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Crowdfunding Platforms in Invoice Trading as Alternative Financial Markets

1. Introduction

While companies are seeking different sources and methods for financing their business, access to capital is particularly difficult in turbulent business environments, especially for smaller enterprises. “Traditional” sources of funding include banks, venture capital, business angels, etc. According to the British Business Bank report (2016), 50% of loan applications submitted by start-ups get rejected by banks in Great Britain. Thus, looking for alternative solutions, businesses are increasingly using crowdfunding. Internet invoice financing and other debt trading platforms, for example, popular in Great Britain², are among the most promising capital raising methods. Such platforms are classified as crowdfunding systems³ or – more broadly – as alternative finance.

The focus of considerations here is a particular type of electronic platforms, which has been drawing much interest over the recent years, namely invoice and other corporate debt trading systems. They are referred to as P2P (*peer-to-peer*) invoice financing, or invoice trading platforms⁴. They are usually auction-based and operate in the Internet environment. The systems subject to this analysis enable businesses to raise funding (working capital) in an alternative manner.

The aim of this paper is to indicate the attributes of Internet invoice (and other receivables) trading platforms, with the purpose of identifying them and estimating the global market segment. The systems are proved to be generating

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² This popularity is indicated by the publication: P. Brinsley, *The growth of alternative finance products*, “Faktoring. Almanach Polskiego Związku Faktorów”, T. Biernat (Ed.), vol. V. Polski Związek Faktorów, Warszawa 2015, pp. 83–87.

³ See: D.T. Dziuba, *The Economics of Crowdfunding. Current Research Trends*, Wydawnictwo Drugie, Warsaw 2016.

⁴ Other names used include “electronic invoice marketplaces”, “peer-to-peer invoice trading marketplaces” or “receivables exchanges”.

a relatively substantial value flow and to be growing dynamically, although their share in the global crowdfunding (or in the global factoring) value has been – so far – modest.

2. Factoring vs. Invoice Discounting

Factoring belongs to the most popular business financing methods, along with bank loans and leasing. It is a financial transaction, where a specialised company (a bank or a debt-buying firm as a rule) buys the invoice issuer's trade receivables. The idea behind factoring is to collect cash sooner than the contracted invoice due date falls. A short-term monetary trade receivable is purchased before the payment term expires. There are three parties to the transaction here:

- the factor, i.e. a specialised entity that offers factoring services and buys receivables from the goods/services seller's invoices;
- the factorer, i.e. a company that sells its products/services, issues invoices and is entitled to claim payment for the goods offered;
- the debtor, i.e. the recipient of goods/services supplied by the factorer and committed to pay the factorer the amount due.

The rules of transaction are specified in the factoring contract⁵.

Until recently, factoring has been perceived as a service for major businesses only, although now it is targeting smaller companies, too⁶, while invoice discounting is typical of smaller businesses, SMEs and micro-businesses.

Factoring⁷ is a combination of services: financial liquidity management services, accounts receivables monitoring, insurance, etc. **Invoice discounting**, on the other hand, is a different financial service. Its **sole purpose is to finance**

⁵ In Poland, factoring is the so-called innominate contract, i.e. not provided for in the Civil Code. So far, there has been only one international legislative act that regulates factoring contracts and the principles of factoring in business: the Unidroit Convention on International Factoring (1988). Many countries, including Poland, have not ratified the Convention, although the standards proposed there are applied.

⁶ According to the survey of micro-, small and medium-sized enterprises in Poland, conducted for the National Guarantee Fund, only 2.8% of SMEs use factoring, which is strange inasmuch as research shows that more than 70% of SMEs grapple with their business partners' late payments. See: J. Dobosiewicz, *Nie wszyscy mali wiedzą, co tracą*, "Puls Biznesu", PB+ Faktoring, 22 February 2017, p. IV.

⁷ Different forms (models) of factoring can be encountered in the business practice, such as non-recourse and recourse factoring, mixed, open, undisclosed factoring, etc. They will not be analysed in this study.

a business through buying out invoices, without any other additional services. The factor purchases non-overdue and undisputable accounts receivable before their due date. The factorer sells their accounts receivable with a deferred payment date to the factor, who pays an advance rate of e.g. up to 90% of the invoice, reduced by a discount commission; the remaining part of the receivables is transferred to the factorer once the invoice is paid by the debtor.

Invoice discounting is characterised by the reduced waiting time for payments and the ability to improve companies' financial liquidity, which is so crucial in the competitive business environment. Payment backlogs are eliminated. Simplified procedures translate into lower costs (as compared to factoring). The invoice discounting method (contrary to factoring) enables companies to fully control their finance.

The "traditional" invoice trading market is a sizeable one: globally it reaches 3 trillion US dollars⁸. The segment consists mainly of factoring systems and, to a lesser extent, the accounts receivable discounting. Alternative systems – the subject of our considerations – are relatively new to the market.

3. The Special Nature of Internet Invoice Trading Platforms

Invoice financing platforms act as an intermediary link between investors (who buy unpaid invoices) and companies that sell their accounts receivable. The accounts receivable trading is supported by the auctioning technology. Businesses seeking working capital register in the system, send their invoices via e-mail, each of such documents being verified by the platform. No security measures are required, such as personal guarantees or collateral. Registered investors, in their turn, may buy accounts receivable through bidding. Owing to the special nature of this community-based financing market, accounts receivable can be purchased by the "crowd"⁹ of online investors, each of them making a proportional contribution to the transaction. Many investors (acting as factors) compete to buy out invoices with deferred due dates. This set of investors make the analysed auction model different from¹⁰ "conventional" invoice

⁸ See: G. Shapiro, *Current Challenges of Invoice Finance Marketplace Platforms*, The Interface Financial Group, 10 August 2015, p. 1, www.interfacefinancial.com

⁹ Which is the essence of crowdfunding.

¹⁰ See: ACCA, *Technical Factsheet 186. Alternative forms of finance*. ACCA Global, 2016, p. 6, accaglobal.com

discounting or factoring methods. Once the auction ends, the winning funders transfer their payment (a sort of a loan)¹¹ to the platform, wherefrom the funds are sent to the factorer.

Thus, the platforms perform a number of functions: they intermediate transactions, develop the electronic market as an environment for contacting factors and factorers, monitor the transactions, verify invoices, collect and sometimes publish statistics, manage the documentation, etc. Certainly, they charge fees for their services. The Dansk Faktura Børs A/S bank charges 15% of the balance between the invoice face value and the invoice purchasing price (DKK 250/auction at least), VAT being added to this. In addition, an administration fee is charged (DKK 175/auction). The Polish Faktorama.pl system charges 0.5% of the invoice face value, no less than PLN 50, however. Furthermore, the sellers pay for successful auctions. The investor's discount is specified by the seller (e.g. 2% of the invoiced amount). Usually, invoices are sold for 97–99% of the amount receivable, depending on their due dates. Investors are charged a commission, too. In the Inwise.co system for example, this is a fixed fee of 20% of the profit¹² (payable once the invoice is paid).

What is important, the invoice seller receives the payment in a short time, the auctions lasting 24 hours as a rule (which is another difference¹³ distinguishing this method from the traditional invoice discounting or factoring). Despite the many advantages, the online invoice discounting auctions cannot be used for all transactions (e.g. for discretionary, i.e. very risky businesses) and the method requires correct bookkeeping. Besides, these services cost, even if not very much. The approach referred to here is mainly intended for micro-businesses and SMEs.

4. The P2P Invoice Trading Segment of the Market

The literature of the subject provides only fragmentary information about online invoice trading systems. The few reports published so far describe the situation in selected regions of the world only, in the previous years. I am referring

¹¹ Online invoice trading platforms are usually classified as investment systems rather than lending ones.

¹² An example of the Inwise's commission charged on investors: if an USD 100,000 invoice was purchased at a discount of 98%, the investor earned USD 2,000 and the commission will equal USD 400, i.e. 20% of the profit, <https://inwise.co.pl/faq>

¹³ See: ACCA (2016).

to the reports edited by R. Wardrope, on alternative systems in continental Europe¹⁴, Asia and Oceania¹⁵ and America¹⁶, or the report published by B. Zhang et al. for the British market¹⁷. Their focus is on the size of the alternative finance segment, while any considerations on the invoice trading platforms are rather limited. Furthermore, source data sets of such systems are not made accessible. Should we sum up the values from the four reports referred to above, we shall obtain the amount of USD 2 billion (2,095.738 million)¹⁸, which illustrates the global P2P invoice trading market volume (with the exception of many countries, including those in Africa) in 2015. Most likely, this volume is much greater in fact. The reports also indicate that the sector is rapidly growing: in America, the average annual growth was 641% over the years 2013–2015, in continental Europe 877%.

Hence, the global market segment was estimated for the purpose of this study. 72 online invoice trading platforms were identified and cumulated capital values were obtained or estimated for 35 of them¹⁹. Statistics was sourced from

¹⁴ See: *Sustaining Momentum. The 2nd European Alternative Finance Industry Report*, R. Wardrop (Ed.), Cambridge Centre for Alternative Finance, Judge Business School University of Cambridge, Cambridge 2016(a).

¹⁵ See: *Harnessing Potential. The Asia – Pacific Alternative Finance Benchmarking Report*, R. Wardrop (Ed.), Cambridge Centre for Alternative Finance, Judge Business School University of Cambridge, Cambridge 2016(b).

¹⁶ See: *Breaking New Ground. The Americas Alternative Finance Benchmarking Report*, R. Wardrop (Ed.), Cambridge Centre for Alternative Finance, Judge Business School University of Cambridge, Cambridge 2016(c).

¹⁷ See: B. Zhang, P. Baeck, T. Ziegler, J. Bone, K. Garvey, *Pushing Boundaries. The 2015 UK Alternative Finance Industry Report*, Nesta, Cambridge Centre for Alternative Finance, Judge Business School University of Cambridge, Cambridge 2016.

¹⁸ Figures aggregated by the author, including the GBP/USD rate conversion. According to the reports referred to here, the segment subject to this analysis reached: USD 1576.950 m (China, the rest of Asia and Oceania), USD 32.63 m (both Americas without the USA), USD 80.590 m in continental Europe, GBP 325 m in the UK. As far as continental Europe is concerned, alternative systems of France, Italy, Germany, Spain, the Netherlands, Scandinavia, selected CEE countries and Turkey were analysed.

¹⁹ In 37 cases, no statistics was obtained or the data available was unreliable. This group included platforms from: the USA (Fundbox.com, FactorAuction.com, CredebtExchange.com, FundBox.com, KickPay.com), the UK (Factorauction.com, Billfront.com, Frenns.com, InvoiceCycle.com, UricaFinance.com), Singapore (Smartfunding.sg, IncomLend.com, SGRecX), Hongkong (Velotrade.com), India (Kredx.com, Loanzen.in), South Africa (e-factor.co.za), Zimbabwe (Harare Receivables Exchange), the UAE (Beehive.ae), Finland (AREX.io), Dominican Republic (Mercofact.com), Thailand (Beehiveasia.co.th), Chile (BolsamiPYME.cl, Mercado de Facturas), Mexico (Factoraje.mx), Spain (NoviCap.com), Belgium (Edebex.com), Canada (Fundthrough.com), Ireland (InvoiceFair.com), the Russian Federation (Invoice-market.ru), Turkey (Figopara.com), Switzerland (Advanon.com), Australia (Timelio.com.au),

the platforms' sites directly and in some cases estimations were made, based on the factual evidence available. The cumulated capital values were converted into USD, using the current NBP exchange rates. The analysis covers the situation as of the end of QI 2017.

Table 1. P2P invoice financing platforms statistics (as of 31 March 2017)

Item	Web-based platforms	Country (year of launch)	Aggregated capital (USD m)
1.	LiquidX (lqxinc.com)	US (2013)	10,300.000
2.	C2Fo.com	US (2008)	(*) 7,800.000
3.	Taulia.com	US (2009)	(*) 3,676.004
4.	Debitos.de	DE (2011)	(**) 1,639.643
5.	GoFastpay.com	US (2009)	1,500.000
6.	OctetFinance.com	AU (2011)	1,500.000
7.	MarketInvoice.com	UK (2011)	(**) 1,464.997
8.	Tesorio.com	US (2013)	750.000
9.	FifoCapital.com.au	AU/NZ (2007)	710.171
10.	TheInvoiceMarket.com.au	AU (2014)	220.000
11.	Sancus.com (PlatformBlack.com)	UK (2012)	(*) 200.000
12.	Cumplo.cl	CL (2011)	119.955
13.	Piaojuke.com	CN (2012)	(**) 154.161
14.	P2bi.com (P2B Investor)	US (2014)	(*) 150.000
15.	WorkingCapitalPartners.com	UK (2015)	(**) 126.131
16.	CapitalSpringboard.com	SG (2016)	(**) 102.509
	Total	-----	30,413.571

(*) own estimations; (**) currency conversion; country codes: US – the USA, UK – the UK, DE – Germany, AU – Australia, NZ – New Zealand, CL–Chile, CN – China, SG – Singapore.

Source: the author's own elaboration based on the data from the analysed websites.

For the sake of clarity, data is summarised in two separate tables. The first one contains the systems with the highest cumulated capital volumes in excess of USD 100m, while table 2 presents the remaining systems.

Sweden (Qvido.se), Estonia (Inwise.co, with its Polish language version), as well as the Polish Dyskonta.pl, a receivables discounting platform. This list can be expanded by adding experimental services offered by British platform Populus.co, in the blockchain technology (Ethereum). The category does not include the systems where the invoice trading services are offered only partly, e.g. BTCjam.com and CapitalMatch.com.

Table 2. Statistics of other invoice trading platforms (31 March 2017)

Item	Web-based platforms	Country (year of launch)	Aggregated capital (USD m)
1.	Workinvoice.it	IT (2015)	(**) 55.303
2.	Waddle.com.au	AU (2015)	~ 50.000
3.	Relenda.se (Fakturaborsen)	SE (2016)	(*) 30.000
4.	Danskfakturabors.dk	DK (2012)	(**) 28.846
5.	Capitalia.lv	LV (2007)	(**) 22.945
6.	InvesticniAukce.cz	CZ (2016)	(**) 22.328
7.	Bezahlt.de	DE (2016)	(**) 21.517
8.	Circulantis.com	ES (2014)	(**) 17.085
9.	Finexkap.com	FR (2015)	(*) 11.366
10.	Debifo.lt	LT (2015)	(**) 10.861
11.	Faktorama.pl	PL (2013)	(*) (**) 10.142
12.	InvoiceInterchange.com	SG (2015)	(**) 9.403
13.	Borzaterjatev.si	SL (2011)	(**) 8.368
14.	Investly.co	ET (2013)	(*) (**) 5.087
15.	CrowdCity.it	IT (2012)	(**) 2.690
16.	Facturedo.cl	CL (2015)	(*) 1.000
17.	Qupital.com	HK (2016)	(**) 0.258
18.	TaladInvoice.com	TH (2016)	(**) 0.110
19.	EasyT.co (EasyTauctions)	LT (2017)	(**) 0.003
	Total	-----	307.312

(*) own estimations; (**) currency conversion; country codes: HK – Hong Kong, IT – Italy, LV–Latvia, LT – Lithuania, PL – Poland, CL–Chile, TH – Thailand, SL – Slovenia, SG – Singapore, SE- Sweden, FR – France, ES – Spain, CZ – the Czech Republic, DE – Germany.

Source: the author's own elaboration based on the data from the analysed websites.

As shown above, the total cumulated funds **exceeded USD 30.7 billion** (USD 30,720.883 m)²⁰. Considering the small number of systems, this value is relatively high, but on the other hand, it is not very significant as compared to the value flow generated by other alternative systems, mainly those offering social loans. Invoice trading platforms are classified as social financing, so when juxtaposed with the cumulated value reached globally by the crowdfunding systems

²⁰ It turned out impossible to obtain statistics for 37 platforms. One may presume, however, that those referred to did not generate any significant transactions – most probably, the total value stream of this group does not exceed several hundred million dollars.

in 2016 (USD 212.7 billion)²¹, they account for ca. 14.4%. The number of such innovative systems launched keeps growing year by year and the figures available show that the segment dynamics are high.

5. Tendencies on the Market

The prevailing share of the global P2P invoice financing value is represented by the US platforms (in excess of USD 24 billion), which is more than $\frac{3}{4}$ of the total value flow. Consequently, British, German and Australian platforms slices are much smaller. This means that the share of the remaining, numerous group is marginal, indeed. The Chinese market is underrated here, since only one platform statistics was available for the analysis. Finding any other of such data was obstructed due to the language barrier. Hence, one may presume that the current cumulated value of the analysed segment's capital equals USD 1 billion at least²².

In 2007, The Receivables Exchange (TRE) – the world's first electronic exchange for the sale and purchase of invoices (corporate receivables) – was launched. TRE connects accredited investors into a global network and it now operates as LiquidX (lqxinc.com); its cumulated value reached USD 10.3 billion.

Until recently, the European market had been dominated by British systems, Market Invoice and Platform Black (currently operating as Sancus.com). Our research has shown, however, that the highest value was generated by the German Debitos.de. After 2011, a “bumper crop” of such platforms was observed in many different countries. Numerous national projects are launched. New systems have been started in 34 countries at least, on all the continents (except for Antarctica). The highest cumulated values were generated by systems in Northern America, followed by those operating from Europe (in 17 countries), Australia, Oceania, Asia, as well as Latin/South America and some single platforms in Africa.

Furthermore, the ranking includes the domestic Faktorama.pl, which is dynamically growing and planning its stock market debut in 2018.

²¹ D.T. Dziuba, op. cit., p. 72.

²² This conclusion is confirmed by data published by R. Wardrop in his report describing partial statistics for Asia and Oceania. China's P2P invoice trading segment is estimated to have reached USD 1.46 billion in 2015, against “only” USD 116.96 million reported for the remaining countries of Asia, Australia and Oceania. See: *Harnessing Potential. The Asia – Pacific Alternative Finance Benchmarking Report*, R. Wardrop (Ed.), Cambridge Centre for Alternative Finance, Judge Business School University of Cambridge, Cambridge 2016(b), p. 19.

6. Conclusion

The online invoice trading is a flexible and promising financial liquidity management method, which is particularly useful for small and micro-enterprises. It is an alternative to “traditional” factoring services offered by banks and specialised factoring companies. Investors who are seeking short-term investments (30–90 days) may earn attractive rates of return that are well above the average.

The main advantage is an immediate, nearly “right-on-time” access to working capital (contrary to traditional methods). Invoices are usually auctioned on a 24-hour basis, but in some cases sellers may obtain cash even after a few hours (the “buy now” option), although on less favourable terms. Those selling their invoices are not forced to enter any long-term contracts. They may sell as many invoices as they wish to, even single, of any value²³ (in the case of Faktorama.pl the pre-set minimum is PLN 1,000), which makes the method very flexible. Any company may sell its invoices, should it need working capital fast. Accounts receivable can be purchased from any location, by investors dispersed all over the globe. The method enables the reduction of payment backlogs. It is cheaper than any traditional systems, owing to lower charges and fees, as well as to reduced transaction costs. A wider range of benefits can be expected as development of the blockchain technology progresses. Currently, experimental projects are launched (such as Populus.co).

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²³ Some platforms set limits on this option.

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Platformy finansowania społecznościowego w handlu fakturami jako alternatywne rynki finansowe

Streszczenie

Przedmiotem rozważań jest specyficzny typ elektronicznych platform, budzący w ostatnich latach duże zainteresowanie, handlujących fakturami oraz innymi wierzytelnościami firm. Bazują one zwykle na technologii aukcyjnej w środowisku internetowym. Umożliwiają pozyskiwanie dla przedsiębiorstw środków finansowych (kapitału obrotowego), i to w sposób alternatywny. Celem jest wskazanie atrybutów takich platform dla potrzeb ich identyfikacji i oszacowania segmentu rynkowego w kategoriach globalnych, ze wskazaniem tendencji rynkowych. Rozważania prowadzone są na tle specyfiki usług faktoringu i dyskonta faktur oraz rozwoju alternatywnych systemów crowdfundingu.

Słowa kluczowe: handel fakturami, platformy aukcyjne, alternatywne finanse, finansowanie społecznościowe, faktoring, dyskonto faktur.