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FINAL QUALIFYING PAPER on the topic:

Development of factoring services in Ukraine

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INTRODUCTION

Relevance of research. Factoring is one of the most promising services in the financial market of Ukraine. In the international financial industry belongs to the most growing segments, as well as to the main forms of trade relations.

Today, factoring services are an effective tool for financing small and mediumsized businesses, an innovative product that can improve the overall economic development of the country. For the company, this is, first of all, the acceleration of capital turnover, which allows you to increase profitability, reduce non-payments, accelerate the flow of goods, provide stable financial resources, give insurance and information services.

Its importance in the sustainable development of enterprises and the country as a whole is constantly increasing, which causes interest and the urgency of the necessary analysis, namely, conducting scientific research on the development of factoring services in Ukraine.

Investigation teoreticle questions of factoring services has taken a significant place in scientific works, such scientists, in particular: Blank I. O. [14], Partin G. and Zagorodniy A. [7], Shimi N. J. K. and Sigel J. H. [8], Stoyanova E. S. [10], Rudenko L. V. [11], Vasiliev L. S. [6] and other. Significant contribution was made by Vnukova N., Opeshko N. and Kolodiseyev S. [5], studying in their writings the development of theoretical and methodological principles for improving the practice of providing factoring services to banks for the logistic approach. Among foreign scientists, the most well-known are the works of Thomas U., Rose P., Perra J., et al.

Most of these researchers are devoted to the study of the nature, features and mechanism of factoring operations. Further research is needed to assess the situation on the market as a whole, complex identify shortcomings and find ways to eliminate it for further development of factoring in Ukraine. All of the above aspects led to the choice of the subject of this research, identified its purpose and objectives.

The purpose of the research is to study the theoretical and methodological foundations of factoring services, to investigate their development and current state, to develop suggestions for improvement on the basis of the received data.

To achieve this goal, the following task was formulated:

- to review literary sources, substantiate the need and essence of factoring services:
- to study the criteria and indicators for assessing the state of the market of factoring services in Ukraine;
- to carry out an analyze the global trends of development and the state of the domestic market of factoring services;
- to characterize factoring services in Ukraine according to JSC «Raiffeisen Bank Aval»;
- to discover opportunities for improvement, identify trends in the development and promotion of factoring services, based on international experience;
 - to provide estimate the effectiveness of factoring services in Ukraine.

The object of the study are factoring operations, their dynamics of development. The final qualification paper is based on the study of factoring services in the financial market and is characterized within the framework of JSC «Raiffeisen Bank Aval», one of the leaders in the market of factoring services in Ukraine.

The subject of the study is theoretical and methodological aspects of factoring, its development and significance in modern conditions.

Research methods. In the process of research, the following methods were used: analysis and synthesis, statistical and comparative analyzes, induction and deduction, grouping, generalization, method of using absolute and relative indicators.

The information base of the study is the legislative and regulatory acts on the regulation of the factoring market; official data of the National Bank of Ukraine; analytical review of data of organization "Factors Chain International"; financial reporting of banks; monographic research and scientific publications on the problem under study.

The scientific novelty consists in: clarification of the definition of the concept of factoring service; a comprehensive analysis was conducted, a general picture of the factoring situation in the world and in Ukraine (in the banking and in the market of financial companies) was derived, dynamics, quality and efficiency of factoring were investigated.

The practical value of the results. Proposals for the development and use of international experience to stimulate factoring issues, as outlined in the final qualification work, may be used by the National Commission for State Regulation in the Financial Services Markets (NFCS) to create a program for the development and support of factoring in Ukraine. Research and evaluation of efficiency will create opportunities for identifying the existing competitive advantages of factoring services for entrepreneurs.

Personal contribution of master. The final qualifying paper is an independent study by the author.

Publications. Determination of the essence of factoring, market review and factoring development analysis are reflected in the scientific article "Characteristics of factoring services in Ukraine"//Стратегії розвитку фінансового ринку України: зб. наук. ст. студ. денної форми навчання / відп. ред. Н.П. Шульга. – К.: Київ. нац. торг. - екон. ун-т, 2018. – 366с. (С.57-64), as well as main theses were also presented during participation in all-Ukrainian student scientific and practical conference on the topic "Strategies for the development of the financial market of Ukraine" and printed "The features of factoring services in Ukraine" //Стратегії розвитку фінансового ринку України: Всеукр. студ. наук.-практ. конф. (Київ, 22-23 листопада 2017 р.): тези доп. / відп. ред. Н.П. Шульга – К.: Київ. нац. торг.-екон. ун-т, 2017. – 694 с. (С.405-407).

Volume and structure of work. The work consists of 3 sections, introduction, conclusions, list of used sources and appendices. The full work volume is 73 pages. 25 tables, 13 figures, 9 appendices and 88 scientific sources are presented in the work.

PART I

THEORETICAL PRINCIPLES OF ORGANIZATION AND FACTORING SERVICES DEVELOPMENT IN UKRAINE

1.1. Essence and Economic Meaning of Factoring

In the current conditions of the growing economic crisis, of inflationary processes and instability, need of small and medium-sized enterprises in short-term capital and the high cost of short-term bank loans have led to the rapid development of factoring services in Ukraine. It is one of the ways of alternative financing of enterprises, ensuring the transformation of receivables to cash, replenishment of own revenues of financial resources, management of the rate of turnover of capital, reducing the level of non-payment and financing production development.

The main reason that companies choose to factor is that they want to receive cash quickly on their receivables, rather than waiting the 30 to 60 days it often takes a customer to pay. Factoring allows companies to build up quickly their cash flow, which makes it easier for them to pay employees, handle customer orders and add more business [1].

That is, in conditions of efficient functioning of this financial instrument, stimulation of the economy of the country in general can be achieved.

In this context, the study of the essence and economic content of factoring becomes relevant.

Exploring various literary sources about the essence of factoring from the point of view of various scholars, one can conclude that view of scientists is ambiguous and narrow about of this concept.

Different approaches of scholars to the interpretation of the essence of factoring make possible to divide conditionally them into five groups.

The approaches of scientists are the essence of factoring grouped in the Table 1.1 and the generalization of scientific interpretations of the concept of "factoring" on the basis of legislative acts is given in Appendix A.

Thus, we see that scientists are prone to consider factoring or the sale of accounting debts, and most of them believe that this is the transfer of the bank (factor-firm) of the right to receive funds for the supplied products or the acquisition by the bank (factor-firm) of the right to a monetary claim.

Table 1.1

Approaches of Scholars to the Interpretation of the Essence of Factoring*

№	Supporters	Approach
1	I. Blank [14], Yu. Lysenko [80], T. Basyuk [81], N. Gusakov [82], O. Ostafil [84], I. Bagrova [85]	is a financial transaction, according to which the enterprise- seller inferior of its right to receive funds behind payment documents for the delivered products
2	R. Kotsovskaya [87], G. Partin and A. Zagorodniy [7], V. Kozyk [86], E. Stoyanova [10], O. Kovalyuk [83]	is the acquisition by the bank of a law claim for payment behind financial transactions
3	Jay K. Shim and Joel G. Siegel [8]	The activities of factoring institutions is performing of direct sale of receivables to the bank or financial company without recourse: the buyer assumes all credit risks and risks to recover funds, with regress: all risks assume the factor.
4	L. Rudenko [11]	This is the commissary and intermediary activity of the bank
5	L.S. Vasilieva [6]	The activities of factoring institutions - is the work of factoring institutions, which involves the use of factoring as a financial instrument, the sale of receivables bank or factoring company.
6	O. Bereslavskaya [79]	it is a method of lending

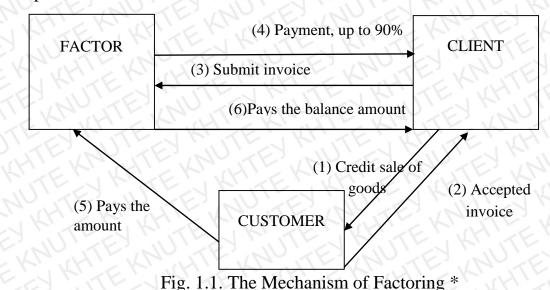
^{*} Made by the author on the basis of sources [6, 7, 8, 10, 11, 14, 79, 80, 81, 82, 83, 84, 85, 86]

Based on the above assertions of the essence of factoring, we can formulate the following. Factoring is a financial transaction that arises in the presence of receivables, commercial loans between counterparties in the process of selling goods and services, its essence is a transfer of debt obligation to financial intermediary (bank, factoring company) with including a legal, insurance, informational and accounting of counterparty initiator (supplier) servicing elements. The main goal of factoring is minimization of risks, acceleration of trade turnover, increase of profit, increase of competitiveness, etc.

From an economic point of view, factoring can be considered as an operation that has a credit nature, since the condition for the immediate payment of supplier's payment documents means that the factor gives lend his client untill to receive payment from the debtor [5].

The use of factoring allows suppliers of a product to receive payment immediately on the fact of shipment of products (performance of work, provision of services) to the recipient, while such a scheme of calculations leads to a reduction in the needs of free return funds, and also enables the client - the supplier in a short time to get a loan by the resettlement of unpaid monetary claims [68].

First of all, factoring is an independent direction of the economy, aimed at providing comprehensive services that promote the growth of sales of trading and manufacturing companies and is not part of any other branch of the economy and is important as by alone itself. [32]. Has its own mechanism of conduct, which is shown below in Figure 1.1. The parties involved in a factoring arrangement are the client, or the seller, the debtor, or the buyer, the factor. - International factoring may have a correspondent factor in addition to the domestic factor.



* Made by the author on the basis of sources [77]

Factoring service is made by concluding an agreement between the bank and the client, which should specify the type of factoring: closed or open. In case of open factoring, the debtor is sent a notice of the conclusion of the transaction and it is

proposed to make payments directly to the factor. With closed factoring, debtors direct funds to the client, and it is calculated with the factor [9].

Detailed steps of factoring service providing include:

- shipment to the buyer of goods (works, services);
- acceptance by the buyer of debt claims for goods;
- presentation by the supplier of the debt obligations to the factor for the purpose of their retreat;
- studying the supplier's creditworthiness factor and, in case of a positive result, concluding a factoring agreement with him;
- transferring from 70-90% of the amount of debt to supplier by the requirements, acquired of factor;
 - factor imposes the debt claims for to payment its by the buyer;
 - payment by the buyer of the debt obligations imposed upon him;
- the factor recalculates to supplier remainder of funds (10-30%) minus the payment for factoring service [9].

Fee for factoring services includes: a commission for services in the amount of the contract specified by a percentage of the total amount debt claims, purchased by the factor; interest on the loan, provided by the factor to the supplyer.

A challenge for many small businesses is access to financing. In particular, many firms find it difficult to finance their production cycle, since after goods are delivered most buyers demand 30 to 90 days to pay. For this duration, sellers issue an invoice, recorded for the buyer as an account payable and for the seller as an account receivable, which is an illiquid asset for the seller until payment is received. Factoring is a type of supplier financing in which firms sell their credit-worthy accounts receivable at a discount (generally equal to interest plus service fees) and receive immediate cash. Factoring is not a loan and there are no additional liabilities on the firm's balance sheet, although it provides working capital financing. In addition, factoring is often done "without recourse", meaning that the factor that purchases the receivables assumes the credit risk for the buyer's ability to pay. Hence, factoring is a comprehensive financial

service that includes credit protection, accounts receivable bookkeeping, collection services and financing [2].

Thanks to factoring, after the delivery of the goods (provision of services), the seller immediately receives in the form of an advance a significant part of the amount of receivables that arose (up to 95%), without waiting for payment from the buyer. Financing automatically increases depending on sales growth. The management of accounts receivable includes: control over timely payment of supplies by buyers; forecasting of collection terms and special procedures for reminders in case of delayed payments; regular, detailed and convenient reports on the status of accounts receivable; the mechanism of work on the return of debt obligations of debtors (both pre-trial and judicial actions), etc. Coverage of risks includes risks related to both the general activity of the enterprise and the delivery of goods with delay in payment, including not gets of payment from the buyer in time. The financial mechanism of factoring gives suppliers a fundamentally new development opportunity, because in contrast to bank lending and the attraction of own funds, it is not limited to certain amounts [75].

In modern conditions, factoring has become a real alternative to bank lending and has become a reliable tool for financing sales of products and supporting investment activity of enterprises:

- on the one hand, the basis for the use of factoring is a commercial loan, that is, the sale of goods with a deferred payment;
- on the other hand, the condition for the immediate payment of the supplier's settlement documents means that the factoring company provides credit to the client until the payment is received from the debtor [32].

Factoring is quite different from traditional forms of commercial lending, where loans are primarily made based on the creditworthiness of the seller, not the value of fixed assets of the seller. For a comprehensive understanding of the essence of factoring service as a financial instrument, one should consider its advantages and disadvantages, which are given in the Table. 1.2.

The main functions of factoring include: financing supply of goods (services), management of accounts receivable, covering financial risks, assessing the solvency of the buyer [32].

Table 1.2
Advantages and Disadvantages of Factoring as a Financial Instrument*

No॒	Advantages	Disadvantages
1	Availability of funds, as opposed to short-term bank credits factors consider sales invoices as safe asset, while banks consider fixed asset as safety	Over-reliance on a factoring company can result in excessive trading and mismanagement.
2	Less time in the realization of factoring application process and fund insurance through factoring is much more faster, than it takes time to establish a line of credit through short-term bank credit lines	Some types of company are not attractive for factoring, such as small low-volume companies, companies whose accounts receivable originate from only a few customers, companies with many small customers, companies with speculative business
3	Better cash flow and faster access to liquid capital	Over-reliance on a factoring company can also result in loss of direct customer relations.
4	Better financial position, credit worthiness and solvency	Factoring costs are normally higher than those of bank loans are, so the price of the final product will be higher as well.
5	Improving the reputation, the growth of credit standing because of liquidity improve and timely execution of liabilities, the company has a reputation as a reliable-increases sales and competitiveness	Exporters must insure there are no disagreements with buyers over product quality.
6	Better conditions for new customers (it is important for the export companies)	Some buyers do not like parties other than the seller to be involved
7	Reducing the risk (bad debts are eliminated in the non-recourse factoring)	Factoring is short-term financing and cannot meet all business needs7
8	Reducing the credit risk in dealing with customers and increased profitability	Factoring occurs only when the factor is quite sure of the client's solvency.
9	Financing without collateral	Factoring companies prefer customers with larger businesses.

^{*} Made by the author on the basis of sources [4]

In Ukraine, the market for factoring services is represented by the service factoring with regress. This situation is characteristic of countries with an unstable economy, where financial institutions are not prepared to take on additional risks. For European countries, for example, in Poland factoring with the right of recourse amounts to 51.7% of total factoring, and without regress 48.3%, a similar situation is observed in Germany [78].

Factoring services without regress more widespread in the developed countries of the world. For example, in Italy, the proportion of factoring without recourse is about 69%, in the USA - 73%, which corresponds to international requirements for factoring agreements [41].

Consequently, factoring service is a very important tool in the financial services market for the development of enterprises in need of working capital and the economy of the country as a whole. To the economic preconditions for the growth of factoring services in Ukraine can be attributed the following: insufficient capital assets of enterprises, high receivables from suppliers, lending risks, non-payment growth, all this is the basis for future research on this topic.

Thus, by studying the approaches to the factoring essence in the scientific literature, we have come to the conclusion that scientists are prone to consider factoring or the sale of accounting debts, and most of them believe that this is the transfer of the bank (factor-firm) of the right to receive funds for the supplied products or the acquisition by the bank (factor-firm) of the right to a monetary claim. From our point of view, we can propose the following definition of the concept: factoring is a financial transaction that arises in the presence of receivables, commercial loans between counterparties in the process of selling goods and services, its essence is a transfer of debt obligation to financial intermediary (bank, factoring company) with including a legal, insurance, informational and accounting of counterparty initiator (supplier) servicing elements. We also discovered that, the economic essence of factoring are contained in the factoring company's (factor) purchases and sales by the client (seller) of their debts for a certain period of current funding.

Investigating the factoring process, we reviewed the detailed scheme of providing factoring services, identified their advantages and disadvantages, which gives a general idea of the essence and economic value of factoring in general (see Figure 1.1).

1.2. Classification of Factoring Services

It is very important for further research to conduct a review of the general factoring classification. Since each of its variants has certain opportunities for solving various tasks of the market subjects, the ways of its application in practical activity, therefore the question of maximum awareness in this direction arises.

Factoring can be classical (the initiator of the signing of the contract is the supplier) and reverse (the initiator of signing the contract is the buyer).

Classical factoring is a financial transaction and a type of debtor finance in which a business sells its accounts receivable (invoices) to a third party (called a factor) at a discount. A business will sometimes factor its receivable assets to meet its present and immediate cash needs. It might also factor their invoices to mitigate credit risk. Factoring is commonly referred to as accounts receivable factoring, invoice factoring and sometimes erroneously accounts receivable financing.

Reverse factoring or supply chain financing is when a bank or finance company commits to pay a company's invoices to the suppliers at an accelerated rate in exchange for a discount. It is unlike classical invoice factoring, where a supplier wants to finance his receivables. Reverse factoring or supply chain financing is a financing solution initiated by the ordering party to help his supplier finance their receivables more easily and typically at a lower interest cost than what would normally be offered [15].

Reverse factoring is simplest, a supplier receives finance in relation to their receivables (money for goods or services delivered) by a process that is started by the ordering company. It allows the supplying company to receive better finance conditions than it would otherwise be able to receive from a lender.

Suppliers have a difficult relationship with many corporates because they dictate their payment terms. Suppliers also do not want to wait a long time to be funded as they are usually growing businesses with high capital expenditure costs. Conversely, suppliers understand the huge opportunity that is presented to them with a purchase contract from one of these large entities.

Reverse factoring started in the car industry, as it allowed car companies to work more efficiently with their smaller supply companies. It also assists in industries where payment delays are the main fear or roadblock to business.

The availability of reverse factoring means that it could provide a line of finance to companies that was previously inaccessible. Growing suppliers are able to receive funding quicker, so assisting with their growth and avoiding any potential insolvency situation. It also important to note that reverse factoring would be more inexpensive than traditional factoring arrangements.

Reverse factoring will work when a funder sits between a company and its suppliers; where there is a commitment to fund the company's invoices from suppliers at a faster rate than provided by a company; in substitution for a discount [15].

Reverse factoring exists only in practice and is not at all distinguished and regulated, as a separate type, in the legislative level in Ukraine [19].

In ordinary factoring, a small firm sells its complete portfolio of receivables, from multiple buyers, to a single factor. Many factors will only purchase complete portfolios of receivables in order to diversify their risk to any one seller. In fact, many factors require sellers to have a minimum number of customers in order to reduce the exposure of the factor to one buyer – and to the seller's ability to repay from receipts from other buyers – in the case that a buyer defaults. However, this diversified portfolio approach requires factors to collect credit information and calculate the credit risk for many buyers. Ordinary factoring has in general not been profitable in emerging markets. First, if good historical credit information in unavailable, then the factor takes on a large credit risk. For instance, in many emerging markets, the credit information bureau is incomplete (i.e. may not include small firms) or non-bank lenders, such as factors, are prohibited from joining. Second, fraud is a big problem in this industry – bogus receivables, non-existing customers, etc. – and a weak legal environment and non-electronic business registries and credit bureaus make it more difficult to identify these problems. An alternative often used in emerging markets is for the factor to buy receivables "with recourse", which means that the seller is accountable in the case that a buyer does not pay its invoice, and that the seller of the receivables retains the credit risk. However, this may not successfully reduce the factor's exposure to the credit risk of the seller's customers, since in the case of a customer's default; the seller may not have sufficient capital reserves to repay the factor [4].

One solution to these barriers to factoring is the technology often referred to as "Reverse Factoring". In this case, the lender purchases accounts receivables only from specific informational transparent, high-quality buyers. The factor only needs to collect credit information and calculate the credit risk for selected buyers, such as large, internationally accredited firms. Like traditional factoring, which allows a supplier to transfer the credit risk of default from itself to its customers, the main advantage of reverse factoring is that the credit risk is equal to the default risk of the high-quality customer, and not the risky SME. This arrangement allows creditors in developing countries to factor "without recourse" and provides low-risk financing to high-risk suppliers. Reverse factoring may be particularly beneficial for SMEs for a number of reasons. First, as previously discussed, ordinary factoring requires comprehensive credit information on all the seller's customers, which may be particularly difficult and costly to determine for SMEs in countries with weak credit information systems. Second, reverse factoring makes it possible for firms to factor without recourse, which allows SMEs to transfer their credit risk to the factor. Another advantage of reverse factoring is that it provides benefits to lenders and buyers as well. In many countries, factoring offered by banks. In this case, factoring enables lenders to develop relationships with small firms (with high quality customers) without taking on additional risk. This may provide cross-selling opportunities and allows the lender to build a credit history on the small firm that may lead to additional lending (for fixed assets, for example). The large buyers may also benefit as follows: by engineering a reverse factoring arrangement with a lender and providing its customers with working capital financing, the buyer may be able to negotiate better terms with its suppliers. For example, buyers may be able to extend the terms of their accounts payable from 30 to 60 days. In addition, the buyer benefits from outsourcing its own payables management (e.g., the buyer can send a payment to one lender rather than many small suppliers). Many buyers favor this arrangement to self-financing receivables, such as making early payments at a discount, since it might be difficult in countries with weak legal environments to receive back payments in the case that goods damaged and returned [2].

In general, classification of factoring can be carried out on different grounds (see Table 1.3).

Table 1.3

Classification of Factoring*

№	Critetria	Classification		
1/	place of residence (residency)	- domestic, when the supplier, client and factor are residents; - international, when one of the participants in the operation is a non-resident. International factoring, in turn, is divided into classical (indirect) and direct (export or import);		
2	participation of the debtor in the agreement	- is open if the debtor has been informed of the participation in the agreement of the factoring company, carried out by means of a corresponding entry on the invoice, which confirms that the successor to the resulting debt is the factoring company with which the contract was concluded and that the payment should be made in its favor; - closed (confidential);		
3	periodicity of service	- regular; - one-time;		
4	way of payments with suppliers (depending on the reversal of the requirement)	 with the right of recourse, that is, with the right to invoice the supplier to refund the amount paid; without regress; 		
5	way of loan provider	in the form of prepayment;payment of claims for a certain date;		
6	way of accounting of invoices of factoring operations	- With open account of invoices, when payers transfer factor to all payments, assigned to the supplier; - agent type, when sales are discounted to individual buyers, and the loan is provided by a factoring company with the opening of special accounts for specific transactions;		
7	type of service operations	 - simple; - a bill of exchange, when the calculation with the supplier is a bill, and the factoring company carries out the accounting of these bills; 		
8	degree of funding	- without financing, when the customer, after shipment of products, invoices his buyer due to the factor whose task - to receive payment in favor of the client in accordance with the terms of the contract (usually 30-120 days);		
	TEXNUTEY	- with financing, when the factoring company buys invoices from the client on the terms of immediate payment of 80-90% of the shipping cost, that is, discounts invoices and thus advances the working capital of his client;		

The end of table 1.3

9	subject	of the	- with payment requirements for goods;
	requirement	F. KI	- with the payment requirements of creditors to borrowers.
10	supplier's re	quirements	- open factoring without the right of recourse (without the right to
41	to the factorin	g company	reverse the claim for recovery of the loan amount from the supplier in
	KI		case of failure to pay the account by the buyer);
10	TE N		- full service with the right of recourse (with the right of a reverse claim
12	JIEN.		to recover the amount of the loan provided from the supplier in the event
100		4111	of failure to pay the account by the buyer).

^{*} Made by the author on the basis of sources [32]

Factoring can be both domestic and for exports. In domestic Factoring, the client sells goods and services to the customer, delivers the invoices, order, etc., to the Factor, and informs the customer of the same.

In return, the Factor makes a cash advance and forwards a statement to the client. The Factor then sends a copy of all the statements of accounts, remittances, receipts, etc., to the customer. On receiving them, the customer sends the payment to the Factor.

Different types of domestic factoring are as follows in the Table 1.4.

Table 1.4

Types of Domestic Factoring*

No	Types	Description
1	Full Factoring	This also known as "Without Recourse Factoring". It is the most comprehensive type of facility offering all types of services namely finance sales ledger administration, collection, debt protection and customer information.
2	Recourse Factoring	The Factoring provides all types of facilities except debt protection. This type of service offered in India. As discussed earlier, under Recourse Factoring, the client's liability to Factor is not discharged until the customer pays in full.
3	Maturity Factoring	It also known as "Collection Factoring". Under this arrangement, except providing finance, all other basic characteristics of Factoring are present. The payment effected to the client at the end of collection period or the day of collecting accounts whichever is earlier.
4	Advance Factoring	This could be with or without recourse. Under this arrangement, the Factor provides advance at an agreed rate of interest to the client on uncollected and non-due receivables. This is only a pre-payment and not an advance. Under this method, the customer is not notified about the arrangement between the client and the Factor. Hence, the buyer is unaware of factoring arrangement. The client who makes payment of each invoice to the Factor, if advance payment had been received earlier organizes debt collection.
5	Invoice Discounting	In this arrangement, the only facility provided by the Factor is finance. In this method, the client is a reputed company who would like to deal with its customers directly, including collection, and keep this Factoring

The end of table 1.4

5	EKNUT	arrangement confidential. The client collects payments from customer and hands it over to Factor. The risk involved in invoice discounting is much higher than in any other methods. The Factor has liberty to convert the facility by notifying all the clients to protect his interest. This service is becoming quite popular in Europe and nearly one third of Factoring business comprises this facility.
6	Bulk Factoring	It is a modified version of Involve discounting wherein notification of assignment of debts is given to the customers. However, the client is subject to full recourse and he carries out his own administration and collection.
7	Agency Factoring	Under this arrangement, the facilities of finance and protection against bad debts are provided by the Factor whereas the sales ledger administration and collection of debts are carried out by the client.

^{*} Made by the author on the basis of sources [18]

Traditionally international trade is based on Letters of Credit [18]. When the exporter knows the importer well with repetitive transactions, he may be willing to export on 'Open Account 'basis. On open account, the exporter ships the goods without letter of credit or advance payment (see Figure 1.2).

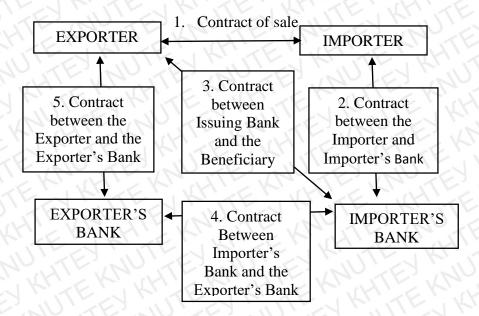


Fig. 1.2. The Mechanism of International trade, which is based on Letters of Credit* * [88]

Hence, it is credit risky for exporter. If credit is extended (say 90 days since), the exporter will be quite reluctant as he encounters a credit risk and hence invariably insists on L/C.

Table 1.5

In advanced countries bankers do not make much of a distinction between fundbased and non-fund based facilities and hence if they have to open L/C's it may be at the cost of a reduced overdraft or bills limit for the importer.

The system of L/C's operates on the "Doctrine of Strict Compliance» which means the Letter of Credit opening bank will pay money to the exporter only when all the conditions listed in the Letter of Credit document are satisfied by the exporter/shipper of goods.

In many cases, the documents fail to pass the grade, which means the exporter has simply lost the security available to him under the L/C. Further, now-a-days, goods move very fast and hence if documents are held up in banks for processing, it causes delay and inconvenience to the importer [18].

In the light of the above, international trade has slowly started moving from cash to credit, and from L/C's to open account sales. International Factoring is a service, which helps the exporter and importer to trade on open account terms.

The following are the important types of International Factoring in the Table 1.5. The client can choose any type of international factoring depending upon exporter - client needs and his price bearing capacity.

Types of International Factoring*

No	Types	Description		
パングにはいいいか	Two Factor Systems	This is the most common system of international factoring and involves four parties i.e., Exporter, Importer, Export Factor in exporter's country and Import Factor in Importer's country. The functions of the export Factor are: - Assessment of the financial strength of the exporter; - Prepayment to the exporter; - Follow-up with the Import Factor; - Sharing of commission with the import Factor. The functions of the Import Factor are: - Maintaining the books of the exporter in respect of sales to the debtors in his country; - Collection of debts from the importer and remitting the proceeds to the exporter's Factor;		
UT!	TEKN			

The end of table 1.5

2	Single or Direct Factoring System	In this system, a special agreement is signed between two Factoring companies for single Factoring. Whereas in Two Factor System, credit is provided by import Factor and pre-payment, book keeping and collection responsibilities remain with export Factor. For this system to be effective there should be strong co-ordination and co-operation between two Factoring companies. Pricing is lower when compared to Two Factor System.
3	Direct Export Factoring	Here only one Factoring company is involved, i.e., export Factor, which provides all services including finance to the exporter.
4	Direct Import Factoring	Under this system, the seller chooses to work directly with Factor of the importing country. The Factoring agreement is executed between the exporter and the import Factor. The import Factor is responsible for sales ledger administration, collection of debts and providing bad debt protection up to the agreed level of risk cover.
5	Back to Back Factoring	It is a very specialized form of International Factoring, used when suppliers are selling large volumes to a few debtors for which it is difficult to cover the credit risk in International Factoring. In this case, International Factor can sign a domestic Factoring agreement with the debtor whereby it will be getting the receivables as security for the credit risk taken in favour of Export Factor

^{*} Made by the author on the basis of sources [18]

So, having considered the classification of factoring operations, we have found that their kind exists, depending on the arrangement between the entities, the external conditions, and the pursued purposes, namely: by place of residence (residence), with the participation of the debtor in the agreement, by is the periodicity of service, by the way of payments with suppliers (depending on the reversal of the requirement), by way of loan provider, by way of accounting of factoring operations, by type of service operations, by degree of financing, by subject of the requirement, depending on the supplier's requirements to the factoring company. Ukrainian factoring market is represented by regression service, as in all developing countries. However, reverse factoring exists only in practice and does not differ in any way and is not regulated as a separate type at the legislative level in Ukraine.

1.3 Standard and Indicators of Estimation of Factoring Services Market State in Ukraine

In this under section we will carry out the following studies:

- 1) Identify the criteria, standards and indicators by which one can assess the state of the market of factoring services.
- 2) Consider the legislative framework that regulates the actual niche of the economy. The need for this information is due to the fact that on its basis we will conduct further research of factoring trends.

It is impossible not to mention that, factoring is consider a financial service and can only rendered by a financial institution after registering for provision of factoring services in the register of financial institutions run by the State Commission for Regulation of Financial Services Markets of Ukraine.

No special license is required for providing services, appointment of managers and shareholders, whereas the provisions of the Civil Code for appointing a manager and accepting a decision of the shareholders apply. Ukrainian factoring companies as financial institutions must also comply with other requirements, in particular concerning qualified and experienced staff and sufficient technical equipment to perform the service.

A factoring financial institution is required to have a minimum share capital of UAH 3 million for factoring companies providing only factoring services or UAH 5 million for factoring companies providing other permitted types of financial services. Companies are required to keep records of all its operations and submit regular reports to the State Commission for Regulation of Financial Services Markets of Ukraine [13].

Ukraine is a member of 1988 UNIDROIT Convention on International Factoring. An important advantage of factoring services in international trade relations is the fact that, using the factoring scheme, the exporter significantly reduces the risk of exchange rate differences. Since a significant part of the value of the goods sold is transferred to the exporter practically immediately after the shipment of goods, or in the factoring agreement specified in the contract, the exporter practically avoids currency risk [23].

There is no specific law on factoring however, Chapter 73 of the Civil Code regulates factoring contract. Chapter 73 provides a general definition of factoring contract providing. The under factoring agreement (financing under the assignment of the monetary claim right) one of the parties (a factor) shall transfer or be obliged to transfer the funds into disposition of the other party (a client) for a fee. A client shall assign or be obliged to assign to the factor his right of the monetary claim against the third person (a debtor).

Various types of factoring contracts are not specifically mentioned in the law, however the law does differentiate the situation in which the client guarantees the successful collection from the one where it does not (recourse and non-recourse factoring). In case parties omit to mention the type of factoring in their contract, a non-recourse type is applied by default.

The law contains no restrictions on receivables that can be factored. There is also no restriction on the maturity of receivables that can be factored and the applicable law does not prescribe maximum time exposure of factoring companies to factored receivables.

An assignment per Civil Code does not have to be in a written (paper based) form; however, a factoring contract as a financial services contract has to be in a written form. According to the Law on Financial Services and State Regulation of Financial Services an agreement on rendering financial services must in general include the title of the document, identification and residence of parties to an agreement, name of the financial service to be provided, rights and obligations of parties, term of the agreement and signatures of parties. The laws on Electronic Signature and On Electronic Documents and Electronic Documents Circulation specifically provide facility for electronic transactions and it is specifically envisaged in laws that documents cannot be denied enforceability merely because they are concluded electronically [15].

The analysis of factoring operations can be considered from the position of the factor, as well as from the position use factoring as an instrument effective management of accounts receivable arrears at the factor's level (Fig. 1.3).

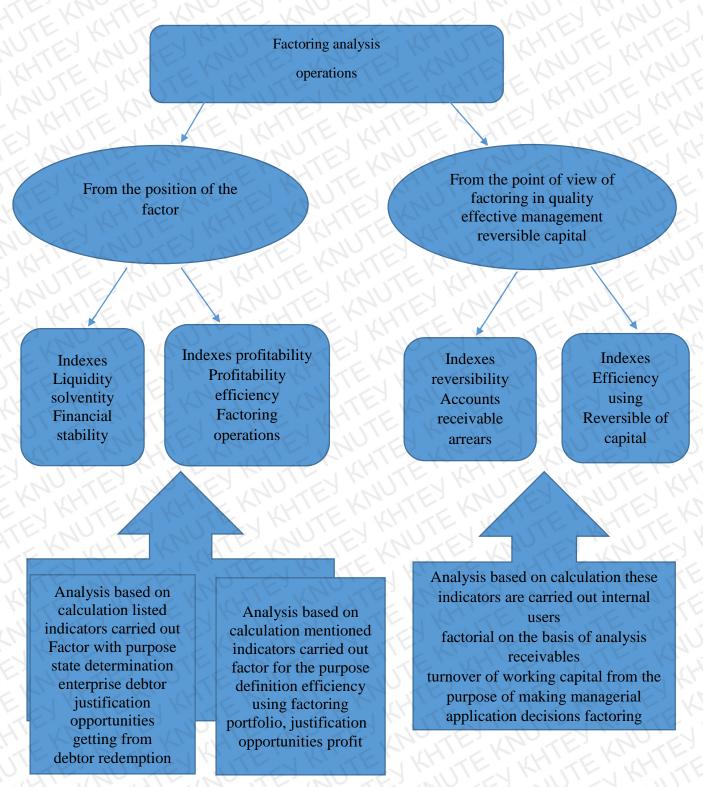


Fig. 1.3 Approaches to the analysis of factoring operations

To important indicators that characterize the place of the market of factoring services in the system of financing the national economy belong:

^{*} Made by the author on the basis of sources [20]

- the ratio of factoring to GDP;
- the indicator of provision of accounts receivable (the ratio of turnover factoring in the year to the average annual cost of receivables);
- the distribution of factoring contracts by sectors and sources of financing operations;
- the volume of factoring services provided by financial companies.

Indicators on which its are determined possibility of repayment by the debtor monetary requirements developed and widely used in practice firms-factors analysis of the impact of factoring on dynamics and level receivable. In the framework of the analysis, an assessment of the level and current account receivable enterprises. A generalized return rate debt is the turnover that is calculated as a ratio of sales volume in the period up to the average amount of receivables for a period and shows how many times the debt is it is formed and enters the organization for a period, what is being studied. Acceleration of turnover in dynamics considered as a positive trend. LA Lahtionova argues that there is a reciprocity in general, a measure of liquidity and quality receivables [10].

The following indicators determine the value of factoring operations in the activities of a commercial bank:

- the proportion of factoring transactions in the total amount of active operations of a commercial bank;
- the size of factoring operations for 1 UAH of capital;
- the size of factoring operations for 1 UAH of the authorized capital;
- the level of the purchase of receivables.

For the analysis of factoring activity, the indicator of the specific gravity of factoring calculate using the following formula 1.1 [21]:

I factor =
$$\frac{\text{Investments in factoring operations}}{\text{Assets of the bank,all}}$$
, (1.1)

The size of factoring operations for 1 UAH of the capital and 1 UAH of the authorized capital is calculated by dividing the balances. The remains on accounts in

2030, 2037, 2038, 2039 by the amount of balance capital (gross capital) on the accounts of the 5th class or on the amount of the authorized capital at the beginning or the end of the period.

To determine the level of the purchase of receivables, it is necessary to divide the amount transferred by the factor-bank to suppliers for commercial and commercial transactions by the amounts originally presented by the payers and multiply by 100%.

After determining the place occupied by factoring transactions in banking operations, an analysis of their dynamics and movement.

Dynamics analysis is carried out using standard indicators:

- absolute growth of factoring loans;
- the growth rate of factoring operations;
- the growth rate of factoring operations.

The analysis of the factoring credit movement begins with the definition of the ratio of debit and credit turnover in the accounts of factoring loans, that is, the coefficient of the ratio of granted and returned factoring loans is determined.

Then the following coefficients are calculated using the following formula 1.2 and formula 1.3 [21]:

C provided factor =
$$\frac{\text{Factoring loans are provided}}{\text{The balance of factoring loans at the end of the period}},$$
 (1.2)

C loans returned =
$$\frac{\text{Amounts reimbursed by payers}}{\text{The balance of factoring loans at the beginning of the period}}.$$
 (1.3)

An important stage in the analysis of factoring operations is the assessment of their riskiness. In this case, the adequacy of the created bank reserves, as well as the methods of managing active operations are evaluated. The features of the formation of the reserve for factoring transactions is that only the maturity of the obligation is taken into account.

By degree of risk, factoring operations are classified into three risk groups (see Table 1.6).

Table 1.6

Classification of Factoring Operations by Degree of Risk*

No	Groups of risk	Description
1)	Standard	The debt for which the repayment term (repayment) is stipulated by the contract, has not yet arrived (risk factor of 2%).
2	Questionable	There are overdue debts on operations for up to 90 days (risk factor 50%).
3	Hopelessly	The amount of overdue debts over 90 days (risk factor 100%).

^{*} Made by the author on the basis of sources [21]

Assessing the quality of a portfolio of factoring loans from the standpoint of risk, use the following factors calculated of formulas 1.4, 1.5, 1.6 [21]:

Quality factor =
$$\frac{\text{The sum of factoring loans weighted by the degree of risk}}{\text{The sum of factoring loans, total}}, (1.4)$$

Share of hopeless factoring loans =
$$\frac{\text{Share of hopeless factoring loans}}{\text{Factoring loans, total}}$$
, (1.5)

Specific gravity of problem factor. loans,% =
$$\frac{\text{Factoring loans with overdue principal debt}}{\text{Factoring loans, total}}$$
(1.6)

When calculating the amount of income from factoring transactions, it should be remembered that it consists of the amount of commission fees for the bank to conduct this transaction and the amount of interest on the loan provided by the factor bank. The interest rate for a loan is determined at the level of the market rate for short-term loans with an increase of several (2-3) points. The amount of the commission fee is determined taking into account the set of services provided. Their size, as a rule, ranges from 0.5% to 3% of the amount of purchased settlement documents (for foreign banks).

The calculation of the yield factor of factoring operations can be carried out using the following formula 1.7 [21]:

The utility (appropriateness) of factoring operations for a commercial bank is determined by comparing the specific weight of profits from factoring transactions in the total amount of bank profits with the proportion of factoring transactions in the total assets of the bank [21].

To determine the impact of factoring on financial results of the enterprise it is expedient to compare indicators proceeds from sales, receivables turnover debts and profitability for periods up to application of factoring and after use factoring schemes. Particular attention should be paid to optimize the structure of the balance that contains comparison of currency balance, coefficients liquidity and solvency, coefficient provision of own working capital.

The main problem of the analysis of indicators factoring efficiency associated with the definition of minimum or maximum permissible value of the indicator, at which the appropriate level is determined efficiency: high, medium, low, minimum allowable and so on. Such assessments may have an approximate value and be applicable only under certain typical conditions: for organizations in one industry or group are similar to certain features of industries, for a certain stage the development of these organizations, with certain admissible characteristics of the economic environment, etc.

In this part of the work, we analyzed aspects of the market regulation of the factoring services and found that for the activity of the factoring company it is not necessary to have a special license in Ukraine, it is enough to get registration for the provision of factoring services in the register of financial institutions functioning by the Commission for Regulation of Financial Services Markets of Ukraine. There is no special factoring law, Chapter 73 of the Civil Code is governed by a factoring contract [15]. Different types of factoring agreements are also not specifically mentioned.

Also, we outline the main aspects, factors, indicators and values for assessing the state of the market for factoring services in Ukraine. Their calculation will determine in the further analysis the quality, riskiness, usefulness of factoring in business, the state of factoring services in the financial market, changes and dynamics.

PART II

ANALYSIS OF FACTORING SERVICES STATE IN UKRAINE

2.1. Analysis of World Trends of Factoring Services Market Development Global trends have a significant impact on the domestic factoring market, therefore, its are very valuable for the further development of the Ukrainian market, which determine need for future analysis. Namely, the study of the dynamics of development, the ratio of world and domestic volume of factoring services, geographical distribution, identification of market leaders and their characteristics.

These services are widely represented as an instrument of economic relations in the market infrastructure of developed countries and have advantages with the proper system of working out of mechanisms and procedures for its use. Under certain conditions, factoring stimulates the economic growth of the countries that actively use it.

World practice recognizes two models of the development of factoring services - American and European. Under the American model, factoring companies were originally created by private entrepreneurs without the participation of banks, who were only afterwards interested in a new business to expand of portfolios. For a long time such services were provided in parallel both by banks and private factoring companies.

The European model was oriented towards the creation of large, but highly specialized companies, which usually differed from banking institutions. At first, its were subsidiaries of the bank, and then began their activities independently.

In Ukraine, the factoring market is developing according to the European model, that is, factoring companies do not arise independently, but often as subdivisions of banks and banking structures [22].

At the international level, the regulation of factoring services takes place on the basis of the UNIDROIT Convention on International Factoring, concluded on May 28, 1988 in Ottawa, Canada.

In 2001, the East European Factoring Association (EEFA) was created to stimulate the development of factoring in the region and ensure the interests of East European factoring companies [23, c. 241].

On January 31, 2002, the General Assembly of the United Nations adopted Resolution No. 56/81 on the regulation of assignment of receivables in international trade. Activities within the framework of international factoring are also governed by the International Funding Rules (GRIF) Rules adopted by members of the international factoring associations International Factors Group S.C. (IFG) and Factors Chain International (FCI) [23, c. 240].

FCI is an organization founded in 1968 as an umbrella organization for independent factoring companies around the world. FCI is the Global Representative Body for Factoring and the Financing of Open Account Domestic and International Trade Receivables. With close to 400 member companies in 90 countries, FCI offers a unique network for cooperation and cooperation to foster cross-border factoring.

In 2017, FCI Members accounted for 60% of the total world factoring volume and 88% of the total world cross border factoring volume. Total member's international volume grew by 7% [24].

The factoring market in individual countries can be radically different. First, this is due to the peculiarities of payment discipline and the traditions of conducting commercial operations in these countries. For example, in the UK the main place is invoicing, and in the structure of full factoring predominant factoring with regress. In Germany, Italy and France, investment disassembly and low factoring associated with licensing functions predominate. The right to provide factoring services with regression in Germany can be obtained after obtaining a banking license. Factoring with regress is widely used in Portugal and Austria, and reverse factoring - in Spain.

One of the features of the factoring industry is that the largest segment of transactions is carried out at the expense of domestic factoring (see Table 2.1). So, about 80% is internal factoring, and 20% is international. This is due to the fact that the practice of using international factoring is rather insignificant, but it is actively

developing. The final World Factoring Statistics 2017 shows a 9% increase of factoring worldwide reaching a figure of €2,598,298 million, а внутрішній на 11%.

Table 2.1
Structure Factoring in 2012-2017 Period (Mln. EUR) as of 31.12*

Year	2012	2013	2014	2015	2016	2017	2017/ 2016
World Domestic Factoring	1 779 785	1 827 680	1 857 410	1 838 366	1 868 855	2 078 758	11%
World International Factoring	352 446	402 798	490 114	529 379	507 112	519 540	2%
World Total	2 132 231	2 230 477	2 347 524	2 367 745	2 375 967	2 598 298	9%

^{*} Made by the author on the basis of sources [25]

In generally, the total volume of world factoring grew evenly from 2011 to 2017 (from 2,014,978 to 2,598,298 million of EUR). As of 2016, over 8,000 companies providing factoring services worked in the world. At the same time, the annual report of the International Factoring Association Factors Chain International states that the volume of factoring services in 2016 around the world amounted to 2 375 967 million euros. This figure remained almost unchanged over the past three years (see Figure 2.1).

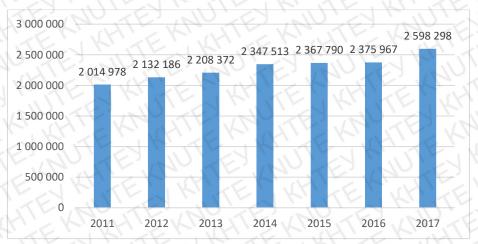


Fig. 2.1 Total World Factoring Volume in the Last 7 Years (Mln. EUR), in 2011-2017 as of 31.12*

^{*} Made by the author on the basis of sources [25]

In general, in all regions of the world, the highest figures are in 2017. That is, factoring is an important, necessary and popular service that develops annually and becomes more important throughout the world.

After analyzing the volume of factoring by world regions over the last 7 years from 2011 to 2017, according to the information given in Appendix B, we found that the highest figures are in Europe, namely in 2017 (1,701,939 million euros). The reason is the appear of this service in Europe, as well as the fact that this region is the world leader for a long time with the development of the financial market.

After Europe, the Asia-Pacific region ranks second, then North America and South America, Africa is the penultimate position, the lowest figures were for the Middle East. As conclude, factoring is the best in Europe, but the worst development is in the Middle East.

The final World Factoring Statistics 2017 shows, that the European region grew by +7% and accounts for 65% of global volume. The UK market, which accounts for +20% of European volume continues to suffer from the high volatility of its currency, recording a decrease in volume of -1%, in part stemming from the BREXIT crisis. However, the rest of the "mature" Western markets like France +8%, Germany +7%, Belgium +11%, Italy +9%, Portugal +10% and Denmark +13% all show a continued upward trend. However, large increases were reported in the CEE region, including Bulgaria +50%, Czech Rep +26%, Hungary +58%, Poland +12%, Russia +21% and Romania 13%. Turkey has reduced exports pulled down its total market figure, declining by -1% [24].

The Asia region grew by 18%, and accounts for 25% of global volume. The growth led by China +34%, generating €406 billion in volume, which allowed them to surpass the United Kingdom as the largest factoring market in the world. We also witnessed solid increases in the greater China region of Hong Kong +9%, Singapore +9%, Taiwan +5%. However, Japan -25% and Korea -7% both reported declines.

Although, Asian factoring, which fell by 8.46% in 2015, fell by another 8.47% in 2016 to 508 billion euros. This was mainly due to China, was showing a further

decline by 14.5%. Japan and Taiwan also suffered a drop in the volumes of the other two major Asian countries, although at a lower rate of 8.7% and 10.45% respectively. Nevertheless, growth in other two major Asian factoring countries, Hong Kong (27.7%) and Singapore (4.1%), as well as was an interesting growth in emerging markets, are Malaysia (362.7%), Thailand (20%) and Vietnam (96.4%), those helped somewhat mitigate the decline. Despite the contraction in 2016, Asia continued to be the second largest factoring region, accounting for 22% of the world's factoring volume. China continued to be the second largest factoring country in the world after the Great Britain [24].

The previously reported figures did not include the volume of the Commercial Factors. This of course significantly influenced the entire scenario and has resulted in a positive impact on the global growth figure reported for 2017. China witnessed the most significant revision, where, against the initially reported figure of \in 282,000 million representing a 7% decrease the previous year, feedback from CFEC (Commercial Factoring Expertise Committee) and the Chinese Banking Association (CBA) indicates that the correct estimate is \in 405,537 million: an increase of 34%! Seemingly, for the first time they have been successful in retrieving complete official figures from these two Chinese associations which represent the national commercial factoring companies and bank factoring activity respectively.

The Americas region grew by +5% and accounted for 8% of global volume. It led by a surging Latin America, which increased by nearly +12%. Brazil grew by +11%, Mexico by +4% and Argentina by +21%. Chile was the only large market in Latin America that suffered a decline, dropping -9%. North America lost momentum, the US decreasing by -3%, and Canada by -4%, in part impacted by the continuous drop in cross border factoring activity and the effects of a few large retail bankruptcies.

Africa and the Middle East regions grew by +6% each respectively. Africa is of course highly dependent on South Africa, which accounts for nearly 79% of the total African market and grew by +5%. Morocco and Israel increased both by +25% and 7%

respectively. At the same time, they offset by declines in both Egypt -24%, Tunisia – 9% and Mauritius -19% [24].

Since the European market is the leader in providing factoring services, we will analyze its main trends (see Fig 2.2).

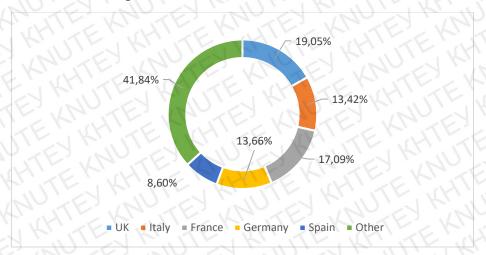


Fig. 2.2 Geographic Structure of the EU Factoring Market in 2017 as of 31.12*

* Made by the author on the basis of sources [25]

Of the 28 countries of the European Union, the most important markets for a long time there are five players. As of 2017, the UK is the leader (324 billion euros), accounting for 19.05%, France (290 billion euros) - 17.09%, Germany (232 billion euros) - 13.66%, Italy (228 billion euros) - 13.42%, and Spain (146 billion euros) - 8.6%.

Features of factoring operations development in foreign countries are presented in the Table 2.2.

Table 2.2
Features of Factoring Operations Development in Foreign Countries*

№	Country	Features		
	UK	Such a significant share in the European market of factoring services can be explained by the fact that they appeared here in the XVII century. Started factoring operations in the country House of Factors. Before a factor that had knowledge of the trends in the commodity market, he knew the laws and trade practices of the country, put forward the task of finding reliable customers,		
14.14	TEK	storage and distribution of goods, as well as the subsequent collection of sales revenue. The first factoring company was opened in 1960. Today, factoring companies do not serve manufacturing companies, service companies and wholesale and retail trade [26].		

The end of table 2.2

	Germany	In the factoring market, the number of factoring companies decreases with each passing year. The regulation of factoring operations is entrusted to the Federal Financial Supervision Authority. The lion's share of factoring business, almost 90% is concentrated in the hands of 24 factors. Such a consolidation of the market is conditioned by the growth of competition both among the factors themselves and from their indirect competitors (private, state, savings banks, as well as other providers of financial services). Despite the reduction in the number of factoring companies, the volume of the German factoring market is constantly increasing. The largest consumers of factoring services are trade enterprises, the production of metal products and machines, services, the automotive industry, food industry, electronics, and the chemical industry. A characteristic feature of German factors is the ranking of customers by volume of annual turnover and concentration on a particular segment. Thus, half of the turnover of German factoring companies falls on small and medium-sized enterprises with an annual turnover of up to 10 million euro, accounting for about 90% of consumers of factoring services [27].
3	France	The feature of factoring companies is that they have the status of credit institutions (even if they do not accept deposits), which stipulates compliance with the standards set for banks for solvency and liquidity ratios. Factoring is the second largest after the overdraft source of short-term business financing. Despite the fact that only 3% of small and medium-sized enterprises used the services of factoring providers, the number of factoring consumers in 2014 was more than 40 thousand, including large corporations. Among the main legal constraints and benefits for the factoring industry are: strict prudential regulation, but very low risk; a high level of competition within the country; distortion of competition between French and European factoring companies, whose activities are weaker or not regulated at all; a unique tax regime that offers the option of representing all fees and commissions with VAT [27].

^{*} Made by the author on the basis of sources [26, 27]

Summarizing the above information and the work we have done, we will consider a general picture of the analysis of global trends of factoring development in Table 2.3.

Table 2.3

Analysis of Factoring Development Trends in the World *

No	Points of analysis	Trends			
1 Dynamics		There is a positive dynamics in the growth of factoring transactions volumes (the highest figures for all positions relate to 2017), indicating its usefulness and relevance.			
2	Regionalization	Exist distinct regional character of development (especially in Europe). This is due to the closer interaction of countries with common borders, the similarity of traditions, the exchange of experience and, consequently, the creation of regional associations and organizations.			
3	Distribution of the world market by regions	According to the volume of factoring services leader is the European region, Asia in second place, which dynamically gains steady positions in this market in recent years. Africa and the Middle East have a small share.			
4	Leading country players, leaders	In the European market, the main players are the UK (takes the leading position), France, Germany, Italy and Spain, that is, those markets that are example and very valuable experience for repetition.			

The end of table 2.3

	5	Ratio of domestic	The volume of internal factoring is almost four times smaller than the
1	11	and international	external, but still it develops and is a promising financial tool, its
	1	factoring	advantages and necessity will be further discussed further.

^{*} Made by the author

So, having analyzed the tendencies of factoring development in the world, we have drawn conclusions:

- There is a positive dynamics in the growth of factoring transactions volumes;
- Exist distinct regional character of development (especially in Europe);
- According to the volume of factoring services leader is the European region, Asia in second place. Africa and the Middle East have a small share;
- In the European market, the main players are the UK (takes the leading position), France, Germany, Italy and Spain;
- The volume of domestic factoring is almost four times smaller than the external.

2.2. Analysis Factoring Services National Market State

Factoring services for our country are new and, despite the rapid development of this segment of the financial services market in recent years, these services are still not very widespread and even "incomprehensible" to most potential consumers. Therefore, it would be advisable to carry out an analysis of the domestic market, find the share of factoring services in the world, Europe and Ukraine's GDP, will analyze the overall dynamics, identify the main players in the market, sources of financing, to distribution of provided factoring transactions by industry, etc.

Studies have shown that the share of factoring in Ukraine over the past 7 years in the overall volume of Europe and the world has declined significantly. The highest rates in 2013 were 0.061% in the volume Europe and 0.099% in the world. After that there was a decline, which led in 2017 to 0.017% and 0.011% respectively (see Figure 2.3). Such low figures can be explained by the fact that the market for factoring services

is relatively young and is in the stage of formation in Ukraine. In addition, instability of the economic and political situation, imperfection of legislation, and constant inflationary processes, which hinders its development, are observed, while in the vast majority of developed countries of Europe and the world, factoring is widely used.

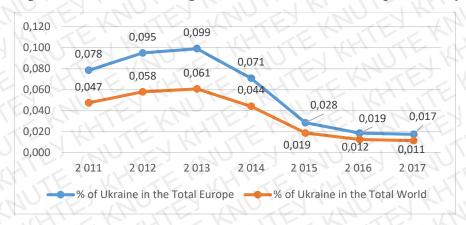


Fig. 2.3 The Share of Ukraine Factoring Volume in the Total Factoring Volume of Europe and the World (%), in 2011-2017 as of 31.12*

An important factor that characterizes the place of the market for factoring services in the national economy financing system is the factoring share in GDP. As shown by the comparative analysis (see Table 2.4), this percentage significantly increased in 2017 to 1,051%, and on June 30, 2018 it was 1.736%. After a decline starting in 2014, this indicator is very low, less than 1%. In highly developed European countries, the factoring factor in GDP is 5 percent or more.

Table 2.4

Dynamics of GDP of Ukraine, Factoring Turnover and Factoring Share in

GDP 2014 – 2018 as of 31.12*

GDP	2014	2015	2016	2017	2018**
Volume of GDP, UAN milion	1 566 728	1 979 458	2 383 182	2 982 920	807 322
Volume of factoring operations, UAH million	23 525,70	16 555,90	16 887,70	31 363,40	14 013,90
Share of factoring in GDP, %	1,502	0,836	0,709	1,051	1,736

^{*} Made by the author on the basis of sources [28, 29]

^{*} Made by the author on the basis of sources [25, 28]

^{**} Data for 2018 is provided as of 30.06

As of June 30, 2018, the State Registry of Financial Institutions contains information on 526 financial companies that have the right to provide factoring services, the highest figure for the last 7 years (see Figure 2.4). The number of factoring companies increased from 2010 to 2016 (the decline only occurred in 2017), the lowest value was recorded on June 30, 2010 - 70 companies. The financial companies grew constantly. The share of the number of factoring companies in the total number of financial companies from 2011 to 30.06.2018 ranged from 43,82% to 83,85%. The highest value was in 2016, in fact, out of ten financial companies, eight had the right to engage in factoring activities (Appendix C). This indicates an increase in the interest of financial service producers in providing factoring services and gives grounds for claiming an increase in demand for these services among legal entities. However, in fact, there is a much smaller number of participants in the market. Yes, there are only 26 companies in the Ukrfactor Association. Among the major players in the classic factoring market today include such companies as Arma Factoring, FC Factoring, Factor Plus, Factoring Finance [30].



Fig. 2.4 Dynamics of Registered Factoring Companies, 2010 – 2018 as of 30.06*

^{*} Made by the author on the basis of sources [28]

The number of factoring contracts concluded during the first half of 2018 amounted to 14 015 units, which is 9,2% (1 177 units) more compared to the same indicator for the first half of 2017. The value of factoring contracts was UAH 14 013,9 million, which is by 9,8% (UAH 1 249,1 million) more compared to the same period last year [51].

To understand how the volumes of factoring services have changed in recent years, let's analyze their dynamics from June 30, 2014 to June 30, 2014, those provided by financial companies of Ukraine (see Figure 2.5).

The largest value was recorded in 2017, UAH 31 363,41 million, after a significant decline in 2015 to UAH 16 555,9 million. - the lowest index of the studied period. Comparing the first six months of 2017 and 2018, we conclude that there was an increase in the volume of factoring services provided by financial companies by UAH 1 249,1 million. or by 9,8%. Therefore, we can assume that the total amount for 2018 will also exceed the previous year, as changes in previous periods were evenly distributed.



Fig. 2.5 Volume of Factoring Services Provided by Financial Companies of Ukraine in UAH millions, 2010 – 2018 as of 30.06 *

^{*} Made by the author on the basis of sources [28]

The level of functioning of the market of factoring services is significantly influenced by the structure of sources of financing factoring operations. From 2015 to 2017, all standard factoring financing sources have shown positive dynamics, which is confirmed by data of Fig. 2.6. The highest figures for sources of financing factoring operations were due to their own funds in 2017 (UAH 22,077 million). And the smallest in terms of bank loans in 2016 - 345.4 million UAH. A characteristic feature of factoring in Ukraine is that this service is funded mainly by means of own funds of factors.

The share of bank loans has dropped significantly, namely from 33.25% in 2013 to 3.33% in 2017. In our opinion, this is due to a significant rise in prices in credit resources and a decrease in the volume of bank lending.

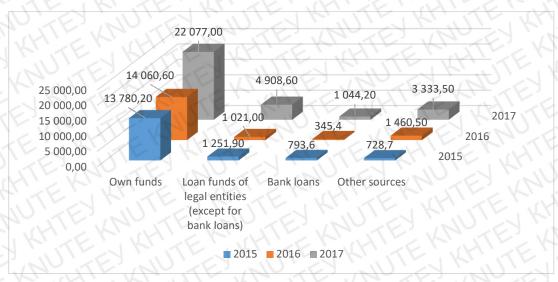


Fig. 2.6 Sources of Financing of Factoring Operations in Ukraine in million UAH, in 2015-2017 as of 31.12*

An important stage in the analysis of factoring development is the definition of the sectoral structure of the subjects of factoring operations (see Figure 2.7). Such an analysis is needed to diversify the risk. The largest increase in factoring agreements concluded from 2016 to 2017 was found in the following sectors: transport - by 34.9 times (by UAH 244.3 million), services sector - by 391.0% (by 4 383, 7 million UAH), agriculture - by 343.1% (by 234 million UAH). Typically, the main consumers of

^{*} Made by the author on the basis of sources [28]

factoring services in Ukraine are manufacturing companies that are looking for new markets, large network trading companies and construction firms. The use of factoring services is most effective for small and medium-sized enterprises, which traditionally suffer from financial difficulties due to the not timely repayment of debtors' debts and the limited sources of funding not available to them [31].

Factoring services in Ukraine are provided both by non-bank financial institutions and banks. By 2009, in terms of service provision, banks were leaders in this area, but in recent years, there has been a tendency to increase the volume of provision of factoring transactions by financial companies (in 2017 it was the maximum, factoring companies provided 10.76 times more volumes loans than banks institutions), its due to the fact that, unlike financial companies, banks must form factoring operations reserves that reduce the attractiveness of this tool for them (see Appendix D).

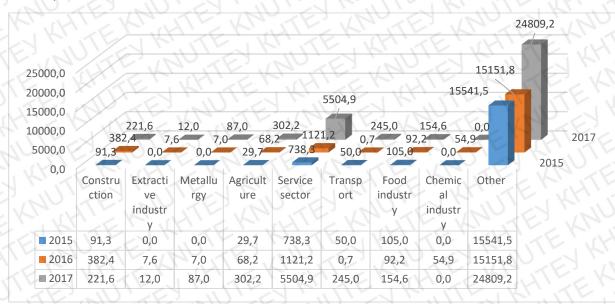


Fig. 2.7 Distribution of Factoring Contracts by Industries in Ukraine in 2015-2017, as of 31.12 (UAH million) *

Also, banks have lost a large amount of funds during the financial crisis due to massive non-payment of factoring, which, unlike lending, has no pledge in this service, in addition, their number on the market has decreased [32].

^{*} Made by the author on the basis of sources [28]

Among the banks, the most active classifying factoring services are provided by 7 institutions: PJSC «FUIB», JSC «Raiffeisen Bank Aval», «OTP Bank», PJSC "Alfa-Bank", Joint-Stock Bank «Southern», JSC «Ukreximbank», JSC «TASKOMBANK» (see Appendix E). Their total market share has formed 69% of the total volume of the banking portfolio of factoring transactions. As of June 1, 2018, the leader is PJSC «PUMB» with 27,47%, JSC «Ukreximbank» - the second place – 12,55%, and the third share of the banking market for providing factoring services belongs to JSC «TASKOMBANK» – 10,89%.

In general, the development of factoring in Ukraine is restrained mainly by the same problems:

- lack of qualified specialists who could reasonably and professionally carry out factoring operations;
- lack of information, far not all enterprises know about factoring and its advantages;
- the development of the factoring market in Ukraine is significantly complicated by the low investor confidence in Ukrainian business and the low level of public confidence in banks, the high cost of capital, as well as high default risk by debtors of their obligations [34].

Thus, according to the results of the research of the domestic market of factoring services, namely analysis of their shares in the world, Europe and Ukraine's GDP, the dynamics of overall indicators, sources of financing, market distribution among key actors and industries lend, it is possible to draw the following conclusions:

1) Low indicators of the value of factoring services in the world and in Europe explained by the fact that the market for factoring services is relatively young and at the stage of formation in Ukraine. In addition, instability of the economic and political situation, imperfection of legislation, and constant inflationary processes, which hinders its development, are observed, while in the vast majority of developed countries of Europe and the world, factoring is widely used, the volumes of services is constantly increase;

- 2) The volume of domestic factoring in the GDP of the state does not reach 1%, and in the developed countries is from 3%, that in Ukraine, the possibilities of this instrument for accelerating cash flow are not effectively used;
- 3) Despite all the existing problems, we saw to growth the factoring services, the number of factoring companies and their share in the total number of financial organizations were high, indicating the prospects for the development and relevance of this financial instrument;
- 4) The fact that the own funds of factors occupy more than 80% in the structure of financing factoring transactions, indicates a low level of trust from investors. The share of bank loans has dropped significantly, as the population does not trust banks and significantly increases the cost of credit and reduce the volume of bank lending, there is a deposit outflow, which reduces the possibility of attracting funds from individuals to finance factoring transactions;
- 5) The largest increase and the share of the factoring agreements concluded from 2016 to 2017 found in the following sectors: transport, services, agriculture;
- 6) There has been a tendency in recent years to increase the volume of provision of factoring transactions by financial companies, due to the fact that, unlike financial companies, banks must form under factoring operations reserves that reduce the attractiveness of this instrument for them (in addition, in recent periods banks suffered significant losses);
- 7) Among the banks, the most active classical factoring services are provided by 7 institutions: PJSC «FUIB» (as of 01.06.2018 is the leader), JSC «Raiffeisen Bank Aval», «OTP Bank», PJSC «Alfa-Bank», PJSC Stock Bank «Pivdennyi», JSC «Ukreximbank», JSC «TASKOMBANK».

2.3 Characteristics of Factoring Servicing in JSC «Raiffeisen Bank Aval»

Recently, factoring has become increasingly popular in Ukraine. The presence of significant advantages in this financial services contributes to its active use within the scope of operating activities by economic entities and, accordingly, the existing

demand is met by the existence of a certain range of factoring products offered by various types of financial institutions. As noted earlier in Ukraine, such services are provided by non-banking and banking institutions (24 financial institutions, based on the data of banks' financial statements for the first half of the current year.)

All of the above stipulates the relevance of providing the characteristic of factoring services in the domestic market, therefore, we will conduct a study of the scale of activity, trends of movement, quality, riskiness, loan portfolio, conditions and tariffs for providing services on an example of data of JSC «Raiffeisen Bank Aval», ranked fourth, for volume of portfolio of factoring in the market of banking services.

From data Table 2.5 it is seen that factoring transactions occupy a small place in the assets of the bank, and their level in the dynamics decreases. Thus, as of September 1, 2017, their share in the bank's assets amounted to 0.059%, and as of September 1, 2018 it decreased to 0.046%, ie, it decreased by 0.013% points. The same trend was observed in other indicators: the level of factoring operations for 1 UAH of capital in the base period was 2.22 kopecks, and in the reporting period - 2.06 kopecks.

Table 2.5

Analysis of the Scale of Factoring Activity of JSC «Raiffeisen Bank Aval»

2017 – 2018 as of 01.09 (ths. UAH)*

	Indicator	Indicator		Deviation	
$N_{\underline{0}}$	E, MO, LE, MO, LE,	01.09.2017	01.09.2018	absolute	Relative
1.	Factoring loans, th. UAH	223 020	210 156	-12 864	-5,77
2.	Assets of the bank total, th. UAH.	380 151 664	457 757 845	77 606 181	20,41
3.	Bank's capital, th. UAH	10 060 358	10 184 653	124 295	1,24
4.	Bank authorized capital, th. UAH	6 154 516	6 154 516	0,00	0,00
5.	the proportion of factoring transactions in the total amount of active operations of a commercial bank, %	0,059	0,046	-0,013	KN KH
6.	the size of factoring operations for 1 UAH of capital	2,22	2,06	-0,15	TE-Y
7.	the size of factoring operations for 1 UAH of the authorized capital	3,62	3,41	-0,21	TE

^{*} Made by the author on the basis of sources [36, 33]

Taking into account that the size of the authorized capital has not changed, a similar trend was observed with respect to this indicator. The level of factoring operations for 1 UAH of the authorized capital in the reference period was 3.62 kopecks, while in the reporting period it decreased to 3.41 kopecks, that is 0.21 kopecks. The conclusion that follows from the above calculations - the bank began to pursue a more cautious policy on factoring transactions. Thus, for the analyzed period, the absolute growth of factoring loans was -12 864 thousand UAH, that is, the reduction of factoring activity of the bank was 5.77%, and the growth rate was 94.23%.

The trend of reduction by the bank of factoring operations is confirmed by the data of the Table. 2.6. Thus, in the basic period, coefficient of provide factoring loans was 0.877, while in the reporting period - 0.777, ie, it decreased by 0.1. But the return of the amounts invested in factoring has improved. The return factor in the reporting period was 1 071 against 0.971 in the base period, ie, it increased by 0.1.

There is an assumption that the bank reduced the issuance of doubtful, risky loans, which led to inversely-proportional values of the above mentioned factors, that is, as a result of an increase in the return rates of factoring loans. This testifies to the existing risks of these operations, which forced the bank to reduce their volume.

Table 2.6

Analysis of the Movement of Factoring Loans of JSC «Raiffeisen Bank

Aval» 2017 – 2018 as of 01.09 (ths. UAH)*

No	Indicators	01.09.2017	01.09.2018	Deviation absolute
1	Factoring loans at the beginning of the period, th. UAH.	87 212	82 388	-4 824
2	Factoring loans, th. UAH.	80 309	74 727	-5 582
3	Amounts reimbursed by payers, th. UAH.	84 694	88 212	3 518
4	Factoring loans at the end of the period, th. UAH.	91 546	96 166	4 620
5	the ratio of debit and credit turnover of factoring	0,948	0,847	-0,101
6	coefficient of factoring loans provision, units	0,877	0,777	-0,100
7	coefficient of returning factoring loans, units	0,971	1,071	0,100

^{*} Made by the author on the basis of sources [36, 33]

An important stage in the analysis of factoring operations is the assessment of their riskiness. To this end, the bank's assets are ranked in terms of risk (see Table 2.7).

Table 2.7
Factoring loan portfolio of JSC «Raiffeisen Bank Aval» 2017 – 2018 as of 30.09 (ths. UAH)*

Risk factor	2017		2018			
groups of factoring loans	Amount of factoring loans, th. UAH	Market rate,%	Amount of factoring loans weighted at risk (ths. UAH)		Market rate,%	Amount of factoring loans weighted at risk (ths. UAH)
Standard	139 102,07	2	2782,0414	124 015,42	2	2480,3084
Questionable	75 677,48	50	37838,74	73 357,27	50	36678,635
Hopelessly	8 240,45	100	12 240,45	12 783,31	100	21 783,31
All	223 020,00	X	52861,2314	210 156,00	X	60 942,2534

^{*} Made by the author on the basis of sources [37]

Under the credit risk is understood the risk of non-fulfillment by the borrower of the terms of the loan agreement, that is, the non-repayment of the principal amount of debt and interest on it in the terms established by the contract (for factoring loans also non-payment of commission fees). Analyzing the portfolio of factoring loans of JSC «Raiffeisen Bank Aval», we see that standard and doubtful loans really decreased, but hopeless still increased.

The given data testify to the constant tendency to decrease the quality of portfolio of factoring loans.

Coefficient of quality of factoring portfolio has increased by 5.30%, which gives grounds for asserting that the risks of factoring is increasing (see Table 2.8). The share of hopeless loans increased from 3,69% to 6,08%, which is almost 2 times. In the portfolio of factoring loans, the share of overdue loans also increased by 0,78% and has relatively low rates. An increase in the riskiness of factoring transactions is one of the reasons that led to a decrease in the provision of factoring services from 01.09.2017 to 01.09.2018 by UAH 22 864 thousand. or 9,81%.

When providing factoring services, banks generally put forward a number of requirements for the supplier and its debtors: to the period of their cooperation, to their experience in the market, to the financial condition of the supplier, there is a need for an open current account, a lack of communication between the client and debtor. Financing done exclusively current (not past due) receivables.

Table 2.8

Analysis of the Quality of the Portfolio of Factoring Loans of JSC

«Raiffeisen Bank Aval» in terms of risk 2017 – 2018 as of 30.09 (%)*

Indicator	2017	2018	Deviation	
Coefficient of quality of factoring portfolio, %	23,70	29,00	5,30	
Specific gravity of questionable loans in the total number of factoring loans,%	3,69	6,08	2,39	
Specific gravity of problem factoring loans,%	1,13	1,91	0,78	

^{*} Made by the author on the basis of sources [37]

The cost of financing is determined individually for each client and depends on the type of factoring (with regress or without regress) and other factors that affect the level of risk of the bank factor: the period of delay of payment, the solvency of the supplier, the payment discipline of the debtors, etc.

The proportion of receivables in the amount of funding is also dependent on the type of factoring and customer characteristics, but the maximum volume varies, general in the range of 80% - 90% of the amount of receivables (see Appendix F) [30].

Some banks (for example, "TASKOMBAK", "UKRSOTSBANK", PUMB) have access to electronic factoring service, which significantly accelerates and simplifies the process of providing the bank with the necessary documents and obtaining financing. To be able to use this service, the Supplier must use the electronic document flow system.

As for the value of factoring services, then the factor-banks interest rate fluctuates at the level of 19-30% per annum, and in factoring companies - 25-30% per annum. Additionally, the client pays for a variety of commission fees from the amount of depreciating factor requirements - for setting the factoring limit (at the level of 0.5 - 1%), for servicing (0.1-2%), for processing documents that are charged as a percentage of the amount of overhead (0.1-0.2%). In fact, the value of factoring services is almost equal to the cost of loans, however, to receive funding from the factor, us need to provide a much smaller package of documents and do not need to provide collateral in the form of a mortgage or surety.

It should be noted that by 2017 a one-time commission is used more rarely (for setting the factoring limit) - for example, from banks it no longer exists in JSC Ukreximbank and PJSC "Ukrsotsbank", and from factoring companies - in FC "Factoring Finance" FC "Arma Factoring", FC "Retail Capital" (see Appendix K). We analyzed conditions to provide factoring services by banks and factoring companies and saw that the commission for processing documents is almost disappearing. Станом на 2018 рік такий тариф існує лише в АТ «Укрексімбанк». As of 2018, such a tariff exists only at JSC Ukreximbank. Also, this bank has the highest annual rate of 30%, and the absence of all other tariffs. The lowest annual rate of 19% is observed in PJSC "Ukrsotsbank" (as of 2018 and in the last four years). In general, there is a reduction in tariffs, although by 2017 there has been an increase since 2015. JSC «Raiffeisen Bank Aval» conducts a relatively stable policy compared to 2017 and its factoring activity takes the second place after Ukreximbank (see Appendix G).

So, after analyzing the factoring services of JSC «Raiffeisen Bank Aval» (studying the scope of activity, trends of movement, quality, riskiness, structure of the loan portfolio, conditions and tariffs for the provision of services), we draw conclusions:

- the bank cares cautious policy in this direction, reduces activity and the granting of loans;

- factoring operations are very risky in modern conditions, the share of hopeless loans is increasing (reasons are both internal and external), have a very small share in the bank's overall activities, although factoring services have sufficient profitability;
- tariffs for the service are not the lowest, but not the most expensive in the banking market, compared with 2017. the changes are not significant, the annual rate fell only 1%.

The reasons for not very active development of domestic factoring are several. Firstly, in comparison with classical lending, this product is labor-intensive for the factor-bank, due to the fact that it requires it to organize the process of accounting and control of accounts receivable by a large number of counterparties. In the future, if the popularity of electronic document flow in enterprises grows, this can have a positive impact on the development of factoring services, as it will enable the use of e-factoring services, where labor costs for accounting can be reduced by automating of the input process [30].

In addition, the general problem of the domestic financial market is low payment discipline of debtors and insufficiently serious protection of the rights of creditors. This is due to the imperfection of legislation, the judiciary and the executive service. For factoring operations, the risks of untimely repayment of debts are even stronger than for ordinary lending, as within the framework of an agreement with the client-supplier, the factor is dealing not with one borrower, but with a range of debtors, for each of which there is a risk of late payment. At the same time, the amount of information on borrowers in the factor-bank is usually less than that of borrowers in classical lending, and direct contact with them before the conclusion of a factoring agreement is not carried out, which also increases the risk. Therefore, the comprehensive strengthening of the protection of the rights of creditors is one of the important conditions necessary to enhance the development of factoring in Ukraine.

PART III

THE WAYS OF PROVIDING DEVELOPMENT OF FACTORING SERVICES IN UKRAINE

3.1. The Ways of Factoring Services National Market Development

Factoring is a form of financing that it particularly beneficial for small and medium-sized businesses, which enables managers and employees to concentrate on production problems and maximize profits. The development of factoring will contribute to economic growth, since it provides a higher level of solvency of enterprises and an increase in sales through the possibility of postponement of payment [53].

According to preliminary studies, we have found that factoring development is very important for our economy; the next step will be to find out the problems and directions of improving the domestic market of factoring services.

Indeed, despite the obvious advantages of factoring in comparison with other financial instruments, such a service is rarely offered in the banking business. A similar situation is associated with problems in the Ukrainian economy, which adversely affect the development of the domestic factoring market and do not allow this transaction to occupy a high place among other lending services (see Table 3.1).

Table 3.1

Problems of Development of Bank Factoring*

№	Problems, related to	Problems normative legal	Problems the formation of
14	the quality of factoring	regulation of factoring	effective internal and external
A.	services and its value	operations	factoring chains
1	unsatisfactory quality	the presence of contradictions	the presence on the market of
1	of factoring services,	in the Ukrainian legislation	factoring services of the
	due to the lack of	concerning the regulation of	chains, "the bank is a
4	appropriate software,	factoring transactions has led to	subsidiary factoring
	modern technologies	the fact that the benefits of	company", the existence of
(1)	of factoring customer	factoring for the client	which leads to the fact that all
1	service	(financing for the real time	factoring operations are
7)	TEN KITE	commodity credit, the optional	performed by controlled
1/5	IN TEND IT	provision and registration of the	factoring companies, and not
L.	KILL KIN	set	by banks. Factoring is used

The end of table 3.1

TF	EXMUTE KIN	documents, the ability to monitor purchases' payments) cannot be fully utilized	not for the financing of business entities, but as a means of writing off bad loans of banks
2	the lack of standardization and quality control of factoring services	the lack of regulation of the provision and standardization of the quality of factoring services	discrepancy of the debtors with the criteria of the banks, which prevents the creation of effective chain of factors with business entities
3	the lack of the ability to provide clients with a range of services that is provided by factoring services in developed countries	the possibility of writing off loans to the Ukrainian banking system, since financial companies are allowed to allocate funds (discount) from the sale of debts to gross expenses	the lack of effective chains, which are the participants of various banking operations, such as factoring, leasing, etc., which hinders the development of the factoring market
4	the focusing of factoring services mainly on the big, and not on medium and small businesses	the lack of legislative basis for the creation of preferential terms in the taxation of factoring transactions (in order to reduce the cost of services for customers)	the lack of effective factoring chains that combine bank- factor with business entities, both with clients and with debtors
	the affiliation of only one bank of Ukraine to the largest international factoring association FCI (PJSC "Ukrsotsbank"), which is due to the lack of an effective model for building a factoring business that would best meet the needs of business entities	absence of responsibility to the factor for failure or improper performance by the debtor of its obligations, if the contract is irrevocable (in accordance with Article 1081 of the Civil Code of Ukraine), in connection with which most banks provide factoring services with regression, which presupposes the presence the customer's guarantee for its debtor, and not factoring without recourse, which does not needing it	the affiliation of only one domestic bank to global factoring chains, which impedes the achievement of the competitive advantages of Ukrainian banks in the field of international trade and financial services, participation in the global network of first-class factoring companies, and the introduction of standard procedures aimed at supporting the overall quality of factoring services
6	high cost of factoring service. The cost of factoring services in Ukraine is tens of times higher than its cost in developed countries.	the lack of clear methodological recommendations for reflecting the factoring operation in accounting. The enterprise can independently decide how to reflect factoring transactions in accounting.	lack of links between Ukrainian banks and international factoring organizations, including International Factors Group S.C., Factors Chain International (FCI), European Association of Factoring Associations

^{*} Made by the author on the basis of sources [58]

Factoring in Ukraine is used to be called operations under which a bank or other financial institution that has the right to provide factoring services, purchases receivables from another bank or a credit institution, and then independently collects that debts from the debtor.

There is another type of factoring that is not so well known to a wide audience. It is factoring in its classical, economic sense. Its main goal is when factor finances a client, replenish working capital, in fact, classic factoring is a credit-monetary transaction.

The essence of the classical factoring operation is that the bank or other financial institution that has the right to carry out factoring transactions (factor) provides the client with a financing fee (usually up to 120 days) in exchange for the assignment by the client in favor of the factor of the claim rights to the debtors, which arose from contracts of delivery, provision of services, etc. [56].

The development of the classic factoring market in Ukraine is significantly hampered by the low level of investor confidence in Ukrainian business and the low level of public confidence in banks, the high cost of capital, as well as high risks of default by debtors of their obligations.

The fact that the own funds of factors occupy more than 80% in the structure of financing of factoring transactions testifies to a low level of trust from investors. As the population does not trust banks, there is a deposit outflow, and hence the possibility of attracting funds from individuals to financing factoring transactions is reduced.

The cost of capital in Ukraine also remains high, and the ability to attract cheap foreign capital is limited. Interest on deposits in Ukraine remains high, which prevents banks from lowering interest rates on loans. These factors directly affect the fact that factoring operations are funded mainly by factors of their own funds. In order for the factor to be able to provide the services of classical factoring at its disposal should be significant financial resources, accumulate them at the expense of only their own funds is extremely difficult [57].

In Ukraine, today the business is on the rule: "You may not pay - you must not pay." According to representatives of the Ministry of Justice in Ukraine, about 10% of court decisions are executed [56].

In Ukraine, it is possible to expedite and smoothly remove liquid assets from the enterprise. As a result, before the start of the compulsory collection procedure, on the balance sheet of the debtor company, no valuable assets are already available, the participants and managers of the company have changed, and the legal entity itself has turned into a soap bubble. After such "manipulations", the effectiveness of the state executive service no longer matters.

In order to prevent the withdrawal of assets from the enterprise, it would also be advisable to provide creditors with the possibility to legally invalidate the contracts of alienation of assets entered into after arrears and to cancel the decision to change the participants and the management of the debtor company that took place after the arrears occurred. Today, however, there are no legislative initiatives in this area [57].

The factors affecting the formation of a favorable climate for the development of the classic factoring market in Ukraine can be found in Table 3.2.

Table 3.2

The Factors of Development of the Factoring Market in Ukraine*

No	Factors
1	Increase investor confidence in Ukrainian financial institutions.
2	Increase the level of public confidence in banks, which will increase the number of deposit deposits.
3	Stabilization of the situation in the money and foreign exchange market, and further decrease of the discount rate of the National Bank of Ukraine (as of October 25, 2018 18%).
4	Improvement of the situation with the enforcement of decisions of the Ukrainian courts, which will increase the payment discipline of debtors and reduce the risk of non-payment.
5	The introduction of mechanisms that will allow creditors to cancel contracts concluded by the debtor and the decisions made by them if they are aimed at withdrawing assets from the control of a legal entity

^{*} Made by the author on the basis of sources [57]

As for factoring companies, for the further dynamic development of their domestic business, attention should be paid to the perspective directions of improvement presented in Table 3.3.

Table 3.3

Promising Directions for Improving the Dynamic Development of

Factoring Companies in Ukraine*

No	The area	Directions of improvement		
14	Social	Promotion of factoring through mass media and the Internet (in particular, the website of the National Commission, which carries out state regulation in the field of financial services markets, creation of a page of this government body in social networks); the formation of a favorable factoring perception by domestic entrepreneurs, who are still considering it as an extreme measure.		
2	Regulation	Development of the basic methodology for valuation and risk management of the factoring company.		
3	Economy	Due to the increasing competition in the domestic financial market of Ukraine, the participants in factoring business need to look for new ways of diversifying capital by resorting to non-traditional and alternative financing methods that will enable them to attract cheaper funds and restructure the factoring portfolio in such a way as to transform the assets of a factoring companies in effective stock market instruments.		
4	Market	Factoring, as well as any financial instrument, can count on long-term growth only in the case of unstable self-development, when there is improvement of both financial and communications technologies. Collaboration with clients not only in business areas, but also in the information sphere promotes the formation of a unified environment "lender - factor - debtor" that can provide not only increased efficiency and quality of factoring monitoring, but also reduce the risks of performing factoring transactions. Exist necessity participation in international professional associations.		
5	Technology	Given the growing complexity of factoring business, domestic participants need to work towards improving their business model to the level of advanced factoring companies, the main characteristics of which are innovative product line, extensive network, integrated electronic document flow to facilitate the processing of primary documentation and verification of deliveries.		

^{*} Made by the author on the basis of sources [52, 60]

Taking into account all the above, it is interesting to consider what economists are invited to do in order to develop a package of measures to support Ukrainian factoring business, the central place in which is the direction of development in the conditions of destabilization would be diverted (see Fig. 3.1) [53].

Previous studies have shown that the scope of the banks' activities in providing factoring operations has declined in recent years, while specialized factoring companies have grown and are significantly ahead of the market. All this is a very positive change. After all, in order to ensure the factoring market in Ukraine, it is necessary to create the preconditions for the formation and development of specialized factoring companies that will be able to professionally carry out a factorization as a

complex operation: financing, information and analytical service, work with the debtors of the client, is directed to compliance with the terms of the agreement on terms of payment by qualified personnel on factoring and narrow specialization of such financial institutions (the development of classical factoring) [59].

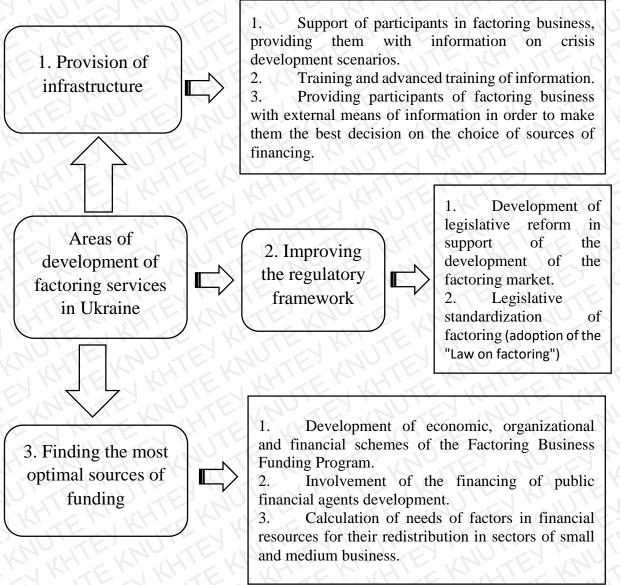


Fig. 3.1 Areas of Development of Factoring Services of Ukraine*

* Made by the author on the basis of sources [54]

In this subsection, we considered the problems of the domestic market of factoring services. As a result, we conclude that for the further development of the domestic market of factoring services in Ukraine, in general, attention should be paid to certain directions given in Table 3.4.

Table 3.4

The Directions of Development of the Domestic Market of Factoring

Services in Ukraine*

No	Criteria	Directions		
1	Legal	- improvement of legislative regulation;		
E	KNUT	- granting creditors the opportunity to legally invalidate the contracts of alienation of assets entered into after arrears and cancel the decision to change the participants and the management of the debtor company, which took place after the arrears;		
2 Service improvement of conditions, methods and forms of provision of factoring servi				
3	Technology	introduction of modern automated estimation and control technologies;		
4	Economy - to pay attention to new methods of accumulation of funds by factors; - reduction of their value for the borrower, and reduction of risk coefficient for t factor;			
5	Social	increasing the trust of investors and potential clients, informing them about factoring services, opportunities, advantages;		
6	Market	creating conditions for the development of classical and international factoring.		

^{*} Made by the author

3.2 Using International Experience of Stimulation of Factoring Services Development

Analyzing previously the world development trends, we can conclude that the factoring operations have established stable positions and are successfully used in most developed countries of the world. Therefore, domestic banks should study and follow the experience of foreign financial and credit institutions in this area. This will help greatly stimulate the development of factoring, reach a new world level, solve many problems, and positively affect the economic situation in general.

Ukrainian banks, as a rule, provide services only for debt financing. Instead, in international practice, classifying factoring has four (at least two) components: financing, risk insurance, accounts receivable management and informational services [63].

It is believed that the future - by specialized factoring companies, able to provide the right level of services such as administration of accounts receivable, legal support, supplier information support, risk insurance, which the supplier pays while working with a delayed payment. Feeling the difference in quality of service, the market itself will prefer such specialized factoring companies to banks. In addition, in the conditions of financial market instability, factoring company is the most reliable player in the market of factoring services than the bank. Unlike a bank that can always change the direction of funding and abandon the factoring service in favor of less risky products, an independent factoring company will fulfill its obligations, because factoring is its specialization, it is the essence of its business. In addition, independent factoring companies tend to have more set of services, they are more client-oriented and spend less on decision-making, while in banks it is a longer and less transparent procedure. Factoring with a number of functions is its fundamental advantage over other forms of financing. It particularly important for small and medium-sized businesses that do not have sufficient labor and financial resources [62].

Although, in times of financial crisis, when many small businesses face cash flow problems, reverse factoring can emerge as a prime solution. In June 2015, the French government notably announced its plan to develop these solutions.

Reverse factoring is a short-term financing solution tailored to fit the needs of suppliers that serve large customers. Through the intermediary of a "factor", suppliers can obtain payment for their invoices before the contract deadline, using a "payment authorization" issued by the customer.

To implement this type of solution, the supplier and the factoring company sign a factoring contract. After the supplier provides the service, it issues its invoice to the customer as usual. The customer then processes the invoice and approves it as "authorized for payment" with the factor.

The supplier can then access a list of financeable invoices through a dedicated secure website. In just a few clicks, the supplier can request the early payment of invoices, if necessary. Wire transfer then arranges financing in a substantially shorter period.

That means the process fully virtualized for each party in the program, which accelerates and streamlines the administrative process for everyone involved.

First thought up in the 1980s, reverse factoring has become common practice was United Kingdom, Italy and especially in Spain, where reverse factoring accounts for half of all factoring activity, or 57 billion euros in annual cash flow.

In France, the system has proved slower to catch on. However, while it only accounted for 5.1% of the total French factoring market in 2014, it is now becoming more common and seeing strong growth rates.

We can also note that small businesses need reverse factoring services, which represents a win-win system:

- For customers (buyers), by enabling them to secure their supply chains while improving supplier relations and optimizing management costs, notably by boosting the reliability of approval process for supplier invoices.
- For suppliers, as the technique allows them to receive fast financing at a highly beneficial rate after issuing a payment authorization, thus consolidating their payment deadlines and enhancing their cash flow management [61].

An important step in the development of the market for factoring services in Ukraine and in the region as a whole was the creation of an Eastern European factoring association in the summer of 2001, its main task - the development of factoring in relatively new markets - in the post-socialist space: in the countries of the former USSR and in some distant countries Abroad (the member companies are the factoring companies from Ukraine, Russia, Kazakhstan, Armenia and Moldovia, partnerships are established with the companies of Central and Eastern Europe, all the countries of the former USSR).

Relationships of business partnership include the constant cooperation of companies in the region, which are not members of the association, but are actively involved in its work. Representatives of 15-20 countries take part in conferences of the East European factoring association.

One of the main directions of the Association's activity is the preparation and unification of regulatory documents. In particular, a typical interfactional agreement is prepared. Consequently, Ukrainian factoring companies need to be supported at the

state level in relations with the Association in order to open up wide opportunities for the financial institutions of the participating countries to enter the new international level of work with clients [68].

The essence of international factoring is given in Table 3.5.

Table 3.5

The Essence of International Factoring*

No	Point	Interpretation
XXXXXXX	Definition	International factoring is a relatively young service for Ukraine, and many enterprises do not know about it or do not have a complete picture of the whole structure of service and the benefits for the development of one or another business. This is explained by the fact that foreign economic operations are more complex and standardized, and the opinion on them from companies is rather conservative. In January 2005 Ukrsotsbank became a member of the International Factoring Association (FCI), the only one of Ukrainian banks, which is included in its annual catalog of market leaders in factoring services from different countries [65].
2	Importance	The importance of international factoring for Ukraine is growing due to the increase of foreign trade turnover of goods and services. Ukraine has a great potential for the development of factoring in the field of foreign trade. Moreover, the wide use of factoring by Ukrainian enterprises can improve Ukraine's position as an exporter on the international scene [64].
3	Applying	International factoring has been successfully applied in foreign market economies. But in our reality, he has received so little distribution to this day. This may be contributing to the instability of our economy, the lack of a clear legislative framework for this kind of lending, etc. This negatively affects the position of some enterprises, because, based on western experience, international factoring has many advantages over conventional types of lending [65].
4	Is understood	Also under international factoring understands factoring service for foreign trade, the opening by factoring companies of representative offices or branches in other countries for the implementation of factoring services for both domestic and export-import activities of these countries [66].
5	Essence	The essence of international factoring is that factor-firms agree to release the exporter from the financial burden of the export contract. This is especially beneficial in the presence of restrictions on the terms of payments under currency regulation of restrictions (for example, in Ukraine) so that it can concentrate on its direct activities: in production, sales and marketing of goods [66].

^{*} Made by the author on the basis of sources [64, 65, 66]

World experience clearly shows that the growth rate of factoring services market and, therefore, the availability of this tool for medium and small enterprises is inextricably linked with the quality of the legislative framework and the degree of market regulation [70].

To ensure the development of factoring, it is necessary to exclude from the legislation of Ukraine all provisions that attempt to regulate factoring relationships as those related to a special named contract. This will be consistent with the nature of such relationships, and the advanced laws of the United States and other countries, including continental law, and international conventions.

We analyzed the share of factoring services in the developed countries of Europe and their legal regulation of factoring, found an inversely-proportional relationship (see Table 3.6). The smaller the regulated market, the greater is part, and the most developed leader - the UK does not have state regulation.

Table 3.6

Dependence of the Degree of Development of Factoring Market on Regulation,

2017, as of 31.12*

Country	Legislative regulation	Factoring volume (million US dollars)	Gross domestic product (million US dollars)	share factoring in GDP, %	
Austria	need a banking license for all types of factoring	25 305	416 850	6,07	
Germany	need a banking license for certain types of factoring	278 871	3 684 820	7,57	
France	banking license is not needed, but factoring companies are supervised by the Bank of France	348 905	2 583 560	13,50	
Italy	government regulation exists but is not related to banking	274 060	1 937 890	14,14	
United Kingdom	state regulation is absent	389 047	2 624 530	14,82	

^{*} Made by the author on the basis of sources [35, 41]

Studying the experience of foreign countries in identifying factoring transactions leads to not unambiguous conclusions. Legislation of an absolute majority of countries

of the system of continental law does not contain special rules on factoring operations, as well as the Uniform Commercial Code of the USA - typical representative of the countries of the system of Anglo-Saxon law. This testifies to the inappropriateness of the allocation of factoring in a separate category of special legal regulation, which in practice is a prerequisite for all the inconsistencies of factoring operations in Ukrainian, which we have highlighted above. Finding a universal definition does not make sense, because factoring can be based on different schemes regulated by the Civil and Commercial Code (irreversible (traditional) and reverse (agent and factoring with features of financial lending) [69].

However, this is not enough. Need to improve the legislation on the retreat of the requirement, in particular, the waiver of the contractual prohibition of the assignment of a monetary claim should be waived, except when the debtor is a consumer. This principle is critical to the development of factoring. It is also necessary to elaborate the rules by which the replacement of a creditor in a liability will not lead to deterioration of the debtor's position. This principle is universally recognized in the world. His non-compliance leads to the exclusion of turnover rights. In addition, currency and tax laws require substantive changes in terms of monetary claims [67].

Problems of the market of factoring services market in Ukraine and possible directions of their solution in the context of integration of the domestic factoring market into the European financial space are presented in Fig. 3.2.

The problem of the development of factoring services market will be solved by spreading European experience in the field of factoring services and activating integration processes in the Ukrainian banking market [58].

One should also pay attention to such an important problem, which, unfortunately, is also present on highly developed markets of factoring - high-risk service. High risks for factoring companies, need to build an effective risk management system. For example, in western practice, a type of fraud such as "fresh air invoicing" is known when factoring company clients forge proof of receipt of receivables or enter

into a conspiracy with a debtor who agrees to confirm the debt by a certain percentage by signing the bill of lading [72].

Solving problems of factoring market development Ukraine in terms of European integration	Use of European experience on the domestic market of factoring services
Reducing the value of factoring Service	Increase in the total volume of factoring operations, and the volumes of one factoring operation, which will contribute to the development of the internal and international trade
Improving the quality of factoring services	Growth of the growth rate of volumes of factoring
Ensuring compliance with factoring customer service requests	Increasing the banks' activity in providing factoring services that are in line with the European one models of factoring services market development
Providing a balance of financial interests banks and customers in the process of factoring service	Development both internal_ and international Factoring
Improved management efficiency factoring service	Increasing factoring volumes for one bank

Fig. 3.2 The Ways of Problems Solving of the Ukrainian Factoring Services

Market in The Context of its Integration into the European Financial Space*

* Made by the author on the basis of sources [58]

In order to manage risks in the West, factoring consulting companies, such as the British company Atlantic Risk Management Services, as well as firms offering IT risk management solutions, were created at the time, including the British firm Risk Factor Solutions [71].

When developing policies in the field of risk management, the factoring company must take into account the risk of bankruptcy of the debtor and long delays in payments, the risk of customer fraud and mass return of goods, liquidity risk, operational risk, as well as risks inherent in all sectors - administrative, political, currency, industry, regional, etc. The risk management system should be flexible and responsive to changes in both the internal and external environment of the company. Particular attention should be paid to factoring companies to the risk of non-repayment of receivables, liquidity risk and operating costs. Building an effective risk-management factoring institution will protect the institution from large losses and will increase its competitive ability [71].

In this subsection, we reviewed the international experience of developed countries, which could, if correctly applied, stimulate the factoring market of Ukraine. The results of the study make it possible to highlight the aspects presented in Table 3.7.

Table 3.7

The aspects of the international experience of developed countries for stimulate factoring market of Ukraine*

No	The aspects				
	te the imperfection of our legislation, we have found a contradictory tendency. The analysis ratio of the proportion of factoring services in the volume of GDP and the level of regulation market of developed countries, is inversely-proportional, and the UK leader in this industry o state regulation. That is, such a situation is promising because participants freely enter the et and carry on their activities.				
2	It is necessary to exclude from the legislation of Ukraine all provisions that attempt to regulate factoring relations as those related to a special named contract. This will be consistent with the nature of such relationships, and the advanced laws of the United States and other countries, including continental law, and international conventions.				
3	Our state is represented by inverse factoring and it turns out that this is characteristic not only for developing countries, but also is an effective tool for overcoming of crisis phenomena (experience of France).				
4	There is a need for the further development of classical factoring and factoring companies that could properly carry it out, which makes it possible to provide quality services on the market with all relevant requirements.				
5	Necessary support at the national level of Ukrainian factoring companies in relations with the European factoring association and other international structures, this will open up wide opportunities for the financial institutions of the participating countries to enter the new international level of work with clients, the development of international factoring.				
6	There is a need for building an effective system of risk management. For example, in the west, there were created consulting companies specializing in factoring and firms that offer IT solutions for risk management.				
7	Factoring companies in developed countries expand the network of foreign affiliates and subsidiaries and develop their activities through the Internet. More and more importance is attached to risk management and administration of accounts receivable, not just its financing.				

^{*} Made by the author

3.3 Estimation the Efficiency of Factoring Services in Ukraine

In previous studies, we found that factoring has positive growth tendencies, then it becomes interesting to know what is its market advantage, as it attracts the subjects, which role it plays in the overall activity of the banking structure, which is the efficiency of factoring (its value in different institutions as of 2018).

In theory, the economic efficiency of factoring transactions is that factoring can significantly increase the liquidity of assets, profitability of companies and their solvency, and this, as a consequence, contributes to economic growth [76].

The utility (appropriateness) of factoring operations for a commercial bank is determined by comparing the specific weight of profits from factoring operations in the total amount of bank profits with the share of factoring transactions in the total assets of the bank.

The effectiveness of factoring operations for the bank as a whole, we will consider, for example, of JSC «Raiffeisen Bank Aval» (see Table 3.8).

The analysis of the efficiency of factoring operations for a bank shows that factoring operations in the activities of this commercial bank occupy a small place. The share of income from factoring transactions in the bank's total revenues was 0,34% in the base period and 0,28% in the reporting period. Their share in total assets was respectively 0,059 and 0,046%, that is, they were significantly lower than their share in income.

Table 3.8
Efficiency of factoring operations of JSC «Raiffeisen Bank Aval» in terms of risk, 2017 - 2018 as of 01.09*

Indicator	01.09.2017	01.09.2018	Deviation
Factoring loans (amounts transferred by the factor-bank of the supplier), ph. UAH	246 076	238 504	-7 572
Income from factoring operations, ph. UAH	25 374	26 060	686
Profitability of factoring operations, ph. UAH	10,31	10,93	0,61
Loss of the bank from non-receipt of sums from payers, ph. UAH	5 838	4 631	-1 207
Bank's total income ph. UAH	7 458 147	9 273 531	1 815 384
Share of income from factoring operations in bank income, total,%	0,34	0,28	-0,06
Profit of the bank from factoring operations, ph. UAH	19 536	21 429	1 893
Profitability of factoring operations,%	7,94	8,98	1,05

^{*} Made by the author on the basis of sources [38, 36]

This indicates a relatively high profitability of these operations. The riskiness of factoring operations leads to significant losses from shortfall in sums on invoiced accounts from payers. Thus, in the base period of the bank, UAH 5 838 thousand were not reimbursed, and in the reporting period - UAH 4 631 thousand, which is an unused reserve for increasing the efficiency of factoring transactions.

The given method allows to make a comparative analysis of the efficiency of factoring transactions with other types of banking operations and with taking into account their riskiness to give preference to one or another.

For example, the income from overdraft operations granted to legal entities in the total amount of income of the bank as 01.09.2018 is 2.1%, which means that its share and relevance for entrepreneurs in fact are 7.5 times more. And the share of loans granted to current economic entities amounts to 46.25%, which is almost half of the total income of the bank, indicating that enterprises have a high demand for financing current activities (see Table 3.9).

Table 3.9

The Share of Income from Factoring and Overseas Departments in the Total

Revenues of JSC «Raiffeisen Bank Aval», 2018, as of 30.09*

Indicator	Factoring operation	Overdraft operations provided to business entities	Loans provided in current activities to business entities
Income from financial operations, ths. UAH	26 060	201 401	4 289 283
Bank's total income (ths. UAH)	ns. UAH) 9 273 531		CY CIUINY K
Share of income from financial operations in bank income, total,%	0,28	2,17	46,25

^{*} Made by the author on the basis of sources [33]

However, overdraft gives up to 40% of turnover, factoring up to 85%, but there are several additional benefits that are appearing in cooperation. For example, arbitrage of payments, in the distribution of receipts from the debtor, each transaction is agreed with the client, the rate of distribution of receipts from debtors, the ability to integrate

factoring in the business processes of the client, that is need to seek own solution for each client, because all have different needs.

When comparing factoring with a loan, factoring is post-financing and it is repaid at the expense of funds coming from the buyer (detailed comparison with credit products is given in Appendix H). And a loan, although it is issued up to the time of delivery, it is repaid by itself. We can also save on factoring. There is an opinion that factoring is more expensive than a loan. In fact, it often happens that the delay in payment is 30 days, and the cost of financial resources is cheaper than if you take a loan for 12 months. This is due to the fact that deliveries go one after the other and, in fact, receive the same amount of working capital per year or longer, they simply flow from repayment to the next issue of cash, and this process is repeated many times [74]

It is also worth paying attention to the fact that on factoring funds you can buy currency unlike credit funds. The market among clients is international companies that have access to financing in European markets, but they use our services because they have the opportunity to consolidate the course at the time of shipment. The company supplied the goods, brought the invoice, received funding in UAH and bought the currency. And then, when the debtor will be charged with it, after 90 days the exchange rate may already be completely different, but the company has already received funds and has already closed the deal in the currency. Using such a tool as factoring, you can pay the supplier and at the expense of obtaining a lower price, this effect can be obtained if the subject sells and the same way if he sells, receives financing and buys. That is, we can say that factoring acts as a reserve tool for lowering prices [74].

Determining the effectiveness of factoring for the borrower is carried out by dividing the amount of receivables, taken into service to the amount of costs of factoring.

The factor of efficiency of the use of factoring service shows how much money was received per unit of expenses. To determine this indicator, we will conduct to calculate for the enterprise the purpose of which is to use the factoring service, the amount of receivables is 500 thousand UAH. (the loan is granted for a period of 30

days), based on the data given in Appendix F, G and K, we conducted a calculation (see Table 3.10).

Thus, the most advantageous option for the borrower among the five factors analyzed will be a factoring operation in the «Pivdennyi» Bank, the efficiency of using the highest 43,56 per unit of expenditure here, the second place is LLC «Fundamental Finance» 38,71, and the most expensive, the loan is provided by JSC «Raiffeisen Bank Aval» (effective 32,61) as of 2018.

Table 3.10
Calculation of Efficiency of Factoring Operation*

Bank-factor	Size of accounts receivable, ths.	Amount of financing, ths. UAH	Commission expenses of the enterprise, ths. UAH	Efficiency uses of factoring
JSC "Ukreximbank"	500	425	11,97	35,51
JSC "Raiffeisen Bank Aval"	500	450	13,80	32,61
PJSC "Ukrsotsbank"	500	425	11,64	36,51
PJSC Stock Bank "Pivdennyi"	500	450	10,33	43,56
LTD "Arma Factoring"	500	425	10,98	38,71

^{*} Made by the author on the basis of sources [73]

Factoring as an economic phenomenon has a dual nature of origin: on the one hand, factoring is an instrument of financing that allows economic entities to avoid cash shortages in the conditions of the financial crisis and ensure the continuity of economic turnover; on the other hand, - the crisis phenomena in the economy, and directly, the uncertainty of cooperation with the factorant, causes the risk of the activity of the factoring company. This position is confirmed by indicators of profitability of factoring companies. As of 01.01.2017, only LLC "FC" Omega ", LLC "FC" Palmira", " Factoring Finance " LLC and FK "Factor Plus" LLC have a positive financial result (see Table 3.11).

Factoring operations are beneficial for legal entities in view of the possibility of reducing the cost of administering bad debts and increasing their assets. At the same

time, the factoring company (the bank) carries out crediting of the working capital of the customer and assumes its credit and currency risks, and also allows the customersupplier to receive the main part of the cash proceeds.

Table 3.11

Basic Financial Indicators of Profitability of Factoring Companies in 2017

2017 as of 01.01*

The name of the factoring	Indicators from the implementation of factoring transactions, th. UAH.				
company	Revenues	Costs	Financial result		
LTD "Arma Factoring"	6012,7	82 104,10	-76 091,40		
LLC "FC" Omega "	17 927	8 624,80	9 302,20		
LLC "FC" Palmira "	18 456,70	13 208,30	5 248,40		
LLC "Factoring Finance "	15 388,70	1 827,30	13 561,40		
FK "Factor Plus" LLC	189,3	1 506,70	-1 317,40		
LLC "FC" Finance Group "	107,5	199,1	-91,60		
LLC "FC" Global Finance "	202,3	973,6	-771,30		

^{*} Made by the author on the basis of sources [73]

The main advantages and the predicted economic effect of using factoring are given in Fig. 3.3.

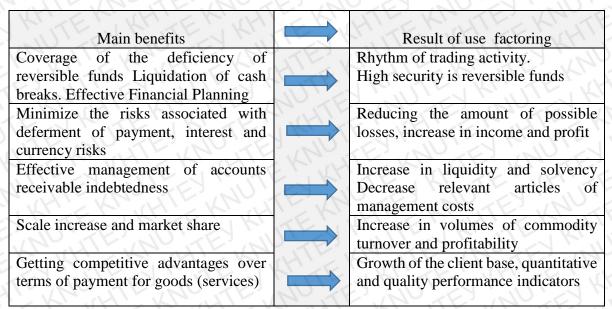


Fig. 3.3 Main Benefits and Expected Economic Effect of Using Factoring *

^{*} Made by the author on the basis of sources [73]

The benefits of factoring are significant, since its use of factoring positively affects the financial position of the enterprise, allows you to increase the liquidity of accounts receivable, eliminate cash gaps and increase working capital, insure the risks associated with granting a delay to customers, expand their market share, and the bank, in turn, has the opportunity to obtain an additional source of income and strengthen its competitive position in the banking market [76].

Factoring is the best way to replenish customer working capital and the most effective financing tool for small and medium-sized enterprises, which traditionally have financial difficulties due to untimely repayment of debtors' debts and limited availability of lending for them. It provides the company with real cash, allowing it to concentrate on its main production activity, contributes to accelerating capital turnover, increasing its productivity and profitability, and covering a large parts of the supplier's currency, credit, liquidity and interest risks [75].

After evaluating the efficiency of factoring services in Ukraine: on an example of JSC «Raiffeisen Bank Aval» activity, we compared factoring with other competing services on the market, which are in demand among consumers; calculated the effectiveness of services for potential clients of different institutions; reviewed the benefits of factoring. The results of the study provide an opportunity to conclude that factoring services in Ukraine:

- it is risky, cost-effective, profitable, not cheap services;
- are very promising instruments, that are worthy rivals for other financial services, due to a number of advantages over them, are beneficial to all market participants;
- the most effectives will be for the borrower in the «Pivdennyi» Bank, the effectiveness of the use here was the highest 43.56 per unit cost, on the second point is LLC «Factoring Finance» 38.71, and the most expensive loan is provided by JSC «Raiffeisen Bank Aval» (efficiency is the lowest 32,61) as of 2018.

CONCLUSIONS AND RECOMMENDATIONS

In the final qualifying work the development of factoring services in Ukraine was considered.

According to the results of the research, the following conclusions can be drawn.

- 1) Factoring is a financial transaction that arises in the presence of receivables, commercial loans between counterparties in the process of selling goods and services, its essence is a transfer of debt obligation to financial intermediary (bank, factoring company) with including a legal, insurance, informational and accounting of counterparty initiator (supplier) servicing elements. The main goal of factoring is minimization of risks, acceleration of trade turnover, increase of profit, increase of competitiveness, etc.
- 2) Factoring service is a very important and promising instrument in the market of financial services for the development of enterprises, in need of working capital, and the economy of the country as a whole.
- 3) The following factors can be attributed to the economic preconditions for factoring growth in Ukraine: insufficient capital assets of enterprises, high receivables from suppliers, risks of lending, growth of non-payments.
- 4) There are different approaches to classifying factoring, which divide it into many different types. Factoring is classified by: the volume of risks, the way of borrowing, the involvement of the debtor in the transaction, the type of service operations, depending on the arrangement between the entities, external conditions, and pursued objectives.
- 5) In Ukraine, the market for factoring services is represented by the service factoring with regression, which is characteristic for countries with unstable economy, where financial institutions are not ready to assume additional risks.
- 6) The state is very poorly regulates by the factoring market (for the activity of the factoring company it is not necessary to have a special license in Ukraine, it is enough to get registration for the provision of factoring services in the register of

financial institutions carried out by the State Commission for Regulation of Financial Services Markets of Ukraine, different types of factoring agreements are also not specifically mentioned).

- 7) The practice of using international factoring is rather insignificant, but it is actively developing. The highest rates of factoring service delivery are in Europe, after the Asia-Pacific region is ranked second, then North America and South America, Africa is a second last, and the lowest figures are in the Middle East. The most developed factoring in the UK, has a significant stake in the European market 19.5% by 2017 (the service appeared here in the XVII century).
- 8) An analysis of the domestic market showed that, compared with the development of world trends, Ukraine is not moving so fast, its share of factoring volume in the last seven years has declined significantly in Europe (from 0.099% in 2013 to 0.017% in 2017) and the world (from 0.061% 2013 to 0.011% 2017). That is, the participation of our country is rather negligible in the general world factoring picture. Although in Ukraine there is also a positive dynamics of the number of factoring companies, their share in the total number of financial companies, the volume of loans is increasing.
- 9) A characteristic feature of factoring in Ukraine is that this service is funded mainly by means of own funds of factors. It should be noted that the formation and development of the market of factoring services in Ukraine was due to the active participation of banking institutions in this process. But in recent years there has been a tendency to increase the volumes of provision of factoring transactions by financial companies, and not by banks, as before.
- 10) We conducted an analysis of factoring services on an example of one of the leading banks in this area, JSC "Raiffeisen Bank Aval". We found that the service itself has a rather small share in the total assets of the institution, and it has many risks (the instability of the political, economic situation in the country, the imperfection of the legal framework, insolvency of borrowers). As a result, the bank reduces its volume of provision.

- 11) The negative feature of the development of factoring services in Ukraine is their relatively high cost (although there has been a downward trend) due to the high percentage of debt transmission currently used by domestic banks in service tariffs (in developed countries this amount is on average 1, 5 2% of the amount of supply).
- 12) Trade with deferred payment, in particular, network trades, as well as small and medium enterprises, for which this type of service is a financial incentive for the development of production and sales of products (such as services, transport, agriculture) need factoring services to date.
- 13) Despite the imperfection of our legislation, we have found a contradictory tendency. The analysis of the ratio of the proportion of factoring services in the volume of GDP and the level of regulation of the market of developed countries, is inversely-proportional, and the UK leader in this industry has no state regulation. That is, such a situation is promising because participants freely enter the market and carry on their activities.
- 14) Reverse factoring is not only characteristic of developing countries but is also an effective tool for overcoming crisis phenomena (French experience).
- 15) The results of the study provide an opportunity to conclude that factoring services in Ukraine are risky, cost-effective, profitable, inexpensive services, are very promising instruments that are worthy rivals for other financial services, due to a number of advantages over them, are beneficial for all market participants
- 16) The most effective factoring services will be for borrowers in PJSC Stock Bank "Pivdennyi", the effectiveness of which is the highest at 43.56 per unit cost, the second place is LLC «Factoring Finance» 38,71 and the most expensive loan is provided by JSC «Raiffeisen Bank Aval» (the efficiency is the lowest 32.61) as of 2018.

However, of course, the further development of factoring services in Ukraine can be improved. To this end, the following proposals were developed:

1) Implementation of modern automated estimation and control technologies that will save on labor costs and improve the quality of customer service.

- 2) Pay attention to new methods of accumulation of funds by factors, not only financing at the expense of own funds.
- 3) Increasing the trust of investors and potential clients, their informing about factoring services, opportunities, advantages. Promotion of factoring through the media and the Internet (in particular, the website of the National Commission, which carries out state regulation in the field of financial services markets, creation of a page of this public body in social networks).
- 4) Providing creditors with the opportunity to legally invalidate the contracts of alienation of assets entered into after arrears and cancel the decision to change the participants and the management of the debtor company, which took place after the arrears.
- 5) Reducing the value of factoring services for borrowers, which will make them accessible and popular.
- 6) There is a need for building an effective system of risk management. For example, in the west, there were created consulting companies specializing in factoring and firms that offer IT solutions for risk management.
- 7) Ukrainian factoring companies need to be supported at the state level in relations with the European factoring association and other international structures in order to open up wide opportunities for the financial institutions of the participating countries, to enter the new international level of work with clients, development of international factoring.
- 8) It is necessary to exclude from the legislation of Ukraine all provisions that attempt to regulate factoring relations as those related to a special named contract. This will be consistent with the nature of such relationships, and the advanced laws of the United States and other countries, including continental law, and international conventions.
- 9) There is a need to support the development of classic factoring based on factoring companies and factoring with regression in the priority based on banks (for both, both services are desirable for Ukraine).

10) For JSC «Raiffeisen Bank Aval» it is recommended to reduce the fee for the service (interest rate, commission), conduct advertising policy to attract new customers. The priority of carrying out measures for the transfer of existing legal clients to factoring services, which carry smaller risks, because the bank knows for their reputation. As a result, the bank will expand its promising innovation activity, increase its income, get on a new level, and support the Ukrainian economy.

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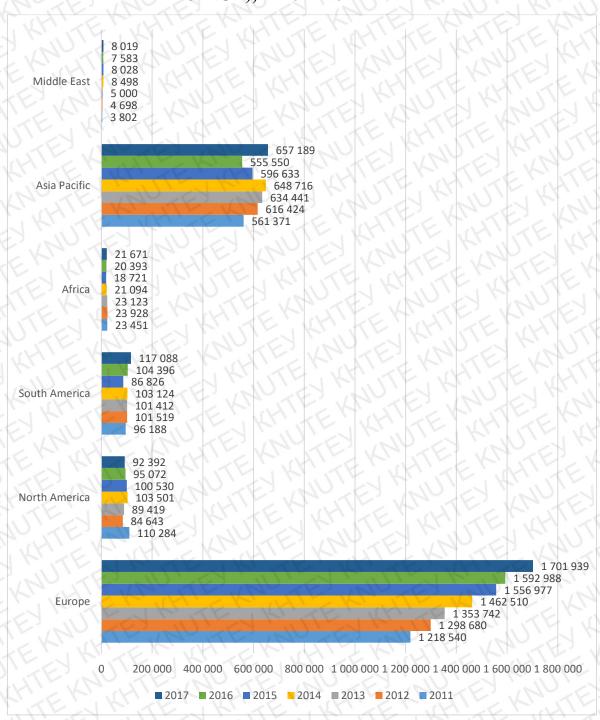
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Generalization of scientific interpretations of the concept of «factoring»*

No	Source	Definition
1	Law of Ukraine «On Banks and Banking»	Acquiring the right to fulfill the obligations in cash for the goods delivered or services rendered, assuming the risk of fulfilling such claims and accepting payments.
2	Tax Code of Ukraine	Factoring - a transaction from the assignment by the first creditor of the claims of a third party debt to a second lender with a prior or subsequent compensation for the value of such a debt to the first lender.
3	Law on «Financial Services, State Regulation of the Financial Services Market»	A financial institution that provides factoring services may provide services related to keeping records of monetary claims, providing a surety for fulfilling its obligations by the debtor in accordance with the monetary requirements of suppliers of goods (services) and filing cash claims on behalf of suppliers of goods (services) or on their behalf, as well as other services aimed at obtaining funds from the debtor.
4	Economic Code of Ukraine	The Bank has the right to conclude a factoring agreement (financing for the assignment of the right of monetary claim), by which it transfers or undertakes to transfer funds to the disposal of the other party for payment, and the other party withdraws or undertakes to retreat to the bank its right to claim money to a third person.
5	UNIDROIT Convention on International Factoring	A transaction is considered factoring if it meets at least two of the following four characteristics: 1) the presence of lending in the form of prepayment of debt claims; 2) the accounting of the supplier before the entire accounting implementation; 3) the collection of his arrears; 4) supplier's insurance against credit risk.

^{*} Made by the author on the basis of sources [3, 12, , 16, 17, 23]

Total Factoring Volume by World Regions in the last 7 years (in Millions of EUR), in 2011-2017*



^{*} Made by the author on the basis of sources [25]

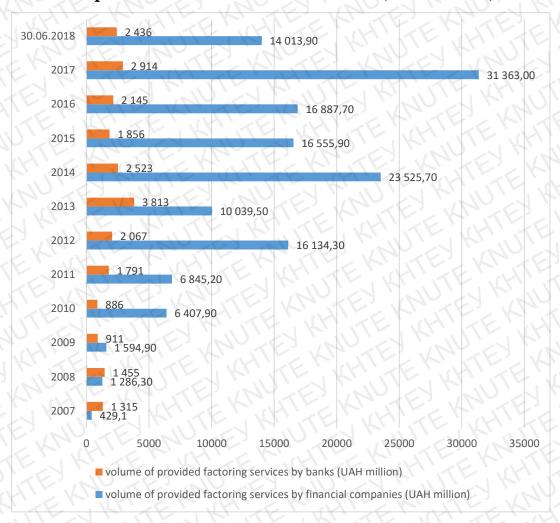
Share of Factoring Companies in the Total Number of Financial Companies during 2011-2018 (%)*

Year	financial companies, of all	factoring companies	Share of factoring companies in the total number of financial companies,%
2011	251	110	43,82
2012	312	146	46,79
2013	377	163	43,24
2014	415	264	63,61
2015	571	457	80,04
2016	650	545	83,85
2017	818	492	60,15
2018**	878	526	59,91

^{*} Made by the author on the basis of sources [28]

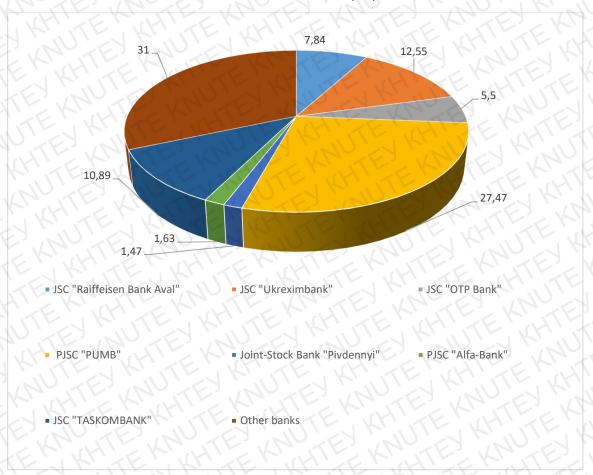
^{**} Data for 2018 is provided as of 30.06

Comparison of the Dynamics of the Volume of Provided Factoring by Financial Companies and Banks 2007 - 30.06.2018 (UAH million)*



^{*} Made by the author on the basis of sources [28, 39]

Distribution of Factoring Services Market in Ukraine among Banks as of 01.06.2018 (%) *



^{*} Made by the author on the basis of sources [33]

The Terms to Provide of Factoring Services of Leading Banks as of 2018 *

Factor	Conditions for issuing factoring	Maximum amount of financing, % of the amount of the invoice	Minimum amount of debtors	Maximum period of payment delay	
VI	2 2	3	4	5	
JSC "Raiffeisen Bank Aval"	Only in case of transition to bank servicing. Only for companies with debtors who work for at least 1 year and debtors who have been cooperating with the company for more than 3 months, for which 3 deliveries have been made.	90 %	5	3 months	
JSC "Ukreximbank"	Only for companies working over 1 year and debtors who have been cooperating with the company for more than 6 months	85% minus factoring fee	3	3 months	
JSC "OTP Bank"	Only for regular deliveries. Only for companies operating at least 3 years and debtors cooperating with the company for more than 6 months	80%	EXMIT	4 months	
PJSC "Ukrsotsbank"	Only for profitable companies in recent months. Only on condition of transfer to the bank of all turnover on contracts under which factoring service is carried out	85% minus factoring fee	3	4 months	
PJSC "PUMB"	No restrictions; minimum package of documents. There is an online factoring order.	90%	EKNUT	2 months	
PJSC Stock Bank "Pivdennyi"	Only in case of transition to bank servicing. Only for debtors who have been cooperating with the company for more than 6 months. Only under the mortgage of real estate or goods	up to 90%	TE VA	4 months	

^{*} Made by the author on the basis of sources [38, 40, 42, 45, 46, 48. 55]

Dynamics of Tariffs Leading Banks in Ukraine for 2015-2018 (%)*

Institution	Rate,% per annum	Commission for setting the factoring limit,% of the limit amount	Service fee,% of the amount of the invoice	Fee for processing documents,% of the amount of the invoice		
MILEY WOLE	2015					
	2	3	4	5		
PJSC "Ukrsotsbank"	22	X	0,2	X		
PJSC Stock Bank "Pivdennyi"	21	0,1	0,1	X		
JSC "Ukreximbank" 20		0,85	X	X		
JSC "Raiffeisen Bank Aval"	22	0,7	X	X		
HILL KINT	KRUTE	2016				
	2	3	4	5		
PJSC "Ukrsotsbank"	23	X	4	X		
PJSC Stock Bank "Pivdennyi"	23	0,6	X	X		
JSC "Ukreximbank"	21	X	X	X		
JSC "Raiffeisen Bank Aval"	21	MUTELK	0,85	X		
THE MITTER	2017					
	2	3	4	5		
PJSC "Ukrsotsbank"	26	X	2	X		
PJSC Stock Bank "Pivdennyi"	22	0,5	0,5	X		
JSC "Ukreximbank"			X	0,2		
JSC "Raiffeisen Bank Aval"	26	KHITEKA	0,63	0,1		
TE KNOUTE'S	2018					
TENTE.	2	3	4	5		
PJSC "Ukrsotsbank"	19	X	1)	X		
PJSC Stock Bank "Pivdennyi"			0,1	X		
JSC "Ukreximbank"	30	X	X	0,3		
JSC "Raiffeisen Bank Aval"	25	UTELN	0,01	X		

^{*} Made by the author on the basis of sources [38, 40, 42, 46, 48]

Comparison of Factoring with Credit Products*

Factoring	Credit	Overdraft		
Repayment takes place the debtors' money	Returned by the client			
Provided for a late term payment (up to 90 days)	Provided for a fixed term (stipulated in the agreement)	Provided for a strictly fixed term (usually not more than 30 days)		
Issued on the day of delivery of the goods	Payable within the term specified in the loan agreement	The term of the contract for the renewal credit line does not exceed 3-6 months.		
Transfer to the Bank for cash and settlement services is not required		red for cash and settlement ices		
The pledge is not needed	Is provided for the most part it is bail	The need to maintain a certain turnover of funds in the current account		
The amount of funding may increase depending on the volume of sales	Granted for the amount stipulated in the contract	Installed depending on the annual turnover of the clien on the current account		
Paid on the day of payment by the debtor of the goods	Payable in the term specified in the loan agreement	All receipts are automatically written off for repayment of overdraft and interest		
Is accompanied by additional services (information support, risk coverage, management of accounts receivable)	In the course of lending, other services are not provided in addition to providing funds	When receiving an overdraft, other services are not provided in addition to the provision of funds		
Factoring financing is paid for invoicing	The need for a large number of documents			
Factoring financing can be used to increase purchasing volume	The loan is provided to cover cash breaks or for specific purposes	Overdraft is provided in the absence or insufficient amount of money on the current account		

^{*} Made by the author on the basis of sources [75]

Terms of Issue and Tariffs of Factoring Loans, which Leading Factoring Companies Provide in Ukraine*

Фактор	Terms to provide factoring	Maximum amount of financing,% of the amount of the invoice	Minimum amount of debtors	Maximum period of payment delay	Rate,% per annum	Commission for setting the factoring limit,% of the limit amount	Service fee,% of the amount of the invoice	Fee for processing documents,% of the amount of the invoice
LLC "Factoring Finance"	Individually		KHITE	3 months	Від 25	LEW	0,5	_
LLC "European Factoring Development Company"	Only under the bail of liquid property	Up to 90%	EXMUTE	4 months	35	NUTE 1	0,5	_
FC "Factoring" LLC	Individually		HIELKY	3 months	30	0,5	_	_
LTD "Arma Factoring"	Individually The debtor is only a Furshet. No regress	60%-90%	2	4 months	27	STEN -	-	_
FC "Factor Plus" LLC	For new customers - up to 200 thousand hryvnia. Debtors - Auchan, Caravan, banks.	80% minus factoring fee. Up to 90%	TEYNU	3 months	31	2	-	_
LCC "Retail Capital"	Дебітор – тільки Фуршет. Без регресу	До 100%	NUTE	There are no time limitations	35	EK-	-	-

^{*} Made by the author on the basis of sources [38]