CHAPTER - IV

WORLD-WIDE DEVELOPMENT
OF FACTORING
Factoring is a global industry with a vast turnover. It is now universally accepted as vital to the financial needs of particularly small and medium sized businesses. Factoring has become well established in developing countries as well as in those that are highly industrialized. In India, Indonesia, Thailand, and Turkey, the growth of factoring has been dramatic while in South America, financial institutions continue to join the industry. Similar growth has been witnessed in Central and Eastern Europe. Established factoring companies in Hungary and the Czech Republic have been joined by organisations in Poland, Romania, Russia, Slovakia and Slovenia.

This chapter deals with evolution of factoring service (Part I) and global trend of factoring business (part II).

**Part -I**

**EVOLUTION OF FACTORING SERVICE**

1.1. Factoring has a long history, which traces back through several centuries. It, in one from or another, has played a major role in the commercial and economic development for centuries. This history is presented in Chart 4.1 and discussed century-wise below.

1.2. Shakespeare mentioned factors in his play “The Tragedy of Cymbeline” printed in 1623. Iachimo, Italian friend of king Cymbeline’s son-in-law Posthumus’ mentioned the factors in the following manner in Act 1, scene VI (Cross et. al. 1993, p.1332).

Iachimo: Some dozen Romans of us, ------
Have mingled sums
To buy a present for the emperor,
**EVOLUTION OF FACTORING**

**Ancient Rome**
- Managed and disposed of the products of wealthy Romans.
- Itinerant merchants acted as middleman.
- Concentrated on textiles only.

**Fifteenth and sixteenth Centuries.**
- Offered selling, storage and general merchandising, and financial services.
- Emerged in a fairly recognizable form.
- Acted as local representatives of the manufacturers and merchants of the mother country.
- Known as Del Credere.

**Eighteenth Century**
- The storage selling and general merchandising functions were replaced by financing, credit, and collection functions.
- General factors transformed into the modern factor.

**Nineteenth Century**
- Extended in domestic concerns and squeezed international trade.

**Twentieth Century**
- Specialized form of factoring appeared for the textile and a number of the other growing industries.
- Enacted Uniform Commercial Code in USA.
- Ruling came that factoring is a legitimate bank activity and specialist in credit, book keeping and financial services.

**Common in Europe.**
- Spread into North America out of Europe.
- Specialized in marketing and payment risk.

**Trade factoring.**
- Itinerant merchants acted as middleman.
1.3. The word, "factoring" comes from the Latin verb "facere" which means 'to make' or 'to do' or in other words, one who accomplishes things or gets things done (Boldin et al. 1981, p.74). In terms of the agency factoring, its origin can be traced to the Roman Empire (Pandey 1994, p.41). Wealthy Romans hired factors to manage and dispose of the produce of their estates (Silverman 1949, p.149). The estates and other properties of wealthy nobles were administered by factoring agents. They played an important part in the industry and commerce of ancient Rome.

2. Then factoring was lost in the mist of time for a few decades. The evidence of the existence of factoring can again be found in the thirteenth century when in Italy, the commission agent form of factoring came into being (Walton 1973, p.36). It has been ascertained that forms of trade factoring, not the financial factoring, as practiced today, were used as long back as the 13th century (Moore 1959, p.36). Factors were then itinerant merchants who were entrusted with merchandise belonging to others. They were the 'middlemen' between countries with a fairly advanced economy and the countries which were in still primitive stages of economic development (Walton 1973, p.36). But it is assumed that merchant bankers and others may have offered financial factoring in this period. It was at this period that factoring began to play a vital role in the textile industry, a role that continued on and right into the modern day factoring.

3.1. The growth of factoring, in a fairly recognizable form, took place in the fifteenth and sixteenth centuries, with the advent of the period of exploration and colonization by Great Britain, France and Spain (Kalyanasundaram Committee 1988, p.41). The mother countries shipped ever-increasing quantities of goods to their colonial settlements in distant foreign lands. Factors' principal functions then were sale and distribution of merchandise on the best terms. For arranging the sale and distribution of
these goods, the factors established residences in the colonies and became the local representatives of the manufacturers and merchants of the mother country. They maintained extensive storage facilities for the merchandise shipped to them from abroad and they made arrangements for the cartage of such merchandise to customers throughout the colonies. The factors did not own the merchandise in their custody but they were responsible for its safe keeping as well as for the cash or other proceeds they received upon its sale. Huge distances divided the merchants or manufacturers from the factors, and it naturally resulted in confidence and trust; they relied on the factors for advices and recommendations on all matter pertaining to the goods and the prices to be quoted. Then, factoring came to be known as ‘Del Credere’, which meant undertaking responsibility for the credit worthiness of the buyer. The factors assumed the risk of loss, in the event they were unable to collect the amounts owing from customers (Siedman 1957, p.6).

3.2. The factors thus prospered in colonial times and grew in economic strength. To the earlier services of selling, storage and general merchandising entrusted to them by their foreign principals, they added the practice of making advance payments to their principals against the merchandise in their possession. These factors who performed the function of selling the goods as well as financing and collecting the book debts were known as general factors and have served business since ancient times (Pandey 1994, p.42).

4. The factorage system was common in Europe in the seventeenth century. Then many merchants in the Netherlands used factoring as a means of financing. The Dutch came to be described by ‘Voltaire’ as the factors of the world (Boldin et.al. 1981,p.42).

5. In the eighteenth century, factoring became a part and parcel of the textile industry. Since most textile trade was concentrated in the U.K., factoring in the London textile industry grew in size. It also spread to North America out of Europe when the British emigrants were settling down in North America and playing a noticeable role in developing trade in colonies (Brien 1968, p.138). All the while the emigrants...
settled along the eastern sea board, they had no problem in getting their blankets, clothes and other textile requirements shipped out from Britain. But once they began to 'go west' and settle thousands of miles inland, the mill owners, most of them in Lancashire and Yorkshire, naturally insisted on some payment guarantee before sending their goods into unknown, and often hostile territory. The situation quickly produced the first growing factoring business with two specialized functions viz. marketing and payment risk (Brien 1968, p.138).

6. During the later years of the nineteenth century, a gradual change took place in factors' activities. This time factoring became more specialized. The storage, selling, and general merchandising functions performed by the factors were gradually replaced by financing, credit and collection functions. By providing these needed functions, the mills were able to keep in continuous operation and had plenty of working capital to finance their continuing operations. Thus, the general factors transformed into the modern factor. There were two reasons for this change. Firstly, manufacturers established their own marketing departments or employed specialized distribution channels to focus sales as competition intensified. Secondly, general factors found the business of selling as time consuming activity and risky too. They, therefore, thought of specializing in credit and collection function, financing and other advisory services (Pandey 1994, p.42). At the same time, factoring was also extended to domestic concerns that had sprung up in the course of the rapid industrialization. But the roles of factors in international trade became less prominent (Moore 1959, p.705). Factoring was conducted in this manner till around 1900 (Phelps 1956, p.68).

7.1. Factoring, in its present form, rapidly expanded after 1900. What had begun as a commission agent form of factoring, or selling, underwent a great deal of change to become specialized form of banking for the textile, and a number of other growing industries. During its early growth, it centered almost exclusively into the textile industry, but during the twentieth century, it has expanded into furniture, shoes, hardwires, plastics, toys, sporting equipment, paints, fertilizers, and over a wide range of other consumer goods, as well as different types of service industry. This move received additional impetus by

7.2. In 1954, Pennsylvania enacted the uniform commercial code (UCC), which gave impetus to factoring. The UCC has since been adopted by every state except Louisiana. This dominant legal influence, specifically its article 9, lays ground work for the establishment of uniform practices among factors (Boldin et al. 1981, P.74).

7.3. The early 1960s witnessed severe credit squeeze and companies started relying on factors purely as suppliers of finance. This time, factoring grew remarkably. The volume of sales factored increased form one-fifth of a billion dollars in 1917 to $ 1 billion in 1960 (Pandey 1994, p.42). The development had close links with the post-war situation. Immediately after the 1939-1945 war, many companies were in desperate need of an extra capital, both equity capital and working capital, to finance their post-war recovery. Moreover, then the company failure (mortality) rate ran high. These problems helped to establish factoring business on a sound basis in the US in the 1960s. During this period, the emergence of cross border factoring was also seen, as factoring organizations were set up by the U.K. and the U.S. factors in other countries.

7.4. The entry of the banks into the area of factoring has been a very significant move. In the 1930s, a few banks notably, the Bank of America and the Trust Company of Georgia – ventured into factoring (Shay et al. 1968, p.150). But nineteen sixty-three marked the real beginning of the banks’ entry into the factoring business. It was in this year, James Saxon, then comptroller of currency, issued a ruling that factoring was a legitimate bank activity (Shay et al. 1968, p.152). With the approval, the image of goods’ factors began to change. Today, banks and financial institutions are heavily involved in promoting factoring services. Kohnstamm (1999, p.4) notes that a growing number of banks are now looking at factoring with greater interest than before.
7.5. In order to have uniform terms and conditions, procedures and practices in the factoring operations all over the world, Factors Chain International (FCI) was founded in 1984. It has now about 90 members from 30 countries (Pandey 1994, p.42).

7.6. Factoring companies today must be regarded as financial institutions rendering unique and specialized services. Unique in the sense that the benefits and protections afforded by a factoring arrangement through a combination of credit, book keeping and financial service, can not be obtained elsewhere from single source, and specialized in the sense that the factor’s services are geared and adjusted to the particular credit and financial requirement of each concern that employs factor.

An endeavour is now being made below to discuss the evolution of factoring in some details continent-wise.

1. EUROPE

1.1. Europe is the birthplace of factoring services. During the periods of ancient Rome, factors were engaged in the distribution of products of commerce and industry of wealthy Romans. Then factoring system became prevalent in a fair form in Europe in the sixteenth and seventeenth centuries (Boldin et.al.1981, p.74). This system involved the granting of loans to manufacturers for raw materials, fuel, wages and other expenses. Europe is now the most fertile land for growth of factoring. There are now more than 343 factoring companies whereas this figure was only 6 in 1962.

1.2. Europe registered the maximum share of factoring turnover i.e. 64 per cent of total world turnover at the end of 1997 (factors-chain.com). There is now much discussion on concepts of global village and harmonization in the European community. Euro, a common currency for European Union, has already been introduced. These changes will certainly bring additional impetus to factoring, especially international factoring.
1.2.1. The origin of factoring in the U.K. can be traced to the fifteenth and sixteenth centuries with the advent of the great period of exploration and colonization. The factors prospered in these times and grew in economic strength. The mother country shipped goods to their settlements in foreign lands, which were unknown and often hostile to them. In the colonies, the factors became the local representatives of the manufactures and merchants of the mother country. They provided storage, selling, lending and general merchandising services to their foreign principals.

1.2.2. Factoring system was common in Britain in the sixteenth and seventeenth centuries. In the eighteenth century, it again became the part and parcel of London’s textile industry. In fact, the service in a modern and organized manner has been found here since about 1950. By the early 1950s, several large and many small invoice discounters came into existence in the city West End of London. Many immigrants from central Europe were experts in the furniture and garments manufacturing who were used to discounting their invoices with banks (Sengupta et.al. 1991, p. 10).

1.2.3. The development of factoring in Britain, first introduced here at the beginning of the 1960s, had close links with post-war recovery (Brien 1968, p. 138). After the war, many British companies were in desperate need of working capital to finance their post war recovery. More and more of their customers were creating artificial credit by delaying payment of invoices as long as they possibly could. By making cash immediately available to a client in exchange for his book debts, the factors were in a position to solve this particular insidious liquidity problem. It is because of this that factoring grew up here in these times.

1.2.4. One peculiar phenomenon regarding the developments of factoring in the U.K. has been that the service had its bias towards simple financing by way of invoice discounting (Sengupta et.al. 1991, p. 12).
This manifestation resulted in the very weakness of the system whereby factoring companies financed weak companies to overcome their financial difficulties and cash flow problems. That is why many of such early factors ran into difficulties. From about 1965 to 1970, each of U.K’s clearing banks became involved in factoring either by acquiring an interest in an existing factoring company or by setting up their own operations (Burton 1973, p. 286). Since then, they began to offer the full factoring services by way of efficient sales ledger administration and collection of debts besides providing finance. National Provincial Bank was the first British bank to move into this field of activity through its subsidiary, North Central Finance, by holding 75 per cent of the capital of ‘Portland Group Factors’. As this experiment was not successful, in 1970, an entirely new company was formed under the name and style of ‘Credit Factoring’, which took over the entire business of ‘Portland Group Factors’. In 1974, the first British bank moved into international factoring. The National Westminster Bank Group, through its assisted company, ‘Credit Factoring International’, was the first that started international factoring (Sengupta, et.al. 1991, p. 12).

1.2.5. An interesting aspect of the development of factoring in the UK has been the diversification in the types of business using the service. In the US, factoring is concerned principally with the textile trade while in Britain, factoring is also doing well in textile sector. Besides, the other industries now factor their accounts receivable. Among those served are companies in mechanical and electrical engineering, both for manufacturing and wholesale distribution, metals and steel stockholding, office and domestic furniture, printing, paper and packaging, rubber and plastics goods, glassware, cutlery, crockery, jewelry as well as different types of service industry (Maberly 1979, p. 97).

1.2.6. The Association of British Factors and Discounters (ABFD) gave further impetus to growth in factoring in the U.K. In 1976, the leading factoring companies operating in the U.K. formed the ABFD. Today, more than 90 per cent of the factoring business in the U.K. is handled by the members of the ABFD, although there is a smaller chain of tiny factors grouping themselves as ‘Association of Invoice Factors’. Notably, over the years, some of the members have acquired specialization in a particular field.
Lloyds Bank Plc, has two subsidiaries namely, Alex Lawrie Factors Ltd., and International Factors Ltd. The former specializes in non-recourse factoring whereas the major portfolio of the latter is with recourse one (Sengupta et.al. 1991, p.12).

1.2.7. The U.K. also abounds in a large factoring market. This is the third largest market in terms of volume only after the USA and Italy. In 1998, total volume reached US $ 85.17 billion for the first time in the history of the industry (Higley 1999, p. 140).

GERMANY

1.3.1. Factoring grew in Germany slowly and steadily from the beginning of the 1960s. Peculiarity is that they are doing well in international factoring than domestic factoring. Their share in international factoring is the second highest which is slightly behind only that of the U.K. There are even many companies who have started international factoring first and domestic factoring later (Deolalkar et.al. 1994, p. 19). They go international to serve importers and exporters for the collection service and they provide them insurance coverage too.

1.3.2. Domestic factoring did not pick up here like in other European countries. In Europe, their position was the fifth at the end of 1997. The following legal impediments are causing slow growth of factoring business in Germany (Sengupta et.al. 1991, p. 17).

Ban of Assignment by the purchasers: Chapter 399 of the German Civil Code provides that the parties to a sale contract can agree that receivables arising from the contract may not be assigned to a third party. In fact, many of the purchase contracts of large German companies do contain such a prohibiting clause resulting in impossibility of assignment to a factor.
Prolonged Retention of Title by the Suppliers: In normal commercial transactions, it is not uncommon for the sellers of goods to reserve the title to goods and this right extends to all the proceeds of the sale by the debtor unless he has been paid in full.

1.3.3 But efforts are on to remove the legal obstacles with a view to encouraging open account sales transactions. Some German factors have entered into a bilateral agreement with some leading industrial houses whereby the prohibition of the assignment is not applicable to factoring business. Moreover, they have stepped up constant efforts for marketing domestic and international factoring.

1.3.4 Besides banks’ subsidiaries, a large number of companies are engaged in factoring operations. Out of them, the most prominent and FCI’s members are the followings:

1) Deutsche Factoring Bank, Bremen.
2) Disko Factoring Finanz Gmbh, Dusseldorf.
3) Gefa Gesellschaft fur Absatzfinanzierung Mbh, wuppertal.

SCANDINAVIAN COUNTRIES

1.4.1 Factoring progressed well in the Scandinavian countries in the early 1960s. Factoring started in Norway in 1961/62. Factoring was introduced to Sweden in 1963. One year later, Denmark entered into factoring for the first time (Walton 1973, p. 36). In the development of world factoring, Scandinavians have dedicated much effort. Especially, Svensk Factoring founded in 1964, in Sweden, contributed a lot in this regard, with the result, they have the following foremost systems:

1) Most advanced accounting systems in European factoring.
2) Designed standard forms to speed up the flow of credit information at stages from initial application to granting of credit and beyond.
3) Standard sales ledger formats.
1.4.2 These systems and formats have been used by the Scandinavians since 1969 and have, by now, been introduced by practically the entire membership of chain (Walton 1973, p. 36). Notably here is the fact that FCI was founded in 1964 based on a co-operation agreement between Shield Factors of the U.K. (Later to become Griffin Factors) and Svensk Factoring (now known as Handelsbanken Finans) of Sweden (Introduction to International Factoring, FCI, 1995, p.5).

Now their registered share in global factoring is 7.22 per cent in the total European factoring volume.

ITALY

1.5.1. The factor was a key person in the Roman Empire, and played an important part in the industry and commerce of ancient Rome. Wealthy Romans hired them to manage and dispose of the produce of their estates. Factoring again showed up in the thirteenth and fourteenth centuries when, in Italy, the commission agent form of factoring came into being. In the seventeenth century, factoring came to be known as ‘Del Credere’. Around this period, factors spread to a number of towns and cities and greatly assisted the business of cities like Madrid, Lyons, Milan, etc. (Pandey 1994, p. 42). The factors performed the function of selling the goods as well as financing and collection of the book debts (Deolalkar 1994, p. 127).

1.5.2. In Italy, modern factoring is 30 years old. Factoring was started in 1963 when international factors group formed Ifitalia, one of the largest factoring companies in the world, together with Banca Nazionale Del Lavoro. Later on, many small and medium sized factoring companies, namely Barclays factoring s.p.a. Milan; Eurofactoring s.p.a., Florence; Factreit s.p. a., Milan; SPEI Factoring s.p.a., Rome, came into existence.
1.5.3. Now Italy is the largest factoring market in Europe. As per available statistics for domestic and international factoring with FCI, the factoring volume as percentage to GNP is 4.4 per cent. This is the highest in respect of any country. The major facilitating factors, which contributed to this rapid growth of factoring in Italy, were aggressive marketing strategy, existence of specific legislation, etc.

FRANCE

1.6.1. Factoring services were started in France in the fifteenth and sixteenth centuries. There were the great periods of exploration and colonization. It has been ascertained that forms of trade factoring were only used in those periods. In the 1830s, they introduced practice of making advances against receivables that became a common feature up to the start of the Second World War.

1.6.2. The growth of factoring in France was 21 per cent at the end of 1997 (Press Information, FCI, 1998, p. 4). Even after this, factoring as a business is slowly progressing here as compared to other European counterparts. One of the reasons is high percentage of insolvency. Moreover, peculiar nature of the transaction sometimes reveals that the debtor has very often altered the due dates of transaction (Sengupta et al. 1991, p. 17). On the other hand, the system of data base management of French debtors (customers) is quite rational for this business.

1.6.3. Around thirty factoring companies are now operating in France. Of them, the following viz. Banque Sofirec, Paris; BNP Factor SA, Paris; Factofrance Heller, Paris; Factorem, Paris, FMN Factoring SAS, Paris; UFB Locabail, Paris, are prominent market players.

THE NETHERLANDS

1.7. In the seventeenth century, many merchants in the Netherlands used factoring as a means of
financing. Then, they were described by ‘Voltaire as the Factors of the world’ (Boldin et al. 1981, p. 74).
Till today, they are doing well in world factoring scenario. The Netherlands had the fifth largest factoring
turnover at the end of 1997. Notably, here, only five factoring companies were doing business, which
piled up this impressive volume of business.

SLOVAKIA

1.8.1. Slovakia, recently separated from old Czech Republic, has introduced factoring more on ‘without
recourse’ basis. Because of transformation from communist system of centralized economy to open
market economy, the factoring companies find producing companies financially more weak and not
worthy of recourse as client (Deolalkar et al. 1994, p. 10). Factors who conduct ‘without recourse’
business find it more paying though risk of dispute on quality of goods remains a major problem in this
type of factoring. Today, the volume of factoring turnover of Slovakia is around US$ 223 million where
share of international factoring is higher than that of domestic one.

1.8.2. In Europe, other countries, which have introduced factoring services, are Austria, Belgium, Cyprus,
Czech Republic, Greece, Hungary, Iceland, Poland, Portugal, Romania, Russia, Slovenia, Switzerland,
Turkey.

2. NORTH AMERICA

2.1. Factoring went to North America from England early in the nineteenth century with Anglo– American
textile trade (Walton 1973, p. 36). Since then, factoring is best developed and most extensively used in
North America. It has long been associated with textile, footwear and electronics businesses. Despite this,
the development of factoring varies enormously from country to country within North America.
USA

2.2.1. Factoring went to the USA from England in the early days of the nineteenth century (Pandey 1994, p. 42). British and European textile manufacturers exported textiles to the US to meet the ever increasing demand of the increasing population. Factors started distribution of goods of the European manufacturers and other exporters to the USA on a commission basis. These factoring arrangements were established mainly in New York, backed by the European merchants.

2.2.2. It emerged properly as a new financial service here during the civil war period (1861-65), partly because of unfavorable conditions in the external environment, and partly because of their own inability to set up efficient and specialized credit and collection departments (Singh 1988, p. 24).

2.2.3. Factors in the USA traditionally operated in textile industry. In 1980s, some factoring companies, of late, have gradually started diversifying in the areas of plastic and electronic hardware, and other consumer goods industries.

2.2.4. Services rendered by a factor in USA are tailored to suit the clients’ requirements. To some of the clients, the factors provide only such services as management of sales ledgers, collection of debts and protection against bad debts, without providing any finance (Kalyanasundaram Committee 1988, p. 43). The factors also stand ready to make term loans to their clients for many useful purposes (Moore 1959, p. 710). They have also built-up, over a period, comprehensive information about credit-worthiness, up to date financial position, record of dealings, etc. of thousands of sellers / buyers, which form the basis for approval of credit limits of various parties.

2.2.5. The beginning of 1930s was the revolutionary period for factoring. Financing against receivables got a boost from the New Deal Program enunciated by President Franklin D. Roosevelt as a measure to
overcome the economic crisis caused by depression (Sengupta et al. 1991, p.9). But there was no comprehensive framework of statutory law for such arrangement. Factoring got real momentum in the USA in 1954 when Pennsylvania was the first State to enact the Uniform Commercial Code (UCC) (Boldin et al. 1981, p. 74).

2.2.6. In the 1930s, a few – notably the Bank of America and the Trust Company of Georgia – entered into factoring. Because of beginning with the dark days of the Great Depression, many banks began to search for new ways to bring in business. In 1963, comptroller of the currency approved factoring as a proper area for bank expansion. This was the beginning of the bank’s entry into the factoring business. Today, the banks represent more than one half of all factoring volume in the United States (Boldin et al. 1981, p.74).

CANADA

2.3. The place of Canada in the world factoring is not so remarkable. At the end of 1997, factoring turnover of the country was only US$ 3.04 billion. Around 38 factoring companies operated in Canada whereas US’s figures is US $ 76.83 billion with only 13 companies. Reason behind this comparatively small factoring turnover with more factoring companies in the market is that most of the small entrepreneurs maintain relationships with banks, although banks think high risk to lend to small enterprises in domestic as well as export business. However, many research works claim that factoring is an excellent alternative to financing small trade (Tannous 1997, p. 443).

MEXICO

2.4. Mexican situation is just as in Canada. Their figure of factoring turnover is around US $ 2.26 billion at the end of 1997. Around 15 factoring companies are doing business over there. Even after this, the
factoring business here could not encash the opportunities due to bureaucratic nature of the bankers. Bankers generally take 6 to 8 months for decision (Deolalkar et.al. 1994, p.16). Moreover, interest rates of banks are very high and, therefore, the scope for export factoring does exist for them (Deolalkar et.al. 1994, p. 14). However, today’s flexible approach and speedy decisions by factors are gradually attracting the sellers to access the factors for services.

3. SOUTH AMERICA

3.1. Brazil has a special case. The country has a large and very active national association of factoring companies. There are 726 affiliated companies (Souza 1999, p. 160). But very few of them have actually begun to offer real factoring services (Sengupta et.al. 1999, p.17). Domestic factoring business volume increased by 28 per cent in 1997, which was conducted on 'without recourse' basis.

3.2. The factoring industry in Argentina is still very rookie. A good number of banks have created factoring departments. International factoring is still underdeveloped in Argentina. The volume of domestic factoring services can be estimated at over US $ 1.1 billion (Wyderka 1999, p. 153).

3.3. Factoring as a source of finance has just begun in Chile. At the end of 1998, their factoring business volume was only US $ 2340 million. Speciality of Chile’s factoring is that it can be used by any industry.

4. AFRICA

4.1. In the African continent, South Africa and Morocco have introduced factoring services. Morocco’s situation is still very nascent. Their volume of business was only US $ 220 million at the end of 1998. But factoring in South Africa has come of age. It has taken 30 years to become recognized as alternative to other forms of financing. The factoring industry has shown an average growth rate of 30 per cent in this
continent over the last three years (Watt 1999, p. 201). Factoring operated here is both ‘with recourse’ and ‘without recourse’.

5. **Australasia**

5.1. In this continent, Australia and New Zealand have introduced the factoring services. They are at the beginning of a probable factoring boom. In Australia, the turnover of factoring and discounting increased to US$ 3900 million in the year ended 1998. There is a very little non-recourse factoring in Australia. In New Zealand, three well-established factoring companies are currently working. The turnover stood US$ 190 million at the end of 1998. The market of this continent is characterized by a large number of small proprietary businesses for whom factoring is a valuable source of working capital where traditional banking facilities are not available normally for them.

6. **ASIA**

6.1. Factoring as a concept started in the mid 1970s in Japan, Hong Kong and Singapore. Today, there are about 192 companies operating in the region. Factoring is gaining popularity in all parts of Asia. The volume of business handled continues to grow at an impressive rate despite the recent difficulties in Asia (Press Information, FCI, 1998, p. 1). The Asian countries are now looking to develop their exports in markets outside the region, for example in Europe and North America, where exporters are more concerned than ever of the subject of non-payment and importers are becoming more reluctant to purchase on letter of credit. A clear example of this development is in Japan, where factored exports to Germany in 1997 were up by a staggering 51 per cent over 1996 level (Press Information, FCI, 1998, p. 1). Factoring has grown in the Asian region at 25 per cent at the end of 1997. But this figure was below the European growth rate, which was 39 per cent at the end of the same period (Annual Review 1999,
SINGAPORE

6.2. Factoring as a business was first started in Singapore in the Asian region. It was mid 1970s when the Heller Group launched a factoring company in joint venture with OCBC Bank and DBS Bank. In Singapore, factoring is now a booming business. In the Asian region, Singapore today has the 4th largest factoring turnover – volume of business being around $ 2.5 billion in 1997. This is primarily on account of the boost provided by the Government while launching a low cost factoring scheme in 1984 known as ‘Small Industries Finance scheme’ (Sengupta et.al. 1991, p. 20). Moreover, they established necessary expertise in various areas of the business. Singapore is doing international and domestic factoring, both on recourse and non-recourse basis. DBS factors, subsidiary of DBS bank, with 7000 debtors, does only limited ‘without recourse factoring’ whereas Siam City factoring, and Thai Farmers Factoring has each more than 4000 debtors who prefer only with recourse factoring (Deolalkar, et. al. 1994, p. 10). Now, there are around 15 factoring companies in business. Of these, only three companies handle major business (Deolalkar et.al. 1994, p. 18).

MALAYSIA

6.3. Factoring has experienced the fastest growth in Malaysia. Factoring is now expanding here at the rate of 40 per cent per annum and total volume of business is around US$ 2 billion. It is because of the concerted efforts of the Malaysian Factors Association to promote the industry and the cooperative attitude of the Government to formulize common operational procedures coupled with the economic upturn in this country (Deolalkar 1994, p. 126). Moreover, the parent banks refinance factoring
companies at a rate below the inter-bank market rates. There are now twenty major factoring companies in Malaysia.

INDONESIA

6.4. In Indonesia, there are 55 factoring companies working as at the end of 1997. Total volume of business is around US $ 1.7 billion. They are predominantly concentrating on domestic factoring. Second priority is import factoring and last priority is export factoring as the interest rates for export factoring have been subsidized by the Government. They undertake now both recourse and non-recourse export factoring.

HONG KONG

6.5. Factoring started in Hong Kong in the mid 1970s. Today, there are 4 factoring companies working in Hong Kong with total volume of business of US $ 1.2 billion. They offer both domestic and international factoring based on recourse and without recourse bases. It is upto the individual factoring company to decide about its offerings. But the factors’ account in international factoring is not remarkable in comparison with open account transactions. 23 per cent of total transactions in Hong Kong are on open accounts. It is very difficult to convince any one to change over to open account terms instead of letter of credit. Even after this, out of 235 open account transactions, only 1 per cent comes to factors in Hong Kong (Deolalkar et al 1994, p. 23). One prominent reason for this was the uncertainty of 1997 when the U.K. colony was to be made over to China. In the words of Philip Lam, Security Pacific Business Credit (HK), “I think the banking crisis of 1982-83 and the fear of 1997, which has created a brain drain, have discouraged the development of factoring here (See, Sengupta et al. 1991, p.19).
6.6.1. Japan accounts for 60 per cent of the total Asian volumes of factoring. Twenty-three factoring companies are working here. At the end of 1997, total volume of business stood at US $ 37 billion with the growth rate of 25 per cent. One of the reasons of the enormous growth of factoring in Japan is a close trade tie between Japan and Korea. Factoring turnover of Japan is mostly inflated by the import factoring turnover between these two countries. In Japan, the credit libraries of information services are very large and comprehensive. The credit libraries are capable of giving credit information of each debtor at any point of time.

Japanese factors have been historically providing mainly finance. Moreover, import factoring between Japan and Korea is unique and can not be followed by other countries. Now, due to severe recession, they are reducing their reliance on clients for recourse and engage in without recourse factoring. There is still tremendous market potential for such business in Japan. That is why almost all the major banks in Japan have launched their factoring business.

6.7. South Korea has registered the second largest factoring turnover in the Asian region. Total volume of business stands at US $ 25.5 billion. Forty-three factoring companies are working here. The fact that rapid industrialization and, in turn, rising cost of production has resulted in the transfer of technology to other Asian countries, provides a wider scope for the growth of cross border factoring activities. Uniqueness of Korean factoring is its predominance by import factoring. Since import factoring constitutes import inventories financing, it is customary to take security of personal guarantees, charge on assets and mortgages of properties of importer. In this respect, FCI marketing seminar at Singapore in 1994 agrees that, in strict terms the import factoring which is followed by Korea and Japan does not constitute
factoring (Deolalkar et al. 1994, p. 9). That is why probably this import factoring can not be followed by other countries except Japan and Korea.

6.8. Rest of the countries in this continent could not exploit the opportunities of the business potential here. In China, growth rate is very much negligible. There are only two factoring companies working with aggregate volume at US $ .016 billion international factoring at the end of 1997. They have started with the Government sector, first with import factoring and then with export factoring. Factoring is not popular in Taiwan because commercial transactions are limited to banks. The sellers are not also aware of the advantages of factoring. Only three factoring companies are working here with total US $ 1.05 billion business volume. In Thailand, domestic factoring is doing well comparatively than international factoring. Due to regulatory controls, it is not possible for exporters to switch over to open account transactions (Deolalkar et al. 1994, p. 14). Their total volume of business is US $ 1.05 billion, out of which 98 per cent is contributed by domestic factoring. India has launched this service in 1991. It is gradually gaining acceptability in the manufacturing and trading sectors. The volume of factoring stands at US $369 million. Among other countries of the Asian region, Israel, Philippines, and Sri Lanka have also started factoring business. They are still in the experimental stage. Their volumes of business are US $ .079, US $ .02, US $ 0.0.34 billion, respectively, as at the end of 1997.
PART - II

GLOBAL TREND OF FACTORING BUSINESS

1. Global Factoring Business: Volume of Business

1.1. Factoring is growing in significance, especially in the context of the globalisation of trade and finance. The total factoring volume generated worldwide now stands at US $ 529 billion. Table 4.1 shows the global factoring business during the last 16 years.

1.2. World Domestic Factoring

1.2.1. Table 4.1 shows that domestic factoring dominates market share in the total factoring business, as the market share of domestic factoring in the total factoring business of the world between 1983 to 1998 has ranged between 92.97 per cent to 95.01 per cent. The amount of world domestic factoring was US $ 4,98,175 million during the year 1998 as against US $ 60,888 million during the year 1983. It is also seen from the index number of the table that world domestic factoring volume has increased 8.18 times over the period. The compound growth rate comes to 14.34 per cent.

1.2.2. The best fit model for world domestic factoring is equation \( \ln Y = a + bx \) type. The \( R^2 \) value shows that the model explains 95.69 per cent of the variations of the amount of world domestic factoring earned over the period. The standard error of estimation is 13.54 per cent. The model is depicted on Graph 4.1 along with \( \ln \) values of expected world domestic factoring. There are downswings and upswings from 1983 to 1991. However, the observations closely follow the trend during the period 1992 to 1998. The
## TABLE 4.1

Global Factoring Business: Domestic and International

<table>
<thead>
<tr>
<th>Years</th>
<th>World Domestic Factoring</th>
<th>World International Factoring</th>
<th>World Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Index</td>
<td>Percentage of World Total</td>
</tr>
<tr>
<td>1983</td>
<td>60,888</td>
<td>100.00</td>
<td>94.28</td>
</tr>
<tr>
<td>1984</td>
<td>67,523</td>
<td>110.89</td>
<td>95.01</td>
</tr>
<tr>
<td>1985</td>
<td>80,984</td>
<td>133.00</td>
<td>94.92</td>
</tr>
<tr>
<td>1986</td>
<td>97,782</td>
<td>160.59</td>
<td>94.22</td>
</tr>
<tr>
<td>1987</td>
<td>1,31,067</td>
<td>215.26</td>
<td>93.75</td>
</tr>
<tr>
<td>1988</td>
<td>1,51,522</td>
<td>248.85</td>
<td>94.49</td>
</tr>
<tr>
<td>1989</td>
<td>1,79,198</td>
<td>294.31</td>
<td>94.30</td>
</tr>
<tr>
<td>1990</td>
<td>2,30,564</td>
<td>378.67</td>
<td>94.37</td>
</tr>
<tr>
<td>1991</td>
<td>2,50,626</td>
<td>411.62</td>
<td>94.09</td>
</tr>
<tr>
<td>1992</td>
<td>2,49,414</td>
<td>409.63</td>
<td>94.36</td>
</tr>
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<td>1993</td>
<td>2,46,288</td>
<td>404.49</td>
<td>94.42</td>
</tr>
<tr>
<td>1994</td>
<td>2,74,893</td>
<td>451.47</td>
<td>93.21</td>
</tr>
<tr>
<td>1995</td>
<td>3,16,729</td>
<td>520.18</td>
<td>93.14</td>
</tr>
<tr>
<td>1996</td>
<td>3,68,116</td>
<td>604.58</td>
<td>92.97</td>
</tr>
<tr>
<td>1997</td>
<td>4,22,739</td>
<td>694.32</td>
<td>93.55</td>
</tr>
<tr>
<td>1998</td>
<td>4,98,175</td>
<td>818.18</td>
<td>94.08</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Best Fit Model</th>
<th>In Y = a+bx</th>
<th>In Y = a+bx</th>
<th>In Y = a+bx</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compound Growth Rate (%)</td>
<td>14.34</td>
<td>16.09</td>
<td>14.47</td>
</tr>
<tr>
<td>R²</td>
<td>0.9597</td>
<td>0.9569</td>
<td>0.9560</td>
</tr>
<tr>
<td>R²</td>
<td>0.1354</td>
<td>0.1354</td>
<td>0.1347</td>
</tr>
<tr>
<td>SEE (Standard Error of Estimation)</td>
<td>0.9401</td>
<td>0.9573</td>
<td>0.1498</td>
</tr>
</tbody>
</table>

**Note (1)** Base Year for Index = Amount of Factoring Volume in 1983

**Sources:** (1) Factors Chain International, Amsterdam, the Netherlands. (2) [http://www.factors-chain.com](http://www.factors-chain.com)
Graph 4.1
Trend Showing Total Amount of Domestic Factoring Volume
(During the Last 16 Years)

Equation

$$\ln Y = 11.01 + 0.1343 \times \text{YEARS}$$

1.3. World International Factoring

1.3.1. The table reveals that the quantum of international factoring is meager compared to the domestic counterpart. The share of international factoring ranges only from 4.99 per cent to 7.03 per cent of total world factoring during the reference period. In absolute terms, it reached US $ 31,340 million in 1998 as against US $ 3694 in 1983. It is also seen from Table 4.1 that the world international factoring has gone up by 8.48 times in 16 years which is slightly higher than that of world domestic factoring. The compound growth rate is also showing a higher percentage (16.09 per cent) as compared to that of world domestic factoring.

1.3.2. The best fit model for world international factoring is also equation \( \ln Y = a + bx \) type like world domestic factoring. The \( R^2 \) value shows that model explains 95.73 per cent of the variations in the amount of expected world international factoring generated over 16 years. The standard error of estimation is 14.98 per cent. The model is depicted on Graph 4.2 along with \( \ln \) values of expected world international factoring. It shows upswings and downswings around the trend line from 1983 to 1993. However, the observations closely follow the trend during the period 1994 to 1996. Thereafter, it shows downswings again in 1997 and 1998. The forecasts from 1999 to 2003 are US $42.04, US $48.8, US $56.66, US $65.77, US $76.35 thousand million dollars, respectively.

1.4. World Total Volume

1.4.1. The total world factoring volume is now US $5,29,515 million as against US $64,582 million in
Graph 4.2
Trend Showing Total Amount of International Factoring Volume

Equation

$\ln Y = 8.11 + 0.1492x$
1983. A look at fixed base index numbers of the world total in Table 4.1 indicates that it has gone up by 8.19 times during the time span of 16 years. The compound growth rate of world’s total volume comes to 14.47 per cent.

1.4.2. The best fit model for the world total is equation $\ln Y = a + bx$ type. The $R^2$ value shows that model explains 95.86 per cent of the variations in the amount of expected total world factoring volume made over 16 years. The standard error of estimation is 13.47 per cent. The model is depicted on Graph 4.3 along with $\ln$ values of expected world international factoring. There are close downswings and upswings from 1983 to 1992. However, the observations straightly follow the trend from the downside during the period 1993 to 1998. The forecasts on the basis of trend line from 1999 to 2003 are US $6.32, US $7.23, US $8.28, US $9.48, US $10.85 lakhs million dollars, respectively.

1.5. Growth is, therefore, being experienced in both domestic and international factoring. However, world international factoring accounts for a higher growth rate than that of world domestic factoring although the share of international factoring in the world total is still very small. International factoring survey 1998 states that international factoring is growing considerably faster than international trade (1998, p, 5). FCI, in its press information, tries to explain the reason behind it and states that it is apparent that more and more business generated in countries of Asia is now looking to push their exports in markets outside the region, for example, Europe and North America. A more impressive example of this development is observable in Japan, where factored exports to Germany are up by a staggering 51 per cent on 1996 levels (1998, p. 1).

2. Consistence of the major players in the factoring business tends to give the depth to it and resultantly flourishing trend of this business is apparent. The ten (10) major countries’ factoring index and its year wise growth are presented in Table 4.2. It shows that the index number is quite high in 1997 for a few countries like Italy (10594), Spain (4282), U.K. (2573), France (2376), and the Netherlands (1075). The
Graph 4.3
Trend Showing World Total Factoring Volume

Equation

\[ \ln Y = 11.06 + .1351x \]
### TABLE 4.2

Index of Factoring Turnover Growth: Ten Largest Factoring Markets

<table>
<thead>
<tr>
<th>Years</th>
<th>World</th>
<th>FCI</th>
<th>Finland</th>
<th>France</th>
<th>Germany</th>
<th>Italy</th>
<th>Japan</th>
<th>Netherlands</th>
<th>Spain</th>
<th>Sweden</th>
<th>U.K.</th>
<th>U.S.A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Index</td>
<td>Growth Rate</td>
<td>Index</td>
<td>Growth Rate</td>
<td>Index</td>
<td>Growth Rate</td>
<td>Index</td>
<td>Growth Rate</td>
<td>Index</td>
<td>Growth Rate</td>
<td>Index</td>
<td>Growth Rate</td>
</tr>
<tr>
<td>1980</td>
<td>100%</td>
<td></td>
<td>100%</td>
<td></td>
<td>100%</td>
<td></td>
<td>100%</td>
<td></td>
<td>100%</td>
<td></td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>1984</td>
<td>120%</td>
<td></td>
<td>108%</td>
<td></td>
<td>273%</td>
<td></td>
<td>194%</td>
<td></td>
<td>180%</td>
<td></td>
<td>123%</td>
<td></td>
</tr>
<tr>
<td>1985</td>
<td>143%</td>
<td></td>
<td>159%</td>
<td></td>
<td>316%</td>
<td></td>
<td>133%</td>
<td></td>
<td>172%</td>
<td></td>
<td>228%</td>
<td></td>
</tr>
<tr>
<td>1986</td>
<td>275%</td>
<td></td>
<td>207%</td>
<td></td>
<td>305%</td>
<td></td>
<td>191%</td>
<td></td>
<td>193%</td>
<td></td>
<td>262%</td>
<td></td>
</tr>
<tr>
<td>1987</td>
<td>354%</td>
<td></td>
<td>305%</td>
<td></td>
<td>320%</td>
<td></td>
<td>184%</td>
<td></td>
<td>229%</td>
<td></td>
<td>278%</td>
<td></td>
</tr>
<tr>
<td>1988</td>
<td>510%</td>
<td></td>
<td>448%</td>
<td></td>
<td>27%</td>
<td></td>
<td>399%</td>
<td></td>
<td>258%</td>
<td></td>
<td>49%</td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td>610%</td>
<td></td>
<td>550%</td>
<td></td>
<td>23%</td>
<td></td>
<td>348%</td>
<td></td>
<td>26%</td>
<td></td>
<td>54%</td>
<td></td>
</tr>
<tr>
<td>1991</td>
<td>445%</td>
<td></td>
<td>581%</td>
<td></td>
<td>58%</td>
<td></td>
<td>197%</td>
<td></td>
<td>245%</td>
<td></td>
<td>43%</td>
<td></td>
</tr>
<tr>
<td>1992</td>
<td>593%</td>
<td></td>
<td>202%</td>
<td></td>
<td>28%</td>
<td></td>
<td>357%</td>
<td></td>
<td>38%</td>
<td></td>
<td>39%</td>
<td></td>
</tr>
<tr>
<td>1993</td>
<td>715%</td>
<td></td>
<td>39%</td>
<td></td>
<td>18%</td>
<td></td>
<td>318%</td>
<td></td>
<td>38%</td>
<td></td>
<td>48%</td>
<td></td>
</tr>
<tr>
<td>1994</td>
<td>39%</td>
<td></td>
<td>187%</td>
<td></td>
<td>20%</td>
<td></td>
<td>280%</td>
<td></td>
<td>40%</td>
<td></td>
<td>39%</td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>58%</td>
<td></td>
<td>47%</td>
<td></td>
<td>29%</td>
<td></td>
<td>280%</td>
<td></td>
<td>150%</td>
<td></td>
<td>221%</td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>61%</td>
<td></td>
<td>54%</td>
<td></td>
<td>59%</td>
<td></td>
<td>280%</td>
<td></td>
<td>150%</td>
<td></td>
<td>221%</td>
<td></td>
</tr>
<tr>
<td>1997</td>
<td>75%</td>
<td></td>
<td>56%</td>
<td></td>
<td>68%</td>
<td></td>
<td>280%</td>
<td></td>
<td>150%</td>
<td></td>
<td>221%</td>
<td></td>
</tr>
</tbody>
</table>

**Notes:**

a. Total World = 1980 in US $  

b. Total FCI = 1980 in US $  


**Sources:**  

1) Factors Chain International, Amsterdam, the Netherlands.  

2) http://www.factors-chain.com
figures of these countries are higher than those of FCI and world. The growth rate in 1997 is over 20 per cent for almost all 10 (ten) countries except the USA, UK and Sweden. Italy’s growth rate in that year is 40 per cent followed by that of Germany and Finland with 32 per cent and 28 per cent, respectively, whereas the UK, USA and Sweden have registered 18 per cent, 11 per cent and 2 per cent growth, respectively. It is, therefore, revealed from the analysis that handsome upward growth rates exist in almost all of the 10 (ten) countries.

3. Global Factoring Business: Distribution of Factoring Companies

3.1. The growth of factoring is illustrated by the large number of companies along with the large volume of business. Table 4.3 shows the continent wise distribution of factoring companies. The table shows that the total number of factoring companies in European continent accounts for 406 at the end of 1998 which is the highest number among all continents. Asian continent registers the second highest expansion with 150 companies. The other continents like Americas, Australasia, and Africa account for 113, 26 and 13 companies, respectively.

3.2. The index from the table reveals a moderate continent -wise growth rate of index in 1998 like Europe (296.35), Asia (294.11), Americas (275.61), Australasia (325.00) and Africa (118.18). The index in all continents except Americas has been steady. In Americas, the index has suddenly shown a spurt from 319.51 in 1990 to 751.22 in 1991. In Asia, the index of factoring companies has reached the peak point in 1995 with 392.16, which has come down to 294.11 in 1998. One would surely find the consistency and likeness between this downturn index and South East Asian crisis, which sharply swung down the economic activity in this region by late 1997.

3.3. The compound growth rate of the number of continent -wise factoring companies shows an upward trend in all the continents with a compound growth rate of 7.39 per cent. It is encouraging to observe that
## TABLE 4.3

**Distribution of Number of Factoring Companies in the World Continents**

<table>
<thead>
<tr>
<th>Years</th>
<th>Europe</th>
<th>Americas</th>
<th>Africa</th>
<th>Asia</th>
<th>Australasia</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>No.</td>
<td>Index</td>
<td>No.</td>
<td>Index</td>
<td>No.</td>
<td>Index</td>
<td>No.</td>
</tr>
<tr>
<td>1983</td>
<td>137</td>
<td>100.00</td>
<td>41</td>
<td>100.00</td>
<td>11</td>
<td>100.00</td>
</tr>
<tr>
<td>1984</td>
<td>152</td>
<td>110.95</td>
<td>38</td>
<td>92.68</td>
<td>11</td>
<td>100.00</td>
</tr>
<tr>
<td>1985</td>
<td>169</td>
<td>123.36</td>
<td>36</td>
<td>87.80</td>
<td>10</td>
<td>90.91</td>
</tr>
<tr>
<td>1986</td>
<td>177</td>
<td>129.19</td>
<td>36</td>
<td>87.80</td>
<td>5</td>
<td>45.45</td>
</tr>
<tr>
<td>1987</td>
<td>201</td>
<td>146.72</td>
<td>39</td>
<td>95.12</td>
<td>5</td>
<td>45.45</td>
</tr>
<tr>
<td>1988</td>
<td>207</td>
<td>151.09</td>
<td>30</td>
<td>73.17</td>
<td>7</td>
<td>63.65</td>
</tr>
<tr>
<td>1989</td>
<td>224</td>
<td>162.50</td>
<td>95</td>
<td>225.70</td>
<td>7</td>
<td>63.65</td>
</tr>
<tr>
<td>1990</td>
<td>237</td>
<td>172.99</td>
<td>131</td>
<td>319.51</td>
<td>7</td>
<td>63.65</td>
</tr>
<tr>
<td>1991</td>
<td>243</td>
<td>177.37</td>
<td>308</td>
<td>751.22</td>
<td>6</td>
<td>54.54</td>
</tr>
<tr>
<td>1992</td>
<td>273</td>
<td>199.27</td>
<td>293</td>
<td>714.63</td>
<td>7</td>
<td>63.65</td>
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<td>1993</td>
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<td>100</td>
<td>243.90</td>
<td>12</td>
<td>109.09</td>
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<td>1994</td>
<td>324</td>
<td>236.50</td>
<td>86</td>
<td>209.75</td>
<td>12</td>
<td>109.09</td>
</tr>
<tr>
<td>1995</td>
<td>312</td>
<td>227.73</td>
<td>111</td>
<td>270.73</td>
<td>10</td>
<td>90.91</td>
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<td>1996</td>
<td>343</td>
<td>250.37</td>
<td>83</td>
<td>202.44</td>
<td>11</td>
<td>100.00</td>
</tr>
<tr>
<td>1997</td>
<td>343</td>
<td>250.37</td>
<td>83</td>
<td>202.44</td>
<td>11</td>
<td>100.00</td>
</tr>
<tr>
<td>1998</td>
<td>406</td>
<td>296.35</td>
<td>113</td>
<td>275.61</td>
<td>13</td>
<td>118.18</td>
</tr>
</tbody>
</table>

| Compound Growth Rate (CGR) | 6.92 | 9.30 | 2.75 | 8.20 | 6.05 | 7.39 |

**Notes:**
(1) Base Year for the Index: Number of Factoring Companies in 1983. (2) Figures in 1996 relate to that of 1997. (3) The year ends in December.

**Sources:**
(1) Factors Chain International, Amsterdam, the Netherlands. (2) [http://www.factors-chain.com](http://www.factors-chain.com)
the compound growth rate of Asian continent has been the second highest (8.20 per cent) among all the continents, which is just behind only that of Americas (9.30 per cent). Besides, the growth rates of the rest of the continents except African continent (2.75 per cent) have been moderately high, for example, Europe (6.92 per cent), Australasia (6.05 per cent).

4. Market Concentration

4.1. Here, by market concentration is meant the extent to which the total world factoring business is concentrated in a few countries. Concentration in factoring business is obtained here by three measures namely, Concentration Ratios, Hirschman – Herfindahl Index and Entropy Index. A brief discussion of these indices is given below:

4.2. Concentration Ratio

Concentration ratio is defined as the cumulative share of the largest firms. In symbolic form, the P firm concentration ratio is written here.

\[ CR_p = \sum_{i=1}^{P} S_i \]

Where CRp is the P firm's concentration ratio, P is the number of largest firms included, Si is the share of ith firm in descending order (Si > Sj for i > j).

1. We have used the volume of factoring turnover (both domestic and international) of different countries (Annexure -5) for measuring the countries' concentration in the factoring business.

2. For details of concentration ratios, see Phillips 1976, p.242.
4.3. Hirschman – Herfindahl Index

The index is defined as the sum of squares of the relative sizes (market shares) of all the firms in an industry.

Symbolically,

\[ H = \sum_{i=1}^{n} \left( \frac{S_i}{S} \right)^2 \]

Where, 
- \( S_i \) = Size of the \( i \)th firm
- \( S \) = Combined size of all firms in an industry.
- \( n \) = Number of all firms in the industry.

The maximum value of \( H \) is 1 when only one firm occupies the whole market. The minimum value is \( 1/n \) when all the \( n \) firms hold an identical share.

4.4. Entropy Index

The index is measured by

\[ E = -\sum_{i=1}^{n} S_i \log S_i \]

Where
- \( E \) = Entropy co-efficients.
- \( S_i \) = Market share of \( i \)th firm.
- \( n \) = Number of firms.
The minimum value of $E$ is zero when there is a single player in the market. The maximum value is $\log n$ in the case of firms / countries with equal market share. The relationship between co-efficient of $E$ and concentration is, thus, inverse. The higher the value of $E$, the lower is the level of concentration, and vice-versa.

4.5. Measurement of the Degree of Countries’ Concentration in the World Factoring Turnover

4.5.1. The co-efficient of countries’ concentration of aforesaid ratios and indices are placed in Table 4.4. The time series values of these measures are graphically presented in Graphs 4.4, 4.5, 4.6.

4.5.2. Concentration Ratio

4.5.2.1. Table 4.4 and Graph 4.4 show the values of index under $CR_3$, $CR_5$, and $CR_{10}$. The table reveals that the value of 3-country ($CR_3$) factoring turnover decreases from 0.5041 in 1994 to 0.4680 in 1996. Thereafter, it increases to 0.5088 in 1997 and again decreases to 0.4966 in 1998. Around 50 per cent of the total factoring turnover by value goes to only three countries from 1994 to 1998, with an exception for the year 1996 when this value is 0.4680. An overall observation indicates that 3-country concentration decreases from 0.5041 in 1994 to 0.4966 in 1998 although fluctuation is observed in reference period.

4.5.2.2. The value of 5-country concentration ratio ($CR_5$) shows the quite fluctuating figures during the reference period. It increases to 0.6763 in 1995 from 0.6662 in 1994. Thereafter, it decreases to 0.6488 in 1996 and, further, it increases to 0.6804 and 0.6813 in the years 1997 and 1998, respectively. This ratio indicates that only the five countries occupy more than 65 per cent of the total factoring turnover during the reference period.
## TABLE 4.4

Coefficients of Countries’ Concentration in the Factoring Turnover

<table>
<thead>
<tr>
<th>Years</th>
<th>Concentration Ratio</th>
<th>Hirschman - Herfindahl Index</th>
<th>Entropy Index</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3-Country</td>
<td>5-Country</td>
<td>10-Country</td>
</tr>
<tr>
<td>1994</td>
<td>0.5041</td>
<td>0.6662</td>
<td>0.8545</td>
</tr>
<tr>
<td>1995</td>
<td>0.4935</td>
<td>0.6763</td>
<td>0.8431</td>
</tr>
<tr>
<td>1996</td>
<td>0.4680</td>
<td>0.6488</td>
<td>0.8274</td>
</tr>
<tr>
<td>1997</td>
<td>0.5088</td>
<td>0.6804</td>
<td>0.8594</td>
</tr>
<tr>
<td>1998</td>
<td>0.4966</td>
<td>0.6813</td>
<td>0.8427</td>
</tr>
</tbody>
</table>

*E stands for mathematical expectation or expected value.*
Graph 4.4
Countries’ Concentration in the Factoring Turnover:
3-Country (CR₃), 5-Country (CR₅), 10-Country (CR₁₀)
4.5.2.3. The 10-country concentration ratio (CR$_{10}$) varies from year to year during the reference period. This ratio decreases to 0.8274 in 1996 from 0.8545 in 1994. Again, it increases to 0.8594 in 1997 and follows a slight decline to 0.8427 in 1998. This ratio states that more than 80 per cent of the world factoring business is concentrated in ten countries only.

4.5.2.4. The above analysis indicates an overall decrease in concentration ratio from 0.5041 in 1994 to 0.4966 in 1998 in the case of 3-country and from 0.8545 in 1994 to 0.8427 in 1998 in the case of 10-country, whereas an overall increase from 0.6662 in 1994 to 0.6813 in 1998 is observed in case of 5-country concentration ratio. So, 3-country and 10-country concentration values indicate that concentration tends to decline and factoring business expands whereas 5-country concentration values show inverse situation.

4.5.3. Hirschman–Herfindahl Index (H)

Table 4.4 and Graph 4.5 show that the value of H-index decreases from 0.1087 in 1994 to 0.1061 in 1995. Thereafter, the value increases to 0.1068 in 1996 and this increasing trend continues till the following year i.e. 1997. The results of H-index fluctuate over the reference period and show a slight decrease from 0.1087 in 1994 to 0.108 in 1998. Moreover, H-index gives very low value during the references period.

4.5.4. Entropy Index:

Like other concentration measures, the values of entropy index also fluctuate over the study period which can be seen from the table 4.4 and graph 4.6. The highest value of entropy index is in 1996 and the lowest value in 1998. During the reference period, the value of entropy index increases from 3.7716 in 1994 to 3.8897 in 1996. Thereafter, it drops to 3.7803 in 1997 and continues to decline till 1998. Although slight
Graph 4.5
Countries’ Concentration in the Factoring Turnover:
Hirschman-Herfindahl Index

Values of Hirschman-Herfindahl Index

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>0.111</td>
</tr>
<tr>
<td>1995</td>
<td>0.109</td>
</tr>
<tr>
<td>1996</td>
<td>0.108</td>
</tr>
<tr>
<td>1997</td>
<td>0.107</td>
</tr>
<tr>
<td>1998</td>
<td>0.106</td>
</tr>
</tbody>
</table>
Countries' Concentration in the Factoring Turnover: Entropy Index.
decreasing trend is there yet it is revealed from the table and the graph that values of entropy index is high.

4.5.5. Pattern of concentration of various countries is clear from the calculated values presented in Table 4.4 and Graphs 4.4,4.5,4.6. In a nutshell, it can be concluded that factoring business as a whole is expanding although concentration of factoring business is high in a very few countries.

5. The following points have been found from the above analysis.

5.1. Factoring is expanding in all parts of the world. However, factoring business is still found to be highly concentrated in a few countries namely, U.K., U.S.A. and Italy.

5.2. The growth rate of companies in factoring has been found to be quite high (8.20 per cent) in the Asian region, next only to the Americas (9.30 per cent).

5.3. The upward growth rate of factoring business in some major countries has been particularly noticeable (around 20 per cent at the end 1997).

5.4. World international factoring has grown at higher rate (16.09 per cent) than the world domestic factoring (14.34 per cent). Still

5.5. Domestic factoring dominates the market share in the total factoring business (between 92.97 per cent to 95.01 per cent of total factoring business during the reference period).

6. Summing Up

It comes out from the analysis of the chapter that the factoring industry is now mature in many countries. The history of the evolution of this industry is characterized by a significant growth in terms of volume of factoring business as well as in terms of number of factoring companies in all parts of the world including the Asian continent.
7. References


12) http://www.factors-chain.com


17) Phelps (1956), The Role of Factoring in Modern Business Finance, Baltimore: Commercial Credit Company.


20) Seidman (1957), Accounts Receivables and Inventory Financing, Michigan: Masterco Press.


