Australia

Scottish Pacific Business Finance
The Australian market overall has remained static over the past five years, impacted in part by the withdrawal of two of the major banks. In the same post-global financial crisis period, we have seen strong growth among the independents offering the full suite of invoice finance products, with factoring growing as a percentage of overall turnover from 5% to 8%. This is a reversal of the trend that saw invoice discounting dominate the growth of invoice finance overall during the preceding decade.

The market continues to present significant opportunity for further growth, with penetration much lower than in countries with more mature markets, such as the UK, where there is a greater awareness of invoice finance as a mainstream working capital option. This is due in part to the differing approaches of the major banks. In Australia, only two of the four majors have an offering and in both cases it is limited to invoice discounting, whereas all the UK banks offer factoring as well. By way of illustration, the UK market has three times the population of Australia but 10 times the number of businesses accessing invoice finance.

Over the last five years the average factoring client size has increased by more than 50% from $2m turnover per annum to $3.4m, while the typical invoice discounting client is now turning over $19.7m, up by about 30% from $15.2m in 2009, highlighting the acceptance of debtor finance by larger corporates.

Statistics from the Debtor and Invoice Finance Association are encouraging in that, allowing for the financiers who recently left and entered our industry, the total of new business of all receivables financiers who remained in the industry over the last four years actually increased.

Whole trade and manufacturing continue to represent the highest proportions of overall turnover, with 56% of the market between them. Historically the two sectors were very close, but wholesale trade is now 38% compared to manufacturing at 18%. The global economy is the biggest influencing factor in this shift as manufacturing continues to move overseas on the back of lower production costs, particularly in Asia.

The distribution of business throughout the states and territories of Australia is roughly proportional to the population distribution, with the biggest markets being Victoria and New South Wales, followed by Queensland and Western Australia.

Looking to the future, technology will continue to bring more new entrants operating in a very different way to the traditional providers, which leaves the industry stalwarts facing new challenges, particularly in relation to distribution and client onboarding.

Peter Langham
CEO

Belgium

KBC Commercial Finance
Standard & Poor’s described a rather favourable environment for the financial industry in Belgium, estimating that the Belgian economy will grow in real terms by an average of 1.2% annually over 2014-2017. In the real estate market, despite the strong rise in residential prices, no major price corrections during the same period were to be expected.

Given the fairly strong underlying economic drivers, banks’ provisions for domestic credit losses were estimated at about 30 basis points in 2014, which is low compared with levels in other western European countries.

Following the virtual stagnation of activity in the spring, the economic recovery did pick up again in the third quarter of 2014. Even though confidence was weak, domestic demand remained one of the driving forces of growth. Wage restraint, the cheap euro and falling commodity prices are providing Belgian firms with a tailwind. We now estimate that
the GDP growth in 2015 will reach 1.3% and accelerate further to 1.6% in 2016.

More recent data points to a continued strengthening in the economy.Both business and consumer confidence are increasing. The positive trend is seen in all private sectors, with the exception of construction that seems to have more difficulty in recovering for the time being. In manufacturing, export orders continue to recover quite swiftly. This is also a sign that the euro area economy is clearly performing better, as Belgian external trade is strongly oriented to this region.

Concluding, the following drivers remain important:

- Domestic demand props up growth.
- Long-term nominal wage restraint, at least until 2017.
- Lower oil prices, manna for the Belgian economy.

Despite fierce competition, all banks active in Belgium were able to report higher profits and increasing loan volumes. As the market is dominated by four bank factors, it is clear that we all benefited from these benign circumstances. The dynamics of the Belgian factoring market remained largely unchanged, i.e. limited number of players, all bank factors and all benefitting from a strong commercial focus on factoring solutions by their distribution partners. Despite the steep increase over the past few years, the combined total factoring volume increased again by 13.7%, totalling +€55bn, and the underlying financing is now approaching the €5bn mark.

There has clearly been a substantial shift from traditional short-term funding to different forms of invoice discounting providing, in essence, funding solutions. As market shares are only disclosed y+1, the 2013 numbers are in line with the previous year.

The number of clients served increased from 2,200 to 2,600 which is clearly a very positive trend. However, funding solutions continue to be the main driver and factoring companies cannot always accommodate the needs of small business owners.

As we all experience further pressure from regulators, it is likely that the market will even further orient itself to those clients that fit well within the respective Basel models with some adverse effects on other client segments.

The syndicated market has been set in motion in 2012 and will further expand as companies now anticipate their receivables’ funding potential when negotiating syndicated banking facilities. Furthermore, we have noticed an increased interest in syndicated multi-country solutions attracting, again, a new mid-cap market segment.

Hence, different forms of syndicated receivable discounting programs will remain an important future driver.

The more widely spread implementation of invoice finance solutions will trigger variations on a well known theme but not necessarily inspired from a financial angle. We expect that more companies will use invoice finance solutions to support their sales efforts – i.e. offering longer, or more flexible, payment terms while trying to secure a longer-term relationship with their clients.

We also anticipate a further crossing of trade finance-related products such as forfaiting or forms of asset-based lending with solutions provided by factoring companies. The latter will offer further opportunities to the industry but is also becoming a threat. With an outstanding €5bn we are now on the radar of both the respective parent companies and the regulators. In our experience, however, regulators have a tendency to ignore the specific dynamics of the industry as they observe it from a banking perspective. Correcting this view remains an important challenge and is not limited to the Belgian factoring market.

Last but not least, it is just impossible to turn a blind eye to fintech initiatives. As mentioned before, certain market segments not fully covered by the traditional players are now approached by newcomers without any legacy, offering flexibility and easy access. However, I do not believe that this will lead to a market disruption, on the contrary, it will force the existing industry to rethink their own models which may lead to an acceleration in terms of innovation.

Dirk Van Strijthem
CEO

Chile

Latam Factors

According to industry figures, the Chilean factoring market in 2014 reached an overall volume of €24.85bn which represented a 3% decrease compared to 2013.

This fall in volume can certainly be tied to the general slowdown in the national economy, which was hit by a decline in copper prices in world markets – Chile is the world largest copper producer and exporter – and by deceleration and sluggish recovery among Chile’s main trading partners, mainly China.

Another factor that contributed to such economic results is the tax reform put in motion by the centre-left government, in power since March 2014, which created short-term adversities due to uncertainty and increased expenditure for business in the longer term.

Junction of these factors is certainly contributing to the current moderate, if not stagnant, economy as well as the factoring industry results.

When it comes to factoring in 2015, during the first half of the year industry figures, especially those related to non-bank service providers, were actually picking up and showing moderate growth compared with 2014. However, the third quarter has registered another decelerating economic cycle which affected the overall industry. According to first estimates the end-of-year factoring volumes are expected to be roughly 6% lower than the previous year.

In the midst of this rather tumultuous year for the Chilean factoring industry, there was an important trend identified that could be a game-changer – the rise of electronic invoices in factoring operations. In the first half of the year, operations involving e-invoices rose roughly by 25%.

Looking back at the history of this instrument, the e-invoice in Chile was first introduced in 2003 when its implementation by the companies was on voluntary basis. At
the beginning of 2014, the law on e-invoices was modified to promote its gradual but nonetheless mandatory implementation for all companies. This transition, that is to be completed by 2017, is certainly impacting the factoring industry and demanding its technological and procedural readiness to adapt to the new reality.

Additionally, industry’s complementary services, such as credit insurance over factoring providers’ portfolios also uphold potential for further factoring development. Implementation of risk-mitigation instruments for factoring providers, i.e. insurance, could contribute to the development of product variations – e.g. factoring without recourse – and general factoring offer.

To sum up, Chile as the oldest and most developed factoring market in Latin America still has aces up in its sleeves as well as room for growth and innovation.

Carlos Baudrand
CEO

China

Shenzhen Xin International Business Factoring
Factoring in China is in the initial stage. The factoring volume is relatively small in the market. A minority of companies deal with factoring business in the Chinese market compared with the scale of the economy, because a large number of companies are neither aware of commercial factoring, nor utilise the new style financing method in business. Nevertheless, it signifies a capacious potential market for factoring. Affected by the slowdown in global economic growth, excess capacity is widespread among diverse industries, the amount of enterprise accounts receivables increasing rises and the periods of collections for accounts receivables extend, which increase the demands of enterprises for financing, and also develop great chances for factoring business in China.

Owing to the difficulty for most factoring companies to be financed from banks, asset securitisation and internet finance became important ways to raise capital for the companies. Securities companies, fund companies, trust companies and so on are rapidly developing the market for asset securitisation, which result in low financing cost. The combination of commercial factoring with electronic commerce and internet finance is the tendency of the Chinese factoring industry, and also its feature in the period.

So far the factoring industry in China shows the following features:

1. Leading enterprises take part in pilot program, generating demonstration effects.
2. Development of enterprises is distinctive, and corresponds to the advantages of the industry.
3. Regional developments gradually embody characteristics of industrial development.

Along with the reformation of the policy environment, legal environment, financing environment, credit environment and talent supply, and promoted by the large market demand and new internet technologies, it is predicted that by the end of 2015 the number of companies in the factoring industry will aggregate around 2,000, factoring volume will amount to about RMB160bn, and the balance of factoring will be as much as RMB40bn.

Carlos Baudrand
CEO

Costa Rica

CA Factoring
The way the factoring business is run nowadays dates back three decades in this Central American country, which is the most developed market for factoring in this region. However, the country does not have a law on factoring like most in the region, except for Nicaragua. Even though the congress is studying a law project presented in 2014.

In 2016 it will be 10 years since the foundation of the Association of Costa Rican Factoring Companies, the only organisation of this type in this region. Right now it has 23 members, including state-owned banks, regional and international private banks, some regulated financial companies, non-regulated private companies and a special type of employees association.

However, it is accounted more than double that figure the total of organisations in the factoring business; most of the non-members are small-scale companies and the said special employees associations with a captive market of the employers’ suppliers.

The association has been reporting for the last three years a balance of the equivalent of $240m for domestic factoring, as of December. The stable figures show the market is not growing; so things need to be done in different new ways for the business to grow.

Continued on page 42
for international factoring within its members; only one state-owned bank started to offer export factoring some months ago; none of the organisations have units that carry on the activity even though some of the banks show information on their websites.

CA Factoring is the first IFG member in Costa Rica as of December 2014, and started operations this year; it is the first specialised trade finance company in the country and in the central American region.

Felix Pineda
CEO

Egypt

African Export-Import Bank
Africa remains on the peripheries of global factoring despite the immense advantages factoring offers to SMEs around the world. Africa currently accounts for an inconsequential share of 1% of the global factoring volume. Nonetheless, in terms of actual volume, the industry in Africa grew from less than $8bn in 2004 to more than $25bn in 2014.

The factoring business will be driven by domestic factoring and international factoring in support of intra-African trade. Sectors that will drive the growth will be:

i. Intra-African trade, which has risen sharply in recent years to an estimated $180bn at the end of 2014. The products traded have largely been light manufactures, horticulture and semi-manufactures in addition to commodities. Most of the trade is conducted on an open account basis and credit is granted to buyers. The trade items are therefore factorable.

ii. Telecommunication services as a result of a rapid growth of this sector and the tendency of telecom companies to outsource key services.

iii. The retail sector, as a result of the rapid growth of the middle class in the continent. Figures show that Africa has the fastest-growing middle class in the world, with household consumption rising by 10.4% during 2001 to 2010 compared to an average of about 7% for other developing regions. The rapid growth has spurred outlets, and domestic supply chains are emerging.

iv. The non-traditional export sector, to be driven by a larger share of the south in Africa’s trade estimated at 45% in 2012 compared to 27% in 2000.

v. Africa’s rise as a major centre for contract farming and contract manufacturing. Evidently, manufacturing and agricultural value added have trended upwards over the last decade.

How will Afreximbank support this prospect? Afreximbank has instituted a number of interventions to support the growth of factoring in Africa, including:

i. The creation of back office support: Afrifactor. This is required to reduce the cost of setting up factoring businesses and challenges arising from the lack of expertise in back-office and receivables management. Afrifactor will provide advisory services as well as IT and back-office support.

ii. Continuing to improve access of factors to finance at affordable terms.

iii. Developing special guarantee products for factors taking African risks.

iv. Fast-tracking the preparation of model laws and campaigning for their adoption across Africa.

v. Expanding on its factoring capacity building programmes through workshops, seminars, factoring academies etc.

Dr Benedict Oramah
President

Germany

A.B.S. Global Factoring AG

Factoring is gaining in popularity as a viable financing alternative to bank loans, particularly among medium-sized companies in Germany, and there is potential for further growth – especially in transnational transactions. As the market leader in Germany for full service factoring independent of corporations and banks, this has been the case for our business, and the driver behind our growth, in recent years. A.B.S. Global Factoring AG transacted €1.215bn in 2014 and €1.3bn in 2015.

This trend is consistent with the general industry trend. Earnings of German Factoring Association member companies rose in the first half of 2015 by 11.64% to €100.5bn, and the customer base grew 5.67%. International business growth was above average. Further growth is expected for the rest of 2015, as large portions of the middle class in Germany will face significant financial challenges in the coming years. In addition to pending detachments and refinancing as a result of dried-up mezzanine programs, mature bonds make it difficult to finance planned growth. More stringent liquidity requirements of the banks result in regulations in Germany, such as Basel III, that make the situation even worse.

Dr Benedict Oramah
President

Thorsten Klindworth

Of the 54 African countries, factoring is significant only in five, namely Egypt, Mauritius, Morocco, South Africa and Tunisia. As at 2014, South Africa alone accounted for the largest share of 75% of the continent’s factoring volume.

A number of small factoring companies are emerging across the continent, particularly in Cameroon, Ghana, Kenya, Mauritania, Senegal and Zimbabwe through the effort of Afreximbank. We expect an increase of Africa’s factoring volume over the next decade, with volume crossing $75bn by 2025.
SMEs are regarded as the backbone of the German economy, as they account for approximately 37% of the overall gross domestic product. When it comes to value creation, the figure is more like 57%.

As a medium-sized business, we at A.B.S. Global Factoring understand the factors that are important to a partnership, which is why SMEs have placed their trust in us for years. Most of the companies we work with are owner-managed and primarily represent industry, trade and services, including exports. Thanks to the financial flexibility we provide, our customers are able to better fulfill and develop their roles as economic pillars, growth drivers and important employers in their communities.

We strive to expand internationally in order to provide full transnational service to customers who are active at an international level – take the planned takeover of a factoring bank in Austria as an example, as well as the already up-and-running businesses in Switzerland and Sweden.

Thorsten Klindworth
CEO
efcom
Source: Receivables Finance Technology 2015, published by BCR Publishing

Arnulf Romann
With 15 years’ branch experience and his international customers, efcom is one of the most successful German factoring software suppliers. As a service company, efcom follows a clear, focused core approach by helping clients realise their factoring strategies, whether the client is a newly-formed company, an experienced provider of factoring services or a large-scale enterprise doing business on the global market.

For 2015 we recognised a huge demand in technology. We are living in an increasingly mobile and connected world. As the business world's population gradually ages, the proportion of its new tech-reliant generation increases. These younger executives have become accustomed to performing simple banking tasks and transactions on their mobile phone or tablet for some time.

Companies that use collaborative technology to connect with clients and prospective clients are much more likely to have a competitive edge, and to achieve higher margins, market share and sales. Mobile technology is becoming more and more important in the business world and it will rapidly be taken for granted as an essential business facility.

The factoring industry is no exception to this. Factoring clients are travelling much more, not only domestically, but also internationally. They need immediate access to information and are beginning to expect technology to bring a higher level of convenience to make real-time business decisions. They see this as an important part of maintaining competitiveness while on the move visiting clients or suppliers. For example, they need a quick overview of their account status, showing balances, availability of funds, credit and fee status, as well as being able to execute drawdown instructions. The demand and expectation for immediate availability of information and transaction ability is rapidly increasing.

But it will be not only clients that can use mobile applications within factoring. The factoring sales team will also have access to mobile technology to aid and perhaps speed up the sales process.

Undoubtedly the benefits of mobile technology for factoring clients outweigh any disadvantages. Risk and error potential can be managed by careful design, simplicity and ease of use. Understanding a client’s real and essential connectivity needs while on the move are key to achieving this.

Arnulf Romann
Director
Eurofactor GmbH
Source: German Factoring Association

Figures from the German factoring market reflect the positive economic situation of Germany in 2015: an increase in factoring turnover of 11.64% was recorded in the first half, which in absolute figures gives a total factoring turnover of €100.5bn compared to €90bn in the first half of 2014.

The relevance of factoring is also undermined by the constantly growing number of factoring clients, which rose to approximately 19,200 – a new high and a notable increase of 5.67% from the 18,170 clients registered in the first half of 2014. Factoring has therefore further established itself as an important instrument in the financial mix, especially for medium-sized companies.

Jens Hoter
The traditionally strong international business in Germany offered the factoring providers further growth potential. Export factoring turnover increased significantly by 22.94% to €26.85bn versus €21.84bn in the first half of the previous year. This underlines the strength and robustness of the German export sector, even in times of economic stagnation in Europe. Import factoring turnover grew even more strongly by 23.36% to €1.96bn.

The domestic factoring business summed up to €73.65bn, an increase by 8% compared to the first half of 2014. The top client industries from which most of the factoring turnover results are the trade sector, metal production and machinery, vehicle construction, food industry and service sector.

Regarding the market, price competition has intensified due to an over-supply of liquidity and new competitor entries, which is reflected in decreasing margins. Even so the market potential remains positive, and there is still potential for further growth, particularly in the domestic SME sector and also the international business. So it is not unlikely that the factoring business continues to grow.

Continued on page 44
In the first half year of 2015, the factoring industry in Germany continued its growth from the previous year. The sector grew by 11% to a total market volume of €100.5bn. In times of low interest rates, customers – especially SMEs – count on factoring as a contemporary finance solution. Besides national growth, Germany’s factoring sector gained significant momentum in terms of international volume; it increased by 22.94% to a total volume of €26.85bn in the first half of 2015.

GE Capital maintained its focus on the very strong mid-market customer sector and we expect again a strong second half-year for 2015. For the upcoming months and years, the question of how the German mid-market will further move towards globalisation will have a tremendous impact on our business and industry. In fact, German SMEs increasingly expand in Asia and North America; however, if it comes to international business, the majority still focus on the European market.

To develop global markets, companies need – besides innovative strength and investments – a strong financial partner with international know-how, i.e. in cross-border factoring. Another key topic for our sector and, of course, our customer audience is and will be the digital transformation and how we master the continuing development and incorporation of a strong digital strategy. Digitalisation already does and will lead the way to market changes, becoming more agile and continuing to build a state-of-the-art digital architecture for day-to-day-business with our customers.

As key part of our digital strategy, we launched an innovative web-based application called FactorPulse early this year, which grants fast and mobile access to real-time finance and factoring-related data for our customers. I am excited to be part of this evolving digital journey and we will continue to provide our deep market insights and work with best-in-class technology and solutions to meet our customer needs.

Jörg Diewald
Chief Commercial Officer

Guinea

Cofina Group

Factoring is a vital tool for bringing liquidity to SMEs in the African continent. Recent socio-economic developments in Africa have led many people to suggest that the continent is gradually becoming the next frontier for factoring business.

In the 1980s and 1990s, factoring businesses were of little or no importance in Africa due to limited domestic supply chains and the dominance of commodities in Africa’s trade basket. It is no wonder then that factoring is today concentrated in only four countries – South Africa, Tunisia, Morocco and Egypt. We have, however, begun to see a steady growth in the volume of factoring business in the continent with volumes rising fourfold from about €5bn in 2000 to about €23bn in 2012. Nevertheless, the volumes are still significantly lower than those seen in other regions.

The continent currently accounts for only 1% of global factoring volumes, of which about 90% is accounted for by South Africa. The limited access to factoring services is a major obstacle to SMEs seeking to participate in Africa’s gradually expanding value chain. If we want SMEs to form the bulwark of the new Africa we are all looking forward to, we must work towards expanding factoring in the continent.

Indications are that strong and credible factors are emerging in Kenya, Nigeria, Ghana, Côte d’Ivoire, Zimbabwe, Zambia, Mozambique and Senegal. The potential for the emergence of factoring also exists in several other countries. This optimism about the prospects of factoring in Africa stems from a multiplicity of factors that have driven Africa’s economic and trade performance to decent levels in recent years. Most important are the emergence of the middle class, which continues to drive retail trade and growth of the telecommunication industry; discoveries of new oil and mining fields in Ghana, Kenya, Côte d’Ivoire, Mozambique and elsewhere which is fostering the emergence of a vibrant service industry; rapid development of non-traditional export products including agriculture and specialised services, growing trade and economic relations between Africa and new markets in Asia, Latin America and Eastern Europe; and the emergence of credible supply chains across the continent. We expect these tailwinds to increase in force in the coming years and we can only facilitate that if we are able to design financing mechanisms to support the activities.

Despite the optimism, factoring will not thrive if the challenges that plagued the activity in Africa are not addressed. First, knowledge of factoring is very limited and concentrated in a few countries. Until the mid-2000s, there was little or no effort to promote factoring.

Continued on page 46
in Africa by the global industry groups on the presumption that, but for South Africa and some countries in North Africa, Africa presented unacceptable risks and would therefore be of no interest to their members. Many African governments and regulators on their part had little interest in championing factoring partly due to limited knowledge of the product and partly because they thought that there was little scope for its use.

Second, most businesses in Africa were neither prepared nor interested in factoring. Those involved in international trade exported mostly commodities to developed economies; the payment terms were usually cash against documents, and the buyers were largely large credit-worthy companies. Little or no post-export credit was involved, creating little incentive for the services factoring offered.

Third, given the lack of interest on the part of businesses and no support from regulators, banks had no incentive to pursue factoring as a line of business whether as a product offering or by way of credit lines to factors.

Another important constraint is the lack of facilitating infrastructure by way of regulatory framework and laws as well as credit information services and credit insurance. Across the continent, with the exception of Egypt, South Africa and, most recently, Cameroon and Cote d’Ivoire, there are no specific factoring laws. The regulatory environment in most countries was uncertain thereby creating risks and uncertainties that hindered the emergence of factoring. Finally, the absence of specific factoring laws is compounded by the high cost of perfecting legal documents in the form of stamp duties and registration charges.

It is against this backdrop that we chose to join the IFG. We realised the importance of factoring as a trade finance instrument and are working hard to offer support so businesses can seize the opportunities that beckon in the market. To generate interest in factoring, we will launch a fully-fledged factoring offer in Cote d’Ivoire and in Senegal during the first quarter of 2016. We realised that as an innovative SME-focused financial institution, it was up to us to take up the mantle in our present markets to become a champion of factoring in Francophone sub-Saharan Africa.

Jean-Luc Konan
CEO

Italy

Coefi

The Italian factoring market recorded a drop in turnover during 2014 of 4.1%. However, the sector continues to be an important support for the financing of working capital because it amounted to 8% of GDP. In any case, the Italian market has continued steadily for years, in terms of size of turnover, to be firmly in the top five markets worldwide. In Italy, the interest of the instrument has highlighted further growth; between 2012 and 2014 the advances by the factoring sector increased by almost three times – from 0.36% to 1% – in the percentage ratio advances for factoring and total lending bank.

Mattia Serena
CEO

Luxembourg

Tawreeq Holdings

The Middle East and North Africa region is a nascent market for factoring; positive growth signals have been seen over the past years, but it remains a niche market.

Across the MENA region, the banking sector remains the dominant provider of financial services; little progress or growth has been made in the alternative financing solutions and in the factoring and supply chain finance providers.

The MENA market has been slower in adopting open account trade terms, however the recent growth in transactions shows the gradual adaptation of market practices, especially by banks, to the change that has been seen globally.

With focus on receivables finance, and on factoring in particular, the banking sector has been late in deploying strong efforts to support the industry growth, despite its promising outlook and need in the market.

The adaptation of factoring products across MENA remains very slow, which is in part closely related to the regulatory environment and unfamiliarity of the product. Factoring is very promising and needed, especially where SMEs are the bedrock of the region and factoring is considered a product designed to offer SMEs access to finance.

The MENA region’s formal credit gap has been estimated as being between $160bn and $180bn, and the need to improve access
to finance for SMEs is a major industry driver which has fueled the development of the industry globally. While there are many hurdles to its growth across MENA, and particularly the GCC, the sector has seen positive gains in recent years.

Factoring is a case in point for the region. This basic financial technique has been offered as a standard, structured banking product for years, sold as an off-the-shelf solution by banks in the region, and offered rather in terms of invoice discounting and collateralised loans. In terms of trade finance, standard LCs and PDCs are known as the norm in the region.

The market lacks sufficient product structuring that supports SMEs, and factoring is still a niche market in the region. At Tawreeq Holdings, we specialise in comprehensive supply chain finance solutions to serve SMEs access to finance; we have gone the extra mile, becoming the region’s first and independent Sharia-compliant provider of SCF solutions, offering an innovative product that fills a huge gap in the market.

Dar Al Tawreeq, an affiliate of Tawreeq Holdings, introduced the novel Sharia-compliant factoring, a product that serves SMEs and corporates with a Sharia-compliant process. Tawreeq group introduced a new concept of Sharia-compliant reverse factoring as well, to support exporters’ and importers’ access to credit.

The main difference between Sharia-compliant factoring and traditional products is its adherence to Sharia principles, and it is provided at a non-recourse basis, freeing the SME from the obligation to the factor or the obligor. In essence, it embeds the importance of ethical and transparent practices, based on the need to serve and support the business, leading to financial inclusion and sustainable economic growth. In offering a Sharia-compliant product, we have the ability to bridge the gap between businesses looking for the solution and traditional providers; we are capable of arranging the solution by connecting businesses and even factors at a global scale, and to the benefit of all stakeholders.

Looking ahead, we preserve our positive outlook for the industry in the region, despite the lingering challenges, mainly in reflection of global disparity in growth, impact of low commodity prices in the region, and geopolitical tension. Our major focus will be on three key pillars that are of the essence for the growth of the industry:

- Facilitating SMEs’ access to finance and empowering their ability to sustain growth.
- Advocating for progress in the legal environment on assignment and bankruptcy laws.
- Spreading awareness of the product among finance providers and businesses.

One of the main challenges is the enforceability of assignment laws and effective bankruptcy legislation across the MENA region; progress has been made in some markets, but disparities remain. Another issue is the availability of credible and reliable credit rating agencies and bureaus to help with risk and credit assessment.

Growth in factoring continues with the gradual economic recovery across major economies. Sharia-compliant factoring, however, is still nascent, and to no surprise there are no clear statistics available yet.

According to Factors Chain International statistics, there is slim participation of MENA markets, including many markets that are still not represented, where factoring is still at its early stages. The MENA factoring markets are led by the UAE and Morocco, followed by Lebanon, Egypt, Tunisia and a very small market in Qatar.

Stable and moderate economic expansion is still expected in the MENA region and GCC, despite the recent slump in oil prices and unstable political conditions. This will foster the necessary environment for SCF solutions to expand. The GCC is a promising growth of the factoring market, especially cross-border factoring with the intra-GCC trade ties; the market is also larger for Sharia-compliant factoring.

The UAE is the leading trade hub in the MENA region, according to the World Trade Organisation’s report on international trade trends. This ecosystem is nurturing growth for factoring across MENA, especially in Sharia-compliant factoring tailored to the region’s needs.

The focus on the need for financial inclusion and support for finance access to SMEs, and extending support for trade, will support the expansion of alternative financing solutions in the MENA region. Establishing a new market for Sharia-compliant factoring will further complement the growth of factoring services in the coming years.

Haitham Al Refaie
CEO

Poland
Raiffeisen Polbank

What is driving growth? First: A lot of players in the market. We have 24 members of the Polish Factoring Association plus about five players outside PZF, mainly owned by the banks so we have easier access to a wide group of potential clients.

Second: Before the financial crisis, factors were treated as lenders of last resort. The crisis made people think about trade receivables not only as liquidity issue but also as bed debt issue.

Third: A revolution in user-friendliness thanks to IT. Currently the whole process for the client is paperless; 10 years ago it was two days, currently advance on the client’s bank

Continued on page 48 →
account is within two hours; 10 years ago payment settlement took us two to four days, now we do it three times a day.

Every year we wonder when the growth will slow down, and every year it is more than 20%. There is definitely space for growth in factoring for micro companies – just a few factors are currently present in this market. There is also still much opportunity for non-recourse factoring which is much less popular than recourse factoring.

In terms of GDP penetration we are already at the top of Europe with 8.1%. In terms of products we still need to develop non-recourse factoring. Currently it is not promoted because co-operation with insurance companies is not always easy. That is why we have decided at Raiffeisen Polbank to start with non-recourse offer without insurance.

Reverse factoring is developing very well and helps us to change opinion about factoring in general among good rating clients. Pawel Kacprzak

Managing Director

Portugal

Banif

It is well known the exceptional economic conditions that Portugal had to face, and although there is still much to be done, the economy is already showing signs of recovery, with an expected growth in GDP of around 1.6% in 2015. Public deficit is expected to be near 3%, according to EU estimates, public debt is also lowering, and there is a will to soften the authority measures without compromising international conditions.

Although many of these results were due to the sacrifices made by the Portuguese people, we also have to recognise the efforts of the Portuguese exporting companies, increasing the weight of exports on GDP from 30% to 40% between 2010 and 2014. Achieving such a feat, at a time when banks were being more cautious than ever with credit concession, shows that companies and entrepreneurs searched for other ways to finance their activities.

Thus the use of factoring solutions offered an alternative way of getting funds without compromising the long-term stability of clients. This is especially true in international factoring rather than in domestic factoring, when the latest numbers show a small reduction in domestic factoring and a rather significant increase – 7% in 2014 – in the international factoring numbers.

The great advantage that factoring offers is the lowering of the risks incurred by the exporting companies, giving them some safety by granting them a partner who takes a part of the risk while exporting and also allows the companies not to worry about debt collection which is transferred to the factor agency.

With these advantages, on top of what are considered competitive prices, the majority of Portuguese factoring institutions hope that, in the mid-term, export factor numbers will keep their tendency of growth. By the end of 2014 export factoring reached 11.7% – €2.5bn – of the total factoring numbers, €21.4bn.

It’s with this present scenario that we at Banif are developing new export factoring solutions for our clients, helping them in getting the best possible results with less risk for their financial situation. The increasing of exports will allow Portugal to get an even better economic scenario.

Jorge Tomé

CEO

Eurofactor Portugal SA

Despite the fact that we don’t yet have the final figures for 2015, this year probably will be marked by the return of an increase in the Portuguese factoring market, in terms of turnover – the first since 2010, and after a slight decrease of 1.3% in 2014.

We are dealing with a very mature and competitive market, with all the major local banks and two specialised factoring companies operating for several years, with a total of 13 players.

Due to the improved economic and financial situation in the country, there is a positive trend in the demand for factoring solutions, both in the domestic and export markets, but with a major increase on the last years in the export factoring facilities, in line with the growth of the international transactions.

Eurofactor is consolidating its position as market leader of export factoring, mainly due to its international network and a high know-how of international trade solutions.

In domestic factoring there is much competitiveness mainly because of the more aggressive commercial strategy of the local banks – after a period of a lack of liquidity, they are now in a better position for growth – who are making big efforts, with lower margins, to increase their factoring portfolio, not only with existing clients but also with new prospects.

Due to this strategy, the margins are decreasing on a very high rhythm, but the market is more active and factoring solutions are being considered for all types of small and medium enterprises, the traditional factoring clients, even if there are some specific and unique solutions on the market for big companies like the European Pass solution from Eurofactor, applying to Portuguese multinational companies with subsidiaries in Europe, who can benefit from a centralised factoring contract for their companies in other countries.

Also the solutions of supply chain finance like reverse factoring and confirming are increasing their demand in the Portuguese market, mostly to big companies with a good rating searching for partners who can manage externally their provider’s ledgers in order to

Continued on page 50
Devaluation of the national currency and sanctions against Russian financial institutions have also affected international factoring volumes with Russia. From its peak in 2013 of about €900m turnover (exp+imp) this year we expect less than €300m.

The most common expectation for 2016 is slow recovery with about 10% to 15% market growth back to 2014 figures. The good news is that the Russian factoring market still has a great potential with less than 3% of GDP volume in 2015.

VTB Factoring
This has been a challenging year for the Russian economy. There was a general slowdown in growth. For many companies, the bank loan market was limited or even inaccessible. At the same time, businesses’ demand for financing remained high since borrowed funds are a major development factor for many companies.

On the one hand, factoring companies have been working in the same economic conditions as other financial players. On the other hand, recent developments opened up new opportunities for development in this area. Incidentally, with the credit resources market limited, businesses understandably turned towards this new funding source.

According to a report by the Association of Factoring Companies of Russia, in the first nine months of 2015, Russian factoring turnover totalled RUB1,262bn. The overall financing to clients amounted to RUB866bn and the total factoring portfolio reached RUB232bn.

Despite the economy’s overall contraction, the factoring market contracted only slightly as compared to the same period last year. VTB Factoring, a subsidiary of one of the largest state-owned Russian banks, that opened the asset-based lending market for Russia with a RUB200bn deal this year, also led the Russian factoring market in all major indicators such as portfolio volume, the amount of purchased receivables, the amount of financing provided, and market share.

If you look at the market, you can see that trading companies account for the lion’s share of the overall portfolio, and that the share of industry is steadily increasing. Today, factoring is applied in virtually all sectors of the economy.

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In the large business segment, the level of factoring penetration is lower than the market average. This is due to the fact that few factoring companies are in a position to meet the needs of big businesses. It should be noted that the approach of large companies to financing instruments differs from that of small and medium-sized companies mainly because factoring is an additional rather than an alternative financing instrument for large companies — a way to significantly increase the efficiency of doing business.

Russian factoring companies are working to build a high-quality portfolio — they are optimising it and trying to use a more balanced approach towards risk assessment when making new deals. They are expanding into new market niches such as industry and services. They work to improve and introduce IT solutions.

The Association of Factoring Companies and VTB Factoring continue to work on improving existing legislation, adapting it to contemporary economic realities.

Last year they did a lot to remove legal restrictions on using factoring in international transactions, but more changes are needed to make it possible to use factoring in state and local government procurement.

Factoring accounts for about 2.5% of Russia’s GDP, while in western countries this figure is several times higher. This suggests that factoring is still not that widespread in our country, as many senior executives at Russian companies either are unaware of or do not know how to use all the various forms of financing available. We see great potential demand for factoring services and expect market growth next year.
Turkey

Garanti Factoring
Factoring, a considerably young industry in Turkey, continued its growth that reached a total volume of €42.2bn with a rate of 27.9% together with being thirteenth in the world and eighth in Europe at the end of 2014.

Garanti Factoring, with a young and dynamic team, maintains its ongoing support to the factoring sector through continuous cashflow, secured sales, a commercial collection service, supplier finance and a wide-ranging import and export product suite from the earliest years of the factoring industry.

With our unique, innovative approach to business, we intend to continue pioneering the new initiatives in customer-driven products and solutions available for the sector.

Hulki Kara
CEO

Turnover in the industry is concentrated among 10 factoring companies which make roughly 66% of the total volume and also bank-owned factoring companies presented 60.6% of turnover size.

The biggest growth continues to be driven from domestic factoring business with a transaction volume of €15.9bn representing roughly 80.1% of industry volume. International factoring reached a volume of €3.7bn which is mainly generated from export business.

In 2014, after China, Turkey was the second biggest county in export factoring with an increase to €3.6bn, a growth rate of 7%.

In the last years the sector has been regulated by the Banking Regulation and Supervision Agency, taking the industry to the next level. Changing the perception in the market and also applying proper funding models makes the factoring sector one of the important pillars of the financial world, and the industry is targeted to be the second largest after banking.

Even though there are occasional slowdowns in the economy, Turkey is a developing country and receivables volumes are increasing, and the factoring sector will benefit positively from the extended maturities of receivables as a result of increasing capacity utilisation rates. As such, there will be a growing demand for financing the extended credit terms of the underlying receivables.

Our international activities depend on the amount of orders from the eurozone, our main economic partner. Our company remains a leader with a Tunisian market share of 52%; with a young experience, compared to our European and American colleagues, but a dynamic and high quality professional team.

Some figures for 2014 for the Tunisian factoring sector:

- Total of outstanding debt financing: DT216.4m, around €99m, against DT199.4m for 2013, around €90m.
- Total resources of loan: DT129.1m, around €59m, against DT117.4m in 2013, around €54m.
- Total net factoring product: DT17m for 2014, around €7.73m, against DT15.8m for 2013, around €7.18m.

For 2016 we keep confident and optimistic for a Tunisian economic recovery in all sectors, with the starting of the five year plan, 2016-2020, a resumption that we hope will lead Tunisia to a higher and positive growth rate.

Tunisia

Tunisie Factoring
The first half of 2015 saw a relatively calmed political climate in Tunisia. After legislative and presidential elections at the end of 2014, the announcement of a coalition government for supporting important cases, mainly the country’s security and economy, created a lot of hope – but unfortunately in vain further to the last terrorist attacks in less than two months.

For the year 2014, the growth rate was around 2.3%; further to the last events, the growth rate for 2015, initially forecast at 3%, has been revised downward to 1%. As regards foreign trade, the big concern was from the extension of the current deficit which reaches 8.3% of the PIB at the end of November, against 5.6% for the same period in 2013.

Looking at the evolution of the exchange rate of dinar, with regards to the end of 2013, in 2014 Tunisian dinar showed a stability compared with the euro with depreciation of 11.5% towards the American dollar. The inflation rate in 2014 was 5.2%, against 5.8% in 2013; let us note that the inflation rate for the third quarter of 2015 did not exceed 4.2%.

In spite of a slight improvement in the management of the public finances with financial help received from abroad, Tunisia’s economy still suffers from the slowing down of almost all branches of industry.

Despite this economic situation, Tunisie Factoring added up on 30 June the signature of contracts for the amount of DT109m, around €49m, and achieved a turnover of DT205m, around €93m. This compares to the same period of 2014, where the signed contracts amount was DT50m, around €22m, with a turnover of DT206m, around €94m.

Expected turnover to the end of December 2015 is DT451m, about €205m.

Mohamed Bouraoui
CEO

Tunisie Factoring will keep its flexible and professional approach for being an economic partner for all Tunisian and foreign companies in Tunisia.

USA

RMP Capital
After a strong 14% increase in factoring volume during 2013, US factoring growth remained relatively flat in 2014, increasing

Continued on page 52 ➡️
2% to $100.1bn. Traditional lenders continue to shy away from small business lending; it is expected that factoring and its associated products will play a larger role in the economy, and US factors continue to reach out to SMEs as well as government officials through the national organisations supporting factoring to educate them on the sector and its benefits.

Products such as supply chain financing, receivables platforms, merchant cash advance and other financial alternatives contributing capital to the SME supply chain are gaining relevance and taking market share contributing to the flat year-over-year results. It is expected that recourse/non-recourse factoring growth will continue modestly given the increased relevance to other financing products.

Non-recourse factoring makes up 73.1% of US factoring volume, and a majority of factors use full notification to communicate with account debtors. The US factoring market is highly fragmented, as demonstrated by 16.7% of factors having portfolios in excess of $50m. The eastern US leads the nation in factoring volume with 50%, with the north east at 28% and the south east at 22%. In 2014, factoring remained consistent at 0.6% of US GDP. Apparel, manufacturing and distribution companies are the largest industries served by factoring as well as transportation and staffing.

Emerging market gloom hits confidence globally

International corporate optimism edged down to a new post-financial crisis low in October, according to the latest tri-annual Global Business Outlook Survey from Markit.

The study, which looks at expectations for the year ahead across 6,400 businesses, found that the number of companies expecting their business activity levels to rise during the coming year outnumbered those expecting a decline by 25%, down from 26% in June. Optimism has steadily waned since early 2014, when the net balance of optimists versus pessimists peaked at +40%.

Business optimism regarding future activity levels in the global service sector sank to the lowest seen since the survey began six years ago in 2009, while the mood among manufacturers remained close to the near three-year low seen in the previous survey in June. Expectations of corporate profits over the coming year also sank to a survey six-year low, and hiring intentions dipped to one of the weakest seen in the survey history.

Capex intentions were unchanged compared to the June survey, which had been the highest seen for a year but still low by the historical standards of the survey. The only global survey indicator to rise was the gauge of future output, price pressures, which hit the highest since the start of 2014 to signal one of the strongest upturns in inflationary pressures since the survey began.

Emerging market optimism – measured across the four BRIC economies – fell to new lows in both manufacturing and services, with post-financial crisis troughs seen on average across the two sectors in China and India. Confidence meanwhile slid to a one-year low in Russia but rose markedly in Brazil from June’s survey record nadir.

The outlook for profits, employment and capex also fell to new post-crisis lows across the BRIC economies, led by declines in China and India. There was greater divergence in the price outlook among the BRICs, however, with the biggest fall in output prices seen in the survey’s history in China contrasting with positive outlooks in India, Russia and Brazil.

Of the four largest developed economies, the UK saw the highest degree of optimism, despite confidence about future business activity levels dropping to the lowest since the start of 2013, reflecting weaker optimism in both manufacturing and services. The outlook for profits, hiring and capex likewise slipped in the UK to the weakest for more than two years. While UK firms’ pricing intentions were less aggressive than in June, they remained the highest of all developed countries.

Business optimism in the US edged up only modestly from the post-recession low seen in the June survey. Optimism was unchanged compared to the summer in the service sector and rose slightly to a one-year high in manufacturing. Hiring intentions slipped to one of the weakest levels seen in the past six years, with only the start of 2015 seeing lower employment expectations.

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