



# EMN Legislative Mapping Report KOSOVO



December 2019

This series of national factsheets provides a snapshot of the various legislative frameworks concerning the provision of microcredit in Europe by non-bank financial intermediaries.

The national factsheets cover the following thematic areas:

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## Regulation of Lending Activity

In Kosovo, non-bank lenders can operate either as NBFIs or MFIs. NBFIs are organisations of a commercial nature that can offer a wide array of financial products. MFIs are mostly non-governmental and non-profit organisations, but they can also be commercial entities operating in the form of joint stock companies. Licensed MFIs represent an important part of the financial sector in terms of outstanding portfolio.<sup>1</sup>

Licensed MFIs and NBFIs are regulated with separate licensing and regulatory frameworks set by the 'Law on banks, microfinance institutions and non-bank financial institutions (no. 04/L-093)' that covers matters related to operations, governance and risk management. In the current framework, neither MFIs nor NBFIs are not allowed to take deposits.

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## Supervisory Framework for Non-Bank Lending

The lending activities of licensed MFIs and NBFIs are overseen by the Central Bank of Kosovo (CBK). The areas of supervision (set by the Law on Banks, MFIs and NBFIs) include: 1) Regulation of the registration, supervision and activities of NBFIs; 2) Credit risk management for MFIs; 3) Effective interest rate and MFI disclosure requirements; 4) Internal control and internal audit of MFIs; 5) External audit; 6) MFIs reporting to CBK; 7) Liquidity risk management for MFIs; and, 8) Limits to holdings of real estate and movable property.

Licensed MFIs and NBFIs are obliged to share client data with the credit bureau and they have access to the credit bureau information.

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## Products

Both NBFIs and licensed MFIs are allowed to disburse business and personal microloans. The maximum amount for both types of microloans is EUR 25.000. No interest rate cap exists in the current framework. The Law on Banks, MFIs and NBFIs identifies low-income households/individuals, as well as micro- and small legal entities as the main targets for microcredit provision.

1. Approximately 80% based on the data collected for the EMN-MFC Survey Report 2016-2017.

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## Incentives and Support

In Kosovo, there are no national/regional level funds dedicated to support microcredit provision. Instead, there are various international financial institutions that provide support and financial incentives for financial inclusion and energy efficiency microcredits.

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## Development of the Existing Framework for Non-Bank Microcredit Provision

The Kosovo Microfinance Network (AMIK) is currently advocating for a reform of the existing regulation on NBFIs and licensed MFIs to increase the scope of services that both types of microcredit providers can deliver, and lobbying for better governance in the sector.

In this respect, challenges include the current restrictions on non-governmental organizations (including licensed MFIs) to be shareholders in limited liability companies and joint stock companies. AMIK believes that it would be beneficial for the sector to allow non-governmental and non-profit MFIs to invest in commercial microcredit providers (NBFIs) that are incorporated as limited liability companies and/or joint stock companies under the following rationale: commercial microcredit providers are not always able to attract the required funds to serve clients. Their impact on consumers and SMEs could be improved if they had additional access to capital and through the NGO, MFIs represented in the commercial entity will provide some additional assurance that the social and financial inclusion dimensions are an integral part of organisational objectives.

These investments will also help to develop trust with the Regulator (Central Bank of Kosovo), and ultimately lead to the development of additional products, which would help to scale NBFIs and attract capital at a lower cost, which can then be passed on to customers in the form of lower interest rates. Lastly, it will enable NGO MFIs to diversify their activities, and in the process, allow funds generated from the investments to be used for other social projects.

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## Inclusive Entrepreneurship and Microenterprise Development

In Kosovo, there are simplified administrative procedures in place for entrepreneurs to set up a business. Publicly subsidised non-financial support (e.g. business development services) is also available to micro-entrepreneurs. In terms of public support, there is no welfare bridge to support unemployed people in the transition towards self-employment.

Although entrepreneurship education is not part of secondary education curricula in Kosovo, there are large international donor support programmes that support various entrepreneurship projects. Finally, in 2017, a new Ministry on Innovation and Entrepreneurship was established.



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This publication has received financial support from the European Union Programme for Employment and Social Innovation "EaSI" (2014-2020). For further information please consult: <http://ec.europa.eu/social/easi>  
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