

# GLOBAL AND REGIONAL TRENDS ON DEVELOPMENT FACTORING

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## **Abstract:**

*The real advantages of factoring in general are : improves cash flow, eliminates bad debts, reduces operating expenses, expands working capital, strengthens balance sheet and enhances borrowing potential, improves management information, provides quick alternative source of financing, provides supplemental financing beyond what current lender may be able or willing to provide, funds business growth/expansion without increased bank debt or selling equity , provides immediate access to working capital, enables company to increase sales and profitability, preserves company's existing lender arrangements, provides professional collection and credit checking support removes or lessens the business costs associated with the collection process, provides complete and detailed reports about accounts receivable portfolio. Diversity and the demands of today's businesses have resorted to factoring, contribute to the emergence of new services and continued integration of new technologies.*

**Key words:** factoring, Factors Chain International, new technologies, services

**JEL classification:** F59

The first important market where factoring emerged was that of the USA where, until the 60's most of the factoring companies were family-owned. Starting from 1980, the banks were also authorized to offer factoring services, which brought about a massive acquisition of the factoring companies by them. The factoring industry developed in many countries. Although each country has its own characteristics, factoring has an almost universal applicability both in the developed and in the developing countries.

Neither the market size, nor being familiar with the factoring concept is the key to success. What really matters is the proper organization of the factoring companies and being aware of the fact that factoring has its own culture in the field. For example, knowledge exchange between members of factoring networks, such as *Factors Chain International (FCI)*, has contributed to increasing the professionalism. As a result, many factoring companies were able to redirect their efforts from an internal development towards an international one.

FCI was founded in 1968 as an umbrella organization for the independent factoring companies throughout the world, representing the largest factoring network in the world. At that time, the internal factoring services were available only in North America and in some countries in Europe, while the international factoring concept was still a novelty. The founding members of the FCI foresaw the potential of the international factoring services and realized that this organization was necessary for two reasons: in order to introduce factoring in the countries where it did not exist and to develop a homogenous legal framework for its members.

The FCI concept is built taking into account the local expertise and flexibility. Thus, each country works taking into account the local specificity and that country's culture, offering a new dimension to international factoring. Nonetheless, each member has to use a standard communication system, to agree to a global code of behavior and to fulfill certain criteria. Since its founding date, the number of the FCI members has reached approximately 252 companies from 69 countries. FCI is an international network of specialized companies that promote international trade through factoring or through other similar financial services. The FCI's goal is to become a standard for international factoring. FCI helps its members gain a competitive advantage in international trade by offering:

- an international network of first class factoring companies;
- a modern communication system that allows its members to manage their business cost efficiently;
- a homogenous legal framework and standard procedures in order to maintain a universal quality;
- personnel training programs;
- promoting business all over the world.

The volume of the factoring operations made by the FCI members has increased constantly starting with 1970. For example, in 1979 there were 11074 and in 30 years their number increased 27-fold, reaching 297981 operations. However, the most significant growth has been registered in the last decade.

*The value of the export-import operations* financed through factoring has increased similarly, by 185% from 1985 to 1991, the next 5-year periods showing a growth in the volume of international factoring as compared to the precedent year, 2009 being an exception.

The FCI (Factors Chain International) statistics show that the worldwide volume of factoring operations in 2005 has grown by 18.17%. The total turnover obtained at the end of 2005 was 1,016,547 million Euros as compared to 860,515 million Euros at the end of 2004. After that, a constant growth followed until 2008, while 2009 registered a decrease of 3.14% as compared to 2008. The factoring services were used in 69 countries, the total number of worldwide factoring operations reaching 1,909 companies in 2009.

Of the total volume of 1,283,559 million Euros in 2009, the worldwide internal factoring registered a decrease of 2.68%, the volume obtained at the end of 2009 being 1,118,100 million Euros. In what concerns international factoring, the volume obtained was 165,459 million Euros, registering a decrease of 6.08% as compared to 2008.

In 2009, the largest part of the turnover from factoring operations was obtained by European companies with a rate of 68.30%. The USA and Asia hold one third of the worldwide total, while Australia holds only 1% in what concerns the turnover from factoring operations.

In 2008, strong regional growths were registered in Asia, especially in Japan (+37%) and in Taiwan (+16%). In South America, the markets that registered growths were Chile and Brazil, while in Europe many countries obtained excellent results. In 2009, given the global economic crisis, a decrease of 3.14% was registered in the total volume of worldwide factoring operations.

On an international level, in 2008 Great Britain had a leading position with a factoring operations' volume of 188,000 million Euros, while the USA was ranked second with a turnover of 154,195 million Euros. France continued to hold the third place with a turnover of 135,000 million Euros, Italy was ranked fourth with a volume of 128,200 million Euros. Japan came next, with 106,500 million Euros and then China etc.

Three elements can be mentioned in relation to these positive results registered in 2008:

1) *the general improvement of the global economic conditions*, although high prices were registered for energy and raw materials, especially steel.

FCI – the largest global organization of factoring operators in the world – is present on all continents: Europe, America, Africa, Asia/Pacific – at the end of 2009 it was present in 69 countries, the total number of factoring organizations within FCI being 1909.

The turnover obtained by the factoring operators that are members of the FCI during 2008 was 788,537 million Euros, registering a growth of 4.0% as compared to the precedent year. The market share of FCI on the global factoring market was 59.5% (of the total of 1,325,111 million Euros).

The factoring operators within FCI have provided services to 134,000 clients corresponding to 5 million debtors, which lead to the processing of 102 million invoices. This shows that the exporters and the importers throughout the world have become more familiarized with the advantages that derive from a factoring contract: working capital, protection against the risk of non-payment, collection services for the exporter, while the importers can purchase different goods by paying at a certain term without restrictions concerning the opening of a new letter of credit or restricted payments on due term.

The turnover obtained by the factoring operators that are members of the FCI during 2009 was 756,913 million Euros, representing a decrease of 4.01% as compared to the precedent year, almost reaching the level of the 2007 factoring services. The market share of the FCI on the global factoring market was 58.96% (of the total of 1,283,559 million Euros).

2) *a better familiarization of the markets with the flexibility and the service-oriented character of factoring, which has lead to an increase in demands;*

3) *introducing factoring in an increasing number of countries, for example Peru, Egypt, Ukraine, the ex-Yugoslav countries, Vietnam.*

As can be seen from the above table, Romania is ranked 6<sup>th</sup> on the factoring market in Central and Eastern Europe. In 2009, from the 1,400 million Euros obtained from factoring services in Romania, 1,050 million Euros were obtained from internal factoring, the remaining 350 million Euros coming from the international factoring services.

As can be seen from the following graphic, at a global level most of the factoring operations were related to business at an internal level, only one third being the result of financing external trade operations.

**Table no. 1**

**The turnover for the FCI members within the total turnover corresponding to the factoring services at a global level**

	2005	2006	2007	2008	2009	2009/2008
Factoring intern FCI	522,569	594,229	640,116	644,128	623,28	-3.24%
Factoring international FCI	76,979	98,425	118,271	144,408	133,633	-7.46%
<b>Total factoring FCI</b>	<b>599,548</b>	<b>692,654</b>	<b>758,386</b>	<b>788,537</b>	<b>756,913</b>	<b>-4.01%</b>
Internal global factoring	930,061	1,030,598	1,153,131	1,148,943	1,118,100	-2.68%
International global factoring	86,486	103,69	145,996	176,168	165,459	-6.08%
<b>Total global factoring</b>	<b>1,016,547</b>	<b>1,134,288</b>	<b>1,299,127</b>	<b>1,325,111</b>	<b>1,283,559</b>	<b>-3.14%</b>

Source: [www.factor-chain.com](http://www.factor-chain.com)

At a global level, more than 1900 companies provide factoring services, with 559 companies in Europe in 2009, according to Factor Chain International. The

companies that operate on this market are generally branches of bank groups, financial institutions, insurance companies or industrial companies and, rarely, independent companies. The current internationalization of the market results in numerous purchasing activities and concentration within a domain still dominated by fundamentally national actors.

Diversity and the current demands of companies that have resorted to factoring contribute to the emergence of new services and to the continuous integration of new technologies.

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