


# "Factoring / Receivables Discounting

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## 1. INTRODUCTION

Access to finance continues to be one of the most significant impediments to agriculture sector development.

Without proper finance, producers have difficulties to finance their production/distribution cycle, meet market demand, remain competitive, integrate value chains, etc.

However, there are alternative types of finance that respond to the needs and requirements of farmers and other operators in the sector -- allowing business to automatically increase the amount of finance available as its sales increase.



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## 2. FACTORING AND DISCOUNTING RECEIVABLES

- ☛ **Factoring**; is an old form of finance and management of receivables, developed to mitigate counterparty risks in trade. It is a type of supplier financing *in which firms sell, on a regular basis, their account receivables at a discount (generally equal to interest plus service fees) and receive immediate cash. The Factor becomes the legal owner of the receivables*
  - Factoring only requires the legal environment to sell, or assign, receivables; and depends relatively less on the business environment than traditional lending products.
- ☛ **Discounting receivables**; borrowers can use receivables as collateral for "asset-based" loans. The difference is that the lender secures the receivables as collateral, rather than taking legal ownership of the assets.
  - This type of financing requires good secured lending laws, collateral registries, and quick and efficient judicial systems.



## UNIDROIT CONVENTION ON INTERNATIONAL FACTORING

According to UNIDROIT, factoring must have three characteristics:

- **First**, there must be the provision for the assignment of debts arising from the sale of goods or services within a commercial contract.
- **Second**, there must be a stipulation to provide for notification to be given to the debtors of the assignments.
- **Third**, the 'factor' (the company performing the factoring service) must perform at **least two** of the following services:
  - (1) finance
  - (2) debtor account maintenance
  - (3) debt collection
  - (4) protection against default of the debtors.

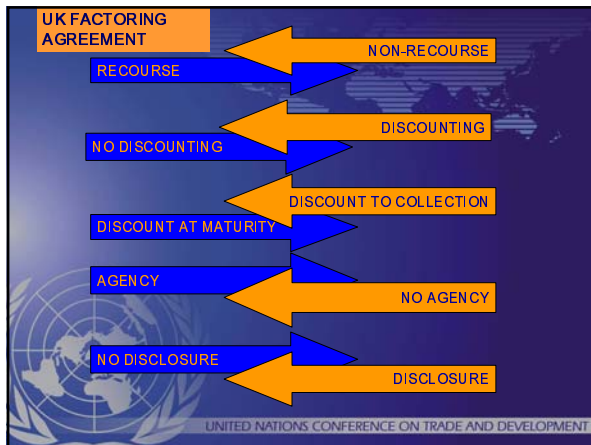
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## FACTORING: Key points

**In the US**, factoring is deemed to perform all of these functions.

**In the UK**, factoring and can include any combination of the 4 functions listed above.

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## 3. Reinforcing agro-tourism linkages : Caribbean Case

*Improving the performance of the agricultural sector is seen as critical in achieving economic growth and poverty reduction in the Caribbean.*

Today, the Caribbean is a net importer of agricultural produce especially to support the growing tourism industry.

Tourism is the mainstay of many Caribbean economies.

- 75% of the tourism expenditure leaks outside the Caribbean economy - and has hence failed to impact broadly on poverty in the region. Linkages to local production have not developed and there has been a steady decline in agriculture.

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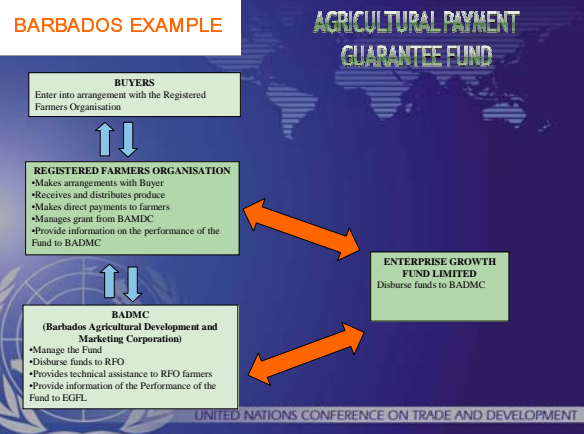
### 3. Reinforcing agro-tourism linkages : Caribbean Case

*Extended payment terms as a constraint for farmers to sell produce to the tourism industry*

- When supplying agricultural commodities such as fruit and vegetable to the main players of the tourism industry, one of the constraints faced by farmers is the delays in payments by buyers which can go to **90-180** days after the delivery of their produce.
- The delay in payment not only deteriorates farmers' cash-flow situation but also discourages the sale of agricultural production to the tourism industry.
- If properly structured, Factoring/discounting receivables can contribute to addressing this constraint, thereby providing farmers with immediate cash flows. For the tourism industry, there could be the prospect of enhanced terms of trade and finance under the right set of conditions of factoring/discounting receivables schemes.

14 November

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### St. LUCIA EXPAMPLE

### MICRO FINANCE FACILITY

Farmers' Assoc/Hotels/MFIs sign a Tripartite Agreement: EU funded project

Farmers buy inputs

Farmers harvest crops

Farmers sell to Farmers' Assoc.

Farmers are paid on 7<sup>th</sup> day

By writing a check on NRDF

Farmers' Assoc. sell to Hotels

Hotels confirm purchases in writing

Signed-Off Invoices are presented to NRDF for immediate reimbursement

Hotels reimburse NRDF within 30 days

A Fee of up to 2% is levied

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### St. LUCIA EXPAMPLE

### BUFFER FUND FACILITY

In 2007, Oxfam placed the equivalent EC\$50,000 with the St Lucia Credit Union League Ltd. This deposit increased the farmers' co-op share in the credit union and an entitlement to a dividend of 4% against this collateral. The credit union set up a facility that enabled Belle Vue Farmers' Cooperatives to borrow 50% of the amount, EC\$25,000, at an 8% pa interest rate. This was later increased to the full EC\$50,000.

The loan funds are used to purchase agricultural produce from members for sale to mainly hotels, restaurants and supermarkets at a mark-up. The mark-up is typically 40% of sales price. The mark-up is used to cover interest, operating costs and to build up a collateral fund to replace that provided by Oxfam.

In essence the Buffer Fund is a type of revolving loan facility much like a credit card.

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## IN CONCLUSION

- In the Caribbean region, there are a number of initiatives, though at various stage of development, in moving in the direction of developing factoring and invoice discounting as a financing solution to improve farmers' cash flows.

- Joint and sustained efforts from different stakeholders are required to make factoring and invoice discounting an effective financing tool, in particular, through strengthening farmers organisations, and reinforcing the role of development banks.

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THANK YOU  
VINAKA VAKALEVU

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