



Frequently Asked Questions for Registration of Microfinance Institutions and Non-Bank Institutions

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Frequently Asked Questions for Registration of MFIs/NBFIs

The most frequent questions that CBK receives from parties interested to register Microfinance Institutions (MFIs) and Non-Bank Financial Institutions (NBFIs) are organized into the following categories:

- General;
- Pre-application;
- Post-application;
- Licensing/Registration.

General

1. *Who is CBK?*

Central Bank of the Republic of Kosovo is an independent public institution and its primary objective is to promote and maintain a sound financial system and an efficient payment system. It is the only authority for licensing, regulating and overseeing financial institutions in Kosovo. The responsibilities and objectives of CBK are defined in Law No. 03/L-209 on the Central Bank of the Republic of Kosovo (link: <http://www.bqk-kos.org/repository/docs/2010/Ligji%20per%20BQK-ne.pdf>, hereinafter "Law on CBK") as well as Law No. 04/L-093 on Banks, Microfinance Institutions and Non-Bank Financial Institutions (link: <http://www.bqk-kos.org/repository/docs/2012/Ligji%20per%20bankat%20IMF.pdf>, hereinafter "Law on Banks").

2. *What are financial institutions?*

Financial Institutions means entities such as: banks, insurance companies, pension funds, microfinance institutions, non-bank financial institutions, insurance intermediaries, damage claim handlers as well as other legal entities that exercise financial activities, as defined by the applicable legislation and according to which the Central Bank has been granted the authority to license, regulate and oversee them.

3. *What is a Microfinance Institution?*

Microfinance Institution (MFI) is a legal entity organized as a joint stock company under the Law on Business Organizations, which provides as its primary activity loans and a limited number of financial services to micro and small legal entities, low-income households and low-income persons.

4. *What is a non-bank financial institution?*

Non-Bank Financial Institution (NBFI) is a legal entity that is not a bank and not a microfinance institution that is licensed by the CBK under the Law on Banks, MFIs and NBFIs to be engaged in one or more of the following activities: to extend credit, enter into loans and leases contracts financial-leasing, underwrite, trade in or distribute securities; act as an investment company, or as an investment advisor; or provide other financial services such as foreign exchange and money changing; credit cards; factoring; or guarantees; or provide other financial advisory, training or transactional services as determined by CBK.

5. *When can I call myself an MFI or NBFI?*

No person may engage in the business of a microfinance institution without first being registered with the CBK under the provisions of Law no. 04/L-093 on Banks, Microfinance Institutions and Non-Bank Financial Institutions and without being at all times compliant with this Law and with applicable regulations and orders issued by the CBK. Domain (webpage) names and email addresses are similarly checked and you have to be careful about the use of sensitive words, including the word bank, MFI or NBFi.

6. *Can the MFI or NBFi have a status other than Joint Stock Company?*

Microfinance institutions cannot have a status other than a joint stock company, while non-bank financial institutions may also be registered as limited liability company (LLC).

7. *What is registration?*

Registration is an authorization issued by the CBK for granting the right to deal with the activities specified under that authorization.

8. *What is a deposit?*

Deposit means the amount of money paid to a bank by a legal person or entity, which is received by the bank provided that it is fully returned, with or without interest or premium, be it at the request or at the time agreed with that legal person or entity.

9. *Can MFIs and NBFIs engage in receiving deposits?*

Microfinance Institutions can only engage in deposit collection once CBK approves such a thing for the relevant MFI. However, an MFI can in no case engage in the collection of deposits that exceed fifty per cent (50%) of its capital surplus or the maximum amount of one hundred and twenty-five thousand (125,000) Euros, whichever is smaller.

While Non-Bank Financial Institutions cannot engage in receiving deposits.

10. *What financial activities are allowed for MFIs and NBFIs in Kosovo?*

The financial activities allowed for MFIs are defined in Article 93 of the Law No. 03/L-093 on Banks, Microfinance Institutions and Non-Bank Financial Institutions. When registering at the CBK, MFIs engage in all activities allowed in this Article.

The financial activities allowed for NBFIs are defined in Article 94 of the Law No. 03/L-093 on Banks, Microfinance Institutions and Non-Bank Financial Institutions. Unlike other institutions, NBFIs only engage in those activities for which there is approval at CBK. Over time, NBFIs may request approval from the CBK for carrying out additional activities.

11. Where to apply for being licensed/registered as a MFI or NBFi?

To be licensed/registered as an MFI or NBFi in the Republic of Kosovo, you should contact the Licensing and Standardization Department via email (Licencimi@bqk-kos.org) or phone (+381 38 222 055), where you will receive the necessary instructions for application. In addition to the necessary instructions, LSD will also inform you that before beginning with the application process, holding an informative meeting with representatives of the CBK is mandatory.

12. Does it matter if I am not based in Kosovo?

CBK welcomes the requests of every new financial institution with a sound business model regardless of where the "parent" institution is established. If you are a financial institution with headquarters at any country of the world, you can operate in Kosovo as a subsidiary or branch (or both).

13. How many MFIs and NBFIs are licensed/registered in Kosovo?

You can find the MFIs and NBFIs licensed/registered and that exercise financial activities in the Republic of Kosovo in this link. <http://bqk-kos.org/index.php?id=20>.

14. Are all MFIs the same?

All MFIs licensed/registered in the Republic of Kosovo can exercise the financial activities defined in Article 93 of the Law No. 04/L-093 on Banks, Microfinance Institutions and Non-Bank Financial Institutions.

15. Are all NBFIs the same?

All NBFIs licensed/registered in the Republic of Kosovo can exercise the financial activities defined in Article 94 of the Law No. 04/L-093 on Banks, Microfinance Institutions and Non-Bank Financial Institutions for which there is specific prior approval for each activity.

16. I am not sure if I should be an MFI or NBFi, where can I get more information on the alternatives?

Those interested in registration as MFI and NBFi, depending on the business plan or the activities they plan to undertake, they should initially assess whether the establishment as MFI or NBFi is a more appropriate option for them. The difference between MFIs and NBFIs is related to the activities allowed for these institutions. If it is aimed to engage solely in lending activities and activities related to lending, as well as receiving deposits for lending to certain segments or individuals that reside in a specific part of the country or if it is aimed at lending to small local enterprises or non-profit organizations, the establishment as an MFI may be a more appropriate alternative.¹ Whereas, if it is planned at engaging in other activities besides lending activities, such as payment service, leasing, factoring etc., the establishment as an NBFi may be a more appropriate alternative.² Finally, the parties interested to apply, are advised to refer more detailed information on each of the alternatives in Annex III - Alternatives to Bank Licensing in the MFI and NBFi Registration Manual to see what is the most appropriate alternative for their vision is.

17. Who should be present at the information meeting by the applicant's side?

All key shareholders of the proposed new MFI or NBFi should participate in the meeting.

¹ MFIs planning to engage in the receipt of deposits, besides registration as MFI, should also obtain prior approval, MFIs planning to engage in the receipt of deposits, besides registration as MFI, should also obtain prior approval for this activity. However, the receipt of deposits is a limited activity.

² NBFIs are not allowed to engage in the receipt of deposits.

18. Can only the representatives of shareholders participate in the information meeting?

No, all key shareholders of the proposed new MFI or NBFi should participate in the meeting.

19. Who are the principal shareholders of the MFI or NBFi?

Principal shareholder is any person (legal and natural) that directly or indirectly, together or in interaction with other persons, owns ten (10%) per cent or more of any class of shares with the voting right of an MFI or NBFi or ten (10%) per cent of equity interest in an MFI or NBFi.

20. What to prepare for the information meeting?

Before holding the information meeting, the parties interested to apply should prepare to present at the meeting a brief summary of the high level of business proposal, which as a minimum should contain:

- the reasonableness of the establishment of the MFI or NBFi and the initial business strategy, specifying which products will be provided, how will they be provided and the target market;
- financing sources - how will they be funded and whether there are any investors and/or funds in the country;
- ownership and management team - the details of the proposed owners and managers, in so far as they are known;
- time schedule - an overview and timeline of the plan to establish the new MFI or NBFi.

21. When can I start preparing the application for registration of an MFI or NBFi?

After holding the information meeting and sending the application forms by CBK, you can start preparing the application for registration as MFI or NBFi at CBK.

22. What documents should I submit as an application for licensing/ registration of an MFI or NBFi?

The application for registration as an MFI or NBFi must be accompanied by the information required in point 2.2 of the MFI and NBFi registration manual. This part begins with the listing of supporting documents that should be part of the application for licensing/ registration as MFI or NBFi.

23. How quickly I can become an MFI or NBFi?

There is no simple answer to this question. The pre-application stage has no fixed deadline and the speed of progress is entirely separate and depends largely on your seriousness and engagement in completing the documentation according to legal requirements. CBK is interested in the quality of the material you prepare rather than the amount or speed at which you prepare. After submitting your request, CBK will make a decision on your application within the legal deadline of ninety (90) days - please see the Application stage for more details.

24. What if my firm is already licensed/ registered?

If your firm is already licensed/registered for any activity, you should apply to add the activity that you plan to exercise. While this is another type of activity, you should follow the same process as a new MFI or NBFi and start with the pre-application activities.

Pre-application

25. Do I have to go through the pre-application process?

Yes, you must follow the pre-application process, this is a formal request of CBK. Keep in mind that firms that are more proactive in the pre-application stage submit a request that is much more qualitative, which CBK can assess easier.

26. What is a business plan?

The business plan is a description of your proposed business, which contains the details of your objectives and how you will achieve them. Your business plan should be tailored to the activities your firm plans to undertake while taking into account the CBK licensing criteria. In order for it to be eligible for CBK, the business plan must at least contain the following information:

- business statement: overall strategy of the proposed MFI or NBF and details of the planned financial activity;
- market analysis including the analysis of direct and indirect competition;
- financial analysis, which includes the disclosure of the structure of assets, liabilities and capital as well as financial projections for the first three years of operation;
- important functions;
- governing structure of the proposed MFI or NBF.

If you submit an incomplete or unclear business plan, this will cause delays in evaluating your application, as CBK will have to ask further questions or ask for further information to gain a clear picture of your business. However, your business plan may also evolve during the pre-application process as you develop your business model and receive comments from CBK. The Business Plan is an important part of your overall application and is an integral part of CBK's decision-making. CBK will use it to assess the risks your business presents to your objectives and how you plan to control and manage them. You also need to use your business plan to help you focus on running your activities and organizing resources to achieve your objective.

27. Are my interactions with you confidential?

Yes. All questions and information that the CBK receives will be treated as confidential.

28. *What is the minimum capital required for the opening of a new MFI or NBFi?*

The minimum capital required for the opening of a new MFI is 200 thousand euros. While the minimum capital required for the opening of a new NBFi depends on the number of planned activities as follows:

- Lending - 300,000 Euros;
- Leasing/ conclusion of loan and lease agreements - 150,000 Euros;
- Investment Advisor - 100,000 Euros;
- Factoring - 150,000 Euros;
- Guarantees - 150,000 Euros;
- Payment service - 100,000 Euros;
- Currency exchange - 10,000 Euros.

For every NBFi requesting to engage in more than one activity, the minimum capital required and maintained will be in accordance with the amounts set for each requested activity.

29. *Who can be a shareholder of the new MFI or NBFi?*

A shareholder can be any person who is adequate and appropriate and proves financial viability.

30. *What may be the source of capital investment funds?*

The minimum capital must be paid in cash and its funds cannot be derived from illegal activities and from:

- loans from banks to which capital payments are made; or
- loans when the bank receiving capital is the guarantor;
- loans from other banks in Kosovo, unless one hundred per cent (100%) collateralized with approved securities held by a third party as custodian.

31. *Can we issue shares in exchange for services?*

Shares issued in exchange of services are not treated as paid capital. Also, payments or expenses for the purchase or lease of work premises and equipment, as well as other operating expenses are not included in the amount of initial minimum capital or the minimum amount of the Capital Equivalency Deposit.

32. *How many members can a board of directors of an MFI or NBFi have?*

The Board of Directors consists of a number of not less than three (3) members. All members of the board have the right to vote. Most of these members should be independent non-executive directors.

33. *Can the shareholders be members of the board of directors?*

Yes they can, it should only be kept in mind that most of these members should be independent non-executive directors.

34. Which directors may be considered non-executive?

Any director who is not a senior manager or employee at the MFI or NBFIs is considered non-executive.

35. Can the Chief Executive Officer be a member of the Board of Directors?

Yes, the chief executive officer can be a member of the board of directors, but must first seek approval from CBK. Therefore, in addition to CBK's approval as Chief Executive Officer, an approval should also be requested by CBK for the Chief Executive Officer to become a member of the Board of Directors.

36. Which directors can be considered independent?

Independent Director means a director who is independent of senior management or persons associated with senior management.

37. What means adequate and appropriate for directors and senior managers?

The adequacy of directors and senior managers proposed is considered as essential in the process of CBK for licensing/registering MFIs or NBFIs. As part of the licensing process, the applicable regulations have set the "adequate and appropriate" criterion and the independence criterion for approving directors and senior managers. The elements that are taken into account for these criteria include: data on criminal offences, financial position, civil actions against individuals for pursuing personal debt, refusal of membership or exclusion from professional organizations, sanctions applied by regulators of similar industries and previous suspicious practices of the business. Every principal shareholder, director, senior manager must meet the adequacy and appropriateness requirements with respect to the respective position.

38. When, where and how to submit the application for licensing/registration of an MFI or NBFIs?

The application should be submitted at CBK after completing the necessary documentation for application, physically or electronically.

39. Where can I read more about CBK's approach to registration of MFIs or NBFIs?

You can read more about the process of licensing new banks in the Law No. 04/L-093 on Banks, Microfinance Institutions and Non-Bank Financial Institutions (link: <http://www.bqk-kos.org/repository/docs/2012/Ligji%20per%20bankat%20IMF.pdf>) and the MFI or NBFIs Registration Manual.

40. Do I need to employ external advisors and consultants for completing the documentation for application and other criteria for licensing/registration of an MFI or NBFIs?

This depends only on you, but CBK does not require you to do so. Many applicants consider the engagement of external advisors or consultants useful, whereas others consider that they have the appropriate level of expertise within their staff.

41. Can you recommend any external advisor or consultant?

No, CBK cannot recommend any specific external advisor or consultant.

42. *Can I bring my advisors in the meetings with you?*

Yes, you can bring them but CBK does not expect them to speak on your behalf.

43. *Do you specify which IT systems you should use?*

CBK does not specify which IT systems you should use. Your firm's regulated activities should be supported by IT services that are effective, flexible, and secure, and are designed to meet the expected future needs as well as current business needs.

44. *Can you recommend any IT system/provider?*

No, CBK cannot recommend any IT system/provider.

45. *What should I do if things change in the meantime during application?*

If there is any change in your plans, you should contact the CBK at least five (5) days from the date of the change and discuss these changes.

46. *What is the bank licensing fee?*

The fee for registration of MFIs or NBFIs is five thousand (5,000.00) Euros. Exception from this rule are cases when it is applied for registration as a Non-Bank Financial Institutions with currency exchange as a sole activity, which is two thousand five hundred (2,500.00) Euros. For more information, see the Tariff Scheme on the CBK official website (<http://bqk-kos.org/?id=88>)

47. *Where can I find the details of the application fees?*

All required application fees are presented in the Tariff Scheme that is on the official website of CBK (<http://bqk-kos.org/?id=88>) and are non-compensable, regardless of the decision of CBK. Applications are considered uncompleted and consequently not reviewed if the licensing fee is not paid.

48. *Why should I pay a tariff?*

CBK is funded by the tariffs and taxes covered by the institutions it licenses/registers, regulates and oversees. As part of this, CBK requires a fee for reviewing an application for licensing/registration of a new MFI or NBFIs.

Post-application

49. *What happens after the application to the CBK for licensing/ registration as an MFI or NBFIs?*

After the formal submission of the application for bank licensing, CBK conducts the first assessment where it is verified whether the submitted application is complete or not. For the application to be considered as complete, all the required forms should be submitted to CBK. These forms should be fully and correctly completed and the information provided should be of adequate quality and details to allow CBK to complete the assessment. Also, for the application to be considered as complete, it should have the responses to CBK's comments, provided during the pre-application stage, incorporated.

50. *How long does the assessment of the application for licensing/ registration as MFI or NBFIs last?*

Within ninety (90) days after receiving the application, CBK reviews the documentation submitted and notifies

the applicant in writing whether the documentation is complete or not. If the submitted documentation is incomplete, CBK will notify the applicant of the deficiencies or discrepancies identified together with the request for additional information or documents required. The deadline for submission of additional information or documents is no later than ninety (90) days after the notification according to this paragraph. If the requested additional information or documents are submitted within the deadline, CBK will notify the party that the application is complete. CBK terminates the procedures of reviewing the application for registration if the additional data and/or documentation required for licensing is not completed by the applicant within ninety (90) days from the date of notification. In case of termination of the procedure for reviewing the application for registration, CBK notifies the applicant in writing. CBK issues a decision approving or rejecting licensing/registration as a microfinance institution or non-bank financial institution within ninety (90) days from the date of notifying the applicant that the application for licensing/registration is complete. CBK immediately informs the applicant of the decision taken. By mutual agreement between the CBK and the applicant, the decision-making period may be extended to another ninety (90) days.

51. What conditions should I meet in order for my application for licensing/registration as MFI or NBF to be approved by CBK?

CBK approves the registration of an MFI/NBF only if the following conditions are met:

- if the business plan is based on accurate analysis of reasonable assumptions, it is, therefore, real and competitive in the market;
- if the proposed MFI/NBF will act in compliance with all the provisions of the Law on Banks, MFIs and NBFs;
- if the organizational structure and the proposed ownership structure will allow CBK to exercise effective and consolidated supervision;
- if the qualifications, experience, integrity and reputation of the directors or senior manager prove that they are appropriate and capable of the proposed bank's business plan and financial activities as defined by the CBK in Articles 35 and 37 of the Law on Banks, MFIs and NBFs and the Instruction No. 01/2015 on Verification of Criminal Records for Main Shareholders, Directors and Senior Managers of Financial Institutions;
- if the legal source of capital funds and the financial capacity for investing the planned funds and for realizing the necessary funding for the sustainable continuation of the activity of the institution are proven
- the competent authorities overseeing the foreign financial institution at its headquarters have given their written consent for granting such registration.

Upon licensing/registration, the new MFI or NBF should start the activity from the date of notification for licensing/registration, otherwise, the licensing/registration may be revoked.

52. Is there any other condition that is considered by CBK as a criterion for licensing/ registration in CBK?

No, there is no other licensing/registration criterion, but CBK will reject a license/registration if the criteria set out in the Law on Banks, Microfinance Institutions and Non-Bank Financial Institutions and the Manual are not met, if the applicant intentionally provided falsified documentation and if it deems that the issuance of such a license would:

- jeopardize the financial viability of the proposed MFI or NBFi or the financial system in general;
- jeopardize the interests of the proposed MFI depositors; or substantially reduce competition.

53. What happens if any of the information submitted with the application changes during the period of assessment of my application in CBK?

In case of changes to the information on the basis of which CBK has issued prior approval for licensing/registration, the applicant for an MFI or NBFi notifies in writing CBK of the new facts or circumstances created. This notice must be sent to CBK immediately after new circumstances are created, but no later than fifteen (15) days after their submission. If the changes that occur during the organizational stage substantially change the facts in which the CBK has based its prior approval, that approval may be revoked.

54. Can I appeal if my request for licensing/ registration is rejected?

Yes, the dissatisfied party may file a claim (against the decision of CBK for rejecting the request for license/registration) with the competent court in the deadline of thirty (30) days from the day of receipt of the decision, but the exercise of the claim does not terminate its enforcement.

55. Can I start organization before licensing/ registration?

The applicant may initiate the organization of the new MFI or NBFi before being licensed/registered by CBK. However, the work of the new MFI or NBFi cannot start until licensing/registration is granted by CBK.

56. If the institution is authorized to exercise financial activities, can it continue to exercise that activity during the application process?

Yes. the institution may continue to perform the activity for which it has already been authorized even during the process of application for license/registration. However, the activities for which the institution is applying cannot be exercised until authorization is made.