CREDIT AND RISK IN AGRICULTURAL DEVELOPMENT

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Key words: credit, risk evaluation, agricultural development, agricultural exploitations

Abstract:
Romanian agriculture stringently needs credits. The financing lack in agriculture seriously affects the activity and performance of agricultural exploitations. The offer of bank services and products destined for agricultural exploitations is poor enough and also inaccessible for them. Commercial banks have little interest in giving credits to agricultural exploitations, because these are an unattractive and risky customers segment for the banks. Therefore limited access to bank credits is due to the particularities and features of production in agriculture, and also to the restrictions imposed by the banks. Financing agriculture is classified by banks as high risk activity class. The analysis and evaluation of risks is made throughout the entire crediting process.

The development of agriculture represents a priority area for the Romanian economy. The Romanian transition from the centralized economy to market economy was a complex phenomenon, without historical precedent, generating confusion and leading to an absence of a prospective vision.

Incoherent actions, depending on conjectural interests gravely affected Romanian agriculture.

The government solved only the problem of land restitution, but not the issue of consolidating a high performance agriculture.

The restructuring of Romanian agriculture took place against the background of a profound reform, of the restructuring of the entire national economy. In this situation, agriculture could no longer benefit from a substantial material and financial aid, in order to more rapidly and easily go through the transition period.

Even more, in Romania there was no coherent strategy to establish the immediate and remote objectives for agriculture and the measures necessary to be taken for the alteration of agricultural structures.

The restructuring of agriculture took in consideration two main objectives:
- the assurance of food security for the population of the country;
- the efficiency of agricultural activity.

Therefore the development of an efficient agriculture represents a priority of the Romanian economy.

The fact that agriculture cannot be competitive in the situation in which the modern sector is breaking apart and all the approximately four million countryside households are sustained with insignificant amounts of money, in the conditions of a low level in agricultural productivity, must be taken into account.

The low profitability of the Romanian agriculture, the use of old fashioned methods and techniques in the production activity, the lack of adequate biological material, etc., are due to the insufficiency in volume and diversification of the agricultural credit.
Romanian agriculture stringently needs crediting. No country in the world can afford to neglect or leave only to the discretion of game interplay in the current market the agricultural activity and the food industry, which ensure food for the population.

Food security depends on the prosperity of agriculture, and the prosperity of agriculture depends on the flexibility and efficiency of the crediting system maintained for the sustaining of agricultural activity in general, and the flexibility and efficiency of the agricultural credit in particular.

The lack of financing in agriculture seriously affects the activity and performances of agricultural exploitations. Generally, the lack of financing is not only a break in the emergence of new business, but mostly an inhibiting factor for the existing ones.

The multiple problems agriculture confronts with need an intervention and with the aid of credit, which is to ensure the rhythmic and sustained financing of agricultural exploitations and to represent an economical and financial instrument of agricultural policy this is possible.

In the same time with the promulgation of the Law no. 150/2003 of agricultural credit for production, one of the most expected laws for the Romanian agriculture and for the Romanian market economy, issues were resolved, at least at a theoretical level the first step was made, namely that of the existing legal background.

The effects of this law will be reflected in the performances agriculture will have, and also in the easiness with which agricultural exploitations will be able to access agricultural credits form commercial banks.

An analysis of the financing modalities for agriculture in the East and Central European countries revealed the need of finding some new methods for financing, together with the existing flaws in the above mentioned domain.

The financial services destined for agricultural exploitations were and still are poorly developed.

In Romania, over the period between 1994 and 1998, commercial banks opened a series of territorial units: agencies, representatives and branches in the rural environment.

Unfortunately, the offer of bank services and products destined for the agricultural exploitations was rather poor and inaccessible for them in an unattractive economical environment, many newly established bank subunits proved to be non-rentable, some of them being closed down.

In the past years different measures for promoting and sustaining agriculture were promoted, including the awarding of short-term credits for farmers and for different suppliers and shop keepers who depended on the activity in agriculture.

The Romanian commercial banks were and still are poorly interested in giving credits to agricultural exploits. This fact is mainly due to: the insufficient knowledge of the specific features of agriculture production, the over-evaluation of the risk associated with the agriculture production, the lower rate of profit in comparison to other areas of activity, etc.

The solving of the current issues regarding credit in agriculture must start from the premise that agriculture is a strategic economical activity, conditioning the global development of Romania.

The specific features of agricultural credit are given by the particularities of the agricultural sector, namely:

- the season character of agricultural production;
- the production period does not coincide with the working period, a specific feature that imposes a high degree of risk on the agricultural credit;
- the action of some natural and biological factors that come into play over the entire unfolding of the agriculture production process, associating it with a high degree of risk;
- the different periods of time (the time gap) between the expenses involved and the obtaining of profit by selling agricultural products;
- the long production cycle in agriculture, with implications on establishing reimbursing terms for agricultural credits, the quantum of credits to reimburse and the limit term periods given by the banks;
- the low profitability in agriculture, which makes it compulsory to give low income credits.

Also the particularities and specific features of the production processes in agriculture lead to a greater need for crediting in this sector in comparison to other sectors of the national economy.

Many times, the agricultural credit represents the sole solution for the establishment of an agricultural exploit which would have from the start the production means and the work hand that are strictly necessary. The need for credits in agriculture is also boosted by the fact that the immobilizing of funds in agriculture is greater than in other sectors, and the agriculture workers own capital is not sufficient.

Agricultural exploitations, in comparison to other economic agents, have limited access to bank credits, being thought of as unattractive and risky for the banking sector. The limited access of agricultural exploitations to bank credits is also mainly due to: the high risk of fluctuations in production depending on the natural conditions; the lack of an adequate system of insurance which could guarantee the compensation of loses; the instability of commercial and selling markets for the obtained agricultural products.

Also, the lack of a high performance management, the discontinuity in obtaining profit, the long production cycles and the high transition and risk costs restrict the access to credits for agricultural exploits.

The restraint in access for bank credits is also given by the complexity of the process and documentation necessary for obtaining the guarantees from the Guarantee Fund of Rural Credits. This guarantee fund contributed to the diminishing of non-payment risks for credits given to agriculture businesses.

Crediting agriculture, as any banking activity, involves a certain degree of risk. The risk is permanently present, in any business, and most of all in the activity of agricultural exploitations, the risk occurring or not, in connection to the conditions created. The crediting risk means the taking of a risk by the bank both for the non-payment of the lent money to the client, and also the risk of the credited business and the risk of client bankruptcy.

Many banks still classify the financing of agriculture as a category of high degree risk activity because of the low level of profitability in this branch and the high exposure to natural factors, without the necessary protection from the system of agriculture insurance. In the category of high risk credits were also included medium term and long term credits, credits to which few agricultural exploitations have access.

Of course, the banks permanently monitor the risk evaluation, especially in the case of credits given to economic sectors that are highly exposed to risk, such as agriculture. Banks analyze, during the whole period of the unfolding of the crediting process, the following:

- the financial performances of the credited client;
- the prognosis of the future performances of the credited client over the period left to the term of full credit restitution;
- the preservation modality, the quality and the structure of the guarantees offers to the bank;
- the way of using and managing the given credit;
- the constituting of restitution sources for the credit and the payment of implied income;
- the evolution and influences of the competitive environment over the client that was credited by the bank.

By the exigency imposed in the analysis of the conditions for giving and guaranteeing for credits, the rigors of establishing the criteria for solvability for clients and the lack of flexibility in giving credits, the banks have restricted more and more access for agricultural exploits to bank credits.

The banks must re-think the issue of risks implied by the crediting of the agricultural activities the agricultural activities may constitute, for banks, a vast segment of customers, a diversified one, disciplined and with a high potential of absorbing some modern bank services and products.

Bibliography: