

The crediting policies of Micro-Financial Institutions in Kosovo and their impact in the development of agriculture

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Introduction

Agriculture is a very important sector of Kosovo economy. Seeing the big agriculture sector's need for crediting, this paper is focused on credit policies of micro financial institutions, by emphasizing their impact in the development of agriculture.

Since the number of micro financial institutions in Kosovo is quite big and analyzing the crediting policies of all of them is impossible, for comparing analyzes this paper focuses in three of them.

Several clients of the micro financial institutions were surveyed to check the impact that the loans they took had on the development of their agricultural activity. The survey includes the entire territory of Kosovo, meaning, clients of different regions were surveyed including minority-inhabited zones.

Micro loan has become a support for many farmers, artisans and traders of various Kosovo rural zones. The micro loan makes it possible to have access to financial services for funding small projects in the field of agriculture, cattle-raising or in service sectors, such as artisans, small grocery shops, etc.

The main goals of this research is to analyze the credit policies of MFIs operating in Kosovo and their impact in development of agriculture; a comparative analyses of impact of these credit policies in development of agriculture and identification of new crediting policies that might impact further agricultural development.

Key works: *Microloan, Kosovo, Development, Agriculture*

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1. Micro-Financial Institutions in Kosovo

Lack of access to loans by the poor people results from the mismatch between the way how the financial institutions operate and the need for financing low-income families. For instance, commercial banks require the borrower to have a sustainable source of income, which will serve the principal and the interest upon agreed conditions. However, the income of many self-employed families are not sustainable, therefore a big number of small loans is needed for serving the poor.¹

On the other hand, banks prefer a lower number of loans but with higher amounts for minimizing the administrative expenses. Moreover, the banks are of the opinion that small loans are associated with a higher degree of risk, and controlling this risk requires major expenses. However, it is proven during the last decade that providing financial services to poor entrepreneurs and manufactures, at the right time and with the right amount, not only they were able to repay the loans in due time, but also expanded their businesses.

All these experiences point out that small loans may be lucrative not only for the borrower, but for the lender, too. Hence, we can conclude that Micro Financial Institutions are the best strategy for reducing poverty.

Micro-Financial Institutions (MFI) are organizations which provide financial services for the poor. This broad definition includes a wide range of these organizations that differ in their legal structure, mission and methodology. However they all share the same trait – providing financial services to poor clients who are unable to use the services of banks.

Micro-Financial sector operates in Kosovo since 1999, most of them starting as economic development programs by international humanitarian organizations. There are 15 MFIs currently in Kosovo, predominantly operating in rural zones representing 18% of financial sector in terms of loan base, and 7% of the entire loan amount. These figures prove a big number of loans disbursed in small amounts²

¹ S.C.Vetrivel & S. Chandra Kumarmangalam: Role of microfinance institutions in rural development, December 2010, pg 435

² AMIK & MIX : Kosovë 2009 -Analiza të mikrofinancës dhe raporte të krahasimit, Janar 2010

1.1. Advantages and disadvantages of microloans

Easy access is one of the biggest advantages of microloans. Since microloans are designed to help the poor, for them is easier to get a loan in MFI rather than taking a small business loans from big financial institutions or banks.

MFIs operate in local level. By serving at local level, establishing a rapport with the borrower is easier, thus client is much easier monitored as well easier served at all times. Another advantage is use of loan for different purposes, e.g. small loans may be used for increasing their inventory, for purchase of various business equipment, etc. The individuals use these loans for house renovations, schooling, vacations, different purchases, etc.

The greatest disadvantage of microloans is the maximum amount that can be borrowed. Due to the nature of these loans, a certain limits of exposure cannot be exceeded. Another disadvantage is high interest rates, precipitated by two reasons: high loan repayment risks and high operative expense for the small disbursed loan amounts.

2. Short overview of MFIs in Kosovo, with a focus on three MFIS

Post-war countries are complex in nature, and for this reasons the rehabilitation projects aim reconstruction of economic, social and political system of the country. The need for capital is always present in order for the population of these countries to recover or resume with their lives. As a result, the presence of MFIs and other moneylenders is an imperative.

Some of the reasons why is thought that MFI products are more conducive for the post-war countries are: the ability to enable investments in all sectors (equipment purchase, etc), especially in agriculture. Then the ability to create new jobs by investing in small and medium enterprises sector, and their ability to achieve economic development of developing countries through small enterprise initiatives.³ Therefore, Kosovo, as a country which went through a war, became a nest of many MFIs that enabled many families to start small businesses, which will generate sufficient income and create new working places.

³ Nureen Das: a critical assessment of micro enterprise development in post-conflict rehabilitation: a case study of three mfis in kosovo, June 2003, page 11

There are 15 MFIs operating in Kosovo at present: BZMF (Besëlidhja/Zavet Microfinance), KEP (Kosovo Enterprise Program), AFK (Agency for Finance in Kosovo), ACP (Atlantic Capital Partners), Balkanactie, Qelim Kosovë, CORDAID, FINCA (The Foundation for International Community Assistance), KGMAMF, KosInvest, Kosova AID and DEVELOPMENT, KRK (Kosovo Rural Crediting), MESHTEKNA, PERSPEKTIVA 4 and START.

In an attempt to better meet the needs of small businesses and Kosovo micro business sector, and to facilitate the industry growth, some of the MFIs in Kosovo decided, in 2002, to establish the Association of Microfinance Institutions of Kosovo (AMIK). The founding members are Kosovo Rural Crediting (KRK), Besëlidhja Microfinance, Agency for financing in Kosovo (AFK), FINCA-Kosovë, and Kosovo Enterprise Program (KEP).⁴

The AMIK mission is to advance the micro financial sector enabling the inclusion of social and economic development by offering a strong joint platform and excellent services.

At present, 11 Kosovo MFIs are AMIK members: AFK - Agency for Finance in Kosovo, BZMF - Beselidhja/Zavet Microfinance, FINCA Kosovo, KEP Trust - Kosovo Enterprise Program, Kosovo Grameen Mission Arcobaleno Micro Credit Fund, KRK - Kreditimi Rural i Kosoves, KosInvest, START, QELIM, MESHTEKNA and LESNA. Below we will present a brief history for the three MFIs operating in Kosovo, followed by a comparison of their credit policies.

2.1. Besëlidhja/Zavet Micro-Finance (BZMF)

Besëlidhja/Zavet Mikrofinance is micro financial institution serving the low-incomers, by providing them qualitative financial services through crediting enterprises, agriculture and the basic needs for a sustainable life. Beside its main office in Prishtina, BZMF presently has ten branches: Gjilan, Graçanicë, Podujevë, Mitrovicë (2), Istog, Pejë, Klinë and Ferizaj. BZMF started as World Relief program in 1999, an American NGO, founded in 1944. The program is established after a home renovation project, led by the World Relief team.

BZMF disbursed its first loan in June 2000 and by Dec 31, 2012, had 4,226 active clients with an active portfolio of 5.5 million €. After 11 years of operating in Kosovo, BZMF today offers three main loan products: business loans, individual loans and agriculture loans.

⁴ www.amik.org

BZMF's mission is to enable the transformation of poor people's life through provisions of financial services and supporting the development of small enterprises so they have an impact in the overall Kosovo economic development.⁵

Throughout these eleven years, BZMF cooperates with UMCOR (Danish International Development Agency), HEKS, ETIMOS, CIDA, TEAR Fund, OikoCredit, DËM, MicroVest, etc.

2.2. The Foundation for International Community Assistance (FINCA)

FINCA's micro-financial program in Kosovo started with the USAID funds and assistance. FINCA began its operations in Kosovo in February 2000, by disbursing the first program group loans in Malishevo. After eleven years of operating in Kosovo, FINCA/Kosovo today offers four main loan products: Group solidarity loan, business, renovation and rural loan.

FINCA/Kosovo initially set up its main offices in Prizren, Kosovo's second largest town but in November 2011, FINCA's HO moved in Kosovo's capital town, in Prishtina and gradually extended its activity in other regions, including minority-inhabited areas. Today FINCA operates in all the regions in Kosovo, except for North Mitrovica.

As of Dec 31, 2010, clients' base reached 16,581 clients and loan portfolio 22 millions €. During its inception phase, FINCA received donations from USAID, NUMIK, OSCE and today, FINCA has established donation partnership with SDC (Swiss Development and Cooperation Agency) and with DANIDA (Danish International Development Agency). Presently, FINCA has financing agreement with EFSE, Symbiotics, Responsibility, EBRD, Finetic, Etimos and BlueOrchard.

2.3. Agency for financing in Kosovo (AFK)

AFK is non-banking financial institution, initially registered as a Mercy Corps Kosovo program (since September 1999) and then re-registered in February 2002 as an NGO. The AFK mission is to improve the living standards in Kosovo, through provisions of sustainable financial services to small enterprises and to microenterprises. The AFK's vision is to become the leading MFI in Kosovo. As of December 31, 2012, AFK had 4,603 active clients and a portfolio of 8 million €. AFK operates in municipalities of western Kosovo, in Peja, Gjakova, Istog, Klina, Malishevë, Therandë and Prizren.

⁵ www.bzmf.org

At present, AFK offers three main loan products:

- Loans to microenterprises and small enterprises (for microenterprises and small enterprises / private entrepreneurs engaged in various services, manufacturing/processing and retail sale);
- Agriculture loans (for farmers, for proper agricultural businesses, such as planting crops, milk manufactures, etc);
- Flexible loans (for improvement of living conditions, such as purchase of furniture, household appliances, home renovation, purchase of firewood, winter preparation, car registration, health emergencies, children's education, etc).

2.1.1. Besëlidhja/Zavet Microfinance credit policies (BZMF)

BZMF promotes Kosovo's economic development, by offering microloans to Kosovo's entrepreneurs for rebuilding or developing their businesses. The mission of BZMF is to support the transformation in the lives of the poor and the small and medium entrepreneurs, through provisions of new financial services and for contributing to Kosovo's economic development. In compliance with BZMF's mission, the Loan Department was established for managing the loan portfolio aiming maximizing profit and minimizing risks and overhead, and ensuring that clients receive an efficient and affordable service at all times.

For reaching this objective, BZMF drafted credit policies tailored for the needs of small entrepreneurs. This credit policy consists of following:

- A. General policies – the purpose of this document is to outline clear guidance on BZMF's loan disbursement procedures.
- B. Credit technology – this part describes and explains the BZMF's crediting technology, which is based in financing individual loans and adapted to the needs of BZMF's targeted group clients. This part contains the methods to be used for analyzing loan requests, collateral and guarantors.
- C. Products – this section contains the lists of products offered by BZMF, accompanied with details on eligibility criteria, loan terms, pledge requirements and loan repayment way.
- D. Credit Policies and Procedures – this section contains guidelines for all the steps of loan cycle. All the steps included in each of the five phases of loan cycle – application, analysis, decision-making, disbursement and monitoring – are defined.

2.2.1. Crediting policies of Foundation for International Community Assistance (FINCA)

Being part of FINCA International, which is renowned as one of the most influential micro-financial organization in the world, FINCA/Kosovo has developed very suitable credit policies for the needs of local population. In absence of more detailed information of FINCA/Kosovo's credit policies but since all the MFIs in Kosovo have the same policies and credit techniques in general, only FINCA products will be shown below.

Through its products, FINCA/Kosovo tries to adapt to the clients' needs. Therefore, based on the clients' needs, FINCA/Kosovo presently offers the following products to its clients:

1. Group loan;
2. Individual loan;
3. House renovation loan;
4. Rural individual and group loans; and
5. Business loan.

2.3.1. Credit Policies of the Agency for Financing in Kosovo (AFK)

The AFK's mission is improvement of living conditions in Kosovo by offering sustainable financial services for the rural and urban low-income population, for the micro-entrepreneurs, producers, traders, providers of various services, farmers and household – filling the gap between the MFIs and banks. Therefore, the credit policies AFK applies are drafted in such fashion to deliver on its mission.

The AFK goals are to stimulate the development of local products and services, to create new job, to encourage local rural development, to set up and rehabilitate functional enterprises, to educate businessmen in business planning and improvement so that they are financially and operationally sustainable, to encourage female entrepreneurs and minorities, too.

Targeted AFK sectors are:

- a) Production: production of consumable goods, metal fabrication / processing, production of building material, furniture manufactures, shoe men, tailors, color manufacturers, etc.
- b) Agriculture: commercial agricultural production, agricultural supporting activities including meat, milk, cereal producers and processors, food producers, backers, chocolate and sweets producers, vendors of fertilizer and spare part for agricultural machinery, servicers of agricultural equipment, etc.

- c) Services: different public services and household appliance service & repair, dentists, doctors, hairdressers, watchmakers, laundry services, auto mechanics, etc.
- d) Trade: different purchases.

The AFK applies individual lending technology and the first loan exposure is foreseen in average 3,000€, and the clients who repay the loan in due time are encouraged to apply for another additional loan with higher amount. The clients must prove that they have the collateral to secure the loan, need to have two guarantors and a witness, who is a family member, to sign the loan agreement.

The AFK offers these loan products:

- Business loan
- Agricultural loan
- Family needs loan
- Renovation loan



3. The impact of microloans in the development of agriculture

3.1. Participation of bussines loans in BZMF's portfolio

Seeing the need of rural population for funding their different agricultural activities, the BZMF has given a special importance to this sectors, and because of these reasons the agricultural loans are one of the three main types of loans offered by BZMF.

For further analysis, the 2006 and 2010 data are presented below.

Table1. Participation of bussines loans in BZMF's portfolio, 2006

Portfolio concentration per products (2006)				
Products	Loan amount	Nr of loans	% per amount	% per number
Agricultural loan	647,588	403	21.5%	24.7%
Individual loan	896,129	720	29.7%	44.1%
Bussines loan	1,469,853	511	48.8%	31.3%
Total	3,013,570	1,634		

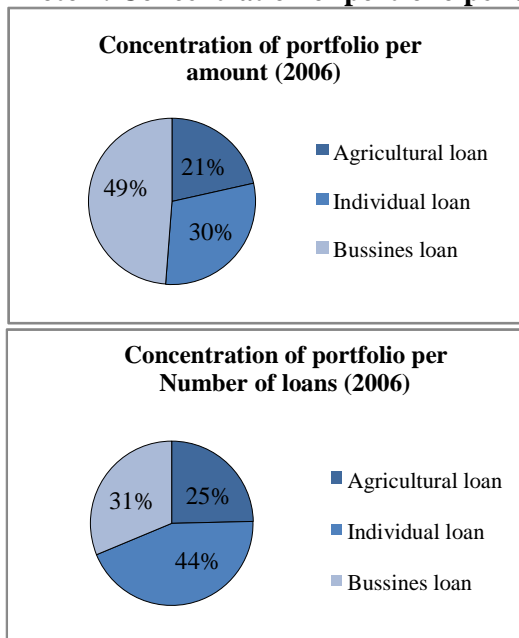
It can be seen from the above that although the agricultural loan is the cheapest product of BZMF, this loan consists 22% of BZMF's portfolio.

One of the main reasons for such composition in this period is attributed to insufficient means available for the borrowers during the season for conducting preparatory agricultural activities.

The individual loan is the most expensive BZMF product, and yet 30% of the BZMF's portfolio consists of this product. This can be a good indicator that a small part of the borrowers uses the loan for investment, which will positively affect the improvement of their living conditions, and also the overall Kosovo economic development. The reason why around 50% of the portfolio consists of business loans is financing some business with large amounts of Loans (up to 50,000€).

2006 graphic data illustration:

Photo 1. Concentration of portfolio per amount and number of loans 2006



During these first six years of operations, the BZMF with its products managed to expand its activities in all the Kosovo territory. All these agricultural loans disbursed within these six years and which were active by the end of 2006, 20% of them are disbursed in Dukagjini Valley and 80% in Kosovo Plane. The agricultural loans disbursed to minorities consist 42% of the agricultural loans active as of 2006 end-year.

The data for the end of 2010 year are presented in the table below:

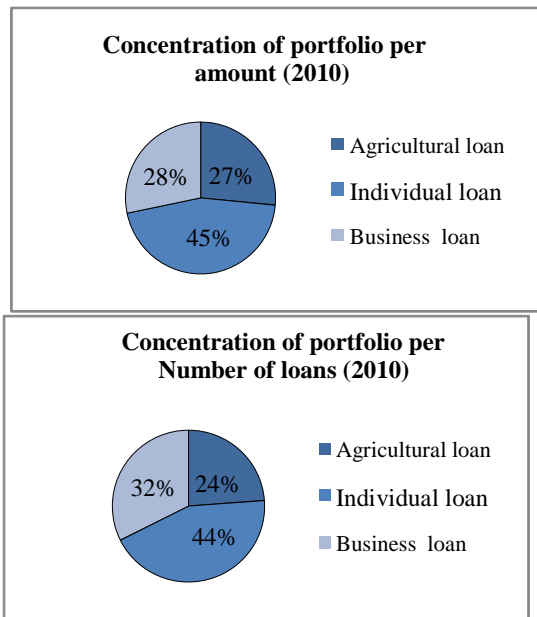
Table 2. Participation of bussines loans in BZMF’s portfolio, 2010

Portfolio concentration per products (2010)				
Products	Loan amount	Number of loans	% per amount	% per number
Agricultural loan	1,461,575	846	26.5%	23.8%
Individual loan	2,493,343	1,557	45.2%	43.8%
Bussines loan	1,558,659	1,152	28.3%	32.4%
Total	5,513,577	3,555		

By the end of 2010, the participation of agricultural loans and business loans in the total portfolio was 29%, respectively 21.4%. A very big concentration is noted with the individual loans during this period, too, same in loan size and in the number of disbursed loan. This phenomenon was a big challenge for the BZMF until the end of 2010, when improvements resulting from several new business sub-products started coming.

2010 graphic data illustration:

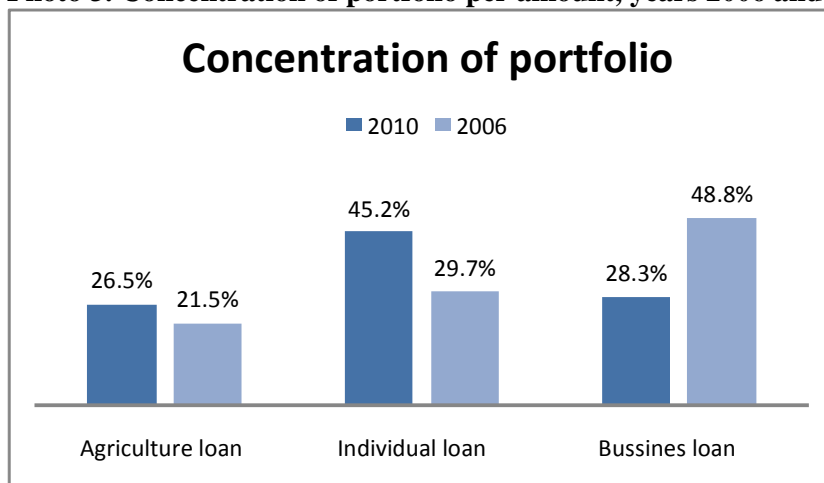
Photo 2. Concentration of portfolio per amount and per number of loans 2010



By the end of 2010, 48% of the active agricultural loans were disbursed in Dukagjini valley and 52% in Kosovo plane. The agricultural loans disbursed to minorities constitute 20% of active agriculture loans as of end of 2010.

Compared to 2006, the BZMF increased its active portfolio for more than 2.5 million € or 83%. The active agricultural portfolio grew for more than 800,000€ or 126%. The main factors which enabled such growth were territorial expansion of the BZMF, opening of new offices and sufficient available funds for meeting all the clients' demands.

Photo 3. Concentration of portfolio per amount, years 2006 and 2010



The number of business loan shrank due to reduction of maximum loan size, while the increase of individual loans is attributed to higher concentration of Loan Officers in this product.

3.2. Participation of agricultural loans in FINCA's portfolio

FINCA's agricultural loan is designed to offer financial access to households, whose primary economic activity is related to agriculture, so that they increase their production capacities, ensure timely harvest of crops and have access to markets, so that they ensure rural livelihood.

These loans are designed for group and individual clients who run a agricultural activity and have agricultural land available, and who also have additional sources of income.⁶

For further analyses, the data for 2006 and 2010 shall be presented below.

⁶ www.finca-ks.org

Table 3. Participation of agricultural loans in FINCA’s portfolio, 2006

Concentration of portfolio per product (2006)				
Products	Loan amount	Number of loans	% per amount	% per number
Agricultural loan	13,117	83	0.12%	0.93%
Individual loan	2,187,729	1,525	20.5%	17.1%
Bussines loan	8,472,263	7,332	79.4%	82.0%
Total	10,673,109	8,940		

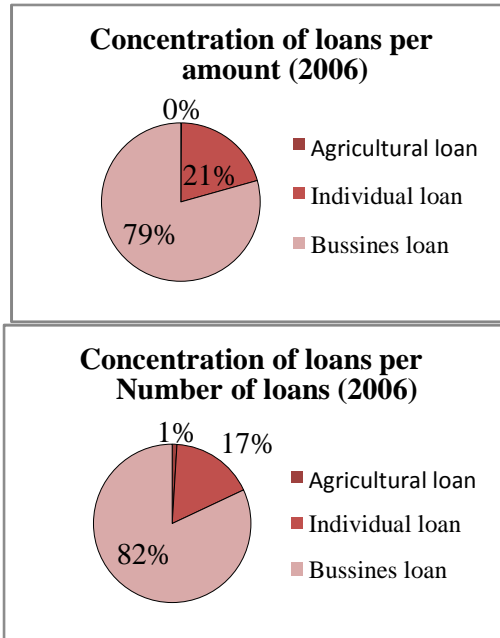
Such a small participation (0.12%) of agricultural loans in the total outstanding portfolio is a consequence of inexistence of a special agricultural product, up to 2008. A comparison of numbers of agricultural loans indicated that there was a nig number of agricultural loans, but with small sizes though.

The renovation loans fall under individual loan, which explains the change of this loan participation in the total loan portfolio and number. So, there are fewer clients but with a lot higher loan size.

The business loans target individuals with stable business, who are able to pledge collateral and who meet the loan requirements. FINCA/Kosovo also offers individual start-up loans for entrepreneurs, both males and females alike, and this is why this loan prevails in FINCA’s portfolio.

2006 graphic data illustration:

Graph 4. Concentration of portfolio per amount and per number of loans, 2006



During the first six years of its operations, FINCA with its products was able to cover the entire Kosovo territory, starting with Prizren with its headquarters, and then: Suharekë, Dragash, Malishevë, Rahovec, Prishtinë, Gjakovë, Klinë, Viti, Ferizaj, Gjilan, etc.

The table below contains the 2010 end-year data:

Table 4. Participation of agricultural loans in FINCA's portfolio, 2010

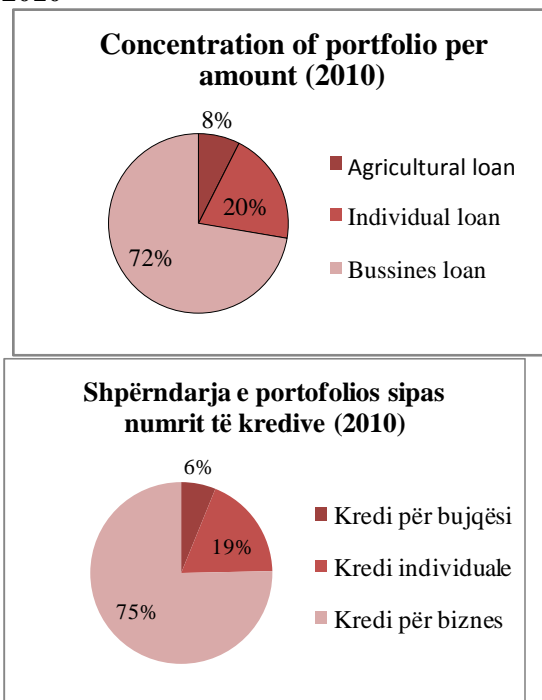
Concentration of portfolio per product (2010)				
Products	Loan amount	Number of loans	% per amount	% per number
Agricultural loan	1,644,394	1,017	7.5%	6.1%
Individual loan	4,447,241	3,069	20.2%	18.5%
Bussines loan	15,944,234	12,495	72.4%	75.4%
Total	22,035,869	16,581		

At the end of 2010 a visible change in seen in terms of agricultural loan participation in the total outstanding (7.5%). This came because of designing a special agricultural loan, in 2008. After four years the same phenomenon is

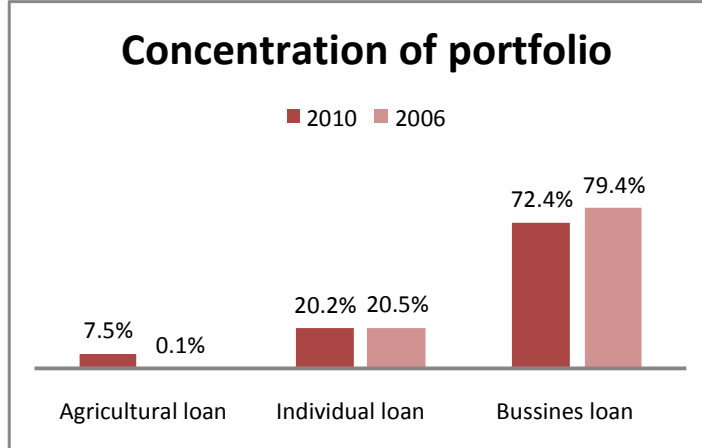
visible in terms of business loans, amount to more than 70% of the entire portfolio.

2010 graphic data illustration:

Graph 5. Concentration of portfolio per amount and per number of loans, 2010



Compared to 2006, in 2010 FINCA increased its active portfolio for more than 11 millions € or 106%. The active agricultural portfolio grew for more than 1.6 million €. The main factors contributing to such growth were FINCA's territorial expansion and new product offering, such as agricultural loans.

Graph 6. Concentration of portfolio per amount, years 2006 and 2010

The participation of individual loans suffered no major change during these years. However, the decrease of business loan participation in total portfolio, among other factors, can result from agricultural loans.

3.3. Participation of agricultural loans in AFK's portfolio

The agricultural loans take a very important place in the AFK portfolio, too. The AFK agricultural loans may be used for commercial agricultural production, for food processing, for agricultural supporting services, for meat/milk and cereal producers and processor, feed suppliers, equipment and fertilizer suppliers, etc.

For further analyses, the data for 2006 and 2010 are be presented below:

Table 5. Participation of agricultural loans in AFK's portfolio 2006

Concentration of portfolio per product (2006)				
Products	Loan amount	Number of loans	% per amount	% per number
Agricultural loan	235,974	210	7.58%	15.11%
Individual loan	233,599	327	7.5%	23.5%
Bussines loan	2,644,879	853	84.9%	61.4%
Total	3,114,452	1,390		

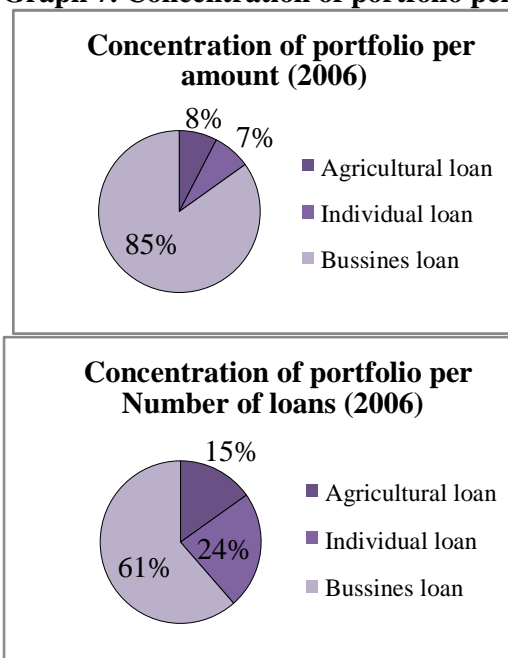
From the above data it is seen that agricultural loans (7.58%) and individual loans (7.5%) have almost the participation in the AFK portfolio as of 2006 end-year.

The number of individual loans is visibly higher compared to agricultural ones, which points out that agricultural average loan size is higher compared to the average size of individual loans.

The business loans consists the major part of AFK portfolio (84.9%). This shows that AFK is highly focuses on serving small and medium business, so that these businesses expand their activities.

Also based on the number of clients it is evident that these loans prevail, albeit their percentage is lower versus to the amount, because the average amount of these loans is usually higher. The 2006 data graphic illustration:

Graph 7. Concentration of portfolio per amount and number of loans, 2006



From the graph we can see that when it comes to disbursements based on the number of the loans, there is a proportional disbursement of the three products compared to outstanding portfolio. By the end of 2006, the AFK has run its activities in several western Kosovo towns only, such as Peja, Gjakova, Istog and Klina. The table below contains the latest updates for 2010 end-year.

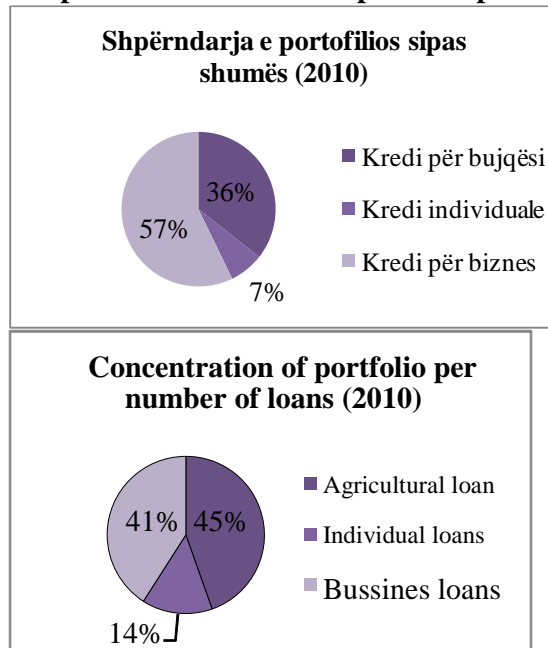
Table 6. Participation of agricultural loans in AFK's portfolio 2010

Concentration of portfolio per product (2010)				
Products	Loan amount	Number of loans	% per amount	% per number
Agricultural loan	2,898,424	2,051	35.6%	44.6%
Individual loans	584,307	668	7.2%	14.5%
Bussines loan	4,651,651	1,884	57.2%	40.9%
Total	8,134,382	4,603		

As of end of 2010, the agricultural loans comprise the biggest part of AFK clients (44.6%). The participation in total portfolio grew substantially, now is (35.6%). The participation of individual loans underwent no significant change during these 4 years, both in amount and in clients' base.

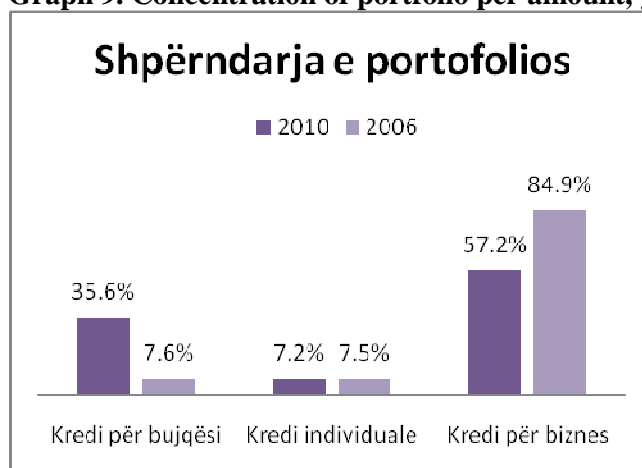
Although the business loan participation in total portfolio is again over 50%, there was a decline in 2010. This could be caused by higher focus in agricultural loans.

2010 graphical data illustration:

Graph 8. Concentration of portfolio per amount and number of loans, 2010

During four-year period, the AKF had expanded its activities in several other Kosovo centers, such as Skënderaj, Grahdevc, Malishevë, Prizren and Suharekë. This could be one of the reasons of higher focus in agricultural loans. Compared to 2006, in 2010 AFRK's portfolio had more than 5 millions € or 161%. Agricultural loan portfolio grew for more than 2.6 millions €.

Graph 9. Concentration of portfolio per amount, years 2006 and 2010

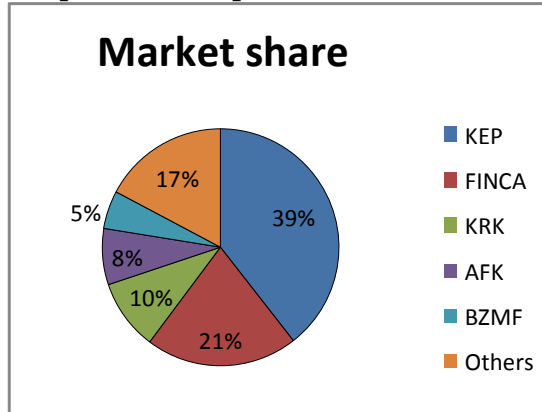


Individual loans did not suffer any major change within this period, while positive changes are notable with the agricultural loans.

3.4. Comparative analysis

As noted earlier, the loan offerings by MFIs in Kosovo played a decisive role in the development of agricultural sector, in development of small businesses and above all, development of living standard. Many families began planting their lands through these loans, which resulted in productivity increase.

Before proceeding to a detailed comparative analysis for participation of agricultural loans in the portfolio of these three micro financial institutions, we'll present below the participation of this MFIs in Kosovo micro-financial market at the end of 2010.

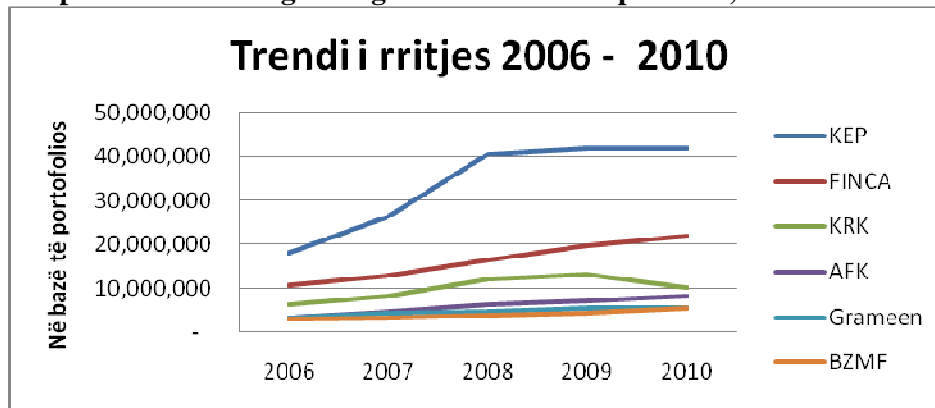
Graph 10. Participation of MFIs in Kosovo market, 2010

The three largest players in Kosovo's micro financial market are KEP, FINCA and KRK. Their portfolio fluctuates between 10 to 40 millions of €. The market share of these three mentioned MFIs is 70%, while BZMF's and AFK share is 5%, respectively 8%.

3.4.1. The growing trend of Micro-Financial Institutions

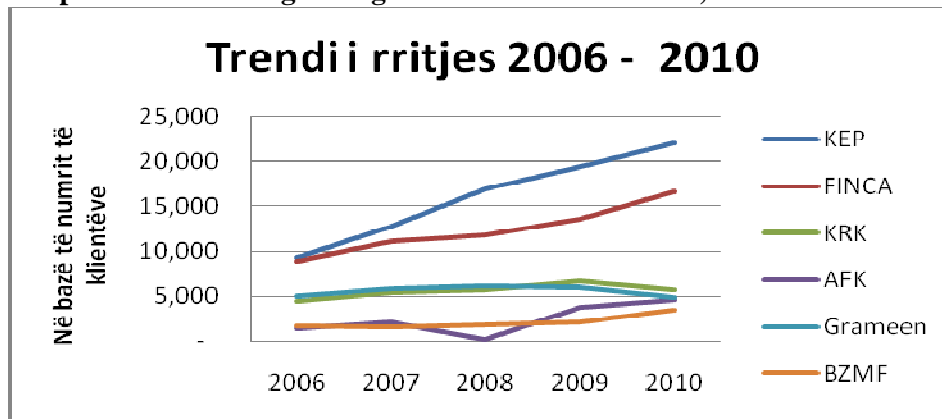
There are six MFIs operating in Kosovo which have been identified and the leaders of micro financial institutions: KEP, FINCA, KRK, AFK, GRAMEN and BZMF. The below graph shows that KEP, FINCA and KRK had a visible growth during this period compared to other MFIs. During 2007 and 2008, KEP had the biggest growth, but stagnated during 2009 and 2010.

Graph 11. The MFIs growing trend in terms of portfolio, 2006-2010



The total portfolio of MFIs operating in Kosovo was over 100 million € in 2010. In general, all the MFIs had tendency of growth during these years. Until 2009 KRK was growing, followed by a negative trend in 2010, while AFK, GRAMEN and BZMF during these years grew steadily with small steps.

Graph 12. The MFIs growing trend in terms of clients, 2006-2010

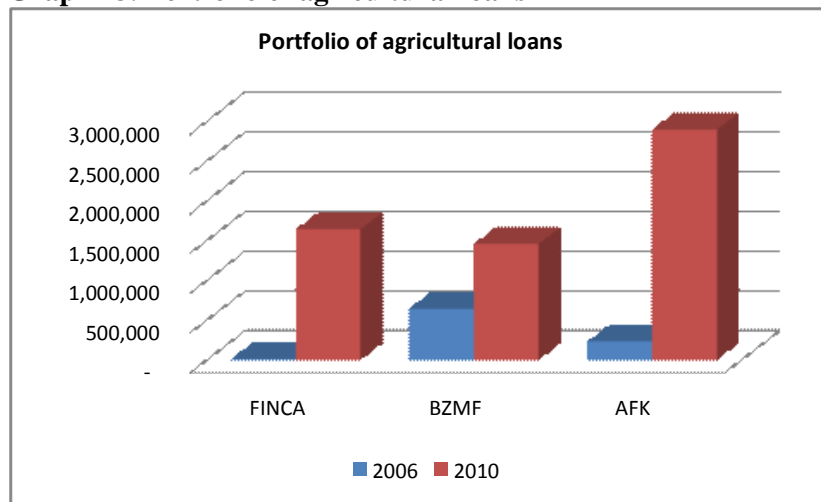


The active number of clients as of 2010 was around 42 thousands. KEP and AFK lead in terms of clients' base. It is worth mention that KRK and GRAMEN had a decrease of clients in 2009 and 2010. BZMF and AFK continued with small increase in clients' base.

3.4.2 Comparative analysis – Agricultural loans

The agricultural loans are one of the main loan products of all the MFIs in Kosovo. To a higher or small extent, all of them had they impact in development of this sector of the economy. Some MFIs are focused in some certain part of Kosovo, but all of them together achieved to cover the entire territory of Kosovo with their services.

Graph 13. Portfolio of agricultural loans



FINCA started late with the agricultural product, and that is why a substantial change can be seen over the years. AFK as well was not that much focused on this product, but had visible growths by the end of 2010. BZMF paid particular importance to agricultural loans right from the beginning of their operations in Kosovo and gradually, over years, increased its agricultural loan portfolio.

The same situation is in terms of agricultural loan clients' base. It is important to mention that all these MFIs, some earlier and some later are adding their attention to agricultural loans. As of end of 2010, the total portfolio of agricultural loans for these three MFIs was over 6 million EUR with around 4,000 clients. If we compare the 2006 with these years, than FINCA, BZMF and AFK increased their agricultural loan portfolio for more than 5 millions €.

4. The survey prepared for pasive and active clients of BZMF, FINCA and AFK.

4.1. Content of the survey

Client's name:		MFI:	
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Survey for the Kosovo's MFI clients
1. In what year you started the cooperation with this MFI?
2. Have you taken more than one loan in this MFI?
3. If no, how much was the loan amount and why you didn't continue the cooperation? (skip to question nr. 6).
4. If yes, in what loan cycle are you now?
5. How much was the first loan amount and how much was the last loan amount?
6. Why did you use the first loan for?
7. Did the loan have any impact in expansion of your activity?
8. Do you think that loans are necessary for the further development of your activity?
9. Have you ever taken any aid or subsidies from Kosovo Government?
10. If yes, what value?
11. Do you have loans also in other bank or other MFI?
12. If you'll require another loan in the future, will you approach the same MFI?
13. If yes, why?

14. If no, then where?

4.2. Contacted clients

AFK				
Clients	Loan Cycle	Loan Amount	Town	Phone nr.
Fadil Avdijaj	3	2500	Istog	044 326 772
Mustafa Balaj	2	2000	Klinë	044 152 535
Ramiz Berisha	1	500	Malishevë	044 565 673
Bashkim Gashi	2	3000	Klinë	044 487 168
Gazmend Hajzeraj	3	2000	Istog	044 420 456
Zenel Iberdemaj	2	800	Pejë	044 556 748

BZMF				
Clients	Loan Cycle	Loan Amount	Town	Phone nr.
Muhamet Agaj	1	6000	Kamenicë	044/370-655
Ismet Agovic	3	4000	Pejë	044/756-380
Idriz Cakaj	9	1600	Vushtrri	044/444-745
Daut Kalludra	1	1400	Mitrovicë	044/206-115
Rashit Halimi	1	2500	Viti	044/163-702
Miftar Deliu	2	5000	Klinë	044/437-898
Sadri Bajrami	5	5000	Gjilan	044/578-732
Nuhi Berisha	2	500	Klinë	044/348-334
Dervish Bezeraj	1	5000	Pejë	045/612-502
Mehmedali Gashi	2	1500	Lipjan	044/167-666

FINCA				
Clients	Loan Cycle	Loan Amount	Town	Phone nr.
Aziz Pireci	3	10000	Prizren	044 928273
Shqipe Morina	2	7000	Prizren	044 796072
Irfan Kabashi	4	15000	Prizren	044 152435
Petrit Cocaj	2	7000	Prizren	044 589190
Qerqiz Krasniqi	2	2000	Prizren	044 966676
Bashkim Memaj	3	7000	Prizren	044 313192
Arif Iljijazi	1	2000	Prizren	044 622289
Xhevet Rrahmanaj	1	1000	Prizren	044 940517

4.3. Final results from the survey

Clients	Percentage	Clients
AFK	25%	6
BZMF	42%	10
FINCA	33%	8
Total		24

In total, 24 survey clients. Some of AFK and FINCA's clients didn't respond, so they are less in number.

1. In what year you started the cooperation with this MFI?	%	Clients
2000 - 2006	29%	7
2007 - 2011	71%	17
Total		24







Most of the surveyed clients started their cooperation after 2006. One of the reasons might be clients' selection, but also the fact that FINCA and AFK started later on with the agricultural loan product.

2. Have you taken more than one loan in this MFI?	%	Clients
yes	79%	19
No	21%	5
Total		24


For more information on the corresponding MFI, the client selection was based more on clients in cycle, for the fact that they have been cooperating longer with the respective institution.

3. Nëse jo How much was the loan amount And why you didn't continue? (The cooperation) (skip to Question six	%	Clients
Not presently interested	20%	1
First loan active	80%	4
Total		5






Almost of the answers were no because these clients were in the first loan cycle.

4. If yes, in what loan cycle are you now?		%	Clients
Second		26%	5
Third		21%	4
Fourth		5%	1
Fifth		5%	1
Ninth		5%	1
Finished		37%	7
Total			19



Most of the clients finished off their loans but most of them are higher than the second loan cycle.

5. How much is the amount of last loan?		%	Clients
500 - 5000		71%	17
5001-15000		29%	7
Total			24



Over 70% of these clients' loans are below €5,000. This corroborates the fact the MFIs are more focused on small loans, because they finance small businesses and farmers.

6. What did you use the first loan for?		%	Clients
Purchase agricultural equipment		8%	2
Purchase of cows		17%	4
Building barn		13%	3
Soil cultivation		29%	7
Business expansion		33%	8
Total			24



A considerable part of the clients used their loans to expand the business, or to purchase cows and managed to increase their and their family's life standard.

7. Did the loan impact the expansion of your activity?		%	Clients
Yes		100%	24
No		0%	0
Total			24



All the surveyed respondent gave positive answers.

8. Do you think loans are necessary for Furthe development of your activity? ?		%	Clients
Yes		79%	19
Yes but high interest rates		21%	5
Total			24



Around 80% of the clients gave definitive positive answer while other hesitated saying that interest rates are very high

9. Did you ever receive any aid or subsidies from Kosovo government ?		%	Clients
Yes		0.00%	0
No		100.00%	24
Total			24

None of these respondents didn't receive any aid or subsidy from the Kosovo government.

11. Do you have any other loan in the other bank or MFI?		%	Clients
Yes		13%	3
No		88%	21
Total			24

Around 90% of them have no active loan in other bank or MFI in Kosovo.

12. If in the future you'll need a loan, Will you go the same MFI again?		%	Clients
Yes		71%	17
Depends on the offers conditions		29%	7
Total			24

Most of the clients are quite loyal to the MFI where they have loan at, therefore, over 70% of them gave positive answers without hesitating.

13. If yes , Why		%	Clients
Polite staff		41%	7
Trust them		24%	4
Don't wish to change		29%	5
Started there and wish to continue there		6%	1
Total			17

One of the main reasons they wish to continue cooperating with these MFIs is their staff and the created trust. A part of them simply don't want to change the institution.

Conclusion

As noted in the beginning of this paper, microloan was in the beginning of 2000 and continues to be an undisputed help for Kosovo farmers. The main focus of almost every single MFI in Kosovo is development of agriculture.

The data of this paper confirm once more that Kosovo agriculture has shown a substantial improvement during the recent years, if compared with the situation immediately after the war in 1999. Such result was not possible without the abundant help provided by the international organizations, but also by microloans. The agriculture sector has the potential to not only replace the import and ensure adequate supplies for the population, but also for export of its products. Presently, these are the imports for specific sectors of agriculture: Vegetable sector 40%, fruit sector 46%, Wheat sector 40%, and meat sector 80% and milk sector 24%.

MFIs institutions provided more space for agricultural crediting in Kosovo rather than the commercial banks, which offer few possibilities for the small farmers to access their products. On average, 26% of these three MFIs analyzed clients are clients of agriculture products.

Credit policies developed by the MFIs are more suitable for the needs of small entrepreneurs and farmers and the fact that the agricultural loan is the cheapest product in majority of MFIs in Kosovo corroborates this. Also, the existence of 15 MFIs in Kosovo indicated the competition created between them, which was conducive for providing more favorable loan conditions for the clients.

The objective of every MFI is offering small size loan for the client, so that after they expand their businesses or their activities, they are ready to take on larger sized loans in commercial banks. The fact that they represent 18% of the financial sector in terms of number of loans and 7% in terms of total amount of loan indicates that a larger number of loans were disbursed with smaller amounts.

One of the main products of all three MFIs explored in this paper is the agricultural loan. Although the answers of the respondents claimed that interest rates are high, they were grateful for the help offered. Majority of these MFIs clients are loyal to them just because of the fact that they commenced their credit history with these institutions, and do not want to replace them with any other bank or other MFI in Kosovo.

Pursuant to this conducted study, we can conclude that micro financial institutions in Kosovo should tailor their credit policies even further for the needs of their clients. They should intermittently modify their policies, depending on clients' demands. Also, bigger consideration should be given to the clients in cycle and provide them easier conditions, being that the risk is lower.

Although in some case the interest rates of MFIs in Kosovo may not be convenient, nevertheless, the MFIs have given a huge contribution to the development of Kosovo agriculture. The fact that the MFIs have clients in 10th or higher cycle, demonstrated that their clients were able to expand their activities with their loans, and today they can afford loans with higher size.

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