

# CREDIFACTOR

THE FACTOR THAT MULTIPLIES EARNINGS

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## INTRODUCTION

**CREDIFACTOR** commenced operations on March 17, 2000, taking on a major challenge, as factoring in Nicaragua was not yet developed. At the time, the picture was not very favorable for business, as Nicaragua's economy began to show an economic decline that lasted until mid-2003. Factoring was a very little known product in the national financial environment, it was perceived as high risk and the rates offered by banks for credit lines were unattractive.

In addition to this unfavorable situation, public opinion was strongly against banks and, therefore, the overall financial system. Between 2000 and 2002 four commercial banks closed in Nicaragua, which brought even more uncertainty to a sector that was already not so "credible." Another obstacle for **CREDIFACTOR** was the fact that there was no factoring law to support their business. However, two factoring companies, Factoring & AFINSA, had both entered the market in 1998.

In mid-April of 2000, **CREDIFACTOR** performed its first operation, earned revenues of over 43 million Cordobas, and with one business in hand, they embarked on a new adventure: MóvilFactor ("MobileFactor").

## FACTORING IN NICARAGUA & CENTRAL AMERICA

Factoring in Nicaragua began in 1998, at a not very time favorable, just before a financial system crisis of the caused by the bankruptcy of several commercial banks. The SME sector in Nicaragua was quite unusual: while it created about 60% of the annual GDP and 70% of the jobs in the country, at the same time, , Nicaraguan SMEs failed 3 years into their creation on average, precisely because of the lack of financial structures that could give them breathing space by providing working capital, making it easy to develop their activities. At that point, factoring entered the market as a means of financing and tool for growth, since it uses invoices as guarantee and does not require mortgages or loans.

In economies where the factoring industry was more developed, such as Costa Rica, it turned out that the companies that used factoring most were small and medium-sized, had working capital requirements, and required a credit period of not more than 90 to 120 days. Businesses operating in the commercial and industrial sector represented 54% of customers using factoring in that country.

The dynamic and innovative business of financial factoring was virtually unknown in Nicaragua. In its majority, the target audience did not know about factoring and its advantages (see [Annex 1](#)). A large number of companies in Nicaragua needed financial resources in the very short term, but had neither collateral nor the time required to process a traditional bank loan.

**Factoring** is an economical, simple and effective financial mechanism, that converts credit sales (bills, notes or letters) to obtain cash liquidity immediately, without additional borrowing.

## CREDIFACTOR: FIRST YEARS 2000-2005

Mauricio Pierson Stadthagen, age 40, CEO and founding President of the Board of **CREDIFACTOR**, SA, who holds a degree in Industrial and Systems Engineering from the University of Florida, and a Masters in Business Administration from the University of Notre Dame, was always convinced that his business vision should be shared.

Between 2000 and 2004, Pierson secured the cooperation of two partners in his business venture. At the same time, the number of local banks increased and, taking advantage of some early business where the results were assured, he took time to travel and get to know other factoring companies and good practices of other industry specialists.

In those years, Nicaragua had a very negative perception of factoring, many SMEs considered it as an a last resort option for financing. However, in an era in which SMEs had very few options to get credit due to the rigidity of the local banks, some companies, almost as desperate measures, began trying factoring.

In 2003, **CREDIFACTOR** already had a portfolio of more than 10 million Cordobas (see [Annex 2](#)) and the economy began to emerge from the recession that had begun with the arrival of a new government, which enabled the further expansion of factoring operations and increased staffing in Portfolio Management, messaging, Legal Department, Credit Department and the acquisition of a global Factoring system.

One of the most important events of this period was the adoption of the Stock Exchange for the issuance of debt securities in 2004. **CREDIFACTOR** was the first factoring company authorized by the Stock Exchange of Nicaragua and the Superintendency of Banks and Other Financial Institutions to place financial stocks in the stock market. These investment securities, known as bonds, had a total issuance of one million dollars, with denominations or values in multiples of \$1,000 and terms ranging from 60 to 720 days.

Undoubtedly, **“Raise Awareness of Factoring”** was Pierson’s unfinished assignment and his main objective. It was necessary to adequately convey the concept of factoring, its benefits and, especially, make it seem credible. Of course, achieving this goal would benefit the company, but should also result in significant changes in the environment, as it would improve SME competitiveness through increased access to financing, the factoring industry itself, the financial industry, and lobbying for regulating the sector and improving factoring law.

## CONSOLIDATION OF THE COMPANY

In 2005, **CREDIFACTOR** managed to meet, in part, that great goal, with the development of the Inter-American Development Bank (IDB)/Multilateral Investment Fund (MIF) project *"Promoting the growth of the factoring industry in Nicaragua."*

The IDB/MIF project aimed to cover several fronts. Its main objective was to increase both the supply and demand of factoring in the country, considering the great benefits that factoring could bring to a country like Nicaragua, where there was a major problem with access to finance. Factoring was of particular importance to Nicaragua, given the scarcity of credit in the country's economy. The financing component of the project would be a loan and a capital investment in **CREDIFACTOR SA**; financing that would be complemented by a grant element, which aimed to reduce some of the main obstacles that were slowing the growth of the factoring activity, including the following:

- ▶ i) drafting and promoting the Invoice Exchange Act, which could allow bills receivable through an expedited procedure in the event of default (Enforcement),
- ▶ ii) the launch of a public information campaign aimed at informing the business community about the mechanisms and benefits of factoring, and
- ▶ iii) support for **CREDIFACTOR**'s participation in international conferences and seminars on factoring, to help the company incorporate the best practices implemented in countries where factoring was much more developed (see [Annex 3](#)).

This new situation would help strengthen **CREDIFACTOR**'s image exponentially, while allowing it to have more funds.

In late 2005, **CREDIFACTOR**'s business volume of was reportedly \$14.2 billion, about 45% more than the previous year. According to Pierson: *"This represented fast growth, plus we had trade relations with more than 600 paying companies, including some of the largest in Nicaragua."* (See [Annex 4](#))

At the same time, realizing the importance of feeling comfortable in foreign markets, **CREDIFACTOR**, along with Financial Summa, SA (Guatemala), Factoring Pentagon (El Salvador) and Desyfin (Costa Rica) formed the American Factoring Chain (AFC), with the objective of promoting factoring and improving the information and operating systems that allow dealings to be transacted electronically.

In 2006, as part of the IDB/MIF's program to strengthen the factoring industry in Nicaragua, **CREDIFACTOR** began to participate in several seminars nationally and internationally. The company also attended events organized by *"Factors Chain International"* and began to establish ties with companies in other countries, which would later be reinforced.

These first big steps by multilateral banks to support the factoring industry in Nicaragua provided a major boost to the sector, transmitting more confidence to SMEs about factoring.

2007 marked a new milestone in the factoring industry in Nicaragua and **CREDIFACTOR**. Thanks to support from the IDB and the MIF, a powerful publicity campaign about factoring was executed. Nationally, undoubtedly, **CREDIFACTOR** was able to keep improving its leadership position in the market,

while other companies increased their knowledge of factoring. In that year, a series of seminars were held along with the INCAE. Each seminar took place with significant participation of the Nicaraguan industrial and economic sectors. Each seminar included participants from different economic sectors, a variety of payment companies and **CREDIFACTOR** customers; public companies, universities, banks, microfinance institutions, factoring companies, independent entrepreneurs, NGOs, and more.

Both the image of INCAE and the MIF/IDB provided much credibility to **CREDIFACTOR** and therefore to factoring overall, which benefited the industry in general, in which new factoring businesses were already emerging, and which contributed to increased competitiveness in the sector, forcing it to pay more attention to the best products and to optimizing management. Furthermore, the success of the action was ensured with the creation of various communication materials, videos and a massive advertising campaign to promote the benefits and advantages of factoring.

In 2007, **CREDIFACTOR** achieved exponential growth in its portfolio. By the end of 2007, the number of active customers grew by 128% compared to 2006, increasing annual placements by 70%, totaling \$40.5 million versus \$23 million in 2006. **CREDIFACTOR** assisted 188 SMEs during 2007, which accounted for 84.5% of its portfolio, but also managed to qualify over 900 nationally paying companies among which were the most recognized companies in Nicaragua

During 2008, the company was able to consolidate its business activity, increasing its customer base and funding levels. Its customer base was mostly comprised of individuals and SMEs with short term financing needs and with profitable and competitive businesses. Nearly ten thousand invoices and documents were funded, with an approximate value of about 12,040 million cordobas, equivalent to \$60.2 million. These funding levels represented an annual growth of 48.5% over 2007, but also returns after tax and provisions improved by about 60% annually, demonstrating greater operational efficiency, and thus 2008 became the best work year, during which the best results and breadth of business to date were achieved and.

Undoubtedly, the first objective that was raised by Pierson to create his company was being fulfilled: the companies were aware of the factoring from a new perspective, which ended the cultural myths that had managed to stymie its development. Indeed, there was an interesting potential market that was beginning to wake up and that will surely continue to grow.

However, the financial crisis came and stopped the business from growing substantially. During 2009, despite the economic plight of the environment which led to a contraction of its portfolio, **CREDIFACTOR**'s activity continued to be characterized by more than acceptable levels of profitability. The company already had 23 employees.

In 2009, **CREDIFACTOR** again received funding support from local banks and multilateral organizations to endorse its the quality and competence . At that time two important developments for **CREDIFACTOR** took place: factoring law would take effect a year later; and **CREDIFACTOR**, an industry leader, would begin on a new adventure, MóvilFactor, once again with help from the IDB and the MIF.

## CONCLUSIONS AND LESSONS LEARNED

Finally, the continued interest in learning from other experiences (good practices of other countries' factoring) and **CREDIFACTOR**'s own learning throughout its 12 years of existence, have served to place the company in a privileged place in the factoring industry. If anything has characterized the company, it has been its restless spirit, its confidence in its leader's intuitions and its great flexibility to adapt to changes by adjusting its business strategy quickly to its environment, while maintaining a solid financial structure and strong capital positioning.

**CREDIFACTOR** was looking for best practices in, both internal and management experience in places where factoring was more developed, and these were replicated in Nicaragua (adapting to its particularities) to develop the local market. It not only expanded demand for the product, developing a collective understanding of its financial and administrative benefits (training the public and future competitors and gaining industry support for laws), but it increased the supply, from three bidders in the Nicaraguan market in 2005, to 22 in 2012, which obviously developed a larger industry and market. **CREDIFACTOR** understood that it could not service the entire market, hence the idea of training banks, financial entities and other institutions which today are its strongest competition.

Its allies, mainly the IDB and the MIF, were catalysts of its success and achieved an increase in the impact **CREDIFACTOR**'s performance of in the entire industry (supply and demand of factoring). The combination of technical cooperation and a line of credit from the IDB and the MIF was a powerful instrument, delivering results that went above expectations. Consumer confidence increased exponentially with the intervention of both the IDB and the MIF and of INCAE, bringing prestige both to **CREDIFACTOR** and to all the factoring industry.

Breaking the cultural barriers and the idiosyncrasies of a community, no doubt, was a complicated task. Efforts in dissemination, communication and training served to generate the knowledge needed to turn an unfamiliar concept into a business partner for SMEs.

