

AGRICULTURAL CREDITS IN DEVELOPMENT OF SMALL FARMS IN KOSOVO

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SUMMARY

This study investigates a current situation of agricultural credits in Kosovo from which we may conclude how much these credits have impacted the development of small farms in Kosovo since this category of farms comprise a large percentage in the overall structure of farms. The number of small farms is being decreased recently which creates obstacles in the agriculture in Kosovo to become competitive in market. The study was done through the research of 140 small agricultural farms in four regions (35 farms in each region): Pristina, Gjilani, Gjakova and Prizreni. Data from research were processed in computer using Statistical Program for Social Sciences (SPSS) software and the results were calculated using statistical methods such as Chi-Square Test, P-value and Likelihood Ratio. As a conclusion of this research we found how much do agricultural credits help farmers in developing their small farms based on the current conditions of agricultural credits that financial institutions in Kosovo offer.

Key words: Agricultural credits, small farms, farmers, development, Kosovo.

1. INTRODUCTION

Agriculture is one of the important fields for a country. Agricultural development is a process that involves adoption by farmers (particularly small farmers) of new and better practices (Garba, 1987; Orebiyi, 1999) because most of the new practices have to be purchased but few farmers have the financial resources to finance it, Nwosu, et al. (2010).

The creation of good conditions at work with modern tools needs a considerable amount of money, which could be provided through credits. Agriculture, like all sectors of the economy, needs credit for its development, Duval (2003). Agricultural credit enhances productivity and promotes standard of living by breaking vicious cycle of poverty of small scale farmers, Adebayo, Adeola (2008).

Even though taking credit is a very important factor for developing a small farm, the questions arise on how the farmers can take this credit,

what are the conditions for taking credit, what is the interest rate and the grace period. These issues are very important for the farmer and the characteristics of a credit define the difference between agriculture credits and other types of credit. Agricultural credit is expected to play a critical role in agricultural development, Duong and Izumida (2002).

Agriculture credits are very important for increasing the productivity of farms in the states which are in transition. According to Swinnen and Gow (1999), access to agricultural credit has been severely constrained in developing countries. Farmers are usually obligated to stop their activities in farms because the credits for agriculture are very unfavorable with very high interest rate and short grace period, and farmers are unable to pay back the credit taking into consideration that income may come after the second year of activity. Other problem for farmers for taking credit is finding a guarantee for

the credit. This is a very difficult issue since the type of a credit depends not only on human factors but also on atmospheric conditions which are very unpredictable.

Is agriculture credit the reason why agriculture has remained in a very low level of its development? Given the importance role of credits I choose for further research the topic related to the performance of agricultural credit for development of agricultural farms in Kosovo. The research with farmers would help us understand why this category of farms includes a very small structure of 0.01ha to 1.5ha, (MAFRD, 2010) and to what extent an agriculture credit would impact the increase of farmer's capital and their technology.

2. RESEARCH METHODOLOGY

The main objectives of this research define:

- Agricultural' credits level of application from farmers,
- The role of credits in developing the small farms in Kosovo.

The research is focused in four questions for conducting statistical analysis:

1. What is the investment value through help of agricultural credits?
2. What is the probability of investment incensement through credits if financial institutions offer credits with favorable conditions?
3. Do farms possess enough information about agricultural credits?
4. How do farmers receive agricultural credits?

The research has been conducted through questionnaires realized directly with managers of 140 ($n=0.140$) farms in four different regions in Kosovo (Pristina, Gjilan, Gjakova and Prizren) during November 2010 from students of Agro-economy department in faculty of Agriculture and Veterinary of University of Pristina. Data from research were processed in computer using *Statistical Program for Social Sciences (SPSS)* software in which the results were calculated using statistical methods such as Chi-Square Test, P-value and Likelihood Ratio.

3. RESULTS

The research was conducted with 140 farmers of small farms from which 96% were male gender and 4% were female gender. As regards to the age of respondents 5% of them belong to the age between 20 to 30 years old, 34% between 31 to 40 years old, 52% between 41 to 50 years old and 9% of respondents above 50 years old.

The research showed that 72% of respondents took credits for developing their activities, in which 61% were agricultural credits, 8% business credits and 3% other credits (mostly for agriculture development purposes).

The source of these credits included: financial institutions 17% and 83% were provided from micro financial institutions. Some of the reasons why these farmers used credits from micro financial institutions include: 49% of them think that "advertisements and commercials from micro financial institutions in media pushed them to decide about taking credits", 17% decided on "the closeness of the micro financial institutions from them" 15% think that "financial institutions do not give credits at all" and 2% think that "the procedure for taking credits is easier in micro financial institutions".

Despite the high percentage of usage of these credits the farmers did not seem very satisfied. When asked: "How much are you satisfied with these credits", 59% expressed "very unsatisfied", 28% "unsatisfied", 13% "average" and none of them responded with "satisfied" or "very satisfied".

The overall unsatisfactory opinions result from the fact that credit giving policy in Kosovo isn't regulated in the bilateral favor. The interpretation of this issue can be found by employing these questions:

a) What is the interest rate for these credits? 9.5% of respondents paid the interest of 10 to 15%,

74.3% paid the interest of 16 to 20%,

b) What is the grace period of the credit taken? 73% had grace period from 7 to 12 months, whereas 27% had from 3 to 6 months.

The answers above show a very high interest rate and very short grace period which reflects a high

sacrifice of these farmers. Most likely, this is the reason why the amount of investments through agricultural credits is very low. Research shows that 74.8% of farmers have invested until 20% of their capitals through agricultural credits, 16.7% of farmers have invested 21 to 30% of their capital through these credits, 7.3% of farmers have invested 31 to 40% of their capital through these credits and only 1.2% of farmers have invested above 40% of their capital through agricultural credits.

When asked the question "What is your knowledge about agricultural credits?" we were able to find how much farmers are interested in these credits. 80.7% of farmers have declared "totally informed" 10.2% of farmers are "partially informed", 9.1% of farmers have declared to be just "informed" whereas none has declared to be "either uninformed or totally uninformed".

The probability for the investments to be increased through agricultural credits would be very high if conditions for taking these credits would be more favorable. The main issues to considerate would be interest rate and grace period, which are very essential for this category of credits. The research showed that probabilities of increasing capital are as follows: 89% of farmers think that they would increase their capital for 41 to 50% if they would be offered a very favorable conditions, 7.2% of farmer would increase their capital from 31 to 40%, whereas 3.8% of them would increase their capital for up to 30%.

4. CONCLUSIONS

Credits play a very important role for countries in transition such as Kosovo in creating, increasing and developing business activities. Acting as the main source of agriculture credits banks are important institutions of any economy. Due to their experience and flexibility banks have a visible priority in comparison to other financial institutions on giving credits. However, banks do not always play that role. One very meaningful joke about the banker goes: "A banker is a fellow who lends you his umbrella when the sun is shining and wants it back the minute it begins to

rain." Willighman (1997). Despite this Doppler, Bauer (2010) highlighted that credit is considered as an important instrument for increasing agricultural production and farm incomes. Also Baker, Holcomb (1964) outlined that credit is a very important component in the modernization of agricultural activities.

Just to consider would happen if credits wouldn't exist at all. One will understand better the importance of credit system. With no doubt, both the bank and the farmers need the credits. The bank with gain interest when giving credit but also in the other hand the client with benefit from credit by improving the development of its business (Luboteni, 2007).

The current research reflecting on state of agricultural credits in Kosovo shows a high interest rate and a very unbearable grace period. In agriculture the efficiency is expected to happen in the period which is longer that grace period allowed from our financial and micro financial institutions.

The unfavorable credit conditions influenced a large portion of farms in Kosovo belong to small farms and with a very low amount of capital which results in low level of productivity. Likewise only small percentages (5%) of youth in Kosovo (20 to 30 years old) are interested for this type of business.

In Kosovo there was negligence from banks related to agricultural credits since only 17% of farmers have taken these credits from financial institutions causing high interest rate for these credits because micro financial institutions offer a very expensive services and their activity is based only from credits. The nature of the agricultural credits also impacted the negligence from banks since it has a very high risk comparing to other activities.

Kosovo's institutions should seriously take into consideration the issue of credit conditions in Kosovo, and take urgent measurement on regulating this situation especially for agricultural credits.

Agricultural credits are expected to play a critical role in development of agriculture, Duong, Izumida (2002). The lack of financial means for

developing their agricultural activities have pushed farmers from Kosovo to take agricultural credits even though 72% of them despite a very unfavorable conditions for taking these credits were obligated to take credits as a sole option for achieving their goals and objectives.

The frequency from 61.3% of farmers who have paid their interest rate of 20% and 29.2% of them from 16 to 20% is a reason for paying attention from Central Bank which supervises these institutions to take a concrete steps on improving these conditions for agricultural credits.

The needs for credits in agriculture credits have increased significantly over the last decade. Agriculture economies have become interested in investing in greenhouses, arboriculture etc. Investments require financial sources through credits.

Agricultural credits are one of the most dominated factors for development of small farms in Kosovo. This certifies the interest of farmers regarding information about agricultural credits were 80.7% of them have declared to be "totally informed" about the conditions of agricultural credits offered from financial and micro financial institutions.

Therefore it is necessary for the government to take steps for improving the conditions of these credits. Improved credit would result in huge positivism for Kosovo' economy since agriculture is an important creator of national wealth (Gross Domestic Production).

It is worth to emphasize that the importance for improving these credits is seen from the fact that 89% of farmers are ready to increase their capital to up to 50% if a favorable ambient is created which tells a lot for both microeconomic and macroeconomic aspect in Kosovo.

Based on the world and regional experience of microcredit I think that in Kosovo there is a need for microcredit development. In addition, the government should invest in development of microfinance as an important branch of this sector. This implies not only the increase of microcredit but also provides other financial services for small farms economies.

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