



## FINANCING OF MANUFACTURING ENTERPRISES IN THE BEVERAGES INDUSTRY

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### Abstract

*Today, one of the main sources of development that enterprises in Kosovo have is financing and the type of financing they possess will affect the development of the enterprise and will have an impact on taking the right decisions, decisions which will then have a key role for the business. Enterprise financing is the key segment and is a liaison segment with all the activity of the enterprise and seeing that this subject today in the enterprise is a subject with a source for the development of the enterprise. In evaluating the financial position of an enterprise, its financing plays a key role and it is very important. The economic and financial aspect of enterprise financing is the main object of financial communication between economic entities and its environment. The issue that will be addressed in this paper is related to the financing of manufacturing enterprises in the beverage industry in the country based on research of various findings. The findings resulting from this research will serve as a relief of what strategies companies use in relation to enterprise financing and the research will have a theoretical approach to work based on the theoretical research of various institutes and recommendations which will serve as a process for the well-going of enterprise financing in the country. This paper was combined in the theoretical and practical plane of the financial position of enterprises in our country. The main findings of the paper are the result of theoretical and practical research*

*of the work done. The paper includes in general points the aspect of financial information, its importance in the company and specifically gives various notes on the financing of manufacturing enterprises.*

*Keywords: Enterprise, financial, manufacturing, impact, economic entities, environment*

## **INTRODUCTION**

Taken in its entirety, the company needs thorough analysis in making the final decision, and that the decision is not always proven to be right and appropriate for the company. This always derives from the fact that not all parameters are dealt with and that each parameter does not have the same specific weight, we say it doesn't because the problem such one in the company also comes as a result of not following the regulations or the work code that had to be carried out.

Handling the problem requires in-depth analysis and companies today indisputably must come very quickly to a solution, considering today the business trend makes high-speed progress and decision-making at times has a different connotation as if it takes a different direction to come to a solution.

The financial analyst lessens trust, assumptions (suppositions), and intuition, and this reduces and limits the unavoidable fields linked with decision-making processes. Financial analysis does not reduce the need for judgment, but on the contrary, it builds the complete systematic basis for its rational appliance. Financial analysis is the process of thinking through, working and analyzing accounting data to create a system of indicators for decision-making and not to be based on assumption. We see the efforts to make a financial analysis in every organization provided with financial autonomy: trading societies, firms, associations, public institutions, financial, etc. Balance sheet analysis is a complex justification of data extracted from one or more balance sheets, to be used in the study of specific aspects of direction.

Financial statements provide analysis of the current state of society and assist in the development of policies and decisions for the future. Despite that, it should be noted that the financial directions responsible also for the preparation of the financial statements. Regarding the direction opportunities, the analyst needs to be vigilant in affecting the reporting results of the financial statements to make them more attractive to creditors, investors and other users. Any analysis of financial statements should include careful reading of the notes in them.

A very important indicator in reviewing the financial position of the enterprise is the balance sheet which provides answers to these questions:<sup>1</sup>

- ✓ What is the financial ratio of the enterprise?
- ✓ What is liquidity?
- ✓ Will the company be able to meet its short-term obligations?
- ✓ What is the horizontal financial structure, i.e. in what proportion is the property financed from own and borrowed resources?
- ✓ What is the position of the observed enterprise in relation to similar enterprises?

The significance of financial analysis is highly great since it identifies or diagnoses the issues of the enterprise, the strengths and weaknesses of the enterprise and it helps us to predict or determine the range of future activities.

## **FINANCING OF MANUFACTURING ENTERPRISES**

Manufacturing enterprises are playing an important role in the economic development of the country, they are the main source of new jobs and income generation and have shown rapid revitalization in different periods of time.

Employment has increased continually over different time periods and changes can be seen in different structures within manufacturing enterprises.

Sources of funding for manufacturing enterprises during the post-war period were various international administrations, various foreign donors, as the main goal was their recovery from the damage caused to them during the war. And this was achieved thanks to various donors and various investments of private producers who, as mentioned, also influenced the increase in the number of employees. At that time the main difficulties of financing were the financial means for start-up businesses and they saw financing as very important, where it was endangered by unjust competition, various legal forms, and in reality it obstructed the development of a fruitful business.

Enterprises in terms of financing in addition to own financing which they do with own investments, one other form that enterprises have as own capital is they have benefited from investments from various donors who can invest in various forms, such as manufacturing machinery, financing in employee training, financing with partnership in enterprises, etc.

Based on the research conducted by the Ministry of Economic Development in 2018, we introduce some data where the main investments are focused on infrastructure and water supply, ranking as the most priority investments:<sup>2</sup>

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<sup>1</sup> Ismajli Hysen " Analiza financiare 2" – Lectures, Prishtinë, 2010. page.26

### Water Sector - Current situation

- A. About 1.7 million inhabitants, or 97% of them, are covered by water services,
- B. Wastewater services cover about 1.4 million inhabitants, or 77% of them.

### 2. Coverage with water supply and sewerage services

Realization 2018	Realization 2017
Water supply 97%	94%
Wastewater 77%	74%

### Infrastructure Investments 1999 - 2018

C. Investments in the water sector by donors and the Government of Kosovo, since 1999 -2018, are estimated to be over 400 million euros in total.

The role of manufacturing enterprises in the country belongs to long-term financing because from the financing they benefit will have easier work and work process that they have to develop.

## **ANALYSIS IN THE JUICE AND FRUIT INDUSTRY**

Understanding that the juice and fruit industry is an important element of the study in terms of local products, the GAP institute had made a thorough analysis regarding the juice and fruit system as well as important factors related to domestic production.

There are about seven companies in Kosovo for the production or processing of fruit juices. This sector is divided into two categories: the production of juices with 100% fruit content, and other fruit drinks that have additional sweetening content of concentrate or base<sup>3</sup>.

According to local producers, the development of these enterprises becomes more difficult every year because imported juice products are endorsed highly from the state of origin and this makes local products uncompetitive in the domestic and international trade. Therefore, even after large investments that have been made in recent years in this sector, Kosovo is still not able to meet its needs, and as a result it has a large number of foreign products that dominate the local trade.

The table below features some characteristics of the largest producers of fruit juices in Kosovo<sup>3</sup>.

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<sup>2</sup> Paper Investments in Infrastructure – Ministry of Economic Development, 2018 PDF

<sup>3</sup> Analysis for the juice and fruit industry. GAP Institute, 2016

Table 1. Characteristics of the largest producers of fruit juices in Kosovo

Company	Nr of employees	Average per daily production	Capacity per day / liter	Capacity usage
Fluidi	129	178800	284800	63%
Frutomania	40	3500	15000	23%
Frutex	110	117000	234000	50%
Laberion	72	76712	240000	32%
Devolli	189	29661	43200	7%

Based on the interviews conducted with the enterprises producing and processing fruit juices, in the following we have presented the main problems of this industry. Based on the growing trends of imports, we see that economic policies so far have not been favorable, they have even discouraged domestic production. As stated by the largest companies in the sector the main problems obstructing further development of fruit juice products is high excise, non-tariff barriers with regional countries, lack of electricity, low efficiency and shortage of skilled workers.

#### 1. High excise<sup>4</sup>

High excise is one of the main barriers in the trade of fruit juices containing additional sweeteners. In April 2012, Kosovo Customs informed fruit juice producers that their products are now subject to excise duty. The payment for a produced liter of juice is 4.5 cents (0.045 € / L) excluding juices which contain 100% fruit<sup>5</sup>. This excise initially entered into force in 2009, while companies have been forced to pay starting April 2012. However, despite the damage caused by the implementation of this payment in the fruit juice production sector, another problem arose when Customs of Kosovo announced that the excise payments are bound to be done for the past three years, from the day this decision entered into force.<sup>6</sup> The excise on the production of fruit juices with additional sweetening content, as well as the obligation to be paid retroactively for the past three years, has aggravated the situation of this sector. In the survey conducted with local companies, all interviewed companies state that the high excise tax of 4.5 cents per liter is causing them major financial and business obstacles. Devolli Group, one of the largest producers of fruit juices, has been retroactively charged an excise duty of 1.4 million euros.<sup>7</sup>The high excise payment has already been raised as an issue several times by local

<sup>4</sup> Analysis for the juice and fruit industry. GAP Institute, 2016

<sup>5</sup> Law no. 04 / L-163 on goods exempt from customs tax and goods with zero customs tax rate, <http://bit.ly/1VrQ0Ne>, (accessed on 30.05.2016)

<sup>6</sup> Press conference statement, 04.08.2015, <http://bit.ly/1UdUGat>, (accessed on 30.05.2016).

<sup>7</sup> Interview with Xhelal Radoniqi, Devolli Group company, and Fejzulla Mustafa, Fluidi company interviewed on 22.12.2015.

producers of fruit juice. According to them, the high excise directly affects the price of the final product, and this makes domestic products non-competitive compared to imported ones.

## 2. Non-tariff barriers.<sup>8</sup>

Other barriers that limit the development of the fruit juice production sector are non-tariff barriers with regional countries that are part of the CEFTA organization such as: Serbia, Macedonia, Albania, Montenegro, Bosnia and Herzegovina and Moldova. In international trade, non-tariff barriers are all barriers that have nothing to do with customs tariffs, but obstruct free trade in other forms such as: overloaded and bureaucratic customs procedures, additional requirements for Sanitary and Phyto-Sanitary certificates (SPS), various licenses, corrupt practices, etc. Kosovar businesses have faced numerous customs problems since Kosovo joined CEFTA in 2007. Trade barriers are asymmetric.

Producers of neighbouring countries have no problem with Kosovo customs, while Kosovar producers continuously experience problems with the customs of neighboring countries when exporting their products. According to these producers, non-tariff barriers are mostly encountered in relation to Serbia, Albania and Macedonia. Serbia hinders the export of Kosovar products firstly by not recognizing Kosovo as an independent country, and then other institutions required to certify export such as the Food and Veterinary Agency (FVA), the Kosovo Agricultural Institute and others. The companies Frutex and Fluidi have spoke against of obstacles presented by the Serbian Customs. They constantly complain about Serbian customs forcing the companies to do the sanitary and phyto-sanitary analyzes in Serbia once more, in which case they cause the goods to wait at the customs for 7 to 14 days.<sup>9</sup> These delays in addition to having an additional cost of staying at customs, they can also damage the product due to long stay. The demands from the Serbian Customs are in contradiction with the CEFTA agreement, more precisely with Article 12 of the SPS<sup>10</sup> measures.

## 3. Lack of electricity<sup>11</sup>

Unannounced power outages are among the main problems for companies that are part of the A + category, as well as high seasonal tariffs. Years ago, KEK, KEDS and later KESCO have formed category A + and other categories, which favor some manufacturing enterprises, offering a more regular electricity supply. The initiative was launched to avoid the huge losses caused to factories during power outages. This news, although welcomed by Kosovar companies, initially

<sup>8</sup> Analysis for the juice and fruit industry. GAP Institute, 2016

<sup>9</sup> Interview with the director of the company Fluidi, December 2015

<sup>10</sup> Ministry of Trade and Industry, NTBs in the CEFTA context: The Case of Serbia against Kosovo, May 2015, (accessed 29.03.2016), <http://bit.ly/1T3qcr7>.

<sup>11</sup> Analysis for the juice and fruit industry. GAP Institute, 2016

caused some concerns because to be part of the A + category, advance payment of 25% had to be done a month ahead. This tariff was later reduced to 15%, but is still considered a high cost for many manufacturing enterprises.

#### 4. Low efficiency<sup>12</sup>

Another factor obstructing the development of the fruit juice industry is the low efficiency in production and processing. In the category of juices containing additional sweeteners, the lack of concentrate production in our country is causing high production cost. From the survey with local businesses in this sector, five out of six interviewed businesses complain that the price of raw material is too high. This price has an even higher impact on the final cost of products when calculating delays in customs during the import of concentrate or fruit base. As a result the prices of domestic producers cannot be much lower than those of imported ones which pay more for transport and other costs during import.

#### 5. Qualification of workers<sup>13</sup>

Another barrier in the development of fruit juice production enterprises is the qualification of workers. All interviewed enterprises declared that there are shortages of qualified professionals for production. Among the most demanded and lacking professionals are technologists, electricians, mechanics, and others. Shortage of professionals is causing a high cost in production. Kosovar companies, in most cases, hire workers from abroad who come to Kosovo to maintain production machinery. According to the producers, this is causing uncertainty in the functioning of the enterprise, mainly on occasions when rapid interventions in production are necessary.

## **THEORETICAL CONCLUSIONS AND FINAL RECOMMENDATIONS**

What we would conclude in the theoretical plane is that:

1. Financial resources in most cases are prepared in many different forms and that each company has its own source of information
2. The objective of the analysis determines to a considerable extent not only the nature of the analysis but also the specific sources which are consulted in certain circumstances.
3. Financing in the economy has an interrelated importance around the development of the business cycle, financial trades and analysis of financial statements and among the factors discussed in financing the enterprise are financing structures, financing challenges, debt collection and many other factors. .

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<sup>12</sup> Analysis for the juice and fruit industry. GAP Institute, 2016

<sup>13</sup> Analysis for the juice and fruit industry. GAP Institute, 2016

4. Financial trades and analysis of financial statements are important in the role of enterprise financing, taken as a whole are many relevant factors as are other important factors in the economy.
5. Financial markets have experienced, especially in the last thirty years, a strong expansion that has been influenced by many factors such as: the laws of globalization of the world economy, deregulatory trends in countries with developed trades etc.
6. Financial decision-making is a very important component of financial management because through decision-making are created the preconditions for the development of the financial operating process.

From what we have analyzed so far in the theoretical field we conclude recommendations such as:

1. Expand the sources of information, from the aspect of the source of information, companies should work in the field of online information, to give access to field managers, because they will be the main source of information on changes in the trade.
2. Change the form of funding - be more demanding of grant benefits, grant applications as well as be more persistent and start other inovative investments.
3. And the last recommendation, the decision-making access to management to be more extended, not only from the board of directors, but to seek information and meetings from other managers who are part of the company.

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