

FACTORING DEVELOPMENT AND PERSPECTIVES

Now a days the introduction of new technologies is possible by using scientifically technical progress cognitions into practice. Own financial resources of several companies' are insufficient, because the installation and purchase of new machinery requires large financial investment. Situation could be resolved if the company can raise additional funds.

Security tool of financial resources, which the company can use, is a factoring transaction.

Factoring is financing of current assets to receivables. Name of this financing type is derived from the English word «factoring» which means «broker». In substance, the factoring service is designed to improve company's cash flow and this service is based on a cash claim (receivables) transfer to factoring company, receiving immediate payment.

Factoring as a service is beneficial to both: sellers and purchasers. Through factoring, the seller gets a chance to get a quick and flexible loan for current assets, simplified cash flow planning, to increase sales and other benefits. But the buyer acquires such advantage as simplified to plan cash flow and the opportunity to get more attractive terms of payment from the seller.

The most common alternative for raising money till nowadays is a credit. Nowadays Latvian commercial banks become more cautious choosing borrowers. More rigorously assessed the borrower's business development programs. Now it is burdened to get credit, because it is not rare that borrower does not have real collateral. Due to the constraints described above, effective satisfaction of finance in company is factoring.

Range of services of Credit institutions are becoming more diverse, so the commercial relations are becoming more diverse. Factoring services for commercial banks in different countries are very prevalent. Factoring services are performed as a normal credit, where credit occurs on basis of settlement document. Therefore, factoring as financing type benefits are characterized by its simplified execution compared with processing the credit at the bank, as well as credit collateral is not necessary, as well as guarantees and additional pledge. So there is no need for complex legal and economical procedures.

Currently, with the factoring services deals commercial banks and leasing companies as the Latvian Savings Bank, Baltic Transit Bank (Latvijas Krajbanka, Baltijas Tranzitu Banka), etc.

In Latvia there are more than twenty companies, which offer factoring services. The most important of them united to form the Latvian Lessor Association (Latvijas lizinga devēju asociācija — LLDA) with aim to work out leasing and factoring development programs and take part in development of normative documents in the field of leasing and factoring.

Till year 2008 factoring increased rapidly and in the year 2008 the factoring volume has reached its highest point, in circumstances, when businesses almost did not increase the gross profitability, they tried to accelerate the capital turn over rate and increase turn over by attracting factoring financing. Also, high inflation rates in the years 2007— 2008 did factoring very attractive. Factoring financing was available and cheap, that why it is widely used. After year 2008 and factoring growth, it started to decrease slightly, it was because of the collapse of inflation and rise of deflation, as well as factoring became more expensive service. Factoring financing extents likely will not decrease. Likely, most companies which are still using factoring work with clients from abroad, and can directly experience the consequences of Latvian export growth.

Recognizing that international factoring has a significant role in the development of international trade there was adopted uniform rules to provide a legal framework which will facilitate international factoring, and providing a balance of interests between the various parties of the factoring transaction. There fore, in Ottawa in May 28,1988 was adopted the UNIDROIT Convention on International Factoring. This Convention regulates factoring contracts and cession agreements signed between one party (supplier) and the other party (broker) at the international level.

At the moment the two conventions have been developed for the UNIDROIT Convention on international financial leasing and the United Nations Convention on the assignment of receivables in international trade (2001).

If to compare factoring turn overs, which are submitted to the Latvian Lessor Association, it can be concluded that the demand for factoring services in year 2011 as compared to year 2010 began to rise and proportion in percentage of the June 2011 from 2010 increased by 7,4 %.

Demand for factoring began to rise again, and it is necessary to the Latvian state at the national level more regulate activities associated with the factoring agreements. In Europe factoring transactions are regulated primarily by the general law of obligations. To regulate international factoring International Institute for Unification of Private Law worked out the UNITROIT Convention on International Factoring. This Convention has helped tounite the rules governing the legal relations of factoring transactions and resolve issues that were in national law systems. Noted that at international level a major role also plays the Factors Chain International (FCI) association, which is a global network of companies whose aim is to stimulate and develop international trade. Currently, the Factors Chain International network includes 258 leading factoring organizations, which together account for more than 80 % of the world's international factoring turn over.

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