way, the exporter can benefit from the experience of the import factor. The functioning of the system is the same as the export factoring. However, the disadvantage of the system is that when a protest is made against the merchandise, the issue will be handled under the arrangements of the import factor's country.

The Two-Factor System: As understood from its name, this system depends on the relationship between two factors, one of which is in the same country as the exporter and the other in the same country as the importer. In this system, the import factor is obliged to cover the risks and do the collecting and the export factor is obliged to maintain the financing service and other services. In order to maintain a healthy functioning, several international factoring organizations have been established. The most eminent are:

Factor Chain International (FCI): This organization which has been established in 1968 is in principal open to all firms giving factoring service. However, the applicant firms must have a respectable history, support by a bank or well-known foundation and an equity capital of 1 million dollars. FCI, the largest of all the international factoring organizations, has 965 members from 58 countries. This organization operates under certain rules which all the members have to obey. When companies join FCI, an "agreement between factors" is signed with the factors they want to work with and avow that they have to obey the arrangements belonging to three rules. All these rules are related to each other:

- Rules of international factoring
- EDI rules between factors
- Resolutions of a dispute by arbitration

These documents are defined as the mainframe which organizes the relationship between the members. Together these rules determine the rights and obligations of the two sides in the two factors. Since FCI aims at open chain policy and competition, more than one foundation from a single country is allowed.

International Factoring Group (IFG): IFG, which is centered in Brussels, has the same purposes as FCI but its only difference is that, apart from some exceptions, more than one firm from a country cannot be selected as a permanent member. IFG, which is active on 37 countries, has 56 members.

Heller International Group: Instead of open chain policy, this foundation functions as a joint venture. The percentage of the organization in the member foundations is between 50-100%. Presently, having a joint venture relationship with many correspondents, 52% of this group's capital belongs to Fuji Bank Ltd. centered in Tokyo.

At the beginning of the two-factor system, the exporter firm sends information to the export factor (EF) about the foreign purchasers. EF declares the limits related with the purchasers to the import factor (IF) which is found in the exporter's country. After some intelligence research, the IF reports the guarantee limit that it will approve to the EF. According to these limits, the EF gives 100% guarantee against the buyer's financial weaknesses. As a result, the exporter does the loading and sends the related documents to the EF. According to the request of the seller, the EF makes payment in advance equivalent to 80-90% of the value of the invoice. In international factoring, collection is made by the IF. Accounting records, keeping track of the receivables and reporting to the EF about the receivables are all duties of the IF. The IF does the collecting and sends the value of the invoice to the EF, and the EF sends the residual of the invoice value to the exporter.

Single Factoring: Single factoring is a system which has been developed from the exporter's need of avoiding collection delays and high costs. Import factor (IF) gets involved in the process *only when risks must be covered and collection cannot be finished before the due date*. In single factoring, export factor (EF) is obliged to keep the accounting records which is the IF's duty in the two-factor system. Furthermore, involvement of the IF in system is limited but functioning of the system and transfer of collected money is easier. The debtor makes the payment directly to the EF. If there is a protest against the merchandise that are subject to factoring, the system functions like the two-factor system. The only disadvantage of the system is that the documents related to the collection cannot be inspected by the IF on time. The IF can only control the risk by examining the accounting records. Single factoring is a system which does not pay attention to the domestic market and is fragile against collection delays but suitable for exporters who want to deal with lower service costs.

Back to Back Factoring: This type of factoring is suitable for large exporter companies which have foreign partners helping them in export business. It is really difficult to compare this system with the other international factoring types because the exporter and importer are functioning as a part of the same company. In this system, an agreement is signed between the exporter and the EF about the sales to the partner company. At the same time, a domestic factoring agreement is signed between the partner and the IF. The disadvantage is the complexity of this system. It is rarely used in practice.

B) FACTORING ACCORDING to the SERVICES PROVIDED

Full Service/Nonrecourse Factoring: It has been formed by aspects of all factoring types coming together. In this type of factoring, when the debtor does not pay to the seller, the factor fully covers the risks and recourse is not possible. The commercial risk consists of being not able to pay the cost of the service or product, the seller not obeying the obligations of the sale contract and the merchandise being flawed or missing. In this method, the factor takes over the receivables without recourse. In addition to risk covering, in full service factoring, financing is obtained by paying in advance, intelligence research is done, sale accounts are kept and managed and receivables are collected. Therefore, all the features of factoring merge together in this type of factoring.

Recourse Factoring: In this type of factoring which is also called *returnable factoring,* the guarantee function does not exist. The factor is obliged to provide financing service, keep the sale accounts, carry out the collection service, however does not cover the risks related to the uncollected debts. Therefore, the factor company has the right of recourse against its customer for the uncollected receivables no matter what the reason is, even the bankruptcy of the debtor. In a situation where the debtor does not pay his/her debt in a certain time period after the due date, the factor turns over the receivable, which must be collected, to its customer under the same conditions.

Agency Factoring: In this type of factoring which includes covering the risk of unpaid debt and *financing providing*, the factor buys the receivables of the seller, and appoints another company to do the collection. This company for the factor is an agent. By putting a record on the invoice, the factor informs the purchaser that the factoring contract has been done, however the payment will be made to the seller firm. Agency factoring can be defined as recourse factoring without the collection service. In practice, there is close link between agency factoring and bulk factoring. Because in bulk factoring, the debts are taken over but administrative and debt collection service are given. The difference between them is that in this type of factoring guarantee against unpaid debts is provided.

Bulk Factoring: The name of this type of factoring comes from the fact that a seller, which has many small sized customers, turns over all of its endorsements to the factor all at once. In this type of factoring, by informing the debtor only financing is provided, administrative service and risk covering do not exist. The seller is completely faced with a recourse factoring. The seller deals with administration of the collection and receivables himself/herself. The reason of such an arrangement is to finance the seller in order to provide only his/her customers with sale credit (forward buying). The purpose of ordering the debtors to make payment to the factor is to increase the guarantee of the factor. Since keeping the sale accounts is the seller's duty, the factor has to inform the seller of the sales.

This type of factoring is used when the seller has many customers but does not have the administrative and fiscal standards to prepare a discount invoice.

Invoice Discounting: In this type of factoring, financing service is given to firms making forward sales. But keeping track of the receivables and covering the risk of unpaid debts are not included in the concept. Keeping the accounting records and collection duty belongs to the seller. The money collected by the seller company is directly transferred to the factor's bank account. In this method, the factor discounts a fraction of the invoices that are presented by the seller and makes payment in advance to the seller firm. These kinds of discounting operations are used especially by firms which make sales fluctuating from season to season and have developed sufficiently. Discounting has many advantages for the companies.

Disclosed Factoring: In disclosed factoring, by putting a statement on the invoice that is to be sent to the client, the seller company wants to make clear that the factor is responsible for the receivables and the payment must be made directly to the factor. The seller company can also state that the request of return of the merchandise and protest for missing delivery must be made to the factor. Therefore, the purchaser that is the debtor and the factoring company are aware of each other.

Undisclosed Factoring: The fact that the receivables of the seller taken over by the factor is not known by the clients. In this system, which the debtors are unaware of the factoring operation, accounting and collecting are the duties of the seller and hence this system lacks the collection function. The system can operate with or without recourse. If the debtor cannot pay the debt, the factoring agreement is disclosed and the factor takes the legal actions against the bought receivables on its own. In fact, the factor covers the risk of unpaid receivables.

Maturity Factoring: This system does not include a payment to the client in cash. As an alternate to credit assurance, maturity factoring does not have the financing function but carries out the accounting, collecting and risk covering against uncollected receivables. In maturity factoring, a payment in advance is never made. Payment is made in two ways:

1.In a fixed maturity period after the date of invoice or transfer

The key feature of this method which is called the *fixed maturity period* is that the client is provided with the guarantee that the collecting will be made.

2.When collection from the debtor is made or the debtor cannot pay the debts (pay-as-paid)

Maturity factoring is used by companies that have large and complex accounting systems, demand for the services of risk covering, collection of receivables, keeping the sale accounts but do not need additional financing.

As mentioned above. Table-I shows world factoring endorsement by product group and Table-II shows factoring endorsement by country in 2002.

TABLE:I
World Factoring Endorsement By Product Group
Euro(billion)

	1999	2000	% Change	2001	% Change	2002	% Change
Invoice Discounting	40,263	55,786	13,86	67,759	21,46	74,815	10,41
Recourse Factoring	52,116	58,605	12,45	60,925	3,95	63,830	4,77
Non Recourse Factoring	116,490	144,208	23,79	152,738	5,9	156,510	2,47
Cash Received	16,402	16,027	-3	10,318	-35	15,640	51,58
Total domestic factoring FCI sale	225,272	274,627	21,9	291,740	6,23	310,796	6,53
Export Factoring	12,915	15,905	23,15	17,274	8,6	19,481	12,78
Import Factoring	6,432	7,447	15,78	7,853	5,4	8,069	2,75
Total Int. Factoring FCI Sale	19,347	23,353	20,70	25,127	7,59	27,550	9,64
Total FCI	244,619	297,981	21,81	316,866	6,33	338,346	6,78
Domestic Factoring Sale	539,616	596,729	10,58	671,905	12,59	698,616	3,98
World Int. Factoring Sale	33,392	44,843	34,29	48,289	7,68	51,145	5,91
Total World Factoring Sale	573,008	641572	11,96	720,194	12,25	749,761	4,11

Source: FCI "Statistics" 2002, http//www.factors-chain.com, 2003

TABLE:II
Factoring Endorsement By Country in 2002
Euro(billion)

Company (2002)	Country	Domestic Factoring	International Factoring	Total 2002
100	England	154,646	6060	160,706
229	USA	104,500	4000	108,500
45	Italy	130.00	5000	135,000
18	Japan	49,775	605	50,380
18	France	62,500	5500	68,000
19	Germany	23,263	6893	30,156
19	Spain	30,860	707	31,567
7	Nederland	15,200	6000	21,200
23	Brazil	11,000	30	11,030
100	**Turkey**	**3,250**	**1200**	**4,450**

Source: FCI "Statistics" 2002, http//www.factors-chain.com, 2002

THE ADVANTAGES FACTORING PROVIDES TO SELLER COMPANIES

The identification of trade terms and costs, except the ambiguity in front of the production and marketing functions in the trade of small and middle scaled companies, comes along with some kinds of problems. These are the obligatory of dealing with the funding of receivable to the fixed terms, taxes, the pursuit of uncollected receivables. They cost time and money and cause a difficulty of not being enough concentrated on production.

On the other hand, these companies cannot provide the funding they need meanwhile the increasing of sales volume with the support of normal banks. For this reason, with the funding and service that the factoring represents, its function is to reduce the costs and burdens of the company as explained above, so as to increase the power of the competivity of the company. As we follow these explanations, we can be able to count the advantages that factoring provides to companies:

- Factoring is exchanging the resources connected with the receivables to the cash, according to the request of the company. So the firm is capable of regulating the cash entrances vs cash flow in a healthy way.

- Due to the trustworthy results of information, the business-managers who make sell-outs to customers are informed about the financial situations of them timely & properly.

- In operations which do not return to sellers, that makes the factoring firm responsible for the commercial risks of customers, sellers have opportunity of gaining fast and guaranteed liberation from the risks and inconvenient situations. In addition to that, as of the factorial foundation solves out the taxes, pursuit of receivable and to register these operations, it is easier to save time and resources. Now that they do not have a risk of not acquiring the receivable, they are able to expand both domestic and international markets.

- The insurance of products sold on date are mostly collected by pre-payments factoring gives which helps companies to buy products and they need for production. On account of this, production costs are reduced which leads to more profit.

- Factoring creates more flexible and fast funding possibility than bank credits do. Because, the company of factoring does not demand security at many times now that it had done pre-payment by using the credit values of receivable purchaser to the seller firm.

- In services related with export; foreign money equal to products is brought to the country by factoring. Exporters can collect 80 % total value of the product that they have exported immediately from factoring. Thus exporters can close down their credit and export undertakings until renewal.

- International investors are not obligated to provide acreditives. By doing payment in his own country to the correspondent factor, they save from time and costs caused by the acreditives. So, it makes the purchasing of importers grow bigger and also their markets enlarge.

- Factoring firms provide consultancy and info sharing services to their clients in order to make them lead their investigations, feasibility works in a healthy way.

THE ADVANTAGES FACTORING PROVIDES TO FACTOR

The function of factoring is not only to serve and provide advantages to firms which are either supplying goods or services but also to serve these advantages to factor as well. We can briefly explain these advantages as follows :

The partnership of factoring collects interest to Seller Company for the opposition of pre-payment.

Factoring company markets itself to the national companies and enlarge its customer portfolio via providing quality services.

According to the contract with the seller firm, factoring company gains revenue based on the commission rate over total revenue of selling company.

Factoring firms establish an info-bank via investigating through the economic situations of countries and big firms. So it turns to valuable info and asset to its partners & customers in a suitable time for future operations.

THE DISADVANTAGES OF FACTORING

Apart from factoring firms' advantages like providing consultancy and information services, handling financial problems, reducing burdens and costs to its customers, it has also some disadvantages as well.

These disadvantages have differences for seller and purchaser firms.

For The Seller Company

- It's not known sufficiently.

- It costs more for the company, because the establishment of factoring takes commission in addition to the interest for being responsible for the risks.

- Costs may increase if the turnover per customer is small and the number of invoices is high.

- Factoring is perceived as a dangerous financial tool by some firms and some firms do not deal with the firms which use factoring because of the lack of trust and prestige.

For The Buyer Company

- The presence of an organized financial foundation.

- Seller reflects some or all of the operational costs.

THE RISK EVALUATION IN FACTORING

Factor foundation takes upon the commercial risk in factoring. In other words, factoring means a financial service containing risk. So that factoring firms have to evaluate the probable risks before they deal with their customers.

These risks are grouped into three: for seller, for buyer and due to country specifics:

Risks concerning the seller

Before providing the foundation service, the factor has to make an evaluation of two steps. First, the existence of the company who demands factoring must be examined. Second, the quality of receivables that will be bought must be evaluated. In this direction factor has to examine the past, present and future performance of the seller firm. Thus an application form is to be filled by the selling firm before an agreement is made in between.

Another phase in evaluating seller risk is the examination of given information and the existing financial structure of the company which is named as "survey". The outcome of this survey is the evaluation of the selling companies' strengths and its probability to survive in the future. The assurance of factoring companies' when they make cash payment is the quality of its receivable products.

The most crucial part when examining the receivable is the split of them over the companies. There is no doubt that it is less risky to have a receivable portfolio spread over various customer firms that owing money in just one. Besides, the restored amounts are also important. For this reason, the total of credits restored must be matched with the average of credits restored in that sector. The other fact is to search the recycling of the receivable and whether it has seasonal features or not. Out of all these conditions, the past performance, the experience, the quality of products and the most efficient one; the morality of the seller firm are important.

Risks Concerning the Buyer

Buyer risks are also important in factoring operations, because this is the main element for clarification of credit insurance fees. In international business, it is validated with the relationship of info provider and being responsible of giving credits to each customer in their country. In domestic business, the buyer companies must have an excellent info. Thus factoring establishments which are founded as an association of that bank, benefit from the info resources and branch offices.

Risks Concerning the Country

It is possible to group the risks of buyer countries into two as political and transfer risks:

Political Risk: The extraordinary cautions that the state takes or other force majors like war, civil war, rebellion etc.

If we look at the signs of these risks;

- The program of the government in charge and the working period of the government.

- The structure of the political system.
- The success in keeping the promises.
- The efficiency of bureaucracy.
- The level of activities of other political parties in the country.
- The activity of organized religious and ethnical groups
- The tradition of law and order of the country.
- Degree of influence of army over government.
- Strategic importance of the country.
- Existence of external powers that effect country
- Possibility of civil war
- Potential of racial and nationalist influences.
- Presence of an alternative government.
- Realization of the expectations of the nation.
- The quality of bureaucracy.
- International integrity of the country.
- Relations with the neighbors and the primary commercial partners.

The evaluation of these signs makes it necessary to evaluate countries and group them in grades as no risk, low, acceptable, high or over extensive.

Transfer Risk: This risk is caused by the declaration of moratorium included with the difficulties that country faces while paying the payables which other countries observe the foreign exchange or not paying the payables. This makes the economical risk of country. Evaluation of economic risk can be analyzed as ;

- The debt load
- Reserves of exchange money
- Economical structure
- The management of economy
- Flexibility of foreign equilibrium

THE COST OF FACTORING OPERATIONS

There are two kinds of costs generated from factoring operations: factoring commission and factoring price according to the service provided for the firms.

Factoring commission is calculated upon services provided like the research of credibility about customers, responsibility of factor, registrations of receivables etc. The commission amount is acquired by factoring firms based on the annual net of sales of selling firms. The ratio of commission varies from the type of operation to the quantity of buyers and the value of credits.

Factoring price is an equivalent for the cash payment which will be done by factoring firms. Ratio of factoring price is calculated separately based on the resources and the credibility of the client company. The ratio is usually convenient to short-term commercial interest and realized monthly.

RECEIVABLES FITTING TO FACTORING

In factoring operation, the receivable accounts are expected not to have an overdue above 90 days. Especially in business working with guarantee, factors do not respect long-dated engagements and they estimate that receivables are wholly far from disagreements. But in the recent years, it's seen that there are 120-150 days fixed operations including abroad business.

In factoring, if the existence cannot be proved, receivable cannot be possessed and stocks cannot be changed into cash money. In addition to that, in the international two-factored systems, products that can be simply infected and too expensive and controversial like invest products are tried to be omitted.

In this sector, the greatest demand is from textile, nourishment, machinery, metal industry, chemistry-medicine and commercial (general) sectors.

The products-receivable which cannot be a fact of factoring:

- Domestic and international undertaking jobs.

- Rapidly expired and infected substances (flower, wet vegetable, and fruit).

- Receivable caused by in-group sellings.

- Financial investment products.

WORLD ECONOMICS AND CHANGES IN FINANCIAL STRUCTURE

In recent years, there's been important and radical changes in the world economics as known. The most affected region by these improvements is the staring of finance sector, banks. It might be wise to differentiate the sequences of events that happened in world economics as till World War II and after World War II.

Events Till World War II

At those times, domestic and international trade was being processed under traditional financial operations and the banks lead the financial structure. In the meantime, in international trade, banks negotiate with the export and import jobs. Also, the traditional bank credits were funding the trade with national money. Banks could succeed their international jobs with the negotiation of their informers, big banks in minority tried to globalize throughout the world by opening branches itself.

Events After World War II

In the follreceivable years of World War II, many developments happened in the world. With the aid program of American government for reconstruction of Europe in industrial and agricultural production increased immediately. Great improvements are experienced in communication, transportation and management information systems technologies.

With the recovery programs held, it was possible to make an improvement and to live in prosperity at least in some less-developed countries. In line with these improvements, tight politics on product and capital are diminished and there's a strong belief and hope to process liberal economic system. Thus international trade and capital movements enlarged excessively after the war.

Techniques and financial equipment used for the funding of international trade varied with the volatility of free funds. Some kinds of financial devices for funding product shopping changed into equipments which are purchased and sold free from commercial & merchandising process. New techniques of service and finance like factoring, forfaiting and leasing are provided for the clients. Wealthy foundations except the banks continued their evolutions till our day by taking over the control of financial sector.

DEVELOPMENT OF FACTORING IN TURKEY

Having 200 years of history in the world, factoring entered in our country in 19^{th} century, which firstly appeared like a funding technique to international trade. As being new for our country, factoring became more useful and active as time passed by.

Turkey is now trying to be integrated with the west, contribute to EU as a candidate and to obey to rules of stock markets. As a result of these effects, international trade and capital movements increased suddenly and they gained a dimension. Although Turkey is too late in catching up with the level of funding sector, it's now reached to world standards. Thus, we have to examine the evolution of Turkey in two parts as before 1980 and after 1980. Before 1980, Turkish economy was conserved by customs and also substituted with imported products. As the natural apparatus of this system, except the fixed exchange rate and exceptional period of times, negative interest system was valid. Banking was based on the condition of deposits costed cheaply by the branch network. This was supported by satisfactoring profits and limited source of credits. In abroad business, banks play a role of transpasser between the clients and Central Bank of Turkish Republic and regulates miscellaneous foreign exchange rules.

Banks had a very slight competence of holding foreign currency in hand to pay the foreign bills of its clients. For example, at those times unless the equivalent is blocked 100%, it was impossible to talk about an important operation on credit, even an acreditive is unable to be opened.

• After the year 1980, some kind of revolution happened in the Turkish financial region. We can count these changes as below:

• In economical ways, Turkey developed relationships with exterior countries and followed a liberal policy of economics.

• The obligatories in the foreign exchange regime was put up and the system was mostly independent.

• Export and capital receivable were incited to make foreign reserves increase.

• In spite of picking up with the model of import substitution, it is preferred to regulate the policy of export.

• It's given permission to foreign banks, either to improve competition and to encourage them to process funding and banking techniques.

• Great development in the sectors of communication and management information systems, contributed to the evolution of financial structure.

• Consciousness about the cost and profit of money is enlarged.

• Profit area is narrowed in banking system and this leads to rivalry of qualified product and service appreciation.

• The foundation of Turkish Lira and interbank of foreign money creates new opportunities in paying the short-term funds. This meant an advantage for less-branched banks, when the multi-branched dispersed; banking system has lost its attractiveness.

• Expertise banks like investor and merchant banking began to take portion from the markets.

• Establishment of stock markets and putting the capital markets in order, provided alternative possibilities to money savers.

• New service and funding techniques like factoring and leasing brought out to be a new opportunity for investors.

As seen above, many changes were proceeded which affected Turkish economy and financial region in a crucial way after 1980. Undoubtedly, to reach to maximum fertility, it was needed to improve information systems and to adapt modern methods.

In the same direction with the economic policies being processed to the outer countries after 1980, radical changes came forth. Consumer credits, credit cards, leasing, factoring and forfaiting began to be used frequently in Turkish financial life.

When we examine the activity of factoring in recent years, we see an economy integrated with economies of other countries which encouraged export to grow better as approving the basic rule of factoring. Factoring is necessary for the small and middle-scaled companies who are trying to gain partnership abroad.

In 1988, factoring reached to 3 million dollars turnover, in 1991 to 183 million and in 2002 to 4,673 million dollars. Competents conject that in the future after the full-membership of EU, factoring will be more important and factor foundations will rapidly grow in Turkey.

Factoring has still some issues in Turkey as it is a newly established process. In addition to this, factoring is not known well enough, it's even misunderstood as well. It's been observed that exporters only turn over risky receivable to factor, in spite of all of receivable rights. On account of this, factor establishments abroad recoil from giving guarantee for risky receivable.

As the domestic sellings are rare due to factoring, this issue is solved by illegal groups or mafia. The fact that the market are not got under discipline by the judicial factors hardens the categorization of the risks of debtor firms on the basis of good or bad.

FACTORING APPLICATIONS IN TURKEY

Factoring application in Turkey was activated by bank just like other innovations of this sector. This is because of the experience of banks in the sector, the information they collect about clients, wideness of data base and due to their organical relations with their clients.

The application of factoring started at 1988 in Turkey. Factoring procedures was presented as a financial technique to benefit for the funding of export. In this way, politics due to the progress of export is being supported by factoring. As a result of this, possible problems with which the exporters encounter in collecting the money are quoted to factoring foundations.

Although it was not profitable, some banks in the sector has begun their factoring processes to not to fall back behind their rivals in the race. Then these units are changed into anonym companies to avoid confusion between the accounts of payable and client accounts of the bank itself. Middle and small-scaled firms who try to make some export with financial difficulties consult factors. Thus, export factoring increased and 90% of the operations in Turkey was of export factoring at then.

Feature of factoring markets is to serve to big companies. On the other hand, other countries who have a common problem of finance and the collection of taxes, took consultancy from factoring firms. Since the products according to export are too convenient to factoring, it's important to support international factoring to make progress.

First factoring business in Turkey is started with Economy Bank Factoring Group in 1988. This is followed by Garanti Bankası. As the years pass by, number of the factoring firms in Turkey increased and it had reached to 108 in December 2002.

TABLE: III
Number of Factoring Firms in Turkey

Years	Number Of Factoring Firms
1990	2
1991	1
1992	14
1993	10
1994	6
1995	3
1996	9
1997	16
1998	7
1999	7
2000	12
2001	8
2002	13

Source: Turkish Treasury Ankara-2002.

When we look at the turnover of the factoring establishments, we see the market growing better. For example, in 1993, it has reached to 970 million dollars in total, being 700 million dollars domestic and 270 international. In 2002 3,413 million dollars domestic, 1,260 million international means 4,673 million dollars in total.

TABLE:IV

Total Turnover over Years in Turkey

Years	Domestic	International	Total
1993	700	270	970
1994	650	220	870
1995	800	300	1100
1996	1500	450	1950
1997	2762	550	3312
1998	4000	750	4750
1999	4518	748	5266
2000	5022	921	5943
2001	2700	990	3690
2002	3413	1260	4673

Source: Turkish Factoring Association-2002-İstanbul

When examine the aggregated balance sheet of these companies in the year of 2002, we see that the total receivable quantity is billion TL 1,596,056 sum of the payables of factoring is equal to billion TL 512, 607. Data's concerning the subject is shown at table V and VI.

TABLE:V

Factoring Receivables of Factoring Companies (Billion TL)

Factoring Receivables	2000	2001	2002
Domestic	734.113	654.490	1.248.621
Export	129.954	284.245	337.968
Import	7.243	4.639	8.694
Overdue ac.Receivables	26.141	89.695	80.781
(-) Provision	24.333	88.376	80.009
TOTAL	873.118	944.693	1.596.055

Source: Turkish Treasury Ankara – 2002.

TABLE: VI

Account Payable to Factored Clients of Factoring Companies: (Billion TL)

A/Pto Clients	2000	2001	2002
Domestic	182.135	143.665	305.575
Export	75.197	149.441	198.202
Import	7.332	4.710	8.831
TOTAL	264.664	297.816	512.608

Source: Turkish Treasury Ankara – 2002

If we look at the income the factoring foundations gain thanks to their services, we see that the total income is billion TL 433.744 from both commission and interest in 2002(Table-VII).

TABLE-VII

Aggregated Factoring Incomes of Factoring Companies: (Billion TL)

Factoring Incomes	2000	2001	2002
Domestic Factoring Interest Income	236.452	394.306	389.320
Export Factoring Interest Income	4.239	14.323	12.466
Total Factoring Interest Income	**240.691**	**408.629**	**401.786**
Domestic Factoring Commissions Received	19.589	14.857	24.120
Export Factoring Commissions Received	3.527	6.220	7.700
Import Factoring Commissions Received	113	61	139
Total Factoring Commissions Received	**23.229**	**21.137**	**31.958**
TOTAL	**263.919**	**429.766**	**433.744**

Source: Turkish Treasury Ankara – 2002

In the direction of all these data, it is apparently perceived that the factoring has a gradually growing pattern in Turkey. It is also weaved that Turkey has the potential to become a full member of EU and in the direction of endeavoring to match the requisites of the liberal economy.

TURKEY'S PLACE IN GLOBAL FACTORING MARKETS

If we search the capacity of development of factoring around the world, in respect of the data of Factors Chain International (FCI), 58 countries have reached the quantity of 720,194 million euro totally. 474.175 million euro part of this is succeeded by Europe, 155.066 is by the USA, 76.832 is by Asia and 8.320 is succeeded by Australia.

When we compare the data of 2001 with that of 2000, it's mentioned about a total 641.572 million euro of operation turnover. 414.383 million euro of this belongs to Europe, 144.249 to the USA, 5655 to Africa, 69.865 to Asia and 7420 belongs to Australia continents. If we look at the rate of change of factoring between the years of 2000-2001, we see an increase of 14 % in Europe, 7,5 % in the USA, 2,5 % in Africa, 9,9 % in Asia and 12 % in Australia (Table:VIII).

TABLE:VIII
Factoring Turnover Growth by Country in Millions of Euro

	1997	**1998**	**1999**	**2000**	**2001**	**Increase 2001/2000**
EUROPE	264.945	295.779	355.214	414.383	474.175	14.42 %
U.S.A.	74.932	85.521	131.265	144.249	155.066	7.49 %
AFRICA	5.147	4.198	5.470	5.655	5.801	2.58 %
ASIA	67.516	61.722	78.775	69.865	76.832	9.97 %
AUSTRALIA	3.304	3.481	5.284	7.420	8.320	12.12 %
TOTAL WORLD	**415.844**	**450.701**	**573.008**	**641.572**	**720.194**	**12.25 %**

Source: Factors Chain International - 2003

Turkey is in the 13th place in the world factoring markets according to the year of 2001 and it has portion of 4.100 million euro. The reasons why the portion of world markets is low are global crisis, domestic economical and political unsuitability. The fact that sector of textile comes ahead of the factoring applied sectors and the annoyances in this sector, cause to diminish the export turnovers of factoring firms, also makes it difficult to collect taxes. In Table:IX is seen that the factoring transaction volume that has tendency to increase in respect to years in Turkey has been affected by the financial crisis that had occurred in the end of the 2000 and continued in the 2001. In line with the stagnant economy especially the domestic transaction endorsement declined relative to the previous year in 2001. In 2002 the inclination of volume increase restarted and the sector reached the transaction volume amount of 4.4 billion Euro.

TABLE:IX
Factoring Turnover Growth in Millions of Euro

	1995	1996	1997	1998	1999	2000	2001	2002
Total Endorsement	826	1,505	3,048	4,043	5,250	6,390	3,000	4,450
Int. Endorsement	400	600	700	750	750	990	1,100	1,200

Source: FCI "Statistics", http://www.factors-chain.com. 2002

Factoring processions are realized by 965 firms in 58 countries throygh the world. Total domestic factoring turnover is 671.905 million euro, when the international is 48.289 million euro (Table:X)

TABLE:X

Factoring Turnover by Country in 2001 in Million of Euro

	Companies	Domestic	International	TOTAL
EUROPE	427	436.674	37.501	474.175
U.S.A.	392	149.330	5.736	155.066
AFRICA	14	5.662	139	5.801
ASIA	104	72.039	4.793	76.832
AUSTRALIA	28	8.200	120	8.320
TOTAL WORLD	**965**	**671.905**	**48.289**	**720.194**

Source: Factors Chain International - 2003

In Turkey, factoring jobs are being done by 98 firms. This comprises 3000 million euro domestic and 1.100 million international factoring.

CONCLUSION

Potential of factoring in Turkey is undespisably high. Especially, factoring may undertake a role of increasing the market sellings both domestic and international of middle and small-scaled companies. It's quietly appreciated that the protective and encouraging politics of state makes the potential of factoring remain high.

The most important matter that would aid the improvement of factoring, will be the conveniency of legal base to daily life as factoring does not have a legal structure in Turkey. Work has been processed under general conditions covered terms in current law codes. Developing the local factoring is possible with establishing risk centres about customers.

Although it can be benefited from the branches of multi–branched banks, collecting data about factoring may require special study.

Turkish Republic Central Bank is the legal risk centre in Turkey. In addition to this, there's a databank in Yapı Kredi Bank for document protests. But both of the two centers are not sufficient enough to apply factoring in a productive way. Thus risk centres are needed to be made convenient to domestic factoring needs.

Nowadays, international factoring provides simplicity in communication between the exporters and new clients in safety, it contributes to the total export turnover of country. Also it helps to equalize the international balance sheet. Thus Turkey, as being in a period of prosperity, must be more fastidious about this matter. Because in Turkey, it's advertised that 20 % of total potential is not used and in case of legal arrangement, sum of turnover will reach up to the level of 13 million euro.

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