A practical guide for farmers

MAKING FINANCIAL DECISIONS

How to find the best financial solutions for your agricultural business
Executive summary

This brochure was developed to assist micro- and small-sized farmers in Kosovo, to provide an understanding of relevant financial products, and provide knowledge and information to the farmers to support their decision to select the most appropriate financing product and financial partner meeting their needs and expectations.

If you are a farmer who needs a loan for agricultural inputs, machinery or equipment, this brochure will help and guide you. It covers the following issues:

• How to analyse and select the financial product that meets your investment plan;

• How to compare the terms of financial products that are offered;

• How to choose the best available offer;

• How to determine the affordable amount of debt;

• How to avoid potential liquidity problems;

• How to increase competitiveness, while saving energy, costs, and time.

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Agriculture in Kosovo is a very important sector and plays a key role in the country’s economic development.

One of the main challenges that farmers in Kosovo constantly face is access to loans, which are one of the main funding sources to enable new investments or the expansion and/or enhancement of agricultural activities.

Being successful in any type of business without taking out a loan at some point is quite difficult. This is particularly the case in agriculture, which requires continuous investments for the purchase of agricultural inputs, agricultural equipment and machinery, and/or livestock. From a financial industry perspective, agriculture has been considered a difficult sector with which to work, due to high levels of uncertainty and risk, associated with poor harvests as result of plant and animal diseases, natural disasters (droughts, floods, hail, etc.), fluctuating sale prices for agricultural products, and finally policy issues, including protectionism. Therefore, it has generally been difficult for farming and agricultural businesses to secure financing and loans.

Kosovan agricultural producers, especially the small ones, often have limited access to banks. For their working capital needs, farmers in Kosovo borrow mostly from MFIs (Micro-Financial Institutions), which account for about 25% of the agricultural loan portfolio.

More than 90% of the MFI portfolio consists of credits of up to EUR 5,000 in value, whereas commercial banks are more focused on high value loans for fixed assets than working capital loans. Of the commercial banks portfolio, working capital loans consist of around 15% of the total, while the remaining 85% is for credit values above EUR 10,000.

For borrowers with a good credit history and for those who have valuable collateral, partner financial institutions usually may offer much better terms, such as lower interest rates and reduced or no administrative charges.
Four steps to financial decision making

How to choose the right lender?

One of the primary and most important issues relating to agriculture finance is identifying the institution that meets your requirements. It is important to find a lender who understands your business and financing needs.

Never make a quick decision! Whether you are dealing with crops, trees, milk or meat production, or any other activity, your business analysis process is the same. Prior to your decision, you have to be sure that you have made a proper decision and it fits with your capacities and needs.

By following these steps, you can evaluate the strengths and weaknesses of different financial products, and their benefits or drawbacks, which will enable you to make a proper financial decision that matches your business needs and helps you to accomplish your goals.

First, start with a clear investment goal or purpose.

Second, identify your capacities; you must check whether you have the capacity to cover the loan (debt) that you want to obtain.

Third, research and choose from among the alternatives; you must choose the financial solution that best suits you. In other words, choose the financial product that has appropriate length of maturity at an acceptable cost.

Fourth, make the best choice for YOU; in other words, this means make the best choice that matches your cash flow conditions.
The type of loan you want to get depends primarily on the type of investment and business you want to develop. There are two main types of loans: 1) working capital loans and 2) fixed assets loans or leases.

- **A working capital loan** is a loan that has the purpose of financing the everyday operations of a company/farmer to purchase agriculture inputs (seeds, pesticide or fertilizers) and to cover any other operational costs (fuel, payment of worker wages and salaries, etc.).

- **Fixed assets loans** are used to purchase equipment (ploughs, tractors, combine harvesters) or to finance the development of other long-term assets (construction of warehouses, cattle farms, irrigation systems etc.).

There is also the possibility to obtain a so-called mixed purpose loan, which is divided between a fixed asset loan repayable over the long term, and a short term working capital loan.

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**Simple balance sheet for a small-scale farmer**

The most basic farm financial statement is the balance sheet. The balance sheet is a listing of all the farm’s assets and liabilities at a particular time. In the balance sheet below, on the left-hand side (assets side) you can see working capital and fixed assets, while in the right-hand side columns you can see short-term debts, which are in principle working capital loans, and medium and long-term debts (for fixed assets) where the maturity time is longer than two years.

<table>
<thead>
<tr>
<th>Assets</th>
<th>Value</th>
<th>Liabilities</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Working capital</strong></td>
<td>11,550</td>
<td><strong>Short-term debts</strong></td>
<td>8,400</td>
</tr>
<tr>
<td>Cash</td>
<td>2,000</td>
<td>Debt for input suppliers</td>
<td>5,400</td>
</tr>
<tr>
<td>Stock of inputs (seeds, fertilizers, pesticide)</td>
<td>1,000</td>
<td>Short-term facilities from financial institutions</td>
<td>3,000</td>
</tr>
<tr>
<td>Crops in the field</td>
<td>8,550</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Fixed assets</strong></td>
<td>118,500</td>
<td><strong>Medium &amp; long-term debts</strong></td>
<td>20,000</td>
</tr>
<tr>
<td>Machines &amp; equipment</td>
<td>13,500</td>
<td>Long-term loans from financial institutions</td>
<td>20,000</td>
</tr>
<tr>
<td>Land &amp; Buildings</td>
<td>105,000</td>
<td>Medium &amp; long-term debts</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td></td>
<td><strong>Total liabilities</strong></td>
<td>28,400</td>
</tr>
<tr>
<td>Equity</td>
<td></td>
<td><strong>Total liabilities &amp; equity</strong></td>
<td>130,050</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>130,050</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
You need a working capital loan

If you need working capital to buy agricultural inputs, fuel or to cover other costs, you can find financial/lending institutions that operate in Kosovo and offer short-term agricultural loans. The question is what steps to take and how to choose the best solution. Before you decide to get a short-term loan from a financial institution, it may be worth attempting to firstly obtain inputs from your buyer/suppliers’ credit. It is always advisable to have a healthy relationship with both your lenders as well as your suppliers, as you may need both when running your business.

Financing option 1:
Product-market credits (Buyer/Supplier credit)

Product-market credit can be defined as a ‘delay of payment’ that is permitted by the creditor or supplier of raw materials, against the goods purchased from him. A product-market loan is quite an attractive product that is available for Kosovo farmers. It is a type of Contractual Agreement entered into between the creditor/supplier and the farmer; both parties agree on the terms of product-market loan, where the creditor/supplier provides raw material (seeds, fertilizers and other required input products) against the goods that will be produced by farmers at the end of the harvesting season. In this way the farmer receives input products ‘free of charge’, has a guarantee that they will sell the agricultural products at the end of the harvest season and is not overloaded with the administrative procedures. On the other side, the creditor has a guarantee that at the end of the harvesting period they will have the product he wishes.

Pros of using buyer/supplier credit:
- Simple credit procedure resulting in a quick or instant decision;
- No collateral required or only one written promise/promissory note;
- Additional benefits are possible, such as a repurchase agreement for unused inputs, free delivery of inputs etc.;
- Potential to build up a relationship of trust with the supplier, potentially allowing you to postpone payment for inputs in case of cash inflow troubles;
- Enables cash retention and limits excess cash outflow from the business.

Cons of using supplier credit:
- Usually more expensive to purchase goods on supplier credit than to pay for them in upfront cash;
- Typically, only a limited range of inputs are available for purchase with supplier credit;
- The term for repayment is relatively short, i.e. it is due shortly after the harvest.

STEP I: DETERMINE THE TYPE OF INVESTMENTS

b) Supplier credit is used by suppliers to ensure sales of their inputs. Therefore, if you have a good relationship with your suppliers, then you can be sure that you are able to get a constant supply of inputs without having to make upfront payment (although for upfront cash, suppliers usually give a discount). But before you buy it is very crucial to know the brand and quality of the inputs, the supplier strategy and your relationships with the supplier because a discount may also reflect on the quality of the inputs.

Before you go ahead and accept supplier/buyer credit from any vendor, it is crucial for you to know the good and the bad side of buyer/supplier credit as a form of payment.
Financing option 2:

**Working capital loan from a financial institution**

If you have good relationship with an input supplier who can offer you a discount on advance payment, you can get credit from a lender and use this to purchase the inputs with cash. This provides an advantage for you as it secures the discounted price from the supplier. You can also use a working capital loan to pay for items or services that you need.

Loan maturities usually range from six months to five years. All lending institutions offer a flexible payment schedule of the instalments for all types of agriculture loans, where the loan payment is based on farmers income generation, and a grace period from 6-18 months depending on the loan value and the policy of the financial lender.

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**Pros of using a working capital loan:**

- Enables obtaining of discount from supplier for upfront cash payment of inputs;
- Possible use of funds to bridge the gap between supply payments and co-financing for agriculture projects that are subsidized by government grants;
- Possible use of funds for additional working capital needs, such as paying salaries, purchasing fuel, or renting machinery;
- The maturity is comparatively longer, which allows flexibility in terms of when you sell your harvest;
- Loans are generally cheaper than supplier credits.

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**Cons for using a working capital loan:**

- Collateral may be required, depending on the loan value and lender policy;
- Obligation to make payments in a timely matter, regardless of your immediate financial circumstances (such as temporary excess cash outflows because of potential volatility in prices and production risks that may occur);
- High interest rates (fixed or variable).

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**Pros of using Agro Card as working capital loan:**

-フルヒル農業経済的季節的な需要;
-支払いを通じた広範囲な農業的な入力と設備の供給業者の支払い;
-期払い購入に0%の利子;
-6ヶ月から8ヶ月まで期間のグレース期間;

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**Cons of using Agro Card**

- Impossible to gain discount from supplier for upfront payment;
- Limited access to all suppliers;
- Credit is limited and is dependent upon the bank’s evaluation;
- Some suppliers may increase the price of inputs that are purchased by the card.

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**Why would you take a loan for inputs instead of supplier credit?**

Almost all suppliers sell on credit, but in addition they also offer discounts for advanced cash payment for inputs. Therefore, it is a good option to obtain a working capital loan from a lender and buy discounted inputs with an upfront cash payment. Taking a loan to purchase inputs makes financial sense when the total costs of the loan are at least matched by the discount obtainable for making an upfront cash payment for the inputs.
**Example**

Mr. Gashi needs EUR 6,000 for buying agriculture inputs. His supplier offers him a 10% discount for an advanced cash payment. To take advantage of this offer, he may take a loan from a lender but must pay an interest rate of 21% per annum on the loan. The question is, does it make more sense to take the loan and purchase at the discounted price or should he take the inputs on credit from his supplier?

**Option 1: purchase on supplier credit**  
Cost of inputs purchased on supplier credit: EUR 6,000

**Option 2: take a working capital loan**  
Cost of inputs purchased in cash with 10% discount: EUR 5,400  
Loan detail:  
- Amount: EUR 5,400  
- Interest rate: 21% per annum  
- Interest: paid monthly  
- Fees: (EUR 0) 0% of principal amount  
- Maturity: 6 months

**Conclusion**  
In this case, the total cost of the inputs if purchased on supplier credit is EUR 6,000 and the total cost of the inputs purchased with a loan is EUR 5,735.53 (EUR 5,400 costs of inputs + EUR 335.53 interest rate calculated during the repayment period). Therefore, purchasing the inputs with a loan results in savings of EUR 264.47.

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**Good to know**

**What is leasing residual value in a leasing contract?**  
Leasing is a loan in which the lender buys and owns equipment and then rents it to a business at a flat monthly rate for a specified number of months. The most common form of lease in agriculture is a land lease. Leasing farm equipment, dairy equipment, agricultural equipment, and other types of equipment is a financing solution for any business or farmer’s needs. Always ask the leasing company and look closely at the contract to see if a residual amount is required.

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**You need to invest in fixed assets**  
In Kosovo there are two options to acquire financial resources to acquire fixed assets — by taking a loan or using a leasing instrument.

The leasing products available in Kosovo are not well developed and those are mainly focused on buying cars. Leasing of fixed agriculture assets in Kosovo is not well developed although the potential demand for leasing is significant as it can be an efficient and effective way to manage growth and plan the replacement of existing technology, while preserving capital for operating and input costs.

There are three institutions that are licensed to lease: Raiffeisen Leasing Kosovo, Factor Leasing, and Crimson Finance Fund.
Financing option 1: Financing from a leasing company
Agricultural leasing programs are typically used to finance agricultural machines or equipment, such as combines, tractors, harvesters, trucks or irrigation equipment. Leasing companies have direct relationships with equipment suppliers and are a convenient option if your business plan only involves purchase of equipment and you are under time pressure.

ительства предоставляют долгосрочное финансирование: в зависимости от величины займа, сроки от 3 до 15 лет возможны;
• Многие финансовые институты предоставляют финансовую и техническую консультационную помощь бизнес-предприятиям;
• Возможность использовать заем для покупки ранее не используемого оборудования или оборудования, которое нельзя было купить с помощью доступных программ аренды, предложенных поставщиками, установленными в стране;
• Возможность финансирования всей инвестиционной программы;
• Более гибкие схемы погашения с погашением, согласующимся с ваших потоков наличности;
• Грации на капитальное погашение от 12 до 18 месяцев;
• Более гибкая политика обеспечения залогом; заемщики принимают личные активы и другие активы бизнеса, все доходы считаются, например, личные доходы или доход от других бизнесов.

Pros of financing from a leasing company:
• Very fast, usually less than one-week processing time;
• Usually no additional collateral required;
• Offers fixed financing rate;
• Leasing is inflation friendly;
• Allows cash to be preserved as no large up-front expenditure required;
• Better utilization of equipment, as you lease and pay for equipment only for the time you need it;
• At the end of a leasing term, you may buy the equipment if you wish to keep it;
• You can keep upgrading: as new equipment models become available you can upgrade to the latest model each time you take on a new lease.

Cons of financing from a leasing company:
• Full costs not always clear (full coverage insurance, administrative fees and residual amount);
• Generally, more expensive;
• Up-front payment required, typically 10-20% of the equipment’s value;
• Repayment schedules are standardised (no estimation or matching to your cash flow);
• Lease payments often tied to land or equipment value rather than enterprise profitability;
• Generally, only available for new equipment or only slightly used equipment;
• Bears all the risk of a poor season.

Financing option 2: Loan from other financial institutions
If you do not have the opportunity to obtain fixed assets through a leasing company then the only remaining option for farmers is to get credit from financial institutions.

Pros of loan from other financial institutions:
• Financial institutions provide long-term finance: depending on the loan value, terms from 3 to 15 years are possible;
• Many of Financial Institutions provide financial and technical advice and consultancy services to business firms;
• Possibility to use the loan to purchase used/second-hand equipment or equipment which could not be bought with the available leasing products provided by the suppliers established in the country;
• Possibility of financing your entire investment plan;
• More flexible repayment schedules with payments matching your cash flow;
• Grace periods on capital repayment from 12 -18 months;
• More flexible collateral policies; lenders accepting personal assets and other business assets, all income is considered, e.g. private income or income from other businesses.

Cons of a loan from other financial institutions:
• Processing time of several weeks or more;
• Bankable collateral and/or additional guarantees requested;
• Client must have a current account with the institution;
• Additional paperwork required during first loan application.
Energy efficiency is the effort to reduce the amount of energy required to provide products and services. For example, insulating a home allows the building to be heated or cooled using less energy to achieve and maintain the desired temperature.

The general term “energy efficiency in agriculture” reflects changes in technology and farming management practices. Farmers can use many measures to improve energy efficiency on farms, including using tractors with greater fuel efficiency, energy-efficient combined harvesters, or multistage agricultural equipment and farming technologies that minimize fuel and input consumption. The use of machinery or multistage systems in agricultural production or processing presents great opportunities for reducing energy and enabling cost savings.

The most evident problem in Kosovo is that households, in general, lack the necessary income to implement significant projects to modernize the electrical appliances they use or insulate their apartments or houses. This is likewise the case with farmers. Most of Kosovo farmers (63.8%) are small farmers with a farm size of 0.5-5 ha and production is mainly for self-consumption. The agricultural equipment used in Kosovo is more than 20 years old (Agriculture Census, 2014). Changing the old equipment with new will lead to the reduction of the costs for fuel and investments in repairing the equipment and will increase the production. Energy efficiency is a factor which needs to be assessed during application for a loan as this could bring more beneficial conditions to the loan taker.

In Kosovo, a very small number of farmers producing vegetables use so-called multi stage equipment for seedling planting and pest control with pesticide dispensing in one-pass. Multistage or “one-pass” farm equipment is equipment that covers multiple field or processing operations with one step. Field crop production can lead to energy savings by reducing tractor fuel consumption and wear on equipment used in field operations, through cutting the number of times they must pass over the field by performing multiple operation in one pass, for example applying nutrients and pest control at the same time. Multistage equipment can be used also for livestock, for example grain processors which are designed to mill corn and other grains down to fine texture livestock and poultry feed.

However, usually this new fuel efficient or multistage agricultural equipment is much more expensive and more suitable for larger farm sizes and/or farms which are big enough to sell most of the production rather than using it for their own consumption. Smaller farmers should explore current and future Energy efficiency programmes and see whether the requirement of those EE programmes can be applied for acquisition of farmer equipment. In order to overcome the obstacle of small farms, the farmers need to cooperate, buy and make the most of the equipment they can use jointly.
Other benefits of multistage equipment

More efficient equipment can have additional benefits besides saving fuel, such as allowing a more precise application of fertilizer and seeds, which saves inputs and increases yields, and avoiding soil compression and protecting the soil structure. Small farmers can add two items of equipment or devices to the same tractor, such as a pesticide dispenser and cultivator, so with one pass through they will perform two operations thus also saving time.

For detailed information and additional benefits, consult a trustworthy equipment supplier and your agronomist.

Financial support programs for energy efficiency investment

In 2009, the Energy Community recognized the importance of energy efficiency and decided to reduce energy consumption by 20% by 2020. In Western Balkans countries — Albania, Bosnia and Herzegovina, Kosovo*, the former Yugoslav Republic of Macedonia, Montenegro, and Serbia — there are several programs that are supporting regulatory reforms that aim to promote investment in energy efficiency and renewable energy generation.

Energy efficiency programs supporting Western Balkans countries, including Kosovo, include:

- The Green for Growth Fund (GGF)
- The European Bank for Reconstruction and Development (EBRD) established Western Balkans Finance Fund (WB GEFF);
- KfW Development Bank;
- United Nations Development Program (UNDP);
- United States Agency for International Development (USAID);
- Gesellschaft für Internationale Zusammenarbeit (GIZ); and
- Western Balkans Investment Framework (WBIF).

Donors and development institutions working through these programs provide most of the available funding for small-sized enterprises and individuals operating as entrepreneurs in Kosovo, including credit lines and agricultural financing, through financial institutions in Kosovo including: the Kosovo Enterprise Program (KEP), FINCA Kosovo and Kreditimi Rural i Kosoves (KRK). MFI also provide loans for agriculture that can be used for improving energy efficient, while the TEB Sh.A. commercial bank provides loans just for household energy efficiency.

For all programs, ask your bank representative whether the bank participates in one of the above-mentioned programs and which products are offered.
Step 2: Estimate your capacity to finance your business plan

Creating a business plan is a specific challenge, especially when predicting cash flow, sales and costs, which is one roadmap of your business that determine your business’s limits in terms of repayment ability and debt capacity. All lenders have limits as to how much debt they will give to a single client. Lenders usually determine the maximum amount of debt they are willing to give by calculating the client’s so-called equity ratio. This ratio reflects how much of the business this client is supporting with his/her own funds or equity. The debt ratio is normally an indicator of the amount of debt of a company, compared to its assets. A high debt ratio normally indicates that the company is a riskier borrower, while a low ratio shows that the business is usually more viable or less risky. There are different calculations of debt ratios among different FIs in Kosovo and the limitations on how much the financial institutions will lend vary, with percentages of between 25%-50% of business income possible.

Definition

**Equity** is the sum of the value of all your assets minus all your debts (both formal and informal), including debts to suppliers or private individuals. Another term for equity is net worth.

The Debt/Equity ratio indicates how much debt a company is using to finance its assets relative to the value of shareholders' equity. The equity ratio reflects how much of your assets are financed by shareholders' own funds (i.e. equity) as opposed to using funds from creditors. It is calculated by dividing equity by total assets. The debt ratio is defined as the ratio of total debt to total assets.

Good to know

If the equity ratio reaches zero or becomes negative, this means that equity is zero or negative and that the business has debts equal to or greater than the business's total asset value. If the debt is too high and the equity ratio is too low, the business is eventually no longer economically viable. If a sale is not possible, a business with zero or negative equity typically results in bankruptcy. Businesses with equity ratio of more than 50% are known as **conservative** and less risky compared to more leveraged companies (i.e. companies that have taken on greater levels of debt to finance their operations / investments etc.).

Rule of thumb for debt capacity

A rule of thumb refers to a principle with broad application that is not intended to be strictly accurate or reliable for every situation but which is an easily applied procedure based on practical experience rather than theory.

If you are interested in refinancing your business or getting additional capital to expand your business, it is very important to assess whether you can repay the debt of your investment from your available resources within your maximum debt capacity.

The maximum debt capacity refers to the total amount of debt a business can repay in a timely manner within a specified period. A rule of thumb is that **the equity ratio should not be below 30%**. This means, when you assess your maximum debt capacity, you should estimate your current equity ratio and check that your equity ratio does not fall below 30% if you decide to borrow for a new investment plan.
Example calculation of equity ratio

Mr. Berisha has a farm of 4.0 hectares of arable land. He would like to expand production of raspberries from 1 ha up to 3 ha as he and several of his neighbours have had success with raspberry production over the last two years. He would need to protect his plantation from hail with ant-hail nets, which requires some construction.

**Current balance sheet**

<table>
<thead>
<tr>
<th>Assets</th>
<th>Value</th>
<th>Liabilities</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working capital</td>
<td>16,000</td>
<td>Short-term debts</td>
<td>12,400</td>
</tr>
<tr>
<td>Cash</td>
<td>3,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stock of inputs (seeds, fertilizers, pesticide)</td>
<td>1,500</td>
<td>Debts to suppliers</td>
<td>12,400</td>
</tr>
<tr>
<td>Crops in the field</td>
<td>11,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Fixed assets</strong></td>
<td>120,500</td>
<td><strong>Medium &amp; long-term debts</strong></td>
<td>25,500</td>
</tr>
<tr>
<td>Tractors</td>
<td>25,500</td>
<td>Loan for tractor</td>
<td>25,500</td>
</tr>
<tr>
<td>Machines &amp; equipment</td>
<td>10,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land &amp; buildings</td>
<td>85,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>37,900</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td>98,600</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>136,500</td>
<td><strong>Total liabilities &amp; equity</strong></td>
<td>136,500</td>
</tr>
</tbody>
</table>

**Good to know**

**Fair value** is a sale price agreed to by a willing buyer and seller under current market conditions; it assumes that both parties enter the transaction freely. A good method for determining the fair value of a piece of equipment is by comparing the prices of similar equipment for sale in the second-hand market. Fair value does not take account of some other factors (such as different strengths of drivers for purchase or sale – for example, if a seller is desperate to sell an item to bring in cash, they may be willing to sell at under market price), which may result in fair value being different from market price.

Based on the balance sheet, he must then calculate his current equity and equity ratio:

Equity ratio = \( \frac{\text{Equity EUR}}{\text{Total assets}} \times 100 \)

\( \frac{98,600}{136,500} \times 100 = 72.2\% \)
Current investment plan
Mr. Berisha wants to plant two more hectares with raspberries and cover them with anti-hail nets to protect the total surface of 3 ha, at a cost of EUR 77,000. In order to calculate the expected equity ratio after the investment is made, Mr. Berisha must adjust his balance sheet to reflect all assets (2 ha of new plantation, anti-hail net for 3 ha) and the loan:

<table>
<thead>
<tr>
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<td>1,500</td>
<td>Debts to suppliers</td>
<td>12,400</td>
</tr>
<tr>
<td>Crops in the field</td>
<td>11,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed assets</td>
<td>197,500</td>
<td>Medium &amp; long-term debts</td>
<td>102,500</td>
</tr>
<tr>
<td>Tractors</td>
<td>25,500</td>
<td>Loan for tractor</td>
<td>25,500</td>
</tr>
<tr>
<td>Machines &amp; equipment</td>
<td>10,000</td>
<td></td>
<td></td>
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<td>85,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 ha of raspberry plantation</td>
<td>32,000</td>
<td>Loan for investment plan</td>
<td>77,000</td>
</tr>
<tr>
<td>Anti-hail net with</td>
<td>45,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>construction for 3 ha</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total liabilities</td>
<td>114,900</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td>98,600</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>213,500</td>
<td>Total liabilities &amp; equity</td>
<td>213,500</td>
</tr>
</tbody>
</table>

The amount of equity remains the same because no funds would be contributed to the project by the owner. However, the expected equity ratio would change to 46.18%. Since the original investment plan put the expected equity ratio above 30%, Mr. Berisha may increase his investment plan.

Adjusted investment plan
Mr. Berisha adjusts the low investment plan by purchasing a fruit storage refrigerator with capacity of 30 tons at a cost of EUR 40,000, as raspberries — like most soft fruits after harvest — cannot be preserved as fresh for long time so they should be frozen.

To adjust his balance sheet, Mr. Berisha adds EUR 40,000 to his fixed assets and EUR 40,000 to his medium- and long-term liabilities in his current estimated balance sheet. The adjustment leads to total assets of EUR 253,500, total liabilities of EUR 154,900 and equity of EUR 98,600.

As the equity ratio remains above 30%, Mr. Berisha can therefore increase his investment plan further (should there be a business requirement to do so), for example by purchasing a larger fruit refrigerator.

Equity ratio = \( \frac{\text{Equity EUR}}{\text{Total value of assets}} \) = \( \frac{98,600}{213,500} \times 100 = 46.18\% \)
Step 3: Select conditions that match your investment plan

Your investment plan should consist of products that match your needs and work towards achieving your goals. But the first step to successful investing is determining your goals and risks. When you have determined your investment plan and the financial product that suits your investment — referring to your capacities to pay back the loan — it is then the time to ask for offers from different lenders and try to choose the best one. Before you take a decision, you will need to verify the conditions of the products offered — namely the loan maturity, the interest rate and the cost of borrowing.

**Working capital loans**

**Interest Rate:** A working capital loan can have either a fixed or variable interest rate. Most of the financial institutions in Kosovo provide fixed interest rates as they have recognized this market demand as it enables the small businesses to predict their future cash flow requirements.

**Maturity:** The maturity refers to the final payment date of a loan or other financial instrument, including the principal and all remaining interest. The maturity of the loan will depend on the type of investment you are making. Usually working capital loan facilities are by nature short-term, ranging from one crop cycle for temporary needs up to one or two years for permanent working capital needs. Working capital loans in principal should have a maximum maturity of 12 months, or a maximum of 24 months for crops (such as some sorts of berries) that do not produce significant yields during the first year. Most lenders offer revolving loans or credit lines for temporary working capital.

**Fixed asset loans**

**Interest Rate:** A fixed asset investment is usually a long-term investment. The maturity of the loan should match the useful life of the asset. In Kosovo, fixed declining interest rates are offered mainly by banks for maturities longer than three or five years, while MFI offer variable interest rates. Therefore, for investment loans, it is important that you understand how a variable interest rate works.

**Maturity:** Investment loans are generally medium or long-term loans. Medium or long-term loans are more appropriate for investments in fixed assets as the cost of the asset is usually large in comparison to the profit the asset generates; however, the asset will generate profit for many years.

**Mixed purpose loans**

Mixed purpose loans are usually for a business plan that includes both working capital and fixed asset investment. Not all financial institutions offer mixed purpose loans. Institutions that do not offer mixed purpose loans may alternatively offer you two loans: a working capital facility and an investment loan.

Usually, the institutions that offer mixed purpose loans offer a maximum maturity of three or four years. Mixed purpose facilities could have a fixed or variable interest rate. If you need working capital and to make an investment at the same time, explain this to your partner financial institution and ask about your options to receive a mixed purpose facility or to combine different loan products to finance your business plan adequately.

**Definition**

A revolving facility is a facility that is renewed regularly, each season or annually, given that repayment was on-time and the condition of the business is stable. An overdraft is an example of a revolving loan. Those are also called an evergreen loan.
**Reference rates in Kosovo**

In Kosovo, the reference rate is the European Inter Bank Offered Rate (EURIBOR) for loans granted in Euro. Euribor is the average interbank interest rate at which European banks are prepared to lend to one another.

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**Understanding interest rates**

Interest rates determine the cost of borrowing money from financial institutions and are typically expressed as percentages. That seems easy enough, but things can get a bit more complicated when it comes to figuring out how rates are determined. Financial institutions take into consideration their cost of funding plus several risk factors that could cause you to default or not repay your loan: these can include the overall economic situation, the situation of the agricultural sector, as well as your own individual risk. In the process of the individual risk assessment, each lender looks at the financial stability of your business (i.e. length of time in operation, profitability, liquidity), your credit history, quality of collateral and your relationship with the financial institution. If your business is stable, you have a strong credit history, a good credit relationship and your collateral is valuable, the financial institution should offer you an affordable interest rate.

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**Definition**

A **fixed-rate loan** is a loan where the interest rate does not change over the period of the loan. With a fixed rate, you can determine your payment for each month and the total you will pay over the life of a loan.

**Variable-rate** financing means that the interest rate on your loan can change, based on the prime rate or another rate called an “index.” The longer the term of the loan, the riskier a variable rate loan can be for a borrower, because there is more time for rates to increase. Please refer to the below explanation on EURIBOR.

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**Good to know**

**Why do variable interest rates change?**

The rate is variable or fluctuates because the cost to the bank of obtaining funds is constantly changing. General economic conditions, the financial environment, perceptions of risk and inflation are among the prime factors that influence the movement of interest rates. The rate could increase, remain the same or decrease. This will impact the costs that the financial institution has to support in order to continue to lend to clients like you.

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The **effective interest rate** is the one which includes the compounding periods during a payment plan. The **nominal interest rate** is the periodic interest rate multiplied by the number of chargeable periods per year. For example, a nominal interest rate of 6% compounded monthly is equivalent to an effective interest rate of 6.17%. Note that the effective interest rate will always be greater than the stated rate.

Other related costs are Administrative/Originated Fees, which are fees charged by a financial institution to a borrower to pledge resources to enter into the loan agreement with the borrower. This fee may also be referred to as a commitment fee, disbursement fee or management fee. Referring to the Regulation on mortgage lending in Kosovo, the administrative fee shall not exceed two percent (2%) of the principal amount of the relevant mortgage loan.
**Effective cost of borrowing:**
how to choose the loan with the lowest cost

**Tip 1:**
When comparing two offers, compare the effective interest rate or the effective cost of borrowing, rather than the nominal interest rate.

The most obvious and easier way to choose a low-cost loan is by looking at the Annual Percentage Rate (APR). But how do you know you’re making the right choice? Lenders typically quote their **nominal annual interest rates**. However, the nominal interest rate does not include all the costs related to the loan. These other costs – such as the management fees or the analysis fee — can vary significantly from lender to lender and increases the real cost of loans by 0.5–1.5%.

The nominal interest rate plus all other costs related to a loan charged by the financial institution is called the **effective interest rate**. Usually, but not always, all the charges related to the loan can be found in the repayment schedule or can be requested from the financial institution. The sum of the expenses from the financial institution and any additional expenses is called the **effective cost of borrowing**. Therefore, you should always ask the lending institution for the effective rate of the loan or how much you must pay on top of it.

**Tip 2:**
Choose a repayment schedule that minimizes your effective cost of borrowing.

Before you sign the contract on your business loan, it’s critical that you understand exactly how the terms of your loan impact on your cash flow, so you know how much you’ll pay and when — a so-called **repayment schedule**. Knowing that farms’ incomes are irregular, the instalments of agricultural loans are usually also irregular or seasonal payments only one to four times a year. For the same amount, maturity and effective interest rate, a loan with fewer instalments (such as a bi-annual repayment schedule), will have a higher effective cost of borrowing than a loan with more instalments (such as a quarterly repayment schedule). Which repayment schedule is most convenient for you depends on your best cash flow. If possible, though, you should choose **more frequent repayments to reduce the effective cost of borrowing**.

To be clearer and more confident you have to calculate the interest rate and charges appearing in the repayment schedule provided by the financial institution.
STEP 3: SELECT CONDITIONS THAT MATCH YOUR INVESTMENT PLAN.

**Maturities: How to match maturity with the investment**

Matching maturity means coordination of your cash inflow with the maturity of your liabilities. In other words, the maturity matching is that each asset should be compensated with a debt instrument having almost the same maturity. This means a farm should finance current assets with short-term liabilities and fixed assets with long-term liabilities. For example, if you want to purchase a tractor with your working capital financing, you probably won’t generate enough excess cash to pay it off in one, two or six months. But don`t rush: aren’t you then actually financing the machinery, a fixed asset, with a working capital loan facility? Shouldn’t you allow yourself a longer period to pay for this investment?

This is a problem because working capital funds are the funds that need to circulate in your business, transforming from inputs, into crops, into cash and back into inputs to replant. So, if working capital is depleted, then you may not have enough funds available to plant your next crop.

Long-term debt is generally more expensive to the firm than short-term debt, while current assets generate less profit on average than fixed assets do. A business that finances current assets with long-term financing often ends up paying unnecessary interest expenses. If this occurs, it is better to consult with your financial institution about options to avoid refinancing the investment with short-term facilities or vice versa.

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**Good to know**

**Maturity matching** approach has various advantages and disadvantages. The biggest advantages are that it maintains an optimum level of funds, saves interest costs, has no refinancing or interest rate fluctuation risk. The main disadvantage is its difficulty in implementation.

**Attention**

Try to match the maturity of the investment with the maturity of the financing. For working capital loans, the maturity should correspond with the planting cycle that the funds are used for, and for fixed asset investment, the maturity should correspond to the expected useful life of the asset.
Example of a balance sheet with "unbalanced" liabilities

In this balance sheet example, the business has significant higher short-term liabilities than working capital (short-term) assets. The farmer has taken out several short-term loans to finance the purchase of fixed assets. If the short-term facilities expire without being renewed, the farmer will have a problem in finding enough cash to finance his/her next crop. In addition, the farmer faces the risk that interest rates for future credit could be higher than in the past, which in turn would increase the overall cost of financing for the purchase of the fixed assets.

<table>
<thead>
<tr>
<th>Assets</th>
<th>Value</th>
<th>Liabilities</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working capital</td>
<td>10,000</td>
<td>Short-term debts</td>
<td>12,200</td>
</tr>
<tr>
<td>Cash</td>
<td>2,000</td>
<td>Debt for input suppliers</td>
<td>6,200</td>
</tr>
<tr>
<td>Stock of inputs (seeds, fertilizers, pesticide)</td>
<td>500</td>
<td>Short-term facilities from financial institutions</td>
<td>6,000</td>
</tr>
<tr>
<td>Crops in the field</td>
<td>7,500</td>
<td>Other short-term debts</td>
<td></td>
</tr>
<tr>
<td>Fixed assets</td>
<td>98,500</td>
<td>Medium &amp; long-term debts</td>
<td>30,000</td>
</tr>
<tr>
<td>Machines &amp; equipment</td>
<td>13,500</td>
<td>Long-term loans from financial institutions</td>
<td>30,000</td>
</tr>
<tr>
<td>Land &amp; buildings</td>
<td>85,000</td>
<td>Medium &amp; long-term debts</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total liabilities</td>
<td>42,200</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Equity</td>
<td>66,300</td>
</tr>
<tr>
<td>Total assets</td>
<td>108,500</td>
<td>Total liabilities &amp; equity</td>
<td>108,500</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Assets</th>
<th>Value</th>
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<tbody>
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<td>Working capital</td>
<td>10,000</td>
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<td>7,200</td>
</tr>
<tr>
<td>Cash</td>
<td>2,000</td>
<td>Debt for input suppliers</td>
<td>5,200</td>
</tr>
<tr>
<td>Stock of inputs (seeds, fertilizers, pesticide)</td>
<td>500</td>
<td>Short-term facilities from financial institutions</td>
<td>2,000</td>
</tr>
<tr>
<td>Crops in the field</td>
<td>7,500</td>
<td>Other short-term debts</td>
<td></td>
</tr>
<tr>
<td>Fixed assets</td>
<td>98,500</td>
<td>Medium &amp; long-term debts</td>
<td>35,000</td>
</tr>
<tr>
<td>Machines &amp; equipment</td>
<td>13,500</td>
<td>Long-term loans from financial institutions</td>
<td>30,000</td>
</tr>
<tr>
<td>Land &amp; buildings</td>
<td>85,000</td>
<td>Medium &amp; long-term debts</td>
<td>5,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total liabilities</td>
<td>42,200</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Equity</td>
<td>66,300</td>
</tr>
<tr>
<td>Total assets</td>
<td>108,500</td>
<td>Total liabilities &amp; equity</td>
<td>108,500</td>
</tr>
</tbody>
</table>
Step 4: Choose a loan term that perfectly matches your cash flow requirements

In principle, it is very important to choose a loan that suits your business’s cash flow. When you decide on the amount of the loan and select your interest rate and term, you have to select a repayment schedule to suit your cash flow.

There are three aspects in particular that you need to pay attention to when it comes to your business’s cash flow:

**Scheduling of payments** — where possible, enable the convenient scheduling of future payments, both on a one-time and recurring basis. For agriculture businesses, it payment frequency is very important and should be planned for time periods when you have inflows to your business. It is vital that your financial partner understands the nature of your business, which means knowledge of the time when you have greater inflow through selling your products, so they can offer you a bespoke monthly, bi-monthly, quarterly or bi-annually repayment schedule.

**Instalment amount** — in addition to your payments being scheduled in accordance with your income generation or cash flow, it is also important to make sure you can afford to pay the instalment amounts. This means that you know that after the sales of your products you will have enough money to pay the loan instalments according to your agreement with your financial partner, as well as being able to replant the next crop and also repay any additional loans you may have in the next period.

**Currency** — the currency of the loan and repayment should be in the same currency as your inflows/income.
Other financial products for agricultural businesses

Government’s grants and subsidies in Agriculture

Since 2013, the Ministry of Agriculture, Forestry and Rural Development (MAFRD) has been the largest institution supporting farmers in different sectors, through various grant schemes from the government budget, or through funds received from Danish International Development Agency (DANIDA) & World Bank and distributed through MAFRD. The Government of Kosovo co-finances the financial support to farmers — which covers production & processing of agricultural products and agricultural infrastructure — and its share ranges from 60-75% of the total projects’ amount, while the additional amount of 25-40% is covered by the applicant.

In 2016, the total value of the public support as grants for submitted agriculture projects was EUR 22,193,233. In 2017, the planned budget allocation was in total EUR 22,300,000 for the fruit, vegetable, meat, milk, grape and egg sectors.

To receive this grant, a farmer must firstly apply for a certain grant scheme and after preparing a business plan, the application is submitted to the Agency for Agriculture Development (AAD) for review and approval. The business plan forms are designed by the AAD/MAFRD and they are distributed on application. The winners of government grants can be covered/paid by the AAD only after the presentation of all the invoices for purchases of goods and services for the investment plan. This means that all the costs must first be financed by the applicant through their own means before they can be reimbursed. The applicant must keep all required records and bills, as these are needed to allow reimbursement.

For more information please contact Ministry representatives or visit the web page of the MAFRD.

The primary goal of subsidies is to increase agriculture production in Kosovo. However, at the same time, direct subsidies are a less efficient means to promote growth.

Agricultural insurance and other financial products

Agricultural production faces a myriad of risks. Two of the major risks are price risk caused by potential volatility in prices and production risk due to weather conditions and damage by pests, or even natural disasters. Trade liberalization and climate change can also increase risk. Agricultural risks not only affect farmers: they affect the whole agribusiness value chain. Farmers may try to take steps in terms of changing production methods or improving their infrastructure to mitigate risks. However, farmers can also transfer all or part of the risks to a third party through an insurance contract. By paying a monthly, quarterly or annual premium, an unexpected loss due to problems with crops, livestock or other property can be avoided. There are 13 insurance companies currently operating in Kosovo, of which seven are foreign-owned, two have mixed ownership, three are domestic, and one is a subsidiary. However, only one company has been licensed for agriculture insurance. The International Financial Cooperation (IFC), a member of the World Bank Group, and the MAFRD are working together to develop an agricultural insurance system in Kosovo to protect farmer’s source of incomes impacted by yield or quality losses and increase access to finance in competitive sectors and enable economic growth.

What is an insurance deductible?

Also called an ‘insurance excess’, this is the amount you pay in out-of-pocket expenses for covered services before your insurance company starts to pay the remaining costs. For example, if the deductible on your insurance against late spring frost is EUR 2,000, and your loss due to spring frost is only EUR 1,000 as valued by the insurance company, then the insurance company will not pay you anything. However, if your loss was estimated by the insurance company at EUR 5,000, then the insurance company would pay you EUR 3,000 which is the difference between the total loss and the deductible (EUR 5,000 minus EUR 2,000).
Forward contracts
A forward contract is an agreement between two parties – the seller and the buyer — for the delivery of a certain quality and quantity of a commodity at specified time and for a specified price. Farmers often use forward contracts as hedges against falling prices. For example, one potato processor may sell you potato seed, fertilizer and pesticides in advance in return for providing him with the specified quality and quantity of the potato after your potato harvest at contracted price.

Guarantee fund
A forward contract is an agreement between two parties – the seller and the buyer — for the delivery of a certain quality and quantity of a commodity at specified time and for a specified price. Farmers often use forward contracts as hedges against falling prices. For example, one potato processor may sell you potato seed, fertilizer and pesticides in advance in return for providing him with the specified quality and quantity of the potato after your potato harvest at contracted price.

Guarantee funds in Kosovo
In July 2017, with a three-year EMPOWER Credit Support (ECS) Program, a local, independent, sustainable credit guarantee facility was established, known as the Kosovo Credit Guarantee Fund (KCGF). The Fund is designed to issue portfolio loan guarantees to financial institutions to cover up to 50% percent of the risk for loans and thereby increase lending to Medium and Small Size Enterprises.

Agriculture Credit Guarantee Fund
MAFRD, the US Embassy in Kosovo, and six local banks (ProCredit Bank, Raiffeisen Bank, TEB, NLB Prishtina, Economic Bank and BKT) have entered into an agreement to establish an Agriculture Credit Guarantee Fund of EUR 20.1 million (or USD 26 million). This fund is the fourth guarantee program from USAID with the Development Credit Authority, but the first one funded through MAFRD. The Government of Kosovo has contributed EUR 2.5 million.

The Kosovo Trust Fund (KFK)
The Agro Window is a new guarantee line that will operate within the KFGK and aims to support agribusinesses by securing loans for this sector. This guarantee line, funded entirely by the German Government with the German Development Bank — KfW, is for the amount of EUR 5.45 million and will focus on supporting lending in the agribusiness sector.
Case study

Mr. Mehdiu is a farmer who has for a long time mostly grown cereal crops. Besides his own property (owned), he has also rented up to 200 ha. He grows mostly wheat and barley for a beer factory and is also a producer of vegetable seedlings and strawberry within greenhouses.

Step 1: Identify the type of investment you would like to make

Mr. Mehdiu bought 37 ha of Socially Owned Enterprise land from Kosovo Privatization Agency (PAK) at the price of 2,800 EUR/ha. After privatization, he invested in raising a fruit plantation (apple & pears) over 10 ha. This was first phase of planned investments. This year, he needs to protect his plantation against hail and for that he needs total financing of EUR 180,000. For this propose he applied for a government grant of EUR 70,000 from MAFRD. Therefore, to complete investment plan, he would need to raise an additional EUR 110,000 from financial institutions.

Therefore Mr. Mehdiu asked for two different offers from the financial institutions in order that can compare and make the best choice.

Offer from financial institution 1

- Loan amount: EUR 110,000.00
- Interest rate: 9.5%
- Loan maturity: 3 years, 4-year maturity possible upon request.
- Quarterly or bi-annual payment
- Effective interest rate: 9.71%
- Instalment amount: EUR 21,570
- Overall effective cost of borrowing: EUR 19,429

Offer from financial institution 2

- Loan amount: EUR 110,000.00
- Interest rate: 8.5%
- Loan maturity: 4 years, Quarterly payments
- Quarterly or bi-annual payment
- Effective interest rate: 8.68%
- Instalment amount: EUR 21,216
- Overall effective cost of borrowing: EUR 22,429
Step 2: 
Estimate your capacity to finance your business plan

Now that Mr. Mehdiu has decided on a concrete investment plan, he must firstly check his equity ratio to test if his business can support the planned debt that he will be taking on.

Estimated balance sheet

Mr. Mehdiu already has an estimated balance sheet based on his accounting information and his own estimates. First, he calculates his current equity ratio.

<table>
<thead>
<tr>
<th>Assets</th>
<th>Value</th>
<th>Liabilities</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working capital</td>
<td>123,500</td>
<td>Short-term debts</td>
<td>48,700</td>
</tr>
<tr>
<td>Cash</td>
<td>45,000</td>
<td>Debt for input suppliers</td>
<td>22,700</td>
</tr>
<tr>
<td>Stock of inputs (seeds, fertilizers, pesticide)</td>
<td>3,500</td>
<td>Short-term facilities from financial institutions</td>
<td>26,000</td>
</tr>
<tr>
<td>Crops in the field</td>
<td>75,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed assets</td>
<td>367,500</td>
<td>Medium &amp; long-term debts</td>
<td>105,700</td>
</tr>
<tr>
<td>Tractors</td>
<td>35,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Machines &amp; equipment</td>
<td>27,500</td>
<td>Long-term loans from financial institutions</td>
<td>105,700</td>
</tr>
<tr>
<td>Land &amp; buildings</td>
<td>195,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total liabilities</td>
<td>154,400</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Equity</td>
<td>226,600</td>
</tr>
<tr>
<td>Total assets</td>
<td>381,000</td>
<td>Total liabilities &amp; equity</td>
<td>381,000</td>
</tr>
</tbody>
</table>

Equity ratio = \( \frac{\text{Equity EUR}}{\text{Total value of assets}} \) = \( \frac{226,600}{381,000} \times 100 = 59.47\% \)

His equity ratio is above the 30% threshold.

Now he must calculate his expected equity ratio, assuming he takes a loan of EUR 110,000 from a financial institution. To do this, he takes the total assets from his balance sheet and adds the value of the investment EUR 110,000.00 to the fixed asset section under plantation (since the investment will be raising of plantation) to reach a new total asset of EUR 491,000. Then he must also add the corresponding liability of EUR 110,000 to the medium and long-term loans from financial institutions since it has a maturity of >24 months to come to the new total liabilities of EUR 264,400.00.

Expected balance sheet

Now that he has adjusted his balance sheet, he can calculate the expected equity ratio:

<table>
<thead>
<tr>
<th>Assets</th>
<th>Value</th>
<th>Liabilities</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working capital</td>
<td>123,500</td>
<td>Short-term debts</td>
<td>12,400</td>
</tr>
<tr>
<td>Cash</td>
<td>45,000</td>
<td>Debt for input suppliers</td>
<td>22,700</td>
</tr>
<tr>
<td>Stock of inputs (seeds, fertilizers, pesticide)</td>
<td>3,500</td>
<td>Short-term facilities from financial institutions</td>
<td>26,000</td>
</tr>
<tr>
<td>Crops in the field</td>
<td>75,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed assets</td>
<td>367,500</td>
<td>Medium &amp; long-term debts</td>
<td>105,700</td>
</tr>
<tr>
<td>Tractors</td>
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<td></td>
</tr>
<tr>
<td>Machines &amp; equipment</td>
<td>27,500</td>
<td>Long-term loans from financial institutions</td>
<td>105,700</td>
</tr>
<tr>
<td>Land &amp; buildings</td>
<td>195,000</td>
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<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total liabilities</td>
<td>154,400</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Equity</td>
<td>226,600</td>
</tr>
<tr>
<td>New Investment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Planting of 11 ha apple plantation</td>
<td>110,000</td>
<td>Long-term loan from financial institutions for new investment</td>
<td>110,000</td>
</tr>
<tr>
<td></td>
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<td>Total liabilities</td>
<td>264,900</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Equity</td>
<td>226,600</td>
</tr>
<tr>
<td>Total assets</td>
<td>491,000</td>
<td>Total liabilities &amp; equity</td>
<td>491,000</td>
</tr>
</tbody>
</table>

Equity ratio = \( \frac{\text{Equity EUR}}{\text{Total value of assets}} \) = \( \frac{226,600}{491,000} \times 100 = 46.15\% \)

Now he must calculate his expected equity ratio, assuming he takes a loan of EUR 110,000 from a financial institution. To do this, he takes the total assets from his balance sheet and adds the value of the investment EUR 110,000.00 to the fixed asset section under plantation (since the investment will be raising of plantation) to reach a new total asset of EUR 491,000. Then he must also add the corresponding liability of EUR 110,000 to the medium and long-term loans from financial institutions since it has a maturity of >24 months to come to the new total liabilities of EUR 264,400.00.
The equity ratio is still comfortably above the 30% threshold.

**Step 3:**
Select conditions that match your business and investment

Interest rate, maturity and effective cost of borrowing: The interest rate offer is fixed for the investment Mr. Mehdiu would like to make. Both the nominal and effective interest rates offered by Institution #2 are slightly better at EUR 8.5% / 8.68% respectively than the interest rate offered by Institution #1 at 9.5% / 9.71%. After analysing the offers and their effective cost of borrowing, Mr. Mehdiu realizes that the maturity has a higher impact on the effective cost of borrowing than the interest rate. Financial institution #1 offers a three-year repayment option, which is effectively cheaper than taking the loan over four years from financial Institution #2.

To double-check that the three-year maturity matches his balance sheet structure, he looks at the expected balance sheet he made in step 2. His short-term debts (EUR 48,700) do not exceed his working capital (EUR 123,000), and his medium- & long-term debts (EUR 264,400) are also less than the value of his total fixed assets (EUR 367,500). Meanwhile, as neither the short-term nor the medium to long-term assets and liabilities are unbalanced, Mr. Mehdiu is reassured that he will not face refinancing problems.

After speaking with both financial institutions he decides that he prefers financial Institution #1. Although financial institution #2 offers a slightly better interest rate, Institution #1 is offering him a lower effective cost of borrowing by offering him the option to repay the loan in three years with bi-annual payments. He also feels that the representative of the financial Institution #1 understands agriculture to a greater degree and has reassures him that in case of any problems, Institution #1 would be more flexible in solving the problems. Institution #1 also inform him that they will offer more favourable conditions (lower interest rate) for future loans. Cumulatively, he is more comfortable with Institution #1’s offer.

**Step 4:**
Select conditions that match your cash flow

In step 4, Mr. Mehdiu needs to make sure that the repayment schedule suits his cash inflows.

**Repayment schedule:** After the financial institution processes his application, they suggest a bi-annual repayment schedule with one instalment in the month of July and the other in the month of November. He knows that in these months he generally has higher inflows than in other months due to the barley/wheat and apple/pears harvest.

**Instalment amount:** To confirm the instalment amount, he double checks his accounts and records for past purchases, sale of crops, receipts and other sources, as well as for VAT payments and reimbursements from last year. Because of damage from frost in the second half of April last year, the yield was much lower (c.60%) than the average of previous years. Due to that, he plans to continue with the same number of hectares of each crop this year. At the end of July of the previous year, after all inflows and outflows for replanting, Mr. Mehdiu had about EUR 50,000 left over, mostly from vegetable seedlings and strawberries, that he was able to reinvest. In November-December of the previous year, after paying all debts, he had EUR 60,000 left over from the apple harvest to reinvest. Considering an instalment amount of between EUR 20,000-25,000 for a loan with a maturity of three years, Mr. Mehdiu realizes that he can easily repay the loan and have some cash left over for other needs that may come up.

**Currency:** All his income is in EUR. The payment for the loan amount will be in EUR.

**Other products:** After discussing his collateral situation, Mr. Mehdiu agrees to decrease the value of the offered fixed assets (land property) for 50% from the market price as a guarantee fund for the total loan amount of EUR 110,000.

**Final result:** A loan from financial institution #1 for EUR 110,000 with an interest rate of 9.5%, a maturity of 3 years, and an effective interest rate of 9.71%. Bi-annual repayments of EUR 21,571 are to be made in July and November. The overall effective cost of borrowing is EUR 19,429. The collateral is fixed assets with a decreased value of the offered fix assets of 50% from the market price.
Flowchart for professional financial decision-making in four steps

**Step 1: Identify the type of investment you would like to make**
- Are you interested in working capital, fixed assets or both?
- Which institutions offer financing for the type of investment you would like to make?
- Which financial product best suits your business plan?

**Step 2: Estimate your capacity to finance your business plan**
- You should double check that your business can comfortably borrow this amount without running into potential difficulties.
- A good rule of thumb is to remember that you should maintain your equity ratio above 30% all the time.

**Step 3: Select conditions that match your business and investment**
- Make sure that your financial institution offers you an appropriate product for your investment.
- Remember that the maturity of your financing should match the maturity of your investment.
- Negotiate with your financial partner to finance a fixed asset investment with longer-term financing at affordable rates to ensure that you do not run into liquidity problems in the future.

**Step 4: Select conditions that match your cash flow**
- Make sure that your repayment schedule matches your cash flow.
- Have the capacity to repay the amount.
- A good rule of thumb is to only accept a loan with repayment schedule that corresponds with the time and currency of your cash inflows.
- Additionally, in your own projection calculations, you should always allow yourself to have extra funds available after paying all your debts for future unexpected needs or investments.
Don't forget to ask

Finally, we believe that your financial institution should not only offer you loans but should also provide you with responsible and transparent advice. Below you will find a checklist of important questions that you should discuss with your financial institution before making your financing decision.

- Does my financial partner’s representative understand agriculture (planting, harvests) and the prices of my crops or livestock?
- Does my financial partner offer me specific products for agricultural finance?
- How quickly can the financial institution provide a response to my application?
- Does the financial institution offer flexible repayment arrangements in the event of harvest problems or natural disasters?
- Are there other special financial products that are affordable and could be beneficial for my business, such as guarantee funds or additional insurance?
- What criteria does the bank apply when assessing if I can use a specific financial product? Is my financial situation, collateral and/or relationship with the bank considered?
- Does the financial institution make an in-depth assessment of my business or only look at my financial statements?
- How does my partner financial institution’s offer look in comparison to other financial institutions’ offers or supplier credit?
- Have I considered all the possible financing options to complete my business plan and compared offers from different financial institutions and/or product-market credits?
- Are the fixed or variable interest rates offered for the financing suitable for my business plan?
- Have I compared and weighed the advantages and risks of taking the fixed or variable interest rate?
- What are the total effective costs of borrowing of each of the offers received?
- Are there other fees or expenses that I must pay, such as obligatory insurance?
- Does the maturity offer match the maturity of my investment?
- Does the maturity offered allow me enough time to comfortably repay the loan?
- Does my partner financial institution offer me repayment schedule options that match my cash flow?
- Do I have enough information to make a comparison and informed choice between all offers?
If you would like to see more details on products and programmes offered in Kosovo please refer to the websites of the institutions listed below.

European Fund for Southeast Europe
www.efse.lu

EU Agricultural and Rural Development Support Program, IPA II 2014-2020
https://eeas.europa.eu/delegations/kosovo/search/site/IPA%20II_en

Ministry of Agriculture, Forestry and Rural Development

Kosovo Guarantee Fund

Sound financial decisions are key to business success. We are confident that the advice given in this brochure, coupled with advice and support from your financial institution, will help you to make the right decisions.