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The USAID Factoring Project

# Final Report

Final Report – October 01, 2017 to December 31, 2020



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THE USAID FACTORING PROJECT

FINAL REPORT

OCTOBER 01, 2017 – DECEMBER 31, 2020



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## I. EXECUTIVE SUMMARY OF ACCOMPLISHMENTS AND RESULTS ACHIEVED

This document is the Final Report for the USAID Factoring Project (hereinafter “the Project”) and covers the three year life of the Project (October 2017 – December 2020). It is organized as follows: Section II outlines Project activities and achievements. Section III presents the PMP. In Section IV, this Final Report summarizes obstacles that were encountered during implementation and how they were overcome. Section V presents general findings and recommendations learned through Project implementation. Annex I provides details on roundtables, workshops and trainings undertaken and/or supported by the Project. Annex II is a comparison of actual expenditures with budget estimates.

Limited access to finance has been identified as one of the top three obstacles to competitiveness of Macedonian small and medium-sized enterprises (SMEs), and coupled with lack of managerial, financial and technical capacity, often results in limited integration into international markets. The Project’s overarching goal was to improve the competitiveness of Macedonian SMEs by expanding market opportunities through access to alternative financial services, through three interlinked Project Components:

- 1) improving understanding and knowledge sharing of business associations and SMEs about opportunities for using alternative financing mechanisms such as factoring;
- 2) supporting better understanding of factoring by the legal and regulatory community and by key financial sector actors; and
- 3) improving the knowledge of SME decision makers regarding financial management as a strategic tool for SME growth and improved competitiveness.

At the beginning of the Project, only two financial institutions offered factoring in North Macedonia. Our main challenge was to motivate more financial institutions that would offer factoring as a financial product, and simultaneously to increase understanding of factoring on the side of both SMEs (potential users of factoring) and of the legal and regulatory community stakeholders, in order to stimulate the uptake of factoring.

The Project achieved significant results across all three Project Components. The table below shows the Project’s achievements of “Highest Level Results” (R.1 Number of factoring transactions by SMEs as a result of USG assistance; and R.2 Number of businesses assisted in obtaining finance) over the three year life of the Project and cumulatively against the Baseline. As can be seen in the table below, the Project significantly exceeded both of its “Highest Level Results”.

#	Intermediate results	Indicator Title/ Unit of Measurement	Indicator Definition	Source/Frequency of data collection	Baseline / Year	Target FY18	Actual FY18	Target FY 19	Actual FY19	Target FY20	Actual FY20	Target life of Project	Actual Life of Project
<b>Highest-Level Result: increased SME liquidity and enabled achievement of long-term goals</b>													
1	<b>R.1</b>	Number of contracts signed by the SMEs	<i>Number of factoring transactions by the SMEs as a result of USG assisted. (Factoring contracts)</i>	Data-base/ structured questionnaire/ Annually/project	N/A	60	58	100	110	120	139	280	307
2*	<b>R.2</b>	Number of businesses assisted in obtaining finance	<i>Number of business that received technical assistance such as drafting business plans, preparing loan applications, communicating with commercial banks and non-bank financial institutions, and other.</i>	Data-base/ structured questionnaire/ Annually/project	0	30	38	40	52	50	53	120	143

### KEY HIGHLIGHTS OF THE PROJECT'S ACCOMPLISHMENTS:

- Throughout the Project life cycle, the Project reached out to more than 739 SMEs through individual meetings, group presentations and conferences.
- 307 SMEs factoring transactions were signed with support from the Project.
- 63 SMEs that participated in the Project's activities used factoring for the first time.
- With support of financial facilitators, 120 companies obtained over \$3.5 million in factoring in 303 transactions, which included 94 portfolio financing transactions.
- In cooperation with the Internal Auditors Association, representatives from the legal and regulatory sector were trained on the legal aspects of using factoring.
- Two workshops were conducted with the Academy of Judges and Public Prosecutors to help improve the legal and regulatory environment for factoring.
- The Project conducted one-on-one trainings and meetings with over 210 SMEs; out of which over 62 applied for factoring after receiving the training.
- The number of financial institutions offering factoring increased from two, Faktor Trust and Macedonian Bank for Development, to seven, including AD Stopanska Banka, Capital Bank, Komercijalna Banka, NLB, Halk Bank since Project inception.
- Three financial institutions started providing receivables insurance - Halk bank with Halk insurance company, and Procredit bank and Komercijalna bank cooperate with Triglav insurance. Receivables insurance is key for non-recourse factoring.
- With support of local experts, the Project published the first factoring manual to help local SMEs better understand and manage factoring as an alternative source of finance.
- In cooperation with the Macedonian Banking Association, the Project brought representatives of six financial institutions to Factor Chain International training in Istanbul, Turkey and Lisbon, Portugal to learn about new trends in the factoring industry and legal considerations and risk management in factoring and transfer the acquired "know-how" with their businesses in factoring.
- The Project, in collaboration with Factor Chain International, the Economic Chamber of Macedonia and the Macedonian Banking Association, hosted the first regional conference on factoring as an alternative tool for representatives of over 120 MSMEs, financial institutions, legal and regulatory community, chambers of commerce, business service providers and regional factoring associations.
- The Project, in collaboration with USAID BEP Project, conducted a feasibility study on introducing factoring for farmers and presented the findings to the members of the Macedonian Banking Association.

- The Project, in collaboration with CEED and AmCham, organized the first joint interactive conference on “Factoring as a tool that supports the growth of the company”.
- The Project conducted research on the insurance market in the Republic of North Macedonia and made a comparative analysis, including recommendations on how to develop the insurance market for factoring.
- The Project conducted an analysis on establishing a factoring association in North Macedonia which covered the legal and regulatory requirements, reviewed the practices from other countries, and made a recommendation on the optimal legal form of the Association.
- The Project developed policies and procedures in line with the Factors Chain International (FCI)<sup>1</sup> standards, which were distributed through the Macedonian Banking Association to all financial institutions that provide factoring to serve as a unified framework in absence of a specific law on factoring.
- The Project developed a database of companies that are potential users of factoring.
- The Project developed the study “Supply chain finance as an instrument for providing additional finance to Macedonian SME’s selling to FDIs and other large companies”
- There is a marked increased cooperation between the Macedonian Bank for Development (MBPR) and other financial institutions in North Macedonia, specifically in utilizing the insurance products offered by MBPR to insure factoring transactions.
- The Project developed pilot acceleration program which helped four Macedonian companies ensure access to trade finance instruments such as factoring and credit insurance and support selling their products to new international markets.

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<sup>1</sup> FCI is the Global Representative Body for Factoring and Financing of Open Account Domestic and International Trade Receivables.

## II. IMPLEMENTATION OF PROGRAM ACTIVITIES BY PROJECT COMPONENT

This section of the Final Report presents Project progress achieved over the life of the project, by Project Component. It describes, major accomplishments and results achieved.

### *COMPONENT I: OUTREACH AND AWARENESS RAISING FOR FACTORING*

The main goal of this Component of the Project was to improve awareness, knowledge and access to alternative opportunities for financing among SMEs and their associations, especially focusing on the use and benefits of factoring. From the outset of the Project, increasing awareness of factoring was a recognized prerequisite for increasing demand and supply for factoring. During the implementation of the Project, experience in other countries as well as the experience of FCI proved to be very useful. Bringing these experiences to SMEs as well as to financial institutions was necessary in order for them to understand new market opportunities, the opportunities to build sales and trade with companies from the region (or globally), and how factoring can help them exploit these opportunities. The breadth of factoring as part of trade finance, and the opportunity for an innovative approach to financing is a tool was used in promoting these alternative sources of financing.

During the life of project, the Project achieved outreach to more than 739 SMEs through individual meetings, group presentations and conferences, thus exceeding the life of project target of outreach to 370 SMEs. In addition, the Project conducted outreach to 14 different banks and 11 financial and insurance institutions and worked with a number of professional / industry associations, including the Managers' Club and the Exporters' Club within the Economic Chamber of Macedonia, AmCham and the Delegation of German Business in North Macedonia,<sup>2</sup> to expand the understanding of factoring to their SME members. The Project also worked in partnership with local government bodies, including as the Regional Economic Chambers in Kicevo, Sveti Nikole, Bitola, Kavadarci, Prilep, Stip, and Kocani, and the Regional Development Center of the Vardar Region to extend outreach about factoring to SMEs at the local level.

#### **Roundtables and Trainings with SMEs and Financial Institutions**

During the life of the project, the Project held a series of roundtables and trainings.<sup>3</sup> The primary goal of these events was to deepen the knowledge of local SMEs about factoring as an alternative source of finance and to facilitate networking among various SMEs and experts in factoring. The events offered a good opportunity for the SMEs to talk directly with factoring experts from factoring institutions and from banks and gain more knowledge regarding factoring as an alternative source of finance. Furthermore, the SMEs had an opportunity to understand how factoring directly can benefit the liquidity of their business and increase their cash flow. A list of Project roundtables and workshops is presented in Annex I.

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<sup>2</sup> The Delegation of German Businesses in North Macedonia is a representative body of German businesses, which are interested in promoting growth of German and Macedonian business cooperation.

<sup>3</sup> Trainings and roundtables were held the members of the Economic Chamber of Macedonia, members of the Exporters' Club, with members of the Managers' Club, members of Vardar Planning Region, CEED, Macedonian Banking Association, AmCham with SMEs in Veles, Shtip, Skopje, Strumica, Kavadarci, Prilep, Kichevo, Bitola, Kochani, and Gevgelija.



## **Feasibility Study on Introducing Factoring for Farmers**

During the spring of 2019, the Project conducted (jointly, with the USAID BEP project) a feasibility study on introducing factoring for farmers. The goal of the feasibility study was to explore the need and appetite for a financial product designed to improve payment cycle of agricultural traders, in order to improve the liquidity of farmers and help them better plan and invest for the following season. This study considered non-recourse factoring transactions between: a) farmers and traders and b) traders and bigger farmers with processors. The study evaluated the interest for such financial products and later became the basis for providing technical assistance to MFIs and banks to develop the terms that suit both the needs of the farmers and the buyers of their produce. The Project presented findings of the feasibility study on introducing factoring for farmers in front the members of the Macedonian Banking Association in August 2019, see Annex I for further detail.

## **Supply Chain Finance Study**

2020, the USAID Project conducted a comprehensive study on the current state of and potential for further developing supply chain finance<sup>4</sup> - and reverse factoring in particular - in North Macedonia. The main goal of the study was to provide information on the current offer of reverse factoring (a type of supply chain finance), the obstacles banks face in providing it and to inform us of what is necessary to be done in order to minimize or eliminate those obstacles, thus enabling further growth of trade finance in the country.

The study was completed through a series of questionnaires, interviews with all stakeholders including companies, banks and IFIs as well as research into the regional markets. Based on the analysis of the domestic and regional markets, it was observed that, although regional markets (Croatia, Slovenia, Serbia) are still all in their developing phase, the Macedonian market seems to be a step behind the Croatian and Slovenian market and relatively closer to the Serbian financial sector. The study showed both a great potential of trade finance as well as interest in both companies as well as financial institutions. Recommendations for continued development in this area included:

1. Organization of a pilot project for implementation of reverse factoring: Based on the interviews with the IFIs and other institutions and organizations active in this field, an actual pilot involving several financial institutions and beneficiary companies would provide the best basis to present the benefits of reverse factoring and would have the highest impact on the further growth of the market.
2. Capacity building and training for financial institutions (bank officers): This could be done in cooperation with dedicated programs in the region aimed at developing knowledge on trade finance instruments, such as the current EBRD program on Fundamentals of Factoring in cooperation with FCI, as part of their e-learning program.<sup>5</sup>
3. Awareness raising through continuous PR activities and campaigns
4. Digitalization into further market development

## **COMPONENT 2: IMPROVING THE LEGAL AND REGULATORY ENVIRONMENT**

Under Component 2, the Project focused on improving the legal and regulatory environment, supporting a better understanding of factoring, both by the legal and regulatory community and

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<sup>4</sup> Supply chain finance is a set of solutions that optimizes cash flow by allowing large companies to extend their payment terms to their suppliers while providing the option for their SME suppliers to get paid early.

<sup>5</sup> While not yet active in North Macedonia, the potential for activation of this program in North Macedonia is now currently being explored by at least one factoring company.

by key financial sector actors. The regulation of factoring with special legislation is largely a decision of the Government and here the opinion of the professional field does not always play a key role. In addition, the professional field as well as those involved in factoring have and will have divided opinions and views on whether and in what form this matter should be regulated. For some, the law is a framework that is the basis and essence for the development of factoring, while for others it is an additional regulation that leads to overregulation and as such does not provide an opportunity for development. In such conditions, and taking into account the fact that the law on obligation and other legal acts according to which the relations in factoring transactions are regulated in general, are not sufficient for the smooth development of factoring. Factoring is a financial instrument and as such must be regulated by Policies and Procedures.

On the other hand, factoring is a new matter in court practice that is perceived in various ways. Primarily, factoring does not charge overdue receivables. It gives a different flow to the whole procedure. Under Component 2, the Project worked to clarify and improve the understanding the factoring by working with the Academy of Judges and Public Prosecutors as well as through the Associations of Lawyers and Notary Club, and through the development of knowledge products and guidance, such as the factoring manual, the factoring case study, recommendations on developing the insurance marketing for factoring, and guidelines on the financial and legal aspects of factoring contracts.

### **Factoring Workshops with Academy of Judges and Public Prosecutors and Internal Auditors of Macedonia**

During Project Year 1 and 2, the Project conducted two workshops with the Academy of Judges at the Academy of Judges and Public Prosecutors in Skopje. The main goal of these workshops was to increase the awareness and knowledge of factoring under the law and provide support to the legal community to improve the implementation of factoring in the legal and regulatory environment. The target group of the workshops were judges, prosecutors, bankruptcy managers, notaries, executors, financial police, and representatives of the ministry of finance, organized crime, anti-money laundering, and public revenue office. These workshops were led by Boris Abramovic, factoring expert from Croatia, who focused in particular on getting the right legal and regulatory framework in place in order to support expansion of factoring.

Also, during Project Year 1 and 2, the Project held two Factoring Workshops with Internal Auditors, which focused on supporting better understanding of factoring by the legal and regulatory community and by key financial sector actors. The event was organized in collaboration with the Institute of the Internal Auditors and their members. This workshop was led by Dimitiar Angelkoski, factoring expert from Factor Trust who explained what factoring is and how it is structured and what the differences are (from an accounting perspective) between factoring and standard loans. By the end of the workshop, participants understood how factoring needs to be accounted for in accounting records.

### **Manual on Factoring and Policy and Procedures for Factoring**

In an effort to increase the understanding and application of factoring within SMEs, the Project developed a Manual on Factoring during the second quarter of the Year 2020. The Manual was designed to provide guidance to SMEs and accountants on how to properly account for factoring transactions in their bookkeeping and on SME financial statements.

The Project also completed the work on the Policies and Procedures for Factoring. Currently in the Republic of North Macedonia, there is neither a separate law that regulates factoring nor legally approved and unified policies and procedures for its utilization by financial institutions.

The absence of a legal framework creates the potential for developing individual practices that further complicate the process of how each financial institution offers the factoring product. The Project therefore developed the Policies and Procedures for Factoring guideline, in line with FCI standards, which were distributed through the Macedonian Banking Association to all financial institutions that provide factoring to serve as a unified framework.

### **Providing Insurance of Receivables as a Tool for Improving Factoring Utilization**

The Project detected a problem that significantly reduces the possibility of growth of the factoring companies' portfolios. In countries with developed factoring market, it is common practice for factoring companies to mitigate their financial risk through insurance and enable factoring companies to focus on sales. However, currently Macedonian factoring companies do not have such insurance options. Without the possibility to insure the accounts receivables of their borrowers, Macedonian factoring companies' risk that the buyer will not fulfill the obligation towards their payment they owe to the factoring company because of liquidation, bankruptcy, or simply because of lack of will to fulfill the obligation. Insurance can minimize the risks associated with these obligations and it will enable the possibility of a more aggressive and more dominant market approach as it pertains to the factoring companies. To support the opportunity for developing this type of trade credit insurance for factoring companies, the Project conducted research on the insurance market in the Republic of Macedonia and made a comparative analysis including recommendations on how to develop the insurance market for factoring.

### **Case Study on Factoring**

In workshops and one on one meetings, the Project consistently observed limited knowledge among judges, lawyers, notaries, bailiffs and other legal professionals concerning substantial points of the factoring business. Of particular concern was the lack of knowledge regarding the legal nature of factoring contracts, payments, assignment of receivables, financial transactions and the legal consequences of such relations. To improve knowledge of the legal community, the Project prepared a case study in cooperation with the Academy of Judges and Public Prosecutors. The case study was developed through examples of litigation related to factoring from the Republic of North Macedonia and analyzed situations and omissions occurring in judicial proceedings related to factoring.

### **Financial and Legal Aspects of the Factoring Product Agreements**

Factoring companies offer a variety of factoring products (Credit Contracts, Framework Revolving Limit Contracts, Reverse Factoring Contracts, Standard Factoring Contracts, Supply Chain Factoring Contracts, Global and General Cessions, etc.), which are subject to regulated factoring agreements, stipulated in accordance with the Law on Obligations, Law on foreign exchange operations and other related laws and regulations. However, legal specialists in North Macedonia do not have sufficient knowledge and skills to understand the financial processes and transactions that are related to each factoring product which subsequently creates an obstacle in proper contracting and legal regulation of the factoring transactions, and most importantly understanding the contractual obligations once established. Through this activity the Project described policies and procedures - local and in line with the Factors Chain International (FCI) standards, explaining in simple and understandable financial language the standardized processes starting from obligation, risk assessment, disbursement and collection of receivables, with clear outline of the roles and responsibilities of all stakeholders involved in the process, including the financial process itself under each factoring product. This was done in order to make more clear and understandable to legal professionals what financial processes stand behind the legal and contractual obligations of the factoring agreements parties.

## COMPONENT 3: FINANCIAL EDUCATION OF SMES

Component 3 focused on improving the knowledge of SME decision makers regarding financial management as a strategic tool for SME growth and improved competitiveness. The main feature of factoring as part of trade finance is that from a financial perspective, each transaction is a case in itself. As this is a product that is not sufficiently developed in the North Macedonia market, at the outset of the Project, it was recognized that Project support would need to take an individual approach with each company and financial institution. Project experience showed that one factoring transaction may be perceived differently by two financial institutions. Factoring transaction consulting is not a classic financial consulting but more as a financial engineering. Consultant time needed in structuring the financing of a factoring transaction is several times greater than in structuring a loan application. In order to address this, the Project offered one-on-one support to SMEs interested in applying for factoring and developed a database of 5,000 companies to make it easier to help identify those which can be successful candidates for factoring.

During project life, the Project conducted a number of one-on-one trainings and meeting with SMEs. The project team met 186 SMEs from all over Macedonia through one-on-one meetings / trainings, out of which 56 SMEs applied for factoring, which exceeded its target for this indicator (as shown in the PMP provided in Section III Project Results). The Project also provided direct factoring transactional support to SMEs through its Factoring Platform, and developed an agri-business acceleration pilot, both to provide insight on the potential for expanding regional agricultural trade through factoring, and to provide one-on-one support to selected agricultural businesses in utilizing factoring to undertake new trade operations.

### **Factoring Platform**

Starting from the second quarter of Year 3, the Project began implementing a factoring platform engaging SMEs, consultants and factoring companies to increase factoring transactions. This platform aimed to build the financial literacy of SMEs as part of Component 3 activities, and to increase factoring transactions. Through this Activity, the Project worked with financial service providers (consultants) to support SMEs increase their financial management knowledge by providing a targeted, one-on-one support to individual companies on factoring, which resulted in increased number of factoring applications, and volume of successful factoring transactions. All in all, the Project's assisted 173 SMEs apply for factoring transactions, from which, 118 were successful, accessing over \$3.5 million in factoring transactions.

### **One-on-one Trainings with Factoring Expert from Slovenia**

During the project life, the Project conducted one-on-one trainings for SMEs, led by Dejan Barbutovski, a factoring expert from Slovenia (see Annex I for further details). Eleven of these companies successfully applied for factoring. Mr. Dejan Barbutovski, gave recommendations to each company on how to better manage and document collection from buyer companies, explained opportunities for two-factor factoring<sup>6</sup> and insuring receivables collection, tailored to each company.

### **One-on-One Webinars for Factoring as an Alternative Source for Financing**

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<sup>6</sup>Two-factor export factoring can be used to reduce risk in cases where the seller company exports, and involves factoring companies in both the seller's country and in the buyer's country. Collection of receivables, credit risk protection against bad debts is taken on by the factoring company in the buyer's country.

During the Year 3, in response to the newly created environment due to the pandemic, the Project organized one-on-one webinars with 30 SMEs from North Macedonia and with 10 accounting offices. The objective of the webinars was to develop and expand SME financial literacy and improve financial management skills, so they are able to expand their businesses and create new employments. As a result of the webinars, 10 SMEs have applied for factoring at financial institutions.

### **Database of Companies that are Potential Users of Factoring**

In order to efficiently expand factoring operations, financial institutions that offer factoring need access to information about potential users of factoring and their financial balances. The objective of this activity was to develop a database of companies from the Republic of North Macedonia that are potential users of factoring, in support of Project components 1 and 3. Through this Activity, which was completed during the final quarter of Year 3, the Project purchased financial statements and developed a database of 5,000 pre-selected companies and provided access to this database to financial institutions that cooperate with our Project (Factor Trust, Capital bank, FD Financial Credit Center BS DOO Skopje and MBPR and eventually CEMAC Credit Finance Company Prilep and SN Finance Bitola).

### **Regional Agri-Business Acceleration Pilot Activity**

From September – December 2020, the Project conducted a regional agribusiness acceleration activity, as a follow up activity on the “Supply Chain Availability Study”. This represents a unique approach of both giving SMEs a platform through which they can export their products, as well as access to trade finance instruments which enabled them to finance their working capital needs due to the increased orders. Often, small and medium sized companies have difficulties fulfilling the orders from foreign supermarket chains due to the large initial orders that is needed to fill the supermarket shelves and long payments days.

Due to the distinctive approach of this activity of both enabling access to foreign markets as well as financing and credit protection, a specific methodology has been developed, which was then put into use for the pilot study. This methodology is to be applied as a second-stage acceleration program for mature companies, as a way increase competitiveness of already established companies. The scope of the methodology was limited to food and wine producers on the supply side, and supermarket chains on the demand side. A pool of regional experts was put into use to work to provide guidance to the SMEs and identify adequate selling channels for their products, by grading the competitiveness of SMEs products to the current offerings in the retail chains. Finally, the methodology includes training into trade finance and credit insurance trainings for the companies.

Supply side analysis was focused on ways to identify small or medium sized companies with the capacity to take advantage of the activity. Large number of companies have been identified, and based on a variety of criteria, 9 SMEs have been preselected for the pilot program. From them, 5 companies have continued to work with the pilot program and regional experts, receiving product analysis for the target markets, guidance from the local experts, as well as trade finance trainings. The supply side analysis determined that some of the biggest challenges and barriers SMEs face when exporting to supermarket chains are financing and cost constrains, inability to modify their products to suit the buyer needs, and market information and strategy.

On the demand side the Project conducted an in-depth study to determine market demand for West Balkan agricultural products, with focus on Serbia and Montenegro as most promising

destinations for Macedonian food exports. The most prominent retail chains were identified and analyzed and through questionnaires to determine the listing procedures and regulations, terms of payment and usage of innovative financing instruments. Several supermarket chains from each country have been singled out for further analysis through direct contacts and specialized questionnaires that have shown a strong interest in working with additional companies since currently very few Macedonian products are included in their offerings, and mainly limited to fruits and vegetables as well as good knowledge of financial instruments such as Supply Chain Finance, as well as interest in utilizing these instruments with the Macedonian exporters. It was concluded that working with locally owned supermarket chains would be a more successful approach for the Macedonian companies, as they can be easily approached, and the chances are higher for the Macedonian companies to get listed. One of the biggest issues arising from the analysis is that some of the supermarkets were only interested in purchasing goods through local distributors as they lack own distribution systems, which presents a drawback for the suppliers.

As a result of this activity, the selected companies have received guidelines and trainings on trade finance and market analysis. In addition, their product offerings have been presented to Voli, the largest supermarket chain from Montenegro which has expressed strong interest in working with the pilot activity. The sellers have received detailed feedback on their products and the steps needed to be competitive on in the markets. This presents feedback that they have never received before from a large buyer, as in most cases they have either received an order or a decline. Finally, one of the presented SMEs has entered negotiations with the supermarket and is expected to receive purchase orders as well as funding and credit protection.

One of the main conclusions of the study is that while there is interest from the demand side for Macedonian products, the domestic SMEs are yet prepared for the export markets and need a lot of support to be competitive. Most knowledge and skills related to trade finance, market research and how to approach and receive feedback. Often their branding and product representation needs additional work, and their marketing budgets are not enough. However, most of the issues can be amended through working with experts and the potential for growth through integrated programs such as this pilot activity is considerable.

It is recommended for future activities to build upon this unique integrated approach using the methodology of this pilot program as a foundation.

### III. PROJECT RESULTS - PMP

Table I. USAID Project PMP Matrix

#	Intermediate results	Indicator Title/ Unit of Measurement	Indicator Definition	Source/Frequency of data collection	Baseline / Year	Target FY18	Actual FY18	Target FY 19	Actual FY19	Target FY20	Actual FY20	Target life of Project	Actual Life of Project
<b>Highest-Level Result: increased SME liquidity and enabled achievement of long-term goals</b>													
1	R.1	Number of contracts signed by the SMEs	<i>Number of factoring transactions by the SMEs as a result of USG assisted. (Factoring contracts)</i>	Data-base/ structured questionnaire/ Annually/project	N/A	60	58	100	110	120	139	280	307
2*	R.2	Number of businesses assisted in obtaining finance	<i>Number of business that received technical assistance such as drafting business plans, preparing loan applications, communicating with commercial banks and non-bank financial institutions, and other.</i>	Data-base/ structured questionnaire/ Annually/project	0	30	38	40	52	50	53	120	143
<b>Result I: Increased awareness of SMEs</b>													
3	I.1.a	Number of SMEs that participated in the Project's activities and used factoring	<i>Number of beneficiaries participating in workshops, roundtables, conferences and trainings for SMEs organized by the Project.</i>	Pre/post training/ round table Evaluation questionnaire / Data disaggregated by company size and sector/ Annually/project	0	20	20	40	50	60	58	120	128
	I.1.b	Number of SMEs that participated in the Project's activities and used factoring for the first time as a result.	<i>Number of beneficiaries participating in workshops, roundtables, conferences and trainings for SMEs organized by the Project.</i>	Pre/post training/ round table Evaluation questionnaire / Data disaggregated by company size and sector/ Annually/project	0	10	9	20	28	25	26	55	63
4	I.2	Total number of participants benefiting from financial services provided through USG-assisted financial intermediaries, including non-financial institutions or actors	<i>Number of beneficiaries participating in workshops, roundtables and trainings for SMEs organized by the Project.</i>	Participants' list from the events organized by the Project / Annually /project	N/A	125	311	135	242	110	186	370	739

#	Intermediate results	Indicator Title/ Unit of Measurement	Indicator Definition	Source/Frequency of data collection	Baseline / Year	Target FY18	Actual FY18	Target FY 19	Actual FY19	Target FY20	Actual FY20	Target life of Project	Actual Life of Project
<b>Result 2: Improved implementation of factoring and related regulatory environment</b>													
5	2.1	Number of identified solutions for improvement of the legal framework regulating the financial sector and/or financial institutions	<i>Policy and legal (recommendations, ideas, suggestions) and proposals that support an enabling legal environment for factoring to relevant government institutions</i>	Project materials/ Event reports / Annually / project	N/A	4	3	3	3	2	3	9	9
<b>Result 3: Strengthened financial knowledge of SMEs participating in the Project's activities</b>													
6	3.1	Percentage of SMEs that applied for factoring after receiving one-on-one training	<i>SME's who as a result to the one-on-one trainings that include aspects such as: a) cash flow management; b) how to use factoring as a tool and its financial implications; c) choosing an adequate factoring product; d) implication of financial coefficients and analysis; e) tax implications; f) accounting standards and implications on financial reports, have applied for Factoring.</i>	Pre and post training/ round table Evaluation/structured questionnaire survey /mail or by direct meeting/ telephone calls. Data disaggregated by company size and sector / Annually /project	N/A	(10/30)	19% <b>(9/47)</b>	(15/70)	35,7% <b>(25/70)</b>	(20/70)	(22/69)	(45/170)	(56/186)



## **IV. SUMMARY OF ACCOMPLISHMENTS & CHALLENGES FACED DURING PROJECT IMPLEMENTATION**

At the beginning of the USAID Project, only two financial institutions offered factoring in the market. Our main challenge was to motivate more financial institutions that would implement factoring as a separate financial product.

Through a series of workshops, events and conferences, presentations of experiences from neighboring countries, during the project eight new financial institutions began to offer factoring.

In order to help them implement factoring more successfully, the Project hired consultants who were trained in the field of factoring and developed a consulting platform that helped to the financial institutions to implement factoring.

The biggest challenge in the implementation of this project was to establish communication and coordination between stakeholders. Because there is no factoring association in North Macedonia, there was no communication among financial institutions, nor between the financial institutions and the insurance companies that provide export insurance.

We managed to solve this challenge through a series of round tables in co-organization with the Macedonian Banking Association, workshops where the banks jointly presented to the SMEs as well as joint visits to international FCI conferences. At all these events, the financial institutions and the insurance providers had the opportunity to discuss the topic of factoring and mutual cooperation. Today, the cooperation among the financial institutions as well as with the export insurance providers is visible.

The lack of legislation was a serious challenge for the project. The activities related to the law on factoring that was to be drafted and supported by the EBRD, with the personnel changes in the Ministry of Finance and the general policy related to the factoring law, were put on hold. In conditions of completely unregulated matter, and in order to uniform the procedure, the Project developed Policies and Procedures for Factoring that can be a guideline for financial institutions in the implementation of factoring as an alternative source of financing. In addition, the Project created a Manual for Factoring for SMEs and Case Study for Factoring Court Cases for the legal community. All these materials were shared with financial institutions and the legal community through presentations co-organized with the MBA and the Academy of Judges and Public Prosecutors. The feedback from financial institutions is that this is a good basis for their factoring activities.

In order for factoring to develop at EU level, the need for international networking of financial institutions with other institutions in the world was realized, as well as the digitalization of processes. The project managed to motivate the inclusion of a financial institution as a full member of the FCI as well as to ensure the participation of seven more financial institutions in conferences and activities organized by the FCI. Thus, these financial institutions were informed about the latest trends in the factoring industry, and also had the opportunity for networking. The project clearly defined the need for digitalization of processes and in that direction made the first steps by setting up a database of companies applicable for factoring and defines the next steps that would be necessary for the development of factoring, which is software and platform for insurance of receivables.

## **V. OBSERVATIONS & RECOMMENDATIONS**

### *COMPONENT 1: OUTREACH AND AWARENESS RAISING FOR FACTORING*

In order to increase awareness of factoring, which is a prerequisite for increasing demand and supply for it, continuous education is necessary. It is not enough just to present factoring to the SMEs. It's just a good basic to motivate companies to think a little wider. During the implementation of the project, the experience in other countries as well as the experience of FCI proved to be very useful. Bringing these experiences to SMEs as well as to financial institutions is necessary and should take place continuously. The new market opportunities, the opportunities that the companies from the region or in the world have, the way they access finance are a great example in which direction the factoring in our country should develop. The width of factoring as part of trade finance, the opportunity for an innovative approach to financing is a tool to be used in promoting these alternative sources of financing. Such example is the supply chain finance. It is highly recommended to all those who will deal with this topic in the future to use the opportunity to access companies through direct contacts in coordination with national and binational Chambers of commerce or Planning regions. Modern trends should always be followed, experiences from other countries and give a different innovative model that will be attractive to SMEs and financial institutions. Working on both the demand and supply side is key to successfully promoting alternative sources of financing.

### *COMPONENT 2: IMPROVING THE LEGAL AND REGULATORY ENVIRONMENT*

The regulation of factoring with special legislation is largely a decision of the Government and here the opinion of the professional field does not always play a key role. In addition, the professional field as well as those involved in factoring have and will have divided opinions and views on whether and in what form this matter should be regulated. For some, the law is a framework that is the basis and essence for the development of factoring, while for others it is an additional regulation that leads to overregulation and as such does not provide an opportunity for development. In such conditions, and taking into account the fact that the law on obligation and other legal acts according to which the relations in factoring transactions are regulated in general, are not sufficient for the smooth development of factoring. Factoring is a financial instrument and as such must be regulated by Policies and Procedures. These Policies and Procedures are just a framework that financial institutions should implement in the future in their Policies and Procedures in accordance with the requirements of their compliance department. The challenge for some who will deal with this issue in the future will be whether to work individually with the financial institutions or through the Macedonian Banking Association to help these Policies and Procedures to be implemented successfully.

On the other hand, factoring is a new matter in court practice that is perceived in various ways. Primarily, factoring does not charge overdue receivables. It gives a different flow to the whole procedure. The factoring manual as well as the case study are a good basis for uniformity of this matter in the case law. Through the Academy of Judges and Public Prosecutors as well as through the Associations of Lawyers and Notary Club, work will have to be done in the direction of clarifying and better understanding the factoring. Of course, a precise framework

can only provide a legal solution, and our brochures will provide some initial basis on which to build the factoring as an alternative source of financing.

### *COMPONENT 3: FINANCIAL EDUCATION OF SMES*

The main feature of factoring as part of trade finance is that from a financial perspective, each transaction is a case in itself. As this is a product that is not sufficiently developed in our market, the need for an individual approach with each company and financial institution by a qualified consultant is necessary. It is necessary for this consultant to be well involved in the work of the company, but also to know well the policies and procedures of the financial institution to which he sends the company. Our experience has shown that one factoring transaction may be perceived differently by two financial institutions. Although presented by the same consultant, it often happens that one financial institution rejects it and another accepts the transaction. Factoring transaction consulting is not a classic financial consulting but more as a financial engineering. The engagement of the consultant in structuring the financing of a factoring transaction is several times greater than in structuring a loan application. The percentage of rejected requests is also high. All this is a disadvantage for the consultant. It is necessary to reduce the percentage of rejected requests. For that purpose, we have developed a database that includes 5000 factorial companies. The consultant has the opportunity to make a pre-selection, and thus work with companies that have a better chance of using factoring. It is very important that this platform is maintained and updated.

The work of the consultant with the company on a one-on-one basis is crucial. With our platform we managed to select a group of consultants who showed good skills in working with companies. However, factoring as an instrument is more expensive than credit, and when the cost of consulting is added to this, this can be a disadvantage for the SMEs. We hope that in the future there will be sources that will cover at least part of the cost of consultants, but will also work on creating trade finance instruments where the benefit for the company will not only be access to finance but also an increase in overall sales. This is only possible with regional networking and cooperation of SMEs, financial institutions and consultants.

## ANNEX I: PROJECT ROUNDTABLES, TRAININGS, & WORKSHOPS

**Roundtables and trainings with SMEs and financial institutions from North Macedonia** During the life of the project, the Project held a series of roundtables and trainings.<sup>7</sup> The primary goal of these events was to deepen the knowledge of local SMEs about factoring as an alternative source of finance and to facilitate networking among various SMEs and experts in factoring. The events offered a good opportunity for the SMEs to talk directly with factoring experts from factoring institutions and from banks and gain more knowledge regarding factoring as an alternative source of finance. Furthermore, the SMEs had an opportunity to understand how factoring directly can benefit the liquidity of their business and increase their cash flow. These events were attended by 739 participants, mainly from the export and banking industry.

### ***FCI Trainings in Lisbon, Portugal (May, 2018) and Istanbul, Turkey (October 2019)***

At the request of the banking community (represented by the Macedonian Banking Association), the Project brought representatives of financial institution to these trainings to build their knowledge which can be transferred back to their respected businesses in order to gain more competitive edge in the field of factoring in North Macedonia. The primary benefit of attending the conferences in Lisbon and Istanbul were access to the know-how, knowledge and information of the trends in the factoring industry in the region and internationally. At the conferences itself, the representatives of the financial institutions from North Macedonia had the opportunity to meet with the Chairman of Factor Chain International as well



*FCI Seminar on Risk Management & Legal Considerations in Factoring & Receivables Finance Istanbul: 21-22 October 2019*

as members from various regions. They also had the opportunity to network with companies that were gold and silver members of this conference.

Companies in attendance were from various backgrounds such as development of software for factoring and for insurance of invoices. The key points that could be transferred to the financial industry in North Macedonia include two-factor export factoring without recourse<sup>8</sup> and digitalization of the entire factoring process, which requires major administrative, bookkeeping, and back-end office work. Digitalization of the factoring process not only speeds up the entire process itself but also reduces human error in bookkeeping and back-end administrative work. This is very important because in the factoring industry, a major emphasis is placed on portfolio financing as the new trending product, which means analysis of all the current clients and their suppliers and buyers. Without digitalization, this process requires a lot of paperwork and back-

<sup>7</sup>Trainings and roundtables were held the members of the Economic Chamber of Macedonia, members of the Exporters' Club, with members of the Managers' Club, members of Vardar Planning Region, CEED, Macedonian Banking Association, AmCham with SMEs in Veles, Shtip, Skopje, Strumica, Kavadarci, Prilep, Kichevo, Bitola, Kochani, and Gevgelija

<sup>8</sup> Two-factor export factoring can be used to reduce risk in cases where the seller company exports, and involves factoring companies in both the seller's country and in the buyer's country. Collection of receivables, credit risk protection against bad debts is taken on by the factoring company in the buyer's country.

office administrative work with invoices which is very time consuming and is open to human error.

These trainings were of great benefit for those involved in businesses, operations, risk monitoring, legal, litigation departments, credit underwriting, compliance and legal issues, who wished to develop their existing knowledge of risk management and the legal ramifications associated with Factoring.



*Regional Conference on Factoring as an alternative source of financing held on May 14*

### **Regional Conference on Factoring as an alternative source of financing**

On May 14, 2019, the USAID Project, in collaboration with Factor Chain International, the Economic Chamber of Macedonia, and the Macedonian Banking Association, hosted the first regional conference on factoring as an alternative tool for financing micro-, small-, and medium-sized enterprises (MSMEs). The main goals of this regional conference were to increase the understanding and use of factoring among MSMEs, and encourage domestic financial institutions to adopt best practices for trade finance and supply chain factoring.

Over 120 representatives of micro, small and medium-size enterprises, financial institutions, the legal and regulatory community, chambers of commerce, business service providers and regional factoring associations attended the regional conference.



*Acting Country Representative in North Macedonia, Ms. Gretchen Birkle*

Factor Chain International (FCI) was set up in 1968 as an umbrella organization for independent factoring companies around the world. Today it has grown into the world's representative factoring network and association with close to 400 members in 90 countries. When FCI started, domestic factoring was only available in North America and a few European countries.

The concept of cross-border factoring was still new and restricted by its lack of geographic reach. Recognizing the potential for international factoring, the founding FCI members realized an umbrella organization was needed, firstly to introduce factoring in countries where it was not yet available, and secondly to develop a framework for international factoring that would allow factoring companies in the country of the exporter and the importer to work closely together. Today, FCI is the global representative body for the Factoring & Receivables Finance Industry.

In her address to the audience, USAID Acting Country Representative to North Macedonia, Ms. Gretchen Birkle, pointed that factoring has tremendous potential to help business growth. As a practice, it offers immediate and affordable liquidity to micro, small, and medium sized businesses, which in turn enables them to increase production, sales, and revenues.

In his presentation, Deputy Prime Minister in Charge of Economic Affairs, Mr. Koco Angjusev, pointed out that: “Support for micro, small and medium sized companies, which are key drivers

of the economy, is of utmost importance when it is realized in any form. Their development is the foundation of development of the overall economy. Hence, any tool that helps in maintaining the growth and development of the companies should be recognized and applied to its maximum.”

The opening speeches were followed by presentations by Mr. Panos Papatheodorou, Executive Committee Member, Ms. Betül Kurtulus, Chapter Director CEE&SEE&ME and Ms. Aysen Çetintas, Education Director. The three experts discussed about the world of factoring and receivables finance, gave a regional overview of factoring in the Balkans and discussed in more detail the mechanics of factoring.



*Deputy Prime Minister in Charge of Economic Affairs,  
Mr. Koco Anqjusev*

In his overview of factoring as a financial service, Mr. Papatheodorou elaborated on the three characteristics of factoring: “First, there must be the provision for the assignment of debts arising from the sale of goods or services within a commercial contract; second, there must be a stipulation to provide for notification to be given to the debtors of the assignments; and third, the ‘factor’ must perform at least two of the following services: sales ledger management, financing through advance payments, collection and/or credit risk coverage.”

Ms. Betül Kurtulus addressed regional perspective of factoring, describing the factoring market in each country in the region. Also, she discussed the performance of factoring in the Region in terms of GDP penetration, which in the Balkans Region is 4,1%, for the West Balkan 6 Countries is 1.7 %<sup>9</sup> while in the Western European Markets, it is 11%. The average penetration rate in the Republic of North Macedonia is less than 1%.”

Ms. Aysen Çetintas summarized the conclusions and recommendations for improving the environment for factoring, which emphasized the need for:

- Creating a Legal and Regulatory environment favorable to the new transactional realities and business markets
- Raising the awareness of market and authorities
- Capitalizing on technological advances that fit SME businesses
- Cooperation with International and Supranational organizations as FCI, EBRD, USAID and other relative Institutions.

The final conclusion from the conference is that factoring market potential in the region is high.

The conference concluded with a panel discussion on opportunities and challenges facing the receivables finance industry, and innovative solutions to providing finance to SMEs. Panelists included: Mrs. Suzana Tunteva, President of the Supervisory Board, Faktor Trust, Mr. Dragan Gichev, Deputy Head of Corporate



*Panel discussion on Opportunities and challenges in  
finance industry*

<sup>9</sup> The wider Balkan region include Greece and Bulgaria, while the West Balkan 6 countries are Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia.

Banking Division, Stopanska Banka AD Skopje, Mrs. Danijela Lopicic, Executive Director in ABL Factor doo Belgrade, Mr. Dejan Barbutovski, Managing Director, A.B.S. Factoring d.o.o Slovenia, Mr. Panos Papatheodorou, Executive Committee Member, FCI.

In the panel discussion Mr. Papatheodorou pointed that working capital management is a key priority for a financially sound business operations, where generally a firm must strive to reduce the amount of capital trapped in the form of trade receivables, so as to finance day-to-day operations. From the banking sector perspective, Mr. Dragan Gichev mentioned that factoring firms and banks both offer services that cater to the need of companies to extract liquidity from their trade receivables. Banks offer services such as revolving credit facilities and overdrafts, with the company's trade receivables pledged as collateral. Factoring firms, on the other hand, buy these receivables outright, or finance the suppliers of a Trade Debtor through accounts payable. Mr. Barbutovski described the advantages of reverse factoring pointing that in the case of factoring and reverse factoring services, companies can access liquidity, unlocking trapped trade receivables and thus minimizing debt on their Balance Sheets. Mrs. Tunteva announced that Faktor Trust became FCI member and with this membership, reverse factoring now is available for the SMEs in North Macedonia.



*Role play*

During the conference through a “Role Play” activity (an informative and entertaining case study drama) the participants had the opportunity to see an example of reverse factoring. Four “actors” plus one narrator took on the roles of Exporter, Export Factor, Importer and Import Factor. The idea was to illustrate the way in which a typical export factoring deal works in practice. The goal was to present that by sharing a risk between the Export Factor and the Import Factor, the overall transactions can be managed easily without

any additional collateral from Exporter's or Importer's side.

The regional conference had extremely positive feedback and generated significant interest among the participants to attend other such events in the future.

### **Presenting Findings of the Feasibility Study on Introducing Factoring for Farmers**

On August 22nd, 2019 USAID Project in collaboration with BEP Project presented the findings of the feasibility study on introducing factoring for farmers in front the members of the Macedonian Banking Association that they jointly conducted in March 2019. During this presentation the main consultant, Mr. Goran Damovski, presented the needs of each individual borrower group and gave suggestions on possible financial factoring models that will fulfil the needs of each borrow individually. This event was attended by nine representatives from different banking institutions. Out of the nine attendees, two were women. The participants at this event showed great interest in learning more about such new financial product on the market as they feel it will be of a great benefit to their institution.



*Presentation of the findings of the feasibility study*

### **One-on-one Trainings with Factoring Expert from Slovenia**

During the project life, the Project conducted one-on-one trainings for SMEs, led by Dejan Barbutovski, a factoring expert from Slovenia. The following SMEs were included during the sessions: “Glecher”-Kumanovo, “Boss shoes”- Kumanovo, “Agro invest”-Vinica, “Beton”-Skopje, “Fakom”- Skopje, “Baleko”- Shtip, “Ruen”- Kochani, “Bargala”-Shtip, “Ruen Inoks”-Kochani, “Mabi Trejd”-Strumica, “Dentina”-Strumica, “Viatori & Vector”-Skopje

In addition, during June and November 2020, Dejan Barbutovski held meetings with representatives of Delegation of German Business in North Macedonia, representatives of Business Accelerator UKIM and Sava Osiguruvanje. Six of these companies successfully applied for factoring. The June and November sessions were conducted through a virtual format, due to COVID-19. The following SMEs were included during the June and November 2020 sessions: “Extra Fungi”, “Ponir”, “Evergreen Energy”, “Bargala/Baleko”, “Agro-Bar”, “Ruen Automotive”, “Input”, “Prime-Point”, “Dasin Parketi”, “Andonov”, “Josiba Protekt”, “MT Trejd”, “Holding Mladenovski”, “Biana Shoes”, “Alma Savikj”, “BKS” and “Apetit Grup”. Five of these companies successfully applied for factoring. In the sessions, the presenting expert, Mr. Dejan Barbutovski, gave recommendations to each company on how to better manage and document collection from buyer companies, explained opportunities for two-factor factoring and insuring receivables collection, tailored to each company.



## ANNEX II: BUDGET ANALYSIS

Below is a comparison of the expenditures of the Project and the budget estimate for the entire duration of the project of 3 years and 3 months. The table does not include additional expenditures for audit services for 2020 in the expected amount of USD 3.100 as those costs are to be invoiced at the end of the audit process.

Fund Accountability Statement (in USD)	Budget	Cumulative Revenues and Expenditures	difference	In percentage
	02.10.2017-31.12.2020	02.10.2017-31.12.2020		
<b>BUDGET OVERVIEW</b>				
A. Personnel / B. Fringe Benefits	304.782	307.689	(2.908)	-1%
C. Travel & Transportation	4.269	2.359	1.910	45%
D. Consultants	39.269	38.355	914	2%
E. Equipment	8.549	7.949	600	7%
F. Other Direct Costs (ODC)	49.901	46.136	3.765	8%
COMPONENT 1: Awareness Raising	90.579	91.806	(1.227)	-1%
COMPONENT 2: Regulatory Improvement	71.345	58.931	12.414	17%
COMPONENT 3: SME Financial Training	131.306	134.610	(3.304)	-3%
<b>Total</b>	<b>700.000</b>	<b>687.836</b>	<b>12.164</b>	<b>2%</b>
<b>Cost Share</b>	120.525	131.811	(11.286)	-9%

Almost all of the expenditures of the project are within the budgeted amounts. The exceptions are travel and transportation costs which were not spent due to travel restrictions. In addition, the project was unable to complete all planned conferences with the academy of judges and public prosecutors, planned under Component 2: Regulatory Improvement due to their unavailability during the restrictions caused by the Covid – 19 crisis. As a result, part of the available budget has remained unspent.