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

ADDITIONALITY, RAISON D'ÊTRE FOR THE ESTABLISHMENT OF KCGF

2019

INTRODUCTION

The Kosovo Credit Guarantee Fund (KCGF) is accountable to its founders and partners, therefore, the examination of the economic impact of its operations in general is essential.

Additionality is the raison d'être for the establishment of the KCGF. It means that a bank, Micro Finance Institution, or Non-Bank Financial Institution would not have issued a loan to an Micro Small and Medium Enterprise (MSME) without issued guarantee – hence adding a new customer thereby contributing to economic growth.

Access to credit should generate employment, boost production, turnover, exports and other benefits to the economy.

For purposes of assessing the additionality impact, the KCGF has monitored the relevant additionality indicators in 2019 as well.

The monitored indicators were:

- Financial additionality indicators, and
- Economic additionality indicators.

FINANCIAL ADDITIONALITY

Financial Additionality in relation to the KCGF guarantee scheme reflects the impact of the guarantee scheme on enhancing access to finance, in addition to improving lending standards for MSMEs.

To observe this impact, the KCGF examined the indicators related to financial additionality by reflecting on the data provided by the Kosovo Credit Registry (CRK) and the data provided by the internal KCGF MIS. In this context, the loans issued in the sector during 2019 were analyzed and compared to the loans issued in the sector but guaranteed by the KCGF. The monitoring results of these indicators showed us how the KCGF operations in general have led to improved access to finance and relaxed lending standards.

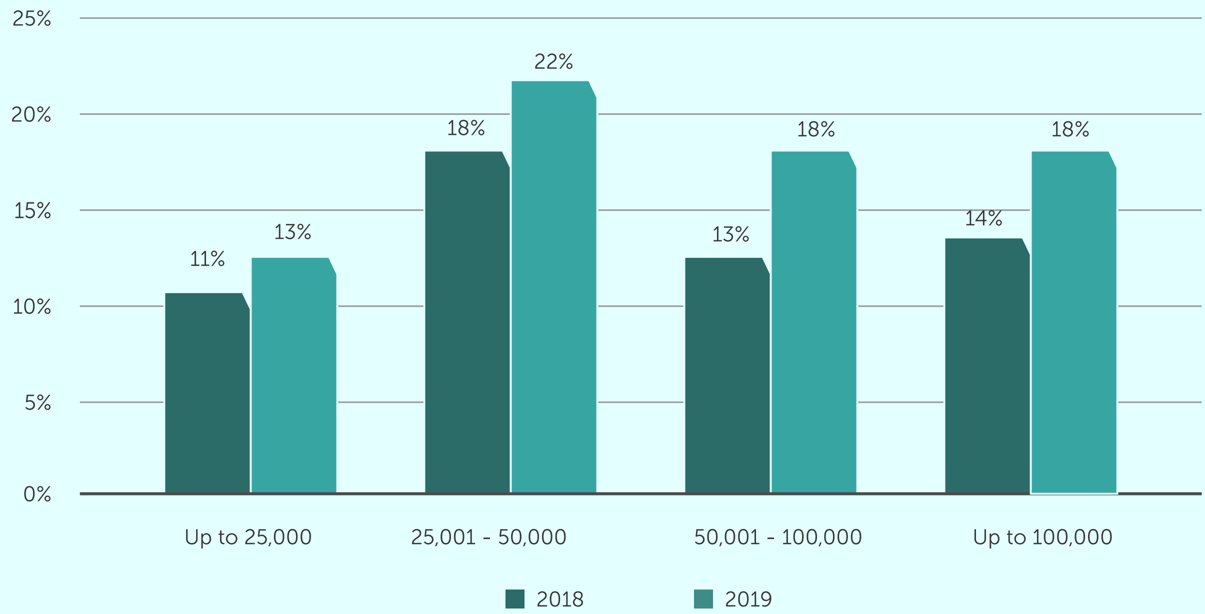
SHARE OF GUARANTEED LOANS IN THE BANKING SECTOR

This indicator, yet again this year, shows an increase in the share of guaranteed loans in the banking sector. This increase reflects KCGF's impact on lending operations in the banking sector, which for MSME means better access to finance.

In 2019, this share in the category of loans of up to EUR 100,000* was 18%, while only in the EUR 25,000-50,000 category it was 22%.

This indicator increased by 29% compared to 2018, when the share was 14%. This increase indicates that the KCGF credit guarantee scheme has boosted further the positive impact on financial intermediation.

KCGF SHARE IN THE SECTOR (FINANCIAL VALUE)

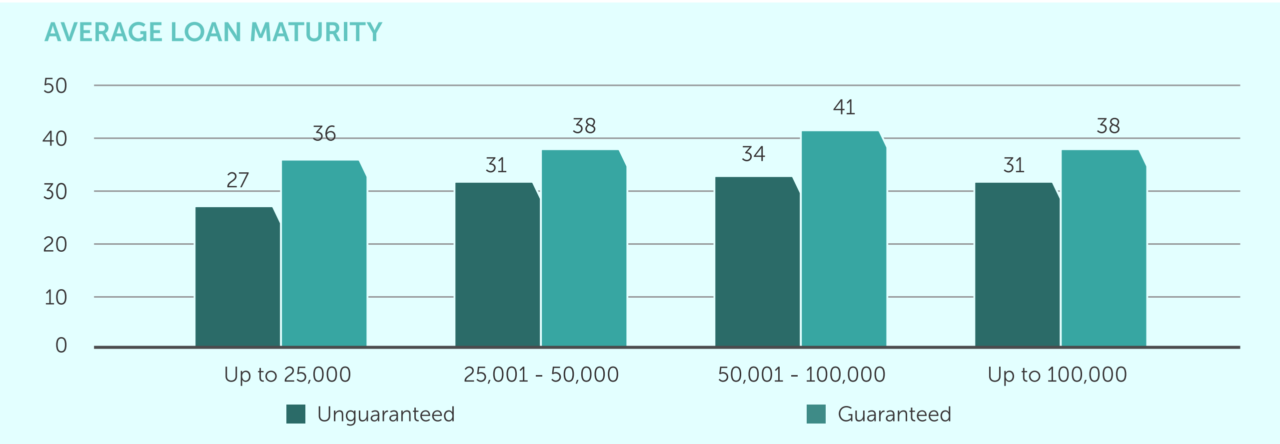


** The reason for reflection in the category of loans of up to EUR 100,000 is the fact that the client profile in KCGF portfolio belongs to this segment in the market.*

AVERAGE LOAN MATURITY - HIGHER LOAN TERMS

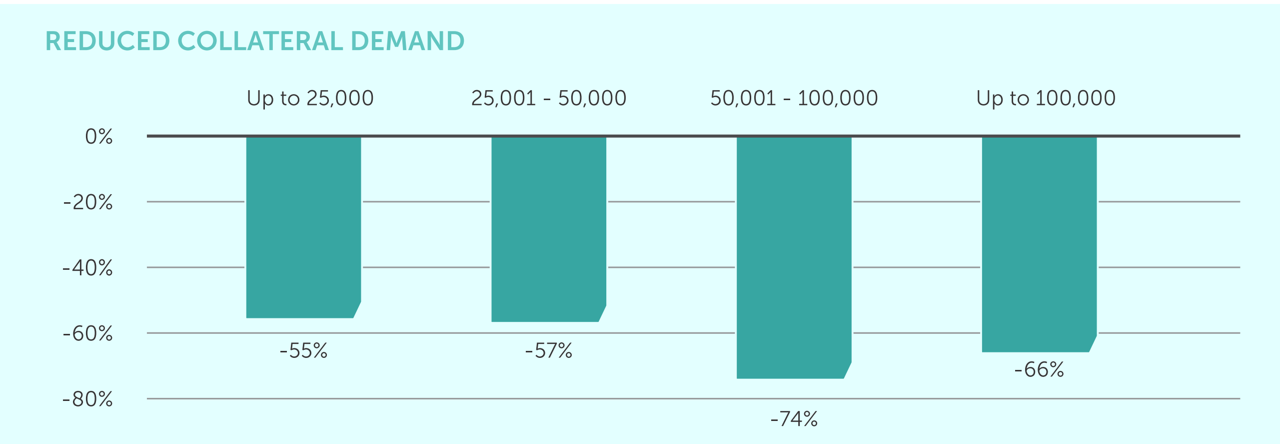
The guaranteed portfolio during 2019 continued to be populated by the midterm loans with average maturity of 36 months. The average loan maturity as an indicator of financial additionality in this year again showed an increase in the maturity of guaranteed loans compared to unguaranteed loans. The increase of the maturity means better the financing conditions for the borrowers, while the higher the risk for the lenders.

The average term of guaranteed loans up to EUR 100,000 was 38 months or 23% higher than the average amount of unguaranteed loans. This indicator during 2019 resulted in more relaxed risk standards for Partner Financial Institutions (PFI), therefore better lending conditions for MSMEs while for MSMEs any increase in maturity will enhance the capacity of the borrower to complete the planned investment.



COLLATERAL COVERAGE

Collateral is very often one of the reasons for rejecting a loan application or one of the reasons for reducing the loan amount in the application. Therefore, in terms of guarantee scheme impact, lower collateral demand first and foremost means financial inclusion with better lending conditions for customers, shorter processing time for loan applications, and lower borrowing costs. The 2019 analysis resulted in a positive impact of KCGF guarantee scheme hence reducing collateral demand by 66%.



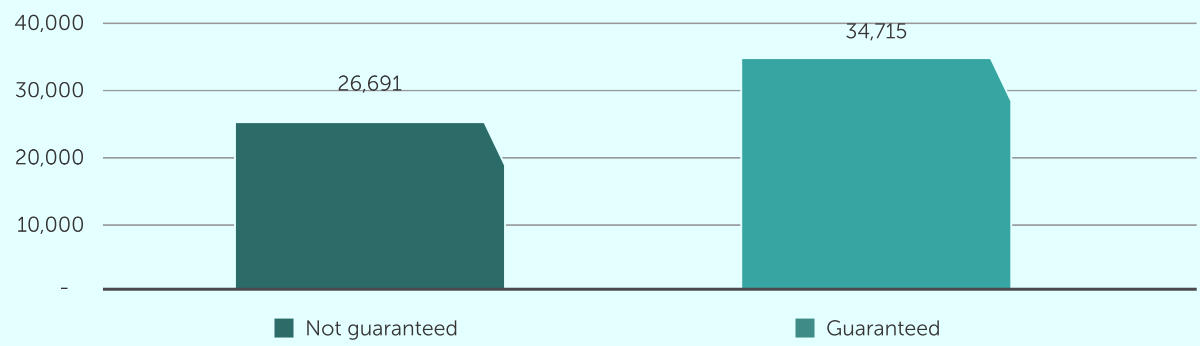
The analysis on this indicator was challenging as the registration of collateral in the banking systems and in the CRK does not stand for one loan only rather for the entire credit exposure. Therefore, in this section we have not provided data on the comparability of collateral obtained in different categories for guaranteed and unguaranteed loans, rather we have only shown the difference in the demand for collateral assets. Finding a modality for measuring this indicator remains to be discussed with all partners in future analyses.

AVERAGE LOAN AMOUNT

This indicator represents the average loan amount, for guaranteed loans versus unguaranteed loans. Assumptions provide that the highest average loan amount, for specific categories, means better lending standards by banks during the loan approval process.

Also, this year resulted in higher average loan amount guaranteed by 30% compared to unguaranteed loans in the category of loans up to EUR 100,000. The increase of the average amount of credit through KCGF mediation for this category reflects the impact of the guarantee scheme on better lending standards by banks during the loan approval process.

AVERAGE LOAN AMOUNT

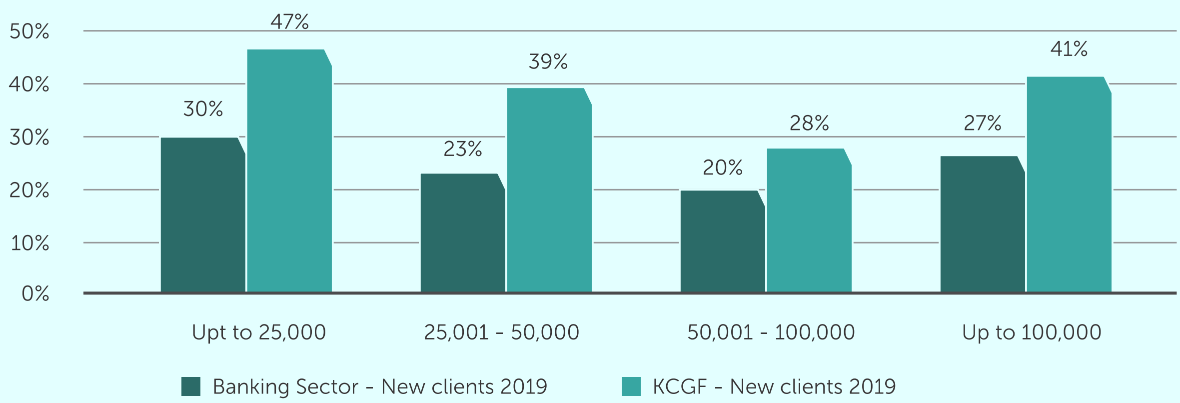


NEW CLIENTS / FINANCIAL INCLUSION

The higher share of this category of clients (who have never taken a loan) in the general portfolio of loan clients, infers lower perception of risk by banks in relation to newly established enterprises, i.e. higher level of financial inclusion for new businesses.

The share of guaranteed loans to new businesses without previous borrowing experience in 2019 in the category of loans up to EUR 100,000 was at 41%, whereas the share of unguaranteed loans in same segment was 27%. This ratio reflects the impact of KCGF on the financial inclusion of the private sector without previous borrowing experience, and therefore the positive financial and economic impact in general.

NEW LOANS



THE PARTICIPATION OF GUARANTEED BUSINESSES IN RELATION TO ALL ACTIVE BUSINESSES IN THE REAL ECONOMY

The share of KCGF guaranteed loans in total tax-paying businesses is another important indicator of the inclusion of MSMEs in the guarantee scheme.

Based on the information provided by the Tax Administration of Kosovo, in 2019 we had approximately 53,203 active businesses, while the number of the MSME that benefited from the KCGF credit guarantees until 2019 was 3,456 - bringing the share of guaranteed MSME-s in the MSME sector to 6.5% at the end of 2019.

This share is growing year-over-year, thereby reflecting the importance of the KCGF as an extended hand for the development of the MSME sector and the economy in general.

SHARE OF KCGF GUARANTEED OUTSTANDING LOAN VOLUME IN GDP

To understand the importance of the KCGF guarantee facility to the national economy, we have calculated the share of KCGF guaranteed outstanding loan volume in the Gross Domestic Product (GDP) by the end of 2019. At the end of 2019, this share was 0.62%, with a marked increase of 21% compared to 2018 (this ratio was 0.51% at the end of 2018).

In relation to Central and Eastern European countries implementing guarantee schemes under the membership of the European Association of Guarantee Institutions (AECM), Kosovo has, in three short years of operations, managed reached the average of these countries (0.71% according to AECM), has exceeded the guarantee schemes of Western Balkan and stands in a relatively better position than many credit guarantees schemes, despite the fact that most of these countries have long standing experience with guarantee schemes, when compared to Kosovo.

Such an increase in the share of guaranteed loan volume both in the total volume of sector loans (MSME loans) and in the GDP in Kosovo is a positive sign towards reducing the lending gap in relation to the GDP of our country.

ECONOMIC ADDITIONALITY

Economic Additionality - in relation to the KCGF guarantee scheme, reflects the impact of the guarantee scheme on improving MSME performance with investments made by the guaranteed loan. The analyzed indicators related to economic additionality reflect on the data provided by PFIs when placing a loan under guarantee.

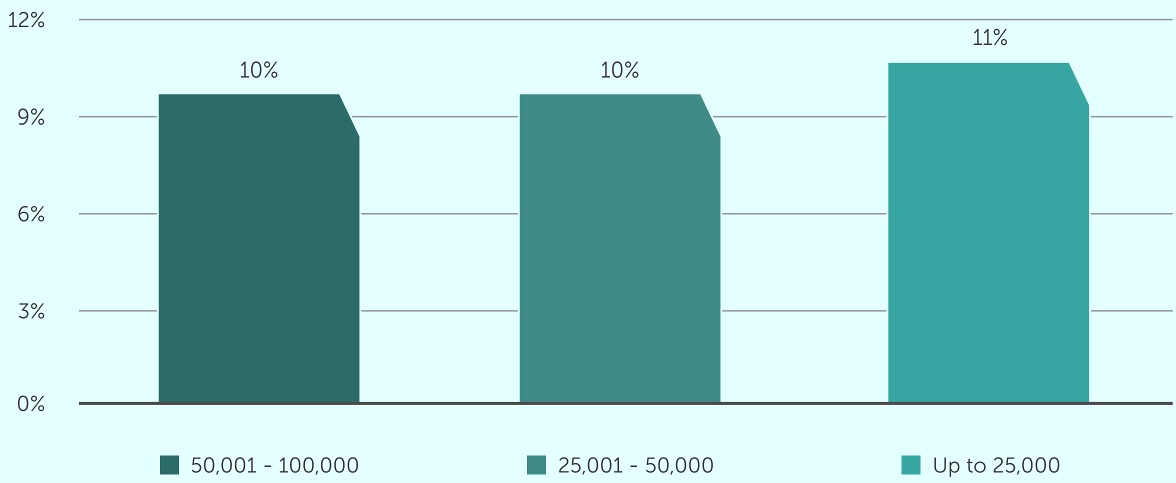
The monitoring results on these indicators were positive in terms of MSME performance and the economy in general.

The following areas were analyzed for purposes of assessing the economic impact of the guarantee scheme.

PROJECTED ANNUAL TURNOVER GROWTH

Implementation of investments in addition to access to finance should result in turnover growth for beneficiary enterprises. During 2019, this was the case with the guarantee beneficiary enterprises as well. By the end of 2019, there were 1,790 MSME loans approved at a volume of EUR 69.1 million, whereby as a result of implemented investments the projected turnover growth over the baseline turnover was EUR 72.9 million or 11% over the current baseline.

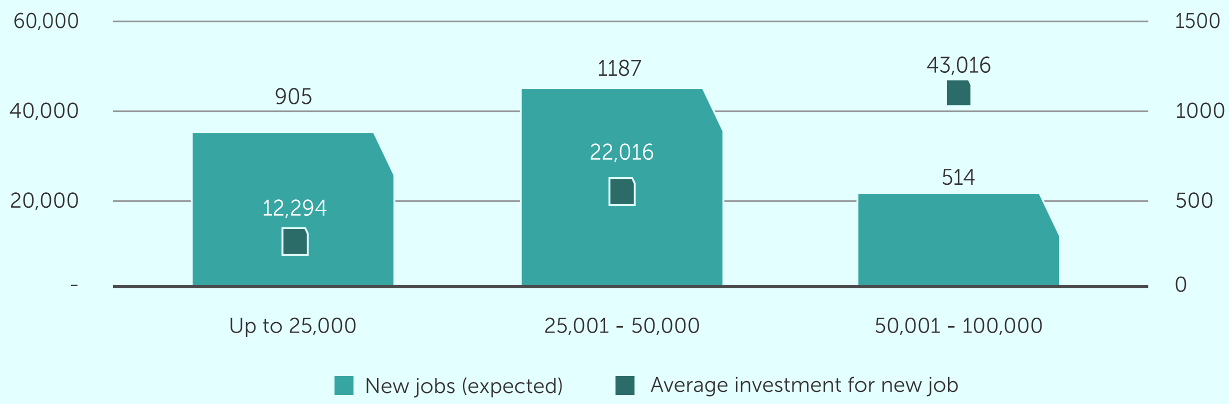
ANNUAL TURNOVER GROWTH (PROJECTED)



NEW JOBS PROJECTED

In the best-case scenario, investments made by loans through the credit guarantee scheme support would result in new jobs created in the private sector. During 2019, out of 1,790 approved loans, there were 2,803 new jobs projected or an increase of 28% over the current baseline. While, the average investment per new job was 24,668. This graph provides that the larger the loan category, the more investment is required to create a job. This can be explained by the fact that big companies are better consolidated, have more efficient systems, and this may result in less job creation.

NEW JOBS

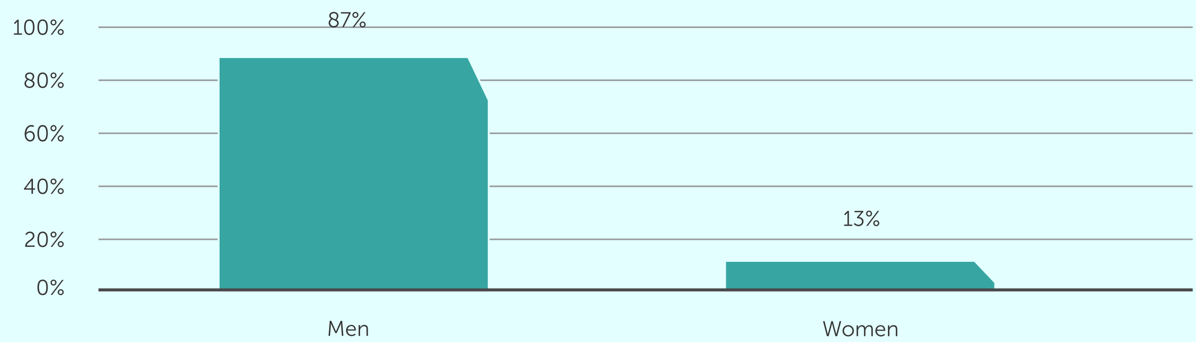


LOANS FOR WOMEN IN BUSINESS

This indicator focuses on the inclusion of women owners of SMEs in the lending process. Women participate in formal lending at a lower rate than men. Because of this, the KCGF has introduced the institutional objective of providing better opportunities for under-served economic sectors and population categories, including women.

During 2019, the share of loans for women in business was 13%. This participation increased compared to the previous year. Increasing participation is a message that the impact of the KCGF credit guarantee has begun to be seen in this target segment as well.

PARTICIPATION OF WOMEN BUSINESS OWNERS



CONCLUSION

The assessment of financial and economic additionality in 2019, has demonstrated the positive impact on access to finance, relaxed lending standards and in the internal performance of beneficiary MSMEs paving the way for financial partner institutions to grant loans to MSMEs that would not have been granted otherwise, thereby bringing about the addition of new customers to their portfolio and contributing to the national economic growth.

This positive impact can be observed in almost all indicators subject to analysis, such as:

- Increased share of guaranteed loans in the banking sector;
- Increased share of MSMEs that applied for the first time;
- Higher average loan amount for guaran-teed loans;
- Higher average loan maturity for guaran-teed loans;
- Lower collateral demands;
- Creation of new jobs;
- Higher turnover that potentially may have increased exports and other economic variables;
- Increased share of lending to women business owners;
- Increased share in GDP.

Measuring additionality is a major challenge and efforts to verify outcomes must continue.

In this regard, our focus will be on finding modalities for assessing indicators on-site as follows:

- Collateral coverage;
- New job creation;
- MSME annual turnover growth.

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