
IMPORTANCE OF BANKING CREDIT AS A FINANCIAL LEVERAGE IN
AGRICULTURAL DEVELOPMENT

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Abstract: *Previously considered the granary of Europe, agriculture currently occupies 6% of the gross domestic product of our country. Since we do not use the maximum soil resources and labor force, imports increase from year to year alarmingly. To stop this effect the notion of credit for agriculture was introduced. They are granted to farmers to support the development of Romanian agriculture. More banks have signed or renewed lately the agreements with the Ministry of Agriculture, Agricultural Payments Agency (APIA) and Rural Credit Guarantee Fund. Based on these conventions credits are granted for working capital of agricultural companies.*

Key words: *agricultural development, credits for agriculture, farmers, European Agricultural Policy,*

INTRODUCTION

In any modern economy there is a concept of financial balance which can not be achieved without the involvement of credit. Financial stability can not be achieved permanently only as a trend, but only if we consider the dynamism and the unity of the national economic complex in which the credit participates. From this perspective, credit is a governing financial leverage of the agrarian policy of state support for agriculture, which seeks to balance the relationship between credit investors and users, the components of the agricultural credit market being:

- the agricultural credit supply which is made through the banking system in which Banca Agricolă has a key role and it is followed by Bankcoop, Credit Cooperatives, Bancpost and other institutions.

- the demand comes from all participants in agricultural activity whether manufacturers or service providers, landlords or tenants, businesses, households or agricultural associations. The credits used for production and investment needs of water, forestry, meadows, stations for agricultural mechanization, agricultural product capitalization units are also comprised in the field of agricultural credit.

In its historical becoming Romanian agriculture lending took into account both the local particularity and the European models of the time, hence the modern character (except the communist era) of the loan able to respond effectively to various requests from the large mass of agricultural producers, results.

MATERIALS AND METHODS

The beginning of credit in Romania is situated in the Middle Ages under the form of usurious credit practiced by money changers.

The agricultural credit has been operating systematically in Romania for 128 years, since 1873 (March 9), by the formation of Rural Land Credit. This is the first specialized institution of this kind with the longest period of operation (1873-1923). Land Rural credit has played a major role in creating a material base to help transform traditional agriculture into market agriculture. This institution was organized according to the model of German Landchaft and French Land Credit.

The urgent need of agricultural credit organization derived primarily from the large share that agriculture had in the Romanian economy and the fact that 83% - 87% of the

active population worked in the industry. Also, agriculture formed the basis of Romanian exports (60% of it).

After the revolution of 1989 major changes also intervened in the credit system as in the entire money circulation. The whole banking activity is conducted in Romania through the National Bank and banking companies established under the law no. 31/1990 as business corporations.

Before having built their strong industry, the United States of America achieved performant agriculture. The United States of America are the largest exporter of grains and soybeans. Agriculture supremacy was achieved based on strong and long-lasting budgetary financing. American farmers benefited by financial aids from the state under the form of grants and tax benefits. Large farms benefited mainly by subsidies. They were given both for covering material expenses and for covering the social ones (life incomes for those leaving early the agricultural activity or allowances for retraining the labor force laid off from agriculture). Agriculture also profited by funds for specific actions such as irrigation, drainage.

European Union member countries profit by public financial aids for agriculture from two sources: the first one is represented by the national budgets, and the second one, Community Structural Funds.

In Romania agriculture is considered a strategic national priority. The consolidation of private property and provision of agricultural markets are aimed in the government strategy. The creation of an efficient system of agricultural financing and support is aimed by the agricultural policy for the farmers through various forms.

The state supports agriculture by credits because:

- it provides the external environment for developing the actions on the agricultural financial market

- it has financial instruments specific to free market economy based on private property fact which excludes any immixture in the administration of the activity both to credit coordinators and to their beneficiaries

- it can accelerate / decelerate the intensity of the intervention levers on credit beneficiaries depending on the size of resource funds and the interests of the moment or of perspective.

State budget also finances a range of capital expenditure on land reclamation, animal breeding and selection and ensures the reimbursement of foreign loans.

The credit has a huge role in market economy. Along with the finances, credit is one of the main engines of the entire social-economic gear. Rational use of credit increases the productive power of capital and provides a large amount of products. Credit role is very large in meeting the equilibrium between supply and demand in market economy. The requirements of the law of supply and demand could not be met without the participation of credit, particularly the banking one.

Neither before, nor especially with the entry of agriculture into the market economy, such a main branch of material production (agriculture) can not remain outside the lending process. The separate study and the special regime of agricultural credit, in comparison to credit in general are necessary as a result of the different essence of production processes in agriculture.

The seasonal nature of agricultural production and the action of natural and biological factors, the fact that the production period does not correspond to the period of work, very different time periods for effectuating expenditure and for achieving incomes by exploiting agricultural products put their mark on the different use of the credit system. Agricultural credit is thus emerged as a clearly shaped subsystem within the lending unitary system, a component part of the market economy towards which Romania is heading.

Mainly biological laws governing the production process in agriculture determine a slower regeneration of funds, of capitals than in other branches of production. The above may be the first and perhaps the most important cause for which the agricultural credit is required. So the agricultural production process is longer and has a longer waiting until the initial advanced capital is recovered and exploited.

The immobilization of funds is higher than in other sectors. As a result, we can not meet this immobilization with the capital assets of farmers, which is totally insufficient. This is considered as another cause of the higher need for agricultural credit by comparison to other sectors.

Agricultural credit in market economy is more necessary than anywhere thirdly because land law no. 18/1991 allows the sale and purchase of agricultural land. However, land circulation like any good of market commodity production has the deficiency that for the most part the equity of agricultural producers does not exist. Land is expensive and so it should be as it represents the primary means of agricultural production and economic operators in agriculture and especially farmers do not have enough money to buy it. Therefore, the need for credit is higher, sometimes the only way to establish new forms of farm that are equipped from the start with the basic means of production and labor.

In developed countries agriculture programs rely on non-refundable state financial support. In these countries budgetary financing has got the character of an instrument of state intervention in agriculture, of supporting the interests of certain categories of producers or consumers, of protecting the domestic market from foreign competition or of conquering foreign markets for placing the surplus of agricultural products.

RESULTS AND DISCUSSIONS

In 2008, BNR posed the question of financing agricultural projects because the access to bank credit correlated with the access to EU funds will contribute to the improvement of Romania's economic situation.

In recent years the balance of the finances targeting agriculture grew steadily. For comparison, the value of bank loans was of only 5.8 billion in late 2008 and in 2012 of 11.9 billion lei.

Table 1.

Loans given / activity sector, 2008 – 2013 (million lei)

Period	Total of given amounts	Activity sector						
		Industry	Services	Constructions	Agriculture, forestry, pisciculture	Activities of financial brokerage and insurances	Public administration and defense, social insurances from the public system, education, health and social security	Private persons
2008	258389	49402	73497	30701	5753	8111	9229	81697
2009	259797	46171	70942	31449	6749	8177	11282	85028
2010	275458	50303	73916	33209	8051	7546	12985	89448
2011	301357	57436	82032	35153	10524	6957	14379	94875
2012	309566	58714	83007	34759	11935	7256	16322	97574
2013 Jan.	308930	57566	83213	34732	12144	6981	16392	97702

Source:

BNR, Monthly Bulletin, January 2013

Today, agriculture in Romania is in constant development. At present, only 1/7 of the total population of the country work in this area.

Previously considered the granary of Europe, agriculture currently occupies 6% of the gross domestic product of our country. At European level, in terms of technologies used and current production, Romania is far exceeded.

Since we do not use the maximum soil resources and labor force, imports increase from year to year alarmingly. To stop this effect the notion of credit for agriculture was introduced. They are granted to farmers to support the development of Romanian agriculture.

The purpose of such credits for agriculture is to invest on long term in performant equipment, in irrigation equipment, in building appropriate spaces for animal breeding, in maintaining plantations, in food supply, in covering the treatments to which animals are subjected etc., all designed to increase production.

Agricultural credits vary from one sector to another and are determined depending on the needs and expenses necessary for developing each activity .

Farmers benefits by a financial support of the Romanian Government decided on the public funds provided for these credits, as oscillating between 10 and 30% of their volume. For this reason for cereal growing this support varies between 10% for barley and wheat, while the value for corn, rice, sunflower, etc. is 20%. The value granted for vegetables produced in greenhouses is of 25%. With regard to plantations of fruit trees, the maximum support of 30% is granted. The support granted for the zootechnical sector varies between 12% and 20%.

The interest of the banking system in this industry increased in relation to previous years, now investing in this area.

Thus, many banks in Romania co-finance projects through European non-refundable funds.

The conditions for granting these credits for agriculture and their flexibility differ from one bank to another.

Romania could be one of the main beneficiaries of European funds for 2014-2020, especially in agriculture funds that the European Commission intends to cap at the level of 2013, and even increase them substantially for poor regions.

The balance of the financing granted by banks to agriculture increased by 30% in 2012, exceeding the level of 10 billion lei. Banks are becoming interested in this field, one reason being that state aid granted to farmers is to grow.

During this period credit institutions extend the conventions under which they grant financing based on State aid for farmers. More banks have signed or renewed lately the agreements with the Ministry of Agriculture, Agricultural Payments Agency (APIA) and Rural Credit Guarantee Fund. Based on these conventions credits are granted for working capital of agricultural companies.

Thus, the Agency for Payments and Intervention in Agriculture (APIA) made payments from the national budget (B.N.), totaling 756 million lei (166.5 million euros), representing Direct complementary national payment scheme released from production (vegetable PNDC1) - Campaign 2012, for a total of 642,737 farmers authorized for payment for this scheme so far.

For the past year the amount allocated to payment scheme PNDC1 was 35 euros / ha, to which the linear reduction coefficient is applied. Also during 2012 payments for vegetable PNDC have been made to a total value of 166 million lei (36.5 million euros). The total amount paid to date is of 922 million lei (203.15 million euros), representing a percentage of 91.56% of the amount allocated to this payment scheme for 2012 Campaign.

Finances are granted by credit institutions to the extent of 80% of state aid to be received by companies operating in agriculture. Most bank financing to farmers are guaranteed by the State or are granted under the State aids which are to be collected.

From the above, we can conclude that Romania is among the few countries where aid to agriculture is to grow.

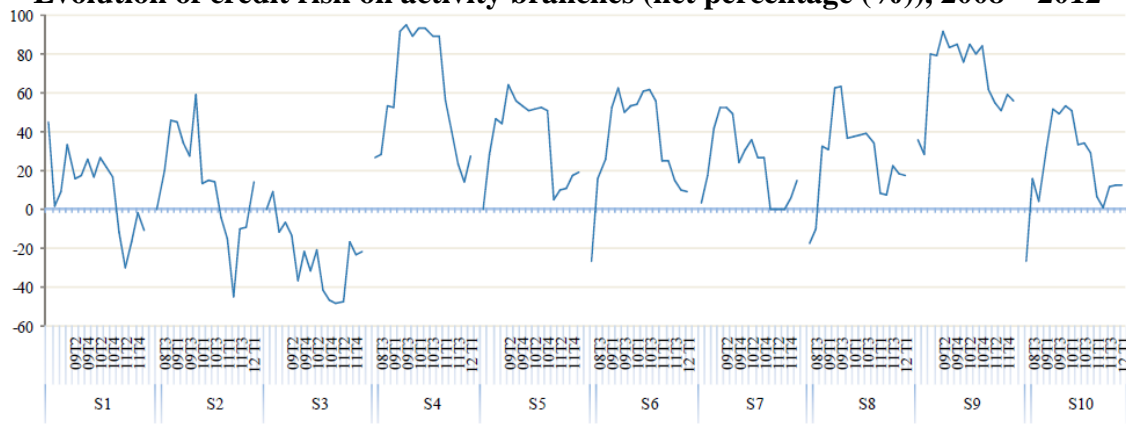
Thus, according to data released by the BNR, the value of the financing granted to companies in agriculture has exceeded the level of 10 billion lei in the last months of 2012. The balance of these loans was 10.22 billion lei at the end of December 2011, 30% above the level recorded in the same month in 2010.

The question still is the occurrence of credit risk in the agricultural sector. Risks associated to companies in all business sectors, less energy and agriculture sector, were perceived as increasing in T1/2012. According to banks, microenterprises remain the riskiest category of debtors.

Banks reported a higher number of sectors causing pressure on their asset quality compared to T4/2011, the risks being perceived as coming mainly from companies operating in the construction and real estate sector. Energy and agriculture and pisciculture sectors were the only ones whose risks were considered as falling during T1/2012.

Chart 1

Evolution of credit risk on activity branches (net percentage (%)), 2008 – 2012



- S1 Agriculture, pisciculture
- S2 Industry
- S3 Energy
- S4 Constructions
- S5 Trade
- S6 Tourism, communications, mail
- S7 Transport, communications, mail
- S8 Financial brokerage
- S9 Real estate transactions
- S10 Other services

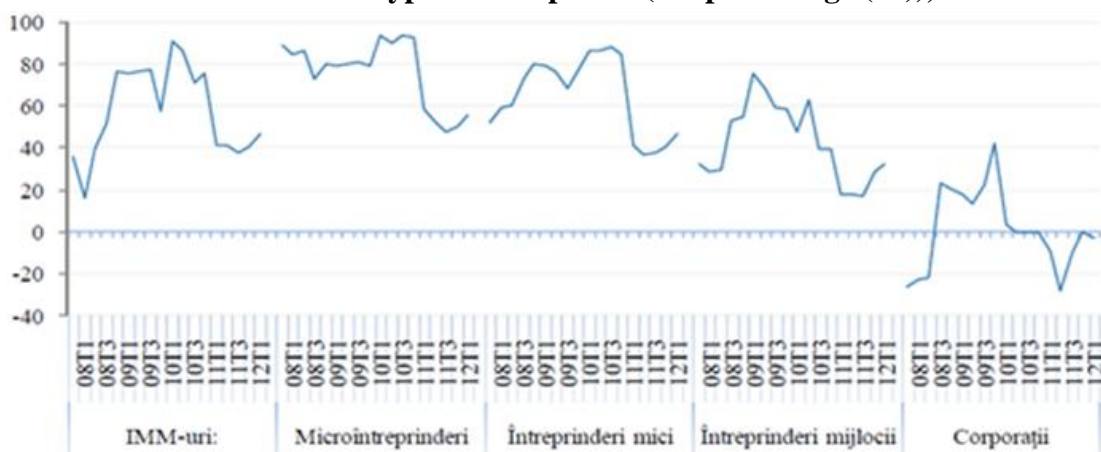
Note: positive values of the net percentage indicate an increase of credit risk

Source: www.bnr.ro,

Sampling regarding the lending of non-financial companies and population, May 2012

Depending on company size, microenterprises continue to be, according to credit institutions, the riskiest category of debtors (a net rate of about 60 percent, according to the chart below). Risk associated to corporations remained stable for the second consecutive quarter.

Evolution of credit risk on types of companies (net percentage (%)), 2008 - 2012



Note: positive values of the net percentage indicate an increase of credit risk

Source: www.bnr.ro,

Sampling regarding the lending of non-financial companies and population, May 2012

By bringing credit risk to the parameters acceptable to all interested participants in the economic process of production and exploitation of agricultural production: farmer, credit

guarantee company, credit company, insurance company for natural risk and state (taxes beneficiary and taxes from agricultural activities) the connection will fluidize, ensuring the financial flows needed in technological stages of production.

Supporting agricultural production and maintaining it at a constant high level, can cause an evaluation on market criteria of agricultural lands.

Under these circumstances, land market will develop and private guarantee systems will be able to work more relaxed.

Risk of losses caused by natural factors must be eliminated by insuring all types of natural risk. For losses caused by risk factors that are not insured by insurance companies (e.g. drought) precise conditions by which the state will bear some of the losses will have to be established. An alternative to this solution can be the adjustment insurance policy subsidy (only for this category of factors) at levels negotiated with insurance companies.

A positive aspect in financing agriculture was the establishment and operation of the Rural Credit Guarantee Fund (RCGF).

Supporting the emergence of non-bank credit institutions with interest in financing agriculture (small agricultural credit cooperatives), by amending legislation (OU 99/2006 R) could be a complementarity of more complex base systems.

They could be created by agriculture financing specialization of state commercial banks, but the serious solution for agriculture would be the establishment of Romanian agricultural credit, with public reimbursable funds, according to Credit Farm System model (U.S.A.).

CONCLUSIONS

Agriculture is a vital area for Romania. In fact, worldwide food chain is extremely important, given that every 12 years the world population increases by a billion. Unfortunately, our food chain broke after 1989, which means we have lost as a country.

Given that, since 2014, we will have a new European agricultural policy, I think we need to think what we have to do so that restructuring leads to performance in agriculture.

We need a Law of agriculture, which includes everything from the definition of agricultural producer to rules and obligations.

I think that we need to merge properties. We lack regulation and market control. Agricultural cadastre must return to agriculture. We do not have a stock of grain, there is no land market, and because of this, as farmers say, banks are not going to agriculture. Healthy and controlled local markets are required.

And last but not least, an agricultural bank is needed, and tax system of agricultural lands must be rethought. But the essential element is disciplining the activity, creating control mechanisms. These are aspects that I think that should be considered, at present.

As shown in the above, in the last 20 years, in our country there were many organizational and restructuring programs and they all start and end with money. Agriculture has 10 billion euros at its disposal, but things are not clear about accessing them. The solution is a new role for the state in the economy, a state-private partnership. So the state must intervene, sign partnerships with private initiative and guarantee agriculture financing. The state, however, must also be an organizer.

Also during the last 20 years, over 20 strategies have been developed, some of which by foreigners who did not know the reality from us. After the European Union completed the

Strategy in the perspective of 2020, and the directions for the future PAC were outlined, it is necessary to Romania to have its own agricultural policy.

Problems are related to finance, irrigation, market development, energy cooperation. Those with immediate impact, such as those related to the economic crisis and absorption of European funds, are not forgotten.

Lately, we notice an obvious change in the attitude towards agricultural issues. Even the Ministry of Agriculture discusses a coherent agricultural policy.

Until now, agriculture was perceived as an occupation. Today, it is a business, a national problem and, primarily, has some responsibility for providing the food for the population and future generations. Increasing participation of agriculture in Gross Domestic Product, including this year, and also the bounces in agriculture are the capability resultant of those involved in agriculture, of the great existing potential.

From an economic perspective, agriculture will follow its upward trend, as investors are interested in producing.

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