CHAPTER - IX

SUMMARY OF FINDINGS, CONCLUSIONS AND SUGGESTIONS
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The present chapter summarizes the main findings, makes conclusions, and puts forward suggestions on the basis of the findings of the study.

Bangladesh is yet to introduce factoring services. Not even the academicians or financial experts in Bangladesh have formally discussed the subject except, in the recent past, a few studies have suggested factoring services to facilitate economic growth and financial discipline in Bangladesh. An attempt has been made here to do a thorough study on ‘introduction of factoring services in a developing economy: case of Bangladesh’.

Both primary and secondary data has been used for the study. Primary data has been collected from six groups namely bank and finance executives, manufacturers, exporters, executives of Chambers of Commerce and industry, academicians, lawyers. A comprehensive questionnaire was devised for each stratum and administered to the respondents. Personal interviews were held with some reputed academicians in this area. Secondary data has been collected from domestic as well as global sources. The focus in collection of secondary data was on financial, industrial and trading, and export sectors of Bangladesh, global factoring business, and factoring business in the neighbouring countries.

The analysis has been conducted with the help of appropriate tools. To measure the performance of global factoring, the trend models regressing world domestic factoring, world international factoring and world total factoring volume on time have been fitted and thereby future projections made for the years 1999 to 2003 A.D. The best fit model out of the following has been chosen on the criteria of adjusted co-efficient of determination ($R^2$) and standard error of estimation (SEE).

1. $Y = a + bx$
2. $Y = a + bx + cx^2$
3. $\ln Y = a + bx$
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4. \( \ln Y = a + b \ln x \).
5. \( Y = a + b \ln x \).

Here \( \ln \) stands for natural logarithm. For computing growth rates of various time series data, equation (3) has been employed.

Various measures of concentration namely concentration ratios, Hirschman – Herfindahl index and Entropy index have been used to measure the countries’ concentration in world-wide factoring business.

To measure the operational and financial performance of the Indian factoring companies, three aspects namely operation, risk management and profitability have been considered. Various ratios have been used to measure the above aspects.

Scaling techniques have been used. Other tools like averages, index numbers, Spearman rank correlation, and test of significance such as Mann-Whitney U test, Chi-square test, t test etc. have been used in the study.

The findings of the study are summarised below.

1.1. Factoring is expanding in all parts of the world. However, factoring business is still found to be highly concentrated in a few countries namely, U.K., U.S.A. and Italy.

1.2. The growth rate of companies in factoring has been found to be quite high (8.20 per cent) in the Asian region, next only to the Americas (9.30 per cent).

1.3. The upward growth rate of factoring business in some major countries has been particularly noticeable (around 20 per cent at the end 1997).
1.4. World international factoring has grown at higher rate (16.09 per cent) than the world domestic factoring (14.34 per cent). Still

1.5. Domestic factoring dominates the market share in the total factoring business (between 92.97 per cent to 95.01 per cent of total factoring business during the reference period).

2. The performance of Indian factoring companies has been improving through time.

2.1. The compound growth rate of turnover, debt-purchase outstanding, and collection has been found to be noticeable both for the SBI Factors and Commercial Service Ltd. (27.98 per cent, 30.57 per cent, and 32.69 per cent, respectively) and Canbank Factors Ltd. (17.77 per cent, 19.35 per cent, 26.93 per cent, respectively) during the reference period. The business portfolios of both the companies are well diversified into the auto ancillaries, bulk drugs, cable, automobile, chemicals, distilleries, paper and packaging, textiles, steel, electronics, and trading sectors.

2.2. The Indian factoring companies included in the present study have adhered to the prudent norms as per RBI guidelines for NBFCs. The capital adequacy ratio of both SBI Factors (37 per cent to 210 per cent) and Canbank Factors (22 per cent to 38 per cent) during the reference period is much higher than the stipulated ratio (12 per cent) prescribed by RBI. They are also careful to tackle risks. The ranges of non-performing assets ratio, and plough back to shareholders’ equity ratio are from 0.64 per cent to 5.90 per cent, and from 11.53 per cent to 24.69 per cent, respectively, for SBI Factors and from 0.08 per cent to 1.64 per cent, and from 8.96 per cent to 43.61 per cent, respectively, for Canbank Factors during the reference period. However, loan to equity ratio is found high both for SBI Factors (169.85 per cent at the end of 1998-1999) and Canbank Factors (251.60 per cent at the end of 1998-1999). The earnings have been more volatile for SBI Factors (1.72 per cent) than that for Canbank Factors (0.85 per cent).
2.3. The factoring companies have been maintaining a mixed profit trend since their inception. The performance of Canbank Factors is better than that of SBI Factors in the criteria of return on equity (Can: from 10.74 per cent to 18.85 per cent; SBI: from 5.54 per cent to 12.07 per cent), factoring income to total assets (Can: 8.77 per cent to 13.83 per cent; SBI: 5.54 per cent to 11.69 per cent). The return of assets ratio shows almost the same percentage, and dividend pay out ratio is higher for SBI factors as compared to Canbank factors. However, in case of compound growth rate, return on equity and factoring income to total assets show a better performance for SBI factors (11.38 per cent, 7.39 per cent, respectively) than those for Canbank Factors (6.85 per cent, -0.55 per cent, respectively). However, return on assets ratio, non-factoring income to total assets, and dividend pay out ratio confirm a negative growth rate for SBI Factors (-9.35 per cent, -120.28 per cent, and -3.07 per cent, respectively) whereas Canbank Factors maintains a positive growth rate for these ratios except dividend payout ratio (8.97 per cent, 38.14 per cent -5.00 per cent).

The Mann – Whitney’s U-test suggests no statistically significant difference between SBI Factors and Canbank Factors in the case of return on assets and non factoring income to total assets while in the case of the other three ratios, namely, return on equity, factoring income to total assets, and dividend pay out ratio, the difference between SBI Factors and Canbank Factors is found statistically significant.

2.4. Apart from these, a few more new companies have entered the field in the factoring business. ICRA has affirmed A1 + rating (indicating highest safety) for short-term debts issued by SBI Factors and Canbank Factors. Besides providing pre-payment and collection services, they provide other value-added services like sales ledger maintenance, advisory services, etc. The Factoring companies have achieved a standard model on organizational, strategic, operational and policy aspects.

3. There are problems that constrain working capital financing to the industrial and trading sectors of Bangladesh. The analysis of responses of the respondents reveals that industrial units are facing the following problems.
3.1. Around 72 per cent of the total respondents feel that credit sales and slow realization of accounts receivable are the main causes of working capital problems, and the growing competition in selling goods by a number of sellers makes this situation worse.

3.2. Nearly 71 per cent respondents view that not financed by banks and financial institutions as per need and when required affects the supply of working capital.

3.3. Consideration of security, both primary and collateral weighs heavily in deciding the nature and amount of limits, and the margin on working capital. Seventy per cent respondents mention that it affects growing companies whose main assets are stocks and debtors.

3.4. Nearly 57 per cent respondents consider that the absence of proper control over current assets and thereby improper utilisation of these assets block working capital in the various current assets at a point of time.

3.5. Around 55 per cent respondents recognize that wrong assessment of tie up period and operating cycle hampers getting need-based working capital finance from banks.

Others, such as, shortfall of equity, inability to submit proper documents, mismatch of short-term source to long-term need or vice-versa, lack of available financial instruments, and lack of dynamism in bank executives come out as problems of working capital finance. Around 65 per cent respondents agree that these constraints in financing working capital result in lower productivity, erosion of profits, incipient sickness and finally closures of the industrial units.

4. The industrial units recognize the extreme importance of ‘management of book-debts’. They are concurrently monitoring whether every thing is being done to use and to protect the book debts or not. Even after such a monitoring and control, the management of book-debts is acutely affected by ‘liability to collect book-debts in reasonable time’. Respondents put the maximum weighted score (80.86 per cent) to this. This is followed (almost equally) by the ‘non availability of adequate finance against book-debts’ (79.43 per cent). Thirdly, the necessity for write-off has been considered by the respondents (66.86 per cent weighted score) as a severe problem of management of book-debts.
Rank correlation has been used and it has been found that the ranking given by bank and finance executives and academicians is perfectly positively correlated and it is significant at 5 per cent level. The ranking of other groups namely, bankers and manufacturers, manufacturers and academicians holds also positive correlation, although the ranking is not statistically significant at 5 per cent level.

5. A way out is required to solve the problems of working capital faced by the industrial and trading units of Bangladesh. The following suggestions are found as worth consideration in that regard.

5.1. The introduction of new financial instruments like factoring, invoice discounting, receivable securitisation, etc. under new financial institutions may ensure adequate working capital as per need and when required. It is suggested by 82.86 per cent respondents.

5.2. Nearly 81 per cent respondents feel that speeding up the process of sanctioning and disbursement is needed for solving the working capital problem.

5.3. Around 61 per cent respondents view that fee based consultancy service can help entrepreneurs, particularly those who are in the process of growing and inexperienced, in having relief from the hassles of getting working capital.

5.4. Formulation of strong monetary, legal and fiscal policy is required. Sixty per cent respondents expect that these policies will bring positive effects on purchasing, expansion, financing, selling, etc. and finally on sufficiency of working capital.

5.5. Changing approach from ‘security base to the need base’ can solve the problem of growing companies to a great extent in this regard. This is viewed by 57 per cent respondents. They mention that lenders should give more emphasis on nature of industry and products, size of operations, operating cycle, production cycle, production technology, market conditions, etc.

The other suggestions namely strict monitoring and supervision, cash sales and speedy realization of accounts receivable, proper current assets management, correct assessment of tie-up period and operating cycle, and transparency of accounts come out from the analysis of the responses in that regard.
6.1. Bangladesh has experienced vibrant export growth rates (5.7 per cent of GDP in 1972-73, 8.6 per cent of GDP in 1990-91, and 13.4 percent of GDP in 1996-97) since the early 1980s. However, these rates are well behind the rates posted by high performing Asian economies (called Asian Tigers) and even lower than those of SAARC nations except India. Moreover, dominance of only a few exportable commodities, low domestic value addition, and negligible backward linkage are the major causes of concern.

6.2. In Bangladesh, one of the biggest problems of exporters is inadequate finance. Although a battery of institutions provides finance facilities to the exporters yet the procedures are cumbersome and time consuming. Many of the problems like unconsolidated government sponsored export assistance programmes (63.46 per cent respondents), limited knowledge about various support programmes for foreign market (76.92 per cent respondents), less communication among lenders, among borrowers, and between lenders and borrowers (78.85 per cent respondents), and unfamiliarity with the domestic laws of target market (57.69 per cent respondents) currently perceived as constraints in export financing are resulting from improper information flow / information asymmetry. Secondly, constraints like complication about international trade instruments (82.69 per cent respondents), inadequate planning (69.23 per cent respondents), delays in converting export receivables into cash (65.38 per cent respondents), limited access to advanced management techniques (63.46 per cent respondents), and commercial and political risks (55.76 per cent respondents) which are due to market imperfection of small and medium enterprises create barriers to flow of funds to the exporters. Finally, constraints like huge initial costs (71.15 per cent respondents), high cost of small size orders to finance and market (80.76 per cent), lack of extensive counselling for exporters (57.69 per cent respondents), and uncomfortable dealing with the banking centers located in only the major cities (69.23 per cent respondents) which are due to transaction cost of exporters also create barriers to flow of funds to the exporters.

6.3. Export factoring could be quite attractive for exporters, particularly, for small and medium enterprises (SMEs) who are not able to avail L/C facilities. Moreover, exporters of certain goods like
ready-made garments, knitwear and hosiery products, frozen foods, leather, tobacco, tea who are comparatively small on asset base and investment wise but large in number may find the services of export factoring quite helpful and attractive. Even those who can obtain L/C facilities may get benefits from factoring, since L/C is a transaction-based facility and it becomes difficult to arrange it in the case of repetitive transactions where delivery schedules are critical. Bangladeshi exporters have been lacking in the collection and credit protection. Exporters need to have information about foreign markets, competition and customers. Export factoring can bridge this gap with a joint collaboration programme of export credit guarantee scheme (ECGS) of Bangladesh Sadharan Bima Corporation (only National Insurance Corporation in Bangladesh). Apart from these, creation of and entering into various regional trade blocks like South Asian Preferential Trade Agreement (SAPTA) will bring an extra impetus to export factoring.

7. In Bangladesh, there are high exceptions of respondents to the factoring services in solving the problems of clients. Nearly 91 per cent, 85 per cent, 80 per cent, 62 per cent, 52 per cent, and 65 per cent of the respondents, respectively, expect that factoring will solve the problems in the areas of working capital, collection of book-debts, coverage of bad debt loss, management efficiency, incremental sales, and promotion of exports from Bangladesh. However, it is also found from the respondents’ views that these expectations, may be changed by other forceful factors like uncertainty with reference to returns and profitability, growth and development, obtaining government approval, technical know-how, raising funds, etc. as all these areas have deeper links with the success of factoring organisations.

8. The level of awareness about factoring among bank and finance executives, manufacturers, academicians, and policy makers is very low. Ninety per cent respondents mention that lack of proper initiative from government, policy makers, financial institutions, and individuals is the main reason for the unawareness. 70 per cent and 67.14 per cent respondents, respectively, view that lack of expertise and knowledge about factoring, and backwardness of financial market are also the reasons for the
unawareness. Apart from these, weak legal framework, absence of organised trade and industrial sector, lack of recognized credit rating agency come out as reasons from the respondents' responses.

**Rank correlation** has been used to know the association among bank and finance executives, manufacturers, and academicians in the ranking on causes for low awareness. It is found that there is a close association in the ranking which is also statistically significant at 5 per cent level.

9. Factoring could be an effective financial instrument in reducing non-performing assets (NPAs) of financial institutions. The respondents (92 per cent bank and finance executives, 100 per cent executives of chambers of commerce, and 86.67 per cent academicians) are fully confident about the effectiveness of factoring services in this respect in Bangladesh, because of generally their large-scale operations, high level specialization and abundant resources. Firstly, timely collection can be assured as it is expected by the respondents that the factoring companies will be operationally fully automatic and all steps, for example, sending of letters requesting payment, payment monitoring with sequential further steps etc. will be conducted within appropriate time limits. Moreover, in the manufacturing sector, factoring will be availed to its maximum capacity which will deal efficiently with all debts (irrespective of size) as debts remaining uncollected affect cash flow over a period of time and thereby make loan repayment difficult and unreliable. The respondents expect that this new service will help to bring financial discipline in manufacturing and trading sectors resulting in creation of regular repayment habit and eventually reduce the classified loans of the banking sector of Bangladesh.

10. Factoring would raise good prospects for higher profits for clients through its positive (desirable) impact on cost, liquidity and capital of the clients. It is expected by the 87 per cent of the respondents. Moreover, 68 per cent, 51 per cent, and 99 per cent respondents, respectively, expect that factoring will provide required cash without increasing debt or diluting equity, generate more returns than service charges paid to the factor, and also improve liquidity through releasing the amount tied up in accounts receivable.
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The Chi-square test supports that perceived effects of factoring services on cost, liquidity, profitability and capital of the clients are the same across bank and financial executives, manufacturers, executives of chambers of commerce, and academicians.

11. Factoring would also garner higher profits for the service providers through its positive (desirable) impact on cost, liquidity, and capital structure of the providers. It is expected by the 98 per cent of the respondents. Respondents mention that factors can manage funds at lower costs from their parent organisations and they will get a good opportunity of business due to strong presence of SMEs in the industrial sector of Bangladesh. 72.5 per cent of the bank and finance executives, and academicians expect that factoring service will bring a good chunk of small and medium scale industries to the fold of financial institutions, which do not currently have an easy access to the financial institutions. Besides, 60 per cent respondents agree that the banks are in excellent position to persuade customers to use their other banking facilities, by seeking their factoring services.

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Conclusions and Suggestions

To sum up the above findings, it is clear that factoring is now well established facility in many countries of the world. This financial service is characterized world-wide by a significant growth in terms of volume of business as well as number of factoring companies. The factoring volume has reached US $529 billion at the end of 1998 as compared to US $ 64 billion at the end of 1983 with a compound growth rate of 14.47 per cent. Although domestic factoring dominates market share in the total factoring business yet the growth rate of international factoring is higher than that of world domestic factoring; its growth rate is higher also than that of international trade. Exporters are gradually turning their back on letter of
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credit. They now sell on open account terms and protect themselves from the risk by using export factoring to ensure against default by the customer and also to avoid longer terms of payment.

Asian continent is regarded as an important growth area. In SAARC region, India and Sri Lanka have already launched this service. In Sri Lanka, factoring is now accepted as a useful financial service. In India also, factoring is gaining acceptance in the business community. There is a tendency for firms with large number of debtors to consider factoring, mainly for outsourcing debt administration and debt collection.

Bangladesh is a developing country. Its manufacturing sector is relatively a minor sector of the Bangladesh economy. As of now, it accounts for 9-10 per cent of the GDP. Of this, SMEs play a vital role in the economic development of Bangladesh. Its share of the value of the gross output of the entire manufacturing sector is estimated at about 35 per cent, and nearly 80 per cent export earnings come from the SMEs. Bangladesh’s important challenge is to improve the contribution of whole manufacturing sector to the total GDP (at respectable rates) for fast economic growth. It expects a sizeable industrial sector where manufacturing sector will account for at least 25 per cent of the GDP. In the context of market economy, this sector is trying to be competitive both domestically and globally. In order to achieve the objective of accelerating industrial growth rate, it is necessary to provide all required assistance to the industrial sector in areas such as finance, collection of accounts receivable in due times, coverage against defaults, provision of effective information, overseas trade networks, and promotion of closer understanding between industrial and trading sectors, and the financial sector. In this perspective, factoring could be a supplementary service of the existing financial services provided by banks. It is expected that factoring could prove to be mutually beneficial to both factors and manufacturing sector. On the one hand, manufacturing sector could benefit from the wide range and flexibility of factoring services, on the other hand, factors would be assured of readily available substantial business from the sector. Apart from this, regional economic co-operation has emerged as a major economic arrangement for the global economic integration. Bangladesh has participated as an active member of SAARC, SAPTA,
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Colombo plan etc. This has created possibilities for increasing the cross border trade among the countries of the region through land and sea routes. It will result in bright possibilities of trade on open account terms under factoring service. So, Bangladesh can not keep herself away from this world wide service.

In this perspective, it is felt that it would be of great assistance to the entire industrial and trading sectors if factoring services are introduced in Bangladesh. Moreover, the introduction of export factoring in Bangladesh would provide an additional window of facility to the exporters. There is, therefore, no need to keep any reservation in introducing both the domestic and international factoring in Bangladesh. However, such a system can sustain only if a conducive environment is created and a professional approach is taken. For this purpose, an attempt is made here to enlist a few suggestions in the light of existing analysis with the expectation that these will provide a helpful direction to the Government, policy makers, bankers, manufacturers, traders and other authorities who can intimately involve in launching this financial service.

1. Factoring services should be made available for all sectors. Since delays in receiving payments affect small and medium industries (SMIs) very acutely, nearly 75 per cent and 76 per cent respondents, respectively, suggest to implement factoring services for small scale industrial sector and medium scale industrial sector immediately. In this regard, it is desirable that SMIs in Bangladesh, which are not having large financial resources, should not be required to provide collateral securities, which are currently invariably insisted upon by the banks. This suggestion becomes more important in view of the expected crucial role of SMIs in promoting the growth of the market-based economy of Bangladesh through encouraging entrepreneurship in the country. Apart from this, majority of the large entrepreneurs does not get required finance because of failure of the lending mechanism, weakness of equity market and low flow of foreign investment. Fifty three per cent respondents favour this service for the large-scale industrial sector also.
2. Bangladesh needs to significantly diversify its exportables as well as increase the supply elasticities of existing export products to accelerate its integration into the world economy through its export led growth. Nearly 60 per cent respondents feel that export factoring should be launched as it permits exporters to sell on open account terms and gives them thereby a competitive edge through its multifarious benefits. In this context, export factoring should be made available for the client companies who are small but large in number like those engaged in garments, knitwear and hosiery products, frozen foods, leather, tobacco, tea, etc. The following steps are suggested for implementation before launching factoring services.

2.1. Factoring companies need to get full status of ‘authorized dealer’ in foreign exchange from Bangladesh Bank.

2.2. They need to have the membership of Factors Chain International (FCI).

2.3. Factoring companies will have to think about without recourse factoring as factoring services are not likely to sell well without credit insurance protection. For this, factoring can have a joint programme with Bangladesh Sadharan Bima Corporation. Under this programme, the corporation will provide credit insurance protection under its ‘export credit guarantee scheme (ECGS)’ to the extent of 100 per cent and the factoring companies will provide the other factoring services.

2.4. Factoring companies should be registered as financial institutions by giving them this due status so that clients can enjoy finance at concessional rates of interest coupled with other facilities to be provided by the Government of Bangladesh for exporters.

3. Careful launching of factoring companies is very important. Looking at the Bangladeshi realities, ‘joint ventures between banks and financial institutions, and business houses’ are best suited for launching factoring business in Bangladesh. 46.8 per cent (the maximum percentage) of the total respondents have suggested this approach. In this perspective, the following points may be kept in view.
3.1 In forming joint ventures, it is desirable to consider only a few lending banks and financial institutions, and business houses with good tracks record. In this connection, BASIC and BSCIC could be considered positively as they have considerable expertise in financing and managing of SSI sector and MSI sector.

3.2 In a few early years, it would be desirable to have a few factoring companies, say a maximum of three or four to avoid excessive and unhealthy competition. Besides, the number of branches should also be restricted by permitting opening on need basis.

3.3 The factoring companies will operate autonomously under dynamic leadership with specialised manpower, updated skills, latest technology, price competition (market oriented) and low margin.

4. It will have to think of innovative ways of raising finances at low cost for the factors. Looking at the Bangladeshi realities, factors may raise funds from the following sources: (a) public deposits; (b) inter corporate deposits; (c) inter-bank call money market; (d) borrowing from the Bangladesh Bank at bank rate; (e) line of credit from international and national development financial institutions (DFIs); (f) equity contribution by promoters and public, (g) debentures issued to public. However, a factor should use a judicious mix of funds so that overall cost of funds is minimized. In this regard, banks and other financial institutions, and individuals should be encouraged to invest in the equity capital of factors through appropriate fiscal incentives.

5. Factoring companies will have to depend on well-qualified, professionally skilled, dynamic, service-oriented staff for success. Bangladesh may find it difficult to recruit professionally competent staff at the initial stage. The existing banking personnel is a possible source of staff for factoring companies, although dynamism, drive and service orientation are probably not up to the expected level in their approach. They may employ dynamic young persons with professional management qualifications from the market (campus recruitment). However, factoring companies should place them in positions only after imparting intensive and adequate in-house training as well as institutional training at home and abroad.
Moreover, they can invite some employees in the reputed factoring organisations situated abroad for a practical orientation and hands on experience, of course, as a temporary measure only.

6. All companies are not suitable to take full advantage of factoring. Factoring companies have to prescribe certain criteria somewhat on the following lines for the prospective clients to be eligible for entering into a factoring agreement.

6.1. Minimum annual credit turnover should be TK 50 Lac.
6.2. Average invoice value should be over TK 10 thousand.
6.3. Minimum tangible net worth should be TK 20 Lac.
6.4. Spread on a single customer should not exceed 25 per cent of the total exposure.
6.5. Selling goods or services predominantly to industrial and commercial customers.
6.6. No major dispute with customers during past three years.

Moreover, the credit standing of the client’s customers, nature of products dealt in by the client should also be considered. In this regard, industries such as heavy engineering and large scale building construction, which are automatically unsuitable for factoring should be avoided by factoring companies. Factoring companies will have to give more emphasis on suitable industries such as furniture and carpets, consumer products like textiles, toys, shoes, other clothing items, light engineering items, bulk drugs, printing inks and paints, paper and packaging, chemicals and fertilizers, etc.

7. The factoring company must follow the principle of simplification of the rules and procedures to reduce the paper work and consequent delay in giving sanction. ‘Single window’ approach should be adopted for calling of the information, the rules and procedures for sanctioning of factoring services, and made the services of factoring available without any extra cost of time.
8. Product designing is essential for the success of factoring. The following are the suggestions in this regard.

8.1 Financing service and collection service must be started immediately in Bangladesh as core products of the factoring companies. Nearly 90 per cent and 64 per cent of the total respondents, respectively, suggest starting these two services immediately. Factoring company can offer ‘book-keeping services’ from the very beginning of their launching, although it is found (64.86 per cent respondents are of view that they do not feel any demand for this service) that initially, the involvement of factoring company will not be welcomed in this intimate part of the client’s operations.

8.2. Advisory services could also be offered from the initial stage of launching. Nearly 59 per cent respondents feel for this service marginally. However, achieving required expertise, and building up a substantial database on many companies are the pre-conditions for offering this type of service.

8.3. Factoring companies should be cautious to some extent in offering ‘credit protection service’. Around 51 per cent respondents favour credit service marginally, while 37.89 respondents per cent urge the starting of this service immediately and the rest 10.81 per cent feel no requirement for this service. It can be provided on the basis of availability of domestic credit insurance facility. It is also true that ‘without credit protection service’, factoring service is not likely to sell well. Moreover, it is almost imprudent to launch international factoring services without the facility of credit protection service.

9. There is an urgent need to educate the business and financial community as a whole as regards the advantages and benefits of factoring. This image building effort can be made through workshops, seminars, and articles on factoring written in professional journals for appreciation of bankers and industrialists and expeditious introduction of factoring with wide and enthusiastic participation.

10. Factors will have to be careful to keep their costs down so that they could offer the new service at a low price. In the Bangladeshi context, the following suggestions are worth consideration.
10.1. Interest charges should be equal to or slightly above the interest being charged by banks on their cash credit and overdraft facilities.

10.2. Factoring charges should be somewhere between total 1.32 per cent to 2.42 per cent on turnover.

11. Continuous credit rating of the buyers and sellers, and proper information are of utmost importance for the viable and profitable operations of the factor. In Bangladesh, we do not have any comprehensive and reliable 'credit rating machinery'. Credit Rating and Information Services Ltd. (CRISL), single credit rating agency of Bangladesh, is almost unfamiliar to the industrialists and financial sectors. Hence, it is must to activate CRISL besides creation of more such credit rating agencies, in assessing the credit-worthiness, financial standing, market reputation, business prospects etc. of the clients over a wide range of parameters, for the efficient working of the proposed factoring organisations.

12. A uniform accounting system is required for factoring services in Bangladesh. In this regard, Bangladesh Bank should initiate suitable action and issue guidelines with the help of professional accountants bodies like Institute of Chartered Accountants of Bangladesh (ICAB), and Institute of Cost and Management Accountants of Bangladesh (ICMAB) like in India and in Sri Lanka. In India, SBI Factors and Commercial Services Ltd. has approached Institute of Chartered Accountants of India for circulating directives in the matter of accounting treatments of factored receivables. In Sri Lanka, factoring is recognized as a 'specified business undertaking' under the Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995. However, at the initial stage, 'Statement of Financial Accounting standards No. 77', Financial Accounting Standards Board, could be considered for this purpose (details in chapter VIII). In addition, accountants who prepare and audit accounts must be aware of the precise relationship between a factoring company and its client company so that this relationship can reflect in their accounts.
13. Prudent laws and regulations must be considered before launching factoring services in Bangladesh. In this regard, there are two alternatives, firstly let the operation start within the existing legal framework with the following amendments.

13.1. Entry of organisations in factoring business should be regulated by Bangladesh Bank in terms of capital adequacy, extent of raising public deposits, etc.

13.2. 'Prompt payment Act' should be enacted in order to provide legal backing for prompter payments and quicker collections.

13.3. Factoring transactions should be totally exempted from the payment of 'stamp duty.' If it is not acceptable, exemption up to a certain amount can possibly be made at the beginning stage.

13.4. Legal framework should be made available whereby invoices involved in factoring transactions should be treated at par with bills of exchange and the factoring agreement treated as irrefutable evidence in the court.

13.5. Sale of goods Act may be amended so that stipulation of ban on assignments of debt in the contract shall be of no effect.

13.6. Transfer of property Act may be suitably amended by making notice of assignment to the debtor compulsory. Alternatively, there should be a precondition to send the notice of assignment to the debtors by the client or factor for any prepayment to the client.

Secondly, at the same time, expeditious steps are required to be taken in order to develop an independent and comprehensive legal framework in an unambiguous manner by defining the term 'factoring' and by establishing the rights, duties, liabilities and obligations of the parties involved in factoring transactions.

14. Close linkages between banks and factors must be fostered for leading this nascent financial service to mature stage. It is expected that both these two agencies should jointly be in a position to create centralized data bank and credit rating division within themselves, to control working capital finance extended by the two agencies to the permissible extent worked out for a client, to initiate proper
monitoring of the businesses of sellers and buyers, and to secure easy flow of funds with low interest costs, and to exchange know-how on ongoing basis. In this way, the factoring services will be naturally considered as complementary of existing financial services.

15. Reliable and requisite information about the clients is must for factoring. In this regard, Factoring organisations need to pay adequate managerial attention on computerization of operations and positions manned by personnel, skilled/trained in computer technology. Bangladesh Bank should evolve a strong data bank under its ‘Credit Information Bureau’ so that information regarding credit behaviour of clients could be made available. It is also desirable to have an easy access of the factoring companies to Bangladesh Bank in order to check the repaying capacity and collect information on predetermined parameters connected with credit worthiness and operations of the clients.