

## IMPACT OF BANKS IN FINANCING AGRICULTURE

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**Abstract:** Kosovo as a young and transition country is facing many challenges in the economy, one of which is the development of the agricultural sector, which is facing many obstacles. On the one hand, structuring and modernizing agriculture is very important and necessary, while on the other hand, there is a lack of financial support, both from public policy and potential bank financing. Given that agriculture has a very high impact on improving unemployment, increasing domestic production, and its impact on the trade deficit through reduced imports and the tendency to export. This should raise the governing awareness in order to provide support for the development of this sector. Banks operating in Kosovo have shown no interest in supporting agricultural development, and have a very low share of agricultural financing. Only 8% of agriculture is financed by the banking sector. This shows that banks do not focus on the agricultural sector. This situation cannot be changed without the support of the government, which should have a high commitment and treat agriculture as a sector that will have impact economic development, although this sector does not enable rapid economic growth of the country, but helps in employment, increase in domestic consumption, and enhances the quality of agricultural products. The banking system in Kosovo has shown an ongoing stability, indicating that the banking market is very healthy, with a low level of non-performing loans, a steady increase in the assets of all operating banks. Banks in Kosovo are mostly foreign capital and have brought good experiences from developed countries, but there has always been a lack of interest to support agriculture sector. This has been influenced by the agricultural sector itself, as this activity is exposed to various risks, there is a lot of work to be done on structural activity, the lack of professionals, in particular, is affected by a low degree of modernization and optimization of agricultural activities. Through this research, in addition to financial data in support of agriculture, we also conducted a study through a survey divided into two categories; category 1 Citizens / businesses and category 2 Banking officers. There were 451 respondents; 381 citizens / businesses and 70 banking officials. Data processing will be done through the SPSS program, where different statistical test scores will be made. This research could encourage government mechanisms for finding alternatives to financial support for the agricultural sector, which has a future to enhancement employment and reduce the trade deficit as well as its impact on GDP growth. The key alternative to developing the agricultural sector depends on bank financing. To stimulate this support, state agencies must build new forms of investment protection, such as: insurance in agriculture, credit Guarantee funds. So the government should create long-term strategies for the improvement of the agrarian sector.

**Keywords:** banking, agriculture, government, financing, development, support

### 1. INTRODUCTION

Kosovo's banking system, like the general banking system, represents the process of banking leadership in achieving its goals and fulfilling its responsibilities. It is important for banks to be managed in such a way that they can handle all kinds of risks by following the changes and meeting the needs of the clients. The banking system in Kosovo is constantly developing activities to take on new challenges and respond to changes imposed by new modern banking technologies.

On the other hand, agriculture is a very important sector for economic development, affecting opportunities for reducing unemployment and imports, as well as increasing export trends. Kosovo, as a young country, must develop agriculture because the country faces high unemployment and trade deficits. So, both sectors, banks and agriculture need to be treated carefully, as well as their interrelation and dependency. In this research paper, the question is how it can contribute to enhancing the opportunities for building relationships between the two sectors so that they can help and collaborate with each other and contribute directly to the development of the economy as a whole. These reasons justify the timelines of the cases under consideration. It requires a detailed overview of economic development as a whole, emphasizing the need to increase investment by the banking system in agriculture.

With regard to the so-called topic realism as a topic, the thesis of this scientific research defines the banking system in Kosovo and its subject is the policy of supporting the agricultural sector with the help of banks in Kosovo.

### 2. ANALYSIS OF BANKING PERFORMANCE IN KOSOVO

The banking sector in Kosovo with a modern operating system date back to 1999. The banks that started operating in Kosovo were foreign capital. Banks in Kosovo today are considered as the most stable and profitable sector. all

banks in Kosovo have positive performance in their business activities. They have a well-organized structure. Utilize advanced technology, offer wide range of products.

There are 10 banking institutions operating in Kosovo, 8 of which are foreign capital, accounting for 87 % of the capital<sup>22</sup>. Banks of Kosovo are spread all over Kosovo, the number of branches at the end of 2019 was 217 branches. We have a falling branch, which Indicate by the development of digital services, with purpose to orient clients in innovative services.

Banks in Kosovo have shown their stability with their liquidity ability, as defined by the Central Bank of Kosovo (CBK) regulations. Liquidity ratio was 38.7%, and the ratio between loans and deposits in 2019 was 77.6%<sup>23</sup>. Based on the liquidity ratio we can conclude that banks in Kosovo have the ability to take risks in support of the economic sector. One of the challenges of the banking sector is the quality of loans, the credit performance in Kosovo is at the right level, based on the region, Kosovo has the best performance of non-performing loans. The average of non-performing loans is a very important indicator as it shows a very good loan repayment performance. Non-performing loans have a rate of 2%. Kosovo can be considered a comprehensive and managed market. Despite the fact that the legal interactions of non-performing loans are very slow processes.

In the table below we have presented the banking sector statistics over a 5 year period where we can conclude the positive performance of this sector.

*Table 1 Banks statictical information as reported from Central bank of Kosovo*

Banking System, Activities and performances	Dec-14	Dec-16	Dec-19
No. of Banks	10	10	10
No. of Branches	277	262	217
No. of employee	3,507	3,375	3,331
Annual credit growth	4.20%	10.40%	10.00%
Annual deposits growth	3.60%	7.20%	16.20%
Liquidity report	43.60%	41.50%	38.70%
Non-performing loans	8.30%	4.90%	2.00%
Interest rate on loans	9.20%	7.20%	6.40%
Interest rate on deposits	1.10%	1.20%	1.60%

Source: Central bank of Kosovo, Monthly Financials reports

### 3. FINANCING IN AGRICULTURE

In Kosovo there is a continuous progress in financing various agrarian activities, especially in cultivating various agricultural products and cows. We have forms of funding through donations, subsidies and grant-making in various agrarian activities. These types of financing are also provided by various international organizations that promote the development of agriculture in Kosovo. Within the Ministry of Agriculture, monetary values are offered every year to support agribusiness.

MAFRD implements several subsidy schemes and rural development programs to support different sub-sectors in agriculture. The budget increase from 2015 to 2017 has been a 100% increase. With this state has shown its commitment to support agricultural activities. In 2017 around 48 million € are planned to support agriculture. 25 million € were planned for subsidies and 23 million € were for grants. Subsidies are a less efficient means of promoting growth. The main purpose of subsidies is to increase agricultural production in Kosovo, which policy makers and agricultural producers believe is possible only if local production can compete equally with external supply. At the same time, direct subsidy has many drawbacks and its effect is hardly payable over many years. As with any subsidy program, they can warp markets, traders can receive subsidies instead of farmers, and problem the state budget. As international experience shows, subsidies are easy to create, but difficult to cut.

<sup>22</sup> CBK. (2019,02,10). Monthly information Report of the financial system. Retrived from [https://bqk-kos.org/repository/docs/2018/Final\\_Sistemi%20Financiar\\_Dhjetor%202019.pdf](https://bqk-kos.org/repository/docs/2018/Final_Sistemi%20Financiar_Dhjetor%202019.pdf)

<sup>23</sup> CBK. (2019,02,10). Monthly information Report of the financial system. Retrived from [https://bqk-kos.org/repository/docs/2018/Final\\_Sistemi%20Financiar\\_Dhjetor%202019.pdf](https://bqk-kos.org/repository/docs/2018/Final_Sistemi%20Financiar_Dhjetor%202019.pdf)

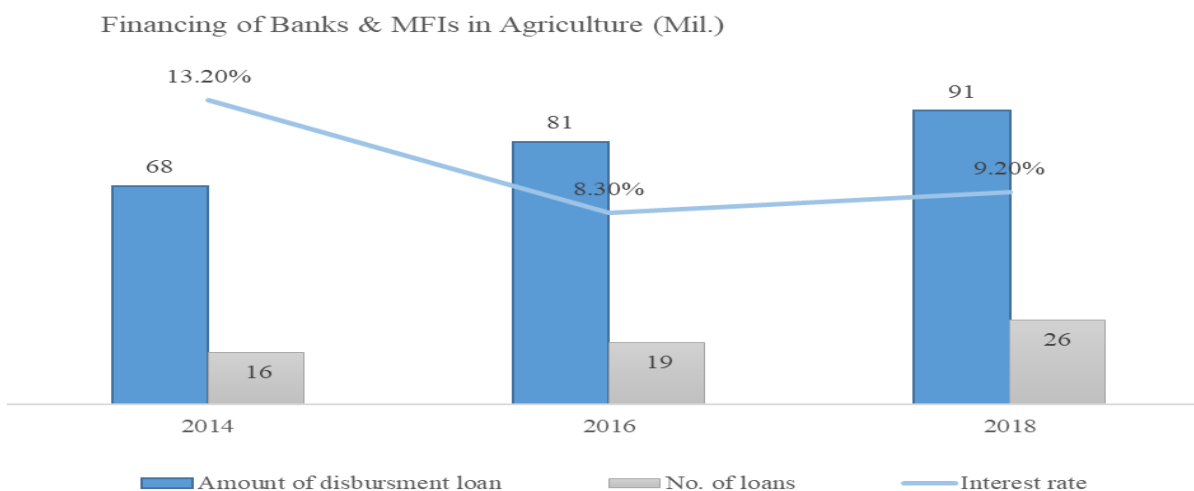
Agricultural financing is also supported by commercial banks in Kosovo, but none of the banks has any particular specialization in agribusiness support. All banks in Kosovo offer credit financing products for agribusinesses, but they do not differ much from the usual business products. The only opportunities commercial banks offer for agribusinesses are the option of seasonally variable payment and the possibility of a "grease period" payment. None of the settlements in Kosovo have a specific segmentation for agribusinesses, and the interest rates are the same as for ordinary businesses which may have higher profit margins, and the contribution to unemployment is small.

#### 4. ANALYSIS OF THE IMPACT OF THE BANKING SECTOR ON AGRICULTURE

Kosovo's banking system continues to maintain a high level of stability, characterized by strong capitalization, acceptable credit portfolio quality and satisfactory liquidity position. The capital adequacy ratio at the end of 2019 stood at 38.7%, representing a satisfactory level of capitalization and exceeding the minimum rate of 12% required by the CBK. The share of non-performing loans to total loans at the end of 2019 decreased to 2% from 4.9% in 2016 and 8.3% in 2014. Among Southeast European (SEE) countries, Kosovo continues to be among the countries with the highest rate of credit growth and highest credit portfolio quality. Business loans dominate the structure of total loans with a share of 70%. Where 71.7% of which were issued in the services sector, mainly in the commercial sector (52.7% of total business loans). Loans to the industrial sector represented 24.8%. Agriculture represents only part of the total loan and continues to have low access to total bank financing with only 2.7% for 2018, the sector that is least credited by financial institutions in Kosovo. In Microfinance Institutions (MFIs) the situation is different, the share of agriculture loans is 26.9% for 2018<sup>24</sup>.

The agricultural sector analyzed over the years has been supported by a very low growth which is being influenced by many factors, such as: Low level of structuring and modernization by the agricultural sector, lack of collateral, lack of insurance coverage, and agricultural activities. higher non-performing loans, as well as higher rates on loans for agriculture.

**Figure 1: Financing of Agriculture from Financial Institution (Banks & IMF)**



Source: Commercial Banks & Micro Finance Institutions, CBK

If we analyze the credit situation in agriculture, we can conclude that there is a slow growth of credit participation in the agricultural sector. Increasing interest rates are also a major concern for agriculture, as it faces many other challenges. This impedes the development of agriculture as an indicator of the country's GDP. The participation of banks and micro-financial institutions has almost reached the same level, and we can conclude that the banking sector does not focus on supporting agriculture. This can be seen from their business activities, where none of the activities focus on the agrarian sector. This is affected by the lack of structuring and modernization of the agricultural sector, where we still see it as a family activity of existence rather than a business that can develop.

<sup>24</sup> MBPRZH. (2018, 12, 31). Green report. MBPRZH. Prishtina

## 5. SURVEY RESEARCH ANALYSIS

This paper is part of desertification and in this section, we will deal with some of the results of the survey conducted with 451 respondents, 70 of whom were banking officials and 381 citizens/businesses in the field of agriculture. Responses from these two questionnaires were processed through SPSS and we came to the conclusions based on the responses obtained for the citizen survey and included only the straight sections between the financial and agricultural sectors.

**Table 2. Results from survey with civic / Business from agriculture**

		Frequency	Percent	Valid Percent	Cumulative Percent
21. How much is the banking system cooperating with state institutions?	None	54	14.2	14.2	14.2
	Slightly	75	19.7	19.7	33.9
	Neutral	115	30.2	30.2	64.0
	On average	110	28.9	28.9	92.9
	Highly	27	7.1	7.1	100.0
22. How banks cooperate with agribusinesses	None	35	9.2	9.2	9.2
	Slightly	57	15.0	15.0	24.1
	Neutral	88	23.1	23.1	47.2
	On average	141	37.0	37.0	84.3
	Highly	60	15.7	15.7	100.0
23. How MFIs cooperate with agribusinesses	None	60	15.7	15.7	15.7
	Slightly	82	21.5	21.5	37.3
	Neutral	103	27.0	27.0	64.3
	On average	118	31.0	31.0	95.3
	Highly	18	4.7	4.7	100.0
24. How foreign donors cooperate with agribusinesses	None	57	15.0	15.0	15.0
	Slightly	74	19.4	19.4	34.4
	Neutral	103	27.0	27.0	61.4
	On average	114	29.9	29.9	91.3
	Highly	33	8.7	8.7	100.0

21. How much is the banking system cooperating with state institutions - it is of particular importance to look at the approximations and details of agrarian activities. The results were: 14.2% (n = 54) of clients thought that at no cooperation, 19.7% (n = 75) of them said that little has cooperation 30.2% (n = 115) remained neutral, 28.9% (n = 110) stated that cooperation is average, and only 7.1% (n = 27) thought that there was much cooperation between the banking system and state institutions.

My definition based on my research. The country's institution will take the initiative to increase co-operation with banks. This cooperation can contribute to reaching an agreement on agricultural customers. The agricultural sector is very important for the government institution because it contributes to reducing the unemployment rate.

22. How banks cooperate with agribusinesses - refers to the impact of banks on agribusiness development. The Results were: 9.2% (n = 35) of clients stated that banks do not cooperate with agribusinesses, 15% (n = 57) stated that banks do not cooperate with agribusinesses, 23.1 % (n = 88) stayed neutral, 37% (n = 141) thought that on average there was cooperation, and 15.7% (n = 60) thought there was a lot of cooperation between banks and agribusinesses. From the survey and the survey, the majority of respondents believe that banks provide stable cooperation to agribusinesses, are influential in development. Others who opposed this have focused on how housing can offer better opportunities for agribusinesses.

What I find is that none of the banks in Kosovo have any intention of creating strategies in support of agriculture. The introduction of a new banking institution with specialization in agriculture is essential.

23. How MFIs co-operate with agri-business - refers to the impact of MFIs on lending to agribusinesses. The results obtained: 15.7% of clients stated that they do not cooperate at all, 21.5% (n = 82) were of the opinion that the MFI cooperates with agribusinesses a bit, 27% (n = 103) remained neutral towards this issue, 31% (n = 118) stated that the MFI cooperates on average with agribusinesses, and 4.7% (n = 18) said that they cooperate very much among themselves. MFIs offer agribusiness products and have a higher target than banks in supporting agribusinesses, but these institutions offer high credit interest rates as well as more difficult interoperability approaches as they do not offer other service opportunities. bank. These are the issues raised by the survey and the research. The

overwhelming majority of respondents responded affirmatively that the MFIs could not exert a high impact on agricultural development.

My conclusion is that, except for easy access to the IMF, it does not play a role in the development of the agricultural sector, for two reasons. Offering high interest rate products and the institutional issue that these cannot provide complete banking services.

24. How foreign donors cooperate with agribusinesses - refers to the contribution that external donors make to promoting agricultural development and agrarian activities. Results obtained: 15% (n = 57) of clients stated that external donors did not cooperate with agribusinesses, 19.4% (n = 74) said little, 27% (n = 103) were neutral in their responses, 29.9% (n = 114) said that external donors cooperate with agribusinesses on average, and only 8.7% (n = 33) were of the opinion that there is much cooperation between them.

External donors from many countries operate in Kosovo. Respondents' assessment of donor cooperation with agribusinesses in general has yielded positive results as they consider that donors have helped the development of agribusiness very well. The opposing part of this survey has been more focused that donors can make a greater contribution to the structuring of agricultural activities.

**Table 3. Descriptive statistical analysis from survey with civic /Business of agriculture**

	Descriptive Statistics				
	N Statistic	Mean Statistic	Std. Error Std. Error	Std. Deviation Statistic	Variance Statistic
21. How much is the banking system cooperating with state institutions?	381	2.95	.059	1.156	1.337
22. How banks cooperate with agribusinesses	381	3.35	.061	1.182	1.397
23. How MFIs cooperate with agribusinesses	381	2.87	.059	1.154	1.331
24. How foreign donors cooperate with agribusinesses	381	2.98	.062	1.201	1.442
Valid N (listwise)	381				

According to the table above we have these statistical results analyzed with SPSS. As far as the banking system cooperation with the state institutions is concerned, the mean  $\bar{x}$  = 2.95, standard deviation  $\sigma$  = 1.15 and variance 1.33; As far as banks cooperate with agribusinesses there is a mean  $\bar{x}$  = 3.35, standard deviation  $\sigma$  = 1.18 and variance 1.39; How much MFIs cooperate with agribusinesses has a mean  $\bar{x}$  = 2.87, standard deviation  $\sigma$  = 1.15 and variance 1.33; External donors cooperate with agribusinesses with mean  $\bar{x}$  = 2.98, standard deviation  $\sigma$  = 1.20 and variance 1.44

## 6. CONCLUSION

Kosovo, as a new country, should pay particular attention to investments in agriculture. In my research, I came to the conclusion that the existing banks in Kosovo do not even consider the issue of agrarian sector support. This is most evident from the lack of credit for agriculture. In addition, banks have no specialized focus on the agrarian sector and have not developed any strategy in this regard. They must devise plans and strategies to support agriculture. However, this must be done in conjunction with government institutions to provide forms to stimulate the agrarian sector through credit financing. Very low efficiency and productivity, unfavorable purchase prices, significant centralization, extremely low wages and above all the complete depopulation of some areas are some of the factors that have led to the failure of the cooperative system. At the same time, there are climate and land conditions in Kosovo that can stimulate the successful production of many crops, but the level of agricultural development still requires many opportunities for improvement. This process can be aided initially by prioritizing state mechanisms, implementing laws that support the cultures by which agribusiness can be developed, then funding methods, or through state influence through subsidies, donations, grants and forms of support. sector financing and banks that provide conditions and responses to activities that promote joint agricultural production and economic development through agribusiness as a whole.

Given the above facts, analysis, research and conclusions, I can make some key recommendations that would help strengthen the role of the banking system in the development of agriculture in Kosovo:

- Recognizing the role of agriculture in economic development, special attention should be paid to state institutions as well as to farmers, their agricultural activity should be based on the most modern business standards. Compliance with all financial rules and policies. Banking institutions should develop strategies to support agribusiness as a whole.
- Banks should set up a special agribusiness segment by offering lower rates on agricultural loans than ordinary businesses that may have higher profit margins and may be significantly higher than agribusiness.
- Leasing is another way of financing agribusiness, where it enables the purchase of new equipment for farmers. Improved equipment affects efficiency, productivity and impacts on cost savings.
- Credit guarantee funds should focus on supporting agricultural activities, with particular attention to collateralization and lowering of interest rates. This will help the development of agriculture, and this will in turn lead to a reduction in unemployment.
- State institutions should take specific steps to subsidize interest rates on loans. This will help increase the aid and subsidies currently available, as existing subsidies can become more diversified, as well as increase farmers' accountability in terms of investment. These conclusions are based on the experience of other countries that subsidize credit financing and instruments for such financing.

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