MICROFINANCE AS A TOOL FOR ECONOMIC DEVELOPMENT IN TRANSITIONAL COUNTRIES: EXPERIENCE FROM KOSOVO

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Abstract

Many consider microfinance as a tool for poverty decrease. Even more, especially in post-conflict countries such as Kosovo, micro-financial institutions are seen as an opportunity of reconciliation. This paper explores the implication of microfinance in Kosovo since the war ended, evaluating its effects in terms of overall poverty reduction and if microfinance institutions improved access to credit for microenterprises. Post-conflict countries such as Kosovo are the best examples where microfinance can provide its contribution on poverty reduction and better access to finance needed for startup micro-entrepreneurs. Kosovo like many states in the Balkan region has a high unemployment rate with the youngest population in Europe. Though, microfinance remains blurred for many, even for them who would benefit from this opportunity as it is not clear whether it delivers on its promises. The objective of this paper is to introduce the matter of micro-financing to a broader audience in Kosovo, to assess the economic impact of micro-financial institutions, and who has benefited the most. This paper will also introduce topics that are new and can serve as opportunities for future studies in microfinance in Kosovo.

Keywords: Microfinance, MFIs, microcredit, post-conflict, transitional, poverty, economic development

Introduction

Microfinance is frequently considered both as a tool for fighting poverty in developing countries and as a tool for post-conflict reconciliation. Many countries have employed and created conditions for microfinance, especially after 1990s, as a resource and additional capital for poverty-reduction. Micro finance is present in different countries since early ’70s. However, it has won on its importance and it was made clear its impact on supporting developing countries, after year 2006 when Yunus and Grameen Bank won their Nobel Peace Prize for their efforts to create economic and social development from below. With this, international profile as a tool for poverty alleviation was secured and many post-conflict countries have incorporated microfinance within their restructuring strategies. The reality in the field has shown that in recent years, microfinance was incorporated within reconstructing and development strategies of post-conflict countries more than it is expected (Nagarajan and McNulty 2004).

Kosovo, after the war in 1999, has found itself in a devastating situation. The entire economy was diminished; and, within this, the banking system has been ruined. The need for need for financial resources was needed more than ever before. In this content, Kosovo has used and implemented both approaches of microfinance to fight the poverty (that was present in the entire country) and to create new development possibilities for small businesses and private sector, due to the lack of proper banking institutions. The Kosovo microfinance sector advanced rapidly, starting as micro-finance (MFIs) as donor-funded in year 2000, and then transforming themselves into financially-sustainable microcredit organizations (MCOs). Kosovo has created the legal basis regulating the activities of MCOs, and has steadily become institutionalized and part of the financial system of Kosovo. The majority of respondents see Kosovo's microfinance system, and within this, the entire microfinance sector in Kosovo, as a successful story. Though, some hesitate to give positive attitude and are evaluation, as the MCOs are seen as profitability oriented organizations, rather than the kind that would provide support to poor people, which is the case with post-conflict countries such as Kosovo (Bateman, 2012).

Due to the lack of knowledge and experience on microfinance within post-conflict situations, many presume that microfinance is used predominantly as a tool for development. It is principally supported through technical support and in the form of legislation support, whereas this is not always the best and most appropriated support for MCOs. As argued by Woodworth (2006), that to be able to support and to understand the impact of MCOs, especially in post-conflict situations, more research is needed due to its complexity. Furthermore, Nagarajan and McNulty (2004) find that developing a sustainable and effective microfinance sector, specifically in post-conflict countries and regions, the contexts needs additional examination and research, as it has shown that many important issues pertaining to microfinance are still unraveled.

As argued by Doyle (1998), beside the fact that microfinance may definitely resemble standard, and as an ordinary strategy, there are differences that revel as important as the other side. As further noted by Doyle (1998), the best example that shows that components of building a sustainable microfinance sector may play a crucial role, is for instance, trust-building, toward those institutions (Doyle, 1998). Another example of the exploring relationship between microfinance and post-conflict environment, is by exploring the relationship amongst the social environment (emerging from conflict in a particular area or county), and microfinance that tends to be established, in order to determine the influence microfinance has on post-conflict environments.

Kosovo signifies an important example of how microfinance impacts post-conflict environments. Kosovo's economy was ruined during the war, and microfinance has shown to be auxiliary for small and medium enterprises (SMEs) and for the local population. However, Kosovo's example mirrors a broader discussion about the impact of microfinance, where divided opinion practitioners regarding to the impact and contribution of microfinance to Kosovo's overall development. The first part of this paper will provide a brief overview on how is microfinance seen as a tool fighting poverty and how its implication in post-conflict environments affects (both negative and positive) the particular environment. The second part will outline the Kosovo microfinance sector, how it started, its development, and the current state. And third, it will tend to identify the lessons that can be learned by Kosovo's and other cases that have passed through conflict, which than would be studied in further research.

Microfinance (literature review)

There are many terms that are used to describe the microfinance and which seem to be related or interchangeable, such as microcredit and microfinance. However, it is important to know that there are differences among them. As stated by Sinha (1998) "microcredit refers to small loans, whereas microfinance is appropriate where MFIs supplement the loans with other financial services (savings, insurance, etc.)". According to Sinha (1998), it seems that microcredit is an element of microfinance, whereas the main goal of microfinance is providing credit to the poor.

From the 1950s through to the 1970s, donors mainly through governmental support offered their support in the form of subsidies to local population, mainly in rural location and which were more related or related to agriculture. These forms of support often resulted in high loan evasions, creating higher losses than the receiver of the donation have appeared to be incapable to return the credit. Hence, those forms of the supporting rural inhabitants reviled its inability to reach poor rural households (Robinson, 2001). As remarked by Robinson (2001) and Otero (1999), microfinance has become known in the form in which is also know now, firstly in the 1970s.

It all started as Muhammad Yunus through the Grameen Bank, made the first step toward creating a new era of supporting poor people. He commenced with his activities in a small in Bangladesh, with the aim to provide loans to poor women, which were located in rural areas, in order to start small businesses. The main purpose was that through small loans to enable the improvement of their living conditions in their households. The good intention of the initiator was reviled, and is a rare example of good will, as none of the usual collateral forms were used other than their oral promises given by the women that took the loan. Even if the loan was minimal, compared to today's requests and needs, it has helped the community to stand on their own and to create a source of income by their own. After this success story in Bangladesh, many other developing and underdeveloped countries (such as Brazil, Peru, etc.), started with the application of similar programs with the goal of providing support to their local population that had no access on other financial sources.

Whereas, only at the 1980s microfinance has undergone crucial changes and was the turning point, which has changed the form and functionality of microfinance (Robinson, 2001). As further stated by Robinson (2001), MFIs such as Grameen Bank and stated to develop a strategy that aimed to provide more loans to a much large scale of people, and they have proven that it is achievable. The purpose was also to create institutions that can stand on their own, and they received no permanent subsidies. Hence, those institutions were commercially funded and fully sustainable, and were able to attain wide outreach to clients (Robinson, 2001).

Only in the 1990s, the number of MFIs has increased with a remarkable mount of financial potential to provide in a form of loans (mainly small loans) (Robinson, 2001, p.54). Whereas, Dichter (1999) states that the 1990s is the decade of microfinance. Starting as a small investment providing support (in a form of loans) to the poor people, microfinance had now turned into an industry (Robinson, 2001). Furthermore, the advance in microcredit institutions, attention transformed from just the providing of credit to the poor (microcredit), to the providing of additional financial services such as savings and pensions, which complement an MFI (Armacost, 2011). The global microfinance industry again posted a growth of almost 20% in 2012. The forecast we made last year turned out to be right. There is much to suggest that the sector will maintain this rate of growth in 2013.

Microfinance and Poverty in Post-Conflict Reconciliation

Microfinance (MF) is considered by many as a tool for development to address issues of poverty and under-development. The idea of creating microfinance institutions (MFIs) was to support poor people and all those that do not have access to other financial institutions by providing access to microloans and microcredits, with the aim of further development of small businesses. In other words, those businesses are known as micro-businesses, which need small investments to start their activities (Hurst & Pugsley, 2011). MFIs often are supported by donor funding or through different financial or non-financial government support, especially when those MFIs starts their operation within a particular country. However, the intention of those institutions is to become commercialized, whereas their operations are oriented to create higher return (income) to be able to finance their operations and to become self-sustainable. Poverty and development are closely related to each other, as there where poverty is present, which means that there I lack on development (Littlefield, et.al. 2003).

As further stressed by Littlefield, Murdoch, and Hashemi (2003), MF plays a crucial role and is considered as an important factor in achieving development and fighting poverty in developing and poor countries. Donors interested to support developing countries and fighting poverty in those regions, do that by providing founds to MFIs that generally embraces the elements that take into consideration poverty and development. As noted by Littlefield et al. (2003), based on research findings collected during a review of studies on the impact of MFIs on the local population, they concluded that microfinance goes beyond just business loans – it has a wider effect on the lives of the borrowers and their families, such as in health and education, management of household requirements, and other needs that are related or depend on cash or immediate payments.

To some, microfinance resembles the magic, as Boudreaux and Cowen (2008) have described the microfinance “the micro-magic of micro-credit.” As further explained by Boudreaux and Cowen (2008), microcredits offer to poor people the possibility to better manage their daily life. Although, the enhancements might not show up as an obvious profit yield on investment made with engaging the loan borrowed from MFIs, on the other hand, “the benefits are very real” (Boudreaux and Cowen, 2008, p. 31). Microcredit is considered by many as an alternative form of money lending (Boudreaux and Cowen, 2008), especially for the poor part of the population. However, it is clear that it may not be only an alternative way of borrowing and lending money, nowadays it is becoming clear that it is the only way of lending money by the poor people; hence, it is for many the only way to have access on finance. As the majority of the poor population work on the informal sector, which is present and widespread phenomena in poor and in-developing countries, banks do not allow credits to those people active in that sector. Compared to the traditional banks, the microcredit institutions lend to almost all that can prove that are active and engaged in any sector (Boudreaux and Cowen 2008). To summarize, microfinance incentives help fighting poverty.

The rapid growth of the microfinance sectors and as an industry, over the past two decades, has widened its impact even more than it was thought initially. Nowadays, microfinance has reached approximately (by extending loans) more than 200 million clients by the end of 2010 (see figure 1). Taking in concern different socio-economic relations of the borrowers related to the impact of borrowings to their families, in developing countries microfinance has affected upon the lives of around 1 billion people (Lützenkirchen and Speyer, 2013).

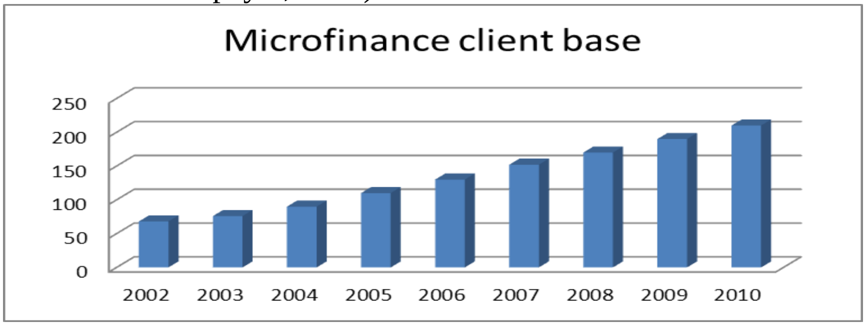

Figure 1, Microfinance client base (source: Lützenkirchen and Speyer, 2013)

Even if Europe and central Asia is the smallest region that microfinance has spread their services, there are more than 8 thousand microfinance institutions. Those microfinance institutions serve to about 9 million borrowers with a portfolio of 16 billion USD. Recent data is showing that soon this number of borrowers will exceed 100 million (MIX, 2011) . As can be seen on the table 1, the latest research has reviled that were round 1400 MFIs, where worldwide 90 million borrowers were reached in 2011 (MIX, 2013). Furthermore, microfinance does not only provide immediate financial support to all micro-businesses, but also it has provided access on micro-loans to approximately 2.5 billion adults lacking a formal bank account (MIX, 2013). As revealed in table 1, only 33% of worldwide borrowings are provided by microfinance institutions. Whereas, the majority of borrowings served, 67% are provided by financial institutions, such as banks.

Diversity of institutions serving the sector	
Number of MFIs reporting to MIX in 2011	*1,400*
Percent of borrowers served by a non-profit institution	*33%*
Percent of borrowers served by a financial institution	*67%*

Table 1, Diversity of institutions serving the sector (adopted from MIX 2011)

The majority of microfinance institutions (MFIs), offer both, credit and saving services to its clients. Except borrowing, there are also specialized MFIs in providing insurance products (26%). Except financial services and products, regardless if saving or as loan (credit) products, there are also MFIs that also offer non-financial services, round 54% of total MFIs worldwide (see table 2).

Diversity of services provided by the institutions	
Percent of institutions proposing both credit and savings	*54%*
Percent of institutions proposing insurance products	*26%*
Percent of institutions proposing non-financial services	*54%*

Table 2, Diversity of services provided by the institutions (adopted from MIX 2011)

Rural and women support, were in the spotlight of MFIs from the start of their activities. The first (known borrower from MFIs in Bangladesh, in 19070s) was a woman. Therefore, the majority of MFIs borrowers are women (round 73%). Those women are mainly located on the peripheral or rural areas, where access to often financial institutions is available or possible. Even that the main goal was providing financial support to poor people, which mainly is located in rural areas, MFI outreach is still largely concentrated in urban areas, with just under 40% of loans made for clients living in rural areas. This represents only 20% of the loan portfolio of MFIs, versus 80% in urban areas, which seems to be the more profitable for MFIs as the return possibility is higher compared to rural areas (see table 3). Not only individuals were served, but also microenterprises have seen a good chance for their development by borrowing from MFIs, which made 81% of the total borrowers (see figure 3). Microfinance may have a significant impact and can play a crucial role in creating new, positive and sustainable socioeconomic, through innovative practices of borrowers within their own surrounding, and also within their community.

Diversity of microfinance clients	
Percent of rural borrowers	*38%*
Percent of women borrowers	*73%*
Percent of clients with microenterprise loans	*81%*

Table 3, Diversity of microfinance clients (adopted from MIX 2011)

As poverty is mainly related to war and conflicts, microfinance is often seen as the first supporter providing to local population, access to finance. Hence, one can say that, microfinance are tight (and most effective) in post-conflict situations. As the majority of post-conflict countries go through stages of reconstruction of financial institutions, it creates a lack of financial and social capital (Nagarajan, 1999). Hence, as noted by many, microfinance is seen as a tool toward managing the transition from humanitarian seeds and relief, which is considered as crucial for any post-conflict country, toward economic reestablishment and sustainable development (Seibel, 2006; Hudon & Seibel, 2007). Microfinance is also becoming part of strategies of many post-conflict countries, aiming to provide needed support (mainly financial) toward rebuilding and recover local economies in those areas (Nagarajan, 1999). Many experts have also criticized microfinance for their adverse effect on comprehensive development. This applies predominantly to post-communist countries, since the legacy of the communist countries, may differ from circumstances in developing countries (or better known as "the third world"). Further critiques are related to whether microfinance can challenge overall long and medium-term economic development since it supports activities which are seen as inefficient toward developing a sustainable overall economy. As argued by Roodman and Morduch (2009), positivity and achievements mentioned in various articles of the impacts of microfinance, are in fact, grounded on defective statistical analyzing methods. However, criticism should be a subject for further research, and will be limited (in this present paper) only on respondents experience within the Kosovo microfinance system.

Microfinance in Kosovo

The microfinance sector in Kosovo started its activities immediately after the war in year 1999. The majority of microfinance institutions (MFIs) started their operations supported by diverse international organizations, the main purpose of which was supporting the local population and are active in different countries as humanitarian organizations. The aim of those organizations is to provide support and access to financial resources in post-conflict countries, especially to poor population. Currently, there are 19 MFIs operating in Kosovo (AMIK, 2013). Kosovo has gone through a phase of destruction, both in infrastructure and in the financial side. After the war, Kosovo's banking system was demolished and non-functional. Therefore, the only source of funds and financial resources were offered by micro financial institutions. The activities of MFIs in Kosovo are mainly operating in rural areas. In terms of loan numbers, MFIs represent round 20% of the financial sector in Kosovo, and representing 7% in total loan amount (AMIK, 2010).

Kosovo is considered as one of the poorest countries in Europe (WB, 2013). Round 40% of all Kosovars are poor. Immediately after the war in 1999, the United Nations Mission in Kosovo (UNMIK) took the responsibility (political and development) and has initiated legislative procedures to create new development institutions, part of which were also MFIs, which in the initial phase of their operations were registered and have operated as Non-Government Organizations (NGO). Due to the lack of proper institutions in Kosovo, MFIs were registered at the respective institution (Ministry of Public Services – MPB) as an NGO and non-profitable organization. Therefore, their profits and income, regardless from the activities that they carried were tax exempt. Only after that Kosovo has declared its independence in year 2008, Kosovo institutions created new regulation (2008/28) that enabled MFIs to operate, register and transfer their status into "licensed" deposit-taking entities. The regulation aimed also to control, to monitor, and supervision of MFIs by governmental instructions.

Even if the legislation was in place, the majority of MFIs have continued operating as NGOs providing microcredit loans. As the Kosovo population is one of the poorest, MFIs have not seen as important to start offering other products (services), even if according to the regulation MFIs are allowed to operate as commercial entities and can offer other services. However, the majority still offer microcredits as the only product. However, even if the regulation is clear and specifies the status of MFIs, there are debates regarding the transfer of MFIs property from NGOs to new business entities and taxation of revenues that they have to pay. This issue has created hard times for MFIs, as the transformation process has been obstructed for several years. Though, stakeholders are aware that transformation would be constructive and will offer new advantages to MFIs, which will support the microfinance sector in Kosovo, as the ownership issues would be clear and in place.

Kosovo is a young state with barely functioning and instable economy. A large part of people work in the informal sector; hence, companies are not always registered and do not possess all needed legal structure. Having this in mid and including the degree of unemployment, the majority of the population, due to the lack of supportive legal documentation needed, are not able to access financial resources offered by the banking sector. This helps not only to the people to have access at financial assets, but also by this means allowing MFIs to grow and ins some cases to compete with banks. Another advantage of MFI operating in Kosovo is that the local currency is the euro, and therefore MFIs are not exposed to foreign exchange risk like in other neighboring countries (i.e. Bosnia and Herzegovina, Serbia, Macedonia, and Albania). This is an important factor, and ensures to MFIs a secure return as the most MFI debt is denominated in euros.

However, Kosovo's economy is tightly related and depends on remittances, transfers from Kosovars living abroad, which makes averaged 14% of GDP (IMF, 2012). What makes this issue even more important is that remittances, due to the global economic crises, will decrease. This may have a positive effect on the amount of microcredits that MIS can issue to its clients. However, knowing that a large part of MFIs clients in Kosovo are not officially employed makes them dependable on funds and financial assets from relatives working abroad, in other words, remittances. as the crises affects more and more people abroad (living out of Kosovo), the possibility of receiving funds from abroad (in a form of remittances) is decreasing, with this, also the return rate of debts is decreasing. This makes even more difficult for MFIs to function properly, as they are not able to distinguish the "good" from the "bad" borrower.

The transformation process

Initially, MFIs in Kosovo were registered as NGOs and operated according to regulation set by the United Mission Nations Mission in Kosovo (UNMIK). After consolidation of Kosovo Provisional Institutions (KPI), MFIs were registered at the Ministry of Public Services (MPS). Even if regulated by the law, all MFIs were exempt from taxation; hence, their profit was free of taxes. In 2008, UNMK approved Regulation 2008/28, which regulates registration, licensing, supervision and monitoring of all MFIs and so empowering MFIs to transform the entities and licensing them as deposit-making institutions. The registration of all institutions and companies (also the MFIs) has gone under supervision of the Ministry of Trade and Industry (MTI). The regulation also regulates issues related to MFIs that are unable to meet capital requirements, which are set through regulation, such as for deposit-making institutions. The regulation also defines which from MFIs can be registered and continues functioning as NGOs and which must register as Licensed MFIs. All MFIs that provide only microfinance loans can operate and register as NGOs, while Licensed MFIs can operate as commercial entities and are certified to mobilize deposits from the public, and offer other products.

As the majority of MFIs are established through donations, the process of transformation from NGOs to Licensed MFIs. The matter of transfer of assets and retroactive tax issues related to the previous status of MFIs are still debatable, which is why the process of transformation is struggling and was obstructed for several years. Though, stakeholders are aware that transformation will provide new benefits to the entire microfinance sector in Kosovo. Whereas, microfinance sector will have all needed information pertaining to all active MFIs, all MFIs will solve their structural issues related to property, will provide additional contribution for the local population by paying taxes, and will be able to offer more than one product (that was microcredits). Hence, licensed MFIs will be able to offer deposit products to people with limited access to other financial institutions (such as banks).

Microfinance sector in Kosovo

Immediately after the war in 1999, there were many interested organizations that were interested to start their activities in Kosovo. Some of them were part of UN donation and development program, whereas some have started as MFIs, regardless the fact that they were funded and have operated as NGOs and were exempted from all taxes. At the very beginning, in Kosovo were several MFIs offering mainly microcredits. According to the Central Bank of Kosovo (CBK), currently in Kosovo operate and are active 19 MFIs. After Bosnia and Herzegovina, Kosovo has the highest inflow of

MFIs in Europe. The tendency of increase in outreach of MFIs in Kosovo continued through the last decade, until the end of 2009 and the beginning of 2010. This growth stagnated, especially in year 2010, due to the financial world crisis which has affected the entire world financial industry, also Kosovo.

The activity of MFIs in Kosovo is largely concentrated in financing small and medium businesses (SMEs) and households with limited access on financial assets offered by other institutions (i.e. banks). Even is the importance of MFIs in Kosovo after the war, they comprise a relatively small part of the Kosovo's financial sector, which makes round 3.7 percent of the entire financial sector assets (CBRK, 2013). In June 2012, in Kosovo were 19 MFIs operating, compared with 17 institutions that were operating in June of the previous year. Even if the number of microfinance institutions is decreasing, the microfinance industry in Kosovo has been usually was seen as the major sector and one of that fastest growing g in the entire Kosovo's industry, which was also characterized with a comparatively high rate of market concentration. Nevertheless, the Herfindahl- Hirschman Index (HHI) shows that the amount of market share of the MFIs holding is constantly declining (CBRK, 2013)(Figure 3).

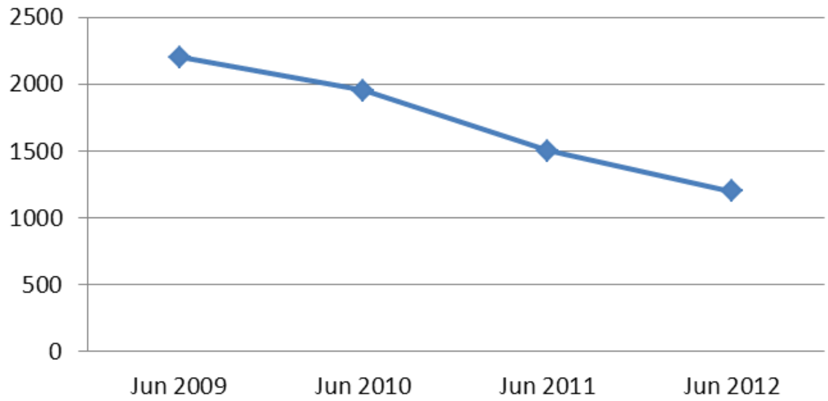

Figure 2, HHI for the assets of microfinance institutions in Kosovo (source: CBAK, 2012)

On the contrary to the previous years, where the three major (largest) MFIs possessed the majority of the structures of assets in the Kosovo microfinance sector, in June 2012, for the first time, those three MFIs have lost the majority of assets in the market; hence, the assets of the other MFIs comprised the largest share of MFIs assets of 53.8 percent (CBRK, 2013), as shown in figure (Figure 4).

The Association of Microfinance Institutions of Kosovo (AMIK) represents the majority, but not all, of MFIs in Kosovo. One of their goals is to advance the microfinance sector in Kosovo, which in return will support and promote social and economic development. MFIs see them as the best form of supporting poor people, small and medium enterprises (SME), and all them who have no access in financial assets, by providing access to microcredit. Hence, it is more than obvious that MFIs play a major role in the economic development of Kosovo.

MFIs operating in Kosovo, have reached their strongest growth in outreach in year 2008 and into 2009. There was a growing in needs for micro-loans issued by MFIs. In this period, the total amount of borrowings have increased by 20 percent in 2008 and by has reached its largest amount on loans issued in year 2009, increasing by 27 percent until the end of year 2009. However, the upcoming years seemed to be more difficult for MFIs in Kosovo. The entire Kosovo’s economy has suffered from the overall economic crisis and due to that the growth in portfolio of MFIs was slower. In year 2008, the portfolio of MFIs in Kosovo has increased by round 41 percent, compared to following year 2009; the increase has merely reached 15 percent. The major problem causing the decline of requests for loans was the decrease in remittances in Kosovo reduced due to the lowering income of Kosovars in other countries. Remittance, have played a huge role in Kosovo’s economy, as they are seen as a warranty for many unemployed people. Furthermore, remittances are also seen as the only guaranty for returning loans. As the inflow of remittance has decreased, the purchasing power of MFIs clients (that consists mainly of poor people and which are dependable on those incomes from outside), and as a result MFIs turn out to be more conservative by creating new policies regarding the way that the loans were issued. Hence, the first measures taken by the MFI was reduced the amount of loans distributed.

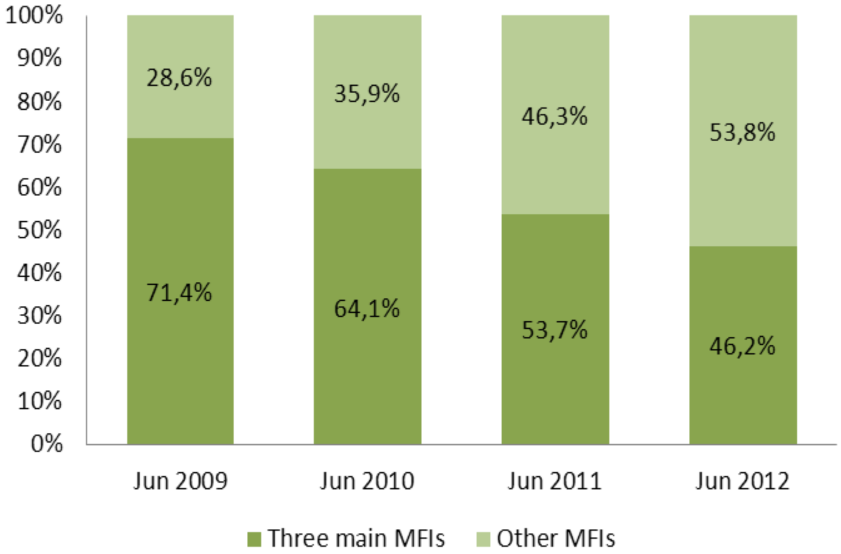

Figure 3, Structure of MFI assets by size of the institutions (sources: CBAK, 2012)

Despite the fact that the number of MFIs has increased lately in Kosovo, the overall value of the total assets of MFIs in year 2012 has decreased by 4.1 percent, amounting at 122.6 million euro. This has occurred due to the fact that the loans issued by microfinance institutions, which represents the main product of the MFIs assets, dropped by 10.9 percent. As reported by CBAK (2012), in June 2012, the total value of microcredits or loans issued by MFIs was euro 102.6 million (Figure 3). Furthermore, according to CBAK (2012) the total number of loans issued by MFIs by June 2012 was 55,022, which characterizes a yearly decline of 13.8 percent, compared to previous year 2011. Therefore, the typical value of a single loan distributed by microfinance institutions amounted at round 1,864.9 €euro, compared to the first part of the previous year 2011 was 1,804.90 euro. The main indicator that shows the way the MFIs in Kosovo are going is the share of loans issued, compared to other financial institutions (i.e. banks). In year 2010, the total of shares of loans issued by MFIs has declined by 7.5; whereas, in year 2011 it has declined by 6.6 percent; and by 5.5 percent by June 2012. This has pushed the entire sector towards deterioration and has reached peaks of deterioration in the first half of year 2012, where MFIs have closed the reporting period with a net loss. Hence, in June 2012, microfinance institutions in Kosovo have reported a net loss of euro 2.4 million (CBAK, 2012), which is the first year that has shown that MFIs do not always succeed to reach what they have intended, although there is an extraordinary need for financial assets.

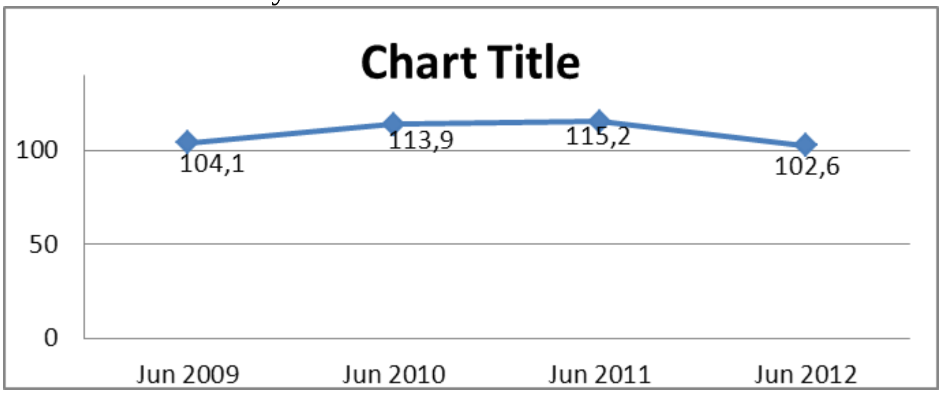

Figure 4, Loans issued by MFIs, in millions/Euro (source: CBRK, 2012)

Who wins what?

Using Kosovo as a case study enables us to create a clear picture of what microfinance can offer and what impact it has, both as a tool for post conflict extenuation and as a tool for economic development, especially in post-communist and transition economies. Kosovo represents a case that enlightens the impact of microfinance institutions, and as such can provide very valuable information.

As the war ended, Kosovo was destroyed in all aspects, economic and social. All that was left was a highly educated work force and the willingness to create a new environment, or as recognized by Demirguc-Kunt et al. (2007), the entrepreneurial middle class of society. The war resulted with declining of GDP per capita by more than 80 percent, resulting from 3300 USD in 1990 to 650 USD in year 2000. As it can be seen, not only the income of the population has decreased, but also the buying power too. Consequently, the majority of the population was not able to afford eve the basic family necessities.

After-conflict countries are ideally for microfinance institutions to start their activities, as they offer the most commonly identified favorable conditions for those institutions. There are two major pre-conditions that are seen by MFIs as to their advantage. Firstly, almost all state-owned enterprises (SOEs) had been demolished and were not operational; hence, all highly educated people were suddenly unemployed and displaced, which offers to MFIs reedy and cheap personnel. Secondly, there are no other financial institutions (such as banks), which could offer to the poor people access to financial resources, which are more than needed in this period. The need for financial assets was even greater as there was also a lack of capital for business start-ups, as all businesses were destroyed and needed additional financial support to be able to re-start their productivity (Marek & Dieter, 2001). As noted by many (Weiss, 1988; Putnam, 1993), MFIs use the opportunity that is created to provide sought-after funds to appropriate borrowers, which are reliable in returning the borrowings. Additionally, authors have highlighted and made parallels here to the importance of a trust establishment and building confidence between the MFIs and the local population (social capital) and by affordable credit to individuals and to SMEs.

The period of post-war found Kosovo, not only the bad economic situation, but also in a weak political situation. Weak and yet not established institutions meant that microfinance institutions were allowed to establish and offer their products without any examination or control. In the formative years, the United Nation Mission in Kosovo (UNMIK) has taken responsibility for the creation and development of Kosovo's institutions, and as a result of this a regulatory framework was in place that was very limited, and allowed the microfinance institutions significant leeway to establish their lending policies, due to the lack of other financial institutions.

However, even if in Kosovo the majority of the population were poor, compared to other European countries, there are some differences compared to other poor countries such as African and Asian countries. There was a new class of so called "poor post-conflict" countries, which were educated and they usually possessed some physical assets that have been left undestroyed.

The “new poor” class was described by Hartarska and Nadolnyak (2007), as the people who before the war might have had their own businesses or at least were employed and were educated and able to carry out miscellaneous jobs, but were displaced or became unemployed as the war has destroyed their properties or factories where they have were employed. In Kosovo, unemployment during the years 1999-2000 has reached 95%.

Even if the war was ended in late 1999, the overall situation wasn’t so optimistic, as many other issues that were seen as the cause of the conflict, were yet to be solved. Ohanyan (2002) has underlined the complexity arising as a result of post-conflict countries, which not only face with all problems create by the war, but have to exceed issues that occur as the majority of countries in South-East Europe (part of which is also Kosovo), must deal with a socialist and communist past; hence, the transition even more complex. As further noted buy Ohanyan (2002), post-socialist countries are characterized by the problem of multiple transitions, such as political (from the war to peacetime), economical (from closed to open-market economy), and development (from humanitarian aid to a stable and sustainable economic development).

Even if post-conflict countries and regions are seen as special opportunity for microfinance institutions, viewed from the perspective of gains and favorable conditions, it is argued that microfinance do not offer special conditions and products, which differ from other so called “normal” markets. Hence, a post-conflict environment does not mean by any means to be different from other environments (Larson, 2001). What is then the benefit from MFIs in post-conflict environments? The advantage of microfinance institutions, and the reason why they are successful and needed in post-conflict economies or environment, is the fact that the core idea still is to provide micro-credits to all those that do not have access on regular banking institutions (as banks usually do not function due to the conflict), or as the majority of those who need the credit are not creditworthy according to commercial banking setting or requirements. However, except that there must be demand for loans, it is crucial for MFIs that the market fulfills several conditions that are seen as very important to the operation and success. As stated by Doyle (1998), there are three major conditions needed to be in place, in order to offer MFIs an appropriate working environment. Firstly, according to Doyel (1998), the most important condition is that there must be a low intensity of conflict, as the success in every market, especially in post-conflict markets depends on the safety and working conditions of the MFI employees, their investments as well as the borrowers (or the local population). The maj9ority of countries that have gone through wars and conflicts, are mainly closed or ex-communist countries, which according to Doyle’s second condition, is that they have to become open markets in order to allow free entries for MFIs and in the same time to create new initiatives of trading and consumption. The resumption of economic activities, which leads in creating of self-esteem of among the local population leads to increasing consumption and simultaneously creating new needs for funds, thus for credit. According to Doyle (1998), for MFIs, probably at least 18 months are needed in order to see the first returns of their investment. The main rationale behind the proclaimed by microfinance institutions, that they are to help the local poor population, it is important to acknowledge that the main objective of microfinance institutions is to initiate economic growth and profiting from their investments, rather than only to support or help the local population (Woodworth 2006). One may say that not every market or region is the same; hence, conditions vary from country to country. However, all these three conditions or scenarios mentioned by Doyle (1998) were available in Kosovo.

Conclusion

Even if the overall situation in Kosovo can't be judged from this stand point of view, pertaining to the impact of microfinance institutions, also it can serve as a good critical test case. Even if there are many critics related to the impact of MFIs after the war in Kosovo, the overall opinion shows that the MFIs bear part of success in developing Kosovo. It is more than obvious that MFIs have supported the local population, by offering them micro-credits and creating an opportunity for them to have access to financial funds. However, on the other side, there are many critic voices suggesting that microfinance institutions may essentially have obstructed the development of SMEs, rather than supporting them. This is seen as one of the major obstacles that MFIs have to exceed, in order to fulfill their proclaimed intentions in providing support to economic development. Almost all microfinance institutions in Kosovo have started as foreign investments and donations. However, now they are independent and self-sustainable institutions, and with this transition also the interest of MFIs has changed. Even if interest rates were high, compared to other neighboring countries, they have increased even more after the MFIs have transformed their status. The situation of MFIs in Kosovo has been improved and there is a sustainable financial sector in place, viewed from the legal site. However, stating that MFIs have succeeded because of support provided to mainly individual clients is not adequate. MFIs affect broader economic and legal aspects, and as such, they seem to have had a positive impact in the overall economic situation in Kosovo. Even if the positive impact is measurable, that does not necessarily translate into eyes of many individuals as a success or as a support, especially in circumstances where some of the aims of using funds issued by MFIs are of a social nature, rather than an economic investment.

Even if the success of MFIs is evident in Kosovo, creating new obligations and the impossibility of returning the debt by individuals, seems as a difficult challenge that can't be considered as positive.

There are many issues in this research, which have raised attention of serious concern connecting to the microfinance model implemented in Kosovo and how does this works out in post-conflict countries and regions. The majority of residents in Kosovo agreed that there are possibly some short-run benefits of MFIs. Mainly this comprises quick access on finance, which is considered for many individuals in post-conflict countries, as the only financial source that can be accessed. Not only individuals, also SMEs are benefiting from micro credits issued by MFIs. In other words, these are seen as 'risk' groups for many financial institutions, such as banks. However, seeing in longer run, the MFIs are not seen as they have claimed to be. The picture becomes far less clear as in the short-run.

No one negates the opportunity that is given by MFIs to the poor population, by enabling them access on financial assets, especially in poor and post-conflict countries. However, the impact of MFIs on fighting poverty is an intensely debated issue. Many accept the fact that in general microfinance is not a "silver bullet" and it has not supported the overall economic development of any country, at least not as it was expected (Hulme and Mosley, 1996). Nevertheless, if implemented and managed carefully, and all offered products are designed to meet the needs of local population and communities, microfinance can be considered as a good opportunity for progress and overall economic development.

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