I. Abstract

The Kosovars faced continuous economic and social discrimination during the 1990s, a decade that ended in war in 1999. The post-war economy was marked by high unemployment and the country lacked social and political stability. It was necessary to strengthen the private sector to ensure, let alone promote, Kosovo’s socioeconomic development. The private sector depended on micro enterprises and small- and medium-size enterprises (SMEs), which could generate employment, strengthen the economy, and improve Kosovars’ social life. However, there was a dearth of investment capital and policies supporting the private sector, and Kosovo had no bank of its own.

Based on the experiences of microfinancing in Bosnia and Albania, the Kosovo Micro Enterprise Bank (MEB Kosovo) was established in 1999 to provide loans to small businesses, as well as usual banking activities. MEB Kosovo helped generate employment and revenue through its services and included the local population among its staff. By 2002, MEB had disbursed €47 million (around US$44.3 million) through 6,800 loans to micro and small enterprises. MEB Kosovo gave ordinary people the means to sustain their life, and became a dependable, commercially oriented source of credit and other financial services for micro and small businesses.

II. Background

The Kosovar economy and way of life were severely hit by war in 1999. In that year, Kosovo’s estimated Gross Domestic Product (GDP) was US$1–1.5 billion and the unemployment rate hovered around 74 percent (UNDP figures). Thus, besides ensuring peace, there was a need to generate revenue, create employment, and increase exports for economic recovery and sustainable growth; these could be done by strengthening the private sector.

During the 1990s, the private-sector contribution to Kosovo’s overall economy was improving, and private enterprise’s share in the country’s GDP increased from 47 percent in 1996 to 80 percent in 1998. However, political instability after the 1999 conflict made it difficult to attract substantial foreign investment and encourage a large-industry sector (particularly businesses with more than 250 employees), when only 58 out of 156 public enterprises were operating. In 1999, the private sector generated around US$750 million in revenue, with 75 percent of that coming from SMEs; the average annual firm revenue...
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was US$112,500. By 2000, there were approximately 18,000–20,000 micro enterprises and SMEs in Kosovo, of which about half were functional. Among the active enterprises, half were micro enterprises (with fewer than six employees), and almost 5,000 were SMEs, like gas stations and restaurants. The growth of SMEs was an attractive priority for Kosovo in terms of job and wealth creation. SMEs required a level of capital below US$100,000 and could utilize Kosovars’ entrepreneurial potential. Also, the new enterprises faced fewer legal problems of state and social ownership.

Kosovo had no banks of its own after the conflict. The Kosovo Micro Enterprise Bank was established in late 1999 as a joint initiative of International Finance Corporation (IFC), the European Bank for Reconstruction and Development (EBRD), and the German firm Internationale Projekt Consult (IPC). MEB Kosovo aimed to improve the generation of employment and revenue through microcredit loans to micro enterprises and SMEs. The first branch of MEB Kosovo opened in Pristina near the UNMIK (United Nations’ Mission in Kosovo) headquarters, with substantial funding from the Dutch and German governments. In January 2000, with an initial capital base of US$2 million, MEB Kosovo became the first bank in post-conflict Kosovo to receive a banking license from BPA (Banking and Payments Authority of Kosovo).

The micro lending bank is one of dozens operating in impoverished regions around the world. MEB Kosovo provides services like account management, foreign exchange, money transfers, and loans and transactions to small enterprises or individual customers, and works (as stated below) to:

- Ensure an increased availability of credit to as wide a range as possible of SMEs.
- Achieve high loan and interest repayment rates so as to ensure continued flows of funds to creditworthy SMEs.
- Reinforce recent reforms in the financial sector introduced by UNMIK to help re-establish basic credit management capacity and loan administration skills of newly emerging banks, and to assist SMEs by increasing financial discipline and planning capacity through the credit process.

III. Impact/Results

During and after the conflict in Kosovo, MEB emerged as a key player in providing financial services. By August 2000, MEB Kosovo had balances of more than US$53.2 million, was serving 22,000 clients, and had built a loan portfolio of US$1.2 million, comprising 311 loans to small and medium enterprises. Despite the 100 new accounts being opened each working day, demand exceeded supply. During the first 10 months,  

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3 IFC is a part of the World Bank Group; its mission is to promote sustainable private sector investment in developing countries, so as to reduce poverty and improve people’s lives. IFC finances private sector investments in the developing world, mobilizes capital in international financial markets, and provides technical assistance and advice to governments and businesses. Since its founding in 1956, IFC has committed more than US$31 billion of its own funds and arranged US$20 billion in syndications for 2,636 companies in 140 developing countries. IFC also offers an SME Capacity Building Facility in developing countries for small business projects that are innovative, replicable, sustainable, and that involve close partnerships with outside organizations. IFC offers project development facilities, or regionally based capacity building facilities, to strengthen small enterprises through provision of technical assistance and capital.
MEB reported a profit of US$2.3 million, with total deposits reaching US$75 million. Although the bank operated in one of the world’s most difficult business environments, strong repayment rates took its initial portfolio of US$500,000 in small loans to nearly US$5 million by the end of 2000. MEB Kosovo led to a high level of overall earnings and the Kosovan economy grew at an estimated 16 percent in 2001.4

The initial success of MEB Kosovo served as a model for setting other financial institutions. In June 2000, the partnership between IFC and IPC was extended through a US$85 million joint initiative to start up commercially viable micro credit banks in 11 other countries, including Romania, Bulgaria, Moldova, Georgia, Kazakhstan, Macedonia, Philippines, and Ghana.

By November 2002, MEB Kosovo had disbursed €47 million (around US$ 44.3 million) through 6,800 loans to micro and small enterprises. MEB Kosovo raised its limit for individual loans from €10,000 to €100,000 (roughly US$9,500 to US$95,000) to enhance its positive impact on the Kosovan economy.5

The success of the small enterprise sector in cities is visible through MEB-financed SMEs such as gasoline stations and restaurants, which are operational on every block.6 Presently, MEB has seven branches operating across Kosovo, with 100,000 individual account holders (including salaried employees).

MEB Kosovo has 22 automatic teller machines (ATMs) across 13 cities, with an in-house processing center, a card-issuing center, and a network linking the ATMs to the processing center. The MEB account holders are eligible for MEBXCard (a debit card) without paying any additional charges. With MEBXcard, account holders can access their money at any time, throughout Kosovo. The Point-of-Sales (POS) terminals, installed at restaurants, supermarkets, and shops, facilitate payment by MEBXCard and help reduce cash circulation in Kosovo.7

IV. Key Elements of Empowerment

Information

Information on the experiences of other banks was quite helpful to MEB Kosovo. For instance, loan interest rates were intentionally kept high at MEB Kosovo, so as to attract profit-oriented companies, capable of paying off the loans. This was done to prevent what had happened twice in Bosnia, where low-interest loans were issued to companies that went bankrupt within a year or two, and took the banks down with them. The strategy has

7 For more information, please see: http://mebkosovo.com/mebxcard/
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proved successful for MEB Kosovo so far. The knowledge of best-practice management systems also helped MEB establish rapid commercial viability in its operations.

Training and information-related programs were conducted to instruct the local workforce in banking and acquaint the bank staff with new technology. Information based on the experiences of MEB Kosovo will be vital to prospective MEBs.

Inclusion/Participation

1. Project partners

The stakeholders in MEB Kosovo included Commerzbank AG of Germany, the German government, the Netherlands Finance Investment Organization, the Foundation for Enterprise Finance and Development, Internationale Micro Investmenten AG of Germany, and Micro Enterprise Bank Bosnia, which itself is backed by the EBRD and IFC. This partnership among organizations and inclusion of various agencies helped in successfully starting MEB Kosovo.

IFC’s successful partnership with the German firm Internationale Projekt Consult GmbH was extended through a US$85 million package of grants and equity investment to start up commercially viable microcredit banks in several other countries, including Romania, Bulgaria, Moldova, Georgia, Kazakhstan, Macedonia, the Philippines, and Ghana.

2. Inclusion of people

Recruiting promising and motivated personnel from the local population helped MEB Kosovo grow quickly. MEB Kosovo’s start-up activities included training, fundraising, and management support services. The local people hired as banking staff were included in these activities. For instance, the local database administrators, technicians, and help desk operators were extensively trained to ensure smooth operations of the ATMs.

Presently, 270 MEB Kosovo employees are involved in continuous training at Kosovo and abroad. Ongoing training in various areas of expertise and a carefully designed personnel policy have helped make employees one of the key factors behind MEB Kosovo’s success.
Box 1: Banking at Mitrovica

The differences between ethnic Albanians and their former Serb oppressors seemed to jeopardize Kosovo’s social life even after the conflict. Mitrovica, a town in northern Kosovo is separated by a river, and the Albanians and Serbs lived in the southern and northern parts of the town, respectively. At the center of Mitrovica, there is a highly secure area called “the confidence zone,” accessible to all ethnic groups. In September 2001, MEB Kosovo started a branch in this zone, bringing the people of Mitrovica closer together.

The staff is multi-ethnic, and is one of the very few commercial multi-ethnic ventures in Kosovo today. The plan initially troubled MEB Kosovo’s all-Albanian staff, but the Mitrovica branch went on to add Serb staff. Later, MEB Kosovo opened an information office in Northern Mitrovica, which is also a base for the loan officers to work from. However, banking services are only offered at the confidence zone branch. In first three months, the branch had 4,985 clients and had disbursed 147 loans for €852,000 (around US$763,000) to micro and small enterprises on both sides of the river.

MEB Kosovo loans have also been extended to women and minority entrepreneurs. Women’s participation can also be expected to increase with a general need for labor among the growing enterprises.

In a society like Kosovo, where institutional structures are only just emerging or are in transition, sporting activities, especially team sports involving youngsters, play a key role in promoting social integration. MEB Kosovo supports this process by sponsoring basketball, volleyball, and football clubs like the Pristina basketball club (a popular club in Kosovo) and tournaments across the country.

Local Organizational Capacity

Small businesses are playing an important role in nurturing a grassroots economic recovery in Kosovo. The micro and SMEs operational at various places across Kosovo foster entrepreneurship, new jobs, flexibility, and social stability.

The sustained peace and economic development fostered through SMEs were supported by the MEB Kosovo, which quickly became a key part of the Kosovar payments infrastructure. The Kosovars had strong business proposals in abundance and MEB Kosovo started showing a profit after only six months of financial services to low-income clients. MEB Kosovo gave ordinary people the means to provide for their own livelihoods, and became a dependable, commercial-oriented source of credit and other financial services for micro and small businesses, which form the backbone of the Kosovar economy. MEB Kosovo is now even authorized to issue Mastercard credit cards.

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and its MEBXCards can be used to access cash anywhere in the world starting in July 2003.

The capacity of MEB Kosovo as an institution could be strengthened through promising and motivated personnel from the local population. By December 2002, 265 people were working for MEB, up from 220 at the beginning of the year. Consultants provided intensive training to young and motivated Kosovar trainees, who in most cases lacked any banking experience. They received on-the-job-training with similar microcredit banks in Albania and Bosnia. This led to improved management at MEB Kosovo, which in turn yielded positive results within a short period.

Besides sports activities, MEB Kosovo also sponsors fine arts and music events, which are important components of Kosovo’s cultural identity. For instance, it supported the Art Gallery of Kosovo, local music festivals, the International Film Festival “One World 2002,” and the International Chamber Music Festival in Pristina.

V. Issues and Lessons

Critical Issues

• Kosovo’s sustainable reconstruction depended on private sector contributions, and the international community was committed to providing the aid money. In addition, the UNMIK worked on necessary legal and administrative structures. However, a host of unsolved problems impaired private investment. For instance, ownership issues and the absence of a fair and transparent privatization process delayed the privatization of large Kosovar conglomerates. Thus, small businesses in the services and trading sectors were the only ones able to lead the recovery.

• The SME sector offered great prospects for Kosovo’s economic regeneration. However, the Kosovar SMEs faced additional problems at the local level because of:
  ▪ A poor legal and regulatory environment for business and investment
  ▪ Sub-standard infrastructure
  ▪ Political uncertainty and security threats
  ▪ Low levels of technological and managerial skills, and
  ▪ A collapsed financial sector.

To successfully operate in a free market economy, the SME community needed effective and affordable business advisory services and training in local institutional development, in addition to finance.

• Opening a bank was just an initial step in the long process of rebuilding Kosovo. After 10 years of misrule by Belgrade, made worse by the 1999 conflict, the Kosovar economy had been reduced to little over a barter system. Unemployment was widespread and the infrastructure, such as telecommunications, needed upgrading.

9 Source: http://mebkosovo.com/mebxcard/.
• In Kosovo, conducting business—even the simple task of making a bank deposit—was difficult; people had to travel several hundred miles with the threat of bad roads, snowstorms, and bandits, just to reach a bank in Albania. With MEB Kosovo, banking became far more convenient for the local population.

Box 2: Managing Safety Issues

The United Nations peacekeepers administering Kosovo provided MEB Kosovo with a building affected by a bomb blast in the middle of Pristina. The Bank’s general manager, also faced a threat from a cadre of the Kosovo Liberation Army demanding rent for the property. The manager agreed to their demand, provided that they open a checking account with MEB Kosovo.

The MEB Kosovo manager’s duties are somewhat different than those of a typical bank executive; for instance, he travels in MEB’s second-hand armored car to guard weekly cash runs to the airport.

• In 1999, while recruiting MEB Kosovo staff, the experts from PIC looked for and trained university graduates below 30 years of age. Since the universities were effectively closed to Kosovar Albanians during the 1990s, because of economic recession followed by war, the pool of qualified individuals was small. Still, MEB Kosovo has succeeded in recruiting some promising and highly motivated personnel from the local population.

• In post-conflict Kosovo, both land and property lacked clear entitlement of ownership. There were no trademark or copyright laws, and a decade of economic discrimination imposed on the ethnic-Albanian majority suggested that most MEB Kosovo customers had no credit history at all. These conditions caused MEB Kosovo officials to create a policy of making loans only on collateral they could carry away. For instance, a cough-syrup maker had to pledge a brand-new refrigerator, a stereo, and a washing machine before getting a US$9,000 loan.

• The demand for MEB Kosovo loans exceeded expectations. Around 600 loans were approved in less than eight months, and new clients kept arriving in such numbers that the staff, at that time not adequately trained, could not handle them properly. However, MEB Kosovo has emphasized training from the beginning and presently 270 Kosovar employees are involved in training programs.

• The bank appeared to be less concerned about the borrowers’ business activities, as long as the enterprises were profitable and loan repayments were made on time. According to an MEB Kosovo branch manager, loan recipients probably included black marketeers. He had heard about the clients giving tips to border guards and seen product invoices doctored to avoid customs duties. But he remarked that


such behavior could not be classified into good or bad at a place without any rule of law.  

Key Lessons

- A bank that caters to the smallest businesses is an antidote to the economic marginalization caused by lack of access to credit.
- A reasonable balance between social and economic goals can result in the sustainability of a financial institution. MEB Kosovo demonstrates how a properly structured, specialized financial institution targeting the poor can earn profit to ensure long-term sustainability and contribute to the overall economic development.
- Lending to poor clients can be profitable, provided that it is done with a suitable and efficient lending technique, such as guarantee and interest criteria. MEB Kosovo’s experience demonstrates that it is indeed possible to grant, with tolerable costs and a low repayment default rate, microcredits to people who are not considered creditworthy by conventional bankers.
- Small businesses can be vital in nurturing a grassroots economic recovery. They encourage entrepreneurship and job creation. Targeting minority groups and women can improve socio-political stability and facilitate a faster “normalization” of Kosovar society.
- MEB Kosovo is making a vital contribution to social development by serving the customers in whom other banks apparently have no interest. In addition, we well as helping create jobs in the small enterprises it finances, the bank itself offers many young people skilled employment.
- Setting up a microfinance bank in a developing country involves four phases:
  1. Project identification: determining whether a bank, or other organizational entity, is needed and would help meet development objectives.
  2. Assessment: determining whether a bank would be economically sound and politically feasible.
  3. Reaching provisional consensus among potential investors and sponsors who would be responsible for setting up the bank and managing it at the beginning. In addition, knock-on financing from one or more donors must be secured.
  4. Developing a business plan, which forms the basis for a binding commitment by the investors, the sponsors and, if applicable, the donors.
- For improved performance, a micro-enterprise bank needs to include certain provisions matching those of regular banks, such as performance-related pay or promotion prospects for skilled employees. The bank staff needs training and motivation for delivering better services to the target groups.
- The success of new banks promotes their employees’ commitment and loyalty. The opportunity for within the institution for the best local staff can strengthen their motivation and retain them.

• Similar microfinance projects involving the same partners, who are known to each other and are successful in a fast and effective handling of the process—such as the IFC and the IPC in the given context—offer opportunities for transferring knowledge and qualified staff from one site to the next. This helps manage the loans department better and trains the local staff before opening the institution.

• The introduction of supervisory bodies like BPA can facilitate the establishment of financial institutions like MEB Kosovo in a war-torn economy.

• The existing banking regulations need to be assessed so as to determine any areas requiring changes, and suitable accountability mechanisms are also needed to ensure that the SMEs are not involved in illicit practices.

**Outlook**

With the growth of the SME sector in Kosovo, one can expect significant economic impact and poverty alleviation over the coming years through reduced unemployment, increased GDP, and improved human development indicators.

In the long run, MEB Kosovo envisions the provision of technical assistance and training to newly established banks to strengthen the foundations of the local financial sector. Moreover, with expansion of the Kosovar SME sector, there will be a need for more such banks.  

VI. Further Information: References and World Wide Web Resources

**References**


Enterprise Development. 2001. “Action Program Part 3, €49.5 Million.” Kosovo, October. URL: [http://www.ear.eu.int/kosovo/kosovo-a1c2c3c4a5.htm](http://www.ear.eu.int/kosovo/kosovo-a1c2c3c4a5.htm)


[13] Source: [http://www.ear.eu.int/kosovo/kosovo-a1c2c3c4a5.htm](http://www.ear.eu.int/kosovo/kosovo-a1c2c3c4a5.htm).


Terms of Reference: Technical Assistance to Support the Development of Kosovo’s SME Support Infrastructure. URL: http://www.etf.eu.int/etfweb.nsf/pages/downloadbycountryfiles/file/EARToRsETTprops.doc


**Web Links**

Conversion Rates—Yearly Averages. URL: http://www.amb-usa.fr/irs/rates.PDF

MEB Kosovo Website. URL: http://mebkosovo.com/