

Does factoring solving The financing problems and difficulties faced by SMEs in Arab countries? international experiences

هل يمكن حل المشاكل والصعوبات التمويلية التي تواجه المؤسسات الصغيرة والمتوسطة في الدول العربية

باستخدام الفاكторинг؟ تجارب دولية

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Abstract:

The present paper aims at discusses the factoring as a modern financing alternative for SMEs given the funding difficulties faced by this type of institutions in Arab countries, either banking and financial enterprises or financial markets, on the grounds that these institutions have special characteristics distinguish them from large institutions including the high risk and uncertainties that characterize their future. This financing mechanism is also in line with the advantages of SMEs in terms of the low cost of financing and the degree of risk related to the financial hardship of the debtor which is the responsibility of the factor enterprise. The study found that there is a growing global trend towards using factoring as a modern financing mechanism for SMEs at the expense of traditional financing methods by presenting both the Romanian and the Mexican experience.

Key words: financing problems, factoring, SMEs, Arab countries, international experiences.

Classification JEL: D14, D21, D24

ملخص:

تناول هذه الدراسة عقد تحويل الفاتورة كبديل تمويلي معاصر للمؤسسات الصغيرة والمتوسطة، وهذا بالنظر للصعوبات التمويلية التي تواجه هذا النوع من المؤسسات في الدول العربية سواء من المؤسسات البنكية والمالية أو من الأسواق المالية، وذلك على اعتبار أن هذه المؤسسات لها خصائص تميزها عن المؤسسات الكبيرة ومن أهمها ارتفاع درجة المخاطرة وحالة عدم التأكد التي تميز مستقبلها، كما أن هذه الآلية التمويلية تتوافق ومميزات المؤسسات الصغيرة والمتوسطة من حيث انخفاض تكلفة التمويل ودرجة المخاطرة المتعلقة بالعرس المالي للمدين، والذي يقع على عاتق مؤسسة الفاكторинг. وقد خلصت الدراسة إلى أن هناك توجه عالمي متزايد نحو استخدام عقد تحويل الفاتورة كآلية تمويلية حديثة للمؤسسات الصغيرة والمتوسطة على حساب وسائل التمويل التقليدية، من خلال عرض كل من التجربة الرومانية والتجربة المكسيكية في استخدام هذه الآلية التمويلية.

الكلمات المفتاحية: مشاكل تمويلية، فاكторинг، مؤسسات صغيرة ومتوسطة، دول عربية، تجارب دولية.

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introduction:

Small and medium enterprises (SMEs) are the main nerve of any economy, therefore countries with their different economic and ideological directions seek to support and stimulate this kind of economic entities, especially in the starting stage which usually leads to the failure of many economic institutions, especially small and medium enterprises by providing the appropriate legal and legislative environment as well as the appropriate business environment for doing its activity, marketing and distributing its products, as well as the provision of sufficient financial resources to engage in exploitation and investment activities. Despite the efforts made by the governments of countries to support these institutions, they still suffer from some obstacles and difficulties, the most important of which perhaps is the financing problem. The financial resources available to these institutions are many and varied, but the problem lies not in the lack of the available funding resources, but in the difficulty of obtaining them because of the risks surrounding these types of institutions, the uncertainties surrounding their future, and their limited market share compared with large institutions. The specificity of SMEs makes them unable to obtain bank loans easily and if they do, they obtain them in a high cost given their high degree of risk, as well as the difficulty of entering the financial market through the introduction of financial instruments to trade because of poor reputation, unlike the large institutions, which do not find it difficult to finance their activities because of their good financial position and the ease of access to bank loans and the issuance of securities for trading because of its popularity and high returns and large market share, unlike small and medium enterprises which lack these characteristics.

Given these particularities and risks surrounding small and medium enterprises, many countries have sought to find contemporary financing alternatives that correspond to the specifics of this type of institution. These include funding through asset leasing and financing through venture capital institutions and financing through factoring, the latter is the most successful financing mechanism for SME financing, which is in line with its specificity. It provides immediate liquidity to the institution from banks or financial institutions specialized in this field without waiting for the maturity of bills and documents by selling or transferring ownership of these securities to a bank or specialized financial institution. This mechanism reduces the risks of non-payment to the supplier and provides appropriate funding for the Treasury. Among the most noteworthy experiences in this area are the experience of Mexico and the Romanian experience in using factoring to finance small and medium enterprises and providing the legal and legislative framework for this financing mechanism. Based on what was mentioned, the following question can be asked: **What is factoring as a contemporary financing alternative for SMEs, and what are the most important international experiences in using this financing mechanism?**

The main question can be divided into the following sub-questions:

- What are the most important financing problems and difficulties faced by SMEs in arab countries?
- What is factoring as a financing alternative for SMEs?
- What are the advantages of using factoring mechanism as a source of financing for SMEs?
- What are the leading international experiences in using factoring to finance SMEs?

Research objectives:

This research aims at analyzing and diagnosing the following points:

- Addressing the most important financing problems and difficulties for SMEs;

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- Introducing the factoring mechanism as a modern financing alternative for enterprises, especially SMEs;
- Addressing the most important features offered by factoring mechanism;
- Presenting some international experiences in using factoring as a financing mechanism for SMEs.

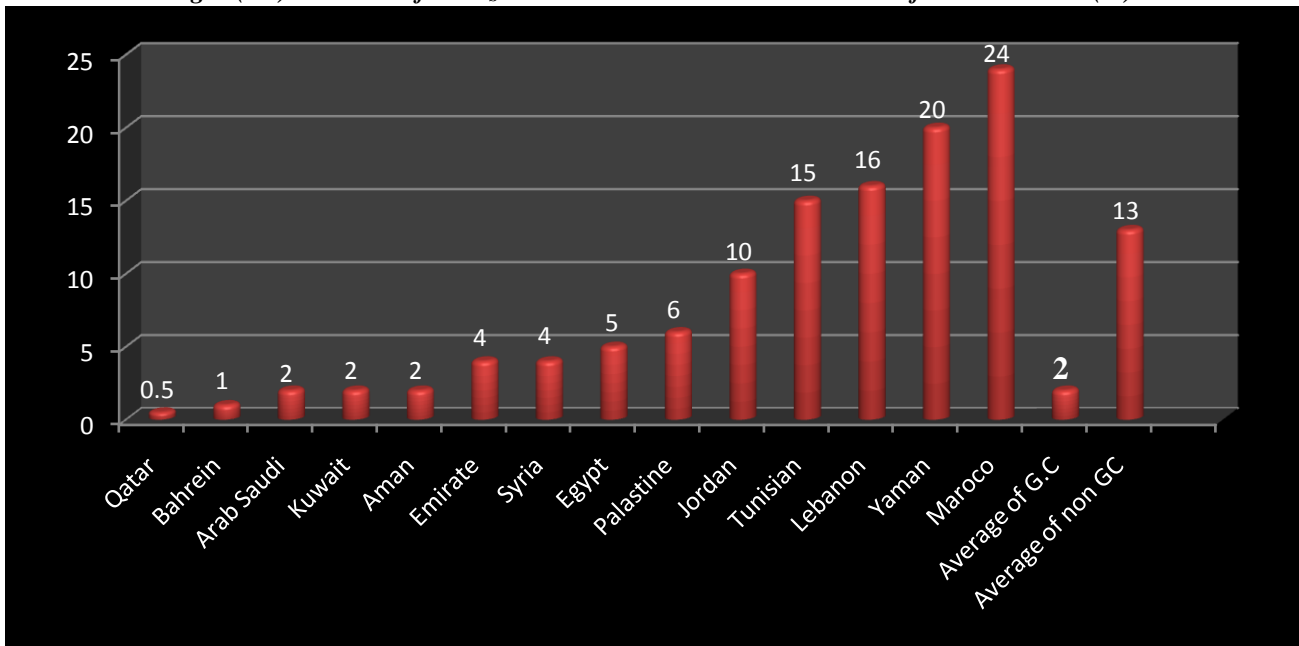
I. The financing problems and difficulties faced by SMEs in arab countries

The lack of funding directed at small and medium-sized enterprises (SMEs), particularly in the Arab countries, is linked to a shortage in three factors: the legal and regulatory framework of the financial sector, the financing infrastructure and the capacities of financial institutions.

1. Shortage in regulatory and legislative aspects of the finance sector

The weakness of the legislative and regulatory aspects of the financial sector is reflected in the lack of development of financial intermediation, as well as the absence and development of a number of important financing instruments for SMEs. On another hand, most bank loans are concentrated in large enterprises and institutions that are linked to previous bank relationships, while SMEs do not have the same degree of coverage. Even for these institutions, banks are focusing on financing expansion and modernization projects at the expense of the new projects. As a result of the lack of sufficient information about borrowers and their creditworthiness, banks are reluctant to lend to SMEs, and thus do not allocate adequate lending resources to a large number of innovative entrepreneurs and promising entrepreneurs. The following figure illustrates the share of SMEs in total loans granted in a group of Arab countries. (Arab monetary fund, 2014, pp. 222, 223)

Fig n^o (01):the share of SMEs in the total bank loans in a number of Arab countries(%)



source: Arab Monetary Fund, unified arab economic report, activating the developmental role of arab SMEs, 2014, p223

There is also a shortage in financing tools in many countries, especially the Arab countries, which distribute the risks in an acceptable way among the dealers in the lending market such as financial leasing, debt purchase, private equity funds, venture capital and budget financing.

2. Weak financial sector infrastructure

The weakness of the banking infrastructure is particularly incarnated in the lack of transparency of institutions, the weakness of the credit information systems, especially in the absence of credit offices and the lack of mechanisms to classify borrowers. Lack of reliable guarantees and poor creditor rights are one of the main reasons why banks are reluctant to lend to SMEs, especially in Arab countries which have low levels of finance sector infrastructure. (Arab monetary fund, 2014, p. 227)

Low levels of transparency are the failure of a large number of SMEs to maintain regular and audited financial accounts in accordance with prevailing legislations. Banks, therefore, cannot measure the creditworthiness of an institution, especially in the absence of or lack of credit offices, and institutions that do so outside the banks themselves (Arab monetary fund, 2014, p. 229). In addition to banking infrastructure, there are other major problems, such as the poor quality of guarantees provided by borrowers, especially authenticated ones. As a result of these constraints and problems, SMEs face more difficult financing constraints than LSEs in terms of high interest rates, shortening the duration of the loan and overstating the required guarantees. Banks also consider lending to SMEs to be more risky than lending to large enterprises, preferring to rely more on borrowers' reputation than on guarantees provided. Loans are often limited to enterprises with good relations with banks, often represented by large enterprises. As for the rest of the enterprises, banks prefer small and short-term loans in the form of overdrafts at the expense of long-term loans that are more in line with the investment needs of these institutions, depriving them of the financial resources necessary for their growth and development. (Arab monetary fund, 2014, p. 229)

3. Weak financial institutions capacities and inadequacy of its lending models

In the developing countries particularly Arab countries, the lack of access to finance by SMEs is due to the inability of banks to deal with this type of loans whether for the absence or weakness of its technical capacity or for the use of lending strategies or models that do not take into account the specificity of those institutions. (Arab monetary fund, 2014, p. 230)

II. The concept of Factoring

The purchase or deduction of receivables is a tool of contemporary finance, through which a financial enterprise specialized in this activity, is called the Factor, or one of the commercial banks that have this banking service to purchase accounts receivable and customers in the accounts of the enterprise, whose maturity is between 30 days and 120 days , depending on the quality of receivables also it is possible repurchase maturities of 180 days or more (sasa, suzana, & Sinisa, 2011, p. 191). Hence, this process allows the enterprise, especially small and medium-sized to obtain cash ready and continuous without the need to wait for due dates and collect debts from customers and debtors. (Bourras, 2008, p. 110)

Enterprises with limited capital or low voluntary capacities use the system of factoring, where it finds a system in accordance with its limited potential. It is also normal for new and small enterprises to have difficulties in obtaining bank credit from commercial banks, so they find in the factoring system financial support to manage their finances as well as their commercial credit. (Bourras, 2008, p. 111)

1. Definition of factoring

Factoring is a contract between a party named the seller of the goods and services and a banking institution or a specialized financial enterprise called Factor. The latter guarantees the

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necessary financing, debt control and protection against the risk of non-payment, while subscribers provide bills and bonds resulting from the sale of goods and services and edited by the client. (oana micheala, 2012, p. 105)

Factoring can be defined as (oana micheala, 2012, p. 105) : "Document filling and billing tool and collect part of its value before the due date through agreement between contracting parties." Factoring is a mechanism for financing enterprises that execute their sales on account by selling or collecting bills to a financial institution to get instant cash. It is neither a loan nor a repayment of the debt and not an additional liability on the balance sheet of the institution although it provides financing for working capital. This means that a specialized financial institution purchases receivables and takes responsibility for customers' ability to pay. Factoring is a comprehensive financial service that includes credit protection, collection accounts, bookkeeping and financing services. (Leora, 2014, p. 03)

The National Chamber of Commerce of the Financial Advisors in France identified Factoring as : "a transfer of commercial rights from the owner or intermediary who bears the task of collecting or guaranteeing the final settlement in the event of temporary or final insolvency of the debtor against the commission of such intervention." (Luc bernet, 2004, p. 223)

The Algerian Commercial Code defines factoring in accordance with article 543 bis as follows: "Factoring is a contract whereby a specialized company called the broker replaces its designated customer, when it immediately pays the latter the full amount of a fixed-term invoice resulting from a contract, and undertakes the non-payment liability, for a fee". (commerce, 2007)

Some also defined factoring as: (Ivan justin, 2016, p. 07) " the process of selling invoices to a financial institution, which advances the company up to 90% of the value of the invoice. The financier pays the remaining difference of the invoice when the financier collects payment from the end client. The financier deducts fees prior to dispersing the remaining value of the invoice to the company".

Factoring is a contemporary and specific form of short term financing based on the selling short term unsecured assets of the company to a specialized financial organization or company that specializes in factoring(factor) to pay certain fees or charges. (Ulpian, 2014, p. 08)

2. Factoring parties and how they implement it

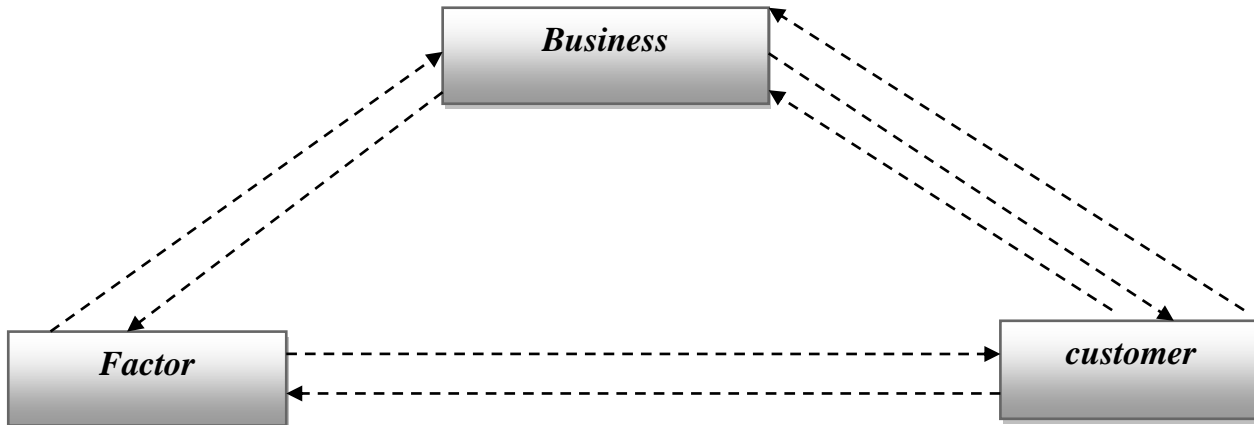
Factoring requires the existence of three (03) parties with which a business relationship arises, as follows: The first party: the trader, manufacturer or distributor of a commodity, the party in possession of the owed accounts receivable and customers that he sells to the specialized financing institution "Factor".

The second party: the client of the first party, i.e. the person who bought the goods from the first party and did not pay for them immediately, but pledged to pay them in a later time.

The third Party: It is a specialized financial institution or the competent department in the commercial bank entrusted with this activity, called the Factor.

The factoring parties can be represented by the following figure:

Fig n^o (02): Method of applying contract of factoring



Source : Michael Farrenkopf, corporate finance instrument: single-factoring and sale of defaulted accounts, thesis, saimaa university, Germany, 2014, p16

Throughout the figure, it is noticed that the factoring process is done according to the following steps: (Micheal, 2014, p. 16)

- The customer submits an order to the supplier;
- The supplier sells certain goods and products to the customer;
- The customer signs a debit note of the value of his purchases and sends them to the supplier;
- The supplier agrees with a financing institution which is the Factor to sell accounts receivables;
- The Factor notifies the supplier client asking him to pay the debt documents to him on the due date;
- On the due date, the customer pays the value of the documents signed with the supplier to the factor.

The factoring service passes through a number of stages, which can be summarized in the following: (Bourras, 2008, p. 115)

- When there is an agreement between the seller, whether is a trader or a producer, and the buyer on details related to the deal and the due date, the seller, after the goods delivery, sends the invoice to the factor and not to the buyer as usual.
- The factor credit department will carefully examine the accounts receivable displayed before being accepted. If approved, the buyer purchases these sales invoices and then informs the debtors that he has become the holder of these invoices and that they must pay them on the due date directly;
- The factor pays a percentage of the value of the invoices up to 80 % to the seller without waiting for the dates of maturity of these bills, which range from 30 days to 120 days.
- When the invoice is due, the factor collects the full value from the debtor or the buyer, and then he pays the remainder of the remaining 20 % to the seller after deducting the expenses and commissions due to him. In addition to the interest rate on the amount of 80 % of the value of invoices accepted for the period from the date of acceptance of the invoice to the date of collection from the buyer, against the financing service provided.

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III. Financing SMEs by factoring

SMEs in their relationships with their customers can dispose of their rights towards them by transferring credits to a banking institution specialized in the purchase of invoices due in part or in full, thereby eliminating the process of managing, monitoring and collecting the rights of their customers. The role of factoring is reflected in the response to the SMEs need for a short-term financing through their economic functions and the advantages and benefits to SMEs.

1. Factoring services

factoring includes a lot of services amongst:

1.1. Direct and flexible financing

factoring is a short-term financing tool for an enterprise that partially or completely waives its rights towards its customers transferring invoices to a price that is paid in cash at the time of fulfillment or in advance in the form of a real banking process based on debt mobilization in a way that the future debt becomes ready cash. For this purpose, a short-term credit line is often opened to the contracting enterprise with the factor, in the form of advanced payables based on the waived invoices, so that the funding ratio is of 80% to 90% (Federation, 2017, p. 08) of the fixed rights in the accepted invoices, representing the financing aspect of the service and pours into the creditor side of the current account of the member with the deduction of expenses from commissions and interest. The price can be accelerated or paid on maturity by handing over a check to the financing institution or issuing a promissory note for its benefit, what makes it acquire a rechargeable commercial bill at the banks in a way that allows it to get funds that enable it to continue its activity. As this process is part of the short-term loan for sellers and suppliers, and is mainly intended to pay bills for the sale of goods or services, it constitutes a financing technique that allows the beneficiary enterprise to use them as a reserve source to meet the expense of exploitation so that it is appropriate for institutions whose repayment periods are relatively long.

Factoring seems to be a powerful mechanism to provide funding to high-risk and unknown enterprises. Factoring may be particularly important in financial systems with weak commercial laws. It provides SMEs with financing for working capital. Unlike traditional forms of working capital financing, factoring involves the direct purchase of accounts receivable by the factor. (Leora, 2014, p. 03)

On the other hand, financing allows the enterprise to take advantage of the necessary capital to resume business in order to reduce the speed of turnover of working capital through the immediate payment of the invoices. The fund can also make unlimited use of capital. Factoring is the only funding source through which financing grows in line with the growth in the size of sales. Factoring provides detailed and structured reports that allow for good cash flow management. (oana micheala, 2012, p. 106)

1.2. Prevention and guarantee against risk of non-payment

There is an important point which is avoiding inadequacy. The factor is the one who ensures collection from the agent and helps the affiliate avoiding the risk of insolvency (oana micheala, 2012, p. 106). The factoring companies' commitment is based on ensuring that debtors in fulfilling their contractual obligations by meeting the value of the rights resulting from the purchase of the goods or the contracted services; as the debtor's insolvency constitutes the main source of non-payment covered by the guarantee of the factoring institution. From a practical point of view, good implementation is a technique for securing credit or guaranteeing transferred rights through which

the member informs the factoring company about the quality of his debtors, with a detailed report of each customer to determine the maximum that should not be exceeded when granting credit. (oana micheala, 2012, p. 108)

In its turn, the factoring company conducts a free survey about the member's clients dealt with in view to provide him commercial information regarding their financial positions (Mossaceb, 2012, p. 197), exempting him thereby from making allowances for doubtful or bad debts. (Bourras, 2008, p. 114)

1.3. Customer accounts management

Factoring, along with its credit role of financing the utilization cycle, conducts another equally important service, related to managing customers' accounts, as the company is responsible under the contract for collecting due debts and is accordingly responsible for the management of the payment and collection details, from the administration and follow-up of invoices by providing a general and detailed daily disclosure of payments for invoices and the remaining payments and to confront debtors who fail to comply with judicial proceedings. (Mossaceb, 2012, p. 196)

2. Advantages of SME financing by factoring

Factoring represents a strong motive for growth, resulting in the exemption of enterprises, especially small and medium, and actually the management of accounting and customer accounts. This allows them to economize on the management, guarantee and financing costs associated with these accounts. Factoring is flexible because it does not know a pre-defined financing ceiling like all other commercial debt consolidation formulas that are usually associated with a predetermined line of financing. The only restriction that determines the financing ceiling is the scope of the guarantee given to the invoice vendor based on the number of invoices accepted by the factor, so that the commercial rights seller must obtain prior approval for each customer individually. Its main direct results are also reflected in the financial support to the company, as all or part of the invoices are waived for factoring, which exempts the organization from the financial position of customers resulting in a decrease or the customer account removal from the budget of the company, thus reducing the need for the necessary working capital to face renewable utilization costs. (Mossaceb, 2012, pp. 198, 199)

It also provides guarantee for the good implementation as factoring engages towards the enterprise in speeding up paying released invoices and takes in charge the insolvency risks or the client's bankruptcy or even the non-payment within the deadlines. This exemption from the risk of non-fulfillment is very important for SMEs that do not have sufficient means to collect their bills from abroad, and the burden of failure to fulfill these rights is not borne by its treasury, making the collection agency guaranteed by the factoring system a means of developing export operations for institutions that lack strong management capabilities in order to discharge their products abroad.

For the SMEs, factoring provides them access to finance during the construction phase without waiting for the final account for the first year of entry into the activity. By concluding a contract, it can avoid relying on a bank loan when a transaction is executed, allowing it to improve its treasury situation and reduce its operating expenses. The new situation of the SME treasury is the nucleus of a series of positive developments that allow it to pay its bills in cash and with better terms of sale enabling it to reduce its banking expenses in the short term, and to improve its medium- and long-term borrowing capacity to help it direct its attention to generating more productive investments (Mossaceb, 2012, p. 199). The table below shows the amount of funding provided to SMEs in different regions of the world using the factoring system during 2011-2017.

Table n°(01): evolution of the size of finance for SMEs using factoring(2011-2017)(Million Euro)

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	2011	2012	2013	2014	2015	2016	2017
Europe	1,218,540	1,298,680	1,353,742	1,462,510	1,556,977	1,592,988	1,701,939
North America	110,284	84,643	89,419	103,501	100,530	95,072	92,392
Africa	23,451	23,928	23,123	21,094	18,721	20,393	21,671
Asia-pacific	561,371	616,424	634,441	648,716	596,633	555,550	657,189
South america	96,188	101,519	101,412	103,124	86,826	104,396	117,088
Middle East	3,802	4,698	5,000	8,498	8,028	7,583	8,019
Total	2,014,978	2,132,186	2,208,372	2,347,513	2,367,790	2,375,967	2,598,298

source: factors chain international(FCI) , anual review, 2018, p.32

It is observed from the table that the volume of funding through the factoring system for SMEs is increasing during 2011-2017. This is due to the difficulty of obtaining bank financing and finance from financial markets for this type of economic enterprise, due to the large risks associated with this type of institutions in addition to the financial flexibility provided by this system and the exemption of enterprises from facing the risk of financial hardship to debtors or bankruptcies, which is in line with the specificities of SMEs.

IV. International experiences in using factoring as an innovative financing mechanism

The factoring system was used in developed and developing countries around the world. In 2003, the total number of factoring worldwide was \$ 750 billion, with a growth rate of 135 % during 1996-2003. In 2017, the size of factoring was worth 2.5 trillion\$ (international, 2014, p. 23) . There are many international experiences in using factoring as a financing mechanism for SMEs. These include Romania's experience through the Romanian Development Bank (BRD) and the Mexican experience through NAFIN.

1. Romania's experience in the using the Factoring system to finance SMEs

According to statistical data, the value of factoring operations in Romania for 2006 increased to € 710 million compared with 2005, which represents a growth rate of 29 % and growth rate estimated at 36.36 % in 1996. This analysis clearly shows that the factoring market in Romania is undergoing constant changes. The estimated internal share of factoring operations for the first six months of 2007 was 54.5%, representing € 300 million. Compared with the first six months of 2006, there is a growth rate of 71% in the value of credit contracts for the factoring system (oana micheala, 2012, p. 109). The factoring value reached in 2007 the amount of € 1.300 million, and in 2008 amounted to € 1.650 million. Financing transactions through Romania's factoring have been steadily rising to reach € 4,560 million in 2017. (international, 2018, p. 32)

Among the areas of activity that are suitable for factoring operations in Romania and are taken into account by the Romanian banking institutions in their choice of clients are the following: Glass industry, pottery, clothing industry, textiles, leather, footwear and fur industry, electronics

industry, manufacturing of household appliances, food industry, wood and cellulose, paper industry, and there are other areas.

Currently, the domestic market for factoring services in Romania is distributed as follows: the Romanian Development Bank with 29% and Commercial Bank of Romania with 25%, Unicredit Tiirac, Raiffeisen with 10 %, ABNamro with 12 % adding to other financial institutions. Taking into consideration the total value of the European factoring, Romania recorded a growth of 21% from 0.076 % to 0.092%. The development of factoring services in Romania is not linked to the continuous development in recent years, but also from their participation in the total amount of factoring services at the European level, which is similar to that of central and eastern European countries. (oana micheala, 2012, p. 110)

The factoring activities of the Bank of Romania for Development (BRD) have known a significant increase of 53% in 2011 compared to 2010; it reached € 900 million corresponding to its market share of 35% and its market leadership. According to statistics, the Bank of Romania for Development (BRD) ranked second on the European level in providing the services of factoring with excellent qualification among the best banks that provide these services according to Factor Chain International (FCI).

The development of factoring services both at the BRD and in the factoring market in Romania indicates that there is a great benefit to this financing mechanism, and its ability to meet the financing needs of institutions, especially SMEs in the economic environment affected by the financial crisis. BRD is the first bank in Romania (1993) introduced the factoring service, the same year of its affiliation to the FCI. Since 2004, the Bank has become a full member of this organization. It has been since 2011 a key member of the Romanian association of factoring and a member of its Board of Directors.

In the current situation of Romania, and despite the great development of the factoring service, it should be supported and given priority by the government authorities and the national bank of Romania to provide funding sources for the enterprises. The widespread use of factoring can contribute to facilitating payments among economic agents.

Romania recorded an annual increase over the world average in factoring service. Despite these figures and statistics, funding through factoring remains insufficiently employed compared to the financing needs of enterprises, especially SMEs.

According to official data in Romania, the contract's value of one of the companies in the world, which deals with factoring in this area, reached the value of € 1 billion in 2006 and € 1.3 billion in 2007, indicating a global trend towards the adoption of factoring as a fundamental financing mechanism for the enterprises and the economy (oana micheala, 2012, p. 111). The evolution of the factoring in Romania during 2011-2017 can be seen in the following table:

Table n^o(02): evolution of factoring size in Romania for the period 2011-2017 (Million Euro)

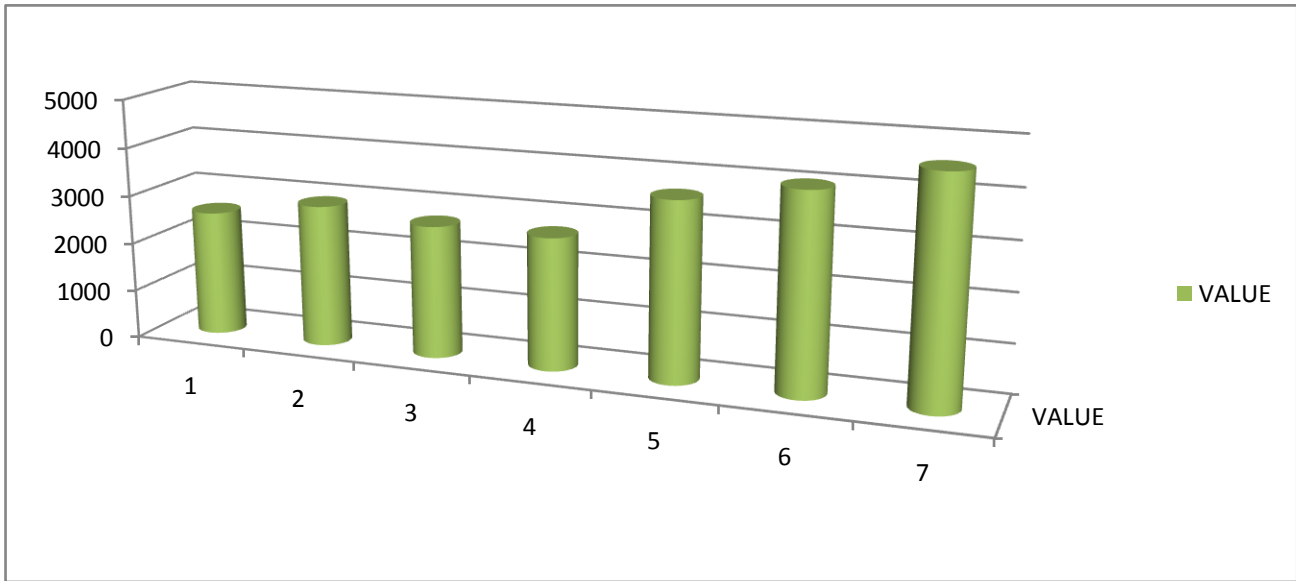
Years	2011	2012	2013	2014	2015	2016	2017
Value	2,582	2,920	2,713	2,700	3,651	4,037	4,560

Source: factors chain international, anual review, 2018, p.32

The table above shows that factoring in Romania has increased steadily, rising from 2011 to 2017 about 77%. However, it witnessed a decline in 2014 due to the decline in the volume of activity resulting from the repercussions of the financial crisis. The evolution of the factoring in Romania during 2011-2017 can be illustrated by the following figure:

Fig n^o(03): evolution of factoring size in Romania for the period 2011-2017

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Source: prepared by researcher depending on factors chain international, anual review, 2018, p32

2. Mexico's experience in using the Factoring System to finance SMEs

A successful example of using factoring in a developing country is the NAFIN Bank case, which provides online services to small and medium enterprises. The program is called "Cadenas productivas" or "productive chains", which is a program that creates chains between major buyers and small suppliers. Suppliers and small enterprises usually do not have access to finance from the banking sector. NAFIN allows small suppliers to use their payments from major buyers to actively finance working capital by shifting their credit risk to their high-quality clients in order to obtain a larger and cheaper volume of financing.

What distinguishes NAFIN in the field of factoring services is that it operates on an electronic basis, which provides web services for factoring which reduces costs and improves the security. More than 98% of all services are electronically delivered, reducing time and labor costs. The electronic database allows all commercial banks to participate in the program. NAFIN Bank also uses net and regional call centers to market and provide services. The technology allowed NAFIN to grow its operations from 2% of the market share in factoring in 2001 to 60% from market share in 2004. (Leora, 2014, pp. 13, 14)

NAFIN is state-owned bank, established by the Mexican government in 1934 as a development bank to provide commercial finance. When the new government was elected in 2000, NAFIN was given new management and direction towards the goal of using new technology to support new enterprises and provide financing to SMEs, with increased training and technical assistance.

In December 2000, NAFIN's assets amounted to \$ 23.9 billion and the deficit was \$ 429 million. However, in December 2003, the value of assets was \$ 26.75 billion with a surplus of \$ 13.23 million. The factoring operations helped to contribute to the improvement of NAFIN's general budget.

NAFIN has been successful in providing financing services to SMEs in Mexico. NAFIN Bank has established production chains with 190 major buyers (about 45% from the private sector) and more than 70000 SMEs. This bank has expanded by more than US \$ 9 billion in funding since

the start of the program in September 2001. The monthly factoring value is over US \$ 600,000. NAFIN has mediated over 1.2 million transactions, 98 of which are for SMEs, with an average of 4,000 transactions per day.

Regarding the financing procedures of this mechanism, the Bank provides financing within 50% of the contract orders confirmed to major buyers with no fees or a guarantee request with a fixed rate of interest generally estimated at 7 %. The financing procedures are as follows: (Leora, 2014, p. 17)

- NAFIN Bank provides a credit line equal to 50 % for sure purchase, and 7 % as interest rate;
- The supplier delivers the sales to the customer and receives the bills and documents of indebtedness;
- The supplier submits the documents and invoices to NAFIN Bank so that the latter pays the remaining value to reach 100%.

The evolution of factoring in Mexico during 2011-2017 can be illustrated in the following table.

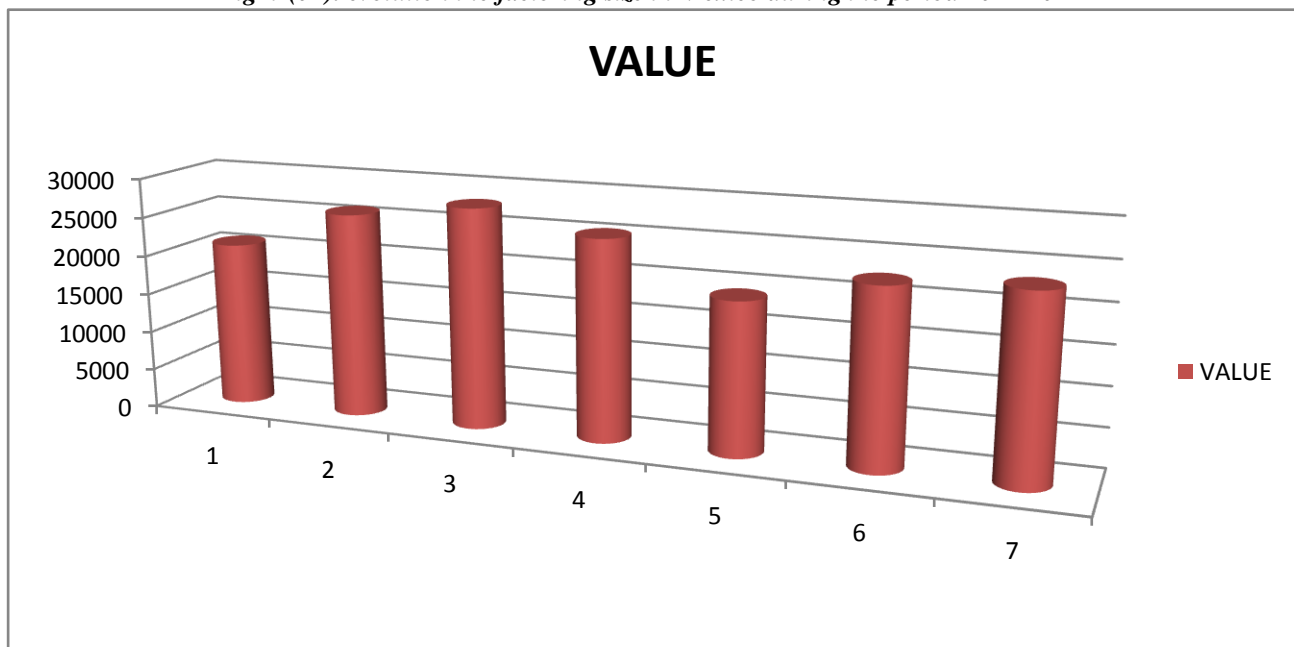
Table n^o(03): evolution the factoring size in Mexico during the period 2011-2017(Million Euro)

Years	2011	2012	2013	2014	2015	2016	2017
Value	21,074	26,130	28,061	25,486	19,291	22,510	23,314

Source: factors chain international, anual review, 2018, p32

It is observed in the table that the factoring in Mexico continues to increase, reaching 2011 with a value of €21074 million, then increases by about three times in 2017 to reach € 23314 million. It is a huge amount that reflects the current trend of most countries around the world to modern methods of financing less risky and less expensive to support SMEs. The evolution of factoring in Mexico during 2011-2017 can be illustrated in the following figure:

Fig n^o(04): evolution the factoring size in Mexico during the period 2011-2017



Source: prepared by researcher depending on factors chain international, anual review, 2018, p32

**Does factoring solving The financing problems and
difficulties faced by SMEs in Arab countries?
international experiences**

Conclusion:

SMEs face several financing difficulties regarding their specificities and characteristics that do not correspond to the aspirations of banks and investors in the financial market, because of the high risks surrounding them, unlike large enterprises that do not face the same funding difficulties because of their fame, financial position, capital, high returns and market share. Therefore, many countries have sought new funding mechanisms that correspond to the specificities of SMEs in terms of risk and cost of financing. The sale of commercial rights is one of the most important of these financing alternatives, which provides the enterprise with immediate financial resources without waiting for the maturity of bills and documents. In addition, the enterprise avoids the risk of insolvency of the debtor and its inability to meet its obligations on the due date.

The recent years have seen increasing trends by States to use this funding mechanism. There are many successful international experiences in using factoring as a financing tool for SMEs. These include the experience of Romania, which has witnessed a remarkable development in this area, as well as the Mexican experience, which is one of the most successful experiences in the use of factoring to finance SMEs in developing countries.

From above, the following results can be presented:

- SMEs, especially in the Arab countries, face many financing difficulties due to poor financial infrastructure, lack of transparency and weak credit facilities at banks, which can measure the creditworthiness of institutions,
- Given the difficulties faced by SMEs in accessing finance from both banks and financial markets, there is a contemporary trend towards finding financing alternatives that correspond to the specificities of this type of institution, such as leasing financing, venture capital financing,
- Financing by means of factoring is one of the most modern financing methods used by most countries in the financing of SMEs due to the low risks associated with this type of financing as well as its low cost as well as flexibility, as it changes constantly with level of activity of the enterprise;
- The success factoring system as a modern financing mechanism requires the provision of a legal and legislative framework and the creation of an infrastructure of specialized banks and financial institutions to carry out this activity;
- The success of both Romanian and Mexican experiences in using the factoring to finance SMEs is due to the substantial government support for this funding mechanism, as well as the use of internet in the implementation of this system, which provides adequate information to the financial solvency of the debtors or issuers of invoices and documents, and reduce the cost and time and ensure the safety of implementation.

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