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The Role Of Management In Microfinance Institutions In Kosovo - Case Study Dukagjini Region

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Abstract
The main purpose of this scientific paper is to identify and test some of the factors that affect the proper management of microfinance institutions in Kosovo. The management of Microfinance Institutions (MFIs) in the modern economy is very important and for this reason, special attention is paid, as the results of MFIs depend on the way they are managed and on the performance they have. The analysis period in this study includes the time from 2014 to 2019, while the source of data was: AMIK, CBK, and KSA. For the realization of this scientific study, we have used a comprehensive methodology, which includes the narrative method, the method of analysis, as well as the econometric method, through the multivariate regression model. In the framework of this paper, importance has been paid to staff empowerment and capacity building, which we have addressed as an important factor in achieving the success of MFIs. The results of the study clearly show that the empowerment of staff's staff has a positive impact on the achievement of results and the success of MFIs because it helps staff make more flexible decisions.

Keywords: Micro-financial institutions, communication, staff training, motivation, building long-term relationships with clients.

1. Introduction

All MFIs need to be managed, so the role of management in the MFI is of particular importance, so managers pool and coordinate scarce resources, accept risk, and make decisions in a dynamic environment where a series of factors intertwine.

Managers are the costliest and important resource of MFIs, to ensure that the MFI achieves the basic purpose and efficient production of products, to design and maintain stability in the MFI, to design the strategy, and to adapt the MFI to change the environment, to ensure that the MFI serves the purposes of those people who control it as well as an official authority that manages the organizational system

Proper management has found that the single most important variable in employee productivity and loyalty is neither salary, benefits, nor workplace environment; is the quality of the relationship between employees and their direct supervisors.

The way an MFI manages its staff can significantly affect its financial performance. From such reports, we can conclude that managers matter. Managers are organizational staff who tell others what to do and how to do it. It is easy to distinguish managers from non-managerial staff.

A manager is someone who works with and through other people coordinating their work activities to achieve organizational goals. The job of a manager is not about personal achievement -

it is about helping others do their job and achieve results.

In proper management at the MFI, it is not difficult to identify managers even though they may have different titles. Low-level managers are at the lowest level of management and manage the work of credit analysts.

The success of MFIs in the global economy is influenced by the qualification, commitment, creativity, and motivation of management staff. Management staff must be attentive to changes in the environment in which they operate, can adapt and create change themselves, have the ability to attract and retain skilled employees, have a vision regarding operational details, and have knowledge about the market, customers and their needs as well as about services and investment consulting in their businesses.

MFIs can be successful and survive to the extent that they effectively and economically meet the demands and needs of customers (Buble et al, 2014).

This reduces the risk in the business, thus enabling a significant number of small and medium-sized businesses to exist in the market.

Professional development of staff, training of staff, and application of management principles according to modern methods, affect MFIs in Kosovo to be more open and more flexible to the changing environment. for achieving success and providing financial services to their clients.

1.1. Research objectives

Among the main objectives of this paper, we can mention: factors that affect the proper management of MFIs in Kosovo and an analysis of the real situation in MFIs

So what management do we have in MFIs and what is its impact on clients.

Regarding the treatment of the literature there will be such a division:

- First, the interaction between management and MFIs in Kosovo will be analyzed.
- Second, the elements of management that affect the work of MFIs in Kosovo will be analyzed.

Regarding the practical treatment of management there will be such a division:

- First, a brief description of management functions will be made.
- Second we will have a history of MFIs.
- Third we will have an elaboration on the impact of management on MFIs in Kosovo
- Fourth, the role of sound management in the MFI and its impact on clients will be discussed.
- Fifth, it will conduct an empirical analysis on building long-term relationships with clients and providing consulting to clients to invest loans in their businesses.

1.2.Research goals

The main purpose of the research is to identify and test some of the factors that affect the proper management of microfinance institutions in Kosovo.

This paper aims to contribute to the improvement of management in MFIs in Kosovo and to be a guide for their future work.

The paper focuses on the analysis of the role and importance of proper management of MFIs, to build long-term relationships with clients.

Microfinance institutions (MFIs) support poor people and all those who do not have access to other financial institutions by offering access to microcredit, to further develop small businesses.

By building long-term relationships with clients, MFIs aim to build two-way interaction, which will be beneficial for both MFIs by increasing the number of clients and portfolios, as well as clients to benefit from credit investment consulting, and more quality services.

1.3.Research questions

The research questions are:

Research question 1: Does staff training affect building better customer relationships with MFIs?

Research Question 2: What factors influence the building of long-term customer relationships with MFIs?

Research Question 3: What impact does the provision of client consultancy have on client relations at MFIs?

1.4.Research hypotheses

The research hypotheses are:

Hypothesis 1: Staff training affects the building of long-term customer relationships with MFIs.

Hypothesis 2: Factors that most influence long-term relationships with clients in MFIs are risk assessment, salaries and rewards, staff training, capacity building, and providing consulting to clients for credit investments.

Hypothesis 3: Providing client consultancy affects the building of long-term relationships with clients in MFIs.

2. Literature Review

2.1.Theoretical evidence on management

The success of the MFI in the context of the global economy is influenced by the qualification, commitment, creativity, and motivation of the management staff. Management staff must be attentive to changes in the environment in which they operate, can adapt, and create change themselves, have the ability to attract and retain skilled employees, have a vision regarding operational details, and have knowledge of the market, customers, and their needs Mango et al. (2013).

No matter how well you do your research, there will always be unexpected details that need to be managed differently. Simply put, management is what managers do. But this simple statement does not tell us much, does it? Here is a more complete explanation: Management is coordinating work activities so that they are completed efficiently and effectively with and through other people.

In the definition of management, the term process represents the main activities performed by managers. We will examine these activities in the following sections. Management is defined as the process of accomplishing specific functions of planning, organizing, motivating, and controlling, to accomplish set goals, with the help of human and other resources George (1972).

Management researchers have developed three specific categories to describe what managers do: functions, roles, and skills. In this section, we will examine the challenges of balancing efficiency and effectiveness, and then examine approaches that look at what managers do. When considering these categories, it may be helpful to understand that management is something that is a learned talent, and not something that comes "naturally." Many people do not know how to be a manager when they are appointed to their role Mango et al. (2013).

Management gives direction to organizations, realizes leadership, and decides how to use the resources of the organization in achieving goals Drucker (1985).

The success of the MFI in the context of the global economy is influenced by the qualification, commitment, creativity, and motivation of the management staff. Management staff must be attentive to changes in the environment in which they operate, can adapt and create change themselves, have the ability to attract and retain skilled employees, have a vision regarding operational details, and have knowledge of the market, customers, and their needs.

2.2.Theoretical evidence on Microfinance Institutions in Kosovo

Microfinance institutions in Kosovo started their activities immediately after the war in 1999. Most microfinance institutions (MFIs) started their operations supported by various international organizations, the purpose of which was to support the local population. The purpose of these organizations is to provide support and access to financial resources in post-conflict countries, especially for the poor. Currently, 10 MFIs are operating in Kosovo (AMIK, 2016). Kosovo went through a phase of destruction during the war, both in infrastructure and in the financial system. After the war, Kosovo's banking system was destroyed and did not function, so the only source of financial funds was microfinance institutions.

The benefits that the microfinance industry offers to the people of Kosovo and the economic development of the country are numerous. Most important, however, is the impact of MFIs on the inclusion of the poorer sections of society in the financial sector. The microfinance sector serves a stratum of the population that is otherwise not serviced by commercial banks. Involvement in the financial sector of all strata of society reduces the need for people to address their financial needs in informal credit markets, where financing conditions are unfavorable, illegal, and always end with serious consequences.

The microfinance industry also plays an important role in the financial education of clients, who receive guidance on how financial products work, allowing clients to move from the informal sector to the formal economy in post-war Kosovo and giving them and their families opportunities for entrepreneurship. Microfinance has a powerful effect on the community, as its effects affect customers and their small businesses, customer families (e.g., extra income is often used to improve food and child-rearing), and other individuals. who benefit from the additional employment opportunities created by the growth of businesses. Kosovo MFIs play an important role in empowering women through small loans. KGMAMF, which is a Grameen-affiliated MFI, offers small loans only to women, while a significant percentage of its total loan portfolio is lent to women.

Today, MFIs continue to meet the needs of the Kosovo market, by lending to small businesses and individual entrepreneurs, including farmers, amounting to an average of 1,900 euros.

According to the Monthly Report of AMIK Members of December 2017 [1], MFIs operate in 109 branches covering the entire territory of Kosovo, they serve about 70,000 active clients and employ
about 837 people.

The banking sector typically avoids microloans because they are risky and banks prefer to take advantage of economies of scale resulting from larger loans. Credit cards are not a typical product to help micro clients or clients close to the poverty level. And when used they are often more expensive than microcredit.

Interest rates, although seemingly high, are approximately at the level of cost recovery and are comparable to the region. Competition, the removal of restrictions on services, and the involvement of the private sector will have a significant impact on lowering interest rates.

Microfinance NGOs (MFIs) are prevalent in other developing countries, including our region. Such institutions have become known in the world especially after receiving the Nobel Prize from Muhammad Yunus (the founder of Grameen). The operating model in Kosovo is similar to other countries, where interest rates are at a level to cover financing costs, credit risk for small and informal businesses, and the administrative cost of lending, which is higher for loans. small.

Immediately after the war in 1999, the United Nations Mission in Kosovo (UNMIK) assumed responsibility (political and developmental) and began legislative procedures to establish new development institutions, some of which included MFIs, which in The initials of their activities were registered and acted as Non-Governmental Organizations (NGOs). Due to the lack of proper institutions in Kosovo, MFIs are registered in the relevant institution (Ministry of Public Services - MPS) as NGOs / Non-Profit Organizations (NGOs). Therefore, their profits and income, regardless of the activities they carried out, were exempt from taxes. Only after Kosovo declares independence in 2008 did Kosovo's institutions create a new regulation (2008/28) that allowed MFIs to operate, register and transfer status to "licensed" deposit-taking entities. The regulation also aimed to control, monitor, and supervise MFIs with government guidance. Although the legislation was in place, most MFIs have continued to operate as micro-credit NGOs. While the Kosovar population is one of the poorest, MFIs have not seen it as important to start/offer other products (services), even though according to the regulation MFIs are allowed to act as commercial entities and can provide other services. However, most MFIs still offer microcredit as their only product. However, even if the regulation is clear and specifies the status of MFIs, there is evidence of the transfer of MFI assets from NGOs to start-ups with the income tax they have to pay. This issue has created difficult times for MFIs, as the transformation process has been stalled for several years. Although stakeholders are aware that the transformation would be constructive and offer new advantages to MFIs, as they will support the microfinance sector in Kosovo. But unfortunately, ownership issues are still unclear. Kosovo is a young country with an underdeveloped economy. A large number of people work in the informal sector, so companies are not always registered and do not possess all the necessary legal structures. Given this in between and including the unemployment rate, the majority of the population, due to lack of legal supporting documentation, are unable to use the financial resources provided by the banking sector. This allows MFIs to grow and in some cases enter the competent banks. This is an important factor for MFIs, as most MFI debt is equivalent to the euro. MFIs are a powerful instrument against poverty. Access to sustainable financial services enables the poor to increase incomes, build assets, and reduce their sensitivity to external shocks. MFIs allow poor families to move from daily survival to planning for the future, investing in better food, improved living conditions, health, and the education of children.

3.Research methodology

This section will specify the model and methodology used to describe the relationship between the MFI management components. The following will be elaborated on all the procedures, data, data source, econometric model, analysis of statistical and econometric tests, and specification of the model to analyze the topic of the paper.

3.1.Determination of population and sample

To complete the questionnaire, simple random selection techniques were used to select employees. The questionnaire was completed at the offices of MFIs and their branches in the Dukagjini region.

270 questionnaires were completed for this study. But why 270 and not less or more? To determine the number of questionnaires to be completed, the formula of Taro Yamane [2](1973) was used according to his theory of elementary sample selection, according to this formula, the number of elements of choice can be calculated as follows (Agalliu, 2014):

$$n = \frac{N}{1 + N * (e)^2}$$

n = selected champion
N = population
e = 5% significance level (95% significant)

Table 1. Participation of respondents by Municipalities

Municipalities (Dukagjini Region)	Participation in% of MFIs	Number of respondents
Pejë	20.74%	56
Klinë	12.96%	35
Deqan	14.07%	38
Istog	13.70%	37
Gjakovë	18.88%	51
Prizren	19.65%	53
TOTAL	**100%**	**270**

Source: CBK, 2015

Based on the report of the CBK, Monthly Information March 2015 CBK [3], we see that in the sector of MFIs in the Dukagjini region [4]work about 837 employees, we do the calculation through the above formula, where the number of selection elements:

$$n = \frac{837}{1 + 837 + (0.05)^2} = 270.5$$

3.2.Method of data collection

This study uses a structured questionnaire for primary data collection. (Saunders et al, 2009) note that a questionnaire is a research tool that contains structured questions on which data or information is collected.

The study questionnaire was divided into eight sections. Section I consisted of demographic questions; Section II had questions about lending decision-making; Section III contained questions on credit risk assessment, section IV focused on wages and salaries; Section V deals with staff training; Section VI deals with capacity building; Section VII includes providing clients with investment investment credit, and Section VIII in building long-term relationships with clients. To conduct these measurements through the questionnaire the 5-point Likert system (Likert, R,) [5]A five-level Likert Scale (1-absolutely disagree; 2-disagree; 3-partly agree; 4-agree; 5-completely agree) is approved.

The econometric model is based on the work of Agalliu (2014) and other authors, such as Hudon (2009) MFI management (building long-term relationships with clients), Ayay (2012) risk assessment, Chamshama (2015) training staff, and McKim providing consulting and salaries and bonuses. A multivariate econometric model was used to analyze the working data, where the structure of this model includes:

BLRC i = C + β 1 CC I + β 2 CRA I + β 3 CB i + β 4 DL i + β 5 ST i + β 6 SB i + ε

BLRC - Building long-term relationships with customers;

CC - Providing clients consulting for investment in loans, (clients consulting);

CRA - Credit risk assessment;

CB - Capacity building;

DL - Decision making in lending;

ST - Staff training;

SB - Salaries and bonuses;

The table reflects this classification of variables as well as the respective questions which have served as a source for constructing the dependent and independent variables of the study.

Table 2. Construction of dependent and independent variables

VARIABLE TYPE	NAME OF VARIABLE	QUESTIONS REPRESENTED BY THE VARIABLE	METHOD OF VARIABLE EVALUATION
Variables DEPENDENT	**Building long-term relationships with customers**	Group questions of section VIII	Arithmetic mean of VIII $_1$ -VIII $_6$
Variables INDEPENDENT	**Providing clients consulting for investment in loans**	Group questions of section VII	Arithmetic mean of VII $_1$ -VII $_4$
Variables INDEPENDENT	**Credit risk assessment**	Group questions of section III	Arithmetic mean of III $_1$ -III $_5$
Variables INDEPENDENT	**Capacity building**	Group questions of section VI	Arithmetic mean of VI $_1$ -VI $_5$
Variables INDEPENDENT	**Lending decision making**	Group questions of section II	Arithmetic mean of II $_1$ - II $_7$
Variables INDEPENDENT	**Staff training**	Group questions of section V	Arithmetic mean of V $_1$ - V $_5$
Variables INDEPENDENT	**Salaries and bonuses**	Group questions of section IV	Arithmetic mean of IV $_1$ -IV $_5$

3.3. Analysis of the econometric model

The table presents the summary of the regression, in this table "R", "R 2 " and "R 2 Adjusted" present the correlation coefficients. The term "R" represents the correlation, which takes values from -1 to +1, so the correlation has positive and inverse or negative correlation, the positive correlation has values from 0, to +1, which is interpreted as increasing with a variable increase also the other variable, the positive correlation is weak and strong, the positive positive correlation is from 0 to +0.5, while the strong correlation is from +0.5 to +1. In our case, R = 0.996, so the correlation has a strong positive correlation. "R 2 " indicates the coefficient of determination or permeability, ie how much% of the independent variables explain the dependent variable, in our case R 2 = 0.993, ie 99.3%, of the independent variables, explain the dependent variable, while 100% - 99.3% = 0.7%, ie 0.7%, there are other variables outside the economic model that explain the dependent variable, while R 2 Adjusted represents the contingency coefficient, ie the exact value of the determination coefficient. The serial correlation was used in our analysis to verify the stability of the model. The Durbin-Watson correlation value can be in the range of 0 to 4. If the Durbin-Watson value is close to zero, then the serial correlation indicates that the data in the model have a highly positive impact on the residual value. The Durbin-Watson test is considered to have no serial correlation within the range of 1.5 to 2.5, which tells us that the residual value has no serial correlation or there is no autocorrelation between the residual value. Therefore, based on this interval, the findings in our study show that Durbin-Watson is in the value of 1,539, which is within the interval value, and it follows that the model is stable.

4. Empirical Results

Table 3. Summary of the econometric model

Model Summary[b]										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.996[a]	.993	.993	.10127	.993	6096.986	6	263	.000	1.539
a. Predictors: Constant										
b. Dependent Variable: Building_long_long_reports_with_customers										

Source: Author

Table 4. Regression coefficients

Coefficients [a]									
pattern		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations		
		B	Std. Error	Beta			Zero-order	Partial	Part
1	(Constant)	.063	.025		2,493	.013			
	Decision-making_in_credit	.099	.055	.103	1,813	.071	.993	.111	.009
	Valuation_of_the_credit	.350	.043	.367	8,167	.000	.986	.450	.043
	Wages_and_reductions	-.157	.079	-.155	-1.983	.048	.988	-.121	-.010
	Staff training	.320	.058	.325	5,568	.000	.993	.325	.029
	Capacity_building	.121	.043	.128	2,805	.005	.971	.170	.015
	Offering_clients_consultancy_for_investment_credit	.225	.050	.241	4,488	.000	.975	.267	.023

Source: Author

The results of the econometric model show that lending decision-making alone does not have a significant impact on building long-term relationships with clients, while other factors have an impact on the dependent variable.

Lending decision making has a significance level of 7.1%, which means that the independent variable lending decision-making has no impact on the dependent variable building long-term relationships with the client because even in the professional aspect lending decision-making is not based on the construction of long-term relationships with the client, but based on rules and procedures for lending

Lending decision-making is an important factor because they make the right decision based on the rules and procedures for lending, then we provide loan repayment, which will affect a quality portfolio and which affects the management of the MFI. On the contrary, if the decision-making is not based on rules and procedures and if we bypass the procedures to increase the number of lending, then the possibility of credit failure is greater and in this case not only the MFI suffers but suffers even the client. So as it is seen lending decision-making plays an important role and one should be very careful in making credit approval decisions.

The econometric form of the model is:

$$\mathbf{BLRC}_i = \mathbf{0.063} + \mathbf{0.099}\, DL_I + \mathbf{0.350}\, CRA_I - \mathbf{0.157}\, SB_i + \mathbf{0.320}\, ST_i + \mathbf{0.121}\, CB_i + \mathbf{0.225}\, CC_i + \varepsilon$$

4.1Testing research questions and hypotheses

In this section, we will test the research questions and hypotheses of the paper, to achieve the goals and objectives of the research.

Research question 1: Does staff training affect building better customer relationships with MFIs?

To test this research question we will use the regression that is presented in the table of regression coefficients (Table 4).

Based on the regression table we see that staff training has a positive impact on building long-term relationships with clients at the MFI, as we have a 1% confidence level, which supports our assertion.

Research Question 2: What factors influence the building of long-term customer relationships with MFIs?

To test this research question we will use the regression that is presented in the table of regression coefficients (Table 4).

Factors that most influence long-term relationships with clients in MFIs are risk assessment, salaries and bonuses, staff training, capacity building, and providing consulting to clients for credit investments, as they have a significant rate of 1% and 5%.

Research Question 3: What impact does the provision of client consultancy have on client relations at MFIs?

To test this research question we will use the regression that is presented in the table of regression coefficients (Table 4).

Based on the regression table we see that the provision of client consulting has a positive impact on building long-term relationships with clients in the MFI because we have a level of assurance of 1%, which supports our assertion.

Hypothesis 1: Staff training affects the building of long-term customer relationships with MFIs.

To test this hypothesis we will use the econometric model, which is analyzed in the econometric analysis section.

Table 5. Hypothesis testing 1

Coefficients [a]									
pattern		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations		
		B	Std. Error	Beta			Zero-order	Partial	Part
1	(Constant)	.063	.025		2,493	.013			
	Decision-making_in_credit	.099	.055	.103	1,813	.071	.993	.111	.009
	Valuation_of_the_credit	.350	.043	.367	8,167	.000	.986	.450	.043
	Wages_and_reductions	-.157	.079	-.155	-1.983	.048	.988	-.121	-.010
	Staff training	.320	.058	.325	5,568	.000	.993	.325	.029
	Capacity_building	.121	.043	.128	2,805	.005	.971	.170	.015
	Offering_clients_consultancy_for_investment_credit	.225	.050	.241	4,488	.000	.975	.267	.023

Source: Author

Staff training affects customer relations in MFIs because the statistical level of significance is sig = 0.000, and the t-test level t = 5.568, so these two elements support the first hypothesis and approve that staff training has an impact on building long-term relationships with clients in the MFI.

Hypothesis 2: Factors that most influence long-term relationships with clients in MFIs are risk assessment, salaries, and bonuses, staff training, capacity building and providing consulting to clients for credit investments.

To test this hypothesis we use regression results (Tables 4 and 5). Based on the statistical results we understand that the level of significance or error rate for the variables risk assessment, salaries and bonuses, staff training, capacity building, and providing consulting to clients are below the maximum rate of 5%, so this test also supports t-test, which is greater than 2, so the statistical result approves the second hypothesis.

Hypothesis 3: Providing client consultancy affects the building of long-term relationships with clients in MFIs.

To test this research question we will use the regression that is presented in the table of regression coefficients (Table 4). The result shows that the level of significance is 1%, so we approve the 3rd hypothesis, that the provision of client consultancy affects the construction of long-term relationships with clients.

5.Conclusions

Considering the developments that take place in today's economic environment and that MFIs have a sustainable economic development, this study has identified some of the factors that are important for the successful management of MFIs in achieving the success of tire.

The paper pays attention to staff empowerment and capacity building which we have addressed as an important factor in achieving the success of MFIs.

From the literature review, it is clear that empowering staff has a positive impact on the achievement of results and the success of MFIs because it helps staff make more flexible decisions.

Globalization is a phenomenon that imposes the way we act, behave and manage in new circumstances. The global economy brings difficulties for managers, but also creates opportunities for those managers who know how to use the knowledge, and experience of successful managers from MFIs that have a global reach, so this is a good opportunity for the exchange of experiences and for managers to be challenged even in MFIs that have a global reach.

In Kosovo several MFIs have continuous results and successes by adapting to environmental changes, taking into account and researching market demands, and succeeding in successfully meeting the demands and needs of customers.

MFIs are not always to blame for the failures that happen to clients in Kosovo, with some saying that they have high-interest rates, because even in such conditions a large number of clients and businesses have achieved positive results.

6.Recommendation

To achieve success, MFIs, in addition to sound management and building long-term relationships with the client, also have an external and internal environment as strong factors that affect the success of MFIs.

Staff should be willing to work at the MFI by cooperating with their managers and feel comfortable, not working with them because they are assigned to be under their supervision.

One of the management mistakes that is not allowed is the employment of inadequate employees, ie the wrong or wrong person in a certain job, because the work in the MFI is specific, and not every employee will have results in lending and providing consulting to clients. for investment credit or opening start-up businesses.

Managerial staff should eliminate unfair practices in the workplace, to increase the motivation of staff to create a pleasant environment in the workplace, which will increase performance and result in the success of the MFI -ve.

To achieve effective management of MFIs, they must have qualified, adequate management staff, who will be able to have a successful performance in the face of many challenges which make the work of MFIs difficult, which is not for each employee is manageable in terms of achieving the objectives or target set by managers.

Employees who manage to achieve the objectives and exceed the targets receive bonuses which are a motivation not only for the staff who receive a bonus but also motivation for the rest to achieve the objectives. The rule of law, which has an impact on the development of existing businesses as well as those who will start a business to create self-employment, and for all citizens of the Republic of Kosovo, must be applied in practice.

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