FONDI KOSOVAR PËR GARANCI KREDITORE
KOSOVSKI FOND ZA KREDITNO JEMSTVO
KOSOVO CREDIT GUARANTEE FUND

IMPACT Report

KCGF 10-YEAR ANNIVERSARY

INTRODUCTION

Over the past decade, the Kosovo Credit Guarantee Fund (KCGF) has established itself as a key instrument for improving access to finance for micro, small, and medium enterprises (MSMEs) in Kosovo. By sharing credit risk with financial institutions, KCGF has enabled lending to businesses that would otherwise face constraints due to insufficient collateral or limited credit history, supporting private sector development and economic growth.

Through its operations, KCGF has successfully delivered on several core development objectives:

1. EXPANDING ACCESS TO FINANCE:
Facilitated over €1 billion in lending, enabling thousands of MSMEs to access formal credit, including a significant share of first-time borrowers.

2. STRUCTURAL IMPROVEMENTS IN CREDIT CONDITIONS:
Reduced collateral requirements by up to two-thirds, extended loan maturities, and increased loan sizes, making financing more accessible and better aligned with investment needs.

3. PROMOTING FINANCIAL INCLUSION:
Increased access to finance for underserved segments, including women-led businesses, start-ups, and firms in rural areas.

4. SUPPORTING JOB CREATION AND FIRM GROWTH:
Enabled business expansion and contributed to employment growth across supported firms.

5. ENHANCING FINANCIAL SECTOR PRACTICES:
Influenced partner financial institutions to adopt more inclusive and flexible lending approaches, including tailored financial products and improved loan terms.

KCGF has implemented these objectives through a diversified strategy of targeted guarantee windows, addressing key sectors such as agriculture, exports, renewable energy, women-led businesses, start-ups, and diaspora investments. This approach has allowed KCGF to respond flexibly to market needs while supporting strategic areas of economic development. Its impact has been reinforced by strong partnerships with financial institutions, comprising banks, microfinance institutions, and leasing companies, as well as development partners such as the Government of the Republic of Kosovo, USAID[1], KfW Development Bank, Sida, European Investment Bank among others. These collaborations have expanded market outreach, strengthened risk-sharing mechanisms, and enhanced the overall effectiveness of the guarantee scheme. Overall, KCGF has evolved into a key development institution, contributing to a more inclusive, resilient, and efficient financial ecosystem in Kosovo.

1 USAID supported KCGF in its early stages through assistance with drafting the Law on KCGF, its establishment, technical expertise and initial capital injection, contributing to the operationalization and capitalization of the institution, as well as the signing the first guarantee agreements with registered financial institutions.

SECTION 1 – KEY METRICS – KCGF AT A GLANCE

Cumulative Achievement in Approved Loan and Guarantee Amount

Cumulative Approved Loan Amount	Cumulative Guarantee Amount	Cumulative Number of Loans Guaranteed	Cumulative Number of Businesses Supported
Eur 1.08 billion	Eur 555 million	Over 21,000	About 12,000

Impact on Financial Inclusion and Job Creation

Women in Business	First time borrower	Indirect jobs created
1,827 women in business supported or 15% out of total number of businesses supported	3,411 first-time clients supported or 29% out of total number of businesses supported	34,952 jobs created or 24% increase in employment (as reported by businesses)

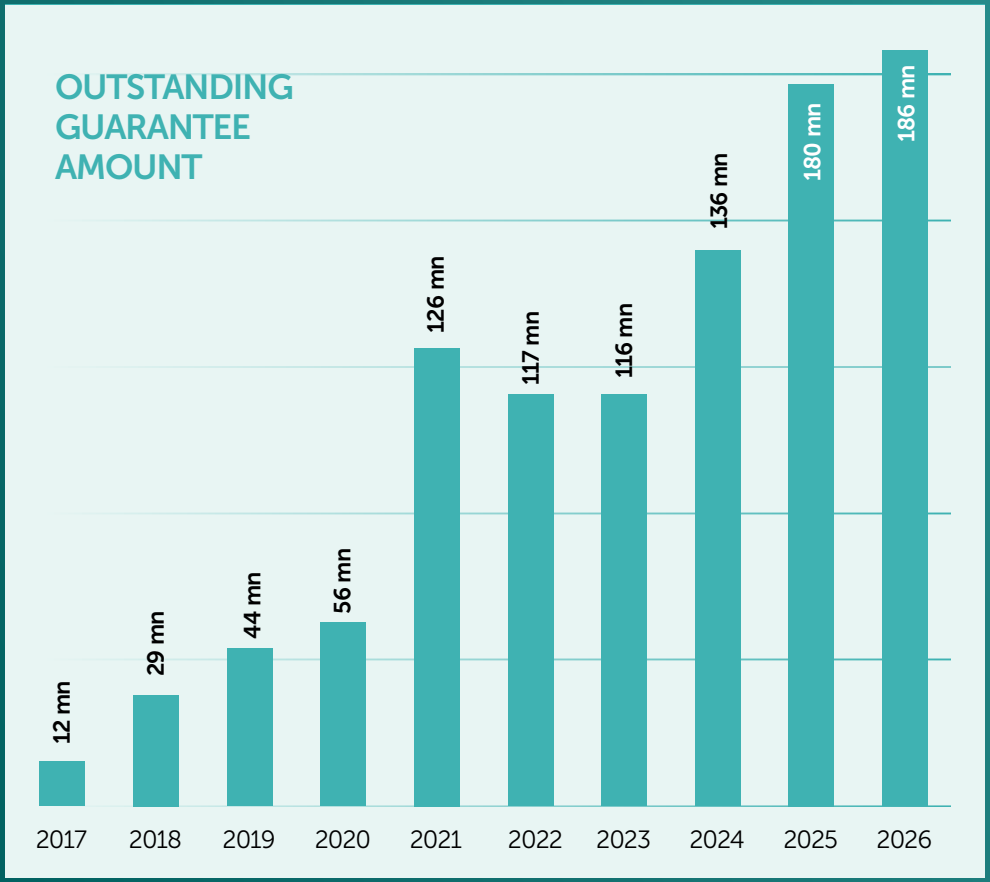
EUR 109 mn
Committed Capital

Claim Processing

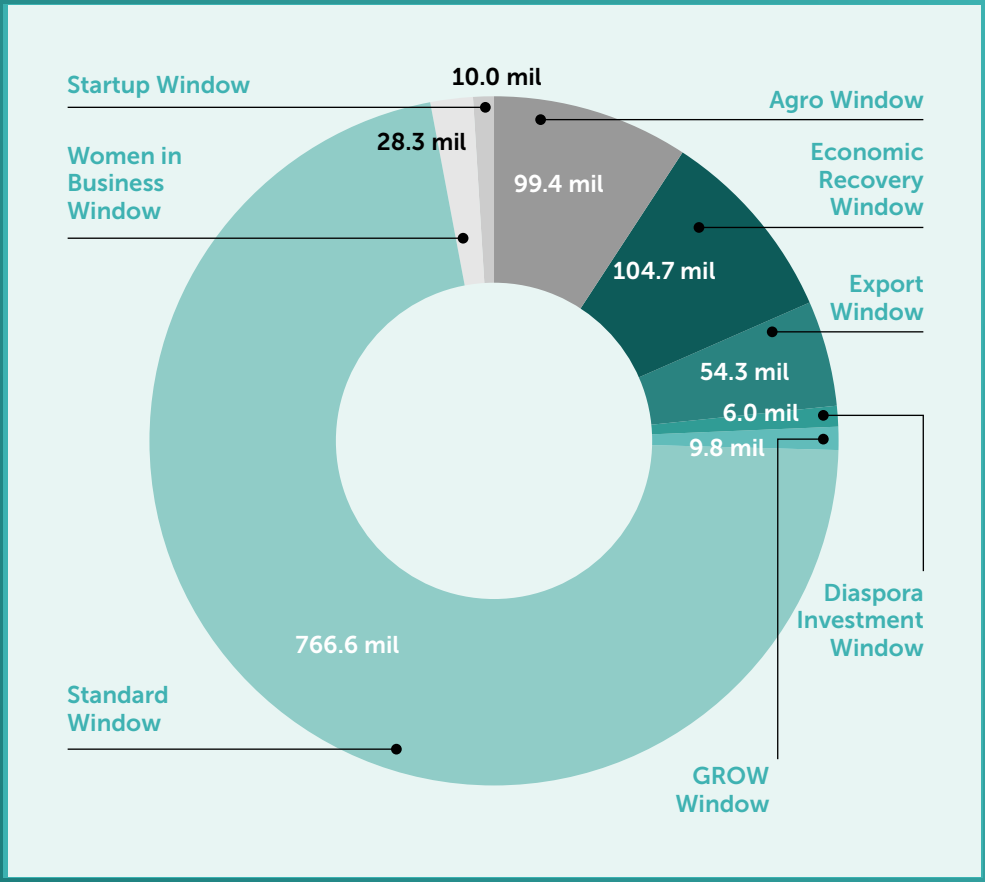
Cumulative Claim Amount	Number of Loans Claimed	Claim Processing Time
Eur 5,2 million	376	5 days

EUR 1.08 bn
Loan Amount Facilitated to Micro, Small and Medium enterprises (MSMEs)

KCGF DEVELOPMENT OVER THE YEARS[2]

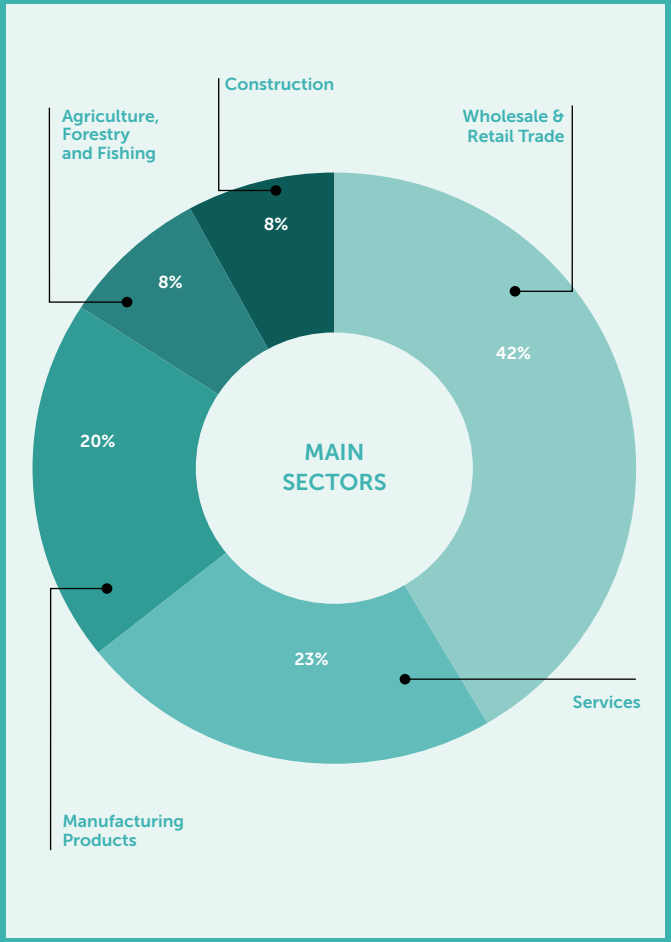


CUMULATIVE APPROVED LOANS BY GUARANTEE WINDOW

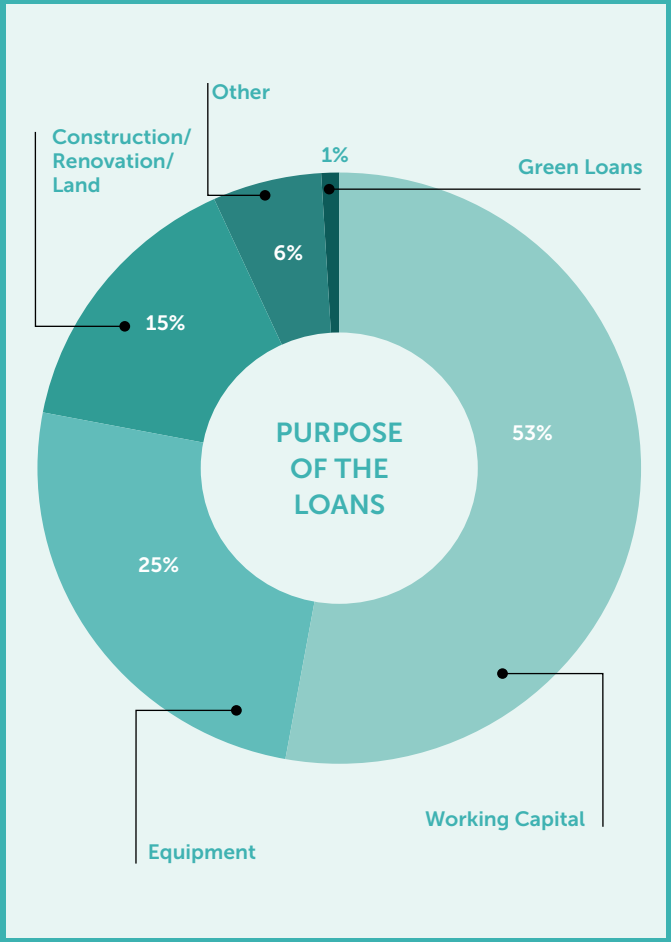


2 The table presents the outstanding amount on December of each year, in euro, and February for 2026.

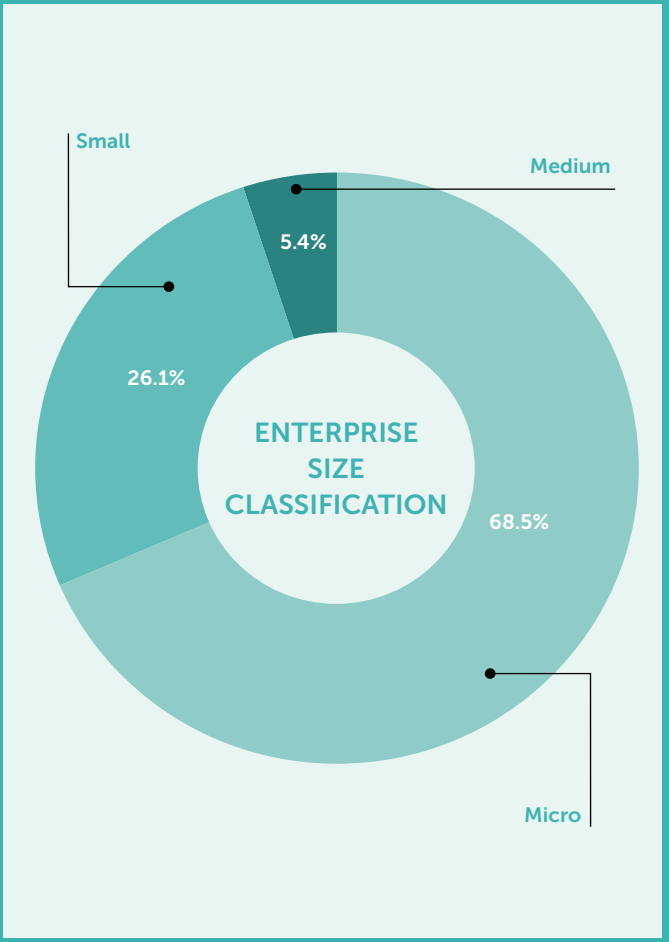
Cumulative Approved Loan and Guarantee Amount by Main Sector



Cumulative Approved Loan and Guarantee Amount by Purpose of Credit



Cumulative Approved Loans and Guarantees by Business Size



SECTION 2
KCGF'S CONTRIBUTION TO THE SUSTAINABLE DEVELOPMENT GOALS (SDGs)[3]

Sustainable Development Goal	KCGF Performance	Strategic Impact and Contribution
SDG 5: Gender Equality 	1,827 Women-Owned Businesses Supported	Targeted credit guarantees reduce the disproportionate collateral requirements faced by women entrepreneurs, promoting equitable economic participation.
	15% of total number of guaranteed loans are disbursed to women entrepreneurs	Expands access to finance for women-led businesses and strengthens their participation in the formal economy.
	657 women entrepreneurs trained through non-financial component	Through training, KCGF enhances business skills, financial literacy, digital marketing skills and long-term sustainability of women-owned enterprises.
	76% of KCGF staff are women	Demonstrates strong institutional commitment to gender equality and inclusive representation within the organization.
	35% of businesses receiving a loan for the first time are women	Improves financial inclusion by enabling women to access credit for the first time.

3 This assessment is based on data from February 2026.

SDG 8: Decent Work & Economic Growth 	11,876 businesses out of 48,317 active businesses[4] in Kosovo are supported through credit guarantees (25% participation rate)	Demonstrates the scale of outreach within the private sector by supporting a significant share of active businesses, contributing to enterprise growth, broader economic participation, and job creation.
	34,952 Projected Change in Employment	KCGF contributes to sustainable job creation by facilitating lending and investments for MSMEs, which has supported the growth of businesses and a corresponding increase in employment.
	€1.08 Billion Cumulative Loan Volume	By mobilizing private capital, KCGF drives national GDP growth.
SDG 9: Industry, Innovation & Infrastructure 	40% Loans for Equipment Procurement	A substantial share of loans guaranteed is directed toward machinery, technology, and infrastructure to support industrial modernization and enhance SME productivity.
	39 Month Weighted Average Maturity	Provides longer-term financing, enabling stable capital expenditure and infrastructure development aligned with investment cycles.
	€210.5 Million loans dedicated to Production	Reflects substantial support for manufacturing MSMEs, strengthening domestic production capacity and industrial growth. 28% of loans dedicated to production in the sector is guaranteed by KCGF.
	€46.9 Million in Export Credit Support	Promotes competitiveness in international markets, with 58.3% of export financing directed toward the manufacturing sector.

4 Data on the total number of active businesses in Kosovo are based on data from the Kosovo Agency of Statistics (KAS), which are available on the official KAS website.

SDG 10: Reduced Inequalities 	95% of first-time MSME borrowers in the banking sector, in year 2025, are supported through KCGF guaranteed loans[5]	Significantly expands financial inclusion by enabling access to credit for previously underserved businesses entering the formal financial credit system for the first time.
	52.63% loan distribution outside the capital region	Promotes balanced regional development by improving access to finance in underserved and rural areas, reducing geographic economic disparities.
	30% of the guaranteed loans larger than 100k are issued without any collateral	By enabling access to larger loans without collateral, the guarantee scheme reduces structural barriers for asset-constrained borrowers and promotes more equitable access to finance.
SDG 17: Partnerships for the Goals 	€109 milion committed capital	Demonstrates strong level of capitalization of the institution. Very important for building trust and confidence among key players in the financial sector.
	€1.08 billion Private capital mobilized for MSME investment	Highlights effectiveness of the guarantee model in crowding-in private sector investment.
	12 partner financial institutions	Strengthens financial sector collaboration and risk-sharing mechanisms, while promoting competition and equal access across the market through a non-discriminatory approach, contrary to schemes from supranational IFIs who use approach of favorizing one or two intermediaries in the sector.
	8 donor and development partners	Reinforces cooperation with the government and international partners and sustainability of KCGF.
 **SDG 13: Climate Action**	6,610 tons/year CO_2 reduction	Supports Kosovo's transition to a low-carbon economy by reducing greenhouse gas emissions through green investments.
	11,542 MWh/year in primary energy savings	Promotes energy efficiency and sustainable resource use, contributing to long-term environmental sustainability and reduced energy costs for businesses.

5 This data is acquired from the Credit Registry of Kosovo for year 2025.

SECTION 3 – KCGF'S IMPACT ON LENDING CONDITIONS

This section presents a comparative analysis of lending conditions in Kosovo's credit market in 2025, based on Central Bank of Kosovo (CBK) data. The objective of this section is to assess how KCGF-supported financing performs relative to the broader credit sector in terms of access, loan conditions, and risk-sharing dynamics. The analysis focuses on loans up to €100,000, which represent over 65% of the KCGF portfolio and the core segment of MSME lending. Comparing guaranteed and non-guaranteed loans within this range highlights how KCGF addresses key structural barriers such as high collateral requirements, shorter maturities, and limited access to finance. Overall, the findings confirm that KCGF plays a critical role in improving credit conditions for MSMEs and strengthening the functioning of the financial system.

Strategic Participation and Market Outreach

KCGF achieved a **22.78% participation rate in 2025**, indicating a strong presence in the MSME lending market and growing reliance on its guarantee mechanisms. Participation increases with loan size, reflecting the rising importance of guarantees as financing needs and risk levels grow:

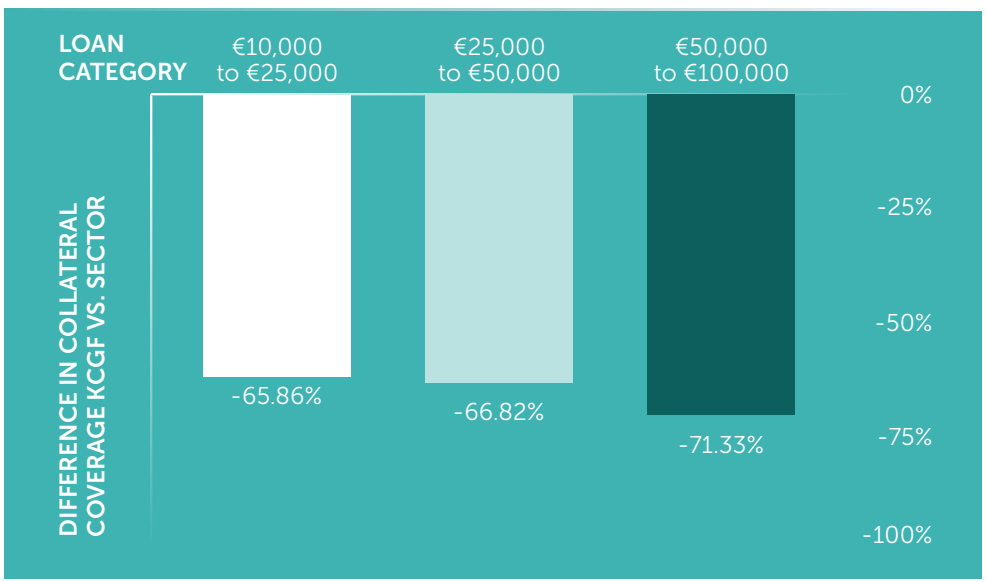
Loan Category	Loan Size	KCGF Participation Rate (%)	Key Insight
Micro-Loans	Up to €10,000	8.15%	Lower dependence on guarantees
Growth Capital	€10,000 to €25,000	16.76%	Moderate reliance as businesses expand
Mid-Sized Expansion	€25,000 to €50,000	25.96%	Peak participation. Critical support for scaling SMEs
Larger Scale Investment	€50,000 to €100,000	24.32%	Strong reliance for higher-risk, larger investments
Total Sector Participation		22.78%	Significant market presence of KCGF

This pattern shows that KCGF is particularly important in enabling **larger and riskier MSME investments**, where traditional lending constraints are more binding.

Collateral Reduction – Expanding Access to Finance

Reducing collateral requirements is one of KCGF's most significant contributions to the credit market. CBK data shows that MSMEs without guarantees continue to face high collateral thresholds, limiting access to formal finance.

KCGF significantly lowers collateral requirements across key loan segments:



On average, KCGF-backed loans require **around two-thirds lower collateral coverage** than non-guaranteed loans.

This has several important effects:

- Expands access to finance for underserved businesses
- Reduces borrowing costs linked to collateral valuation and procedures
- Enables faster credit approval
- Allows firms to preserve assets and invest in growth

By redistributing risk from lenders to the guarantee fund, KCGF encourages financial institutions to lend to businesses that lack sufficient collateral. The consistency of these reductions across loan sizes indicates a **systemic impact on lending practices**, rather than a marginal intervention.

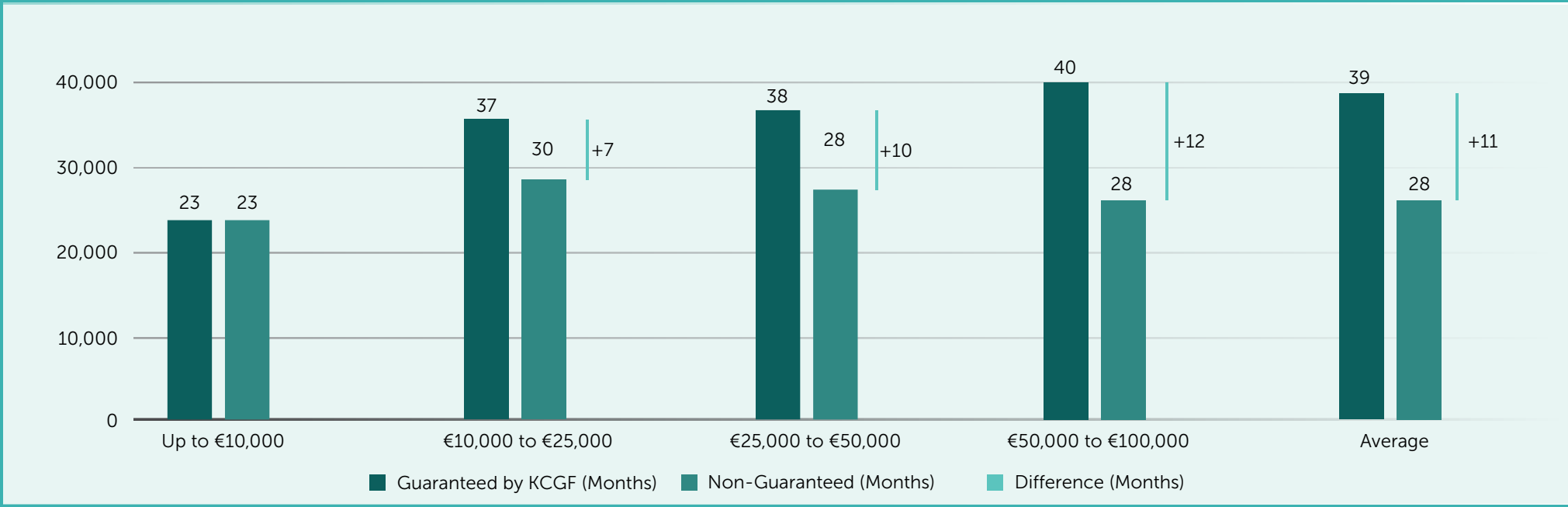
This impact in lower collateral coverage is also confirmed by KCGF data that 30% of the guaranteed loans larger than 100k are issued without any collateral.

6 Calculated as the difference in collateral coverage ratios—expressed as a percentage of the loan amount—between KCGF-guaranteed and non-guaranteed loans.

Extended Maturity – Supporting Long-Term Investment

KCGF guarantees significantly improve loan maturities, allowing firms to align repayment schedules with investment cycles.

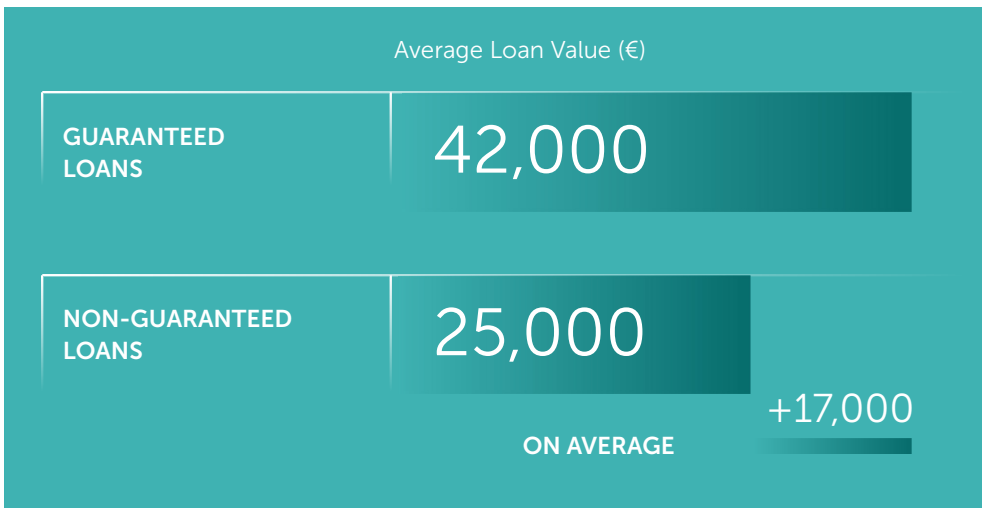
The maturity advantage increases with loan size:



This extended maturity reduces monthly repayment pressure, improves cash flow, and enables firms to undertake **larger and more productive investments**. It is particularly important for capital-intensive activities such as expansion, equipment acquisition, and productivity-enhancing investments. Overall, longer maturities support more sustainable business growth and strengthen firms' financial resilience.

Lending Volume and Credit Capacity

KCGF also plays a key role in increasing the size of loans available to MSMEs. By reducing risk for financial institutions, the guarantee scheme enables higher lending limits.



This substantial increase demonstrates that KCGF allows businesses to access larger amounts of capital than would otherwise be available, supporting business expansion and investment at scale.

The comparative analysis shows that KCGF has a transformational impact on lending conditions in Kosovo:

- It **facilitates access to finance** by reducing collateral barriers
- It **expands access to finance for new clients** in the market, creating for the first time credit history
- It **improves loan conditions** through longer maturities and larger loan sizes
- It **supports higher-risk and growth-oriented investments**
- It **influences lending practices across the financial sector**

Overall, KCGF acts as a system-level intervention, improving both the accessibility and quality of MSME financing, and enabling more inclusive and sustainable economic growth.

SECTION 4 – KCGF'S IMPACT ON BUSINESS PERFORMANCE

This section evaluates the impact of credit guarantees on business performance using firm-level survey data from MSMEs, including both beneficiary and non-beneficiary firms. The analysis compares outcomes before and after receiving guarantees, allowing for short- and medium-term impact assessment.

It is important to note that the evaluation has encountered challenges in data collection, primarily related to the availability and consistency of firm-level data across the sector. Difficulties in accessing standardized financial and performance data, as well as issues related to business formalization and reporting practices, may affect the precision of the analysis. The initial dataset comprised 1,000 businesses; however, for indicators related to business performance, the effective sample size was reduced to 239 and 113 observations for the first and second year after the treatment, respectively, due to non-response, limited data availability, and gaps in firms' knowledge or reporting of key performance metrics.

To address selection bias, the study applies an Inverse Probability Weighted Regression Adjustment (IPWRA) approach, a robust econometric method that combines propensity score weighting with outcome regression. The results are interpreted as the Average Treatment Effect on the Treated (ATET), capturing how beneficiary firms would have performed in the absence of KCGF support.

The analysis focuses on key business outcomes: employment, sales, investment, and productivity (measured as sales per employee). The results from the analysis are presented in table 1.

KEY FINDINGS

Strong and sustained impact on employment Credit guarantees have a clear and statistically significant positive effect on employment growth. Beneficiary firms experience higher employment growth both in the short term (18%) and in the medium term (27%), indicating that the impact strengthens over time. In the absence of guarantees, firms would have experienced stagnant or negative employment trends.

The impact on other performance indicators is not robust when comparing guaranteed firms to similar non-guaranteed firms:

- **Sales** are higher for guaranteed firms in the short term, with a modest and marginally significant effect. However, this difference is not sustained and becomes statistically insignificant in the longer term.
- **Investment** appears higher among guaranteed firms compared to non-guaranteed firms, but the differences are not statistically significant in either period.
- **Productivity (sales per employee)** differences between guaranteed and non-guaranteed firms appear negative suggesting that guaranteed firms have lower productivity compared to non-guaranteed, though not statistically significant.

Table 1. Impact of Credit Guarantees on Business Performance Outcomes (IPWRA - ATET)

Outcome	Period	ATET	Significance
EMPLOYMENT	1-year	0.183	***
EMPLOYMENT	2-year	0.274	**
SALES	1-year	0.601	*
SALES	2-year	0.432	-
INVESTMENT	1-year	0.394	-
INVESTMENT	2-year	0.958	-
PRODUCTIVITY	1-year	-0.655	-

Notes: ATET = Average Treatment Effect on the Treated. Robust standard errors reported. *** p<0.01, ** p<0.05, * p<0.10, n.s. = not significant. Models control for baseline firm characteristics and pre-treatment outcomes. Long-run results for sales and investment should be interpreted with caution due to convergence issues. Productivity results should be interpreted with caution due to identification concerns while for the second year they were not achieved for the same reason.

INTERPRETATION AND POLICY IMPLICATIONS

The results indicate that KCGF guarantees primarily **support firm expansion along the employment margin**, rather than immediate improvements in productivity or performance. This pattern is consistent with the KCGF's core objective of improving access to finance and supporting job creation.

At the same time, the absence of strong performance gains suggests that **access to finance alone is not sufficient to drive firm efficiency improvements**. Firms may face adjustment costs when scaling up, and productivity gains may take longer to materialize. It is also important to consider that KCGF predominantly supports **micro firms and first-time borrowers**, which tend to have lower initial productivity levels, limited managerial capacity, and higher growth volatility. As a result, these firms may prioritize expansion over efficiency improvements.

CONCLUSION

Overall, the evidence shows that KCGF is effective in **relaxing credit constraints and generating employment growth**, confirming its role as a financial inclusion instrument. However, to strengthen firm performance and productivity, credit guarantees may need to be complemented with additional measures, such as support for innovation, training in skills development, and firms' access to new markets.

SECTION 5 – KCGF AND THE ECONOMY-WIDE PERSPECTIVE

This section evaluates the economy-wide impact of KCGF using a Vector Autoregression (VAR) framework. The analysis assesses how guarantee activity affects credit supply, investment, economic output, and stability measured by Non-Performing Loans over time.

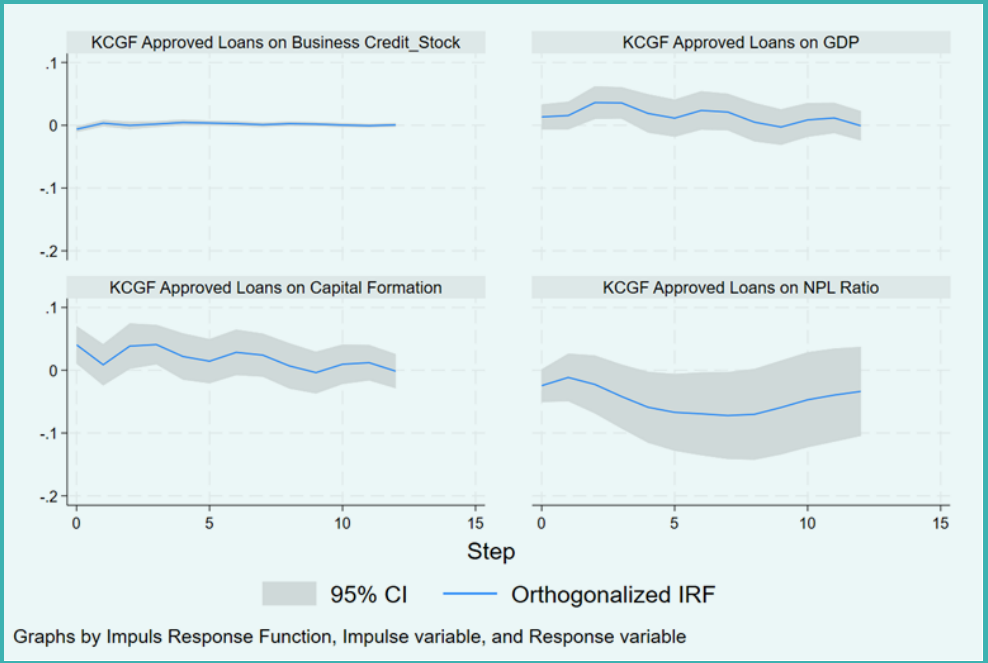
The model captures the transmission mechanism through which KCGF guarantees influence the economy, from credit supply to investment, output, and loan performance. The results are based on Impulse Response Functions, which trace how key macroeconomic variables respond over time to a positive shock in guarantee activity.

KEY FINDINGS

MODEST IMPACT ON AGGREGATE CREDIT GROWTH

A positive shock in KCGF guarantees leads to only a modest and short-lived increase in overall business credit. This suggests that KCGF primarily reallocates credit toward constrained firms, rather than significantly expanding total lending. This goes in line with overall institutional objective that credit guarantee schemes do not aim to create the need for the capital/finance, but rather facilitate the fulfillment of the need for finance.

Figure 1. KCGF Impulse Response Functions



IMMEDIATE EFFECT ON INVESTMENT

Investment responds significantly, increasing immediately and peaking within 2–4 quarters. This indicates that guaranteed lending is effectively directed toward productive uses, supporting capital formation and business expansion.

POSITIVE IMPACT ON ECONOMIC GROWTH

GDP increases with a lag, typically peaking after 3–4 quarters. This reflects the transmission mechanism from higher investment to subsequently, increased economic activity.

IMPROVED FINANCIAL STABILITY

The non-performing loan (NPL) ratio declines following a guarantee impulse, with the strongest effects observed after 4–6 quarters. This suggests that guarantees contribute to better loan quality through risk-sharing. Guarantee activity is likely countercyclical, increasing during periods of economic stress and easing during expansions. This highlights KCGF's role in supporting credit flows when financing conditions tighten.

CONCLUSION

Overall, KCGF operates primarily as a credit allocation and risk-sharing mechanism, rather than a driver of aggregate credit expansion. Its strongest effects are seen in stimulating investment, supporting GDP growth, and enhancing financial stability.

These findings demonstrate that credit guarantee schemes can generate meaningful economy-wide benefits, particularly in economies where access to finance is constrained and the banking sector plays a central role in financial intermediation.

SECTION 6 – **CONSTRAINTS**

Despite the strong performance and impact of KCGF, several structural and market-level constraints limit the extent to which credit guarantee instruments can fully address market failures hindering private sector and broader economic development. Identifying these constraints is essential to enhance the effectiveness of guarantee schemes, while also initiating the development of complementary financial instruments to better address financial constraints and support private sector growth and overall economic expansion.

A) POTENTIAL TO FURTHER STRENGTHEN THE TRANSFER OF BENEFITS TO FINAL BENEFICIARIES

While KCGF significantly reduces risk for financial institutions, further optimization of processes between KCGF and financial intermediaries could enhance the transmission of benefits to final borrowers. Credit guarantees have proven to be an effective instrument in improving access to finance by reducing collateral requirements, facilitating first-time borrowing, and enabling longer maturities.

However, their impact on lowering interest rates has been modest, partly reflecting the relatively low credit risk in the sector (low NPLs), which limits the role of risk as a key cost driver in loan pricing. In addition, collateral requirements remain relatively high in some transactions, despite guarantee coverage, indicating further scope for improvement.

Policy consideration: Strengthen monitoring in coordination with partner financial institutions to ensure that the benefits of guarantees are more consistently transferred to borrowers, and identify deviations in lending practices.

B) LOW AWARENESS AND UPTAKE OF GREEN INVESTMENTS

Although dedicated guarantee windows exist to support environmentally sustainable projects, the level of green investment remains limited. This is partly due to low awareness among businesses but also partner financial institutions regarding the benefits of green technologies, as well as the relatively high upfront costs associated with such investments. As a result, the potential of the guarantee scheme to drive climate-related outcomes is not fully realized until now.

Policy consideration: Increase awareness and incentives for green investments, and explore the development of integrated products that combine guarantee schemes with blended finance instruments, including grants and technical assistance, to scale up green lending. In parallel, the establishment of an APEX-type institution providing concessional, thematic credit lines with clear targets could create synergies with risk-sharing facilities, reducing both the cost of funds for financial intermediaries and the credit risk at the transaction level.

C) SECTORAL ALLOCATION AND SUPPORT FOR EARLY-STAGE BUSINESSES

Despite high guarantee coverage levels (up to 80%), a significant share of financing continues to be directed toward low value-added service activities, rather than more productive sectors such as manufacturing or export-oriented industries. This limits the overall impact of the scheme on productivity growth and structural economic transformation. In addition, despite targeted support through start-up guarantee windows, some financial institutions continue to apply minimum business experience requirements. This constrains access to finance for newly established firms, reducing the effectiveness of KCGF interventions in promoting entrepreneurship and innovation.

Policy considerations:

- Introduce stronger incentives or targeted instruments to steer financing toward higher value-added and export-oriented sectors.
- Develop complementary instruments, or financial institutions, with a stronger development focus, beyond purely profit-oriented lending, specifically tailored to the needs and risk profile of early-stage businesses.
- Design economic policies with clear objectives, measurable targets, and defined timelines to address structural challenges of the economy over the long term.

D) DATA LIMITATIONS AND MONITORING CHALLENGES

The evaluation process is constrained by limited access to comprehensive, standardized, and accessible data across the financial sector. Challenges related to business formalization, data quality, and consistency reduce the ability to fully track and verify key outcomes, such as employment and revenue generation. This limits the depth and precision of impact assessment and ongoing monitoring.

Policy consideration:

- Establish a national data taxonomy for targeted purposes to ensure harmonization of data standards across sectors and institutions.
- Strengthen data sharing and coordination across institutions, (all institutions that are considered as data collectors) including improving access to data from relevant public agencies, for analytical and policy purposes. This could be supported through the development of a centralized data collection platform and greater integration of databases across governmental institutions, enabling more efficient data exchange and improved monitoring. Strengthening data systems is critical for evidence-based public policy design, allowing for better targeting, evaluation, and continuous improvement of development interventions and instruments.

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