Policy Spotlight

Microfinance Institutions in Kosovo

May 2022
Introduction

Kosovo’s Microfinance institutions are organizations that provide loans to low-income clients, including micro-companies and the self-employed, who traditionally lack access to mainstream sources of finance from Banking Institutions. However, the size of the loans are smaller than those granted by traditional banks. The clients of MFI are often micro entrepreneurs in need of economic support to launch their businesses. This type of client is considered too risky by traditional banks because they cannot provide real collateral and because they tend to work in the informal sector of the economy. Microfinance allows people to take on reasonable small business loans safely, and in a manner that is consistent with ethical lending practices. Like conventional lenders, micro-financiers charge interest on loans and institute specific repayment plans. Microfinance organizations support a large number of activities that range from providing the basics—like bank checking and saving account—to startup capital for small business entrepreneurs and educational programs that teach the principles of investing.
History of MFIs in Kosovo

Microfinance Institutions in Kosovo started their activity after the war as financial assistance and programs to support the small business initiatives. Undoubtedly, their contribution has been important in initiating post-war economic growth, when the financial sector was almost nonexistent. Therefore, they have played a very important role in Kosovo, especially during the first years of UNMIK administration, when financial activities as well as financial services providers were quite limited in practice due to the prevailing extraordinary circumstances. Kosovo’s financial industry, as in many countries in the region, has undergone major structural and innovative changes. The outbreak of war and the lack of money in circulation have affected banks as a group of financial institutions to develop more and become leaders of the financial industry, thus directly influencing the development of other financial institutions, mostly MFIs, affecting their pricing and lender offering. Given this fact, it cannot be a surprise that MFIs were incorporated as local non-governmental organizations, mostly using funds from foreign donors. MFIs operating in Kosovo, have reached their strongest growth in outreach in year 2008 and into 2009. This growth stagnated, especially in year 2010, due to the financial world crisis which has affected the entire world financial industry, including Kosovo.

Structure of MFIs assets by size of the institutions, (sources: CBAK 2012)
**Benefits of Microfinance**

It has been proven that microfinance is meant to help the poor families and small business start-up initiatives and to contribute to the country’s economy by increasing its income generation capacity. Many researchers have shown that microcredits’ beneficiaries have not only managed to increase their incomes, but have also improved their business management level, thus improving healthcare and education services.

Consequently, MFIs have had impact through making microcredit clients more confident in themselves in terms of their entrepreneurial activities. With this we can say that microfinance institutions focus on developing revenue-generating activities and reducing risks and uncertainties faced by businesses. Microfinance promotes well-functioning financial sector, which is critical for efficient resource allocation, leading to increased productivity, greater investment and higher overall levels of economic growth. In Kosovo, microfinance institution’s main purpose is also to mitigate the poverty and help the business with lower incomes. There are various ways how MFIs play a solid role in our economy development, which will be illustrated below.
**Regulatory framework**

The Law on Banks, Microfinance Institutions and Non-bank Financial Institutions (Law No, 04/L-093) in Kosovo, defines financial institution “all banks, non-bank financial institutions and microfinance institutions”, whereas microfinance institutions is defined as “a legal entity organized as either an NGO under the NGO law or as a joint stock company under the Law on Business Organizations which provides as its primary business loans and a limited number of financial services to micro and small legal entities, low-income households and low income persons”. An NGO Microfinance Institution is not permitted to sell or transfer its business, merge, or change its structure, nor is it permitted to distribute or in any way pay out profits, surplus capital, dividends, or any of its assets, except in compliance with the law. In addition, each entity that operates as NGO in Kosovo is subject to specific regulatory requirements highlighted by Law on Freedom of Association in Non-Governmental Organizations.

**Central Bank of Kosovo**

CBK is the regulatory authority in charge of licensing, regulating and supervising all financial institutions (that includes MFIs). The primary objective of the Central Bank is to foster and to maintain a stable financial system, including a safe, sound and efficient payment system.

![MFI's Activities](image-url)

**Statistics from CBK, Financial System Monthly Information**
The CBK publishes its Regulations, Instructions, Orders and charges fees to Microfinance Institutions and NBFIs for its supervisory and regulatory services in order to recover its direct and indirect costs incurred in providing such services.

**Regulations**

- Regulation on the Registration of Microfinance Institutions states that all legal entities seeking to operate as a NGO Microfinance Institution must register at Ministry of Public Administration and all legal entities seeking to operate as Joint Stock Company Microfinance Institution must first register with the Ministry of Trade and Industry. The minimum amount of capital required for registration as an MFI is 200,000.00 Euros and they must also have an additional fund for initial costs to cover the costs of establishment, operation and administration costs, which in any case shall not be less than 10% of the capital. CBK can also request additional capital levels up to 20% based on the assessment of risk management systems and risk of losses.

- Regulation on reporting of MFI states that each MFI operating in Kosovo shall submit to the CBK reports dealing with their financial condition, administration and operations no later than fifteen calendar days after the end of each month.

- Regulation on Credit Risk Management states that MFI’s should have in place a system for credit risk management, adequate to the nature, volume and complexity of the MFI’s. The CRM shall consist of the strategy, policies, procedures, rules with the purpose to determine the risk appetite of the MFI’s and developing a plan to optimize return while keeping credit risk within predetermined limits.

- Regulation on Electronic Payment Instruments, which will be implemented on January 2023 defines Interchange fee as the fee paid for each transaction directly or indirectly (i.e. through a third party) between the issuer and the recipient involved in a card-based payment transaction. Article 18 of this regulation states that if the payment transaction is performed with a card-based payment instrument, the exchange fees calculated and charged between the payment service providers, which have their headquarters in Kosovo, may not be higher than: 0.2% of transaction value for each debit card transaction; and 0.3% of transaction value for each credit card transaction.
**Association of Microfinance Institutions of Kosovo**

The association of Microfinance Institutions of Kosovo (AMIK) is a member-based non-governmental organization. Its mission is to advance the microfinance sector, to support financial and social inclusion and economic development by providing a strong joint platform. AMIK's mission is to also assist in job creation through the support of microfinance sector in Kosovo. AMIK supports the development of members and partners programs for entrepreneurship development in Kosovo, customer empowerment institutionalization and go practice in microfinance and non-banking intermediation. The main focus areas of AMIK are: Advocacy and Policies, Best Microfinance Practices and Coordination of Activities with the aim of developing the Microfinance Sector.

<table>
<thead>
<tr>
<th>Metrics Compared:</th>
<th>AfK</th>
<th>FINCA</th>
<th>KosInvest</th>
<th>KEP Trust</th>
<th>KGMAMF</th>
<th>KRK</th>
<th>QELIM</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Amount of Loans (Outstanding)</td>
<td>40,026,107</td>
<td>54,787,259</td>
<td>3,072,966</td>
<td>58,659,708</td>
<td>6,925,886</td>
<td>45,014,089</td>
<td>955,181</td>
<td>209,441,196</td>
</tr>
<tr>
<td>Total no. of loans (Outstanding)</td>
<td>20,733</td>
<td>24,422</td>
<td>2,152</td>
<td>23,940</td>
<td>3,269</td>
<td>17,774</td>
<td>735</td>
<td>93,025</td>
</tr>
<tr>
<td>Total no. of borrowers (Outstanding)</td>
<td>19,620</td>
<td>22,698</td>
<td>2,152</td>
<td>23,635</td>
<td>3,269</td>
<td>17,608</td>
<td>735</td>
<td>89,717</td>
</tr>
<tr>
<td>R14: Average Loan Amount</td>
<td>2,040</td>
<td>2,414</td>
<td>1,428</td>
<td>2,482</td>
<td>2,119</td>
<td>2,556</td>
<td>1,300</td>
<td>2,334</td>
</tr>
</tbody>
</table>

AMIK Monthly Sector Comparison as of 31 December 2021
The types of MFIs that operate in Kosovo

**FINCA International** provides financial services on low-income individual or groups who are typically excluded from traditional banking. It’s mission is to alleviate poverty through lasting solutions that help people build assets, create jobs and raise their standard of living. Since 2000, FINCA has helped thousands of Kosovars to improve their lives. Currently FINCA offers a range of products to help entrepreneurs, various businesses, farmers, self-employed to create new jobs through various credit products such as: loans for women entrepreneurs, loans for business, agriculture, vehicle, registration, renovation etc.

<table>
<thead>
<tr>
<th>No. of Clients</th>
<th>Loan Portfolio</th>
<th>Average Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>21.726</td>
<td>46,486M €</td>
<td>2,140 €</td>
</tr>
</tbody>
</table>

**KEP Trust** is an innovative financial institution, created with a clear social mission to improve the living standards of citizens and support the economic development of the country by providing financial services to individuals and businesses. KEP directly contributes to job creation, giving a major boost to the development of the country’s overall economy.

12 May 2021, Guarantee Agreement of agricultural loans to local farmers and agribusinesses between Kosovo Credit Guarantee Fund (KCGF) and two of the largest Microfinance Institutions, in terms of the volume and active loans – KEP Trust and FINCA. Farmers financed by MFIs represent an important part of the agricultural sector and since traditional banks views this sector as too risky, they have difficulty accessing finance and navigating the banking system.
Kosovo Credit Guarantee Fund

KCGF is an independent, development orientated legal entity that provides credit guaranteed for MSMEs, by sharing the credit risk with financial institutions including MFIs. Its objective is to increase lending to MSMEs in Kosovo from the local financial institutions, create jobs and increase local production. KCGF is committed to sustainable corporate management and the social responsibility that comes with it. Coordinating activities with their partners – donors, financial institutions and local regulators – they strive to serve the long-term economic interests of the country, the business community and their wider society.

Agriculture,
Forestry, Fishing 7 % Construction 9 %
Manufacturing 20 %

Services 24 % Wholesale & Retail Trade 40 %

Source: KCGF, Portfolio Development, Loans by Sector, February 2022
The role of Microfinance in Kosovo's post-COVID recovery

In March, the Central Bank of Kosovo issued a moratorium for all clients of financial institutions, which meant that microfinance institutions couldn't collect any due payments from their clients. For about two months, there was significant disruption to the business cycle since they couldn't collect debt and stopped issuing new loans. Therefore, they faced a serious lack of liquidity. The financial sector was considered a priority group alongside utilities, grocery stress and pharmacies, so microfinance institutions continued to operate throughout.

Since mid-May, they have begun to disburse loans again and have played a crucial role in Kosovo's recovery, particularly for small businesses, that aren't able to get credit with the traditional banking sector. Even though, the share of their portfolio risk was higher than normal, KEP and other microfinance institutions offered their clients impacted by COVID the opportunity to restructure their loans and decrease their payments, where possible, with additional grace periods.

Assets of microfinance institutions and non-bank financial institutions, until November 2021 reached the value of 343.1 million, marking an annual increase of 8.6 percent, total active loans of this sector in November marked the value of 238 million euros, or annual growth of 16.1 percent. The average interest rate on new loans issued by microfinance institutions in November 2020 was 18.8 percent, which in the same period last year was 19.7 percent.

<table>
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<th>KosInvest</th>
<th>KEP Trust</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Amount of Loans (Outstanding)</td>
<td>33,300,370</td>
<td>45,027,626</td>
<td>3,102,359</td>
<td>45,813,879</td>
</tr>
<tr>
<td>Total nr. of loans (Outstanding)</td>
<td>20,308</td>
<td>22,555</td>
<td>2,196</td>
<td>20,745</td>
</tr>
<tr>
<td>Total no of borrowers (Outstanding)</td>
<td>19,117</td>
<td>20,985</td>
<td>2,196</td>
<td>20,619</td>
</tr>
<tr>
<td>R14: Average Loan Size (Outstanding)</td>
<td>1,742</td>
<td>2,146</td>
<td>1,413</td>
<td>2,222</td>
</tr>
<tr>
<td>Value of Loans Disbursed</td>
<td>2,971,833</td>
<td>3,458,305</td>
<td>337,780</td>
<td>3,428,918</td>
</tr>
<tr>
<td>Number of Loans disbursed</td>
<td>1,580</td>
<td>1,415</td>
<td>167</td>
<td>1,373</td>
</tr>
<tr>
<td>R15: Average Loan Disbursed</td>
<td>1,881</td>
<td>2,444</td>
<td>2,023</td>
<td>2,497</td>
</tr>
</tbody>
</table>

Source: AMIK Monthly Sector Comparison Report as of 31 May 2019
Comparisons between Balkan & EU Countries

In the case of France, Italy and Kosovo, microcredit regulation is incorporated into the banking law. The legislation establishes the scope and rules for microcredit provision and introduces a distinct category for non-bank MFIs. In Bosnia and Herzegovina and Portugal, the regulation consist either of a single law or decree that covers the provision of microcredit in the country. By contrast, Romania and Montenegro reference microcredit in the NBFI regulation and there is no distinct category for microcredit providers. In both countries NBFIs can offer a wide array of financial products, among which microcredit is explicitly mentioned.

The lowest and highest capital requirements to set up an MFI can be found in Bosnia and Herzegovina. In this context, a microcredit foundation can be created with relatively modest equity base (25.565 EUR) while microcredit companies which are of commercial nature, need ten times more capital to start operations. In Kosovo, both for profit and non-profit MFIs have the same minimum capital level. This threshold is similar to the one for specialized microcredit operators in Italy (250.000 EUR), which is defined as five times the minimum capital for joint stock companies as set by the Italian civil law.

In France, Italy and Montenegro, the legislation has defined two unique products, business and microcredits. By contrast, in Portugal, Romania, Bosnia and Herzegovina and Kosovo, the legislation refers generically to microcredit without introducing any distinction among products, which allow MFIs to define their microcredit offer.

Common points

A common element in these regulatory frameworks is that the supervisor of the non-bank MFIs is the National Bank. In all countries, with the exclusion of credit unions, nonbank MFIs are prevented from deposit-taking. Their fund must come from themselves and credit contracted with credit institutions. Currently, where microcredit is not further defined, the main characteristic defining microcredit is the maximum loan amount. In this respect, these legislations share the same maximum threshold (EUR 25.000) in line with the definition at the EU level.
Without a doubt, economic development cannot be achieved without a developed private sector. Private sector development requires a financial system capable of providing sustainable financing and favorable conditions for businesses. On the other hand, in order to have a developed financial sector, it is required to have successful businesses, which with their business manage to contribute to the development of the financial system itself.

The purpose of these microfinance institutions should be to understand and evaluate what softens poverty reduction factors as well as having a clear vision for the development of the community. This can be achieved by using their funds in a rational matter in order to improve the quality of life for the underprivileged people by offering them financial services and self-employment opportunities. By increasing responsibility for financial transparency and at the same time providing proper financial education, all of the conditions offered by microfinance institutions and the overall banking sector would be more favorable to the private sector.

Over 60 percent of Kosovo’s citizens live in rural areas and depend on agriculture for their livelihood. Agriculture is one of the key contributors to Kosovo’s economy, accounting for nearly 8 percent of gross domestic product (GDP), 18 percent of exports and around 30 percent of employment. Yet, this sector is underserved by banks, hindering the growth of small businesses and farmers. Improving their access to finance will help boost competitiveness in this sector as well as create jobs, increase income and food security in the country.

The Law on Banks, MFIs and NBFIs was adopted in 2012 and was in line with EU legislation at the time of its adoption. The current legal framework meets the needs for operation and supervision of banks and financial institutions. However, it must be supplemented with the EU legislation, given that this is a dynamic process which is constantly followed by changes. For this purpose, the CBK has established a working group which is responsible for reviewing the EU legislation. The Law on Banks, MFIs and NBFIs needs to be revised to encourage the growth and development of the sector.
References

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