

## Factoring - modern foreign trade financing technique

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### Abstract

The primary aim of the research is to define and examine the factors that influence the factoring process and their impact on the global trade dynamics. However, the study seeks to examine the role of various specific factors that are imposed by this phenomenon and are an integral part of modernity. The methodological approach relies on a collection of methodological tools that integrate fundamental research with quantitative research, as well as contemporary methods with traditional methods. The intricate nature of the subject necessitates the implementation of a suitable methodology, which involves defining objectives, guidelines, hypotheses, and methods. These elements are crucial in conducting high-quality research.

The current research has discovered a correlation between the concepts of factoring, modernism, and sustainable development. This correlation encompasses the ecological, economic, and social dimensions. Simultaneously, it distinguishes itself through diverse patterns or overarching principles that exist on both a national and global scale.

By conducting a thorough literature review, it was determined that there is a significant lack of scientific resources on commercial performance. There is a need for studies that focus on capturing the key indicators that contribute to performance in this field. This research is situated within the broader body of literature on commercial performance. It encompasses both theoretical and applied research, shedding light on the relationship between factoring and the advancement of contemporary trade promotion methods. The uniqueness of the article lies in its focus on the practical significance of the research. It presents accounting information as the primary source of data for analyzing commercial performance. This paper aims to alter the perception of an inferior product that is commonly associated with factoring. It highlights the fact that private financing companies, rather than banks, play a significant role in its development, thereby increasing its inherent risk. The lack of knowledge about the product and its actual benefits has resulted in the misconception that factoring is only considered as a last resort for financing when companies are rejected by banks. This perception indicates significant issues for the company.

### Keywords

commerce, European Union, factoring, finance, organization

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### Introduction

This paper highlights this important role of factoring operations in parallel and in accordance with other financing operations in the same category, thus like factoring. The paper deals with the presentation of modern methods that have proven their effectiveness in financing economic agents with foreign trade

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activity. The most difficult problem now and in the past for Romanian companies is finding financial resources at the required volume and in a set period, at reasonable costs.

The financing of the foreign trade activity through these modern methods proves to be much more effective than the financing through classic ways of crediting (Grüter and Wuttke, 2017).

The delivery of goods, as well as the provision of services with payment at a chosen term, is an engine in the growth of exports, but this facility for importers also brings increased risks for exporters since time elapses before collection. That is why the collection of receivables can become a serious problem and can affect the entire activity of an exporter.

Although the business is profitable, when there is a temporary list of liquidity other external or internal factors in the country's economy can add up and they will turn the business into a bankrupt one. Such problems encountered quite often in Romania could be solved by resorting to modern financing techniques (Burlacu et al., 2021).

Exporting companies must know the existing possibilities to be able to cover the risks and to transform the due receivables into liquidities, to call in full knowledge of the case to favorable financing techniques (Orzan et al., 2020).

From the immediate reality, there are reluctance to use factoring, precisely because of the misunderstanding of the content, or because of the ignorance of how it is used to obtain advantages (Burlacu et al., 2019).

## 1. Review of the scientific literature

Factoring is defined as a financing mechanism. In this method of financing, the aim is to obtain liquidity through sales with invoicing at a maturity that does not exceed 180 days, by taking over by a certain purchasing company, which must be a commercial bank, or a factoring company, or something similar, of to the beneficiary, of the invoices issued by him, against some sums of money (Ionita et al., 2009).

As a definition, we can say that factoring is the method of releasing debts through an action of selling them to qualified financial institutions or the operation by which some institutions of a certain profile engage in the collection of invoices against a set commission (Richard Scott, 2004).

Factoring will materialize in the contract concluded between the adherent, as a contractual party, the supplier of goods or the service provider and the banking company or specialized financial institution, called "factor", the other party, which will ensure financing, follow-up of claims and protection for credit risks. The adherent assigns to the factor, through a title of sale, which is also a pledge, claims arising from a sale of goods or provision of services to third parties (Binh et al., 2020).

In many situations, the factor retains the right of recourse for the recovery from the subscriber of the amounts that have not been collected from the debtors. The factoring contract means in banking practice a variety of bank credit. In the factoring account, the amounts owed by the credit institution in exchange for the receivables ceded by the clientele are recorded (Nica et al. 2023). After the receivables are collected, the sums resulting from the counter value of the receivables will be made available to the holder of the factoring account. The values of the factoring contract are also established by law.

Factoring does not appear as a new concept, but is actually a concept with origins in antiquity, a practice of merchants who had hired agents, that is, factors, to manage the sale of goods. A first rise for the activity of factoring and factoring agents is achieved in the United States in the 19th century following the growth of the population and therefore the demand for some textile goods, imported from Europe (Bougheas et al., 2009).

Thus, European exporters, who did not use modern means of communication, such as today's, namely the Internet, fax, telephone, air transport, called on factors for the management and sale of the stock of goods. Factors did all the work, taking delivery of the goods, providing safe keeping and storage, a portfolio of customers, sales, and receipts, in exchange for a commission taken from the exporters in Europe.

As international transactions in recent times have developed a lot, the interdependence between states has increased and the process of financial globalization has intensified. This generated severe changes in the international financial markets, and these were felt in the economic sphere and even in the political sphere (Babich and Kouvelis, 2018).

As the communication system has greatly developed over time, the need for exporters to store and store goods has decreased, factors have moved away from marketing or distribution and into financial services (Huang et al., 2019).

Our century is truly the century of new banking services and experiments. Due to the influence of increased competition between banks or financial institutions and due to the new restrictions for obtaining the banking benefit, we observe an increase in the frequency of use of traditional operations.

Among the most well-known banking services, without taking into account the traditional ones, are those storage operations or lending operations, loan operations to individuals or legal entities, cash management services, brokerage operations, leasing operations for natural and legal persons, factoring and many other international financial operations (Ghiță and Calotă, 2004).

Factoring is that process of Anglo-Saxon origin that allows a company to offload the management of commercial receivables as well as to avoid steps regarding their collection (Wuttke et al., 2016).

## 2. Research methodology

The focus of research concerns is oriented towards knowing the concept of factoring, which allowed the use of some main research methods, as follows:

- the analysis of the documentation, referring here especially to the review of the specialized literature. This fact allowed a content analysis of the theme addressed, as well as an analysis of the evolution of the respective theme both from the point of view of the time criterion and from the point of view of the space criterion;
- non-participatory observation, thus summing up to observing the evolution of the concept over time and the interactions between the different elements subject to research;
- the comparative method, through which the main theoretical and practical elements specific to the different dimensions of the factoring concept were identified, through a complex approach.

As for the techniques used, they consisted in gathering and processing information, as well as interpreting the research data. The procedures used were the reading of available documents, the creation of tables, figures, synthetic schemes, the use of online search engines, access to available databases.

An attempt was made to create a logical structure that would allow a more comprehensive approach to this type of operations, starting from the enumeration of the main types of financing forms.

An important aspect regarding the detailed analysis of factoring operations is the factoring contract and the legal regulations in force.

The study carried out on the accessibility of small and medium-sized enterprises to financing through factoring tries to highlight the importance of this phenomenon both at the global and national level. The data show that, as the economy develops, factoring will make its presence felt more and more prominently in our country as well. The proof would be its use on an increasingly wide scale by high-performing companies engaged in international trade and the emergence of financial institutions specialized in this field. However, the gaps between Romania and developed European countries are still very evident, but significant increases are expected, along with the increase in the level of information of Romanian economic agents.

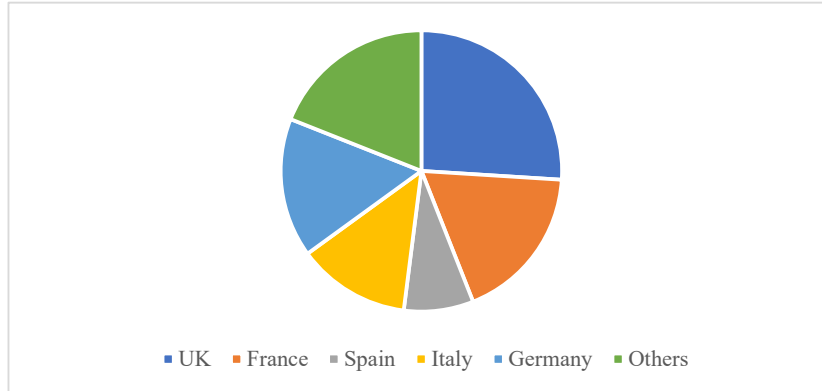
The field of banking performance utilizes a combination of systematic and evolutionary research techniques, employing both theoretical and empirical methods to address specific research inquiries. This research aligns with a systematic, evolutionary approach and a positive constructivist epistemological positioning within the field of economic sciences. It focuses on studying the economic phenomenon and the role of quantitative modeling in explaining its evolution. This research employs a simultaneous mixed methods approach to information seeking, integrating qualitative research through narrative exploration with quantitative research that focuses on experimental methods (Duan et al., 2018).

## 3. Results and discussion

At the present time in the EU space, the factoring market is growing, a situation that determined the study of the trends of this market. Elements of the development of factoring can be mentioned such as the financing offered by the EU in the amount of 175 billion euros for 168000 enterprises, which together managed to combine the turnover of 1.58 billion euros.

In 2022, the factoring market in the EU area achieved 1.8 billion euros, increasing by over 7.83% compared to previous years. The main beneficiaries of financing were businessmen from the manufacturing, services and distribution sectors.

Thus, the factoring market in the European area concentrates 60% of the total volume of international factoring. After the felt crisis, all businesses faced the problems of contracting bank loans, and the solution fell to the factoring companies that intervened.



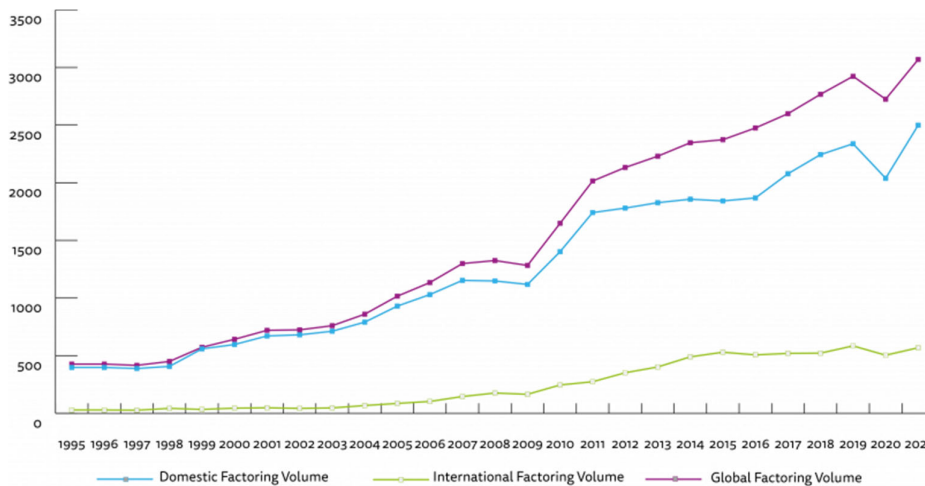
**Figure no. 1. Volume of factoring operations in the EU between 2015-2022**

*Source: <https://fci.nl/en/international-factoring-statistics>*

Following the analyzes for figure 1 and according to the data of the international factoring associations, it can be seen that the volume of factoring in countries such as Great Britain and Germany has increased by an average of 7.8% in the analyzed period, respectively between 2015 and 2022, in first place being Great Britain UK with the highest growth. According to the data provided by the International Factoring Association, we could conclude that the market is developed in 5 states, which concentrate 80% of a total volume of factoring operations at the level of 2021, i.e. Great Britain, Germany, France, Italy, and Spain. Thus, it is established that in Europe the highest share at the end of 2021 belongs to the United Kingdom of Great Britain with 23.95%, followed by France with 15.5%, Germany with 12.95%, Italy with 12.55%, Spain with 7.75%.

Small differences are observed between France and Germany, of only 3 percent, and between Germany and Italy the differences are even smaller, almost insignificant, under one percent. Compared to the UK, the percentage shares are halved in Germany and France in 2022, and Spain only has a third of the UK's market share.

The companies most active in micro factoring platforms come from business services such as auditing, accounting, marketing, but also tax consulting. In 2019, the volume of financing increased by almost 300% and a number of more than 3000 unique customers were exceeded for several European states, including Romania.



**Figure no. 2. Evolution of the global volume of factoring in the period 1995-2021**

Source: <https://fci.nl/en/international-factoring-statistics>

In the figure 2, a constant growth is observed in the domestic sector, with a slight decrease in 2009, marked by the effects of the economic crisis of 2008, but immediately the curve becomes upward. Factoring volume increases significantly in 2011, after which the evolution is constant.

A slight decrease in the global factoring volume is also recorded in 2020, the year of the pandemic. In 2022, the values of 2019 are exceeded. In the international sector, the curve is constant over a period of ten years, the growth being slowed down, but after 2010, continuous growth is observed. The global volume shows the highest growth in 2011 and 2022, being proportional to the domestic factoring volume.

### *Factoring operations in Romania*

The factoring market in Romania is constantly developing, trying to increase the volume, facilities for the supplying companies, filling in the lack of experience and helping companies to have access to this financing by removing some restrictive conditions.

In the current conditions of the national economy, factoring can be a solution for Romanian exporters. Factoring helps promote or encourage exports by:

- providing resources that can cover immediate liquidity needs;
- obtaining the guarantee that the monetary rights will be collected;
- taking risks in case of non-payment by external debtors.

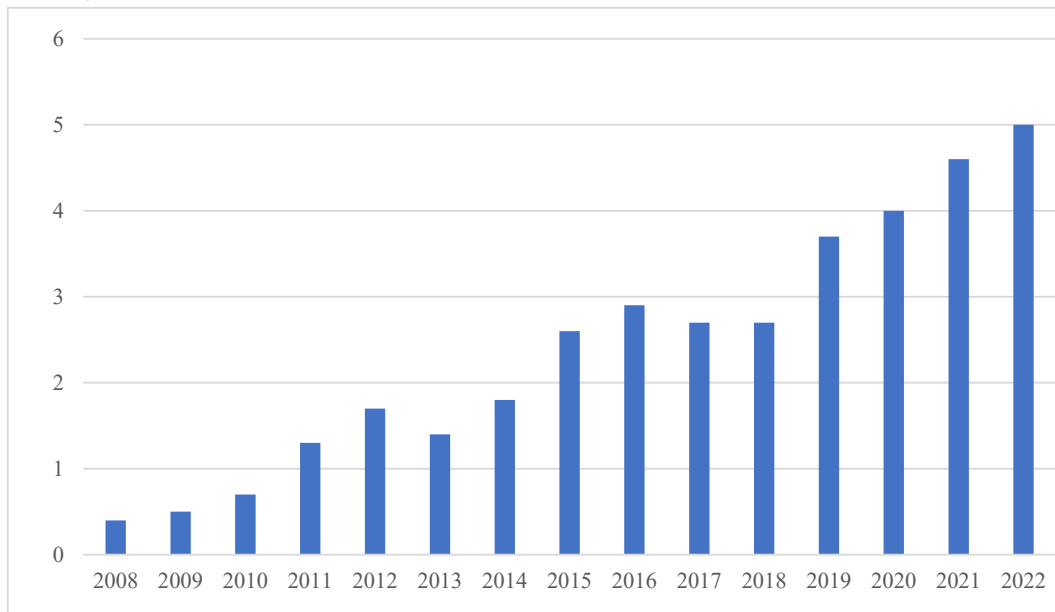
Annual increases of approximately 75% have been recorded on average, significantly exceeding the annual growth rate recorded worldwide (which is approximately 10-12%). These increases prove that the factoring market is in continuous, dynamic change.

The largest share is held by the factoring companies that finance exports (88%), and this reflects the position contrary to the trends that are manifested worldwide.

Romania registers an ever-increasing volume and will reach almost 4 billion euros in 2022, according to data from ARF, which annually conducts studies on the evolution of the market. For the first months of 2022, the level of managed claims was 3.68 billion euros, increasing by a percentage of approximately 31% compared to 2021.

Factoring is therefore in full swing, as evidenced by the complete data from Factors Chain International. Considering the position and the geopolitical situation, factoring remains a financing product that is used by companies from all fields in our country. The growth recorded last year is based on vectors related to the economic growth in the areas that are financed through factoring and the rise of inflation, which is why the prices of goods, or the prices of traded services have increased, so implicitly, the value of receivables managed through factoring (Schipor and Duhnea, 2022).

In the elaborated studies, the members of the ARF, the Romanian Development Bank and the Romanian Commercial Bank, which are the main pioneers of the study, are included, but other banks in Romania, as well as financial institutions that are not members of the ARF, will also be taken into account (Roventă, 2012).



**Figure no. 3. The evolution of the factoring market in Romania (2008-2022)**

Source: <https://arf.gov.ro/web/rapoarte-si-studii>

Figure 3. shows us studies carried out by ARF, which carries out semi-annual studies of the factoring market. Thus, there is a slight advance in recent years of approximately 1%, with only two periods of slight decrease in 2009 and 2013. So, if we refer to internal factoring, increases are reported, due to improvements in regulations in this area. From 0.4 billion euros in 2004, when it was established, the total sum is 5 billion euros in 2018. Significant increases are recorded in 2011 and in 2015. Starting from 2015, the increase in volume is constant, with values between 0.35 and 0.56 billion euros.

The most developed sector of activity within internal transactions, the consumer goods sector, known as FMCG, has a weight of 19.7% in 2022 and a total volume of 593.5 million euros, followed by the field of "metals, chemicals, water, recycling", with the total value of assigned receivables of 528 million euros, with an 18% share in the total market from 2022.

In 3rd place in 2022, the field "vehicles, machinery, equipment" is placed, with a share of 14%. In fourth place we have the electronics and IT sector which grew to 393 million euros (compared to 350 million in 2021), so the share was 13%.

The 31% advance in domestic factoring is considered spectacular in 2022, because it reaches almost 3.16 billion euros. And in the receivables area there are spectacular increases through import factoring, over 50%, but also in export factoring there are increases of 30%. Factoring market studies 2022 are conducted by IPSOS Interactive Service in line with ICC/ESOMAR market and sociological research.

#### *International factoring organizations*

One of the most important factoring company networks globally is Factors Chain International (FCI). The common objective of these companies is to facilitate factoring financing. The organization was born in 1986, as a support given to independent factoring firms, nowadays reaching an extensive network all over the world (Moretto and Caniato, 2021).

The headquarters of this organization is in Amsterdam, and the network includes 256 members distributed in 70 countries. The market share represents 80% of the total volume of world factoring.

The mission of the Factors Chain International organization will continue to be to become a high standard regarding international factoring and to actively participate in supporting members to gain an advantage in financial services through the following aspects:

Another important organization is the International Factoring Association (IAF), founded in 1999, an organization that aims to assist factoring companies from all over the world, offering a rich source of information, financing, training, for the community.

Its mission is to promote factoring, organize information about evolution and changes in the economy to the community, organize a framework of seminars and other educational meetings.

In addition to the relatively recent organizations presented above, an important role is also played by the International Factors Group (IFG), founded in 1963, the first international association that brings together factoring companies. Based in Brussels, IFG focused on organizing international factoring operations offered to several companies in the world. IFG has 140 members in 52 countries (Youssef and Mansour, 2024).

Cooperation between IFG members was based on general rules for international factoring (GRIF). The governing body is the General Assembly, which is represented by full members. The executive body of the organization is the Board of Directors, which is led by a president (Nanda et al., 2021)

Nowadays, IFG has been reorganized as a global trade union. The new plans include the development of operations in Asia and Eastern Europe, the greater involvement of partners or sponsors.

In the sense of fulfilling some key missions, IFG remains active in the activity of research and implementation of educational programs:

- specialized training courses for new members;
- workshops for sales managers;
- specific programs for new products in this field.

## Conclusions

In this paper, the main characteristics of factoring operations, their development and the implications for the company financed by factoring were analyzed. Through a case study, the main stages in the factoring operation were detailed. The warranty recovery period is very long. It involves high expenses for the financiers, such as legal expenses or salary expenses.

If we have high inflation, then the capitalization of the guarantees will be difficult, because the process of capitalization is long and usually the price obtained as a result of the capitalization could be below the level of the evaluation of the guarantees at the time of crediting.

Claims are safer as a means of guaranteeing credit, than mortgages or pledges on immovable or movable property. These receivables are insured against the risk through policies, and the risk of the operation is transferred to the insurers. In this way, the new financing techniques in foreign trade appeared and developed.

The financing decision is conditioned by the viability of the transaction. The financier monitors the development, identifies weak points before losses. Through monitoring and control, the correlation of the production flow with the flow of receipts, as well as the particularities of the products' destination markets, is followed.

The lack of foreign currency factoring financing of some activities in the economy could deprive Romanian exports of the adequate support they need. The development of financing in accordance with modern financing techniques leads to the dynamism of payments between economic agents and to the reduction of the existing financial blockage in the national economy. The banking product known as factoring has proven to be more effective than other lending practices. Traditional lending can provide financing, but factoring means a complete set of services.

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