

## The Ways of Implementing Factoring Practice in Financing the Logistics System

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**Abstract:** This article examines the theoretical and methodological guidelines for the application of factoring practices in the financing of logistics companies, the development and effective implementation of factoring. In this article, the practice of factoring is analyzed at scope of financing of enterprises in the export of domestic products.

In addition, our suggestions and comments on the existing problems and achievements in the implementation of factoring practices in the activities of companies have been formed.

**Keywords:** *Logistics, logistics system, logistics elements, supply chain, logistics hubs, infrastructure, leasing, financing, crediting*

### INTRODUCTION

There is a need for a logistics system in the domestic and foreign trade processes of the country, especially in the successful implementation of export and import practices. In the current situation, logistics companies are focused on studying, analyzing and satisfying the needs and requirements of working capital for their commercial and production activities. Logistics companies face a number of financial difficulties in carrying out tasks such as timely delivery, storage, packaging of products, especially the formation of receivables and, in turn, the reduction of liquidity of the manufacturer. The emergence of this problem has required many logistics companies to seek short-term financing and other alternatives to avoid breaking the logistics chain cycle. One of the alternative ways to finance companies is factoring. Factoring is a type of financial service, in which the bank purchases documents for goods (or services) delivered by business entities (customers) and it also gives the bank the right to require the amount of payment from the debtor.

In short, the demand for receivables incurred by customers means that they are purchased by the bank in exchange for a certain discount.

## Literature Review.

One of the best ways to achieve this for companies is to use factoring to finance working capital and receivables. Much research has been done and definitions have been given on the practice of factoring. One of the factors influencing the development of factoring practice was the development of the textile industry in the Middle Ages, which was an important impetus. This order lasted until the 1990s.

In the same years, with the development of other industries (metallurgy, oil and gas, chemistry, food), factoring services began to provide services to these industries.[1]

One of the European economists, a factoring expert, L. Klapper noted that an underdeveloped information environment, including a lack of customer and buyer information to make payments: a lack of data collected by government agencies, private credit bureaus, or factoring itself can affect factoring development. [2]

One of the European economists, Ben J. Sopranzetti said that factoring of financing organizations is based on financial institutions that specialize in managing the receivables of factoring companies.

If a factor chooses to purchase a company's receivables, it pays the firm a pre-agreed discounted amount of nominal value of the invoices. [10]

According to Russian economist, M.V. Lednev, factoring is defined as "a set of financial services such as financing based on the use of commercial loans by businesses, credit risk insurance, debt management." [3]

Russian economist I.E. Pokamestov interprets factoring as "one of the forms of settlement-credit relations on the transfer of the right to demand funds from a customer, which is a complex system of working capital management of the enterprise". [4]

According to Russian economist A. A. Peshkov, factoring includes "a set of financial services provided to a customer in exchange for receivables, which work with debtors to finance the delivery of goods, credit risk insurance, accounting for receivables and timely payment for delivery". [4]

According to Russian economists A.Yu. Podlesnova and G. A. Bunich, factoring is "the transfer of the right of monetary claims to a financial agent (factor) to meet financial and commercial needs in the optimization and management of receivables, the performance of work or services by the exporter to the importer under a foreign trade contract as well as risks associated with commodity lending in the course of foreign trade activities." [11]

According to this definition, the role of factoring is limited only by the form of credit and settlement relations, the versatility of factoring and its specificity is not reflected here.

According to the above interpretations of the concept of "factoring", it becomes obvious to distinguish two approaches of "factoring" to determine its significance in the economic system: These are approaches to the financial or credit market.

In the first case, factoring is expressed as an independent financial service, a package of services or product, in the second, it is defined as factoring credit operation or type of loan, even the term "*factoring loan*" is used, for example, factoring is considered as a banking operation.

Today, in the growth of macroeconomic indicators of the country and the development of financial markets, there is a need to improve and increase the capacity of the factoring market.

### Research methodology.

This study tried to use the scientific abstraction, grouping, comparison, retrospective and prospective, empirical analysis, and other methods to analyze the factoring issue. Using the method of scientific abstraction, the article highlights the scientific and practical importance of improving the practice of factoring in the financing of logistics companies. The relevant conclusions were also drawn on the methods of factoring practices in world practice and in the developed countries, by the method of comparative comparison.

### Analysis and results.

One of the priorities of the national economy is the sustainable development of the national economy, support for entrepreneurship, organization of deep processing of products and achieving a positive balance of export practices of finished products in the balance of foreign trade at the macro level. The importance of the logistics system in the export of manufactured goods is also showing some potential growth at the moment. Hence, the expenses of logistics rises up to 40%, which reflects on the cost of the product, creates need to optimize the infrastructure of logistics companies. [8]

The normal operation of logistics companies will increase the demand for sufficient financial resources to meet the current and future needs of development, as well as the use of alternative sources of funding for logistics companies.

What's more important is that the tasks of development of the logistics services infrastructure and the market such as the development of agro logistics centers, logistics services market and infrastructure development, refrigeration, warehousing, attracting a large foreign cargo operator in the management of intermodal logistics center are stated as a major strategic plan in the Decree of the President of the Republic of Uzbekistan Sh. Mirziyoyev, *"On the Development Strategy of the New Uzbekistan for 2022-2026 years"*. [5]

In particular, the development of a concept for the development of logistics services based on this strategy, in which the following is as well included:

- Development of transport and logistics system and infrastructure between 18 large, 22 medium and 80 small towns;
- Raising the position of the Republic of Uzbekistan in the World Bank's Logistics Efficiency Index (LPI) to at least 77th place;
- Establishment of a network of transport and logistics centers, taking into account the main points of cargo formation in the regions;
- Gradual transfer of transport documents of international shipping ("e-Permit", "e-TIR", "e-CMR") to electronic form;
- Reduction of transportation costs by up to 30%;
- Development of existing container terminals on the basis of public-private partnership;
- Increase the share of container traffic on the railway by at least 2 times.
- Development of the concept for the development of a network of multimodal transport and logistics centers,

- Activation of bilateral trade and economic relations and the formation of sources of funding for the implementation of the above tasks, taking into account the geographical location, existing transport and logistics capabilities, complementarity in this or that area, as well as the principles of interstate approach.

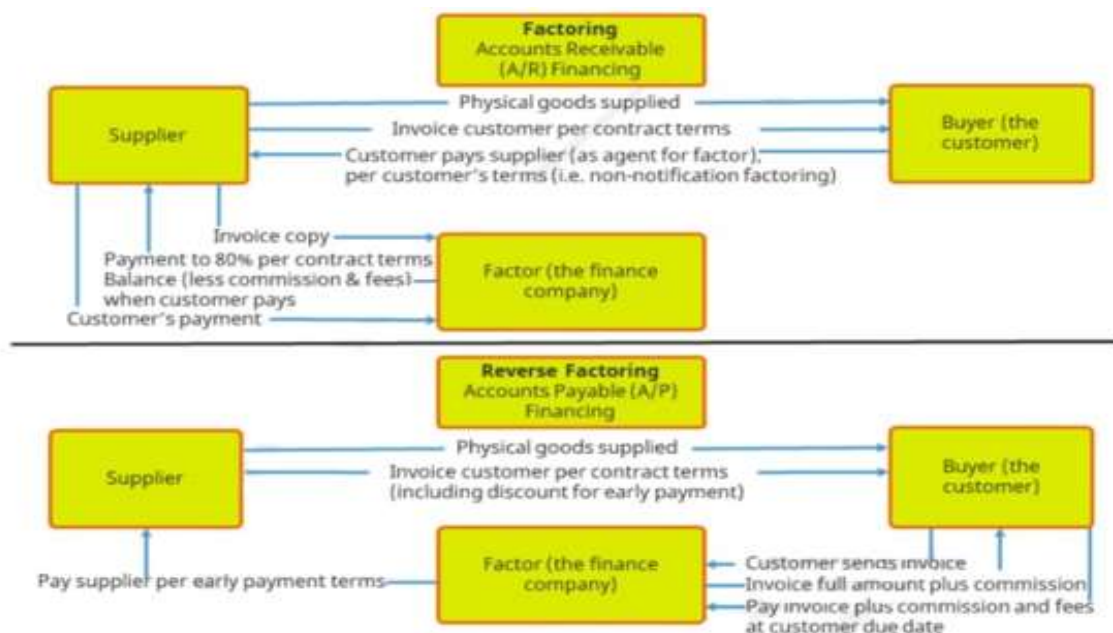
Also, the Decree “*On the Development Strategy of the New Uzbekistan for 2022-2026 years*” provides for the development of factoring practices in financing companies based on best international practices.

With the involvement of international financial institutions with leading experience in the development of the factoring market it's recommended to:

- study the existing problems and obstacles in the development of the factoring market in the activities of banks, non-bank credit institutions and their clients;
- the expansion of the scale of factoring services by banks and microcredit organizations;
- development of proposals and priorities for the development of the factoring market and the introduction of electronic factoring. [5]

The economic aspect of factoring is that it allows to increase the liquidity of the company's assets, as well as capital turnover, and thus the profitability of the business of entrepreneurs.

Factoring practice is a set of financial services for manufacturers and suppliers of goods and services engaged in commercial activities, which allows customers to trust the payment delay. In logistics companies, factoring services are provided on the basis of documents confirming the delivery of goods or the provision of services.



**Figure 1. Financial factoring in logistics supply chains.<sup>1</sup>**

<sup>1</sup> developed by the author.

The picture above shows the process of documentation and cash flow between three organizations, including factoring and reverse factoring: seller, buyer (customer) and factor (financial company). They are :

Factoring (financing accounts receivable):

- Seller provides goods and invoices to the customer
- The seller sends the invoice to the factor.
- The usual terms of sale by the seller are “pure 30 days” and in some cases there is a discount for early payment, for example “3 percent 10 days”.
- Factoring can generate up to 80 percent amount of the invoice to the seller ( e.g., 30 days) on a due date;
- The percentage depends on the buyer’s payment term relative to the invoice.
- The buyer pays the seller within 120 days from the date of receipt of the invoice.
- This is a “non-reporting” agreement in which, the factor does not notify the buyer of the change in ownership of the debt.
- The seller works as a factoring agent. For a “warning” contract, the factoring notifies the buyer of the right of ownership of the debt and the buyer pays the factoring.
- Seller pays the full amount of the invoice to the factor.
- The factor pays the seller the balance by deducting the invoice amount from the commission and fees.
- Logistics services are described as the process of transporting goods professionally to customers.

Foreign experience shows that for logistics companies, factoring practices can be a great solution to improve cash flow.

Also, today the financial practice of factoring in the logistics supply chain is considered as the main source of regular cash flow in all types of logistics services.

Nowadays, as customer demand is growing and becoming more demanding around the world, it has become important for many companies to provide fully functional logistics services to meet customer requirements.

One of the most difficult aspects of running a logistics company can be encountering the difficulties in case of running out of working capital. Most logistics companies that provide such services deal with heavy loads that require special vehicles, ships, or equipment to transport them. Thus, companies providing logistics services require large capital at their disposal. Large-scale project management depends on the regular supply of goods. These projects can cover everything from construction sites to opening brand stores. [6]

The creation of large projects will require the necessary equipment, large equipment and vehicles, and logistics companies will be involved in its implementation. The available vehicles and machines in logistics companies not only require regular maintenance but also their daily operation is very expensive. Therefore, the practice of factoring in the purchase of working capital to finance logistics companies can be a savior for the logistics service in this major project.

Heavy trucking companies engaged in the transportation of vehicles or products using the services of transport logistics face financial difficulties in the implementation of large projects. The actual transportation process is not only difficult, but it is also important to keep the vehicles in good



condition. Even the company's smallest cars can be very expensive to maintain and repair. Therefore, it is becoming increasingly important to use the practice of factoring in the financing of invoices to provide timely maintenance, to provide capital for these large and fixed costs. [ 7 ]

Today, there are many companies in foreign countries that offer logistics factoring as the main service that simplifies the whole process for the entrepreneurs. Another type of logistics services is warehouse logistics. Warehouse services and distribution companies in logistics field that provide warehouse services and distribution networks can wait longer than others to pay an invoice.

Most of the clients who use such services pay for warehouse services typically after 30 or 60 days, which also makes it difficult for entrepreneurs who are engaged in warehouse logistics to deal with ongoing costs during this payment period. These costs may include shipping costs, the actual warehouse construction cost, and any other fixed costs of the company. However, the distribution costs can be more expensive than warehouse services. To adhere to a non-stop distribution chain, suppliers require funds which are cashlowed on a regular basis. This, in turn, on a regular basis, can be provided via factoring services for the purposes of billing of entrepreneur's invoices.

In transport logistics, the capacity of cargo can be achieved by the import and export cargo management companies. In this case, whether it is the cost of shipping or the purchase of your own containers, the demand for financial capital will increase too. [13]

In financing such funds, it can be reliably secured via factoring, since most of the clients will wire the transaction cost after the cargo reaches its shipping address. This payment period can sometimes be extended to almost 90 days, which is a significantly longer time to wait for payments to be made. In such cases, factoring in logistics is the only alternative available to the entrepreneur. This not only helps to find funds, but also means regularly notifying customers along with shipping and tracking.

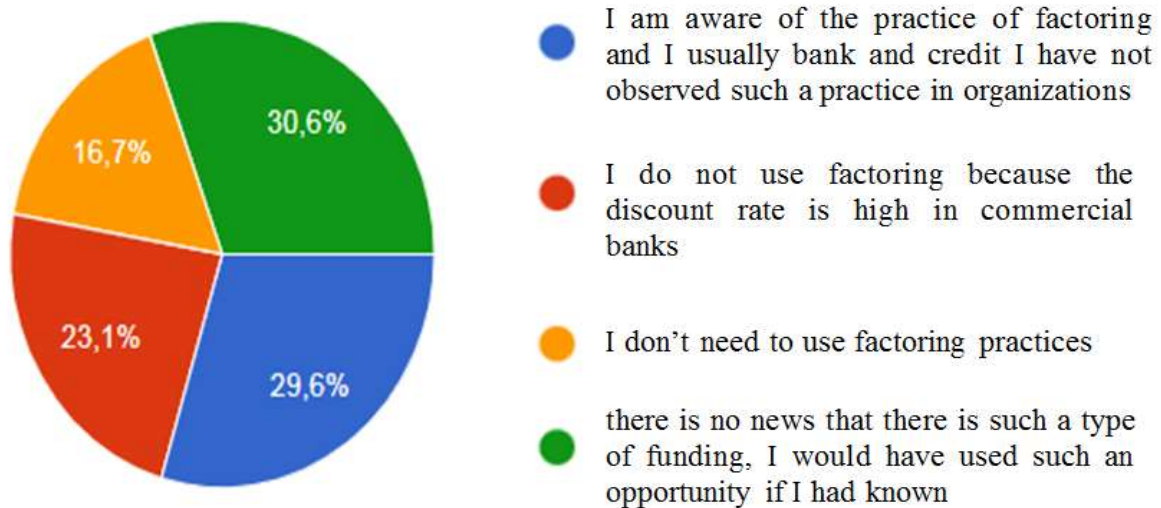
In this century of advanced technologies, the number of specialized vehicles is increasing, which in turn is increasing the demand for them as well as the demand for employees who can use it. Transportation that specializes in transportation logistics requires experience that is not part of a simple logistics service. Such transportation companies are in need of more experienced staff and are willing to rent high quality equipments. Financing via funds of factoring helps the companies to hire specialist engineers, to deal with various permissions as well as to study the routes. On the other hand, factoring can be helpful for cargo loads and tracking services.

The practice of logistics transportation through seaports, especially in large ports, may include the lease of all or part of the ship, the management of containers, the export and import of dangerous goods, customs clearance for shipment. In some cases, if the company provides door-to-door service, the demand for large amounts of cash often increases for them to facilitate the order.

It is also possible to have additional payment security for business transactions by financing your invoices with factoring. These are the main types of logistics business that can benefit from factoring through factoring to improve cash flow. The practice of factoring in the logistics chain includes a set of financing services related to the coverage of risks arising from the provision of commodity credit, as well as the collection of receivables. It is provided to suppliers who work with their customers on a late payment basis.

In the logistics chain the importance of factoring is that the supplier (manufacturer, seller) receives most of the funds at the time of actual delivery. The buyer receives the goods with the right of

subsequent payment and the factoring company providing such service buys them with a certain amount of commission discount. Also, although there are financing factoring practices in existing commercial banks in our country, but many logistics companies do not use factoring practices in the financing of logistics services. Below is a survey on the implementation of factoring practices in the financing of logistics companies.



**Figure 2. Questionnaire on the use of factoring practices in the financing of logistics companies.<sup>2</sup>**

According to this survey, in financing many logistic companies via factoring practice, 29.6% of logistics companies have introduced factoring in financing only in some of the participating commercial banks, but not observed in other credit institutions, 23.1% of the participants responded that commercial banks do not use factoring practices because of high discount rates, and 16.7% of participants said that they didn't need to use factoring practices, and 30.6% of the participants said that they were unaware of the existence of this type of funding and would take advantage of it if they were aware of factoring practices.

Thus, it is expedient to introduce the practice of factoring in commercial banks, leasing companies and other credit organizations in our country, using alternative methods of financing the logistics system.

### Conclusions and suggestions

There is a growing need to apply foreign practices in the financing of the logistics system in order to create additional conditions for businesses and support the cargo logistics, storage, packaging, distribution and production logistics of all elements of logistics activities in the national economy,

<sup>2</sup> developed independently by the author based on the results of the survey.

including logistics services. Currently, one of the most important issues in the direction of manufacturing enterprises in the export sector of national economy is the problem of reducing the cost of logistics services and the sources of their financing.

Logistics companies can achieve the following positive results in financing via using factoring practices:

- improvement of your financial performance;
- replenishment of working capital and acceleration of their turnover;
- ability to offer customers flexible payment terms for goods;
- gaining of competitive advantages over other suppliers;
- the process of acceptance of financial instruments;
- minimized level of documents;
- allowance of delay in payment, first receipt of goods (works, services) and then payment;
- attracting new customers;
- increase the volume of exchange;

Also, the implementation of preferential loans from commercial banks in financing logistics companies in our country, expanding the volume and geography of exports of products of the real sector of the economy, addressing financial issues related to increasing the export potential of the regions.

- Establishing the procedure for conducting foreign trade activities, including the establishment of quantitative restrictions and the introduction of sources of financing to increase the membership of the logistics chain in the export and import of certain types of goods;

Thus, the use of factoring allows the company to significantly reduce organizational costs, as well as the possibility of additional payment delays, including the coordination of the payment schedule itself.

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