AGRICULTURAL CREDIT - FACTORS OF INFLUENCE AND DYNAMICS OVER TIME

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Abstract: *In the market economy, credit is granted by holders of money capital to other individuals and legal entities, who generally use it in an active way. Agricultural and rural credit must be developed through a special banking system or through special funds managed by commercial banks. Farmers are disadvantaged from the start in the competition for loans. Many farmers do not have the minimum knowledge to draw up an investment plan on which to apply for loan financing. Investments in agriculture are considered to have a higher risk than in other sectors: unpredictability of climate action; possible natural disasters; poor development of the insurance system in agriculture. Although the speed of capital movement in agriculture is higher than in other sectors (production cycles in most vegetable production and in part of animal production are annual or even biannual or multiannual), risk factors are assessed by banks as more important than the advantages of a high speed of capital movement.*

Key words*: agriculture, agricultural credit, dinamics, features*

INTRODUCTION

The entrepreneur must provide the necessary funds to create the three main types of capital used in the activity [8,12] :

- fixed capital – immobilized in fixed assets, with the role of forming the permanent funds of the company (buildings, land, vehicles, equipment, installations, machinery, etc.) and which constitute the infrastructure to support the company;

- working capital - which represents the company's working capital and ensures the continuity of the activity;

- development capital - which is affected by the expansion of the business, the change of the initial direction of the activity and its diversification.

As a rule, the loan is granted from an inactive, unused capital, as well as from the temporarily available money capital, which is found in search of investments. Credit does not act in isolation but in close connection with other levers and economic activities. In all economies, credit is closely linked to finance. Moreover, the two notions, finance and credit, intertwine to such an extent that credit is considered part of financial activity.

In the market economy, credit, due to the important role it plays, along with finance, is one of the main drivers of the entire economic and social gear.

Through its rational use, credit contributes to [3,4, 6,7]:

• satisfying the balance between supply and demand;

• increasing the productive power of capital and ensuring a large volume of products;

• concentration of capital and financing of large investment objectives or large shares of production;

• rhythmic making payments to suppliers and eliminating or at least reducing them the possibility of financial blockages in the chain.

In the case of its irrational use, credit can also have a detrimental role in the economy, by the appearance or aggravation of inflation, by injecting a larger volume of credit, compared to the concrete requirements and conditions of a country's economy at a given time.

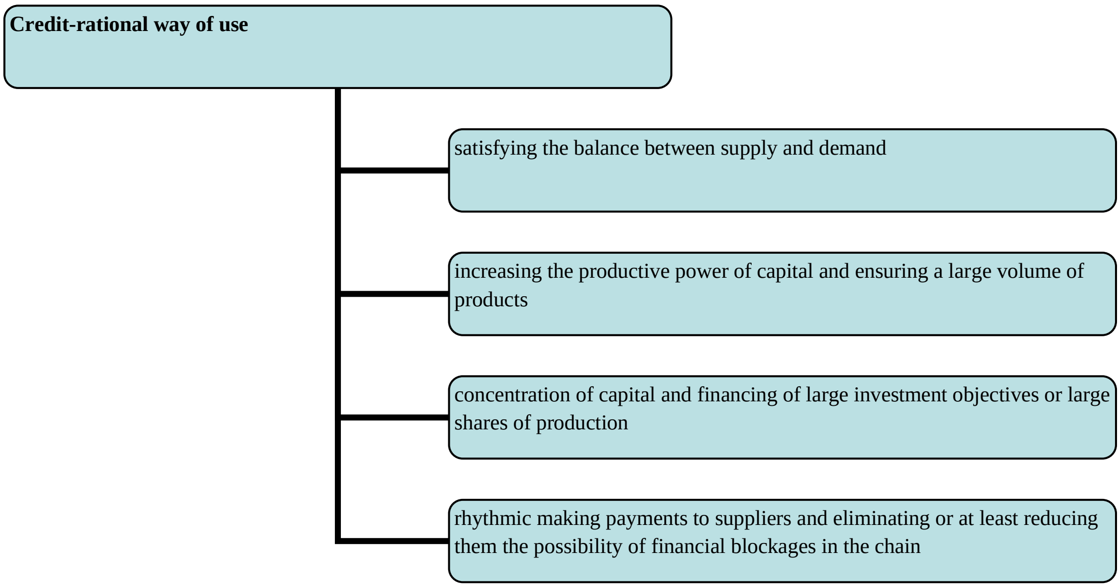

Figure 1. Credit-rational way of use

Agriculture, the third largest branch of the national economy in terms of the share of gross value added in GDP, by services and industry, faces with a reduced access to credit by commercial banks, as they perceive the agricultural sector as high-risk compared to other areas to which banks focus their financial resources. This phenomenon is due both to factors related to the environment and economic stability at national level, as well as to specific factors that influence the demand and supply of loans for agriculture.

MATERIALS AND METHODS

The purpose of this paper is to make an x-ray of the issue of agricultural lending. in order to achieve the established desideratum several aspects were followed:

- Factors with a positive influence on the demand and supply of agricultural loans
- Factors with a negative influence on the demand and supply of agricultural credit
- Agricultural credit in Romania during 1945-1990 and after 1990.

As a methodology, the analysis of several sources of information, the selection of information and the presentation of some representative aspects were used.

RESEARCH RESULTS

According to a study conducted by the NBR, the main factors influencing credit for agriculture are:

I. Factors with a positive influence on the demand and supply of agricultural loans

- high agricultural potential in all areas of the country, Romania having natural and pedo-climatic conditions among the most favorable in Europe;

- the rural financing project developed as a result of the conclusion on April 30, 2001 of a loan agreement with the International Bank for Reconstruction and Development (ratified by GEO no. 8/2002, approved by Law no. 307/2002) stimulates the term short and medium capitalization of the rural sector and increasing the interest of banks and other financial institutions to engage in the provision of services to this sector;

- improving the legal framework regarding agricultural insurance by adopting Law no. 381/2002 regarding the granting of compensations in case of natural calamities in agriculture and of GEO no. 157/2002 for completing the Lease Law no. 16/1994, both normative acts stimulating from different directions the insurance of crops and those of animals, following to produce effects starting with the year 2003;

- the non-collection commissions for the granted credits, which constitutes an incentive for the contracting of credits by the agricultural producers natural persons and the producers' associations;

- the long repayment period of the credits contracted within the Rural Financing Project;

- diversification of financing sources.

II. Factors with a negative influence on the demand and supply of agricultural credit

- delays in the process of privatization and sectorial restructuring;

- the land market with a malfunction combined with the negative structural characteristics of land ownership, such as fragmentation, incomplete restitution of property titles, improper registration process make the land too risky to use as collateral;

- high prices charged by storage agencies (with majority state capital) discourage agricultural producers from using their services;

- fragmentation of agricultural property by applying Law no. 1/2000 led to the massive reduction of the areas worked by the former IAS and to the loss of the traditional clients of the banks;

- small properties, resulting from the restitution, represent over 70% of the agricultural land, areas on which a high-performance agriculture cannot be practiced, reason for which the agricultural producers are difficult to convince to ensure the agricultural crops;

- the risk of calamities, the financial impossibility to conclude insurances against natural calamities for the lands in exploitation and the deficient insurance system (Law no. 381/2002 on granting compensations in case of natural calamities in agriculture will have positive effects on the mentioned aspects starting with the year 2003);

- the small number of financial institutions through which the Rural Financing Project is being carried out so far (two commercial banks and a leasing company) causes a weak competition between them;

- the reduced availability of the amounts allocated by the World Bank and the difficult development of the Rural Financing Project, so far being partially operational only its first component "Granting of rural loans and leasing facilities" (less the microcredit activity to be run through non-governmental organizations);

- lack of banking expertise in assessing the risks specific to this activity;

- low education, insecurity and low profitability discourage agricultural producers to orient to credit;

- information barriers accentuated by the lack of experience in granting loans for agriculture;

- lack or insufficiency of guarantees;

- limited availability of guarantees; collateral assets cannot be easily sold. Most economic agents in this sector do not own the land they cultivate, but it is leased. In fact, the land offered as collateral is accepted by banks, but at a low value, and the agricultural inventory is largely depreciated and has a low value.

In agriculture, the biological factor, the biological laws that govern the production process determine, mainly, that the regeneration of funds, of capitals, to be done much more slowly than in the cases of other branches of production.

Several types of intervention are already practiced in this field: loans with preferential interest, the purchase of agricultural machines at subsidized prices, the payment by the agricultural purchaser of only a part of the price of the agricultural machine, the difference being covered by special funds of public budgets; providing phyto-sanitary assistance; exemption from taxes on agricultural production. These policies have had visible effects, but the capital mobilized for this purpose is insufficient for a major modernization of agricultural holdings. Many banks are reluctant to provide significant loans to agricultural entrepreneurs who do not have sufficient professional and managerial skills. Once again, the negative consequences of the shortage of schooling and qualifications in rural areas can be seen.

The system of fiscal and banking facilities for agriculture needs to be greatly improved. In 2001, the first important steps were taken in this direction; the system of facilities risks being completely misappropriated for the benefit of trading intermediaries, the agricultural producers to whom these facilities were addressed are increasingly excluded from them.

The widespread use of agricultural and rural credit must also overcome some reluctance on the part of rural people. The collective memory preserves the memory of some older periods in which the agricultural credit was used for the dispossession of some peasants by their land. There are no precise analyzes of the factors that led to the great difficulties of agricultural credit in the 1920s and 1930s (due to high interest rates by banks; due to farmers' inability to use credit; due to the great economic crisis of 1929-1933; due to the action of other factors). Such analyzes would avoid the repetition of mistakes made in the interwar period. It might seem like an exaggeration to learn something from the experience of 70 years ago. In reality, in many aspects, the situation in agriculture in 2002 is similar to the situation in agriculture in 1932 (there is even an advantage in 1932, because then there were large farms, relatively modern, which produced massively for the international market, making Romania one among the world's leading exporters of agricultural products (in 2002, the large agricultural farms that remained went through extremely difficult economic situations, and their contribution to the supply of world agri-food markets is insignificant).

Over time, over its approximately 125 years of existence, agricultural credit has taken various forms: rural land or mortgage credit, agricultural credit and personal credit.

Agricultural credit in Romania during 1945-1990

The socialist way of production, established after 1945, determined great changes in the credit system, in defining the role and place of credit in the Romanian economy. Thus, after 1945 the essence of the credit became completely different, the agricultural credit being restructured and reorganized in three main stages:

1.Nationalization of the National Bank and monetary reform

Shortly after the nationalization of the National Bank, the specialized banks for agriculture were abolished. Through its territorial agencies, the National Bank took over all agricultural lending operations. The monetary reforms that followed further accentuated the monopolization of the entire financial, credit, and money circulation system by the communist regime. With regard to agriculture, the scope of lending has been restricted.

In order to benefit from the credits, the agricultural producers’ applicant had to be included in the production plans of the Ministry of Agriculture and Food. If the economic units had a profile of food industry, the credits were granted for sugar and oil factories, dextrin factories, preserves, starch, glucose, beer, sugar products, mills. The loans were issued according to the current regulations, established under the annual needs, the difference being covered by bank loans. The main lending objectives were the supply of raw materials and various goods, as well as the payment for works and labor force.

There were also special loans, granted for goods in shipment and unfinished production, support for newly established agricultural activities, exploitation and investment needs of agricultural cooperatives.

2.Establishment of the Agricultural Bank, which operated between 1945-1961

During this period, agriculture began to raise many credit problems both due to the increase in production volume, but also to the creation of gaps in working capital and financial losses at state agricultural units, and due to the emergence and development of agricultural cooperation. The scope of lending has increased quite a lot, the loans granted through the Agricultural Bank being used directly for the payment of suppliers. A novelty for the agricultural production cooperatives was the granting to the Agricultural Bank of some credits for contracting agricultural products, called arvune or advances.

As a result, during the operation of the Agricultural Bank, important progress was made in the line of agricultural lending. With its abolition in 1961, another step was taken on the inefficient and even bankrupt way of excessive centralization of the entire economic and social activity.

3.Establishment in 1968 of the Bank for Agriculture and Food Industry

A specialized bank, coordinated by the Ministry of Finance and the National Bank implement financial and credit policy in agriculture. Despite the fact that it carried out its activity in a totalitarian regime, the Bank for Agriculture and Food Industry tried, with its limited possibilities, to help Romanian agriculture. In this way, this banking institution continued the tradition of banks that supported agriculture.

The agricultural credit [13,14] was considered, by the communist system in Romania, as representing the money granted by the state to agricultural enterprises for the normal development of the production process (short-term loans) or for financing investment works (long-term loans). In carrying out the activity of the Bank for Agriculture and Food Industry there were a number of deficiencies, as follows:

- almost no attention was paid to individual agricultural producers or to the personal households of the cooperators;
- there were too many credit limits and restrictions, so that the process of agricultural development was slowed down compared to some of the possibilities that large agricultural production usually has;
- sometimes the Bank became a central budgetary institution, canceling some outstanding loans and other debts, which meant, in fact, that it helped some large socialist agricultural units (IAS or CAP) to stay in a state of operation, even if they were bankrupt;
- the loans for small agricultural mechanization granted by the Bank were abolished, although they represented for some agricultural units, the efficient means of carrying out the activity.

Despite all the shortcomings presented, this institution represented a strong link in the apparatus and credit system of that period and a permanent support of agriculture in its struggle for survival at a time when it was very neglected and disadvantaged.

Agricultural credit in Romania after 1990

The general economic environment and the financing policies of agriculture did not give an advantage to the development of the agricultural credit system. Thus, we can say that after 1990, the crediting of agriculture was reduced, mainly due to the following causes:

• land reform, which led to the formation of over 4 million peasant households whose economic organization in viable forms of exploitation to resort to credit proved to be slow;

• the negative effects of the macroeconomic reform (inflation, high interest rates, etc.), of the much too slow privatization process regarding the state sector of agriculture and food industry;

• low performance in agriculture.

The credit schemes used after 1990 for the financial support of agriculture were mainly the following:

• the system of loans with preferential interest (subsidized) and of directed loans;

• the system for promoting investments through leasing.

Thus, agricultural producers could benefit, through financial or banking instruments, from the following types of loans:

• short-term loans, with subsidized annual interest in proportion of 60%, for material supply and achievement of agricultural production;

• medium-term loans, with an annual subsidized interest rate of 70%, intended for the purchase of equipment, tractors, agricultural machinery and equipment, production and breeding animals;

• long-term loans, with a subsidized annual interest rate of 75% and a grace period of one year, in order to make investments for the construction of animal husbandry shelters, production and storage spaces, greenhouses, orchards, introduction and expansion privately owned agricultural land and irrigation.

Although modern agriculture must be based to a large extent on the financing of the activity, especially through credit for investments and production, currently in Romania the level of agricultural credit is low, almost non-existent.

The credit systems with preferential interest and the directed one practiced until the year 2000, were replaced with a new credit system that we consider stimulating for agriculture, both for the current production activity and for the realization of investments, provided in Law no. 150/2003 regarding the agricultural credit for production and Law no. 231/2005 on stimulating investments in agriculture.

Agricultural credit for production (regulated by Law no. 150/2003) represents an economic-financial instrument of agricultural policy through which the current activities of agricultural production are supported, established as a priority by the Ministry of Agriculture, Forests and Rural Development, through which the following requirements are ensured:

• the current activity of agricultural production can be financed from the agricultural producer's own funds and from bank loans, without interventions and implications on the money market;

• the beneficiaries of the facilities offered by the Law on agricultural credit for production may be agricultural producers natural or legal persons, who exploit, under the law, agricultural or livestock land for the purpose of obtaining agricultural production for sale, as well as authorized natural and legal persons technique and specialization in the execution of services for obtaining agricultural production;

• the loans are granted with current interest under the conditions of observing the provisions of Law no. 58/1998, with the subsequent modifications and of the own crediting norms;

• the maximum period of loan repayment and the payment of the related interests is established according to the specific agricultural technologies and is correlated with the period of capitalization of the production, but without exceeding 360 days;

• the loans granted can be guaranteed by the Rural Credit Guarantee Fund or by other commercial companies, as well as by the borrower, for a greater security in their repayment;

• the beneficiaries who repay the loans and pay the interest due on the due terms, provided in the loan agreements, benefit from a non-reimbursable budget allocation of up to 30% of the loan volume, which is established annually by government decision, at the proposal of the Ministry of Agriculture, Forests and Development Rural;

• the obligation to verify the observance of the destination of the granted credits belongs to the specialists within the territorial general directorates for agriculture and rural development.

The credit for investments in agriculture (regulated by Law no. 231/2005) is an economic-financial instrument through the use of which the following requirements are ensured:

• stimulating investments made in agriculture and in the sectors of processing, storage, conservation and capitalization of products, as well as in other sectors related to the specifics of agricultural activities;

• the beneficiaries can be individual agricultural producers registered in the Register of agricultural holdings, family associations, associations of agricultural producers, private agricultural companies, respectively agricultural associations with legal personality, as well as commercial companies with private capital, which must cumulatively meet the following conditions: or to develop farming activities as well as the processing, preservation, storage and recovery of products and to propose a feasible business plan to demonstrate that investments are necessary, timely and efficient;

• the terms of loan repayment and interest payment are established by negotiation, the maximum repayment term being 10 years, and the grace period can be between 1 and 5 years, depending on the specifics of the investment project;

• they can be guaranteed by the guarantee funds and/or by the borrower through: certificates of deposit, rural guarantees on animals, agricultural machinery and equipment, mortgage on agricultural buildings and lands, plantations or any other guarantees agreed by credit institutions;

• the loans are granted with the current interest, in compliance with the provisions of Law no. 58/1998 regarding the banking activity;

• the cost regarding the elaboration of the granting documents is supported from the fund and will not be able to exceed 3% of the volume of granted loans;

• the beneficiaries have the obligation to respect the destinations for which they were granted, otherwise they are sanctioned according to the legislation in force.

Agriculture, the sector with the most dynamic credit, registered at the end of the first nine months of 2020 a value of loans granted and committed by credit institutions in Romania of 20.8 billion lei, increasing by 12% compared to the same period of 2019, according to NBR data. This sector has seen sharp increases in recent years, but nevertheless the share of agriculture in the total loans granted by banks on the local market is still small, at only 4.7%. In the context in which the majority of large banks in the market have intensified their sectoral lending programs, the dynamics of financing for agriculture is not surprising, especially since it is a segment in which both banks as well as the European Union have emphasized in recent years [15].

Families and agricultural associations need more than ever a flexible financial partner adapted to the current needs arising from the new configuration of land ownership. At present, the aim is to make the most useful use of agricultural credit, in order to achieve a much higher economic efficiency, so that it can become a factor in the progress of agriculture. Thus, the modernization of Romanian agriculture and the approximation to the standards of the European Union require the relaunch and intensification of the investment process and the improvement of the crediting framework of this sector [1,2,10,11].

Table 1.

Agriculture lending Romania-2019 versus 2020

Balance Sept.2020	Balance Sept.2019	Variation
20.8	18.6	12%

Source: https://www.zf.ro/banci-si-asigurari [15]

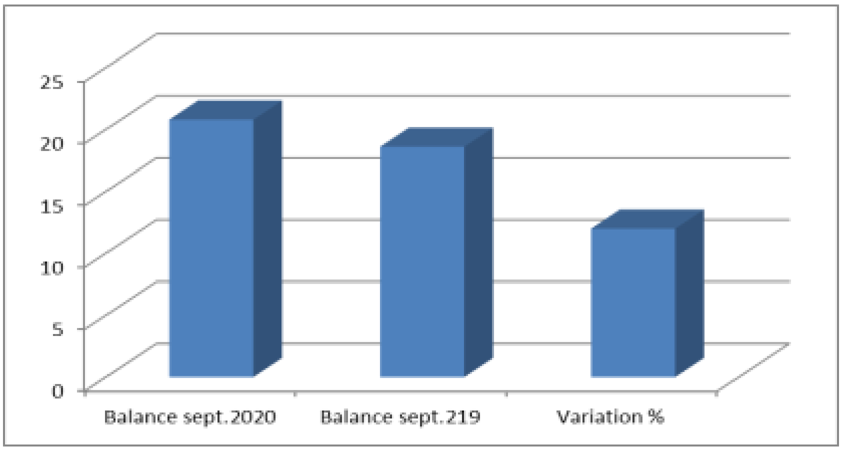

Figure 2. Agriculture lending Romania -2019 versus 2020

The Romanian rural economy is mostly dominated by agriculture, whose predominant feature is the very large share of subsistence farms, which produce mainly for self-consumption, selling on the market only marginally [5,9].

The problem of farmers' access to financial resources is recognized by all actors involved, including resource providers, banks. They admit that agriculture is not an area in which they are willing to invest, perceiving it as having a high degree of risk compared to other areas to which banks focus their financial resources. This phenomenon is determined both by factors related to the environment and economic stability, as well as by specific factors. However, farmers also face insecurity and low profitability of their activity, which discourages them from using loans.

After 1990, Romania benefited from technical and economic assistance from international institutions and organizations, mainly through various programs, activities of the World Bank, the International Bank for Reconstruction and Development, the European Bank for Reconstruction and Development, etc. External funding sources can be grouped into:

• repayable, granted by various banks and non-governmental organizations in the form of loans, microcredits and technical assistance;

• non-reimbursable, granted in the form of grants, community support through various programs in the field of agriculture and rural development.

The loans were granted mainly by the World Bank to support Romania to achieve economic recovery, providing advice and financing for the implementation of reform in the agricultural sector.

Microcredit and technical assistance have been provided by non-governmental organizations funded by foreign governments or external donors through various development programs. Grants usually include technical assistance needed to implement projects.

CONCLUSIONS

The organization of credit for agriculture was necessary primarily due to the large share that agriculture had in the Romanian economy, as well as the fact that 83-87% of the active population worked in this branch. Also, agriculture was the basis of Romanian exports (60% of it). As many of the landowners and tenants did not always have this working capital, it was natural that with the start of the agricultural campaign they would have to resort to loans, known as farm loans. Also, agricultural specialists appreciate that the development of agricultural activities from the own sources of agricultural producers is practically impossible to achieve, which is why it is necessary to resort to bank loans.

The seasonal character of the agricultural production, the action of some natural and biological factors, the very different periods of time of making expenses and realizing the incomes by capitalizing the agricultural products, put their imprint on the different use of the credit system.

The production process in agriculture is longer and waits longer until the initial capital advanced is recovered and capitalized. The immobilization of funds is higher than in other sectors, so that this immobilization cannot be dealt with only with the own capital of the farmers, this being often insufficient.

The lack of credit meant the lack of agricultural inventory, which in turn contributed to the maintenance, and in some periods even to the emphasis on the extensive nature of production in this branch.

The need to establish and use agricultural credit was also determined by the deficient structure of agricultural production. Thus, the predominant crops were cereals and first of all, wheat and corn, which were the basis of food in rural areas. Without loans, the profitability of Romanian agriculture was low. The size of the cultivated area and the endowment of agriculture with constructions, machines, inventory, purebred animals, variety seeds, could only be achieved by using bank or cooperative credit.

Also in the circulation of the land, the burden arises that most of the time there is no equity of agricultural producers. Land is expensive (and it must be, as it is the main means of production of agriculture), and the peasants do not have enough money to buy it. In the case of purchased land, the recovery of invested capital takes place only after a few years, therefore, the need for loans is higher, sometimes even the only solution.

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