

## APPLICATION OF HYBRID CONTRACTS CONCEPT IN FACTORING

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### Abstract

*In the business world, business people and companies always want to speed up their production of goods, so that they can increase profits and speed up capital turnover which in turn will encourage economic growth. With the increasing public demand for goods, this has resulted in the rise of many companies providing fresh funds or loan funds as capital obtained from factoring institutions. Factoring financing institutions are defined as business entities that carry out financing activities in the form of purchasing and/or transferring and managing short-term receivables. As an alternative for business funding, factoring is not as popular as other types of funding, even though this funding alternative is quite promising, especially at this time. The problem approach in this research uses a library study method which is carried out by collecting and analyzing several written works. The steps carried out in this literature study method are reducing data in the form of editing and summarizing in order to obtain main data regarding the essence related to factoring institution innovation (Factoring). The results of the research and discussion show that financing companies that provide receivable transfer services using the concept of factoring will make it easier for companies to settle their receivables and avoid unexpected risks such as default (broken promises) from other parties.*

**Keywords:** *Financing; Business; Factoring*

### 1. INTRODUCTION

Facing business competition in the modern era like today forces business actors to always try to carry out various product innovations and sales systems to be able to increase company turnover. Various kinds of efforts are made to be able to increase profits and sales turnover, one of which is to expand the market and meet customer demand and needs. (Pratama, Manafe, and Lestari 2023) One of the efforts made by business actors in order to meet customer demand is to simplify the terms and payment methods for products traded. Simplify payment procedures, one of which is payment in stages or due. (Lupi and Nurdin 2016) The credit or maturity payment method is indeed considered effective to increase the sales turnover of a product, but this method is not without risk. There are several risks that will be borne by companies when choosing due or credit payment terms without involving financial institutions such as banks, this is because there is no collateral that guarantees smooth customer payments. In addition, credit sales or maturity will also disrupt cash flow if the company's cash condition

is not in a surplus condition.(Musthafa and SE 2017) If the risk of credit sales occurs, and receivables fail to collect, it will bring serious funding problems to the company.

The problem of business funds is a problem that is considered serious for every entrepreneur in the world, including in Indonesia. No one will be able to progress without sufficient business funds. There are many funding alternatives used by entrepreneurs today, such as credit to banks, venture capital, selling new shares, leasing, franchising, and others. Borrowing funds from banks, both private banks, state-owned banks and regional-owned banks has been done by many entrepreneurs, both small entrepreneurs, medium entrepreneurs and so on

Even in industrialized countries, there are still many funding alternatives that have not been utilized by entrepreneurs. For example, in 1987 it was revealed that companies in the United States still rarely use factoring techniques. Of the 1060 companies surveyed, only about 7% have utilized factoring as a source of funds. (Gunawan 2001)

Until now, the percentage of utilization has not increased so much. The business funding problem in Indonesia is worse than that. The alternatives available today are still very limited, and the limited alternatives are still not optimally utilized, even though the need is relatively large. There are at least four developments and symptoms that indicate this and strengthen the notion that loans from banks are still the main source of funds.

First, many entrepreneurs complained about the strict policies in 1991. At that time, funds for expansion and working capital became expensive and difficult to obtain. In August 1997 there was a great monetary turmoil, the value of the rupiah against the US Dollar became very low, there was another tight money policy and deposit interest soared to 40%, as a result of which bank lending rates became higher.

This fact indicates that bank loans are still the main source of funds for entrepreneurs who are looking for capital in starting or developing their businesses. Second, the long queue of companies that want to go public by selling shares on the Jakarta Stock Exchange and Surabaya Stock Exchange. This development shows that new stock sales are starting to become an attractive funding alternative for entrepreneurs. Third, the initiative of several large corporate groups and State-Owned Enterprises to establish capital and management cooperation with some weaker business groups. In terms of (prospective) recipients of funds, national entrepreneurs are generally still not aware of the variety of funding alternatives that exist.(Gunawan 2001)

## **2. IMPLEMENTATION METHODS**

The writing of this paper uses the literature study method carried out by collecting, analyzing books, scientific papers and related documents such as Journal Thesis and articles related to product innovation of Islamic financial institutions. The steps carried out in this Literature Study method are to reproduce data in the form of editing and summarizing in order to obtain the main data about the essence of the article, presenting data, drawing conclusions, verifying and reviewing the data obtained in order to draw the right results.(Darmadi 2011) Then it is analyzed using qualitative analysis methods and conclusions are drawn inductively, namely drawing conclusions based on specific things and then concluded in general according to the problem to be studied.

### 3. RESULT AND DISCUSSION

#### *Understanding*

Factoring which in English is often referred to as factoring is a term derived from a combination of the words "factoring" which means to move or transfer and "receivable" which means a bill of some money. Based on the meaning of the word, factoring means the transfer of receivables from their owners to other parties. (Sihotang 2017)

While the definition of factoring according to Munir Fuady, factoring is short-term financing without collateral, which financing is carried out in the form of purchases and / or transfers / takeovers and management of receivables or short-term bills from a company, which bills come from domestic and foreign trade transactions. (Sudjana 2019)

Factoring consists of two words, namely factoring and receivable. In this case, factoring means moving or moving, while receivables mean money lent (which can be collected from someone), or bills of company money to customers that are expected to be repaid within a certain time from the date of issuance of the bill. So, factoring is the transfer of receivables or agreements that underlie the transfer of bills for a number of receivables to other parties. (Aprianto 2017a)

Factoring is one of the many financial institutions that are financing institutions based on Presidential Decree Number 61 of 1988 concerning Financing Institutions, which is followed up by the Decree of the Minister of Finance of the Republic of Indonesia Number 1251 / KMK.013 / 1988 concerning Provisions and Procedures for the Implementation of Financing Institutions. (Diansari and Nusron 2020)

The definition of factoring is also found in the formal reference dictionary of Bank Indonesia, which is the law of financing activities in the form of purchase and / or transfer and management of receivables or short-term bills or companies for domestic or foreign trade transactions, while companies that factoring are called factoring, which is a party whose activities are buying other parties' receivables by bearing the risk of not paying off debts (factoring). (Putri and Harahap 2017) Meanwhile, based on the Minister of Finance Regulation No.84/PMK.012/2006 is "financing activities in the form of purchasing short-term receivables of a company along with the management of these receivables."

Factoring is a financing business in the form of purchasing or transferring and managing receivables or short-term bills of a company from domestic or foreign trade transactions.<sup>4</sup> This is in line with the Regulation of the Minister of Finance Number 84 / PMK.021 / 2006 concerning Finance Companies and Presidential Decree Number 61 of 1988 concerning Provisions and Procedures for the Implementation of Mobile Financing Institutions, While receivables mean money lent (which can be collected from someone), or bills of company money to customers that are expected to be repaid within a certain time from the date of issuance of the bill. So, factoring is the transfer of receivables or agreements that underlie the transfer of bills for a number of receivables to other parties. (Quran 2017)

#### *Anyone involved in factoring*

In factoring transactions, there are several parties involved. Here are the main parties involved in the factoring process:

- 1) Factoring company (Factor): is a company or business entity that conducts financing business in the form of purchasing or transferring and forwarding receivables or short-term collection of a company from domestic or foreign trade transactions
- 2) Seller of receivables (Client): is a party that has trade receivables arising from the sale of goods or services to customer companies with payment on credit
- 3) Debtor party or (customer): Customer is a party who owes money to the receivables selling company as a result of purchasing goods or services from the receivables selling company with credit payments. (Mochtar 2019)

#### ***Types of factoring types***

The services offered by factoring factors are divided into:

- 1) Full service factoring ; This type of factoring provides comprehensive services, both financing and non-financing services
- 2) Bulk factoring: This type of factoring provides financing services and notification when due to customers without providing other services such as receivables risk protection, sales administration and collection
- 3) Maturity Factoring: This type of factoring provides receivables risk protection services, overall sales administration and collection
- 4) Invoice discounting: This type of factoring only provides financing services while non-financing services are not provided at all
- 5) Advance payment: This type of factoring is a transaction that provides upfront financing by a factoring company to the client based on the delivery of facturs whose amount is around 80% of the factur value. (Aliah Pratiwi and Ak 2023)

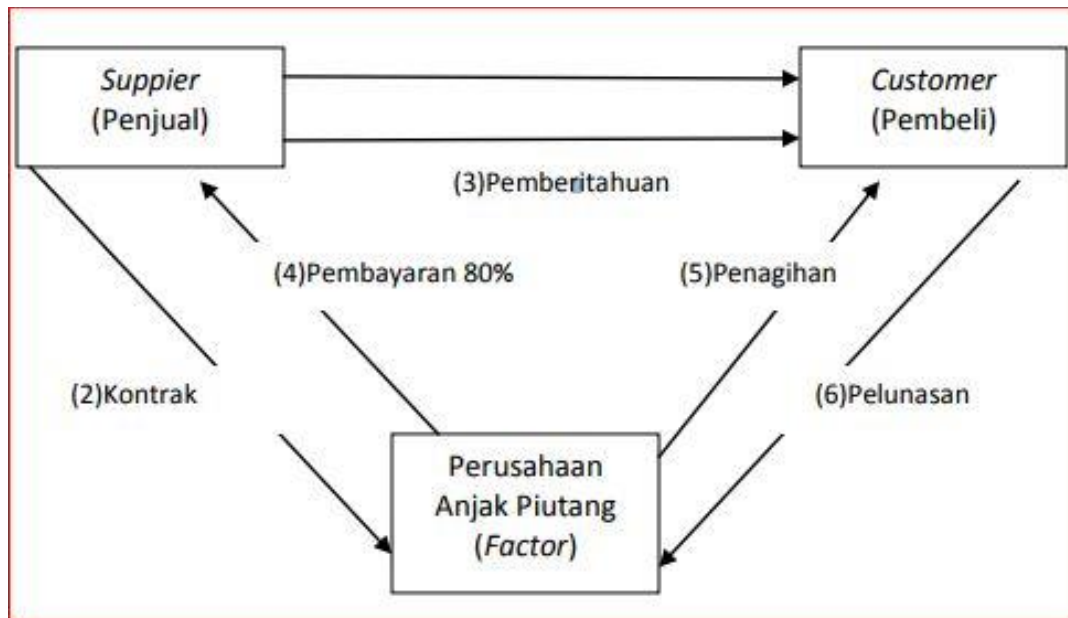
#### ***Risk distribution of non-payment of receivables***

On the basis of the distribution of the risk of non-payment of receivables by customers, factoring can be divided into 2, namely,

- 1) With resource factoring is in this case the risk of non-payment of receivables is entirely borne by the client and the selector does not bear the risk of non-payment of the receivables
- 2) Whithout resource factoring where in this case the risk of non-payment of piutag is not entirely borne by the client, the client only bears the risk of receivables that are not financed or not given an advance by the indicator, while the fektor himself bears the risk of the down payment or financing that has been given to the client.(Hidayat 2008).

**Factoring mechanism**

To find out about the scheme or how to transact factoring, let's look at the following picture:



Suppose company B as a Supplier or Seller or can be called a Client conducts transactions with company A as a customer or client or can be called a buyer, When company B and company A make a transaction it turns out that company B needs funds to finance business capital. Then company B borrows funds from company A as a client for a period of 5 years

Three years before maturity company B needs funds to cover losses, so to overcome the lack of funds, company B sells receivables to factoring companies (Factor) and buys 80% of the total receivables

And at maturity, the customer pays a debt of 100% to the factoring company

**Benefits of factoring**

The involvement of various parties in factoring activities will provide or obtain benefits for each party involved, both factoring companies, clients, and customers. In general, factoring provides the following benefits:

1. Benefits for the client, where the benefits that the client can receive consist of:
  - a. Benefits of receiving financing services include:
    - 1) Increased sales, namely with the existence of financing services allow clients to make sales by way of credit (financing). Sales with credit are actually difficult to do if the client experiences capital difficulties. But with factoring services, clients are able to sell by way of credit. Sales by way of credit increase the ability and attractiveness for buyers with limited funds.
    - 2) Smooth working capital, namely factoring services, allows clients to convert their undue receivables into cash funds with a relatively easy and fast procedure. The

- availability of this larger cash fund can be used by clients to fund client operational activities such as purchasing raw materials, paying employee salaries, and others
- 3) Reducing the risk of uncollectible receivables, namely payments by means of no recourse, allows the transfer of part of the risk of uncollectible receivables to factoring institutions. This risk transfer is very beneficial for the smooth running and certainty of business for the client.
- b. Benefits received due to non-financing services include:
    - 1) Facilitate the collection of receivables, namely receivables collection services provided by factoring institutions in which clients do not need to directly collect receivables to customers so that employee time and energy can be used to carry out other more productive activities.
    - 2) Business efficiency, namely sales administration services allows clients to manage sales activities more neatly and efficiently because the administration is carried out by more experienced factoring parties.
    - 3) Improving the quality of receivables, namely sales administration services, allows providing credit facilities to buyers more effectively, so that the possibility of collectible receivables is higher.(Aprianto 2017)
2. Benefits for factors (factoring institutions), where the main benefit received by factoring institutions is receipt in the form of fees from the client. In this case, the fee consists of:
    - a. Discount fee, which is this fee paid by the client to the factor because the factor provides financing services (down payment) on receivables provided by the factor. Discount fees are calculated at a certain percentage of the amount of financing provided on the basis of the risk of collectible receivables, the term of time, and the average bank interest rate.
    - b. Service fee, which is this fee paid by the client to the factor because the factor provides non-financing services whose value is determined at a certain percentage of receivables on the basis of the workload to be carried out by the factor. The greater the sales volume, the greater this fee. The more difficult it is to collect receivables, the greater this fee will be.(Aprianto 2017)
  3. Benefits for customers, among others:
    - a. The opportunity to make purchases on credit, where the presence of factoring financing services allows clients to make sales on credit.
    - b. Better sales service, where sales administration services allow clients to make sales more quickly and precisely.(Hidayat 2008)

In general, with the services of factoring companies, clients benefit from the transactions provided. The client gets cash directly from his sales in the current month and does not have to wait until payment from the customer. Thus, the company's liquidity will be more guaranteed and working capital will continue to roll.(Wijaya and Hanifuddin 2021)

Cash obtained from factoring companies can be used to reduce production costs. Production costs can be cut by taking advantage of discounts from suppliers for cash handouts. Cash grants certainly get discounts. The amount of the discount can be used to compensate for interest costs paid to the factoring company. Clients are also assisted from the administration side of receivables. The client no longer needs to collect the customer, because the factoring company will do it while providing the receivables position to the client. This report will also be useful when the customer resubmits a purchase request in installments.



#### 4. CONCLUSION

There are many ways taken by entrepreneurs to obtain business funds, such as borrowing (debt) from banks, venture capital, leasing, franchising, going public and limited offerings, factoring factoring is not as well known as the funding alternative mentioned upfront, even though this alternative is also quite profitable (especially if the company needs very urgent funds) although there are also disadvantages.

Factoring company (Factor): is a company or business entity that conducts financing business in the form of purchasing or transferring and forwarding receivables or short-term collection of a company from domestic or foreign trade transactions

A factoring agreement is an agreement that underlies the transfer of bills for a number of receivables to another party. So the transferred receivables must be made clearly in order to transfer the rights to the receivables that originally belonged to the debtor to the company, so that the company can freely act legally on the receivables that have been transferred.

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