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Problemas y perspectivas de factorizar el desarrollo del mercado en Rusia

Problems and prospects of factoring market development in Russia

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## **Abstract.**

Under the conditions of the economic crisis and fierce competition, companies are able to efficiently use affordable financial resources such as factoring, which is a competitive business financing tool that meets international standards. The benefits of factoring can be seen in all participants of this service. It is beneficial for suppliers in terms of increasing sales, turnover, and reducing cash gaps. Due to the factoring, buyers obtain commodity loans and provide the optimal use of working capital. Commission merchants increase in their revenues and the number of customers, and strengthen their market positions. In the global market, an increase in factoring regardless of the presence or absence of a crisis leads to an increase in the volume of trade flows. In Russia, the popularity of the factoring is low compared to bank loans, especially among small and medium-sized businesses. The paper analyses the composition of the players in this market, examines the dynamics of the volumes of financing provided, the weighted average cost of factoring in comparison with the interest on loans, the number of participants, and financing by industry and region of the country. Based on an analysis of the current situation and long-term market data, the paper summarizes the problems of factoring in Russia, and identifies key factors for factoring market growth in the future.

**Keywords:** factoring, bank credit, liquidity, accounts receivable, corporate finance

## **Resumen**

Bajo las condiciones de la crisis económica y la feroz competencia, las empresas pueden utilizar de manera eficiente recursos financieros asequibles, como el factoring, que es una herramienta competitiva de financiación empresarial que cumple con los estándares internacionales. Los beneficios de la factorización se pueden ver en todos los participantes de este servicio. Es beneficioso para los proveedores en términos de aumentar las ventas, la rotación y reducir las brechas de efectivo. Debido al factoring, los compradores obtienen préstamos de productos básicos y proporcionan el uso óptimo del capital de trabajo. Los comerciantes de comisiones aumentan sus ingresos y el número de clientes, y fortalecen sus posiciones en el mercado. En el mercado global, un aumento en el factoring independientemente de la presencia o ausencia de una crisis conduce a un aumento en el volumen de los flujos comerciales. En Rusia, la popularidad del factoring es baja en comparación con los préstamos bancarios, especialmente entre las pequeñas y medianas empresas. El documento analiza la composición de los actores en este mercado, examina la dinámica de los volúmenes de financiamiento proporcionados, el costo promedio ponderado de factoring en comparación con los intereses de los préstamos, el número de participantes y el financiamiento por industria y región del país. . Basado en un análisis de la situación actual y datos de mercado a largo plazo, el documento resume los problemas de factoring en Rusia e identifica factores clave para factorizar el crecimiento del mercado en el futuro.

**Palabras clave:** factoring, crédito bancario, liquidez, cuentas por cobrar, finanzas corporativas.

## **Introduction**

Commercial organizations traditionally have a high need for liquidity and in crisis conditions this need increases [1, 2]. Factoring is an alternative to a bank loan. In the world market, an increase in factoring “by 10 per cent leads to an increase in the volume of trade flows by 1 per cent” [3] regardless of the stability of the situation. Diversification of sources of raising capital determines the relevance of the work.

The transformation of the financial system and the change in banking products under the influence of digitalization are considered in the works of modern authors such as A.V. Koren and A.A. Pustovarov [4], N.P. Ivashchenko, A.E. Shastitko and A.A. Shpakova [5]. The popularization of financial products is inextricably linked with the growth of feasibility and convenience, allowing to save the resources of all participants. At the same time, modern technologies have raised the level of security of operations to a higher one.

The large role of banking instruments in stimulating the development of the real sector of the economy was identified in the works by S.S. Dakhnenko and E.L. Vengerovsky [6], E. Tsigelkova, I.N. Platonova and E.D. Frolova [7], E.V. Konvisarova, T.A. Levchenko, A.A. Pustovarov [8]. The authors note the importance of bank financing not only for large businesses, but also for small and medium enterprises, in particular, for banking support of operations in the implementation of the state order.

Theoretical and practical aspects of the application of factoring were considered in detail in the works of V.V.Savaley, A.S. Ligus [9], A.V. Koren, V.A. Vodopyanova, A.A. Pustovarov [10], D.A. Vysokova [11], L.A. Chegovadze [12].

The relevance of the authors' work is limited by innovative banking financial solutions. A comprehensive review of the problem, taking into account the dynamics of recent years and the current circumstances of the economy development, makes the obtained conclusions more timely and relevant for a wide audience of readers.

## Goals and objectives

The goal of the work is to formulate the prospects for the development of factoring in Russia.

To achieve this goal, it is necessary to solve the following tasks: consider the factoring market from the point of view of its participants, analyse the amount of financing provided, determine the most popular types of factoring, consider the use of factoring in the country's regions, determine the factoring sectors of the economy, and determine the degree of profitability of factoring comparing with the most popular tool, i.e. a bank loan; draw conclusions based on current situation in the global economy.

## Materials and methods

During the writing of the work, a number of scientific methods were used, including informal ones. The main ones include: analysis, synthesis, comparison, evaluation, generalization method, system analysis. In the work, the authors analyse data from official statistical sources.

## Analysis and Results

The factoring market in Russia can be described as oligopolistic. About 5 major players account for about 70% of the market, so since 2018 their place in the market has remained stably high. Table 1 presents the largest players.

*Table 1. Comparative characteristics of the players in the factoring market of Russia for 2018-2019*

Market position as of		Name	Growth rate of financing provided from 2018 to 2019, %	The ratio of the financing volume to the assigned claims volume, %	
2019	2018			2019	2018
1	1	VTB Factoring	119	-	-

2	2	Sberbank Factoring	154	98	97
3	3	Alfa Bank	123	-	-
4	-	Promsvyazbank Group	123	92	89
5	4	GPB factoring	82	90	91

But new players appear on the market, such as FC RNKB and RSHB, PFK, etc., which confirms the growing interest in this market and great prospects for its development. The total amount of financing provided by the beginning of 2020 increased by almost 520 billion roubles. (20%), and the market volume has increased 1.9 times since 2013. Figure 1 shows the dynamics of the domestic market with a forecast for 2020.

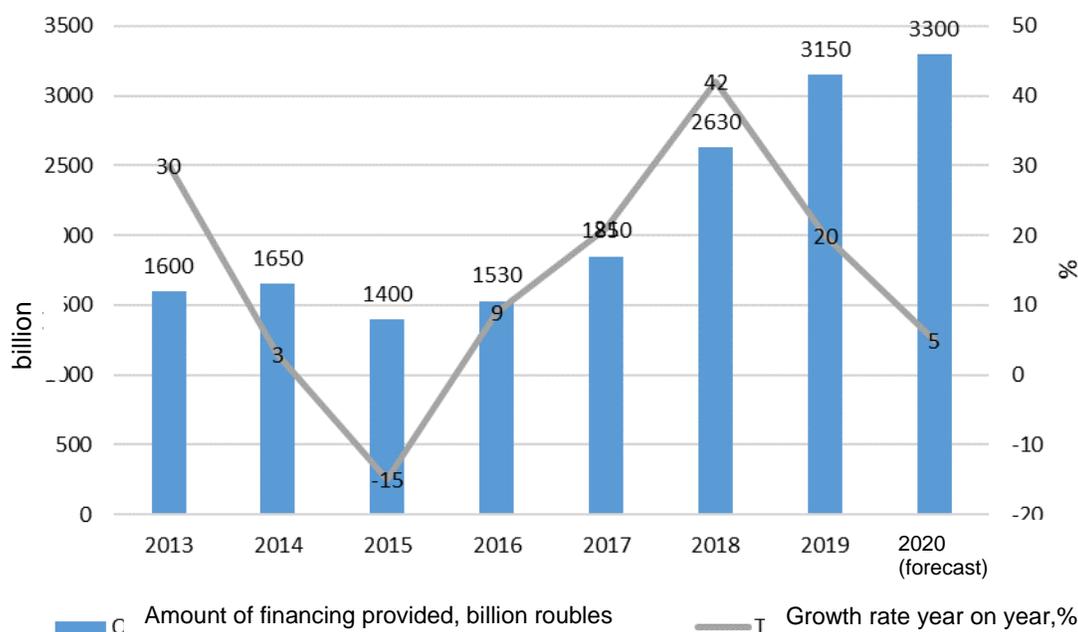


Fig. 1. Dynamics of financing provided by commission merchants from 2013 to 2020

The increase in the number of market participants and digital leadership has led to increased competition. A natural consequence of this fact was a decrease in the spread and closer servicing to the cost of the loan. The dynamics of the weighted average cost of factoring and interest rates on corporate loans is presented in Figure 2.

*Fig. 2. Dynamics of the weighted average cost of factoring and interest rate on corporate loans from 2014 to 2019*

The decrease in the cost of services has increased the interest of companies in replacing credit financing of working capital for factoring. Figure 3 shows the structure of demand for factoring.

*Fig. 3. Dynamics of the weighted average cost of factoring and interest rate on corporate loans from 2014 to 2019*

Changes in the demand for products were accompanied by changes in the structure of customers and counterparties. Figure 4 shows the changes in their number.

*Fig. 4. Dynamics of the number of participants in factoring operations from 2014 to 2019*

Manufacturing and wholesale and retail trade enterprises dominate in the industry structure of factoring. Figure 5 shows the distribution of factoring by sectors of the economy.

*Fig. 5. Dynamics of financing industries from 2014 to 2019*

The change in the structure of financing directions is accompanied by an increase in factoring positioning in the regions. Figure 6 shows the distribution of factoring financing by regions.

*Fig. 6. Distribution of factoring financing by regions from 2014 to 2019.*

From the point of view of market analysis, the volume of financing gives a greater understanding of the possible “overheating” of the market than the volume of the market portfolio (as of the beginning of 2020, its value exceeded 800 billion roubles). Despite the high growth rates, there is no reason to talk about a possible recession or stagnation in the market. This fact is also supported by the fact that the specific weight of factoring does not exceed 2% of the volume of bank loans granted to the non-financial sector.

In this regard, the growth in the volume of paid financing for factoring is a reflection of a change in its product structure. 2017 should be considered the turning point, i.e. two years ago, when a relatively small difference in specific weight of sectors was observed. The product structure as of 2019 is almost the mirror opposite of 2014.

The industry analysis of factoring penetration shows that the share of wholesale and retail trade reached 40%; the share of processing industries is 32%. The share of the oil and gas sector reached 18%, adding 5%.

For the most part, the growth of financing is concentrated in such areas as the production of food (17%) and non-food products (17%), electrical equipment (13%), tobacco and alcohol (13%), etc. It should be noted that priority is shifted from food to industrial products (metallurgy products, petroleum products, equipment, etc.).

In crisis conditions, when the risks of untimely repayment of receivables or write-offs of bad debts increase, cash requirements are high and the growth in demand for non-recourse factoring is logical.

Increased competition is accompanied by a general decrease in the margin of commission merchant business. Digitalization in this area is a development driver that allows not only saving time, but also saving costs of commission merchants. Creation of a convenient platform for electronic document management (for verification, data processing, application processing automation, general electronic document management between suppliers, commission merchants and debtors, etc.) based on the

ecosystem of commission merchants or large independent platforms determines their further market position.

Changes in the demand for products were accompanied by changes in the structure of customers and counterparties. The observed changes are primarily associated with a policy of commission merchants to improve the quality of portfolios, which led to a decrease in the number of debtors, whose deliveries were transferred to factoring, with an overall growth in the client base. It should also be noted the general preference of companies to work with large customers, which currently means that the growth potential of factoring is enormous and will develop as the digital infrastructure of commission merchants expands.

However, with the changes highlighted above, the market volume in 2019 was not accompanied by a significant structural change in terms of customer business volumes. Funding for small and medium-sized enterprises is still low. In total, small and medium-sized enterprises account for about 20% at the end of 2019. Of course, this is also due to the low automation in the document flow between small businesses and commission merchants, as well as the potential low transparency in transactions and document flow between small businesses (including a group of small business companies that are interdependent organizations) and their counterparties.

Given the negative impact on the global economy of restrictive measures due to coronavirus infection and low oil prices, the banking sector may tighten debt quality requirements in factoring transactions. On the other hand, factoring transactions can be an effective mechanism to support the real sector of the economy within the framework of national projects. State guarantees would solve the problems with liquidity of a number of sectors in the national economy without a significant impact on inflation.

## **Conclusions**

Currency valuation and devaluation is the core issue of economies which are addressed by policy makers in different ways, looking at the model only the exports are the predictor of currency valuation, which policy makers must have to tackle up in a way that

to curtail the imports, create investment opportunities locally funded or foreign direct investment like CPEC now a days, which surely boost the productivity and in the results everything will be managed in a way that; embargo must be launched and due to heavy production exports will surely shoot up and currency will be valued in comparison of other international countries. REICE | 510

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