

FINANCING RURAL AND AGRI-FOOD ECONOMY IN THE CONDITIONS OF WORLD CRISIS

Dragoş ILIE¹

Abstract

The world economic crisis deprived of liquidities almost all economic sectors, among them also rural and agri-food economy. In these conditions, on the banking system, the state and the warranty funds devolves an essential role in financing rural and agri-food economy which must form the main engine of the national economy. The paper aims at presenting a few financing modalities in the next period which would revive rural and agri-food economy. These financing modalities are the result of cooperation in the financing field between the state, the banks and the warranty funds, in the process of revival of rural and agri-food economy and have at the basis the concepts of lasting crediting and lasting development.

Key words: lasting crediting, warranty funds, agricultural credit, agricultural production

1. Introduction

In the conditions in which the world economic crisis generated a lack of liquidities in all economic sectors and a blocking of the activities developed at the level of rural and agri-food economy, the attraction of European funds as well as the financing from grants or subventions become major acting directions both of Government and banking system. However the attraction of these funds must be used especially for the capitalization of rural and agri-food economy.

According to the concept of lasting crediting, financing rural and agri-food economy must aim at the capitalization of agricultural manufacturers, the increase of credits portfolios quality and environment protection (Ilie,2005).

The diminution of the existing regional unbalances with a focus on the stimulation of balanced development and revival of the under-privileged areas, as well as preventing the happening of new unbalances represent a major requirement of lasting

¹ Dragoş ILIE , Lecturer PhD, Spiru Haret University, Faculty of Financial Accountant Management Craiova , Str Brazda lui Novac

development (Ciună, 2004). Unfortunately, these challenges are by far accomplishable so long as the agricultural credit continues to remain very poorly represented in the total of credits portfolio, there are no legislative mechanisms that could stimulate crediting in agriculture, and the costs of agricultural credits are non attractive for agricultural manufacturers.

2. The implication of warranty funds in the revival of rural and agri-food economy

The revival process of Romanian rural and agri-food economy cannot be conceived without the existence of the credits warranty funds. The legislation in force provides that the grant of credits be accomplished only after the constitution of solid warranties, the banks preferring the real estate ones. If the financing of rural and agri-food economy takes place only on the basis of the existence at a certain point of real estate assets, then a non normal dependency relation between credits and fixed capitals existing at a certain point would be created, with negative consequences on the development process of the entire economic – social life.

In order to accelerate the development – process of rural and agri-food economy, the financial-banking institutions and the state have come to support the holders of fixed and circulating capitals by creating certain credits warranty funds aimed at taking over the financing risk where collateral warranties are not enough. This way, the increase process of fixed and circulating capitals can be accelerated, the newly created capitals being able to subsequently form the basis of credits granting. Next we will insist on the implication in the revival process of rural and agri-food economy of the Romanian Fund of Credits Warranty and of the Warranty Fund of Rural Credit.

The Romanian Fund of Credits Warranty functions as a commercial company on shares with 100% private Romanian capital and has as main objective the financing facilitation of viable business projects developed by private undertakers of Romania. The beneficiaries of warranties from this fund are the commercial companies that cumulatively fulfil the following conditions: they are Romanian legal persons; they have majority private capital (51%); they develop the activity in the field of production or services; they benefit from the recommendation of one of the partner banks of the fund for credit granting.

The warranty object is represented by credits for investments projects, credits for working capital, letters of bank warranty and leasing operations. Thus, the increase of capitals is encouraged under its two components (fixed and circulating capital) as well as the leasing operations that have a strong productive character. At the same time the financing of the capitalization process is encouraged by warranty letters. In order to facilitate the access to financing, the fund gives consultancy regarding the elaboration of the business plan and of the credits file, market research / opportunities for investments, alternative financing sources, business intermediations between Romanian and foreign companies. The fund warranty cannot exceed 70% of the nominal credit (interest excluded). The fund covers all geographical areas of the country, equally contributing

to the financing of all regional economies from our country.

In order to accelerate the financing process in agriculture, the Warranty Fund of Rural Credit was created, in the form of a company on shares, whose object of activity stated according to the site www.fgcr.ro is represented by the warranty of credits and of other financing instruments, which can be obtained by natural and legal persons – agricultural manufacturers and agri-food products processors, for the accomplishment of the agricultural production, stocking and processing of agricultural products and the accomplishment of investments objectives in these fields, as well as other financial instruments that the credit institutions give to the beneficiaries of programs with European financing for the assurance of the necessary financing to accomplish the projects provided in the National Program of Rural Development for the scheduled period 2007-2013.

The warranty beneficiaries can be: commercial companies formed according to the Law no. 31/1990, republished with subsequent modifications and completions; agricultural associations formed according to Law no. 36/1991 regarding agricultural companies and other forms of association in agriculture and according to Law of agricultural cooperation no. 566/2004; all categories of beneficiaries of the programs developed with the Agricultural European Fund for Rural Development and European Fund for Agricultural Warranty; natural persons authorized to develop economic activities, individual companies and family companies formed according to OUG no. 44/2008, who work areas of agricultural land in their ownership or rented based on a contract, they breed animals, obtain agricultural production, process, sale agricultural products or perform agricultural works; local councils and associations of local councils for the accomplishment of development works of rural infrastructure.

The fund gives warranties to commercial banks in case:

- of average and long term credits, destined to accomplish investments contracted by small and middle economic agents with private capital, who do not hold sufficient warranties and develop activities in the field of agricultural production;
- of letters of bank warranty, for the supply credits from external sources;
- of short term credit, complementary to the investment, serving the first manufacture cycle (rough materials, auxiliary materials, energy, fuels, wages, other expenses necessary to this cycle), to the payment of customs taxes and customs fees, VAT;
- of short term credits given to private manufacturers for the accomplishment of vegetal and animal production, respectively for the accomplishment of the expenses provided in the production technologies and expenses estimates elaborated for each culture and category of animals;
- of leasing operations developed by agricultural manufacturers and processors, in the capacity of users.

By the wide range of the warranty object, the fund can bring an important contribution in the capitalization process of Romanian agriculture, covering a great part of the necessities and priorities of increasing productive capitals in this branch of national economy.

It becomes desirable the creation of other warranty funds as well, which should take over exclusively risks generated by the financing of agri-food production destined to export. The support of export production (Ciună, 2001) is enforceable in as much as the foreign banks created warranty divisions for credits given to Romanian companies for imports of capitals from third countries. The main categories of export credits (Hoanță, 2001) which must be guaranteed are: refinancing credits of exports (Mihai and Mihai, 2002), credits for the financing of cashes from exports and credits in foreign currency granted to exporters.

3. The role of agricultural credit within the directed credits

The financing process of rural and agri-food economy must be treated with priority in the conditions in which this segment from the Romanian economy is at the present day under-credited.

The techniques which measure the impact of the credit directed on the economy were the target of critics which sustain that the classic studies on the credit effects frequently overbid the advantages of using the credit at the same time with the underestimation of costs for this type of programs.

In our opinion, in the conditions of world crisis, directed credits are extremely important, of them the most adequate for financing the rural and agri-food economy being the agricultural credit.

A law that produced benefic effects on the rural and agri-food sector was Law no. 150 from 14th April 2003 – the law of agricultural credit for production, modified by the Law no. 605/2003. According to law, the agricultural credit for production was intended as an economic-financial instrument of agricultural policy by means of which the current activities of agricultural production to be sustained, previously established by the Ministry of Agriculture.

In the spirit of the law, by current activities of agricultural productions are understood actions that aim:

- the foundation, maintenance and harvesting of agricultural cultures, as well as the maintenance and harvesting of plantations;
- the acquisition or production of chickens for meat and eggs, of pigs for fatten, of ovine, caprine, bovine and equine youth for fatten, as well of material for fishy population and bees families;
- the supply, food processing, the assurance of medicines and medical treatments for animals, of current expenses for the maintenance and functioning of shelters, equipments and related installations;
- the assurance of cultures and plantations against the damaging effects of the natural risk factors, as well as the assurance of the groups of animals against the damaging effects of the natural risk factors, diseases and accidents.

According to law, the beneficiaries of the facilities were:

- agricultural manufacturers, natural or legal persons, who exploit, in the conditions of the law, agricultural lands or groups of animals with the purpose of

obtaining agricultural production destined to sale;

- authorized natural and legal persons, who hold the technique and specialization in the performance of services in order to obtain agricultural production.

- the categories of intermediaries who acquire and process the agricultural production.

The beneficiaries who reimbursed the credits and paid the interests on the due terms provided in the loan agreements benefited from public funds according to the credit amount.

Unfortunately, some specialists from the Romanian Association of Banks are of the opinion that this law cannot be applied currently in Romania like it should be, because it does not offer comfort to commercial banks. They consider that banks would have a higher appetite for crediting agriculture if the subvention was given at the beginning of the agricultural campaign in the form of payment of the insurance premium, which can be subsequently placed as warranty in banks. The banks would be more interested if deposit certificates were used as warranty forms for farmers. Romania is an agricultural country with a high cereal potential and it is normal that these depositing certificates be used in banks. The existence of certain cereals quantities of a certain quality and of certain parameters can represent an important warranty for banks.

At the same time they are of the opinion that the functioning of this law is complicated in the conditions in which the farmer takes a credit, seeds, harvests, sells the production and hardly when he has these documents does he receive from the Agency of Payments and Intervention in Agriculture a much smaller subvention than the credit he reimbursed.

4. Conclusions

The more active implication of warranty funds in the financing process of rural and agri-food economy can be determined by the increase of the banking capitalization degree. With the increase of capitals, banks can increase the participations to these funds which will take over some of the risks in the financing process.

The directed credits can represent an extremely efficient modality for the development of rural and agri-food economy from Romania, on condition they can be used first of all, and secondly they represent a real support both for employers and for agricultural manufacturers.

The financing of the development of rural and agri-food economy must pursue three major coordinates: the capitalization of economic agents, the increase of credits portfolios quality and the environment protection. This is why we consider the development of lasting crediting concept desirable, introduced in the specialty literature in the year 2005.

Thus it will be possible to decrease the existing regional unbalances, with a focus on the stimulation of balanced development and revival of the under-privileged areas, as well as the prevention of new unbalances from happening. This would be a first step towards the fulfilment of the integration criteria in the structures of European

Union and of access to financial instruments of assistance for member countries, respectively structural and cohesion funds.

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