
The forthcoming microfinance law in Kosovo

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Status of Microfinance law in Kosovo

- ✓ Completed Feedback from stakeholders
 - ✓ Completed Final draft completed
 - ✓ Completed CBAK Board approval

 - Pending Review and approval by UNMIK SRSG
 Office of Legal Advisor

 - Pending UN HQ Legal Office in NYC final approval
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Kosovo financial sector client breakdown

6 banks with 75% of total market (103,707 clients)

- 2 international banks – 73% of banking sector
 - ProCredit – 46%
 - Raiffeisen – 27%
- 4 local banks

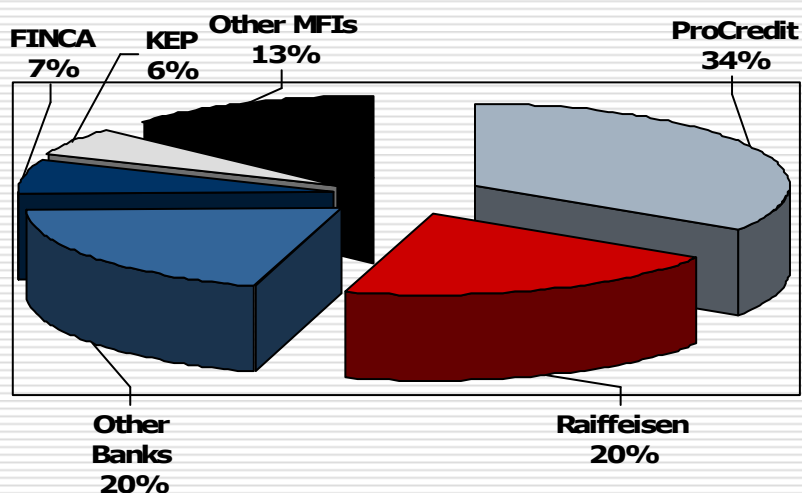
12 MFIs with 25% of total market (35,555 clients)

- 9 MFIs are members of the Microfinance Association
- 2 largest MFIs – 49% of microfinance sector
 - FINCA – 27%
 - KEP – 22%

Data as of January 2007, includes only Credit clients

Kosovo credit-only client breakdown

139,262 Credit Clients
As of January 2007



6 Banks - 75% of total market – 103,707 Clients

- 2 Int. Banks – 73% of Banking Sector
 - ProCredit – 46%
 - Raiffeisen – 27%
- 4 Local Banks – 27% of Banking Sector

12 MFIs - 25% of total market – 35,555 clients

- 9 MFIs are members of AMIK
- 2 largest MFIs – 49% of MF sector
 - Finca – 27%
 - KEP – 22%

Credit-only client data from CBAK as of January 2007

MFI registration process with CBAK

NGO MFI

- Credit only
- Public Benefit Status
- CBAK oversight

Licensed MFI

- Credit and deposit taking
 - No Public Benefit Status
 - Regulated and supervised by CBAK
 - Ministry of Trade and Industry Registration
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MFI permitted activities

Registered NGO MFIs

- Provide loans
- Acquire funds by grant or borrowings
- Own, rent, sell, dispose of movable or immovable property
 - Taken to satisfy debts
- Provide TA to clients

Licensed MFIs

In addition to registered NGO MFIs permitted activities

- Accept savings / time deposits
 - Extend non-funded credit facilities
 - Letters of credit
 - Bonds
 - Guarantees
 - Other services specifically authorised by CBAK
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Prior conditions and application requirements for CBAK MFI license

Prior Conditions

- Registered with CBAK
- Registered with Ministry of Trade and Culture
- Operated as MFI in Kosovo for past 3 years
- Recorded net profit for each of the past 3 years
- Minimum paid-in-capital of equity of 2,500,000€

Application Requirements

- Information and amount of shareholders
 - Audited financial statements for past 3 years
 - Business Plan
 - Target market and activities for next 3 years
 - Proposed products and loan portfolio projections
 - Sources of financing
 - Organisation chart, MIS system, credit policies
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Maximum amounts of MFI loans and equity/liability requirements for licensed MFI

Maximum MFI loans

- 5,000€ for initial loans to low-income households or individuals
 - 15,000€ maximum for repeat loans
- 15,000€ for initial loans to small enterprises
 - 75,000€ maximum for repeat loans

Equity/liability Requirements

- Total liabilities cannot exceed 5 times the amount of its equity
 - Minimum average liquidity reserves calculated as 10% of deposits
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Why would an MFI transform?

- Demand for growth; source of financing
 - Loans financed not only by donations or retained earnings but also by savings and commercial debt
 - Loans priced to enable financial self-sufficiency
 - Client needs for additional services
 - Access and opportunity for families to save in rural areas
 - Borrowing clients may be willing to travel distances to get a loan however it is less likely that saving clients will travel the same distances
 - Letters of Credit, transfer payments?
 - Improvement in operational management
 - Governance mechanisms
 - Operational controls
 - Commitment to the social mission
 - Increase social impact through lending, transfer and savings products
 - Example of good governance and ethical management
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What are benefits of transformation?

- ✓ Access to commercial capital
 - access to capital markets as needed for loan portfolio expansion at a reasonable cost
 - Ability to attract savers
 - Improved customer focus and expanded outreach
 - Core business – attract AND retain clients
 - Potential future private sector ownership
 - Governance and accountability
 - Opportunity to renew and revise board's commitment to the institutional mission
 - and reinforce its long-term strategic plans
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What are costs of transformation for an MFI?

- Physical Infrastructure
 - Main Office, secure safe areas and teller stations
 - More branches or service outlets
 - Administrative Capacity
 - Training and development
 - Change of mentality
 - Key staff need professional qualifications
 - Establishment of management committees
 - Technology
 - Online, on-time real system with portfolio, accounting, finance and savings modules
 - Security
 - New security measures for cash
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What are risks for a transformed MFI?

- Credit Risk
 - Asset quality
 - Liquidity Risk
 - Cashflow – does it meet your obligations?
 - Operational Risk
 - Fraud
 - Human or systems error
 - Poor management
 - Interest Rate Risk
 - Mismatch of what you receive and what you pay
 - Market Risk
 - Competition, devaluation, external/internal factors
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What are key transformation issues for an MFI?

- Communication with regulators
 - Understanding of the regulatory process and its requirements
 - Regulatory requirements for capitalization
 - Ownership
 - Asset and liability issues
 - Access to deposits from public is one source of affordable funds for MFIs
 - *However will the benefits of introducing savings/deposit facilities cover the assumed costs?*
 - Organizational development
 - Organizational structure
 - Policy and procedures
 - Internal controls and compliance review
 - Training and human resource management
 - ***FINALLY AND MOST IMPORTANTLY*** can a transformed MFI continue to be socially oriented and still be committed to its mission?
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Can a transformed MFI still adhere to its mission?

- Can a transformed Microfinance Institution continue to be socially-oriented and still be committed to its mission?
 - Will a transformed Microfinance Institution continue to reach its intended target groups?
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