

Access to Credit for Horticulture – a case study from HPK, Kosovo

Commercial banks in Kosovo – all private and now mostly foreign-owned - have shown impressive growth since the 1999 conflict. Yet by 2006 only 2% of their portfolio was allocated to agriculture – even though the latter is widely considered (along with energy) as a sector having the greatest potential to generate income and employment – and hence contribute to the stability and economic independence of the country. Credit products had not been designed to meet the specific requirements of agriculture and banks considered lending for agriculture as risky. Lenders were more focussed on the current cash flow of an applicant rather than the income to be generated by the investment.

Horticultural Promotion Kosovo (HPK) has been assisting in the reestablishment of the apple industry - with an emphasis on supporting the development of small and medium-scale orchards. It approached a major commercial bank¹ with the request that it establish a specific credit product for this investment involving a loan period of 5-years and an 18-month grace period. The Project contributed to reducing the bank's perceived risk through providing a generic business plan (BP) based on the latest technical and marketing information and agreeing to carry out the first vetting of applicants on technical criteria. The BP was designed to give a broad understanding of the key points in apple orchard establishment. It was organised in a logical sequence and showed the important operational issues of cash flow and risk assessment that could occur with fruit growing.

The bank subsequently established a pilot credit line of €100.000 on the requested terms. Only five small producers, however, applied for loans (others citing the 14% interest rate as too high) and four of the applicants were subsequently judged by the bank not to be credit worthy. The one successful applicant – the Rexhepi family – requested just €3,000 for an orchard of 0.5 ha. The remainder of the credit line was, nevertheless, utilised in the establishment of apple orchards – but by investors who had purchased large tracts of land in the recent privatisation process.

The bank, however, remains committed to expanding its agriculture portfolio – including that for the planting of apple orchards.

The Project, for its part, continues to work on reducing the perceived risk to banks of investing in horticulture. It is soon to present to members of the Bankers' Association of Kosovo software that will allow credit officers and business advisers to develop tailor-made credit plans for horticultural investments for individual producers based on the latest technical and market information.

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¹ Raiffeisen