

# THE KOSOVO BANKER

SME Finance in Kosovo – a  
Tale of Price and Prejudice

The Role of Commercial  
Banks in Economic  
Development

Professional Banking  
Education - Up to Date with  
Current Developments



## FINANCE FOR DEVELOPMENT

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The Kosovo Bankers' Association (KBA) is the voice of the banking industry in Kosovo. KBA cooperates with the Government, the Central Bank of Republic of Kosovo, the media and public opinion to support a sound banking industry which promotes long-term economic development for Kosovo. KBA facilitates cooperation between the banks by offering a single platform for joint lobbying and to discuss new initiatives; identifies and influences the legal and regulatory initiatives; coordinates joint activities for banks and promotes banking activities to the general audience. The KBA Training Center operates within KBA and it offers trainings in banking and finance.

"The Kosovo Banker" is a publication of the Kosovo Bankers' Association. The magazine is published twice a year with the aim to properly inform the public on the banking industry in Kosovo. Kosovo Bankers' Association: St "Bajram Kelmendi", No.15, Pristina; 10000, Republic of Kosovo; +381 38 246 171; www.bankassoc-kos.com; contact@bankassoc-kos.com

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KOSOVA



# Editorial



## BANKA MË E MIRË NË KOSOVË 2012 Shpallur nga The Banker

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### DEAR READERS,

Welcome to the second publication of The Kosovo Banker.

With the recent financial developments abroad and in Kosovo, financing and its costs have never been so talked about. After careful review of the topic which we would cover on this issue, we decided to put our focus on the topic of financing for development. There have been a number of studies, reports, and journal articles written and compiled regarding access to finance and specifically the topics of financing for small and medium enterprises. However, in terms of portraying the experience of the banks in their findings or writings, most of the studies are limited to interviews with business representatives and/or technical level staff representatives from different banks.



ZANA HAXHA  
EXECUTIVE  
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ASSOCIATION

We consider that it is of crucial importance that the wide public is informed about access to finance in our domestic environment from actors who have in-depth knowledge about the day to day general conditions of financing in Kosovo. Hence, in this publication of our magazine we bring you a compilation of articles from a range of professionals from the banking and finance industry who are directly involved in the financing and are the main players and thinkers in the field of domestic finance. More importantly, in order to present a balanced view of the topics, we also bring you articles from academics and the representatives of the donor community.

Apart from articles on financing for development, we also bring you some refreshing pieces of writing on the future of banking with specific focus on electronic

banking and cash reduction. Additionally, this issue of our magazine also contains interviews with the heads of corporate departments within all the banks who portray the criteria and conditions for business loans.

On behalf of the Kosovo Bankers' Association, I would like to thank all the authors of all the articles for their contribution in the discussions about the conditions of financing in Kosovo.

Happy holidays and a very prosperous 2013!

# SME FINANCE IN KOSOVO – A Tale of Price and Prejudice

At first sight, banks in Kosovo are actively targeting the SME segment. Many bankers in Kosovo wish they could provide more SME loans. The combined loan portfolio of banks is 1.7 billion EUR of which two thirds was lent to businesses, mostly SMEs.

Small and medium sized enterprises (SMEs) are vital for the development of Kosovo. They drive growth, generate employment, innovate and provide skills training to their employees. For the purpose of this article, SMEs are broadly defined to exclude micro enterprises and large corporations, i.e. the very small, often informal enterprises are not considered, nor are the very large corporations. The number of enterprises registered with the Tax Administration (around 57,000) serves as an estimate of the number of SMEs.

## A missing middle?

If the SME sector plays an important role in an economy, then SME finance is of crucial importance to stimulate further growth of the sector. However, in many emerging economies SMEs are largely ignored by the financial sector. Banks typically lend to large corporations, the microfinance sector lends to micro entrepreneurs, and the SMEs are left out. People often speak of a 'missing middle' to highlight



KOËN WASMUS

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KEP

the lack of provision of financial services to SMEs. But is that true for Kosovo?

At first sight, banks in Kosovo are actively targeting the SME segment. Many bankers in Kosovo wish they could provide more SME loans. The combined loan portfolio of banks is 1.7 billion EUR of which two thirds was lent to businesses, mostly SMEs. The volume of loans to businesses increases year on year, as does the loan-to-GDP ratio. In short, that does not look too bad!

## I still haven't found what I am looking for

However, given the importance of the topic, this is no time to be complacent. Indeed, business owners, academics and policy makers say more needs to be done. Stakeholders still complain of lack of access to finance and complain about the cost of finance. In their opinion, banks' interest rates are too high.

Two recent studies on this topic point out that in fact many of the impediments to increase the provision of SME finance and/ or lower the cost of SME finance lie outside the influence of the commercial banks. The Riinvest study 'Banking Sector: Facilitator or Barrier' listed 13 findings



and recommendations, of which only two were related to commercial banks. Likewise, a study commissioned by the Ministry of Trade and Industry 'SME Access to Finance' formulated seven main recommendations, of which one was indirectly addressed to banks. The main recommendations are in fact aimed at the government to improve the business environment, to the central bank and last but not least to the business community itself. So what are the main issues in the debate? I will give you my personal top three:

**NUMBER 1:** High level of informality of small and medium enterprises. Many registered enterprises do not have proper management accounts, evade taxes and are unable to present well formulated proposals to banks. While most banks have found innovative ways to do their own, on-site financial and risk assessments of SMEs (often including the redrafting of complete financial statements), this is a costly exercise which increases the cost of lending and may discourage banks to lend more to this segment.

**NUMBER 2:** Lack of collateral and enforcement mechanisms. While banks in Kosovo are primarily lending against a company's cash-flow rather than against collateral, collateral is often required for larger loan amounts. However, titles of apartments (the most readily available source of collateral) are not registered, courts are slow and erratic in foreclosure procedures. The absence of private bailiffs completes the picture of an underdeveloped legal framework for lending.

**NUMBER 3:** Insufficient diversity in the financial sector.

Kosovo's financial sector is dominated by traditional commercial banks. The combined portfolios of leasing companies, non-bank financial institutions and microfinance institutions account for less than 10% of total assets. Products such as long term loans could be provided by equity funds or investment banks, both of which are absent in today's market. Factoring is not offered at all; and the agricultural sector is largely ignored, accounting for 13% of GDP but only receiving 3% of bank loans.

## Over to you

Businesses need to assume their responsibility by providing the best possible information to banks. It would help if their tax returns reflect their true turnover and profit; in many cases it does not.

The Government needs to take the lead in improving the legal framework and facilitate the offer of collateral by providing titles, and setting up sound institutions to allow for enforcement of collateral in case of default. The possibility of setting up commercial courts dealing with foreclosures only should be seriously considered.

Last but not least, the central bank should encourage more diversity in the financial sector by increasing competition and requiring new entrants to bring innovation, a sector focus and/or product diversification to the market.

In conclusion, banks are doing their part in providing finance to SMEs but more needs to be done. Businesses, Government, and the Central bank are called to action to facilitate and encourage lending to Small and Medium Enterprises. By doing so, interest rates will come down.

# SME Access to Finance

Banks in Kosovo have been major contributors to the development of the economy by actively lending to businesses. As evidenced by the CBK published statistics, from year to year the amounts lent by the banks have increased.

There is a widely held view that banks in Kosovo are not actively lending to businesses. In fact this is a cry heard from small and medium sized enterprises (SME) throughout Western Europe at the present time.

I have studied these assertions on behalf of the European Union funded SME Project, and presented my findings to the Minister of Trade and Industry, and also at the recent Finance Fair organised by the Kosovo Bankers' Association (the Report may be found on [www.smallbusinessdays.com](http://www.smallbusinessdays.com))

If banks do not have customer deposits they cannot lend. Banks in Kosovo are regulated by the Central Bank of Kosovo (CBK) and are required to lend no more than 80% of their customers' deposits. Most banks are at this level.

Five of the seven banks in Kosovo are owned by international banks. Their parents are mainly subject to home country regulations on capital adequacy ratios (CAR) which requires them to increase their CAR. This can be achieved either by increasing their capital or reducing their lending (risk weighted assets [RWA]), or a combination of both. With the worldwide economic depression it is more realistic for the parent banks to reduce RWA than attract new investors.

The knock-on effect is that the internationally owned banks in Kosovo are being asked by their parents to reduce, or at least not to increase their RWA to help their parents achieve the required capital adequacy levels.

Against this background of regulatory constraints to lending growth, how can the banks manage their lending portfolios?

Banks in Kosovo have been major contributors to the development of the economy by actively lending to businesses. As evidenced by the CBK published statistics, from year to year the amounts lent by the banks have increased.



OLIVER WHITTLE

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SMALL AND MEDIUM  
ENTERPRISE (SME)  
PROJECT

With the downturn in the world economy, Kosovo businesses are finding it harder to generate cash, and bad loans have increased. The banks are therefore more demanding of the information they require in order to assess a loan application. Medium and large businesses should not be surprised if they are now asked for their management structure, a business plan, audited financial accounts, and a cash flow forecast to support their borrowing applications (renewals and new).

## Let us examine these requirements in more detail:

### 1. Management structures

Expanding businesses need to show that they are being managed professionally. The days of the family run business with the patriarch controlling all aspects are fading. Depending on the type and size of business, it should be expected that there is an operations manager, finance manager, sales and marketing manager, as well as a managing director, all preferably with appropriate qualifications.

### 2. Business plans

Having a vision and planning ahead are essential in today's competitive environment. A business plan should set out all the information about the business, where it stands

today, and where it is going. Growth plans should be supported by market research and competitor information. Each member of the management team should be involved in the development of the business plan.

### 3. Audited financial accounts

It is a requirement under the 29th July 2011 Law 04/L-014E on Accounting, Financial Reporting and Audit that companies meeting two of the three criteria stated should produce externally audited financial accounts on an annual basis. The criteria for a large company are:

- Net annual turnover higher than €4m
- Gross assets at balance sheet date higher than €2m



c. Average number of employees during the financial year higher than 50

and for a medium sized company:

- Net annual turnover higher than €2m
- Gross assets at balance sheet date higher than €1m
- Average number of employees during the financial year higher than 10

Production of financial accounts audited by a SCAAK qualified and certified accountant or accounting firm will provide the bank with reliable historic financial information which will correspond with the company's tax submissions.

### 4. Cash flow forecasts

Having a reliable starting point in the audited accounts and the bank account balance, and using the company's strategy and business plan as the driver, the Finance Manager should be able to project the next two or three years financial and cash flow forecasts.

If all these requirements are met, they show that the company is serious, is well managed, knows its market potential and competition, and the bank has reliable key financial information to make an informed decision on any financing request.

The other main charge against the banks is that their interest rates are too high. This may be the case, although interest rates in some of the adjoining countries are at a similar level. It is more constructive, however, to look at why interest rates are high, and what can be done to lower them.

Interest rates are driven by several factors, the main

one being the cost to the banks of raising the funds they on-lend.

The main source of funding for banks is customer deposits. Interest rates paid on deposits in Kosovo are high, and as most banks have sufficient deposits to satisfy the demand for lending and to meet the CBK loan:deposit ratio, there is scope for deposit interest rates to be reduced.

Some banks also borrow from third party lenders such as IFC, EFSE, etc. Their interest rates are generally higher than the rates the banks pay on deposits.

Therefore, if banks can raise more deposits at lower interest rates and reduce borrowing from third party lenders, there should be an immediate reflection through a reduction in lending interest rates.

Risk is the other main driver of interest rates. The higher the risk of lending, the higher the interest rate.

As most businesses in Kosovo traditionally do not meet the four "requirements" listed above, the risks of lending are increased. If the bank has to send staff into the company to check on their financial position, and enquire at length into the current state of a business and its future prospects and requirements, then this will result in a higher interest rate being charged.

There are other risks such as property title, valuation, and cadastral registration issues; pledgeregistry problems; the painfully slow and unreliable court process and practices. Improvements in these areas can only come from Government Departments responding to the proposals submitted by KBA and other interested parties. Until these risks are addressed interest rates will continue to be high.

The remedies are in the hands of the banks, businesses, and government.

## The Role of Commercial Banks in Economic Development

The financial sector does not act in isolation to support enterprise growth and economic development.

Although there are still ongoing debates among academics, researchers and practitioners on the direct role of the financial sector in the economic development of a country, there is undisputable evidence of the positive correlation between the two. This article is an attempt to illustrate the positive impact of the financial sector in Kosovo on the economic growth of the country. When assessing the impact of the financial sector in Kosovo on economic development, it needs to be explained that the financial sector is one of the pillars that supports this development. The financial sector does not act in isolation to support enterprise growth and economic development. The investment climate in Kosovo, which drives the enterprise development and the economic growth, is highly dependent on: the general political macroeconomic stability of the country; on the sound legal framework and on the efficient / independent judiciary and court system; and on a prudent and business friendly micro environment, where the financial sector has a lot to say. Therefore, in order to assess the role of the financial sector in the real economy, a thorough understanding of the macroeconomic and legal structures that support the entire



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economy is required. However, the scope of this article is to examine the role of the financial sector in Kosovo from the micro environment perspective only.

The financial sector in Kosovo is largely dominated by the banking sector. Today Kosovo has a modern and sustainable banking sector that provides the basic essential functions of a modern banking system as shown below, and it plays a key role in enterprise development and economic growth.

1) The banking sector in Kosovo provides modern and efficient payment and settlement systems, necessary for businesses and households to perform their day to day transactions. In addition, the banking sector in Kosovo offers a wide range of banking services and it has invested into up to date banking infrastructure and technology in terms of international payments, international payment cards, merchant point of sales, and other electronic banking services which provide 24 hour banking. As a result, the banking sector has enabled the development of domestic trade, has facilitated the integration of Kosovo in the international payments network, has ensured free flow of capital across the world, as well as has contributed in the rise of the formal economy.

2) Channeling of financial resources from primary savers to investment projects and enterprises.

The Kosovo banking sector has been very successful in mobilizing primary deposits from Kosovo households, businesses and organizations, by promoting a sustainable savings culture. At the same time, the biggest share of

these savings is channeled into domestic investments. As a result, Kosovo has a simple, traditional banking system with the majority of the assets in loans to enterprises. At the end of September 2012, loans allocated to enterprises count for 67.2% of the aggregated loans of the commercial banking sector in Kosovo. The instruments used by the banking sector in Kosovo to allocate the funds available to the growing enterprises and private sector are efficient and sustainable. The banking sector in Kosovo has ensured first of all wide access to finance to Kosovo enterprises. The banking sector has established a large network of banking offices in Kosovo, ensuring wide coverage of the entire territory, and easy access to banking. The key sources of finance available to the private sector which have affected the small and medium enterprise growth and development are:

installment loans destined to both investments in fixed assets as well as short-term working capital; overdrafts as an instrument to meet short-term liquidity needs, and credit lines. The banking sector today provides relatively flexible loan amounts and maturities, by ensuring a proper match of the loan with the financial situation of the enterprise as well as with the investment plan. The banking sector in Kosovo has financed projects in vast areas and sectors of Kosovo's economy including trade, services and small scale production. In terms of loans for fixed asset destination, the banking sector has provided significant financial support for the privatization process in Kosovo, by financing a various number of small and medium enterprises that increased their assets.

Another important aspect of the banking sector's successful financing in Kosovo is related to the support of the agricultural projects. A vast number of nascent small and medium farmers are provided with specialized agricultural loans, ensuring a direct impact on the further development of agriculture, as one of the strategic sectors to overall economic growth. In addition, the banking sector promotes investments in the domestic production. The growth of local production is of paramount importance for the sustainable economic development of Kosovo, and it is a sector of strategic importance for the banking sector as well.

In addition, the banking sector in Kosovo offers modern domestic and international trade finance instruments like bank guarantees and letters of credit, which play a vital role in the development of international trade.

Within the scope of the banking sector financing, it is important to mention that banking sector has channeled funds to private households in Kosovo as well. The banking sector has established safe and sound lending practices to households by discouraging excessive consumer lending practices and avoiding customer over indebtedness.

As a result, the aggregated amount of bank credit to gross domestic product in Kosovo reached 40% at the end of September 2012.

Despite the sheer contribution of the banking sector in Kosovo's real economy, the sector could do more in terms of increasing intermediation efficiency and the amount of credit to the private sector. This is an area where the banking sector itself faces challenges. First of all, as mentioned above, macroeconomic stability, market reforms, free trade agreements, and legal infrastructure necessary to support economic growth are needed parallel to the banking sector efforts to increase the amount of finance to the economy. These parallel efforts will improve the investment climate in Kosovo and will stimulate the demand for investment loans, which is currently sluggish. Secondly, an improvement in the functioning of the court system as well as in the contract enforcement practices will improve banks' confidence in the general "to do business" environment. Thirdly, from the micro perspective, the banking sector in Kosovo will highly benefit from an increased quality of information provided by the enterprises. To increase the amount of financing to enterprises, an upgrade in the enterprise financial reporting standards in line with the current laws in force in Kosovo is essential. Additionally, the enhancement of the entrepreneurs' ability to conduct feasibility studies and investment analysis is a prerequisite as well. No matter the challenges, the banking sector is proactively offering support and assistance to address the mentioned issues.

However, when talking about the role of the banking sector in Kosovo's economic development it is important to distinguish qualitative and quantitative development of the banking sector, as well. Despite the traditional contributions to the real economy, like the number and the amount of credits channeled to the private sector, the banking sector has played an important role in providing high quality trainings for Kosovo's young workforce, as well as increasing leadership management capacity. The banking sector has set high quality and professional standards for general employment and staff development practices. Moreover, the banking sector provides high quality relationship management practices for its clients.

Further, at present, the importance of a stable and resilient banking sector is of vital importance for the economic development of Kosovo. The last years have shown that an unstable banking sector results in economic slow-down. The banking sector in Kosovo continues to remain well capitalized, with acceptable asset quality indicators, and it remains highly liquid. This ensures prosperous prospects for the banking sector itself, as well as for the enterprise development and further economic growth of Kosovo.



# Financing and Development in Kosovo

The majority of factors discussed here are of the institutional nature. Therefore, the success in overcoming or mitigating these barriers is achievable only if there are serious efforts by the government and international institutions to improve the business environment.

The economic growth in postwar Kosovo has largely come from foreign aid, remittances and government spending. Each of these three sources of economic growth of the country is characterized by a medium-and long-term instability. While the donor funding is in decline, the sustainability of remittances is unknown in the long term, whereas the public expenses remain limited and focused on several major capital projects (such as the highway). This promotes a sustainable private sector as a key factor for growth and sound economic development of Kosovo in the years ahead.

Kosovar businesses in the postwar period have continuously presented obstacles in doing business, listing the access to finance as one of the top barriers in the development of the private sector. Moreover, according



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to them, the banking system in Kosovo has shown reluctance and unwillingness to finance some important sectors that generate growth and employment, such as the agricultural sector which attracts only 4 % of the total loan portfolio. The banking system has also not shown willingness to finance new businesses (business start-ups), leaving the financing of these initiatives in the hands of informal finance (family or friends).

At the same time, various reports of national and international institutions report on increasing bank deposits, however, without any significant weight on the yet high cost of financing due to the perceived risk by banks. Therefore, the use of the best possible finance, to free the potential of economic growth and sustainable economic development is one of Kosovo's developmental challenges.

Various factors have contributed in the creation of this situation. These factors correspond

to the banks but also to the environment of doing business. Banks in Kosovo have a conservative approach in the provision of loans due to high risk perception. This risk perception comes mainly from institutional deficiencies that have to do with the courts inefficiency in solving

and enforcing cases. All these delays increase bank costs, which in return take a more conservative approach in the provision of private business loans, expressed through high interest rates, in particular, for agricultural loans. In this regard, the enforcement of the pledge is a specific problem, thus due to various reasons it is relatively difficult to find buyers for the pledge presented in the market. As a result of the weak judicial system in the execution of the loan as well as poor enforcement of contracts, Kosovo is ranked as a state with a high collateral interest rate of the issued loan.

On the side of businesses, there is a continuous deficit of projects qualified for financing, since some of them are not able to provide proper documentation, and thus fulfill the formalities required for access to credit. In this aspect, a specific problem, in particular, for the agricultural sector has to do with the lack of reporting or poor financial reporting by agricultural producers. Thus, the lack of information ('informational asymmetry') further increases the risk premium by the banking system. Another inherent obstacle for businesses in the postwar period has also been the weak cadastral system, the failure of registering the land and new buildings, and consequently, the inability to use these as mortgage.

These are some of the main problems that hinder Kosovo's financial potential in serving for growth and sustainable economic development. The majority of factors discussed here are of the institutional nature. Therefore,

the success in overcoming or mitigating these barriers is achievable only if there are serious efforts by the government and international institutions to improve the business environment. Based on the recent World Bank report "Doing Business in Kosovo 2013", the component of the implementation of contracts has not marked a progress (we moved one place only from last year). In this regard, the strengthening of the judicial system remains a priority. Furthermore, the use of alternative ways of implementing contracts through alternative bodies (Alternative Dispute Settlement) can alleviate the burden falling on the country's courts. Better coordination of institutions and donors is necessary to achieve stability in the continuance of these efforts, such as the three-year program funded by USAID's SEAD, with a focus on law empowerment for contracts and judicial decisions, as well as the use of alternative methods of resolving disputes. For accurate access to information and reduction of the information asymmetry problem, Kosovo institutions, such as the Central Bank or the relevant ministries should also improve the quantity and quality of information of the business registry and credit history. These represent just a few of the many possibilities and perspectives which will need to be addressed to overcome the factors that increase the risk premium in the financial system. Overcoming these obstacles would open the possibility to mobilize the economic potential of Kosovo and its alignment with countries with the highest level of growth and economic development.



# Towards Increased Development Financing

Too many enterprises with potentially “bankable” projects have not yet made the decision to formalise their activities, thereby blocking access to bank financing.



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It is simple mathematics: if Kosovo succeeded in raising growth rates from currently about 3.3 per cent to, say, 5.0 per cent, the country would reduce the time required to double national income from 21 years and 4 months to 14 years and 2 months. This is a difficult but not an impossible task, even if it means complementing the underlying growth model—presently based on remittances and public investments—with policies aimed at attracting private-sector investments at the scale required to increase overall productivity. In this endeavour, banks play a central role. Data suggest—as contained in a solid body of economic research—a strong causality between access to credit and an economy’s (productivity) growth. In the Kosovo-specific context, there are two distinct views on whether banks play a sufficiently active role as development financiers.

One stresses high interest rates (including an unusually large spread between deposit and credit rates), conservative lending decisions, and a financial sector dominated by the quasi-oligopoly of three large, foreign-owned banks. This view would be consistent with (i) banks restricting credits to salary earners and a limited number of enterprises deemed credit-worthy, thus leaving important sectors of the economy without (or with insufficient) access to bank financing; and (ii) levels of, and differentials in, interest rates that exceed those prevailing elsewhere in Southeast Europe. Indeed, central bank data show that, for years, the interest rate spread has hovered around 10 percentage points and, as such, at levels considerably higher than in neighbouring countries.

The other view describes the financial sector in Kosovo as having been astonishingly resilient to the dramatic deterioration in the external environment. Its eight banks have remained well-capitalised and liquid. Throughout the

crisis, deposits and credits grew steadily, with deposit-to-loan ratios and non-performing loans (NPLs) having remained relatively low. At the same time, banks maintained adequate loan-loss provisions against adversely classified loans, meaning that NPLs have a limited impact on the banks’ ability to keep on providing credits to the private sector at the present rate.

Both characterisations are not a contradiction but, instead, flip sides of the same coin. Like in any other country, financial institutions in Kosovo seek to earn profits; they have an inherent interest in providing loans to businesses and households and taking advantage of the spread between credit and deposit rates. Higher loan-to-deposit ratios—at the same level of risk—imply increased profitability, not least against the backdrop of untapped demand for increased lending activities. Only about one of ten private-sector investments in Kosovo are (co-)funded by bank credits, most others remain self-financed.

In the debate on the banks’ role in financing development, the core question relates to the underlying reasons as to why they have been willing to buy government securities (which cannot be used for minimum reserve requirements) at rates of 2–3 per cent (depending on maturity), while restricting credits to the private sector at interest rates in excess of 13 per cent. The combination of three factors appears to explain this—a priori paradoxical—phenomenon.

First, whereas banking systems have been struggling almost everywhere in Europe, the largely deposit-funded financial institutions in Kosovo have remained profitable throughout the crisis. For this reason, they appear to try to “stay low” to preclude the deleveraging of their own balance sheets. Second, too many enterprises with potentially “bankable” projects have not yet made the



decision to formalise their activities, thereby blocking access to bank financing. And third, too few projects are, in fact, viable—partly because of insufficient collaterals, (the perception of) excessive risk, inadequate business plans, or unacceptable levels of financial reporting. In all three areas, reforms are ongoing. The structural health of the financial sector, complementing sound fiscal policies, represents a critical ingredient to Kosovo’s socio-economic development potential. It is thus crucial that the central bank—with the professionalism and prudence shown in banking supervision—continues to foster growth and stability in the banking sector. This would help to bolster foreign parent banks’ confidence in their subsidiaries’ abilities to remain profitable. Further, recent improvements in the overall business environment, as reflected in the latest Doing Business survey, have made it easier for firms to transition into the formal sector, thereby increasing the pool of potential bank clients. Ongoing cadastre reforms—enabling small and medium-sized enterprises (SMEs), including in the agricultural sector, to provide collaterals to banks—should do the same. Inversely, policy measures to improve financial reporting, auditing, accounting, and financial literacy will make it easier for banks to evaluate firms’ balance sheets, a difficult task in an environment of high informality, permitting especially SMEs to demonstrate that their project proposals are indeed feasible. Through

various projects, the World Bank is supporting Kosovo with many related reforms.

An additional factor contributing to the Kosovo-specific costs for credits have been the high rates that banks have had to offer on deposits, exceeding those in the eurozone. Here, one needs to ask why the private sector, especially Kosovo’s diaspora, has not taken more advantage of this situation. One reason seems insufficient confidence in the security of deposits. However, with the recent establishment of a deposit insurance fund, also supported by the World Bank, the authorities have sought to address this obstacle. There is now an institutional architecture in place that spans a safety net guaranteeing the savings of about 90 per cent of depositors. This will further increase their perception of security and should allow for deeper financial intermediation—a leading indicator of long-term economic growth.

A strengthened economic environment opens opportunities for increased competition and should gradually lead to a reduction in interest rates. As barriers are being removed, motivations inherent in any private enterprise will convince banks to take advantage of available business opportunities, resulting in stiffer competition amongst them. Thus, irrespective of whether financial institutions feel comfortable in the current “equilibrium”, they are about to enter into a new—and more dynamic—era of development finance.

# Banking Legal Framework

The introduction of the new banking law has introduced a vast number of novelties. The law has addressed also some of the matters which were not specifically regulated by the former rules and regulations, but also strengthening the capital and liquidity position of banks.

Kosovo's banking industry started its recovery and the beginning of a new era after the year 1999, with the establishment of the "Banking and Payments Authority of Kosovo" (today's Central Bank of the Republic of Kosovo). The introduction of UNMIK regulation 1999/21 on Licensing supervision and regulation of banks was the main regulatory legal framework on supervision and licensing of banks. Thus, on this ground, rules and regulations were issued on the supervision and monitoring of banks. The basis of legal framework as at the time was on the best banking practices (of the time) suitable for Kosovo's environment and on Basel I agreement. This legal framework with some changes and updates was in force up to April 2012 when the new law on Banks, Microfinance Institutions and Financial non bank institutions was approved.

Having in consideration the financial industry's specifics as a fast changing industry with a vast variety of products and fast changing external environment, it requires a prompt regulatory framework reflecting market trends and specifics in order to promote financial stability. Introduction of an updated framework was a necessity in today's modern banking industry; therefore Basel II agreement was reached and published internationally. The implementation of Basel II standards in the European Union was introduced by issuing and implementing Directive 2006/48/EC and 2006/49/EC, known as CRD - Capital Requirements Directive (the "Directives") that all member states were obliged to include into their national law by the end of 2006. The implemen-



GEM MALOKU

HEAD OF RISK  
MANAGEMENT SECTOR  
NLB PRISHTINA

tation of Basel II standards in EU has started on January 1, 2007, but the use of advanced approaches for calculating capital requirements for credit and operational risk, with prior approval of supervisors, was enabled from January 1, 2008. Although the Committee envisaged the implementation of Basel II standards, at least for internationally active banks, in the European Union these became mandatory, by means of Directives, for all banks. A different approach to the implementation of Basel II standards can be found, for example, in the United States, where its use is limited to only a small number of large internationally active banks. The EU directives introduced a supervisory framework in the EU, the main aim of which is to ensure the financial soundness of credit institutions and reflect the Basel II rules on capital measurement and capital standards. While the abovementioned regulations of the financial industry were taking place in the EU countries and member states of the Basel agreement, Kosovo's rules and regulations have had minor changes and updates. However, having in consideration the fragility of the industry and the recent financial crisis prevailing ever since the beginning of 2008 in the financial markets and economies of developed and developing countries, Basel Committee on Banking Supervision (BCBS) has finalized the Basel III framework as a response. Its main goal is to enhance bank and banking sector resilience to unexpected shocks and promote financial stability. The higher levels of capital, combined with a global liquidity framework, will significantly reduce the probability and severity of banking crises in the future. The Basel III requirements begin to take effect from the beginning of 2013 and will be progressively phased in by 2019. Transitional arrangements ensure that Basel III can be implement-

ed in all countries without impeding the economic recovery. All countries should adopt the Basel III agreements in their national laws and regulations in time for an effective implementation in 2013. In April 2012 Kosovo's Assembly approved LAW No. 04/L-093 ON BANKS, MICROFINANCE INSTITUTIONS AND NON BANK FINANCIAL INSTITUTIONS. Currently, the Central Bank of the Republic of Kosovo has prepared draft regulations on the implementation of the abovementioned law.

## MAIN CHANGES INTRODUCED BY THE NEW BANKING LEGAL FRAMEWORK

The introduction of the new banking law has introduced a vast number of novelties. The law has addressed also some of the matters which were not specifically regulated by the former rules and regulations, but also strengthening the capital and liquidity position of banks. Areas such as corporate governance are some of the novelties with the law. It is believed that some of the failures of some of the largest conglomerates and larger companies of today's modern economy have failed due to the failure of corporate governance structures within these companies. Thus, a more strict regulation of corporate governance structures within banks will enable greater stability, transparency and accountability. The new law defines and separates the independent nonexecutive directors from executive directors, increases the number of board level committees employed by independent non executive directors such as risk committee, in other words addresses more precisely the agency theory.

The increased level of initial capital from 5million Euro to 7million Euro is another significant change introduced by the law, which will introduce greater capital strength in particular for the new entrances in the market. Similarly, capital adequacy and calculation of risk weighted assets includes some of the requirements of Basel II agreement, by including operational risk on the calculation of risk weighted assets, based on the standardized approach or Basic Indicator approach. While currently the exposure towards market risk is considered immaterial by the Central Bank, regulations do not include market risk within the capital adequacy calculation. It is worth mentioning that the law and the draft regulations on banks introduce some of the requirements of Basel III agreement such as: on capital adequacy (the leverage ratio) and liquidity, by introducing liquidity coverage ratio and net stable funds ratio. While from the credit risk point of view the maximum exposure to a client or a group of related clients has been reduced from 20% of tier one capital to 15% of tier one capital (tier one defined by the regulation). Similarly, it is now defined the limit on the exposure towards related parties (physical persons) with the bank, maximum up to 10% of the Tier one capital. Also

the law currently defines and recognizes the IFRS reporting framework as a compulsory (statutory) reporting framework, including compliance with the rules and regulations of the Central Bank of the Republic of Kosovo, which are different in measurement and recognition of provision for loans and receivables mainly. It is to believe that the introduction of the new law will promote a more sound and stable financial and banking sector by strengthening the governance of financial institutions, strengthening the capital of new (banks) entrances, stricter monitoring of capital position for the existing banks, but also by reducing their credit exposure to the level which reflects banks capital strength of Kosovo's market. However, the implementation of the law will be associated with changes in the market which in particular will impact mostly banks with local capital by having to meet tighter capital requirements and increase the financial burden, by having to incur costs of preparing human resources and adopting their information technology structures ext. Instead, for the internationally active banks operating in Kosovo, most of the requirements of the law and the new draft regulations are already being implemented due to their group reporting requirements, due to the obligations of their parent companies towards the European Central Bank requirements including reporting as per IFRS. Such a characteristic introduced in Kosovo a stricter and more advanced monitoring of international banks even though the requirements of Kosovo Central Bank Rules and regulations remained in the light of Basel I agreement. Thus, such a position was an advantage for Kosovo's financial industry and an indirect contribution of the European Central Bank on the monitoring of international banks operating in Kosovo. Comparing the Kosovo's new legal framework on banks and financial institutions with the legal frameworks of countries in the region it is still to be considered not as a leader, even though progress has been made. The draft regulations of the Central Bank of Kosovo reflect the Basel II requirements only to the extent of inclusion of operational risk as part of capital adequacy calculation, while the requirements of Basel II agreement on credit risk remain to be excluded. Instead, most of the countries in the region (Albania, Macedonia (FYROM), and Serbia) reflect most of the requirements of Basel II agreement on credit risk and operational risk. The Basel III requirements reflected in the draft regulations of the Central Bank of the Republic of Kosovo include most of the requirements on capital management and liquidity. Countries in the region also reflect all the requirements of Basel III on their draft regulations with the exception of Macedonia (FYROM) where some of these regulations have a final status instead. work towards achieving better functioning of payment systems in general.

## The Future of Banking in Kosovo in Reference to Electronic Services

The banking sector in Kosovo offers a wide range of products and services to customers which are present at global level. Significant investments are being made from commercial banks operating in the Republic of Kosovo to create advanced technological infrastructure which delivers up-to-date electronic banking services. What is the real market response to existing banking electronic services and what are the future challenges of Kosovo to promote a cashless economy.

During the last decade, the banking sector in the Republic of Kosovo has experienced a sustainable growth both in assets and bankable population leading to a constant increase of knowledge and demand of the market about banking products and services. Currently, we have eight commercial banks operating in Kosovo where six of them are established with foreign capital. This combination of the sector brought innovations and creativity to the market where most of the commercial banks offer wide collection of products and services employing the most advanced technologies which are present at the global level.

The question is how the market is responding to current developments on technology based services offered by commercial banks?



DUKAGJIN  
SHYLEMAJA

DEPUTY CEO  
TEB S.H.A.

Currently the approximate number of bankable population in Kosovo is 400,000 where 99.6% of the people from this group have one bank account with one or more banks. The 80.9% of this group belong to the age intervals 18-45 and 19.1% belongs to 46-65 which leads us to believe that the banking population is relatively young. Out of the total number of banking population, 67.2% of them are employed which gives the nominal number of 268,800.1

According to the Kosovo Statistics Agency and Census of 2011, the total number of Kosovo's population is 1.73 million, a figure which tells us that 23% of the total population has one account in one of the commercial banks operating in the Republic of Kosovo. The majority of Kosovo's total population falls in the age interval between 15 - 64 consisting 65.26%, where the remaining falls between 0-14 with 28% and 65+ with 7%.

Considering the given data, the existing number of bankable population covers only 35% of market potential which is considered the age structure from 15 to 64. This information leads us to assumptions of how the non-bankable population functions without using any of the services of commercial banks. This explains that 75% of potential non-bankable market prefers "cash", classifying Kosovo as a cash economy.

Cash usage has a variety of associated costs and risks and it possesses continuous burden to the economy as a whole (informal economy) and to the commercial entities individually. Therefore, initiatives from the government level to sectorial and private individuals should take place in order to further develop necessary policies and infrastructures to discourage the usage of

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cash. But are the commercial banks doing their part? Looking at the existing portfolio of banking products and services available in the market, Kosovo is becoming a good model comparing to regional markets in the aspect of bringing to customers modern, innovative, and customized banking products and services. But the downside still remains the customers' demand and reaction toward this offer. Taking an overview of the existing market, the percentage of bankable population using a 'Debit Card' is approximately 44.7% and where 78.4% of them use it for the purpose of cash withdrawal from the ATM of commercial banks. Moreover, the percentage of bankable population using a 'Credit Card' is approximately 19%, and 8.8% use "Electronic Banking (E-banking)."

To address this issue of cash usage in the market and ongoing costs associated with this phenomenon carried out by different public and private entities, the initiative to look for the possible options and necessary projects to reduce cash transactions in Kosovo was initiated by The National Payment Council of the Central

Bank of the Republic of Kosovo (NPC) where members of this council are the Commercial Banks, the Kosovo Bankers' Association, the Treasury Department of the Ministry of Finance (Treasury – MF), and the CBK representatives. Within the NPC, a project management team/group has been established to actively engage themselves on the project of "Reducing Cash Transactions in Kosovo". The group is created by specialists of the field from the Commercial Banks, the Central Bank of Kosovo, the Kosovo Bankers' Association, the Treasury Department of the Ministry of Finance (Treasury – MF), the Public Companies (PTK, KEK, KUR Prishtina, etc), and the Kosovo Chamber of Commerce.

The aim of the "Reducing Cash Transactions in Kosovo" project is to investigate the possible incentives and identify necessary improvements and developments to encourage non-cash transactions among different market stakeholders by analyzing existing infrastructure in place, regulatory framework, payment legislation, regional or any of the European countries' best practices, European legislations on cash usage and pay-

ments systems, and statistical reports identifying the main indicators contributing to cash utilization instead of alternative channels.

During the first phase of the project, findings showed that main generators of cash in our economy are private businesses and public companies. There are legislations and regulations already in place enforced by Governmental institutions to discourage informal economy which reflects also on the cash usage. The results are positive and under improving trend but there is still a long way ahead. Public companies with the largest customer base, generating millions of turnover annually take a significant portion on cash circulation in the market. Besides the existence of banking infrastructure and various electronic payment alternatives and payment systems of the Central Bank of Kosovo (CBK), the working group data showed that out of 18 public companies, only 6 joined the two payment systems introduced by CBK (Kos-Giro and Direct Debit), and only 2 public companies (KEK and PTK) are actively using them. The working group data showed that around 80% of

public companies' invoices are paid in cash whereas the rest is paid at commercial banks through Kos-Giro or Direct Debit products.

On the other hand, only 22% of retail businesses in Kosovo are equipped with any of the banks' POS (point of sale) terminals. These indicators show that the penetration of these banking products in Kosovo is still at a low rate reflecting that the market alternative and payment means still remains "cash".

Furthermore, it was identified that there is a lack of awareness among customers for available non-cash payment methods. Cards are rarely used (in 59.5% of the cases only 1-5 times per month), mostly to withdraw cash from ATM terminals. The existing terminal infrastructure (ATM and POS) is growing at a faster rate than the average growth in the region. However, currently, in terms of terminals per 1 million people, Kosovo has the smallest number of ATMs in the region, 5 times less than Slovenia and 2 times less than Macedonia. Regarding POS terminals, Kosovo stands good when compared with the region. The number of card payments is increasing, however Kosovo still lacks behind other countries in Southeastern and Central Europe. Kosovo is ahead of Albania only, regarding the number of card payments per 1 million people<sup>2</sup>.

Another fact that was discovered on contributing to the cash economy is the distribution of pension funds to the retirees. Based on the regulations of the Ministry of Labor and Social Welfare (MLSW) of Kosovo about pension funds management, monthly pension payments received in the bank account, must be withdrawn in cash by the retirees. This regulation does not allow the retired to have any other service or banking product other than cash withdrawal. According to the Kosovo Statistics Agency, 2007 data, the total number of the retired persons in Kosovo is around 131,875. Every month this number of the retirees visits the commercial banks to withdraw their pension income and use it for different purposes only on cash basis.

Considering the phenomenon of cash usage in Kosovo, this topic was also widely discussed in the 'Future of Banking' forum organized by the Kosovo Bankers' Association in the Finance Fair, where the main areas of improvement were basically categorized into:

- Customer education program discouraging cash payments, explaining benefits of electronic services
- Standardization of payment instruments
- Technological infrastructure upgrades
- Legislation improvements/amendments

Referring to the above mentioned areas of improvement an immediate action on identified cash generating items should be addressed to impact the decrease of cash payments where areas of improvement would be:

- Standardization of all public companies' bills and integrate them in the payment systems (Kos-Giro, Direct

Debit) and POS Terminals.

Good reference for public companies on improving their billing system should be the current Tax Administration of Kosovo online platform on declaration of taxes and pensions. The platform allows businesses to declare their periodical tax obligations directly from their office without having to fill any hard copy and perform their payments at commercial banks or directly from E-banking or mobile banking platforms.

Same project logic is being developed by the Customs of Kosovo, where in the near future the importing companies do not need to visit any of the customs' points to perform the customs duties of their imported goods but it will be declared online.

- Public companies should consider developing platforms for the generation of electronic bills where customers will get the electronic bill via email or SMS and the payment can be performed directly at any branch of commercial banks or through e-banking or mobile banking platforms of commercial banks. Currently this method of payment is used for Cable or SMS Top-Up.

- Commercial banks should further expand their POS terminals network. However, there is a need for standardization and adoption of POS payment reporting (payment description/information) according to requirements of different businesses and institutions.

The standardization on reporting would help increase the network of POS terminals and the number of non-cash payments at many institutions and businesses such as: car registration facilities, insurance companies, etc.

- Provide educational programs to customers/market from all of the market stakeholders. It should be considered the VISA's Financial Literacy Programs performed in the different countries of the World, aiming to increase awareness of people in using electronic transactions, special importance to be given to the young people during these programs.

- Awareness Campaigns targeting business communities in order to educate them on costs associated with cash usage and alternatives of electronic systems on payments (payable Ē collection systems).

- Development of National Processing Center for Cards business.

- Bank Cards - Increase the number of cards - provide 360 degree incentives to customers to use bank cards.

- Enhanced Mobile Banking service through smart phones, currently widely used in developed markets for payment executions, which is a good potential for the Kosovo market.

- Laws Ē Regulations amendments targeting cash usage, by discouraging them.

## Lobbying and Advocacy at KBA during 2012

Kosovo Bankers' Association has participated in many legislative initiatives in the country, objectives of which were the regulation of the financial sector, the business environment in the banking sector, respectively. The Association has participated in the working groups in preparation of the draft law on banks, microfinance institutions and non-bank financial institutions; the draft law on mortgage registration in the registry for movable property; the draft law on payments; the amendment of the draft law on prevention of money laundering and terrorism financing; and the draft law on deposit insurance for financial institutions.

Kosovo Bankers' Association has not only attended all law initiatives, but it has also participated in many working groups in drafting regulations, mainly compiled by the Central Bank of Kosovo, for which the Association contributed through its banking expertise. The Association has also been the initiator of many regulations and changes through the best practices of daily work.

Following we present to you the work of two committees during 2012, that of the Compliance Committee and Finance Committee.

## Activities and Contributions of the Compliance Committee

Within the Kosovo Bankers' Association operate eight committees of different fields of the banking sector and amongst these, the Compliance Committee is of particular importance.

This committee consists of experts in the field of compliance from seven commercial banks members of the association, and it has an advisory role to the Association and bank management on issues related to compliance, anti money laundering, respectively.

Depending on the subject being treated, the committee collaborates and attends numerous meetings not only with its members but also with the Central Bank of the Republic of Kosovo, the Financial Intelligence Center/Unit, Courts, the Anti Corruption Agency, the Tax Administration and the State Agency for the Protection of Personal Data. Additionally, ministries of the Government of the Republic of Kosovo, including agencies which operate within these ministries and all other organizations whose base activity is within the financial sector of Kosovo.

The Compliance Committee's main goal is the unification of the internal criteria of banks in Kosovo related to compliance issues and implementation of international regulations to meet these criteria, based on the directives of the European Union.

The committee has also worked closely with the Central Bank through suggestions and comments on the secondary legislation, drafting of the regulations of the Central Bank that are related to the Law on Prevention of Money Laundering, respectively.

The Compliance Committee works closely with the Financial Intelligence Unit (FIU), in relation to the enforcement of the Law on Prevention of Money Laundering, especially on banks' obligations arising from this law and has also provided numerous suggestions and comments in amendments of the new Law on Prevention of Money Laundering.

In this regard, the committee also cooperates with the National Agency for the Protection of Personal Data in relation to the implementation of the Law on Personal Data Protection.

Other Compliance Committee activities are also focused on raising awareness of national institutions for compliance with the new guidelines USA - IRS (Internal Revenue Service), respectively, a regulation that is expected to enter into force from 01.01.2013 FATCA



KRENAR ÇELA

HEAD OF COMPLIANCE  
DEPARTMENT AT  
RAIFFEISEN BANK  
CHAIRPERSON OF THE  
COMPLIANCE COMMITTEE  
AT KOSOVO BANKERS'  
ASSOCIATION

(Foreign Account Tax Compliance Act). This regulation requires all financial institutions to sign an agreement or be subject to tax withholding by the United States. If financial institutions refuse to sign the agreement, the foreign financial institutions (FFI-Foreign Financial Institutions) and their clients will be obliged with 30 per cent of tax withholding of all the interest, dividends and sales income from sources of income of U.S. investments. The agreement will require from the foreign financial institutions to identify the U.S. customers and reporting them to Internal Revenue Service (IRS - Internal Revenue Service) on an annual basis. Nevertheless, after the entry into force, the implementation of this Regulation will be the base and condition of international banking collaboration, thus a fast and timely interaction of the Government of the Republic of Kosovo will be needed to conclude this agreement with the IRS, similar to the model applied by Switzerland and Japan.

The general role of the Compliance Officer in Kosovo's banking sector and mandatory models that are applicable in the European Union banks, has been discussed in various meeting of the committee. In this regard, there were various presentations organized by the Kosovo Bankers' Association (KBA), but also by the members of this committee, for the functional role of the Compliance Officer not only in the implementation/full compliance to the Law on Prevention of Money Laundering, but also for the proper functioning of this profile in terms of internal controls, such as prevention of internal corruption, fraud and the internal code of conduct in general.

The committee has also held numerous meetings with the Deposit Insurance Agency to discuss the Establishment of the Law on Deposit Insurance System for Financial Institutions in Kosovo.

## Tax Risk Management and the Banking System

The Finance Committee within the Kosovo Bankers' Association has been initiated last year for practical reasons. The formation of this committee reflects the need for a more coordinated approach to the financial sector in line with the constant changes of laws that directly affect the daily work of banks and other financial institutions.

The Finance Committee consists of eight members (seven of them are bank representatives and one microfinance institution (MFI) representative - heads of finance departments. One of the main duties of heads of finance departments at any financial institution is the responsibility of acting in full compliance with the legal obligations of the country. In this context, I would like to particularly mention the laws governing the tax system. Hereupon, this joint committee is important.

Even the composition of the committee members is of particular importance because it enables broad representation and attention to the voices and opinions of each member institution. On the other hand, the rich professional experience of its members qualifies this committee as appropriate to discuss for all issues related to changes in the business environment.

To illustrate the importance of issues discussed in this committee, initially, I would like to explain one of the risks that must be managed in any financial institution and that is tax management.

Today, tax management is an integral part of risk management, also often called tax risk management. This is due to the non-compliance with the tax system which results in financial losses for the institutions and at the same time contains reputational risk.

The most common factors that affect tax risk assessment are:

- a) changes in the laws of the tax system
- b) changes in the interpretation of tax laws, and
- c) other legal changes

Thus, the role of the the heads of finance department is the successful management of these challenges. As in other countries, Kosovo's banking system is also regulated and supervised. As a result of an effective supervision by the Central Bank of Kosovo and the successful management of banks, today Kosovo can be proud of its stable financial system.



REZAK FETAJ

SENIOR MANAGER AT  
PROCREDIT BANK  
CHAIRPERSON OF THE  
FINANCE COMMITTEE  
AT KOSOVO BANKERS'  
ASSOCIATION

However, we must not forget that the success of a system is not something that is achieved once and remains so forever. Instead, the success of any system, including the banking system, depends on the work, diligence and continued attention of all decision makers in society.

We believe that to ensure long-term sustainability of the banking system, continuous dialogue is necessary with all state institutions that affect the business environment.

In this regard, we as a Finance Committee, have contacted the representatives of the Ministry of Finance and the Tax Administration to explain the banks' perspective related to many changes needed in the tax system and other laws. In this context, we are interested to share our experience with the public institutions. Our attempts for dialogue reflect our belief that a genuine dialogue between the public and the private sector is the key to any success in the economy and society in general.

I have to emphasize that the results of these efforts in many cases are challenging. For instance, the attempts to clarify the effects of interpretations of tax laws that are related to the interest accruals, the VAT for the sold collateral, the handling of the costs for education and training or to get clear answers about the legal norms for the treatment of many expenses that arise during the daily work of the banks. We, at the committee, believe that it is of mutual interest to create a better business environment as a guarantee for economic development. It is the starting point that unites us and it is the reason for being in permanent contact with the public institutions. The other point is the willingness to take into consideration the opinions and ideas of each other.



**Paguaj me kartelë, pa provizion!**

# Direct Answers from the Heads of Corporate Departments



## KOSOVO, A GROWING POTENTIAL FOR BUSINESS INVESTMENTS

### ALBION MULAKU

HEAD OF THE CORPORATE DEPARTMENT,  
BANKA KOMBËTARE TREGTARE

#### 1) What are business loans? For what purpose do they serve?

Business Loans are funds issued to companies for different business purposes, such as: investing in current business activities, expanding the business, investing in a new business field, improving financial liquidity, investing in fixed assets, etc.

#### 2) What conditions must be completed to be qualified for obtaining a business loan?

The information that justifies issuing the loan and demonstrates the ability for loan repayment, good prepared financial statements, company's credit report, general information on the company's industry are some of the key requirements. The company must be well established and in business for at least 18 months. Business plan and the impact of that investment in the future of the business activity of the client, is also a very important aspect that is taken into consideration in the process for approving the loan.

#### 3) How do the interest rates of these type of loans vary? Is there a possibility to intervene in the interest rate applied? What is the allowed amount of business loans (how do they vary)?

In corporate business most of the products are tailor – made due to the specific nature of the companies that apply for those products. We are very flexible when applying the interest rates and loan amounts, which will be indicated from elements such as: business type, the risk associated to financing a specific sector, company's ability to repay, loan purpose, credit history, client relationship with the bank, range of products that the company is using, etc. The only loan amount limit applied is according to CBK Regulations related with the amount of equity of the bank.

#### 4) What is required to cover these loans? What kind of collateral is acceptable? How is the risk calculated on these loans and do these loans make a large risk?

Depending from the cli-

ent and the risk linked to the product, movable and non-movable collateral is required to cover these loans. In some cases cash collateral is utilized. Due to the large amount of the loans the bank places special attention to collateral, and it calculates the risk based on different factors connected to the business of the client. Special attention is given to the business plan, profitability, assets, cash flow, turnover, industry where they are operating and the one where they are investing, management and experience on the business and other related factors.

#### 5) How do you characterize the business credit market in Kosovo? What are the advantages and disadvantages of the credit market business in Kosovo?

Considering that Kosovo is a relatively new in the lending market, commercial banks and the CBK have managed to develop very well this sector by continuously increasing loan portfolio with minimal NPL (non-performing loans) compared to the region.

Kosovo has a growing potential for business investments both local and foreign. With many sectors needing investment, development and growth, business sector is in high need for financial support and this gives great opportunities for banks to support them. However, due to the financial crisis in the Eurozone, currently business credit market is being characterized with businesses already facing high loan exposure and thus making it difficult and highly risky to further finance and support them. Because of the overexposure of the clients, banks are dealing with increasing loan delays. Another negative aspect is the function of the legal system and the delays banks face when dealing with problematic cases in some courts. Overall, the banking sector in Kosovo is considered to be very healthy and stable. This stability is due to advanced criteria and procedures applied for loan assessment, which subsequently results in high quality loan portfolio in the business credit market.

This rubric comes closer to you with the main aim of informing you more on the business loans, the criteria that should be fulfilled to qualify for these loans, the applied interest rates and the comparison with the region. All of these answers can be found below directly from the heads of corporate departments of commercial banks that operate in Kosovo, members of the Kosovo Bankers' Association



## INTEREST RATES ARE DETERMINED BY THE BUSINESS SIZE

### ARBEN FERRI

HEAD OF CORPORATE DEPARTMENT, TEB SH.A.

#### 1) What are the requirements that need to be met to qualify for a business loan?

Requirements that must be met to obtain a business loan are as follows:  
- Client's capacity for loan repayment, by taking into account the investment plan, the existing capacity and additional capacity created by the loan usage.  
- Client's credit history, through which the client's correctness towards banking institutions is proven, as well as the managerial ability in terms of investments  
- Collateral is important as means of protection in case there is a failure of the investment plan or any other failure. Through these means the bank realizes it's funds through court procedures to recover the amount of the loan  
- Economic criteria: the sector in which the business operates and its

trends, its position in the market, the risk from new entrants, the risk from the product substitution etcetera.

#### 2) Do interest rates vary for these types of loans? Is there a possibility to modify the interest rate applied? What are the allowed amounts of business loans (do they vary)?

In normal conditions the interest rate is closely associated with the project risk, however, interest rates in the banking sector are determined by the size of the business where small loans are calculated as more prone to failure and have higher interest returns, whereas the interest on corporate loans is lower as a result of reliable customer assets and the market position. The interest rate is applied until the end of the loan term and can be re-negotiated in succeeding cycles

in accordance with the requirements set by the bank. The amount allowed for the business loans depends on the size of the business (assets, sales, net profit) to meet the above mentioned capacity criteria.

#### 3) What type of coverage/collateral is required to cover these loans? What kind of collateral is acceptable?

Business loans must be covered with collateral of different nature depending on the amount. For small loans up to 20,000 euros movable asset is accepted in the form of goods, equipment and vehicles. Collateral must be clearly specified and identifiable. For loans over 20,000 euros, mortgage is required which should cover 150% of the loan

value. Mortgage ownership must be clearly defined and the property must have a clear physical separation if there is more than one owner. These loans constitute greater risk in cases where the client's repayment capacity is not taken into account but is solely based only on the size of the collateral

#### 4) How does Kosovo stands in relation to other countries in the region when comparing business loan market?

Compared to other countries in the region, Kosovo has a smaller degree of lending, as the source of financing for these loans is based on country deposits. This lending model provides greater stability on one hand, but, on the other hand, the absence of additional source of capital prevents access to credit and the full use of potential.



## BUSINESS LOANS IN KOSOVO SIMILAR TO THOSE IN THE REGION

### ARTOR BERDYNA

DIRECTOR OF SALES, BANKA PËR BIZNES

#### 1) What are the requirements that need to be met to qualify for a business loan?

To qualify for a business loan at BpB, customers must meet the following requirements:

- Have a registered business with the Ministry of Trade and Industry (MTI)
- Have an operational business, show monthly turnover and have an attractive business
- Have minimum 6 months turnover through a bank account
- Have a good credit and loan repayment history
- Have clear business plan (purpose of loan/purpose of investment)
- Generate sufficient revenues to return annuities or funding (overdraft, trade finance)
- Be able to develop the business through the generated revenues
- Have a knowledgeable management team that knows how to run a business and have a clear plan for the future etc.

#### 2) Do interest rates vary for these types of loans? Is there a possibility to modify the interest rate applied?

#### What are the allowed amounts of business loans (do they vary)?

Interest rates for business loans range from 9.8 up to 12.5% depending on:

- Loan purpose/destination
- Loan type
- Loan maturity
- Client's relationship/cooperation with BpB

Depending on the client's relationship with BpB, the credit committee may grant the client an interest rate that is different from the standard published rates. The bank may also apply preferential conditions of its products and services for targeted clients.

Business loan amounts depend on:

- The type of the client (a small business, medium business or corporate business);
- The business plan of the project being financed/supported
- The projected revenue plan
- The likelihood of loan repayment, respectively the level of the business development
- The regulatory and legal requirements etc.

#### 3) What type of coverage/colateral is required to cover these loans? What kind of colateral is acceptable?

**How is risk calculated for these types of loans and are they associated with high credit risk?**

For any approved loan, colateral is required as an insurance coverage and the types of colateral can be:

- Mortgages (land, house, local business, apartments) - minimum 100% of the loan amount, which should be intabulated at the cadastral office
- Cash cover - 100% of the loan amount (cash cover loan)
- Guarantee from any other bank that covers 100% of the loan amount

#### 4) How does Kosovo stand in relation to other countries in the region when comparing business loan market?

- The conditions offered for business loans in Kosovo are approximately the same as those in the region.



## PROCREDIT BANK WILL CONTINUE TO BE A LEADING BUSINESS PARTNER IN KOSOVO

### BESNIK BERISHA

SENIOR MANAGER, PROCREDIT BANK

#### 1) What purpose do business loans serve?

Within the full banking services, ProCredit Bank focuses on business financing by providing loans and other banking services tailored according to the individual needs of its business clients. The focus of our bank in the financial support of small and medium enterprises is based on the importance of these enterprises in sustainable economic development stimulus in Kosovo. We are also convinced that these businesses create the largest number of jobs. Therefore, in addition to offering quality services to its private clients, ProCredit Bank also focuses on the financing of businesses in Kosovo.

The purpose of business loans is to meet the financial needs of businessmen in relation to the management and further development of their business. We support the Kosovar business owners when they wish to expand their existing businesses to a new business, to increase their profits, or start with production. It is important to men-

tion our banks approach in financing local businesses to make long-term investments. In this context, ProCredit Bank is a key partner in enabling businesses to be successful, to benefit from fast and quality banking services and building long-term relationships. ProCredit Bank officers specializing in customer relations management offer transparent advice to clients based on sound financial analysis. This responsible approach allows us to build long term relationships based on mutual trust.

#### 2) What are the requirements that need to be met to qualify for a business loan?

As I previously mentioned, ProCredit Banks lending principles are based on sound financial analysis by providing tailored treatment based on the individual needs of each business. We do the same for the requirements that must be met to qualify for a loan - overdraft, line of credit, bank guarantee, credit cards for business, electronic banking services for businesses etcetera.

To explain how this is applied in practice, I will mention ProCredit Bank's current offer, the Credit Limit service offer which is designed to meet the financial needs of businesses. The value of Credit limit is determined on the basis of one analysis only (an analysis that the bank provides free of charge) where we estimate the credit potential of a business. The amount of approved credit limit depends on the potential of the business which can then be used whenever the client needs within a period of time. Thus, the Credit Limit can be used in a way that best suits the businesses.

#### 3) How do the interest rates vary for this type of loan? Is there a possibility to modify/intervene in the applied interest rate? What is the amount allowed for business loans (do they differ)?

ProCredit Bank applies competitive rates for business loans. We have continuously reduced interest rates on loans and as a result of this trend, interest rates have marked

gradual reductions. This facilitation has been done to support local businesses and to stimulate Kosovar business owners to expand their businesses. The reduction of the interest rate at ProCredit Bank is also the result of the experience gained after a long relationship with clients and a better understanding of their activities, including interventions in the interest rate.

It is also important to mention that varying interest rates applied in lending depend on, the loan amount, loan maturity, as well as the type of investment that the loan will be used for. Business loan amounts range from a few thousand euros to several million, always acting in accordance with the local regulations on capital.

Competitive rates for business loans offered alongside a range of other facilitations for the business community enable them a repayment period up to 10 years, long-term investments, quick decision-making based on the individual analysis of busi-



LOAN BEHAVIORAL COMPONENTS  
AND COLLATERAL

**JOHANNES  
RIEPL**  
MANAGEMENT  
BOARD MEMBER,  
RESPONSIBLE FOR  
CORPORATE  
RAIFFEISEN BANK  
KOSOVO

CONTINUED FROM PAGE 32

nesses and other facilitations to the sector.

**4) What is required to cover these loans? What kind of collateral is acceptable? How is the risk calculated for these types of loans and do they pose a great risk?**

ProCredit Bank applies quite a flexible approach regarding the required collateral.

For example, through the current loans for business, we offer loans up to 50,000 euros without mortgage.

**5) How do you describe the business loan market in Kosovo? What are the advantages and disadvantages of this market in Kosovo?**

This market is characterized by competition and many challenges. However, we at ProCredit Bank are proud to have played a leading role in the development of business loan market in Kosovo and their outcome in the economy. Through our business loans, many businesses have realized major projects, expanded their business capacity and have also increased the

number of employees. We will be dedicated and continue to be the leading partner of businesses in Kosovo, always based on our banks' mission and direction towards development lending rather than consumer lending.

**1. Which are the conditions that a business has to fulfill in order to be qualified for a business loan?**

A business needs to have a long term sustainable business in order to qualify for a business loan at Raiffeisen Bank Kosovo.

**2. Which are the interest rates for these loans? Is there a possibility to modify [change] the applicable interest rate? Which is the amount of the business loans you issue (how do they vary)?**

The interest rate depends on several factors: the credit standing, length, structure, and collateral are important. Also the behavioral components (credit history, transparency, turnover routing) are taken into consideration. Any of these factors influence the interest rate significantly.

**3. What is required to cover (guarantee) these loans? What kind of pledge is acceptable? How is the risk for these kind of loans calculated and do those loans rep-**

**resent a high risk?**

The collateral depends on the type of the loan. For an investment loan any type of fixed asset or equipment is accepted. For leasing the leased asset is usually the collateral. For factoring, accounts receivable are accepted as collateral.

**4. Where does Kosovo stand regarding the business loans when it is compared with the countries of the region?**

Certain types of loans are not yet offered or under represented in Kosovo. Products such as leasing, factoring and structured trade finance are not yet at the level of neighboring countries or not yet available at all. Raiffeisen Bank Kosovo is offering leasing successfully for five years now and will start offering the other two products in 2013. Debt market financing (e.g. corporate bonds) are not yet available. Bread and butter products are available by all banks in Kosovo and are on the qualitative level compared to the neighboring countries.

THE BUSINESS LOAN MARKET  
IN KOSOVO IS OF SPECIAL  
IMPORTANCE

**OSMAN OSMANI**  
DIRECTOR OF CORPORATE DIVISION, NLB PRISHTINA

**1) What conditions need to be met to qualify for a Business Loan?**

To be eligible for a Business Loan the following requirements need to be met:

- Business must be registered in Kosovo and have at least 6 months of successful operation
- Business must be licensed for the operation of the specific activities (if required by law)
- Business must have an account at NLB Prishtina and have monthly turnover/
- Good credit history (if a previous loan beneficiary).
- Reliable cash flow and loan eligibility
- Justification for a loan request
- Be able to provide collateral (pledge or mortgage) if necessary (depending on the amount of the loan)

**2) How do the interest rates vary for these types of loans? Is there a possibility to intervene in the interest rate applied? What is the amount allowed for business loans (how do they vary)?**

Depending on the scope and type of the loan

product, interest rates for the business loan range from 1.5% to 13.8% annually.

There is not any possibility for intervention on the interest rates that were previously applied (active loans) until the end of the contract, with the exception of any specific contract.

The minimum amount allowed for a business loan is 200 euro, whereas the maximum amount depends from the customer's loan eligibility, turnover with the NLB account, the purpose of the loan and collateral coverage.

**3. What are the collateral requirements for these loans? What type of collateral is acceptable? How is risk calculated and are these types of loans associated with greater risks?**

Depending on the loan amount, business loans must be covered with pledge and mortgage. For loans up to 30,000 euros only mortgage is required (work tools, equipment, cars, trucks, etc.) which must be valid, whereas for amounts above 30,000 euros pledge and mortgage is

required (land and business premises, houses/homes and other real estate property that have value).

Calculation of the credit risk for business loans is determined by a number of factors, such as: the organizational structure of the enterprise, the activities, liabilities, the ownership structure, the value of the enterprise, the size of the enterprise, previous and future position in the market, capital, liquidity of the enterprise, credit capacity, collateral, management, domestic legislation, judicial efficiency etc.

Given all these factors, it can be concluded that businesses loans pose quite a high risk.

**4. How do you characterize the business loans market in Kosovo? What are the advantages and disadvantages of this market?**

The market for Business Loans in Kosovo has a special importance and this is proven by the participation of over 60% of business loans in the total loans in the country, also taking into account that local businesses are a driving force for the

economic development of the country. Business loans have an impact in the development of enterprises by enabling them to have a better financial position, be competitive in the market, launch new products, create new jobs and fulfill the needs of their businesses. Consequently, the growth and development of businesses directly impacts the country's economic growth and development.

The advantages of the business loan market in Kosovo are: easy access to finance, direct impact on the development of the enterprises and indirect impact on the country's economic development. On the other hand, a disadvantage of the business loan market in Kosovo is the high credit risk, non transparent financial statements and informal economy, where all of these factors affect the cost of these loans

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PROFESSIONAL BANKING  
EDUCATION - UP TO DATE WITH  
CURRENT DEVELOPMENTS

## ARBEN SALIHU

TRAINING MANAGER  
KOSOVO BANKERS' ASSOCIATION

most of them being from the banking and finance sector. Whereas, during the first half of 2012, thirteen individuals were certified in the EFCB program, while 14 others are currently pursuing a preparatory course for certification which will take place in March 2013.

Professional banking education, along with other factors is one of the main drivers of the development of this sector in Kosovo.

With the recent developments in the field of finance, the question is how these changes are affecting the field of professional education in the finance sector. The initiation of the treasury bills and the adoption of the 'Law on banks, microfinance institutions and non-bank financial institutions' during the first half of this year are an evidence of development of a movement to further promote the sector. This, indeed, contributes in the development of activities and banking operations which eventually will lead in the change of tactics.

These changes and innovations in the sector have contributed to the change of the Training Centers' focus in the approach and the prioritization of training topics. During 2012, the KBA Training Center, as one of the largest banking education providers in the banking sector, in cooperation with its members developed a program based on the changes and situation of the banking sector. Some trainings from the last year were completed with several additional topics that related to the changes. The new legislation has led banks to take into account issues such as audit and internal control, risk management and reporting, the gradual development of a secondary market for securities, etcetera.

Bank officials and managers from different banks and the microfinance sector have attended trainings such as Audit and Internal Control, International Financial Reporting Standards (IFRS), financial applications in MS Excel, advanced training in taxation, leadership and team development and management.

As of the first half of November 2012, 120 individuals have attended trainings at the KBA Training Center,

**A New Approach**

In Kosovo, as in many other countries that are going through these types of changes, the human capacity has also begun to be seen as the main source of success of a financial institution. Issues have emerged on how to advance the staff beyond the theoretical dogmas and management best practices. This year, the KBA Training Center, has adopted a new approach in general trainings – by adding the human capacity and personality in trainings related to management and leadership.

Through understanding of the human nature and personality, the personal aspects of communication at work and influence of personal habits in the work culture, we can be more efficient in our work and be able to overcome some of the problems with greater ease.

KBA has applied innovation in several areas of training, which are in line with world developments of professional and personal education of staff. Notably, in the area of the development approach to people, the KBA Training Center held two programs with a focus on personality, group dynamics, conflict and rumors and the application of this knowledge in management and leadership, including other implications.

The training 'Leadership and Team Building' held in May by the Belgian expert Jean-Yves Neu, was focused on personality approach in managing staff or different teams, how different types affect performing of duties of different nature, how personality affects team communication, how to recognize the personality of the person you are negotiating with, and how to exploit this knowledge to establish cohesion within teams and staff. The program is based on the Myers Briggs Type Indicator (MBTI) methodology which is a system of personality categorization based on the

**LESNA**  
Institucion Financiar Jo Bankar

- **Kredi Individuale**
  - Kredi Konsumuese
  - Kredi Kesh
  - Kredi për Edukim
- **Kredi për Biznes**
- **Kredi për Blerjen e Banesave dhe Lokaleve Afariste**
- **Kredi për Bujqësi dhe Blegtori**
- **Kredi për Blerjen e Veturave**
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theories of Carl Jung. Participants were satisfied with the new knowledge acquired which they will be able to use in different daily matters of the management. The training was attended by officials and leaders of various fields in the banking sector.

'Managerial Skills – a psychological approach' is another training that has provided current insights, however, that have been so far untouched in the field of professional training in our country. Participants had the opportunity to get to know their personality and how it relates to the results of their work; why are they capable in some work duties and slow in some others; how to recognize personalities of their coworkers, job applicants and management and how to communicate with different types of personalities.

#### International Partnership In Trainings

International cooperation and technical support from international institutions of education and banking development has enabled the development of standards and training policies in line with those of the developed countries.

For the past six years, KBA together with the World Bank, has organized high-level trainings with internationally renowned experts in their respective

fields of expertise – which will eventually lead in better preparation for international markets and provide our contribution to the international memberships and involvement.

KBA Training Centre in partnership with Agency for Transfer of Technology in Finance (Agence de Transfert de Technologie Financiere – ATTF) in Luxembourg, also provides certification and trainings for our members' staff in different areas of banking and finance. During this year, over ten people have attended trainings and certifications abroad and six more are expected to attend these trainings by the end of the year.

KBA is also an accredited member of the European Banking and Financial Services Training Network (EBTN). As a result of this cooperation, the international (EFCB) certification program with the support of USAID/KPEP was developed. The trainings and certifications in general banking knowledge has already begun. Besides the EFCB certification, Kosovo Bankers' Association keeps abreast of new developments in Europe and in the world by participating in regular member meetings and by showing commitment to other projects that are of benefit for the banking and financial sector in Kosovo.

## KBA'S EFCB PROGRAM, A KEY SUCCESS IN THE IMPLEMENTATION OF USAID'S KOSOVO PRIVATE ENTERPRISE PROGRAM



MAURY WRAY BRIDGES

USAID KPEP CHIEF OF PARTY

December marks the conclusion of a major US-AID private sector development-focused economic growth project in Kosovo. The \$21.87 million Kosovo Private Enterprise Program (KPEP) focused on support to targeted sectors (including construction, agriculture, wood processing, information and communications technology (ICT), and tourism), business support services, business enabling environment, and workforce development. KPEP's partnership with the Kosovo Bankers' Association showcased support in the area of business support services – providing strength to associations, and also in workforce development.

Workforce development plays a key role in strengthening the economies of all nations, Kosovo included. Beginning with the project's start in 2008, USAID KPEP's workforce development strategy for Kosovo involved identifying skills needed in the economy and then introducing demand-driven curricula, training and practical skill-building programs to build the institutional capacity of multiple institutions involved in workforce development.

Among these institutions was the Kosovo Bankers' Association (KBA), an industry group that shares KPEP's goal of promoting Kosovo's long-term economic development. "We were pleased to support this program with KBA," stated Ms. Maury Wray Bridges, program director, "as it is a strong example of bringing internationally recognized quality

standards to raise the competitiveness of the workforce in Kosovo."

To meet that goal, USAID KPEP contributed 73,000 Euros to the KBA to help launch its European Foundation Certificate in Banking (EFCB) program. The program certifies locally employed junior bankers against European standards. The training and certification provides bankers with a reliable and recognizable way of developing their careers. It allows participants to deepen their knowledge and understanding of the monetary and economic environment in which European banks operate; customer, product and service requirements; and the fundamentals of marketing, management and ethics.

USAID supported the KBA's EFCB program to do more than just aid those currently working in Kosovo's banking industry. It also provided assistance with the understanding it would pay off for all of Kosovo in the years to come, as a better qualified workforce helps to expand employment, increase the competitiveness of the local economy and further the nation's integration with the rest of Europe.

So far, the number of trained and internationally accredited students is over 40, including the bank employees who participated. The legacy of KPEP's work continues, as KBA continues to provide EFCB training. A group of 14 trainees began the program in October.

Already, KBA's work in preparing for accreditation of its certification program by the European Bank Training Network has helped further align Kosovo's banking management and banking practices with international, and especially European, standards.

USAID is proud of its role in helping the KBA through its Kosovo Private Enterprise Program to further the growth of Kosovo's banking industry as well as the broader economy. Learn more about how KPEP has assisted Kosovo overall in its first four years as an independent nation by visiting [www.usaidkpep.org](http://www.usaidkpep.org)

## Bazat e Afarizmit Bankar | EFCB

*European Foundation  
Certificate in Banking*



fitoni njohuri dhe certifikatë bankare

krijoni vetes përparësi gjatë rekrutimit në banka

përfitoni nga certifikata e njohur ndërkombëtarisht



# Mobile Banking Bëni pagesat tuaja në lëvizje shpejtë dhe sigurt - 24/7

Për më shumë informata rreth regjistrimit apo programit,  
kontaktoni Qendrën e Trajnimeve në Shoqatën e Bankave të  
Kosovës:

- 038 246 171
- [kbatraining@bankassoc-kos.com](mailto:kbatraining@bankassoc-kos.com)
- [www.bankassoc-kos.com](http://www.bankassoc-kos.com)



SHOQATA E BANKAVE TË KOSOVËS  
KOSOVO BANKERS' ASSOCIATION



BANKA PËR BIZNES

*mundësi për më shumë...*

# News from the banks

## Loan with 7% interest rate from Banka Kombëtare Tregtare (BKT)

Banka Kombëtare Tregtare has launched its newest offer - Personal Loan with 7% interest rate, the lowest interest rate in the market so far. This is the first time that a loan with such a low interest rate is being offered in Kosovo. Through this offer BKT is attempting to respond to the financial needs of Kosovo citizens by helping them fulfill their needs.



Employees of all public institutions who receive or transfer their salaries with Ban-

ka Kombëtare Tregtare can benefit from this offer. The offer includes personal loans of up to 5,000 euros, with a maturity period of up to two years, without administrative fees or guarantors. Moreover, the interested clients can also take advantage of '2 in 1' accounts without maintenance fees, by taking advantage of the 3% interest rate, a free debit card, Prima credit card, maintenance-free in the first year, with the possibility to pay up to 12 installments at 0% interest rate (by arrangement with the dealer) and an overdraft limit up to one salary, without administrative costs.

## Banka për Biznes (BpB) – The first bank in the region offering mobile banking services



Banka për Biznes launched its newest product which provides more opportunities for its customers. Our bank has decided to increase the duration of loans for physical persons from 60 months (5 years) as it has been so far, up to 96 months (8 years). Customers will be able to use this loan for various personal needs, such as: building and buying a house, buying an apartment, and purchasing land for construction. We believe this innovation will significantly support families in the realization of their basic needs.

In addition, BpB, as one of the first banks in the region that offered Mobile Banking services, now supports the service even for ANDROID as well as the IPHONE. This option is now available for all phones that have GPRS or WiFi and all other platforms. We are particularly pleased that with this service we are in a position to support the specific requirements of a large number of Kosovars with modern world standards which are now readily applicable in our country.

Mobile Banking allows easy and safe access from your device to your account: to view your balance, the amount available in the card, transfer funds between your accounts and third parties. In a nutshell, you have a full banking structure, at your fingertips. Mobile Banking is available on all mobile networks.

## Innovation in the Banking Market

ProCredit Bank launches the latest security platform for safe online purchases ProCredit Bank clients who are holders of VISA (Classic, Globe, Enterprise),



Maestro or Master Cards, can now make their online purchases through the newest 3-D Secure platform, which enables safe Internet purchases.

This new service in the banking sector allows Internet purchases with personal identification number iPIN, provided for the first time to Kosovo citizens, ProCredit Bank clients.

The security of funds is always a top priority for the largest bank in the country. Hence, seeing the increasing trends of online shopping from the citizens of Kosovo, ProCredit Bank has launched the 3-D Secure platform which strengthens security measures for payments/purchases over the Internet. To take advantage of the 3-D Secure platform, customers can apply for an Interent PIN (iPIN) in any of the 150 ATMs of ProCredit Bank in Kosovo. iPIN is a four-digit number required when buying online at various websites as an additional tool for confirmation of the purchase.

Therefore, ProCredit Bank's 3-D Secure platform enables businesses and private individuals to make safe Internet purchases

## Invoice Payment with TEB

For the first time in Kosovo, TEB Bank offers its clients the opportunity to pay all their invoices at TEB branches through Starcard with installments.

Through its innovative and creative concept of product development, TEB Bank has launched the service of invoice payment for all public institutions and other institutions as well, through Starcard with installments, in every TEB branch.



BNP PARIBAS JOINT VENTURE

Through this service, you can pay different invoices such as: electricity, telephone, taxes, water, car registration, insurance companies' payments, customs payments, traffic tickets and all other invoices.

This service contributes to the efficiency of the invoice collection process of the public institutions and others as well, and helps their financial stability.

Furthermore, clients are the ones that will benefit the most, because they will have the opportunity to divide their payments in installments and at the same time they will save their time through executing all their invoice payment transactions at one place only, TEB Bank.

## BKT contributes to society



Banka Kombëtare Tregtare has paid special attention to the social responsibility by considering it as a continuous priority. As a result, it has occasionally developed projects related to the environment and the community to contribute to the development of society and raise awareness to preserve and maintain the environment.

BKTs concept of social responsibility under the motto 'Contributing to Society' has served to the provision of qualitative products and services, the creation of employment opportunities and the continuation with the sponsorship support for various cultural, sports and educational activities.

BKT has been the general sponsor of Kosovo's Super Basketball League for two consecutive years; participant and sponsor of the several gala evenings to benefit the ill children of Kosovo, sponsor of the Blind Association of Kosovo; scholarship sponsor of honor students from the college 'Mehmet Akif'; sponsor of the initiative, 'Let's clean Kosovo', etc.

The continuing growth of Banka Kombëtare Tregtare in Kosovo, currently operating with 23 branches, is based on its strategic goal to become the number one bank in the provision of financial products, continued growth of the market share, and maintain the leading position in the diversity of products, new technologies, innovative strategies and offered interests.

## World Savings Day at ProCredit Bank

ProCredit Bank has continued its tradition of marking and celebrating the World Savings Day on October 31. Bank employees have paid particular attention in informing and advising the clients on savings and ways on how to save, with the aim to raise awareness among citizens for the benefits of savings.

With the motto 'Important Things You Should Know About Savings', the marking of this day in Kosovo was accompanied with practical tips on how everyone can save, depending on their income. Savings are important because there are moments in life when money is needed urgently and it helps to avoid the risk of being in debt. It is not necessary to have a lot of money to save, it is sufficient if you set aside small



amounts of money, but, in a regular way. These are just some of the advises on which ProCredit Bank informed its customers.

## ProCredit Bank invests in city parks in Prizren, Podujevë and Gjakovë

In line with the environmental campaign 'It's our country. Let's keep it clean', ProCredit Bank has invested in three parks in Prizren, Podujevë and Gjakovë, by investing in a public space of 72417 m<sup>2</sup>. Placed in highly frequent locations by citizens, the three parks were equipped with greenery, seats and baskets. ProCredit Bank investments in the arrangement of the parks, on the one hand reflect the need for more public green spaces in Kosovo, while, on the other hand, they reflect a contribution to the environment of a responsible financial institution.

It is important that dozens of plants in Prizren, Podujevë and Gjakovë are retained and available



for future generations. Therefore, ProCredit Banks' message is to keep our environment and surroundings clean and act responsibly by not damaging it.

A responsible approach towards environmental protection is an integral part of social responsibility at ProCredit Bank and a value integrated in our banking philosophy.

## ProCredit Bank collects hundreds of plastic bottle caps to help people with disabilities



ProCredit Bank has joined a unique environmental initiative to help people with disabilities, by collecting plastic caps since May 2012. Hundreds plastic caps have been collected for recycling purposes, to buy wheelchairs for people with disabilities, who cannot afford to buy them.

ProCredit Bank was pleased to join this initiative

started by Kushtrim Ahmeti, a Kosovar university student in Turkey, who has contributed to change the way the environmental protection is viewed by raising money for people with disabilities.

By participating in this initiative, ProCredit Bank has contributed to a cleaner environment while at the same time it has provided support to people with disabilities and their families.

## TEB supported the 'Children with Autism' conference

As always, TEB Bank contributed ones more in social activities. TEB Bank this year has been the sponsor of the "Children with Autism" conference which was organized by the Children of Kosovo Foundation.

In this conference, there were participants such as: the General Director of TEB Bank - Alp Yilmaz, the President of the Albanian Children Foundation - Mrs. dr. Liri Berisha, the Deputy Prime Minister of Kosovo - Edita Tahiri, the Minister of Health - Ferid Agani, representatives from the Presidency, from the Ministry of Education, ambassadors and representatives from different countries, and doctors and parents of children with autism.

The aim of this conference was to raise awareness of the general public and competent authorities about the problems associated with children autistic disorders, as are the possibilities for early diagnosis of their right to their orientation, treatment and support of families that have children with autism as well as the possibility of establishing a center for autistic children in Kosovo, which would be of great national importance.



# Kosovo Bankers' Association in 2012

Kosovo Bankers' Association (KBA) is pleased to present its activities that took place during this year. As in the previous years, the Association has continued to be an important voice of the banking industry, through cooperation, involvement and participation in many discussions and various events by acting as representatives of the banking sector and its financial interests, as well as contributing to the economic development of Kosovo in general.

KBA has been the initiator of many activities this year by establishing cooperation and attention to the many issues of interest for the finance sector. Among the most important activities held during this year which have contributed in the awareness as well as in the improvement of the business environment in Kosovo are:

## The Finance Fair 2012

For the fifth time in a row, Kosovo Bankers Association (KBA) has organized the Finance Fair 2012, which was held at the Swiss Diamond Hotel Prishtina, on September 27th and 28th, 2012. Participants included commercial banks operating in Kosovo - KBA members, microfinance institutions, insurance companies, business consulting companies and service providers, information technology and telecommunications companies, as well as creative design and production companies.

Amongst activities organized during the fair was the forum 'Finance for Development' in which it was assessed that the banking system in Kosovo is sustainable and has achieved a high level



of reliability from the citizens. Discussion panelists included representatives of the World Bank, the European Bank for Reconstruction and Development and other economic experts from academia and the banking sector in the country, who estimated that businesses in Kosovo face difficulties either due to the failure of functionality of institutions in the country, or due to various difficulties encountered during their financing. The main challenges for financing in Kosovo include non-registration of cadastral ownerships, unsuccessful functioning of courts and non-transparency of enterprises in their financial reporting.

In the forum 'The Future of Banking', a special focus of discussions was the use of electronic banking products. Discussion panelists were representatives of commercial banks in Kosovo, representatives of the largest companies in Kosovo providing in-



formation technology services, as well as representatives from the Central Bank of the Republic of Kosovo. Discussion panelists assessed that Kosovo has a developed infrastructure for the use of electronic banking products and that the future of banking services should be concentrated on the latest global developments in banking services via mobile phones, while the main challenge remains the increased number of users of these services.

On the other hand, during the second day of the fair two forums were held 'Small and Medium Enterprise Financing' and 'Finance Industry Regulation'. Forums emphasized that small and medium enterprises are very important for the development of the economy and that the main problems are the use of cash, tax evasion, non-presentation of business plans from companies, unreliable financial statements, unaudited financial statements, problems with the pledge and cadastral registry and a weak judicial system. This forum was supported by the SME Support Agency of Kosovo, which operates under the Ministry of Trade and Industry (MTI), by joining their activities organized within the Small Business Days 2012, with the same aim, to promote and advance the entrepreneurship activities and strengthen the dialogue between the stakeholders.

In the second forum 'Financial Industry Regulation', it was agreed that with the approval of the new 'Law on banks, micro-finance institutions and non-bank financial institutions', the legal

infrastructure in Kosovo has come close to international standards required under Basel II and Basel III. It was also estimated that the banking system is stable and sustainable; however, this stability must be maintained through improved regulation in accordance with global developments.

## The 'Child & Youth Finance International' Regional Meeting

In its efforts to increase financial education and awareness about the banking system, Kosovo Bankers' Association (KBA) has participated in the regional meeting 'Child & Youth Finance International' for Europe and Central Asia, held in Brussels on 6th and 7th November, 2012. The meeting gathered in one place leading experts, practitioners and innovators from across the region who are engaged in the issues of access to finance and financial education for children and youth.

The topics that were a focus of the meeting were: Exploring ways to reach the agendas of regional bodies and policy-makers, the regional policymaker's declaration on financial education and financial inclusion of children and youth, and an emphasized



## The 'Regional Capital Markets' Conference - New Opportunities for Kosovo Firms

Më datën 15 nëntor 2012 u mbajt konferenca njëditore për Tregjet regionale të kapitalit në hotelin "Emerald" në Prishtinë. Kjo konferencë u organizua nga Shoqata e Bankave të Kosovës (SHBK) në bashkëpunim me Ministrinë e Financave të Republikës së Kosovës dhe Departamentin e Thesarit Amerikan. Qëllimi i mbajtjes së kësaj konference ishte përfshirja e diskutimeve dhe prezantimeve nga ekspertët e regjionit lidhur me mundësitë dhe parakushtet për kompanitë kosovare për t'iu qasur kapitalit në tregun regional ndërmjetësuese/brokerëve dhe kërkesat ligjore dhe rregulloret e duhura për emetimin e letrave me vlerë nga firmat e Kosovës. Në këtë konferencë ka pasur përfaqësues nga Bursa e Zagrebit, Bursa e Maqedonisë, përfaqësues nga Bursa e Tiranës dhe nga kompania shqiptare e brokerimit të licensuar 'AKSIONER International Securities Brokerage' në Tiranë, Shqipëri. Fjalime dhe analiza ka pasur edhe nga Bedri Hamza, ministër i Financave, Gani Gërguri, guvernator i Bankës Qendrore të Republikës së Kosovës, Robert Wright, kryetar i Bordit të Shoqatës së Bankave të Kosovës, Anne Schwartz nga Thesari Amerikan, Maureen Shauket, drejtore e Misionit të USAID-it në Kosovë dhe nga Leslie Sulenta, kryesuese e programit Partnerët për Stabilitet Financiar (PSF). Kjo konferencë shërbeu për të theksuar rëndësinë që tregjet e kapitalit kanë për zhvillimin ekonomik të vendit, angazhimin për të pasur një treg të shëndoshë financiar dhe një stabilitet makroekonomik dhe fiskal.

commitment from stakeholders to bring 'Child & Youth Finance' in the region.

This conference will have a positive impact in Kosovo, by initiating a campaign organized by KBA to increase financial literacy and to raise the public awareness regarding banking products and services, as well as the functioning of the banking system in general. Some of these activities are the workshops that will be held with the economy journalists in Kosovo, who cover events in the banking sector in the media. This objective is aimed to be achieved through various projects, as part of the global and European efforts to increase financial education.



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