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# INCENTIVES FOR CREDIT SUPPORT OF AGRICULTURE IN THE REPUBLIC OF SERBIA<sup>1</sup>

Gordana Radović<sup>2</sup>, Vesna Popović<sup>3</sup>, Biljana Grujić Vučkovski<sup>4</sup>

## Abstract

Since 2004, in the Republic of Serbia incentives for credit support to entities active in sector of agriculture have been included in the agricultural policy measures. Although the national model for mentioned financial support has been changed over time, in essence it remains the same. The main goal of the paper is to analyze incentives derived from the national agricultural budget used for credit support of agriculture, i.e. to review the main characteristics of the current support model, while to recommend possible improvements. The research was based on desk research and descriptive methods, as well as on methods of analysis and synthesis. According to performed research, it can be concluded that the average share of incentives for credit support within the total incentives paid from national agricultural budget was less than 2% in analyzed period (2014-2022.). The average level of realized incentives in observed period was 73%, indicating the significant need of agricultural entities for subsidized loans. In order to develop agriculture in the Republic of Serbia, the authors suggest certain advancement of current model of credit support, considering possibilities for extension of repayment period and increase in upper value limit for investment loans. Besides, authors suggest the consideration of establishing a “specialized agricultural bank” as a state financial institution, which will provide comprehensive credit support covering the developmental requirements of domestic agricultural producers.

**Key words:** Financing of agriculture, agrarian budget and policy, credit support, Republic of Serbia.

**JEL<sup>5</sup>:** Q14, Q18

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- 2 Gordana Radović, Ph.D., Research Associate, Institute of Agricultural Economics, Volgina Street no. 15, Belgrade, Serbia, Phone: +381 64 13 78 643, E-mail: [gordana\\_r@iep.bg.ac.rs](mailto:gordana_r@iep.bg.ac.rs), ORCID: 0000-0001-9770-6306 (corresponding author)
- 3 Vesna Popović, Ph.D., Principal Research Fellow, Institute of Agricultural Economics, Volgina Street no. 15, Belgrade, Serbia, Phone: +381 11 69 72 854, E-mail: [vesna\\_p@iep.bg.ac.rs](mailto:vesna_p@iep.bg.ac.rs), ORCID: 0000-0003-1018-2461
- 4 Biljana Grujić Vučkovski, Ph.D., Senior Research Associate, Tamiš Research and Development Institute, Novoseljanski put no. 33, 26000 Pančevo, Serbia, Phone: +381 65 23 17 001, E-mail: [grujic@institut-tamis.rs](mailto:grujic@institut-tamis.rs), ORCID: 0000-0003-2588-4888
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## Introduction

In the second half of the 20<sup>th</sup> century, agricultural loans with a low (subsidized) interest rate were financially supported from the primary issue of the national Central bank. With the monetary system reconstruction program (implemented in January 1994), mentioned type of credit support was abolished, as it was one of the causes of hyperinflation. In 1996., the was established an agricultural budget as a form of unified financial support for agriculture. Since 2004., incentives for credit support have been defined as a measure of current agricultural policy. Therefore, for a decade, agriculture was without privileged credit support, what primarily affected economic status of family farms.

Family farms are the most numerous entities within the structure of agricultural holdings, through entire Serbian history of agriculture. Current situation is the same. Although there come to slight decrease in their number between the last two agricultural censuses, they retain a dominant share, e.g. the participation of family farms in overall number of farms, according to FSS in 2018, was 99.7% (Subić, Jelocnik, 2021). In line to preliminary results of the Census of Agriculture - 2023, the number of family agricultural holdings decreased for 20% compared to the previous Census of Agriculture - 2012, while these farms keep the dominant position (99.6%) in the structure of agricultural holdings (SORS, 2024). There are several causes for decline in the number of family agricultural holdings, such are: consolidation of holdings, frequent farms leaving due to expressed migration from rural to urban territories, issues linked to uncertainty of agricultural products realization, as well as problems in securing appropriate sources of financing agricultural production.

Financing agriculture is complex and always actual issue in the Republic of Serbia. This problem is pronounced the most at the family farms, as they have small, i.e. very limited farm estates, and low economic power. Majority of these farms are facing the liquidity issue, mainly during the sowing period. Therefore, they need adequate external sources for financing their agricultural production.

Crediting conditions on the banking market historically have been continuously unfavorable for family farms. Besides high interest rate and binding the credit debt to currency clause, other disadvantages are also the high cost of bank guarantees, usual impossibility of using a mortgage as a loan security, etc. Therefore, in order to provide beneficial agricultural loans in the Republic of Serbia, there has been carried out the state financial support.

## Literature Review

Several domestic and foreign authors have dealt with the issue of agricultural crediting and its importance. They generally agree that due to the specifics of agricultural production, crediting is necessary to maintain the liquidity of most of agricultural holdings. Some of them (Dimitrijević, 2023) concludes that size of sources of financing and volume of lending in agriculture directly affect the growth of agricultural production. However, there are also some opinions that challenge the importance of loans for agricultural development. For example, Madžar (2021, p. 129) concludes that “the use of agricultural loans does not have a statistically significant impact on the introduction of agricultural innovations in Serbia”.

Many authors agree the stance (Tomić, 2004, p. 437) that “credit is the most expensive and irrational way of financing agriculture”. There are also some studies indicating that the leasing is even more expensive and unfavorable source of agricultural financing (Pejanović, Tica, 2005).

Stevens and Jabara (1988, p. 252) state that the importance of loans, regarding the liquidity provision, arise from fact that “loans enable farmers to manage resources more flexibly, as well as better manage all risks of agricultural production, caused by changing weather conditions and price movements on the market of agricultural products”. Potential explanation is found in (Vunjak, 1999, p. 134), that during the determination of level of debtors' creditworthiness, bank specifically analyze: characteristics and business conditions of loan seeker (borrower), his capital power, as possibilities for securing the loan. One of the most pronounced negative characteristics of the loans is high interest rates. Samuelson and Nordhaus (2005, p. 505) state that the interest rate depends on “maturity, risk, taxation and other characteristics of the borrower”, while Mishkin (2006, p. 82) indicates that “the real interest rate is defined as the difference between the nominal interest rate and the expected inflation rate”. The level of the real interest rate, in addition to the inflation rate, also depends by the level of reference interest rate predetermined by the national Central Bank, as well as by the supply and demand ratio active on the credit market, or by the price of financial sources that was previously paid by business (commercial) bank. Pilbeam (2005, p. 44) points out that “the perennial problem of the largest commercial banks is rather expensive sources of financing”.

There are different types of loans on the credit market. According to Rodić (1991, p. 160) among other categories, they can be systematized as “uncovered and covered”. Van Horne and Wachowicz (2007, p. 289) state that “property pledged by the borrower as security for loan repayment” is most often used as loan security. The problem of securing collateral is one of the obstacles in the Republic of Serbia related to credit borrowing by family farms from commercial banks. Grujić Vučkovski and associates

(2023, p. 232) state that “from the point of view of farmers, significant obstacle is their non-involvement in implementation of loans, as a consequence of distrust in the banking sector due to uncertainty of agricultural products realization”. From the research of Radović and associates (2013, p. 49) derives the conclusion that from the point of view of farmers, the main reasons why they are cautious when deciding to borrow money from the banking sector are “instability and disorganization of the agri-food products market, uncertain realization, unknown crops’ prices at the time of delivery and inconsistency of the agrarian policy measures”. Meanwhile, according to Popović and associates (2018, p. 77) commercial banks are “dominantly oriented towards larger producers and agricultural companies (larger than 25,000 EUR), while the smaller producers are ”removed” from the market“.

In line to previously mentioned, family farms in the Republic of Serbia really need the state financial support that will enable them to borrow under more favorable conditions. As possible solution could be current one that assumes subsidizing part of the interest on agricultural loans. Another could be to establish a specialized financial state institution, or “specialized agricultural bank”, which will be primarily turned to lending to entities involved in agriculture (Radović, 2014, pp. 89-94). Similar example (state financial institutions) exists in Croatia. There functions the Croatian Bank for Reconstruction and Development, that approves loans under favorable conditions for the development of agriculture (CBRD, 2016).

Besides agriculture, there are views that the support of state institutions is also crucial in other areas of economy. Specifically, Popović and Grujić (2015, p. 522) believe that “imperative for the state authorities is to provide adequate amounts of budget support to finance the development-oriented investments in agriculture and rural areas”. Jovanović and Zubović (2022, p. 118) concluded in their research that “creation of indicators for implementation, monitoring and evaluation of the impact of the incentive system” is also required.

### **Methodology and Data Sources**

Paper aims to analyze incentives from the agrarian budget used for credit support to agriculture in the Republic of Serbia, reviewing the main characteristics of existing support model, while recommending some possible improvements. The paper uses the desk research method, the descriptive method, as well as the methods of analysis and synthesis. Data sources are available literature, mainly scientific papers of domestic and foreign authors, as well as national legislation, and reports of the Ministry of Agriculture, Forestry and Water Management of the Republic of Serbia (MAFWM), or other state institutions.

## Research Results and Discussions

Subject of analysis is credit support in agriculture, that was introduced in 2004. as one of agricultural policy measures. The general source of loans was the agricultural budget, while the loans were granted through the Development Fund of the Republic of Serbia, or commercial banks. Credit beneficiaries could only be the registered agricultural holdings (Radović et al., 2013, pp. 49-50). Since 2011., MAFWM has been changed the way of support, while according to new conditions, incentives, i.e. subsidies was turned to cover the part of interest on loans approved by commercial banks, previously approved from the agricultural budget. Every year, MAFWM signs contracts with eligible commercial banks, enabling the subsidized credit support for agriculture. Essentially, “the main goal of the relevant Ministry is to provide financial support to devastated agricultural production, as well as to build the “credit history” of agricultural farms” (Radović, 2014, p. 51). Over time, the way of realizing mentioned credit support has been slightly changed, as well as the terms of lending, but in its essence remains the same. Incentives for credit support were used from the date of their introduction in 2004. until today. Only in 2013., there come to short break in incentives implementation, although they were previously planned in the agricultural budget

In initial years of this agrarian policy measure implementation, incentives for credit support had a dominant share in the structure of agrarian budget. For example, „this participation was 13.6% in 2005., or more than a fifth of the agricultural budget in 2006.“ (Radović, 2014, p. 51).

Tables 1. and 2. show the participation of planned and realized incentives for credit support in agricultural budget (part of agricultural policy measures) for the period 2014-2022.

**Table 1.** Planned incentives for credit support (period 2014-2022.)

Year	Total planned incentives (in RSD)	Planned incentives for credit support (in RSD)	Participation of planned incentives for credit support in total planned incentives (in %)
2014.	29,485,428,000	500,000,000	1.70
2015.	19,568,700,000	500,000,000	2.56
2016.	23,826,620,000	600,000,000	2.52
2017.	28,649,803,000	600,000,000	2.09
2018.	30,415,258,266	950,000,000	3.12
2019.	40,551,522,000	500,000,000	1.23
2020.	42,203,673,000	802,017,000	1.90
2021.	44,384,346,000	470,000,000	1.06
2022.	56,672,887,000	722,000,000	1.27
<b>Total</b>	<b>315,758,237,266</b>	<b>5,644,017,000</b>	<b>1.79</b>

Source: MAFWM, 2023-2015.

**Table 2.** Realized incentives for credit support (period 2014-2022.)

Year	Total realized incentives (in RSD)	Realized incentives for credit support (in RSD)	Participation of realized incentives for credit support in total realized incentives (in %)
2014.	34,462,539,418	357,104,872	1.04
2015.	22,892,435,534	125,605,359	0.55
2016.	23,277,425,628	360,972,034	1.55
2017.	26,774,567,824	599,999,062	2.24
2018.	28,274,397,854	912,198,129	3.23
2019.	33,970,316,199	476,341,198	1.40
2020.	39,077,630,460	104,826,670	0.27
2021.	40,624,672,849	451,625,799	1.11
2022.	53,873,739,245	712,341,220	1.32
<b>Total</b>	<b>303,227,725,011</b>	<b>4,101,014,343</b>	<b>1.35</b>

Source: MAFWM, 2023-2015.

Based on the data presented in Table 1. derives a conclusion that the average share of planned incentives for credit support within the overall planned incentives (agrarian policy measures) in analyzed period (2014-2022.) was less than 2%. This is a very small share considering the real needs for this type of credit support, as a source of agricultural financing. However, the average share of realized incentives for credit support in entire realized incentives is even smaller and amounted to only 1.35% (Table 2.).

Analyzing the relationship between planned and realized incentives for credit support (Table 3.) shows that there are also significant oscillations in certain years.

**Table 3.** Realized vs. planned incentives for credit support (2014-2022.)

Year	Planned incentives for credit support	Realized incentives for credit support	Participation of realized in the planned incentives for credit support (in %)
2014.	500,000,000	357,104,872	71.42
2015.	500,000,000	125,605,359	25.12
2016.	600,000,000	360,972,034	60.16
2017.	600,000,000	599,999,062	99.99
2018.	950,000,000	912,198,121	96.02
2019.	500,000,000	476,341,198	95.27
2020.	802,017,000	104,826,670	13.07
2021.	470,000,000	451,625,799	96.09
2022.	722,000,000	712,341,220	98.66
<b>Total</b>	<b>5,644,017,000</b>	<b>4,101,014,343</b>	<b>72.66</b>

Source: MAFWM, 2023-2015.



The highest utilization of planned incentives for credit support was in 2017., while the lowest was in 2020., which can be justified by the situation caused by the corona virus pandemic. The average share of realized in planned (available) amounts of incentives for credit support, in analyzed period, was around 73%. There is belief that the incomplete utilization of available benefited credit support can be partly explained by caution and negative experiences with credit debts of agricultural entities, primarily family farms, in previous period. Other possible reasons are insufficient information, problems in implementation of this support through commercial banks, etc. Nevertheless, in the last analyzed year, the utilization of available fund is almost maximal, and it can be considered that the difficulties in implementation of this agrarian policy measure have been removed (Table 3.).

Current credit support is realized in accordance with the Law on Agriculture and Rural Development (OGRS, 2021), the Rulebook on the Conditions and Ways of Exercising the Right to Credit Support (OGRS, 2017-2024), as well as the Regulations on the Distribution of Incentives in Agriculture and Rural Development, which are adopting for each year. General purposes, types and characteristics of current benefited loans are shown in Table 4.

**Table 4.** Purpose, types and characteristics of subsidized loans (period 2017-2022.)

Purpose of the loan	Characteristics of loans		Loan amounts
<ul style="list-style-type: none"> <li>* Development of animal husbandry (purchase of animals and payment of insurance premium);</li> <li>* Development of holding, fruit growing, viticulture, vegetable and flower growing;</li> <li>* Investments in agricultural machinery and equipment;</li> <li>* Procurement of feed for animals;</li> <li>* Investments in certain types of mechanization and equipment used in plant production;</li> <li>* Livestock development, which includes the acquisition of quality breeding heifers and cows up to five years old and the insurance premium for these animals;</li> <li>* Development of crops farming, fruit growing, viticulture, vegetable and flower growing, including the procurement of fertilizers.</li> </ul>	Repayment period is maximally 3 years	Repayment term 3-5 years	For natural persons (commercial family farms) and entrepreneurs up to 6 million RSD
	The loan is approved and disbursed in RSD		For legal entities up to 18 million RSD
	Fixed annual interest rate of 3%		
	Fixed annual interest rate of 1%: - for farmers up to 40 years old; - for female persons engaged in agriculture; - for farmers whose residence is in an area with difficult farming conditions.		
	Repayment in monthly, three-month, six-month or annual annuities	Repayment in six-month annuities	



Purpose of the loan	Characteristics of loans	Loan amounts
<b>Users of credit support can be:</b> <ul style="list-style-type: none"> <li>• physical person - holder of a commercial family farm;</li> <li>• entrepreneur;</li> <li>• legal entity (micro or small enterprise, or agricultural cooperative with at least 5 members).</li> </ul>		

Source: OGRS, 2017-2024.

After analyzing the data from Table 4., it can be concluded that besides the favorable characteristics of current credit support, there are also some terms that could be improved. In particular, the favorable characteristics are: low interest rate, exclusion of currency clause, almost all the most important lines of agricultural production in Serbia are covered by the defined loans' purposes. There is also opinion that, further developing of agriculture could assume the maturity of investment loans to at least 10 years, while the upper limit of credit indebtedness should be increased.

### **Conclusion and Recommendations**

The subject of analysis in this paper are credit incentives contained in agricultural budget of the Republic of Serbia, for the period from 2004. to the present day. According to performed research, there is conclusion that the share of mentioned incentives in total sum of incentives paid out from the agricultural budget slightly decreased over the time. For example, this participation was 13.6% in 2005., or even 20% in 2006., while up to 2022. observed share has been dropped to only 1.2%. However, analyzing the average utilization of available incentives for credit support, there could be conclusion that it reached 73% for the analyzed period (2014-2022.), showing the minor deviations in certain years. Previous data indicate a high demand of entities active in Serbian agricultural for loans approved with subsidized interest.

It is important to point out the main research limitations, considering that the subject of analysis was just the subsidized loans paid by the state financial institutions, but without including Fund for Development of the Autonomous Province of Vojvodina, and Provincial Fund for Development of Agriculture.

In order to improve the current model of credit support, suggestions are turned to possibilities for extending the repayment period of investment loans. Then, suggestion is turned to increase in upper credit limit for loans approved for investments in development of agricultural production. At the end, one of suggestions is oriented to considering the establishment of "specialized agricultural bank" in the Republic of Serbia, while this state-owned financial institution should provide more comprehensive credit support to the developmental needs of domestic agricultural producers.

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