

CURRENT TRENDS IN THE DEVELOPMENT OF FACTORING IN BULGARIA

The 'e-factoring' concept is a functionality offered by factor companies, which is topical worldwide but new for the Bulgarian market. The basic idea is complete digitization, automation and optimization of daily operations associated with factoring. The main advantage is the reduction of administrative costs associated with: the operation of collecting the accounts receivable; accounting of the factoring operation; paper document flow. E-factoring helps to transform conventional factoring into omni-channel factoring. The purpose of the paper is to systematize the theoretical formulations and the capabilities of e-factoring.

At present, when intercompany indebtedness in Bulgaria marks intensive growth rates (over 170 billion BGN), the transactions with rights over receivables are becoming even more topical. A funding alternative, having significant advantages over bank lending, is the recourse to the services of commercial intermediaries such as factoring or forfeiting companies.

The opinions of researchers vary regarding the definition of factoring:

➤ Factoring can be defined as a variety of commercial and commission operations involving customer loans; purchasing a bill of exchange¹, issued by the seller against the buyer and accepted by the latter; a tool to further replenish working capital, based on a sale and purchase agreement under a deferred payment contract.

➤ Factoring, as a financial transaction, is a technique for guaranteeing risks and a form of short-term lending². The discount transaction underlies factoring, as a kind of banking and financial operation³.

➤ Factoring is subject to the law and is an agreement between a factoring company and a seller of goods or services on an open account, under which the factor undertakes to collect any payables arising from the sale of those goods or services and provides a number of services⁴.

➤ Factoring, as an alternative for export financing, is an operating technique by which the liabilities to suppliers are accepted by the factor fully and for a certain period⁵.

Although on a global scale factoring has been known and applied since the late 19th century, in Bulgaria this commercial and financial transaction has been successfully implemented over the last 10-12 years. In 2015, the factoring market is estimated at around 4-5% of the country's GDP. Worldwide, factoring turnover generally reaches 10% of the GDP. According to Factors Chain International (FCI)⁶ in 2015 the volume of turnover in Bulgaria is as follows: 1,456 million Euros from domestic factoring and 364 million Euros from international factoring, a total of 1,820 million Euros. The growth in factoring transactions turnover in the last five years can be seen in Table 1.

Table 1

Growth in factoring turnover on national, European and international levels in the period 2011-2015
(million Euros)

	2011	2012	2013	2014	2015	Var.
Bulgaria	1010	1500	1600	1728	1820	5%
Total for Europe	1218554	1298680	1353804	1462585	1557202	6%
Worldwide	2008231	2126242	2199605	2346143	2373003	1%

Source: <https://fci.nl/en/about-factoring/statistics>

Until 2015 companies in Bulgaria resorted to traditional factoring: the physical contact between the participants in the intermediary operation (supplier, buyer and a factor company) and the exchange of documents on paper. At the end of 2015 UniCredit Factoring Plc launched e-factoring⁷. E-factoring can be defined as a system providing full automation of factoring; an online-based platform for the exchange of electronic information and documents between the users of the portal and the factor company. The main advantage is the

¹Nikolova, N. Obshta teoriya na finansite. Sofia, Siela, 2003, pp. 314-323.

²Radkov, R. Pari, banki i parichna politika. Sofia, Martelen, 1998, p. 252.

³Paneva, L. Mehanizam i ikonomicheskakashtnost na faktoringa. Sofia, Schetovodstvo plyus, 5/2004, pp. 13-15.

⁴Carroll, G. Moore. Factoring a Unique and Important Form of Financing and Service. The Business Lawyer. 1959, Vol. XIV, N 3, p. 27.

⁵Tsarevski, N. Eksportno finansirane. Sofia, Tehnotreyd-BNS, 1992, p. 104.

⁶<https://fci.nl/en/about-factoring/statistics>

⁷http://www.unicreditbulbank.bg/bg/Corporate_Clients/Factoring/eFactoring/index.htm

ability to reduce the administrative costs of the process of collecting accounts receivable and keeping records, as well as the complete set of documents to a minimum. The system involves an internal part of the relationship – trade (for the factor company) and an external part – e-commerce for the seller of goods and/or services and for the debtor. On the whole, it guarantees the security of the transaction and facilitates the direct electronic communication between the parties. E-factoring is associated with a regulated set of operations providing database connectedness, transferred to the factor company, including an option for its verification.

The e-factoring technology can be presented as follows:

First. The supplier of goods or services is experiencing a problem of retaining money on invoices, which they want to be collected quickly; they understand the need for monitoring the status of their cash flows and would rather eliminate the bureaucratic and paper-based work. For these reasons they register in an e-factoring portal.

Second. The supplier receives their invoices directly from their accounting system in the factor company portal and sends their invoices electronically claiming for refund. For this purpose, they select the amount they wish to receive in accordance with the credit limit and the date of the advance payment.

Third. Money is transferred to the account of the supplier via an encrypted connection and an electronic signature, when the buyer confirms the delivery and payment on the respective invoice. E-factoring also has advantages for the buyer because: the relationship with the supplier are key for them, the provision of funds is of great importance for the business, the possibility of providing funds to the supplier at the time when the delivery is confirmed is not a problem.

The advantages of e-factoring can be summarized as follows:

- for the factor company:
 - increases the efficiency of operations based on an expanded customer base with a significant reduction in the document flow costs;
 - there is no need to sign a general factoring agreement with each supplier and to register financing;
 - only by registering once in the online portal it gets access to a huge customer base, evaluates a large number of offers for contracts and selects the most attractive ones;
 - is able to conduct a flexible pricing policy;
 - can respond to fluctuations in market conditions literally in real time;
 - enhances capital turnover, increases speed, respectively passes to a higher level in business development;
- for banks and other companies, not offering factoring services:
 - unlimited access to customers, who are concentrated in one database;
 - a chance to attract new customers without the need to open a new department or unit;
 - an opportunity to increase turnover without committing significant resources of time and capital;
- for the seller of debtors' indebtedness:
 - the online platform registration allows debtors' indebtedness to be offered on a kind of auction in the form of an order, which is extremely facilitated;
 - the choice of an investor willing to finance debtors' indebtedness is also associated with the use of the database in which to register those who wish to participate in the factoring market;
 - the complicated paper document flow is eliminated.

In conclusion, e-factoring provides a number of advantages for all participants, compared to the conventional version. Modern economy based on knowledge and information technology offers business models increasingly sophisticated and facilitating the operations, which should benefit all enterprising merchants.