



increase its interest rate or charge an extra fee for processing the debt collection, Ms Dougherty says.

"In many cases we actually prefer to take over the collection process because it would make it a lower risk for us," she says.

When Gulf Finance assume the collection process, it also accepts the risks of non-payment, Mr Addyman says.

When the client retains the right to collect against the outstanding invoice, Gulf Finance expects to be repaid within four months of the loan's origination.

"After 120 days we present a cheque whether the invoice has been collected or not – it's not our responsibility," Mr Addyman says.

Similar services to the ones offered by Gulf Financing, known as invoice factoring or debt factoring, are popular in many countries, such as Italy, where state institutions, in particular, have a poor record when it comes to making speedy payments. In the UK, around 60 per cent of businesses with annual turnovers of less than £1 million (Dh5.99m) use invoice factoring services.

Outsourcing the collection service may not be the ideal solution for some companies, however, especially those that depend on the relationships they have formed with clients. Ehsan Fatemi, a broker at the Dubai shipping company BRS Middle East, for example, says outsourcing payment collection to a third party could harm a company's business.

"We have had our accounts for a long time, and they always have paid us, whether it was two weeks or six months," he says. "But if we had another person call and ask them for payment, that could sour our relationship."

On the other hand, Ms Dougherty says, outsourcing is ideal in certain cases. "Some businesses are really transactional; they don't build a relationship with their clients. For those companies it is cheaper because they don't need to have an employee harass clients for payment."

Gulf Finance judges clients' eligibility for invoice financing based primarily on the likelihood of receiving payments on their invoices. It also studies an applicant's overall financial health and business plan.

Gulf Finance examines the applicant's trade licence, memorandum of partnership and at least one year of audited financial statements, Ms Dougherty says. It also analyses a potential client's debtors and creditors, as well as their profits and losses. It typically takes two to four weeks for Gulf Finance to determine the eligibility of an applicant, although that depends on how quickly the required documents are processed.

Ms Dougherty says applicants who were not able to produce a sufficient number of documents have been denied financing.

Gulf Finance is not a depository institution, and it has to borrow from the market to provide its loans, a challenging proposition in the ongoing credit crisis.

However, "we are not having any issues at the moment", Mr Addyman said.

Companies looking for a rescue package to help their business stay afloat during tough times need not apply for invoice financing, according to Mr Addyman.

"It is not a last-resort help," he says. "This is for a company that is growing but does not have enough cash to release."

On the other hand, a service like the one provided by Gulf Finance could be the ideal solution for thriving companies experiencing cash flow problems caused by clients' late payments.

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