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CREDITS FOR SERBIAN AGRICULTURE IN THE TRANSITION PERIOD

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Abstract

The possibility for self-financing in agriculture is very small, primarily due to lower labour productivity leading to lower rate of surplus value. Therefore, in the development of Serbian agriculture, special importance is attached to other sources of financing such as: the Agrarian budget, i.e. credits of the Ministry of Agriculture, Forestry and Water Management; credits of business banks; development funds; leasing companies.

With the reconstruction of the Serbian banking system in 1994, the primary issue, as an important source for financing agriculture used primarily for current reproduction, was abandoned. Due to transition to a market economy system and cancellation of financing from the primary issue, economic entities in agriculture have found themselves in a very unfavourable position. Therefore, in 2004, the Ministry of Agriculture, Forestry and Water Management started, for the first time, with lending credits to agricultural entities. The source of money is the Agrarian budget of Serbia. Besides this important source for financing agriculture, the paper also analyses other mentioned sources for lending credits to Serbian agricultural entities in the transition period, i.e. from 2004 to 2008.

Key words: credit lending, agriculture, agricultural budget, transition

Introduction

Agricultural sector of Serbia have been significantly restructured during the past years. Among the major internal constraints is the shortage of financing sources which has also been stated as a problem in other transitional countries. Limited access to European funds and modest capabilities of the economy to cope with the burden of necessary changes also had a negative impact on the tempo of the reform.

Measures, instruments and actions taken by the state through the implementation of specific agrarian policy in order to promote agricultural development depend, primarily, on its real financial capabilities. Financing of agriculture can be achieved by self-financing or credit lending. Agriculture is the area of production with low accumulation capacity, which means that the possibility of self-financing is very small. This is primarily due to allocating a part of accumulation generated in agriculture for the development of other activities, as well as the lower labour productivity leading to lower rate of surplus value. Therefore, in the development of agriculture, special importance is attached to other sources of financing. The main sources of financing Serbian agriculture are:

- ✓ The Agrarian budget, i.e. credits of the Ministry of Agriculture, Forestry and Water Management, at beneficial interest rates

- ✓ Credits of business banks
- ✓ Development Funds
- ✓ Leasing companies.

The aim of this paper is to analyse, using the available data, the basic conditions for lending credits to entities in the Serbian agriculture in the transition period, i.e. from 2004 to 2008. In particular, the most important source of agricultural credit lending has been analysed, i.e. credits provided from the agrarian budget of Serbia, starting from 2004, based on the Programme of measures for stimulating the development of agricultural production by the Government of the Republic of Serbia.

The Agrarian Budget

With the reconstruction of Serbian banking system in 1994, the National bank primary issue, as an important resource for financing of agriculture, used primarily for current reproduction, was abandoned. Cancellation of financing agriculture from the primary issue, with transition to a market economy, has additionally hardened already unfavourable economic position of agricultural entities. Important source of funds has been discontinued, and the new one has not been provided yet. Agriculture has lost the status of a privileged sector in financing and has been left without any permanent and safe financing source for its specific use. Hence the establishment of the agrarian budget, as appropriation from the total budget of Serbia, represented a significant contribution to stimulation of agricultural and rural development. During the year 2004, the Ministry of Agriculture, Forestry and Water Management started with building the financial market in order to provide stable and long-term source for financing of agriculture. According to the Programme of measures for stimulating the development of agricultural production, the Government of the Republic of Serbia renewed subsidized credit lines to farmers in a completely new way compared to the earlier practice. Subsidised credit users are only registered farms (natural and legal persons). During the first year, the resources were distributed partly through business banks (short-term credits for natural persons – registered farms and long-term credits for legal entities and natural persons), and partly through the Fund for the Development of the Republic of Serbia (long-term credits for legal entities and natural persons). At the end of 2005 the Fund for stimulation of the development of agricultural production in the Republic of Serbia was established, as a sub-account of the Ministry of Agriculture, Forestry and Water Management for financing all types of credits in the subsequent years. Sources of financing this Fund are the resources provided in the budget of Serbia for the current year, the funds collected from the repayment of credits and other funds realised in accordance with the law.

Credits are lent to farmers through the Fund for stimulating the development of agricultural production, business banks, the Ministry of Finance – Treasury

Administration and the Guarantee fund. Business banks in the service of credit loans of the agrarian budget have been selected on the basis of a tender called for by the Ministry of Agriculture, Forestry and Water Management.

Credit mechanism includes the following types of credits: *Short-term credits* – for natural persons and *long-term credits* – for legal and natural persons. The total amount intended for servicing credit from the agrarian budget in the analysed period decreased from the maximum of 3.7 billion RSD (17.5% of the agrarian budget) in 2004, to 2 billion RSD (or about 8% of the agrarian budget) in 2007 (Table 1).

Table 1 – Structure of credits financed from the agrarian budget in the period 2004-2008

Year	Type of credit				Credits in million RSD	
	Short-term		Long-term		Planned	Paid*
	RSD	% share	RSD	% share		
2004	1,700	45.9	2,000	54.1	3,700	3,727
2005	1,500	42.9	2,000	57.1	3,500	3,460
2006	1,500	42.9	2,000	57.1	3,500	3,400
2007	500	25.0	1,500	75.0	2,000	2,500
2008	1,850	65.0	1,000	35.0	2,850	...

* Data from the internal documentation of the Ministry of Agriculture, Forestry and Water Management

Source: Author's calculation based on data taken from the Serbian Government's Act on establishing the Programme of measures for stimulating the development of agricultural production, for the corresponding years

Short-term credits are intended for the purchase of working assets (seeds, fertilizers, fodder etc.). The procedure for obtaining short-term credit is simple. The farmer applies to one of the banks for the credit enclosing the documentation required and the resources are being transferred to his purpose account. Credit lines are approved by the business bank which has a signed agreement with the Ministry of Agriculture, Forestry and Water Management on the use of credit lines intended for agriculture. If the bank decides to approve the application it sends a guaranty to the Guarantee Fund which checks all the criteria which need to be fulfilled, and issues a confirmation on credit approval. The repayment deadline is 12 months, and the interest rate was 6% (5% interest + 1% Guarantee Fund commission) at the annual level, without a currency clause. The needs for short-term credits were much greater than the planned amounts of resources, so credits had to be limited with farm size. Loans were linked with farm size (up to 1ha, 1-5 ha, 5-10 ha, up to 10 ha) and maximum payment was 12,000 - 240,000 RSD, or 150 - 3000 euros. If the users do not meet the requirements for the short-term credits, they are put on the black list of the Ministry of Agriculture, Forestry and Water Management preventing them from acquiring any of the credits and any of the subventions of the Ministry.

In 2008, the form of credit lending was changed with the adoption of the Regulation on establishing the Programme of measures for subsidizing the interest rate for short-term credits agricultural and food industry. The Programme is being conducted by the Ministry of Agriculture, Ministry of Finances – Treasury Administration, through the Fund for stimulating of the development of agricultural production and business banks. Short-term credits were approved with the repayment deadline of 12 months and maximum annual fixed effective interest rate of 15% (without currency clause), and the Ministry of Agriculture subsidises 10% of it. This allowed granting short-term credits with the maximum annual interest rate of 5%. Credit potential for short-term credits has been increased manifold by involving all the Serbian business banks in lending credits for agricultural and food production. Depending on the assessment of creditworthiness of the applicant, the highest credit approved by bank is 500,000 RSD.

Long-term credits of the Ministry of Agriculture, Forestry and Water Management from the agrarian budget are approved for the following purposes: construction and purchase of irrigation systems and equipment; purchase of agricultural machinery; establishment of orchards, construction of plastic and glass greenhouses; investments in livestock production. The Ministry provides 90% of these resources and the remaining 10% are the obligation of banks. The business bank nominates the investment programme of the applicant for the use of long-term credits with the Ministry of Agriculture, which, in accordance with the contract signed between the Ministry and business banks, regulating closer terms, criteria and the way of approving long-term credits, makes a decision upon the request.

Table 2 - Long-term credits disbursed from the agrarian budget, according to their purpose in 2005 and 2006

Purpose of credits	2005		2006	
	RSD	(%)	RSD	(%)
Irrigation systems	180,000,000	10.5	10,177,600	0.8
Glass houses and green houses	135,090,000	7.9	60,607,200	4.5
Establishment of orchards	159,570,000	9.4	46,568,000	3.4
Procurement of machinery	-	-	267,088,080	19.8
Livestock production	1,232,000,000	72.2	965,232,306	71.5
Total	1,706,660,000	100.0	1,349,673,186	100.0

Source: Author's calculation based on the internal documentation of the Ministry of Agriculture, Forestry and Water Management

Credit is granted for a period of 5 years, except for establishing plantations of vines and nuts, with the repayment deadline of 10 years. Annual effective interest rate was 2.25%, with 0.75% annual Guarantee Fund commission. Currency clause – establishing the credit amount and annual repayments payable in euros, is applied with the obligation of the user to pay the annuity due in the equivalent value in RSD,

according to the official middle exchange rate of the National Bank of Serbia, which applies on the day of payment. Grace period, which is included in the credit repayment period, is up to 12 months, except when the credits are granted for the construction and purchase of the system and equipment for irrigation, financing a part of animal production and establishment of orchards – when it amounts up to 3 years and 5 years for raising plantations of vines and fruit tree species, respectively. The amount of funds approved on the credit contract ranges from the minimum of 5,000 euros to the maximum of 200,000 euros in the equivalent value in RSD according to the official middle exchange rate of the National Bank of Serbia.

According to the Regulation on establishing programme of measures for long-term credits of agricultural and food production for 2008, Ministry of Agriculture introduced certain measures. Maximum annual effective interest rate is 12.5%, and the Ministry of Agriculture participates for 10%. This form of subsidies allows much higher credit potential i.e. the involvement of all business banks in lending credits to agricultural and food production and provision of more favourable credit conditions compared to the previous commercial ones. The user who is granted a long-term credit under certain conditions by some of business banks is entitled to subsidies. The lowest credit approved is 5,000 euros, and the highest one has been extended to 300,000 euros depending on the credit worthiness of the client. The repayment deadline was 3-5 years (except for establishing plantations of vines and nuts, where the repayment deadline is 10 years). The currency clause is applied. The repayment deadline is 12 months with a 12-month grace period, excluding construction and purchase of irrigation systems and equipment, financing a part of livestock production, establishment of orchards (2 year grace period at least) and raising plantations of vines and nuts (at least 4 years).

Total number of registered farmers who were granted credits from the agrarian budget increased from 24,995 in 2005 to 59,502 in 2007, whereas the number of long-term credit users significantly decreased (Table 3). The total amount of money from the agrarian budget intended for lending credits to registered farms was increased by the inflow of money from the repayment of credits granted in the previous years.

Table 3 - Number and amount of paid short-term and long-term credits from the agrarian budget, and repayments in the period 2004-2007.

Year		Total paid* (budget + repayment)		Total (short-term + long-term)
		Short-term credits	Long-term credits	
2004	number of credits	28,125	788	28,913
	amount	1,727,473,000	2,258,617,356	3,986,090,356
2005	number of credits	23,342	1,653	24,995
	amount	1,460,000,000	2,241,181,893	3,701,181,893
2006	number of credits	27,040	1,190	28,230
	amount	3,315,335,000	1,259,125,943	4,574,460,943
2007	number of credits	59,343	159	59,502
	amount	6,687,223,600	159,769,992	6,846,993,592

* These amounts relate to credits granted according to the Regulation for the current year, but payment was made also the next year Source: Author's calculation based on the internal documentation of the Ministry of Agriculture, Forestry and Water Management

Credits of business banks

In the current economic situation banks in Serbia are not too interested in giving loans to farms. Business banks prefer lending credits to agricultural enterprises and cooperatives. During 2005 there were 25 banks approving agricultural credit loans under different conditions and for different purposes.

Conditions for *short-term agriculture credits of business banks* in 2005 (excluding those in the service of purpose credit loans of the agrarian budget) were usually similar. Short-term credits were intended for the following purposes: purchase of inputs, i.e. working capital for organizing agricultural production or for the purchase of agricultural products and the preparation of commodities for export and for ensuring liquidity. The repayment deadline was 3-12 months, the credit amount was limited by credit worthiness and client reliability, and the monthly interest rate was 1.0-2.5%, i.e. 27-29% annually.

Long-term credits of business banks (excluding those for the purpose of servicing purpose credit from the resources of the agrarian budget) were primarily intended for the purchase of agricultural machinery and other equipment, followed by the purchase of the basic flock. However two banks were lending credits for land purchase and privatization (Privredna banka and Agro banka). The repayment deadline was 3-5 years depending on the purpose. Credits were limited by credit worthiness and client reliability and ranged

from 5,000-220,000 euros. In general, the annual interest rate ranged from 10-12%. Depending on the type of the credit, usually warranted funds were: mortgage, collateral, bill forms, bank or bailer guaranty, endorsers. The above mentioned conditions may be considered unfavourable and still insufficiently adapted to the specific properties of agricultural production.

Leasing companies

In Serbia, the development of the system of financial leasing started with the adoption of the Act of the Republic of Serbia regarding financial leasing in May 2003 ("Official Gazette of the RS", No. 55/03 and 61/05). The establishment of the domestic leasing enterprise "Lipaks" was initiated in November 2003 by the Government of Serbia, with the objective of ensuring favourable conditions for the purchase of tractors, agricultural machinery, trucks and specialized vehicles of domestic producers. The major users of leasing facilities, or agricultural machinery, were private farmers (because they were offered the restoration of dilapidated agricultural machinery under relatively favourable conditions). In June 2004, the nine leading leasing companies in Serbia founded the Association of Leasing Companies (ALCS). The foundation of the Association had been initiated by SEED Programme of the World Bank for the enhancement of small- and medium-scale enterprises in Southeast Europe. Since 2005 the conditions for leasing have been favourable with a somewhat lower interest rate (3% at the annual level) for agricultural machinery and 5% for other leasing facilities.

Development funds

The Development Fund of the Republic of Serbia was established in 1992. The resources are used for financing programmes in the field of economic and regional development, the encouragement of small and medium-scale enterprises, financing export encouragement, financing the economy for liquidity and financing regular Fund activities. The credits offered from the resources of the Fund can either be short-term or long-term credits.

Short-term credits, among other things, encouraged the export of the products of agro-industrial enterprises.

Long-term credits were used for financing the following programmes: credits for small and medium-scale enterprises with the aim of encouraging the harmonization of regional development; credits for private shops and entrepreneurs; as well as micro-credits for employing workers left without a job in the process of transition and are registered as unemployed at the National agency for employment.

Fund for agricultural development of Vojvodina Province was established in 2001. This fund provided credits with a one-year grace period, and a repayment period to 3 years at a 2.5% interest rate¹.

Fund for the development of Vojvodina was founded in 2002. Privatisation procedures participate with 50% in the source of the capital. The resources are intended for credit financing of the development of SME's and farms. A significant part of the total resources was used for credit financing of agricultural industry.

Local (municipal) funds

Some municipalities in Serbia provide also in their budgets the resources for co-financing credits intended for encouraging the development of agriculture and rural areas.

Conclusions

During the transition period, the agrarian sector in Serbia has been significantly restructured. However, great internal constraints are related to the lack of the financing sources. The transition to a market economy system, reconstruction of the banking system in 1994, and cancellation of financing from the primary issue, caused the deterioration of the economic position of economic entities in agriculture. Insufficient access to the European funds and modest capabilities of the economy to cope with the burden of necessary changes also had a negative impact on the tempo of the reform.

Since agriculture is a field of production with lower accumulation capacity, the possibility of self-financing is small, hence the special importance for the development of agriculture is attached to other sources of financing, i.e. credit lending. The existing sources for financing Serbian agriculture are the agrarian budget, business banks, leasing companies and development funds (republican, provincial and municipal). However, although they have enormous significance for the overall development of agriculture and rural areas, especially in the transition period, these sources do not provide an adequate level, or the conditions for lending credits to agricultural entities.

Establishment of more efficient financial market, adapted to the specific needs of the agricultural sector, requires further institutional and organizational adjustments.

¹ Appropriations for 2006 were 1.037 billion, and in 2007, 1.284 billion RSD.

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