

UNIVERSITY OF LJUBLJANA
FACULTY OF ECONOMICS

MASTER'S THESIS:

**ESTABLISHING AND GROWING BUSINESS IN KOSOVO
FROM THE INTERNATIONAL BUSINESSES PERSPECTIVE:
THE CASE OF FACTOR LEASING**

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INTRODUCTION

Business establishment and growth in transition countries is a challenge that must be respected by the new investors in such countries like Kosovo. Entrepreneurship practices have shown that investments with higher risk have higher margins of profit, and as such in many cases are attractive for investors who do accept risk as a way of doing business. Kosovo as a market has its own characteristics which are not easy when they are unknown but, if you know these market characteristics you can have considerable benefits. Kosovo is a relatively small market if we take into consideration the number of inhabitants. Therefore, I consider that Kosovo is a market where micro, small and medium enterprises have been successfully developed until now with a number of large companies which still remain small in numbers.

In this research I have been mostly focused in the SMEs since this type of business can be seen as a market segment that can have positive influence for the economy of Kosovo. The possibility that this type of business will succeed is relatively high because of the size of the companies and the ability to adapt to the new market conditions. Also, in many researches and economies development practices I have found that SMEs and entrepreneurship in particular are identified as solution of unemployment and economic development.

Based on the fact that Kosovo has made considerable progress since the end of the war, but much remains to be desired, I see the solution for better economic development through foreign investment in Kosovo and in particularly in SMEs. Without excluding the possibility that Kosovo has the potential for large international companies, all companies will start as small and medium enterprises, then grow into large companies or corporations.

In reports published by international organizations, there are data on the economy of Kosovo which are not very extensive and as such do not represent the complete view of the economy and foreign investment opportunities. With this research I have gathered evidence that will support foreign investors with more detailed data that represent the climate of the market, based on trusted sources.

Following the research may be noted that a special emphasis is paid to the financial market. It could be for some reason that this sector is characterized by large presence of the foreign capital and the data for this segment are accurate since they are supervised by the Central Bank of Kosovo and international institutions. This sector is among the most developed segments and best organized in relation to all other segments. Also, it is the segment where the case study of this thesis has been conducted.

The first chapter takes into regard the business environment and entrepreneurship in Kosovo, as well as the factors which reflect on business strategy in the introduction and growth phase of the businesses. It contains description of the main research questions, hypotheses and methodology of the research, followed by literature review on establishing and growing a business.

The second chapter is about the Kosovo economic analysis where are described the macroeconomic data which are followed by analysis in taxation rates of Kosovo in comparison with European countries. There can be seen the advantages that Kosovo has in taxation in comparison with regional and EU countries. For the business environment analyses is used the PEST analysis to describe the Political, Economical, Social and Technological environment in Kosovo and as a reference segment market is used the financial market. Besides the financial market, in this chapter are also discussed other relevant market segments such as structure and competition. The other segments besides the financial market are presented just to give a background to the reader in order to understand the potential for investment and growth in these segments.

Furthermore, the second chapter continues with the introduction of the institutional environment and factors that determine the growth of the small and medium sized enterprises in Kosovo. The research is presented and supported with the facts about the importance of the internal environment through organizational culture and the importance of the entrepreneur's age and experience. Moreover, the chapter gives an important description of advantages and disadvantages of doing business in Kosovo from the entrepreneur's perspective.

The third chapter is focused on the data of the research regarding the case study, where are presented the introduction data about the subject being the case study. The case study is analyzed with five force model in order to have a more distinctive view of the business environment. Along the lines of the research are presented the market segment, organization structure and flexibility in delivery of the services. Taking into account the business experience from the case study – Factor Leasing, the importance of the business network and knowledge flows, SWOT analyses of the investment and facts that made Factor Leasing a good and successful investment in the Kosovo market are also analyzed.

The final chapter is about the recommended strategies to be considered as a pathway of establishing and growing a business in Kosovo. The content is structured by presenting business practices and supporting them with the business case in order to make it more practical for the readers and foreign direct investors in Kosovo. The research is finalized with conclusions that came out of the research regarding establishing and growing business in Kosovo from international business perspective.

1 ESTABLISHING AND GROWING BUSINESS IN KOSOVO FROM THE INTERNATIONAL BUSINESSES PERSPECTIVE: THE CASE OF FACTOR LEASING

1.1 Business environment and entrepreneurship

This research is oriented in the area of business environment and entrepreneurship. The purpose of this thesis is to present facts that support foreign investors with a background regarding business culture, business environment, consumption capacity, bargaining of entries and others factors which support the decision for investment and business development. These data and typology of Kosovo market will be presented by using the case of a private financial institution (leasing company) which has been operating in Kosovo since 2008. My thesis will also be useful to the Government of Kosovo and other governmental agencies which promote Kosovo market as an opportunity to invest. This research will offer trustworthy information sources to the interested stakeholders on Kosovo marked with respect to business establishment and its growth in Kosovo.

This research will tackle various sections of the market problems which can be encountered in every country. The reason why this issue has been taken up is due to the external factors which do not function in the best interest of the company all the time. The basic starting point of building a business strategy is the information and knowledge about the product and the market.

In the period of 2006, 2007 and 2008, Kosovo has attracted Foreign Direct Investments – FDI in amount of over 1 billion euro's where a slight decrease was noticed in 2008 and 2009 and this was mainly due to the impact of the financial downturn (MTI, 2011). In 2010, Kosovo had a positive growth of FDI inflows reaching 314.16 million euro (MTI - Ministry of Trade and Industry, IPAK, May 2011).

Net foreign direct investments (FDI) in Kosovo during 2011 and the first nine months of 2012 totaled EUR 378.9 million and EUR 178 million respectively (Investment in Kosovo - KPMG, 2013). In 2011, net investments comprised EUR 394.6 million in investments from non-residents into the economy and less than EUR 15.7 million in investments from Kosovo residents to other countries.

Existing foreign companies, which are expanding their market to Kosovo market, know about their product and business model. All they need to know is the characteristics of Kosovo market, which could influence changes in their product and business model. By getting information and local knowledge, investors will be more confident in their business strategy and the steps that need to be taken.

In order to start and grow a business in transition economies like the one in Kosovo, a lot of small details, which are very important to being successful, are required. Knowing that this process is not easy and requires the investment of a lot of funding, the information regarding the market is crucial in preparing the business plan and business strategy. Trusted and professional people are very important for a business to be established and to grow healthy, budget planning for investment and cash flow management to pay the suppliers and a good location to run the business are the basic needs.

1.2 Identification of the factors which reflect on business strategy in the introduction and growth phase of the businesses

My research goal is to identify the factors which reflect on business strategy in the introduction and growth phase of the businesses. Through this research I will identify the factors which lead to business success and the factors that may indicate the lack of success in doing business in Kosovo.

The environment of doing business is very important for new investors, and new investments are very important for the development of the economy and for increasing the employment within the economy. In our country, a lot of things have been changed after the end of the war in 1999, where post-war Kosovo, together with international community, has made very important improvements in post conflict reconstruction and establishment of the new state institutions (UNDP-Kosovo Human Development Report 2012, 2012a). Since 1999 lots of businesses have been quite successful, yet on the other hand, a lot of good businesses have failed, even though they were promising businesses at the time of their commencement. I would like to find information which will help the investors planning to invest in Kosovo with knowledge about the business environment, entrepreneurship style and the pathways to establishing and growing a successful business in Kosovo.

Foreign investments and partnerships with local investments are 3 (three) percent of the total established business in Kosovo, together with shareholders companies, the total percentage is 8 percent (UNDP-Kosovo Human Development Report 2012, 2012b). My goal is to have a research document that will gather information regarding Kosovo on the attributes of the market as: organization flexibility which is required to have in Kosovo business environment, determinants of SME growth, human capacity to establish and grow a business, business culture, taxation policy, etc. With this thesis, I would like to make a contribution in supporting investors from the countries which do not have any experience with Kosovo market.

Establishing and growing a business in Kosovo is a challenge, but also profitable referring to many foreign investments, like the case of Factor Leasing. This fact has made me

research what methodology or which information or knowledge do these businesses follow to succeed.

Main research questions which will be elaborated are the following:

1. What is the business environment of doing business in Kosovo?
2. What is the advantage and disadvantage of investing in Kosovo?
3. What are the challenges that domestic and foreign businesses in Kosovo face?
4. What are common factors/attributes of business strategy to establish and successfully grow a company in Kosovo?
5. What has made Factor Leasing successful in these segments?

1.2.1 Hypotheses

H1: Kosovo has very good investment opportunities for serious investors and the investment in Kosovo is profitable if the investments are made right, with trusted and professional people in the management.

H2: The development of manufacturing industry is the key to the wellbeing of the economy and Kosovo citizens.

H3: The age, experience, business and professional network of the entrepreneur is very important for the establishment and growth of a business.

H4: Local and central government and other administrative infrastructural requirements to improve the efficiency and work for the best interest of the country, people and investors including the laws and infrastructure for segments of interest for investors should be regulated with priority in order to provide security for investors and wellbeing of the citizens.

H5: Business growth and economic development are very much dependent on loan interest rates and the monetary policy. The government, in cooperation with Central Bank of Kosovo, can and must improve monetary supply, in order to have more favourable interest rates, especially for the segments of interest like: manufacture, agriculture, etc.

H6: The increase of efficiency in courts will increase the responsibility of creditors and debtors and as a result there will be better interest rates, much more efficiency in collecting payments B2B or B2C. With better interest rates, the cost of monetary capital will be lower and the profit will increase as well as the possibility to expand the business will be much higher.

H7: Establishing business by the legal or physical entities which are part of the business network will have almost guaranteed success and the same applies for foreign investments in cooperation with domestic investors which are successfully involved in the business.

1.3 Methodology

The process of the research will start with literature review by using existing data, as: books, reports from respected organizations, government and other publications which are from trusted sources. My research will be focused in describing the economic parameters with existing data and their reflection to an existing business that has been operating in Kosovo since 2008. This company/case study is a Financial Institution with Slovenian investor and Kosovo investor. I have also conduct interviews with other businesses which are foreign and domestic investors, only to have a better description of the existing situation, problems that they are facing and have faced in the past while establishing and growing a business.

The numbers of interviews that I have realized are eight (8) interviews out of 10 businesses that I have contacted. I have conducted semi-structured interviews with a standardized questionnaire and the interviews were held with the representatives of the companies. To close the circle, I have also organized interviews with five of Factor Leasing's clients which are randomly selected for better understanding of factors that made this company acceptable in the Kosovo market.

In order to prepare my questionnaire I have worked with small focus groups, than I had the first draft of the questionnaire; I have done the improvements needed in adopting the final questionnaire before starting with interviews. The interviews held were no longer than 45 to 60 minutes, after I have had the research and the interviews; I have come with the conclusions and recommendations.

1.4 Literature review on establishing and growing a business

In Kosovo there have been open discussions for many years on topics related to economic development and a high level of unemployment. From these two components are generated: consumption dependence on remittances, lack of foreign investment, lack of business growth and the lack of success for new businesses.

Establishment of a new businesses and preparation of conditions for business growth are essential for the state and the economy of Kosovo. The situations which Kosovo institutions have faced to are with many difficulties in building the economy and the improvement of citizens' welfare status of the country. As numerous studies have shown,

for the improvement of the welfare and building the economy of a country, new businesses play a very important role.

Since new businesses are the main generators of new jobs and have multiplier effect in stimulating consumption in the economy of a country, I will take statistical data and practices of the developed countries, to see the importance of the new business and SMEs. Europe's 18 million SMEs employ 66% of the Workforce and Generate 55% of the total turnover. In the Netherland every year are started 70,000 firms, all this data gives the same result, and new businesses are the solution for many economic issues (Parker & Van Praag, 2010). Referring to model called: "the noisy selection model", which is based on the lifecycle learning theory, it is stated that small firms grow faster than large firms because, initially, they are not certain about their real cost efficiency. Usually firms enter the market under the minimum efficient scale, and over time, grow to reach it (Jovanovic, 1982).

The survey conducted by Riinvest Institute at the end of 2002, which identified critical business environment barriers in Kosovo perceived by entrepreneurs, gives results that Gibrat's Law does not hold for growing SMEs in Kosovo. The econometric results suggest that firm's growth in Kosovo is negatively linked to firms' size and age (Krasniqi, 2007). In regard to Kosovo's business environment Solymossy (2005, pp. 501-518) interpreted, there has been progress in establishing the rule of law (both substantive and procedural), but it has been neither firmly established nor socially accepted (Solymossy, 2005).

In the case of Kosovo, entrepreneurship is developed under special conditions, rarely seen elsewhere, since it is one of the last countries experiencing transition difficulties toward a free and open market economy. The business environment and its entrepreneurial development served as an appropriate setting for Solymossy (2005, pp. 501-518) for expanding previous models on entrepreneurship. He suggests that Kosovo presents the complex circumstance of an extreme socio-economic environment through which to analyze entrepreneurship. The extreme conditions for entrepreneurship are present as a result of transitional particularities and a marginalized context deriving from political circumstances surrounding Kosovo.

External barriers experienced by entrepreneurs doing business in Kosovo are hardly observed elsewhere. For example, the business environment in the post-war period was heavily characterized by an institutional vacuum, followed by the lack of basic economic laws that would stop corruption and unfair competition. Recent evidence has shown that the 'lack of laws' barrier has been perceived as the most severe one in doing business and continues to be among the highest barriers (Hoxha 2009a; Capelleras & Hoxha, 2010). Transition economies are known for their unpredictability, volatility and un-codified institutional environments (Smallbone & Welter, 2001; Ahlstrom & Bruton, 2006).

In completing the picture, we can have a look also Total Entrepreneurial Activity (hereinafter: TEA) for different regions and for Kosovo as a whole, which was 6.4 per cent of overall adult population engaged in entrepreneurial activity either as self-employed or as business owners. The rate of self-employment of 6.4 is considered to be very small compared to other transition countries. Regional comparisons of TEA suggest that there are regional differences with regard to entrepreneurial activity of population. Some regions like Prizren, Prishtina and Ferizaj have higher TEA compared to the TEA for Kosovo (6.40) while others have slightly lower TEA like Peja, Gjakova, Mitrovica and Gjilani (Krasniqi, 2009).

Importantly, intentions to grow represent the variable with the largest influence and marginal effect in predicting firm fast growth. It should be noted though that 70 percent of Kosovar entrepreneurs lack the intentions to growth which is considerably higher than reported in Storey (1994) for the UK entrepreneurs – 50 percent, or in Morrison et al. (2003) for Australian entrepreneurs – 11 percent (Hoxha & Capelleras, 2010).

Empirical research conducted on the U.S., German, Australian, and Scottish economies has shown that age, size, location, legal form, and industry are related to business growth. Results show that business age, beginning size, ownership form, industrial sector, and legal form are the most important factors related to growth. Although business growth differs among industrial sectors, youth, ownership independence, and small size are major factors that underlie growth across all industries (Davidsson, Kirchoff, Hatemi & Gustavsson, 2002).

Other explanation why small firms grow faster than larger firms relies on adaptability and flexibility of small firms to the economic/industry dynamics. Small firm flexibility makes them more responsive to a changing business environment, resulting in higher growth rates (Francicevic & Bartlett, 2001; Sak & Taymaz, 2004).

Previous experience of entrepreneur is another important factor affecting growth of the firm. If entrepreneur or a small firm owner has previously owned a business or has held managerial position, the likelihood of the growth of the current firm increases even if the previous experience is not related to his current business. This is because of ‘learning by doing’ effect which increases the gain of general business skills applicable in all areas and sectors. By doing so, entrepreneurs improve their skills and potentially increase their chances of business success (Aidis & Mickiewicz, 2004; Krasniqi, Shiroka-Pula & Kutllovci, 2008). Start-up size and growth may be affected by the skills (human capital) and attitudes (intention to grow) of entrepreneurs. In terms of general human capital attributes, highly educated entrepreneurs may be better able to deal with complex problems, since formal education is considered a source of knowledge (Cooper et al., 1994). Entrepreneurs with specific knowledge may also be better able to detect profitable

market opportunities that are still unexplored. Specific human capital may also help organize the business successfully, thus facilitating growth (Wiklund & Shepherd 2003).

Study held in 1995, has found that the management practice and the most frequent high-growth repeaters have in common what the others lack which was continually replacing their business models with better ones, as often as every two to four years. Interestingly, many of the best performers began as start-ups or small companies as far back as 30 years ago under their current CEO, but few began making continual business model improvements until the late 1980s (Donald & Coles, 2004).

Table 1. Definitions of Fast-Growing Firms by Different Authors

Author	Definitions of Fast-Growing Firms
Siegel et al. (1993)	Firms that had experienced compound annual sales growth of more than 25 percent for at least three consecutive years
Birch et al. (1994)	Firms with sales growth of at least 25 percent per year
Smallbone et al. (1995)	Firms that double sales turnover in real terms, reaching a minimum sales turnover of £0.5m and financial stability
Davidson et al. and Delmar (1997)	The 10 percent of firms that display the highest annual average absolute employment growth
Fischer et al. (1997)	Firms having a minimum average growth in sales of over 20 percent per annum for a five-year period
Schreyer (2000)	The 10 percent of firms in the sample that show the highest growth
Brunderl and Preisendorfer (2000)	Firms that at least doubled its number of employees over the first four years and if they contributed at least five new jobs
Storey (2001)	Firms that have achieved a sales growth of at least 25 percent in each of the four years

(table continues)

(continued)

Littunen and Tohmo (2003)	Firms that double sales in real terms over the 1990-1997 period, and significant size
Davidson et al. and Henrekson (2002)	The 10 percent of the firms that exhibit the highest average annual growth in absolute employment
Almus (2002)	Firms that belong to the upper 5 or 10 percentile of the Birch Index distribution
Fischer and Reuber (2003)	Firms with an annual sales growth of at least 20 percent for five consecutive years
Delmar et al. (2003)	The 10 percent of firms that display the highest annual average growth on one, or more of six growth indicators
Barringer and Jones (2004)	Firms with a three-year compound annual sales growth rate of 80 percent or higher
Nicholls-Nixon (2005)	Firms with annual sales growth of 20 percent (or more) over a four-year period, on a revenue base of at least \$100,000
Barringer et al. (2005)	Firms with a three-year compound annual sales growth rate of 80 percent or above
Littunen and Virtanen (2006)	Firms that double sales in real terms over the 1990-1997 period, and significant size
Moreno and Casillas (2007)	Firms with a percentage of growth of more than 100 percent higher than the median of its sector
Zhang et al. (2008)	Firms with a three-year compound annual growth rate of 40 percent or higher
Capelleras and Rabetino (2008)	The 10 percent of firms that display the highest employment growth
Hoxha (2008)	The 10 percent of firms that display the highest employment growth
Hořlzl (2009)	The 10 (5) percent of firms that display the highest employment growth

Source: D. Hoxha and J. Capelleras, *Fast-growing firms in a transitional and extreme environment: Are they different?* 2010, p. 353, Table 1.

Starting a new firm from scratch is not the only way individuals can become entrepreneurs. They can also take over an existing firm, including a family business if they come from a business owning family. One can therefore distinguish the mode of entry from the entry decision itself (Parker & van Praag, 2010).

According to the European Commission, ‘one third of EU entrepreneurs, mainly those running family enterprises, will withdraw within the next ten years. According to estimates this could affect up to 690,000 small and medium sized enterprises and 2.8 million jobs every year’ (Commission of the European Communities, 2006, p.3). For example, based on the age distribution of business owners, 20,000 firms per year are expected to seek takeover candidates in the next five years in The Netherlands. In comparison, 70,000 firms are started every year in The Netherlands (Commission of the European Communities, 2006).

Entrepreneurs with higher human capital are in a position to raise more capital and set up larger and better-equipped businesses (Colombo *et al.*, 2004).

People who start up and run businesses need to know their own strengths and weaknesses because “entrepreneurship involves the ability to build a ‘founding team’ with complementary skills and talents” (Timmons, 1994, p. 7).

Many researchers define entrepreneurs as business owners and analyze the determinants of choice or success for this combination of self-starters and entrepreneurs who have taken over an existing firm. However, our study demonstrates that these entry modes are distinct. In particular, we find that individuals who come from business owning families and thus have the option of taking over a family firm will make different investments in human capital than their counterparts from non-business owning families (Parker & van Praag, 2010b).

The success of a business is due to many factors, but the greatest determinant of a business’ success is the entrepreneur him/herself. Naturally the entrepreneur’s diplomas, business knowledge and craftsmanship play an important role, but in our opinion the personality of the entrepreneur is even more important (Driessen & Zwart, 1998). According to Driessen and Zwart, on characteristics of successful entrepreneurs, there are three main characteristics and five secondary ones.

The three main characteristics are:

1. Need for Achievement;
2. Internal Locus of Control and
3. Risk Taking Propensity.

The five secondary characteristics are:

1. Need for Autonomy;
2. Need for Power;
3. Tolerance of Ambiguity;
4. Need for Affiliation and
5. Endurance (Driessen & Zwart, 1998b, p. 4).

According to Timmons (1994, p. 7) entrepreneurship is “the ability to create and build something from practically nothing. It is initiating, doing, achieving and building an enterprise or organization, rather than just watching, analyzing or describing one. It is the knack for sensing an opportunity where others see chaos, contradiction and confusion. It is the ability to build a ‘founding team’ to complement your own skills and talents. It is the know-how to find, marshal and control resources (often owned by others) and to make sure you don’t run out of money when you need it most. Finally, it is the willingness to take calculated risk, - both personal and financial - and then do everything possible to get the odds in your favor”.

2 KOSOVO ECONOMY ANALYSIS

The geographical position of Republic of Kosovo is in the border with Albania to the south-west, the Republic of Montenegro to the west, the Republic of Serbia to the north-east and the Republic of Macedonia to the south-east. Kosovo is the newest state in Europe. As a small country, Kosovo now could have around 2,200,000 inhabitants referring to demographic experts. It has a surface of 10,877 km². Although it is a small country, Kosovo possesses its developing possibilities. More than half of land is arable, and over one-third is woodland, the quality of land is good and with sufficient water streams (Kosova Academy of Sciences and Arts, 2013).

Kosovo is a new opportunity for investors that are looking for investments in developing countries with unused resources. Kosovo, as a country, has a great number of youth who are ready for work, well-educated and have experience working with companies as well as international and local organizations. All international companies, in their management include local personnel or combined – local and international. In majority of cases, international companies engage local management and personnel to manage the delivery of daily activities. This is a very good approach since there are a lot of factors which facilitate and harden the work delivery of a certain company, as are: language, culture, salary costs, and certainly educational and professional background.

In the following is the list of a few successful companies which are from foreign investments according to law and have local management or combined – local and international.

Table 2. Foreign Investments with Local Management or Combined Management in Kosovo

The company name	Management of the company	FDI
Porsche Prishtina	Local management	Austria
Newco Feronikeli	Combined management	Netherland
ProCredit Bank	Local management	Germany
Illyria insurance	Combined management	Slovenia
Oxa Group	Local management	Macedonia
NLB Prishtina	Local management	Slovenian & Kosovar investment
KEDS	Local management	Turkey
Raiffeisen Bank	Combined management	Austria
Sigal Uniqa Group Austria	Local management	Austrian & Albanian
Prishtina Airport	Combined management	Turkey
Orbico	Local management	Croatia
Birra Peja	Combined management	Slovenian & Kosovar investment
JYSK	Local management	Norwegian franchise
CDEK	Combined management	France
Fondi Sloveno Kosovar	Local management	Slovenian & Kosovar investment
Sharr Cem	Combined management	Greece & Kosovar investment
TEB Bank	Combined management	Turkey

Note* Table no. 2 is generated by using personal data and confirmed in the online platform (www.arbk.org/en)

Source: 2014 Kosova Business Registration Agency.

People in Kosovo are mainly with entrepreneur attributes, ready for change, people who accept very easily foreigners and tend to learn from other cultures. The snapshot report for business environment of the World Bank ranks Kosovo as one of the most open countries to foreign equities ownership in Easter Europe and Central Asia (World Bank, 2013). On the other hand Hoxha (2009. p.188) very well augmented in his research that Kosovar population has entrepreneurial spirit which made possible a rapid recovery from the war and improved the economic situation. Therefore, I consider that foreign investors of small and medium enterprises may rapidly adapt to the culture and climate of doing business, especially people from European Union countries and Switzerland.

On February 17th, 2008, the Parliament of Kosovo proclaimed the independence of the Republic of Kosovo. A day later, the Republic of Kosovo was recognized by the United States of America, The United Kingdom, France, Albania, Turkey, and then Germany and European Union States (except Spain, Greece, Cyprus, Slovakia and Romania) (Kosova Academy of Sciences and Arts, 2013b).

To date, Kosovo has been recognized by 104 UN member states, including 23 EU Member States. The NATO-led Kosovo Force (hereinafter: KFOR) has continued to assist in the security in Kosovo. During the reporting period, its presence amounted to about 5,000 personnel (European Commission, 2013). Republic of Kosovo, as the newest state in Europe, has trade relationships with all the countries of the Balkans and the European Union countries. Kosovo is part of Euro-Zone, as it uses Euro as its currency. Gross Domestic Product (hereinafter: GDP) for year 2012 was 5.02 billion or 2.750 € per capita (Ministry of Foreign Affairs, 2013).

Financial Sector in Kosovo consists of nine (9) commercial Banks, thirteen (13) insurance companies, fourteen (14) micro finance institutions, four (4) non-banking financial institutions including two (2) leasing companies that are operating in the market - Factor Leasing sh.p.k. and Raiffeisen Leasing (Central Bank of Kosovo, 2013).

Labour force in Kosovo is with lower cost compared to all the countries in the region and within European Union. Kosovo has also a customs-free access to the EU market based on the EU Autonomous Trade Preference (hereinafter: ATP) regime, Central European Free Trade Agreement (hereinafter: CEFTA) and preferential treatment of exported goods in the US market.

Low taxes and transparent tax system, the taxes that are applied are, 16% VAT, Corporate Profit Tax 10%, Personal Income Tax is progressive to max. 10%. Local and international investors in Kosovo have customs free access to the markets of CEFTA, European Union and United States of America (Ministry of Trade and Industry, 2010).

Kosovo participates in the South East Europe Transport Observatory (hereinafter: SEETO) forum, the Energy Community Treaty, The South East Europe (hereinafter: SEE) Center for Entrepreneurial Learning, The Regional Rural Development Standing Work Group in the SEE, the Regional Environmental Networking for Accession, and the Networking of Associations of Local Authorities of the SEE. On the 28th of February, 2013, The Regional Cooperation Council (hereinafter: RCC) allowed Kosovo to become a participant in its own rights (European Commission, 2013b).

2.1 Taxation rates in Republic of Kosovo and the comparison to European countries

The comparison of the taxation rates and social security schemes of the Republic of Kosovo with European Union Countries based on the tables below where can be seen that Kosovo has the lowest taxation rates compared to all European Union countries and it has completely harmonized legislation on VAT applicable and other indirect taxations (Imeri, 2013).

Table 3. Taxation Rates in the Countries of the European Union

Country	Taxes in %		Social security in %		VAT in %
	Corporate tax	Personal tax	Employer	Employee	
Austria	25.00	21-50	21.83	18.20	20.00
Belgium	33.99	25-50	40.58	13.07	21.00
Bulgaria	10.00	10.00	18.50	12.90	20.00
Cyprus	10.00	0-35	8.50	6.80	17.00
Czech Rep.	19.00	15.00	34.00	11.00	20.00
Denmark	25.00	38.00-65.00	0.00	DKK 900	25.00
Estonia	21.00	20.00	33.00	2.80.00	20.00
Finland	24.50	6.50-29.75	19.47	9.14.00	23.00
France	33.33	5.5-41.00	50.00	20.00	19.60
Germany	30-33 (effective)	14-45.00	19.70	20.60.00	19.00
Greece	20.00	0-45.00	28.00	16.00	23.00
Hungary	10/19	16.00	28.50	18.50.00	27.00
Ireland	12.50	20-41.00	10.75	4.00	23.00
Italy	27.50	23.00-43.00	30.00	10.00	21.00
Latvia	15.00	23.00	24.09	11.00	22.00
Lithuania	15.00	15.00/20.00	32.600	9.00	21.00
Luxemburg	21.00	0-38.00	14.69	13.45	15.00
Malta	35.00	15-35.00	10.00	10.00	18.00

(table continues)

(continued)

Netherlands	20-25.00	0-52.00	0.00	0.00	19.00
Poland	19.00	18.00/32.00	20.14	13.70	23.00
Portugal	25.00	11.5-46.50	23.75	11.00	23.00
Romania	16.00	16.00	27.50	16.50	24.00
Slovakia	19.00	19.00	34.80	13.40	20.00
Slovenia	18.00	16.00-41.00	16.10	22.10	20.00
Spain	30.00	24.75-52.00	23.60	4.70	18.00
Sweden	26.30	0-57.00	0.00	0.00	25.00
U.K.	24.00	0-50.00	13.80	12.00	20.00

Source: V. Imeri, *The comparison of the tax rates between the Republic of Kosovo with countries in region and European Union countries*, 2013, p. 352, Table 1.

In the following are taxation rates that are applicable in Kosovo to compare with countries of the European Union and countries of the region. Referring to the Table 4, VAT is 16% and in some products 0%, tax on corporate profit is 10%, taxes on personal income are progressive from 0% (up to 80 euro per month), then it is calculated with 4%, 8% and 10%, depending on the income.

Table 4. Taxation Rates in the Republic of Kosovo

Country	Taxes (%)		Pensional contributions		Self-employed/ Small business		VAT
	Corporate	Personal	Employer	Employee	Tax	Pensional contribution	
Kosovo	10	4	5	5	Min. 37.5 euro	Min. 1/3 of minim. wage	16
		8			3*	≥ 1/3 min. Wage	
		10			9**	≥ 1/3 min. Wage	

Note: * For businesses having as activity trade, production, catering facilities, etc.

**For businesses offering only services,

Source: V. Imeri, *The comparison of the tax rates between the Republic of Kosovo with countries in region and European Union countries*, 2013, p. 354, Table 2.

In the following are presented tables with taxation rates of the countries in the region, Albania, Macedonia, Montenegro, Bosnia and Herzegovina, Serbia and Croatia and compared to Kosovo taxation.

Table 5. Tax Rates in the Republic of Albania

Country	Corporate tax in %	Personal tax in %	Social security employer in %	Social security employee in %	Social security self-employed in %	VAT in %
Albania	10	10	16.70	11.20	23	20
Note: In the group enter the social security for:						
1	Social insurance for illness (temporary disability)		0.18	0.12	0.00	
2	Maternity		0.83	0.57	1.40	
3	Pension		12.79	8.81	21.60	
4	Accidents and occupational diseases		0.30	0.00	0.00	
5	Unemployment		0.90	0.00	0.00	
6	Health insurance		1.70	1.70	7.00	

Source: V. Imeri, *The comparison of the tax rates between the Republic of Kosovo with countries in region and European Union countries*, 2013, p. 355, Table 3.

Taxation rates in Albania are less favorable in comparison with Kosovo taxation rates in few taxation rates. The VAT is higher in Albania than in Kosovo where in Albania the VAT is 20% instead of that in Kosovo of 16%.

Other disadvantages in taxation are in personal income taxation, in Albania the income tax is 10% while in Kosovo there is a progressive taxation 0% to 10%. In Albania is applied the taxation for health insurance while in Kosovo it is not applied. Taking into consideration these data, Kosovo is in a more favorable position than Albania for taxation rates.

Table 6. Tax Rates in the Republic of Macedonia

Country	Corporate tax in %	Personal tax in %	Pensions in %	Health insuran. in %	Employ. insuran. in %	Unempl. insuran. in %	VAT in %
Macedonia	10	10	18	7.30	0.50	1.20	18

Source: V. Imeri, *The comparison of the tax rates between the Republic of Kosovo with countries in region and European Union countries*, 2013, p. 356, Table 4.

Macedonia applies different taxation rates in comparison with Kosovo and the difference is in the taxation rates and types of taxation that are applied. Taxation policy in Macedonia for pension is 18%, in Kosovo it is 10%. Also, the tax for personal income in Macedonia is 10% as a fix rate while in Kosovo it is progressive from 0% up to 10%. VAT in Macedonia is 18% and the lowest rate is 5%, whereas in Kosovo the VAT is 16% and the lowest 0%. In Macedonia is applied the tax for health insurance which does not have low rates of taxation while in Kosovo it is not applied at all.

Table 7. Tax Rates in the Republic of Montenegro

Country	Corporate tax in %	Personal tax in %	Social security employer in %	Social security employee in %	VAT in %
Montenegro	9	9	9.80	24	17
Note: In the group enter the social security for:					
1	Pensional		5.50	15.00	
2	Health insurance		3.80	8.50	
3	Unemployment		0.50	0.50	

Source: V. Imeri, *The comparison of the tax rates between the Republic of Kosovo with countries in region and European Union countries*, 2013, p. 357, Table 5.

In Montenegro taxation of corporate profit is more favorable by applying the tax rate of 9% while in Kosovo it is 10%. Meanwhile, Kosovo is more attractive for VAT, income taxes, health insurance and pensional contributions. The VAT in Montenegro is 17% and the lowest rate 7% while in Kosovo the VAT is 16% and the lowest rate 0%; the income tax in Montenegro is 9% fixed rate and tax free wage is up to 70 euro per month or 840 euro per year while in Kosovo the tax rate is progressive, wages up to 80 euro per month or 960 euro per year are tax free (0%), above this amount 4%, then 8% up to the maximum rate of 10%.

Table 8. Tax Rates in the Republic of Croatia

Country	Corporate tax in %	Personal tax in %	Social security employer in %	Social security employee in %	VAT in %
Croatia	20	12-40	15.20	20	25
Note: In the group enter the social security for:					
1	Health insurance		13		
2	Health employment insurance		0.50		
3	Unemployment		1.70		

Source: V. Imeri, *The comparison of the tax rates between the Republic of Kosovo with countries in region and European Union countries*, 2013, p. 358, Table 6.

Taxation policy of Croatia is very different from the Kosovo taxation policy where the state of Croatia collects taxes on different levels of the state while Kosovo has centralized tax authority. If we compare these two states, Kosovo is applying more favorable taxation policy than Croatia in all aspects of business profit and personal income.

Table 9. Tax Rates in the Republic of Bosnia and Herzegovina

Country	Corporate tax in %	Personal tax in %	Social security employer in %	Social security employee in %	VAT in %
Federation of Bosnia and Herzegovina	10	10	10.50	31	17
Republika Srpska	10	0-15	-	32.50	17
Brcko District / FBiH	10	10	6	30.50	17
Brcko District / RS	10	10	-	31.50	17

Source: V. Imeri, *The comparison of the tax rates between the Republic of Kosovo with countries in region and European Union countries*, 2013, p. 359, Table 7

Bosnia and Herzegovina is applying a complex taxation because of the separation in different administrative authorities. But, if the analysis is made as a total, we can conclude that VAT is 17% the standard and the lowest 0% while, in Kosovo is 16% and the lowest 0%. Taxation on company profit is 10% in Bosnia and Herzegovina which is the same as in Kosovo, Income taxation is also 10% in Bosnia and Herzegovina with exception in

Republika Srpska where it is 0% to 15%, while in Kosovo the Income taxation is progressive (0%, 4%, 8% and max. 10%). The social security in Bosnia and Herzegovina paid by employer is 0% up to 10.5% and the employee is taxed 30.50 up to 32.50 depending in which administrative territory is operating. Referring to this data, Kosovo is better positioned in comparison with Bosnia and Herzegovina.

Table 10. Tax Rates in the Republic of Serbia

Country	Corporate tax in %	Personal tax in %	Social security employer in %	Social security employee in %	VAT in %
Serbia	10	10-20	16.90	16.90	20
Note: In the group enter the social security for:					
1	Pensions		11	11	
2	Health insurance		6.15	6.15	
3	Unemployment		0.75	0.75	

Source: V. Imeri, *The comparison of the tax rates between the Republic of Kosovo with countries in region and European Union countries*, 2013, p.360, Table 8

In Serbia the tax on company profit is the same as in Kosovo 10%. While the other types of taxes in Serbia have disadvantages in comparison with applied taxes in Kosovo. The VAT tax in Serbia is 20% and the lowest 8%, both countries do have progressive taxation in income taxes but, Serbia starts with 10% rate until 20% while, Kosovo tax rates are 0% until 10%. In the meantime, taxes for pension in Serbia are higher for 6% as per employer and employee; Serbia is applying also other taxes for social security and health care which are mandatory while, Kosovo has no taxes in this segment. If these data are taken into account, Serbia is in a disfavored position for tax policy in comparison to Kosovo.

Referring to the tables above I conclude that Kosovo has a very stimulating taxation. Kosovo has the lowest tax on personal income, VAT, social security paid by employees only the corporate tax is 10% which is like in the regional countries with the exception to Montenegro that has 9% and Croatia that has 20%. Referring to taxation norms, Kosovo is complete in comparison with countries of the region and applies the same taxation for domestic investors and foreign investors.

2.2 PEST analysis of Kosovo market

Political analysis - In political aspect, Kosovo is organized as a democratic and multi-party system, but with the highlighted dominance of the two parties and a trend of increasing of new parties. The political scene in Kosovo is mainly dominated by four

political parties on national level which have a representing percentage of more than 10% of the votes in the Parliament, and minorities which, as per the Ahtisaari package have 20 additional guaranteed seats to the ones gained on election. The parliamentary elections in Kosovo are going to be held in 2014, whereas the local elections have been held on November 3, 2013, with a participation of a total of 33 political parties and 52 civic initiatives (Lajmi Fundit, 2013).

After the last local elections, it is considered that there will be improvements in the way of doing politics, in a way of improving the legal conditions, infrastructure, economy, education, health, etc. We can come to this conclusion, because in many of municipalities where the political parties considered that they own the guaranteed victory referring to the previous elections, they have lost the elections as a punishment for not fulfilling the citizens' needs on social welfare, as is the economic development, rule of law, development of healthcare and a lot of other aspects that have direct influence in the life of the citizens.

In financial sector, these political changes may have positive impacts, since the more stable economy and the citizens' expectations of a better future may impact the spending mood. Financial sector in Kosovo is far from political parties, or said differently, the financial sector tries not to get involved in political developments.

The legal infrastructure in Kosovo is in the completing and strengthening process in comparison with the post-conflict period, or more specifically – in relation to the beginning of state building period. The Parliament of the Republic of Kosovo has passed sufficient laws to ensure good functioning of the rule of law and respect of Ahtisaari package. Also, the state of Kosovo is working on adoption of laws to achieve the Stabilization and Association Agreement – SAA.

Despite the fact that Kosovo has made important steps in the development of legal life and emphasizing the functioning of the law, it still stumbles in achieving the desired level for the population of Kosovo and the European Union's governing bodies. Thus, Kosovo ended in 2012 with many aspects of stagnation in the visa liberalization with the European Union, the rule of law, economic development and other areas dictating the conditions of doing business and offering better quality of life.

According to the Kosovo 2013 progress report, in January a new court system was introduced and a new criminal code and criminal procedure code entered into force, this new code is introduced in order to improve the existing situation. The implementation of the two-year strategy to reduce the backlog of cases accumulated until December 2008 resulted in a backlog reduction of about 65%, leaving about 63,500 cases unresolved. Overall, Kosovo has met the short-term priorities of the feasibility study. It adopted a new

anticorruption strategy and Kosovo has maintained commitment to the fight against corruption. To meet its obligations under the Stabilization and Association Agreement, Kosovo needs to implement the legislative and policy frameworks and provide concrete evidence of results in the fight against corruption (European Commission, 2013c).

The countries' legislation, in majority of cases is in accordance with the international legislation. In some cases it may not be detailed as in international countries, but in general it tends to adopt the practices of developed western countries. The law on foreign investments, in developed western countries has been in force for long time now, with the intention of supporting and protecting the investments, while in Kosovo it has come to force in January 2014. Another important issue is the law on leasing, which in international practices is very well defined, including both operating and financial leasing. Practices which may guide Kosovo institutions define the norms of handing of leasing.

In Kosovo until 2008, there were no laws on lease (Operational or financial leasing) that would define the functioning of this financial product. With the law on leasing, many things remain to be uncovered in the laws, which are vital for the well-functioning of the lease in Kosovo. In developed western countries, where the legal state is functional, the leasing practices have been clarified many years ago.

With the existence of law on leasing, the infrastructure that will enable the proper functioning of the rule of law and the definition of ownership in case of dispute or not fulfillment of the contract has been created. But, whilst the Republic of Kosovo is tending for membership to European Union, tax laws and practices are mostly adopted according to the laws and practices of European Union, with the aim of approximation and preparation of legislation with the European Union countries. Therefore, I consider that if the law on leasing is not defined well by now, in a near future it will be much better defined and European Union countries will be a guiding point of reference.

According to the latest developments of the World Bank in Kosovo, we see a tendency for creation of laws and regulations which will increase the control in the financial institutions. Particularly, we see a growing tendency for increasing the control and supervision of MFI and IFJB, category in which are included the leasing companies.

Whilst, in the business registration aspect, it is not a complicated process, according to the report "Doing business" published by World Bank, substantial progress has been made in some areas of doing business, ranking Kosovo 44 places higher in the world valuation lists. The business registration can be done within one (1) day for individual businesses, and three (3) days for holding companies including obtaining the tax certificate.

In accordance with the type of business, there are different types of licenses that need to be

ensured. In some market segments, there are almost no legal and procedural barriers in entering the market and increasing the competition. While for more complex segments such as: financial institutions, telecommunication sector or other different services which are of vital public importance and directly influential to the life and interests of Kosovar citizens, licenses are required.

Certainly, licensing takes more time, in accordance to the segment which the business chooses to invest for operating. In accordance to the industries that it is being invested in, there are regulations that set the criteria and conditions to be fulfilled and contained, as in every other country. In Kosovo, to start working as a leasing company, it is required to register the company, which can be done within 3 days in the Ministry of Trade and Industry, then it is required to license the company by the Central Bank of Kosovo which lasts for three (3) months from the moment of submission of all required documents.

The Kosovo trade policies have been discouraging for the local producers, by not offering support with the state policies. Government policies for business development need to improve a lot. The support declaratively exists, but in reality this support is extremely weak and there is a lot of space for improvements.

Problems Kosovo is facing with are: high unemployment rate, lack of local production and the negative market balance, low ability of courts on enforcement, the unclear legal infrastructure, inefficient state mechanisms and a lot of other issues which impact the business development. These can be proved by the high number of unsolved and unexecuted cases in courts.

The government of Kosovo, through the Privatization Agency has privatized public enterprises which after being privatized have changed the destination, or the land has simply been divided into smaller pieces and sold. Whereas, public enterprises in Gjakova, an industrial city with some production factories, which have been in good condition up to 1999 and ready to precede with their production or with a little investment to become functional, have been left un-privatized until they were totally destroyed.

In this industrial city, the privatization may have been very easy, because on the basis of decisions of the Supreme Court of Serbia, in 1989 a part of the privatization of enterprises was made at that time. Despite this, the privatization agency of that time (Kosovo Trust Agency), had decided not to do these privatizations but to postpone them for a certain period. Majority of these enterprises are still not privatized. These companies, until the year 2002, some more and some less, have produced, while today they do not and are waiting for privatization in a deplorable condition.

This is a huge damage that has been caused to this city and economy in general, because of

the non-action of the Government of Kosovo and competent privatization bodies. The city of Gjakova, at the time when its factories were functioning, was a 200 million USD exporting city, while today is suffering for existence, and people being forced to leave the city and go to other cities or in direction of western countries.

Whereas, in other cities, those companies which have been privatized through special spinoff, in which the investor is obliged to fulfill some conditions on number of employees and the value of the investments which need to be done. In majority of cases they have not fulfilled the conditions in accordance with the contract, consequences for no implementation of the contracts have not been applied within the period foreseen by law and contract, especially as a consequence of not functioning in the right way of the Kosovo Trust Agency or as it is being called for some years now – Privatization Agency of Kosovo and Courts in general.

Another problem is the VAT refund. If an enterprise requires from Tax Administration of Kosovo (hereinafter: TAK) the re-imbusement the VAT, tax audit by the agency of Kosovo is guaranteed. Besides this, the investigation control over reimbursement requests can be punishable even for issues where business has damaged itself. Also, the process of VAT refund does not end quickly, the process drags on for years without the support of logical laws, business support and logical approach to solving the problems of stimulating economic development.

Regardless of this, the country, as a new state gives more opportunities for investment and growth, but not much has been done in that direction due to high corruption and non-functioning of institutions in the capacity needed. Instead, the international community in Kosovo has a very big influence in strategic politics and day to day politics. It is worth mentioning the great impact that the Embassies of the United States, Germany, Great Britain, France and some other European Union countries have. Also, an influence and special importance in the establishment and functioning of law and the rule of law have the international troops of EULEX.

EULEX is supported by all 28 European Union Member States and five contributing States (Canada, Norway, Switzerland, Turkey and the United States). In April 2009, EULEX became fully operational. EULEX works within the framework of UN Security Council Resolution 1244. Kosovo is a quiet and safe place as for tourism and investment also, for the security cares Kosovo Police and KFOR, which is led by NATO troops. Furthermore, the Kosovo Security Force attend to support these two security troops and caring for civilians in cases of natural disasters. Regardless of the fact that Kosovo, as a new state, may seem rather unconfident in the safety aspect of riots, fights and aspects of that kind, I think it is an extremely safe place and is easily managed with KFOR capacity (NATO), Kosovo Police and Kosovo Security Force.

Kosovo has passed through difficult political periods, as a result of which the desired level of economic development and the rule of law have remained in tentative. Referring to the recent political developments, issues that have been connected with Serbia, are being solved and I assume that during 2014 the political talks will come to an end and solving the situation for the remaining parts.

These political changes would enable the political spectrum to orient their attention and energy towards economic development and improving the welfare. Also, in the international level, Kosovo would be seen as a country with defined political issues, whereas foreign investors would feel more secure in investing while not expecting to have issues which may hold up the economic development. Moreover, provision of guarantees and support from the Government of Kosovo to foreign investors, and assistance with laws that enable businesses to operate under the legal framework would be feasible, since the state would be consolidated and there would be no unresolved issue with a neighboring state.

Economic analysis - The general economic situation remains challenging with very high unemployment rate, GDP growth came down from 4.4% in 2011 to 2.5% in 2012 and is likely to remain subdued in the first half of 2013 as well. GDP per capita has reached 2,721 in 2012, equal to 11% of the EU-27 average.

The annual average rate of inflation was 2.5% in 2012. Overall, inflation has declined and continued to be driven mainly by food and energy prices. Unemployment is very high at 35.1%, according to labor force survey (January to June 2012). Trade imbalance remained significant, with a trade deficit of 35.1% of GDP, reflecting an underdeveloped and narrow domestic production base (European Commission, 2013d).

Kosovo's state budget is based mostly on collecting taxes on imported mass consumption goods, since Kosovo is very little developed in the manufacturing sector. The main segment of the Kosovo economy is trade, with a considerable market penetration, then we have services and finally we have production as a market size. This can be seen with the number of enterprises operating in Kosovo and customs' import and export data.

Kosovo continues to have a very high trade deficit compared to all countries having trade cooperation with. This situation has been ongoing in Kosovo for years. This condition in most cases is described as "exportation of money" since through import a lot of money is getting out of Kosovo. The continuation of this situation is being enabled by the financial assistance that Kosovo citizens are taking from family members living abroad, through remittances. Otherwise, this would not be possible as it would appear to lack the cash and have a drastic decrease of purchasing power, which would hamper the actual livelihood.

Kosovo has suitable climate for the development of agriculture, mining and minerals, tourism and development of the production sector. Foreign investment in manufacturing will help the economy of Kosovo by giving a chain effect in the development of the economy, and in the same time would be even more profitable for investors. According to customs data, it can be seen which products are deficient products in Kosovo and these products could be produced in the country.

Kosovo citizens are aware of the effects associated to the consumption of domestic production, more carefully evaluating the place of production, price and quality. Some local companies that are local investors, who have the financial power to invest, have recorded substantial growth like companies which deal with the production of milk, yoghurt, some brands of non-carbonated drinks, etc. Then, another very successful company in the production sector, is SOLID company from Suhareka, which employs 230 workers, who for years has been producing for the wide local market, for Kosovo Police, Kosovo Security Forces, supplying shoe stores, etc., while, for two years now, they have begun to produce for world brands, as Geox and Samsonite.

The sector of production is very specific, so I think that there should be foreign investment or domestic investors with experience in the field of investment, due to the fact that more funding is required for the realization of investment and experience in the fields in which the investment is made. Investments in the production sector have very high “sunk costs” and as such cannot experiment but require experience to make successful investment.

Taxation applicable in Kosovo can be considered one of the advantages of Kosovo to attract foreign investors, since tax rates are attractive. The tax rate is 10% tax on profit, and if the company is not performing profitably, it is not obliged to pay tax on the profit and can deduct all the losses of the previous years in the calculation of profit tax, this way of taxation I consider is the right way and can be considered as a tax incentive for investors.

Value added tax - VAT is deductible, if the company manages to have the prepayment of VAT, the business may reimburse the VAT tax for what they are in the prepayment value or deduct in the following months. VAT tax is 16%, making the VAT tax to the lowest in region. Tax of VAT is applied by those companies which reach turnover more than 50,000 EUR per year or those companies which voluntarily register as VAT declarant. Vulnerary declaration of VAT can be claimed by companies that import goods from abroad or companies that purchase products with VAT.

Income tax is a progressive tax, 0 up to 80 EUR is 0%; from 81 EUR up to 250 EUR tax is 4% for this intermediate value, above 250 EUR up to 450 EUR tax is 8% and over 450 EUR tax is 10%. Salaries that are not primary are taxed by 10% in total value, while the pension contribution is 5% for employee and 5% for employer. Rent tax, the tax rates on

dividends, interest on deposits, rent, gambling, capital gains, sale of intangible property, etc., all are taxed by 10%, making the country with attractive tax for foreign investors and local investors.

Agriculture and manufacturing have specific conditions of taxation. In case of import of agricultural or manufacturing equipment, it is not required to pay duty of 10% of the device value. Commercial transaction currency is in Euros, which represents mitigation conditions for investors who have Euro as working currency, both in the investment phase and also the phase of business development. While in the USD, Swiss Franc, British Pound, etc. currencies, may use the foreign exchange, as in any other European Union country.

Financial sector in Kosovo is one of the most developed and organized sectors, but the interest rates continue to be high. Interest rates on loans are from 9% to 24% in accordance to the dedication of the loan and if the loan is issued by a bank or microfinance institutions. The following is a comparative table of Kosovo and regional countries with regard to interest rates on loans, deposits, SPREAD percent, return on equity and non-performing loans.

Table 11. The Main Figures of Regional Financial Sector

Country	The real interest rate on loans in %	Interest rate on loans in %	Interest rate on deposits in %	SPREAD in %	Nonperforming loans in %	Return on capital in %	Loans issued to market (in billions of EUR)
Kosovo	11.7	12.9	3.7	9.1	6.4	12.9	1.77
Macedonia	8.0	8.5	5.1	3.4	9.7	3.3	3.46
Albania	7.7	10.9	5.4	5.5	21.1	11.4	3.9
Montenegro	7.1	9.6	3.3	6.3	17.6	-3.0	1.86
Serbia	11.2	17.4	10.6	6.8	19.5	4.9	17.5
Bosnia Herzegovina	5.0	6.9	2.9	3.9	12.6	7.7	8.15
Source/year World Bank	WB/ 2012	WB/ 2012	WB/ 2012	WB/ 2012	WB/ 2012	BB/ 2011	Local Central Banks /2012

Source: 2013, Kosovo Bankers Association, *The Kosovo Banker*, Table No. 3.

The economy of Kosovo is experiencing heavy high interest rates, but regardless of this, the Government of Kosovo has not taken any action that would improve the situation. Kosovo economy continues to move large amounts of money out of the market due to high trade deficits that occur each year, as a result of removal of privatization of public enterprises funds and their investment in other developed western countries. Also, we have the pension fund called "Pension Trust" which is also invested and deposited in the banks of Western countries.

However, banks, businesses and citizens of Kosovo buy expensive funds within and abroad, due to the lack of free means. Actions such as the freezing of funds abroad, lower exports in relation to imports, have made cash offers to be in deficit in relation to the demand. All this is affecting the cost of money and the level of liquidity of banks in Kosovo. Another factor that is implicating the money cost is the judiciary inefficiency in treating the cases and execution of court decisions.

Seasonal sector is of special importance for Kosovo. During the summer holidays and the New Year holidays, Kosovo economy experiences an annual economic infusion. In this period, the Kosovo diaspora spend their summer holidays in Kosovo, and there is an increased demand for all products and services.

In this period, we also have an increased employment and the economy takes impulses which enable the continuation of the living in those already created living trends. In general, the holiday period is a good impulse for the economy, thus creating seasonal work and seasonal consumption too.

In Kosovo market, access to loans is not easy. In particular for new businesses, it is particularly difficult, since there are almost none of the financial institutions or substitute solutions that finance new or start-up businesses. The only financing made by financial institutions for start-up businesses are those loans which are secured by international organization, where in case of the failure, damages would be covered by the guarantor.

Obtaining loans in Kosovo is not easy, especially for small businesses or micro-businesses, because they are not very organized and prepared to provide documents and follow instructions as required by the banks. Among the basic conditions for receiving the loan is through bank circulation so that business situation can be documented. We have businesses that have more profit than the bank turnover, and then it makes it harder due to the documentation of business to obtain loans.

Another problem during the evaluation and approval of the loan is assessment of assets. In the absence of any agency operating for asset valuation, the valuation of assets is made by banks, based on their internal assessments. Also, the value of the approved loan must be

covered over with movable and immovable assets, 166% for individual loans and 200% for business loans. Beside this, it is necessary to have a guarantor and in many cases co-debtor is also required. This certainly presents difficulties in lending, it limits the value of the loan you can get and reduces the ability of lending growth respectively.

Therefore, financial leasing as a product is much more favorable than loans, since with leasing guarantors are not required, nor co-debtor or the cession of any warranty other than the asset acquired. In terms of obtaining loans, most of the non-banking institutions are financed through loans which are taken from abroad due to the low cost of purchasing the credit lines. But, if the non-banking institutions would turn the strategy and take internally for accessing lines, cost of purchase money would increase and the possibility of having the loan approval would be questioned.

According to the Rule of the CBK regarding financing, commercial banks in Kosovo can finance a fiscal or legal person up to 15% of the first capital pillar (I) (Law No. 04/L-093, 2012). According to financial statements published on the web site of the Central Bank of Kosovo, Kosovo banks share capital begins with 5,000,000 EUR and reaches up to 60,550,000 EUR, condition presented by financial statements of the bank with greater participation in the market.

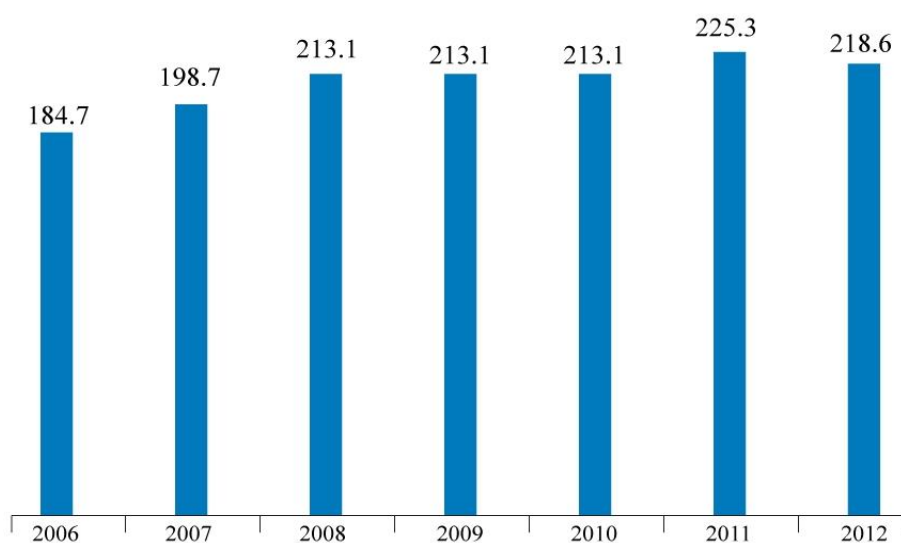
The global economic crisis has had its impact in Kosovo. Consequences that have been observed in 2012 are being highlighted in 2013. It is worth mentioning that Kosovo has not been much exposed to global economic influences, but foreign investors operating in Kosovo have been influenced by their country of origin. This impact is having consequences to the companies which are directly linked and those which are considered to be associated parties with companies whose economy is experiencing crisis.

Kosovo in regard to export may not be affected to the extent of having substantial effects on the economy, as it not a big exporter - during 2012 it exported 313 million EUR. While, it has imported 2 billion and 479 million EUR, marking a large trade deficit. Kosovo in 2012 has closed trade with a deficit exchange of 2 billion and 166 million EUR.

This inconvenient situation to the economy of Kosovo has lasted for years. If there were no remittances sent to their families by the migrants, it would not be possible to maintain this level of expenditure and household consumption.

Regardless of the economic crisis, in 2012, 218.6 million EUR remittances have been sent to Kosovo, to enable household consumption. The following is a graphical presentation of remittances through money transfer agencies, expressed over the years.

Figure 1. Inflow From Remittances in Kosovo, 2006-2012



Source: 2013, Central Bank of Kosovo, Department of Payments, Figure No.86.

In Kosovo, the 2012 foreign direct investment in various sectors is estimated to be € 232 million while the total number of foreign companies operating in Kosovo is about 5.018 of them. While the distribution of foreign investment companies by sectors of the economy is as in following.

Table 12. Foreign Direct Investment in Various Sectors

Sector	No. of companies	Total in %
Trade	1,952	38.90
Production	791	15.80
Service activities	764	15.20
Construction	607	12.10
Tourism and hospitality	350	7.10
Transport	181	3.60
Financial sector	141	2.80
Telecommunications	121	2.40
Health	68	1.30
Education	43	0.80
TOTAL	5,018	100

Source: 2013, Ministry of Foreign Affairs. Table No. 2.

Social analysis - Kosovo is a small country but with a lot of ore and minerals, with a total area of 10,908 km². The total resident population is: 1,815,606 assessment (December 2012), General number of households: 297,090, General number of apartments: 412, 884, of which used 71% of the population living in rural areas; 61% of their average household size of 5.85 people, the population density is (people per km²): 177.4.

Kosovo is a rural country with 53% of agricultural land, 41% of Kosovo land is forest land, 1% of Kosovo land surface is water, 5% is of other surface (traffic ground, urban, and other), (<http://esk.rks-gov.net/>, 2013b). Kosovo has a high rate of increase in population, which regardless of the trend in recent years shows a declining tendency in relation to the data prior to 1999. In Kosovo in 2012, 27,743 children were born, 7,317 people died, natural increase was 20,426, and there were 17,169 marriages and 1,328 divorces.

Based on trends, I assess that the natality will continue to fall in the general level but not drastically decrease. The decrease of natality is expected since the awareness and the living concept has changed, the living standard has developed, as well as migration to other countries and many other factors which determine the coefficient of natality. Changes in generations, in lot of cases can affect the decrease or increase of the demand, depending of perception that they may have on a product.

In the business we operate, it could have a positive impact, I say this based of the costumer behavior in western countries, since in western countries, leasing is more popular and much more developed than in Kosovo. I believe that over the years, the awareness will be raised and financing with leasing or other products which reduce the rate of consumer risk in their investments would be used more, because the fear that stems from lack of knowledge on the functioning of the product will pass, by increasing knowledge and strengthening the rule of law.

Leasing business could be affected if the population starts to degrade the basic values followed for generations, such as repayment of personal obligations, and in majority of cases, also repayment of family obligations, in order to preserve the family honor. This change could potentially harm the business of leasing and financial sector in general, as we would have a high level of bad debts and increase of business operation cost.

Another change could potentially happen in the drop of the demand for financing with interest, if it happens that the population which for centuries has been tolerant and with western approach, suddenly turns to the East and the Oriental approach and use of Islamic banks which do not use the term of interest calculations in payment plans. But, based in the history of the Kosovo population, the possibility for this happen is very low or does not exist at all.

Based on statistics, we can see that people aged between 45 and 54 years old are the most employed group in Kosovo, while those between 15 and 24 years old are the less employed group. According to the statistics there is an interesting fact: more than ¼ of the employed people have an education to the tertiary level (Statistical Agency of Kosovo, 2013).

Unemployment in Kosovo is in a high level with available and educated working force. It is believed that in some specific sectors which are not developed in Kosovo, there is a lack of the experience, but generally, the working force is well prepared and ready to learn.

Kosovo consists of a population open to new cultures, changes and different religions, but nevertheless, the investments that generate employment are lacking, therefore the high level of unemployment continues to be present. Referring to the Statistical Agency of Kosovo, regarding the unemployment in Kosovo, we have these data: the level of participation in the working force 36.9%, the inactive rate 63.1 %, the unemployment rate in total 30.9 %, male unemployment rate 28.1 %, female unemployment rate 40.0 %, youth unemployment rate (age 15-24 years old) 55.3% (Statistical Agency of Kosovo, 2013).

Kosovo is a secular state, with 90% Albanians. The practiced religions in Kosovo are: Islamic, Catholic and Orthodox. But, the religious differences are not a barrier towards applying any business since there is a significant religious tolerance. Potentially, the lifestyle may have effects on population growth, since we have an increase of the living standard which can be seen in clothing, the quality of nutrition, the way of the division of the expenses, the style of organizing the living, number of family members in a house and a lot of other factors.

I consider that the leasing product, in the near future may have positive changes in the society's perception and have an increased usage because of the changing of culture and perception towards it, as a product. In Balkan culture, especially in the Albanian culture, the orientation towards buying an asset is to own it, under their name (his/hers).

While leasing as a product does not make this happen until all the obligations are paid, this is a barrier that makes people think and consider between loan and leasing. In many cases they use loan because they feel more secure and they have the experience with that financial product, so in general the leasing market is an increasing one if we refer to the social factor.

Technological analysis - Kosovo has made a satisfactory progress towards technological development. In Kosovo enterprises, there are sophisticated software and information technological equipment that are being used in most of the developed European Union countries and the United States of America. One of the factors that shows the usage level of information technology is the rate of internet usage in national level and the level of possession of personal computers at homes. Over 72.1% of the population is using the

internet at home including the urban and rural parts of the country, while, 55.15% of the population have at least one personal computer at home, 26.18% have two personal computers at home whereas, 11.98% have stressed to have three personal computers at home.

The information technology development seems to have its impact in the improvement and facilitation of administrative processes. Kosovo Government in cooperation with international organizations, in particular with USAID, has made investments on development of information systems which have influenced the lives of the citizens and companies operating in Kosovo.

Tax declarations can be reported online, credit registry is online, civil registry (birth certificate, marriage certificate, etc.) has been developed and is functioning online throughout Kosovo, vehicle registration centers and also many other systems that are at the conclusion of functionalization. With the business registration you take the business certificate at the same time as new business will take fiscal number, which is automatically registered in TAK – Tax Administration of Kosovo. I would say that there are made a lot of developments which have had positive influence in the life of Kosovar citizens.

Kosovo as a state welcomes the new technology and putting in production technology which will enable increased efficiency. The Government of Kosovo, with the aim of support and stimulation of domestic production and technological development has provided the opportunity to all manufacturers that the machines for manufacturing be exempted from customs, which is 10% on all imported products.

Financial sector industry is among the industries that invest mostly in information systems, software and technological equipment. Almost all banks are seeking to increase efficiency and cost reduction in all areas, but it is not expected to have any technological development which will have a radical change in the industry or even in our company.

With the technological developments in Kosovo, changes in the quality of the services are seen too. The positive effects as a result of technological development in the field of electronic communication and in banking services such as bank transfers, online payments and a lot of other fields will continue to be emphasized.

Same as in all other segments, in the leasing segment can be noticed the presence of the tendency of usage of the sophisticated information technology. Competition is continuously adapting to software solutions for the fulfillment of the expectations of consumers. It could potentially have access to technology that may affect and refine the products but in general the wider market is not prepared and educated in very sophisticated

technological solutions which require favorable conditions of significant legal and cultural changes.

Changes in infrastructure have contributed to increased efficiency. A company which is complex and which has an impact on the lives and business of the engaged parties (clients) can be managed with a fewer employees. With the technological infrastructure changes, we can submit invoices to the clients free of cost, regardless if our clients are living in Kosovo or abroad.

In the Factor Leasing Company as a case study, the latest technology is in use and we can have access to the software from everywhere, inside and outside Kosovo. However, the management of the company has made some restrictions with the aim of increasing the security, so that the staff may not access the leasing system from outside the company but only from inside the company, access which is possible from each computer and to work as in the personal computer.

In Kosovo the technological centers (hubs) which present the latest technological achievements of the financial sector are not functioning. But there are some information technological system development companies which present the possibilities and solutions that they may offer.

2.3 Market structure and competition

This segment of the research aims to present main segments of the market and data regarding each market segment, but having in mind that statistical data are not accurate for all the segments because of the high percentage of the informality. I have chosen to present basic data from main segments of the market just to have information that presents the business potential.

In the part of the research, I will be focused in more details in the financial sector because of more accurate data where this sector is characterized by large presence of the foreign capital and it is the most developed segment and also is the segment where my case study is operating.

The informal economy in Kosovo is a serious challenge, UNDP's Human Development Report points out that the Tax Administration of Kosovo (TAK) consists only of 350 tax inspectors that work in the field, which is largely insufficient considering that around 40% of business income is not reported to the TAK offices (Loxha & Rogova, 2012). The most organized and controlled market from the authorities is financial sector and with regard to Banking System.

2.3.1 Main sectors of Kosovo economy

Energy and mining – The state of Kosovo has underground valuable assets, with 14.700 million tons; it ranks fifth in the world for lignite reserves from which it also produces the highest amount of electricity. According to official data during 2008 Kosovo has produced 4738 billion kWh and has spent 5156 billion kw/h of electricity. Reserves of this mineral, used as the main source of energy production in Kosovo, are estimated to last for 650 years at the current pace of extraction.

Lignite reserves are widespread in the basin of Dukagjin and Drenica, but mineral extraction is currently limited to the basin of Kosovo. Besides lignite, Kosovo is also rich in zinc, lead, gold, cadmium and bismuth, bauxite, nickel, etc. The culture of lignite extraction dates back to Roman times, modern extraction of minerals in Kosovo began in the 1930s, with the establishment of the Trepca complex.

Agriculture and livestock – According to officials in Pristina, Kosovo has 53 percent of the total area as arable land. Currently the agricultural sector contributes only 19 percent to the overall NVP and 15 percent of the export value. Food processing in Kosovo was traditionally led by social enterprises, whereas today these are inactive; new private companies have now started to operate in this field. Most of these companies are small and are not yet able to cover the largest part of market demand.

Vineyards – This culture of cultivation and wine production is an old tradition in Kosovo and especially in Rahovec. Referring to historical data, the so called “the golden years” the wine industry in Rahovec alone had a production capacity of up to 50 million liters per year. In 1989, Rahovec wine exports had reached 40 million liters that were mainly distributed in the German market. After the privatization of a portion of vineyards and the wine factory in Rahovec, a good part of the local market was able to be covered and it also found successful placement in the international market, especially European markets.

Construction – This industry has become one of the most important sectors in the Kosovo economy because of the high increase in demand after year 1999. This sector continues to be a great economic potential for Kosovo, taking into account the need for construction of new settlements and road infrastructure. Government of Kosovo itself has decided to connect the country with the most important corridors in Macedonia, Albania and Serbia.

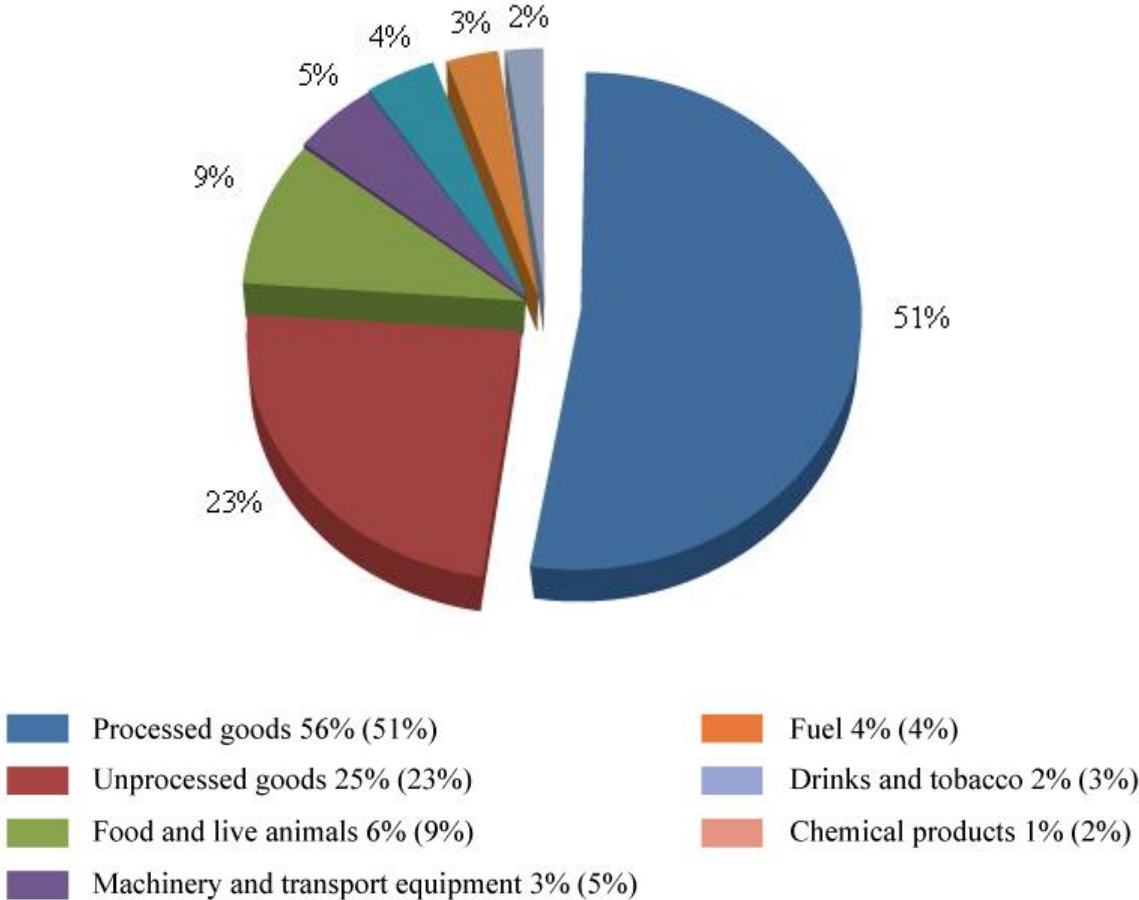
Textile industry - Textile sector has been the second largest in Kosovo, while at the peak of its development 15 textile production social enterprises employed more than 1,000 people and achieved sales of up to 35 million EUR. Despite recent developments in the region, as a result of which trade ties were broken, an analysis shows that 55 to 65 million EUR could be achieved by exporting, in case of restoration of such ties. In this sector there

is plenty of room for investors so that Kosovo once again produces finished garments from textiles produced in the region.

Tourism - Kosovo's tourism potential is closely linked to Kosovo's geographical position, surrounded on all sides by mountains, and being in the center of Balkans, the country has the potential for winter tourism. Mountains in the south of Kosovo, resorts such as Brezovica and Sharr Mountains are good and interesting opportunities for investors.

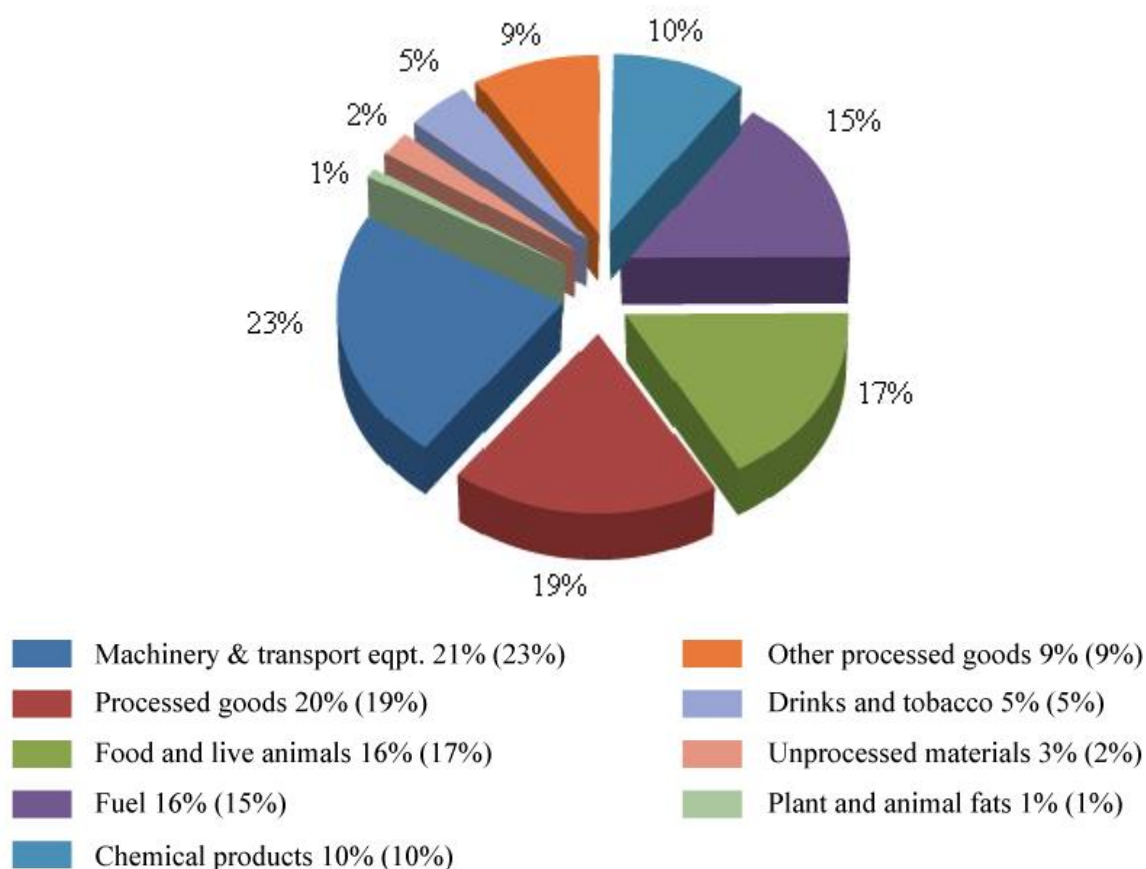
Currently Brezovica resort includes three hotels, two restaurants and nine ski-lifts that are currently socially owned. Besides Brezovica, another place in the mountains which is used for winter tourism is the Bjeshket e Nemuna (Cursed Mountains), located in western Kosovo. It is supposed that this tourism location has the potential to accommodate up to 30,000 visitors. The potential of this region is already being used by small private companies which have built private compounds in Bogaj village.

Figure 2. Exports by Product Groups, 2010



Source: 2014, Ministry of Foreign Affairs. Figure No.3.

Figure 3. Imports by Product Group, 2010



Source: 2014, Ministry of Foreign Affairs. Figure No.4.

2.4 Financial market

Financial market consists of commercial banks, microfinance institutions and non-banking financial institutions. Based on the law in force, within the non-bank financial institutions, are also the leasing companies. The Banking sector is estimated to be among the sectors with the best performance in the economy, the sector is characterized by large presence of the foreign capital, and seven out of nine banks have complete or majority foreign capital. (Embassy of Switzerland in Kosovo, 2013).

Kosovo leasing market operates with a basic format just as the banking market segment. The product with greatest participation in the leasing segment is financial leasing, which has similarities with the loan in respect of accounting, while, it is very different in the legal aspect (property). Lease product can only be used to buy assets that are insurable in the insurance companies from whatever damage that may occur to the asset until the end of the lease contract. This type of approach is done in order to protect the investment and manage the risk of returning their investment in that asset. Credit market in Kosovo is relatively

well developed. There are a solid number of financial institutions operating in Kosovo to increase their loan portfolio. Kosovo banking market consists of commercial banks with local shareholders, with a combined share of domestic and foreign shareholders and banks with only foreign shareholders.

According to reports published in the official websites of banks operating in Kosovo and the reports of Kosovo Central Bank, the most profitable banks are banks with foreign shareholders. As can be seen in Table no.13 banking market is steadily and continually growing, regardless of the fact that the percentage of growth has declined with increases in the reports until 2009. Whereas, in the Micro Financial Institutions (hereinafter: MFI) market we can see that they had a very good growth in 2008 compared to 2007. Growth occurred perhaps due to optimistic expectations of consumption that has dominated at that time in the Kosovo market. In 2008 compared with 2007 we see that it was an increase of 42% in the banking market, while 20% in the MFI market.

The bank market continues its growth regardless of the fact that in 2009 we see an increased care in the growth rates in both the banks and in the MFI. All this has happened due to the economic crisis that hit the entire global economy. The banking sector in 2009 compared to 2008 increased only 7.51%, while MFIs increased 1.63%. Growth continued in the banking sector in 2010 compared to 2009 by 13.8%, in 2011 an increase of 16.40% and in 2012 compared to 2011 increased to 2.61%. The average growth from 2008 is 14.72%. In the following table is presented the portfolio of credit markets in Kosovo comparing the growth from year to year.

Table 13. Outstanding Balance of MFI and IFJB, Except Leasing (in 1.000 EUR)

Years	Banking Industry		MFI & IFJB except Leasing- Industry	
	Total banks	Bank - annual growth in %	Landing except Leasing investment	Landing except Leasing investment- annual growth in %
12/31/2012	1,599,526	2.61	70,727.0	-6.23
12/31/2011	1,558,847	16.40	75,429.0	-15.12
12/31/2010	1,339,214	13.08	88,865.0	-0.11
12/31/2009	1,184,345	7.51	88,965.0	1.63
31/12/2008	1,101,599	34	87,541.0	20
31/12/2007	822,000	42	73,204.0	4
31/12/2006	578,000	n/a	70,569.0	n/a

Note*Based on financial statements reported in the Central Bank of Kosovo, 2006-2012 (www.bqk-kos.org/?cid=2,42)

Source: 2006-2013, Central Bank of Kosovo.

Besides the table of growth of portfolio of loans, below is presented a comparative table of some of the main balance sheets of commercial banks. As it can be seen from the table, the banking market during the year 2012 has increased in assets for 144,346.00 million Euros.

Table 14. The Comparative Data for the Main Balance Sheets of Commercial Banks, 2012
(in 1.000 EUR)

Banks	PCB	RBKO	NLB	TEB	BPB	BE	BKT	All banks
Assets	20,768	(62,608)	37,885	87,531	8,904	3,453	48,413	144,346
Loans	(13,678)	(19,175)	25,982	47,870	(1,975)	695	(7,683)	32,036
Deposits	8,851	(43,487)	36,301	85,214	3,945	3,138	71,790	165,752
Net Profit	3,822.67	(5,185)	1,568	3,358	(2,769)	(4,108)	(6,902)	(10,214)
Equity	11,138	(7,275)	4,749	5,791	(3,263)	71	(986)	10,225

Note* Based on financial statements reported in the Central Banka of Kosovo for 2012 (www.bqk-kos.org/?cid=2,42)

Source: 2012, Central Bank of Kosovo.

The Banking sector in Kosovo during the year 2012 increased in loans for 32 million EUR and the deposits increased for 165.75 million EUR, with this figures we can conclude that costumers are more careful in their spending.

Table 14 shows that most of the banks in Kosovo market have had an increase in assets with exception of Raiffeisen Bank that has had a decrease in assets for €62,608 million. In general, the entire market has increased in assets for €144,346 million.

Further to the positive trends, we can see from Table 14 that the net profit is minus €10,214 million although, on the other hand, we have an increase in the total equity of the main banks in Kosovo, which give the impression that banking system in Kosovo has had an increase in the investments and also an increase on interest expenses.

In the following table is presented the Balance Sheet for banks operating in the entire territory of Kosovo for 2011 and 2012.

Table 15. Banking Market in Kosovo (in 1000 EUR)

Banks	PCB	RBKO	NLB/ PR	TEB	BPB	BE	BKT	All banks
Assets	795,107.00	611,214.00	424,078.00	301,529.00	132,971.00	155,346.00	183,987	2,604,232
Loans	466,799	402,246	232,960	222,314	71,851	93,943	100,770	1,590,883
Deposits	660,606	511,413	362,612	267,968	109,587	140,522	176,511	2,229,219
Net Profit	15,101	5,167	4,502	4,291	(1,845)	(2,929)	(4,986)	19,301
Equity	86,895	83,532	41,705	21,608	8,293	11,542	5,785	259,360
Weight	PCB in %	RBKO in %	NLB/ PR in %	TEB in %	BPB in %	BE in %	BKT in %	All banks in %
Assets	31	23	16	12	5	6	7	100
Loans	29	25	15	14	5	6	6	100
Deposits	30	23	16	12	5	6	8	100
Net Profit	78	27	23	22	-10	-15	-26	100
Equity	34	32	16	8	3	4	2	100
Business	0	0	0	0	0	0	0	0
Individual	-	-	-	-	-	-	-	-
Loans/Deposits	71	79	64	83	66	67	57	71
ROA	1.9	0.8	1.1	1.4	-1.4	-1.9	-2.7	0.7
ROE	17	6	11	20	-22	-25	-86	7.4

Note.* Balance Sheets on December 31, 2012 (www.bqk-kos.org/?cid=2,42)

Source: 2012, Central Bank of Kosovo.

Table 15 shows that in Kosovo market most of the banks are doing well in 2012, the total profit generated in the market is 19.3 million EUR and the total assets are 2.6 billion EUR and the loan portfolio is 1.59 billion EUR.

Table 16. Financial Statements Analyzes for Commercial Banks in Kosovo 2012 vs. 2011

Banks	PCB	RBKO	NLB/ PR	TEB	BPB	BE	BKT	ALL BANKS
Assets	774,339.00	673,822.00	386,193.00	213,998.00	124,067.00	151,893.00	135,574.00	2,459,886.00
Loans	480,477	421,421	206,978	174,444	73,826	93,248	108,453.00	1,558,847.00
Deposits	651,755	554,900	326,311	182,754	105,642	137,384	104,721.00	2,063,467.00
Net Profit	16,312.00	12,074.00	4,434.00	2,363.00	309.00	203.00	254.00	35,949.00
Equity	75,757.00	90,807.00	36,956.00	15,817.00	11,556.00	11,471.00	6,771.00	249,135.00
Weight	PCB in %	RBKO in %	NLB/ PR in %	TEB in %	BPB in %	BE in %	BKT in %	All banks in %
Assets	31	27	16	9	5	6	6	94
Loans	31	27	13	11	5	6	7	98
Deposits	32	27	16	8	5	7	5	93
Net Profit	45	34	12	7	1	1	1	186
Equity	30	36	15	6	5	5	3	96
Loans/Deposits	0.74	0.76	0.63	0.95	0.70	0.68	1.04	0.76
ROA	2.1	1.8	1.1	1.1	0.2	0.1	0.2	1.5
ROE	22	13	12	15	3	2	4	14.4

Note.* Balance Sheets on December 31, 2012 (www.bqk-kos.org/?cid=2,42)

Source: 2012, Central Bank of Kosovo.

Table 16, shows that Kosovo market in 2011 was much better in some position than in 2012, the total profit in 2011 for the entire banking sector was 35.95 million EUR and the total assets were 2.45 billion EUR and the loan portfolio 1.56 billion euro. In table 15 and table 16 are presented the analysis for year 2011 and 2012. The analysis is for some of the key positions of balance sheets. In the presented balance sheets: assets, loans, deposits, net profit and equity analysis are calculated by what percentage each of the banks participates in the entire market.

On the other hand, the analysis of positions Loan/Deposits, return on assets (hereinafter: ROA) and return on equity (hereinafter: ROE) present the results of each bank for itself, in the balance sheet loan/deposit, which shows what share of deposits are given as a loan and what is the degree of efficiency of use of deposits in the issuing credit reports. Furthermore, two other financial positions, ROA and ROE also analyze bank performance and efficiency in use of assets and capital.

2.4.1 Overview of the Leasing market

The leasing market in Kosovo is a growing market, but in the actual size it is not a market which would attract a lot of attention and I consider that it is a market with a great potential. In the leasing market there are operating two companies Factor Leasing and Raiffeisen Leasing, which constitute the entire leasing market, with a total portfolio of 20.8 million euro (31.12.2012).

Table 17. The Leasing Market, 2012

Description	Number of contracts	Total Leasing portfolio	Factor Leasing	FL (%)	Empl. no. FL	RLKO	RLKO (%)	Empl. no. RLKO
January	675	17.9	8.37	47	4	9.52	53	18
February	687	18.0	8.40	47	4	9.58	53	18
March	740	18.7	8.61	46	4	10.10	54	20
April	729	18.8	8.55	45	4	10.24	55	20
May	765	19.3	8.57	44	4	10.76	56	20
June	775	19.9	8.62	43	4	11.31	57	21
July	824	20.5	8.86	43	4	11.62	57	21
August	832	20.4	8.70	43	4	11.71	57	22
September	833	20.5	8.60	42	4	11.86	58	23
October	852	20.5	8.44	41	4	12.05	59	23
November	863	20.4	8.35	41	4	12.02	59	25
December	889	20.8	8.45	41	4	12.38	59	25

Note.*The leasing market overview (www.bqk-kos.org/?cid=1,124)

Source: 2013, Central Bank of Kosovo, Table 14.

Referring to the data published from Central Bank of Kosovo as of 31 December 2012, Raiffeisen Leasing penetrates 59% of the market, while on 31 December 2011 it penetrated 53% of the market. According to the published data, the leasing market structure consists as follows: 6.1 million in vehicles sector, 2.5 million in the machinery and 12.20 million in real estate.

Table 17 shows that Factor Leasing with four (4) employees until January 2012 had penetrated almost half of the leasing market. This company has over 2 million EUR per employee which represents a very high efficiency, in particular when taking into account that the number of non-performing contracts is only one (1) contract or 0.25% of the portfolio (total portfolio outstanding/non-performing debt contract).

2.5 Institutional environment

The institutional infrastructure in some segments has made some obvious improvements, which have been accepted also by the international institutions, but in general, the institutional infrastructure needs to be improved even more. In some segments we see major stagnation as in segments which are vital to enable developing and growing the confidence in state institutions.

The only legal instrument which makes the contract applicable is the state mechanism which guarantees equal functioning for all. Within the institutional infrastructure has increased a concern for disrespect of the contract which has been freely put to force by both parties. In order for the contract to be applicable, either with free will or with legal actions, there is a need for intervention of state institutions. To achieve this, the institutional infrastructure needs to be improved.

Another important point is the careful approach towards investments which must not allow the risk to the investment from interest groups, but work towards making Kosovo an equal place for all local and foreign investors. In many cases it can be seen that we have the support of foreign investors and we lack support of local investors or the opposite, depending on the interests of certain groups.

In central and local government level, there is a lack of feasibility studies on foreign or local investors and sectors which have the highest return on investment and enable an increased number of employees. Also, on the government or the agency for investments level, business meetings between companies can be organized among potential clients of each other or complementary products can be provided. This may influence the facilitation of market development and in particular for new companies.

Referring to applicable procedures, simplifications have been made to the procedures for registration of new businesses; three procedures are required to start a business in Kosovo:

1. Application at the business registry and issuance of the registration certificate
2. Obtaining the fiscal number from the Tax Administration of Kosovo
3. Obtaining the VAT number from the Tax Administration of Kosovo (Ministry of Trade and Industry, 2011).

All three processes can be finished in one place, within one day if the business is not a Shareholder Company. For companies that operate as shareholders, the business registration can be finished within three days.

Law on foreign investment in Kosovo, which entered into force in 2014, addresses many issues related to foreign investments in Kosovo. This law addresses issues such as the protection of the rights of foreign investors, compensation in case of conflict or civil rebellion and many other issues that complement a legal gap, present in Kosovo through years.

Foreign investments in Kosovo have different origin from western countries, where the biggest investors are companies from Slovenia, Germany, Turkey, Switzerland, Great Britain, Austria etc.

Foreign investments in Kosovo are granted by international institutions of different countries, (1) The Multilateral Investment Guarantee Agency – (hereinafter: MIGA) (a member of the world bank group) guarantees investments up to the value of 20 million euro. (2) The US Overseas Private Investment Corporation ((hereinafter: OPIC) also provides political risk insurance for foreign investors in Kosovo. (3) For investment and credit guarantees from Austria it has to be contacted Kontrollbank (OaKS) and for Germany the Euler Hermes Kreditversicherung (Ministry of Trade and Industry, 2011).

According to these data, we assess that Kosovo is an attractive and safe country for investments, it is not a country aiming towards conflicts which may damage the investments, has no rebellion of citizens, it is a western oriented country and in development phase. Regardless of some shortcomings which tend to be improved and will be greatly improved with time, I consider that Kosovo is a good opportunity for investment.

2.6 External and internal determinants of growth of small and medium sized enterprises

To determine the growth of small and medium enterprises, external environment and internal environment plays an important role. To present this role I will make analysis of the company environment which is a case study in this research.

External Environment- The influence of external environment in the company that I am working in is very high. I am working for a Leasing company which is a relatively new company and the service that we offer is not so familiar for all the costumers. When we started operating in September 2008, leasing was a new term for all of us, there was lack of laws and procedures on how the business should be done. We started working at the time when the crises had started and nobody was taking it seriously but just hoping for better days.

The business started with a lot of difficulties because of shortages in infrastructure and we were thinking how to grow and employ new people to expand the business. The external environment changed and also the strategy and plans had to change to adapt to the external factors.

Development in the economy, healthcare, telecommunication etc. is all dependent in the development of the technology. Nowadays, the speed, quality and price are things that are appreciated and expected from the costumers. To fulfill this expectation and compete in the market we have to be accurate with the new technology which will make possible to offer the service as quick as possible.

In the leasing industry, it is necessary to have flexible software which will give to the Management the possibility to develop the market as per client requests. In financial institutions technology development is the most important factor to grow the business and have a secure future in terms of historical data.

Influences of internationalization in our company are substantial, because of being owned by a foreign bank and being client of a foreign bank. Our shareholders are foreign investors, who during the crises are very much touched in their way of doing business and their business policy. As a leasing company, we are not allowed to take deposits from the citizens and use for crediting our clients, but we need to take funds from banks and do the investments.

In Kosovo market, the cost of capital is higher compared to the cost of capital in EU countries. We are buying capital from Slovenia with a better price and investing in Kosovo, but with the new crisis we had the experience of increase in the cost of capital every year. In this case, I would say that we had a very bad experience and the influence of internationalization is pressuring us to find ways how to decrease expenses and find alternative income just to keep a minimum profit for the shareholders.

Due to this fact, we are operating only in Pristina, which is the capital of Republic of Kosovo since this city is the most important and dynamic area for Banking Sector and other sectors too.

The main statistical indicators useful to our research process are the following:

1. Country population 1,733,872 (Prishtina - 198, 214);
2. Number of buildings 336,765 (Prishtina - 31,430);
3. Number of households 295,070 (Prishtina - 40,292);
4. Number of dwellings 403,459 (Prishtina - 58,849);
5. Prishtina population density 385.5 km² (Statistical Office of Kosovo, June 2011)

Kosovo economy has been facing quite a positive trend of growth of real GDP in the last five-year period. Probably due to the late financial and economic crisis, the rates of growth are diminishing but are still positive. The rate of inflation, measured as Consumer Price Index was stabilized in 2009. It remained stable during the 1st half of 2010, but started to rise in the 2nd half of 2010. The loan interest rates over the last period remained stable. But our concern is the unsustainable level of interest rates which are between 10% to 24% if we take into consideration banks and other financial institutions.

From all of this, we can conclude that Kosovo economy, in the last period, was experiencing a stabilization of the economic situation, with a positive growth of GDP. The banking sector was enabling high rates of growth of loans to households, substantially increasing their share. Banking sector also strongly supported the construction sector. All of this enabled a positive development of the real estate industry market in Kosovo.

Business, in general, is quite sensitive to the legal and political influence. Leasing companies have been suffering since 2008 from the lack of legal infrastructure to operate effectively as leasing companies. We have had open issues with Tax Administration Authorities since 2009 because they do not know how to treat VAT in Operational Leasing and this lack of laws costs a lot of energy and waste of money.

The second influence of legal and political issues is also the functionality of the courts. We are facing and have faced a lot of difficulties in processing the issues that we had with clients, this because of corruption and unwillingness to work legally. All this has a bad influence and if we make our strategy we have first to think about the legal difficulties that we may have and then develop the strategy in that way that we will not need to face legal issues. The national culture in our business has a positive influence where in our culture is expected to pay financial obligations to the banks or other financial institution even when you are in financial crises.

Kosovo marked is used to be part of the different crises and to survive, but people do not let themselves or their family members to lose face by having financial obligations and not paying them. This positive attitude is not 100% for every individual but in most of the

population, it is part of the family culture. Because of that Kosovo has the lowest rate in the region of nonperforming loans and write off loans.

Kosovo is “traveling” within lots of changes and with these changes we are having also changes in external environment which are influencing our strategy a lot. In our case, national culture is influencing positively and is having a big impact in our success, but I see that in the future the national culture can change like other things are changing. If customers start not to pay their financial obligations to the financial institution because of the lack in functionality of laws, then we will have a big problem to manage the situation and the economy will fall down.

To prevent any crises and dramatic changes to our environment, as a financial institution, together with other financial institutions, we need to make pressure to our Government, to make new laws and implement them in practice to keep safe the costumers and the companies, like the laws are supposed to do. The economic situation in Kosovo, is fluid and with a lot of uncertainty in terms of the future income stability. Because of this situation it is necessary to be very careful in evaluation of the new investments.

2.7 Internal environment thought organizational culture

The internal environment in companies that are operating in Kosovo is in accordance with the culture in general and the company culture. In most of the companies in Kosovo, the norms of organizational culture are not written but are known and all the employees know what is expected from them.

As E. Wallach (1999, p. 193) said “Organization culture is like pornography, it is hard to define, but you know it when you see it”, the same description we could use to describe the internal environment thought organizational culture (Knox & Butzel, 1999). The SME companies have a set of values which all share but, not all of these norms are written, they are just known as concepts and framework from national culture and beliefs of sincere people.

The company culture is built to believe that team work is much more functional and productive, and according to these concepts are organized all the businesses. The communication is done through different channels where most of the communication is done non-formally, just to have a more relaxed, trusted and friendly atmosphere. Short decision making process and efficiency is one of the values that SME companies have in Kosovo where each business process is continually analyzed to find which parts of these activities can be improved to shorten the time of service/product delivery.

Surface Level – The SMEs in Kosovo are mostly organized internally with no complex structure, and when a new employee comes into the company existing staff tutors about the code of conduct of the company. The process of working within the team and with the customers is predefined and these types of company cultures can be seen in the code of dressing, the approach to solve customer's problem and the culture of speaking.

Deeper Level – Satisfied customer is the only accepted status from the management of the SMEs and accuracy is another value which is cultivated within the companies.

Values of the organization culture in SME companies are considered as respect for the job and the customer, no matter which the case is. Also, the honesty and open communication are part of organization culture. These values and others like efficiency, team work etc. has shown to be the best business and marketing strategy.

In creating the organization culture, the most important role plays the managing team of the company and the culture of doing business. This concept of culture communication is implemented with the idea of family approach, where all the existing and new members of the company should feel as a member of the family and in a family there are no written rules or culture.

The influence of the organization culture is considerable, it influences the way you approach to the private matters and how you handle the problems. It makes you think about cost of the purchase, expenses, higher efficiency and time management. Company culture influences a lot, it can change our personality for good or it may have a bad influence.

The organization culture in SMEs in Kosovo is too demanding where the organization structure is in that way that people should be focused all the time and be professional. In most of the companies, a lot of activates are done by few people, then stress and mistakes occur because of the job that is too demanding. The organization culture and internal environment should be much softer in Kosovo with SMEs to guaranty lower rate of fluctuation of the personnel, keeping internally the knowhow of the company and ensure safe growth of the company.

2.8 The role of entrepreneur's age and experience

I consider that in establishing and growth of business, different sets of factors have an impact, like political, economic, social, technological and other factors which we will treat in this research that in the entire impact may have less importance but still have their influence. In this part of the research, I will address the impact of two important factors for business establishment such as age and experience.

In the research conducted by Global Entrepreneurship Monitor (hereinafter: GEM) with 140,000 interviews in 54 different economies during the year 2011, it is seen that entrepreneurs who owned companies at an early stage of establishment, have the tendency to be young in age and have average career. The age would be between 25 and 44 years old, with the only exception of Switzerland and Japan. According to this report, both age categories, 25-34 year-olds and 35-44 year-olds have been equally presented in the factor- and innovation-driven economies grouping.

While, the other assessment grouping the efficiency-driven development group, shows a unique difference with more entrepreneurs in the category of 25-34 year-olds. Also, an interesting fact is that this age category of 18-24 year-olds, which is the age group of the youngest, is equal to the participation as the category aged 45-54 years old (Kelley, Singer & Herrington, 2011).

In this context, Kosovo does not have statistics that present composition on the basis of the age and experience of young entrepreneurs or companies that are in the early stages of business establishment. Therefore, we will refer to the financial market and businesses or establishing successful businesses, which are established by taking some of the features.

Successful entrepreneurs in Kosovo were those with enterprises which have had an experience in doing business within their families and certainly have possessed business connections. Based on the knowledge of the businesses, assets of businesses in Kosovo, the entrepreneurs are mostly aged from 25 to 34 years old and 35 to 44 years old. While, entrepreneurs who are aged over 44, if they are establishing businesses or are in initial stages of their new businesses, they are entrepreneurs who are currently diversifying their businesses or are buying an existing enterprise.

Kosovo as a market, after 1999, has taken a new form of organization of the market where re-formatting is done for reasons which are also mentioned in the beginning of the research. Referring to the observation of the way the businesses operate, it is worth mentioning that it has begun to build a new trend of the establishment and development of businesses.

According to what can be seen in the market, I assess that the entrepreneurs will gradually be divided into two groups, founders of businesses which will achieve business development up to a certain point and developers of established businesses, which I would qualify as buyers of established businesses and developer of businesses up to another level.

In international markets, this practice of entrepreneurship market functioning is natural, but in Kosovo until recent years it has almost not existed, without taking into account the privatization process which is of another character. I think that a considerable impact in

development of these segments, have the factors of age and experience in business. Subsequently, based on age and experience of an entrepreneur, the rhythms, potentials of development and investment to the businesses are defined.

2.9 Advantages and disadvantages of doing business in Kosovo

Doing business in Kosovo has had a lot of changes through years. During the period between 1989 and 1999 the climate of doing business was very difficult or almost impossible. Enterprises which until that time were working with the production or services, employing hundreds and thousands of workers throughout Kosovo, began to shut down due to economic and political crisis that affected the former Yugoslavia and together with it Kosovo. From this period starts the stagnation of economic development, begins the destruction of factories, the migration of many people from Kosovo to other developed countries in order to meet the cost of living and overcome the poverty.

After the year 1999, regardless of many efforts towards improvement of economic condition, Kosovo has had stagnation in report to the citizens' expectations, international aid and assets that were available. Kosovo has made some very important steps in building its economy where it has developed a free market economy, it has established the most stable financial system in the region, it has solved its internal crises, except the fact that it is still seriously dealing with the northern part of Mitrovica to balance the situation in order for Kosovo not to be seen as a country of crises and ethnic conflicts in the eyes of the investors.

Regardless of the fact that Kosovo population has gone through very difficult times with great losses in people and material belongings, it still managed to overcome the obstacles and to ensure free movement of people and goods. Regardless of the fact that it is a small country, Kosovo, with the absence of many things pertaining to the welfare and security of a good future, possesses many opportunities for growth and new investments.

2.9.1 Advantages of doing business in Kosovo

The advantages of doing business in Kosovo are the human aspect as well as natural resources. Some of the advantages of doing business in Kosovo are:

1. Kosovo's natural resources are plentiful, such as lignite, zinc, lead, nickel and ferro-fertile agricultural land;
2. Workforce is educated and with low cost compared to the European Union;
3. Kosovo's geographical position enables investors and their products manufactured in Kosovo be very easily transported to the western and eastern countries. Distances from Prishtina to the region: Prishtina – Skopje (86 km); Prishtina – Tirana (270

km); Prishtina – Sofia (279 km); Prishtina – Thessaloniki (port - 312 km); Prishtina – Belgrade (355 km); Prishtina – Sarajevo (390 km); Prishtina – Bari (570 km); Prishtina – Zagreb (741 km); Prishtina – Budapest (747 km);

4. Population is friendly, respects culture and nationality of the foreigners who live or invest in Kosovo;
5. The population is young and motivated, 70% under the age of 35;
6. Free access to the EU market and to the markets of neighboring countries;
7. Opportunity for export from Kosovo to the EU is the same as of each place of the EU, producing in Kosovo is the same as in any country in EU, but with positive differences while wages, taxes and other fixed obligations are lower than in EU countries;
8. Population has working culture, is committed to work and development.

2.9.2 Disadvantages of doing business in Kosovo

Kosovo has also its disadvantages, some of them are:

1. Inadequate level of efficiency of the courts for the enforcement of contracts;
2. The high level of corruption in state institutions;
3. Lack of efficiency in public institutions;
4. The size of the internal market;
5. Access to working capital and cost of the working capital.

2.10 What should Kosovo do to promote and convince foreign investors

The strategy of promotion and persuasion that foreign investment is worth mentioning due to external market of Kosovo, since Kosovo has special treatment by the European Union and the United States of America without having any restrictions on the export aspect though it is not part of the EU market.

Promoting investment in Kosovo should be seen as a long term process which in no way should be seen as a process that starts and ends with a campaign that lasts for a certain period. I consider that Government of Kosovo should have a serious approach, initially making infrastructural preparations like feasibility studies for segments in which can be invested by foreign investors or domestic investors.

Having as starting point the most important factors of the economic development, government should prepare feasibility studies to identify segments that generate most working places, which are profitable for investors and eligible for business communities from which they will operate.

If Kosovo government invites investors for segments that are not of mutual interest then it would lose more time, there will be fewer results and the credibility of the government and call for investment will look like fraud or call for failure. Thus, every investor would come to Kosovo, do research to investigate the situation and invest based on the information provided by the Government of Kosovo. Then, every case will prove that the market situation is not as it is presented, investors will lose funds and at the same time Kosovo government will lose credibility. Therefore, if investors feel to be deceived, manipulated, exploited or similar to that, they will become the main lobbyists in their business networks not to invest in Kosovo.

Whereas, if Kosovo is a real success story for foreign investors, presenting accurate data, feasibility study of interest to investors, then each investment will be transformed into positive lobbying to promote foreign investment. Also, the investor himself, satisfied with the return on investment, will continue to invest in new products or businesses. I think that foreign investors can be convinced by facts that the best way to attract investment is based on the call to be sincere and of common interest.

Besides this, it is necessary that offers for investments be treated with fanaticism by the Kosovo government and the offer for investments first of all be made to the most serious companies of the areas which are identified as areas with interest. Expenses for promotion and persuasion of investors should be justified with concrete results in the field of investment.

Professional promotion can be done only by professional people that are truly committed to take this commitment as a mission and not as a routine job. Other sources of finding investors could be specialized companies that would be rewarded in accordance with investment made in Kosovo, where depending on investment in Kosovo, they would be compensated by the Government of Kosovo.

In any organization or state, there are internal factors and external factors. Some of the factors can be corrected because they are entirely reliant on the Government of Kosovo. Factors that may be corrected by the Government of Kosovo should be revised without any condition in order to call the foreign investors, without reservation to enable economic development.

In the paper I have stressed several times that the judiciary should IMPROVED, that should increase efficiency in the execution of court cases, increase efficiency in state institutions but also in general the improvement of doing business climate, in respect to contracts, the accountability of public servants etc. All these factors are mentioned as very important to have visible effects on aspects of corruption reduction rate based on data that

is at high levels. With the improvement of the above-noted items, we will also have an effect on the improvement of access to finance and reduce the cost of funds.

Besides regulating entirely Prosecution Office and the Judiciary, Government can influence the growth of money supply in Kosovo by bringing in Kosovo banking system pension fund of Kosovo and privatization fund. Then, these funds can be distributed to commercial banks with the same interest rates as they are outside Kosovo, with the condition that this amount of credits is given as credit line for stimulation of production and business growth, with interest rate 4% or 5% annually.

In this case, we would have a situation where everyone wins, banks will earn their margin, the Government would lose nothing because it would take the interest rate which it takes from the countries where the funds are deposited, plus there would be other effects of growing economy and taxpayers, or more precisely citizen investors will receive loans with low interest rates while enabling the satisfactory return on investment. But, the Government of Kosovo should not act as it has been doing in the recent years, borrowing from commercial banks, in this case reducing the money supply in the market and enabling commercial banks to stay in a comfort zone.

With these stages it would also enable bankers to have higher rates of interest since now bank investment plans are being carried out with loans of higher benefits, because of the unweighted actions of the Government. Also, the market regulator Central Bank is not exerting any influence on its capital cost reduction notwithstanding the negative effects that are taking place in developing new businesses and existing ones.

Despite the factors that the Government of Kosovo cannot change as it is the factor of the size of the internal market of Kosovo, there is a need to adapt and seek solutions. However, with the improvement of the conditions mentioned above, foreign and domestic investment would be more frequent and larger, since there are more factors that influence the various stimulus and economic development and as a result, there will be an increase of the level of employment growth and together with employment there will be also an increase in purchasing power, which immediately affects consumer incentives.

3 CASE OF FACTOR LEASING - PROFILE OF THE COMPANY

Factor Leasing is a non-banking financial institution specialized in leasing, offering the alternative to finance the businesses and private consumers, in order to stimulate the local economy, stimulate the growth of the production and the economic development. With many years of experience of the companies that have created Factor Leasing and the professional staff, it has ensured the development and the stable growth of Factor Leasing, but also of the leasing industry in Kosovo.

Table 18. Structure of Shareholders in Factor Leasing, 2012

Shareholder	Origins of the shareholder	Shareholders activities	Shares of the Factor Leasing LLC in %
Company "A" LLC	Slovenia	Leasing company	41
Company "B" LLC	Kosovo	Corporate printing house, cable radio and television, hotels, development and sale of real estate, insurance company, hydropower, leasing company, company for the distribution, word trade centre etc.	40
Bank "C"	Slovenia	Corporate banking	19

Factor Leasing is the first leasing company in Kosovo registered in the Ministry of Trade and Industry in 17.05.2008. In the same period, the location of the offices of the company was chosen and the recruitment of the staff begun, while on 01.07.2008 the operation of the offices and of the founding staff had started.

This personnel had the duty to establish the business, starting from the most basic things like making the documentation with which the operational actions would be made, the creation of the work policies, presenting the company to the potential clients, also there were made a lot of other preparations necessary to start a new company. In the same time, preparations were made to obtain the license regarding the financial product of leasing - **Financial Leasing**.

While the licensing to offer operational leasing in 2008 was not supervised by the Central Bank of Kosovo, the first contract of operational leasing was signed on September 22, 2008, when it officially started offering leasing within Factor Leasing. The issue of the license to offer the product of financial leasing was made on December 10, 2008 and for four months the necessary preparations have been made to launch the new product.

Factor Leasing, as a starting and basic product, had the Operational Leasing, but bearing in mind that there are some difficulties in the legislative side of things with regards to offering this product and seeing the need to increase the diversity of the products, it was necessary to create the product of financial leasing. Launching the financial leasing

enabled a fast growth of the company, fulfillment of the expectations of the owners and the expectations of the management.

In the first year of its activity, as a primary market Factor Leasing had the financing of buying cars, with the exception of a contract where the production lines were financed. In this period of time, there has been noticed an increased interest for real estate, therefore, it was proposed to the board of the directors to finance projects on real estate. With the approval of the board of the directors, it was invested in two real estate projects, which enabled a fast growth of the portfolio of the company and its profits.

3.1 Factor Leasing - Five forces model

Threats of the new entry – The entry of the new investors in the financial market of Kosovo is not an easy thing, regardless of the issue that according to the current laws, the negative or positive response on the approval of the license, has to be made within 3 months. But in reality, and especially for the domestic investors, a lot of time is needed because the barriers to open a financial institution or a bank, not represented in a written way, are very big.

The cost of entering the market varies depending on the financial sector. If you want to establish a new bank, initial capital is 7 million EUR and other costs that vary depending on the business plan (CBK, 2012). While the interpretation and the evaluations of the documentation can be subjective, because it is not clearly specified who is to be considered a serious investor that can obtain an operational license and who a non-serious investor that cannot obtain an operation license.

Perhaps more precisely, if these rules, established by the parliament of Republic of Kosovo and applicable by the CBK, are not executed in the way they are supposed to, then there cannot be found a place where to complain, because the courts are not functioning with the efficiency due to the heavy workload of inherited cases, unresolved cases and because the judicial system is not performing in the desirable level.

However, combining the international investor with a local partner would be the best choice, for both parties included. Let us consider this, coming from my present experience, when we have foreign investors in the financial sector, the approach of the CBK is more serious. When we have a local partner, the success of the company in the financial market is faster because they know the culture, know the adequate persons best suited for management, and know the local stakeholders and businesses.

Depending on the segment that the investor is interested in investing in Kosovo, there are the obstacles to foreign investors entering the market. Meanwhile, obtaining the license

from the CBK for leasing is much easier than obtaining a license for other segments, like opening a bank or an insurance company and I say this based on my experience with Factor Leasing.

In the case of applying for an operating license in the Kosovo market as a leasing company, the investor is investing its own funds or funds received as a loan. In this case, it is impossible for the CBK to interpret the deposits of the citizens as it can be interpreted in the case when you open a bank or the application of other restrictive policies, if you apply for an insurance company.

1. **Time and cost of entry** - Based on the experience with Factor Leasing, the necessary time to start the activities of the operational leasing is very fast, because the approval from the Central Bank of Kosovo was not needed. Time spent on the establishment of a company also depends on the investor and the management that is carrying out the project. If the investor has the knowledge of the financial market, then the whole process would take approximately one to three months of time, calculating here the licensing for the financial leasing, including the preparation of the documents necessary to register a business, choosing the location along with the preparation of the location to work, choosing the staff and applying for a license. The registration of the business is made for a period of one to three days, from the moment when you have sent all the necessary documents that are required by the Ministry of Trade and Industry, and the list of documents varies depending on the type of the business. Every action made for the registration of the business can be made by the investor or its legal representative, while obtaining the license from the CBK for the activity of Financial Leasing according to the laws in force, from the moment when you submit the documents the response will arrive after a period of three months. In the case of Factor Leasing, they have kept the licensing process in accordance with the terms of the laws in force. The cost of registering a business is very low in relation to the other costs that are needed to open an office, the rent, wages of the employees and other expenses. The cost of licensing a leasing company in the 2008 was 5,000 EUR and did not have any conditions regarding the initial capital. Kosovo, in relation to other countries in the region, has become a worthy competitor in the aspects of facilitation of the procedures and costs of creating a business.
2. **Specialist knowledge** – Entering the market requires having knowledge of the market, knowledge of the main actors of the market, knowledge of the culture of doing business and other rituals that enable the establishment and the growth of the business, which is almost the identical situation with the other Balkan countries, European Union or of the United States of America. In the case of Factor Leasing, having a managing staff with experience in the banking sector was a big help with

regards to the establishment and the growth of the business. The managing staff had general knowledge of the financial sector in Kosovo. One of the main conditions to obtain a license from the CBK is the experience of the management and the staff in general, regarding the management of the financial institution.

3. **Technology and capital capacity protection** – Threats from the new entrances on the market are limited because of the difficulties to secure the necessary funds and to finance the investments. In particular, the companies that are in its beginnings and do not have a history that shows the abilities and payment capacities towards the suppliers, which in this case are crediting financial institutions. Also, not so small of an obstacle is finding a solution for the leasing software, which in most of the cases determines the scale of the growth, efficiency and the security of the database. Purchase of the software that is made for leasing is very expensive and cannot be handled from a company or an individual that does not have a good basis for the business. The costs of the software varies from 60,000 EUR to 100,000 EUR, depending on the choices that the software offers, the level of security, number of branches, number of users etc.

Competitive rivalry

1. **Number of competitors** – There are two leasing companies that exist in Kosovo, Factor Leasing and Raiffeisen Leasing. Also, in the market operate some other companies that in their business registration certificates are registered as operational leasing companies, but in reality, they do not exercise any leasing activities that can be monitored by the CBK. An indirect competition for Factor Leasing alongside the leasing companies, are banks, micro financial institutions and non-banking financial institutions.
2. **Quality differences** – In relation to the direct competition, we have services that make our clients feel privileged to cooperate with us, because every service that is offered, every expense that has to do with the contract, is transparent and documented. When to all of this we add the efficiency in offering services and the low cost in relation to the direct competition, Factor Leasing has some distinctive advantages in the perception of the clientele.
3. **Other differences** – Factor Leasing except for the efficiency in the decision making for the approval or refusal of the financing of the investment, low financing costs, we also have our accompanying services, like insuring the assets at the insurance companies in accordance to the preferences of the client, registering the vehicle in the vehicles registration centre, registering the asset (real estate) in the cadastre, preparing the authorizations to drive the cars and other services. All these services

are done by the personnel of Factor Leasing, with the same costs that would cost the client if they were to do this service personally.

4. **Customer loyalty** – A large number of clients have more than one contract at Factor Leasing, and this shows the high level of loyalty. We have a lot of clients that despite knowing that we are limited with regards to the fields of investment, they still try to explore the possibilities of finding some alternative just so they can continue their cooperation with us. As noted above, we invest only in some approved projects from the Board of Directors, therefore it is impossible to invest in every field that our clients need and this is a handicap for us as a management, but in the same time this gives us more security because the risk is more controllable.
5. **Costs of leaving the market** – The costs of leaving the market also do not exist and this is for the reason because if Factor Leasing wants to exit the market, it can be sold in any moment to its competitors or to other domestic stakeholders like banks or micro financial institutions. Besides the domestic stakeholders, we cannot exclude the possibility of sale to the foreign investors that want to enter Kosovo market. Factor Leasing has this opportunity, because it has one of the soundest portfolios in the market, with a risk of 0.20% to 0.25%, but even if this was a high risk portfolio, again it could be bought by the banks, which are experiencing a high level of liquidity.

Supplier power

1. **Number of suppliers** – Leasing is a complex activity where many parties are included, therefore, we have a lot of suppliers for different issues. On the suppliers side of things, with the highest weight is supplier with a working capital, the supplier of the credit lines. We have a supplier that supports us with the credit lines, who is also one of the owners of the company and is also one the main decision-makers with regards to the strategy of the business and in determining the rhythm of the growth of the company. While with the suppliers for buying cars we have all of the car dealerships, two suppliers for real estate and some suppliers depending on the customer choice for the production machineries that can be inside or outside Kosovo.
2. **Size of suppliers** – The most important supplier is the supplier with a working capital, after this, other important suppliers are the suppliers from whom we buy real estate, and then come the car dealerships. Suppliers with cars are less important because they have a lot of brands and in some cases for a particular brand there is more than one supplier. Of particular importance, in the first years of the establishment of the business, was the supplier with a working capital. While from the perspective of the moment the importance of this supplier is smaller because it

can be replaced with some new suppliers, because the company possesses a good and active credit history and has shown to have very good repayment abilities. While, if in the beginning of the operations of the company the support by funds was not present, then the operation of the company would not be possible because no bank or financial institution would be willing to support us with credit lines.

3. **Ability to substitute the supplier** – From the start of the business but even today after some years of operation in this business, the ability to substitute a supplier is very high, with the exception of the supplier that has a working capital. Over the time, this supplier can be substituted regardless of the importance that it has to our company. Of course the replacement cannot be made very easy as in relation to a car supplier or real estate supplier.
4. **Cost of working capital** - Cost of changing the supplier with a working capital can increase the cost of the working capital with some 5% or will not have any change in the costs whatsoever, depending on the agreement that can be reached. The real cost that the company would have to pay, if we go to a different supplier, is the cost of dependence from another supplier, with whom we operate in the same market. What cannot be excluded is the supplier with a working capital who is a competitor on the same market and in time presents certain conditions in order to increase the profitability of their company or the stagnation of the growth of our company. The preferred option would be to find some suppliers who do not operate in this market, with a cheaper cost of capital or with more affordable costs. In this case we would make the choice of not depending on just one supplier and the possibility that competition can limit or control the growth of the company would be avoided.

Threat of substitution

1. **Substitute performance** – The replacements of the financing with leasing are credit financings, as is the financing with substitution leasing of some products of the loans. Loans in the Kosovo market have shown a continuing growth and in some cases the performance of the replacements (loans) is good and can be considered as a threat. But in general the functioning of the loans is less efficient than the financing with leasing, this is because of the necessary time to make a decision regarding the approval or not of the financing. Procedures for crediting are complicated and the inability of the banks to adapt to the needs of the clients.

In this phase of the market, we do not see any threats for the substitutes or the new competition. This is because the banks are concentrated on their primary business and do not have any knowledge regarding the product of leasing or perhaps they just do not want to get out of their comfort zone. The possibility is open for any of the banks to create a leasing company, which would make our work more difficult

because the banks have a comparative advantage in relation to us as a leasing company. Every bank has its clients, who are potentially interested to have leasing, the payments of the installments can be made much easier, because the bank takes the money from the costumers bank account while we have to ask our clients to transfer their payment to our accounts which we have in different banks.

2. **Cost of change** – In our case, the cost of change from a non-banking financial institution to a bank, would be only the cost of the initial capital that is for the establishment of a bank, but then we would be equal with our competitors and our substitutes and to do this change, the willingness of the shareholders and the financial power to deposit the necessary capital in the Central Bank of Kosovo is needed. If this would happen, the conversion from an NBFi to a Bank, the value of the shares of the company will grow extremely because Factor Leasing has a history and structure of a very good clientele.

Buyer power

1. **Customers and the size** – the clients of Factor Leasing are made from two groups: natural persons and legal entities and based on the contracts signed, 58% are legal entities and 42% are natural persons. But if we make the calculation of the percentage of the portfolio based on the monetary value of the investments, then 59% of the portfolio is invested for the clients that are natural persons, while 41% is for legal entities.

The lowest value of financing natural persons is 5,500 EUR or € the highest value is 370,000 EUR, while the lowest value of financing a legal entity is 8,500 EUR and the highest is 623,700 EUR, the medium size of financing a natural person is 187,750.00 EUR while the medium size of financing a legal entity is 316,100.00 EUR.

The portfolio of Factor Leasing in the sector of natural persons is composed of the owners of the businesses and therefore, we have these numbers that show a different composition depending on the angle of the analysis that is being made. If the portfolio is seen through the number of contracts, then with these results in the general composition of the investment, the sector of legal entities should dominate, but on the basis of our statistics, it seems that the most investments have been made in the sector of natural persons, real estate and cars.

2. **Differences between competitors** – In the leasing market there are two companies that operate, Factor Leasing and Raiffeisen Leasing. The difference between these two companies is mainly in the way they operate. Factor Leasing is more efficient in

the decision making, does not expose itself in the advertising but works with businesses and individuals that are well checked based on their credit history and references. While Raiffeisen Leasing is a company that exposes itself with a lot of advertising and makes attempts to show their presence, but besides the tendencies for an unlimited growth, they have delays in decision making up to three weeks or more. Also, after the decision making they are slow and solid with regards to the business operations, this because of the bureaucracy, lack of commitment to make a decision inside the staff and lack of responsibility. All of this affects the performance of the company.

3. **Price sensitivity** – in the times that the world economy is going through, with a special emphasis on the change of the perception of the consumer in relation to the price/quality, we see that the clients are sensitive towards the price. But the sensitivity towards the price differs from that from the consumer who is ready to pay more just to have a faster service. While the big companies which have an early planning, do not rush and make big financings, are proceeded to be more sensitive on the price, this is because the total cost makes its difference.
4. **Ability to substitute** – The ability of the client to replace the financial product is very emphasized, because of the financial sector and in particular banks, which are with a higher liquidity, therefore the ability to replace the financial product is high, care towards the buyers (clients) has to be increased to the point where the interests of the company will not be damaged. In the sector in which we operate, the ability to replace the buyer is lower, because our field of investment is limited to segments and predefined projects. The client (the buyer) is in a better position to replace us, in relation to us replacing the client, this because of the restrictions in the sectors and projects where we can invest.

3.2 Market segment

The segment of the market with which Factor Leasing has been operating since 2008, is a niche segment which still has not attracted a lot of investors due to the lack of information that the potential investors have for this market and because of the haze created from the leasing market similarly with other segments of the credit.

In treating the topic of market segment, I will present Factor Leasing business plans they had before starting its operations and the necessary modifications to the business strategy for the development of the business.

The planning of the market segment was as follows:

1. Clients with good performance were in other banks, with different meetings that will take place in order to explain leasing and the identification of their needs.
2. Clients of the banks - C in Kosovo. Since we have a long time of doing business in Kosovo this enables us to make an easier decision with low risks. The list of the clients for the Factor Bank will help us organize their recruitment in a perfect way.
3. Clients referred from the company - B will be recruited through the standard/normal procedures with the direct and indirect marketing.
4. All of the clients will be recruited through standard/normal procedures also from the direct and indirect marketing.

Segments targeted for investments and their participation in the entirety of the portfolio were these:

Table 19. Segments Targeted in Business Plan

Segment	Portfolio in %
Cars	40
Production industry	20
Agriculture and livestock	20
Real estate	20

Source: Factor Leasing, Business Plan 2008- 2011, a.

Regardless of the prediction that was made, we were conscious that we are a start-up business and things can change, therefore, we have left open the possibility that Factor Leasing not be limited solely in these 4 segments, even if they are considered as primary segments of the business plan.

With the start of the business, we have noticed that the realization of the plan did not fulfill the best interest of the company. This came as the result of the arrival of the economic crisis in the USA and in the countries of the European Union. The economic crisis created different expectations for businesses and individuals, changes in waiting, affected in the behavior of the customer causing changes in perception and necessarily, changes in the behavior of the customer.

Market Segment of Factor Leasing, in reality, after the intervention of the external factors has changed, influencing in the increase of some sectors and in the decrease or the extinction of others.

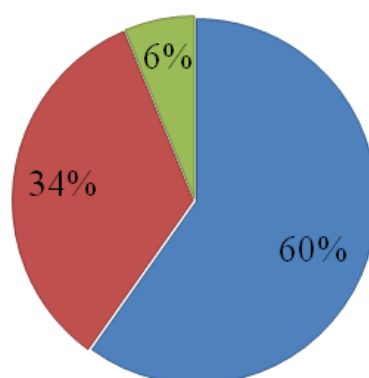
Table 20. Portfolio Distribution of Factor Leasing, 2012

Segment	Percentage on the portfolio
Real estate	60.00
Cars and transport vehicles	34.00
Production appliances and working machineries	6.00

Source: Factor Leasing, from internal portfolio report, as of 31.12.2012

Figure 4. Content of Portfolio, 2012

■ Real estate ■ Vehicles ■ Machineries



Source: Factor Leasing, from internal portfolio report, as of 31.12.2012, b.

1. The segment of real estate

As you can see from Table 20, the biggest part of the portfolio is comprised of the investments in real estate therefore exceeding our predictions that were 20%. The exceeding of the forecast has gone to 40%.

The Interest to invest in the real estate projects where Factor Leasing has financed was high. This interest has resulted in being very reasonable because the value of the real estate in these projects has grown from 15% up to 30%, for a period of 24 months.

While the value of the remaining obligations for these financings have fallen sharply, effecting in a good way the quality of the portfolio. With the financing made, the portfolio of Factor Leasing is desirable from the direct competition and from the other banks that operate in the Kosovo market.

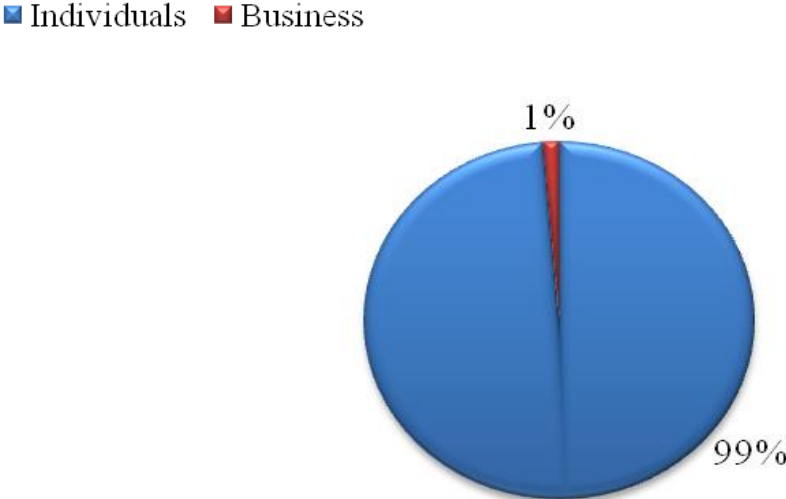
Factor Leasing is mainly focused on businesses, owners of small and medium businesses, persons that are employed in private businesses. In the structure of the clientele, we have a small number of clients that work in state institutions, teachers, nurses, doctors, ministers, ambassadors etc.

The real estate market is an attractive one and until today has shown to be the most stable segment. Maybe this is connected with the mentality, culture of the repayments of the debts, high rhythm of the increase of new families and the importance that is shown by the families or individuals who own a house or an apartment.

Besides this, the secondary real estate market is very dynamic, in the project in which Factor Leasing has invested, does not pose a problem to sell the real estate if the client fails to make the payments required by the contract. We have had cases where the clients had difficulties making the payments and with the help of the supplier within 30 days, the buyer of the real estate was found.

The security regarding the quality of the portfolio comes from the current practice where in case of failure of the client to make the payment, the issue will be solved very fast as in the way the other projects have been solved in which Factor Leasing has financed and in the way the clients who were supported through financing have been chosen.

Figure 5. Size of Real Estate Segment



Source: Factor Leasing, from internal portfolio report, as of 31.12.2012, c.

a) Cars segment and transport vehicles

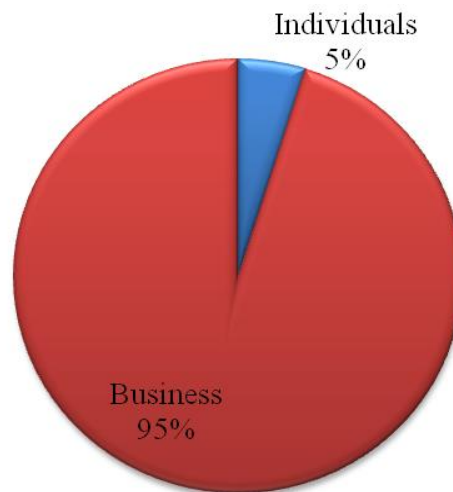
This segment consists of the sectors that make the second biggest component in the portfolio of Factor Leasing, comprising with 36% of the entire portfolio.

This segment brings stable and continuing profits for the company, despite the fact that a lot of commitment and energy with regards to other segments is needed. But besides the commitment, it also brings revenues that enable to cover a considerable amount of operational expenses and maintaining good relations with the clients.

In the aspect of security of the investment, this falls into the second category because the vehicle is in continuous motion, it can be part of an accident, it can be stolen, its identity can be copied, going in the territories to where is not covered by the insurance etc.

Secondary car market is very active in Kosovo and used cars are being sold in large numbers, offering some kind of assurance in financing them. In case some client fails to cover its payments, the asset that is in leasing can be quickly sold and the obligations will be covered.

Figure 6. Size of Cars Segment and Transport Vehicles



Source: Factor Leasing, from internal portfolio report, as of 31.12.2012, d.

b) Production appliances segment and working machinery

This is the third segment of the portfolio which has considerably the smallest participation percentage of the portfolio with just 6%, according to the results of the date 31.12.2012. This segment comprises of the finances of buying the machinery for production, machinery

for building bridges, machinery for the water industry, machinery for cutting optical glass and machineries of other sectors of production.

Despite the request for financing the purchase of the machineries of different fields, which were very high, the management of Factor Leasing has come to the conclusion that this is a high risk segment. This evaluation is based on a couple of reasons, starting from the basic rule of leasing, the existence of the secondary market.

The existence of the secondary market or of the market where the appliances that are confiscated can be sold in case the client fails to do his payments. Another reason is the difficulty to take the asset in possession because there is the possibility of the sale of the asset.

In the local banks practice, there were experiences where the asset (machinery) was sold or was sent somewhere else, or was sent in a different country and the police force had difficulties finding who the owner of the asset was. Therefore in this segment, we were pretty much reserved, financing only those clients with whom we were familiar with and whom we knew that would not make any frauds.

3.3 Organization structure, culture and flexibility

Factor Leasing with its organizational structure has developed a working culture and a flexibility which is to be acknowledged, positioning itself in the market as a serious and ethical company. The company is organized in a way that can offer efficiency in growing and maintaining the portfolio, to keep the quality of the portfolio and its reputation in the market, with minimal operational expenses.

Managing of the company is made with 4 workers, with a portfolio comprised of 8.45 million (billion) EUR outstanding and 267 active contracts, with a fleet of over 300 cars, over 30 houses and about 80 flats financed and insured every year (Portfolio of Factor Leasing, 2012).

The way Factor Leasing is managed is divided in different levels, regardless of the fact that it is a small company when you see the number of employees it has. Decisions regarding financing are made by the board of directors while the services that are specific by its nature and are rare, outside company sources are used.

However, this organizational structure and culture needs to have within the company personnel with entrepreneurship features, offering services with effectiveness, well prepared and professional staff, loyal and dedicated towards the company. While the main conditions which have enabled Factor Leasing to be sustainable in the market and have an

increase in the performance have been precisely because of the organizational structure of the company.

This structure has enabled Factor Leasing to be more flexible and make faster decisions. This organizational structure, which in itself is not very well formed, can be noticed in many companies which successfully operate in the market. Therefore, in the basis of observing a lot of companies including also Factor Leasing, I believe that non-complex and non-bureaucratic organizational structure is the structure that mostly fits the newly formed businesses in the Kosovo market.

This structure can function until a certain level of development of the company is achieved, because then it needs to change its form. Thus, in the first years of the company operation, it is imperative to surpass the bureaucracy up to the level where the company is not compromised.

In the Kosovo market, the culture of doing business is non-bureaucratic, it tries to be extremely in-formal, except of those cases where that it is an imperative with regards to legal and financial issues. In general, companies that can offer good services and in record time will be successful in Kosovo, while those companies that are more bureaucratic will have difficulties surviving and developing, except in cases where we are dealing with international brands.

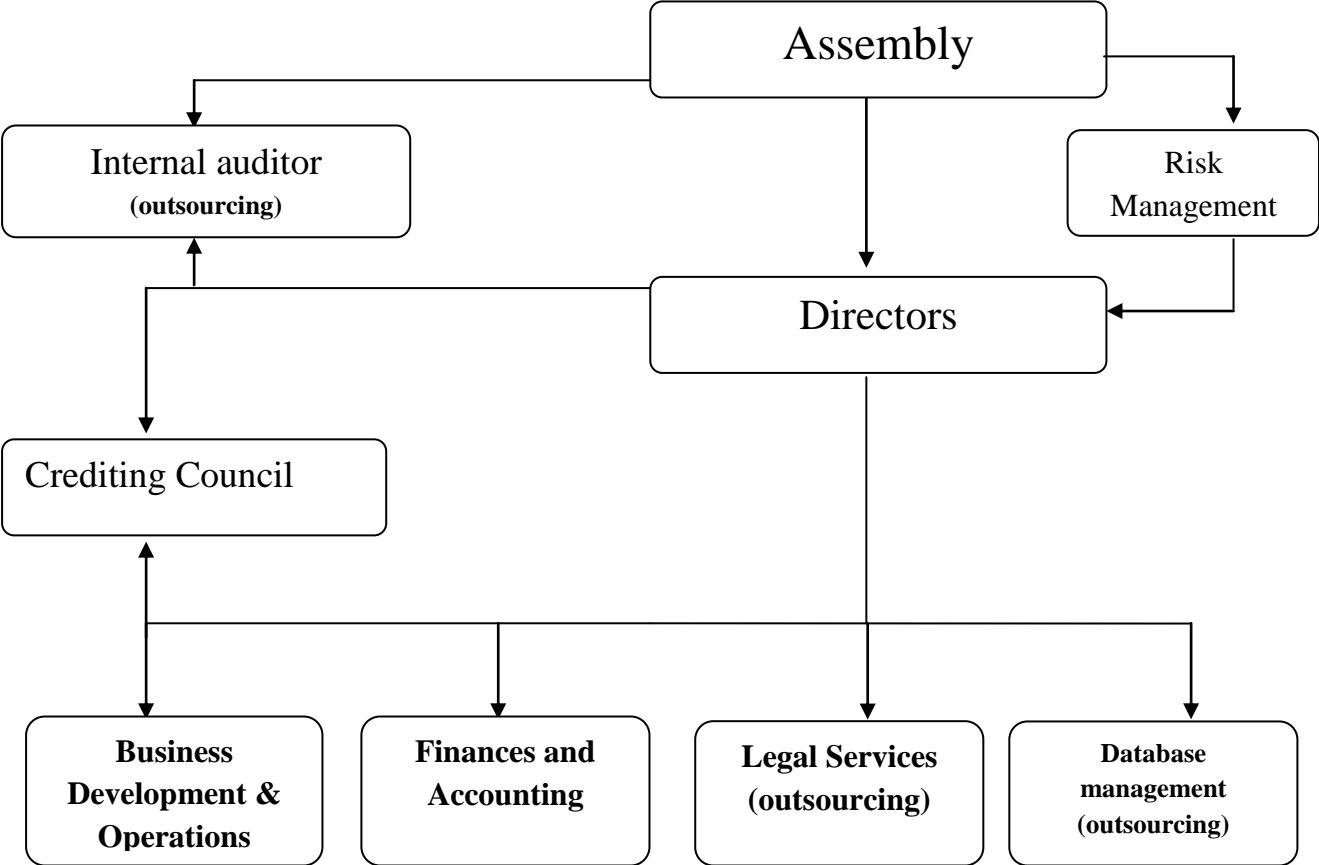
The beginning of a new business in Kosovo, which is not known in Kosovo or in the international market, will have difficulties positioning in the Kosovo market. But this is not something impossible, it only needs time and people who are known to the market or people who have proved themselves in doing business and who could make this happen.

Meanwhile, if the business is new in Kosovo and for the international markets, but the owners of the business are known to the market as successful people, then in this case the success is almost guaranteed, except where the product and services are not properly made.

Organizational structure of Factor Leasing comprises of the assembly of the shareholders where are included all of the representatives of the shareholders who have an assembly at least once a year to inform about the performance of the company and receive the auditor's report. While in the board of directors, we have the representatives of the main shareholders, a total of 3 persons, who make all the business decisions in the long term and decisions about financing. Board of Directors chooses the Director of the Company and along with the director they make appointments of the other managing and administrative staff.

The Director of the company is authorized by the board of directors to legally represent the company, make daily operative decisions that need to be executed in accordance with the Kosovo laws, statute of the company and the policies and procedures of the company. After the director of the company, the second person with authority and power is vice Director and the Director of business development, who exercises all director’s duties in his absence, cares about the growth of the portfolio, managing files, managing payments and cash flows, managing relations with the clients, managing the process of new applications and contracts, proceeding with the court cases in the courts if the client does not fulfill his/her obligations, managing the insurance of the assets etc.

Figure 7. Organizational Structure of Factor Leasing



Other important functions regarding Factor Leasing are the Management of the financial risk, this function is exercised with the cooperation of the board of directors of the company and the risk department of the “C” bank in Slovenia. Legal services are mainly realized by the director of the company in cooperation with the vice Director and in the most complicated cases, outside specialized companies for legal cases are engaged. Meanwhile, management of the database is done by a company that develops the leasing

software, maintains the database and cares about the safety of the data in cooperation with the vice Director.

The sector for finances and accounting is a function that is exercised within the company. In the sector are exercised these functions with regards to managing the companies accounting, payments towards the suppliers, reconciliation of the internal accounts and those with suppliers, preparation of the financial statements for the board of directors, preparation of the TAK reports and preparation of the CBK reports.

The sector for the development of the business is the sector that takes care of the sales, the administering of all the contracts with the clients, and within this is the customer care unit. Within the customer service are included a lot of functions like the registration and the insurance of the vehicles that are within the fleet of Factor Leasing, that includes on average of 300 cars, 30 houses and 80 flats. Also, within the scope of customer service is the function of customer billing regarding the expenses that are made for assets that are in use by them, billing the leasing installments and other services that are within the customer care.

3.4 Business network and knowledge flows

The company capacities in different aspects determine the strategy of the company and the ways through which the company can go in order to achieve the desired success. Factor Leasing is a small company with regards to the number of employees, despite that in the aspect of portfolio of leasing in Kosovo and compared to the competition, it is a company that covers nearly 50% of the market.

The networks of businesses that cooperate with Factor Leasing are big companies of the market, in the aspect of turnover, number of employees, investments and the value of expenses. Establishing the network of businesses requires knowing the representatives of the businesses and obtaining their trust. In general, the network of businesses and people is established through good faith and keeping doing the good work. The management of Factor Leasing has worked in the banking sector of Kosovo for a couple of years, having the opportunity of creating a network of clients and different people with who they cooperate.

The management of Factor Leasing, in the beginning of the work, needed to build the network of businesses for Factor Leasing, contacting businesses who it had relations with by presenting the offers for cooperation. In 2008, leasing as a product was unknown and did not have law coverage and other legislative procedures for many aspects of leasing.

Factor Leasing was the first company that started dealing with these products and in addition to the insecurity and uncertainty due to lack of legislation, it was also difficult to be accepted by a part of the clients. But having the trust of the management of Factor Leasing, the clients were ready to take the risk and to cooperate with Factor Leasing.

Despite having a lot of difficulties for the management of Factor Leasing to grow the company, because in the field of crediting we had a lot of competition, it was managed to overcome these difficulties and the company started to grow very fast, after its first year of operation. Establishing a network of businesses with whom to cooperate as a legal entity is crucial to the growth of the company. We have used different methods of direct contact before we have started with the productivity. We had meetings with different clients just to inform them about the plans of the business for the future and other forms of presenting the products.

Beside this, we have used the network of businesses that had business relations with the owners of Factor Leasing and the network of businesses of the companies of the owners of Factor Leasing. In promoting the company and its products, we had a lot of help from the creditors like auto dealers and real estate agents. This support came because we did our work faster than our competition, treated the clients and suppliers a lot better, we had better prices and were transparent in every process.

Clients that had the opportunity to work with Factor Leasing, without hesitation have given references which have enabled us to increase the number of clients and gradually the network of businesses that work with us has grown, as the request for financing is a lot higher than the funds that are available to us to finance those businesses.

Knowledge flows – Distribution of knowledge in organizations or companies whether big or small, is an unavoidable process, for new employees or the existing ones. We have to agree on one point that every company, small or big, learns a lot of processes solely by exercising their activities.

Learning by doing necessarily needs the sharing of the experiences with the other half of the company, so that the staff can perform their duties for the good of the company. The distribution of the knowledge can be made in many ways, organizing trainings that are referred to the issues that need to be treated, being through a memo where they are informed about the issues that have changed or about any news regarding the company.

Factor Leasing, in its beginnings, it was a continuous process of learning and the knowledge flows about new issues, improving processes, facing new situations, have brought to finding new solutions to different problems. This high frequency of improvements and the distribution of knowledge were due to a rapid growth, a new company that needed to define and to adapt to every process, in the way that was deemed

appropriate. In many companies, the issues of policies and work procedures come ready made by the owners or the mother company, and in our case, almost every policy and procedure has been developed by the staff who for many issues has been trained very good, but when it came to leasing, this was their first experience, and this meant that we have learned by doing.

In Factor Leasing, the distribution of knowledge usually has been made person to person, and in some rare cases through the team work. The distribution of knowledge between the staff most of the time has been done for the leasing software, changes that have been made in the processes of doing business, also the procedures of the insurance of the assets. In many companies or organizations, it is something that represents a problem and this happens for a couple of reasons, considering that the knowledge gained is his/her property and no one needs to know it.

There are cases where the person wants to be in the centre of the attention and wants to increase his/her value within the company, the fear that he/she can be replaced by others with lower cost and lose his/her job and many other reasons that are connected directly with the perception of the individual who tries to ensure him/herself a better wellbeing, with the knowledge and abilities he/she possesses.

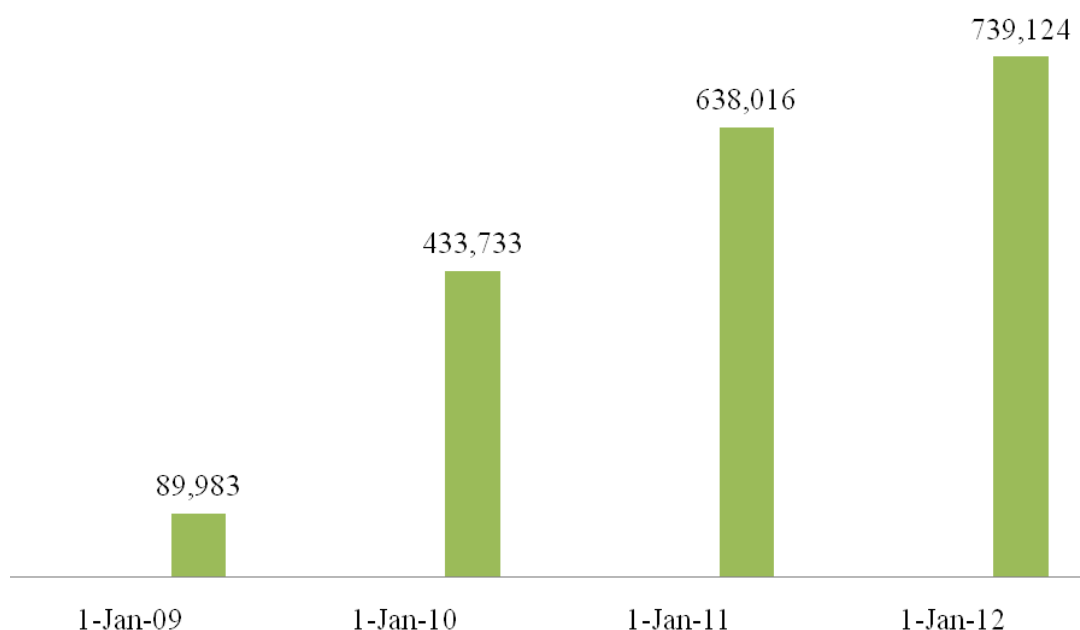
In Factor Leasing, this has never been presented as a problem because all of the staff feels good working there and the big desire to grow and develop, did not leave any space for selfishness. All the changes that have been applied on businesses, regardless of what sector they are in, have been followed with the documentation and presentation of policies and procedures of the company.

Therefore, I believe that employing staff with experience in different fields and especially in the field in which the investment is being made is of utmost importance. Continuing on this, I would also add that adding personnel who is creative, daring and willing to share their knowledge is a very big advantage, in order to have a successful company and an equal share of knowledge.

3.5 SWOT analyses of investment of Factor Leasing

Based on the financial statements audited form two different external auditors of Factor Leasing, it can be clearly seen the increase of income from the financial leasing through the years. If we compare the increase in income of the financial leasing through the years, we can see that in the year 2010 the income has seen a rise of 382% compared to the year before. In 2011, we have an increase in income of about 47% and in 2012 with 16%. This increase is closely linked to the growth of the portfolio and with the amount of funds for financing.

Figure 8. Income from Financial Leasing (2009-2012)



Note* Based on Audit Reports & Internal Financial Statements, 2008-2012.

Source: Audit report, Deloitte & Grant Thornton.

As it can be seen in Figure 08, in 2009, 2010 and 2011, during the years which Factor Leasing did not have limitations of its funds, the growth was significantly higher than in the year 2012, where these limitation of funds started. After the appearance of limitations regarding credit lines, the stagnation of the rise of the portfolio started, regardless of the growing demand. Below is presented the rise of the portfolio of Factor Leasing through the years, in form of a table.

Table 21. The Business Growth in Years

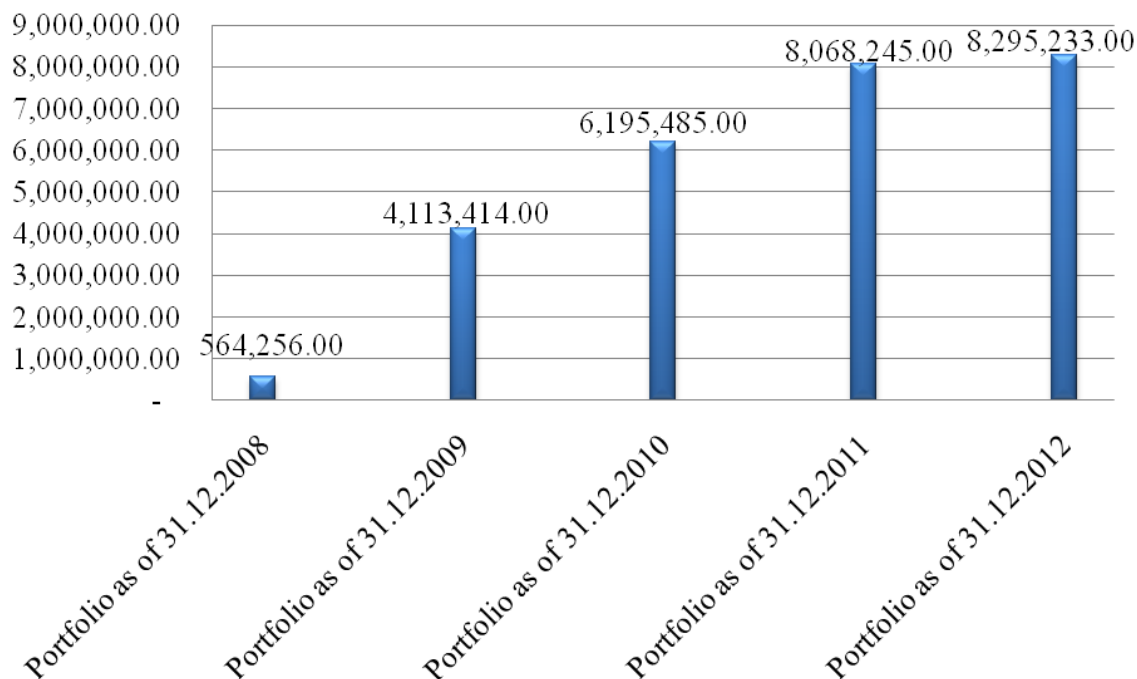
Source of information	Outstanding	From	To	Year on year growth in %
Audit report, Deloitte	8,295,233	01-Jan-12	31-Dec-12	3
Audit report, Deloitte	8,068,245	01-Jan-11	31-Dec-11	30
Audit report, Grant Thornton	6,195,485	01-Jan-10	31-Dec-10	51
Audit report, Grant Thornton	4,113,414	01-Jan-09	31-Dec-09	629
Factor Leasing, internal report from 01.07.2008 until 31.12.2008	564,256	01-July-08	31-Dec-08	0

Note* Table is based on Audit Reports & Internal Financial Statements, 2008-2012.

Source: 2008-2012, Audit Report, Deloitte & Grant Thornton.

While below with a Figure, are presented the financial statements of Factor Leasing that have been audited, see Figure 9.

Figure 9. Total Portfolio Growth (2008-2012)



Note* Based on Audit Reports & Internal Financial Statements, 2008-2012.

Source: 2008-2012, Audit Report, Deloitte & Grant Thornton.

Based on the horizontal and vertical analyses of financial statements that are represented in the Appendix, we can conclude that Factor Leasing as an investment with combined owners (domestic and foreign), is a fast growing investment with regards to human capacities and capital, with high efficiency and a good return on investment.

With a couple of disadvantages that are as a result of outside factors, for example, the limitation of the credit lines because of the crisis in Slovenia, where Factor Leasing gets all of its credit lines and the lack of opportunities to obtain credit lines in Kosovo from the commercial banks. Another problem which can also be called as an outside factor is the lack of experience of the tax administration for the treatment of operational leasing and the return of the refundable VAT.

Despite this, Factor Leasing until 31.12.2012 has had only one client that does not perform, in which case the intervention of the Court will be needed. We consider that Kosovo courts are performing poorly, but there are tendencies that in the midterm the situation is going to

get better, while for the moment they have a low performance with regards to treating problematic cases and the execution of cases that already have a court decision.

With regards to **Inside factors**, Factor Leasing stands quite well and has been able to manage the situation very well and reach its objectives and obtain results that are acceptable for the investors/owners.

Strengths of Factor Leasing are:

1. A well prepared and professional staff, with strong ethics and character;
2. The leasing software developed “in house” which follows and documents every part of the business;
3. The decision making process is fast and very well structured;
4. Flexibility on doing business and the speed with which the services after the sale are offered;
5. The price for our services is cheaper compared to the price of the others;
6. A very established client structure and with the opportunity to expand the range of products used;
7. A very good coefficient portfolio, the rapport portfolio/delays;
8. The location of the offices is in the city centre, in the same street as some of the banks;
9. The ownership structure and the network of the businesses of the owners;
10. The cohesion of the staff in achieving the objectives of the company;
11. It is not confined in offering only one product (for example cars or equipment), but is present in every field of interest;
12. Low operational business costs.

Meanwhile, as a part of the internal factors we also have **weaknesses**. Below are listed all the weaknesses of Factor Leasing:

1. Small number of employees and multi-functionality of one worker;
2. High importance of every worker of the company, for example if one employee misses works or goes on vacation, it means that 25% of the company will be missing;
3. Lack of an internal evaluation system with regards to the contribution of every worker and documenting the evaluation of the staff, whether for the extension of the contract or salary increase;
4. Depending on only one supplier to finance the investments, completely depending on Factor Bank;
5. Lack of funds for a continuous growth of the company;
6. Low profit margins in credit lines;
7. Financing only on two real estate projects.

Meanwhile, the outside factors of Factor Leasing are one of the most important factors that have determined the level of the growth of the company and difficulties that the company has faced.

Below are presented the **opportunities** of Factor Leasing:

1. Involvement into other investment projects in real estate and financing the used cars;
2. Involving international investors that are interested to invest in financial institutions in Kosovo in loan terms;
3. Finding strategic international partners for further development of the company in terms of the shareholder;
4. Applying for Bank license to transform Factor Leasing as a financial institution into the local or international bank;
5. After having a strategic partner and sufficient funds, expanding our market into the region.

Threats of Factor Leasing are:

1. The growth of purchasing price for investments funds;
2. The risk of losing our potential market because of non-sufficient funds;
3. The impact of economic crises in repayments of the installments;
4. Not efficiency in the judicial system with regard to bad debts.

Referring to the SWOT analyses I would conclude that Factor Leasing is a good and successful foreign direct investment with possibilities to grow the return on investment for the shareholders and contribute to the business development.

4 BUSINESS STRATEGIES TO ESTABLISH AND GROW A COMPANY IN KOSOVO

To establish a business in Kosovo, it is a necessity to know the climate of doing business, knowing main stakeholders, being flexible and the willingness to continuously change the way the market demands it. Also knowing and being close to other businesses, the speed with which the services are offered and offering a reasonable price in order to develop the business.

The establishment and growth of a business everywhere in the world is a difficult process, and this is a well-known thing to everyone who has tried to create and grow a business. This is especially true when we have to do with businesses being created, where you have to take care personally of every aspects of the business, starting from the simple things to the strategic decisions.

I believe that establishing a business to earn a living is much more difficult than establishing a business just to diversify the portfolio. In establishing a business, the investor (owner) who in most cases is the manager as well, endangers his/her lifelong savings, energy and knowledge to generate a business and that is very difficult. It is especially difficult where there is no business growth or return on investment, but even if we have a small growth of the business it is still very difficult to maintain a business with family members or just with one employee, because then the investor would get tired and that tiredness will reflect on the business. The customer does not want to work with a company that reflects tiredness, offers low quality service and lacks the energy to offer services in a timely manner and in the way that the client wants.

Based on my personal experience, making of the best possible product or service, does not guarantee its success, if you as a representative of the business do not adapt with the culture of the consumer of that specific product. Adapting the product to the purchasing power and the exact needs of the consumer, including to it many aspects of the product, makes the product and your business more acceptable to the market. These are not so visible criteria, in the entirety of doing business, but are factors of special importance for the success of the business.

In Kosovo market you need to know in what phase of “education” or preferences is the consumer and this applies regardless of the product or service. Also, an important element of establishing a new business is to know who your suppliers and consumers are. In the case of Factor Leasing, the knowledge of the management with regards to managing businesses and owners of the company has enabled a fast creation and growth of the company, lowering the cost of promotion and establishing a relation of trust of the company.

CONCLUSION

The research has shown evidence that Kosovo as a market is doing well in comparison to where it started to make improvements in various aspects of life. Kosovo market can be assessed as a market with interesting features and attractive for investors who are willing to accept calculated risk.

If foreign investors will take as references only the reports and statistics of non-business organizations that do reports for Kosovo, no one would like to invest in Kosovo. But, in Kosovo there are many practices of successful foreign investors, realizing the extraordinary profits and those profits entirely transferred to the country of the origin or in countries where they are losing their businesses because they do not have a high profit margin as in Kosovo and the market risk is higher than in Kosovo. I do not exclude the fact

that there is more needed to be done, ranging from combating corruption and informality but, based on the research and personal experience, I consider that Kosovo market has good investment opportunities if the right way to enter the market and the right leadership to lead the investment is selected.

The management of the company should be local or combined, because of the language, culture and administrative costs. Also, an important fact that should be emphasized is that, investor's financial strength and access to funds that are with low cost are very important in the growth phase of the business in Kosovo.

Based on interviews conducted with owners and general managers of businesses, the conditions of doing business in Kosovo remain to be desired but with the trend of improvement. While, as difficulties in entering the market in specific segments is mentioned political interference, the lack of accurate statistics due to the informality. But, it is estimated that the market has low competition and has space for new investors in different segments of the business while Kosovo is a developing country.

In overcoming these barriers of entry into the market, it is recommended that a foreign investor selects initially contacts with the embassy of their country in order to establish relations with the institutions or the appropriate and trustful person. Then create contacts in order to increase the business network and notification on market conditions through chambers of commerce and mayors of the municipalities where you plan to invest. Once you have this information and network, you can begin with preparation of the strategy and choice of management.

Utmost care must be given in the process of choosing the technology that will be used in business and the leadership or management staff must be professionally prepared and be experts of the field, be trustful and experienced in management. According to research, it turns out that the young age of management and work experience respectively in management are crucial for the achievement of success as for establishing and growing business.

In this area, foreign investors will have advantages over local competition because in most local businesses, the owner is also the business manager, the rest of management is composed by members of the family, with other words in most of the cases there cannot be meaningful business development. These circumstances affect the image of local entrepreneurs because, of their improper education to run the business, leaving no room for new ideas, using authority in decision-making and lack of development plans.

Referring to the research comes out that Kosovo, to promote and persuade foreign investors, needs to tackle initially corruption, informality, to increase the efficiency in courts and stop political interferences in approving licenses for specific markets.

To improve these points, Kosovo need to have a serious commitment of political members and leadership in particular. Once these improvements occur, which can be made within a short time since Kosovo is a relatively small country, competition will be increased.

Kosovo should be seen as the basis of investment for South Eastern European market because of the geographical position, with the aim of exporting to the region and the European Union. Following are some general suggestion for foreign investors who plan to enter the Kosovo market:

1. Investors, who are seeking new opportunities such as Kosovo, should be aware that investing in Kosovo is to take over a calculated risk; you have to be persistent for business success together with the management engaged. Define clearly who is your market or customer, must possess the ability to communicate repeatedly with all parties involved in your business.
2. As foreign investors, initially contact the embassy of your country in Kosovo and receive information about the market and meet leading businesses in Kosovo to get familiar with the environment. In this phase of building your business network you should also consider meeting the government leaders in central and local level, getting in touch with the chambers of commerce that are operating in Kosovo and other associations.
3. The easiest way to market entry and success is in cooperation with local partner but, it is needed to take care in the selection of the local partner because of the importance for the wellbeing of the company.
4. Establish clear rules of partnership and written rules.
5. Strategic business plan should be developed by the investors and adapted together with local management, at least for 3 to 5 business years until the business is stabilized and the management is specialized in that segment.
6. Choose management that has experience in the field that you want to invest and much younger in age.
7. Study the market in various aspects and collect statistical data from the relevant authorities in respect of that market segment that you intend to penetrate.
8. The flexibility in doing business in Kosovo is necessary because, most of the companies are not well structured and the culture of reaching agreements is more informal.
9. Positioning in the market as foreign companies is an additional advantage, it is assessed by local and regional clients that foreign companies are serious companies,

which keep the promise, own the quality product and respect the terms of the contract, all these translates into trust to your brand and your product.

10. Branding and networking is essential in Kosovo for achieving success in business, in this could be carried out the same methods that are used in any EU country or the U.S.A.
11. In Kosovo market, it is very important to keep the business promise whether verbal or written in contract, this is crucial for market positioning and business growth.

However, in regards to the research topic, foreign investors in Kosovo have been successful until now because of their competitive advantages in comparison with local investors. Foreign investors have more experience, financial potential and support as foreign investors that they get from their embassy, chamber of commerce, government and municipalities. I will finish my research with one suggestion; investment in Kosovo is a good opportunity and provides good return on investments.

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Appendix 1: Factor Leasing - Income Statement, 2009-2012

	31-Dec-12	31-Dec-11	31-Dec-10	31-Dec-09
Operating income				
Financial lease income	739,124	638,016	433,733	89,983
Operating lease income	187,914	382,994	442,102	357,491
Management fee	30,754	43,140	45,031	62,141
Interest from fees and discounts	61,491	83,450	63,772	64,680
Other operating income	8,790	41,942	2,010	3,939
Total operating income	1,028,073	1,189,542	986,648	578,234
Impairment loss	16,328	16,328	15,780	-
Depreciation of property and equipment	2,886	2,836	2,765	-2,766
Depreciation of assets leased under operating lease terms	152,563	291,162	317,314	-252,541
Interest expenses	674,495	545,144	409,572	-151,567
Personnel expenses	74,110	63,274	69,909	-55,559
Other expenses	74,406	115,372	112,889	-47,255
Profit before income tax	33,285	155,426	58,419	68,546
Income tax expense	3,020	15,543	5,842	1,924
Profit for the year	30,264	139,883	52,577	66,622
Other comprehensive income	-	-	-	
Total comprehensive income	30,264	139,883	52,577	66,622
Net profit attributed to holders of ordinary shares	30,264	139,883	52,577	66,622
Total comprehensive income attributed to holders of ordinary shares	30,264	139,883	52,577	66,622

Appendix 2: Factor Leasing - Balance Sheet, 2009-2012

	31-Dec-12	31-Dec-11	31-Dec-10	31-Dec-09
Assets				
Cash and cash equivalents	342,138	24,883	166,140	39,749
Assets leased under operating lease terms	207,382	557,493	1,034,655	1,395,977
Investment in finance lease	8,295,233	8,068,245	6,195,485	4,113,414
VAT receivable	125,405	125,405	112,355	168,867
Other receivables	162,097	53,538	9,693	26,995
Intangible assets	20,700	15,700	10,000	5,000
Property and equipment	3,149	6,035	8,355	11,120
Total Assets	9,156,104	8,851,299	7,536,683	5,761,122
Liabilities				
VAT payable	4,783	8,205	0	0
Deposits from customers	123,964	190,454	254,813	268,413
Trade and other payables	342,795	266,813	210,363	242,418
Borrowings	8,468,448	8,116,047	6,901,610	5,132,971
Total Liabilities	8,939,990	8,581,519	7,366,786	5,643,802
Equity				
Share capital	100,000	100,000	100,000	100,000
Retained earnings	116,114	169,780	69,897	17,320
Total equity	216,114	269,780	169,897	117,320
Total liabilities and equity	9,156,104	8,851,299	7,536,683	5,761,122

Appendix 3: Factor Leasing – Income Statement - Horizontal Analysis

	31-Dec-12	The difference in absolute amount	The difference in percentage	31-Dec-11	The difference in absolute amount	The difference in percentage	31-Dec-10	The difference in absolute amount	The difference in percentage	31-Dec-09
Operating income										
Financial lease income	739,124	101,108	15.85%	638,016	204,283	47.10%	433,733	343,750	382.02%	89,983
Operating lease income	187,914	-195,080	-50.94%	382,994	-59,108	-13.37%	442,102	84,611	23.67%	357,491
Management fee	30,754	-12,386	-28.71%	43,140	-1,891	-4.20%	45,031	-17,110	-27.53%	62,141
Interest from fees and discounts	61,491	-21,959	-26.31%	83,450	19,678	30.86%	63,772	-908	-1.40%	64,680
Other operating income	8,790	-33,152	-79.04%	41,942	39,932	1986.67%	2,010	-1,929	-48.97%	3,939
Total operating income	1,028,073	-161,469	-13.57%	1,189,542	202,894	20.56%	986,648	408,414	70.63%	578,234
Impairment loss	16,328	0	0.00%	16,328	548	3.47%	15,780	0.00	0.00%	0.00
Depreciation of property and equipment	2,886	50	1.76%	2,836	71	2.57%	2,765	5,531	-199.96%	-2,766
Deprecation of assets leased under operating lease terms	152,563	-138,599	-47.60%	291,162	-26,152	-8.24%	317,314	569,855	-225.65%	-252,541
Interest expenses	674,495	129,351	23.73%	545,144	135,572	33.10%	409,572	561,139	-370.23%	-151,567
Personnel expenses	74,110	10,836	17.13%	63,274	-6,635	-9.49%	69,909	125,468	-225.83%	-55,559
Other expenses	74,406	-40,966	-35.51%	115,372	2,483	2.20%	112,889	160,144	-338.89%	-47,255
Profit before income tax	33,285	-122,141	-78.58%	155,426	97,007	166.05%	58,419	-10,127	-14.77%	68,546
Income tax expense	3,020	-12,523	-80.57%	15,543	9,701	1.31%	5,842	3,918	203.64%	1,924
Profit for the year	30,264	-109,619	-78.36%	139,883	87,306	11.76%	52,577	-14,045	-21.08%	66,622
Total comprehensive income	30,264			139,883	87,306	11.76%	52,577	-14,045	-21.08%	66,622
Net profit	30,264	-109,619	2.54%	139,883	87,306	11.76%	52,577	-14,045	-21.08%	66,622
Total comprehensive income to holders shares	30,264	-109,619	2.54%	139,883	87,306	11.76%	52,577	-14,045	-21.08%	66,622

Appendix 4: Factor Leasing – Balance Sheet - Horizontal Analysis

	31-Dec-12	The difference in absolute amount	The difference in percentage	31-Dec-11	The difference in absolute amount	The difference in percentage	31-Dec-10	The difference in absolute amount	The difference in percentage	31-Dec-09
Assets										
Cash and cash equivalents	342,138	317,255	1274.99%	24,883	-141,257	-85.02%	166,140	126,391	317.97%	39,749
Assets leased under operating lease	207,382	-350,111	-62.80%	557,493	-477,162	-46.12%	1,034,655	-361,322	-25.88%	1,395,977
Investment in finance lease	8,295,233	226,988	2.81%	8,068,245	1,872,760	30.23%	6,195,485	2,082,071	50.62%	4,113,414
VAT receivable	125,405	0	0.00%	125,405	13,050	11.61%	112,355	-56,512	-33.47%	168,867
Other receivables	162,097	108,559	202.77%	53,538	43,845	452.34%	9,693	-17,302	-64.09%	26,995
Intangible assets	20,700	5,000	31.85%	15,700	5,700	57.00%	10,000	5,000	100.00%	5,000
Property and Equip.	3,149	-2,886	-47.82%	6,035	-2,320	-27.77%	8,355	-2,765	-24.87%	11,120
Total Assets	9,156,104	304,805	100.00%	8,851,299	1,314,616	17.44%	7,536,683	1,775,561	30.82%	5,761,122
Liabilities										
VAT payable	4,783	-3,422	0.05%	8,205	8,205	8205.00%	0	0	0.00%	0
Deposits from customers	123,964	-66,490	1.39%	190,454	-64,359	-25.26%	254,813	-13,600	-5.07%	268,413
Payables and other	342,795	75,982	3.83%	266,813	56,450	26.83%	210,363	-32,055	-13.22%	242,418
Borrowings	8,468,448	352,401	94.73%	8,116,047	1,214,437	17.60%	6,901,610	1,768,639	34.46%	5,132,971
Total Liabilities	8,939,990	358,471	100.00%	8,581,519	1,214,733	16.49%	7,366,786	1,722,984	30.53%	5,643,802
Equity										
Share capital	100,000	0	46.27%	100,000	0	0.00%	100,000	0	0.00%	100,000
Retained earnings	116,114	-53,666	53.73%	169,780	99,883	142.90%	69,897	52,577	303.56%	17,320
Total equity	216,114	-53,666	100.00%	269,780	99,883	58.79%	169,897	52,577	44.82%	117,320
Total Liabilities and Equity	9,156,104	304,805	4236.70%	8,851,299	1,314,616	17.44%	7,536,683	1,775,561	30.82%	5,761,122

Appendix 5: Factor Leasing – Income Statement - Vertical Analysis

	31-Dec-12	The difference in percentage	31-Dec-11	The difference in percentage	31-Dec-10	The difference in percentage	31-Dec-09	The difference in percentage
Financial lease income	739,124	71.89%	638,016	53.64%	433,733	43.96%	89,983	15.56%
Operating lease income	187,914	18.28%	382,994	32.20%	442,102	44.81%	357,491	61.82%
Management fee	30,754	2.99%	43,140	3.63%	45,031	4.56%	62,141	10.75%
Interest from fees and discounts	61,491	5.98%	83,450	7.02%	63,772	6.46%	64,680	11.19%
Other operating income	8,790	0.85%	41,942	3.53%	2,010	0.20%	3,939	0.68%
	1,028,073	100.00%	1,189,542	100.00%	986,648	100.00%	578,234	100.00%
Impairment loss	16,328	1.59%	16,328	1.37%	15,780	1.60%	0	0.00%
Depreciation of property and equipment	2,886	0.28%	2,836	0.24%	2,765	0.28%	-2,766	-0.48%
Deprecation of assets leased under operating lease terms	152,563	14.84%	291,162	24.48%	317,314	32.16%	-252,541	-43.67%
Interest expenses	674,495	65.61%	545,144	45.83%	409,572	41.51%	-151,567	-26.21%
Personnel expenses	74,110	7.21%	63,274	5.32%	69,909	7.09%	-55,559	-9.61%
Other expenses	74,406	7.24%	115,372	9.70%	112,889	11.44%	-47,255	-8.17%
Profit before income tax	33,285	3.24%	155,426	13.07%	58,419	5.92%	68,546	11.85%
Income tax expense	3,020		15,543		5,842		1,924	
Profit for the year	30,264		139,883		52,577		66,622	
Total comprehensive income	30,264		139,883		52,577		66,622	
Net profit	30,264		139,883		52,577		66,622	
Total comprehensive income of ordinary shares	30,264		139,883		52,577		66,622	

Appendix 6: Factor Leasing – Balance Sheet - Vertical Analysis

	31-Dec-12	The difference in percentage	31-Dec-11	The difference in percentage	31-Dec-10	The difference in percentage	31-Dec-09	The difference in percentage
Assets								
Cash and cash equivalents	342,138	3.74%	24,883	0.28%	166,140	2.20%	39,749	0.69%
Assets leased under operating lease terms	207,382	2.26%	557,493	6.30%	1,034,655	13.73%	1,395,977	24.23%
Investment in finance lease	8,295,233	90.60%	8,068,245	91.15%	6,195,485	82.20%	4,113,414	71.40%
VAT receivable	125,405	1.37%	125,405	1.42%	112,355	1.49%	168,867	2.93%
Other receivables	162,097	1.77%	53,538	0.60%	9,693	0.13%	26,995	0.47%
Intangible assets	20,700	0.23%	15,700	0.18%	10,000	0.13%	5,000	0.09%
Property and equipment	3,149	0.03%	6,035	0.07%	8,355	0.11%	11,120	0.19%
Total Assets	9,156,104	100.00%	8,851,299	100.00%	7,536,683	100.00%	5,761,122	100.00%
Liabilities								
VAT payable	4,783	0.05%	8,205	0.10%	0	0.00%	0	0.00%
Deposits from customers	123,964	1.39%	190,454	2.22%	254,813	3.46%	268,413	4.66%
Trade and other payables	342,795	3.83%	266,813	3.11%	210,363	2.86%	242,418	4.21%
Borrowings	8,468,448	94.73%	8,116,047	94.58%	6,901,610	93.69%	5,132,971	89.10%
Total Liabilities	8,939,990	100.00%	8,581,519	100.00%	7,366,786	100.00%	5,643,802	97.96%
Equity								
Share capital	100,000	46.27%	100,000	37.07%	100,000	58.86%	100,000	1.74%
Retained earnings	116,114	53.73%	169,780	62.93%	69,897	41.14%	17,320	0.30%
Total equity	216,114	100.00%	269,780	100.00%	169,897	100.00%	117,320	2.04%
Total Liabil. &Equity	9,156,104		8,851,299		7,536,683		5,761,122	100.00%

Appendix 7: Questions used during the Interviews

1. How would you evaluate business environment in Kosovo?
2. Which are the difficulties of new business entrants in the market?
3. What would you suggest a foreign investor to have in consideration when they enter the Kosovo market?
4. How would the success of establishing and growing company reflect the quality of the management team in the professional and ethical matters?
5. Which are factors that should be forecasted to be included in the business strategy, in launching and growing phase for business that will invest in Kosovo market?
6. How would you describe the entrepreneurs' style in Kosovo?
7. Which are advantages and disadvantages of doing business in Kosovo?
8. Can flexibility in organizational structure of businesses that are operating in Kosovo be described as one of the key characteristics of successful businesses in Kosovo?
9. How would you rate the institutional relations (operation of law, licenses for operation etc.)?
10. How would you describe the culture of doing business in Kosovo (the way agreements are achieved, contract compliance, payment of obligations, etc.)?
11. Based on your experience, what are the determining factors in the success of businesses operating in Kosovo?
12. What indicator is the age of management in determining the dynamic growth of a company?
13. What indicator is the experience of management in determining the dynamic growth of a company?
14. What must be done to promote Kosovo investment opportunities and induce FDI?
15. What should the business strategy for establishing and growing a successful business in Kosovo contain?
16. What must be taken into account in the strategy of creating a business network?
17. How is knowledge flow organized in your business?
18. What are the factors/attributes that determine the success of a business establishment, based on your experience?
19. What are the factors/attributes that determine the success of a business growth?
20. How important is to have a foreign investor/shareholder and why? Or if you are a foreign investor, how important is to have a domestic investor/shareholder and why?

Questions used only for Factor Leasing's Clients

21. What were the determining factors for you to start working with Factor Leasing as their client?
22. What would you specify as strengths and weaknesses of Factor Leasing services as a foreign investment in Kosovo?