



EMN Legislative Mapping Report KOSOVO

November 2023



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:

- 1 Regulation of lending activity
- 2 Supervisory framework for non-bank lending
- 3 Products
- 4 Incentives and support
- 5 Development of existing framework for non-bank microcredit provision
- 6 Inclusive entrepreneurship and microenterprise development
- 7 Digital transformation

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Regulation of Lending Activity

In Kosovo, non-bank lenders can operate either as NBFIs or licensed MFIs. NBFIs are organizations of a commercial nature that can offer a wide array of financial products. MFIs are mostly non-governmental and non-profit organizations; however, they can also be commercial entities that operate in the form of joint stock companies. Licensed MFIs represent an important part of the overall financial sector in terms of active clients.¹

Licensed MFIs and NBFIs are regulated by separate licensing and regulatory frameworks established by the "Law on banks, microfinance institutions and non-bank financial institutions (no. 04/L-093)", which covers issues related to operations, governance, and risk management. In the current framework, MFIs and NBFIs are not allowed to take deposits. The minimum capital requirement for both MFIs and NBFIs (in case the NBFI's offer is limited to microcredit) is EUR 250,000.

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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.

1. In 2022, licensed MFIs served nearly 50% of total active clients.

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Products

The current law does not differentiate between business and personal loans. According to market practices, both types of loans can be disbursed by NBFIs and licensed MFIs. The maximum amount recommended by the CBK for microloans is EUR 25,000. No interest rate cap exists within the current framework.

The *Law on Banks, MFIs, and NBFIs* identifies low-income households/individuals and micro- and small legal entities as the main targets for microcredit provision.

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Incentives and Support

In Kosovo, the provision of microcredit is supported by the Kosovo Credit Guarantee Fund (KCGF), which was established in April 2016 with the help of USAID. The fund is currently self-sustaining thanks to the contributions of licensed financial institutions. Additionally, various international financial institutions provide support and financial incentives for financial inclusion and energy-efficient microcredits. KCGF provides guarantees to lenders like MFIs and banks to encourage them to provide loans and credit to small and medium-sized enterprises (SMEs) and businesses in Kosovo. By offering guarantees, KCGF helps mitigate the risk for lenders, thereby making it easier for SMEs to access financing.

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Development of the Existing Framework for Non-Bank Microcredit Provision

According to the Kosovo Microfinance Network (AMIK), which represents seven of the eight licensed MFIs operating in the country, there are some challenges to the existing framework for non-bank credit provision. These challenges include:

- 1 Limitations on NGO investments because the law prohibits NGOs from being shareholders in limited liability companies and joint stock companies. As a consequence, it is impossible for NGOs to transform into a for-profit company.
- 2 Another challenge is the product range that licensed MFIs can offer. AMIK is in favor of expanding the range of products beyond microcredit to include payments and deposits, which would allow clients to access a wider range of financial services and increase the sustainability of the sector.
- 3 Finally, AMIK favors increasing the recommended threshold for microloans to EUR 50,000 (in line with the EU definition) in an effort to increase the sustainability of the sector.

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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 subsidized 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 curriculum in Kosovo, there are large international donor support programs that support various entrepreneurship projects. For instance, FINCA supports a large program on women's entrepreneurship.

Digital Transformation

The Government of Kosovo recently approved the Digital Agenda of Kosovo 2030, a comprehensive government strategy proposed by the Ministry of Economy. This Digital Agenda is a crucial initiative that establishes the direction for Kosovo's digital transformation in the coming decade. The key points relating to microfinance include the following:

- **Cross-Sectoral Strategy:** The Digital Agenda of Kosovo 2030 is a cross-sectoral strategy that covers various aspects of the government's policy and priorities. It aims to guide and facilitate the ongoing digital transformation of Kosovo's economy and society.
- **Alignment with National and EU Strategies:** The agenda is closely aligned with the strategic objectives outlined in Kosovo's national development and IT strategies. It also adheres to the latest strategies and recommendations of the European Union, including Digital Compass 2030, the Green Deal, Shaping Europe's Digital Future, and others. This alignment demonstrates Kosovo's commitment to harmonizing its digital development with EU standards.



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