

## Creating a Factoring Service Specifically Designed for Small and Medium Enterprises at Pro Credit Bank in Kosovo

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### Abstract

*Over the course of ten years, Kosovo has implemented policy reforms and worked on establishing a diverse market economy. As a result, small and medium enterprises (SMEs) in Kosovo have experienced significant growth and have played a crucial role in generating employment opportunities, boosting the country's GDP, and increasing the volume of exports. Nevertheless, small and medium-sized enterprises (SMEs) have encountered obstacles in their path to growth as a result of their limited management expertise and financial means, as well as the unpredictability of the business landscape. Consequently, small and medium-sized enterprises (SMEs) frequently encounter challenges during their business activities. The creation of new financial services is of utmost importance, particularly for joint-stock commercial banks in Kosovo, as they face less competition compared to state-owned commercial banks. This need arises from Kosovo's integration and economic development requirements, particularly in the banking sector. Furthermore, factoring is a financial instrument that fulfills the criteria of both commercial banks and small and medium-sized enterprises (SMEs). This study aims to propose the implementation of factoring services as a highly efficient and valuable short-term financial instrument for small and medium enterprises (SMEs) in Kosovo. Additionally, it highlights the significance of factoring services for commercial banks in the region. The primary goal of the first chapter is to provide an introduction to factoring services, as well as a clarification of the conditions necessary for their development. The second chapter provides an overview of the current global factoring industry and the specific market conditions in Kosovo, in order to gain insight into the general conditions for the development of factoring services for Kosovo-based factors. The Kosovo factoring market is currently in its early stages of development. There are significant opportunities for the growth of this service in Kosovo, particularly for pioneers introducing it to the market. Unfortunately, PRO CREDIT BANK was unable to capitalize on being the first to enter the market. Despite the benefits of PRO CREDIT BANK in accessing reliable and high-growth external sources of the Kosovo economy, The small and medium-sized enterprises (SMEs) in Kosovo have had a significant growth rate of 3.8%. PRO Loans Bank has a strong track record of providing financial services to SMEs, which are its main customers. The bank has also established successful partnerships with international and global organizations to get additional capital for loans.*

**Keywords:** Economics, Statistics, Business Economics, Economy, Bank

## INTRODUCTION

Kosovo is undergoing extensive integration into the global economy, particularly following its attainment of independence in 1999. Kosovo's status is being emphasized as a burgeoning economy in Europe. Integration fosters significant advancements in development, although it also poses several risks to the total system. Both the overall economy and any individual economic enterprise. The banking business is not exempt from this tendency. For Kosovo commercial banks, particularly joint stock banks (JSCBs), the key to survival lies in diversifying their services and maintaining their competitive advantages. This is crucial due to the significant challenges faced by JSCBs, such as a small capital base and inadequate operational performance. The small and medium enterprises (SMEs), which are the intended customers of JSCBs, play a vital role in the economic growth of Kosovo. Small and medium-sized enterprises (SMEs) have made significant contributions to the

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growth of the Gross Domestic Product (GDP), employment creation, and the expansion of the country's exports. SMEs today account for 60 percent of GDP and employ approximately 70 percent of the workforce, while also contributing 47 percent of export turnover. In addition to the aforementioned achievements and contributions, small and medium enterprises (SMEs) in Kosovo are currently grappling with significant challenges, including low productivity and competitiveness, limited access to finance for expansion, and a lack of expertise in marketing and financial management. Among these challenges, the scarcity of financial resources is seen as one of the most significant barriers to the expansion of small and medium-sized enterprises (SMEs). The majority of commercial banks decline to provide loans to small and medium-sized enterprises (SMEs) due to their inadequate management and lack of audited financial records. In such situations, commercial banks must mitigate credit risk through loans that are centered on collateral. Due to their limited capital, small and medium-sized enterprises (SMEs) have significant challenges in obtaining bank loans, as commercial banks require tangible assets as security. Factoring is the optimal solution for addressing the conflict between the diversification requirements of commercial banks and the financing needs of SMEs without collateral. It involves the exchange of accounts receivable to raise short-term working capital for enterprises without placing emphasis on collateral or adding any liability to their balance sheet. Furthermore, factoring is a comprehensive financial solution that encompasses not only finance but also credit protection, accounts receivable bookkeeping, and collection services. Factoring provides advantages to both commercial banks and small and medium-sized enterprises (SMEs). For banks, it offers a new service that helps diversify their offerings and increase their turnover. For SMEs, it provides access to finance that can be used to expand their operations and generate profits by taking advantage of increased competitiveness. Despite the fact that factoring has been well-established worldwide for a considerable period of time, with its application in over 60 countries and an annual growth rate of over 20 percent, the notion of factoring is relatively new to both firms and banks in Kosovo. It has been reported that certain registered banks in Kosovo, including PRO CREDIT BANK, have not effectively implemented this service or have only carried out factoring services at a very low level. PRO CREDIT BANK is a prominent and rapidly expanding full-service joint-stock bank in Kosovo. From the beginning and throughout their development, PRO CREDIT BANK has consistently identified small and medium-sized enterprises (SMEs) as their primary consumers and focused on creating banking services specifically tailored to this customer segment. Although PRO CREDIT BANK was among the first four banks to offer this service in 2005, it has not generated any profit for the bank so far. Hence, the development of a factoring service at PRO CREDIT BANK is vital for the seamless integration of the global economy and to maintain a competitive edge domestically against foreign banks. Currently, there is a lack of official research on the limitations of factoring at JSCBs, namely at PRO CREDIT BANK in Kosovo. Conducting this research will immediately assist PRO CREDIT BANK to discover a solution for developing factoring and supporting their growth. It will also indirectly provide experience to JSCBs in establishing factoring within their organizations.

## **RESEARCH METHODS**

This thesis employs both qualitative and quantitative methodologies. We used a qualitative methodology to investigate factual data and reports. The application of quantitative techniques involved conducting interviews with bank officers and surveying small and medium enterprises (SMEs) at PRO CREDIT BANK. The interviews were conducted with 25 credit officers at the Head Transaction Center of PRO CREDIT BANK, which is the largest transaction center of the bank. The interviews consisted of a set of open-ended questions, which may be found in Appendix 3. Five interviewees have been working at PRO CREDIT BANK for over 5 years, 18 have been there for 1 to 5 years, and 2 are currently in their probationary period. We specifically asked the interviewees questions to assess their comprehension of the factoring service. A survey was carried out with small and medium-sized enterprises (SMEs) at PRO CREDIT BANK to determine their customers' level of awareness regarding the bank's factoring business as well as their evaluation of the service given by PRO CREDIT BANK. Due to time and resource constraints, we conducted the survey exclusively through email, aiming for a small sample size. The author distributed a survey email to 150 small and medium-sized enterprises (SMEs) from various industries affiliated with PRO CREDIT BANK's Head Transaction Center. Only 102 of

the 150 distributed surveys received a response. The specifics of the questionnaire were outlined in Appendix 4.

## Origins And Growth of Factoring

Factoring is a well-established and widely used method of trade finance that has a long and significant history around the world. Historians assert that factoring originated 4,000 years ago under the reign of King Hammurabi of Mesopotamia, a time when the first literary communities emerged. Despite the nonexistence of Mesopotamia, its significant contributions to civilization, such as factoring, have persevered. Practically every civilization that places importance on trade has engaged in some variation of factoring. Affluent manufacturers and merchants in Rome utilized mercantile or factor systems to manage the sales of commodities. The earliest recorded instance of factoring being widely used took place in the American colonies before the revolution, mostly to facilitate trade. Due to the plentiful resources found in the North American terrain, colonists engaged in the cultivation and trading of valuable goods such as cotton, fur, and lumber with Europeans. Prior to their arrival on the continent, merchant bankers in European countries provided financial assistance to the colonists in procuring raw materials. This enabled the colonists to maintain their livelihoods and production cycle, free from the burden of outstanding debts owed by their European consumers. The determining criteria, naturally, was neither the actual purchase of the goods nor the equivalent of the exporters. They were providing the funds in advance. A reduced price. The crucial distinction lies in the assumption of the risk of non-payment, notwithstanding the seemingly subtle differentiation. During the 15th century, the rise of the Industrial Revolution led to a greater emphasis on credit in the practice of factoring, which thereafter played a progressively significant part in economic transactions. Factors can ensure payment for qualified customers by helping clients assess the creditworthiness of their customers and establish credit limits. Nevertheless, it continues to be relevant in the limited connection between the factor in European countries and its representative in America.

## Definitions of Factoring

Due to the absence of standardized, codified legislation, the definition of "factoring" varies across different countries. It is challenging to create a single description that encompasses the different types of factoring arrangements that exist within a country. It is extremely difficult to find an international application. Every nation possesses its own unique linguistic, economic, commercial, and legal systems. Consequently, there are numerous definitions of factoring. In this part, we will provide an overview of commonly used definitions for factoring services.

**Definition one:** As per Article I of the General Rules for International Factoring by FCI, a factoring contract refers to a contract where a supplier can transfer accounts receivable, including parts of receivables if applicable, to a factor. This transfer can be done for various purposes, such as receivables ledgering.

Aggregation of outstanding payments

safeguard against non-performing debts

**Definition Two:** In 1988, the International Institute for the Unification of Private Law (UNIDROIT) in Rome created a study group that suggested the establishment of a definition for factoring. The term "factoring contract" refers to a contract between the supplier and the factor, in which the supplier transfers receivables from sales contracts with its customers (debtors) to the factor. Factors must fulfill a minimum of two out of the four functions listed below: The three key aspects are: (i) providing financial support to the supplier; (ii) managing the receivable ledger; and (iii) safeguarding against credit default by debtors.

**Definition Three:** Factoring is a type of credit where a financial institution provides credit terms to a seller by acquiring the accounts receivable resulting from the sale of products. Laws No. 02/L-123 and 04/L-006 specify that a sales contract between the seller and the buyer forms the basis of this arrangement. In essence, factoring refers to the process of selling and buying receivables at a discounted rate. Nevertheless, factoring is not a singular product, as the factors also provide a variety of professional financial services. These services may typically encompass:

- Collecting payments from customers,
- Pursuing delinquent payers,
- Offering guidance to clients regarding credit management,

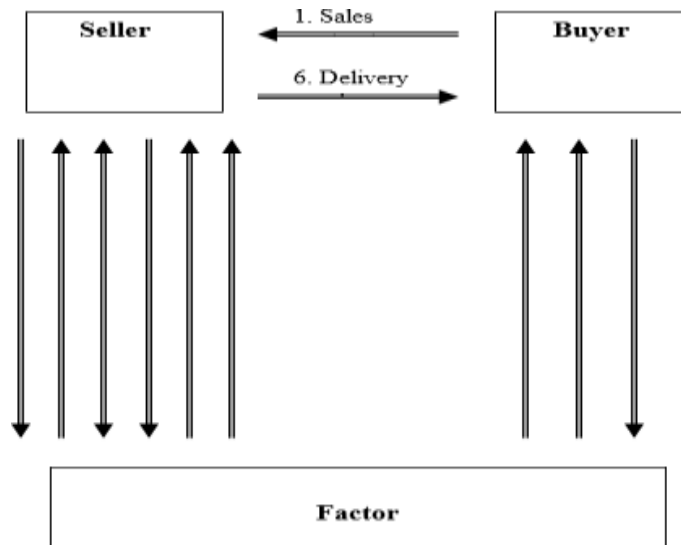
Safeguarding the client against unpaid debts. The differences between these definitions lie in the number of services offered by the components.

**Table II.1: Comparing domestic and international factoring.**

DOMESTIC FACTORING	INTERNATIONAL FACTORING
a) The Factor will often manage the sales ledger using only one currency, which allows for advances to be issued.	a) The Factor has the ability to transact in multiple currencies, depending on the seller's sales strategy. Payments will often be paid in the same currency as stated on the invoice.
b) The Factor has the dual responsibility of managing credit control and assuming credit risk.	b) The two-factor method involves the Export Factor, which offers credit risk protection to the seller. This protection is guaranteed by the Import Factor, who is also responsible for local credit management.
c) It is often the case that commercial transactions are conducted on a recourse basis, meaning that the Factor does not take on the credit risk.	c) The majority of business transactions are conducted on a non-recourse basis, where the Factor assumes the credit risk on behalf of the seller.
d) All parties involved, including the Factor, seller, and buyer, are subject to the same legal system.	d) The connection will be subject to the jurisdiction of at least two countries' legal systems.
e) The Factor, seller, and buyer shall possess knowledge of local trading traditions and language.	e) Trading practices and terminology differ among countries. The use of the two-factor approach enables the seller to effectively utilize the specialized expertise of the Import Factor in the local market.
d) The Factor is accountable for the retrieval of payments from the purchaser.	f) The Import Factor in the two-factor system is accountable for handling collections.
g) The quality of service delivered to the seller is solely dependent on the Factor.	g) In the two-factor system, the seller's quality of service is largely dependent on the Import Factor. This highlights the necessity for a mutually agreed set of rules or code, which would enable both the Import Factor and Export Factor to maintain a consistent level of service to the seller.

Reference: Jeroen Kohnstam, Secretary General of FCI, International factoring workshop 2005,

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



Buyer places an order with the seller.

The seller requests factoring to assign the invoice.

Factors affecting a buyer’s creditworthiness

Factor approve for financing the

The seller and factor sign the factoring contract:

The seller supplies goods to the buyer and issues an invoice

The seller transfers his invoice to Factor.

Factor make an agreed financial advance again and approve the invoice to the seller.

The factor collects the outstanding invoice from the buyer at the invoice’s due date.

The buyer pays the factor.

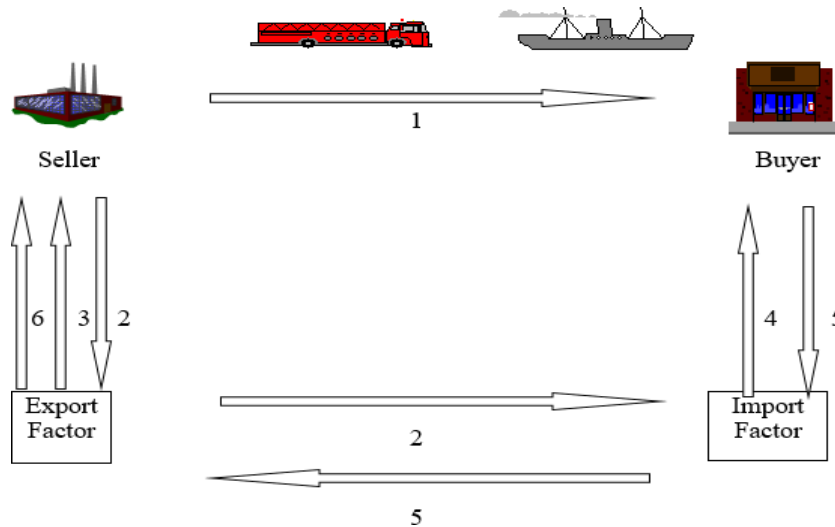
Factor settles the pre-payment by remitting the remaining amount to the seller less the agreed charge.

### The Two-Factor System

An international factoring transaction has a number of components that distinguish it from a domestic factoring transaction. The key distinctions lie in the potential variations in languages used by the parties involved in the sales agreement, as well as the challenge of evaluating a foreign partner's creditworthiness. These considerations influenced the design of the two-factor system. The commonly employed two-factor system in international factoring entails collaboration between two factoring companies: an export factor located in the seller's country and an import factor located in the buyer's country.

The system has three agreements: one between the exporter and the importer, one between the export factor and the exporter, and one among the factors themselves. It is critical to keep in mind that the import factor's responsibilities are only for the export factor. These responsibilities include assessing the creditworthiness of the importer and collecting the debts. The import factor accepts responsibility for the credit risk associated with accepted debts and is in charge of transferring payments to the export factor. On the other hand, the export factor is responsible for accepting any redress from the import factor.

**Table 11.4: The two factor system**



Source: FCI

The seller delivers goods to his customers based on their sales.

The seller assigns his invoices to the import factor, who, if previously agreed upon, takes on the credit risk.

The Export Factor advances cash against approved invoices to the

The importer collects the outstanding invoices in accordance with the sales contract's terms existing between the seller and the buyer.

The buyer pays the importer, who then transfers the amount to the exporter.

The export factor then settles the pre-payment by remitting the remains to the seller less the agreed charges.

The two-factor system has several benefits. The primary ones focus on optimizing efficiency and maximizing speed. The primary factor is being in a better position to evaluate the importer's creditworthiness and effectively engage with them. In addition, he has a comprehensive understanding of the country's legal and business landscape, allowing him to effectively manage the process of pursuing collection through the courts of the buyer's country in the event of any failure to fulfill obligations. The exporter finds the system's elements desirable because they allow him to access local expertise in each of his export countries. Furthermore, he can rest assured that his buyer can effectively factor in their respective countries and languages. Additionally, the utilization of this system can aid in mitigating the exchange risk associated with international trade by expediting the flow of funds. The faster the transfer of funds from the customer to the seller, the lower the danger of currency exchange rate swings between the shipment date and the payment date. Multiple parties can negatively affect the speed of response regarding credit lines, cash transfers, and dispute resolution. One of the disadvantages of this is the high cost resulting from the charges imposed by both causes. Nevertheless, it is crucial not to disregard the significant advantage of local collection and credit coverage when determining the actual expense of the service.

We can confidently state that the two-factor system is a straightforward, adaptable, and economical approach to handling cross-border accounts receivable.

### **Outlook for World Factoring**

The UNIDROIT Convention on International Factoring, signed in Ottawa on May 28, 1988, and the General Rule for International Factoring (GRIF) established by FCI are widely recognized as the primary legal frameworks governing global factoring operations. The GRIF has emerged as the globally recognized and widely accepted legal framework for international factoring. The GRIF, or Global Receivables Investment and Finance, is the established benchmark for correspondent factoring partnerships. It has been the governing framework for over 90% of the global cross-border factoring transactions since its inception in July 2002.

Factoring is becoming increasingly crucial in international commerce due to the substantial annual increase in both turnover and the number of variables involved.

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

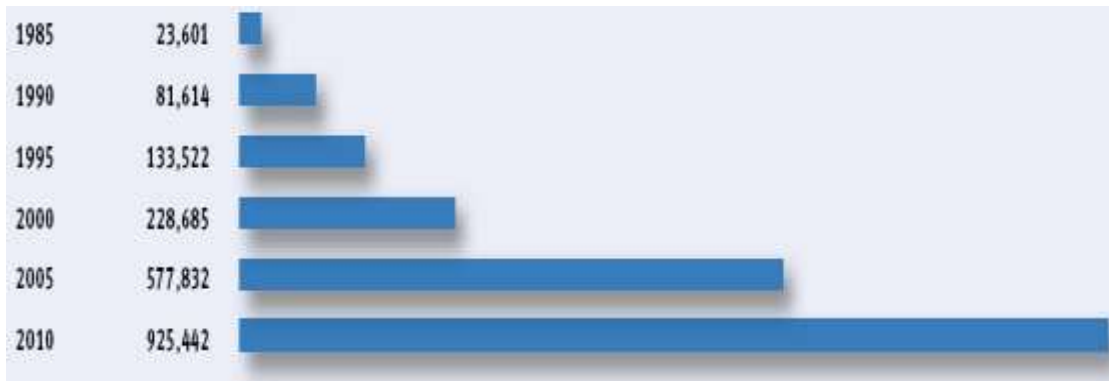
Source: [www.factors-chain.com](http://www.factors-chain.com)

It is evident that the financial crisis in 2008 had a significant impact on the factoring volume in 2009, resulting in a fall of 3.14% compared to 2008. However, from 2005 to 2008, the factoring volume consistently increased over time. In 2010, there was a significant increase in factoring volume, with domestic factoring growing by 20% and overseas factoring growing by 34%. In 2010, the global turnover for factoring amounted to EUR 1,648,229.00, which represents an increase of 28.41% compared to 2009.

Upon examining the figure, it is evident that the proportion of foreign factoring is significantly smaller compared to domestic factoring. Nevertheless, the disparity between international and domestic ones diminishes each year. In 2008, the domestic market had a decline of -0.36% compared to 2007. However, the overseas market continued to develop at a high rate of 20.67%, driving a 2% overall increase in the factoring industry. Furthermore, in 2010, this volume had a significant increase of 48.62% compared to the previous year of 2009. We anticipate a significant increase in the rate due to the parties' understanding of international trade. We unambiguously state that international factoring is the future.

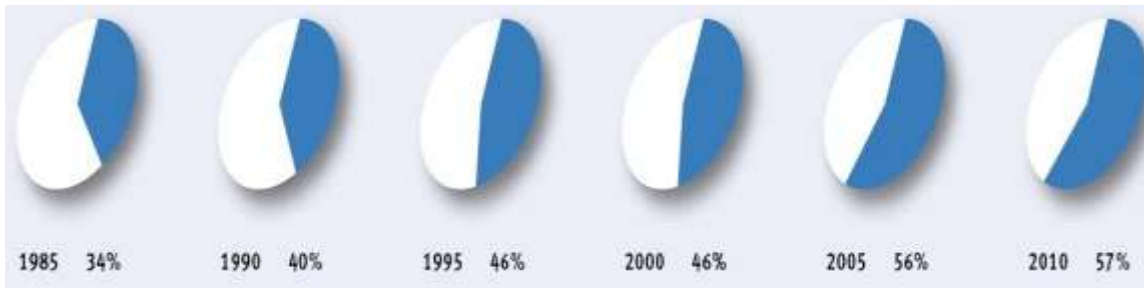
The SME sector makes up the largest portion of the client base, accounting for 83.2% of the total volume.

The FCI, the largest global factoring network, consists of 247 factors from 66 countries. It plays a significant role in the global factoring industry, accounting for approximately 60% of the total factoring volume worldwide in 2010. This is a substantial increase from the number of 34% in 1985. The following numbers display FCI's factored volume and market share in relation to the global factoring market.



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

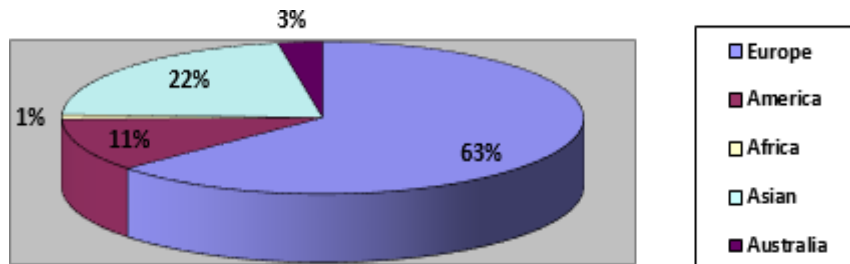
Source: [www.factors-chain.com](http://www.factors-chain.com)



**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

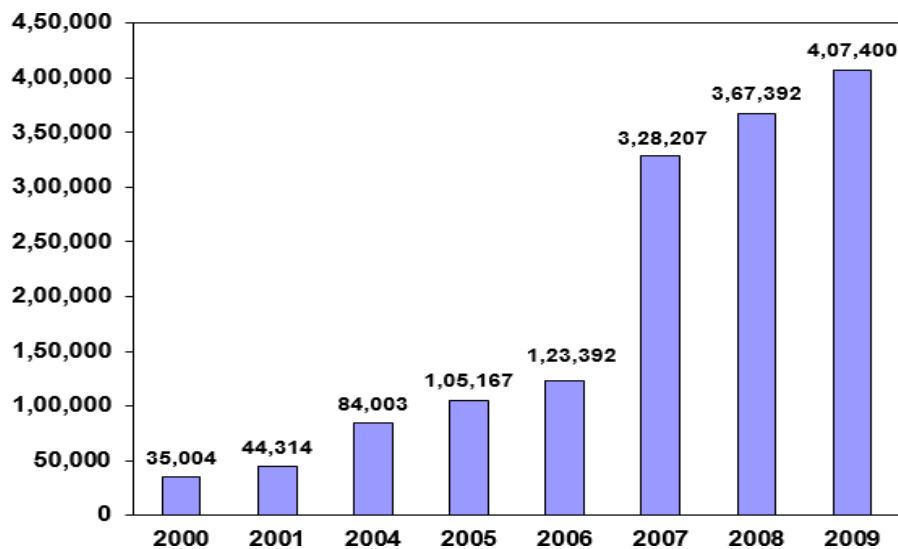
Source: FCI website

Factoring services in Kosovo only penetrated this market in 2005. The turnover of factoring services in Kosovo is the smallest in Europe. The author will give an overview of Kosovo's factoring industry in the next section.

An overview of the factoring sector in Kosovo.

Evaluating the feasibility of implementing factoring services for small and medium enterprises (SMEs) in Kosovo. The study focuses on the growth and characteristics of small and medium-sized enterprises (SMEs) in Kosovo.

As stated in Section I.2, the significant demand from small and medium-sized enterprises (SMEs) is one of the factors that make factoring development appealing. The author will examine the existing state of small and medium enterprises (SMEs) and their characteristics in order to assess the possibilities for implementing factoring on a national scale. Lawmakers have enacted a multitude of laws, such as company law, private enterprise legislation, co-operative law, home investment promotion law, civil law, and commercial law, to foster the growth of small and medium-sized enterprises (SMEs). As a result, small and medium-sized enterprises (SMEs) in Kosovo have experienced growth in terms of numbers as well as organizational structure and performance quality. The chart below illustrates the growing number of small and medium-sized enterprises (SMEs) in the business sector of Kosovo.



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

Source: Agency of Statistics

Over the past decade, the small and medium-sized firms (SMEs) in Kosovo have experienced significant growth. In particular, in 2007, the number of SMEs reached 328,207, which was double the number in 2006. These SMEs accounted for 94% of all registered enterprises in Kosovo. Despite the financial crisis that hit Kosovo in 2008 and early 2009, the number of new small and medium-sized enterprises (SMEs) continued to rise. The number of small and medium-sized enterprises (SMEs) experienced a growth rate of 12.2% in 2008 and 10.8% in 2009, respectively.

Kosovar small and medium-sized enterprises (SMEs) have experienced significant expansion, resulting in the production of a wide range of products. These SMEs contribute to 60 percent of the country's GDP and account for 45 percent of industrial outputs. Furthermore, they have generated employment opportunities for 4.5 million people, utilized temporarily idle resources such as land, capital, labor, and managerial expertise to foster production, and boosted export levels while reducing trade imbalances. As discussed in Section I.2, the



rapid growth of small and medium-sized enterprises (SMEs) in Kosovo presents a significant opportunity for the country's factoring development.

SBK's analysis reveals that small and medium-sized enterprises (SMEs) constitute 95% of all registered businesses across the country. However, many enterprises have had difficulties obtaining loans. The outstanding loans to small and medium-sized enterprises (SMEs) accounted for 27% of the total outstanding loans. This suggests that small and medium-sized enterprises (SMEs) have encountered obstacles on their path to growth as a result of difficulties accessing financial resources.

Freeman and Le (2007) conducted a survey to investigate the challenges faced by small and medium firms (SMEs) in Kosovo in obtaining bank loans. The survey included 197 enterprises located in three provinces in the northern part of Kosovo, specifically Mitrovica. Research has demonstrated that the primary factor leading to banks denying credit to small and medium-sized enterprises (SMEs) is the insufficient amount of collateral available (rated at 3.94 out of 5 as the most significant impediment), as well as excessively high interest rates.

Furthermore, the poll indicates that small and medium-sized enterprises (SMEs) have a restricted level of awareness and comprehension when it comes to external sources of capital. Most businesses primarily consider bank loans as the primary source of additional capital for expanding their operations, despite the existence of other alternative funding options, including financial leasing, factoring, and venture capital funds. Nevertheless, a significant portion of the questioned firms, over 45%, reported a lack of knowledge regarding leasing, while an even higher percentage, around 60%, were unaware of

Factorization. Overcoming this understanding limitation is necessary because, in addition to bank loans, other financial resources can serve as effective avenues for cash raising. In particular, factoring has the potential to remove the limitation of insufficient collateral for small and medium-sized enterprises (SMEs) throughout the application process. Moreover, factoring is competitive because it offers additional services such as account receivable collection and sales ledger monitoring, as well as payment guarantees in the event of credit default.

Essentially, the corporate environment in Kosovo exhibits a significant need for factoring services. Furthermore, small and medium-sized enterprises (SMEs) in Kosovo and elsewhere face the primary challenge of limited credit access due to collateral inefficiency. As a result, Kosovo provides a favorable environment for factoring development and progress.

### **Legal Framework**

With Law No. 02/L-123, the State Bank of Kosovo (SBK) regulated all fundamental aspects of factoring operations. Now that SBK saw some problems with this law, they made some changes. They released modification No. 04/L-006 of the Regulations on factoring operations of credit organizations to make the needed changes. The following table provides a brief introduction to the primary modification.

**Table III.1: Amendment**

Article 2:	The factoring operation is exclusively applicable to receivables that are directly derived from sales contracts, without considering the provision of services. Indeed, that service is seeing an upward trend and offers numerous benefits for growth and progress. Consequently, the use of factoring services should be permitted for receivables that arise from service contracts. This issue has previously been addressed in Decision 30.
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Items c, d, đ, e under provision 1 article 13	<p>The decision demonstrates that the factors and the seller have reached an agreement and have signed a factoring contract. Both the factors and the seller mutually agree to sign and then submit a written agreement to the buyer and other relevant parties, explicitly notifying them of their factoring contract. This document clearly states that the seller is transferring the responsibility of debt collection to the factors and instructs the buyer to make payments directly to the factors.</p> <p>(đ) The buyer sends a written document to the seller, requesting confirmation upon receipt and committing to pay the debt to the factors. Subsequently, the seller transmits the factors—the authentic sales agreement, shipment records, and any other pertinent papers.</p> <p>These laws present challenges for financial institutions in Kosovo when it comes to carrying out factoring operations. When the seller and factors reach an agreement to send the factoring contract to the buyer, but the buyer does not agree and returns the confirmed documents, this issue poses a challenge for sellers and factors, as it is unlawful to provide this service without the buyer's explicit consent. The new regulation states that if the buyer fails to confirm the return, the factoring contract between the factor and the seller remains legal as long as both parties are ready to continue and are prepared to incur all associated risks.</p>
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However, the decisions primarily address fundamental aspects of factoring, such as the definition of factoring, regulations pertaining to factoring contracts, and limitations imposed on factors. When establishing a legal framework for factoring, the primary focus is on the transfer of debt ownership and the rights of creditors in the event of nonpayment. However, these decisions do not govern the procedures for safeguarding creditor rights or the legal means to reclaim outstanding payments. Kosovar stakeholders will experience a sense of caution when executing this service in accordance with the appropriate measures.

Despite the existing deficiencies and limitations in the legislative framework surrounding factoring, it also lays the foundation for establishing a new factoring business in Kosovo and presents opportunities for its development. In addition, the revision of the first decision statute No. 02/L-123 SBK has addressed the concerns of SBK regarding the development of this service in Kosovo.

Ultimately, the growing number of small and medium-sized enterprises (SMEs) and the challenges they face in obtaining external financing, along with the need for a comprehensive legal framework for factoring services, present a promising market for the development of factoring in Kosovo.

### **The Current State Of The Factoring Industry In Kosovo Is Concerning**

Because of its recent implementation in Kosovo, the factoring service has limited transaction volume and variety. In Kosovo, we expect factoring, a significant financial and banking obligation, to experience substantial growth in the near future.

The governor of the State Bank of Kosovo promulgated laws No. 02/L-123 and 04/L-006 that laid the groundwork for the development of factoring services in Kosovo. As a result, financial institutions began to introduce and improve this service in the Kosovo market. Kosovo did not formally create a factoring service until 2005.

Currently, there are ten (10) banks operating in Kosovo's banking sector, serving as representatives.

69.0% of the financial industry's overall assets. Their offerings encompass a range of financial products and services, such as banking accounts, loans, domestic and international payments, banking cards, banking guarantees, letters of credit, and e-banking. A network of 263 branches and sub-branches, 540 ATMs, 9,493 point of sale (POS) terminals, and 196,656 e-banking accounts facilitates access to these services.

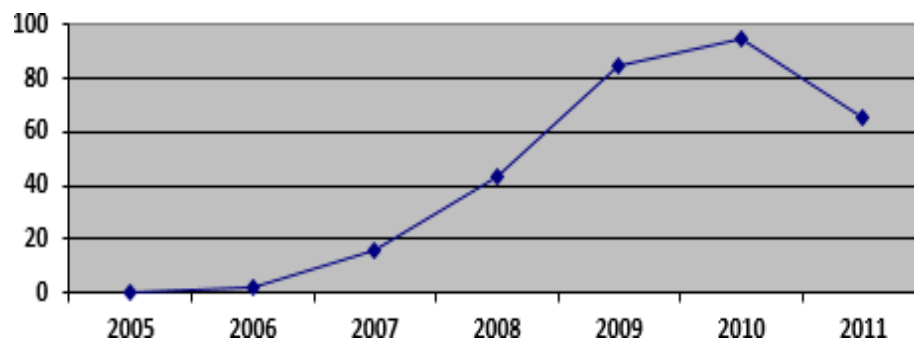
Their primary focus is on providing loans, with the duration of these loans ranging up to 15 years, depending on the specific type of loan. Loans to firms make up 65.2 percent of the total loans. The trade enterprise sector, accounting for 51.8 percent of loans to firms, takes up the majority of these loans. In contrast, loans given to the industrial sector, which includes mines, production, energy, and construction, make up 23.0 percent of the

total loans to enterprises. The agricultural sector accounts for 4.0 percent of the overall loans. The percentage of household loans in relation to total loans is 34.4 percent.

Deposits make up the majority of banking sector liabilities, accounting for 80.2 percent of the total. The banking sector has had a 46.45 percent yearly increase in deposits, totaling 2.7 billion euros. Household deposits comprise 74.4 percent of the total deposits in the banking industry. Deposits from private sector firms make up 17.5 percent of the total deposits.

The shareholding structure of commercial banks in Kosovo varies. Foreign entities own eight of the banks, while domestic entities hold two.

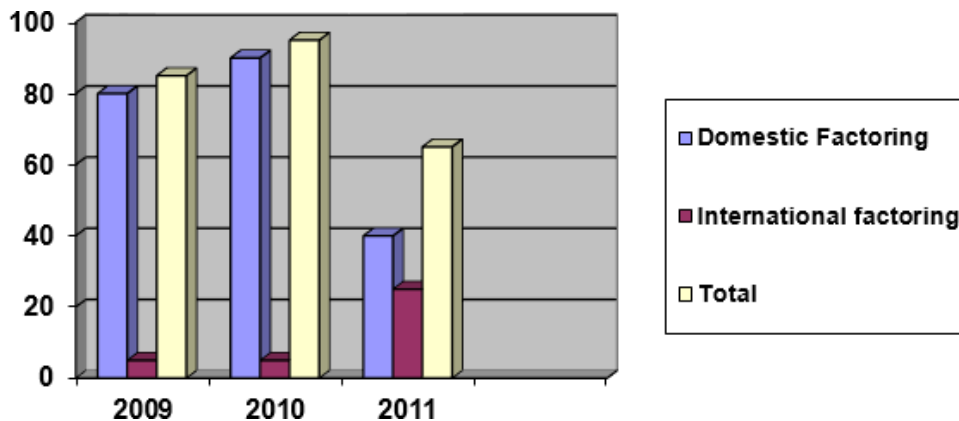
In commercial banks, there are 3,337 employees. The website's address is <http://bankassoc-kos.com>. The following banks are currently operating in Kosovo: State Bank of Kosovo, Banka Ekonomike, Banka Kombëtare Tregtare, Banka për Biznes, Türkiye İş Bankası, NLB, ProCredit Bank, Raiffeisen Bank, TEB Bank, and T.C. Ziraat Bankası A.S. - Dega në Kosovë.



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

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

According to FCI's research, Kosovo experienced a substantial increase in factoring volume of 05.77%, which is the highest growth rate among industrialized countries in Europe. It is a relatively insignificant figure compared to other countries in terms of religious significance. However, given the challenging circumstances of the global financial crisis, this can be considered a noteworthy advancement for Kosovo's factoring sector. The overall foreign factoring in Kosovo exhibited a lower rate compared to domestic factoring, similar to world factoring. In 2010, the turnover of domestic factoring exceeded that of foreign factoring. It The initial stage of implementation and the constraints on the agent's interaction with international issues may account for the explanation.



**Figure III.8:** Factoring volume in Kosovo from 2009-2011 Unit: Thousands of EUR

While there has been an increase in registered factors in the financial system in Kosovo, not all of these factors actually execute factoring in practice. ACB was the most proficient among the commercial banks in Kosovo. Thus far, ACB has executed over 20 contracts. The primary clientele consisted of major enterprises in the SME sector, with annual international revenue. Despite the favorable conditions for the development of factoring services in Kosovo, as noted in Section II.2, the factoring service in Kosovo is still in its early stages of development. In the following section, the author will examine the challenges associated with restricting the growth of factoring in Kosovo.

### **Obstacles To Developing Factoring Services in Kosovo**

Initially, small and medium-sized enterprises in Kosovo become acquainted with conventional payment methods such as telegraphic transfers or letters of credit. The lack of recognition among small and medium-sized enterprises (SMEs) and the volatile business environment pose challenges for factors in convincing clients to adopt new services, particularly for exports. Therefore, clients in Kosovo lack sufficient knowledge about the availability and benefits of factoring services, leading to the limited implementation of factoring. Furthermore, the credit information system exhibits inefficiency and lacks transparency. Kosovo now has only one Credit Information Center (CIC) operated by SBK, which provides information on credit activity. However, the available source of information is insufficient and not provided in a timely manner to meet the requirements of financial institutions when implementing factoring, which necessitates accurate and timely information. Several circumstances may delay the process of assessing the creditworthiness of firms and finalizing a factoring contract. Ultimately, it originates from domestic commercial banks. Kosovar commercial banks have restricted their advertising for factoring services in order to enhance consumers' awareness of this service. Following the launch of the service, only ACB, Raiffeisen Bank, PRO CREDIT BANK, and foreign banks have provided an introduction to the factoring service on their websites, albeit with brief information. Despite NLB's announcement to introduce this product in 2005, they have not yet provided any information about this service on their website. Given the innovative and beneficial nature of factoring, the limited advertising efforts by commercial banks are insufficient to entice people to utilize this financial instrument. Additionally, the absence of proficient personnel who possess a deep understanding of the factoring business and can provide effective consultation to consumers, along with inadequate banking technology, are significant hindrances to the development of this industry in Kosovo.

PRO CREDIT BANK, which entered the factoring market in early 2005, has faced similar benefits and hurdles as ACB and Raiffeisen Bank. However, it has not yet achieved any results. In the upcoming chapter, we will examine the constraints associated with PRO CREDIT BANK's implementation of the factoring service.

### **Overview of PRO CREDIT BANK**

ProCredit Bank sh.a. Kosovo was established on December 9, 1999, by a group of international investors known as PRO CREDIT BANK. The bank commenced operations on January 12, 2000, and has since built a strong reputation in Kosovo's financial and banking industry over the course of nearly 16 years. Since its establishment in Kosovo, PRO CREDIT BANK has accumulated a chartered capital of 61.346.210 euros, making it one of the largest banks in Kosovo in terms of scope. PRO CREDIT BANK has established a presence in nearly all cities and provinces around the country, boasting approximately 64 branches in Kosovo.

Upon its establishment in 2000, SOCB benefited from the ability to identify large corporations as their target customers. On the other hand, PRO CREDIT BANK, with a small amount of capital, had no other option but to define small and medium-sized enterprises (SMEs) as their target customers. Furthermore, SMEs have become a crucial sector with significant growth prospects and are playing a vital role in driving socio-economic progress in Kosovo, as mandated by laws No. 02/L-123 and 04/L-006. Based on this rationale, PRO CREDIT BANK continues to prioritize its customer approach by focusing on small and medium organizations (SMEs) as the primary target market while considering large organizations as a secondary market to be captured.

PRO CREDIT BANK, in collaboration with McKinsey, created the SME Division and opened specialized banking offices to cater to specific customer segments. In 2010, PRO CREDIT BANK executed its long-term

strategy, developed in consultation with McKinsey from 2009 to 2014. The goal of this plan was to establish PRO CREDIT BANK as Kosovo's top bank and leading firm by 2014. PRO CREDIT BANK successfully overcame financial turbulence and transitional dynamics to achieve its business goals this year, thanks to its robust financial capacity and effective and adaptable management.

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

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

Source: PRO CREDIT BANK annual reports

Both PRO CREDIT BANK's total assets and turnover show an annual growth rate exceeding 15%. As of the end of 2015, the cumulative assets of PRO CREDIT BANK exceeded €791,793. This statistic has enabled PRO CREDIT BANK to attain the position of the second-largest commercial bank in terms of total assets. At the conclusion of the fiscal year 2010, the charter capital rose from 797.508 to 799.582. Despite a decrease in ROA in 2015 compared to prior years, PRO CREDIT BANK nevertheless maintains its top position among other commercial banks in terms of profitability ratios, with a higher ROE. PRO CREDIT BANK has successfully issued convertible bonds worth \$10 million, thanks to the substantial support from shareholders. The bank's financial capability has significantly improved, as evidenced by its high capital adequacy ratio (CAR), surpassing SBK's requirement.

### **Deposit**

Pro Credit Bank has been steadily expanding and establishing a robust financial base in recent years. The customer deposits as of December 31, 2015 totaled 677,176 thousand euros, which is a 10.2% increase compared to the previous year's total of 661,510 thousand euros. The rise in customer deposits during the year was mostly due to PRO CREDIT BANK's achievement in gathering funds from individuals.

### **Credit**

PRO CREDIT BANK reduced its lending growth to 29.2% compared to the previous year, in accordance with the government's goal of maintaining low credit growth for the whole banking industry. The credit expansion has been sustained with a notable enhancement in credit quality and effective management of bad debts. PRO CREDIT BANK successfully reduced the percentage of non-performing loans (NPLs) from 4.15% to 4.29%. Small and medium-sized enterprises (SMEs) experienced a significant growth in lending, accounting for around 30% of the total loans and advances to consumers. In contrast, lending to corporate entities declined by 20.6%.

### **Information Technology**

PRO CREDIT BANK has consistently prioritized information technology as a means to keep pace with the advancements in modern banking. In addition, they have established 24/7 zones at 46 different sites around Kosovo, enabling customers to avail themselves of various banking services at any time of the day or night. They introduced e-banking, SMS services, ATM services, and a call center. To ensure a secure environment for the launch of this electronic service in the Kosovo market, PRO CREDIT BANK has implemented the 3-D Secure security platform, verified by Visa and Master Card Secure Code.

### **Human Resource**

An effective human resource is a crucial foundation for organizations to achieve rapid and sustainable growth. From that perspective, PRO CREDIT BANK has been actively cultivating a highly skilled and efficient team while also enhancing its treatment policy in recent years. PRO CREDIT BANK's personnel are consistently expanding under the leadership of the Board of Directors. Significantly, they organized 107 external training

sessions and carried out performance evaluations of their staff. As part of our commitment to promoting financial education in Kosovo, we not only offer students the option to meet university requirements but also present them with a chance to join an ethical institution dedicated to responsible banking. Hence, we extend a warm invitation to eligible students to submit their applications for our internship program, which offers them the opportunity to acquire invaluable hands-on experience in our many branches, service centers, or head office. PCB offers this opportunity biannually, from January to March and June to August. The internships range in duration from one to three months, with selected candidates expected to work full-time, putting in 40 hours a week. Several university curricula require internships, so the program provides participants with a stipend for the entire duration. PRO CREDIT BANK will continue to utilize the skills and expertise of its workforce as crucial elements for achieving rapid and long-lasting expansion.

PRO CREDIT BANK has dedicated its intellectual and material resources to consistently improving its goods, providing clients with high-quality services. This commitment has earned the loyalty of customers, partners, and shareholders.

### **The PRO CREDIT BANK has the Potential to Develop Factoring for SMEs.**

The development of factoring in PRO CREDIT BANK is not solely based on the opportunities presented by the Kosovoese economy, as noted in Section II.2.1, but also on the organisation's internal strengths. First and foremost, as stated in the preceding section, small and medium-sized enterprises (SMEs) are the most suitable candidates for factoring, which presents a significant advantage for PRO CREDIT BANK in expanding this service, considering that SMEs are their primary customer base.

PRO CREDIT BANK categorizes enterprise groups based on total revenue, which sets it apart from the definition of SMEs outlined in laws No. 02/L-123 and 04/L-006 described above. PRO CREDIT BANK categorizes their enterprise customers into two primary segments based on their type. The CB division exclusively comprises large corporations, specifically those with a total turnover from operations exceeding €50,000.

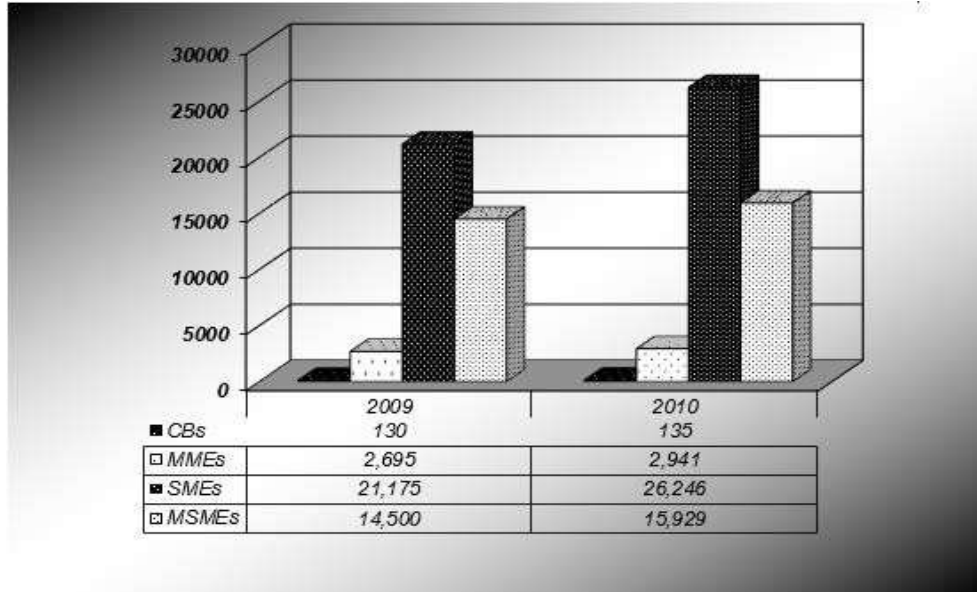
The SME Division comprises:

MMEs, or mid-market firms, are defined as enterprises with a total turnover from operations ranging from €10,000 to €50,000.

SMEs, or small and medium enterprises, are defined as enterprises with a total turnover from operations ranging from €1 thousand to €10 thousand.

MSMEs, also known as micro, small, and medium enterprises, refer to enterprises or family businesses with a total turnover from operations that is less than 1,000 euros.

As of the end of 2010, PRO CREDIT BANK had around 25,252 corporate customers, representing a 19% increase compared to 2009. The SME division comprises 78% of the overall business customer base, while big corporations make up less than 1% of the total. Within the SME division, the bank considers SME and MME clients to be the most crucial category, accounting for over 65% of its activity. Customers, as listed in Figure III.2, confirm PRO CREDIT BANK's selection of target customers and their commitment to closely adhere to their plan of being the leading commercial bank for the SME market.



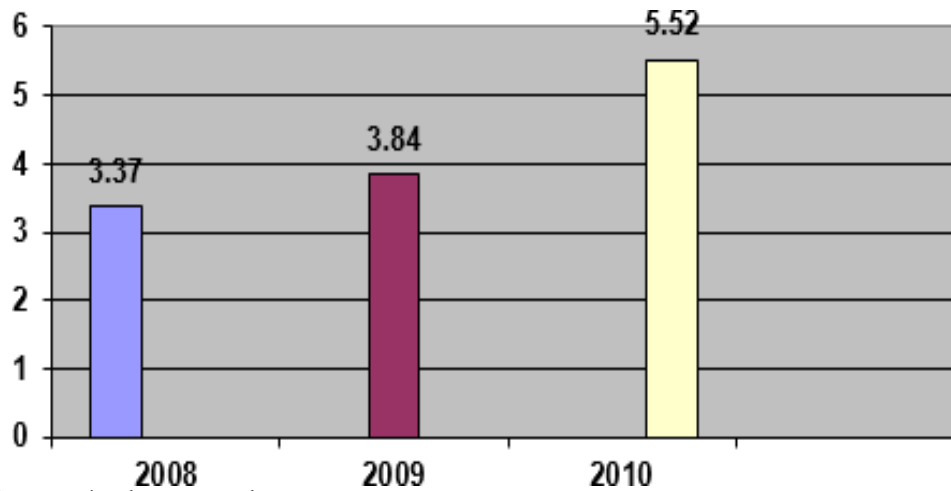
*Figure IV.2: Number of enterprise customers at PRO CREDIT BANK from 2009- 2010*

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

Furthermore, SMEs have a significant impact on PRO CREDIT BANK's ability to achieve annual targets. Specifically, the bank's lending portfolio was modified to prioritize SME customers. In 2010, the SME division obtained a loan of VND 31,256 thousand, representing 91.1% of the total outstanding loans in the enterprise client segment, compared to 79.9% in 2009. The increase in outstanding SME loans in 2010 compared to 2009 was also 27%. In addition, the SME division achieved a deposit growth rate of 32% compared to 2009, amounting to €19,376 thousand.

Upon examining the development and contribution of these small and medium-sized enterprise (SME) customers to the bank, it has become evident that enhancing and expanding banking products and services for SMEs is of utmost importance. PRO CREDIT BANK can benefit from improving factoring, as discussed in Section I.2.1. Furthermore, PRO CREDIT BANK actively seeks to collaborate with international and multilateral financial organizations in order to secure funding to support the bank's operations. In 2008, it secured a credit agreement valued at €5 million from the International Finance Corporation (IFC). The financial division of the World Bank will also offer PRO CREDIT BANK assistance for import-export operations as well as advisory services on banking for small and medium-sized enterprises (SMEs). Furthermore, in 2010, PRO CREDIT BANK successfully entered into a second long-term credit deal with Proparco, a subsidiary of the French Development Agency (AFD). This facility will be used by PRO CREDIT BANK to assist qualified small and medium-sized enterprise (SME) customers in Kosovo. This also serves as a key indication of the promotion of suitable banking services for small and medium-sized enterprises (SMEs) at PRO CREDIT BANK, including the provision of factoring services.

Furthermore, the turnover of foreign payments has gradually increased throughout the years.



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

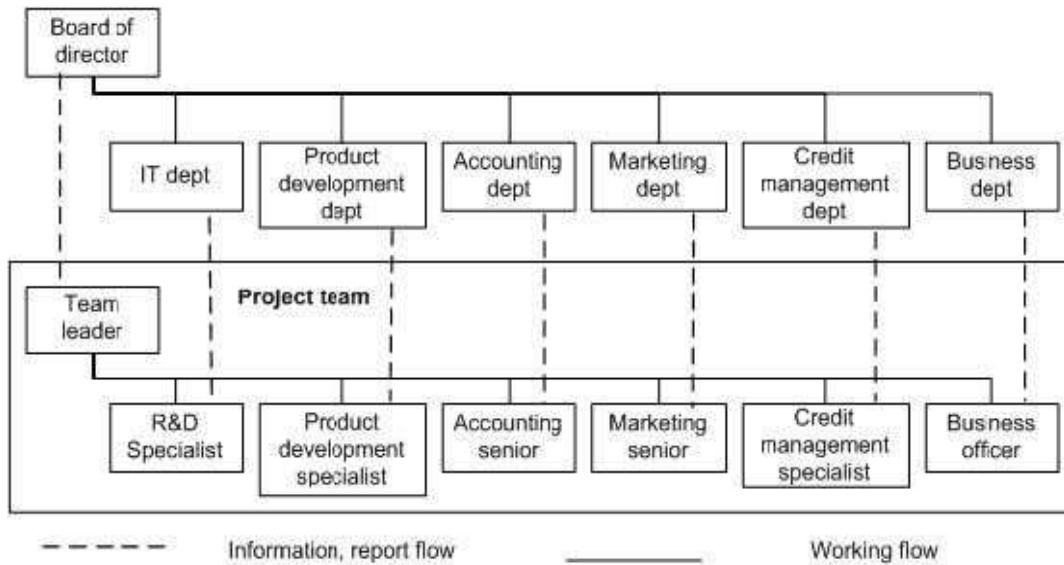
Source: PRO CREDIT BANK's annual report 2008-2010

The total turnover experienced a significant increase of 43.9% when compared to the end of 2009, the total turnover increased by 43.9%. In 2010, international payment costs increased significantly by 44.1%. It has been demonstrated that there will be an increase in customers' trust and the need for international payments in the near future. Importers in the international commerce industry are increasingly demanding trade financing. Exporters willingly extend credit to importers in order to enhance their competitiveness. Furthermore, as stated in Chapter II, international factoring is an option available to exporters for managing trade financing with importers when participating in the worldwide market. In addition, it is vital for PRO CREDIT BANK to expand their banking services in order to enhance their value chain and support their consumers in maintaining their trustworthiness while also attracting new customers. Introducing a factoring service at PRO CREDIT BANK encompasses both objective and subjective requirements. In the next section, we will examine the current practice of factoring for small and medium-sized enterprises (SMEs) at PRO CREDIT BANK.

### **The current situation of factoring services at PRO CREDIT BANK**

PRO CREDIT BANK began offering factoring services in early 2005. Launching a new product necessitates a substantial amount of action and resources. Various preliminary operations, such as accounting, technology, credit management, risk management, and marketing, must be carefully considered in order to establish a new product. Multiple departments are required to participate in the project, with the accounting department specifically involved in developing a methodology for recording factoring transactions and information. The IT department is responsible for configuring software parameters and versions to input factoring data and generating reports for daily operations and management needs. The credit management department is responsible for overseeing all areas of credit related to the product. The marketing department is tasked with researching client needs and providing input regarding the factoring products they anticipate. They are also responsible for disseminating information about the product to the press and public relations. To fulfill this demand during the initial phase of research, it is recommended to establish a multidisciplinary team of members from all pertinent professional fields. Each member was accountable for their respective department's role in the project while also collaborating to manage shared project tasks. Simultaneously, they remain accountable for their present employment. Reports are submitted immediately to the team leader and immediate supervisors. Relevant departments were provided with shared and transparent information to optimize the outcome of the product. Table III.1 displays the composition of the factoring staff at PRO CREDIT BANK during the initial period from 2005 to 2006.





*Source: PRO CREDIT BANK*

Through the collective efforts of all project members and with the help of BOM, PRO CREDIT BANK has established comprehensive guidelines for its factoring service. It has also developed a systematic method for managing factoring and successfully introduced the product to the market. In 2005, the bank received official clearance for its factoring service from SBK. In addition, they were able to effectively join the FCI.

### **PRO CREDIT BANK's Factoring General Rules and Products**

Factoring is a financial service where the seller or seller's factor transfers ownership of short-term accounts receivable (not exceeding 180 days) and/or the associated rights to these receivables, which are obtained from legitimate items or services, from the seller to PRO CREDIT BANK. The PRO CREDIT BANK will provide a minimum of two functions from the following options:

Accounts receivable management

Funding

Receivables aggregation

Protecting against the risk of nonpayment or debt default

Furthermore, PRO CREDIT BANK will decline the following accounts receivable as eligible for factoring service:

- Accounts receivable (A/R) transactions occurring between members inside a corporation or between firms and their subsidiaries or affiliated accounting enterprises.

Accounts receivable (A/R) from firms that have both credit and debit relationships. • An assignment contract facilitates the acquisition of A/R. • The sales contract specifies a due date for A/R that exceeds it. • You have already pledged or secured A/R as collateral.

Furthermore, the local law in Kosovo and the FCI's GRIF will adjust the factoring process.

Fourthly, we define the factoring commission as the rate that PRO CREDIT BANK and its customer impose on the day they countersign the AR transfer. Furthermore, the financing discount rate will be decided based on the prevailing short-term rate across the entire PRO CREDIT BANK at the time when PRO CREDIT BANK notifies its acceptance to provide an advance to the seller.

PRO CREDIT BANK now provides their customers with three types of factoring services, which include:

- Domestic factoring refers to a financial service when a company sells its accounts receivable to a factor in the

same country. • Export factoring can be either recourse or notification. Recourse factoring means that the exporter is responsible for any unpaid invoices, while notify one factoring means that the factor notifies the exporter of any unpaid invoices but does not hold them responsible. • Import factoring is a financial service where a company purchases accounts receivable from a factor in another country.

### **Factoring Procedures**

They are identical to the globally implemented mechanics of factors one and two.

Procedures for domestic factoring:

- (1) The seller is suggesting a factoring deal with PRO CREDIT BANK.
- (2) The PRO CREDIT BANK conducts an investigation of the accounts receivable, business activity, and financial ability of both the seller and the buyer.
- (3) PRO CREDIT BANK and Seller mutually agree to execute the factoring deal.
- (4) The pro-credit bank and the seller inform the buyer about the factoring contract and other associated partners. The contract clearly states that the seller transfers the accounts receivable (AR) and all connected rights and benefits to PRO CREDIT BANK. The seller is also instructed to make direct payments to PRO CREDIT BANK on the specified due date.
- (5) The seller provides written confirmation to both the seller and PRO CREDIT BANK acknowledging receipt of the notice and guarantee for payment to PRO CREDIT BANK.
- (6) The sellers transfer the sales contract, purchasing documentation, and other related documents to the Accounts Receivable department of PRO CREDIT BANK.
- (7) PRO CREDIT BANK provides an upfront payment to the seller as part of the factoring contract arrangement.
- (8) The PRO CREDIT BANK monitors accounts receivable and collects them on the specified date.
- (9) After deducting an advance payment, PRO CREDIT BANK compensates the vendor.
- (10) Resolve all existing issues.

With the exception of using the import factor, the export factoring procedures are similar to domestic ones. In order to be eligible, one must be a member of the International Finance Corporation (IFC). The IFC counterpart is in charge of evaluating the importer's creditworthiness and guaranteeing the collection of payment as mandated by PRO CREDIT BANK. They also provide a guarantee to the importer in the event of a default in payment by the importer.

- (1) The exporter submits a proposal to enter into a factoring contract with PRO CREDIT BANK.
- (2) PRO CREDIT BANK evaluates the exporter's creditworthiness based on their ability to provide goods and their reputation with the importer.
- (3) PRO CREDIT BANK identifies the import component at the importer's domestic level.
- (4) The import factor (IF) evaluates the importer's creditworthiness, specifically assessing their credit risk and deciding whether to approve credit. Once approved, the importer can then enter into a factoring contract with PRO CREDIT BANK.
- (5) PRO CREDIT BANK intends to enter into a factoring agreement with the exporter.
- (6) Immediately after delivering the exported products to the importer, the exporter will transmit all shipping documentation to PRO CREDIT BANK. Subsequently, PRO CREDIT BANK will apply a discount to the bill, as per the agreed-upon rate in the factoring contract.

(7) In the event that PRO CREDIT BANK collects the debt on the due date and then refunds it after deducting its fee.

The import factoring technique is essentially similar to the export factoring procedure, with the exception that the role of PRO CREDIT BANK has changed from Export Factor (EF) to Import Factor (IF). The Import Factor is now responsible for assessing the creditworthiness of the importer, collecting payments as required by the EF, and providing payment guarantees to the EF in the event of a credit failure.

The outcome of introducing the factoring service at IN PRO CREDIT BANK

However, the factoring service in PRO CREDIT BANK appears to be non-existent or at an early stage. Thus far, they have not implemented either domestic factoring or international factoring. In April 2007, PRO CREDIT BANK's Head Transaction Center received only one genuine case of export factoring. An SME sought to engage in factoring for their accounts receivable from a sales contract with a Russian importer, but unfortunately, the transaction was unsuccessful. The primary cause of the issue is the dispute between PRO CREDIT BANK's client and its Russian importer on the assignment of accounts receivable, which has led to the rejection of the invoice financing for the payment guarantee. The credit officer responsible for this case stated that she encountered numerous difficulties in implementing factoring services with consumers. These challenges arose from her limited understanding of factoring services and the customers' lack of experience in conducting foreign transactions.

The factoring project team developed the guidelines for implementing factoring services in PRO CREDIT BANK. However, despite introducing this service to the market, PRO CREDIT BANK has not established a dedicated factoring department to promote it. There were personnel changes in the factoring team by the end of 2005, as some members of the project had departed from PRO CREDIT BANK to join other finance institutions. The remaining team members were preoccupied with their ongoing responsibilities. In addition, the project leader was required to oversee another project when his present department, the Credit Management Department, was experiencing its busiest period of work. As a result, neither the management nor the staff of the squad were able to provide a significant. I am no longer able to contribute to the project. Furthermore, we were unable to reach an agreement despite nearly a year of negotiations. As a result, in late 2006, all project members returned to their original departments. The factoring service at PRO CREDIT BANK appears to be declining gradually. The orientation session for new employees provides all training for this service, but it only covers the basics. According to this information, the officers at PRO CREDIT BANK are not familiar with factoring. Furthermore, the officer who assumed responsibility for the aforementioned case faced the same difficulties. She spent a significant amount of time conducting research on factoring methods and general guidelines at PRO CREDIT BANK, as well as GRIF from IFC, under the guidance of her manager, who was previously a part of the factoring project team. Because of her diligent efforts and the support she received from her management, the negotiation with the seller went smoothly, and if successful, it will lead to positive outcomes. Regrettably, there was a problem between PRO CREDIT BANK's consumers and its importer, as the importer did not comply with the IF's requirements. Ultimately, this acquisition also ended in failure. In the following section, the author will examine the challenges that hinder the progress of factoring development at PRO CREDIT BANK. The barriers to implementing factoring services at PRO CREDIT BANK are evaluated.

Despite facing the same external constraints, NLB and Raiffeisen Bank in Kosovo have successfully implemented factoring services and have benefited their banks. In contrast, PRO CREDIT BANK has been unable to get any contracts. This section examines the primary limitations stemming from PRO CREDIT BANK that restrict the growth of this service. PRO CREDIT BANK's decision to launch the factoring business was driven by their strategic plan. At the time of introducing these goods into the market at the end of 2005, the factoring project teams provided generic procedures for all types of clients and identified factoring products that complied with the relevant law. The company fails to establish suitable goods for each stage and neglects to formulate a marketing strategy for the development of factoring services at PRO CREDIT BANK. A survey was conducted with 102 existing SME clients of PRO CREDIT BANK regarding their satisfaction with the factoring service (see Appendix 4). The author discovered that out of the 102 firms examined, only 15 were aware of the concept of factoring, which represents 15% of the total surveyed. The level of client awareness of

the bank service, which has been in existence since 2005, was relatively low. When asked about their source of information regarding factoring, four correspondents obtained knowledge through PRO CREDIT BANK's seminar, while three correspondents acquired information from PRO CREDIT BANK's website. The remaining correspondents obtained information from other sources, such as another bank or a newspaper article about new financial services. However, it is worth noting that most of them did not possess sufficient knowledge about the service. Furthermore, similar to the present circumstance outlined in Section III.3 of the absence of a factoring contract at PRO CREDIT BANK, none of the respondents are presently utilizing this factoring service, and the primary reason for their reluctance is a lack of sufficient understanding of this service. PRO CREDIT BANK organized a seminar in July 2005 to explain their factoring service to consumers. The event provided general information about factoring. Currently, PRO CREDIT BANK is offering factoring products to 30 selected customers in Mitrovica. In September 2005, PRO CREDIT BANK extended invitations to 10 of its customers to participate in an international factoring workshop organized by IFC in Prizren. The purpose of the event was to teach the concept of international factoring. Since then, no seminars have been conducted regarding the service. Subsequently, customers were only acquainted with the factoring service offered by PRO CREDIT BANK through their website, which provided limited information. A well-developed marketing plan is essential for promoting any product or service, particularly for specialized financial services like factoring. It helps to raise awareness among potential consumers and enables them to make informed decisions about whether or not to utilize the service. Nevertheless, PRO CREDIT BANK failed to develop a marketing strategy for their products. The only thing they have accomplished is the implementation and transformation of factoring into a mere paper-based product within their business, devoid of vitality. Hence, the absence of a strategic approach to factoring is seen as a hindrance to the development of services at PRO CREDIT BANK. Furthermore, the failure to deploy the factoring service at PRO CREDIT BANK might be attributed to human resource management. As mentioned before, the factoring project team is a cross-functional team. All of these individuals participated in the project on a part-time basis. On one hand, they were responsible for completing tasks assigned to them by the project leader. On the other hand, they also had to accomplish their regular duties within their respective departments, which typically consumed their entire work schedule. This particular project team facilitated the successful development and implementation of the product. The problem encompasses various facets like accounting, marketing, technology, and the business side. This type of human resource management aids in the efficient creation and operation of a product in various areas such as accounting, marketing, technology, and business. It involves establishing general guidelines for factoring services, defining the range of factoring products offered by PRO CREDIT BANK, and introducing factoring as a new product to the market. This type of human resource management, along with other objective issues, had a disadvantage during the peak season of CBs when their department demanded their full-time commitment. The team disbanded early, as each member returned to their respective departments. Consequently, due to the absence of a promotion program for development, all the research related to factoring has been assigned to a single officer in the R&D department. At PRO CREDIT BANK, they retain paperwork for reference purposes, and factoring is now considered an unprofitable product. Over time, factoring has only been introduced during orientation programs for new employees, and it has been referred to as "paper products." However, not many PRO CREDIT BANK staff members are familiar with this concept. Conducting a survey interview with 25 credit staff members at PRO CREDIT BANK's Head Transaction Center, which includes one credit department manager. Of these staff members, 20% have been employed by PRO CREDIT BANK for more than 5 years, 72% have worked for PRO CREDIT BANK for 1–5 years, and 8% are currently in their probationary period. Out of the staff members interviewed at PRO CREDIT BANK, 23 individuals, which accounts for 92 percent of the sample, stated that they were familiar with factoring services and confident that PRO CREDIT BANK offers this service.

Out of the 92 percent of stated interviewees, 78 percent are aware of the concept of factoring but lack awareness of its advantages and procedures. The remaining 22 percent did not provide any information. Percentage remaining: They previously engaged in reading about factoring techniques but could not fully grasp the concept of products. Furthermore, the results of the SME survey (as shown in Appendix 4) provide additional evidence of the limitations faced by PRO CREDIT BANK's staff regarding this service, as none of the information they received came from their own consultants. Developing a new service for a bank becomes significantly more

challenging when the bank's own workforce has limited knowledge about factoring. At PRO CREDIT BANK, the lack of qualified staff and a scarcity of specialized training courses have resulted in factoring, known as multifunction and financing services, becoming an ineffective and unprofitable offering. Insufficient information regarding sellers and buyers is a significant hindrance to the growth of factoring in PRO CREDIT BANK. Factors need to evaluate the creditworthiness of both sellers and buyers to guarantee the capital's intended use. Obtaining financial accounts from small and medium-sized enterprises (SMEs) for domestic factoring can be challenging, which in turn makes it difficult to assess their creditworthiness. When it comes to international factoring, factors often face challenges in assessing the creditworthiness of both the seller and the buyer. This is because they have to rely on the information provided through the use of international factoring. The actual situation of factoring at PRO CREDIT BANK exemplified this challenge, as it required a significant amount of time for their counterpart IF to assess the creditworthiness of the import. Additionally, the exorbitant factoring cost ultimately led to this case's failure.

The main difficulties to introducing a factoring service at PRO CREDIT BANK are the absence of a strategy for the business, issues with human resource management, and a lack of credit information regarding sellers and buyers. In the upcoming chapter, the author will propose recommendations for enhancing factoring services for small and medium-sized enterprises (SMEs) at PRO CREDIT BANK.

### **PRO CREDIT BANK's forecast until 2015**

From 2014 on, PRO CREDIT BANK's strategy revolves around the following key areas: First, the primary focus should be on the growth of retail banking, specifically Personal Financial Services (PFS), as the central business. This entails prioritizing the development of priority banking services, enhancing and expanding product offerings, and increasing the reach of distribution channels and networks. Secondly, it is important to emphasize the process of tailoring business and customer policies for different customer segments, specifically focusing on small and medium enterprises (SMEs) as the primary target consumers.

Thirdly, the objective is to enhance and refine the modern investment bank by establishing and expanding its subsidiaries. Objective: Establish global benchmarks for banking governance and management. Additionally, it is crucial to allocate resources towards product innovation and the implementation of cutting-edge banking technology. Furthermore, investing in human capital through recruitment, training, and retraining is equally important.

Recommendations for PRO CREDIT BANK to enhance their factoring service for small and medium-sized enterprises (SMEs). As examined in Chapter III, the inclusion of factoring by PRO CREDIT BANK has presented certain drawbacks in terms of growth. In this concise master thesis, I aim to propose recommendations and solutions to the relevant government authorities in order to address these limitations. Developing a marketing approach for the factoring service offered by PRO CREDIT BANK, drawing insights from the experiences of ACB and Raiffeisen Bank Kosovo. As stated in Section I.3.2, PRO CREDIT BANK, Raiffeisen Bank Kosovo, and ACB were the first to introduce factoring services to the market. Currently, ACB has a strong presence in the domestic factoring industry, while Raiffeisen Bank Kosovo has emerged as the leader in the international factoring service market in Kosovo. On the other hand, PRO CREDIT BANK has not generated any revenue from this service. ACB and Raiffeisen Bank Kosovo have clearly defined the relevant factoring products for their development and have established a marketing strategy to introduce these products into the market. Raiffeisen Bank Kosovo has selected export factoring as its primary focus for expansion, leveraging its expertise in international payment activities. Meanwhile, ACB has identified domestic factoring as its key growth strength. They have focused on providing comprehensive instructions for each step to train their clients, and they have implemented appropriate marketing campaigns by hosting factoring seminars or directly consulting with their designated customers. As a result, they have become the dominant commercial bank in Kosovo across all product categories they have targeted. During that period, as stated in Section III.3.3, PRO CREDIT BANK established a basic guideline for implementing factoring but did not specify any appropriate goods for their initial phase of development, resulting in a failure to enter the market. To implement factoring services at PRO CREDIT BANK, a suitable marketing strategy must be developed. Segmentation

and targeting are the processes of dividing a market into distinct consumer groups and selecting specific groups to focus marketing efforts on.

Target customers: PRO CREDIT BANK has identified small and medium-sized enterprises (SMEs) as its primary focus. Both SMEs and MMEs, within the SME division, continue to have a significant impact on PRO CREDIT BANK's loan portfolio and contribute to its overall turnover. Additionally, they are the most suitable customers for the factoring service, as discussed in Section I.2, due to their lower risk profile compared to MSEM. Based on it, PRO CREDIT BANK consistently identified them as potential consumers for factoring services as well. However, factoring carries the risk of default payments from buyers. Therefore, PRO CREDIT BANK values clients (the Seller) who have a strong commercial relationship with reputable and financially capable corporations (the Buyer), such as multinational corporations, well-regarded companies in various industries, large supermarkets or commercial centers, or existing major corporations at PRO CREDIT BANK. Pro Credit Bank strategically positioned its factoring service by emphasizing its differentiation as a vital trade financial tool for small and medium-sized enterprises (SMEs) and medium-sized multinational enterprises (MMEs), in addition to its existing range of goods. Product differentiation: PRO CREDIT BANK will ensure complete client pleasure and provide comprehensive training on its factoring solution. In Vietnam, the product life cycle of factoring is now in its initial phase, known as the introduction phase. The marketing initiatives have the objective of generating awareness among clients about factoring and specifically targeting influential consumers, as described earlier.

### **Advertising Campaign**

Domestic factoring is the optimal choice for new entrants due to its ability to minimize both risk and cost. Buyers, sellers, and other factors can engage in direct transactions while also benefiting from easier access to creditworthiness, company capacity, and financial information at a lower cost compared to foreign alternatives. Hence, PRO CREDIT BANK should promptly offer domestic factoring services to the local market in order to gain experience and assess the market's response, which will aid in future expansion. During the short-term period, it is advisable to prioritize staff training to ensure that all relevant personnel have a thorough understanding of factoring and are able to provide expert advice to their customers. In the long term, after one year, the goal is to implement export factoring at PRO CREDIT BANK. This will provide additional benefits to their existing SME clients that engage in overseas payments. Additionally, this strategy aims to attract new customers from other competing Joint Stock Commercial Banks (JSCBs), as none of them now provide this product. PRO CREDIT BANK can leverage its knowledge and experience in domestic and export factoring to expand into import factoring. This can be achieved by utilizing the established relationships with world factors that were developed during the implementation of export factoring. In order to mitigate the risk of payment default due to factors and potential conflicts between the seller and buyer, PRO CREDIT BANK will offer factoring services for products that have inherent characteristics such as lower quality claims or shortages during shipping. PRO CREDIT BANK will primarily prioritize offering factoring services to industries such as consumer goods, raw materials, and construction materials. Location: It is determined by PRO CREDIT BANK's extensive network in the local area. The north of Kosovo, where the existing head office is located, will be the specific market focused on for short-term growth. Price: The price of factoring is determined by adding together the finance charge and the factoring fee. PRO CREDIT BANK has placed their prices at the same level as other commercial banks by factoring in the cost of learning from their experience. The factoring cost for domestic business will be established at a rate of 0.2%, which is consistent with the fees charged by ACB and Raiffeisen Bank Kosovo. Flexible financial charges will be applied based on the quality of clients' accounts receivable and the time it takes to recover debts. Typically, these charges are equivalent to the interest rates on short-term bank loans. Moreover, to cultivate clients' enthusiasm for utilizing this service, PRO CREDIT BANK

### **The Company Will Implement Adaptable Pricing Strategies for Each Stage Of Its Growth.**

We would greatly value the implementation of trial pricing for a limited period. This approach allows a provider to offer a reduced factoring charge for the initial three months of the agreement, giving clients an opportunity to test the service. If they desire to proceed, they would do so at a previously established standard charge. Over

time, we employ a strategy of competitive pricing to increase the number of business clients we attract. A rate table that offers discounted costs based on the volume of items purchased. Promotion: PRO CREDIT BANK employs PR efforts, utilizing mass media and word-of-mouth strategies. Pro Credit Bank utilizes oral communication to inform individuals about their factoring business. They break their marketing program into different stages, 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 - Name list of SME and MME customers and send invitation for factoring seminar - Holding seminar to re-launching factoring service to SME and MME - Media& press: 10 spots (articles, pieces of news, deep interview and analysis) - Channels: Kosovo Economy websites, Kosovo net, Kosovo news, PRO CREDIT BANK’s website etc. - Some events: + Promotion of 25% down for factoring fee to 20 first customers + Lucky draw program
<b><i>Expected result</i></b>	Numerous press spots released - Appropriate customers will fully join the seminar - Their current customers’ awareness to get to Factoring whenever possible - Customers’ awareness “Factoring – a effective trade financial tool”
	<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 precise procedures that facilitate the resumption of factoring for PRO CREDIT BANK. PRO CREDIT BANK should make a concerted effort to enter the market and compete on the basis of service quality. They could also leverage their existing customer relationships, targeting not only SMEs and MMEs but also large corporations. The more participants attend the factoring seminar and comprehend the details of this service, the greater their ability to promote it to their SME vendors through word-of-mouth marketing, resulting in an increased customer base for PRO CREDIT BANK. Creating a team consisting of full-time members and designing a training program focused on factoring. As stated in Section II.4.2, the human resources for the factoring project consist of a cross-functional team. Each team member is responsible for both their current job responsibilities and accomplishing their roles within the project. Within the existing human resource framework of PRO CREDIT BANK, each department adheres to a stringent staffing criterion that adequately meets the workload requirements of the respective departments. Consequently, it is challenging for staff members to take on additional tasks outside of their department due to the overwhelming workload they already have to manage inside their own department. Participating in the cross-functional team for the factoring project resulted in an increase in the members' workload and pressure from both their current job and the factoring team. As a result, they perform their current job and the project with inefficiency. To overcome this obstacle, we recommend forming a dedicated factoring team consisting of individuals who can commit their entire time to the task. They can fully utilize their talent and knowledge by dedicating their efforts only to the project, allowing them to specialize in factoring. The departments participating in the project have the authority to allocate their personnel to completely execute and finalize the project. This would enhance and solidify the project's efficacy. Having each factoring group at every branch is not necessary in order to reduce costs. PRO

CREDIT BANK can provide an internal training program on factoring services for business officers at PRO CREDIT BANK's network should ensure that each branch has individuals who are well-versed in factoring services and capable of handling factoring activities in response to client needs. They should also be able to provide appropriate product recommendations to their customers. In order to enhance the knowledge and understanding of factoring among PRO CREDIT BANK's internal staff, it is imperative to create a set of educational programs that facilitate the transfer of expertise from experienced factoring professionals to less experienced staff members. Overall, the factoring team at the head office should view their colleagues as internal customers and be prepared to provide help and respond to all inquiries from branches on a case-by-case basis, if required. Enhance the financial capability of PRO CREDIT BANK: A robust and resilient financial capability serves as the fundamental principle for the development of services across all financial institutions, including PRO CREDIT BANK. It also plays a crucial role in providing finance to PRO CREDIT BANK's clients through the development of factoring. In addition to its own capital and capital achievements from the financial world, as discussed in the previous chapter, there are other methods to enhance a bank's financial capacity. Analyzing the components of its equity and effectively managing non-performing loans (NPLs) can achieve this.

- The bank can increase its share premium by issuing additional stocks (normal or redeemable preference shares) or long-term debt instruments such as convertible bonds to raise funds from its current shareholders.
- By improving NPL management and implementing a credit management mechanism for quality, the bank can reduce administration fees for bad debt and increase working capital for PRO CREDIT BANK.

## **RECOMMENDATION**

Enhancing the legislative framework for factoring services

Currently, the state bank has issued two laws, namely No. 02/L-123 and 04/L-006, which govern the activities of factoring. The decisions are still inadequate, as mentioned in Chapter 2. Hence, it is imperative for SBK to enact a new decision that enhances and rectifies the inadequate features of the existing decision while aligning with worldwide standards and agreements on factoring. In order to make a decision with the utmost accuracy, it is essential to consider the following aspects: Firstly, it is important to accurately define factoring in accordance with international conventions. According to statutes No. 02/L-123 and 04/L-006, factoring is defined as a form of lending where a credit institution provides a loan to a seller by purchasing accounts receivable that are generated from the sale of goods and services, as agreed upon in a signed purchase contract between the buyer and the seller. Describing factoring solely as a "type of providing a loan" is an inaccurate representation of the whole nature of factoring operations. This term does not conform to widely accepted definitions around the world. In addition to facilitating trade credit, factors also perform the responsibilities of managing the receivables ledger, collecting receivables, and providing risk insurance. It is necessary to distinguish between factoring and lending activities. They should not be managed and controlled using the same methods.

Furthermore, however, there is no regulation that specifies the relationship between the transfer of rights on debt collection from the seller and factors. Hence, it is necessary to establish guidelines for determining the criteria that trigger the implementation of debt collection transfers.

Furthermore, to mitigate potential hazards, it is necessary to establish regulations on sellers' rights in relation to the quantity of receivables. To participate in recourse factoring, the factor must have legal ownership over the sellers' property. If the buyer fails to pay or if the seller breaches the sales contract, the factors have the right to reclaim the deposit that the buyer paid to the seller. If the seller is unable to afford payment, the factor has the legal authority to claim the seller's property as compensation for the outstanding debt. In non-recourse factoring, factors also possess the rights to the buyer's property as collateral in the event that the buyer is unable to make payment. Imposing a restriction on the buyer, based on the factor's own capital, is crucial. Currently, the legislation that limits the total factoring amount of each buyer to no more than 15% of the factor's capital is not logical because factors face risks not only from sellers but also from the payment capability of buyers. Enhance the efficacy of the Credit Information Center (CIC).



Enhancing the CIC's effectiveness will help commercial banks and corporations acquire accurate and relevant information. The primary objective is to expand the capacity of informatics storage and reduce the time required to provide information. Increased transparency will enhance the development of the financial market as a whole, including the factoring business.

The CIC is now the sole authorized office responsible for both disseminating and gathering information from commercial banks. Thus far, as stated in the preceding section, it has failed to fulfill its duty of supplying accurate information to mitigate operational risks in the banking sector. Hence, there is a necessity to enhance the services provided by CIC.

Period time refers to the specific duration during which banks are required to furnish comprehensive details regarding the financial standing of their corporate clientele, as well as update their loan records in accordance with the repayment status, for the purpose of information collection by the Credit Information Corporation (CIC).

The official governing body, the CIC, is in charge of registering collateral assets for bank loans or trade finance, making sure that each asset can only serve as collateral once.

The CIC not only serves as an information source and collector but also assumes responsibility for the information it provides. Should they provide information that is both inaccurate and delayed in comparison to the required standards, they should be eligible for a proportional reimbursement for their loans or trade finance. Additionally, they have the opportunity to receive appropriate remuneration for their exceptional service. It is evident that with these enhancements, the CIC will operate with more efficiency.

## **CONCLUSION**

Factoring, a practice that has been happening globally for centuries, offers a highly beneficial method for both customers and financial organizations. Similar to conventional commercial lending, factoring offers small and medium-sized enterprises (SMEs) the opportunity to access funds for their day-to-day operations. Nevertheless, factoring diverges significantly from conventional commercial lending, as it primarily considers the value of the borrower's underlying assets rather than the borrower's creditworthiness.

Factoring provides numerous benefits compared to alternative forms of financing in conventional lending arrangements within developing financial markets. Factoring can be especially beneficial in countries with inadequate secured lending regulations, ineffective bankruptcy procedures, and incomplete documentation of honoring seniority claims. This is due to the fact that a bankrupt small and medium-sized enterprise (SME) does not include factored receivables in its assets. Secondly, in a factoring arrangement, the creditworthiness is primarily determined by the quality of the underlying accounts receivable rather than the creditworthiness of the borrower. Factoring can help address the issue of borrowers' lack of information transparency in corporate contexts with inadequate information systems, provided that factors can establish exclusive databases that track payment performance and if the underlying accounts belong to companies that are relatively transparent. A small and medium-sized enterprise (SME) borrowing money meets the latter requirement when it owes outstanding payments to larger companies or to overseas companies located in countries with a more advanced information infrastructure. Given the aforementioned benefits that factoring provides to sellers and banks, the establishment of factoring services in commercial banks, particularly those that have already attempted but not yet succeeded, such as PRO CREDIT BANK, is an enticing prospect in a growing market like Kosovo. The thesis provided a comprehensive overview of theoretical approaches to defining and understanding factoring, as well as its target clients, small and medium-sized enterprises (SMEs). This text presents a case study of PRO CREDIT BANK, a very active and successful joint stock bank in Kosovo. The study provides a full analysis of the challenges faced in growing this service at other joint-stock commercial banks in Kosovo. To achieve effective development, the key is to ensure that enterprises have a favorable perception of factoring. Once firms in Kosovo gain awareness of the advantages and usefulness of factoring for their businesses, the factoring service is expected to rapidly improve and become a crucial financial tool in the country's economy. Given the limited time and scope of this study, it is important to note that the thesis has only been able to reach conclusions through a comprehensive analysis based on reviews. To fully understand the current state of Kosovo, a comprehensive study is required. This analysis should include a thorough investigation of each

proposed solution or initiative mentioned in this thesis, as well as an assessment of their possible effects when implemented in the real-life environment of PRO CREDIT BANK. PRO CREDIT BANK conducted a study prior to developing a more comprehensive factoring strategy for small and medium-sized enterprises (SMEs).

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