CHAPTER - I

INTRODUCTION
1. Introduction

Bangladesh has a population of 11.14 crores living in an area of 1,47,570 sq. kms. The density is 755 per sq. km. and the population growth rate is 2.17 per cent per annum. The life expectancy is 60. The per capita GDP is Tk. 11,288 (US$270) at current market price with a growth rate of 5.7 per cent. Agriculture provides 28.6 per cent of GDP, and manufacturing sector, and transport, storage and communication sectors provide 9.6 per cent and 11.2 per cent of GDP, respectively (Statistical Pocketbook 1998, pp.3, 6, 285, 288). The saving rate is 9 per cent of GDP and investment rate is 17.2 per cent of GDP. The rate of inflation ranges from 5.5 per cent to 7 per cent. Money supply (M2) has been growing at the rate of 10.1 per cent (Asian Development Outlook 1999, p.126). Nearly 44 per cent of the total population is employed. Agriculture, forestry, fishery sectors have 63.8 per cent of the employed people and production and transport sectors have a share of 15.5 per cent of the employed people\(^1\) (Statistical Pocketbook 1998, p.171).

The manufacturing sector of Bangladesh constitutes a small segment of the economy. The manufacturing value addition in 1997-1998 stood at Tk. 1,48,664 million at current market prices and constituted 9.6 per cent of GDP. The large industry (includes medium scale) and small scale industry\(^2\) account for 66 per

---

1. All data relate to the Fiscal Year 1997-1998 except population, and employment data which relate to Population Census 1991, and fiscal year 1995-1996, respectively.

2. A consistent set of definition of these sectors is difficult to find. Bangladesh Bureau of Statistics defines industry on the basis of employment size. The Industrial Policy 1999 gives definition for four types of industry, for example large, medium, small, and cottage, based on capital investment and / or employment size. The Bangladesh Small and Cottage Industries Corporation (BSCIC) uses investment limits to differentiate the manufacturing sector.
cent and 34 per cent, respectively, of the value-added manufacturing sector (Statistical Pocketbook 1998, pp. 288, 289). Regarding the employment, Rahman et al. (1997, p. 82) show that the share of employment in large industry is only 13.2 per cent whereas small and cottage industry accommodates the bulk of manufacturing employment (86.8 per cent). It is, therefore, observed that large industry is important in terms of output, and small industry is important in terms of massive employment and moderate output with lower investment. This observation is further supported by industrial policy (1999, p. 2), Rahman et al. (1997, p. 84), Bakht et al. (1991, p. 5).

Bangladesh's primary challenges will continue to be the progressive reduction of poverty and the improvement of standard of living of the people. Slow economic growth during the past two decades and rising income inequality are the plausible reasons for the slow progress in poverty alleviation, and in the improvement of standard of living. Now, Bangladesh must take deliberate measures to increase its growth rate well above the current figure. The Fifth Five-year Plan has been formulated to target the average annual growth at 7 per cent (Asian Development Outlook 1999, p. 127). The development of industrial sector is believed to be the key to boost the economy to the projected higher level of growth. (Rahman et al. 1997, p. 83; Islam 1996, p. 2). The Industrial Policy 1999 envisions that Bangladesh will have a sizeable industrial sector within a decade and the manufacturing sector will account for at least 25 per cent of the GDP and at least 20 per cent share of employment. This will mean a quantum jump from the figure of 10 per cent around which the sector's share in GDP and employed population have hovered for most of the past two decades. But with the opening up of the economy\(^1\) and its globalization in order to

---

1. The liberalization started in a significant way in Bangladesh in 1990. Since then, measures to liberalize trade and payments have included reducing tariff and non-tariff barriers, simplifying import procedures, introducing export incentives and liberalizing foreign exchange controls (Asian Development Outlook 1998, p. 116).
achieve the accelerated industrial growth, the competitive edge of the industry to deliver the goods in view of the emerging environment has to be upgraded substantially.

The presence of an efficient financial system is an essential condition for achieving faster economic growth (Rangarajan 1999, p. 149). In Bangladesh, it is now widely acknowledged that the current state of affairs in the financial sector is imposing a serious constraint on the economic growth and the structural transformation of the country’s economy. In the backdrop of the prevailing weak capacity for financial intermediation, the country’s financial system remains largely undiversified and inefficient. Asian Development Outlook, 1999 notes that one of the key challenges facing the country is how to mobilize more domestic resources for development. However, the major problem is that the financial system of Bangladesh is characterized by inefficiency, poor quality of intermediation, and lack of accountability. As a result, in the industrial sector, persistent political pressures from above leave banks in most of the cases with no choice but to provide large loans to the well-connected borrowers of dubious background many a time for unviable projects. Moreover, the large majority of the potential borrowers from medium, small and cottage sectors are likely to remain outside the scope of institutional finance.

The rate of investment in Bangladesh is currently estimated at around 17.2 per cent of GDP. It has to be accelerated to reach at least 25 per cent in the next five years or so, and 30 per cent or so per year in the subsequent period if a rate of growth of 6.7 per cent is to be sustained, assuming a capital / output ratio of around 4 (Islam 1996, p.1). The whole situation calls for innovativeness, fresh outlook, and a break from the conservatism. New Financial instruments and techniques have to be introduced to help the industry to improve its effectiveness and efficiency, so as not only to survive but also to grow.

The role of the factoring services in bringing fast economic development has been found quite significant in a developing economy. It is expected, as it has been realized by the Kalyanasundaram Committee 1988 in India in its report, that factoring services can serve the cause of effecting fast economic development in

In Bangladesh, it is expected that the factoring services will be of great assistance to its industrial and trade sectors like other developing countries. Bhattacharya (1997,p.142) and Choudhuri et.al. (1995, p.27) suggest factoring services in Bangladesh in order to facilitate economic growth as well as to ensure financial discipline. In view of the apparent need for factoring services in Bangladesh, it is desirable to examine various aspects of factoring services. The present study is an endeavour to this context. The study concentrates on required data base to examine the salient features of the world wide scenario of factoring, Indian experience on the factoring business, problems of working capital and export finance activities of a developing country’s economy with special reference to Bangladesh, awareness of factoring in Bangladesh, expected benefits of factoring, and the required policy.

2. Objectives

1. To trace the evolutionary process of world-wide factoring business and measure the performance of global factoring business in terms of growth of factoring volume as well as factoring companies, and market concentration of factoring services.

2. To evaluate the operational and financial performance of factoring companies in India in order to draw lessons for Bangladesh.

3. To examine the problems of working capital finance, management of book-debts, and export finance, faced by the manufacturing sector of Bangladesh.
4. To capture the perception of bank and finance executives, manufacturers, exporters, executives of chambers of commerce, lawyers, and academicians regarding the usefulness of factoring services in Bangladesh and the effect of factoring services on cost, liquidity, profitability and capital of:
   a. the user industries; and
   b. banks and NBFIs.

5. To develop a suitable policy framework on accounting, organizational, financial, and legal aspects of the factoring services in the perspective of Bangladesh.

6. To make suggestions for introducing factoring services in Bangladesh.

3. Hypotheses

1. The number of factoring companies and volume of factoring services have grown world over.

2. The operational and financial performance of factors in India has been improving through time.

3. Manufacturing sector of Bangladesh is facing problems in the areas of:
   a. working capital;
   b. management of book debts;
   c. export finance;
   d. fee-based services.

4. Bank and finance executives, manufacturers, exporters, executives of chambers of commerce, lawyers, and academicians in Bangladesh perceive that factoring services will be useful in Bangladesh.
5. The perceived effect of factoring services on cost, liquidity, profitability, and capital of factors and clients are the same across the bank and finance executives, manufacturers, executives of chambers of commerce, and academicians.

4. Review of Literature

Factoring exists in the USA, the UK and Asia Pacific region as a mainstream financial service. Literature on factoring is, therefore, available in the west and pacific region. In South Asia, discussion on factoring services has come up since launching of this service in India and Srilanka in the early 1990s. In Bangladesh, factoring being an entirely new concept, this area is yet to be discussed even by the academicians and financial experts. However, studies undertaken in the financial sector as well as in the industrial sector have recommended launching of factoring services as a means of reducing the current problems of need based working capital financing of industrial sector, particularly of medium and small scale sectors. In addition, the concepts and other related aspects of factoring have also been discussed in several textbooks. In this section, the contributions of experts on factoring and its allied fields have been reviewed.

I. Moore (1959) has discussed in his paper various areas of factoring elaborately. He has covered most of the aspects of factoring namely origin, services of moderns factoring – credit services, book keeping services, collection services, financial services, advisory services, marketing survey, and management and production counselling—mechanics of factoring, factoring charges, eligibility for factoring, comparison with accounts receivable financing and comparison with credit insurance. He has mentioned that the extension of lines of credit by the factors provides a tremendous source of necessary working capital for manufacturers of various kinds of goods. He has added that the modern function of a factor grows in response to the needs of commerce in a field so specialised that the needs cannot be adequately.
INTRODUCTION

provided for by ordinary lending institutions. He has concluded that the remarkable growth of factoring in modern times is a testimony to its demand.

2. Shay et al. (1968) have examined banks’ moving into factoring. They have recognized that some leading banks’ entry into factoring might be envisaged as an invasion of historical domain of the finance companies. The authors have analysed this important development and the situation in accounts receivable financing. They have mentioned three causes for this development. These are: (i) factoring business is relatively stable; (ii) consistent with assumption of higher risk, the rate of return is higher than in most bank activities; (iii) the factored accounts receivable financing provides a source of future bank customers for either unsecured loans or deposits. They have suggested that as banks get more experience and acquire managerial expertise, they should become more energetic in a relatively high risk lending activity and accounts receivable financing. They have concluded that, in time, many banks will offer factoring, resulting in better service to high-risk borrowers from both the banking and the financial establishments.

3. Wooller (1976) has shown in his work a lamentable lack of knowledge among accountants of the facilities offered by factors and invoice discounters. He has given a benchmark both for a firm and a factoring company for entering into a factoring agreement. He suggests that the basis of successful factoring service is that it should increase the profitability of factors and clients. It is, therefore, important at the outset that both should have a clear picture of the likely cost of operating the sales ledger, the extent to which debt collections can be speeded up, the value of discounts given by the client, and the saving which can accrue from taking discounts on purchases and on bulk buying. Moreover, he adds that both parties should be aware that there are clear opportunities for profitable development using the extra cash which factoring makes available.

4. Maberly (1979) notes that factoring is of great value to the growing companies. He has mentioned that a growing company often faces the problems associated with overtrading. The factor is usually in a
position to finance upto 80 per cent of the value of trade debts, whereas banks apply an established set of criteria to loan application, and for the purpose of assessing the debtor asset as security the banks normally reduce its value to a very conservative level. Under factoring arrangement, the debtor asset becomes self-financing. He has also added that an argument frequently heard against factoring is that the customers will be hostile to the use of a third party organisation to handle the debt collection. This view is just not borne out by facts.

5. Chowdhury (1984), in his empirical study, recognizes that small scale industries (SSI) with lower capital employment ratio and higher input-output ratio have a vital role to play in the economy of Bangladesh. However, he finds that the small-scale industries of the country have been facing multifarious problems of infrastructure, technical know how, marketing facilities, and financial resources. The shortage of finance is one of the major problems. With a weak capital structure, SSIs have no access to the organised capital market of the country, which leads them to borrow at exorbitant interest rates from the non-institutional sources. To reduce the gravity of the problem, his suggestions are: i) directing a fixed portion of bank deposits as advances to SSIs; ii) concessional rate of interest, iii) removing stipulation of furnishing collateral security, iv) liberalizing debt-equity ratio and margin of security, v) simplification of procedures, vi) fixing time norms for sanctioning and disbursements of loans; vi) creating active and efficient monitoring system and data bank, vii) and setting up specialised banks for financing this sector, etc. But with a view to generating the required need-based capital, he does not specifically suggest anything regarding creation of new products, like factoring.

6. Brandenberg (1987) in his article on “Why do not they use factoring” mentions that most of the companies have a vague and sometimes wrong idea about factoring. He puts a survey report, which shows that only 5 per cent of the top 1000 companies of the U.K. use the factoring services. He points out that lack of available published material is the main cause for the unfamiliarity. Moreover, factoring is not a simple method of obtaining finance like “do we or do not we” but a careful consideration of all facts. Yet
the clients, especially small growing concerns, can greatly benefit from this service. It is incumbent upon
the accountants and company advisors to be fully aware of the services available, and their mechanics.

7. Kalyanasundaram Committee (1988) set up by the Reserve Bank of India has examined the feasibility
and mechanics of starting factoring organisations in India. The committee collected data from the selected
banks and trade / industry associations or organisations through a comprehensive questionnaire to elicit
their views. It also held meetings with the chief executives of banks, financial institutions, industrial
organisations and a few eminent academicians, and economists, financial experts, management
consultants, etc. The terms of reference for the study include the assessment of the need and scope for
factoring organisations, the type of their constitution, the legal framework, and the feasibility of extension
of factoring services to exporters and the other related matters relevant to factoring. The study has
suggested that there is a sufficient scope for introduction of factoring services in India, which will be
complementary to the services, provided by banks. It has also suggested that the introduction of export
factoring services in India will provide an additional facility to exporters. The study has concluded that an
efficient financial system, like factoring service, could sustain itself on a viable basis only if a conducive
environment is created and fostered. It has urged that the condition be created and steps may be taken by
Government of India to pass special comprehensive legislation, as also to grant appropriate exemption
from and make amendments to the existing laws to subserve the objective of promoting factoring.

8. Singh (1988) makes an endeavour to determine how factoring service should be launched. He
mentions that statistics show that the funds locked up in book-debts have been rising much faster than
either growth in sales revenues or inventories. The problem becomes more serious as the economy turns
into a buyers' market. Factoring will, therefore, have a big potential market. The optimistic estimation is
that if aggressive marketing, and favorable conditions were ensured, factoring business in India could
have started off at a turnover level of Rs. 200 crore in the very first year and increase to between Rs. 5000
and 6000 crore in the next five years. To the question of launching factoring services, he favours the
market approach because conventional banking is not oriented towards cost reduction.
9. Sengupta et. al. (1991) have conducted a study named 'Launching Factoring Services in India'. This study has covered various issues like structural, operational and legal aspects relating to domestic factoring. It has also conceptualized the perception of the main users of the services. The sample size is thirty-five (35) and data has been collected from the clients, potential customers and representatives of the small-scale sector. It has used simple percentage for analyzing the data. The study has recommended various suggestions for the launching of factoring services in India. These suggestions are namely, i) banks are best suited for offering factoring services, ii) only recourse factoring should be offered at the initial stage, iii) charges for factoring services should be kept as minimum as possible, iv) equity and preference share capital should be offered for subscription to raise funds, v) a comprehensive legal framework should be laid down, and vi) the factoring company should be monitored by RBI on half-yearly basis.

10. Batchelor (1992) has mentioned five pre-conditions for the success of factoring services. The pre-conditions are as follows: (i) has the factoring industry finally shed its negative image for helping business only when they are in trouble? (ii) can it market itself more effectively to its potential customers? (iii) how will the banks actually respond when economic conditions improve? (iv) how the factors slot into the broader range of financial services provided by banks? (v) can the industry reduce its cost of service which still remains a hurdle for many companies?

11. Deolalkar (1993, 1994), in his various papers, has discussed i) the dynamism of factoring; ii) the impact of factoring on the financial discipline of the firm under various lending norms; iii) the limitations of factoring in India; iv) the case for international factoring in India; v) and the relevance of factoring and economy. He has expressed his concern regarding the stamp duty for debt assignments, restricted operating areas, banker’s charge over factored receivables under the umbrella of bankers’ general lien, and other banks’ co-operation so essential for operations. He has predicted that a prompt payment culture promoted by factoring among the industrial and trading units and the resultant overall accelerated receivable turnover ratio will ultimately have a multiplier effect on production, employment, and
INTRODUCTION

economic growth. He has suggested that while factoring is a supportive financial service, it should be made available to importers and more essentially to exporters to enable them to improve their terms of trade and competitiveness for dealings in selective products and in suitable markets vis-a-vis creditworthy buyers.

12. Deolalkar et. al. (1994) in their report on ‘FCI Marketing Seminar on International Factoring’ held at Singapore from March 20 to 23, have compiled the detailed discussion of that seminar. The seminar has discussed some of the more visible aspects of factoring like present status of factoring, domestic vs. international factoring business, scope for export factoring, anticipated obstacles to be overcome, sales function, and role of FCI marketing committee. There is general consensus that both the with recourse and non-recourse factoring business depend upon the resources available and the funds position. It is upto the individual factoring company to decide about the mix of domestic recourse business and international factoring on non-recourse basis. However, very strong methods of management and operations should be maintained by a factoring company to manage risk relative to the clients and debtors. They have concluded that if anything happens to slow down the wider application and acceptance of factoring, domestically and internationally, it is often the lack of knowledge, skill and capacity to judge business proposition, and the lack of motivation on their part rather than an inherent weakness in the factoring concept itself.

13. Hussain (1994) has observed in her work that small business entrepreneurs in Bangladesh encounter many difficulties. This is because formal lending institutions determine to make reasonably risk-free loan investments and seek personal guarantee as collateral security from the entrepreneurs. Moreover, the banks expect that the credit-seeking entrepreneur should not only be able to service the debt but also demonstrate his / her ability with well prepared, good quality, numerical and descriptive information. All these stipulations and expectations compel the small entrepreneurs to avoid formal financial institutions and approach the informal sector for finance. However, she has suggested for establishment of venture capital to make available sufficient capital for establishing a business.
14. Micro Industries Development Assistance and Services (MIDAS) (1994), in its study, has found that ‘small and medium enterprises (SMEs)’ are suffering from hassles of raising fixed capital, working capital, and inviting equity participation. It has further added that both SMEs and banks are encountering various problems in getting and extending finance at the various stages such as handling application, processing documentation, and sanctioning and disbursement of loan, etc. This study has been conducted based on a good base of data. It shows that despite difficulties, around 92 per cent of the SMEs are still willing to get credit from financial institutions. The study has forwarded some suggestions to reduce the financing problems of SMEs. These are: (i) simple application forms; (ii) easy terms and conditions; (iii) implementation of Government policies by financing institutions; (iv) prompt actions to collect information, and to sanction and disburse loans; (v) relaxation in norms of collateral security; (vi) lowering equity participation; (vii) lower rate of interest; (viii) creation of separate cell to monitor; (ix) and activate properly the punishment and reward mechanism, etc.

15. Pandey (1994) has examined the “Relevance of Factoring in a Developing Country: Case of India”. He has mentioned that factoring is a widely practiced system of credit administration, collection and financing in developed countries. He has shown a potential demand for factoring in relation to the small, medium and large firms of India. Particularly, he has mentioned that small-scale enterprises (SSIs) in India as well as in other developing countries, face a serious problem of credit management and collections. Factoring organisations, being credit management specialists, can help SSIs in expediting collection and in providing protection against defaults. International factoring can also help developing countries in the promotion of exports. There is thus need for a large number of factoring organisations in India. However, the development of factoring in the developing countries requires policy initiatives in resolving organizational, legal, funding and management issues.

16. Gurusamy (1995), in his paper, has focused on various aspects of forfaiting namely definition, mechanics, benefits, cost factor, world scenario, and comparison between international factoring and international forfaiting. He has recognized that it is essential for the exporters to sell goods and services
on deferred payment basis to reap the benefits of fast changing international markets. However, having granted credit to foreign buyers, the exporters find it difficult to manage their working capital position until the proceeds are received on the due date of export bills. In this context, forfaiting is ideal as fast, cheap and flexible source of finance for medium and large export contracts.

17. Mehandru (1995) has evaluated the feasibility of factoring services in the Punjab. She has used simple frequencies, percentage, rank correlation, and T test in her study for analyzing the collected data. She has covered theoretical aspect of factoring, present status of financial services, agony of small-scale sector for short-term finance and trend of exports in Punjab. Her finding are the following: (i) industrial units are facing a number of difficulties in getting their short-term funds requirements; (ii) factoring services could mitigate the difficulties arising out of inadequate supply of short-term financing; (iii) there is a sufficient demand for both domestic and export factoring in Punjab; (iv) commercial banks are the best suited for offering factoring services; (v) present legal framework is not suitable for the factoring services; and (vi) level of awareness regarding factoring is very low. Finally, she has proposed a model for offering factoring services which includes product design, organizational structure, sources and cost of funding, legal environment, demand estimation, and target market.

18. Islam (1996), in his article, has found that the financial sector of Bangladesh is discouraging access to credit for the new and small entrepreneurs. He has mentioned some reasons for this inhibited environment. These are high value of bad loans (irrecoverable) in the names of borrowers with economic and political clout, high debt to equity ratio, large amount of collateral base, and limited experience and training of the bank’s staff. He adds that recent East Asian Financial crisis more than adequately confirms that cost to the real economy is the weakness in the financial system where a few interest groups can gain at the expenses of the many in the absence of adequate information, transparency and strong base in the economy.
INTRODUCTION

19. Bhattacharya (1997), in his article, has expressed his concern that the current state of affairs in the financial sector of Bangladesh is imposing a serious constraint on the economic growth and the structural transformation of the country’s economy. In supporting this statement, he has placed the empirical evidence that the industrial sector of Bangladesh is currently starved of credit and the commercial banks are ill suited to meet the multifaceted demands of industrial finance. He has suggested that in order to facilitate economic growth as well as to ensure financial discipline, there is a need to diversify the asset / product base of the banks through, for example, creating venture capital, factoring, asset-securitisation, leasing and consumer product financing, etc.

20. Hossain et.al. (1997) have observed that as an economy develops, the demand for diverse financial services arises. Diverse and complex financial services can only be provided by a financial system, which is innovative and also responsive to market demand. Thus the contribution of a financial system to the economic growth depends on the quality and quantity of financial services. The paper has noted that in Bangladesh, whose underdeveloped and inefficient financial system has remained in distress since the late 1970s is affecting the performance of the entire economy. They have concluded that despite the current gloomy picture of the financial sector, there is a ray of hope in that the government is talking about reforms.

21. Rahman et. al. (1997) in their study on ‘constraints to industrial development: recent reforms and future directions’ have mentioned that the large majority of the potential borrowers, particularly those in the small and cottage sectors, are likely to remain outside the institutional finance due to preoccupation and scope of the institutional lenders, with asset ownership of the borrowers as the basis of their creditworthiness. They have also added that informal financing, though involving high interest rate, has played a critical and significant role in the emergence, survival and growth of many small-scale industries in Bangladesh. Availability rather than cost of credit is, thus, the most formidable constraint to the growth prospects in industrial investment. They have suggested for the use of non-bank forms of resource-flows to ease the present financing situation.
22. Tannous (1997), in his study, has explored the challenges that face Canadian entrepreneurs and small business owners in financing their export activities and investigated the problems that constrain financial institutions in providing more financial resources to current and potential exporters. He has found that the supply of funds for small business exporters is affected by information asymmetry, agency problems, market imperfections special to small business and problems related to transaction cost economics. The entrepreneurs and the export financing executives have indicated in this study that creating guides to reduce the information asymmetry problems, factoring, forfaiting, fee based services, and trade fairs may reduce the impact of these constraints.

23. Deloitte & Touche Consulting Group (1998) has made a world-wide International Factoring Survey in 1998. It has discovered that the following key themes are common in majority countries: (i) the globalization of trade is giving impetus to above average growth in international factoring; (ii) factors are seeing a wide range of competitors enter the market; (iii) the clientele is changing in terms of risk profile and product pricing is becoming more competitive; (iv) technology is being leveraged to reduce costs and improve customer interaction level; (v) target customers are moving upscale – they are demanding more flexible and sophisticated products; (vi) more education may be needed in order to combat the negative image of factoring; (vii) factoring institutions are primarily relying on personal networks, while the global opportunity requires repositioning of the industry as a credible mainstream perennial financial source; (viii) there is a wide room for growth in the most market regions and lessons can be constantly learned from the market movers.

24. Hyderabad (1998), in his article, has evaluated the costs and benefits involved in factoring arrangement. An attempt has been made to throw light on the effects of factoring on Balance Sheet and Profit and loss Account. He has mentioned what is unique about factoring viz. that a factor brings a good number of varied services, which are also available individually from other sources together in a single convenient package. He has suggested that a decision should be taken to factor the receivables only when the benefits involved in the bargain outweigh the cost there of.
25. Ahmed (1999), in his work, has foreseen that under the more open and liberalized market economy regime, the SCIs have been exposed to a much greater competitive environment both in the domestic and international markets. However, a general regulatory framework, bureaucratic hassles, financial and other problems still haunt the entrepreneurs of SCIs which prove as constraints to their development. He has expressed his concern that Chambers of Commerce and Industries (CCIs) play a limited role in SCIs’ promotion. National Association for Small and Cottage Industry of Bangladesh (NASCIB), created to uphold the interests of the SCIs, is being gradually weakened in regard to its organisation capability.

26. Industrial Policy 1999 has expressed its vision that Bangladesh will have, within a decade, a sizeable industrial sector where the volume of manufacturing sector will account for at least 25 per cent of the GDP and dispersal of small and medium industries will constitute an important part of this development. It has given the definition and classification of industry. It has mentioned that measures will be taken to create industrial fund in the Bangladesh Bank, strengthen specialised banks, expand capital market, create venture capital and rationalize tax holiday system for the small and cottage industries. Bangladesh Small and Cottage Industries Corporation (BSCIC) will extend support like arranging special credit line to the small and cottage industries. But it skips off the important subjects of factoring and forfaiting, which can be very active financing instruments for rapid industrialization.

27. Kohnstamm (1999), in his writing, has considered America and Europe as mature market, Asia Pacific region as the most dramatic growth area and the rest of the world as the beginning of a probable factoring boon. Reasons behind the success of factoring in the western countries as mentioned by him are: (i) opportunity to get consistent regular cash flow, lower administration costs, reduced credit risks, and more time for core activities; (ii) offering services not only to manufacturers and merchants in the textile sector, but also to a variety of companies; (iii) simplification of the product; (iv) tendency of sale of goods on open account. He has put emphasis on professionalism, sophisticated infrastructure, exchange of know-how, proper organisation and high degree of mass awareness as sine qua non, for factoring to take firm roots.
28. Lee (1999), in his article, has stated that the introduction of the Euro is a significant opportunity to develop market share of factoring because of attractive opportunity of cross border transactions facilitated thereby. He has foreseen that there are many new complications brought about by this change in the external environment. For example, there are the problems of mismatching in regard to the currency of payment, exchange risks, current hardware and software capacity, processing time, reliability and security. He has put forth suggestions that the factors should not overlook the above problems and other associated risks of the introduction of this new currency for their clients and debtors who may not be able to cope with the required systemic changes. He has also suggested that the factors need to evolve and apply certain principles to their specific environment depending upon the location of the factors and the existence of relative markets in which their clients operate.

29. Sengupta et al. (1999), in their study, have observed that international factoring is a service specially aimed at meeting both the financial and non-financial needs of the exporters and importers. The study has been conducted by the authors on the perceptions of experts in the area including bankers, existing factoring companies as well as the likely prime users of the services namely, exporters. It has established the fact that there is a substantial scope for introduction of international factoring in India, particularly in the environment of the globalisation of the Indian economy. It has also added that the potential is enormous in terms of the projected growth of the economy during the next decade. The study has, however, indicated that there are many issues relating to legal, strategic, and organizational aspects that are likely to be encountered while launching this service.

30. The Daily Star (1999) has organized a round table meeting on ‘obstacles to small and medium enterprise (SMEs) development’. It has recognized that given the level of capital accumulation and the size of market of Bangladesh, it will be the SMEs, which given a chance, can play a crucial role in promoting the growth of market-based economy. But the growth of small-scale industry is very shaky in Bangladesh. The rate of entry is quite high but the rate of exit is also quite high. It is found that the denial of access to credit is one of the main causes for this shaky environment. It has further added that, with the
INTRODUCTION

cash flow interruption, the bankruptcies in the small companies will be very high. In this perspective, the meeting has suggested ‘receivables as security’ to make easy access available to credit, although banks can not take these as security under the present norms. It has concluded, if the consensus emerges that the receivables should be taken as security, Bangladesh Bank should look at the appropriate legal provisions for ensuring payment of receivables on due dates.

31. Zadek (1999) has suggested a model for the USA based factors for raising capital. His paper has covered the following subjects: (i) raising capital through a core equity base; (ii) taking loans from banks to raise capital by putting the accounts receivable of the factor’s balance sheet as collateral to the banks, just as it is collateral for the factor’s clients, (iii) borrowing money to raise capital from friends, relatives, partners and the like, (iv) raising capital through the sale of a pro-rata share of financial assets where the seller is the leader and the buyers are the participants. However, he has put more emphasis on a strong equity base for any factoring company.


5. Plan of the Study

Based on the objectives and hypotheses of the study, the theme of dissertation has been divided into chapters as follows:

Chapter I introduces the subject, presents the objectives of the study, sets the hypotheses of the study, reviews the literature, and ends with the presentation of the plan of the study.

Chapter II presents the theoretical aspects of factoring describing various areas such as definition, types, service mechanics, benefits, international factoring, forfaiting and factoring, bills discounting and factoring, EDIFACToring, documents involved in factoring.

Chapter III provides details regarding the research methodology applied in the study.

Chapter IV presents the historical perspective of factoring and measures the trend and performance of global factoring business. This chapter is divided into two parts. Part I (one) traces the evolutionary process and Part II (two) measures the trend and performance of world-wide factoring in terms of growth of factoring volume as well as factoring companies, and market concentration.

Chapter V analyses and evaluates the operational and financial performance and presents experiences of Indian factoring companies. This Chapter is divided into two parts. Part I (one) highlights the financial and operational performance achieved by Indian factoring companies. Part II (two) presents the Indian experience of factoring business regarding the organizational status and pattern, corporate governance, resources, criteria of client selection and commencement of factoring, business profile, pricing of factoring services, collection, accounting system, personnel and human resources, and marketing.
INTRODUCTION

Chapter VI analyses some important problems faced by the industrial sector of Bangladesh regarding working capital, management of book-debts, administering of sales ledger, and finance for export activities.

Chapter VII determines and analyses present status and causes for not introducing factoring services in Bangladesh, expected benefits of both factors and clients, non-performing assets and factoring, effects of factoring services on cost, liquidity, profitability and capital of both providers and users.

Chapter VIII discusses the policy perspectives for future. The chapter scans the current environment of financial sector both in Bangladesh and abroad, and suggests improvements.

Chapter IX summarizes the major findings, makes conclusions, and puts forward suggestions for enabling the factors to undertake the projected role for accelerating the pace of economic development of Bangladesh.

6. REFERENCES


INTRODUCTION


INTRODUCTION


32. Harris, Brian (1973), 'The Benefits of Factoring and You,' Accountancy, Vol. 84, No. 964, December, pp. 72-75.


48. ‘Obstacles to Small and Medium Enterprises Development (1999), *The Daily Star*, April 12, pp.6-10
INTRODUCTION


