Small Farmer Support Project (SFS)

Review of Agricultural Credit in Kosovo

October 2003

Report by

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LIST OF ACRONYMS

ABU	EU Agro Business Unit
ADIE	ADIE International
AfK	Agency for Finance in Kosovo (MFI)
AKA	Alliance of Kosovo Agri-Businesses
AMIK	Association of Micro Finance Institutions in Kosovo
AMPKO	Association of Milk Processors and Producers of Kosovo
ASPAUK	Agricultural Statistics and Policy Advisory Unit Kosovo
BpB	Bank for Private Business
BPK	Banking and Payments Authority of Kosovo
brk	New Bank of Kosovo
CECI	Canadian Centre for International Studies and Cooperation
COMMPETES	Competitive Marketing of Milk Production Enabling Trade & Enterprise Success
CORDAID	Catholic Organisation for Relief and Development Aid
DEA	Dairy Extension Agent
EAR	European Agency for Reconstruction
EU	European Union
FAO	Food and Agriculture Organization
FINCA	The Foundation for International Community Assistance
ICMC	International Catholic Migration Commission
IFDC	International Fertilizer Development Center
IRC	International Rescue Committee
KEP	Kosovo Enterprise Program
KDA	Kosovo Development Agency
KDC	Kosovo Development Center
KBS	Kosovo Business Support
LoL	Land O' Lakes
MCC	Milk Collection (Chilling) Center(s)
MEB	Micro Enterprise Bank
MFI	Micro Financing Institution
MoAFRD	Ministry of Agriculture, Forestry and Rural Development
NGO	Non-Governmental Organization
SC	Save the Children
SFS	Small Farm Support
SME	Small Medium Enterprises
TOR	Terms of Reference
UHT	Ultra Heat Treated Milk
UNMIK	United Nations Interim Administration Mission in Kosovo
USAID	United States Agency for International Development
VAT	Value Added Tax

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1. Executive Summary

In transitional economies such as Kosovo, there are many constraints within the agricultural sector that makes access to credit problematic. In the past, the agricultural credit system was not focussed towards commercial lending and its legacy has resulted in a poor understanding by farmers and agricultural enterprises on how to use credit. As a result, agricultural managers in general, lack the ability to assess financial and business management requirements. The current position is exacerbated by many factors that are highlighted in this report, including reluctance by banks to lend into the agricultural sector. This situation however, is beginning to show the first signs of change.

At present banks and MFIs represent the only realistic option for agricultural credit. Although, there is a strong belief by people involved in the sector that there should be support to agriculture through assisted credit schemes. There are, however no current plans for assisted credit schemes to be implemented by the present governing administration, and the agricultural sector must come to terms with this situation.

Commercial lending applies stringent requirements on any potential borrower, as recovery of loans is paramount to sustainable lending. Over the past 9 months there has been considerable change in the banking sector in general, with total loan portfolios increasing in all banks, although lending to agriculture is only around 2% of total loan volumes. Increased lending has been most pronounced at banks with a majority foreign shareholding structure. For example, MEB lending (loans outstanding), has increased from € 18m in February 2003 to € 54m at the end of September 2003. MEB agricultural loans currently amount to € 1.87m or 3.6% of total loans outstanding. Other banks are someway behind MEB, but all have increased total lending in the past 6 months. Local (Kosovar shareholding), banks have reached a plateau and cannot substantially increase lending any further, unless they can secure additional deposits, particularly of a long-term nature.

There are some positive changes at the banks, including simplification of loan appraisal for small loans (sub € 40K), alleviating the need for loan applicants to provide detailed business plans and financial statements. This task is undertaken by the loan Credit Officer in consultation with the applicant. However, despite the optimism, there remains significant obstacles to increasing the number of agricultural clients who can be considered credit worthy. Two key issues which impinge on overall financial viability of any agricultural enterprise, are; (i) the ability to market its produce both on the domestic market and export and, (ii) internal financial/business management control, regardless of the size of the business. The banks must also continue to further develop lending portfolios by introducing loans with repayment schedules that are suitable for individual clients, based on cash flow projection and realistic performance targets. Training of Loan Officers should continue to be high priority, particularly for correct assessment of loans relating to agriculture, including appraisal of the lending risks associated with each individual loan application.

Commercial lenders are often criticised by the agricultural sector for not recognising their needs nor offering interest rates which can assist farming enterprises to develop. Current bank and MFI interest rates are comparatively high, which tends to make local producers less competitive compared to imports. However, commercial lenders set their rates based on many factors – one of which is competition in the market place. At present this is not a strong factor in terms of agricultural lending. It is possible that over the coming months this situation may begin to change, as their existing client base (non agricultural sectors), becomes saturated and banks start to chase the same clients. If loan portfolios are to increase, banks and MFIs will need to attract alternative clients and these may well come from the agricultural sector. This does not necessarily mean that all banks will dramatically increase the number of agricultural clients or that large numbers of farmers are to become credit worthy, but rather that some banks are 'testing' the agricultural market, and judging by this experience may increase lending over the following months. In discussion with the banks and MFIs, agricultural loan defaulting rates were no higher than other sectors and the numbers of cases was small.

Local producers and processors are disadvantaged by border customs duties and taxation currently imposed on agricultural inputs and other commodities. This appears to be compounded by an inflow of illegal goods. Such a disparity is not helping agricultural producers become competitive. This forms the basis of a constant complaint by the agricultural community that current agricultural policy is not helping or indeed protecting local producers.

The report includes alternative options for introducing capital assets into an agricultural business, such as leasing, forward contracts and warehouse receipts. At present these options remain limited due to constraints in the legal system, but this situation should be monitored to keep abreast of any changes.

In the past year significant changes have been made in the banking sector and in some respects progress has been rapid, but needs more time to evolve. The challenge for viable agricultural enterprises is to be attractive to the banks, by proving they are commercially viable with adequate management control. Whereas, the banks and MFIs must be able to offer suitable clients loans that are realistically manageable and matched to a borrower's requirements.

2. Background

The Small Farmer Support (SFS) project is a large agricultural project involving five partners. The partners are CARE International, International Rescue Committee (IRC), International Fertilizer Development Center (IFDC), Land of Lakes (LoL) and Canadian Center for International Studies and Cooperation (CECI). The project is funded by United States Department for International Development and is managed by Save the Children as an umbrella grant. The timeframe of the project is from January 2002 to July 2004. The five projects focus on various agriculture sectors, including dairy, tree fruits, vegetables, animal feed and specialty products. The objective of all projects is to market surpluses and to commercialize larger farmers to capture some of the import market.

CARE has established a Rural Finance Working Group (RFWG) that involves all SFS partners as well as major players in finance in Kosovo. The consultant met with each of the partners, respective farmers and processors to gain insight into the various credit needs across the whole agriculture sector. Alternative credit possibilities were explored and issues of forward contracts, leasing, warehouse receipts and crop insurance were investigated.

In association, the SFS project partners and their local project staff visits were undertaken to a wide range of individuals and companies operating in the agricultural sector, such as:

Agricultural Producers	Agricultural Associations
Agricultural Processors	Agricultural Input Suppliers
Major banks in Kosovo	Non bank lending institutions
Various NGOs	USAID

3. Main Findings

The main findings attempt to identify the current constraints within the agricultural and processing industries which are preventing development of the sector in general. It also highlights how the effects of these constraints can potentially be minimised and help increase the possibility of more agricultural related businesses becoming credit worthy. The findings also identify current sources of financing in these two sectors, albeit at limited levels under current conditions. Finally, it concludes what can be done to alleviate these problems, both at farm and processor level and what sources of alternative financing may be an option in the future.

The main findings were presented at a seminar held in Pristina (22nd October 2003) and are included in this report (see page 75).

3.1. Main Constraints To Credit Access

What are the major constraints in agriculture which also inhibit access to credit?

As the project partners cooperate with a wide range of farmers and processors, ranging from small-scale vegetable producers or sheep farmers, to large-scale agro processors and input suppliers, the main findings are applicable to all. However, the influence of any one particular constraint may be more significant to one type of business than another. A summary of key constraints facing agricultural enterprises reveals that the constraints are numerous and are associated from primary production level to agricultural policy at a national level. To some degree all these constraints can impinge on agricultural enterprises or individuals attempting to access credit.

These constraints can be categorised as follows:

(i) Farm and processor level
(ii) Banking and lending institution level
(iii) Agricultural policy and legal matters

(I) Farm and processor level

- Farmers and managers of agricultural activities rarely keep accurate financial and physical records.
- Production resources at farm level are very poor. In general, most farms are under mechanised and also lack access to reliable contract machinery services, although there are some exceptions.
- Poor management and technical knowledge at farm level is not conducive to good management practices. Hence there is a need for substantial farm management training, particularly financial management.
- There is a general lack of awareness by agricultural businesses on how to use credit.
- Most farmers that we met wanted to gain access to credit. However, typically they were interested in working capital loans over a 2-3 year term, or loans to substantially increase their activities, which was out of all proportion to their current revenues. Clearly both scenarios would not be acceptable to a lender.
- Many small farms operate at subsistence levels, and after the family's requirements are met generate very little surplus. Such farmers have no or at best very little chance of obtaining commercial credit, even from micro credit lenders.
- Few processors are in a financially secure position to assist primary producers.
- Most of the processors we visited experience significant difficulties in consistently marketing their products. Many processors work on a temporary basis with frequent production interruptions, as they are unable to sell end products.

  This problem is exacerbated by the inevitable poor relationship that this generates between the primary producers and processors.

  If an agricultural enterprise cannot sell its current level of production, what is the justification of increasing investment to produce more?

(II) Banking and lending institution level

- Banks and lending institution perceptions are that agriculture is a risky sector in which to lend money, and as a general rule this is true.
- Bankers recognise that there is general lack of awareness by agricultural businesses on how to use credit.
- Current interest rates are high when compared to the potential returns from agricultural activities.
- Over the past few years banks have generally only lent short term loans - typically for 12 months with a repayment schedule of equal monthly principal repayments plus interest.
  However, this year some banks are beginning to offer longer term loans and introducing grace periods to reflect a client's cash flow, for both short term working capital and investment loans. Although, three years appears to be the present maximum duration excluding ABU which has disbursed loans for up to 5 years.
- Statistical information from BPK shows that from the total lending portfolio of all banks, loans to agriculture account for around 2% of lending, but it is not clear if this figure includes input suppliers and spare parts dealers. If not the overall figure still remains low.
- Farmers often lack liquid collateral which is most attractive to a bank or lending institutions.
- In many cases the 'market' value of collateral is difficult to determine and is often a cause of dispute between the lender and the client.

(III) Agricultural policy and legal matters

- Although agricultural policy has not been a major part of this review, it is constantly referred to by individuals working in the agricultural sector who claim that there is a lack of support for farmers by the governing administration.

- Importation of agricultural and processed food products makes it difficult for local producers to be competitive.
- All producers and processors have complained that they are disadvantaged by the customs duties and taxation currently imposed and also the inflow of illegal goods entering Kosovo. This disparity is not helping agricultural producers to be competitive.
- There is a lack of certification schemes and enforceable inspections of processing facilities, which would help to give the consumer confidence that a locally produced agricultural product is safe.
- Lack of land ownership reduces the value of agricultural assets.
- Contractual agreements in the agricultural industry lack proper enforcement and are often meaningless if not strictly applied. In many cases contracts are not binding and only exist as loose verbal agreements.
- Rural areas need alternative forms of employment aside from agriculture. Given an alternative choice you question how many people currently involved in farming would prefer a stable job outside of direct primary agricultural production.
- The farming sector lacks an adequate advisory service, although the forthcoming EU funded SASS project will attempt to address these issues but will require time to establish a solid base and network. There is a significant demand for farm management training and particularly financial management in agricultural businesses.

3.2. Current sources of credit in agriculture

The current level of lending into agriculture is low and is limited to a few sources, which in no way covers demands in this sector. However, the sector demands must be matched to the abilities of agricultural enterprises being able to repay. For example, how many farming enterprises would be able to cover commercial loan requirements regardless of whether interest rates are at present levels, or lower at around 5%. Of course some would be able, but many would produce more and not necessarily be able to sell surpluses generated. The net result would be that they are effectively in a worse position.

The current sources of credit are primarily restricted to commercial lenders (including MFIs), and deferred repayment terms offered by input suppliers. The level of lending remains small and BPK statistics suggest that only around 2% of the banks total loan portfolios are directed towards agriculture. This is a very low figure, however, bank lending particularly for MEB and Raiffeisen has increased by well over 100% in the past 9 months.

Present sources of credit can be divided into the following categories:-

(i) Borrowing from a family member, friends or other associates.
(ii) Borrowing from commercial banks.
(iii) Borrowing from ABU.
(iv) Borrowing from a micro financing institution.
(v) Pre financing by a processor.
(vi) Deferred payment terms from an input supplier.

Interest rates on offer from various lender institutions vary from as low as 10% per annum, offered by ABU for working capital, and long term investment loans, to around 24% for first time short term loans from lenders such as MEB and MFIs. Although, there is a wide range of interest rates on offer from individual lenders, these are influenced by a range of factors including loan duration, loan amount and the associated risk to an individual loan. It was therefore not considered suitable to list interest rates on offer from each bank as they tend to be case specific. However, as a general rule rates are around 16-19% per annum. Large loans to repeat clients will attract lower rates and first time borrowers of small loans pay higher rates.

Commercial lenders are often criticised by the agricultural sector for not recognising their needs or not offering interest rates which can help their business develop. However, commercial lenders set rates based on many factors, and one of those is competition in the marketplace which is currently not strong between the banks.

Of equal importance to the actual rate of interest is the type of loan that can be arranged with a bank, and which can be matched to an individual borrower’s requirements. For working capital loans this may be anything from less than one month, to a period which suitably covers a production and marketing cycle. Generally this is not more than one year, although there are exceptions. Capital investment loans are case specific and require a term which a business can manage with repayment schedules based on a cash flow forecast. Recently, there has been some movement on these issues, with the introduction of grace periods for both short and longer-term borrowing and extended loan, of up to 3 years (ABU offers 5 years). However, this is in its infancy and still has a long way to go.

In the project's staff training session (Monday 20th October), we looked at the relationship between annual interest rates and the amount repaid from the total loan (see ANNEX 1). For example, a loan of € 10K over 12 months at 18% per annum interest, with a four month grace period followed by equal monthly repayment of principal plus interest - the total amount paid in interest is € 1,275 or 12.75% of the total sum borrowed.

Some input suppliers are offering deferred payment terms, but only to favoured reliable customers they can trust. The duration of deferred payment terms ranges from 2 weeks to 6 months. Individual terms are case specific and varied by supplier. Essentially, the majority of small suppliers do not offer any form of delayed payment and only accept payment in cash. In general, larger traders offer some customers deferred payment terms, ranging from 5%-30% of their respective total turnover.

Pre-financing by an agricultural processor is not common place, although there are some successful cases. However, in general there are three factors which inhibit increased pre-financing; (i) processors are limited by the amount of working capital available; (ii) an inherent lack of trust between the processor and producers and; (iii) lack of enforcement of contractual agreements through the legal system.

4. Conclusions

Access to commercial credit will remain difficult for the foreseeable future. Any substantial increases in agricultural loan portfolios at present are really only an option for MEB and Raiffeisen, although the latter is not concentrating on small loans. Over the past 5 months MEB has increased its lending to agriculture – they disbursed € 1.8m in this period compared to around € 700K in the preceding 12 months, and are clearly testing the agricultural market. At present it is considered unlikely that Raiffeisen will substantially increase its lending into the agricultural sector over the next 6 months. However, they are beginning to explore the possibility of attracting new clients in the agricultural sector, but are concentrating on loans over € 10K. These banks will be cautious in their approach and will continue to test the market carefully before committing to large volumes of agriculture related loans. Over the past 3 years Raiffeisen has disbursed loans to the value of € 2.7m and current loans outstanding only amount to € 400K.

If Banks want to expand their existing portfolios, they will need to attract new clients as opposed to relying solely on their existing client base. Client numbers in current sectors are quite possibly reaching saturation point and new clients are hard to find. As a result banks are chasing the same clients.

The mechanisms for commercial credit access are in place at all banks visited, particularly MEB and Raiffeisen who have developed suitable procedures. They do not appear to burden a loan applicant (sub € 30K), with a requirement to provide extensive financial records about the business or a business plan. The loan Credit Officer compiles all necessary financial statements in co-operation with the client. Undoubtedly, in practice, the application process will remain difficult for many potential new clients who may not be well received by the banks for various reasons. The loan process is still cumbersome compared to a bank which has been operating in the agricultural sector for a long time, and in many areas the banks themselves are in a learning process which requires further training and development. Although, it has been stated that banks do not require extensive financial records, it is in the new client's interest to keep accurate records to enable the bank to assess their application. Equally, farmers should be encouraged to keep records, not only for potentially gaining access to a loan in the future, but also for their own management needs. The SFS project should try to encourage farmers to take this approach, wherever possible.

It is considered unlikely that local banks will be able to increase present lending volumes over the short term due to the problems of attracting additional deposits, and the current level of lending is around the maximum permitted under BPK regulations. However, the situation should be carefully monitored by SFS as the position may change, particularly if they lose existing clients and struggle to maintain current loan portfolios.

From the processors visited (with two noticeable exceptions), none were in a financial position to offer any significant pre-financing arrangements (supply of primary inputs) to producers. Potentially, this type of arrangement may increase as viable processors emerge, but this process will need time to develop and relies on these processors' ability to increase market share. In simple terms, it is very unlikely that many small processors will be able to survive in the short to medium-term. Larger processors that are able to pay attention to the markets (and who can sell their products), may be able to complete for the domestic market by matching or possibly exceeding the quality of similar imported goods. As with all rules there could be some small-scale processors which ultimately will expand, but they will be the minority.

If a processor substantially increases financial assistance to primary producers there will undoubtedly be problems with recovery, particularly if a crop fails and/or weather conditions affect overall yields. This is exacerbated by the lack of enforcement of contractual agreements and undoubted difficulties of financial recovery through the legal system, which remains a significant hindrance to development in this sector. This is also true of feed millers supplying the poultry industry. For example, due to a collapse of egg prices earlier this year, a miller has incurred escalating outstanding debtors (around 5-6 poultry producers), and has had no choice but to stop supplying to avoid bankruptcy. As a result his production has dropped from around 550 tonnes per month to 250 tonnes. This is a good example of fluctuations in the market - in this case, cheap (and possibly illegal) eggs entering the market and causing ripples down the feed supply chain.

As alternative credit sources are not available and commercial lending is the only realistic option as a credit source, the agricultural sector must become more commercially aware. This is not to say that an agricultural business should attempt to borrow money, regardless of the interest rate, but it must be able to ascertain what level of borrowing it can justify and it's ability to meet repayments. If a review of the business indicates that at current interest rates the business is unable to cover the loan, commercial credit is unattainable and should not be considered an option. Under these circumstances the business could suffer by trying to meet the requirements of a loan.

The challenge for viable agricultural enterprises is to be attractive to the banks, by proving they are commercially viable with adequate management control. The banks must be able to offer clients loans that are suitable for their individual requirements. In this respect all banks have a long way to go, although some are progressing faster than others. The process of commercial agricultural lending is evolving and needs more time to develop. Significant changes have taken place over the past 9 months, in terms of loan appraisal and types of loans attainable from banks and MFIs. Consideration should be given to what will be available in another 12 months and beyond. No one should be under any elusion that banks will start to lend to a multitude of agricultural businesses but that they will be very selective in the clients they approve. In time, if loan recoveries are positive the lending base will increase and other agricultural clients may become more attractive to banks. It is important to note that all banks visited said that defaulting agricultural customers were not a significant problem and no higher than other sectors to which they lend.

The development of MFIs over the past 3 years has shown that there are successful schemes operating in Kosovo that have grown considerably and have good loan recovery. The four MFIs visited expressed a desire to increase lending into the agricultural sector, although this may be somewhat limited unless additional funds can be attracted into the schemes. The SFS project should carefully monitor development of MFIs and forge linkages where appropriate to assist clients with potential loan applications.

When considering the problems of accessing credit, two factors play a key role in the ability of a business to be considered commercially viable:

(i) Marketing of produce - probably the single biggest problem facing agricultural producers.

(ii) Management - there is a substantial need for agricultural businesses to obtain business management and financial advice. The majority of individual farmers and businesses visited had a poor understanding of financial management and credit usage.

Privatisation of State Land

The forthcoming privatisation of large areas of state owned agricultural land offers the chance for some degree of consolidation of farming enterprises into larger units. On the other hand, at the prices which have been quoted € 5K+ / ha, it is highly questionable whether there can be an economic return, particularly if money is borrowed for land purchase. It remains to be seen what price this land actually attracts or when the process will begin.

Producer Associations

Over the past 3 years numerous Producer Associations have been established across Kosovo in an attempt to improve the economic situation in the agricultural sector. Common reasons for establishment were:

(i) To provide advocacy to its members and increase political lobbying for the agricultural sector.
(ii) To provide training and extension services.
(iii) To supply input provisions to its members.
(iv) To assist with access to credit sources.
(v) To provide group marketing of produce.

Although all the above points are important and require attention, it is considered that these objectives cover far too many issues and at present cannot be adequately managed. Very few were able to properly address key issues and many said their primary role was as a political lobby group. Lobbying has its place and is important, however, the needs of marketing must be considered a higher priority - few were group selling produce or using a marketing department. The benefits of any Association are in its members working together as opposed to operating as individuals when marketing produce or purchasing inputs. In this respect development of Associations should be more focussed on key areas applicable to each individual Association.

5. Other Options for Increasing Access to Agricultural Resources

The following information has been included as potential options for increasing access to agricultural resources but not necessarily through commercial lending mechanisms. These options should be carefully considered, but at present are not possibilities, primarily as a result of inadequacies in the legal system which does not allow for enforcement of contractual agreements and protection of asset ownership. However, the situation may change and should be monitored for positive developments in the future.

5.1. Leasing of Equipment and Machinery

Equipment and machinery leasing in agriculture is not currently an option and was not evident in any other industry sector. The potential for leasing can have a significant impact on farming resources as it alleviates the need for obtaining a loan and provision of collateral security.

A leasing agreement is a type of rental agreement but with some specific differences. In the case of leasing, the lessor (the leasing company) grants the lessee (the customer), the right to use the capital assets for a defined period of time.

Leasing like investment loans is a form of medium to long term external finance for the acquisition use of capital assets. Typically, leasing is an arrangement where the lessee determines the type of equipment or machinery that is required, the lessor purchases the assets from the manufacturer or supplier, making the asset available to the lessee.

The lease agreement provides the use of the asset by the lessee for a specific time period, which depends on the type of asset to be leased. Effectively, the lessor has the rights to ownership but the lessee has the right to use the asset. The lessee does not have to finance the purchase of the asset and therefore is only responsible for the lease payments.

Leasing is different from conventional rental as the legal rights of the lessee are similar to that of asset owner namely:

- (i) Only the lessee has the right to use the leased asset.
- (ii) The lessee is responsible for the maintenance and care of the asset.
- (iii) The lessee is fully responsible for any loss of the asset and therefore should have sufficient insurance to cover any eventuality including theft and fire etc. Under a rental agreement the responsibility to cover loss is with the rental company.

In European countries the legal title and ownership of the asset remains with the lessor. For tax purposes the lessee can offset the cost of leasing, which is deductible from taxable profits.

It is not clear when leasing will become an option, as at present, legislation is not in place to make this workable. The consultant did not pursue the legal constraints as to why leasing is not an option, but it is a favoured method of obtaining agricultural production assets in many countries and may also be possible in Kosovo in the future.

5.2. Forward Contracts

A forward contract is an agreement between two parties to buy or sell an asset (in agriculture normally a commodity), at a pre-agreed future point in time. One party agrees to buy and the other to sell at a forward price which is agreed in advance. In forward contract transaction no actual cash changes hand at the transaction point. If the transaction is collateralised the exchange will take place according to pre-arranged agreement and to a defined schedule. In essence, no asset actually changes hands until maturity of the contract. In some cases the forward price can be that of the spot market price at the date of contract maturity.

5.3. Warehouse Receipts

In many countries warehouse receipts are an effective tool for creating liquidity and increasing access to credit. Typically, such schemes also offer additional benefits including smoothing the supply and prices in the market, reducing food losses and improving grower incomes.

In transitional economies the former state controlled system alleviated the need for private storage facilities. Stores were generally concentrated in large facilities, but often offering poor storage conditions and lack of space for storing isolated, comparatively small volumes as opposed to bulk. It is well recognised that there is a shortage of good storage space in Kosovo, particularly for vegetable crops.

The warehouse receipts system, also known as inventory credits or bonded warehouse receipts has the benefit that it can facilitate credit from products held in storage as security against the loan. The warehouse receipts, when backed by legal provisions that guarantee quality, provide a secure system whereby stored agricultural commodities can be used as collateral, traded or used for delivery against financial instruments including forward contacts. These receipts are documents that state the ownership of a specific commodity and the quantity of products and specific characteristics, if applicable. It also shows the warehouse where the commodity is stored.

Warehouse receipts have the benefits of:

- (i) Mobilizing credit to agriculture by creating secure collateral for the farmer, processor, and trader.
- (ii) Smoothing market prices by facilitating sales throughout the year rather than just after harvest.
- (iii) Increasing market power of small-holders by enabling them to choose at what point in the price cycle to sell their crops.
- (iv) Helping to upgrade the standards and transparency of the storage industry since it requires better regulation and inspection.
- (v) Helping to create commodity markets which enhance competition, market information and international trade.

For warehouse receipt systems to work well, government and industry must build a legal and institutional framework to guarantee performance and minimize transaction costs. By all recognition this is not possible in Kosovo at present as the legal framework is not in place, and requires an effective insurance market. However, the situation should be monitored for development and considered a priority for policy and law makers.

Such schemes are relatively simple and exist in two basic variations. A one-part receipt is preferred in Common Law countries (i.e. the UK, US model), whereas two-part receipts are preferred in Civil Law countries (i.e. most of Europe and Latin America). The basic difference is that full ownership documentation is provided for with either one or two documents. The cycle of interactions involved in a typical warehouse receipt scheme involving a two-part receipt contains the following steps[1]:

(i) After harvest the farmer deposits his crop in a licensed warehouse and receives a Certificate of Title (CT) and a Certificate of Pledge (CP). The warehouse will only release the crop to the owner of both documents.
(ii) The farmer applies to the bank for a loan and in exchange for the money issued he gives the bank the CP as security (and the CT for safekeeping so that the bank knows who is the owner of the crop).
(iii) Before the loan matures (typically up to nine months), the farmer sells his crop to a processor or trader, by selling the CT (on consultation with the bank).
(iv) When the loan matures, or when he needs the crop, the processor repays the loan to the bank and in exchange receives the CP.
(v) The processor, now owning both the CT (from the farmer) and the CP (from the bank) can collect the crop from the warehouse.

6. Comments on visits to SFS Project Components

The comments below are a general view of the issues encountered during visits to each project partner. As previously mentioned the options for accessing credit are predominately limited to commercial lenders and therefore any agricultural business wanting to access credit must demonstrate commercial viability. It is important that project staff fully recognise this requirement and actively portray this to recipients of each project. Despite the fact that many people consider agriculture should be supported via assisted credit, the facts are that it is not, and it is very unlikely that it will receive any substantial support in any form in the foreseeable future.

(1) International Fertilizer Development Center (IFDC) Kosovo Feed for Poultry Project (KFPP)

Most of the recipients of this project already have credit facilities from various banks and lending institutions such as ABU. Types of loans varied considerably. Over the past 9 months more flexible loans have been introduced that include grace periods in working capital loans and longer-term investment loans. Although still only in its infancy and at a small level, this process is expected to continue and evolve. The large scale processors and input suppliers are not in a position to extend credit or deferred repayment terms to their respective customers, over and above the present volumes. Additionally, few would have sufficient working capital to further increase exposure nor wish to run the risks of non-repayment, or recovery through the legal system. In general, the favoured method of increasing agricultural productivity was for the primary producers to gain access to financing rather then the larger processors and traders to offer credit resources.

(2) CARE International Kosovo Competitive Marketing of Milk Production Enabling Trade and Enterprise Success (COMMPETES)

[1] *Source: WB Report Warehouse Receipts: Facilitating Credit and Commodity Markets -2000*
Daniele Giovannucci, Senior Consultant, Agribusiness & Markets Thematic Group, The World Bank; Panos Varangis, Economist, and Don Larson, Economist, Development Research Group, The World Bank

In general, the dairy sector suffers as a result of a lack of suitable processing facilities to which farmers are able to sell their milk. In most cases it is also applicable that there are inadequate resources at farm level to ensure production of quality milk as standard practice. Milking procedures and milk storage is not conducive to production of quality milk. Furthermore, processors visited, with the exception of Devoli (who is just about to start processing), work infrequently, under poor conditions and lack enforceable contractual agreements with producers. They experience severe difficulties in marketing milk and other dairy products. Essentially, local processors are not very competitive with imported goods, and primarily this is a result of the quality of products rather than any comparative price differentials. The imminent arrival of Devoli on to the UHT market may have a significant impact on producers who conclude contracts to supply raw milk. If the company can establish markets through its existing sales outlets, and effectively develop new markets, this could present a ‘kick start’ to producers as the potential for stable supply and pricing mechanisms is apparent. It remains to be seen how successful Devoli can be in this venture but it has made substantial investment in machinery and equipment for producing UHT and pasteurised milk based dairy products. Devoli is in the process of signing up farmers to supply fresh milk, but also has the option of importing milk powder if supplies or quality of locally produced milk becomes problematic. It is assumed that some of the farmers and milk collection centres working with the project will also become suppliers to Devoli, and should be monitored carefully by the project. The company has up to 20 lacto fridges that it plans to sell to selected milk suppliers, with repayment in milk supplies.

Another option to consider for funding of milk collection centres is via the banks, but this is only a realistic option if the owners of a centre are seriously willing to attempt this route. As with all loans, a prospective client must be able to demonstrate commercial viability of the milk centre including a clear outlook on the marketing strategy for milk sales. The project could help steer a client through the loan application process, but only if the client is fully on board with the idea and not seen to be coerced by the project.

The option for a group of farmers forming a collection centre, by pooling resources can be considered, but this will require access to a commercial loan if capital resources are insufficient. A realistic marketing strategy is of primary importance along with mutual co-operation amongst participating farmers. To establish and operate a milk collection centre requires financial investment and good management practice. The ability to produce good quality milk and secure markets is absolutely paramount to the potential success of a collection centre, regardless of the mechanism used to establish such a centre.

(3) Canadian Centre for International Studies and Co-operation (CECI) & Kosovo Development Center (KDC) Improving Vegetable Production in South West Kosovo (IVPSWK)

The vegetable sector has many constraints as previously mentioned, but essentially produce marketing is the biggest limiting factor to increasing profit margins. All the producers and Associations visited were unable to secure sufficient market outlets for their produce. Selling remains largely on an individual basis and in the majority of cases there is inadequate grading and quality control of final produce. The financial returns in vegetable production can be positive, as demonstrated by the project. However, this requires careful management of resources and suitable crop agronomy, and there are growers who are capable of producing respectable yields but lack market penetration and are generally too reliant on a few wholesale traders. Growers that can produce good products, introduce a wider range of vegetables and secure suitable marketing outlets will potentially become profitable. In order to be attractive to a bank a vegetable producer must be able to demonstrate that they are commercially orientated, understands marketing, or uses effective group marketing linkages. For this type of business, records are vital and the project should encourage all recipients to maintain accurate physical and financial records.

There is a considerable need for group marketing of produce and this was a stated goal of some of the vegetable producer Associations visited, although, in practice, few members seem to agree on what is required and who should undertake it. Such marketing groups require time to develop and should be started from a core of producers who are willing to co-operate, as opposed to 100-400 members as were envisaged by most Associations, which would be totally unmanageable.

(4) Land O' Lakes
Technical Assistance Project for the Sheep Sector and General Agriculture in Kosovo

In the short term it has to be considered unlikely that many sheep farmers will be able to secure bank loans, perhaps with the exception of those with alternative incomes. The sheep industry has some major problems when considering potential profitability namely; (i) lack of market for lamb meat; (ii) remoteness of sheep flocks during the milking months (summer): (iii) poor hygienic conditions for making cheese and: (iv) proof of sheep ownership. This is not to say that any sheep producer will not be able to access credit as some are already borrowing from MFIs, but interest from banks will be very limited for the foreseeable future.

Sheep producers need to be more proactive in their marketing, particularly cheese, as this remains to be centred on individual selling with inadequate quality control. The LoL project is attempting to introduce demonstration mobile cheese making equipment and improving quality standards.

(5) International Rescue Committee (IRC)
Support to the Economic Expansion and Development of Small Farms (SEEDS)

Although top fruit orchards are not plentiful in Kosovo, the ones visited were potentially viable in terms of covering annual cost of production and generating sufficient retained margin to fund essential working capital requirements for the following season. Admittedly, we only visited growers with over 3 ha and the economic of small orchards is questionable. What is most important is the condition of trees, agronomy and storage conditions. Marketing of apples does not appear to be a major problem as long as storage is a possibility and quality is maintained throughout the stored period.

The apple growers we met could potentially be viable loan recipients, based on the returns generated from the crops. This is not to say they should receive commercial working capital loans, but rather a case that the economics of tree fruit in these cases is positive.

Long term investment into replacement/expansion of orchards cannot be considered as a viable proposition to a bank at present, as the costs of establishing an orchard and maintaining it for 5 years before any yield is achieved is at least € 9K. Expansion of orchards is therefore limited to internal investment and will be slow to increase.

Options to Consider for Future Consultancy Requirements

The options for future financial consultancy was discussed at the SFS debriefing meeting (Thursday 23rd October). The outcome was that more consideration was needed by the project partners to identify the best options, or additional needs.

Options to consider include:

1. Business management/financial consultancy with an aim to steer some project recipients through the loan process;
2. Business management/financial training of project staff who are dealing with agricultural enterprises;
3. Further review of other options of credit support to agriculture from other donor sources or structural funds;
4. In depth exploration of the problems in the legal system which constrain agriculture.

VISIT REPORTS

Tim Hammond – Rural Finance Consultant

7.1. Banks and Micro Finance Institutions (MFIs)

Visit report	**IFDC Project**
Person(s):	**Mr. Ardian Kastrati – Agro Loan Coordinator**
Organisation:	**Micro Enterprise Bank (MEB)**
Location:	Pristina
Accompanied by:	Ray Clark and Mentor Thaqi (IFDC)
Date of visit:	Monday 6th October

MEB was established in January 2002 and was the first bank to be licensed in post conflict Kosovo. The shareholding structure comprises the following 6 international financial institutions, each with a 16.6%:

(i) Commerzbank AG; (ii) European Bank of Reconstruction and Development (EBRD); (iii) International Finance Corporation (IFC); (iv) Financieringsmaatschappij voor Onwikkelingslanden (FMO); (v) Internationale Micro Investitionen (IMI); and (vi) Kreditanstalt für Wiederaufbau (KfW)

MEB has 7 branches in Pristina, Prizren, Peje, Gjakova, Gjilan, Mitrovica and Ferizaj. Loan sizes are from € 250.

Agricultural financing accounts for around € 1.87m from a total lending portfolio of € 54m or (3.6%) and around 900 clients.

As with other banks the loan appraisal is simplified for loans below € 40K. The appraisal includes a visit by a credit officer to complete all the financial and physical information of the business. The credit officer, in agreement with the client then generates a cash flow and financial statement.

Collateral provision is typically 150% of the loan value and up to € 40K moveable assets can be included, although it can include land etc. Over € 40K houses and/or other premises are usually required. Approved loans are disbursed in cash into the clients' bank account.

Loans take about 2-3 weeks to process assuming the client provides collateral documentation on time.

Under current legal legislation the bank cannot take a crop from a client but it can be pledged as collateral.

By the beginning of 2005 it is anticipated that target lending (loans outstanding) to agriculture will be € 6m.

Information provided by Mr. Kastrati at consultant's Rural Finance Presentation (Weds 22nd October)

Agricultural lending started in Gjakova in mid 2002 and in all branches in May 2003.
Total number of loans to date is 1,022 and total disbursement € 2.5m (during the past 5 months 759 loans have been approved and € 1.8 m disbursed)
The average loan size is € 2,500 but can range from € 250 upwards.
Repayment schedules are based on cash flow projections.
Interest rates will decline over then next year but not dramatically.

From the total loans to agriculture only 3 loans were overdue by more than 30 days at some stage, and none are considered unrecoverable with 100% provisions raised.

Micro Enterprise Bank (cont)

Friday 9th October

Mr. Valon Iluka (Branch Manager) and Mr. Shpend Kusari (Credit Officer) Micro Enterprise Bank (MEB) in Gjakova
Accompanied by Fadil Sahiti and Ismet Isufi (Ex Director KDC)

The total loan portfolio for the Gjakova branch is around € 8.6m of which about 5% (€ 450K) is to agricultural customers, although it is anticipated that this will increase over the next year.

For small loans (less than € 25K) the interest is around 19-22% reducing to 15% for loans over € 50K. The banks recognise that few agricultural customers will maintain financial records and therefore the process was described as above with our meeting with Mr. Kastrati.

The introduction of crop insurance would substantially alleviate the risk of lending to arable and vegetable growers.

Visit report	**CARE Project**
Person(s):	**Mr Qamili Krasniq**
Organisation:	**A private farmer and also Agricultural Credit Officer with MEB**
Location:	Lipjan
Accompanied by:	Mr. Fatmir Selimi (CARE COMMPETES)
Date of visit:	Sunday 12th October

Mr. Krasniq has been working for MEB for the past 9 months as a Credit Officer for rural related activity loans. He is also a small-scale private farmer with around 4 ha of land which he shares with his two brothers.

As a loan officer he is responsible for a loan portfolio of around 80 accounts, with a total lending of approximately € 300K. He says he has received significant training from MEB. He gave us an outline of the loan application process and this concurred with our experiences of talking with other Credit Officers.

Points of interest raised by Mr. Krasniqi

- MEB is increasing its number of loans to agricultural related activities.
- Loan applicants rarely understand cash flow in terms of their own business.
- Most loans are for 12 months or less, but longer term loans are becoming more commonplace.
- Loan applicants often ask for more money than they need in the hope they may get a reduced amount.
- Collateral valuation must be 150% of the loan value, but applying true market values is problematic.
- Character and integrity of loan applicant is very important.
- Mr. Krasniq is optimistic that the number of loans will increase and potentially more farmers will have a better chance to access credit.

Visit report	**IFDC Project**
Person(s):	**Mr. Greg Olson (Mitrovica Branch Manager)**
Organisation:	**Raiffeisen Bank Kosovo**
Location:	Mitrovica
Accompanied by:	Ray CLARK (IFDC)
Date of visit:	Thursday 2nd October

In December 2002, RZB of Austria renamed The American Bank of Kosovo to Raiffeisen Bank Kosovo JSC. In July 2003, RZB completed the purchase of the remaining 24% shareholding from USAID and now owns 100%.

Mr. Olson has been with Raiffeisen for about a year and is responsible for 3 branches in including Mitrovica. He previously worked with an IFDC project. He gave us some background into Raiffeisen activities in Mitrovica and lending into agriculture in general.

General info about Raiffeisen:

- Raiffeisen has 16 branches across Kosovo.
- Mr. Olson's 3 branches have a total of around 20K customers with bank accounts, of which around 300 have loan accounts.
- Pensioners make up a significant number of the individual bank accounts.

Problems for potential borrowers from agricultural sector:

- Bank considers small-scale agriculture activities a severe risk.
- Few small farmers have houses registered in their own name or are willing to pledge as collateral.
- If agricultural customers have alternative sources of income this will enhance chances of obtaining loans (typically larger customers).
- Lack of enforceable contracts between agricultural producers and suppliers or wholesale traders.
- Lack of suitable records kept by agricultural producers and proof of track record.
- Lack of physical resources.

Other issues

Raiffeisen has recovered (through the legal system), pledged collateral assets, such has houses from defaulting loan customers. In most cases this has not proved problematic and eviction has been carried out by enforcement officers.

The bank using a credit reference system, known as – Kosovo Credit Information System (KCIS) to screen customers for a credit history check, although this is in its infancy.

The bank does not discriminate between ethnic background or gender but lends on the basis of the financial viability of proposed business, integrity of customer, collateral and perceived risks.

Monday 6th October

Mr. Gary Moinett – (Senior Banker) Raiffeisen Bank Kosovo JSC
Accompanied by Ray Clark

Raiffeisen has not shown interest in financing of primary crops unless there is an additional source of income, which could be from agricultural activities, but typically not.

- The bank is funding agricultural processors.
- The longest loan duration is 36 months.
- Interest is typically around 16-18% per annum (loans less than € 35K at 18%).
- The bank doesn't have a lot of small loans (sub € 10K).
- It is very difficult to get customers to show sales through their bank accounts.
- Loans up to € 50K are disbursed as cash into a client account, previously a bank transfer to the relevant supplier was the preferred option but this was dropped as it proved time consuming to check all the details of a supplier.
- The loan process takes around 2-4 weeks, assuming client has all the correct documentation, for repeat borrowers the process can be a lot quicker.
- Between January – September 2003, the total loan portfolio has increased from € 15–40 million.

Friday 10th October

Mr. Memli Dula and Mr. Milot Dana (Credit Officers) Raiffeisen Bank in Gjakova
Accompanied by Fadil Sahiti and Ismet Isufi (Ex Director KDC)

These two Credit Officers previously worked in a donor funded consulting company dealing with business management.

They were not willing to discuss details about the loan portfolios they manage but gave their views on lending into the agricultural sector:

- Loans are granted to agriculture (estimated at around 5% of total portfolio), but are supported by additional sources of revenue, not including start-up projects.
- Prior to June 2003 the lowest loan at the Gjakova branch was € 5K - this has since been raised to € 10K.
- At present all loans have to be approved at Head Office, although this was soon to change and loans of less than € 15K will be approved at the branch.
- For some reason they both appear optimistic about the wine industry and think that this will attract investment.
- Neither Credit Officer has any agricultural training, but it appears they are receiving training in lending procedures.

Visit report **IFDC Project**

Person(s): **Mr. Besnik Zeqiri and Mr. Venton Hajdini (Credit Managers)**

Organisation: **Agro-Business Development Unit (ABU) EU funded**

Location: Pristina

Accompanied by: Mentor Thaqi (IFDC)

Date of visit: Wednesday 1st October

Tuesday 14th October
Mr. David Black – EU Banking Advisor (ABU)

ABU was established in 2001 by EAR with a primary objective to stimulate agriculture by lending into the agro processing sector. Its initial minimum loan amount was set at € 100K although this has been revised downwards and now stands at € 40K. ABU also has a role of providing technical assistance and training to its clients, where needs are identified. It also has a role in institutional development.

The loan procedures at ABU appear to be what would be expected from loans of this type and size.
A Credit Officer will first give an initial screening of a client and carry out a site visit, if this proves positive a loan application and business plan is submitted by the client. KBS is often contracted to help a client with this process, if necessary. A client should receive detailed advice about the loan application and information required in the business plan.

The application along with the business plan is reviewed and presented to a credit committee, which is made up of 4 persons; I from EAR, 1 from MoAFRD and two ABU senior bankers.

Key problems associated with loan appraisal:

- Lack of information from clients.
- Problems registering collateral, which varies between municipalities.
- Potential clients often present information which does not support proposed investment.
- Clients often request unsuitable loan durations which do not reflect the cash flow of the enterprise.
- Business plan preparation can be very time consuming if accurate data is not provided.

Lending conditions

- All loans have a rate of 10% interest.
- There is a 1% arrangement fee.
- Loan durations from 1 month up to 5 years, with a maximum grace period of 6 months.
- Collateral provision of 150%, although valuation of collateral assets is often arbitrary and can cause problems between the client and lender. Establishing the real value of collateral is difficult.

Conclusions

ABU offers loan flexibility that no other lenders can currently match. From other ABU clients visited, some have been very pleased with the service from ABU, whilst other have been very critical. However, it should be noted that the critical ones are in breach of their loan conditions and you would expect some hostility.

From the ABU clients we’ve seen I have to conclude that loan repayment schedules appear to be suitably structured for each entity.

ABU has experienced difficulties with some of its loan portfolio and defaulting loans are reported to be high. However, it should be remembered that ABU's original function was to stimulate the agricultural economy via lending to processors, and this has proved problematic. Also as we have seen that the Association lending is also proving problematic as well.

It has often been said by some current clients of ABU and those which have been refused, that ABU loans take a long time to process, in some cases as long as one year was not uncommon. It should also be noted that some ABU clients we have met are satisfied with the service and technical support they have received from ABU.

Visit report	**IFDC Project**
Person(s):	**Mr. Milazim Abazi (General Manager)** **Mr. Agim Deshishku (Bank Shareholder and Manager of XENI Cooperative**
Organisation:	**KASABANK sh.a.**
Location:	Pristina
Accompanied by:	Milazim Makolli (IFDC)
Date of visit:	Thursday 2nd October

The shareholding structure of KASABANK is as follows:

(i) 88% Kosova (27 companies and 4 individuals)
(ii) 12% Slovenian

The Director says they are at the maximum level of lending (60% of deposits) according to banking rules in Kosovo.

Kasabank has 32 branches within Kosovo and has a total lending portfolio of around € 27m of which around € 2.7m is currently loaned to agricultural related enterprises, primarily greenhouse construction and production, vegetable and input suppliers. (This information is somewhat contradictory to information from BPK statistics and may not be correct).

To date KASABANK has only concentrated on larger agricultural enterprises and only for loans up to 12 months, although in the past 6 months a small number of loans for 2-3 years have been approved and disbursed at interest rates of 11-12%.

Branches have a lending approval limit of € 15K but very few are agricultural customers. The Director says they have the expertise to assess agricultural loans but the conditions at present are not suitable.

Conclusions

The Director stated that they would like to support agriculture, including the lower levels of primary production, however, unless KASABANK attracts additional funds it is difficult to see this bank diverting financial resources into increasing its lending in agriculture, as opposed to other sectors with less associated risk.

Visit report	**IVPSK Project**
Person(s):	**Mr. Shaip Kastrati (Branch Manager)**
Organisation:	**Bank for Private Business (BPB)**
Location:	Prizren
Accompanied by:	Mr. Fadil Sahiti (IVPSK Project Officer - CECI/KDC)
Date of visit:	Wednesday 8th October

Mr. Kastrati said that overall bank deposits were around € 32-34 million but these were largely of a short term nature and hence restricted the bank's landing capacity. The current lending portfolio at his branch was around € 4.7 million of which between 25-28% was lent to agricultural activities, although all loans were only up to a maximum of 12 months. (The percentage figures appear very high and may not be accurate).

However, the Board had recently taken a decision to increase this to 3 year credit lending, but primarily for purchase of assets in the forthcoming privatisation process, including agricultural assets.

Major constraints to lending into agriculture

- The bank has difficulty attracting deposits, particularly long term.
- Bank facilities (local branch) and services it can offer is poor when compared to its competitors.
- Probable lack of staff training, particularly Credit Officers who most likely lack a good understanding of agricultural businesses and credit usage in agriculture.

Other points of interest

Agricultural loans for less than € 10K collateral can be movable assets, whilst over € 10K immovable assets are required, predominately land and houses.

Accumulated penalty interest can only be up to a maximum of 30% of the outstanding loan amount.

Provisions on defaulting loans are raised to 30% after 3 months and 100% after 6 months

In one case a house was repossessed by the bank but in general loan repayment was quoted at over 99%.

Deposit rates offered by BPB

Duration	Rate / annum
1 month	2.2%
3 months	2.4%
6 months	2.6%
9 months	2.8%
12 months	3.5%
24-37 months	4.3%

Visit report	**IFDC Project**
Person(s):	**Mr. Mehmet Shehu – Branch Manager**
Organisation:	**New Bank of Kosovo (brk)**
Location:	Gjakova
Accompanied by:	Ray Clark, Mentor Thaqi (IFDC)
Date of visit:	Friday 3rd October

The New bank of Kosovo (brk) was established in February 2001 as a Joint Stock Company with a share capital of € 2.8 million.

Share holding structure: Shareholding and private companies 62% individuals 38%.

In addition to a head office in Pristina the bank has 7 branches and a further 8 representative offices across Kosovo.

- Deposits quoted as € 49m.
- Total lending since 2001 € 78m.
- Current loan portfolio € 29m of which € 3m is to the agricultural sector.
- 95% of loans are for short term working capital (from 6-12 months).
- Interest rate of 1.2% / month.
- Loan repayments are generally structured with equal monthly capital plus accumulated interest.
- Volume of loans to small primary producers is negligible.

Other information

1. Mr. Shehu is a former agriculturalist previously in charge of a cooperative enterprise.
2. He said small farmers are reluctant to pledge houses as collateral or go through the process of registering house in their own names.
3. Crop insurance is required to spread the risk of lending to agriculture.
4. He is not aware of any scheme involving Association lending in the local region.
5. Bank facilities are poor and probably lack suitable human and physical resources to operate an efficient branch.
6. Although Mr. Shehu was a former agriculturalist we had the impression that increased lending into agriculture was not a strategic goal for his branch.
7. To increase its loan portfolio this bank must attract additional deposits.

Visit report	**CARE Project**
Person(s):	**Mr. Michel Pellogiun (Team Leader)** **Mr. Eric Mezieres Director of ADIE International – Paris**
Organisation:	**ADIE International – Rural Finance Program in Kosovo (RFPK)**
Location:	Pristina
Accompanied by:	Mr. Fatmir Selimi (CARE COMMPETES)
Date of visit:	Thursday 16th October

The programme was initiated by the NGO Adie International with loan operations starting in December 2000. The French government's Agency for Development and the European Agency for Reconstruction (EAR) provide start up funds and a credit line to stimulate lending.

Structure

The RFRK is only working in 5 municipalities in Kosovo (Deqan, Klina,Vushtri, Mitrovice and Leposavic) with a total of 11 credit officers, with a Head Office in Pristina. So far a total of 18 credit associations have been established to which loans are disbursed.

The methodology is to use a mixed approach involving loan officers employed by the programme and an Association based loan committee for reviewing loan applications. The elected credit committee of an Association reviews the loan request and makes all decisions on loan approval, in line with the overall credit policy and procedures as defined by the programme. Credit officers don't have a vote on the credit committee but can veto approval if there are justifiable reasons. In general the credit committee concentrates on the issues such as the reputation and activities of the loan applicant, while the loan officer looks at the financial details such as cash flow etc.

Agriculture accounts for around 60% of the total loan portfolio.

Profile of loans

18 rural lending associations (total membership of 5,300 persons).
2,805 active clients with € 2.7 million loans outstanding.
Portfolio at risk (30 days) 0.44%.
Average size of loan (in 2003) € 1,650.
Total loan disbursed since beginning of programme 5,455 loans = € 8.18 million.

Points of interest from information provided by RFPK:

- Kosovo population is around 55% rural inhabitants.
- Only 2% of commercial banks lending activities is to agriculture, and is concentrated on larger farms, (it is not clear if within these figures it excludes the likes of input suppliers etc).
- Other MFIs are active mainly in the urban market.
- Loan durations are for 12 or 18 months at 17% and 18% respectively.
- The smallest loans are for € 300 up to € 10K (but this is only for clients who have borrowed at least 3 times in the past).
- From the interest charged, 10% is retained by ADIE, 5% is retained by the association, whilst 2% is returned to the fund.
- As a MFI they are limited by the savings which can be attracted, as under BPK regulation there is a limit of € 125K imposed, without capital deposits of € 4 million an issue of a licence.
- Monitoring and inspection by BPK was stated as thorough with quarterly visits.
- Mr. Pellogiun says they cooperate closely with FINCA, KEP and the Swiss Cooperation.

- The project wishes to double its loan programme by the end of 2005.
- It plans to develop new products tailored to client requirements, after a successful relationship has been developed
- It is projected that RFPK will breakeven by the end of 2003.
- Clients in the 2nd and 3rd loan stage will be given an increased emphasis on investment loans at the village level.
- Leasing is being considered as an option but no specific information is available at this stage.

Exit strategy for ADIE

In June 2003 the project has established a local company Kreditumi Rural L Kosoves (KRK LLC), to take over from the project at the of 2003. The share capital will amount to € 75K and is equally divided between FIEK, ADIE International and SIDI (a risk capital company experienced in investing in MFIs). The project continues to try and attract investors and lending into the programme.

Conclusion

Although ADIE only work in 5 municipalities they plan to expand. SFS components should forge links to see where cooperation can take place, particularly if the programme expands to other northern/western regions. Currently there are no plans to move into the southern and eastern regions.

Contact details

RFPK (ADIE international)
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Visit report	**IVPSK Project**
Person(s):	**Ms. Labinota Dana (Credit Officer)**
Organisation:	**Kosovo Enterprise Programme (KEP)**
Location:	Gjakova
Accompanied by:	Mr. Fadil Sahiti (IVPSK Project Officer - CECI/KDC)
Date of visit:	Tuesday 7th October
Additional:	**Thursday 9th October** - held meeting with Ms. Silvana Domi (Gjakova Branch Manager)

The Kosovo Enterprise Programme was established in autumn 1999 by The International Catholic Migration Commission (ICMC), with assistance from the Catholic Organisation for Relief and Development Aid (CORDAID). It was designed to serve the needs of refugees, internally displaced people and migrants. The original loan portfolio of € 198 has grown into a current lending programme of around € 6.2 million, and has now established 7 branches across Kosovo. The total cumulative disbursement now stands at € 29 million.

KEP also place considerable emphasis on promoting economic empowerment of women through access to credit, and extend financial services to minority communities.

The following is taken from official KEP website and describes it objectives and activities

(i) TARGET CLIENTELE [1]

KEP credit targets the economically active low income and or marginalized / vulnerable populations who have the capacity for self-employment and will make the most use of such assistance.

(ii) VISION

KEP's vision is to be a sustainable financial institution that significantly contributes to the economic development of the small and micro-enterprise sector in Kosovo by providing access to sustainable financial services.

(iii) MISSION STATEMENT

Promote the participation of low income / marginalized / vulnerable but economically active populations in viable small and micro-enterprises through delivery of quality and sustainable financial services.

(iv) ORGANISATIONAL OBJECTIVES

a) Develop a sustainable institution for effective and increased access to financial services to the SME sector, but currently mostly in the urban environment.
b) Promote and enhance the development and strengthening of community based economic organisations.
c) Innovate products for the low-income society including the design and delivery mechanisms.
d) Promote economic empowerment of women through access to credit and business plan development trainings.
e) Make deliberate efforts to extend financial services to minority communities in Kosovo.
f) Support the creation of an enabling environment for the small and micro enterprise sector and support institutions.
g) KEP will strive to hire, train and retain highly qualified professionals whilst maintaining a gender-balanced policy in recruitment.

(v) PRODUCTS AND SERVICES

Current lending products are: (a) Solidarity Group Lending, (bi) Individual Lending and; (c) Village Bank Lending. Training and consultancy services are offered on a selective basis as per needed. Products in the pipeline includes Savings, Micro Insurance and consumer loans.

SOLIDARITY LOANS

Credit is provided for agriculture, production, trade or service business. Loan sizes are between € 500 to € 1,000 per borrower for first loans depending on the needs of the business. Subsequent loans progress in phases up to a maximum of €5,000.

The loan term ranges from 6 to 12 months. Repayment for repeat and larger loans can be up to 24 months. The loans are provided to solidarity groups of 5–10. The group structure bears the primary responsibility of guaranteeing the loans, but KEP recognizes the need to enhance other collateral requirements within limitations and means of target population. The solidarity structures are eligible for follow-on loans only if they have had a good repayment record.

INDIVIDUAL LOANS

Loans are provided to production businesses, primarily in the reconstruction sector, agro-processing, and service industries but also to retail businesses especially those supporting the key growth sectors. Loans range from € 500–5,000 with subsequent loans gradually building up to a maximum of € 15,000. Using a community participatory approach to identify and support members of the community, the KEP works in coordination with local Business Associations. The associations also serve the function of monitoring loan repayment by their members to supplement individual loan monitoring by KEP staff.

VILLAGE BANKING

The community banking is a concept aimed at building capacity for local communities to provide financial services to the community. This method empowers the community, makes it possible and cost effective to deliver credit in isolated and low potential areas and ensures that the community takes responsibility for the performance of the credit program. Interest is shared between the community bank and KEP to enable both institutions to cover costs.

CONSUMER LOAN

These are loans meant to support low-income employees working in government, NGOs or in the private sector. This is borne out of the fact that there are no such products in the market while recognizing that people earning a monthly income may require lump sum funds to meet financial needs beyond what the monthly income can afford. This way, KEP will be diversifying its product range while offering low-income wage earners an opportunity to obtain credit on the basis of their small monthly incomes. The KEP consumer credit product will target those in need of quick access to a small, short-term emergency loan for household basic needs. The product was launched on a pilot basis in April 2003. Its being piloted tested In Gjakova Branch in Western region. The product is set to cover such diverse needs as clothing, winter firewood provision, school fees, utilities, medicine and other health care needs.

PRODUCTS IN PIPELINE

It is envisaged that new products will be introduced on a low level cum pilot testing basis to include, savings, micro-insurance and training.

SAVINGS

Small and micro-entrepreneurs place a high utility on their security. This calls for major potential for large mobilization and facilitation of savings. Savings mobilization strengthens the self-financial sufficiency of the institution, reduces the dependency of the institution on external funding as well as the fact that it acts as a form of collateral to loans. KEP will offer innovative but repayment based incentive savings scheme. The savings product is planned for pilot testing in the third quarter of 2003.

MICRO INSURANCE

To reduce KEP clients and solidarity structures vulnerability to risk, KEP will offer micro-insurance services to cater for peripheral but critical lending risks such as incapacitation and death. KEP will strive to offer innovative micro-insurance services that will be reviewed from time to time inline with the dynamism in the financial sector and the economy at large.

[1] *Text until paragraph above taken from official KEP website Date: 7th October 2003*

Points of interest

- Very good repayment rates reported at over 99.8%
- Loans take around 5-10 working days to complete, assuming clients can provide necessary information and collateral details.
- Interest rates around 1.25% /month depending on loan – potentially to be reviewed in the near future.
- The client is given a simple form to complete which must include the list of people in the group and their relevant activities.
- A simple 4-5 page plan is then completed by the credit officer in the presence of at least the head of the group.
- The Credit Officer will visit the businesses of each member of the group to assess the validity of application.
- Collateral is typically fixed and movable assets, but must include immovable assets (houses, buildings, land etc) for loans over €10K, which also require approval from head office.
- Loan approval up to € 10K is given at branch level and is decided by a credit committee consisting of 4 people.
- It is envisaged that KEP will expand its loan programme further into agricultural related activities.
- Additional lending funds can be accessed through CordAid.
- Individual loans require two independent guarantors.

KEP was a founding member of the Kosovo Credit Information Services (KCIS) which is used by most lending institutions in Kosovo to share client information on a centralised database for credit reference checks on loan applicants.

Contacts

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Ms. Labinota Dana (Credit Officer)

Visit report	**IVPSK Project**
Person(s):	**Mr. Yuriy Shulhan (Country Director)**
Organisation:	**FINCA**
Location:	Prizren
Accompanied by:	Mr. Fadil Sahiti (IVPSK Project Officer - CECI/KDC)
Date of visit:	Thursday 9th October

As with other lending organisations FINCA started its loan programme in response to a lack of access to commercial credit for most of the population. More recently FINCA has completed a framework agreement with the German State Investment Bank (KfW) to refinance its loans allowing further expansion of its loan portfolio. FINCA has concentrated its loan activities in village banking (group loans) and individual loans for a variety of SMEs.

FINCA now covers 22 of 30 municipalities in Kosovo with village banking loans in the range of €300-3,000 and individual loans from €1K upwards with no apparent ceiling limit, but first time loans are kept at the lower levels.

FINCA recently published the following information for its lending in Kosovo:

Number of village banking groups	238[1]
Individual clients	1,825
Percentage of women clients	17%
Average loan size	$2,605
Total loans outstanding	$3,724,017
Client savings	$191,313
On time repayment rate	98.2%

[1] *Data correct as of 06/2003 (Source FINCA website)*

The interest rate for village baking is 1.5% per month, whilst individual loans vary depending on the amount but were quoted as ranging from 1.6-1.8% / month. It is anticipated that these rates will decline over the next year, but at this time it is unknown to what extent.

Total loan capacity is not restricted as funds can be made available from KfW as needs arise, but it is limited by the limitation of suitable loan recipients. The Director was keen to stress FINCA's desire to extend the loan portfolio and welcomes co-operation from SFS project components and the potential to be a conduit for introducing new suitable clients to FINCA.

Approximately 19% of loans are to ethnic groups other than Albanian Kosovars.

FINCA is trying to establish a link with dairy farmers in the Dragash area to supply milk to KFOR, but this is proving problematic. No specific details were offered to the problems.

Conclusions

FINCA has a good lending program and has shown impressive growth since its inception. It is reasonable to assume that it has learnt the lessons of lending and expansion of the portfolio as planned is achievable, subject to availability of suitable new clients.

Contacts

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Visit report	**IRC Project**
Person(s):	**Mr. Vahdet Anadolli – General Manager**
Organisation:	**Agency for Finance in Kosovo (AFK) a Micro Credit Lending Institution**
Location:	Pejë
Accompanied by:	Mr. Agim Rysha (Agriculture Manager) and Mr. Irid Bigaku (Field Officer) IRC
Date of visit:	Friday 17th October

The Agency for Finance in Kosovo was established in October 1999 with assistance from Mercy Corp of the USA. The Board of Directors currently consists of four Kosovars and two representatives from Mercy Corp. Initially, after the war, the programme was implemented with grant aid to cover emergency social and humanitarian requirements.

In early 2000 the United Nations Development Program (UNDP) stepped in with a grant (€ 750K) for seed capital in order to start a commercial lending program in the Pejë region, on a full cost recovery basis plus interest charges.

The lending program (UNDP funds) continues to be targeted at SME in services, trade, processing and production not specific to any particular sector. All loans were granted on an individual basis as there is no group lending as with other MFIs. Loans are secured on the basis of collateral provision and two guarantors. Around 10-12% of the lending portfolio is currently attributed to agricultural related activities. The geographic area covered by the programme is concentrated in the West including Pejë, Istog, Skenderaj, Klina and Gjokova

Loan conditions

- Loans are from € 1K – 25K although the average is around € 3,200.
- All loans carry a flat fee interest rate (i.e. interest charged on the original sum borrowed on a monthly basis and loan amount is returned at the end of the loan period).

No of loan	Interest charged per month
1st	2%
2nd	1.66
3rd	1.5
4th	1.5

- Loan duration can be up to 24 months maximum (minimum 3 months).
- Loan amounts are determined on an individual basis and therefore first time borrowers are not restricted to the lower amount.

Profile of current loan portfolio

Loans outstanding	€ 1.3 million
Number of clients	900
Active clients	400
Recovery rate	96%+
Loan considered at risk (over 30 days)	1.5%

AFK has recently received a credit facility from USAID (€ 450K) to be used specifically for agricultural activities. At present it is in month 2 of a pilot phase to 21 clients (mainly in Istog) and all individual loans, duration of 10 months at a flat fee of 1% per month. Loans are mostly around € 2K and there is an initial fee of € 25. The first monthly payments have been successfully collected and Mr. Anadolli is satisfied with progress so far.

Other points of interest

- AFKL looked at Gjilan for a possible location to start lending, but their survey concluded that the population was still orientated towards receiving grant aid assistance.
- USAID provided training for the pilot agricultural programme.

8. Presentation of Rural Finance Issues

Presentation
by

Tim Hammond

Rural Finance Consultant

at
Advocacy Training and Resources Center (ATRC) Pristina

Wednesday 20th October 2003

Small Farmer Support Project (SFS) - Access to Credit

Presentation
by

Tim Hammond
Rural Finance Consultant

at
Advocacy Training and Resources Center (ATRC) Pristina

Small Farmer Support Project (SFS) - Access to Credit

During the past 3 and a half weeks I have been working with the 5 partner organisations of the USAID funded Small Farmers Support Project, and to carry out a review of the problems businesses within the agricultural sector face in gaining access to credit.

Together with project staff we have visited a wide range of individuals and companies operating in the agricultural sector, such as:

Agricultural Producers
Agricultural Associations
Agricultural Processors
Agricultural Input Suppliers
Major banks in Kosovo
Non bank lending institutions
Various NGOs
USAID

The objectives of this review are to;

(i) Identify present constraints faced by individuals and companies operating within the agricultural sector.
(ii) Ascertain how these constraints effect potential access to credit by agricultural related business, both large and small-scale.
(iii) Determine the current credit sources available to the agricultural community.
(iv) Consider the ways in which agricultural lending can increase.
(v) Finally, to open up a forum for discussion about the conclusions and to help orientate potential credit recipients to the demands of commercial lending.

An overview of the current constraints to agricultural enterprises

Many of the constraints to agricultural development in Kosovo are well documented.
In the following examples the constraints have been divided into 3 separate categories:

(iv) Farm and processor level
(v) Banking and lending institution level
(vi) Agricultural policy and legal matters

(II) Farm and processor level

- Farmers and managers of agricultural activities rarely keep accurate financial and physical records.
- Production resources at farm level are very poor. In general most farms are under mechanised and also lack access to reliable contract machinery services, although there are some exceptions.
- Poor management and technical knowledge at farm level is not conducive to good management practices. Hence there is a need for substantial farm management training, particularly financial management.
- There is a general lack of awareness by agricultural businesses in how to use credit.

- Most farmers that we met wanted to gain access to credit. But typically they were interested in working capital loans over a 2-3 year term, or loans to substantially increase their activities, which was out of all proportion to their current revenues. Clearly both scenarios would not be acceptable to a lender.
- Many small farms operate at subsistence levels, and after the family's requirements are met generate very little surplus. Such farmers have no or at best very little chance of obtaining commercial credit, even from micro credit lenders.
- Few processors are in a financially secure position to assist primary producers.
- Most of the processors we visited experience significant difficulties in consistently marketing their products. Many processors work on a temporary basis with frequent production interruptions, as they are unable to sell end products.

  This problem is exacerbated by the inevitable poor relationship that this generates between the primary producers and processors.

  If an agricultural enterprise cannot sell its current level of production, what is the justification of increasing investment to produce more?

(II) Banking and lending institution level

- Banks and lending institutions perceptions are that agriculture is a risky sector in which to lend money, and as a general rule this is true.
- Bankers recognise that there is general lack of awareness by agricultural businesses in how to use credit.
- Current interest rates are high when compared to the potential returns from agricultural activities.
- Over the past few years banks have generally only lent short term loans and typically for 12 months with a repayment schedule of equal monthly principal repayments plus interest.
  However, this year some banks are beginning to offer longer term loans and introducing grace periods to reflect a client's cash flow, for both short term working capital and investment loans, although 3 years appears to be the present maximum duration. Although, one exception is ABU which has disbursed loans for up to 5 years.
- Statistical information from BPK shows that from the total lending portfolio of all banks, loans to agriculture account for around 2% of lending, but it is not clear if this figure includes the likes of input suppliers and spare parts dealers. However, even if it doesn't the overall figure will still remain low.
- Farmers often lack liquid collateral which is most attractive to a bank or lending institutions.
- In many cases the 'market' value of collateral is difficult to determine and is often a cause of dispute between the lender and the client.

(III) Agricultural policy and legal matters

- Although agricultural policy has not been a major part of this review, it is constantly mentioned by individuals working in the agricultural sector that there is a lack of support for farmers by the governing administration.
- Importation of agricultural and processed food products makes it difficult for local producers to be competitive.
- All producers and processors have complained that they are disadvantaged by the customs duties and taxation currently imposed and also the inflow of illegal goods entering Kosovo. This disparity is not helping agricultural producers to be competitive.
- There is a lack of certification schemes and enforceable inspections of processing facilities, which would help to give the consumer confidence that a locally produced agricultural product is safe.
- Contractual agreements in the agricultural industry lack proper enforcement and are often meaningless if not strictly applied. In many cases contracts are not binding and only exist as loose verbal agreements.
- Lack of land ownership reduces the value of agricultural assets.

- Rural areas need alternative forms of employment aside from agriculture. Given an alternative choice how many people currently involved in farming would prefer a stable job outside of direct primary agricultural production?
- The farming sector lack an adequate advisory services, although the upcoming EU funded SASS project will attempt to address these issues but will require time to establish a solid base and network. There is a significant demand for farm management training and particularly financial management in agricultural businesses.

Perhaps we should consider:

What is a credit worthy borrower?

For commercial credit lending a potential borrower must be able to demonstrate to a lender that he/she is potentially credit worthy i.e. will the client be able to repay the loan?
Banks and lending institutions want clear evidence that a potential borrower is an acceptable credit risk and has the intention to repay the loan.

To determine the suitability of a borrower bankers often refer to the following 4 criteria:

(i) What is the character of the borrower?
(ii) What is the capacity of the business to repay the loan?
(iii) What is the cash flow?
(iv) What is the collateral?

Collectively these criteria are often referred to as the 4 C's of credit lending.

Character

- Who are the owners and what is their background?
- Is the client telling the truth or trying to deceive the bank?
- Has the client had any previous history of non repayment of loans or unresolved disputes in terms of meeting a financial commitment?
- Are there current outstanding creditors?
- Is the business practice ethical?
- What is the overall integrity of the client?

Capacity of business to repay

- What is the capacity of the business to perform as the client is suggesting?
- Is the proposed business expansion manageable? (i.e. a client with 5 cows who is requesting a loan to purchase an additional 40 cows, most likely will not be able to manage this degree of expansion).
- Is the client able to market present volumes of production?
- What is the capacity of the business to get paid from its current markets?
- Is the business receiving deferred payment terms for its input provisions? Very common under current trading terms, and evidence will be required.
- What is the capacity of any guarantor to repay the loan?

Cash flow

- What is the liquidity of the business?
- Is a client asking for a repayment schedule which relates to the cash flow of the business?
- What is the client's financial contribution as a proportion of the total loan?
- Are there any additional sources of cash, if so from where?

Collateral

- What assets can be presented?
- What is the liquidity of collateral assets?

- What is the real value of collateral assets?

A potential client <u>must</u> be able to address all the issues mentioned above and have a clear understanding of his/her own business, regardless of its size. If a client misrepresents the business or cannot present a suitable case why he/she needs a loan, how can a Loan Credit Officer make the correct decision?

What are the current credit sources available to the agricultural sector?

As previously mentioned the number of agricultural enterprises which have access to credit is very low. The existing sources of some form of credit include:

(vii) Borrowing from a family member, friends or other associates.
(viii) Borrowing from commercial banks.
(ix) Borrowing from ABU.
(x) Borrowing from a micro financing institution.
(xi) Pre financing from a processor (although this is limited).
(xii) Deferred payment terms from an input supplier.

Borrowing from family members, friends or other associates is commonplace and probably accounts for significant volumes of lending, but obviously this has its limitations.

Commercial lending

Based on their ability to increase lending, banks and lending institutions which are involved in agriculture can be divided into four categories:

(i) Those with foreign shareholding structures, which have the capacity to increase total lending as they are not restricted by access to external financial sources, such as:
MEB
Raiffeisen

(ii) Non banking institutions

Agro Business Unit (ABU)
As a result of ABU's structure it is able to provide longer term investment loans for up to 5 years.

(iii) Local banks which need to rely on attracting additional deposits (predominately from within Kosovo), to allow increase in loan portfolios.
Bank for Private Business (BpB)
KASABANK
New Bank of Kosovo (brk)

Currently the local banks are operating close to the maximum level of lending permissible under BPK regulations. At present lending volumes it is considered unlikely they will significantly increase agricultural lending as opposed to their current sector activities.

(iv) MFI

Micro-lending programmes

Micro lending programmes, which were established by various NGOs are operating in most parts of Kosovo, but tend to be orientated to low income groups and small entrepreneurs, of which some are involved in agricultural, but not all.

Over the past 3 years these programmes have grown considerably for example:

Current loan portfolios of the following 4 micro-credit lenders:

(i)	Kosovo Enterprise Program	€ 5.9 million
(ii)	FINCA Kosovo	€ 3.8 million
(iii)	ADIE International loan	€ 2.7 million
(iv)	Agency for Finance in Kosovo (AFK)	€ 1.3 million

In all the mentioned Micro Financing Institutions, loan recovery appears to be very high for both group and individual lending schemes. As representatives from some of these MFIs are here I will let them give details of their lending programmes and their opinions as to what extent they may wish to increase lending to agricultural clients.

Credit via Input suppliers

Some input suppliers we met were offering some form of deferred payment terms, but only to favoured reliable customers. The duration of deferred payment terms quoted ranged from 2 weeks to 6 months. These terms were case specific and varied from individual suppliers. Most small suppliers said they did not offer any form of delayed payment and would only accept payment in cash.

In general larger traders do offer customers deferred payment terms – this was quoted as ranging from 5% and 30% of their respective total turnover.

Are there ways forward for increasing lending into agriculture?

If we exclude the option of borrowing from family members and friends, banks represent the only viable option for financing commercial agriculture. From our discussions with the banks it would appear that they are more interested in seeking new clients in the agricultural sector.

This is not to say that banks are going to dramatically increase their lending into this sector over the next few months, but more a case that if they want to expand there is a need to find new customers.

However, I think we all recognise that these potential new clients will only be those who have viable businesses and can demonstrate that loans will be repaid and sufficient security is in place to cover the banks lending exposure risk.

Potentially why are banks considering increasing lending in agriculture?

- Over the past year loan portfolios at all the banks have substantially increased, particularly MEB which has a loan portfolio of around € 55m and Raiffeisen which is around € 40m.
- Quite possibly banks such as MEB and Raiffeisen are reaching loan saturation point in their current markets and are finding it difficult to attract new (suitable) clients in these sectors. i.e. they are chasing the same clients.
- MEB is now employing and training people from agricultural backgrounds to act as loan officers.
- Raiffeisen is also employing loan officers for this purpose, although generally at present they are not viewing agricultural loans of less than around € 10K as a priority.
- A large number of Kosovo's population are private farmers or are employed in agriculture to some extent. This is not to say that numerous people are going to be new clients to the banks, but they do represent the majority of the population.
- As local banks find it difficult to attract deposits it is unlikely they will significantly increase agricultural loans, perhaps with the exception of existing borrowers who tend predominately to be larger enterprises.
- All the local banks we met said they would like to increase lending into agriculture, but in practice it is unlikely to be achieved over the short term.

The process of loan assessment by banks

In terms of training for credit officers, MEB and Raiffeisen are leading the other banks, particularly MEB. It would appear that considerable financial and human resources have been applied to training, which seems to be an ongoing process.

A big obstacle to agricultural lending in all transitional economies has been the ability of a prospective client to provide detailed financial information about their business to a lender.
As mentioned earlier few agricultural businesses keep accurate records, or keep records at all.

In response banks have simplified their procedures for small loan applications, particularly for loans of less than around € 25K.

All the banks visited said they apply more or less the same procedures for loan appraisal under € 25K:

(i) Initial interview with client to get an idea of what the client wants and a outline of the business (this phase is very important and the client must be able to answer simple questions about the business and most importantly give adequate justification for the loan).
(ii) Visit by Credit Officer to review the client's premises and resources etc.
(iii) Compilation of standard bank forms which is undertaken by the Credit Officer including cash flows and financial statements.
(iv) Registration of collateral.
(v) Loan disbursement (typically in cash into client's account).

These simplified procedures make it much easier for clients as there is no requirement for a business plan, whilst cash flow and financial statements are generated by the Credit Officer in consultation with the borrower.

The banks reported that for first term loans the process is usually completed on average within 3-4 weeks maximum. However, this is conditional on a client being able to provide collateral registration documentation in a timely manner.

If we compare the types of loan on offer from banks now as opposed to say one year ago, there have been significant changes both in terms of loan duration and repayment schedules. Grace periods for principal repayment are more common and designed to match the cash flow of individual businesses.

What are the conclusions?

Producers

- A high percentage of Kosovo farmers are surviving only at subsistence level.
- Farming assets such as equipment and machinery are inadequate on most farms and there is a lack of access to suitable contracting services.
- Almost all the farmers we met said they needed credit but many wanted large sums to expand their business activities, which was out of all proportion to their current capacity.
- Farmers struggle to market their produce. However, almost all farmers said their main objective was to increase production and did not appear to focus on marketing.
- Of the farmers we met very few have a reasonable understanding of financial movement in their respective businesses.
- Management and financial advice is a priority requirement for all farmers, in particular the progressive ones.

Processors

- Enforcement of supply contractual agreements is problematic and by and large these are not binding.

- With the exception of two cases all the processors we met had intermittent production, poor relations with primary producers and severe problems marketing their products.
- Some processors we visited were unable to meet their current loan commitments to banks.

Input suppliers

- Input suppliers do not have the financial capacity to offer significant credit sources to their customers and only have deferred payment arrangements with favoured customers whom they can trust.
- In general, input suppliers are not interested in offering increased levels of deferred payments to their customers even if they could gain access to an increased working capital facility. The risk of non-repayment and problems with recovery through the legal system make this very unattractive.

Banks

- Banks are commercial structures and need to make profits to survive and thus be able to continue lending.
- Banks will never be interested in clients who cannot generate sufficient revenues to cover the loans and this also applies to MFIs.
- Kosovo has a multitude of farmers and at present only a very small number can be considered potentially attractive to the banks, although this number may increase in the future if general economic conditions improve.
- Banks have simplified loan application procedures and some are employing agriculturalists as Credit Officers.
- Over the coming months some banks may take a more favourable approach to lending to agricultural clients, but they will be selective and clients must be able to demonstrate that they are commercially viable. In essence the banks will 'cherry pick' clients. However, over time this process should begin to filter down to other potentially viable farmers if the banks experience proves positive.

Policy

- The governing administration is widely criticised by the agricultural community for not assisting farmers and processors or having what they perceive as appropriate policies.
- The governing administration is not planning to provide a credit line or any form of subsides to agriculture.
- If alternative forms of employment were generated in rural areas, it would allow increasing areas of agricultural land to come under the management of more able and commercially orientated farmers.
- Current trade policy does seem to make local producers less competitive than neighbouring countries, which is a very contentious issue in the agricultural sector.

There are many obstacles facing the farming sector in Kosovo and one of those is access to credit.

However, in the agricultural sector at present the only realistic option of accessing credit is via commercial lending, in order to access such credit agricultural businesses must become more commercially focussed. Admittedly this is much easier to say than actually do, but what are the alternatives?

Obviously the banks play a pivotal role in this process and we look forward to hearing from them.

However, no one should be under any illusion that banks will dramatically increase their lending to agriculture in the short term. It's more a case that some progress has been made and the process continues to evolve. Therefore we have to consider what changes will take place over the next 2 to 3 years.

The challenge for any agricultural enterprise that wants to access credit is to meet the requirements of the banks, and for the banks to offer products which are suitable for viable agricultural businesses.

The introduction of effective crop insurance would substantially decrease the risk of lending to growers and should be viewed as a priority.

The introduction of leasing for agricultural equipment and machinery would also be a positive step but requires legal protection of the leasing company assets.

From our experiences of undertaking this review including visits to a wide range of agricultural enterprises we have seen farmers who potentially are credit worthy and require access to credit sources, but manageable levels. As commercial agricultural lending develops such agricultural enterprises will become more within the focus of the banks.

Finally, I would like to give my thanks to all the people who agreed to meet with us and for sharing their views on the problems to be addressed. I would also like to thank you for listening.

Training Workshop for SFS Project Staff

Monday 20th October 2003-10-21

Tim Hammond
Rural Finance Consultant

Items covered included

(a) Conclusions of Visits by Consultant

(b) Principles of Credit and Credit Access

(c) Examples of Loan Repayments Schedule

(d) Group Activities – Preparing a Loan Repayment Schedule

A total of 29 persons attended the workshop session and the following material was handed out.

Small Farmer Support Project (SFS)

Access to Credit

The objective of the session today is to present my conclusions of the constraints and key problems faced by farmers and processors for accessing credit and appraisal of current banking procedures for loan applications.

An overview of the current constraints to agricultural enterprises.

- Most lending institution perceptions are that agriculture is a risky sector in which to lend money, (in many cases this is true).
- A general lack of awareness by the agricultural businesses in how to use credit and the type of credit currently available.
- Many small farms operate at subsistence levels, and generate very little surplus (such farmers have very little, or no chance of obtaining commercial credit).
- Farmers and other agricultural activities rarely keep accurate financial and physical records.
- Can an agricultural entity sell its current level of produce? For many producers marketing is the biggest limiting factor for viable expansion.
- Contractual agreements in the agricultural industry lack proper enforcement and are often meaningless if not strictly applied.
- Farmers often lack liquid collateral which is most attractive to a bank or lending institution.
- In many cases the ‘market’ values of collateral are often arbitrarily decided. i.e. what is a true market value for collateral?
- Lack of land ownership, and a moving land market reduces the value of agricultural assets.
- Importation of agricultural and processed food products is making it difficult for local producers to be competitive.
- Quality control of produce is poorly managed at all levels, from farm to retail outlets.
- Many processors (large and small-scale) of primary agricultural products are poorly managed and suffer cash problems themselves.

Credit

What is a credit worthy borrower?

For commercial credit lending a potential borrower must be able to demonstrate to a lender that he/she is potentially credit worthy. Typically, banks and lending institutions want clarity on the main criteria listed below. Collectively these are often referred to as the 4 C's of credit, although larger loans often demand additional information.

Character

- Who are the owners and what is their backgrounds?
- Is the client telling the truth or trying to deceive the bank?
- Has the client any previous history of non repayment of loans or unresolved disputes in terms of meeting a financial commitment?
- Are there current outstanding creditors?
- Is the business practice ethical?
- What is the overall integrity of the client?

Capacity of business to repay

- What is the capacity of the business to perform as the client is suggesting?
- Is the proposed business expansion manageable? (i.e. a client with 5 cows who wants to purchase an additional 40, most likely will not be able to manage this type of expansion).
- What is the capacity of the business to get paid from its current markets?
- Is the business receiving deferred payment terms for its input provisions? Very common under current trading terms, and evidence will be required.
- What is the capacity of any guarantor to repay the loan?

Cash flow

- What is the liquidity of the business?
- Is a client asking for a repayment schedule which relates to the cash flow of the business?
- What is the client's financial contribution as a proportion of the total loan?
- Are there any additional sources of cash, if so from where?

Collateral

- What assets can be presented?
- What is the liquidity of collateral assets?
- What is the real value of collateral assets?

A potential client **must** be able to address all the issues mentioned above and have a clear understanding of his/her own business, regardless of its size. If a client misrepresents the business or can't present a suitable case why he/she needs a loan, how can a Loan Credit Officer make the correct decision?

Are banks becoming more interested in agriculture?

It would appear that some banks are beginning to become more interested in agricultural clients.

Why?

- Over the past year loan portfolios at all the banks have substantially increased, particularly MEB (€ 55m) and Raiffeisen (€ 40m), although presently only 5-6% of the portfolio is attributed to agriculture.
- Banks such as MEB and Raiffeisen quite possibly are reaching loan saturation point in their current markets and are finding it difficult to attract new (suitable) clients in these sectors.
- A high proportion of citizens are private farmers or are employed in agriculture.
- Local banks find it difficult to attract deposits and therefore cannot substantially increase lending. For that reason it is unlikely they will significantly advance agricultural loans, with the exception of the existing borrowers.

Who are the main banks?

Based on their ability to increase lending, banks and lending institutions which are involved in agriculture can be divided into three groups:

(iv) Those with foreign shareholding structures, which can readily draw in funds from external sources.
- MEB
- Raiffeisen

(v) Local banks which need to rely on attracting additional deposits (predominately from within Kosovo), to allow increase in loan portfolio. These banks are operating at maximum level of lending permissible under BPK regulations:

- Bank for Private Business (BpB)
- KASABANK
- New Bank of Kosovo (brk)

(vi) Non banking institutions

- Agro Business Unit (ABU)

Types of loans available

As a general rule, a year ago, bank loans were only for short term working capital, for a maximum duration of 12 months with no grace period and typically equal monthly repayment schedules.

This is no longer the case

Banks are beginning to offer loans which are more inline with individual client needs e.g.

(i) Working capital loans for 1-12 months with flexible grace periods.
(ii) Capital investment loans (generally not more than 3 years) with grace periods to match projected cash flow.

ALTHOUGH STILL IN ITS INFANCY THIS PROCESS WILL EVOLVE
WHAT WILL BE AVAILABLE IN 12 MONTHS?

Loan assessment by banks

In terms of training for credit officers, MEB and Raiffeisen appear to lead the other banks - training is an ongoing process

The banks have simplified their procedures for small loan applications (say sub €20K)

All the banks visited said they apply the following procedures:

(vi) Initial interview with client to get an idea of what the client wants and a outline of the business (this phase is very important and the client must be able to answer simple questions about the business and most importantly justification for the loan).
(vii) Visit by Credit Officer to review the client's premises and resources etc.
(viii) Compilation of standard bank forms (undertaken by Credit Officer).
(ix) Registration of collateral.
(x) Loan disbursement (typically in cash into client's account).

The banks reported that the loan process is usually completed within 3-4 weeks maximum, providing the client can produce suitable documentation for collateral registration.

In practical terms, at bank level, there may well be other issues which may delay this process – but a loan applicant must do all he/she can to avoid unnecessary delay on their part.

REMEMBER

- Banks are commercial structures and need to make profits to be able to continue lending.
- Banks will only disburse loans to clients who have a viable business – in general they will not finance start up ventures without substantial proven revenues from other activities.
- If a client's 'realistic' cash flow does not show loan coverage they will not lend.
- A potential client must be realistic when applying for a loan i.e. because you have 10 cows and a building for 60 cows does not mean you are suitable for a loan of € 65K to purchase another 50 cows.
- The integrity of a client is very important to a modern professional bank.

Other Lending programmes

Micro-lending programmes

Micro lending programmes, which were established by various NGO's are operating in most parts of Kosovo, but tend to be orientated to low income groups and small entrepreneurs, of which some are involved in agricultural related activities.

- Over the past 3 years these programmes have grown considerably, for example:

Current loan portfolios of the following 4 micro-credit lenders:

(v)	Kosovo Enterprise Program	€ 5.9 million
(vi)	FINCA Kosovo	€ 3.8 million
(vii)	ADIE International	€ 2.7 million
(viii)	AFK	€1.3 million

- In all the above organisations loan repayments are reported to be very high and hence continued growth.
- Both KEP and FINCA have expressed a desire to find new borrowers and form links with SFS partners to identify potential new clients. This should be encouraged by each project component to see where progress can be achieved.

Other Issues

- Very few farmers and to some extent processors met had a good understanding of financial movements (cash flow) within their respective businesses.
- Almost all producers/processors had problems with marketing their produce – if you cannot sell current produce what is the sense in investing to produce more? Almost all who were asked said their main objective was to increase production!
- Where possible, project recipients should be encouraged to keep records of sales and costs, for their own benefit.
- In general, producer associations we met were trying to cover too many activities and not really focussing on key issues.

Examples of different repayment schedules.

The following examples were given to show the actual cost of borrowing when taking into consideration principal repayments through the duration of the loan and the effects of grace periods to the total paid in interest.

Later in the session each project presented their own scenario of borrowing requirements and justification of the loan duration and what, if any grace period they proposed.

The following examples are working capital repayment schedules for the same sum (€ 10K) at 18% interest per annum, but with different durations and grace periods. Example 5 is for a 2 year loan as investment capital.

(i) 12 months loan with equal monthly of principal plus interest
(ii) 12 months loan with 4 months grace period followed by equal monthly repayments
(iii) 9 months loan with 4 months grace period followed by equal monthly repayments
(iv) 6 month loan with 3 months grace period followed by equal monthly repayments.
(v) 24 month loan with 5 months grace period – 7 quarterly repayments plus interest

The comparisons are to highlight the real cost of borrowing linked to requirements of the cash flow of an individual business.

EXAMPLE 1

Loan amount	€	10,000
Loan duration (months)		12
Repayment schedule		Equal monthly repayment of principal plus interest
Interest rate		18%
Monthly rate		1.50%

Month		Principal Repayment	Loan outstanding	Interest charge	Repayment / month
0	10,000	0.0	10,000		
1		833.3	9,167	150.0	983.3
2		833.3	8,333	137.5	970.8
3		833.3	7,500	125.0	958.3
4		833.3	6,667	112.5	945.8
5		833.3	5,833	100.0	933.3
6		833.3	5,000	87.5	920.8
7		833.3	4,167	75.0	908.3
8		833.3	3,333	62.5	895.8
9		833.3	2,500	50.0	883.3
10		833.3	1,667	37.5	870.8
11		833.3	833	25.0	858.3
12		833.3	0	12.5	845.8
		10,000.00		**975.0**	**10,975.0**
			Total interest paid as % of loan		**9.750**

Example 1 is a typical loan repayment schedule offered by the banks over one year with principal repayments commencing in the first month. As a working capital facility this would not be well structured for an agricultural producer as it does not reflect any seasonality. Although this may apply to a processor which has stable production and continuity in its marketing chain.

This example was used by the CARE project to show investment in additional cows (8) to increase the herd to 18 cows, which could pay off the loan in 12 months. This was generally considered as very optimistic and it implied that the revenues from 18 cows would cover the loan, but its did not appear to leave any margin for error and most people considered at least a two year facility would be favourable in this case.

EXAMPLE 2

Loan amount	€	10,000
Loan duration (months)		12
Repayment schedule		4 month grace period followed by equal monthly repayments
Interest rate		18%
Monthly rate		1.50%

Month		Principal Repayment	Loan outstanding	Interest charge	Repayment / month
0	10,000	-	10,000		
1		-	10,000	150.0	150.0
2		-	10,000	150.0	150.0
3		-	10,000	150.0	150.0
4		-	10,000	150.0	150.0
5		1,250	8,750	150.0	1400.0
6		1,250	7,500	131.3	1381.3
7		1,250	6,250	112.5	1362.5
8		1,250	5,000	93.8	1343.8
9		1,250	3,750	75.0	1325.0
10		1,250	2,500	56.3	1306.3
11		1,250	1,250	37.5	1287.5
12		1,250	0	18.8	1268.8
				1,275.00	**11,275.00**
		10,000.00			
			Total interest paid as % of loan		**12.750**

This example was used by CECI / KDC as an option of working capital facility in vegetable production but with a 8 month repayment schedule and disbursement in March and a 3 month grace period. From the figures presented this loan could be covered over the period but the yields (80 tonnes / ha) for tomatoes was considered high.

EXAMPLE 3

Loan amount	€	10,000
Loan duration (months)		9
Repayment schedule		4 month grace period followed by equal monthly repayments
Interest rate		18%
Monthly rate		1.50%

Month		Principal Repayment	Loan outstanding	Interest charge	Repayment / month
0	10,000		10,000		
1		-	10,000	150.0	150
2		-	10,000	150.0	150
3		-	10,000	150.0	150
4		-	10,000	150.0	150
5		2,000	8,000	150.0	2,150
6		2,000	6,000	120.0	2,120
7		2,000	4,000	90.0	2,090
8		2,000	2,000	60.0	2,060
9		2,000	0	30.0	2,030
				1050.0	**11,050**
		10,000.00			
			Total interest paid as % of loan		**10.500**

This example was used by IRC for investment in the installation of a refrigeration unit for cooling an apple storage warehouse (with a capacity of 150 tonnes) from the evidence presented this looked like a potentially viable proposition.

EXAMPLE 4

Loan amount	€	10,000
Loan duration (months)		6
Repayment schedule		3 months grace period followed by 3 equal principal payments
Interest rate		18%
Monthly rate		1.50%

Month		Principal Repayment	Loan outstanding	Interest charge	Repayment / month
0	10,000		10,000		
1		0.0	10,000	150.0	150.0
2		0.0	10,000	150.0	150.0
3		0.0	10,000	150.0	150.0
4		3333.3	6,667	150.0	3,483.3
5		3333.3	3,333	100.0	3,433.3
6		3333.3	0	50.0	3,383.3
				750.0	**10750.0**
		10,000.00			
			Total interest paid as % of loan		**7.500**

This example was not used by any of the projects.

Example 5					
Loan amount		€	24,000		
Loan duration (months)			24		
Repayment schedule			5 months grace period - (7 quarterly principal		
Interest rate			18%	repayments plus interest)	
Monthly rate			1.50%		
Month		**Principal Repayment**	**Loan outstanding**	**Interest charge**	**Repayment / month**
0	24,000.0	-	24,000.0		
1		-	24,000.0	360.0	360.0
2		-	24,000.0	360.0	360.0
3		-	24,000.0	360.0	360.0
4		-	24,000.0	360.0	360.0
5		-	24,000.0	360.0	360.0
6		3,428.6	20,571.4	360.0	3,788.6
7		-	20,571.4	308.6	308.6
8		-	20,571.4	308.6	308.6
9		3,428.6	17,142.9	308.6	3,737.1
10		-	17,142.9	257.1	257.1
11		-	17,142.9	257.1	257.1
12		3,428.6	13,714.3	257.1	3,685.7
13		-	13,714.3	205.7	205.7
14		-	13,714.3	205.7	205.7
15		3,428.6	10,285.7	205.7	3,634.3
16		-	10,285.7	154.3	154.3
17		-	10,285.7	154.3	154.3
18		3,428.6	6,857.1	154.3	3,582.9
19		-	6,857.1	102.9	102.9
20		-	6,857.1	102.9	102.9
21		3,428.6	3,428.6	102.9	3,531.4
22		-	3,428.6	51.4	51.4
23		-	3,428.6	51.4	51.4
24		3,428.6	0.0	51.4	3,480.0
		24,000.0		**5,400.0**	**29,400.0**
			Total interest paid as % of loan		**22.5**
		Total intetet paid in year 1		€ 3,857.14	16.07%
		Total intetet paid in year 2		€ 1,542.86	6.43%
					22.50%

The LoL Sheep project presented this example for the purchase of ewes to expand a flock from 150 to 200 ewes. The sales volumes and prices looked a bit high but not impossible to achieve but reliant on good management practices and an ability to produce high quality Sharri cheese

Small Framer Support Project (SFS)

Visits schedule of Tim Hammond
Rural Finance Consultant

Thursday 25th September – Friday 24th October 2003

Thursday 25th September

Arrive BA 16:00 followed by introductions to CARE personnel.

Friday 26th September

9:00 Meeting with partners of the Small Farmer Support Project (SFS) at CARE offices including the following:

CARE
Save the Children (SCF)
International Fertiliser Development Center (IFDC)
Land O' Lakes (LoL)
International Rescue Committee (IRS)
Kosovo Development Center (KDC)
Canadian Centre for International Studies and Cooperation (CECI)

Afternoon spent in discussions with Mrs. Luljeta Krasniqi (Project Leader) and Kasim Bytyqi (Field Co-ordinator) for Land O' Lakes (LoL) – "Technical Assistance project for the Sheep Sector and General Agriculture".

Saturday 27th September

Schedule with Land O' Lakes (LoL)

LoL field visits to Opoja Region

1. Mr. Islam Sallahu (President) and Mr. Zehadin Rufati (Senior Credit Officer) Association of Farmers and Individual Producers "Meshtekna". Head office located in Bresanë near Dragash.
2. Mr. Ihtiman Shemsedini – private farmer and member of Meshtekna in Zaplluzhë.
3. Mr. Femi Kurteshi – private farmer in Bresanë.

Accompanied by Mrs. Luljeta Krasniqi and Kasim Bytyqi

Sunday 28th September

LoL field visits to Prizren Region

1. Mr. Yner Kasumllari – private farmer in Vlashne.
2. Mr. Abdullah Ademaj – President of the "Prosharri Association" and private farmer in Zhur.
3. Mr. Nexhat Musliu – private farmer and trader of firewood and animal feeds near Prizren.

Accompanied by Mrs. Luljeta Krasniqi and Kasim Bytyqi

Monday 29th September

LoL field visits to Gora Region – accompanied by

1. Mr. Caro Abedin – private sheep farmer near Brod
2. Mr. Beshir Dauti – private sheep farmer in Brod
3. Mr. Caku Jonuz – private sheep farmer and President of Shara Sheep Farmers Association.

4. Mr. Irfan Qengaj – private sheep farmer in Plajnik
Accompanied by Mr. Kasim Bytyqi and Mr Petrit Qollaku (Interpreter).

Tuesday 30th September

1. In CARE offices
2. Visit to Mr. Tahir Halilaj "Bibaj AE" in Ferizaj – a commercial agricultural supply company and machinery dealers. Accompanied by Fatmir Selimi

Wednesday 1st October

International Fertiliser Development Center (IFDC) Kosovo feed for Poultry Project (KFPP)

1. Meeting with IFDC staff; Raymond Clark (Chief of Party), Mentor Thaqi (Project Coordinator), Milizim Makoli (Extension Specialist) and Beke Zahiti (Milling/Poultry Specialist).

Visits with IFDC

2. Visit to Mr. Agim Sahiti "Koni" – Joint owner of a private farming company involved with production and importation of eggs. (Accompanied by Mentor Thaqi and Beke Zahiti).
3. Visit to Mr. Arsim Gerbeshi – a private (large) farmer producing cereal crops, milk and meat produce. (Accompanied by Mentor Thaqi).
4. Visit to Mr. Agim Deshishku (Manager XENI Cooperative) a major wholesale supplier of seeds and fertiliser. (Accompanied by Mentor Thaqi).

Bank visits

5. Mr. Besnik Zeqiri and Mr. Venton Hajdini (Credit Managers) Agro-Business Development Unit (ABU) - Accompanied by Mentor Thaqi.

Thursday 2nd October

1. Meeting in IFDC office with Mr. Uke Lushtaku – Director Lushtaku Cooperative in Skenderaj. – A cooperative selling fertilisers, seeds, livestock medicines, spare parts, and general agricultural tools and consumables. Attending Mentor Thaqi and Milazim Makolli

Visits with IFDC

2. Mr. Halem Bajraktari – private farmer in Klina Village near Skenderaj. Accompanied by Milazim Makolli.
3. Mr. Uke Lushtaku – Director Lushtaku Cooperative in Skenderaj

Bank visits

4. KASABANK sh.a – Mr. Milazim Abazi (General Manager) accompanied by Milazim Makolli with Mr. Agim Deshishku (Bank shareholder) in attendance.
5. Raiffeisen Bank Kosovo J.S.C. – Mr. Greg Olson (Mitrovica Branch Manager). Accompanied By Ray Clark (IFDC)

Friday 3rd October
Visits with IFDC

1. Mr. Ilaz Senimi – Director "Dardania" Kombinat in Klina. A state owned facility producing cereal seeds, seed treatment and importation of certified seed for the domestic market.
2. Mr. Shefget Dreshaj in Istog. A private (large) farmer involved in dairying, meat and arable cropping.
3. Mr. Veli Hajdarga in Gjakova. A private dealer of agricultural inputs and general consumables and member of CODAA.
   Accompanied By Ray Clark, Mentor Thaqi and Milazim Makolli (IFDC)

Bank visit

4. Mr.Mehmet Shehu – (Branch Manager) New Bank of Kosovo (brk)
Accompanied by Ray Clark and Mentor Thaqi.

Saturday 4th October

Visits with IFDC

1. Mr. Tom Geni in Gjakova – A private farmer involved in cereal production, feed milling and poultry.
2. Mr. Elgen Bokshi – Manager “Jonathan” Agricultural Supply Company in Gjakova and Mr. Rexhep Limani – Manager “Agrocoop” in Shtime.
Accompanied by Ray Clark and Mentor Thaqi.

Sunday 5th October

Writing up field visit reports

Monday 6th October

Visits with IFDC

1. Mr. Gemal Recicra – President of Shpuk Association and poultry feed producer near Ferizaj. Accompanied by Ray Clark and Beke Zahiti
2. Mr. Bekim Tusha – a private farmer (rearing pullets, producing poultry feed) and selling poultry equipment Ferizaj. Accompanied by Ray Clark and beke Zahiti
3. Mr. Xhavit Babaj – a private farmer (dairying and beef production) met in IFDC office with Milazim Makolli (IFDC)

Bank visits

4. Mr. Ardia Kastrati – Agro Loan Coordinator – Micro Enterprise Bank (MEB) in Pristina. Accompanied by Ray Clark and Milazim Makolli
5. Mr. Gary Moinett – (Senior Banker) Raiffeisen Bank Kosovo JSC
Accompanied by Ray Clark

Tuesday 7th October

Travel to Gjakova - CECI/KDC project ‘Improving Vegetable Production in South West Kosovo’ (IVPSK) (staying in Gjakova)

1. Discussions with CECI and KDC project staff
2. Ms. Labinota Dana – Credit officer Kosovo Enterprise Programme (KEP) in Gjakova
Accompanied by Mr. Fadil Sahiti (IVPSK Project Officer)

Wednesday 8th October

Visits with CECI / KDC

1. Ms. Mimoza Polloshka – (Project Manager) ‘People Orientated Businesses’ in Gjakova for Malteser funded through the German Government Stability Pact for South Eastern Europe.
2. Mr. Shyqeri Krasniqi – President of Anadrini Farmers Association of Vegetable Producers. In Xërxë.
3. Mr. Afrim Aizuallxhiu (Manager Director) ABI & ELIF 19 “Progres” a large vegetable and fruit processor in Prizren.

Bank
4. Mr. Shaip Kastrati (Branch Manager) Bank for Private Business (BpB)
   Accompanied by Mr. Fadil Sahiti (IVPSK Project Officer)

Thursday 9th October

Visits with CECI / KDC

1. Mr. Sulejman Stojku President of Hortitcultura Farmers Association in Gjakova
2. Mr. Shaip Duraku President of Përdrini Farmers Association in Madhe plus 3 members
3. Mr. Yuriy Shulhan (Country Director) FINCA in Prizren
   Accompanied by Fadil Sahiti (IVPSK Project Officer)
4. Ms. Silvana Domi (Branch Manager) KEP in Gjakova
   Unaccompanied

Friday 10th October

Visits with CECI / KDC

Banks
1. Mr. Memli Dula and Mr. Milot Dana (Credit Officers) Raiffeisen Bank in Gjakova
2. Mr. Valon Iluka (Branch Manager) and Mr. Shpend Kusari (Credit Officer) Micro Enterprise Bank (MEB) in Gjakova
   Accompanied by Fadil Sahiti and Ismet Isufi (Ex Director KDC)

3. Debriefing meting with CECI and KDC staff.

Saturday 11th October

Travel to Pristina

1. Mr. Bedri Kosumi Director of private company 'Pestova' near Pristina.

Accompanied by Fadil Sahiti IVPSK Project Officer) and Fefik Maloku (Horticultural Technician IVPSK project).

Sunday 12th October

CARE LINK COMMPETES Project

Visits with CARE

1. Mr. Hysen Bytyqi (Project Officer) FAO Rural Education Programme
2. Mr Qamili Krasniqi – (Agricultural Credit Officer – MEB) and small-scale private farmer in Lipjan
3. Mr. Goran Arsinq – Private Farmer and Advisor o the Ministry of Agriculture, Forestry and Rural development (MoAFRD) in Lipjan.

Accompanied by Fatmir Selimi

Monday 13th October

Visits with CARE
1. Mr. Ismet Bojku – General Manager 'Devoli' Import Export Company in Pejë. Company is about to start large-scale processing of milk, initially for UHT production.
2. Mr. Neke Bytyqi – a livestock farmer (dairy and beef) and defaulting loan client of ABU in Poqesta near Pejë.
3. Mr. Dukajin Deda – a livestock farmer (dairy and beef) near Pejë.

Accompanied by Fatmir Selimi (CARE COMMPETES)

Tuesday 14th October

1. Mr. David Black – Senior Banking Advisor EU Agro Business Unit (ABU).

Unaccompanied

Visits with CARE

2. Mr. Sadri Luma – A livestock (dairy and beef) farmer and private businessman in Lipjan. Objective to look at the farm modelling programme.

Accompanied by Fatmir Selimi (CARE COMMPETES)

Wednesday 15th October

Visits with CARE

1. Visit to cattle market in Rogoqica, Kamenice Region and discussions with farmers at market.
2. Mr. Rabit Latifi in Gjilan – a milk processor producing sour cream and yoghurts.

Accompanied by Fatmir Selimi (CARE COMMPETES)

Thursday 16th October

Visits with CARE

1. Mr. Michel Pelloguin (Team Leader) Rural Finance Program in Kosovo (RFPK) managed by ADIE International, and Mr. Eric Mezieres Director of ADIE International – Paris
2. Mr. Muhamet Farizi President Alliance of Kosovo Agribusinesses (AKA) and Mr. Imer Rusinofci – Board Member of the Association of Milk Producers and Processors (AMPPKO)
3. Visit to USAID – Pristina with Michael Martin, Flora Arifi, Courtney and David Weatherman (BPK).

Friday 17th October

With IRC 'Support to the Economic Expansion & Development of Small Farms' (SEEDS)

1. Mr. Vahdet Anadolli (General Manger) agency for Finance in Kosovo (AFK) in Pejë.
2. Dr. Nysret Taraku (Director) Kosovo Institute of Agriculture in Pejë.
3. Mr. Husnija Bešković (President) of the OVB Apple Growers Association near Pejë.
4. Mr. Daut Blakaj - Private apple grower near Pejë.

Accompanied by Mr. Agim Rysha (Agriculture Manager) and Mr. Irid Bigaku (Field Officer) IRC

Saturday 18th October

Report writing and preparation for workshop (Monday 20th) and presentations (Wednesday 22nd)

Sunday 19th October

Report writing and preparation for workshop (Monday 20th) and presentations (Wednesday 22nd)n

Monday 20th October

Workshop training session (credit usage and results of findings) for SFS project staff at ATRC training room in Pristina

Tuesday 21st October

1. Mr. Faton Nagavci (Co Team Leader) Inter Cooperation – Swiss Project for Horticultural Promotion (SPHPK)

In CARE office

Wednesday 22nd October

Presentation of findings at ATRC training rooms in Pristina

Thursday 23rd October

Debriefing meeting with project partners ands Save the Children.

Friday 24th October

Report writing and departure from Kosovo - British Airways to London 17.00

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CARE
International – Kosovo

Terms of Reference
Rural Finance Consultant
Small Farmer Support Project

Background

The Small Farmer Support (SFS) project is a large agriculture project involving five partners. The partners are CARE International, International Rescue Committee (IRC), International Fertilizer Development Center (IFDC), Land of Lakes (LoL) and Canadian Center for International Studies and Cooperation (CECI). The project is funded by United States Department for International Development and is managed by Save the Children as an umbrella grant. The time frame of the project is from January 2002 until July 2004. The five projects focus on various agriculture sectors, including dairy, tree fruits, vegetables, and animal feed and specialty products. The objective of all projects is to market surpluses and to commercialize larger farmers to capture some of the import market. One of the major issues in agriculture in Kosovo is access to rural financing of any sort. There are a number of commercial banks who offer agriculture loans; however, these are not developed for the agriculture sector as such. The challenge of this consultancy is to investigate and develop alternative financing opportunities that exist in Kosovo or through input dealers outside of Kosovo.

CARE has established a Rural Finance Working Group (RFWG) that involves all SFS partners as well as major players in finance in Kosovo. The consultant will meet with each of these partners and their farmers to gain insight into the various credit needs across the whole agriculture sector. Innovative credit possibilities will be explored and issues of buy-back, forward contracts, leasing and movement of capital require investigating. By the end of the consultancy, there should be a clear picture of rural financing in Kosovo with mechanisms in place for farmers to access this credit.

The following is a summary of case studies of finance needs that require investigation by the consultant:

- **Dairy Farmer**

Dairy farmers throughout Kosovo require financing for herd expansion, machinery purchasing, milking equipment, feed grinders and inputs such as fertilizers and seed. The size of the dairy herd varies from between 6 and 100 head of cattle. Farmers are selling their milk either directly to a processor, through a milk collection center or at the green market. The CARE project has been promoting new technologies and farmers are keen to expand their businesses. Such things as silage production and home produced feed concentrates are areas where farmers wish to acquire new machinery. Most farmers are milking by hand and would prefer to access financing for machinery to assist in increasing the efficiency of the milking process and at the same time increase milk quality through improved cleanliness and milk handling.

- **Milk Collection Center**

The CARE project will facilitate the establishment of Milk Collection Centers MCC's throughout Kosovo. The establishment of an improved milk collection system that is economically efficient in aggregating, refrigerating and marketing raw milk collection from farmers to processors is central to the project. By doing so, more producers will have access to and incentive for increased marketing of milk, thus resulting in 20% more commercial milk production in the region, and together with an improved market position and more peak-price sales, an increase of 25% in net dairy income to the producer households This entails reconstruction of a building, as well as purchasing the necessary equipment, such as a lacto fridge, testing equipment, and generator, etc. Milk collection centers will increase the quality of milk arriving at the processor. With the testing equipment in place at this stage of the process it will ensure farmers are identified who have poor hygiene practices and who are contaminating the rest of the milk in the lacto fridge.

- **Input Supplier**

The needs of input suppliers are to have the necessary working capital to enable them to import seeds, pesticides, and fertilizers in advance of the sowing season. Some of the agri-input dealers will require capital to purchase seed cleaning and packing equipment.

- **Feed Producers**

Feed producers require working capital to purchase the necessary ingredients to prepare feed. They also wish to up date their equipment and expand their businesses.

- **Poultry Producers**

Poultry producers require capital to purchase livestock such as layers, broilers, and day old chicks. Also they will need to purchase sufficient feed for their livestock. In some cases there are some poultry producers involved in hatcheries. They will require necessary capital for purchase of eggs and up to date their hatchery equipments

- **Orchard Grower**

The needs of the orchard growers are for new technological equipment, as well as packaging machinery to enable them to expand their markets.
The Orchard, or tree fruit, sector has diminished considerably over the past 20 years. Socially Owned Enterprise orchards are in final years of decline and are considered out of production. Privately owned orchards are small and widely dispersed in relation to each other. At this time there are only a handful of growers with orchards of economic potential. Typically these growers are behind on new, best practice technology and in many cases lack the basic infrastructure for adequate irrigation, spraying and other orchard cultural practices. These growers are faced with two principal cost areas: 1) production, and 2) orchard establishment. Most technological recommendations will require an increase in annual operations costs in both labor and materials that are not repaid until harvest in September or October. Access to many of these technological innovations is difficult as there is not sufficient real demand in Kosovo for them; however, they are available in surrounding countries. Orchard expansion requires a long-term capital investment supported by feasibility analysis of the financial costs and benefits. Within the chain of activities from input supply through fresh market and processor sales opportunities for use of financial investment to stimulate improved production and quality are important for the reestablishment of the fruit industry. Both direct and indirect investment that will stabilize and encourage the growth of the production units into economically profitable business are necessary to see that reestablishment occur. It is unknown at this if “credit”, even if available, is the best financial tool for this investment.

- **Vegetable producers**

The needs of a vegetable producers is for production equipment such as agrifolia, plastic mulches, arches tunnels and stakes, irrigation equipment and other inputs.

In the project’s area, we can distinguish mainly two groups of vegetable growers: the traditional ones which the needs of input supplies are priority (working capital) and the advanced group that needs are firstly capital investment (medium term loans) and secondly working capital. Both groups are interacting in the same area and have also equal land size (between 2-4 has). On the top of these 2 credit lanes, farmers also need training on credit operation and this can be accomplished through our project on small scale.

A typical vegetable grower credit for the advanced group will consist of purchases of materials such as agrifolia, plastic mulches, arches and stakes for about 10.000 euros. Pay-back for it has to be assessed by the consultant through data collected by IVPSK.

The second credit is covering a short term (no more than 6-8 months) and will be used for working capital in advance of the sowing season, particularly for early and late season whereas consumer prices reach the highest point and consequently producers make the most profitable business for vegetables.

- **Sheep Producer**

The needs of a sheep producer are to increase their flock size as well as loans for equipment. Operating loans are also necessary to increase marketing possibilities. Currently, sheep milk cheese production is organized in very traditional way. Equipment farmer used are very primitive. In order to produce sheep milk white cheese and Sharri cheese of a standard quality, it is critical to have rust fry equipment, special plastic equipment, different shape equipment and measure from 1-2.5 kg shaped cheese. Also, it very important to have vacuum machinery for cheese packaging to guarantee freshness and maintain sanitary conditions. Obtaining financing for this is an area of need for the sheep farmer. Researching potential marketing of sales the sheep products (Sharri cheese, white sheep cheese, lamb, and wool). Farmers information on market opportunities and use this to apply in their sheep production activities (e.g. increasing milk production, cheese quality, nutrition, diseases protection, etc). Finally, access to financing mechanisms would encourage more farmers to organize and invest in milk collection centers. These would allow groups of farmers to organize sheep milk collection that is of a consistent high quality for sheep cheese.

Methodology

The consultant will be expected to work for 30 days in Kosovo. The methodology will be to examine one case study each week and explore the constraints and potential options to access financing for the client. The consultant will be expected to work with the relevant organization/s and visit farmers in order to assess their credit needs. Typical farmers or businesses will be identified prior to the consultant visits. Documentation will be provided on the credit facilities already existing in Kosovo at this time, before the consultant arrives, as well as a brief summary of each project. Depending on the results of this consultancy, the need for a follow-on consultancy may be identified

Specific Objectives

The objectives of the rural finance consultant are as follows:

1) To conduct extensive field work to investigate farmers constraints for accessing rural financing
2) To conduct extensive research work with all major banks, institutions and organizations involved in rural financing.
3) To develop specific short-term strategies and actions that SFS partners staff should undertake to respond to the immediate financing constraints encountered. In preparation of this, the consultant should take responsibility for making preliminary arrangements with the potential financing sources.
4) To liaise closely with members of the working group in order to build upon their technical expertise and knowledge of the agriculture sector, particularly within Europe.

5) To produce a report on recommended options.
6) To coordinate with rural finance working group on findings and recommendations.

Specific Outputs

- A Final Report on findings and recommendations, to be completed before departing Kosovo.
- A debriefing with the financial working group on findings and recommendations prior to departure.

Timeframe

The above activities are expected to take thirty working days in September 2003, which includes all fieldwork, meetings, and a final report.

Key Contacts

The supervisor for this TOR is the Project Manager of the CARE International LINK COMMPETES project, Jill Crowther. Overall point of contact for the entire contracted period is, CARE's Acting Mission Director, Dawn Wadlow. The rural finance working group will also be engaged throughout the consultancy.

Working Conditions

The consultant will be working throughout Kosovo, but primarily in Prishtina/Prishtinë. Working hours are from 8am until 5, with one hour for lunch. The consultant will be provided with office space in CARE's Prishtine/Pristina office. Accommodation will be provided by CARE.

Consultant Qualifications

- Expert in rural financing both traditional and non-traditional financing options
- Balkans regional experience or knowledge of inter-ethnic relations in the Balkans is preferable.