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### Developing Factoring Service For Small And Medium Enterprises At Kosovo's Pro Credit Bank

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#### ABSTRACT

After a decade of reforming policy, building and developing the multi-sector market economy, Small and Medium Enterprises (SMEs) in Kosovo have developed strongly and contributed to creating employment, increasing GDP, and raising the nation's volume of exports. However, SME have found difficulties on the way to development due to lack of management experience and financial resources, and due to uncertainty within the business environment. As a result, SME often faced obstacles during their operations.

Originated from actual demands of integrating and economic development in Kosovo in general and banking system in particular, to develop new banking service is extremely crucial, especially for Joint stock commercial banks that have less competitiveness than State owned commercial Banks. Moreover, factoring consider a financial tool that is met both requirement from commercial Banks and SME. This research seeks to introduce Factoring service as an effective short-term financial tool for SME as well as crucial service for commercial Banks in Kosovo. The first chapter aim at introduction of factoring services including clarifying the conditions for factors developing this service and the second Chapter has taken overview the current situation of worldwide factoring and Kosovoese factoring market to have an outlook for general conditions for developing factoring for Kosovoese factors.

Kosovo's factoring market is at the first phase in its life cycles, there are a lot of chance for developing this service in Kosovo, especially for pioneers whom launching this services into market. However, PRO CREDIT BANK could not gain the advantage of the first entrance. Even though, PRO CREDIT BANK has advantages in external sources of stable and high growth of Kosovo economy. SME's high growth rate at Kosovo 3,8% as well as its experience in providing financial service to SME- its targeted customers, PRO CREDIT BANK's good cooperation with multinational and world organization to gain more capital for credit, factoring at PRO CREDIT BANK is at "zero" points. The main obstacle to limit factoring service at PRO CREDIT BANK blamed for lack of development strategy for factoring service, the human resource management matter, and lack of information about sellers and Buyers. All analysis is mention in details in the third chapter.

In the last chapter- Chapter 4, the author makes some main recommendation for developing factoring service to SMEs at PRO CREDIT BANK:

- Creating marketing plan: defining targeted customers are SMEs and MMEs group, especially for ones that have a purchase relationship with big and high reputation corporation to limit risk of default payment from Buyers.; domestic factoring is the target products to concentrate on the first phase with

their customers based in North of Kosovo; and suggested variety of marketing program to promote this service.

- Establishing a full time of team member for PRO CREDIT BANK and developing training course about factoring
- Increase financial capacity for PRO CREDIT BANK to support for financing in factoring service.

Besides, the Author recommend solution for SBK to improve legal framework for factoring as well as enhancing the efficiency of CIC system to supports commercial banks, including PRO CREDIT BANK in developing factoring service.

**Keywords:** Economics; Statistics; Business economics ; Economy;

### LIST OF APPENDICES:

Appendix 1: Total factoring volume by countries from 2004-2010

Appendix 2: Obstacles to gain access to bank loans

Appendix 3: Question for interview PRO CREDIT BANK's staff

Appendix 4: Questionnaire for interview PRO CREDIT BANK's enterprise customers

### LIST OF ABBREVIATIONS

ACB	Europe Commercial Joint stock commercial Bank
A/R	Account receivable
B/E	Bill of exchange
CIC	Credit information centre
D/A	Documents against Acceptance
D/P	Documents against Payment
EF	Export Factor
FCI	Factor Chain International
GDP	Gross domestic Products
GRIF	General Rules for international factoring
ICC	International Commercial centre
IFC	International Factor Community
IF	Import Factor
JSCBs	Join stock commercial banks
L/C	Letter of Credit
MMEs	Medium-sized enterprises
MSMEs	Micro small and medium enterprises
NPL	Nonperforming Loans
R&D	Research and development
ROA	Return on Asset
ROE	Return on Equity
SBK	State Bank of Kosovo
NLB	Kosovo Commercial Bank
SMEs	Small and medium enterprises
SOCBs	State-owned commercial Banks
PRO CREDIT	Pro Credit Bank
UNIDO & ASMED	United nation industrial development organization and Agency SME development
UNIDROIT	International institute for the unification of private law
VAT	Value added tax
Raiffeisen Bank Kosovo	Kosovo Commercial Joints Stock Bank
WTO	World Trade Organization

### Rationale

Kosovo is deeply integrating into global economy, especially since it became an independent in 1999. Kosovo's position emphasize increasingly as a light growth economy in Europe. The integration creates breakthroughs for higher development but also brings many threats to overall

economy as well as each economic industry. Banking industry is not out of this trend. Diversification of services and keeping the competitive advantages is the survival for Kosovo commercial banks, especially joint stock banks (JSCBs) which have serious problems of a tiny capital base and weak operation.

The small and medium enterprises (SMEs) - the targeted customers of JSCBs are playing an important role for development of economy in Kosovo. SMEs have contributed to create increasing GDP, creating jobs and increasing national's export volume. It said that SMEs have currently contributed 60 percent of GDP and employs about 70 percent of workforce as well as 47% of export turnover.

Besides achievements and contributions as mentioned above, SMEs in Kosovo are currently facing with many serious difficulties such as low productivity and competitiveness, shortage of capital for expanding, lack of experience in terms of marketing and financial management. Of these difficulties, lack of financing resources is considering one of the most serious obstacles for SMEs in growth. Almost commercial banks refuse to offer loans for SMEs because of their poor management and unaudited financial status. Under these circumstances, commercial banks have to contain credit risk by collateral focused loans. Whereas, with the characteristic of tiny capital, having tangible asset as collateral for commercial banks is impossible mission for SMEs to get bank loans.

To solve the conflict between diversification needs of commercial banks and SMEs' needs of financing without collateral, factoring is the most appropriate one for both bank and SMEs as it is considering a method of raising short- term working capital for enterprise by exchanging its A/R, not collateral focused and not adding any liability into their balance sheet. Moreover, factoring is a comprehensive financial service that includes not only financing but also credit protection, accounts receivable bookkeeping and collection services. Factoring not only brings benefit to CBs as a new service for diversification and increasing turnover but also supports SMEs to access financing for roll-up their business and gaining profit from achieving advantages of competitiveness.

Although it has clearly evidence that factoring is well- developed over the world for a long time with the application of about 60 countries and the growth of about more than 20 percent per year, the concept of factoring in Kosovo is not only the new one with enterprises but also the banks.

It said that some registered banks have not implemented this service in real practice or factoring service carry out at extremely low level at Kosovoese commercial banks, including PRO CREDIT BANK. PRO CREDIT BANK is one of the largest and fastest growing full service joint-stock banks in Kosovo. At the start time and along with their way on development, PRO CREDIT BANK have always defined SMEs as their targeted customers and concentrated on developing bank services for this customer sector. Despite the fact that PRO CREDIT BANK is one of the first four banks applied the services in 2005, up to now this service seems to be not contributed any profit of the Bank. Therefore, requirement of developing factoring service at PRO CREDIT BANK is crucial on the process of deeply integration world economy and keeping the competitive advantages in the domestic with other foreign banks.

To date, there has not been the any official research on the constraints of factoring at JSCBs, especially at PRO CREDIT BANK implemented in Kosovo. Conducting such research will be enable directly PRO CREDIT BANK to find the solution for developing factoring together with their growth and also indirectly to support experience to JSCBs in developing factoring at their organizations.

## **I. Research objectives**

My thesis focuses on these three main objectives:

- to well-understand about factoring and its benefits to related partners; and the conditions for factors developing factoring service
- to investigate obstacles faced by PRO CREDIT BANK in developing factoring service for SMEs

- to suggest solution for PRO CREDIT BANK to continuously develop factoring service for SMEs as well as give recommendation to State Bank of Kosovo to give more supports for factoring service in Kosovo

## II. Research questions

This research will answer the following research questions:

1. What are benefits of factoring to related partners?
2. What are conditions a factor needs for developing factoring service?
3. What are obstacles faced by PRO CREDIT BANK in developing factoring service for SMEs?
4. What should the bank do to overcome the obstacles for developing factoring service for SMEs?

## III. Research methodology

To answer the research questions, the author used both secondary and primary data.

### Primary data

From primary data sources, the author conducted survey about factoring service with PRO CREDIT BANK's SMEs for checking their awareness and eagerness of using factoring. Bank officers organized discussions with bank officers who related to the factoring field to get more information on their awareness and motivation for factoring.

### Secondary data

From internal secondary data sources, raw data on sales as well as data collected from financial accounting and annual reports were analyzed for better understanding current situation. The author used external secondary data from reports of press, website, governmental body and international organization to get information of competitors and market.

### Research methods

Qualitative and quantitative methods are used in this thesis. Qualitative technique was applied to research actual figures and reports. Quantitative technique was applied in interviews with bank officers as well as conducting survey with SMEs at PRO CREDIT BANK.

The interviews were directly taken with 25 Credit officers at Head Transaction centre of PRO CREDIT BANK, the largest transaction centre of PRO CREDIT BANK with a series of open questions as appendix 3. Among of interviewees: 5 of them worked for PRO CREDIT BANK for more than 5 years; 18 of them worked for PRO CREDIT BANK from 1 to 5 years and 2 remains in probation time. All questions were directly asked to interviewees to find out their understanding about factoring service.

The survey was conducted with SMEs at PRO CREDIT BANK for finding their customers' awareness about their factoring service as well as assessment about the service provided by PRO CREDIT BANK. Due to limit of time and resources, the survey was only done via email with small population size. The author sent survey email to 150 SMEs from different industries of PRO CREDIT BANK's Head transaction Centre. Therefore, of 150 questionnaires employed, only 102 returned. The detail of questionnaire was described in appendix 4

### Origins and growth of factoring:

Factoring is one of the oldest and common methods of trade finance over the world with a long historical development. According to historians, Factoring is originated 4,000 years ago in the days of King Hammurabi of Mesopotamia whereby the first literate societies were developed. Although Mesopotamia no longer exists, many of its great contributions to civilization have endured, including Factoring. Almost every civilization that valued commerce has practiced some form of factoring. In Rome, it can be found the evidence of using mercantile or factor to administer the sales of goods from rich manufacturer and merchants.

The first documented-use of factoring was widespread occurred in the American colonies before the revolution to serve for trade. With the abundance of the North American landscape, colonists cultivated and traded commodities like cotton, fur and timber with the Europeans. Merchant bankers in European countries advanced funds to the colonists for the raw materials, before they reached the continent. This enabled the colonists to continue their lives and production cycle, free from the burden of receivables by their European customers. The factor, of course, was neither actually buying the goods nor the same as exporters. They were advancing the funds at

a discounted rate. Although there seems to be a fine line here, it was the assumption of the risk of non-payment that made the major difference.

In the 15<sup>th</sup> Century with the advent of the Industrial Revolution, factoring became more focus on the issue of credit and played an increasingly important role in commercial transactions. By assisting clients in determining the creditworthiness of their customers and setting credit limits, factors could actually guarantee payment for approved customers. However, it still applied in limit relationship within the factor in European countries and their agent in America.

### **Definitions of factoring:**

The term "factoring" has been defined in various countries in different ways due to non-availability of any uniform codified law. It is not easy to find one definition that will cover the various form of factoring arrangements that occur in one country. To find one that will apply internationally is almost impossible. Each country has its own particular language, financial, business needs and law. Therefore, there are lots of factoring definitions. In this section, we will overview some typical definitions that have been widely used for factoring service.

- **Definition one:** According to article I under General Rules for international factoring of FCI: *A factoring contract means a contract pursuant to which a supplier may assign accounts receivable which expression, where the context allows, also includes parts of receivables to a factor, whether or not for the purpose of finance, for at least one of the following functions:*
  - *Receivables ledgering*
  - *Collection of receivables*
  - *Protection against bad debts*
- **Definition two:** The study group was appointed by International Institute for the Unification of Private Law (UNIDROIT), Rome during 1988 recommended: the definition of factoring. It was defined in simple words as under: "Factoring contract" means a contract concluded between the supplier and the factor pursuant to which the supplier will assign to the factor receivables arising from contracts of sale of goods made between the supplier and its customers (debtors). Factors will have to perform at least two of four following functions: (i) finance for the supplier, (ii) receivable ledgering, (iii) Collection protection against credit default in payment by debtors
- **Definition three:** Factoring means a kind of credit in which the financial institution will grant credit term to seller via purchasing the account receivable derived from purchasing goods in which both seller and buyer negotiate in sales contract (law No.02/L-123 and 04/L- 006).

In briefly, Factoring is the sale and purchase a receivables with a certain discount rate. However, factoring is not simply one homogenous product because the factors also offer a range of professional financial services that might typically include: (i) Collecting payments from their customers, (ii) Pursuing late payers, (iii) Providing advice to clients on credit management, (iv) Protecting the client against bad debts. The difference among these definitions is how many services to provide by the factors.

### **Advantage**

Providing factoring service can help factor to receive interest charge and financial commission. The fee and commission income contributes an important part on annual profit for factor. Implementing factoring also creates diversification on factor's products and services. It supports the factor to not only achieve the turnover but also improve the factor's reputation as well as its competitiveness.

### **Disadvantage**

The factor will be got risk due to possible fraudulent acts by the seller and Buyer in furnishing the main instrument "invoice" to the factor. Invoicing against nonexistent goods, pre-invoicing (i.e. invoicing before physical dispatch of goods), duplicate-invoicing (i.e. making more than one invoice in respect of single transaction) are some commonly found frauds in such operations. Credit risk is the highest one with factors in case of the default payment from Buyers, especially in non-recourse factoring.



**Advantage:**

**For the seller:** The advance payments made by the factor to the seller in respect of the approved invoice under assignment increase his liquid resources. He is able to fulfill his liabilities as and when they arise hence accordingly improving his credit rating position to his own suppliers, lenders and financial institutions.

The factors provide specialized services including sales ledger administration and credit control relieves the seller from the tension of bad debt losses. The Seller can concentrate on the other major areas of his business and improve his business efficiency.

It provides flexibility to the company to decide about offering better terms to their customers to gain the advantageous competitiveness

The seller can save the management time and effort in collecting the receivables and in sales ledger management thanks to the providing these service from the Factor for factoring service.

**For the Buyer:** The Buyer will gain the advantage of deferred payment granted from Seller so that he can use goods without payment at time of goods receipts. In case of international commercial, the importer no needs to secure deposit for opening L/C under each consignment. These will support the Buyer grant credit to his own customers as well as widen his business to gain more profit.

**Disadvantage:**

Factoring is considered a kind of trade finance with high price. Cost of factoring is normally calculated the sum of finance charge and factoring commission:

- **Finance Charge:** This is also known as "interest charge". It is the same as the current overdraft rate or a little bit higher than interest rate for short term bank loans. It depends on the quality of debts, and the time to collect debts from buyer.
- **Factoring Commission:** This covers the service elements and is generally charged as a flat rate percent of the total gross factored turnover. It's normally fluctuated around 0.5%-2.5% including VAT. Some factors charge a flat rate plus a fixed amount per invoice/credit note, for example: 0.85% plus EUR 10 per invoice/credit note. This is more common in international factoring when the import factor cannot be certain of the workload. Some factors will include a minimum charge or even a fixed amount per month to guard against the possibility that the factored turnover is less than an acceptable minimum. In international factoring, it will involve the service fees of both IF and EF.

In general, the cost of international factoring is higher than domestic one and the cost of non-recourse factoring is also higher than recourse one. There are a number of costing systems in use for calculating the exact price of the factoring commission and generally, these will take into account the following:

- **Workload** - the number of invoices, credit notes and buyers
- **Volume (sales turnover)** - generally the greater the volume, the more attractive the business and the lower the percentage rate. However, if there are many buyers and many small value invoices, this could make the price too high and the business unattractive both to factor and seller. Most factors set a minimum volume below which it would be unprofitable to do business.
- **Buyer Credit Risk** - the credit department will assess the portfolio of buyers and set a price (a percentage of turnovers) which will cover the expected credit losses plus a margin for administration costs. This assessment is based on the industry sector, the strength of the buyers and their spread.

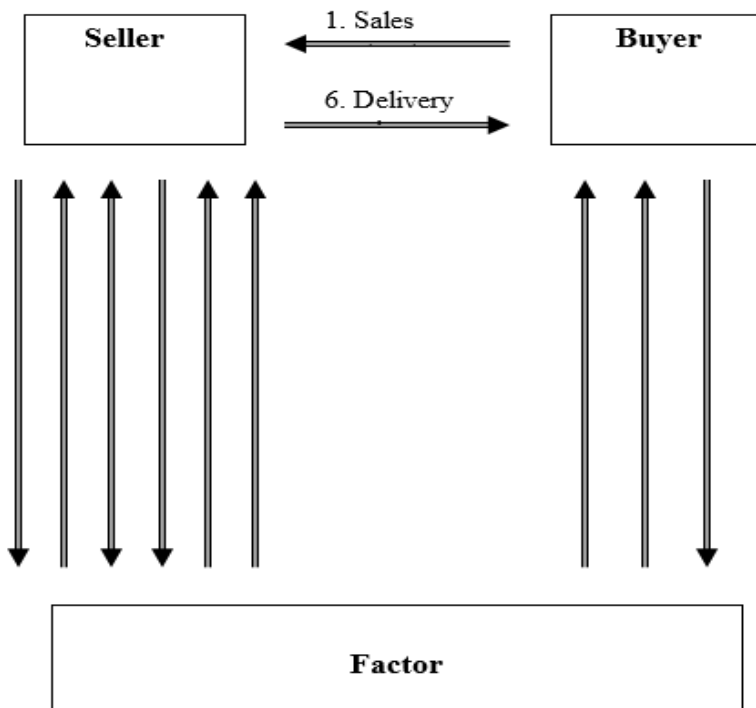
In the past, when an enterprise employed the services of a factor, it was considered a sign that the respective enterprise was in financial difficulties. These days, however, the perception has changed, and factoring is considered a normal way to do business and a viable cash management technique.

**Table II.1:** Comparison Domestic and International factoring

DOMESTIC FACTORING	INTERNATIONAL FACTORING
a) The Factor will often operate the sales ledger in one currency only, against which advances can be made.	a) The Factor may operate in more than one currency, if that is how the seller is making sales. Advances will generally be made in the currency of the invoice.
b) The Factor can be responsible both for credit control and acceptance of credit risk.	b) Under the two-factor system the Export Factor provides credit risk protection to the seller, this is underwritten by the Import Factor who is also responsible for local credit control.
c) It can be common for the business to be transacted on a recourse basis i.e. without the Factor assuming the credit risk.	c) Most business is transacted on a non-recourse basis with the Factor assuming credit risk on behalf of the seller.
d) The Factor, seller and buyer are all covered by one legal system.	d) The law of at least two countries will be involved in the relationship.
e) The Factor, seller and buyer will all be familiar with local trading conventions and language.	e) The local trading conventions and language will vary from country to country. The two-factor system allows the seller to make use of the local market skills of the Import Factor.
f) The Factor is responsible for collection of payments from the buyer.	f) In the two-factor system, the Import Factor is responsible for collections.
g) The quality of service provided to the seller depends upon the Factor alone.	g) In the two-factor system, the quality of service provided to the seller is to a large part dependent upon the Import Factor, which illustrates perfectly the need for an agreed set of rules or code so that both Import Factor and Export Factor can establish a consistent level of service to the seller.

Source: Jeroen Kohnstam – Secretary General of FCI – International factoring workshop 2005, pg 3

**Table II.3:** The one factor system



- (1) Buyer places order to the seller
- (2) Seller requests Factors to assign the invoice
- (3) Factors access buyer’s creditworthiness
- (4) Factor approve for financing the invoice.
- (5) Seller and Factor signs the factoring contract

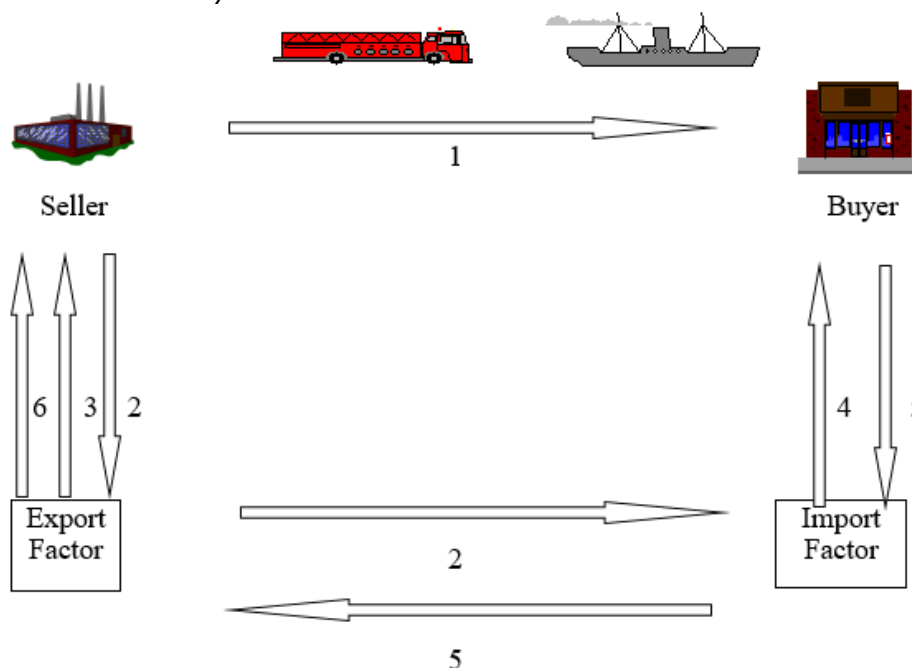
- (6) Seller supplies goods to Buyer and issues invoice
- (7) Sellers transfer his invoice to Factor
- (8) Factor make agreed financial advance again approve invoice to the Seller
- (9) The factor collect outstanding invoice from Buyer at the invoice’s due date
- (10) The Buyer pays to Factor
- (11) Factor settles the pre- payment by remitting the remains to the Seller less the agreed charge.

**II.1.5.2.The two - factor system:**

An international factoring transaction involves a number of elements that differentiate it from a domestic factoring transaction. The most important differentiations are the possibly different languages of the parties to the sales contract and the difficulty in assessing the credit standing of a foreign party. In answer to these considerations, the two factor system was developed. The two factor system popularly used in international factoring means cooperation between the two factoring companies, one in the seller’s country – export Factor and one in the Buyer’s country – Import factor.

The system involves three agreements, one between the exporter and the importer, one between the export factor and the exporter and one between the factors themselves. It is important to bear in mind that the import factor’s obligations are to the export factor only and they include determining the importer’s credit rating as well as the actual collection of the debts. The import factor assumes the credit risk in relation to approved debts and is responsible for the transfer of funds to the export factor. On the other hand, the export factor is responsible to the import factor for the acceptance of any recourse.

**Table I1.4:** The two factor system



Source: FCI

- (1). The seller delivers goods to his buyers based in their sales contract.
- (2). The seller assigns his invoices through the Export Factor to the Import Factor, who assumes the credit risk (provided this has been agreed beforehand).
- (3). The Export Factor advance cash against approved invoices to the seller.
- (4). The Import Factor collects the outstanding invoices in accordance with the sales contract’s term existing between the seller and the buyer.
- (5). The buyer pays to the Import Factor, who then transfers the amount to the Export Factor.
- (6). Th Export Factor then settles the pre-payent by remitting the remains to the seller less the agreed charges.



The two-factor system has various advantages. The main ones concentrate in efficiency and speed. The import factor is in a better situation to assess the credit capabilities of the importer and communicate effectively with him. Moreover, he knows the legal and business environment in the country so that he can handle the collection through the Courts of the buyer’s country in case of any default. The elements make the system preferable to the exporter is that he can receive local expertise in each of his export countries and can be confident as his buyer can deal with a Factoring in their own countries with their own language. Further, use of this system can help in reducing the exchange risk involved in international trade by speeding up the circulation of funds. The speedier the flow of funds from the buyer to the seller, the smaller the risk of exchange rate fluctuations between the date of shipment and the date of payment.

As there are more parties involved than the one system factor, the speed of response on matter such as credit lines, transfer of cash and dispute can suffer. The high cost due to the charges required from 2 both factors is mentioned as one of its disadvantage. However, the real benefit of local collection as well as credit cover should not be overlooked when calculating the true cost of the service.

In short, it is surely said that the Two - factor system is a simple, flexible and cost effective method of managing cross border accounts receivables.

**Outlook of World factoring**

UNIDROIT- Convention on international factoring in Ottawa dated 28 May 1988 and General Rule for international factoring (GRIF) under FCI are considered as the main applicable law for the worldwide factoring practice. The GRIF have become the world's most widely recognized legal framework for international factoring. The GRIF is the standard for correspondent factoring relationships and probably more than 90% of the world's cross border factoring volume has been governed by those rules, since the GRIF’s introduction in July 2002.

Factoring is increasingly playing important roles in international commercial through the significant growth in turnover and number of factors year by year.

**Figure III.1:** World Factored volume

*Unit: Millions of EUR*

Year	World domestic factoring	World international factoring	Total
2005	930,061	84,486	1,014,547
2006	1,030,590	103,690	1,134,280
2007	1,153,131	145,996	1,299,127
2008	1,148,943	176,168	1,325,111
2009	1,118,100	165,459	1,283,559
2010	1,402,331	245,898	1,648,229

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

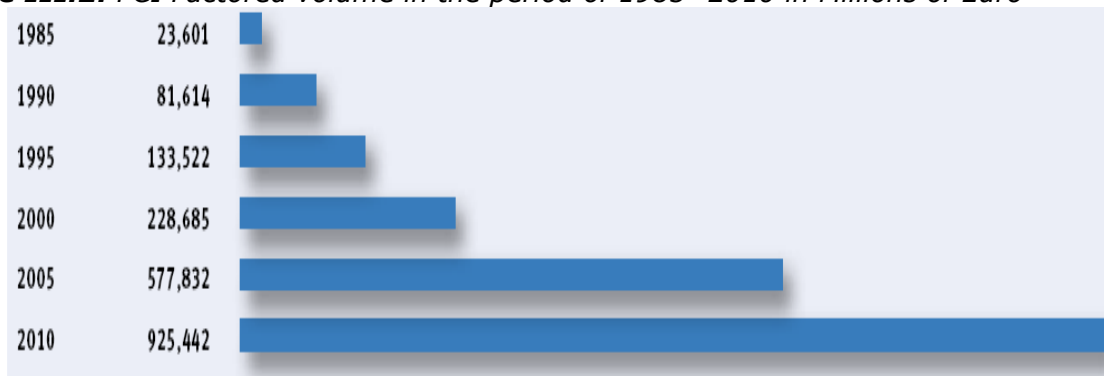
It is clearly to see that due to the finance crisis during year 2008 causing the consequent in 2009, the factoring volume is decreased 3.14% in 2009 than 2008 while from 2005 to 2008, it was always increasing with time. However, year 2010 was remarked the returns of factoring volume development as before with a 20% growth in domestic factoring and 34% growth in international factoring. The total world-factoring turnover reached EUR 1,648,229.00 in 2010, against 28.41% in 2009.

Looking the figure, the proportion of international factoring is quite smaller than the domestic one. However, the gap between international and domestic ones is reduced annually. While the domestic market seems in downtrend in 2008 ( recorded in -0.36% in comparison with 2007), the international market still have the high rate growth of 20.67% and lead the increase in the whole factoring market of 2%. Moreover, in 2010, this volume soared up to 48.62% in comparison with one in 2009. It’s believed that the rate will be highly increased due to acknowledge of the parties in international trade. It is clearly stated that international factoring is the future of factoring.

In respect of client of factors, it was shown that SMEs sector is the largest volume with proportion of 83.2%.

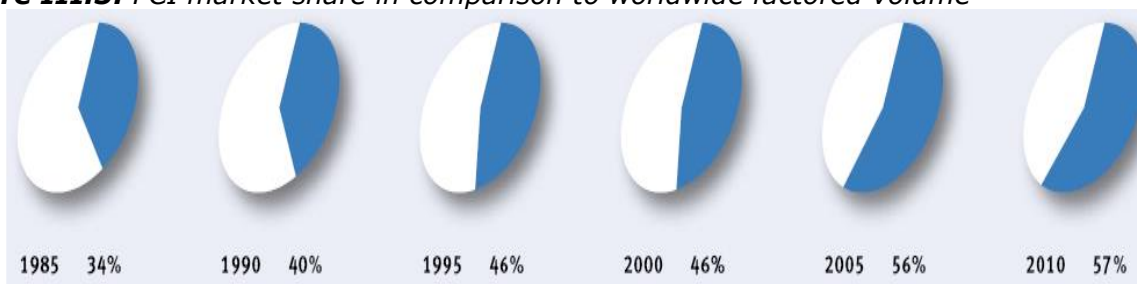
FCI – the world largest factoring network counts 247 factors from 66 countries plays more important role in worldwide factoring, counts for nearly 60% of world factoring volume in 2010 whereas the figure was only 34% in 1985. The below figures show FCI’s factored volume as well as market share in comparison worldwide factoring market.

**Figure III.2:** FCI Factored volume in the period of 1985- 2010 in Millions of Euro



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

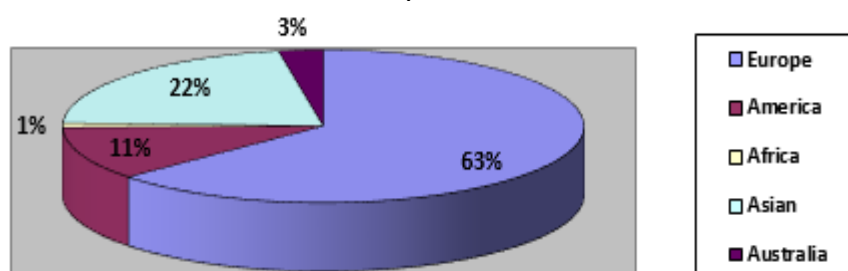
**Figure III.3:** FCI market share in comparison to worldwide factored volume



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

In the respect of continents, Europe is the biggest market with the market share of 63%. The followers are Asian (count for 22%), America with 11% and finally is Australia and Africa.

**Figure III.4:** Factor volume- market share by continent



Source: FCI website

Factoring service in Kosovo only penetrated into this market in 2005. The turnover of factoring service in Kosovo is the smallest one in among Europe. The author will take overview Kosovo’s factoring industry in the next section.

**Overview factoring industry in Kosovo**

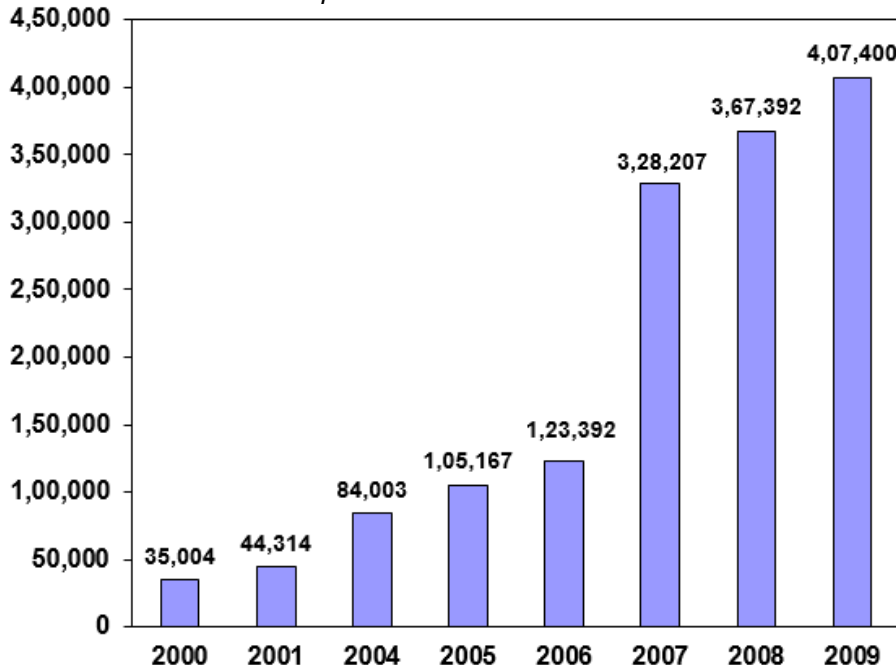
**Assessment for potential developing factoring for SMEs in Kosovo**

**SMEs growth and its characteristic:**

As mentioned in section I.2, huge demands from SMEs is one of attraction for develop factoring. The author will take a look for current situation of SMEs as well as its characteristic for evaluate potential for developing factoring for a whole country.

Many laws such as company law, private enterprises law, co-operative law, home investment promotion law, civil law, and commercial law had been passed to create a favorable environment for the development of SMEs. As a result, SME in Kosovo have developed, not only in term of quantity but also in terms of structure and quality of performance. The increase quantity of SMEs in Kosovo business type will be shown in the following chart

**Figure III.5:** Volume of SMEs in the period 2000 – 2009



**Source:** Agency of Statistics

The SMEs had developed remarkably over the past decade, especially in 2007, the total SMEs reached 328,207 enterprises, double with the ones in 2006 and count for 94% of total registered enterprises in Kosovo. Although, year 2008 and begin 2009, Kosovo was still affected by finance crisis, the number of new SME kept increasing. The number of SME increased 12.2% in 2008 and 10.8% in 2009 respectively.

With such high growth rate, Kosovoese SMEs have strongly provided a large number of diversified products, occupied 60 percent of GDP and 45 percent of industrial outputs. Moreover, they have also created jobs for 4.5 million people; mobilized temporarily unused resources such as land, capital, labor and management skills to develop production, and increased export volume and lessening trade deficits. The booming of SMEs in Kosovo creates such huge potential customers for developing factoring in Kosovo as mentioned in Section I.2.

According to SBK’s report, SMEs make up 95% of all registered enterprises nationwide, but they have been beset with problems accessing credit. Outstanding loans to SMEs was for 27% of total outstanding loans. This implies that SMEs have found difficulties on the way to development due to difficulties on obtaining financial resources.

Freeman and Le (2007) designed a survey to research about SMEs in Kosovo comprising 197 enterprises at 3 provinces at North of Kosovo (Mitrovica) to analysis SME’s obstacles to gain access to bank loan. It is proved that the main constraint that the bank refuse to grant credit to SMEs is lack of enough collateral (marked 3.94 in benchmark of 5 as greatest obstacle) and too high interest rate<sup>1</sup>.

Also according to the same survey, SMEs’ awareness and understanding of external finance resources seems quite limited. Almost all enterprises immediately think of bank loans when they need more capital for business expansion, even though there are many other forms of funding available, such as financial leasing, factoring and venture capital funds. However, up to 45% of enterprises surveyed said that they knew nothing about leasing and 60% did not know about

<sup>1</sup> The detail of these obstacles will be shown in appendix 2.

factoring. This knowledge constraint needs to be overcome because, in addition to bank loans, other financial resources can also serve as effective capital mobilization channels. Especially factoring, as it can be eliminated the constraint of lack of collateral for SMEs when applying. Furthermore, factoring is competitive due to its additional service of collection of A/R and maintenance of sales ledger or event payment guarantee in case of credit default.

In short, Kosovo business matches the characteristic of huge demands for factoring service. Besides, the most obstacle for SMEs in Kosovo the same in the world is limit to access to finance due to inefficiency collateral. Therefore, it is emphasized that Kosovo has potential environment for developing factoring.

**Legal framework:**

All basic issues related to factoring activities were defined with law No.02/L-123 accepted by The state Bank of Kosovo (SBK). Then due to realizing some insufficiencies in this law, SBK issued the revision and make some changes No 04/L- 006 of Regulations on factoring operation of credit organizations. Some mains amendment briefly introduced as followed table:

**Table III.1: Amendment**

Article 2:	Factoring operation is only applied for receivables that derived directly from sales contract, not mentioned the case of providing services. In fact that service is on the uptrend and has many advantages for development. Therefore, factoring service should be allowed to use with receivables that derived from service contract and <b><i>in Decision 30, this matter has already adjusted.</i></b>
Items c, d, đ, e under provision 1 article 13	The decision shown that : (c) factors and the seller agree and sign factoring contract, (d). Both factors and seller agree to sign and then send to buyer and related parties a written document to notify about their factoring contract, in which stating clearly that the seller transfers debt collection to factors and guiding buyer pay directly to factors; (đ). Buyer sends a written document to Seller and factors to confirm by upon receipt and commits paying debt to factors; (e). Then the Seller sends to factors original sales contract, shipping documents and other related documents. These regulations create difficulties to Kosovoese credit institutions on performing factoring operation. When seller and factors agree to send to buyer their factoring contract but buyer does not agree and send confirmed documents in returns. This is a problem for seller and factors as it is illegal for this service without the buyer's confirmation. <b><i>Reliable this limits, the new one has regulated that in case the buyer do not confirmed in return, the factoring contract between factor and the Seller still has valid if they are willingness continuously carry out and have to be bear for all arisen risks.</i></b>

However, the Decisions are only contained basic issue of factoring such as definition of factoring, regulation about factoring contact, factor limits. As stated, the most consideration for legal framework for factoring is the transfer of ownership of debt and the rights of creditors in case of default payment. However, these Decisions do not regulate procedures for protecting creditor rights, legal recourse to recover overdue payments as well. Kosovoese factors will feel discreet when implementing this service accordingly.

Although the legal framework on factoring is still insufficiencies and limitation, it also create fundamental for startup a new factoring industry in Kosovo and bring potential for developing factoring in Kosovo. Furthermore, revision the first decision law No.02/L-123 SBK has remarked the concerns of SBK for developing this service in Kosovo.

In conclusion, a reformation of business environment with booming in quantity of SMEs and SMEs' obstacle in access outsource finance as well as fundamental legal framework specific for factoring service create good potential market for developing factoring in Kosovo.

**Current situation of factoring industry in Kosovo**

As factoring service has just implemented in Kosovo, the transaction volume and the variety of this service is limited. However, factoring is one of the financial – banking commitments and it will be strongly develop in the near future in Kosovo

The issuance of law No.02/L-123 and 04/L- 006 of promulgating the regulation on factoring operation by credit institutions by the governor of the State Bank of Kosovo created the premises for developing factoring service in Kosovo. According to that, financial institutes started to implement and develop this service in Kosovo market. And up to 2005, factoring service is officially established in Kosovo.

There are ten (10) banks that are operating nowadays in banking system in Kosovo, representing 69.0 percent of the total assets in the financial sector. Their products and services include banking accounts, loans, domestic and international payments, banking cards, banking guarantees, letter of credit, e-banking. The access to these services it is enabled through 263 branches and sub branches, 540 ATM's, 9,493 POS and 196,656 e-banking accounts.

Their activity is dominated by loans and the maturity can be up to 15 years, depending on the type of loan. 65.2 percent of the total loans are loans to enterprises. Most of these loans are absorbed by trading enterprises sector (51.8 percent of loans to enterprises), whereas loans issued to the industrial sector (including mines, production, energy and construction) compose 23.0 percent of total loans to enterprises. The agricultural sector represents 4.0 percent of total loans. The household loans participation is 34.4 percent of total loans.

The structure of banking sector liabilities is dominated by deposits, which represent 80.2 percent of total liabilities. Deposits at the banking sectors have recorded an annual growth of 46.45 percent, amounting at euro 2.7 billion. Deposits in the banking sector consist of household deposits, which participate with a share of 74.4 percent in total deposits, whereas the deposits of private sector enterprises compose 17.5 percent of total deposits.

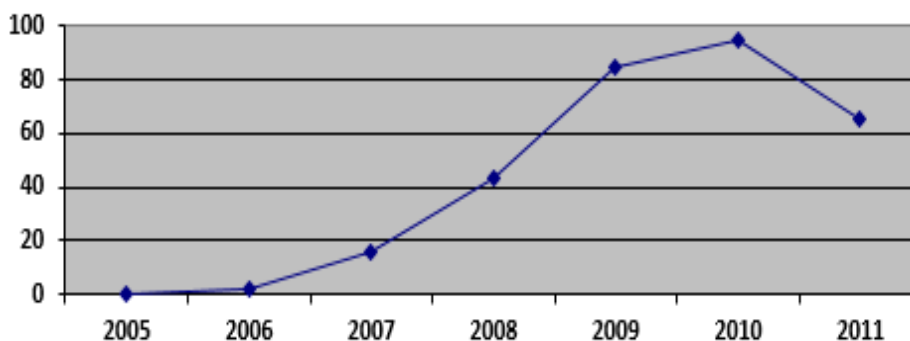
Commercial banks in Kosovo have different shareholding structure. Eight of them are foreign-owned banks and two domestically owned.

There are 3,337 commercial banks employees.( <http://bankassoc-kos.com/>)

Currently, there are: State bank of Kosovo, Banka ekonomike, Banka kombëtare tregtare, Banka për biznes, Türkiye iş bankası, Nlb, Procredit bank, Raiffeisen bank, Teb bank and T.c. ziraat bankasi a.s. – dega ne kosovë

**Figure III.7:** Kosovo’s factoring volume from 2005 – 2011

Unit: thousands of EUR



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

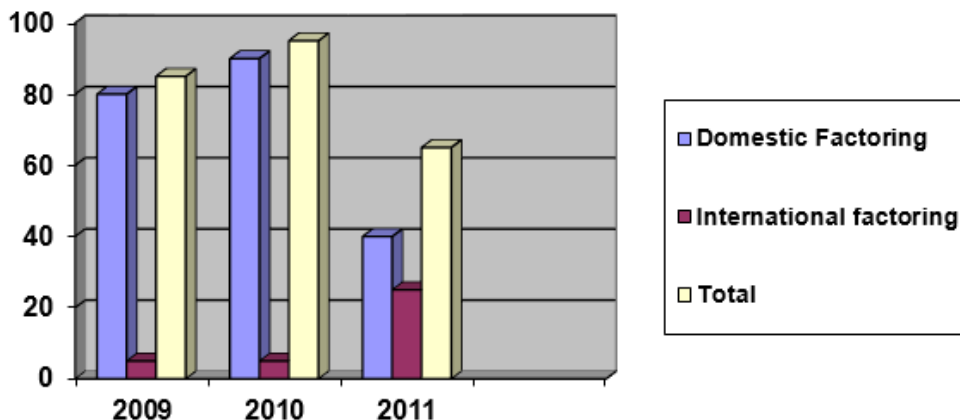
As FCI’s report, Kosovo’s factoring volume increased 05.77% - the significant high growth among developed countries in Europe. In the fact that it’s really a small figure in comparison to other countries in the religion. However, it can be considered the significant development for Kosovo’s factoring market, especially in the difficult situations during world financial crisis.

The same as world factoring, the total international factoring in Kosovo counted such small rate than domestic ones. In 2010, domestic factoring turnover was bigger than international one. It

may be explain due to the first phase of implementation and the limit of agent relationship with international factors

**Figure III.8:** Factoring volume in Kosovo from 2009-2011

Unit: Thousands of EUR



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

Although the registered factors increased in banking system in Kosovo, not all of the factors implement factoring in practical. Among Kosovoese commercial banks, ACB was the best one in factoring implementing in Kosovo. Up to now, ACB has carry out more than 20 contracts. Their main customers were large business among SME clients with annual international sales.

In spite of having favor conditions for developing factoring service in Kosovo as mentioned in II.2, Kosovo’s factoring service is still at the “first phase” of its life cycle. In next section, the author will analyze the difficulties to limit the development of factoring in Kosovo.

**Obstacles for developing factoring service in Kosovo:**

**Firstly,** Kosovoese SME get familiar with traditional payment such as telegraphic transfer, or L/C. Low SME’s acknowledgement as well as unstable business environment leads the difficulties for factors to persuade customers to use the new services, especially for exports. Therefore, the lack of awareness of Kosovoese customers about factoring service caused the limitation for implementing factoring in Kosovo.

**Secondly,** credit information system is inefficient and nontransparent. Kosovo currently has only Credit Information centre (CIC) under SBK which are provided information for credit activities. However, the source is not enough and timely in order to meet the needs from financial institution whereas implementing factoring requires precise and opportune information. It takes time for factors to credit worthiness enterprises and delay countersign- factoring contract accordingly

**Finally,** it derives from internal commercial banks. Kosovoese commercial banks are limited implementing advertisings for factoring services to increase customers’ awareness about this service. After launching the service, only ACB, Raiffeisen bank, PRO CREDIT BANK and foreign banks has given introduction of factoring service in their website with cursory contents. Whereas NLB, which already announced to launch this products since 2005 still has not given any introduction about this service in their website up til now. With such a new and useful financial service as factoring, commercial banks spending such a little advertising cannot attract customers to use the service. Moreover, lack of skillful staff who well- understand the factoring service and then consult to the customers as well as low banking technology are also considered obstacles for developing this service in Kosovo

As one of the pioneers joining factoring market in early 2005 and gaining the same general advantages as well as external obstacles for developing factoring service as ACB and Raiffeisen bank, PRO CREDIT BANK has not achieved any result up to now. In the next chapter, we will analysis the limitations of PRO CREDIT BANK in deploying the factoring service.



## Overview about PRO CREDIT BANK

ProCredit Bank sh.a. Kosovo ("the Bank") was founded on 9 December 1999, and began operations on 12 January 2000 established by a group of international investors (PRO CREDIT BANK), the Bank has nearly 16-year operation and development to build up their reputation in Kosovo's financial and banking industry. From the opening of the bank in Kosovo until now, PRO CREDIT BANK after almost 16 years presented chartered capital of 61.346.210 euro as a nominal value, making PRO CREDIT BANK one of the large scope banks in Kosovo. PRO CREDIT BANK's network has expanded to almost all of cities and province nationwide with around 64 branches in Kosovo.

At the time of establishing in 2000, while SOCB had advantage to define big corporation as their target customers, PRO CREDIT BANK with a tiny capital had no choice other than define SME as their target one. Moreover, the role of SMEs is increasingly important segment with highest growth potential and playing an important role in creating the momentum for social-economic in Kosovo since the law No.02/L-123 and 04/L- 006. On that basis, PRO CREDIT BANK still keep its customer strategy that SMEs are the core target market, while large enterprises are the niche market to be conquered.

In consultation with McKinsey, PRO CREDIT BANK established the SME Division and started to open branches for specializing banking service and activities based on target customers.

For PRO CREDIT BANK, 2010 was a transformational year as the Bank has been implementing **their long-term strategy** consulted by McKinsey from 2009 to 2014 **to become the best bank and leading enterprise in Kosovo by 2014**. Despite the financial instability and transitional dynamics, PRO CREDIT BANK overcame successfully and achieved its business targets of this year thanks to their strong financial capacity and proper and flexible management

**Figure IV.1:** Financial highlight at PRO CREDIT BANK from 2013- 2015

Unit: thousands Euro

Year	2013	2014	2015
<b>Total Asset</b>	758.454	776.867	791.793
<b>Charter capital</b>	779.584	797.582	799.582
<b>Pretax Profit</b>	11.504	16.669	20.583
<b>Net Profit</b>	10.353	25.102	26.548
<b>ROA (%)</b>	1.9	3.2	3.3
<b>ROE (%)</b>	18	29.8	27.7

Source: PRO CREDIT BANK annual reports

It is clearly to say that both total assets and turnover at PRO CREDIT BANK has the annual growth rate of over 15%. By the end of 2015, the total assets of PRO CREDIT BANK reached over Euro thousands 791,793. With this figure, it helps PRO CREDIT BANK to become the second biggest CBs in term of total assets.

Ending fiscal year 2010, charter capital increased from Euro thousands 797.508 to Euro thousands 799.582. Although ROE was higher and ROA in 2015 was lower than previous years, PRO CREDIT BANK still maintain the top position among CBs in term of these profitability ratios. Thanks to the strong supports by shareholders, PRO CREDIT BANK successfully issued 10 million worth of convertible bonds, thus improving its financial capacity, as evidenced by its high capital adequacy ratio (CAR), far exceeded the SBK's requirement.

## Deposit

PRO CREDIT BANK continues expand and create a strong funding base in recent years. Customer deposits as at 31 December 2015 amounted to Euro thousands 677.176, representing an increase of 10.2% over the previous year's Euro thousands 661,510 The increase in customer deposits in the year was mainly attributable to PRO CREDIT BANK's success in mobilizing funds from individuals.

## Credit

In line with the Government's objective to maintain low credit growth for the entire banking sector, PRO CREDIT BANK curtailed its lending growth to 29.2% from last year. The credit growth maintained with significantly improved credit quality, while bad debts are well handled. PRO

CREDIT BANK managed to reduce non-performing loans (NPLs) successfully to 4.29% from 4.15%. SMEs lending increased for nearly 30% of total loan and advance to customers, while corporate lending decreased by 20.6%.

### **Information technology**

Information technology is a field that PRO CREDIT BANK always focused on in order to catch up to the development trend of modern banking. They have also implemented 24/7 Zones at 46 locations all across Kosovo, allowing clients to access numerous banking services around the clock. They implemented e-banking, sms services, ATM services and call center. With the 3-D Secure security platform (verified by Visa, Master Card Secure Code), PRO CREDIT BANK has created a safe environment to launch this electronic service on the Kosovo market.

### **Human resource**

A strong human resource is an important basic to businesses that can develop quickly and sustainably. With that point of view, in recent years, PRO CREDIT BANK has been building high-qualified teamwork as well as improving treatment policy. Under the guidance of the Board of Directors, PRO CREDIT BANK's workforce constantly growing up. Noteworthy, they conducted 107 external training courses; and completed performance assessment on their employees. As part of our contribution to financial education efforts in Kosovo, we not only provide students with the opportunity to fulfill university requirements, but also offer them a chance to become part of an ethical institution that dedicates to responsible banking. We therefore welcome qualified students to apply for our internship program, where they can gain valuable practical experience at our branches, service centers or head office. PCB offers this opportunity twice a year (from January until March and from June until August). The internships range from one to three months, during which successful applicants will be required to work full-time (40 hours per week). Because internships are part of the mandatory curriculum at some universities, program participants receive a stipend for the duration of the program. PRO CREDIT BANK will continue to leverage on staff capabilities and professionalism as key factors for rapid and sustainable growth.

In summary, PRO CREDIT BANK has channeled all of its brainpower and resources to continuously innovate its products to offer the customers best quality services, and deserve the loyalty of the customers, partners and shareholders.

### **Potential developing factoring for SMEs at PRO CREDIT BANK**

Developing factoring in PRO CREDIT BANK is not only from the opportunity from Kosovoese economy in general as mentioned in Section II.2.1 but also derived from strength inside the organization.

**First of all**, as mentioned in above section, SMEs are the most appropriate for Factoring and that's the biggest advantage for PRO CREDIT BANK to develop this service as SMEs are their targeted customers.

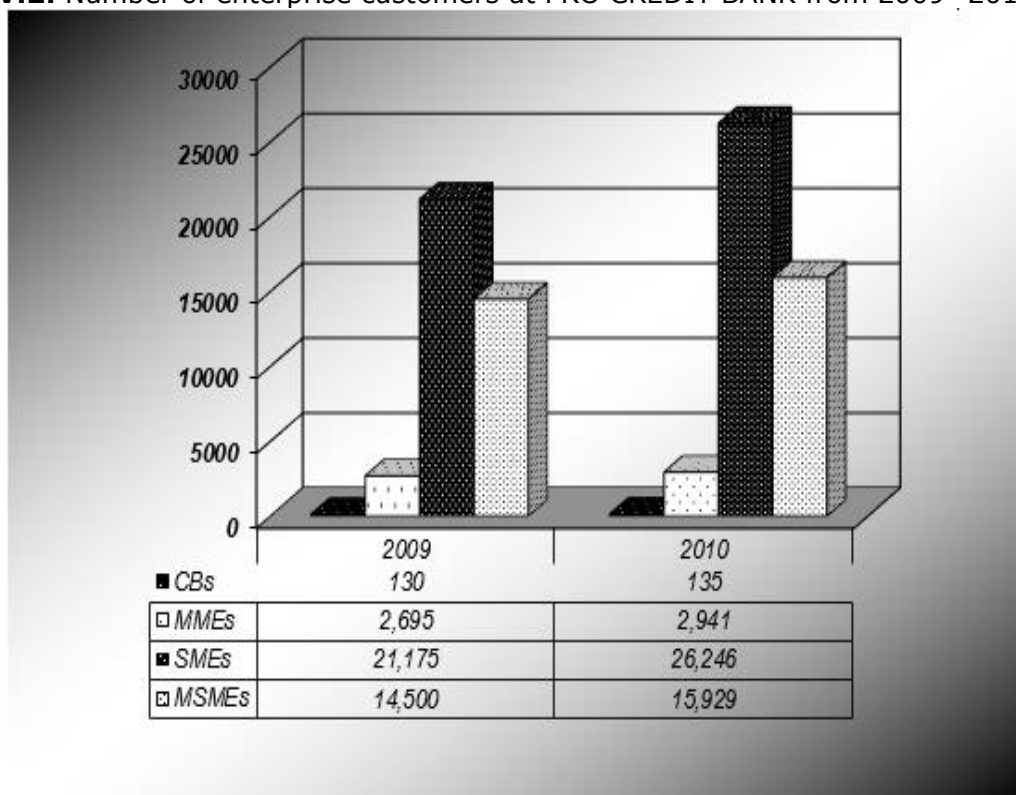
PRO CREDIT BANK use the total turnover as criteria to divide enterprise segments, according to that the definition of PRO CREDIT BANK is a little bit difference in comparison with the definition of SME law No.02/L-123 and 04/L- 006 as mentioned above. According to that category, PRO CREDIT BANK divides their enterprise customers into 2 main divisions:

- CB division includes only big corporate: Enterprises which has total turnover from operation is exceeded Euro 50.000
- SME Division includes:
  - MMEs (Mid- market enterprises): Enterprises which has total turnover from operation is from Euro 10 thousand to 50 thousand
  - SMEs (Small and medium enterprises): Enterprises which has total turnover from operation is from Euro 1 thousand to 10 thousand
  - MSMEs- Micro Small and Medium enterprises: Enterprises or family business that has total turnover from operation is lower Euro 1.00 thousand

Up to end of 2010, PRO CREDIT BANK has nearly 25,252 corporate customers, up 19% against 2009. SME division account for 78% of total business customer base whereas big corporation accounted for only nearly 1% of total. Among of SME division, SME & MME clients continue to be the most important segment for the Bank, making up more than 65% of its business

customers as followed Figure III.2. This is a confirmation of PRO CREDIT BANK 's choice of target customers and carry-out strictly toward their strategy to become the leader Commercial Banks for SME segment.

**Figure IV.2:** Number of enterprise customers at PRO CREDIT BANK from 2009- 2010



Source: PRO CREDIT BANK's Annual report 2009, 2010

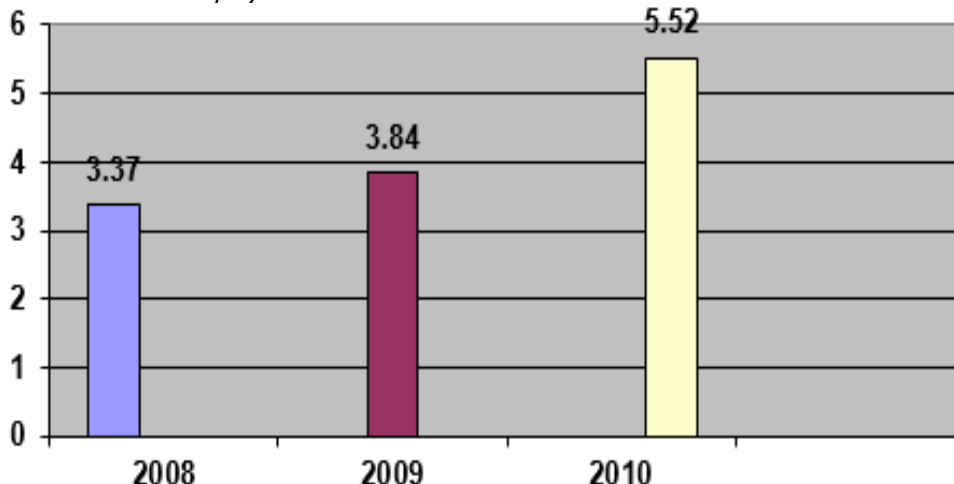
Besides, SME also plays an important role for meeting annual targets at PRO CREDIT BANK. In particular, the Bank's loan outstanding structure adjusted with proper focus on SME customers. In 2010, SME division achieve the loan VND 31,256 thousand, which accounted for 91.1% of total loans outstanding in enterprise customer segment in comparison with 79.9% in 2009. The growth rate of SME loan outstanding in 2010 against 2009 was to 27% as well. Besides, the SME division also posted a deposit growth rate at 32% over 2009, reach to Euro 19,376 thousand.

Looking in detail the development as well as contribution of these SME customers to the Bank, it realized to improve and diversify banking products and services for SMEs is crucial and PRO CREDIT BANK can gain advantage for developing factoring as mentioned in section I.2.1.

**Secondly**, PRO CREDIT BANK tries their effort to cooperate with international and multilateral financial institutions to gain the mobilizing capital for supporting the bank's activities. On 2008, it won a credit contract worth Euro 5 million from the International Finance Corporation (IFC). This World Bank's financial arm will also provide PRO CREDIT BANK with support for import-export activities as well as consultancy on banking services to SME. Moreover, in 2010, PRO CREDIT BANK was successful signed the second long-term loan agreement with Proparco, a subsidiary of the French Development Agency (AFD). PRO CREDIT BANK will leverage this facility to support eligible SME customers in Kosovo. This is also the significant sign to promote appropriate banking service for SMEs in PRO CREDIT BANK, which involved factoring service.

**Thirdly**, turnover of international payment increase over years.

**Figure IV.4:** International payment volume



**Source:** PRO CREDIT BANK’s annual report 2008-2010

Total turnover increased 43.9% in comparison with end of 2009. The total international payment fee increased with such significant high rate of 44.1% in 2010. It proved that customers’ trust and international payment’s demands would be gone up more in the near future. In international business, trade financing is increasingly required from Importers. In order to gain the competitiveness, Exporters accept to offer credit to Importers. In addition, as mentioned in chapter II, international factoring is a choice for Exporters to deal with trade financing to Importers when integrating global market. Furthermore, providing more banking service to customers to bring in valuable chain, as a whole is crucial for PRO CREDIT BANK to supports their customers to maintain their reliability as well as attract new customers.

In general, implementing factoring service in PRO CREDIT BANK is both objective and subjective demands. In next section, we will review the actual factoring practice for SMEs at PRO CREDIT BANK.

**Current situation of factoring services at PRO CREDIT BANK**

PRO CREDIT BANK prepared to apply factoring service in early 2005. Launching a new product require a lot of activities and resource, a variety of initial activities were needed to be taken into account to set up a new product for example Accounting, technology, credit management, risk management and marketing. Many departments need to take part in the project, accounting department involve in building method to record factoring transaction and information. IT department involve in setting up software parameter and versions to input factoring data and creating report for daily job and for management purposes. Credit management department handle all aspects of crediting relevant to the product. Marketing department responsible for investigating customer’s need and feedback about the factoring product that they expect, giving information about the product to the press circle and public relations.

For this requirement at the first phase of research this service, it is suggested to create a cross function team that member are from all relevant professional departments. Members were responsible for their department’s part in the project meanwhile they worked together to handle common tasks of the project. At the same time, they are still responsible for their current job. Reports made directly to the team leader and direct bosses. Information was shared and transparent to all relevant departments to get the best result of the product.

Table III.1 shows the structure of factoring team in PRO CREDIT BANK at the start phase during 2005-2006

**Table IV.1:** Structure of factoring team at the start phase



Source: PRO CREDIT BANK

With the efforts of all project members as well as supports from BOM, PRO CREDIT BANK has created general rules for factoring service as well as to built factoring management process and launching product to markets and been officially approval for factoring service in 2005 by SBK. Moreover, they successfully became a member of FCI.

**PRO CREDIT BANK’s factoring general rules and products:**

Firstly, Factoring is banking service in which the Seller or Seller’s factor assigns to PRO CREDIT BANK property of short term A/R (not exceeded 180 days deferred A/R) and/or related rights to this AR derived from legitimacy products/service between The Seller and Buyer. PRO CREDIT BANK will provide at least 2 functions in among below ones:

- Receivable ledgering
- Financing
- Collection of receivables
- Protection against bad debt

Secondly, PRO CREDIT BANK will refuse the below listed A/R as objectives of factoring service:

- A/R between members under corporation or between companies and its subsidiaries or dependence accountant enterprises
- A/R from enterprises who has parallel credit-debit relationships
- A/R derives from assignment contract
- A/R is over due date in sales contract
- A/R is already mortgaged or collated

Thirdly, Kosovoese local law and GRIF of FCI will adjust factoring implementation.

Fourthly, factoring commission will define as the rate applied at the date of countersign AR transferable between PRO CREDIT BANK and its customer. In addition, financing discount rate will be determined as applied short-term rate in the whole PRO CREDIT BANK at the date of PRO CREDIT BANK’s notify to accept give advance to Seller.

PRO CREDIT BANK currently offers 3 kinds of factoring services to their customers including:

- Domestic factoring
- Export factoring: recourse and notify one
- Import factoring

**Factoring procedures:**

They are the same as the one and two factor mechanics applied worldwide



**Domestic factoring procedures:**

- (1) The Seller propose for factoring contract with PRO CREDIT BANK
- (2) PRO CREDIT BANK analysis A/R, business activities and financial capacity of Seller and Buyer
- (3) PRO CREDIT BANK and Seller agree to sign the factoring contract
- (4) PRO CREDIT BANK and Seller send notify to the Buyer about factoring contract and other related partners, in which shown clearly that the seller assign AR and all related rights and benefits of AR to PRO CREDIT BANK as well as instruct Seller directly pay to PRO CREDIT BANK at due date
- (5) The Seller sends written confirmation to Seller and PRO CREDIT BANK about receipt of notice and guarantee for payment to PRO CREDIT BANK
- (6) The Sellers transfer sales contract, purchasing documents and other related documents to A/R to PRO CREDIT BANK
- (7) PRO CREDIT BANK gives advance payment to Seller as agreement in factoring contract
- (8) PRO CREDIT BANK follows up A/R, collect A/R at the due date
- (9) PRO CREDIT BANK pays to seller after deduction advance one.
- (10) Settle all arisen problems

**Export factoring procedures:** It' nearly the same as domestic procedures, but the procedure is implemented via the import factor as well. IF must be a member of IFC. IFC's counterpart is in charge of credit worthiness importer, collect payment as mandatory of PRO CREDIT BANK and guarantee to payment of importer in case of credit default in payment by importer

- (1) Exporter gives proposal to sign factoring contract with PRO CREDIT BANK
- (2) PRO CREDIT BANK credit worthiness exporter about provide goods capacity, his prestige with the importer
- (3) PRO CREDIT BANK find import factor at the importer's domestic
- (4) Import factor (IF) will creditworthiness importer, especially credit risk and agree with credit approval , sign factoring contract with PRO CREDIT BANK
- (5) PRO CREDIT BANK will sign factoring contract with Exporter
- (6) Right after export deliver goods to importer, he will transfer all shipping documents to PRO CREDIT BANK and PRO CREDIT BANK will discount bill at defined rate in factoring contract to him
- (7) IF collect debt at the due date and refund to PRO CREDIT BANK after deduction its fee

**Import factoring procedure:** In basically, its procedure is the same as Exporting factoring one, but the role of PRO CREDIT BANK changed from EF to IF who is responsible for credit worthiness importer, collect payment as mandatory of EF and payment guarantee to EF in case of credit default.

**Result of implementing factoring service IN PRO CREDIT BANK**

Notwithstanding to above, factoring service in PRO CREDIT BANK seems to be in "zero" step. As up to now, they have not implemented any domestic factoring as well as international one. There was only one real case of export factoring come to PRO CREDIT BANK's Head transaction centre in April 2007: one SME wanted to do factoring for their A/R from sales contract with Russian importer but its transaction was not successful. The main reason is the disagreement between PRO CREDIT BANK's customer and its Importer from Russia on the A/R assignment and resulted in the unacceptable of IF for payment guarantee accordingly. According to the credit officer who directly handled this case, she said that "*I met a lot of troubles in implementing factoring service with customers due to my limitation of acknowledge about factoring services and the inexperience of customer in doing international transaction*".

In fact, that, factoring project team created the clues for implementing factoring service in PRO CREDIT BANK. However, after launching this service to the market, PRO CREDIT BANK has not set up the specialized factoring department to promote this service. By the end of year 2005, there were some changes in personnel in factoring team as some member of this project had leaved PRO CREDIT BANK to move to other finance institutions and most of remained members were very busy for their current works. Besides that, the leader of project had to be in charge of another project while his current department (Credit management dept.) is in peak season of works. Consequently, both manager and staffs of the team could not give a considerable



contribution to the project any longer. In addition, after nearly a year, they could not reach any contract, in end 2006, all project members came back to their initial departments. Factoring service seemed to be slowly "sinking" at PRO CREDIT BANK. All training for this service takes place at orientation program for new comers with cursory information. According to that, factoring is not familiar with PRO CREDIT BANK's officers. In addition, the officer who took over this mentioned case met the same trouble. It took much time for her to do research factoring procedures and general rules at PRO CREDIT BANK as well as GRIF from IFC under instruction of her Manager who used to be a member team of factoring project team. Thanks to her efforts and supports from her management, everything seemed to go smoothly, negotiating with Seller and IF successful. Unfortunately, there was disagreement between PRO CREDIT BANK's customers with its importer, the importer did not accept for requirement of the IF. Finally, this transaction failed as well.

In next section, the author will analyze obstacles for factoring development at PRO CREDIT BANK.

### **Assessments of the obstacles for factoring services at PRO CREDIT BANK**

Although Kosovoese factors meet the same mentioned external constraints, NLB and Raiffeisen Bank, Kosovo are still successful in implementation factoring service and bring benefit to their banks whereas PRO CREDIT BANK cannot access any contracts. This section analyzes the mains constraints derived from PRO CREDIT BANK to limit the development of this service.

**The first reason** came from PRO CREDIT BANK's strategy for developing the factoring service. It is due to at time of launching these products into market end of 2005, the factoring project teams only gave the general procedures for all kind of their clients as well as named factoring products that was appropriate with applicable law. They do not define appropriate products for each phase as well as create the marketing plan for developing factoring at PRO CREDIT BANK. When doing survey about factoring service at PRO CREDIT BANK with 102 their current SME customers (see appendix 4). The author found that among of 102 surveyed enterprises, only 15 of them known about factoring, accounted for 15% of total surveyed ones. It was such a small figure for knowledge of clients about bank service, which has existed since 2005. Correspondent were asked about the information source to know about factoring, 4 of them knew via PRO CREDIT BANK's seminar whereas 3 of them knew via PRO CREDIT BANK's website and the remains knew via other sources ( from another bank, newspaper source about new financial service,...), but almost of they did not know enough about the service.

Moreover, the same as the current situation mentioned in section III.3 of no factoring contract at PRO CREDIT BANK, all respondents has not currently used this factoring service and the main reason for the refusal is not to understand enough about this service. Coming back to the real activities to introduce the factoring service to their clients, PRO CREDIT BANK only held a seminar for factoring service in July 2005 to introduce general information about factoring; PRO CREDIT BANK is factoring products to their 30 chosen customers in Mitrovica. Then in Sep 2005, PRO CREDIT BANK invited 10 of their customers to joined International Factoring workshop conducted by IFC in Prizren to introduce about international factoring. After that, there has been not any seminar about the service. Since then, the customers only knew factoring service via PRO CREDIT BANK's website with cursory information. Marketing plan is extremely crucial for developing any products/ services, especially specification financial service as factoring to gain the awareness of clients then decide whether they use it or not accordingly. However, PRO CREDIT BANK did not make any marketing plan for the products. All they have done is to introduce and make factoring becoming a paper- product at their organization, 'not alive' one. Therefore, the lack of strategy for factoring consider as the obstacle for developing the service at PRO CREDIT BANK.

**Secondly**, human resource management can blame for the failure of implementing factoring service at PRO CREDIT BANK. According to the above section, factoring project team is cross function team. All these members took part in the project as a part time job, in one side they were in charge of works assigned to them by head of the project but in the other side, they might fulfill these task in their current departments, which for most of the situation take all of their working time. This kind of project team helped the product to create and ran in good

condition in many aspects from accounting, marketing, and technology as well as business side. Although this kind of such human resource management help the product to be created and run in good condition in many aspects from accounting, marketing, technology as well as business side – creating the general rules for factoring services, define the variety factoring products at PRO CREDIT BANK as well as launch factoring as new products into market. This kind of human resource management together with some other objective problems had such disadvantage in peak season of CBs when their own department required their fulfill time to contribute. It has resulted in the broken up of this team in early as each member came back to their current department. Accordingly, without any promotion program for developing, all their research for factoring assigned for one officer's responsibility at R& D department. They kept as "paper work" for reference, and Factoring has become "death product" at PRO CREDIT BANK.

As time has passed, factoring has only introduced at orientation program for new comers, it became "paper products" and not much PRO CREDIT BANK staffs know well about them. Taking direct survey interview with 25 credit staffs at PRO CREDIT BANK's Head transaction center (including one manager of credit department; 20% of them works for PRO CREDIT BANK for more than 5 years, 72% of them: worked for PRO CREDIT BANK from 1-5 years and 8% of them in probation time)

- 23 of PRO CREDIT BANK's interviewed staffs equivalent to 92 percent of interviewer sample said that they *"used to hear about factoring service and be sure PRO CREDIT BANK can provide this service"*
- *Among of 92 percent mentioned interviewers below: 78 percent of them know about factoring as a concept and not understanding about its advantages as well as procedure 22 percent remain: they used to read factoring procedures but not quite understand about the products.*

Moreover, the finding of the SME survey ( as appendix 4) also prove more for the constraints of PRO CREDIT BANK's staffs about this service as none of information source coming from consultant of their workforce. It is such quite difficult for a bank to develop their new service with such limit knowledge about factoring from their own workforce. For factoring known as multifunction and finance service, lack of staffs that qualify about the service as well as shortage of specialized training courses lead factoring to become the "death product" at PRO CREDIT BANK.

**Finally**, lack of information about sellers and buyers consider another obstacle for developing factoring in PRO CREDIT BANK. In order to grant credit to the Seller, factors have to do creditworthiness for both Sellers and Buyers to control the purpose of using capital by these involved parties. For domestic factoring, it seems to be the hard work due to the accessibility approach the financial statements from SME and it causes the difficulties in creditworthiness accordingly. For international factoring, factors especially meet difficulties in credit worthiness not only to Seller but also to Buyer, as they have to take the information via IF. The real factoring case in PRO CREDIT BANK also proved for this obstacle as it took much time for their counterpart IF to do creditworthiness the Import, and then the high factoring fee caused the failure of this case.

In short, obstacles for implementing factoring service at PRO CREDIT BANK are mainly due to lack of strategy for factoring service, the human resource management matter and lack of credit information about Sellers and Buyers.

In next Chapter, the author will suggest some recommendation for developing factoring services for SMEs at PRO CREDIT BANK

### **PRO CREDIT BANK's outlook till 2015**

In the period, to 2014, PRO CREDIT BANK strategy focuses on the following core areas:

First: Develop retail banking- Personal Financial service (PFS) as core business, focus on development of Priority Banking Services, improvement and diversification of product packages, expansion of distribution channel and network

Second: For enterprise customers, promote particularizing processes in creating business policy, customer policy for each customer segment: CB and SME **highly concentrate on SMEs** as core target customers.

Third: Continue to build up and improve modern investment bank by developing Subsidiaries.

Forth: Establish international standards in banking governance and management

Fifth: Invest for product innovation and modern banking technology as well as invest in people (recruitment, training and re-training).

### **Suggestions for PRO CREDIT BANK in developing factoring service to SMEs**

As analyzed in Chapter III, PRO CREDIT BANK's factoring has now included many disadvantages in way of developing, within a small master thesis, I would like to propose some recommendation and propose resolutions to concerned government authorities to overcome these shortcomings.

### **Creating marketing program for factoring service at PRO CREDIT BANK (learning experience from ACB and Raiffeisen Bank Kosovo)**

As mentioned in I.3.2, together with PRO CREDIT BANK, Raiffeisen Bank Kosovo and ACB were the pioneers of launching factoring service into market. However, up till now while ACB has such significant domestic factoring and Raiffeisen Bank Kosovo become the leader of international factoring service market in Kosovo, PRO CREDIT BANK has no turnover from this service. It is due to ACB and Raiffeisen Bank Kosovo has defined clearly which appropriate factoring products for their development and set up a marketing campaign to introduce this product into the market. Raiffeisen Bank Kosovo with its strength of international payment activities has chosen export factoring in the first phase of the development whereas ACB defined domestic factoring as their strength to develop. They have concentrated on detailed instruction for each procedure to train to their customers and implement suitable marketing campaign to their customers as well by holding factoring seminar or directly consult to their defined customers. As the result, they have become the Kosovo's commercial bank leader in each kind of products, which they pursued. At that time, as mentioned in III.3.3, PRO CREDIT BANK only created the general rule for implementing factoring and did not defined any suitable products for their first phase development and failed in penetrating the market. As the result, in order to develop factoring service at PRO CREDIT BANK, it is required to apply appropriate marketing plan.

### **Segmentation and Targeting:**

**Target customers:** As mentioned, PRO CREDIT BANK defined SMEs as their core targeted customer. Among of SME division, SMEs and MMEs still plays an important role in PRO CREDIT BANK's outstanding loans as well as contributes turnover to PRO CREDIT BANK. Besides, they're the most appropriate customers for factoring service as mentioned in I.2 with lack of risky than MSEM. According to that, PRO CREDIT BANK continuously defined them as targeted customers for factoring service as well.

However, factoring itself contains risk of default payment from Buyers, therefore, PRO CREDIT BANK highly appreciate the clients ( the Seller) which have commercial relation with high reputation and well payment ability big corporation ( the Buyer) such as multinational corporations, high reputation companies in each industry, big supermarkets or commercial centers, or current Big corporation at PRO CREDIT BANK.

**Positioning:** PRO CREDIT BANK positioned Factoring based on Differentiation "Developing factoring service as the crucial trade financial tool for SMEs and MMEs together with its current variety products"

**Product differentiation:** PRO CREDIT BANK will bring absolute satisfaction to clients and train clients to its factoring service.

Product life cycle: Factoring has just appeared in Viet Nam thus it is at the first phase - introduction phase. Marketing activities aim to create awareness about factoring for clients and focus on opinion leader - targeted customers as mentioned above.

## Marketing program

**Products:** Domestic factoring is the ideal for the new entrants as it limits the risk and cost. The buyers, sellers and factors can directly deal together as well as the credit worthiness, business capacity financial can be accessed more easily, less cost than international one. Therefore, PRO CREDIT BANK in short term should provide domestic with characteristic as followings: "Domestic factoring: reintroduce this product in early time to accumulate experience and market's reaction for further development". During the short-term time, it recommended to concentrate on training staffs to ensure that all related staffs are understand well to factoring and can consult to their customers.

In long term: after 1 year, developing export factoring, to gain extra value added to their current SME customers which are using international payment at PRO CREDIT BANK as well as create more new accounts from other JSCBs competitors as all of JSCBs do not develop this products. To use the knowledge and experience gained from domestic and export factoring, PRO CREDIT BANK can move into import factoring by using the relationship with world factors, which have created during implement, Export ones.

Due to the characteristic of factoring, in order to avoid the risk of conflict between the Seller and Buyer resulted in default payment to factors, PRO CREDIT BANK will provide factoring for products, which are less quality claims or shortage by its current nature during transportation. PRO CREDIT BANK will initially favor offer factoring for industry sector including: consumer goods, raw material, construction material.

**Place:** It based on PRO CREDIT BANK's strength network at religion in local. As the result, North of Kosovo with its current head office will be the targeted market for short- term development.

**Price:** As mentioned, the cost of factoring calculated the sum of financial charge and factoring fee.

Learning experience-factoring cost from current commercial banks, PRO CREDIT BANK set their price at the same level as another banks. Factoring fee for domestic business will be set up at 0.2% (the same as ACB and Raiffeisen Bank Kosovo). Financial charge will be apply flexibly up to quality of clients' A/R and time to collect debts, normally the same as interest charge of short-term bank loans.

Furthermore, in order to gain customers' eagerness for using this service, PRO CREDIT BANK will apply flexible pricing strategies for each phase of its development.

In short term, trial pricing will be highly appreciated as using this technique, a factor can offer a lower factoring fee for the first three months of the agreement to give clients a chance to try the service. If they wish to continue, they would do so at a previous agreed normal price.

In long term, in order to increase clients' factored volume, penetrating pricing applied to set up a table of rate that gives lower prices as the factored volume.

**Promotion:** PRO CREDIT BANK focuses on PR campaigns, using mass media and word – of – mouth communication to get people to know about factoring service

PRO CREDIT BANK divides Marketing Program in phases as follows:

	<b><i>Phase 1</i></b>
<b><i>Time</i></b>	<b><i>July 2011 to December 2011</i></b>
<b><i>Objective</i></b>	Awareness of Factoring service
<b><i>Message</i></b>	Re-launching – Factoring – new trade finance tool with PRO CREDIT BANK
<b><i>Activities</i></b>	Training their own staff for factoring to ensure they can consult to their customers and Factoring became familiar pennon in PRO CREDIT BANK <ul style="list-style-type: none"> <li>- Name list of SME and MME customers and send invitation for factoring seminar</li> <li>- Holding seminar to re-launching factoring service to SME and MME</li> <li>- Media&amp; press: 10 spots (articles, pieces of news, deep interview and analysis)</li> <li>- Channels: Kosovo Economy websites, Kosovo net, Kosovo news, PRO CREDIT BANK’s website etc.                             <ul style="list-style-type: none"> <li>- Some events:</li> </ul> </li> <li>+ Promotion of 25% down for factoring fee to 20 first customers</li> <li>+ Lucky draw program</li> </ul>
<b><i>Expected result</i></b>	Numerous press spots released <ul style="list-style-type: none"> <li>- Appropriate customers will fully join the seminar</li> <li>- Their current customers’ awareness to get to Factoring whenever possible</li> <li>- Customers’ awareness “Factoring – a effective trade financial tool”</li> </ul>
	<b><i>Phase 2</i></b>
<b><i>Time</i></b>	Monthly
<b><i>Objective</i></b>	Keep the pace
<b><i>Message</i></b>	“Ideal destination”
<b><i>Activities</i></b>	Maintaining high quality of product and service
<b><i>Expected result</i></b>	Increasing customer loyalty

There are some specific steps, which help PRO CREDIT BANK restart with Factoring. PRO CREDIT BANK should take the efforts to penetrate the market as well as competition on quality of service, take full advantage of relationship with their current customers – not only target customers of this service ( SMEs and MMEs) but also Big Corporation group. As the more, they can join the factoring seminar and understand about this service the more supports they can advertise to their SME’s vendors via “word of mouth” marketing and gained more customers to PRO CREDIT BANK.

***Establishing a team of full time members and developing training program about factoring***

As mentioned in II.4.2, Human resource for factoring project is cross function team in which all members have to handle their present jobs while fulfilling their tasks in the project. Under the current human resource mechanism of PRO CREDIT BANK, all departments have very tight staff criterion that is strictly enough to cover the whole amount of work of departments. As a result, it is hardly for any staff to handle another work outside their department due to the huge amount of work in his or her department that he or she has to cover. Taking part in the cross function team of factoring project, members’ pressure of the present job together with that of factoring team increased. Therefore, they work ineffectively to both their current job and the project.

To overcome this obstacle, it is advisory to create a factoring team that all members can work full time. They can contribute all their talent and knowledge to the project without dividing their effort into several tasks and become specialists of Factoring. Departments involved in the project can assign their staffs to fully conduct and complete the project. Hence, the effectiveness of the project would be strengthened and consolidated.

In order to save cost, it is not required to have each factoring group at each branch. PRO CREDIT BANK can hold internal training course for factoring service to business officer in PRO CREDIT



BANK's network to be sure, that each branch will have ones whom known well about factoring services and they can handle factoring activities if there are any customers' needs or consult their own customers about appropriable products.

Developing a series of educational programs which provide for a transfer' know-how" from seasoned factoring professional to less experienced staff members is necessary to improve the awareness about factoring from PRO CREDIT BANK's internal staffs. In overall, the factoring team at head office should consider their colleagues as internal customers; always ready to support and reply all questions from branches via case-by-case if requested.

### **Increase Financial capacity for PRO CREDIT BANK:**

Strong and stable financial capacity is the core value and the basic for developing services for all financial institutions including PRO CREDIT BANK. It also plays an important role on providing financing to PRO CREDIT BANK's clients on way of developing factoring. Besides, its own capital as well capital achievement from financial world as mentioned in previous chapter, there are various ways to increase financial capacity for a bank, especially based on breakdown of its equity's components and well- manage NPL:

- By way of issuing additional stocks (normal or redeemable preference shares) or more long-term debt instrument such as convertible bonds to mobilize funds from its current shareholders, the bank can gain an increase of share premium;
- By enhancing NPL management together with setting credit management mechanism for quality to reduce the administration fees for the bad debt as well, increase working capital for PRO CREDIT BANK.

### **Recommendation to SBK**

#### **Improving legal framework for factoring services**

Up to now, State bank issue law No.02/L-123 and 04/L- 006 that regulates factoring activities. The decisions still insufficient terms as stated in chapter 2. Therefore, SBK should promulgate a new decision, which complement and improved on unsuitable aspects of the current decision and conform to international practices and conventions on factoring. To take the decision perfectly, the following aspects should taken into account:

**Firstly**, factoring should define correctly in according to international practices. In law No.02/L-123 and 04/L- 006, factoring was defined as "a type of providing a loan that a credit institution grants for seller by buying receivable accounts which directly derived from purchasing goods and services which the buyer and the seller agree in the countersigned purchase contract". By defining factoring is only a "type of providing a loan" makes this decision be far from the nature of factoring operation. This definition is not consistent with worldwide popular definitions. Besides trade credit function, factors also provide other functions of receivables ledgering, collections of receivables and risk insurance. Factoring and lending activities should be divided. They shouldn't be managed and controlled in the same way

**Secondly**, at present, there is no regulation stipulates relationship of transferring rights on debt collection of seller to factors. Therefore, it is required to figure out regulations on identifying conditions that makes transferring debt collection into effect.

**Thirdly**, to reduce risks for factors, issuing regulations on rights of seller on receivables amount is necessary. For recourse factoring, it is required to have factor's rights over sellers' property. In case that buyer does not pay or seller breaks the sale contract, factors has, the rights to get back deposit of buyer paid to seller. If seller cannot afford to pay, the factor has the rights on seller's property according to unpaid money. For non-recourse factoring, factors also has the rights on buyer's property in accordance with the deposit in case buyer cannot afford to pay.

**Finally**, it is essential to have restriction condition to buyer, the maximum of factoring amount to each buyer in comparison with factor's capital himself or herself. At present, regulation on total factoring amount of each buyer cannot exceed 15% of factor's capital is not rational because risks of factors are not only come from seller but also from payment capacity of buyer.



**Strengthen efficiency of Credit information centre (CIC):**

Strengthen efficiency of CIC will support commercial bank and enterprises can achieve the proper and precise information. The key matter is to broaden the size of informatics store and shorten the time to provide information. Transparent information will help to promote financial market in general and factoring market in particular.

CIC currently is the only authorized office to provide information as well as collect information from commercial banks. Up to now, as mentioned in previous section, it's hasn't fulfilled its responsibility of providing precise information for preventing bank's operation risks. Therefore, it is required to improve CIC's services:

Define period time in detail when the banks have to provide enough information about their corporate customers' financial status, update their loans as their refund situation for CIC to collect information.

CIC is the legal governmental body to register collateral asset for bank's loans or trade finance to avoid one asset can be collateral more than one time.

CIC is not only the information provider and collector but also to be responsible for their provided information. If their information is not exact as well as delayed than the requirement, they should be reimbursed a proportion rate of loans or trade finance. In returns, they can also gain the suitable fee for their best service.

It is clear that with such improvements, CIC will work more efficiency.

**Conclusion**

Occurring around the world for centuries, factoring presents a very good manner for both customers and financial institutions. Like traditional commercial lending, factoring provides SMEs with working capital. However, factoring is quite different from traditional commercial lending, where credit is primarily based on the borrower's creditworthiness rather than the value of the borrower's underlying assets

In a traditional lending relationship in emerging financial markets, factoring offers several advantages over other types of lending. First, factoring may be particularly useful in countries with weak secured lending laws, inefficient bankruptcy systems, and imperfect records of upholding seniority claims, because factored receivables are not part of the estate of a bankrupt SMEs. Second, in a factoring relationship the credit is primarily based on quality of the underlying accounts-not quality of the borrower. Factoring can mitigate the problem of borrowers' informational opacity in business environments with weak information infrastructures if factors can develop proprietary databases on account payment performance and if the underlying accounts are the obligations of relatively transparent firms. The latter condition holds when a borrowing SME has receivables form larger enterprises or has foreign receivables from firms in countries with a stronger information infrastructure.

With the above-mentioned advantages that factoring offer to both sellers and banks, in an emerging market like Kosovo, developing factoring service at commercial banks, especially at banks which has already launch this service but not yet succeeded as PRO CREDIT BANK is a tempting topic.

Over the pages, the thesis tried to give a full background of theoretical approaches to the definitions and reflections of factoring as well as it appropriate customers - SMEs. Based from that, a case study of PRO CREDIT BANK, one of the most active and successful joint stock banks in Kosovo, is demonstrated with detailed analysis of obstacles for developing this service at Join stock commercial Banks in Kosovo. Making enterprise has positive perception of factoring is the most important task to achieve successful development. Ideally, once enterprises can awareness of advantage and useful of the Factoring for their business, factoring service will be soon improved and become one of financial tools playing crucial role in Kosovo's economy.

At this stage, it is also acknowledged that due to the time constraints and scope of this study, the thesis has only been able to draw conclusions based on a broad review-based analysis. Much more in-depth analysis of the Kosovo current condition; further detailed investigation into every potential solution/initiative recommended in this thesis and their potential impacts when applied in real life's PRO CREDIT BANK context are needed to be

studied before a more comprehensive strategy for factoring for SME at PRO CREDIT BANK could be better developed.

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## APPENDICE

## Appendix 1: Total factoring volume by countries from 2004-2010 In Millions of Euro

	2004	2005	2006	2007	2008	2009	2010
<b>Europe</b>							
Austria	3,692	4,273	4,733	5,219	6,350	6,630	8,307
Belgium	13,500	14,000	16,700	19,200	22,500	23,921	32,203
Bosnia & Herzegovina	-	-	-	-	-	35	45
Bulgaria	0	0	35	300	450	340	550
Croatia	28	175	340	1,100	2,100	2,450	2,793
Cyprus	2,140	2,425	2,546	2,985	3,255	3,350	3,450
Czech Republic	2,620	2,885	4,025	4,780	5,000	3,760	4,410
Denmark	6,780	7,775	7,685	8,474	5,500	7,100	8,000
Estonia	3,920	2,400	2,900	1,300	1,427	1,000	1,227
Finland	9,167	10,470	11,100	12,650	12,650	10,752	12,400
France	81,600	89,020	100,009	121,660	135,000	128,182	153,252
Germany	45,000	55,110	72,000	89,000	106,000	96,200	129,536
Greece	4,430	4,510	5,230	7,420	10,200	12,300	14,715
Hungary	1,375	1,820	2,880	3,100	3,200	2,520	3,339
Ireland	13,150	23,180	29,693	22,919	24,000	19,364	20,197
Italy	121,000	111,175	120,435	122,800	128,200	124,250	143,745
Latvia	155	20	276	1,160	1,520	900	328
Lithuania	1,040	1,640	1,896	2,690	3,350	1,755	1,540
Luxembourg	285	280	306	490	600	349	321
Malta	0	0	1	25	52	105	136
Netherlands	19,600	23,300	25,500	31,820	30,000	30,000	35,000
Norway	8,620	9,615	11,465	17,000	15,000	15,100	15,075
Poland	3,540	3,700	4,425	7,900	7,800	12,000	16,210
Portugal	14,700	16,965	16,886	16,888	18,000	17,711	20,756
Romania	420	550	750	1,300	1,650	1,400	1,800
Russia	1,130	2,540	8,555	13,100	16,150	8,580	12,163
Serbia	0	0	150	226	370	410	500
Slovakia	665	830	1,311	1,380	1,600	1,130	981
Slovenia	185	230	340	455	650	650	650
Spain	45,376	55,515	66,772	83,699	100,000	104,222	112,909
Sweden	14,500	19,800	21,700	21,700	16,000	18,760	18,760
Switzerland	1,400	1,900	2,000	2,513	2,590	5,000	4,000
Turkey	7,950	11,830	14,925	19,625	18,050	20,280	38,988
Ukraine	0	333	620	890	1,314	530	540
United Kingdom	184,520	237,205	248,769	286,496	188,000	195,613	226,243
<b>Total Europe</b>	<b>612,488</b>	<b>715,471</b>	<b>806,958</b>	<b>932,264</b>	<b>888,528</b>	<b>876,649</b>	<b>1,045,069</b>
<b>Americas</b>							
Argentina	101	275	333	362	355	335	350
Bolivia	-	-	-	-	-	18	18
Brazil	15,500	20,050	20,054	21,060	22,055	29,640	49,050
Canada	3,157	3,820	3,386	4,270	3,000	3,250	3,723
Chile	4,200	9,500	11,300	14,620	15,800	14,500	16,422
Colombia	0	0	100	2,030	2,100	2,392	2,784
Honduras	-	-	-	-	-	-	160
Mexico	4,600	7,100	8,150	9,200	9,550	2,120	14,538
Panama	201	240	607	483	460	500	600
Peru	0	95	563	648	875	758	2,712
United States	81,860	94,160	96,000	97,000	100,000	88,500	95,000
<b>Total Americas</b>	<b>109,619</b>	<b>135,240</b>	<b>140,493</b>	<b>149,673</b>	<b>154,195</b>	<b>142,013</b>	<b>185,357</b>
<b>Africa</b>							
Egypt	1	1	3	20	50	110	200
Morocco	300	430	440	660	850	910	1,071
South Africa	7,100	5,580	7,800	9,780	12,110	13,500	15,120
Tunisia	185	226	270	245	253	276	295
<b>Total Africa</b>	<b>7,586</b>	<b>6,237</b>	<b>8,513</b>	<b>10,705</b>	<b>13,263</b>	<b>14,796</b>	<b>16,686</b>
<b>Asia</b>							
Armenia	0	1	50	50	7	7	14
China	4,315	5,830	14,300	32,976	55,000	67,300	154,550
Hong Kong	4,800	7,700	9,710	7,700	8,500	8,079	14,400
India	1,625	1,990	3,560	5,055	5,200	2,650	2,750
Israel	155	325	375	800	1,400	1,400	1,650
Japan	72,535	77,220	74,530	77,721	106,500	83,700	98,500
Jordan	-	-	-	-	-	43	43
Korea	32	850	850	955	900	2,937	5,079
Lebanon	41	61	95	176	306	420	450
Malaysia	730	532	480	468	550	700	1,058
Mauritius	-	-	-	-	-	121	125
Qatar	-	-	-	-	-	23	23
Singapore	2,600	2,880	2,955	3,270	4,000	4,700	5,800
Taiwan	23,000	36,000	40,000	42,500	48,750	33,800	67,000
Thailand	1,500	1,640	1,925	2,240	2,367	2,107	2,095
United Arab Emirates	145	440	810	340	1,860	1,910	2,000
Vietnam	0	2	16	43	85	95	65
<b>Total Asia</b>	<b>111,478</b>	<b>135,470</b>	<b>149,606</b>	<b>174,244</b>	<b>235,418</b>	<b>209,991</b>	<b>355,602</b>
<b>Australasia</b>							
Australia	18,181	23,130	27,573	33,080	32,546	39,410	44,915
New Zealand	236	250	280	700	700	700	600
<b>Total Australasia</b>	<b>18,417</b>	<b>23,380</b>	<b>27,853</b>	<b>33,780</b>	<b>33,246</b>	<b>40,110</b>	<b>45,515</b>
<b>Total world</b>	<b>859,588</b>	<b>1,015,798</b>	<b>1,133,423</b>	<b>1,300,666</b>	<b>1,324,650</b>	<b>1,283,559</b>	<b>1,648,229</b>

**Appendix 2: Obstacles to gain access to bank loans**  
(More score, on a scale from 1-5, with 5= greatest obstacles)

	All allocations	Hanoi	Thai Nguyen	Lao Cai
Not enough collateral	<b>3.94</b>	3.47	4.36	4.25
No proof of asset ownership	3.03	2.94	3.11	3.11
Banking regulation too stringent	3.14	3.52	2.56	3.92
Banks demanding audited financials	2.54	2.92	2.18	2.38
Banks demanding a business plan	2.30	2.58	2.08	2.05
Difficulties in demonstrating management ability/skill	2.37	2.42	2.37	2.17
Loan sizes too small	2.89	2.84	2.93	2.90
Loan maturity too short	3.40	3.18	3.56	3.62
Interest rates are too high	<b>3.65</b>	3.28	4.00	3.78
Poor skills of bank officer	2.72	2.59	2.72	3.38
Bank bias/favoritism to other firms	3.24	3.98	2.48	3.09
Processes are too time consuming	3.27	3.75	2.46	4.23
Bank officers requiring kick-backs	2.18	2.88	1.60	2.00
General Index ( mean of 13 obstacle scores)	2.97	3.1	2.8	3.14

Source: Freeman, N.F. and Le, B.N., 2008, SME finance in Kosovo: reviewing past progress and scoping future developments, UNIDO & ASMED

**Appendix 3: Question for interview PRO CREDIT BANK's staffs**

1. How long have you been working for PRO CREDIT BANK?
2. Which department are you working for?
3. Have you ever hear Factoring service before?  
If you answer "yes", please proceed question 4, if you answer "no", thank you so much for your help.
4. In which chance do you know about factoring?
5. How do you know about factoring?
  - well- understanding
  - Only know about concept
  - Can use factoring services smoothly as one of your familiar service to customers
  - Your opinion?

**Thank you once again for taking the time to complete this interview; your help is very much appreciated.**

Number of interviewers: 25 PRO CREDIT BANK's credit officers at PRO CREDIT BANK's Head Transaction Centre.

**Appendix 4: Question for interview PRO CREDIT BANK's enterprise customers**

We are currently undertaking research into the Factoring Services at Kosovo Technological Commercial Joints Stock Bank (PRO CREDIT BANK) and would be very grateful for your help. Your opinions are valuable to us and we would appreciate it if you would take the time to answer the following questions and return the questionnaire. Please be assured that all response will be treated as anonymous. Thank you.

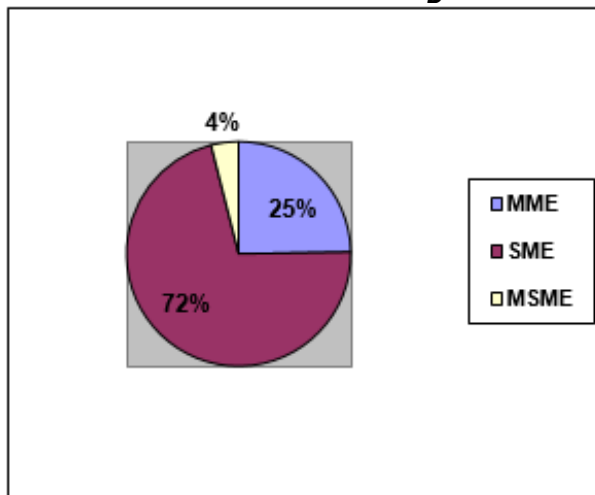
**Survey result**

Size of survey: 150 SMEs of PRO CREDIT BANK in Head Transaction Center. Of 150 questionnaires employed, only 102 returns.

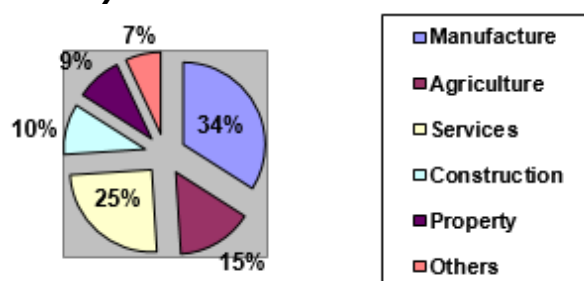
**General information about samples' characteristic:**

Among of 102 enterprises: all of them are appropriate with the PRO CREDIT BANK's SME clients classification, 34% of them are involved in international business as exporters..

**Samples classified by PRO CREDIT BANK’s SMEs segment**



**Samples classified by industry fields**



**Findings related to Factoring service:**

- Number of enterprise known about factoring: 15, accounted for 15%
- None enterprise currently used factoring service at PRO CREDIT BANK
- One company used to consider to use factoring service with Factoring, but they decided not to proceed.
- The main reason which they do not consider using factoring is to not understand enough about factoring.

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