4 Access to finance

Access to finance is crucial for developing the private sector in all economies. This chapter, along with three sub-dimensions, explores the necessity for businesses to be able to access financing sources to start up, grow, diversify and ultimately contribute to overall competitiveness. The first sub-dimension, bank financing framework, assesses the regulatory framework of bank financing, including the quality of banking industry legal framework, registration and information systems and the policies making bank finance inclusive. The second sub-dimension, access to alternative financing sources, focuses on the various means that businesses can get financing, encompassing access to capital markets, private equity as well as factoring and leasing. The third sub-dimension, digital finance, delves into the effects of digital solutions on payment services and the emergence of new avenues for business finance.

Key findings

Kosovo's access to finance score has been relatively stable since the 2021 assessment, marginally increasing from 2.1 to 2.3 (Table 4.1). Notably, the economy has taken measures to develop the banking legal framework. However, with a score of 1.4, Kosovo exhibits the lowest score on access to alternative financing sources.

Table 4.1. Kosovo's scores for access to finance

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Access to finance	3.1: Bank financing framework			3.7	3.5
	3.2: Access to alternative financing sources			1.4	2.4
	3.3: Digital finance			1.4	2.3
Kosovo's overall score		**2.4**	**2.1**	**2.3**	**2.8**

The **key findings** are:

- Small businesses benefit from robust support in accessing bank finance through extensive credit guarantee schemes and public credit lines offered by the Kosovo Credit Guarantee Fund. As a result, small and medium-sized enterprise (SME) loans from commercial banks make up 61.8% of total loans in Kosovo in 2022. This closely aligns with comparable economies from the EU, such as Lithuania (59.6%).
- Kosovo's capital markets are still nascent, with limited legal advancements observed recently. However, plans are underway to broaden the legal framework of the bond market to include corporate bonds, with ongoing drafting of a capital market law, albeit without a specific timeline.
- Alternative forms of financing, including business angel networks, exist but their outreach and impact remains limited. For instance, Kosban, the sole operating Business Angel Network (BAN) in Kosovo, has not generated any investment in 2022.
- Kosovo is in the initial phases of bolstering its legal infrastructure for digital payments through the formulation of the "Payment Services Law". This legislation aims to align with the EU's Second Electronic Money Directive (EMD2) and Second Payment Services Directive (PSD2), facilitating the issuance of electronic money and expanding bank payment services to third-party providers with specified security protocols.
- The progression of digital finance in Kosovo is challenged by the relatively low adoption rates of digital payment technologies. In 2021, only 47.6% of the Kosovar adult population reported having made or received a digital payment, which remains below the Western Balkan average (61.7%). The data suggest Kosovo may be struggling with a digital skills deficit, hindering the widespread adoption of digital payment methods.

State of play and key developments

Kosovo is the Western Balkan economy whose financial sector relies the least on the banking industry. In 2022, banks comprised only 68.3% of total financial system assets (Central Bank, 2023[1]), marking a marginal rise from 65.7% in 2019 (Central Bank, 2020[2]). However, this figure still remains above the euro area's average, where the banking sector represents only 50% of total financial assets (European Central Bank, 2023[3]).[1] In contrast to other Western Balkan economies, the number of commercial banks in Kosovo increased to 12 in 2022 (from 11 in 2021 and 9 in 2013). This growth has led to a continuous decrease in concentration within the banking sector, as the top three banks in Kosovo collectively held around 52.5% of assets in 2022, compared to 67.4% in 2013 (World Bank, 2022[4]); this suggests that there are still competitive pressures in the Kosovar banking industry remain. Notably, that percentage remains considerably lower than the averages observed in the Western Balkans (68.8%) and the EU (71.5%)

The total credit the Kosovar financial sector provided substantially increased over the last decade. In 2022, domestic credit to the private sector was equivalent to 52.4% of GDP, while only 36.7% in 2013, indicating a substantial development in Kosovo's primary means of accessing finance. This figure is substantially higher than in the Western Balkan region (46.4% in 2022) and lower than the EU's average (69.5%) (World Bank, 2022[4]). Simultaneously, the significant expansion of credit did not correspond with diminished credit quality, evidenced by the decline in the share of non-performing loans in Kosovo from 8.1% in 2013 to 1.9% in 2022 (International Monetary Fund, 2023[5]).

Sub-dimension 3.1: Bank financing network

Kosovo's **banking industry** legal framework has been increasingly aligned with Basel III requirements since the last assessment cycle. Ongoing harmonisation with Basel III suggests a continual enhancement in the reliability of the bank finance supply thanks to increased financial stability. Specifically, the January 2023 implementation of the "Regulation on Liquidity Coverage Ratio" and "Regulation on Net Stable Funding Ratio", along with the August 2023 enforcement of amendments to the "Regulation on Liquidity Risk Management", enables Kosovo to advance in meeting capital and risk management requirements. However, the legislation's disclosure requirements remain partially compliant with Pillar III of Basel III, and the regulation dealing with large exposures is not entirely aligned with Basel II.

Kosovo maintains relatively stringent lending requirements; there are no flexible collateral requirements below specific thresholds for SME lending. However, it is worth noting that the Central Bank of Kosovo (CBK) mitigates banks' provisioning requirements through decreased risk-weight coefficients specific to loans targeted to SMEs, which is intended to foster SME lending.[2] Moreover, the CBK offers capital relief for loan exposures guaranteed by the Kosovo Credit Guarantee Fund (KCGF), as per the Capital Adequacy Regulation requirements, which constitutes another incentive to promote SME lending.

Since the last assessment cycle, Kosovo has not recorded any changes in **registration systems**, which were already well developed. The real estate cadastre is available through the Kosovo Cadastral Information System (KCIS) on the digitised eKosova platform and covers the entire territory. It is updated daily, but access is restricted to authorised intermediaries.[3] The registry of security pledges is maintained in the Pledge Registry, an integrated electronic database with daily updates, but is also restricted to authorised intermediaries. However, the system has limitations, as it exclusively records fixed assets, omitting registration for non-fixed ones.

Credit information systems in Kosovo are well developed, providing Kosovar banks with comprehensive information on borrowers. Kosovo's primary credit information service is the Credit Registry, which is managed CBK. It serves both financial institutions and the public. Financial institutions offering loans must report the comprehensive history of an individual's or business's credit and loan-related activities. The system also includes non-regulated entities like non-bank financial institutions, retailers, and utilities. The

Credit Registry provides online data to financial institutions about existing or potential borrowers, contingent on obtaining written consent from the borrower. Finally, credit information data in Kosovo are protected by robust measures to preserve confidentiality, prevent unauthorised access, and minimise the risk of data loss or destruction.

Regarding the **accessibility of bank finance** for all businesses, Kosovar SMEs have relatively high access to bank finance and can rely on substantial policy initiatives. Indeed, SME loans from commercial banks make up 61.8% of total loans in Kosovo in 2022, a notable increase from 57.4% in 2018. This surpasses the Western Balkans' average of 39.0% and closely aligns with comparable economies from the EU, such as Lithuania (59.6%) (OECD, 2022[6]). After the COVID-19 pandemic, Kosovo emerged as one of the few Western Balkan economies where public credit lines and credit guarantee funds still operate and have maintained similar activity levels. The KCGF, a pivotal institution in this regard, has been reinforced by the implementation of the amendments to the “Law on Establishment of the KCGF” in August 2022, increasing the credit guarantee coverage from 50% to up to 80% and enabling prepayment up to 30% of the previous outstanding loan with the loan guaranteed from the KCGF. Moreover, numerous additional programmes were introduced in 2022, widening the scope of the KCGF. Notably, the Green Recovery Opportunity Window was launched in June 2022 with a capital base of EUR 5.6 million, and the European Investment Bank (EIB)’s “Kosovo COVID-19 Response to SMEs” project’s EUR 40 million funds will expand the credit guarantee schemes provided by the KCGF.[4] Following this set of measures, the KCGF witnessed an upsurge in its activities following the pandemic, reporting total outstanding loans amounting to EUR 211.4 million (2.37% of GDP) in December 2022 (Kosovo Credit Guarantee Fund, 2023[7]), compared to EUR 146.5 million (1.84% of GDP) in December 2021 (Kosovo Credit Guarantee Fund, 2022[8]) and EUR 115.0 million (1.70% of GDP) in December 2020 (Kosovo Credit Guarantee Fund, 2020[9]). A similar trend is observed in credit guarantees, with total outstanding guarantees reaching EUR 116.2 million in December 2023 (1.20% of GDP), EUR 126.1 million (1.58% of GDP) in December 2021, and EUR 56.0 million (0.83% of GDP) in December 2020. This evolution of the KCGF partly mitigated the conclusion of the Economic Recovery Package, which sanctioned a total of EUR 105.5 million in loans and EUR 74.9 million in guarantees during the year 2021 (Kosovo Credit Guarantee Fund, 2021[10]).[5]

The smallest Kosovar businesses can also rely on microfinance to access finance, as microfinance has gained momentum in recent years in Kosovo, with 30 institutions operating in 2022 (only 25 in 2017). With a robust legal framework, Kosovo stands out in the Western Balkans for having the most advanced microfinance sector, constituting 3.2% of GDP in outstanding loans.[6] However, the sector's growth had decelerated since 2019, when outstanding loans reached 3.1% of GDP, compared to 1.4% in 2013 (World Bank, 2022[4]). Nevertheless, the industry's long-term growth and sustainability in Kosovo may need more policies supporting microfinance development, including the absence of interest rate regulation and a central portal providing information to businesses.

Sub-dimension 3.2: Access to alternative financing sources

Alternative financing sources for banking remain very limited in Kosovo, with a maintained dependency on traditional banking.

The primary focus of **capital market** activity in Kosovo revolves around the auctioning of government bonds by the Central Bank, which are mainly purchased by the Kosovar pension funds. Although no stock market operates in Kosovo, the primary government bond market is open to banks. However, non-financial institutions are not allowed to access the market, which limits the number of potential investors and financial resources that could be raised by the government. Kosovo plans to extend the legal framework of bond markets to corporate bonds as the drafting of a capital market Law is ongoing, with no specific timeline announced.[7] These legal developments will be supported by the “Investment Promotion and

Access to Finance" project funded by USAID, which was launched in March 2023 for five years in partnership with the consulting firm DT Global (United-States Agency for International Development, 2023[11]).

Kosovo has no legal framework for **private equity** investment funds, venture capital or Business Angel Networks (BANs). The sole operating Business Angel Network (BAN) in Kosovo, Kosban, raises funds but its impact remains limited. In 2022, it did not generate any investments, while cumulative fundraising amounted to EUR 300 000 in 2021 and EUR 500 000 in 2016 (European Business Angel Network, 2022[12]).

The legal framework related to **factoring** is incomplete, generating high transaction costs for factoring contracts and finally hindering its development. In detail, the associated legal framework does not cover the assignment of receivables or the registration of assignments**.** Moreover, no active policies support the development of factoring, such as tax incentives, assistance, or training for SMEs. As a result, volumes are very marginal, while factoring turnover was equivalent to 12.6% of GDP in the EU in 2022 (EU Federation of Factoring & Commercial Finance, 2023[13]).[8]

Concerning **leasing**, aspects such as leasing mediators, offences, penalties, stipulations for additional or related services, and leaseback conditions lack clear definitions within the legal framework. However, leasing has become a growing financing resource for businesses over the past decade, and microfinance institutions primarily deliver it. In 2013, leasing amounts delivered by microfinance institutions were equivalent to EUR 22.4 million (0.42% of GDP) (Central Bank, 2023[1]), while EUR 73.7 million in 2022 (0.82% of GDP) (Central Bank, 2024[14]).[9] To further develop leasing, in October 2023, the International Finance Corporation (IFC) extended a EUR 5 million loan to Raiffeisen Leasing Kosovo (RLKO), the largest leasing company in Kosovo, earmarked for supporting women-owned SMEs and financing climate-related projects in Kosovo (International Finance Corporation, 2023[15]).

Sub-dimension 3.3: Digital finance

Kosovo is in the early stages of enhancing its legal framework for digital payments, aligning with the EU's Second Electronic Money Directive (EMD2) and Second Payment Services Directive (PSD2).[10] The upcoming "Payment Services Law" aims to facilitate electronic money issuance, allowing banks to extend their payment services to third-party payment service providers (TPPs) with strict security requirements. These regulatory changes are expected to promote the emergence of Kosovar firms in the digital payments sector, although as of 2022, Kosovo boasts 11 non-bank payment service providers, with seven of them licensed to issue electronic money. The "Payment Services Law" has been submitted to the government and is expected to be approved in June 2024.

Despite Kosovo's ambition to develop the legal framework of **digital payments**, their adoption remains limited. In 2021, only 47.6% of the Kosovar adult population reported having made or received a digital payment (World Bank, 2022[4]), which remains below the Western Balkan average (61.7%) and significantly lower than the EU's (93.0%). The data suggest that Kosovo may be struggling with a digital skills deficit, hindering the widespread adoption of digital payment methods. The overall low penetration of digital payments poses several challenges regarding access to finance, ranging from increased remittance costs for businesses and citizens to lower penetration of bank finance. This is particularly crucial for Kosovo considering the importance of remittance inflows standing at 21.3% of GDP in 2022 (World Bank, 2024[16]), the highest figure in the Western Balkan region. The increased digitisation of the financial system can also promote the use of bank accounts (Khera et al., 2021[17]). This too is particularly crucial for Kosovo, given the relatively low bank penetration and the substantial diaspora. Only 58.0% of the adult population in Kosovo held a bank account in 2021, in contrast to 71.2% in the Western Balkans and 95.1% in the EU (International Monetary Fund, 2023[5]). The CBK identified the high banking fees as a bottleneck for financial inclusion with the launch of the "National Strategy for Low-Value Payments (2021-26)". As a noticeable outcome, the CBK approved the "Regulation on Access to Payment Accounts with Basic

Services” to foster inclusion in bank finance. The law entered into force in August 2023, requiring commercial banks to provide basic payment accounts to all citizens of Kosovo for a monthly fee that should not surpass 0.12% of Kosovo's average net salary or EUR 0.53 in August 2023. It can also be noted that a web-based price comparison platform for customers of Kosovo’s financial institutions to compare banking sector product and service prices is expected to operate in the second half of 2024. Finally, the CBK has specifically addressed the challenge of digital skills by implementing several projects to promote digital products and services addressed to consumers and underserved groups. In detail, the CBK has undertaken various educational initiatives, collaborating with the World Bank on a study promoting digital services and financial access. Additionally, in partnership with Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), brochures were created to boost awareness of digital financial services, and the CBK Award to Young Economists focuses on topics related to the digitisation of financial products and services.

Kosovo currently lacks a legal framework for **crowdfunding**, leaving it without active operators. Moreover, there is no legal framework for **Distributed Ledger technology (DLT) for financing**. However, a law on cryptocurrency assets is expected to be adopted in February 2024, in line with the security requirements of the fifth Anti-Money Laundering Directive (AMLD5), which aims to detect and prevent money laundering using virtual currency exchanges and wallets.[11] The draft law is in its early stages, and no clear timeline has been communicated. Developing these digital finance tools may offer smaller businesses an alternative means to access finance, allowing them to circumvent traditional banking and regulatory requirements associated with capital markets (OECD, 2019[18]).

Overview of implementation of Competitiveness Outlook 2021 recommendations

There is still a need for additional policies to foster the growth of capital markets, particularly alternative funding sources like private equity and crowdfunding. The lack of developments based on the previous CO Recommendations are elaborated in Table 4.2 below.

Table 4.2. Kosovo’s progress on past recommendations for access to finance

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Support crowdfunding by adopting dedicated legal frameworks	While crowdfunding operates in Kosovo, no legal framework governs these activities.	None
Make use of the new factoring legislation by introducing new factoring services as an additional source of finance from financial institutions	The legal framework of factoring has not experienced any change since the last assessment cycle.	None
Consider a review of the business angel network	No assessment of the business angel network has been conducted, and no change in the associated legal framework has been recorded since the last assessment cycle.	None

The way forward for access to finance

To make bank finance accessible, support alternatives to bank finance and develop digital finance, policy makers should:

- **Pursue efforts to harmonise banking regulations with Basel III standards**. In Kosovo, the banking sector is the primary player in the financial industry, accounting for two-thirds of the total assets. Given the importance of the banking sector for access to finance, it is essential to create a more robust and more stable global banking system that can withstand economic downturns and financial shocks.

- **Continue efforts to harmonise further capital markets' legal framework with the EU standards to develop market-based financing.** Adopting EU *acquis* regulations on stock and debt markets can increase investor confidence, strengthening cross-border co-operation. This can create opportunities for local businesses to attract investment and raise capital from a larger pool of investors.
- **Continue efforts to diversify financing sources.** Non-bank financial intermediaries (e.g. leasing or factoring companies), as well as alternative investment funds (e.g. private equity) or crowdfunding (Box 4.1), can provide financing alternatives for larger corporates and mitigate the lack of availability of early (e.g. seed or venture) capital financing that constrains the growth opportunities for promising SMEs. Efforts to develop these new financing sources should be coupled with financial literacy programmes tailored for businesses to enhance their awareness.
- **Make digital finance available for all individuals and businesses.** Financial services are becoming increasingly digitalised, and individuals with low education levels, those residing in rural areas and elderly people face more significant financial exclusion. To address this issue, Kosovo should implement financial inclusion policies that identify emerging financial competency requirements from digitalising financial services to promoting digital capability. Similarly, the smallest businesses might be the least likely to adopt digital financial solutions. Given the importance of remittance flows, Kosovo would benefit from spreading digital financial solutions in its economy following the substantial savings on transaction costs.

Box 4.1. Crowdfunding in Estonia

Estonia stands out as a leader in the European crowdfunding sector, contributing to its status as one of the top economies in terms of risk capital availability. This strong position is primarily fueled by activities in equity crowdfunding, private equity, and business angel investment (Association for Financial Markets in Europe, 2022[19]).

The first crowdfunding platform (Peer-to-Peer Consumer Lending) appeared in 2009, and in 2023 Estonia hosted the most platforms per capita – about 22 per 1 million people, followed by Latvia (4.7) and Lithuania (3.9) (P2P Market Data, 2023[20]).

The stock of funding intermediated by the Estonian crowdfunding platforms grew rapidly over past years from EUR 150 million in 2017 to EUR 660 million in 2022 (Eesti Pank, 2023[21]). Moreover, crowdfunding flows are increasingly internationalised, a pattern encouraged further by the pan-European regulation that came into force last year and requires all market participants allowing investment in companies to apply for a pan-European operating licence since November 2023.

Estonian financial market legislation is based on European Union regulation, the Directive on Investment Services in the Securities Field (93/22/EC), and the Directive on Markets in Financial Instruments (2004/39 EC) (MiFID / MiFID II). The Ministry of Finance oversees the alternative finance market.

In addition to existing regulations, a 5-page guide providing a code of conduct for all the Internet-based crowdfunding platforms has been prepared by Finance Estonia and the Deloitte Legal law firm (Deloitte Legal, 2016[22]). The guide aims to increase the transparency of crowdfunding platform providers' activities for clients and investors. The guide defines best practices, which do not substitute for the legal responsibility to adhere to applicable laws (Sadzius and Sadzius, 2018[23]).

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Notes

[1] The two Kosovar pension funds, Kosovo Pension Saving Trust (KPST) and the Slovenian Kosovo Pension Fund (SKPF), collectively possess 35.8% of financial assets in 2022, reflecting a robust increase from 26.8% in 2019 (Central Bank, 2023[1]).

[2] Within the amended "Regulation on Capital Adequacy of Banks", within Article 51, there is a reduced risk-weighting factor for the retail exposures (exposures to natural persons and small or medium-sized enterprises). These exposures are risk-weighted at 75%.

[3] Authorised intermediaries include lawyers, notaries, banking institutions, leasing companies, microfinance institutions, state institutions, and every physical and legal person or entity registered in the CBK.

[4] Other initiatives have been implemented in Kosovo to expand the KCGF's activity. In October 2022, the Agro-Credit Guarantee Window was extended and improved with a EUR 11.5 million capital base. In December 2022, KCGF launched the Export Window to support export companies featuring a more favourable fee structure, exploring ways to increase credit thresholds. Finally, In 2023, the KCGF introduced the Women in Business Window and the Start-up Window, offering enhanced opportunities with guarantee rates of up to 70% and 80%, respectively.

[5] In 2023, KCGF expanded credit guarantee schemes, introducing non-financial components. These included training sessions for export companies, green investments, and women in business/start-ups. In partnership with USAID, the programme reached 95 export companies and 300 women business owners, enhancing financial management and credit awareness.

[6] Microfinance institutions are mostly non-governmental and non-profit organisations but can also be commercial entities operating as joint-stock companies. The maximum amount for microloans is EUR 25 000.

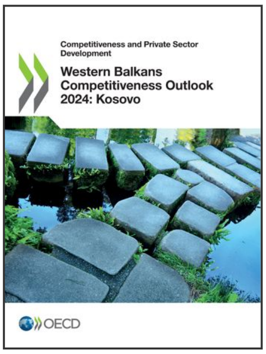
[7] The working group includes representatives from the Ministry of Finance, Labor and Transfers (MFLT), Kosovo Pension Saving Trust (KPST), the Kosovo Banking Association (KBA), the Ministry of Industry, Entrepreneurship and Trade (MIET) and the CBK.

[8] Data on factoring activities do not exist.

[9] Data on the total value of leasing activity for banks, essential for estimating the total leasing volumes, are unavailable.

[10] EMD2 directive: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32009L0110; PSD2 directive: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015L2366.

[11] EUAMLD5 directive: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32018L0843.



From:

Western Balkans Competitiveness Outlook 2024: Kosovo

Access the complete publication at:

https://doi.org/10.1787/ff74ae0e-en

Please cite this chapter as:

OECD (2024), “Access to finance”, in *Western Balkans Competitiveness Outlook 2024: Kosovo*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/264ed2ab-en

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