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Factoring in the Balkans - Bosnia and Herzegovina

[Bosnia and Herzegovina](#), Wednesday, 4 February 2009

Factorscan talks to Edin Hadzimosic, Head of Factoring within IGA, the Bosnian government's Export Credit Agency. Edin provides an overview of factoring in Bosnia and Herzegovina and provides insights into the wider region.

IGA was established back in 1996 to help implement the World Bank's work in Bosnia and Herzegovina. In 2003 IGA began factoring operations.

Could you provide us with a brief review of the health of the factoring industry in Bosnia and Herzegovina?

There are only two real factoring companies operating in Bosnia and Herzegovina at the moment – IGA, a government-backed factoring operation and Prvi Factor, the Slovenian export credit agency. There are however a number of other financial companies that work within the sphere of trade finance, but none of them are specialists in the way that IGA and Prvi are. Larger European commercial banks predominate, but they do not offer traditional factoring based upon invoice receivables, rather they offer facilities that insist upon real collateral, such as real estate, for security.

How will factoring develop in Bosnia and Herzegovina?

In Bosnia and Herzegovina we have a peculiar situation when it comes to factoring. The law in Bosnia protects the interest of all income from taxation, except for income from factoring. This has meant that banks and companies have been discouraged from introducing or using the service. IGA is the exception. Being a state-owned, government agency we are exempt from the law and are able to offer factoring services to clients without having to pay or impose tax on the facilities we offer. Prvi Factor meanwhile, operates within the Bosnian market despite the tax situation. If the law changes in the future many of the larger banks may well seek to develop factoring operations in the country – and there is a genuine need for such services – but at the moment they are limited to services designated as short-term loans so that they do not qualify for paying tax. Despite the need for factoring services in Bosnia, I do not foresee a change in the law in the near future and the larger European banks are not pushing for a change, being largely satisfied with their present position.

Which factoring companies operate in Bosnia and Herzegovina?

Only IGA and Prvi Factor operate true factoring services in Bosnia and Herzegovina. However, a number of larger European banks offer trade finance facilities including Banca Intesa, Hypo, Procredit, Raiffeisen, Unicredit and Volksbank.

How long have factors been operating in BiH?

Factors have been operating in Bosnia and Herzegovina for the last five years. IGA was the first to offer factoring services five years ago and was joined in 2007 by Slovenia's Prvi Factor. Other banks have introduced trade finance facilities over the last three or four years, but as it is, the factoring market is limited by the law.

What attracts factors to BiH and the region?

Bosnia is a largely unexplored and untapped market. At present there are only two competitors to potential entrants to the market and there is a significant need for factoring. At IGA we could factor three times the level of receivables that we deal with at the moment, but we simply do not have the government resources to do so. Also attractive at the moment are the interest rates that factors are offering Bosnian companies to factor their receivables.

Are certain markets more or less attractive than others? Why?

Within the former Yugoslavia there is considerable variation in the development, quality and credit insurance worthiness of the ex-republics. Leading the group is Slovenia, which has a sizable and well-developed factoring market, both domestic and export, with an excellent credit insurance rating (Coface rates Slovenia as an A1 country in terms of country risk – a rating that places it higher than both the US and UK). Croatia follows closely behind with a growing factoring sector and a good level of credit insurance risk (Coface – A4). Serbia is some way behind both Slovenia and Croatia, but has seen improvements in recent years following greater government stability and extensive development within its banking sector. Despite such developments however, its Coface credit rating remains at C. Montenegro and Macedonia enjoy similar ratings, although they have the worst legal enforcement and paying habits in the region, issues that have discouraged the development of factoring in these countries.

What unique features does BiH have that impacts upon factoring operations?

At the moment IGA is the only export factoring company operating in Bosnia, with Prvi Factor being alone in the domestic market. This has been due to a number of obstacles to their development. Barter remains a common mode of business in Bosnia and the legal framework for the enforcement of law remains weak. It is difficult to recoup bad debts in Bosnia with real estate representing one of the only sources of secure collateral. This has made factoring relatively unattractive in Bosnia. Furthermore, factoring remains relatively immature in Bosnia and Herzegovina and there is a need to educate the population about the potential of trade finance facilities. It is not a service that has been traditionally used and we must work to promote its potential here.

A unique feature within the region is the number of companies that are regionally owned with subsidiaries across the former Yugoslavia. This has created receivables chains that make factoring more complicated and potentially more risky. Such operations are affected by currency fluctuations and exchange rates, with both the Croatian kuna and, to a greater extent, the more unstable Serbian dinar, suffering in the downturn. In fact, many banks have withdrawn cross-border facilities for non-euro trade due to instabilities in the market and in regional currencies. Bosnia has been largely insulated from the withdrawal of facilities

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regional currencies. Bosnia has been largely insulated from the ramifications of recession because its currency, the convertible mark, is pegged against the euro.

How have current conditions affected factoring in BiH and the wider region?

More and more suppliers are demanding advance payment from our clients. These demands are predominantly coming from EU companies and have placed an additional strain on our client finances. In response to the current crisis many banks have been increasingly cautious and have drawn back loan facilities. In response to the crisis and the action of banks there has however been an increasing demand for factoring facilities as risks in the market have risen.

Is the popularity of factoring's increasing as a source of finance in BiH?

Definitely. The need for domestic factors is great, but at the moment no one is brave enough to be a pioneer.

Is the Bosnian government supporting factoring to help SMEs?

The Bosnian government is actively doing so through IGA.