

THE ANALYSIS OF BUSINESS CREDITING IN AGRICULTURE

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Abstract: Agriculture has always been an important sector in our country, and business in the agricultural sector has considerable development potential. Banks understand that entrepreneurs and companies in this sector need long-term support. Regardless of the business field (fruit growing, organic farming, animal husbandry), banks provide customers with loans for advantageous agriculture. Loans for agriculture also cover a diverse range of investments: agricultural land, silos, agricultural machinery and equipment..

Key words: loans, agriculture, investments

INTRODUCTION

Located in the Southeastern Europe, at the crossroads of the major communication axes North-South and East-West, Romania represents the sixth largest usable agricultural area from Europe. Approximately 61.3%, or 14.5 million hectares, of the total area of Romania is represented by agricultural land, from which 64.2%, equal to 8.58 million hectares consists of arable land.

However, the efficiency of agricultural production is currently extremely low, being influenced by various factors [10]:

- insufficient mechanization
- fragmentation of agrarian properties
- lack of capital
- lack of professional education for agricultural workers.

In 1993 the share of agriculture in the Gross Domestic Product was 22.6%, but in 2015 it's value barely reached 5% of GDP (Figure 1). This decrease was determined by structural transformations of Romanian economy after 1990, which transitioned from a mainly agrarian economy to service-based economy [11, 12, 16].

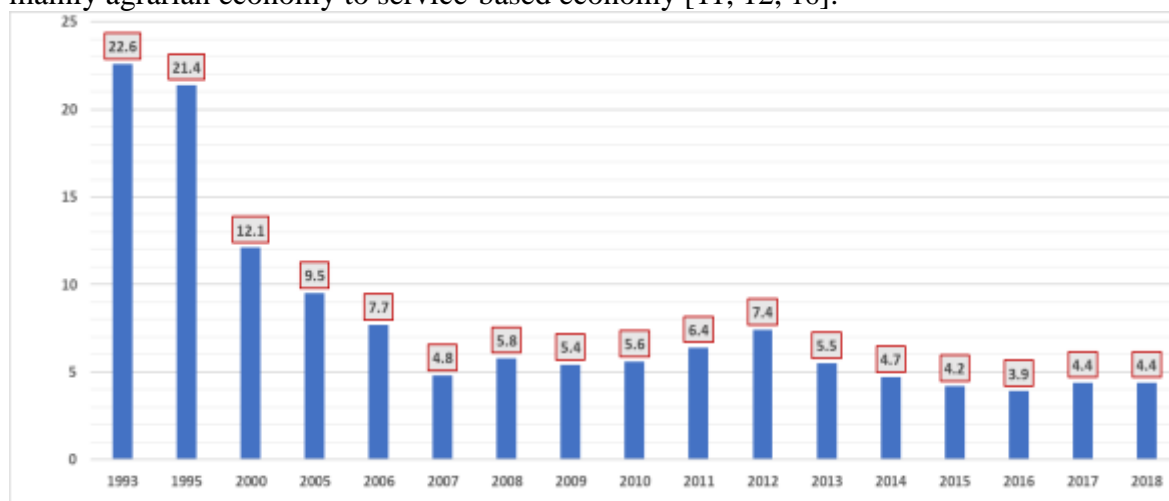


Figure 1. The contribution of agriculture to GDP formation (%)

Source: Author's interpretation of data collected from MADR and <https://www.zf.ro>

Another factor with negative impact on Romania's agricultural sector is the inability to adapt to the demands of the free market economy. Adopting different strategies for development compared to the countries of western Europe, Romania's economy was

strongly influenced by the Socialist model for agricultural development and modernization, characteristic of the Eastern Bloc. At the end of the twentieth century, after the fall of the socialist regime it was proved that this system is inadequate for alignment with the western policies, oriented towards capitalism.

Not only the agricultural sector of Romania was negatively affected by the socialist policies, but also the economic and banking sector. In the period of time that immediately followed the Second World War, between 1944 and 1946, the banking system of Romania was composed of the National Bank of Romania and 232 other private banks, but the year 1947 brought a fundamental change, both in the economic life of country as well as political life. Romania became on December 30, 1947, by the forced abdication of King Michael I, the Romanian People's Republic. Part of Romania's communication plan includes the directive to abolish all private banks, the National Bank of Romania being nationalized and reorganized, becoming in 1948 the RPR Bank- State Bank and in 1965 the National Bank of the Romanian Socialist Republic [1, 2, 3].

After the events of 1990, the National Bank of Romania resumed its initial degree, being actively involved in the transition to the market economy and assuming the regular functions of a central bank. At the same time, four more banks were set up: Romanian Commercial Bank; The Agricultural Bank; Romanian Foreign Trade Bank; C. E.C.

This events represented the beginning of banking and economical development of Romania, the present banking system being noted by the existence on the market of numerous banks, financial institutions and lending possibilities made available by them.

MATERIALS AND METHODS

The present paper aims to present some options for financing and crediting agricultural business development and overall the agricultural system of Romania.

The method used to achieve this goal is to present lending options offered by five active banks on the Romanian market and the opportunities they offer to the customer when contracting.

The 5 banks whose financing options are studied in this material are [7, 10]:

- Transilvania Bank (Banca Transilvania) ;
- Raiffeisen Bank;
- Credit Agricole Bank;
- ProCredit Bank;
- Patria Bank.

The data used to carry out this study are taken from the websites of each banking institution presented, and reinterpreted to agree on the method of presentation used in this paper.

RESEARCH RESULTS

Romania is currently in a time of evolution and development in the agricultural sector, being supported by the state institutions responsible for sustainable development but also by the economic system, many banks in Romania granting credits and financing to encourage the development of agriculture.

Credit [4,5,6] is a money relationship that is established between the lender (the natural or legal person) who gives a loan and the debtor (the natural or legal person) who receives the loan or buys the debt, the loan granted.

All the five banks presented (Table 1) above grant credits and financing specialized for the needs of farmers and farm owners, thus contributing to the growth of the economy.

Table 1.

Most common credits and financing options offered by the studied banks

	Banca Transilvania	Raiffeisen Bank	Credit Agricole Bank	Patria Bank	ProCredit Bank
APIA	x	x	x	x	-
Work and storage spaces	x	-	Financing solutions	-	AgroInvest
Agricultural land	x	-	x	x	AgroInvest
Machinery and equipment	x	-	x	x	AgroInvest
Crop foundation and maintenance	x	x	x	-	AgroSeazonal AgroFlexibil
Line of credit	x	x	-	-	x

Source: Author's interpretation of data collected from <https://www.bancatransilvania.ro>, <https://credit-agricole.ro>, <https://www.procreditbank.ro>, <https://www.patriabank.ro>, <https://www.raiffeisen.ro> [8, 9, 13, 14, 15]

Among the most widespread types of loans for agriculture in the banking sector is the Credit for financing the subsidies offered by the Agricultural Payments and Intervention Agency- APIA (Table 2). Most banks that offer this type of credit focus on the subsidies granted through the Single Area Payment Scheme (SAPS) and on animal welfare subsidies (Measure 14).

Table 2.

Banks granting the credit for APIA subsidies

	Banca Transilvania	Raiffeisen Bank	Credit Agricole Bank	Patria Bank	ProCredit Bank
Destination	Covering current expenses until the subsidy is received				-
Currency	LEI				-
Time period	Until payment of subsidies by APIA				-
Amount	85% of the subsidy amount	90% of the subsidy amount	80% of the subsidy amount	85%-90% of the subsidy amount	-
Guarantee	The Subsidy to be received				-

Source: Author's interpretation of data collected from <https://www.bancatransilvania.ro>, <https://credit-agricole.ro>, <https://www.procreditbank.ro>, <https://www.patriabank.ro>, <https://www.raiffeisen.ro> [8, 9, 13, 14, 15]

Another type of loan to assist the farmers are loans for purchasing specific constructions destined for agricultural activities (warehouses, greenhouses, solariums, production facilities), agricultural land, machinery and equipment required for the proper conduct of business.

Three of the five studied in this paper banks grant financing for agricultural constructions (Table 3).

If the farmers want to expand their business, but do not have the necessary budget, they can access the credit for the purchase of agricultural land (Table 4).

Businesses in the agricultural sector have become increasingly popular in recent years. Agriculture has always been an important sector in Romania, which is why banks continue to support the businesses developed in this field and by purchasing new or old equipment (Table 5).

In addition to these loans, intended for investments in the farm, some banks also provide financial aid for establishing and maintaining crops (Table 6).

Another short-term financing option to cover the current needs of the farm is the credit line (Table 7). Three of the five banks studied offer this type of credit, specialized for the needs of a farm.

Table 3.

Financing for agricultural buildings

	Banca Transilvania	ProCredit Bank	Credit Agricole Bank
Destination	Construction, acquisition, modernization, extension of activity-specific spaces	AgroInvest Loan - intended for farmers with at least one season of experience in agriculture	Credit Agricole Bank offers dedicated solutions for financing the modernization and construction of agricultural buildings.
Currency	LEI or other currency	- Offer full financing for any investment needed in the farm, including the construction of professional agricultural spaces	- The credit amount and the repayment schedule are established together with the specialists, correlated with the specificity and the frequency of the agricultural activity
Time Period	120 months- construction or purchase 84 months- extension or modernization	- The maximum repayment period is 15 years (180 months)	
Amount	80%- 85% of the total amount	- The reimbursement is made in seasonal installments, adapted to the specific of the agricultural activity	
Guarantee	The asset financed by credit and / or other deductible assets		
Refund	Flexible, correlated with the specificity of the activity		

Source: Author's interpretation of data collected from <https://www.bancatransilvania.ro>, <https://credit-agricole.ro>, <https://www.procreditbank.ro> [8, 9, 13]

Table 4.

Financing for agricultural land

	Banca Transilvania	Patria Bank	Credit Agricole Bank	ProCredit Bank
Destination	Land purchase for agricultural exploitation			<i>AgroInvest Loan</i> Intended for farmers with at least one season experience in agriculture
Currency	LEI			
Time period	180 months	120 months	120 months	Provides full funding for any investment necessary to the farm, including the acquisition of agricultural land
Amount	2.000.000 LEI but not more than 85% of the investment cost	100% of the investment cost	90% of the investment cost but not more than 1.000.000 EUR equivalent in LEI	Maximum repayment-period is 15 years (180 months)
Guarantee	The asset financed by credit and / or other deductible assets			The reimbursement is made in seasonal installments, adapted to the specific of the agricultural activity
Refund	Flexible, correlated with the specificity of the activity	Seasonal rates/ equal monthly installments/ customized monthly installments	Monthly interest and capital, based on a customized repayment schedule	

Source: Author's interpretation of data collected from <https://www.bancatransilvania.ro>, <https://credit-agricole.ro>, <https://www.procreditbank.ro>, <https://www.patriabank.ro> [8, 9, 13, 14]

Table 5.

Financing for agricultural machinery and equipment

	Banca Transilvania	Patria Bank	Credit Agricole Bank	ProCredit Bank
Destination	Purchase of specific machinery for the agricultural activity			<i>AgroInvest Loan</i> Intended for farmers with at least one season experience in agriculture Provides full funding for any investment necessary to farm, including the purchase of specific equipment in the agricultural sector Maximum repayment-period is 15 years (180 months) The reimbursement is made in seasonal installments, adapted to the specific of the agricultural activity
Currency	LEI or other Currency		LEI	
Time period	84 months	84 months	84 months > 100.000 EUR (equiv. in LEI) 64 months < 100.000 EUR (equiv. in LEI)	
Amount	80%-85% of the that amount	related to needs and repayment capacity	90% of the total amount without VAT	
Guarantee	The asset financed by credit and / or other deductible assets			
Refund	Flexible, correlated with the specificity of the activity	Flexible, correlated to the income of the agricultural farm	Monthly interest and capital, based on a customized repayment schedule	

Source: Author's interpretation of data collected from <https://www.bancatransilvania.ro>, <https://credit-agricole.ro>, <https://www.procreditbank.ro>, <https://www.patriabank.ro> [8, 9, 13, 14]

Table 6.

Financing for covering the costs generated by the agricultural campaign

	Banca Transilvania	Raiffeisen Bank	Credit Agricole Bank	ProCredit Bank
Destination	Covering the costs generated by the agricultural campaign			<i>AgroSeasonal Loan</i> Intended for farmers with at least one season of experience in agriculture. Provides funding of up to 30,000 EUR / 120,000 LEI over a period of maximum 4 years, with flexible repayment possibilities. The loan is intended for the purchase of materials for the establishment and maintenance of agricultural crops or the purchase of animals for breeding, meat or milk
Currency	LEI			
Time period	24 months	12 months	18 months	
Amount	1.000.000 without guarantees or 1.200.000 partially guaranteed but not more than 1.000 LEI/ha	---	Maxim 1.000.000 EUR (equiv. in LEI)	
Guarantees	Agricultural land, buildings for residential use, agricultural equipment and / or mixed FGCR guarantee and agricultural crops	Goods / stocks obtained through financing	Real estate guarantees for amounts greater than 100.00 EUR	
Refund	Flexible reimbursement, correlated with the time of harvesting and recovery	Flexible, correlated to the income of the agricultural farm	Monthly interest, capital based on a customized repayment schedule	

Source: Author's interpretation of data collected from <https://www.bancatransilvania.ro>, <https://credit-agricole.ro>, <https://www.procreditbank.ro>, <https://www.raiffeisen.ro> [8, 9, 13, 15]

Table 7.

Credit Line			
	Banca Transilvania	Patria Bank	ProCredit Bank
Destination	Financing the current activity		
Currency	LEI		
Time Period	24 months	12 months	---
Currency	Calculated according to farm needs and repayment capacity		
Guarantees	Agricultural land, buildings for residential use, agricultural equipment and / or mixed FGCR guarantee and agricultural crops	Adapted to the possibilities of the farm	---
Refund	The possibility of extending the credit line with the same period, after 24 months.	Monthly calculated interest for the amount used The reimbursement is correlated with the cash flow	Interest based on the amount used; possibility to increase the credit line during the funding period

Source: Author's interpretation of data from: <https://www.bancatransilvania.ro>, <https://www.procreditbank.ro>, <https://www.patriabank.ro> [8,13, 14]

CONCLUSIONS

The previous presented data confirm the fact that in the present time the agrarian sector of Romania is in a period of expansion and modernization.

Together with the state institution and programs responsible with sustainable development of the agricultural segment, like The Ministry of Agriculture and Rural Development (MADR), The Payment Agency for Rural Development and Fishing (AFIR), National Rural Development Programme (PNDR), the financial institution on the Romanian market encourage the development in this sector of the economy.

In order to achieve the desired outcome and a development level comparable with the west European states, the agrarian sector needs to make efforts for:

- increasing productivity of the agrarian sector, by investing in the infrastructure (irrigation projects, agricultural roads);
- encouraging the establishment and development of small farms and family businesses (financing, education and counseling projects);
- encouraging the deployment of products on the national market and the construction of agri-food processing units;
- the modernization of the agricultural sector through investments in technology and mechanization.

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